

Revenue SummaryRevenue Summary
Table 2.1

Description	FY18 Recap	FY19 Recap	FY20 Estimate	\$ Change
General Fund	171,205,732	182,295,857	192,205,804	9,909,947
Enterprise Funds	17,185,276	22,383,484	16,038,523	(6,344,961)
Community Preservation Fund	6,756,539	5,408,305	3,999,005	(1,409,300)
Total Revenues*	195,147,547	210,087,646	212,243,332	2,155,686

* Revenue before adjustments, reimbursements, and subsidies

GENERAL FUND

The General Fund accounts for revenues and expenditures necessary to provide governmental services and expenses. By definition, all financial resources that are not required to be accounted for in other funds are accounted for in the General Fund. The above table 2.1 shows that the total estimated revenue for FY2020 will increase by more than \$2.1 million or 1.0%. However, the FY2019 revenue included a considerable amount of one-time monies and use of reserves, especially retained earnings and Free Cash, than in recent years. The actual amount of Free Cash available for appropriation this year is \$10,387,821 which compares to the \$13,298,378 of Free Cash that was appropriated for FY2019. The appropriations for FY2019 also included the use of \$6,564,912 of retained earnings. This budget plan has less than \$2 million in retained earnings being used for appropriations. Reducing reserves too much may cause concern for the credit rating agencies and bond holders, which could jeopardize the Town's Triple A rating and consequently increase interest expense which in turn increases the amount that must be raised on the tax levy.

Summary of General Fund Resources
Table 2.2

Description	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Recap	FY20 Estimate	\$ Change
Property Taxes	118,981,810	124,311,726	132,578,018	141,893,986	152,534,866	10,640,879
State Aid	10,760,537	11,171,133	11,788,322	12,509,090	12,823,153	314,063
Local Receipts	13,023,475	15,815,404	15,169,422	11,335,256	12,735,256	1,400,000
Use of Reserves and Other Available Funds	1,589,850	1,580,657	5,143,807	3,259,147	3,724,659	465,512
Free Cash	5,931,875	6,190,372	11,387,990	13,298,378	10,387,871	(2,910,507)
General Fund Revenue	150,287,548	159,069,292	176,067,559	182,295,857	192,205,804	9,909,947
<i>Adjustments to General Fund Revenue</i>						
Cherry Sheet Offsets	(37,507)	(37,322)	(37,365)	(38,106)	(37,725)	381
Reimbursements & Subsidies	1,341,813	1,375,433	1,505,414	1,608,064	1,235,000	(373,064)
CPA Share of Debt Service	464,438	456,313	449,163	441,494	1,185,317	743,823
Adjustments to General Fund Revenue	1,768,744	1,794,424	1,917,212	2,011,452	2,382,592	371,140
Available for General Fund Expenditures	152,056,291	160,863,716	177,984,771	184,307,309	194,588,396	10,281,087

Table 2.2 shows total revenue available for General Fund appropriations projected at **\$194,588,396** or **\$10,281,087** more than FY2019. We have made changes in the presentation of Table 2.2, Summary of General Fund Resources to make clear to the reader the total funds to be used for General Fund expenses. We now show the allowances for state and county charges, provisions for abatements and exemptions, and other amounts required to be provided on the expenditure side of the budget, and not as adjustments to General Fund revenue as was shown previously. However, the Town's control over those charges still remains limited. Revenue from the property tax is estimated to grow by approximately \$10.6 million, state aid is assumed to increase by \$314,063, and local receipts are budgeted to increase by \$1.4 million. The amount

from the use of reserves and other available funds is \$465,512 more than was used for FY2019. Free Cash is \$2.9 million less than was used for FY2019. The estimated total adjustment to General Fund revenues is \$371,140 more for FY2020 compared to FY2019. It is important to note that these are preliminary revenue projections. They are subject to change and should be viewed in this context for reasons discussed later.

FY2020 GENERAL FUND REVENUE ESTIMATE ASSUMPTIONS

Property Taxes

Under Massachusetts General Laws, property taxes overall are restricted to increases of 2.5% plus tax revenues derived from new growth. This is referred to as the annual levy limit. An additional taxing limitation under Proposition 2½ is the levy ceiling. The levy ceiling is equal to 2.5% of the Town's valuation. The total taxable value of the Town as of January 1, 2018 was \$10,168,817,191. This puts the tax levy ceiling at \$254,220,429. The tax levy including debt exclusions for FY2019 was \$141,893,986, so the Town is well below its legal ceiling.

The new growth tax revenue is derived from improvements to property by its use, reconstruction, or new construction, and is added to the tax base. The annual levy limit may also be increased by the amount of any general override (usually for operating expenses), and capital exclusion override. The annual levy limit is also increased by the amount of debt service that is payable during the year for debt that has been approved by the voters as a debt exclusion override. The increase in the FY2020 tax levy attributable to new growth is estimated based upon information provided by the Assessing and Building Departments.

Fiscal Year Tax Levy
Table 2.3.1

Description	FY16 Recap	FY17 Recap	FY18 Recap	FY19 Recap	FY20 Estimate	\$ Change
Prior Year Base	106,872,486	113,231,868	118,983,942	126,800,868	134,365,725	
2-1/2 Allowance	2,671,812	2,830,797	2,974,599	3,170,022	3,359,143	
New Growth	3,684,955	2,919,417	4,841,774	4,394,835	2,687,315	
General Override						
Excess Levy (Taxes Not Raised)	(12,672)	(79,155)	(1,281,513)	(1,528,768)		
General Tax Levy Limit	113,216,581	118,902,927	125,518,802	132,836,957	140,412,183	7,575,225
Total Excluded Debt	6,869,980	6,675,456	7,795,041	9,867,324	12,922,990	
Less Excluded Debt Offsets	(794,698)	(788,593)	(775,955)	(810,295)	(800,307)	
Excluded Debt to be Raised on Tax Levy	6,075,282	5,886,863	7,019,086	9,057,029	12,122,683	3,065,654
Property Tax Levy	119,291,863	124,789,790	132,537,888	141,893,986	152,534,866	10,640,879
Collections by Year End	118,981,810	124,311,726	132,578,018			

Property Tax Levy

The property tax levy (Table 2.3.1) represents approximately 79.4% of all general fund revenues before adjustments. The FY2020 property tax levy is estimated to increase approximately 7.5% over the FY2019 actual tax levy, or approximately \$10.6 million. The tax revenue to support operations within the levy limit is increasing by an estimate of 5.7% over FY2019. Property tax New Growth revenue has been much higher in recent years and the increase in FY2018 was a record high. Although the FY2019 New Growth was \$446,939 less than FY2018, it was the second highest New Growth revenue year. The FY2020 budget plan assumes New Growth revenue of approximately \$2.7 million, but is likely to be amended when building activity through the end of 2019 is known. The limit is calculated by increasing the FY2019 levy limit, exclusive of debt exclusions, by 2.5% and then adding a component for new growth. New growth is a function of the additional value generated by construction during the preceding year. The additional tax dollar amount for new growth is

determined by the value on the January 1 assessment date and is then multiplied by the applicable FY2019 tax rate. The increase in the levy limit above the allowable annual limit and new growth is limited to the amount to be raised to pay the debt that has been excluded from the levy limit by the voters of Needham. The base tax levy, before accounting for debt exclusions, is expected to increase by nearly \$7.5 million over the FY2019 actual base levy. The amount of tax excluded debt that is to be paid by property taxes is estimated to increase by \$3,065,659 for FY2020 over the FY2019 tax levy. The primary reason for the increase is the estimated additional debt to be issued for the Williams School project, which was approved by the voters at the November 8, 2016 election for the purchase of land and construction of the school on that land and the debt to be issued for the design and construction of the public safety project which was approved by the voters at the November 6, 2018 election.

Table 2.3.2 shows the annual debt service by project that was added to the tax levy for fiscal years 2014 through 2019. The table shows the percentage that the gross excluded debt would have increased the tax levy, and the percentage that the net excluded debt (the gross debt adjusted for offsets and credits) made up of the total tax levy. For FY2019, the total excluded debt service was \$9,870,562 which could have added 7.4% to the tax levy, but after accounting for the allowed adjustments, the actual amount added to the tax levy was \$9,057,029 which represented 6.4% of the total tax levy for the year.

