TOWN OF HAMILTON
Board of Selectmen, Finance and Advisory Committee
JANUARY 17, 2015

The Board of Selectmen met at Hamilton Town Hall at 8:06 a.m. on Saturday, January 17, 2015 with Scott Maddern, David Neill, Marc Johnson, and Jeff Hubbard. Finance Committee members Chair Rick Sprenkle, Nancy Gerardi-Walsh (arrived at 8:15 a.m.), Charles Chivakos, and Nick Tensen, Town Manager Michael Lombardo, Finance Director Deborah Nippes-Mena, and Public Works Director Bill Redford also present.

Call to order

Scott Maddern called the BOS meeting to order at 8:06 a.m. Rick Sprenkle called the FinCom meeting to order at 8:06 a.m.

FY'16 Budget Discussion

Discussion ensued about changes in the enterprise accounts, proposed water rate adjustment, need to request more funding from Town Meeting to keep replacing water distribution pipes and for work on water treatment plant, and age of water storage at GCTS. The three-year financial plan incorporates a certain growth rate in FY'16 budget with a level service budget that has a not to exceed 3% increase.

Discussion was on waste enterprise budget report that contains revenues, personnel, and expenses. This enterprise fund is not meeting its revenue target with a deficit of $9,810 in FY'14 that was added to recap and DOR has reminded the Town that this is not a true enterprise fund. It was structured based on anticipated $80,000 in bag revenue annually which is not occurring (i.e., last year it was $69,000). Hamilton's solid waste has drastically dropped but is climbing back up with organic and regular recycling leveling off (it had gone up from 28% to 52%) and is influencing how much money has to be transferred from the General fund to support this budget. The Town has negotiated a new contract with Wheelabrator which will help with $40 a ton cost and a new contract is to be negotiated with Hiltz.

Discussion addressed solutions including raising bag fees, an education campaign, use of social media, and charging for large items. The Town is not requiring residents to do organic recycling and 40% of households are participating. Hamilton is subsidizing the waste enterprise fund by $320,000 annually so the Town has to decide if this should remain an enterprise fund or be a subaccount in the public works budget since it does

not pay for itself. An additional $15,000 to $20,000 will be added to this fund for FY'15 and FY'16 from the General fund.

Discussion was on whether this should remain as an enterprise fund that would require a Town Meeting vote to close and move into the General fund. Also, if bulky item trash pickup would be removed from this fund and if having a separate pick up a few times a year would add cost or a bag or bag equivalent would be required, or if residents could bring bulky items to DPW yard once a month. Also noted was the importance of education for residents to understand what can be recycled. The Town has to decide if it will change policy to include bagging large items, charging for large items or a rate change on the bags, and removing waste enterprise fund and incorporating trash hauling into General fund. The Town would have to use a total pay as you throw process to close funding gap.

Discussion addressed how the Town is looking to increase revenue structure on water enterprise to $1.8 million. Historically Hamilton has had retained annually earnings of $150,000 which is spent on vehicles and well development. The shortfall results from growth in debt (increasing in next few years up to $620,000) and operating budget. The transfer from water enterprise to the General fund is level funded and in FY'15 it is $30,000 short. Water rate changes will accommodate growth in the operating budget for five years (replacement of water infrastructure) and add $150,000 annually to retained earnings that will be spent on vehicles and well development.

Review was done of current water rate structure with 40% increase proposed for new rate structure. Debt associated with water enterprise includes the water treatment plant with $567,000 in debt remaining until June 2020, and filter upgrade paid for in 2018. Phase I of water infrastructure work for $7 million will be paid for by June 2035. Phase II for the same amount will be requested at spring ATM and debt done in June 2040. Current interest rate on borrowing is expected to be 3.4% to 4%. All funds have to be spent within 18 months of bonding. Split authorizations could be used in three phases and consideration is given to how much work could be done in a year by staff; a general contractor could be hired to have multiple crews working in the short term. In 2035, 30-year-old pipes will be replaced and there will be rolling debt for pipe/hydrant replacement and plant upgrades. Work is being done to research water supply and external plant management.

