SPECIAL BUDGET REVIEW COMMITTEE

MAY 5, 2022

A meeting of the Budget Review Committee was held Thursday, May 5, 2022, at 7:00 p.m. in the Aldermanic Chamber and via Zoom which meeting link can be found on the agenda.

Alderman Richard A. Dowd, Chairman, presided.

Let's start the meeting by taking a roll call attendance. If you are participating via Zoom, please state your presence, reason for not attending the meeting in person, and whether there is anyone in the room with you during this meeting, which is required under the Right-To-Know Law.

Members of Committee present:	Alderman Richard A. Dowd, Chairman Alderman-at-Large Michael B. O'Brien, Sr. Alderman John Cathey Alderman Ernest Jette Alderwoman-at-Large Shoshanna Kelly (via Zoom) Alderman John Sullivan Alderman-at-Large Lori Wilshire
Also in Attendance:	Alderman Patricia Klee Steve Bolton, Corporation Counsel John Griffin, CFO/Treasurer/Tax Collector Cheryl Lindner, Treasury Management Officer

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ROLL CALL

DISCUSSION

- Fiscal Year 2023 budget guidelines
- bonding, debt service, and general budgeting process

Chairman Dowd

Before we actually get in to our meetings with the Division Directors on their budgets, there's a couple of things that generally that are more high level in the city budget that I thought, especially for the new Aldermen that we should go over so you have an understanding before we get into the actual meeting. So we won't be asking those questions when we go through the regular budget sessions.

So tonight, CFO Griffin is going to give us a presentation ably assisted by Cheryl and tonight will be if you have questions concerning what's being presented tonight, or general questions about the budget process, we are not going to discuss the tax cap this evening other than the fact that we are significantly under it and it's not an issue. The Mayor and we'll be explaining it in more detail later. I can tell you that we're well under the cap for this budget which we haven't seen yet but that's what I'm told. Okay. So without further ado, I'm gonna call on CFO Griffin to start the presentation.

John Griffin, CFO/Treasurer/Tax Collector

Thank you, Mr. Chairman. John Griffin, CFO/Treasurer/Tax Collector. With me is Cheryl Lindner, the Treasury Management Officer, which is a relatively new position subsequent to the retirement of Mr. David Fredette who was our able Treasurer/Tax Collector for over 20 years.

Alderman Jette

Mr. Griffin I have trouble hearing so if you could raise your voice, I would really appreciate it.

Chairman Dowd

Everybody bring their mics closer to them when they speak.

John Griffin, CFO/Treasurer/Tax Collector

So I will attempt to do that and like this to be somewhat informal. If you have any questions, feel free to ask at the time that question comes up.

We thought we'd go over the whole concept of bonding - what it means, what's the process. Attorney Bolton is here for any detailed legal questions. This is a pretty big effort on the city in that we have audited financial statements that are relied upon by the folks, the teams that buy our bonds. We have bond counsel – Lock, Lloyd. We have financial advisors - Hilltop Securities, and we've used these individuals firms for quite some time and they help us manage what's called "rating calls" with Standard and Poor's, Fitch, and Moody's. We have triple A ratings from Fitch and Standard and Poor's and most recently, they solicited us to raise our rating with Moody's to a Aa1. The good news about that process is that the rating agencies understand our operations, financial picture, etc., and in their reports, they speak very highly about the City of Nashua which is great to see. That translates into about ten to a dozen investors that seek our bonds out. And most recently, we've enjoyed very favorable costs of issuance and the debt service going forward under 2% as we talked about, over the last several months.

The challenge going forward is what the fed is going to do with interest rates, what types of things they do to tame inflation. So we are definitely entering a situation where the interest rates that we need to pay for our bonds will increase. So I thought to start off, we'd look at the bonds themselves as audited from our June 30, 2021 financial statements and then go into the debt service, and so forth. So if we can go to the next slide, this is a rather busy slide, but I broke it into the general operations of the city and school at the top. Those are as of June 30th of each year. The section under it is generally referred to business type activities to include the Solid Waste Enterprise Fund and the Wastewater Enterprise Fund. If you've attended the Finance Committee meetings and so forth, there is several large expenditures that are incurred on behalf of the wastewater and solid waste that are very critical to meet permitting, meet the operations of the plant, etc. So that we do have a fair amount of bonds that are supporting those operations.

And then finally the last grouping is other general fund obligation bonds. But you recall back in 2012, the city purchased Pennichuck Corporation for a fairly sizable amount. They pay the city like clockwork. Its part of their rate structure with the PUC of New Hampshire and we're extinguishing a little over $3 million per year and that was a 30 year bond. So on 2042, that will be paid off. Not sure what happens to the rate structures at that point, but I'm sure they'll have capital investment that they need to continue to operate. The city will not have any continuing debt to pay for that acquisition and then the smaller amounts on the right are the paving bonds as of June 30th. Each of those years and as you know, we're going to be entering into the second five year phase of that program. So with that, if there's any questions on…

Alderman Cathey

Thank you, Mr. Chairman. Mr. Griffin you mentioned 10 to 12 investors. Are these investors a catch fund type of investors or is it just companies? I'm just curious because if it is something like a hedge fund, then obviously the stock market would be involved it in. I wanted to know if you could speak to any apprehension you have about markets and how it affects the investors buying up our bonds.

John Griffin, CFO/Treasurer/Tax Collector

Mr. Chairman, if I may. Traditionally these dozen investors are institutional investors. So Morgan Stanley those are the types of investors. I'm not aware of any hedge funds that would come in. Because of the fact that those particular funds are looking for a return, another interesting component of the sale is we actually get premium back and increase the coupon rate. So Mr. Fredette the last sale he made, which was $64 million last September, we get a sizable amount of premium. I think it was $7 million.

Alderman Cathey

We got $7 million back?

John Griffin, CFO/Treasurer/Tax Collector

So we get $7 million back which helps us reduce debt in certain components such as the fire trucks and the revaluation that we're undertaking. So it's a way that they can package their purchases of our debt, and sell them, and then invest it through their institutional portfolio. So municipal bonds are pretty attractive in low interest rate environments, but we're keeping an eye on the increasing rates as we as we go forward.

Alderman Cathey

Follow up. Thank you, Mr. Chair. With the interest rates being what they are, what is the cap for the amount of debt service we could take on percentage wise in relation to the budget before?

John Griffin, CFO/Treasurer/Tax Collector

Mr. Chairman, that is a good question and we have a few slides on that. We actually are limited on the city and the school side and we'll definitely get to that to answer your question.

Alderman Cathey

Okay. Great, thank you.

John Griffin, CFO/Treasurer/Tax Collector

I'm sorry. I probably should have listed it.

So this is the city debt limits. The State allows 3% on city debt. Your predecessors thought that that might have been too high, so they reduced it to 2%. So the top line is the 2% debt limit. How that's calculated is the percentage of DRA adjusted valuation, not the assessed value, as at any given point in time but the DRA equalized value of the city. So as you can see from 2016 to 2021, that value has increased and the authorized debt is a percentage of that amount. As you can see, the delta between the red line and the blue line is how much room we have.

Now for the sake of argument, for example 2021, that value is $12,642,000,000. So we have slightly more. We have 153 million of bonds. 153 million is a percentage of that, so we’re well under the limit. So the debt limit is fairly generous, but it increases and decreases with changes in equalized value which is a calculation that based on information that we provide the Department of Revenue and issues that report annually usually in March or April.

Chairman Dowd

So as long as I've been involved, this gap has been getting bigger and bigger. We're authorized to at the city debt limit bond significantly more than we're bonding for. So we're at a very low level.

John Griffin, CFO/Treasurer/Tax Collector

And one more thing, Mr. Chairman, the acquisition of Pennichuck was specifically excluded from that calculation as part of the rulings and legislation.

Alderman Sullivan

Thank you, Mr. Chairman. Does this amount include the debt service that we pay on the money that we borrow?

John Griffin, CFO/Treasurer/Tax Collector

So Mr. Chairman, this is essentially the value of the bonds outstanding as a percentage of the equalization. We're not constrained on the debt service.

Chairman Dowd

We have another chart that's going to show you where debt service could be and where it is.

Alderman Sullivan

Okay. Thank you.

Alderman Jette

Thank you. Through you to Mr. Griffin, so I didn't quite catch the - the blue line is the amount of bonds that we've purchased and that's what you mean by authorized and then the red line is the statutory amount that we could. So we're well below the statutory amount that we could borrow. Is that what that means?

