

**Needham Finance Committee
Minutes of Meeting of September 6, 2017**

Chair Dick Reilly called the meeting of the Finance Committee to order at approximately 7:00 pm in the Selectmen's Chambers at the Town Hall.

Present from the Finance Committee:

Dick Reilly, Chair; Barry Coffman, Vice Chair

Members: John Connelly, Tom Jacob, Kenneth Lavery, Joshua Levy, Richard Lunetta, Louise Miller, Carol Smith-Fachetti

Others present:

Kate Fitzpatrick, Town Manager

David Davison, Assistant Town Manager/Finance Director

Anne Gulati, Director of School Financial Operations

George Kent, Chair, PPBC

Hank Haff, Project Manager, Public Facilities, Director of Design and Construction

New Member

Mr. Reilly welcomed new member Joshua Levy to the Finance Committee.

Citizen Requests to Address Finance Committee

No citizens requested to speak.

Approval of Minutes of Prior Meetings

MOVED: By Mr. Connelly that the minutes of August 9, 2017, be approved as distributed.
Mr. Jacob seconded the motion. The motion was approved by a vote of 9-0

Special Town Meeting Article 13 - Appropriate for High School Expansion Construction

Dr. Gutekanst stated that a working group has helped guide the High School expansion project. There are four components of the project: updated science rooms, additional classrooms, renovations to Gym A, and a new chiller. He stated that the current estimate of \$14.1 million is higher than the amount presented at Town Meeting in May. He stated that there is not currently a funding source for the whole amount. He stated that the plan is to open the new space in September 2018. He stated that the new space will serve the community for years to come. He stated that the cost increase is attributable to additional work needed at Gym A. The project scope has not changed except at the gym. Mr. Connelly stated that the square footage has increased. Dr. Gutekanst stated that there is no change of scope, but there has been a change in square footage and costs. He discussed the new spaces and the changes to existing space. He described the value engineering that has been done to restrain costs. He stated that the budget is still being determined since the work and costs for Gym A work is still being vetted, but will be done within the week. Mr. Kent stated that the amount of renovated space has increased in transition areas, which is common in this type of project. He stated that some of the additional renovations will allow existing space to be used for special education activities. Mr. Haff stated that teachers have identified reported needs for additional special education space. The changes

have captured some underutilized space for special education use. He noted that as the school population has increased, the special ed population has increased at the same or a greater rate.

Dr. Gutekanst stated that the main increase in cost has been in the gym which has increased from \$858K to \$1.8 million including additional storage. A critical change was due to the discovery of the need to replace the ventilation system at \$400K. Mr. Kent stated that the Gym A portion of the project was not properly vetted earlier and the needs are greater than expected. Mr. Reilly asked when the previous cost estimate of \$13.4 million was determined. Ms. Gulati stated that that was a feasibility estimate, made prior to schematic design. Mr. Reilly asked if a swing of this size in costs is typical between feasibility and schematic design. Mr. Kent stated that it is unusual and that they are looking very hard at the costs. He stated that they have done well with the chiller and boiler costs and the costs of the building expansion. He stated that those numbers are good, but some numbers need to be corrected and finalized in the next week. Ms. Miller stated that in the spring, the Committee was told that the chiller was not supposed to be funded through bonding. Mr. Davison stated that the projects has been combined for contracting, but the funding of the chiller will be from cash. The warrant article will state that it is funded with both cash and debt. He stated that not all of the cash will come from special reserves. Mr. Kent stated that the elements are being analyzed as separate projects, but the construction is being done as one project with one contractor.

