

BUDGET REVIEW COMMITTEE

MARCH 28, 2016

A meeting of the Budget Review Committee was held Monday, March 28, 2016, at p.m. in the Aldermanic Chamber.

Alderman-at-Large Lori Wilshire, Vice Chair presided.

Members of Committee present: Alderman-at-Large Brian S. McCarthy
Alderman-at-Large Michael B. O'Brien
Alderman Sean M. McGuinness
Alderman David Schoneman
Alderman Ken Siegel

Members not in Attendance: Alderman Richard A. Dowd, Chair

Also in Attendance: Alderman Benjamin M. Clemons

PUBLIC COMMENT

Mr. Fred Teeboom, 24 Cheyenne Drive

One of the things I want to talk about relates to the R-16-015. First of all, the mandates, actually the Mayor is in the audience, on the 26th of February and then repeated on 8-March the Mayor claimed mandated costs are not under the spending cap. That's completely wrong. I saw the article from 27-February, and I called the Mayor's Office and met with the Mayor. Later that week or earlier the following week at the Mayor's concurrence, I met with Attorney Bolton and Deputy City Attorney Clark. And, there's absolutely no question about it. The mandates are under the cap. Certainly the attorneys had no issue with that. You may have read my article that I got published on 24-March in the Telegraph. In case you haven't, but probably all of you have, but the listeners have not, maybe not everybody, this question was settled 23 years ago. People that were here 23 years ago were Alderman McCarthy, myself. That's it for the Board. Alderman Dowd hadn't been elected yet, and Alderman Wilshire hadn't been; I don't think. There's was a case, Bell vs. Arel, 1983, that the spending cap was based on. It says you can put a limit on spending, however you have to pay mandated programs. The language in the spending cap says mandated programs must be funded before you fund un-mandated programs. It doesn't mean mandated programs are not subject to the cap. Of course they are. The attorney at the time, Mark Bennett, wrote a legal opinion because there was some sour grapes from people who felt the spending cap shouldn't be voted in by the citizens. The city attorney at that time, Mark Bennett, wrote a legal opinion, dated February of 1993, which says absolutely the mandated costs are under the cap, even though Mark Bennett was no friend of the spending cap. The aldermen wrote a letter and it was adopted. It said mandated costs are under the cap. NRO 5-148 was passed in 2009. I was the sponsor of that which basically says what you do. You look at mandated costs and define them. You look at un-mandated costs and you look at the cap. If the two budgets exceed the cap, you have to cut the un-mandated costs and you keep the mandated costs funded. It's very simple. It's defined in NRO 5-148. There's nothing inconsistent about the ordinance as the Mayor claimed, at least in the Telegraph article. He didn't claim it when I met with him. RSA 49-C, for cities, and RSA 49-D for towns with now enabled spending caps or tax caps enumerate certain things that can be excluded but no exclusions from mandated costs. There's never been an issue. The Supreme Court case in 2010, City of Manchester vs. Secretary of State that I participated in, in fact I argued before the Supreme Court, basically pointed out some errors in state law that was corrected. In the decision there was never question about mandated costs not being subject to the cap. The unions tried to declare caps unconstitutional and they lost that totally. There's no foundation for that. I hope this subject is over with. I hope we don't have to fight this in the court all over again. If we have to, we're certainly prepared to.

The next thing I want to address is R-16-015, in particular. I won't go into much detail except that you see quite a bit of analysis in the subject of this resolution. There are a lot of figures in there. The bottom line is it exempts the cap. So you don't really have an override. You have an exemption that allows the combined annual budget to be exempted by a certain amount, not to exceed bonded debt or capital improvements. This particular budget exempts the costs for the pension expendable trust fund. What it does is it makes the budget go over the limit. It goes over the limit by an amount of; it's actually in the budget itself, almost \$2 million over the budget. When it goes almost \$2 million over the budget and you treat that as a supplemental budget that sets the base line for next year's budget, the 2017 budget. I think the reason it has come up again, even though it got turned down several times last year with Mayor Lozeau, is because I think Mayor Donchess is trying to enhance the current budget by \$2.2 million. Maybe that's why he is allowing the school board to go to 2% increase as opposed to the spending cap at the governing index of about 1.3% average. That is a serious vote. It exempts the spendings, overrides the spending cap, and sets the stage for additional inflation that gets carried forward from year after year after year. It's not just one time that it increases the budget. It will carry forever forward. The last thing I want to mention is this whole subject of R-16-15 deals with pension trust funds. Pensions in this city and probably in this entire state are completely out of control. It's completely out of control. I took a look at the three highest people paid people that retired recently. People at the top make the most in this retirement. It's sort of like they are gaming the system, what I call scamming the system. You take three highest compensation years. Those aren't necessarily the last three years, but usually it is the last three years of compensation. You multiply that times 2.5%. You multiply that times the years of services. If you get 40 years of service in, you actually can make your average of the highest of the three years compensation as your annual retirement. There are three individuals, and I will mention each of them. Deputy Chief O'Brien, who is sitting right there on my right, his last year's salary was \$92,941. His severance package was \$65,484. How do you get a severance package of \$65,000? That's unused vacation time and unused sick time, \$65,000 plus dollars. When I worked for Bechtel, I could accumulate for one year. Take it or leave it. Use it or snooze it. If you take his retirement and make it part of his compensation, because that severance pay gets added to the last year's compensation. It's not just the last average of the salary; it's the average of that sick leave and retirement. By the time you do all that and work it out, guess what his retirement is? \$7,810 a month or \$93,716 a year. It's about his highest salary if you look at 2015. He's actually making more money in retirement yearly than he did from working the last year. If you think that's outrageous, take a look at the retired chief, his boss, Morrissey. They both retired 1-June of 2015. Chief Morrissey's last salary was \$123,770. Morrissey's severance pay was \$83,665. An unbelievable amount, supposedly sick leave he didn't take and vacation he didn't take. His retirement is \$9,491 a month. How would you like to get a check for \$9,491 a month or \$113,887 a year? Its \$10,000 less than he made in his final year. \$113,887 he gets each and every year he's retired. It's out of control. If you think that's bad, take a look at Chief Seusing. Chief Seusing's last year salary was \$131,265. He must have made a pretty good salary for a chief. His severance package, unused vacation and sick leave was \$80,778. Guess what his retirement is? I got this from Martin Carlton, who is an administrator to the retirement system. It takes a while to figure this all out, guys. I didn't just get this the last two minutes before I ran into the Chamber. His retirement is \$11,558 a month or \$138,693 a year. He actually makes more money in retirement than he made in his final year of salary. How is that possible? He didn't even work the full 40 years. With that 2 1/2% calculation if he had gone on longer he would have made even more. Up to 40 years. That's what you guys are dealing with. There's a bunch of state mandates. The state asks you to put 26% of the wages of police into their pension fund. They ask for 29% of the wages of the fire department into the pension. Every time you give someone a raise of a dollar, it adds 26 cents more for the police and 29 cents more for the firemen for the retirement fund. The retirement fund is pushed by the salaries that we pay in this city. There's a lot of mismanagement up in the state. That's the truth. For a while they paid all the medical costs and all the retirement money and miss-invested their money. That's true. So these percent wages went up. We were all briefed on this last year. Under Mayor Lozeau you were all briefed on this. As you give more and more raises, if you think \$131,000 for a chief is out of the money, you gave them 26% of that salary, like \$30,000, into the pension fund on top of his salary. That's what is wrong. If you are going to budget this stuff, it should be done as part of the annual budget. You ought to be held accountable for doing it. The spending cap actually set priorities. You should hold to the priorities and not keep busting the budget. Thank you.

Mr. Gary Hoffman, 18 Harbor Avenue, Unit 104, Nashua

I would suggest that if you are curious about the New Hampshire Pension System you can go the New Hampshire Pension System.gov it will give you basic facts. Interestingly enough last years' public pension was, the average was only about \$20,320 and 68% of them were less than \$31,000. I'd be fine if the legislation cut down on that stuff. To say that the majority of our public employees are getting exorbitant pensions just factually is not true. Again, \$20,000 is the average; I believe the average for a teacher is only \$22,000. I don't know if you could live on much less than that even if you add in \$10,000 for social security.

With regard to the pension trust fund, it seems like a very good idea. The reason it's been created from my understanding is due to downshifting of costs from the state. I believe there is an extra \$3 million than what we had expected. These are mandated costs from the state that you cannot control and it makes it extremely difficult to budget if you don't know exactly what the state is going to do. It would be awful if you do not create this it could somehow adversely hurt city services if there was a downshifting that you did not expect at a time when inflation is extremely low. I urge this Board to really consider Mayor Donchess' proposal, I think it's a good solution for a problem that this city did not create; the State of New Hampshire created this problem. I would really appreciate it if you approved this. Thank you.

Mr. Robert Sullivan, 12 Stoney Brook Road

I want to congratulate Richard Dowd for being Chairman of this Board. I also want recognize David Deane for the good job he did over the years as Budget Chair. He spent a lot of time and had a lot of patience with a lot of the people, especially the new people. While I am on recognitions, Alderman Clemons, I commend you for a good meeting at the Planning meeting with all of the landlords showing up. I may not agree with your voting record a lot but I think when it comes to people skills you are pretty good at it.

