

Town of Essex Finance Committee

Minutes from January 24, 2024

Attendees: Ben Buttrick, Mike Flynn, Jodi Harris, Nina McKinnon, Christopher Wolf, Josh Franklin, Mark Renzi (via Video), Ruth Pereen (BOS Chair)

Attending from Manchester: Sarah Mellish, Andy Oldeman, Dean Nahatis, Tom Parkins, Mike Pratt, Peter Twining, Mory Creighton (Zoom)

Also attending in the room: Lindsay Banks, Jake Foster (School Committee), Theresa Whitman (School Committee Chair), Ann Harrison (Select Board Chair for Manchester), Greg Federspiel (Town Administrator for Manchester)

Time: Wednesday January 24, 2024 at 7 PM EDT

Location: Town Hall, Room 5 and Zoom – HYBRID

Join Zoom Meeting (MBTS1) at <https://us06web.zoom.us/j/86081343979?pwd=cvRZlEFdrzTup2LsEV0MBiKPRyNMEEn.1>

Meeting ID: 860 8134 3979 Passcode: 669719 Dial In: 1 646 558 8656

Meeting called to order at 7:02pm

1. Call to order and introductions

- Comments from Ms. Mellish:
 - Attended SC Public Hearing
 - Focus this evening on the funding strategies from the Towns
 - Manchester asked to retain existing services but sharpen their pencil. Essex asked for deeper cuts
 - We had hoped the District could reduce to 3.2%
 - Asked the SC to take a second look at the budget. Seek efficiencies and utilize any reduction in health insurance to lower the assessments to the Towns. Assuming funding range is 2.7 to 3.45%. Expected that MBTS residents will approve the budget, but it's clearly above what Essex would accept. What funding strategy is the Essex FC contemplating to address the year's assessment?
- Comments from Mr. Buttrick and added commentary from Ms. Harris
 - Thank you and acknowledge that Jodi Harris is the new Chair
 - Essex has been requesting 2.5% in assessment (before apportionment) but budget still stands at 3.45%. After apportionment, this is a 5.3% increase for Essex. Follows a series of years of extremely high increases: FY23 was 4.39% and FY 24 was 3.93%, and 5.31% in FY25.
 - Our strategy is effectively to limit growth in our Town departments. Mr. Zubricki had requested from departments to set a level-service budget in their initial submissions. We are bifurcating our budget between level services and austerity.
 - Enrollment numbers suggest continued challenge given enrollment that will extend to at least 2028.
 - We strongly suggest revisiting apportionment.
 - Ms. Harris: Taking a hard look at town budgets. Preparation for having our backs against the wall. Austerity from town departments. Override didn't pass last year. 57% voted against it. 63% voted in favor of the operational review.
 - Ms. Harris has been seeking better accounting of reserve accounts from the District.
 - Avi indicated in September that only \$92k was used of the \$520k committed from reserves. Believe that this year's budget may have been about a half million heavy.
 - Economic challenges in Essex makes it more difficult to pull kids from the District.

- Our departments are very lean, so we don't have a lot to pull from.
- Example, we do not have a full-time fire department. It's a call fire department.
- Mr. Buttrick: The School is about 50% of the Town's budget. Fairly straightforward math that 5% for the School and flatline the town departments, then it gets us within striking distance of 2.5%
- But we have COLAs for Town employees. Creativity has to come from the expense side.

2. Discuss FY25 MERSD Operating Budget Town Funding Strategies

- General discussion:

