

**Canton Finance Committee**  
Meeting Minutes  
Monday, January 29, 2018

Minutes Voted on: 2/26/18  
Vote: 4-0-1

**Members Present:**

Rob Barker, Nichola Gallagher, Tim McKenna, Barbara Saint André and Cindy Thomas.

**Members Absent:**

Dianne Gustafson and Cynthia Holcombe.

**Guests Present:**

Jim Murgia, Finance Director  
Ellen Jones, Finance Committee Secretary

**Opening:** A meeting of the Canton Finance Committee was called to order by Chairman Barker at 7:03 pm. on Tuesday, January 29, 2018 in the Salah Meeting Room of Town Hall.

**A. Approval of Agenda**

Chairman Barker reviewed the items on the agenda which included a discussion by the Finance Committee regarding a total budget number based on the Revenue Forecasting Committee's projected revenues for FY19, a review of Free Cash Certification for FY 18 and a review of operating results as of December 31, 2017.

**B. Announcements**

Chairman Barker announced that there were two vacancies on the Finance Committee and that interested parties should reach out to the Town Moderator.

**C. New Business**

**New Growth Estimates Discussion**

Chairman Barker gave a brief explanation of the Revenue Forecasting Committee (RFC) and its role in helping the Town determine the new revenue for the next fiscal year. The RFC is made up of the Finance Director who serves as the Chair of the RFC, the Town Administrator, the Assessing Director, the Building Inspector and senior leadership from the School Department. The RFC examines new construction and other activities around Town that might affect new growth for the Town. Mr. Barker stated that the meeting is not about coming up with an estimate for a 50% likelihood that the revenues will come in as estimated, but that the goal of the committee is to conservatively come up with a 90% likelihood estimate of new revenue. Mr. Barker admitted that the process is not perfect but one which has been followed successfully for many years with the only significant change being that at the suggestion of the former School Business Manager the Finance Committee be involved in determining final budget numbers based on the RFC's revenue projections.

Chairman Barker further explained that a significant question came up at the RFC meeting as to how the Assessing Director determines new growth. Unfortunately, Ms. Zukauskas, Assessing Director, was unable to attend the Finance Committee meeting to explain the new growth calculations.

Mr. Murgia stated that the key number to come up with for the next fiscal year for the RFC is the new growth revenue. The new growth number is based on new construction occurring by June 30, 2018. It is a difficult process for the RFC to determine this number with only six to seven months' worth of information. Mr. Murgia referred the members to a meeting document that had been prepared by the Assessing Director after the RFC meeting had

the members to a meeting document that had been prepared by the Assessing Director after the RFC meeting had taken place. This document explains how Ms. Zukauskas arrived at determining the estimated new growth of \$800,000 for FY18. The \$800,000 is made up of \$600,000 of real estate growth (new construction) and \$200,000 of personal property (computers, furniture added to businesses) growth.

The new growth approved by the state for FY18 was \$1.3 million but was adjusted by 5 projects totaling approximately \$500,000 for an adjusted new growth of \$821,129 for FY18. He further reported that Ms. Zukauskas confirmed with Mr. Walsh (the Building Inspector) that there were no large projects going on right now and that construction had slowed.

Mr. Murgia reported that some of the members on the RFC had reservations about the \$800,000 new growth revenue provided by the Assessing Director because they did not understand how this number was arrived at. **The Finance Committee did not take a position on the \$800,000 new growth number.**

Mr. Murgia explained to the Committee that he tracks new growth in two categories: real estate and personal property. The reason for keeping personal property as a separate category was because a large amount of that number in prior years was from utility companies such as the Eversource Rt. 138 transmission line, Verizon's requirement to pay personal property taxes as a result of a new law that was passed several years ago that required the utilities to pay personal property taxes on poles and wires over public ways.