I'd like to make a request to the Budget Review Committee; I did not attend last year's meeting and I understood that usually we have a period where we have general questions and comments that are either on the agenda or not on the agenda. It's my understanding that last year this was not allowed, that general questions and comments pertaining to the budget, at the beginning of the budget, were not allowed. I hope we don't have that so I am requesting if you would consider this to put it on the agenda right up at the front. I think last year was one of the few years that this was not allowed, regardless of whether it was on the agenda or not.

I would like to talk about R-16-015, creating an expendable trust fund for the State Employee Pension Cost of about \$2.23 million. I'm against this. I believe that this is another end-around pertaining to the spending cap for next years' budget. I think it's the wrong thing to do. It would be one thing, and I've been an observer of these budget meetings for quite a while, if the Board of Aldermen took the time to really look at the cost drivers of this city and try to scale it back a little. Some Aldermen do that, there's usually four or five, they have all different areas of expertise and they try to address it. The major cost drivers of this city are salaries, healthcare and pensions. Frankly, for the last several years I have not seen the majority of the Board of Aldermen reduce one contract. Now there may have been one contract that came in but the Board of Aldermen years ago, and I think the practice started milling out around 2008; I haven't seen anyone address kickback contracts and ask for a little less, please don't spend so much. There are usually four or five, Mr. Schoneman, you are one of them. Mr. Siegel, you are there off and on. David Deane is now and then, Mr. Moriarty especially, Mr. McGuinness, Ward 1 of course and I think Mr. Cookson used to but I don't know much lately. It would be one thing if these things were addressed. I looked at the last, I think it was the Supervisor's Police contract, 6 ½% increase in one year; you can't continue like that. What can you do? I don't know what you can do about the pensions but I know you can maybe trim some of the healthcare costs by passing those on to employees just like the rest of the people who are not members of the union. Maybe you could give a little less of a salary increase. People don't get raises every year, yet this Board gives raises almost each and every year. It comes across at times that it's nothing more than a rubber stamp, the Board of Aldermen as a whole, not everyone. These pension costs are not being resolved. The resolution is to kick it down to the

local entities. To me this is just increasing next years' budget by \$2.23 million to give a little bit more leeway so that more can be spent. It's my understanding that \$2.23 million will be added and then it will be divided by three and spread out over three years for about \$750,000. That means that each and every year that the budget increases by \$2.23 million and to me that's an end-around to the spending cap. We need some citizen representatives to say no. We need to address the fiscal year '17 budget and try to comb it down as much as possible and then make a decision if you want to override or exempt next years. Hopefully this will not pass; I believe we need six people.

Regarding the downtown, since we seem to be so short of money, R-16-001; I am wondering if this should not be held aside until the budget process takes place. It looks like they are looking for \$170,000 to consider, and I must say that the breakout of the money is a lot better than last years' breakout, but I am wondering if some of these things aren't as important when compared with the rest of the budget. I think before we start doing expendable trust funds at \$2.23 million that we really evaluate the total overall budget before we make those decisions and also maybe consider this R-16-001 against the other priorities of the city. Thank you.

COMMUNICATIONS

MOTION BY ALDERMAN SIEGEL THAT THE COMMUNICATIONS BE READ BY TITLE ONLY MOTION CARRIED

From: Marylou Blaisdell, Chair, Downtown Improvement Committee
Re: Downtown Improvement Committee – Final Budget for Surplus Downtown
Parking Funds Generated during Calendar Year 2014

- Referred to Cmte – 2/23/16

MOTION BY ALDERMAN SIEGEL TO ACCEPT, PLACE ON FILE AND RECOMMEND APPROVAL OF THE FINAL BUDGET FOR SURPLUS OF DOWNTOWN PARKING FUNDS GENERATED DURING CALENDAR YEAR 2014

ON THE QUESTION

Alderman Siegel

I would agree with the public comment that this is a much better allocation of resources than I have seen in the past, however, again, there is money in here for a study to be done and there is nothing that says that study is even going to be necessary given that we haven't finished phase one to my knowledge. If someone can set me straight on that I would be happy to be corrected.

Alderman McCarthy

I thought the phase one study was going to be present like May 2nd to the Planning and Economic Development Committee.

Alderman Siegel

Alderman McCarthy, has the study, at least at this point, is there some knowledge that this was worth proceeding with? Again, the point of phase one was to determine whether or not there was even a market in Nashua.

Alderman McCarthy

I think that determination is that something should go forward. I don't want to talk about the results yet because we don't have them.

Alderman Siegel

My comment is based on like either yes in some generic sense or no.

Alderman McCarthy

Yes.

Alderman Siegel

Okay.

Alderman McCarthy

I think if the end result is to not do it then we won't engage the second half of the study.

Alderman Siegel

So we don't know yet?

Alderman McCarthy

Well, we know what the recommendation is or we know something about the recommendation. The Board may decide not to go forward with it. Putting the money in there doesn't commit us to do doing the second half of the study if we don't think it's a good idea.

Alderman Siegel

Okay, understood.

Alderman Clemons

That's what I was going to just reiterate. These are recommendations that are prioritizing what the committee would like to spend that money on for downtown and we felt that it was important to put the study in there because it was something worth pursuing and it was something that the Board of Aldermen wanted to pursue.

Alderman Schoneman

Based on the fact that the first part of the study isn't done yet, even though we can say it wouldn't be spent if phase one said it wasn't good, I still think we ought to take a look at that first and I would recommend pulling this out or perhaps even waiting on this until the budget is done and what the results of phase one will be.

Alderman Clemons

All of the things that are in here would require to come before the Finance Committee before any money was spent. This is just a wish list essentially. It's a guidance that hopefully the Board of Aldermen will go along with. If phase one doesn't turn out to be not worth our time then phase two won't even come up and you will probably get something else from the Downtown Improvement Committee requesting to reallocate the money someplace else.

Alderman Schoneman

If this is going to the Finance Committee is there any reason why it is here? Do we have to approve this?

Alderman Clemons

We are not approving it and that's kind of the point, it's just a communication to the Aldermen to show what priorities might come up. We are just accepting the communication as a request that this is what we would like to spend the money on.

Alderman Schoneman

I understand, it is simply a communication so accepting it and placing it on file is something that I would support. When it comes to some of the public arts installation in downtown Nashua I think art, of course is in the eye of the beholder. It would be great when the time comes if the Board of Aldermen could approve some of the art installations that are going in downtown too, just as a side note.

Chairman Wilshire

My understanding is that they were looking for us to approve the budget for this.

Alderman Clemons

That's not how the process works. They make a recommendation to the Board of Aldermen and then we say yes or no but it has to go through the regular budget process, it still has to go through the Finance Committee for contracts. It's not just a rubber stamp.

Alderman McCarthy

Isn't there a resolution that's tabled in this committee on that?

Alderman Clemons

Yes.

Alderman McCarthy

That would be the instrument by which the money actually gets moved.

Alderman Clemons

Which I was hoping we would get to after this, but...

Alderman Siegel

It's Alderman Clemons legislation so if you want to explain it to Alderman McCarthy. That's sort of the vessel in which you pour the liquid. What we are defining here is how the liquid gets allocated with this communication. The legislation, as I understand it, is really whether to create the vessel to span budget years or not and the mechanics behind that. There is nothing more complicated than that, it's not an allocation piece of legislation.

Chairman Wilshire

Is that R-16-001?

Alderman McCarthy

I believe it included a transfer into the fund. This communication is saying how the Downtown Improvement Committee thinks that money ought to get spent out of the fund. The money is not in the fund at this point because we haven't acted on it legislatively. With respect to the Board of Aldermen voting on the downtown art, I actually think legislating taste is probably a really bad idea. It should be someone like the Art's Commission and not the Board of Aldermen.

Alderman Siegel

Just for reference we had a discussion exactly like this at the Board of Public Works meeting and Commissioner Moriarty raised the point of who is responsible for saying what goes where and how long it stays there. My point was that the Board of Aldermen should not be doing that because if there's an elected public body that has that authority it's the Board of Public Works and not the Board of Aldermen.

Alderman McCarthy

I would agree whole heartedly that the Board of Public Works is the one that should decide that.

Alderman Schoneman

I understand the comments and I can understand that. There's a piece of artwork on the bridge that I have heard from constituents who continually ask what is that and why is it there. Whoever is making the decision it would be nice if there were some kind of explanation to offer to the public as to why that's considered to be good art and appropriate for the bridge. If it was published in the newspaper then I guess I just missed it.

Alderman Siegel

I think we are straying from the point so perhaps we could get back on track.

MOTION CARRIED

UNFINISHED BUSINESS - RESOLUTIONS

R-16-001

Endorsers: Alderman Benjamin M. Clemons
Alderman-at-Large Brian S. McCarthy

ESTABLISHING AN EXPENDABLE TRUST FUND FOR APPROPRIATIONS FOR DOWNTOWN IMPROVEMENTS AND TRANSFERRING UP TO \$170,439.20 INTO THE EXPENDABLE TRUST FUND

- Postponed to Next Meeting – 2/18/1

MOTION BY ALDERMAN MCCARTHY TO RECOMMEND FINAL PASSAGE

ON THE QUESTION

Alderman Clemons

We needed a vessel, as Alderman Siegel said, for where to put this money because right now it's in various places over the budget and it's been escrowed in different years so it's kind of hard to look at and by putting it in an expendable trust fund we will be able to keep track of it better and this will also provide a better way for the money to be spent as well.

