

CITY OF ROCHESTER
NOTICE of PUBLIC MEETING:
FINANCE COMMITTEE

Meeting Information

Date: October 10, 2023
Time: 6:00 P.M.
Location: City Council Chambers
31 Wakefield Street
Rochester, New Hampshire

Agenda

1. Call to Order

2. Acceptance of Minutes: August 2023. Pg 2

3. Public Input

4. Unfinished Business:

4.1.1 Review- FYE23 General Fund Unassigned Fund Balance City & School. Pg. 27.

5. New Business:

5.1.1 NH DHS Community Center Lease Recommendation. Pg.29.

Reports from Finance & Administration

5.2.1 Monthly Financial Report Summary-September 30, 2023. Pg. 33

5.2.2 NHMA Article-Taking the Mystery out of Fund Balance. Pg. 35

6 Other

7 Adjournment

Finance Committee

Meeting Minutes

Meeting Information

Date: September 12, 2023

Time: 6:00 P.M.

Location: 31 Wakefield Street

Committee members present: Mayor Callaghan, Councilor Beaudoin, Councilor Gray, Councilor Hainey, Councilor Hamann, Deputy Mayor Lachapelle, and Councilor Larochelle

City staff present: City Manager Katie Ambrose. Deputy Finance Director Mark Sullivan. Chief Assessor Darcy Freer. Director of Human Resources Kimberly Conley.

Agenda & Minutes

1. Call to Order

Mayor Callaghan called the Finance Committee meeting to order at 6:00 PM.

Councilor Beaudoin lead the Committee in the Pledge of Allegiance.

Deputy City Clerk Cassie Givara took the roll call attendance. All Councilors were present.

2. Acceptance of Minutes: August 2023

Councilor Lachapelle **MOVED** to **ACCEPT** the minutes of the August 8, 2023 Finance Committee meeting, Councilor Hamann seconded the motion. The **MOTION CARRIED** by a unanimous voice vote.

3. Public Input

There was no one present for public input.

4. Unfinished Business:

4.1.1 None

5. New Business:

5.1.1 **Assessing-Elderly & Disabled Exemptions, Veterans Credits- Update**

Chief Assessor Darcy Freer gave an update on the status of the Elderly and disabled tax credits for the 2023 tax period. These exemptions had been expanded the prior fiscal year, and the introduction of the “All veterans” credit was established at the same time. Ms. Freer indicated that the numbers for these exemptions and credits so far have been consistent with what was projected; however, it will take at least one more year to do a proper analysis on the numbers and identify trends. Chief Assessor Freer explained that in the projection for the All Veterans credit, there was an analysis for a 4-year forecast. She estimated that by the end of that period in tax year 2027, there would be between 110-120 qualified applicants, or an increase of 8%.

5.1.2 FYE23 General Fund Unassigned Fund Balance Estimate (addendum A)

Deputy Finance Director Mark Sullivan directed the Committee to a summary showing the General Fund Unassigned Fund balance at the close of Fiscal Year 23 and stated there would be a substantial increase to this balance in the current fiscal year, bringing it to just under \$38 million; or 33% of General Fund expenditures. The policy threshold range is between 8% - 17% of expenditures, putting the fund approximately \$18 million over the policy threshold.

5.1.3 Recommended Use of General Fund Unassigned Fund Balance-City

Deputy Director Sullivan gave an overview of the three Capital Reserve Funds that were created the prior year for Public Works, Fire Apparatus, and Public Buildings. Mr. Sullivan directed the Committee to a summary of the current balance of these accounts and explained the request to transfer \$250,000 from General Fund Unassigned Fund Balance to each of these Capital Reserve funds. If this additional \$750,000 in funding is approved by Council, the cash will then be transferred to the Trustees of the Trust Fund to be added into each capital reserve fund. Councilor Lachapelle **MOVED** to recommend to full Council the approval of \$750,000 of General Fund Unassigned Fund Balance for the aforementioned Capital Reserve Funds. Councilor Hamann seconded the motion. The **MOTION CARRIED** by a unanimous voice vote.

5.1.4 Recommended Use of General Fund Unassigned Fund Balance-School

Deputy Director Sullivan spoke about the ongoing discussions with the School Department in trying to determine funding sources for the entirety of the new school project cost and how this total would be reached, as well as strategizing a threshold for debt service that would be manageable for the school department in order to avoid a large increase. Such a spike in debt service could cause problems when calculating the tax cap in future years amongst other considerations.

The estimated project cost for the new school is \$34 million. There is approximately \$15.7 million coming from State of NH Building Aid funding, approximately \$1.3 million from the local school building aid capital reserve fund, and \$1.4 million in State of NH Adequacy funding. There was an analysis completed of several different bonding scenarios, and it was determined that to keep the school debt service in the \$2.5 million annual range, \$8 million could be bonded for this project. Mr. Sullivan presented a chart illustrating the school’s projected 20-year debt service, as it exists currently, as well as with the inclusion of authorized and unissued debt, and the effect of the additional \$8 million in bonding. With this model, the debt service would reach a peak of just over \$2.5 million in FY27, and then gradually decrease over the subsequent years. He then presented the 20-year projection in the scenario of the School Department bonding the entire \$15 million in remaining funds required for the project. With this model, the debt service would spike to over \$3 million and would take much longer to decrease. Based on these projections, he stated that the recommendation is to authorize \$7,540,420 of Unassigned Fund Balance for the new school project. This would save annual debt service payments of \$600,000 as well as saving approximately \$3 million of interest

over this 20-year period, depending on interest rates.

Councilor Lachapelle **MOVED** to recommend to full Council the use of \$7,540,420 in General Fund Unassigned Fund Balance for the School building project. Councilor Larochelle seconded the motion. Councilor Gray expressed concerns that, at the time of Council approval for the new school project, the School Board had been comfortable bonding the entire \$15 million and that they were aware at that time of the implications. He questioned if the school board may come back in the future and ask for additional funding beyond the \$7.5 million currently being requested. Councilor Gray also referenced other City projects that have been delayed in order to reduce costs, such as street paving in multiple areas. He speculated that there would be many other projects that would also be a good use of unassigned fund balance. Councilor Hamann reiterated that \$3 million of interest would be saved over 20-years with the reduced bonding amount. He asked what the remainder of the unassigned fund balance would be if Council were to approve the two recommendations being discussed. Deputy Director Sullivan directed the Committee to the chart in the packet showing the outcome of approval of these recommendations, which would leave the unassigned fund balance at \$23,769,314, or 20.85% of expenditures, which still exceeds the upper threshold of the policy. Councilor Hamann pointed out that this would still leave adequate money in the unassigned fund balance in order for Council to approve projects such as the paving referenced earlier. He stated that he would be in support of the proposals due to the substantial savings on interest.

Councilor Beaudoin asked if this vote was to assign the funding to the school project and clarified that it does not include any bonding. Deputy Director Sullivan explained that the Committee would make a recommendation to Council, at which point the recommendation would be drafted into a resolution detailing the funding sources. Councilor Beaudoin clarified that there would still be an additional \$8 million needed for the school project, and the action being taken does not include that \$8 million. Deputy Director Sullivan confirmed that the action being taken is a recommendation to approve the use of unassigned fund balance. The forthcoming resolution will itemize the bonding aspect as well as the other funding sources, subject to Council approval.

Councilor Beaudoin spoke about several other considerations related to the new school build, including turning lanes, sidewalks, and sewer extensions, some of which would require drainage work likely to be covered through the City side of the budget. He surmised that the potential costs were still unknown and the full scope should be understood before moving forward with funding recommendations.

