

**Winthrop Finance Commission
Town Hall
Winthrop, MA 02152**

June 8, 2021

Mr Philip Boncore, Esq.
Town Council President
Town of Winthrop
Town Hall
1 Metcalf Square
Winthrop, MA 02152

Re: Finance Commission Budget Recommendation

Council President Boncore

The members of the Finance Commission met on Thursday, June 3, 2021 for a final review of the Town Manager's fiscal year 2022 Town Budget. The Commission met a total of 14 times totaling over 46 hours of analysis, review, discussions, interviews, debate, public input and ultimately this recommendation. We are pleased to submit our recommendation for the Town Council's consideration. Prior to offering our recommendation, it is necessary to understand some of the factors that influenced the budget and ultimately led to our decision.

Factors That Influenced the Finance Commission's Recommendation of the Town Manager's Budget

This budget was presented to the Town Council as well as the Finance Commission in a timely manner, which gives the Commission roughly 35-40 days to dissect every line of the budget as well as enterprise funds, capital plan and other financial recommendations which were proposed. This process was made much more challenging with the departure of the CFO/Assistant Town Manager & the leave of the Town Manager. We do want to give much thanks to Interim Town Manager Delehanty as well as Assistant CFO Power's for their eagerness to help us out with any question or concerns we had. We met with the Interim Town Manager and a number of department managers, including the Superintendent of Schools as well as managers/directors of Police, Fire, DPW (including the water/sewer enterprise funds), Health, Veterans Agent, Library, COA, Inspectional Services, Planning, Parks & Rec as well as Treasury, among others.

The Coronavirus continues to be a major factor in the budget process, although in different ways than it presented in fiscal '21's budget. The revenue projections for local receipts, including meals tax, room/hotel tax and auto excise tax, need to be forecast once again differently than in any other year, projecting at what level revenues will be enhanced, given the ease of restrictions.

Town Manager's Budget Goals

The Town Manager's budget memo tried to reflect the fiscal policy directives of the Council

- Conservative and realistic revenue projections
- Ensure current free cash levels, to maintain the Town's bond rating
- Work cooperatively with the School department
- Continue our aggressive Pension funding schedule

The Manager also recognized the goals of the Council and groups policies and initiatives into five major categories

- Professionalized Town Services
- Leverage Technology and Maximize Service Delivery
- Elevate Community and Economic Opportunity
- Prioritize Health Safety and Overall Community Well-Being
- Ensure Quality Operations and Financial Management

Generally, we agree with the Town Manager's goals and overall financial objectives. We will however, be recommending several changes which we believe reflect the reality of Winthrop's current financial position. This is a very unique time where we must be extremely cognizant of how decisions made within this budget will have significant consequences on the FY '23 budget. The effects of Coronavirus and the financial ramifications which it has caused will have major impacts on the next several fiscal years. A very concise understanding of the permitted uses and limitations of American Rescue Plan Act (ARPA) funds is vital in current and future budgets.

We also have some comments and recommendations regarding the budget and other financial matters that we will submit for your consideration later in this report.

Revenue Projections and Operating Expenses

Revenues

Projected **General Fund** revenues for FY'22 are **\$54,994,887**, which is an increase of \$1,016,871 (1.88%) over FY'21. While this is a modest increase, it is only achievable through the use of \$130,000 from the **General Stabilization Fund** and \$450,000 from **ARPA Funds**.

The utilization of **General Stabilization Fund** for annual continuing expenses goes against the purpose of the fund. Generally, it should be used for one-time expenses or capital projects and **not** the funding of recurring annual expenses. However, it is also set aside for financial emergencies, which was the case in FY'21. This is not the case for FY '22, as the ARPA monies are intended to replace local receipts lost due to the impact of the Coronavirus. The Town's S&P rating and the favorable bond interest rates that we have received could be impacted by the use of Stabilization Funds, as it is masking a deficit of revenues relative to ongoing expenses

Enterprise Funds account for five departments that raise their own revenue outside of the general fund. This year that number will go to six with the addition of the Solid Waste Enterprise Fund. The revenues contribute to the Operating Budget of the Town. Enterprise Revenues for FY '22 are projected to be **\$13,878,412** an increase of \$2,054,274, mainly attributable to the new Solid Waste Fund which accounts for \$1,865,328 (92%) of the increase over the current fiscal year.

