

**IN BOARD OF SELECTMEN
SUMMIT MEETING
BOARD OF SELECTMEN, FINANCE COMMITTEE, SCHOOL COMMITTEE
TUESDAY, SEPTEMBER 15, 1998**

Present: Chairman John C. Drobinski, Maryann K. Clark and Kirsten D. Roopenian, Selectmen.

Chairman Emil Ragonas, James Carlton, Sheila Stewart, Miles Nogelo, John Nikula, Robert Hurstack, Larry Rowe, Peggy Wilks of the Finance Committee.

Town Manager Steven Ledoux, Assistant Town Manager Terri Ackerman, and Finance Director Maureen Valente.

Superintendent William Hurley and Director of Business and Finance Paul Funk, of the Sudbury Public Schools.

Chairman Greg Lauer, William Braun, Stephenie Cook, Karen Krone, and Richard Robison of the School Committee.

Chairman Steve Silverman of the Lincoln-Sudbury School District Committee.

Pauline Paste, Business Manager/Treasurer, Lincoln-Sudbury Regional High School.

The statutory requirements for notice having been met, the meeting convened at 7:45 p.m. at the Senior Center, 40 Fairbank Road.

Town Manager Ledoux stated a priority of the Board of Selectmen this year was to have this financial summit, enabling everyone to discuss and formulate a financial plan before the submission of Fiscal Year 2000 budgets. He voiced that this financial summit would give the Town the opportunity to discuss financial trends, financial goals and policies, as well as solutions to problems regarding the Town's current, short-term and long-term financial status and budget forecasting and preparation processes.

ICMA (International City Management Association) Financial Indicators and Warning Signals Presentation/Question & Answer – Finance Director Maureen Valente.

Finance Director Valente explained that historically, when she worked in Washington D.C. during the 1970s, she and her colleagues discovered there had been no tools or specific formats cities and Towns could follow for the development of a sound financial plan. She also explained there were no specific methods available to strategically bring cities and Towns out of a financial crisis, including bankruptcy. Therefore, she continued, while she was in Washington D.C., Ms. Valente and her colleagues developed a financial system resulting from the research of various financial situations of cities and Towns all over the country. Finance Director Valente held up a published book she co-wrote, which contains this financial system entitled, Evaluating Financial Conditions, a Handbook for Local Government, now in its fourth edition and used by cities and Towns across the country.

Financial Trends

Finance Director Valente gave a slide presentation comprising the methodology of financial problem solving through research of trends. The first slide presented contained 10 basic questions, which filter out historical managerial and governmental trend information. The second slide contained points of reference to measure that define a financial condition. The third slide listed the obstacles to evaluation and compliance. The fourth slide gave the reasons why practical tools are needed and how to pay attention to trends being established by reviewing prior financial data. And, the last slide showed a detailed flow chart depicting how trends develop and relate back to the center of origin, which are management practices and governmental policies. Ms. Valente illustrated that the bottom line questions were does the external environment have resources to meet demands and is the Town government able to respond to these demands.

Financial Indicators

Ms. Valente also handed out an 11-point financial indicator chart complete with ratings for each indicator that she compiled on the financial trends for the Town of Sudbury. She said the data shown on these indicators came from the Town's Schedule A over the past four years. The indicators and the ratings for the Town of Sudbury are attached to these minutes as Exhibit A.

A number of points were relayed by Finance Director Valente while going through each indicator including, 1) growth can be chipped away because of inflation and 2) a reduction in state and/or federal aid could happen and therefore cannot be considered a reliable, fixed source of revenue. She suggested looking at the Cherry Sheet history dating back to 1989 for the Town of Sudbury, which showed considerable drops in a few of the years between then and now. Ms. Valente also stated motor vehicle excise revenue fluctuates with the economy; when there is economic growth, people are more apt to buy new, higher priced vehicles, which increases revenue, but the Town should not rely upon this as solid revenue year after year. Town Manager Ledoux also commented the state depreciates cars lower than the Blue Book value, which decreases revenue.

