MEMORANDUM

To:	Dennis Shanahan, Lindsey Williams
CC:	Mike Joyal, Josh Wyatt
From:	Fergus Cullen
Date:	March 30, 2021
Re:	City & School budget timelines

At the last ordinance subcommittee meeting, I said I'd look into how other cities deal with the issue of the city budget not being completed until deep into the spring, making it hard for the school district to plan for the next year in a timely manner. This especially affects personnel decisions. I sent the following email to city managers or finance directors:

"I have a question about your budget process and how it affects the school budget process. We have a problem I'm trying to solve, and I'm wondering whether you face the same issue or have a solution.

Dover operates on a July 1 fiscal year and has a tax cap. Our school district is not considered a city department. It is fiscally separate, aside from the city council approving its bottom line budget. Our city charter says the city budget must be adopted by April 15 each year, unless we change that date. As a practical matter, the budget process usually runs from mid-February until it is adopted in mid-to-late May, about 5-6 weeks before the start of the fiscal year. It would be hard to move this up a lot because new councils only take office at the start of January.

This causes a problem every year. The school district budget is not finalized and approved until after the time (April 1 or so) when they would like to issue contracts for the following school year. Not only does this cause planning problems for the school district, it also usually results in a certain amount of unpleasant hostage taking. This takes the form of statements along the lines of, "Unless our school budget is approved at $X, we're going to have to cut Y positions." Dozens of staff are held in limbo for months every year, parents become concerned on behalf of popular teachers, etc. If positions do end up being cut, it happens late in the hiring process for other school districts, most of whom finalize their budgets via town meetings in March. It's not good from a public policy perspective, a political one, or in terms of taking care of people.

We are currently engaged in a 10-year review of our ordinances. I'm on the subcommittee looking at possible changes. On behalf of our committee, I'm wondering whether we might be able to adjust our budget process to avoid this problem of overlapping calendars.

Do you have this same challenge? If not, how do you avoid it? Can you suggest something we could do to solve this problem?

Thank you for any insight or perspective you can offer."

I heard back from most communities. The responses are below. I have highlighted key parts:

LEBANON:

We are the only City that operates on a calendar year budget (Jan-Dec) in NH. **Our school district is independent.** The school district budget is approved by the SB2 form of budget similar to a town meeting. The City Council does not have any control over the district's budget.
Shaun Mulholland, City Manager, City of Lebanon

CLAREMONT:

We do not have that problem, but our process is much different that the one you are explaining. First, **our school district is completely separate from our City, so the City Council has no say in the school budget.** Second, our school district is an SB2 district that follows the town meeting style of voting in a budget and warrant articles. The School budget is prepared by the Superintendent of schools and the school board. Once prepared there is a deliberative session in February, and then voted on in March of each year. The City budget is then prepared and approved by the City Council, usually in June, in preparation for the new fiscal year. This is defiantly a unique situation, and I do not have a solution that comes to mind.

Ed Morris, City Manager, Claremont NH

CONCORD:

My name is Brian LeBrun and I am the Deputy City Manager – Finance for the City of Concord. Tom Aspell shared your e-mail and asked if I could respond and be of any additional help.

The City of Concord operates somewhat differently than Dover with respect to the School Department. As you may know the City of **Concord actually has two school departments associated with the City. The Concord School District (SAU#8) and the Merrimack Valley School District (SAU#46).**

The City Council does not have any oversight for budget adoption of either of these school budgets. They both adopt budgets independent of City Council Action on the City portion of the budget.

Concord School District has its own charter and Merrimack Valley is the Penacook Village in Concord that is part of a school union with other smaller surrounding communities.

Formally the City includes the appropriation and revenue information for these two districts as part of the City's tax rate setting and collection of taxes (two different tax rates – one for Concord schools and one for Penacook schools) City and County portion of tax rate is same for both. These funds are then transferred over to the districts in an agreed upon payment schedule.

Since Concord operates quite differently than dover, we do not have any advice on how to avoid the conflicts that you outlined.

If I can be of any additional help, please let me know.

