

SELECTMEN'S WORKSHOP
Minutes of 8/20/07
6:45 p.m.

Selectmen:

Frank S. Michel, Chairman
Peter F. Brothers, Vice Chairman
Robert C. Flanders
Miller C. Lovett
Colette Worsman

Town Manager:

Carol M. Granfield

Recording Clerk:

Karin Landry

Chair Frank Michel resumed the Selectmen's meeting in a workshop session at 6:45 p.m., for a continuation of the budget philosophy discussion.

W 07-11 Budget Philosophy Discussion

The Chair presented the Board with a memorandum addressed to Carol Granfield and Brenda Vittner from Selectman Lovett, setting forth budget ideas on procedure and policy. It details a format for requests from departments, items for administration, calculating the Town's total capital deficit: to identify unfunded past obligations impacting the future, policy on use of fund balance, policy on level funding tax bills, and other considerations (**See Addendum I, Budget Ideas 2007**).

Selectman Lovett highlighted the memo for the Board:

The memo addresses ideas on budgeting procedures and policies that will allow for greater clarity before beginning the budget process. A major element is looking at the revenue side of the budget in order to see what the maximum increase in the budget could be, and attempting to stay within that target. Items above that increase will come before voters at Town Meeting as warrant articles. In order to keep fairly level tax bills, a cost of living index needs to be identified. Setting forth a maximum increase does not mean that all the money available should be spent.

The Chair views the memo as a base for meaningful discussion once all the Board members have had a chance to review it. He directed Carol Granfield and Brenda Vittner to present a framework to the Board on the approach to the budget in a draft one-page policy statement as to this year's budget process. There needs to be more dialogue on the use of fund balance. Selectman Worsman believes the Board was elected to run the budget for the community and cautioned against passing along responsibilities to others. Selectman Lovett clarified that he is not suggesting that any decisions are made by staff. Internal work on the modified zero-based maintenance budget will begin this week.

Selectman Worsman asked the Board to be mindful of current economic conditions and how they will play into the budget process this fall. Resident David Sticht suggested a simple policy statement setting forth an increase of a certain percentage in either the tax rate or expenditures.

Selectman Worsman motioned to move into a non-public meeting for purposes of discussion of personnel under the appropriate RSA at 7:10 p.m. Seconded by Selectman Flanders. All in favor. 5-0. Motion passed unanimously.

Respectfully submitted:

Carol M. Granfield, Town Manager

Frank S. Michel, Chairman

Karin Landry, Recording Clerk

Peter F. Brothers, Vice Chairman

Robert C. Flanders

Miller C. Lovett

Colette Worsman

ADDENDUM I**Budget Ideas 2007****Town of Meredith, New Hampshire
Budget Ideas: Procedures and Policies
Presented by Miller Lovett, Selectman
13 August 2007**

To: Carol Granfield and Brenda Vittner

In response to your Staff Report to the Budgeting Workshop memo to the Select Board of 16 July 2007, I offer the following ideas on budgeting procedures and policies.

Format for requests from departments.

1. Present a proposed budget, with personnel items the same as this year (with idea that these will be adjusted in the light of the Benefits Committee report), the total of which equals the 2007 department budget. This will allow some changes in non-personnel line items, but total the same as 2007. Ask department heads to be ready to explain each line from first dollar upward, as a partial approach to zero-based budgeting.
2. Identify cuts in services to the public implicit in item #1; and additional costs, by line item, with explanations, required to maintain the 2007 levels of service.
3. Proposals for new or expanded services to the public, with costs and explanations cited by line item.
4. Identify in #3 above, and justify proposed budget expansion (including new positions) due to population growth.

For administration:

1. Develop the administration proposed budget with three columns: this year's budget including personnel; the proposed expanded department budgets as developed by the department heads; and next year's administration proposed budget including personnel with recommended personnel increases; in a narrative by departments cite what administration believes, already included in the administration budget, is needed to (a) maintain public services, and (2) provide for population growth.
2. Summarize for the Select Board additional costs requested by department heads and administration for 2008 due to population growth.
3. Calculate the total additional tax revenue that can be expected for 2008 from major new construction and property improvements and from other sources of revenue.

Calculating The Town's Total Capital Deficit: to identify unfunded past obligations impacting the future

1. What are the individual items, their unfunded costs, and the grand total to (1) bring our infrastructure, buildings, and environment up to date; and (2) to predict funding required in the next 25 years?

2. Clarification about the adequacy of the Board's view of the \$1,800,000 per year cited by the Capital Improvement Program committee as necessary to provide for long term capital items and to avoid spikes in the tax rate.
3. Affirmation by the Board of a policy to provide for infrastructure maintenance.