Discussion was about effort to replace asbestos lined pipe and life cycle of new pipes is a function of water quality (i.e., good conditions 75 years probably less for Hamilton due to iron and manganese 50 to 60 years). The Town is trying to avoid expensive costs

associated with failures and water main breaks. Discussion ensued about FinCom interest to structure debt based on increase in service charge to $55 a quarter, while capturing real service cost from large campus and business park facilities in Town. In 2020 the water rates will be raised again to accommodate years when debt is more than $600,000 annually for water distribution/infrastructure work. A tax surcharge could also be implemented as a percentage of real estate tax bill and total tax levy. A 3% surcharge would raise funding for debt and savings for peak debt years. This would require a two-thirds Town Meeting vote and ballot vote at Town election. The surcharge would apply to Hamilton houses where well versus Town water is used.

Using strictly service charge with 40% increase, a median household would pay $220 for service charge and $198 for water usage for $403.88 annually if 10,000 gallons is used quarterly. Discussion addressed water rate information for cohort communities: Wenham charges a water meter rental cost quarterly from $10 to $50 although that town does not filter its water. Hamilton's rates have been lower because no infrastructure work has been done until recently, and its water usage is lower than most North Shore communities. A small percentage of Hamilton households are using independent wells. Discussion ensued about importance of requiring new housing developments to have connections to the Town's water distribution system.

If a 3% tax surcharge were used the water bill for a median household would be $205 plus the usage with an annual amount of $403. Less expensive houses would pay less and more expensive would pay more for water usage. Non-profits would be put into a new bill group since they do not pay real estate taxes and receive the $55 service charge or $76. The Town is considering a pay rate structure to achieve $720,000 annually to pay for future. The water surcharge goes into a trust and an annual vote is done to pay for debt. This money is invested typically in a money market fund. Hamilton has non-profit consumer groups: 14 GCTS, 3 HWRSD and 3 Pingree School. The Hamilton Housing Authority is also a non-profit. All water users would get service charge increase.

Discussion was about rate structure changes (40%), Phase II $5 million, tax surcharge, and requiring connections for new development. The FinCom had previously voted 3-1 for the service connection charge not the tax surcharge of 3% (it is deductible but would be added to tax rate). The FinCom was interested in an appropriate capture of water usage and connection rate for multiple buildings for the non-profit organizations in Town. Discussion addressed how to identify number of residents in Town that have access to Hamilton's water distribution system but use private wells and how a charge could be implemented (water standby fee). This was done with treatment plant. The Town has 2,500 resident taxpayers and 2,366 or 5% of residents are not paying for use of

the Town's water system. Town officials concurred that new developments should be required to have connections to Hamilton's water system. Also noted is that this could apply to a downtown septic system. There was also Selectmen consensus to move forward with service charge and usage rates versus tax surcharge with consideration for excess capital in the rate structure so the charge method would be stable and offset later costs.

Discussion ensued on if the service charge/connection fee should be increased to $55 it would cover anticipated costs for the next five years and if it were raised to $76 now versus in 2020 it would give the Town the ability to look forward. Selectmen in attendance were 3 in favor of $55 service charge with Marc Johnson in favor of $76 fee. Discussion reiterated that Hamilton should require developers to connect new developments to the Town's water system. This is not a by-law change but can be included in ANR application or building permit process managed by Director of Planning and Inspections Patrick Reffett.

Discussion was on increasing water rates by either 30% or 40% (which would allow for retained earnings for BAN payments, vehicle replacement and well development) with 3 Selectmen in favor of 40% and Jeff Hubbard in favor of 30% which would be pay as you go (although rates would have to be adjusted sooner). The FinCom was in favor of 40% increase. A hydrant charge is built into the water rate structure and DPW Director Bill Redford will investigate if it is captured on private ways. There is no customer base just for hydrants. There was a budget jump from FY'14 to FY'16 since more money is being put into well development and retained earnings were used for quint truck. It was reiterated that DOR expects the Town to increase its water rates to cover its current deficit in water enterprise. Town officials took a five minute break from 10:00 a.m. until 10:05 a.m.

