

Minutes

Lincoln Finance Committee

January 23, 2019

Donaldson Room, Town Offices

7:30 p.m.

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**Present:** Jim Hutchinson (chair), Nancy Marshall, Tom Sander, Andy Payne (vice chair), and Elisa Sartori.

**Also in attendance:** Colleen Wilkins (Town Finance Director), Radha Gargeya (LS School Committee), Sherry Kersey (LS), Bella Wong (LS), Audrey Kalmus (CapCom), Carole Kasper (LS School Committee), Surendra Shah.

The meeting was called to order by Mr. Hutchinson at 7:33 p.m. in the Town Offices, Donaldson Room.

### **LS Budget Update**

Bella Wong presented for Lincoln-Sudbury High School to present updates on LS budget since the first budget hearing. Some information is still pending. For example, OPEB Liability for LS was based on Sudbury Town Manager for funding liability in 10 years but new report is forthcoming. LS bid out health insurance which did not lead to lower costs, so they are sticking with Minuteman for another year. LS projected 9% increase in pension funding; 10% projected increase in health insurance – health insurance numbers due in February and, for example, if they came in as low as 5%, would save \$200k in the LS budget. Median class sizes brought down from 22-26 in FY12 to 20-22 in FY20. Total recommended budget \$33.882M (\$0.738M over Sudbury town guidance). To close the gap, LS is taking various actions: charging first year of LS Academy to Excess and Deficiency fund; draw circuit breaker reserve down \$200k (would leave this to \$500-600k); reduce operational cost by \$100k (\$50k utilities; and \$50k instructional capital so this line item would stay the same as last year); and reorganize and reduce staffing (\$194k) – 1.0 FTE Student Services (special educator) and .25 FATA (visual arts, technical arts); .75 FTE reduction in support staff (across main office, student services and financial operations). Asked about the impact of reducing utilities, Sherry noted that LS had a utilities surplus last year and utilities costs have been pretty steady so they are right-sizing utilities line item. A slightly more rosy Governor's budget was just issued (when LS projection had been flat) so cuts may be moderated. Preliminary projection of \$3.822mil as Lincoln FY20 assessment, which is ~\$90k below Lincoln guidance. No visibility yet on whether Sudbury FinCom or Sudbury Selectmen will support proposed LS budget, but a change if any would likely be a decrease. On capital side, they are proposing replacing 2002 Kubota truck in FY20 (Lincoln share would be \$6,897). For FY21, LS will recommend supporting replacement of the Football Stadium Field for roughly \$650k with funds from certified FY19 LS Excess & Deficiency Funds up to the extent of the proportion of LS user participation compared to all users of the field, with this proportion expected to be no more than 50% (and thus Lincoln's share would be ~6%). Feb. 5 is the LS Budget hearing and vote in Sudbury.

## Capital Committee (CapCom)

CapCom received \$1.575M of original capital requests, \$1.589M revised after CapCom tire-kicking and further inquiry. CPC approved Pierce House headwall repair (\$6k) and Pool water chemistry system (\$42.5k). CapCom still talking with Library about parapet repair (was \$95k initially, now Capcom is suggesting \$20k for a new study), Library facilities (\$20k) and Library maintenance (was \$55k initially, Capcom is suggesting \$45k after analysis) and Lincoln Public Schools about maintenance (\$45k) and Hartwell roof design/replace (\$660k).

CapCom approved: DPW Pickup truck \$42k; FIRE Dept. replace mobile radios \$14K. IT Dept. Updating COA Phone System \$6.5K. LSRS Kubato Tractor \$6,897; Police: Two marked vehicles; phase 1 radio system updated \$37.5k. Town facilities maintenance \$111k. Total is \$427,360 including approved and the TBD items (but not including Hartwell roof). [Audrey Kalmus presented \$428,180 but this was based on outdated Kubota truck number of \$7,117.]

