Needham Finance Committee
Minutes of Meeting of January 4, 2023

The meeting of the Finance Committee was called to order by Chair John Connelly at approximately 7:00 pm in the Great Plain Room at Needham Town Hall, also available via Zoom teleconference.

Present from the Finance Committee:
John Connelly, Chair; Louise Miller, Vice Chair
Members: Karen Calton; Barry Coffman; Carol Fachetti, Carli Hairston, James Healy, Joshua Levy, Richard Reilly

Others present:
David Davison, Assistant Town Manager/Finance Director
Laura Dorfman, Chair, Chair, Historical Commission
Lee Newman, Director, Planning and Community Development
Adam Block, Chair, Planning Board
Jeanne McKnight, Chair of Housing Plan Working Group
Stuart Chandler, Chair, Permanent Public Building Committee
Hank Haff, Director of Design and Construction

Citizen Requests to Address the Finance Committee

No requests.

Approval of Minutes of Prior Meetings

MOVED: By Mr. Reilly that the minutes of the meeting of December 14, 2022, be approved as distributed, subject to technical or typographical corrections. Ms. Calton seconded the motion. The motion was approved by a vote of 7-0-2 with Mr. Coffman and Mr. Healy abstaining.

FY2024 Department Budget Hearings

Historical Commission

Ms. Dorfman stated that the FY24 budget request is level at $1050. The Historical Commission is planning to undertake a project to show homes lost to demolition, and possible to establish a historical district. Ms. Miller noted that the funds in the budget will be used for plaques for historical buildings.

Planning and Community Development

Mr. Healy introduced the budget. He stated that there is an increase in the regular salary and wage line of approximately $24K due to typical steps and cost of living increases. He added that there is a $28.5K increase in the temporary salary and wage line due to the fact that Town Counsel has opined that Community Preservation Act funds cannot be used to support the salary of the community housing coordinator position. Thus, the budget proposes to shift the CPA-supported amount of funding to the operating budget. Ms. Fachetti noted that the position is also being increased by 1.5 hour per week to fund additional work needed to complete the required MBTA Multi-Family Zoning District plan. Mr. Healy stated that the overall increase to the salary and wage line is 10%, which is higher than usual, due to the changes to the housing coordinator funding. Mr. Healy also described some of the changes to the expense budget which are expected to result in a 4.3% increase. Mr. Connelly asked how the position is currently funded and whether the law has changed. Mr. Healy stated that the change is that the position will no longer be partially funded with CPA funds, but the law did not change. Mr. Connelly asked why the Town has decided to change course now. Ms. Newman stated that another position in Town was being reviewed, and she was asked to check with Town Counsel about this position as well. Town Counsel felt that the work of the housing coordinator did not qualify as supporting community housing under the law. Mr. Healy stated that he felt the position did support affordable housing. Mr. Reilly stated that Town Counsel had relied on the Department of Revenue's guidance. Ms. Newman stated that she pushed back but Town Counsel felt that the DOR's guidance did not support funding the position with CPA funds.

Mr. Healy stated that the Finance Committee should remain concerned that when positions are funded with sources that may later become unavailable, the Town will likely seek to add them to the operating budget at some point. Mr. Reilly stated that the Finance Committee may want to push back on the issue with the housing coordinator. He added that the CPC should be consulted to make sure they would support continuing to help fund the position. Ms. Newman stated that this is not an issue that the CPC has raised. The position has been in place with this funding since 2017 and the work is important. This person will need to put in significant time in the next year to meet the MBTA's requirement. Mr. Connelly stated that he would follow up with the CPC and Town Counsel.

Ms. Newman stated that there is a DSR5 request proposing a warrant article to continue the popular Small Repair Grant program with $50K, which is the same amount that has been granted each of the last three years. She stated that they are in the second round of funding in FY23 and expect to use up all of the funds. Mr. Connelly requested a chart of the types of repairs that have been funded and completed over the last several years. Mr. Healy noted that over the last three years, $150K has been appropriated, of which $108K has been committed, but $85K has not yet been paid out. Ms. Newman stated that in some cases, funds were committed, but the residents were either reluctant to have the work done during the pandemic or had difficulty finding contractors. She stated that the funds are not paid out until the work has been completed. She noted that the figures in the budget request are several months old, and that she would update them. Mr. Levy asked if this cost should be in the operating budget if it is an annual expense. Ms. Newman stated that the funds are needed across fiscal years, so that would not work well.

Mr. Reilly asked what the Town needs to do to meeting the MBTA Multi-Family Zoning District requirements. Ms. Newman stated that the next requirement is to provide an action plan that outlines the Town's existing housing plan and what the Town intends to do to meet the multi-family zoning requirements. She stated that the goal is to present the compliant zoning measure to the Annual Town Meeting in spring of 2024, allowing the fall 2024 Special Town Meeting as a backup to meet the deadline at the end of calendar year 2024. Mr. Reilly asked if there would be related expenses. Ms. Newman stated that the funding for planning studies is in the budget, and she does not anticipate any additional needing further funding. Currently, the Town needs to submit responses to an online questionnaire about regarding the housing plan, community outreach, and the plan for updating zoning. Ms. McKnight stated that she expects the Town to confer with the Department of Housing and Community Development to ensure that the zoning regulations that will be brought to Town Meeting will satisfy the requirements. They are focusing on changing the zoning as the MBTA requires.

