

## Fiscal Year 2012 Proposed Budget

### Revenue Summary

Town of Needham  
Revenue Summary  
Table 2.1

Description*	FY2010 Recap	FY2011 Recap	FY2012 Estimate	\$ Change	% Change
General Fund	108,896,090	114,561,620	115,533,886	972,266	1%
Enterprise Funds	16,232,419	16,492,878	15,964,357	(528,521)	-3%
CPA	9,063,224	2,065,199	1,940,000	(125,199)	-6%
<b>Total Revenues</b>	<b>134,191,733</b>	<b>133,119,697</b>	<b>133,438,243</b>	<b>318,546</b>	<b>0%</b>

\* Revenue before adjustments, reimbursements, and subsidies

### GENERAL FUND

The General Fund accounts for revenues and expenditures necessary to provide governmental services and expenses. By definition, all financial resources that are not required to be accounted for in other funds are accounted for in the General Fund.

Total revenue available for General Fund appropriations is projected at **\$115,148,213** (Table 2.2) **or approximately \$1.6 million more than FY2011**. Revenue from property tax is estimated to grow by approximately \$2.6 million; state aid to decrease by \$49,676, and local receipts to decrease by \$153,664. The amount from Other Available Funds will be lower by more than \$1.2 million. The Free Cash certified by the Department of Revenue is \$187,768 lower than the current year. It is important to note that these are preliminary revenue projections. They are subject to change and should be viewed in this context for reasons discussed later.

Summary of General Fund Resources  
Table 2.2

Description	FY2008 Actual	FY2009 Actual	FY2010 Actual#	FY2011 Budget	FY2012 Estimate	\$ Change	% Change
Property Taxes	77,188,642	81,472,619	87,311,147	93,071,745	95,663,097	2,591,351	3%
State Aid	8,336,715	8,469,623	8,374,544	8,972,394	8,922,718	(49,676)	-1%
Local Receipts	11,143,475	9,325,648	8,945,903	7,125,664	6,972,000	(153,664)	-2%
Other Available Funds	918,532	1,490,662	1,376,871	1,823,779	595,802	(1,227,977)	-67%
Free Cash	3,266,326	5,810,170	3,145,416	3,568,037	3,380,269	(187,768)	-5%
<b>Total General Fund Revenue</b>	<b>100,853,690</b>	<b>106,568,722</b>	<b>109,153,881</b>	<b>114,561,620</b>	<b>115,533,886</b>	<b>972,266</b>	<b>1%</b>
<u>Adjustments to General Fund Revenue</u>							
Other Amounts Required to be Provided	(76,690)	(80,675)	(78,278)	(68,559)	(62,953)	5,606	-8%
State & County Assessments	(1,057,780)	(1,103,256)	(1,068,405)	(1,080,311)	(1,112,720)	(32,409)	3%
Provisions for Abatements & Exemptions	(919,602)	(1,100,000)	(960,626)	(1,584,557)	(975,000)	609,557	-38%
Adjustments, Reimbursements & Subsidies	1,602,801	1,710,496	1,760,595	1,659,715	1,465,000	(194,715)	-12%
CPA Share of Debt Service				0	300,000	300,000	
<b>Total</b>	<b>(451,271)</b>	<b>(573,435)</b>	<b>(346,714)</b>	<b>(1,073,712)</b>	<b>(385,673)</b>	<b>688,039</b>	<b>-64%</b>
<b>Available for GF Appropriation</b>	<b>100,402,419</b>	<b>105,995,287</b>	<b>108,807,167</b>	<b>113,487,908</b>	<b>115,148,213</b>	<b>1,660,305</b>	<b>1%</b>

### **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

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ceiling is equal to 2.5% of the Town's valuation. The total taxable value as of January 1, 2010 is \$7,576,258,088. This puts the tax levy ceiling at \$189,406,452. The current tax levy including debt exclusions for FY2011 is \$83,071,746, 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 operating), 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 which has been approved by the voters as a debt exclusion override. The increase in the FY2012 tax levy attributable to new growth is estimated based upon consultation with the assessing and building department staff.

### **State Aid**

Most state aid, especially Cherry Sheet aid, is a function of the state budget. The Governor's budget had not yet been released at the time this budget was released to the Town. The FY2012 estimate is \$49,676 lower than the current year, or approximately 1% less. 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.

After the Governor's budget is presented to the Legislature, the House of Representatives will review 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 committee to resolve any difference between the two budgets plans. A single budget document is then presented to the full body of the House and then the Senate for final debate and vote. The approved budget is then sent to the Governor for approval or veto. During this entire process, amendments are usually made which can alter the amount of aid the Town will actually receive.

The Town is also expecting the sixth annual contract assistance payment of \$745,381 for the Broadmeadow School project. We do not expect any reduction in this payment. The Massachusetts School Building Authority (MSBA) began making payments for its share of the school project in FY2007 and is expected to pay its share in equal installments annually through FY2023. 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. The first phase of the Newman School HVAC project has begun, and the major portion of the project will begin in the summer of 2011. The Town expects to receive progress payments from the MSBA for the Newman School project. Under the MSBA program for approved school projects, the State pays its agreed percentage of the approved project cost as the expense is incurred. The Newman School project is approved at 40% of the eligible costs. A benefit of this approach, to both the State and the Town, is lower interest expense. Since the Newman project was approved by debt exclusion, this means that the interest savings is realized with a lower property tax bill than would otherwise have been levied.

