

SELECT BOARD

MINUTES

March 17, 2023

Board met in HYBRID session at 10:00 a.m. at Abbot Hall and via ZOOM Conferencing
The following members were present constituting a quorum:

M. C. Moses Grader, Chair
Jackie Belf-Becker, remotely
Erin M. Noonan
James E. Nye, remotely
Alexa J. Singer

Thatcher W. Kezer III, Town Administrator

The following roll call was taken: Mrs. Singer, present; Mrs. Noonan, present, Mrs. Belf-Becker, present remotely, Mr. Grader, present; Mr. Nye, present remotely.

The Chair stated the Board will review a Draft Statement of Intent regarding the Town of Marblehead FY24 Operating Override and gave a brief overview of the function and task of the Select Board and the Finance Committee stating it is the duty of the Select Board through the Town Administrator and his team to formulate and set the budget as well as set an override commensurate with budget requirements. The Finance Committee advises the Town Administrator, Finance Director and all departments on the budget through its budget review process and ultimately is tasked with approving all the budgets. Similarly, the Finance Committee is tasked with advising and ultimately proposing the overrides financial appropriateness with regard to the budget.

The Chair asked for a motion to accept the following Statement of Intent which was then read into the record:

Marblehead Select Board Statement of Intent

Town of Marblehead FY 24 Operating Override

The Town is entering the FY 24 budget season with a deficit that has resulted fundamentally from increases in salaries, benefits, and operational costs, where the cost of providing services has outpaced the revenue growth allowed under Proposition 2½.

The Town has also been aware for the last four years that its over-reliance on Free Cash to balance its annual operating budget would be unsustainable and that, ultimately, an operating override would be needed to address an underlying long-term Structural Deficit.

The COVID-19 pandemic also placed burdens on the Town's operating budget, as the Town augmented and re-directed its operating capacity as efficiently as possible at the

height of the pandemic in FY 21 and FY 22. The municipal government and school district have been careful to deploy one-time federal and state COVID-19 funds (i) into one-time sustainable capital projects to enhance Town resiliency or (ii) into one-time capacity/salary cost increases with limited durations which would be operative for the periods of the COVID-19 pandemic. As a result, the Town has avoided using one-time federal and state money for embedding permanent additional operating costs as we move away from the COVID-19 pandemic.

Notwithstanding the Town's fiscal discipline regarding one-time monies, the costs associated with the Town's operations has accelerated recently as a result of sustained price inflation, labor shortages, and increases in the cost of contractual services.

Balanced FY 24 Budget with no Operating Override

Through the FY 24 budget process, the Town will present a balanced budget that assumes no override funding. To present a balanced budget, the Town will propose cuts to operational line items that eliminate the FY 24 Structural Deficit.

The Town will determine a final Structural Deficit amount as part of the FY 24 budget process and will identify the specific cost savings used to eliminate the FY 24 Structural Deficit – endeavoring to cut services with the least impact on the Town's operating performance and service delivery.

FY 24 Operating Override Proposals

As a result of this context, the Town's current intent is to propose two separate overrides for the FY 24 budget which address two key considerations: (i) the FY 24 Structural Deficit and (ii) the reliance on Free Cash.

1. Override to address the FY 24 Structural Deficit:

The Town will determine the final Structural Deficit amount to be proposed as an override as part of going through the process of developing a balanced budget without an override.

The Structural Deficit is basically defined as the difference between FY 24 revenues, supplemented by available Free Cash, minus expenditures. Revenue increases are essentially limited by Proposition 2½ to a 2.5% increase in the tax levy from the prior year plus new growth; and expenditure increases are essentially driven by contractual obligations and inflationary increases in costs for goods and services. The unsustainable balance between revenues and expenditures has been covered in past years by relying on the use of Free Cash. As the Town Administrator outlined in the State of the Town address, FY 24 is the first year since 2005 that available Free Cash is no longer sufficient to cover the total difference between revenues and expenditures.

The proposed override would effectively balance the FY 24 budget to assure level-services funding for one year.

2. Override to fund the Town's Stabilization Fund:

The proposal to fund the Town's Stabilization Fund rests on three goals:

- a) To move away from Free Cash as a revenue source. Free Cash is a municipal finance number that includes actual receipts in excess of revenue

estimates and unspent amounts in departmental budget line items for the year just ending, plus unexpended Free Cash from the previous year. As such, it is not designed to fund ongoing operations. The Town should maintain an appropriate and recommended Free Cash balance, and its use should be limited to appropriate, one-time expenditures on a year-to-year basis.

