

**Needham Finance Committee
Minutes of Meeting of January 13, 2021**

The meeting of the Finance Committee was called to order by Chair Carol Fachetti at approximately 7:00 pm via Zoom Video Webinar <https://us02web.zoom.us/j/86237827965?pwd=T1k1b3ZQZ043UnYxdTZPMnpKNFpwUT09>

Present from the Finance Committee:

Carol Fachetti, Chair ; Joshua Levy, Vice Chair
Members: Barry Coffman, John Connelly, James Healy, Tom Jacob, Richard Lunetta, Louise Miller, Richard Reilly

Others:

Kate Fitzpatrick, Town Manager
David Davison, Assistant Town Manager/Finance Director
Katie King, Assistant Town Manager/Operations
Sandy Cincotta, Support Services Manager
Carys Lustig, Interim Director of Public Works
Cecelia Simchak, Director of Finance and Admin/Public Services, Public Works
Barry Dulong, Director of Building Maintenance, Public Works
Chuck Murphy-Romboletti, Assistant Director of Human Resources
Rachel Glisper, Director of Human Resources
Chuck Murphy-Romboletti, Assistant Director of Human Resources
Cyndi Roy Gonzalez, Public Information Officer
Amy Haelsen, Economic Development Manager
Maurice Handel, Select Board
Matt Borrelli, Select Board

Citizen Requests to Address the Finance Committee

There were no requests to speak.

Approval of Minutes of Prior Meetings

MOVED: By Mr. Connelly that the minutes of the meeting of January 6, 2021 be approved as distributed, subject to technical corrections. Mr. Lunetta seconded the motion. The motion was approved by a unanimous roll call vote of 9-0.

FY 2022 Department Budget Requests (operating and capital):

Legal Department

Mr. Connelly stated that there is a new structure to the department as David Tobin the prior Town Counsel passed away. Mr. Connelly noted Mr. Tobin's many years of great service to the Town. The Select Board has chosen to work with a law firm, Miyares and Harrington, rather than an individual. The budget is level-funded, but all the funds are in the expense line, representing a flat fee for regularly anticipated work such as Town Meetings, zoning, and labor-related work, as well as additional funds for other legal work by either the law firm or outside

counsel. Prior budgets included a salary line and an expense line. Mr. Davison stated that the Town had not paid for health insurance for Mr. Tobin, but had been responsible for Social Security and Medicare taxes. Ms. Miller suggested that the costs be reviewed at the end of the year, as well as after a few year of experience, considering the new law firm and its hourly rate. Mr. Connelly stated that the Select Board made the appointment without any input from the Finance Committee. Mr. Healy asked if the Town used a procurement process. Mr. Davison stated that legal services are exempt from procurement processes, and that the Town Charter gives the Select Board the authority to appoint Town Counsel. Mr. Reilly asked if the Town had experience with the firm. Mr. Connelly stated that the attorney who does most of the work for the Town provides Town Counsel services to several towns, and does this kind of work exclusively. Ms. Fitzpatrick stated that the firm was brought in for a seamless transition, but the Select Board plans to reexamine the issue. Mr. Connelly stated that other towns have gone through the procurement process to select Town Counsel.

Municipal Parking Program

Ms. Simchak stated that there were no significant changes in the budget. Some small increases are due to contractual increases in lease payments for the lot, and for the line marking work, as well as an increase for the costs for dumpster enclosure repairs. Some costs of lighting are in the Electric budget in Townwide expenses. In response to a question from Mr. Levy, Ms. Simchak stated that the pest control has been moved to the HHS budget. The dumpster fencing is not related and covers fencing and guardrails. Mr. Levy asked whether the curbing work for FY21 was finished and what the curbing work would be in FY22. Ms. Simchak stated that the FY21 work was completed, but that she would have to follow up with the plans for the curbing work in F22.

Ms. Miller asked whether there was revenue for these lots. Mr. Davison stated that there was revenue from businesses which choose to lease parking for employees, and those who are required to lease spots by the Planning Board to comply with a permit. Mr. Davison stated that revenue covers about 65-70% of the budget costs. Some of the parking lots include free parking areas. Mr. Levy stated that he learned through discussions that in FY17-FY19, the revenue was \$105K-\$108K. Mr. Reilly stated that there should be a discussion of whether the rates should be set to cover all costs. Mr. Davison stated that the fees have been adjusted. He stated that if the Town charges more than the actual cost for the parking permits, the fee can be considered a tax, which the Town is not authorized to assess. Mr. Reilly stated that the small amount might not make it into a tax.