### **Local Receipts**

We continue to estimate local receipts conservatively. Our time-honored approach for estimating local receipts is a target range, in which the estimate should not exceed 80 to 90 percent of the prior year's actual receipts excluding non-recurring revenue. This estimate is at 77% of the 2010 amount. With a few exceptions, the Town's receipts are lower now than they were at this same time last year. Economic reports still suggest that the economy is

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recovering, but at a slow pace. The FY2010 local receipts were sluggish and ran behind FY2009 revenues, and FY2009 local receipts were significantly lower than FY2008. FY2010 actual receipts were more than \$379 thousand less than FY2009 actual receipts. The initial FY2011 local receipts estimate was at the higher end of the revenue estimate range, but the final budget estimate had to be scaled back as actual receipts dropped even more than was anticipated. Had the Town not realized the higher New Growth revenue in FY2011, a severe revenue shortfall would have resulted. For this reason and more, the total estimated receipts for FY2012 are lower than the 80% to 90% target.

Other consequences of 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.

We prepare the projections of local receipts by comparing FY2010 estimated receipts to actual receipts; FY2010 actual receipts to FY2009 actual receipts, and FY2011 estimated receipts to the FY2010 actual and FY2011 year-to-date numbers. 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, DOR will 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 FY2011 estimated receipts were revised. As the year progresses, further analysis of collections will be performed to determine if fiscal year 2011 activity demonstrates a trend that deviates from projections. It is also important to note that if certain budgetary reductions are made to departments which generate or manage the collection of receipts, the estimate may need to be revisited.

### **Other Available Funds and Free Cash**

Projections of reserves follow past budget methodology. Free Cash was certified by the Department of Revenue on January 24, 2011 at \$3,380,269. Overlay surplus amounts must be approved by the Board of Assessors and are based on historical uses of these funds. Other reserves are correlated to expenses.

## **FY2012 GENERAL FUND REVENUE ESTIMATE ASSUMPTIONS**

### **PROPERTY TAX LEVY**

The property tax levy (Table 2.3) represents approximately 82.8% of all general fund revenues before adjustments. The FY2012 property tax limit is estimated to increase approximately 2.8% over the FY2011 actual tax levy, or approximately \$2.6 million. The limit is calculated by increasing the FY2011 levy limit, exclusive of debt exclusions, by 2.5 percent 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 FY2011 tax rate. There is no operating override proposed for FY2012; therefore 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 \$3.2 million over the FY2011 base levy. The amount of debt that is to be paid by property taxes is decreasing by \$624,802 for FY2012 which reflects an overall lower percentage change in tax revenue; the tax revenue to support operations within the level limit is increasing by an estimate of 3.8% over FY2011.

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New Growth tax revenue is expected to continue to slow from the more than \$2.1 million gained in FY2009 to a level seen during the earlier part of the prior decade. 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. Any additional new growth revenue that may be realized above the estimate for this budget plan should be used to increase the overlay reserve for FY2012 as it will be a triennial property revaluation year. There is a higher probability, with the continued sluggish real estate market, that disputes over property assessments will be greater and hence it is more likely that additional abatements will result.

Fiscal Year Tax Levy  
Table 2.3

Description	FY2008 Recap	FY2009 Recap	FY2010 Recap	FY2011 Recap	FY2012 Estimate	\$ Change
Prior Year Base	68,056,796	72,292,283	76,202,247	82,052,951	85,836,102	
2-1/2 Allowance	1,701,420	1,807,307	1,905,056	2,051,324	2,145,903	
New Growth	1,376,465	2,102,657	1,870,805	1,731,827	1,050,000	
General Override	1,128,670	0	1,887,929	0	0	
Excess Levy (Taxes Not Raised)	(53,724)	(35,024)	(38,375)	(20,250)	0	
<b>General Tax Levy Limit</b>	<b>72,209,627</b>	<b>76,167,223</b>	<b>81,827,662</b>	<b>85,815,852</b>	<b>89,032,005</b>	<b>3,216,153</b>
Total Excluded Debt	6,868,256	6,908,132	7,196,912	8,438,590	7,422,275	
Less Excluded Debt Offsets	(1,126,537)	(1,149,705)	(1,192,448)	(1,182,696)	(791,183)	
Excluded Debt to be Raised on Tax Levy	5,741,719	5,758,427	6,004,464	7,255,894	6,631,092	(624,802)
<b>Property Tax Levy</b>	<b>77,951,346</b>	<b>81,925,650</b>	<b>87,832,127</b>	<b>93,071,745</b>	<b>95,663,097</b>	<b>2,591,351</b>

### STATE AID

At the 2011 Massachusetts Municipal Association Annual Meeting, the Governor addressed the body indicated that Chapter 70, SPED Circuit Breaker (a pass through program where the money is paid to school districts directly without need of appropriation by Town Meeting), and Chapter 90 (the State's funding program for local roads) would be increased and that other aid would be reduced. The Chairman of the House Ways and Means Committee also spoke at the Conference and suggested that there may not be the monies to fund the programs at the level the Governor suggested. Based on these statements, continued forecasts of slow economic recovery, the requirements of the Education Reform law, and the Town's current level of funding from the State, we presume that there will be less revenue for FY2012 than in FY2011, but that there will not be as much of a reduction as may be realized in some communities.

