

TOWN COUNCIL MINUTES
BUDGET/MANAGEMENT COMMITTEE
Town Hall Council Chambers
April 26, 2010 - Monday

Present: Ken DiFazio, Chairperson
Patrick O'Connor, Vice Chairperson
Arthur Mathews, Council President
Michael Smart, Councilor
Michael Molisse, Councilor

Also Present: James Wilson, Chief Financial Officer
Michael Gallagher, Director, IT/Administrative Svc.
Maureen Duffy, Town Auditor
Bob Conlon, Councilor
Victor Pap, Councilor

Recording Secretary: Mary Briggs

Chairman Kenneth DiFazio called the Budget/Management Committee meeting to order at 6:45 PM.

Review/Discuss revenues, fixed costs (debts and benefits), revolving and donation accounts with Chief Financial Officer

10 020 C-Reserve Fund

10 020 AA-State and County Assessments

10 020 BB-Overlay for Abatements

10 020 X-Debt

10 020 Y Pensions and Benefits

10 021-Revolving Accounts Annual Authorization

10 022-Gift Accounts Annual Authorization

10 023-Unpaid Bills

10 024-Fiscal Year 2011 Supplemental Appropriation for Unemployment Insurance Liability

10 025-Free Cash Appropriation – 53rd Payroll Week

A MOTION was made by Councilor Molisse to take item **10 023-Unpaid Bills, 10 024-Fiscal Year 2011 Supplemental Appropriation for Unemployment Insurance Liability and 10 025-Free Cash Appropriation – 53rd Payroll Week** out of order and was seconded by Councilor Smart. Unanimously voted.

10 023-Unpaid Bills

Mr. Wilson reported that it is typical of the town to receive bills after the close of a fiscal year. In accord with the statute, the Council must approve of any bills for a prior year for which the town has not encumbered funds, nor received notice. Unpaid bills must be paid under a separate measure, with a certification from the CFO verifying the goods were ordered, have been received, provided the Town Council has available funds. Mr. Wilson has confirmed these terms were satisfied. The Mayor is seeking an appropriation of \$25,449 from FY10 Free Cash for the purpose of paying the unpaid bills. An itemization of the ten bills was provided to the committee.

There was a brief review of some of the bills.

A MOTION was made by Councilor Molisse to recommend favorable action to the full Town Council, and was seconded by Councilor Smart. UNANIMOUSLY VOTED.

10 024-Fiscal Year 2011 Supplemental Appropriation for Unemployment Insurance Liability

Mr. Wilson reported that he estimates that not only will the town require the \$750,000 in unemployment insurance taken from the General Fund, but an additional \$500,000 will be needed from Free Cash for FY11. Particulars are itemized in the Executive Summary section of the budget document. He will review further with the full Town Council.

Chairman DiFazio asked what would happen to surplus if the actual numbers come in at less than is being recommended. Mr. Wilson responded that it would be declared surplus and then available for re-appropriation.

By consensus, the committee withheld a vote on this item pending further deliberation.

10 025-Free Cash Appropriation – 53rd Payroll Week

Mr. Wilson reported that every six years the town encounters a 53rd payroll week. The town can either accrue for it, or pay in a lump sum. Typically, the town raises and appropriates to fund. There are two sets of expenses associated with it; the town portion which represents about 2% of the whole year payroll and the remainder are school employees who are not teachers or paraprofessionals (mainly certain central office staff).

10 021-Revolving Accounts Annual Authorization

Mr. Wilson reported that under the Code of Ordinances, the town is required to renew any form of expenditure or acceptance of funds, in excess of \$5,000 and that are not

appropriation orders. There are five accounts in town; Conservation, Law Enforcement (State), Community Services, Law Enforcement (Federal), and Park and Recreation. He reviewed the purpose, current balance, and the limit to accept and expend in each account.

10 022-Gift Accounts Annual Authorization

Mr. Wilson reported on the twelve accounts. The Library accounts routinely accept less than \$5,000 and are restricted accounts that must be used in a particular manner. Other accounts include Canine, Weymouth Day, Veterans, Health July 4th, Junior Police Academy and Fire Department.

A MOTION was made by Councilor Mathews to recommend favorable action to the full Town Council, and was seconded by Councilor O'Connor. UNANIMOUSLY VOTED.

At 7:12PM MOTION was made by Councilor Mathews to RECESS and RECONVENE following the Town Council Meeting and was seconded by Councilor Molisse. UNANIMOUSLY VOTED.

At 7:50 PM, Chairman DiFazio reconvened the meeting.

