

Revenue SummaryRevenue Summary
Table 2.1

Description	FY17 Recap	FY18 Recap	FY19 Estimate	\$ Change
General Fund	153,405,557	171,205,732	180,153,806	8,948,075
Enterprise Funds	16,025,446	17,185,276	22,169,359	4,984,083
Community Preservation Fund	3,723,750	6,756,539	5,446,647	(1,309,892)
Total Revenues*	173,154,753	195,147,547	207,769,812	12,622,266

* 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. The above table 2.1 shows that the total estimated revenue for FY2019 will increase by more than \$12.6 million or 6.5%. However, the total revenue estimated for FY2019 includes significantly more one-time monies and use of reserves, especially retained earnings and Free Cash than in previous years. The actual amount of Free Cash available for appropriation is not yet known, but we estimate the amount will be \$11.5 to \$13.5 million. This plan includes restoring \$1.8 million that was transferred from the Capital Facility Fund at the October 2017 Special Town Meeting for the High School classroom expansion project. The funds were transferred from the fund as temporary funding source, but the restoration is a critical component of the Town's overall financial plan. Reducing reserves too much may cause concern for the credit rating agencies and bond holders, which could jeopardize the Town's Triple A rating and consequently increase interest expense which in turn increases the amount that must be raised on the tax levy.

Summary of General Fund Resources
Table 2.2

Description	FY15 Actual	FY16 Actual	FY17 Actual	FY18 Recap	FY19 Estimate	\$ Change
Property Taxes	112,610,696	118,981,810	124,311,726	132,537,888	141,511,268	8,973,381
State Aid	10,641,851	10,760,537	11,171,133	11,720,547	11,994,391	273,844
Local Receipts	11,605,268	13,023,475	15,815,404	10,415,500	11,178,000	762,500
Other Available Funds	645,026	1,589,850	1,580,657	5,143,807	2,970,147	(2,173,660)
Free Cash	4,152,348	5,931,875	6,190,372	11,387,990	12,500,000	1,112,010
Total General Fund Revenue	139,655,190	150,287,548	159,069,292	171,205,732	180,153,806	8,948,075
<i>Adjustments to General Fund Revenue</i>						
Other Amounts Required to be Raised or State & County Assessments	(83,778)	(50,007)	(49,822)	(49,739)	(50,670)	(931)
Provisions for Abatements & Exemptions	(1,259,920)	(1,281,984)	(1,309,161)	(1,351,898)	(1,385,697)	(33,799)
Adjustments, Reimbursements & Subsidies	(3,258,232)	(3,009,775)	(1,855,476)	(2,811,893)	(1,000,000)	1,811,893
CPA Share of Debt Service	1,696,408	1,341,813	1,375,433	1,505,414	1,330,000	(175,414)
	475,763	464,438	456,313	449,163	441,494	(7,669)
Total	(2,429,759)	(2,535,516)	(1,382,712)	(2,258,953)	(664,873)	1,594,080
Available for General Fund Appropriation	137,225,431	147,752,032	157,686,580	168,946,779	179,488,933	10,542,154

Table 2.2 shows total revenue available for General Fund appropriations projected at **\$179,488,933** or **\$10,542,154** more than FY2018. Revenue from the property tax is estimated to grow by approximately \$9.0 million, state aid is assumed to increase by \$273,844, and local receipts are projected to increase by \$762,500. The amount of Other Available Funds is

approximately \$2.2 million less than was used for FY2018. Free Cash is currently assumed at \$12.5 million for FY2019. The estimated total adjustment to General Fund revenues is \$1,594,080 less (meaning more revenue available) in FY2019 compared to FY2018. 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.

FY2019 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, 2017 was \$9,885,655,649. This puts the tax levy ceiling at \$247,141,391. The tax levy including debt exclusions for FY2018 was \$132,537,888, 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 FY2019 tax levy attributable to new growth is estimated based upon information provided by the Assessing and Building Departments.

Fiscal Year Tax Levy
Table 2.3.1

Description	FY15 Recap	FY16 Recap	FY17 Recap	FY18 Recap	FY19 Estimate	\$ Change
Prior Year Base	98,926,269	106,872,486	113,231,868	118,983,942	126,800,315	
2-1/2 Allowance	2,473,157	2,671,812	2,830,797	2,974,599	3,170,008	
New Growth	3,922,530	3,684,955	2,919,417	4,841,774	2,478,714	
General Override	1,548,410					
Excess Levy (Taxes Not Raised)	(118,456)	(12,672)	(79,155)	(1,281,513)		
General Tax Levy Limit	106,751,910	113,216,581	118,902,927	125,518,802	132,449,037	6,930,236
Total Excluded Debt	7,352,024	6,869,980	6,675,456	7,795,041	9,872,526	
Less Excluded Debt Offsets	(800,174)	(794,698)	(788,593)	(775,955)	(810,295)	
Excluded Debt to be Raised on Tax Levy	6,551,850	6,075,282	5,886,863	7,019,086	9,062,231	2,043,145
Property Tax Levy	113,303,760	119,291,863	124,789,790	132,537,888	141,511,268	8,973,381
Collections by Year End	112,610,696	118,981,810	124,311,726			

Property Tax Levy

The property tax levy (Table 2.3.1) represents approximately 78.9% of all general fund revenues before adjustments. The FY2019 property tax levy is estimated to increase approximately 6.8% over the FY2018 actual tax levy, or approximately \$9 million. The tax revenue to support operations within the levy limit is increasing by an estimate of 5.5% over FY2018. Property tax New Growth revenue has been much higher in recent years and the increase in FY2018 was a record high. FY2019 is assumed at approximately \$2.5 million, which is lower than the past few years, and is likely to be amended when building activity through the end of 2018 is known. The limit is calculated by increasing the FY2018 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 FY2018 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 nearly \$7 million over the FY2018 base levy. The amount of tax excluded debt that is to be paid by property taxes is estimated to increase by \$2,043,145 more for FY2019 than was part of the FY2018 tax levy. The primary reason for the increase is the estimated debt for the Williams School project, which was approved by the voters at the November 8, 2016 election for the purchase of land and construction of the school on that land.

Table 2.3.2 shows the annual debt service by project which was added to the tax levy for fiscal years 2013 through 2018. 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 credits) made up of the total tax levy. For FY2018, the total excluded debt service was \$7,762,773 which could have added 6.2% to the tax levy, but after accounting for the allowed adjustments, the actual amount added to the tax levy was \$7,019,085, which represented 5.3% of the total tax levy for the year.

