

**Needham Finance Committee
Minutes of Meeting of March 14, 2018**

The meeting of the Finance Committee was called to order by Chair Richard Reilly at approximately 7:00 pm at the Needham Town Hall.

Present from the Finance Committee:

Richard Reilly, Chair; Barry Coffman, Vice Chair

Members: John Connelly, Tom Jacob, Kenneth Lavery, Joshua Levy, Richard Lunetta, Louise Miller, Carol Smith-Fachetti

Others present:

Kate Fitzpatrick, Town Manager

David Davison, Assistant Town Manager/Finance Director

Marianne Cooley, Chair, Board of Selectmen

Anne Gulati, Director of School Finance and Operations

George Kent, Chair, Permanent Public Building Committee

Steve Popper, Director, Public Facilities Design and Construction

Citizen Requests to Address Finance Committee

No citizens requested to speak.

Approval of Minutes of Prior Meetings

MOVED: By Mr. Connelly that the minutes of February 28, 2017, be approved as distributed, subject to technical corrections. Ms. Miller seconded the motion. The motion was approved by a vote of 8-0. (Ms. Fachetti had not yet arrived.)

2018 Annual Town Meeting Warrant Articles:

Article 10: Appropriate for Town-Owned Land Surveys

Mr. Reilly stated that this is a continuation of work funded last year. Mr. Davison stated that last year was the first year and that there is a significant log of surveys to be done. Mr. Connelly asked which properties were being surveyed. Ms. Fitzpatrick stated that the upcoming surveys will be the properties with upcoming projects including the Police/Fire property, Avery Field, Walker Gordon Field, Mitchell School and Cricket Field. She stated that there are no existing surveys of Town properties and that the Town Counsel is doing title searches as well, in advance of upcoming projects. Mr. Davison stated that it will take 10 years to complete surveys of all the Town land and cost \$100K per year. Ms. Fitzpatrick stated that the Town procured the work for the first year and is using a survey company. She stated that all of last year's funding has been committed. Mr. Reilly stated that the logic is that if a survey needs to be done quickly, it can cost more. Mr. Connelly stated that doing the surveys make sense for properties with planned projects, but not for the others. He stated that the next properties being surveyed make sense, but he will be less open to funding surveys for property that has no upcoming need for a survey. Ms. Miller asked if recurring revenue was being used for this article. Mr. Davison confirmed that it was.

MOVED: By Mr. Connelly that the Finance Committee recommend adoption of 2018 Annual Town Meeting Warrant Article 10: Appropriate for Town-Owned Land Surveys in the amount of \$100,000 from the tax levy. Mr. Lunetta seconded the motion. The motion was approved by a vote of 9-0.

Article 11: Appropriate for Public Facilities Maintenance Program

+Mr. Reilly stated that this is a standard article each year, with different projects planned. Mr. Davison stated that this program has changed from a few years ago when this work was part of the cash capital. Now the program is funded through a financial warrant article. He stated it is not technically capital since it covers just maintenance. He listed some planned projects including duct cleaning, floor refinishing, asbestos removal. He stated that these are current priorities, but often issues arise which require a change of plan. He stated that generally the tax levy is appropriate to fund non-discretionary needs, while free cash is appropriate for one-time needs. He stated that in this instance he has indicated using overlay surplus, but could have used free cash. In response to a question from Mr. Reilly, he stated that he could have used the levy for this article. Mr. Connelly asked why the funding amount is \$625K. Mr. Davison stated that there is no detailed estimate behind the amount. Instead it is an allocation, that the department uses to determine the planned work. He stated that the amount is indexed each year. Mr. Davison stated that it would not work to include this maintenance work in the operating budget because in municipal finance, expenses in the operating budget must be spent within the fiscal year, which would limit their ability to contract for the work. Many maintenance projects funded through this article are in the school buildings and done during the summer, spanning two fiscal years. Ms. Miller stated that contractors increase rates for perceived risk in those situations. Mr. Reilly stated that it makes sense to use a warrant article for funding, but noted that this means that operating needs are understated.

