

**SPECIAL BOARD OF ALDERMEN
PUBLIC HEARING
JUNE 9, 2016**

A Public Hearing was conducted by the Board of Aldermen on Thursday, June 9, 2016, at 7:00 p.m. at the Nashua High School North Auditorium, 8 Titan Way, Nashua, New Hampshire.

President Brian S. McCarthy presided; City Clerk Patricia D. Piecuch recorded.

Prayer was offered by City Clerk Patricia D. Piecuch; Alderman Richard A. Dowd led in the Pledge to the Flag.

The roll call was taken with 12 members of the Board of Aldermen present; Alderman Cookson, Alderman Clemons and Alderman LeBrun were recorded absent. Alderman Lopez, Alderman McGuinness and Alderman Wilshire arrived after roll call at 7:12 p.m., 7:20 p.m. and 7:30 p.m., respectively.

His Honor Mayor James W. Donchess was also in attendance.

R-16-034

**RELATIVE TO THE ADOPTION OF THE FISCAL YEAR 2017 PROPOSED BUDGET
FOR THE CITY OF NASHUA GENERAL, ENTERPRISE AND SPECIAL REVENUE FUNDS**

Presentation by Mayor Donchess on Proposed FY17 Budget

Mayor Donchess

This is the first budget that I have proposed this time around. The basic process here is that under the City Charter the Mayor proposes a budget to the Board of Aldermen which comprises all operations of city government and then the Board of Aldermen, specifically through the Budget Review Committee, reviews the budget in detail and ultimately the Budget Review Committee makes a recommendation and the Board of Aldermen must pass the budget. The city can't spend money unless those expenditures are approved by the Board of Aldermen or through the budget process. I proposed this budget this year about one month ago and since that time the Budget Review Committee has been considering that budget. It is not an easy job because every department comes before the committee and talks through their section of the budget which makes the job very difficult because it can involve late nights and a lot of meetings during a compressed period of time. My goal next year is to propose the budget in late April so the Budget Review Committee has more time to work on it and it's not as difficult for the people on the Budget Review Committee and their families. Let me go through some of the features that are in the budget. First of all I think the priorities this year in this budget were first, public safety; police department and the fire department, of course we are in the middle of a very difficult opioid crisis, both administering Narcan which revives people from overdose situations. As we go through some of the numbers I think you will see that was an emphasis. The second priority I think was the city schools given the 1.3% budget cap I am proposing a budget for schools which is up 2.2% therefore significantly over the spending cap for that portion of the budget which is a budget that I believe will maintain at least the current service level with a very moderate cap. Third is public space and park improvements, you will see particularly in the capital improvements section of the budget that I proposed a number of projects for parks and public spaces. I think those are important to the quality of life in the city and people enjoy our extremely fine park system and I think some of the projects in the budget will enhance that advantage that we have. Those include hopefully a new soccer field, the lighting of the Rail Trail, money for a carousel at the Legacy Playground that's going to be built at Labine Park and an automated irrigation system which will enable the soccer fields that we do have to be watered automatically so it's more efficient, is better for the grass and takes up less personnel time. The other priority I believe is the capital equipment reserve fund and the replacement fund and the reason I say that is because that part of the budget is up 40% from last year from \$1.3 million to \$1.8 million which has probably gone up more than any other section of the budget as compared with last year at least.

John Griffin is the CFO and he and many others have worked very hard on the budget. The second slide shows what the proposed operating budget is which is \$248 million and this does not include the enterprise funds or some of the off budget items. The spending cap this year based upon the provisions of the city charter is 1.3%. The operating budget of the city is under the spending cap as proposed by \$100,000. The amount that the budget has

