

FINANCE COMMITTEE MINUTES

November 15, 2012

The meeting was called to order at 7:35 Pm in Town Hall, Room 019. The following members were present: Ken Szajda, Charles Kaslow, Daniel Alfred, and Michelle Zeamer. Kathleen White, Michelle Johnson, and Anita Ballesteros were absent from the meeting.

Ms. Zeamer, seconded by Mr. Kaslow, made a MOTION to approve the minutes of October 23, 2012 as written. Passed 4-0-0.

Mr. Szajda had been contacted by Bill Dowd concerning suggestions that Mr. Dowd had to improve the processes of the FinComm. Mr. Dowd's suggestions were emailed to committee members and also appeared in two commentaries written by Mr. Dowd for the Holliston Reporter. They appeared in the Reporter in September. Mr. Dowd appeared before the Committee to discuss his suggestions. Mr. Dowd's suggestions and commentary, "Improving Local Spending Oversight" (Attachment "A") are attached to these minutes. Not all items were discussed and some that were discussed were discussed with other items.

Mr. Dowd's Suggestion 1: Mr. Szajda began the discussion by explaining that Mr. Dowd had assumed that just because the FinComm started out the budget process planning for a 2.5% increase in the tax levy (not including new construction) that was what the increase in the tax levy would actually be. In reality, because of various circumstances (e.g. unspent money, more local aid) last year the increase was just 1.6% Starting out with the 2.5% increase is just for budgetary purposes according to Mr. Szajda.

Mr. Dowd's Suggestion 3: Mr. Dowd was concerned that the guidelines that the FinComm gives to other departments "relieves" those other departments' of actually having to come in with the lowest budget. As long as they come in meeting the guideline Mr. Dowd felt that the FinComm did not give them enough scrutiny. Ms. Zeamer explained the budget process based on her experience working through that process while on the Board of Health. The departments take their previous year budgets and then add in increases over which they have no power (e.g. wages, increases in things like copier machine rental, office supplies). At that point the budgets are usually over the guidelines and have to be whittled down to meet the guidelines. Sometimes this results in a reduction of staff hours or reduction of services. It is not, as Mr. Dowd implied that departments keep adding to a budget until they get up the amount allowed by the guidelines. Mr. Szajda added that budgets are already low due to cuts in past budgets. For example, Youth and Family Services had to use grant money to keep their phones.

Mr. Dowd's Suggestion 4: Mr. Szajda then explained that benefits are pulled out of departments' budgets because they would "eat up too much of the budget." Mr. Dowd felt that this allowed the School Committee to not care about saving money on benefits. He said that he spoke to individual School Committee members who told him that when going through the collective bargaining process it "wasn't worth negotiating" ways to lower benefit costs to the town. Mr. Dowd felt that removing the benefits from the departmental budgets made the departments, such as the School Committee "apathetic" to the costs. Mr. Szajda said that it would be best to keep the current process, but perhaps the data should be presented at Town Meeting, in the FinComm's annual report, to show the increases in benefits by department. Mr. Szajda also added that the Omnibus budget should show the differences in the individual budgets from May to May. One example of why this would be helpful is that at October Town Meeting the Firefighters were given retroactive increases to their stipend and wages. If the current procedure for presenting data is used at next Town Meeting the amount of the FY13 budget will be the modified amount, not what had been approved at May Town Meeting.

Mr. Dowd's Suggestion 5 and 6: One of Mr. Dowd's complaints are that the FinComm budget process is very paper intensive. Mr. Szajda explained that the budget is on Munis and is only accessible through Town owned computers. Therefore FinComm members cannot access Munis at meetings. Mr. Szajda hopes that a used laptop will become available for use at FinComm meetings so that members as well as the public can see the spreadsheets that are used by the departments in their planning process. The spreadsheets could be projected on a screen for the audience (at the meeting and TV viewers) to see if the FinComm had access to Munis. In addition, access to Munis would also allow everyone to see budgets one week in advance of the meetings at which those budgets are scheduled to be reviewed.

Mr. Szajda explained that reserve fund transfers usually occur when a department unintentionally overspends the its budget. Legally the town is responsible for its bills, regardless of the individual departments' budgets. If there are constant overspends it can be taken care of through personnel procedures.

