

## **FINANCE COMMITTEE**

### **MEETING, February 27, 2019**

A scheduled meeting convened at 7:00 p.m. in Room 5.

Members of the Committee in attendance: Mr. Creighton, Mr. Weld, Ms. Harrison, Mr. Pratt and Mr. Oldeman. Ms. Mellish and Mr. Even were not in attendance.

Town Administrator, Mr. Federspiel, Finance Committee Clerk, Ms. Hunter and Town Accountant, Ms. Mainville were also in attendance.

Mr. Creighton called the Finance Committee meeting to order.

**Review of Meeting Minutes:** Minutes for February 20, 2019 were reviewed but not approved.

**Review of Town Budgets:** Stabilization and OPEB

- Stabilization

The Committee discussed the vote to move \$100K into the Stabilization Fund which is currently 30% of reserves. To move funds out of the Stabilization Fund requires a 2/3 vote at Town Meeting. Given the current status of Reserves which are at 17% the Committee following a comprehensive discussion recommended not moving funds from Reserves to Stabilization.

*Mr. Creighton moved to not pursue \$100K into Stabilization Fund in FY 2020, Mr. Pratt seconded the motion. The motion passed unanimously.*

- Other Post-Employment Benefits (OPEB)

Mr. Federspiel indicated the Town is further ahead of most Communities in contributing to OPEB. Funding OPEB is estimated to be completed in 2033.

Mr. Pratt suggested putting extra cash into OPEB. Our trust earnings outpace what we get from our general reserves thus we could put our money to work better. Mr. Federspiel stated OPEB assumes that the health insurance industry remains as is for the next 20 years, which may or may not be the case.

Mr. Creighton and Ms. Harrison felt there were better ways for the Town to invest its reserves that resulted in more tangible benefits to voters today.

*Ms. Harrison moved to approve \$258,311.00 for OPEB, Mr. Weld seconded the motion. The motion passed with 4 in favor and 1 opposed.*

### **Review of Capital Projects and Planning:**

Mr. Federspiel indicated the Town is quite conservative when it comes to estimating local receipts, primarily excise tax and permits. Operating budgets are tighter, however, they often come in lower than originally budgeted and the differences add up. Mr. Pratt asked for clarification – local receipts are underestimated by \$800K and then you add an additional \$200K which is \$1M in cash at the end of the year. Mr. Federspiel agreed stating the Town was planning on spending \$1.3M from Reserves for Capital Projects.

Mr. Oldeman stated it would be interesting for the Budget Process to strive for zero increase to reserves and suggested budgeting consistent with the past 2 years for estimating local receipts. Mr. Federspiel stated when you make this type of change you need to map it out strategically. Historically the excess has been pushed into Capital and OPEB. Mr. Pratt stated we've done that, and the Fund Balance continues to grow.

Mr. Federspiel stated for this coming year one thought has been to be less conservative with local receipts and to get to a 1 ½ tax increase instead of a 2 ½ tax increase. With this approach the \$800K would be cut back to \$600K.

Mr. Oldeman pointed out we've talked in the past and there's a limit to how much Capital work the Town can tolerate. Mr. Federspiel stated \$3M appears to be a comfortable amount, but it really depends on the type and location of the projects but this coming year with Water Pipe improvements we will be at \$4M.

This year the expenditure on water is \$1.2M – originally it was \$100K. The Town is accelerating the process to improve water flow to the areas of Town with the lowest volume.

Mr. Federspiel moved onto the possibility of a School Override in the Town's future. Instead of taxing higher the Town could pay for the Override with the less than conservative local receipts. Does that make it too easy for the District to acquire additional funds? That's where it get a little political but none-the-less we know that an Override is coming. Instead of raising taxes we could pay for it through less conservative local receipts. Mr. Federspiel believes the Town needs a real strategy for the additional money.

Originally Mr. Federspiel thought the Town would use some of the funds for the new Memorial School and we still could, but voters approved the full exclusion. Mr. Creighton stated if the Town is less conservative on receipts you have more income with funds available for the school.

Mr. Pratt stated we know the revenue is coming we need to forecast the receipts. What we spend it on is a different discussion. Mr. Federspiel stated it helps us maximize flexibility. For example, for FY 2020 you could utilize some of the local receipts to pay school debt, still

increase the general tax at 2 ½, and give taxpayers relief by not increasing the full amount per the original debt exclusion. Ms. Harrison stated you're lowering the taxes by not increasing the full tax increase for the new debt.

This is a possible strategy for paying the School Debt – by tapping into local receipts to pay debt service. Evaluate this annually. Reserves will not go up because you're using more of the previously underestimated receipts to pay debt. It can be adjusted year to year. Mr. Weld stated this is like the 5-year Capital Plan -- you have a plan, so we don't have to do an override. You begin to develop a strategy while the Town gets its reserves down to 10% while strategically managing the levy.

Mr. Federspiel indicated this does not need to be decided now but he thought he would introduce the possibility for discussion. Less conservative in determining receipts instead of an \$800K surplus – you'll have a \$500K surplus and easily put \$300K to debt service. Combined with using reserves for the transition to cash for capital the Fund Balance will be reduced and then flat.

#### **North Essex Agricultural & Technical School**

Mr. Pratt asked about the increase in spending for North Essex Agricultural & Technical School. Mr. Federspiel indicated the number of students enrolled in the School as of October 1, 2018 had increased. He noted the Town should have known about the increase sooner and in the future will confirm with our Representative prior to estimating the budget for FY 2021.

