

HAMILTON FINANCE AND ADVISORY COMMITTEE

Minutes of Meeting

December 14, 2016

Members Present: David Wanger (Chair), John Pruellage, Phil Stearns, and Nick Tensen
Jeff Hubbard (Selectmen and Liaison), Allison Jenkins (Selectmen), Marisa Batista
(Finance Director). Darcy Dale and Bob Woodbury (Member applicants).

This Hamilton Finance and Advisory Committee meeting was called to order at 7:03 pm at the COA building 299 Bay Road.

Public Comments

None

FY Budget

Discussion of budget making process

David Wanger described the current dispute between the Fincom and Town Manager. The Fincom had expected their liaison would go to individual departments to discuss issues and gather reports from them. The Town Manager had indicated that the Fincom would have no access to Department Heads for the purpose of the budget process. Mr. Wanger said he did not want to involve Finance Director, Marisa Batista in the dispute, but wanted her to be comfortable and protected instead of being embroiled in discussions with the Town Manager.

Discussion of FY18 Budget Calendar

Marisa Batista said the Budget was a work in progress with a target date of December 30, 2016, to have Department Heads submit budget requests. David Wanger asked if the calendar envisioned if a given member of the FinCom would meet with departments to which Ms. Batista said yes, in the last two weeks of January 2017. The week of February 6, 2017, Ms. Batista would meet with the FinCom with Wednesday, February 8, being the best date, with hopefully two meetings allowed if possible. The Board of Selectmen would meet afterwards. A joint meeting on January 26, 2017 was scheduled with the HWRSD and a joint meeting with the Wenham FinCom was scheduled for January 10 or 11, 2017.

David Wanger asked if Marisa Batista would meet with two members of the FinCom on the off weeks (of FinCom meetings). Ms Batista indicated that Wednesdays at 11:00 am were best. Mr. Wanger issued his concern about the compressed timeline of the previous Special Town Meeting, which caused sacrificed opportunities to become knowledgeable about articles. Mr. Wanger did not want the FinCom to fall into the trap again. Mr. Wanger noted that April 8 would be the scheduled Town Meeting and that the FinCom wanted a full opportunity as promulgation for the Warrant to have meetings with interested parties having time to meet. Mr. Wanger did not think two weeks was enough time to consider Warrant articles. Allison Jenkins said she thought it was good to have FinCom and Board of Selectmen recommendations in the written Warrant which was sent to the residents. Mr. Wanger wanted time to have opponents and proponents meet with

the FinCom for articles, such as Town Hall renovations, to understand the issues before recommendations were made. The FinCom wanted opportunities to rectify problems such as the Asbury St. property for sale or Town Hall renovations based on community groups volunteering such as had happened at the library.

Discussion of HWRSD budget and process

David Wanger said he read in the Wenham section of the Chronicle, that the Wenham Town Administrator would make a formal inquiry about the HWRSD budget at Spring Town Meeting based on Wenham Town Counsel's opinion. Mr. Wanger stated that he e-mailed Hamilton's Town Manager but heard nothing back from him. As 70% of Hamilton's annual budget was devoted to the school, Mr. Wanger thought it would be nice to know what Wenham was doing and why. It was noted that the HWRSD budget would be presented by the Superintendent the next day. Phil Stearns said he had sent the School Committee Chair an e-mail asking where the agenda and exhibits would be located and was directed to another site on the School website.

The exhibits were not available as of the date of the meeting. Mr. Wanger requested a copy of the budget but the School Chair was not direct in response. Physical copies would be available on December 16. Phil Stearns noted that they must be part of the public record after December 15.

Discussion regarding information requests related to budget and forecasting, including review of FY16/FY17

Phil Stearns and David Wanger had investigated FY16 to discover large year end free cash, which was achieved by the taxpayers paying what they didn't need to pay. Mr. Wanger said the FinCom needed to know if FY17 would retain the same repeated problems. There were vacancies for the Finance Director and DPW Superintendent but Mr. Wanger wondered what else would create the cause and effect of what happened. Mr. Wanger asked if the FinCom and Finance Director were in a position to go line by line for FY16 to determine the cause. Marisa Batista announced that she had run the FY16 full year report. According to Ms. Batista, by viewing the report, the FinCom would see where there were surpluses, such as motor vehicle tax, surplus revenue, and DPW surplus due to the vacancy and projects that had not been completed..