MOVED: By Mr. Lunetta that the Finance Committee recommend adoption of 2018 Annual Town Meeting Warrant Article 11: Appropriate for Public Facilities Maintenance Program in the amount of \$625,000 from overlay surplus. Ms. Miller seconded the motion. The motion was approved by a vote of 9-0.

Article 12: Appropriate for Urban Community Challenge Grant/Tree Inventory

Mr. Davison stated that this is a request of the Parks and Forestry Superintendent. The funding will allow the Town to update the inventory of shade trees. The Mass DCR will provide a matching grant of \$15K. Mr. Jacob asked what happens with the information produced. Mr. Davison stated that it helps with P&F planning of whether trees need to be taken down or replaced, and how they are cared for. Ms. Fitzpatrick stated it was last done about 5 years ago. Ms. Miller asked if there is still a fund for payments from trees that were cut down. Mr. Davison stated that the balance of that account is insignificant. In response to a question from Mr. Connelly, Mr. Davison stated that the work would be done predominantly in-house, but he did not know the amounts that would be allocated to salaries and expenses. Mr. Connelly asked to defer the vote until that information is available.

Article 15: Appropriate for RTS Efficiency Study

Mr. Davison stated that the RTS Superintendent requested this study to use an outside firm to review all aspects of the RTS operations including the staffing, operations and maintenance and

operating costs, and that he has been asking for this for years, having also raised the idea with the Solid Waste Advisory Committee. Mr. Davison stated that the Superintendent needed to address some other immediate issues before he could undertake this work. He stated that the appropriation is based on research of experts and estimated costs. Mr. Coffman asked if meaningful savings or cost avoidance was expected to be found as a result of the study. Mr. Davison stated that the justification is to ensure that the operations are in compliance with regulations and possibly to achieve savings or increase revenue. Ms. Fitzpatrick stated that some significant structural repairs are also needed at the RTS, and it is important to make sure the operations are functioning in the best way before making capital improvements. Mr. Reilly asked whether there was any reason to wait until the enterprise fund is dissolved and the budget is part of the General Fund operating budget. Mr. Davison stated that the results of the study should not affect the decision whether to dissolve the RTS. In response to a question from Mr. Reilly, Mr. Davison stated that there has never been a wholesale review of the RTS operations. The last major review took place when the landfill was closed. There was an ad hoc committee last year to review the fees and revenue stream to see if the operations could be sustainable. Mr. Coffman asked if this would affect the storage facility located at the site. Mr. Davison stated that the storage facility would be sited away from the main operations, and would not be part of the focus of this study. He stated that the study would take approximately 2 years.

MOVED: By Mr. Connelly that the Finance Committee recommend adoption of 2018 Annual Town Meeting Warrant Article 15: Appropriate for RTS Efficiency Study in the amount of \$100,000 from free cash. Ms. Miller seconded the motion. The motion was approved by a vote of 9-0.

Article 16: Appropriate for Water Meter Data Collection

Mr. Davison stated that this request will fund replacement all of the remaining old water meters in town to new meters that can be read remotely. This will reduce the time needed to do the work and allow meters to be read more frequently. Ms. Miller expressed concern about getting the remaining homeowners to comply. She stated that if an old meter has been underreporting water usage, the homeowner will be liable for all underreported amounts. Mr. Davison stated that the Town has the authority to shut off water as an incentive. Ms. Miller stated that the Water Enterprise Fund operating budget already has \$132K for water meter replacement, so this is only 2 years' worth of new meters. She stated that she felt this money would not get used.

Mr. Connelly asked what the appropriation would cover. Mr. Davison stated that it is all for expenses and will be used only to purchase the equipment. He stated that the Town would like to complete the work. He stated that it may help to identify leaks and other problems in the system. Mr. Levy asked if there will be any resulting cost savings. Mr. Davison stated that the same work will take less time, but there would be no reduction in headcount. He stated that over time, the implementation of the new meters has reduced the number of meter-readers from three to one. Mr. Levy asked if the meters are secure or if can be read by anyone with the equipment to do so. Mr. Davison stated that people could potentially read others' meters.

MOVED: By Mr. Coffman that the Finance Committee recommend adoption of 2018 Annual Town Meeting Warrant Article 16: Appropriate for Water Meter Data Collection in the amount of \$220,000 from Water Enterprise Fund retained

earnings. Mr. Jacob seconded the motion. The motion was approved by a vote of 9-0.

