



A View from Moody Park – Celebrating 100 years  
2017 Proposed Municipal Budget  
Guy A. Santagate, City Manager

2017

# City Manager's Proposed Budget for 2017

Cover photo courtesy of Bill Binder Photo

# Table of Contents

Introduction ..... 4

Overview and Summary .....**Error! Bookmark not defined.**

General Fund .....**Error! Bookmark not defined.**

Public Works & Public Safety Services **Error! Bookmark not defined.**

General Government.....**Error! Bookmark not defined.**

(Policy, Assessing, General Services, Elections, Finance, Maintenance,)**Error! Bookmark not defined.**

Planning & Development.....**Error! Bookmark not defined.**

Debt Service.....**Error! Bookmark not defined.**

General Fund Operating Budget for 2017**Error! Bookmark not defined.**

Municipal (City portion) Projected Tax Rate**Error! Bookmark not defined.**

City Services impact on average homeowner**Error! Bookmark not defined.**

General Fund Revenues .....**Error! Bookmark not defined.**

General Fund Expenditures .....**Error! Bookmark not defined.**

Policy.....**Error! Bookmark not defined.**

City Administration/Finance.....**Error! Bookmark not defined.**

Elections & Registrations .....**Error! Bookmark not defined.**

Assessing.....**Error! Bookmark not defined.**

Municipal Complex.....**Error! Bookmark not defined.**

Planning & Development.....**Error! Bookmark not defined.**  
General Services.....**Error! Bookmark not defined.**  
Communications 911 – Dispatching.....**Error! Bookmark not defined.**  
Police .....**Error! Bookmark not defined.**  
Fire.....**Error! Bookmark not defined.**  
Welfare.....**Error! Bookmark not defined.**  
Sanitation .....**Error! Bookmark not defined.**  
Streets & Roads .....**Error! Bookmark not defined.**  
Library .....**Error! Bookmark not defined.**  
Debt Retirement .....**Error! Bookmark not defined.**  
Cemetery.....**Error! Bookmark not defined.**  
Airport.....**Error! Bookmark not defined.**  
Parks .....**Error! Bookmark not defined.**  
CSB CC – Recreation .....**Error! Bookmark not defined.**  
Outside Agency Requests.....**Error! Bookmark not defined.**  
General Fund Expense Totals.....**Error! Bookmark not defined.**  
Tax Incremental Finance Districts .....**Error! Bookmark not defined.**  
Water & Sewer Enterprise Funds.....**Error! Bookmark not defined.**  
A View of the City Center, Claremont NH**Error! Bookmark not defined.**

# Introduction

## *Budgets set policy*

The City of Claremont provides a wide range of services to residents, businesses and visitors including law enforcement, fire protection and suppression, emergency medical services, highway and infrastructure maintenance, solid waste disposal, water treatment and distribution, sewerage collection and disposal, aviation airport facilities, economic development and planning services, library programs and a vast network of parks and recreational programs. Claremont's current population is about 13,300. The City maintains over 120 miles of roads, 35 miles of sidewalks and 80 miles of water and sewer lines. This City, like many others, faces unprecedented inflationary pressures which effect everything from the cost of labor and materials to contractual and construction services, capital equipment and vehicles.

This budget is a document that, when enacted, determines the type and level of services that will be delivered to the City. The budget implements policy through services by authorizing and funding the expenditure of public moneys.

The City Manager is the chief administrative officer of the city (City Charter Section 30). In that role he/she shall carry out the policies laid down by the city council. He/she shall be responsible to the city council for the proper administration of all affairs of the city, but including the preservation of the public health, the safety of property and management of all municipally owned utilities and be in responsible charge of the maintenance, care, construction or otherwise of all streets, highways, bridges, sewers, parks, playgrounds, buildings and all other municipally owned structures. He/she shall keep the council informed of the condition and needs of the city and shall make such reports as may be required by law, this charter or ordinance, or may be requested by the council, and such other reports and recommendations as he/she may deem advisable, and perform such other duties as may be prescribed by this charter, or required of him/her by ordinance or resolution of the council not inconsistent with this charter. He/she shall have and perform such other powers and duties not inconsistent with the provisions of this charter as now are or hereafter may be conferred or imposed upon him/her by municipal ordinance or upon mayors of cities by general law. He/she shall have the right to take part in the discussion of all matters coming before the council but not the right to vote.

