

**Needham Finance Committee
Minutes of Meeting of May 18, 2016**

The meeting of the Finance Committee was called to order by the Chair, Louise Miller, at approximately 7:10 pm in the Selectmen's Chambers at the Town Hall.

Present from the Finance Committee:

Louise Miller, Chair; Rick Zimbone, Vice Chair

Members: Barry Coffman, John Connelly, Tom Jacob, Ken Lavery, Rick Lunetta, Richard Reilly, Carol Smith-Fachetti

Others present:

David Davison, Assistant Town Manager/Finance Director

Stephen Popper, Director of Public Facilities Construction

George Kent, Chair, Permanent Public Building Committee

Hank Haff, Project Manager, Public Facilities Construction Division

Donald M. Walter, Principal, Dore and Whittier Architects

Dan Gutekanst, Superintendent of Schools

Andrea Longo Carter, School Committee

Citizen Requests

There were no requests to address the Committee.

Hillside School Project

Mr. Walter made a presentation describing the site, neighborhood and traffic considerations. He stated that the acquisition of 609 Central Avenue allows for one way bus traffic. He stated that the building is 90,000 square feet, designed to have minimal impact on the neighborhood. He stated that the next MSBA submission with scope and budget will lead to a reimbursement agreement. He stated that they are on track to go out to bid in April 2018 and start construction in May 2018. Mr. Popper stated that the schedule allows 14 months for design and completing construction documents. Once the MSBA approves the scope and budget, the design funds will be released. Mr. Kent stated that he believes the project can be accelerated to save some money. Mr. Popper stated that costs are now pegged to the regular schedule, but the MSBA is open to altering the schedule. He stated that there are currently discussions with the Town Manager and Finance Director to discuss the funding. Mr. Kent stated that there is a risk because some additional funds are needed to accelerate the schedule, but the potential gain is worthwhile. Mr. Popper stated that if \$250,000 can be provided to start the design a month early, then it may be possible to start construction in November 2017, shorten construction to 20 months, and open the school in 2019 which is one year early. That would save the Town almost 5% of \$40 million or \$1.75 million. Mr. Connelly stated that \$250,000 for one month of design work is a fast rate of spending. Mr. Popper stated that a year could be gained by starting design a month early and reducing design time from 14 to 10 months and construction time from 24 to 20 months, and also saving time on construction documents. Mr. Walter stated that this can work because the timing would enable them to close the building envelope before winter. He stated that foundation and beam work can be done in winter, but it is not ideal. He stated that 20 months is enough time to

build this building. Mr. Reilly asked if there is any potential downside other than the issue of whether the Town will vote in favor of an override. Mr. Popper stated that there could possibly be an issue at MSBA but it would not cause the cost to increase any higher than the regular schedule. Ms. Miller stated that the Town would need to come up with the \$250,000 design money. She asked why they wouldn't accelerate the construction time even if the design is not started early. Mr. Walter stated that the additional month is needed to get the schedule on track for a September 2019 opening. Mr. Zimbone noted that there is no leeway in the accelerated schedule, and one slip will mean losing one school year.

Mr. Popper handed out spreadsheets with estimated construction costs. He stated that the MSBA reimbursement rate is 34.72% which is the 31% standard rate plus 3.72% incentive points. Originally, they were told that there would be an additional reimbursement of 1.47% as a wealth incentive factor, but the MSBA has eliminated that. Mr. Connelly asked that they identify what costs the 34.72% applies to. Mr. Popper stated that the reimbursement rate has been capped at \$299 per square foot. He stated that the MSBA may move on the \$299 cap as there is pressure to recognize that school construction is expensive, and that it may not be the appropriate cap. The cap increase is limited by statute to 4.75% per year. He stated that the cap applied to this project will be the rate as of the July MSBA board meeting. Any changes after that will not apply to this project. Mr. Popper stated that the site costs are capped at 8% of construction costs. The caps on the site costs and construction costs apply to the biggest parts of the actual project costs. The 34.72% reimbursement rate does not apply to architect, OPM, or engineering costs that fall outside those two buckets. Mr. Connelly stated that that the documents show that Town is responsible for \$53.5 million since the project cost is \$66.1 million and the reimbursement is \$13.1 million. Mr. Popper stated that is the current expected reimbursement. Mr. Coffman pointed out that there are \$26.8 million of expenses ineligible for MSBA reimbursement. Mr. Kent stated that the largest part results from the \$299 per square foot cap.

Ms. Miller asked for a description of the construction alternates. Mr. Haff stated that the project could be \$500K less if the roof were downgraded. There is also \$192K associated with the use of natural stone instead of blocks. These items could be deducted if the bids are too high. Mr. Haff stated that the roof cost is \$900K. Mr. Kent stated that the more expensive roof is much better, with lower maintenance requirements, though the other roof would not leak.

