

TOWN OF GROTON FINANCE COMMITTEE

Tuesday, January 26th 2016

Legion Hall, 75 Hollis St. Groton, MA, 7:00 p.m.

Present for Finance Committee: R. Hargraves (Vice Chair), B. Robertson, B. Pease, P. DuFresne (Town Accountant, Recording), G. Green (Chair), Art Prest, and D. Manugian

Absent: M. Bacon

Also Present: J. Petropoulos (BOS), R. Harris (press), P. Comptois (press), K. Forsmo (resident), and F. Kolak (resident)

Documents available at the meeting: Reserve Fund Transfer Request – Planning Board
Expenditure Projection by Major Category
Debt Service Proposal 1/26/16 (M. Haddad Email)

Mr. Green called the meeting of the Finance Committee to order at 7:00 p.m.

Minutes – On a motion by Mr. Hargraves, seconded by Mr. Pease, the Finance Committee voted to approve the meeting minutes from January 7th, 2016 (School Committee Needs Assessment Review Meeting and FY17 Town of Groton Budget Presentation Meeting) as drafted. The Vote: 3-0-3 (Mr. Prest, Mr. Manugian & Mr. Green abstained as they were not present at those meetings)

FinCom Liaisons for FY16 – Mr. Green inquired as to whether any member would like to change their liaison assignment for the FY17 budget cycle. No changes were requested, therefore the liaison listing from FY15 will remain in place for FY16.

Proposed Benefits/Budget Review Committee – The members reviewed Mr. Pease’s original draft, as well as Mr. Green’s revision, of the document requesting that the BOS charge a committee with reviewing benefits. Mr. Green noted that his version includes a wider focus than simply reducing salaries and benefits costs. He would like the proposed committee to identify any municipal budget items that are growing unsustainably and recommend a course of action to address this. Mr. Pease felt it would be more prudent to focus the charge on those areas that are already known to be problematic: salaries and benefits. He believes that as the Finance Committee is uniquely positioned to identify what the problematic budget drivers are, the most efficient way to get started on correcting those problems is to provide a more focused charge to the new committee. Mr. Kolak would like to address the question of “What is fiscally responsible versus fiscally sustainable?” Mr. Robertson noted that there are only a handful of true budget drivers to consider: benefits, wages and debt. Mr. Green maintained that he was comfortable with the scope and direction presented in his revised document.

The group engaged in a lengthy discussion of how to choose members for this committee. Mr. Petropoulos felt that given the unpleasant nature of the mission, it was important to get “buy-in” from town employees. Therefore he suggested that at least two (2) employees should be included. Mr. Pease agreed that “buy-in” on the part of affected groups was necessary if any changes were ever to be implemented. Mr. Green noted that the charge ultimately given to the committee should inform the way in which members are chosen for it. For instance, if the charge is specific to researching ways to reduce salary and benefits, the Human Resource Director should be included. If however, the charge is broadened to identify any and all unsustainable budget drivers, perhaps the Town Accountant would also be an appropriate choice. He noted that the Board of Selectmen will ultimately make the final decision. Mr. Hargraves stressed the importance of ensuring that the proposed committee does not have a hidden agenda or the perception of a hidden agenda. The group discussed the number of participants and decided that 7 members would be large enough to permit an appropriately diverse group without being so large as to be unwieldy. Mr. Forsmo suggested that if the Town Manager was the individual most directly involved in labor union negotiations, it would be a conflict of interest to allow him to participate on this study committee. Mr. Green disagreed saying that this was an advisory committee only and would not be making any policy decisions therefore there would be no real conflict. Mr. Pease was concerned that the Town Manager would have a disproportionate amount of influence on a committee that includes employees of the Town. Mr. Hargraves agreed saying that including the Town Manager would put the group in an uncomfortable position. Mr. Kolak suggested that a member of the School Committee be allowed to participate. Mr. Green disagreed saying that the committee could reach out to School Committee members for consultation when needed, as they could any other Town organization with expertise to offer. Mr. Harris suggested addressing management practices that could help control the budget, such as adopting specific productivity measures to assess operational efficiency. Mr. Pease opined that all future management practices should include improving automation whenever possible.