Finance Director Valente stated the feedback she received from Standard and Poor's for short-term financing was excellent and they gave Sudbury an SP+ rating. Town Manager Ledoux added they chose to work with Standard and Poor's because they were knowledgeable about Massachusetts laws. Ms. Valente further stated Standard and Poor's noted the Town did not have a large stabilization fund in place and Sudbury did not have revenues to tap in the event of a catastrophe or an emergency. Another item Ms. Valente explained is the Town does not have much control over the 27 years amortizing fixed County Retirement costs. She stated it made sense for the Town to think strategically to turn these trends around and that overall, the Town of Sudbury's financial health is very good. Ms. Valente commented she would provide financial indicator information on a yearly basis before everyone begins their budget processes enabling everyone to know the Town's overall financial status.

Financial Measurements

Chairman of the School Committee Greg Lauer questioned the measurement tools to be used to close the rising labor costs versus the declining revenues, considering the demographics and cost of maintaining fixed services without an override or cutting services. Finance Director Valente responded confidently the Town will continue to make progress by setting policies and targets for planning and forecasting, enabling the Town to continue developing consciousness now and in the future, while building a stabilization fund.

A conversation led by Selectman Clark took place regarding the differences between the rating processes used by Moody's and Standard and Poor's. Miles Nogelo of the Finance Committee questioned what the differences were between an AAA and an AA rating. Finance Director Valente responded the difference depends on how the market and bonds are doing and how they fluctuate. She reminded that the borrowing by the Town is well over the 10 million dollar cap, which means that interest rates are slightly higher, and the Town must be more careful of IRS arbitrage regulations. She stated the recent borrowing of funds was needed for the Weisblatt Property and the School construction projects.

Superintendent Bill Hurley asked if there was any current information from property tax receipts indicating new growth for the Town. Finance Director Valente responded there would not be an update until more 1998 data has been gathered and she also commented she would be factoring in other growth related measures, such as building permits. Ms. Valente proceeded into another slide presentation showing Revenues Per Capita and State Aid Per Capita, which illustrated Sudbury in comparison with other surrounding Towns.

Structural Problem Presentation/Question and Answer – Assistant Town Manager Terri Ackerman

Assistant Town Manager Ackerman delineated and clarified the specifics of the following four structural problems: 1) Proposition 2½, 2) Demographics, 3) Fixed Costs, and 4) Timing, and offered some alternatives to each.

Proposition 2½

Ms. Ackerman stated that even though everyone had an awareness of and is familiar with the impact of Proposition 2½, she conversed with the group regarding the levy limit, new growth in the Town and the dependence on one-time revenues and overrides.

Demographics

Ms. Ackerman continued the discussion with the group regarding the rise in school enrollment, the decline of senior citizens in the Town. One point taken was that it seems as the senior citizens move out of Sudbury, young families move in.

Fixed Costs

The fixed costs Asst. Town Manager Ackerman reviewed included the 75% personnel costs, labor contracts (which have many steps and constraints that impact settlements), employee benefits and building maintenance costs.

Timing

Ms. Ackerman handed out a budget calendar listing deadlines. She stated the basic point to be made concerned the fact that the Town is forced to make decisions before all the necessary data is received and, therefore, people have to make judgment calls. As an example, she used the Cherry Sheet figures and Town Manager Ledoux added these figures are supposed to come out in March, but over the last two years, the Town has received them in August.

Taking the above four structural roadblocks into consideration, Asst. Town Manager Ackerman suggested the group discuss the following options:

1. Remain using the "status quo", which is don't change what the Town has been doing for the past fifteen years
2. Utilize "liberal" revenue projections, which means estimating revenue in a optimistic way
3. Have a Town meeting later in the Spring
4. Plan a yearly special Town meeting in the Fall for capital and planning only (i.e., could take one time revenues and plan what to do with them)
5. Set financial goals and policies, which is one of the main purposes of this Summit Meeting.