Mr. Murgia review for the Committee the following numbers on the **Property Tax Revenue** spreadsheet:

- Prior Year Levy Limit - \$73,481,199 – This figured is established by the state
- Add 2½% - \$1,837,030 - This number is based on 2½% of the levy limit.
- Debt Exclusions - \$1,322,418 – These are all the projects the Town approved outside the normal levy. These include overrides such as the High School and Library projects. The debt service is starting to decrease on these projects which equates to a decreasing tax impact on the voters.
- Unused Levy Capacity - \$535,955 – The Finance Committee in the past has not “taxed to the max” leaving unused levy capacity.
- Abatements – \$750,000 - Historically abatements have averaged approximately \$750,000 per fiscal year.
- (Under) collections – \$250,000 – These are estimated taxes not collected by June 30, 2018.
- Total Property Tax Revenue - \$75,904,693 – This is the total estimated for FY19.

Mr. Murgia reviewed for the Committee the following regarding **State Aid**:

- The RFC estimated a total state aid figure of \$8,616,938 which is based on the Governor's state aid that had been released on January 24, the day before the RFC meeting took place.
- Chapter 70 – A modest increase of \$70,000 (\$20.00 per student) for FY19.
- Unrestricted General Government Aid - \$2,217,268 – This represents a 3½% increase or \$75,000.
- In response to Chairman Barker's question about the impact of a November ballot question to decrease the state sales tax from 6¼% to 5%, Mr. Murgia stated that the Governor's estimates for FY19 state revenue did not include any impact. The Governor's estimates also did not include any impact regarding the “millionaire's” tax (an increase to the state income tax). Most likely any impacts would not take place until the Governor is setting the budget for FY20.
- MSBA – The Town is still receiving funds for the Luce School project (\$422,032), Hansen School Elevator (\$18,328) and the Kennedy School Elevator (\$15,945). The Town is still paying debt service on these projects.
- Veteran's Benefits - In response to Ms. Gallagher's inquiry regarding the decrease in the estimated veteran's benefits for FY19, Mr. Murgia stated because the estimates are based on the benefits submitted by the Town to the state for reimbursement, this decrease could represent fewer reimbursements the Town is applying for because of veterans passing away. Reimbursements are submitted on a monthly basis so the Town has submitted for reimbursements through December 2017.

With regard to **Local Receipts** estimates for FY19, Mr. Murgia offered the following comments:

- Motor Vehicle Excise Taxes – The RFC was comfortable increasing the estimated revenue for motor vehicle excise taxes from \$3,850,000 to \$4 million.
- Other Department Revenue – The RFC increased the estimate other department revenue from \$77,000 to \$100,000 for FY19.
- Permits – The RFC increase the estimated permits revenue from \$650,000 to \$750,000 for FY19. Mr. Murgia explained that the permits estimated revenue for FY18 of \$1,000,000 included two very large projects – Hotel generated a permit fee of approximately \$270,000 and renovations completed at Meditech generated a permit fee of approximately \$120,000. He further stated that the Building Inspector Mr. Walsh did not anticipate any large permits for next year.
- In response to Ms. Thomas' inquiry regarding the decreased estimate for FY19 for Hotels and Meals excise taxes, Mr. Murgia responded that the FY18 estimate is based on two quarters of meals taxes received to date and that the current quarter (3<sup>rd</sup> quarter) is not usually a profitable quarter for collecting meals excise taxes due to lower participation in dining out this time of year.

**New growth cut-off point** – In response to Chairman Barker's inquiry regarding the cut-off point at which towns determine new growth revenue for their communities, Mr. Murgia explained that many communities use December 31 as the cut-off date for determining new growth. The Town of Canton adopted a statute many years ago to extend the new growth deadline to June 30. He further explained that for communities that have chosen December 31 as the cut-off point, the task of determining new growth at their meetings in January is more productive because they have the ability of using actual data for new building construction through December 31. Canton only has six months' worth of data from July through December for predicting the new growth for a 12-month period.

Mr. Murgia continued the discussion about local receipts. In summary the local receipts being budgeted for FY19 are \$6,772,736 as compared to the FY18 budgeted amount of \$6,468,816 or an increase of approximately \$300,000.

