

Fiscal Year 2023 Proposed Budget

Revenue Summary

Funding Sources Summary

Table 2.1

Description	FY2021 Actual	FY2022 Recap	FY2023 Estimate	\$ Change	% Change
General Fund	199,252,605	208,022,156	219,092,630	11,070,474	5.3%
Enterprise Funds	17,935,104	16,888,046	16,051,870	(836,176)	-5.0%
Community Preservation Fund	3,699,419	5,523,522	3,679,090	(1,844,432)	-33.4%
Total Funding Sources*	220,887,128	230,433,724	238,823,590	8,389,866	3.9%

* Before adjustments, reimbursements, and subsidies

COVID-19 had an impact on the local economy starting in the last quarter of FY2020, and continued through most of FY2021. The negative impact that COVID-19 had, particularly on the hospitality industry, began to subside in the second half of FY2021, but with the spread of two different variants, the public became hesitant about resuming life as before COVID, some restrictions returned, and the economy showed signs of slowing. There is a sense of optimism that spring of 2022 will improve and FY2023 may be the year that most markets will have adapted to the new normal and COVID will no longer be the pandemic but annual endemic. The steps the Town took by adjusting revenue estimates for FY2021 and FY2022, and prudent use of one-time monies has proved beneficial and has allowed greater flexibility for FY2023 estimates than otherwise may have been possible.

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 funding sources for FY2023 will increase by approximately \$8.4 million or 3.9%. Because FY2022 included a significant increase in the use of one-time funds and reserves, the increase in recurring revenue, especially in the General Fund, may be missed. The actual amount of Free Cash available for appropriation is not yet known, but we estimate the amount will be more than recent years, because of the large turnback of Free Cash last year of more than \$5.1 million. For the purpose of this budget plan we assume \$12 million of Free Cash available for appropriation. This compares to the \$11,526,630 of Free Cash that was appropriated last year. The appropriations for FY2022 also included the use of \$1,735,913 of retained earnings. This budget plan has \$901,255 in retained earnings being used for appropriations for FY2023. The Community Preservation Act (CPA) revenue estimate of \$3,679,090 does not include the use of reserves to fund project requests. The Community Preservation Committee (CPC) has nine new project requests which total \$9,848,500. However, \$6 million of the request is proposed as CPA funded debt. If the CPC were to approve all the cash requests, all are fundable but not within the estimated CPA receipts for FY2023 and therefore would require use of reserves to fund.

GENERAL FUND

Table 2.2 (next page) shows total revenue available for General Fund appropriations projected at **\$221,312,262** or **\$10,861,294** more than FY2022. Revenue from the property tax is estimated to grow by approximately \$8.3 million, state aid is estimated to grow by \$354,002, and local receipts are estimated at \$1.2 million more than the current year. Free Cash for appropriation has been assumed at \$12 million for FY2023.

The use of reserves and other available funds is \$707,532 more than was used for FY2022. Free Cash is essentially level when compared to \$11,526,630 used for FY2022. The estimated total adjustment to General Fund revenues is \$209,180 less for FY2023 compared to FY2022. It is

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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.

Summary of General Fund Resources
Table 2.2

Description	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Recap	FY2023 Estimate	\$ Change
Property Taxes	141,476,623	150,349,498	161,661,687	170,833,899	179,159,468	8,325,569
State Aid	12,516,580	13,091,197	13,645,674	13,961,831	14,315,834	354,003
Local Receipts	16,526,784	16,058,350	14,589,825	10,375,000	11,585,000	1,210,000
Use of Reserves and Other Available Funds	3,259,147	3,879,196	1,492,947	1,324,796	2,032,328	707,532
Free Cash	13,298,378	10,337,871	7,862,473	11,526,630	12,000,000	473,370
General Fund Revenue	187,077,512	193,716,113	199,252,605	208,022,156	219,092,630	11,070,474
<u>Adjustments to General Fund Revenue</u>						
Reimbursements & Subsidies	1,608,064	1,325,500	1,330,058	1,407,415	1,250,000	(157,415)
CPA Share of Debt Service	441,494	1,185,317	1,425,000	1,021,397	969,632	(51,765)
Adjustments to General Fund Revenue	2,049,558	2,510,817	2,755,058	2,428,812	2,219,632	(209,180)
Available for General Fund Expenditures	189,127,070	196,226,930	202,007,663	210,450,968	221,312,262	10,861,294

FY2022 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, 2021 was \$11,311,678,964. This puts the tax levy ceiling at \$282,791,974. The tax levy including debt exclusions for FY2022 was \$170,833,899, 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 FY2023 tax levy attributable to new growth is estimated based upon information provided by the Assessing and Building Departments.

Property Tax Levy

The property tax levy (Table 2.3.1) represents approximately 81.8% (Table 2.8) of all general fund revenues before adjustments. The FY2023 property tax levy is estimated to increase approximately 4.9% over the FY2022 actual tax levy, or approximately \$8.3 million. This compares to the nearly \$8.4 million increase that FY2022 tax levy was over the FY2021 actual levy, or approximately 5.2% increase. The tax revenue to support operations within the levy limit is increasing by an estimate of 4.9% over FY2022. Property tax New Growth revenue has been much higher in recent years and the increase in FY2018 was a record high. The FY2023 budget plan assumes New Growth revenue of approximately \$3.2 million but may be amended when building activity through the end of 2021 is known. The New Growth revenue during the last two years continued strong due, in part, to the significant investment and installation of equipment by the public utilities during FY2021 and FY2022. New Growth revenue also was higher than would have otherwise been due to the reduction of the exemption in the Tax Incremental Financing (TIF) agreement with TripAdvisor from 76% of the original new construction value to one percent of the initial value. With the reduction in the TIF amount for TripAdvisor, the new tax revenue increased by more than \$1.4 million. The one percent exemption continues through FY2028. FY2021 also represents the first year

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for the ten year TIF agreement with NBCU which provides for a 70% deferral of the initial new growth value. However, the NBCU project delivered \$1.5 million in new personal property tax revenue for the Town in FY2020, revenue the Town would not have realized from a standard office complex development. The redevelopment of the former MUZI dealership properties is anticipated to generate yet another sizable bump in New Growth revenue within the next couple of years. The Town can take proactive steps now to secure those funds for the considerable investment in Town assets in the coming years.

