

**Needham Finance Committee
Minutes of Meeting of September 13, 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, Joshua Levy, Richard Lunetta, Louise Miller

Others present:

Kate Fitzpatrick, Town Manager

David Davison, Assistant Town Manager/Finance Director

Dan Gutekanst, Superintendent of Schools

Anne Gulati, Director of School Financial Operations

Heidi Black, School Committee Chair

Aaron Pressman, School Committee Vice Chair

Marianne Cooley, Chair, Board of Selectmen

Dan Matthews, Vice Chair, Board of Selectmen

Ted Owens, Chair, Planning Board

Lee Newman, Director of Planning and Economic Development

George Kent, Chair, PPBC

Hank Haff, Project Manager, Public Facilities – Construction

John Schlittler, Chief of Police

Dennis Condon, Fire Chief

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 September 6, 2017, be approved as distributed. Ms. Miller seconded the motion. The motion was approved by a vote of 7-0

Article 8 - Amend Zoning By-Law – Map Change to Center Business District and

Article 9 - Amend Zoning By-Law – Floor Area Ratio and Lot Coverage in General Residence District

Mr. Owens stated that the Planning Board is supporting these changes which were requested by the Board of Selectmen in order to change zoning to allow the planned construction projects for the Public Safety headquarters and Fire Station 2. The Public Safety headquarters is currently part of the Single Residence B district. An adjacent parcel that is being used in the proposed building project is within the Center business district. He stated that Article 8 would change the zoning map by extending the Center business district over both of the parcels.

Mr. Owens stated that Article 9 is needed in order to make the proposed changes to Fire Station 2. The current Fire Station 2 parcel is also a residential district. This zoning change would allow for a greater floor area ratio as well as lot coverage allowance for municipal buildings in that district. He stated without these two changes, the proposed buildings could not be built. Mr. Owens stated that the Town had considered combining the Fire Station 2 and Daly building parcels to make a bigger lot to allow a bigger building, but they would lose a pre-existing nonconforming right, causing other issues.

Ms. Miller asked if the changes in Article 9 applied to other parcels. Ms. Newman stated that they would apply to all properties in residential districts with a municipal structure. She stated that the Town would have the flexibility to request a special permit for that use. The Planning Board would have discretion and there would be a public process. Ms. Miller asked what other municipal buildings are in that district. Ms. Newman stated that she could provide an inventory. Mr. Reilly stated that the downside of this article is that, in theory, other municipal buildings could qualify for the special permit and there would be higher density in the district. In essence, we would be relying on the discretion of the Planning Board on whether to grant a given permit.

Mr. Connelly asked why the map change in Article 8 is needed if Article 9 changes the floor area ratio and lot coverage in residential districts that would allow the headquarters to be built. Ms. Newman stated that the map change is necessary because otherwise the two parcels being used in the Police/Fire building would have different setbacks and dimensional requirements if the properties remained in the different zoning districts. Ms. Miller asked what would happen if Article 8 did not pass. Ms. Newman stated that the current zoning restrictions would apply. Mr. Matthews stated that the building could not simply be downsized, so it would be a significant step back in the planning process if Article 8 does not pass.

Ms. Miller asked why they did not extend the commercial district across the street from Fire Station 2 rather than changing the residential zoning in Article 9. Ms. Newman stated that they did not consider that, as it is across a street. She stated that “spot” zoning cannot be done for a specific parcel. She stated that this approach would provide for flexible zoning and would accommodate the Town’s needs. Mr. Jacob noted that this approach would allow bigger buildings, which could cause concern, while extending the commercial district instead would limit that concern. Ms. Miller stated that it is important to know how many municipal buildings are currently in residential districts. Mr. Levy stated that when Town Meeting last discussed floor area ratios, it was generally accepted that having a large building next door could negatively affect property values. Mr. Reilly stated that the Finance Committee took no position on that issue because the Committee felt that while such changes could affect property values, it could cut both ways, so the financial impact was not clear. Ms. Miller stated that in this case, the proposed buildings could not be built if zoning changes are not made. Mr. Reilly stated that the public safety building should be judged on its merits and not side-tracked by a zoning technicality.

Mr. Lunetta stated that since so much time and effort has gone into the building planning, it would be most expedient to allow the proposed zoning changes to pass. However, the best solution is to extend the commercial zoning from across the street. Mr. Connelly stated that the proposed zoning has been voted and supported by the Planning Board. Mr. Reilly cautioned that the search for a perfect solution could be getting in the way of a good solution.

