

Needham Finance Committee
Minutes of Meeting of December 14, 2022

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

Members: Karen Calton; Carol Fachetti, Carli Hairston, Joshua Levy, Richard Reilly (via teleconference)

Others present:

David Davison, Assistant Town Manager/Finance Director

Dave Roche, Building Commissioner

Michelle Vaillancourt, Town Accountant

Wendy Fung, Administrative Analyst, Finance Department

Citizen Requests to Address the Finance Committee

No requests.

Approval of Minutes of Prior Meetings

MOVED: By Mr. Levy that the minutes of the meeting of October 24, 2022, be approved as distributed, subject to technical or typographical corrections. Ms. Reilly seconded the motion. The motion was approved by a vote of 6-0.

FY2024 Department Budget Hearings

Building Department

Mr. Reilly introduced the Building Department's FY24 budget request. He stated that the salary and wages were increasing \$40K, due to increases in base compensation, step increases and a budget adjustment. He asked Mr. Davison to explain the budget adjustment. Mr. Davison stated that the budget adjustment reflects the additional salary for one business day, due to the fact that in FY24, there are 261 paid business days compared to most years which have 260 days, since a year is 52.1 weeks not exactly 52 weeks.

Mr. Reilly stated that the expenses in the FY24 budget request were essentially flat compared to FY23, except for a \$12K increase due a change in the provider of services for a sealer of weights and measures. The state has been providing the service for a flat fee, and will no longer provide that service to the Town. Mr. Roche plans to propose to work with other Towns to obtain this service jointly. Mr. Reilly stated that the fee revenue for building permits has stayed strong which shows that construction is still happening. This construction leads to "new growth" for the Town, which is an important source of revenue. He stated that there has been a consistent level of new growth attributable to residential construction. He asked Mr. Roche if the increasing interest rate might affect this new growth. Mr. Roche stated that the number of new house permits has been slowing but the number of tear-downs skyrocketed in recent years.

However, the Town has reached a point where most premium lots have been redeveloped, so he believes that the high cost of properties and smaller profit margins could affect permitting more significantly than the change in interest rates. He noted that building rates in Needham are not strongly affected by the economy. He added that there are no longer the lumber shortages so building costs may settle down.

Mr. Roche stated that they department installed a new online permitting system just before Covid struck which was very helpful to streamline the permit process and keep it moving during the shutdowns. He noted that it does not create data reports as easily the old system, so they may need purchase add-ons to be able to provide better tracking. He described the operations of the department including the permitting, zoning and enforcement functions. He stated that the department is now fully staffed since he could change the structure of the inspector positions. The new hires were prior business owner/operators looking for benefits and reliable work as he expected. Mr. Roche described the need for the additional funding for a sealer of weights and measures and possible options for obtaining the service. He stated that the Town has advertised for a part-time position, but there is a chance that the county will provide a weights and measures service, which would be ideal. He stated that he is proposing a change to the fee schedule, which will provide more revenue, though still will not cover the whole cost. He feels that the cost is justified because this is a consumer protection function.

Mr. Roche commented that he would be retiring within the next year. The Committee thanked him for his service.

Finance Department

Mr. Davison stated that he had met with Mr. Healy to discuss his proposed budget. Mr. Davison described the divisions within the department: Accounting, Treasurer/Collector, Assessing, Parking Clerk, ITC (Information Technology Center), Purchasing and Finance. He stated that there have been some changes and much turnover, with most significant being the retirement of the long-term treasurer/collector which is vacant, as well as the hiring of a new assessor to replace the retired long-term assessor. There are 25 FTEs in the department, with 4 open positions, plus 2 positions that are temporarily vacant due to long-term leaves, including the ITC Director. Currently, the day-to-day work of the treasurer is being done by the assistant treasurer, and he is performing the high level finance functions, as well as overseeing the ITC division. He noted that these types of changes are happening across the economy. Mr. Davison stated that he made no DSR4 requests for increases beyond the base budget.

The requested increase for the FY24 base budget for this department is 2.3%, with a 2.6% increase in salaries and wages from the final FY23 budget, including adjustments from the Classification, Performance and Settlement line for increases under ITWA collective bargaining agreement. He stated that the FY24 budget request includes step increases and cost of living increases under the ITWA agreement and the compensation schedule for non-represented employees. He stated that merit increases for managers would need to be transferred from the CPS line.

