

FIRST DRAFT



Natick Finance Committee

Pursuant to Chapter 40, Section 3 of the Town of Natick By-Laws, I attest that the attached copy is the approved copy of the minutes for the following Meeting:

Town of Natick Finance Committee

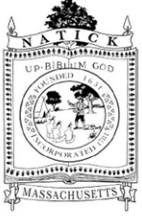
Meeting Date: January 19, 2021

The minutes were approved through the following action:

Motion: XXXX
Made by: xxxx
Seconded by: xxxx
Vote: x - x - x
Date: <date>, 2021

Respectfully submitted,
Bruce Evans
Clerk
Natick Finance Committee

DRAFT



TOWN OF NATICK

Meeting Notice

POSTED IN ACCORDANCE WITH THE PROVISIONS OF M.G.L. CHAPTER 30A, Sections 18-25

Natick Finance Committee

PLACE OF MEETING

Virtual Meeting accessed via Zoom:

<https://us02web.zoom.us/j/85844305049>

Meeting ID: 858 4430 5049

Passcode: 409248

One tap mobile

+19292056099,,85844305049# US (New York)

Dial by your location

+1 929 205 6099 US (New York)

DAY, DATE AND TIME

January 19, 2021 at 7:00 PM

Notice to the Public: 1) Finance Committee meetings may be broadcast/recorded by Natick Pegasus. 2) The meeting is an open public meeting and interested parties can attend the meeting. 3) Those seeking to make public comments (for topics not on the agenda or for specific agenda items) are requested to submit their comments in advance, by 2:00 PM on the day of the meeting, to the Chair: phayes.fincom@natickma.org. Comments will be posted on NovusAgenda and read aloud for the proper agenda item. Please keep comments to 350-400 words. 4) The Chat function on Zoom Conferencing will be disabled.

Posted: January 13, 2021 2:21 PM

MEETING AGENDA

1. Call to Order
 - a. Pledge of Allegiance & Moment of Silence
 - b. Advisement of Pegasus Live Broadcast and Recording for On-Demand Viewing
 - c. Review of Meeting Agenda and Ordering of Items
2. Announcements
3. Public Comments
 - a. [Committee policy & procedures available via this link and also at the meeting location](#)
4. Meeting Minutes
 - a. Review & Approve Meeting Minutes for January 7, 2021 and January 14, 2021
5. Town Administrator's FY2022 Budget - Public Hearing
 - a. [January 4, 2021 Preliminary Budget Overview Presentation](#)
 - b. Q&A from Committee (approx. 45 minutes)
 - c. Public Comments on FY2022 Budget Overview
 - d. Committee Discussion on Budget Overview (approx. 30 minutes)

6. Committee and Subcommittee Scheduling
 - a. Update on upcoming Committee and Subcommittee meetings
 - b. Subcommittee updates
7. Committee Discussion (for items not on the agenda)
8. Adjourn

MEMBERS PRESENT:

Linda Wollschlager, Chairperson
Bruce Evans, Clerk
David Coffey, Member
Jeff DeLuca, Member (arrived 7:10 PM)
Todd Gillenwater, Vice-Chairman
Julien LaFleur, Member
Mike Linehan, Member
Richard Pope, Member
Chris Resmini, Member
Phil Rooney, Member
Jim Scurlock, Member

MEMBERS ABSENT:

Dirk Coburn, Member
Bill Grome, Member
Jerry Pierce, Member
Philip Rooney, Member

Call to Order

Meeting called to order at 7:01 p.m. by Linda Wollschlager, Chairperson.

Announcements

Mr. Frank Foss (Moderator) announced the resignation of Ms. Guimel DiCarvalho and wishes her the best of luck in running for Select Board and announced the appointment of Ms. Cathy Coughlin to fill out the remainder of Ms. DiCarvalho's term.

Mr. Coffey moved to open the public hearing on the Town Administrator's January 4, 2021 Preliminary budget, seconded by Mr. Evans, voted 10 – 0 – 0.

Roll-call vote:

Mr. Coffey = yes	Mr. Linehan = yes
Mr. Evans = yes	Mr. Pope = yes
Mr. DeLuca = yes	Mr. Rooney = yes
Mr. Gillenwater = yes	Mr. Scurlock = yes
Mr. LaFleur = yes	Ms. Wollschlager = yes

January 4, 2021 Preliminary Budget Overview Presentation

Presenter, Mr. John Townsend, Deputy Town Administrator – Finance

Mr. Townsend introduced his team.

Juling de los Reyes is the new Assistant Director of Finance who is replacing Sean O'Brien. She comes to us from the city of Newton where she was a senior accountant for both the Treasury Department and the Comptroller's office. She has only been here a month but jumped right in and has been a big help in putting this budget together.

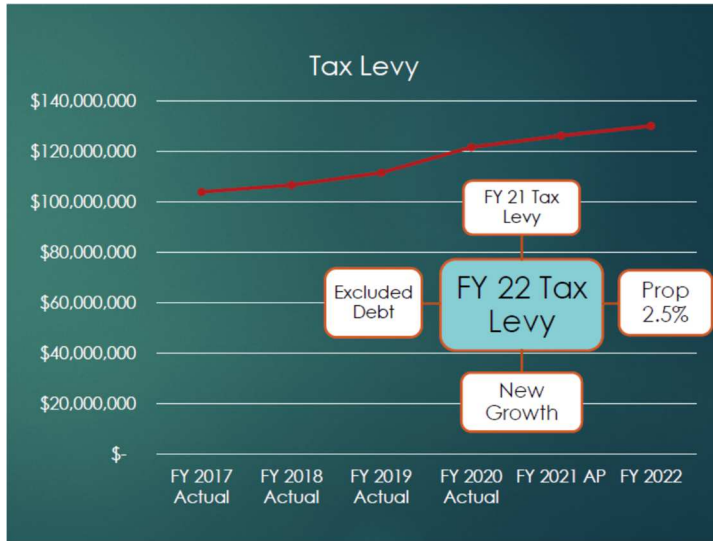
Abdul Rauf is Special Assistant to the town administrator, who did a great job compiling the budget book and putting together the slides that you're going to see tonight.

