

**CITY OF ROCHESTER**  
**NOTICE of PUBLIC MEETING:**  
***FINANCE COMMITTEE***

**Meeting Information**

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**Date:** July 12, 2022  
**Time:** 6:00 P.M.  
**Location:** City Council Chambers  
31 Wakefield Street  
Rochester, New Hampshire

**Agenda**

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- 1. Call to Order**
  
- 2. Acceptance of Minutes:** June 14, 2022. Pg. 2
  
- 3. Public Input**
  
- 4. Unfinished Business:**
  - 4.1.1** None
  
- 5. New Business-**
  - 5.1.1** Non-Union Merit-Track Compensation Plan, Pg. 8
  - 5.1.2** City Clerks & Tax Office Hours of Operation, Pg. 12

**Reports from Finance & Administration**

  - 5.2.1** Monthly Financial Report Summary-June 30, 2022, Pg. 13
  - 5.2.2** FY22 Use of General Fund Unassigned Fund Balance, Pg. 15
  - 5.2.3** New Hampshire Municipal Association-Fund Balance Article, Pg. 16
  
- 6. Other**
  
- 7. Adjournment**

Finance Committee

Meeting Minutes

Meeting Information

Date: June 14, 2022

Time: 6:00 P.M.

Location: 31 Wakefield Street

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

**City staff present:** Deputy City Manager Katie Ambrose, Deputy Finance Director Mark Sullivan. CIO, Sonja Gonzalez. Director of City Services, Peter Nourse

**Others present:** Tom Kaczynski, resident. Susan Rice, resident. Ray Barnett, resident. Joe Boudreau, Utility Advisory Board. Shawn Libby, Utility Advisory Board.

Agenda & Minutes

**1. Call to Order**

Mayor Callaghan called the Finance Committee meeting to order at 6:00 PM. Deputy City Clerk Cassie Givara took a silent roll call attendance. All Committee members were present.

**2. Acceptance of Minutes: May 10, 2022**

Councilor Lachapelle **MOVED** to **ACCEPT** the May 10, 2022 Finance Committee meeting minutes as amended based on the minor revision to the minutes in the packet which the Deputy City Clerk had distributed to the Committee. Councilor Hamann seconded the motion. The **MOTION CARRIED** by a unanimous voice vote.

**3. Public Input**

Tom Kaczynski, resident, addressed the Committee in regards to the potential amendment to the Granite Ridge TIF district to allow residential development.

Susan Rice, resident, spoke to the Committee regarding the Granite Ridge TIF district amendment and proposed further budget reductions.

Ray Barnett, resident, addressed the Committee regarding the elderly tax exemption and the comparison between Rochester and other communities. He also spoke about the veteran's,

disabled, and blind exemptions.

**4. Unfinished Business:**

No Discussion.

**5. New Business-**

**5.1.1 Dispatch Software Upgrade Project**

Sonja Gonzalez, City of Rochester CIO, explained that this is a joint project between IT, the Police Department Communications, and the Fire Department that was funded as CIP in FY22. She stated they are looking to use CSI technologies as a sole source vendor for this software; this is due to multiple other local agencies using this same software, which would allow Rochester to collaborate with these other entities, do cross agency checks, and support mutual aid for the Fire Department.

Finance Director Ambrose clarified that this allocation would need a recommendation from the Finance Committee, but would not need to be sent to full Council for approval. Councilor Lachapelle **MOVED to APPROVE** the dispatch software upgrade project. Councilor Hamann seconded the motion. The **MOTION CARRIED** by a unanimous voice vote.

**5.1.2 Water System Development Fee**

**5.1.3 Sewer System Development Fee**

Peter Nourse, Director of City Services, reported that the City of Rochester has had a reserve capacity assessment for sewer since 1995, which equates to \$2 per gallon and is assessed for all new development. This assessment has remained the same since at least 2004 and possibly all the way back to its inception in 1995. Director Nourse indicated that the City wanted to reevaluate the sewer assessment fee as well as looking into the concept of establishing a similar fee for water service, which the City has not previously done. He stated that the purpose of the system development fee is for new development to pay into a system that has been maintained and funded by ratepayers in the long term. Director Nourse reported that there are over \$20 million dollars in water capital improvements needed within the upcoming five years, and while user rates and external funding sources such as grants can be utilized for these improvements, having these system development fees would help offset these costs.

