

NOTE: The FY2021 budget was finalized and voted as the COVID-19 crisis was in the very early stages. The Finance Committee has not changed its recommendation. This budget is expected to meet the Town's anticipated needs over the coming months as we seek to more fully understand the effects of the pandemic on the Town's operations and expenses, as well as on the projected revenue. To the extent revisions are deemed necessary, the Finance Committee would seek to amend the FY2021 budget at the Special Town Meeting planned for October 5, 2020.

March 15, 2020

Fellow Town Meeting Members,

The Finance Committee is pleased to present its 109th Annual Report to Town Meeting along with its recommended operating budget for Fiscal Year 2021. Our recommended FY2021 budget fully funds the continuation of services of FY2020, along with some carefully considered additional staffing and expanded programs and services. Revenue growth has moderated after some years of significant new growth, particularly in the commercial sector. The Town is enjoying new facilities such as the Rosemary Complex, the Sunita Williams School, and the Memorial Park Building. The Public Safety headquarters and Fire Station #2 projects are well underway. Other projects such as a new DPW Complex and reconstructed Mitchell School are on the horizon. These improvements come at a cost, not only in debt service to finance the construction costs, but also in the form of increased maintenance and other operating costs.

The Finance Committee carefully considers all proposed spending and keeps a close eye on the tax burden placed on residents. The Town voters have approved two significant debt exclusions in recent years for the Sunita Williams School and the Public Safety facilities projects that have allowed the Town to raise taxes higher than the tax increases otherwise allowed under Proposition 2½. These increases will remain on our tax bills for years to come. The Town also expanded the operating budget significantly in FY2020 to fund the new full-day kindergarten program and to provide for a significant increase in the number of firefighters. For FY2021, there are some additional staffing increases, including a very substantial increase in special education teachers, the last phase of a Police staffing increase, and funds to maintain services in Public Health that have been provided by positions that were funded via an outside grant for 10 years. The Finance Committee has expressed concern about the number of new positions and has cautioned administrators that the current rate of growth in headcount is not sustainable. It is worthwhile to note that staffing increases are not only difficult to reverse but tend to be accompanied by significant employee benefit and legacy costs, which amount to approximately 30% in additional expense. At the writing of this letter, it is not possible to anticipate the possible impact of COVID-19 on the Town's revenue or expenses.

This letter contains an overview of the FY2021 budget followed by more detailed explanations. The Budgetary Overview section takes a high-level look at the amounts available for General Fund appropriation as well as the main drivers of the proposed increase in the operating budget. This section of the letter closes with an expression of the Committee's concerns looking forward. The second "Components" section of the letter looks at the changes in the individual segments of the Operating Budget.

I. Budgetary Overview

A. Amount Available for General Fund Appropriation

The FY2021 proposed budget and overall spending plan is based on a revenue projection of \$203.5M, which is \$8.8M or 4.5% greater than FY2020. The amount includes \$200.7M of revenue in the General Fund, plus funds from other sources, such as funds for CPA-related debt and reimbursements from the Enterprise Funds. General Fund revenue comes primarily from property taxes, plus monies from state aid, and local receipts. Additional funds available for appropriation also come from Town reserves, free cash, and other sources such as unexpended appropriations. Property taxes are the primary source of General Fund Revenue, making up almost 80% of the expected General Fund revenue in FY2021. In total, property tax revenue is increasing by \$10.5M or 6.9% in FY2021.

State aid, which accounts for 7% of the estimated General Fund revenue, is projected to increase by \$1.1M or 8.3% to \$14.2M. This number is conservative, as it is based on preliminary state aide estimates. The actual state aid will ultimately depend on the state budget which is still working its way through the legislature. The major component of state aid is Chapter 70 school aid, accounting for 81% of all state aid to the town. It is projected to increase by almost \$1.1M or 10.1% in FY2021. The formula for determining the amount allocated to a given town is based on the prior year's school enrollment. Kindergarten enrollment has effectively doubled for the purpose of calculating Chapter 70 reimbursement following the change this year from a half-day to a full-day kindergarten program. The second largest component of state aid and accounting for approximately 13% of the town's state aid total is Unrestricted General Government Aid which is expected to increase by \$52K or 2.8%.