MOVED: By Mr. Connelly that the Finance Committee recommend adoption of Special Town Meeting Warrant Article 8 - Amend Zoning By-Law – Map Change to Center Business District. Mr. Coffman seconded the motion. There was no further no discussion. The motion was approved by a vote of 7-0.

MOVED: By Mr. Connelly that the Finance Committee recommend adoption of Special Town Meeting Warrant Article 9 - Amend Zoning By-Law – Floor Area Ratio and Lot Coverage in General Residence District.

DISCUSSION: Ms. Miller stated that she would not vote in favor of Article 9 as written since the scope is too broad. The goal is to build Fire Station 2 to be built, but this is a change to a whole district to allow the Town to apply for a special permit to do things that no other person can apply for. Mr. Lunetta stated that he would not support this article because he feels that as written there is a high risk of Town Meeting voting against it and jeopardizing the building project. Mr. Reilly stated that voting against the article would also jeopardize the process. He asked whether the integrity of the process outweighs proceeding with the building at this time. Mr. Connelly stated that he felt the opposite of Ms. Miller and Mr. Lunetta, since the planners of the project, the Board of Selectmen and the Planning Board all agree that this is the right way to proceed. He stated that the Planning Board seeks to protect the integrity of zoning and doubted that the Finance Committee is a better protector of zoning in Town. He stated that the changes are limited to municipal uses with a special permit, so this would not be happening all over. Mr. Lunetta stated that something better is needed to avoid the risk of Town Meeting voting it down. Ms. Miller stated that the Police/Fire project is still in the design phase, so there are two town meetings before the changes are needed. Mr. Coffman stated that it would be helpful to see a map of general residence districts. Ms. Newman stated that she would provide a map and municipal building inventory in the General Residence B district.

WITHDRAWAL: Mr. Connelly withdrew his motion.

Special Town Meeting Warrant Article 10 – Appropriate for Public Safety Buildings - Design

Mr. Reilly recommended that a vote on this article be taken in two weeks after there has been time to review the provided information and to get responses to any further questions.

Ms. Fitzpatrick stated that questions have been raised about metrics for review of the project. She stated that there has been much discussion, and she feels that comparing the square footage of a public safety building to a community's population size is not appropriate. The size of the building is determined by the number of staff and the services provided. She stated that community norms would dictate what services the Town would want to offer. She stated that this plan provides for 64 firefighters with room for growth. Surveys have shown that the community wants pre-hospital ALS care, so that is what the Town wants to deliver.

She stated that if the property purchase at 43 Lincoln is approved, then there will be additional parking. Mr. Reilly asked about the cost/benefit analysis of the shooting range. Ms. Fitzpatrick stated that offsite shooting costs approximately \$15K per year, assuming that the Hopkinton range stays available. She stated that with a \$350K cost, there is a 25+ year payback. She stated that it is critical to public safety needs. She stated that they could probably not build a

freestanding range elsewhere for less than this cost. Mr. Matthews noted that the cost of training goes beyond the cost of facility use, but also includes travel.

Ms. Fitzpatrick stated that the 80% growth in the size of Fire Station 2 is for apparatus bays. Truck sizes have grown significantly since the station was first built, and this will provide a mechanics bay to allow much more work to be done in-house. She stated that there will be space to store equipment. Chief Condon stated that apparatus and gear is now kept on the floor or on walls, leaving no room to move around well. Mr. Connelly asked about future growth of apparatus. Chief Condon stated that bridge heights and lane widths of road will constrain much further growth.

Ms. Fitzpatrick stated that the Police Department space has increased as well to provide office space for more officers, the new firing range, and more shower space for female officers. She noted that the architect said shower space will be made flexible so that it could be changed if needed. She stated that the Fire headquarters will have a lobby with some space to work, where there is none now. There will be a bigger conference room that can better meet the needs of the department. There will be public bathrooms and access to records from the lobby. There will be a community room as well. Mr. Reilly stated that 37% of the growth is in the Police space, 45% in Fire space, and the rest is combined space. He stated that he expected more significant growth in Fire because of the added equipment space. He stated that there appears to be a significant amount of public lobby and waiting space and asked why this makes sense.

Mr. Jacob stated that the previous memo stated that there is an additional cost of approximately 2.5% for the CM at risk, but that doing both projects together would bring some savings. Ms. Fitzpatrick stated that there are economies of scale doing both projects together, but that the CM at risk is better because of the significant amount of management needed for the combined project. Ms. Fitzpatrick stated that the Town is putting together FAQs, and invited people to submit suggested questions would be helpful to Town Meeting.