Mark Sullivan, Deputy Finance Director, gave an overview of the calculation on the draft model distributed to the committee; based on the asset base of each fund (water and sewer). He explained that the draft sample contained is a model based on Dover's system and that this is developed using net numbers of the assets pending to be depreciated along with the capacity of the plant. He gave further detail on the model that Rochester is proposing. The funds generated should go to a reserve account, so when there is a need to draw from said funds, it would mitigate

impact to user rates. Deputy Director Sullivan said the sewer development fee has been collected since the early 2000s and averages between \$30,000-\$50,000 per year. However, this money has been placed directly into the operating account where it is not allowed to accumulate or gain interest. He explained that it would be more beneficial to have this money placed into an account where it can accumulate so the funds can be drawn as needed for larger projects and upgrades.

Deputy Director Sullivan suggested taking some of the funds that have already been collected from the sewer and evaluating the sewer fund's retained earnings to potentially use that balance as a starting point for the new fund. The money in said fund can then take the pressure off user rates for upgrades and improvements.

Councilor Lachapelle asked if the money coming in from the sewer is being used as a revenue source. Mr. Sullivan confirmed that it is a revenue source. Councilor Lachapelle stated that this money should be placed in a special reserve fund to collect over time and used as capital towards bond issues for future upgrades.

Councilor Hailey asked for clarification on what is considered a "development" and how this fee is assessed. Mr. Sullivan answered that this fee is for any new construction in the City that will connect to City sewer/water. He also briefly explained the process to collect this fee that takes place through the Department of Public Works and Building and Licensing Services. Director Nourse reported that currently, for a single-family, three-bedroom home, the fee assessed would be \$450, which is based on a table published by DES.

Councilor Gray stated that this development fee sounds similar to an impact fee. He cautioned that such a fee could be prohibitive to those building low-income housing and stated that he was not in favor of fees that could make it more difficult for residents to obtain housing. He said that he was not prepared to make a decision on the prospect until further review was conducted. Councilor Lachapelle reminded the Committee that the fee is already being collected on the sewer side. He also emphasized the impending EPA requirements and DES regulations to which the City will need to comply; assessing this fee will help in covering the cost for these required improvements.

Finance Director Ambrose stated that, moving forward, the establishment of the system development fee in the water fund would need to be recommended to full Council as well as a recommendation on the revision of the current structure/fee on the sewer side. Full Council would then refer the matter to the Codes and Ordinances Committee for the ordinance revision and the development of a new water ordinance. She stated that if the Committee was not yet prepared to recommend the item to full Council, it could be brought back at the next Finance Committee meeting for further discussion.

Councilor Hailey stated that it would be helpful to have an accounting of the number of new developments each year that would be subject to this fee, the amount which could be collected if the fee were assessed, and how the water and sewer rates would be affected. Mr. Sullivan stated that he would provide this information.

Councilor Lachapelle **MOVED** to recommend the establishment of the system development fee in the water fund and the revision of the current sewer system fee to full Council. Councilor Hamann seconded the motion. Councilor Beaudoin felt that the decision warranted further discussion; he said that this development fee is essentially an impact fee and the imposition of a new water fee would be doubling the “impact fee” already established for sewer. He recommended tabling the motion. Councilor Gray cautioned against the assessment of water development fees on top of already existing construction fees to connect into the City resources, as well as the sewer fees. Councilor Lachapelle stated that the sewer development fees are already within the City ordinances. Councilor Gray acknowledged that the sewer fee is collected by ordinance, but this proposal would more than double the fee from \$2.00 to \$4.33. The **MOTION CARRIED** by a 4 to 3 roll call vote with Councilors Hainey, Lachapelle, Hamann, and Laroche voting in favor and Councilors Beaudoin, Gray, and Mayor Callaghan voting opposed.