- b) *To offer the Town a transparent operating buffer funding source. Because no monies can be allocated from an existing Stabilization Fund except by a 2/3 majority at Town Meeting, a Stabilization Fund brings operating stresses into the public eye and requires a credible process for explaining any stabilization uses of the funds in the public forum. We also consider the use of a Stabilization Fund as a best-practice viewed favorably by auditors and credit-rating agencies.*
- c) *To provide the Town with a buffer going into FY 25. Because the Override to Fund the FY 24 Structural Deficit is a one-year plug, the Stabilization Fund provides an emergency “rainy day” option for Town meeting and taxpayers to vote on enumerated needs.*

The proposed override would commit the Town to weaning itself from the use of Free Cash for operating purposes, commit the Town to using transparent best-practices, and to provide the Town with a potential financial buffer for FY 25 and beyond.

To pass, the proposed operating overrides will require approval at both the Annual Town Meeting on May 1, 2023, and on the ballot at the Annual Town Election on June 20, 2023.

Longer-Term Finance Strategy Going Forward

The above proposals are designed to offer the taxpayers a range of conservative options for FY 24 which highlight the practical service cuts to eliminate the Structural Deficit, an override for this year’s Structural Deficit to maintain existing service levels, and an override to commit to a best-practices stabilization fund.

The FY 24 budget and override proposals also allow the Town to complete the development of its budgeting capabilities under its adopted GFOA best-practices and to get a better read on the rapidly changing economic environment and uncertain inflationary situation in FY 25 and beyond.

This year’s investment in the ClearGov platform – a financial analysis and budgeting solution – will allow the Finance Department to provide vastly expanded capabilities in FY 25 to contextualize and clearly explain the Town’s historical financial evolution, multi-year budget projections, and a full GFOA budget presentation embedding all the Town’s budgets within a strategic plan.

We will compile information, resources, and FAQs on the Town's website page to help community members learn more about the FY24 budget process and override proposal and continue to post additional information and updates over the next few months.

Motion was moved by Mrs. Singer, seconded by Mrs. Belf-Becker. The Board deliberated and discussed the draft document in depth:

- seeking final numbers from Town Administrator and Finance Director as soon as possible
- public forums/engagement options
- define what "level" services means
- long term finance strategy
- updating financial policies
- pros/cons of a stabilization fund
- clear picture of what the town is doing, how are we doing it, how will we get there
- commitment to maintain positions that generate growth
- commitment to transition away from the use/reliance on Free Cash

After deliberation a motion was made and seconded to table the previous motion to allow for revisions made to the draft statement based on the Board's deliberations and to vote on a final Statement of Intent at the Boards meeting on March 22, 2023. Moved by Mrs. Belf-Becker, seconded by Mrs. Noonan. On a polled vote the Board voted as follows: Mrs. Belf-Becker, in favor; Mrs. Singer, in favor; Mrs. Noonan, in favor; Mr. Grader, in favor; Mr. Nye, in favor.

PUBLIC COMMENT. The Board took public comment from several residents. Tom Mathers, Jim Zisson, Jen Schaeffner, Catherine Martin, Megan Sweeney, Ron Grenier, Kathy Hempel and Paul Baker related to the Boards discussion on the Statement of Intent, Article 31, Override, Stabilization Fund, Free Cash, questions about override and permanent general override, commit to maximizing the yield and interest rates on the cash in the town, Bond rating, confirmation that the Schools will receive level services, Select Board overseeing the finances, wanting to see numbers today and forums taking place, conversation should have been taking place earlier, use of Free Cash, technical difficulties preventing a Select Board member from participation in this meeting and thanking the Board for their hard work and commitment to moving forward.

Motion made and seconded to adjourn at 12:20 p.m. On a polled vote the Board voted as follows: Mrs. Belf-Becker; Mrs. Singer, in favor; Mrs. Noonan, in favor; Mr. Nye, in favor; Mrs. Grader, in favor.

Kyle A. Wiley
Administrative Aide

List of documents used:
DRAFT Select Board Statement of Intent