

**Town of Concord
Finance Committee
Guidelines Subcommittee
Meeting Minutes - November 26, 2018**

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

Absent: Scott Randall and Brian Taylor (one vacancy)

Others Present: School Superintendent Laurie Hunter; School Director of Finance & Operations Jared Stanton; School Committee Members Johanna Boynton, Robert Grom, Heather Bout and Wally Johnston; Affordable Housing Funding Chair Todd Benjamin; Finance Director Kerry Lafleur; LWV Observer Maureen Kemeza; Recording Secretary Anita Tekle

Meeting Opened

Mr. Banfield called the meeting to order at 7:00 pm in the Hearing Room at the Town House. He noted that the meeting was being recorded and broadcast live on MMN.

CPS & CCRSD Budget Presentation

Dr. Hunter noted that the budget presentation was first made to the School Committee (SC) two weeks ago, and is her recommended budget as of today. The budget follows completion of a comprehensive zero based budgeting (ZBB) process and a reorganization of the budget categories, to be in compliance and consistent with the Dept. of Elementary & Secondary Education's (DESE) budget categories.

Mr. Stanton then presented the budget in further detail, starting with the CPS budget. He explained the ZBB process, which involved reviewing 3-5 years of expense and revenue "actuals," with attention paid to categorizing expenses to the proper line item. He noted that all participants bought into the ZBB process. The following categories were reviewed: legal expenses, salaries, contracted services for all departments, memberships/fees, professional development, special education, and supplies/materials, textbooks, equipment, software, hardware, leases, copiers, cellphones, vehicles, grants, revolving accounts, transportation, and fees. Redundancies were identified, and a transportation consultant was hired to look for efficiencies and prepare a 10-year vehicle replacement schedule. In reviewing the budget by function, Mr. Stanton noted that the "actuals" differed considerably from budgeted amounts in FY18, and the amounts that were transferred internally to cover expenses were noted on the displayed chart. The large increase in fixed charges was

due to early retirement incentives. The increase in “other school services” was mainly due to Special Education costs.

The CPS Budget by 1000 Function:

Function	Description	FY18 Actual	FY19 Budget	FY20 Requested	% Δ from FY19
1000	District Leadership & Admin	1,761,728.29	1,830,095	1,706,580	-6.75%
2000	Instructional Leadership	27,263,586.34	28,986,801	29,993,009	3.47%
3000	Other School Services	2,422,488.24	2,453,904	2,742,563	11.76%
4000	Maintenance	2,907,201.11	2,883,905	3,218,031	11.59%
5000	Fixed Charges	205,548.91	209,010	503,850	141.07%
6000	Community Services	109,876.28	84,893	97,953	15.38%
7000	Fixed Assets	53,762.58	147,729	194,134	31.41%
9000	Programs with Other Districts	2,085,919.25	1,650,558	934,043	-43.41%
Total		36,810,111.00	38,246,895	39,390,163	2.99%

The CPS budget drivers were listed as follows:

Category	Amount of Increase	% Δ over FY19	Comments
Contract Services	287,331	15.53%	Outside people being brought in; audit done of all accounts, and some have been placed incorrectly in the past
Employee Separation	286,002	198.49%	Expect to fill vacancies at lower levels, at a savings of c. \$30K each
Salary-Aides	149,661	11.81%	Housekeeping - paid out of incorrect accounts in the past
Substitutes	176,861	95.90%	DESE created a new line item for long-term substitutes
Salary-Teachers	1,101,036	5.14%	Double step for every teacher not at maximum; doesn't include COL increase, which is separate. 96% of FY20 is for teacher salaries.
Supply/Materials	420,085	51.47%	Some of costs related to everyday Math program; some consolidation/reclassification of other line items. On par with historical actuals.
Salary-Clerical	70,893	12.15%	
Salary-Maintenance/Custodial/Trans	155,704	8.10%	New FT custodian at Sanborn to keep up with needs of building. Some complicated portions of building maintenance is contracted out (can't be done in-house).
Budget Driver Totals	2,647,573		

In response to a question from Mr. Hickling about responsibility for determining that expenses were being charged to the correct line items, Mr. Stanton indicated that the auditors didn't find any major errors, and the bottom line budget was always within budget—i.e., not exceeding the bottom line was the determining factor in the past. More

care is now being taken to ensure that expenses are being charged correctly to specific line items so that they can be tracked more accurately.