State aid (Table 2.4) represents approximately 7.7% of the total general fund before adjustments and offsets. Total state aid for FY2012 is projected to decrease by only \$49,676. At this time we have assumed a 10% across-the-board reduction in most aid programs, except Chapter 70, Police Career Incentive (Quinn), and Veterans' benefits. We assume no funding for Quinn and recognize that the Town will not receive reimbursement for veterans' benefits (which will now support the West Suburban Veterans' District). Overall the budget plan assumes a 0.55% reduction (0.6% excluding MSBA funds) in this revenue category. As noted earlier, the Governor's budget plan is subject to review and amendment, and assumes certain actions to be approved by the Legislature. The final figures are not expected until late spring.

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### Key State Aid Programs:

**Chapter 70** aid is commonly referred to as general school aid. The Town of Needham saw an increase in Chapter 70 funding each fiscal year since Education Reform was enacted, until FY2003, when it was level funded at \$4,054,497, then reduced during the year. Beginning again in FY2006, Chapter 70 funding increased: in FY2006 the Town received \$234,950 more, in FY2007 \$527,325 more, and in FY2008 \$757,934 more. It is important to note that the Town's budget for FY2009 was approved based on the final Cherry Sheet (which is released after the State Budget is signed into law by the Governor) which set the Chapter 70 amount for Needham at \$6,118,846. This amount was cut by the Governor during the year as the State's revenues deteriorated. The loss was \$643,484. The State made other Cherry Sheet cuts in aid which totaled over \$900,000. Federal ARRA funds were distributed by the State at the end of FY2009 to backfill the loss of Chapter 70 funds. The Town received \$5,996,469 in FY2010, a reduction of \$122,377 from that which was originally proposed by the State in FY2009. The FY2011 State Budget affords \$6,590,957 for the Town this year.

Based on the comments by the Governor and the fact that the State still has not yet met its foundation payment obligation (minimum state share per the Education Reform law) to the Town of Needham, we are estimating \$6,725,000 for FY2012 or slightly more than 2% over the current year. Although state aid may be reduced for some communities, the belief is that the Legislature intends to keep to its prior funding promise of bringing all school districts to at least their foundation budget.

The Additional Assistance Cherry Sheet program was level funded by the Legislature for more than ten years before being reduced in FY2003 to \$219,686. This was a 15.3% reduction from the prior year. It is important to note that the Town's budget for FY2003 was approved based on the final Cherry Sheet (which is released after the State Budget is signed into law by the Governor) which set the figure for Needham at \$242,345 but the amount was further reduced by the Governor to \$219,686. This reduction had to be offset by other revenues. Additional Assistance was further reduced in FY2004 to \$205,993, a reduction of another 6.2%. The Town was budgeted to receive \$205,993 for FY2009, the same as FY2008, but this too was cut \$20,073 by the Governor. Lottery distribution aid program was cut in FY2009 from that which was scheduled to be paid to the Town. This reduction was \$191,645. The Additional Assistance and the Lottery aid programs were consolidated into a new aid category called **Unrestricted General Government Aid (UGGA)** in FY2010. The combination of these two programs resulted in a net loss of \$422,882 from what the Town actually received in FY2009, and \$634,600 from what the State had budgeted for the Town. The Town is scheduled to receive \$1,476,550 in FY2011, a loss of \$61,523 from FY2010. The FY2012 UGGA is estimated at \$1,328,895 or \$147,655 less than FY2011.

The Quinn program (police career incentive) has been cut significantly from \$121,907 for FY2007 to \$22,071 for FY2010, a \$99,836 reduction or a loss of nearly 82%. The Town is scheduled to receive \$12,624 in FY2011; for FY2012 we assume no funding for this program. The Town is now part of the West Suburban Veterans' District which provides services to veterans and processes payments for benefits. The Town expects that the reimbursement for those benefits will now be paid directly to the District, and therefore there is no estimate for FY2012.

The total estimate for the other Cherry Sheet programs is \$123,442 for FY2012, compared to an estimated \$137,158 for FY2011. This represents a 10% reduction.

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Cherry Sheet Aid  
Table 2.4

Description	FY2008 Recap	FY2009 Recap	FY2010 Recap	FY2011 Recap	FY2012 Estimate	\$ Change
Chapter 70	5,124,207	6,118,846	5,996,469	6,590,957	6,725,000	134,043
School Transportation						0
Charter School Tuition Reimbursement	41,541	63,184	5,865	4,479	4,031	(448)
School Lunch	24,429	26,983	29,573	27,019	24,317	(2,702)
<b>State Aid for Education</b>	<b>5,190,177</b>	<b>6,209,013</b>	<b>6,031,907</b>	<b>6,622,455</b>	<b>6,753,348</b>	<b>130,893</b>
Lottery	1,966,680	1,705,544				0
Lottery - Hold Harmless		261,136				0
Additional Assistance	205,993	205,993				0
Unrestricted General Government Aid			1,538,073	1,476,550	1,328,895	(147,655)
Police Career Incentive	121,798	122,793	22,071	12,624	0	(12,624)
Veterans Benefits			5,875	9,724	0	(9,724)
Chapter 58 Chapter 59 Exemptions	72,224	77,429			0	0
Chapter 59 Elderly Exemptions	12,048	11,546			0	0
Exemption Reimbursements			85,661	76,620	68,958	(7,662)
Public Library Aid	32,807	37,540	27,163	29,040	26,136	(2,904)
<b>State Aid for General Government</b>	<b>2,411,550</b>	<b>2,421,981</b>	<b>1,678,843</b>	<b>1,604,558</b>	<b>1,423,989</b>	<b>(180,569)</b>
<b>Total Cherry Sheet Aid</b>	<b>7,601,727</b>	<b>8,630,994</b>	<b>7,710,750</b>	<b>8,227,013</b>	<b>8,177,337</b>	<b>(49,676)</b>
MSBA Payments	745,381	745,381	745,381	745,381	745,381	0
<b>Total State Aid</b>	<b>8,347,108</b>	<b>9,376,375</b>	<b>8,456,131</b>	<b>8,972,394</b>	<b>8,922,718</b>	<b>(49,676)</b>