Debt Exclusions Added to Tax Levy FY2014 - FY2019

Table 2.3.2

Description	FY2014	FY2015	FY2016	FY2017	FY2018	2019
Debt Service						
Broadmeadow School	939,450	914,325	886,300	857,150	828,300	801,325
Central Avenue Elementary School	-	-	-	-	1,358,112	3,678,899
Eliot School	390,694	421,594	379,174	359,405	346,840	314,400
High Rock & Pollard Schools	1,398,679	1,369,869	1,345,406	1,319,122	1,257,541	1,227,873
High School	2,047,069	1,999,931	1,946,415	1,885,080	1,774,365	1,719,571
Library	1,088,046	1,057,445	933,750	902,000	870,550	830,475
Newman School	2,152,138	1,588,861	1,378,935	1,352,700	1,327,065	1,298,020
Total	8,016,076	7,352,024	6,869,980	6,675,456	7,762,773	9,870,562
General Tax Levy	98,898,127	106,751,910	113,216,581	118,902,927	125,518,802	132,836,957
Excluded Debt as a % of the General Tax Levy	8.1%	6.9%	6.1%	5.6%	6.2%	7.4%
Offsets and Credits						
MSBA Credits	(695,148)	(695,148)	(695,148)	(695,148)	(695,148)	(695,148)
Premium Credits	(126,271)	(105,026)	(99,550)	(93,445)	(80,807)	(115,147)
Other Adjustments	(84,672)				32,268	(3,238)
Total	(906,091)	(800,174)	(794,698)	(788,593)	(743,687)	(813,533)
Net Raised on Tax Rate	7,109,985	6,551,850	6,075,282	5,886,863	7,019,086	9,057,029
Total Tax Levy	106,008,113	113,303,760	119,291,863	124,789,790	132,537,888	141,893,986
Net Excluded Debt as a % of the Total Tax Levy	6.7%	5.8%	5.1%	4.7%	5.3%	6.4%

The property tax that one pays is primarily influenced by three factors: 1) Town Meeting appropriations and other amounts that the Town is required to pay, 2) the property tax allocation between commercial and residential, and 3) property values (assessments). The real estate market in Needham has remained strong compared to other areas in the state and the nation. New Growth tax revenue has been very good the past several years compared to peer-communities. As noted earlier, both residential and commercial activity has been exceptionally strong during the last 48 months with major developments in Needham Crossing. We anticipate the construction of the NBC Universal facilities which are being relocated from different areas in the state to Needham, a new hotel and other commercial facilities in Needham Crossing in the coming months. The actual New Growth Figure will not be finalized until the fall, and cannot be incorporated in the tax recap until certified by the Massachusetts Department of Revenue.

Chart I

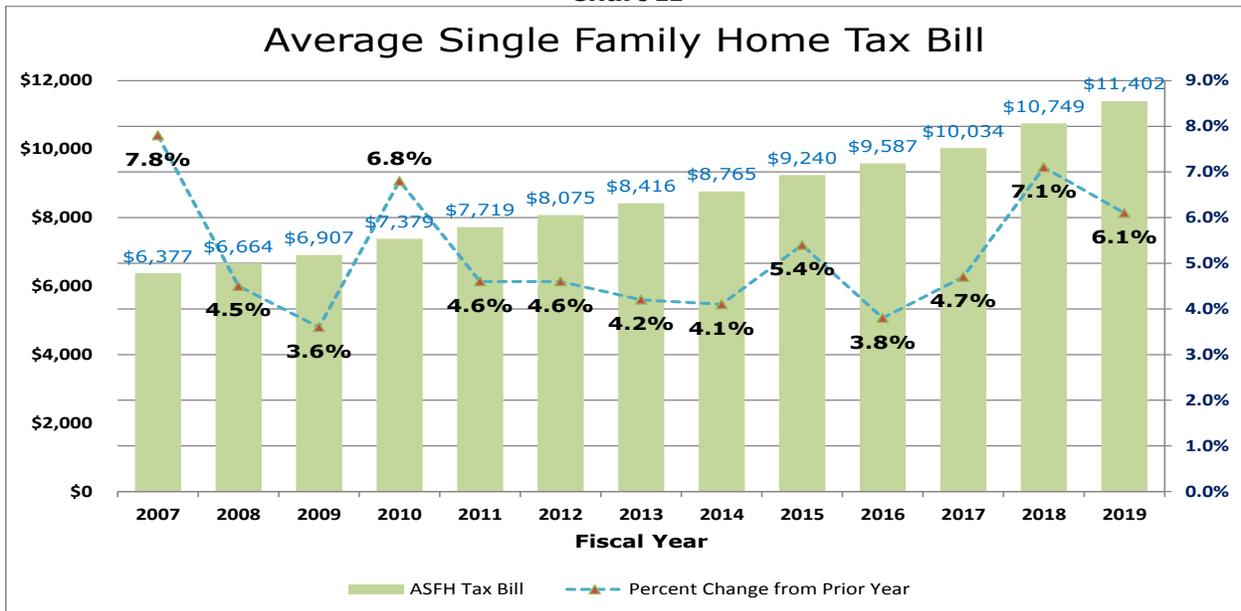
Average Single Family Home Tax Bill Area Communities	
Municipality	FY2019
Weston	\$20,016
Wellesley	\$15,406
Concord	\$15,115
Lexington	\$14,834
Wayland	\$13,719
Sudbury	\$13,355
Winchester	\$13,083
Belmont	\$12,720
Newton	\$12,393
Needham	\$11,402
Westwood	\$11,299
Bedford	\$9,442
Milton	\$9,409
Arlington	\$8,470
Natick	\$7,793
Walpole	\$7,716
Dedham	\$7,074
Framingham	\$6,408
Norwood	\$4,930
Group Average (excluding Needham) \$11,288	
State-Wide Average \$6,082	

Source: DOR

The most current state-wide data available from the Department of Revenue shows that the average single family home (ASFH) property tax bill for FY2019 in the Town of Needham was \$11,402. This places Needham's average single family home property tax bill in the middle of 19 nearby or comparable communities (Chart I), but well over the state-wide average of \$6,082. Other than the Town of Norwood, all the communities in the group are above the state-wide average. This should not be unexpected as the values of homes in this area are much greater than in the state overall. The average tax bill of the identified communities (excluding Needham), for FY2019 was \$11,288, which is 3.7% more than the average of those communities in FY2018 (\$10,887). The average single family home tax bill in Needham for FY2019 increased by 6.1% from FY2018 (\$11,402 vs \$10,749). The higher than average increase in FY2019 for Needham in comparison to recent years was the addition of

the Williams School project. Chart II below shows the ASFH tax bill and the percent change from the prior year for the period of FY2007 to FY2019 in the Town of Needham.

Chart II



State Aid

Most State aid, especially Cherry Sheet aid, is a function of the State budget. The Governor is not required to file his FY2020 state budget plan until the fourth Wednesday in January, which will be after the formulation of the Town Manager's Balanced Budget for FY2020. For the purposes of this estimate, we have assumed a 2.7% increase for the two major State aid programs for FY2020, Chapter 70 and Unrestricted General Government Aid (UGGA). During the winter and spring months, the Legislature will review the Governor's budget proposal, and will release its own budget proposal. In past years, such changes to local aid have altered both the amount of aid and the method of distribution.

The Governor's budget is presented to the Legislature, and the House of Representatives reviews it. The House Ways and Means Committee will develop its own recommendations to present to the full House for debate and amendment. After the House adopts a budget plan, it is forwarded to the Senate for a similar process. After the Senate prepares and votes on its budget plan, the House and Senate conference by way of a committee to resolve any differences between the two budgets plans. A single budget document is then presented to the full body of the House and subsequently to the Senate for final debate and vote. The approved budget is then sent to the Governor for approval or veto. During this entire process, amendments are usually made which can alter the amount of aid the Town will actually receive.

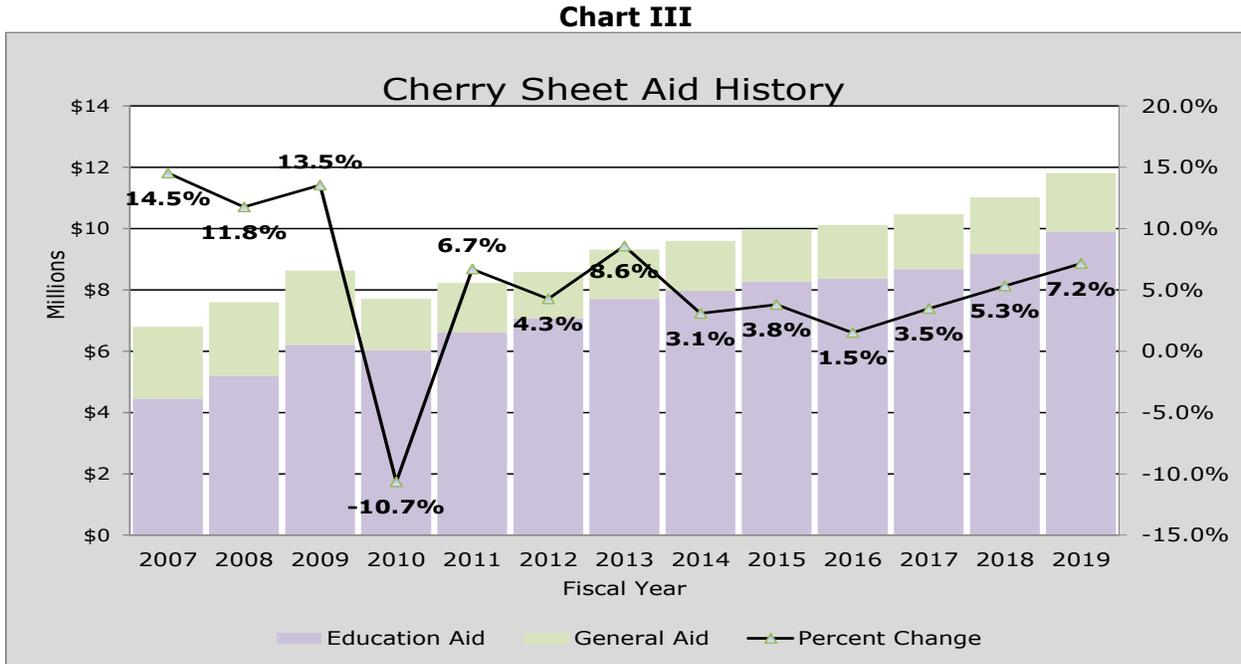
State aid (Table 2.4) represents approximately 6.7% of the total general fund before adjustments. As noted earlier, the Governor's budget plan is not expected until the end of January 2019. The Governor's budget proposal is subject to review and amendment, and final figures are not expected until late spring.