Chairman Drobinski questioned Ms. Ackerman on what month she thought we should consider for Town Meeting and she responded the month of May would at least give the Town more time than early April. Chairman of the School Committee Greg Lauer stated timing was a factor for the opening of the new Loring School, as they need to hire a new principal. Not having an approved budget might require a special Town meeting. He commented the timing could adversely affect an expanding system with no budget.

Finance Director Valente commented many Towns have instituted a fall Special Town Meeting. William Braun of the School Committee opined a fall Town meeting would only be good for capital items and opined the Town's commitment to spend down Free Cash and to stay within proposition 2½ was irrespective of growth or other dynamics not being taken into consideration. He commented the FinCom could not only go to Town meeting with a proposition 2½ budget, but they could also go to Town meeting with other suggestions.

FinCom Chairman Ragonis clarified the FinCom could not go to Town meeting every year with an override. He believed the FinCom needs to present as much information as it can at Town meeting and relay how important it is that the Town is committed to continuing to provide quality

education and services. Mr. Ragonos stressed this was the main reason for building a stabilization fund.

Chairman Lauer opined he thought the goal was to come up with the smallest budget and not spend Free Cash in order to build a stabilization fund, which means necessitating an override. Mr. Braun commented the problem is revenues v. needs and the Town should plan on a levy process that meets the Town's needs. He opined the Town needed to find a way to accomplish this without being irresponsible. Town Manager Ledoux added this was the reason for talking about establishing fiscal policies in order to formulate a comprehensive system that avoids extreme spending. Town Manager Ledoux then introduced Emil Ragonos, Finance Committee Chairman, to present and discuss the draft financial policy and procedures options.

Financial Goals & Policies/Q&A – FinCom Chairman Emil Ragonos

Finance Committee Chairman Ragonos suggested the following draft financial goals and philosophies:

- A. Maintain the highest credit rating possible
- B. Maintain the investment in the Town's capital facilities
- C. Maintain an amount of debt service on the tax bill that does not vary widely from year to year
- D. Pay for all current operating expenditures with current operating revenues. Avoid building in operating costs that do not have a recurring revenue source

Mr. Ragonos further presented the following draft of three financial policies to consider in achieving these goals and philosophies:

➤ REVENUES

One Time Revenues

One time, "windfall" revenues will only be used for:

- ❖ The purpose for which the revenue was generated, e.g., grants, debt service
- ❖ Non-recurring, non-operating items
- ❖ Additions to the stabilization fund for future capital needs

Mr. Ragonos explained the Town has to know what the specific, non-recurring needs are and a list should be formulated to get a sense of the Town's status, enabling the Town to support everyone's needs. Mr. Lauer opined there is a large gray area associated with the forecasting process of one-time expenses, which means forecasting becomes potentially more complicated.

Revenue Forecasting

- ❖ Revenue deficits are to be avoided. Therefore, once reasonable revenue forecasts have been developed and accepted, unless new information is received to justify the increase, the Town will avoid the temptation to “push” forecasts higher to balance the budget.
- ❖ A revenue “surplus” of around ____% is the desired result by *fiscal year end*. Higher amounts suggest that forecasts are too conservative, lower suggests too aggressive.

Mr. Ragonis acknowledged the timing problems associated with forecasting and used the employee step raises, merit raises and eligibility as an example. He stated the Town needed to get a handle on salaries and wages in order to be in a position to answer what the Town will need next year to be fiscally responsible.

Operating Overrides

- ❖ The part of Town government (e.g., Town, K-8, and LS) that has operating budget needs beyond the guidelines suggested by FinCom will be responsible for proposing any operating overrides.

In response to a concern from Mr. Braun, Asst. Town Manager Ackerman explained that we can usually predict expenditures quite well and stated that even many revenue sources can be predicted well. She added, for example, the levy limit is an easy calculation and stated the problem comes in estimating the one-time revenue such as free cash, which should not be relied upon for operating expenses. Mr. Braun expressed the Town needed to be educated on what is happening and to acknowledge the Town will be conservative, anticipating 3 to 5 years to stabilize, while in the meantime, continue to go for overrides until stabilization occurs. Mr. Ragonis confirmed Mr. Braun’s statement stating the Town would work to build up reserves where it will be able to maintain itself.