Fiscal Year Tax Levy
Table 2.3.1

Description	FY2019 Recap	FY2020 Recap	FY2021 Recap	FY2022 Recap	FY2023 Estimate	\$ Change
Prior Year Base	126,800,868	134,370,075	142,426,994	150,539,475	159,034,818	
2-1/2 Allowance	3,170,022	3,359,252	3,560,675	3,763,487	3,975,870	
New Growth	4,394,835	4,697,667	4,551,806	4,731,856	3,200,000	
General Override						
Levy in Abeyance	(1,528,768)	(2,999,601)	(1,757,767)	(603,818)		
General Tax Levy Limit	132,836,957	139,427,393	148,781,708	158,431,000	166,210,688	7,779,688
Total Excluded Debt	9,867,324	12,922,651	14,448,298	14,375,000	13,676,256	
Less Excluded Debt Offsets	(810,295)	(800,307)	(791,205)	(766,324)	(727,476)	
Debt Exclusion Adjustment				(1,205,777)		
Excluded Debt to be Raised on Tax Levy	9,057,029	12,122,344	13,657,093	12,402,899	12,948,780	545,881
Property Tax Levy	141,893,986	151,549,737	162,438,801	170,833,899	179,159,468	8,325,569
Collections by Year End*	141,476,623	150,349,498	161,661,687			

*Includes collections of prior year taxes and pending refunds

The tax levy limit is calculated by increasing the FY2022 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 FY2022 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 approximately \$7.8 million over the FY2022 actual base levy. The amount of tax excluded debt that is to be paid by property taxes is estimated to increase by \$545,881 for FY2023 over the FY2022 tax levy. However, there was \$1,205,777 in tax levy to pay excluded debt in FY2022 that was deferred because the actual borrowing had not occurred prior to the time when the tax recapitulation report was submitted to the State. The Town can recover those funds in FY2023 even if the debt was paid during FY2022. Had the funds been raised during FY2022, the amount to be raised in FY2023 would have declined. The total excluded debt declined from \$14,448,297 in FY2021 to \$14,375,000 in FY2022. The excluded debt in FY2023 will decline to \$13,676,256. The final debt issues for the Williams School and the Public Safety buildings projects are planned for FY2022 through FY2024. The excluded debt service and its effect on the tax levy will decline after the next budget year, unless and until new projects are approved by the voters of Needham.

Table 2.3.2 (next page) shows the annual debt service by project that was added to the tax levy for fiscal years 2018 through 2022. 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 adjustments) made up of the total tax levy. For FY2021, the total excluded debt service was \$14,448,297 which could have added 9.7% to the tax levy, but after accounting for the allowed adjustments, the actual amount added to the tax levy was \$13,657,093 which represented 8.4% of the total tax levy for the year. For FY2022, the \$14,375,000 in total excluded debt would have added 9.1%, but with the MSBA

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and premium credits, as well as the \$1,205,777 deferral, the net raised as the percent of the levy was 7.3%; without the deferral the amount would have been 8.0%. The outlook for FY2023 shows the amount to be raised after the adjustments to be 7.8% of the total tax levy.

Debt Exclusions Added to Tax Levy FY2018 - FY2022
Table 2.3.2

Description	FY2018	FY2019	FY2020	FY2021	FY2022
Debt Service					
Broadmeadow School	828,300	801,325	771,225	741,425	708,700
Eliot School	346,840	314,400	304,400	294,400	284,400
High Rock & Pollard Schools	1,257,541	1,227,873	1,192,035	1,087,335	1,041,410
High School	1,774,365	1,719,571	1,606,571	1,521,490	1,438,687
Library	870,550	830,475	796,775	-	-
Newman School	1,327,065	1,298,020	1,262,390	1,124,960	1,058,043
Public Safety Buildings	-	-	2,068,944	4,961,890	7,443,229
Williams School	1,358,112	3,678,899	4,946,992	4,716,797	2,400,531
Total	7,762,773	9,870,562	12,949,332	14,448,297	14,375,000
General Tax Levy	125,518,802	132,836,957	139,427,393	148,781,708	158,431,000
Excluded Debt as a % of the General Tax Levy*	6.2%	7.4%	9.3%	9.7%	9.1%
Offsets and Adjustments					
MSBA Credits	(695,148)	(695,148)	(695,148)	(695,148)	(695,148)
Premium Credits	(80,807)	(115,147)	(105,159)	(96,056)	(71,176)
Other Adjustments	32,268	(3,238)	(26,681)	-	(1,205,777)
Total	(743,687)	(813,533)	(826,988)	(791,204)	(1,972,101)
Net Raised on Tax Rate	7,019,086	9,057,029	12,122,344	13,657,093	12,402,899
Total Tax Levy	132,537,888	141,893,986	151,549,737	162,438,801	170,833,899
Net Excluded Debt as a % of the Total Tax Levy	5.3%	6.4%	8.0%	8.4%	7.3%

* Before Offsets and Adjustments

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. 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

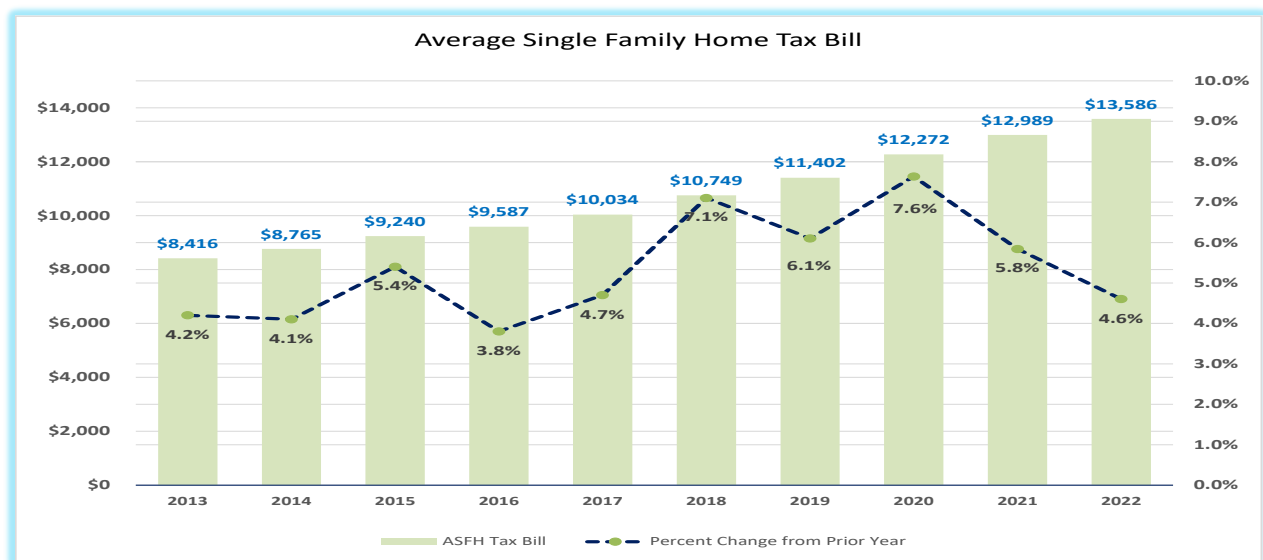


Chart II

**Average Single Family Home Tax Bill
Area Communities**

Municipality	FY2022
Weston	\$22,766
Wellesley	\$16,889
Lexington	\$16,613
Belmont	\$15,568
Wayland	\$15,386
Newton	\$14,024
Needham	\$13,586
Westwood	\$12,438
Bedford	\$10,512
Milton	\$10,281
Arlington	\$9,646
Natick	\$9,157
Walpole	\$8,551
Dedham	\$7,980
Framingham	\$6,747
Norwood	\$5,952
Winchester*	
Group Average (excluding Needham)	\$12,167
State-Wide Average	\$6,622

Source: DOR

** The Average Tax Bill for the Town of Winchester was not available at the time this chart was produced.*

The average single family home (ASFH) property tax bill for FY2022 in the Town of Needham was \$13,586. The chart on the previous page (Chart I) shows the ASFH tax bill for Needham and the percent change from the prior year for the period of FY2013 to FY2022. Based on the most current data from the Department of Revenue, Needham's average single family home property tax bill in the middle of 16 nearby or comparable communities (Chart II), but well over the state-wide average of \$6,622. 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 FY2022 was \$12,167 which is 3.6% more than the average of those communities in FY2021 (\$11,747). The average single family home tax bill in Needham for FY2022 increased by 4.6% from FY2021 (\$13,586 vs \$12,989).