On Library requests, Capcom thinks the \$55k request for maintenance came from a past 5yr average which embeds some large one-off items. A number of the large items were HVAC related, which should not re-occur in the near/medium term with the new HVAC system being installed soon, so Capcom argues that a \$45k budget should meet their needs without the Library needing to resort to reserve fund transfer requests. It was noted that Library maintenance budgets in recent years for a single building are large, similar in amount to what we budgeted for roughly \*two\* Lincoln town buildings (Bemis, DPW, Town Offices, etc.). Regarding the Library parapet repairs and now apparent roof leaks, there was general agreement that there may be more substantial repairs needed than previously thought, but the full nature of the problem is not yet understood, and another study may be needed, due to the first expensive test not telling us exactly what needs to be done regarding the leaks.

FinCom chair, with Audrey Kalmus input and Andy Payne input, will draft factual letter to BOS about what we've observed over recent years with Library regarding repairs and many things needing to be fixed on "emergency" basis, and what we would recommend with regard to maintenance, forecasting, using contractors to scope out problems and bid against each other, etc. Would also describe risks to town of current approach.

Regarding the Hartwell roof project, the total cost is \$660k, with \$50k of design work needed and \$610k for construction. If needed, this project could be split over 2 years, doing the design only in year 1 and the construction in year 2. For FY20, there is \$277.8k headroom in current CapCom budget, so \$382k additional would need to be found from elsewhere Lincoln and CapCom want to approve Hartwell roof for FY20.

Elisa Sartori raised whether new community center could also serve as Library; Jim Hutchinson noted this is already on BOS' list of possibilities.

Jim noted that FY21 capital requests in total are even bigger than FY20 total capital requests so we should bear this in mind as we consider our recommendations for FY20.

CapCom is meeting with the Library again tomorrow, and they will inform us asap of their final recommendations.

## OPEB

Lincoln's OPEB actuary, Odyssey, suggests that we should consider pension funding and OPEB funding together since both are long term town liabilities. Pension funding for Middlesex pension is mandated by the state, and the Middlesex plan should be fully funded by 2035. At that point, \$4M/yr will be freed up in Lincoln's budget. If desired, we could use some portion of that freed up funding and apply it to OPEB instead, and get OPEB to fully funded status by the mid 2040s. Pensions increasing at a little less than 4% and OPEB normal costs increasing by 5% a year (because of health care trend rate assumption). Jim Hutchinson asked why we should rush to pay off both pension and OPEB liabilities over the same 15 year window, especially since Lincoln taxpayers currently feel financially pressed with the new school project debt. Odyssey suggested a few optional OPEB funding scenarios, one where we would just pay \$250k a year above PAYGO forever, and one where we pay nothing above PAYGO until pension is fully funded and then put full freed up amount from pension toward OPEB until OPEB is fully funded. Both scenarios would justify 7% discount rate on OPEB liability. Jim proposed a blended scenario with \$250k OPEB contribution a year until 2035 and then applying linearly declining ramp down of the freed up pension funding; by doing so we could fully fund OPEB by 2046 and smooth somewhat our combined spending on pensions and OPEB. Jim suggested that as a first step we agree on a lower amount of OPEB funding for FY20, and meanwhile he will develop new longer-term proposal for OPEB for FinCom consideration. Andy Payne: these unfunded obligations accrued over a generation (many of those taxpayers are not still in town); what is fair distribution of payments from Lincoln residents today vs. Lincoln residents in future to pay for this? Liabilities increasing at 5% a year and OPEB trust fund growing at 7% a year means we want to fund as soon as possible to minimize the net present value of the liability. How should we balance the desire to smooth payments and put reasonable bounds on the tax burden to taxpayers with the desire to minimize the net present value of the funding costs? Note that LS OPEB contributions were not included in Jim's calculations since not in our control, and aren't big enough to qualitatively affect the argument, but nonetheless should be included for completeness. Tom Sander: makes more sense to cut back on OPEB spending if we are trying to moderate tax increases in town than if we are parking in stabilization funds and not getting 7% return on these expenses. But we also have to balance need for financial stability and flexibility in near term against larger returns on investments in paying OPEB liability.

