

**Needham Finance Committee
Minutes of Meeting of September 1, 2010**

Mr. Zimbone, chair, called the meeting of the Finance Committee to order at approximately 7:00 p.m. in the Charles River Conference Room at the PSAB Building (temporary Town Hall).

Present from the Finance Committee:

Richard Zimbone, Chair, Matthew Borrelli, Vice Chair,
Members: John Connelly (arrived 7:10 pm), Richard Creem, Richard Lunetta, Richard Reilly,
Steven Rosenstock, Michael Taggart, Lisa Zappala

Also Present:

Kate Fitzpatrick, Town Manager
Anne Gulati, Director of School Financial Operations, School Department
Marianne Cooley, Vice Chair, School Committee
George Kent, Chair, Permanent Public Building Committee (PPBC)
Steve Popper, Director of Construction and Renovation, PPBC

Citizen Requests: There were no citizen requests to address the Finance Committee.

Approval of Minutes

Mr. Zimbone asked for comments or corrections for the August 23, 2010 minutes that had been previously distributed. Mr. Reilly described one sentence he had requested to change to accurately reflect a question he had asked about the cost of employee wages relative to other towns. He also pointed out two typographical errors.

MOVED: By Mr. Rosenstock that the Minutes of August 23, 2010, be approved as submitted with the modifications suggested by Mr. Reilly. Mr. Reilly seconded the motion. There was no further discussion. The motion was approved by a unanimous vote of 8-0 (Mr. Connelly had not yet arrived.)

School Department Budget Update

Mr. Zimbone stated that the members had received the School Department's Fiscal Year 2010 Preliminary 4th Quarter Report. He asked whether there were still items open from FY10. Ms. Gulati reported that everything is closed except some federal grants. Mr. Zimbone asked when the Schools' Five-year Pro Forma might be finished. Ms. Gulati said that the target date is October 19. Mr. Zimbone stated that Town Finance Director David Davison's Pro Forma used historical data to project the next years for the School Department line, and asked whether Ms. Gulati knew of any areas within the School budget that might be expected to change at a different rate. Ms. Gulati stated that the Schools' needs were projected to increase at approximately 4.5% which is not far off from what she would expect. She said that in budgeting for FY12, some backfilling is needed to compensate for items funded through circuit breaker and stimulus funds. Although the costs generally increase by 4.5%, the budget does not grow at that level, and cuts must be made.

Ms. Gulati presented the School Department preliminary budget report. She stated that the preliminary report is in two pieces: pages 1-3 which shows the preliminary amended operating budget, along with prior year encumbrances, grants and revolving funds, and School capital expenditures. The second piece on p. 4 shows preliminary 4th quarter expenditure projections, which leave an anticipated balance of \$200,412.

The KASE revolving fund had a preliminary ending balance of approximately \$702,000 which was used for a pre-purchase of Special Education (SPED) tuition and certain other costs for FY11. The law allows schools to pre-purchase up to 3 months of SPED tuition in a prior fiscal year. This functions like obtaining one-time additional funds in the FY11 budget. The year-end projection includes an expenditure which followed after Town Meeting voted to commit \$221,000 in school technical support for FY11, the funds being expected to come from federal stimulus money. However, the Schools were able to get better pricing earlier, so they used money from the operating budget at the end of FY10 to make the purchases. They pre-purchased approximately \$702,000 of SPED tuitions and collaborative dues. The School Department will redeploy federal stimulus funds.

The budget had higher than anticipated savings because of additional circuit breaker funds, and an over-projection of certain expenses, specifically Family Medical Leave Act expenses, professional development expenses, and sick buyback.

Mr. Rosenstock asked whether FY09 prior year encumbrances were reflected in these numbers. Ms. Gulati responded that the prior year encumbrances made in FY09 that did not become liquidated in FY10 are available in FY11. Mr. Rosenstock asked how much of the approximate \$45,182,000 projected FY10 encumbered expenses had actually been expended when FY09 was closed. Ms. Gulati answered that \$1,492,416 was actually encumbered, including SPED tuition pre-purchasing and capital technology. She expected approximately 15-20% of that encumbrance to be liquidated, or unused. Because of the nature of SPED needs, services can be difficult to predict, and she must err on the side of caution. On a percentage basis, usually approximately 15% of encumbered expenses are liquidated. Mr. Rosenstock how much was encumbered for capital. Ms. Gulati responded that \$275,000 was planned for technology plus approximately \$100,000-\$150,000 more for a total of \$400,000 encumbered.

Mr. Reilly asked whether there are restrictions on how much can be prepaid. Ms. Gulati responded that up to three months of SPED tuitions can be prepaid, and any expense of a collaborative (such as dues) can be prepaid for the whole year.

