

FINANCE COMMITTEE MEETING MINUTES
UPSTAIRS MEETING ROOM
1 AVENUE A, TURNERS FALLS, MA
WEDNESDAY, DECEMBER 6, 2017
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The Chair opens the meeting

- Meeting was opened at 6:00 PM in the Upstairs Meeting Room
- **Selectboard Members present:** Michael Nelson. Richard Kuklewicz and Christopher Boutwell were absent. THERE WAS NO QUORUM
- **Capital Improvements Committee members present:** Steve Ellis and Fred Bowman. THERE WAS NO QUORUM.
- **Finance Committee members present:** Jen Audley, Fred Bowman, John Hanold, Michael Naughton, and Richard Widmer. Chris Menegoni and Greg Garrison were absent.
- **Others Present:** Town Administrator Steve Ellis and Town Accountant Carolyn Olsen
- The Finance Committee Chair announced that the meeting is being recorded by MCCI, and asked if anyone else was recording the meeting. No one else was recording the meeting.

New Member

New Finance Committee Member Jen Audley welcomed.

Minutes –

Finance Committee Moved:

To approve the minutes of November 15, 2017.

Vote: 4 In Favor 0 Opposed 1 Abstained

Mr. Hanold noted that tonight is for discussion and deliberation, but everyone will have a week to consider the options before voting on assumptions next week.

Preliminary Revenue Estimates

Mr. Hanold reviewed the revenue estimates as presented last week by Mr. Ellis. The current preliminary revenue estimates include \$250,000 in new growth, a 2.5% increase in unrestricted local aid, \$27,500 in additional Payment in Lieu of Taxes (PILOT) from Kearsarge and \$155,922 for the first Kearsarge rent payment. There is currently no Free Cash allocated to the Fiscal Year 2019 Operating Budget.

The main items for discussion are how to allocate available Free Cash and how to treat the Kearsarge lease revenue.

- Mr. Hanold suggested that we maintain the use of \$200,000 of free cash for the town's operating budget and GMRSD assessment, but noted that this had a strong correlation to his ideas about the Kearsarge lease revenue.
- Mr. Naughton would like to continue making some reduction in the use of free cash if possible. The district has already been notified that we plan to slowly eliminate the use of free cash for operating expenditures and it will be difficult to delay that. Mr. Naughton suggested reducing the use of Free Cash to between \$150,000- \$180,000. Mr. Naughton sees using some of the Kearsarge rental income to offset the reduction in the use of free cash.
- Mr. Ellis supported a modest reduction to maintain the trend but doesn't want to undermine the affordable assessment in a year when we know the GMRSD will need as much funding as possible.

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- Ms. Audley said that she is comfortable with contributing less free cash and simultaneously providing a modest increase to the affordable assessment. Ms. Audley's concern is that she doesn't want the affordable to be level funded or reduced from the prior year.
- Mr. Hanold would prefer to use little to no Kearsarge lease income as general revenue, which is why he proposed maintaining the use of \$200,000 of free cash. Mr. Hanold would prefer to direct the Kearsarge lease income directly to the town's Capital Stabilization Fund. The Kearsarge rent will be provided for a set period of 25 years, and he is hesitant to include temporary revenues as operating revenues, even for this long period, because it becomes imbedded in our budget and causes a jolt when it ceases. The benefit in removing the Kearsarge revenue from the general fund revenues and the affordable assessment calculation is the opportunity to direct it to major capital spending that we are only lightly prepared for. Directing this revenue to the Capital Stabilization Fund puts a pinch on operating budgets for both town and school but gives the town a source of funding for some long-needed capital expenses, including capital expenses for town-owned school buildings.
- Mr. Bowman noted that if the Kearsarge lease goes into the stabilization fund and the town uses that for fund major capital items instead of borrowing, the town will also save on the interest costs.
- Mr. Naughton suggested that we have two separate questions:
 - Should we include any Kearsarge lease revenue in the affordable assessment calculation?
 - What should we do with town portion?
- Mr. Naughton is on board with putting the town portion into stabilization, but thinks this is a separate issue from including the revenue in the affordable assessment. Mr. Naughton asked why we wouldn't include it since it's money coming into town not earmarked for a specific purpose and we have agreement to share what we have available. Mr. Naughton sees no justification for excluding it. The school would be told that it's not permanent revenue and this would eventually be reflected in future affordable assessments.
- Mr. Ellis said he was one who suggested we consider this in light of the new opportunity for towns to direct specific revenues to special purpose funds under MGL Chapter 40 Section 5B. (Ms. Olsen will see if PILOT payments can be so directed.) Mr. Ellis was going to recommend directing 50% of the annual Kearsarge lease payment to the Town Capital Stabilization Fund with the balance treated as operating revenue. Mr. Ellis doesn't want to create another cliff in operating revenues at the end of the lease payments, but feels strongly that we need to have something other than whatever's left in free cash going into our capital reserves. This seems like a responsible approach that would benefit both parties and avoid leaving a cliff in 2034. Mr. Ellis further noted that in 2034 50% of the lease will only be \$120,000, which will be worth less then, and the loss will be easier to absorb.
- Mr. Naughton said that nothing prevents us from putting as much as we want to into stabilization. The process of town meeting votes to direct revenue various places seems work intensive, and it seems easier to have an annual special article putting the town's share into capital stabilization. It doesn't seem right to him to cut the pie in half before splitting the remaining pie with the school district.
- Mr. Bowman feels there a benefit to voting that part of the revenue goes directly to stabilization in that it avoids future finance committees deciding not to fund capital stabilization. Mr. Bowman also feels schools will have a different regional set up in 10 years than what we have today.

