

**Needham Finance Committee  
Minutes of Meeting of January 29, 2014**

The meeting of the Finance Committee was called to order by the Chair, Richard Lunetta, at approximately 7:05 pm at the Town Hall.

Present from the Finance Committee:

Richard Lunetta, Chair

Members: Richard Creem (arrived 8:00 pm); Louise Miller, Richard Reilly, Lisa Zappala, Richard Zimbone

Also present:

Kate Fitzpatrick, Town Manager

David Davison, Assistant Town Manager/Finance Director

Patricia Carey, Director of Park and Recreation Department

Cynthia Chaston, Vice Chairman, Park and Recreation Commission

Evelyn Poness, Treasurer/Collector

Richard P. Merson, Director, Public Works

Ann Dorfman, Superintendent, Recycling and Solid Waste Division, DPW

Carys Lustig, Supervisor of Administration, DPW

**Citizen Requests**

There were no requests to address the Committee.

**Approval of Minutes of Prior Meetings**

MOVED: By Mr. Zimbone that the minutes of January 8, 2014 be approved as most recently distributed. Mr. Reilly seconded the motion. The motion was approved by a vote of 5-0. (Mr. Creem had not yet arrived.)

MOVED: By Mr. Reilly that the minutes of January 13, 2014 be approved as most recently distributed. Ms. Miller seconded the motion. The motion was approved by a vote of 5-0. (Mr. Creem had not yet arrived.)

MOVED: By Ms. Miller that the minutes of January 15, 2014 be approved as most recently distributed. Mr. Zimbone seconded the motion. The motion was approved by a vote of 5-0. (Mr. Creem had not yet arrived.)

**Review of FY 2015 Budget Requests**

**Park and Recreation Department**

Ms. Miller introduced the budget and explained that while there are few employees, there are many activities staffed with temporary employees. The temporary salary line is almost as big as the regular salary line. She stated that for FY15, the budget shows no changes in staffing or to the activities. She stated that the new addition to the field maintenance fee will be spent through the Park and Recreation revolving fund primarily by the DPW Parks and Forestry Division. Part

of it will also be used by Park and Recreation to support the administrative work managing the field use activity. Ms. Miller stated that there is a DSR4 seeking playground maintenance funding. Mr. Carey stated that the DPW used to do the work on a voluntary overtime basis, which ended up being insufficient. She stated this request would shift from using overtime funds to a hiring a part-time employee. The request would fund an average of 12 hours per week, though the work would be flexible week to week. The DPW would still help get the supplies to the sites. Mr. Lunetta asked if there would be efficiencies with the work being done by one person. Ms. Carey stated that the problem with the current system is that the playground work was done on an overtime basis, so other work took priority. This will be more effective at keeping the playgrounds better maintained. Ms. Miller noted that the person would also be able to get the work done during the day, not just after hours. In response to a question from Mr. Lunetta, Ms. Carey described the regular playground maintenance work.

Mr. Zimbone asked if the playgrounds were categorized by the level of maintenance needed as the fields are categorized. Mr. Carey stated that there are three levels of playgrounds, with the schools and Greene's Field being the top level. She stated that the other playgrounds are categorized based on the usage. Mr. Zimbone asked if the Town had looked into contracting the work. Ms. Carey stated that she did, and it would be very expensive to have a playground maintenance contract. Mr. Reilly asked why the salary number for seasonal workers had changed from the preliminary budget. Ms. Carey stated that after the preliminary budget was submitted, the Board of Selectmen voted a 2.5% salary increase for non-represented employees. Mr. Reilly stated that several of the expense lines are identical to the previous budget and asked if they were spending the money in those lines. Mr. Carey stated that the bottom line is enough, but that she does need to use expenses from different areas each year. Mr. Reilly asked if there was a shortfall. Ms. Carey stated that she was close to budget, but that there was enough if she spends wisely. She stated that the Department has a revolving fund, a gift fund, trust funds, and other donations which help. Mr. Reilly asked if the fee structure covered the expenses. Ms. Chaston stated that other than for the pool, most expenses are covered by the fees. She noted that they need to balance the need to cover expenses with the need to keep the activities affordable. She stated that they do try to change the fee if a program is losing money. She stated that their goal is not to make money. Ms. Carey stated that the fees are set so the fee for the minimum number of participants covers the expense. If additional people sign up, then there is more money. She stated that the additional field usage fees coming in are placed in the long term capital fund for turf replacement. She stated that there are some expenses which have no revenue stream such as cleaning bathrooms.

