Needham Finance Committee
Minutes of Meeting of February 3, 2016

The meeting of the Finance Committee was called to order by the Vice Chair Rick Zimbone, at approximately 7:00 pm in the Selectmen's Chambers at the Town Hall.

Present from the Finance Committee:
Louise Miller, Chair (arrived 7 :30 pm); Richard Zimbone, Vice Chair
Members: Barry Coffman, John Connelly, Tom Jacob, Kenneth Lavery (departed 8:45 pm), Richard Lunetta, Richard Reilly, Carol A. Smith-Fachetti (arrived 7:05 pm)

Others present:
Kate Fitzpatrick, Town Manager
David Davison, Assistant Town Manager/Finance Director
Dan Matthews, Board of Selectmen
Marianne Cooley, Board of Selectmen
Dan Gutekanst, Superintendent of Schools
Anne Gulati, Director of Financial Operations, School Department
Connie Barr, Chair, School Committee
Steven Popper, Director of Design and Construction, Public Facilities
Charles Laffey, Director of Facilities Operations, Public Facilities
Carys Lustig, Supervisor of Administration, DPW
Cecilia Simchak, Administrative Analyst, Public Facilities
Rick Hardy, Chair, Historical Commission

Citizen Requests to Address Finance Committee

There were no requests.

Approval of Minutes of Prior Meetings

MOVED: By Mr. Connelly that the minutes of January 25 and 27, 2016 be approved as most recently distributed, subject to technical corrections. Mr. Reilly seconded the motion. The motion was approved by a vote of 7-0. (Ms. Miller and Ms. Smith-Fachetti had not yet arrived.

FY2017 Departmental Budget Requests (operating and capital):

Historical Commission

Mr. Hardy explained the main functions of the Historical Commission, including helping the Building Department with recommendations for repairs to historical buildings, and implementing the demotion delay. He stated that the budget is used for advertisements, communications and postage. In response to a question from Mr. Lunetta, he stated that the Commission is seeking permission to add 36 homes to the historical register. He stated that they have the authority to add them without permission, but they choose not to. He described the criteria for qualifying homes and the process.

Finance Committee

Mr. Zimbone introduced the budget. Most of the budget is salary, and the expense budget is primarily for registration fees for professional conferences.

Public Facilities

Mr. Zimbone stated that the FY17 budget has decreased significantly because energy expenses including electricity and natural gas have been moved to Townwide expenses. Heating oil costs remain in this budget. Salaries have decreased due to staff turnover. Ms. Lustig stated that the Repairs and Maintenance line is being budgeted differently. They used to have line items for each facility, broken down by types of expenses. Now the budget is broken down by contract. Each contract was inflated based on expected expenses in the next fiscal year.

Ms. Lustig stated that the line for Other Property Related Services includes an increase for a new contract, but some landscaping costs were reallocated to a different line. She stated that Professional and Technical Services has increases in HVAC expenses and Licensed Professional Services based on actual spending in recent years. Ms. Lustig noted that there was a staff person doing some of this work, but it is now outsourced. Mr. Reilly stated that outsourcing some of this work is still cheaper than paying overtime rates. In response to a question from Mr. Zimbone, Mr. Davison stated that $2,728,727 was reallocated from this budget to Townwide expenses. Mr. Reilly stated that the gasoline and diesel cost assumptions are high, and asked the Committee for permission to meet with the Finance Director to negotiate a reasonable decrease to budgeted fuel costs. There were no objections. Mr. Reilly commented that this budget will be less flexible now that most energy costs have been moved out.

