

**Town of Concord
Finance Committee
Guidelines Subcommittee
Meeting Minutes - October 18, 2018**

Present: Dean Banfield, Peter Fischelis, Grace Hanson, John Hickling, Mary Hartman, Richard Jamison, Karle Packard, Christine Reynolds, June Rzepczynski, Thomas Tarpey and Andrea Zall

Absent: Scott Randall, Phil Swain and Brian Taylor (one vacancy)

Others Present: School Committee Members Heather Bout, Johanna Boynton and Robert Grom; School Superintendent Laurie Hunter; School Director of Finance & Operations Jared Stanton; School Asst. Business Manager Ian Rhames; Concord Finance Director Kerry Lafleur; Select Board Chair Tom McKean; Recording Secretary Anita Tekle; LWV Observer Susan Frey

Meeting Opened

Mr. Banfield called the meeting to order at 7:00 pm in the Select Board's Meeting Room at the Town House. He noted that the meeting was being recorded and broadcast live by MMN (Minuteman Media Network).

Concord Public Schools/Concord-Carlisle Regional School District FY20 Budget

Ms. Bout introduced those present from the School Committee (SC) and School Department (SD). She explained that the emphasis this year has been on rebuilding the budget process. A zero-based budgeting (ZBB) process has been initiated. She noted that Dr. Hunter is doing more with less, and the SC is very supportive of her efforts. Dr. Hunter remarked that she is still in the process of building the FY20 budget. At tonight's presentation, the SD will present the major cost drivers, with no line item numbers available. Mr. Stanton explained that two preliminary budget reports are available—one for CPS and one for CCRSD, which provide some historical information for FY17 and FY18. He noted that the budget will be laid out by school location rather than by program, which is easier to understand and more consistent with the way the numbers are reported to the Department of Elementary & Secondary Education (DESE) so that online comparisons can be made. He noted that under ZBB, each of the elementary building principals identifies the budget needs from the ground up, followed by input from department heads. The same process is used at the middle school and the high school. The preliminary budget requests are first reviewed by Mr. Stanton, followed by a review by the Superintendent.

The SD began the process by identifying redundancies and reporting inconsistencies in the budget—where the same items appeared in more than one line item. Some items

have been consolidated and others eliminated. Mr. Stanton noted that 80% of the budget relates to salaries. The SD is committed to meeting all of the timeline dates, including November 13 deadline for the Superintendent to submit the preliminary budget recommendations to the SC, followed by a November 27 SC public hearing on the budget. The presentation included FY17 and FY18 budget performance numbers by general categories for both CPS and CCHS - budget vs. actual for both years by function. The FY18 numbers include a column that identifies the adopted budget after internal transfers, in an effort to be clearer about how budgeted numbers were spent. He noted that eventually the budget book will break items down in more detail by individual school. This is still a work in process.

Dr. Hunter reviewed examples of restructuring and reporting changes, which include the following:

- Elimination of 1 district-wide administrative position and 1.5 support positions in FY18 (2.5 FTE) for a savings of \$257,157.
- Reorganization of the HR Director position to HR Manager, and savings from attrition of Deputy Supt. of Finance position for a savings of \$85,000.
- Following RFP, a new SC and Special Education lawyer has been hired, with the hourly rate going from \$1,100 to \$210, which will result in a significant savings.
- IT cost classifications have been revamped by DESE in an attempt to standardize statewide reporting. Much of the ambiguity has been eliminated, and it will be possible to better benchmark IT expenditures.
- The SD's goal is to be able to run a financial report from the SD's own system that is consistent with information available from DESE's website. The "chart of accounts" is being changed to be consistent with DESE's reporting requirements. Dr. Hunter noted that this is already being done in many other school systems.
- Actively reorganizing in-house special education (SPED) services and how they are delivered. An effort has been made to develop internal intensive SPED programs to reduce the number of out-of-district placements. There has been a positive response from parents and SPED students are being better served. In the long term, there will be a reduction in costs.

Dr. Hunter reviewed progress with Education Reform & Mandates. There are currently four full-time English Language Learner teachers across five schools. The SD is re-evaluating how this will be done in the future to be more effective. Teacher evaluations at the elementary schools were revamped several years ago, and that process is being revisited at all levels. Mr. Stanton reviewed enrollment at the high school (1,274 students as of October 1, 2018—903 from Concord; 297 from Carlisle; 53 from METCO; and 21 non-tuition out-of-town). At CPS, the SD is developing a 5-year capital plan. Identified projects include (1) replacement of middle school; (2) a new district-wide telephone system; (3) elementary school updates, including energy recovery units at

Alcott & Thoreau; boiler replacements at Alcott & Willard; and vinyl flooring replacement at Alcott.