Review/Discuss revenues, fixed costs (debts and benefits), revolving and donation accounts with Chief Financial Officer, cont.

Mr. Wilson reviewed the Executive Summary in detail with regard to revenues as presented in the budget, the impacts of that budget and into Net School Spending; then pensions, benefits and insurance/employee costs, state assessments and debt service.

The DOR, specifically the Bureau of Accounts, does not offer guidance regarding budget deliberations; however this year it did issue a bulletin. Mr. Wilson read into the record a specific portion of the memorandum, from page 3:

“The Bureau of Accounts will require that any FY11 estimated receipts above its FY10 actual receipts be supported by documentation. The Bureau cautions against unreasonable 2011 estimates that may be rejected by the Bureau for tax rate setting purposes.”

Mr. Wilson noted that this mandate forms the basis for proceeding with budget deliberations, starting with the revenues. The Mayor is recommending \$126,109,195, which is based on the estimate from the FY10 receipts, plus an increase in the levy limit, less the reduction in state aid. This number is actually less than the FY08 figure.

Subsequent to filing of the budget, the House Ways and Means Committee came out with its budget, which showed further reductions in state aid. Mr. Wilson reviewed a spreadsheet with the projected FY11 revenues outlined over several years, but particularly in comparison with FY08.

He reviewed for the committee the reductions in local receipts, by department. The

Mayor's revenue indicates a decrease that is directly related to NAS. The agreement with LNR that resulted in a yearly payment to the town of \$100,000 has expired. The \$100,000 was a combination of bann interest reimbursement and compensation to the town for town employee labor performed for LNR. No funds are anticipated in FY11 from the base. Accounting revenue also shows a decline, due to a reduction from the state in the Medicare reimbursement. Clerk's revenues will remain about the same; there is a minor change in Conservation revenues; Planning Board is estimated at \$20,000 less. A reduction in claims in 111-F (reimbursement to the town for police and fire personnel out on injury leaves) will result in a reduction of about \$79,000. In addition, the 111-F carrier will no longer be underwriting policies in Massachusetts, and it is unknown at this time who will pick up the coverage. There is an approximate level funding in harbormaster and both police and fire departments. Building Inspections shows a \$1,000,000 collection rate in FY10. Actual received to date is \$959,000. State of the economy not only brings down the collection rate, but also adversely affects the new growth figure. Public Works reduction is affected by the expiration in the three-year recycling contract. As a result, the reimbursement rate will see a reduction, while the tonnage rate will remain the same.

He then reviewed other taxation; Cherry Sheet receipts. Tax liens, tax title and interest payments remain constant. Aggressive collections and the use of the tax amnesty program have been able to sustain this. Investment income decline is a result in the decline in the rates; the agreement has expired.

State owned land shows a slight increase. Elderly and blind abatement reimbursement rate has decreased slightly. Chapter 70 is further reduced by \$250,000. Police incentive (Quinn Bill) originally advised not to budget for has been partially reimbursed by HW&M, and is now reflecting an increase. Veterans' benefits (expenses that the town provides for veterans) is being restored at a higher rate. Local aid (aid to the general government) is reduced from \$7,700,000 to \$7,400,000 (exactly as projected in the budget). Charter School reimbursement is increased. Debt service reimbursement from the SBA remains relatively constant, as does the transfer of funds from rubbish removal, sewer and water.

He then reviewed actual taxes. The pro-forma PILOT Program is level funded, based on a deflation factor in the agreement with South Shore Hospital ratified by the town. The new building permits offset the deflation factor based on the formula in use in the agreement. Assessment values are one year in arrears.

Chairman DiFazio noted that Mr. Montgomery Thomas in the audience has a question for the committee, and requested that he submit it in writing to the committee.

There was a discussion with the committee about PILOT programs, both in other communities and with South Shore Hospital in particular. It is an exempt organization under state and federal taxation law, and any agreement entered into is voluntary and contractual in nature. The Board of Selectman negotiated and contracted with the hospital for an agreement in perpetuity, which was typical for the times, and SSH is under no obligation to renegotiate terms with the town. They have declined requests to do so.

Councilor Mathews confirmed with Mr. Wilson that the hospital is required to adhere to the water and sewer mitigation with each new construction.

Mr. Wilson then reviewed real estate taxes, which show an increase with 2-½ and new growth. Personal property (paid by businesses in town) is expected to be collected at 100%. Motor vehicle excise declined dramatically and are based on actual commitments but were estimated higher since there are back taxes owed. This is an area the DOR may likely challenge because of the commitments. Boat excise has remained constant, and are received during the second half. Interest and penalties on taxes for both personal and real property are level funded from the last fiscal year. There is revenue from three other sources: rubbish fees, waterways fund, and Community Preservation Committee reimbursement for staff time. All revenues including the reductions/increases from the state total about \$50,000 less. As a result of the new Cherry Sheet, the budget will be required to be reduced this \$50,000 in revenues.