Mr. Block stated that the Planning Board plans to present a zoning article in May that would change requirements related to accessory dwelling units which would allow 3-car garages in the Single Residence B district.

Ms. Miller asked the amount of HOME funds that the Town is eligible for, and how much has received, and whether the housing coordinator would be involved in the use of those funds. Ms. Newman stated that initially the Town was receiving a pass-through of almost $50K of HOME funds per year. Now the funds are put into a pool for a consortium of communities. Those communities can then compete for funding from the pool. By right, the Town only receives a small amount for administrative costs. The Town has not yet applied for funds in this process, but will do so when it is timely for a significant eligible project.

Mr. Reilly stated that the Town is relying on a community development plan from 2011 and asked if the plan should be reconsidered. Ms. Newman stated that the plan is a foundational plan, and that further planning was done in 2015 when the floor area ratios were increases. The plan is reconsidered every time there is re-zoning, such as when Route 128 was changed, or when the zoning plan was updated to accommodate the Children's Hospital project. In response to a question from Mr. Coffman, there was discussion of how much of the business district was not yet developed, including two new buildings that have been planned, as well as structured parking.

Building Design and Construction Department

Mr. Connelly introduced the budget. The request is for level service, with 3 employees. There is a decrease in the salary line due to the retirement of the prior director. The primary activities have included preparing the Hillside School building for the School Department in the summer and fall, and then obtaining bids for the Emery Grover building project. The demolition work at Ridge Hill has essentially finished with some final items to be done in the spring. There are several ongoing studies including a utilization study of the Center at the Heights, the Library space study, the school theater and light study, the design of the rooftop unit replacements at Broadmeadow and Eliot schools. Work on the Pollard lockers is also planned. Mr. Haff stated that the schematic design work on the RTUs will take place in summer 2023, with the construction cost to be determined. They are also working on the DPW complex study.

Mr. Connelly stated that in addition to the base budget, there is a DSR4 request for an additional project manager position. Mr. Chandler stated that they had provided a chart showing the ongoing activities to show the need for additional staffing. Mr. Haff stated that the biggest unknown is the school master plan, which will probably prioritize the Pollard project. They would need to submit a statement of interest to the MSBA for that project. He stated that he is waiting for results of the CATH study, and does not currently know if or when they would seek construction funding for that. Mr. Connelly stated that he understands the desire for a new position, but since so much is in flux, he would not recommend funding a position that may not have work to do. Until there is more definition of the timing and workload, he is not ready to create a position effective July 1. Mr. Chandler stated that he did not disagree, but he stated that the Town should be ready to bring on another project manager, since they know that it is much less expensive to have an in-house project manager than to contract out the services. If the position is not funded, he would request that the Town reserve funds in some way to provide for a project manager. Mr. Connelly stated that the Town has shown that it can do that. It is helpful to have this information now, but the position should not be funded unless it is known that the projects will go forward. Mr. Haff stated that he wanted to make sure that the Committee knew about the upcoming need, and noted that it can take a long time to fill the position.

Facility Financing Outlook 2022 Update

Mr. Davison described the assumptions in his December 2022 facility financing report. He started with all approved and ongoing projects and assumed the appropriations would all be fully expended. For upcoming projects, he assumed the amounts in the proponents' capital requests, as well as their timelines for borrowing. He estimated borrowing to meet the cash demands for 6-12 months, and thus did not assume borrowing for the full project on day 1. He summarized the identified projects, which included pursuing the Pollard project first as a grade 6-8 school and also converting High Rock to an elementary school. After that, Mitchell would be replaced and then doing the DPW complex project. Mr. Davison noted that he assumed the work at High Rock would be funded with cash, not debt. He stated that the costs have been escalated by the proponents based on timing of the requested project funding. He assumed a 7% interest rate even though the Town has not actually paid 7% interest in the last 40 years. He is projecting the debt service costs until 2060, and he cannot assume the recent historic low interest rates will persist for 40 years. Recently, the Town has been paying 5%. He stated that he did provide the tables for an interest rate of 5%, which show that the difference is not material for policy purposes. He maintains that the 7% rate is prudent. He added that the interest rate is not the driver of the total costs; the driver of the total costs is the costs of the projects.

He stated that for revenue, he assumed a 4% growth rate. He noted that for the last few years, revenue has been exceptionally high due to factors including new growth due to the buildout at Needham Crossing and the number of tear-downs, and also due to Eversource's upgrade of wires which have added significant value. Eversource has recently invested tens of millions of dollars, which will not continue. Mr. Reilly noted that the level of increase won't continue but the increase in the personal property tax base remains. Mr. Davison stated that he assumed a 2% growth rate for water and sewer revenue, and growth in the amount of CPA revenue of 4%.

