Town of Needham
Finance Committee
100th Annual Report
Fiscal Year 2012 Budget Recommendation
March 15, 2011

Fellow Citizens:

The Finance Committee is pleased to present our 100th Annual Report and Fiscal Year 2012 Budget.

As we are all aware, the economic environment remains fragile despite early signs of recovery on state and federal levels. As we look to the future, we must remain particularly cautious as unfolding world events could potentially endanger these early stages of economic recovery. Conflicts in the Middle East are bringing rise to higher energy prices and the cascading effects on all aspects of the economy. Managing through this economic environment will present a number of challenges for the Town going forward.

In preparation for this year's budget, the Finance Committee participated in the Town Manager's Departmental budget meetings in November and conducted its own budget hearings from December 8th through February 7th. Finance Committee liaisons met separately with the individual Town Departments as well as with the School Department to review their budget requests in detail. Using the information gathered, we took the departmental spending requests and built a budget from them. The budget we arrived at, and voted as our recommendation, was very close to the executive budget as submitted.

The Finance Committee's FY 2012 budget has strived to maintain the current high quality of services to the residents of Needham, while demonstrating fiscal restraint and sustainability for the long term. During this unprecedented period of low interest rates, the Committee continues to encourage the Town's investment in its infrastructure and other capital needs.

The Finance Committee would like to express its continuing appreciation to the Town Manager and the Town Administration, as well as to the School Superintendent and the School Department, for their efforts to prioritize their needs, and balance those needs against fiscal realities. We applaud their efforts to reduce the use of one time revenues to fund ongoing operations. We would also like to acknowledge the hard work that the schools have undertaken to focus their budget on priorities and to manage through a very difficult time of reduced state aid for school programs. We would ask that the Superintendent and School Committee continue to focus on their longer term plan to achieve a "sustainable" cost structure going forward.

Revenue Summary

The FY 2012 budget is once again based on a conservative estimate of revenue. Property taxes, which make up the bulk of the Town's revenue, are increasing modestly due to an increase in new growth. State officials have indicated that state aid to municipalities, based on the state budget which is still under consideration, may be increasing in certain areas, and decreasing in other areas for FY 2012.

Overall, the Town estimates a small decrease in state aid. Local receipts are expected to drop, in part because of the loss of parking revenue following a decision by the MBTA to assume control of its parking lot properties throughout the Town. This is offset to some extent by revenue generated with the adoption of the meals excise tax.

The estimated total General Fund Revenue for FY 2012 is $115,533,866, with $115,148,213 available for appropriation. $112,243,325 is being allocated to the operating budget, an increase of 1.9% over FY 2011.

The largest source of revenue for Needham is property tax receipts. The growth in revenue assumes an increase in property tax receipts of 2.8%, or approximately $2.6 million. This increase is attributable to an increase in the Town's taxable value, or new growth, resulting from improvements to property, and increases in values, due to improved uses, reconstruction, and new construction. The rate of increase of new growth has been slowing in recent years, and is expected to slow further in FY 2012.

Local receipts have declined in prior years and in FY 2012 are estimated to decrease by $153,664 or approximately 2.2% compared to the FY 2011 estimate. Local receipts include such items as motor vehicle excise, permits, charges for services, fees, fines, investment income, and income from departmental activities and services.

The Town is anticipating increased revenue of $90,000 due to the recently increased room rental tax and the recently adopted meal tax. However, this increase is more than offset by the significant decrease of $250,500 in revenue from the Town's previous management of the MBTA commuter parking lots. The Town is also anticipating no revenue from non-recurring funds in FY 2012, such as one-time grants or special financial assistance as it has enjoyed in the past. Given the uncertain nature of the present economy, the Finance Committee feels it is prudent to assume that local receipts will continue to decrease in FY 2012.

State aid, or Cherry Sheet aid, is a function of the state budget process, and is projected to continue decreasing next year, although at a slower pace. The FY 2012 state aid is expected to decrease by $49,676 representing a 0.6% decrease from FY 2011. Chapter 70 aid, or general school aid, is currently expected to increase by 2.0%; however, the reductions in Unrestricted General Government Aid (formerly Lottery aid and Additional Assistance) have more than offset this increase in school aid.

