

**Needham Finance Committee
Minutes of Meeting of February 11, 2015**

The meeting of the Finance Committee was called to order by the Chair, John Connelly, at approximately 7:30 pm in the Great Plain Room at the Town Hall.

Present from the Finance Committee:

John Connelly, Chair; Louise Miller, Vice Chair

Members: Richard Creem (arrived 7:45 pm), James Flinton, Richard Lunetta, Richard Reilly, Lisa Zappala, Rick Zimbone

Others present:

Kate Fitzpatrick, Town Manager

David Davison, Assistant Town Manager/Finance Director

Dan Gutekanst, Superintendent of Schools

Michael Greis, Chair, School Committee

Citizen Requests

No citizens requested to address the Committee.

Approval of Minutes of Prior Meetings

Mr. Lunetta stated that he was present at the January 28 meeting so his name needed to be added to the list of members present in the minutes.

MOVED: By Ms. Miller that the minutes of the Finance Committee meeting of January 28, 2015⁴ be approved, with the correction by Mr. Lunetta. Ms. Zappala seconded the motion. The motion was approved by a vote of 7-0. (Mr. Creem had not yet arrived.)

Snow and Ice Removal – Overdraft Authorization

Mr. Davison stated that he estimates the Town will need to spend \$1,363,431 for snow and ice removal in FY15. He stated that the budget has \$400K, so the overdraft would be \$963,431. He stated that the estimate is intended to cover the rest of the fiscal year. He stated that he is estimating that there will be less need for snow and ice spending than there has been recently, but he will come back if he needs additional spending authorization. Mr. Zimbone asked what would happen if there are not sufficient funds in the Reserve Fund at the end of the year to cover snow and ice removal as well as shortages in other budgets. Mr. Davison stated that if there are not sufficient funds in FY15, then the deficit must be the first thing paid from FY16 revenues or resources. He stated that state law allows deficit spending for snow and ice removal without penalty. He added that the FY16 budget plan includes \$500K for a deficit in other funds which could cover this. Ms. Zappala asked if that was already factored into FY16 revenue. Mr. Davison stated that it was. Ms. Miller asked what would happen if there is a big Sewer Fund deficit like last year. Mr. Davison stated that he is comfortable that \$500K would be sufficient. He stated if it is not, the Town will have to look at the revenues and expenses and balance the

budget before November, when the state requires the budget to be balanced. Ms. Zappala stated if there is a deficit in FY16, the Reserve Fund could be reduced to avoid having to decrease any department's budget. Mr. Zimbone asked if the FY16 Reserve Fund should be increased just in case. Ms. Miller suggested appropriating \$200K less, and setting that aside to pay for any snow and ice deficit. Mr. Davison stated that he has been concerned all year that the Reserve Fund might not be able to cover the additional Special Education needs and significant expenses for snow and ice. Mr. Zimbone asked if the Town could get emergency aid for storm expenses. Mr. Davison stated that the Town filed with the Massachusetts Emergency Management Agency, but that any funding may depend on federal funding. He stated that we should know by the end of February if the state qualifies for federal aid. Aid could restore the funds to the Town and make it whole, but payment can take as long as 2 years. Ms. Miller asked for the spreadsheet showing snow and ice spending so far.

MOVED: By Mr. Zimbone that the Finance Committee approve of the authorization for an overdraft expenditure for snow and ice in the amount of \$963,431. Mr. Reilly seconded the motion. There was no further discussion. The motion was approved by a vote of 7-0. (Mr. Creem had not yet arrived.)

FY2016 Budget Requests – Follow-Up

School Department

Mr. Zimbone stated that the School Department sent a memo to the liaisons identifying the operating capital items, and explaining the Special Education (SPED) tuition costs. Mr. Gutekanst stated that his department is currently working to reduce costs and find savings, but now have a deficit for FY15 of \$750K due to SPED tuitions. He stated that Ms. Gulati will have a 3rd quarter report to the School Committee in March. He stated that the Town has lost some METCO grant funding, which pays for transportation and people. The last governor cut the budget, and if that cut goes through, the Town will lose \$40K-\$45K. He has a meeting at the State House to discuss this issue.