Mr. Zimbone stated that there is a DSR4 to add a Project Manager to the Construction Division for $94K. He stated that the Town Manager recommended funding half of the salary through the operating budget, and changing half to project budgets. Mr. Popper stated that with the number of projects, resources in the Construction Division are extended. He stated that they do not have the capacity for all of the upcoming projects such as the Fire stations and Rosemary Pool. He stated that the Hillside project is very demanding, essentially a full-time job. The Town is acting as Owner’s Project Manager, work that is usually outsourced. Mr. Coffman asked how the position is funded this year since it is already filled. Mr. Popper stated that it can be charged to the Hillside project in FY16. Mr. Lunetta asked how many projects a project manager can handle. Mr. Popper stated that it depends on the nature of the project, but usually one, along with other tasks. Mr. Lunetta asked what would happen if the position is not funded. Mr. Popper stated that the person would have to be let go. Mr. Zimbone asked why the Town Manager recommended half salary in the operating budget and only half charged to project budgets. Mr. Davison stated that only certain allowable costs can be charged to the project, and they do not know how much will be chargeable in FY17. He stated that it is reasonable to expect that half will be charged to the project. He stated that if more can be charged, then there would be budgetary turnback. In response to a question from Mr. Connelly, Mr. Popper stated that there are 4 professionals in the department, including himself and 3 other project managers, including this position.

Mr. Zimbone stated that there is a warrant article to appropriate $590K for the Public Facilities maintenance program. He stated that the program was previously funded with cash capital, but is now proposed to be funded as a warrant article. Mr. Coffman asked why this is not included in the department’s expense budget. Ms. Miller stated that this gives more flexibility in the timing of work. Mr. Davison stated that the appropriations in the operating budget can be spent only for work that fiscal year, which can make timing difficult for work on schools which often can be done only in the summer, after the new fiscal year starts in July. Mr. Laffey described the specific work that this article will fund. He updated the Committee on asbestos removal from school buildings.

Snow and Ice Overdraft Authorization

Mr. Davison requested authorization to spend up to $508,837 in the Snow and Ice budget, or $104,837 more than appropriated. The request is based on assumptions of three light snow events, one mid-sized snow event, and no major events, plus the purchase of 895 tons of salt. He stated that the cost of storms is based on many factors, including timing, but the costs are estimated based on historical experience. He stated that this is the one budget are where municipalities may deficit spend, as long as authorized by the Town Manager and Finance Committee. He stated that it is only an authorization, and does not move funds. However, bills cannot be paid until the authorization is approved. Mr. Zimbone asked if there are any other expected draws from the Reserve Fund. Mr. Davison stated that he does not foresee anything at this point. The most volatile areas such as legal expenses are fine.

MOVED: By Mr. Zimbone that the Finance Committee approve of the request for Snow and Ice overdraft in the amount of $104,837, for total allowable Snow and Ice spending of $508,837. Mr. Reilly seconded the motion. The motion was approved by a vote of 9-0.

Special Town Meeting

Article 1: Approve Collective Bargaining Agreement

Ms. Fitzpatrick stated that she planned to recommend that the Board of Selectmen withdraw the article.

Article 2: Minuteman Regional School District

Mr. Matthews stated that there are two decisions in this process: whether to adopt the new district agreement, and whether to go forward with the capital project. The two are related, but it is best to deal with them separately, since they are separate votes. This article address only the district agreement. The Board of Selectmen plans to have a Special Town Meeting in May to decide whether to object to the capital project. He stated that the Town will be better off with the new district agreement, whether or not it wants to continue as part of the district. He stated that the capital project is significantly more expensive than expected, although it is similar to other schools, and is within MSBA recommendations. He stated that Minuteman had assumed a 4% interest rate, which has been changed to 7%. He believes that 4% is reasonable, but that 7% is better for comparison purposes. The MSBA caps reimbursement at $297 per square foot, and this will cost significantly more than that, although all costs are reasonable and necessary.