increased above last year is \$3.1 million, which is still under the spending cap by \$100,000. Based upon the tax base that we have, which is a little over \$8 billion, given this budget as proposed, we think the tax rate increase will increase to 2.5% or in that vicinity. As far as revenues go, the city has been budgeting conservatively on revenues for many years, I would say decades to we don't run into problems with not having the revenue that we had projected. We are continuing to budget them conservatively. We are seeing increases in motor vehicle registration fees which in part come to city. We also have a low interest rate environment so we are not realizing interest on the city's assets and investments as we used to. We are getting virtually nothing on interest and another factor is that we are seeing a reduction in state funds this year, specifically, in education assistance where we are down over \$400,000. The next slide shows you the overall operating budget in a pie chart where it shows the percentage of the budget going to various categories. You can see that education is 56% and that includes benefits but does not include the capital or the bonded debt of this portion as it relates to the construction of schools. Police is 11% and fire is 9% and public works is 4%. The next slide gives you a sense of where the budget has gone over the last 10 years, what the spending cap has been, the amount of the increase and the dollar number that the budget was under the spending cap. Obviously the only one that I proposed was the final FY '17. The next slide shows you where some of the costs have gone over the last 10 years and the one that I think you need to note most carefully is the pension in NHRS which stands for the New Hampshire Retirement System. It has gone from \$8.1 million in FY 2008 up to \$21.2 million in FY '17 which is a 162% increase while wages have only climbed 24%. I know from working on the Budget Review Committee and studying the issue since I've been Mayor that this is the single most serious financial issue that the city has been facing for nearly a decade and we expect that the pension obligations imposed by the State of New Hampshire will continue to go up and we will need to discuss that in much greater detail. The next slide is the debt service budget. The city has been successful in reducing the debt service budget in part because the bonds for the two high schools continue to get paid off and the debt service budget for fiscal 2017 is going to be a little over \$17 million; about \$17.3 million. The next slide shows you the increase of \$3.1 million and how that is divided up. Most of it goes to schools but also the police department and the fire department and our other major departments. The budget challenges which we will face next year; in FY '18 is that the spending cap is likely to be 1% or 0.9% and at 1% the allowable new expenditures would be \$2.5 million and we are likely to lose education assistance, the State Adequacy Grant is likely to go down as it did this year; something which is very unfortunate. The state is, under the way things are being handled now, education aid to wealthy communities is going up; Bedford and Windham have nearly doubled this year. They have 5% and 3% free and reduced lunch children which is an indication of economic disadvantage. There aid is almost doubling whereas Nashua's aid has gone down; we have 43% free and reduced lunch, Manchester has a higher percentage and their education aid is also being reduced. To the next point, the retirement costs are estimated to increase next year by another \$2 million because the state has taken further actions which will increase our pension liability unrelated to any increase in salaries. We will also have negotiated wages for contracts which extend into the next fiscal year.

Mr. Chair, I think that gives an overview of the budget and I wanted to give you some insight and I thank you for that opportunity.

The following departments received public comment:

Department 101, Mayor's Office

Mr. Fred Teeboom, 24 Cheyenne Drive

This is a public hearing so I would like to make some comments and then I will address line items. First of all, Mayor, the budget is under the spending cap, congratulations; you met your campaign pledge and I hope you will continue to meet your campaign pledge as years go on. I think you have done a marvelous job with this budget. I am not here to second guess your priorities, the priorities are your problem but I would like to make a few comments. I do feel that there is a sense of entitlement by the police department union, fire department union and the teacher's union in its attempt to raise the budget beyond the spending cap limits. There is however, a very healthy unassigned fund balance, I think it is \$28 million more than last year and I thank CFO Griffin for that. A healthy fund balance could reduce bond rates alone which you have taken advantage of by refinancing the bonds. It also means that you don't spend every penny that's saved. You have to set priorities, meeting a spending cap means you just can't spend anything that comes alone. I have some concerns. One concern that I have is the school capital reserve fund. At one time the education grant that you mentioned earlier was about \$34 million and at one time it was zero. I remember very well back in 1994/1995 at the meeting in Concord, the Secretary of State said he was going to give us \$20 million and we said that's unheard of and we said just this year? He said no, every year; I almost fell off of my chair. They were so rich that Mayor Davidson said I will take half of that money and