Mr. Dowd's Suggestions 7 and 12: Mr. Down had suggested that budgets be revised earlier. Mr. Szajda explained that in the past the FinComm has tried to schedule meetings during the holidays and the summer, which would be required to have budgets done more in advance of Town Meetings. However, there were problems with quorums.

Mr. Dowd's Suggestion 8: The FinComm has a policy of not reviewing any budget until it has been approved by the appropriate governing board. Mr. Dowd had pointed out that the FinComm did not follow this strictly when the governing board was the Board of Selectmen. Mr. Szajda responded that in the past the Board of Selectmen were somewhat lax in their schedule of approving budgets and the FinComm could not wait for the Board of Selectmen's approval. The FinComm should revisit this though.

Mr. Dowd's Suggestion 9: Another of Mr. Dowd's suggestions was to strip salaries out of the operating budgets and approve all of them in the Consolidated Personnel Wage Table. Ms. Zeamer said that sometimes the only place to cut a budget is in personnel (e.g. cut hours) and this couldn't be done if the wages were not in the budget. Mr. Dowd clarified, saying that he'd keep the base in, but the increases would be in the personnel warrant article. Mr. Szajda explained that it is clearer with the current method, and explained that the fire budget had been modified in the past to shift costs because of the increase in ambulance work. The budget was adjusted so that some costs were moved to the ambulance revolving fund to reflect that. The result though was that enough money was not in the revolving fund to purchase a new ambulance on schedule and it was not clear to most observers that the costs had been shifted. According to Mr. Szajda, the approach going forward with fire/ambulance should be corrected.

Mr. Dowd's Suggestion 11: One of Mr. Dowd's suggestions was that more scrutiny be given to end of the year line item transfers. Mr. Szajda explained that those transfers still have to be approved by the governing board and the FinComm before they can be made.

Mr. Dowd's Suggestion 13: Mr. Dowd had suggestion that the Town Accountant supply the FinComm with a Free Cash submission at the same time as it's submitted to the State. Mr. Szajda responded that that is what's being done now that the town has a full-time accountant.

Mr. Dowd's Suggestion 14: Mr. Down was concerned that the town does not have a reserve fund to cover the future liability of money owed to some town employees who may be owed money at the time of retirement or termination (e.g. unused vacation or sick-time). Mr. Szajda said that the Board of Selectmen were going to put that on the warrant this past May, but did not do so. Mr. Dowd commented that the benefit of putting money in the reserve fund is that it can roll forward.

Mr. Dowd's Suggestion 15: Mr. Dowd felt that the FinComm should be more aggressive in reviewing contracts after the collective bargaining process. Mr. Szajda responded that he would rather the FinComm be in up-front discussions while the negotiations are happening. The FinComm could meet with the appropriate board handling the negotiations for updates. This could be done in executive session.

Following the discussion of Mr. Dowd's suggestions, the FinComm began a discussion of preparing the FY'14 budget. Mr. Szajda suggesting that modeling include the following three items:

1. Funding of the OPEB liability
2. Reduction or possible elimination of the trash fee
3. Possibly increasing the annual capital budget from \$350,000 to \$550,000

Mr. Kaslow, Ms. Zeamer and Paul LeBeau, Holliston Town Administrator, all agreed that those make sense when doing the modeling. Mr. Szajda then said that he had worked with the Town Administrator on a budget blueprint for FY14-FY17, using the following assumptions: 1.5%/year guideline budget increases, 6.5%/year health care cost increases, and 8%/year benefit cost increases throughout the period. The model also increased the estimate for free cash and made further adjustments for changes in state charges and offsets. It also assumes no increases to state aid and approximately \$1.5 million/year OPEB funding. It is estimated that OPEB, at that rate, will be fully funded by 2038. It also built in annual reductions in the trash fee with the fee ultimately eliminated in FY17. If all projections are accurate, the town will have an \$118,000 surplus by 2017.

Mr. Kaslow asked for clarification of "excluded tax" versus "operational overrides." Mr. Szajda explained that "excluded" means that the override was only for the life of a project, but that "operational" means that that amount is added to the tax levy going forward. A significant change in the tax rate will occur in FY21 because many of the big projects (e.g. schools, fire station) will be paid for and the excluded debt from them will be retired.

