

Town of Bedford Finance Committee

Town Hall, Selectmen's Meeting Room

October 30, 2014

Members in attendance: Rich Bowen, Tom Busa, Steve Carluccio, Elizabeth McClung, Paul Mortenson, Barbara Perry, David Powell, Steve Steele (Chair), Ben Thomas.

Others in attendance: Victor Garofalo, *Director of Finance and Collector/Treasurer*; Brad Hafer, *School Committee*; Bill Moonan, *Selectmen*; Rick Reed, *Town Manager*.

Remaining Recommendations for Special Town Meeting Articles:

Article 8: Charter Amendment - Volunteer Coordinating Committee Membership

Mr. Garofalo said FinCom's previous vote on this article was "a 4-4 split". Chairman Steele asked whether the Committee should make any recommendation at all on this article since it has no financial impact. Mr. Garofalo said FinCom could take a "no position" stance, if it so chose. Mr. Steele then opened the question for member input.

Mr. Thomas said he continued to find it odd that even though the Charter Review Committee made the recommendation to increase the number of Volunteer Coordinating Committee members from 3 to 5, the Volunteer Coordinating Committee itself didn't feel the need to take this action.

From his knowledge of the situation, Mr. Carluccio said the two VCC members opposed to increasing the number of members did not feel strongly one way or the other about the CRC's recommendation; they merely didn't understand why the matter was important enough to be discussed and didn't see a compelling need to make the change because everything was working well, from their standpoint.

Mr. Mortenson said that one of the points previously made for increasing the membership was that two additional members made for better outreach to find volunteers to serve on Town committees.

Mr. Bowen added that additional members would also allow the committee to continue to function if one or two members had to be absent for a period of time. "In the past there has been an occasion where there's been a paucity of active membership," he said of the VCC.

Ms. Perry said that the current members of the VCC had perhaps not experienced problems of absence and so didn't see the need, although she was aware that the problem had occurred in the past.

Mr. Powell asked if this sort of recommendation wasn't within the purview of the Charter Review Committee. "Isn't this the sort of thing they should be thinking about and isn't this what they're recommending, rather than deciding from within the VCC how it ought to work?"

Mr. Steele agreed that the CRC did make recommendations and then the Selectmen determine if they should be on the warrant.

Selectman Moonan interjected to say he was concerned that FinCom believed the current volunteer system was working. "I'm the Chairman of the Historic District Commission. We have a vacancy currently in existence which has not been filled for two years and three months because nobody can be found. The Arbor Resources Committee had two vacancies starting back in June of 2012. One vacancy was filled in a month and the other wasn't filled until sixteen months later. There are 14 different positions that have not been filled."

Mr. Steele said he's been under the impression that the VCC was working well. Mr. Busa agreed and added that the CRC Chair said, in his words, there had "never been less people that we've been looking for—that it's never worked better."

Mr. Moonan said that added diversity on the VCC would make for better outreach to more parts of the community. "True, Finance Committee doesn't have a problem with vacancies, CapEx doesn't have a problem but these smaller committees do have a problem. It was so bad with Fair Housing and Housing Partnership that there were nine vacancies and the VCC ended up proposing that the committees be combined so the number of volunteers to be found could be severely reduced. Yes, they're doing a decent job but they could do better." He added that it would be better, from the Selectmen's point of view, to have more than one candidate per opening so there would be a choice of who to appoint.

Mr. Steele asked whether members of various committees also look for volunteers to fill vacancies. If volunteers can't be found with the committee members asking around "why are we saying it's because we don't have enough VCC members?...The Charter Committee said the VCC is working great," he repeated.

Ms. Perry said she didn't believe the Charter Committee said that "everything was working great". Things are going alright now but it's still hard to find volunteers. She added that she remembers a time when even the Finance Committee itself was down to six members.

Mr. Steele said that with social media, it should be easier to connect with potential volunteers. "There are a lot of communication tools. I find it hard to believe that two more people are going to get the word out more than it is already."

Ms. Perry asked what the downside of adding two more members to the VCC would be. Mr. Steele said he didn't see that vetting nominees would require two additional members. Mr. Moonan replied that the role of the VCC was not just to vet volunteers; it was also to find volunteers.