Mr. Robertson feels strongly that this committee should be skilled at municipal budgeting and have a clear understanding of what the rules are regarding what can be changed and what cannot be changed. He said that while it would be great to seat people from varying perspectives, expertise will be equally important. Mr. Pease reiterated that if the FinCom narrows the scope of the committee charge, then it will be easier to select people with the correct skill set to serve effectively. Mr. Petropoulos suggested that the committee members be limited to taxpayers only. Mr. Green stated that a committee chosen for expertise would be more effective than one chosen for passion. The Finance Committee agreed to provide the following list as a recommendation to the BOS for the makeup of the proposed committee: Town Treasurer, H.R. Director, Town Accountant, one member from the Personnel Board, one member from the Finance Committee, one member from the Board of Selectmen and one citizen at large.

Mr. Green asked whether further discussion was needed to determine the scope of the charge. Mr. Robertson pointed out that there were only a few items that could be identified as true budget drivers. Mr. Prest said that the scope could be left relatively broad for now as the committee should quickly arrive at a consensus regarding where to focus their attention. Given that argument, Mr. Pease saw no reason to waste a committee’s time when both the FinCom and BOS were basically in agreement on where the energy should be focused. He suggested narrowing the scope of the charge, and also wondered whether the committee should be given a budget in case consultant services were needed. Mr. Hargraves replied that the committee could access the BOS expense budget if necessary.

On a motion by Mr. Hargraves seconded by Mr. Robertson, The Finance Committee voted unanimously to forward to the Board of Selectmen the recommendation to charge a Committee to Study Sustainable Municipal Budget Growth as drafted by Mr. Green.

The Vote: 6-0-0

FY17 Proposed Town Operating Budget- The Finance Committee requested that both the Town Treasurer and the Country Club General Manager be asked to attend the budget meeting on 2/13/16. This would allow the group access to information regarding debt structuring as well as the status of Country Club operations under the revised business plan. Mr. Robertson initiated a discussion regarding the FY17 budget growth target of 2.2%. He said that changes made to the FY16 budget after the preliminary FY17 budget numbers were presented led to unexpected results in the final FY17 budget that was presented to the FinCom and BOS. The fact that the debt service totals decreased, allowed the wages and benefits budget line room to grow while still limiting overall growth to 2.2%. The effect of this is to make an already unsustainable budget line even more unsustainable. Therefore, Mr. Robertson would recommend that an additional \$140,000 be cut from the proposed FY17 Operating Budget in order to offset the effect of the unexpected debt service decrease as well as the FY16 budget changes voted at the Fall Town Meeting. He believes that future savings (such as the \$200k known to be available in the County Retirement budget line for FY19) should not be earmarked to offset current expenses. There is no way of knowing what legitimate needs might arise between now and FY19, which might represent a more worthy use of the \$340k savings that would exist if the final budget numbers were as originally proposed. Mr. Green reminded the group that the Saturday, 2/13/16 budget meeting was more about identifying and gathering information about operational issues than about making actual changes to the proposed budget. Mr. Robertson suggested that as the FinCom members participate in the discussion on February 13th, they keep in mind that the unsustainable line has grown by \$140k over last year, and they should be thinking about how to change this without major impacts to citizen services. He added that the 5-Year Budget Projection is clearly unsustainable as it calls for 3% growth for the schools, however it is already known that at least one school district will need 4% annually to meet its needs.

Mr. Kolak felt that Town employees should not be receiving 2% COLA adjustments as well as up to a 2% merit adjustment. Mr. Green explained that the decision had been made to negotiate to replace 3% guaranteed step increases with a program allowing up to 2% merit increases. He added that while the Finance Committee would have preferred that the merit increases not be added to the base wage, this is in fact how the step increases had been calculated in the past. Mr. Robertson noted that there will be additional direction from the BOS and FinCom prior to union negotiations going forward which should help to reduce unexpected results. He added that wages should not necessarily be tied to inflation, that wages per ADP are up on average between 2 and 2 ½%. The Finance Committee and BOS should be using this period before the next round of labor negotiations to determine exactly what the Town will have available to spend on those contracts. Then that number can be provided to the Town Manager and he can choose to spend that at his discretion. He went on to say that the process has already been improved and will continue to improve. Mr. Green reminded the group that employee wage increases represent an easy target, but there may be other costs in the labor contracts that could prove even more expensive. Mr. Forsmo recommended strengthening the negotiating team to keep wages down. Mr. Green replied that this has already been accomplished as the FinCom and BOS will have a more direct impact on the contract goals and direction prior to the start of negotiations as well as during the process. The BOS will still retain control of the final ratification of those contracts, although the CRC was asked to consider