Alderman Siegel

The whole concept of an expendable trust fund is generally fine and it might allow for the Downtown Improvement Committee money, as much as I dislike it, they might be able to do something more useful like changing the way the parking garage access to the main street is if they had more money and saved it up. My big problem is the original legislation goes on calendar years and the city goes on fiscal years so somehow before any of this gets done I would really like to see that change so that everything is done on a fiscal year. It's an accounting nightmare.

Alderman Clemons

If you read the legislation carefully, it's actually not done on a calendar year. It is calculated, the amount of money that is appropriated in the let's say this year which would be the fiscal year 2017 budget, it's calculated from last years' calendar year parking revenue and the reason that it was anything above \$728,000, the reason that it was set-up that way initially was because folks in the community wanted to make sure that the correct amount of money that was being collected was being put into the downtown improvements. So, because there was concern that if we were to; basically when we look at the parking revenue it's a forecast as to how much money is going to come in and we do that every budget. When it started out we wanted to have a real time cost so whereas the parking money goes into an expendable trust fund that doesn't lapse it made sense to say let's take the budget calculation of how much money people are literally putting into the meters, how much of that is above what was typically forecast which was \$728,000 and then appropriate the equivalent sum of that amount of money from property taxes into the downtown improvement fund. The reason it has to be done that way is because there is a state law that prohibits parking revenue from being used for things like art or a downtown circulator. We needed a way to be able to take money that we could raise to be able to do those things. The best way to do it was to offset that amount of money on the ledger with property taxes. It doesn't run on a calendar year it's simply a calculation that's based off a calendar year and by doing that it makes a lot of sense because we have an actual number each year that we can budget and we know what that number is before the budget is crafted so we can account for it, like so this year it's \$105,000 and we can account for where to take that out and it will be offset by what's in the parking fund already and we are good to go. That's why it was set up that way and I know it's very complicated. It was the only way that it could be done.

Chairman Wilshire

Alderman Clemons, are you saying that the money that is being transferred is from the actual '15 calendar year?

Alderman Clemons

No.

Alderman McCarthy

Ultimately the parking meter revenue always gets spent on parking or road maintenance. It offsets expenses that we would have done by taxes otherwise. The legislation says that in the next calendar year you make an appropriation that is equal to that amount of money. It's in the FY '17 budget. It's based on what happened in calendar year '15 accounting.

Alderman Clemons

The reason for that is because you want to know how much money you can offset.

Alderman Siegel

The way the city financial books work is on a fiscal year and I don't understand how this change, and by the way, I might add that the person that asked me to try to get that changed is our City Treasurer.

Alderman McCarthy

The budget is delivered to us in April or May and is effective on the 1st of July. We would not know until after the budget was in place what that revenue number was on a fiscal year basis. We take the calendar year revenue and as far as I know the parking department has never had a problem producing that number on a calendar year basis so I am not entirely sure what the Treasurer's dislike for it is. All we have to do is know that number and we put an appropriation in the budget that matches that. If there is a discrepancy in parking what happens between January and June has been taken care of when we do the next calendar years' roll-out at the end of December.

Alderman Siegel

That's okay with me.

MOTION CARRIED

UNFINISHED BUSINESS – ORDINANCES – None

NEW BUSINESS – RESOLUTIONS

R-16-014

Endorsers: Alderman-at-Large Brian S. McCarthy
Alderman Richard A. Dowd
Alderman Mary Ann Melizzi-Golja
Alderman June M. Caron
Alderman-at-Large Michael B. O'Brien, Sr.

CHANGING THE PURPOSE OF UP TO \$600,000 OF UNEXPENDED BOND PROCEEDS FROM THE BROAD STREET ELEMENTARY SCHOOL BUILDING PROJECT, \$159,815 OF UNEXPENDED BOND PROCEEDS FROM THE SCHOOL ROOF REPLACEMENTS PROJECT AND \$228,956.44 OF UNEXPENDED SCHOOL CAPITAL RESERVE FUND APPROPRIATIONS FROM THE HIGH SCHOOLS' GYM FLOORS PROJECT TO THE SUNSET HEIGHTS ELEMENTARY SCHOOL HVAC IMPROVEMENTS AND BUILDING RENOVATIONS PROJECT

MOTION BY ALDERMAN MCCARTHY TO RECOMMEND FINAL PASSAGE

ON THE QUESTION

Alderman McCarthy

This is the piece of legislation that we talked about for a long time. It didn't come in until just recently because we didn't have the closeout numbers on the Broad Street Parkway Project until about one month ago. It transfers the remaining balances from the other school construction projects that are done into the Sunset Heights Project and when we let the last bond on Sunset Heights, we had adjusted it understanding that this was going to happen. This completes the funding for the Sunset Heights Project. It is actually more money than is required in that project, however...that project was not completed by the bonds that we had let because we had cut out a section of it which was paving and putting drainage in the area between the wings of the school. The school has a very long classroom wings that drain into courtyards in between them. At Broad Street we had paved those and put in drainage because we have had problems with it over the years of

water piling up and standing in the parking lots. The JSSBC last week approved putting that back in the project contingent upon this legislation. There are several other requests to do changes at both Broad and Sunset that I do not believe the committee will ultimately approve so what will happen is this money will get transferred into there and there will be some amount left over at the end of the project which will probably be transferred forward into the projects that the school department is looking at at Mt. Pleasant and at Elm Street to do some work on the HVAC systems in the part of those buildings that were never touched; also Fairgrounds Jr. High. This is basically wrapping up the Broad Street Project, the roof project and the gym floor project moving that money forward to pay for what we otherwise would have had to bond at Sunset Heights.

Alderman Siegel

I am familiar with this issue from last term; the air quality has got to be fixed. I am supporting this but so many times it seems that we are backfilling on projects that wished had been done the right way originally and now we are backfilling saying oh boy, now we have to fix this. We've seen that with roofs and HVAC systems. I just have a plea that somehow the powers that be that oversee this can kind of keep a more careful eye on it so we are not constantly looking at stuff and fixing it in retrospect.

Alderman McCarthy

It's my belief that on the north school, the south school, Fairgrounds Jr. High and at least the five elementary schools where I have chaired the committee that we did them right and we will not be doing catch up again later. We will have to eventually do maintenance because you always do but we have not gone into it leaving things that were not correct. This school, for example, had a roof that was not built to codes that are appropriate today. I don't know how that decision was reached and whether it's just that the code was lower or if we cut costs. My experience with some of these projects is that we cut costs all over the place and left them for the future and they ultimately caught up with us. I believe we are almost out of that in terms of the overall set of schools. We have three or four more that will need some renovation to get them up to where they should be and then I think we can do normal maintenance after that. The biggest challenge is at Elm Street. We got a report that said we needed to spend \$12 million on it and we spent \$6 million. By my calculations we have spent \$7 million more since then and we are almost halfway done.

Alderman Siegel

Thank you, I think.

MOTION CARRIED

R-16-015

Endorsers: Mayor Jim Donchess
Alderman Ken Siegel
Alderman-at-Large Brian S. McCarthy
Alderman-at-Large Lori Wilshire
Alderman Richard A. Dowd
Alderman June M. Caron
Alderman-at-Large Michael B. O'Brien, Sr.

**ESTABLISHING AN EXPENDABLE TRUST FUND FOR STATE EMPLOYER PENSION COSTS
AND APPROPRIATING \$2,230,000 FROM FUND BALANCE ASSIGNED FOR THIS PURPOSE
INTO THE EXPENDABLE TRUST FUND**

MOTION BY ALDERMAN SIEGEL TO RECOMMEND FINAL PASSAGE

ON THE QUESTION

Mayor Donchess

As CFO Griffin will describe in the presentation he has, what we are proposing is that the money that was saved over a period of several years to offset rapid increases in pension costs allocated by the retirement system, that that money be put into an expendable trust fund for the purpose of off-setting pension costs over a period of three years. In other words we were just asking if money that was saved for a specific purpose now be used for that purpose.