Mr. Gutekanst updated the Committee on the High School expansion design. Program and enrollment needs are being assessed. He stated that the Schools received a draft of the Future School Needs report that is not consistent with the numbers from the report last year. The School Committee is studying full-day kindergarten and high school enrollment using KASE funds. This will help clarify expected enrollment, and help with designing the kindergarten program and the high school space. The Future School Needs draft shows decreasing numbers at all levels, and the loss of an entire school 10 years out. Ms. Gulati stated that the School Committee study will involve a detailed demographic study rather than using a district wide approach.

Mr. Connelly asked what would be deliverable by Town Meeting. Mr. Gutekanst stated that the PPBC will be asking for design funds, but will still be determining the project. Ms. Gulati stated that they expect to have the consultant's report by the School Committee March 11 meeting. Mr. Connelly stated that time is short.

Mr. Gutekanst stated that the 1:1 iPad program will continue at High Rock next year, potentially following the School Committee's plan with 85% of students bringing their own device, and 15% borrowing. The School Department is looking into whether to lease or purchase all devices at the middle school level, and separately is discussing what to do at the high school. They expect to present an updated recommendation to the School Committee to vote on March 3 whether to continue same financing or whether to purchase or lease all devices to provide to students. Ms. Zappala stated that the operating capital recommended by the Town Manager included \$202K for iPads. She stated that if they use the same financing as last year, they will not need \$202K to purchase iPads for 15% of the students. She stated that they are now looking into whether to lease devices for all of the students, and asked if that meant using the entire \$202K. Mr. Gutekanst stated that it would. Ms. Gulati stated that they also budgeted \$18K for applications, so the total for the iPads would be \$220K. She stated that the cost of leasing is close to the cost to purchase them for everyone. She stated that if one can afford to purchase the devices outright, it might not make sense to lease. Ms. Miller asked that the School Committee consult with the Finance Committee before deciding to lease or purchase since leasing would affect the operating budget. She stated that a purchase would be a one-time purchase, even if it is operating capital. Mr. Connelly asked how much funding they need if they plan to continue the current plan. Ms. Gulati stated that \$150K of the request is a placeholder, and that they need \$52K.

Mr. Zimbone stated that the School Department originally projected SPED tuitions to be \$4.36 million in FY16, and that number was revised to \$5.1 million. He asked if that was the reason for the expected \$750K deficit. Ms. Gulati stated that in addition to tuitions, the SPED contractual services will increase about \$100K, and the summer school will cost \$60K more. If those costs are added, and salary savings and other savings are factored in, \$750K is left. Mr. Zimbone stated that there is \$428K of pending placements, and that some will be expended, and some will not. He stated that if some pending placements do not happen, the \$750K deficit will be smaller. Ms. Gulati stated that if one looks at SPED tuition spending overall, the total has been fairly consistent at \$4.8 - \$5 million for the past several years. She stated that the FY15 budget was reduced last year based on what was known at the time. She stated that if those reductions had not been made, the School Department would not be having the same problem. She stated that there is \$4,815,367 in the School Committee budget for SPED tuitions. Ms. Zappala asked if they were planning to reduce any of the pending placements. Mr. Gutekanst stated that they have removed some of the most expensive tuitions based on legal advice because the DESE said that these placements belong to other communities. Mr. Reilly asked how probable it is that the pending placements will actually be placed. Ms. Gulati stated it would be best to look at the overall bottom line because that is the only place where there is consistency.

Mr. Lunetta asked if the hiring of SPED coordinators has helped manage some of the volatility. Mr. Gutekanst stated they are building relationships and have had some success stories keeping children in or bringing children back into the district. She stated that they have also created a pre-K through 12th grade autism program which is highly successful. He stated that about 10% of SPED students are in out of district placements, and the coordinators work with about 90%. Mr. Lunetta asked if in-house spending were increased, if it would reduce out of district costs. Mr. Gutekanst stated that he can't recommend funding everything that would be needed to do that. He stated that they would need to build additional programs. He stated that out of district

placements should be a last resort for settings that the district can't or don't provide. He stated that there is not sufficient space to provide all the programs they might need.

