

**Town of Needham
Finance Committee
99th Annual Report
Fiscal Year 2010 Budget Recommendation
March 2010**

Fellow Citizens:

In a year where there have been budget shortfalls at the state and local level throughout Massachusetts, often resulting in significant cuts in personnel and services, we are presenting a budget that focuses on fiscal restraint and sustainability, without reducing services to the residents of Needham. Despite the difficult economic climate, we believe this budget achieves the balance of meeting today's needs while preparing for future needs.

While the stock market and certain national economic statistics have shown signs of improvement recently, the state revenue picture continues to be unfavorable. The difficulties at the state level have led to cuts in local aid. Needham's revenue growth during 2010 was 3.1%, the lowest it has been in several years. In contrast, the Town's revenue had grown 4-6% in each of the previous five years. Because of these economic conditions, the Town budget for FY 2011 is based on a conservative estimate of revenue. The most significant cuts to state aid and town revenue have had a great impact on the School Department budget, as several state aid reductions were targeted at school aid and grants, specifically the reduction of reimbursement through the special education circuit breaker program. Although the state has attempted to replace school aid with federal stimulus funds, the stimulus money is only available for one year and therefore raises deep concerns for FY 2012, as there is no assurance going forward that the state will have the resources to return school aid to past levels.

The lower level of expected revenue has shaped the Town Manager's approach to formulating the Town Manager's recommended operating budget for FY 2011 and the outlook for FY 2012. The budgeting process has focused on attaining "sustainability" in the long term combined with fiscal restraint in the short term. As the School Committee looks beyond FY 2011 to FY 2012 without stimulus grant support, it faces serious challenges. The emphasis on long-term sustainability has shifted the Schools' focus to class size and investments that will reduce the growth in special education costs. The Town Manager has concentrated on constraining costs in the Town's other operating budgets, focusing on large cost areas such as salaries, benefits and energy. In the area of salaries, the Town's employees have also thankfully shown fiscal restraint by agreeing to no cost of living increase, led by the Town Manager's willingness to forgo her own contractual salary increase. Many of the Town's unions have also agreed to contract extensions with a zero cost of living increase for FY 2011. However, there are still some unions that have not come to agreement on a contract that covers FY 2011. It should be noted that the budget as recommended here does not have money to cover a cost of living increase for the remaining unions, the largest of which is the teachers' union.

The Town Manager has also focused on offering new employee benefit plans that are less costly, more commonly known as “rate saver” plans, and incorporating these less costly plans into as many union contracts as possible. This change will hopefully reduce the rise in health care costs and keep them within the town’s future revenue growth. Finally, the Town’s efforts to reduce the effect of rising energy costs have begun to bear fruit as this was the first budget where energy costs did not grow significantly, but in fact decreased from 2010 levels. These lower energy costs have positively impacted the Public Facilities Department which covers all the utility costs for town buildings and saw a decrease in the total budget of approximately \$498,000. In other budgets that have more minor energy costs, energy expenses have remained flat or incurred only a modest increase, and any increases were less than revenue growth.

As we move into a detailed discussion of specific budget areas, I would like to thank all those within the town that worked with us to achieve a balanced and restrained budget that provides for a consistent level of service to our citizens. We continue to support the Town Manager’s focus on “sustainability” and in these difficult economic times, fiscal restraint.

Special Town Meeting, November 2009

This year’s fall Special Town Meeting focused on some important capital requests, as we had no new revenue to allocate nor cuts to distribute to the operating departments. This is a result of a very conservative outlook on revenue last spring, which has helped the town sustain current year 9-C cuts that the state has made. And while the capital requests that were approved will require some significant investments by the town (for example the debt exclusion over-ride for the Newman School repairs), they were evaluated based upon the ability to sustain our infrastructure long-term at the most reasonable costs in terms of utilizing outside funding sources available through the state.

Revenue

The estimated total General Fund Revenue for FY 2011 is \$112,130,649, with \$111,979,261 available for appropriation. \$109,679,481 is being allocated to the operating budget, an increase of 3.1%.

