

December 2, 2004

To: Appropriation Committee (AC)  
From: Deborah Brown, Acting Secretary  
Subject: Minutes of AC meeting on Thursday, December 2, 2004

Attendees: A. Levine (Chair), P. Hamburger, R. Pawliczek, D. Brown (Vice Chair), R. Eurich, J. Bartenstein, D. Kanter, E. Michelson, S. English, M. Young, R. Pagett & W. Kennedy (Board of Selectmen [BoS]), Marge Battin (Town Moderator).

Material Distributed:

- #1. Agenda
- #2. Ethics commission handout
- #3. P. Hamburger's proposal (circulated by email)
- #4. D. Brown's memo (circulated by email)
- #5. A. Levine's memo (circulated by email)
- #6. W. Kennedy's email (memo from Linda Vine re assistant town manager duties)

The meeting was called to order at 7:40 PM by Al Levine in Town Office Building Room 111.

1. Campaign participation: Reviewed last year's vote on campaign participation. Donation prohibition discussed. Will revisit later in evening.
2. M. Battin (Town Moderator) visit: New staff members, new people on committees, so a time to clarify roles and relationships.
  - a. ROLES: Since she appoints AC members, it falls to her to visit us to talk about this. We are one of the 2 most important boards in town (AC and CEC). In many towns, we are the budget submitters and make all the financial motions. Our role is very important. Referred to Lexington code regarding AC: a) We are responsible for oversight of all issues regarding management of the town, not just financial affairs; and b) We have right of access to any record of the town and access to any employee. Article II, Section 29-7 and 29-9, specifically. In addition, she elaborated that we are "the voters' eyes and ears on the inside of the process if we don't like what we see."
  - b. RELATIONSHIPS WITH OTHER BOARDS, COMMITTEES: We need to remain open minded, fair, impartial; therefore we can't serve on other committees. Intent of this prohibition is to prevent conflict of interest or influence when a proposal comes to us for consideration and recommendation – AC members shouldn't be in a position of lobbying fellow committee members for a "pet" project. Battin explained that this had been a problem in the past and that's why the committees were set up the way they were. (Article II, section 29-7).
  - c. LIAISON ROLE: Regarding acting as liaisons to other committees, Battin thinks we should be consistent with the letter and intent of the bylaw. When we

approach people we should identify our role. If we are acting as AC member, as opposed to liaison role, we have more latitude. Battin consulted with Paul Lapointe and town counsel about liaison role on committee that's going to bring something before town meeting. Lapointe has seen problems in other towns where liaison sits in as regular member and even votes. Suggested Battin reference the dictionary definition of "liaison" – facilitator of communication in both directions. William Lahey (town counsel) sees the intent of the liaison role as a communications vehicle, an observer. The liaison shouldn't serve or act as chair, shouldn't lead or direct the work or engage in public deliberation. Battin feels that the liaison role is enormously important and doesn't want to confine us. Battin's purpose in speaking with us is not to define this for us, but to merely raise the issue and leave it to us to work out our own policy and ground rules, being sure to preserve flexibility.

d. State Ethics Commission/conflicts of interest: AL asked Battin to report on the meeting with the ethics commission. She reported that it was a good meeting, and that AC members are designated by BOS as "special employees of the town." As such, we have more leeway, unlike BOS, on whom the conflict-of-interest restrictions are more onerous. (Reference handouts from Town Clerk Donna Hooper.) AC members can't accept bribes, nor any gratuities over \$50, and we're subject to anti-nepotism rules. In sum, we can't enjoy any benefits that might flow from being member of AC. If we believe one of us has a potential conflict of interest, we can petition the state ethics commission for a ruling, go to town counsel (which then must go to ethics commission) or take the matter to the appointing authority, in this case the moderator, who doesn't have to run her ruling by the ethics commission.

e. Ensuing AC discussion: JB raised a concern related to W. Lahey's comment about public deliberation. If liaison responsibility is two-way communication, at a minimum, liaison needs to communicate information that might be relevant from AC's position and that might qualify as deliberation. Battin agreed that this would be appropriate communication for a liaison.

(Discussion interrupted to take Committee picture for annual report.)

- DK reported that as liaison to CEC, he doesn't participate in CEC votes; he communicates anything from our committee that's helpful; he feels comfortable asking questions, just as any member of the public can do. DB remarked that DK's last point is important – the liaison should have at least the same rights as a member of the public attending an open meeting.