Policy on Use of Fund Balance

1. Town budgeting is a dynamic process. Work on one part may have unintended impacts on other parts of the budget. On the other hand, wise planning can use the dynamic nature of budgeting to produce salutary results on other parts of the budget and upon the community.
2. The Fund Balance is, probably, the most dynamic element in town budgeting. A common use of Fund Balance is toward annual allocations as budget revenue, thus reducing the tax rate. Towns do this year after year in the name of good management and to return previous surpluses to taxpayers.
3. In some years Town Meetings authorize bonding to pay for capital items. Borrowing requires payment of principal and interest. These two items raise the total budget and spread capital costs over many years. They also raise taxes. If the Fund Balance is left to accumulate over the years and used to pay capital costs, rather than borrowing, the town could save thousands, even hundreds of thousands, of dollars.
4. In the case of the new Meredith Police Station, we have a glaring example. For four years, the Select Board has appropriated \$750,000 from Fund Balance to supplement the revenue side of the budget, and reduce the tax rate; this totals \$3,000,000. In 2007, the Town of Meredith borrowed something less than three million dollars to pay for the new police station, thus incurring an unnecessary town interest expense of \$67,500 in 2007, and hundreds of thousand dollars in unnecessary interest expense over twenty years! Want to cut the budget? Develop clarity by the Select Board on a policy to use and preserve Fund Balance!
5. A suggested policy: use Fund Balance primarily to pay for very large capital items, and never for the revenue side of the annual budget. Both approaches return money to taxpayers, but use of Fund Balance for capital items results in huge savings in the total budgeting process. There may be exceptions to this rule: use for a very large budget increases such as Overlay or an emergency re-evaluation may be a justified use of Fund Balance. Even for exceptions, efforts should be made to accommodate such items in the normal budgeting process without using Fund Balance.

Policy on Level Funding Tax Bills

1. Effective budgeting requires a set of policies (a series of dykes and dams in action), which manage the dynamic nature of town budgeting. This requires the Board and town administration to set parameters at the start of the budget process, and constrains the expenditure side during the line item examination.
2. For Meredith the following parameters are suggested: (a) a Fund Balance policy; (b) looking at the revenue side of the budget first to set the dollar limits of the budget; (c) calculating the tax dollar increases from new construction and using that for new costs due to population growth, (d) a policy that the maximum average tax bill for properties with no new improvements will not exceed a cost of living index, and (e) use of warrant articles to recommend to Town Meeting items that cannot be provided for within these parameters.

Some Other Considerations

1. An expanded contingency line item: when severe limitations are placed on budgeting for expenditures, it may be useful to provide a safety valve for items that might be under budgeted. The policy could be, for instance, to search first within a department budget; and that approval must be made, upon recommendation of the town administration, by the Select Board. Further, a large contingency line item, perhaps of \$100,000 more or less, be created, in the light of very tight department budgets, to give further dynamic leeway to the budget.
2. It is clear that taxpayers want to understand and see a vastly revised budgeting process that will keep tax bills level or nearly level. We need policies and procedures that will present this kind of budget to Town Meeting. On the other hand, the Town Meeting may, in fact, want more or less than is in the budget presented. At any rate, the will of the Town Meeting will prevail in spite of all arguments about small participation and other factors. The proposal here is that the town administration and Select Board should present to Town Meeting a budget with widely known and discussed items and dykes, and let the voters modify or approve. Further, that Board and citizen warrant articles should offer options beyond what is in the Board budget proposal and let the Town Meeting make the choices.
3. The need for an Inventory of Capital Deficits (see. above) is the next logical step beyond the Space Needs Committee Report of December 2004. It can provide the Board and town administration a global picture of the future. This is also required by the Capital Improvement Program, town administration, and the Board to fathom the annual budgeting process. It is a task for the town administration and a document the Board needs to use in its planning process.
4. The public needs to understand, and appreciate that the administration and Board has a clear-cut and rational approach to budgeting. This approach needs to be publicized and evident during the annual budgeting process. Any struggles the Board has during the budgeting process should be apparent to the public. The Board should present a balanced budget, in light of its policies as suggested above, to Town Meeting and recommend, if necessary in its view, through warrant articles calling for additional funding.

In Summary

The above ideas are thrown out to stimulate a dialogue among town administrators, the Select Board, and the public on how town financial policies are arrived at and guided. I do not present them dogmatically but rather to heighten discussion. Most of all I seek to get clarity by the Board and public on what we are doing in the budgeting process. I believe we can do a much better job for the public; they know this and are demanding better efforts from us.

For more ideas and details see "Town Budgeting and Real Estate Taxes III" by Miller C. Lovett, 16 July 2007.