

**Needham Finance Committee
Minutes of Meeting of February 8, 2012**

The meeting of the Finance Committee was called to order by the Chair, Matthew Borrelli, at approximately 7:04 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, Steven Rosenstock, Lisa Zappala, Richard Zimbone

Also Present:

Kate Fitzpatrick, Town Manager

David Davison, Assistant Town Manager/Director of Finance

Richard P. Merson, Director, Public Works

Louise Miller, Supervisor, Administrative Services, Public Works

Edward Olsen, Superintendent, Parks and Forestry

Citizen Requests

No citizens requested to speak.

Finance Committee Initial Draft FY 2013 Budget

Mr. Borrelli stated that a draft budget had been circulated. He stated that there was a \$42,000 reduction proposed for the DPW budget compared to the Town Manager's recommended budget. Mr. Reilly and Mr. Zimbone, the liaisons, had discussed reductions with the DPW. Mr. Reilly stated that the liaisons told the DPW that \$42,000 needed to be cut from the Department's budget, and identified \$60,000 worth of possible budget reductions, which included \$10,000 from the snow and ice line, \$3,000 in energy savings from the traffic light expenses, approximately \$27,000 in field maintenance, \$10,000 in vehicular supplies, and \$10,000 in vehicle maintenance.

Mr. Borrelli stated that the draft budget also showed a reduction in the Health Department budget of \$5,064. He stated that Mr. Rosenstock found a calculation error in the budget request. Mr. Rosenstock stated that there is one employee whose salary is covered in part by a grant, but whose entire salary was included in the budget request, so the salary line was mistakenly overstated by \$7,224. Mr. Borrelli stated that the draft budget shows that salary line adjustment, and also adopts the Town Manager's recommendation to fund an additional \$10,000 for the Riverside Care contract. The Finance Committee's draft budget also includes the 1.5 additional hours per week as requested for the Health Program Coordinator at \$2,160. Mr. Borrelli stated that he spoke with the Town Manager and the Director of the Health Department, and they both agreed that this was an important need. The overall change to the Health Department budget, with the corrected error, was a reduction of \$5,064.

Mr. Borrelli stated that the School liaisons met to discuss possible reductions from the School Committee's voted FY 2013 budget. The Superintendent identified reductions totaling \$67,150. The School Committee expects to vote on February 28. Mr. Borrelli stated that the Finance Committee proposed budget shows the School funding at \$51,112,681 which is \$67,150 less than the School Committee's initial voted budget, or \$105,607 more than the Town Manager's recommended budget. Mr. Borrelli stated that in order to balance the budget, the increase in the School Department budget was offset by the reductions of \$42,000 in the DPW expense budget, \$5,064 in the Health Department, and \$58,543 from the Reserve Fund as compared to the Town Manager's budget. Mr. Lunetta asked where the Schools would put the additional funds. Ms. Zappala stated that the funding level will allow the Schools to make fewer cuts.

Mr. Zimbone stated that the Athletic Fields Revolving Fund that was approved by the School Committee last night includes \$45,000 that is earmarked for field maintenance. He noted that this \$45,000 is funding that will go to field maintenance, but those funds do not show up in the operating budget. Mr. Davison stated that Mr. Olsen, the Superintendent of Parks and Forestry, was considering using the funds for one of the DSR4s. Mr. Davison noted, however, that the Schools will direct how the money is spent. Ms. Zappala stated that this issue was raised at the liaison meeting and the Schools stated that they were in favor of using the funds for field maintenance. They want the Athletic Director to have a say in which fields and what programs are funded. The School Committee would not directly oversee the use of the funds. Mr. Zimbone stated that at the last School Committee meeting there was a vote on the fund based on previously submitted documents, and there was no additional discussion. Mr. Davison stated that Ms. Gulati, Director of Financial Operations for the School, will interpret how the fund will work. Mr. Davison stated that they will spend the funds on work that Mr. Olsen was not otherwise planning to do next year. Ms. Zappala stated that the Schools are not giving up any money for this, since funds have been accumulating over the years, especially since participation has been increasing recently. Mr. Connelly stated that the field maintenance memo shows that the recommended field maintenance program would cost \$198,000 each year. Ms. Fitzpatrick stated that some of the work will be deferred, such as the root zone treatment at Memorial Field for \$27,000. The \$45,000 from the revolving fund could be used for that. Mr. Connelly stated that the Town should be looking at one-time items for that money.

