

**BUDGET COMMITTEE
TOWN OF PEMBROKE, NH
January 17, 2019 at 6:30 PM**

Karen Yeaton, Chairman, called the meeting to order at 6:03 pm

I. Attendance:

Present: Michael Connor, Gerry Fleury, Karen Yeaton, Tina Courtemanche, Marie Chouinard, Brian Seaworth, David Doherty, Daniel Crean, Armand Soucy, Tom Serafin, Ann Bond

Staff: Recording Secretary Jillian McNeil

Excused: Connie Soucy

II. Approval of Minutes:

Dan Crean moved to approve the minutes of January 10, 2018. Armand Soucy seconded the motion. Motion approved 10-0

III. Scheduled Meetings:

Monica Hurley, Corcoran Consulting Associates, came to the Budget Committee to discuss the 2019 town revaluation. Monica stated that the Department of Revenue Administration (DRA) has the Town's equalization ratio, which is the difference between assessments and sales, at 90.2%. Which means the Town's assessments are approximately 10% less than market value. In the year 2019, the Town is mandated by the State of NH to do a full revaluation. Every municipality in the State of New Hampshire is mandated to do one every five years. During the full revaluation, all properties in Town are measured, listed, and a sales analysis is done to determine what the base rate should be to bring values up or down to market value. When assessments are not in line with market value, school education funding is not accurately distributed. For a full revaluation, all tables are updated with market data, local construction costs, building base rates, outbuildings, and extra features are updated with cost values for what it would take to make an exact replica of that item with today's construction costs. It is also based on local market sales. They will re-evaluate land tables based on sales of vacant land. Depreciation tables are recalibrated to how much depreciation a building is getting in the community. DRA will monitor process from start to finish to ensure all sales are being utilized, accurately measured and listed, justified, and explainable. DRA will provide the Town with reports on their findings during the process. Next fall, Corcoran Consulting Associates will produce a uniform standards of professional practice manual to town officials and DRA. It is a 500-page manual on the entire revaluation from start to finish.

In 2017, a statistical or partial update was done. Not all property types are updated in a statistical update. There was no movement in commercial or industrial sales so no changes were made to those properties. However, the residential market was increasing at a rate of 3-4% a year. Residential properties, including condominiums, were raised during this update. It is a way to adjust any property that is falling out of the market place. A sales study is done to see if the assessment to sale ratio is between 80-110%. This study will also show if only certain property types will need to be adjusted. In 2017, the ratio came in at 88%, triggering a statistical update.

Tom Serafin asked if they are below 90%, it has to be brought up to 100%. Is the Town's worst-case scenario being at 89.9%? Monica answered yes, and that is likely to happen this year. The parameters of 90 % and 110% are used because those are what will cause the DRA to step in and tell the Town that they need to do an update.

Monica discussed what the cycle update approved by DRA consists of. The Town was split up into quarters and 450 properties are evaluated in each quarter in a rotating process to keep the town in line.

Monica discussed the information gathered for the full revaluation and what activities will be occurring. They will collect and verify all data from on sales from 10/1/18-09/30/19, collect and verify all new building permits from 4/1/18-3/31/19, perform a current sales analysis on all property types, mail income and expense questionnaires to all commercial properties, update base tables for land, buildings, and depreciation, update income tables for commercial property, presentation to Selectmen on the findings, mail notifications of new values to property owners in August 2019, hold informal hearings for taxpayers with questions, and finalize values for MS-1 and tax billing in October 2019.

Gerry Fleury asked if a building was vacant and showing expenses but not revenue, would that bring the value down. Monica answered that it could and, in that case, they would look at sales of similar warehouses. Monica then explained the three approaches to value. The sales approach where they look at similar property types sold in the area. The income approach which would be used if a property has large vacancies and that will be taken into consideration when doing the final reconciliation of value. The third approach is a cost approach and this is where they would take what it would cost to replicate that building in today's market and depreciate it. Gerry asked which method would be used in Pembroke. Monica stated that they will be using a mix of all three approaches.

Gerry Fleury explained to Monica why the board has asked her to come today to discuss the process to them. The committee is ultimately looking for Monica's insight to assist them in understanding how the revaluation could potentially impact the tax rate this year.

