

**Town of Concord
Finance Committee - Guidelines Subcommittee
Meeting Minutes - January 14, 2021**

Present: Ray Andrews, Dean Banfield, Greg Guarriello, Mary Hartman, John Hickling, Richard Jamison, Dee Ortner, Parashar Patel, Christine Reynolds, Wade Rubinstein, Phil Swain, Brian Taylor, Lois Wasoff and Andrea Zall

Absent: Kathy Cuocolo

Others Present: Minuteman Finance Director Bob Gerardi; Minuteman School Committee Representative Steve Ledoux; Town Manager Stephen Crane; Select Board Chair Linda Escobedo; Chief Financial Officer Kerry Lafleur; Recording Secretary Anita Tekle

Open Meeting

Ms. Reynolds called the meeting to order at 7:00 pm with a roll call vote, with the following voting in the affirmative: Jamison, Hickling, Zall, Andrews, Taylor, Wasoff, Hartman, Guarriello, Patel, Rubinstein, Reynolds, Ortner, Banfield and Swain. The meeting was held via Zoom using the Webinar format, and broadcast via MMN. She noted that the meeting was being recorded.

Minuteman Regional School Response to FY22 Guidelines Information Request

Mr. Ledoux reported that the Minuteman Budget Committee has been reviewing department budget requests since December, and the preliminary budget was presented to the Minuteman Regional School Committee (MRSC) last Tuesday. A budget hearing is scheduled for January 26. There is a requirement that the MRSC vote to approve the budget at least 60 days prior to the earliest Member Annual Town Meeting. There is a modest increase in operational costs. The MRSC is conscious of Member community financial constraints, so they have tried hard to develop an affordable budget.

Mr. Gerardi presented a budget overview as follows:

- FY20 was a conservative budget, and they ended up with a 6.30.2020 surplus of \$435,014
- The current FY21 balance in the capital stabilization fund is \$1,282,629; \$1,250,000 of this is committed to the Fields Project
- The current FY21 balance in the OPEB Trust is \$352,028; \$50,000 per year was appropriated in the first five years; \$60,000 per year has been appropriated in FY21 and FY22
- The financial goal of the District is to maintain an Excess & Deficiency (E&D) balance of 3-4% of the annual operating budget; the estimated July 1, 2020 balance is \$540,000; the certified balance on July 1, 2019 was \$769,315
- There have been significant FY21 budget impacts from COVID, including impacts to many of the students' families; costs include remote learning adaptations \$297,921 for increased device capabilities; student support enhancements \$62,500 (+1 Nurse); increased Personal Protective Equipment (PPE) (+\$56,141); and increased maintenance (+\$6,289)

- Reduced FY21 expenses due to COVID include staff reductions of 5.0 FTE (-\$275,290); and an estimated -\$300,000 in Transportation costs
- There has been a negative impact on FY21 revolving funds due to reduced revenue from the elimination of Community Education Programs, and the elimination of facilities/rental income
- They have received \$157,462 in DESE COVID grants in FY21, with an additional \$252,330 anticipated
- Budget drivers for FY22 include an increase in teachers contract of 2.25% (plus step and lanes), for a total cost of \$313,629
- New building expenses include FY22 COVID-related increases as follows: electrical costs (+\$183,000); heating costs (+\$80,000); and insurance (\$44,744)
- A decrease in health insurance costs for FY22 is anticipated (-\$181,781) - partly due to 5.0 FTE staff reductions
- Enrollment is up in FY21, and applications continue to increase: as of 10.1.2020, there are 179 new students (159 from member communities). Total enrollment is 634 as of 10.1.2020. There are 25 students enrolled from Concord, and 46% of all students are special education (SPED). Concord's enrollment has remained steady at 25 from 2018-2020.
- In projecting FY22 revenue, they have anticipated decreases in state aid and reimbursements; kept increases for member communities to a minimum; and decreased the offset from non-member communities (since there are fewer enrollments from non-member communities)
- Per-pupil FY22 operating assessment for Concord is \$28,940, based on a formula which takes into consideration the wealth of the community. The range for the nine member communities is \$26,281-\$29,366.
- Regional School Committee has agreed that revenue collected in FY21 and FY22 from the capital fee assessments for non-member communities will be used to offset the debt service assessments to member towns in the FY22 budget.
- School Building debt service was \$307,889 in FY21, and is projected at \$378,018 in FY22.
- Site and base work on the new athletic fields has started. There will be an annual supplemental allocation of \$168,000 to the stabilization fund from the field rental revolving account (for 10-year turf replacement)
- FY21 photo voltaic installation is underway, which will secure the new building's LEED certification, and will secure the \$2 million LEED reimbursement (budgeted)