Mr. Griffin

This presentation recaps several that we have done in the past. This pension is certainly not a new cost item for the city as we all know. This paints the picture from 2008 to 2016 with the estimate of the NHRS contribution. This year it's at \$21.3 million. As we can see in this particular slide, since 2008 it's a 148.3% increase, \$12.7 million from the base year of 2008. If we look at the dollar increases and the percentage increases, generally speaking when the NHRS Board of Trustees increases the employer rates; we've seen million dollar increases, especially in 2012, 2014 and most recently in 2016 as we prepared that budget. This is kind of, to put it in perspective \$21.3 million is the estimated amount of dollars that the city would contribute to the NHRS pension this particular year. The New Hampshire Retirement System recognized a significant unfunded liability and downshifted certain costs to the city, namely in the elimination of some subsidies that they had provided. The prior actual method that was used to kind of mask the problem as you may recall, is 8.75 estimated rate of return that needed to be reduced. During a period of time there were excess earnings over the target that was put in a special account to provide benefits, mainly medical to the retirees that participated and then there were the investment losses that occurred. With regard to the state contributions to a portion of the employer rates for teachers, police and fire; just about the time that I arrived the state reduced the contribution from 35% to 30%, in 2011 it reduced it from 30% to 25%. We were hoping that it would go no lower than 20% in fiscal '12 but the state eliminated the entire subsidy at that point in time. In 2011 a House Bill to...there was an attempt to dampen the increases going forward. A few items that were passed were raising the employee contribution rates, increasing the retirement ages and length of service required, limiting the definition of earnable compensation, lowering the maximum retirement benefit and funding schedule to pay the unfunded liabilities through 2039 and that's 23 years from now so this is the payback of the unfunded liability and it's going to be with us for quite some time. The fund purpose for this legislation; before you create the expendable trust fund using \$2.23 million of assigned fund balance that we had strategically placed in an assigned fashion to fund unfunded liability such as pension costs. This particular legislation also recommends taking 1/3 of the initial appropriation of the \$2.23 million and use it to pay pension related costs to the NHRS which is approximately \$743,000 per year for the next three fiscal years beginning in fiscal '17. What that does is it helps us manage the impact of the NHRS employee rate increases and as we know, there will be an increase or there will be a change in the employer rates set in October of 2016 for fiscal '18 and fiscal '19. In addition, which has been stated before, the dollars that we have assigned, this \$2.23 million is from surpluses either in revenues that exceeded estimates or unspent appropriations so it's tax neutral for this case. As far as the build-up of the fund that we would like to move into the trust fund at this point you see that when we became acutely aware of the increases that were before us and potential increases in the New Hampshire Retirement System employer rates we were able to assign for this purpose, \$614,000 in 2012, \$1.2 million in 2013 and \$916,000 in 2014 so we had a balance of \$2.73 million and we reduced that by \$500,000 to change the assigned value; the \$500,000 to the unassigned, to grow that unassigned fund balance. As is noted on page 74 of the June 30, 2015, CAFR; it lays out in good detail the assigned \$2.23 million as well as the unassigned fund balance of \$27.7 million. This is a chart that is in percentage terms by type of employee. It talks about the normal cost. If we didn't have an unfunded liability that normal cost would be the cost to run the program. The unfunded liability adds approximately 100% of the normal cost, two went slightly above, to get a total cost less the member contributions is the employer pension related amount. The NHRS calls out specifically the cost of the subsidies for medical and add that to get the total employer rate. The medical subsidy, as noted there, was introduced for various groups; 2000 for employee, 1999 for teachers and fire and police is 1988. As you may recall there was a significant amount of folks that retired back in 2009 to take advantage of getting that particular subsidy. This is a chart that takes a look at the cost drivers,

namely wages, benefits, pensions and operating costs. As you can see, the wages over this period of time have averaged 2.5%. Benefits we have actually done a very good job of managing that particular fund and the costs associated with it. We have actually been able to reduce the appropriation from \$28 million to \$25 million in fiscal 2016. Pensions you can see, and this includes not only the NHRS but the Board of Public Works pension and the social security components; FICA and Medicare so the total amount for these costs in fiscal 2008 were \$15.8 million and they have risen to \$29.4 million so we've had a struggle managing that change under the spending cap. Finally, the operating budget has high marks in that regard as well for the team, .6% average over eight years. The total eight year average including the pension cost that went up 8.2% over that period of time, 2.1% as you can see in the bottom right corner. A little bit of background as to where we have been, where we are at and how we would effectively use the monies that go into the expendable trust fund in an effective manner. I would say my most recent intelligence from folks that are knowledgeable about the New Hampshire Retirement System is that there may be a recommendation at the May meeting to reduce the now target rate of return of 7.75 down to something lower which would be in the neighborhood of 7.5 to 7 and the impact on that; that's a pretty significant number and we will be watching it carefully but that may have the impact of driving up the unfunded liability component as well as the normal cost component because the three funding sources as we know from the NHRS are employee contributions, employer contributions and the earnings on the fund. The fund is in the \$4.5 billion range so any kind of change from the 7.75 down to a number lower than that would have an impact so I wanted to share that with the group.

Alderman Siegel

This idea was based on an idea that appeared last term and the shell of the idea was that the pension expendable trust fund. Let me talk about why I voted against it last time and the modifications that I've tried to introduce in this piece of legislation to address the concerns that I've had and to be very sensitive to the tax impact on the citizens of Nashua because that is a concern. The problem last term was that we had this lump of money and let me be clear, this has been allocated and set aside, the Bond Council understand that it's for that so leaving it there or removing it has no effect on the bond rate or the tax rate. That's very important to know because you want to say for any...if I need this money in any way, what are the effects on the driver of city costs? The last term, the expendable trust fund never had a lapse point so we had this \$2.23 million that we could allocate and there was sense of how it would be allocated, it could be used in a lump or whatever and it would last forever. While I was okay with the money that was set aside for that purpose, the second that that money was gone, now it would have a material effect on both potentially the bond rates and the tax rates because it would have to continuously be funded and that was the problem that I had. In looking at this I thought that the best thing to do was to say two things, the spending cap is there to protect the taxpayer and keep services in tact so we want to maximize our services, be prudent about how we spend money and make sure that we are sensitive to what we spend. If we are going to do that, and the pension liability is a major driver of costs, let's try to buy ourselves enough time, somehow, to go after the root cause of this problem which is really a state level problem being driven down to us. The reason that I wanted an expendable trust fund which lasted for three years was it was a three year window in which we could have something changed, hopefully at the state level. Two things that I believe can be done is one, to reduce the amount that the pension fund is required to be funded because right now the legislation has it funded at 100% and any actuary will tell you that's literally nuts as far as having a healthy pension fund to be able to pay the drain rate and account for any investment issues that's probably overfunded. The other thing; and I understand that there was some notion that if we had it funded at 100% that some way magically we could flip over to a 401K plan. I'm not going to weigh in on the feasibility of that, I know that was a potential driver but the alternative is to extend that 39 period which we are into right now. So, reduce the load because obviously this is fairly significant and as CFO Griffin alluded, if we cut the investment target down the amount of money that we are on the hook for is very substantial, every 1% is on the order of about \$20 million so it's non-trivial. The idea was to provide a three year window in which something could be done and by dividing it into three equal parts it prevents us from front end loading this and not doing anything on the back side. It has some effect and in my mind it also is specifically for just this obligation. Now, what happens in the event that three years go by and there hasn't been a change; well guess what, the expendable trust fund lapses and game over. The

legislation has a specific lapse point. Let's assume that somehow legislation has changed and that within that three year window we have a positive development and so the obligation to the city is relieved somewhat. At that point the trust fund can lapse and the remaining fund balance can be put into the general fund as required or for that matter it could lapse back into the unallocated fund. The point is that there is a limit and also that the money that was set aside is all that is going to be used and it's only to be used for this specific purpose. The problem is that this liability is so large right now that it is somewhat inevitable that we will face the very real possibility of losing our essential city services like police in the middle of a crisis that we are facing. I'm sensitive to the commentary on the high pensions but they are not germane to this particular piece of legislation. The pension issue is before us and it is something that we have to deal with and I felt that this was a way that we could most constructively deal with it that both preserves the services for the citizens of Nashua and also is sensitive to the fact that it has no effect on the tax rate. The one other piece of this that I want to address is the effect on the spending cap. A spending cap is an upper limit but many of you who have seen budget hearings and saw what happened two years ago, yes, we had a certain threshold and then I went through and got \$550,000 hacked out of that. So, the fact that somebody says here's your credit card limit doesn't mean I go out and spend it. In fact, I'll treat this budget exactly the same way. We are going to spend only what we need to and we are going to try to keep under that. I didn't personally somehow lose my sense of fiscal prudence just because some arbitrary number got waived up or down. Suppose we were in an environment with 20% inflation, that wouldn't mean that all of a sudden we should jack the budget by 20% just because that's what is allowed. There are very legitimate concerns on both sides of this issue and I am sensitive to that and I appreciate those speakers who came up for public comment. I believe this is a very viable solution to a problem that we cannot get away from so I would strongly urge the members of this committee to recommend final passage.

Alderman Clemons

I am happy to say that I couldn't agree with you more, Alderman Siegel.

Alderman Schoneman

I appreciate the arguments in favor and I appreciate the work that goes into figuring out legislation that would appear to solve a problem, however, it's not really solving a problem. I think that when the state downshifts cost us, they are effectively saying we can't fix this, you guys deal with it. I think we need to deal with it right away. The people who spoke earlier I think made very valid points on the fact that we, at the local level, are making pension decisions that cost money over the long-term and I think we need to start addressing that immediately and I don't know to wait three years or spread it out over three years is the wisest thing to do. There are consequences to the spending that we have done and to keep this within the cap would force the city to deal with the consequences and by doing that we will be able to make a step forward in solving some of these problems. This fund is already fund and it would appear that it's just like moving money from a savings account to a checking account with no effect on the tax rate. I agree with all of that but it does have an effect on overall spending and I think that's very significant. To move the basis from \$260 million to \$262 million; I think that's what is really happening here with this legislation. Why do we have to do it now? I think we have to do it now because we are facing the fiscal '17 budget year and the idea is to do it now so that we have the money to spend for fiscal '17 because we cannot contain the planned fiscal '17 spending within fiscal '16 plus 1.3%. This is a means to an override of fiscal '16 spending cap; that's what the legislation says. We have \$40,000 left in fiscal '16 underneath the cap and this legislation is going to require ten votes at the full Board in order to override the spending cap for fiscal '16. The fact that it's not being spent and just appropriated; maybe we have actually an appropriation cap technically speaking because the money won't be spent right away, \$2 million will be appropriated to be spent evenly over three years. We have an appropriations cap and I think we need to honor that. We are at \$260 million and I think we need to stay there. I cannot support this because of what it does to fiscal '17. It's going to be very hard to say the limit is now \$262 million plus 1.3% and then to scale that back. We did it last year but I don't think we have the votes this year and this is a protection, the spending cap is a protection for the taxpayers and I think we need to honor that. Then there's also the argument that mandates have to be under the cap, this would move mandates out from under the cap

for this period of three years unless I am misunderstanding something. That sounds like it's not even legal according to all of the enabling legislation for the spending cap. In as much as we need to solve this problem and the real result of this is that it's overriding fiscal '16 to make more room in fiscal '17, it's a spending cap override. It's a spending cap end-around for fiscal '17. If we need to override for fiscal '17 let's just have a budget that requires an override vote. I think that's a more honest way to do it than to move this money and expand that basis and then allow us to spend more in fiscal '17 than we could otherwise.