Revolving Funds are similar to the Enterprise Fund but are used for specific small budgets. They are self-funding through fees such as facility rentals. The total budgeted Revolving Fund revenues for FY'22 are **\$198,254**. This is consistent with FY'21.

Total Revenues for FY'22 amount to \$69,071,553. This is an increase over FY'21 of \$3,084,570.

The majority of General Fund revenues (\$35,618,199 or 64.7%) are from property taxes, inclusive of an increase within the guidelines established by the Proposition 2-1/2 legislation. That also includes the debt exclusions. State Aid is the second largest component of the General Fund. The FY'22 projected State Aid is \$12,197,186, an increase of \$271,862 over FY'21. This figure is subject to change, up or down, when the final state budget is determined. Local receipts, MassPort and MWRA mitigation money, as well as other smaller revenue sources provide the balance of the funds. It is worth noting that the Town negotiated another 10-year deal with the MWRA in 2016 and it contains an annual escalator clause. \$150,000 of the increase for FY'22 has been designated for use in the Capital Plan budget.

Operating Expenses

Operating expenses funded by the General Fund match the revenue projections resulting in a balanced budget. There have been many times that the state aid numbers will change after the original budget submission, resulting in operating expense changes. For the FY '22 budget there were two changes which the town was notified of. The **Charter School Reimbursement decreased by \$34, 387** while our **Charter School sending tuition increased by \$71,720**, resulting in a \$37,333 increase for the Town. This was from the Senate budget. The adjustment using the House budget resulted in a \$31,000 increase. We were not presented with a revised budget reflecting the increase in cherry sheet disbursement, resulting in us not making changes reflecting that amount.

The following summarizes significant changes in the operating budget from FY'21

- The Winthrop School's operating budget increased by **\$650,000** from \$22,242,750 to \$22,892,750, **up 2.92%**. This increase in the School budget is less than half the dollar increase in FY'21, however it does represent 64% of the new available funds for FY'22. It does not include out-of-district tuitions associated with the Northeast Vocational School and the Essex Technical High School, nor does it include expenses associated with grants, including Coronavirus relief funds (CARES Act and ARPA)
- The School's share of fringe benefits (which include health coverage, pensions, insurance, etc.) is not included in the School budget. These expenses are included in the Town's Budget under Non-Departmental Expenses along with other Town departments. The cost for School

Department Benefits in the FY '21 budget was \$4,062,772. For FY'22 the cost is \$4,210,540, **an increase of \$147,767.**

- The Town's contribution to the Northeast Vocational School and the Essex Technical High School for FY'22 is **\$998,229** compared to FY'21 which was \$833,704, which is an **increase of \$164,525.**
- The FY'22 School budget **inclusive** of the fringe benefits and the out-of-district tuitions is **\$28,101,519.** The General Fund Budget also includes the School Buildings and Miller Field debt exclusion revenue and equivalent debt service payments (\$3,623,650). When the debt service for the schools and Miller Field is included it amounts to a Town contribution of **\$31,725,169** towards education and related costs or **58% of the General Fund revenue.**
- In FY'21 we made our final payment towards the Gorman Fort Banks School which will save us a little over **\$500,000** per year
- We entered into a new five-year Trash Contract in FY21, which has resulted in a **39% increase** in the cost of trash and recycling for FY'22. This equates to a **\$601,328 increase**, which has led the Town to create a Solid Waste Enterprise Fund, supplemented by the Town by the amount of \$1,264,000. The remaining balance will be generated by users' fee.
- Property Insurance was funded at **\$606,730** in FY'21, and has **increased 14.3% to \$693,341** for FY'22. This is a significant concern for the Finance Commission, and puts the Town in a very vulnerable position for the future.