Description	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Recap	FY20 Estimate	\$ Change
Chapter 70	8,373,790	8,671,395	9,166,360	9,876,152	10,142,808	266,656
School Transportation						
Charter School Tuition	1,460	1,452	16,875	31,281	30,968	(313)
Charter School Capital						
Homeless Transportation	5,355	8,836	4,016			
State Aid for Education	8,380,605	8,681,683	9,187,251	9,907,433	10,173,776	266,343
Unrestricted General Government Aid	1,609,289	1,678,488	1,743,949	1,804,987	1,853,722	48,735
Police Career Incentive						
Veterans Benefits	28,450	27,774	20,850	16,027	15,867	(160)
Chapter 59 Elderly Exemptions			92,581	47,389	46,915	(474)
Exemption Reimbursements	9,538	50,719				
Public Library Aid	37,507	37,322	37,365	38,106	37,725	(381)
State Aid for General Government	1,684,784	1,794,302	1,894,745	1,906,509	1,954,228	47,719
Total Cherry Sheet Aid	10,065,389	10,475,985	11,081,996	11,813,942	12,128,005	314,063
MSBA Payments	695,148	695,148	695,148	695,148	695,148	
Other State Payments			11,179			
Other State Aid	695,148	695,148	706,327	695,148	695,148	
Total State Aid	10,760,537	11,171,133	11,788,322	12,509,090	12,823,153	314,063

Cherry Sheet Aid

Cherry Sheet aid comes from the Commonwealth where funds are allocated either through distribution formulas or reimbursement formulas. Distribution formulas often incorporate equity factors such as property wealth, income, and effort. Reimbursement formulas provide full or partial funding for program expenditures or foregone revenues. In addition to reimbursements and distributions, there are also Cherry Sheet programs designated as Offset Items. These items are amounts that constitute categorical aid, i.e., funds that must

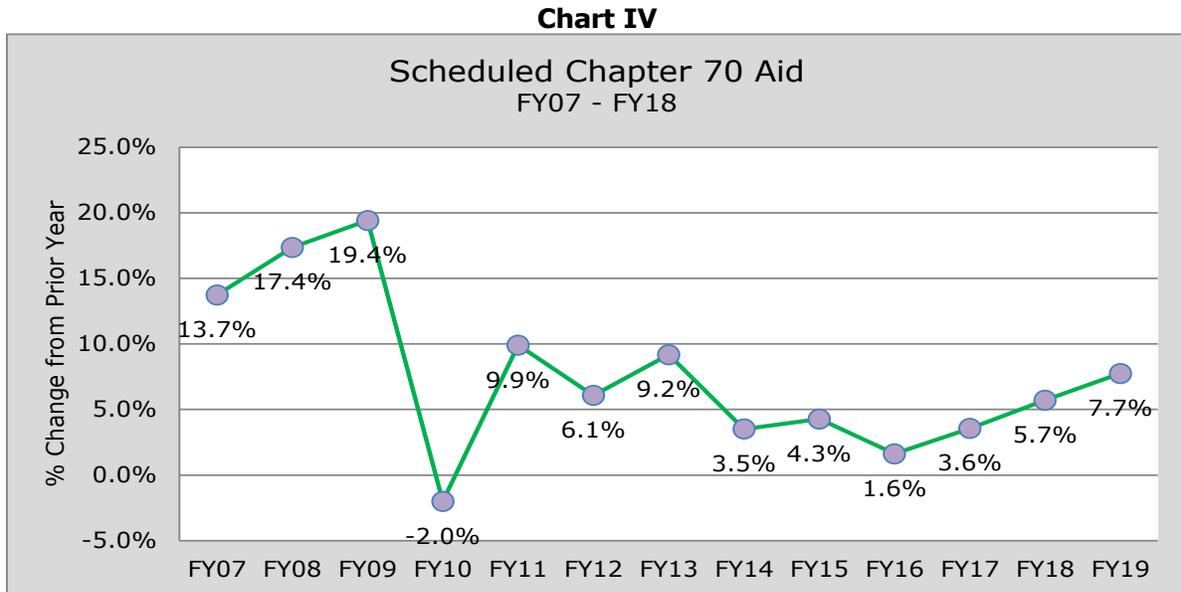
be spent for specific programs. The funds received under programs designated as Offset Items may be spent without appropriation by the Town for the intended purpose (see Adjustments to General Fund Revenue). All other receipt items on the Cherry Sheet are considered revenues of the Town's general fund and may be spent for any purpose, subject to appropriation. Chart III, shown below, reflects the history of the total amount of Cherry Sheet aid broken out by general and education aid with the annual percentage change in the total for the years FY2007 through FY2019.



Chapter 70 aid is commonly referred to as general school aid. The State explains that Chapter 70 is a formula aid program that is based on a Foundation Budget that is calculated by the Commonwealth for each school system, which takes into account enrollment, pupil characteristics, inflation, and geographical differences in costs such as wages. The Foundation Budget is what the State has determined to be the minimum spending level for a school system. The formula takes into consideration a community's ability to pay the cost of education based on property values and income. This information is based on equalized property valuation calculated by the Massachusetts Department of Revenue every other year and income data from State tax returns. With the FY2007 amendments to the program, the State's goal was to get each school system to its Foundation Budget within five years by a combination of local and State monies. The State's goal was to ensure that a minimum of 17.5% of the calculated budget for each school system was made up of State aid. This is not 17.5% of what a community may choose to fund.

The Town of Needham saw an increase in Chapter 70 funding from FY2007 through FY2009, but during fiscal year 2009 the Governor reduced the amount of Chapter 70 aid for Needham from the \$6,118,846 that was appropriated to \$5,475,362, a loss of \$643,484. This cut by the Governor to the local aid programs was due to the significant drop in state tax receipts as the recession became worse. The Town received \$5,996,469 in FY2010, although less than what the Town was budgeted to receive in FY2009, it was an increase over the amount that was actually received from the Commonwealth in FY2009. Each year thereafter, the Town received increases in Chapter 70: FY2011 \$594,488 or 9.9% more, FY2012 \$400,763 or 6.1% more, and FY2013 \$642,270 or 9.2% more. After FY2013, the

State continued to increase funding for Chapter 70 but the rate of increase for Needham was lower. The Town received \$267,812 more in FY2014 or 3.5%, and then \$337,938 more in FY2015, an increase of 4.3%, followed by \$134,050, an increase of 1.6% in FY2016. The distribution from the State in FY2017 was \$297,605 more or 3.6% over FY2016, and FY2018 was \$494,965 over FY2017, an increase of 5.7%. The FY2019 estimate from the State has Needham receiving \$709,792 more than FY2018, an increase of 7.7%. The State is estimating a significant drop in its revenue growth rate for FY2020, and has lowered its assumption for the new year. We have assumed a 2.7% increase for FY2020. Chart IV shows the annual percent change in Chapter 70 aid from FY2007 through FY2019.



The Additional Assistance and Lottery aid programs were consolidated into a new aid category called **Unrestricted General Government Aid (UGGA)** in FY2010. The combination of these two programs resulted in a net loss of \$422,882 from what the Town actually received in FY2009, and \$634,600 from what the State had budgeted for the Town. The Town received \$1,476,550 in FY2011, a loss of \$61,523 from FY2010. The FY2012 UGGA amount was \$1,369,789 or \$106,761 less than FY2011. The Town received \$1,476,550 in UGGA funds in FY2013, the same amount as FY2011, and received \$1,511,453 in FY2014 or \$34,903 more. The Town received \$1,553,368 in FY2015 and \$1,609,289 was received in FY2016, an increase of \$55,921 over FY2015. The Town received \$1,678,488 in FY2017, an increase of \$69,199, and for FY2018 the Town received \$1,743,949, which was 3.9% more. The Town is scheduled to receive \$1,804,987 for FY2019 which is an increase of \$61,038 or 3.5% more. The percentage of increase in the distribution has been declining for several years. We have assumed a 2.7% increase for FY2020 or \$1,853,722.

The total for all the **other Cherry Sheet aid** programs that have been identified for Needham - charter school tuition, homeless transportation reimbursements, veterans' benefits, property tax exemption reimbursements, and aid to public libraries totaled \$115,090 for FY2018; however, the Town received a total of \$171,687. The State has estimated the total payment for these categories to the Town for FY2019 is \$132,803. We have assumed the total for FY2020 is \$131,475, a decrease of one percent.

The Town is also expecting the twelfth annual contract assistance payment for the Broadmeadow School project. The payment was decreased from \$745,381 to \$695,148 in FY2014. The decrease reflected lower interest expense the Town realized when it issued refunding bonds on the then existing Broadmeadow School project bonds. The reduction allows the **Massachusetts School Building Authority** (MSBA) to capture its share of the lower debt costs. The MSBA will continue making payments for its share of the school project at **\$695,148** annually through FY2024, the last year of the bond. The payment is applied as a credit against the annual debt service for the Broadmeadow School and hence reduces the amount that is paid on the property tax bill (see Table 2.3.2). The Town issued refunding bonds during FY2015 for the Eliot School project and one of the High School project-related bonds. The result of the sale of these two bonds was a decrease in the overall interest expense, and the annual interest payments. Because both projects were funded by debt exclusion votes, this means the amount that is paid by the taxpayers of Needham is also less. The Town issued yet another refunding bond during FY2016 on debt that was issued also on the High School project, and on the High Rock and Pollard School projects. The refunding bond will save the Town over \$788,000 and because all the debt is excluded debt, the taxpayers will pay less than they would have had to pay on the remaining debt for the school projects.