Mr. Zimbone asked whether the process ends if one town votes against the agreement since there must be unanimous agreement. Mr. Matthews stated that the Board would have to caucus, but he felt it would still be important for Needham to vote because the show of support could be helpful moving forward. He stated that he thinks if the new agreement is approved, and the capital project moves forward, there is a potential that Watertown could seek to join the district. He stated that an additional town will share costs and will provide more certainty. Mr. Reilly stated that Ms. Gulati had prepared a memo comparing costs. He stated that the cost of alternative placements for the current 24 students is $669K while the cost of staying in the district under the current agreement would be $960K. He asked why the Town would be better off to stay with Minuteman. Mr. Matthew stated that there are educational and programmatic benefits. In addition, the Town will own part of the building and have a voice in the governance. He stated that when state aid for vocational schools ends, he expects a shortage of schools and the Town may not be able to place students where they want. He stated that the Town has committed to staying in the district. If Needham had tried to pull out of the district, it likely would have been a deal breaker for getting the new agreement in place. Mr. Connelly stated that it seems unlikely that any other town will join soon and undertake the risk. Mr. Matthews agreed that there would be no new members in the next 2-3 years. He stated that once the new agreement is in place, there can be a careful discussion about the capital project. Mr. Connelly stated that the Minuteman capital project needs to be weighed against the other capital needs in Town.

Mr. Coffman asked if space was considered in the analysis of the cost of other placements. Ms. Gulati stated that it was a hypothetical analysis based on the students currently enrolled at Minuteman and where they might go. Whether there was available space in the other programs was not examined. Mr. Zimbone asked if there is a new agreement, and 7 towns pull out, whether all 9 towns would need to agree in order to fold the school. Mr. Matthews stated that they would, but that unanimous consent is not needed for one town to leave the district. He stated that if fewer agreed to close down the school, the state could come in to wind down the school. Mr. Zimbone stated that the expected additional costs would be $350K-$400K which would be a significant hit to the operating budget. Mr. Matthews agreed that it is not cheap, but the Town could manage it.

Mr. Reilly asked why the proportion of capital costs would increase more than the proportion of operating costs under the new agreement. Mr. Matthews explained that the new formula for assessment of capital costs has three parts: enrollment (per capita), Chapter 70 (a "wealth" factor) and the capital contribution base (1% flat assessment to each town.) However, the operating costs are assessed in a way that is basically per capita. Since Needham's wealth factor is higher than average for member towns, especially since some of the wealthier towns are planning to exit the district, its share of capital costs will increase more proportionally than its share of operating costs. Mr. Reilly did point out that the difference between the Minuteman charge and the comparative cost schedule developed by Ms. Gulati, was entirely attributable to the capital component of the Minuteman schedule. Ms. Miller asked if Needham would be responsible for 30 years of capital costs if it leaves the district. Mr. Matthews stated that Needham would be bound to the capital debt schedule if it does not reject the bonding. He added that non-member towns could be charged for capital. Mr. Jacob noted that all of the other member towns would also be bound to the 30-year capital debt. Mr. Matthews stated that if the project to build a new school is not ratified, the school would still need a $100 million capital maintenance project. He stated that if a capital project is not feasible, then the district will discuss winding down. Mr. Matthews described the timing of when the district would vote the bonding authority for the new project, and the 60-day window for towns to disapprove. Mr. Zimbone suggested explaining the bonding process to Town Meeting.

Mr. Connelly stated that he is concerned that approval of the article to amend the district agreement will commit the Town to the capital project. He stated that he needs assurance that the ability to reject the bonding will not be waylaid by something outside of the Town's control, such as Minuteman or another town. Mr. Matthews stated that Minuteman understands the importance of the 60-day window and will time the bonding vote so that towns can hold their Town Meetings in that time frame. He stated if the bonding is blocked there may be a district-wide referendum, so voters decide.

MOVED: By Mr. Zimbone that the Finance Committee recommend adoption Special Town Meeting Warrant Article 2: Amendments to the Regional School District Agreement of the Minuteman Regional Vocational School District. Mr. Jacob seconded the motion.