John Griffin, CFO/Treasurer/Tax Collector

Right. Mr. Chairman, if I may. The limit is the amount of borrowing that the city is legally able to do. The blue line is the amount of debt that the city has borrowed. Okay. As you can see, we've gone up – I'm sorry authorized. When you authorize the debt, it's in the calculation. So whether we sold it or not is another matter. But when you authorize, for example, at $37.5 million paving bond, it's going to be added to that.

Chairman Dowd

Also Mr. Griffin correct me if I'm wrong but the State allows us 3% by city ordinance. We've cut it to 2%.

Steve Bolton, Corporation Counsel

Yeah, we're nowhere near that.

Chairman Dowd

So as far as the State's concerned, that number would be even higher and our separation would be even better.

Alderman Jette

Okay, thank you.

Alderman Cathey

Thank you, Mr. Chairman. Could you go over the Pennichuck? Are you saying we are paying debt service on the Pennichuck acquisition but it's not in these calculations it's a separate calculation?

John Griffin, CFO/Treasurer/Tax Collector

So if we go back, Mr. Clerk if you could go back up to that chat there. I think if we can expand it. We started with about $150 million back in 2012 and as of 2021, there's $119.75 million remaining. As I indicated, they pay us proximately $9 million a year and principal and interest and we're reducing that amount by about $3.5 million to $4 million per year but that's not included. The team that worked on that Pennichuck acquisition thought it wise to exclude that debt from the limitations on the city because it was a very unique acquisition at the time.

Chairman Dowd

Because the debt service is being picked up by Pennichuck.

Alderman Cathey

I heard that correctly. They're paying us. We are then paying that…

Chairman Dowd

We bought the Pennichuck and they're paying us every year.

Alderman Cathey

Okay.

John Griffin, CFO/Treasurer/Tax Collector

Right and I think it's important to note back in 2012, Moody's was concerned about that and when they learned how well it works with the PUC guaranteeing the payments to the city, that was part of the upgrade. They were a little bit unsure but when there's a regulated utility that's within reason guaranteed their revenue streams to pay that debt, it's a good debt to have. So in summary, they pay us and then we pay the bond holder.

In the school debt, it was 6%. That number we have $166 million authorized, which in large measure includes the middle school project that we're working on. The difference is pretty significantly. We wouldn't dream of borrowing over $600 million for school assets. So it's a good number.

Chairman Dowd

It won't be me putting that legislation in.

John Griffin, CFO/Treasurer/Tax Collector

Right but we always look at this. We watch it, and make sure within the limits, and we report on it accordingly.

Alderman Sullivan

Thank you. You cannot borrow money for schools to pay salaries to do things like that? You can only do it for physical buildings and what not?

Chairman Dowd

Infrastructure and capital projects.

John Griffin, CFO/Treasurer/Tax Collector

Mr. Chairman, if I may. The purpose of a bond council is that they have to determine in the protection of their issuance, in their opinion, the protection of the bond holders that there's assets behind the borrowings. But you wouldn't find it fiscally. Even if you could borrow it, you wouldn't borrow to pay salaries. That would be part of the operating budget.

Chairman Dowd

Occasionally a question comes up about when we have money left over to bond about putting it towards the tax rate. That can't happen. That's not allowed.

Alderman Cathey

Say that again.

Chairman Dowd

If we have a bond or we're done doing what we're doing and we have money left over, that balance of what's on that bond cannot be put towards the general fund to reduce the tax rate. We can't do that. Bond council won't allow it.

Steve Bolton, Corporation Counsel

It's a violation of State law. So bond council would issue an opinion but the bond is not authorized by law and therefore it would not be a good investment vehicle, which would effectively kill our ability to borrow.

Chairman Dowd

So the two alternatives are to use the remaining money towards another project so you don't have to bond anymore or just not ever bonding for that amount of money.

Steve Bolton, Corporation Counsel

We'll pay down the bond.

Alderman Cathey

Or we could just let it sit off to the side if we wanted to.

John Griffin, CFO/Treasurer/Tax Collector

Just on that point from time to time, we do what we call repurpose already bonded money and that's what the Fire Department proposed the other day that you thought it was a good idea to put into another capital project and save some money on the pumper trucks,

Chairman Dowd

Right and with bond rates going up using the lower rate, very conducive to the…

Alderman Klee

Thank you. If you're already going to be discussing this Mr. Griffin, just stop me. When we're talking about the bond, we're talking about how much we bond and so on and you said about the middle school primarily being in this. The high school project, that's coming to an end as far as the bond life is that not true? And what year is it like 2023 or 2024?

John Griffin, CFO/Treasurer/Tax Collector

Mr. Chairman subject to check, I think I looked at that the other day. 2024 is the last payments of the high schools.

Chairman Dowd

That was approximately $170 million dollar project.

Alderman Klee

I remember.

Alderman Jette

Thank you. So going back to the city debt limit analysis. So that number of the column on the left, what is that number?

John Griffin, CFO/Treasurer/Tax Collector

So the column on the left is in the millions. So it's an increasing scale of millions that are allowed either authorized on the blue line or the limit amount in the red line. So as you can see, it's gone from in 2016 a little over $275 million up to just over $400 million.

Alderman Jette

Okay follow up, please. So when we talk about this city having a 2% city debt limit at 2% of what?

John Griffin, CFO/Treasurer/Tax Collector

Very good question if I may. 2% of the equalized value of the city from an asset from an assessment perspective. So the 2021 number is 2% of $12,642,000,000.

Steve Bolton, Corporation Counsel

It's the value of all of the properties in the city not necessarily city owned property. All the (inaudible) sometimes referred to as the “equalized tax base”.

Alderman Jette

On the school debt limit analysis, that 6% school debt limit that's by ordinance and that's separate? That's a separate - we can borrow up to 6% for schools in addition to the city of 2%?

John Griffin, CFO/Treasurer/Tax Collector

So as Attorney Bolton indicated, it's a State statute that limits it. 7% but the city several years ago adopted a 6% limit.

Alderman Jette

Okay. Thank you.

John Griffin, CFO/Treasurer/Tax Collector

So if there's no further questions on that, we go to the bond sales plan. So as Treasurer Fredette has done for several years and as I've done most recently, we take a look at - if we could go to the next slide. The top part of the exhibit are authorized bonding projects. So we have roughly $32.5 million of bonding that we would like to do during Fiscal 23. Down below lines 12 through 23, there's about $8.9 million worth of potential projects that we may bring in resolutions for the Board of Aldermen to consider. So what we've done most recently is we have communicated to our financial advisors for $41.45 million of bonding and having them help us decide the timing of that bond event. We generally, as I mentioned last year in September, Treasurer Fredette sold about $64 million in bonds. This year, we're getting some good advice from the financial advisors that right after the first of the year in July might make sense due to the interest rates ticking up.

What we rely on with that $41.45 million is to determine the debt service starting the year after. Generally it's the year after we sell the bonds. That's why it says on the bottom payments begin in Fiscal 24. But these are the projects that we know about. It's always a fluid analysis as new items appear for various reasons. I know you all at the Infrastructure meeting, you were talking about some investments - potential bonding investments to be made in the parking garages. But this is a fluid document so we know the middle school big project pursuant to R-19-191. We know we're looking at a 25 year term. $25 million is schedule in ’23. $25 million is scheduled in ‘24 and the remaining at the time, $16.6 for a total remaining of 66.6. That's already been authorized. So that's in the calculation of that debt limit.

Working with Alderman Dowd in Fiscal ’25, he indicated that we might need some additional dollars as that project goes through the actual results. Other projects, you're familiar with the DPW admin building. That's $6 million that you authorized. We think we need to sell that as that building nears completion. The thing about bonding is you don't want to bond too early. You don't want to bond too late. But too early would mean you'd have potential arbitrage, US Treasury calculations to make sure you're not making money off of bonding by borrowing, putting it in the bank, and earning money. You have a little bit of play but you have to spend bond money in certain increments over time which as Alderman Dowd knows working on many school projects. That's always a calculation that was sensitive to.

Alderman Cathey

Is that why it’s stretched out like that on the on the school building instead of just getting a lump sum up front?

Chairman Dowd

Yeah. You don't bond that whole amount out front because we're not spending it that fast. One of the problems with spending anything these days is the economy is driving prices up. We may have to recover some of our contingency just so when we're finishing up the school, we have enough money to make sure we’ll finish. So we're not in a position yet to have to do that but possibly later in the summer maybe we'll take a look at that. We saved money on Fairgrounds and we actually did a couple extra things were able to do and then it looks right now Pennichuck is like ahead of schedule and we're doing well on the budget. With the way things are going and the general economy, one never knows. A lot of things that we're ordering, same thing with the DPW building, the delays can kill you. Fortunately, Harvey has a way of shifting the work around so that doesn't hurt as much. We've had some things four months late. You’ll notice the side of the building at Pennichuck the concrete panels that are going up. They’re four months late. We just got them a couple of days ago. They'll start going up the next few days. We haven't ordered the ones for the north addition yet because we don't order things ahead. We have no place to store them.