Ms. Miller stated that space is an issue for the programs. Ms. Carey stated that they previously used space in the schools in the summer, but the Schools offer programs there now. She listed other spaces used in Town buildings. Mr. Lunetta asked when the programming would be affected by space constraints. Ms. Chaston stated that is the case now.

## **Capital**

Ms. Carey stated that the Mills Field Improvement and the Cricket Field Building renovation projects would not be considered by the CPC for this round of funding. She stated that the Mills Field work is mostly for parking, so they will need a prequalified engineering consultant. Ms. Carey updated the Committee on the ongoing projects. The final approval of the consultant will be coming up for the Newman Eastman project. The Reservoir Trail project has design funds, but is moving more slowly because there is currently no Conservation Director. She stated that

the loop at Ridge Hill has been done by volunteers. She stated that upcoming projects will be the Mills Field Design work, the possible purchase of open space, and the Rosemary Pool design. She stated that they are still waiting for the report on the pool design. She stated that it is possible that CPA funding can be used for some of the project. She stated that the next Capital Plan will probably seek funding for the pool design. Ms. Zappala stated that there is less interest in an indoor pool from the Town since the YMCA is also considering a new pool, and they have the year-round staff to handle it. Ms. Carey stated that the Town and the YMCA cooperate. Ms. Chaston spoke out in support of the Parks and Forestry Division budget, since they have done a great job maintaining the fields which supports the Park and Recreation programs.

### **Recycling and Transfer Station Enterprise Fund**

Ms. Zappala stated that she and Ms. Miller carefully reviewed the RTS expense budget in order to understand the best way to fund the RTS going forward. She stated that they also reviewed the revenue, the General Fund contribution, and capital appropriations. Ms. Fitzpatrick stated that there is a proposal to address sustainability of the RTS. The plan would eliminate the sticker fee, but continue the bag fee, which is tied to the disposal of solid waste. This would allow people into the RTS for recycling and yard waste disposal without a fee. She stated that there would still be resident stickers, but there would be no fee. As a result, the stickers could be available at more places, including on site at the RTS.

Ms. Zappala stated that last year, the Solid Waste Recycling Advisory Committee recommended increasing some fees, which the Board of Selectmen adopted. She stated that phasing out the sticker fee would alleviate some administrative issues, and eliminate the calculation of the contribution based on direct costs and avoided costs. Instead, the General fund contribution would increase by a percentage each year. The proposal would reduce the hours the RTS is open to the public by as much as one day per week, and reduce overtime by \$30,000 and add a new position, Assistant Superintendent. Ms. Miller noted that the RTS would lose overtime, but that some overtime would also be lost by other DPW employees. She stated that she would like to see other overtime opportunities being made available, as the loss of overtime could significantly affect income levels.

Mr. Zimbone stated that he was impressed with the Board of Selectmen's level of enthusiasm with the proposal. Mr. Davison noted that it is important for people to understand that the elimination of the sticker fee will not take place for another year. The Town will be mailing these sticker renewals out soon, and the Town is counting on 30-35% of the RTS revenue stream for FY14 from these fees. In response to a question from Mr. Zimbone, Mr. Davison confirmed that the FY15 budget assumes no sticker fee revenue. Mr. Zimbone asked whether he assumed that the scale fees would decrease because people might no longer hire contractors if there is no sticker fee. Mr. Davison stated that he assumed that the revenues were increasing because all of the fees will be increasing. Mr. Zimbone asked whether they could phase in the reduction in sticker fees over two years. Mr. Davison stated that would be difficult since the processing costs would still be there if the fee were cut instead of eliminated. He stated that it would also be difficult to reduce hours in phases. It will work better if a reduction in RTS hours is done in conjunction with the elimination of the sticker fee. Mr. Zimbone noted that the solar panels at the RTS may end up reducing Town electricity costs by \$300-\$400 thousand.

