

**Needham Finance Committee
Minutes of Meeting of September 3, 2014**

The meeting of the Finance Committee was called to order by the Chair, John Connelly, at approximately 7:30 pm in the Great Plain Room at the Town Hall.

Present from the Finance Committee:

John Connelly, Chair; Louise Miller, Vice Chair (arrived 7:50 p.m.)

Members: Richard Creem, James Flinton, Richard Reilly, Lisa Zappala, Richard Zimbone

Others present:

Kate Fitzpatrick, Town Manager

David Davison, Assistant Town Manager/Finance Director

Citizen Requests

There were no requests to address the Committee.

Approval of Minutes of Prior Meetings

MOVED: By Mr. Zimbone that the minutes of June 25, 2014 be approved as distributed. Mr. Lunetta seconded the motion. The motion was approved by a vote of 5-0-2. (Mr. Creem and Mr. Flinton voted 'present', as they were not at the June 25 meeting. Ms. Miller had not yet arrived for the vote.)

Town Manager Budget Consultation

Ms. Fitzpatrick stated that she was consulting with the Committee prior to issuing budget guidelines for preparation of the FY16 budget, as required by Town by-law and charter. She stated that the Town has experienced 4-4.5% historical revenue growth and usually cuts are made to budget requests to balance the budget with an overall goal of sustainability. She stated that one of her goals is to work with the retirement board to set an appropriate funding schedule for OPEB and retirement benefits. She stated that in the Pro Forma, the investment rate of return was reduced from 8% to 7.75%. She stated that the Town has funded almost 25% of its liabilities which is the second highest funding level of all communities in the state. Another goal is to create a draft 5-year facility financing plan once the facilities master plan is finished in order to show which projects can be fit into the budget. The objective is to get the ratio of total debt service to gross revenues to within 10%. She stated that the facilities master plan will include 3 iterations for the Hillside School replacement. She stated that all options include a permanent or temporary building at DeFazio field. It has been determined that there cannot be both a school and a DPW facility coinciding at the DeFazio site. The facility financing plan will also include funding for a feasibility study for a new police and fire department building, as well as the reconstruction of the Rosemary Pool. She stated that the Mitchell School replacement will be beyond the 5-year scope of the plan. She stated that proposed High School renovations will likely be funded within the levy.

Ms. Fitzpatrick stated that the Board of Selectmen is considering instituting permitted parking in the Heights for some additional revenue. The Council on Aging is also hoping to expand hours at the Senior Center. She stated that the Selectmen are also considering adjusting the specialty reserve fund targets. She stated that there are ongoing discussions of funding for the school iPad program. The Selectmen are also examining the costs of a conversion to all MWRA water. It is expected that it would be very expensive, but questions have been asked, and the issue has not been reviewed. She said she is considering combining the Health and Human Services departments in order to formalize communication, reduce any service overlap, and allow budgetary flexibility. She stated that the charter requires Board of Health approval, and then the matter would be discussed by the Board of Selectmen. Mr. Creem stated that the Town may see no benefits of the previous consolidation of the Planning and Economic Development departments until the budgets are merged. He requested that she push to do that.

Ms. Fitzpatrick discussed the fall special town meeting warrant, which is expected to have four budget items, and three noncontroversial zoning items. Also, there is discussion of a capital item: a High School project. In response to a question from Mr. Reilly, Ms. Fitzpatrick stated that the DPW garage project is completed, and they will stay there until a new facility is built. In response to a question from Mr. Zimbone, Ms. Fitzpatrick stated that there are no plans to close the transfer station any additional time since the Town has determined that it will not be necessary to meet the RTS sustainability goal. In response to a question from Mr. Lunetta, Ms. Fitzpatrick stated that the Trip Advisor work is on schedule. She said that the Add-a-Lane project is out to bid, and that a ramp to Kendrick Street is seen as important. She stated that General Dynamics is close to agreement with a developer for 26 acres in Needham Crossing. In response to a question, Mr. Davison stated that Coca Cola has shown no indication of moving out. It is a franchise, so it would not consolidate with other nearby bottling facilities. He stated that the Coca Cola facility pays the highest rate for water because it is a high user, and the Town is trying to keep those rates competitive with other towns. If the business were to leave, that revenue would need to be made up elsewhere. Mr. Reilly asked if it was expected that General Dynamics or others might ask for tax benefits as Trip Advisor did. Ms. Fitzpatrick stated that requests could come in, but any project would need to fit the stated criteria and would need to be a game-changer.