Mr. Wilson then reviewed the philosophy determining the budget creation. All reductions by department are outlined in the spreadsheet. Three areas were increased: \$12 on the Reserve Fund, \$108 on Civil Defense and the largest – \$2,100,000 in the Pension, Benefits and Insurances. In order to match revenues and expenses, the budget is reduced by ten percent of personnel cost across the board by department. Whether the department utilized the reduction in manpower was voluntary so long as the reduction figure was met.

He then reviewed the expenses with a spreadsheet outlining FY08-FY10. Debt services has increased. State assessments have decreased; mainly as a result of joining the GIC. When the town joined GIC, all retired employees, including the teachers are on the GIC. Pension benefit and insurances are projected to increase. Most of the increase is in health insurance. The town general liability insurance is expected to be slightly less. The reserve fund has increased and overlay for abatements has increased slightly, which is the result of an aging population, and a proportionate increase in requests for abatement. Exemptions requested must be granted as a matter of law.

In terms of departments, the School Department is at 93% of FY08 levels; Police is at 91%; Public Works at 98% (which accommodates the increases to the trash fee that are not charged to households); Fire is at 91%; Municipal Finance and Library are at 86% of FY08 funding; the remaining 17 departments are at about 80% of FY08 funding.

The third section in the Executive Summary deals with impacts by department. Under state law, anyone who is laid off must be paid unemployment compensation and under federal law, the town must pay 2/3 of their health insurance. Estimates were based on not underfunding either of these categories. As the budgets were reviewed, the impact with regard to unemployment compensation and mandated health insurance coverage were factored. The totals are \$1,100,000 in unemployment and \$622,000 in health insurance. It may go higher or lower depending on the outcome over the next few months. The largest variable is what happens in the school department. There are contractual obligations and bumping rights that must be met. There will be thirty retirements, which do not

necessitate unemployment compensation. If there are more layoffs, they will need to be accommodated.

Councilor Mathews requested clarification on a discrepancy in the Town Council budget and confirmation of the budget total. Changes to the line items can be made via a re-appropriation.

Councilor DiFazio asked if the school department will be responsible for the unemployment compensation and health insurance for layoffs within the department. Mr. Wilson responded that these are considered town expenses.

Councilor Smart asked the manner in which the unemployment costs are paid; Mr. Wilson responded that the town is billed monthly, in accordance with state statutes.

Ms. Duffy addressed the discrepancy in the Town Council budget; she noted that it was level funded and that expenses for external audit were not increased.

Mr. Wilson then reviewed Net School Spending. In October, the school department was required to complete an end of year report for all FY09 and estimated FY10 activities. After the calculation was complete, the report was submitted to the Department of Elementary and Secondary Education (DESE). DESE then applies a formula under the Education Reform Act, and determine whether the town has met Net School Spending. The town felt it would not meet the FY10 or FY11 numbers and may not meet the FY09.

In looking more closely at the numbers, and with the assistance of the town's state representatives, a further review of the town-side expenditures was undertaken. In the meantime the external auditing firm certified the end of the year report. When Mr. Wilson reviewed further, he found a discrepancy in the objective data. Using the current information from the DOE website, the town is expending approximately \$7,500,00 less than it should on the schools. There were errors found in the school department report, and the school committee was requested in writing to allow the external auditors to review the numbers. Both the CFO and school superintendent reviewed separately then met with the auditor and asked further research. Going further back, there were material errors found in prior years. Because the FY10 information is based on FY08 spending, the review needed to be more extensive. The external auditor and the school superintendent have requested in writing that the DESE amend their findings; however, the DESE has informed the town that this is not permitted. It will require legislative authority to make an amendment once a report has been certified. Both Representatives Murphy and Mariano have authored language to that effect.

The town has been informed by DESE that if it does not meet the Net School Spending, further state aid to the town will be reduced. The DESE recognizes there is an error in the report and encourages pursuing the legislative authority.