Select Board/Town Manager

Mr. Lunetta introduced the budget. The position of Economic Development Director was moved from Planning and Community Development was moved to this budget. There is no bottom line difference, but this gives the position better access to the Town Manager and to working with the Council of Economic Advisors. The position will now report to the Town Manager. Mr. Lunetta stated that there is also a DSR4 to fund the Public Information Officer position in the operating budget. He stated that there is an increase in Human Resources expenses due to the cost of assessment centers for a police lieutenant and sergeant, as well as a deputy chief and chief in the Fire Department. He stated that there are increases in the budget since software costs will be shifted from the Finance Department to other department budgets. This will include the cost of licensing and maintenance of the HR applicant tracking system. Mr. Lunetta stated that the

Finance Committee has had discussions about the Public Information Officer position in the past. It has been funded for two years by a warrant article. There have been notable accomplishments, especially since there has been a greater need to get information out. The person has been able to craft consistent messaging. She is the communications subject matter expert, with skills that no one else has. With the DSR4 request, the budget would increase approximately \$299K or 19.2% from FY21.

Ms. Fitzpatrick stated that the Economic Development Manager position had been in the Town Manager's office and then moved to the Planning and Economic Development Department when that was consolidated. It now has become apparent that the position needs better access to the Town Manager's office. She works closely with the CEA, which is a Select Board committee, which plays a different role than the Planning Board. Mr. Borrelli agreed that the position functions more with the executive than with planning.

Mr. Healy stated that he is not in favor of either of the proposed changes with the Economic Development Manager or the PIO. He stated that the economic development work is a long project, and this would be a dramatic shift. He stated that the CEA is not elected to do anything specific. He stated that he would need more information at some point. Mr. Reilly stated that the decision of which department the Economic Development Manager reports to does not have a financial impact on the budget. Ms. Fitzpatrick stated that the goal of the position is to reduce pressure on residential taxes by attracting more businesses, particularly bigger businesses. Mr. Borrelli stated that the position is the first point of contact within town government for many businesses. The Town has had great success with this position supporting businesses. Mr. Handel stated that the Town is working hard now to save businesses and this position has been very effective. Mr. Healy stated that he did not agree. The Town has provided many tax breaks in the industrial area to bring in businesses, but the position has done much self-promotion. He stated that this change needs more review.

Mr. Levy stated that during the last discussions about the PIO position there were many questions as well as some skepticism. He thinks that there were two major functions indicated: to provide more self-directed access to information via the Town website, and also to answer media or other external requests. He stated that the website does not appear to have changed much, and could be improved. He noted that the position was also going to help the Library with communications, and he does not think that happened. Ms. Miller asked for the goals of the position going forward, and for information on the accomplishments of the last year. Ms. Fitzpatrick stated that she will provide the goals for the upcoming year. She stated that the DSR4 form highlights the accomplishments including responses to the Covid crisis, and providing training for staff and elected boards on Town Meeting presentations, and coordinating the media coverage. Mr. Healy suggested that a press secretary is not needed and this just formalizes the work that was already being done and adds cost. He suggested that members of the Select Board could handle media inquiries and messaging. Mr. Handel stated how important it has been to have consistent messaging during the pandemic. Mr. Borrelli stated that the Board could handle questions, but the day-to-day issues with the press and Covid would need to be handled by the Town Manager who is already overloaded. He noted that they do want to work on the website, but pointed out the significant increases in the reach via social media. Ms. Fachetti stated that she had been skeptical of the position, and agrees with Mr. Levy's comments on the website, but feels that the Town has been able to get information out on public health through alerts and other means. Mr. Levy stated that there could be many technical innovations

to the Town website to get information out. He requested information on the plan to improve the website and provide better self-directed access to information.

