

Draft Minutes March 1, 2021 General Government Finance Subcommittee Meeting Discussion with John Townsend Deputy Town Administrator/Finance Director Preliminary 2022 Budgets

The meeting was called to order at 7:30 PM by Phil Rooney Chair of the subcommittee. Bill Grome made a motion to open and Chris Resmini seconded. The vote was 3-0 to open meeting (P. Rooney, C. Resmini, and W. Grome).

Members present were Bill Grome, Chris Resmini. Absent were Jerry Pierce, David Coffey and Julian LaFluer.

John began his presentation at 8:10.

Members present were Bill Grome, Chris Resmini. Absent were Jerry Pierce, David Coffey and Julian LaFluer.

John had previously responded to questions submitted to him prior to the meeting and they are detailed below.

Administrative Support Services Preliminary 2022 Budget Questionnaire

Board of Selectmen

Town Administration

- Finance/Comptroller
 - Administration
- Comptroller/Treasurers Department
 - Assessors Office
 - OPEB
 - Reserve Fund

Legal Services

Contributory Retirement

Other Pension and Benefits

Debt

1. Please detail by department the impact COVID had on operations for 2021.
 - What departments were impacted by employee absences due to COVID? **The entire Collector/Treasurers Office had to quarantine for 8 days due to contact**

with an individual who tested positive for COVID. The Assessor's Office also had an employee quarantined.

- Please describe any changes in policies or procedures that resulted? The Town's policy of closing Town Hall impacted all departments as resident contact was by appointment only starting in August. The Collector/Treasurers Office had to close their window due to the building closure.
2. What departments had employees leave and have positions open to be filled in the 2022B? The Collector/Treasurer's Office has one opening, the Comptroller's Office has one opening and the Finance Office has one opening. It is anticipated that all positions will be filled prior to FY 2022.

Specific Questions

Select Board

- Consultant Assistance dollars for 2022B increased by \$22,500 versus 2021. What activity or event is this increase identified with for 2022? This is increased due to the town administration search and any costs incurred by the diversity and equity committee.
- Oil Tank Remediation has an increase of 27% versus 2021. What event is this increase budgeted to address? This was based on FY 20 spend to accommodate all increases
- Travel is budgeted to decrease by 89% versus 2021. Please explain. In-line with historical spend. During our March 1 meeting John explained the activities budgeted in 2021 did not occur due to Covid. The Administration took a look at average spend over past several years and determined what would be required for the 2022 Budget. The 2021 Actual spend will not come close to the 2021B.
- Dues and Memberships are decreasing by 23 %. Please explain. In-line with historical spend. In March 1 meeting John gave similar explanation for this 2022B as he did for Travel.
- Training & Education is decreasing by 76%. Please explain. In-line with historical spend. In March 1 meeting John gave similar explanation for this 2022B as he did for Travel.
- Office Supplies are increasing by 16%. Please explain. In-line with historical spend, we had an average of 3.5k last year, thus we are bringing this up slightly to the level needed. In March 1 meeting John informed us there are new systems and activities that are increasing use of supplies.
- Printing & Advertising is decreasing by 45%. Please explain. In-line with current spend

- Supplies Town Administrator is decreasing by 50%. Please explain. **In-line with current spend**
- Selectmen CBA is decreasing by 88%. Please explain. What items are the dollars in the 2022B for CBA intended for? **These are intended for bargaining agreements with Natick's several unions**
- Furniture is decreasing by 50%. Please explain. **In-line with historical spend.** In March 1 meeting John gave similar explanation for this 2022B as he did for Travel.
- Communications has no budget for 2022 versus \$50,000 2021 Budget. Please explain. **Cost for the implementation of an HR time and attendance system. The recurring maintenance expense will be moved to the IT budget.** In March 1 meeting John explained 2021 spend was for system installation.

During the meeting John disclosed;

- The Town audit is in progress, however it is moving slowly. No issues.
- By June all contracts will have expired.
- All furniture and fixture purchases for all Town departments (including school) are made by this department.

Finance

- Salaries Operational Staff up by 3.9%. Please explain. **This is due to merit increases and upgrading salary of payroll manager.**
- Training & Education down 33%. Please explain. **In-line with historical spend.** During our March 1 meeting John explained the activities budgeted in 2021 did not occur due to Covid. The Administration took a look at average spend over past several years and determined what would be required for the 2022 Budget. The 2021 Actual spend will not come close to the 2021B.