➤ **RESERVES**

Stabilization Fund

A reserve fund to which funds may be voted by Town Meeting. Key aspects: interest earned on this account remains with the account, and 2/3 vote of Town Meeting is required to spend from this fund.

- ❖ The Town will continue to use the stabilization fund only for capital type items that require large outlays of cash, such as fire trucks.

- ❖ Each year the Town will increase the amount of money in the stabilization fund by _____.
- ❖ The Town will try to maintain stabilization fund at ____% of operating budget.

Free Cash (available undesignated fund balance of the General Fund)

Free Cash permits the Town to have reserves for any sudden downturn in revenues or other financial problems, gives the Town liquidity for its investment program, and helps the Town avoid the need to borrow for short-term cash.

- ❖ The Town will not use all of its Free Cash in any one year. The Town will work toward maintaining Free Cash at ____% of general fund operating revenues.
- ❖ To achieve this target, the Town will not use more than ____% of Free Cash available, or ____% of prior year, whichever is higher, until the Free Cash target is achieved.

Mr. Braun commented there were a number of people in Town who did not want to see an increase in taxes. Mr. Lauer expressed concern regarding how the Town would accomplish level funding, while at the same time, contributing to a stabilization fund. He stated this would be an incredible short-term goal. Mr. Ragonese responded, at this time, the Town would need to consider a conservative short-term method for achieving long-term financial success. Mr. Braun expressed a general fear when questioning if the FinCom would cut services to increase the stabilization fund. Mr. Ragonese stated the FinCom was not ready or able to answer such a question at this time, but did state the need to have future discussions in that regard.

➤ **DEBT**

- 1) The Town will only issue debt if it is voted exempt from proposition 2½.
- 2) The Town will attempt to maintain a long-term debt schedule so that at least ____% of outstanding principal will be paid within 10 years.

Chairman Ragonese opined the average household would not be run in such a fashion, i.e., spending all Free Cash. He acknowledged this is a difficult time for the Town, but now is a good time to begin building the stabilization fund, which means going for some overrides. John Drobinski, Chairman of the Board of Selectmen, stated the public needs to know what the policies and procedures will be and for the public to have an understanding of them at Town meeting.

Finance Director Valente stated she would like to see 5% in the stabilization fund because credit agencies want to see 5%. Town Manager Ledoux used the Town of Concord as an example when he stated Concord incorporated a Town policy to keep their Free Cash at 5%. Asst. Town

Manager Ackerman stated Concord had built this up over the years with policies they have agreed upon and Ms. Valente added that Sudbury could have a gradual rise up to 5% for the stabilization fund in order to begin the mind set and to start the habit.

General Discussion Session

Mr. Braun stated the public should be educated at Town meeting with formally stated fiscal policies, all debt should be debt excluded, and to let the public know the Town is talking about prudently raising a stabilization fund.

Selectman Roopenian opined one advantage of a special Town meeting in the fall would be to take care of the capital and zoning issues, hence shortening the spring Town meeting and not giving the public too much information to absorb all at one time. She felt the public would not be as overwhelmed or pressured as they have been going over 64 articles at one time. Town Manager Ledoux added these are bylaw issues to address. Selectman Roopenian stated we should revise the bylaw and have more succinct goals and to put pressure on the legislature to keep sending a constant message. Mr. Lauer stated the Town of Wayland has a special Town meeting every year before their Town meeting to vote any overrides, which gives them a budget to have at Town meeting. Town Manager Ledoux opined a policy could be: when the budget is an override issue, it is handled in March.

Chairman Ragonese stated the Town would need to support why there is an override at Town meeting. He stated we have 2½% over what we had last year and we don't find out what capital item needs are until December – items that are not included in the budget. He stated we try to get targets in October with reports from the Capital Committee in December and this is a real gap.