Mayor Callaghan spoke about the large portion of the unassigned fund balance that is resultant from the School Department returning funds at the close of each fiscal year. He felt it made sense to allow the schools to utilize some of these funds that have been returned. Additionally, Mayor Callaghan reported that the required maintenance and repairs on the two Rochester schools currently pending closure would equal over \$600,000. He gave multiple examples of schools throughout the State in busy locations where there are not pedestrian sidewalks. He acknowledged it was the Council's discretion on whether or not to require sidewalks, but stated there is precedence within the state in similarly trafficked school locations without sidewalks.

The **MOTION CARRIED** to recommend to full Council the use of \$7,540,420 of Unassigned Fund Balance by a majority roll call vote with Councilors Hainey, Lachapelle, Hamann, Larochelle, and Mayor Callaghan voting favor and Councilors Beaudoin and Gray voting opposed.

Councilor Gray stated that some of his concerns with the proposal would be alleviated if there were a maximum limit on the Schools' debt service.

5.1.5 City Manager Reorganization Plan-Presentation (*addendum B*)

City Manager Katie Ambrose gave a presentation with a proposed reorganization and restructuring of Finance and Administration as well as the Economic Development, Planning, and Building departments. She explained that her former position of Deputy City Manager and Finance Director was currently vacant, and rather than filling the position, she opted to conduct a needs analysis of the City departments to potentially restructure to fit the needs of these departments as well as allowing for new positions within the organization. City Manager Ambrose clarified that there was not a request to move forward with all phases of the reorganization currently, but she would be presenting the proposal in its entirety.

Ms. Ambrose first gave an overview of the proposed structure of what is currently the Building and Licensing, Planning, and Community/Economic Development departments. She explained that the reorganization includes the creation of a "Chief Community Development Officer" to oversee all of these departments, creating a Community Development Department. She explained that the request this evening is for a recommendation to create the job description and classification for the Chief Community Development Officer, although the position will not be filled or funded until FY25. There would also be the creation of a new position in the current fiscal year for a separate Plumbing/Mechanical Inspector, moving these functions out of the existing inspector positions due to demand. There are no budgetary impacts with this position in the current fiscal year because the functions are all currently within existing staff positions. City Manager Ambrose detailed the phases of the proposed changes within the Community Development Department, including the transition of the Animal Control Officer and Traffic Enforcement officer from the police department over to the Community Development in FY25, and the relocation of the Community Development Coordinator to the Finance Department.

City Manager Ambrose outlined the proposed structure of the Business and Finance department reorganization, as well as the Administrative Office and the phases of these plans. She summarized the creation of a Deputy Chief Administrative Officer position to oversee HR, IT, City Clerk, and Welfare. This position would be funded and filled in the current fiscal year. The position of Finance Director will be left funded on the books, but will not be filled.

City Manager Ambrose reiterated that there are no funding requests being made. The funding for the reorganization is currently in the FY24 budget through vacant positions, or it will be requested in the FY25 budget. The requests to the Committee are to approve the creation of the Chief Community Development Officer position as well as the Deputy Chief Administrative Officer position.

5.1.6 Job Classifications & Descriptions Changes-Human Resources-PAB

City Manager Ambrose explained the recommendations from the Personnel Advisory Board, which include the two position creations discussed this evening as well as two positions that had been approved as Issues & Options in the FY24 budget.

Kimberly Conley, Director of Human Resources, made a correction to the Description in the packet for the Training Officer position, which had been listed as a Grade 13 in the Middle Management Union; however, this position should be listed as non-union Grade 14. Ms. Ambrose said that action items being requested tonight are the approval of the job classifications for the Training Officer at grade 14, Battalion Chief at Grade 14, Chief Community Development Officer at grade 17, and Deputy Chief Administrative Officer at Grade 18.

Councilor Lachapelle **MOVED** to recommend to full Council the approval of the positions as listed above. Councilor Hamann seconded the motion. Councilor Beaudoin **MOVED** to divide the question. Councilor Gray seconded the motion. Councilor Beaudoin clarified that he wanted to separate the vote on the Deputy Chief Administrative Officer position from the remaining positions being recommended. Mayor Callaghan called for a vote on the motion to recommend the approval of the positions minus the Deputy Chief Administrative Officer position. The **MOTION CARRIED** by a unanimous roll call vote with Councilors Lachapelle, Gray, Beaudoin, Laroche, Hamann, Hailey and Mayor Callaghan all voting in favor.

Mayor Callaghan called for a vote on the motion to recommend to full Council the approval of the Deputy Chief Administrative Officer. Councilor Beaudoin stated that he felt there had to be a line drawn on new staff positions at some point. He spoke about the need for staff in the Building and Licensing department, specifically the area of code compliance, in order to keep up with the demands of the City. He stated that the position being discussed would need to be budgeted moving forward, when some of these funds could potentially be used for an additional code compliance officer as opposed to another administrative position. City Manager Ambrose clarified that the current motion is to approve the Deputy Chief Administrative Officer position, which is already budgeted for in the current fiscal year and for which there are no additional funding requests. This position would provide the functions that are currently not being handled through the vacancy in the Deputy City Manager position. The **MOTION CARRIED** by a 6 to 1 roll call vote with Councilors Gray, Hailey, Laroche, Lachapelle, Hamann, and Mayor Callaghan voting in favor and Councilor Beaudoin voting opposed.

Reports from Finance & Administration

5.2.1 Monthly Financial Report Summary-August 31, 2023.

Deputy Finance Director Sullivan reported that revenues are trending to budget. There had been an inquiry at the prior Finance Committee meeting in regards to building permits and whether or not there was concern with the below budget percentage collected after the first month of the fiscal year. Deputy Director Sullivan stated that at the close of the second month of FY24, the building permits are now at 17%, which is trending to budget. He stated there are currently no concerns with the non-property tax revenues.

Councilor Lachapelle inquired about the “Public Works Winter Maintenance” line, which is at 4%. Deputy Finance Director Sullivan stated that this expense was likely for supplies and preparation in anticipation of the upcoming winter.

Councilor Beaudoin inquired about the Cablevision franchise fees. Deputy Finance Director Sullivan stated that these are franchise fees collected on each user’s cable bill, which are then remitted to the City on a quarterly basis from both XFINITY and Breezeline. Councilor Beaudoin posited that, as streaming video services gain in popularity, these franchise fees would likely be reduced. Deputy Finance Director Sullivan agreed that this scenarios was likely.

Mayor Callaghan asked for more information on the following month’s report regarding the reasoning behind the increase in the police overtime budget.

6. Other

No Discussion.

DRAFT

7. Adjournment

Mayor Callaghan **ADJOURNED** the Finance Committee meeting at 6:57 PM.

Respectfully Submitted,

Cassie Givara, Deputy City Clerk

**FY23 General Fund Unassigned Fund Balance Activity
6/30/2023-Activity & Estimate**

Descriptions	GF Expenditures	Amount	Percentage	Notes
FYE22 (MS-535 06/30/2022)-FINAL	\$115,473,598	\$29,873,654	25.87%	Unaudited-Estimate
Unassigned Fund Balance Policy Threshold 8%-17%				
Low 8%		\$9,237,888	8.00%	
High 17%		\$19,630,512	17.00%	
Over (Under) Fund Balance Policy- 17% Threshold		\$10,243,142	52.18%	

FY23 Activity Summary	Amounts
FY23 Adopted Budget City & School	\$3,293,250
FY23 Additional Activites	\$932,000
FY23 Totals	\$4,225,250

Estimated Balance	\$25,648,404
Percentage	22.21%

FY23 Additional Activity	Date	City	School	Water-Sewer	Econ Dev Fund	Subtotal	Notes
Land Purchase 181 Highland Ave	07/05/2022	\$299,000	\$0	\$0	\$0	\$299,000	Council Approved
Recreation-Lilac Family Fun Festival	12/06/2022	\$43,000				\$43,000	Council Approved
City Hall & Opera House Renovations	06/06/2023	\$590,000				\$590,000	Council Approved
						\$0	
						\$0	
FY23 Totals		\$932,000	\$0	\$0	\$0	\$932,000	