- AL reported that he had presented some information on PILOTs to the Water/Sewer Committee at that committee's request, and he was very comfortable participating in the ensuing discussion as an AC member.

- RE raised issue of cases where the AC may not have taken an official position, and therefore a liaison expressing an opinion may give the impression that he/she

is expressing an AC position. PH said we should make that clear when we offer an opinion, that this is “not an official AC position.”

- PH described his experience with the newly-formed Health Care Committee. He was asked by the BOS chair to convene and chair the first meeting. At that meeting, a new chair was elected but PH finished chairing the first meeting and then new chair took over. PH shared health benefits information he’s collected on behalf of AC. AC members agreed that sharing this information is appropriate. PH said he will remember that when the Health Care Committee completes its work and has a proposal, he has to be circumspect since the AC will independently review this proposal and come to its own determination on a recommendation.

- PH’s other liaison assignment is to 20/20 Committee. Haven’t been making determinations of any kind, but he has been very active collecting information from other towns. He has identified himself as AC liaison. He has offered some preliminary thoughts, but will be careful when deliberations take place. EM remarked that there is a significant difference between information-gathering and decision-making. He doesn’t think the former poses a problem. AL remarked that it may be a fine line. DK phrased it as “push/pull” rule. Liaison shouldn’t push information – the committee should do the pull. Battin said Bill Lahey made a similar point - don’t lead the work, don’t direct the work. JB probed this point a bit with a hypothetical situation. Suppose members of a committee think something is a fact or a wise decision or policy, but you as liaison know they’re wrong. Would be foolish not to share that information. We ought to be able to offer helpful advice or correction without leading the deliberation; this advances the public interest.

- DB is/has been liaison to various search committees. She does not participate in votes, but she believes she should offer her opinions on candidates. AC members all agreed.

***AC members agreed that common sense should rule in our roles as liaisons; members should exercise good judgment and bring any concerns back to the AC for discussion, direction.***

3. Continuation of discussion of campaign participation: Some interest expressed in amending AC’s previous position to allow anonymous contributions. Some concern about size of contributions. Also discussion of spouse participation in campaigns. ***AC tabled discussion for the evening with no new proposal on the table. Will take up again at next meeting; for now, AC members still bound by last year’s vote.***

4. Budget discussion:

a. PH’s proposal:

Objectives/assumptions in PH’s document:

- Should try to deal with a 4-year perspective. Whatever we do, should be revisited each year to fine-tune with information we have that’s new. Best place to start is

with pro-forma budget and demonstrate the impact of varying things, like overrides at different intervals, then start playing with other variables.

- Try to achieve same level of service for next 4 years. Believes that current student-teacher ratio is a good thing and should be supported. Town has 78% of staff it had years ago, people working harder and more productively. Proposal based on keeping what we have now (at a minimum).
- In order to do level service and to do something about increasing reserves, which are a very small percentage of our budget, what do we have to do? Must rely on support from taxpayers, employees, and service users.
- Must recognize that we have various times in budget cycle when information becomes available.
- Communication – revenues needed to support budget
- Revisit policies on free cash, cash capital, PILOTS, etc.

PH's implementation strategy:

- Develop overview budgets describing scenarios and effects of various budget drivers
- With above info, select a scenario close to where the town as represented by its elected and appointed officials feel it can go. Must consider effect of future failed overrides.
- Capital debt exclusions. PH asked question about secondary project – S. English replied: State looking to dump cash from '05. We'll get money from SBA after first of the year. Working with financial advisors to determine what that does for our cash flow and impact on our taxes. M. Young said that the \$32M on BANS for secondary project will be compensated (75% of the reimbursable portion) by the lump sum from SBA. S. English: Not sure what will happen with interest – legislation didn't deal directly with interest. Looking at this now. PH: Are you thinking in terms of making a bonding in Feb. that relates to this SBA reimbursement? If we're getting influx of money, will we try to pay off some fraction of the \$32M with that money? S. English thinks State will require us to do that. PH: Suppose you take all of that and pay off money, now owe \$32M – X, now question is when are we going to pay that off, do we keep doing BANS? S. English: Working on all that now. Whether you issue permanently or BAN, there needs to be clarification on how you get your reimbursement. For permanently issued debt, reimbursement follows old rules. PH remarked that this will all have tax impact. EM asked if we might build up reserves by bonding? S. English: Lots of possibilities. DB: Important for S. English to bring this back to the committee when the information is in hand, because AC and others need to discuss the taxpayer impact and the opportunities it may present. S. English agreed. JB asked if this good financial news (on SBA reimbursement) will be incorporated into Moody's presentation; S. English said yes. DK wants to understand the mechanics of short-term and long-term borrowing. M. Young said he'd get something together for David.

