

March 15, 2021

Fellow Town Meeting Members,

The Finance Committee is pleased to present its 110th Annual Report to Town Meeting along with its recommended operating budget for Fiscal Year 2022. As is customary, the Finance Committee's recommended budget for FY2022 fully funds the same level of services for next year, and adds some limited new staff or expanded services. What is not typical this year is that we remain in the midst of a global pandemic that has affected every aspect of our lives-- the way that we work, attend school, play sports, celebrate holidays, travel, gather with family, go to cultural events, or even socialize. During this difficult time, many people have gotten sick, lost loved ones, or become unemployed.

The pandemic has also affected the Town and the way that many services are provided. The Finance Committee's recommended budget provides funding for "normal" services as we expect things will be once the pandemic is essentially behind us. We anticipate that many activities will go back to normal, and some things will continue to be done differently and become the "new normal." The Finance Committee's FY2022 operating budget funds these anticipated ongoing costs and services. The May Special Town Meeting warrant will include a separate article to fund those expenses and services that are related to COVID-19 and that we expect will be needed only until there is enough immunity in the general population that more normal activities are resumed. At the time of this report, the U.S. has three safe and effective vaccines approved for adults and older children, but demand far outpaces supply and there is no vaccine yet approved for those under the age of 16. Consequently, we have to be prepared to fund continuing COVID-19 protocols in FY2022, especially in the schools, even though we remain hopeful that we will reach a new normal soon.

As one would expect, the Town's revenue has been affected by COVID-19 as well. Because Needham has always relied heavily on our own property taxes rather than outside sources, Needham is better positioned to weather a crisis like this than other communities that rely more on external support. Property taxes are expected to increase in FY2022, but state aid is projected to decrease overall, as are local receipts. These estimates are conservative, but we feel that this is a prudent approach, due to the uncertainties at both the state and federal levels. This letter contains an overview of the FY2022 operating budget followed by more detailed explanations. The Budgetary Overview section takes a high-level look at the amounts available for General Fund appropriation as well as the main drivers of the proposed increase in the operating budget. This section of the letter closes with an expression of the Committee's concerns looking forward. The second "Components" section of the letter looks at the changes in the individual segments of the Operating Budget.

I. Budgetary Overview

A. Amount Available for General Fund Appropriation

The FY2022 proposed budget and overall spending plan is based on a revenue projection of \$209.4M, which is \$9.8M or 4.9% greater than the adjusted estimate for FY2021. Despite initial conservative estimates, the FY2021 estimated total revenue was readjusted downward almost 2% since this time last year in order to better reflect the actual situation in the wake of the COVID-19 pandemic and the deep global recession that accompanied it. While the economy is expected to improve and strengthen as more vaccines are administered and businesses are re-opened to a greater extent, these projections are conservative to avoid unnecessary exposure. The revenue projection of \$209.4M includes \$207.1M of revenue in the General Fund, plus funds from other sources including CPA-funded debt service and reimbursements from the Enterprise Funds. General Fund revenue comes primarily from property taxes,

plus monies from state aid, and local receipts. Additional funds available for appropriation come from Town reserves, free cash, and other sources such as unexpended appropriations. Property taxes are the primary source of General Fund Revenue, making up over 82% of the expected General Fund revenue in FY2022. In total, FY2022's property tax revenue is increasing by \$7.8M or 4.8% over FY2021.

State aid, which accounts for 6.4% of the estimated General Fund revenue, is projected to decrease by 2.6% or more than \$352K in FY2022. This number assumes no increase in school aid and a significant decrease of 12.5% in unrestricted government aid. The state budget is still pending and subject to change as it makes its way through the process. The particular amount of state aid is always challenging to estimate, and this year it is more uncertain than usual. In the spring of 2020, the economy dipped sharply as businesses slowed or shut down to slow the spread of COVID-19. While economic indicators have since improved, there are still unknowns that could affect state revenue such as the amount of federal aid and stimulus funding and the success of public health measures going forward. The largest component of state aid is Chapter 70 school aid, over 87.2% of state aid to Needham. This component is based partially on school enrollment which increased significantly recently with the start of full-day kindergarten. Chapter 70 aid is projected to remain level from FY2021 to FY2022 in light of lower enrollment, salary increases, and uncertainty at the state level. The second largest component of state aid, accounting for over 12% of the Town's state aid total, is Unrestricted General Government Aid (UGGA), which is expected to decrease by almost \$232K or 12.5%. If these estimates are revised and more funds are found to be available, we will plan to reduce any reliance on reserves to meet FY2022 spending needs.

