

HUDSON BOARD OF SELECTMEN

Minutes of the September 16, 1997 Meeting

w/Steve Plodzick, Auditor

1. **CALL TO ORDER** by Chairman E. Lorraine Madison at 7:06 p.m.

2. **PLEDGE OF ALLEGIANCE** was led by Selectman Terry Stewart

3. **ATTENDANCE**

Selectmen: E. Lorraine Madison, Shawn N. Jasper, Ann Seabury and Terry Stewart (Rhona Charbonneau was out of Town.)

Staff/Others: Steve Plodzick, Auditor; Steve Malizia, Finance Director; Priscilla Boisvert, Executive Assistant; John Drabinowicz, Phil Parker and Donna O'Hanian from the Budget Committee; Arlene Creeden, Library Trustee; Lenny Smith, Planning Board; Howard Dilworth, Jr.

4. **DISCUSSION WITH THE AUDITOR**

Steve Plodzick distributed a handout (copy attached), which outlined his general discussion. Outlining his experience, he said he started out as a CPA in 1963 at a firm in Manchester. In 1965, he went to work for the State in the Municipal Services Division, which was the Tax Division and is now known as Department of Revenue Administration. The State was getting out of municipal auditing, so in 1975, he and Bob Sanderson started their own company. He's been in the accounting field for over 32 years. Fund accounting, which they do, is a structured type of accounting. Not many people do this type of accounting - maybe only six in the whole state. It's an area where you have to develop an expertise because you have to know state statutes. The reference book that is used nationally for government auditing is called GAFFR, the 'Blue Book,' which is put out by the Government Finance Officers Association. The 'Green Book,' is an accounting procedures manual used throughout the state. It was even used by DRA when they set up their forms.

He then talked about the Municipal Budget Law, Chapter 332. He often meets with NH Association of School Business Officials routinely to go over things, and the material he was using tonight pertained specifically to them, but the word 'School Districts' can be substituted with the word, 'Towns.' (Copy attached.)

Limitations on expenditures. Quite often, schools put \$1 under a function in the budget so they can transfer monies into that line item and spend monies for that purpose.

Lapse of appropriation--detailed rules. The Municipal Budget Law covered this for the first time and discussed when they wouldn't lapse. (See attached.)

Special Warrant Articles are untransferable--they can't be transferred into the operating budget. However, money can be transferred into them.

Record of line item transfers. A line item can be over expended without designating the specific other account from which an amount was transferred. If the authorized expenditure results in overspending some account or line item, that's an implied transfer from other accounts which remain underspent. Bookkeepers and accountants were going through a formal process, taking it out of one department because of an over expenditure in another department. He said that doesn't have to be done. In emergencies, authorization to overspend can be obtained, if the request is done prior to the making of such expenditure.

Chairman Madison asked for a clarification of transferring funds, saying that Hudson does it all the time. Steve Plodzick said that it is implied that the money is going to be there someplace. Towns do not have to formalize it, but he would prefer it that way for internal control purposes. It gives the department heads an idea of what they have to work with. Chairman Madison agreed that by doing it the way they have been, it is clearer and they know where the money is going.

Selectman Jasper said the law is clear in saying that a department head cannot over expend his budget. Steve said only the Board of Selectmen has the authority to transfer the money from one department to another.

Guidelines relative to recording of case receipts against expenditures. He said he was bringing this up because of a conversation he had with Chairman Madison in trying to answer some of her questions.

As an example, he outlined an incident that happened this year, as a result of new staff in Finance. Hudson had a Workers Comp refund of \$181,000 because the Town belongs to the fund. That was credited against the appropriation of about \$200,000 for that type of insurance. It left an expense of about \$30,000. It indicated that there was \$170,000 unexpended. But because Hudson appropriates gross, even though it is not estimated as revenue, he had to make a Journal entry to gross up the expense of what it actually was. The reimbursement is not a credit against this year's expense; it's based on fees that were paid previous, so that has to be a revenue item. If he let that go as a credit, the Budget committee would see that \$200,000 was budgeted, but only \$30,000 was expended. They'd probably cut that line, when it actually cost \$190,000. If the line was cut to \$30,000 and the refund wasn't realized the next year, the Town's cost would be \$190,000 and, the Board would be penalized because they had budgeted net.