Ms. Fitzpatrick stated that Mr. MacDonald has been able to get some grants in the Public Health department for aspects of Covid, but the POI has been working with the School Department to promote mask-wearing for teenagers. They have received many calls to have more messaging on masks and the upcoming vaccine. For months, there was daily messaging on Covid issues, though that is now less frequent. Ms. Miller stated that it is important to separate out Covid needs from the POI position. The Committee needs to understand the communications need in a non-Covid year. Ms. Fitzpatrick stated that she would provide additional information.

Mr. Reilly asked how much of the \$200K increase in the budget is pure increase and not transferred expenses. Ms. Fitzpatrick stated that the salary line is increasing \$89K for the Economic Development Director. Expenses include \$20K of additional costs to cover the additional assessment centers in Human Resources to supplement Civil Service tests in consideration of promotions. A consultant uses experiential exercises to assess job-related skills. She stated that there are usually 2 assessment centers, but there are expected to be four in FY22. She stated that this expense will fluctuate based on the number of changes in leadership positions. Mr. Healy stated that when he was on the Select Board, the Town did not follow the results of the assessments, and asked how the cost was justified. Ms. Fitzpatrick stated that without the assessments, promotions would be based strictly on test scores, and the community does not want that. She stated that the collective bargaining agreements lay out the use of assessments.

Mr. Connelly stated that he sees the benefits of the PIO position over the last couple of years, but feels that the Town should continue to assess the position. He suggested that this could be done by funding it in the same way as in the past, via a warrant article covering 2 years. Ms. Fitzpatrick stated that funding a position through a warrant article is typically done when the position is temporary or the Town is testing it. Funding via a warrant article could cause uncertainty. In order to retain staff, there must be some certainty. Mr. Lunetta agreed that people will want assurances that their job will be there. It should not be evaluated every year. It does not make sense from an HR point of view or for purposes of continuity. Ms. Miller stated that it is difficult to assess the position because of the Covid pandemic. She requested information on whether the pay is commensurate with the comparable position in other towns. Ms. Fachetti stated that it would also be helpful to know the role that this position plays in other towns. Mr. Reilly stated that qualified people will want assurances that a position will continue. Mr. Healy stated that it is not yet clear whether such a position will be needed in the long term. He stated that if it is determined that the position is critical, then it should be permanent, but that is not yet known. Mr. Lunetta added that it would be helpful to see what the position is expected to accomplish without Covid. Mr. Borrelli requested the opportunity to provide additional information. He stated that continuity is important.

Mr. Levy asked if the Town had costs associated with the Marvin Henry police incident. Ms. Fitzpatrick stated that there are costs of the investigation and also some legal costs. She stated that some funding for NUARI has come from professional development funds for training and conferences that was not used this year. She stated that there will be an article in the 2021 Annual Town Meeting warrant to facilitate implementation of NUARI's findings. The costs for NUARI's activities will not be in the Town Manager's budget. Ms. Fachetti asked if Equal

Justice in Needham has received any Town funding. Ms. Fitzpatrick stated that they are a private group and have neither asked for, nor received, any funding from the Town.

Townwide Expenses (Health Insurance, OPEB, Retirement, Workers' Compensation, CPS)

Mr. Reilly stated that these expenses are largely mechanically determined though there are some judgmental aspects, such as the estimated health insurance costs, since the actual rates will not be known until later, nor how many positions will be covered. Ms. Fitzpatrick stated that they have assumed an 8% increase in health insurance costs, which is within the range recommended by the consultants. She stated that the Town offers two plans: the benchmark plan or HMO's (42% of insured employees), and the lower premium/higher deductible plan (58% of insured employees). There is also an option for a payment in exchange for not taking insurance, which 40 employees have chosen, which costs the Town \$120K but saves \$375K. She stated that estimating the Medicare and Social Security costs has been difficult. They do not think that last year is reflective of what is expected going forward, so those costs are level-funded. Mr. Reilly noted that there are twice as many School Department employees covered by health insurance as Town employees. Ms. Fitzpatrick stated that there is an amount shown as a DSR4 that shows the funding needed in this line if all requested additional positions are funded, though that is not being recommended.