There were expenditures in the annual reserve funds of \$66,469. Public building and maintenance line items showed significant surpluses of utilities and fuel surplus, according to Ms. Batista who added that the FY17 budget was adjusted to reflect the surpluses from FY16.

Jeff Hubbard asked about the town expenses, schools expenses, debt expense, and total and if it was possible to get the four buckets of information from the data presented. Marisa Batista said the total overage was \$1.2M some of which might have been encumbrances that were rolled over to FY17 for unpaid invoices at the end of the year. \$1.1M was the FinCom number so there was some adjustment, according to David Wanger. Ms. Batista referred to Page 14 which totaled highway expenses of \$166,000 for snow removal and there was a \$75,000 surplus due to the mild winter of 2015 as well as money not spent for projects which were not undertaken. Article 2012-5 was a project that was not done, sidewalks. Allison Jenkins said Chief Stevens (Acting DPW Superintendent) finished many projects in FY17.

David Wanger said there was close to \$1M in revenue and appropriation surplus, \$700,000 in appropriation, but when one looked at public works it was a small fraction of 700K. On Page 15, inspectional services, \$20,000 was taken from the budget appropriation. Marisa Batista was not sure why. Phil Stearns noted the \$69-70,000 devoted to MIS software services and \$51,000 for software equipment in Finance and Accounting. Ms. Batista said part of the \$69,000 was encumbrances to pay for invoices outstanding in FY17. Nick Tensen said they were not identified as an encumbrances. Ms. Batista said the Town did not have that system, but there was a plan to obtain the software upgrade in the future. David Wanger recalled that the Town Manager had indicated that a \$200,000 surplus at the end of the year was usual but the Town was \$700,000 above that so the Town Manager had suggested approaching this by not rehashing the

problem but by discussing in the FY18 budget process by looking at FY16 and FY17 to explain why the money was left over. Mr. Wanger reiterated that the FinCom wanted to participate to the fullest extent in the budget process.

David Wanger asked Marisa Batista what was the art of estimating revenue, while noting the FY16 estimate was \$300,000 less than the actuals for FY15. While reviewing the tax rate recapitulation sheets for FY16 and FY17, Mr. Wanger questioned the FY16 recap sheet upon which the 17.25 tax rate was set, with an estimated revenue \$300,000 less than actual revenue received in FY16. Mr. Wanger's question was if there was some approach to revenue estimation and why the estimate was to such a lesser degree than the actuals from the prior year. There was \$300,000 of underestimated revenue received that year. Mr. Wanger asked if there was an art to budget making that would produce disparate results. Marisa Batista stated that she did not know how revenue budgets had been estimated in past year, it could have been calculated by looking at the prior year budget and actuals, for example, rental revenue, there might have been a contract that would provide the information. FY16 tax recap showed one time non reoccurring revenue source of \$101,656 on page 3 of the tax recap. Mr. Wanger answered that would account for less than half of the difference in the FY17 tax recap. There were actual receipts of \$200,000 over the estimate so there was a pattern of coming in with a significant estimate that did not appear to be accurate. Nick Tensen said the major areas identified as errors were the vehicle and license permits. Marisa Batista responded that it could be related to building permits for any major projects in Town that year, which could fluctuate.

The FinCom did not want to be critical, but wanted to know what happened so they could avoid repetition and learn from the past, according to David Wanger. Marisa Batista said she would look at the actuals for the last two to three years as well as look at potential increases in building permits and incorporate the information into the budget for FY18. Miscellaneous items are normally one time event and can difficult to budget. Mr. Wanger appreciated the desire to be conservative so as not to be on the other side of the scale, but wanted to look for a better balance.

John Pruellage said the actuals for the prior year, would set the next year's budget. David Wanger responded that talking about accuracy of the budget was making process.