#### **5.1.4 Water-Sewer User Rates Review**

Deputy Finance Director Sullivan reported that he had gone to the Utility Advisory Board (UAB) to perform a review of their user rates. These fees had last been updated almost three years ago (although the last update did not go into effect until January of 2021 due to COVID).

Joe Boudreau, UAB member, gave an overview of the UAB and their role in the City, and detailed the history of water and sewer user rates from FY10 through the present. Mr. Boudreau explained the incremental increase in rates to take place over the course of three years, which had been proposed by the UAB in 2019. Due in large part to COVID, only one of these increases was carried out, so currently the water rate is substantially below this original proposal. Due to the absence of increases over the past several years, the City is looking at larger increases rather than gradual increases over time. Additionally, the projected revenues were far below what was anticipated due to this lack of rate increases. However, costs continued to rise, resulting in a deficit.

Mr. Boudreau stated that although sewer usage has remained consistent, the rate increases have been even more sporadic than on the water side, ranging from one year to 60-months between increases. Rates have increased a total of \$1.48 since FY10. He reported that if the rates had been increased an average of 5% annually, the current rate would be \$10.68 (current = \$7.43). He further explained what the current rates would be with average usage taken into consideration, had the rates been increased on a regular basis. Mr. Boudreau stated that due to the lack of regular annual increases as suggested in the 2019 UAB presentation, the current rate is now at the level of the proposed 2020 rate. He stated that this would necessitate larger increases in billing statements as opposed to small, gradual increases.

Mr. Boudreau presented a proposed Water rate increase schedule, with an initial increase of 10% and subsequent rate increases of 5% annually in order to rectify the O&M deficit and to build the surplus back to the proposed levels of the 2019 presentation. He presented a similar rate increase schedule for the sewer side, with proposed increases of 10% annually through FY 2026.

Mr. Boudreau summarized the issues being faced due to the lack of rate increases and other factors that could exacerbate the problem in the upcoming years.

Councilor Lachapelle asked if it was possible to reduce the water rate increase in the first year from the proposed 10% to around 7% and increase the subsequent years from 5% to 6% in order to make the increases more gradual, but to achieve the same result in reducing the deficit and building a surplus. Deputy Finance Director Sullivan explained the importance of having a surplus in order to fund cash CIP projects and avoid bonding projects. He explained that the rates could be increased in the manner suggested by Councilor Lachapelle, but there would have to be other adjustments made.

Councilor Lachapelle **MOVED** to recommend the rate schedule as proposed by the UAB to full Council. Councilor Hamann seconded the motion. Councilor Hamann stated that in his years on the Council, this discussion has been delayed multiple times, and he emphasized the need for action instead of further delays which will make things more difficult in the future. He stated that inflation affects not only the residents, but the City's costs as well, and with increasing government regulations and requirements related to water systems and nitrogen limits, it is causing the City's costs to increase. Councilor Beaudoin agreed that it was unfortunate that prior Councils had not taken action on these rates because it was putting the City in a position where it would need to raise rates by 10%, which would be a hard hit for many residents. He said that unless there were cuts in other areas of this budget, this rate increase would be an unfortunate reality. Councilor Gray stated that unless this discussion were sent to a committee such as Public Works for further discussion and scrutiny, there would not be opportunity to explore other options or alternatives for cost reduction; at the Council level, the discussion will simply receive an up or down vote. Councilor Lachapelle stated that he felt the Utility Advisory Board did exactly what Councilor Gray was suggesting and had already done the calculations and explored the alternatives. The **MOTION CARRIED** by a 5 to 2 roll call vote with Councilors Lachapelle, Laroche, Hamann, Hainey, and Mayor Callaghan voting in favor and Councilors Gray and Beaudoin voting opposed.

