

Goffstown School Board – Audit findings – options for the Board’s consideration to manage surplus funds

Revised – January 3, 2018

The following were used for tax rate projections – these numbers are consistent with what the Town used for their 2018 budget preparations

Projected 2018 MS-1 Values = \$1,458,772,100 x 100.5% = \$1,466,065,961	
+/- \$0.01	+/- \$14,660.66
+/- \$0.10	+/- \$146,606.60
+/- \$1.00	+/- \$1,466,065.96

Options for the Board’s consideration to manage surplus funds:

1. Return all surplus money at the end of Fiscal Year 2018 (June 30, 2018)
 - a. Approximate value of \$9.1 Million is around a \$6.21 reduction in the local school tax rate assuming the tax impact from the table above – this would appear on the December 2018 tax bills
 - i. Current tax rate is \$14.63 but this was reduced from \$15.02 when the School Board liquidated \$570,613 from the 2.5% fund
 - ii. New tax rate for one year would be approximately \$8.81 for local school portion in December 2018
 - iii. The potential reduction for a \$200,000 house would be \$1,242
 - b. It is important to recognize that drastic swings in the tax rate can be very difficult for anyone who has their taxes paid with their mortgage through an escrow account
 - i. Potentially resulting in the lender issuing a refund check one year and then if tax collection amounts are not adjusted the subsequent year could result in a shortage and the need for homeowners to submit a check to cover the tax shortage

Some statistical/demographic information for the Board to consider from Town Assessor Scott Bartlett

- There are approximately 6,400 properties in Goffstown
- Approximately 40% of these properties have transferred since April 2011

- Approximately 10% of these properties have transferred since April 2017
- 58% of all properties have the same owner since 2011
- Approximately 50% of property owners pay their taxes through an escrow account
- Next year is a re-evaluation year for Goffstown

- Tax payers who sold their properties will not benefit from a tax reduction – however, when you sell a property, you sell all rights and privileges for that property
2. 2.5% of net appropriation can be kept on the books – currently, there is no money in the 2.5% fund because the Board used this money for tax relief for the December 2017 tax rate
 - a. This money can only be used for two purposes: tax relief and emergency expenditures with approval from the Commissioner of Education
 - b. According to the DRA, the maximum deposit for the Goffstown School District is \$615,131
 3. Provide the voters an option (or several options) to manage the release of this surplus money
 - a. Capitol Reserve Funds – All money to be retained by the Trustees of the Trust Fund - CRF establishment would be on the March 2018 Warrant for the town to vote on.
 - i. According to RSA 35
 1. RSA 35:1 Establishment of Reserve Authorized
 - a. Any town, school district, village district or county may raise and appropriate money for the establishment of a CRF for the financing of all or part of the cost of:
 - i. Construction, reconstruction of acquisition of a specific capital improvement
 1. CRF for capital projects – could be CIP-approved projects
 2. Shall the Goffstown School District create a capital reserve fund under the provisions of RSA 35:1, to be known as the Capital Improvements Plan Capital Reserve Fund, for the purpose of funding approved CIP Projects, and to raise and appropriate TWO HUNDRED FIFTY THOUSAND DOLLARS (\$250,000.00) to be placed in said fund, with the funds to come from the

June 30, 2018 unassigned fund balance available on July 1, 2018. Furthermore, to see if the District will vote to designate the School Board as agents to expend from the Capital Improvements Plan Capital Reserve Fund. This appropriation is in addition to Warrant Article #2, the Operating Budget Article. (Majority vote required.)

b. CRF for land acquisition

- i. Article 4 - Shall the Goffstown School District create a capital reserve fund under the provisions of RSA 35:1, to be known as the Land Acquisition Capital Reserve Fund, for the purpose of land purchase with the funds to come from the June 30, 2018 unassigned fund balance available on July 1, 2018. Furthermore, to see if the District will vote to designate the School Board as agents to expend from the Land Acquisition Capital Reserve Fund. This appropriation is in addition to Warrant Article #2, the Operating Budget Article. No amount to be raised by taxation.

b. Land purchase

- i. From our attorney - Shall the Goffstown School District vote to raise and appropriate the sum of {INSERT \$} for the purpose of acquiring property located at {INSERT ADDRESS/MAP/LOT.} The sum to come from the June 30, 2018 unassigned fund balance available on July 1, 2018. This appropriation is in addition to Warrant Article #2, the Operating Budget Article. No amount is to be raised from taxation.
- ii. From the DRA - Shall the Goffstown School District vote to purchase land in the with funds to come from the June 30, 2018 unassigned fund balance available on July 1, 2018. This appropriation is in addition to Warrant Article #2, the Operating Budget Article. (Majority vote required) No amount to be raised from taxation.