Mr. Murgia provided a summary of the Revenue Committee's discussion regarding **Transfers** as follows:

- The only change the RFC made on Transfers was to the School Food Service FY19 estimate.
- Mr. Nectow, the School Business Administrator, advocated for the School Food Service transfer to remain at \$160,500 for FY19 in order to avoid raising lunch prices.
- There had been a higher amount than \$160,500 being carried for this transfer because this includes health insurance for the cafeteria workers plus it included OPEB costs (Other Post Employment Benefits).
- Pension costs are included in the transfers from the water and sewer funds but are not included in the school food service transfers amount.

**Fixed Costs** – Mr. Murgia stated that the RFC agreed to use the Governor's FY19 estimates for state and county charges which included State Assessments (\$856,080) and Norfolk County Tax (\$214,234).

**OPEB Trust Fund** – In response to Ms. Gallagher's inquiry regarding the decrease in the OPEB Trust Fund from \$1 million to \$800,000 for FY19 Mr. Murgia stated that the Finance Committee had recommended to Town Meeting a one-time use of \$200,000 of free cash for setting the OPEB Trust Fund budget for FY18 at \$1,000,000. For FY19 the base budget is brought back to \$800,000.

**Retirement Expenses** – Mr. Murgia called the Committee's attention to the \$5.2 million being budgeted for FY19 Retirement Expenses. He believes this is the last year for 10% increases to this budget and estimates that for the near future the Town should see more modest increases around 4%. He is hopeful that when Norfolk County

retirement expenses are budgeted for next year it will be less of an increase so that possibly OPEB may be increased more than \$800,000.

**Summary of General Fund Revenue and Expenditures** – Mr. Murgia reviewed the total revenue and expenditures as follows:

- Total estimated expenditures for FY19 is \$94,377,046.
- Fixed costs estimates for FY19 is \$29,033,925.
- The cash capital expenditures are estimated to be \$750,000 for the School Department and \$750,000 for the Municipal Departments.
- State and County charges is being budgeted at \$1,070,314 for FY19.
- Mr. Murgia explained how the model works. The revenue estimate subtracts the beginning budget of \$40,221,559 for the School Department, subtracts the beginning budget of \$19,919,076 for the Municipal Departments, subtracts the fixed costs budget of \$29 million, subtracts the cash capital of \$1.5 million, subtracts the state and county charges of \$1.070 million and leaves a **balance of net new revenue**.
- The net new revenue amount is then allocated 2/3 to the School Department and 1/3 to the Municipal Departments with the exception of State Aid allocations and transfers.
- Because the Town implemented full-day kindergarten a few years ago and the town was able to implement this using \$495,000 of free cash, state aid increased significantly the following year. It was agreed at that time that the state aid increase for education going forward would be allocated directly to the School Department.
- Unrestricted General Government Aid is estimated to increase by \$20,000 which is allocated directly to the Municipal Departments.
- Mr. Murgia stated that in in FY19 the Fire Chief had indicated to him that he would be able to transfer an additional \$200,000 of revenue from the Ambulance Fund to fund the regional dispatch operations. That \$200,000 increase is allocated to the Municipal Departments.

Mr. McKenna questioned as to why the School Department's budget for FY19 of \$40,221,559 was based on the expenses estimated for FY18 of \$40,221,559 and the Municipal Departments' budget for FY19 of \$19,919,076 was based the expenses estimated for FY18 of \$20,119,076 for a difference of \$200,000. Mr. Murgia explained that the \$200,000 that was added to the Municipal budget for FY18 was because the Finance Committee had agreed to release a one-time Reserve Fund Transfer of \$200,000 for the Fire Department's overtime budget shortfall. This \$200,000 does not carry forward to FY19 and is removed "off the top" before the budget is set. Mr. Murgia stated that this adjustment was similar to the \$495,000 one-time transfer from free cash to fund the first year of the kindergarten program that was removed before the School Department's budget was established for the next year.