AMENDED: Mr. Connelly requested that the motion be amended so that the recommendation is based on the representation that Town Meeting has the opportunity in May to discuss and vote on the capital project. Mr. Zimbone and Mr. Jacob consented. The amended motion was approved by a vote of 9-0

Article 3: Appropriate for Feasibility Study (Police/Fire)

Ms. Miller stated that the Committee had discussed last week whether to vote the funds for this project now, or whether to consider it in May in the context of the whole capital plan. She stated that the Committee had a tie vote, and cannot speak at Town Meeting if it takes no position. She asked if anyone had reconsidered their position. Mr. Lunetta stated that the practicality of planning the two fire stations together outweighs the value of following the usual practice. He stated that he would change his position and vote to support going forward. Ms. Miller stated that she supported doing the design work together, but not the timing. Mr. Connelly stated that he did not change his position, and did not want to recommend this project at this time.

MOVED: By Mr. Zimbone to reconsider the vote of January 25, 2016 regarding Special Town Meeting Warrant Article 2, Appropriate for Feasibility Study in the amount of $90,000. Mr. Reilly seconded the motion. The motion to reconsider was approved by a vote of 8-0. (Mr. Lavery had departed the meeting.)

MOVED: By Mr. Zimbone that the Finance Committee recommend adoption of Special Town Meeting Warrant Article 2, Appropriate for Feasibility Study in the amount of $90,000. Mr. Reilly seconded the motion.

DISCUSSION: Mr. Connelly rested on his comments from January 25. Ms. Miller stated that she felt that it was not prudent to fund a feasibility plan without a coherent funding plan for the underlying project. Mr. Reilly stated that it would be unusual to hold a Special Town Meeting for one article. He supposed that one of the reasons that this article has been included is for practicality. He stated if the Finance Committee does not recommend the article, it could be messy. Mr. Coffman stated that this is a case of substance over form. It is practical to have the two projects designed together. Ms. Smith-Fachetti stated that the purpose of this Special Town Meeting is to vote the Minuteman agreement. She expected that attendance would not be different for one versus two articles. She stated that this article should be considered at the Annual Town Meeting. Mr. Connelly stated that there is a process, and to make an exception here for expediency is dangerous. He stated that the time that would be lost between now and May could likely be made up. It is not unreasonable to get started in July.

VOTE: The motion was approved by a vote of 5-3. (Ms. Smith-Fachetti, Mr. Connelly and Ms. Miller dissented. Mr. Lavery had departed the meeting.)

FY 2017 Budget Discussion

Revenue: Ms. Miller stated that there was plenty of projected revenue for all expenses. Mr. Reilly asked why the budget for abatements and exemptions was so low. Mr. Davison stated it is because it is not a valuation year. He stated that the budgeted amount is the floor. The same methodology has been used as every year, but last year there was unprecedented new growth. Mr. Davison stated that part of the recurring revenue from the solar project will disappear in 20 years, so he recommended putting the revenue into the Debt Service Stabilization Fund. Mr. Zimbone asked if the original plan had been to distribute this revenue to budgets with energy costs. Mr. Davison stated that when the Town expected credits for the solar project, that was the case. Mr. Zimbone stated that he has no objection to the proposal, since it will free up money for other uses. Mr. Lunetta asked if money was ever returned to taxpayers in a flush year. Ms. Miller stated that the Town has reduced water bills, but never property taxes. Mr. Davison commented that only the Board of Assessors can vote to lower taxes.

Mr. Connelly asked if the Town's debt was subject to prepayment penalties, and whether it would make sense to put money toward reducing debt rather than putting it in a fund to pay debt service later. Mr. Davison stated that the Town cannot just pay down principal on a bond, though some include a provision where the Town could call a bond early and pay a penalty, a "callable" bond. They will do if it would be beneficial. He stated in the early stages of a debt, if a note matures and there are available funds, then they will pay off some and bond less than the full amount. Mr. Connelly suggested taking $500K to reduce debt issued. Mr. Davison stated that the plan is to pay down some notes and borrow less to keep the debt service at 3%. Ms. Miller stated that the Town then has increased debt capacity. Mr. Reilly stated that this looks better for the balance sheet, but may not be better for operations. Mr. Davison stated that paying more cash for projects up front means that there is less money for other uses. Mr. Davison stated that since there is money that is not needed this year, he suggests parking it in the Debt Service Fund for 2-3 years until there are greater needs. Ms. Miller noted that local aid is fluctuating.