Alderman Cathey

What if you thought the prices were going to go up, which right now we do think the price is gonna go up, could you bond ahead of time and then put the money in a non-interest bearing account so you're not making money off it but at least you're buying the things at a lower cost ahead of when the prices go up?

Chairman Dowd

We are buying things ahead. We're just not taking delivery because we have no place to put them. But we're getting guaranteed prices but sometimes the vendors come back to us and says if you don't help us, we're going out of business. So there's some of that.

Alderman Cathey

Now they raise their rates a little bit…

Chairman Dowd

And trust me, we're very frugal.

Steve Bolton, Corporation Counsel

We don't pay for stuff until we take delivery. So there's no point in borrowing the money and have it sitting around. We order stuff, get the best price we possibly can, try to lock in that price. Can't always but you try to lock in that price then when we take delivery, that's when we owe the money. So we would try and actually sell the bonds, which effectively means borrow the money on a timeframe that makes the money available to us when it's needed. Now, we've got a lot of flexibility because we have a lot of money in the general fund at any given time. So it's not like we've got to wait for the mail to come in and run the check over to the bank in order to pay for the steel that got delivered yesterday. We're not running it that close to the margin.

Chairman Dowd

To the greatest degree possible, we try to order things and have them delivered just in time to be used in the building. By the way, Attorney Bolton has a lot of experience in this because he's a past Chairman of the Joint Special School Building Committee.

Steve Bolton, Corporation Counsel

12 years – built the two high schools.

Alderman Klee

Thank you, Mr. Chairman. I wanted to kind of piggyback on something you said about how our contractors work very well. The Franklin School building being unable to get the “wooden doors” that we had originally but they that they know that it'll take what 18 months, I think, to get those doors. So they've switched him to metal doors that will do the same job. It may not have done what our first choices is and they work to make sure things get done in time and that we keep to the contract as much as possible within costs.

Chairman Dowd

Within Franklin Street, we've got to get the school open next September with the new changes. So the towers have to go in the summer. There's a lot of other work going in the summer, then at school year, and then the following summer we’ll finish the Franklin Street. There’s five projects going on right now and balancing different projects.

Alderman Cathey

Yes, thank you Mr. Chair. Mr. Griffith is there ever time where the rates would be exorbitant and we will just say no we do not want to bond because it would not be prudent because interest rates are just – does that ever happened or are we just too far off of where that would ever be a possibility?

John Griffin, CFO/Treasurer/Tax Collector

Mr. Chairman, if I may well. I am as I said a few times, I came to the city in August of 2010. Kind of at the back end of that recession. Tremendous price deflation. Collective bargaining agreements were half percent, 1 percent. So we saw the loss of value both from an assessment perspective and in the market. Then things turned around. Although we had low inflation, we had significant price increases in the assessed value as you've seen but we are talking about projecting conservatively 4% to 5% bond rates which are, you know, when you've been dealing with 1.6, 1.79, it's a bigger number. We’ve got to pay attention to it. But a lot of the thought behind the capital projects for the city is we just need to do it and we have to manage it as best we can. Maybe differ some projects a year or two, just like most of us have to do. You can't buy everything in the same year that you'd like so you kind of defer it. But these projects, especially the middle school projects, those were worked on several years ago when we really didn't see the pandemic coming, interest rates going up, and some of the things that the whole global economy is doing. So I'm going to show you some debt service payments pretty soon after this is exhausted. But you can see the impact of the interest rates that are going if we're projecting bond rates of 4.5 to 5 does affect the debt service. We have to be cognizant of that.

Alderman Cathey

But if we need it, we need it. So we'll just figure out how to defray that cost or eat it because we need that particular project.

John Griffin, CFO/Treasurer/Tax Collector

Yeah, I wouldn't use the word “eat it” but I would say that we have to manage the timing of the debt service. As Attorney Bolden indicated, we do have a strong cash position relative to other municipalities, which is good. So to further the further discussion, a lot of these items on the top there, they're kind of known. They've been talked about. A couple of them are in the Joint Special which is good. You've heard about the Police Department really recognizing they need to do something with windows where the snow was coming in in the winter, the heat was unbearable in the summer, their HVAC, and their locker room. So that that project is going forward and we'll be able to sell that bond.

The ones below, you'll learn more about this in the budgeting process. But when it says CERF, we generally bond fire apparatus through bonding because we just don't have the cash to pay cash for those items as you can see. Pumper trucks, and aerial towers, and those types of ladder trucks - those are relatively expensive. You’re going to participate in a public hearing for the radios. Very important asset for the city. I made sure our fire and police men and women are protected and can rely on that investment. Mr. Mansfield and Mr. Cinfo will be coming before you for that public hearing.

The Street Department things, those are in the capital improvement and they have been. It's just a question of the timing is the one we should bring those in. Then what Treasure Fredette taught Cheryl and I is the other category. There's always something that kind of crops up. So we have $3 million the first two years, $4 million, and then we placed a $15 million in the last three years. To model it, it is conservative but to model in case something manifests itself in the 26, 27, 28 timeframe.

Alderman Cathey

When we're bonding a project, let’s say the paving project, obviously the second time around we knew we're dealing with because we already did it for five years. When we first started it, is the process that we bid out that work first gets bid figure out what we think is going to cost and then we come up with a, you know, a reasonable number for bonding or do we just based on experience come up with a bond number we think will work and then the bidding process starts after we've been authorized?

Steve Bolton, Corporation Counsel

That would be more typical.

Alderman Cathey

The second one?

Steve Bolton, Corporation Counsel

Yes.

Chairman Dowd

We never bond on the back of an envelope. We get good price estimates before we ever go in for bonding. We usually - the bond typically is a little higher than what we anticipate spending because you never know what's going to happen and it's better not to have to keep coming back to add to a bond. So just confuses the bonding issues. So, again, when we're done with a bond if there's money left over, usually in school projects it goes to the next school project and other projects. So like the Fire Department when they bought their two trucks together, they saved a bunch of money. Now they have another important piece of work to bond and they’re just going to take that money from that bond at the lower rate and apply that if you okay it.

Alderman Cathey

You're not sending out formal requests or requests for formal bids until the bonding has come through?

Chairman Dowd

Like the school project, Harvey Construction goes out and they have familiarity with all the vendors. They get good cost estimates but no, it's not until we have the bond money and we're actually buying something is when we go in for competitive bids and select the most qualified low cost bid.

Alderman Cathey

Okay. Thank you.

Alderman O'Brien

Thank you, Mr. Chairman. Mr. Griffin did answer a lot of it. I just want to trip back into CERF. But basically, since you mentioned it and you gave my answer to the question but for the new Aldermen's benefit, many of the items that are on CERF is because some of this equipment has met its life expectancy. So it's already - previous aldermanic boards have sat down with division directors and have determined what is in the example the life expectancy of a particular fire truck, or a particular dump truck, or and this has all been done and we've just been following that in time that it would come out of the CERF account. Although like what you said Mr. Griffin, we found phenomenal financing through the bonding than we could with the CERF. So it was better to do it that way but it's good to see the CERF is still there with that with the recommendation.

Alderman Cathey

In our first budget meeting, didn't we have a CERF equipment for the school? We had to buy like a backhoe or something?

Chairman Dowd

Yes. It was on a CERF plan.

Alderman Cathey

If I recall, the list of whatever the equipment is, it's pretty much an already approved list of things that we need to get anyway. There's not really a whole lot of haggling. We don't really need this.

Chairman Dowd

Division Directors work on the CERF list and that's a whole other discussion for another night.

Alderman O'Brien

Right. Maybe I shouldn't have mentioned it.

Chairman Dowd

But when they get a new piece of equipment at any time, they figure out the life expectancy of it, and they allocate it out of that number of years, and then say it's a 12 year life expectancy in the year 12, there will be the money in there to buy annuity plus escalation.

Alderman O'Brien

Yeah, thank you Mr. Chairman if I may. The city does receive particular benefits as with the Fire Department on the age of the equipment. So therefore, you know, each fire truck has to go through annual certifications. So when you start losing in that end, the percentages drop and so therefore, it's good to follow the CERF account on their recommendation.