## Overall budget discussion

**LS:** currently the LS budget is \$90k below our guidance. Worst case on MRC is an increase of \$10k in Lincoln's share; so there should be at least \$80k of available headroom. Sudbury Town Manger sets the guideline for LS; if LS budget further lowered below current level, or Lincoln assessed less than we budgeted, FinCom needs to decide whether we want to sweep to stabilization, as we've done in recent years, or to reserve fund. Tom and Nancy argued for it going to the reserve fund this time, to provide more of a buffer to handle problems without resorting to capital or debt exclusions, but Colleen wanted to check on whether this was permissible or not before we committed to that.

**CapCom:** here we have \$277.8k headroom if the Hartwell roof is deferred for another year, or we would need \$382k additional the Town goes forward with the Hartwell roof. We should also be prepared for some additional unknown amount, likely at least \$75k, for library roof/parapet repairs.

**OPEB:** we previously budgeted \$1.05M. Strawman suggestion is to lower this to \$650k in FY20, which minimally satisfies our current OPEB policy, and heads in the direction of the alternate scenarios suggested by our actuary. This would free up \$400k.

**Pensions and Insurance:** costs were revised downward by \$75k since our original budget.

**Upshot:** We could fund roof and \$75k reserve for out-of-cycle capital needs with \$100k left over. Or we could recommend delaying Hartwell roof until FY21 and reduce the tax increase due for FY20. Campus is going to be very busy in FY21 with school project, where construction likely to begin in summer 2020. Meanwhile, cost of Hartwell roof is forecast to increase 5% if delayed a year. Roof project represents roughly 2% increase in taxes. As a side note, be aware that Property Tax Working Group might propose a 0.5% increase in property tax levy in FY21 and up to 1% in subsequent years.

**Motion:** Andy Payne moved that we fund Hartwell roof in FY20 (\$660k), subject to CapCom approval, reduce LS budget by ~\$80k subject to final MCR evaluation, put \$650k into OPEB Fund, and increase cash reserves by \$75k to help cover cost of out-of-cycle projects whose costs are not yet known. Nancy seconded. Motion passed unanimously with Gina abstaining due to her late arrival.

Discussion of what to do with \$100k additional funding available after above motion passed. Stabilization is currently \$1.1M. We had allocated \$400k additional in stabilization for FY20. Reserve Fund currently has standard allocation of \$489k. Colleen reviewed that if we put into reserve fund it could only be for unknown needs or for known projects where the cost is not yet known; and if not spent in FY20 would become free cash but then not be available to spend until FY22, after certification. Alternatively, putting money into the Stabilization Fund would make it available in FY20 and all subsequent years, although 2/3 of voters would need to agree on its usage. Jim Hutchinson voiced the goal of trying to ensure we did not have capital or debt exclusions or overrides in FY20-FY22 and Andy Payne noted that this stabilization fund could serve as “override and exclusion insurance”.

**Motion:** Jim moved to increase FY20 stabilization contribution from \$400k to \$500k. Elisa seconded the motion and it passed unanimously.

### **Stabilization Fund**

Colleen and Jim noted that they will draft up an improved stabilization policy since it does not currently say anything about our practices regarding contributions. They would bring back for FinCom approval.

### **School Building Bond**

Jim reminded the Committee that the first tranche of the school project bonding was in process, at an amount of \$80mil. There were no objections or requests for further discussion of this amount.

### **Liaison updates**

- **New property tax working group.** Hasn't formally been formed or met. Precursor group was Tim Higgins (Town Administrator); Jennifer Glass (Selectman); Gina Halsted (Finance Committee); and Carolyn Bottum (Director, Council on Aging). New group will include member of BOS, Fin Com, Assessors, COA(?) and 3-4 general members. Sent out a call-at-large for interest. **Jim moved** that Gina be FinCom representative, Andy seconded, and the motion was unanimously approved.
- **Water Dept. Update:**
  - o Tom noted 4 significant changes with Water Dept.