Mr. Lunetta asked how much the expenses for School professional development were lower than expected in the past few years. Ms. Gulati stated that it was a sizable amount in FY09, and also lower in FY08, and that she plans to research the cause. The expended amounts were low enough to cause some concern. Some was attributable to substitute teachers not being used; some was due to lower tuition reimbursement. Mr. Reilly asked how the individuals access professional development funds. Ms. Gulati said that the teachers have to prepare a professional development plan that is signed by their supervisor in order to maintain certification or to achieve lane changes with salary increases. The use is individualized. Ms. Zappala commented

that it might be one unexpected issue causing the component to not come in as budgeted, but that if research shows that the expense is consistently off, the projection may need to be changed.

Mr. Reilly expressed concern whether the necessary professional development is happening. Ms. Gulati responded that the same curriculum development is being offered, the same number of substitutes is available, and money is budgeted for lane changes. There are not fewer opportunities for professional development, and she is unsure why the money is not being used. Ms. Zappala stated that she does not think there is a problem of teachers not keeping up with professional development, but that the research will show the reason for the discrepancy.

Mr. Lunetta asked whether the surplus in medical leave in FY08 was larger than that in FY09. Ms. Gulati stated that it was around \$35,000 in FY09, and she is not sure about FY08; she would have to get that number later. She stated that this is not something that is historically projectable since it depends on how many people are out sick at once. 30-40 people are out each year, and she must guess how long they will be out, and talk to personnel to find out how many sick days can be paid.

Mr. Borrelli stated that last year there had been a discussion at a budget workshop meeting that the new substitute calling program caused the expense for substitutes to be higher than expected. He asked whether that expense has peaked based on their projections. Ms. Gulati stated that the new system is more efficient, and there is a higher rate of securing substitutes. This expense line has therefore increased, and has stayed at the higher level.

Ms. Gulati stated that pre-purchases were made in FY10 for FY11 are expected to free up approximately \$720,000 of one-time resources in FY11. Mr. Zimbone asked the effect on this year's budget. Ms. Gulati replied that the preliminary projections show that they will be over budget in SPED costs, but they expect savings in SPED transportation. Ms. Cooley stated that the purpose of SPED pre-purchasing is to carry money to the next fiscal year.

Mr. Borrelli asked about the revolving fund surpluses and whether fees may decrease in the future due to these surpluses. Ms. Gulati replied that there is a balance in food services, a three-month reserve and they use the fund balance to avoid fee increases. Fees are meant just to meet expenditures and replace equipment. For the KASE revolving fund, Ms. Gulati stated that for transportation, they pre-collect fees to be able to plan and to fund the following year's buses. The fund includes a contingency for expenses relating to the Newman relocation and is also used to reduce KASE fees.

Senior Center Update - sites

Ms. Fitzpatrick stated that the MBTA has an interest in swapping the Heights parking lot for the upper Hersey lot owned by the Town. The MBTA owns the lower Hersey lot. They are working on a land swap, and figuring out what they need, such as a pedestrian easement. There are 229 parking spaces in the Heights lot, filled every day, plus 15 spaces in Avery Square. The Town is looking for 75-90 spaces for the senior center.

In the 1980s, the Town paid \$50,000 to rent the MBTA parking lots (except the upper Hersey lot which the Town owned), and in return the Town collected all the revenue. Mr. Creem added that the lot had originally been the old Carter's factory lot, and that the Town was under a mandate to find parking for public transportation as part of the Big Dig project. Ms. Fitzpatrick stated that the MBTA's goal is to own the whole Hersey lot and to bring it up to current zoning standards. In 1995, the MBTA had purchased the Heights lot because it did not want the Town to keep all the revenue. Since then half the revenue goes to the MBTA, or about \$60,000-\$90,000. The Town wants to stop the rent payments and get the revenue back. The Town needs to make capital expenditures to keep the Hersey lot running. It has been net good for revenue, but if the T takes over the lots the Town will lose revenue, but also be relieved of the expense of enforcement. Ms. Fitzpatrick confirmed that the land swap would be an even exchange of one property for the other.

Mr. Zimbone asked where the \$49,000 to pay for the study of Emery Grover and the MBTA lot came from. Ms. Fitzpatrick stated that there were some additional funds from her office that were used. She was not sure whether more detail would be needed about the MBTA lot to present the exchange plan to Town Meeting. In response to a question from Mr. Borrelli about how this acquisition may affect the time line of building the Senior Center, Ms. Fitzpatrick stated that it may be possible for the MBTA to sign before Town Meeting. No bidding is necessary for the swap. Ms. Zappala asked whether the Town wants to do the swap even if the Senior Center would not be located there. Ms. Fitzpatrick said that the swap was worth considering either way. The MBTA will do the swap only if the land is designated for municipal use.