Committee discussion re PH's document:

- RE asked whether this will be sufficient – coming up with a 4-year plan – to satisfy Moody’s. S. English replied that 3 years is about all you can reasonably present.
- AL was looking to see a series of policy statements, very general. We can’t decide tonight what the budgets will be for the next 3 years.
- EM asked if PH’s framework will satisfy Moody’s. S. English said this is all an excellent start, but for Moody’s we need to answer the questions she presented before (document present to BOS and to the Budget Collaboration Group). For instance, need to answer the question about whether we have a reserve policy. DB said yes, we have an existing free cash policy whose goal is to achieve free cash level of 5% of tax levy. PH asked if “reserves” as Moody’s defines it includes stabilization fund. S. English said no. PH reminded S. English that AC would like to see a list of what “reserves” includes. S. English said she’ll get that for us.

b. DB’s memo: Started by describing positive steps that have been taken to address the Moody’s issues – no use of free cash for FY05 budget, no second year of pension holiday, monies appropriated to stabilization for FY05. Also several positive circumstances – override passed, expecting SBA reimbursement, free cash certified as of July 1, 2004 at approximately \$1M more than we anticipated. Now how do we address the fundamental issues?

DB reviewed her purposefully simplistic description of the structural problem with our budget.

- The problem: We've had a structural budget problem for a number of years now and we've thus far dealt with it in a patchwork fashion. Would describe the problem simply as: (1) On the revenue side, Prop 2-1/2 limit on tax revenues combined with reduction in state aid, flat local receipts, and community desire to restrict commercial tax base growth. (2) On the expense side, average wage growth most years greater than 2.5%, plus health benefit cost increases 10-15%, school enrollment increases, and recently, huge increases in utility costs. This is a "structural" budget problem because without overrides, the annual growth in the cost of providing level service (same staff) far outpaces annual growth in revenues.
- Possible solutions:
  - 1) More frequent (i.e., annual or every-other-year) overrides. Let there be an annual referendum on the budget.
  - 2) Regular reduction in expenses/services. This will naturally occur under solution (1) every time an override vote fails, but it's also accomplished by not presenting an override option and simply cutting services. Probably this is what will happen this year since the prevailing view seems to be that this is a non-override year. But that means that we'll be cutting services without the benefit of a community-wide dialogue.
  - 3) Increase other revenue sources. Primary one that comes to mind is re-thinking of the community's approach to commercial development. Seems like it is time for a community-wide dialogue about this in the context of the budget discussion.

DB, in broad terms, advocated for beginning a community-wide dialogue on dealing frankly with our structural budget problem. Continuing the current every-three-year override schedule doesn't work and doesn't address the fundamental problem.

Committee discussion re DB's memo: What should the community say to Moody's in January? DB: We could have that discussion tomorrow just as easily as we can in January. Should positively describe what we've done (no use of free cash in FY05, money appropriated to stabilization in FY05, no second pension holiday), what has occurred that's positive (higher free cash position by \$1M, SBA reimbursement coming in, override passed), and describe commitment to addressing structural problems, to having a community-wide discussion, and describe our commitment to getting back on track with a reserve policy. We won't know much more in January than we know now. DK: If we point to these discussions and our commitment to coming to grips with this, even though we won't have the answer by January, but demonstrate recognition and commitment, isn't that enough for Moody's? EM: Are we foolish to think this will be sufficient at this point to address Moody's? RE: It's all we have at this point in time.

c. AL's memo: AL tried to take a step back and ask, what are the major things we can agree on now? (1) Services have been cut as far as we can stand. (2) Expenses are growing faster than revenues. (3) Reserves need to be built up. So what can be done? Overrides every year, every two years? If we want to maintain things at an equilibrium, during an override year we need to put reserves aside.

Purposes of reserves: (1) Buffer for unusually difficult years, not for the non-override years – base component – wouldn't normally draw on this. \$5-10M? (2) Buffer for usual year-to-year changes – non-override years – this is in addition to base component \$1-2M? (3) Help preserve Aaa bond rating.

Reserves are yet another box requiring money. But when we add up all the things we need, we will see we don't have revenues. We'll have to make decisions about what the right mix is. Reserves important but not sacred cow.