Alderman O'Brien

I agree with Alderman Siegel but I'd like to bring up how we got here. I don't share Alderman Siegel's hope that maybe going to a 401K in the future would assist in this endeavor because the reason is...

Alderman Siegel

I didn't hope anything.

Alderman O'Brien

I'll retract that but the point is the pension system was 67% funded by the stock market. We just went through one of the terrible recessions in modern memory and on top of it we fought two Gulf wars and are still heavily engaged with our troops and a lot of these effected the economy and these things were out of control with some members of this particular Board and then in 2010 we had an ultra-conservative legislature that basically, we didn't miss the boat, they marooned us and basically cost shifted what was 35% paid down to zero; that's a hit. To have our legislature support that and not paying attention to the needs and wants of some of our larger communities, communities who are generating the state economy such as Nashua, Salem and Manchester. It left Nashua fiscally holding the bag so what this affects is that we have a responsibility to our employees to make sure if it's the end of their working life that money will be there in the pension system. They signed on and it's basically like a contract. We have that responsibility. I like the spending cap but I don't see it as the one and only golden calf. It is written that we have the ability to look at it and weigh the balance on how we can interpret it. We have the responsibility of making the pension system available to our employees. This makes sense to me and I'll support this legislation.

Alderman Clemons

I keep hearing that this legislation is going to essentially allow us to increase the budget by \$2.2 million for next year and it sounds like some folks think that that is the real purpose for it rather than actually spending the money on the pension costs. My question to Mayor Donchess is which is it?

Mayor Donchess

The money that was saved over three years, as one of the slides that Mr. Griffin presented shows and the intention of the sponsors here including myself is to use the money that we saved over three years for a specific purpose to use it for that purpose which is to offset these pension costs. Alderman Siegel raised the fact that we may be able to improve the situation. I don't know if we can but I think we should try. The pension person, the expert from the Municipal Association is coming down to meet with me in the next couple of weeks. I think we should make an effort in the legislature to change the target. In other words, no pension - being at 100% only matters if you assume the state's going out of business. Yes, 55 or 58 or 60; wherever we are now is not healthy enough but if it were at 80 I think experts would say, given that the State of New Hampshire is an on-going enterprise, that that is a healthy pension fund so I believe we should make a legislative attempt to roll back or change the target and in the interim enact this legislation to help us over the next three years.

Alderman Siegel

I have a couple of observations. One of the by-products of the legislation is imagine a situation where some fortunate individual said I'd like to create a \$30 million fund to help the youth of Nashua with recreational facilities, of course as a Board of Aldermen we would be more than happy to create an expendable trust fund and it would probably would be unanimous in accepting that money. We wouldn't be able to spend it, not a dime of it because it would come in over the cap. That would be an unfortunate side effect but in fact, in order to spend that money we would have to say okay we will go above the cap. I appreciate that there is a spending cap, it requires discipline. To address my colleague, Alderman Schoneman's concern about whether we have the votes or not for the types of cuts we had, when I proposed those cuts and I believe there were eight or nine of them, it was a unanimous vote on every single cut. It wasn't very difficult to get them through and there might have been some more but I knew I wouldn't necessarily have some of the support at that time but we did make a significant effort so I believe that the majority of members are sensitive to this and nobody's running around celebrating that there's a checkbook that we were certainly granted. The increase in the target number is an unfortunate by-product. Frankly, I wish it weren't that because it makes the argument for doing this slightly weaker for those who feel that is going to all of a sudden become our new limit.

Alderman Schoneman

Alderman O'Brien's comments about the market; that's understood and it's accepted, it can't be changed. The fact that those things happen doesn't change a pension obligation, it's still there but I think it needs to still be there within a normal appropriation. The funds are still available, just because we don't move them over to this account doesn't mean that that account can't be spent, it can be spent; it can be spent within the fiscal '17 appropriations. The only change that moving this out accomplishes is to expand that base; the money doesn't go away if we don't move it out. As far as Alderman Siegel's example of accepting money, that's a good example. That kind of thing I think could be and would be placed outside but this is a mandate, it's a state required mandate that has to be under the cap and I don't see how that can change. I think we need to leave it in there and work with it. We have the money and it doesn't affect the tax rate whether we spend it outside of the cap or inside of the cap.

Alderman McCarthy

The discussion about whether the liabilities are under the cap is kind of an esoteric sidebar to the discussion we are having right now. If this legislation passes then the money that is appropriated is effectively under the cap because we will have excluded a portion of bonded debt to allow it to be in there. The other question was whether we could simply exclude those things that are considered mandates from the calculations of what is limited by the cap and effectively if there are increases in the mandates, ignore those for cap purposes. I think the opinion that corporation counsel has given is no, we can't do that but that has nothing to do with the legislation that is in front of us. As Alderman O'Brien pointed out, you make a budget and you say I'll have these expenses and I anticipate that next year I'll 1% more money but then your uncle comes along and wrecks his car and says I need you to buy a new one for me which is essentially the situation that we find ourselves in. We are going to have to, year after year, take money out of the services that we've told the Nashua citizens that we would pay for and that they have been paying taxes for in order to pay for a new car for the uncle unless we get this fixed. We have a fairly balanced budget for the city that has fit within the cap for twenty years and somebody else said you have to pay \$9 million a year more than you did five years ago for an expense that I can't figure to spend. In any company I have ever worked for if the CEO came back and said I don't know how to solve that problem, it was attached to his letter of resignation.

Alderman Siegel

I want to make it clear that it was never my intent to say the mandated expenses from this were to not be part of the cap calculation. What I am doing I hope is transparent, it's to solve a problem and recognize that yes, if you want to take the approach of overriding the cap, I'm not going to run away from that conclusion but what I

want to go back to is first principles again and say ultimately everything is put in place to say what is the effect on the taxpayer and the city services and to the extent that not a dime changes...here on the one hand we say that we are going to accept this legislation and we pay exactly the same amount. Here we pay the exact same amount only now we've got a problem because we've lost essential police or fire. We can sort of try to be heroes about semantics but there's a real problem and if ultimately we are not affecting what is coming out of people's pockets, only affecting the services that are provided, I think that's a real problem.

Alderman Schoneman

I agree that there needs to be that balance. This amounts to a spending cap override in fiscal '16 and I think if we are going to do that then the better thing to do would be to just override the cap in fiscal '17. The money is still there and it makes no difference to the tax rate. There is no urgency to doing this. The only thing that this accomplishes is that it changes that spend amount, that's it. We can still spend the money; we just override fiscal '17 instead of fiscal '16.

Alderman Siegel

There is a very specific reason why this is being done the way it is. I'm actually trying to have more fiscal discipline and not less. This is a defined amount of money that we know has no effect on the tax rate. I don't want to go year to year and say now we are going to override by this. Suppose we get an adjustment that actually in an idea world we would need \$1.3 million for that year. This legislation doesn't allow for that. It very explicitly cuts it into three parts of the pie. That's very important to me. I want to know right up front what we have and how the discipline is going to be enforced and at the end of it if we can't stop wearing the democrat/republican hat and start wearing the Nashua/Manchester hat then we will suffer the consequences and deservedly so.

Alderman Schoneman

I certainly want to see fiscal discipline and I think the handling of the pension fund would probably work in that sense but by moving this out and upping that amount from \$260 to \$262 as the base; that's where the tax increase is going to occur not from the pension fund but from everything else that gets increased because this makes room for the other expenses to go up. I think we would be much better off by not going over by \$2 million just to have a spending cap override equal to the pension amount if that's what happens in fiscal '17 or whatever the amount is. This extra spending can occur and I believe that since it can then it will.

Alderman McCarthy

Mayor Donchess, if this passes which sets the base budget for 2017, this cap figure at \$262, will the budget come in at \$262 or will it be substantially less than that?

Mayor Donchess

I don't know, I've just begun reviewing the request and I am just beginning to meet with the departments.

Alderman McCarthy

My point being that even if we do the override for this piece of legislation and then the FY 2017 budget afterwards passes at a number that is \$260 and not \$262 there is no lasting effect on the cap for the following year because it's reset from what we did in 2017.

Alderman Siegel

That was one of the things that I wanted to point out. Again, the fact that we have some arbitrary number set

up; if we had a 20% inflation rate, does not bind us to spending the money. As somebody who runs a company I tell all of my employees that your job is to spend your money intelligently. We don't say here's your budget and let's figure out a way to spend it and max it. The mechanics of the cap almost forces us to try to do that but I don't believe in that philosophy and I believe I've acted accordingly and I believe I still will.

Alderman Schoneman

Mr. Griffin, on the NHRS pension cost, your slide which is page two, if look down the NHRS contribution column I see fiscal 2015, \$19,432,673, is that what the City of Nashua paid?

Mr. Griffin

That is correct.

Alderman Schoneman

So in fiscal '16 we are thinking its \$21,332,673?

Mr. Griffin

The estimate was an increase of \$1.9 million so by adding what we actually spent plus the \$1.9 million that's the \$21.332.