Mr. Rosenstock asked if the swap were done and the Town upgraded its spots to mobile parking meters, would the MBTA do that for their spots. Ms. Fitzpatrick said that the MBTA would handle the management of all the spots and get the revenue from their spots. Any revenue remaining on Town-owned land would be retained by the Town. Mr. Creem commented that he had been on the T Advisory Board Committee and that the T had wanted to raise the daily rate at Hersey to \$4. The Committee recommended against it, but the T went forward. Now the lot is underused. Ms. Fitzpatrick states that the Junction station is more heavily used, but by residents from other towns. The T uses Central Parking to manage the lots, a huge operation, and the Town is tempted to get out of the parking and collection business for these lots. The Town and the T are close to an agreement, but the question remains whether the SCEC and the Board of Selectmen want to move forward. The Town has some street parking in the Heights, and will gain spaces in the Mark Lee lot when it is redone. Ms. Zappala asked whether there is concern from neighbors or about train noise if the Senior Center is located by the tracks. Ms. Fitzpatrick said the noise is not a problem with other buildings on the tracks, and the Town will hear from neighbors at a September public hearing.

Senior Center Update – PPBC cost estimates

Mr. Zimbone stated that the Finance Committee is seeking the answers to some of the financial details that it might be asked about at Town Meeting in November. The Committee is following the same process as used for the Town Hall project two years ago, and the Newman project last year. The Committee has reviewed the estimated costs for a number of senior center alternatives

from the first study, and the additional Emery Grover study. The projects range from approximately \$8-14 million.

As a result of their review, the Committee has raised a number of questions regarding the Senior Center project since Senior Center may require an override to fund the project. Given the large variances between the preliminary estimates and the actual construction costs for both the Town Hall and High Rock projects, is the PPBC comfortable with the accuracy of the estimates for the Senior Center alternatives? Are they affected by the construction market today? Would a second opinion be warranted given today's market factors?

In his opening remarks, Mr. Kent stated that it is difficult to predict what will happen in the marketplace, which has been changing rapidly in the last 4-5 years. During the High School project, the PPBC needed to ask for more money. But ultimately, the town paid \$33 million for a building that will last 40 years. They made judgment calls in the estimates, and then the commodities market went sky high. They did their best, planned for contingencies, but because of marketplace changes, they still needed to come back for \$7 million additional. Then a recession began and the commodities market headed downward.

For the High Rock project, the PPBC used two different estimators, and had them work out any differences to determine the final estimate. It was a very good bidding climate at that time. The bids were \$1.5- \$2 million less than expected. The PPBC prefers to start with higher funding, and bring down the estimated final costs than to come back to the Town seeking more money. For High Rock, they ended up using the same contractor they had used for the library, who kept the bid very low just to keep their business going in a difficult market. The PPBC ended up with almost \$2 million extra. The PPBC does not spend extra money just because it is authorized.

Mr. Kent reported that the PSAB building was inexpensive at \$6 million. That was a different situation where they tried to build a decent quality building, but not one which might last as long as many others in town, what he called a "skinny rabbit." They cut some corners. They used a decent architect and a decent contractor, shaved contingencies and came in within budget.

For the Town Hall project, the PPBC built in more contingencies, as is necessary when working on an existing building because there is more likelihood of unexpected needs. They did not know how the bidding climate would be, but it turned out to still be very good. G&R Construction was the low bidder. They did not include much profit. The bids ranged from approximately \$10.5-\$11.5 million. In a difficult climate, businesses bids lower profit margins.

The estimates for the Town Hall construction included contingencies. The estimate was about \$12.7 million, and the low bid was \$10.3 million, because of the market conditions. The contingency now is at \$3.2 million, and Mr. Kent expects it to stay at that level. He does not foresee any major changes, as most problems should have been uncovered by this point.

Mr. Kent stated that he expects the commodities prices will be higher and the construction costs will be higher for the Senior Center. The changes are reflected in the cost estimates. The cost estimators he uses are reliable. If the marketplace does not change, he will ask for better estimates. In response to a question from Mr. Reilly, Mr. Popper stated that approximately 45%

of the total project cost is commodities costs. Mr. Reilly asked whether they have considered getting a call on the commodities market. Mr. Kent said that they had not explored that option. Mr. Popper stated that it is a very sophisticated market, and since they don't know ahead what will happen, and this could end up costing more.