Selectman Jasper said the Board had been told there was a surplus in Workers Comp, so they transferred money from account when they needed it. He asked if they shouldn't be doing that. Steve Plodzick confirmed that the Board shouldn't have been doing that. Selectman Jasper said it wasn't Steve that started that, it was the former employee that started them down that path.

Steve said if the Town plans to buy two new trucks to replace two old ones, they can sell the old ones to another Town. They would gross the amount of expenditure for the new trucks and estimate the amount of revenue for the old trucks.

Chairman Madison said the Board has transferred money out of the Workers Comp account and asked if it was illegal. Steve said \$200,000 was budgeted for a line item. In 96-97, the Town received \$181,000 back. They might not get anything in subsequent years. An entry would have to be made to bring that in as revenue. \$181,000 would have to be shown as the cost of insurance. There is no way the Town can anticipate what the amount of reimbursement will be, so there is no way to budget for that.

(Start Tape 1, Second Side)

Chairman Madison asked if it was illegal for them to do that. Steve Plodzick said it's illegal to overspend the total bottom line, but they have the authority to spend whatever is in the budget. Chairman Madison said what they did, then, wasn't illegal or even unethical. Steve said no because they ended up with good results, but they probably didn't know that at the time. Chairman Madison said that if the Board was doing something wrong, he would have flagged it a long time ago. Selectman Jasper said what they were actually doing was spending other money that they didn't know was going to be available. If everything else had come in right on schedule, the Board would have been in big trouble.

Howard Dilworth was recognized. He said if the Town was sent a bill for \$200,000 but there is \$180,000 credit, they have to show on the appropriations side that \$200,000 was spent and that's why the money isn't there. Steve Plodzick said that was correct because it isn't a refund against this year's appropriation. The Town can't use the \$200,000 as a slush fund, thinking you're going to get \$180,000 back. That would be improper.

John Drabinowicz said that money should be considered as unanticipated revenue and will go to offset next year and can't be used this fiscal year. Steve said under the guidelines he outlined, they can overspend the budget with approval of the Budget Committee and with the authority of the State. This happens quite often with the schools because of special education. Just one or two students costs \$100,000 and they have to overspend their appropriation, so they need to get the authority. He doesn't think that Hudson ever overspent the bottom line budget.

Continuing, Steve Plodzick said unfortunately, tax payers only look at the appropriations side of a budget and not the revenue side. Some items are a wash. He continued reviewing the receipts that should not be used to reduce expenditures and thereby increase the amount available to spend. Some smaller towns hire

out equipment, such as snow plowing. They do driveways, charging the tax payer so much per foot, and that's how they buy their equipment. They set up capital reserve funds, earmarked as special revenue funds.

Steve Plodzik then referred to the matrix, which was made by DRA, of the various funds and how to use them. (See attached.) Auditors don't like to see a lot of funds out there. As far as internal controls within the Town government, Hudson has got good segregation of duties and good control over 97% of the revenues that come into the Town. The State of NH revenue is fixed; property taxes are fairly fixed and they have strong control over the revenue sources. The other things like motor vehicle fees and licenses and fees become the weak area, or the departmental areas that are collecting cash. Those are the weak areas to audit and where the exposure can be.

He continued to review the funds, including the Special Revenue fund. He said the Town did something confusing when they set up the 250th Committee, and transferred \$10,000 for seed month into their account. His questions, at the time, were if this was a private committee, if anyone was appointed by the Board of Selectmen, who served on the committee and who had custody of the funds. If it was a private source, the Town would have no control over the funds.