Debt Exclusions Added to Tax Levy FY2013 - FY2018

Table 2.3.2

Description	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Debt Service						
Broadmeadow School	963,643	939,450	914,325	886,300	857,150	828,300
Central Avenue Elementary School	-	-	-	-	-	1,358,112
Eliot School	399,794	390,694	421,594	379,174	359,405	346,840
High Rock & Pollard Schools	1,416,806	1,398,679	1,369,869	1,345,406	1,319,122	1,257,541
High School	2,098,806	2,047,069	1,999,931	1,946,415	1,885,080	1,774,365
Library	1,128,456	1,088,046	1,057,445	933,750	902,000	870,550
Newman School	1,499,641	2,152,138	1,588,861	1,378,935	1,352,700	1,327,065
Wiswall	-	-	-	-	-	-
Total	7,507,146	8,016,076	7,352,024	6,869,980	6,675,456	7,762,773
General Tax Levy	93,736,831	98,898,127	106,751,910	113,216,581	118,902,927	125,518,802
Excluded Debt as a % of the General Tax Levy	8.0%	8.1%	6.9%	6.1%	5.6%	6.2%
Offsets and Credits						
MSBA Credits	(745,381)	(695,148)	(695,148)	(695,148)	(695,148)	(695,148)
Premium Credits	(45,763)	(126,271)	(105,026)	(99,550)	(93,445)	(80,807)
Other Adjustments	(10,561)	(84,672)				32,268
Total	(801,706)	(906,091)	(800,174)	(794,698)	(788,593)	(743,687)
Net Raised on Tax Rate	6,705,440	7,109,985	6,551,850	6,075,282	5,886,863	7,019,086
Total Tax Levy	100,442,271	106,008,113	113,303,760	119,291,863	124,789,790	132,537,888
Net Excluded Debt as a % of the Total Tax Levy	6.7%	6.7%	5.8%	5.1%	4.7%	5.3%

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. New Growth tax revenue has been very good the past three years compared to peer-communities. As noted earlier, both residential and commercial activity has been exceptionally strong during the last 36 months with major developments in Needham Crossing. We anticipate additional new construction activity in Needham Crossing in the coming months as well as some new multifamily residential construction that has been permitted. 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

Average Single Family Home Tax Bill Area Communities	
Municipality	FY2018
Weston	\$19,653
Wellesley	\$14,839
Concord	\$14,494
Lexington	\$14,169
Sudbury	\$13,033
Wayland	\$12,906
Winchester	\$12,590
Belmont	\$12,196
Newton	\$11,830
Westwood	\$11,026
Needham	\$10,749
Milton	\$9,103
Arlington	\$7,957
Natick	\$7,448
Walpole	\$7,433
Dedham	\$6,894
Framingham	\$6,304
Norwood	\$4,828
Bedford*	NA
Group Average (excluding Needham)	\$10,983
State-Wide Average	\$5,711

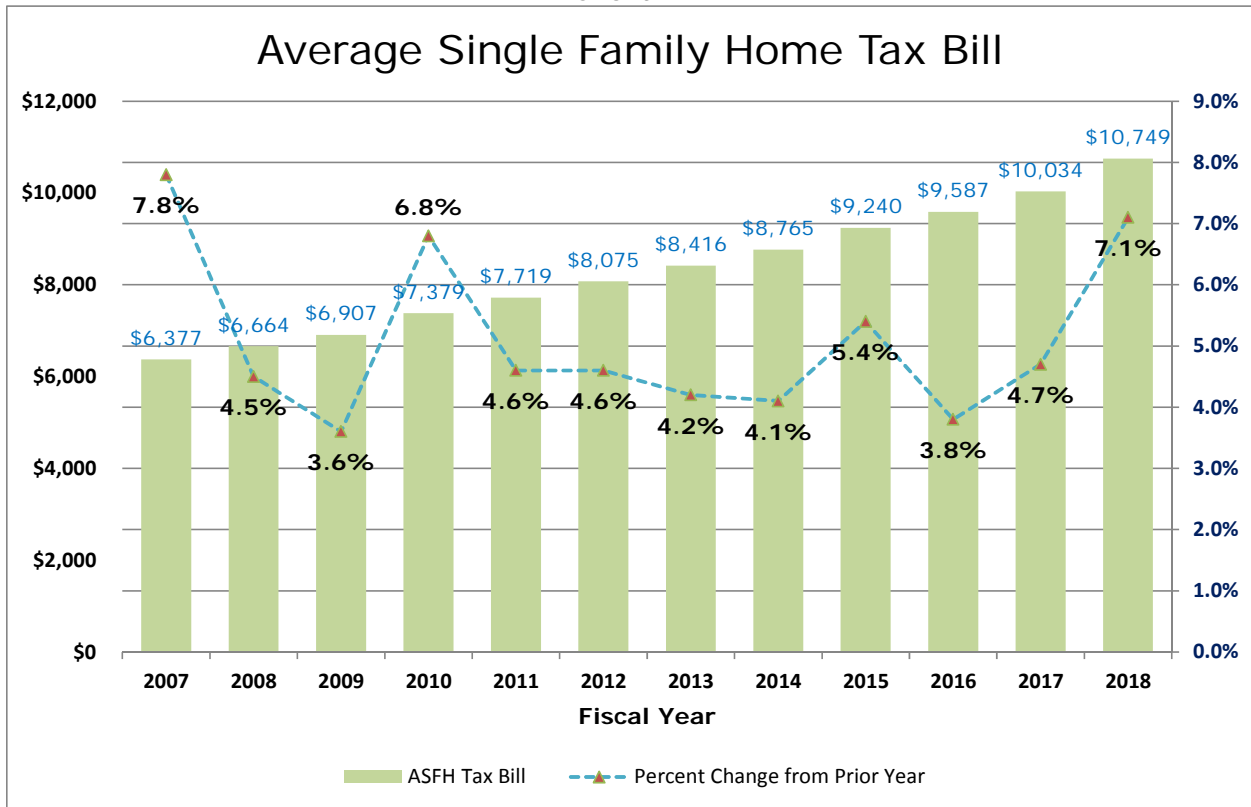
Source: DOR

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

The most current state-wide data available from the Department of Revenue shows that the average single family home (ASFH) property tax bill for FY2018 in the Town of Needham was \$10,749. This places Needham's average single family home property tax bill in middle of 19 nearby or comparable communities (Chart I), but well over the state-wide average of \$5,711. 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), and without Bedford because the information was not available for FY2018 was \$10,983, which is 4.3% more than the average of those communities in FY2017 (\$10,529). The average single family home tax bill in Needham for FY2018 increased by 7.1% from FY2017 (\$10,749 vs \$10,034). The higher than average increase in FY2018 for Needham in comparison to recent years was the addition of

the Williams School project. On the next page, Chart II shows the ASFH tax bill and the percent change from the prior year for the period of FY2007 to FY2018 in the Town of Needham.

Chart II



State Aid

Most State aid, especially Cherry Sheet aid, is a function of the State budget. The Governor is not required to file his FY2019 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 FY2019. For the purposes of this estimate, we have assumed a 2.5% increase for most State aid programs for FY2019. 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, amendments are usually made which can alter the amount of aid the Town will actually receive.

State aid (Table 2.4) represents approximately 6.7% of the total general fund before adjustments and offsets. As noted earlier, the Governor’s budget plan is not expected until January 24, 2018. The Governor’s budget proposal is subject to review and amendment, and final figures are not expected until late spring.