Mr. Zimbone stated that the MSBA reimbursement is actually less than 20% of the total project cost including land purchases and that the Town is paying 80% of the project costs. Mr. Connelly stated that the reimbursement rate cannot be changed, so the issue is how to drive down costs. He stated that the project cost is \$450 per square foot without the escalation factor, and asked what the building would look like at \$400 per square foot. Mr. Popper stated that one of the cost drivers is the geometry forced by the site. He stated that there are height limits. There is a 3-story wing and a 1 ½ story wing, and a lot of roof. He stated one way to decrease costs would be to have a higher building with a smaller footprint, but it could create zoning issues and could not be done easily or practically. Mr. Connelly stated that the Town owes it to taxpayers to go through the exercise of asking how it could be done differently in order to make a conscious choice about the project. He stated that these questions will come up in the fall when seeking construction funds. Mr. Kent stated that it may be worthwhile to take 4 or 5 large elements of the project such as construction materials and see what could be changed and the effects on the

costs. Mr. Popper stated that roofing materials could be changed and that ventilation costs could be \$400K lower without air conditioning. Mr. Reilly asked whether there were programming elements that affected the design. Mr. Popper stated that they did go through that exercise. Mr. Kent stated that those elements affected square footage. Mr. Popper stated that the MSBA has approved the programming, which is a rigid component of moving forward. Changing the programming would mean backing up in the MSBA process. Mr. Walter stated that the building was designed for four class sections per grade and 435 students. The enrollment could increase to over 500 students with larger class sizes. There is an abundance of space for special needs and extended learning outside of classrooms, which is becoming more common in school designs. All of the spaces in the design meet MSBA guidelines. Mr. Connelly stated that they should expect the question of why other school building projects have a smaller square footage per student. Ms. Miller asked if there are spaces that could be converted to additional classrooms. Mr. Walter stated that an increase in the number of students in the school would mean an increase the class sizes. Mr. Haff stated that the school is designed based on the lower amount in the policy of 18 students per classroom, but up to 24 students are allowed. Dr. Gutekanst stated that the MSBA follows each district's own policy guidelines on class size when reviewing projects, and does not question the policy.

Mr. Reilly stated that he had questions about the actual reimbursement rates of other projects. He stated that they will need to explain to the Town how the reimbursement percentage rate was determined. Newton's project has a reimbursement rate of 30%, while the Hillside project reimbursement rate is 20% including the land purchase. Mr. Zimbone stated that the Committee members are making the same point, that there needs to be a story to explain the costs and the size of the building, and answers to questions on comparisons.

Mr. Davison stated that the ballot question will show the amount that would be issued as debt, and will not include the amount that will be reimbursed by MSBA. Ms. Miller stated that the Finance Committee should discuss with the Board of Selectmen whether the land purchase should be included. Mr. Davison stated that the Selectmen will vote on the ballot question with the debt exclusion amount in July. He stated that he met with Standard and Poor's and told them that the land purchase amount would be on the ballot. He will need to correct that with them, since it is a material change. They want to know that the Town is making a recurring investment in capital assets without squeezing operations.

Full Day Kindergarten Proposal

Dr. Gutekanst handed out a slide presentation and a December 2015 update of a June 9, 2015 memo from Anne Gulati. He presented the outline of the full day kindergarten program. He stated that many students participate in KASE, the voluntary kindergarten enrichment program. A survey showed that residents feel that full day kindergarten should be compulsory and free to students. He stated that there is a space deficit of three classrooms which can be met with creative uses of space, though other programs may be affected. He stated that the cost implications are \$1.6-\$2.7 million including all salaries, benefits and other costs, though there is an anticipated offset of \$360K of additional Chapter 70 money from the state. The plan is to start the program in the fall of 2018. Dr. Gutekanst stated that Ms. Gulati updated the cost estimates to \$1.4-\$3.2 million in the first year based on updated enrollment projections.

Dr. Gutekanst stated that there are currently 10 kindergarten teachers, and the full day program will need 23 sections. The Schools will need additional teachers, specialists, and teaching assistants. The analysis does not assume redistricting, but does assume making changes in other grades to free up classrooms. There are three scenarios being considered. The goal is the fit into the buildings and to be affordable. He stated that the analysis was a mathematical exercise, and not a plan.

Mr. Zimbone asked about the public comment hearing. Ms. Carter stated that it was well attended and that all who spoke supported implementing full day kindergarten. She stated that the School Committee listened and did not take any action on the program. Dr. Gutekanst stated that the School Committee has not yet discussed funding. He stated that he has told the Chair and Vice Chair of the School Committee that if they move forward with the program, he would urge the School Committee to meet with many different people and groups to figure out the finances and the details to make it work. Mr. Reilly stated that the School Committee will need to explain whether the kindergarten program will be in addition to existing programs or in lieu of some programs. He asked if the Town were to receive an additional \$360K of Chapter 70 funding whether another town would lose some funding. Mr. Davison stated that there is a total amount in the state budget subject to appropriation, so if the state appropriates the same amount and one district needs more, then others would lose. Dr. Gutekanst stated that the foundation formula could change. Mr. Davison stated that the formula uses enrollment data, and if there are more students in Town, there will be more Chapter 70 funding.