Mr. Robert Rooney, Interim Town Administrator introduced himself and stated that he appreciates the opportunity to present this budget with Mr. Townsend and noted that on first day of my job, the town released this FY22 budget so I had zero input on this initial cut. However, talking with Mr. Townsend over the past ten days has revealed that he's done a terrific job in putting together budget and the projections in a conservative manner for the town in order to protect our exposure and maintain our good credit rating going forward. I know that we've worked very closely with the schools in the past couple of weeks to understand their pressures and we're looking forward to working with your committee and the departments to determine if we're focusing on the right priorities and rationalizing the projections as actual numbers come in. I look forward truly rigorous discussions about the town's priorities throughout the coming weeks and coming up with a workable budget for FY22 in time for the Town Meeting.

[January 4, 2021 Preliminary Budget Overview Presentation](#)

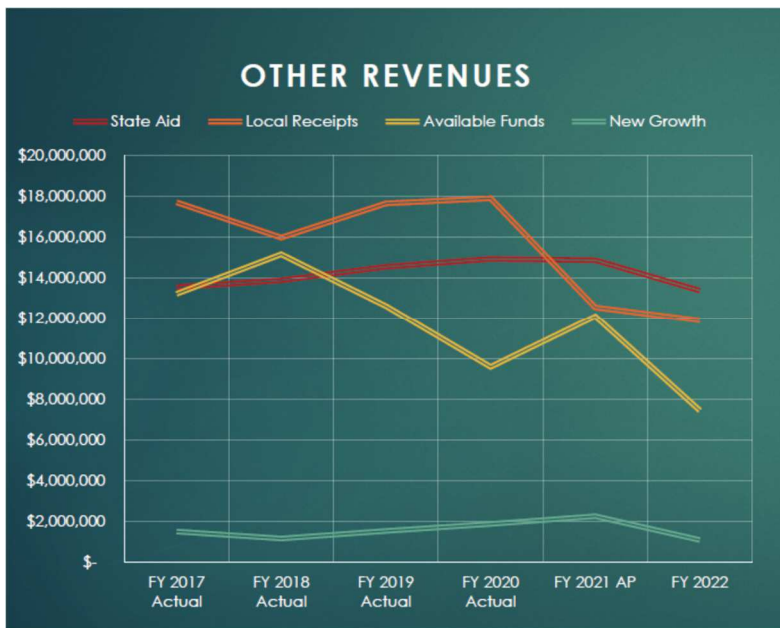
Mr. Townsend said this is a very high level presentation of the FY22 budget and we will be back to the Finance Committee shortly to provide additional details. Mr. Townsend noted that they will be coming out with a revised version of the budget book, probably in March, after we get the health care numbers. The format of the Recommendation Book looks different than in past years because we've been using more of ClearGov in order to put the book together. We ran into a couple of technical difficulties while preparing this budget and ClearGov, but ask your patience and assure you that we will provide a high quality product that will aid you in your budget evaluation and be a little clearer for Town Meeting.

Budget creation process:



In creating this budget we acknowledge that FY21 was an unusual year in that we had Spring Town Meeting and Fall Town Meeting within three month period of time. One of the unique qualities of situation is that when put the FY22 budget together, we had a lot of information and feedback from the Finance Committee, the Select board and Town Meeting that was very fresh in our memories on particular positions on various issues, especially regarding spending.

As we put the budget together, we started with a forecast in August 2020 and updated that as we moved into October to our FY22 budget preparation. After we finalized revenue projections, we put the budget up in ClearGov and opened up those files to our department heads and the department heads made the adjustments they feel necessary to operate within their budget. The baseline budget was the amended FY21 preliminary budget and the department heads can make adjustments as long as they put in these explanatory notes to make certain that we knew what they are changing and the rationale for the change. Then, they can also submit their new initiatives and put it into their budget for consideration. There's additional documentation around each new initiative that's included in the budget book. Department heads are scheduled to meet with the Town Administration twice – first with the Finance team, and then with the Town Administrator and Deputy Town Administrator – Finance to finalize both their new initiatives and their budgets. We then finalize the expenses, put that into ClearGov and create the budget book, adding ancillary documentation. The department heads can go to ClearGov and create their dashboard to insert additional charts and graphs that they want to use to illustrate their budget. We then review it with the Select Board and the Finance Committee and the Finance Committee subcommittees will dive deeper into the details. We plan to have a public budget forum jointly with our colleagues from Natick Public Schools which is scheduled for February 25. We have been working very closely with NPS to reduce the gap between our two budgets and are confident that we will achieve resolution sometime in late February. After that, as we mentioned, we'll update our preliminary budget book in March after we get our healthcare numbers. I know we usually have the hearing on employee fringe benefits sooner than that. We expect to receive updated numbers from the West Suburban Health Group around February 23. We will then be in a position to come back to the Committee to give a full presentation on healthcare as it's a very important cost driver for the town.