David Wanger discussed Page 4 of the FY17 recap, noting that the calendar entries for Special Town Meeting on October 22, 2016 and that he didn't see the adjustment to enhancements to free cash as a result of the vote on that date. Mr. Wanger recalled the Warrant articles to mitigate the tax rate, but couldn't find them on Page 4. Free cash was being used to reduce the tax rate, according to Mr. Wanger. Article 2-3 as John Pruellage indicated earlier, revised the revenue estimate by \$125,000 and reduced the \$40,000 totaling \$165,000. The FinCom was told the money would be forwarded as free cash with a note to the assessors to calculate the tax rate.

Warrant article 6.1 appropriated \$250,000 from existing free cash for the express purpose to mitigate the tax rate. FinCom was told that the tax rate of 16.95 was a reasonably accurate statement with further downward pressure resulting in property evaluations, not borne out in the 16.98 figure. Mr. Wanger stated that he was troubled. The purpose of the tax recap was to inform DOR of the Town's fiscal situation to certify the tax rate and if the action of October 22, 2016 was not included it would have resulted in a tax rate certification beyond what it should be.

Marisa Batista looked to Page 4 in the tax recap and found a reduction of \$40,025 in column B.

David Wanger asked about the freed up revenue of \$125,000 to go to free cash to mitigate the tax rate and the \$250,000 from column D. Mr. Wanger discovered that the funds in Column D were from April 2, 2016, not October. Ms. Batista responded that a consultant was hired to prepare the tax recap and she would be surprised if they didn't have a full copy of the Fall Town Meeting Warrant. Ms. Batista did not know when the initial date of the tax recap submission

occurred, but she provided DOR additional information on December 12, 2016.

Jeff Hubbard would ask the Town Manager if the Warrant articles were reflected in the tax recap information. David Wanger added that Warrant Article 6-1 explicitly said to reduce the tax rate. Article 2-3 concerned adjustments to revenue but did not specifically say it would be used to reduce the tax rate. Mr. Wanger recalled that at the joint meeting with Board of Selectmen, the Town Manager said yes the assessor would be told about it. Mr. Wanger completed his thought by stating that perhaps the assessors were not told and it was not reflected in the rate.

The \$2,890,000 surplus figure was as of July 1, 2016 and Article 2-3 was for \$250,000 in revenue and appropriation modification. Marisa Batista responded that it would not be part of this calculation because July 2016 related to the FY17 number. Adjustments would not be available until the end of FY17, according to Ms. Batista.

David Wanger asked when money was appropriated and undesignated, where would the funds from the adjustments be held. Ms. Batista said it wouldn't reflect until the end of the year and would not go into a free cash account but would be shown as a decrease in the available budget for FY17, it would be part of the calculation of free cash. Phil Stearns agreed that there was no account for free cash, only a calculation. Nick Tensen stated that more money was raised than spent so there should be a reduction on the tax recap rather than having it raised \$40,000. David Wanger said it was appropriated at Spring Town Meeting, then spent in accordance with appropriation but, if reduced, where would the money go. Ms. Batista responded that it would be reflected on future bills. Mr. Wanger suggested that by virtue of revenue and appropriations, the change under Article 2-3, would have a mitigating tax rate, would be incorrect. Phil Stearns adding it was a timing issue. Ms. Batista said the reduction would be on the third and fourth quarter bills to reflect the \$40,000 and she would check the \$250,000 and the \$125,000. There was \$2,890,000 in the General Fund as of July 1, 2016 and currently there should be that amount minus the \$250,000 voted at Special Town Meeting.

The Stabilization Fund Report was in the packet with a current balance \$1,036,000 undesignated. When asked about the \$500,000 for the turf fields, Marisa Batista said the \$500,000 should have been transferred out to the turf fields fund. In response to David Wanger's question as to how it differed from free cash, Ms. Batista said the Stabilization Fund was one that was built up to serve future needs while free cash was calculated each year. According to Ms. Batista, the Stabilization Fund rolls over each year. The Stabilization Fund grows when Warrant Articles pass or money was transferred from one fund to another based on Town Policy, according to Ms. Batista. Some towns transferred \$100,000 a year, while other towns did not. Ms. Batista said earnings on investments would transfer into the Fund. In response to Mr. Wanger's request as to who had control to spend it, Ms. Batista responded that it would be a 2/3rds vote at Town Meeting.