altering this. Mr. Manugian offered the fact that median household income in Groton grows between 5 and 6% year over year. Mr. Forsmo said that this does not necessarily mean that incomes are increasing, only that the Town is becoming more affluent. Mr. Petropoulos said that the proposed committee must make the implications of unsustainable budget growth very clear to all stakeholders. Mr. Robertson cautioned about the use of the word "unsustainable." He said that this term should be used to reference a potential future outcome, not the current situation. The proposed committee should be looking for ways to change the long-term trajectory. Mr. Green agreed with this assessment. The Town has balanced 5-year projections now, although the school district needs are clearly unsustainable and unpredictable (due to enrollment variability). He added that employee benefits costs are growing nationally; this is not solely a Groton problem, although it is time now to start looking at ways to mitigate the effects.

The group briefly discussed the feasibility of presenting several budgets at Town Meeting (FinCom versus BOS versus Town Manager). Mr. Green was strongly in favor of presenting a unified balanced budget. Mr. Robertson agreed saying that if the Finance Committee presents a realistic budget, he believes that it should be possible to reach a consensus with the BOS and Town Manager.

The Finance Committee members updated their proposed agenda for the Saturday, 2/13/16 budget meeting and agreed to provide a copy for the BOS for their meeting on Monday. Mr. Green asked that any specific questions that the FinCom liaisons might have for the Department Heads be sent to Ms. Dufresne. She can then forward those to the Department Heads so that they can be prepared to address these issues. Mr. Petropoulos mentioned that Mr. Degen might also have additional budget topics that he will be proposing at that meeting. The group agreed that those additional topics should be brought up during the departmental review as appropriate; anything left unaddressed would be taken up for discussion before the end of the meeting.

FY17 Debt Service - The Finance Committee briefly discussed the email regarding FY17 Debt Service sent from the Town Manager to the FinCom members on 1/26/16. Mr. Prest noted that this proposal does in fact result in a financial savings to the Town (issuance costs on a permanent bond issue being estimated at \$50,000, it is prudent to limit the number of bond issues scheduled). Mr. Robertson agreed with this position, but reiterated his belief that we should not get into the habit of spending future savings to fund present operations. He feels strongly that the wage line should be kept flat for FY17.

School District Operating Budget – Mr. Pease said that there would be no changes to the Groton Dunstable Regional School District agreement that would impact the FY17 budget. The committee will not be addressing the various funding mechanisms again until later in the review process.

Reserve Fund Transfer for Planning Board Salaries - Ms. Dufresne explained that a Reserve Fund transfer would be necessary to fund the payout for the retiring Town Planner's vacation accrual. The amount requested is \$13,548 which will cause a deficit in the salary line well before the end of this fiscal year. The committee agreed that as the salary for the newly hired Land Use Director is not yet known, they would prefer to wait before authorizing the transfer (as it is possible that less than \$13,500 will ultimately be needed).

FinCom Committee Interest Form Received – Mr. Pease mentioned that a Committee Interest Form had been received from a citizen looking for a seat on the Finance Committee. He wondered if it would be

useful to encourage that individual to begin attending meetings in order to learn about the issues and be positioned to step in should a current member resign. Mr. Petropoulos cautioned about creating a de facto new member in that fashion. He suggested that the BOS be consulted regarding this matter to avoid prejudicing the process of recruitment.

Mr. Green officially adjourned the meeting at 8:55 p.m.