Forecasted revenue is \$165,751,303 that breaks out as follows:

- Tax Levy** (our most important revenue source): To calculate FY22 Tax levy, we start with the FY21 tax levy, add Prop. 2.5 to increase it by 2.5%, add any new growth and then add any excluded debt or operational overrides (should we have one, we do not in FY22) So tax levy forecast is \$130,094,415, a 3.11% increase over FY21 Tax Levy
- State Aid:** As you recall, for FY21, State Aid was one of our better surprises in that it was slightly less than level-funding and were very happy to receive that extra revenue for FY21. For FY22, we forecast a 10% decline in state aid. One of the reasons is that the state is suffering from the economic downturn as much as we are and our sense is state cannot sustain continued level funding of state aid. One of the favorable trends I've seen recently were that revenue collections (income tax) are trending a lot higher than they thought they're going to be so they've increased their forecasts and we will be watching this very closely. Hopefully, we're wrong on that 10% decrease forecast, but at the moment, we're continuing with this conservative 10% decrease. Thus, FY22 State Aid is forecasts at \$13,388,630
- Local Receipts:** have taken a fairly serious pounding from FY20. You will recall that for the last two quarters in FY20, the hotel/motel and meals taxes, which rely on to fund our stabilization accounts. Local receipts were severely damaged by the economic downturn. Hopefully, we're going to see an uptick in local receipts, but we are forecasting a decline of 5.18% and our local receipts forecast is \$11,909,632.
- New Growth:** The Community and Economic Development Office (CED) have done an excellent job of compiling the permitting numbers that drive new growth. While they're not quite back to what we'd seen it saw in like FY19, or even the first two quarters of FY20, but they are improving and looking promising and hopefully will drive up local receipts and economic growth. New growth has been one of the prime drivers for the town to increase tax levy and has been very consistent over the past couple of years. In FY21, we had the highest new growth number ever and that was a nice addition for a rather down year in FY21. We are forecasting a significant decrease in FY22 because the FY21 number was driven by a very hot Q1-Q2 FY21 and we don't see that continuing into FY22 so we are forecasting \$1.1 million in new growth for FY22. This is still sizable new growth however, especially since the real estate market in Natick continues to be very hot, which is supported by CED's permit numbers as well as filings for several larger projects as well, which is good news for the town.
- Available Funds:** These are mostly one-time funds that such as Free Cash Overlay Surplus. I want to highlight stabilization funds tonight – these are one-time monies that aren't supposed support operations. We use a modest amount of stabilization funds to fund our operations and forecast available funds of \$7,455,510 in FY22, of which \$1.3 million of that is Free Cash. As you know, our Free Cash numbers are usually significantly larger than \$1.3 million, but DOR only allows us to budget our certified Free Cash that's left over from FYI 21 and that is the \$1.3 million figure at the end of Fall 2020 Town Meeting. We expect that number to significantly increase when we get our certified Free Cash number in the fall. We don't forecast Free Cash just because it is so volatile. Mr. Townsend said he estimates that the Free Cash number will be less than we had last year because there are some issues that will probably drive down our Free Cash number going into fall.

- Stabilization accounts:** We are forecasting use of \$5,445,175 in stabilization funds. We have some hesitancy about doing that because I'm conservative. However, for FY22, this is something we need to take a look at. The question then becomes do we have enough money in our stabilization funds to handle this. The answer is yes – even after using \$5.4 million in FY22, we will be in a good position since we'll still have a balance of approximately \$6 million to get us through FY23 and FY24, if necessary. It's important that use this amount of stabilization for FY22 to get us through this period of time. A few issues have been raised with respect to using stabilization funds. One of those is whether this will hurt our AAA bond rating. Mr. Townsend said that he's read a lot of literature put out by the ratings agencies (Moody's and Fitch) regarding how they presently view use of stabilization funds municipal government. There believe is that municipal governments, across the board, are in a negative revenue position so they understand that municipalities will have to use stabilization funds for their budgets and will not downgrade municipalities bond ratings for using those funds. Our inclination is not to test this theory by avoiding going out for any debt that would require us to get a credit rating. Thus, we're taking a particular tack towards capital spending and borrowing that I'll get into a little bit.