4. Special Legislation

- a. The timeline for submitting legislation has passed – to consider submitting a special bill, unique and specific to Goffstown and/or New Boston would need approval from the Rules Committee
 - i. We have worked with our Senator D’Allesandro to explore legislative options:

1. Expand fund retention beyond 2.5% - RSA 198:4-b
 2. Allow the Goffstown and/or New Boston School Districts to create a Reserve Account similar to towns and the Manchester School District – RSA 198:4-b III
 3. Allow a Capitol Reserve Fund to be created for tax relief - RSA 35
 - a. Proposed Section 35:1-d
 - b. 35:1-d Reserve Fund for tax relief. – The Goffstown School District may establish a reserve fund to be used for tax relief. The School Board will be the authorized agent to determine amounts from the CRF to be used for tax relief at the end of the school district’s fiscal year. The creation of this reserve fund must be approved by the voters. The School Board must hold a public hearing to allow residents to provide input on the amount to be used for tax relief. Such funds shall be subject to all provisions and limitations of this chapter as are applicable to capital reserve funds. The legal validity of such a fund properly established shall not be affected by its designation as a "trust," "reserve," "capital reserve," or any other designation.
5. Paying off existing obligations – this would allow for tax relief through the reduction of future budgets
- a. GHS Bond
 - i. bond is set to expire in 2022 – the following debt schedule as found in the Town Report from January 2017
 - ii. Per the contract documents relating to the 2010 issue of the refunding bonds, these bonds cannot be redeemed prior to their respective maturity dates.

Goffstown High School Bond Payments by Year	Principal	Interest	Amount Due
2018-2019	580,000	81,975	661,975
2019-2020	570,000	58,974	628,974
2020-2021	565,000	36,275	601,275
2021-2022	555,000	12,488	567,488
Total Outstanding Bond	3,465,000	409,600	3,874,600

According to the NH DOE, if we were to pay off the GHS bond early, this would not impact the total amount of building aid we would receive because building aid is only applied to the principal not to interest payments.

Building aid payments are made twice a year, in October and in April. We received half of our 2017-2018 building aid payment in October and are scheduled to receive the second half of the 2017-2018 payment in April of 2018. If we were to pay the bond off early, we would need to provide supporting documents to the NH DOE. They would then be able to make payment adjustments based on the two scenarios below:

NH DOE Building Aid Payment Schedule:

Current Building Aid payment schedule:

2017 - 2018	282,695.82
2018 - 2019	278,195.82
2019 - 2020	269,195.82
2020 - 2021	266,945.82
2021 - 2022	262,445.82

Total payments = \$1,359,479.10

If the bond is paid off early – Building Aid will be:

2017 - 2018	\$282,695.82
2018 - 2019	\$278,195.82
2019 - 2020	\$798,587.46

Total payments = \$1,359,479.10

Important note:

While researching the possibility of paying off the GHS Bond early with respect to Building Aid, I was notified by the NH DOE that there appears to be a situation where Goffstown should have received an additional \$261,000 in Building Aid in FY 2012. I had never been aware of this underpayment but the previous Business Administrator was notified and did not take action. In 2011/2012, Goffstown only received \$35,195.82 for Building Aid and it appears that we should have received an additional \$261K. This situation will be addressed in collaboration with the DOE.

- b. Honeywell Phase II Project
 - i. Total project was \$2,132,500
 - ii. \$167,302.52 per year due on July 15th
 - iii. Honeywell energy contract financed through Pinnacle Public Finance (2013): Section 22 of the Master Lease Purchase Agreement permits prepayment. Per Section 22, if the district elects prepayment, it must notify Pinnacle at least 60 days before it makes payment, and on its regularly scheduled payment date of July 15, pay the annual amount otherwise due on that date of \$167,302.52, plus the buyout price of \$1,524,876.03 (which reflects a prepayment penalty of 2.1%), for a total payment of \$1,692,178.55. These figures can be found in Exhibit A-1 to the Master Lease Purchase Agreement.
 - 1. Our attorney spoke with Pinnacle this afternoon and confirmed the ability to prepay and payment amounts. Pinnacle can prepare a formal prepayment quote should the district elect this option.

- c. Elementary modular classrooms
 - i. Total cost for modular classrooms – \$573K plus interest
 - ii. Approximately \$126,349 per year – we are in year 1 of a 5 year lease – one payment has been made on the total cost
 - iii. Modular classroom buildings financed through First American Commercial Bancorp (2017): The Master Lease Agreement does not provide for a prepayment option. Instead, there is an addendum to the agreement permitting the district to purchase the equipment at the end of the lease term for \$1.
 - 1. Our attorney spoke with First American this afternoon who confirmed that First American’s agreements generally do not include prepayment options. However, they indicated that First American might be willing to make an exception in this instance, likely in the form of an acceleration of the remaining payments due under the contract. This request is being discussed internally at First American. First American requested an email confirming our request that First American explore a prepayment option, which was sent.

Additional information:

- 1. It is important to remember that only up 10% above what the BC recommends can be approved – the order of any warrant articles is important

2. The \$9.1million does not include FY 18 unreserved fund balance – either underspend of the general fund or the over collection of revenue (such as New Boston tuition)