### LOCAL RECEIPTS

Local receipts represent approximately 6.0% of the total general fund before adjustments and offsets. 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 estimate for FY2012 of **\$6,972,000** (Table 2.5) is a drop of \$153,664 from the revised FY2011 budget. When completing the tax rate setting process, we reduced the estimate of FY2011 local receipts because the FY2010 receipts were ever lower than assumed and the FY2011 revenues were running behind the FY2010 actual at the same point in time. FY2010 receipts were \$379,746 lower than the FY2009 actual receipts, and FY2009 actual was \$1,817,827 lower than FY2008 receipts. The local receipt estimate for the FY2009 budget year was set at \$8,448,294; actual receipts for FY2009 were \$9,325,648 or \$877,354 more than the estimate. We had expected the total receipts for FY2010 to be flat, the adjusted budget estimate for FY2010 was \$8,085,545, and actual receipts were \$8,945,903 or \$860,358 more than the estimate; just under \$17,000 less than the prior year difference between estimated and actual. Because the Town adopted the meals excise during FY2010, the Town received \$110,509 from this revenue; so the true comparison between FY2010 and FY2009 would have shown an even greater drop in revenue.

We also know that one revenue stream will disappear in FY2012. The Town maintained and managed the commuter lots since the MBTA reinstated the commuter rail service to Needham. This arrangement worked well for the Town, after accounting for the expenses to maintain the lots and the lease payments to the MBTA, the Town realized a surplus which helped to pay for other services. The Town and the MBTA had been in negotiations for a

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new lease arrangement. However, the MBTA has decided to assume control of its properties and will operate and manage the commuter parking lots in Needham. The revenue lost is approximately \$300,000, and the net "profit" (revenues less expenses) is more than \$80,000.

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 Vehicle provides listings several times during the year with the vehicles that are registered in Needham, along with the value for each. 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 through the Commonwealth. Motor vehicle excise receipts for FY2012 are projected at approximately **\$3.3 million**, or 16% below the FY2010 actual. This is a revenue source that we continue to monitor closely. We do not anticipate increasing this revenue estimate for the foreseeable future, until motor vehicle excise revenue recovers to a level that will generate a minimum of 15% towards Free Cash.

In 1986, the Town of Needham adopted a local option room excise tax at 4%; the Town increased the rate to 6% effective January 1, 2010. This change was approved by Town Meeting on November 2, 2009. 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 twice a year, which payment is accounted for as **Other Excise** under the local receipts group. From FY2005 to FY2008 the actual room excise revenue increased, but declined in FY2009, a reflection of the economy. The Town of Needham also accepted the local option meals tax at the November 2, 2009 Special Town Meeting. The Department of Revenue notified local establishments to begin collecting the additional 0.75% meals tax effective January 1, 2010. The local establishments report and remit the sales tax to the Department of Revenue (DOR). The Town received its first distribution of meals tax revenue from DOR in the spring of 2010. Collections from both the room excise and the meals excise have been positive and growing. The budget estimate for FY2011 is \$385,000. Based on collections to date, this is one of the revenue sources that we are confident can be estimated higher than we would traditionally do at this time. The estimate is **\$475,000** or \$90,000 (23%) over the current year.

The **Penalties & Interest** category includes penalties charged for the late payment of real estate and motor vehicle excise bills, tax lien redemptions, and interest accrued on deferred taxes. The fluctuations in actual collections reflect the unpredictability of the timing of payments, particularly settlements on deferred taxes and tax title accounts. The estimate for FY2012 is level at **\$265,000**.

**Payment In Lieu of Tax** is a voluntary payment made by certain tax-exempt entities. Based on the actual collection and agreements in place, the FY2012 estimate is currently being held at the same dollar amount as the FY2011 budget of **\$70,000**. This revenue source could decrease if the Federal Government reduces its support for some state programs such as affordable housing.

The category of **Charges for Services** includes charges for ambulance services, fire alarm connections, parking receipts and charges by the DPW. The reclassification of some local receipts involved items tracked under charges for services, fee income, rental income, and other departmental receipts. The changes were made in accordance with the State's UMAS definitions for each of these items. The increase in receipts to \$908,870 in revenue for FY2008 was due mostly to changes in various fee schedules, and in some cases due to reclassification. The increase in revenue for FY2009 is related to the doubling of the parking

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rates that was ordered by the MBTA effective November 15, 2008 (FY2009). Commuters pay \$4 per day to park at the "T" commuter lots. As mentioned previously, the MBTA is now assuming control and management of the commuter lots and therefore a reduction of in revenue will occur in FY2012. The FY2012 estimate has been reduced to **\$649,500** because of the loss of the MBTA commuter lot revenue. This represents a decrease of \$250,500 or approximately 38% less than FY2011.

The category of **Licenses and Permits** includes licenses issued by the Selectmen and Town Clerk, and permits issued by the Building, Fire, and Health Departments. The Town has increased many of its fees in this category, some due to added demands on the departments, which provide the related services and others, which have not been adjusted for a number of years. The changes were made after analysis of the costs, comparable rates in other communities, and market demands. Some of the changes were effective immediately, while others were phased in over a two or three year period. As expected, total receipts are up; the actual FY2008 revenue was due to both higher fees and some extraordinary permits issued. The FY2009 revenue dropped significantly by nearly \$900,000 (\$2,086,461 to \$1,192,088) as few new large building projects have been permitted. FY2010 revenues declined further by \$41,556, but have shown some improvement in FY2011. Interestingly, building permit activity still remains high, but most are for small residential projects. The estimate for FY2012 is **\$875,000** or \$75,000 more than FY2011 (approximately 9%).