## *Authority of New Hampshire Municipalities*

New Hampshire municipalities get their authority from the state legislature. New Hampshire is not a home rule state; New Hampshire's Constitution does not grant any power directly to municipalities, which are political subdivisions of the state. They only have authority if the legislature gives it to them and the legislature is free to retract it at any time. Municipal home rule enables voters to adopt a home rule charter that acts as a basic governing document over local issues. (State law, however, would continue to prevail over statewide concerns.) The goal of municipal home rule is to facilitate local control and minimize state intervention into municipal affairs. The municipality ONLY has authority if the legislature gives it to them and the legislature is free to retract it at any time (i.e. Revenue Sharing and the state's contribution for fire and police)

New Hampshire is a Dillon's Rule state. Iowa Supreme Court Judge John F. Dillon ruled in 1886: "It is a general and undisputed proposition of law that a municipal corporation possesses and can exercise the following powers, and no others: first, those granted in express words; second, those necessarily or fairly implied in or incident to the powers expressly grants; third, those essential to the accomplishment of the declared objects and purposes of the corporation - not simply convenient, but indispensable. Any fair, reasonable, substantial doubt concerning the existence of power is resolved by the courts against the corporation, and the power is denied."

This ruling gave local governments only those powers that were specifically given to them by the state constitution or legislative statute. (Judge Dillon distrusted local government due to the power and corruption of political machines who often controlled municipal and regional decision makers.)

### *Appropriations*

**The budget presented concerns only the expenditures of money for general municipal purposes and NOT expenditures for education or county services provided by the Claremont School District or Sullivan County. This is typically referred to as the Municipal tax rate.**

To appropriate is a policy decision to set apart from the public revenue a certain sum of money for a specified public purpose and to authorize the expenditure of that sum for that purpose. The most important policy tool is the annual budget. Policy is *what is* going to be done. The budget is the means of determining *how it will* get done because of where money is allocated to programs, services, projects and facilities.

Appropriations can be made only by vote of the legislative body. Legislative power is the power to set overall policy, the power to raise (tax) and appropriate money (authorization to spend) and set the purposes for expenditures. The city council is the city's legislative body. (The annual Claremont School District meeting and the Sullivan County Delegation, comprised of State Representatives from Sullivan County, are the legislative bodies for the Claremont School District and Sullivan County).

The Claremont City Charter, granted to the city by the State legislature in 1954, provides that the city council shall appoint a city manager who shall be the chief executive and administrative officer of the city and shall carry out the policies voted by the city council and be responsible to the city council for the proper administration of all affairs of the city.

### *Legal Level of Budgetary Control*

Budgets are adopted by the city council on a fund basis, the legal level of control at which management would be in violation of the budget if it overspent an appropriation. A fund segregates resources (revenues) and requirements (expenses) that are legally restricted to specific uses.

The proposed 2017 City Budget consists of four operating budgets as the River Road TIFD closed out as of June 30, 2016. The General Fund (general city operations), Water Enterprise Fund and Sewer Enterprise Fund, and the Downtown Tax Incremental Finance District. Operating Budgets are period oriented (July 1 to June 30th) while the capital budgets are project oriented. With the exception of any capital budget, all appropriations lapse (expire) at the

end of the budgeted period. Operating budget appropriations may be carried over to the subsequent budget year by earmarking (encumbering) commitments for specific purposes through the issuance of purchase orders or other legally binding instruments. There are many instances when a capital improvement appropriated for one year is carried over to the following year – or even several years.

### ***Balanced Budgets***

In New Hampshire municipal budgets have to be balanced. This comes about through state law requiring the Commissioner of the New Hampshire Department of Revenue Administration to set property tax rates.

