

## ALG Minutes, Feb. 25 2016

Present: Bart Wendell, facilitator; Kristina Rychlik & Paul Murphy, SC; Margaret Busse & Mike Majors, FC; Katie Green & Peter Berry, BoS; Steve Ledoux, Glenn Brand, Marie Altieri & Steve Barrett, staff

Audience: Janet Adachi & Franny Osmond, BoS; Brian McMullen & Clare Jeannotte, staff; Peter Ashton, Charlie Kadlec & Bob Ingram.

Extra Info: FY15 Municipal Reserve replenishment; MV Excise tax amounts in ALG plan: six year data on MV Excise tax; new ALG plan; FC FY 17 budget plan; poster for baby sitting at town meeting

Minutes accepted

### 2. Nothing to report on update for FY 16

**3 & 4 Spreadsheet and discussion of reserves** [during the course of the discussion it was noted that these two agenda items were melding into one]

Steve B: After last meeting we had a \$293k positive position with the tax levy reduced by \$603k. At Margaret's request, I have developed the sheet for municipal reserve replenishment. The sub total is \$1.9m. The breakdown is: FY 15 turn-back \$197k; Closed encumbrances/articles \$428k; DOR free cash, statutory adjustment; FY 15 Miscellaneous revenue \$259k; FY 15 MV exercise greater than budgeted \$232k; FY15 local receipts greater than budgeted \$352k; FY15 Transfers (Nursing/COA close outs) \$111k.

SB: The Miscellaneous revenue, excise tax and local receipts can't be budgeted higher based on DOR regulations. The closed encumbrances can vary greatly; we have a list of the articles and how much has been used and if the articles may be closed. There is also the action of repurposing some of the articles which has to be passed by Town Meeting. The Nursing/COA is one-time revenue from the close out of the enterprise funds.

Steve also showed the variations in the MV excise taxes: FY15 \$3,231,930; FY14 \$3,003,229; FY 13 \$2,714,651; FY 12 \$2,559,200; FY 11 \$2,599,291; FY10 \$2,514,503. To date this year the amount is \$2,717,000 and another payment is expected. The estimates for the excise tax being carried in the ALG plan: FY 16 \$3,100,000; FY 17 \$3,223,000; FY 18 \$3,287,000; FY 198 \$3,353,000.

Steve L: people are buying cars now but the tax depreciates quickly and people do not buy new cars every year. So it's best to be conservative.

SB: any time after June 30 we are allowed to run a deficit in some accounts while we wait for the state reimbursement. This has happened in the rail trails where we have to wait for the state and federal reimbursements. It also happens under CH 90 (highway) where we have to wait for the state payments. We cannot get paid unless we first spend the money.

Margaret thanked Steve for his work and taking the mystique out of how funds are replenished. Is there a way to take a ten year average of the replenishment numbers to see if there is logic or a trend? Even though there are variables, we can take into account recessions, there must be some methodology.

SB: there was a working group on the reserves tab. We took a three-year average and came out with \$2M

Kristina (looking at the replenishment sheet) we can't plan on the last four—it's not level every year and the numbers can be quite different.

SB: there is a portion we can plan for

Margaret: what level can we put out for next year? We started with \$250k then it went to \$600k and now its \$900k

SB: we don't do close outs every year. It is higher this year. The bottom three is a reflection of the economy.

Marie: we may not get what we need with a 10-year average. Remember there has been a close-out of NESWC. There is the Ch. 70 money that was increasing but now is flat. We also had the Federal stimulus monies that we no longer have; we didn't spend it all in one year but spread it out. Keep in mind that we used \$2.6M but we have \$1.9M replenishment for a net use of reserves of \$700k.

Katie: before the region, the APS monies came back into reserves. Now they go into E&D. A 10 –year look back trying to factor in the APS numbers would really complicate things

Margaret: There should be an adjustment. Marie is saying it's Ok to use the \$2.6M because we got the \$1.9M. I'm not sure if the 10-year average is the right thing to do, I'll have to think about it. Perhaps we can do the average leaving out the unpredictable. Let's budget so we will know the numbers

SB: it's taken me 20 years to get my mind around this whole thing. We need to recognize the management team has kept us going with these very complex issues in municipal finance.

Bart: Is everyone all right with the numbers: The \$2.6M and the replenishment numbers?

Katie: The FC voted on Tuesday and now we have another plan.

Mike: I originally submitted (the FY17 budget plan handed out as extra info). But then withdrew the plan. We did put out what the FC was thinking and given direction.

Katie: you may or may not have discussed this on Tuesday but regardless it is not compatible with the ALG plan.

Mike: we had a lively discussion we identified the SC savings and the issue of reserve (use). We want to limit reserve use to \$1.3 which being realistic will cause net positive to go negative. We by continual cost cutting and lessen the use of want to get away from the dependency on reserves and come up with a structurally balanced budget. We should address the negative net position by cost cutting and revenue enhancement.

Katie: The Town cut \$200k and used the \$985 to the tax levy. This was agreed to on Monday. The board (BoS) is comfortable with \$125 health care savings. There is a general sense that we could move that up to \$200k. We did not talk about limiting the reserve use to \$1.3M in the out years.

Peter went through the FC percentage numbers in the reserves tab and noted that the level in FY 18 is 6.4% and does not fall below the [DOR] recommended 5% level.