Alderman Cathey

You're talking about percentages like if we trade it in, we get a better deal on the next vehicle. If the life is good on the on the truck or training…

Alderman O'Brien

No, I'm talking to basically, and not to get too deep into it, but the quality of the apparatus, the quality of training, whole bunches of things and looking at some of this. Their certifications come up to better insurance rates that we may not necessarily see but the taxpayer most certainly does and its homeowners insurance.

Alderman Cathey

Gotcha.

Alderman O'Brien

In a nut shell.

Alderman Cathey

Yeah, thank you. I appreciate that.

Chairman Dowd

So Chief O'Brien can correct me if I'm wrong but when we buy a new fire truck, it's replacing an existing truck. That truck now becomes the reserve backup and the one that was a reserve backup, we sell usually not for too much because they're pretty old at that point. But other things like the Police Department when they go in for new vehicles, new cars, they trade in the old ones to the company they're buying.

Alderman Cathey

But if we build a new firehouse, would we then have to go purchase brand new trucks to fill those garages at a new fire house?

Chairman Dowd

That's a more complicated question.

Alderman Cathey

We don't have to answer it now. Just curiosity.

Chairman Dowd

We'll address that with Chief Buxton. I don't want to put words in his mouth but not necessarily no.

Alderman O'Brien

And Mr. Chair would that be like a capital improvement project that would have to go through a whole procedure in itself, yes.

Alderman Cathey

Gotcha.

Alderman Sullivan

Thank you, Mr. Chairman. Mr. Griffin you mentioned that the city is in a strong cash position. I know what that means from my own budget at home. What does that mean in relation to a city municipality? The same - just have a lot in their savings account?

John Griffin, CFO/Treasurer/Tax Collector

Mr. Chairman, if I may. As you know, we tax residents and businesses in June. That money that we collect essentially allows us to operate the city from July through December. Strong cash position available funds. I contrast that with my hometown of Tyngsboro where we had to go to quarterly billing because we bill in arrears. So my August bill actually pays for July, August, September. So that's why I say we're in a strong position from a collection prospective. So we're collecting the first half, it's an estimate on the last bill, but the first half in June and the second half in December. That allows us to be to be more liquid than others so we can be a little bit more flexible on the purchasing of things.

Alderman Sullivan

So our cash flow is good?

Chairman Dowd

It gives us a lot more flexibility in doing the bonding because, you know, we're not trying to sell a bond tomorrow to pick up the expense. We have the money in the bank and then we just replace it with a bond.

Alderman Sullivan

Okay. Thank you.

John Griffin, CFO/Treasurer/Tax Collector

So I'd just like to say that the arbitrage calculation, which I have learned is incredibly complicated with the IRS rules, we do very well. We don't borrow. We haven't had any arbitrage penalties and our most recent bond audit by the IRS a few years ago, we came out with an approved arbitrage calculation and plan.

Alderman Cathey

Thank you, Mr. Chair. As much as I'd like to pretend I know what you're talking about sometimes, can you define "arbitrage" because it means different things in different industries?

Steve Bolton, Corporation Counsel

Well in order to be able to sell bonds tax free, you are not allowed to borrow money at a low interest rate, hold it, and make money because you're getting a higher interest rate on an investment you make. So even putting money in a savings account, you earn interest. So we're borrowing money at 1% and earning 3% interest, that will affect our ability for the tax exempt aspect of the bonds which is one of the reasons why there's a low interest rate because the investors do not have to pay taxes on the money received in interest on the bond. So arbitrage is that practice of borrowing money and using that borrowed money to make money. Essentially, we're not allowed to do that. There are a variety of regulations to prevent that. One is you have to spend the money within a certain period of time from the time you bring it in. Others is what you can do with it, how you can hold it, and what you can earn on it while you're holding. We're allowed to do some of that. We cannot overdo it in violation of the arbitrage rules. So that's arbitraging and essentially there's a definite limit to and then a miniscule limit to how much arbitrage we were allowed to do.

Alderman Cathey

If I may. If we can't borrow money and then make money, to my ear I hear logically we also couldn't just have some cash laying around in a money market hedge fund, in the stock market. Like a city can't make money in the markets…

Steve Bolton, Corporation Counsel

We can't invest in various kinds of devices. We are very limited as to where we can put our funds. Now we have millions of dollars in fund balance all of the time. We, in fact, have an ordinance that sets up what our fund balance is in relation to our budget so that we always have this essentially reserve undesignated reserve of funds. Now that gets measured at a given time every year. So as was said before if there's an advantage to waiting a month, or two months, or something like that before a bond issue, we have enough flexibility to do that. We can pay as we go and then delay the bond issue for a period of time. Once we do sell bonds, then from that revenue, from that money that is produced, we can reimburse fund balance and maintain that. So having as said a strong cash position enables us flexibility in timing of things in in order to legally, properly manipulate things to our best advantage.

John Griffin, CFO/Treasurer/Tax Collector

So Mr. Chairman if we can go - so that's the general sales plan - very fluid.

The next slide is after you've borrow the money, you do have to pay it back. So what this slide tends to do as a point in time is we look at the current debt is at the beginning of 2023 $16.812 million general fund and how that's going to be paid back over the next several years. So a few questions came up. Fiscal '24 Alderman Klee, that $1.68 million has a lot to do with the paying off of the high school bonds. But there's a lot going on with this calculation because we generally pay several million dollars of debt service. City's been noted to rapidly pay debt service by our rating agencies, which is a sign of strength.

But as we move over to the right, I'm going to skip over the target for a minute, but the projected total general fund debt service budget because of the increase in rates, because of the increase in borrowing for very worthwhile projects, it's going to increase over the next several years. We use our financial advisor Hilltop Securities to help us understand things such as level debt service, level principal payments, deferred principal payments, taking advantage of timing of the market, and what the investors want. Those things all go into the repayment of the principal. Depending on the interest rate, it's known for the life of the bond. That's the difference between a fixed bond, principal, and interest versus like a variable which we don't get involved with. Years ago, there was this concept of derivatives which I don't understand but as Attorney Bolton said, we just don't want to get involved. There's no value. You really want certainty in a municipality on the debt service.

This is a very fluid analysis as well changes as the city makes bond sales, which is generally once a year but if the market conditions dictate, it couldn't be more than once a year. But you do need a rating and you do need the rating calls, and you do need to pay the bond council and financial advisors for those services. So this particular analysis goes out to 2050, which is a long time from now but I guess not a long time. Just wanted to share that that we are in a position of rising debt service payments. The financial advisors did proform this with 4.25%, 4 1/2%, and 5% in the out years. Hopefully it doesn't get to that point but it's kind of the cost of doing business at that time. So if you have any questions on this, I'd be happy to help.

Alderman Sullivan

Thank you. I'm wondering if you could explain the columns. First, the projected debt service increase/ decrease column I do see that the increase it's based on what the prior year?

John Griffin, CFO/Treasurer/Tax Collector

Yes. Taking the $18,837,923 in line to 2024 minus the previous value, that's the $1.47 million increase.

Alderman Sullivan

Okay.

John Griffin, CFO/Treasurer/Tax Collector

The targets are kind of a concept that Treasurer Fredette came up with them. When we put a target in there, we try to hit it with the various concepts that I just described. But the reality is that the investments we're making and critical infrastructure coupled with the increase in interest rates causes the increase in the debt service.

Alderman Sullivan

And when you say "target", how did you arrive at that number?

John Griffin, CFO/Treasurer/Tax Collector

Well, a lot of it was being relatively new in the position working with David and Cheryl. Hilltop Securities actually did a lot of this work. That's in column projected total general fund, debt service budget and on the left hand side, I just put something close to that number just to show that we try to stick to that as best we could. So if there's another project that comes in two or three years from now that's substantial, we try to package the sale of those bonds to meet these targets. These targets are pretty realistic at this point. The reason why it tends to go down in fiscal '30, '31, etc., is we haven't even budgeted for Fiscal '29 set of bonds. So as you recall from the previous slide in Fiscal '26, '27, '28, we put a $15 million placeholder in there thinking that that's probably going to be the minimum the city is going to want to invest. At least it shows in those 26, 27, 28, 29 it doesn't show a rapid reduction of debt service.

Alderman Sullivan

Actually I have one more question if you don't mind. I'm wondering if you might be able to incorporate on this spreadsheet if you could tick off the years where major projects would come off. When we would have them paid off - the DPW building, the high schools. I mean the different areas. That way you might have some foresight into, you know, because you do have placeholders in there which is great but that's kind of a squishy number only in that we know that there are going to be more projects that come online. Is it realistic to do that because maybe they go out way beyond 2050? I don't I don't know.

