

**Needham Finance Committee
Minutes of Meeting of September 21, 2016**

The meeting of the Finance Committee was called to order by the Chair, Rick Zimbone, at approximately 7:00 pm in the Selectmen's Chambers at the Town Hall.

Present from the Finance Committee:

Rick Zimbone, Chair; Dick Reilly, Vice Chair

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

Others present:

David Davison, Assistant Town Manager/Finance Director

Dan Matthews, Board of Selectmen

Marianne Cooley, Board of Selectmen

Anne Gulati, Director of School Financial Operations

Citizen Requests

There were no requests to address the Committee.

Approval of Minutes of Prior Meetings

MOVED: By Mr. Connelly that the minutes of September 14, 2016 be approved as distributed. Ms. Miller seconded the motion. There was no further discussion. The motion was approved by a vote of 9-0.

Update on Minuteman School District-wide Referendum

Mr. Zimbone stated that 4 towns voted against the capital project, but the district as a whole supported it. Mr. Matthews stated that the negative vote in 3 of the 4 towns was inconsequential, as they had already voted to leave the district. The vote in Belmont, however, is a problem, since they are part of the new district agreement. He stated that the Chair of the Belmont Board of Selectmen has indicated that Belmont plans to hold a Special Town Meeting on October 19 to vote whether to leave the district. If the Town Meeting votes to leave by 2/3 majority, then Belmont will not be liable for the bond on the capital project, even if the other members of the district do not allow them to leave. He stated that at that point, it would be most practical to allow Belmont to leave the district and charge them for students attending to make up for it. If Belmont leaves the district, their students would have low priority for seats at the school if it fills, and will have low priority for their choice of a major. He stated that the fiscal implications will stay the same for Needham if Belmont leaves, and provided the school is fully enrolled. If there is not full enrollment, there will be cost increases. He stated that the major driver of costs for towns is the number of students that a town sends to the school. He stated that the state caps tuition for out of district students at 125% of the foundation budget, which can be lower than the in-district assessment. Ms. Cooley stated that Belmont's main concern is that the district would

not fill up. They feel they will be able to get seats for their students if they are out of district, and that they may not have to share in the capital costs.

Mr. Zimbone asked if other towns had to hold a Special Town Meeting if Belmont votes to leave the district. Mr. Matthews stated that if no vote is held, then approval is automatic. He stated that he does not think it is practical to hold a vote, but they can analyze whether it would make sense to try to block Belmont from leaving. He stated if Belmont does not get the 2/3 vote of Town Meeting, they will stay in the district and have to pay capital costs. He stated that the Commissioner of the Department of Education must provide permission for a town to leave the district, and he feels that there is a good chance that they could convince the Commissioner not to allow Belmont to leave. The question remains whether they would want to take that step.

Mr. Zimbone asked about towns entering the district. Mr. Matthews stated that they hope that the new agreement will attract potential new members, but he thinks it will not happen until three conditions are met: the new building is built, the enrollment approaches full enrollment, and good governance is exhibited under the new agreement. Mr. Zimbone asked how out of district seats are awarded. Mr. Matthews stated that the district agreement allows the district to give priority to students in towns willing to pay more to cover operating costs. Mr. Smith-Fachetti asked if they could recoup capital costs from out of district towns. Mr. Matthews stated that the tuition cap is only for operating costs, and that an additional capital charge will be allowed.

Mr. Connelly asked when the capital costs will start for the building project. Mr. Cooley stated that they would know soon, but it will likely be FY18. Mr. Matthews stated that capital costs will likely be 10% higher if Belmont leaves the district.

Finance Director – Pro Forma

Mr. Davison outlined the most recent pro forma which projects revenues and expenses for FY2018-FY2022. He pointed the Committee to the summation of the number on Page 25. He stated that FY18 currently shows a \$2.17 million gap, though ultimately the budget is required to be balanced. He stated that he has assumed higher free cash than earlier budgets. He stated that inflation and wage growth are slowing. He stated that the rate of growth of energy costs is low because the CPI is low. He stated that this will change at some point, which will be significant because energy is 1/3 of the expense budget. He stated that the Town's proactive approach to building and equipment maintenance has caused those costs to grow faster than inflation and revenue growth. He stated that professional and technical services are a significant part of the expense budget, used to assist staff and to supply some direct service to residents. Mr. Reilly asked if there is a strategy to bring more expertise in-house to save. Mr. Davison stated that outsourcing is considered on a case by case basis whether it is more cost effective to use outside sources or in-house staff.

Mr. Davison stated that the pro forma includes increases in maintenance and programs that will come with new and updated facilities. He described the models he used for projections and the adjustments and assumptions. He stated that he estimates conservatively for both revenue and expenses. Mr. Coffman asked what change in the revenue assumption would be needed to close

the budget gap. Mr. Davison stated that the Town would need a 6% revenue growth rate. Ms. Miller noted that the projected budget increase includes both inflation and additional services. She stated that the revenue is growing at a healthy pace and there would not be a budget gap without the increased services. Mr. Davison stated that he included full-day kindergarten at a cost of \$1.7 million based on the School Department analysis, as well as 4 new fire personnel in FY20 and 4 new police officers coming in FY19-FY21 in a phased approach. Ms. Miller asked for a further breakdown of the debt service costs per building.