Mr. Davison stated that the department's expenses are increasing 1.8%, with some increasing and some decreasing. The primary driver of the increase is in the cost of software licensing. \$825K of the \$1.3 million of expenses represents software costs. ITC used to cover software licensing costs for all departments, but now individual departments' budgets cover the costs of

software that is used only within that department. Human Resources and Park & Recreation departments have some significant specialized software needs. He stated that he feels that having control of the costs will also provide incentive for departments to scrutinize the software more carefully. Other increasing costs include collections for ambulance service fees and parking tickets, postage costs for mailing tax bills, and operating capital cost for purchasing computers and network equipment.

Mr. Reilly asked if there were any cases at the appellate tax board that might have significant financial consequences. Mr. Davison stated that the worst case scenario would amount to several hundred thousand dollars, though he believes that the Town will prevail in most cases. He stated that the court is moving slowly. There is one case that involves the valuation of statewide assets of certain utilities, so he is more unsure about its outcome. Mr. Davison stated that most outstanding cases are from Verizon and there is a contingency to cover the legal and appraisal costs for specific cases. If necessary, he would come to the Finance Department to request reserve funds.

Mr. Reilly stated that the department's request shows that interest income is low. He asked whether it would make sense to pivot more toward investing in the MMDT, which has stronger returns. Mr. Davison stated that the MMDT is a pooled money market managed by the state treasury. Under state laws, the Town cannot make the same investments on its own. The Town does invest in it, but the MMDT account cannot be used as a checking account since there are limited transfers. Mr. Reilly also asked why the training funds in the budget were not being used in recent years and whether the staff may be falling behind. Mr. Davison stated that the funds were not being used because of vacancies. There is not sufficient staff, particularly in ITC, for others to take training opportunities.

Mr. Levy asked when the new billing software will have completely replaced the old system. Mr. Davison stated that if all goes well, they will have the real estate and property tax bills all on the new system by June 30, 2024. The water and sewer bills should be on the new system for January 1, 2025. He stated that the new system will be more expensive but will have better functionality. He stated that the cost of archiving of the data from the old system will be in the FY25 budget request.

Townwide Expenses (Casualty, Liability and Property Insurance)

Mr. Davison stated that this covers the Town's liability, auto, and casualty insurance premiums as well as self-insurance. There are two components to the increase: premium increases and the value covered. The projected costs are increasing by \$90K. The actual quotes will be available in late spring. The estimate comes in after the Annual Town Meeting, but the Town will be given guidance. He is assuming a 7% increase in the base premium costs and a 10.6% increase in valuation of what is covered. The valuation increase is due to increased value attributable to construction and reconstruction, plus inflation, as well the fact that the public safety building will be online for the entire fiscal year 2024. Mr. Davison has factored in the decreases due to the removal of the garage at Ridge Hill and the closing of the Emery Grover building. In FY25, the new Emery Grover building will be insured.

Townwide Expenses (Debt Service)

Mr. Reilly stated that the budgetary provision for debt service is decreasing by \$2.8 million. Excluding enterprise fund debt, the debt service line is decreasing from \$20.4 million to \$17.5 million, primarily due to a decrease in excluded debt coming off the books. There will be no increase in excluded debt unless the Town votes in favor of additional excluded debt. Mr. Reilly stated that he talked with Mr. Davison about funding strategies due to the phenomenon of an inverted yield curve, and whether it made sense to re-examine the timing of short versus long term debt. These issues will require some thought. Mr. Davison stated that they go through these exercises at all times to consider the possible options, including reviewing the prevailing rates for tax exempt entities and for AAA-rated towns at 5-, 10-, 20- and 25-year terms. This type of analysis played into the bonding decisions in April when the Town decided to appropriate an additional \$168K in May to pay off principal in order to save \$5 million over the life of a loan.

In response to a question from Mr. Levy, Mr. Davison stated that he assumed an interest rate of 7%. He added that he has gotten a sense that the interest rates are stabilizing in the municipal market.

Facility Financing Plan – 2022 Update

Mr. Davison stated that there will be an initial draft of the plan presented to the Finance Committee, School Committee and Select Board chairs and vice chairs on December 16. He will be able to discuss it in more detail in January.

Adjournment

MOVED: By Mr. Levy that the Finance Committee meeting be adjourned, there being no further business. Ms. Fachetti seconded the motion. The motion was approved by a vote of 6-0 at approximately 8:05 p.m.

Documents: FY2024 Department Budget Requests.

Respectfully submitted,

Louise Mizgerd
Staff Analyst

Approved January 4, 2023