Article 21: Amend General By-law: Department Revolving Funds

Mr. Davison stated that this article would change the named department associated with one revolving fund from Public Facilities to Public Works because the DPW will now be using the funds. If the change is not made, then the DPW will not be able to access the funds.

MOVED: By Mr. Connelly that the Finance Committee recommend adoption of 2018 Annual Town Meeting Warrant Article 21: Amend General By-law: Department Revolving Funds. Ms. Miller seconded the motion. The motion was approved by a vote of 9-0.

Article 22: Set Annual Revolving Fund Spending Limits

Mr. Davison stated that under the Municipal Modernization Act, the revolving funds no longer need to be re-authorized each year, but the spending ceilings still must be set annually. He stated that funds can be temporarily released if more spending is needed. This article sets the limits for FY19 in the same amounts as FY18. Mr. Reilly asked why the amounts are not higher if they are merely a limit. Mr. Davison stated that these amounts are sufficient and do not need to be higher. He stated that they estimate on the high side, to be safe. Mr. Coffman suggested adding the amounts actually spent in the most recent year. Mr. Davison stated that the table is dictated by the DOR, but that he can add that to the article information.

MOVED: By Mr. Coffman that the Finance Committee recommend adoption of 2018 Annual Town Meeting Warrant Article 22: Set Annual Revolving Fund Spending Limits as set forth in the article. Ms. Fachetti seconded the motion. The motion was approved by a vote of 9-0.

Article 23: Authorization to Expend State Funds for Public Ways

Mr. Davison stated that this is an annual article that is required to authorize the Town to accept Chapter 90 state aid funds, which will be \$929,251. Ms. Miller suggested including what the funds would be used for in FY19.

MOVED: By Mr. Connelly that the Finance Committee recommend adoption of 2018 Annual Town Meeting Warrant Article 23: Authorization to Expend State Funds for Public Ways. Mr. Lavery seconded the motion. The motion was approved by a vote of 9-0.

Article 35: Appropriate for Athletics Facility Improvements Design

Mr. Davison stated that these funds would be used to fund the design the work to replace the turf fields. He stated that he expects that the plan is to request construction funds of \$1.8 million in the warrant next year. He stated that using the funds from the Athletic Facilities Improvement Fund requires a 2/3 vote. Ms. Miller asked whether the fields are at the end of their useful life. Mr. Davison stated that the Superintendent of Parks and Forestry stated that the fields will need

to be replaced in 2020, so the design work needs to be done in the next year. Ms. Miller stated that she would expect questions at Town Meeting about turf technology, and other details.

MOVED: By Ms. Miller that the Finance Committee recommend adoption of 2018 Annual Town Meeting Warrant Article 35: Appropriate for Athletics Facility Improvements Design in the amount of \$50,000 from the Athletic Facilities Improvement Fund. Mr. Jacob seconded the motion. The motion was approved by a vote of 9-0.

Article 36: Appropriate for Public Works Infrastructure Program

Mr. Davison stated that this is a capital request to fund the Town's infrastructure. He stated that FY19 is the last year that this annual appropriation will have a borrowing component. Mr. Davison stated that the amount has been identified in the Capital Improvement Plan and will be fully expended. Ms. Miller asked if it might be possible to reduce the amount of debt below \$250K as the Town did last year. Mr. Davison stated that the article could be amended to fund that \$250K with cash. Ms. Miller stated that the issue can be revisited after the amounts have been determined for the stabilization funds.

Mr. Levy asked how this program interacted with the Chapter 90 funds. He asked whether those funds could be used here. Mr. Davison stated that the Town spends more on infrastructure annually than is covered by Chapter 90 funds, so this provides the additional funding. He stated that these funds are used for some of the same purposes as Chapter 90 funds, and for some additional uses. Ms. Miller stated that this work used to be in several different articles for roads, intersections, culverts, or bridges, but having it all together provides more flexibility.

MOVED: By Ms. Miller that the Finance Committee recommend adoption of 2018 Annual Town Meeting Warrant Article 36: Appropriate for Public Works Infrastructure Program in the amount of \$1,773,500. Mr. Levy seconded the motion. The motion was approved by a vote of 9-0.