FYE23 ESTIMATED ACTUALS	
FYE23 ESTIMATED NET INCREASE (REDUCTION)	\$8,000,000
FYE22 MS535	\$29,873,654
FYE23 ESTIMATED UNASSIGNED FUND BALANCE	\$37,873,654

FYE23 SUMMARY	
FYE23 ESTIMATED GENERAL FUND EXPENDITURES	\$114,000,000
UNASSIGNED FUND BALANCE PERCENTAGE	33.22%
FYE23 LOW ESTIMATE 8%	\$9,120,000.00
FYE23 HIGH ESTIMATE 17%	\$19,380,000.00
OVER (UNDER) POLICY THRESHOLD-17%	\$18,493,654.00

FY24 O&M ADOPTED BUDGET USE	\$5,814,100
FY24 SUPPLEMTAL RECOMMENDATION- NEW SCHOOL	\$7,540,240
FY24 SUPPLEMTAL RECOMMENDATION- CITY CRF	\$750,000
FY24 SUPPLEMENTAL RECOMMENDATION-FUNDING SOURCE CHANGE	\$0 PENDING
RECOMMENDATIONS	\$14,104,340

BALANCE	\$23,769,314
PERCENTAGE	20.85%

City Manager Reorganization

Finance Committee
September 12, 2023



City of Rochester - 4 Pillars of Strength

- City & Regional Economics
- Financial Health
- Investment in Infrastructure & Economic Development
- Expertise & Initiative of City Staff



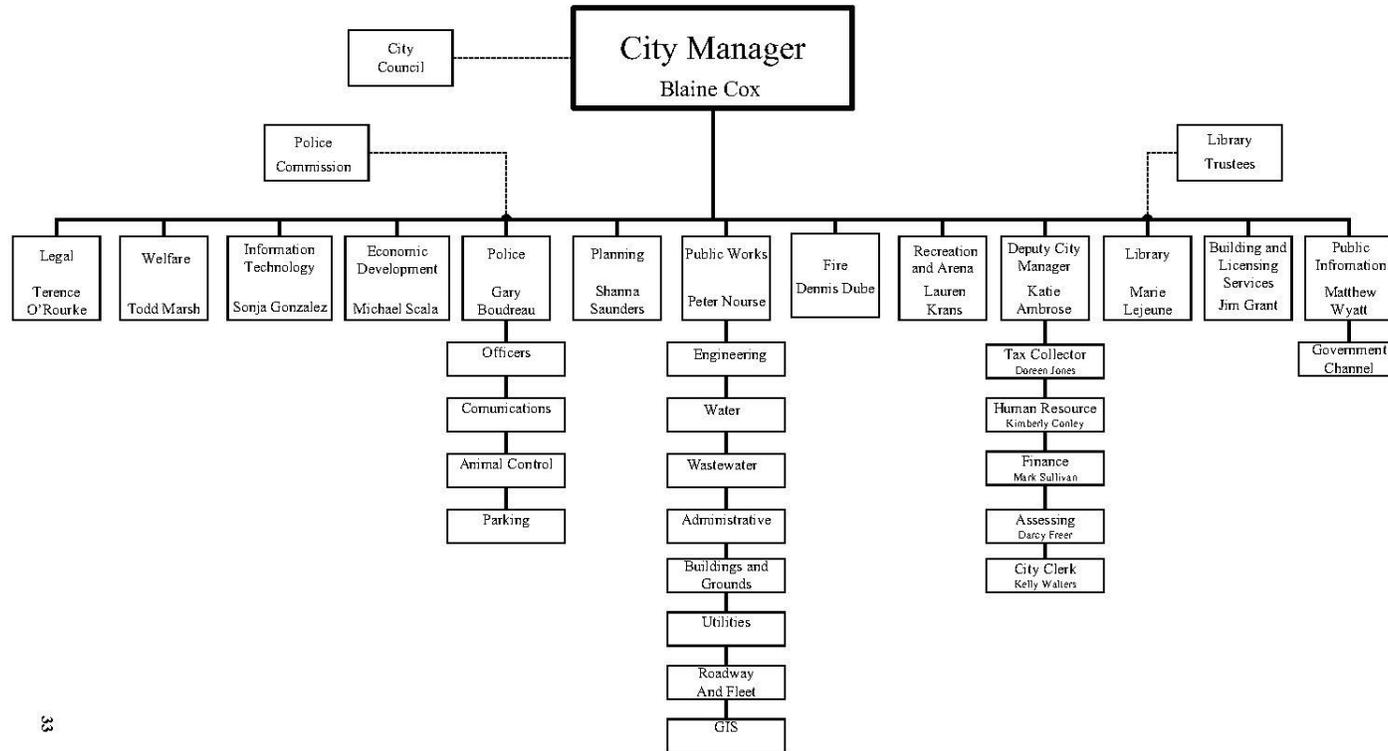
Reinforcement & Expansion

Integration of:

- Supporting Growth & Services
- Fiscal Strength
- Public Engagement
- Retaining Employees