John Griffin, CFO/Treasurer/Tax Collector

Mr. Chairman, if I may. It's an interesting analysis. When you get your Fiscal '23 budget book, in that book is going to be called this page called "debt service". It's going to be by project. It's already in the adopted Fiscal '22 but I didn't put it in here. Every one of these projects has a definite life. So the middle school projects with different sales - 25 years. We know when they start and when they end. What you're going to get in the Fiscal '23 budget as you'll get for example, Broad Street Parkway - the bond that we sold in '16 is going to be done in '36. You're going to see the beginning principal balance, the ending principal balance, the principal payment, and then the interest is already calculated. So you can dive deep into those projects. There are several projects - the page for the city is quite large because we've had a lot of projects. We know when they begin, when they end. The school is the big number right now is the sale of the $45 million last year for the middle school project coupled with $25 million this year, 25 next year. You'll know exactly when they end.

Alderman Sullivan

Just a quick follow up. So when you say end, when you say end, it means that's when we've got it paid off as opposed to Alderman Dowd who said this project is done. His meaning of end are different.

Chairman Dowd

I mean when the works done and not when it's paid off. So all of them have projected pay off like the high schools end in '24. That's been a 20 year bond for $170 million and that frees - we try to keep the debt service payments in a range. We're always gonna have to be bonding things because for our city to move forward, we can't go in a hole you know. There's certain pieces of work that have to be done. If you don't, it's pay me a little now or pay me a heck of a lot later. We found that out with the high schools. So we try to keep that within range and it's not like we're trying to drive the debt service down because if we're doing that, we're not doing anything, and we can't do that – not keep the city the way it should be kept.

Alderman Cathey

Thank you, Mr. Chair. The target amount is it like a mortgage? Those are our minimum payments per month? Are we trying to beat that number to pay down the bond or is the target a calculation based on percentage of the budget?

John Griffin, CFO/Treasurer/Tax Collector

If I may, Mr. Chairman. The way Treasurer Fredette used that amount is he would give some serious thought to how much debt service he wanted to incur in any particular budget season. So as I mentioned, there's various techniques that financial advisors use such as level principal, level debt service, deferred principal in other packages because as I mentioned at the beginning, our debt is very attractive to sell to the bondholders. So he kind of came up with that. It's interesting what he chose for the year of retirement because post pandemic, incredible inflation, prices of everything going up, and I kid him about that every day I see him. I mean it's just the reality now that none of us when we get involved in some of these projects, we didn't realize the impact of the global economy and other things.

The direct answer is those targets are probably more realistic. So we can guide the financial advisors. I know Cheryl was part of the discussions with Treasurer Fredette that they're asking what is it? What are you trying to fill up to? What are you trying to see? This particular approach for the most recent sales were leveled debt for everything other than the middle school. 25 years of level debt service, which is like a mortgage. In packaging something that's realistic, and I'm gonna use the word "affordable". The past four years, we've had 2, 163, 179 - we've had very attractive rates. If you think of inflation is 2%, that's kind of what we use as a rule of thumb. It's almost like it's not costing you anything because it's locked in for 20 years, 30 years, etc.

Thinking about this today and thinking about the discussions of the Infrastructure Committee and some of the things we deal with, we borrow everything we can this year and the issue is you got to start paying it back and you can't do it. So that this is kind of a read reasonable approach to managing the debt service.

Alderman Cathey

So in short, we're not just treating it like a home budget. Like I have a mortgage to pay. I have other bills that I need to pay, and I have minimums on my credit card, and I can pay the minimum or I could pay more. It depends on what interest I want to pay. In this particular calculation, Mr. Fredette was not looking at it like that. He was looking at other objectives for how he wanted the city's budget to run and then saying this is the number that I want to hit. Regardless of what the premium is, obviously, we're going to hit it because we have to but if we go above it, awesome but he wasn't concerned about just hitting the premium. He was concerned about other variables based in the calculation. Is that correct?

John Griffin, CFO/Treasurer/Tax Collector

Yes.

Chairman Dowd

He had many different ways of doing the payments on the bonds, or they were just interest, or interest in principal, or extra principal. He balanced it to keep the debt service in line.

Alderman Cathey

He wanted it at the same rate every year basically?

Chairman Dowd

Basically, yeah.

Steve Bolton, Corporation Counsel

I guess not the rate necessarily but a dollar amount.

Alderman Cathey

Oh, yeah. He wanted to see a dollar amount.

Alderman Klee

Thank you, Mr. Chairman. You actually made a comment. It's something that I had wanted to say that I sat with Mr. Fredette when I first became an Alderman. While my head spun, I sat with him again so that I could understand a little bit more of what he was talking about. One of the things that - two things and one Alderman Dowd kind of alluded to was the juggling of paying a principal, paying interest only, paying principal interest. It was quite mind boggling to hit that target number. But one of the things I remember, and perhaps I'm wrong on this, he said that it was for our credit rating it was very important to carry a certain amount of debt. Is that correct and do this type of payment and so on? So we show the stability of the city by carrying certain amount of debt and paying it off in a particular way as he's kind of done throughout the year. Is that accurate or am I miss remembering this?

John Griffin, CFO/Treasurer/Tax Collector

It's very accurate in that the investors are very familiar with the City of Nashua and the ratings show that from Standard and Poor's, Moody's and Fitch. They know what to expect - strong cash positions from financial management, strong leadership, strong socio economic metrics. So it is good. It's kind of like on a personal note. My young children, they grow up, they need to get a credit card whether they spend anything, or they pay it off or not. You need credit to get credit. He knows better than most and it's very important to be seen, be in the market. When I'm on these rating calls with Cheryl, and David, and Rose Evans, you know, they know us. What's the latest great news about the City of Nashua? I took advantage of the great work we all did during the pandemic. It was really meaningful for the analyst who actually lived in California and then moved to New York City. So during that time, so it was good but you don't need debt. You need to manage it and I think we do a good job at that. So that's very important. Thank you.

Alderman Klee

Thank you very much. I'm glad that I did not miss remember that. The reason I say that was because I remembered having the conversation with him of when I first got started trying to get a credit card, trying to get anything like that. I couldn't get anything because I didn't have any debt history. So my question is, I mean, when we look at this we look at the target debt and we see it kind of growing every single year that we're paying off a little bit more. Obviously because we've been borrowing a little bit more. Does this keep within the - I should say that the levels that we're looking at for the DRA, equivalency, etc. We're not over doing this, are we?

John Griffin, CFO/Treasurer/Tax Collector

Yeah it was interesting when I came into this position and worked with Mayor Lozeau and President McCarthy and for various reasons, we actually needed to extinguish debt because we were balancing significant increases in pension costs, significant increases in health care expenses, all in a spending cap environment. So as much as Alderman McCarthy and Mayor Lozeau said. Geez, keep the debt service about $19 million. We couldn't do it. But some of the calculations I did is I took the $19 million of debt service at that time and divided it by our general fund operating budget. It was a real small percentage. It should actually grow with the general fund operating budget. If we take 17 million divided by 290 million, it's a relatively small amount. They've renamed the CAFR – it used to be the comprehensive annual financial report and it's now called the "annual comprehensive financial report" but there's metrics in there. The latter pages is a statistical pages that take the debt that we have outstanding and divide by a per capita number.

Alderman Klee

Thank you very much.

John Griffin, CFO/Treasurer/Tax Collector

But I think that would help too. Thank you.

Alderman Cathey

Thank you, Mr. Chair. Alderman Klee jogged my mind a little bit. So I really love personal finance. So I listen to a lot of different people and I believe that some people who are citizens would want to take the Dave Ramsey approach, which is no debt at all. That's horrible. So with that in mind if someone were to say to you we can't keep bonding because if we keep bonding, that means we are going to keep spending. I we keep spending, then the taxes will go up. One - can you explain that relationship - taxes and bonding; and then two, is there a way that taxes can equalize or not go up so high of a percentage every year and continue to bond at the same time. Is that is that possible?

Steve Bolton, Corporation Counsel

Well this debt service we're talking about is an expenditure that we have each year. So it's an expenditure the same way salaries are an expenditure, and health insurances is an expenditure, and every other line in the budget is an expenditure. So if you're increasing that line, you're going to need to bring in revenue and additional revenue each year. And basically inflation causes the same thing. Salaries will generally go up with the rate of inflation. A lot of the goods and outside services that we buy will go up with the rate of inflation. So it's really no big surprise that every year you have to raise a little bit more from taxes than you did in a prior year. That's not just Nashua. That's every government essentially everywhere. So if you never had debt service to pay, you would lose that line in the budget. At least in theory if you don't have that expense, the amount you have to raise in taxes is less. But eventually, roads crumble, buildings fall down. The useful life of a school building is probably not more than 50 years, depending on what you do with your construction. It may be less than 30 years.