spend it on spending and put half of it into the school capital reserve fund. The school kept the reserve fund built up to \$20 million. Then what happened? Then we started spending. The first time it was an insurance shortfall, instead of making up a priority someplace else they took the money out of the capital reserve fund; they collapsed the fund and took the \$6 million out of it and re-established the fund. Then when the school has a shortfall it was about \$3 million and it came out of the capital reserve fund. That's not setting priorities. Today the school capital reserve fund is down to \$2 million. If you look at the budgets there is a general fund budget and it went up to about 1.25% so it's within the 1.3% cost of living for the government index. There is a total appropriation of \$290 million; it's really not \$244 million, that's what was reported by the press. \$244 million is really a general fund budget, the real budget is \$289.9 million and that went up by .6%. If you combine the annual municipal budget that's used in Concord as the spending cap is at \$263 million, it went up 1.26%. It seems pretty good, however, last year the tax rate went up by 2% and you just announced today that the tax rate is going to go up by 2.5%. Here's a flash, I am a senior and seniors live on social security income. Do you know what the social security income was this year? Goose egg, nada, nothing and that's where the sense of entitlement comes in. The patrol officers got a contract increase that gave them 7.5% per employee in fiscal '16, a 3% increase in fiscal '17 and an 8% increase in fiscal '18. There was a 2.9% in fiscal '15 and an 8.7% in fiscal '14. Percentage increases to the police department was way above the spending cap limits, it's inexcusable. There's always the excuse that you are going to lose the patrolmen but there are huge amounts of patrolmen that willing to have a job with the police department. They are all qualified, that's true but a 7% to 8% increase is not sustainable and it's unacceptable. The firemen had less raises but they still are way above the spending cap. Fiscal '18, 3.7% increase in pay; 2.9% in fiscal '19 and 2.9% in fiscal '16; all well above the cap. Teacher's raises, 2.7% in fiscal '15; 2.8% in fiscal '16, so as you have to cope with these raises, it's well beyond the spending cap and you have to reduce services elsewhere and that's a problem that has to be taken care of. I think you have done a pretty good job at balancing it but when these contracts come up, you can't keep giving 6%, 7% or 8% raises to the police department and 2% and 3% raises to the firemen and 2% and 3% raises to the teachers. These are entitlements and people like myself has to pay for that. We get nothing as an increase.

Department 113, Benefits and Department 115, Citywide Pensions

Mr. Teeboom

Let's take both the pension and the benefits. Benefits are \$160,000, and it says pensions are \$1,000 and we obviously know that this is incorrect and that the pensions are about \$21 million. This department does not reflect true budgeting and I don't know Mr. Griffin, there's something wrong there.

Mr. Griffin

The \$1,000 is for the pension expenses related to retirees that retired several decades ago. As you may know, the allocation of benefits and pension expenses are within the budgets of the departments. They are summarized on page 21 which is the account numbers that you just referenced.

Mr. Teeboom

That's the problem. We are here reviewing line item by line item; we are not reviewing the pension funds on page 21. We are already on page 78, you skipped by 22 rather quick because we never got to page 22 because Mr. Chairman you never noted page 22. The 52150 account is an account that's \$31,662,000 and it went up by 1.63% from the previous year which was \$21,315,000. I don't really have any questions on benefits other than that's a really large amount. The main thing is if you deal with the departmental pensions then we have to deal with all of the pensions. If you deal with departmental benefits then you have to deal with all benefits so we know what the dollar amount is. It says in department 115, Pensions, its \$1,000 and it doesn't do the job. Let's talk about 52150, in fiscal '12 had \$614,000 surplus and in fiscal '13 had a \$1.2 million surplus, in fiscal '14 it had a \$916,000 surplus and I don't quite know what was the surplus in fiscal '15?

Mr. Griffin

I think it was approximately \$1 million.

Mr. Teeboom

So it's talking here about \$3.73 million. Where did that money go?

Mr. Griffin

In some years we escrowed the money forward to future periods and in some years we lapsed it to fund balance and then used a certain amount of that fund balance to buy down the tax rate.

Mr. Teeboom

Yeah, you have got \$28 million in fund balance. Therein lies a lesson for the Aldermen. If you have appropriated money and the money is passed the spending cap, you do not send that money back to fund balance. It has to be re-appropriated. It ends all that nonsense about the \$2.17 million spending cap override of Aldermen Siegel's which is nothing but a ploy to try to raise the spending cap pretty much. The point of it is if you have a surplus and you go through the escrow, take a close look at the escrow. If you have almost \$4 million in surplus in this pension fund that everyone is complaining about and crying about. Put this \$4 million into one of the two expendable trust funds that exist for the very same purpose. One is called the school expendable trust fund and one is called the city expendable trust fund. There are blue pages in the back of the book; account #7025 is the city expendable trust fund and account #7071 is the school expendable trust fund. Take any surplus and put it in one of these expendable trust funds for which you can then fund whatever you need to fund without further appropriations. In fact, the way these funds are set up, the Aldermen don't even get to vote on it. The way the ordinance is set up, the CFO expends from the expendable trust fund, am I correct?