Local Receipts

Our time-honored approach of conservatively estimating local receipts is based on a target range. Our goal is to have a local estimate total, by the time the tax rate is sent to the Department of Revenue (DOR) for review, which is less than 80 percent of the prior year's actual receipts excluding non-recurring revenue. However, the estimate for FY2020 includes a new revenue source for the General Fund, but not new for the Town. The Solid Waste Enterprise Fund was dissolved by a vote of Town Meeting under Article 49 of the 2018 Annual Town Meeting. The dissolution is effective for FY2020. As a result, the recycling and solid waste disposal expenditure activities will now be part of the General Fund operating budget, so conversely, the related revenues will now be tracked in the General Fund. Taking into account these changes, the local receipts estimate for FY2020 is higher than usual. The estimate, excluding nonrecurring revenue, is approximately 86% of the 2018 actual receipts.

We prepare the projections of local receipts by comparing FY2018 estimated receipts to actual receipts; FY2018 actual receipts to FY2017 actual receipts, FY2019 estimated receipts to the FY2018 actual receipts and FY2019 year-to-date numbers. We also look at trend lines over three and five years. The Department of Revenue will only allow a community to forecast local revenue up to the level of collection in the previous fiscal year. Under certain circumstances and with appropriate documentation, the Department of Revenue may allow a community to exceed its prior year actual revenue, e.g., for establishing a new fee or significantly increasing an existing fee or charge. During this analysis, the FY2019 estimated receipts were revised. As the year progresses, further analysis of collections will be performed to determine if fiscal year 2019 activity demonstrates a trend that deviates from projections. It is also important to note that if certain budgetary reductions are made to departments that generate or manage the collection of receipts, the estimate may need to be revisited.

Consequences of overly aggressive local receipt estimation include a reduction in the margin between budgeted and actual receipts to cover unanticipated drops in other revenue sources and unexpected increases in expenses (particularly non-appropriated costs), and lower Free Cash certification for the future year than would otherwise be possible. A tighter margin could also negatively impact the Town's credit rating, and hence increase borrowing costs for the Town and consequently higher tax bills for residents.

Fiscal Year 2020 Proposed Budget

Local Receipts
Table 2.5

Description	FY15 Actual	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Recap	FY20 Estimate	\$ Change
Motor Vehicle Excise	5,242,444	5,627,887	5,701,527	5,910,555	4,900,000	5,000,000	100,000
Other Excise	1,500,981	1,608,643	1,571,497	1,543,308	1,360,000	1,360,000	
Penalties & Interest	300,493	728,071	461,096	457,279	225,000	225,000	
Payment in Lieu of Tax	51,389	73,478	124,308	131,587	50,000	50,000	
Solid Waste Fee						965,000	965,000
Charges for Services	678,724	967,143	1,738,167	2,224,465	1,640,000	1,675,000	35,000
Fees	129,658	112,891	174,890	233,523	170,000	170,000	
Rents	212,303	217,914	166,392	215,852	160,000	185,000	25,000
School Income		36,222	42,956	36,195	30,000	30,000	
Library Department Income	52,905	42,121	39,799	17,002	15,000	15,000	
Recreation Department Income	267,266	246,636	243,016	310,891	200,000	275,000	75,000
Other Department Income	354,139	479,447	406,582	342,747	280,000	430,000	150,000
Licenses & Permits	1,702,030	2,314,222	4,477,430	2,603,017	1,931,256	1,931,256	
Special Assessments	3,182	1,367	4,933	3,534			
Fines & Forfeits	151,293	144,396	144,713	187,560	120,000	120,000	
Investment Income	101,273	111,638	278,831	434,319	250,000	300,000	50,000
Medicaid Reimbursement	211,056	176,672	194,935	207,679			
Miscellaneous Income	13,758	14,200	14,771	4,169	4,000	4,000	
Nonrecurring Income	632,377	120,525	29,562	305,739			
Total	11,605,268	13,023,475	15,815,404	15,169,422	11,335,256	12,735,256	1,400,000

Local receipts represent approximately 6.6% of the total general fund before adjustments. Local receipts consist of items such as other taxes and excises, licenses, permits, and penalties, fines and forfeitures, investment income, and income from departmental activities and services. The budget estimate for FY2020 of **\$12,735,256** (Table 2.5) is an increase of \$1.4 million or 12.4% from the revised FY2019 budget of \$11,335,256. When completing the tax rate setting process, we reduced some of the estimates and increased others for the FY2019 receipts based on FY2018 results and trends. The total was within the target range for estimating.

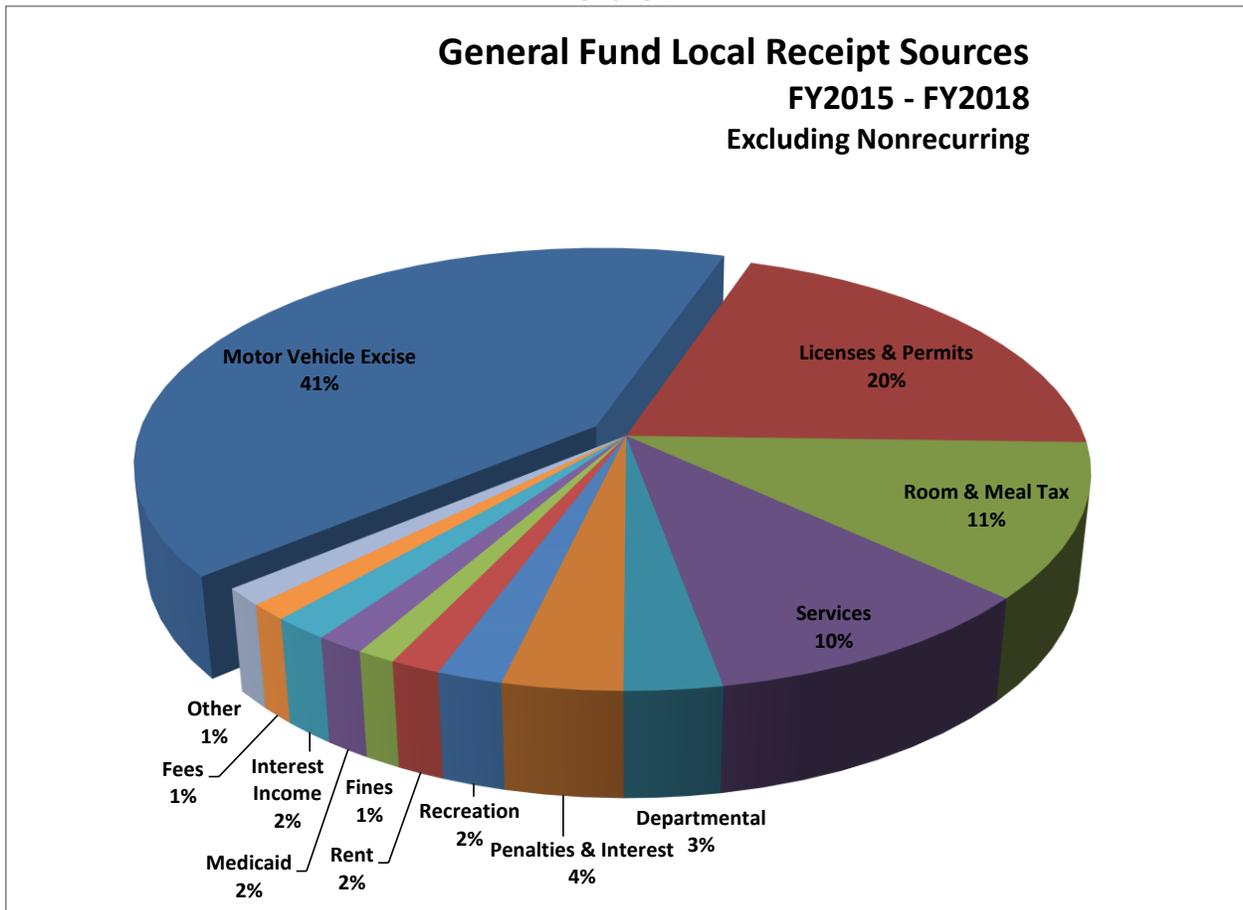
The three major sources of local receipts, which made up more than 72% of total receipts over the last four years (see chart next page), are Motor Vehicle Excise, License and Permits, and Room and Meal Excises. Year after year motor vehicle excise tax is the major local revenue source accounting for as much as 48% of the total local receipts in a given year and the average percentage over the 2015 – 2018 time period was 41%. Therefore, an overestimation of this revenue will have negative impact on the Town’s position. The three receipt types are all impacted by the economy, locally and nationally.