Mr. Zimbone asked about the Walker Group Home's plans. Mr. Gutekanst stated that the Head told him that the school has a long-term plan to build more houses because they can do more with more funding. Mr. Gutekanst stated that there are currently 8-9 students living at Walker and enrolled in the Needham Public Schools who require services.

Ms. Miller asked if additional funds were available for the School Department, whether the School Committee has designated the funding priorities. Mr. Greis stated that they have asked the Superintendent to make a list by late February. Mr. Gutekanst stated that he had presented a list of the last items cut from the budget to the School Committee on January 29, but he has been asked to give additional consideration, and not to just refer to the same list.

Department of Public Works

Mr. Reilly stated that after discussions with the DPW and the Finance Director, he recommends a decrease of 18% to FY16 gasoline and diesel fuel expenses. He distributed spreadsheet showing the potential decreases to the Police, Fire, DPW and Public Facilities budgets, and stated that the total reduction is \$60,591.

Mr. Reilly first addressed the Enterprise Fund budgets. He stated that he feels that the Wheelabrator contract in the RTS budget is overstated, and that there is a potential for \$120K in savings due to a new contract. He stated that the Town Manager proposed a \$100K decrease in the tipping fee. He stated that it is probably fine to leave the revised number. He stated that if there is more waste brought to the RTS, then there should be additional bags sold to offset the additional costs. Mr. Davison noted that the revenue cannot be spent unless appropriated by Town Meeting.

Mr. Reilly stated that the RTS budget has projected increased volume of waste, but the current tracking shows the volume staying level. He stated that there is likely an additional \$20K there, but that this is not part of the general fund budget. Additional funds will go into RTS retained earnings.

Mr. Reilly stated that there are new MWRA assessments for the Enterprise Funds, and that revised budgets have been circulated. He stated that the Sewer assessment is consistent with the original number, but there is a savings of approximately \$180K in the Water Fund. He stated that he felt that the DSR4 requests funded by the Town Manager seemed reasonable. ~~He stated that the Environmental Compliance costs \$10K and is required.~~ He stated that ~~the Sewer Flow Meter costs \$25K~~ Water Meter Testing Program will add upgrade commercial water meters and will cost \$10K, but is expected to bring in significantly more than the cost. Ms. Miller stated that the Sewer Fund still needs funding from the General Fund, and that hopefully the lower MWRA assessment will lower the balance enough to avoid a rate increase. Mr. Davison stated that retained earnings are being used toward the Sewer operating budget to cover the shortfall in FY15-FY16. With the rate adjustment, the fund should be back on track by FY17. Ms. Zappala

asked if retained earnings were usually reserved for capital or construction. Mr. Davison stated that this is a stop-gap measure, and that in FY17 there should be no gap.

Mr. Reilly stated that the expenses for the DPW are increasing \$90K in the Town Manager's budget. He stated that \$60K of the increase represents additional fuel costs that can be reduced. He stated that \$30K of the increase is roughly the increased costs of field maintenance. He stated that he is still not entirely comfortable with the articulation of the plan for the roads. He stated that he is not quite ready to sign off until he is comfortable with the expenses for asphalt, etc. He stated that there are also several DPW contracts that have not yet been determined. Ms. Miller stated that the liaisons have focused on where the large sums of money are going and want to know what was spent last year and where, and what the plan is for next year.

Annual Financial Report FY14 – General Fund Revenues and Expenses/Variance from Budget

Mr. Reilly asked Mr. Davison to walk through page 24 of the Needham Annual Financial Report for fiscal year 2014. Mr. Davison stated that it is the financial statement in the report. He stated that the numbers are consistent with past years, showing revenues at 2.5% over estimates. He stated that the turn-back was 2%, where 2-3% is usually expected. He stated that an important fact for rating agencies is the amount of nonrecurring revenue that is used for operations. He stated that \$8.1 million of revenue came from free cash, and \$8.5 million total was appropriated for capital, stabilization funds and RTS and Sewer contributions. Mr. Reilly asked if the bottom line is consistent, since there is 2.5% in turn-back in general. Mr. Davison stated that it is consistent with an AAA-rated community.