Mr. Griffin

Just one point of clarification, the funds that you speak of are for final separation payments for school and city employees so we wouldn't put pension expenses that are budgeted into those accounts.

Mr. Teeboom

Well, I know that you've mentioned this before. You decided to comment on exactly who set up #7025. I won't take the time to read it. Account #7025 is the city retirement trust fund. It is set up to fund retirement expenses in excess of the yearly budgeted retirement appropriations. The fund may continue to increase to a level that is deemed appropriate by the comptroller. Funds may be transferred from this account into appropriated departmental accounts only after administrative review by the mayor, by the president of the board of aldermen, by the treasurer and the comptroller. The aldermen don't even get to vote on that one. If you look at the description, it's a general purpose expendable trust fund for the purpose of funding retirement expenditures. There's not a single word that says "final."

Mr. Griffin

We interpret retirement as a final payment for folks that retire. We don't consider that fund since I've been here and I think when it was first set up it was for retirement payments to include accrued vacation and sick. It's not used for payments made to either the BPW pension or the New Hampshire Retirement System.

Mr. Teeboom

It says establish to fund retirement expenditures in excess of yearly budgeted appropriations. Mayor and aldermen, you should take a look at that. If you go to school retirements, it's exactly the same rules. Not surprising because of R-00-68. I suggest you get a copy of it and read it. The words are the same for the school. You take any of the surplus money, which is \$4 million, and then what is the expected surplus in 52150 this year.

Mr. Griffin

To be determined. That is final pays for teachers. Somewhere probably between \$250,000 - \$500,000. The reason for that is we budget for pension expense based on estimated payroll. We don't factor in any attrition. To the extent there's attrition in the salary lines, that's where the savings come in for pension expense.

Mr. Teeboom

I'm not saying anybody is misappropriating the money. I'm saying there's ways to handle it. There's clever ways to handle it; there's good ways to handle it; and, accounting sound ways to handle it. I suggest you handle it in a sound manner and not with a Spending Cap override legislation.

Department 191, School Department

Mr. Teeboom

I haven't gone through every line item. I'll let the aldermen worry about that. First of all, I'd like to talk about charter schools. There are stuck in the aldermanic chamber an ordinance, O-16-011, which provides some offset so charter schools don't have to pay tax revenue for the buildings they occupy. Public schools pay no taxes. Why are the charter schools forced to pay taxes? Two aldermen that may very derogatory comments about the charter schools. I'm not going to mention them by name. They know who they are. One is here, one is not here. Charter schools are a terrific benefit to the taxpayer. I sent a message out to all the aldermen and the mayor about the savings. There are 257 Nashua students in the Academy of Science and Design. There's 464 Nashua students in all the charter schools in the State of New Hampshire. If you look at the average cost per student in the public school, it is \$13,000 per student.

Chairman Dowd

I'll give you a little leeway but that's not in the budget. If you want to continue, please try to relate on a question on the budget.

Mr. Teeboom

\$13,000 per student is part of the budget. The superintendent is now leaving. I hate to see him go because a few years ago he recommended that within the public schools, the public school establish a public charter school. The average cost for a charter school student is \$6,000. You can do the calculation any number of ways. I presented two ways to do the calculation. The charter schools save the taxpayers of Nashua \$4.4 million just because the cost of student is much lower, and the performance is outstanding. What is wrong with having a charter school within the public school at a lower cost per student and get better performance and give them a shot at what they want to do. This will pass the school board. It hasn't been proposed to the new school board. To see two aldermen denigrate charter schools say they suck off the money is just unforgivable and unacceptable. \$4.4 million is nothing to sneeze at. That could be a significant savings if you had more charter school kids in a public school that was a charter school. The other comment is the school board has looked at the custodial contract and privatizing. They seem to have gotten caught up in a labor relations argument, but the savings range, and I'm looking at the school's information, from \$600,000 up to \$3.5 million. A big savings. When you look at a budget, you have to do more than play a percentage game. You've got to think outside the box. For instance, why do we still have secretaries in the schools? I would question, and I have grandkids in the public school in the high school, why do we still have guidance counselors? The function of guidance counselors is to guide not psychological or sociological problems but to guide them in coursework to prepare them for college. You can do that on the computer. You can do that on your cellphone. We've got 30 guidance counselors in the school. I'd rather defer the charter question to the superintendent. I'll leave it up to you, Mr. Chair, who addresses the custodial. Both are significant cost savings thinking out of the box. As a taxpayer, as a member of the public at this public hearing, I'd like to know why isn't the school board pursuing these cost savings. Charter school first and then the custodial contract.

