

**Needham Finance Committee
Minutes of Meeting of September 12, 2018**

The meeting of the Finance Committee was called to order by Chair Richard Reilly at approximately 7:00 pm at the Needham Town Hall.

Present from the Finance Committee:

Richard Reilly, Acting Chair

Members: John Connelly, Joshua Levy, Richard Lunetta, Louise Miller, Carol Smith-Fachetti

Others present:

Kate Fitzpatrick, Town Manager

David Davison, Assistant Town Manager/Finance Director

Dennis Condon, Fire Chief

Dan Matthews, Chair, Board of Selectmen

Anne Gulati, Director of School Finance and Operations

George Kent, Chair, Permanent Public Building Committee

Hank Haff, Senior Project Manager

Ken Sargent, Senior Project Manager

Citizen Requests to Address Finance Committee: No citizens requested to speak.

Approval of Minutes of Prior Meetings (June 20, 2018)

MOVED: By Mr. Connelly that the minutes of June 20, 2018, be approved as distributed.
Ms. Miller seconded the motion. The motion was approved by a vote of 6-0.

FY 2020 Budget Consultation / Grant for Firefighter salaries

Ms. Fitzpatrick stated that she would issue budget guidelines for departments to prepare annual budget requests. She stated that one of the biggest drivers of expected budget increases will be the addition of public safety personnel. The plan has been to add four new firefighters in FY20, although the Chief has consistently advocated that the true need is eight additional firefighters in order to meet the NFPA 1710 standards for fire suppression operations. The Fire Department has been awarded a grant that would provide federal funding toward the salaries of eight new firefighters. The grant would provide 75% of the salaries in each of the first two years, then 65% of the salaries in the third year. After that, the Town budget would have to carry the full salaries. The Town will thus pay less for 8 fire fighters in the first years than if it had hired four firefighters as originally planned. The Town continues to plan to add 4 FTEs to the Police Department, in phases.

Ms. Fitzpatrick stated that the assumed rate of return for OPEB will be decreased to 7.25% which will match the retirement assessment, though the goal is 7.0%. She stated that the full funding target is 2030 for retirement and 2041 for OPEB. Ms. Fitzpatrick stated that the Town is re-releasing the RFP for the building maintenance best practices study. That may lead to requests for changes in the building maintenance and trades staffing, but this would likely not be complete in time for the FY20 budget. Ms. Fitzpatrick stated that the Selectmen added some new goals including opening the Rosemary Pool additional hours, which may have a financial

impact, as well as possibly adding a public communications manager for the Town, a position that may be discussed during the FY20 budget meetings.

Chief Condon stated that he had previously given a presentation to the Committee about Fire Department staffing levels, and has continued to maintain that 8 additional firefighter-paramedics are needed to meet the NPFA Standard 1710 to respond to a room and contents fire, the primary issue that the department faces. While the Town does try to meet those standards, 8 additional staff would allow the Town to meet them 100% of the time, which is the goal of the grant. Mr. Reilly noted that while the dollar amount spent on firefighter salaries will be lower in FY20 if the Town hires 8 new firefighters under the grant, than 4 firefighters without it, ultimately, the Town will need to fund four more salaries than had been contemplated. Ms.

Miller stated that in year 4, the Town's additional cost would be double what it would have been with only 4 new staff. Ms. Fitzpatrick stated that the grant comes at a good time, since the budget pinch point was expected in the next year due to the new public safety staff as well as the start of full-day kindergarten. In response to a question from Mr. Reilly, Ms. Fitzpatrick stated that while it was hoped that it would not be necessary, the Town in future years could reduce the headcount from 8 without penalty under the federal grant. In response to a question from Mr. Levy about the timing of hiring and locating space for the larger staff, Chief Condon explained the civil service process for hiring and training firefighters, and the time lag. He stated that the department expects to be in temporary facilities with space by the time they start work in Town. Chief Condon stated that they are already working through the hiring process with new staff to cover vacancies, but then must hire people under the grant, which is required within 6 months of receipt. Chief Condon stated that these grants are not easy to get, and that substantial work went into the proposal.

Mr. Davison stated that there will be a change to the format of next year budget so that the smaller budgets such as Historical Commission, Commission on Disabilities, Personnel Board and Trustees of Memorial Park will be consulted, but will no longer need to submit detailed forms. He noted that additional staff may be need in the next budget may to provide a building monitor for the Memorial Park Building.