Best of luck,

KEENE:

Good afternoon-
We operate on a fiscal budget (July 1 start) and **our school budget is also separate**. **We don't have a tax cap.** I follow the city's fiscal policy which sets parameters for my budget.
However, we have the school budget numbers before the city budget is adopted.
I submit my budget to the council May 1st and the Council adopts by the end of June.
There isn't much lead time before the start of the new year but this allows us to have the most up to date information.
If we had a tax cap I can see this being an issue because the city will allows come second.
When I was the City Manager in Franklin we did have a tax cap but the school was a dependent school district and so we didn't have this problem.
The school was required to incorporate their budget into our overall budget timeline and council adopted it.
Not sure if this was much help. You might also reach out to Judie Milner, City Manager, in franklin to understand their timeline and how it intertwines with the school. citymgr@franklinnh.org
Good luck! Let me know if I can answer anything else for you.
Elizabeth A. Dragon, ICMA-CM, Keene City Manager

LACONIA:

Interesting question and one that I'm not sure I have the answer to.

First, mostly a technical matter, I believe the School is a department of the City even though there are limits to City Council oversight. In addition to approving a bottom-line spending budget, the Council also approves labor collective bargaining contracts and the issuance of bonds.

On the matter of the School having to tender contracts by a date certain and often times this is before a budget has been adopted, this happened during my time as well. And I believe we didn't typically adopt the budget back then until June. I recall our workaround being we would provide consensus to the School even though it wasn't an official vote or binding.

Laconia follows a similar path to Dover and would potentially have the same problem of having employees in limbo and making parents nervous about teachers and class size. I say "potentially" because **it has never been an issue here. The tax cap went into effect in 2005 and there has never been an attempt on the part of either the City or School to propose a budget that exceeded the tax cap.** Other than 2012(?) when inflation ran really high (3.8%?) and guidance was provided early on that spending increases needed to come in at less than what was allowed, **the Council has approved the School budget at what was presented which was usually at the maximum cap allowed number. Decisions about staff were already factored into the School's proposed budget so therefore there were no surprises.**

I don't have any great ideas for you. Adopting a budget too early, especially in State budget years, can be a challenge because of uncertainties in what State revenue to municipalities might be included – or reduced!

Good luck!

Scott Myers, City Manager, City of Laconia

SOMERSWORTH:

Dear Councilor Cullen,
Our School Department is considered a "dependent School Department" that falls under the umbrella of the City technically as a Department of the City (which I thought was the same for Dover – as a former Dover resident of some 30years, former Dover planning board member, and former Dover police officer).

Please note, we have had and have struggled with the same School "pink slip" scenario here in the past, that has lessened over the past several years.

<u>Budget Schedule</u>:
By City Charter the City Manager is required to submit to the Council a City Budget on or before March 15th of each year within the so-called Tax Cap provision of the Somersworth City Charter. We are also on a fiscal year calendar. If Council does not pass a Budget by June 30th of each fiscal year than the City Manager's Budget becomes the default Budget as submitted- if you will.

This year, the Council had a first reading of the Manager's Budget/FY 2022 Budget Ordinance at their last meeting of March 15; waived rules – had a second reading; placed the Ordinance on the table. A Budget Workshop is scheduled for Saturday, April 3; the Budget Public Hearing is scheduled for April 5th. Last year, 2020, the Council passed the Budget on April 6; in 2019 the Budget passed on April 29; in 2018 the Budget passed on April 16. In prior years, the Budget was probably passed in late April or in May.

<u>Budget Authority and Changes – Modifications Made</u>
Our City Council has bottom line budget authority only in regards to the School Board's approved budget that is submitted to me for Council consideration. I do not adjust the School Budget, however **the City Council did issue a guidance directive that the School Board has followed to date (see attached *Budget Preparation Guidance*, Feb. 3, 2014).**

From my perspective, a couple of other changes that may have assisted in a passed budget sooner than later in addition to the Guidance above - there has been a change in *Council Rules* that a special Council Budget meeting must be called by the Mayor in April *(see attached Council rules 1.C.)* and each year there is a joint *Council – School Board budget workshop* prior to final budget submittal. Additionally, Council recently added this item to the budget process: the Council will <u>consider</u> allowing the School Department to utilize some of the *City's Fund Balance* (so called Surplus) each year prior to the School Board finalizing their budget proposal (new this year- see attached *Resolution 31-21*, Feb. 1, 2021).