The Town collects various **Fees** which include returned checks, FID cards, administrative fees for details, and Registry of Motor Vehicle license and registration non-renewal releases. The total collected in FY2008 was \$121,422, which was a decrease from the prior year. This was related to both a slow down in activity and reclassification of some fees as mentioned previously under charges for services. FY2009 revenue increased to \$130,515, but dropped in FY2010 to \$92,046. The estimate for FY2011 had to be decreased from the original estimate of \$130,000 to \$75,000. The estimate for FY2012 is level dollar at **\$75,000**.

The category of **Fines and Forfeits** includes parking ticket and court fines. Revenue in this category has fluctuated due to staff resources over the years, with \$170,811 for FY2005, a decline in FY2006 to \$139,354, a recovery in FY2007 to \$155,975, an increase in FY2008 to \$199,101 and again in FY2009 to \$206,953. FY2010 showed a decrease of \$17,855 to \$189,098. The decline in FY2006 was directly related to limited staff resources during part of the year. The increase in revenue in from FY2007 to FY2009 was related to changes the Police Department made with parking enforcement. The department increased support by using temporary help to provide greater enforcement coverage in the downtown areas during the business day. As anticipated last year, free parking that the Board approved due to construction in the downtown area contributed to the reduction. The estimate for FY2011 was reduced to **\$165,000** and will be held level dollar for FY2012.

**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 FY2011 projection was lowered to \$250,000 because of the issues related to the Rosemary Pool activities which reduced attendance; FY2012 is also level dollar at **\$250,000**.

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

The Town had enjoyed a period of increased **Investment Income** in FY2006 and FY2008 from \$1,041,352 earned during FY2006 to \$1,253,286 for FY2008. In FY2007 \$1,573,613

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in interest income was generated, due to a number of significant one-time cash flow events during the year which resulted in the Town's average invested balance to be higher, earning greater amount of interest income than would normally be expected. The Town was in the middle phase of its \$62 million High School reconstruction project during FY2007. Between the notes issued during the year and the payments from the MSBA, the Town had a higher cash balance earning interest. This money is no longer available now that funds have been used to retire debt and pay the general contractor for the work that was performed. Interest rates have continued to remain low; therefore, the earnings on the Town's funds continue to decline. The Town's estimate for FY2010 was reduced from the \$650,000 estimate to \$545,000; the FY2010 estimate of \$545,000 was \$169,066 less than FY2009 actual. The total General Fund interest income received in FY2010 was \$497,129 or \$284,937 less than FY2009. The FY2011 estimate was furthered reduced to \$325,000. As of December 31, 2010 the Town had earned \$168,356. The estimate for FY2012 is **\$325,000**. This is another local receipt line that we monitor regularly. It is revised if necessary until the submission of the tax rate to the Department of Revenue.

**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 budget estimate for FY2012 is **\$305,000** or \$15,000 less than FY2011. This decrease is also attributable to the MBTA assuming control of the commuter lots.

**Library Income** includes book fines and other fees charged by the Needham Free Public Library. Library receipts declined significantly in FY2005, which was attributable to the relocation of the library to High Rock School, while the construction of the new facility took place. The new and larger library opened in the spring of 2006, and as expected revenues increased in FY2006 to \$49,782, and increased again in FY2007 to \$64,667, but declined to \$54,027 for FY2008. Revenues increased in FY2009 to \$57,614, and increased in FY2010 to \$61,491. The FY2012 estimate of **\$55,000** is level dollar.

**Rental Income** from the Ridge Hill facility is now nonexistent due to elimination of advance bookings as the Town decides the future use of the facility. No income has been realized from the Ridge Hill facility since mid 2008. The Town also has a long term lease with the Needham Golf Club (NGC) which is for twenty years. The **\$140,000** estimate is being held level for FY2012. The decline in rental income from FY2008 to FY2009 was due to both the loss of Ridge Hill rentals, and treatment of the property leased to the NGC. The land which the NGC leases is considered taxable. The income in FY2009 was \$151,887 and increased to \$172,796 in FY2010.

**Miscellaneous Income** represents various revenues that are not associated with one of the recognized local receipt categories. One major component of this category is Medicaid reimbursement, which often fluctuates from year to year. In FY2007 \$259,951 was collected, but only \$219,811 was received in FY2008. FY2009 saw even a greater drop to \$143,747. Total miscellaneous revenue (including Medicaid) was \$280,770 in FY2007 which declined in FY2008 to \$269,448 with a significant decreased in FY2009 to \$185,544 or a 34% drop in revenue. This revenue continued to decline in FY2010 with only \$85,863 being received. There has been an increase in Medicaid reimbursements, so the FY2011 estimate of **\$72,500** is being assumed for FY2012.

**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. At this time no revenue meeting this criterion has been identified and therefore the projection is zero.

