December 5th, 2019 Minutes

Priorities Committee Meeting

**Present:** Fred Turkington, Krishan Gupta, Patricia-Lee Achorn, Judy Crosby, Charles Goodman, Jonathon Hitter, Emily Smith Lee, Daniel Lewenberg, Hannah Switlekowski.

**Absent:** William Heitin, Marcy Kaplan.

1. **Introductions**

* Each member of the committee introduced themselves.

1. **Fred Turkington, Town Administrator, and Krishan Gupta, Director of Finance, reviewed and discussed the FY2021 priorities worksheets:**

* They have put together highlights of generating an estimate of revenue for FY21 based on data that have on hand at this time. These projections are estimates and it is likely the numbers will change. All estimates are conservative.
* Projections for state aid, vehicle excise taxes, hotel, motel and meals taxes and local receipts are still subject to updates.
* Process is to establish the total revenue for the Town, subtract out the fixed costs, which are primarily debt service and insurances, and the remaining amount is allocated throughout the three sectors of the Finance Committee, School Committee, other elected boards and committees, and other departments and committees under the jurisdiction of the Select Board.
* Estimated 2.94% increase in expenses if Town achieves revenue targets.
* $425,000 is the estimate for new growth for FY21.
* Net debt exclusion estimate of $7,275,197 includes projection for high school and library debt service which will come on board as of FY21.
* $77,644,356 is the total revenue the Town can generate. Excess levy capacity for the last few years is approximately $2 million, and the plan is to leave it at this at that capacity.
* This leaves $75,619,404 as the target for tax revenues. This represents almost 8.77% over last year and includes $3.4 million for new high school and library debt.
* The levy ceiling will be approximately $91,478,060 for FY21.
* Local taxation, state aid and local receipts are the three major contributors of revenue:
  + Estimation of state aid for FY21 is $9,430,425.
  + FY22 is the last year the Town of Sharon will be receiving school construction grants from SBA. New reimbursement method is to be reimbursed while school construction is happening, instead of at the start of the project.
  + Estimate for local receipts for FY21, which are primarily vehicle excise taxes is $3,150,000. Actuals are not billed until March of each year. This number may change and Committee would be able to make this available and reduce taxes.
  + Motor vehicle excise tax estimates come from residents buying newer cars which have a higher excise rate and holding cars longer than 5 years since the tax is not reduced to reflect declining value.
  + Total estimate of gross revenue available for FY21 is $92,385,062. Town receives offsets from state, typically money from library aid, which gets subtracted from this number.
  + Cherry Street charges are estimated at $855,300
  + For the state assessment numbers, the major item is MBTA at $422,000. This number will be deducted from state aid.
  + Governor releases the numbers the Town uses for the budget in January of each year and finalizes the budget in July of each year.
* Targets will be voted at the next Priorities meeting.
* Appropriation at Town Meeting was $91,206,862 which represents $5,749,803 more than last fiscal year (6.73%). This number includes the $3.4 million for the high school and library.
  + None of these revenue figures include expected revenue from marijuana, billboards, Sharon Gallery project or solar, as the timing of these are unknown at this time. Only known sources of revenue are included in these estimates.
  + No one-time funds are included in the projections.
  + If there are funds available the Committee could appropriate that money to capital projects and reduce the amount we borrow.
* Various models for how to borrow money for the capital projects are being presented at the Finance Committee on December 16, 2019.
  + Interest rates for borrowing are likely to be lower than the 3.5% percentage rate Sharon was expecting to pay for the high school which will save taxpayers money.
* Discussion regarding the process of borrowing for capital projects:
  + There is a period of time between when the Town borrows money for a capital project and when the contractors are paid.
  + Investments would be short term such as CDs or bank notes that have guaranteed returns with Rockland Trust, MMDD, etc. and would be laddered such as for 30, 60, 90, 180 days, etc. so they are staggered as they come due.
  + During that time there will be investment earnings because the rate of return is approximate .5% below the borrowing rate.
  + Borrowing the total amount needed for the project is preferred over borrowing smaller amounts over the time of the project because it is less expensive:
    - * There are significant transaction costs which are bond issuing costs that are charged each time money is borrowed.
      * Town will receive more competitive bids from contractors.
      * Town will receive a better interest rate for borrowing a higher amount.
      * This is the standard practice for Sharon and other towns.
* Overlay return release has varies over the years. Tried to have Board of Assessors have us put money in overlay that balances out what they project what they’ll be paying out in abatements. Can now have one single overlay account, which is a reserve for bad debts and write-offs, such as giving out abatements on taxes. An example is a successful appeal on the evaluation of the value of a house when the taxpayer receives a reimbursement for taxes they have already paid.
  + Average overlay abatements are approximately $300,00 a year. As of June, 2019 there was enough money in this account to pay that amount out.
  + Town offers that elderly residents can do tax deferrals on their homes. With the phasing of the debts and taxes we are not expecting to see any increased use of this option reflected in the budget at this time.
* Committee members discussed having a philosophical discussion at some point in the future regarding setting aside some amount of the new revenue, such as from marijuana, to offset a portion of the debt for the high school.

