

**West Newbury Finance Committee
Minutes of the Meeting
Monday, October 2, 2017**

Finance Committee Meeting

Chairman DeLena called the Finance Committee meeting to order at 7:04 p.m. in the second floor hearing room of the 1910 Building with Dr. Beaudoin, Mr. Ellis, Ms. Grammer, Mr. McGrath, and ex officio member Finance Director Gould in attendance.

There being no public comment, the Committee considered its agenda.

Transfer request

None.

FinCom Booklet Review

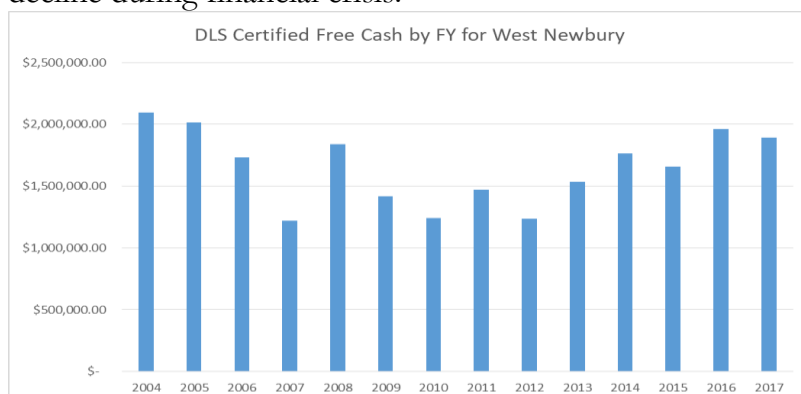
Ms. Grammer thanked Finance Director Gould for providing the chart showing impacts of proposed STM articles on Town accounts to be inserted at the end of the Finance Committee Booklet for the Fall Special Town Meeting. She noted that total Community Preservation funds amount to \$2.5M and wondered how this substantial sum was invested. Mr. Gould replied that this is not what the Investment Advisory Committee looks at and these funds are in a bank account—not invested.

Dr. Beaudoin noted a correction to the Booklet appendix concerning groundwater protection and Ms. Grammer noted that she had updated some of the standard Booklet glossary terms. *The Committee agreed that Ms. Grammer would circulate one last draft of the FinCom booklet and print 200 cc via Kym Codair on Wednesday.*

Free Cash, Stabilization Funds, Gradual Tax Rate Changes & Related Issues

Finance Director Gould warned that the Massachusetts Department of Revenue has advised that certification of Free Cash may now take longer (as much as three week weeks) and that he has heard that it may take ten days for West Newbury to obtain certification. This, he said, could make timing tight in terms of obtaining certification prior to Fall Town Meeting.

The Committee reviewed Chairman DeLena's chart showing substantial Free Cash, with some decline during financial crisis.



The Committee viewed this as evidence that ad hoc attempts to address Free Cash have not been successful.

Mr. McGrath, with Committee agreement, observed that Free Cash is the result of two generally sound and appropriate practices: 1) conservative

estimates of revenues + 2) under-spent budgets. Neither practice should be discouraged. The Committee did note that the recently-established budget form that is part of the “What to Expect When Presenting an Article or Budget to FinCom” process does require a statement of department turnbacks, which can be a learning tool.

Nonetheless, the Committee concluded that a long history of Free Cash significantly above the 5-7% goal is not a good thing:

- 1) Messrs. Ellis and McGrath expressed concern that excess Free Cash cumulatively reflects over-taxation; the money should be in taxpayers’ pockets.
- 2) The Committee observed that prevalent use of Free Cash—and not the Stabilization Account—on various capital items has contributed to damage to the Capital Improvements process.
- 3) Free Cash (a significant portion of Town assets) is not invested and thus the money is not earning what it could.

Finance Director Gould stated that school building costs could cause a drop in Free Cash, and if there were a debt exclusion, taxes could increase. Mr. McGrath questioned whether there would, in fact, be a major tax hit. Mr. Gould suggested an annual \$500K transfer of Free Cash to the school stabilization fund as a means of reducing Free Cash and buffering the tax increase associated with the school costs.