Re overrides – not much to add to what DB said. Bad idea to do these every 3 years – you need a huge amount all at once, and if it fails, impact huge. If more frequent, they're smaller, and impact is less.

Possible policy statements: Things we could vote on now. Could be material S. English could take to Moody's as AC positions: (1) Primary goal to maintain services at approx. current level. (2) Need to build up reserves to act as buffer in years when revenue is unexpectedly low – should be sufficient to get the town through 2 consecutive years in which revenue is short of the amount needed by 2%. Current 5% of tax – minimum goal. (3) Town should increase reserves in most years until the level reaches the goal. Target to hit goal in 5 years. (4) For foreseeable future, regular overrides every 2 years. Include funds for years in between overrides.

Discussion re AL's memo:

- DK: Would argue that there are places in town budget where resources aren't adequate for prudent management. So level service might not be appropriate goal. Described two different types of problems – inadequate staffing on the one hand, and some problems managing capital issues which may or may not be related to resources.
- AL: Appears that Revenue Office staff has been cut more than it should be; Assessors Office has similar problem, probably other departments as well. List from Linda Vine re task in Town Manager's office – seems substantial. Not arguing that current state of services is adequate, just the general idea that the kinds of services we have now are the ones we want to keep. Can argue at the fringes, but more or less this is the level of services we want.
- DB: Can we agree that at a minimum, we don't want to degrade services below current level? General concern on AC that there are places where we need to address problems by adding staff.
- DK.: Not ready to say no override this year. Thinks we shouldn't prejudge the political outcome. Expressed concern about staff already approaching their budget development by prejudging what officials want to hear. Lively discussion about the pressures on staff, the role of town manager to provide guidance, our role as oversight committee and not budget developers.
- AL: Trying to make the point that cutting the budget is not the solution we're looking for because services have already been cut pretty far.
- PH: We need a 5<sup>th</sup> bullet on AI's document: "acknowledge structural problems in some departments and the need to come up with plan for structural repair of damaged departments." Agrees with "do not degrade current services levels"
- RE: If we can identify those departmental problems now, shouldn't we start advocating for fixing them before town meeting?
- PH: Don't think that things that are structural issues should be put to override referendum. One or two more people in the assessors office – to put that on an override is a mistake. Something else will have to go on override.
- AL: Assessment and revenue collection are fundamental and should be staffed adequately. Burden should be on other departments if we need to put people there. -
- DB pointed out that even if you do this, only exacerbates the structural problem and you're cutting in other places that citizens think important – class sizes, police staff, etc. Still have to put something to a referendum.
- S. English agrees that Moody's issue is helping us focus on future.
- M. Young: – as budget officer, the goal is that Dec. 13 will be first budget presentation to BOS; have 3 dates on calendar - Dec 13 and 15<sup>th</sup> and a date in Jan. Staff have been preparing budgets at the department level with help from finance staff, then finance staff put these budgets together, there's an internal review, and then they're given to BOS for discussion, recommendations.
- R. Pagett gratified by direction discussion is taking. Have to be prudent in how we craft FY06 budget with eye towards Moody's. Understands that on school budget, there's an increase of 40 students that leads to the addition of 14 staff. This means our budget gap is larger than the \$4.6M on the pro forma.

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- DK asked had schools presented level-staffing and then the deltas.
- R. Pagett: Yes, they described 3 types of additions: (1) obligatory/contractual, (2) enrollment, (3) critical needs. Thinks (3) needs to be looked at more closely.
- PH suggested that in addition to having one or more members attend BOS meetings, we need more than one person attending SC meetings.

***AC members agreed we'll need to devote same attention to school budget as to town budget. RE will attend next SC meeting along with RP; RE and EM will try to share SC meeting duty after that.***

***AL will revise his policy statements and bring them back next week.***

5. Future meetings: Next meeting two weeks from tonight in Town Manager's office. M. Young will see if there's a cancellation for a bigger room.

6. Other business:

a. DB reminded S. English of list of eight items of information previously requested by AC (in DB's memo). S. English agreed to provide information at our next meeting. JB added an item to the list that had also been requested previously - Moody's narrative on the other Aaa towns. S. English agreed to obtain that as well.

b. JB referenced Barbara Anderson link, asked if anyone disagree with his assessment. DK said he agrees with JB's assessment.

The meeting was adjourned at 10:30 pm.

*Approved January 6, 2005*