The FY20 CPS cost savings are as follows:

Category	Amount of Savings:	% Δ from FY19	Comments
Legal	\$14,337	-17.63%	This is the reduction from actuals; many of costs charged in other line items in the past. Gone from \$1,100/hr to \$210/hr
Salary–Non-Union	\$38,500	-1.78%	Mainly due to attrition
Salary–Support Staff	\$82,038	-12.71%	Mainly due to attrition
Salary-Tutors	\$748,269 (FY20 tutors budget is only \$221,677 less than FY18 actuals)	-27.28%	Aides account for \$150K of savings due to incorrect charges—in some cases tutors were doing work of aides, and that came out during audit and has been corrected. This line has historically been over budgeted, with the excess reallocated elsewhere.
Special Education Tuitions	\$716,515	-43.41%	More in-district services being provided; anticipate having \$150K circuit breaker surplus to carry over to FY20; c. 10 students this year brought in-house who were previously out-placed. Savings being used to hire additional SPED staff.
Reductions Totals	\$1,599,659		

Mr. Hickling commented that the improvements made to the SPED program (serving more students in-house) is a good example of the School Department making smart decisions to manage costs, and he commended Supt. Hunter and staff. Mr. Banfield inquired as to what the salary teacher increase would have been without the \$286K in employee separation. Mr. Stanton indicated that the increase would have been at least \$275K in year 1, with additional savings over three years.

Mr. Stanton reviewed the Preschool, District-Wide Kindergarten, District-Wide Elementary, Alcott School, Thoreau School, Willard School, and Middle-School Detailed Budgets. He noted that the number of line items was reduced by 72, and he anticipates reducing more in the future. Following the audit, the expenses are now being recorded correctly into the appropriate lines, so that many of the changes reflected in the charts are due to reclassification. Any decreases do not reflect a decrease in staff, but rather a correct allocation of expenses. Dr. Hunter noted that a consultant has been brought in to look for efficiencies in the preschool operation. She wants to discuss moving the tuition revenue received for the preschool from the General Fund to the CPS budget. She estimated this to be \$100-150K/year. She noted that she has discussed this issue with the Town Manager. In reviewing the District-Wide Elementary budget, Dr. Hunter noted that a full review is being done on the use of special education contractors. The large increase in teacher salaries is due mostly to the double steps that are occurring at CPS this year. She also noted that the supply line is being consolidated into a district-wide category. In response to a question from Ms. Reynolds, Mr. Stanton indicated that “longevity” is a stipend/bonus given annually to teachers for experience.

In response to a question about the district-wide contingency budget, Dr. Hunter explained that expenses are never charged to the contingency budget—the funds are transferred to the appropriate line where additional funds are needed. This year’s request is increased due to anticipated middle school move costs. Mr. Stanton is comfortable that the \$125K requested is sufficient. In response to a question about separate line items for district-wide and middle-school legal costs, Mr. Stanton indicated that these could be consolidated. In response to a question from Ms. Hartman about where additional savings may be found in the budget, Dr. Hunter indicated that she is still looking at transportation, copiers, cell phones, and the like. Mr. Packard noted that the DESE categories are broad accounts (1000s categories), and asked whether these could be mapped for the benefit of the Finance Committee (FC) - what is included in each category. Mr. Stanton responded that this breakdown will be available in the budget book, and will match up with explanations. In response to a question from Ms. Reynolds, Mr. Stanton indicated that the contractual teacher increase this year includes double steps. Each step is 4-5%, and this year will be double for any teacher not currently at maximum. Once a teacher reaches the top Step 16, then only the COLA is received, and that number is being negotiated. The projected cost of just the double step is \$740K. The increase in teacher salaries totals \$2.7 million, including \$740K for the double steps. In response to a question from Mr. Fischelis about the utility costs at Willard being lower than the other elementary schools, Dr. Hunter indicated that an effort was made to go greener when Willard was built, and the savings are reflected in the budget. The \$250K cost for the two middle school buildings for heat reflects the efficiency of two new heaters.