Fiscal Year 2019 Proposed Budget

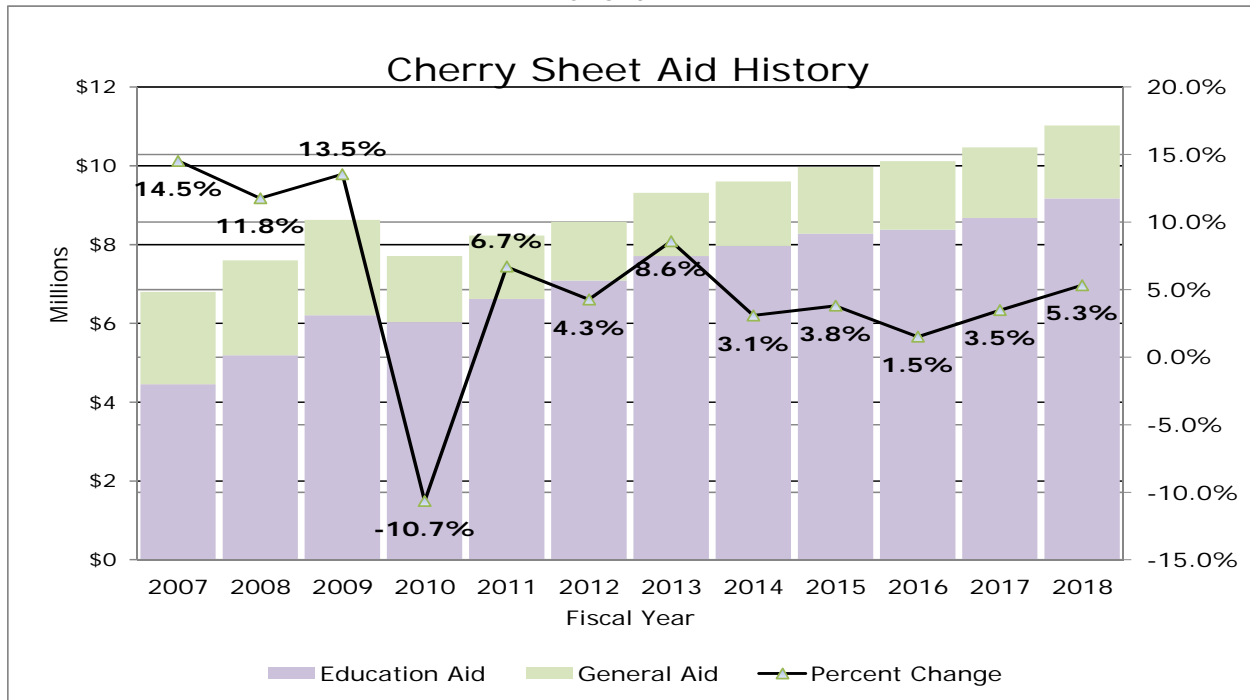
State Aid
Table 2.4

Description	FY15 Actual	FY16 Actual	FY17 Actual	FY18 Recap	FY19 Estimate	\$ Change
Chapter 70	8,239,740	8,373,790	8,671,395	9,166,360	9,395,519	229,159
School Transportation						
School Construction Assistance						
Charter School Tuition	4,381	1,460	1,452	6,215	6,370	155
Charter School Capital						
Homeless Transportation		5,355	8,836			
School Lunch	33,884					
State Aid for Education	8,278,005	8,380,605	8,681,683	9,172,575	9,401,889	229,314
Unrestricted General Government Aid	1,553,368	1,609,289	1,678,488	1,743,949	1,787,548	43,599
Police Career Incentive						
Veterans Benefits	30,529	28,450	27,774	21,852	21,852	
Exemption Reimbursements	47,407	9,538	50,719	49,784	49,784	
Public Library Aid	37,394	37,507	37,322	37,239	38,170	931
State Aid for General Government	1,668,698	1,684,784	1,794,302	1,852,824	1,897,354	44,530
Total Cherry Sheet Aid	9,946,703	10,065,389	10,475,985	11,025,399	11,299,243	273,844
MSBA Payments	695,148	695,148	695,148	695,148	695,148	
Other State Aid	695,148	695,148	695,148	695,148	695,148	
Total State Aid	10,641,851	10,760,537	11,171,133	11,720,547	11,994,391	273,844

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 on the next page shows 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 FY2007 through FY2018.

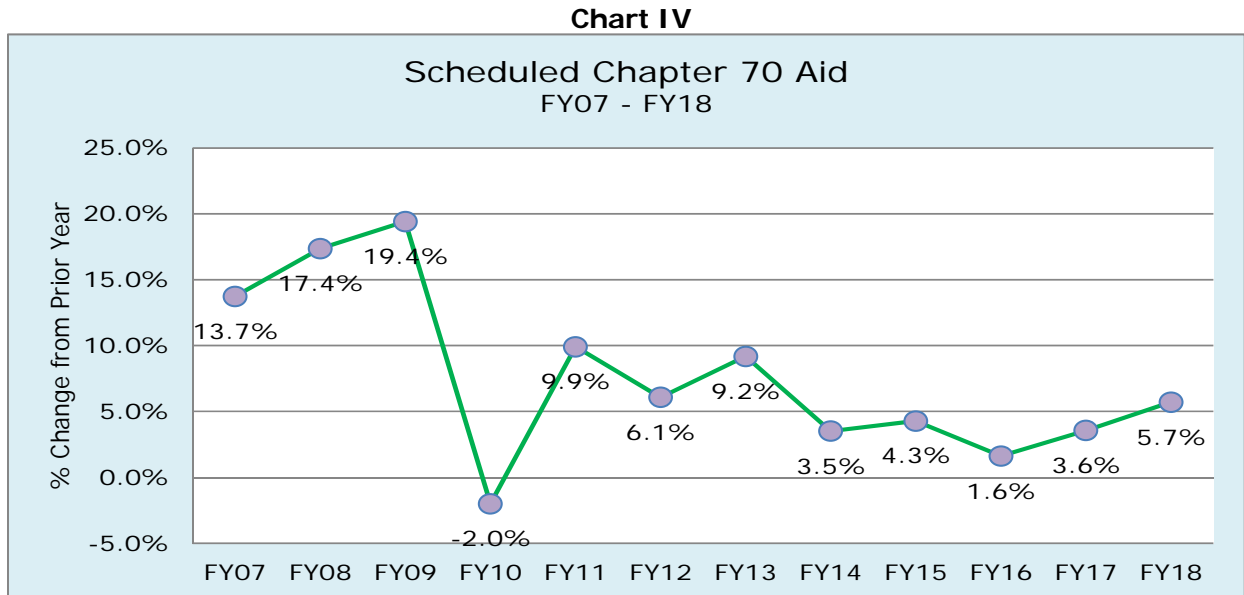
Chart III



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. With the FY2007 amendments to the program, the State's goal was to get each school system to its Foundation Budget within five years by a combination of local and State monies. 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.

The Town of Needham saw an increase in Chapter 70 funding from FY2007 through FY2009, but during fiscal year 2009 the Governor reduced the amount of Chapter 70 aid for Needham from the \$6,118,846 that was appropriated to \$5,475,362, a loss of \$643,484. This cut by the Governor to the local aid programs was due to the significant drop in state tax receipts as the recession became worse. The Town received \$5,996,469 in FY2010, although less than what the Town was budgeted to receive in FY2009, it was an increase over the amount that was actually received from the Commonwealth in FY2009. Each year thereafter, the Town received increases in Chapter 70: FY2011 \$594,488 or 9.9% more, FY2012 \$400,763 or 6.1% more, and FY2013 the amount was \$642,270 or 9.2% more. After FY2013, the State continued to increase funding for Chapter 70 but the rate of increase for Needham was lower. The Town received \$267,812 more in FY2014 or 3.5%, and then \$337,938 more in FY2015, an increase of 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 the State has notified the Town that Chapter 70 aid would

increase by \$494,965 (5.6%) for FY2018. We have assumed a 2.5% increase for FY2019. Chart IV shows the annual percent change in Chapter 70 aid from FY2007 through FY2018.



