

**Needham Finance Committee
Minutes of Meeting of February 15, 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: Richard Creem, Richard Lunetta, Gary McNeill (arrived 7:09 pm), Steven Rosenstock, Lisa Zappala, Richard Zimbone

Also Present:

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. Reilly that the Minutes of January 18, 2012, be approved as circulated. Mr. Zimbone seconded the motion. The motion was approved by a vote of 7-0. (Mr. McNeill had not yet arrived.)

MOVED: By Mr. Reilly that the Minutes of January 23, 2012, be approved as circulated. Mr. Lunetta seconded the motion. The motion was approved by a vote of 7-0. (Mr. McNeill had not yet arrived.)

Finance Committee Policies and Goals

Mr. Borrelli distributed a handout with an updated draft of Finance Committee Goals for FY 2013-14. Mr. Rosenstock stated that both the short term and long term goals include debt financing. He also stated that the sources and uses of funds are separated, making it harder to follow. Mr. Borrelli stated that the language was intended to set a goal of determining the level of debt service. Mr. Rosenstock stated that it should just say to reevaluate the current debt policy. Mr. Reilly stated that he agrees, although the Committee's role is not to determine but to evaluate policies. Ms. Zappala stated that the goals should say the Committee will "review and evaluate" rather than "determine" the Town's policies. Mr. Rosenstock stated that one goal should be to evaluate the policies for debt service policy, along with the Capital Improvement Fund and the Capital Facilities Fund. Mr. Zimbone stated that the policy broke out the short-term goals because it was first drafted when the Committee was determining a policy of how much to set aside for cash capital versus operating needs.

Mr. Rosenstock stated that the Committee needs to set goals that it can accomplish. He stated that a good goal would be to set a policy of how much free cash should be available each year.

Mr. Borrelli stated that the short term goal should say that the Committee will set priorities for cash capital and other needs based on the amount of money available, but not set the amount of free cash.

Mr. Lunetta stated that the Committee needs to decide whether to set goals as parameters to live by or goals that the Committee is seeking to attain. Mr. Creem stated that he is not a fan of discussions of goals that can go off on tangents without making progress. He asked the genesis of the attempt to set goals, and also made the observation that the 3% debt service policy was a joint policy of the Committee with the Board of Selectmen that was negotiated as something both groups could live with. He noted that later on the agenda there will be a discussion of that debt policy. He is concerned that the Committee is blurring goals with policies. Mr. Borrelli stated that the genesis of the goals was that the Selectmen outline goals that they live by, and he felt that Finance Committee should also set goals. He revisited older policies and goals to get a better understanding of when to use the stabilization funds. He was hoping that the Committee would be able to set goals to come back to in the future. He stated that he did not intend to overwrite existing policy. Ms. Zappala stated that the goals should be simplified to 3 or 4 major areas of focus, and should not try to reiterate the Committee's functions. She noted that there is too much included in the document, and there is no way the Committee would be able to do it all since the budget and warrant recommendations take almost all of the Committee's time. She stated that it is important not to over-reach. Ms. Zappala also stated that the document was prepared when she first started on the Committee for a forum about how the Town would run. She stated that the Committee needed to show up with goals and objectives and prepared the document quickly.

There was some discussion of how to change the current document. Mr. Borrelli stated that this would be better done in smaller meetings. Mr. Zimbone stated that another draft could be circulated for a later meeting.

Debt Management Policy

Mr. Borrelli stated that at the last meeting, Mr. Rosenstock suggested that the Committee consider moving funds from the Reserve Fund to be used for Debt Service. Mr. Rosenstock stated that this was a good time to do this, since the Reserve Fund has additional money this year and there will be many capital needs in the coming years. Making the change now will make the Town better able to meet capital needs on a timely basis. Mr. Rosenstock stated that this year, the budget requests were met, and there is additional money in the budget that could be used for debt. He stated that he would like to see the policy at 3.5%, but does not think it is necessary to get there all at once. He thinks the Town can afford 3.25% this year. Mr. Borrelli asked Mr. Davison what amount of debt would be available for other projects under the ProForma if the policy was adjusted. Mr. Davison stated that the policy dictates what share of the budget is available for debt service, and only then does he look at obligations coming that fall within the 3% (or under that amount) which then shapes the capital planning of the Town. The basis is the recurring general fund revenue within the levy. Ms. Zappala stated that the money would get used, since there is already no cushion. She stated that the question is, once the priorities are known, whether to borrow for 5 years or 20 years. The capital plan indicates only how to maintain and obtain assets. Mr. Zimbone stated that under the current plan, if there are no added

