

HAMILTON FINANCE AND ADVISORY COMMITTEE  
Minutes of Meeting  
July 15, 2017

Members Present: Darcy Dale, John Pruellage, Phil Stearns (via telephone), and David Wanger (Chair)

Others Present: Michael Lombardo, Jeff Hubbard, Scott Maddern, and Shawn Farrell.

This Hamilton Finance and Advisory Committee meeting was called to order at 9:00 am in the Memorial Room.

**Public Comment**

None

**Discussion and re-consideration of year-end request to transfer budget funds to the water enterprise fund**

David Wanger noted that the Board of Selectmen and Town Manager had requested that FinCom reconsider its vote rejecting the \$400,000 transfer to Water Enterprise. As a matter of comity FinCom scheduled this Saturday session. Before discussing the substantive question, Mr. Wanger noted that FinCom should undertake a motion for such reconsideration. Motion was made that the FinCom reconsider its vote on item 4 of July 5, 2017 for the year end budget transfer by Darcy Dale.

John Pruellage seconded.

Vote: Unanimous in favor.

David Wanger reviewed the previous request to approve the transfer of funds from various surplus budgets to the water treatment plant costs. Number four of the previous requests, was voted nay by unanimous vote at the previous meeting. The Selectmen voted three to two to approve the transfer of item four. Michael Lombardo sent an e-mail with the request on behalf of himself and the Board of Selectmen to ask the FinCom to reconsider the use of surplus funds for use at the water treatment plant. In addition to the \$400,000, there was likely to be another \$200,000 available once the last warrant was processed, according to Michael Lombardo. By using a considerable amount to reduce the tax rate, Mr. Lombardo suggested that there would be a spike in the tax rate in subsequent years.

Michael Lombardo said the use of free cash to fund one time expenditures was a good practice.

Town Meeting funded the distribution system, which was intended for pipes. The language was broad enough to bond and go into indebtedness for plant repairs. Rather than incurring interest costs and diverting funds from intended use, it would be better to use available funds to offset the large project. Dewberry Engineering was in the process of estimating the cost of the plant repairs in addition to filtration, new valves, and other things that needed to be replaced as well. The cost might be over \$500,000.

Jeff Hubbard said the Board voted 3-2, adding that most felt it was a good use of funds rather than having the Town go into debt. There were two Selectmen who had a different sense, with Allison Jenkins noting transparency. Jeff Hubbard was opposed because the tax rate affected real estate values and the Water Enterprise Fund was operating in the black. Mr. Hubbard thought people using the water should be paying for the water and that the General Fund money should be separate from enterprise funds. Scott Maddern said it didn't summarize the position of the Board but only the views of Mr. Hubbard and Ms. Jenkins.

Scott Maddern talked about the condition of the plant and that the Town was at risk of not producing quality water. The Ipswich Watershed Association opposed the Town of Hamilton's interests even though 98% of water Hamilton used went back into the watershed. The Town needed to diversify its water sources out into the North Coastal Basin.

Scott Maddern referred to changing the tiered structure for water usage and recalled that General Fund money had been used for the last ten years to fund enterprise funds. Mr. Maddern wanted to discuss the yoyo tax rate. Shawn Farrell said it was crucial to have a meeting this time of year to discuss transfers. Financial policies would determine the comfortable free cash number.

David Wanger summarized why the negative decision was made on July 5, 2017. Mr. Wanger had sought meetings and collaborations between the FinCom and Selectmen but some e-mails had been unanswered. Shawn Farrell said it was his fault that the FinCom had not been invited to the water treatment plant tour. Mr. Wanger noted that the decision made on July 5, 2017 was made within the context of FinCom's not being informed regarding the transfer, reserves, and alternative funding by way of use of existing bonds.

David Wanger thought it would be nice to have a policy on appropriate reserves, which could be used to mitigate the tax rate or used as a reserve or insurance for General Fund contingencies.

The current tax rate was a place holder for Special Town Meeting's (STM's) determination after FY17. The FinCom was prepared to discuss that with the Selectmen before going to STM so the two entities were consistent. While it was not the goal to use \$400,000 solely for tax purposes, there should be a distinction between enterprise and tax funded for specific budgets. According to Mr. Wanger, some members of the FinCom felt the Waste Enterprise Fund was an example of how to avoid sinking into a pattern of seeding an enterprise fund with General Fund money as the two had different sources. An enterprise fund was fueled via user fees versus the General Fund from a general tax situation. Mr. Wanger said it was important to maintain that distinction between the two. Mr. Wanger said it was understood that a bond was in place with a capacity of over \$3M, which was already issued. Mr. Wanger wanted to know what the cost of borrowing \$400,000 would be. Mr. Wanger wanted to know what the current unexpended balance of the Water Enterprise Fund was. After July 5, 2017, Mr. Wanger requested the information but it was never received.