The presentation then moved to the CCHS budget. Mr. Stanton indicated that everything that was done for the CPS budget in terms of ZBB was also done at the high school. He noted that there were 310 line items in FY19, and that number has been reduced to 263 in FY20. He expects that the number will continue to decline in FY21.

The CCHS Budget by 1000 Function:

Function	Description	FY18 Actual	FY19 Budget	FY20 Requested	% Δ from FY19
1000	District Leadership & Admin	1,598,659	1,592,795	1,520,211	-4.56%
2000	Instructional Leadership	16,091,314	16,524,099	17,464,205	5.69%
3000	Other School Services	2,629,427	2,659,328	2,733,789	2.80%
4000	Maintenance	1,766,365	1,840,736	1,845,908	0.28%
5000	Fixed Charges	3,347,014	3,536,043	4,022,837	13.77%
7000	Fixed Assets	196,348	301,053	360,898	19.88%
8000	Debt Service	4,988,258	4,651,300	4,449,320	-4.34%
9000	Programs with Other Districts	2,202,877	2,644,068	2,512,489	-4.98%
Total		32,820,263	33,749,422	34,909,657	3.44%

The CCHS budget drivers were listed as follows:

Category	Amount of Increase	% Δ over FY19	Comments
Contract Services	147,685	10.82%	
Employee Separation	96,651	230.18%	
Insurance	220,392	8.38%	Health Insurance rates are increasing 10-11%
OPEB	185,368	30.89%	
Athletic Coaches	125,062	41.46%	Overspending in past, with some expenses charged to other accounts. Catching up.
Salary-Support Staff	111,126	10.98%	Appropriate line items being charged. No increase in FTE
Salary-Teachers	521,044	4.05%	
Software/Hardware	118,201	23.55%	Lease vs. Purchase of 375 laptops
Budget Driver Totals	1,525,529		

Dr. Hunter indicated that this budget is fully funding OPEB, but this will be further discussed at the SC meeting this week. Mr. Banfield and Ms. Rzepczynski both inquired about a full accounting of the costs for athletics (coaches, fields maintenance, etc.), since there are several sources of revenue being used to fund these activities (student fees, revolving funds, booster clubs, tax appropriations). Mr. Stanton responded that a full breakdown will be included in the budget book. In response to a question from Mr. Swain, Mr. Stanton indicated that other revenue accounts include circuit breaker funds, donations, grants, lease-to-buy laptops, parking fees, food services, and more.

The FY20 CCHS cost savings are as follows:

Category	Amount of Savings:	% Δ from FY19	Comments
Debt	201,980	-4.34%	
Transportation Salaries	158,627	-20.42%	
Tutors	60,297	-5.94%	
Special Ed Tuitions	101,481	-4.17%	
Reductions Totals	\$522,385		

CCHS OPEB Contributions FY17-20 as follows:

Fiscal Year	Required ARC Budget	Actual Budget (Proposed FY20)
2017	819,663	705,000
2018	799,489	735,499
2019	814,605	600,000
2020	785,368	785,368

Mr. Stanton noted that Moody's upheld the CCRSD's Aaa Bond rating, with a negative outlook due to low reserves (decreasing balance in the E&D account) and the use of the E&D as a revenue source in recent years. Moody's has indicated that maintaining a larger fund balance is more important than fully funding OPEB. Dr. Hunter noted that many communities are not fully funding OPEB. She also noted that E&D was tapped as a revenue source last year (\$690,000) due to a cash-flow problem. Mr. Stanton noted that the CCRSD has had a negative outlook for the past couple of years, although not officially until this past year. Dr. Hunter noted that her goal this year is to decrease by

half the use of E&D. She noted that the Town of Carlisle does not share Concord's philosophy of aggressive funding of OPEB. In response to a question, Mr. Stanton noted that 18 CPS teachers took the early retirement incentive, and 6 took it at CCHS. He noted that the high school has more part-time employees. In response to a question, Dr. Hunter said that the source of revenue for E&D is unused appropriations and unanticipated revenue at the end of the fiscal year, similar to the Town's free cash. Mr. Banfield noted that buy vs. lease of some items may provide a short-term revenue source. In looking at Health/Retiree Insurance costs for active and retired CCHS employees, Mr. Stanton noted that OPEB is not being used to fund current retiree health insurance costs. The increase from \$291,182 FY19 to \$349,418 FY20 retiree health insurance is partly due to the early retirees.

