

**Needham Finance Committee
Minutes of Meeting of May 20, 2020**

The meeting of the Finance Committee was called to order by Chair Tom Jacob at approximately 7:00 pm via Zoom Video Webinar <https://us02web.zoom.us/j/85369005261>

Present from the Finance Committee:

Tom Jacob, Chair; Carol Smith-Fachetti, Vice Chair

Members: Barry Coffman, John Connelly, Joshua Levy, Richard Lunetta, Louise Miller, Richard Reilly

Others speaking:

Kate Fitzpatrick, Town Manager

David Davison, Assistant Town Manager/Finance Director

Robert Smart, Jr., Esq., Attorney for Boston Children's Hospital

Timothy Sullivan, Director, Goulston & Storrs

Josh Greenberg, Esq, Vice President, Government Relations, BCH

Citizen Requests to Address Finance Committee

No citizens requested to speak.

Approval of Minutes of Prior Meetings

MOVED: By Ms. Miller that the minutes of February 26, 2020 be approved as distributed. Mr. Reilly seconded the motion. The motion was approved 8-0 by a unanimous roll call vote.

2020 Annual Town Meeting Warrant Articles: Discuss and/or Vote

Article 19 - Cit. Pet. Zoning - Pediatric Medical Facility in New England Business Center

Mr. Smart stated that the Planning Board will vote on this article on June 2, and the Select Board has voted in favor of the article. The goal of the article is to amend the zoning use table to allow a pediatric medical facility in the NE Business Center area by special permit. The proposed parking includes 1 space per 290 square foot of floor space. Mr. Sullivan stated that the article includes a new definition for pediatric hospital, though the zoning would not allow a hospital use. The definition is needed because the use is to allow a pediatric medical facility that is owned and operated by a pediatric hospital. He stated that since they last met with Finance Committee, they have finalized the language and held the public hearing. He described the 13 acre property which has three sites and a parking garage. He stated that the proposed plan would have a medical facility at 380 First Ave. They will also build a new parking structure. They will leave the other two sites undeveloped for now.

They have done analyses of parking standards and expected trip generation by the new facility. Those analyses assumed that the two additional buildings would be built out as office space, in addition to the medical facility and the parking garage. Mr. Sullivan stated that comparable facilities owned by Boston Children's Hospital (BCH) have parking ratios of 2.87 and 3.28 while this has a higher rate of 3.45. He stated that the trip generation analysis showed that during peak

hours traffic would increase 1% in the morning and 6% in the afternoon. He stated that the analyses were independently reviewed by BETA who found the parking ratio would be acceptable and that the trip generation figures were accurate.

Mr. Sullivan stated that there is a proposed PILOT (payment in lieu of taxes) agreement with the Town. He stated that BCH has agreed to pay a comparable level of taxes on the building to the taxes that would be paid if the building were used as an office. He stated that the amount can be adjusted annually, but would not increase more than 4% increase in any year. He stated that the amount paid during construction will be the percentage of completion of the project determined on June 30 of each year. Once the occupancy permit is issued, then the full amount of the taxes would be payable each year. He stated that in lieu of personal property taxes, BCH has agreed to pay \$200K each year to the Town specifically to benefit youth services, starting with the year that the occupancy permit is issued. He stated that there will also be 2 early payments: \$200K when the building permit is issued and \$200K when the building is 50% completed. He stated that the \$200K may be adjusted if BCH donates money to nonprofit programs for youth in Needham, based on a determination of need. Such donations could be credited against the annual payment. He stated that the agreement also provides for transportation management and sustainability measures. He stated that the host agreement will be taken up by the Select Board at its next meeting.

Mr. Sullivan stated that there are other economic benefits to the Town including increased food and lodging business, and the related taxes. He stated that the construction work will provide a \$130 million impact, with 680 jobs and \$1.2 million in state and local taxes. There will be \$52 million of additional direct benefit and \$24 million of indirect benefit, and 200 direct jobs and 255 indirect jobs.

Mr. Connelly stated that he is in favor of the article, but expressed frustration with receiving materials at the last minute, which has been an ongoing problem in general, but especially since this is a serious and important project. He stated that the PILOT is described as an amount up to the amount of property taxes on an office building, and asked how that would be determined. He also asked how the adjustments to the \$200K youth services annual payments would be allowed. Mr. Sullivan stated that the property tax amount would be approximately \$1.2 million, and would be calculated as property tax on the same sized building for office use, as described in Section 1 of the PILOT agreement. He stated that the adjustments to the \$200K annual payment would be made by members of a team that will make determinations of need for youth services non-profit organizations providing services to Needham, and payments would be approved by the Select Board and credited against the \$200K annual payments to the Town.