All vehicle owners who have their vehicles registered in the Commonwealth of Massachusetts pay an annual **Motor Vehicle Excise** tax to the community in which the vehicle is principally garaged. The Registry of Motor Vehicles provides listings several times during the year with the vehicles that are registered in Needham, along with the value for each. The vehicle values are the manufacturers’ list prices for vehicles in their year of manufacture. The present market value, price paid, and/or condition are not considered for excise tax purposes. The excise tax law establishes its own formula for valuation for state tax purposes whereby only the manufacturer’s list price and the age of the motor vehicle are considered. In the year preceding the model year of the vehicle - brand new car released before model year the value is 50%; in the model year the value is 90%; in the second year the value is 60%; in the third year the value is 40%; in the fourth year the value is 25%; and in the fifth and succeeding years the value is 10%. The Town relies on this information to calculate and issue excise bills. The motor vehicle excise tax rate is set by State law at \$25 per \$1,000 valuation. The rate is uniform throughout the Commonwealth.

We have assumed approximately a 2.0% increase or \$100,000 over the FY2019 revised estimate of \$4.9 million. Motor vehicle excise receipts for FY2020 are projected at **\$5.0 million**. This is a revenue source that we continue to monitor closely. We do not anticipate increasing this revenue estimate any higher because a negative swing with this revenue item can have a notable impact on Free Cash.

In 1986, the Town of Needham adopted a local option room excise tax at 4%; the Town adopted the State-allowed rate of 6% which became effective January 1, 2010. Hotels, motels, and certain other establishments collect this excise on the taxable portion of rents they collect. The businesses remit the funds to the State. The State sends payments to the Town during the year, which is accounted for as **Other Excise** under the local receipts group. The Town of Needham also accepted the 0.75% local option meals excise effective January 1, 2010. The local establishments report and remit the meals tax to the Department of Revenue (DOR). Collections from both the room excise and the meals excise had been positive and growing, but have taken an unexpected decline. The total actual receipts in FY2015 and FY2016 showed year over year increases with the total income for the year of \$1,500,981 and \$1,608,643 respectively, FY2016 was an exceptionally strong year. The revenue declined slightly in FY2017, as anticipated, to \$1,571,497. However revenue declined again for FY2018 with total receipts of \$1,543,308 – even with a new hotel opening. As a result we lowered the FY2019 estimate from \$1,415,000 to \$1,360,000. We have assumed a level dollar estimate for FY2020 at **\$1,360,000**. The estimate is 88% of the FY2018 actual income.

Chart V



The **Penalties & Interest** category includes penalties charged for the late payment of real estate and motor vehicle excise bills, tax lien redemptions, and interest accrued on deferred taxes. The fluctuations in actual collections reflect the unpredictability of the timing of payments, particularly settlements on deferred taxes and tax title accounts. The estimate for FY2020 is **\$225,000**, the same amount as the revised estimate for FY2019. This represents approximately 49% of the FY2018 actual. The noticeable decline in revenue for FY2017 (\$461,096) from the prior year was due to the collection on some long overdue accounts during FY2016 (\$728,071). The FY2018 actual (\$457,279) was less than FY2017 actual. This is a revenue source which can have major swings from year to year.

Payment In Lieu of Tax is a voluntary payment made by certain tax-exempt entities. The Town received a much greater payment from the Housing Authority in FY2016 through a Federal pass-through program, even greater payments in FY2017, and a lower increase for FY2018, but with the uncertainty with Federal funding, increases are not assured going forward. The Town also receives an annual amount from the Hospital that is paid in installments. The Town and the Hospital recently (June 27, 2018) executed a new PILOT agreement. The **\$50,000** revenue estimate for FY2020 is the same as budgeted for FY2019. This is approximately 38% of the FY2018 actual revenue and 53% of the four year average.

Solid Waste Fees are the charges and fees collected for the disposal of solid waste and other items. This will be the first year that this revenue is part of the General Fund. The estimate based on revenue collected last year by the Enterprise Fund is estimated at **\$965,000** for FY2020.

The category of **Charges for Services** includes charges for ambulance services, certain parking revenue, and charges by the DPW. This revenue also includes solar electric payments the Town receives from Eversource for power generated by the solar array at the former landfill. The Town began receiving payments for power in the later part of FY2016. The Town pays Tesla d/b/a Solar City (producer of the power) appropriately \$0.09 per kWh of electricity produced. We have calculated the revenue estimate from the sale of solar power to be \$820,000 based on an average price of \$0.18 per kWh, the same as the estimate for FY2019. The total estimated income from the various charges and solar revenue for FY2020 is **\$1,675,000**, an increase of \$35,000 over the revised estimate of \$1,640,000 for FY2019; the original estimate was \$1,500,000. The estimate for FY2020 is approximately 75% of the FY2018 actual revenue.

The Town collects various **Fees** which include returned checks, FID cards, administrative fees for details, and Registry of Motor Vehicle license and registration non-renewal releases. The total collected in FY2015 was \$129,658 which declined to \$112,891 in FY2016, and then increased to \$174,890 for FY2017. FY2018 resulted in another significant increase in fee income with total collections of \$233,523. Based on this activity, we increased the FY2019 estimate to \$170,000 from the original estimate of \$130,000. Actual receipts to date for FY2019 suggest that we hold the budget estimate for FY2020 at **\$170,000** which is approximately 73% of the FY2018 actual.

Rental Income is collected on a lease with the Needham Golf Club. The Town has a long term lease with the Needham Golf Club (NGC) which runs for twenty years. The land which the NGC leases is considered taxable. The Town also collects rent on the use of Town facilities such as Powers Hall. Total rental income for FY2015 was \$212,303, \$217,914 for FY2016, \$166,392 for FY2017, and \$215,852 for FY2018. The Solid Waste Enterprise received annual rental payments from Tesla for use of the former landfill site for the solar panels. This income stream will now be part of the General Fund. Therefore the FY2020

estimate of **\$185,000**, an increase of \$25,000 over the current year, is represented of this change. The estimate for FY2020 is approximately 86% of the FY2018 actual income.

School Income generated by the School Department for tuitions received began in FY2016. Most all revenue received by the School Department from its activities is accounted through revolving funds and special revenue accounts and is not available for general governmental purposes. The School Department turned in \$36,222 for FY2016, \$42,956 for FY2017, and \$36,195 for FY2018. The FY2020 estimate is **\$30,000**, the same as for the current year. This represents approximately 83% of the FY2018 actual income.

Library Income has been declining year over year. One of the reasons is that the fine revenue is now accounted for under the fines and forfeits receipts category (effective mid FY2018). However, revenue from the library has been declining overall, in great part because fewer fines are being incurred by patrons. The revenue collected in FY2013 was \$57,510, but decreased to \$54,421 for FY2014, and was even lower for FY2015 at \$52,905, and dropped significantly in FY2016 to \$42,121, and continued its decline in FY2017 to \$39,799. The actual receipts recorded for FY2018 was \$17,002. We revised the original FY2019 estimate from \$30,000 to \$15,000. The estimate of **\$15,000** is the level dollar for FY2020 which is approximately 88% of the FY2018 actual.

Recreation fees are collected by the Park and Recreation Department for Rosemary Pool, summer programs, and rental of fields. Other Park and Recreation programs are accounted for separately in a revolving fund. The Rosemary Pool opened late in the summer of 2018. However, even with the late opening receipts increased to \$310,891 for FY2018 compared to the \$243,016 collected during FY2017. Rosemary Pool receipts accounted for \$127,511 of the total collections in FY2018. The estimate for FY2020 is **\$275,000** or \$75,000 more than budgeted for FY2019. The estimate for FY2020 represents approximately 89% of the FY2018 actual.

Other Department Income includes revenue collected by the various Town departments, which are not properly accounted for in the other accounts. This would include amounts received by planning and conservation departments. The total receipts for FY2015 were \$354,139 which increased to \$479,447 for FY2016, and then decreased to \$406,582 for FY2017. The higher revenue for FY2016 was attributed to review of planned development and actual construction activity throughout the Town so the decline for FY2017 was anticipated. The actual revenue for FY2018 dropped below the FY2015 actual revenue, with total collections of \$342,747. Therefore, we lowered the original FY2019 budget estimate from \$320,000 to \$280,000 during the December 2018 review. However, the merging of the recycling and solid waste operations into the General Fund for FY2020 we have increased the estimate for FY2020 by \$150,000 to **\$430,000**. The recycling operations revenue activity will be accounted under this category.

The category of **Licenses and Permits** includes licenses issued by the Select Board and Town Clerk, and permits issued by the Building, Fire, and Health Departments. The Town has increased many of its fees in this category, some due to added demands on the departments, which provide the related services and others, because they had not been adjusted for a number of years. The Select Board approved a new rate schedule for building permits which took effect January 1, 2016. Actual receipts in FY2015 were \$1,702,030. Actual revenue for FY2016 was \$2,314,222, and FY2017 income was a record at \$4,477,430, with a significant decrease for FY2018 to \$2,603,017. This is reflective of the great variability in the permitting of projects and the timing of when construction begins. We have held the FY2020 budget estimate of **\$1,931,256** level with the revised estimate for FY2019. The estimate is 74% of the FY2018 actual.

Special Assessments are usually one-time or series events and are projected as they become known.

The category of **Fines and Forfeits** includes parking ticket and court fines, and now library fines. Revenue in this category has fluctuated due to staff resources over the years. The revenue in FY2014 was \$140,523, increasing to \$151,293 in FY2015 only to decrease in FY2016 to \$144,396, and was basically flat for FY2017 with \$144,713. FY2018 revenue increased to \$187,560 due to in part the inclusion of library fines. The FY2020 estimate is the same as FY2019 at **\$120,000**, approximately 64% of the FY2018 actual.

