

**Needham Finance Committee
Minutes of Meeting of February 1, 2012**

The meeting of the Finance Committee was called to order by the Chair, Matthew Borrelli, at approximately 7:03 pm in the Great Plain Room, at the Town Hall.

Present from the Finance Committee:

Matthew Borrelli, Chair; Richard Reilly, Vice Chair

Members: John Connelly, Richard Creem, Richard Lunetta, Gary McNeill, Steven Rosenstock, Lisa Zappala

Also Present:

Kate Fitzpatrick, Town Manager

David Davison, Assistant Town Manager/Director of Finance

Citizen Requests

No citizens requested to speak.

Town Manager's Budget Presentation

Ms. Fitzpatrick introduced her recommended budget and noted that it has changed since her presentation to the Board of Selectmen on January 24. She stated that the budget is based on the Selectmen's voted budget priorities discussed earlier with the Finance Committee, including fiscal discipline, investments in infrastructure and maintaining and improving existing assets. She stated that after a couple of difficult years, this year there is room for optimism. Last year, one-time money was used to balance the budget to get to FY 2013. It appears that FY 2013 will have revenue growth at a more usual historic level, though not enough growth to carry all of the budget requests. FY 2011 actual local receipts were higher than the previous year, reversing a two year trend of declining receipts. State aid is also expected to continue to have modest increases.

Ms. Fitzpatrick stated that there will be a 0% increase in the rate saver plan costs. As a result, the health insurance portion of the FY 2013 budget has an increase of only 0.7% above the prior year. The Employee Benefits line is now expected to increase approximately 5%, instead of 7%. The difference was roughly twice the decrease (2 x \$186,687), so she allocated an amount that would allow for 20 additional FTEs for the School Department, and cut the health insurance budget by \$186,687. Mr. Davison stated that the FY 2013 Employee Benefit Assessment changed from approximately \$10,860,000 to \$10,673,000 because the costs for around 87% of the health plans are not increasing. However, the School Department FY 2013 budget included additional headcount, which now is accounted for in the Townwide budget. The increased headcount had not been included previously since the Town Manager's office did not know about it. In addition to the additional health insurance costs, the Town Manager's FY 2013 budget will cover \$500,900 in one-time funds used for services in FY 2012. On top of that, the Town Manager has included a 5.2% budget increase for the School Department. Ms. Fitzpatrick stated that her recommendation for the Schools is based on money available and not on any

specific programs. She noted that the General Government department budgets will increase for FY 2013 by a modest 1.8%. There was discussion about the increases in salaries that comprise much of the increases. Mr. Davison stated that the School Department salary increases are generally higher than the general government salary increases. Ms. Fitzpatrick stated that for FY 2012, seven Town side positions were eliminated which led to real savings.

Ms. Fitzpatrick stated that there is an extraordinary amount of free cash to spend for FY 2013. Free cash should be around \$5.2 million, though the specific amount has not yet been certified. New growth has been strong, and the Town expects new development in the New England Business Center. The first project is currently being pursued under the new zoning by-laws. Ms. Zappala asked why the free cash will have such a big jump. Ms. Fitzpatrick stated that the new meals excise tax contributed. Mr. Davison stated that was \$600,000. In addition, the Municipal Relief Act now allows the Town to audit personal property tax returns to ensure compliance and provides authority to go back two years. The Town was able to get \$600,000 from one entity in FY 2011 for the current year taxes, plus the two prior years. In addition, the Town received \$300,000 in one-time money from premiums from the sale of bonds. The budget turnback also contributes to free cash, and is usually 2-3%, though the FY 2011 budget turnback was on the lower end at 2%. The School Department had no turnback. Mr. Creem stated that this reinforces the position that 2% is a reasonable amount to be considered the recurring portion of free cash. Mr. Davison agreed, based on the way the Town budgets. He stated that the free cash from FY 2011 is the amount of money over the assumptions. He noted, however, that he is increasing the future revenue assumptions for FY 2013, so they are already built in, but the rate of growth will be lower.

Ms. Fitzpatrick stated that the projected revenue increases are 3.7% for the tax levy, 6.5% for state aid, and 1.6% for local receipts. Although the Governor's proposed budget numbers are higher, they left some hedge room since the budget has to go through the legislature. She stated that the Governor's budget increased School Chapter 70 aid from \$6.9 million to \$7.6 million based on the amount spent per student. Ms. Fitzpatrick stated that for FY 2013, the revenue attributable to property taxes is 81%, which is lower than the FY 2012 portion. She noted that this is a result of the extraordinary level of free cash for FY 2013, and not a shift to less reliance on property tax.

Ms. Fitzpatrick stated that her budget allocated \$500,900 to the Schools to make up for one-time funds and allow their budget to stay level with last year, plus an additional \$2 million for 5.2% increase. She stated that the School Committee's voted budget would increase the School budget by 5.5% over FY 2012. However, if the additional \$500,900 is factored in, it is closer to 6.2%. Mr. Borrelli asked whether the Minuteman number would change. Ms. Fitzpatrick stated that it is \$738,038 and is being refined, but should be within \$2,000. Ms. Zappala asked if the figure included capital. Ms. Fitzpatrick stated that it did not. She stated that under the By-Laws, it must be put in the May Special Town Meeting warrant. Any increase in the Minuteman budget should probably come from the Reserve Fund.