### **5.1.5 Assessing Memo Property Tax Exemptions**

Finance Director Ambrose reported that the Chief Assessor had supplied a memo in the packet that gave an analysis of Rochester's exemptions and credits versus those of surrounding communities. Mayor Callaghan asked how many more residents would qualify if the income/asset limitation was increased from \$50,000 to \$55,000. Deputy Finance Director Sullivan stated that this information would need to come from the Assessing Department based on the prior years' applications. Councilor Lachapelle suggested the Committee submit their questions to the Chief Assessor ahead of the next Finance meeting so he would have opportunity to review and provide the relevant data. Mayor Callaghan requested that Committee members email questions for the Chief Assessor to Director Ambrose in anticipation of the next meeting. Councilor Gray spoke about the difficulty in determining numbers of those eligible and the numbers of residents who might apply due to the multiple factors, such as the unknown numbers of those arriving at the age of eligibility and those residents' income and whether they meet the limitations.

DRAFT

Mayor Callaghan referenced the passage of HB 1667, which will go into effect July 26, 2022, to expand the qualification for veterans. He suggested that this information be posted on the City website to inform residents. Councilor Gray clarified that even if this bill was adopted, there would still be Council action needed at the City level to enact the new verbiage and criteria.

## **Reports from Finance & Administration**

### **5.2.1 Monthly Financial Report Summary-May 31, 2022**

Deputy Finance Director Sullivan stated that revenues continue to trend strong, with expenses and enterprise funds trending to budget. Police and Fire Department overtime continue to trend over budget. Mr. Sullivan reported that there are no concerns on the General Fund revenue side.

#### **6. Other**

No discussion.

#### **7. Adjournment**

Mayor Callaghan **ADJOURNED** the Finance Committee meeting at 7:10 PM.

Respectfully Submitted,

Cassie Givara  
Deputy City Clerk

# FINANCE COMMITTEE

## Agenda Item

**Agenda Item Name:** Amendment to the Non-Union Merit Plan – FY23 Merit Schedule

**Name of Person Submitting Item:** Katie Ambrose, Deputy City Manager/Director of Finance & Administration

**E-mail Address** [kathryn.ambrose@rochesternh.net](mailto:kathryn.ambrose@rochesternh.net)

**Meeting Date Requested:** July 12, 2022

**Issue Summary Statement:** The non-union classification and compensation plan was approved by City Council at the May 4, 2021 meeting. The adoption of this plan transferred non-union positions to a merit track system, which is the wage structure currently adopted in four (4) collective bargaining agreements. The Non-Union Merit Plan & Non-Union Employment Policy Handbook documents were then amended to reflect the merit track system on August 3, 2021.

On the merit track system, non-union employees must receive a score of 70 or greater on their annual performance evaluation in order to advance one increment on the merit track. Additionally, a Cost of Living Adjustment (COLA) for the entire schedule is brought forward annually.

An amendment to Section 4 of the Non-Union Merit Plan “Merit Track Schedule” is proposed to reflect a 2% COLA adjustment to the schedule for FY23. Associated funds are budgeted in the FY23 salary projections, and would be implemented with a July 1, 2022 effective date upon adoption.