Local receipts are estimated to bring in a total of \$14.4M or approximately 7.1% of General Fund revenue in FY2021. Local receipts include motor vehicle excise taxes, hotel and meals taxes, charges for services such as ambulances, and license and permit fees. These local receipts are expected to increase by \$1.2M or 8.7% over FY2020. This estimate includes a significant increase in solid waste fees of \$195K or 24.5%. Solid waste fees are new to the General Fund following the dissolution last year of the RTS Enterprise Fund. The category "Other Excise", which is mostly meals and hotel taxes, is estimated to increase by \$250K or more than 17%. The Local Receipts estimate also includes a large increase in investment income of \$275K as recent investment returns have been quite favorable, in the wake of some very low returns in the early to mid-2010s.

The amount of Free Cash to be certified this year is estimated to be \$9M as of this writing, \$1.4M less than the amount certified last year. The actual amount that will be available has not yet been certified by the Department of Revenue. Free Cash is the result of revenue collections that exceed estimated revenue and from expenditures that are lower than appropriations at the end of the prior fiscal year (in this case, unused funds from FY2019, which will be certified in FY2020 and can be applied to FY2021 needs.) Due to the Town's tendency to budget and spend conservatively, the level of Free Cash tends to be significant year to year. However, because the amount of Free Cash is volatile, most of it should be used for one-time expenditures. Only that portion which is likely to be repeated year over year should be deemed recurring and applied to the operating budget. For FY2021, just under \$1.5M of free cash is recommended to be allocated to the operating budget. Free Cash that is not appropriated in the year it is certified will flow into the Free Cash for the following year.

Other funds proposed for appropriation by Town Meeting include \$1.4M of CPA funds to be applied to the FY2021 operating budget for CPA-related debt service, as well as \$1.3M of funds from the Enterprise Funds to reimburse the Town for costs and services such as information technology and insurance. In addition, funds subject to appropriation include certain earmarked funds, offsets, and remaining funds from warrant articles from prior years that were not needed for the designated purposes.

B. Allocations for General Fund Appropriation for FY2021

Operating Budget	\$190.2M
Cash Capital (including individual articles)	\$6.6M
Financial warrant articles	\$3.0M
Reserve/stabilization funds	\$0.1M
<u>Other disbursements</u>	<u>\$3.5M</u>
Total	\$203.5M

Please note that, although the Finance Committee's recommended FY2021 operating budget was voted prior to the issuance of this report, other appropriations proposed in the various other warrant articles and their funding sources were still under consideration and final recommendations may vary. The Other Disbursements line above includes \$3.5M. These funds, which do not require Town Meeting appropriation, include certain state and county assessments, tax title fees, and almost \$2.0M to be set aside in the Overlay Reserve account which is established annually to cover possible abatements and exemptions. Surplus from the Overlay Reserve account that is not needed can be released and appropriated later in the year.

C. Operating Budget

The amount allocated to the Operating Budget, \$190.2M, is increasing \$12.0M, or 6.7%, over the Operating Budget for FY2020. The primary drivers of this increase are:

Townwide Expenses	Up \$4.9M, or 8.5%
Education	Up \$4.7M, or 6.2%

For the fourth year running, the largest portion of the annual increase in Townwide Expenses is attributable to Debt Service, which is increasing \$2.1M, or 10.9%. While this increase is sizable, it is just over half of the amount of the increase seen last year.

Funding for education makes up 63% of all departmental budgets, and is increasing 6.2%, primarily due to contractual salary increases and additional special education staffing needs. Additional staff positions in the School budget (14.2 full time equivalents (FTEs)), as well as those in other budgets (7.9 FTEs), require a corresponding increase in employee benefits within Townwide Expenses. The total increase for the Education portion of the budget is tempered by an estimated \$1.1M increase in Chapter 70 school aid reimbursement from the state, as discussed above.