Respectfully submitted,

Patricia Dufresne, Recording Secretary

EXPENDITURES BY MAJOR CATEGORIES	Appropriated FY 2015	Appropriated FY 2016	Dollar Increase	Percentage Increase	Proposed FY 2017	Dollar Increase	Percentage Increase
Regional Schools	\$ 18,328,798	\$ 18,862,805	\$ 534,007	2.91%	\$ 19,611,740	\$ 748,935	3.97%
Municipal Wages	\$ 6,481,967	\$ 6,820,119	\$ 338,152	5.22%	\$ 7,080,988	\$ 260,869	3.82%
Employee Benefits	\$ 3,133,724	\$ 3,507,389	\$ 373,665	11.92%	\$ 3,746,884	\$ 239,495	6.83%
Debt Service	\$ 1,308,721	\$ 1,383,590	\$ 74,869	5.72%	\$ 1,282,713	\$ (100,877)	-7.29%
Sub-Total	\$ 29,253,210	\$ 30,573,903	\$ 1,320,693	4.51%	\$ 31,722,325	\$ 1,148,422	3.76%
Other****	\$ 2,937,390	\$ 2,806,427	\$ (130,963)	-4.46%	\$ 2,726,767	\$ (79,660)	-2.84%
TOTAL	\$ 32,190,600	\$ 33,380,330	\$ 1,189,730	3.70%	\$ 34,449,092	\$ 1,068,762	3.20%

Breakdown of "Other" Expenses

<i>Municipal Building/Property Maint.</i>	\$ 287,350
<i>General Highway/Road Maintenance</i>	\$ 229,300
<i>Police General Expenses/Minor Cap</i>	\$ 216,647
<i>Library General Expenses</i>	\$ 199,842
<i>Snow & Ice Gen Exp/Hired Equip</i>	\$ 200,000
<i>Insurance & Bonding</i>	\$ 227,000
<i>Reserve Fund</i>	\$ 150,000
<i>Fire General Expenses</i>	\$ 168,000
<i>Tipping Fees</i>	\$ 130,000
<i>Country Club General Expenses</i>	\$ 123,789
<i>Miscellaneous Other Expenses</i>	\$ 794,839
<i>Total</i>	\$ 2,726,767

Patricia DuFresne

From: Mark Haddad
Sent: Tuesday, January 26, 2016 6:36 AM
To: Gary Green (ggreen@freetobegreen.com); Bud Robertson; marknjodybacon@verizon.net; repbobh1@verizon.net; David Manugian (dmanugian@gmail.com); Barry Pease; Arthur L. Prest (prest@prest.biz)
Cc: Patricia DuFresne; Michael Hartnett
Subject: Debt Service Proposal

Good Morning Members of the Finance Committee:

During last night's Selectmen's Meeting, I alerted the Board that I wanted to clarify my proposal on the Debt Service Budget contained in the FY 2017 Proposed Operating Budget. To repeat what I said last night, contrary to the headline in the Groton Herald, I did not meet the budgetary goal set by the Finance Committee by deferring Debt Service. Art Prest requested that I forward you my explanation prior to your meeting tonight. Below is the explanation for your review. I look forward to discussing this with the Finance Committee in more detail. Please contact me directly with any additional questions or concerns with regard to this matter.

Mark

During my initial budget presentation, I discussed a proposed plan on Debt Service. There appears to be some confusion with regard to this proposal. I have been contacted by some residents who believe that I am balancing the budget by deferring debt service. As a matter of fact, the Groton Herald has added to this confusion by putting a headline in their edition last week stating that "Haddad Meets Reduced Spending Mandate by Deferring Debt Service Payments." This is absolutely not true. That said, I can understand why some have come to this conclusion. In FY 2016, the Town appropriated the following for Debt Service:

Long Term Debt Excluded:	\$1,172,545
Long Term Debt Within Levy:	\$ 86,045
Short Term Interest Within Levy:	<u>\$ 125,000</u>
	\$1,383,590