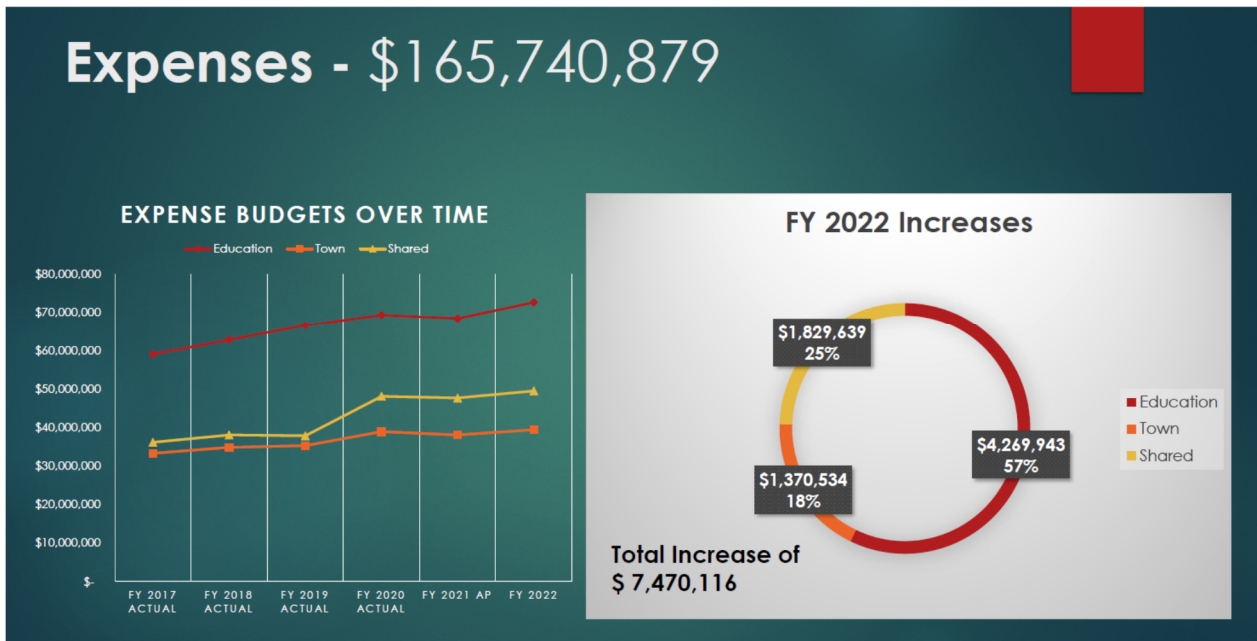
Revenue Projections

Mr. Townsend discussed the volatility of revenues and risks to the revenue stream. We are most confident in our tax Levy estimate because we see 98-99% collection rates plus a 2.5% increase so there's a lot of stability around our tax levy. We have next highest confidence in state aid, which has remained stable for the last few years even during the economic challenge of 2020 and we believe that there is no reason to believe that state aid will go down more than we project. However, stated aid did take a big tumble back in 2009 and 2010. Local receipts can be very volatile. Looking back at local receipts over the previous years, local receipts typically were 10 to 11% of our total revenues. We believe we will be lucky if local receipts represent 7% of our total revenues and this underscores why it's important that we don't rely upon this funding for operations. Available funds are notoriously hard to predict. Free Cash figures are all over the map, you don't want to rely upon stabilization funds and you don't really know what the state of your overlay surplus is going to be. The net is that most of the funds in that particular group are very hard to predict and unstable. However, there are a couple of stable funds in available funds. For example, indirects are relatively stable, but generally speaking, that is probably one of the most volatile areas of revenue and they do account for 4.5% of the town's revenues

GENERAL FUND / EXPENDITURE SUMMARY	FY 2020 Recap	FY 2021 Amended Prelim	FY 2022 Budget	FY 21-FY 22 % Change
1/4/2021				
TAX LEVY	\$121,635,689	\$126,170,609	\$130,094,415	3.11%
STATE AID	\$14,938,819	\$14,876,255	\$13,388,630	-10.00%
LOCAL RECEIPTS	\$17,901,540	\$12,560,903	\$11,909,632	-5.18%
OTHER LOCAL RECEIPTS	\$0	\$0		
INDIRECTS	\$2,585,229	\$2,752,576	\$2,903,117	5.47%
FREE CASH	\$5,191,574	\$6,653,460	\$1,300,000	-80.46%
STABILIZATION FUND (S)	\$3,617,000	\$4,161,500	\$5,445,174	30.85%
OVERLAY SURPLUS	\$500,000	\$1,000,000	\$500,000	-50.00%
OTHER AVAILABLE FUNDS	\$291,309	\$282,740	\$210,335	-25.61%
TOTAL GENERAL FUND REVENUES	\$166,661,160	\$168,458,043	\$165,751,303	

Our total FY22 revenue projection is a decrease of \$2,706,000. We're forecasting state aid to decrease 10% from FY21 and we're being very conservative at this point. As we said earlier we anticipate free cash dropped precipitously 80.46%, due to our Free Cash spending at fall town meeting local receipts is down 5.18% versus FY 21 and is a sizable drop from FY 20 with these with these things. Once again, we don't expect Free Cash be this low but we cannot speculate in our budget as to what our free cash number will be once it is certified in the fall. This is the free cash that we currently have on hand for use in our budget. We plan to increase use of our stabilization funds by 30.85% over FY21, and overlay surplus is down 50% to \$500,000.

EXPENSES



GENERAL FUND / EXPENDITURE SUMMARY 1/4/2021	FY 2020 Recap	FY 2021 Amended Prelim	FY 2022 Budget	FY 21-FY 22 % Change
Natick Public Schools	\$67,810,346	\$67,097,246	\$71,340,279	6.32%
Keefe Tech	\$1,554,748	\$1,345,498	\$1,372,408	2.00%
Morse Institute library	\$2,357,551	\$2,303,186	\$2,388,653	3.71%
Bacon Free Library	\$190,792	\$182,306	\$184,520	1.21%
Public Safety	\$16,802,303	\$16,572,118	\$17,544,432	5.87%
Public Works	\$8,913,228	\$8,981,699	\$9,211,793	2.56%
Health & Human Services	\$2,713,620	\$2,422,679	\$2,772,274	14.43%
Administrative Support Services	\$7,766,070	\$7,446,704	\$7,177,554	-3.61%
Committees	\$120,550	\$115,550	\$115,550	0.00%
Fringe Benefits	\$16,756,666	\$16,938,091	\$18,009,234	6.32%
Property & Liability Insurance	\$847,150	\$863,972	\$907,170	5.00%
Retirement	\$10,070,552	\$10,843,395	\$11,711,796	8.01%
Debt Services	\$16,626,732	\$15,143,814	\$14,774,824	-2.44%
Reserve Fund	\$250,000	\$250,000	\$250,000	0.00%
Facilities Management	\$3,490,001	\$3,572,102	\$3,787,989	6.04%
GENERAL FUND OPERATING EXPENSES	\$156,270,309	\$154,078,360	\$161,548,476	
Capital Improvements	\$3,617,000	\$1,861,500	\$0	-100.00%
School Bus Transportation	\$410,137	\$421,416	\$421,416	0.00%
State and County Assessments	\$1,504,841	\$1,416,751	\$1,440,074	1.65%
Cherry Sheet Offsets	\$359,312	\$362,905	\$320,913	-11.57%
Snow Removal Supplement	\$525,565	\$400,000	\$350,000	-12.50%
Overlay	\$1,150,000	\$1,150,000	\$1,150,000	0.00%
Golf Course Deficit	\$240,000	\$240,000	\$240,000	0.00%
General Stabilization Fund	\$250,000	\$250,000	\$0	-100.00%