D. Finance Committee Perspective

While Needham continues to enjoy a strong economy and revenue base, the Finance Committee remains concerned about maintaining sustainable spending practices. Needham's revenue is primarily attributable to property taxes, however, the Town has limited (though still meaningful) exposure to cuts in federal aid and grant funding. The Finance Committee seeks to cover all core government services in the operating budget to reduce some of that exposure. However, it is critical that the Town limits spending to the growth in revenue, particularly because state law requires a balanced budget each year. The Town has completed a number of significant major facilities projects recently, including the Rosemary Recreation Complex, the Sunita Williams School, the Memorial Field House and the Jack Cogswell Storage Facility, and is in the midst of the multi-part Public Safety construction project which will provide a new headquarters for the Police and Fire departments and a rebuild of Fire Station #2. Future anticipated major construction projects include the Mitchell School, DPW administration, and the Emery Grover buildings, to name a few. The costs of these projects extend far beyond the costs of construction and associated debt and have consequences in the operating budget such as higher maintenance costs, not only for cleaning and repairing more space, but also for the technical expertise needed for increasingly complex systems. Also, the newly constructed and updated facilities often generate opportunities for expanding services and programming, which have attendant operating costs. The Finance Committee is vigilant about vetting requests for new services, especially those that require increased staffing levels. As we have noted before, staff increases drive up not only salary costs, but also costs for employee benefits, post-employment benefits, and retirement. In the FY2021 budget, benefits costs, including legacy costs, are 32% of the annual salary costs. We have experienced that once a position is funded in the operating budget, it tends to remain indefinitely. The Finance Committee supports well-justified staffing increases. The FY2021 budget includes a notable increase in Special Education staffing, which not only provides important services, but can make it possible to avoid the need to seek such services outside of the district at a higher cost. The budget also includes the final phase of a planned increase in Police department staffing to meet growing and more complex service needs. The Finance Committee continually considers the tax burden that is placed on the residents by the various spending choices, and asks hard questions and makes difficult decisions to balance the increasing needs of the community with the need for fiscal restraint, and the need to be prepared in an uncertain world.

II. Examination of Components of Proposed FY2021 General Fund Operating Budget

This section addresses the details of the Finance Committee's recommended General Fund operating budget for FY2021. The total recommended operating budget for FY2021 is \$190,247,810, an increase of \$12.0M, or 6.7%, over the current FY2020 operating budget. A primary driver of the budget increase is higher debt service costs. The debt service costs have been increasing due the construction costs relating to several recent significant capital projects. Another significant driver of the increase is due to rising salary costs associated with the Schools. Because the primary function of Town government is providing services, whether these services cover the area of education, public safety, public health, or public works, most costs are related to employees, particularly salaries and benefits such as health insurance. The Finance Committee urges the Town to continue its efforts to carefully manage headcount and to scrutinize requests for additional staffing.

A. Townwide Expenses

Townwide Expenses are costs that are incurred by the Town or that apply across many or all departments, and include things such as property insurance, energy costs, and employee benefits. The Townwide Expense portion of the FY2021 budget increase is 8.5%. As noted above, the largest component is the

increase in debt service payments. Other notable increases include Retirement Assessments, and Classification, Performance and Settlements.

Casual, Liability, Property and Self-Insurance: This line item accounts for the insurance coverage that the Town obtains through the Massachusetts Inter-local Insurance Agency (MIIA) for buildings, vehicles, property damage, auto liability and general liability, as well as a small contingency for non-covered claims. This line item is up 6.2% in FY2021, due to additional coverage for new facilities including the Memorial Park Building, modular classrooms at the Mitchell School, and the Sunita Williams School. The increase has been tempered by loss prevention and risk mitigation efforts that have created premium savings.