- There is a projected FY19 deficit of ~\$300k which would come out of retained earnings of Water Fund. [Water retained earnings are about \$1.3M and even prudent fiscal practice would require only 20% of revenues be set aside, or about \$250,000.]
    - The Water Board approved \$1.2 million of new investments. \$1.05M of this would be for a 20-year bond (to be approved at 2019 TM) and \$0.155M to be funded out of retained earnings (that were either not capital expenses, couldn't wait until FY20 or didn't have a 20 year life). Most of these expenses are dictated through regulation, a 2018 Mass DEP Sanitation Survey mandated significant remediation of ~\$630,000. \$120,000 of bond issue is for needed repairs to curb boxes/gate valves/hydrants. The Water Board considered state funding sources at reduced interest rates but this would have delayed process by a year into FY21 which was not possible.
  - FY20 is anticipated to have a ~\$370k deficit, due to increased regulation, a right sizing of Lincoln Water Dept. FTEs (going from 4.4 to 5.8 FTEs), and various unexpected expenses.
    - Most of this deficit (~\$300k) would be met through water rate increases approved by Water Board in January: 25% increases in rates on all three Tiers and an increase in the quarterly base rate from \$30 to \$35. This would bring average annual water bills from \$520 to \$640. Even with the water rate increases, Lincoln's water rates are in the middle of comparison communities (higher than Lexington or Concord but lower than Acton and Wayland).
    - The remaining \$70k of deficit would come out of the retained earnings funds over the next 4 years. The Water Board aims to keep a retained earnings balance of at least \$500k.
  - The timing of these increases and new bond are obviously not ideal, given that they come on top of tax increases from School Building project, but these bonds would be paid for out of Lincoln water bills and would not increase property taxes. These bonds would be revenue-backed bonds.
- **Reserve Fund transfer likely items:** Colleen reported that COA needs \$13k for coverage during maternity leave; vacation payout for Finance Dept. (~\$6k); Town report requires extra \$10k. Subtrade inspections in Building Dept. are still \$35k extra. Fire Dept: 4 firefighters out for extended time period and have had to backfill shifts. Working with Fire Chief to mitigate financial impact but probably \$95k. Total would be \$154k. Total reserve in FY19 is \$470k. Snow and ice removal is typically \$180k. Veterans budget may also have a \$5k claim. Unemployment: Lincoln is at the cusp right now, and that could be another \$10k.
- **CPA:** Andy noted that the items moved forward by CPA totaled \$1.1M. They included: Wang property debt service; town office renovation; \$400k for Rec. field irrigation (started as \$200k for one field, but became one well for all 3 fields). [\$400k is worst case to find one well since some attempts may not succeed.] Roof for Codman Farm (\$110k) replaced several years before absolutely needed, but pushed up to enable solar roofing project. Solar portion was not funded; Codman will pursue grants. CPC Committee decided not to do annual top off for conservation committee, since CPC felt the town had overachieved on conservation and efforts should be focused on schools.
- **SBC:** Gina reported that previous cost estimate for school project had a \$76M budget for construction. The Construction Manager at Risk, Consigli, did a cost estimate and it came within \$600k of the AM Fogarty's detailed schematic design estimate, which is within the building project 10% contingency, and thus we are considered "on budget" at this point and we don't have to do any further value engineering.

**Minutes from Dec. 12, 2018.** Jim moved that we approve the minutes as presented. Tom seconded, and the motion was approved unanimously.

**Meeting schedules:** Andy will send Doodle Poll for 3 meetings before ATM: early February (for OPEB, policies); late February/early March (required annual budget hearing); pre-TM contingency meeting.

**New FinCom Members:** Jim is soliciting new member recommendations, particularly ones who like to work with spreadsheets. FinCom has quorum of 4 (regardless of number of members), statutory requirement of up to 7 members.

There being no further business, Andy moved the meeting be adjourned, Jim seconded, and the motion passed unanimously at 10:02 p.m.

Submitted by: Thomas Sander

Approved: