

**Needham Finance Committee
Minutes of Meeting of September 7, 2011**

The meeting of the Finance Committee was called to order by the Chair, Matthew Borrelli, at approximately 7:00 pm in the Charles River Conference Room at the Public Services Administration Building (Temporary Town Hall.)

Present from the Finance Committee:

Matthew Borrelli, Chair; Richard Reilly, Vice Chair (arrived 7:20 pm)

Members: John Connelly (arrived 7:40 pm), Richard Creem, Richard Lunetta, Gary McNeill, Steven Rosenstock, Lisa Zappala, Richard Zimbone

Also Present:

Dan Gutekanst, Superintendent of Schools

Anne Gulati, Director of School Financial Operations

Marianne Cooley, Chair, School Committee

Kate Fitzpatrick, Town Manager

David Davison, Assistant Town Manager/Director of Finance

Citizen Requests

No citizens requested to speak.

Approval of Minutes

MOVED: By Mr. Rosenstock that the minutes of the Finance Committee meetings of July 13, 2011 and August 3, 2011 be approved as submitted. Mr. Zimbone seconded the motion. There was no further discussion. The motion was approved by a vote of 7-0. (Mr. Connelly and Mr. Reilly had not yet arrived.)

School Department Update

Ms. Gulati presented the FY 2011 fourth quarter financial report. She stated that the department was able to prepay \$150,000 more in special education tuition than expected, and could therefore liquidate a large encumbrance. A total of \$664,801 of tuition was prepaid for FY 2011. Mr. Zimbone asked if the additional money was able to fill the gap in expenses currently being filled by one-time funds. Ms. Gulati stated that there was approximately \$670,000 in one-time money being used for FY 2011. \$500,000 from an Ed-Jobs grant was used directly to back-fill the balance needed for SPED tuition. Mr. Zimbone asked whether some of the additional money could be used to fund a teacher that was needed at the high school. Ms. Gulati stated that they were able to convert some other positions to fill that need. She also stated that the School Department committee is paying \$300,000 in one-time money for school technology.

Ms. Zappala stated that the School Department has continued to roll the pre-purchase money forward each year, but that it seems they will be unable to continue that, and that the money would be used as a contingency fund. Mr. Rosenstock stated that the School Department budget

includes some amounts that were prepaid the previous year, and some that is used to prepay the following year, and some one-time funding. He asked about the costs on an accrual basis, and whether there was a shortfall. Ms. Gulati stated that there is not a hole for FY12, but that there will be a hole going forward because they are using one-time Ed Jobs grant money this year for expenses. They will be \$500,000 short the next year because this is not recurring money. Mr. Gutekanst stated that the School Department is using federal stimulus funding for the third year but that money is going away. Ms. Gulati stated that the Circuit Breaker reimbursement is not yet known, but if the level is 60-70%, there could be up to \$450,000 additional money which may be enough to backfill the Ed Jobs money going forward.

Mr. Borrelli stated that the School Committee discussed the work needed at Hillside and Mitchell. Ms. Cooley stated that the Committee plans to present the work at both schools together as one project to the MSBA for funding. She stated that the School Committee discussed their principles and goals that they want to use to guide the process. Mr. Gutekanst stated that the MSBA has stated that Hillside needs replacement, and that Mitchell is near the need for replacement. Mitchell has been previously rated as needing replacement. Although no substantial work has been done, its rating was upgraded. While the MSBA does not usually consider projects involving more than one school, the School Department has started informal discussions about this proposed project with them since there are compelling reasons to combine the schools into one project. Mr. Creem noted that the Hillside location has constraints such as wetlands and other environmental issues that would limit the size of any possible replacement. Mr. Zimbone asked whether there was consideration of other locations for a school outside of school properties. Ms. Cooley stated that they have not looked at that, though they have considered the other school locations and DeFazio Park, as well as the possibility of adding on to several schools. Mr. Borrelli asked if Hillside could only support a school of 300 students, would it be worth building there. Ms. Cooley stated that a working group has been proposed to discuss the options.

