

FINANCE COMMITTEE – Meeting, January 13, 2021

A remote Finance Committee meeting was scheduled at 7:00 p.m.

Present: Ms. Mellish, Mr. Creighton, Mr. Weld, Mr. Oldeman, Mr. Twining and Mr. Nahatis

Absent: Mr. Pratt

Board of Selectmen: Ms. Jaques

School Committee: Superintendent, Ms. Beaudoin, Finance Director, Mr. Urbas, School Committee Members, Ms. Erdmann and Ms. Cameron

Staff Present: Town Administrator, Mr. Federspiel, Finance Committee Clerk, Ms. Hunter

Guests:

Ms. Mellish called the Finance Committee meeting to order at 7:04 p.m.

Review of Meeting Minutes

Minutes for December 21, 2020, approval was delayed for consideration of Mr. Pratt's suggested edits.

MERSD FY22 Budget Presentation and Finance Committee Discussion

Ms. Beaudoin asked what level the Committee would like for the presentation and proposed featuring areas of growth and drivers. Ms. Mellish would like to have the District highlight areas of savings and impact on the school year.

Ms. Beaudoin stated the FY22 budget is based on returning to school in September 2021 for a normal school year. Covid related expenses are not included in the proposed budget and are reported on a separate slide. Covid relief funds will be covered with reserves.. Overall, there are no savings in the operation budget from Covid. The District is proposing spending in traditional areas facilities, staffing and health. With the exception of some sports programs everything in the District is up and running.

It is anticipated when students return to school we may need to reorganize and reallocate resources to support the return. Early assessments indicated there has not been significant loss in academic achievement over the past months. However, when students return to the new normal it is anticipated there will be some trauma around returning to the school environment. While some school phobic students thrived in the remote learning environment most students will need some form of social emotional support and time to adjust.

Mr. Urbas stated there were some savings from the school shut down phase and the savings were discussed before passing the FY21 budget in June. The District used \$200K to \$300K to prepay Out of District (OOD) tuition which is approved by DESE. During the same time, it was

anticipated the District would realize a 10% to 20% decrease in State aid. State aid was level funded for FY21.

Presentation

FY22 Operating Budget Overview

- Initial goal is to provide Level Services at a minimum
 - Maintains same level of program currently in place (excluding Covid response)
 - Essential program changes historically funded via efficiencies/restructuring due to funding constraints, but few new reduction options remain.
 - Cuts made between FY18-FY21 have not been restored.
- Excluding forecasted growth in mandated health insurance and special education transportation, FY22 Level Services is affordable within Proposition 2.5.
 - Annual growth excluding these statutory requirements is 3.27%
- Gap between Level Services and sustainable funding is \$611K in Tentative Budget (\$335K repeat use of E&D + \$276K anticipated adjustment). Options include:
 - Cost saving opportunities and program reductions.
 - Increased Town contributions
 - Use of one-time reserve funding (short-term solution only)
- Covid costs in FY21 continue to be funded by CARES Act, anticipated FEMA reimbursements and MERSD reserves.
- FY22 Tentative Operating Budget = \$27.95 million
 - 4.25% (\$1,14 million) spending increase from FY21 budget
 - Requires \$611K yet-to-be-finalized spending efficiencies/reductions.
 - Prior tentative gaps: \$430K, FY21, \$380K FY20 and \$900K, FY19
 - Only \$275K of \$611K gap is new, \$335K is carry-forward of FY21 reserve revenue commitment.
- Preliminary FY22 Operating Assessment Increase = 3.75%
 - Measures cost increase to Towns after deducting “Other Revenue” (e.g., State Aid) from spending needs.
 - High end of MERSD’s sustainable multi-year budget range
 - 5-year average assessment is just 3.1% amid average State Aid increase of 2.0%
 - Assume FY22 Chapter 70 level with FY21 expected, up 10% from FY21 budget.

FY22 Operating Budget Drivers

- Compensation: \$697K (61%) of spending growth
 - 4.01% at high end of multi-year budget scenarios. No new FTE.
 - 2.5% contracted COLA for FY20 – FY22 + 1.5% est. step/column
 - Savings possible pending retirements. Limited restructuring opportunities remain.
- Health Insurance: \$337K (30%) of spending growth
 - Initial rate increase estimate of 6%, based slightly below medical trend.

- Migration to Health Reimbursement Accounts (HRA) has improved cost and utilization.
- Savings possible as MERSD's preliminary utilization (through July) is strong/better than average. Monitoring monthly. Each 1% reduction in rate = \$43K
- Continued growth in retirees covered (164), now greater than active employees (159)
- Out-of-District (OOD) Tuition/Transportation: \$201K (18%) of spending growth
 - Tuition stable (\$50K/6% growth) following significant uptick in FY20, FY21, related to move-ins and residential placements (5 current placements > \$100K/year).
 - \$150K est. transportation growth, due to disparate program locations.
 - Circuit Breaker (CB) aid has grown, but State has delayed reimbursing OOD transportation.