Ms. Fitzpatrick stated that the unemployment budget has increased significantly based on the large increase in claims. They are carefully reviewing claims for legitimacy as there has been much fraud statewide. She noted that the Town needs to pay some unemployment if an employee has a second job and loses that job and files a claim. She stated that workers' compensation costs have increased due to increasing medical costs. She stated that the level in the reserve has dipped, and there may be a need to add to the reserve at the Annual Town Meeting. Mr. Lunetta asked if the Town is required to self-insure. Ms. Fitzpatrick stated that there is insurance available, but that Mr. Davison has analyzed it several times, and it has always come out that the Town saves significantly by choosing to self-insure. Mr. Levy asked where the funds for the Injury on Duty reserve funds would come from. Ms. Fitzpatrick stated that they were always lumped together with the workers' compensation budget, but this year, they are separating out those funds so they can roll those funds into a separate account, for which they will seek approval at Town Meeting. When workers' compensation funds are not used, they are rolled into a workers' compensation fund at the end of the year. They now want to roll the Injury on Duty funds into a dedicated account.

Mr. Reilly stated that in the Retirement Assessment line, consistent with approved actuarial practice, the impacts of both under performance and over performance in investment results, the impacts of the assumed decreased rate of rate of return are being spread over 5 years rather than all at once in order to modulate the impact on the budget. Ms. Fitzpatrick pointed out that it may be possible to cut 3 years off of the funding schedule if there are good returns, but the assumed rate is 6.5% for FY22. She stated that the OPEB funds are invested through PRIT, and they currently assume a 6.75% return, but plan to reduce it to 6.5% to be on the same track. Mr. Coffman noted that if the School Department employees are covered by a separate retirement fund. Ms. Fitzpatrick stated that paraprofessionals and administrators are in the Town's retirement program, while employees with a teaching role are covered by a state-funded retirement plan.

Mr. Reilly stated that the Compensation, Classification and Performance line provides funding for bonuses for eligible employees not covered by the regular operating budget, and also for collective bargaining agreements that may settle during the coming year. As needed, the funds are moved into the appropriate budget lines.

Townwide Expenses (Casualty Insurance, Debt Service, Needham Electric, Reserve Fund)

Mr. Davison stated that the Casualty Insurance line is increasing almost 14%, which is needed to cover additional facilities including the Rosemary Complex, the fuel depot, the modular classrooms at Mitchell, the Sunita Williams School and the Jack Cogswell building in FY29, the new Fire headquarters in FY21 and Fire Station 2 and the Police headquarters in FY22. He stated that the line includes the cost of reinsurance, or stop loss insurance, which has been increasing. Professional liability insurance costs have also been increasing for government entities. Mr. Reilly asked if the Town's liability insurance has exclusions for civil unrest. Mr. Davison stated that there are some exclusions. However, the Town is insured through MIIA which has some areas of exclusion, but the state provides indemnification in those areas. Mr. Reilly asked if there is exposure for unrest at Town Halls. Mr. Davison stated that property damage is covered. But people cannot sue the government for the non-government actions.

Mr. Davison stated that the Debt Service line represents the debt costs for projects that have been approved. Most are already bonded and underway. FY21 is the peak year for Debt Service for excluded debt, which will now drop off. There is still \$35 million to bond on the Public Safety building, and some residual costs at the Sunita Williams School. He stated that the budget is structured so that the debt within the levy will stay at 3%. The projects recommended to be financed within the levy limit in the Capital Improvement Plan are included in the future assumptions, and show a decline to 2.4% in future years, but he presumes that other projects will arise. The focus now is the FY22 budget. Anticipated debt within the levy limit in future years includes two Fire vehicles (\$1.8 million and \$900K), additional costs related to the Public Safety building (\$1.7 million), and work at Pollard (\$1.3 million).

Mr. Davison stated that the Electric Light and Gas budget is declining approximately 1% in FY22. Although there is additional demand with the new buildings, the Town is seeing energy efficiencies through building management, and more efficient street lights. Due to energy efficiency, there has been a decline in the use of natural gas. This budget included the cost of solar power generated by Tesla which the Town sells to Eversource makes money on. Street light maintenance costs are in this budget. He stated that this budget had a high turnback in FY20 because buildings were closed due to the pandemic. As staff has returned to buildings, usage increased. The Town is using more energy for air systems due to Covid-safety measures, showing a 4% increase compared to FY19 (since FY20 is an aberration.)