Mr. Rosenstock stated that the Finance Committee's proposed draft budget shows the Reserve Fund with approximately \$220,000 more than last year. The Reserve Fund level used to be approximately \$1.2 million each year, but last year was lowered since additional money was moved into the Snow and Ice line. He suggested that the Finance Committee consider moving an additional \$200,000 from the Reserve Fund and increasing the debt service level in the budget from 3% to 3.25%. He stated that this is an extraordinary year with more free cash than expected, providing the opportunity to do this without taking money from municipal services. He noted that interest rates are currently very low, and in years with higher interest, other items would need to be deferred to accomplish this shift.

Mr. Rosenstock stated that the Selectmen would need to sign off on the idea since it is a policy decision. However, he urged the Finance Committee to give it some thought before voting the final recommended budget in March. Mr. Reilly asked why it would be beneficial to permanently increase the debt service line. Mr. Rosenstock stated that the Town revenues are

back on track and will likely continue to increase at 4% each year. If the debt service percentage is increased to 3.25%, that line will be able to increase at 4% each year. Mr. Borrelli asked whether it would be better to wait until the Senior Center is built. Mr. Rosenstock stated that next year, the revenue will grow more, and the Town would need to take away from services to shift to a higher debt service amount. Mr. Rosenstock stated that this would allow the Finance Director to pay down current debts more quickly or to borrow more for capital needs.

Mr. Davison stated that if the debt service is increased to 3.25% of general fund revenue, but the policy of limiting total debt service to 10% of gross revenues is still in effect, then it would reduce the amount of other debt that is theoretically available such as debt exclusions and enterprise fund debt. He added that the 10% could also be amended. Mr. Davison stated that the rating agencies are not concerned that the Town is currently over the 10% policy, since the Town keeps them well informed. He stated that the 10% could be maintained, and the 3.25% would eat into the overall debt service amount. Mr. Davison recommended an adjustment to the base budget such as Mr. Rosenstock suggested be done in a year with extra money. Then in the out years, there will only be the incremental effects to deal with, so the change will not eat into the operating budget. He stated that a 3.25% debt service policy would give the Town more flexibility, especially as interest rates change. He stated if the Town does change the policy, the additional \$200,000 would be used next year to more aggressively pay down debt.

Mr. Zimbone asked how the rating agencies would view the change in policy. Mr. Davison stated that they would not be concerned. They like to see policies that are followed, but they are fine with amending policies. They have seen Needham adhere to policies and are confident in the Town's ability to plan. The rating agencies tend to focus on the debt level and capacity. They would prefer a change of the debt service policy than seeing the Town accidentally end up in the same place. He noted that there is no uniform standard in the agencies. S&P is concerned when debt service is greater than 15% of revenue or when there is insufficient money for debt service because it is spent on cash capital. He stated that the Town keeps them informed when the Town changes plans. They are aware of the impending Mitchell/Hillside project and the possibility that only one project will be eligible for MSBA reimbursement.

Mr. Zimbone asked if there was an additional \$200,000, whether he would pay off some debt to bring the overall debt service percentage from 13% to 12%, 11% or eventually to 10%. Mr. Davison reaffirmed that he would pay down some debt. He stated that he is fine with less debt. Mr. Borrelli asked if additional debt could be used for funding the roads plan. Mr. Davison stated that the capital planning will be worked around the debt service number. Mr. Reilly expressed concern that if the debt capacity percentage is increased, then \$220,000 would need to come from somewhere else in the budget each year. Mr. Davison stated that the amount would be approximately \$220,000 for the first year, and then increase incrementally each year by about 4%. Mr. Rosenstock stated that once the money is in the base budget, then as the revenue grows at 4%, the additional money in that line each year is only the incremental increase.

Ms. Zappala stated that the Committee has often said if there was more money available for debt, then it should be shifted in order to get ahead. The issue has been raised whether to go up to 3.5%, but the question was where the money would come from. She stated that she does not disagree with Mr. Rosenstock's approach, but the Committee needs to discuss where the Reserve

Fund will end up, and whether the money would be better being used somewhere else. Mr. Rosenstock stated that more money can be put into the Reserve Fund later. Mr. Davison stated that the budget will be fine-tuned in the fall. He stated that they have used the Governor's proposed numbers in the budget, and feels confident that unless there is a major surprise in the legislature, he does not see the local aid numbers coming down. Mr. Creem stated that he is intrigued by Mr. Rosenstock's idea, though concerned because the State's Speaker of the House DeLeo stated that there will be no new taxes, which would cut \$220 million from the Governor's revenue assumptions leaving a major deficit. He stated that he is not as confident as Mr. Davison. He stated that he is wary of prematurely raiding the Reserve Fund. Mr. Zimbone stated that he is interested in Mr. Rosenstock's suggestion, but share's Mr. Creem's concern about the Reserve Fund. He stated that he had a discussion with Mr. Davison about the cost of fuel, and is concerned that if something happens in the Middle East, that there could be major changes in costs for fuel and products such as asphalt that could need to be addressed with the Reserve Fund. There are some benefits to the idea, but also some risks. It should be addressed again at a future meeting.