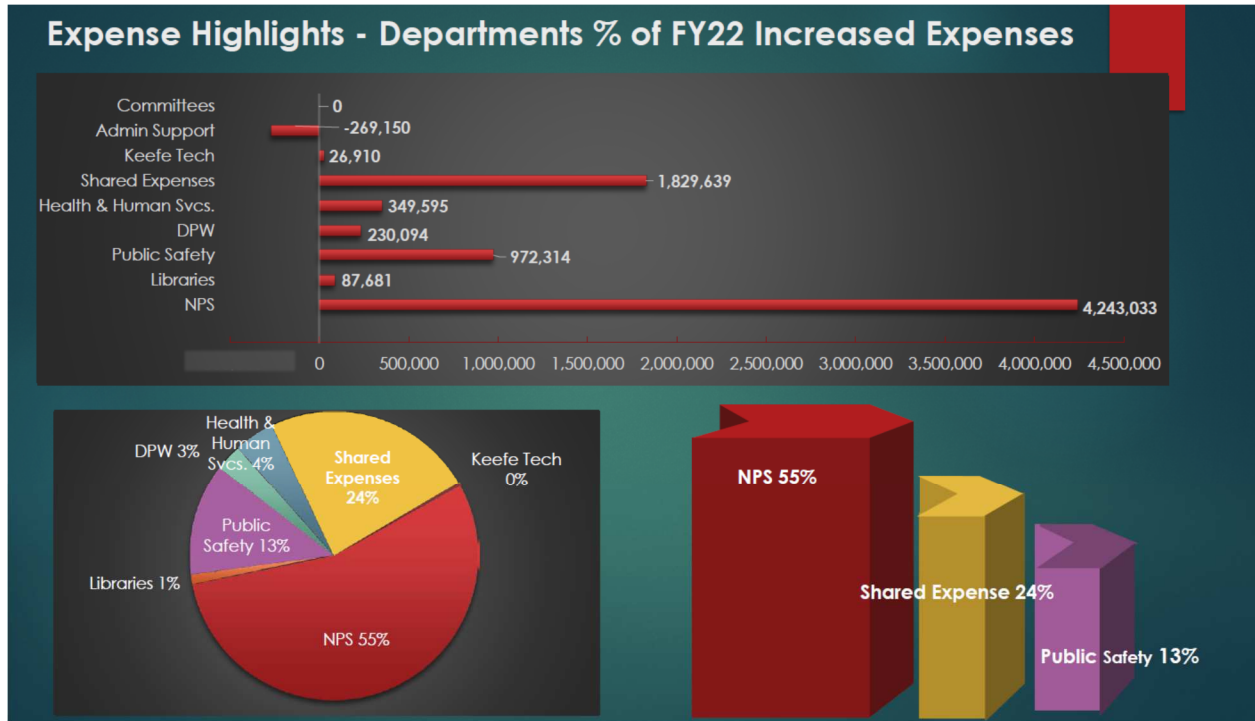
Mr. Townsend said that the above slide shows the total increases over the FY21 amended preliminary budget of \$7,470,116. The three largest components of the expense increase in the budget are:

- NPS is the largest component of the budget and will increase by \$4,269,943 and is 57% of the increase.
- Shared expenses, the next largest component will increase by \$1,829,639 (25% of the budget increase)
- Town expenses will increase by \$1,370,534 (18% of the budget increase)

The left-hand side of the slide shows that the largest percentage increase over the last five years is Shared Expenses (the yellow line) which is not good news for us and I'll talk about that more later in the presentation. The top red line shows the growth and education in the orange line shows the growth in the town side of the budget. Over the FY 17 to FY 22 period,

- NPS accounts for \$13,861,708,

- Facilities Management is \$3,787,989,
- Public Safety is \$2,211,225,
- Public Works is \$1,565,640,
- Administrative Support Services is \$1,493,962,
- Health and Human Support Services is 572,044,
- Libraries are \$245,341.



Administrative Support which includes the Finance Department, the Town Clerk’s office and the select board’s office is decreasing by \$269,150. That drop is driven by the drop in the Select Board’s Collective Bargaining Agreement line item, the funds for collective bargaining with the unions. As you will recall, all union contracts have either expired or will expire at the end of June 2021, so most of the funds to address those contracts are in the FY 21budget. Hopefully, we’ll be able to secure agreements with the unions and be able to allocate those funds appropriately to fund those agreements and there is sufficient money to fund those initiatives.

Shared expenses are going up \$1,829,639, taking up to 24% of the projected expense increases in FY22. Shared Expenses is quite important to discuss with respect to our structural deficit. The majority of the increase in shared expenses is due to fixed costs that the town doesn’t really don’t have a lot of control since fringe benefits take up 11% of our entire town budget. Shared expenses healthcare, merit increases for the Personnel Board employees (non-union employees), workers compensation, unemployment, FICA, LIUNA pension benefits Chapter 111, and long-term disability. The shared benefits forecast for FY22 is \$18,009,234. We’re hoping to get the healthcare numbers by February 23. This is always been an area that’s very difficult to forecast We’ve heard that while a lot of people have delayed medical procedures, many of those are coming down the road, so the insurance providers are probably taking that into account in setting there rates. Our consultant on health insurance issues said she couldn’t hazard a guess on what will happen. Thus we budgeted at our historical annual increase of around 6.6%. Property & liability insurance will increase 1% and that estimate was given to us by our insurance agents. Retirement expense is up by 7%. That is a number that’s supplied to us by the Retirement Board as well as the PERAC, the state pension fund oversight agency and there are detailed documents in the budget book that set out projected increases for the next five years or so. For FY22, that increase is \$866,022 to make the total contribution

for the pension and retirement \$11,691,296. Debt Service takes up approximately 9% of our budget and we'll discuss this in depth shortly. Rounding out Shared Services is our Reserve at \$250,000.