Closing Remaining Budget Gap

- Options to close remaining budget gap include:
 - Health Insurance – potentially \$130K
 - Current utilization < industry trend: HRA savings has been significant, still too early to predict, monitoring monthly.
 - Staffing \$ TBD
 - Retirements not yet known, but some expected.
 - Restructuring opportunities may exist but need further review and may not generate savings.
 - FTE reductions still not an advisable option.

Budget Highlights: Revenue

- 7.7% growth in non-assessment revenue, well above spending rate, reducing pressure on Town Assessments.
 - New State Aid program remains on hold amid Covid uncertainty.
 - FY21 expected is level with FY20 actual, budget had conservatively assumed 10% cut, which has not materialized.
 - Transportation Aid picture still uncertain due to Covid impacts.
 - Assume \$325K School Choice revenue, flat w/FY21 as offset to spending.
 - Actual FY21 intake did not replace 12 graduating students from Class of 2020 due to Covid/classroom capacity concerns.
 - These 12 students plus 5 graduating in 2021 would need to be replaced in 2022.

Committee Discussion

Ms. Mellish asked if during remote learning the District required fewer substitute teachers and was that a savings. Ms. Beaudoin stated elementary schools have been in the hybrid model since mid-October at an increased cost of \$327K for substitute teachers. The District has done away

with traditional substitute teachers in the High School using proctors unless the teacher is out for an extended period. Substitute teachers are in Middle and Elementary Schools. The costs of opening with substitute teachers has eaten up the projected FY 21 budget. It is hoped that CARES Act dollars can be used for elementary full year substitutes.

Mr. Creighton asked for an early read on the District apportionment stating 50% is based on enrollment and the enrollment is usually 2/3 of students from MBTS and 1/3 of students from Essex. Mr. Urbas stated he has not yet estimated the apportionment with the full calculation due in early March.

Mr. Nahatis stated the 4% pay raise for teachers puts pressure on the budget. He asked about the \$500K estimate for turf fields and suggested that budget would go a long way to maintaining regular grass fields.

Mr. Urbas stated the past contract with teachers provided for a 2.5% COLA, that contract ends this year. In the past COLA increases have been as low as 0%. The additional 1.5% in teacher salary increase is from step and column increases which are standard for all MA teachers. Ms. Beaudoin stated the District inherited the turf fields and with turf fields there are more days of play, but she is willing to see an analysis of grass fields and will rely on the Towns for direction.

Mr. Twining asked which communities the District was compared to. Ms. Beaudoin stated Hamilton/Wenham, Cohasset, Georgetown, Newburyport and high achieving schools as measured by *Boston Magazine*. High achieving does not measure everything, but the District is competitive academically. We are most like Hamilton/Wenham which is a two Town regional district. Ms. Beaudoin stated that teacher salaries in the District are average statewide and low compared to other schools in Cape Ann.

Mr. Twining asked why maintenance went down. Mr. Urbas replied there are several parts to maintenance that are facility related including utilities and maintenance this year is projected to increase. There was some savings in utilities in the spring but now the District is running equipment for fresh air intake vs. on an efficiency model.

Mr. Oldeman stated he noticed Middleton had a Special Education stabilization fund and wondered if that would be helpful for the District. Ms. Beaudoin pointed out that was not allowed for Districts vs. Community run schools.

Mr. Creighton asked about the District projection for transportation stating the number is up but should that be down given people are not traveling. Mr. Urbas stated that projection was based on not receiving State aid and a projected increase in the contract with Salter which is due this year. Additionally, the District is running half full buses to assure social distancing. Ms. Beaudoin pointed out buses have been running at full schedule for elementary schools. The District did save on charter trips for athletes.

Ms. Beaudoin reminded the Committee there is a Public Hearing on January 26th with the Towns and a School Committee vote on the budget the first week in February.

FY22 Operating Budget Overview, Items Needing Additional Information

Ms. Mellish stated this is an opportunity for the Committee to review the budget and determine if additional information is needed from Mr. Federspiel. The Finance Committee will work through each budget in future meetings.