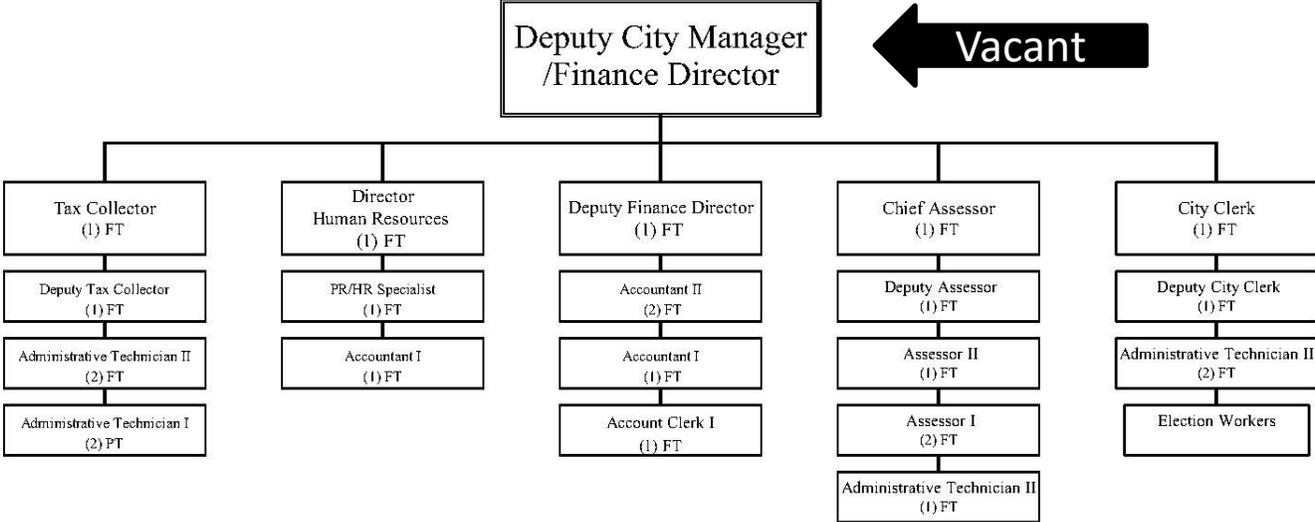
City Manager



33



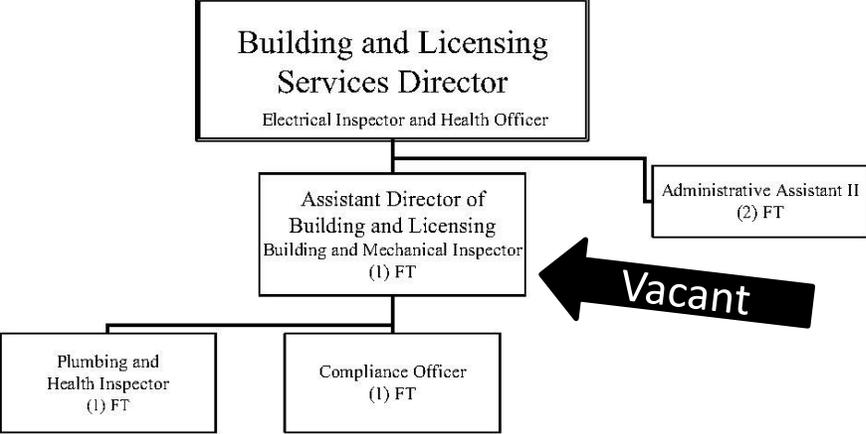
Finance-Business Operations



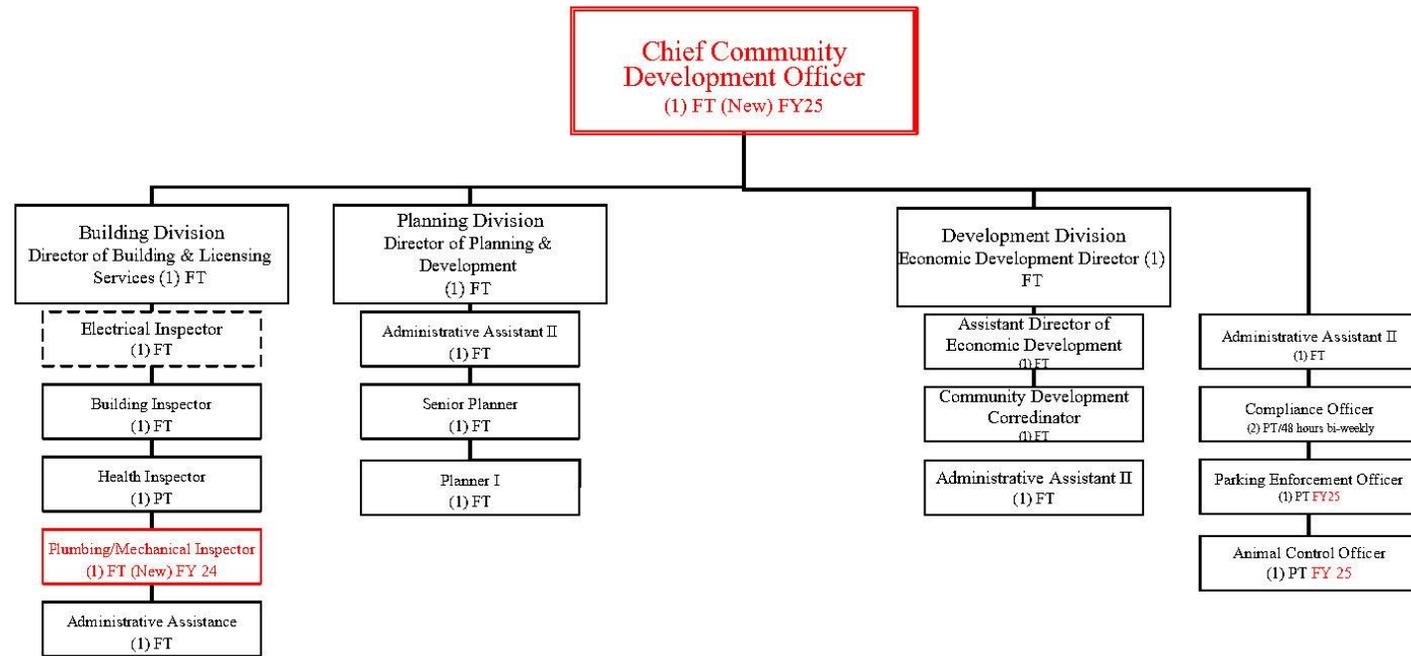
62



Building and Licensing Services



Community Development Department



Community Development Department

The Community Development Department consists of: Building & Inspection Division, Planning Division, Economic Development Division, Code Enforcement: Parking, Compliance, and Animal Control.

The Mission

Our Community Development Department is dedicated to improving the quality of life in the City of Rochester for its residents and visitors alike. The Community Development Department works closely & efficiently with other departments throughout the city, as well as local and state partners. The department collaborates with stakeholders within the City of Rochester-to ensure proper noticing, education and problem solving in order to create a welcoming, healthy, and safe environment.



Chief Community Development Officer:

Responsible for: leading, overseeing, and administering the programs, budgets, functions, and activities of the Community Development Department, which include ensuring compliance with local, state and federal requirements, regulations and policies, attending appeals and court hearings and representing the department on code enforcement-related matters to the media, county agencies, community organizations and the public. Works in conjunction with Police and Fire Chiefs.



Community Development Phases

- Now

1. Create Chief Position
2. Post Inspector positions

- FY25 Budget Process

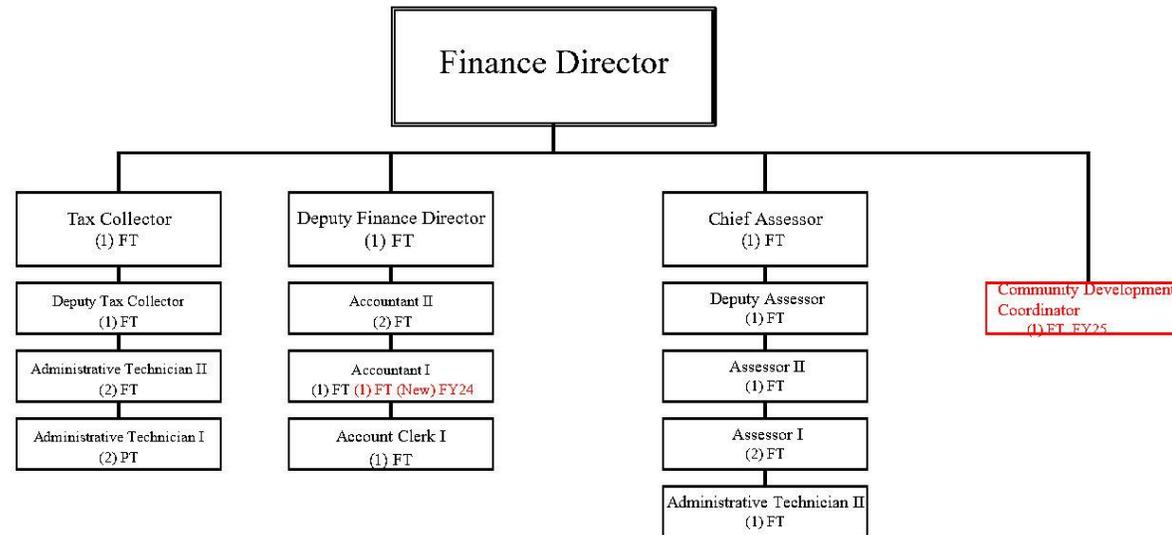
1. Relocate Parking Enforcement Officer & Animal Control Officer
2. Fund Chief Position
3. Relocate Community Development Coordinator to Finance

- Future

1. Create FT Electrical Inspector position



Business/Finance Office



Finance Director:

- Supervision of Budget/Procurement, Treasury, Tax & Assessing
- Maintain the cycles of annual financial activities
- Financial process improvements
- New initiatives such as replacement of CIP database
- Analysis into bond cycles & cash investments. Increase review and analysis of financial risk exposures and develop strategies to mitigate.
- Collaboration with Department heads on operational improvements.
- Assure each department has the necessary tools and training to achieve operational success.