Ms. Fitzpatrick listed the changes from the departmental budget requests to her recommended budget. The Employee Benefits line was decreased \$186,687 because of there is no increase in the rate saver plans. The Board of Selectmen/Town Manager's line decreased \$1,109 because of

an error in the submission. The DPW overtime salary line was decreased \$13,742 because of portion of the Highway budget was recalculated. The Municipal Lighting budget was decreased because it is now based on an average of actual energy consumption. The Public Facilities budget was decreased by \$62,143 because of a change to using a three-year average of actual energy consumption. The Schools budget was reduced by \$257,751. The Building Inspector's budget was decreased by \$2,018 so that they will have no budget increase. The Library budget was reduced by \$19,615 because the state aid will pay for the Children's Librarian. This position will be moved into the General Fund budget at some point, but not yet. The DPW's Root Zone/Memorial Field project was decreased by \$17,000 because they are going to try to fund the work with a revolving fund. Mr. Reilly suggested raising user fees for the work. Ms. Fitzpatrick stated that that is one proposal being considered. Ms. Fitzpatrick stated that a number of other requests were deferred: the GIS Monument grid system, landscape beautification, additional hours for the health care coordinator, the Public Health auto stipends and professional development, and the Library's additional circulation hours, network pages, and museum pass software.

Ms. Fitzpatrick stated that she recommended a number of DSR4s. She funded substitutes and overtime for the Building Inspector at \$6,900. She also included \$9,318 for additional hours for the Public Facilities Administrative Specialist that is currently working full time and being partially funded through projects. Mr. Rosenstock noted that should mean additional turnback from projects. Ms. Fitzpatrick also recommended the Health Department DSR4 to fund a \$10,000 mental health services contract with Riverside. The Library technology replacement request is being recommended since that is an item that Ms. Fitzpatrick thinks should be in the operating budget. Because of the level of free cash, she also recommended all of the Tier 2 cash capital items at \$960,268. She also supports the proposed Athletic Facilities Stabilization Fund at \$32,728. Mr. Borrelli asked what the funding goal is. Ms. Fitzpatrick stated that it is not decided. The turf fields function for 10-12 years for regular usage, and 8-10 years for the more heavily used fields. The replacement cost will be \$1.8 million. She also stated that she recommended the DSR4 for field maintenance work at \$27,624 for contract services and expenses, as described in the memo distributed at the last Finance Committee meeting.

Ms. Fitzpatrick stated that because the Town expects an unusually high level of free cash to be available for appropriation in FY 2013, there needs to be discussion of where to use that money, and what goals and policies to work toward. Ms. Zappala asked where the School Department budget stood. Ms. Fitzpatrick stated that she understood that the Finance Committee liaisons were in discussion with the Finance Committee. She stated that the School Committee voted a budget that was \$85,000 lower than the Superintendent's request. She stated that left a gap of close to \$100,000 from her budget recommendation. Mr. Borrelli stated that he met with the Superintendent and discussed transportation costs. He stated that the Schools are looking for some direction from the liaisons.

Mr. Borrelli asked Ms. Fitzpatrick which items that were cut would she put back first if there were more funding. She stated that some items were cut because the Town won't need the funds. For example, the athletic field root zone work can be done if the Schools give some money. She stated that she would like to move more of the Library services into the operating budget. Mr. Borrelli asked about the Health Department. Mr. Rosenstock stated that the Health

Department salary number is \$7,224 too high, and needs to be reduced. Mr. Davison stated that there is one individual who has 1/3 salary covered by a grant, but the full salary was included in the budget. Ms. Zappala asked about the rest of the Health budget. Ms. Fitzpatrick stated that she had not planned to recommend increasing the hours of the Program Coordinator, but in this case the hours could be added instead of cutting the budget.

Mr. Borrelli asked when there would be discussion of fields and the proposed field stabilization fund. She stated that she has an idea that could affect the proposal that she will be discussing later in executive session. There also may be additional money available this year in the Reserve Fund that is usually needed for snow and ice removal. Mr. Reilly stated that the field maintenance memo would be discussed soon in a DPW liaison meeting.

Initial Draft Budget

Ms. Zappala stated that the Reserve Fund number looked high. Mr. Borrelli explained that the recommended Reserve Fund allocation was based on a formula of 1.4% of the projected operating budget. The projected operating budget was based on the prior year's budget, and then adjusted to remove predictable items. The calculation for FY 2013 included the Reserve Fund in the base amount, which made the result somewhat higher.

Finance Committee Goals and Policies

Ms. Zappala stated that last year there was a discussion with the Assistant Town Manager/Finance Director, who had some suggestions about policies for building up and using stabilization and reserve funds. She stated that free cash is often used for cash capital items, but that every year some capital and maintenance needs are deferred. She stated that it is hard to do an analysis of how Needham compares to other towns since other towns use reserves differently. Needham uses certain reserves only for true emergencies. She suggested making a policy clearly stating that certain funds only be used for emergencies. Mr. Davison stated that there were some drafts of policies, with the concept and the formula of how much could be drawn in any one year, and how to replenish the fund. He stated that the current policies are silent on this issue, and address only the situations when the fund could be used. Mr. Rosenstock stated that there should be target balances.