Mr. Reilly asked if there is any estimate of what the personal property taxes would have been without the alternative payment agreement. He also asked whether the facility, which is planned to accommodate day surgery, could be used for overnight purposes in a case of an emergency such as COVID-19. Mr. Sullivan stated that they have not determined the personal property taxes on the equipment that will be in the facility, but the \$200K roughly represents the personal property taxes for an office building of that size. Mr. Reilly noted that the personal property tax in a medical facility would be significantly higher than in a typical office building. Mr. Sullivan stated that the facility will have more economic benefit to the surrounding area than a typical office building. He stated that he does not know much about the current pandemic situation, but the proposed facility has no overnight beds so it seems unlikely it would be used as a hospital. Mr. Reilly stated that people at Town Meeting may push on the issue of personal property taxes,

so it would be best to have better numbers. Mr. Sullivan stated that medical equipment is much more valuable than other equipment, but they do not know what equipment others use may bring. Mr. Coffman stated that Beth Israel Deaconess does not pay personal property tax. Mr. Sullivan stated that Boston Children's Hospital is exempt and is not required to pay any personal property taxes.

Mr. Levy asked if there is a list of nonprofits that are eligible to receive the "determination of need" payments. Mr. Sullivan stated that the Select Board has approval rights, but there is no known list. A list of eligible recipients would have to be developed as such payments are considered. Mr. Connelly stated that peer review was done for parking and traffic, and asked whether any comparison had been done with host agreements in other communities to see whether the deal is in line with what other communities have agreed to. Mr. Sullivan stated that they could see how it compares to their agreement with the City of Boston. Mr. Greenberg stated that he would describe this agreement as by far the most generous agreement that they would enter into. He stated that in Boston, they pay taxes on 25% of the assessed value, and receive 75% back in recognition of what they provide to children in need.

Mr. Coffman stated that this is a great project which will have great ancillary benefits to the Town. He stated that the timing is good for this area, since Trip Advisor has been downsizing and subletting space in their building. He stated that Beth Israel has a PILOT agreement through which they likely pay less than if it were taxable.

Ms. Miller asked if a wastewater analysis has been done for the additional need for this use, and what the system can handle. She stated that prior to the pump station project, it was discussed what development could take place in the area, and a medical facility was not included. She also asked why the agreement doesn't just call for payments to the Town rather than payments to Youth Services groups. She stated that they could provide for youth services in Town through the Youth and Family Services department, the Recreation department or the Schools. Mr. Sullivan stated that the wastewater planning issues will be reviewed in the Special Permit process. They will have to go through the Town Engineer. He stated that the payments under the agreement will be made to the Town, but credits against the payments may be granted through the determination of need process. He stated that the Town will determine if a credit is allowed.

Mr. Reilly asked for an explanation of "determination of need" under the agreement. Mr. Greenberg stated that as a requirement of regional development of a significant healthcare facility, the Department of Public Health requires that the community will receive some benefit. He stated that Needham is involved in a regional planning group to provide some community services, but this agreement creates a system so that there are credits to make sure that benefits for youth services under this agreement will go to needs in Needham.

Mr. Jacob asked how the \$200K for Youth Services will flow. Mr. Sullivan stated that the agreement provides for the \$200K payment to the Town, but they may get credit against the full amount if they otherwise make payments to the Town or to a nonprofit benefitting the Town. Mr. Jacob asked how the funds would be monitored within the Town. Mr. Davison stated that the logistics are still being worked out, and the PILOT or the host agreement have not yet been presented to the Select Board. He stated that they intended to present to the Finance Committee and the Select Board next week, so the materials came out only recently.

Mr. Lunetta stated that he fully supports the project in light of the benefit to the Town and surrounding businesses. He asked what youth services they anticipate supporting. Mr. Greenberg stated that the decisions to support services will be collaborative. He stated that they paid for and helped design a survey on public health needs to help identify the most significant needs. They have done a lot with mental health. The goal is to be engaged and to figure out where to provide the benefit. Mr. Connelly stated that he would like the Finance Committee to be involved in the decisions being made on the money coming in and how it is spent or allocated.

Mr. Levy stated that he is generally in favor of the project. He was concerned that the trip generation data only counted cars, but not the timing. If cars are on a crowded street, there is a bigger impact. He knows that there will be a more detailed traffic plan in the special permit process, but at this point it is hard to assess the financial effect that additional traffic may have. He stated that many people think that this will be a hospital, but a pediatric medical facility is different.