- General Government – Selectmen’s Department, Information Technology, Moderator, Finance Committee, Elections & Registration, Accounting, Assessors, Treasurer Collector and Town Clerk
- Public Safety – Police, Fire, Harbor Master, Building Department and Animal Control
 - Mr. Twining asked about the increase in Police staffing budget, Mr. Federspiel stated the Department was back to full staffing.
 - Mr. Oldeman stated he did not see anything in the Fire Department budget but wondered if the new Chief would have a different equipment philosophy.
 - Mr. Weld questioned the Fire Department’s operation model due to decrease in Call Firefighters.
 - Mr. Twining asked to review regionalization as it relates to Dispatch.
 - Ms. Mellish stated she was interested in the Harbor Master’s proposed Floating Office in the Capital Budget.
 - Mr. Nahatis suggested a surveillance camera to manage boat traffic around Reed Park similar to stop light technology.
 - Mr. Oldeman requested additional information about the Building Department’s software update.
- Department of Public Works
 - Mr. Oldeman would like to revisit staffing and potential retirements.
 - Ms. Mellish would like to discuss appropriate size of DPW vehicles and mentioned snow removal for sidewalks.
 - Mr. Twining would like to understand rising tides and what risks look like in the future and how those risk will impact DPW’s work.
 - Mr. Oldeman asked about the Central St. Culvert and the status of the project.
 - Mr. Nahatis stated he was reviewing the Central St. Culvert and would like to see the Town consider rehabilitation of the existing dam.
 - Mr. Creighton asked about engineering work ahead of projects and would like to hear about engineering work as it relates to projects proposed for the coming year.
 - Ms. Mellish asked about the boat ramp and jersey barriers. She wondered if that was related to rising tides. Mr. Federspiel stated the barriers were not related to rising tides but for drivers who are not paying attention and drive down the boat ramp.
 - Mr. Oldeman asked about water line pipe replacement and what was the status of the work Town wide.
- Other Environmental -- Historic Commission and Conservation Commission

- Human Services – Health, Veterans Services and Council on Aging
 - Ms. Mellish stated the Committee needs to discuss the Senior Center. Mr. Federspiel stated nothing has changed with the Church. Availability of the building depends on their fundraising and Mr. Federspiel stated additional conversations need to take place with the Masons.
 - Mr. Creighton asked if the option on the Church would require a Fall Town Meeting. Mr. Federspiel stated the timing may catch up with the Town. Ms. Mellish stated there is a six month option on the Church and there was time to schedule in the Annual Town Meeting or a Special “Fall” Town Meeting.

- Library
 - Ms. Mellish stated she would like to identify a date on the committee’s calendar to accommodate the Library Trustees who like to participate in the budget discussion.

- Parks & Recreations: Parks & Recreation Department, Singing Beach Operations, Lifeguards, Tuck’s Point & Crowell Chapel and Other Recreations, Memorial Day and July Fourth
 - Ms. Mellish would like Parks and Recreation to come in to discuss any wild cards in their budget. Mr. Federspiel stated the Department’s revenue was down \$200K this past year but hoped for a more normal season for 2021.
 - Mr. Weld stated CPC had approved engineering for Sweeney Park.
 - Turf Field vs. Grass Fields and costs related to maintaining both in the District and Town budgets will be discussed.

Additionally, Ms. Mellish would like the Finance Committee to discuss the philosophy around grants for the Town and funds required to match grant funding. Mr. Mellish is interested in understanding the Town’s capacity to manage grants applied for and awarded.

Discuss Format of Town Quarterly Reports for Finance Committee

Ms. Mellish stated Ms. Mainville had forwarded quarterly reports this year compared to last. Ms. Mellish would like to see summary points added to the reports. Additionally, she would like to review the Excise Tax revenue and possibly other revenue items that are of interest to the Committee. Ms. Mellish believes the Committee needs to watch for potential revenue shortfalls to determine in advance if the Town is in trouble in some categories. Ms. Mellish stated next week the Committee will go through additional summary information.

40B Recap

Mr. Federspiel stated the consultant reports for fiscal and traffic impacts around the proposed 40B project had been forwarded to the Committee. The consultants will participate in tomorrow evening’s BOS 40B workshop. Ms. Mellish stated the fiscal assessment was completed using last year’s tax rate not this year.

Mr. Federspiel stated in general the fiscal report came pretty close to and confirmed the Developers projections. The traffic analysis focused on concerns around the road into the property. Mr. Oldeman asked about the projected impact on the District. Mr. Federspiel indicated the consultant had increased the number of students from 30 to 36 and lowered the per pupil cost assigned to each student by eliminating the District's fixed costs.

The Committee briefly discussed the projected number of students compared to current enrollment based on the ratio of Town's existing population to students. Mr. Creighton proposed looking at total number of housing units in Town to define the potential number of students and suggested the number of students could be higher. Ms. Mellish stated the Town's apportionment for the District will increase. Mr. Federspiel stated the Town cannot deny the project due to fiscal impact the is against State law.

Ms. Mellish stated there are several apartments currently in Town charging an affordable rates and some below that rate, but homeowners are reluctant to add the deed restriction to their properties afraid it will impact resale value. Mr. Creighton asked Mr. Federspiel to add the 40B project to the multiyear model to review during this budget season.

Agenda Items for 1/21/2021 Meeting

- Fire Department
- Review 40B Peer Reports
- Capital Project Summary
- 40R Community Impact
- Continue review of FY22 Town Budget

Mr. Weld asked about response to the compost site RFP. Mr. Federspiel stated it was not encouraging. The bid received was incomplete with too many deviations from the bid specifications.

Other Business for the Finance Committee (discussion only)

Adjourn

Mr. Oldeman moved to adjourn the meeting, Mr. Nahatis seconded the motion. The motion passed unanimously.