

HAMILTON FINANCE AND ADVISORY COMMITTEE HAMILTON, MA

Minutes of Meeting
October 17, 2018

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Members Present: Darcy Dale, John Pruellage, Phil Stearns (Chair), Nick Tensen, and David Wanger.

This Hamilton Finance and Advisory Committee meeting was called to order at 7:03 pm at the Council on Aging Building.

Public Comments

Discussion/Debriefing regarding Special Town Meeting: take-aways and actions.

Discussion and Review of Financial Policies: Financial Reserves and Capital Planning

Nick Tensen said the members of the FinCom added respectability to the conversation. Phil Stearns said that he had analyzed the numbers provided in the chart presented by Marc Johnson at Town Meeting to look at the potential school costs associated with various sized developments and it seemed reasonable. Mr. Stearns said he believed the FinCom would agree that 40 to 50 units would be preferable to 200 units. Darcy Dale recalled that one of the landowners wanted to stay on the Longmeadow property for at least five years leaving funding unavailable for other developments in town. Ms. Dale referred to the Winthrop School site that would be vacant in about seven years. Mr. Stearns said the ten-year lease had not lapsed for the Winthrop School and that one of the asks to the schools with the Board of Selectmen was for a facilities plan. Mr. Stearns said nothing would happen at the Winthrop School for at least five years. Harborlight had a shorter horizon and might start the process within a year. Reportedly, Harborlight had a developer that might put in a 200 unit development at Longmeadow.

Discussion and Review of Financial Policies: Financial Reserves and Capital Planning

Financial Reserves Policy:

Marisa Batista started the discussion of financial reserves. Ms. Batista indicated that under the proposed policy, General Fund reserves would equate to between 8% (\$2.4M) and 12% (\$3.6M) of the Annual Operating Budget. Phil Stearns noted that the Operating Budget (\$30M) included the School Budget. Ms. Batista said she liked having a range for flexibility. General Fund Reserves, Free Cash, the Stabilization Fund, and the Capital Stabilization Fund would be separate, according to Ms. Batista. Currently there was

11.9% (\$2.7M) in Free Cash and \$800,000 in the Stabilization Fund. Transfers to and from the Capital Stabilization Fund required a 2/3rds vote at Town Meeting and would be used as a savings account, according to Ms. Batista. Free Cash transfers required a simple majority.

The goal was to maintain 5% (\$1.5M) of the Annual General Fund budget in Free Cash. Currently there was 9% in Free Cash but the Stabilization Fund was low at 2.6%, according to Marisa Batista who said both should be at about 5%. If Free Cash was over 5% of the Annual Budget, it should be used to build reserves or offset unfunded liabilities such as OPEB, the Capital Stabilization Fund or the Stabilization Fund. The Capital Stabilization Fund should minimally equate to the total annual asset depreciation currently at \$880,000. The totals of \$1.5M for Free Cash, \$1.5M for the Stabilization Fund, and \$880,000 for the Capital Stabilization Fund would total \$3.7M. The Town currently had a total of \$3.5M, which Ms. Batista said was very close.

David Wanger questioned the 1% recommended annual deposit but Marisa Batista said she had substituted \$125,000 because she thought 1% would be too much for the first year. Ms. Batista suggested transferring money similar to OPEB. Ms. Batista said if the Town transferred \$200,000 in FY20 to the Capital Stabilization Fund, they would eventually obtain the goal. Ms. Batista said a dollar amount could replace a percentage at the earlier stage. Mr. Wanger responded that a percentage would be a constant as the budget grew.

Marisa Batista said the FinCom Reserve Fund would not carry forward but was being appropriated each year for unexpected circumstances. The Capital Stabilization Fund would need to go to Town Meeting for approval. Ms. Batista would determine if a 2/3 vote was required. Nick Tensen noted that withdraws should be limited to above the 5% minimum, which meant the balance should be maintained at higher than 5%. Withdraws would also be limited to 1/3 of the Stabilization Fund balance (\$272,000 of the \$817,000), according to Ms. Batista.