Discussion was on $940,000 reduction in funds as well as less Free Cash to contribute to the budget, the amount of Meals tax is down, and an increase is proposed in cemetery transfer of $10,000. The Town spent $1.5 million last year for tax rate, school and capital. A variable in local receipts is building permits based on when developments are going through the permitting process. The budget contains $1.8 million in local receipts.

The operating budget for personnel and wages is up $143,591 due to retirement, wages and salary (COLA, step increases and hour increases). The administrator union contract is still open, FLSA is being paid in real time, and a new payroll system has been implemented. Discussion ensued about actual expenditures from 2014 to 2016 with $3 million increase and rollover for Town Meeting warrant articles (including quint truck).

Hubbard asked for information on the actual cost of government from year to year without capital cost included. In addition, services and supply is down by $42,569 with CIP budget down by $231,990 not including quint truck. Overall the debt payment and landfill have been added as well as debt for truck.

The HWRSD budget is going up $115,000 this year with a large shift of student population to Wenham. Discussion ensued about Wenham FinCom's suggestion to open HWRSD contract to review rolling average for Hamilton and Wenham, cost of GCTS seminarian children in the HWRSD for Hamilton, property values with 1.5% and 3% increase relative to tax rate going up 90 cents for landfill and truck as well as $980,000 revenue reduction ($17.72 tax rate for 1.5%), the CPA will not pay for Town's record retention project (borrowing could be done for $200,000), Town Hall renovation (some could be funded through CPA), $60,000 for HDC due to reduction in Meals tax, CIP projects, replacement of municipal telephone system, potential pool funding relative to cash/debt options and pool revolving account.

Discussion addressed how Town has not received $65,000 for the last two years from Meals tax revenue and HDC has been given the $60,000 received and Town has provided $5,000. Hubbard opined that the HDC should be self-supporting and not funded by property taxes. Town Manager Michael Lombardo opined that General Fund dollars should not be used for HDC. HDC President Brian Stein will speak to the Selectmen at the Board's Jan. 26 BOS meeting.

Discussion was on HWRSD budget with revenue sources and expenses being tracked separately, 2.1% overall staffing payroll increase, team teaching model at MRMS requiring 1.8 FTEs and .2 TAs, healthcare cost was renegotiated and rate has dropped, a .71% increase for Hamilton's assessment, MMA conference will address education funding, need for E&D policy. Johnson left the meeting at 10:50 a.m. Discussion addressed how the Finance Committees from both towns want the actual historical budget numbers from HWRSD especially relative to each supporting community's assessment and artificially elevated budget numbers. HWRSD instituted new programs that absorbed some of the surplus expense such as full day kindergarten which was added to the FY'15 budget. The reconciliation that is occurring with HWRSD is a positive step. Hamilton's assessment for Essex North Shore Aggie and Technical School is up $74,000.

Discussion ensued on Finance Director Deborah Nippes-Mena's last day of employment for the Town being January 30. She will continue to assist Hamilton on an hourly basis until her replacement is hired with interviews for the position occurring in

the next couple of weeks. Town officials are meeting with a vendor for assistance with accountancy. Selectmen and FinCom agreed to conduct a follow-up budget review meeting next Saturday, January 24 from 8 to 10 a.m. Maddern entertained a motion for the Board of Selectmen to adjourn at 11:06 a.m. Hubbard so moved. Neill seconded the motion. VOTE: Unanimous.

The Finance and Advisory Committee stayed in session. Rick Sprenkle entertained a motion for Charles Chivakos to be the Committee's Vice Chair. Nick Tensen so moved. Nancy Gerardi-Walsh seconded the motion. VOTE: Unanimous. Tensen moved to adjourn the meeting at 11:19 a.m. Gerardi-Walsh seconded the motion. VOTE: Unanimous.

Respectfully submitted by Jane Dooley, Minutes Secretary

ATTEST: _____
Clerk