Monica explained that the equalization ratio done by DRA for 2019 of 90.2% is taking into consideration sales that have happened from October 1, 2017 – September

30, 2018. When looking at sales that have happened from October 1, 2018 to December 30, 2018, the sales are already showing that the median assessment to sale ratio of 83%. This means the market has increased again from the end of September to the end of December by 7%. Interest rates have increased but with a volatile market, it can be difficult to make predictions. The market may potentially start leveling off over the winter. Currently, single family homes are 14 % below assessed value. mobile homes are 13%, and condos are 19%. Multi Family homes are at 103% and will need to be investigated a little further. Looking back to 2016 for data, commercial properties are 11% below assessed value. Commercial properties are not selling and may warrant a decrease in value but more information will need to be collected before any determinations are made.

Gerry Fleury asked that with the values coming in relatively close between residential and commercial properties, are residential taxpayers likely to see a transference of burden like they did in 2017 when commercial properties did not see an increase like residential tax payers did. Monica stated that in 2017, the statistical update was using the sales approach only. There was no justification for moving the commercial values up when there were no sales. This year, they have the benefit of time and resources to use all three approaches. Commercial properties will hopefully go up at the same level as the residential properties. There has not been a cost less depreciation analysis done on commercial properties since the last revaluation and costs have risen.

Michael Connor asked if the residential and commercial properties come out relatively the same, will the tax impact be around level. Monica stated that based on the sales, yes but they will still be collecting sales data for January, February, March, April, May, and June and if the market stays where it has been for the last three months, then the impact will be fairly level.

Karen Yeaton asked if there is an economic indicator that the market tends to follow. Monica stated that interest rates have been low and are starting to come up which may slow home sales. It all depends on the level of risk that buyers are willing to take.

Tom Serafin asked if they adjust for any properties that are sold very far below market rate that may throw off ratios. Monica stated that they do adjust for outliers and investigate any scenarios that seem inconsistent. The State will also throw out the three lowest and the three highest sales as outliers.

Gerry Fleury stated that there is a lot of property that is in current use being taken out of current use and will likely produce a large amount of revenue. Monica stated that over 2018, she did 6 or 7 land use change tax bills. There will be a lot of development coming to Town in the very near future. David stated that in 2019, the subdivision could produce upwards of \$300,000 in penalties. Gerry asked if they will have septic and David answered that they will. David stated that Pembroke is the third highest fastest selling town of land sales.

Tom Serafin asked if Monica anticipates the same thing that happened in 2017, happening in 2019. Monica answered that aside from any school issues, no.

Marie Chouinard asked for clarification on whether or not people in year one will be adjusted in the fifth year. Monica answered that in the fifth year, they will not go around and knock on anyone's door unless there was a sale or a building permit was issued. Everyone will be adjusted regardless of when they were visited in the previous four years. They will be driving and field reviewing every property in Town.

IV. 2019/2020 School Board Budget Presentation

Patty Sherman, Superintendent, and Amber Wheeler, Business Administrator, presented the Board with answers to the questions submitted prior to the meeting. In the interest of time, the decision was to not go over the questions one by one again.

Michael Connor asked why the budget numbers do not match directly to lines on the MS-27. Amber answered that some items have to be added together in order to fully tie out. Michael said there are a few appropriation lines that do not equal exact and Amber stated that she will review them and have answers for the next meeting.

Karen Yeaton asked for clarification on the volume of computer replacements for a total of \$82,750. If these are planned replacements, why is there not use of the capital reserve funds. Tom Serafin answered that the reserves have not been built up enough yet. The goal is to build up the capital reserves in order to draw on them for these planned replacements. Amber stated that the current balance is \$40,008.31 in the School Technology Capital Reserve. Tom explained that this is an example of the changed approach to the School Boards CIP. Karen had a similar question on Line #1390 about the use of capital reserve funds for a/c units as well as windows and siding of the storage houses. Tom stated that he can bring that question to the Board on Tuesday.

Karen requested clarification on lines 750-753 for undiagnostic services. Three Rivers and Pembroke Academy have a reduction of \$12,928 and \$31,327 respectively, however, Hill School has an increase of \$164,500 while Village school has a decrease of \$142,464 leaving a balance increase of \$22,000. Why would there be an increase when the enrollment numbers are going down after the merge. Amber stated that this value does not translate to enrollment. These figures are based on how many students are needing services.