Article 37: Appropriate for Public Works Storage Facility

Ms. Fitzpatrick stated that the cost estimate for the project was \$7.9 million, but has decreased by \$715K. She stated that the amount to be authorized will be reduced. Mr. Connelly stated that he would like to see the budget for the \$7.6 million. Ms. Fitzpatrick stated that she had that information. Mr. Davison stated that the new facilities financing plan would not be available for a few weeks. Mr. Reilly asked how the amounts for the various funding sources designated in the article were determined. Mr. Davison stated that it is based on the architect's determination of the percentage of the project that is attributable to each department, and the type of construction needed (fully or partially covered space.) He stated that the free cash amount is the same percentage as the Memorial Park project just to be consistent. Both will require a 2/3 approval vote. Mr. Coffman asked if the borrowing amount will be within the 3% limit. Mr. Davison stated that all of the planned projects within the levy in FY19 will be done within the 3% policy. Mr. Reilly stated that p. 2-43 in the CIP shows when the debt within the levy will exceed 3%, assuming that all of the planned projects are approved. Mr. Davison stated that the Debt Service Stabilization Fund was created knowing that the planned projects would cause the debt service payments to push beyond the 3% limit.

Mr. Connelly asked if there has been any further discussion of moving forward with the plan to add modular classrooms at Mitchell School. Mr. Reilly stated that Dr. Gutekanst told him that the classrooms are needed based on current projections, and not due to new apartments in the district. Ms. Fitzpatrick stated that the Board of Selectmen needs to discuss this project. Ms. Cooley stated that if there is funding available from the DSS Fund, then the Mitchell project would not be in conflict with the storage facility. Mr. Reilly stated that voting for the storage facility would not preclude using funds from the DSSF for the Mitchell modulars. Ms. Miller stated that this implies that the Town has sufficient funds to meet its needs without additional funds. Ms. Fitzpatrick stated that there is funding in the budget to fund both this DPW storage facility and the modular classrooms at Mitchell.

Mr. Connelly stated that he does not want to vote this project without a budget, or in isolation of other projects. Ms. Miller stated that she would like to see how it will affect the capital financing plan. Mr. Kent stated that he is still not sure at this point that the Mitchell modular project is being recommended by the Schools. Mr. Connelly proposed deferring the vote on the storage facility until there is a breakdown of the components of the project, and until the plans for the Mitchell modulars, including how it stands in relation to other projects, are known. Mr. Reilly stated that Ms. Miller has also requested the effect that going forward on this project will have on other projects. Mr. Davison stated that the Emery Grove building may be affected. Ms. Fitzpatrick stated that the original estimate for that project was \$14 million, but they are refreshing the estimate. Ms. Cooley noted that the School Committee has not actually made any request yet for the Mitchell modulars. Mr. Reilly stated that he will speak to Dr. Gutekanst about the timing and certainty of the request.

Article 39: Appropriate for RTS Property Improvements

Mr. Davison stated that this would address some immediate safety concerns in the tipping building caused by fire and rust. The metal roof needs to be shored up and replaced, and the fire repression system repaired. He stated that there is no question that these structural repairs need to be done. The work involves different issues than the operational issues that will be addressed in the efficiency study. He stated that this article will be funded with debt because there is insufficient cash in the RTS enterprise fund to pay for it otherwise. He stated that the next facility financing plan will assume that the RTS will be dissolved and that this will be financed with General fund debt.

MOVED: By Mr. Connelly that the Finance Committee recommend adoption of 2018 Annual Town Meeting Warrant Article 39: Appropriate for RTS Property Improvements in the amount of \$645,000 of borrowing. Mr. Jacob seconded the motion. The motion was approved by a vote of 9-0.