Mr. Jacob stated that he is in favor of the proposal. He stated that the Finance Committee has requested the following additional information from the Select Board: (1) Comparison of the PILOT agreement with other communities; (2) Wastewater impact; (3) Finance Committee involvement in the decisions regarding the host agreement payments. Mr. Lunetta stated that he would like to know the criteria for the determination of need for the youth services organizations.

Mr. Connelly stated that he would like to have the additional information before he would feel comfortable voting. Ms. Miller stated that she would like to see the next draft of the host agreement. Mr. Jacob noted that information was late in coming to the Committee partly because of a shift in scheduling. Mr. Coffman asked why the payments in lieu of personal property taxes don't come into the General Fund. He asked who initiated the discussion to structure the agreement as proposed.

Article 20 – Citizen's Petition – Zoning – Map Change to General Residence B Zoning District

Article has been withdrawn by proponent.

Article 3 - Establish Elected Officials' Salaries

Mr. Davison stated that there are two elected positions that are compensated. The pay for Select Board members has remained the same since 1977. The salary for a Town Clerk with over 6 years of service in that position is \$110,634, a 2.59% change. Upon retirement, the Town Clerk is eligible for unused sick time, not to exceed \$69,899, and unused vacation time not to exceed \$11,488. State law does not allow it to be forfeited. Mr. Levy asked if the Select Board has considered a reduced stipend as a gesture in the wake of the pandemic. Mr. Davison stated that he did not know of such a discussion, but noted that not every member accepts the stipend. Mr. Levy stated that he would like the Select Board to consider this.

MOVED: By Mr. Lunetta that the Finance Committee's draft budget recommend adoption of Annual Town Meeting Article 3 - Establish Elected Officials' Salaries as shown in the warrant. Mr. Connelly seconded the motion. The motion was unanimously approved 8-0 by a roll call vote.

Article 4 - Collective Bargaining: Police Union

Article 5 - Collective Bargaining: Police Superior Officers Assoc.

Article 6 - Collective Bargaining: Fire Union

Ms. Miller recused herself from the discussion because a family member is employed in the Fire Department. Ms. Fitzpatrick stated that the agreements are virtually identical. She stated that there have been changes in leadership in the unions that have slowed the process. There are some long term initiatives that will continue through the next contract. The first year of the Police contract has additional costs in FY20 that will come from FY20 funds. There is a 2% pay increase effective 7/1/19, a 1% increase effective 1/1/20 which are effectively a 2 ½% increase. Ms. Fitzpatrick stated that there are minor language changes in the contracts. There is a removal of the agency fee which is no longer allowed under a US Supreme Court decision. She stated that they are still seeking other goals. Mr. Levy asked if longer term contracts were sought since these expire 6/30/20. Ms. Fitzpatrick stated yes. Mr. Levy noted that the range of the 7 - 8 ½% increase in the police detail rate is higher than other increases. Ms. Fitzpatrick stated that they had intended this amount of increase because an analysis of comparable communities had found that the rate being paid in Needham was lower than the average, and they were able to agree on an amount which was lower than that.

MOVED: By Mr. Lunetta that the Finance Committee recommend adoption of Annual Town Meeting Article 4 - Collective Bargaining: Police Union; Article 5 - Collective Bargaining: Police Superior Officers Assoc.; and Article 6 - Collective Bargaining: Fire Union. Mr. Coffman seconded the motion. The motion was unanimously approved by a 7-0 roll call vote, with Ms. Miller abstaining.

Article 12 - Public Health Consulting Assistance

Article has been withdrawn.

Article 15 - Sewer Enterprise Fund FY21 Budget (previously voted)

Mr. Davison stated that the Finance Committee voted to recommend the budget as presented earlier, but since that time, the MWRA adjusted the sewer assessment from \$6,655,947 to \$6,399,895. The final warrant draft shows the lower figure. Ms. Miller asked for the level of retained earnings. Mr. Davison stated that it is approximately \$2 million. Mr. Reilly asked if this is the result of COVID-19. Mr. Davison stated that the MWRA reduced the assessments in February and the Town is using the \$600K reduction to avoid a rate increase to Town residents. He stated that there has been a 30-year abatement to offset the impact of the recent loss of a large customer. He will recommend to the Select Board not to increase the sewer rate in FY21 and instead to use the Fund Balance to satisfy the appropriation.

MOVED: By Mr. Reilly that the Finance Committee update its recommendation to recommend adoption of Annual Town Meeting Article 15 - Sewer Enterprise Fund FY21 Budget as shown in the final warrant. Mr. Coffman seconded the motion. The motion was unanimously approved 8-0 by a unanimous roll call vote.