Ms. McClung verified that the VCC members didn't feel strongly, one way or the other. Mr. Carluccio replied, "We've probably talked about this more than they have. Based on this discussion, we seem to care more about it than anybody."

Referring to Charter Review Committee Chair Betsey Anderson's presentation of the matter to FinCom, Mr. Powell said that what he heard was not that there was a problem or that there wasn't a problem. "I think what she was saying was that it could be better."

Mr. Mortenson made a motion that the Finance Committee recommend approval of **Article 8: Charter Amendment - Volunteer Coordinating Committee Membership**. Mr. Bowen seconded. The motion passed on a vote of 5-3-1.

Article 11 - Rescind Prior Bond Authorizations and Related Appropriations. Mr. Garofalo had asked FinCom to hold off on its vote, pending ongoing discussions about the sewer project portion of the article and whether these funds would be needed rather than rescinded.

“We are not going to rescind the sewer bond at this time until we get more of an analysis of what’s going on with regards to the sewer issue,” Mr. Garofalo told the Committee. “We’re going to indefinitely postpone it. The approval would actually be for the two remaining bonds: the dump truck and the ladder truck.”

Mr. Busa made a motion that the Finance Committee recommend approval of **Article 11 - Rescind Prior Bond Authorizations and Related Appropriations**, rescinding \$30,000 of Article 17 of the 2014 Annual Town Meeting [Dump Trucks] and \$55,000 of Article 20 of the 2013 Annual Town Meeting [Ladder Truck]. Mr. Bowen seconded. The motion carried unanimously, 9-0-0.

Article 15 - Amend FY 2015 Operating Budgets.

The amendments are as follows:

Account #1300 Finance Department:

- Increase the appropriation by \$55,000 for a revised total appropriation of \$1,011,342;
- Increase the Interest Abatement segregation by \$25,000 for a revised Interest Abatement segregation of \$75,000;
- Decrease the amount to be transferred from the sewer fund by \$126,436 for a revised amount of \$49,356;

Account #1301 Insurance and Benefits

- Decrease the appropriation by \$2,455 for a revised total appropriation of \$10,224,028

Account #1310 Financial Committees

- Decrease the tax levy appropriation to the Reserve Fund by \$50,000.
- Transfer \$42,960 from Article 17 15-01 of the 2014 Annual Town Meeting, Facilities Lane/Davis Space Modifications (Account number 001.3500.5780.8067.0000) to the Financial Committees Reserve Fund;
- Transfer \$55,040 from Article 20 14-06 of the 2013 Annual Town Meeting Facilities Classroom Renovation and Space Reconfiguration (Account number 001.3502.5780.8044.0000) to the Finance Committees Reserve Fund.
- Revise the Financial Committee appropriation of \$674,614, Revise the Reserve Fund segregation of \$673,000.

Account #3001 Vocational Education

- Increase the appropriation by \$10,000 for a revised total appropriation of \$555,000

In reference to the computer array failure, Mr. Garofalo said that the Town had filed an insurance claim and the insurer has paid \$31,000 against that loss. The money will go into the General Fund and close to Free Cash.

Mr. Busa made a motion that the Finance Committee recommend approval of **Article 15 - Amend FY 2015 Operating Budgets**. Mr. Mortenson seconded. The motion passed unanimously, 9-0-0.

Awaiting Mr. Reed's arrival before addressing **Article 17 - Appropriate Funds for FY 2015 Bedford Police Officers Collective Bargaining Agreement**, the Committee moved on to Financial Model 2.1 and review of the Financial Guidelines.

Financial Model 2.1:

Changes to the model include:

- Road resurfacing total returned to \$600,000 from \$650,000;
- Capital article total returned to \$1,442,203 from \$2M;
Both are starting points from the previous year's line item amounts.
- FY15 Unused Levy at \$1,978,093M; FY16 Unused Levy at the Mitre offset amount, for now.

Mr. Busa said he believed it good practice to start the subsequent year's budget off with the previous year's line item amount.

With regard to the assumption that the tax levy be raised by 2 ½% annually, Mr. Bowen said the current inflation level is just under 2%. "Two percent of last year's tax levy is about \$300,000. I came up with the logic that said a starting point for the Mitre PILOT plus \$300,000 would say we're raising the Levy by 2% instead of the full 2 ½%."