Chairman Madison said the Town has a special fund set up for Lions Hall. She asked for a quick overview on what they can expend out of it, how it should be used, the income in and out, etc. because there has been some confusion on that. Selectman Jasper said the matrix shows that the fund originates by Town Meeting ballot vote, and they didn't do that with Lions Hall. He said Lydia brought it before them and three Selectman voted for it. Steve Plodzik said his opinion was that they couldn't do that, but he wasn't a lawyer. He has seen others done that way and they haven't been questioned. DRA has established some guidelines, but they aren't the only ones. If there is any doubt, they should ask for a legal opinion. Chairman Madison thought Attorney Ratigan was involved with it when it was set up. Steve said DRA isn't always correct on things, either. These are just their guidelines; it's not Gospel.

Continuing, Steve said revenues exceed the expenditures this year by \$20,000. It's sitting in the fund, not going back into the General Fund to be used to reduce taxes. Chairman Madison asked if the money would be taken from that account if they needed a new roof at Lions Hall. Steve said yes. In order to expend money in 97-98, it should come from an appropriation. There should be an appropriation to indicate how much to spend, based on historical data. The funding source are the revenues, ie, the rental fees. Selectman Jasper said the reason there is \$20,000 in there is because the expenses are coming out of the General Fund. Chairman Madison asked where the maintenance fees were being paid out of. Steve Malizia said the Lions Hall cost center. Steve Plodzik said, to make things clearer, anything that has special revenue fund status be put below the line and they would just deal with general fund. He said the MS-2 forms are confusing because the funds aren't segregated out. If the Board intends for the Lions Hall fund to be totally self-supporting, the revenue source should be indicated, which will offset the appropriation. It won't be raised by taxes. DRA takes the gross appropriation, less estimated revenues, and the difference is raised by taxes.

Chairman Madison asked how they were doing Lions Hall right now. Steve Plodzik said they should check and see. Whatever the appropriation is for Lions Hall, they have a fund balance of approximately \$20,000. He didn't know what the anticipated fees will be, but it should be self-supporting if they realized

\$20,000. He'd have to look and see if there was an inter-fund transfer from the General Fund, if it was subsidized to get it started. Estimated revenues also includes use of any fund balance as a revenue source.

He continued reviewing the list of funds. With "Gifts, Grants and Contributions," the Board can accept the money and, in effect, appropriate that money during the year. They have a right to spend it. John Drabinowicz asked if those donations are not considered unanticipated revenue. Steve Plodzick said they can be, in some cases. If the Town plans to receive federal grants for a project, that should be anticipated in the operating budget for 98-99. Schools always do. John gave an example of someone bequeathing to the Town \$500,000 for a new roller skating rink. He asked if the money could be spent in that fiscal year. Steve Plodzick said absolutely, if they follow the appropriate RSA that allows for the acceptance of those monies.

(Start Tape 2, Side A)

If the RSA's have been followed to the letter, he would increase both side of the budget-up the appropriation by \$200,000 and the revenue by \$200,000 so the Town won't be penalized. John asked if that could be done in the middle of the year. Steve said absolutely, that 31:95 B gives that authority.

Next, he discussed fees collected by the Planning Board and impact fees, which indicated that under RSA 674:21, the governing body authorized expenditures of impact fees. Selectman Jasper questioned that, saying that he thought the Planning Board was the one authorized to spend. (Priscilla left the room to go upstairs to get the RSA.) Steve Plodzick said there are two types of fees covered by two statutes:RSA 674:21 and RSA 673:16 II. Some have to be expended within five years, or it has to be paid back. The Planning Board wouldn't have authority to start a major project. Selectman Jasper said he always thought there was a conflict because the Planning Board collects it and then spends it, but the Selectmen have to authorize them to do the work on the roads. Steve said impact fees were very different than engineering fees, or things like that. The RSA's would outline the differences in fees collected under the two statutes.