The Additional Assistance and 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 received \$1,476,550 in FY2011, a loss of \$61,523 from FY2010. The FY2012 UGGA amount was \$1,369,789 or \$106,761 less than FY2011. The Town received \$1,476,550 in UGGA funds in FY2013, the same amount as FY2011, and received \$1,511,453 in FY2014 or \$34,903 more. The Town received \$1,553,368 in FY2015 and \$1,609,289 was received in FY2016, an increase of \$55,921 over FY2015. The Town received \$1,678,488 in FY2017, and is scheduled to receive \$1,743,949 for FY2018 which is an increase of \$65,461 or 3.9% more. We have assumed a 2.5% increase for FY2019, the same percentage we assume for Chapter 70.

The total for all the **other Cherry Sheet aid** programs that have been identified for Needham - charter school tuition, veterans' benefits, property tax exemption reimbursements, and aid to public libraries total \$115,090 for FY2018, and we have assumed the total from these programs for FY2019 is \$116,176, an increase of less than one percent. The school lunch program was removed from the Cherry Sheet distribution beginning in FY2016. The program is now a direct grant.

The Town is also expecting the eleventh 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 allows 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. The Town issued refunding bonds during FY2015 for the Eliot School project and one of the High School project-related bonds.

The result of the sale of these two bonds was a decrease in the overall interest expense, and the annual interest payments. Because both projects were funded by debt exclusion votes, this means the amount that is paid by the taxpayers of Needham is also less. The Town issued yet another refunding bond during FY2016 on debt that was issued also on the High School project, and on the High Rock and Pollard School projects. The refunding bond will save the Town over \$788,000 and because all the debt is excluded debt, the taxpayers will pay less than they would have had to pay on the remaining debt for the school projects.

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. However, the estimate for FY2017 included a new revenue source from the sale of solar generated electricity to the electric grid and the expectation of higher receipts from permits and licenses due to changes in the building fee structure that were adopted by the Board of Selectmen and took effect January 1, 2016. We also anticipate the opening of a new hotel which should generate more room excise income for the Town. A portion of this revenue and the solar revenue are planned for the Debt Service Stabilization fund. This action was supported and was part of the budget plan last year and the prior year. This approach, setting aside recurring revenue in a special fund, is to smooth out the debt service obligations projected in the near future for projects approved or proposed for funding by debt within the levy limit, and will ensure that monies are available to address future new recurring expenses expected to begin in the FY2020 to FY2023 timeframe. The Town began receiving tuition payments which are generated by the Needham Public Schools for tuition. FY2017 was the first year for an estimate to be included in the total receipt estimate; the revenue has been strong and is forecasted to continue. Taking into account these revenues, the local receipts estimate is consistent. This estimate, excluding nonrecurring revenue, is currently projected at approximately 71% of the 2017 actual receipts. However, the total at 71% of the prior year actual is lower on a percentage basis than we normally target at this stage in the budget process, however the licensees and permit income has been extraordinarily high, driven largely by the great amount of commercial and large residential construction activity, which is anticipated to abate. Therefore we looked at the revenue estimate as a percent of the average actual total receipts for the years FY2014 through FY2017, so at an estimate of \$11,178,000 for FY2019 compared the average over the four year period (\$12.9 million), the estimate is 86.5%, which is slightly higher at this point in the budget process than usual. However for reasons explained below, we are confident this estimate does not compromise our customary practice.

We prepare the projections of local receipts by comparing FY2017 estimated receipts to actual receipts; FY2017 actual receipts to FY2016 actual receipts, FY2018 estimated receipts to the FY2017 actual receipts and FY2018 year-to-date numbers. We also look at trend lines over three and five years. 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 FY2018 estimated receipts were revised. As the year progresses, further analysis of collections will be performed to determine if fiscal year 2018 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
Table 2.5

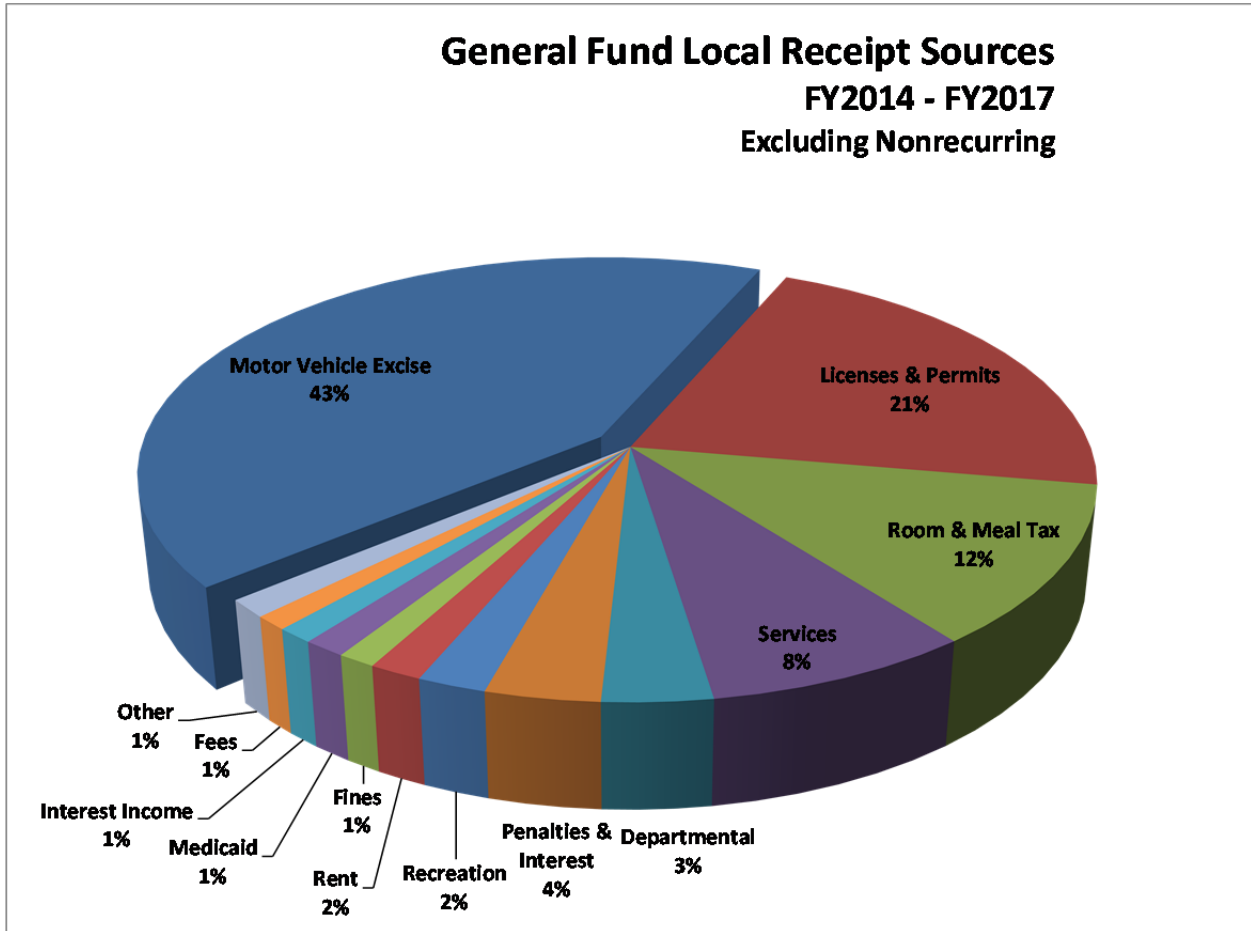
Description	FY14 Actual	FY15 Actual	FY16 Actual	FY17 Actual	FY18 Recap	FY19 Estimate	\$ Change
Motor Vehicle Excise	4,923,980	5,242,444	5,627,887	5,701,527	4,750,000	5,092,500	342,500
Other Excise	1,288,328	1,500,981	1,608,643	1,571,497	1,360,000	1,415,000	55,000
Penalties & Interest	244,733	300,493	728,071	461,096	200,000	250,000	50,000
Payment in Lieu of Tax	83,433	51,389	73,478	124,308	50,000	50,000	
Charges for Services	670,395	678,724	967,143	1,738,167	1,420,000	1,500,000	80,000
Fees	110,907	129,658	112,891	174,890	115,000	130,000	15,000
Rents	209,000	212,303	217,914	166,392	160,000	160,000	
School Income			36,222	42,956	20,000	25,000	5,000
Library Department Income	54,421	52,905	42,121	39,799	30,000	30,000	
Recreation Department Income	288,404	267,266	246,636	243,016	145,000	200,000	55,000
Other Department Income	417,396	354,139	479,447	406,582	320,000	320,000	
Licenses & Permits	2,306,750	1,702,030	2,314,222	4,477,430	1,558,000	1,750,000	192,000
Special Assessments	1,594	3,182	1,367	4,933			
Fines & Forfeits	140,523	151,293	144,396	144,713	117,000	120,000	3,000
Investment Income	77,523	101,273	111,638	278,831	80,000	125,000	45,000
Medicaid Reimbursement	73,511	211,056	176,672	194,935	80,000		(80,000)
Miscellaneous Income	17,993	13,758	14,200	14,771	10,500	10,500	
Nonrecurring Income	307,299	632,377	120,525	29,562			
Total	11,216,189	11,605,268	13,023,475	15,815,404	10,415,500	11,178,000	762,500