Finance Department Phases

- Now

1. Post Finance Director position
2. Post Accountant I position

- FY25 Budget Process

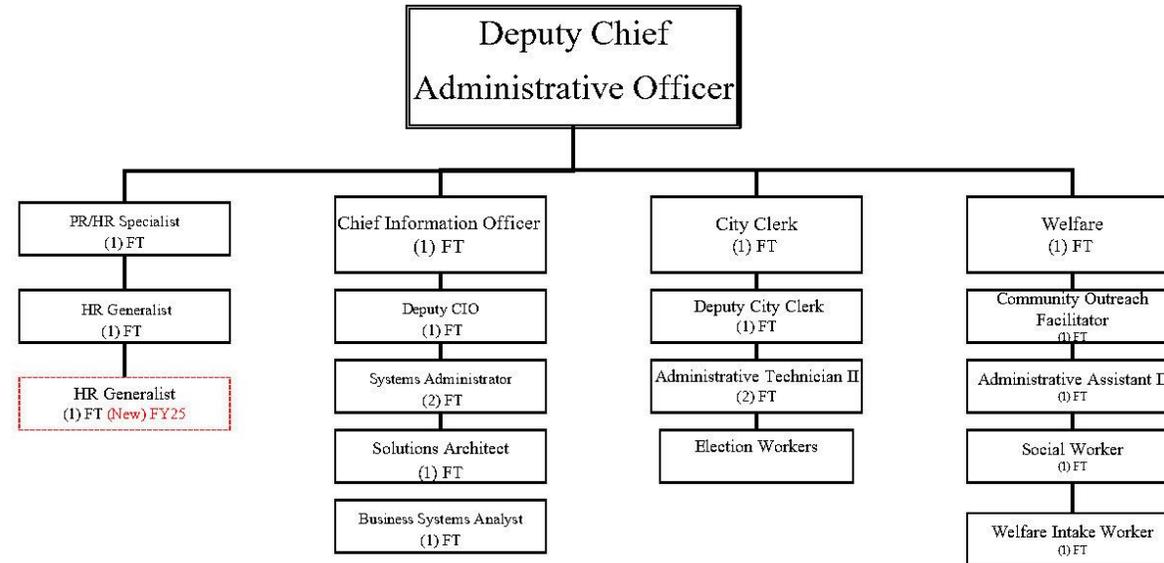
1. Relocate Community Development Coordinator to Finance
2. Funding to convert (1) Accountant I to Accountant II

- Future

1. Fund Deputy Finance Director position



Administration Office



Deputy Chief Administrative Officer:

- Supervision of Human Resources, IT, City Clerk & Welfare
- Organization-wide strategy, policy & risk management

Including: safety program, staff development, community engagement, legal services, process improvement.

- Centralization

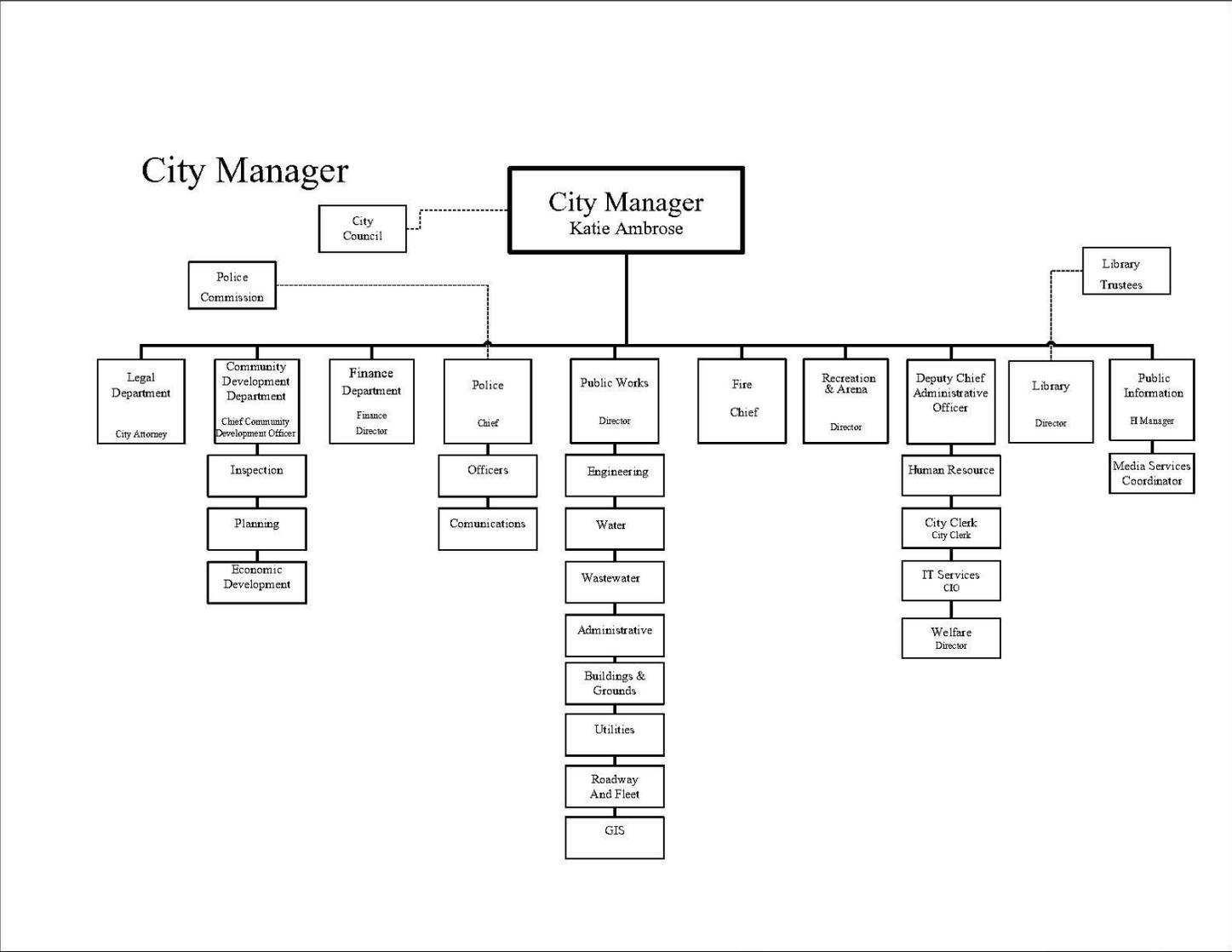


Administration Office Phases

- Now
 1. Create & post Deputy CAO position

- FY25 Budget Process
 1. Fund 2nd FT HR Generalist





Council Action Items to Move Forward

- Approve creation of Chief Community Development Officer position
- Approve creation of Deputy Chief Administrative Officer position

No funding requested



FINANCE COMMITTEE

Agenda Item

Agenda Item Name: FYE23 General Fund Unassigned Fund Balance-Summary

Name of Person Submitting Item Mark Sullivan, Deputy Finance Director

Issue Summary: The FYE23 Unassigned Fund Balance is estimated to be \$38,379,450. City & School Department combined FYE23 estimated contribution to unassigned fund balance is \$8,379,450. In FY23 the City recorded a reduction to fund balance of (\$37,011), and the School Department recorded a contribution of \$8,416,461. The attached FYE23 Unassigned Fund Balance analysis identifies the major contributors for City & School.

The General Fund Unassigned Fund Balance is a position of Current Assets less Current Liabilities as of June 30, 2023. As of June 30, 2023 Current Assets were \$75MM, and Current Liabilities were \$37MM. The net position of Current Assets less Current Liabilities should be in a ratio of 1.5 to 2. Meaning there should be \$1.50 to \$2.00 in cash and cash equivalents for every \$1.00 of liabilities. These are the minimum thresholds to be considered financial solvent. Ratios of 1 to 1, or less, are detrimental to operational performance and solvency. The ratio for period ending June 30, 2023 was 2.03 to 1. If there had not been a return to surplus in FY23 the ratio would have been 1.8 to 1. The \$38MM surplus equates to four (4) months of operational cash flows.