- Mr. Pratt: I am supportive of the questions about the Reserves. District keeps saying "we can't dip into reserves." Yet, the Reserves are still growing. Doesn't seem to reconcile.
- Question: Does Essex have any growth in revenue? Ms. Harris: We have meal's tax, but we don't have much flexibility to assume increases. We have seen an uptick in short-term rental. These are two places where we have some growth.
- Mr. Renzi: We are also trying to bifurcate the mill rate. Would be higher for commercial. Roughly 50% have a bifurcated rate. Doesn't solve our issue. Mr. Federspiel clarifies that it just shifts the budget burden from residents to businesses but it's not a new source of revenue.
- Mr. Oldeman: Sympathetic to Essex's situation. We saw some of this also in Manchester a few years ago. Also sensitive to the fact that the apportionment formula is a little too reactive. But not one wants to see the quality of the District go down. Reduced services could trigger greater enrollment drop. Does a resolution to the apportionment formula solve the problem.
- Mr. Buttrick: volatility in the apportionment formula can be addressed by placing a cap on the amount of annual change in the ratio. Or the formula could be changed.
- Mr. Pratt: I don't think we should remove enrollment from the formula.
- Mr. Buttrick: Smoothing would be helpful for Manchester in the event that new housing comes online.
- Mr. Pratt: Going from 3 to 5 year average would be the easiest to digest.
- Mr. Buttrick: Revisiting the apportionment formula is a long-term strategy.
- Ms. Mellish: If the District growth continues to come in above 2.5%, I don't know how the apportionment change is going to help? For example, 3.5% still challenges the budget even without apportionment. Declining enrollment along with new buildings needs to be looked at.
- Mr. Buttrick: We should talk about the new school building project. With declining enrollment, a few extra years without the capital burden of a new school building could be helpful.
- Mr. Federspiel: Have you talked about how Essex will pay for the feasibility study? Mr. Buttrick, we would use reserves. We have been conservative in our budgeting and have been able to build our reserves.
- Ms. McKinnon: I thought that when the building was conceived of that the projected enrollment would be around 1,900. The budget as a 1% overage in the budget. Basically, the idea is to pad the budget by 1%. Mr. Pratt: Well, clearly there would be a cushion on the health insurance. We need to find a solution that will help the community as a whole. There's a lot of unknowns about the budget and there is about \$300k that doesn't get spent.
- Ms. Mellish: Manchester has adopted greater rigor to only tax what is actually needed because we had run into a situation where we were seeing too much to free cash.
- Mr. Pratt: Given their reserves, they can afford to have ability to sharpen the pencil.
- Ms. Harris: We need to see better reporting of actual financials. Then provided history on origin of Essex joining the District. Key needs: 1) Establishment of the District, 2) Building of Middle-High, 3)

Building of Manchester Memorial, 4) Essex. We need to do the feasibility study to answer questions. Regionalization passed in Essex because of the promise of keeping a school in the town.

- We will be in much better shape in 2032 given the current voter financial fatigue in Essex. The conversation about nixing EES has to be on the table, but we also have to be really careful as it was an impetus for creating the regionalization.
- Ms. Mellish: I agree with the idea of the conception of the district and rationale for getting a new school. There's a challenge in that Essex taxpayers need to understand that it makes no sense to add to the infrastructure if you can't pay the operating budget.
- Ms. Harris: We have been consistently funding OPEB. This will give us more flexibility when it's fully funded. When does our Essex Regional Retirement unfunded liability end? Mr. Federspiel: the pension obligation will become fully funded around early 2030s.

3. What does the future hold? – What are the Town longer-term funding strategies

- Further discussion on long-term funding:
 - Mr. Federspiel: The pension funding will go away by the mid-2030s.
 - Ms. Harris: Once we get out of the budget crunch having been conservative, we will be better positioned. We have been very conservative about tucking away money into different specialty funds. Looking forward, given the debt schedule and freeing things up that are current obligations along with new growth, we don't think we will be in this position forever. Feasibility study is blind to all these external financial factors which is great. We have to think big picture. "Together we are better."
 - Mr. Flynn: The same lens on operating expenses, we need to consider debt burden and the layer of bond amortization.
 - Mr. Oldeman: Maybe the EES project gets deferred?
 - Mr. Buttrick: We've talked about many factors that would suggest that timing could be better if deferral by a few years.
 - Ms. McKinnon: Do we need four buildings for less than 1,200 students? We have to be creative. By combining schools, may be the towns become more of a community?
 - Mr. Oldeman: I'm not sure how the State would view this if you came back around in 5 years. That would be a risk.
 - Mr. Buttrick: The feasibility study would shed light on what is required to build a new school. That would be valuable. For example, can kids stay in the school during construction? Also, we don't know the cost implications of combining schools even temporarily for a few years.
 - Ms. Harris: We should now talk about the Operational Review which Essex approved. There may be operational efficiencies. For example, out-of-district transportation. We spend a lot of money on this, and the District doesn't really have time to think through alternatives.
 - Mr. Flynn: There could be capital markets benefit by deferring a build even with maintenance cost. We push off bond amortization.
 - Mr. Buttrick: I have been a strong proponent of the District Review. But it doesn't make sense without the support of the District. Also, the review can be helpful in light of declining enrollment. The decline is not unique to MERSD. The output of the Review would be reassurance for Essex residents especially when considering an operational override.
 - Ms. Mellish: We supported it but didn't have the support on Town Meeting floor. Mr. Pratt: Yes, I supported it.
 - Mr. Federspiel: Raised issue of 40B housing and MBTA community zoning for housing. We are unlikely to see anything in the next five years.
 - Ms. Mellish: We are expecting Cell Signaling to be a source of growth.