The Free Cash amount available for the FY 2012 budget is $3,380,269, representing a decrease from FY 2011 of 5.6%. While Free Cash can fluctuate and is suited for short-term needs, the Town's budget process provides sufficient Free Cash annually such that a portion is reliable and can be applied to operating expenses.

The difficult economic climate at all levels has caused decreased projections for state aid and local receipts. Despite these challenges, Needham expects to maintain the current level of services in all municipal departments, and to fund the School Committee's voted budget, plus an additional $4,000 for software to improve efficiency. Because the Town's revenue comes primarily from property tax receipts, the proportion of which is steadily increasing, and because state receipts constitute a much smaller part of revenue, the Town expects to have sufficient revenue to maintain level services for FY 2012.

FY 2012 Operating Budget Recommendation

The total operating budget for FY 2012 is $112,243,325, which is 1.9% higher than the FY 2011 operating budget amount. The Town's operating budget falls into three general categories: Town Wide Expenses, Municipal Departments, and Education.

Town Wide Expenses

Townwide expenses are expected to decrease in FY 2012. Debt service will be decreasing in FY 2012 due primarily to lower interest rates. Employee Benefits and Employer Assessment have increased by only 1%. Notably, health insurance costs have decreased almost 1% since a large number of employees have moved into lower premium rate-saver plans, and seven benefit-eligible positions have been eliminated. The budget line for workers' compensation was increased by $50,000 in the FY 2012 balanced budget in order to begin replenishing the reserves which have been declining over the past decade due to increases in salaries, expenses, and several ongoing cases. The Town is seeking additional funds for the Workers' Compensation Reserve Fund under a separate warrant article at the Annual Town Meeting to bring the reserves to a more adequate level. The Classification, Performance and Settlements line has increased by $172,000 to reflect the uncertainty due to the number of unsettled collective bargaining agreements.

Municipal Departments

The Finance Committee carefully reviewed and considered each department's spending requests in the Town Manager's executive budget. The Finance Committee's recommended budget varies only slightly from Town Manager's recommended budget, and provides for all municipal departments to maintain essentially the same level of services. The Finance Committee is also recommending a total appropriation to the School Department that meets the School Committee's voted budget request, plus a small amount of additional funding for specialized software.

General Government

The General Government budget is increasing 2.4% in FY 2012. The Town Counsel budget was increased by $36,500 to bring the Town Counsel's budgeted costs in line with historical averages. The Town Clerk budget decreased, as one fewer election is anticipated in FY 2012. The Finance Department FY 2012 budget includes an increase to provide full year funding for an administrative position that was funded for only half of FY 2011.

Land Use and Development

The FY 2012 Land Use and Development budget increased by 7.6%. This increase results from the addition of a shared part-time administrative assistant, plus salary increases for personnel which have been historically underfunded.

Public Safety

The Public Safety budget has increased by 1.8%. Both the Police and Fire Departments submitted budget requests with decreased expenses. The Police Department personnel line is decreasing with the elimination of a parking enforcement attendant. The Fire Department budget was increased by 4.4% due to obligations under a settled union contract, and an additional $100,000 allocation for overtime.

The Fire Department overtime appropriation has been chronically underfunded, and the additional allocation brings it closer to historical levels. Additionally, two full-time benefited firefighter positions, currently vacant, were eliminated.

Public Works
The Public Works budget, including the Department of Public Works, and the Municipal Parking and Lighting Programs, is decreasing 6.9% in FY 2012. The Public Works base budget includes a reduction of 2% due to the transfer of the Drains program to the Sewer Enterprise Fund. In addition, two Parks and Forestry benefit-eligible positions were eliminated, as well as two seasonal positions. Expenses were increased to allow for outsourcing of certain functions and to establish a new turf fertilizer program. The Municipal Parking budget was decreased by $227,900 in FY 2012 because the Town will no longer be managing the MBTA commuter parking lots.

Public Facilities
The FY 2012 budget for Public Facilities increased by 4.6%. The budget includes union cost of living increases, as well as increased personnel costs due to additional custodial work needed when the Town Hall is reopened. The Town Manager refined the department's projected energy use and as a result decreased the requested energy budget by $50,000. The Finance Committee commends the Public Facilities department for its continued efforts in energy conservation.