Mr. Coffman asked whether it is important to have the Gym A work included in this project. Dr. Gutekanst stated that if there is a problem with funding, the gym work would be scaled back, though that work needs to be done. However, the condition is not quite failing the program yet. He stated that if that work is deferred, he will ask the school committee to make it a top priority. Mr. Kent stated that the costs will not stay the same in 2-3 years. Mr. Reilly stated that there are two issues he would like to resolve: he would like more confidence in the actual construction costs, and then to consider whether the benefits are worth the additional costs. Mr. Kent noted that there has been extensive value management work, which is ongoing. Mr. Connelly noted that the \$11.6 million for the expansion work depends on finding an additional \$500K of savings. Dr. Gutekanst stated that there is \$500K of furniture, fixtures and equipment that could be moved to the School capital budget if necessary. Mr. Connelly asked if the CM Value Engineering numbers include the premium for the construction manager at risk. Mr. Kent stated that they did. Mr. Connelly stated that the \$170K cost for 8 months of in-house OPM work seems high. Dr. Gutekanst stated that he would provide the details of what is in the \$170K. Mr. Reilly asked why the contingency numbers have decreased so much. Mr. Kent stated that the numbers are more certain so less contingency is needed later in the process. Ms. Miller asked if the cost escalation to midpoint is embedded in the numbers. Mr. Kent stated that the escalation was included at the conceptual stage, but now the project is close in time and is accelerated, so no escalation provision is needed.

Mr. Jacob asked what Town Meeting had been told about the project. Dr. Gutekanst stated that the School Committee Chair had explained that there was an \$11.6 million expansion project, and that the chiller needed replacement for \$858K. They were told about the problems with the ceiling in Gym A, but not the storage needs. Mr. Reilly stated that he is not comfortable saying that the \$600K savings that will not be needed for the boiler would be automatically available for other parts of the project. He asked if costs needed to be decreased, what would be pulled out of the project. Mr. Davison stated that the savings from not replacing the boilers is critical not because funds are being used elsewhere but because some debt capacity is freed up and the project will not require debt exclusion.

Article 1 - Fund Collective Bargaining Agreement DPW/NIPEA

Ms. Fitzpatrick stated that the contract provides a 2.5% salary increase and no change of language. The cost is well within the sustainability initiative of 4%. The Town will need to bargain regarding changes to health insurance benefits for July 2018, so this agreement is for one year, to align with other units. She stated that all other bargaining agreements are settled for FY18, and the Town will need to negotiate with all about health insurance for FY19. Ms. Miller commented that this is a good agreement.

MOVED: By Mr. Lunetta that the Finance Committee recommend adoption of Special Town Meeting Warrant Article 1: Fund Collective Bargaining Agreement – DPW/NIPEA for a net increase of 2.87%. Mr. Coffman seconded the motion. There was no further no discussion. The motion was approved by a vote of 9-0.

Article 3 - Amend the FY2018 RTS Enterprise Fund Budget

Ms. Fitzpatrick stated that this increases the salary line to accommodate the FY18 NIPEA bargaining agreement. Mr. Reilly asked if there is concern about whether there are sufficient funds, since the RTS earnings have not consistently met costs. Mr. Davison stated that the wage increase was anticipated in his previous projections.

MOVED: By Ms. Miller that the Finance Committee recommend adoption of Special Town Meeting Warrant 3 - Amend the FY2018 RTS Enterprise Fund Budget. Mr. Jacob seconded the motion. There was no further no discussion. The motion was approved by a vote of 9-0.

Article 4 - Amend the FY2018 Sewer Enterprise Fund Budget

Ms. Fitzpatrick stated that there are two changes. One increases the salary line by \$20,373 to accommodate the FY18 NIPEA bargaining agreement. The other change is a decrease to reflect a decrease in the MWRA assessment.

MOVED: By Mr. Coffman that the Finance Committee recommend adoption of Special Town Meeting Article 4 - Amend the FY2018 Sewer Enterprise Fund Budget. Mr. Lavery seconded the motion. There was no further no discussion. The motion was approved by a vote of 8-0-1, with Ms. Miller abstaining.

Article 5 - Amend the FY2018 Water Enterprise Fund Budget

Ms. Fitzpatrick stated that there are two changes. One increases the salary line by \$22,272 to accommodate the FY18 NIPEA bargaining agreement. The other change is a decrease to reflect a decrease in the MWRA assessment.

MOVED: By Mr. Coffman that the Finance Committee recommend adoption of Special Town Meeting Article 5 - Amend the FY2018 Water Enterprise Fund Budget. Mr. Lavery seconded the motion. There was no further no discussion. The motion was approved by a vote of 8-0-1, with Ms. Miller abstaining.