Debt Service: This budget line covers payments for outstanding debt obligations for excluded debt (as a result of Prop. 2 ½ overrides), Community Preservation Act debt, and debt funded within the levy. The FY2021 Debt Service line is increasing by 10.9%, or just under \$2.1M. Debt costs for debt within the levy are increasing 5.7% while the costs for excluded debt (which account for approximately 69% of this budget line) are increasing by 12%. Most of the increase is driven by new borrowing for the construction of the Public Safety buildings (the Police and Fire headquarters, and Fire Station #2) as well as costs related to the Sunita Williams School, the Rosemary Recreation Complex and the High School expansion. Debt service costs for the Public Safety project are expected to continue increasing for 2-3 more years, while the debt service for the Williams School is expected to decrease next year, both are funded with excluded debt. Debt service costs typically fluctuate through the years in accordance with the borrowing schedules for the Town's significant capital projects.

Group Insurance, Employee Benefits and Administrative Costs: This line is increasing by only 3.8%, or \$595K. This line includes an assumed 8% increase in health insurance premiums, as well as provisions for additional subscribers and an increase in the number of eligible employees. However, the health insurance portion of the costs in this line is actually decreasing slightly in the wake of the transition of all employees to the new benchmark plans which have lower premiums. The Workers Compensation costs in this line are increasing due to increased claims and declining reserves. The Town is self-funded for workers compensation, and unused funds may roll over into the reserve. Costs for Medicare, Social Security Tax, and for Unemployment are increasing 3.7%, 4.3% and 4.0% respectively.

Needham Electric Light and Gas Program: This program covers the costs relating to electricity and natural gas usage, the costs of maintenance and repair of streetlights, and the costs of producing solar electricity that is sold to the grid. This line has an increase of 4.1%, or \$155K, in FY2021. The increase includes additional energy costs for the full year for the new Sunita Williams elementary school, the Memorial Park field house and the additional Mitchell School modular classrooms, as well as opening of the new Fire Stations and the Jack Cogswell Storage Building. The projected cost of electricity is increasing, while cost of natural gas is decreasing. It is important to note that the cost of producing solar power is included in the energy operating budget, but is offset by revenue projected to be in the range of \$1 million which comes into the General Fund from lease payments for property used for the solar arrays and by the sale of electricity generated by the arrays.

Retiree Insurance and Insurance Liability Fund: This line is going up 4.2% or \$291K in FY2021. The program, also known as "OPEB" (other post-employment benefits), provides funding for benefits other than pensions for eligible retirees, such as health insurance. The assumed rate of return for OPEB funds was reduced from 7.50% to 7.25% in the FY2020 budget, and down to 6.75% in the FY2021 budget. The funding schedule for FY2021 is based on updated mortality tables and changes in assumptions such the expected number of retirees and spouses and the costs of Medicare supplement plans, which has decreased due to the change in the Town's health plan offerings. An actuarial analysis was completed on June 30, 2019 and found that the OPEB funded ratio was 35.26% of its projected liability. While this funding level compares favorably to our peer communities, it remains a significant gap.

Retirement Assessments: This line, which funds pensions for retirees as well as unfunded pension liability, is increasing by 9.5%, or \$825K in the FY2021 budget. The Retirement Board had reduced the assumed rate of return for pension assets to 7.25% for FY2020, which resulted in an increase to the annual contributions on the funding schedule. A new actuarial analysis will be completed to inform changes moving forward. The Town's funding status was 68.8% as of January 1, 2018 and maintains a goal of funding outstanding unfunded pension liability in full by June 2030.

Classification, Performance, and Settlements: This line item is budgeted at \$1.3M for FY2021, an increase of 50% more the amount budgeted for FY2020. These funds serve as a reserve for additional personnel-related costs during the fiscal year, including performance-based salary increases for managers or increases resulting from new collective bargaining agreements. The funds may be moved to the budget for the various departments as needed during the fiscal year. As of the date of this report, the collective bargaining agreements for the Needham Police Union, the Needham Police Superior Officers Association, and the Needham Fire Union had not yet settled for FY2021. Therefore, the FY2021 budgets for the Police and Fire Departments do not include funding for salary increases for positions covered by those unions.

