

Finance Committee

Meeting Minutes

December 22, 2020

7:00 PM

* VIRTUAL MEETING *

Present: Christi Andersen (Chair), Roland Bourdon, Jason Cole, Esha Gangolli (Associate), Mike Majors, Adam Nolde, Steve Noone, Sahana Purohit, Christine Russell (Vice-Chair),

Ms. Andersen called the meeting to order at 7:03 PM via a virtual meeting with no Committee members in physical attendance and broadcasted via Zoom and ActonTV.

1. Citizen's Concerns

None

2. Town Reserve Position

Mr. Mangiaratti announced the release of Acton video tour now available on the Town's website. Mr. Mangiaratti gave an overview of the memo he sent to the members on November 9th. Slides presented show recommendation from MMA at 3-5% for free cash and between 7-10% of total reserves from DLS. Mr. Mangiaratti spoke to his commitment sine FY19 to reduce the reliance on reserves but noted that surplus revenue is challenging in our current environment. The capital improvement plan will be presented as part of the FY 22 budget, which continues to maintain and build reserves for capital. In recent years DOR has contacted Acton as 1 of the 28 communities that has total reserves of less than 5%.

Mr. Noone expressed concern over defining reserves and struggling with if stabilization is included. Mr. Mangiaratti replied that stabilization is different because is it set aside by 2/3 vote for a specific use and can only be accessed by a 2/3 vote of Town Meeting. Mr. Noone asked if total reserved in the DLS recommendations would include free cash and stabilization, which Mr. Mangiaratti confirmed.

Mr. Cole asked if there have been concerns over free cash use since FY 19 why were Asa Parlin house, room 204 bathrooms and the small business grant funded. Mr. Mangiaratti replied that the Asa Parlin house was funded with CPC funds and State earmark and confirmed that it would not be a general fund expense in FY22. The bathroom in the room 204 meeting room, the Towns most important meeting room, needed to be accessible to all.

Ms. Andersen asked for confirmation that the guidance presented suggested 3-5% for free cash reserves and 7-10% for total reserves. Mr. Mangiaratti confirmed that he was just presenting some suggested guidance to the committee to aid their discussions; however the needs of the Town still need to be funded as we work to establish a policy and work towards it. Mr. Mangiaratti stated that is has been his focus since coming to Acton to shift the use of free cash and reserves away from operations and towards capital needs.

Mr. Majors commented that the numbers provided by MMA are just averages. Communities that are as stable as Acton, our policy need to reflect Acton's needs and economy.

Ms. Russell asked if non regionalized school budgets were part of the Towns budget when calculating reserves. Mr. Mangiaratti confirmed they do, the school is just a department of the Town. Ms. Russell expressed that since the school reserves are not being considered here, she is not comfortable being on the lower end of the recommended reserve policies presented.

Mr. Noone asked when the budget will be available and are we still waiting for any information. Mr. Mangiaratti responded that he will present the budget at least 100 days before Town Meeting, which will allow for a more complete revenue picture.

Ms. Andersen asked how problematic would it be with DOR and/or the rating agency if the committee recommended significantly spending down stabilization or free cash. Mr. Mangiaratti responded that this would not be something he would plan for but if revenues fell short and reserves were used a plan to replenish them as soon as possible would also be needed. Stabilization should be used for a specific purpose. Ms. Russell commented that the purpose to spend down stabilization would be to offer tax payer relief by paying for capital expenses with stabilization instead of paying for it out of the operating budget. She asked what issues would arise out of using stabilization for capital in the operating budget, thereby reducing the tax levy and the tax burden. Mr. Mangiaratti responded that this would be using one time revenue to fund operations which is something he has worked hard to avoid. The Town has been trying to plan capital expenses to match available free cash while minimizing capital purchases out of the operating budget.

Mr. Cole requested that the FY22 budget mitigate recent large tax burden increases as a result of recent capital overrides. Further saying that 6%-8% year over year tax increases are unsustainable.

Mr. Bourdon expressed that stabilization is to be used for capital projects

Mr. Mangiaratti commented that it could be decided not to spend any free cash on capital and use stabilization, but that would not offer taxpayer relief.