When we established the FY 2016 Budget in December, 2015, we carried the amount of \$125,000 for short term interest to cover the costs associated with Capital Projects being requested at the 2015 Spring Town Meeting (Lost Lake Fire Protection, Radio Project and Four Corner Sewer Project). When the budget was established, we had no idea what the costs would be for interest and established a very conservative budget based on advice from our Financial Advisor. In reality, when we finally borrowed the money, the actual cost was \$8,113, or \$116,887 under budget. This money will not be spent in FY 2016 (unless a major shortfall comes up in another budget in which it can be transferred). It should be turned back as free cash. In FY 2017, we are appropriating the following for debt service:

Long Term Debt Excluded:	\$1,148,208
Long Term Debt Within Levy:	\$ 78,172
Short Term Interest Within Levy:	<u>\$ 56,333</u>
	\$1,282,713 or \$108,877 less than FY 2016

While we over-appropriated Short Term Debt in FY 2016, we actually increased the budget by \$48,222. We have not deferred debt service to balance the budget. While you can make the claim that we used the over-appropriation to meet the 2.2% budget goal, we did not defer debt to make this happen. It was always our plan to wait to permanently finance these projects when it was in the best interest of the Town to do so.

In determining when to permanently finance this debt, we examined the Five Year Capital Plan and found that it calls for the replacement of the Fire Department's Ladder Truck in FY 2018 at a cost of almost one million dollars. In our opinion, it did not make sense to permanently finance the projects approved in 2015 with such a major purchase that would require bonding the following fiscal year. Therefore, we are recommending that we continue to roll over the interest payments on these issues for the next two fiscal years and permanently finance these issues when we borrow the funds to buy the new Ladder Truck in FY 2018. By waiting, we will see a reduction in our Pension budget of \$190,000 in FY 2020 when we pay off the increased assessment caused by the early retirements approved in the 1990's. This can then be used for Debt Service. This will minimize the impact to our residents. In FY 2017, we are proposing a debt service budget within the levy limit of \$134,505, a reduction of \$76,540. The following Chart illustrates the impact to tax payers by waiting three years to permanently finance the 2015 Capital Projects as well as the Ladder Truck:

	FY 2017	FY 2018	FY 2019	FY 2020
Debt Service Budget	\$134,505	\$97,383	\$99,180	\$ 333,213
Pension Budget Savings	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$(190,000)</u>
Net Debt Service Budget	\$134,505	\$97,383	\$99,180	\$ 143,213

As you can see, the actual additional impact to the Groton Taxpayers for these projects is less than \$50,000 in FY 2020. We may want to consider utilizing the savings in FY 2018 and FY 2019 in the Debt Service Budget for one time purchases so that the actual increase in the Debt Budget in FY 2020 would be less than \$10,000."

I think it is important to point out that when the Town borrows money, it pays upwards of \$50,000 in one-time costs. To go out in consecutive years would be irresponsible and costly. In addition, borrowing money every year is not looked upon favorably by the Bond Rating Agencies and it may lead to increase interest costs by having our AAA Bond rating reduced. We are very careful when it comes to borrowing money. We establish a five year capital budget so that we can properly plan our budget.

Mark W. Haddad
 Town Manager
 Town of Groton
 173 Main Street
 Groton, MA 01450
 (978) 448-1111
 FAX: (978) 448-1115
mhaddad@townofgroton.org

REQUEST FOR TRANSFER FROM THE RESERVE FUND

(To be submitted in triplicate)

Date 1-26-76

Advisory Board
Town of Groton

Gentlemen:

Request is hereby made for the following transfer from the Reserve Fund in accordance with Chapter 40, Section 6, of the Massachusetts General Laws:

1. Amount requested: \$ 13,548.....

2. To be transferred to: Planning Board Salaries
(give name of appropriation)

3. Present balance in said appropriation: \$ 34,672.

4. The amount requested will be used for (give specific purpose):
to fund vacation accrued pay out for retiring employee.

5. This expenditure is extraordinary and/or unforeseen for the following reasons:

Retirement was not anticipated when FY16 budget was set.

[Signature]
Officer or Department Head

Action of Advisory Board

Date of Meeting Number Present and Voting

Transfer voted in the sum of \$

Transfer disapproved

.....
Chairman Advisory Board

Request must be made and transfer voted before any expenditure in excess of appropriation is incurred.

NO ACTION Taken at this time.
[Signature]