Mr. Banfield inquired about immediate capital needs that were previously identified by a consultant for the middle school. He was concerned that some of the items on the “0-2 year list” were identified as critical and could not wait 3-5 years until a new building is constructed. Ms. Bout responded that projects are being completed if needed to avoid an infrastructure failure, but other non-essential items are being deferred, with the hope that a new building will be approved. Dr. Hunter indicated that they are working on a band aid approach, avoiding throwing good money after bad. When asked about the previous five-year capital project list for CPS, Ms. Boynton indicated that such a list exists, but the SC has not reviewed it recently and will need to revisit the list. FC members emphasized the importance of having a public discussion of these items sooner rather than later.

Mr. Stanton reported that the SD is currently developing a 5-year capital plan for the high school. The CCHS Campus Advisory Sub Committee report is anticipated soon. Projects that have been identified include the addition to and optimization of parking; roadway, sidewalk and lighting improvements; potential uses for the recently capped landfill site; concessions building and restroom facilities at the football stadium; and other potential projects including a field house, outdoor track & field, indoor ice rink, garden/greenhouse space, etc.

Mr. Stanton reported that a consultant has been hired to review bus routes & staffing, and to identify whether smaller buses may be preferable on some routes. The SD’s goal is to keep buses running until approximately 100,000 miles, and then replace them with a trade-in value of \$15-20,000. A 10-year replacement cycle is being developed. Dr. Hunter indicated that electric buses are being used on a limited basis, and have proven to be very expensive. It is hoped that prices will come down once US vendors enter the market. The SD is committed to staying with some electric buses, despite some setbacks.

Collective bargaining contracts for CPS and CCHS were reviewed for FY19-21. Increases range from 2-2.75%. In response to a question from Mr. Banfield, Dr. Hunter indicated that the SD is committed to having a collaborative process for negotiations, although the specifics have not been decided. The new legal team will be consulted and will hopefully offer advice as to how to best move forward. In discussing OPEB, it was noted that the Town is responsible for budgeting for OPEB for CPS employees. The CCRSD is only responsible for CCHS retirees. Moody’s recently noted that CCRSD has the highest OPEB funding to date of any school system in Massachusetts. The OPEB accrued balance as of June 30, 2018 is \$3,734,391 and the FY20 ARC is \$785,368. Mr. Stanton noted that Moody’s expressed concern about the decline in the

Excess & Deficiency account (E&D). The SD has been using the E&D account as a revenue source for shortfalls in the operating budget, which is not advisable. E&D is currently at 2.5%, and Moody's recommends a funding level of 3.5% (by state law it can be no higher than 5%).

Mr. Stanton noted that annual debt service at the high school is declining. Health insurance costs are anticipated to increase 10-11% in FY20. He provided a brief overview of external funding sources and revolving/gift accounts. In response to a question, Mr. Stanton indicated that revenue in the Athletic Revolving Account includes student athletic fees for after-school athletic programs, and is augmented with funds raised by private fundraising/booster groups. Mr. Banfield noted that the educational report provided to the FC identified costs for textbooks, instructional materials, instructional equipment, instructional hardware, and instructional software. With the very low numbers reported for software, it was unclear where software items were being charged. Dr. Hunter indicated that all school districts are grappling with how to report charges of 3-year electronic subscriptions for textbooks (with annual updates). While textbooks have not been eliminated, they have been reduced and accounting for the changes has not kept pace. In response to a question from Ms. Reynolds, Mr. Stanton indicated that the CCRSD's OPEB liability is in the range of \$12-13 million. He anticipates full payment of the OPEB liability in 20 years.

The School Committee members and School Department staff were thanked for their presentation, and they left the meeting at 8:30 pm.

Finance Director –Discussion of FY20 Preliminary Guideline

Ms. Lafleur presented preliminary numbers about funds available for the FY20 guideline, and projected increases for non-guideline budget items in the Town budget. She emphasized that all numbers are preliminary at this point, with no FY20 numbers provided by the School Department, and a "wish list" of an 8.2% operating budget increase from the Town Manager, which has not yet been prioritized. She reviewed the budget assumptions, which include using 4.54% of the unused levy limit in FY20; an estimated 2% increase in state aid; some growth in hotel room tax and excise tax; and a modest increase in other local receipts. She anticipates having more solid estimates of these numbers in the coming weeks. In response to a question about hotel tax being levied on Airbnbs, Mr. McKean indicated that Airbnbs are not allowed in Concord. Ms. Lafleur noted that a \$1 million transfer from free cash to offset the tax rate in FY20 would bring the free cash balance down to 8.5%. She expressed concern if the free cash balance were to go below this level. When asked about moving funds to a stabilization fund or retaining a higher free cash balance, Ms. Lafleur indicated that Moody's looks at the total reserved amount, and it is really a local choice as to where to place its reserves. She noted that a two-thirds vote of town meeting is required to take funds from a stabilization fund, while a simple majority vote is required to take funds

from free cash. The general question was raised as to whether the Town should start to build up reserves to mitigate the impact of a new middle school on the tax rate.