Now, if you do proper maintenance and reconditioning along the way, maybe it does last more than 50 years. But that in itself has to be paid for either as you go, which is an expenditure every year, so if you have a situation where you've allowed a building, whether it's City Hall, the Community Health building, or Public Works structures, or a school if you allow it to deteriorate such that it requires $15 million worth of upgrades, and renovations, and new heating, air conditioning, and ventilation systems at some given point, well that's $15 million. So you can pay that all in one year. It comes from where you get all your money. If you put that line in one year's budget, you're going to collect $50 million more through the property tax. Probably not a good idea to be fluctuating on an up and down version. First year you pay he's got to collect that $15 million. Second year you don't right but then you've got some other building. He's got to spend $20 million over there, or you've allowed the roads to deteriorate because you haven't maintained a program, or you're doing so many year, by year, by year. You're just waiting until you need a major program - $30 million, $40 million at one goal to do it. So you're constantly having a good year for taxes. They go down because this year your $15 million is going off because you've spent the last year. Then next thing comes along and you're paying all cash and not paying any debt. That's what he said. Debt free. No debt service at all. So the next year you spending $40 million on your road program, maybe the year after it's a lesser dollar amount. Taxes go down and next year your taxes go up again because you've got another thing. So it fluctuates. Probably not the best program to be maintaining. Many of these things cost more if you let the deterioration go on beyond the point where it's cost effective to fix. You may have additional expenses for heating and cooling a building for example if you allow the existing system to deteriorate. It may not work as efficiently.

Another big reason to spread out the cost of capital investments over time is because the taxpayers out there are not the same people over 20 or 30 years. New people move in. Existing people move out. New people are born and become adults in the span of 30 years. Other people pass away. It strikes me as completely unfair to have that one shot $15 million raise the taxes of an 80 year old person for one year. Well that building is going to last another 15 years. Who's paying the taxes for those other 15 years? That 80 year old person may not be around for that entire 15 years, but they've paid their share for that building. So good municipal management generally is recognized to say spreading out the cost of capital investments over the life of the capital investments is fair over time because the people who are burdened with that cost are making use of it - of the roads, or the buildings, or the fire trucks, police cars, whatever it is as opposed to they just happen to be the ones hit with that be expenditure at any given point in time. So generally speaking, almost all municipalities will bond over time. The idea of having a cash only policy and no debt service is highly unusual.

Alderman Cathey

I'm okay with the debt policy. I understand why it works. I guess what I'm trying to drive home at is for the average citizen, they might say you know what my taxes went up 5% this year. I would really prefer they went up 1% or 2%. Then they look at the city. Oh, the city just bonded $50 million for a clock tower. I don't really need a clock tower. Why did we bond for that? It doesn't make any sense. The reason my tax rate went up 5% and not 2% is because we bonded for this thing. So the average citizen is going to look at the bonding and go that's the problem. We keep buying stuff on debt that we may or may not need in their opinion and that's why our taxes go up. So I guess I'm trying to drive home at the relationship of we have to bond for some things but we also want to make sure that the citizen understands why we're bonding and how that affects their tax rate either directly or indirectly so they don't feel like we're perpetually in a bonding debt cycle and their tax rate is going up much higher than they would like. Instead of 2%, it's going up 5% or 6% and they look and go oh you know why, its bonding. They draw that one to one conclusion. My tax rate went up a lot because we're bonding a lot where that might not necessarily be the case if that makes sense.

Steve Bolton, Corporation Counsel

But that's what you're here to do make sure that we buy for things that we do need not some clock tower that we don't need. That's your job, not John's job.

Alderman Cathey

That's a fair point. That's a fair point.

Chairman Dowd

The debt service changes don't drive the percentage of tax increase that you could be alluding to. The thing that is recent years it's driven the tax rate up is expanding the cost of health care which we've sort of mitigated now by having all the unions agree that better health care position for the city and the fact that the State wasn't paying their due amount in the retirement fund and last year hit us with a $2 million bill which is about 1% on the tax rate. Now fortunately, we have someone sitting in his chambers that's beaten the City of Concord silly to get us the $2 million dollars back.

Steve Bolton, Corporation Counsel

The legislature in Concord.

Alderman O'Brien

I'm working on it.

Steve Bolton, Corporation Counsel

So the City of Concord is in much the same straits as we are for all these things.

Chairman Dowd

But the bonding rates that we're talking about, they aren't driving $2 million a year which is 1% on a tax rate. So going from 5% to 1%, that ain't gonna happen with debt service. I can tell you also when we build buildings, we built the old Nashua High South it lasted about 15, 20 years. I'm not sure exactly how many. When we renovated…

Steve Bolton, Corporation Counsel

It's not Nashua High South – Nashua High.

Chairman Dowd

At the time, yeah.

Steve Bolton, Corporation Counsel

Yeah, that was the building. Nashua High South was built on time millions of dollars under budget. In combination with North was the largest capital project by any municipality in the history of New Hampshire and it came in millions of dollars under budget.

Chairman Dowd

I know. That's not the point I was making. The point I was making though, the original building was built on the cheap and didn't last. The only thing that we were able to save in that school was the stairwells and one wall. In fact and I'm sure Attorney Bolton would agree if we had to do over again, we would have torn the whole building down and start from scratch like you did in the North High School.

Steve Bolton, Corporation Counsel

We had nothing to tear down there.

Chairman Dowd

So when you do spend money, you want to make sure you spend it correctly.

Alderman Cathey

Okay so being a veteran on the Budget Review Committee when we're talking about bonding, how does your calculus work for how that's going to affect the taxpayer? Is it just a black and white is this the right thing to do? We need sewers so yes. We don't need a clock tower so no or is there any capitals about how that will affect the budget or is it simply a debt service number is such a small percentage of the budget, it's almost a nonfactor in the equation.

Chairman Dowd

We try to get the debt service in such a small range, as you can see by the numbers that it really doesn't affect the tax rate. As far as bonded projects, you have to evaluate the project at the time. Does it make sense from a business case analysis which we do with schools to spend that money? The other thing to consider is some of our project coming up a fair amount, maybe half, is going to be covered by government funds. It's either now or never for the government part of it. So there may be some things come out in that regard. But as far as the middle school project, this started five years ago. It's going along extremely well.

The only building in town that I know that's lasted a long time is my grandfather was the President of the Board of Education when they built Elm Street and that's 86 years old. However being more familiar with a structure that building they ever wanted to be, it couldn't be used for a middle school. It's a long story. The book is about this thick with all the details if you want to get into it, but that's why it can be used for other things but it can't be used for a school. Not a middle school anyway. It was a high school originally. So always from the date it was built. So the new school will be so much more cost efficient from an energy standpoint and from every other standpoint.

Steve Bolton, Corporation Counsel

It must have were great when it was brand new and you were a student there.

Chairman Dowd

I did graduated from that high school.

Alderman Sullivan

Could I just make a comment?

Chairman Dowd

Yes.

Alderman Sullivan

It's more of a comment as opposed to a question because I took the math that you said at $2 million that the State didn't pay and that was about 1% on the tax rate. So just to kind of put some math to this according to my calculus, the debt service makes up about 10 1/2 percent of our total tax rate if I use some of these numbers here.

Chairman Dowd

It doesn't equate quit that simply.

Alderman Sullivan

Right and I don't think that's - I don't think that's - I don't know if that's a good number or not but often I'm just saying.

Chairman Dowd

You have to look at the difference from the previous year only not the total payment.

Alderman Sullivan

Okay.

Chairman Dowd

Right, Mr. Griffin?

John Griffin, CFO/Treasurer/Tax Collector

Mr. Chairman, we use in the 2 million up or down is 1% on the tax rate. It might be because of the increase in the budget, it might be 2.2, 2.3 million but it's a good number to use. So the fact that the debt service back seven years ago went from $19 million, to $18 million, to $17 million, or $16 million. It helped the tax rate, no question. The other things that Alderman Dowd mentioned increased it.

Back in those days, it was kind of like let's make sure the tax rate itself doesn't go up more than 3% even though there was more room actually under the cap but the former calculation of the spending cap but that percentage that you speak of that if you take the 17 million divided by the 290 million and get 10%, that's pretty low for a city with billions of dollars of infrastructure. That need as Attorney Bolton, you need to take care of it. So it's a combination…

Steve Bolton, Corporation Counsel

17 divided by two - 17 compared to 290 that calls for about 7%.

John Griffin, CFO/Treasurer/Tax Collector

So yeah. That's a relatively small number.