capital projects, the money would fall to contingencies. He stated that if there is an increase in funds, then there will be contingency money. If that did happen, he felt that there will probably be people looking for more money for road program funding. There is also a potential land purchase. If the debt service policy increases to 3.25%, there will be a sizable amount of money, and it would not all be spent right away. Mr. Borrelli noted that Mr. Davison stated that he would pay down principal. Mr. Zimbone stated that 3.25% would make the debt side more comfortable. He stated that the question is whether to do this just because it is a good year, since it is a long-term decision. Mr. Borrelli stated that it would take money away from the reserve, and from other operating needs. Mr. Rosenstock stated that the issue is whether 3% is still appropriate. He added that the Town needs a Reserve Fund policy that is tied to the operating budget and not just funded with whatever is left. Mr. Borrelli stated that there is a policy that the Reserve Fund is 1.3% of the projected operating budget, but how that has been determined has not always been consistent.

Mr. Reilly stated that the main question is: given the capital base, what is a reasonable amount of money to put aside for capital needs. The Committee should then determine how to approach that level. Mr. Creem stated that Mr. Rosenstock makes a cogent argument, but he cannot support it. Mr. Creem stated that the capital budget needs to be kept on a short leash. Choices need to be made, and sometimes projects will be deferred. He stated that the current policy works, although he stated that it did fail for the Senior Center. He stated that there are always needs that can be filled with additional revenue, but that it is up to the Finance Committee to see that the Town lives within its means. The Committee should see that urgent needs are met, and other needs deferred where possible. He stated that there is no compelling reason to change. He added that he had informal discussions with the Selectmen, and they felt there was no need for a change. Mr. Creem stated if the Town needs additional money, then it should seek an override. The Town should live within the situation it has created.

Mr. Zimbone stated that he feels that it would be appropriate to take on more debt in order to take advantage of current low interest rates, and that he disagreed with Mr. Creem. He felt that it is an appropriate time to invest in the Town's capital infrastructure. Mr. Zimbone stated that Mr. Rosenstock made a compelling argument that increasing to 3.25% gives increased flexibility to the Town, and increases its buying power. Mr. Zimbone noted that if the interest rates were in the range of 8%-10%, he would be dead-set against the change. He also stated that he is not as comfortable with the idea of reducing the Reserve Fund at this time, however, because of the Town's energy needs and the current situation in the Middle East. He stated that if the Committee takes \$200,000 from the Reserve Fund for Debt Service, it should first consider where else the money could be used, such as taking less from the DPW budget or making fewer cuts from the School budget. Mr. Zimbone stated that the Committee would need to make sure that the change would be to meet a top priority need.

Mr. Rosenstock stated that the Committee should consider that wherever the money is moved, it will grow there. It needs to evaluate the debt service level that is most appropriate for the Town. There are many big capital demands coming that will turn into bigger expenses if not addressed in a timely manner. He stated that the Town can begin to plan now, or wait until there are big problems. He stated the Committee must evaluate what money is really available for capital and assess whether it will meet the Town's needs going forward.

Mr. Reilly stated that the Committee should ask whether money really should be taken from the Reserve Fund, and if so, if the money should be put into debt or used for other needs. He would like to dig in and see if there are articles or studies that recommend a capital structure. He stated that he is concerned that the OPEB liability is understated because there is a high assumed investment interest rate. He stated that a 1% difference from the assumed interest rate would make a substantial difference in the amount that needs to be funded. Mr. Davison stated that Mr. Reilly is correct in that each 1% that the interest rate is below the assumed amount will be a big difference in dollar amount owed, but noted that the reverse is true as well.

Mr. Creem noted that debt service used to be 2.5% of the operating budget. Ms. Fitzpatrick stated that it was even 2.0% a long time ago. Mr. Davison stated that the points being made are legitimate. He stated that he agreed with Mr. Reilly's statement that putting more into debt service will mean that money is not used on operating expenses. He stated that he believes that Board of Selectmen would be open to increasing the debt service policy. He stated that a good approach would be for the Committee to look at what is going on nationally and see if there is a recommended amount. He stated also that he agreed with Mr. Rosenstock's comment that as interest rates increase, the Town will have less flexibility, and that there are many capital needs coming up. He stated that the Town's capital plan has been built around the current 3% policy. He stated that he agrees with the points being made, and feels the main issue is whether the money should be put into debt, or should it be put into other operations.

Mr. Reilly asked whether the rating agencies have a sense of what is a good policy. Mr. Davison stated that they look at gross numbers and whether the Town is working within its own set parameters. He stated that the agencies look at whether there is buy-in from the citizens, such as having few overrides. He stated that in New England there are fewer defaults and bankruptcies than in other parts of the country because of the Town Meeting form of government.