Mr. Steele referred to Ms. McClung's point, made at last week's meeting, which argues there is no Unused Levy in Bedford, there's only a Mitre offset.

Renaming the MITRE offset was once again debated. Mr. Garofalo said the DOR term for this type of fund "Unused Levy Capacity."

Town Manager Reed arrived at this point and the Committee returned to the discussion of **Article 17 - Appropriate Funds for FY 2015 Bedford Police Officers Collective Bargaining Agreement**.

Mr. Reed said that the labor agreement between the Town and the Police Officers had been tentatively settled with these basics: Wages FY15= 2% (effective 7/1/14);

FY16= 1.5% (effective 7/1/15)

1.5% (effective 1/1/16) A budgetary impact of 2.25% for FY16

FY17= 1.0% (effective 7/1/16)
1.0% (effective 1/1/17) A budgetary impact of 2.25% for FY17

The agreement represents a cumulative 3% increase but a 2.25% increase from budget standpoint. Mr. Garofalo said the total cost increase over three years is 6.35%.

Additional specifications apply for second and third shifts for those 17 non-supervisory police officers who receive a supplemental premium for working nights and evenings. Similarly, detectives and other specialists receive a small additional hourly stipend. The contract also deletes two positions—photographer and teletype specialist—but adds a K9 officer position.

Additional medical response pay is included in the contract as are clothing and shoe allowances. Changes to drug and alcohol testing now make it a requirement to be tested before promotions and special detail assignments.

Tattoos and body piercings cannot be visible while in uniform.

Mr. Reed said he believes the agreement is reasonable and consistent with other Town labor unit settlements.

Mr. Busa asked about the status of the K9 Officer position. Mr. Reed said the concept had been discussed by the Selectmen but because there are unanswered questions—and the potential for grant funding— no final decision has yet been reached. Including the position in the contract merely eliminates the need to re-negotiate with the union should the Town decide to move ahead.

Mr. Busa asked about the potential for an officer assigned specifically to Middlesex Community College. Mr. Reed said that the Selectmen had signed a Memorandum of Agreement with MCC. The College would fully fund the cost of the additional officer. The initiative has not been implemented yet because there are vacancies on the police force and the officer cannot be spared until these positions are filled. A vehicle for this officer will not need to be purchased; the Chief says the department can make do with what they have currently.

Mr. Mortenson made a motion that the Finance Committee recommend approval of **Article 17 - Appropriate Funds for FY 2015 Bedford Police Officers Collective Bargaining Agreement**. Mr. Bowen seconded. The motion passed unanimously, 9-0-0.

The Committee thanked Mr. Reed for his efforts to achieve a favorable outcome to this contract negotiations.

Returning to Financial Model 2.1, Mr. Garofalo showed a chart with comparable communities' Unused Levy amounts. "Burlington's Unused Levy capacity in FY13 was about \$3M. Weston's was about \$3M. Here we are at \$1.4M. A lot of the other communities really don't have any Unused Levy capacity and a lot of these are Triple A communities." Mr. Garofalo said he was still working on getting the figures for towns like Lexington and Lincoln.

Mr. Carluccio returned to the thought that without the Mitre offset, Bedford doesn't have any Unused Levy.

Mr. Busa said he believed Bedford's Unused Levy should be at or above \$3M and that Bedford should be a leader in this as it has been with other initiatives.

Mr. Mortenson asked if the Town would have a harder time settling labor contracts reasonably, like the Police contract, if there was a large Unused Levy.

Mr. Reed said that a labor contract has not gone into arbitration in the 26+ years he's been Town Manager. Only once did it go to Fact Finding. "For whatever reason, we have a fairly harmonious labor/management environment—and I would include our Schools in this, too. It's not because we've been too generous with settlements. It's management style and concern for employees."

Mr. Powell asked what percentage of Town employees live in Bedford. Mr. Reed said he hadn't ever tried to calculate the number but he believed it to be in the 20-25% range.

Mr. Garofalo said the DOR has certified Free Cash at \$4,883,811 and the retained earnings in the Ambulance Enterprise came in at about \$167,270 which is about \$15,000 more than the estimate.

Mr. Thomas asked why Free Cash was so high and what the sources are. "Going over the budget is just as bad as going under the budget, as far as I'm concerned. Can we do better in the future? I don't like surprises."