State Aid

Most State aid, especially Cherry Sheet aid, is a function of the State budget. The Governor is not required to file his FY2023 state budget plan until the fourth Wednesday in January, which will be after the release and presentation of the Town Manager's Balanced Budget for FY2023. For the purposes of this estimate, we have relied upon the Lieutenant Governor's comments made during the MMA Annual Conference on Friday, January 21, 2022 that general aid will increase by 2.7%. Therefore, we have assumed a 2.7% increase over the current fiscal year in both Chapter 70 and Unrestricted General Government Aid (UGGA). We have also assumed that all the other Cherry Sheet aid programs which the Town is scheduled to receive for FY2022 will be level dollar for FY2023. 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,

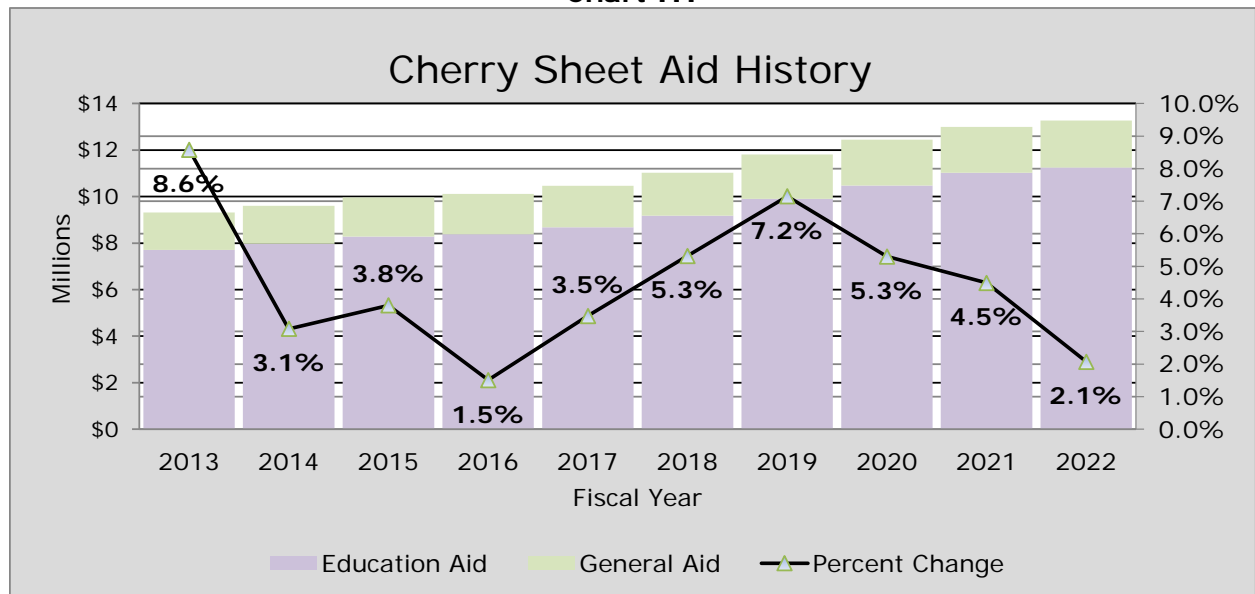
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amendments are usually made which can alter the amount of aid the Town will actually receive.

State aid (Table 2.4) represents approximately 6.5% (Table 2.8) of the total general fund before adjustments. As noted earlier, the Governor’s budget plan is not expected until January 26, 2022 and unless the Governor’s budget plan assumes less total aid to Needham than our estimate, any revision to revenue would be directed towards regularly recurring expenses proposed to be funded from reserves. The Governor’s budget proposal is subject to review and amendment, and final figures are not expected until late spring.

State Aid Table 2.4						
Description	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Recap	FY2023 Estimate	\$ Change
Chapter 70	9,876,152	10,451,715	11,025,783	11,192,613	11,494,814	302,201
School Transportation						
Charter School Tuition	25,481	11,573	3,698	52,430	52,430	
Homeless Transportation	2,746	3,927				
State Aid for Education	9,904,379	10,467,215	11,029,481	11,245,043	11,547,244	302,201
Unrestricted General Government Aid	1,804,987	1,853,722	1,853,722	1,918,602	1,970,404	51,802
Police Career Incentive						
Veterans Benefits	16,570	21,672	15,033	13,353	13,353	
Chapter 59 Elderly Exemptions	49,759	6,709	6,526	40,102	40,102	
Public Library Aid	37,780	41,164	45,764	49,583	49,583	
State Aid for General Government	1,909,096	1,923,267	1,921,045	2,021,640	2,073,442	51,802
Total Cherry Sheet Aid	11,813,475	12,390,482	12,950,526	13,266,683	13,620,686	354,003
MSBA Payments	695,148	695,148	695,148	695,148	695,148	
Other State Payments	7,957	5,567				
Other State Aid	703,105	700,715	695,148	695,148	695,148	
Total State Aid	12,516,580	13,091,197	13,645,674	13,961,831	14,315,834	354,003