John Pruellage did not see a P&L equivalent but Marissa Batista responded that there were revenues and expenditures and she could run a report. Mr. Pruellage asked if there were cash accounts, receivables and payables because he had never seen a balance sheet. Ms. Batista said that there are balance sheet accounts but if referring to bank accounts, the Town didn't need a separate bank account for every fund but the Stabilization Fund has a separate account. Jeff Hubbard recalled the Patton property account for \$500,000, another \$500,000 for the turf field fund, Enterprise Fund, Water Enterprise Fund, CPC, AHT and the surplus from the Recreation Department. Ms. Batista said each fund would get rolled over and would provide a close out of the fund balance account.

John Pruellage noted the \$2.5M and \$2.9M at the end of FY15 and FY16 with an even higher

overage, and asked where the remainder went. Marissa Batista responded that the Committee should look at July 16 (free cash calculations) at the end of the year, and see that it would close the fund balance which would go into the unreserved undesignated fund balance. That would become the starting point of the calculation of free cash, real estate outstanding taxes, any deficits in any other funds, grants that were on a reimbursable basis and possibly permanent deficits.

Upon comparing July 15 when there was \$2.5M and July 16 when there was \$3.2M, Phil Stearns wanted to understand where the difference came from because he believed the ending balance should be the beginning of the next year's balance.

Marissa Batista said there was the General Ledger and General Fund with labels for free cash, which would not fall into an undesignated fund, it would go into a separate account for another use. John Pruellage added free cash would be an income with other revenues seen. Ms. Batista added that if the Town voted \$250,000 to fund a project, the funds would go from the General Fund to the project. If \$250,000 was voted, it would go into a revenue source, according to Ms. Batista. David Wanger asked how the money would be traced from the General Fund to a project, to which Ms. Batista responded that it would be a transfer.

The FinCom agreed that they would like to see the balance sheet and a statement of changes. Marissa Batista agreed and would provide a copy of the Auditor's Report but stated that monthly reports are not available. Jeff Hubbard recalled that the Annual Report had been provided for years, which was the Town Manager's responsibility. David Wanger repeated that he wanted to participate in the preparation of Town Meeting Report. Ms. Batista wanted to provide the FinCom with quarterly report balance sheets for General Funds and capital projects.

Discussion on development of fiscal policies (e.g. reserve, free cash, capital improvement plan)

David Wanger asked if one used a template from DOR or other communities as a way to develop financial policies. Marisa Batista responded that one would look at both as a starting point.

There would be certain policies that were unique to the Town including joint efforts. Mr. Wanger suggested collecting some templates. The two policies were recommended and were planned to be adopted once the Finance Director position was filled, according to John Pruellage. Mr. Pruellage added that the FinCom should make a recommendation of what Marissa Batista should prioritize. Mr. Wanger suggested policies for the Reserve Fund and free cash. Fines, fees, and assessment could also be targeted for Town Meeting. Ms. Batista said she had come across a draft of policies and procedures in the office but Mr. Wanger and Phil Stearns both agreed that they had not seen it. Mr. Wanger said the FinCom agreed on the verbal description of free cash policy but nothing was in writing.

Discussion of PILOT findings and draft recommendations

Mr. Wanger stated that John Pruellage's report was excellent. Residents didn't know what happened in other towns but only in Hamilton. David Wanger wanted to look for recommendations. Mr. Pruellage welcomed a healthy debate. Mr. Wanger suggested that by creating a more uniform policy, the better it would be, even for institutions that were not sizeable including, donations in kind, space, or others to consider. The topic would be debated at the next meeting. Mr. Pruellage had included open questions at the end of the report to frame the discussion and who would be targeted by the policy.