Local receipts represent approximately 6.2% 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 FY2019 of **\$11,178,000** (Table 2.5) is an increase of \$762,500 or 7.3% from the revised FY2018 budget of \$10,415,500. When completing the tax rate setting process, we reduced some of the estimates and increased others for the FY2018 receipts based on FY2017 results and trends. The total was within the target range for estimating.

The three major sources of local receipts which made up more than 75% of total receipts over the last four years (see chart next page) are Motor Vehicle Excise, License and Permits, and Room and Meal Excises. Year after year motor vehicle excise tax is the major local revenue source accounting for as much as 50%, and therefore an overestimation of this revenue will have negative impact on the Town's position. The three receipt types are all impacted by the economy, locally and nationally. Other receipts have been stable, but flat, e.g., fines and forfeits, and rents, while others have been flat or trending downward e.g., library department income. Other local receipts can have significant swings from year to year such as Medicaid reimbursements, payment in lieu of tax, and penalties and interest. Revenue from services has increased significantly because of the new revenue stream from solar power. Overall, revenue should be stable for FY2018. Therefore, we have increased the estimate for each of the three major receipts, excise, permits, and lodging and meals excises, however pushing these receipt estimates too high would not be prudent. We have

assumed a higher estimate for recreation receipts with the expected opening of the Rosemary Pool in FY2019.

Chart V



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 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. We have assumed an approximately 7.2% increase or \$342,500 over the FY2018 estimate. Motor vehicle excise receipts for FY2019 are projected at approximately **\$5.1 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 have been positive and growing, due to the strong economy and the increase in establishments in Needham. The total actual receipts in FY2014, FY2015, and FY2016 showed year over year increases with the total income for the year of \$1,288,328, \$1,500,981, and \$1,608,643 respectively. Income declined slightly in FY2017, as anticipated, to \$1,571,497. The budget estimate for FY2018 is \$1,360,000. The estimate for FY2019 is **\$1,415,000** which is 4% more than the FY2018 estimate and is approximately 90% of the FY2017 actual. However, with the expected opening of a new hotel this year, we are confident the target is not too aggressive.

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 FY2019 is **\$250,000**, an increase of \$50,000 over the current year estimate and is approximately 54% of the FY2017 actual. The noticeable decline in revenue for FY2017 from the prior year was due to the collection on some long overdue accounts during FY2016.

Payment In Lieu of Tax is a voluntary payment made by certain tax-exempt entities. The Town received a much greater payment from the Housing Authority in FY2016 through a Federal pass-through program and even greater payments in FY2017, which are not assured going forward. The Town also receives an annual amount from the Hospital that is paid in installments. The amount that is paid by the Hospital is increased by the change in the CPI. The **\$50,000** revenue estimate for FY2019 is the same as budgeted for FY2018. This is approximately 40% of the FY2017 actual revenue and 60% of the four year average.

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 began receiving payments for power in the later part of FY2016 and consequently increased the revenue estimate for this revenue category both in the planning stage for the FY2017 budget and subsequently after the start of the fiscal year at the October 2016 Special Town Meeting because the array was generating more than the minimum assurance. The Town pays Solar City (producer of the power) appropriately \$0.09 per kWh of electricity produced. We have calculated the revenue estimate from the sale of solar power to be \$815,000 based on an average price of \$0.18 per kWh, the same as the estimate for FY2017. The total estimated income from the various charges and solar revenue for FY2019 is **\$1,500,000**, an increase of \$80,000 over FY2018, and is approximately 86% of the FY2017 actual revenue.

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 FY2014 was \$110,907, FY2015 \$129,658, and then declined to \$112,891 in FY2016. The FY2017 income increased to \$174,890. We increased the FY2018 estimate to \$115,000 from the original \$100,000 estimate during the December review. We have increased the estimate for FY2019 to **\$130,000** or \$15,000 more which is approximately 74% of the FY2017 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 collects rent on the use of Town facilities such as Powers Hall. Total rental income for FY2014 was \$209,000, \$212,303 for

FY2015, \$217,914 for FY2016, and \$166,392 for FY2017. The decline in rental income for FY2017 is an aberration; however the Town had to lower its original estimate for FY2018 from \$179,000 to **\$160,000**. The estimate for FY2019 is the same and represents approximately 96% of the FY2017 actual income.

Library Income includes book fines and other fees charged by the Needham Free Public Library. The revenue collected in FY2013 was \$57,510, but decreased to \$54,421 for FY2014, and was even lower for FY2015 at \$52,905, and dropped significantly in FY2016 to \$42,121. This trend did not reverse, FY2017 income declined to \$39,799. Consequently the original estimate for FY2018 had to be reduced even less than assumed with the original budget from \$34,500 to \$30,000 after the December review. The estimate of **\$30,000** is the level dollar for FY2019 which is approximately 75% of the FY2017 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 \$36,222 for FY2016 and \$42,956 for FY2017. The FY2018 estimate is \$20,000 and we have assumed **\$25,000** for FY2019. This is approximately 58% of the FY2017 actual income.

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 Rosemary Pool is expected to open in FY2019 so the estimated income is estimated at **\$200,000** for FY2019 or \$55,000 more than the FY2018 estimate of \$145,000. Actual income has declined over the past four years, from \$288,404 in FY2014 to \$243,016 in FY2017, and was attributable in part to the pool, but new pool is expected to have positive impact on income in the coming years.