Discussion - Stabilization Funds/Reserves

Mr. Reilly stated that the subcommittee met to discuss reserves. He stated that the General Stabilization fund currently has over \$4 million in it, which is equivalent to about 2.3% of the operating budget. He stated that, the consensus seems to be that it should be at a level of 3%. He stated that other towns have a greater percentage, but they have fewer reserves. Ms. Fachetti asked if there are specific guidelines from Moody's or other industry experts. Mr. Reilly stated that he researched and did not find anything clear, but that generally 3-5% is recommended. He

stated that it is important to decide the circumstances under which the Town can access the funds. Mr. Davison stated that the most recent time the General Stabilization fund was access was for funds to tear down the movie theater building, which needed to be done when there were no other funds to do it. He stated that it was a unique and compelling case.

Mr. Reilly stated that the subcommittee also discussed how the funds should be allocated among departments if there is a problem with funding for operations. He stated that it is probably best not to tie the hands of the Town and designate a method for future allocation, although having rules would take the emotion out of the situation which could be helpful. Ms. Miller stated that the subcommittee also discussed how to get to the target goal. Mr. Reilly stated that if the goal is a funding level equivalent to 3% of the operating budget, then the Town is currently \$1.3 million short. He stated that his sense is that the Town should fund it as soon as it can. Mr. Davison stated that the last appropriation to the fund was more than 5 years ago.

Mr. Reilly stated that the Capital Improvement Fund (CIF) was created to cover the costs of equipment and building repairs that are less than \$250K. He stated that the subcommittee discussed whether the target amount should be driven by the capital allocation used for operating needs, and if so, what percentage would be appropriate. Mr. Connelly stated that it could be tied to building maintenance, and suggested the amount could be one year of backup funding. Mr. Davison stated that the CIF covers minor repairs and also equipment, so it would be best to tie the amount to cash capital as well as building maintenance. He stated that he can provide what the Town has been spending on those types of costs in recent years. Ms. Miller stated that many items in cash capital are more than \$250K. Mr. Reilly asked what the \$250K modified in the description of the fund. Mr. Davison stated that the \$250K refers to expenditures for building repairs. Mr. Coffman stated that it makes sense to link the amount to expenses. Mr. Davison stated that for equipment, he would suggest a weighted average of one year of the 7-year vehicle replacement schedule. Mr. Levy raised the question of how much time needed to be covered by the contingency, whether it was one year or more. Mr. Reilly suggested that it should be short-term, but not just one year. Mr. Davison stated that the fund needs to provide funding for equipment that the Town still needs to purchase in a time of financial crisis like a fire truck. Mr. Levy stated that the fund should be able to cover the most expensive piece of equipment. Mr. Reilly asked Mr. Davison to follow up once he has looked at the historical spending.

Mr. Reilly stated that the subcommittee discussed whether the Athletic Facility Improvement Fund (AFIF) should be limited to use as a prefunding mechanism for an identified cost, or whether it is appropriate for a larger capital project such as the Memorial Park building, which was likely not considered as part of the original rationale. The subcommittee also discussed the fact that allocating such funds to the Athletic Facility Fund precluded using such funds for non-athletic buildings such as Emery Grover. Mr. Davison commented that the Memorial Park building is connected with an athletic facility. The Town had a goal of funding it with cash, and this was the one stabilization fund that could work. He stated that this was clearly identified to Town Meeting, which voted to appropriate the money to the fund for this purpose. Mr. Reilly suggested that there is a question whether the funds should have been in the DSSF rather than the AFIF. Mr. Coffman stated that if the fund is used as a pre-funding mechanism, the Town needs to consider whether the project is appropriate or prudent given the current priorities. Mr. Davison stated that the name of the AFIF was chosen carefully to be broader than to fund only turf replacement. Mr. Jacob stated that he supports the Memorial Park project, but questioned whether this way of funding prioritizes it above other projects by having this special funding mechanism. Mr. Reilly stated that he is uncomfortable with the aspect that of funding buildings

here, but that he would leave it up to the Committee to think of what it recommends. Ms. Miller stated that she felt differently, because the funding for the building was put into the fund consciously, and in the context of considering all other building projects, and that that decision should not be revisited. Mr. Coffman stated that the AFIF was a targeted fund, and it made sense as a place to silo money for specific purposes. It has been clear and is easily understood and explained.