Mr. Reilly asked how the Town's RTS cost structure compares to other towns. Mr. Davison stated that the fees are high compared to other towns. Other communities support their transfer

stations with more property taxes than Needham does. Ms. Miller asked how much in retained earnings was ideal. Mr. Davison stated that for good credit rating, retained earnings should be at least 15% of operations, but preferably higher. Ms. Miller asked how much the Town was subsidizing the RTS. Mr. Davison stated that the subsidy is \$1.42 million in the FY15 budget. Ms. Zappala stated that there was an \$800K subsidy this year, plus \$620K additional revenue to replace the sticker fee revenue. Mr. Davison stated that there will be \$300K of retained earnings.

Ms. Zappala stated that the Solid Waste Recycling Advisory Committee studied the RTS revenue and compared it to other communities. She stated that she focused on profitability. She stated that the revenue and the expenses are in the budget book, and that there is a deficit each year. She stated that the RTS reimburses the General Fund for an allocation of benefits and other expenses that relate to the RTS. She stated that the RTS' deficit drives the amount of the contribution from the General Fund to the RTS. Mr. Davison stated that table 2.10 on p. 2-15 of the budget book shows that indirect costs that the RTS must pay to the General Fund. In FY15, the estimate is \$275,000. Ms. Zappala stated that the \$1.42 million contribution from the General Fund to the RTS for FY15 is net of the \$275K. Mr. Davison stated that the tax recap sent to the DOR shows both the General Fund contribution to the RTS and the amount that the RTS reimburses the General Fund. Ms. Zappala stated that she thinks the RTS could be sustainable if there were a fixed growth rate of 2.5% for the General Fund contribution. Mr. Davison stated that it is a working plan for the foreseeable future.

Ms. Zappala stated that in the submitted budget, the RTS expenses are relatively flat, except for the addition of an Assistant Superintendent position. She stated that costs have been kept flat for a couple of years, since they have not added to personnel or expenses. Ms. Miller commented that the RTS needs to be fully staffed on Saturdays, so the RTS uses overtime salary funds to pay other employees. She stated that she does not like the idea of closing the RTS just to infuse \$600K from the General Fund into the RTS. She stated that there is no great benefit from reducing the hours of the RTS. She stated that the original idea was to reduce the hours in order to reduce costs. However, the way of funding the RTS is changing, so she does not see the justification for reducing the hours. Ms. Fitzpatrick stated that she is willing to work with the Finance Committee. She thinks that the Assistant Superintendent is needed. She stated that she asked all departments to make cuts to offset additional requests. She stated that if the RTS needs to cut hours to make it sustainable, then it would be best to do it when the sticker fee is eliminated. She noted that the traffic studies showed that Wednesdays had significantly less traffic than other days. One suggestion is to close on Wednesdays, but be open later one day to allow people to come after work. She stated that there is an opener in the union contract which would allow negotiation of hours. Mr. Reilly asked how realistic it would be to negotiate the overtime hours. Ms. Fitzpatrick stated that it could take some time, but it could be done.

Mr. Reilly asked why the recycling fees jumped around. Mr. Davison stated that it was a combination of the marketplace and the volume. The market is volatile. Sometimes they even have to pay to take materials away, though at a lower rate than trash. Mr. Merson stated that there is now a trend toward single stream recycling. Ms. Miller stated that the request for a roll-off container was submitted as a DSR4. There has been no replacement cycle in the past. This request would put it into the operating budget and start a replacement schedule.

## **Board of Selectmen and Town Manager**

Ms. Fitzpatrick introduced the budget and stated that there is a 3.4% increase requested over FY14. She stated that approximately 90% of the increase is salary increases for nonunion personnel. Therefore, if there is a new contract, it should not have a significant effect on the department's budget. She stated that there is a new amount of \$2,800 in the budget to cover AV services for Powers Hall. The current staff can run simple systems, but for public hearings and certain other events, the system is too complex, and a company needs to be hired to handle the systems. Mr. Lunetta asked if her staff could be trained on the equipment. Ms. Fitzpatrick stated that it was not possible since her staffing is thin and there are over 100 events each year. She stated that the use of Powers Hall is strong and still growing. It is mostly Town groups, but some nonprofits, sometimes raising money for the Town. Other costs associated with renting the space can be expensive such as bartenders or a police detail. She stated that there has been some reallocation of costs within the budget to reflect actual expenses.