## Fiscal Year 2012 Proposed Budget

Local Receipts  
Table 2.5

Description	FY2008 Actual	FY2009 Actual	FY2010 Actual#	FY2011 Recap	FY2011 Actual+	FY2012 Estimate	\$ Change
Motor Vehicle Excise	4,392,444	4,129,367	3,879,790	3,250,000	525,351	3,250,000	0
Other Excise	338,278	284,274	389,215	385,000	455,711	475,000	90,000
Penalties & Interest	201,421	270,991	310,910	265,000	130,102	265,000	0
Payment in Lieu of Tax	78,196	120,809	82,040	70,000	47,000	70,000	0
Charges for Services	908,870	1,016,683	1,045,245	900,000	430,307	649,500	(250,500)
Fees	121,422	130,515	92,046	75,000	53,771	75,000	0
Rents	245,090	151,887	172,796	140,000	84,816	140,000	0
Library Department Income	54,027	57,614	61,491	55,000	29,042	55,000	0
Recreation Department Income	265,967	264,862	278,220	250,000	68,956	250,000	0
Other Department Income	326,362	338,804	371,067	320,000	192,657	305,000	(15,000)
Licenses & Permits	2,086,461	1,192,088	1,150,532	800,000	704,093	875,000	75,000
Special Assessments	4,202	4,739	4,854	0	0	0	0
Fines & Forfeits	199,101	206,953	189,098	165,000	112,741	165,000	0
Investment Income	1,253,286	714,066	497,129	325,000	168,356	325,000	0
Miscellaneous Income	269,448	185,544	85,863	72,500	40,852	72,500	0
Nonrecurring Income	398,900	256,454	335,606	53,164	129,088	0	(53,164)
<b>Total</b>	<b>11,143,475</b>	<b>9,325,648</b>	<b>8,945,903</b>	<b>7,125,664</b>	<b>3,172,843</b>	<b>6,972,000</b>	<b>(153,664)</b>

# Final audit pending  
+ Revenue through December 2010

### OTHER AVAILABLE FUNDS AND FREE CASH

Other available funds represent 0.5% of the total general fund before adjustments and offsets, and Free Cash represents approximately 2.9%.

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, and 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 that will be available for FY2012 was certified by the Massachusetts Department of Revenue at \$3,380,269. This is an \$187,768 decrease (5.6%) from that which was available for the FY2011 budget.

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 can, and should be, expected to support operating expenses. It is recommended that not more than 2% of the adjust FY2010 operating budget or the actual turn back by those budgets, whichever is less be used for operating expenses in FY2012. The final budget for FY2010 was \$105,634,966. Excluding the budgets for the retirement assessment, OPEB assessment, debt service, and the reserve fund, the FY2010 operating budget was \$87,760,308. Two percent of the adjusted budget would be approximately \$1.7 million, which is less than the actual turn back for FY2010. The budget plan has approximately \$1.5 million of the estimated Free Cash being used for operating expenses.

## Fiscal Year 2012 Proposed Budget

Free Cash History  
Table 2.6

Budget Year	General Fund Undesignated Fund Balance at Year End	Free Cash Certified	Percentage of Undesignated Fund Balance Certified by DOR	Free Cash Reserved for Budget Year	Undesignated Fund Balance Rolling to the Next Fiscal Year
FY 2010	6,184,718	3,380,269	55%	FY 2012	2,804,449
FY 2009	6,140,369	3,568,037	58%	FY 2011	2,572,332
FY 2008	6,347,010	3,145,416	50%	FY 2010	3,201,594
FY 2007	7,751,792	5,810,170	75%	FY 2009	1,941,622
FY 2006	5,948,846	3,266,326	55%	FY 2008	2,682,520
FY 2005	6,284,759	3,895,235	62%	FY 2007	2,389,524
FY 2004	5,753,159	3,260,346	57%	FY 2006	2,492,813
FY 2003	5,601,925	3,270,834	58%	FY 2005	2,331,091
FY 2002	5,770,274	3,473,452	60%	FY 2004	2,296,822
FY 2001	5,038,901	3,226,740	64%	FY 2003	1,812,161
FY 2000	5,106,550	3,749,945	73%	FY 2002	1,356,605

**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 of that fiscal year. When the Board of Assessors makes that determination, it can declare the balance surplus and available for appropriation by Town Meeting.

We anticipate that \$500,000 in residual overlay account balances will be available for declaration as overlay surplus to fund FY2012 appropriations. Per state statute, the Board of Assessors must formally vote this estimate before it is available for appropriation. As of the date of this projection, this vote has not occurred.

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. \$40,000 is proposed for appropriation from the Parking Meter Fund to support parking enforcement and ticket processing, maintenance, and snow removal from affected parking lots. The Board of Selectmen approved a parking meter fee holiday during November and December of 2010 which lowered the amount of revenue that will be collected in FY2011.

FY2012 is the first operating budget that will include **CPA** supported debt service. The Town Hall financing plan calls for debt service paid by CPA funds to be \$300,000 in FY2012. We reflect \$300,000 as another financing source for the CPA debt as the debt service is reflected under the general operating budget of the Town.