Updated Facility Financing Plan

Mr. Davison stated that in July, he issued the updated Facilities Financing Plan, which was an update on the plan from April 2017. He stated that additional updates will be needed as the Mitchell School and Public Safety projects cost estimates are higher than was known in July. He described the assumptions in the plan, and how they have changed from April 2017 to July 2018, including: the cost and timeline of the Williams School, the fact that the Rosemary Complex will fully expend its authorization, the cost of the High School expansion, and the financing for the DPW storage facility and the Memorial Park building. He noted that the July plan does not account for an additional \$4.1 million of additional costs for upcoming capital projects. The estimated cost of the Public Safety building project has increased by over \$8 million, and the Mitchell School project cost has also increased, while the Williams School is expected to finish substantially under budget. He stated that the Emery Grover project has also been pushed out a year, which will increase costs.

Mr. Davison stated that the plan shows that the infrastructure annual spending allocation is now fully funded with cash. The interest rate assumptions in the Plan are conservative: 7% for long term debt and 3.5% for short term. A chart shows the effects of the projects on the taxes of the

average single family home. Mr. Davison stated that the increased cost of the Public Safety project will add about \$20 to the annual average tax bill, pushing the additional tax for the project from \$193 to \$213 in 2020. He stated that the peak debt will be in 2021.

Mr. Reilly asked how the dissolution of the RTS Enterprise Fund would affect the debt ratio under the 3% policy. Mr. Davison stated that the RTS has approximately \$150K of debt, so that the debt ratio would be 3.2% if everything is done as it would have been with the Enterprise Fund still in place, or 3% if the Town were to absorb the additional expense to keep the ratio at 3%. Mr. Levy asked how much of the average single family home tax bill is attributable to debt service. Mr. Davison stated that it is about 10%. He stated that he will calculate the effects of the increased costs of the projects on the tax bill. He noted that he must assume that every project's appropriation will be fully expended, even though many do not use their full authorization and the remaining debt authorization is rescinded. Ms. Fachetti noted that the plan also assumes 7% interest on debt when the Town is seeing 2% less.

Ms. Miller stated that the Finance Committee had asked the Board of Selectmen to discuss how they planned to finance the Public Safety project before finalizing the debt exclusion ballot question, but that there was no such discussion. She stated that while the cost of the project is increasing, the taxpayers could have paid less overall if it were financed differently and not funded entirely with excluded debt. She stated that there is an appearance of a net wash since the recent increases in the Public Safety project are similar to the savings at the Williams School. However, because of the way the Public Safety project is being financed, the taxpayers will not see a benefit of the lower cost of the Williams School. She argued that all of the project costs should not be loaded into the debt exclusion. She stated that she is disappointed in this approach to financing for the Public Safety project, since other ways of financing would have minimized the effect on taxpayers. She stated, for example, that the Debt Service Stabilization Fund could have been used to reduce the tax impact. Mr. Connelly stated that free cash or cash capital could have been used for some of the costs that have been included in the project such as owner equipment. Ms. Miller stated that the project could also have been phased.

Special Town Meeting Warrant Articles:

Article 11 - Emery Grover Feasibility

Mr. Haff stated that the cost of the study has increased to \$110K from the \$70K estimated in the spring. He stated that this study would produce information beyond the study that was done four years ago. The earlier study looked at programmatic uses that would be needed, while this will also consider other lease or purchase options. This additional study was first proposed in the spring, to be funded entirely through the CPA. However, the scope has changed somewhat to be able to respond to the questions raised at the Annual Town Meeting, and only some aspects will be funded with CPA money. The study will look at three options: (1) full renovation and addition, which could use CPA funds; (2) demolition, which could not be done with CPA funds; and (3) preservation of the facades with new construction behind them. The study will need to do some geotechnical work to better understand that hazards and the amount of bedrock. Mr. Haff stated that the cost of the study increased because of the need for additional expertise. Mr. Connelly asked how the \$110K cost estimate was determined. Mr. Haff stated that they asked an architect about the cost of a project with this expertise. Mr. Connelly requested a breakdown of the \$110K costs in the study as proposed here, as compared with the \$70 for the study as proposed in May.