Michael Lombardo explained that the Finance Department was busy with year-end activities and that he thought the FinCom was requesting information regarding the General Fund, which was certified at \$1.8M or \$1.9M the previous year. Mr. Lombardo said there was a surplus this year due to vacant positions, health insurance savings, and hiring employees at a lower rate than those they replaced. The savings would either accrue to free cash or be applied to projects via budget transfer.

David Wanger noted his request on July 6, 2017 asking if interest and principal of current borrowing capacity were to be used for funding of the water plant remediation, what would the cost be and asked to supply the year-end status and year-end unencumbered balance of the Water Enterprise Fund as a source for plant remediation. This information has not been provided.

David Wanger noted that now the FinCom was asked to reconsider its vote when they had not been given the information, while trying to maintain the distinction between the General Fund and other funds. Mr. Wanger also considered the philosophy of taxpayers paying in way of tax unnecessarily. According to Mr. Wanger, the money belonged to the taxpayers and the other Water Enterprise Fund was more of a user fee fund with a bond already issued. Mr. Wanger said the FinCom would have been interested in the cost of the bond but the information was not given. Mr. Wanger added that there may be an operating surplus fund that may be sufficient in the separate enterprise account to fund what needed to be done immediately in terms of the remediation. As a long term project, the Boards would have an opportunity to revisit the issue going forward with a greater knowledge base.

By reserving the \$400,000 as an unexpended unencumbered balance from Fy17 to be placed in the General Fund, the money would not be committed to using it in a particular way, according to David Wanger, who understood the whip saw of tax rates. Mr. Wanger thought it should be determined by the people at Town Meeting. Phil Stearns and Darcy Dale agreed. Mr. Stearns said he knew the filtration plant had issues a while ago and the problems did not all happen in last three weeks. Mr. Stearns asked to look at the Water Enterprise Fund to determine what it had in it and present the big picture with information being provided to the FinCom.

Michael Lombardo responded that when Tim Olson requested the \$100,000, he and Mr. Lombardo said they gave information that another request for another transfer would be asked for. Mr. Lombardo said he and Mr. Olson covered everything that they knew at the time.

According to Mr. Lombardo, the Water Enterprise Fund closed the year with a modest amount in it. The water rates were adjusted the previous year to accrue a fund balance that would take five years to have \$100,000. The fund balance was meant to create enough money to pay for a replacement truck (\$40,000 to \$50,000) every five to ten years. Rates were not set with the expectation that the Town would fund major plant improvements at that time.

Reportedly Dave Dolan knew the challenges he was having with the plant, but the severity never articulated up past the previous DPW director. Tim Olson had engaged Dewberry Engineering, to understand the ongoing infrastructure and maintenance needs while doing well exploration in addition to cleaning and inspecting the water tanks. The Town would have better planning tools by the end of the summer to understand the water system more globally. The failure of the filtration system and media had forced the decision. Phil Stearns said he recalled Tim Olson's information from June, but that he was thinking more financially that the information was missing. Marisa Batista had indicated this was a long term solution, causing Mr. Stearns to consider that a bond was a good choice since long term items were what bonds were for.

David Wanger referred to discovering the previous DPW Director was receiving unemployment benefits when he believed it was a separation of cause. Marisa Batista was to ask Town Counsel to determine. No one ever returned the information to the deficit causing phenomena. Mr. Wanger said it was a demonstration of a systemic issue that he hoped Michael Lombardo would appreciate. .

Darcy Dale asked if the costs could be split between various sources while giving some back to the taxpayers, to which David Wanger responded that the FinCom needed the facts about borrowing costs and the length of project. John Pruellage wanted to understand the short term need of the funds over the next four or five months. According to the ATM warrant, the Water Enterprise Fund should have almost a \$1M balance at the end of the year.

The majority of the costs would be spent in the next few months, according to Michael Lombardo. The Town already ordered the media while finalizing the staging of the filtration.