Community Services
The FY 2012 Community Services budget is increasing by a modest 1.1%. Most budget lines are very close to FY 2011, with expenses level or decreasing. The Library budget includes an additional allocation of $30,802 above the department's requested budget to bring it to the level necessary for certification by the Massachusetts Board of Library Commissioners. The funding will provide for the ongoing need for collections materials to be covered by the Library's operating budget. The Finance Committee recommended increasing the Library's budget by an additional $13,579 to fund the cost of opening the library at 9:00 a.m. from the operating budget.

Education

Needham Public Schools
The Finance Committee's recommended budget allocates $48,436,371 to the School Department. This represents an increase of 4.1% or $1,895,293 more than last year's approved budget. $2,177,573 of the School budget, more than the overall budget increase, represents increased mandated or contractual obligations. Two primary factors contributing to the increases in the School Department's budget are special education costs and staffing needs due to increased enrollment at the middle and high school levels.

First, special education needs are rising substantially. Special education costs are expected to increase by $1,199,632 in FY 2012, including sizable increases in out-of-district tuition costs and additional transportation costs. This upcoming fiscal year, Special Education expenses constitute over 25% of the total School Department budget. Since 2008, state Circuit Breaker aid has been reduced from 70% reimbursement to an anticipated 40% reimbursement for FY 2012. This reduction has had a significant impact on the School Department budget.

Second, enrollment is projected to grow at both the middle and high school levels. Although a small decline in enrollment is projected for the elementary schools, enrollment in the Middle School is expected to increase by 2.0% and in the High School by 5.2%. Therefore, the budget reflects the increased staffing needs due to increased enrollment.

The Finance Committee has fully funded the School Committee's voted FY 2012 budget, and is recommending an additional allocation of $4,000. The additional funds will pay for AESOP attendance software which was designated by the School Department as its highest priority non-budgeted need. The software is expected to increase efficiency and ensure that there are adequate substitute teachers when needed, equipped with appropriate lesson plans. The recommended FY 2012 School Department budget includes the use of $500,900 in one-time funds to meet ongoing needs. While this step is needed to maintain the current level of service at the schools for FY 2012, other sustainable funding sources are needed in the future. In an effort to promote sustainability and reduce the reliance on one-time money, $300,000 has been allocated from the tax levy in FY 2012 to reduce the School Department's use of one-time revenues for operating expenses.

<u>Minuteman Regional High School</u>
The Minuteman Regional High School's preliminary assessment for FY 2012 is $562,637, an increase of $193,376 from FY 2011, primarily due to increased enrollment.

Cash Capital

At the time of this writing, the Finance Committee has not yet completed consideration of the capital-related warrant articles. The Finance Committee anticipates recommending an appropriation of approximately $1.7 million for General Fund Cash Capital. This amount will allow the town to adhere to its capital maintenance plan. Almost 80% of the General Fund Cash Capital request funds ongoing programs and scheduled capital replacements. The remainder covers high priority new projects or enhancements.

Closing Thoughts

The Finance Committee is recommending a balanced budget that will continue to provide a high level of services to the citizens, maintain and improve the Town's infrastructure, and meet the Town's capital needs. Despite current economic challenges, the Town has exercised restraint and made great strides to contain costs where possible.

The Finance Committee would like to recognize the hard work and dedication of the Town Manager, the Director of Finance, the Superintendent of Schools, their respective department heads and managers, as well as all the citizens who dedicate their time and effort to serving our community through elected and appointed positions. We could not accomplish our mission without their generous assistance and support.

The Chair would also like to thank each member of the Finance Committee for their dedication and meticulous work examining and prioritizing financial issues, balancing the budget, and reviewing the Town's capital plans and investments.

Respectfully submitted on behalf of the Committee,

Rick Zimbone

Chairman

Committee Members:

Richard Zimbone, Chair	Richard Lunetta
Matthew Borrelli, Vice Chair	Gary McNeill
Lisa Zappala, Immediate Past Chair	Richard Reilly
John Connelly	Steven Rosenstock
Richard Creem	Louise Mizgerd, Executive Secretary