Chart III

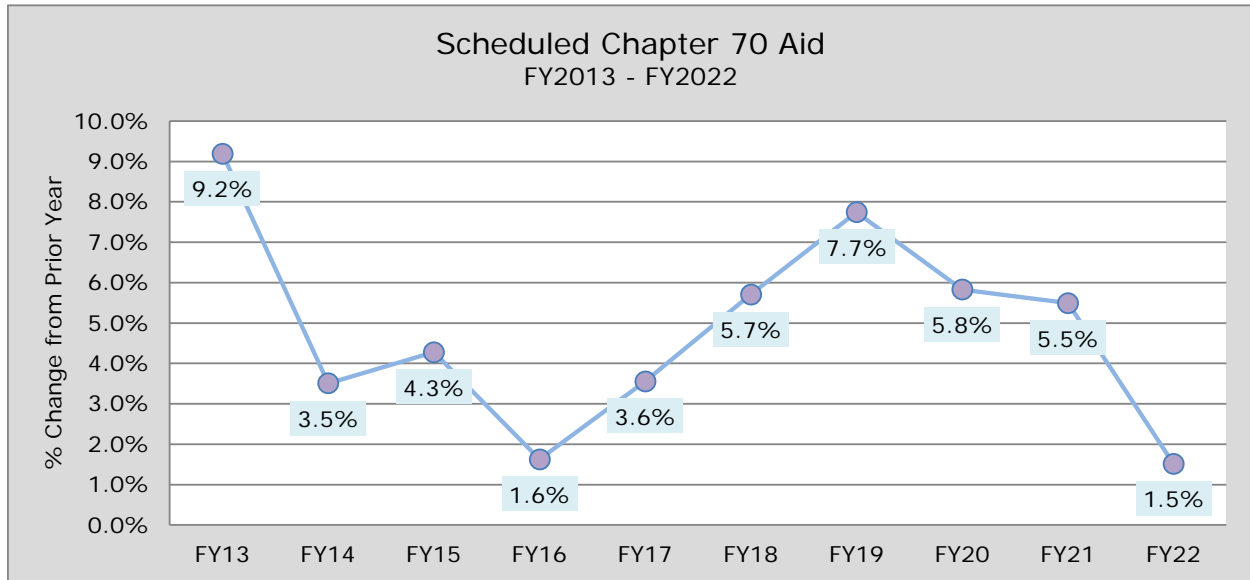


Cherry Sheet Aid

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 (previous page) 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 FY2013 through FY2022.

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. 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.

Chart IV



The Town of Needham saw an increase in Chapter 70 funding every year since FY2013. The Town received \$7,633,990 in FY2013, an increase of \$642,270 or 9.2% more than the prior year, the highest percentage increase over the ten year period. The Town received \$267,812 more in FY2014 or 3.5%, followed by a \$337,938 increase in FY2015, 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

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of 5.7%. The Town received \$709,792, an increase of 7.7% in FY2019, followed by a 5.8% increase or \$575,563 in FY2020, and \$574,068 more in FY2021 or 5.5%. The Town is scheduled to receive \$11,192,613 during FY2022, or \$166,830 just an increase of 1.5%. As mentioned, our \$11,494,814 estimate for FY2023 is \$302,201 higher than the current year, or a 2.7% increase. Chart IV shows the annual percent change in Chapter 70 aid from FY2013 through FY2022.

The Additional Assistance and Lottery aid programs were consolidated into a new aid category called **Unrestricted General Government Aid (UGGA)** in FY2010. The percentage of increase in the distribution has been declining for several years. The Town received \$1,804,987 in FY2019, an increase of \$61,038 or 3.5% more than the prior year; for FY2020 the Town received \$1,853,722, a 2.7% increase, and the amount was level funded at \$1,853,722 for FY2021. The Cheery Sheet for FY2022 shows the Town is to receive \$1,918,602, 3.5% more than FY2021. We have estimated \$1,970,404 for FY2023, or \$51,802 (2.7%) more than the current year

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 \$132,336 for FY2019. The Town received \$85,045 in FY2020, and for FY2021 the Town received a total of \$71,021. The total of the other Cherry Sheet aid programs is \$155,468 for FY2022. We have assumed a level dollar amount for FY2023.

The Town is also expecting the 15th 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 allowed 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).

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. The FY2021 actual receipts were lower than FY2020 receipts by \$1,468,526. The FY2021 actual receipts of \$14,589,825 included \$592,701 of receipts that are classified as nonrecurring receipts. Most of the nonrecurring receipts were a result of various refunds and rebates which totaled \$394,001. The sale of surplus equipment by the Town and the School departments generated \$108,575. The Town also received payment of \$90,125 from its solar energy producer because the company did not meet its power production guarantee. The Town recorded \$3,282 as miscellaneous receipts during FY2021. We have, however, assumed an increase in the park and recreation revenue for FY2023 with the Town Manager's funding proposal for the program counselors and program directors. The additional staffing will allow for increased capacity at the summer programs which should result in additional revenue for the Town. Taking into account these revenues, the local receipts estimate is consistent. This estimate, excluding nonrecurring revenue, is currently projected at approximately 82.4% of the 2021 actual receipts.

We prepare the projections of local receipts by comparing FY2021 estimated receipts to actual receipts; FY2021 actual receipts to FY2020 actual receipts, FY2022 estimated receipts to the

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FY2021 actual receipts and FY2022 year-to-date numbers. We also look at trend lines over three and five years. However, activity of the last 24 months weighed more heavily in our revenue assumption than the longer trend because of COVID-19. 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 FY2022 estimated receipts were revised. As the year progresses, further analysis of collections will be performed to determine if fiscal year 2022 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.

Local receipts represent approximately 5.3% (Table 2.8) 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 FY2023 of **\$11,585,000** (Table 2.5) is an increase of \$1,210,000 or 11.7% from the revised FY2022 budget of \$10,375,000. When completing the tax rate setting process, we reduced some of the estimates and increased others for the FY2022 receipts based on FY2021 results and trends. The total was within the target range for estimating.

Local Receipts
Table 2.5

Description	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Recap	FY2023 Estimate	\$ Change
Motor Vehicle Excise	6,138,951	5,679,213	5,129,306	4,000,000	4,400,000	400,000
Other Excise	1,901,101	1,684,874	643,481	500,000	780,000	280,000
Penalties & Interest	397,594	272,719	499,343	270,000	270,000	
Payment in Lieu of Tax	110,088	93,000	139,204	110,000	110,000	
Solid Waste Fee		1,108,099	1,448,570	950,000	1,200,000	250,000
Charges for Services	2,285,167	1,889,262	2,435,242	1,825,000	1,900,000	75,000
Fees	246,976	351,189	405,578	320,000	320,000	
Rents	190,393	114,739	265,619	160,000	175,000	15,000
School Income	15,212		8,507			
Library Department Income						
Recreation Department Income	518,004	358,649	196,578	70,000	195,000	125,000
Other Department Income	481,601	575,385	461,491	370,000	385,000	15,000
Licenses & Permits	2,590,858	2,381,660	2,068,299	1,650,000	1,700,000	50,000
Special Assessments	1,277	914	363			
Fines & Forfeits	205,399	234,549	60,974			
Investment Income	979,649	834,163	228,969	150,000	150,000	
Medicaid Reimbursement	180,672	67,188	2,319			
Miscellaneous Income	885	7,967	3,282			
Nonrecurring Income	282,956	404,781	592,701			
Total	16,526,784	16,058,350	14,589,825	10,375,000	11,585,000	1,210,000

The three major sources of local receipts, which made up more than 68% of total receipts over the last four years (see Chart V), are Motor Vehicle Excise, License and Permits, and Charges for Services. Year after year motor vehicle excise tax is the major local revenue source accounting for as much as 40% of the total local receipts in a given year and the average percentage over the 2018 – 2021 time period was 36.9%. Therefore, an

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overestimation of this revenue will have negative impact on the Town's financial position. All three receipt categories are influenced by the economy, locally and nationally, more so than other receipts.

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 (i.e., 2022 vehicle purchased in 2021) 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.