Regarding the School Department's FYE23 return to surplus of \$8.4MM they experienced significant challenges filling open positions, which resulted in eighty (80) vacancies. In addition, the School deployed \$1.3MM in Esser Grants funds, and an NH DRA tax rate setting adjustment increased State Adequacy Grant allocations, which reduced local property taxes by \$889,831.

The FY23 Adopted Operating Budget allocated \$3.2MM in Unassigned Fund Balance, and combined City & School adopted budgets were \$2.16MM under the tax cap allowance.

Recommended Action: None-Informational

FYE23 Unassigned Fund Balance Review

FYE23 ESTIMATED ACTUALS	AMOUNTS	NOTES
FYE22 MS535	\$29,873,654	Audited
FYE23 Estimated Change in Unassigned Fund Balance	\$8,379,450	Unaudited
FYE23 Estimated Unassigned Fund Balance Total	\$38,253,104	
FYE23 SUMMARY		
FYE23 Estimated General Fund Expenditures	\$114,000,000	Unaudited
Unassigned Fund Balance Estimated Percentage	33.56%	Unaudited
Unassigned Fund Balance Policy Low Balance 8%	\$9,120,000.00	Unaudited
Unassigned Fund Balance Policy High Balance 17%	\$19,380,000.00	Unaudited
Over (Under) High Policy Threshold-17%	\$18,873,104.00	
FY24 ACTIVITY		
FY24 O&M Adopted Budget Use of Fund Balance	\$5,814,100	Adopted
FY24 Supplemental Recommendation New School Building	\$7,540,240	PENDING
FY24 Supplemental Recommendation City Capital Reserve Funds	\$750,000	PENDING
FY24 Supplemental Community Center Solar Project	\$546,000	Adopted
FY24 Supplemental Recommended Bond Funding Changes	\$0	PENDING
FY24 Transfer to Waste Management Closure Fund	\$0	PENDING
Recommendations	\$14,650,340	
Balance	\$23,602,764	
Percentage	20.70%	

Estimated Additional Allocation to Meet 17% Policy High Threshold	\$4,222,764
--	--------------------

FYE23 ADDITIONS TO FUND BALANCE (Unaudited)	AMOUNTS
City Largest Contributions (Reductions)	
Interest Income Revenue	\$1,179,673
Motor Vehicle Permits Revenue	\$728,112
Building Permits Revenue	\$586,832
Host Community Fees Revenue	\$265,995
Salary & Benefits	\$1,196,515
Property Tax Abatements	(\$848,118)
Transfer to Economic Development Non Capital Fund	(\$1,382,928)
All Other City Net Changes	(\$1,763,092)
Net City Contribution (Reduction)	(\$37,011)
School Largest Contributions (Reductions)	
State of NH Adequacy Grant Revenue	\$889,831
Local Property Tax Reduction-DRA	(\$889,831)
Esser Funding	\$1,375,370
Salary & Benefits	\$5,656,664
Tuition to Private Schools/Student Transportation	\$2,028,875
All Other Net Changes	(\$644,448)
Net School Contributions (Reductions)	\$8,416,461

Net City & School Contribution (Reduction)	\$8,379,450
---	--------------------

FINANCE COMMITTEE

Agenda Item

Agenda Item Name: DHS Lease Renewal-Recommendation

Name of Person Submitting Item: Lisa Clark, DPW Deputy Director Operations.

Meeting Date: October 10, 2023

Issue Summary: The DHS Lease at the Community Center expires in April-2024. Enclosed is summary report and recommendations from Lisa Clark-DPW Deputy Director of Operations. The recommendation is a 5 year term, at \$21.92 per square foot of space.

Recommended Action: Finance Committee endorsement for City Manager to negotiate lease renewal.



City of Rochester, New Hampshire
PUBLIC WORKS DEPARTMENT
209 Chestnut Hill Road • Rochester, NH 03867
(603) 332-4096
www.RochesterNH.gov



INTEROFFICE MEMORANDUM

TO: MARK SULLIVAN, DEPUTY DIRECTOR OF FINANCE

FROM: LISA J. CLARK, DPW DEPUTY DIRECTOR OPERATIONS & ADMINISTRATION

DATE: October 5, 2023

SUBJECT: Community Center Lease
NH DHHS Renewal of Lease

CC: Peter C. Nourse, PE, Director of City Services

Information regarding City lease agreement with NH DHHS:

NH Department of Health & Human Services (DHHS) Current Lease Information:

- The current 2yr lease extension expires April 30, 2024.
- The City's last long-term lease with NH DHHS expired in 2010 (5years) and 2-year extensions have been completed numerous times with 2% -3% increases negotiated with each 2yr extension.
- The current Lease includes 18,000 square feet of office space @ . \$16.47 each = \$296,460 Annually
- The Current Lease includes 1,750 square feet of storage space @ 3.29 each = \$5,757.60 annually
- The total annual revenue is \$302,217.60.
- At one time (approximately (2020-2021) the City expressed to NH DHHS that we were unable to accommodate a Capital Improvement Project for significant space modifications that DHHS had requested.
- NH DHHS then sought unsuccessfully to find an alternate location for DHHS.
- In FY 2023 the City came to an agreement with NH DHHS on space modifications and invested approximately \$86,000, plus significant staff time. All flooring was replaced, and City Staff painted the entire space. NH DHHS upgraded their staff's furnishings.
- NH DHHS has requested a long-term lease agreement with the City of Rochester (10 years).
- When DPW last discussed the lease with City Council (during 2024 budgeting process) a term of 5 years was floated as a recommendation to staff, and staff agreed to look into other local office space and other state facility rental agreements for per square footage cost recommendations.

Staff Findings:

- The Average Rental Cost for NH DHHS leased office space Statewide is \$21.92 (10 spaces).
- Most NH DHHS leases are 10 Year leases with the exception of Rochester's current 2-year extension, and Laconia has a 5year contract.

- Search of private office space rentals in Rochester for similar size office space was not found, but rental search for NH in general listed prices from \$10 per square foot to \$31.00 per square foot depending on the area of the State. Lebanon NH & Portsmouth being the highest.

Staff recommendation:

At this time the DPW seeks to negotiate a new lease with NH DHHS and recommends that we negotiate a 5-year lease per City Councils last suggestion, and a per square foot cost of \$21.92 for office space which is the average of other NH DHHS Facility lease agreements. We recommend a 3% Increase to the storage space as there were no other similar spaces to compare for rental costs. We also recommend an annual 3% increase to these rates.

Results of Recommendation:

- 18,000 square feet @ \$21.92 = \$394,560.00
- 1,750 square feet @ \$3.39 = \$5,932.50
- Annual Revenue \$400,492.50

This seems like a good starting point for negotiations, but discretion for DPW Staff with Finance Director and City Manager approval during the negotiations may be required unless City Council wants this to come back for final approval.

Additional information:

- A full-time custodian is included.
- Heat and AC, electricity, water, and sewer are included.
- Parking / plowing and all facility maintenance is included.

Attached;

NH DHHS Statewide Rental information.