Hopefully, I addressed all of your questions, if not – please let me know. As a professional courtesy I have copied Manager Joyal.

best of luck, regards, Bob

Robert M. Belmore, City Manager, City of Somersworth

(Fergus replied to Somersworth:) Thank you for this very thoughtful response and the attachments as well. I heard back from most communities and it sounds like Dover and Somersworth are the most similar. Do I have this mostly right: The Somersworth Council adopts a resolution annually that basically asks the school district to write a budget that is within the tax cap level; and the council sweetens this restriction a bit by allowing the school district to retain its own surplus instead of that money reverting to the city balance.

Hi Councilor
The budget guidance document was passed the one time not annually; the School Board has adhered to it every year.

The fund balance was just passed this year and will be revisited each year with Council deciding to have all of school surplus revert to fund balance as has been the case up until this year, a portion of it to be used or all of it to be used by the school department as revenue.

Due to Covid the school turned back some $800,000 this past year which perhaps pushed this consideration forward. That is not to say, the Council has dipped into City Fund balance in the past to move some School CIP items forward.

Lastly, in terms of Council School Boars relations, the Mayor created and the Council with School Board support codified a joint City Council School Board Commission of 2 members from each to meet during the year on issues including budget development.

Regards, Bob

FRANKLIN:

Franklin does have a tax cap with the **dependent school district**. The tax allotment is calculated based on the previous year's DRA collections adjust by the Dec-Dec CPIU and then we add in picks ups or assessed value for buildings and improvements not on the tax role as of April first the prior year. These numbers are given to us on April 15th by the assessor so the tax cap calculation isn't fully known until then. **The school district knows their numbers but has not always come in under their cap amount. I'm required to present the city council with a tax cap budget so I've had to adjust the bottom-line school budget before to bring them under the cap.** That was awkward. I give my budget proposal which includes the school district to the council on the first Monday in May. They usually act by the first Monday in July though they have up to July 27th to act before my budget becomes default. The school district does a budget presentation in May, **by law they have to pink slip by the second Friday in May so there have been some difficult budget seasons** (especially during a State budget year) when we had to pink slip before we knew the total revenues coming in. That's difficult too. It is not the best process but I don't see another way. Even if we changed fiscal years, we wouldn't know the State budget revenues until after the budget was passed. Let me know if I can answer any more questions.
Judie Milner,City Manager, City of Franklin

Fergus Replied:
Thank you, that is very helpful. To clarify:

You have a July 1 fiscal year, but your budget is not usually adopted until sometime in July?

If the School District's proposed budget includes a spending increase higher than the proportional amount allowed by the tax cap, you adjust it down as part of your budget proposal? (In Dover, the school board has argued that the tax cap applies city-wide, not to any one department. Dover has overridden the tax cap most years, but did not last year.)

Are pink slips issued most years, because of the timing on budget adoption happening so late?

Thanks again for taking the time to inform me - I've heard from most NH cities and it's a real mix.

FRANKLIN: Correct. We adopt a continuing appropriation resolution to pay payroll and necessary ap prior to council adoption. Yes **there is a formula that the council has used to spilt the cap for years. The school district needs to be under it. We have given them one time monies from our budget a few years but pretty much keep the split.**

In most state budget years the pink slips are issued since the legislature has taken away the disparity part of the formula which for us was $4m. They really need to fix and stick with a formula. But I digress….

ROCHESTER:

We've received your inquiry and I wanted to update you that I'm consulting with my school contacts to gather some information. Once I have more specifics on their collective bargaining requirements and RIF notice deadlines I can give you a more comprehensive analysis. I intend to have this to you early next week.

Thank you and hope you enjoy your weekend,

Katie Ambrose

Katie Ambrose
Deputy City Manager/Director of Finance & Administration

No reply (yet): Berlin

No contact: Manchester, Nashua, Portsmouth