Townwide Expenses: Ms. Miller suggested decreasing the Reserve Fund to $1.5 million. Unless there is a huge snow year, the money from the Reserve Fund is generally not spent. She also pointed out that funds often come available in the fall, and are credited to the Reserve Fund at the fall Special Town Meeting. She stated that the Benefits line may need to be changed, depending on the number of new positions being recommended. Mr. Lunetta suggested considering an extra person in Accounting doing payroll since there has been such high turnover. Mr. Davison stated that the position has not been formally requested, and that some more organizational thought should need to go into the decision. Mr. Lunetta stated that, from his experience in human resources, the reason for the turnover of 7 people in 7 years should be examined.

Departments: Mr. Zimbone suggested using the Minuteman preliminary assessment, not the pro-forma number. Mr. Reilly stated that the Part-Time Fire Inspection work should be included since it is short money, and could make a difference in the safety of public safety personnel. Mr. Lunetta agreed, and stated that the fire fighters do not know exactly where hazards are, so this could potentially save lives. He stated that it takes a trained eye to see the hazards. Mr. Connelly stated that new construction has fire code requirements which will capture all of this information in the building permitting and inspection process. He stated that this adds to the annual operating budget. He stated that the Police, Fire and Building personnel are vigilant, and there has been no loss. He stated that this position does not seem a high priority. Mr. Reilly noted that there are also many old buildings in Town, and that this position would be looking at contents in addition to building structures. Mr. Connelly stated that this work could be done on a fee or consulting basis. He stated that once a position is in the budget, it generally does not come out. He stated that he would like more discussion of this issue. Mr. Lunetta agreed it could be more practical to fund one project to get the work done more quickly. Ms. Miller stated that a financial warrant article could be used to fund the work, and then only minor maintenance is needed. She stated that it might also be possible to fund this from the Reserve Fund at the end of the fiscal year.

Mr. Reilly stated that he felt that the two additional part-time inspector positions in the building department were warranted. Mr. Davison stated that he did assume additional revenue in FY17 from building permits. Mr. Reilly stated that is it important to have prompt inspections. Ms. Miller noted that there have not been complaints about slow inspections. Mr. Jacob stated that contractors are reluctant to complain to building inspectors. Mr. Reilly stated that there are new buildings being built, and that the Town Manager's recommendation is a strong endorsement. Ms. Miller asked why the positions were 22.5 hours and therefor eligible for benefits. Ms. Fitzpatrick stated that the request is based on the number of inspections they would do in a day. She state that some positions turn over fast without benefits.

Mr. Connelly stated that the School Department identified items that were highest priority if additional funds were available. He stated that the total was $282,861. $131,200 was requested for the Pathways therapeutic program which seeks to keep students in the system and provide additional resources for current students. There are also requests for $8,472 for a performing arts program and $9,600 for summer technician for preparing for tech programs the following fall. Mr. Coffman stated that the therapeutic program has potential for providing savings down the road. If it keeps 10 students in district as hoped, there is a potential for substantial returns. The Schools are attempting to address an expense area where the increases outpace revenue growth. Mr. Connelly agreed that the program is forward-thinking, and has the potential for savings. He stated that he was not persuaded by the other items. Mr. Zimbone stated that the Finance Committee has encouraged the Schools to invest in something to stem out-of-district placements. He stated that he supports the $131,200 for the therapeutic program but feels the 2 other items are lower priority. Ms. Miller stated that the School Committee could find those funds within their budget. Dr. Gutekanst stated that might be possible, but that he would not slide the items into the budget and will not hire those people. He stated that they may use volunteers.