Based on research of Department of Revenue Division of Local Services data, Chairman DeLena reported that West Newbury has very substantial taxing capacity. As of 2017, the Town has \$746K excess levy capacity and an override capacity of \$9.12M. Mr. Gould noted that it was unlikely even with large foreseeable expenditures that the Town would experience very sharp swings in tax rates because it is well managed and has considerable levy capacity.

Ms. Grammer noted that aside from ad hoc tax rate buydowns and expenditures of excess Free Cash in various Articles, built-in ways to reduce Free Cash might be:

- 1) systematically transferring \$300K of Free Cash in the Stabilization Account as we used to do before the Capital Improvements process faltered (or some other amount);
- 2) systematically transferring some amount of Free Cash into other (Pension and/or School) Stabilization accounts;
- 3) developing systematic means of annual Free Cash reductions, such as a bylaw or policy that
 - a) automatically allocates x% of revenues in excess of estimates plus x% of underspent budget amounts to the following year omnibus budget, and/or
 - b) achieves the goal of Free Cash at 5-7% of the operating budget by buying down the tax rate.

The Committee stated strong support for the concept of funding stabilization accounts—particularly the Capital Improvements process—but identified current problems with all of the Town’s stabilization accounts. Particularly with regard to the Pension and School stabilization accounts, we are currently lacking:

- 1) a good idea of what the estimated large expense will be and when it will be due, with annual reviews of the target amount vs. the amount in the stabilization account;
- 2) clear plans for when and how the stabilization account will be withdrawn, with periodic reviews based on current data regarding target amount vs. the amount in the stabilization account; and
- 3) an investment policy for each stabilization account that reflects information identified as needed, maximizes return and ladders investments to the scheduled withdrawals, and which itself is reviewed annually.

Ms. Grammer suggested the following steps as potential means of managing and strengthening the stabilization accounts process:

- 1) making it clear to Town departments and committees that if they want to get a new capital item, that item needs to be
 - a) on the Capital Improvements Schedule at least 5 years before the expenditure, and
 - b) funded through the Stabilization Account—*not* Free Cash;
- 2) ensuring a full complement of actively involved Capital Improvements Committee (CIC) members—which currently is in place;
- 3) establishing regular (bi-annually, quarterly, whatever) meetings among the CIC, FinCom and/or Board of Selectmen (BOS) to support and assist the CIC;
- 4) requiring an annual CIC report for Annual Town Meeting (as per bylaws);
- 5) reconciling and balancing School Stabilization, Pension Stabilization, Capital Improvements Stabilization Accounts in terms of priorities and funding timing and amounts;
- 6) reviewing and implementing best practices for capital improvement planning, and stabilization account operation and management, and/or
- 7) developing and implementing a strong investment policy that ladders investments in synch with planned withdrawals from a given stabilization account.

*The Committee generally agreed that the Town should have and implement clear stated systematic mechanisms to **both***

- 1) *properly fund and manage all stabilization accounts (with resolution of the problems identified), and*
- 2) *reduce Free Cash.*

The Committee further generally agreed that

- 1) *funding of stabilization accounts should be accomplished by means of raise and appropriate, which provides citizens a transparent and disciplined means of evaluating tax dollars put into each “savings account,” and*
- 2) *systematic annual reduction of Free Cash should be ensured through a policy requiring a standard Annual Town Meeting (ATM) Article that effectively adds an amount of the most recent Certified Free Cash available at the ATM (which amount is derived as that needed to achieve the 7% goal) to revenues used to fund that ATM’s Omnibus Budget.*

With regard to the idea of a separate increase in taxes to fund stabilization accounts **and** reduction in taxes via the 7% contribution from Free Cash. This approach was preferred to simply using a transfer of Free Cash to achieve essentially the same result because the additional steps’ transparency gives citizens a better opportunity to consider and be educated about their investment in

stabilization accounts. It also allows a disciplined, transparent means for systematically reducing Free Cash and avoiding over-taxation.