Mr. Garofalo explained that Local Receipts came in at \$1.9 higher than estimated. Free Cash started off with \$860,000, or 1% of the Operating Budget per the Financial Policy guideline. "There are a number of different variables, including the \$1.9 in additional Local Receipts. We estimate Local Receipts very conservatively....Permits were very busy —up \$350,000—and building permits were a big component of that.... Motor Vehicle excise tax was up about \$500,000—that was really unexpected, if you look at it historically....Another thing is Receivables—the higher Receivable balance, the more your Free Cash is reduced. This year we had a much lower outstanding Receivable tax balance at the end of the year. It was about a \$400,000 difference from last year....Plus all the Special Revenue accounts that we cleaned up. We cleaned up all the deficits and we took advantage of writing off a bunch of accounts that had positive balances to Fund Balance. And then there are Revisions—unspent monies from various departments. Sometimes that can be large. In FinCom's department, the revisions were close to \$200,000." Health Care and Salaries also had revisions that positively affected Free Cash, Mr. Garofalo said.

Mr. Thomas responded, "We have about 4,800 taxpayers in town and \$4.8M is \$1,000 per taxpayer. It concerns me to have so much extra cash every year. "

Mr. Garofalo said one place the model could increase its estimates is in Hotel/Motel /Meals taxes and Jet Fuel. "We always estimate very, very conservatively on them. We could up Local Receipts and try to estimate closer but we could run the risk of not achieving the estimate. The other thing is that Local Receipts do generate Free Cash. "

To illustrate, Mr. Garofalo said, for example, Burlington had a \$9M Free Cash total last year.

Mr. Carluccio said, in order to understand fully how Bedford compares to other towns, the Free Cash/Operating Budget ratios need to be known. Mr. Garofalo said he is acquiring those numbers and would have them in the future. "I'm asking many questions: debt, free cash, capital, budgets, stabilization, fees charged in the community....Free cash is used by towns as one-time, major projects."

Mr. Steele asked if some of the \$4.8M could be used to fund the cost of updating the Town Hall, rather than bonding the portion coming from the Town that is not from Community Preservation.

"Once it's certified, yes," Mr. Reed replied. "We could do what we did with turf and go to Town Meeting and rescind the bond and use available funds to cover the portion the tax levy was going to cover," added Mr. Garofalo. "You could also leave more than 1% in Free Cash and that's the balance you're going to start with next year off with.... You don't have to use it all. If you don't use it, it can just be there to balance the next year's budget."

"But one thing that happens with Free Cash is, once you reach June 30th, you no longer have Free Cash," said Mr. Reed. "You have to wait until it's re-certified to draw on it. You're in a period from July 1 until it's recertified of not having any Free Cash."

Mr. Busa said that FinCom could recommend to the Selectmen that the Town side portion of the Town Hall MEP not be bonded. Mr. Garofalo said the Town portion of the project— other than the already committed cash premium of \$479,000 from the bond sale— is \$946,000.

He added that the Finance Committee didn't have to take action now but could wait until Annual Town Meeting when an article to rescind the bond could be placed on the warrant. "The project can still start up [before any money is bonded] with the close to \$1M in available funds we have."

Mr. Reed clarified that, in Massachusetts, the \$4.8M being discussed is called "Free Cash" but nationwide it's commonly called "Undesignated Fund Balance."

He added, "It's good practice to have a certain level of Undesignated Fund balance in the event the community experiences some kind of unanticipated emergency....If we ever had a serious natural disaster or something that caused us to expend an unbelievable amount of money that was not anticipated in the budget, the Free Cash is a way of solving that problem. It's similar to Stabilization, though different in that with Stabilization you've actually raised Stabilization from the tax levy and so the tax payers have contributed to put that money aside. Free Cash has been raised from prior years and it will prevent you from having to go to the voter and raise taxes from the Unused Levy capacity to respond to an emergency....Some of these communities that are advanced with financial planning have made the decision to have an alternative source of funds in Free Cash if the community experiences a natural disaster."

Mr. Carluccio asked what Mr. Reed's recommendation about timing would be, if cash were used instead of bonding.

