

CITY COUNCIL WORK SESSION

Preliminary Budget Review Committee of the Whole

January 7, 2009 – 6:30 p.m.

Eileen Dondero Foley Council Chambers

City Council Present: Mayor Ferrini, Assistant Mayor Blalock, Councilors Novelline Clayburgh, Dwyer, Smith, Kennedy, Hejtmanek, Pantelakos and Spear (arrived at 7:15 p.m.)

Officials Present: John P. Bohenko, City Manager; Michael Magnant, Police Chief; Police Commissioners, John Golumb, Gerald Howe, and John Russo; Christopher LeClaire, Fire Chief; Fire Commissioners, Richard Gamester and Paul Wentworth; Dr. Robert Lister, Superintendent of Schools; School Business Administrator Steve Bartlett, School Board Members, Patrick Ellis, Rebecca Emerson, Kent LaPage, Dexter Legg, Sheri Ham Garrity, Mitch Shuldman, Elizabeth Sweet, Ann Walker; Judie Belanger, Finance Director and Valerie French, Acting Deputy City Clerk

I. Call to Order

At 6:35 p.m., Mayor Ferrini called the work session to order and turned the meeting over to City Manager Bohenko.

II. Review of Budget Schedule

City Manager Bohenko reviewed the FY10 Budget Schedule. He outlined the dates for the various work sessions including an additional public hearing on May 11th to allow for public comment after adjustments have been made to the original proposal. He stated that the final adoption is scheduled for June 8th. He stated that all work sessions will begin at 6:30 p.m. and public hearings will be at 7:00 p.m. with the exception of the Police Commission which will begin at 6:00 p.m. and all meetings will be televised. City Manager Bohenko stated that he would have the FY10 Budget Schedule posted to the website.

City Manager Bohenko reviewed the Consumer Price Index stating that there are three major indexes – the US City Average, the Northeast Urban and the Boston-Brockton-Nashua. He stated that the Boston-Brockton-Nashua is used by the City in their collective bargaining and the current figure for November 2007 through November 2008 is .7% but that the 10 year rolling average is at 3% and is the figure required to be used for the teachers' union. He continued that if the other unions reach agreements with this proposal, then they will also use the 10 year rolling average. He stated that negotiations are on-going.

III. Review of Budget Projections for FY10

City Manager Bohenko stated they are presenting tonight their projection of a "Status Quo Budget" with no reduction to services or staffing. He then reviewed the handout entitled "FY 2010 Major Increases", beginning with Salaries and Benefits. He explained that there have been many turnovers in departments and all new people will begin in the Step process with 1/3 of the staff in this Step schedule. He stated that cost of wages will go up approximately 5% with the combination of COLA and step increases. He further explained that the \$1,000,000 listed under Collective Bargaining Contingency was subtracted out because it is already

included. He stated that because of ongoing Collective Bargaining, he has had to do an estimate which is at 3% for FY10 which will help the various Boards and Commissions and department heads plan their budgets.

Next, City Manager Bohenko reviewed the Health Insurance 10 Year History Rate explaining that 7 years ago the City established a stabilization fund which prevents them from having to go back to the Council for additional funding when health insurance costs increase. He stated that the Guaranteed Maximum Rate (GMR) provided by Local Government Center for FY10 is projected at 16.5% but the average actual increase over the last 10 years has been 11.45% so that is what is being budgeted. Regarding Retirement Rate Increase, he explained the difference between the Group I and Group II employee categories, and stated that there is an approximate \$261,000 increase over the FY09 Adopted Budget. He stated each Department Head will need to work with Judie Belanger to refine their numbers.

City Manager Bohenko then moved on to the Operating budget stating that other operation expenses are being held at a 0% increase and that the Personnel related costs are projected at an increase of 4.99% which includes approximately \$697,000 for step increases.

Next, Debt Service, the City Manager stated this is an area they have spent a lot of time internally and working with Steve Bartlett of the School Department to try to make sure they had reasonable cash flow expectations regarding the proposed Middle School. He stated they are not trying to pre-determine the policy decision of the City Council regarding the Middle School vote, but felt it was important to have cash flow projections in the event that the Council proceeds with the Middle School vote and using these projections they can use bond anticipation notes and borrowing in increments, they can address it in that way for the time period of July 1, 2009 through June 30, 2010. He explained that since the Council retreat in November, the projected cost has come down \$600,000 and also the bonding amount for City improvements being voted on January 12, 2009 has come down by \$1.3million so there is that savings as well.