Mr. Reilly stated that the scope of the AFIF could be narrowed to cover field-related costs, and a separate pre-funding fund for building projects with funds either earmarked for a project or identified as a preferred nonbinding use. Mr. Lunetta stated that the General Stabilization has more broad uses, but it is better not to mix uses of the more specific funds. Mr. Davison stated that Town Meeting is not bound by the terms of the fund and has the authority to change the purpose of a fund by a 2/3 vote. He stated that the terms are a guideline to show the intent of the funds. He stated that the General Stabilization Fund should be used only when there is a crisis with revenue and not enough time to make up for it, a catastrophic situation such as a bridge collapse or an extraordinary event such as an adverse legal decision or severe weather. He stated that the money in the other funds is available for purposes other than specified. He stated that the Stabilization fund and the CIF and CFF are for unknown issues, and the AFIF and DSSF are for planned expenditures. He stated that the AFIF and DSSF have funding sources: Park and Recreation fees for the former and additional revenue for the latter. Mr. Reilly stated that the subcommittee suggested some part of pool fees could be added to the AFIF. Mr. Davison noted that Town Meeting cannot change to purpose of funds collected pursuant to an override or debt exclusion vote; those funds must be used only for the stated purpose. Other funds in reserves can be used for any legal purpose. Mr. Jacob suggested that the AFIF language should not be changed knowing that there is flexibility.

Mr. Reilly stated that the DSSF was created as a place to park recurring funds so that they are not committed elsewhere, and also to help cover the debt service costs in the years the costs are expected to exceed the 3% policy. He stated that another option would be to increase the debt policy limit. He stated that there are two circumstances when the town would exceed the 3% or 10% limits: (1) appetite to spend more than allowed under the policy, or (2) a problem with revenue. The policies create a restraint, and the question is how valuable that constraint is. Mr. Davison stated that for years he had supported creating a reserve for times when there is extraordinary pressure on the 3% limit. The fund would serve as a mechanism to protect the Town if interest rates surged. He stated that one potential upcoming expense is the expected increase in the Minuteman assessment when the costs for the capital project are raised. Mr. Reilly stated that he is uncomfortable with the notion of a short-term vehicle to spend bigger amounts than the policy allows, since rules are meant to protect ourselves. Ms. Miller stated that the fund can't be used for the long term if it exists only for the short term. She suggested that if the Town wants to apply more funds to debt service, then the level in the policy should be changed. Mr. Reilly suggested a broader financing option for prefunding buildings. Ms. Fitzpatrick stated that notion dovetails with the concern of how to fund projects like the new DPW building where there is no constituency.

Finance Committee Updates

Mr. Kent stated that there was favorable bidding on the Sunita Williams project, so the cost is \$7.7 million less than expected. He stated that they did a study to consider solar panels on the roof of the building. He stated that the PPBC voted in favor, and that School Committee still

needs to approve. Nevertheless, the current plan is to install a solar array on the building. Mr. Reilly stated that he would like to know the cost and payback information. Ms. Miller suggested that the Town apply for a Solar Smart grant.

Mr. Kent stated that the bids received on the High School expansion project revealed that there is a budget shortfall. He stated that the construction market has gotten tighter recently, particularly for skilled labor. Some potential bidders were too busy to submit bids. There is a \$400K shortfall on the \$11 million construction budget. He stated that it may affect which optional alternatives are possible. He stated that those items will cost substantially more later. He stated that if there were sufficient contingency, they would have relied on that, but that would have jeopardized other parts of the project. The choices are to put off parts of the project or request more money. Mr. Reilly stated that there are \$1.8 million of funds that supposed to be paid back to the CFF after the October 2017 Special Town Meeting that could arguably be used. Ms. Miller suggested that the DSSF is another potential source.

Adjournment

MOVED: By Mr. Lavery that the Finance Committee meeting be adjourned, there being no further business. Mr. Coffman seconded the motion. The motion was approved by a vote of 9-0 at approximately 9:30 p.m.

Documents: Proposed Annual Budget Fiscal Year 2019, Office of the Town Manager; Capital Improvement Plan, FY2019-FY2023, Office of the Town Manager; Town of Needham 2018 Annual Town Meeting Warrant, Draft of 3-9-2018; Minutes of Subcommittee on Reserves of 3/7/2018.

Respectfully submitted,

Louise Mizgerd
Staff Analyst