Mr. Reed said he'd prefer to go to Special Town Meeting now instead of waiting for Annual Town Meeting. "Bonding requires a 2/3 vote and regardless, we're going to need a 2/3 vote because we're borrowing through Community Preservation." Mr. Garofalo has set up this loan as a 10 year bond.

Mr. Bowen asked if there were any 5-year bonding projects anticipated. "You preserve flexibility and your debt service capacity and get a favorable rate on 10-year financing."

Mr. Garofalo said the only 5 year bond he planned was for the proposed \$600,000 School IT project.

Upon consideration, Mr. Reed said he sees sense in paying cash for the IT project rather than for the MEP project.

Mr. Busa said that no one had seen the plan for the IT project so it was premature to discuss how to fund it. "Right now, we have a [MEP] project in place that we're going to move forward with."

He added, "We don't have \$4.9M. Presently, in the model, we're already assuming use of \$2M of the \$4.9M. So now, we have \$2.9M. We go through this STM. If we start our annual cycle of meeting with every single department, every single department is going to say, 'They have \$2.9M more in Free Cash! How can we spend it?' My strong suggestion right now is to ask the Selectmen to use \$900,000 of the \$2.9M to fund the MEP project in cash. We'd still have another \$2M above that to fund other projects or have another discussion down the road."

Mr. Bowen said that the IT project could be funded with part of the \$2M, if the plan is approved and does cost \$600,000.

Mr. Busa made a motion that FinCom ask the Selectmen to fully fund the \$1.4M of the non-CPA portion of the MEP project from "available funds". Mr. Carluccio seconded.

If the Selectmen were to agree, the bond total of the article would change to indicate only what will be borrowed under CPA.

The motion passed unanimously, 9-0-0.

Mr. Garofalo pointed out that the department budget guidelines need to be set by Thanksgiving. The two remaining meetings before Thanksgiving already have large, time-consuming agenda items scheduled: Roads and Recreation. Mr. Garofalo said that setting the guideline would require a preliminary discussion about whether to set aside money in the Stabilization Fund, Capital or Snow Deficit accounts.

As concerns road funding, Mr. Bowen said that the recommendation from the engineering report is for \$1.5M to be dedicated annually to keep pace with maintenance. The Committee directed Mr. Garofalo to increase the Road line item from \$600,000 to \$650,000 so that with expected Chapter 90 funds, the \$1.5M total can be achieved.

Returning to the Financial Model, Mr. Garofalo said he is comfortable with “Expense” items, including the current \$250,000 in Snow Deficit and the \$5,560,520 for Health insurance.

Mr. Busa asked if there had been a vote to move technology to Capital from department operating budgets. Mr. Reed said the potential move “is a discussion that’s expected to happen in the next couple of months.”

Mr. Garofalo said that, including IT, the total Capital allocation being sought is \$2.2M. The projected amount for the School side is \$583,000 (all manner of technology except iPads) and for the Town side it’s \$45,000 (with \$10,000 to \$15,000 for replacement PCs alone.)

Mr. Reed made clear, “We don’t care if Technology stays in Operating or goes to Capital. I think the Schools would say the same thing.”

After discussion, Mr. Steele concluded that there are still too many moving parts to Capital to make definitive decisions. Ms. Perry agreed, adding that Capital has yet to define its process for the new 6-year capital plan model.

As a framework for setting department budget guidelines, Mr. Busa laid out one possible scenario, beginning with moving the IT line items out of the Town and School budgets and into Capital: “When we meet again in two weeks, we’ll be looking at a number that says ‘Unused Levy capacity= \$1.978; we’d have a budget surplus of \$1.5M; we’d be leaving \$900,000 on the table in Free Cash; and basically we’d use that whole \$3M.... to cover the entire Capital budget, which is what we want to do with Free Cash: use it to cover one-time expenses.”

Working with the numbers as Mr. Busa suggested, Mr. Garofalo refigured the budget surplus to yield \$1,919,303 that could be used to determine the departments’ budgets’ guideline. He also allocated \$2.8 for Capital. He added, “In two weeks, that \$1.9 could be \$400,000 higher.”

Mr. Powell reckoned that anticipated Debt Expenses will go down if projects are paid for with cash instead of through borrowing. Mr. Garofalo agreed.

Additional tweaking of various line items was discussed without resolution.