## **Townwide Expenses**

### **Employee Benefits and Employer Assessments**

Ms. Fitzpatrick stated that health insurance enrollment has decreased, though the amount per subscriber has increased. Premiums have increased 4.75%. Mr. Davison stated that the Town has joined the West Suburban Health Group which has rates designed to lower costs. The premiums are based on the experience within the individual plans. Mr. Lunetta asked how they could keep the premium affordable if utilization increases and there is no control over plan design. Ms. Fitzpatrick stated that the Town could negotiate plan design, or go to a higher deductible plan. Under health care reform laws, the minimum requirements are more confusing, but the Town has been able to keep rate increases lower than other communities. In response to a question from Mr. Zimbone, Ms. Fitzpatrick stated that enrollment has dropped because there was a significant drop in teachers' health plan enrollment. The Town side has had almost no change in 5 years.

Mr. Zimbone asked why there was a transfer of \$100,000 from unemployment to workers' compensation. Ms. Fitzpatrick stated that the unemployment claim history has decreased. Mr. Zimbone asked if unemployment benefits are extended, would it affect the Town. Ms. Ponesse stated that it would. She stated that the federal government took care of part of the previous extension, but the Town covered part. Ms. Fitzpatrick stated that the annual contribution to the workers' compensation was inadequate.

### **Retiree Insurance Program and Insurance Liability Fund**

Ms. Fitzpatrick stated that there was a retirement analysis as of 1/1/2012, and which is the same analysis used for the FY15 budget. She stated that the analysis of 1/1/14 will show that all of the losses of 2008 have been recovered. She stated that there is a new actuary and that they are looking at lowering the assumed rate of return, and other changes. Mr. Reilly stated that investment returns have been good. He cautioned that an extension of the timeline for fully funding retirement liabilities would cost the Town in the long run because there would be fewer dollars earning compounding interest over time. Ms. Fitzpatrick stated that they are using the same analysis as last year, but there have been some changes. The Board of Selectmen has voted to move retirees who are not on Medicare to rate saver plans. She stated that many Medicare plans now have lower premiums, so more of the Town's appropriation can be used toward the unfunded ratio. She noted that the FY14 Retirement Assessments line would have been lower if

the amount of the additional funds added in November were backed out. Ms. Poness stated that the Town recently invested the OPEB reserves with PRIT, Pension Reserves Investment Trust, where the pension reserves have been invested. The investments have been doing well, with 7.33% returns.

Mr. Creem asked for the rationale behind including all of the employee benefits under one line item. Mr. Davison stated that it seems appropriate to include all of the expenses for active employees in one line. Mr. Creem cautioned that the Moderator commented that he was unhappy with what he sees as declining transparency. Mr. Zimbone stated that the budget assumes 20 additional employees. He asked if there was a cost per employee. Ms. Fitzpatrick stated that they assumed there would be 10 employees in one plan, and 10 in another plan, for a total of \$187,650 for the 20 new subscribers.

#### Classification, Performance and Settlement

Ms. Fitzpatrick stated that the Classification, Performance and Settlements line was increased to account for the fact that the union contracts are not yet settled. She noted that this line is not a shared expense with the School Department, so there is no allocation in this line for an increase in School Department salaries.

Ms. Fitzpatrick stated that when she was developing the budget, she planned to allocate 65% of revenue to the School department. However, she found that this figure was only \$5,000 less than the School Committee's recommended School budget, so she found funds to fulfill the requested amount. She said that in her recommended allocation would give the Schools 68% of revenue. In the past the School budget was usually 65% of revenues, although last year the allocation was 67%.

#### Debt Service

Mr. Davison stated that the debt service line was down 5%, in part because payments for excluded debt will decrease by 6.7%. He stated that the decrease in debt service had great impact on the budget. It made the Townwide expense line appear lower, but also affected revenue, since excluded debt payments come from additional property taxes. He stated that in FY15, debt service is projected to be 10.1% of total revenue.

#### Casualty, Liability, Property and Self-Insurance Program

Mr. Davison stated that this line pays all of the automobile, general liability, law enforcement and other insurance carried by the Town. He stated that the Town purchased separate insurance for the rail trail. The Town uses the carrier MIIA which covers only Massachusetts municipalities, and has a lower risk pool.