Facilities Management is 2% of our budget going forward. This is a good time to talk about our new initiatives for FY22. Some may ask, given the economic downturn, why spend that money on new initiatives. The answer is that it's important to invest in support of our essential functions and support four new initiatives, because

- **LFNR Craftsman** - This individual will be trained to provide maintenance to our parks, benches, playgrounds, playground equipment, and fitness fixtures. In previous years, we've identified the need to have someone who is licensed to fix playground equipment to ensure that our parks are well-maintained because they are a vital resource for the town of Natick.
- **Deputy Police Chief.** The Police Department Chief has requested this position for about five years now. The rationale is to create a solid chain of command in the Police Department and this individual can assist the Chief in his daily operation and provide assistance on important issues such as policy updates, staff training and follow-up to ensure that our Police Department is well-managed and continues to provide quality services to residents.
- **Additional firefighter with paramedic training (Fire Department).** This is the addition of a firefighter with paramedic training. One of the challenges of the fire department has been manpower and controlling overtime costs. The Fire Chief has a plan to reduce the overtime costs and this is the first level of that plan to address not only reducing the overtime required, but increasing the quality of service, and making certain that we're able to recruit and keep quality firefighters. The Natick fire department's policy is to require that new firefighters have paramedic certification because it has become more difficult to hire paramedics in recent years and this gives the department another avenue to get those particular high quality individuals to work in the department.
- **Deputy Town Clerk** to assist the Town Clerk with the many duties required of Town Clerks including elections and Town Meeting. The complexity and increased quantity of work that is required in this office, as well as a clear need to train an assistant has prompted this request. During the past year, it was necessary to contract with several different people to complete the minutes for the 2020 Special TM # 1 as well as FATM as the clerk was not able to attend the meetings because of election cycles for 2020. During the past year the town of Natick has seen 3 elections, while at the same time conducting remote spring, special and fall annual town meetings. This with the already increasing work load has heightened the need for a Deputy Town Clerk to assist the current Town Clerk in day-to-day duties, Town Meeting duties, election duties and more.

Total annual cost for all these four new initiatives is \$432,069.

In constructing the FY22 budget, we are making certain that we do provide and maintain adequate public services for our residents.

Public health: The budget maintains funding for the public health department. We are hopeful that we will receive additional funding for public health initiatives from the federal government. We spent all our CARES Act money and continue to pay for PPE for all town departments, including the schools. We are continuing to support all of our public health initiatives.

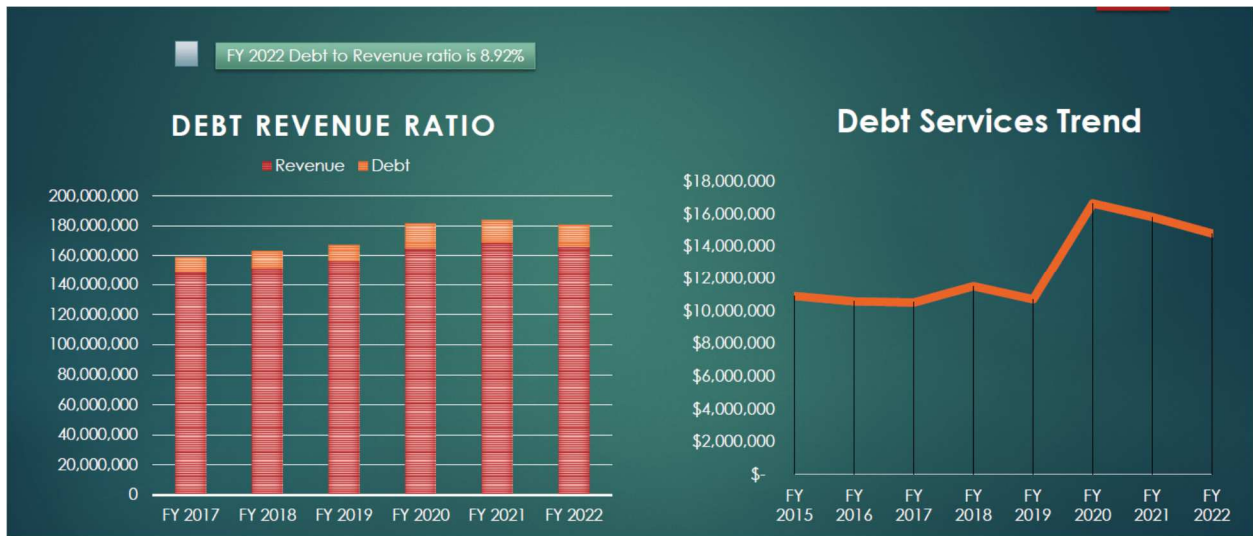
Employee retention: We are in the midst of negotiating collective bargaining agreements, have sufficient funding to be able to offer a fair and equitable package for all of our union employees, plus the additional firefighter position.

Modernization: The town is upgrading several of our systems within the town. One project is moving MUNIS to the cloud to provide access to local and remote employees. This has been one of the great challenges of working in the COVID world since many of the MUNIS modules required the user to be on-site. We're also upgrading the permitting system for Community and Economic Development, as well implementing HR software to help us coordinate better with our employees.

Scalability to ensure that there aren't layoffs and no significant service cuts

Critical Services. Provide financial resilience to ensure preservation of key services. With the new initiatives, we are targeting spending to maintain the investments the town has made in its critical services.