The project would be done in the early fall. Once started, the project would take a couple of weeks to take one filter down and replace the media and put it back in, then take the other one down. It would be two weeks from beginning of the project and then the invoice would be paid so funds would be needed by the end of September. John Pruellage said if the FinCom did not approve a transfer, the Town could use the existing balance of the Water Enterprise Funds. Mr. Lombardo said there was not \$1M in the surplus of the Water Enterprise Fund, but that he would look again. In FY 17, there was almost \$900,000 so there should be an ending balance of \$950,000. Mr. Lombardo said a chunk of the money would be reserved for specific uses such as bond payments.

John Pruellage said he did not agree with having to carry interest payments, but philosophically an enterprise fund should be separate from the General Fund to have it be a self-sustaining entity. Using the surplus to lower the tax rate was not a philosophy that should be used going forward but Mr. Pruellage would agree with using the surplus for one time capital expenditures. The issue was not a question if the Town spent money on water as it was a huge priority for the Town. The tradeoff was not about lowering the tax rate, but how many items were in the Capital Improvement Plan in the future. The water situation and how to fund it should be taken to Town Meeting in the fall for their recommendation. Mr. Pruellage said he felt it should be the burden of the users of the water but at the end of day it was for the benefit of the Town. Mr. Pruellage agreed with Allison Jenkins' viewpoint that there was a transparency issue and wanted it to come to the Town for a decision.

Michael Lombardo said he had no intention to delay the project. John Pruellage stated everyone was talking about turf fields and Town Hall but no one talked about water issues, which should trump over the others. Michael Lombardo said he had been talking to Manchester for water connectivity. Fall town meeting would have a presentation for a global look at water systems but the filtration needed to be remediated now, according to Mr. Lombardo. If the FinCom did not approve a transfer to fund the project, then he would use available resources whether through bonding or short term notes. David Wanger added that Water Enterprise Fund could be used. Mr. Wanger noted the systemic problem of Mr. Lombardo informing the FinCom about what Mr. Lombardo decided leaving them to be reactive, rather than allowing them to be more proactive as part of the discussion. The FinCom should be more of a participant in the fiscal discussions rather than simply exercising jurisdiction without a collaborative prior participation.

Phil Stearns said he was looking at the Capital Improvement Plan on June 29, 2017 and didn't see anything on water that related to the issue at hand until FY19 when water treatment upgrades or repairs were scheduled. Michael Lombardo responded that it was an initial draft to get it in front of the Selectmen and FinCom. Mr. Lombardo had asked Sean Timmons and Tim Olson for long term things that needed to be raised that they had not thought about. Mr. Lombardo had noticed that several big picture items such as a new roof on Town Hall and Public Safety Buildings were not considered. There would be two or three workshops on Capital Improvement Projects to be held so the FinCom could get up to speed on the projects.

Phil Stearns asked what the downside would be if the FinCom did not change their vote, to which Michael Lombardo responded that there were other options, but his perspective was that it was money that was available for a project that needed to happen quickly rather than accrue to a fund balance. Mr. Lombardo said the Town was in good financial shape and that a \$500,000 project would not unseat the Town. Engineering would be \$100,000 and media was \$70,000. Mr. Lombardo's preference was not to take out state house notes or short term debt.

Shawn Farrell said he understood all that was said about policy and past enterprise funds not being self-sufficient but was concerned about getting into short term debt for money the Town already had, which would cost more. If enterprise fund money could be used, the Town would be bonding for something that didn't need to be bonded. If the project were not started now, the

Town would need to wait another year. Darcy Dale said the FinCom could make a decision once they received information. Ms. Dale suggested having quarterly meetings to share information.

David Wanger recalled that he had asked the Selectmen to consider the meetings in their retreat meeting. Scott Maddern said he had created a calendar and Shawn Farrell would share it with the FinCom. Michael Lombardo said a good time to have the meetings would be after the quarterly report was issued.

Motion made to once again reject item four on the July 5, 2017 transfer request at this time by John Pruellage.

Seconded by Darcy Dale

Vote: Unanimous in favor.

**Adjournment**

Motion made by John Pruellage to adjourn at 10:02 am.

Seconded by Darcy Dale

Vote: Unanimous in favor.

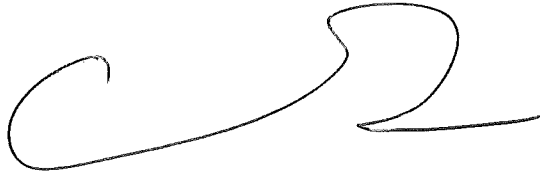
Prepared by:

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Marcie Ricker

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Attest



Date

9/11/17