Mr. Reilly stated that the Reserve Fund budget is submitted by the Finance Committee based on a formula which is based on a percentage of budget items that are subject to change. He stated that he is not sure whether it would make sense to adjust it based on the amount of uncertainty due to Covid going forward, which is something the Committee may want to discuss. Mr. Davison stated that many changes in costs are temporary, and he would prefer that they be funded with a financial warrant article for Covid-related expenses. Ms. Miller reiterated that she would like to see an accounting of the Town's funds from the CARES Act and what the Town will have available for the first half of FY22. She also questioned whether the Committee should review the Reserve Fund formula, since the amount seems too high and the fund has not been

expended in a few years. Mr. Reilly stated that one snowy winter would change that. Mr. Levy asked the criteria for using the Reserve Fund versus the stabilization funds. Mr. Davison stated that Town Meeting appropriates funds each year to the Reserve Fund, but the Finance Committee has the authority to move the funds to any other operating budget line, while the stabilization funds must be appropriated by Town Meeting. They are funding sources, but are not funds that can be spent, since they need to be appropriated. Mr. Levy noted that unanticipated expenses could be funded from either source. Mr. Reilly stated that once funds are removed from a stabilization fund, a separate vote is required to replace those funds. The money in the Reserve Fund is more flexible, since it empties out into Free Cash each year. Mr. Davison stated that the general Stabilization Fund has about \$4 million, and the Reserve Fund is never that high. Mr. Reilly suggested that there is no advantage to deplete the stabilization funds if the Reserve Fund is available. Ms. Miller stated that the Committee should look at them together. She stated that the Town has not used the Stabilization Fund in a long time, and that it is there for an emergency like the one this year. She expects the main revenue shortfall will be seen in FY23. The general Stabilization Fund is there to carry the Town through a dip in revenue from this type of event. The Reserve Fund is for a more sudden need. Mr. Reilly stated that he agrees with most of what Ms. Miller said, except he does not feel that the Reserve Fund is over-funded.

Mr. Coffman stated that it would be helpful to see “what if” scenarios for debt, in order to understand the available debt for different scenarios in different years. Mr. Davison stated that after the budget is done, he will have an updated facilities financing plan. He stated that he needs some decisions by stakeholders of which projects will be pursued and when they will begin. Mr. Coffman stated that the impact of the different levels of borrowing on the 3% and 10% debt policies will influence which projects can be done and when. It will be helpful to see hypotheticals of what can be borrowed under different assumptions. Mr. Davison stated that he never assumed that voters will pass any debt exclusion. Mr. Connelly asked what would be available to borrow over the next few years if the if the Town holds to the 10% policy. Mr. Davison stated that he can develop scenarios. The 10% policy has dictated which projects can happen. The Town does go over that amount, but it is limited to a few years. If a specific project is identified, he can show what happens if that project is done at different times. He has considered Mitchell and Pollard projects previously, but the estimated costs are substantially different from recent discussions. Mr. Connelly stated that the Schools are looking at \$275 million of different projects in upcoming years. It would be helpful to know how much the Town has available to spend each year, and to have the Schools figure out what they can do within the Town’s means rather than have the Town figure out how to fund whatever the Schools request. Mr. Levy asked how the actual levy has compared with the levy limit over time. Mr. Davison stated that the Town is at the levy limit most years. Mr. Levy stated that taxes have increased over time, and he hopes that the levy will decrease as the excluded debt decreases. He stated that it is a policy issue—he feels that residential taxes should not fluctuate significantly over time. Mr. Reilly stated that it would be helpful to have a bar chart showing the excluded debt in relation to total debt. Mr. Davison stated that it will be in the facility financing plan.

Updates

There were no updates.

Adjournment

MOVED: By Mr. Reilly that the Finance Committee meeting be adjourned, there being no further business. Mr. Lunetta seconded the motion. The motion was approved by a unanimous roll call vote of 8-0 at approximately 8:58 p.m. (Mr. Healy was no longer present.)

Documents: Town of Needham - FY 2022 Departmental Spending Requests; Town of Needham Capital Improvement Plan FY 2022 – FY 2026.

Respectfully submitted,

Louise Mizgerd
Staff Analyst

Approved January 20, 2021