#### Reserve Fund

Ms. Fitzpatrick stated that she reduced this line \$100K from the requested amount because the budget has been squeezed everywhere, and because the Fire Department overtime and the Town Counsel budgets which have traditionally drawn on the reserve fund have been increased. She stated that if funds become available, she would recommend replacing the \$100K.

## **Minuteman Regional School Assessment**

Ms. Fitzpatrick stated that the FY15 budget has increased \$184,747, based on a preliminary assessment. Much of the increase is due to an expected increased enrollment from 27 to 34 students. She stated it is possible that the assessment will decrease because some transportation costs for regional schools may be covered under the Governor's budget. Ms. Zappala stated that Minuteman is working to figure out how to bring its facilities up to date. She stated that the Town needs an alternative, and there has been more interest in the school recently. Some of those students are on an IEP, which increases the cost for those students. Ms. Fitzpatrick stated that she requested a warrant article for Minuteman to change the policy and allow communities to opt out. She stated that the article must pass with unanimous consent, but she thought that there was a way to make that work. Currently, nonmember communities pay less per student and do not pay for capital, so the member communities want to encourage others to join. Ms. Zappala stated that Minuteman believes more communities will join if there is a way to get out.

## **Revenue**

Mr. Zimbone stated p. 2-8 of the budget book shows high permit revenue in FY12 and FY13, then dropping in FY14 and staying lower in FY15. He asked why the permits were not projected to increase when the Building Commissioner said he is seeing a lot of construction in Town. Mr. Davison stated that there is much volatility in the bigger building projects, such as the hospital or TripAdvisor, which bring in substantial one-time fees. He stated that FY14 will be a banner year. He stated that there is another major building project coming. He stated that \$1.4 million is a number that he is comfortable with, in light of the volatility. Ms. Fitzpatrick stated that the next phase of the TripAdvisor project is expected to begin in FY16. Mr. Zimbone asked where the funds that developers pay for traffic studies and improvements would go. Mr. Davison stated that there is a traffic mitigation fund that has to be spent on traffic issues, as determined by the Planning Board. He stated that those funds are not in the Town revenue numbers.

Mr. Reilly asked why the Recreation Department income has been declining. Mr. Davison stated that there was a substantial drop-off because the Rosemary Pool was closed. The line would have been even lower without the new Recreation fees. Mr. Davison stated that the Town does not want the projection to be greater than 85% of the actuals, and he wants to be at 80% of the actuals. This is where Free Cash is generated. Above that, the rating agencies get nervous. Mr. Zimbone asked why there was a big jump in new growth in FY14, shown on budget book page 2-2. Mr. Davison stated that year was exceptional since there was a new hotel online. Also, the re-zoning for the TripAdvisor project made the properties in the area more valuable, which is considered new growth. There were additional units added at Wingate. Also, NStar and Verizon made significant capital investments which increased their property values.

Ms. Zappala stated that she understood the need to be conservative, but said that the motor vehicle excise tax projection looked low. Mr. Davison stated that he is estimating \$3.925 million in FY15. He stated that he does not want to be above 80-85% of the actual. He stated that the current FY14 collections are similar to last year, and he does not envision revising that number upward. He stated that the DOR noted in a newsletter that motor vehicle excise taxes are expected to tighten up as vehicles last longer. They used to expect vehicles to last 5-7 years, now they last 8-10 years. He stated that the excise tax is highest in the first year and decreases each year, and that the depreciation should be stretched out.

Mr. Zimbone referred to p. 2-11 and asked whether the estimate of \$1.4 million for licenses and permits is too conservative, since it is only 75% of FY13 actual. Mr. Davison stated that his projection is a defensible number, but if the Finance Committee were to write a letter asking him to change the revenue estimate, then he would change it. He stated that his revenue estimate for FY15 is less conservative than some years. He stated that if he changed one number it would affect other numbers. He does not want to call a Special Town Meeting because he underestimated revenue and needs to raise taxes. He stated that the Town cannot estimate revenues higher than the amount previously brought in. He could increase the revenue number by \$500,000, but he would need to think about the consequences in FY16. Mr. Zimbone stated that he is trying to understand the history and the reasoning behind the revenue decisions. Mr. Davison stated that he looks at the three year trends for activity and volume. He noted that the fees don't always increase. Mr. Zimbone asked for a breakdown of the permit fee information on p. 4-94 of the Town Manager's budget book for FY11, FY12, FY13, and through 10/31/13 of FY14 (\$1.096 million). Mr. Reilly asked for the breakout of the nonresidential buildings. Mr. Creem stated that the MMA annual meeting, Michael Widmer of the Mass. Taxpayers Foundation commented on the long term revenue picture and cautioned municipalities not to expect the 7-8% growth of the past. He stated that one factor was the increasing age of the population, which generates fewer jobs and less revenue. Mr. Creem stated that these comments buttressed Mr. Davison's prudent approach.

