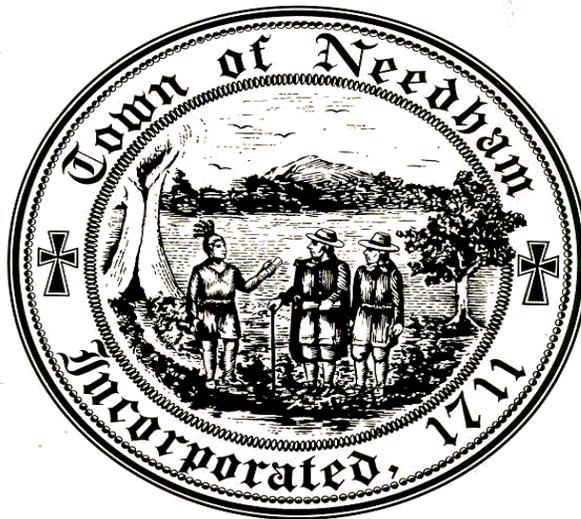


TOWN OF NEEDHAM
Proposed Annual Budget
Fiscal Year 2008



January 31, 2007

Kate Fitzpatrick
Town Manager

Reader's Guide to the Fiscal Year 2008 Budget

This budget document is intended to be accessible to readers with significant, little, or no experience with municipal finance. Presented in seven distinct sections, this budget document will provide both general and specific data, from philosophical discourse on the nature of the fiscal partnership between branches of government, to line-by-line department spending requests for items such as office supplies and gasoline. The sections include:

- The **Town Manager's Budget Message** (pp. 1 - 12) contains the overall philosophy upon which the budget was developed, and provides an explanation of the budget process, and any significant changes to the budget as compared to previous years.
- The budget itself is contained in the **Budget Highlights and Summaries** Section 2. This segment provides analysis and overview of historical and proposed revenue and expenditure categories, as well as the balanced budget proposal.
- Sections 3 and 4 contain the **Department Descriptions for the General Fund, Enterprise Fund, and Community Preservation Fund**. These are detailed descriptions, identifying the general purpose of each department and the operational considerations that impact each budget.
- Section 5 contains actual **Departmental Spending Requests** (forms DSR2, DSR3, and DSR4) for General Fund and Enterprise Fund departments and the Community Preservation Fund.
- Section 6 contains the **Executive Summary of the FY08 – 12 Capital Improvement Plan**, published as a separate document on January 2, 2007.
- A **Glossary of Terms** that may prove useful in reviewing this budget is included in Section 7.

~ Community Profile ~

The Town of Needham is located on rocky uplands within a loop of the Charles River in Eastern Massachusetts. The Town is bordered by Wellesley on the west and northwest, Newton on the north and northeast, the West Roxbury section of Boston on the east, Dedham on the southeast and south, and Westwood and Dover on the south. Needham is ten miles southwest of Boston, twenty-nine miles east of Worcester, and about 208 miles from New York City. The Town has a total area of 12.70 square miles and a total land area of 12.61 square miles.

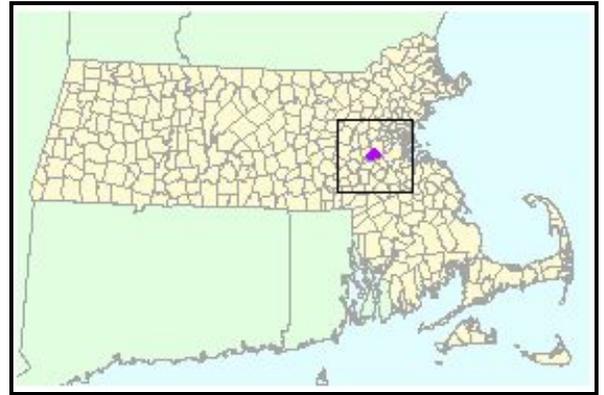


Figure 1: Needham, Massachusetts

Needham is situated in the greater Boston area, which has excellent rail, air, and highway facilities. Principal highways are State Routes 135 and 128 (the inner belt around Boston) and Interstate Route 95, which shares the same roadway as State Route 128. Commuter rail service is available via four stations to Back Bay Station and South Station in Boston. Needham is a member of the Massachusetts Bay Transportation Authority (MBTA), which provides fixed bus route service between Needham Junction and Watertown Square.

Needham was incorporated in 1711 and has experienced numerous changes over its history. Early settlers relied primarily on agriculture and grazing plus some winter lumbering with orchards and tanneries as supplements in the 1700s. Saw and gristmills were opened along the Charles through the 18th century. Extension of the rail and land speculation encouraged settlement, and the town experienced growth in industrial employment and production during the mid-19th century. Needham manufacturers made knit goods, underwear, hats, shoes and silk, although attempts to cultivate silk worms were short-lived.