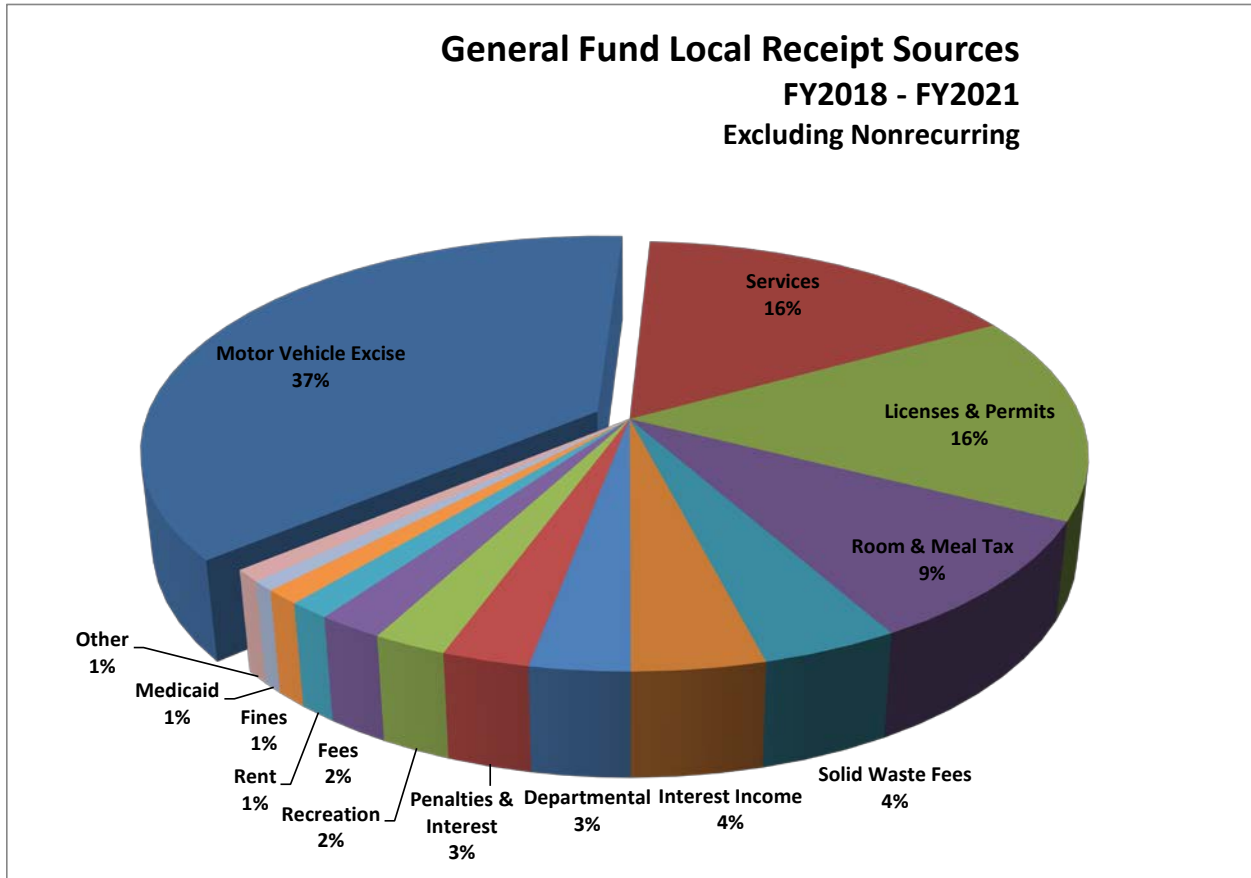
We have assumed approximately a 10% increase or \$400,000 from the FY2022 revised estimate of \$4 million. Motor vehicle excise receipts for FY2023 are projected at approximately **\$4.4 million**. This is a revenue source that we continue to monitor closely. We do not anticipate increasing this revenue 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 with the advent of COVID-19, changes whether by order or personal choice, negatively impacted these revenue sources. During FY2019 the Town received \$1,901,101 which was an increase from the prior year. Revenues for FY2020 were on pace to exceed FY2019, but with the COVID-19 travel restrictions and the general slowdown in commerce, the hospitality industry saw many cancellations, fewer people were eating out at restaurants, and the closure of many establishments caused revenues to decline by 12% with FY2020 receipts of \$1,684,874. The weakening to the hospitality industry continued, which coupled with the State allowing businesses to delay the remittance of excise payments resulted in only \$643,481 in receipts for FY2021. This was more than one million less than the prior year, nearly 62% drop. We adjusted the estimate for FY2022 to \$500,000. Although there have been two major COVID variants effecting the country, and recent suggestions of yet another variant, people have begun to adapt, travel has increased and dining out continues to grow. We remain cautious but comfortable in increasing the estimate for FY2023 to **\$780,000**.

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. This is a revenue source can have major swings from year to year. The fluctuations in actual collections reflect the unpredictability of the timing of payments, particularly

settlements on deferred taxes and tax title accounts. The FY2019 actual receipts were \$397,594. The FY2020 receipts had a noticeable decline with collections of \$272,719. However, this decline was reflective of the additional time that taxpayers were given to make payment on various bills without incurring interest and/or late fees. Furthermore, there were number of late payments made after the July 1, 2020 which caused the revenue to increase to \$499,343 for FY2021, an 83% increase. The estimate for FY2022 is \$270,000 and we have kept the estimate for FY2023 level dollar at **\$270,000**.

Chart V



Payment In Lieu of Tax is a voluntary payment made by certain tax-exempt entities. The Town receives payments from BID/Needham and the Needham Housing Authority (NHA), but payment from the NHA is dependent on Federal funding. The Town and the Hospital executed a new PILOT agreement in June 2018. The Town received \$110,088 in FY2019, which declined in FY2020 to \$93,000. However, there was a delay in receiving scheduled payments during FY2020. There was a bump up in revenue for FY2021 with \$139,204. The estimate for FY2022 was revised upward to \$110,000. The **\$110,000** revenue estimate for FY2023 is the same as budgeted for FY2022. This is approximately 79% of the FY2021 receipts.

Solid Waste Fees are the charges and fees collected for the disposal of solid waste and other items. This will be the third year that this revenue is part of the General Fund. FY2020 was the first year that this revenue was part of the General Fund which generated \$1,108,099. There was a visible uptick in activity at the RTS which generated \$1,448,570 in solid waste disposal fees for FY2021. The estimate for FY2022 is \$950,000. With the continued greater volume of activity, and increased costs that must be budgeted for FY2023, we increased the

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estimate by \$250,000 to **\$1,200,000** for FY2023. This represents approximately 83% of the FY2021 actual.

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 received \$2,285,167 in FY2019. The impact of COVID-19 both operational and activity was noticeable with the decline in actual revenue for FY2020 of more than 17% for a total of \$1,889,262. Solar revenues remained strong and increased in ambulance runs now that the Town has two full-time units running, and the resumption of the sale of parking permits, revenue collections improved with \$2,435,242 received during FY2021. We revised the original revenue estimate for FY2022 from \$1,525,000 to \$1,825,000. The total estimated income from the various charges and solar revenue for FY2023 is **\$1,900,000**, an increase of \$75,000 over the FY2022 revised estimate. The estimate for FY2023 is approximately 78% of the FY2021 actual revenue.