In response to a question from Ms. Reynolds, Mr. Gerardi noted that there were 185 new students enrolled last year, and they are hoping to accommodate 200 going forward. There is still a waiting list. In response to a question from Mr. Patel, Mr. Gerardi assured the group that MM is applying for all the stimulus grants for which they are entitled. There is coordination with the CPS, CCRSD & MM's Business & Financial Managers, and all are applying for the same grants. He anticipates that MM will receive additional COVID stimulus funds. Ms. Hartman asked how MM was able to add two new programs while simultaneously decreasing the FTE count by 5 employees. Mr. Gerardi noted that the FTE decreases were not in teaching positions (mainly clerical/administrative). In response to a question from Mr. Banfield about revenue post-COVID, Mr. Gerardi anticipates a significant increase in fields rental revenue (\$300-450,000/year). He also anticipates additional funds from renting the theater and gym.

There is untapped potential in the new building. Mr. Ledoux noted that the new building has the capacity to host conferences and functions (catering).

In response to a question from Mr. Banfield, Mr. Gerardi indicated that he does not anticipate an increase in Concord's debt assessment due to Concord's stable enrollment. He estimates an operating assessment increase of approximately \$75,000. Ms. Reynolds remarked that OPEB is underfunded, and the budget seems very tight. She asked if there were sufficient contingency funds. Mr. Gerardi responded that there are funds in the Stabilization Fund (\$350,000 will be allocated in FY22), but there are otherwise no reserves. MM's practice has been to allocate the previous year's E&D balance to the upcoming year's budget, so there is not much of a balance in E&D. In response to a question from Mr. Jamison, Mr. Gerardi noted that salary costs are less than 50% of the operating budget. They are in the first year of a three-year teacher contract. In response to a question from Mr. Rubinstein, Mr. Gerardi indicated that capital costs are allocated to the member and non-member communities based on a complicated formula. Debt payments for non-member communities are frozen from the date when they left the District. Going forward, the one budget concern that Mr. Gerardi has is the cost of utilities, which are difficult to predict. Mr. Gerardi agreed to return to the FC in February with the FY22 budget in more detail.

Town Budget Response to FY22 Guidelines Information Request

Mr. Crane noted that there are lots of unknowns that will have an impact on the FY22 budget, especially local receipts and state aid. He anticipates that property tax revenue will remain stable. He is taking a conservative approach to the FY22 budget. Ms. Lafleur presented an overview of FY19 and FY20 performance, noting that both years ended with a small surplus (\$619,271 in FY19; \$715,000 in FY20). The surplus in FY19 was mostly due to position vacancies, many of which were left unfilled. The FY20 surplus was attributed to both position vacancies and prolonged closures due to the pandemic. The following significant variances for FY20 (not attributable to position vacancies and/or prolonged closures) were noted:

- Facilities: deficit of \$119,117 (due to pandemic response efforts, covered either by CARES Act or inter-departmental transfers)
- Legal Services: deficit of \$287,450 (Estabrook Woods litigation, covered by year-end transfer)
- Public Safety: deficit of \$339,352 (due to pandemic response efforts, could not co-mingle shifts due to COVID; covered by FEMA with 25% local match covered by CARES Act)

Ms. Lafleur provided an update on the status of the FY21 legal services budget. The Town is party to two complicated lawsuits—Estabrook Woods (paid through the General Fund) and Nagog Pond (paid through the Water Enterprise Fund). Of the \$344,585 appropriated for legal services in FY21, \$253,058 has been expended through November 30, 2020, as follows:

- Estabrook Woods litigation -- \$152,880
- General Legal -- \$54,554
- Labor Counsel -- \$45,624

Based on spending to date, it is anticipated that the FY21 legal services budget will be over-expended by \$100-200,000. No decision has been made on the FY22 budget

request for legal services. Mr. Crane noted that sometimes the Town spends funds on legal fees in order to avoid litigation, with the practice to bring Town Counsel into the process early to avoid litigation later. This has been done pre-emptively with planning and land use issues in particular. Mr. Crane reviewed the status of collective bargaining, noting that five of the six Town labor contracts expire on 6.30.2021. He noted that many communities have been reluctant to commit to long-term contracts in the current uncertain financial climate, and he is considering doing likewise.

In response to a question from Mr. Banfield about early-retirement incentives, Mr. Crane indicated that the nature of seniority in teaching contracts makes early-retirement incentives much more beneficial. He feels that such incentives do not result in significant savings when applied to municipal employees, since most are paid on a market basis. He reported that he is considering offering more work-at-home options for some employees, which will make it easier to attract and retain employees. Mr. Crane reported a 5-10% vacancy rate the past few years (15.41 FTEs are currently vacant, which is 6.23% of the workforce), with high turnover for employees who have worked for the Town five or fewer years. In reviewing the "headcount," Mr. Crane noted that he anticipates a request for additional staffing at the Library to support the building expansion, and in the Facilities Department (the cost of which will partially be offset by service fees). While Concord offers competitive salaries, the health insurance program is less generous than that offered by peer communities. The current FTE headcount is 247.20 positions (down from 248.24 in FY20). This does not include positions paid through Enterprise budgets.