City Manager Bohenko continued by reviewing the County Tax increase which the city has no authority over and is anticipating a 3.4% increase of \$3.8 million which is just the best guess at this point. Regarding Non-operating expenditures, the projected total increase is 4.39%. Finally, City Manager Bohenko concluded with the FY 2010 Major Changes to Maintain Status Quo Budget page stating that to keep everything as is in terms of personnel and services, there would be an increase of \$4,023,036 with a preliminary projected tax increase of .87 cents over last years' 16.98 or a 5.13% increase.

City Manager Bohenko stated he has discussed the premise of no tax increase with the Department Heads and there will be a lot of work to achieve that and it would require making cuts.

Mayor Ferrini thanked the City Manager for getting the information out early on in the process. He stated he doesn't want a tax rate increase and he has heard other Councilors express the same. He continued that this is the beginning of the process, not the end and feels that the City of Portsmouth is fortunate that we have spent and managed our money wisely in the past years. He stated that through this process, we are able to make substantive, informed decisions in a civil and appropriate way without artificial tax caps or other mechanisms that take away our creativity. He then distributed an article from a recent Wall Street Journal regarding Property Tax Caps not only at the local level but at the State level as well. He

concluded that he feels that the hard work of this group, boards and commissions and staff, might get us to our goal and if we can do it without layoffs and impacting services, then it would be in our best interest.

IV. Discussion of Budget Guidelines FY09

Mayor Ferrini opened the floor for discussion:

Councilor Hejtmanek asked what is Capital Outlay? City Manager Bohenko explained that it is the funds utilized any time there is an appeal on a tax assessment.

Councilor Hejtmanek asked if this figure is based on historical information.

City Manager Bohenko stated yes and explained that this money can be held over year to year and be built up. He stated that some communities have to borrow money when they lose a tax appeal, but we have this fund set up which is overseen by the DRA (State Department of Revenue Administration).

Councilor Dwyer asked if on page 7 of the handout, debt service, is this the projected new debt for the new middle school.

Mr. Bohenko stated the original figure for new debt was \$880,000.00 but it has been reduced to \$280,000.00 going forward including the Middle School interest having gone from \$400,000 to \$150,000 since the retreat.

Dwyer stated she is confused with the figures on that page.

City Manager Bohenko stated that early on they didn't have information needed to make a projection and have been able to adjust the figures since November.

Councilor Pantalakos asked if the State school building aid is deferred would it hurt us?

City Manager Bohenko stated yes, but sometimes the State does defer the funding but it is usually around \$30,000-\$40,000 across all communities so as not to impact substantially on one community.

Councilor Pantelakos asked if the amount for the high school is still coming.

City Manager Bohenko stated in the past it has been dropped by 10,000-20,000, but the State has always made it up.

Councilor Kennedy asked if we have heard anything from the State on the building aid.

City Manager Bohenko deferred to the School Board.

Superintendent of Schools, Dr. Lister stated he has no new information at this time.

Councilor Hejtmanek asked when we might hear.

Dr. Lister again stated he has no new information.

Mayor Ferrini asked for any further comments.

City Manager Bohenko stated he talked to the Department Heads and will make this recommendation to the Council regarding funding the projected 3% Collective Bargaining agreement increases with \$1,000,000 from the fund balance as a one-time expenditure. He stated he doesn't usually recommend using the fund balance which is currently at 9.6% of the total balance and can't fall below 7% by ordinance. He stated he is recommending doing so in this case first because it is uncertain when they will be settled, and secondly, because of the economic downturn. He stated that if we use it, it will be 8.3% fund balance and it will show on the expenditure side with a direct offset on the revenue. He clarified that this is only for the

collective bargaining wages and not for step and insurance increases and that departments will have to budget those increases.

Councilor Pantelakos asked if we will try to implement something to help Welfare because of the cuts at the State and County level.

City Manager Bohenko stated it is his intent not to cut funding for outside agency proposals and that by State Statute, the city must fund any over-expenditures in the Welfare budget.

Councilor Kennedy asked where we are at with property valuations.

City Manager Bohenko stated that there is an assessment update due in 2011 as required by State law which includes all different classes of property. He continued to explain that the DRA wants all classes of property to stay level at approximately 90%, so if we come across a class of property that is under that ratio, the assessor will re-evaluate.

Councilor Kennedy asked where we are at in terms of the economic downturn and its affect on property values.

City Manager Bohenko stated he doesn't have that data, but industry people have said that this area is holding up pretty well unlike other areas i.e., Florida, Arizona etc. He stated he will have the Assessor at the January 26th Council Meeting to give a report.

Councilor Kennedy stated that she feels that people are concerned that their assessments will rise and still cause their tax rates to rise regardless of what the Council does and she would also like to see tax bills go out earlier so people can budget.

City Manager Bohenko stated he will advise the Council of areas that may have deficiencies.