Mr. Szajda reminded all present that the modeling he presented made no accommodation for any increase in wages and/or benefits recommended in the compensation and benefit study.

The discussion then turned to the Compensation and Benefit Study (The Town of Holliston, Final Report, Classification and Total Compensation Study, prepared by Stone Consulting, and accompanying Exhibits). Neither Mr. Szajda nor Mr. Kaslow was pleased with the thoroughness of the study. Mr. Kaslow felt that the study does not meet the requirements of the RFP. He is going to make a list of the deficiencies. Mr. Szajda also said that the FinComm should work with the Board of Selectmen on how to proceed with implementation of the any results.

Mr. Szajda said that there are big costs involved if you assume that the report is correct. The town is not currently in the position to implement all of these changes. It has been over 30 years since the Wage Table was reviewed. For the most part, the current total compensation package is not excessive. He felt that two changes should be discussed before other things.

1. What structural modifications should be made? For example, getting raises after the probationary period.
2. How much does the town fund after determining the structure it wants to use?

Mr. Szajda felt that when comparing data from town to town we should focus on compensation, keeping in mind that population is important. For example the work of a Town Clerk in Holliston may be very different from that of a Town Clerk in a larger town or city.

Ms. Zeamer said that she thought that the focus should be on wages within the town. For example, the study said that it's possible that school employees are paid at a higher rate than other town employees for

comparable positions. She thought that that should be further investigated since it's important to have parity within the town.

Mr. Alfred said that it was important to get Holliston's data separated from that of other towns in the West Suburban Health Group. The report did not have this information. Mr. Kaslow agreed, saying that the people who choose which plans the town offers need to be able to use this information,

Information on Water Department employees was not included in the study. Mr. LeBeau explained that those employees had started the process of unionization. Stone Consulting has the data on those employees, but was asked not to include it in the study because that would make it public. Stone can give the data to the Board of Selectmen in Executive Session if the collective bargaining process starts. The FinComm members asked Mr. LeBeau to send a letter to Stone Consulting saying that the town may want the data in the future. Mr. LeBeau said that he would write the letter and Mr. Szajda said that he would sign it.

Mr. Szajda said that he will contact the Board of Selectmen liaison to the FinComm about coordination of the two bodies for matters concerning the study. He also said that he wants things to be fair and accurate. When asked, Mr. LeBeau said that between 60-80 employees are covered by the personnel bylaw (i.e. not covered by collective bargaining).

Mr. Szajda pointed out that the report is important to both the people paying (taxpayers) and being paid (employees). Both will see the report. The town has to decide where it wants to be.

Ms. Zeamer asked Mr. LeBeau if the study found that any positions should be reclassified. Mr. LeBeau responded that a couple of positions would be reclassified if the study is implemented. Some employees are unhappy. Ms. Zeamer once again said that her concern is parity within the town.

Mr. Alfred said he'd like to see numbers showing current and proposed changes for each individual position.

Discussion of a CPC (Community Preservation Committee) matter had been put on the agenda prior to the meeting. George Johnson of the CPC and Open Spaces Committee was going to meet with the FinComm, but it had been decided that not enough notice had been given to the FinComm members and public. Instead, Mr. Szajda gave background information on the matter. Two years ago a parcel of land was purchased from NStar. Part of the land was to be used for parking for the town forest that was adjacent to the NStar parcel. The Open Spaces Committee wanted a conservation restriction on the land. The expenses for the legal fees, filings, etc. for that restriction should not exceed \$14,400. This will be discussed at the next FinComm meeting.

Prior to the meeting Mr. Kaslow had submit a list of items he wished to discuss. The text of Mr. Kaslow's email is attached (Attachment "B"). Some of the items were discussed at the meeting.

- Mr. Kaslow was not aware that Ms. Zeamer had been elected by FinComm members as the Vice-Chair.
- Mr. Szajda had already started delegating duties (e.g. earlier in the meeting it was decided that Mr. Kaslow was going to make a list of perceived deficiencies in the Compensation and Benefit Study)
- Mr. Szajda explained the history of the FinComm website. It is not an official town website and is paid for by Mr. Szajda. A former FinComm member maintained it. Mr. Szajda hopes that the FinComm website (or the function of it) can be wrapped into the new Town of Holliston website.

