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**CITY OF BEVERLY
PUBLIC MEETING MINUTES**

2022 JAN 10 4 09 PM
BOARD OR COMMISSION: Financial Forecasting Committee
SUBCOMMITTEE:
DATE: December 1, 2021
LOCATION: Beverly City Hall – Council Chamber/Conference Room A
MEMBERS PRESENT: Chair Scott Houseman, Stacy Ames, Bryant Ayles, Lindsay Ducharme, Karen Fogarty, Dr. Kennan McKenzie, Paul Manzo, Jean Sherburne, Lorinda Visnick
ABSENT:
OTHERS PRESENT: Dr. Suzanne Charochak, Gerard Perry, Brendan Sweeney
RECORDER: Danielle Spang

In Attendance

Chair Houseman calls the meeting to order at 7:02 p.m.

I. Opening Comments by the Chairperson

Houseman defined the purpose for tonight's meeting to focus on expenditures spreadsheets, and to then prepare and file a report by end of calendar year to advise the mayor, city council and school committee. Houseman distributed copies of an article, "Financial Forecast Goals and Objectives" from Government Finance Officials Association (GFOA), with best practices and recommendations for preparing financial forecasting reports, to review before discussing at next week's meeting. Houseman advised he and Ayles are looking into MUNIS software by Tyler Technologies to possibly present financial information to the general public in user-friendly formats. Houseman committed to help ensure it happens within the next term.

II. Approval of Minutes, April 12, 2021

The committee reviewed the minutes from the April 12, 2021 meeting and offered typographical edits. Ames moved to approve the minutes as amended from April 12, 2021. Sherburne seconded. The motion carried (7-0-2; two members not present at April 2021 meeting abstained).

III. Presentation by Bryant Ayles & Jean Sherburne on Proposed Expenditures

Ayles reviewed the Draft Expenditures Forecast spreadsheet, detailing bases and assumptions for forecast increased amounts on line items. Ayles advised Salaries & Wages includes all city employees and account for contractual increases through FY24 in collective bargaining agreements the City has negotiated so far, noting there are still large groups outstanding, including one that could go to arbitration. Forecast assumes current staffing patterns, does not account for increased hiring, and FY25 and FY26 are placeholders.

Ames asked whether teacher salaries will be closer to neighboring communities. Dr. Charochak confirmed contract will be available online shortly, and the District used interest-based bargaining this year with all units, and believes the full package (salary, benefits, strong healthcare with good rates/deductible plans) is a positive wage and contract negotiation.

Ayles explained "FF (Grant)" phased in accounts for rolling additional costs into the forecast as the 4-year firefighter grant phases out.

Ayles noted Expenditures' 1.5% annual increase does not get spent to zero each year to provide some flexibility in the budget, but does not account for underlying concerns with current supply chain issues. In Capital Outlay, the 2% annual increase does not include policy decisions and could significantly increase from committing to buying all electric vehicles, for example. Insurance 3% annual increase follows historic trends, and came in on target even with the new police station fully online this past year. For Sanitation, the City negotiated a 5-year contract, and accounts for contractual increases to incineration costs in FY23 and FY24 (flat volume projected based on historic volume numbers). For FY25 and FY26, the incineration costs will be renegotiated, and include best estimations.

Fogarty requested clarification on sanitation costs. Ayles explained this spreadsheet projects cost from the City's general fund portion of the bill (not including quarterly trash fees from residents). Fogarty highlighted the over 25% increase in the City's portion over 4 years is a lot to pay, asked if there are ways to incentivize people to be more responsible with trash. Ducharme advised curbside composting drastically limits trash, and Ayles confirmed composting is incentivized through the quarterly \$5 rebate on resident trash fees. Visnick requested current tipping fee, Ayles advised ~\$90/ton under contract, for calculating benefit of textile recycling (earning \$100/ton and saving ~\$90/ton diverted from trash stream).

Ayles advised 3% annual increase for health insurance covers city employees and both city and school retirees, based on the historical 14-15 year average. Houseman inquired on any health incentives the City provides, and Ayles confirmed prediabetes screening is offered, and rebates on copays for people who track and follow a diabetic diversion program. Ducharme inquired about taking advantage of trainings to lower worker's comp costs and claims, and Sherburne confirmed the District provides those, likely the City DPS does as well. Ayles confirmed Cook Company annually consults the City with comps from BlueCross BlueShield and Harvard for trends in the insurance industry and advises on structuring the plans.

Under Total Debt, payments towards Centerville retire in FY22 and North Beverly in FY23 so the City is looking to begin the next major construction projects for City Hall as those fall off the schedule to keep debt payments flat. Perry advised the City is looking to infuse cash upfront similarly to the police station project, to pay less interest on the debt. Houseman mentioned with the Middle School, the City also set aside money ahead of time towards the project as well. Ayles noted smaller mid-level projects (\$1M for a new firetruck, few \$M to improve the fire station) are paid through free cash in reserve rather than adding to the long-term debt schedule.