Alderman Jette

This is a comment about the form not the substance of your presentation. I would really appreciate it in the future and I hope all the city departments would bear in mind that when you're presenting us with a slide presentation like this, that you be conscious of the font that you use, how that's going to appear on the screen, or in the handout. I find this font very difficult to read because it's so small and I'm sure people at home looking at this thing are squinting. So if you could just bear that in mind in the future make sure the font is large enough so that people can really see what you're trying to present.

John Griffin, CFO/Treasurer/Tax Collector

No problem. Thank you.

Chairman Dowd

Do you want to move on to the next subject?

John Griffin, CFO/Treasurer/Tax Collector

Sure if there's no more questions on that. The other item that we generally talk about that Alderman Dowd and I thought would be a good thing to review is the funding of the Solid Waste Department. We have two enterprise funds - solid waste and wastewater. Just let me say that wastewater is funded by user fees. Solid Waste as you may know, the revenues don't equal the expenses predominantly because the collections of the refuse trucks associated the depreciation on those debt service, etc, and the cost that we charge our residents and businesses, there's no way you can recover those costs. So I just wanted to share that an enterprise fund you always hear some terms like, oh that's not a real enterprise fund. I'd like to just dispel that. An enterprise fund does not have to be funded by user fees. It can be funded by contributions and in this case, by the general fund.

So for years the solid waste activities have been consistently reported as an enterprise fund. The generally accepted accounting principles definition of enterprise funds allows the enterprise funds to be created and used to report - what we're doing is we're reporting the activities of the collection, the landfill, the management, etc. So we've separated those activities in our accounting system. You're gonna see in the budget when Director Fauteux and her team comes in, we do charge fees but they're not close to what the cost is to operate. The total cost of the activity doesn't have to be fully paid for by the user. City can subsidize the amount of the enterprise fund which it has done for several years and the reporting on the solid waste activities all in that enterprise fund allows you to figure out actually what the difference is between the cost of operation and the amount needed.

So the final slide for this purposes, these are the expenses by fiscal year. The revenues coming in all budget and the general fund appropriation. So in our tax rate calculation, we use this number to collect the appropriate amount of taxes to fund the operation of the Solid Waste Enterprise Fund. Things that are charged to the solid waste are the operation and maintenance to include salaries, and benefits, and things of that nature as well as the debt service costs of the assets and other items that the Director Fauteux and her team will share with you when they come. I just wanted to let you know that there is a subsidy. There's nothing wrong with it. It's just a way of making sure that we have a fully operational landfill operation.

Chairman Dowd

So the key is that the wastewater fund is funded by user fees. So they collect fees to offset the cost. A lot of the cost driven by the wastewater fees are all driven by government requirements. The landfill, you know we went up on some of the rates lately, they still can't meet all the cost their revenues.

Steve Bolton, Corporation Counsel

Well the big thing with the solid waste is we do curbside collection at no user fee for the single family homes and small unit buildings. There's no attempt to charge user fees for that and that's a big part of the unsubsidized or that makes up the biggest part of the subsidy from the general fund.

Alderman Cathey

Thank you, Mr. Chair. Correct me if I'm wrong. Enterprise funds do not count against the budget? I believe I was told that.

Steve Bolton, Corporation Counsel

Against the budget?

Alderman Cathey

Someone had told me this and it got really confusing that we're talking in relation to the spending cap. They're like well if you include enterprise funds, they're not counted against budget.

Steve Bolton, Corporation Counsel

That's not true. Whoever told you that doesn't understand.

Alderman Cathey

That's why I ask, so I don't have the wrong information. So the Enterprise Fund is basically just a designation based on a financial definition of what enterprise funds is. That's the only difference.

Steve Bolton, Corporation Counsel

It allows us to keep track in a way that segregates out those expenses so we can manage them better.

Alderman Cathey

Okay.

Steve Bolton, Corporation Counsel

It works out even better with the wastewater, which is fully funded through user fees and that's required by the federal government. At one time, and I'm talking 40 some years ago, that was also funded lively through the general fund. The government regulations required that wastewater be funded through user fees. So we set up a process to do that and have them for the last few decades.

Chairman Dowd

Any other questions?

Alderman Sullivan

Thank you very much. I'll be happy to table this question but it's really jumping out at me that both revenues and expenses are taking a massive jump between '22 and '23. I guess we could wait until Director Fauteux comes in but that really jumped out at me. There was a big jump in expenses and revenue between '22 and '23.

John Griffin, CFO/Treasurer/Tax Collector

Mr. Chairman, I can answer that. Most recently, we put the – the big difference is its bond proceeds recognized as revenue and the actual bonding effort is recognized as an appropriation. Prior to '21 maybe even '20, that was literally just the operation costs. We bond over there are the refuse trucks. Very expensive. We bond the landfill expansions. We bond the gas sets that collect the methane and we bond the soil wall. You're going to hear about that. That's a major effort every year to manage the proper management of the landfill itself and Director Fauteux and Superintendent Lafleur they will certainly go into that. That's the main reason - with spending cap and all that that you'll learn a lot about, you have to have an appropriation to spend money in any municipality. We thought that it would be important to put revenue in bond proceeds in the calculation as well as the debt service. That's why the numbers on the right haven't changed much. But you're absolutely correct, it looks like a big increase but it's really the debt service on the bondable items that are part of the landfill.

Alderman Sullivan

Yes, thank you very much.

Alderman Cathey

Thank you, Mr. Chair. How are bond proceeds recognized as revenue if we spoke earlier about if we have excess bonds, you can't do anything with them. So how can that be recognized as revenue?

Steve Bolton, Corporation Counsel

When we sell the bond and that money comes into us, that's revenue. When we spend it, it's an expense.

Chairman Dowd

It's not going into a bank account. It's being spent on something.

Steve Bolton, Corporation Counsel

It's in the bank for the period of time between the time it comes in and the time it's spent.

John Griffin, CFO/Treasurer/Tax Collector

But maybe I can help. The increase in expenses is equal to the increase in revenues essentially. In the revenues, the bond proceeds are going to pay for, as Attorney Bolton said, it's going to pay for the expenses of the bond. Why are we bonded? So it's that math. Prior to that, we don't do a lot of bonding in solid waste other than the refuse trucks, the gas side expansion, and the soil wall but in this particular case, I think there's a phase four landfill expansion.

Chairman Dowd

Okay, all manipulated, regulated by federal and State. Any other questions? Are there any other questions generally outside of specific divisions on the budget and the budget process?

Alderman Cathey

Thank you, Mr. Chair. Can you explain to me the relationship between a TIF and the bond? So I know we're bonding the Riverfront project but that is going to be a TIF district. So can you speak to that just so I have some more clarity about TIFs, and bonding, and how those two things work together?

John Griffin, CFO/Treasurer/Tax Collector

Certainly. Mr. Chairman, if I may. The Riverwalk TIF - that $21 million authorization that was passed, that has not been sold yet. As Director Cummings indicated, there's a lot of design that has to take place, and then construction contracts, etc. So that hasn't been sold but that is going to go into the debt service related to that when it's sold is going to be paid for within the TIF by the increments above the original value captures the tax revenue. So that's the revenue stream that's going to pay for the debt service to include principal and interest. So you're going to have a Riverwalk TIF that's much more expansive than the one that was created the early 2002 - 2003, a small one up near Peddlers Daughter but you'll see that in the budget Riverwalk TIF.

The other one that you might be familiar with is the School Street TIF. That is going to have an increment once the apartment buildings above the construction of the parking garage takes place. That's going to pay for the bonds associated with the School Street TIF. There's two bonds. One already sold – that's the $5.5 million on the Performing Arts Center and the other one hasn't been sold yet but that's the $2.5 million to construct the garage. So those will be captured in those essentially self-contained funds to pay the debt service. It also requires a payment of a maintenance of those areas. As Director Cummings has said, you have to, you know, the whole idea of a TIF is you manage the TIF and you pay the associated costs within the TIF.

Alderman Cathey

So is there ever - and this might be a dumb question - is there ever a time when that property tax increase, which is what you're depending on to pay down the debt service, would not be enough to cover that debt service? Because we're assuming that the property tax evaluations will go up a certain amount to cover that cost. Is there ever a time when that has not happened and then we have to cover that cost out of the budget?

John Griffin, CFO/Treasurer/Tax Collector

I'm not…

Steve Bolton, Corporation Counsel

It's really impossible to imagine. I don't think we've run into it.

Alderman Cathey

So highly unlikely.

Steve Bolton, Corporation Counsel

It depends, right. It depends if the planning and projections work out. But in theory, it is supposed to generate sufficient revenue to pay. If it does not, you're correct. The debt that has to be paid so it will be paid.