Mr. Lauer questioned what the role of the FinCom would be for the Town, how targets will be set and what is the process that is envisioned? Chairman Ragonese replied the FinCom will get a sense of what revenue needs are going to be, and decide if these expenses are all operational or non-recurring, to find out what the departments and the schools are facing for the short-term and in the long-term.

Mr. Braun opined that the stabilization fund could build quickly and that all growth and local receipts could go into the stabilization fund resulting in the schools taking some form of a cut-back. Chairman Ragonese stated we must be realistic with goal setting and setting reasonable time frames, which will also enable us to better educate the public. Chairman Drobinski agreed and stated educating the public is key. He stressed that if the Town was planning to include an override in the budget for the next four years, the public needs to know.

Superintendent Bill Hurley commented he's been hearing from parents who are assuming the class sizes will decrease with the opening of the new Loring School, but in actuality, the new school is just to meet the demands of growth and will not decrease class sizes. Selectman Roopenian asserted the parents would like to know who is in charge of the budget and how they

arrive at decisions. She stated the Town Manager could use the newspaper as a visual tool to start the education process. Town Manager Ledoux also spoke of the new "Grapevine" cable talk show as being an excellent tool in the educational process. Town Manager Ledoux also stated that if the Town can see us all working together, this will work.

Mr. Lauer asserted that, internally, we needed to figure out how a target figure is established. He also stated differentiating and cleaning-up the data could lead to a more transparent process, which will eliminate some of the confusion. He commented they never really had a handle on that. Chairman Ragonos said the point is getting through the next five years together as a Town. As far as setting target figures, Chairman Ragonos opined he hoped a five-minute discussion concerning figures, would not turn into a two-hour discussion.

Finance Director Valente assured the group that setting new trends takes time and can leave a new way of life and that the Town can make it happen. Selectman Clark questioned Ms. Valente on what time frame she projected for the Town to stabilize and Ms. Valente responded three to five years, considering the school enrollment. Chairman Ragonos stated that three to five years was very realistic, unless the Town experiences some great "windfall".

Mr. Braun stated there would not be much favor in cutting services to increase the stabilization fund.

Chairman Ragonos stated we needed to realistically justify and we might have to incorporate some pain management. Town Manager Ledoux added this was the reason why education was so important. He stated the first item the Town Moderator announces at Town meeting is the Free Cash amount. Town Manager Ledoux also added the pain level management is what these issues all come down to.

Mr. Braun questioned if establishing policies for savings accounts will come down to either cutting services or going for overrides.

Robert Hurstack of the Finance Committee suggested that the stabilization fund be considered as a fourth cost center, which means it will be included with the Town departments, the schools and capital items when it comes to figuring the overall budget for the year.

Mr. Lauer stated the role of the FinCom was to bring fiscal prudence to the Town and now this role has to become policy. Chairman Ragonos stated the FinCom can do that, but noted that other have to sharpen their pencils.

Mr. Braun stated that it is easy to agree on fiscal prudence, but then it will be tough to stick with it during the crunch time. He questioned if the FinCom would take a police officer off the street to build the stabilization fund.

Selectman Roopenian asked Ms. Valente if she believed there were certain revenue sources that will be able to help us within the next couple of years and had she already taken them into

consideration. Ms. Valente responded if we start to build a stabilization fund using one-time revenues, we may not have to cut other expenditures. Mr. Braun wanted to know what kind of unanticipated things could happen that would leave the Town short. Asst. Town Manager Ackerman responded by saying that in 1990, the state cut revenues \$500,000 out-of-the-blue. Ms. Valente also stated it would be embarrassing to borrow and pay interest on something such as a \$60,000 ambulance.

Selectman Roopenian asked Chairman Ragonese, when the FinCom sets the criteria for the targets, to send it out to the departments and the schools. Chairman Ragonese responded that target numbers will be given, and if they cannot be met, that is when an override is sought.

Chairman Drobinski urged all to work together toward the goal of improving Town finances by committing to meeting with each other to form some resolutions. Chairman Ragonese stated the FinCom wants everyone to succeed and go forward as a team.

Attest: _____

Steven L. Ledoux
Town Manager-Clerk