For Retirement Assessment, in November the City will receive a valuation from PERAC and Ayles anticipates it will be favorable but recommends continuing to pay same amount with 4.5% annual increase into the system. One large liability, OPEB at \$370M, is the projected total future healthcare costs for vested employees and retirees. Houseman questioned whether the balance would be lower if the City never ran at a deficit, Ayles and Perry confirmed no – this is a future-looking figure a team of actuaries calculates every 2 years. Ayles advised the City negotiated all collective bargaining units to contribute one day per year to the City's OPEB trust – providing double-value: decreasing liability of time off, and increasing value of OPEB. Forecast increases are tied to salary increases.

Worker's Comp/Payroll Tax/Life Insurance tends to be flat 2% annual increase and State/County Assessments include some generally flat amounts and others that are based on operating budgets from other organizations so 1% annual increase is a marginal placeholder.

Ayles explained Reserves accounts for years with 53 pay periods, buying back accrued time for employees leaving service, non-union employee salary increases, and flexibility in the budget before free cash (snow/ice removal, court settlements, Ames suggested pollution consultant fee).

Roads and Sidewalks accounts for money paid by the City, but not all money spent (general fund with \$1M from the State, grant moneys, and this expenditure line). Ames questioned what percentage of this money pays to engineering versus construction/maintenance; Ayles suggested maybe 15-20% and confirmed engineering money is spent to leverage grant funding. Ayles confirmed with the Bridge Street project, it will cost \$15M to complete and the City is not paying for any of that work, but we paid for the designs and engineering to apply for the grants. Ames suggested sharing these success stories can build greater transparency – i.e, City invests \$2.5M to actually pave \$xxM (an indefinite number that's greater than \$2.5M) worth of roads, etc.

Manzo explained Vocational School Assessment, 27 more students this year were accepted into the program this year (this 9th grade class was a bubble year and the percentage of students accepted was greater), City pays tuition per student in the program. 140 students applied this year (113 applied last year), so they anticipate more students will be accepted next year as well. Dr. Charochak confirmed 17 communities belong to the charter, and if Essex Tech offers a program, member high schools cannot also offer the same program. Manzo outlined some neighboring communities are looking to cap their admissions, and correcting the admissions process for equity purposes may lead to Beverly having more students admitted for the next few years. The City fully funds tuition costs for students accepted into Essex Tech. The District pays for the After-Dark Program tuition (rising juniors can apply and if accepted take core subjects at BHS in the morning, and their specialized pathway at Essex Tech in the afternoon). *Manzo and Ayles will connect to work on these Essex Tech estimates based on current information for the spreadsheet and Houseman noted it for a narrative comment as well.*

Sherburne presented the Beverly Public Schools Expenditure Forecast spreadsheet, confirmed Salaries and Wages 3% annual increase based on projected staffing increases and contractual increases and accounting for any needs when ESSER III funds end. Fogarty inquired about enrollment trends, and Dr. Charochak confirmed average cohort is ~350-360 students, with 8th grade bubble cohort of 398, 2nd grade bubble cohort, and total enrollment about 4700 students or roughly 250 more than 5 years ago. Kindergarten and 1st grade have lower cohorts (325 for kindergarten), unsure how much is Covid-related and may increase.

Sherburne continued with Substitutes, Steps and Columns each having 2% annual increase and explained columns are for further education and steps are for increased positions so both can be moving targets. Insurance and employee benefits covers all school employees and worker's comp/unemployment costs, and Sherburne meets monthly to review fluctuation on the insurance plan (maternity leave turning into family plans, etc.) and past few years' data supports 3% annual increase. Houseman questioned if school employees have a separate plan, Sherburne and Ayles confirmed it's the same self-insured plan through the City but the District pays the costs for active school employees while the City budgets for school retirees' costs. Sherburne advised the District includes its own snow removal through Iron Tree, Mike Collins negotiates the contract but fees are paid through School Budget. Houseman questioned whether the increased budget for snow/ice removal accounts for increased fuel costs; Ayles and Perry confirmed no. Specific law regulating snow/ice removal budgeting requires cities cannot budget less from year to year without the penalty of being unable to draw into the negative in the future. The budget includes

lower expenditures to not face that penalty, and hovers around a typical year as weather is highly unpredictable, so years with more snow mean drawing from reserve to cover difference.

Sherburne highlighted that under Special Education, each year students could age out or move in for increased costs. Ayles asked if looking over peaks and valleys, would you see 3% carrying through as a mean increase? Dr. Charochak remembered one of the highest increase years, 14 students moved in and budget had ~\$1M increase; while other years they've had 9 kids age out. Sherburne can review historical data and trends to see the historic average, and affirmed last year the District carried over all of its Circuit Breaker funds (state reimbursements) and those funds must all be spent this year. MASMA best practice is to carry Circuit Breaker funds as your safety net to spend the following year, and the District achieved that milestone. Unexpected increases happen when the state approves an application to increase rates charged, as those are approved retroactively and the District repays the retroactive increase as well as new tuition rates for the rest of the year. Thus, variables include number of students, changes to program costs, and Sherburne meets regularly to track the variables more frequently. Dr. Charochak recognized Sherburne helped the District develop programming to keep more students in-district even with higher level of needs, so the program's increased upfront costs will provide greater long-term savings. Ayles confirmed generally for most variable line items, want to ensure lens to project out includes longer historical trends.