Councilor Hejtmanek asked for clarification that 0 (zero) tax increase means same rate as last year.

Councilor Smith stated that the State Education Tax rate shows a 7 cent drop and asked if that is correct.

Finance Director Judie Belanger stated that this figure is from the adequate education formula and that we have gotten this information early enough to include in the FY2010 budget proposal.

Councilor Smith asked if there is any indication from the County on their budget yet as it was discussed at the retreat that we would start working more closely with them.

Councilor Pantelakos who is also a State representative, stated the County is just starting their process but have been told to keep it under control by the Commissioners.

Fire Chief LeClaire stated he would like to clarify the terminology being used regarding "Status Quo" budget and "Zero increase" budget, stating that a 0 budget means decrease in services.

City Manager Bohenko stated that the numbers being presented tonight are to show what would be required to maintain current levels and are a beginning point for working towards a 0 budget.

Mayor Ferrini stated that what the Council needs to ask is if we can do this and doesn't want people to confuse the goal with the result.

Fire Chief LaClaire stated he just wants it clear that 0 budget increase will mean cuts and that he will be looking at 10% cuts.

Councilor Dwyer stated that she doesn't want the term "Status Quo" attached to the budget.

Assistant Mayor Blalock stated that it is fine to have a goal of a 0% increase, but he would be opposed to cutting services and personnel. He stated that he would not want to lay people off because of the bad economic times.

Councilor Novelline Clayburgh asked if there are many people retiring.

City Manager Bohenko stated he will get those figures together for the Council.

Councilor Smith stated that since there is no more Budget Committee this is their chance to let the Manager know their opinions and stated that he doesn't want to see any layoffs either and feels that this can be dealt with through attrition. He stated that we do have to make up for increases that aren't in our control on the Municipal side and feels that department heads need to realize they need to make hard decisions and would like them to show the line items that will be affected by a percentage cut.

Councilor Hejtmanek stated that the budget increases compound on themselves every year and people don't get raises to keep up with the rates. He stated we need to look out for the taxpayers who also have to pay water bills, etc.

Councilor Pantelakos stated we all have to understand that we are spending the taxpayers money and nobody wants to see layoffs, but if people can't afford to live here, what good is it. She stated everyone needs to work together and stated that even at the State level, they have been taking things away, i.e., vehicles, conferences, etc.

Mayor Ferrini asked when the last time we had a 0 or near 0% increase budget and what was the genesis of that?

City Manager Bohenko stated he believes it was in FY 04.

Councilor Novelline Clayburgh stated that she was on the School Board at that time and it was tough, but they did it. She continued that she heard that President-elect Obama had hired an over-seer of programs to look at what is necessary and not necessary.

City Manager Bohenko stated that we have the Matrix Study which they use in conjunction with collective bargaining.

School Board Member Patrick Ellis asked what is the potential revenue growth in assessed values.

City Manager Bohenko stated that every year we do a projection and last year's figures were higher and this year there is limited growth. He stated it is easy to get loose with those projections but we are conservative so we don't have to make up for it later.

Councilor Spear stated he knows that the national economy is not doing well, but what about Portsmouth specifically.

City Manager Bohenko explained that historically in New Hampshire it takes us longer to get deeper into a recession and then longer to get out, more of a "U" than a "V" like other areas of the country. He stated we don't have access to a lot of the information that shows how the economy is affecting people but we can look at building permits and assessed values and delinquencies.

Councilor Smith asked for clarification of how much 1 cent is on the tax rate.

City Manager Bohenko stated \$38,000.00.

Councilor Novelline Clayburgh asked if there is any chance that some federal funds may trickle down to the City.

City Manager Bohenko stated that he has sent letters to the delegation and has included information on the Middle School and Water Treatment Plant, which is 90% ready to go.

Mayor Ferrini stated he has spoken to Senator Gregg and Hoades and staff of Senator Shaheen and Carol Shea Porter who all said they are unsure of how those funds will be

distributed, but they may go to the State infrastructure projects first. He stated he will keep the Council updated.

Mayor Ferrini asked for any further comments. Being none, the Mayor thanked all those in attendance and stated it is important for all boards and commissions to work together. He stated this won't be easy and we are a city that funds our public endeavors and this isn't a change of philosophy, but is addressing the times we are in. He stated once things get better we will continue to be the Portsmouth we are. He stated he agrees with Councilor Smith that we need to know what cuts will mean specifically.

Councilor Pantelakos stated she doesn't want people to get false hope that the Council is going to make cuts and then increase the taxes anyway.

V. Adjournment

At 7:30 p.m., Mayor Ferrini closed the meeting.

Respectfully submitted by:

Valerie A. French, Acting Deputy City Clerk