FY2016 Revenue

Ms. Miller stated that the overlay surplus used an additional \$500K this year. She stated that there is also an additional \$500K kept in reserve for other needs. Mr. Davison stated that there is greater uncertainty in the overlay surplus, which can have great swings. There is consistently a surplus of \$500K, but the surplus can be a couple of million dollars. Ms. Zappala asked if he was comfortable with the big picture in light of what the governor has said. Mr. Davison stated that the governor has stated so many times that he will not cut local aid, that he is confident that will be the case. Mr. Davison stated that the Library, Public Safety, and Health and Human Services Departments all have grants that could be cut. Mr. Reilly asked if revenue levels return to a more typical level if the Town will need to make changes. Mr. Davison stated that the budget takes that possibility into account. There are items that can be pulled back with affecting services.

FY2016 Finance Committee Draft Budget

DSR4 Requests: Mr. Zimbone asked about the decision making process for the DSR4s. Ms. Fitzpatrick stated that the Management Fellow position will receive one year of partial funding, \$15K, from Personnel while they decide what is ultimately needed. She stated that the Community Housing Specialist is being moved from CPA funding into the operating budget. From the start, the plan was to fund the position with CPA funds for 2 years then move it to the operating budget. There is some revenue with the position when housing units turn over and for

monitoring 40B units. There is a possibility of additional revenue if Planning expands the inventory of 40B units. Ms. Zappala asked why not continue funding through the CPA. Ms. Fitzpatrick stated that moving it to the operating budget has been the plan. As long as the position is doing 40B work, then it could be funded with community housing money.

Ms. Fitzpatrick stated that the Conservation Specialist position is needed, as people are continuing to expand houses, and need advice from Community Development. She stated that the Community Specialist works 25 hours per week. She does not expect the wetlands funding to continue. Ms. Fitzpatrick stated that the Police Detail Contingency is needed because there are still uncollectable bills although collections have improved significantly. She stated that since the officers are already paid, there is a need to have the funds immediately available. She stated that there is \$600K worth of police detail work per year. Mr. Zimbone asked what other towns do about this. Mr. Davison stated that it is an ongoing problem in other towns.

Ms. Fitzpatrick stated that a full-time Custodian is needed to work at Emery Grover and at the Senior Center. She stated that she has reallocated overtime to cover part of the cost, since this work is now being done on an overtime basis. She stated that the solar consultant request will be funded using savings from solar credits. If the solar program does not get started, then there will be no credits, and no need for the consultant. Mr. Davison stated that since the solar farm is not up and running, he cannot assume any revenue stream from the solar project in the FY16 budget. He stated that his understanding is the NStar will give credit on energy bills for credit generated by the Town, keeping the energy bill lower. If so, he will recalibrate electrical costs for FY2017. He stated that if they issue a check, then the departments will still need to pay the full energy bills, and the revenue would need to be appropriated later. Mr. Reilly agreed that it does not therefore make sense to reflect solar savings in the FY16 budget. Ms. Miller stated that the Committee should monitor this. Mr. Davison stated that any electricity credits will need to be applied to different budgets, with the primary targets being the water treatment plant, Newman, the High School and Pollard. Ms. Zappala asked if there is a schedule for the solar project. Ms. Fitzpatrick stated that the plan is to start construction in March. However, she stated that it depends on snow melt, and the RTS is the Town snow dump.