Reserve Fund: Funds held here may be accessed for extraordinary or unforeseen budget needs that arise during the fiscal year. Transfers from the Reserve Fund to other budget lines must be authorized by the Finance Committee. The initial budget request for this line is determined through a formula, but that amount is tweaked during the budget process to balance the budget. In the past, the Reserve Fund has been used to fund expenses such as unexpected legal costs or extraordinary costs associated with snow and ice removal. For FY2021, the recommended Reserve Fund appropriation is \$2,077,091, an increase of 10.4% over the FY2020 budget. This increase is higher than usual, due to the deferral of several positions that were proposed as part of the operating budget, but about which the Finance Committee had reservations at the time it voted on the budget. The funds for those positions were moved to the Reserve Fund. To the extent that the Reserve Fund has a balance at the end of the fiscal year, the funds will flow to free cash for use in a future year.

B. Municipal Departments (excluding Education)

The Municipal Departments category includes 20 different budgets for operational departments, boards, and committees, as well as the municipal parking program. This report groups the Municipal Departments by functions. It is important to note that, as mentioned above, the recommended budget does not include salary or wage increases for positions covered by the unions which have not yet reached agreements with the Town, specifically: the Needham Police Union, the Needham Police Superior Officers, and the Needham Fire Union. If these departments need additional funding for related salary increases during the fiscal year, the funds may be transferred from the Classification, Performance and Settlements line in Townwide Expenses.

General Government

The FY2021 proposed budget for all General Government departments is 7.3% higher than the FY2020 budget, primarily due to increasing technology-related costs.

Select Board/Office of the Town Manager: This budget is increasing 3.6%. This includes a request for expenses related to community events organized by the Office of the Town Manager including the Blue Tree Lighting, Needham Lights, and the Winter Arts Festival, and also provides additional funding for Human Resources consulting and advertising.

Office of Town Clerk and Board of Registrars: This budget is increasing by 8.9% due to typical fluctuations attributable to election-related wages and expenses. In FY2021, the Town will conduct three

scheduled elections, including a presidential election with early voting, compared to two elections in FY 2020.

Town Counsel: This budget remains flat for FY2021.

Finance Department: This budget includes a 9.9% increase. This significant increase is driven by a 22.9% increase in the expense line to cover increasing software licensing costs in Information Technology Center (ITC). The Town is using more cloud services to address backup and security needs and has used more outside consultants. The FY2021 budget for this department also includes some new ITC expenses to support specific other departments, including applicant tracking software for Human Resources and electronic medical records and billing programs for Health and Human Services. ITC will also be undertaking a new network security enhancement that will upgrade network security, and provide better communications and resiliency, particularly for Public Safety. There will be new software to control electronic traffic through the Town's firewalls and filters. Because of the significant costs of the security enhancements, the costs for the network security upgrades are being phased over two years, during the last half of FY2021 and into the first half of FY2022. The FY2021 budget does not fund ITC's request for additional funds for a high school student intern. It is anticipated that such cost can be absorbed by the part-time and temporary salary line within the requested base budget. The operating capital line is up 18.8% for the Finance department due to an increase in the number of technology users, and an increase in the number of replacements for computers, printers and smaller network components.

Finance Committee: This budget is essentially level funded.

Planning and Community Development: This budget is increasing by 7.3%. This includes additional funding for 5.8 hours per week for a staff member to serve as Recording Secretary for the Design Review Board. A request for design funds for a trail mapping project is being pursued through a warrant article to be funded via Community Preservation Act receipts.

Public Safety

The Public Safety category, which includes the Police, Fire, and Building Departments, has a combined increase of 3.1% in the FY2021 budget. This increase is small because several public safety collective bargaining agreements were not yet settled when the Finance Committee voted its FY2021 budget recommendation. As noted above, funds have been provided for in the Classification, Performance, and Settlements line in Townwide Expenses for any personnel-related increases needed after the budget is approved.