Ms. Andersen recapped that free cash and stabilization of Ms. Russell's recommendation are within DLS guidelines and fit within the guidelines Mr. Mangiaratti presented and suggested repurposing Ms. Russell's policy.

Mr. Cole responded to emailed questions from Ms. Andersen, highlighting:
Purpose of reserves is for unexpected, clearly identifiable future projects
Reserves should be made up of:
Free cash
Town stabilization
Enterprise retained earning
Acton's portion of School E&D

Total reserves should not include:

CPC

School stabilization

Both floor and ceiling should use the same definition of reserves and total Acton spend

Recommends the Town aim to be at the floor within 2 years and the foreseeable future

Ms. Andersen asked Mr. Barrett if the only way to reduce tax burden would be to use reserves to offset the tax levy. Mr. Barrett responded yes, the tax levy reduction would need to be reached by means other than taxes. Ms. Russell asked if stabilization which is earmarked for capital would be available to use to reduce the tax levy. Mr. Barrett responded yes, with a 2/3 vote of Town Meeting since it is a general stabilization fund.

Mr. Noone commented that the scorecards used would show the impact of lowering in any funding column and the increase in another funding column. Lowering the tax levy requires increased funding from another source. Mr. Noone disagreed with Mr. Cole's treatment of excluding the Schools stabilization but including the Towns stabilization, since the Town will also have a capital improvement plan this year. He agrees with a 3% floor and 5% ceiling as long as School E&D is stable but might need to increase if School E&D decreases.

Mr. Bourdon asked when was stabilization voted in and commented that it shouldn't be left never to be used.

Ms. Andersen commented that the current ALG plan has \$1.15M in capital only expenses

Mr. Cole answered Mr. Bourdon's questions, stabilization was voted on at the 2016 Annual Town Meeting and funded with \$1.8M and replenished after the Walker property purchase.

Mr. Nolde responded to emailed questions from Ms. Andersen, highlighting:

Restricted funds should not be included as part of the reserves

Restricted funds include:

Enterprise fund retained earnings

School reserves

Town stabilization

Free Cash as unrestricted funds should be held to the floor and ceiling

Separate policy needed for restricted funds

Recommends 3% floor of total spend and 5% ceiling of municipal spend for free cash

Mr. Noone expressed concern that a floor of 3% would not fit into current year ALG plan and setting a policy without knowing the budget is difficult. Although AAA rating is nice, a less rating may only translate into 20-30 basis points.

Mr. Bourdon asked Mr. Barrett how turnbacks were looking this year. Mr. Barrett responded that it is a little early to tell, but hiring and spending freeze will help.

Mr. Cole commented that 20-30 basis point difference for a lower rating may be even less given the historically low interest rates. He also commented that we don't need AAA rating if we don't have large purchases planned.

Ms. Andersen recapped that most members would like to consider free cash only as part of the reserve policy. She also asked Mr. Barrett if \$1M in ALG reserve replenishment would keep free cash stable but will not grow reserves. Mr. Barrett confirmed, reserve growth would come from excess revenue and turn backs.

Ms. Russell expressed concern that Mr. Cole's recommendation of 3% of multiple reserve buckets is a larger number and spending down to the floor proposed a larger amount of spending. She would like a free cash policy separate from the other restricted reserves.

Mr. Majors supports the 3% floor. He asked Mr. Barrett if this years revenues are mostly Covid related. Mr. Barrett responded that Covid money is for reimbursement and revenue neutral.

Mr. Nolde amended his early statement to 5% floor of Town funds and 3% ceiling of total spend.

Mr. Cole made a motion on a reserve policy
Mr. Noone seconded

Mr. Nolde asked for confirmation that that the motion is referring to free cash as a percent of total spend and Mr. Cole confirmed. Ms. Andersen calculated that to be \$467,946 of free cash available to spend.

Ms. Russell asked Mr. Cole if separate policies would be needed for the restricted reserves and Mr. Cole confirmed.