Ms. Fitzpatrick stated that an Administrative Assistant is needed at the Senior Center. She stated that the Center had to open to understand what is needed. She will need to see the impact of the Administrative Assistant to determine whether the part-time social worker is needed. She stated that one of the goals of the Board of Selectmen is to expand the hours of the Senior Center and expand the programming, and this will help. Ms. Fitzpatrick stated that the new Health Director has requested funding for the Traveling Meals program. He thinks that he will be able to back fill vacation hours or reimburse for miles. The money is part salary and part expenses. Ms. Miller asked why they are now deciding to pay volunteers for miles. Ms. Fitzpatrick stated that it is just for out-of-pocket costs, and possibly for gift cards to thank volunteers at the end. She stated that the volunteers are aging out and they need to fill vacancies. Mr. Reilly asked about the national accreditation for the Health Department. He stated that it seems important at some point. He stated that they talked about phasing it in, and asked what is happening. Ms. Fitzpatrick stated that the Health Director would like another year to determine how to proceed.

Mr. Connelly asked for clarification whether the part-time youth program coordinator position that is not recommended for funding was the position which the Committee received letters about. Ms. Fitzpatrick stated that the Town is keeping the Youth Substance Abuse program

robust. The position not being funded is an administrative position, and is different from the clinical position that the letters addressed. She stated that she expects more formal coordination in the Health and Human Services Department after the recent merger.

Ms. Fitzpatrick stated that the Library's requests for moving positions into the operating budget have been ongoing. She stated that she wants to transition them. She stated that state aid is dropping, and should be used for one-time expenses.

Health Insurance: Mr. Reilly asked about health insurance premiums. Mr. Davison stated that the budget assumes health insurance premiums increasing at 6.2%, but the Town has been recently given a preliminary estimate that the increase will be 12.5%. He stated that it can be addressed at the November Town Meeting, when there will be more clear information about new enrollments. He stated that the number of teachers enrolling is very volatile.

Mr. Reilly asked if the Reserve Fund should be increased for FY16. Ms. Zappala stated that the only reason would be to cover additional Snow and Ice costs, and to provide more flexibility. She questioned what will happen if this year the Reserve Fund is depleted, and the Snow and Ice carries over and depletes the \$500K set aside. She stated that a cushion in the FY16 Reserve Fund might balance the potential revenue loss from paying off any Snow and Ice deficit that was carried into FY16. Mr. Davison stated that they will know the situation with the Reserve Fund in June. He does not think it will be unsolvable, and feels that extraordinary steps are not needed. He added that there may be some federal money available for some of the storms. Ms. Zappala stated that there is almost always additional revenue available in the fall, and she would not recommend adding to the Reserve Fund now. Mr. Reilly stated that the health insurance number could be left until the fall. He stated that if the FY16 health insurance number is not changed, then the Committee would be recommending a budget knowing that the number is understated. If the plan is to address it now, he suggested taking funds from the Reserve Fund. Mr. Zimbone stated that the Committee would need to wait to have better information about health insurance enrollment. Mr. Davison stated that the budget has a built-in allowance of 20 plans, and has an allowance for the additional School Department headcount.

Ms. Zappala stated that if there is a fuel cost adjustment, \$60K is freed up and could be added to the Reserve Fund. Mr. Reilly stated that the health insurance line should be increased a couple hundred thousand, and the question is where it should come from. Mr. Zimbone asked about the Minuteman assessment. Mr. Davison stated that the number will not be finalized until after the governor releases his budget. He stated that some grants not on the cherry sheet might be decreased. Minuteman relies on state funds.

School Department Operating Capital: Ms. Miller stated that the Schools don't have separate line items that are approved in the budget. She stated that it is a bad idea to fund something unknown, and to do it with one-time money. She stated that the operating capital items should stay in the capital plan until they have a plan how to fund them on a continuing basis. She stated that they do not have a plan for the \$202K technology request. Mr. Zimbone stated that the School Committee will be meeting to discuss the plan in early March, and it would be preemptive to pull that out now. Mr. Connelly stated that they have known since 2014 that they needed to make a plan. He stated that he is reluctant to put money there until there is something definite. Mr. Zimbone stated that the Finance Committee will have the last word, and to act now could be counterproductive. Ms. Miller stated that if it the funding for the iPads is in the Finance

Committee's draft budget now and then taken away, the effect will be worse. It would be better to not include the funding, and tell the School Committee that more information is needed before the Finance Committee can include it in the budget. Mr. Lunetta stated that he would prefer not to include it and have the School Committee respond. Ms. Zappala agreed that to leave the funding in the draft budget and pull it out later would be more divisive. She stated that the total in the budget is \$202K, and \$52K is needed to continue last year's program. She noted that parents have voted to continue the same program. Ms. Miller stated that the Finance Committee can explain what it is doing in the letter to Town Meeting.