Land speculation, housing development and knitted underwear continued to be the foundation of Needham's economy into the 20th century, with the famous William Carter Corporation prominent in the children's knitwear industry. The construction of Route 128 in 1931 opened portions of the Town to development as part of the high-tech highway in the post-World War II electronic industrial boom. The creation of one of the nation's first industrial parks in 1950, the later addition of high technology firms, the improvement of access to Route 128 and Boston, and Needham's fine schools and public services have contributed to the Town's emergence as one of the more desirable suburbs of Boston.

While Needham has developed over the years, population figures have remained relatively stable since the 1970s, ranging from 29,748 in 1970 to 27,901 in 1980 to 27,557 in 1990 to 28,911 in 2000 (source: U.S. Census). The Town's total assessed valuation for fiscal year 2007 totals \$7,120,813,393, of which 88% is residential and 12% is commercial/industrial/personal property. The average assessed value for a single-family home is \$682,019, resulting in an average residential property tax bill of \$6,376.

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Budget Message Toward Sustainability

How can the Town meet the needs of today's residents for improved facilities, expanded classroom space, and decent roads without deferring today's costs to future generations? How can we continue to meet citizen expectations for programs and services within the limited revenue available after accounting for fixed costs?

Attend a conference, read a professional journal, or speak to a colleague in almost any field, and sooner rather than later you will be discussing sustainability – the “issue of our age.” Sustainability is generally viewed as having environmental, social and economic applications, and has two key features: meeting the needs of the present without compromising the ability of future generations to meet their own needs, and improving quality of life while living within the carrying capacity of the supporting environment.¹ While most often viewed in the context of environmentalism, the concept of sustainability will play an increasingly important role in state and local planning and budgeting in the coming decade.

Over the past five years, the Town has worked aggressively to balance its operating budget without recourse to operating overrides whenever possible. We have succeeded in this effort in large part by reducing discretionary programs. The budget was balanced in FY03 by eliminating the entire capital improvement plan (thereby allocating a significant amount of non-recurring revenue for on-going operations, which is unsustainable). In FY04, while the voters approved approximately \$2,450,000 in increased funding for education, public safety, and roads, other municipal department budgets were cut by just under \$500,000, or 3.5% (including more than ten full-time equivalent employees). In FY05, Town Meeting was presented with only a modest capital budget, and department budgets were again reduced to meet a budget gap of more than \$2 million. Based in part on the conversion of our health insurance program to the West Suburban Health Group, we were able to work together to achieve a balanced budget without a Proposition 2 ½ property tax increase in fiscal year 2006. In FY07, voters approved a modest operating override for municipal operations in the amount of \$597,370, although a companion override for the Public Schools, in the amount of \$1,476,017, did not pass, requiring difficult choices on the part of the School Superintendent and School Committee.

Since the advent of Proposition 2 ½, communities like Needham have experienced pendulum swings in budgetary cycles. In good years, revenue is sufficient to build up reserves and add services. In lean years, reserves are drawn down as the community awaits the next up-turn. Unfortunately, there is no hint that an up-turn significant enough to meet the growing demand for services is anywhere on the horizon.

Needham has historically and continues to exhibit best practices for sustainable government. Needham was one of the first local retirement systems to begin addressing the unfunded pension liability in the late 1980's. Similarly, Needham is one of only a handful of cities and towns that has established a funding mechanism for post-employment

¹ Michael Willis, “Sustainability: The Issue of Our Age,” PM Magazine, August, 2006

benefits. Since 2002, the Town has appropriated more than \$2 million toward a current unfunded liability of over \$45 million. Importantly, FY08 marks the first year that we are recommending an appropriation in accordance with the actuarial funding table. For the first time, and similar to the pension system, retiree health insurance would be paid directly from the insurance liability fund under this proposal. Disclosure of unfunded post-employment benefit liabilities is now required by the Government Accounting Standards Board (GASB) under Standard 45, and Needham's efforts in this regard have been identified by Standard and Poor's in the maintenance of the Town's AAA bond rating.

The Town has worked aggressively to secure the maximum amount of State reimbursement for public library and public school construction projects. The Town received a grant of over \$3 million toward the Public Library which opened in FY06. Within the last year, the Town has secured full reimbursement of the State's share of the Newman School project, full reimbursement of the State's share of the Eliot School project, begun receiving payments for the State's share of the Broadmeadow and High School HVAC projects, and begun receiving direct payments for the State's share of the on-going High School construction project.