Other Budget Comments and Considerations:

ARPA Funds

The use of \$450,000 in ARPA funds for this operating budget is very concerning on a couple fronts. Using one time money for recurring expenses is never good, and more significantly we are using funds that we don't have. The Commission understands that many municipalities in the Commonwealth are using these funds in their budget, however the direction in using these funds is constantly changing. Now the funds have to be applied for, where before they were going to be given to the towns. As is discussed below we want to dismantle the structural deficit that is being created by the use of these funds.

Structural Deficit

The FY22 budget, as filed by the Town Manager, relies on \$580K in one-time revenues from a combination of ARPA funds (\$450K) and a draw on the Town's Stabilization fund (\$130K). While the Finance Commission is not proposing to change this recommendation, it does want to highlight that the use of one-time revenues to balance the budget is a concern that will need to be resolved through increased revenues, budget reductions or some combination of the two in future fiscal years. The Town cannot continue to rely on one-time resources to support on-going expenses without impacting long-term financial stability.

- **ARPA Funds** – The use of ARPA funds is based on a calculation derived from guidance issued by the federal government, which may need to be revised in accordance with new interpretation or future guidance. In accordance with the guidance, these revenues are being used to offset lower-than-anticipated revenue receipts for FY22 due to the COVID pandemic. Provided that

revenues return to pre-COVID levels by FY23, ARPA will fill the gap caused by the pandemic. If, however, revenues do not return to pre-COVID levels, the Town will be left with a structural deficit that will need to be addressed through budget cuts or revenue generating initiatives.

- **Stabilization Fund** – The FY22 budget relies on a Stabilization Fund draw of \$130K. While the FY22 proposed draw reflects a slight reduction compared to the FY21 budgeted amount (\$149K), the Town needed to draw additional funds mid-fiscal year (\$529,000) to address the shortfall caused by the Town’s trash contract. The Finance Commission cites the repeated use of stabilization funds to support ongoing operations of the Town as a major concern. The Town must take steps in future fiscal years to eliminate the structural deficit masked by the use of these one-time funds.

Future Opportunities to Increase Efficiency and Effectiveness

Through this fiscal year budgeting cycle, it is apparent to the Finance Commission that there are opportunities to increase the efficiency and effectiveness of financial operations for the Town. In particular, the Commission recommends focusing on strategic sourcing that better leverages the Town’s purchasing power and more specialized grant management to enhance grant stewardship and realize additional grant revenue. As such, the Town Council should consider using one-time revenues to obtain a consultant to evaluate the Town’s current purchasing and grant management model for enhancement.

Fuel

Fuel costs are level funded for FY ‘22 at \$100,000. Given rising fuel costs, there is a concern that this will not be adequate.

Pest Control

The good news here is that the budget allocates funds for this line item, which has not been done in the past. The bad news is the costs for this line continue to rise. We would recommend a different approach when it comes to Pest Control and implement Integrated Pest Management.

Integrated Pest Management (IPM) is a process that is used to control pest populations while minimizing the impacts on people and the surrounding environment. Focusing mainly on long-term pest prevention, a successful IPM program utilizes a combination of control methods including biological control, habitat manipulation, changes to cultural practices and use of resistant plant varieties. At the core of IPM is the desire to reduce pesticide use and human incursion into the ecosystem unless monitoring of pest populations indicates intervention is necessary.

Solar credits

The town needs to get a much better grasp on solar credits, how they work, the charge backs involved, how the credits are taken, and accounting for these credits.