Mr. Davison explained the Town's two debt policies that require: (1) total debt service to be less than 10% of total revenue; and (2) debt service within the levy limit not to exceed 3% of general fund revenue sources. He stated that, based on the assumed projects and timelines and the assumed 7% interest rate, the 10% debt limit will be exceeded from FY28-FY39, and the 3% policy exceeded from FY26-FY34. Using a 5% interest rate, the 10% policy would be exceeded from FY28-FY37 and the 3% policy would be exceeded from FY26-FY33. He noted that he has used the actual interest rates in the calculations through FY23. He stated that the Town has never exceeded the 3% policy, but has exceeded the 10% policy for a few years. At that time, there was a clear plan to being the Town back in compliance. Mr. Connelly noted that the Town had never exceeded the policy at the levels projected in this plan. He stated that there are two issues: the length of time exceeding the policy and the amount that the policy is exceeded. He stated that he feels a better approach for facility planning would be to figure out what level of funding is available to be borrowed while staying within the debt polices rather than looking at the numbers and how to finance them. Mr. Connelly stated that he would be interested in seeing tables that projected the amount of debt that could be accommodated if the Town stayed within the constraints of the debt policies both the 3% and the 10% policies. Mr. Davison stated that he could figure out how far the time would need to be stretched out to stay within the policies, but would need to be given the interest rate assumption. Mr. Coffman stated that it may be better to figure out how much the Committee would want to reserve to mitigate the debt service costs and stay within the debt limits, and to plan to find that amount of support. Ms. Miller noted that finding other support still means that the Town would be in violation of the debt limits. The conversation should be about what kind of projects are actually needed and what the Town can afford.

Mr. Healy asked whether the 3% policy is in line with similar policies in other AAA-rated communities. Mr. Davison stated that there are as many models as there are communities. Some use more or less debt and others use even more debt. He feels that Needham has done well with the 3% limit. Mr. Healy stated that he has consistently requested a list of what projects would be pushed out or made difficult because the 3% debt limit is being stretched. Mr. Davison stated that something does need to give whenever the general fund debt service is projected to be above 3%, and the report shows what the Town cannot afford. Mr. Connelly stated that the report shows that the Town would exceed the 3% debt policies starting in FY26. The projects being potentially pushed are the projects listed on page 2 as being funded within the levy and planned for FY26 and beyond.

Ms. Fachetti stated that there will be Town Meeting Members who want to fund the new schools without considering other priorities and will support the plan regardless of the cost. She asked at what point the Town would lose its AAA rating, looking at the chart showing the Town's debt service burden. Mr. Davison stated that it is difficult to predict since the Town does not control its rating, but that would only happen if there is some other deterioration in the Town's operations that appears to be unsustainable. Most of the debt for these projects is excluded debt, which does not weigh as heavily in the credit rating compared to factors such as whether the Town can meet its ongoing obligations to funds its operations. There are many factors involved in the rating beyond debt and total expenditures. He feels the debt ratio would need to exceed 15% to be concerning. It is always important to have a plan to get back within the debt policies as soon as practicable.

Mr. Connelly asked if it is possible to show the effects of the proposed amounts of debt on the average single family home tax bill going forward, expanding the chart on page 9 of the report. Mr. Davison stated that he can prepare that. Mr. Levy stated that Mr. Davison has said that the Town would not go forward with these large projects if the interest rate exceeds 7%, and asked if that is because the financing has not been studied or if there were other reasons. Mr. Davison stated that this is not a Town policy, but if the interest rate goes above 7%, then the economy would be in a condition that a different type of thinking would be required.

<u>Updates</u>

Mr. Connelly stated the current school master plan calls for the Town to seek MSBA funding for Pollard and to pay in full for the Mitchell project. He does not understand why the Town would ever do a school construction project without seeking MSBA funding. He noted that the master plan has nothing about further use of the Hillside School building, such as swing space during the Mitchell construction. He stated that it is illogical to prioritize the Pollard project when Mitchell is over 75 years old and the Pollard project would be the third time working on that building.

Ms. Fachetti stated that the plan includes transitioning High Rock to an elementary school, but it is her understanding that parents are very happy with the current 6th grade center. Mr. Healy added that when the decision was made to create the 6th grade center, the Town was assured that it was a long term solution. Mr. Levy noted that any changes in operating costs stemming from the proposed plan are not addressed. In response to a question from Ms. Calton, Mr. Healy stated that the effects of migration to or from private schools are included in the enrollment projections.

Adjournment

MOVED: By Mr. Healy 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 9-0 at approximately 8:47 p.m.

Documents: FY2024 Department Budget Requests; Chart: Building Design and Construction Department – PPBC Project Schedule, 1/4/2023 draft; Facility Financing Outlook, dated December 19, 2022.

Respectfully submitted,

Louise Mizgerd
Staff Analyst

Approved January 11, 2023