The Committee also considered and discussed various mechanisms for using a percentage of excess available Free Cash to fund the upcoming Omnibus Budget. Dr. Beaudoin noted that rather than using a percentage of underestimated revenues + the same percentage of underspent budgeted funds, it would be simpler to state the formula as based on a target of maintain Free Cash at x% of the operating budget, Free Cash being the sum of those two components. Since the Selectmen and FinCom agree upon the 5-7% goal, it makes sense to define the annual contribution from available Certified Free Cash as that needed to achieve the 7% target.

Upon additional discussion, the Committee further agreed that

- 1) it would simpler and afford more flexibility if this means of addressing Free Cash were established as an important, agreed upon policy as opposed to being written into the bylaws, and*
- 2) there may need to be a transition period before the 7% target was reached—which transition should be considered and determined as part of implementing the Free Cash reduction program.*

With this methodology (putting aside any transition steps deemed appropriate), for the April 2018 ATM we would

- 1) Determine the amount of Certified Free Cash from FY 17 available at that time, subtracting amounts spent pursuant to the prior October 2017 Special Town Meeting;
- 2) Calculate the amount of available Certified Free Cash that exceeds 7%;
- 3) Include an ATM Article that effectively adds the excess Free Cash to projected revenues used as the basis for the FY19 budget presented at the April 2018 ATM.

The Committee further generally agreed that Chairman DeLena would obtain data from Mr. Gould regarding past years' underestimated revenues and underspent budgets. Mr. DeLena would use that data to run some scenarios testing the proposed formula.

Minutes

The Committee approved the 9/25/2017 minutes 5-0-0

Town Updates

Dr. Beaudoin provided an update on the Planning Board's study of a package treatment plant for West Newbury's downtown. Present at the most recent meeting was a representative of the Open Space Committee, residential abutters to the downtown, the Town Health Agent, and others such as Haverhill Bank, which has just undertaken to purchase and install its own fully compliant septic system. Directly affected businesses such as the Food Mart and the Pizza Shop were not present.

Dr. Beaudoin explained that under controlling regulations, systems servicing up to 10K gal/day are treated like household septic systems, and package treatment plants are expected to be used for systems handling over 10K gal/day. It is not clear that the downtown, or even much of the nearby area of Main Street and Gardner Street added to downtown could exceed 10K/day to warrant a package sewage system, but this will be examined even though the ostensible purpose is to enhance the downtown and bring additional businesses and revenues.

Another option would be to have the downtown businesses look at a smaller cluster septic that *they* could site and purchase.

The consultants indicated that the best place to locate a package sewage plant would be the Mullen Property. Mr. McGrath indicated that this is currently unused Town-owned property roughly across from the Carr Post on Main Street and extending back toward the Merrimack River.

Dr. Beaudoin noted that more distant locations may require greater piping and pumping. Ms. Grammer said that such additional parts can mean more maintenance and more that may break. Also, a package sewage plant emits strong, unpleasant odors. The Committee observed that this may be unpopular with the neighbors, particularly those not benefiting from the plant.

It was also explained that typically a municipality sets up a Sewer Enterprise Fund using a 2% federal loan. The Town issues the bond, and then owns, maintains, and operates the system, and then charges a Town betterment fee to those in the area that may benefit from the system—whether their property uses it or not. The average charges are \$860/yr for a package treatment plant. There are also a one-time hookup fee and other fees. This could allow individuals with small lots on Main Street make greater use of their property.

Upcoming Meeting

7:00 p.m.: Monday, October 16, 2017: To discuss the question of Free Cash, stabilization accounts, and related issues with the Selectmen.

The meeting adjourned at 10:27 p.m.

Respectfully submitted,

Elisa Grammer
Secretary

Meeting materials:

Revised draft booklet
Draft minutes for 9/25
Articles spreadsheet