Phil Stearns suggested the FinCom consider the minimum of \$125,000 or change it to .5% to allow for growth and vote on the stipulation that that was changed. The Capital Stabilization Fund needed to equal the asset depreciate amount of \$880,000. David Wanger noted the policy would provide good guidance to address questions at Town Meeting regarding funding of projects. Mr. Stearns noted that as the Town purchased equipment, the depreciation would increase so the Stabilization Fund would also need to increase to accommodate the change.

David Wanger made a motion to vote for the Financial Reserve Policies presented by Marisa Batista with the modification of converting the general stabilization amount of \$125,000 to a percentage of .5%

Darcy Dale seconded.

Vote: Unanimous in favor.

Capital Planning Policy:

Marisa Batista explained that a threshold of \$25,000 and five years of useful life was considered for establishing a capital asset. The policy outlined that for budgeting purposes, any request representing 25% of a department's operating budget would be considered a capital improvement. The Town Manager had suggested the change after considering small department purchases, which would appear to increase the operating budget of the department. The concern was that future budgets would be based on one-time expenditures from the previous year's budget. According to Ms. Batista, items that were capital expenditures could be depreciated. Assets were updated at year-end. David Wanger asked how the language would be consistent for feasibility studies. Ms. Batista responded that a feasibility study could be determined at year-end if it could be capitalized.

Discussion ensued regarding how to best phrase the policy and it was determined that "For budgeting purposes, any asset or project with a useful life of five or more years representing 25% of the department's operating budget will be considered a capital improvement" as stated by Nick Tensen, was appropriate. John Pruellage and David Wanger added "regardless of its cost."

Regarding Section E, David Wanger questioned the percentage. Marisa Batista responded that 3% was about \$900,000 and that the Town had never budgeted \$900,000 in capital improvements. The previous year \$450,000 had been budgeted with the lease for the fire trucks being added for a total of \$500,000. The water system would be bonded. The Capital Stabilization Fund did not need to be used every year. Funds could be transferred in and when there was a significant purchase, the fund could be used. Ms. Batista said some capital expenditures would be funded through the Capital Stabilization Fund while some capital expenditures would be presented through the Annual Budget process with the Town Manager prioritizing requests. Ms. Batista said that 3% (\$900,000) could be funded with Stabilization Funds while smaller purchases, such as police cars could be funded through capital funding. David Wanger questioned the duplicative nature of the \$800,000 striving goal of the Stabilization Fund.

Discussion ensued regarding the term "striving" to maintain the Capital Stabilization

Fund, using capital expenditures and the Stabilization Fund. Marisa Batista said the goal was to try to allocate 3% of the Operating Budget for capital expenditures but if the Town didn't need the funds, they would not use the fund. Nick Tensen suggested maintaining 3% and if the funds were not used, the balance could be placed in the Capital Stabilization Fund. Ms. Batista said specific projects would be approved in the budget process and did not think it was possible to put 3% in capital and transfer the funds if they were not used. Nick Tensen said the Town would strive to maintain 3% (\$1.2M) and identify capital items with the balance going into the Capital Stabilization Fund. Darcy Dale noted that "for projects paid through tax levy or reserves having residual balances, reallocating the balances for other capital projects." David Wanger was concerned with striving to maintain 3% regardless of the capital need for a given year, as it would be over and above the depreciation minimum.

Phil Stearns added the phrase after allocations, "with any excess going into the Capital Stabilization Fund." David Wanger recalled that any unused funds normally went into Free Cash. Marisa Batista recalled the guidelines that allowed the Selectmen to approve applying the balance to debt service for bonded projects with a balance of less than \$50,000. For projects with a balance over \$50,000, the funds could be applied to other projects for which the Town might borrow for an equal or greater term than the original loan. In response to Mr. Wanger's question if the money should go to the Capital Stabilization Fund or Free Cash, Mr. Stearns noted that a 2/3 vote at Town Meeting would be required to deposit or remove money from the fund. Ms. Batista said if the capital was low, the money would go into the Capital Stabilization Fund. Specific purchases would be known when the budget was put together. Funds would be transferred from the General Fund to the Capital Stabilization Fund.