Debt Service



In FY22, the debt-to-revenue ratio is 8.92% which is very good - we like to keep it under 10%. (Rating agencies allow you to go up to around 15%). So we're doing very well in terms of our borrowings and use of debt for capital investments. Debt service payment for FY 22 is \$14,774,824, a reduction of 3.99% over FY 21. There are couple reasons for that:

- Several projects are dropping off the debt service because they've been paid out.
- Shift towards using bond anticipation notes (BANs) instead of long term debt. We've taken this approach to preserve our cash as well as avoid the need for rating agencies assessment of Natick is not typically required when you go out for BANs. Mr. Townsend said he will sit down Mr. Errickson, Mr. Rooney and Mr. Marsette to identify shovel-ready projects so we're absolutely certain that when we go out to borrow money, we are absolutely ready to spend. On occasions in the past, we have gone to borrow money and the money may sit for six months to a year and we don't want that. One of the nice things about BANs is that we can get them for a year or two and all you pay is the interest and not the principal until you permanently borrow money. We'll probably have a BAN out in February 2021 we will use a long coupon to push the interest payment off into FY22, saving us some cash in FY21 that we'll need to use. Interest rates on BANs continue to be extremely low. I think this policy will probably continue this for the next two years to preserve cash and maintain our debt service at a slightly lower rate than we previously had, saving

Questions from the Committee

Mr. Rooney asked what the town's approach is with respect to spending its entire tax levy. Mr. Townsend noted that Natick Town Meeting has traditionally wanted to spend all tax levy prior to utilizing any other funds. Other towns might leave \$500,000-\$1 million of unused tax levy, but that isn't how the town has traditionally budgeted its income. One reason for that, of course, is structural deficit issue we discussed earlier where fixed costs keep going up and we need to use free cash and all of the tax Levy to meet those obligations. When I first arrived, the Free Cash number was around \$12 million which was too high and one of the tasks was to get that free cash number down to a more reasonable level and having a more accurate forecast of your revenues and your expenses. We've done a lot of work to true up the budget process to provide more realistic numbers on what is actually going to happen. Last year, we had a higher free cash number than we expected - we target in the \$4 to \$5 million range and budget for an appropriate amount in our forecast. Because our fixed costs are going up faster than our revenues we face a structural deficit. The last override for Natick was back in 2008 and we're probably due to have one to address the structural deficit.

We have averaged a 7-8% annual increase in our health insurance. We did an excellent job of shifting people to less expensive health insurance plans to the town money that delayed the need for an override. However, at the end of the day, when tax levy increase is capped at 2.5% plus new growth and expenses grow much faster, you must make adjustments or be forced to cut services. Our sense is that the community does not want us to cut services.

Mr. Rooney asked how the town is addressing its unfunded pension liabilities when we don't seem to be putting any "real" money against that each year. Mr. Townsend said the town is investing \$11.7 million in pension funds in FY 22. Our plan is first to fund fully fund the town's pension liability and the target for that is 2030. According to our actuaries, we're on target to achieve that. As you know, the Retirement Board manages those investments. After that is fully funded, we will shift towards increasing funding to Other Post-Employment Benefits (OPEB). We pay the OPEB cost of all retirees every single year to meet our obligations. However, we are following the advice of our actuaries and accountants to set aside the entire amount in order to fully fund OPEB. The plan has always been to put some money aside each year to make sure people understand especially the credit rating agencies, that we are serious about funding these obligations. When 2030 comes around, we'll be able to re-direct that \$10 to \$13 million budget towards OPEB funding. In the meantime, we continue to put a token amount (\$250,000 in FY 22) to acknowledge that we take that liability seriously and continue to make contributions to it even in down times.

Mr. Rooney asked what the philosophy and focus of modernization is and whether it's being used to reduce the rate of budget increases or eliminate positions Mr. Townsend said most of the technology under consideration is geared at increasing productivity and providing residents improved access to services. If increasing productivity leads to cost reduction that is certainly a benefit. In the long run, you may be able to decrease the number of employees required to do a task. For example, because of these upgrades that will increase the efficiency of the collector's office, we may not need the same staffing level. However, I re-emphasize that the goal is to provide increased services and ensure that residents can access those services from a remote location (on-line) for their convenience.

Mr. Scurlock asked if the town considered the impact of possible tax abatements on the FY22 budget. Mr. Townsend said one of his concerns is on the commercial side where we're concerned about payments coming in. That said, January 1 was the first day of the abatement season and we haven't seen a lot of activity. We have requests from several of our large commercial enterprises in town to come in and talk with the Assessor and me and will do so. On the residential side, a lot of residents wait until the last minute to file and we understand that that might happen, but we feel our overlay account is well-funded.

Mr. Scurlock asked what amount of tax levy is reserved for collection. Mr. Townsend said his recollection is that it's about 97.5%, a little lower than I would expect. But, it was an interim number and did not expect it would be up around 98 to 99%. COVID has made everyone's life difficult and we're in the process of moving to a new Accounts Receivable system, so collections and processing have been slowed by that, but I expect it to be back to normal soon.

Mr. Scurlock asked whether municipal buildings are in good shape or are you deferring significant capital investment. Mr. Townsend said that the town is getting good assessments on its buildings. We have a number of projects going forward in February on our buildings. There are assessments that were approved at town meeting on a new roof for Town Hall in Morse Institute Library.

Mr. Evans asked what the most recent Siegel Actuarial report is and whether the town is on track to meet its retirement funding objectives. Mr. Townsend said the most recent report is from the end of 2019 and the most recent report is on the PERAC website.

Mr. Evans asked, given that your debt to revenue ratio is 8.92%, how much leeway is there to do borrowing. I understand the need to preserve cash and not encouraging borrowing to any significant degree, but do we have a little more leeway than then we might think. Mr. Townsend said the answer is yes and that is one of the reasons I feel comfortable going with a BAN style of investment for the next couple of years because we have that leeway. We also have a couple larger projects that are falling off the debt schedule next year as well, so that should

improve our position because one of the things about using BANs, of course, is that while you avoid paying the principal while you are using the BAN, but eventually you will have to pay the principal in the future, but I'm confident that we should be in a good place assume a little bit more debt because of the good debt ratios that we currently have.

Mr. LaFleur asked how the town sees interest rates moving over the next few years. Mr. Townsend said he shares this and has talked with the town's financial advisors about this and noted that this is an area that nobody seems to want to forecast. As you know, we pushed off our bond issue and thought we were going to get a really good rate, but were disappointed because he pushed it off by a couple months, because everyone said the rates were going to go up and the rates went down and we got a better rate than we had for the initial offering. So there is confusion in on where things will end up in the municipal bond market.