Chairman Dowd

Would the superintendent want to address that?

Mark Conrad, Superintendent of Schools

Quite honestly, I don't think it's my role here to wage into the debate on charter schools. It's not part of our budget. For the record, I would note there are two areas where public school systems under New Hampshire law do have responsibility for providing services to charter schools, which is one of the reasons their cost is somewhat less. First, we're responsible for providing transportation for any charter school student who lives in Nashua and is

attending a Nashua charter school. Right now we have about 7-8 bus runs that we run morning and afternoon for children for both ASD and the new Micro Society Charter School. When ASD came about, we added two buses into our budget. It costs about \$90,000. Since then we have added additional routes from within existing buses. A second area of responsibility is to provide special education services to any Nashua student attending a charter school wherever that charter school may be. Primarily we're providing services at this point to the Gate City Schools for the Arts in Merrimack for Nashua students attending that school and to the Micro Society Charter School. Last year we put in an allowance of \$45,000 into our budget, actually for this year, so that we can begin increasing our resources to enable us to serve children identified for special services in two additional locations. I would note for the record that we do provide services to the charter schools. I would also note that we have a very good relationship with our charter schools in Nashua. We recognize they are all Nashua students. In many cases, they come back to Nashua schools. We have built a working relationship with the directors of those schools in both resolving transportation issues and providing special education services.

Chairman Dowd

I would say on the custodian issue, that is in litigation and is probably not good to discuss in public comment. That's between the Board of Education and the union. I don't think we need to comment on that.

Mr. Teeboom

Just a follow up, I understand that the public school provides transportation. I'm talking about the cost of the student. If you establish a charter school, and that's what you tried at one time, within a public school those charter school students come in at a cost of \$6,000 a student, not the \$13,000 per student. I did the calculations, I sent them to you. No one responded back to me. I showed a savings of \$4.4 million for the 464 Nashua kids. You can disagree and recalculate if you disagree, but I have not seen anybody disagree. That's a substantial savings. A final note, a charter school has to meet all the same federal laws. Charter schools must accept special education kids. Charter schools are held to the same disability laws that created all the secondary school laws. The custodial thing, it may be litigation, but the fact that it is, the school board I hope does not drop it. That's another anywhere from one to four million dollars in savings. Thank you.

Mr. Bob Sherman, President of the Teachers Union, 7C Taggart Drive

As far as eliminating secretaries, I wonder then who's going then since we have security on all our schools and all our doors, who is going to let individuals or parents in or out of the building. Who is going to take the phone calls from parents that want to have their kids dismissed or want to get in touch with their kid in the schools? These are all jobs that our secretaries indeed do. There's a particular line item in the budget that all this information is going to focus on. I want the public to be aware of the fact that Nashua is among the 100 most diverse cities in the United States. It is No. 96 based on racial makeup, demographics and economic factors. More than 40 percent of Nashua students qualify for free and reduced lunches. There are 55 different languages spoken in the homes of Nashua students, which the Nashua School system needs to address. The New Hampshire state average school loan debt is \$33,410 which ranks us as number 2 in the nation. The portion of New Hampshire students with debt is 76 percent which ranks us number 1 in the nation. The average UNH graduate debt in 2014 was \$36,965. That was 79 percent of the graduates. Therefore, the superintendent and the school committee have only \$814,000 to increase the department's salaries which is to cover raises in administrative positions, principals, custodians, secretaries, para-educators and the teachers whose contract ends at the end of August. This increase in the salary account will not even cover the scheduled step increases listed in the present contract which steps in the last contract were increased from 9 to 15 steps, a 67 percent increase for the number of years needed to reach the top of the teacher pay scale. That still leaves 40 percent of our teachers at the top of the pay scale with no step pay increase. There are over 100 teaching positions posted as being vacant in the system, which does not count for those already filled by leaving or retiring teachers. Surrounding districts all have pay scales with steps that have increased their steps and have not frozen them which has happened in Nashua. If the steps are not paid, the teachers will move to districts that will live by their commitments of promised pay in the future for loyal service to that district. Nashua in the 1990s was the best paying district in New Hampshire for teachers at the top and the bottom of the step schedule. The average Nashua teacher salary for the 15-16 school years is \$59,267, which is now \$2,651 over the New Hampshire state average of teachers' salaries. There are 53 districts with higher average teacher salaries in New Hampshire than Nashua including Amherst, Brookline, Concord, Hollis, Londonderry, Manchester and Portsmouth. So I ask you: how does the board of education, this board of aldermen and the mayor expect to attract and keep the best educated teachers graduating from the best colleges and universities with their