Mr. Rosenstock asked if there is any objection to his bringing the idea to the Board of Selectmen at their next meeting for discussion. Mr. Borrelli stated that the Committee should have one more meeting to digest the idea. Ms. Fitzpatrick stated that if the Finance Committee would like to recommend the idea, then she suggested a Chairs meeting to raise the issue.

Ms. Zappala stated that she had a comment on the Schools budget. She stated that they are firm about not dipping into their perceived absolute needs for increasing enrollment at the middle school and high school levels to bring down class size, as well as the SPED reorganization. She feels that in the proposed budget, they have gotten what they wanted. She would like to get a sense from them whether they can live with a 4% cost growth rate going forward. If the one-time funding is backed out of the budget, this budget would be within a 4% increase. She stated that the Town cannot handle School increases in the high 4% range for the long term because the Town side will have some higher needs coming up in departments with newer staff that will have larger percentage increases in wages. Mr. Zimbone stated that the Superintendent said that he is planning to keep the increases within a 4% increase going forward. He agrees they are getting what they want but they have held back for two years. Ms. Zappala stated that at other meetings, the Schools seemed to be saying that they might not be able to keep future increases low. She commented that she is in favor of good schools, but that they need to exercise caution with the budget going forward.

Finance Committee Policies and Goals

Mr. Borrelli distributed a handout with a draft of Finance Committee Goals for FY 2010 as a basis for consideration. He stated that he planned to discuss the goals with the Vice Chair and previous Chair and follow up.

Finance Committee Updates

Mr. Reilly stated that he attended a meeting of School Facilitators to discuss the Mitchell and Hillside project. There was some brainstorming about future demands on the schools and how to

be flexible and efficient to address changing needs. He stated that they are using an intelligent approach.

Mr. Borrelli stated that he will be attending a meeting organized by the League of Women Voters regarding the use of the Ridge Hill site.

DPW – FY 2013 Department Budget

Mr. Zimbone stated that there was a DPW liaison meeting regarding the questions that have not yet been answered. He stated that that the meeting also focused on identifying the budget gap and how to bring the budget to where it should be. The liaisons set a target of \$42,000, and spelled out \$60,000 worth of possible budget reductions. They also requested for a more detailed look field maintenance costs beyond what it is in the memo, whether the work is all necessary, whether the costs are consistent with other towns and organizations, and how to measure results. He stated that they asked for information showing any additional costs associated with the fields including irrigation and mowing. Mr. Merson stated that the DPW reviewed and discussed suggested cuts with the Town Manager and made some minor changes. The DPW is suggesting \$42,000 in budget cuts: \$10,000 from Snow and Ice; \$3,000 from energy costs; \$10,000 from Repairs and Maintenance; and \$10,000 from Vehicular Supplies (fuel). Mr. Merson stated that the DPW discussed the markets and how fuel costs might be affected, and noted that they might need to revisit this next year. The DPW also suggested Other Property Related Maintenance be decreased by \$5,000 due to favorable bids for mowing and fertilizing fields. Mr. Merson stated that they then reduced the Public Works Supplies line by \$4,000 to make up the rest to achieve the \$42,000 reduction.

Mr. Borrelli asked for additional information about the field maintenance costs. Mr. Olsen stated that he put out a request for quotes, and the numbers used in the budget are real numbers from low bidders and that they are the lowest in the market. Mr. Reilly suggested that if they acquired their own equipment they could dramatically decrease costs going forward. Mr. Olsen stated that he would have to look into it, but he feels that the equipment is very expensive and breaks down often. Mr. Reilly stated that his golf club bought secondhand equipment and was able to pay it off in two years and save dramatically on maintenance costs. Mr. Zimbone stated that Needham Golf bought new equipment and found they could save money going forward, even with the capital expenses. He stated that using contractors is very expensive. Mr. Olsen stated that his gut feeling is that it would be a wash because of the high maintenance costs including time and parts. He stated that the Department has a tough time maintaining the equipment it already owns.