Preliminary discussions about the Financial Policies yielded no definitive results, although questions were raised about the debt limit policy that currently reads “10% or less”. The perception that 10% is an acceptable level of debt—on a regular, non-emergency basis— is one that some on the Committee are unhappy with, although several feel that “10% or less” defines an acceptable range.

Mr. Reed read a passage from a book called “Evaluating Financial Conditions”, that provides recommendations for strong municipal financial stewardship: “Debt service on net direct debt exceeding 20% of Operating revenues is considered a potential problem. 10% is considered acceptable.”

Mr. Busa pointed out it took six years to get the Financial Policies written and approved by the Selectmen and Town Meeting. As for how the Financial Policies have worked in the two years they’ve

been used—specifically with regard to debt limit—Mr. Reed said: “ The last bond authorization we did just a couple of months ago was the first time we really had [the policies] in place and could produce them for the bond rating agencies. Having those policies resulted in the bond rating agencies saying our financial management capability was no longer ‘good’ it was ‘strong’.”

Asked whether the Town, in his opinion, has “neglected capital investments”, Mr. Reed responded: “It’s not a simple yes or no. When we addressed all those [overdue] building projects, we were doing what we needed to do. If you’re talking about the last few years, I think we’re not doing enough. Roads [for example, have been underfunded.]

Mr. Busa said that FinCom has approved funding for roads to the level that has been requested. Mr. Bowen said that there was a work capacity limitation as to how much the DPW could supervise.

Mr. Reed said he didn’t feel the Town had thoroughly educated itself about how to keep up with asset maintenance. “I have a sense we’re not doing enough on water/sewer infrastructure and the need for the building upkeep [is another concern.] Keeping up with technology investments is a challenge—the buildings themselves outlive the initial technology infrastructure that was included in the building projects... I think we’ve dropped down below where we ought to be on Capital investments.”

Mr. Busa replied that the Town has funded what it’s been asked to fund. Mr. Reed said that the approach to funding has been short-sighted and limited.” What we’ve done [before now] has been to set a number and then managed to that number. We haven’t really evaluated the needs and determine whether we can meet the need.”

Mr. Busa agreed that the capital assets of the town must be continually maintained, but he disagreed that the town has not supported funding for capital. Mr. Reed replied that he didn’t believe the full extent of need had been clearly articulated. With a 6-year horizon in Capital projections now in the first stages of implementation, the process should be more comprehensive.

Meetings attended: Ms. Perry attended CapEx and provided this report:

- CapEx engaged in a lengthy discussion about the process of implementing the new 6 year Capital plan. As now, liaisons will meet with department head /appropriate staff. Dept. heads will continue to present their projects to CapEx. CapEx will provide a list of questions about each projects/presentation. Every request will be thoroughly vetted. Each committee member will individually group projects into categories. The ratings of each committee member will be combined with the other members’ ratings to achieve a comprehensive ranking. The strongest will rise to the top at which point more information may be required to fine tune the rankings.
- Assistant Town Manager Jessica Porter has encouraged all members to sign in to the VFA system which holds a lot of info about the projects.
- Two STM articles were voted on: Article 13—Town Hall MEP project was recommended for approval, 7-2-0; Article 11—Rescind bonds was approved for the dump truck and the ladder truck.

Mr. Powell attended Planning and gave this report:

- Instrumentation Labs' site plan was approved with contingencies, such as bike racks and trees. The Conservation Commission and the ZBA were also involved in this permitting. There were some concerns about whether the proposed site improvements would have an effect on the sightlines for the residents of Hartwell Farms.
- Planning talked about the two lengthy zoning bylaw amendments articles they would be presenting at STM.
- Planning recommends approval of continuing the CPA surcharge at 3%.
- Cottage housing was again discussed. There has been an initial inquiry into this style of development. It is thought to be on a particularly appropriate scale for senior residences.

Minutes: The minutes of the Finance Committee meeting of October 23 were approved as amended on a motion from Ms. Perry that was seconded by Mr. Busa. The vote was 8-0-1.

The motion to adjourn was made by Mr. Bowen and seconded by Mr. Powell. The vote was unanimous, 9-0-0.

Respectfully submitted,
Kim Siebert, FinCom Recording Secretary