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 FY2014 were \$417,396 and \$354,139 for FY2015. FY2016 realized an increase, much attributed to review of planned development and actual construction activity throughout the town, with total receipts of \$479,447, and as a possible indicator of future activity in development, fee income decline to \$406,582 primarily from planning and zoning reviews. The estimate for FY2019 is the same as FY2018, **\$320,000**, which is approximately 79% of FY2017 actual.

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, because they had not been adjusted for a number of years. The Board of Selectmen approved a new rate schedule for building permits which took effect January 1, 2016. Actual receipts in FY2013 were \$1,869,446, then increased in FY2014 to \$2,306,750, and then dropped to \$1,702,030. This is reflective of the great variability in the permitting of projects and the timing of when construction begins. Actual revenue for FY2016 was \$2,314,222, and FY2017 income was a record at \$4,477,430. Construction in town remains strong and demand high, but is not sustainable as concerns about the speed of commercial building activity and market forces come into play. We have increased the estimated income for FY2019 by \$192,000 or 12.3% more than the FY2018 estimate to **\$1,750,000**. Although we assume the actual revenue will decline, the underlining basic home construction activity should allow for this higher estimate. The estimate is approximately 39% of the FY2017 actual, but is 65% of

the four year average which should provide an adequate cushion should actual revenue decline much more than anticipated.

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

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. The revenue in FY2014 was \$140,523, increasing to \$151,293 in FY2015 only to decrease in FY2016 to \$144,396, and was basically flat for FY2017 with \$144,713. The FY2019 estimate is **\$120,000**, approximately 83% of the FY2017 actual.

Investment Income has been a volatile revenue stream over time with more than \$1.2 million earned in FY2008 to just \$77,523 in FY2014. Indeed, the original estimate for FY2012 of \$325,000 had to be reduced to \$150,000, yet the total for the year came in at \$103,130. The FY2013 original estimate 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. We have increased the estimate for FY2019 by \$45,000 to **\$125,000** which is 45% of the FY2017 actual income, but represents nearly 88% of the actual average income over the FY2014 to FY2017 time period.

Medicaid and Miscellaneous Income Medicaid reimbursement 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. However, with the uncertainty with Federal revenue in this area, and the fact that the Town has not received any Medicaid payments year-to-date, we are estimating only **\$10,500** in other miscellaneous income for FY2019 at this time.

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. The FY2013 nonrecurring receipts totaling \$1,288,907 resulted mostly to one major source, a very sizable premium received on the sale of bonds in the amount of \$811,162. The Town also received a distribution of \$303,727 from a Medicare Part D reimbursement, the last payment to the Town as future reimbursements will be incorporated in the premiums that the Town pays for certain retiree health insurance. The bond premiums and the Medicare reimbursements together, accounted for 86% of the total nonrecurring revenue in FY2013. The Town was successful in collecting some old receivables, previously considered uncollectible in the amount of \$43,157. The Town also received \$20,945 from MEMA for Hurricane Irene related expenses. The balance of \$109,916 came from other sources. The Town received \$307,299 in nonrecurring receipts in FY2014. One major source was premiums received on the sale of bonds in the amount of \$146,553. This receipt accounted for approximately 48% of the total nonrecurring revenue. The Town received \$51,263 from the sale of surplus equipment, and \$41,342 was from unused flexible spending accounts. The Town also received \$26,600 in energy efficiency rebates from Northeast Utilities. The balance of \$41,541 came from various sources, reimbursements, and returns which are not recurring. In FY2015 the Town received \$632,377. One major source was premiums received on the sale of bonds in the amount of \$336,304. This receipt accounted for

approximately 53% of the total nonrecurring revenue. The Town received property and casualty premium credits of \$126,698, payment of \$81,659 for details previously adjusted, \$44,427 from the sale of surplus equipment, plus an additional \$5,400 on the trade of police vehicles, and a \$7,753 lien payment (non-tax) recovered by Town Counsel. The \$30,136 balance represents various refunds and recoveries received by the Town and School departments. In FY2016, the Town received \$120,525 in receipts that are classified as nonrecurring receipts. Two major sources were premiums received on the sale of bonds last year in the amount of \$54,740 and \$26,780 from the sale of surplus equipment. The combination of these two receipts accounted for approximately 68% of the total nonrecurring revenue. The balance of \$39,005 was from various sources. During FY2017, the Town received a total of \$29,562 in nonrecurring receipts. The largest receipt was from the sale of surplus equipment totaling \$7,110, and \$22,452 from various refunds and recoveries received by the Town and School departments.

General Fund Recurring Receipts
Table 2.6

Description	FY15 Actual	FY16 Actual	FY17 Actual	FY18 Recap	FY19 Estimate	\$ Change
Property Taxes	106,058,846	112,906,528	118,424,863	125,518,802	132,449,037	6,930,236
State Aid	9,875,425	10,065,389	10,475,985	11,025,399	11,299,243	273,844
Local Receipts	10,972,892	12,902,950	15,785,842	10,415,500	11,178,000	762,500
Total Receipts	126,907,163	135,874,868	144,686,690	146,959,701	154,926,280	7,966,580

Other Available Funds

Other available funds (\$2,970,147) represent 1.6% 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 three available funds that have been recurring are Debt Exclusion Offsets, Overlay Surplus, and until FY2018 Parking Meter Fund. Other available funds are correlated to expenses. These funds must be specifically identified by Town Meeting in the motion in order to be used.

The **Debt Exclusion Offset** is an amount equal to the amortized value of a premium that may have been received on 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 FY2018 is \$115,147.

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 have assumed \$1,000,000 will be available 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 **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. Therefore, there was no transfer

to the operating budget for FY2018, or planned for FY2019. Parking meter receipts are now part of the local receipts category.

Other available funds in prior years have included items such as unexpended balances of prior warrant articles, grants, and general and dedicated reserves. The budget plan assumes the use of \$1,855,000 from the **Athletic Facility Improvement Fund** for anticipated capital projects

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 FY2018, but preliminary estimates have Free Cash between \$11.5 and \$13.5 million. We have assumed **\$12,500,000** for this budget plan. This represents 6.2% of the total general fund before adjustments and offsets. This is an increase of \$1,112,010 over the amount that was used for the current year. The certified Free Cash in FY2017 was \$13,849,687 of which \$11,387,990 was used for FY2017 and FY2018 appropriations and the balance was closed out at the end of the year and will be part of the coming certification. The certified Free Cash in FY2016 was \$6,890,372 of which \$6,190,372 was used for FY2017 appropriations and the balance was closed out at the end of the year. Free Cash in FY2015 was \$6,207,875 of which \$5,931,875 was used for FY2016 appropriations and the balance was closed out at the end of the year. Free Cash certified in FY2014 was \$10,133,912 of which \$5,981,564 was used for FY2014 and \$4,152,348 was used for FY2015. 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	Returned
FY2014	FY14/15	10,133,912	2,120,776	2,032,765	7,499,617	35,000	566,530	-
FY2015	FY2016	6,207,875	1,873,669	1,941,264	2,394,911	750,000	845,700	276,000
FY2016	FY2017	6,890,372	1,779,710	1,763,165	2,639,117	553,222	1,234,868	700,000
FY2017	FY2018	13,849,687	2,700,921	2,689,482	5,438,467	1,145,000	2,115,041	2,461,697
FY2018^	FY2019	12,500,000	2,858,833	2,506,298	7,839,289	196,000	1,958,413	-