Mr. Wilson reported on how Net School Spending is determined. Under Ed Reform, there is a calculation called the foundation budget and the goal of Ed Reform is to increase

local contribution to education to 70% of the state foundation budget. It involves factors such as relative wealth, per capita income, FY08 expenditures, etc. The state's Chapter 70 money is subtracted; the town is liable for the remainder. It does not include all items in the school department budget. The largest expense in the school budget that is not counted is pupil transportation; the town is also not permitted to include any debt service for schools. It leaves essentially instructional expenditures and includes what comes out of the school budget and that which comes out of the town budget (unemployment and health insurance cost, and retirement contributions are examples). Foundation, less state aid, plus school funding (allowable from town and school budgets) equals net school funding. Mr. Wilson provided a summary spreadsheet from FY08 through FY11. The formula does not take into account local revenue source.

Mr. Wilson noted there is a \$5,800,000 increase in required school spending despite the fact that there has no increase in revenue source. He then reviewed a summary of the school department operating budget, which all has to tie back to the original budget. Certain town administrative functions under state law are also allowed to be allocated to the school department budget, including Municipal Finance, Health Insurance contributions, life insurance, unemployment insurance, workers compensation, and liability insurance policies on school employees and school committee members. The end result will be a deficiency of just over \$11,900,000, in FY11 up from \$8,000,000 in FY08 resulting in a deficiency of \$3,900,000.

There was a broad discussion regarding the formula, considering the town economy and the decrease in property values and the potential the formula could change in the future.

The FY11 budget will not be real until after the legislature passes its budget. Other communities are facing a similar challenge. The Mayor has sought an appeal of the denial of the request for revenue waiver with the DOR.

Chairman DiFazio asked what guidance Mr. Wilson could offer the Town Council with regard to the school budget. Mr. Wilson reminded that the school department will take the same ten percent personnel cut that the rest of the departments have. The issue is not going away and there exist three elements that are beyond the control of the town; the legislative requirement in order to even accept alternate numbers from the external auditor, what happens with the waivers for FY09 and FY10, and if any of the former are acted upon favorably, local aid may not be negatively affected. Mr. Wilson does not see the deficiency going below \$3,000,000 in the best of outcomes. If \$3,000,000 cannot be found within the existing budget, there are severely limited options: increased fees, elimination of departments or override Proposition 2-1/2. The only fee that could be increased to meet the deficiency is 100 percent assessment on the trash fee. Eliminating departments could jeopardize grant funding. The Mayor is not willing to sacrifice public safety.

Councilor Mathews noted many other communities in the state will be in the same situation next year. Discussion followed about how many municipalities not being able to meet Net School Spending requirements and the impact on Education Reform.

Mr. Wilson then reviewed Debt Service. Bond Counsel certifies and the state mandates what is to be reflected in the budget, with regard to the municipal, school, water and sewer sides. Over the past few years, school and town have been relatively level in terms of expenditure. The increase has been to the water side with the building of the water treatment plant. The town is reimbursed on a yearly schedule for expenses with regard to this. The only estimate in this budget is for short-term debt to account for the last piece of the bond for the water treatment plant. The overall budget is decreasing because the interest is going down on payments and it reflects that there have been no capital projects authorized over the past two years.

Mr. Wilson then reviewed pension benefits and insurances. There is an increase of \$1,700,000 in the health insurance line item that is based on the new rate structure by GIC. The 10 percent increase over the last year is not unique to the GIC but indicative of the entire industry. It is still far better than the town would have fared as self-insurer. Workers compensation was then reviewed. It will be level funded. Medicare taxes are increasing due to the increase in the school department's scheduled increase that must be borne by the town. Unemployment compensation is anticipated to increase. Life insurance policy coverage is in two parts; active employees and retired teachers. The cost is not expected to rise. Contributory retirement is expected to increase and has been state certified. Non-contributory retirement is expected to increase. Those employees who retired prior to 1965 and still on the records must have their retirement benefits paid for by the town under state mandate.

Mr. Wilson then reviewed state assessments. It was initially anticipated to decrease slightly; however with the new assessments, it actually will be increasing slightly. The town is required to raise and appropriate for Charter Schools; this amount has been increased.

If the decrease in state aid in revenues is factored with the increase in state assessments, there is a \$100,000 shortfall in this current budget. Depending on if what the House Ways and Means advances in their budget deliberations holds, the town will require a supplemental budget with decreases of about \$100,000.

Adjournment

Chairman DiFazio asked that the schedule of upcoming Budget/Management Meetings be posted to the town website as quickly as possible. Next meeting is Wednesday, April 27, 2010, at the McCulloch Building.

At 9:45PM, there being no further business, Councilor O'Connor made a MOTION to ADJOURN the meeting and was seconded by Councilor Mathews. UNANIMOUSLY VOTED.

Respectfully submitted by Mary Briggs
Approved by Chairman DiFazio