Katie: why are you only using the town's \$900k for replenishment and not using the school's E&D?

Marie: I have been trying to understand why the percentages from the FC are lower than the ALG plan. I think we need to include E&D in reserves because the reserves percentage is a percentage of all expenses including the regional assessment. It does not make sense to include it as an expense and not as a revenue source.

Marie: the ALG plan in FY 19 has the level at 4.55% and this is a very conservative budget---but then I read in the FC statement that it falls to 3%. We have has a conversation about taking E&D out of reserves; so you are left with the town budget while 2/3s is the AB assessment. So you have to do free cash as a percentage of the town's budget.

Katie: why not include both (E&D & Towns Free cash) ---we are not using the \$2M in reserves to balance the town budget.

Paul: are there two separate spreadsheets?

Katie: the FC proposal cuts the town spending by \$200k.

Paul: I think the FC needs a third point: the reserves have not been depleted

Steve L: Sudbury uses almost all of their reserves.

Bart: Two questions: there are questions about this AM's document from the FC; is this separate from the original agreement?

Katie: There is a tacit agreement that we can reduce \$200k, but using only \$1.3M in FY 18 & 19 will result in larger deficits which we have not discussed.

Kristina: There are a number of things: the FC has one set of assumptions while the ALG is using another. Why the use of \$1.3M in the future; I wonder how the FC is projecting the reserves and does not seem to project the replenishments. There is the challenge to the school committee of recent realities and I'm wondering if we could come out somewhere in the middle.

Bart: What does that middle look like?

Kristina The \$1.3M is too low. Maybe it could be OK if we have more replenishment---that means more than the \$900k.

Margaret: I'm comfortable using the E&D as part of the reserves the rating agencies look at both the schools and the town.

SB: The rating agencies look to the long term. They are not interested in the percentage being five or ten. In the conference call they look at per capita income; the ability of the town to repay; at the differential in the demographics. They don't add up the E&D and free cash. They are more interested in our collection rates which are at 99.9%---that really carries the day. They look at the overall valuation and the SF tax rate.

Margaret: when they look sat overall reserves, do they just look at the Town?

SB: They do compute free cash [which includes stability funds] and divide that by spending.

Margaret: the schools have had a negative outlook which has caused a scare. We need to know the terms of their evaluation: whether they just look at town's reserves or the overall. This gets us back to the mystic around reserves. We have never used the [total in the budget] amount of reserves. I share the FC's concern that we are over budgeting in order to be conservative. Being too conservative is one dimension of conservative budgeting..

Katie: look at the replenishment sheet. How can you say that a return of less than \$200k on a budget of \$30M is over budgeting? There are other areas that are not spent so we have the range of \$2.5M - \$1.3M. There is the problem where we cannot show a revenue increase [by DOR's regulations or because we just do not know]

Bart: are people OK with the \$1.3M for now?

PB: I'm not comfortable that we cannot come to a consensus

Mike: our focus has been on the use and level of reserves. But the more important is the tax bill and I have great concerns for FY 17.

Katie: we have put budget savings in to lower the tax rate.

Bart: can we get an agreement on the \$1.3 for today and not for the future?

Katie asked Steve B. to show the "live spread sheet"

Marie: If we move the reserve use to \$1.3M it basically means that we will be showing higher deficits in FY 18 & FY1.

Steve showed the living spreadsheet, which showed what Marie predicted.

There was a suggestion that the decrease be more gradual starting with \$1.9M for FY 18 and \$1.3M for FY 19. The concern was the recapturing of the "lost" levy would cause too great increases in the tax rate where a gradual approach would be the better course.

Paul questioned the origin of the \$1.3M number again reiterating his position that the FC was just talking about numbers and was ignoring the services and needs that these numbers covered. He added that the budget was so tight that "we are setting ourselves up for a surprise--one tragedy. He was opposed to using the \$1.3M number.

Katie reiterated the BoS position that they could cut the \$200k but not the \$1.3 figure. That would mean a cut in services.

Bart: is there an agreement that show the use of the \$1.3M in the outlying years along with the deficits?

Marie: we may be sending the wrong sort of message we do not want to dis incentivize people from doing turn backs.

Margaret: we need to see the delta between replenishments and the reserves. There is good news that there were turn backs. The FC wants to retain 5% level and not over tax the people. Our board wants a broad brush approach to reduce overall spending and reduce costs to taxpayers. We don't want to be aggressive in the use of reserves. We feel it's not appropriate to use the reserves while taxing to the maximum percentage.

Katie and Kristina agree to take the numbers back to their respective boards.

Margaret: the \$1.3M was to be the start of a conversation.

Bart: question on the table: is it worth taking this back to the boards and seriously considering the compromises being asked by the FC?

Mike: \$1.9Mv\$1.3M---no issue

There is the press of time. The SC will have a meeting on March 3. The warrant needs to go to press on March 15 (the week of) the next ALG is March 10.

Bart: so the final decision will have to be made then.

## **7. Baby sitting**

Kristina has arranged for free babysitting during Town Meeting. She asked that the ad flyer be printed in the Town Warrant.

Steve L: agreed

## **6. Public**

Charlie Kadlec: Don't be concerned about FY 18 & 19. Only the three boards are interested in this, no one at Town Meeting cares. The thing you need to put on the spreadsheet is the effect on the taxes.

Next meeting is March 10

Adjourned 9 AM

Ann Chang