Needham Finance Committee
Minutes of Meeting of September 4, 2024

To view a recording of the meeting on YouTube:

https://www.youtube.com/watch?v=qlzRB9pvGDY

The meeting of the Finance Committee was called to order by Chair Carol Smith-Fachetti at approximately 7:01 pm in the Great Plain Room at Needham Town Hall, also available via Zoom teleconferencing.

Present from the Finance Committee:
Carol Smith-Fachetti, Chair; John Connelly, Vice-Chair
Karen Calton, Paul O'Connor, Barry Coffman, Joe Abruzese (7:07pm via Zoom), Tina Burgos

Others Present:
David Davison, Deputy Town Manager/Director of Finance
Molly Pollard, Finance Committee Executive Secretary
Kate Fitzpatrick, Town Manager

Citizen Requests to Address the Finance Committee

None

Approval of Minutes of Prior Meetings

MOVED: By Mr. Connelly that the finance committee that the minutes of meeting June 26, 2024, be approved as distributed, subject to technical corrections. Mr. Coffman seconded the motion. The motion was approved by a vote of 3- 0 at approximately 7:03pm.

Budget Consultation

Ms. Fitzpatrick opened the discussion by requesting feedback before they discuss FY26 budget submissions with departments. She emphasized the need to refocus on the sustainability target of 4-4.5%, which has been difficult due to inflation. Ms. Fitzpatrick also highlighted the importance of aligning new initiatives with community goals set by the Select Board, elected boards, and ad hoc committees. She noted that FY26 could be a tighter budget year.

Ms. Smith-Fachetti asked about the financial stressors, and Ms. Fitzpatrick pointed to the end of federal ARPA funding, inflationary pressures, and uncertainty with administration changes. Contracts up for renewal in FY26 are also a concern. Mr. Davison added that state aid could decrease depending on federal decisions. He expressed concerns about a potential recession and ongoing economic volatility, making long-term revenue planning challenging.

Mr. Connelly inquired about new growth. Mr. Davison explained that growth will slow in FY26, but the significant impact will likely be felt in FY27, as building permits from earlier periods will carry FY26 growth. Mr. Coffman mentioned that the MBTA Communities Act could encourage housing development, though not in time for FY26 or FY27. Mr. Coffman also pointed out that teacher contracts would expire in FY26. Ms. Fitzpatrick acknowledged this but said no discussions with the schools had yet occurred, she also noted the upcoming police contract negotiations.

Mr. Connelly asked about IT integration progress. Ms. Fitzpatrick said a team has been managing the new ticketing system and computer deployment. Mr. Davison noted delays in processing invoices due to the transition between town and school departments. Ms. Fitzpatrick stated that operationally things are underway, but it is too soon to know any budget impacts.

Mr. Connelly asked about the status of the memorandum of understanding between the town administration and the school administration. Ms. Fitzpatrick confirmed that the memorandum was finalized between the Select Board and the School Committee. She mentioned that the schools have established a more structured approach to employee equipment and position designations. Ms. Fitzpatrick noted that they are finalizing guidance for the FY26 budget regarding equipment and budget allocations.

Mr. Connelly then inquired about unspent funds from FY24 due to personnel turnover and asked for details on current personnel status and any open positions. Ms. Fitzpatrick responded that they are closer to being fully staffed than in previous years. She highlighted previous challenges with filling licensed positions in public works and mentioned successful recruitment for police officers, with 47 applicants so far. Mr. Davison added that specific numbers will be available by the end of September.

Mr. Connelly suggested that when discussing next year's budget with departments, they should review the prior year's budget to understand any unspent funds and address potential issues. Ms. Fitzpatrick agreed and added that a recession might improve retention, which could help with filling positions.

Debt Service Stabilization Fund

Documents: Debt Service Stabilization Fund

Mr. Davison discussed a proposal to revamp the Debt Service Stabilization Fund. He explained that the fund was originally created to manage debt service within the 3% annual limit, especially when the town anticipated exceeding this limit due to large projects. The fund was designed to offset years when debt levels might exceed the 3% (of the projected General Fund) threshold. However, the need to draw from the fund did not arise due to lower-than-forecasted interest rates and fewer projects than initially planned.

Looking ahead, with upcoming significant projects like the Public Works building improvements and the Pollard Middle School, Mr. Davison proposed broadening the fund's scope to cover periods when debt service might exceed the 3% level within the tax levy as well as times when the debt may exceed the 10% rule. Mr. Davison explained the 10% guideline, where the town strives to keep debt service below 10% of total revenues. Mr. Davison proposed earmarking free cash certified by the Department of Revenue that is above the prior year's free cash amount to be appropriated into the Debt Stabilization Fund.