### ***Property Tax Calculations and Billing***

*Property Tax Calculation:* The Total Tax Rate is made up of four parts: Municipal (general city services), School: (Local and State), and County. Each year property tax rates are calculated (set) by the New Hampshire Department of Revenue Administration, usually during the month of October. The budget that the City Council adopts ***concerns the Municipal Tax Rate only***. Calculating each of the four tax rates involves: 1) determining the Amount to be Raised by Property Taxes by subtracting non-property tax revenue and other resources (e.g. applied fund balance) from whatever has been authorized for expenditure (appropriated) by the Claremont City Council, the Claremont School District annual meeting and the Sullivan County Delegation (state representatives from Sullivan County); and 2) dividing the Amount to be Raised by Property Taxes by the city's Net Valuation on Which the Tax Rate for Municipal, County and Local Education Tax is Computed and Net Valuation on which the tax rate for the State Education Tax is computer, converting the result to a rate expressed per \$1000 of assessed real estate value.

The Amount to be Raised by Property Taxes is increased for War Service Tax Credits (Veterans' Tax Credits are subtracted from property taxes due based on New Hampshire RSA Chapter 72:28) and provision for abatements (overlay). Both represents taxes that either will not (in the case of war service credits) or might not (overlay) to a varying degree be collected.

**HOW** the Amount to be Raised by Property Taxes is distributed is determined by property values which the City Assessor has to ensure by LAW are reasonably proportional within the city and that all taxable property was appraised to the best of the Assessor's knowledge and belief at its full value, in accordance with state appraisal standards. **WHAT** the amount to be raised by property taxes consists of is determined through the city, school and county budget processes.

*Tax Billing Process.* Tax bills are mailed out on or around June 1 and November 1 of each year, each bill containing 2 quarters. Bills are due July 1 and October 1<sup>st</sup> for the 1<sup>st</sup> bill and are due January 2<sup>nd</sup> and March 31<sup>st</sup> for the second bill. Interest accrues at a rate of 12% on bills outstanding for more than 30 days. Within 18 months of the date assessed (April 1), the Tax Collector places a lien on properties for all uncollected property taxes. The lien on these properties has priority over other liens and accrues interest at 18% per annum. If property is not redeemed (taxes, penalties and interest) within the 2-year redemption period, the property may be tax deeded to the City. The June billing is considered ***an estimate only*** and is normally one-half of the previous

year's tax billing (broken into 2 quarters). The remaining balance of taxes due is billed in the fall after the New Hampshire Department of Revenue Administration has calculated the City's tax rate.

*Remittance of School District and County Tax Assessments.* Property taxes billed and collected by the City **include taxes levied for the Claremont School District and Sullivan County**, which are remitted to those governmental units as required by law. The former is paid over the course of the year in accordance with NH RSA 198:5 based on a cash requirement schedule provided by the school district; the latter is paid in December in accordance with NH RSA 29:11. The ultimate responsibility for the collection of taxes rests with the city.

The General Fund is mainly supported by property taxes; the enterprise funds by user fees. Any capital budget would be funded through a combination of financing sources and user fees.

### ***Issuance of Debt***

The issuance of debt by municipalities is governed by NH RSA 33, Municipal Finance Act. Debt cannot be issued for operating purposes with the exception of short-term, less than one year, cash flow borrowing called Tax Anticipation Notes. Debt may be issued for the acquisition of land, for planning relative to public facilities, for the construction, reconstruction, alteration, and enlargement or purchase of public buildings, for other public works or improvements of a permanent nature including broadband infrastructure (as defined in RSA 38:38, I(e)) to be purchased or constructed in areas not served by an existing broadband carrier or provider, for the purchase of departmental equipment of a lasting character, for the payment of judgments, and for purposes of economic development which shall include public-private partnerships involving capital improvements, loans, and guarantees. (The public benefit in" any public-private partnership must outweigh any benefit accruing to a private party.)