Local receipts are estimated to bring in a total of \$10.8M or approximately 5.2% of General Fund revenue in FY2022. Local receipts include motor vehicle excise taxes, hotel and meals taxes, charges for services such as ambulances, and license and permit fees. These local receipts are expected to decrease by almost \$511K or 4.5% compared to FY2021. Almost all of the various types of revenue that make up local receipts are projected to remain flat or to decrease in FY2022. Motor vehicle excise taxes make up 44% of local receipts, the largest category, and are projected to decrease 5% in FY2022. This estimate is quite conservative and prudent since overestimating revenue can bring unnecessary risk. The Town's "Charges for Services" category makes up 14% of local receipts, and is comprised of fees taken in for things such as ambulance services, parking permits, and DPW charges. This amount is projected to decrease by \$300K or over 16%. Some fees, such as for parking permits, are paid ahead so that the effects of the economic downturn will lag. The category "Other Excise," primarily meals and hotel taxes, was affected substantially and negatively by COVID-19-related travel restrictions and restaurant closures. These taxes previously made up over 10% of total local receipts, but are expected to account for only about 5.3% of FY2022 local receipts. Thus, while the FY2022 projection for "Other Excise" is expected to increase by 50%, to \$570K, that amount is over 60% lower than pre-pandemic levels of over \$1.5M. As the economy rebounds, we can expect that the amount of local receipts will increase, and will grow as a proportion of the Town's revenue.

This budget plan assumes that \$12.5M of Free Cash will be available this year, an increase of \$4.6M over last year. Free Cash consists of the funds that remain at the close of the prior year: revenue collections that exceed estimated revenue, and expenditures that are lower than appropriations. Needham typically has a significant level of Free Cash each year due to the Town's tendency to budget and spend conservatively. The amount of Free Cash left at the close of FY2020, to be certified in FY2021, is particularly strong because when the pandemic hit, the Town curbed hiring and spending as much as practicable. In addition, a number of activities such as professional training and related travel or community events were curtailed, cancelled, or conducted virtually, thus reducing expenses. Because the level of Free Cash is volatile, much of it should be used for one-time expenditures. Generally, only the portion of Free Cash which is dependable year over year can be deemed recurring and applied to the operating budget. For FY2022, \$3.5M of free cash is recommended to be allocated to the operating

budget. This amount represents close to 2% of the FY2022 budget (less the Reserve Fund) and is consistent with the Town's policy on the use of Free Cash for operating expenses.

Funds other than General Fund revenue that are proposed to be appropriated by Town Meeting include \$1.0M of CPA funds to be applied to the FY2022 operating budget for CPA-related debt service, as well as \$1.25M of funds from the Enterprise Funds to reimburse the Town for costs and services such as information technology and insurance. Other funds subject to appropriation may include certain earmarked funds, offsets, and remaining funds from warrant articles from prior years that were not needed for the designated purposes.

B. Allocations for General Fund Appropriation for FY2022

Operating Budget	\$195.8M
Cash Capital (including individual articles)	\$6.8M
Financial warrant articles	\$2.6M
Reserve/stabilization funds	\$0.6M
<u>Other disbursements</u>	<u>\$3.5M</u>
Total	\$209.2M

Please note that the Finance Committee's recommended FY2022 operating budget was voted prior to the issuance of this report, but other appropriations proposed in the various separate warrant articles and their funding sources were still under consideration. Thus, final recommendations may vary. This caveat is especially important this year, as it is still too soon to understand the longer-term effects of COVID-19 on the Town's revenue and operations.