The largest sources of revenue for Needham are property tax receipts, local receipts, and state aid. The growth in revenue assumes an increase in property tax receipts of 4.8%, over approximately \$4 million. This increase is primarily attributable to an increase in the Town’s taxable value, resulting from improvements to property, and increases in values, due to improved uses, reconstruction, and new construction, and to a lesser extent the increase in approved debt exclusion increases.

Local receipts in FY 2011 are estimated to remain level to the FY 2010 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. Local receipts collected by Needham have declined in the past few years. Given the uncertain

nature of the economy, local receipts for FY 2011 have been estimated to remain almost level, remaining significantly lower than the higher local receipts collected in FY 2008 and FY 2009.

State aid, or Cherry Sheet aid, is a function of the state budget process, and is projected to continue decreasing next year. The FY 2011 state aid is expected to decrease by \$1,062,433 from FY 2010, a 13.8% decrease. This is a conservative estimate in light of the Governor's released budget that recommends an increase to state aid or even the more conservative guidance from the House Ways and Means committee which estimates a modest decrease in local aid.

The Free Cash amount available for the FY 2011 budget is \$3,568,037, an increase of over 13%. Some of this increase is due to calculations used by the state Department of Revenue in certifying Free Cash, which resulted in the Town's Free Cash in FY 2010 to be lower, and the Free Cash in FY 2011 to be higher, than might have otherwise been expected. As such, the Free Cash is suited for short term needs.

The difficult economic climate at both the federal and state level has caused a decrease in projected state aid. In addition, the Town expects virtually no increase in local receipts. Despite these challenges, Needham expects to maintain the current level of services in all municipal departments, and to fund the School Department's requested budget. Because the Town's revenue comes primarily from property tax receipts, and because state receipts constitute a much smaller part of revenue, the Town expects to have sufficient revenue maintain level services for another year.

FY 2011 Operating Budget Recommendation

The total operating budget for FY 2010 is \$109,679,481, which is 3.1% higher than the FY 2010 operating budget. The Town's operating budget falls into three general categories: Town Wide Expenses, Municipal Departments, and Education.

Town Wide Expenses

Town wide expenses are increasing in most areas, most notably due to an increase in debt service, and an increase in health insurance costs. Debt service has increased substantially in order to cover excluded debt approved by voters for major capital projects, most notably the High Rock School. Health insurance costs also increased by more than 10%, caused by both a raise in the rates and an increase in participation in town plans by its employees, most notably an increase in teacher participation due in part to the increases in head count related to the High Rock School. Additionally, the Town has seen an increase in the number of employees previously insured elsewhere migrating to town health insurance. However, a planned restructuring of group health insurance, the offering of new plans that require higher deductibles and co-payments should provide for savings in coming years.

Municipal departments

The Finance Committee carefully considered the Town Manager's executive budget. The Finance Committee's recommended budget varies only slightly from that budget, and allows all municipal departments to maintain essentially the same level of services. The Finance Committee is recommending a total appropriation to the School Department that meets the School Committee's voted budget request, plus the funding of one position that had been slated for elimination.

General Government

The General Government budget remains virtually level for FY 2011, as the salary categories are either decreasing or modestly increasing. The expenses are level or decreasing for the most part. The Town Clerk/Board of Registrars expenses are increasing as there are three elections expected in FY 2011, without the state subsidies granted for two of the four elections in FY 2010. The Finance Committee is recommending an additional \$11,472 for the Finance Department to fund a contract support help for an open position until it is estimated it can be filled with a much-needed assistant town accountant.

Land Use and Development

The FY 2011 Land Use and Development budget increases by 2.5%. The budget anticipates savings due to the creation of a new Planning and Community Development Department which will consolidate certain needs of the Planning Board, Conservation Commission, and Zoning Board of Appeals, and aims to improve the efficiency and effectiveness of staff. The Zoning Board of Appeals and Conservation budgets are now combined, with the Planning Board budget remaining separate. There will be one Director of Planning and Community Development to oversee both budgets. The overall budget has small increases in the salary, combined with decreases in expenses.