Alderman Cathey

Okay. Thank you.

Chairman Dowd

Any other questions? Seeing none.

REMARKS BY THE ALDERMEN

President Wilshire

I just want to thank CFO Griffin, Miss Lindner, you know the new Aldermen for really good questions. Really good questions. I mean it's a lot to learn. It's a unique beast but I thought your questions were very good.

Alderman Cathey

Thank you Mr. Chair. I, too, would like to thank you both of you for coming in and handling my barrage of questions. I tend to be that way but finance tends to be something that I really get into and seeing as how we're stewarding the people's money, I want to know as much as I can about this unique process. I appreciate you taking the time to break down specifically bonding because I believe there is a lot of confusion both in myself and maybe other Aldermen or citizens of the public. Now I can go then have those conversations about how bonding works, how it affects tax rates, how it affects the citizens so we're all on an equal playing field about what we're doing in the city. So I really appreciate you taking the time. This is a very thoughtful analysis so I appreciate it. Thank you.

Chairman Dowd

Those are the reasons that I asked them to come in this evening and present. It wouldn't be in this much depth during the discussion with the Division Directors because they're only concentrating on their division.

Alderman Cathey

Right.

Chairman Dowd

So these are general items of the budget that I thought that especially the new Aldermen should get some insight into. So thank you CFO Griffin and Cheryl.

Steve Bolton, Corporation Counsel

Can I respond just briefly for what was said because…

Chairman Dowd

I thank you for coming this evening.

Steve Bolton, Corporation Counsel

Referring to this as a “unique process”. I don't want to jump all over anybody but I actually don't think that's accurate. Every - virtually every municipality goes through a similar process. Most private enterprises of any size are doing the exact same thing. Certainly companies as big as BAE, major employers, and companies as I say, there are thousands of private enterprises in New Hampshire who bond every year, pay interest on those bonds, and make wonderful profits, and do well for their shareholders. Pennichuck Corporation goes through bonding processes and loan borrowing of money all the time and we see some of that. So this is not something unique at all to the City of Nashua. This is a very common situation.

Chairman Dowd

By the way speaking of cost of buildings, the building that BAE just opened in Manchester - I'm not going to mention the amount of money but it's really significant. Did you have something Alderman Sullivan?

Alderman Sullivan

I did. Thank you. I just wanted to echo everybody's sentiments. Thank you for the presentation. Thank you for answering our questions. I am looking forward to the budget process.

Also a question, I know that you had sent out several dates between mid-May and June. I was wondering if we could resend those just I want to make sure that I have them in my calendar.

Chairman Dowd

I’ll talk to Donna.

Alderman Sullivan

Great.

Chairman Dowd

Sometimes we go through several iterations because all of a sudden the Police and the Fire Department want to switch dates. That's why we send them out to them first and get them nailed down, hopefully, and then we bring them in because it's very difficult to schedule all those divisions and have them come in and do their presentations. I know the budget books are being printed. This year it will be a little different. You're not going to have colored pages. So my suggestion is that when you go through the budget book, you put tabs in the different sections. So if you want a wastewater fund, you open it up. There may be a couple of differences from last year's book to make it a little clearer and a little easier to understand. Hopefully, I've talked to the Division Directors and make it very clear how each individual position gets paid. They used to split them up between the groups that they support and that drive me crazy. I didn't want to go five places to figure out what somebody's getting paid. That should be easier this year, I hope. All right. Nothing else?

Alderman O’Brien

Thank you, Mr. Chairman. I happened to like the colored pages, but I would also like to make a motion to adjourn.

Chairman Dowd

Motion is to adjourn. All in favor signify by saying aye.

Alderwoman Kelly

You have to do it by roll call because I'm here. Sorry.

Alderman O'Brien

Ah that's correct. Thank you Alderwoman Kelly.

ADJOURNMENT

MOTION BY ALDERMAN O'BRIEN TO ADJOURN, BY ROLL CALL

A viva voce roll call was taken which resulted as follows:

Yea:	Alderman Wilshire, Alderman Sullivan, Alderwoman Kelly, Alderman Jette, Alderman Cathey, Alderman O'Brien, Alderman Dowd	7
Nay:		0

MOTION CARRIED

The meeting was declared closed at 8:46 p.m.

Alderman Michael B. O'Brien, Sr.
Committee Clerk

City of Nashua
Budget Review Committee
May 5, 2022
Workshop

John L. Griffin, CFO/Treasurer/Tax Collector
Cheryl Lindner, Treasury Management Officer

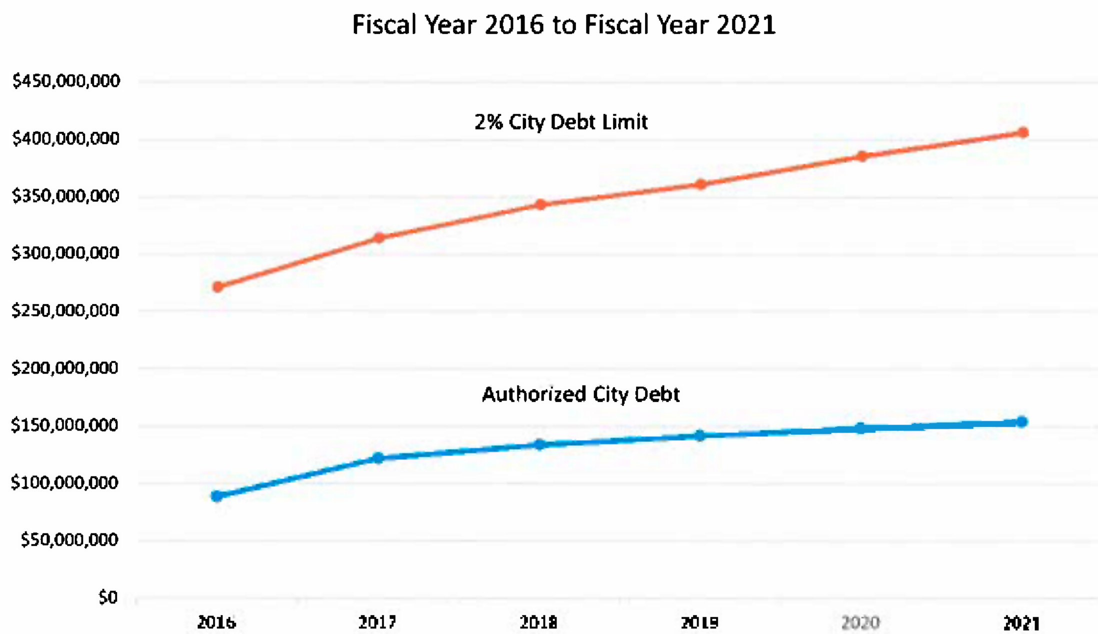
City of Nashua
Bonds and Debt Service

Historical Bond Analysis

Line Number	Fiscal Year	City Departments	School Department	Total
	Governmental Activities - General Obligation Debt			
1	2021	$ 87,830,337	$ 41,529,060	$ 129,359,397
2	2020	62,523,952	43,311,060	$ 105,835,012
3	2019	62,492,184	51,281,483	$ 113,773,667
4	2018	64,544,913	58,464,492	$ 123,009,405
5	2017	68,195,428	67,054,955	$ 135,250,383
6	2016	59,909,512	76,753,489	$ 136,663,001
7				
8	**Business - Type Activities - General Obligation Debt and State Revolving Loan Funds**			
9				
10	Fiscal	Solid Waste	Wastewater	
11	Year	Fund	Fund	Total
12	2021	$ 14,253,335	$ 47,423,197	$ 61,676,532
13	2020	15,548,921	51,009,413	$ 66,558,334
14	2019	10,395,007	49,882,335	$ 60,277,342
15	2018	9,527,912	47,748,212	$ 57,276,124
16	2017	11,398,186	51,472,186	$ 62,870,372
17	2016	12,218,460	[illegible],196,158	$ 67,414,618
18				
19	**Other General Obligation Debt**			
20				
21	Fiscal	Pennichuck	Citywide Paving	
22	Year	Acquisition	Program	
23	2021	$ 119,745,000	$ 19,793,489	
24	2020	123,435,000	13,897,285	
25	2019	127,025,000	7,329,258	
26	2018	130,530,000	-	
27	2017	133,960,000	-	
28	2016	137,330,000	-	

City of Nashua
City Debt Limit Analysis

City of Nashua
City Debt Limit Analysis



City of Nashua
School Debt Limit Analysis

Fiscal Year 2016 to Fiscal Year 2021