Police Department: This budget is increasing 5.3%. The Police Department salary line includes increases for administrative staff and dispatchers, but no increases for the salaries of the personnel in collective bargaining units as mentioned above. The Police Department's FY2021 budget salary line includes new funding for two additional Police Officer positions. These new positions will help address increased demand for specialized services, as there has been a growing need for the Police to address more complex situations. This staffing increase completes a three-year plan to add four officer positions in accordance with a recent Police Department strategic staffing study. These are all benefit-eligible positions that increase the benefits line and the Town's retirement liabilities under Townwide expenses. The Police operating capital line is up significantly (about \$150,000 higher) in FY2021 for two reasons: the department is piloting a hybrid cruiser which costs more upfront, though the savings and fuel costs are expected to be higher than the incremental purchase cost; also, Ford changed the body style of the vehicle model that the Department purchases, therefore certain equipment that is typically transferred from an older cruiser to the newer one will, instead, need to be replaced. One cruiser replacement is being deferred to FY2022 as the Department is stretching out its replacement schedule, which should produce cost savings compared to the previous schedule.

Fire Department: This budget is increasing by 1.6% in FY2021. As in the Police Department's budget, this does not include salary increases for positions covered by the Fire Union. The Fire Department staffing level increased significantly last year with the addition of 8 new fire fighters. These positions have been supported by grant funding, which will decrease from 75% coverage (for the first 9 months of FY2021) to 35% (for the last 3 months of FY2021), as the town enters the third and final year of the grant. The FY2022 budget will use the remainder of the grant funding, and the FY2023 budget will then need to absorb the full costs for these salaries. The Fire Department operating capital line includes funding for protective gear for newly hired or promoted firefighters.

Building Department: This budget is essentially level funded with no change in the expense line, and a 0.3% increase in the salary line.

Public Facilities and Public Works

The total combined budget for the Building Design and Construction Department (BDCD) and the Department of Public Works (DPW) is increasing by 6.0%.

Building Design and Construction Department (BDCD): This budget is increasing by a modest 1.3% due to increases in salary for existing staff combined with a flat expense budget.

Department of Public Works (DPW): This budget is increasing by 6.2%. This department maintains the infrastructure such as roads, parks, and trash disposal, but also covers building maintenance and small construction projects. Since the Town has added several new buildings and upgraded existing buildings in recent years, there are more spaces to maintain and more sophisticated systems to manage. The FY2021 budget includes funding for two new positions to address expanding needs: Assistant Director of Building Maintenance, and a Custodian. The Finance Committee did not fund a request for a Project Manager to oversee DPW construction projects. It appears that this work can be handled by the new Assistant Director of Building Maintenance, or by BDCD project management. The FY2021 budget funds requests for additional overtime hours to provide Sunday trash pick-up from Town trash receptacles at fields and other places that are busy on Saturdays. Additional funding in the budget is also provided for a vehicle wash service that will help comply with pollution control requirements, a roof maintenance contract to extend the useful life of roofs and avoid costly replacements, and additional roadway marking work to improve safety. Requests for contracted garden bed maintenance at the schools and additional overtime hours for refurbishing trash containers were deferred. The Finance Committee also deferred funding for an additional manager for service and parts in the Fleet Division or for an HVAC Technician.

Community Services

The seven departments in the Community Services section of the budget represent less than 3% of the overall FY2021 operating budget but provide valuable services to residents and businesses throughout the community. The services provided by these departments are funded primarily through the operating budget, but they also secure substantial funding from fees, grants, and donations, and also receive support through volunteer services. The Community Services budgets have an overall increase of 9% due to increased services in the Health and Human Services (HHS) division, as well as new summer staffing in the Park and Recreation Department which was funded through a warrant article for FY2020 and is being added to the operating budget this year.