### **Collective Bargaining**

Mr. Lunetta stated that the Committee has an interest in understanding labor costs, and would like to be better informed as the process gets underway. Ms. Fitzpatrick stated that the process has not yet started.

### **Finance Committee Updates**

Mr. Lunetta stated that there is a chairs meeting on February 6. He would like the Committee's position figured out with respect to how to proceed with the budget and the School supplement. Mr. Zimbone stated that the supplement has been adjusted to \$1.86 million, but he wants to find a way to get it to zero. He showed a spreadsheet with his suggestions made to the Schools to reallocate and defer parts of the School Department budget. \$43K of curriculum materials could be pre-purchased with FY14 funds. He stated that he proposed deferring the elementary school assistant principals, the Pollard team chair, as well as the arts and digital programs at the high school for a decrease of \$316K. His proposal added enhancements in FY15 at the elementary level for the extended day including special staffing, transportation, world language, and instructional technical specialists, for a total of \$648K. He stated that this could be offset by reducing the out-of-district SPED contingency tuitions. Mr. Reilly stated that this proposal would leave the SPED tuition budget exposed, and if the Reserve Fund is going to be relied upon to protect against unexpected costs, then \$100K needs to be returned to the Reserve Fund budget.

Mr. Reilly stated that there is some vehemence from School Committee members that the Finance Committee has never taken a position on an override before and should not take a position on this override. Mr. Reilly stated that he feels the Finance Committee has an obligation to review the costs and keep them down, whether or not it may be appropriate for the Committee to take a position. Mr. Lunetta agreed, and said that he first saw the override and was concerned that it was \$2 million for only 25 minutes of school. Mr. Zimbone stated that the liaisons have dug down and are trying to drive the requested amount down, but are not trying to take a

negative position. He stated that the Finance Committee needs to be satisfied that the override amount is appropriate. He stated that he is trying to get the best for all sides. Ms. Zappala stated that she does not disagree, but she feels there should be buy-in from the Board of Selectmen and the School Committee. She stated that if the Finance Committee wants to start cutting from the Town to find \$900K, there will be an issue. The Committee should get as far as it can, but in the end \$1.1 million or \$1.2 million in the override is essentially the same. Mr. Lunetta stated that once the School Department is at the lowest number, then the Finance Committee should see if there is something to pay for it on the Town side. But the Schools need to find the most money. Ms. Zappala stated that there are not excesses in the Town budget. Mr. Zimbone stated that the question has been raised whether the Finance Committee has a legal right to dispute a school override. Mr. Davison stated that the Finance Committee has broad authority to question whatever it wants relating to the Town. Mr. Creem stated that the enabling statute is clear that the Finance Committee can opine on or question any issue before the Town. Mr. Creem stated that the Committee cannot use public resources to comment on or influence a vote, but the Committee can discuss the topic and state an opinion regarding an expenditure.

### **Adjourn**

MOVED: By Mr. Zimbone that the Finance Committee meeting be adjourned, there being no further business. Ms. Zappala seconded the motion. The motion was approved by a vote of 5-0, at approximately 10:07 p.m. (Ms. Miller had left the meeting.)

Documents: Town of Needham Departmental Spending Requests, FY2015, December 11, 2013; Town of Needham Capital Improvement Plan FY 2015 – FY 2019, dated January 7, 2014; School Budget Alternatives, FY2015 Supplemental Request Discussion.

Respectfully submitted,

Louise Mizgerd,  
Executive Secretary/Staff Analyst

*Approved March 5, 2014*