

**Needham Finance Committee
Minutes of Meeting of September 27, 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, Louise Miller, Carol Smith-Fachetti

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

Marianne Cooley, Chair, Board of Selectmen

Dan Matthews, Vice Chair, Board of Selectmen

Ted Owens, Chair, Planning Board

Paul Alpert, Vice Chair, Planning Board

Lee Newman, Director of Planning and Economic Development

George Kent, Chair, PPBC

Stephen Popper, Director of Design and Construction, Public Facilities Construction

John Schlittler, Chief of Police

Dennis Condon, Fire Chief

Citizen Requests to Address Finance Committee

Mr. Andrew Baker of Noyes Road stated that he was speaking on behalf of Metrowest Basketball in support of the renovations at the High School, including the HVAC system upgrade. He stated that they had prepared a petition signed by over 60 families in support of funding the project. He stated that there have been air quality issues in the gym, and some players have had difficulty breathing. He stated that condensation has also been forming in spaces in the gym as has caused some people to slip and fall.

Approval of Minutes of Prior Meetings

MOVED: By Mr. Connelly that the minutes of September 13, 2017, be approved as distributed, subject to technical corrections. Mr. Lavery seconded the motion. The motion was approved by a vote of 6-0. (Ms. Smith-Fachetti had not yet arrived.)

Special Town Meeting Warrant Article 7 – Appropriate for Property Acquisition

Mr. Reilly stated that a revised appraisal was received showing a property value of \$1.125 million, narrowing the margin between the price and the appraised value. Mr. Connelly stated that the new appraisal was unpersuasive and premised on the speculative idea that three condominium units could be built on a lot that already has insufficient frontage. He stated that

the property price is almost three times the assessed value of the property, which is unprecedented. He stated that the \$750K appraisal is based in fact. He stated that the Town does not need this property and the expenditure is not appropriate. Mr. Matthews stated that he believed the updated appraised value as a three-family house is appropriate. Mr. Reilly stated that he was not persuaded that this would be a good use of funds compared to other expenses. He asked whether the funds from this article and the other mitigation funds could be used to pay some of the Public Safety project cost. Ms. Miller stated that the mitigation funds were from the owner of a particular property and were intended for Fire Station 2. She stated that this changes the intended use of the funds. Mr. Matthews stated that from the start, the Town sought broad authority to use the mitigation funds for public safety in general, and that this use is appropriate. Mr. Connelly asked what the original allocation of the mitigation funds was. Ms. Fitzpatrick stated that more funding was designated for sewer infiltration and inflow remediation (I/I), but that every use was not identified.

MOVED: By Ms. Miller that the Finance Committee recommend the Town Meeting NOT adopt Special Town Meeting Warrant Article 7 – Appropriate for Property Acquisition. Mr. Connelly seconded the motion. There was no further discussion. Ms. Miller’s motion was approved by a vote of 8-0.

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

Mr. Reilly stated that there was concern that the proposed changes were not narrow enough to address the issue. Mr. Alpert stated that the Planning Board met the previous night and voted to Amend Article 9 to limit the changes to parcels of one acre or more. He stated that would mean the changes would apply to very few parcels. The only properties that are currently municipally owned on property greater than once acre in the general residence district are Fire Station 2, Daly Building and Hillside School. He stated that there are four additional municipal properties in the district that are less than one acre. He stated that there is currently only one property in the district that is greater than one acre that could potentially be purchased by the Town. In response to a question from Mr. Reilly, Mr. Alpert agreed that abutting properties in the district could be purchased to make up a parcel of more than one acre. However, he said that any attempt to build a structure under the new zoning changes would need to go through the special permit process. In response to a question from Mr. Connelly about the language of the amendment, Ms. Newman stated that specific language had not yet been drafted.

MOVED: By Mr. Coffman 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, as proposed to be amended. Mr. Lavery seconded the motion. There was no further discussion. The motion was approved by a vote of 8-0.

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

Mr. Reilly expressed thanks for all of the additional information received. He asked if the Committee had issues to discuss. Mr. Levy stated that he had prepared scattergrams based on information about other communities. He stated that the charts showed that the proposed building has greater square footage relative to both staff size and population compared to other

communities. He stated that the data suggested the building was larger than the norm in other communities, unless an increase in staff size or population is expected. Ms. Fitzpatrick stated that the Town has proposed to add four police officers in the next few years, and four firefighters next year, since the Town is significantly short-staffed in both departments. She stated that the Town expects close to 1000 additional housing units in the coming years. She also noted that population and staff size do not tell the whole story. She also noted that the data that was provided represented towns that the architect has worked with on public safety buildings, and did not reflect towns that Needham generally compares itself with.