Ms. Zappala stated that the Committee needs to be comfortable with taking the money from the Reserve Fund. She stated that the traditional Reserve Fund draws for Legal and Snow and Ice costs have been addressed, but that the swings in energy costs have not been addressed, though the Town had attempted to control the swings with certain energy contracts. She stated that she does not want to plan for the extreme, but she feels there should be a solid reason to increase Debt Service to 3.25% and not just a gut feeling. Mr. Borrelli stated that it would be better to make a such decision when it is not to finance a specific project, but because it seems to be the better policy. He agreed that more analysis is needed to support the decision. Mr. Rosenstock stated that he believes that the 3% and the 10% policies did not have specific reasons behind them. Mr. Zimbone noted that those policies were made when interest rates were higher. Ms. Fitzpatrick agreed that it is good to discuss this issue, and that there is no reason to stick to a policy that no one can defend. She stated that the policy was once 2% and that she would look into the history behind the current policy. She noted that if money is allocated in a certain way, it does not have to be spent. Mr. Davison stated that it would be good to do an analysis of the needs for infrastructure and other aspects of the Town, and then determine what debt service percentage would be indicated to support the needs. Mr. Borrelli stated that this issue will be revisited at the next meeting.

RTS Rates

Mr. Zimbone stated that he attended the Board of Selectmen's meeting with Mr. Reilly and reviewed Mr. Davison's memo to the Board of Selectmen regarding recommended RTS rate increases. The Board was requested to review the funding structure of the RTS because it is currently not sustainable. Mr. Zimbone stated that there should be a longer term study to study the sustainability of the RTS since there are many areas that need to be examined. Mr. Zimbone stated that at the Selectmen's meeting, he and Mr. Reilly supported the idea of a study and suggested suspending the increase until the study results were known. He stated that Ms. Fitzpatrick stated that it may be better to wait until the new head of the RTS is in place before starting such a study.

Mr. Davison stated that sustainability is a concern. The current model does not work because a number of unfunded costs have been shifted to the RTS from the General Fund such as surveying the landfill cap and hazardous waste collections. The RTS has absorbed such costs without payment. In addition, there used to be more recyclables that brought in more money, but the recyclables market collapsed. There has also been an increase recently in the amount of materials disposed of by the Public Works and Public Facilities Departments. There has always been a debate about what the appropriate General Fund contribution to the RTS should be. He stated that last year there was an exceptional spike in recyclable activity due to an extraordinary amount of solid waste coming through from road construction, PPBC and street sweepings, but it was an aberration. Preliminary figures for FY 2012 are showing a drop.

Mr. Zimbone stated that he tried to encourage the Selectmen to broaden their view of the problem, and not only to take money from the General Fund for the RTS. He offered ideas such as reducing the hours, while Mr. Reilly suggested abolishing or reducing the 40% senior discount. Even with the rate increases, the RTS will not be sustainable. He stated that it should be run more like a business. Mr. Lunetta asked what action is needed. Mr. Zimbone stated there need to be a study. Mr. Davison stated that there will be a report back to the Selectmen so that changes can be reflected in the FY 2014 budget. He stated they will look at all areas of RTS finances. Ms. Fitzpatrick stated they will also look at operations.

Finance Committee Updates

Mr. Borrelli stated that he will be running for a position on the Board of Selectmen. He also stated that he attended a meeting, along with Mr. Reilly and Ms. Zappala, sponsored by the League of Women Voters regarding possible uses for the Ridge Hill property. Ms. Zappala stated that the meeting was well-attended. She stated that there is desire to maintain the conservation area. Some were concerned with the cost of renovating the buildings, others focused on the possibilities for the buildings. Much time was spent on the history.

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): “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;” and not to return to open session prior to adjournment. Mr. Rosenstock seconded the motion. The motion was approved unanimously with the following roll call vote: Mr. McNeill: Aye; Ms. Zappala: Mr. Rosenstock: Aye; Aye; Mr. Reilly: Aye; Mr. Borrelli: Aye; Mr. Zimbone: Aye; Mr. Creem: Aye; and Mr. Lunetta: Aye.

Mr. Borrelli closed the Finance Committee meeting open session in memory of Ms. Jane Howard, a well-respected and important contributor to the Finance Committee and to the Town.

Documents: 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 Years 2013-2014.

Respectfully submitted,

Louise Mizgerd
Executive Secretary/Staff Analyst

Approved February 29, 2012