

City Council Work Session
March 4, 2019

Present were: Mayor Grenier, Councilors Theberge, Rozek, Otis, Remillard, Berthiaume, and Gentili; Councilors Morgan Allain, and Higbee were absent

Others present: City Manager Jim Wheeler, City Clerk Shelli Fortin, Community Development Director Pamela Laflamme, Finance Director Patty Chase, Vachon Clukay Auditor Jarad Vartanian, Claire Stiles, Barbara Tetreault, *Berlin Daily Sun*.

Mayor Grenier opened the meeting at 6:30 p.m.

FY18 Audit – Jarad Vartanian

Mr. Vartanian informed the Council that the data report is two months ahead of last year. Berlin Water Works is now a client of Vachon Clukay and the City's financials cannot be completed until the BWW is done.

The Opinion is the most important part of the audit report and the city received an Unmodified Opinion for FY18. The audit is designed based on what is going on in the City. There is a level of unpredictability where the audit procedures vary and focus on areas deemed to be of high risk for misstatement and fraud.

There were new GASB75 policies in place that require financial reporting for postemployment benefits other than pensions. NH municipalities have to offer health insurance to retirees thereby increasing the cost of the insurance plan for all participants. Another part of this reporting is that the City is assigned a portion of the medical subsidy payment for NHRS. Mayor Grenier questioned the medical subsidy saying that the State did away with that some years ago. Mr. Vartanian noted that there are still people on the plan. The apportionment is based on the City's total contribution to NHRS. All of this liability puts a negative impact on the City's financial statements. This is liability that is assigned to all NH municipalities and there is no expectation of payment. Mayor Grenier asked if these unfunded liabilities affect the City's bond rating and Mr. Vartanian stated that all municipalities in the State are in the same situation; it does not affect bond rating or the ability to bond. If the liability were not recorded, the City would not get a clean opinion. The City's proportional share of the NHRS liability was \$2.6 million of liability. GASB Statement #75 decreased the prior year's balance by almost \$6 million of liability that will never be collected. This does not affect the City's general fund or the tax rate.

Statement of net position. Total assets decreased by \$1.5 million attributable to spending down unspent bond proceeds; Capital Assets totaled \$69.7 million, an increase of \$1 million from the previous year which is due to the substantial completion of the Route 16 project. Liability decreased by \$5 million from the previous year. If the liabilities from NHRS cost sharing were backed out, the City would report a positive Unrestricted Net Position of \$4.8 million.

The General Fund ended the fiscal year with a fund balance of \$2,806,832. Unassigned fund balance saw a decrease of \$200,000. Nonmajor Governmental ended with a decrease of \$3.6 million which is

attributable to the City spending down bond money on capital projects. The Airport Authority Fund experienced its first positive change in many years due to the City taking steps to reduce expenses.

The City has three Enterprise Funds: the Sewer Fund, BIDPA and the Cates Hill Landfill Fund. The Sewer Fund has remained strong over the past five years. Cash flows of the Sewer Fund showed \$173,000 more than what was spent. Future operating losses are expected due to depreciation. Mayor Grenier asked how assets are reduced as they are more valuable in the early stages and less valuable as they get close to the end of their useful life. Mr. Vartanian clarified that GASB requires straight line depreciation which should then line up with capital outlays.

General fund revenues were more than budgeted by \$215,000 and expenditures were less than budgeted by \$900,000. The budgetary Fund Balance totaled \$3,411,294 of which \$2,394,005 was Unassigned. The fund balance has been holding steady with no major dips. He added that there are only a handful of cities that have a dependent school district. It is a different dynamic each year.

Federal compliance audit. The City received and expended \$3.7 million in federal funds. \$2.7 million relates to the City's School Department; \$472,000 to economic development and the remaining is for various public safety, airport and highway programs. As part of the federal compliance audit, internal controls were reviewed and no deficiencies were found. There has been improved availability of information which increases efficiency.

One recommendation is to improve on the inconsistencies in approving timesheets. The School Department was not approving at all. Mr. Vartanian recommended that the City adopt a policy that its timesheets have to be reviewed. Mayor Grenier stated that he takes all audit recommendations seriously and a policy needs to be created. Mr. Vartanian thanked Council for allowing Vachon Clukay to continue to serve as the City's auditors. Mayor Grenier responded that he is happy to have such an audit opinion; it speaks to the high quality of management people in the city. Mr. Vartanian left the meeting at this time (7:15 p.m.)

City Manager FY 20 Budget

Mr. Wheeler presented the City Manager's FY 20 Budget. He noted the calendar of budget hearings that will take place over the next several weeks. The proposed tax rate would lead to an increase of \$4.86 to \$44.18 per thousand. Table II in the budget memo shows all major components of the budget, its increase or decrease, without the detail. Capital improvements were cut from \$3.8 million to \$829,000 which is \$325,000 more than what we budgeted in capital last year. Overall, excluding schools, the budget is increased by just over \$600,000. School operating has increased by \$659,000 over the current budget with school capital at \$260,000. On the third page there is a graphic representation of Table 2 that shows the proportions of the budget.

Mr. Wheeler added that each time there is a hearing, we will bring in a summary that will allow the Council to see increases in a glance. School funding bills, final health insurance rates and year end surplus will come in as we finalize the budget.

Snowmobile Donation

Mr. Wheeler explained that there is a couple who were leaving the community and they had a snowmobile that they wanted to donate to the Fire Department. There is a resolution accepting the donation on the floor this evening.

Discussion of SB158

Mayor Grenier noted that the Council may want to take a position on SB 158 which would modify the statute to make lobbying illegal. We pay dues to NHMA and we would no longer be able to take a position through the association. This bill would prevent Cordell Johnson who does a great job advocating for municipalities from being a watchdog for municipalities. Councilor Theberge moved to send a letter to the Senate Election Law and Municipal Affairs Committee in opposition of SB158; Councilor Berthiaume seconded and the motion carried.

Adjournment

There being no further business in Work Session, Mayor Grenier moved on to the Regular Meeting at 7:30 p.m.

Respectfully Submitted,
Susan Tremblay
Administrative Assistant

*Minutes are unofficial until they have been accepted by the City Council by motion.