Mr. O'Connor sought clarification on whether the funds would be used to pay down principal or just for short-term financing. Mr. Davison confirmed that the plan involves using the fund for short-term financing and paying it off rather than rolling it into a bond.

Mr. Coffman sought clarification that the fund would be added to only if the free cash amount is above the prior year. Mr. Davison confirmed and stated that inflation causes a lot of the increase. He also mentioned potentially designating specific new growth revenue, such as from the Muzzi Ford site, to the fund. Mr. Coffman suggested working backwards to estimate future debt service needs based on upcoming projects and then determining the required fund size to manage these needs within budget constraints. Mr. Davison responded that the target for the Debt Service Stabilization Fund is to hold an amount equivalent to two years of general fund debt service or 5% of total general fund revenues. Currently, the target is $4 million, but with the proposed adjustments, it would increase to approximately $12.8 million.

Mr. Abruzese asked if there was flexibility to use other financial policies or fees to fund the Debt Service Stabilization Fund. Mr. Davison clarified that while the town has latitude to appropriate any available funds by town meeting action, creating new fees specifically for this fund would not be permissible unless they directly offset specific costs. Mr. Connelly inquired about the current balance of the fund, which Mr. Davison reported as $2,376,000.

Referring to the document provided, Mr. Davison showed that funding the stabilization fund via his suggested methods would have yielded approximately $9.5 million dollars in the past 5 years, had a policy like this been in place. He compared that to the $12.6 million dollar target he is conceptually presenting to account for the items previously described. Mr. Coffman inquired about the current high base and asked if the amount would continue to go up from here, to which Mr. Davison replied yes primarily due to inflation.

Mr. O'Connor asked if the approach Mr. Davison proposed is common practice. Mr. Davison shared an experience from Natick, when the town had reserved funds from new tax revenue for smoothing out debt service payments, but the mechanism Mr. Davison is suggesting would be new.

Mr. Connelly asked if the $9.5 million that could have been added to the Debt Service Stabilization Fund over the past five years was instead deployed elsewhere. Mr. Davison explained that, in fact, the funds were recycled back into free cash, but are not seemingly available to move to the Debt Service Fund.

Ms. Smith-Fachetti inquired about timing of free cash. Mr. Davison emphasized that it cannot be allocated unless certified prior to Town Meeting but expanded that having a formula would provide clarity to Town Meeting members and make the planning process smoother. Having a methodology in place to guide appropriations would make it easier to explain and justify decisions. Mr. Davison highlighted that having this type of fund in place is viewed favorably by rating agencies, which consider it a sign of good fiscal management. Maintaining the town's AAA credit rating ensures that borrowing costs remain lower.

Mr. Connelly asked if there was anything needed from the committee at this point. Mr. Davison said he was looking for a sense of whether the committee felt the proposal was worth exploring, so he could move forward with the Select Board to discuss it further. Mr. Coffman raised a concern about ensuring that the amount set aside through this process aligns with the actual need at the time. Mr. Davison agreed, but asserted it be a start on progress, but adjustments could be made as needed, like setting aside revenues from the previously discussed Muzi Ford site. The committee expressed support for Mr. Davison pursuing this further. Ms. Smith-Fachetti asked about timing with a Select Board meeting, and Mr. Davison said he would probably meet with them in early October.

<u>Finance Committee Business</u>

Ms. Smith-Fachetti reviewed the Finance Committee's additional committee appointments. Mr. O'Connor will serve on the Downtown Redesign Working Group and Mr. Abruzese will be added as a school liaison. Ms. Calton already liaises with HONE and Mr. Coffman on with the Climate Action Committee.

The committee welcomed it's two newest members Ms. Burgos and Mr. Abruzese. They also mentioned that the moderator is still working on two additional appointments.

They also discussed the warrant, the next draft will be available before the weekend, and the Finance Committee will meet on September 18 to begin discussing the articles.

Adjournment

MOVED: By Mr. Connelly that the Finance Committee meeting be adjourned, there being no further business. Ms. Calton seconded the motion. The motion was approved by a vote of 7-0, at approximately 7:51p.m.

Documents: *Debt Service Stabilization Fund*

Respectfully submitted,

Molly Pollard
Executive Secretary, Finance Committee