Mr. Murgia explained to the Committee that if State Aid fund were to decrease due to cuts in education, unfortunately the School Department's budget would have to decrease as well.

In response to Ms. Thomas' inquiry regarding the "**budget adjustments needed to balance**" Mr. Murgia explained that the amount of the net new revenue allocated 2/3 (**\$1.6 million**) to the School Department and 1/3 (**\$957,327**) to the Municipal Department was further reduced by the amount needed to cover steps/longevity increases and COLAs, thus leaving an amount needed to balance of \$296,070 for the School Department and \$524,378 for the Municipal Departments. Of the \$1.6 million allocated to the School Department, \$1,378,776 was needed to cover steps, lanes, longevity and COLAs. Of the \$957,327 allocated to the Municipal Departments, only \$432,948 was needed to cover steps, lanes, longevity and COLAs. Mr. Murgia further explained that the step increases for the Municipal Departments are very modest as compared to the School Department. A recent job reclassification study of municipal positions reduced increases between steps from 6%, to 4% and now to 1½% annually, thereby reducing the annual cost to cover steps.

**A motion made by Ms. Saint André to recommend a target for the School Department budget at \$41,896,405 for FY19 was seconded by Mr. McKenna.** This would translate to a 4.2% increase to the School Department budget.

Mr. Murgia stated that any budgets that would increase greater than 2½% is favorable, but he does understand that for some budgets an increase of only 2½% might be devastating for a department. Ms. Thomas clarified for the other members that there is still approximately \$500,000 of unused levy capacity.

In response to Ms. Gallagher's question about the approximately 4.8% increase to the Municipal Department's budget, Mr. Murgia explained that the \$200,000 increased ambulance transfer equates to about a 1% increase to the Municipal budget.

**Vote: 5-0-0.**

**A motion made by Ms. Saint André to recommend a target for the Municipal Department budgets at \$20,876,402 for FY19 was seconded by Mr. McKenna. Vote: 5-0-0.**

The Committee did not vote on the fixed costs budgets for FY19.

**Free Cash Certifications as of July 1, 2017** – Mr. Murgia reported that the free cash was certified at \$4.8 million as compared to \$4.7 that had been estimated. He referred the Committee to the Cash Reserve Balances worksheet that indicates the Town now has approximately 17.1% of the budget in cash reserves. This is an increase as compared to the 14.9% of a year ago. Mr. Murgia encouraged the Town to use some of these reserves for one-time purchases and not for funding operating budgets or for new hires.

Chairman Barker inquired of Mr. Murgia if the Town were to drop from 17.1% to 13% what the impact might be on the bond rating of the Town. Mr. Murgia cautioned that if the Town were to drop in one year from 17.1% to below 15% such as 13%, the rating agencies may be concerned. The bond rating agencies may not initially drop the rating but may issue a warning in its report by changing the outlook from stable to negative.

Ms. Saint André challenged Mr. Murgia by stating that the Town of Canton as well as other communities have had AAA bond ratings for several years with cash reserves percentages less than 15%. She spoke in favor of using cash reserves for projects. She also thought there was approximately \$3 million of cash available for use but Mr. Murgia was agreeable to \$2 million being used. He explained that as spending increases, the % of budget for reserves decreases.

#### **D. Other Business/Open Issues**

**Operating Budget Results as of December 31, 2017** – Mr. Murgia reported that for the first six months of the fiscal year revenues totaled \$46.3 million as compared to \$48 million of expenditures for a deficit of \$1.7 million as compared to a \$2.9 million deficit one year ago at this time. He stated that the reason for the revenue being better than a year ago at this time was the recent tax law change which prompted taxpayers to pre-pay their real estate taxes for 2018 prior to December 31. Mr. Murgia also stated that the IRS had issued opinions that stated taxpayers would not be allowed to deduct tax payments beyond what they were being assessed for. Canton's tax bills were sent out on or around December 26-28 to allow tax payers to pay the first two quarters of 2018 taxes prior to the end of the 2017 calendar year which would allow taxpayers to claim these taxes on their 2017 tax filings.