Alderman Schoneman

What do we expect it to be for fiscal '17?

Mr. Griffin

Two important items, one is the employer rates are not increasing this year, they increased last year so there won't be an increase in the rate. The increase will be relative to the wage increases.

Alderman Schoneman

So maybe 21 ½?

Mr. Griffin

So if we look at 2015 it could be less than that. It would be the pensions associated with the increases in the wages.

Alderman Schoneman

What would a rough estimate be?

Mr. Griffin

I would say somewhere between \$300,000 and \$700,000.

Alderman Schoneman

That's an increase over fiscal '16?

Mr. Griffin

Correct.

Alderman Schoneman

Then the first year of this fund would be about \$700,000, is that correct?

Mr. Griffin

That's correct, \$743,000.

Alderman Schoneman

So it would be \$743,000 as part of 21 ½?

Mr. Griffin

Correct.

Alderman Schoneman

So under the city budget it's still going to be 21 ½ minus the \$740,000.

Mr. Griffin

Yes, the way the legislation is prescribed, the \$743,000 will be essentially the first dollar to be used against the pension cost and the remainder would be made up of the actual bills from the NHRS.

Chairman Wilshire

Is there any further discussion?

Mr. Griffin

Madam Chair, if I could; I kind of nodded my head when Alderman Siegel mentioned the \$20 million at every 1%, it's actually worse than that. As we discussed when the auditors were here we have \$184 million unfunded liability in the city and per page 82 of the most recent CAFR, a drop of 1% brings that to \$243 million so it's about \$58 million on that side. I didn't want to misspeak on the \$20 million but it's a big number.

Mayor Donchess

Just a slight correction, the words "in the city" – first of all this is a state mandated, state run, state dictated system which we had nothing to do with creating. Mr. Griffin is of course right in his calculations that that is Nashua's proportion of the state's unfunded liability but I would note the per our Board of Public Works Pension Fund which is city run, we are over 80% funded. I just wanted to make that absolutely clear.

Alderman Schoneman

Just to go over the numbers again. What this legislation does is that it's a spending cap override or an appropriation override for fiscal '16 in the amount of \$2.1 million. That, whether it's used or not, does allow for spending in fiscal '17 to increase to that extent and still be under the cap. Furthermore, if \$721,000 that would have to be spent under the cap is now spent outside of it then there's extra room too because that \$21.5

would be reduced by roughly \$740,000. I cannot support this for that reason.

Alderman Siegel

A correction, this is not being spent outside the cap. I just want to make that clear.

Alderman Schoneman

He's correct, not outside the cap but it's an expenditure that's not going to be under the...it's an expense that will have to be made in fiscal '17; the \$740,000 that's won't have to be (inaudible) in fiscal '17 so in that sense it's not impacting the budget.

Alderman O'Brien

I would like to say if we don't do anything about this and it stays within the current budget then I ask the question would the budget be liable to this and then would we have to look other different things that have equal importance to the city that could be detrimental to make up this mandate. This seems to be a prudent measure to address by this Board that we really didn't create.

Alderman Schoneman

To answer Alderman O'Brien's question I think there are three possible scenarios, one is we override fiscal '16; two is if we don't do this we override fiscal '17; or three, we live within the spending cap of fiscal '17.

Alderman Clemons

I support this legislation and I think it's going to be, for all of the reasons stated by several of my colleagues, I think it makes sense. I do seem to remember from the election that the Mayor said he would keep the spending to 1% or thereof so I expected that would happen regardless of whether or not this gets passed.

Alderman Schoneman

The spending cap percentage, the 1.3% is assigned to essentially whatever the final fiscal '16 appropriation is so it's going to be...it's going to be fiscal '16 appropriation of \$260 million plus 1.3% or it's going to be a fiscal '16 appropriation of \$262 million plus 1.3% and the difference is around \$3 million. If that's the case then the possible spend with and without this legislation, without overriding the fiscal '17 cap is significant. It's different by about \$2.2 million.

Chairman Wilshire

A roll call has been requested.

A Viva Voce Roll Call vote was taken which resulted as follows:

Yea:	Alderman McCarthy, Alderman Siegel, Alderman O'Brien, Alderman Wilshire,	4
Nay:	Alderman Schoneman, Alderman McGuinness	2

MOTION CARRIED

R-16-021

Endorsers: Alderman Richard A. Dowd
Alderman-at-Large Lori Wilshire

**APPROVING THE COST ITEMS OF A COLLECTIVE BARGAINING AGREEMENT BETWEEN
THE NASHUA BOARD OF EDUCATION AND THE NASHUA ASSOCIATION OF SCHOOL PRINCIPALS
FROM JULY 1, 2015, THROUGH JUNE 30, 2018**

MOTION BY ALDERMAN WILSHIRE TO RECOMMEND FINAL PASSAGE

ON THE QUESTION

Mr. George Farrington, Member, Board of Education, Nashua School District

Just as a brief overview, it is a new group. If you recall last year we came in with a two-year contract for them; they had disbanded for a while and then reorganized and we couldn't work out a two-year deal so we put together a one-year contract which ended about a month after we signed it. This current contract is a three-year agreement that we have with them covering fiscal '16 and '17 and '18. It's pretty straight forward. The group understands our difficulties that we are having fiscally. It allows for a step increase in the current year of fiscal '16. Next year we added \$500.00 per step because there wasn't enough money with what we were working with to allow for another step increase and then in fiscal '18 there is a step increase that averages out to about a 1.04% increase in salaries over those years. There were other things that entered into it like pension but I think that it stays under the cap, anticipating what the cap might be in '18. It's very reasonable. There were some language things that we changed. I'm not sure how much you want to hear as far as the work year and secondary assistant principals and that sort of stuff.

Mr. Daniel Donovan, Chief Operating Officer, Nashua School District

I think just the change in the secondary assistant principals basically we have assistant principals at elementary and secondary. What it does is it treats them the same way, it takes away going forward the secondary assistant principals accruing vacation. They will still have the time off and they won't lose any but they won't be accruing vacation so therefore when they leave or retire there will be less of a payout to that staff.

Alderman Siegel

In general the salaries are flat-lined so it's hard to argue with that but there's one cost item that I had a question with and it's line #31 in the cost analysis. I suppose this is an estimated change in retirement costs, 4.4% so everything else is very low but that last year FY '18 it jumps up, is that because of an estimate on what the state is going to do with adjusting our...so that's really a function of well, we think the state might really do something crazy so we are going to account for that, is that correct?

Mr. Donovan

Exactly, when I put this together I usually work with Derek Danielson who works for Mr. Griffin and compare the numbers. That number came from him and John's office.

Alderman Siegel

So that's a speculative worst case cost probably?

Mr. Donovan

It's a speculative number but I don't know if it's worst case.

Alderman Siegel

The other stuff though; the actual salary increases, those are real and we control that and each year is zero. It's hard to argue with zero.

Mr. Donovan

It's zero but look at the step increases.

Alderman Siegel

I appreciate the fact that this looks like a contract that reflects the reality of the city's fiscal situation as opposed to some of them.

Mr. Farrington

I agree and the principals really stepped up and there was no arguing here. Not unlike the para contract and food service contract, our groups have been stepping up and acknowledging the situation and I'm very appreciative of what they are doing.

Alderman Schoneman

What is the turnover rate in this group aside from retirement?

Mr. Donovan

I don't know if I've seen the actual calculation but it's not too high. Every couple of years we will have one retirement or one person leave. I think it might be more common with the assistant principals if there aren't vacancies within the district. They may look somewhere else to get a principal's position.

Alderman Schoneman

I think we found that with the para's too. So for career development reasons someone might leave but generally speaking someone is not leaving for a better deal? Alderman Dowd is not here tonight but he usually says things like "it's fair." Fairness has to be fairness between taxpayers and employees. I think the word fair the way it's used around here with these contracts, even though no one has said it tonight. Normally we are talking parity; if someone gets something then someone else should get something. That's all parity between groups but it's not necessarily fairness between taxpayers and employees. My observation is that we are living in a different era than we did a few months ago and that difference I think is brought by the RFP that we had for our custodians. It looks like we have been paying more than market rate for custodial services and the question is are we paying more than market rate for other services. The fact that there is no turnover makes me question that very seriously. If we want to pay more than a fair market rate are we conscience of the fact that we are doing that and why we are doing that? If an organization tries to hire people and they get no applicants it's probably because their compensation is below market. If they get a normal flow of people in who stay for a little bit and maybe move somewhere else because they get another opportunity, when that person leaves they are always able to hire someone else in then maybe they are at the market rate because there is a healthy movement in and out. If there is no movement out then it would appear that we are probably paying more than market rate and I think that is the situation here. What if we were to do an RFP for these administrative jobs, what would the result be? Would it be that we will get a contract in here to provide these

services at exactly this rate or would we find that we would save some money, like we discovered with the custodians. In the absence of an RFP how do we figure out what market rate is? All we can do is to ask other people and the place that I go to ask is the Academy for Science for Design in Nashua. They have a degree of turnover because they are attracted to the job and the salary. The woman who is running it now has been there for seven years I believe but I asked them what they pay. Their salaries are considerably lower than what we have here. The top administrator there is \$72,500 plus \$10,000 for a bonus. There's no pension and I'm not sure what the benefits package is so I don't have an exact comparison there. The other administrators are between \$55,000 and \$65,000 and there's a bonus available for them too; \$50,000 split between four people as a possibility. If we average that out we can see that the administrators at a great school, the best, are paid less but are willing to go and work at those jobs for less than we are paying here. I think we might see a potential for cost savings on this group. I appreciate that they take 0%, it makes the numbers work but I cannot say that it's fair for the taxpayer unless we make the argument that the best thing to do is to pay above market rate. All of the evidence shows that we are paying above market rate.