Mr. Coffman asked why they were reducing the number of cells. Chief Schlittler stated that the cells will be sight- and sound-proof from each other, and could therefore be flexible for men, women, or juveniles.

Mr. Reilly asked Mr. Kent if this vote for design funds amounts to a vote on the whole project. Mr. Kent stated that approving the design funding is a tacit approval of this project. Mr. Matthews stated that this is the largest non-school project that the Town has done, with no state aid is available, and requires an override vote. Mr. Reilly stated that schools have recommended class sizes and space needs to rely on as some guidance, but he feels at sea trying to evaluate what is necessary in this case. Mr. Kent stated that both the Fire and Police Chiefs have met with architects, including one who has much experience building public safety buildings, and they have determined what is absolutely necessary for the Town for the next 50 years. He stated it is not a Cadillac. Mr. Coffman expressed concern about the prospects of an override, since there was a recent school override. Ms. Fitzpatrick stated that with 25 Town buildings with 50-year useful lives, there is always a need to be building. She stated that the DPW building project has been delayed for this. If this project is delayed, it would run into the time for the Pollard and Mitchell projects. She stated that the core mission for this project is public safety.

Mr. Connelly stated that only Town Meeting, not voters, would be voting on these design funds. He asked if it does justice to the voters to spend \$4 million on design before voters have a chance

to speak. There is a perception of less choice when the design funds have been spent. He stated that he would vote in favor, but he wondered if this was the fairest process. Mr. Matthews stated that when there is a vote for a large amount, voters want to see designs showing exactly what will be done. Mr. Connelly stated that the \$4 million goes all the way through construction documents. It could be better to use only \$2 million to get through schematic design, which would show voters a clear plan. Ms. Fitzpatrick stated that that approach would delay the project. The Selectmen want the override on the fall ballot because that is when more people vote. Mr. Kent stated that there will be a bid in hand when the vote happens. He suggested that Town Meeting should not be underestimated, and should have the authority to make this decision.

Ms. Miller noted that these projects are all cumulative on tax bills. She stated that it will be important to show not only the incremental effect of this project on taxes, but to include the effects of other projects that are approved but have not yet made it onto tax bills. She also noted that there should be a conversation some time about how the temporary space will be funded, since it may not be best to wrap it into the project debt. Mr. Reilly encouraged members to submit questions in the next few days so there would be enough time for them to be answered before our next meeting.

Special Town Meeting Warrant Article 7 – Appropriate for Property Acquisition

Ms. Cooley stated that there is a proposed agreement to purchase the property for \$1.5 million. The appraisal valued the property at \$750,000, but the report has not yet been issued. Ms. Miller asked what would happen if the Town does not buy this property. Ms. Cooley stated that it will affect the parking for the new project. There would not be the same net of one additional space. There will be few changes to the building design. Mr. Matthews stated that having the lot would provide for better traffic in the area and better circulation on the property. He stated that it is better in the long term to have this property. In response to a question from Mr. Lunetta, Ms. Fitzpatrick stated that the Town first approached the owners about buying the property.

Mr. Connelly asked about the mitigation payments received as part of the Needham Crossing project that have been proposed to be used to fund this purchase. He asked what expenses the funds were earmarked for, and what will happen if the funds are used for this property acquisition. He also asked what other expenditures are being delayed, and what other improvements are being put off. Ms. Fitzpatrick stated that there was \$2.25 million of capital funding from the mitigation payments intended for fire radios and equipment, a police motor cycle, as well as \$600K of I/I (inflow and infiltration) work that are being deferred. She stated that she would send a spreadsheet showing the deferred expenditures and explaining how this purchase is being funded. Mr. Connelly stated that it is important to know what would not be done or purchased because of this expense.

Mr. Jacob asked if there is a compelling argument for paying this premium. Mr. Matthews stated that the Town has been buying up properties in the area and this is the last one. Having this property would provide more flexibility for the future. Mr. Matthews stated that even without this purchase, the Public Safety project will go forward to Town Meeting. Mr. Jacob stated that he would like the Town to buy the property, but it is too expensive, and not truly needed. It is a “want” not a “need.” Mr. Coffman stated that it is hard to justify this premium.

