

**West Newbury Finance Committee  
Minutes of the Meeting  
Monday, October 30, 2017**

**Finance Committee Meeting**

Vice Chairman Ellis called the Finance Committee meeting to order at 7:00 p.m. in the second floor hearing room of the 1910 Building with Ms. Grammer, Dr. Beaudoin, and Mr. McGrath in attendance. Finance Director Gould also attended.

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

**Transfer request**

None.

**Finance Committee**

Mr. Ellis informed committee members Chairman DeLena has resigned from the Finance Committee citing increased work demands. It is unclear if Chairman DeLena has notified the Board of Selectmen (BOS). *Mr. Ellis will follow up with Chairman DeLena.* Moving forward, the recruitment of a new member will take place.

**Post Fall Town Meeting Discussion**

Ms. Grammer stated the meeting went well other than the delay needed to reach a quorum. Mr. McGrath remarked this occurrence is not uncommon and the delay to reach a quorum was less than half an hour.

**Finance Committee Free Cash-Stabilization Proposal**

Ms. Grammer opened the discussion by stating the importance of Finance Committee members to be in total agreement with points presented in the proposal. In order to generate a detailed and timely proposal, Mr. McGrath stated it would be necessary to meet weekly for the remainder of the calendar year and into January. Mr. McGrath stressed the importance of a mid-January completion date. At that time, Fin Com will shift their focus to the budget season.

Mr. McGrath stated, given the time line, streamlining the scope of the proposal is desirable. He suggested concentrating on Free Cash. Although the Capital Improvement Committee (CIC) recommendations are important, the Finance Committee has no authority over their decisions and therefore it is more beneficial to go through the Board of Selectmen (BOS). Ms. Grammer believes the Finance Committee should include both Free Cash and Stabilization in the proposal. Mr. Ellis queried, beyond the approach of the budget season, what is the significance of a mid-January deadline. Ms. Grammer replied this allows the return of excess Free Cash to the citizens in the same fiscal year.

Mr. McGrath stated the first step in developing a solid proposal to a clear definition of all of the terms. He remarked the term Free Cash is not clearly defined. Following definition of terms, the proposal will outline steps to address excess amounts Free Cash.

Ms. Grammer stated she understood the Finance Committee agreed to address both excessive Free Cash and Stabilization. Previously, several capital expenses were purchased using Free Cash rather than from Stabilization funds.

### **Finance Committee Consensus of Important Topics**

Ms. Grammer reviewed some of the previously agreed upon points to include in the proposal.

1. Return of excessive Free Cash back to the taxpayers
2. Free Cash-not be used for Capital Purchases
3. Transparency of deposits and withdrawals from Stabilization

Ideally, Stabilization Fund deposits occur through “raise and appropriate” at Town Meeting. This allows taxpayers a more transparent view of the decision to invest in a Stabilization “savings” Account for a particular purpose. Also, for all Stabilization Accounts, the Town should have a clear idea of when and how much funds go into Stabilization and when and how they are withdrawn. Ms. Grammer added that Mr. Durey is researching methods preventing the gradual increase in Free Cash.

Finance Director Gould reported inclusive in this year’s \$400,000.00 of turn back monies was the \$100,000.00 from a mistake in accounting for Dole Property debt payment. Therefore, turn backs from departments amounted to \$300,000.00. Consequently, the \$823,000.00 surplus drops down to \$723,000.00.

### **Tax Buy Down Timing**

Currently, Tax buy downs occur in the fall. Mr. McGrath explained, at that time, the budget has been set and Free Cash was certified in early fall. He continued, stating the reduction of the tax rate to the largest amount possible be presented as the first article following those required, such as water. Ms. Grammer asked Finance Director Gould what the difference is between a tax buy down in the spring as opposed to the fall. Finance Director Gould explained the first two tax bills of the year are estimates. The December invoice is for the actual tax bill and will impact the current FY’s ultimate tax rate.

### **Available Free Cash**

Committee members discussed how to present an acceptable amount of Free Cash and how to represent it. Should Free Cash be an absolute value or expressed as a percentage? After some discussion, members concluded Free Cash be represented as a percentage. The state recommends a range of 3 to 5% of the total operating budget. It was reported that other organizations propose as much as 7%.

Ms. Grammer stated Mr. McCarron had forwarded a spreadsheet depicting the allocation of Free Cash over the last few years. She added a large amount of Free Cash (greater than 33%) went for Department of Public Works and other capital purchases that were or should have been in the Capital Improvements schedule. Snow and ice is always an annual variable.