1. **The Committee discussed line-items subject to potential changes through budget process:**

* Fixed, uncontrollable or other expenditures:
  + Debt service, retirement and insurance costs and other funds make up Town’s expenditures.
  + Total for FY20 is projected to be $9,953,500.
  + Health insurance claim trend is slightly up this year, and there is an upcoming meeting to discuss.
  + Insurance premiums will match what is done for budget, at 2.3%. State went through health care reform in 2012, and Sharon has only raised rates once (6.75%) in last 7 years.
  + Norfolk County Retirement has had an aggressive plan to be fully funded by 2029 and has been increasing by 8-10% each year over a six year period.
  + Boiler and machinery insurances amount have decreased substantially from $319,500 in FY20 to $230,000 for FY21. This is due to rebidding entire package last year and it coming in substantially lower, with being locked in at the lower rate for a 2 year period.
  + Able to increase coverage while decreasing costs because of major savings for boiler, machinery and auto insurances. Took advantage of these savings and increased cyber coverage and excess liability limits.

1. **Discussion of preliminary budget allocations to the three sectors:**

* Tentative FY 2020 base net operating budget is $62,241,051, which is approximately 2.9398% growth from FY 2020 allocation to these three sectors.
  + Additional savings may come from state aid and from potentially borrowing for capital projects at a lower rate than anticipated.
* Tax levy of 8.77% and ability to decrease taxes was discussed:
  + Spending less to result in savings and having additional sources of tax revenues would potentially allow for decreasing property taxes.
  + Town does not want to use one-time monies to sustain operating budget.
  + 8.77% projected increase in the tax levy assumes the bond borrowing rate is at 3.5% interest rate, and it is probable that will borrow at 2.5%. In that case the projected number for the tax levy would be lowered.
  + Town has deferred making a vote on these because these numbers will change over the next couple months.
  + Sharon practices “bottoms-up” zero-base budgeting. An example would be that schools go through a prioritization of items and state they need 5%, hypothetically. Priorities Committee says they can only give 4.5%. Schools would need to live with the allocation of 4.5%.
* Draft date on schedule for the Priorities Committee to vote final numbers is on February 6, 2020 after the Governor’s preliminary budget is available. Desire to have previously mentioned philosophical discussion to address new, unknown revenues.
  + Tax increase for funding the high school will be felt substantially by taxpayers in FY23.
  + Sizable building project permits add revenue, such as with the upcoming Sharon Gallery project.
  + Unused tax levy amount has grown from $900,000 to $2 million because of one-time revenues that have come up after budgeting process.
* At the February 6, 2020 Priorities Meeting the committee will discuss changes that have occurred, vote to allocate to the sectors, and if time permits will have the above-mentioned philosophical discussion.

1. **Adjournment**

**MOTION:** by Jonathon Hitter **SECONDED:** by Dan Lewenberg to adjourn **VOTED:** 8-0-0.

The meeting was adjourned at 08:19 pm.