**Recommended Action:** Recommend to City Council approval of the amendment to the Non-Union Merit Plan Schedule.



## CURRENT PLAN

### Section 4: Merit Track Schedule

<b>GRADE</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>
<b>1</b>	11.13	11.44	11.75	12.07	12.41	12.75	13.10	13.46	13.83	14.21	14.60	15.00
<b>2</b>	12.58	12.93	13.28	13.65	14.02	14.41	14.80	15.21	15.63	16.06	16.50	16.95
<b>3</b>	14.22	14.61	15.01	15.43	15.85	16.29	16.73	17.19	17.67	18.15	18.65	19.16
<b>4</b>	15.64	16.07	16.51	16.97	17.43	17.91	18.40	18.91	19.43	19.97	20.51	21.08
<b>5</b>	17.20	17.67	18.16	18.66	19.17	19.70	20.24	20.80	21.37	21.96	22.56	23.18
<b>6</b>	18.92	19.44	19.97	20.52	21.09	21.67	22.26	22.88	23.51	24.15	24.82	25.50
<b>7</b>	20.81	21.38	21.97	22.57	23.20	23.83	24.49	25.16	25.85	26.56	27.30	28.05
<b>8</b>	22.06	22.67	23.29	23.93	24.59	25.26	25.96	26.67	27.41	28.16	28.94	29.73
<b>9</b>	23.38	24.02	24.68	25.36	26.06	26.78	27.51	28.27	29.05	29.85	30.67	31.51
<b>10</b>	24.78	25.46	26.16	26.88	27.62	28.38	29.16	29.96	30.79	31.63	32.50	33.40
<b>11</b>	26.76	27.50	28.25	29.03	29.83	30.65	31.49	32.36	33.25	34.16	35.10	36.07
<b>12</b>	29.97	30.79	31.64	32.51	33.41	34.32	35.27	36.24	37.23	38.26	39.31	40.39
<b>13</b>	33.57	34.49	35.44	36.42	37.42	38.45	39.50	40.59	41.71	42.85	44.03	45.24
<b>14</b>	36.26	37.26	38.28	39.33	40.42	41.53	42.67	43.84	45.05	46.29	47.56	48.87
<b>15</b>	39.16	40.24	41.34	42.48	43.65	44.85	46.08	47.35	48.65	49.99	51.36	52.78
<b>16</b>	42.29	43.45	44.65	45.88	47.14	48.43	49.77	51.13	52.54	53.99	55.47	57.00
<b>17</b>	45.67	46.93	48.22	49.54	50.90	52.30	53.74	55.22	56.74	58.30	59.90	61.55
<b>18</b>	49.32	50.68	52.07	53.50	54.97	56.48	58.04	59.63	61.27	62.96	64.69	66.47

## Section 4: Merit Track Schedule

GRADE	1	2	3	4	5	6	7	8	9	10	11	12
1	11.35	11.66	11.99	12.32	12.65	13.00	13.35	13.72	14.10	14.49	14.88	15.29
2	12.83	13.18	13.56	13.93	14.32	14.71	15.13	15.54	15.97	16.41	16.86	17.32
3	14.50	14.90	15.31	15.73	16.16	16.61	17.06	17.53	18.01	18.51	19.02	19.16
4	15.95	16.39	16.84	17.30	17.77	18.26	18.77	19.29	19.82	20.36	20.92	21.49
5	17.54	18.03	18.52	19.03	19.55	20.09	20.65	21.21	21.80	22.40	23.01	23.64
6	19.30	19.83	20.37	20.93	21.50	22.09	22.70	23.32	23.97	24.63	25.31	26.00
7	21.23	21.38	21.97	22.57	23.19	23.83	24.49	25.16	25.85	26.56	27.29	28.04
8	22.50	23.12	23.76	24.41	25.08	25.78	26.48	27.20	27.95	28.71	29.50	30.31
9	23.85	24.50	25.18	25.87	26.58	27.31	28.07	28.84	29.64	30.46	31.29	32.15
10	25.28	25.97	26.68	27.42	28.17	28.95	29.74	30.56	31.40	32.26	33.15	34.06
11	27.30	28.05	28.83	29.62	30.43	31.27	32.13	33.01	33.92	34.85	35.81	36.80
12	30.57	31.41	32.27	33.16	34.07	35.00	35.97	36.96	37.97	39.02	40.09	41.19
13	34.24	35.18	36.15	37.14	38.16	39.21	40.29	41.40	42.54	43.72	44.92	46.15
14	36.99	38.00	39.05	40.12	41.22	42.35	43.52	44.71	45.94	47.21	48.50	49.84
15	39.94	41.04	42.18	43.34	44.53	45.75	47.01	48.30	49.63	51.00	52.41	53.85
16	43.14	44.32	45.53	46.78	48.07	49.39	50.75	52.15	53.59	55.06	56.57	58.12
17	46.58	47.86	49.18	50.54	51.93	53.36	54.83	56.33	57.88	59.48	61.11	62.79
18	50.31	51.69	53.11	54.57	56.07	57.61	59.19	60.82	62.49	64.21	65.98	67.79

Councilor Jean **MOVED** to **APPROVE** the Finance Committee recommendation as described above. Councilor Lachapelle seconded the motion. Councilor Rice asked if this action would have an impact on the budget. City Manager Cox replied that this is part of the re-organization of the Library and the salary is covered in its budget. The **MOTION CARRIED** by a unanimous voice vote.