The Town collects various **Fees** which include returned checks, FID cards, administrative fees for details, Registry of Motor Vehicle license and registration non-renewal releases, and parking meter receipts. The total fees collected in FY2019 was \$246,976 and increased to \$351,189 for FY2020, however this included payment of cannabis related fees of \$135,685. During FY2021 the Town received \$405,578 again benefitting from the increase in cannabis revenue with \$263,488 paid to the Town. Based on the higher revenue from cannabis, we revised the original FY2022 estimate from \$125,000 to \$320,000. The estimate for FY2023 is also **\$320,000** which is approximately 79% of the FY2021 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 has a rental agreement with Tesla for use of the former landfill site where the solar panels are located. The Town also collects rent on the use of Town facilities such as Powers Hall. Total rental income for FY2019 was \$190,393 which declined in FY2020 to \$114,739. This was directly related to the impact of COVID-19. A combination of cancelled events and delays in making payment. FY2021 saw total revenue of \$265,619 as the Town collected on back rent from the prior year. Rental payments are now being received timely which allowed the Town to revise its FY2022 estimate from \$100,000 to \$160,000. The estimate for FY2023 is \$15,000 more than the current year or **\$175,000** which is approximately 66% of the FY2021 actual.

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 \$15,212 for FY2019, nothing in FY2020, and \$8507 for FY2021. There was no estimate for FY2022, and we assume the same for FY2023.

Library Income had been declining year over year. The last year income was reported under this line was FY2018 with \$17,002. There is no revenue estimate for FY2023.

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 FY2019 actual receipts totaled \$518,004. However, the impact of COVID-19 on recreational programs, and long delayed limited opening of the pool reduced revenues for FY2020 to \$358,649. With COVID-19 restrictions that were still in effect during FY2021, the revenue declined to \$196,578. The estimate for FY2022 was

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\$70,000. As mentioned, the Town Manager’s proposed budget for FY2023 includes additional program counselors and program directors. This additional staffing will allow for increased capacity at the summer programs which should result in additional revenue for the Town. Therefore the estimate for FY2023 is **\$195,000** which represents approximately 99% of the FY2021 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 FY2019 were \$481,601, which increased to \$575,385 for FY2020. With the cancelation of some activities, longer timelines for departments to respond to requests because of the COVID-19 restrictions, revenue declined to \$461,491 during FY2021. The estimate for FY2022 is \$370,000. The estimate for FY2023 has been increased to **\$385,000**, which is approximately 83% of the FY2021 actual.

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. Actual receipts in FY2019 were \$2,590,858. FY2020 revenue declined to \$2,381,660. This is reflective of the great variability in the permitting of projects and the timing of when construction begins. Total receipts declined during FY2021 as well with \$2,068,299, a drop of 13% from the prior year. The revised estimate for FY2022 is \$1,650,000. The estimate for FY2023 has been set at **\$1,700,000**. This estimate is approximately 82% of the FY2021 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 tickets, court fines, and other violations. Enforcement of parking regulations and other non-criminal infractions were limited due to concerns related to COVID-19, but resumed in 2021. There has also been a growing trend across the United States to not overtly depend on fines and forfeiture to fund governmental activities, which tend to fall more heavily on those with limited means. The Needham Public Library ended the assessment of fines for overdue returns.

Chart VI
General Fund Investment (Interest) Income

Fiscal Year	Interest	Fiscal Year	Interest	Fiscal Year	Interest
2013	\$84,803	2016	\$111,638	2019	\$979,649
2014	\$77,523	2017	\$278,831	2020	\$834,163
2015	\$101,273	2018	\$434,319	2021	\$228,969

Investment (Interest) Income has been a volatile revenue stream over time (Chart VI). Indeed, the original estimate for FY2013 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. The FY2019 actual interest earnings were significantly higher with \$979,649, a level not seen since the 2000’s. The actual interest

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earnings in FY2020 were lower with \$834,163, and FY2021 saw a very significant decline in total receipts of \$228,969, more than a 72% drop. The decline in interest earnings was driven by the actions taken by the Federal Reserve Board to lower interest rates to near zero to stimulate the economy during the COVID-19 Pandemic. We revised the original FY2022 estimate from \$264,000 to \$150,000. The current estimate for FY2023 is the same **\$150,000** which is approximately 66% of the FY2021 actual.

Medicaid and Miscellaneous Income Medicaid reimbursement (Chart VII) 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, but actual revenue declined in FY2019 with \$180,672. The FY2020 actual revenue dropped even more to \$67,188, and FY2021 was the lowest at 2,319. With continued uncertainty with Federal revenue in this area, and the reliance on the guidance provided by the Department of Revenue, we made no estimate for FY2022, nor an estimate for FY2023. For recurring miscellaneous income, we have also made no estimate for FY2022 or FY2023.

Chart VII
Medicaid Reimbursements

Fiscal Year	Interest	Fiscal Year	Interest	Fiscal Year	Interest
2013	\$203,297	2016	\$176,672	2019	\$180,672
2014	\$73,511	2017	\$194,935	2020	\$67,188
2015	\$211,056	2018	\$207,679	2021	\$2,319

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 FY2019, the Town collected \$282,956 in nonrecurring receipts. The largest receipt for that year was a rebate of \$113,549 from Public Power for prior year assessments. The sale of surplus equipment generated \$81,000 during FY2019. During FY2020, the Town reported \$404,781 in nonrecurring receipts. The largest receipt was \$203,655 from Town’s insurance carrier from program and loss prevention incentives. As in recent years, the sale of surplus equipment generated the second largest amount considered nonrecurring receipts with \$111,171. The combined total of those two sources accounted for 78% of the nonrecurring revenue. The Town received \$54,480 from Eversource for energy efficiency efforts by the Town in the construction of the Sunita L Williams elementary school. The balance of the nonrecurring receipts (\$35,475) represents various refunds, recoveries, and one-time monies received by the Town during the year. FY2021 the Town reported nonrecurring receipts of \$592,701. Most of the nonrecurring receipts were a result of various refunds and rebates which totaled \$394,001. The sale of surplus equipment by the Town and the School departments generated \$108,575. The Town also received payment of \$90,125 from its solar energy producer because the company did not meet its power production guarantee. There is no estimate for miscellaneous nonrecurring receipts for fiscal 2023.

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General Fund Recurring Receipts
Table 2.6

Description	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Recap	FY2023 Estimate	\$ Change
Property Taxes	132,419,594	138,227,154	148,004,594	158,431,000	166,210,688	7,779,688
State Aid	11,813,475	12,390,482	12,950,526	13,266,683	13,620,686	354,003
Local Receipts	16,243,828	15,653,569	13,997,123	10,375,000	11,585,000	1,210,000
Total Receipts	160,476,898	166,271,206	174,952,243	182,072,683	191,416,374	9,343,691

Other Available Funds

Other available funds (\$2,032,328) represent 0.9% (Table 2.8) 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 two available funds that have been recurring are Debt Exclusion Offsets and Overlay Surplus. Other available funds are correlated to expenses. These funds must be specifically identified by Town Meeting in the motion in order to be used.