- Mr. Kaslow was given information/guidelines from a training that Ms. Zeamer attended in May of 2011. The training was through the state and was for financial officers. Mr. Kaslow is going to scan the information so that all FinComm members will have it.
- Mr. Kaslow suggested that agendas, because they are submitted to the Town Clerk well in advance of a meeting and then revised, have revision dates on them. Mr. Szajda agreed that that was a good idea.

Mr. Kaslow asked Mr. LeBeau to review the final liaison assignment list to confirm that it was accurate.

Mr. Dowd said that he could not piece together the information on OPEB funding and how Mr. Szajda calculated that the town met the ARC (Annual Required Contribution) in FY13. He also asked for information on firefighter stipends. Mr. Szajda or Mr. LeBeau will send the information on both of these things to Mr. Dowd.

At 9:55 PM, Ms. Zeamer, seconded by Mr. Kaslow, made a MOTION to adjourn the meeting. Passed 4-0-0.

Respectfully submitted,

Date Approved:

Michelle Zeamer, member

Attachment A

Improving Local Spending Oversight

(From William Dowd)

The Finance Committee is an important component of our local government. Their job is to review all spending proposals and make recommendations to Town Meeting. They also have the authority to actually approve spending during the year out of the reserve fund, but only for urgent, unexpected or unforeseen needs.

The Finance Committee is made up entirely of volunteers who are required to spend a great deal of their personal time in learning, reviewing and developing recommendations. The Committee tends to be most busy in the months leading up to our two Town Meetings. The good news is that they are all good people making a personal sacrifice for the betterment of the Town. The bad news is that the complexity of our local government makes it impossible for them to truly master all of the moving parts in the Town's operation and spending. Compounding this is my experience that unless you ask town officials or other elected boards and committees just the right question, just the right way, you don't always get the complete story.

One of the most important recommendations the FinCom makes is what they call the Budget Guideline. It is generally expressed as a percentage increase in departmental budgets, and is derived from making an informed assumption about several things: revenue from all sources in the coming fiscal year and increase rates for "uncontrollable" costs like benefits, fuel, debt service, among others. All of this data gets processed and the output is the percentage by which departmental budgets will be "allowed" to be increased. In some cases, this allowed percentage is set at different rates with one for wages and salaries and one for the budget as a whole. For example, for FY13 – the budget year we're in now – the FinCom "guideline" was 1% on wages and salaries, and an overall increase of 1.5%. With only three exceptions, Police, Fire and Schools, every department met the 1.5% overall budget guideline.

All of this leads to what I call the Grand Equation. Expenditures (including additions to reserves) = Revenue

Last May, there were several breakdowns in the Town Meeting preparation process. Despite a determination that all extraordinary compensation increases would wait for the Fall Town Meeting, the recommended Fire Budget included money for a doubling of the weekend duty stipend. A financial article submitted by me, by petition was never considered nor reviewed by the FinCom. There were inconsistencies between the information supplied in the FinCom presentation to Town Meeting and the warrant articles with regard to payments to a department police department employee. As I reported earlier, the proposed spending from the Community Preservation Committee was presented literally one hour before Town Meeting began.

In communication about these matters with the FinCom, the most common response was that there was too much to do in too little time. But the calendar is within the FinCom's control, and they know now when Town Meeting will be in May of 2013.

With all of this as background, and again, having been present at FinCom meetings for over a year, I'd like to make the following fifteen suggestions. With four brand new members on a now full FinCom, and still eight months until next Annual Town Meeting, I'm hoping the FinCom will consider these for implementation. I will be seeking time on one of their agendas to engage in a direct discussion with them as well.