Mr. McGrath stated most unexpected expenses could be covered with an amount of \$700,000.00 or 5% of the operating budget. Ms. Grammer queried Finance Director Gould how much Free Cash do most Finance Directors suggest towns have available. He stated, off the cuff, a good amount is \$500,000.00. This translates to 4%. *The Finance Committee will decide on a recommended percentage amount when Mr. Durey is present.*

The definition of Free Cash varies with different organizations. The Finance Committee will adhere to the definition provided by the state, which defines the target level of Free Cash as a percent of the operating budget. *Ms. Grammer will provide the definition at the next meeting.*

Mr. Ellis summarized the Free Cash discussion to date:

1. West Newbury has excessive Free Cash
2. A to-be-determined excess amount of Free Cash should be returned to the tax payers
3. Free Cash should not be used for capital expenses
  - a. Free Cash should be used for unanticipated capital expenses
  - b. All other capital expenses come from Stabilization

Ms. Grammer asked Finance Director Gould about the report of all the Town's Stabilization or Trust funds as reported to the state. Finance Director Gould had forwarded the spreadsheet to Finance Committee members. Depending on the type of fund, information is in different work sheets. *FinCom members will review.*

Mr. McGrath queried if there is a need for a +/- tolerance once a percentage is selected. Ms. Grammer noted that if we target Free Cash as a percentage of the operating budget, it will flux along with the operating expenses.

### **Topics to Research**

Ms. Grammer stated Mr. Durey, with the assistance of the Department of Local Services (DLS), is researching how other towns approach Free Cash. *Dr. Beaudoin offered to confer with the town of Marblehead regarding any bylaws relating to Free Cash they have in place. Additionally, Ms. Grammer will review any DLS bylaws and policies regarding Free Cash.*

### **Free Cash vs. "Raise and Appropriate"**

Mr. McGrath remarked that last year other than Free Cash use for snow and ice and the debt buy down of the fire truck, capital purchases should have occurred through "raising and appropriating funds." Mr. McGrath questioned Finance Director Gould if it had been possible to "raise and appropriate" funds for the recent \$150K Town Manager article rather than with Free Cash. Finance Director Gould replied only if the tax rate had not been set.

Mr. McGrath stated some citizens do not believe excess Free Cash is a problem. Some believe it is best to have a cushion for the "what if" situations. He suggested it might be prudent for the Finance Committee to prepare some "what if" scenarios. Regarding Free Cash, a key issue to address is the combination of departments overestimating budget needs and the underestimation of revenues by the Finance Department. Ms. Grammer reported Mr. Durey is targeting revenue

estimates. Ms. Grammer stated the Finance Committee now requires the reporting of department turn back. This practice allows the committee to more accurately review upcoming budgets.

Mr. McGrath remarked, in recent years, some of the new growth in the town has been in the form of private developments. The properties have added to the revenues while not requiring town services such as trash pickup and snow plowing.

### **Policy vs. Bylaw**

Finance Committee members agreed to present their proposal as a policy rather than a bylaw. The recommended percentage of Free Cash will be determined when all Fin Com members are present.

### **In Preparation of the Finance Committee Meeting on November 6, 2017**

*Ms. Grammer will consolidate points of agreement and update the list of topics.*

*Mr. Durey will present a report on how other towns prevent development of excessive Free Cash.*

### **Stabilization and Trust Funds**

Ms. Grammer will motion for a separate proposal addressing Stabilization. Included in the proposal:

- Stabilization funded with Free Cash or by “raise and appropriate”
- How much is needed and when is it needed
- *Ms. Grammer will contact DLS and research best practices to support capital improvements.*

Mr. McGrath suggested the committee review stabilization funds including:

- Name
- Funded by Free Cash or “raise and appropriate”
- Purpose
- On the tax rate
  - Long term funds such as needed by the Capital Improvement Committee (CIC)
- Not on tax rate
  - Short term funds such as the school stabilization

Ms. Grammer asked Finance Director Gould what is the difference between a stabilization and a trust fund. Finance Director Gould stated stabilization funds require  $\frac{2}{3}$  vote for withdrawal of funds. Whereas, in the case of Other Post-Employment Benefits (OPEB)-a trust fund, the trustees not the town may vote on disbursement of OPEB funds. OPEB funds are invested in the stock market. Finance Director Gould added a third party, the Essex Regional Retirement System (ERRS), oversees the town pension fund.

### **Moving Forward**

Ms. Grammer suggested, once a % amount of Free Cash has been set, running a model comparing tax rate fluctuations in anticipation of questions. *Ms. Grammer will prepare the model. Mr. McGrath will provide mathematical scenarios.*

Ms. Grammer informed finance committee members she has created two-Drop Box cloud storage files:

1. Library of state statutes relative to the Finance Committee
2. All meeting materials generated regarding Free Cash & Stabilization

*Mr. Ellis will communicate with Chairman DeLena regarding BOS regarding his resignation from the Finance Committee.*

The consensus of the Finance Committee is to prepare two separate proposals, one on Free Cash and the other on Stabilization.

Finance Committee members will vote for a replacement for Chairman DeLena on the Investment Policy Committee next week.

### **Meeting Minutes**

*FinCom members voted to approve amended minutes of October 16, 2017, 4-0 0.*

*FinCom members voted to approve amended minutes of October 23, 2017, 4-0 0.*

### **Upcoming Meetings**

Monday, November 6, 2017: 7:00pm

The meeting adjourned at 9:07 p.m.

Respectfully submitted,

Elisa Grammer  
Secretary

*Meeting materials:*

Draft minutes October 16, 2017

Draft minutes October 23, 2017