Investment (Interest) Income has been a volatile revenue stream over time with more than \$1.5 million earned in FY2007 to just \$77,523 in FY2014 (see Chart VI), which resulted in multiple adjustment to the annual budget estimates. Indeed, the original estimate for FY2012 of \$325,000 had to be reduced to \$150,000, yet the total for the year came in at \$103,130. The FY2013 original estimate of \$150,000 was dropped to \$80,000 which we believed was as low as the revenue could drop; the actual income was \$84,803. The original estimate for FY2014 was \$80,000, but given the FY2013 actual income, the estimate was revised downward to \$67,500, and as noted, actual income came in at \$77,523. In FY2015, we saw interest income increase for the first time in several years with \$101,273, and FY2016 increased to \$111,638, and more than doubled for FY2017 at \$278,831. FY2018 saw total General Fund interest earning of \$434,319. We have increased the estimate for FY2020 by \$50,000 to **\$300,000** over the revised budget estimate of \$250,000 for FY2019. This represents approximately 69% of the FY2018 actual income, but represents over 76% of the actual average income over the FY2015 to FY2018 time period.

Chart VI
General Fund Interest Income

Fiscal Year	Interest	Fiscal Year	Interest	Fiscal Year	Interest	Fiscal Year	Interest
2007	\$1,573,613	2010	\$497,129	2013	\$84,803	2016	\$111,638
2008	\$1,253,286	2011	\$222,981	2014	\$77,523	2017	\$278,831
2009	\$714,066	2012	\$103,130	2015	\$101,273	2018	\$434,319

Medicaid and Miscellaneous Income Medicaid reimbursement has been at times, very significant revenue, but often fluctuates from year to year. In FY2013 the Town received \$203,297 in Medicaid revenue, and then saw a significant drop in FY2014 to \$73,511 – a drop of more than 63% from the prior year. Medicaid increased to \$211,056 in FY2015, but declined in FY2016 to \$176,672. Revenue in FY2017 was higher at \$194,935, and increased to \$207,679 for FY2018. However, with the uncertainty with Federal revenue in this area, and guidance from the Department of Revenue, we made no estimate for FY2020.

Nonrecurring Income represents funds that may be received but are not expected to reoccur, e.g., one-time grants, financial assistance for an event, etc. In FY2015 the Town received \$632,377. One major source was premiums received on the sale of bonds in the amount of \$336,304. This receipt accounted for approximately 53% of the total nonrecurring revenue. The Town received property and casualty premium credits of \$126,698, payment of \$81,659 for details previously adjusted, \$44,427 from the sale of surplus equipment, plus an additional \$5,400 on the trade of police vehicles, and a \$7,753 lien payment (non-tax) recovered by Town Counsel. The \$30,136 balance represents various refunds and recoveries received by the Town and School departments. In FY2016,

the Town received \$120,525 in receipts that are classified as nonrecurring receipts. Two major sources were premiums received on the sale of bonds last year in the amount of \$54,740 and \$26,780 from the sale of surplus equipment. The combination of these two receipts accounted for approximately 68% of the total nonrecurring revenue. The balance of \$39,005 was from various sources. During FY2017, the Town received a total of \$29,562 in nonrecurring receipts. The largest receipt was from the sale of surplus equipment totaling \$7,110, and \$22,452 from various refunds and recoveries received by the Town and School departments. The Town recorded \$305,739 in nonrecurring receipts for FY2018. The largest receipt was from the sale of surplus equipment of \$166,612. The second largest amount was from the recapture of tailings and void checks from prior years totaling \$111,324. The Town received a refund from LifePlus in the amount of \$13,961. The balance of the nonrecurring receipts of \$13,842 represents various refunds, recoveries, and one-time monies received by the Town and School departments. There is no estimate for miscellaneous nonrecurring receipts for fiscal 2020.

General Fund Recurring Receipts
Table 2.6

Description	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Recap	FY20 Estimate	\$ Change
Property Taxes	112,906,528	118,424,863	125,558,932	132,836,957	140,412,183	7,575,225
State Aid	10,065,389	10,475,985	11,081,996	11,813,942	12,128,005	314,063
Local Receipts	12,902,950	15,785,842	14,863,683	11,335,256	12,735,256	1,400,000
Total Receipts	135,874,868	144,686,690	151,504,610	155,986,155	165,275,443	9,289,288

Other Available Funds

Other available funds (\$3,724,659) represent 1.9% of the total general fund before adjustments and offsets. Projections of reserves follow past budget methodology. The uses of the funds are based on historical uses of these funds. The three available funds that have been recurring are Debt Exclusion Offsets, Overlay Surplus, and until FY2018 Parking Meter Fund. Other available funds are correlated to expenses. These funds must be specifically identified by Town Meeting in the motion in order to be used.

The **Debt Exclusion Offset** is an amount equal to the amortized value of a premium that may have been received on debt-excluded bond or note and is spread over the life of the loan. The offset reduces the amount of the excluded debt service that is raised on the tax levy. The amount for FY2020 is \$105,159.

Overlay Surplus is generated when it is determined that all claims for abatements and exemptions on property tax levies of a particular fiscal year have been resolved, and uncollected taxes for the year have been secured with a tax taking lien filed with the Registry of Deeds or Land Court, depending upon the type of property, leaving a balance in the overlay account. Previously each fiscal year required its own overlay account, but with the passage of Municipal Modernization Act a couple of years ago, all individual overlay accounts were combined into a single account. However abatement and exemption activity is still tracked on a fiscal year basis. The change eliminates the need for a year by year reconciliation of the abatement recordings and provides greater flexibility to satisfy valid claims for adjustment of taxes. From time to time the Board of Assessors may vote to release funds from the overlay fund, which then is considered a surplus and may be used as a funding source by Town Meeting during the year that the surplus is declared. Any funds declared as surplus and not appropriated by Town Meeting will be closed out to fund balance and will contribute to the Free Cash certified in the following fiscal year. We have planned on the use of \$1,000,000 to fund appropriations. Per state statute, the Board of Assessors must formally vote to release any determined surplus before it is available for appropriation.

The **Parking Meter Fund** is reserved for appropriation and the revenues are derived from parking meters, which under State Law must be used for parking-related purposes. With the passage of the Municipal Modernization Act, parking meter receipts collected after November 7, 2016 are now considered General Funds. The Act allows the Town to reestablish the Parking Fund, but this budget plan does not contemplate such action. Therefore, there was no transfer to the operating budget for FY2018, FY2019, or planned for FY2020. Parking meter receipts have been part of the General Fund local receipts category, since the 2016 change.

Other available funds in prior years have included items such as unexpended balances of prior warrant articles, grants, and general and dedicated reserves. The budget plan assumes the use of \$2,500,000 from the **Athletic Facility Improvement Fund** for an anticipated capital project.

Free Cash

Free Cash balance is largely a function of actual revenue collections in excess of estimates and expenditures less than appropriations. Given the nature of Free Cash, it should not be depended upon as an operating revenue source, but rather a supplemental source. We have taken deliberate steps to reduce the level of Free Cash that is used to support ongoing operating expenses, and recommend using it to improve reserves, invest in capital assets, support one-time or short duration programs, or as a temporary funding source for recurring expenses if an increase in recurring revenue is anticipated.

The Free Cash has been certified by the Department of Revenue at \$10,387,871 which is a decrease of \$3,130,751 from what was certified last year. The amount certified for this year represents 5.4% of the total general fund before adjustments. The certified Free Cash in FY2018 was \$13,518,622 of which \$13,298,378 was used for FY2018 and FY2019 appropriations and the balance was closed out at the end of the year and became part of the Free Cash certified by the State this year. The Free Cash certified in FY2017 was \$13,849,687 of which \$11,387,990 was used for appropriations during FY2018. The certified Free Cash in FY2016 was \$6,890,372 of which \$6,190,372 was used for FY2017 appropriations and the balance was closed out at the end of the year. Free Cash in FY2015 was \$6,207,875 of which \$5,931,875 was used for FY2016 appropriations and the balance was closed out at the end of the year. Free Cash certified in FY2014 was \$10,133,912 of which \$5,981,564 was used for FY2014 and \$4,152,348 was used for FY2015. Table 2.7.1 shows how much Free Cash was used for the operating budget, cash capital, other financial warrant articles, reserves, or closed out.

Uses of Free Cash
Table 2.7.1

Certification Year	Budget Year Use	Free Cash	Operating Statement Maximum	Budget	Capital	FWA	Reserves	Returned
FY2014	FY14/15	10,133,912	2,120,776	2,032,765	7,499,617	35,000	566,530	-
FY2015	FY2016	6,207,875	1,873,669	1,941,264	2,394,911	750,000	845,700	276,000
FY2016	FY2017	6,890,372	1,779,710	1,763,165	2,639,117	553,222	1,234,868	700,000
FY2017	FY2018	13,849,687	2,700,921	2,689,482	5,438,467	1,145,000	2,115,041	2,461,697
FY2018	FY2019	13,518,622	2,858,833	2,506,298	9,020,289	181,000	1,590,791	220,244

Given that the Town of Needham develops its annual operating and capital budgets in such a way that Free Cash can be counted upon each year, some amount of Free Cash has been used to support operating expenses. In recognition that the operating budget structure has been amended, and beginning with the FY2017 budget plan, a sizable amount of expenses have been removed from the departmental budgets into a new Townwide expense budget (to account and track electric and natural gas expenses, including payments for the production of solar power, related expenses and the street lighting program), we amended

what was included in the Free Cash “use for operating expenses” calculation. We continue to recommend that the amount of Free Cash used to fund the operating budget should not be more than 2% of the budget turn back of the prior completed fiscal year or the actual amount returned, whichever is less. We use the final adjusted operating budget to calculate the two percent figure. We define the final adjusted operating budget as the total of the Departmental budgets and Townwide expenses, except for the Reserve Fund. We do not include any transfer from the Reserve Fund line into the Departmental budgets. Any return from the Reserve Fund would not be considered part of the budget return when calculating the lesser of the two calculations: two percent of the final adjusted budget, or actual return, wherever is less. In table 2.7.2, we show what the budget returns have been in the past five years and what the two percent of the final adjusted operating budget would have been.