Department budgets: Mr. Connelly asked for suggested budget changes line by line. Mr. Reilly stated that the Police Department fuel budget should be reduced by 18% as discussed earlier. Ms. Miller stated that the funding could be left in the budget to be used for the DSR4. Mr. Reilly stated that the Fire Department fuel budget should also be decreased.

Mr. Zimbone stated that the School Department FY16 budget includes FY15 positions that were not previously in the budget request. Ms. Fitzpatrick stated that the School Department FY16 budget has 15 more positions than the FY15 budget. 7 positions are new for FY16, and an additional 8 positions were hired in FY15 though they were not in the budget for FY15, and have been rolled into the FY16 budget.

Mr. Reilly stated that he would like to discuss the DPW budget again later because there are some additional issues that need to be mailed down, such as new contracts.

Mr. Creem stated that he is concerned about adding staff to the Health and Human Services (HHS) budget. He stated that there is a non-election year coming up. The best case is that local aid is level funded. He stated that there is the problem of Snow and Ice, as well as a health insurance crisis. He feels it is necessary to be prudent about additions to staff. He stated that it is very difficult to add staff in the private sector even with a revenue stream, and this should apply in the public sector. Mr. Creem stated that he does not support adding an Administrative Assistant at this time. He stated that there may be a case to be made, but this is not the year. Further, he recalled that he had asked the Director of the Council on Aging what she foresaw as FTE needs moving into the new Senior Center and was told that only custodial help would be needed. One argument made against moving the Center to the Emery Grover Building was the fact that the 3-floor building would need more staff than a 2-floor building at the Heights. In light of those recommendations, he cannot support expanding the staff. He stated that this would be a benefit eligible position, and the health insurance situation is alarming. Mr. Lunetta stated that he is the liaison to HHS, and that the Board of Selectmen has decided to increase the delivery of services and expansion of the use of the building which has led to this request. He stated that the new position is needed to do this, and that he supports the Town Manager's recommendation to fund this position. Ms. Miller stated that there is already a full-time administrative position that is shared by Youth Services and Council on Aging. She stated that there may be a way to provide some part-time assistance, but did not support a full-time assistant.

Mr. Connelly asked where Committee members would put additional funding. Mr. Creem stated that it should go to Townwide expenses. Mr. Zimbone stated that he would like to get more information from the Finance Director about the situation with health insurance. Mr. Reilly

stated that he would be meeting with Mr. Davison. Mr. Zimbone stated that with that much money at issue, the School budget should be in play.

Finance Committee Updates

The Committee agreed to meet the following week to vote on the FY16 draft budget.

Adjourn

MOVED: By Mr. Zimbone that the Finance Committee meeting be adjourned, there being no further business. Mr. Reilly seconded the motion. The motion was approved by a vote of 8-0 at approximately 10:18 p.m.

Documents: Memorandum from Director of Finance to Town Manager re: Snow and Ice Overdraft Expenditure Approval dated Friday February 6, 2015; Memorandum from Ann Gulati, Director of Financial Operations, Needham Public Schools, to School Budget Liaisons, February 2, 2015; Spreadsheet: Adjusted Fuel Prices, 18% Reduction; Town of Needham Capital Improvement Plan FY2016 – FY2020; FY2016 Proposed Annual Budget, Office of the Town Manager, dated January 27, 2015; Town of Needham RTS, Water and Sewer Enterprise Fund FY2016 budgets Updated February 11, 2015.

Respectfully submitted,

Louise Mizgerd
Executive Secretary/Staff Analyst