1. In the past, the Budget Guideline has been derived from a revenue forecast that assumes a 2.5% increase in property taxes. Just because that is the most that taxes can increase without an override doesn't mean that the FinCom should bake an automatic tax increase into the budget. Most often, state aid is assumed to remain unchanged. Same for local receipts. Yet, just because we can, we assume property taxes increase at 2.5%. Just as is the case in many households in town, the budget guideline should be that departments will have to live with what they got last year unless a compelling case for an increase can be made. At a FinCom meeting earlier in September, Chairman Szajda advised the FinCom that he and Paul LeBeau had developed the framework for a two-year budget plan that would allow for further reduction in the trash fee. That may be welcome news to some, but I am withholding my joy until I find out if the plan assumes that property tax payers are going to come up with another \$1.8 million over that time frame. I hope not, but I bet it does.
2. The bar needs to be raised on justification for both spending and local receipts. Department presenting budgets should be able to provide current and well thought out information on how other towns provide that service, opportunities for partnering with other departments or towns, third parties available for competitive bid and the relative size and shape of fee structures. It's not that these questions aren't asked, it's that it doesn't take very much for the discussion to move on to other things, particularly if the budget is coming in "at guideline".
3. Every other year, or perhaps every third year, the budgets need to be handled on a zero-base basis. Constant incremental review doesn't uncover opportunities for savings or greater efficiency. Last year, budgets arriving at the FinCom at "guideline" got a much less intense review than those that came in over, and even then, the thing that got all the attention was the "over". Moreover, over 20 budgets came in at exactly a 1.5% "guideline" increase. It's just not right to force a large number of very different enterprises into a common increase percent.
4. Pensions and benefits are carved out of departmental budgets and budgeted for isolated from other departmental expenditures. This makes the process easier – particularly in a "guideline" increase environment where benefits would cause great variations in department budgets. However, isolating these costs outside of department budgets also isolates the staffed departments from the impact of benefit cost increases. This makes operating departments indifferent to the cost of benefits and therefore disconnected from the sense of urgency around controlling them. This is most demonstrable in the Schools budget. Despite the fact that the health insurance budget is largely devoted to school employees, you won't find any of the dollars in the Schools budget. The behavioral impact of this is that when the School Committee negotiates with the various employee unions, they have no incentive to control and no consequence for the increases in health insurance costs. I firmly believe that if the escalation of health care costs directly impacted the Schools budget, the School Committee would be much more engaged and emphatic about more closely managing these costs.
5. The budget review process is very paper intensive. Arriving department heads bring paper handouts. FinCom members attempt to keep large notebooks of budget documents. The whole budget development process cries out for an automated, linked, dynamic spreadsheet that is available to both the FinCom and the community. Keeping track of the "grand equation" on a

spreadsheet into which hundreds of numbers need to be entered and manually updated is slow, and prone to error.

6. When budgets are being reviewed at the FinCom, the documents being looked at by the FinCom need to be projected on a screen for those in attendance – usually, just me – and for those watching on Cable when that happens. Watching the FinCom silently mull a bunch of papers only they have is not very educational, and interjecting a request for copies every time disrupts the meeting. I admire the FinCom’s desire to avoid wasting paper, but that should be coupled with electronic projection of documents for those interested.
7. The budget review calendar needs to be revised so that it concludes at least 60 days prior to Town Meeting. That doesn’t mean the budget is locked down, because invariably, additional data arrives to modify recommendations. But there’s no reason why preliminary review could not be complete by then.
8. There needs to be a consistent requirement that presented budgets have been voted by the sponsoring authority. Allowing the budgets under the Selectmen’s authority to float in to the FinCom unapproved by the Selectmen makes the FinCom review premature and potentially a waste of time. The Selectmen should not be excused from the FinCom requirement that budgets be voted before presenting. An unhealthy relaxed attitude has developed between the FinCom and the Selectmen. Perhaps it’s because several recent Selectmen have come from the FinCom. Perhaps it’s because the FinCom relies heavily on Town Administrator Paul LeBeau for info/analysis/insight. Whatever the reason, healthy checks and balances requires that the Selectmen don’t get special treatment during budget review.
9. All compensation changes should be extracted from operating budgets and voted in the Consolidated Personnel By-Law Wage Table article. This will give much better visibility to the actual impact of salary and wage increases. It will also allow the departmental budget discussion to focus on operations and opportunities for improvement.
10. As I’ve written previously, the Community Preservation Committee should be put on notice that it is no different from any other department. Failure to produce final proposed spending on time will require postponement to the next Town Meeting.
11. All year-end “line item transfers” should be much more rigorously scrutinized and require approval of the FinCom. Departments appear to use the process to move unused money in one account to another for loading up on office supplies, program materials or other consumables. If the money wasn’t spent, it should go back to the general fund. Today, the Selectmen give practically no attention to these requests, which are approved routinely. The FinCom has developed a mentality that once a recommended budget “number” has been arrived at and voted by Town Meeting, what the department actually does with the money is beyond the scope of the FinCom’s concern. I disagree with this. In all the budgets I ever developed in business, my colleagues, and I were always held accountable for variations from the subparts of our budgets even if our overall budgets were looking good.
12. Given the significance of the fall Town Meeting, preparation should begin no later than August 1. I know the summer is hard to get things done, but jamming a lot of work into a few short weeks makes for potentially sloppy outcomes.
13. The Town Accountant should supply the FinCom with the Free Cash submission on the date it is submitted to the State. This will give everyone much more time to process this data, and end the “surprise” ritual at Town Meeting in October. The Town Accountant advises me that the approved amount is usually close to the amount submitted by the Town. There’s no need to wait for final precision to begin planning around a number that is typically in the hundreds of thousands of dollars.