Article 21 - General Fund Cash Capital

Mr. Jacob stated that there had been questions about the Library Furniture item. The Library now plans to store many of the chairs, and there is not a current need to replace them. Without that cost of \$84,168, the cash capital bottom line would be reduced to \$3,999,433. Mr. Davison stated that the Library has just withdrawn the request for the furniture and the Select Board plans to amend the article with the bottom line of \$3,999,433.

Mr. Reilly stated that he would like to see more information on the NPDES cost of \$770K. Mr. Levy stated that \$195K was pulled out and is requested through a separate warrant article. Mr. Davison stated that the Finance Committee has voted to recommend the \$195K. Mr. Reilly asked if the personal safety equipment needed for Public Safety has changed in light of the COVID-19 outbreak. Mr. Davison stated that the protective equipment protects from fire, smoke, and heat, and is unrelated.

Ms. Miller asked about the timing of the Library's space study. She stated that the study should not be done immediately when the world is changed. Mr. Davison stated that he will tell the Trustees. He added that the study is to determine the optimal layout of a library for the 21st century. Mr. Reilly stated that he has an issue with the textual description in the warrant. Mr. Davison stated that it is informational only. The study will look at the space, and the possibility of a materials handling equipment is only one consideration. Mr. Jacob stated that more information is needed; they need to shed some light on the study, and it would be helpful if the Trustees could attend and discuss how COVID-19 will impact the space planning, and whether the study will look at materials handling even if the \$500K machine is not purchased.

Mr. Levy stated that he would like to know how the School Technology request is being spent. Mr. Lunetta agreed that he would like to hear more about the whole issue of electronics.

Update on Warrant Changes

Mr. Davison provided an update of the changes to the Annual Town Meeting warrant since the outbreak of COVID-19. A number of articles were withdrawn that did not need to be considered immediately before the warrant was finalized. The Select Board has also withdrawn additional articles to keep Town Meeting as brief as possible. He stated that under state law, Town Meeting must be held in person, so electronic participation is not allowed. Mr. Jacob stated that the next meeting should address how Town Meeting will be conducted.

Update on COVID-19, Revenue, and FY2020 and FY2021 Operating Budgets Revenue

Mr. Davison stated that in light of the pandemic, he has reduced his revenue estimates for local receipts and state aid. He has changed funding sources in some warrant articles to conserve Free Cash. The biggest area of uncertainty is Chapter 70 School Aid, which will be addressed if necessary at the Special Town Meeting in October. There will be no state budget by the beginning of the new fiscal year on July 1. He stated that the State cannot yet determine the decrease in its revenue because the income tax deadline was extended from April 15 to July 15, and people tend to pay as close to the deadline as possible. He stated that April revenue was down 50% from what was originally expected due to the extension. Mr. Davison stated that calendar year 2019 had robust income and activity affecting other taxes, so the expected total revenue for 2019 has not changed, but it is still not known how much will come in. He expects

revenue to decrease in light of recent events but there should be some economic recovery in the second half of the year during fiscal year 2021 if businesses are open.

Mr. Davison stated that he has changed some revenue assumptions. He now expects no Library state aid, a 20% reduction in unrestricted General Government Aid which depends on lottery receipts. He also reduced Chapter 70 aid to match the Governor's proposed budget, which was reduced only slightly because of the additional students in full-day kindergarten. He stated that he does not assume Chapter 70 aid will take a major hit because there is a legal obligation to provide parity and a minimum of aid to communities. Since Needham's aid is closer to the minimum, he expects the decrease to be less significant than in communities that have more aid, since the legislature will likely avoid lowering the minimum aid amount. Mr. Davison stated that he will make revenue adjustments as needed in October. Mr. Davison stated that in real dollars, the reduction in estimated revenue is \$3 million. The usual amount of Chapter 70 aid is approximately \$10 million.

Mr. Coffman asked about reduced expenses. Mr. Davison stated that it is not worthwhile to recalculate all of the departments' operating budgets since there is still much uncertainty. He stated that there are some new changes such as decreased fuel and energy costs and increased costs for certain protective gear. There is pending legislation regarding Special Education costs which could have an impact. He stated that there have been changes to revenue assumptions where the Town has some control. Mr. Reilly asked if there have been changes in the School budget since the current budget produced a surplus, even though there may be additional expenses for summer programs. Mr. Davison stated that they will know more about the current fiscal year in August when they wrap up the finances for FY20.