The issuance of bonds or tax anticipation notes by a City must be authorized by a resolution of the City Council passed by at least 2/3 of all the members. NH RSA 33 places limits on the total amount of debt a municipality can have outstanding at any one time. By state law, cities may not incur Net Statutory Bonded Indebtedness total authorized, issued and unissued debt adjusted by statutory exclusions - to an amount at any one time outstanding exceeding 3% of the last applicable locally assessed valuation of the City as equalized for debt limitation purposes by the New Hampshire Department of Revenue Administration. Cities may not incur debt for supplying water or for the construction, enlargement or improvement of water works to an amount at any one time outstanding exceeding 10% of the last applicable locally assessed valuation of the City as equalized for debt limitation purposes by the New Hampshire Department of Revenue Administration. There is no limit for debt incurred for sewerage systems and sewage treatment works.

All debt issued by the City is general obligation debt, which means the "full faith and credit" of the City is pledged to the repayment.

- The fiscal and budget year of the city shall begin on the first day of January unless another date shall be fixed by ordinance. (City Charter Section 36). The City moved to a fiscal year in 2013 thus the budget year for the city begins on July 1<sup>st</sup>.

- At such time as may be requested by the manager or specified by the administrative code, each officer or director of a department shall submit an itemized estimate of expenditures for the next fiscal year for the departments or activities under his control. The manager shall submit the proposed budget to the council no later than sixty (60) days prior to the start of the ensuing fiscal year. (City Charter Section 40)
- Between the time of submission of the city manager's proposed annual budget and adoption by the city council a number of public work sessions are held. All meetings are noticed and open to the public and are held in accordance with NH Chapter 91A, Access to Public Records and Meetings.
- A public hearing on the budget shall be held before its final adoption by the council, at such time and place as the council shall direct, and notice of such public hearing together with a copy of the budget as submitted shall be published at least one week in advance by the city clerk. (City Charter Section 41)
- A majority of the city councilors present and voting, with a quorum of at least five members present, is required to approve the city's annual budget.
- No appropriation shall be made for any purpose not included in the annual budget as adopted unless voted by two-thirds majority of the council after a public hearing held to discuss said appropriation. The council shall by resolution designate the source of any money so appropriated. (City Charter Section 43)

### ***Fund Balance***

*General.* A fund segregates resources (revenues and requirements (expenditures) that are legally restricted to specific uses. A fund is analogous to a filing cabinet with each drawer holding a separate fund. Within each drawer, or fund, there are many file folders, or municipal functions which are comprised of programs, services and activities managed by city departments aimed at accomplishing a function for which the city is responsible. Separate funds have historically been established to help ensure and demonstrate compliance with legal restrictions. Budgets are adopted by the city council on a fund basis. That is the legal level of control at which management would legally be in violation of the budget if it overspent an appropriation.

*Identification of Resources Available for Spending.* Some assets are expendable (that is, will become available for spending). Those assets include, for example, cash and receivables (money billed but not yet collected). Other assets like (for example) land, buildings and equipment, are used directly to provide services, and are not expected to become available for spending.

*Fund Equity.* Fund equity is the same as fund balance. It is the difference between fund assets and fund liabilities.

*Fund Equity and Cash.* Fund equity and cash are different. Cash is one of several assets that enter into the calculation of equity. Financial assets other than cash (for example, receivables), would also be a factor. Even if cash were the only asset held, equity would be the amount of the cash reduced by the amount of any outstanding liabilities – equity equals assets minus liabilities.

For example, assume a fund has \$1000 cash and \$500 in liabilities. The equity of the fund would be \$500 ( $\$1000 - \$500 = \$500$ ). Equity amounts to only half of the fund's cash balance ( $\$500/\$1000$ ). Assume the fund subsequently lends \$750 to another fund. Since loans receivable is an asset, like cash, the balance of equity would remain unchanged ( $\$1000 [\$750 + \$250] - \$500 = \$500$ ). Equity, however, is now twice as much as cash ( $\$500/\$250$ ). It is therefore possible to have cash balances while reporting a negative balance of equity.

*Components of Fund Balance.* Fund balance is now broken down into 5 separate elements depending on the level of commitment of those funds.