Special Town Meeting Warrant Article 11 - High School Expansion

Dr. Gutekanst stated that there are new cost figures since last week. The chiller is more expensive. The cost of the Gym A work has been reduced due to value management. He stated that they are still looking at soft costs and contingencies for additional savings. He stated that the new ventilation in Gym A, plus the \$300K for additional storage, have driven up costs for that segment of the project since May. He stated that there is additional square footage of both new and renovated space, primarily for special education. He stated that it is important to get it right. He stated that the science classrooms are expensive because of the significant water and gas plumbing. There is additional work in Gym A that was not previously in the project scope.

Mr. Haff stated that the total of value engineering to date is \$1 million. He stated that of the potential \$500K mentioned last week, only about \$350K was found, looking at the bottom line of the total project. Mr. Reilly stated that it had been his understanding that the costs for Gym A were driving the increased costs. Mr. Connelly requested updated versions of spreadsheets with the Estimated Project Costs which were updated on 9/5/17 that will show the new total of \$14.263 million.

Mr. Reilly asked for a list of the appropriations and what has been spent to date. Dr. Gutekanst stated that \$1.075 million has been appropriated, and that \$13.188 million additional is needed to support the project. Mr. Reilly also asked for the proposed funding sources. Mr. Connelly asked for a list of what has been pulled out of the project from value management. Mr. Reilly noted that the School Committee has said that if necessary to continue with the project, the storage unit for Gym A and the HVAC equipment on the roof could be removed. Mr. Reilly asked whether it would cost materially more to do those elements another time if they were deferred. Mr. Kent stated that both would cost less to do while there is a contractor on site with tools. He stated that the HVAC systems could require roof work and installation of steel beams which may be much more expensive to do later if the current structure could not accommodate the new equipment. He stated that during value management, they have sought to retain the same value to the schools when making changes, such as using alternative materials. Mr. Coffman asked if there have been any programming changes in the process. Dr. Gutekanst stated that there have not. He stated that they cut renovations that were planned for administrative offices, since that did not affect students. He stated that 20% of the landscaping was also removed from the project.

Ms. Cooley stated that the Board of Selectmen had a lengthy discussion about the project and unanimously supports bringing the project as described to Town Meeting. She stated that the project should be brought to Town Meeting now, and not in small increments after excluding some parts. Mr. Connelly strongly recommended that everything that is needed should be included in the project, even if an override would be required to fund it.

High School Project Financing

Mr. Davison stated that the cost of the project is higher than what was included in the financing plan in the spring. He stated that the cost of \$11.125 million was the ceiling of funding available from debt within the levy. There is now a need for \$13.188 million. He proposes to fund the additional cost from four different sources of cash. \$120K would come from the closed-out project installing modular classrooms at Mitchell. He stated that \$126K would come from the Newman School project, which has been closed out. The available debt was also rescinded. Mr. Davison stated that \$817K would come from the Capital Facility Fund, which contains funds that were specifically set aside for the chiller. Additionally, \$1 million would be transferred from the

Overlay Surplus. He stated that the Assessors have made that money available for use. He stated that the Overlay Surplus would traditionally be used at the Annual Town Meeting. He stated that under this plan, at the Annual Town Meeting, more Free Cash would be used for program (non-capital) expenses. He said that if Free Cash had been certified by now, that would be used, but in order to resolve the timing issue, he proposes using Overlay Surplus. He stated that there is a known upcoming revenue source for those expenses, so that there is not a sustainability problem. He stated that the following year, Overlay Surplus will again be used to supplant the one-time money that would be used in the FY19 budget.

Mr. Reilly asked the implications of using the Overlay Surplus for the High School project. Mr. Davison stated that those funds would have been part of the funding for the FY19 budget. He stated that the Town is not jeopardizing programming because they know now that there will be enough Free Cash. Mr. Reilly asked if it violated the policy about the use of Free Cash for operating expenses. Mr. Davison stated the policy: that the amount should not be more than 2% of the budget turn back of the prior completed fiscal year or the actual turn-back, whichever is less. He stated that Free Cash may be used as a temporary source of funding if you know that there is a revenue stream coming in to cover that amount. He stated that this was also done 5 or 6 years ago. In response to a question from Mr. Connelly, Mr. Davison stated that Overlay Surplus has been used several times for capital projects. Ms. Miller noted that this was previously at a May Town Meeting when all capital projects were before the Committee for consideration. Mr. Davison stated that there are no other available legal sources of funding for the High School project now other than borrowing. He noted that if there is no additional borrowing, then expenditure would not affect the facility financing plan. He stated that he is comfortable that using \$817K from the Capital Facility Fund would not have an adverse effect because there will be some available funding in the spring to put into the fund. The Town had not anticipated using more than \$500K for the chiller. Mr. Reilly asked if there would be any issue using the money from the CFF for expenses other than the chiller. Mr. Davison stated the funds must be used in accordance with the CFF's purpose, costs related to building systems or envelope. Ms. Miller stated that the fund is for existing equipment and not new equipment. Mr. Reilly stated that this replaces existing equipment.