Mr. Stanton reviewed three revenue scenarios. Scenario 1 projects a decreased contribution from E&D to \$350,000 and fully funding the OPEB contribution - fiscally aggressive and fiscally sound recommendation. This results in a FY20 assessment for Concord (without debt) of 5.31% over FY19. The FY20 assessment for Concord (with debt) would be 3.79% over FY19. Scenario 2 projects a larger contribution from E&D (\$689,460), and would result in a FY20 assessment for Concord (without debt) of 3.25% over FY19. The FY20 assessment for Concord (with debt) would be 2.04% over FY19. Scenario 2 would fall within the FC preliminary guideline. Scenario 3 is the half-way point between 1 and 2, with the E&D contribution at \$525,000 and the OPEB contribution reduced to \$692,500. The FY20 assessment for Concord (without debt) would be 4.26% over FY19. The FY20 assessment for Concord (with debt) would be 2.90% over FY19.

Mr. Swain questioned the allocation of expenses between Concord and Carlisle, noting that some costs are being paid by Concord exclusively (Ripley capital costs; Emerson field; Beede Center; Bus Depot). Dr. Hunter noted that operating costs for Ripley are shared with Carlisle, and she is looking at other costs to see if the current cost sharing is adequate. Mr. Swain noted that the Town Manager recently provided a breakdown of these costs. He thanked Dr. Hunter and her staff for the transparency and clear answers provided. Mr. Fischelis inquired about the cost of longevity payments to high school employees. Mr. Stanton indicated that he will provide those to the FC. Mr. Fischelis commented that historically this benefit was very generous for CCHS employees.

Follow-Up: Mr. Stanton will provide the FC with a breakdown of longevity costs for high school employees.

At 9:00 pm school staff and most of the SC members left the meeting.

Presentation by Affordable Housing Funding Committee Chair

Todd Benjamin was present to review the recommendations of the Affordable Housing Funding Committee. John Hickling recused himself from the meeting at this point, due to the appearance of a conflict of interest (he serves on the Board of Emerson Hospital, which is one of the non-profits suggested for a PILOT contribution). Mr. Benjamin summarized the Committee's presentation that was made at the November 13 Select Board (SB) meeting. Four possible sources of revenue for affordable housing are being considered:

1. Line Item budget for affordable housing projects
2. Initiate a real estate transfer tax, with the revenue earmarked for affordable housing
3. Local building fee surcharge
4. PILOT contributions from the following large organizations in Concord:
 - Harvard University
 - Emerson Hospital
 - Middlesex School
 - Fenn School
 - Nashoba Brooks School
 - Concord Academy

Mr. Benjamin noted that Items #2 and #3 would require legislative approval. Items #1 and 4 could be done at the local Town Meeting level. The suggestion was also made that Concord explore adopting an additional meals tax, with the funds going towards affordable housing. Mr. Benjamin reported that the Committee's work is completed, but it stands to support whatever the SB brings forward to Town Meeting (most likely with 4 separate articles, offering several approaches). A possible scenario of the building permit surcharge would be a \$9/\$1,000 of construction, in addition to the current \$12/\$1,000 of construction. The surcharge would not apply to affordable homes being constructed. In response to a question from Ms. Hartman, Mr. Benjamin noted that if a short-term bond was used for funding, then the funds would come from the Town's General Revenue. This would be to get the process moving, prior to other revenue sources kicking in. In response to a question from Ms. Reynolds, Mr. Benjamin indicated that the Committee hopes to raise \$4-5 million/year. In response to a question from Mr. Tarpey, Mr. Benjamin noted that once a fund with adequate assets is established, it may be possible to cut back on new revenue in later years. Mr. Banfield noted that increasing the budget line item would result in a bump up of the levy limit. Mr. Packard noted that this option would also affect the affordability of living in Concord. Mr. Benjamin expressed a preference for options that are equitable and across-the-board.

Continued Discussion of Sustainable Rate of Taxation Growth

Mr. Tarpey suggested that the Guidelines Committee will possibly need an extra meeting to discuss this issue, and he suggested such a meeting on Wednesday,

November 28 at 7:00 pm. A meeting and agenda was posted on Monday, in compliance with the Open Meeting Law. A show of hands indicated that a quorum was questionable.