Revenue Group as a % of Total General Fund Revenue  
Table 2.7

Description	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Budget	FY2012 Estimate
Property Taxes	76.5%	76.5%	80.0%	81.2%	82.8%
State Aid	8.3%	7.9%	7.7%	7.8%	7.7%
Local Receipts	11.0%	8.8%	8.2%	6.2%	6.0%
Other Available Funds	0.9%	1.4%	1.3%	1.6%	0.5%
Free Cash	3.2%	5.5%	2.9%	3.1%	2.9%
<b>Total General Fund Revenue *</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

\*May not equal 100% due to rounding

## Fiscal Year 2012 Proposed Budget

### ADJUSTMENTS TO GENERAL FUND REVENUE

Proposed as part of the FY2012 budget plan is the relocation of the expenses associated with the Drains Program that have been carried in the DPW General Fund Operating Budget to the Sewer Enterprise Fund Budget. The staff that performs 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 staff perform the drains-related work rather than hiring additional staff for the sole purpose of drain work. The drains program is considered a General Fund expense and not a sewer or water fund expense. The weekly tracking and processing of drains related procurement, accounts payable, and payroll, as well as the budgeting process suggests that it will be easier to process the finance-related tasks through one of the enterprise funds, rather than the current three fund process (general fund, sewer fund, and water fund). The General Fund still pays the drains-related costs, but the appropriation will now be made from the General Fund to the Sewer Enterprise Fund Budget. The General Fund appropriation to the Sewer Fund will be \$469,610 for FY2012. The FY2011 drains program budget is \$400,579.

While the majority of solid waste and recycling center service costs are accounted for in the Recycling Center and Transfer Station (RTS) Enterprise Fund, certain costs of the department are reflected in the general fund budgets of other Town departments (e.g., treasurer/collector, data processing, personnel, insurance, etc.). These RTS-related general fund expenditures are funded with transfers of revenue from the enterprise fund to the general fund. The amount projected for FY2012 is based on the current year and is estimated at \$240,000.

Enterprise Reimbursements to the General Fund  
Table 2.8

Description	FY2008 Recap	FY2009 Recap	FY2010 Recap	FY2011 Recap	FY2012 Estimate	\$ Change
Solid Waste	120,734	134,890	134,180	241,778	240,000	(1,778)
Sewer	660,019	580,923	632,483	480,971	425,000	(55,971)
Water	822,048	994,683	993,932	936,966	800,000	(136,966)
<b>Total</b>	<b>1,602,801</b>	<b>1,710,496</b>	<b>1,760,595</b>	<b>1,659,715</b>	<b>1,465,000</b>	<b>(194,715)</b>

As with the RTS fund, while the majority of sewer and water related service costs are accounted for in the Sewer Enterprise Fund and Water Enterprise Fund, certain costs of the departments are reflected in the general fund budgets of other Town departments (e.g., treasurer/collector, data processing, personnel, insurance, etc.). These general fund expenditures are funded with transfers of revenue from the sewer and water enterprise funds. The projected amounts for FY2012 for sewer and water are estimated at \$425,000 and \$800,000, respectively.

The total estimate is lower due the continued restructuring of the DPW and fewer expenses being incurred by the general fund. Some of the lower cost is related to the proposed move of the drains program from the DPW operating budget to the sewer enterprise. The work that is performed in the drains program is performed by sewer and water personnel. In prior years, a portion of those two enterprise fund personnel budgets was funded in the DPW operating budget. The drains program will now be accounted for in the sewer enterprise budget, but the salary and expenses will still continue to be supported by General Funds. This will be accomplished by a transfer appropriation vote by Town Meeting at the time Town Meeting acts on the Sewer Enterprise Fund operating budget article.

## Fiscal Year 2012 Proposed Budget

Because other indirect costs associated with the three funds are a factor of Town Meeting appropriations, the actual FY2012 transfers may be adjusted accordingly.

**Cherry Sheet Assessments** are charges levied for services provided to the Town by State and other governmental agencies (e.g., MBTA assessment, county tax, mosquito control, etc.). The estimate of **\$1,112,720** for FY2012 is an increase of 3% over FY2011.

**Cherry Sheet Offsets** are the programs that are classified by the State as "offset items"; that is, these funds are expended without appropriation for specific purposes (i.e., remediation assistance, school lunches and public libraries). As they are estimated as a component of State Aid, they must be shown as a reduction in revenue because of their categorical nature (i.e., they are not available for general appropriation purposes). Expenditure of these funds does not require Town Meeting appropriation. The figure for FY2012 is estimated at **\$50,453**, or a 10% decrease from FY2011.

**Allowance for Abatements and Exemptions** are funds reserved for property tax abatements and statutory exemptions. The preliminary estimate, subject to the approval of the Board of Assessors and the Department of Revenue, has been set at **\$975,000**. The final amount is determined by the Department of Revenue when it approves the tax rate in December. Approximately \$190,000 is intended to fund statutory exemptions that are granted to the elderly, the infirmed, and veterans. The State should reimburse the Town approximately \$86,000 through the Cherry Sheet for these exemptions. The projection is the minimum recommended for the year; should additional new growth tax revenue be realized for FY2012, the amount of overlay should be increased.

The **Solid Waste Enterprise Fund** was established pursuant to a vote of the Special Town Meeting held on November 19, 1997, which established an enterprise fund to account for receipts and expenditures of the Town's solid waste operation at the Recycling and Transfer Station (RTS) effective July 1, 1998. Sticker and bag fees help support tipping and recycling expenses. A transfer from the tax levy has historically funded the general operations of the RTS; however, the amount had been declining since the inception of the enterprise fund until recent years. The Board of Selectmen and the Finance Committee approved a policy to determine the amount that should be used to offset costs incurred by the RTS. The transfer for FY2009 was \$510,270, FY2010 was \$535,681, and the current year was based on \$654,215. However, due to the drop in RTS revenue and given the restrictions on estimating revenue above the actual amount of the prior year, an additional \$138,457 of General Fund revenue was required in order to balance the RTS budget. During 2010, the Board of Selectmen held several public meetings regarding the rates and methods of charging for use of the RTS. The Board approved increases in the RTS sticker rates, and changed the discount sticker program by lowering the fee and allowing residents to buy discounted RTS stickers at any time. Previously, a resident had to purchase the discounted sticker at the time the primary sticker was purchased, and the discount was limited to one sticker per household. The estimate for FY2012 is **\$547,673**, a decrease of \$245,000 from the actual payment in FY2011. The \$547,673 represents a \$106,543 decrease from the amount that was planned for FY2011. If the designated amount is appropriate, no increase in the RTS sticker rates will be necessary. The RTS pay-per-throw rates may increase, but this will not be known until the rates charged to the Town for the disposal of solid waste are set by the vendors for FY2012.