Alderman Clemons

I have never heard of such a thing. There is no organization that supplies principals to schools. You don't want to have turnover in schools. You want someone who is committed to the community so to me having a low turnover rate is a good thing. Nashua is faced with an ever changing population that is becoming more diverse, our challenges are becoming much greater and our resources are becoming much more limited so we want to make sure you are paying the people that are in charge of the schools to do the right thing and balance those limited resources.

Alderman O'Brien

I would like to echo Alderman Clemons. I have never heard in the municipal service the need for headhunters. I find that most of these people including the principals are dedicated individuals that have worked hard. They are part of the community. I'm going to support this and I support the good work that the Board of Education has done to bring back a decent budget and I don't want a turnover rate, I want principals that care for our children and the quality of education that we are mandated to provide and I think we have it.

Alderman Schoneman

The best school in the state has some turnover, clearly turnover is not a problem; it works. I didn't suggest that we get an RFP I just said I wondered what the result would be if we got one. I think we would see that we are paying more than necessary. I'm not advocating that we cut these salaries but we do have budgetary problems and this is where the money is going.

Mr. Farrington

I didn't realize we were going to get into a discussion about ASD. On the question of parity, one of the things and why I say I am so appreciative of what our employees have done...the average salary increase for these principals represents about one third to one half of what the others represent so there is a lack of parity in that regard. It is hard to fill these vacancies quite often. When we came in one year ago for approval of the one-year contract I put together this principal comparison that we just went out and looked at other schools and principals. We looked at Concord, Dover, Hudson, Keene, Londonderry, Laconia, Manchester, Rochester and Salem and our salary was either fourth, fifth or in most cases it was sixth. I'm not sure how many students they have at ASD but as an example, each of our high school principals is responsible for about 1,700 – 1,800 students and the diversity of the student population is not comparable with ASD. It's important for us to be competitive; they are very difficult jobs in very difficult times. Our principals take nine years or nine steps to get to the top steps and some of the other districts are on the top step within three or four years.

Alderman Schoneman

Mr. Farrington, are those other districts all principal unions or are some of them not unionized?

Mr. Farrington

I don't know.

Alderman Schoneman

I would suggest that if we are going to try to figure out the market rate it may not be best to compare it to other districts that negotiate because one of the reasons unions form is try to keep pay above what a market rate might deliver. I think that one of things that we have learned is that we tend to pay more than market rate for the positions that we have and that's why there is zero turnover. When there is no turnover you don't get any information at all.

Alderman Clemons

I fundamentally disagree with that. I don't think companies hire people so there is turnover. If you have turnover it's because something is going wrong and sometimes it's a personal thing but a lot of times it's because something wasn't being done right. I think we are paying people correctly and we are getting the most bang for our buck because these people aren't leaving. I do not accept that argument.

Mr. Donovan

Alderman Schoneman said there is zero turnover; it's not zero, it's small but it's not zero. There are some people that leave and I would suggest that it is the stress of the job. ASD is a fantastic school but there are two very large differences. ASD has basically zero special education students. They don't have the kids that don't care there and they don't have the kids that have special needs. There are a significant number of students that leave Nashua schools to go to ASD in 6th, 7th, 8th grade and then they come back to our high schools. Why they are coming back, I don't know but they are coming back.

Alderman Schoneman

I have an answer for that. I took a tour over at ASD and they do have some special education and of course, special education is a wide spectrum of things. They said they had around 10 students out of 500 who are serious special education, maybe not as serious as the Nashua Public School System. They also have things called 504's and they have got 60 students that have 504's. As far as going and coming back, they come back because of the broader spectrum of AP classes that Nashua Public Schools have. As far as turnover rates, I am sure there are plenty of companies who manage to a particular turnover rate. That's how they know, that's where they get the information. If people are leaving they are doing something wrong and if people are staying then they are not.

Alderman Siegel

As someone who ran a company with 375 people, we specifically ran it so we didn't have turnover in our top management. In fact that was a major goal of ours. In my new company I would be mortified if I had any turnover because I've hired great people and I don't want them to leave. You want turnover at the end of the spectrum where you have lousy employees but if you have done a good job hiring then you don't want any turnover. I completely disagree with that.

Alderman Schoneman

I appreciate my colleague's concerns. The point is turnover can be bad or not necessarily bad, it depends on the nature of the industry. I can tell you that ASD for whatever reason, turnover doesn't harm them and we don't know that it would harm us. There's a certain freshness of blood. People say let's get some fresh blood in here. There's a fresh perspective that comes in if you have fresh blood. I don't agree that it has to be nothing or even miniscule. I understand my colleagues may differ, but I don't buy it. Thank you.

MOTION CARRIED

NEW BUSINESS – ORDINANCES – None

GENERAL DISCUSSION - None

PUBLIC COMMENT

Mr. Fred Teeboom, 24 Cheyenne Drive

I have difficulty understanding Alderman Siegel. It wasn't very long ago, maybe two budget cycles that he said he did a regression analysis and all kinds of analyses and came to the conclusion that he could cut \$500,000 from the pension fund. Here he comes two years later and he wants to add \$2.2 million. I wish he would make up his mind. Alderman O'Brien, I hope you don't vote on the resolution R-16-15, seeing you're making about \$93,000 or more, 93 or 94, and have a vested interest in maintaining it. I hope you recuse yourself. As far as mandates, I'm glad everybody recognizes that mandates are under the Cap. To Alderman Schoneman, the way that you exclude mandates is, of course, you take exemptions of bonded debt to whatever amounts. You now open up a hole in the budget and that's how you find additional money. The budget that was adopted in 2016 was \$260,526,000. The combined annual budget was \$260,576,000. It left \$50,000 under the Cap; \$10,000 was spent some time ago. That leaves \$40,000 under the Cap. This passing at the full Board, you are going to be above the Cap by \$2.18 million which is in the resolution. The new budget is going to be \$262,766,000. This comes to Alderman McCarthy's point and his question to Mayor Donchess: What's your new budget going to be? He said I don't know yet. One thing you know for sure is when you look at the calculation, every budget book now has a calculation, what is the base line budget in 2016 from which you compute 2017? What is it? It's the amended budget. It's not the Cap budget of 2016 of \$260,000,000. It is now the new budget, if this passes of \$262,000,000. Alderman Schoneman is absolutely right. First of all you add \$2.18 million of new spending and still stay within the Cap because that money was accepted in the limit because the new budget is based on the appropriated money. Since this money is appropriated, the new budget in 2017 base line is \$262 million. You are absolutely right. It's \$2.189 million of additional spending. And that can be multiplied by whatever the cost of living index is. And, if you plan to spend 1/3 of that \$2.2 million in 2017, you don't have to spend that because it's already been spent, appropriated. Alderman Schoneman is absolutely right. There's multiple spending. To Alderman McCarthy's question to Mayor Donchess, what is your new budget going to be? I bet you he is going to come very close to the \$262,766,000 and say I'm under the Cap because he's got \$2.2 million plus a 1/3 of that for extra spending. The Board of Education does and has done what the Board of Aldermen doesn't do. The Board of Aldermen just looks at the budget and they are moaning and groaning about the spending cap but they don't look at the \$300 million budget and say how can we cut. The Board of Education did just that and found the potential of \$3 million savings. Now there's a lot of complaining about the custodians. We aren't going to get our \$17 an hour plus \$10 an hour benefits on top of that. You're going to replace it \$10 an hour. That has nothing to do with the education of our kids. It has to do with \$3 million savings in the budget that can be spent on teachers' pay and other things that we need to educate our kids. The Board of Education looks at and prioritizes the budget and takes a hard look at the spending it's done in the past. The Board of Aldermen doesn't do that. It traditionally hasn't done it. They just keep whaling and complaining about how you go up against the Cap. Like Alderman Siegel, he cut \$500,000 out and now adds \$2.2 million back in. That's the lesson we're learning from the Board of Education. I never would have believed the Board of Education would have done that. But they are

doing it, and they are doing it with great commotion as you know from all of those who don't want to take a lower paying job. Well, they are going to have to take a lower paying job. They are probably being overpaid. It also gets to the question on the point on the slide. Pension costs have come to \$21 million plus dollars. How did we get to \$21 million? How many does this cover? Nobody asked that question. About 2000 employees? There are 2,000 employees roughly. That doesn't include public works. They have their own pension fund. That's \$10,000 per employee. That's a lot of bazooka. Alderman Schoneman, you had wisdom tonight. I don't know where you got it from, but you got a little wisdom tonight. Thank you.