*Non-spendable Fund Balance* - includes amounts that are not in a spendable form (such as inventory or prepaid expenses) or are required to be maintained intact (such a principal of an endowment fund).

*Restricted Fund Balance* – includes amounts that can be spent only for the specific purposes stipulated by external resource providers (such as grantors) or through enabling legislation. Restrictions may be changed or lifted only with the consent of the resource providers or enabling legislation. Restricted Funds are legally restricted for specific purposes, State, Federal and donations would need to be returned to the agency or donor if the funds were not spent. Non-lapsing warrant articles and Capital Project funds would be considered restricted.

*Committed Fund Balance* – includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision making authority (City Council). Commitments may be changed or lifted only by the City Council taking the same formal action that imposed the constraint originally. Any committed funds would go back to the General Fund if commitment is dissolved. The City Council's actions must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period,

*Assigned Fund Balance* – includes amounts the City *intends* to be used for specific purposes. For all governmental funds other than the General Fund, any remaining positive amounts are to be classified as "assigned". The City Council expressly delegates this authority to the City Administrator or his/her designee. Items that would fall under this type of fund balance would be Encumbrances, Conservation Fund etc.

*Unassigned Fund Balance* – is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Any deficit fund balance of another governmental fund is also classified as unassigned.

*Measure of Available Spendable Resources.* Fund balance is the difference between assets and liabilities of a governmental fund. Not all of the financial resources of a fund may be available to liquidate liabilities of the current period. A long-term receivable, for example, cannot be used to liquidate a liability

that is currently due and payable. Consequently, fund balance in total is not a good measure of expendable, available financial resources in a governmental fund. The appropriate measure for this purpose is unreserved fund balance.

*Difference in Fund Balances.* Not all of the financial resources reported in a governmental fund necessarily can be used to liquidate fund liabilities. Some financial assets are not yet available for spending; others may actually represent amounts that have already been spent (for example, certain inventories); others are subject to legal restrictions and commitments (for example, encumbrances for unfilled purchase orders). It is essential that a portion of fund balance equal to the various types of unavailable financial assets be isolated so as to permit readers of financial statements to focus on the portion of fund balance that is available for spending (that is, unassigned fund balance).

*Unassigned Fund Balance as a Measure of Economic Health.* Unassigned fund balance is intended to serve as a measure of expendable available financial resources rather than as a measure of economic health. While an absence of expendable financial resources may well be an indication of actual or potential economic problems, the presence of such resources is no guarantee of sound economic health. For example, just as individuals can increase their checkbook balance by taking out a loan, so too can a governmental fund increase their expendable available financial resources by issuing long-term debt. In neither case would the overall economic position for the borrower be improved.

*Reasons for a Formal Policy on Unassigned Fund Balance.* It is essential that governments maintain adequate unassigned fund balances in order to: ensure that continued orderly operation of government and the provision of services to residents; mitigate current and future risks resulting from revenue shortfalls, unanticipated expenditures and the financial impacts of prior year expenditures; address variations in cash flow that may otherwise necessitate the use of short-term borrowing and the incurrence of associated interest costs; provide a contingency for unexpected capital expenditures and for errors in revenue and expenditure estimation; provide tax rate stabilization.

Various industry standards exist as to the appropriate level of unassigned fund balance. According to the New Hampshire Department of Revenue Administration, general guidelines have been established by the financial community regarding the amount of unassigned fund balance to retain. The former recommendations were to retain between 5% and 10% of the municipal appropriation plus the statewide enhanced education amount and the local school net tax commitment plus the county appropriation. The Government Finance Officers Association suggests retention of between 8% and 17%.

In December of 2011 the city adopted a fund balance policy that states “The City shall strive to maintain an unassigned fund balance in the General Fund of 5-15% of budgeted general fund operating expenditures each fiscal year. Additional resources may be set aside for economic uncertainties, but may also be utilized to fund capital expenditures or pay down outstanding City debt.”

### ***Capital Reserve Fund and Pay-As-You-Go-Financing***

Capital Reserve Funds are used to set aside moneys to finance future capital improvements or acquisitions. They are held in the custody of the Trustees of Trust Funds.