Ms. Lafleur reviewed the FY22 revenue projections, which she will update following receipt of the Governor's budget. The worst-case scenario estimates an overall receipt reduction of \$245,329 (assuming minimal new growth; a reduction in state aid; a significant decrease in local receipts, and no free cash to reduce the tax rate). The best-case scenario estimates an overall increase of \$3,749,856 (assuming new growth similar to FY21; a minimal increase in state aid; increases in local receipts; and a \$1 million contribution from free cash to reduce the tax rate). The moderate scenario estimates an overall increase of \$2,272,682 (assuming a moderate increase in new growth; no reduction in Ch. 70 funds, but a 3.09% reduction in other state aid; less severe reductions in local receipts; and a \$1 million contribution from free cash to reduce the tax rate).

Ms. Lafleur reviewed the FY22 budget drivers, with revenue being the principal driver. It is anticipated that the FY22 health insurance cost increase will be minimal. While property tax collections remain strong and state aid was level funded in FY21, there have been significant decreases in local excises (room occupancy and meals tax) and in investment income. She noted that the Town is limited as to where it can invest its money. She anticipates increased utility costs from running air purification systems and the potential need to adjust building hours to comply with occupancy limits. Mr. Crane noted that he anticipates adding a plumber to the Facilities staff. A new position was added in FY20 to support the business community, and this has already paid off in small measures during the economic recovery period.

Mr. Crane reviewed anticipated service changes, noting that the upcoming years will be challenging:

- Affordable housing: we should expect to see an annual appropriation request until such time as a renewable income stream has been approved by the state legislature
- One or more FTE will be added in the Library, plus increased utility costs for the new building
- The Transportation Advisory Committee is addressing a number of issues that may impact the budget

Mr. Crane does not see COVID-related challenges to end in the next 6-8 months. Across the organization, he anticipates modifications to building schedules to adhere to temporary state-imposed occupancy limitations; the continued need to offer remote work; and the potential need to pay out unused vacation time to essential workers who have been unable to take vacation leave.

Ms. Lafleur reviewed the Town's OPEB contributions, noting that the Town has been fully funding its Annual Required Contribution (ARC—now referred to as the Actuarially Determined Contribution ADC) since FY07. The FY22 ADC estimate for the General Fund is \$1,611,000 (an increase of \$111,000 over FY21). The Town's liability is expected to be fully amortized by 2039. She noted that Concord is doing well towards funding its OPEB liability.

Ms. Lafleur reviewed the Town's capital spending policy, noting that the annual capital plan is tied to the following spending guidelines:

- 2-3% of total tax levied on operating capital (cash purchases)
- No more than 5% on debt financed capital

In keeping with these guidelines, the following capital spending targets have been established for FY22:

- Cash outlay = \$1,887,837-
\$2,831,855
- Debt = \$4,719,592

She noted that the debt target is for the total annual (non-exempt) of debt payments rather than new debt authorization. She noted that not all projects that are approved in a given year will be permanently financed in the same year, so the numbers below are subject to change. Based upon existing commitments and an assumed 2.5% increase in property tax revenue, the following maximum spending can be accommodated:

- FY22 -- \$5.7 million
- FY23 -- \$5.4 million
- FY24 -- \$5.0 million
- FY25 -- \$4.6 million
- FY26 -- \$4.3 million

Mr. Banfield noted that some capital projects are funded, but are then deferred if we don't have the capacity to manage the project. He suggested that the funding authorization be delayed unless we know that we have the capacity and time to manage and complete the project. Ms. Lafleur noted that the reason for the declining debt above is that it is assumed that not every project will be ready for permanent financing once authorized. Mr. Crane noted that the Town uses a project evaluation process to assure that capital projects are justified. He is confident that there is no shortage of capital projects that need to be completed. Mr. Banfield distinguished between "need" vs. "nice to have," noting that some projects funded in the past couple of years have fallen in the latter category.

Ms. Lafleur presented FY19 benchmark data from ClearGov, to better understand spending relative to peer communities (Lincoln, Sudbury, Wellesley, Wayland, Carlisle, Lexington, Weston).