Mr. Borrelli asked about a schedule for doing the work at Hillside and Mitchell. Ms. Gulati stated that the current five-year capital plan accounts for the work being done in the 4th or 5th year. Mr. Reilly asked what the Town is doing to consider not just current programs, but the probability that educational practices will change in the future. Mr. Gutekanst stated that the architects included resources about future needs in their report, and that the school principals have been asked to think about current and future programming needs. The Schools understand the need for space to be flexible, which would allow updates to be done more easily. Ms. Gulati distributed a document showing different project options and the effect on the five-year capital plan. Mr. Gutekanst stated that it is not realistic to be able to do all the work in-house without additional help. Mr. Rosenstock stated that he had spoken with Chip Laffey who said that he believes he can absorb this work by reprioritizing projects within the usual appropriation but that he normally sets aside 25% of the appropriated funds as a contingency until later in the fiscal year in case unexpected problems occur. By bringing on these additional projects, he will not be able to provide for contingencies within the normal appropriation.

Budget Consultation

Ms. Fitzpatrick stated that the Town is being very cautious about budgeting for FY 2013. The current estimates of revenue are very conservative and her goal is to live within that revenue. She will be asking the departments to look at core services and make money-saving changes where possible. She is also aiming to decrease legacy costs. She will allocate enough resources to meet all reporting requirements, wage, and procurement laws. Last year, departments were asked to build budgets from the ground up, demonstrating the need for its expenses and not to base requests on prior numbers. While the departments complied, she felt there was room to go further.

Mr. Davison discussed the five-year Pro Forma, which he based on conservative estimates. He felt there are indicators of a possible double-dip recession so the Pro Forma assumes another economic slowdown. By the time the budget is determined next February, there will be more information to make adjustments if necessary. He stated that there was some encouraging economic news in the second six months of FY11, but in the last 60 days the Town has seen a noticeable drop in revenue streams. In addition, interest rates remain low which is good for borrowing, but not favorable for investment income. With respect to expenses, the rate of increase of health insurance is being contained, though medical inflation is still high, and beyond the Town's control. There are significant increases in energy costs, specifically gasoline and diesel prices. There are very limited steps that can be done to control those costs that would have a material effect in any one year. Heating oil prices continue to increase, but the Town is decreasing reliance on oil heat. The five year trend in natural gas prices has been downward. Electricity costs have been flat, and are expected to remain so. The cash capital investment is assumed to increase at the same level as revenue.

Mr. Reilly asked about the Other Revenues and Reserves that were at approximately a\$1 million on 2009, and decreasing to \$500,000 in future years. Mr. Davison stated that while there is overlay surplus that has been coming back each year, the Pro Forma assumes that there will be no funds coming back. The prior years' numbers are actuals, and the future years are projections. Mr. Davison added that any money that comes back is one-time money, not to be used for operating expenses. Mr. Borrelli asked about building permit income. Mr. Davison stated that it included commercial and residential, and permits such as water heater or sheet metal, as well as whole building. Ms. Fitzpatrick stated that permits are currently being issued at a higher rate than in other recent years.

Mr. Reilly asked whether there would be any major accounting changes such as the shift of the drains work costs last year. Mr. Davison stated that there will be significant changes from an accounting point of view due to changes in regulations, but that the figures for Town Meeting should not be affected the same way. The BVA figures will look different.

Mr. Borrelli asked how the double dip recession affects the projections. Mr. Davison stated that the FY 2013 core revenue was adjusted downward by approximately \$600,000 from the projection in last year's Pro Forma. Ms. Zappala stated that a deficit is always projected, but this year, the \$2.4 million looks bigger. Mr. Davison stated that last year was the lowest deficit, but that the deficit is no more concerning than last year. The revenue estimates are always lower than what comes in.