Salaries and Benefits

- The current budget for salaries/overtime/longevity/stipends (\$29.1M), benefits (\$7.4M), and pension (\$3.5M) costs are ~\$40M of the ~\$55M General Fund Budget.
- During the course of meetings between the Finance Commission and departments heads reviewing each of their respective budgets there were several occasions where there were discrepancies within the Budget between the Personnel Services Summaries which indicate Position Title, headcount by Title and Salary by Title and the actual budgeted amount in the Personnel line items. We requested a breakdown of each employee of the town, including the school department with a breakdown of compensation by salaries, overtime, longevity, stipends, bonuses, benefits and pension and any other benefits including car allowances, cell phones etc. and have yet to receive that list. We were also told there were instances where an insurance opt-out pay out was being given to certain employees but not others but there is no policy or paperwork to support these arrangements.
- Therefore, we recommend that the Town Council request that the Town Manager and the Superintendent, in conjunction with our HR Director create and make available a list of all employees in the town, including the School Department, with a breakdown of each component of their compensation by salaries, overtime, longevity, stipends, bonuses, benefits and pension and any other benefits including car allowances, cell phones etc. We feel this is imperative for several reasons.
 - To ensure we have the proper financial accounting records and controls in place as well as the appropriate support in terms of contracts and policies covering each piece of an employee's compensation
 - To ensure that we are able to adequately assess an employee's complete compensation package in comparison to the market
 - To ensure that we have equitable pay and policies in place to ensure employees are not unfairly treated, which could open the town up to litigation risk.
- If the Town Council does not receive the listing of employees as recommended with assurance by the respective Department Heads and the HR Director, then we would strongly encourage an independent audit of all salaries and benefits.

Information Technology Department

- The current IT budget is equal to \$209K, including 1 full-time systems administrator with a salary and longevity benefits totaling \$59K and another \$150K consisting of outsourced IT support and software licenses.
 - The majority of the Town's IT Support is outsourced to Thrive Operations, LLC. These services were previously provided by Retrofit Technologies, Inc. but Thrive was contracted during FY 21' in Retrofit's place. However it is unclear exactly what the date and terms of the new contract are (pricing, tenor, scope of services, etc.) as we have been unable to obtain a final executed contract. The draft contracts we have seen indicate one-time costs of between \$96-\$104K, plus recurring annual costs between \$49K-\$73K. There is also a discrepancy in the term of the contract as one version indicates a 1 year term and another a 3 year term. Also the draft contract indicates an effective date of 7/1/20 despite the fact the draft contracts are dated 9/22/20 and 10/1/20. In addition, we were told that even though those were the draft dates the contract was actually effective in March '21. One of the most costly one time costs was an \$85K Annual Security Assessment that we have not been able to obtain.

- It is important to remember that our School Department suffered a Cyber Attack during the current school year and caused serious disruption in the ability to effectively teach children during the remote/COVID learning environment.
- Therefore we recommend that the Town Council and Town manager make a thorough review of our IT Department a priority in fiscal year '22. We recommend that the Town Manager get a final executed contract with Thrive as soon as possible. We should also insist we receive the Annual Security Assessment indicated in the draft contract and have that presented at a near term Town Council meeting. Once we obtain the final executed contract and the security assessment we should also refer this to the Town's Information Technology committee for review and recommend future action based on the findings, including reviewing the current Town IT staffing in addition to the outsourced IT support model. We feel this is imperative in this day in age when we all are so heavily reliant on technology to function day to day, that we have the proper leadership to ensure we keep up to date our infrastructure.

E.B. Newton Clock Tower

The Commission feels there needs to be a more aggressive approach to reflect the urgency in making proper repairs to one of the Town's precious assets. The E.B. Newton Retained Earnings has a balance of \$167,000 which we feel could be a source of revenue to go forward with the much needed repairs in a phased approach.

Free Cash Policy

In the budget package submitted by the Town Manager was a suggestion to change our current Free Cash policy. The changes addressed a few areas. One was to increase the distribution to the General Stabilization fund by 5%. The second cut in half the appropriation to the Capital Stabilization Fund. The third added a new appropriation of 7.5% of free cash to the discretion of the Town Manager to budget for Capital Projects. The last recommendation was to create a 5% distribution to our OPEB Trust Fund. The Finance Commission recommends not accepting this suggested change, due mainly to the uncertainty of our two top positions, especially the CFO. The Commission feels it would be much more appropriate for a new CFO, and potentially a new Town Manager to be making suggestions to change our Free Cash Policy reflecting their beliefs.