Ms. Miller stated that the Finance Committee Chair will need to present a balanced budget to Town Meeting, and asked how it should be presented if revenue estimates are down. Mr. Davison stated that the budget is balanced and receipts have been lowered to reflect new estimates. He stated that 22 articles have been withdrawn which has decreased expenses. The General Fund operating budget has not changed, but the revenue sources have. The decreased revenue means that more free cash is being used, but the amount being used is not outside of the guidance that it cannot be more than 2% of the adjusted budget. He stated that articles funded by the tax levy have been withdrawn. Mr. Coffman requested a schedule showing the changes in the revenue and expenses.

Mr. Reilly asked why the Cash Capital article is going forward. Mr. Davison stated that there are a number of critical items that need to move forward at the beginning of the fiscal year. In addition, the Free Cash from FY20 may not be certified in time to fund the program if it is deferred to the fall. Ms. Miller stated that the DOR has extended the time to appropriate and spend Free Cash.

Mr. Jacob asked if the Town considered freezing DSR4 requests. Mr. Davison stated that that was considered. The Town does have a hiring frost—there is no hiring for discretionary positions. They are deferring what they can. Mr. Levy supports the suggestion to remove DSR4s based on the following: there has clearly been a change of circumstances that might affect the needs; it would be better to increase the budget in the fall than have to cut costs; and residents are hurting, and taxes are expected to increase.

Mr. Lunetta stated that he agrees that there should be a reconsideration of DSR4s. Also, he noted that the Town often stashes away money in stabilization funds, and stated that if this isn't the time to rely on those funds, then he did not know what would be. Mr. Davison stated that contingency is being considered for the October Town Meeting. He believes that this budget is currently sustainable and will be next year as well. The Town will use the reserve as necessary. The Town does not want to borrow for this purpose, as it would send the wrong message to the rating agencies.

Ms. Miller stated that it makes sense to move forward with the budget as is. Town Management will want to move slowly before making changes. The \$3 million shortfall is not large in this budget, and a shortfall could be handled with reserves as necessary. Mr. Jacob stated that if Chapter 70 aid is reduced, the effect could be significant. He asked for a 1-2 page explanation of the reduced recurring revenue and the corresponding changes in the warrant to help him to present the budget. Mr. Connelly stated that he agreed with Ms. Miller, and stated that there needs to be a dialog with the Schools to understand what is happening and where there might be changes from earlier discussions. He stated that the School Department is a significant part of the operating budget. He questioned whether they have a hiring frost, as there is a large number of FTEs in their DSR4s. Mr. Reilly noted that the technology budget may look different with more remote learning. Mr. Coffman stated that it would be useful to speak with them to understand what they are facing, not the specifics as much as the process and see how they are approaching issues.

Cogswell Building / Solar panels

Mr. Jacob stated that the Chairs met with the PPBC who reported that the Cogswell Building is almost done and they are considering adding solar panels to the building. The cost is \$750K and would come out of the debt capacity of \$7.6 million, of which only \$6 million was used. The expected return on investment is \$300K over 25 years. He stated that he and Ms. Fachetti had questioned why this was not considered as part of the original project, whether this is the best use of the funds, and why there such a significant variance of 20% from the budgeted costs, even if it is lower than planned. Mr. Connelly stated that he had a negative reaction to the proposal, first with the initial process: whether there was discipline in the initial cost estimates if there is a 20% variance; and second, the solar panels were not approved by Town Meeting, so this would need to go to Town Meeting. This project should be weighed against other significant projects. Mr. Coffman stated that the solar panels are not a priority expenditure right now. If they want the panels, they could lease out the facility and let someone else pay for the construction and recapture some of the benefits. The Town should not incur the expense. Mr. Miller stated that she also had a negative reaction, but it was based on the analysis. When the solar project at the RTS was considered, the Town looked at the best way to set it up with net metering and other details, but what was received is insufficient to know if the project would make sense. Mr. Jacob stated that it is early in the process and they are currently spending \$10K from the project budget on a study to get better information. Mr. Levy stated that he is not impressed with the economics of getting \$300K returns over 25 years. Mr. Jacob stated that he was very surprised at the variance from the project budget, and felt that even though the project is only \$750K, the debt is Town is out of control, and this does not make sense.

Finance Committee Updates

Adjournment

MOVED: By Mr. Levy that the Finance Committee meeting be adjourned, there being no further business. Mr. Reilly seconded the motion. The motion was approved by a unanimous roll call vote of 8-0 at approximately 9:34 p.m.

Documents: 2020 Annual Town Meeting Warrant; Boston Children's Hospital slide presentation; Needham Host Community Agreement; Parking Analysis and Peer Review; Trip Generation Analysis and Peer Review; Summary Sheet of salary changes of Warrant Articles 4, 5, 6.

Respectfully submitted,

Louise Mizgerd
Staff Analyst