Administration

- Salaries Operational Staff up 14.6%. Please explain. **This is due to the fall town meeting addition of the budget analyst and upgrading the salary of the special assistant to the finance director (Abdul)**

Comptroller/Treasurer

- Salaries Management up 10%. Please explain. **Upgrading the position of director in-line with other finance department heads and merit increases**
- Salaries Supervisory up 19.2%. Please explain. **Upgrading the position of assistant director in-line with other finance department assistants and merit increases**
- Salaries Operational Staff up 5.5%. Please explain. **Increases are due to steps and lanes for union employees.**

- Equipment Repairs & Maintenance down 91.1%. Please explain. **In-line with historical spend.** During our March 1 meeting John explained the activities budgeted in 2021 did not occur due to Covid. The Administration took a look at average spend over past several years and determined what would be required for the 2022 Budget. The 2021 Actual spend will not come close to the 2021B.
- Banking Services down 36.4%. Please explain. **In-line with historical spend.**
Collection Services down 71.4%. Please explain. **In-line with historical spend.**

During the meeting John noted;

- In normal times two-thirds of collectors were made in person through the window. People like to pay in cash.
- Accounts Receivable system was connected to the Munis System.
- Payroll instituted direct deposit for all payroll.
- The Comptroller just retired. They will use a temporary person until the hire a replacement.
- People spent more time reading billings from town. He concluded this because there was a significant increase in calls to question billings. The department received assistance from other town departments to process calls.

Assessors

- Salaries Management up 11.5%. Please explain. **Upgrading the salary of directors to be in-line with other finance department directors, plus merit increases**
- Salaries Operational Staff up 29.7%. Please explain. **No increase for FY 22, FY21 Revised Number is \$56,234**
- Salaries Part Time Operations down 100%. Please explain. **Has not been used in years, thus it is eliminated to achieve cost savings**
- Revaluation of property down 13.3%. Please explain. **No current revaluation (Check with Eric), but also due to historical spend.**

During the meeting John disclosed the department upgraded software during the crisis.

Legal Services

2022 Town Administrator's Preliminary Budget: Town Report and Legal Services Questions

1. The 2022 Preliminary Town Report Budget details no dollar changes versus 2021 Budget. Have there been any changes to this department's scope or responsibilities versus 2021?

There has not.

2. The Preliminary 2022 Legal Budget details an increase of \$275,000 for Legal Services Litigation. Would you please provide us with a summarization of what this increase in budget is to address? How does the \$275,000 get allocated between anticipated issues?

For FY 22 Town Administration anticipates a number issues that will require legal services. This would include investigations, research, advice and consultation, negotiations and representation in various proceedings. Allocation of these funds is by the Town Administrator.

3. Do you know of any changes in scope or responsibilities for these commissions and committees in 2022 versus 2021 that have occurred?

None that we are aware of.

During the meeting, John disclosed the \$275,000 budget will be used for contract negotiations, advice for contracts and disputes, and other issues requiring assistance.

As Subcommittee Chairperson I had distributed the Town Administration's response to our Shared Service Questionnaire for review to committee members. I asked for committee member's additional questions or requests for clarification. I received none. During the meeting I asked John additional questions concerning Unemployment, Contributory Retirement, and Other Pension and Benefits.

The following is the responses we received.

Shared Services Preliminary 2022 Budget Questionnaire

Specific Questions

1. What were the increases for 2022B vs. 2021 based on for Workers Compensation, Unemployment, and Medicare based on? Known increases announced by government agencies or estimates by town officials? If estimates, what were they based on?
Workers Compensation is based off of cost projections provided by the insurance carrier for workers comp; Unemployment, historical claims data for unemployment claims and recommendations from the Town's Unemployment contractor and a formula provided by the federal government for Medicare.
2. Your narrative for 2022B Unemployment refers to year 2021, should be 2022. You refer to increases due to pending furloughs and layoffs. Please detail what departments will be impacted. You also state you do not anticipate Federal rate increases. Why the 2022B increase vs. 2021? The 2021 is indeed incorrect and will be corrected. This is a shared expense line so it covers both school and town expenses. The Schools have added staff due to the requirements imposed by the State because of COVID. We anticipate that at

some time during FY22 these requirements may be lifted which could increase the Town's unemployment liability. While we do not, at this time, anticipate any other workforce reductions, given the amount of uncertain in the economy and situation regarding the pandemic, we do feel that it is prudent to provide for additional unemployment resources.

Why did we increase the 2022B for Workers Compensation? What happened in 2021 with respect to safety to anticipate an increase? The increase provided by our worker's compensation carrier was based upon actual claims data. The Town at all times strives to provide a safe working environment for all employees. There is no known situation or circumstances that has created any safety hazard in the workplace.