Finally, the Town has been generally successful in reducing its reliance on appropriating non-recurring funds for operating expenses. Moreover, the Town has established and continues to modestly fund a Capital Equipment Fund, and has refrained from appropriating any portion of the Stabilization Fund toward operating expenses even during the recent fiscal crisis.

Budget in Brief

The FY08 operating budget recommendation totals \$96,867,694, or \$10,688,778 less than the FY07 budget. However, after accounting for the revenue and expense relating to an extraordinary debt service payment by the Commonwealth, spending levels proposed for FY08 are 3.04% percent higher than in FY07. After five very difficult years, the budget picture has moderated slightly in FY08. In FY07, the projected increase in fixed costs (including Town Wide Expenses and Public Facilities) represented over \$2.8 million, or 62% of new revenue. In FY08, that figure is \$882,708, absorbing "only" 32% of new revenue. Moreover, after years of decline or stagnation, the Town received an increase in local aid in FY07. As a result, some funding is available to allocate to the schools and general government departments.

Included in this document, along with the balanced budget, is a performance improvement budget. This budget consists of those items that we recommend that the Board of Selectmen and Finance Committee consider for funding if an operating override is proposed, or if revenue is otherwise made available.

Budgeting Best Practices

In developing the FY08 budget, we have employed the following best practices in order to produce a budget that preserves the Town's fiscal sustainability:

1. Current revenues must be sufficient to support current expenditures.
2. Debt must not be used to fund on-going operating expenses.

3. The use of Free Cash to fund operations should be minimized.
4. Adequate contingency funds should be maintained.
5. Sufficient maintenance and replacement funds should be allocated to ensure that capital facilities and equipment are properly maintained.

Core Budget Priorities

In consultation with the Board of Selectmen, we have adopted the following core budget priorities for non-school operations. These priorities served as a key guideline in our evaluation of departmental spending requests.

Tier A

- Invest in maintenance and/or renovation of capital assets including buildings, fields, and recreation facilities.
- Ensure continued investment in the Town's infrastructure.
- Provide resources to adequately address general administration of the Town, particularly in the areas of records management, performance measurement, customer satisfaction, personnel administration, risk management, and budgetary control.
- Support the acquisition and maintenance of rolling stock and equipment to maintain efficient operations in the Police, Fire, Public Works and Public Facilities Departments.

Tier B

- Maintain the current, modest level of spending on community services (Recreation, Health, Library, Youth, Veterans, Seniors, Disability Committee, Historic Commission, Memorial Park) representing 2.7% of the FY07 operating budget.
- Support new or expanded initiatives that directly improve the Town's ability to address and respond to emergency situations and hazards. (*Note: maintenance of the current funding level for public safety functions is assumed and is a top priority.*)
- Support initiatives that will improve the economic vitality of the Town's business centers.

Tier C

- Achieve an adequate investment in services provided at the newly renovated Public Library.
- Support initiatives aimed at achieving greater coordination and efficiency in land use and community development department operations.

Budget Process

The Town Manager, the Finance Committee, the Board of Selectmen, and the School Committee all play different and important roles in the budget process. The General By-laws of the Town of Needham provides for the following:

Section 2.2.1 Operating Budget

The Town Manager shall issue budget guidelines and instructions for all Town departments to submit their spending requests for the ensuing fiscal year. The Town Manager shall consult with the Finance Committee prior to the issuance of said guidelines and instructions. The Town Manager and/or his/her designee and the Finance Committee shall consult with each other throughout the budget process. The Town Manager and the School Superintendent will provide the Finance Committee with copies of their respective departmental spending requests on or before the 2nd Wednesday of December. Following receipt of these spending requests, the Finance Committee may begin its consideration of same, including the commencement of budget hearings. The Town Manager, after consultation with the Board of Selectmen and School Committee, shall not later than the 31st day of January, present to the Finance Committee a balanced budget recommendation in the form of an executive budget, which shall include the spending priorities of all Town departments for the ensuing fiscal year, including in addition thereto, the voted School Committee budget requests if different than that contained in the proposed balanced budget. The Town Manager's executive budget recommendation shall not be binding on the Finance Committee. Said executive budget recommendation shall include the estimates of Town revenues and proposed expenditures of all Town departments, including debt service and other amounts required to be raised for the ensuing fiscal year. The Town Manager may amend or otherwise revise revenue estimates as may be warranted. All such revisions shall be provided in writing to the Board of Selectmen, School Committee and Finance Committee.

Table 1.1

KEY DATES FOR THE FY 2008 BUDGET PROCESS

Day	Date			Activity
THU	August	17	2006	Town Manager issues capital request guidelines to department managers.
WED	September	6	2006	Town Manager budget consultation with the Finance Committee.
TUE	September	12	2006	Town Manager budget consultation with Board of Selectmen.
THU	September	21	2006	Department capital requests are due. Town Manager issues budget guidelines to department managers.
FRI	September	29	2006	Department spending requests to other departments are due, e.g., building maintenance needs, technology needs, etc.
THU	October	19	2006	Department spending requests are due.