educational debt, the cost of living in southern New Hampshire and the failure to at least meet the expectations and the pay scale which other communities are willing to fulfil but not Nashua? I am concerned about that only \$800,000 being put in to be used for salary increases. Thank you.

Mr. Teeboom

I didn't know Manchester had a higher average than Nashua. Last I checked it was lower. For a form of reference, the loaded cost of an average teacher for the City of Nashua is \$89,111/year. The average pay, not counting overhead, is \$59,671/year. The overhead is 49 percent. Every dollar you pay in direct salary is another 49 cents in overhead. Overhead is too high. I would say \$89,111 is a lot to pay for a teacher. Thank you.

198, Interfund Transfers

Mr. Teeboom

Under Interfund Transfers, Page 190, you will find the capital reserve fund funding. That reserve fund funding is at \$1.836 million. Last year it was \$1.315 million. I believe that's 39.7 percent increase. People in the newspaper complain about it. An increase is not a cut. A cut to what a department asks for is not a cut in the budget. This is funded by 42 percent more. To say it's a cut is just not true.

Supplemental Information – Solid Waste

Mr. Teeboom

I may be out of sequence because I forgot, but there's a retirement fund called the 51750 account. In the 51750 account is \$800,000 in the school department. There's no funding in any other department. Someone needs to explain why in 51750 is there \$800,000 in the school department but none of account is funded in any other department.

Mr. John L. Griffin, Chief Financial Officer

The \$800,000 is the final pay for employees that work for the school department. That has been the strategy for several years. The \$800,000 is in that department. It's gone up and down on a few occasions but that account for this year, Fiscal '16, has been completely spent. Several years ago you might recall there was a contingency for final pay, separation pay, housed in the contingency on the city side. Simply transferred, it over to the school side. About six years ago, before I arrived, they changed that strategy and they have been funding their final pays in the school department, 51750. As I indicated before we have a retirement account, 70250, on the city side where if we study the transfers into that account, there's a half a million that's going to be transferred in there, that's for the final pays for individuals that retire from the city. Not leave from the city; retire from the city. On a monthly basis, we account for those final pays and transfer money under the oversight that you mentioned back into those accounts into 51750. It's an expense that's recognized in those departments throughout the year.

Mr. Teeboom

I understand accounting. I've got a problem with that. You're going so far, I couldn't keep up with the pages. The first problem is you're putting an \$800,000 account in the school department that will raise the budget in the school department. The more important point is you put \$800,000 in the school department, to which the school department has exclusionary discretion. They can spend it on whatever they want to spend it on. The school has authority over its own line items. If you kept it in the city and handled it the same way you are handling the transfers to the FTE account or what you probably should do with the 51750 account is sprinkle between these two departments. Maybe that's too difficult to manage. To put \$800,000 in the school department for items that really should be in the city control, I don't think is a smart thing to go. Twenty years ago the board of aldermen had to approve every retirement benefit, severance package. It could be as large as \$80,000 - \$90,000. I suggest that the city take a look at that and transfer the money back into the city budget and out of the school budget.

There being no further testimony, the public hearing was declared closed at 8:14 p.m.

ADJOURNMENT

**MOTION BY ALDERMAN SIEGEL THAT THE JUNE 9, 2016, SPECIAL MEETING OF THE BOARD
OF ALDERMEN BE ADJOURNED
MOTION CARRIED**

The meeting was declared adjourned at 8:15 p.m.

Attest: Patricia D. Piecuch, City Clerk