Part of the calculations would include what services were being provided to tax exempt entities. Harvard was just open land with no services, trash or plowing. The FinCom discussed Gordon Conwell and if their payments had decreased as well as the number of students that attended the HWRSD. The Hamilton Housing Authority was discussed. Andover's report on PILOT was discussed regarding properties that pay a portion of their property tax in PILOT. Andover

Academy had some land that was taxable but it was unclear if it was comparable to Pingree School, according to Mr. Pruellage. Phil Stearns asked if Asbury Grove was in that category. John Pruellage thought it was taxable. Mr. Stearns said the chapel or common buildings might be exempt. Mr. Pruellage suggested setting a policy but analyzing properties on a case by case basis. Jeff Hubbard added that Andover had an inn that might be for profit which would be taxed separately.

Committee Member Comments/Reports

David Wanger noted the RFP was out for the Patton Homestead without a lot of activity. Mr. Wanger said the RFP made no distinction between rehabilitation, manage, lease or purchase. In response to Mr. Wanger's question if the Selectmen adopted the RFP, Jeff Hubbard said the Selectmen never saw it. In a previous meeting, Carin Kale said the RFP was subject to Selectmen approval.

Bob Woodbury said it was interesting watching the Finance Director and the committee. Phil Stearns said a member did not need a background in finance.

Darcy Dale said she had a science background and lived in the community for 33 years. Ms. Dale said she liked to think she was civic minded and had a resume of liaison work with engineers, industrial designers, and scientists. Along with owning her own business, Ms. Dale also authored a blog about what was going on in the country. Ms. Dale was interested in women's issues and gun safety, but the blog was not related to Hamilton specifically.

Bob Woodbury said his first ten years of work were in financial analysis. Mr. Woodbury had working knowledge in the investment business by managing teams responsible for communication for institutional clients. Mr. Woodbury also noted his presentation skills used working with different constituents, would relate to liaison work with other departments. Mr. Woodbury grew up in Wenham and has lived in Hamilton for 33 years, having a vested interest in the Town and wanted to make a contribution. Mr. Woodbury said he had seen the FinCom in action at Town Meeting and respected their knowledge and professionalism. From 1984 to 1986, he had been a member of the ZBA.

David Wanger said he had been authorized to write a letter in the paper before either candidate had offered their interest. Phil Stearns was originally an adjunct member who participated but "descended" to full membership, according to Mr. Wanger. The FinCom would welcome that kind of participation as well as a full membership with the understanding of frequent rotation.

The current opening to be filled had a current term ending June 30 this year or next year. The position was based upon the Selectmen's nomination and moderator approval

Approve Minutes from Prior Meetings (10/26, 11/2, 11/16, 11/17, and 11/30)

David Wanger said he had edits and would meet with Marcie Ricker to make changes.

Determine Agenda and confirm FinCom schedule for January 2017

Thursday, January 5, 2017 the HWRSD would present their budget to the Town. Phil Stearns agreed to be there. The next FinCom meeting would be January 4, 2017, following the typical schedule of meeting the first and third Wednesdays of each month. David Wanger noted the ongoing issue regarding being able to talk to Department Heads, which came into full bloom when Mr. Wanger sought to meet with the Council on Aging Director and hoped meeting at the COA building was still an option. The FinCom would meet with the Wenham FinCom January 10 or 11, 2017 with the 11th being the preferred date.

Other Matters Not Reasonably for next meeting Anticipated by Chair

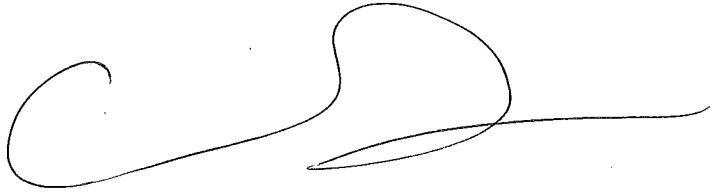
None

John Pruellage made motion to adjourn the meeting

Nick Tensen seconded

Vote Unanimous to adjourn at 9:07pm

Prepared by:

A large, stylized handwritten signature in black ink, consisting of a large loop followed by a horizontal stroke.

2/17/17

Marcie Ricker

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Attest

Date