Enterprise Funds

Enterprise Funds rely on user fees for service rendered and are not part of the General Fund budget. There are, as of FY'22 6 Enterprise Funds: Water/Sewer, Ferry, Rink, Parks and Recreation, Waterways and Solid Waste.

The Water/Sewer Fund, as well as Solid Waste are significant and impact all property owners. The other funds are utilized by smaller groups of citizens. Enterprise Funds are intended to be self-sufficient: revenue derived from the services pay for the operating costs. The notable exception to that is the new Solid Waste Fund. In FY'22 this fund will have an appropriation from the town in the amount of \$1,264,000, which coincides with the same appropriation which the town had for solid waste in FY'21. The Ferry Fund had required an appropriation from the Town up until the FY'20 budget and has been self-sufficient since.

The Water/Sewer account is funded by fees based on usage. The largest expense components are the MWRA assessment and the debt service for water and sewer infrastructure projects. It should also be noted that the Department of Revenue, which finalizes the water and sewer rates, requires that these funds have a positive fund balance or equity, also known as retained earnings. This allows for unexpected issues, like slow collections, unanticipated maintenance and repairs, and infrastructure capital investment to be funded.

- The **Water/Sewer Enterprise Fund budget for FY'22 increased by \$272,387** from FY'21. The total budget for Water/Sewer for **FY'22 is \$10,607,802**. The change in debt service was negligible. Our **MWRA assessment for FY'22 increased \$269,196 to \$5,942,524**.
- The **Ferry Enterprise Fund** – Revenues, primarily from ticket sales, are supplemented by other sources, such as subsidies from municipalities and the State (intergovernmental resources). The **FY'22 budget is \$442,314**, funded by ticket sales (\$131,314) and intergovernmental resources of \$311,000. This is a slight decrease from FY'21. Our concern lies with the Town's ability to secure the intergovernmental transfers, and how that could potentially leave us unable to meet our commitments.
- The **Rink Enterprise Fund** is slightly lower than FY'21. The **FY'22 budget is \$300,000**. The vast majority of revenues comes from user fees, with other income coming from advertising and concession space rental.
- The **Parks & Recreation budget for FY'22 is \$334,668, which is a \$8,288 or 2.42% decrease from FY'21**. Revenues from this fund are derived from participation fees associated with programs. With Covid restrictions being lessened, it should prove to have a very positive impact on the summer programs.
- **Harbormaster Fund** budget for FY'22 is **\$327,930 which reflects a 9.5% decrease** from FY'21. The major difference in this budget results from the final payment being made on the pier bond, which is a \$50,000 savings.
- The **Solid Waste Enterprise Fund** is new for FY'22. It has a budget of **\$1,865,328** which includes an appropriation from the Town of **\$1,264,000**. The remaining revenue will be made up from user fees. Being the first year of the Fund, the administrative cost along with collections will need to be monitored very closely.

Capital Expenses

Fire/Public Safety Facility - For many years the Winthrop Fire Department, under both the leadership of current Chief Paul Flanagan and his predecessors, has patched, jury-rigged, and otherwise made do with buildings that have been obsolete for decades. The central station on Pauline Street dates to 1889 and the Beach station to 1904. As this article from 2017 states, a new fire station is long overdue. <https://winthroptanscript.com/2017/11/03/new-fire-station-is-long-overdue/>

Town government has recognized this need since the early 1980's conducting an initial study on a new building in 1998- with additional studies conducted in subsequent years. Since that time, the cost of either a new, centrally-located fire station or a combined public safety facility has only increased, while the number of suitable parcels of land has decreased through development.