3. Why was merit increase budget for 2022 reduced so significantly? What group of employees are covered by this pool of money (departments, job titles)?
The Merit Increases Budget provides annual compensation increases for personnel board employees based upon their annual performance evaluations. This line also funds the bonus program for personnel board employees. The reductions in this line were based on the need for cost savings. It will be reviewed based upon the availability of additional funds.

Subsequent to this submission John informed us the dollars for 2022B will be increased. He will incorporate into updated 2022 Budget presentations.

4. Health Care Benefits were budgeted to increase by 5%. How was this percentage determined? Are we sourcing these benefits from same organization(s) as in 2021? Please describe the process used to receive bids for our health benefit providers? Do we actively solicit bids or do we let it be known we will accept bids? Is there a process to evaluate employee satisfaction with benefit providers? Is it documented? How often are evaluations performed?

We consider 5% to be a prudent holding number until insurance rates are confirmed on February 23rd. We anticipate, thorough research and through historical increases, a rate increase of 6.3%, although this will be adjusted for the true rates when those are approved.

Subsequent to this submission John informed us the actual Health Care Benefit increase was 3%. The resulting savings will be incorporate into updated 2022 Budget presentations.

5. Please describe the Retirement-Buy-Out Program. In 2021 how many times to date was it used? What were dollars spent to date? The Retirement Buy Out Reserve provides funds to “buy out” outstanding vacation, sick and any other outstanding liabilities for retiring employees. Most of the liabilities are created by provisions in collective bargaining agreements. For FY 2021 the reserve has to date been used five times for a total of \$47,225.29
6. How much funding has been made to Contributory Retirement has been made/will be made in 2021? How was amount determined for 2022B? The Town’s payment for FY 2021 is \$10,843,395. For FY 2022 the amount is \$11,395,609 the calculations for this number are provided on pages 243 of the budget book. The required amount of funding for contributory retirement is set by PERAC. Please see the documentation in the shared expenses of the budget section on pages 243 -247.

During the meeting John informed us the Town is making contributions based on valuations received from professional to pay full obligations by 2030. Valuations will change between now and 2030 and could impact the current fully funding plan. Once this obligation is fully funded they will reassign funding resources to fully fund OPEB.

7. When will we receive PERAC Report for Fiscal Year 2022B? If it has been received, can it be provided to FINCOM? Not certain what you mean by “PERAC Report.” All documents regarding the Natick Retirement Board can be found on the PERAC website (<https://www.mass.gov/lists/natick-retirement-board-reports>). The most recent Annual Report (2019) and Appropriation Letter are provided in the budget book at pages 244 and 245. All other documents; Audit Report and Valuation reports can be found on the PERAC website. We do not know when they will be updated.

During the meeting John informed us there is a Board of Trustees responsible for Retirement Board. The Retirement Board is responsible for obtaining an Annual Report and provide the report to the Town Administration. He does not know why the Town has not received a report for 2020.

8. OPEB Budget 2022, the Town has adopted an actuarially accepted method for funding OPEB. When was the last actuary report performed? What was the 2022B amount determined to be? Based on this report when will OPEB be fully funded? Who prepared the report? The last actuary report was for FY 2016. That report was updated for FY 2018. The separate OPEB costs for FY2022 will be determined in March after we receive the policy costs from WSHG. The total budgeted costs for healthcare includes all OPEB costs for FY2022. The budget also provides \$250,000 for the OPEB Trust fund. The plan from fully funding the OPEB liability is to redirect the resources currently designated to fund the contributory pension fund to the OPEB Trust in FY 2030, when the pension fund is scheduled to be fully funded.

Debt

I mentioned to John during the meeting that he had previously discussed debt with the full FINCOM Committee during a January meeting. We had no further questions, I informed John I would you material from his previous discussion to summarize the 2022B for Debt. John agreed with approach.

The Town has delayed some of the non-time sensitive projects to help preserve our cash position and reduce debt. The Town's debt to revenue ratio for FY 22 remains a healthy 8.92% and vital projects are still moving forward. The Town's policy is to try and be at a ratio of 10% or less. Rating agencies allow you to go up to around 15%. Moody's and Fitch are our rating agencies. The Town has switched to using short term Bond Anticipatory Notes (BANs) in order to help sustain our cash position and take advantage of historically low interest rates. 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. The Town has taken this approach to preserve cash as well as avoid the need for rating agencies to perform an assessment for Natick.