The 3% would be used to maintain the Town's facilities, according to Phil Stearns. Nick Tensen added that when the excesses were built up to over \$1M, the funds could be used to reduce bond purchases. Marisa Batista warned that revenue sources were not growing and worried about higher taxes by putting \$900,000 in the fund when the prior year's capital expenditure was only \$500,000.

Marisa Batista said she did not have a complete inventory of all assets but had capital assets for financial statement purposes. If assets were less than \$25,000, they would not be on her list. David Wanger noted that department heads would need to work with the finance director to update the list. Ms. Batista said she was not 100% comfortable as she would not know the schedules for replacement so each department would need to do an inventory. Darcy Dale requested to add renewable power to the section in an effort to strive to become carbon neutral. John Pruellage suggested adding the concept by adding

the word "Environmental" to Section 9.

Changes included: 1) A. would be amended to state: "For budgeting purposes, any asset or project with a useful life of five or more years, representing 25% or more of a department's operating budget, will be considered a capital improvement regardless of its cost." 2) C. 9 add the word "environmental." 3) E "three percent of the General Fund Operating Budget net of debt on capital investment allocations with any excess going into the Capital Stabilization Fund."

Motion made by David Wanger to approve the policies with the changes.

Darcy Dale seconded.

Vote: Unanimous in favor.

Nick Tensen added that if the Town spent 3% of the Budget, the Town would always add .5% to get up to the minimum in the Stabilization Fund. Once at \$880,000, then the Town would not need to keep adding .5%.

The First Quarter Report was discussed. Revenues were compared to last year's for the quarter. This year, the revenue was at 24.68%, while the previous year was at 25.19%, according to Marisa Batista. Expenditures were 26.83% the previous year and 26.58% for the current year. A joint meeting with the Selectmen would be arranged for November 5, 2018. A new schedule of budget meetings would be distributed. David Wanger hoped the FinCom would be involved with Department Heads during budget meetings. The Schools, Wenham and Hamilton Selectmen and FinComs would meet in November. Mr. Wanger hoped Hamilton would be well prepared for the meeting compared to the previous year. Marisa Batista would discuss the presentation with the Town Manager.

David Wanger asked if the OPEB annual appropriation was safe due to increased life expectancies. Marisa Batista would investigate. An information guide would be provided by the State. Ms. Batista explained the confusion regarding irrevocable trusts and how they applied to OPEB. Some auditors did not consider the funds safe if they were not in an irrevocable trust as funds could be removed. Ms. Batista said the Town had adopted the law to create an OPEB Trust Fund, but not an irrevocable trust. Therefore funds could be transferred out. If the clarification from the State did not indicate such, then Town Counsel would be contacted regarding establishing an irrevocable trust. The topic would be on the agenda for the next meeting.

Discussion regarding financial analysis of the Longmeadow development

David Wanger was concerned about FinCom appearing to be an advocate for the Longmeadow development but had no problem with a generic study of school costs. John Pruellage wanted to know what the effects of a given number of students added or subtracted would be from the School's costs. As the school population was declining, understanding the step function would be of value. John Pruellage and Phil Stearns would undertake the study. Mr. Stearns added that Peter Lombardi would inform Hamilton as to the School's potential COLA increases, which were assumed to be projected at 2.5%. Mr. Wanger noted it was in excess of Hamilton's compensation schedule. Nick Tensen offered an example of a town in New Jersey where homes were not selling due to the decline in the school's quality. Mr. Stearns noted that Hamilton had dropped in school rankings and that the Schools had appropriated money last year for buying materials to help improve MCAS scores.

Discussion regarding the selection process and the vendor's vetting of the Town Manager.

Darcy Dale mentioned that a Town employee was also a consultant for Paradigm Associates, who were the vendors for the Town Manager selection process. Ms. Dale wondered about the appropriateness of the vendor selection and a potential conflict of interest. Phil Stearns was concerned about tarnishing the reputation of the newly selected Town Manager and that it might appear as though the FinCom did not support him, which was not the intent of the committee.