Mr. Connelly asked about the Chestnut Street property. Ms. Fitzpatrick stated that the Town cannot lease it out as commercial space, or it will lose its tax exempt status for bonds. She stated that the Building Commissioner has also stated that the fire safety system would also need to be ungraded, and the space would need new paint and roof repairs. She stated the Town is trying to make the area attractive, but it cannot feasibly be rented.

Ms. Zappala stated that she is concerned that the growth of the school expenses is consistently higher than the Town's revenue growth. Mr. Lunetta stated that he had requested that the Schools provide a long term plan or the Pro Forma to show its long term planning.

Pro Forma FY2016 – FY2020

Mr. Davison presented the General Fund revenue and expense Pro Forma for FY16 – FY20, which is updated annually and examines trends that impact the Town on macro and micro levels, and projects how those trends will affect the next five years. It does not consider an expansion of services or projects that have not been approved, though it does assume that proposals for the October 2014 Special Town Meeting will be approved. He stated that if any such projects are not approved, he would recommend the funds be appropriated to the Reserve Fund. He stated that the revenue forecasts in this Pro Forma are very positive compared to his previous forecasts of the upcoming years. He projects much higher new growth, but a declining rate of increase in projects at Needham Crossing. In response to a question from Ms. Miller, he stated that he did not specifically include any savings due to the solar energy project, though he does assume the rate of increase of energy cost will be lower. He stated that the solar project has not been permitted and there is no contract so it would be premature to reflect savings here. He also stated that he thought the savings would not be material.

Mr. Davison stated that on the revenue side, the effects of the federal sequester are still coming through to municipalities, so he projects state aid to be decreasing overall, except for Chapter 70 and unrestricted general government (UGG) aid. He stated that he has projected some years of Chapter 70 aid to be flat, and other years to show some increase, because the changes tend to be based on political, not economic, considerations. He stated that he expects continued growth of UGG over the years. He stated that Town parking revenue will increase.

Mr. Davison stated that salary expenses continue to be the biggest expense since government is based on services. Increases for expenses other than salaries are based on the regional consumer price index, unless otherwise noted. He stated that energy costs, including natural gas and heating oil, are expected to grow faster than the CPI. He stated that repairs and maintenance costs have experienced fast growth, and are expected to continue to grow faster than the CPI due to the fact that the Town is pro-active in maintenance work, and because much of this work is contracted out, and the contract prices increase.

For townwide expenses, Mr. Davison stated that he has assumed a lower rate of return on investments, but no change in the retirement funding schedule has been assumed. For Public Schools, the rate of increase of costs is higher, but the base on which the increase is calculated is lower because SPED tuitions are lower this year. SPED transportation continues to increase, as there is limited discretion or ability to negotiate prices. Mr. Zimbone asked if the School administration was consulted for the Pro Forma. Mr. Davison stated that he spoke with the School Superintendent and the Director of Financial Operations, but that he uses his own assumptions. He stated that since Town Meeting has specified that the Town Manager shall not control the School budget, he does not ask the Schools to provide him detailed plans. Ms. Fitzpatrick stated that the projections for School expenses are based on historical trends. Mr. Zimbone stated that he was unsure if the Pro Form has realistic underlying assumptions for the Schools. Mr. Davison stated that the Pro Forma shows which cost factors are driving increases, and helps indicate where to focus when preparing the next budget. Mr. Lunetta asked if the Pro Forma is ever used in union negotiations. Ms. Fitzpatrick stated that the Town has done that in the past.

Finance Committee Updates

There were no reported updates.

Adjourn to Executive Session

Mr. Connelly declared that the upcoming discussion regarding collective bargaining would have a detrimental effect on the negotiating position of the Town if it were held in open session.

MOVED: By Mr. Creem the Finance Committee enter into executive session under Chapter 30A, Section 21 of the Massachusetts General Laws, exception (3), "to discuss strategy with respect to collective bargaining or litigation if an open meeting may have a detrimental effect on the collective bargaining or litigation negotiating position of the Town," which has been declared by the Chair, and not return to open session. Ms. Miller seconded the motion.

VOTE: The motion was approved unanimously by a roll-call vote: Ms. Zappala: Aye; Mr. Creem: Aye; Mr. Flinton: Aye; Ms. Miller: Aye; Mr. Connelly: Aye; Mr. Lunetta: Aye; Mr. Reilly: Aye; Mr. Zimbone: Aye.

The Committee entered Executive Session at approximately 8:55 p.m. and did not return to Open Session. The meeting was adjourned at

Respectfully submitted,

Louise Mizgerd,
Executive Secretary/Staff Analyst

Approved October 2, 2014