Mr. Tarpey commented that prior to setting the guideline, he would find helpful a budget number from the Town as to the increase required for “fixed” obligations—personnel costs, debt payments, and other commitments. That would provide the FC with a better starting point for discussion. Ms. Lafleur responded that she could identify such a number for the Town operations and shared Town/CPS costs only. She agreed to requests these numbers from the SD.

Follow Up: Ms. Lafleur will request from the SD the estimated increased cost of known fixed obligations from CPS and CCRSD for FY20.

Ms. Rzepczynski suggested that with Concord’s share of the CCHS debt declining, Concord taxpayers may want to put some funds away for a new middle school or for other town capital needs. She emphasized that the CCRSD should not assume that they can earmark for CCHS purposes the funds available from declining debt in Concord. Ms. Lafleur noted that she is projecting an 11% increase in FY20 group insurance costs (\$591,232). The OPEB and retirement projected costs are based on assessments (5% increase). She anticipates an increase of \$100,000 in Minuteman’s assessment, based on an enrollment increase. In sum, Ms. Lafleur projected \$2,182,724 in funds available for the FY20 guideline - 2.67% over the FY19 approved budget. In response to a question, Ms. Lafleur noted that the \$197,000 needed to fund the senior means tax exemption will occur outside of the overlay account—funding is being shifted to other residential taxpayers, and does not affect the total amount of taxes raised. Mr. Packard inquired as to whether \$550,000 is needed in the overlay account (for abatements and exemptions) each year, noting that the account had a surplus last year which was transferred at town meeting. Ms. Lafleur responded that this requires more research, and the number could possibly be lowered. Historically we have not needed the full amount of the appropriation, but there are still some outstanding abatement cases. Mr. Jamison noted that if 2.4% is needed to fund the Town’s 3% proposed salary increase, then there will be limited funds available for other budget needs. Ms. Reynolds was concerned about shortchanging OPEB funding. Mr. Packard noted that the issue of fiscal sustainability is still lingering, and he hopes to discuss this again prior to setting the guideline, if possible. He emphasized the importance of the tax increase not outstripping taxpayers’ ability to pay. Ms. Rzepczynski noted that with no meaningful increase in Concord’s population, the same number of taxpayers are paying for tax increases, noting that Concord has increasingly relied on excluded debt in recent years. Mr. Jamison noted that the federal government has announced an increase of 2.8% in social security benefits in 2019. Mr. Banfield suggested that the five-year projection be used to help establish a “guardrail” for the guidelines, possibly incorporating the guardrail into the projection model by next year.

Follow Up: Add to next meeting agenda a report from the Fiscal Sustainability Working Group, discussing how to incorporate a guardrail into the guidelines.

Ms. Hanson noted that the SD should experience a decline in expenses in the first year of ZBB, and there should be significant savings in legal services and SPED out-placement costs, all of which should be reflected in the FY20 budget request. Ms. Hartman questioned whether the overall budget request will really come in lower. Mr. Packard noted that the line items in the SD budget over the years have been wildly divergent from how the funds have actually been spent, so the FY19 and FY20 reporting should show a massive improvement. Mr. Banfield noted that the SD is allowed to freely move funds within and across line items, unlike the Town, which has a lot less flexibility. Mr. Fischelis emphasized the significance of labor negotiations in the schools, with personnel costs accounting for 80% of the SD budget. He suggested that the FC provide the SC with target budget numbers going forward, and insist that they hold the line during negotiations. These guardrail numbers should be taken into consideration during negotiations.

Citizen Comments

Mr. McKean commented that Carrie Flood reported at this week's Chair breakfast that the new Minuteman building is coming in on budget and on time. She also reported that Watertown is possibly joining the region, and Belmont is reconsidering its departure. He reported that the middle school building project estimate made a couple of years ago is likely low due to the increased price of steel following the change in tariffs. This will need to be considered as this project proceeds.

Adjournment

The meeting adjourned at 9:25 pm.

Respectfully submitted,

Anita S. Tekle
Recording Secretary

Documents Used or Referenced at Meeting:

- CPS and CCRSD FY20 Preliminary Budget Report PowerPoint presentation (dated 10.18.2018)
- Individual FY20 Preliminary Budget Report documents for CPS and CCRSD
- PowerPoint presentation by Kerry Lafleur–FY20 Budget spreadsheet, including preliminary revenue and fixed cost estimates