Mr. Reilly stated that prices for gasoline and diesel fuel have gone down substantially recently, and are forecast to stay low. He feels confident that there is a potential for $20K-$30K reduction in fuel costs. Mr. Connelly noted that his objections to the School's other requested items were not based on a lack of funds. Mr. Reilly stated that he looked at data from 25 area towns provided by Ms. Mizgerd, and how much was spent on education. He stated that for area towns with a budget over $100 million, the range was 31.5%-37.9% spent on education, with Needham at 37.9%. He stated that he felt that while Needham's spending on education was higher than other towns, it was not unreasonably so, and probably where the Town wants to be. Ms. Miller stated that based on the representations of the liaisons, she would support funding the School therapeutic program.

There was discussion of the Public Facilities department's request for an additional project manager. Mr. Connelly stated that an additional project manager is not needed for the workload in FY17, and he does not support the request. He stated that there is only one physical construction project, and that other projects are being done by designers and consultants and do not need much oversight. He thinks the Town is 1-2 years away from this additional need. He felt that the workload was overstated. Ms. Miller asked how the position is being paid. Ms. Fitzpatrick stated that for FY16 the position is being charged to projects. Mr. Davison stated that in FY17, they feel that they might not have enough chargeable expenses to cover the salary. Ms. Fitzpatrick stated that she did not agree that the workload did not justify the position, and stated that Mr. Popper could some back to explain the work. She stated that the person is now working on the Rosemary Pool project permitting and the possibility of combining it with the sediment removal project. Ms. Miller stated that it would be helpful to understand the work that the person would be doing next year.

Mr. Reilly stated that he was underwhelmed by the need for an additional Public Health Agent. Ms. Miller stated that there is much new construction and new facilities, and that there are increasing regulatory requirements. Mr. Zimbone stated that there is already funding in the budget for a part-time person, so there would need to be an adjustment to the increased salary cost. Mr. Jacob stated that it would be helpful to know the number and locations of inspections by the health department. Ms. Fitzpatrick stated that she did not recommend funding the Public Health Agent because she is considering reorganizing the department now that there is one budget. She does not think it would interfere if the Committee recommends funding it for FY17. She stated that there may be tweaks for FY18. She stated that the inspection work is necessary.

Ms. Miller suggested adding $3,776 to the Library budget to cover opening on Sundays in June while the schools are still in session. Mr. Zimbone asked why not continue funding that with state aid. Ms. Miller stated that it would free up the money for other projects. Mr. Zimbone asked if it could make it more difficult to qualify for state aid later. Ms. Miller stated that all library aid is decreasing.

Ms. Miller stated that the budget as discussed totals $143,529,541, subject to possible adjustments for fuel costs. The Committee will plan to vote the draft budget next week before Town Meeting.

Finance Committee Updates

There were no updates.

Adjourn

MOVED: By Mr. Connelly that the Finance Committee meeting be adjourned, there being no further business. Mr. Reilly seconded the motion. The motion was approved by a vote of 8-0 at approximately 10:20 p.m. (Mr. Lavery was no longer in attendance.)

Town of Needham, Departmental Spending Requests, December 2015; Town of Needham Capital Improvement Plan FY2017 – FT2021, January 4, 2016; Town of Needham, Proposed Annual Budget FY2017, Office of the Town Manager, January 26, 2016; Finance Committee FY17 Budget Development Worksheet; Needham Public Schools Fy17 Budget Proposed

Reductions; Special Town Meeting Warrant for February 10, 2016; Memo from Anne Gulati and Mary Lammi re: Minuteman Alternative Cost Information, dated Feb. 2, 2016; Minuteman High School Building Project: “Go It Alone” Option; Minuteman High School Five Year Projected Revenue Plan and Assessments- Projected to FY20 for 9 member-towns, and for 16 member-towns; Press Release: MSBA Commits State Funds to Build New Minuteman High School, Jan. 27, 2016; Minuteman School Enrollment Over Three Years; Minuteman School Debt Service Assessments per member per $1 million principal in interest.

Respectfully submitted,
Louise Mizgerd
Staff Analyst

Approved February 10, 2016