**10.2.2 Committee Recommendation: To approve the elimination of the position of Legal Assistant II *consideration for approval***

Councilor Walker **MOVED** to **APPROVE** the Finance Committee recommendation as described above. Councilor Lachapelle seconded the motion. The **MOTION CARRIED** by a unanimous voice vote.

**10.2.3 Committee Recommendation: To approve the amendments to the Non-Union Merit Plan & Non-Union Employee Handbook *consideration for approval***

Councilor Walker **MOVED** to **APPROVE** the Finance Committee recommendation as described above. Councilor Lachapelle seconded the motion.

Councilor Hailey asked whom would conduct the evaluation of non-union members. City Manager Cox replied that the Supervisors of the employee's Department would conduct these evaluations. He added that it is signed off by the director of such department. Councilor Hailey asked what is the range of the Merit Pay Plan. City Manager Cox explained that each employee must receive a mark of 70% or better on their evaluation in order to receive the pay increase. Councilor Hailey asked if they receive a combination of a merit and step increase. City Manager Cox said each year there is an adjustment to the COLA (Cost of Living Adjustment). He added that the employee would also receive the Merit increase, if applicable. Councilor Hailey asked if data was collected to make informed decisions on the evaluation or if the evaluations were based upon "opinion". City Manager Cox replied that the standard evaluation forms have a multitude of factors for information to be collected for each evaluation. The **MOTION CARRIED** by a unanimous voice vote.

### **10.3 Planning Board**

**10.3.1 Amendment to Chapter 275 of the General Ordinances of the City of Rochester Related**

# FINANCE COMMITTEE

## Agenda Item

**Agenda Item Name:** City Clerk & Tax Office Hours

**Name of Person Submitting Item:** Katie Ambrose, Deputy City Manager/Director of Finance & Administration

**E-mail Address:** [kathryn.ambrose@rochesternh.net](mailto:kathryn.ambrose@rochesternh.net)

**Meeting Date Requested:** 7/12/22

**Issue Summary:** Correspondence was recently submitted to City Council regarding the office hours of the City Clerk's office and Tax Office with a request to extend their office hours at least one day a week. The determination of the hours of city offices falls under the administrative authority of the City Manager, who has reviewed the correspondence and request. Staff will report out on the City Manager and Deputy City Manager's examination of the schedule for these offices.

**Recommended Action:** None, informational.

# FINANCE COMMITTEE

## Monthly Financial Summary Report

**Agenda Item Name:** Monthly Financial Statements Summary – as of June 30, 2022

For the full detail report, click here: [June 30, 2022 Financial Detail Report](#)

**Name of Person Submitting Item:** Mark Sullivan Deputy Finance Director

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

### **Issue Summary Statement**

Below are the revenues & expense highlights through June 30, 2022, which represents 100% completion of FY22.

### **GENERAL FUND NON PROPERTY TAX REVENUES**

**Motor Vehicle Registrations:** Revenues strong at \$5,729,198, 117% collected.

**Waste Management Host Fees:** Total FY22 revenue received \$4,538,671. City allocation \$3,660,544 School Department allocation of \$878,127. The total FY22 revenue received is \$1,410,544 over the adopted amount of \$3,128,127.

**Building Permits:** Revenues very strong at \$790,948, 264% collected.

**Interest Income:** Remains very soft at \$37,157. Although interest rates have recently increased from 18 basis points (18 percent of 1 percent) to 55 basis points, a little over ½ of a percent.