Current City of Rochester Lease agreement Ext Good through 4/30/2024

Statewide Leases for NH DHHS Spaces									
Agency	Div	Agreement Type	L-Address	L-City	Yrs	Lease Start	Lease End	SF	SF Cost FY-2023
DHHS	DO	Lease	65 Beacon Street West, L2	Laconia	5	1/1/2017	12/31/2023	15,480	\$20.00
DHHS	DO	Lease	111 Key Road	Keene	10	4/1/2014	3/31/2024	15,871	\$21.93
DHHS	DO	Lease	150 Wakefield Street, L2	Rochester	2	5/1/2022	4/30/2024	19,750	\$16.47
DHHS	DO	Lease	80 North Littleton Rd.	Littleton	10	10/1/2014	9/30/2024	13,275	\$20.86
DHHS	DO	Lease	40 Terrill Park Drive	Concord	10	1/1/2016	12/31/2025	25,588	\$23.93
DHHS	DO	Lease	1050 Perimeter Rd, Suite 501	Manchester	10	4/1/2016	3/31/2026	29,802	\$20.00
DHHS	DO	Lease	26 Whipple St. (prev. 44 Simon)	Nashua	10	4/1/2018	3/31/2028	37,590	\$22.62
DHHS	DO	Lease	19 Rye Street, L1 & L2	Portsmouth	10	4/20/2017	5/31/2028	28,000	\$27.00
DHHS	DO	Lease	71 Hobbs Street, L2	Conway	10	6/1/2018	5/31/2028	14,500	\$23.79
DHHS	DO	Lease	650 Main Street, L2	Berlin	10	12/1/2019	11/30/2029	14,500	\$22.56
DHHS	DO	State Owned*	17 Water Street, Suite 301	Claremont	n/a	n/a	n/a	*See Note	*See Note

* Facility owned by the Department of Administrative Services. DHHS is billed on a quarterly basis for building expenses, estimated at \$327,354 for FY23 for approximately 14,000 square feet of space.

Average Per Square foot cost \$21.92
 Removing Roch low/Portsmouth High \$21.97

FINANCE COMMITTEE

Monthly Financial Summary Report

Agenda Item Name: Monthly Financial Statements Summary – as of September 30, 2023

For the full detail report, click here: [September 30 2023 Financial Detail Report](#)

Name of Person Submitting Item: Mark Sullivan Deputy Finance Director

E-mail Address: mark.sullivan@rochesternh.net

Issue Summary Statement

Below are the revenues & expense highlights through September 30, 2023, which represents approximately 25% completion of FY24.

GENERAL FUND NON PROPERTY TAX REVENUES

	FY24			
	ADOPTED	RECEIVED	PERCENT	NOTES
Motor Vehicle Registrations	\$5,500,000	\$1,416,365	26%	
Waste Management Host Fees	\$4,600,000	\$1,106,909	24%	City-\$3,722,000 School-\$878,000
Building Permits	\$550,000	\$121,335	22%	
Interest Income	\$750,000	\$317,407	42%	
Interest on Delinquent Taxes	\$360,000	\$73,390	20%	
State of NH Rooms & Meals	\$2,867,759	\$0	0%	Payment December-23
Highway Block Grant	\$635,000	\$193,935	31%	Quarterly cycles
Cablevision Franchise Fees	\$235,000	\$0	0%	Quarterly cycles
Recreation Programs	\$122,400	\$89,896	73%	

ENTERPRISE FUNDS REVENUES

Water	\$7,544,084	\$1,460,898	19%
Sewer	\$11,744,213	\$1,611,681	14%

SPECIAL REVENUE FUNDS REVENUES

Arena	\$413,290	\$14,262	3%
Community Center	\$894,759	\$226,978	25%

	FY24 ADOPTED	EXPENDED	ENCUMBERED	PERCENT
GENERAL FUND EXPENSES	\$51,704,514	\$15,830,156	\$2,575,005	36%
OVERTIME & WINTER MAINTENANCE				
Police	\$111,546	\$51,275		45.97%
Dispatch	\$44,000	\$44,873		101.98%
Fire	\$240,000	\$165,765		69.07%
Public Works Winter Maintenance	\$541,218	\$22,132	\$1,110	4%
ENTERPRISE FUNDS EXPENSES				
Water	\$7,544,084	\$1,637,931	\$244,362	25%
Sewer	\$11,744,213	\$3,834,390	\$246,472	35%
SPECIAL REVENUE FUNDS EXPENSES				
Arena	\$413,290	\$68,703	\$113,762	44%
Community Center	\$894,759	\$200,276	\$134,547	37%



Taking the Mystery Out of Fund Balance

By Katherine Heck, Government Finance Advisor

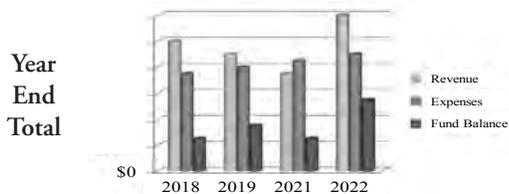
Municipal officials are often asked to explain to constituents the mystery around unreserved fund balance. Questions abound surrounding this complex topic, especially during the development of the budget and the annual meeting process. To assist the electorate in understanding unreserved fund balance, this article will explain the function of fund balance in government while keeping the citizen perspective in mind.

The average constituent might think of fund balance within the context of a regular checking account, but governmental finances do not operate like personal spending accounts. The term “fund balance” is one that is frequently used in governmental financial reporting to indicate a positive or negative change to a municipality’s fiscal position; however, a fund balance is not the same thing as keeping cash in a checking account.

What is Fund Balance?

In government accounting, fund balance is the difference between assets and liabilities resulting in a surplus or a deficit. A common misconception is that fund balance is a cash account, associated with or correlated to a government’s bank account balance. But unlike a personal bank account, a general fund balance is not a “cash-account;” it is a measure of equity between revenues and expenditures. Government fund accounting is unique to the public sector (i.e. cities, towns, schools) and requires separate self-balancing

Fund Balance is the total accumulation of operating surpluses and deficits since the beginning of a local government’s existence.



The Fund Balance Formula:

$$\text{Fund Balance} = \text{Assets} - \text{Liabilities}$$

Operating Surplus / Deficit
 The difference between a unit’s revenues and expenditures for a fiscal year.

$$\text{Revenues} - \text{Expenditures} = \text{Operating Surplus / (Deficit)}$$

accounting entries to track each fund’s revenues and expenditures. In the private sector it would be defined as a company’s working capital, but in public sector, it is referred to as fund balance. In government finance, the retention and use of unassigned fund balance assists in measuring the financial health of an individual fund, such as the general fund.

Why isn’t all fund balance returned to the taxpayers at year end by using it to lower the tax rate?

Fund balance is sometimes misunderstood and criticized as an unnecessary accumulation of money that could be used to lower taxes and fees. A municipality’s ability to use unassigned fund balance can be seen as a driving factor behind maintaining stable tax rates. As a financial tool, the main objective of establishing and maintaining fund balance reserves is to create a strong fiscal position that will allow a local government to weather negative economic trends and unforeseen circumstances. Essentially, maintaining the appropriate level of fund balance will mitigate current and future risk and to ensure a stable cash flow.

What is the relationship between the annual budget, fund balance and cash flow?

Budgets serve a different purpose in a government than they do in a private sector business. In a business, the budget is a plan to shoot for—often an aggressive plan that a business may or may not be likely to achieve. In the public sector, a local government creates a comprehensive plan to provide a desired level of services defined by local priorities through the budget process. In other words, a local government budget is a statement of policy and values.

In a government, the expenditure side of the budget is called “appropriations,” and it is the legal authority for the governing body to provide a given level of service granted by the legislative body. The revenue side is the income a local government needs to pay for all of the services it provides. The major sources of revenue for a municipality include taxes, service charges, and fees. These revenue sources help a municipality gain financial stability, broaden the tax base, and expand the types of activities and services available; they are

also largely independent of state and federal funds. Taking the Most municipalities depend on revenues collected during a single period, despite having consistent, year-round expenses.

Adequate fund balance allows local officials to maintain a stable set of public services throughout an entire budget cycle because a typical municipal cash flow cycle will have cash on hand amounts decreasing as the June and December tax collection approach. Unlike a business, municipalities do not have the ability to raise additional revenues during the fiscal year. A local government relies on drawing down existing fund balance (excess capital) to ensure adequate cash on hand is available to meet expenses before collections arrive.