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- Ms. Audley said that PILOT payments feel like a different type of revenue than rent payments and wonders if it's honest to say we have new revenue but will only use some of it for general purposes. Ms. Audley also noted that the schools will benefit from additional capital funding.
- Mr. Hanold summarized the discussion points:
 - Do we treat the Kearsarge PILOT payment the same as other PILOT payments and include it in general revenue? There was unanimous agreement to do this.
 - Do we go through a mechanical exercise of separating part of the lease into a stabilization fund?
 - How much of the lease do we set aside?
 - Half of lease to operating revenue and half to stabilization
 - All to operating revenue with town moving its share to stabilization via special article
 - All to stabilization
 - All to town capital stabilization with the fund being available for school capital needs
 - Split between the GMRSD Stabilization Fund and Town Capital Stabilization Fund in the 48.5%/51.5% ratio with the GMRSD Stabilization Fund to be the funding for school capital needs
 - Split between the GMRSD Stabilization Fund and Town Capital Stabilization Fund in the 48.5%/51.5% ratio, with the GMRSD Stabilization Fund to be the funding for school general needs beyond the affordable assessment calculation and the Town Capital Stabilization Fund to be the funding for school capital needs
- Mr. Hanold prefers the lease to not become operating money at all. Since the affordable assessment will increase over 3% with no use of free cash or the lease revenue, he does not see excluding it as harming the school. Mr. Hanold also noted that we already have to allocate some of our operating revenue to capital projects, including those for the schools.
- Ms. Olsen observed that if the school gets an increase in the affordable assessment, but the town puts its share into reserves, the ratio of operating expenses between school and town will shift further towards the school.
- Mr. Ellis is concerned that the Kearsarge PILOT payments may be counted twice by including it in new growth and as estimated revenue. Ms. Olsen will look into this.
- Mr. Naughton leans toward using \$150,000 of free cash for operating expenses even if it's decided not to include the Kearsarge lease as general revenue. This would still give them close to a 4% increase. It was generally agreed that a 3-4% increase in the affordable assessment would be adequate from the town side.
- Regarding the option of removing the lease payment from the affordable assessment and having special articles to funnel it into stabilization funds, Mr. Hanold is still troubled over who has control over the funds we create. If it's there for the school with just a rubber stamp by town meeting, that's concerning. There is the potential to use the GMRSD Stabilization Fund to supplement the affordable assessment, which has the added concern of the school becoming dependent on a supplemental revenue source to fund ongoing operational needs. The question was also raised about how our having a separate stabilization fund for the school when Gill does not will impact decisions.
- Ms. Audley is more comfortable allocating money to capital needs for town owned property, including the elementary school buildings.

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- Mr. Ellis noted that there are significant capital needs from the school for town owned buildings, specifically removing and replacing underground storage tanks and replacing playground equipment.
- Mr. Naughton offered to get Superintendent Sullivan's opinion on which of the various options would be most beneficial to the district.
- Mr. Bowman thinks that education stabilization funds should be used for non-capital items such as programs to keep students in district. Mr. Naughton added that if stabilization money is used for that, part of the cost should be borne by Gill.
- There was a general sense that any allocation of Kearsarge lease revenue to stabilization funds should be determined annually by special article appropriations rather than using town meeting acceptance of a statute to direct revenue directly to individual funds.
- Mr. Hanold offered his support to the use of \$150,000 of free cash for operating expenses and Ms. Olsen was directed to prepare information on various alternatives incorporating this amount.

Allocation of funds to capital items

Mr. Hanold asked for suggestions how much to recommend as available funds for capital items in the Fiscal Year 2019 budget.

- Ms. Olsen said that \$331,000 was appropriated for non-sewer, non-debt special articles at the last annual town meeting. Another \$24,000 was appropriated at the fall town meeting for a flail mower lease payment.
- The Financial Policies suggest that, in the annual budget, debt service plus pay-as-you-go capital expenses should be 6-8% of the prior year's general operating revenue. Given current debt estimates, this calculation recommends a minimum of \$325,000 of capital expenses in addition to the police cruiser that is in the operating budget.

Topics not anticipated within in the 48 hour posting requirements

Meeting adjourned at 7:55 PM

List of Documents and Exhibits:

- November 29, 2017 Minutes
- Calculations for various allocations of Kearsarge rental income and impact on affordable assessment

Next Meeting Dates:

December 13, 2017	Determine preliminary revenue estimates, preliminary Affordable Assessment, and allocation of reserves, revenues
January 10, 2018	Review requests, select additional questions for departments, discuss/determine recommended stipends
January 17, 2018	DPW? Approve Schedules I & II