Debt Exclusion Offset is an amount equal to the amortized value of a premium that may have been received on a 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 FY2023 is \$32,328.

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. Abatement and exemption activity is tracked on a fiscal year basis, but the overlay reserve which covers those costs is held in a single account. 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 **\$2,000,000** 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 Board approved the released \$2,000,000 at the December 20, 2021 meeting

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. The residual balance is \$379,223.

Transportation Infrastructure Funds are received funds from the Commonwealth through a state assessment on transportation network companies, such as Uber and Lyft, operating in the state. Each company reports to the State the number of rides that originated in Needham and remits a per-ride assessment of \$0.20, which is credited to the State's Transportation Infrastructure Enhancement Fund of which one half of the amount is sent to the Town. The distributed funds are special revenue, which require appropriation prior to use. The funds are reserved to be appropriated by Town Meeting for expenses related to the operation of transportation network services in the town including, but not limited to, the complete streets program established in Chapter 90 and other programs that support alternative modes of transportation. The amount for FY2023 is not yet known.

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Other available funds in prior years have included items such as unexpended balances of prior warrant articles, grants, and general and dedicated reserves. There are no such funds proposed in this budget plan.

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 not yet been certified for FY2022, but preliminary estimates have Free Cash between \$12 and \$18 million. We have assumed **\$12,000,000** for this budget plan. Free Cash above the amount for this budget plan may be directed to larger capital projects and or reserved for future years. The \$12 million represents 5.5% of the total general fund before adjustments and offsets. This is an increase of \$473,370 from the amount that was appropriated last year. The expected higher Free Cash figure is due to several factors: spending restraints implemented during FY2020 which resulted in a greater percentage budget turnback, the dissolution of the RTS Enterprise Fund, and using less of the certified Free Cash last year (during FY2021) so that a greater amount would be rolled over to this year. At the close of FY2020, the RTS enterprise fund assets, including retained earnings were transferred into the General Fund. The Certified Free Cash in FY2021 was \$16,665,406 of which \$11,526,630 was appropriated and \$5,138,776 was closed out at the end of the year and should become part of the Free Cash that will be certified by the State this year. The Certified Free Cash in FY2020 was \$12,369,898 of which \$7,862,473 was used for FY2020 and FY2021 appropriations and the balance of \$4,507,426 was closed out at the end of the year. The certified Free Cash in FY2019 was \$10,387,871 of which \$10,337,871 was used for FY2019 and FY2020 appropriations and the balance was closed out at the end of the year. 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. 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	Total of Uses	Returned
FY2018	FY2019	13,518,622	2,858,833	2,506,298	9,020,289	181,000	1,590,791	13,298,378	220,244
FY2019	FY2020	10,387,871	3,027,431	2,068,301	7,418,252	684,706	166,612	10,337,871	50,000
FY2020	FY2021	12,369,898	3,217,536	3,208,040	3,939,433	715,000	-	7,862,473	4,507,426
FY2021	FY2022	16,665,406	3,527,570	3,527,570	6,246,653	1,752,407	-	11,526,630	5,138,776

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. 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

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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 (next page), we show what the budget returns have been in the past four 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
2018	153,184,148	4,450,548	151,371,548	3,615,609	2.4%	834,939	18.8%	3,027,431
2019	162,736,704	4,894,717	160,876,813	3,342,618	2.1%	1,552,099	31.7%	3,217,536
2020	178,260,006	7,634,782	176,378,506	5,783,282	3.3%	1,851,500	24.3%	3,527,570
2021	190,247,810	6,473,319	188,170,719	4,787,338	2.5%	1,685,981	26.0%	3,763,414

Two percent of the FY2021 adjusted final budget equals \$3,763,414; the actual FY2021 budget return less the Reserve Fund return was \$4,787,338 which is more than two percent (Table 2.7.2). The budget plan has **\$3,200,000** of the Free Cash being used for operating expenses. Free Cash is also proposed to be used to fund cash capital and warrant articles. Certification of Free Cash above the amount identified for use is proposed to fund capital that otherwise may require debt, provide advance funding to a Stormwater Stabilization fund, reserve for future projects, or a combination of the aforementioned. 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	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Recap	FY2023 Estimate
Property Taxes	75.6%	77.6%	81.1%	82.1%	81.8%
State Aid	6.7%	6.8%	6.8%	6.7%	6.5%
Local Receipts	8.8%	8.3%	7.3%	5.0%	5.3%
Other Available Funds	1.7%	2.0%	0.7%	0.6%	0.9%
Free Cash	7.1%	5.3%	3.9%	5.5%	5.5%
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

While most 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 FY2023 is based on the current year and is estimated at **\$1,250,000**.

The preliminary estimate for the sewer fund reimbursement is **\$425,000**. The estimate for the water fund is **\$825,000**. Because indirect costs associated with the two funds are a factor of Town Meeting appropriations, the actual FY2023 transfers may be adjusted accordingly.

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Enterprise Reimbursements to the General Fund
Table 2.9

Description	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Recap	FY2023 Estimate	\$ Change
Solid Waste	265,250					
Sewer	471,071	472,345	465,865	507,526	425,000	(82,526)
Water	871,743	853,155	864,193	899,889	825,000	(74,889)
Total	1,608,064	1,325,500	1,330,058	1,407,415	1,250,000	(157,415)

FY2023 is the 12th operating budget that will include **CPA** supported debt service. The Town Hall financing plan calls for debt service paid by CPA funds to be \$376,650, which is a decrease of \$28,391 from FY2022. This is the fourth year that debt service related to the Rosemary Recreation Complex and Pool project comes due. The amount payable during FY2023 is \$592,982 which is a decrease of \$23,374 from FY2022. The total transfer for FY2023 is **\$969,632**, a decrease of \$51,765, or approximately 5.1%. We reflect \$969,632 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, 2021 was \$4,524,963. 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, 2021 was \$976,070. The budget plan calls for an appropriation of \$33,533 to the Fund, which represents the five year average of use fees collected by Park and Recreation for this purpose.

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, 2021 was \$1,922,663. No appropriation to the Fund is planned for the 2022 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, 2021 was \$1,097,628. No appropriation to the Fund is planned for the 2022 Annual Town Meeting but there may be a transfer recommendation to the Fund at a Special Town Meeting related to the sale of surplus equipment during 2019, 2020, and 2021.

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, 2021 was \$2,155,179. No appropriation to the Fund is planned for the 2022 Annual Town Meeting.

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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 last year, for the Recycling Center and Transfer Station (solid waste disposal). 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	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Budget	FY2023 Estimate	\$ Change
Recycling and Transfer Station	1,246,292					
Sewer Enterprise	8,881,252	9,060,044	9,521,834	8,814,188	8,476,305	(337,883)
Water Enterprise	6,741,752	6,303,298	7,452,180	6,337,945	6,674,310	336,365
Total*	16,869,296	15,363,342	16,974,014	15,152,133	15,150,615	(1,518)

* Receipts before adjustments, reimbursements, and subsidies

The combination of the Sewer and Water Enterprise funds has total receipts at \$15,150,615 for FY2023 compared to the \$15,152,133 estimate for FY2022 (Table 2.10). This represents a slight decrease of \$1,518 or approximately 0.01%. However, the MWRA sewer and water assessments have not been received, and therefore the plan level funds the assessments. Any change will be reflected by an adjustment to receipts.