A Capital Reserve Fund Policy would help to achieve and maintain capital reserve fund capabilities as a pay-as-you-go financing supplement or alternative to debt.

*Advantages of Pay-as-you-Go Financing*

- It minimizes premature commitment of funds that should be reserved for operating expenditures or other purposes.
- It maximizes savings in interest and other issuance costs. Paying for capital assets with cash rather than financing with debt means that no interest cost is incurred along with the avoidance of various fees and expenses associated with issuing debt.
- It preserves financial flexibility. Because this method of financing does not create a long-term obligation, greater flexibility is afforded in deciding how much revenue to commit each year to funding capital improvements.
- It protects your borrowing capacity. Relying on cash, in whole or in part to pay for capital improvements, helps retain capacity to issue debt in future years.

*Disadvantages of Pay-as-you-Go Financing*

- Insufficient funding for capital needs. Relying only on available cash may result in deferring necessary rehabilitation and renewal. This is because capital needs usually far exceed the amount of available cash in any one year. Failure to undertake the improvements when necessary may result in higher-than-budgeted maintenance costs, interruptions in services and higher costs once the project is undertaken.
- It can discourage intergenerational equity. An important principle in public finance is the equity principle; that is, those benefitting from a project should pay for it. Capital projects tend to have long useful lives, benefitting taxpayers over a number of years. Therefore, it is reasonable that the cost of these projects should be spread over the life of the assets and not borne by any one group of taxpayers.
- It creates an unevenness in capital expenditures. Capital projects typically require large expenditure outlays over a particular time period. Paying for these assets with cash often produces unevenness in capital expenditures from year to year, depending on the magnitude of the project that must be acquired. Such variations could lead to substantial yearly variations in tax and other rates if complete pay-as-you-go financing is applied.

***Cash Management***

It is the Policy of the City that the administration of the City's cash management system shall be handled as its highest public trust. The custody and investment of City funds shall be made in a manner that will provide the maximum security of principal invested while meeting the cash-flow needs of the City, conforming to all applicable state statutes governing the custody and investment of public funds. This Policy applies to all cash, cash equivalents and investments in the custody of the City treasurer in accordance with NH RSA 48:16.

*Cash, Cash Equivalents and Investments Pooled for Cash Management Purposes.* This is done in order to achieve efficiency, effective management and maximum investment opportunity. Records are maintained identifying ownership of cash by fund. Cash inflows and outflows associated with pooled cash are accounted for in the General Fund. The normal inter-fund relationship is that cash inflows of non-General Fund funds exceed cash outflows resulting in the General Fund owing money to these funds which in turn are correspondingly owed money by the General Fund – a liability to the former; an asset to the latter.

Excess working funds available at the end of each day are swept into FDIC insured accounts. Excess funds over what is needed operationally are placed with the FDIC insured Promontory Inter-financial Network LLC (an ICS -insured cash sweep account), the New Hampshire Public Deposit Investment Pool or certificates of deposit.

### ***Budget Format and Organization***

The proposed City Budget is organized into five sections: 1) Introduction; 2) Overview and Summary; 3) Budget Summary by Function; 4) Line-Item Expenditures and Revenues; 5) Proposed Non-Operating Budgets (TIFD's, Water & Sewer)

The columns show comparisons between years as well as department requests and manager proposed. City departments prepared budget proposals based on maintaining current programs and services at this year's delivery levels.

Encumbrances – that is, purchase orders, - are included as actual expenditures. A purchase order is a contractual (outstanding) commitment – an expenditure in process. The amount of unexpended and uncommitted appropriations (authorization by the city council to spend public funds for public purposes) is reduced by the amount of the purchase order. If the goods or services have been received before the end of the year the encumbrance is superseded by an expenditure with the amount of uncommitted (unencumbered) and unexpended appropriation adjusted for the amount by which actual costs exceeded or fell short of projected costs. The process of un-encumbering budgeted funds is meant to ensure budgetary compliance both to prevent overspending appropriations for the year and to detect violations of budgetary authority.