Mr. DeLuca asked, Regarding OPEB, as I recall, the last actuarial report depended on around 7% returns per annum to be able to fully fund the pension by 2020. Is this still on track? Mr. Townsend said that he has concerns, but referred any questions on this to the Retirement Board, noting that the town simply cuts a check to fund their investment and you would need to speak with them to get an update on their investment strategies and projected returns.

Mr. Foss said on page 62 of the budget presentation is a spreadsheet that talks about revenue detail, It shows that in FY 21 we \$2.3 million from general stabilization. And then in FY 22, \$5.4 million of general stabilization is specified for use. Didn't the Select Board vote to use \$2.3 million of general stabilization funds in each of three years beginning in FY 21? Mr. Townsend said he didn't recall that plan.

Mr. Foss asked what the projected structural deficit is. Mr. Townsend said it is hard to say. We're going looking at how much Free Cash we used to balance our budget in the past couple of years. There are three options to consider here because we do use a certain amount of Free Cash each year to meet our operating needs, which you're not supposed to be able to do, but the town has been doing this for years and it's worked out, However, it's getting tighter because if you're limited to a 2.5% increase in your tax levy, yet we've been doing well with new growth. Eventually, however, the fixed costs will outrun the increases in the tax levy and new growth. So we can continue using free cash in this way to meet needs and provide services for a year or two, but this will require more and more Free Cash to be used to meet the needs and provide services, but it's going to tighten eventually, because of the increases in health care costs, debt service, and general increases for employees, we will run out and of money.

Mr. Foss said his calculation of \$7.2 million is the sum of the because what I'm doing is I'm adding up the overlay surplus (\$500,000), the general Stabilization Fund (\$1.3 million) and the Free Cash usage (\$5.4 million), which totals \$ 7.2 million. How much will taxes have to increase to address this structural deficit? Mr. Townsend said it would depend on the assessed value of your house. Further, this structural deficit is probably pushing the town towards an override because if you raised taxes to address the \$7 million structural deficit, that will not be sufficient because the town won't have room to address future growth because we have to plan for the increases in health care costs and the like and understand when the increases may level off or decline. These all factor into the decision on the size of an operational override. Mr. Townsend said town administration has had initial discussions with the Select Board and they're aware of our concerns around it and I anticipate we will be engaged in that conversation throughout this budget season. One of the reasons why I do in my higher level budget presentations is to bring this issue up so that everyone knows we are considering a potential override and when we have our public forum, we'll talk about it with the residents as well.

Mr. LaFleur moved to close the public hearing on the Town Administrator's Proposed FY 22 budget, seconded by Mr. Evans, voted 10 – 0 – 0

Roll-call vote:

Mr. Coffey = yes	Mr. Linehan = yes
Mr. Evans = yes	Mr. Pope = yes
Mr. DeLuca = yes	Mr. Rooney = yes
Mr. Gillenwater = yes	Mr. Scurlock = yes
Mr. LaFleur = yes	Ms. Wollschlager = yes

Committee and Subcommittee Scheduling

Ms. Wollschlager said there is no full Finance Committee next week, but we are continuing our subcommittee hearing process. I'm going to think about what when we will need to reconvene as a full Committee and will send an email out asking for particular topics that people might want to cover in the next week or so.

DPW Subcommittee

Mr. Evans said he sent an email out to Mr. Marsette, got a few prospective dates, and sent out a Doodle poll with those dates, so DPW subcommittee members please respond to this poll. Our goal is to have two meetings. Finally, Ms. Cathy Coughlin will join the DPW subcommittee.

General Government

Mr. Rooney said he is attempting to schedule the Community Services Group. We had The scheduled it for January 20, but couldn't get it posted in time due to the holiday. I'll schedule meetings with the rest of the general government contacts and hope to have all meetings set up by the end of next week.

Committee Discussion.

Mr. Gillenwater said an Audit advisory committee meeting is on Thursday and if anyone has questions, please send them. Mr. Gillenwater said he can send around his notes for those interested. Mr. DeLuca On the audit committee. Does the town still have funds that are either kept in an uninsured or unsecured account? Mr. Gillenwater said he would ask Mr. Townsend that. Mr. DeLuca also noted that Natick is one of the few towns that doesn't have a bylaw that institutes mandatory insured or secured accounts for cash accounts or requests for bid for our accounts on an interest basis and we don't have an annual request for bid either. Mr. Gillenwater said he would ask that also.

Ms. Wollschlager picked up the operational override question, noting that it had been discussed previously at the Financial Planning Committee. However, the Financial Planning Committee has not met in many months now and no meetings are scheduled. I will touch base with the Select Board chair to find out if there are going to be any future meetings.

Kennedy Middle School Building Committee

Mr. Evans said the KMS opened successfully and are now moving to the phase where they finalize all the punch list items that remain for the new school and then move on quickly to razing the old structure over the next several months. And finally, they're going to take down the gymnasium after the school year ends. It's a quick turnaround for them to raze that structure and put up the new gymnasium so that it's ready in the fall, so they have a lot of work to do over the summer. After that, they're going to install the artificial turf field. If all goes well, a year from now everything will be complete.

Mr. Evans moved to close the public hearing on the Town Administrator's Proposed FY 22 budget, seconded by Mr. Scurlock, voted 10 – 0 – 0

Roll-call vote:

Mr. Coffey = yes
Mr. Evans = yes
Mr. DeLuca = yes
Mr. Gillenwater = yes
Mr. LaFleur = yes

Mr. Linehan = yes
Mr. Pope = yes
Mr. Rooney = yes
Mr. Scurlock = yes
Ms. Wollschlager = yes

MEETING ADJOURNED 8:47 PM