Mr. Reilly noted that he is not comfortable with the use of different rates of return for retirement and OPEB since they are ultimately managed by the same pool, and said that the Committee could choose not to accept that method. Mr. Davison stated that he used the discount rates and that the retirement board will not accept more money even if it is allocated, since the Town is not the only member. The board voted not to change their rate to 7.5%.

October Special Town Meeting

Article 1: Fire Union

Mr. Davison stated that the Fire Union and Town reached agreement, and the Board of Selectmen approved it, and it is signed. He stated that it is a 3-year agreement with 2% base wage increase and a new top step that is 2% higher. The agreement allows for certain payments, such as payments for shoes, to be included in the base pay rather than providing reimbursement which saves administrative work, though it is taxable income. The additional pay would not count toward overtime rates or retirement benefits. He stated that agreement increases salaries by 4.88% in FY17 and 4.28% in FY18. He stated that Unit A will have an additional step raise added at 2%, while the deputies had asked for a 4% increase for the current top step instead. In FY19, this agreement will have a 1% pay increase in July and another 1% increase in January, which leads to a 12.2% increase over the life of the contract, or a 4.07% average annual increase which is less than assumed in the pro forma.

Mr. Zimbone asked which items were most important for the Town. Mr. Davison stated that the drug test provisions were most important and the union knew that it was critical to the agreement. He stated that other important terms were the consolidated rate for detail work, the clarification of administrative leave language, and the increase in the area for the residency requirement. Mr. Lunetta asked about the restructured paramedic rotation. Mr. Davison stated that the program now provides for 32 paramedics, so that if there are more, senior people would be allowed to drop out of being a paramedic. Dropping out would involve a salary decrease which would also affect retirement pay. Ms. Miller stated that this issue of fatigue is being raised and there is a suggested maximum of 12 hours for a paramedic to work. She asked if the Town considered changing the shifts. Mr. Davison stated that they did not discuss that, that the shifts remain at two 24-hour shifts per week, which are separated for rest. Mr. Lunetta asked if the Town gave up anything substantial other than money. Mr. Davison stated that it did not, and that the agreement is favorable to the Town and reasonable for the Union. He stated that it was not a unanimous vote for the Union.

MOVED: By Mr. Lavery that the Finance Committee recommend adoption of Article 1:
Approve Collective Bargaining Agreement -Needham Fire Union. Mr. Lunetta

seconded the motion. There was no further discussion. The motion was approved by a vote of 9-0.

Article 13: Citizen's Petition – Amend Zoning Bylaw

Mr. Zimbone stated that the Finance Committee requested more information about the potential financial impact of the article since it was not clear, though people thought the ideas were good. He noted that the PPBC representative had reported at the last Finance Committee meeting that the Large House Committee and the petitioner were working together, and that the PPBC was likely to refer to article back for further study.

MOVED: By Mr. Reilly that the Finance Committee take no position on Article 13 – Citizen's Petition – Amend Zoning By-law on the basis that the Committee sought additional information to show the financial impact, and nothing was provided to establish a discernable financial impact. Mr. Coffman seconded the motion.

DISCUSSION: Mr. Zimbone asked if the Committee wanted to consider a motion to defer the article. He stated that the members are all in agreement that there is little to no financial impact that can be determined. Ms. Miller stated that taking no position is consistent with the Committee's position on Article 5 which involves a similar restriction.

VOTE: The motion was approved by a vote of 9-0.

There was no further discussion. The motion was approved by a vote of 7-0.

Finance Committee Updates

Mr. Connelly stated there was a presentation by Weston and Sampson at the Board of Selectmen's meeting about the DPW feasibility study. There were two big changes since the PPBC meeting last week, which had included a discussion that included the use of Parcel 74 in a limited way for transition space and then storage. There was significant opposition to the use of Parcel 74. This week, the Board of Selectmen had taken Parcel 74 out of the equation. Also, there had previously been discussion of rebuilding the DPW at the current site, or building at the RTS. The recommendation is now to build in the current DPW location. He stated that the only cost information was a ballpark figure in the low \$30 million range. Mr. Zimbone stated that they indicated that that was hard costs only, excluding contingency and soft costs. Mr. Coffman added that there was also a proposed storage facility at the RTS.

Mr. Zimbone asked about the capital discussion at the School Committee meeting since there was a first draft of a school capital plan. Ms. Gulati stated that there was consternation that the High School classroom project study will not be complete until June which will affect the timing of the funding. She stated that the earliest schedule allows for opening the classrooms in September 2020 and being part of the FY21 operating budget. She stated that there are concerns that this is too late for the needs in light of current enrollment. Mr. Zimbone stated that there was also concern about the timing of the work at Pollard, so it would be phased. Ms. Gulati stated that the project is deferred to FY31, when they would tear down modulars and build

science classrooms and a new auditorium. They are looking for a way to accelerate the plan. Because of escalation factor, the \$17 million project is in the capital plan as \$72 million.

Adjournment

MOVED: By Mr. Reilly that the Finance Committee meeting be adjourned, as there was no further business. Mr. Jacob seconded the motion. There was no further discussion. The motion was approved by a vote of 7-0, at approximately 8:55 p.m.

Documents: October 5, 2016 Special Town Meeting warrant; Town of Needham General Fund Revenue and Expense Pro Forma FY2018 – FY2022 dated September 6, 2016; Summary of Special Town Meeting Article 1.

Respectfully submitted,

Louise Mizgerd
Staff Analyst

Approved December 14, 2016