^ Estimate

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. In recognition that the operating budget structure has been amended, and begun in FY2017 budget plan a sizable amount of expenses have been removed from the departmental budgets into a new Townwide expense budget (to account and track electric and natural gas expenses, including payments for the production of solar power, related expenses and the street lighting program), we amended what was included in the Free Cash "use for operating expenses" calculation. We continue to recommend that the amount 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 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, we show what the budget returns have been in the past five 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
2013	118,098,423	2,672,092	116,839,992	2,120,776	1.8%	551,316	20.6%	2,336,800
2014	124,101,249	2,463,826	122,653,006	1,873,669	1.5%	590,157	24.0%	2,453,060
2015	129,531,899	1,944,545	127,889,742	1,779,710	1.4%	164,835	8.5%	2,557,795
2016	136,570,837	4,406,846	135,046,070	3,404,341	2.5%	1,002,505	22.7%	2,700,921
2017	144,396,032	4,031,697	142,941,656	3,287,076	2.3%	744,621	18.5%	2,858,833

Two percent of the FY2017 adjusted final budget equals \$2,858,833; the actual FY2017 budget return less the Reserve Fund return was \$3,287,076 which is more than two percent and is more than the return for three of the last four years (Table 2.7.2). The budget plan has \$2,506,298 of the estimated Free Cash being used for operating expenses; the amount falls under the allowance. The balance of the estimated Free Cash for FY2018 is proposed to be used to fund cash capital, reserves, and warrant articles. If DOR certifies a greater amount, we have identified approximately \$1.5 million in general fund capital to be funded and any amount above that is recommended to be appropriated to reserves. 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	FY15 Actual	FY16 Actual	FY17 Actual	FY18 Recap	FY19 Estimate
Property Taxes	80.6%	79.2%	78.1%	77.4%	78.6%
State Aid	7.6%	7.2%	7.0%	6.8%	6.7%
Local Receipts	8.3%	8.7%	9.9%	6.1%	6.2%
Other Available Funds	0.5%	1.1%	1.0%	3.0%	1.6%
Free Cash	3.0%	3.9%	3.9%	6.7%	6.9%
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 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, information technology, 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 FY2019 is based on the current year and is estimated at **\$310,000**.

Enterprise Reimbursements to the General Fund
Table 2.9

Description	FY15 Actual	FY16 Actual	FY17 Actual	FY18 Recap	FY19 Estimate
Solid Waste	278,317	317,608	314,739	322,037	310,000
Sewer	464,518	363,721	376,586	428,888	340,000
Water	953,573	660,484	684,108	754,489	680,000
Total	1,696,408	1,341,813	1,375,433	1,505,414	1,330,000

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, information technology, personnel, insurance, etc.). These general fund expenditures are funded with transfers of revenue from the sewer and water enterprise funds. The projected amounts for FY2019 for sewer and water are estimated at **\$340,000** and **\$680,000**, respectively. Because indirect costs associated with the three funds are a factor of Town Meeting appropriations, the actual FY2019 transfers may be adjusted accordingly.

FY2019 is the eighth operating budget that will include **CPA** supported debt service. The Town Hall financing plan calls for debt service paid by CPA funds to be **\$441,494**, which is a decrease of \$7,669 from the FY2018 amount of \$449,163. The annual debt service will decline each year on the Town Hall project until it is paid off in 2031. However, the Rosemary Recreation Complex project was approved last year that will be financed in part from CPA funded debt which will increase the annual expense beginning in FY2020. We reflect \$441,494 as another adjustment to General Fund revenue because the CPA debt is included in the general operating budget of the Town.

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 **\$1,385,697** for FY2019 is 2.5% over the FY2018 estimate.

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 **\$1,000,000** which is a decrease of \$1,811,893 from the current year. The Reserve projection is the minimum recommended for the year; should additional new growth tax revenue be realized for FY2019, the amount of overlay may be increased. The final amount of the reserve is determined by the Department of Revenue when it approves the tax rate in December.

Amounts required to be raised or otherwise provided is a contingency for those items that are required to be raised but as of this date are not known. Expenses such as snow and ice deficits, or revenue deficits or shortfall in other estimates are items provided for in this allowance. The reserved estimate is **\$50,670** for FY2019. This amount includes the Cherry Sheet Offsets which are 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 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 amount for FY2019 is based on the assumption that state aid will be increased by two and half percent over the estimate for FY2018 to \$38,170. Another requirement is the amount that is certified by the tax collector for tax title purposes and is assumed to be level dollar for FY2019 at \$12,500.

OTHER RESERVES AVAILABLE FOR APPROPRIATION

The available balance in the **Stabilization Fund** as of December 31, 2017 was \$4,049,797. 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, 2017 was \$4,369,114. The budget plan calls for the use of \$1,855,000 to fund the Memorial Park Field House project and the design plans for the artificial turf replacement. The plan recommends an appropriation of \$63,378 to the Fund for the field use fees collected.

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, 2017 was \$23,712. The budget plan calls for an appropriation of \$1,817,000 to the Fund to replace the monies that were transferred from the fund for the High School classroom expansion project. Town Meeting was informed at the time of the appropriation in October 2017 that the use of those funds was a temporary measure and the Town was likely to restore the monies with Free Cash at the 2018 Annual Town Meeting or 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, 2017 was \$740,484. The budget plan calls for an appropriation of \$141,413 to the Fund, which represents the total the Town has collected from the sale of surplus property during 2017.

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, 2017 was \$2,044,336. The budget plan calls for an appropriation of \$1,981,874 to the Fund. This transfer represents recurring revenue which would be available to address future General Fund operating expenses when not appropriated to the Fund. The creation of this Fund was meant to address two different issues, smoothing out long-term debt obligations funded within the levy limit (a/k/a the three percent measure) by having extra funds on hand for Town Meeting to appropriate to allow for a much greater pay down of Notes rather than converting to long-term bonds, and to keep a portion of the current higher recurring revenue growth available to fund known future recurring operating expenses. These include implementation of full-day kindergarten, and public safety services needed to address increasing commercial activity and changing demographics. The increased revenue being generated from Needham Crossing development activity is greater than the increased public safety and infrastructure demands that will need to be funded.

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.).

Town of Needham
Enterprise Receipts
Table 2.10

Description	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Budget	FY2019 Estimate	\$ Change
Recycling and Transfer Station	1,196,091	1,239,871	1,236,607	1,219,607	1,250,000	30,393
Sewer Enterprise	8,794,290	8,884,328	8,982,530	8,520,415	8,711,100	190,685
Water Enterprise	7,128,001	7,009,201	7,019,533	5,845,584	5,825,347	(20,237)
Total*	17,118,382	17,133,400	17,238,670	15,585,606	15,786,447	200,841

* Receipts before adjustments, reimbursements, and subsidies

The combination of the Recycling and Transfer Station (RTS), Sewer, and Water Enterprise funds has total receipts at \$15,786,447 for FY2019 compared to \$15,585,606 for FY2018 (Table 2.10). This is an increase of \$200,841 or 1.3%. The estimate for the Water enterprise fund is lower than the budget for FY2018, and the RTS and Sewer enterprise funds are higher than the FY2018 budget figures. However, both Sewer and Water estimates are lower than the actual receipts received during FY2017. The RTS estimate is \$13,393 more than FY2017 actual receipts. This suggests a greater subsidy may be required for the FY2019 tax rate to be approved. However, this also supports the recommendation to the Board of Selectmen that the RTS enterprise be dissolved effective for FY2020. A vote of Town Meeting will be required. The income earned on many recycled items has been declining, and although recycling is less expense than disposing of waste, the income earned on the recycled materials is not keeping pace with the cost of providing the services. Actual sewer and water volumes are still projected to decline as the Town's efforts to promote less water use gains cooperation by citizens. An increase to the sewer rates is anticipated for FY2019, but not for water.