- Mr. Oldeman: What is the process for opening up the agreement? Group: it needs to be initiated by the School Committee.
- Mr. Federspiel: Here's a what-if? Deferring until the 2030s would free up significant money for both communities. Given that, could there be an override for operating now? Is that sellable?
- Mr. Wolf: I often play the role of liberal opposition (group laughs). I don't think we've done a good job of selling it. Essex is close to unique in not having an override in 17 years. Everyone has done a great job holding on, but the bill has come due. Because we have conservatively managed, we have fabulous free cash. The time has come. I supported the override and will continue to do so.
- Mr. Renzi: The question for Manchester is if we created an asset in Manchester then shouldn't we create an asset in Essex. And shouldn't we do a District Review and have a long-term perspective. There's a very hard sell if you push for an override, push off the Essex school, and don't agree with doing a District Review.
- Mr. Buttrick: We need to think about a 10-year trajectory, and the solution is multi-pronged. It could be District review, operational override, deferral of construction, and revisiting apportionment. We need to present something cohesive with the goal of preserving the highest quality district we can. It needs to be packaged as a holistic plan. Mr. Oldeman: I think this is an excellent thought.
- Mr. Renzi: Yes, this is exactly the spirit of it. We need an objective third party to weigh in such that you can go to your tax base. Independent party is critical. Acknowledge many of the factors that we know. Also, we have the consideration of two very different demographic bases between the two towns. An aging demographic may continue the enrollment slide. The budget change year to year needs to be more logical. Declining revenues may need declining costs.
- Group: Seems that we should be doing some sort of a master plan concept.
- Ms. Harris: 10% of the town voters could bring forth opening the agreement. Some discussion around what is required to open the agreement.
- Group discussion on what is needed going forward. View that there should be representation from the School Committee.
- Ms. Whitman: I can't speak for the Board, but personally I think there would be appetite for participation. We just need to know what people want to learn. Also, there are two major reviews coming up. One is a review of the elementary programs and the other is a special education instructional review. They are so intensive that DESE would not take us on for doing a District review. So, we need to know soon if we are going to take something else on. I have some other answers:
 - E&D submission has been posted on the website
 - The audit statements are pending, and the audit review will be on March 6. Auditor will do a walkthrough on the reserves.
 - We are at the tail end of the enrollment spike and now we are seeing things flatten. That being said, there have been reductions made.
 - Regarding the 1% conversation, there's not a purposeful padding of the budget. It's part of conservative budgeting. The regional agreement created a third municipality. This municipality has taken it's cue from the member towns. Like 10% in reserves.
- Mr. Oldeman: Hamilton-Wenham had a massive review document. Is there a way to streamline something? Mr. Buttrick: the SOW was not originally created in a collaborative way. May be helpful to hold off. My initial goal was to understand comparative data and what are common practices and what are not. Ms. Whitman: what is the answer that is being sought?
- Ms. Mellish: Our challenge is that we are being asked to give a reasonable number, yet we don't have the implications of what is at stake. Mr. Buttrick: I don't have the knowledge of the "nice to haves", "the must haves", and the "really nice to haves."

- Mr. Pratt: Example of the regional 911. You can sometimes find efficiencies with financial benefits but without giving up services.
- Mr. Creighton: I think having an independent audit is very helpful. We are 24 years into this district and having a third-party review would lend credibility to the District's practices. I am very supportive of the idea.
- Mr. Buttrick: We should add governance as an objective. The interplay of the different parties and how they work together. Looking at two-town Districts. Asked for clarification, what is the framework for making decisions.
- Ms. Harris: I've talked to other Districts with multi-towns. For example, some towns say you get 2.5% and anything above and beyond you have to fight floor on town meeting floor.
- Further comments:
 - Ms. Bilotta: Thanks to both FinComms for getting together in this format. Ask a favor: we need to be cautious about our language and don't approve of using the term "audit." Prefer to have an independent "review" with a fresh set of eyes. Negative connotation to an audit.
 - Ms. Pereen: The term "audit" feels negative.
- Next Steps:
 - Mr. Oldeman: I support fleshing out the idea of a master plan
 - Mr. Buttrick: Three items: looking at the apportionment question, timeline around EES and understanding it, looking at town expenses and annual drivers of operational expenses
- Adjournment moved.

4. Other Business not anticipated by the Chair, discussion only

- None.

5. Adjourn

- Adjourned at 9pm.