Operating Budget Returns
Table 2.7.2

Fiscal Year Activity	Final Budget	Returned	Adjusted Final Budget	Related Return	Percent of Budget	Reserve Fund Return	Reserve Fund Return as a % of Total Return	Two Percent of the Adjusted Final Budget
2014	124,101,249	2,463,826	122,653,006	1,873,669	1.5%	590,157	24.0%	2,453,060
2015	129,531,899	1,944,545	127,889,742	1,779,710	1.4%	164,835	8.5%	2,557,795
2016	136,570,837	4,406,846	135,046,070	3,404,341	2.5%	1,002,505	22.7%	2,700,921
2017	144,396,032	4,031,697	142,941,656	3,287,076	2.3%	744,621	18.5%	2,858,833
2018	153,184,148	4,450,548	151,371,548	3,615,609	2.4%	834,939	18.8%	3,027,431

Two percent of the FY2018 adjusted final budget equals \$3,027,431; the actual FY2018 budget return less the Reserve Fund return was \$3,615,609 which is more than two percent and is more than the return for three of the last four years (Table 2.7.2). The budget plan has **\$2,068,301** of the Free Cash being used for operating expenses; the amount falls under the allowance. The balance of the Free Cash is proposed to be used to fund cash capital, reserves, and warrant articles. The Town has been following the recommended practice of limiting the amount of Free Cash that supports the operating budget by using the funds to pay not only for needed cash capital, but also to put aside funds for future demands that may arise unexpectedly and for various one-time financial warrant articles.

Revenue as a % of Total General Fund Revenue
Table 2.8

Description	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Recap	FY20 Estimate
Property Taxes	79.2%	78.1%	75.3%	77.8%	79.4%
State Aid	7.2%	7.0%	6.7%	6.9%	6.7%
Local Receipts	8.7%	9.9%	8.6%	6.2%	6.6%
Other Available Funds	1.1%	1.0%	2.9%	1.8%	1.9%
Free Cash	3.9%	3.9%	6.5%	7.3%	5.4%
Total General Fund Revenue*	100.0%	100.0%	100.0%	100.0%	100.0%

*May not equal 100% due to rounding

ADJUSTMENTS TO GENERAL FUND REVENUE

Cherry Sheet Offsets are programs that are classified by the State as “Offset Items”; that is, these funds are expended without appropriation for specific purposes (i.e., remediation assistance and public libraries). As they are estimated as a component of State Aid, they must be shown as a reduction in revenue because of their categorical nature (i.e., they are not available for general appropriation purposes). Expenditure of these funds does not require Town Meeting appropriation. The amount for FY2020 is based on the assumption

that state aid for libraries will decrease by one percent over the estimate for FY2019 to **\$37,725** for FY2020.

While the majority of enterprise fund expenses are accounted for in the enterprise fund, certain costs of the department are reflected in the general fund budgets of other Town departments (e.g., treasurer/collector, information technology, personnel, insurance, etc.). These enterprise-related general fund expenditures are funded with transfers of revenue from the enterprise fund to the general fund. The amount projected for FY2020 is based on the current year and is estimated at **\$1,235,000**.

Enterprise Reimbursements to the General Fund
Table 2.9

Description	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Recap	FY20 Estimate
Solid Waste	317,608	314,739	322,037	265,250	
Sewer	363,721	376,586	428,888	471,071	435,000
Water	660,484	684,108	754,489	871,743	800,000
Total	1,341,813	1,375,433	1,505,414	1,608,064	1,235,000

With the FY2020 budget year the Solid Waste fund is dissolved so there is no transfer for FY2020. The preliminary estimate for the sewer fund reimbursement is **\$435,000**. The estimate for the water fund is **\$800,000**. Because indirect costs associated with the two funds are a factor of Town Meeting appropriations, the actual FY2020 transfers may be adjusted accordingly.

FY2020 is the ninth operating budget that will include **CPA** supported debt service. The Town Hall financing plan calls for debt service paid by CPA funds to be \$430,525, which is a decrease of \$10,969 from FY2019. This will be the first year that debt service related to the Rosemary Recreation Complex and Pool project will come due. The amount payable during FY2020 is \$754,792. The total transfer for FY2020 is **\$1,185,317**, an increase of \$743,823, or approximately 168%. We reflect \$1,185,317 as another adjustment to General Fund revenue because the CPA debt is included in the general operating budget of the Town.

OTHER RESERVES AVAILABLE FOR APPROPRIATION

The available balance in the **Stabilization Fund** as of December 31, 2018 was \$4,169,749. The Stabilization Fund may be appropriated, by a vote of Town Meeting, for any municipal purpose. No assumption about an appropriation from the Stabilization Fund to support the Town's operating budget is made in this projection.

The Town also established an **Athletic Facility Improvement Fund** for the purpose of reserving funds for future extraordinary athletic field and artificial turf replacement and maintenance costs. The balance in the fund as of December 31, 2018 was \$2,651,510. The budget plan calls for the use of \$2,500,000 to fund the Memorial and DeFazio artificial turf carpets. The plan recommends an appropriation of \$75,000 to the Fund for future projects.

The Town also established a **Capital Facility Fund** for the purpose of reserving funds for future extraordinary capital facility maintenance costs. The balance in the fund as of December 31, 2018 was \$1,862,233. No appropriation to the Fund is planned for the 2019 Annual Town Meeting but there may be a transfer recommendation to the Fund at a Special Town Meeting.

The Town also established a **Capital Improvement Fund** for the purpose of general fund capital equipment. The balance in the fund as of December 31, 2018 was \$898,847. The budget plan calls for an appropriation of \$166,612 to the Fund, which represents the total the Town has collected from the sale of surplus equipment during 2018.

The Town also established a **Debt Service Stabilization Fund** for the purpose of setting aside funds to smooth out the impact of General Fund Debt Service within the levy limit that may exceed the Town's goal that only three percent of General Fund revenues be designated for debt. The balance in the fund as of December 31, 2018 was \$2,087,269. No appropriation to the Fund is planned for the 2019 Annual Town Meeting but there may be a transfer recommendation to the Fund at a Special Town Meeting.

ENTERPRISE FUNDS

An enterprise fund is used to account for those operations that are financed and operated in a manner similar to a private business. The Department of Revenue states that Enterprise Funds allow a community to demonstrate to the public the portion of total costs of a service that is recovered through user charges and the portion that is subsidized by the tax levy or other available funds, if any. The Town has established an Enterprise Fund for its water operation, sewer operation, and until FY2020, for the Recycling Center and Transfer Station (solid waste disposal). The Town is now looking into whether to establish a stormwater enterprise fund as early as FY2021, but this planning will have no impact on the FY2020 budget. The enterprise funds are reimbursing the general fund for their related indirect costs (e.g., enterprise employee benefits, property insurance, shared staff, etc.).

Enterprise Receipts
Table 2.10

Description	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Budget	FY2020 Estimate	\$ Change
Recycling and Transfer Station	1,239,871	1,236,607	1,190,844	1,142,902	0	(1,142,902)
Sewer Enterprise	8,884,328	8,982,530	9,177,665	8,892,436	8,543,366	(349,070)
Water Enterprise	7,009,201	7,019,533	6,798,747	5,783,234	5,537,170	(246,064)
Total*	17,133,400	17,238,670	17,167,256	15,818,572	14,080,536	(1,738,036)

* Receipts before adjustments, reimbursements, and subsidies

The combination of the Sewer and Water Enterprise funds has total receipts at \$14,080,536 for FY2020 compared to \$15,818,572 for FY2019, which included the Recycling and Transfer Station fund (Table 2.10). So this results in a decrease of \$1,738,036 or approximately 11%. However a comparison of the two remaining funds for FY2020 has a decrease of \$595,134 or approximately a 4% decrease. The budget estimates for the Sewer and Water enterprise funds are lower than the budgets for FY2019. The Town was notified by Coca Cola that the company ceased its bottling operations at the plant in December 2018. The Company is not expected to resume production. Consequently, actual sewer and water volumes are projected to decline. Because state law requires the Town to charge an inclining block rate for water use, the charge for the last gallon of water used is charged at the highest rate, whereas the cost is the lowest. Unlike a common practice in private industry where a supplier may offer volume discounts on the sale of goods, the Town is not allowed to do this. Almost all of Coca Cola water use and waste water disposal was billed at the highest step rate (approximately 98% of use). So the Company was paying a disproportionate share of the fixed costs of the infrastructure. Their departure is expected to have little, if any, impact on the overall maintenance of the water and sewer systems (capital infrastructure is a significant expense). The debt service budgets for both enterprises have been lowered for FY2020, but this is a temporary solution as to rates. An

increase to the rates is anticipated, but it is too early to know whether the rates need to change for FY2020.