Public Safety

The Public Safety budget has increased by 1.4% which primarily represents the contractually obligated step increases in union salaries. Both the Police and Fire Departments have submitted budgets with decreased expenses. The budgets are based on no increases in the number of employees, and the agreement by employees to forgo a cost of living wage increase for FY 2011.

Public Works

The Public Works budget, including the Department of Public Works, and the Municipal Parking and Lighting Programs, has increased only 0.4% since FY 2010, due in large part to anticipated savings in energy costs. The Public Works budget also provides for an increase in the DPW administrative salary budget due to office reorganization. While there was no net increase in the number of employees, there was a retirement after which the position was phased out, and a transfer out of the department, combined with two added positions. This budgetary impact will be one-time.

Public Facilities

The budget for Public Facilities decreased by 6.3%. The Finance Committee is recommending a lower expense budget, resulting primarily from an expected substantial decrease in energy-related expenses. The Town has seen lower rates for oil and natural gas. These lower rates, combined with decreasing energy usage, support a decrease in the department expense budget. The Finance Committee commends the department for its efforts in conservation.

Community Services

The Community Services budget is virtually level, with an increase of 0.2%. Most budget lines are very close to FY 2010, and with expenses level or decreasing, and no cost of living increases. Diversified Community Social Services has been restructured, so that the expense line has increased to include an assessment of the new regional Veterans Services District. The Town will be assessed for a portion of the District's expenses, such as staffing, veterans' benefits and expenses. The Health Department's requested increase represents only contractual salary increases, with no cost of living increase, and for one additional day for the Public Health Nurse to work on emergency preparedness.

Education

Needham Public Schools

The Finance Committee has fully funded the School Department's requested budget, and is recommending an additional teacher be funded at the secondary level. The additional teacher had been removed from the budget, but was pointed out as the highest priority unbudgeted need due to increased High School and Middle School enrollment.

Minuteman Regional High School

The Minuteman Regional High School's preliminary assessment for FY 2011 is \$369,261, a decrease from FY 2010 of \$66,472 due to a decrease in the Minuteman School overall budget while Needham's participation has essentially remained flat.

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 \$1.5 million for General Fund Cash Capital. This amount represents an increase from last year that will allow the town to adhere to its capital maintenance plan. 85% 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 providing our Town and its citizens with the services that are provided today, improve our

infrastructure and meet our capital needs, in one of the more difficult economic times the state has seen in years. We are doing that while still focused on how to build for the future, whether that is repairing Newman School, refurbishing the Town Hall, or planning for a new Senior Center. Even in difficult times we need to look at our infrastructure needs and determine best how to fund them. We will continue to work with the Town Manager, Selectmen and other Committees involved to work towards the best and most cost effective solution to maintaining services and the quality of the facilities we have in Needham.

The Finance Committee could not have accomplished our job this year without the generous assistance of the Town Manager and the Director of Finance, the Superintendent of Schools, their respective department heads and managers, and all the citizens who spend many countless hours serving our community through an elected or appointed committee. We take this time to thank everyone for their time, their attention and their assistance to us throughout the year.

The Chairman also wishes to thank each of the Finance Committee members who have worked this year to assist the town in examining financial decisions, balancing the budget and reviewing the capital improvements and investments the town is making. This is truly a group I have learned from, enjoyed working with and I think the Town benefits immensely from the time and professional assistance each one of you brings to our meetings and the tasks at hand. Thank you again for all your hard work. I would also like to acknowledge Louise Miller, our former Executive Secretary, and thank her for all the time and energy she devoted to assisting the Finance Committee. I know the Department of Public Works will benefit from her professionalism and energy as she works in her new job and we are happy that she will still be working with us as she assists the DPW during the budget process. Thanks again Louise for all your hard work and for supporting us in our endeavors to assist the Town.

Lisa Zappala, Chairman
Richard Zimbone, Vice Chairman
Richard Creem, Past Chairman
Matthew Borrelli
Richard Reilly

Steven Rosenstock
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