Municipal Parking Program: This budget is up 12.1% due to an increase in contracted maintenance and repair costs. A request for additional pest control activities was funded but was added to the HHS budget to consolidate these pest management services. The budget also includes increased leasing costs for the three leased lots.

Health and Human Services (HHS): The HHS Department is made up of four divisions: Public Health, Aging Services, Youth and Family Services, and Veterans' Services. HHS also shares certain Emergency Management functions with the Fire Department. The HHS budget is increasing 10.4% in FY2021. This increase funds a request for a Senior Substance Use Prevention Program Coordinator and a Project Coordinator to continue the activities of the Substance Abuse Prevention Alliance of Needham (SPAN) following the expiration of a 10-year federal grant. The first quarter of the fiscal year will still be covered by the grant, so the FY2021 budget will cover 75% of these salaries. The FY2021 budget also funds a request for expanded programming for the Center at the Heights (CATH), which includes two additional part-time staff. First, a Program Support Assistant will provide additional programming, as the Friends of the Center at the Heights are phasing out programming support. Second, an additional Van Driver will provide more transportation to and from the CATH. The renewed request for a Director of Public Health was not funded in the FY2021 budget recommendation. The Finance Committee recognizes that the Board of Health may need additional support, but it is not clear that the additional management position was warranted. The FY2021 budget also funds a request for additional Environmental Health Inspection hours to provide more inspections and enforce safety codes. The HHS budget includes funding for a pest management program for the municipal parking lots. This position was originally requested through the Municipal Parking Program budget but was moved to HHS in order to consolidate this expense with other pest control activities.

Commission on Disabilities: No change in this small budget department.

Historical Commission: No change in this small budget department.

Needham Public Library: This budget is increasing 6.1% in FY2021. It includes an increase in pay for part-time and temporary staff to be more competitive with neighboring communities and help retain trained staff. There was also an increase in costs for the Library's database subscriptions. The Finance Committee recommends deferring several requests for funding Library expenses such as costs for certain electronic media subscriptions and expenses relating to handling interlibrary loan materials. These items have been funded through the Library's state aid account, which has sufficient funds to continue to support these programs at the current time. The Finance Committee has had many discussions over the years on whether costs should be included in the operating budget when there is ample money in the Library's state aid account. The Finance Committee understands that certain core services should be funded in the annual operating budget. However, the Library's state aid provides a unique opportunity for external funding. The Finance Committee was informed that the Library Trustees are planning to implement a policy for the Library's use of state aid funding, which should provide guidance during the budgeting process in the coming years. The Library requested funds for a consultant to study Library space issues and to provide guidance on how to carve out additional space for small meeting or study rooms, and the possibility for installation of a yet-unfunded book-sorting machine.

Park and Recreation: The Department budget is increasing by 11.3%, primarily due to a need for additional seasonal staff to operate Rosemary Pool facility, and an increase in the part-time and temporary wage scale due to increases in the state minimum wage. This budget includes funding for an Aquatics Specialist to help the Assistant Director of the department to oversee the pool operations and for four additional lifeguards for the summer season, as well as funding to continue the incentive bonuses for staff to work later in the summer. These positions and expenses were funded through a warrant article in FY2020 and are being moved into the operating budget, as they are necessary for operations and will further ensure the safety of the large number of swimmers. The Finance Committee budget also supports funding additional booth staffing for processing payments, selling ice cream, and maintaining records. Notably, the Rosemary Pool revenue was substantially higher than the costs for running the facility in calendar 2019.

Memorial Park: No change in this small budget department.

C. Education

The recommended FY2021 budget for public education, which includes both the Needham Public Schools operating budget and the Minuteman Regional School Assessment, is \$81,835,024, an increase of 6.2%.

Minuteman Regional High School Assessment: The assessment for FY2021 is \$1,099,935 which is up a modest 1.4% after a significant increase last year. The assessment is based on expected enrollment as well as the town's apportionment of the Minuteman district's capital costs.