Mr. Creem stated that there had been discussion when he was Finance Committee Chair focusing on three existing funds: the General Stabilization Fund, the Capital Improvement Fund and the Capital Facilities Fund. Mr. Creem stated that there had been certain concerns in the past. The Stabilization Fund should be used only for catastrophic issues. However, if the balance were allowed to get too high, it would be tempting to raid it for operating needs. That provided the argument for creating the Capital Improvement Fund. It was created for a year when there is low free cash which might leave no funding for cash capital needs. Mr. Creem stated that at that time, there was consensus that the fund would need to grow significantly higher before the Town could consider using it. Mr. Creem stated that the balance then was approximately \$560,000. He stated that the Capital Facilities Fund was a twin with funds reserved for building repairs. There was no specific funding formula, so it has been growing at an erratic rate. It had a balance of approximately \$730,000. He stated that the bottom line is that the stabilization funds (whether or

not the proposed athletic stabilization fund is created) should be considered in a year like this when there is extraordinary free cash. Mr. Davison stated that there should be a formula of averages. Mr. Rosenstock stated it is most important to set policies for the CIF and CFF. They are both there to address monetary problems, but there needs to be policy addressing what costs each fund can cover. Then the Town should fund it at two times the possible need amount, to be used when free cash is not available. He also stated that there need to be limits on drawing from the funds. He stated that possibly the Stabilization Fund should have balance that is a percentage of the operating budget, something that is related to a revenue source. Ms. Zappala stated that the fund is currently not big enough to have a draw that is reasonable from it. Mr. Creem stated that the Committee previously came up with the idea that the minimum balance for the CIF should be \$1.5 million. Mr. Rosenstock stated that there should be an annual contribution. Mr. Reilly stated that there needs to be an articulation of why the account is available. He added that the exposure on the revenue side needs to be considered. Mr. Davison stated when bonds are issued, there are many questions regarding what funds represent a percentage of other parts of the Town's finances. He stated that there will need to be a public presentation with clear explanations for deposits to these funds. Mr. Borrelli asked if there would be a problem with rating agencies if the Town made goals and then did not reach them. Mr. Davison stated that would not be a problem if it happened occasionally.

Finance Committee Updates

Mr. Creem reported that he attended the Association of Town Finance Committees board meeting where Legislative Aide John Robertson spoke. He stated that local officials were generally disappointed with the level of funding in the Governor's budget. The additional school funding was pegged to enrollment growth, so some communities received no increase. Also, the bill did not include the additional \$65 million aid from last year's budget and will only be given if there is a surplus from FY 2012. Municipalities had assumed that it would be part of the base next year. Also, starting in FY 2013, unrestricted aid funding will come from only one source, the lottery, which is up \$20 million this year. Mr. Creem stated that the Governor has been saying the health insurance and other contracted costs have eaten up all the additional revenue income. He stated that the House will submit its own budget bill in mid-April, and the Senate will submit one in mid-May. He stated that the bottom line is that there is cautious optimism that there will be additional funding for municipalities. The State will draw down from the stabilization fund, but will replenish it. He added that the Governor's budget assumes new tobacco taxes will raise 50% more and soda and candy taxes will increase revenue by \$120 million. Mr. Creem stated that there was also discussion about the MBTA issues, as well as the issue of direct payments of ambulance fees.

Move into Executive Session

Mr. Creem asked Mr. Borrelli whether he had determined that the discussion would have a detrimental effect on the negotiating position of the Town if it were held in open session. Mr. Borrelli stated that he found that to be true.

MOVED: By Mr. Creem that under Chapter 39, Section 23B of the Massachusetts General Laws, the Finance Committee enter into executive session under exception 6:

(6) To consider the purchase, exchange, lease or value of real property, if such discussions may have a detrimental effect on the negotiating position of the governmental body and a person, firm or corporation;

Mr. Rosenstock seconded the motion. The motion was approved unanimously with the following votes: Mr. McNeill: Aye; Mr. Connelly: Aye; Ms. Zappala: Aye; Mr. Lunetta: Aye; Mr. Borrelli: Aye; Mr. Reilly: Aye; Mr. Creem: Aye; Mr. Rosenstock: Aye.

The Committee entered Executive Session at approximately 8:32 pm. The Committee re-entered Open Session at approximately 8:47 pm.

Adjourn

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

Documents: Town of Needham Departmental Spending Requests, Fiscal Year 2013, dated December 14, 2011; Town of Needham Capital Improvement Plan, FY 2013 – FY 2017, dated January 3, 2012; Proposed Annual Budget FY 2013, Office of the Town Manager, January 31, 2012.

Respectfully submitted,

Louise Mizgerd
Executive Secretary/Staff Analyst

Approved February 29, 2012