Ms. Miller stated that \$725K from the fund is usable. Ms. Cooley stated that the intent is to replace \$300K of the funds from future free cash, which is expected to be large. Mr. Connelly asked if the use of this money in the fall would limit what the Town can do next spring. Mr. Davison stated that, traditionally, \$500-800K from Overlay Surplus is used in the budget, and the balance is used in financial warrant articles. There will be potentially less Overlay Surplus in the operating budget under this plan. Mr. Davison added that there will be more Free Cash to appropriate to the operating budget. He stated that he can confidently explain this to rating agencies.

Mr. Reilly stated that a reasonable alternative it so reduce the cost of the project by the additional amount that must be offset with cash. Mr. Connelly stated that committing the funds now prevents them from being weighed against other needs. Mr. Reilly stated that he is not comfortable varying from the guidelines about the use of Free Cash for operating expenses. Mr. Davison stated that \$500K of Overlay Surplus has been used to fund the operating budget for 10 years because there are reserves that provide a recurring revenue source. Doing this would not artificially set up the Town for borrowing for this in the future. Ms. Miller stated that the original policy was written by the Finance Committee in 2006 or 2007.

Mr. Reilly stated that what is at issue now is the trade-offs if the Gym A work were deferred: whether programming would be affected, what the difference in costs of this project would be, and what the financial consequences would be. Dr. Gutekanst stated that there would be no change of programming since the Gym A work would not happen until summer.

Ms. Cooley stated that the language in the warrant will include all of the proposed funding sources indicated, since it is easier to delete language than to add anything.

Articles Not Yet Voted

The Committee members agreed that the Finance Committee position for articles not yet voted, Articles 7, 9, 10 and 11 should appear in the printed warrant as “Recommendation at Town Meeting.”

Reserve Fund Transfer Request

Mr. Davison stated that the truck that was lost to a sinkhole during a water main break was from the Water Department, not Public Works, as he had previously stated. Therefore, the request is for the funds to come from the Water Enterprise Fund’s Reserve Fund. The Water Enterprise Fund has \$75K. This request is for \$23,092, which is the amount of the replacement cost that is not covered by insurance proceeds. The replacement cost is lower than initially expected because using the Reserve Fund will allow a quicker purchase and a lower price. He stated that the lost vehicle was a 2011 Ford F150 and will be replaced with a 2018 model. The costs include necessary racks and equipment that are needed.

MOVED: By Mr. Coffman that the Finance Committee approve of the request for a transfer from the Water Enterprise Fund Reserve Fund to budget line 301D in the amount of \$23,092. Ms. Miller seconded the motion. There was no further no discussion. The motion was approved by a vote of 7-0.

Finance Committee Updates

Mr. Reilly stated Mr. Davison had released his revenue and expense pro-forma. He stated that that headcount is the driver of costs, and that 80% of Town costs are directly related to personnel. He urged liaisons to focus on what is being considered to lower these costs during budget meetings.

Adjournment

MOVED: By Mr. Jacob that the Finance Committee meeting be adjourned, there being no further business. Mr. Coffman seconded the motion. The motion was approved by a vote of 9-0 at approximately 9:25 p.m.

Documents: Draft of Special Town Meeting Warrant, October 2, 2017 (9/6/17 draft);
Presentation: High School Expansion and Renovations; Memo to Finance Committee from Anne Gulati dated September 13, 2017 re: Response to Questions 9-6-17;
Memo to Finance Committee from Kate Fitzpatrick dated September 13, 2017 re: Preliminary Response to Questions – Public Safety Building Project; Article 11-- Appropriate for High School Expansion Construction (revised language); Proposed Renovation Plans: Changes Since

May Town Meeting (High School cost estimates); Request for Reserve Fund Transfer dated September 12, 2017.

Respectfully submitted,

Louise Mizgerd
Staff Analyst

Approved September 27, 2017