14. The Town needs to establish a reserve fund for some very large payments that are made to employees at termination or retirement. Unused vacation time, unused sick pay, accrued time off from other policies or contract provisions typically result in the payment of thousands of dollars to departing or retiring employees. In the private sector, these obligations are accrued and reserved for so that these events don't completely confound annual budgets. I know it's hard to predict who will leave and when, but having a reasonable reserve and replenishment of it each year will allow these payments to get made without curtailing services, getting extracted from the Reserve Fund, or using up funds available for appropriation.
15. Last, and by far not least, the FinCom needs to take a much more aggressive and rigorous approach to review of negotiated union contracts. When I've raised this in the past, the most common response I get is "the FinCom has no legal authority over negotiating union contracts – that's the Selectmen and School Committee". All true. But the FinCom has a legal obligation to review all matters of town spending and there are few with bigger impact than union contracts. Not only do the contracts affect the compensation and benefits of those in that particular union, but the provisions of these agreements often make their way into the compensation and benefits of non-union employees as well. Neither the police union contract nor the teacher's union contracts negotiated in 2011 were ever reviewed by the FinCom. How can a FinCom provide substantive and informed recommendations to Town Meeting on spending proposals if they don't even know the financial impact of negotiated union contracts? They can't. In my personal experience and in other towns, the FinCom is an important control point in the process upon which the community relies for challenge and rationalization of union contracts. It's time Holliston's FinCom stepped up to this role. A common response I get from the FinCom when I've raised this before is "We set 'the number' for the budget. These authorities are required to operate within 'the number'. As long as what they negotiate fits within 'the number', that's ok with us". I believe that kind of "hands off the detail" approach is one reason why these contracts contain many provisions that work great for the unions, but not so great for the taxpayers.

There are some very big financial issues facing the residents of Holliston. Tackling them well requires a disciplined review process, and rigorous review procedures. I am hopeful that the FinCom will be receptive to these suggestions, and would offer my services as a volunteer on any of them if the FinCom desires.

Attachment B

(From Mr. Koslow)

Fellow Members,

Believe that Mr. Dowd's issues are already on agenda. While he tone with FinCom has been "crusty" they certainly warrant review. Listed below are some new items that I would propose to add to the existing agenda under the heading of "process opportunities". Ken, had hoped to review with you beforehand but our combined schedules didn't support. Look forward to seeing everyone Thursday night.

Charlie

Planned Business

1. Bill Dowd Process Questions –
 - a. Agenda Details – preposting in future
 - b. FinCom Calendar
 - c. Compensation Report Comment
 - d. Fire Fighter Compensation – comparative data
 - e. Others?

New Business (discussion)

2. Vice Chairman appointment
 3. Workload Delegations / Assignments
 4. Finance Committee Website - Maintenance
 5. Member Calendar / Attendance Record
 6. Fin Com Handbook – define the processes for consistency / taxpayer service
 7. Taxpayer Service – Perspective / Transparency
- On-Line Directory – reference documents