Needham Public Schools: The budget for FY2021 is \$80,735,089, which represents 63.2% of Needham's departmental budget. It is important to note that this figure does not include the expenditures associated with School building costs such as maintenance, energy, or debt costs. Nor does this line include the costs for benefits for the School Department employees which are included in Townwide Expenses with the benefits for all Town employees. (Teacher pensions are not in the Town operating budget but are carried by the state.) The Finance Committee's recommended budget for the School Department in FY2021 includes an increase of \$4.7M, or 6.2%, and fully funds the School Committee's voted budget. Because state law allows Town Meeting to vote only a total appropriation for the School Department, without restrictions or allocations, the Finance Committee's recommended budget provides a single bottom line recommendation for the School budget. The Finance Committee does, however, carefully review the Superintendent's requested budget and the School Committee's voted budget.

The School budget increase for FY2021 is a result of contractual salary increases, increases in school enrollment, and an increasing need for student support services. Salaries are the most significant part of the School budget, accounting for approximately 85% of the total budget. Contractual salary increases account for just over 60% of the increase for FY2021. The contractual step and cost of living increases have remained within sustainability benchmarks, but other factors have caused the salaries to increase more than expected. The rate of staff turnover decreased this past year resulting in more senior and therefore more highly paid staff not being replaced by new, lower paid staff at usual rates. There have also been more lane changes, where teachers earn salary increases with completion of additional educational programs. Another reason behind the increase in the School budget is the projected increased enrollment, particularly at the elementary level. While enrollment decreased slightly in FY2020, it is expected to increase in FY2021. Needham's enrollment growth precipitated a need for additional teachers at all levels, as well as more hours for assistant principal and instructional assistants.

The most significant driver of the increase, however, is in the areas of student support services and special education. Approximately 10 additional FTEs will be needed to meet increased student needs, and to set appropriate caseloads for special education teachers. The additional staff will also help to build capacity for certain services at the schools, which can help to avoid costly special education out-of-district placements. The Finance Committee is concerned about the rate of growth of staffing in the School department. The School budget has been increasing at an unsustainable rate, with staffing levels increasing much faster than enrollment growth. The FY2020 budget included a strategic program expansion with a planned funding source, but the goal moving forward will be to keep increases within the Town's rate of revenue growth.

III. Closing Comments

The Finance Committee's recommended budget for FY2021 provides the resources needed to fund ongoing capital projects, and to sustain or improve the high level of services that local residents and businesses currently enjoy. The budget shows that fiscal restraint and careful planning have enabled us to

address the growing capital and service needs, but also to prepare for upcoming demands. The Town must continue to consider not only the benefits of each project it undertakes, and the associated capital costs, but the effects on the Town's overall debt capacity, the long-term implications to the operating budget, and the burden on individual taxpayers.

On behalf of the Finance Committee, I would like to recognize the outstanding work of Town and School Administration, the Directors of Finance for the Town and Schools, and the department heads and managers who all worked closely with the Finance Committee throughout the budgeting process, and in preparation for Town Meeting. The Finance Committee greatly values the candid discussions and honest efforts by the various managers who provide useful information and help to the Finance Committee as it seeks to evaluate and balance competing operational needs. The Finance Committee would also like to recognize the residents who dedicate their time and expertise to serving our community through elected and appointed positions. We could not accomplish our mission as effectively without their hard work and cooperative spirit.

I would also like to thank each member of the Finance Committee for their dedication and meticulous work in reviewing, examining and prioritizing financial issues, balancing the budget, and assessing the Town's capital plans and investments. I am lucky to serve alongside such dedicated and talented people as we seek to make recommendations that will serve the best interests of the Town and its residents.

Respectfully submitted on behalf of the Finance Committee,

A handwritten signature in dark ink, appearing to read 'T. M. Jacob', with a stylized flourish at the end.

Thomas M. Jacob, Chair

Committee Members:

Carol Smith-Fachetti, Vice Chair

Barry J. Coffman

John Connelly

Joshua W. Levy

Richard Lunetta

Louise L.E. Miller

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