Ms. Miller asked how long the study would take. Mr. Haff stated that it would take about a year. Mr. Lunetta suggested exploring the possibility of selling the building and using the funds toward other options for housing the same activities. Mr. Haff stated that the previous study found that the building could sell for \$2-\$3 million, but no purchaser was identified. Mr. Lunetta stated that even if the study will cost more, the study should be comprehensive and should explore whether to sell and buy or build something else. Mr. Reilly agreed and stated that the study should add a fourth goal: to explore sale of the building and relocation of the activities. Mr. Reilly asked what the project is expected to cost. Mr. Connelly stated that \$17 million is in the facilities plan for the construction project. Ms. Gulati stated that the \$17 million was based on an anticipated renovation of the existing building, escalated forward. She stated that the previous study included a space assessment and options for school administration. She stated that the School Committee has expressed a preference to stay in that location. Mr. Reilly stated that it is important to understand the cost of staying in that location. Ms. Miller noted that since the last study was done, there have been changes such as land swaps, and the move of the Council on Aging from the Stephen Palmer building. Mr. Davison stated that there is a lease for that building until 2028. Mr. Haff stated that could require a full study and structural assessment of the Stephen Palmer building which would be expensive. Mr. Connelly stated that the \$17 million placeholder in the capital plan contemplated a renovation without an addition, so one would expect that would be less expensive than all of the options being considered now. One way to make the overall cost less would be to sell the building. Ms. Gulati stated that there has been an expansion to add space by dropping the basement and adding a 4th floor of space. Mr. Reilly stated that the project will cost more than \$17 million regardless, and it makes sense to look at more options.

Mr. Kent stated that the goal had been to study as much as possible within the allotted funding, and agreed stated that the study probably should look at everything. He stated that the study could look at Stephen Palmer building on a cursory basis within the updated cost, as well as lease alternatives, although he felt that there might not be a different finding on the first study in that area. Mr. Haff stated that that would mean adding a real estate expert to the team for the study. Mr. Reilly stated that it could be too late to look into these options later, so it may be worth the cost. Mr. Kent noted that they started with a \$150K study, and cut what they could to get to \$110K. The question now is whether it would be good to add these considerations.

Article 12 - Mitchell School Modular Classrooms

Mr. Reilly stated that last spring the Finance Committee was told the cost of this project, and that it could change if the location of the modular classrooms were changed, which is now recommended. Mr. Haff stated that there is an increase to \$1.25 million because the location has changed to be safer and to fit better with the modifications needed to start full day kindergarten. He stated that the article is requesting \$1.35 million. Mr. Reilly asked about the value management efforts, and whether a retaining wall is needed. Mr. Haff stated that they will try to get a permit without adding a retaining wall, which would save \$26K over adding the wall, but will require taking down more trees. Mr. Connelly noted that the project is within the \$1.5 million that had been discussed. He asked whether the funding includes the renovation of the existing modular unit. Mr. Haff stated that it did. Mr. Reilly asked if they would meet the September 2019 school opening deadline. Mr. Haff stated that they will, but that they may need to begin some site preparation during April vacation. Mr. Kent stated that they have gone over the required schedule with the modular vendors. Ms. Miller asked if there would be renovations within the school. Mr. Haff stated that there would be work to tie in the phone system. Mr. Levy

asked if they had considered putting administration into the modular units to address safety issues and have the modular units in a less expensive location. Mr. Haff stated that the administration does not function separately in the school. The staff needs to interact with students, so they did not consider that. Mr. Reilly asked if they priced out all of the options. Mr. Kent stated that they did not price out each option. Mr. Haff stated that they did not do further geotechnical analysis beyond the sewer lines and where rock would need to be removed to tie in to the sewer. Mr. Kent stated that they could come up with the numbers. Mr. Reilly stated that given the size of the project, the difference in cost is not material enough to justify any decrease in safety.

MOVED: By Mr. Connelly that the Finance Committee recommend adoption of October 2018 Special Town Meeting Warrant Article 12: Appropriate for Mitchell School Modular Classrooms in the amount of \$1,350,000. Ms. Miller seconded the motion.

Ms. Miller requested a list of the articles which were re-appropriated for this project, and asked about the \$1,131,000 from the tax levy. Mr. Davison stated those funds were from state aid that was not placed in the Debt Service Stabilization Fund.

VOTE: The motion was approved by a vote of 6-0.

Article 10 - Public Safety Building Construction

Mr. Kent introduced Mr. Sargent, Project Manager for the public safety construction project. Mr. Kent stated the expected project cost has increased due to uncertainty in the marketplace for both labor and materials. Contractors are busy, and labor is harder to secure. Most steel comes from Canada, and imported steel may be subject to tariffs, so vendors are building the anticipated additional cost into pricing and bidding. A 10% escalation factor has been included because of the uncertainty in these markets. Mr. Connelly stated that he is very supportive of the project, but wants to know the specifics of how the project increased by 12% from \$65,404,000 in the FY19 capital plan to \$73,745,000 current estimate. Mr. Kent stated that the \$65M was based on feasibility data, as was very preliminary, rather than detailed engineering and design. He stated that the initial estimate should have been \$65M-\$70M, based on the square footage. Mr. Connelly pointed out that there is significant contingency included.