Mr. Levy stated that it seemed that a population of 35,000 would be in line with the proposed building size, and asked if that level of population growth was expected. Mr. Matthews stated that there are many other variables at play, but there are 700 housing units currently under construction which can be expected to lead to some population growth. Ms. Cooley stated that the Town is also looking to create new business development in a number of areas that will also be served by the public safety departments. Mr. Coffman stated that there is not a linear relationship between public safety building square footage and population, and that it is important to take a long term prospective and to look carefully at the use of the building. Mr. Levy stated that because of the variables, it is more important, not less important, to look closely at the data. Ms. Fitzpatrick stated that the building was designed based on the programs and not on population, expected population growth, or staff size. Chief Condon stated that increased staffing is needed some time in the future to fully staff the apparatus. Ms. Miller asked why additional staff is needed at Fire Station 1 if Fire Station 2 is adding the ambulance. Chief Condon stated that the additional staff was needed for the aerial apparatus which can serve the whole Town from Fire Station 1.

Mr. Jacob stated that this appropriation is for design. He noted that before construction, there need to be significant metrics showing the number of FTEs needed. He stated that it is clear that a bigger and more updated building is needed, but it is not clear how big. Mr. Coffman asked if there is something unique in the services that Needham provides to explain why this design is being proposed. Mr. Matthews stated that a second ambulance service with in-house staff would be provided. Ms. Miller stated that it is important to note that the Town is providing not just ambulance service, but will be housing the ambulance. She stated that the needs at First Station 2 are clear, but not clear at Fire Station 1. Mr. Reilly asked if there might be changes between design funding and construction funding that could affect the overall project costs. Mr. Kent stated that they will do what they always do, which is to look at the design and cut back where possible, but there is a slim chance of any drastic changes in that would make the building significantly smaller or less costly. This project has been studied more than most at the schematic design phase. Mr. Connelly stated that the Finance Committee would not see the project again until the design is done.

Mr. Reilly stated that he understands the need for officer shooting practice, but felt it is hard to justify the \$850K to build and equip the shooting range, given the relatively low \$25-\$30K annual cost for renting out space elsewhere. Mr. Matthews stated that is it not just based on costs, but safety issues as well. The planned range would provide for different types of weapons training in addition to the minimum required training. He stated that the shooting range would not be value-engineered out of the project. Mr. Reilly stated that the cost argument is not valid, and the training value argument is more persuasive. Chief Schlittler stated that he believes that the range is a vital part of the new facility and is critical for officer safety. He stated that the availability of locations to practice shooting is diminishing, and the proposed range his will

allow not only shooting straight while standing still, but also training while moving around. He stated that officers use the current range several times per week. Mr. Reilly asked if they have looked at a combined facility with other communities. Chief Schlittler stated that he has spoken to Wellesley and Dedham, but that land is a problem. Mr. Matthews stated that regionalization is very difficult to accomplish. Ms. Miller asked if other communities could use the range in Needham. Ms. Fitzpatrick stated that it could be done, but will not make up for the cost.

Mr. Connelly asked what the Town will get for the \$3.75 million funds in this appropriation. Mr. Popper stated that it included \$2.8 million for the designer fee, \$230K for additional services (such as geotech and hazmat work), \$250K CM preconstruction, \$250K for OPM work and \$150K reserve for things like structural peer review and borings. He stated that the \$2.8 million design was for design documents and contract documents, none for contract administration or schematics. He confirmed that the contract administration would be added to the construction costs in the override. Mr. Kent state that the OPM would probably include some internal and some external work. Mr. Popper stated that the typical cost for an OPM is 3.5% of project costs, but this project anticipates 2.5% for the entire OPM fee. Mr. Connelly asked if there is some redundancy with the preconstruction CM and then an OPM at the same time. Mr. Popper stated that the preconstruction services are cost estimates and input on design for efficiencies, while the preconstruction work oversees the architect.