Selectman Jasper said Steve was correct in saying that impact fees would have to be returned within five years if they weren't used, but he is familiar with the statute that says the monies shall not be expended without the approval of the Planning Board. Steve said maybe the Planning Board has to approve it before it goes to the governing body, just to authorize it. They have to have an appropriation by Town Meeting to expend the fees. Selectman Jasper said they haven't been doing that. Steve asked if they have been expending the impact fees. Chairman Madison and Selectman Jasper said yes, they have. Selectman Jasper said they recently authorized \$65,000 from impact fees for the lights on Route 111, with no appropriation. Steve thought the Board should get legal clarification because he didn't know how the fees had been set up. Chairman Madison said Attorney Ratigan was used to set up the fees. Steve suggested that John Ratigan have a discussion with DRA.

Chairman Madison clarified that the Town could not use the impact fees unless it goes before Town Meeting. Steve Plodzick said yes, that's what DRA is saying--and he wouldn't want to challenge that, although the Board could since the Town has already been doing it and Attorney Ratigan thinks it is correct. Chairman Madison said they've been doing that for years. Steve said if no one has challenged the

Town, including DRA, he wasn't in a position to. Probably nothing would be done unless someone, like a John Bednar, went to DRA to challenge the Town.

John Drabinowicz said the schools have a special revolving account set up for things like the store, and they have revenues coming in. They are now expending that to buy computers. He wondered what that came under. Steve said it would come under special revenue funds, and they should be budgeting for those expenditures. The Alvirne Trustees accounts are nice to have, but they should be budgeting for things on a gross basis, in his opinion. Chairman Madison didn't want to discuss the schools, but she does know they've asked the Trustees for things in the past, and they have been refused.

Selectman Jasper read from the RSA's, 674:21, "Any impact fee shall be accounted for separately, shall be segregated from the municipality's General Fund, and may be spent upon the order of the municipal's governing body and shall be exempt from all provisions of RSA 32 relative to limitation and expenditure of Town monies." Steve said if a town budgets properly, they will budget for impact fees. He said there are so many things like this going on, it is nearly impossible to keep track of things. He could probably finagle the figures to show that any budget is not over expended because of encumbrances, special revenue funds and other things. You have to be a scientist to keep up with everything. He said the money should still be appropriated.

Selectman Jasper said 673:16 says, "Shall be held in separate, non-lapsing account and not mingled with municipal funds, provided however, that such fees may be used to reimburse any account from which an amount has been paid out in anticipation of receipt of said figure." Steve said the Planning Board has authority over that.

Steve Plodzick wasn't too familiar with the Motor Vehicle Reclamation fund. He knew something about it, but couldn't remember what it was. Selectman Dilworth said Nashua and Derry are charging a fee for registering a car that is used to defray costs for disposal of tires. Only a few towns are doing that. Steve said it was a good matrix to use for general guidelines.

Steve Malizia asked for an explanation of the Earned Time Trust Fund. Steve Plodzick said the Town has an expendable trust fund that was established under 34:1 A. Having established a fund, the agents to expend may do so at any time. It does not have to be reappropriated. The key is, as with capital reserve funds, to make sure the Warrant Articles states that the Selectmen are the agents to carry out that fund. More and more communities are establishing funds for things of a capital nature, such as a piece of equipment or major repairs to buildings, so they don't get caught short. Schools are doing that more and more as a way of segregating funds. It's actually a good way to set some monies aside for future expenditures. The Selectmen, as a Board, are given a leeway to make expenditures without going back to Town Meeting. Once the fund has been established, they can transfer monies from the operating budget. A line item to transfer to an expendable trust fund. They could do away with some special warrant articles by doing that, once the fund is established. Some towns have an insurance appropriation. Whatever they don't spend in that insurance, they have a warrant article to transfer any unexpended balance to an expendable trust fund for risk management, for future insurance costs. That's another way to manage funds and set some things aside.

Selectman Jasper said he had been convinced that the Planning Board spent the impact fees because of the way the process developed in Town, which had to do with whether or not they could do a water study. At the time, Planning Board Chairman Lenny Smith was saying that it was the Planning Board's money and they were going to spend it. Obviously, that's not the case. He's also thinking about the whole Bush Hill fiasco. The Planning Board established how much the impact was. They said to the developer, "You are going to do (for instance) \$150,000 worth of roadway improvements." That means the Planning Board bypassed the Board of Selectmen, according to what they just learned. Steve said he wasn't sure if it was collected under 673 or 674.