**Interest on Delinquent Taxes:** Collections at \$434,438 124% collected.

**State of NH Rooms & Meals:** \$2,296,678 received, \$728,399 over budget. The surplus of \$728,399 was used to offset the DRA 2021 final property tax rate.

**Highway Block Subsidy:** All quarterly payments received, total \$614,647, 102% collected.

**Cablevision:** Three payments received from Comcast & Atlantic Broadband, total \$212,103, 90% collected.

**Current Use Taxes:** Current Use tax revenues are very strong at \$380,128, or 234% collected.

**Use of Unassigned Fund Balance:** FY22 amount City \$9,580,641, School \$261,064.

**GENERAL FUND EXPENSES:** Overall expenses are below budget at 96%. Salary, OT & Benefits are 94% of budget.

**Fire & Police Overtime:** Fire Department Overtime at 172% expended, Police Overtime at 207% expended.

**Welfare Direct Assistance:** 35% expended.

**WATER-SEWER SPECIAL REVENUE FUNDS:**

**Water-Sewer Funds:** Water-Sewer User Fee revenues remain strong on each fund, with low delinquencies, and collections, Water at 69% and Sewer at 65%. FY22 Water Fund expenses are below budget at 71%, Sewer Fund expenses are below budget at 77%.

**Community Center:** Expenses below budget at 95%, and Revenues are at 77% collected.

**Arena Special Revenue:** Expenses at 97% Revenues are at 126% collected, which includes a \$129,815 contribution from ARPA grant funds.

**FY22 General Fund Unassigned Fund Balance Activity  
6/30/2022**

Descriptions	GF Expenditures	Amount	Percentage	Notes
<b>FYE21 (MS-535 06/30/2021)</b>	<b>\$109,564,594</b>	<b>\$29,175,647</b>	<b>26.63%</b>	
<b>Unassigned Fund Balance Policy Threshold 8%-17%</b>				
Low 8%		\$8,765,168	8.00%	
High 17%		\$18,625,981	17.00%	
<b>Over (Under) Fund Balance Policy- 17% Threshold</b>		<b>\$10,549,666</b>	<b>56.64%</b>	

<b>FY22 Activity Summary</b>	<b>Amounts</b>
FY22 Adopted Budget City & School	\$3,047,064
FY22 Additional Activites	\$6,794,639
<b>FY22 Totals</b>	<b>\$9,841,703</b>

<b>Estimated Balance</b>	<b>\$19,333,944</b>
<b>Percentage</b>	<b>17.65%</b>

<b>FY22 Additional Activity</b>	<b>Date</b>	<b>City</b>	<b>School</b>	<b>Water-Sewer</b>	<b>Econ Dev Fund</b>	<b>Subtotal</b>	<b>Notes</b>
CIP Change of Bond Funding	03/01/2022	\$2,386,489	\$570,000	\$754,150		\$3,710,639	Council Approved
Transfer to Economic Development Fund	03/01/2022				\$1,084,000	\$1,084,000	Council Approved
Creation of Capital Reserve Fund	03/01/2022	\$1,500,000				\$1,500,000	Council Approved
Paving Rehabilitation Winkley Farm Dr	06/03/2022	\$500,000				\$500,000	Council Approved
						\$0	
						\$0	
						\$0	
						\$0	
						\$0	
<b>FY22 Totals</b>		<b>\$4,386,489</b>	<b>\$570,000</b>	<b>\$754,150</b>	<b>\$1,084,000</b>	<b>\$6,794,639</b>	



# Taking the Mystery Out of Fund Balance

By Katherine Heck, Government Finance Advisor

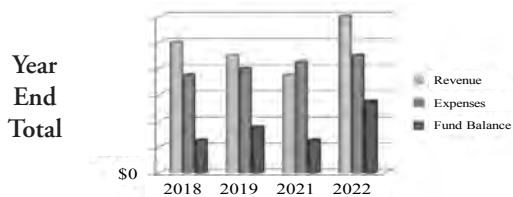
Municipal officials are often asked to explain to constituents the mystery around unreserved fund balance. Questions abound surrounding this complex topic, especially during the development of the budget and the annual meeting process. To assist the electorate in understanding unreserved fund balance,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