For FY2019, the total enterprise fund revenues are estimated at \$22,169,359 or 29% more than FY2018. This figure is inclusive of the use of \$6,382,912 in retained earnings, which is \$4,783,242 more than was used for FY2018. This increase is driven by previously planned capital investment which is to be funded by cash, not debt.

The budget calls for the use of **\$550,753** of retained earnings in the RTS Enterprise to support the operating budget (\$105,393), cash capital (\$345,360), and other financial articles (\$100,000). The Sewer Enterprise will use **\$ 2,301,111** in of retained earnings for cash capital. The FY2018 water enterprise budget plan recommends **\$ 3,531,048** of retained earnings for cash capital (\$3,311,048) and other financial warrant articles (\$220,000)

Fiscal Year 2019 Proposed Budget

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

Description	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Budget	FY2019 Estimate	\$ Change
Recycling and Transfer Station	321,095	158,000	258,096	798,040	550,753	(247,287)
Sewer Enterprise	706,000	1,373,949	478,016	368,556	2,301,111	1,932,555
Water Enterprise	1,161,050	1,162,104	345,679	433,074	3,531,048	3,097,974
Total	2,188,145	2,694,053	1,081,791	1,599,670	6,382,912	4,783,242

* Revenue before adjustments, reimbursements, and subsidies

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 helped to 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. However, the formula has not been sufficient in every year to meet the required revenue. Given the restrictions on estimating revenue above the actual amount of the prior year, an additional amount from the General Fund has been required in some years in order to balance the RTS budget. The General Fund transfer for FY2013 was \$576,938 and for FY2014 it was \$801,458. Effective in FY2015, with the elimination of the residential sticker fee, a greater General Fund contribution to the operation was approved. The voted amount for FY2015 was \$1,420,000. However, due to the restrictions in revenue estimation, the Town needed to provide a subsidy of \$72,270 to be approved by the DOR. The General Fund contribution for FY2016 was \$1,420,000 and the same amount was approved for FY2017. For FY2018, \$1,462,500 was applied to the enterprise. Recycling related expenses continue to grow faster than revenue; the budget plan has \$105,393 in retained earnings proposed to support the budget, and necessitates an increase in the General Fund contribution of \$57,500 to **\$1,520,000**, a 3.9% increase. A recommendation to dissolve the Recycling Center and Transfer Station enterprise fund and transfer the budget to the General Fund effective for FY2020 will be presented to Town Meeting in May 2018.

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 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 will now be made from the General Fund to the Sewer Enterprise Fund Budget. The payment in FY2012 was \$469,610, FY2013 was \$493,932, for FY2014 was \$468,936, for FY2015 the amount was \$463,430, FY2016 was \$494,488, and FY2017 was \$519,846. The FY2018 contribution was \$491,749, and the FY2019 budget recommendation is **\$504,750**, an increase of \$13,001 (2.6%). At the time of publication of the budget, the MWRA sewer

assessment has not been received, and therefore the plan level funds the assessment. Any change will be funded by retained earnings.

The **Water Enterprise Fund Budget** will not require a General Fund subsidy. Just as with the MWRA sewer assessment for FY2019, the water assessment has been level funded, and any change will likely be funded by receipts.

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 FY2018 have not been certified by the Department of Revenue as of the publication of this plan, but are estimated to be greater than the proposed amounts to be used and take into consideration the needed reservations and future appropriations. Table 2.12 shows the amounts which were certified as retained earnings by the Department of Revenue for the previous five complete fiscal years.

Certified Retained Earnings
Table 2.12

	FY2013	FY2014	FY2015	FY2016	FY2017
Recycling and Transfer Station	442,722	686,044	690,498	980,788	1,135,503
Sewer Enterprise	1,951,436	1,971,156	1,667,645	1,863,803	3,433,474
Water Enterprise	2,740,398	2,254,842	2,049,563	2,833,584	4,168,418

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 the state match on the FY2017 revenue was 17.2% which was received in November 2017.

We believe the distribution range in FY2019 on the FY2018 revenue will be between 10% and 15% and our revenue estimate is at the low-point. The current estimate based on FY2018 collections that will be received as **state matching funds** in FY2019 is **\$228,967** or 10%. The 2% **CPA surcharge** on FY2019 property tax bills is estimated at **\$2,397,680**. The total estimated receipts for FY2019 are currently at \$2,626,647. This is a decline from the FY2018 receipt estimate of \$2,681,539, or \$54,892 less. This is due to an assumed decrease in the state matching program. The decrease is assumed because of the trend of lower percentage matches annually and because of the increased number of communities now eligible for funding from the State Trust. There are now 172 of the 351 cities and towns in the Commonwealth are participating.

The \$2,626,647 estimate provides for a budget plan of \$82,000 to be appropriated to the Community Preservation Committee's (CPC) administrative budget and \$289,000 credited to both the Community Housing Reserve and Open Space Reserve. The \$289,000 figure is approximately 11% of the new revenue estimate for FY2019. 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 FY2019 debt budget includes \$441,494 of debt service for the Town Hall project. The Town Hall project was previously designated as a historic preservation project, and therefore the \$441,494 appropriation to the General Fund operating budget will satisfy minimum requirement for Historic Resources. The balance of the CPA revenue estimate of \$1,525,153 would be transferred to the Community Preservation Fund General Reserve for FY2019. 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, 2017 is **\$1,695,211** and remains available for appropriation until June 30, 2018. The CPA General Reserve has a balance of **\$341,831** and the funds remain available for appropriation until June 30, 2018 as well. The CPA Free Cash and General Reserve will close out to the CPA fund balance after the end of the FY2018 and does not become available for use in FY2019 until after the CPA Free Cash is certified for FY2019. The Community Preservation Committee (CPC) has not yet made any funding recommendations for FY2019. The amounts currently held in the three required reserves as of December 31, 2017 are as follows:

Community Housing Reserve	\$1,739,573
Historic Resources Reserve	\$ 15,820
Open Space Reserve	\$1,104,954

Town of Needham Community Preservation Fund Revenue and Appropriations FY2019
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Community Preservation Fund Revenue Estimates

Surcharge Revenue Estimate	2,397,680
State Trust Fund Distribution Estimate	228,967

Revenue Estimate	2,626,647
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Community Preservation Fund Appropriation Estimates without Projects

Town Hall Project Debt Service (GF Debt Operating Budget)	441,494
Community Preservation Committee Administrative Budget	82,000
Community Housing Reserve	289,000
Historic Resources Reserve	0
Open Space Reserve	289,000
Community Preservation Fund Reserve	1,525,153

Appropriation Estimates	2,626,647
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Specific Appropriation Requests

Emery Grover Feasibility Study Refresh	70,000
Memorial Park Buildings and Grounds Improvements	TBD
Public Playgrounds	300,000
Rosemary Lake Camp and Trail	50,000
Rosemary Lake Sediment Removal	2,400,000

Total Project Requests	2,820,000
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