Understanding that the natural revenue cycle within a local government is directly tied to fund balance reserves allows for the prudent management of financial resources throughout the year. When cash flow is under stress, a municipality may issue short term debt to cover the gap, requiring an interest cost to maintain steady operations and introducing risk. Adequate fund balance negates that need, saving resources that would otherwise be spent on servicing the cost of that debt. A strong fund balance will allow the municipality to meet cash flow needs, complete scheduled projects, and provide a contingency in the case of an emergency or disruption in revenues. Fund balance also has credit rating implications. According to the published local government rating methodology from Moody's Investors Service, "a fund balance between 15% and 30% of revenues is needed to receive a scorecard value of "Aa." This supports the importance of each municipality adopting a policy that reflects a strong fund balance approach to meet both short-term and long-term financial goals.

How much fund balance should a local government retain?

There is no single answer to this question, as each municipality should analyze its own unique circumstances to determine the appropriate level of fund balance to retain. Some concepts and best practices to consider have been developed by the Government Finance Officer's Association (GFOA).

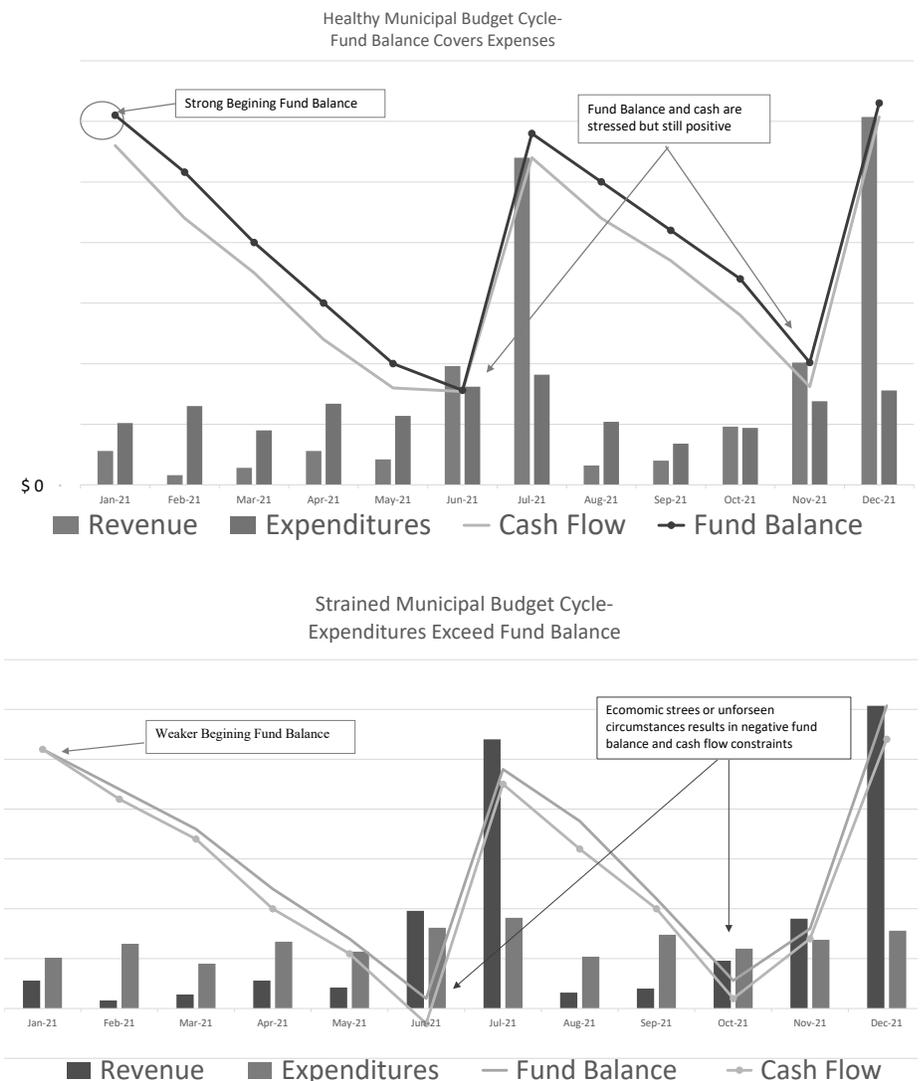
Let's begin by stating that zero is not an advisable option. Every government entity requires some level of fund balance for cash flow purposes and for responses to emergencies. There is an appropriate range of fund

balance because it is possible to have too little, but it is also possible to have too much. Key factors to consider when establishing an appropriate level of unreserved fund balance include:

Considering a policy that targets an amount equal to two months of operating expenses, including debt service obligations.

Generally, the GFOA recommends a range of 5% to 15%, regardless of the size of the municipality.

The New Hampshire Department of Revenue Administration (DRA) recommends 5%-17%. The higher percentage takes into account that New



Closing Thoughts

Hampshire is one of the most heavily reliant states on property tax as revenue for the operation cities, towns, schools, and counties.

Determining and maintaining appropriate fund balance levels requires regular analysis and monitoring. In light of economic trends, risk tolerance, or emergencies that impact a municipality, levels of unassigned fund balance may need to be adjusted as a budget grows and new debt service obligations are issued. Some elements to consider might be a historical review of the timing of how revenues are received, and expenditures are paid. Also consider the impact of revenue and expenditure patterns on cash flow and peak cash flow needs over most recent years. Determine the available cash needed for emergencies during peak cash flow needs and perform an assessment of the municipality's risks which could occur simultaneous with peak cash flow needs.

There are several different subcategories when it comes to fund balance, and this article focuses on the unassigned fund balance, which are available reserve funds that can be used or spent in the upcoming budget year. The governing body may appropriate any amount of the undesignated fund balance in excess of the designated retained percentage to offset property taxes as part of the final adopted budget for a fiscal year. In addition, excess funds may also be used for capital improvement projects, equipment replacement, and other similar budgetary needs, but these actions may require legislative body approval.

A policy should be developed which clearly states when fund balance reserves will be used, how they should be used, how the reserves will be replenished (and how quickly), and what happens when fund balance or reserves drop below the designated levels. Defining these conditions and triggers will help minimize misinter-

pretations associated with the use of fund balance.

In conclusion, defining fund balance uses and limits for your municipality within the scope of a policy ensures a balance exists between collecting more taxes than are necessary while still allowing for the prudent accumulation of funds. A municipality will be well served by maintaining a reasonable fund balance. This financial tool will help to bridge cash flow, avoid interest costs from short-term borrowing, preserve credit ratings, and provide a buffer against revenue shortfalls or expenditure overruns.

Katherine Heck is the Government Finance Officer for the New Hampshire Municipal Association. Katherine can be reached by telephone at 603.224.7447 or via email at kheck@nhmunicipal.org.

Resources:

1. "Rating Methodology: US Local Government General Obligation Debt," Moody's Investors Service. September 27, 2019. p.13.
2. "Fund Balance Guidelines for the General Fund" Government Finance Officers Association. www.gfoa.org/fund-balance-guidelines-general-fund



We represent towns and cities throughout the state and bring value to our clients through decades of experience and adhering to the budgetary constraints under which municipalities operate. We emphasize preventive and timely legal counsel to our clients with a view toward avoiding problems that result in litigation.

Special counsel services include:

- Telecommunications
- Tax Assessment
- Eminent Domain
- Appellate
- Labor & Employment
- Litigation
- Water
- Growth Control
- Land Use & Planning
- Utility & Infrastructure
- Police
- Environmental

Also available for conflict counsel services

OFFICES IN EXETER, PORTSMOUTH, MEREDITH & CONCORD, NEW HAMPSHIRE

WWW.DTCLAWYERS.COM
DONAHUE, TUCKER & CIANDELLA, PLLC

E-mail: info@DTCLawyers.com

Toll Free: (800) 566-0506

For inquiries please contact Christopher Boldt or Sharon Somers