The buildings have truly reached their limits, as evidenced by photographs provided to the Finance Commission by the Chief and his comment that, "the building envelopes are failing."

The Finance Commission recommends that the Town Council prioritize the siting and funding of new facilities for either the fire department or a combined public safety facility through a debt exclusion voted by the citizens. This is a multi-year initiative that should begin with great urgency. The safety of the community requires action now, as does the welfare of our first responders who serve us so well despite their wholly inadequate facilities.

Budget Recommendation

We recommend the Town Manager's budget with the following amendments.

Reductions:

- **DPW** line 534103 (cell phones): Reduce the line from \$11,000 to \$7,000. This is based on actuals
- **School Appropriation** Reduce Appropriation (500000) \$50,000 from \$22,892,750 to \$22,842,750. This is based on factors regarding available federal funds. This is not taken lightly at all, with the realization that the level service request was for an additional \$1,300,000 and this will reflect an increase of \$600,000. We believe that the Schools will have the ability to provide level service due to the ability to encumber more than in prior years related to Covid. We are very mindful of school needs in FY '23 and beyond which we consider part of the Town's structural deficit which we need to address.
- **Town Council** line 579100 (Annual license cost): Reduce from \$8,025 to -0-. This reflects eliminating the Granicus software
- **Planning** line 511100 permanent employees: reduce from \$100,000 to \$50,000. The Finance Commission believes this could be a part time position.
- **Employee Benefits** - line 517520 (Group Insurance-schools): Reduce \$155,000 from \$2,789,340 to \$2,634,340 and line 517510 (Group Insurance town): Reduce \$50,975 from \$1,714,817 to \$1,663,842
- **Assessing** line 530500 (Assessing Consulting): Reduce \$30,000 from \$40,230 to \$10,230. The Finance Commission feels that the Assessing Department could use funds from the Overlay to satisfy their obligations for FY '22
- **Veterans Agent** line 577100 (Payment to Veterans): Reduce \$20,000 from \$70,000 to \$50,000. This is based on actuals.
- Re-allocate **Massport Pilot** increase of \$94,000 used in Capital for FY '22 Police vehicle purchase and sidewalk repair to be used in Operating Budget.

Increases:

- **CBA Salary Reserve** line 578100: Increase \$375,000 to \$450,000. This is prudent and proper to manage negotiations in FY '22
- **Town Manager** line 530400 (Outside Legal Consulting): Increase \$35,000 to \$100,000
- **Conservation** line 511100 (Permanent employees): Increase from -0- to \$23,000. The need for a conservation agent for the Town is a priority of the Commission.
- **Assessing** line 511100 (Permanent Employees): Increase \$8,000 from \$202,000 to \$210,000 based on actuals.
- **Council on Aging** line 511100 (Permanent Employees): Increase \$21,000 from \$142,271 to \$163,271. This enables the COA to replace the part time position that was taken from budget, and will enable consistent hours of operation.

These changes are budget neutral

The Finance Commission recommends:

General Fund Expenditures of	\$54,994,887
Enterprise Fund Expenditures of	13,878,412
Revolving Fund Expenditures of	<u>198,254</u>
Total Budget	\$69,071,553

Closing

In closing we would like to thank former CFO, Anna Freedman, Interim Town Manager, Terrance Delehanty, Assistant CFO, Robbie Powers, and Superintendent of School, Lisa Howard, as well as all of the department managers for their cooperation. As usual, everyone’s cooperation was appreciated. The budget represents a continuation of Town’s services to the people of Winthrop and focuses on the long-term financial goals and needs of the community.

Respectfully Submitted,

**James Letterie Chairman
Winthrop Finance Commission**

Members:

Citizens Advisory Committee on Finance

Karin Chavis - Chairperson

Jan Twombly

Brent Farrell

William Gault

Joe Hanlon

Shannon Poulos

Matthew Gorzkowicz

Town Council sub-Committee on Finance

James Letterie – Chairman

Richard Ferrino

Tracey Honan