Mr. Majors supports the first part of the motion, but believe the second part requires too much explanation. Mr. Nolde supports the entire motion but would like more time to review before voting.

Mr. Noone suggested language that appropriations of reserves could only be equal to prior year turnbacks. Mr. Cole expressed concern that prior year doesn't indicate future year results and believes his recommendation is more conservative because once money is appropriated you must assume it is gone.

Ms. Andersen noted that \$1.1M in ALG plan would mean it must be taken out of stabilization and not free cash so that the floor is not exceeded. Mr. Cole confirmed. Ms. Andersen commented that if capital spending is to come out of stabilization than the Town must regularly fund the stabilization fund. Mr. Noone confirmed that a budget item every year could be used to fund stabilization. Ms. Russell commented that the committee has been saying that free cash should be used for capital not operating but now it is being suggested to use free cash for operating and stabilization for capital.

Mr. Noone suggested striking the second sentence of the motion and adding, in no case should free cash fall below 3%.

Ms. Andersen called the roll:

Ms. Russell – nay
Mr. Majors – nay
Mr. Nolde – nay
Mr. Noone – aye
Mr. Bourdon – nay
Mr. Cole – aye
Ms. Purohit - nay
Ms. Andersen – nay
Ms. Gangolli - abstain

The Committee voted 2-6, the motion failed.

Mr. Nolde made a motion to recommend a free cash policy with a 3% floor and 5% ceiling of total Acton spend. Mr. Bourdon seconded the motion and Ms. Andersen called the roll:

Ms. Russell – aye
Mr. Majors – aye
Mr. Nolde – aye
Mr. Noone – aye
Mr. Bourdon – aye
Mr. Cole – nay
Ms. Purohit - aye
Ms. Andersen – aye
Ms. Gangolli - abstain

The Committee voted 7-1, the motion passed.

Ms. Andersen presented upcoming meeting topics:

Availability of free cash under policy
CPC presentation
Implication of policy recommended floor on ALG plan
Stabilization fund policy

Mr. Cole stated that a policy has been set and should not be violated during the upcoming budget.

Mr. Noone stated that their policy falls within the guidelines presented by Mr. Mangiaratti and represents best practice. The POV should include that the committee members do not support an override.

Mr. Cole made a motion to recommend not to recommend a proposition 2 ½ override for the next fiscal year. Mr. Bourdon seconded the motion

Mr. Noone commented that it could just be put in the POV. Ms. Russell commented that no one is asking for an override so they don't need a vote. Ms. Andersen asked if there should be flexibility for Covid related expenses.

Mr. Cole amended his motion to: Finance Committee does not recommend a proposition 2 ½ override this year, barring any unforeseen material Covid related expenses. Mr. Bourdon seconded the motion. Ms. Andersen called the roll:

Ms. Russell – aye
Mr. Majors – aye
Mr. Nolde – aye
Mr. Noone – aye
Mr. Bourdon – aye
Mr. Cole – aye
Ms. Andersen – aye
Ms. Gangolli - aye

The Committee voted 7-0, the motion carried.

3. Liaison Reports

Mr. Cole reported on the School Building Committee meeting, highlighting:

- Guaranteed maximum price has been received
- Contingency has been replenished

Mr. Cole reported on the School Improvement Committee meeting, highlighting:

- Members disagreed with the superintendent removing the funding of the capital improvement plan for FY22 and asked that the originally proposed amounts be brought back in as quick as possible

Mr. Nolde reported on the Planning Board meeting, highlighting:

Upcoming WR Grace meeting
Upcoming WR Grace solar farm meeting
22 Elm St. being opposed by various Acton group

Ms. Gangolli moved to adjourn. Ms. Andersen seconded. Ms. Andersen called the roll:

Ms. Russell – aye
Mr. Majors – aye
Mr. Nolde – aye
Mr. Noone – aye
Mr. Bourdon – aye
Mr. Cole – aye
Ms. Andersen – aye
Ms. Gangolli - aye

The Committee voted 7-0, the motion carried. The meeting adjourned at 9:23 PM.