Ann Bond asked for the specifics to the health insurance plans offered to the school. Amber stated that the information is in the budget binders. Ann asked if the school has been looking at different health insurance rates. Patty stated that health plans are a part of the collective bargaining agreement and cannot be changed unless it is a negotiation year. Ann asked if they had looked at other plans for employees that are not a part of the CBA. Amber stated that they did not this year but in prior years, no other vendors could compare to the plans through School Care. The last several years

have all had decreases in rates or the rates have remained flat. Ann asked about money refunded to communities and if it shows in the revenues. Amber stated they are reflected in the rates and not a lump sum. Ann asked how big the risk pool is. Amber answered that the pool is everyone in the state using School Care. Dan Crean clarified that health insurance was removed from union discussions with the town but the school does not have similar provisions under the collective bargaining agreements. Gerry Fleury asked if there was a threshold or anything that would give School Care the ability to rate an entity individually. Amber is unsure and believes they only work as a pool but will find out.

WARRANT ARTICLES

- Article 3: \$75,000 for floor replacement, security cameras at Pembroke and Three Rivers School, and painting at Pembroke Academy. Funds to come from the Capital Repairs Capital Reserve Fund previously established for these purposes.

Gerry Fleury made a motion to approve warrant article three as presented. Tina Courtemanche seconded the motion. Motion approved 9-0

Marie Chouinard clarified that this is not new money and it is coming from a capital reserve. Gerry answered that she is correct.

- Article 4: \$31,000 to be added to the Capital Repairs Capital Reserve Fund funded from June 30, 2019 unassigned fund balance available for transfer on July 1, 2019. No amount raised from taxation.

Gerry Fleury made a motion to approve warrant article four as presented. Tina Courtemanche seconded the motion. Motion Approved 8-1

Brian Seaworth expressed appreciation for the change in the way the School Board is using their capital reserve funds. Gerry Fleury explained that the good thing about the use of these capital reserve funds is that voters have the opportunity to have a say when the money goes into the capital reserve and also when it comes out ultimately making tax payers the agents to expend.

Daniel Crean objects to the language “no amount raised from taxation” and proposes an amendment to remove the language due to the fact that it is misleading to the voters. Patty answered that legal has stated that it needs to be there even though she can agree that it does have the ability to be misleading in that even though it is not raised through taxation this year, it was at some point. Gerry Fleury stated that it may not all be through taxes. It could come from unanticipated revenues from tuition or other sources. Amber shared that DRA reviews the articles and that language has never come back as inappropriate. Tom stated that this article would only be funded through surplus. If there is no surplus, then this article does not get funded. Armand Soucy asked if the unassigned fund balance is another capital reserve fund or surplus. Amber stated that it the terminology that is used by the state for

surplus funds. Armand suggested changing the wording to include "...not this year." or something to that effect. Tom stated that it could possibly be addressed in a note after the article or when they present the warrant article at the school meeting. Karen asked what the procedure would be if DRA rejected the warrant article. Dan stated that they would just have to re-write the article.

- Article 5: \$10,000 to be added to the School Technology Expendable Trust Fund funded from June 30, 2019 unassigned fund balance available for transfer on July 1, 2019. No amount raised from taxation. Gerry Fleury made a motion to approve warrant article 5 as presented. Marie Chouinard seconded the motion. Motion Approved 8-1

Karen Yeaton asked what the intended use of this trust fund is. Tom answered everything from servers to network.

- Article 6: \$70,000 to be added to the Equipment Installation & Labor Expendable Trust Fund funded from June 30, 2019 unassigned fund balance available for transfer on July 1, 2019. No amount raised from taxation. Daniel Crean made a motion to table warrant article 6 pending the outcome of the name of the trust fund. Michael Connor seconded the motion. Motion Approved 9-0

Gerry Fleury asked about the change to title of the trust fund from School Equipment Trust Fund to Equipment, Installation, & Labor Expendable Trust Fund. Patty stated that one year that there was an issue with security cameras where the labor and installation was not covered by the trust. Gerry asked at what meeting was the purpose of the trust voted on and changed. Amber stated that when she researched the appropriate names of the trusts for the warrant articles, this change was discovered from 2013.

The decision of the board was to not discuss warrant article 2 which is the total budget of \$25,717,590.

Daniel Crean distributed his proposed amendments to the school board budget to be discussed next week.

V. Other Business

Next Meeting will be January 24, 2019 at 6:30 at the Pembroke Town Hall to deliberate and discuss the School Board budget and the town warrant articles.

VI. Adjourn

Tom Serafin made a motion to adjourn at 7:57 PM. Karen Yeaton seconded the motion and it was approved unanimously.

Karen Yeaton, Chairman

For more detailed information, the meetings are now taped and can be seen on www.townhallstreams.com click on Pembroke NH and look for the day of the meeting under the month.