Budget Category –Per Capita	Concord	Peer Average
Total General Fund	\$5,446	\$5,772
General Administration	\$142	\$83
Finance Department	\$96	\$73
Police Department	\$250	\$254
Fire Department	\$251	\$226
Inspections	\$25	\$19
Library	\$112	\$101
Community Services	\$30	\$20
Public Health	\$20	\$24
Public Works	\$230	\$205

Ms. Hartman noted that at the “moderate” forecast for FY22 revenue, we’re left with about \$1 million for Guideline spending. She also noted that Town labor costs would use half of that amount, so things will be tight. She asked if there were savings elsewhere. Mr. Crane indicated that he thought labor costs were outside the Guideline number, but both Ms. Lafleur and Ms. Hartman responded that labor costs fall within the Guideline. The consensus was that there are still enough unknowns, so that it is too early to confirm whether or not there is a serious budget problem for FY22. Ms. Lafleur noted that she anticipates a reduction in health insurance costs, so there may be some cushion there. Mr. Crane noted the possibility of federal relief for losses in revenue. Ms. Reynolds noted that other areas where we can look for savings are capital spending, or a one-year reduction in our OPEB contribution. Mr. Crane preferred to look at a reduction in the \$1 million contribution from free cash to reduce the tax levy (perhaps taking one year off), or possibly not funding the \$500,000 affordable housing program. He felt that either of these reductions would not overwhelm the community. He emphasized that it is still early in the budget process. Ms. Hartman remarked that Mr. Crane’s option would help free cash, but would not make more funds available for the Guidelines.

Mr. Swain asked whether the Select Board (SB) can obtain a “budget” for Estabrook litigation prior to incurring overages. Mr. Crane responded that the SB receives an “estimate” of what litigation will cost, but emphasized that costs are iterative. The SB is committed to preserving the rights of access and in following the legal process through to trial. In response to a question from Ms. Reynolds, Mr. Crane indicated that he tries to look ahead, but he does not prepare formal 5-year revenue forecasts. Ms. Lafleur noted that she does some longer-term revenue forecasts. Ms. Reynolds emphasized that she would like to see some longer projections, in an effort to link current budget decisions to future capacity to pay. In response to a question from Mr. Rubinstein about FTE positions, Ms. Lafleur noted that these are budgeted positions. There are currently 15 vacant Town positions.

Ms. Zall asked whether when the Town met with business owners, were we looking only at the area centers, or at businesses in general. Mr. Crane responded that the focus was on the three retail districts, with an emphasis on restaurants and retail

establishments that were affected by occupancy restrictions. Ms. Zall remarked that some businesses are looking for direct payments to assist with the pandemic. The Town is not in a capacity to provide anything other than band aid assistance. She noted that some businesses need \$40-60,000 to make payroll/rent, funds which are well beyond what the Town can provide. Ms. Ortner asked Mr. Crane to clarify the FY22 budget directives he had provided to department heads. Mr. Crane responded that he has asked for level funding of discretionary projects, and the actual cost for non-discretionary projects. He noted that most line items are non-discretionary, and capital items would be discretionary.

Ms. Wasoff asked if thought had been given to ranking the 15 vacant positions, to see if any could be eliminated. Mr. Crane noted that he had gone through that exercise in FY21, and he anticipates doing so again to identify possible savings. Ms. Reynolds asked if Mr. Crane is looking at one-year contract extensions to the labor contracts, to which he responded that it is too early to know.

Mr. Rubinstein asked if there is a plan to vaccinate Town employees. Mr. Crane responded that he is following CDD and MDPH guidelines, with first responders being vaccinated first. In response to a question about the timing of the FY22 preliminary budget submittal, Ms. Lafleur indicated that they will do the best they can to meet the February date, with the understanding that some assumptions will have to be made. Mr. Crane noted that he is looking at budget “adjustments around the edges” but not at any reductions in core services. Mr. Taylor asked whether there will be fewer unknowns by the time we get to Town Meeting. Mr. Crane responded that he is confident that he will present a budget to maintain operations at the June 13 Annual Town Meeting.

Ms. Reynolds asked all to give some thought about the preliminary guidelines prior to next Thursday’s meeting. Ms. Lafleur noted that once we deduct the amount needed for the enrollment shift at the high school, she anticipates having only 1% available for the guidelines. The consensus was that we may have to come up with innovative solutions.

On a **MOTION** made by Ms. Wasoff and seconded by Ms. Hartman, and on a roll call vote (with Hartman, Reynolds, Ortner, Banfield, Andrews, Rubinstein, Wasoff, Guarriello, Patel, Jamison, Swain, Hickling, Taylor and Zall all voting Yes), it was **VOTED** to adjourn the meeting at 10:00 pm.

Respectfully submitted,
Anita S. Tekle
Recording Secretary

Documents Used or Referenced at Meeting:
Presentation—Town Manager’s Response to the Finance Committee’s FY22 Guidelines Information Request (dated 1.11.2021)