Mr. Banfield distributed a chart showing the median tax bill, the 10-year Treasury bill, the 5-year Treasury bill, the CPI, and the % Δ in Employment Cost Index from 2007-2016. He noted that the 10-year Treasury bill is the most likely indicator of the market's future—putting money at risk for a longer period of time. Mr. Banfield reported that he and Mr. Tarpey had attended the SB's recent meeting and proposed the Sustainable Rate of Taxation Growth. The concept was not enthusiastically embraced by the SB. He noted that the annual budget process is currently reactive, and this proposal would provide some guidance to the budget entities about what the taxpayers can afford to pay. Ms. Rzepczynski noted that the 10-year Treasury bill option is the most generous, and all are better than what we are currently doing. She noted that at the most recent SC meeting, salary increases of 7% were discussed, so any proposal that the FC makes appears to be irrelevant to them. Mr. Banfield noted that we are facing income disparity in Concord, and it is this issue that the FC is wrestling with. We don't have great data as to income groupings within Concord, but there is ample anecdotal evidence that many residents are struggling to pay property taxes. Ms. Hanson inquired as to why the tax bill vs. other indicators started to diverge in 2010-11? It was noted that there were very tight budgets in the couple of years prior to 2010, with 0% increases. Ms. Rzepczynski also noted that excluded debt and non-guideline items also contribute to the divergence.

Mr. Tarpey made the following **MOTION**, which was seconded by Mr. Swain:

The Guidelines Subcommittee of the Finance Committee recommends that the Town adopt a Sustainable Rate of Taxation Growth as follows: the arithmetic average of the inflation rate based on the most recent 12-month CPI for our region, and the 10-year Treasury bill yield that existed on the first day of July when the market is open. This would provide a growth number for each of the next five years (the same number), that would be updated on an annual basis for the upcoming five years.

The group discussed whether the CPI is an adequate measure of the cost of Town services. Mr. Packard noted that the CPI is widely accepted as an indicator of rising market costs. Ms. Hartman suggested that the formula may be too complicated. Mr. Swain felt that the one number that evolves from this formula would be easy to understand. Mr. Tarpey suggested that such a practice be codified as established policy going forward. Mr. Banfield offered to calculate the number and bring it back to the next FC meeting. He confirmed that the number would be the same for the upcoming five years, and would be revised each year. Mr. Jamison noted that the CPI has been unusually low the past 5 years, although Mr. Swain felt that the CPI is

understandable. Mr. Packard suggested that a five-year rolling average would adjust itself over time. Ms. Hanson noted that the Treasury bill also looks forward. Mr. Jamison felt that a rolling average would be too complicated.

The FC then voted on Mr. Tarpey's motion, which was **VOTED UNANIMOUSLY** . This will be brought as a recommendation to the Finance Committee at its next meeting.

Mr. Tarpey suggested that it would be worthwhile to instruct the budget entities to limit salary increases to the CPI, and made a **MOTION** to recommend to the FC that a strong recommendation be made to the budget entities to use the CPI as a guideline for salary increases. Mr. Banfield felt that the budget entities need to have some independence during negotiations. Mr. Fischelis noted that he would have liked having a guideline available when he served on the SC. He suggested that the FC provide a number to the SC and let them work out how to divide up the funds.

Mr. Tarpey withdrew his motion, for lack of a second. It was agreed to CANCEL the meeting tentatively scheduled for Wednesday, November 28, in light of the vote taken (above) on the Sustainable Rate of Taxation Growth proposal.

Citizen Questions

Ms. Kemeza reminded FC members to speak audibly into the microphones during meetings, so that viewers at home can hear the proceedings.

Adjournment

The meeting adjourned at 10:10 pm.

Respectfully submitted,

Anita S. Tekle
Recording Secretary

Documents Used or Referenced at Meeting:

- Superintendent's FY20 CPS and CCHS Recommended Budget (dated 11.26.2018)
- Superintendent's FY20 CPS Recommended Line Item Budget (dated 11.13.2018)
- Superintendent's FY20 CCHS Recommended Line Item Budget (dated 11.13.2018)
- Chart comparing Tax Bill and CPI, 2007-2017 (dated 11.26.2018, provided by Dean Banfield)