Article 6 - Rescind Debt Authorization

Mr. Davison stated that this article will rescind debt authorization that is not needed after the projects are finished and closed out. To officially close the debt requires the vote of Town Meeting. Mr. Connelly stated that it is important to note that an additional \$2.1 million has been spent on the High School building.

MOVED: By Ms. Miller that the Finance Committee recommend adoption of Special Town Meeting Article 6 - Rescind Debt Authorization. Mr. Lavery seconded the motion. There was no further no discussion. The motion was approved by a vote of 9-0.

Article 2 - Amend the FY2018 Operating Budget

Ms. Fitzpatrick stated that the Town has been trying to mitigate health insurance cost increases, but they have risen since the budget was determined. Despite savings of approximately \$110K due to a change in the benefit program, there is a need for an additional \$480K over the budget. Mr. Davison stated that the total increase could have been \$590K. He stated that there was a 15% increase in premiums, and that medical costs continue to push up the cost of health insurance.

In response to a question from Mr. Connelly, Ms. Fitzpatrick stated that there is not a need to amend the budget for salary increases because she can move funds directly from the Classification, Performance and Settlement line to cover salary increases. Mr. Lunetta stated that the Town will need to get loss ratio data from the insurer in order to shop around for better plans. Mr. Davison stated that there are some HIPAA privacy restrictions for such data, but they will work with a consultant who will have access to more data.

Ms. Fitzpatrick stated that the budget amendment includes an increase in the Public Facilities Expense line to pay a consultant to analyze operations, maintenance and on-call staff. Mr. Reilly stated that it is important to determine what the industry best practices and whether they are being followed. Mr. Levy asked when the last such review was done. Ms. Fitzpatrick stated that there was an analysis of operations about 10 years ago for \$45K and the last change from that was just implemented. She stated that there was some concern including this in the budget and having to finish within the fiscal year, but she is comfortable that Mr. Davison, who will in control, will get the project finished.

MOVED: By Mr. Connelly that the Finance Committee recommend adoption of Special Town Meeting Warrant Article 2 - Amend the FY2018 Operating Budget. Mr. Jacob seconded the motion. There was no further no discussion. The motion was approved by a vote of 9-0.

Article 12 - Appropriate for Vehicle Replacement

Mr. Davison stated that a vehicle working on a water main break on South Street was lost due to a sinkhole. The request is for the additional cost over the insurance recovery. He stated that it was a 2007 Ford F150 that carried equipment. Ms. Miller suggested that this cost would be more appropriately covered by the Reserve Fund. She stated that there is a vehicle replacement program that is reviewed annually and it is not good precedent to review it multiple times. This

qualifies as an extraordinary or unforeseen expense, and there is plenty of money in the fund to cover it. Mr. Davison stated that it would be legal, but he was being more conservative. He stated that if the Committee is receptive to funding this as a Reserve Fund Transfer, then he will ask the Board of Selectmen to remove this article and would present a request for a transfer next week.

Article 13 - Extinguish Sewer and Drain Easement

Ms. Fitzpatrick stated that a sewer easement was moved, and the old one was never dissolved. The property owner is selling, and would like this to be cleared up.

Article 14 - Accept Access Easement - Cartwright Rd

Ms. Fitzpatrick stated that the Planning Board is requiring an access easement to a private way.

Article 15 - Extinguish Portion of Drain Easement/Nichols Rd

Ms. Fitzpatrick stated that a private construction project encroached with permission on a sewer easement and relocated the drain line. The old easement was never dissolved. Town Meeting must act to dissolve it.

DISCUSSION: Mr. Reilly stated that Articles 13 and 15 seem to have no financial implication, though he was open to discussion. Article 14 is important because otherwise the Town would not have access to certain property. Ms. Fachetti agreed that there is no financial implication to the Town for Articles 13 and 15. Mr. Connelly agreed, since there are replacement easements and the Town is giving nothing up.

MOVED: By Ms. Miller that the Finance Committee take no position on Town Meeting Warrant Article 13 - Extinguish Sewer and Drain Easement and Article 15 - Extinguish Portion of Drain Easement/Nichols Rd as there is no financial implication. Mr. Jacob seconded the motion. There was no further discussion. The motion was approved by a vote of 9-0.