Mr. Robert Sullivan, 12 Stonybrook Road

The principals' contract increases 1.17 percent, 0.57 percent, ½ of 1 percent and 1.38 percent for an average of 1.04 percent. Why aren't the rest of the contracts near this? What's changed all of a sudden? This is one of the issues that I was commenting on at the beginning. You compare the other contracts and they are 2, 3, 4 times higher than these. I guess it's better late than never. Turnover. As an ex-educator at both the secondary and post-secondary systems, turnover if you google it for those who were debating turnover and whether it is good or not, if you look at the turnover issue in the public educational school system, part of the issue is the people that you want to leave, don't leave because it's difficult to get rid of them. This is a big concern that a lot of parents and even teachers have that are employed within that system. You do want turnover. I see it myself. You may want to google that and say some turnover is good. It's usually the people that you can't get rid of anyway. I thought Mr. Teeboom's comment was right on. The school board does this almost a zero base budgeting below the line, above the line. The Board of Aldermen doesn't do anything like that. They don't really get into the budget and say what is it that we really need? What is more of a priority? And what is it that you hear year after year? It isn't what's the justification for increasing the property tax bills because the services don't change. There's really no improvement, the quality of services rendered. It's never questioned like that. The Board of Aldermen, I don't think, come across it. They look upon the taxpayers and citizens as people who use the system and who should get the best value out of it. The first question is how much can we increase the budget by this year? What does the Spending Cap allow us to do? People get their tax bills. I'm one of them and say why do I have to pay more? I don't see any improvement to the quality of services. Yes, costs do increase but not at this rate. That's part of the issue. By the way, the state legislature, I remember a year ago, you had the state legislators here and the board of aldermen. I remember Alderman McCarthy bringing up a point about I think we don't have to do 100 percent. I think we can get by with 70-80. People were saying where are we? State representatives and state senators we'll look into that. Where are they? What's happening? We need to bring those people here and put their feet to the fire. It's not about the talk, it's about the walk. Maybe something has been done. I don't know. But I like your idea, Alderman McCarthy, I think Mr. Siegel had the same point, I think it should be taken up. Mr. O'Brien, I think you're a state legislator. If you could comment, not necessarily tonight, but at an aldermanic meeting, get some of your friends down here. I'm an independent. I could care less if you're a democrat or a republican. To me it's the same thing; just that people have different views. Do something. These two gentlemen brought up a good point. They said they were going to work on it. Maybe they have. I haven't seen it. Good night everyone.

REMARKS BY THE ALDERMEN

Alderman McCarthy

I do intend to set up a meeting between the Board and the State Delegation. I would expect that there are two topics that will come up prominently in the discussion, this being one of them.

Alderman Siegel

First of all, I never did a regression analysis. That's absurd. What I did was I looked at transfer records and historical spending records. In fact anybody that knows anything about statistics knows that the data wouldn't even be amenable to a regression analysis. That's just silly. I don't really appreciate that. The Board of

Aldermen does not negotiate contracts, so this idea that the Board of Aldermen does or doesn't do X, Y, or Z with contracts is absurd. That's not what we are supposed to do. They come before us and we review them. Also this idea that somehow we don't look at the budget carefully, that's insulting. I spend a ton of time looking at the budget. I would challenge those speakers to a contest to see who knows what's where in the budget. I believe my other colleagues do that also. I just felt that was necessary and I'm a little bit annoyed by that. By the way, it's kind of funny because we're debating about stuff that's on and off the Cap. Things like the Broad Street Parkway are exempt from the Cap, and at least one of the speakers had no problem being a champion for that. That also comes out of the taxpayers' pockets. It just doesn't count against our Spending Cap, so let's not pretend here that everybody is such a transparent fan of the taxpayer because there are other things that go off the Cap conveniently.

Alderman O'Brien

I was debating whether to bite my tongue; however, somehow somebody put me on the agenda. I thought remarks were supposed to be about legislation that was coming up before us and somehow I heard my salary discussed. Yes, anybody may go to the Telegraph and look and see exactly. I understand the drill. I am a former city employee, and I did accept a public dollar. Unfortunately what the former alderman forgot to mention is several of the medals I received for compensation of my salary and recusing kids out of ice and burning buildings. I would have appreciated the nod equally on that. Which leads to the question: Why did he specifically mention me and Chief Morrissey and our particular salaries. I wonder if there's a vendetta. I question, I better recuse myself? I wonder where I gave up my constitutional right as an American and an elected official of this esteemed board to give up my voting rights. I will ask corporate counsel to get a ruling. Unfortunately, I found that very disparaging. I consider it threatening. As an alderman I choose to vote for what I feel is best for the city. And that's exactly what I will always do in the future. The gentleman in question, there is one thing that I do agree with him. The pension system is out of control. It was out of control because we had a lot of people mismanage it. Some of them were ultra-conservatives that didn't fund it. When the pension was on its high road, when it was 100 percent funded, municipalities came up and asked not to contribute to it. There were other things that happened to it: a great recession, two wars, one of which we are still fighting today to some degree. Everybody knows this. Look at your 401K. Those in the banking business know what the interest rates are, what your return on the money is. It is no shock that the pension system is in trouble. We try to fix it the best we can to make the obligation. Unfortunately, I know it's not going to appease everybody and it shouldn't. But it comes down to us as members of the Board to try to do the best that we can for our employees and the citizens of Nashua. I intend to do so. As far as I have the living breath, I will continue to vote and let the people decide in the future whether I should remain on this board or not because I will exercise my rights granted to me by the state charter and the constitution. Thank you.

POSSIBLE NON-PUBLIC SESSION

ADJOURNMENT

**MOTION BY ALDERMAN SIEGEL TO ADJOURN
MOTION CARRIED**

The meeting was declared closed at 9:25 p.m.

Alderman Sean M. McGuinness
Committee Clerk

City of Nashua

FY 2017 Pension Presentation

March 28, 2016



City of Nashua

NHRS Pension Costs

Fiscal Year	Actual/ Estimate	NHRS Contribution	\$ Increase (Decrease)	% Increase (Decrease)
2008	Actual	\$ 8,592,317		
2009	Actual	9,137,236	\$ 544,919	6.3%
2010	Actual	10,703,913	1,566,677	17.1%
2011	Actual	11,840,610	1,136,697	10.6%
2012*	Actual	14,759,025	2,918,415	24.6%
2013	Actual	14,571,560	(187,465)	-1.3%
2014	Actual	18,450,237	3,878,677	26.6%
2015	Actual	19,432,673	982,436	5.3%
2016	Estimate	\$ 21,332,673	\$ <u>1,900,000</u>	9.8%
8 Year Increase			\$ <u>12,740,356</u>	
% Increase from 2008			148.3%	
<i>*State Subsidy Eliminated</i>				



FY 2016 NHRS Pension Expense

\$ 21,332,673



New Hampshire Retirement System Unfunded Liability & Downshifting

Unfunded Liability Growth

- Prior actuarial method used masked the true financial situation
- Provision allowed “excess” investment earnings to be transferred into a special account to give special benefits
- Investment losses

State Contributions

- 2010: the State reduced its contribution from 35% to 30%
- 2011: the State reduced its contribution from 30% to 25%
- 2012: the State eliminated its contribution



Pension Reforms

In 2011 HB 2 was adopted, which included various pension reforms

Reforms Included

- Raising employee contribution rates
- Increasing retirement ages and length of service requirements
- Limiting the definition of “earnable compensation”
- Lowering the maximum retirement benefit
- Funding schedule to pay down Unfunded Liability through 2039



Fund Purpose

- Legislation creates a restricted use Expendable Trust Fund and appropriates \$2.23M from Assigned Fund Balance to the ETF
 - Funds were set aside for the purpose of funding unfunded liabilities
- One-third of the initial appropriation may be used per fiscal year
 - Approximately \$743K per fiscal year (FY17-19)
- Assists in managing the impact of NHRS employer rate increases
 - New employer rates for FY18-19 will be set by October 2016
- Tax Rate neutral



Fund Balance Assigned for Future NHRS Pension Costs

CAFR Year Ended	Fund Balance Assigned for Future NHRS Pension Costs
June 30, 2011	\$ -
June 30, 2012	614,000
June 30, 2013	1,200,000
June 30, 2014	916,000
June 30, 2015	<u>(500,000)</u>
Total*	<u>\$ 2,230,000</u>

*Page 74 of June 30, 2015 CAFR



Group I (Employees & Teachers) and Group II (Fire & Police) Employer Rates July 1, 2015 – June 30, 2017

	Employee	Teacher	Fire	Police
Normal Cost	9.14%	8.69%	18.36%	16.61%
Unfunded Liability	8.72%	11.03%	18.76%	17.48%
Total Cost	17.86%	19.72%	37.12%	34.09%
Less: Member Contribution	(7.00%)	(7.00%)	(11.80%)	(11.55%)
Employer Pension	10.86%	12.72%	25.32%	22.54%
Employer Medical Subsidy	0.31%	2.95%	3.84%	3.84%
Total Employer Rate	11.17%	15.67%	29.16%	26.38%
Medical Subsidy Introduced	2000	1999	1988	1988
Medical Subsidy Eligibility Requirements & Cutoff Dates	Eligible to retire by 7/1/2008 and retired by 7/1/2009		Active contributing NHRS member on or before 6/30/2000	



Cost Drivers for FY08 to FY16

	FY 2008	FY 2016	\$ Change	% Change	8 Year Avg.
Wages	\$107.6	\$131.2	\$23.6	21.9%	2.5%
Benefits	\$28.0	\$25.0	(\$3.0)	-10.7%	-1.4%
 Pensions*	\$15.8	\$29.4	\$13.6	86.1%	8.2%
Operating	\$56.5	\$59.2	\$2.7	4.8%	0.6%
\$ in Millions					

	FY 2008	FY 2016	\$ Change	% Change	8 Year Avg.
Totals	\$207.9	\$244.8	\$36.9	17.7%	2.1%

*Includes NHRS, BPW, FICA, and Medi Appropriations