Mr. Lavery stated that it is important to do everything necessary now, and not have to add on later. Mr. Reilly asked if the land purchase is not approved, whether the \$1.5 million could be used for this project. Ms. Fitzpatrick stated that, in that case, she would present the Board of Selectmen with a range of different uses for the funds. Mr. Reilly stated that Mr. Connelly had expressed concern about whether this next step is broader than necessary. Mr. Connelly stated that was why he asked for the breakdown, because it is a significant amount of money to use in one year, and that Mr. Popper explained it. He stated that while some items are debatable, he did not ask the question in order to debate. He stated that by the time the Town gets to vote, the project will be fully designed. He expressed concern with the process. Mr. Kent state that it is not practical for the public to design a public safety building, but there will public hearings for people to learn about the design and to ask questions. Mr. Connelly stated that it seems better for people to have input earlier in the process. Mr. Connelly stated that \$4 million will already be spent before the voters can decide on a \$65 million project.

Ms. Miller stated that she continues to object to bonding of \$4.5 million for temporary space. There needs to be a discussion of what funds are being borrowed and for how long. Depreciation can be applied only on the building. Mr. Coffman stated that the temporary space is part and parcel of this project and it is appropriate to roll it in together.

MOVED: By Mr. Coffman that the Finance Committee recommend adoption Special Town Meeting Warrant Article 10 – Appropriate for Public Safety Buildings - Design. Mr. Lavery seconded the motion.

DISCUSSION: Mr. Levy stated that these are very important buildings, but there are lingering questions regarding the shooting range and other aspects and he thinks the project would benefit from allowing sufficient time, perhaps until the annual Town Meeting, for further due diligence. He stated that he could not support the project at this time, but hopes to support it in the future.

VOTE: The motion was approved by a vote of 7-1, with Mr. Levy dissenting.

Special Town Meeting Warrant Article 11 - High School Expansion

Mr. Reilly stated that he sees two major financial issues in this matter: the financing plan, and which elements should be financed. He asked if there are questions remaining on the project being proposed. He stated that it seems to be an opportune time to address the HVAC and ventilation issues with the classroom expansion project since there will be ongoing construction, the HVAC system is at the end of its useful life, and there are potential safety issues. He stated that his sense is that a good case has been made for the work. He stated that it was separated out from the earlier cafeteria project to provide more time for vetting, and now the analysis has been done and conclusions tested. Rolling that work into the expansion project makes sense, and the accelerated schedule makes sense. He stated that he is comfortable with the scope of the project. Mr. Reilly stated that he looked into the guidelines for the use of free cash and overlay surplus and is comfortable that the Town would not be violating the rules on the use of free cash.

Mr. Connelly asked when overlay surplus has been used for capital projects. Mr. Davison stated that most recently, it was used for funding the Rosemary Complex and the chiller design at the May 2017 Annual Town Meeting. He stated there are at least six such instances in the last three years. He stated that he was not sure if any had occurred outside of an annual Town Meeting. Mr. Connelly expressed concern about using the overlay surplus at this point in the fiscal year. He stated that it is dangerous precedent since the funds are generally for an emergency, and this is not an emergency. Mr. Reilly stated that using the overlay surplus funds would resolve a timing issue. Mr. Kent stated that if the project is not funded now, they cannot meet the accelerated schedule.

Mr. Coffman suggested using more funding from the Capital Facility Fund rather than using funds from overlay surplus. Mr. Davison stated that it is most important to keep the borrowing at the amount in the warrant to stay within the 3% debt ratio. He stated that using the CFF for this would be a substantial draw down of funds. Mr. Coffman asked if there were any reason why that it would not make sense to draw down the CFF now, and replenish the funds in May. Mr. Davison stated that the overlay surplus money is temporary, and if not used will go to free cash. He stated that he knows that \$500K of overlay surplus is recurring, so the proposed funding plan would not involve committing free cash for recurring expenses for more than one year. Mr. Reilly stated that free cash certified this year will be unusually large because of a huge overlay surplus last year that was not spent. Using free cash instead of overlay surplus for the FY19 budget would in effect be using last year's overlay surplus for that purpose. Ms. Miller stated that it would be possible to increase the amount of borrowing for this project, and then later decrease another borrowed amount. She stated that it is bad policy to borrow against future money.