**Other Amounts to be provided for on the Tax Recap** is a contingency amount for those items that are required to be raised but as of this date are not known. Expenses such as overlay deficits for prior years, snow and ice deficits, or revenue deficits are items provided

## Fiscal Year 2012 Proposed Budget

for in this allowance. No amount has been set aside for this purpose for FY2012. However, the amount certified by the tax collector for tax title purposes is assumed to be level dollar for FY2012 at \$12,500.

### OTHER RESERVES AVAILABLE FOR APPROPRIATION

The available balance in the **Stabilization Fund** as of December 31, 2010 is \$3,539,228. The Stabilization Fund may be appropriated, by a two-thirds 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 a **Capital Improvement Fund** for the purpose of general fund capital equipment. The balance in the fund as of December 31, 2010 is \$560,238.

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, 2010 is \$732,222.

### 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 for the Recycling Center and Transfer Station. The enterprise funds are fully reimbursing the general fund for their related indirect costs (e.g., enterprise employee benefits, property insurance, shared staff, etc).

For FY2012, enterprise fund revenues will be estimated at \$15,964,357, although \$1,775,000 of this amount reflects use of retained earnings for capital investment in the three operations and an additional \$200,000 in retained earnings to offset a decline in recycling and other income from RTS operations. No sewer or water user rate increases are necessary under this budget plan. The budget plan also provides for a **\$547,673** General Fund appropriation to the RTS Enterprise (payment for avoided general fund related costs). The \$200,000 of RTS retained earnings proposed to fund the RTS operation is to ensure that a subsidy will not be required for FY2012. In FY2011 a subsidy of \$138,457 by the General Fund was necessary because RTS revenues could not be estimated at the amount required for approval by the Department of Revenue. Rate increases may be necessary if the recommended amounts are not appropriated or if the market for recyclable products does not improve.

### ENTERPRISE FUND RETAINED EARNINGS

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

Similar to the 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 30<sup>th</sup>. Once certified by the Massachusetts Department of Revenue, retained earnings are then available for appropriation or reserved to support the enterprise. Retained earnings were certified on January 24, 2011 by the Department of Revenue. Below are the amounts certified that are available:

## Fiscal Year 2012 Proposed Budget

RTS Enterprise Fund -	\$ 419,180
Sewer Enterprise Fund -	\$2,905,380
Water Enterprise Fund -	\$2,176,413

### 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 FY2010 CPA surcharge revenue in October 2010 was 27.2%. We believe the distribution range in FY2012 will be between 18% and 25% and our state revenue estimate is at the low end. The current estimate based on FY2011 collections that will be received as state matching funds in FY2012 is \$315,000 or 20%. The 2% CPA surcharge on FY2012 property tax bills is estimated at \$1,625,000. The total estimated FY2012 CPA revenue is \$1,940,000.

The \$1,940,000 estimate provides for a budget plan of \$82,000 to be appropriated to the Community Preservation Committee's (CPC) administrative budget and \$213,400 credited to both the Community Housing Reserve and Open Space Reserve. The \$213,400 figure is approximately 11% of the new revenue estimate for FY2012. 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 FY2012 debt budget includes \$300,000 of debt service for the Town Hall project. The amount that is recommended is usually adjusted downward to reflect amounts that may be appropriate to specific qualifying projects. The Town Hall project was previously designated as historic preservation project and therefore the \$300,000 appropriation to the General Fund operating budget will satisfy minimum requirement for Historic Resources. The balance of the CPA revenue estimate of \$1,131,200 would be transferred to the Community Preservation Fund General Reserve for FY2012. The amount that is actually appropriated to each reserve would be adjusted as needed based on the CPC's project funding recommendations and Town Meeting votes on those recommendations.

The certified CPA Free Cash balance as of December 31, 2010 is **\$979,973** and remains available for appropriation until June 30, 2011. The CPC has not yet made any funding recommendations for FY2012. The amounts currently held in the three required reserves as of December 31, 2010 are as follows:

Open Space Reserve-	\$213,500
Community Housing Reserve	\$401,700
Historic Reserve -	\$155,820

Fiscal Year 2012 Proposed Budget

**Town of Needham  
Community Preservation Fund  
Revenue and Appropriations  
FY2012**

**FY2012 Community Preservation Fund Revenue Estimates**

FY2012 Surcharge Revenue Estimate	1,625,000
State Trust Fund Distribution Estimate	315,000

<b>Total CPA Revenue Estimate</b>	<b>1,940,000</b>
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**FY2012 Community Preservation Fund Appropriation Estimates without Projects**

Community Preservation Committee Administrative Budget	82,000
Community Housing Reserve	213,400
Historic Resources Reserve	
Open Space Reserve	213,400
Community Preservation Fund Reserve	1,131,200
Specific Appropriations (see below)	300,000

<b>Total</b>	<b>1,940,000</b>
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**Specific Appropriation Requests**

Town Hall Project Debt Service (GF Debt Operating Budget)	300,000
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<b>Total</b>	<b>300,000</b>
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