**CAFR (Comprehensive Annual Financial Report)** – The Finance Committee received copies of the CAFR. Mr. Murgia explained that this information is submitted annually to the GFOA (Government Finance Officers Association) for which the Town has received awards for the past ten years. The bond rating agencies look favorably on this report. This report is in addition to the audited financial statements and official statement that is produced as well. He explained that the FY17 Management Letter from the Town's auditors is currently in draft format.

**FY19 Operating Budget Requests** – Chairman Barker stated that the Finance Committee secretary would be sending out invitations to those departments who are requesting budget increases for FY19 and would like to present their requests at their meeting for the Finance Committee meeting on February 26<sup>th</sup>. Chairman Barker requested that that the DPW Superintendent, although not requesting an FY19 budget increase, should be invited to attend a Finance Committee meeting to provide an informational update on the Water and Sewer assessments. Mr. Murgia stated that the Town’s usage of MWRA water dropped significantly over the past year which could mean a significant drop to the water budget for the upcoming fiscal year.

**Posting of Documents to the Finance Committee Website** – Chairman Barker address the previous policy of posting documents to the Finance Committee website. This had been actively completed by former Finance Committee member Jim Sims. Chairman Barker further stated that in the interest of transparency this could be continued by the Finance Committee Secretary without a formal vote by the Committee

**E. Approval of Minutes**

The minutes for October 10, 2017 and January 22, 2018 were being reviewed by the Committee and the secretary and would be voted on at a future date.

**F. Next Meeting Date:** The next meeting date will be Tuesday, February 13, 2018 at 7:00 p.m. in the Salah Meeting Room of Town Hall.

Chairman Barker requested that members continue to notify the secretary of any planned absences for the upcoming busy meeting schedule. Mr. Murgia explained that the warrant had closed, Town Counsel was still reviewing articles, the BOS would be meeting on February 6<sup>th</sup> to approve the warrant and the warrant would then be forwarded to the Finance Committee on February 7<sup>th</sup>.

**Adjournment: A motion made by Ms. Gallagher to adjourn the meeting at 8:25 p.m. was seconded by Mr. McKenna. Vote: 5-0-0.**

Minutes reviewed by: Rob Barker

Respectfully submitted,



Rob Barker  
Chairman, Canton Finance Committee

**Canton Finance Committee Meeting  
Monday, January 29, 2018  
Meeting Documents**

**Please note: These meeting documents may also be found on the Town's website under the Posted Minutes section (Laser Fiche).**

Agenda (1 page).

FY16 –FY18 New Growth Calculations, prepared by Karen Zukauskas, Assessing Director, dated 1/29/18, 2018 (1 page).

Revenue Forecasting Policy  
Summary of General Revenues and Expenditures  
Property Tax Revenue  
Additional Property Taxes from Debt Exclusions – Net of Reimbursements  
State Aid Comparison  
Local Receipts  
Transfers from Other Funds  
Fixed Costs and State and County Charges  
(prepared by Jim Murgia, Finance Director, dated 1/25/18).

FY2019 Local Aid Estimates for Canton – dated 1/25/18 (1 page).

Cash Reserve Balances – FY09 thru FY18, prepared by Jim Murgia, Finance Director (1 page).

Operating Results as of December 31, 2017, Memorandum from Jim Murgia to Board of Selectmen, dated 1/24/18, (8 pages).

CAFR (Comprehensive Annual Financial Report for FY17 (Please note: This PDF document is available on the Town's website on the Finance Department's main page.

Posting of Documents to the Finance Committee website:

Active Employees – FY18 Annual Base Salary and CY17 Gross Annual Salary Report

Mitigation Accounts Summary as of 12/5/17.

(Please note these documents are available on the Town's website under the Finance Committee's website.