Transportation includes regular education and special education transportation. All communities are watching this area – NRT Bus has grown so much it's only doing regular runs and due to driver shortages, districts are paying smaller companies more money to cover other runs. So, the districts are trying to collaborate where applicable to lower costs. Sherburne outlined other costs include bus monitors, crossing guards, and buses. Ames and Ayles confirmed the City paid for first 2 electric buses from grants and City funds, and Sherburne confirmed second bus was delivered today. Sherburne advised the District leases-to-own buses, and is analyzing all costs for potentially transitioning to an electric fleet. For now, still need to maintain some diesel buses, and they estimate an all-electric fleet would not be budget neutral until at least 10-years down the line due to leasing and maintenance costs.

FEMA reimburses some buildings/grounds money for snow removal, so when the City anticipates that may happen from a large storm, Mike Collins pays snow removal bills for that period so all FEMA money can go to the City rather than parsing out City vs. District's portion.

Utilities includes 3% annual increase, and Sherburne feels confident in that projection. District receives some assistance from power purchasing agreements for facilities from the new solar fields, and Ayles advised all energy from landfill solar power is purchased by the District at 15% discount to offset utility costs. Dr. Charochak advised the Middle School is not yet efficient because the HVAC system runs on high due to Covid – so it's a highly efficient system running inefficiently, and these years will not predict the building's efficiency. Visnick inquired the status for RFPs for solar canopies and Ayles confirmed RFPs outstanding for parking lot canopy at BHS and BMS, as well as roof panels for BHS and BMS – no requests for elementary schools, Ducharme noted elementary schools would need replacement roofs before potential solar panel installation. Fogarty inquired whether potential to significantly impact this line item and Ayles clarified purchasing power from the grid has less benefit than generating power outside the grid. As the technology gets less expensive, at some point the City/District may invest on its own. Perry noted new police station is geothermal, and City is acquiring data, but the upfront investment may pay itself back in 10-15 years while equipment may last 50 years, to really drive

down costs over its lifetime. *Houseman suggested a narrative entry on solar to discuss variables, pros/cons, costs are unclear, could require investments not in the forecast.*

Sherburne wrapped up with technology/printers including all equipment and anything in the tech department, and other including curricula, music, specials, and anything not listed in other line items. *Sherburne can report back a better description at the next meeting, but generally administration and other instruction categories not listed above.*

Ames requested the next meeting include a broad overview to understand any clawbacks from the last year, and ballpark a range of positive variances within this budget range, understanding it would be a broad overview.

Houseman confirmed next week FFC will review revenues, tie up any loose ends from tonight, and encouraged everyone to read the article to continue broader discussion from prior meetings on transparency. Perry will draft this year's report, Houseman will review it and include narrative with a hard deadline for members to provide input for inclusions to timely finalize the report.

Visnick suggested attaching an addendum to the financial forecast, noting narrative has improved and wants to present trends over time in concise format similar to the spreadsheets. Houseman will review April 2021 minutes referencing an addendum, and referred back to the shared article to help set the scope for committee work. Visnick noted prior forecasts were roughly \$1.7M less than received excise tax revenues in CAFR, but could not find similar accounting to compare with budget's other categories. Ducharme asked for clarification of what trends are being reviewed by the committee. Dr. McKenzie noted with the pandemic, it's hard to find an area where variables are not affected, and they're forecasting under very unusual circumstances so historical data may not be as useful as in other years.

Fogarty asked Visnick why she feels the City is underestimating excise tax revenues. Visnick replied with figures that historically since at least 2016 the FFC forecasts for excise tax revenues are far lower than actual revenues received. Ayles confirmed the City's financial reports comply with accounting standards and practices, not meant to compare with the forecast spreadsheets.

Ayles confirmed a few years ago, when Councilor Rand chaired the committee, he walked through a decade of actuals to gauge whether estimations were reasonable. Ayles advised it's always tricky, especially the past two years, comparing forecasts made 18+ months in advance, as estimates adjust at multiple points in the process. Better comparison is between the Mayor's proposed budget to actuals. Financial forecasts are generally conservative because aggressive projections may snowball quickly, and policymakers' current decisions based on forecast could put the City in a precarious position if revenues came up short.

Perry suggested page 3 of the tax rate document provides information that may be useful, and Ayles advised he may have information to share from 2018 deep dive, but updating those numbers for current years is not possible by the December 7th meeting. Dr. Charochak confirmed the District is looking at 2018 or current numbers, echoing Dr. McKenzie that the past two years are such anomalies there are no real trends to predict future. Houseman affirmed financial forecasts, as described in the article, are generally more conservative with explicit assumptions, and *everyone agreed to review the article.*

IV. Adjournment

Visnick moved to adjourn. Ayles seconded. The motion carried (9-0). Meeting adjourned at 9:38 p.m. **Next meeting scheduled for December 7, 2021.**