Mr. Pratt asked about the impact the number of students enrolled would have on the MERSD Budget. Mr. Federspiel indicated it is difficult to know where the students were enrolled prior to North Essex Agricultural & Technical School. Were the students in private school or recent move-ins to Manchester? The Apportionment formula is based on total enrollment in MERSD and if the number of vocational students increases to 20 or 25 there may be an impact on the formula and incremental savings.

**Electronic Voting:** Mr. Creighton asked what would happen if another Town joined in the purchase of the electronic voting equipment. Mr. Federspiel stated the funds would go into Reserves and noted in the budget. The Annual Town Meeting on April 1, 2019 will introduce the new equipment as a complimentary trial run for the proposed purchase.

*Mr. Weld moved to approve \$45K for electronic voting equipment, lap tops and software, Mr. Oldeman seconded the motion. The motion passed unanimously.*

#### **Water Pipe Replacement:**

The Town is proposing upgrading water pipes from Magnolia Avenue eastward in response to the fire on University Lane. Hydrants in this area of Town produce no more than 500 GPM. Additional capital funds to accomplish more of this in the coming year could come from the general fund reserve and enterprise reserves.

The originally proposed capital plan for FY 20 had \$100K for water pipe upgrades and \$280K from the general fund for sewer plant and pipe upgrades. It is proposed the Town use the sewer fund balance in the amount of \$280K and redirect \$280K general fund money to water pipes. In addition, the Town could add \$350K from the water fund balance and take \$500K from the general fund balance.

The water pipe replacement budget could have \$1.23M to improve flows in the eastern portion of Town. This proposal would correct about half of the low flow areas. With a similar effort in FY 21 the Town should be able to correct the remaining eastern portion of Town.

Mr. Creighton asked if you looked at the entire Town what would the cost be? Mr. Federspiel responded that would be \$40 million over 30 years.

The Committee also discussed:

- A loop from Ancient County Way to Plum Hill which would cost an additional \$500K
- A better option for connecting the area would be a loop from Colburn Road to Magnolia at an estimated cost of \$1.5M
- Mr. Oldeman proposed Mr. Dam, DPW Director, come to a Finance Committee meeting to discuss the options more comprehensively.
- Tanker Truck was also considered and could be purchased with funds currently in the Fire Engine Fund.
- Mr. Federspiel reviewed changes in Fire Department protocols for structure fires in Town: Tanker Truck from Essex will be sent on first alarm with additional Tanker Trucks coming from Middleton and Boxford.

*Mr. Weld moved to approve the Water Department Capital Budget of \$1,425,000, Mr. Oldeman seconded the motion. The motion passed unanimously.*

*Mr. Weld moved to amend the Harbor Budget to \$125,000 to provide for engineering costs for future dredging, Ms. Harrison seconded the motion. The motion passed unanimously.*

**Annual Town Meeting – Warrant Articles:**

- Article 1 – the Finance Committee takes no position.
- Article 2 –

*Mr. Weld moved to recommend Article 2, Ms. Harrison seconded the motion. The motion passed unanimously.*

- Articles 3, 4 and 5 were previously recommended by the Finance Committee as part of the Budget process.
- Article 6, Capital Exclusion in the amount of \$550K. It was recommended by the Committee that Article 6 become 2 articles: one for the ambulance and one for the Central Street Culvert.
- Article 7 – repurpose funding for LED Street Light Conversion for HVAC system at Town Hall.

*Mr. Weld moved to support Article 7, Mr. Pratt seconded the motion. The motion passed unanimously.*

- Article 8 and 9 were previously recommended by the Finance Committee as part of the Budget process.
- Article 10 – 375<sup>th</sup> Anniversary of Manchester-by-the-Sea.

*Mr. Weld moved to support funding for the 375<sup>th</sup> Anniversary Committee, Ms. Harrison seconded the motion. The motion passed unanimously.*

- Article 11 was previously recommended by the Finance Committee as part of the Budget process.
- Article 12, Spending limit of \$280K for Parks & Recreation Department for fees and expenses for FY 2019.

*Ms. Harrison moved to support Article 12, Mr. Pratt seconded the motion. The motion passed unanimously.*

- Article 13 – By-law change to include electronic voting at Town Meetings.

*Mr. Weld moved to recommend Article 13 for approval, Ms. Harrison seconded the motion. The motion passed 4 in favor and 1 abstaining.*

- Articles 14 and 15 – the Finance Committee takes no position.
- Article 16 – Stabilization contribution from Reserves will be deleted assuming the BOS agrees with the Finance Committee.
- Article 17 was previously recommended by the Finance Committee.

Ms. Mainville indicated Mr. Sherman is available for the March 20, 2019 Finance Committee meeting.

**Other business that comes before the Finance Committee, discussion only.**

Final Minutes, February 27, 2019

**Adjourn:** *Ms. Harrison moved to adjourn the meeting, Mr. Oldeman seconded the motion. The motion passed unanimously.*

**Meetings Scheduled for Finance Committee:**

March 6, 2019, March 13, 2019 and March 20, 2019

**Meeting Materials:**

- FY 20 Preliminary Budget
- Finance Committee Minutes February 20, 2019
- Updated Budget Sheets