Mr. Zimbone stated that he would like to see: (1) Cost information that captures all costs of maintaining fields including such things as irrigation and mowing, on a per square foot or per acre basis; and (2) How the DPW plans to measure and show success going forward. Mr. Reilly stated that there could be soil testing. Mr. Olsen stated that there is soil testing. He stated that more porosity of the soil allows better drainage, which means fields have less downside after rains. He stated that downtime could be one measure of success. Mr. Reilly stated that he is also interested in the measures of success of work on roads. Mr. Miller showed a map that indicated the Pavement Condition Index ratings of various roads in Town.

Mr. Zimbone stated that he had two additional requests: (1) that the Department track overtime and determine how it is being allocated in order to find ways to reduce overtime going forward, in time for the FY 2014 budget; and (2) that the DPW get together with the School Department and discuss the sidewalk plow routes in connection with the school districts. Mr. Merson stated that they plow the sidewalks in accordance with the current district plan done in 2002. He stated that the change in eligibility for free busing caused many more students to walk and had a major impact on the need for sidewalk plowing. There are very few streets where residents qualify for free busing so almost the entire Town could be considered walking routes. He noted that the School Committee has discussed transportation fees, and there is concern that a higher fee would mean fewer riders and more walkers. In addition, the Health Department and Schools make efforts to encourage walking and biking to school. Mr. Merson stated that there are also storm water regulations to comply with. He stated that the DPW has not had a call for a full scale analysis of the issue of sidewalk routes. Mr. Connelly asked Mr. Zimbone what is driving his question on sidewalk routes. Mr. Zimbone stated that he has received calls from residents that the school districts have changed, and the sidewalk plowing does not reflect the newer school walking routes. He stated that there seem to be inefficiencies so he wanted to know how effective the sidewalk plowing is pricewise, and what the criteria are for plowing certain neighborhoods.

Mr. Creem asked the theory behind increasing the Snow and Ice budget by 2.5% each year. He noted that it was level funded at \$200,000 for many years and seemed to work well. It was then increased to \$400,000 last year to be more realistic. He asked why the Town was not planning to stay at \$400,000 for several years. Mr. Davison stated that snow and ice removal is a cost that cannot be escaped. It would not be appropriate to fund luxuries when not funding expenses that the Town knows will happen. The Town must fund an amount greater than or equal to the last year's snow budget. A study showed that Needham was budgeting lower Snow and Ice expenses than other towns. The line was increased by 2.5% because that is usually the least amount that revenue grows. The plan was to do it for 5-10 years until the level reached the level other towns' snow budgets. He noted that the average of other towns' snow and ice budgets is in the high \$500,000 range. Mr. Rosenstock asked whether the funds could be used for something else related such as the salt storage shed since the Town has used only \$115,000 this year. Mr. Davison stated that this use of snow and ice funding is very strictly construed by the state since it is one of a few things that can be deficit spent. He added that all of the expenses discussed by Mr. Merson were not necessarily chargeable to the Snow and Ice budget. Some related expenses, such as parts for plows or salary for regular hours, can't be charged to that line. Only overtime and contracted snow removal can be charged to the Snow and Ice budget.

Further FY 2013 Initial Draft Budget Discussion and Vote

Mr. Connelly asked whether a vote on the draft budget would foreclose further discussion of Mr. Rosenstock's idea about raising the proportion of debt service in the budget. Mr. Rosenstock stated that the Committee needs to vote a draft budget in February so that the Town knows where the Finance Committee stands. He added that it would not be an issue to change the recommendation for the final recommended budget in March. Ms. Zappala stated that the Committee has gone through the budget. The Committee is not making significant changes. Ms.

Zappala stated that she would encourage the Chair to call for a vote unless the Committee wanted all members present, which is not expected to happen before the deadline.

MOVED: By Mr. Connelly that the Finance Committee recommend as its initial draft budget the Finance Committee draft recommendation column of budget as distributed in the spreadsheet and discussed, and that the Chair be authorized to transmit such budget to the Town Manager. Mr. Creem seconded the Motion. There was no further discussion. The Motion was approved by a unanimous vote of 8-0.

Mr. Borrelli thanked the Committee for all their hard work reviewing the budget and working with the Town departments. Mr. Rosenstock thanked Mr. Davison and Ms. Fitzpatrick for presenting the Committee with a well-planned reasonable budget recommendation.

Adjourn

MOVED: By Mr. Zimbone that the meeting be adjourned, there being no further business. Mr. Reilly seconded the motion. The motion was approved by a vote of 8-0, at approximately 8:35 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; Finance Committee Draft Budget Spreadsheet dated 2/8/2012; Draft of Finance Committee Goals for Fiscal Year 2010.

Respectfully submitted,

Louise Mizgerd
Executive Secretary/Staff Analyst

Approved February 29, 2012