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TUE	December	05	2006	Town Manager consultation with Board of Selectmen and School Committee
WED	December	13	2006	Department spending requests are due to Finance Committee from the Town Manager and School Superintendent
TUE	January	02	2007	FY 2008 – FY 2012 Capital Improvement Plan is Distributed
TUE	January	23	2007	Board of Selectmen opens the May 7, 2007 Annual Town Meeting Warrant
TUE	January	30	2007	Town Manager’s Budget Presentation
WED	January	31	2007	Town Manager’s Budget is due to the Finance Committee
MON	February	05	2007	Warrant articles for 2007 Annual Town Meeting are due to Board of Selectmen.
THU	February	22	2007	Finance Committee’s FY 2008 draft budget is due to the Town Manager
TUE	February	27	2007	Board of Selectmen closes the May 7, 2007 Annual Town Meeting Warrant. <i>(Last regularly scheduled meeting to vote ballot questions for Annual Town Election)</i>
THU	March	15	2007	Finance Committee’s recommendations are due for inclusion in the Annual Town Meeting Warrant.
TUE	April	10	2007	Town Election
MON	May	07	2007	Annual Town Meeting Begins
SUN	July	01	2007	Start of Fiscal Year 2008

Budget guidelines were distributed to departments, boards, and committees on September 21, 2006, with spending requests due on October 19, 2006. The senior management team held numerous budget review meetings during the month of November. Finance Committee and Community Preservation Committee liaisons were invited to attend these meetings in order to prepare for their own deliberations. Discussions with the Board of Selectmen, Finance Committee and School Committee continued during the fall, and the School Committee held a public hearing on the budget for the Needham Public Schools on January 16th. In accordance with the By-law, the voted budget of the School Committee is included for consideration and is listed under the “Performance Budget” category. Departments were asked to use the following guidelines in preparing their spending requests:

Level Service Budget The initial budget requests reflect the amounts necessary to provide the same level of service in FY08 as in FY07. Spending requests include increases for contractual or mandated items, items subject to significant inflationary pressure, and/or any other item deemed appropriate after consultation with the Town Manager. One-time

items funded in FY07 have not been carried forward into FY08 unless they meet the level service test.

Performance Improvement Budget Departments wishing to request additional funding for salary or expense items did so under the performance improvement budget. Priority has been given to performance improvement requests that are critical to the provision of current services, directly related to the identified goals, challenges, and/or opportunities for the department, and identified as core budget priorities by the Town Manager and Board of Selectmen.

Budget Narrative Each Budget Narrative section includes a brief description of the general purpose and primary functions of the department. This section includes a description of revolving funds and related activity for FY06, the nature and amount of fees charged by each department, and fees collected in FY06.

Performance Measures The Performance Measures section of the spending request includes specific objectives for FY08, challenges and/or opportunities the department expects to encounter in the next three to five year period, and indicators of workload or performance.

Budget Format

As in previous years, we continue to recommend that the “purchase of service” and “expense” line items be presented to Town Meeting as one line. We have included the breakdown of each for informational purposes. Combining the lines will significantly impact the operational efficiency of General Government departments, as they will not need to wait until a Town Meeting to move funds from one line to another. For example, a department that has an expense line for vehicle supplies cannot currently pay for a vehicle to be repaired at a private facility, which is considered a service. The FY08 budget also represents the first year that the Youth, Veterans and Council on Aging Departments have been consolidated into the Diversified Community Social Services Department. Finally, projected expenses for retiree health insurance have been segregated from active employees and reallocated to the Insurance Liability Fund.

Fiscal Partnership with the Commonwealth

The Massachusetts Municipal Association (MMA) has been working to help cities and towns reestablish a fiscal partnership with the Commonwealth. The cornerstone of the MMA plan is a fixed share revenue policy, which has been endorsed by the non-partisan Massachusetts Taxpayers Foundation (MTF). MTF recommends dedicating 40 percent of income, sales and corporate taxes to the state’s major local aid accounts. “This MTF proposal would restore the deep cuts in aid during the state’s fiscal crisis and expand future aid for our cash-strapped municipalities. Cities and towns face a long-term financial crunch due to dependence on uncertain state aid, rapidly rising costs, particularly for employee health care, and limited ability to raise revenues. The proposal would give local taxpayers much needed relief, while providing local officials with a degree of certainty about the ongoing share of state resources on which they can rely.”²

² “The Long-Term Mismatch between Available Resources and Important State Priorities,” MTF, September 2006