Mr. Jacob asked what the downside would be if the full amount was used from the CFF and it was replenished later. Mr. Davison stated that it is not problematic if there were clear statements to Town Meeting to that effect. He stated that it can be a hard sell to put funds into the special reserves, so the issue is whether the funds will be put back in. He stated that to maintain the Town's AAA credit rating and get the best interest rates there is an expectation that reserves will

be deliberately maintained and not spent down. Mr. Jacob stated that this is the purpose of the fund. Mr. Davison stated that the fund is designed for times when there is no other resource, but there is a resource in this case. The question is whether to use overlay surplus funds early in the year or deplete the CFF with the expectation of replacing the funds. Ms. Miller stated that additional funds could be borrowed. Mr. Davison stated that would violate the 3% policy. Ms. Miller stated that the Debt Service Stabilization Fund was intended to prevent the Town from violating the 3% policy and has more than \$1 million. Mr. Davison stated that he has no objection to using funds from the CFF now with the idea of replenishing the funds in the spring. But it is important to understand that it depletes the fund. The concept was not to draw all the funds down at once. Mr. Coffman asked what would be the best way to explain this to Town Meeting. Mr. Reilly stated that this is an unusual situation that justifies departing from the norm, though that reasoning may apply to almost any situation. He added that, in this case, using funds from the CFF is less disruptive to the Town's financial practices, as long as there is agreement to replenish the funds. Ms. Cooley stated that she understood that Mr. Davison felt that using the overlay surplus was most defensible to the rating agency. Mr. Davison stated that as long as there is clear intent to reinstate the funds stated on Town Meeting floor, he is comfortable explaining the use of the CFF to the rating agency. Mr. Connelly stated that it makes sense if the funds are being used for a stated purpose of the CFF. Mr. Reilly stated that it is, and that some of the funds appropriated to the CFF were specifically for the replacement of the chiller. Mr. Coffman stated that Town Meeting always asks when the funds are ever used, so it will be easier to convince people to set aside funds if we actually use them.

MOVED: By Mr. Coffman that the Finance Committee recommend adoption Special Town Meeting Warrant Article 11 - High School Expansion, amended to use no funds from the Overlay Surplus, and to increase the funding from the Capital Facility Fund by \$1 million. Mr. Jacob seconded the motion.

DISCUSSION: Mr. Connelly thanked the Committee for a productive discussion in this matter. He also applauded the PPBC for all its efforts to move the project along.

VOTE: Mr. Coffman's motion was approved by a vote of 8-0.

Finance Director – Pro Forma

Mr. Davison stated that he updated the proforma. The purpose of the proforma is not to determine each department's budget but instead to identify trends on a macro level. He included known future expense requests in order to determine how to sustain them. He explained the main drivers of increasing costs outside of inflation: new maintenance costs due to an updated facilities maintenance report, new programming at Rosemary Pool, increases police and firefighting staff, implementation of full-day kindergarten, other staffing increases (additional tradesperson, custodian and IT staffer), increases in special education tuition, as well as for other contractual services. Efforts are being made to slow the rate of increase of health insurance costs, but the increases are driven mostly by increasing health care costs.

He stated that the largest expected increases, which are due to full-day kindergarten and public safety staffing, will be funded by re-channeling recurring funds that have recently been set aside in the Debt Service Stabilization Fund back into the operating budget. Mr. Connelly asked how the projected deficit gap compares to prior years. Mr. Davison stated that the budget gap is a consistent trend, and the gap appears larger in later years since the Town balances the budget

every year. He stated that while the gap does present a concern, he estimates revenue conservatively and inflation higher to be safe, so that there is cushion. Ms. Miller stated that having a \$2 million projected deficit at this time of year is essentially a balanced budget. Mr. Davison stated that he does not want to be too optimistic too early because there is always an appetite to spend more and he does not want to design a spending plan that cannot be accomplished.

Finance Committee Updates

The Committee agreed that there was not a need to meet prior to Town Meeting.

Adjournment

MOVED: By Mr. Connelly that the Finance Committee meeting be adjourned, there being no further business. Ms. Miller seconded the motion. The motion was approved by a vote of 8-0 at approximately 9:05 p.m.

Documents: Special Town Meeting Warrant, October 2, 2017; Land Appraisal Report for 43 Lincoln St. dated 8/25/2017, as updated; Questions from Finance Committee to Planning Board, with answers, and chart showing municipally-owned property in General Residence District; Memo to Finance Committee from Kate Fitzpatrick dated September 22, 2017 re: Public Safety Building Project, with Public Safety Facility Comparison Data 9-22-17; Scattergrams regarding Public Safety facilities by Joshua Levy; HS Funding Analysis by Richard Reilly; Estimated Project Costs, Needham High School Expansion Project, updated 9/19/17; Memo to Finance Committee from Anne Gulati dated September 21, 2017 re: Response to Questions Raised 9-13-17; Memo to Finance Committee from Anne Gulati dated September 21, 2017 re: Response to Questions Raised 9-25-17.

Respectfully submitted,

Louise Mizgerd
Staff Analyst