Discussion ensued regarding how to approach the problem. Darcy Dale wanted to choose another company in the future that would be able to conduct social media research. David Wanger noted that his conversations with Jack Lawrence, who was on the selection committee, determined that the committee was unaware of topics such as social media. Mr. Lawrence reportedly spoke with Bernie Lynch who indicated that prior applications should have been known by everyone. Approaching some members of the Selectmen for solutions seemed unbeneficial due to their dismissive nature toward the FinCom and previous knowledge about the issue.

Nick Tensen suggested a future time would be better and John Pruellage wanted the search committee to weigh in on the topic as they were the ones who were aggrieved. David Wanger responded that the search committee would not want to second guess themselves but the inadequacy could be used as a fulcrum to discuss a future process. Darcy Dale was concerned that due diligence had not been completed and noted Bernie Lynch's change from nonchalant to concerned attitude regarding social media discoveries. Phil Stearns suggested putting together a brief summary of what was known that should have been addressed better. The information could be an e-mail to the

Selectmen and a similar summary for Town Meeting. Mr. Stearns added that if the FinCom was ignored, the FinCom could go to a Selectmen's meeting and present the concept during the three minutes of open discussion, creating a formal request for action.

John Pruellage was concerned that a case against Paradigm Associates would be a case against Joe Domelowicz and that he would support a study that would not implicate the Town Manager. David Wanger suggested reporting on generic deficiencies regarding all candidates to include social media connections, prior applications for similar positions, and dispositions. Phil Stearns noted the FinCom's current work and suggested revisiting the topic when the chance of tarnishing Joe Domelowicz was less. Mr. Stearns did not think the Selectmen would undertake the inquiry. Mr. Wanger wanted it on the record that the FinCom was making recommendations that needed to be explored even if they were not followed. Nick Tensen wanted to provide a recommendation for future searches.

David Wanger referred to the people not counted during Annual Town Meeting and that it reflected the process of Town government as did the selection of the Town Manager. Phil Stearns responded that Special Town Meeting was equipped with two counters for each section. Mr. Stearns suggested stating: "Because we are aware of this, the FinCom recommends that for all future searches, the Board of Selectmen chose an agency that will investigate social media and other things that may have been an issue." John Pruellage emphasized that it would apply to all candidates. The most productive path would be to determine what was learned in the process. Darcy Dale would gather information and would work with Mr. Wanger. Mr. Stearns suggested a more measured approach of making recommendations to stop the process from happening again. The topic would be discussed at the next meeting.

Discussion regarding the Host Community Agreement with Green Meadow Farm.

The topic would be discussed at the next meeting. Darcy Dale thought having one person make a decision regarding a school resource officer for a regional school district was inappropriate. Phil Stearns responded that it had to go to the School Committee with costs between the two towns to be determined. The Hamilton Chief of Police had been pushing for it while the School Committee did not even want ALICE training. Ms. Dale said the funding should have been outlined in the contract. It was determined that FinCom's role was not as prominent as it had been presented by Scott Maddern, who had verbally agreed to their being kept in the loop.

Committee member reports on liaison assignment and other projects

Review and Approve Minutes from September 5, 2018, September 19, 2018, and October 3, 2018.

Darcy Dale moved to accept the minutes from September 19, 2018.

John Pruellage seconded.

Vote: 3-0 (Nick Tensen, Darcy Dale, and John Pruellage) with Phil Stearns and David Wanger abstaining due to their absence at the meeting.

Darcy Dale moved to accept the minutes from September 5, and October 3, 2018.

David Wanger seconded.

Vote: Unanimous in favor.

Oher topics not reasonably anticipated by the Chair.

Discuss/determine agenda for next meeting,

Topics for the October 31, 2018 meeting would include discussion regarding the Schools and Selectmen, Town Manager selection process, Canterbrook, and OPEB. David Wanger requested that Mary Beth Lawton be placed on a future agenda to discuss Council on Aging topics. Darcy Dale would keep a list of future topics. The joint meeting with the Selectmen would allow for quarterly report discussion, budget guidance, and School asks.

Adjournment

David Wanger made motion to adjourn the meeting.

Seconded by Darcy Dale.

Vote Unanimous to adjourn at 9:45 pm.

Prepared by:

Marcie Ricker

Attest

Date