Mr. Connelly stated that the plan requires moving students around to where there is space which will cause angst, and suggested waiting until the space issues are resolved. He asked whether the costs included finding space and fitting classrooms for kindergarteners. Dr. Gutekanst stated that there will be costs for moving and purchasing supplies, but no significant expenses such as adding bathrooms. Ms. Miller asked if KASE funds could be used for transporting students. Dr. Gutekanst stated that the funds need to be used carefully, but they have been used for capital needs and buses. Ms. Carter stated that there are funds to replace the current kindergarten buses, plus some additional funds. They are considering what to use the other money for-- possibly curriculum development or devices.

Dr. Gutekanst stated that the School Department has been working to address rapidly increasing transportation costs. Ms. Gulati recently awarded a bid for yellow buses with Natick that increases costs by 7%, where the Town had been facing a 29% increase in the prior contract. He stated that there will also be savings in the special education transportation costs for different reasons.

Discussion:

Ms. Miller asked if the Committee would like to provide feedback to the Board of Selectmen or the PPBC on the Hillside School project. Mr. Connelly stated that there were not yet detailed numbers to react to. Mr. Reilly stated that the Finance Committee would be dissatisfied if there is a vote in the next few weeks that will restrict the Town's ability to explore alternatives. Ms. Miller stated that the areas of concern are the square footage of the proposed building and the cost per square foot of the project. Mr. Reilly noted that the Committee is not objecting to the

proposal, but there need to be rational explanations for the choices made. Mr. Connelly stated that the Committee needs to ask what the building would look like for \$400 per square foot. It is not sufficient for them to say simply that people won't like it. Mr. Connelly stated that when he was on the PPBC, the OPMs who were from an outside firm would challenge the architect. He stated that he does not doubt the professionalism of the Town employees, but when people are working closely together, they are more like partners, and there are not the needed checks and balances. He stated that while the salary costs are lower, if there is not a third party to push back, the costs could be higher in the end. He stated that he is concerned about the lack of independence. He stated that using an in-house OPM worked at Newman because there were not many design aspects in that project compared to an all new school.

Ms. Miller stated that she would like the Finance Committee to discuss the project with the Board of Selectmen once there is a financing plan. Mr. Davison stated that the Selectmen will likely vote on the final submission to the MSBA in the next couple of weeks. He stated that they will need to vote on the ballot question for the override by July in order to get it to the Secretary of State's office in time for the November election. Mr. Lunetta asked if there would be any opportunity for meaningful input after that. Mr. Davison stated that the dollar value of the project will be set. Mr. Lunetta expressed concern about the Finance Committee being outside of the process when critical decisions are made. Mr. Reilly asked if the Selectmen's July vote on the language of the ballot question would foreclose alternate financing plans. Mr. Davison stated that legally it would not, but agreed that practically it would. Mr. Reilly stated that he would like to have the opportunity to explore other options. Ms. Miller stated that must be done now. Ms. Smith-Fachetti stated that it is important to consider the accelerated schedule as the base plan to work from.

Adjourn

MOVED: By Mr. Connelly that the Finance Committee meeting be adjourned, as there was no further business. Mr. Reilly seconded the motion. The motion was approved by a vote of 9-0, at approximately 9:34 p.m.

Documents: Slide presentation: Hillside School at Central Ave., Needham, MA, 5/18/2016; Memorandum to MSBA Board of Directors from Maureen Valente, CEO and John McCarthy, Executive Director, re: MSBA Construction cost Policy Update, July 30, 2015; Schematic Design Project Schedule, Hillside Elementary School, 5/17/2016; Hillside Elementary School Rounded Draft Budget, 5/18/2016; New Elementary Schools Comparison Analysis, draft 5/17/2016; Estimated Construction & Total Project Cost Data at Schematic Design, Elementary Schools (MSBA); Needham, Hillside Elementary School, Total Project Budget; Memorandum to Steve Popper and Hank Haff from Donald Walter, Dore and Whittier Architects, May 6, 2016, re: Hillside School Project Schedule Alternatives; Slide presentation: Full-Day Kindergarten for Needham, Finance Committee Update on May 18, 2016; Memorandum to Dan Gutekanst, Superintendent of Schools from Anne Gulati, Director of Financial Operations, June 13, 2015, updated 12/8/15 re: Preliminary Fiscal Impact of Full Day Kindergarten.

Respectfully submitted,

Louise Mizgerd
Executive Secretary/Staff Analyst

Approved June 22, 2016