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

Description	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Budget	FY2023 Estimate	\$ Change
Recycling and Transfer Station	482,753					
Sewer Enterprise	2,551,111	1,631,487	918,088	365,000	901,255	536,255
Water Enterprise	3,532,048	291,500	43,002	1,370,913		(1,370,913)
Total	6,565,912	1,922,987	961,090	1,735,913	901,255	(834,658)

* Revenue before adjustments, reimbursements, and subsidies

The budget calls for the use of **\$901,255** of retained earnings in Sewer Enterprise for cash capital. There is no Water Enterprise cash capital requested for FY2023 and no use of the Water Enterprise fund retained earnings. There are some significant water projects that are planned in the coming year which maintaining the retained earnings will help finance those projects to reduce the amount of debt that would otherwise be incurred.

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

Fiscal Year 2023 Proposed Budget

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 is made from the General Fund to the Sewer Enterprise Fund Budget. The FY2023 budget recommendation is **\$587,928**, an increase of \$61,560 (11.7%) from the FY2022 funding of \$526,368. Chart VIII shows the payment made to the Sewer Enterprise Fund since FY2012.

Chart VIII
General Fund Payment

Fiscal Year	Interest	Fiscal Year	Interest	Fiscal Year	Interest
2013	\$493,932	2016	\$494,488	2019	\$504,750
2014	\$468,936	2017	\$519,846	2020	\$530,467
2015	\$463,430	2018	\$491,749	2021	\$544,698

The **Water Enterprise Fund Budget** will not require a General Fund subsidy.

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 for FY2022 have not been certified by the Department of Revenue as of the publication of this plan.

Table 2.12 shows the amounts which were certified as retained earnings by the Department of Revenue for the previous four complete fiscal years. The RTS retained earnings that were certified last year were closed out to the General Fund with the dissolution of the enterprise fund which contributed to the higher Free Cash certification last year. The decline in the Sewer retained earnings was due to a greater use to fund operations expenses in order to not raise rates last year. We anticipate a further decline in Sewer retained earnings. The Town's use of Water retained earnings last year was limited in order to preserve the account balance and to prepare for funding several major capital projects coming for a vote in the next three years that will rely on retained earnings in order the reduce the amount that would otherwise be financed by debt.

Certified Retained Earnings
Table 2.12

Fund	FY2018	FY2019	FY2020	FY2021	FY2022
Recycling and Transfer Station	490,750	71,727	420,749	N.A.	N.A.
Sewer Enterprise	4,500,960	3,286,421	2,097,365	1,745,424	Pending
Water Enterprise	5,368,805	3,080,815	4,134,675	4,737,743	Pending

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 state match on the FY2019 revenue was approximately 14%; the Town received \$248,287 in November 2019. The State provided an additional \$244,092 as a match for the prior year, which combined with the earlier payment totaled \$592,379. The effective state match on the FY2020 revenue was 23.92%. The total received in FY2021 for FY2020 surcharges was \$754,080. The total received in FY2022 for FY2021 surcharges was \$1,112,652. The effective state match on the FY2021 revenue was 39.37%. The higher amounts received will require a supplemental appropriation to the Historic Resources and Open Space reserves. Because \$764,783 was appropriated to the Community Housing reserve or approximately 18.8% of the FY2022 revenue estimate, the Town is not required to reserve additional funds for FY2022.

We believe the distribution range in FY2023 on the FY2022 revenue will be between 20% and 40% and our revenue estimate is at the low-point. The current estimate based on FY2022 collections that will be received as **state matching funds** in FY2023 is **\$585,090** or 20%. The 2% **CPA surcharge** on FY2023 property tax bills is currently estimated at **\$3,094,000**. The total estimated receipts for FY2023 are currently at \$3,679,090.

The estimate provides for \$82,000 to be appropriated to the Community Preservation Committee's (CPC) administrative budget and \$404,700 to be credited to both the Community Housing Reserve and Open Space Reserve. The \$404,700 figure is approximately 11% of the new revenue estimate for FY2023. 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 FY2023 debt budget includes \$376,650 of debt service for the Town Hall project and \$592,982 of debt service for the Rosemary Recreation Complex. The Town Hall project was previously designated as a historic preservation project, however, because the amount to appropriate for Town Hall is \$376,650, which is less than our \$404,700 estimate to be reserved, \$28,050 will need to be reserved or appropriated from receipts for Historic Resources. The balance of the CPA revenue estimate of \$1,790,008 would be transferred to the Community Preservation Fund General Reserve for FY2023. 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.

CPA Free Cash has been certified at \$2,584,930. This balance remains available for appropriation until June 30, 2022. The FY2022 CPA General Reserve has a balance of **\$1,225,714** and the funds remain available for appropriation until June 30, 2022 as well.

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The CPA Free Cash and General Reserve will close out to the CPA fund balance after the end of the FY2022 and will not become available for use in FY2023 until after the CPA Free Cash is certified for the year. The Community Preservation Committee (CPC) has not yet made any funding recommendations for FY2023. The amounts currently held in the three required reserves as of December 31, 2021 are as follows:

Community Housing Reserve	\$3,236,481
Historic Resources Reserve	\$ 15,820
Open Space Reserve	\$1,661,270

Town of Needham Community Preservation Fund Revenue and Appropriations FY2023
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<u>Community Preservation Fund Revenue Estimates</u>	
Surcharge Revenue Estimate	3,094,000
State Trust Fund Distribution Estimate	585,090
Revenue Estimate	3,679,090

<u>Community Preservation Fund Appropriation Estimates without Projects</u>	
Town Hall Project Debt Service (GF Debt Budget)	376,650
Rosemary Recreation Complex Project (GF Debt Budget)	592,982
Community Preservation Committee Administrative Budget	82,000
Community Housing Reserve	404,700
Historic Resources Reserve	28,050
Open Space Reserve	404,700
Community Preservation Fund Reserve	1,790,008
Appropriation Estimates	3,679,090

<u>Reserve Balances 12/31/2021</u>	
Community Housing Reserve	3,236,481
Historic Resources Reserve	15,820
Open Space Reserve	1,661,270
FY2022 General Reserve*	1,225,714
CPA Free Cash*	2,584,930
Total Reserves	8,724,215

<u>Specific Appropriation Requests</u>	
NHA Property Existing Conditions Reports; Property Survey	62,500
NHA Pre-Development Design Costs - Linden Chambers	1,200,000
NHA Purchase of East Militia Heights Property	1,500,000
NHA Funding for Assistant Executive Director	195,000
Emery Grover Renovation	6,000,000
NHS Tennis Courts Improvements Design	50,000
Boat Launch	285,000
Walker Pond Improvements	356,000
Needham Community Farm Construction of Growing Beds	200,000
Total Project Requests	9,848,500

*This a single year reserve, any unused balance closes out June 30, 2022.