Mr. Kent handed out a chart showing the costs in the March 2018 project estimate compared with the updated numbers. Mr. Sargent stated that the major changes were in the communications system, which will be updated to microwave technology, which needs point-to-point communication and which will require new towers, including: a monopole in the Town Center, plus antennae on leased space at Cabot Circle, at the RTS, and at the Dedham corrections facility. This has added about \$300K. Mr. Kent stated that the cost of integrating the new system was not included originally. Mr. Sargent stated that there were increases in direct construction costs including project phasing which has increased certain construction costs, though provided significant savings overall. There are been additional IT costs. Mr. Reilly asked why borrowing costs have increased. Mr. Davison stated that the costs of bond counsel and related costs have increased. Mr. Kent stated that in comparison to public safety projects in other towns, this project comes in the middle in terms of cost per square foot. Mr. Reilly stated that it is important to look at the significant increase in owner costs. He would like to understand how the Town got to this point without a better understanding of the costs. Mr. Levy asked if they had looked at

and what could be done to avoid the increase. Mr. Kent stated that they took a close look and could not find anything to pull out without drastically changing the project. Mr. Levy noted that the project has already changed substantially since the finance committee last discussed the issue on September 27, 2017. For instance, the total square footage of the Public Safety HQ and Fire Station #2 has increased from 78,520 square feet to 83,897 square feet.

Mr. Connelly requested a list of value engineering items. He stated that there is too much contingency, and that there are overlaps. There is an 8% owner's contingency, and also a \$1.2 million design contingency with only 1 month before design is finished. He stated that he feels that the contingency on fitness equipment is too high. He understands that they are not obligated to spend the whole appropriation, but the contractor will know what the budget is, and will push to get as much of it as possible. He suggested pulling some costs out of the project for other funding rather than to cover the whole \$73 million in an override. Ms. Miller agreed that the Town needs to look at other ways of funding some of the costs, instead of including everything in the debt exclusion. Mr. Kent stated that in his opinion the 8% contingency is reasonable. Mr. Connelly stated that design contingency and the CMr contingency cover the same risk. He thinks that the total can be reduced from \$73M to \$70M.

Mr. Kent stated that the PPBC unanimously agreed to keep these contingencies, but he will raise the issue again. Ms. Fitzpatrick stated that they will take the Finance Committee suggestions and meet with the group to discuss them. Mr. Reilly stated that there is discomfort with the numbers. He asked how much scrubbing has been done of owners' numbers. Mr. Sargent stated that borrowing costs won't go away. The contingency and escalation are the only places that can really be reduce. Ms. Fitzpatrick stated that she understands that the Committee would like some items pulled out of the project. Mr. Connelly stated that he wants the project to pass, and would like the numbers to be lower, and encouraged them to look hard.

Finance Committee Updates

Mr. Connelly stated that the Board Selectmen had a public hearing regarding the proposed stormwater by-law. He stated that there are still proposed changed being worked in. He stated that there are draft regulations that will be available before the bylaw is presented to Town Meeting.

Executive Session: Exception 3: Collective Bargaining

Chair Richard Reilly stated that the next discussion may have a detrimental effect on the bargaining or litigating position of the Town if conducted in open session.

MOVED: By Mr. Lunetta that the Finance Committee move into executive session under exception 3 of the Open Meeting Law, and to adjourn without returning to open session, to consider issues relating to collective bargaining. Ms. Miller seconded the motion. The motion was approved by the following roll call vote at approximately 9:50 p.m.: Ms. Smith-Fachetti: Aye; Mr. Connelly: Aye; Mr. Levy: Aye; Mr. Reilly: Aye; Ms. Miller: Aye; Mr. Lunetta: Aye.

Documents: October 10, 2018 Special Town Meeting Warrant (9/7/18 draft); Facility Financing Summary Update, David Davison, Assistant Town Manager/Director of Finance, dated July 24,

2018; CIP versus Current Cost Comparison – Needham Public Safety Project; Needham Public Safety- Overall Project Budget Comparison September 2018; Needham Combined Safety Projects CD Level Opinion of Probable Cost, September 6, 2018; Consigli-Needham Public Safety 75% CD Estimate reconciled – Final 8/24/2018; Email from Steve Popper to Kate Fitzpatrick of August 22, 2018; Emery Grover and Mitchell; Needham Full Day Kindergarten Study Mitchell Elementary School – Modular Classroom Update to School Committee dated September 11, 2018, Dore and Whittier.

Respectfully submitted,

Louise Mizgerd
Staff Analyst

Approved September 26, 2018