MOVED: By Ms. Miller that the Finance Committee recommend adoption of Town Meeting Warrant Article 14 - Accept Access Easement - Cartwright Rd. Ms. Smith-Fachetti seconded the motion. There was no further discussion. The motion was approved by a vote of 9-0.

FY 2019 Budget Consultation

Ms. Fitzpatrick stated that she consults with the Committee every year before issuing budget guidelines to Town departments. She stated that she is following the staffing expectations in last year's pro-forma. The overall goal is to balance needs with budgetary constraints. She knows that the Committee is interested in reviewing facilities maintenance as well as special reserve funds and target balances. She stated that there will be an additional police officer. She is planning for additional police officers, firefighters and the implementation of full-day kindergarten in the coming years. Mr. Davison stated that he has kicked off the working group to consider eliminating the RTS Enterprise Fund and incorporating it into the General Fund budget. That should wrap up in early December.

Ms. Fitzpatrick stated that she is looking closely at Townwide Expenses. There will be another OPEB actuarial report. They are examining health insurance options. There is also an ongoing retirement system analysis. They will need to decide by December whether to stay in the West Suburban group for health insurance. West Suburban is implementing a new high deductible plan. She stated that the Group Insurance Commission is an option, but they would not know the offerings until spring. In addition, the GIC has frozen access to some plans, and has at times implemented mid-year increases in costs and deductibles. The Town is constantly looking at possibilities. She stated that a possibility is having insurance in-house, but there is less spread of risk and more administrative work. Mr. Lunetta noted that if fewer people opt in to the plan, there is more risk for insurers, which leads to higher plan costs. Ms. Fitzpatrick stated that there are approximately 800 retirees and 600 employees covered. Mr. Davison stated that because of medical cost inflation at rates of 10%, rates of increase can be made lower, but costs will continue to increase.

Mr. Reilly asked about criteria for measuring costs and savings in Town operations. Ms. Fitzpatrick stated that they are developing ongoing performance measurements, and that any requests for increased staffing must provide many answers to questions. She stated that they are looking to see where money is invested and what the Town has gotten for it.

Mr. Connelly asked if there would be an updated capital plan soon to assess where projects fit into the whole plan. Mr. Davison stated that once there is a firm number for the High School project, he will plan for that debt. The key factor is whether the debt will fit within the 3% limit. Ms. Fitzpatrick stated that if it fits within the 3%, then it would not affect the financing plan. Mr. Davison stated that the Town could use the facilities fund.

Ms. Miller asked if the Finance Committee would review the Police and Fire project after the Special Town Meeting and before the debt exclusion vote. Ms. Fitzpatrick stated that the debt exclusion has been determined not to be do-able by April 2018. Mr. Connelly questioned whether \$2 million of design is really needed for one year of work. Ms. Fitzpatrick stated that the Town has permission to use the Hillside School for transition space during that project. Mr. Connelly stated that they should use caution in planning for transition space and leave plenty of time for possible changes of plan.

Mr. Levy noted the Town Meeting prefers fewer large projects at the fall Town Meeting and asked whether the Police and Fire project needs to go forward now. Ms. Fitzpatrick stated that it is necessary to make the planned schedule work. The full design and cost will be ready for Town Meeting in late October 2018. Mr. Reilly stated that there has to be a substantive answer for Town Meeting.

Finance Committee Updates

Ms. Fitzpatrick stated that the Planning Board did not vote the zoning articles at their last meeting due to a procedural issue with the agenda. Mr. Reilly stated that the Finance Committee would hear a presentation next week on those articles.

Adjournment

MOVED: By Mr. Coffman that the Finance Committee meeting be adjourned, there being no further business. Mr. Lavery seconded the motion. The motion was approved by a vote of 9-0 at approximately 8:57 p.m.

Documents: Draft of Special Town Meeting Warrant, October 2, 2017 (9/6/17 draft);
Presentation: High School Expansion and Renovations; Memo: Update on NHS Project Budget and Scope, from Dan Gutekanst to Needham School Committee dated Sept. 6, 2017; Estimated Project Costs- Needham High School, Updated 9/5/17, Needham Independent Public Employees Association/Public Works Contract Extension Proposal 7/25/17.

Respectfully submitted,

Louise Mizgerd
Staff Analyst

Approved September 13, 2017