Mr. Creem commented that Pollard has dual heating, and that it would make sense to wean off oil heat. Ms. Fitzpatrick stated that the Town is working toward that. He asked whether energy costs for the new buildings are included. Mr. Davison stated that he assumes a rate of change and applies that to the existing budget. For determining the budget for next year, he will give the departments the fuel prices to assume, and each department will determine its expected usage. He added that page 15 of the Pro Forma shows the new facilities and the incremental operating costs.

Senior Center

Mr. Borrelli stated that he would like to have the Committee will be vote on the senior center financing issue at the next meeting which will be after the November Special Town Meeting Warrant closes. At that time, the Committee will have a specific warrant article to consider. He asked the Committee to express opinions.

Mr. Rosenstock stated that he had a discussion with Rhainhardt Hoyland, Highway Superintendent at the DPW. They discussed the conditions of roads throughout town, the work planned, and the different paving methods used historically. Mr. Rosenstock stated that he understood that there has been substantial work done to improve roads since the 1990s, and the program is in good shape. The plan is to do most of the sidewalk work in-house. Mr. Rosenstock stated that he developed a level of comfort with the plan to shift some of the funding away from the road program. He stated that he felt that, for a period of time, the department can use less than the amount in the capital plan. The costs of the work won't triple by deferring some work as he feared, but the Town will need to turn back to the plan at some point. Mr. Reilly agreed that it would be acceptable to have less funding for roads at this time and to not address every item in the current plan right away. Mr. Rosenstock stated that some shifting may have been needed anyway because some planned work is not ready to be done. However, he stated, he still feels that presenting a plan with no contingency is inappropriate. Mr. Reilly stated that he is concerned that many sidewalks are not now ADA compliant. He has asked Town Counsel to review if there is additional exposure if the Town puts off work. Mr. McNeill commented that the plan is not to eclipse all the work on roads, but to spend less and have fewer improvements at this time.

Mr. Zimbone stated that he is in favor of supporting the funding of the Senior Center within the debt limit and without an override. He said he shared Mr. Rosenstock's concerns about the contingency, but felt that there is not a better alternative. He stated that it may be possible to mitigate the contingency issue. For example, there is \$1 million of planned work at Pollard that needed to be put off. Also, it makes sense to take advantage of low construction costs and interest rates.

Finance Committee Updates

Mr. Borrelli stated that the Council of Economic Advisors is currently discussing whether to implement a stretch code. Ms. Fitzpatrick stated that the Board of Selectmen has hired a consultant to examine the issue and will soon begin holding public hearings. The consultants have created some reports with good ideas for areas of savings.

Ms. Mizgerd stated that the Annual Meeting of the Association of Town Finance Committees is scheduled for Saturday, October 15 in Franklin, MA. Mr. Creem stated that he will be moderating a panel discussion at the meeting discussing town credit and bond ratings.

Move into Executive Session

MOVED: By Mr. Creem that under Chapter 30A, Section 21(a) of the Massachusetts General Laws, the Finance Committee enter into executive session under exception (6): “To consider the purchase, exchange, lease or value of real property, if the chair declares that an open meeting may have a detrimental effect on the negotiating position of the public body;” and not to return to open session prior to adjournment. Mr. Zimbone seconded the motion. The motion was approved unanimously with the following votes: Mr. Rosenstock: Aye; Ms. Zappala: Aye; Mr. Creem: Aye; Mr. Zimbone: Aye; Mr. Borrelli: Aye; Mr. Reilly: Aye; Mr. Lunetta: Aye; Mr. McNeill: Aye;

Documents: Needham Public Schools, FY 11 Final Fourth Quarter Report dated September 1, 2011; Town of Needham General Fund Revenue and Expense FY 2013 – FY 2017 Pro Forma, dated August 16, 2011.

Respectfully submitted,

Louise Mizgerd
Executive Secretary/Staff Analyst