Mr. Kent stated that the base construction cost for the Senior Center is estimated at \$269 per square foot, not including any special features for the sites. Mr. Zimbone asked how much the High Rock building cost per square foot. Mr. Kent replied that it is very different for reconstruction rather than new construction, but that it was approximately \$220 per sf. In response to questions from Mr. Zimbone, Mr. Popper stated that the PSAB Building cost about \$200 per sf, but that it was a "skinny rabbit", purposefully very minimal cost, and not the highest quality. Mr. Popper stated that he had not worked out a cost per square foot for the High School, since the construction was totally different. Mr. Zimbone asked whether the \$269 per sf for the Senior Center would be for a minimal cost building. Mr. Kent stated that the \$269 per sf is for a very solid building meant to last a very long time, with good furnishings. Mr. Zimbone stated that he thought the Emery Grover numbers estimates were low given the need for retrofitting. Mr. Popper agreed that he was surprised with the low estimates. He said that the numbers came from the architect, and that he evaluated the numbers, and that the cost estimators also came up with similar numbers. Mr. Kent said that he knows these estimators, and believes they do good work.

Mr. Zimbone expressed concern that the only way to pay for such a project is by an override, which he does not want to see, since he is not sure it would pass. He does not want to design a building that can't be built. Mr. Kent stated that the Town has done this before with school projects, and it is the only way to proceed. The Town needs to get all the details ready before it could ever pass. Once the right site is chosen, the project will get momentum behind it and there will be incentive in town to build it.

Ms. Zappala stated that Mr. Kent called the PSAB building a "skinny rabbit" yet many people working there are very happy. The Town built what it could afford. In this case, the Town has to decide what it can afford, or else the Town will decide what it wants, then have to try to figure out how to pay for it. Mr. Borrelli stated that he felt the cost of the project is the main issue, and will be a main consideration point when selecting a site. He said that project cost will be a deciding factor and that firm construction numbers are needed to determine what site should be selected. .

Mr. Kent stated that they tried to be as consistent as possible with the sites, then accounted for unique aspects of each site. Mr. Popper stated that when they do feasibility level estimates, they make decisions how to apply certain factors. It would be different if they were given a final budget and told to build within that. Even the best numbers won't be firm. Mr. Zimbone asked if they were to narrow it to three sites, is there a next level of detail without having to spend \$1 million? Could more detail be achieved for \$50,000? Mr. Popper stated that that could be done, but that it would affect the timeline, and that they believe that would ultimately make the project more expensive.

Mr. Reilly stated that he was under the impression that cost variations were more likely to come from the idiosyncrasies of the different sites rather than from the building itself. Mr. Kent replied that aside from the Emery Grover site, which they did not examine enough to know all the factors involved, they did try to clone the same building at each site. He added that Emery Grover building cost should be in the right ballpark, but that it is historic. If they don't change the building envelope, they won't have to do seismic performance work. They have had it inspected, and it should be sturdy enough to renovate, but they would need a contingency because they can't know everything until it is opened up. They have captured this in the estimates. For Ridge Hill, they know all the issues from the street in. The Rosemary Hill site has issues, but they have identified them. For the amount of money allocated for the study, they did the best they could to be consistent from site to site. Mr. Connelly commented that these figures present a starting point, not an ending place. They need a decision to move further. Mr. Borrelli stated that he was most concerned with the cost estimate of Emory Grover and asked if it would benefit from another look from an estimator. It was again commented by Mr. Popper that another estimator would most likely be consistent due to the information available at this point in time.

Mr. Connelly stated that the only way to get better estimates is to get more information by having designs to work with.

Finance Committee Updates

Ms. Fitzpatrick stated that the Town is preparing a Statement of Interest for a grant for Pollard roof work under the MSBA Green Repair Program that provides funding for public school building roof, windows or boiler replacement or repairs in otherwise sound buildings. The Town is seeking 30-40% funding for the repair cost.

Mr. Creem advised the committee that the scaffolding was removed from the cupola at the Town Hall and the clock is functioning, and it all looks impressive.

Mr. Zimbone stated there will be no meeting on September 8 or 15. There will be a meeting on September 22 with a fairly full agenda. Mr. Lunetta and Mr. Reilly will be unable to attend.

Adjournment

MOVED: By Mr. Connelly, that the meeting be adjourned, there being no further business. Mr. Lunetta seconded the motion. The motion was approved by a vote of 9-0, at approximately 8:47 p.m.

Documents: Needham Public Schools FY10 Preliminary Fourth Quarter Report, June 30, 2010 Financial Summary; Needham Senior Center Site Feasibility Study June 18, 2010, Emery Grover Building Needham Senior Center Site Feasibility Study August 6, 2010

Respectfully submitted,

Louise Mizgerd,

Executive Secretary

Approved September 22, 2010