Selectman Jasper said maybe the Selectmen have to sit down with the Planning Board and Attorney Ratigan to sort this out. Chairman Madison said instead of collecting the impact fee from the developer, the Planning Board told the developer to make road improvements. Selectman Jasper said, if that is impact fee money, a recommendation to expend should have come before the Board of Selectmen. Chairman Madison noted that the Selectmen are meeting with the Planning Board on November 4, so they could talk about it that night. Steve Plodzik said it would be helpful to him to find out whether or not these were impact fees. Chairman Madison said there weren't any monies that changed hands; the Planning Board authorized road improvements in lieu of money. Selectman Jasper said various funds may have been lumped together. Steve Plodzik suggested getting clarification from the Attorney what particular RSA they are applying this against. If it's 674, it's clearly the Board of Selectmen; if it's 673, it's the Planning Board.

Selectman Jasper said Manny Sousa paid the Fire Department \$5,000 to cover the expenses for the controlled burn on Lowell Road. He told the Fire Chief, and Paul agreed, they couldn't gross up the budget because of that. Selectman Madison said she talked to the auditor about it back when it happened so they could do the reimbursement. Selectman Jasper said no one ever told him. Steve said the key criteria is whether or not it was over and above what he would normally pay to do it.

Selectman Jasper said the Town encumbered a whole lot of things at the end of the year and asked if that was all straightened out.

(Start Tape 2, Second Side)

There was some discussion on the \$5,000 in the Cemetery Trustees account that they were going to use to repair stones. Even though now purchase orders were written, it was still ok to encumber it, if the work was going to be done and if there were not additional requests in the next budget for another \$5,000. Steve Plodzik said that he went over the encumbrance listing and he is satisfied with the internal controls in place.

There being no further questions, Chairman Madison thanked Steve Plodzik for being present tonight and for imparting his expertise and wisdom relative to financial items.

5. NONPUBLIC SESSION

Motion by Selectman Jasper, seconded by Selectman Stewart, to enter Nonpublic Session under RSA 91-A:3 II (d) Consideration of the acquisition, sale or lease of real or personal property which, if discussed in public, would likely benefit a party or parties whose interests are adverse to those of the general community carried 4-0 by roll call vote.

Nonpublic Session was entered into at 8:33 p.m. and was terminated at 9:23 p.m.

Motion by Selectman Seabury, seconded by Selectman Jasper, to seal the Minutes carried unanimously.

6. OTHER BUSINESS

1. Mayor Davidson's Invitation re "# 1 Celebration"

Chairman Madison asked if any of the Selectmen were available to attend tomorrow night's celebration starting at 6:30 at Greeley Park. All of the Selectmen had previous commitments.

2. Hills Memorial Library Open House

The Open House to meet the new Library Director, Donna Lolos, is scheduled for September 21, from 1-5.

3. The Mayor's Regional Roundtable Meeting

The Regional Roundtable is scheduled for October 4 at the Crowne Plaza in Nashua.

4. HPD Swearing in Ceremony

The swearing in of Lt. Don Breault and Sergeants Lavoie and Smith is scheduled for Friday, September 19 at 4:00 p.m. at the Police Station.

5. Department Head/BOS Staff Meetings

The next Department Heads-BOS meetings are scheduled for 3:30 p.m. on November 17 (Sr. staff) and November 24, 1997.

7. ADJOURNMENT

Motion to adjourn at 9:30 by Selectman Jasper, seconded by Selectman Stewart, carried unanimously.

Recorded and Transcribed by Priscilla Boisvert

Executive Assistant to the Board of Selectmen

HUDSON BOARD OF SELECTMEN

E. Lorraine Madison, Chairman

Rhona Charbonneau

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