The budget calls for the use of **\$1,631,487** of retained earnings in Sewer Enterprise for cash capital and **\$291,500** in Water Enterprise fund retained earnings for capital. The decrease in use of retained earnings was due the higher amount of funds that were used to fund cash capital for FY2019.

Use of Enterprise Reserves and Other One-Time Funds
Table 2.11

Description	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Budget	FY2020 Estimate	\$ Change
Recycling and Transfer Station	158,000	258,096	798,040	482,753	0	(482,753)
Sewer Enterprise	1,373,949	478,016	368,556	2,551,111	1,631,487	(919,624)
Water Enterprise	1,162,104	345,679	433,074	3,531,048	291,500	(3,239,548)
Total	2,694,053	1,081,791	1,599,670	6,564,912	1,922,987	(4,641,925)

* Revenue before adjustments, reimbursements, and subsidies

Transfers to the Enterprise Funds

The Town approved a change effective with the FY2012 budget that the expenses associated with the Drains Program that were carried in the DPW General Fund Operating Budget are now part of the **Sewer Enterprise Fund Budget**. The employees who perform a majority of the drains-related work are assigned to either the water or sewer division. There are benefits for the Town to have the water and sewer employees perform the drains-related work rather than hiring additional staff for the sole purpose of drain work. The drains program is considered a general fund expense and not a sewer or water fund expense. The weekly tracking and processing of drains related procurement, accounts payable, and payroll, as well as the budgeting process is easier and more efficient (less cross-fund accounting work) to process the finance-related tasks through one of the enterprise funds, rather than the prior three fund process (general fund, sewer fund, and water fund). The General Fund still pays the drains-related costs, but the appropriation will now be made from the General Fund to the Sewer Enterprise Fund Budget. The payment in FY2012 was \$469,610, FY2013 was \$493,932, for FY2014 was \$468,936, for FY2015 the amount was \$463,430, FY2016 was \$494,488, and FY2017 was \$519,846. The FY2018 contribution was \$491,749 and \$504,750 was transferred for FY2019. The FY2020 budget recommendation is **\$530,467**, an increase of \$25,717 (5.1%). At the time of publication of the budget, the MWRA sewer assessment has not been received, and therefore the plan level funds the assessment. Any change will be funded by receipts or retained earnings.

The **Water Enterprise Fund Budget** will not require a General Fund subsidy. Just as with the MWRA sewer assessment for FY2020, the water assessment has been level funded, and any change will likely be funded by receipts.

ENTERPRISE FUND RETAINED EARNINGS

These sources are not available to support the General Fund and are shown for informational purposes only.

Similar to Free Cash, retained earnings are a function of the operations of the prior fiscal year and are generated by revenues collected in excess of estimates and unexpended balances of appropriations, as of June 30th. Once certified by the Massachusetts Department of Revenue, retained earnings are then available for appropriation or reserved

to support the enterprise. Retained earnings were certified on October 9, 2018 by the Department of Revenue. Table 2.12 shows the amounts which were certified as retained earnings by the Department of Revenue for the current year and the previous four complete fiscal years. The noticeable decline in retained earnings was anticipated as the Town had built up the amount in retained earnings to invest in several large capital projects. The Town has several other major capital projects coming for a vote in the next one to four years which will draw down reserves even more.

Certified Retained Earnings
Table 2.12

Fund	FY2015	FY2016	FY2017	FY2018	FY2019
Recycling and Transfer Station	690,498	980,788	1,135,503	490,750	71,727
Sewer Enterprise	1,667,645	1,863,803	3,433,474	4,500,960	3,286,421
Water Enterprise	2,049,563	2,833,584	4,168,418	5,368,805	3,080,815

COMMUNITY PRESERVATION FUNDS

Town voters approved a 2% Community Preservation Act surcharge on real estate property tax bills effective July 1, 2005. The 2% surcharge is assessed on the total property tax due, adjusted for certain exemptions. The tax on the first \$100,000 of residential valuation is not included in the CPA surcharge, and there are also exemptions for certain low and/or moderate-income taxpayers. Actual CPA revenues collected by the Town in the prior year are eligible for matching funds from the State. The match is equal to a percentage determined annually based on available funds for distribution, not to exceed 100% of the receiving community's actual receipts. The distribution rate that Needham received on its FY2013 CPA surcharge revenue was 52.23%, which decreased to a 31.46% match on its FY2014 surcharge revenue, and then dropped to a 29.67% match on the FY2015 surcharge revenue that was distributed in November 2015. The state match on the FY2016 revenue was 20.6% and dropped to 17.2% on the FY2017 revenue. With a supplemental appropriation to the CPA trust fund by the Legislature for FY2018, the Town received a state match of 18.93% on the FY2018 revenue; the funds were received in November 2018.

We believe the distribution range in FY2020 on the FY2019 revenue will be between 10% and 15% and our revenue estimate is at the low-point. The current estimate based on FY2019 collections that will be received as **state matching funds** in FY2020 is **\$247,005** or 10%. The 2% **CPA surcharge** on FY2020 property tax bills is estimated at **\$2,590,000**. The total estimated receipts for FY2020 are currently at \$2,837,005. This is a decline from the FY2019 receipt estimate of \$2,933,305.00, or \$96,300 less. This is due to an assumed decrease in the state matching program. The decrease is assumed because the trend has been a lower percentage match annually; there is no certainty that the State will provide a supplemental matching appropriation, as was done this past year, and there is an increase in the number of communities eligible for funding from the State Trust. There are now 172 of the 351 cities and towns in the Commonwealth that are participating.

The \$2,837,005 estimate provides for \$82,000 to be appropriated to the Community Preservation Committee's (CPC) administrative budget and \$312,071 to be credited to both the Community Housing Reserve and Open Space Reserve. The \$312,071 figure is

approximately 11% of the new revenue estimate for FY2020. Because the final revenue estimate is usually not known until the actual tax rate has been approved and the bills calculated, the practice has been to appropriate an amount of 11% of the revenue estimate to each of the required reserves to better ensure that the minimum CPA use requirement is satisfied. The FY2020 debt budget includes \$430,525 of debt service for the Town Hall project and \$754,792 of debt service for the Rosemary Recreation Complex. The Town Hall project was previously designated as a historic preservation project, and therefore the \$430,525 appropriation to the General Fund operating budget will satisfy minimum requirement for Historic Resources. The balance of the CPA revenue estimate of \$945,546 would be transferred to the Community Preservation Fund General Reserve for FY2020. The amount that is actually appropriated to each reserve would be adjusted as needed based on the CPC's project funding recommendations and Town Meeting votes on those recommendations.

The certified CPA Free Cash balance as of December 31, 2018 is **\$499,154** and remains available for appropriation until June 30, 2019. The FY2019 CPA General Reserve has a balance of **\$1,025,153** and the funds remain available for appropriation until June 30, 2019 as well. However \$8,662 is expected to be transferred from the General Reserve to the Community Housing Reserve and the Open Space Reserve in equal amounts of \$4,331. The transfer is needed to satisfy the State requirement that at least 10% of estimated receipts for the fiscal year are either appropriated or reserved for such expenditures. Because the State increased its CPA match to the Town for the year, the initial appropriation to the reserves fell under the minimum requirement. The CPA Free Cash and General Reserve will close out to the CPA fund balance after the end of the FY2019 and does not become available for use in FY2020 until after the CPA Free Cash is certified for FY2020. The Community Preservation Committee (CPC) has not yet made any funding recommendations for FY2020. The amounts currently held in the three required reserves as of December 31, 2018 are as follows:

Community Housing Reserve	\$2,028,573
Historic Resources Reserve	\$ 15,820
Open Space Reserve	\$ 883,954

Town of Needham Community Preservation Fund Revenue and Appropriations FY2020
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<u>Community Preservation Fund Revenue Estimates</u>	
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Surcharge Revenue Estimate	2,590,000
State Trust Fund Distribution Estimate	247,005

Revenue Estimate	2,837,005
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<u>Community Preservation Fund Appropriation Estimates without Projects</u>	
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Town Hall Project Debt Service (GF Debt Operating Budget)	430,525
Rosemary Recreation Complex Project Debt Service (GF Debt Operating Budget)	754,792
Community Preservation Committee Administrative Budget	82,000
Community Housing Reserve	312,071
Historic Resources Reserve	0
Open Space Reserve	312,071
Community Preservation Fund Reserve	945,546

Appropriation Estimates	2,837,005
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<u>Reserve Balances 12/31/2018</u>	
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Community Housing Reserve	2,028,573
Historic Resources Reserve	15,820
Open Space Reserve	883,954

FY2019 General Reserve (A single year reserve, any unused balance closes out 6/30/2019)	1,025,153
CPA Free Cash (A single year reserve, any unused balance closes out 6/30/2019)	499,154

Total Reserves	4,452,654
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<u>Specific Town Appropriation Requests</u>	
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Public Playgrounds	350,000
Town Common Historic Redesign and Beautification	117,000
Cricket Field	480,000
Rosemary Lake Camp and Trail	200,000
Trail - Fisher Street Trailhead	15,000

Total Project Requests	1,162,000
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