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

## What is Fund Balance?

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

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



The Fund Balance Formula:  

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

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

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

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

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

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

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

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

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



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

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

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

## How much fund balance should a local government retain?

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

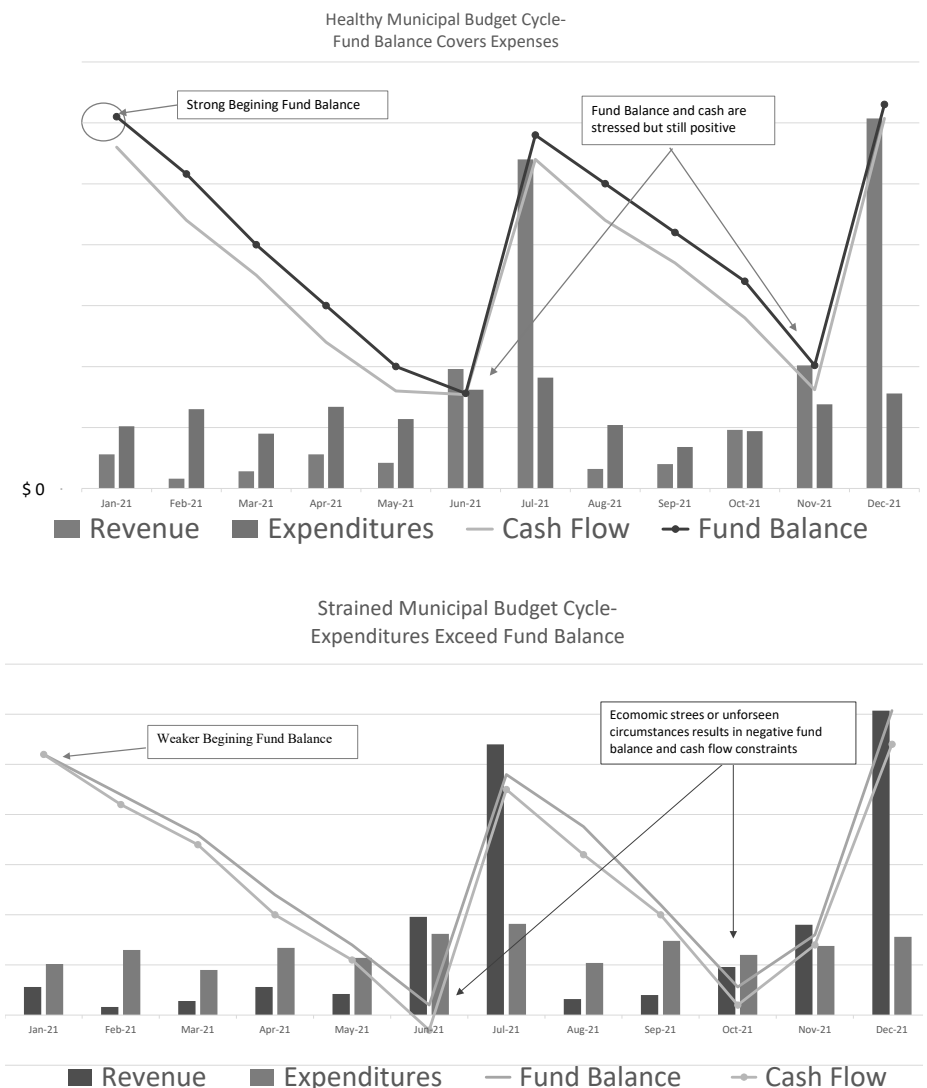
Let's begin by stating that zero is not an advisable option. Every government entity requires some level of fund balance for cash flow purposes and for responses to emergencies. There is an appropriate range of fund

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

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

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

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



## Closing Thoughts

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

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

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

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

pretations associated with the use of fund balance.

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

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Resources:

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



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