

Lexington Appropriation Committee
Minutes of the Meeting January 6, 2005

Location: Room 111, Town Office Building, Lexington MA

Attendance:

Members: Alan Levine (Chair), Deborah Brown, Paul Hamburger, David Kanter, Rod Cole, John Bartenstein, Rick Eurich, Eric Michelson, & Ron Pawliczek

Non-Members: John Rosenberg

Materials: Agenda & January 5, 2005, version of Paul Hamburger's 2006-2008 projection

Al Levine called the meeting to order at 7:35 PM.

1. Minutes: The minutes of the meetings of December 2 and December 9, 2004, were accepted, each with minor edits.

2. Discussion of other meetings attended by members:

a. Budget Process. D. Brown reported:

Michael Young handed out new pro-forma 2006 budget. The following changes were noted:

- Local receipts estimate up from 85% of \$8.64M to 90% of \$8.90M. (The increase from 8.64 to 8.90 was to be investigated by Deborah with Michael.)
- Stabilization fund appropriation reduced from \$790K to \$550K
- Growth estimate increased from \$750K to \$950K
- Payments-In-Lieu-of-Taxes (PILOTs) reduced from \$1M to \$750K
- In-levy debt service decreased from \$4.2M to \$3.3M.
- Gap reduced from \$4.6M to \$2.7M

Paul Hamburger presented his "scenario 1".

The School Superintendent allowed that the budget reduced by \$1.5M would have Cost-of-Living Adjustments (COLAs) not exceeding 1%.

It wasn't clear what was to be gained by having the meeting with a \$2.7M gap and no clear road to resolution. It was decided to delay the planned 1/06/05 Budget Collaboration meeting by two weeks in order to give more time to get the story together.

b. School Committee. Ron reported that Superintendent Hurley asked not to present the list of cuts until two weeks from now. Contract negotiations should be starting shortly.

c. Water and Sewer (W&S).

(1) John B. reported:

The W&S committee voted to recommend that W&S enterprise funds adopt standardized financial reporting consisting of an annual operating statement, statement of

cash flows, and balance sheet prepared in accordance with generally accepted accounting principles (GAAP). The committee also discussed the advisability of creating a financial-officer position to oversee financial and accounting aspects of the W&S enterprise funds, the costs of which would be borne by the funds themselves.

The W&S committee voted to ask for a legal opinion on PILOTs. John B. does not expect that the legal issues will be resolved, or that any final recommendations will be made about PILOTs, in time to affect the FY 2006 budget.

The special audit of W&S enterprise billing issues is still pending. Deborah said that the auditors are coming down to the same place as John B.: there appear to be significant errors in accounts receivable. This means that the significant drop in cash reserves in the W&S enterprise funds cannot be explained by a spike in receivables resulting from inadequate collection efforts. There will be another report from the auditors. Deborah expressed concern to Town Manager Linda Vine that the auditing work is not considering the whole problem. It is not enough just to write off inaccurate receivables. We need to know why the W&S revenues for FY04 are significantly off from prior years, whether the data-management issues that resulted in excessive billings for some accounts might also have led to inadequate billings for other accounts, and whether there are implications for the adequacy of the rates recently set for FY05.

(2) The Appropriation Committee agreed that Deborah and John B. should arrange to meet with John Ryan and others as they deem appropriate to try to get resolution on these issues.

d. Utility Committee. Eric reported the Utility Committee is still waiting for the State Legislature to pass a bill to allow municipalization of utilities. The bill did not pass in 2004. Now the committee is working on getting a new bill or a home-rule petition.

e. Municipal Finance. David and Deborah reported.

John Ryan is working 4 days a week thru mid March as acting Finance Director and Comptroller. There will be an ad in the January 8 Boston Globe for a new person. Linda Vine will recommend that the same selection committee do the screening for the Board of Selectmen. Linda plans to advertise for one or two more positions, in the absence of Michael DiPietro, former Assistant Finance Director, and pending news of Laura Delollo's plans for maternity leave. Linda is also arranging for additional staffing in the Assessor's Office. Payment for the additional staff will be absorbed in the FY05 budget.

Debt Management and Moody's review:

John Ryan would like the approach to Moody's to focus on the accomplishments of FY05 and the fact that the town has demonstrated its willingness and ability to pay for whatever necessities arise. The meeting with Moody's will be January 18, 9 AM.

It is not expected that the Town will go to market to sell bonds, but rather will roll over Bond Anticipation Notes (BANs) which were scheduled to be bonded this February.

Our Bond consultant, Cinder McNerney from First Southwest, advised that we not use free cash, and that we add something to the Stabilization Fund as a good-faith effort. The \$550K transfer to the Stabilization Fund in the second pro-forma budget is thought of by those backing it as coming from the reduction in the debt service.

It was recalled that George Burnell spoke of a possibility of putting \$500K from the road override funds for FY 2006 only in a Stabilization Fund since the funds couldn't be spent by the DPW yet anyway. Paul raised the question whether this would help the Moody's evaluation, since the money could not be unencumbered.

\$38M in exempt notes are coming due. We expect to get \$26-28M in reimbursement from the State for school bonds. This is 75% of the 59% reimbursement of the total principal and interest.

3. Discussion of Paul's Spreadsheet:

Paul asked the question whether the four items shown in the introduction are an appropriate direction.

Questions were raised about the "no override in 2006" assumption. It was clear that the Committee was not willing to take this as an assumption at this time. Deborah expressed that before we reduce staff (and services) we should put it to the voters, even if we think it might fail.

Concern was raised that the 1% COLA in the calculations may be unrealistic. There was not agreement about this.

There was a question as to whether we should include "critical needs" or rather take the money allocated for this and increase the COLAs. Again there was no agreement on this.

There was some agreement that the Committee should have a position on where the "holes" (read, critical needs) are. There was no formal vote.

Paul agreed to add some information on the tradeoffs among the options mentioned above.

The meeting was adjourned at 10:45 pm.

Respectfully submitted,

Paul Hamburger
Acting Secretary

Approved February 16, 2005