C. Operating Budget

The amount allocated to the FY2022 Operating Budget, \$195.8M, is increasing \$5.6M, or 2.9%, over the Operating Budget for FY2021. The primary drivers of this modest increase are:

Townwide Expenses	Up \$1.4M, or 2.3%
Education	Up \$3.0M, or 3.7%
Community Services	Up \$274K or 5.1%

The largest portion of the annual increase in Townwide Expenses is attributable to Retirement Assessments, and is increasing over \$903K or 9.5%. This increase is needed to meet the actuarial schedule, and necessary to make up for a decrease in the expected rate of return and to account for wage growth and changes in mortality data. Funding for education is always a substantial part of the budget, making up 64% of all departmental budgets and 43% of the total operating budget. The FY2022 education budget is increasing 3.7% from FY2021, a relatively modest amount, primarily due to annual contractual salary increases and additional special education staffing needs. Additional staff positions (8.0 full time equivalents (FTEs)) in the School budget, as well as those in other budgets (2.5 FTEs), require corresponding increases in employee benefits within Townwide Expenses. The Community Services Budget increase is driven by the need for additional summer staffing at the Rosemary Pool to accommodate increased utilization.

As a reminder, the amounts in the operating budget reflect “business as usual” as we understand it now, and do not reflect additional services and costs specifically attributable to COVID-19 mitigation and safety measures (such as vaccine clinics, certain personal protective equipment, additional surface cleaning and air filtration in buildings, and the School Department’s remote academy.) As noted above, those items have been segregated and compiled into a separate warrant article for Town Meeting’s approval.

D. Finance Committee Perspective

Needham’s practices of budgeting and spending conservatively and maintaining strong reserves has kept the Town in a solid position to handle a crisis such as we are currently experiencing with the COVID-19 pandemic. Although people are being vaccinated against COVID-19 as quickly as doses can be secured, there are still many uncertainties about when we will be resuming normal activities again. Thus, we feel that the Town needs to continue to plan for the “worst,” and to be prepared to continue the sometimes costly measures deemed necessary to keep the town functioning and keeping people as safe as practicable. At the same time, we need to also prepare for a return to business as usual, when the schools can be full of teachers and students, and the Library, Center at the Heights, and Rosemary Recreation Complex can return back to in-person programming. We are looking forward to having Town offices being fully staffed and ready to interact regularly with the public in person, and having boards and committees holding their public meetings again in person in our town buildings.

This operating budget plans for the time when things are back to “normal.” The FY2022 recommended budget has modest increases, mostly limited to contractual increases for staff salary or for expenses that increase each year. The department managers moderated their spending requests, and are finding ways to re-deploy funds or staff where they can, or are holding off on purchases or hires that can be delayed. Critical services have continued, and a number of COVID-19-related additional services have been added. The Town will seek reimbursement for all qualified COVID-19-related expenses through federal programs including the CARES Act and FEMA, but there must be an appropriation to cover the initial spending. Thus, the Finance Committee’s recommended FY2022 budget covers the services that the Town expects and needs on a regular basis, but needs to be considered in conjunction with the complementary warrant article that will provide funding for costs attributable to COVID-19. This separate article is also critical since we fully expect the effects of COVID-19 to continue into FY2022.

The Town also needs to continue to address capital needs. Part of the reason that the FY2022 budget increase is lower than in many recent years is that the Town has passed the peak of the annual debt costs for several significant projects. The Town is planning to take on new capital projects to address buildings that are beyond their useful lives and becoming increasingly less cost effective to repair. The School Committee and School Department have commissioned an updated master plan for school facilities and are working with Town Administration to prepare for major renovation or reconstruction projects at the Pollard and Mitchell Schools. The Schools also plan to begin work on a design for the renovation and partial replacement of the Emery Grover building. Upgrading the DPW administration building is also on the horizon for the Town. The Town will need to plan carefully to manage the debt service for new projects combined with existing debt from prior capital projects, and also to anticipate the increased maintenance and other operating costs associated with the new facilities and the effect that will have on future operating budgets. Increased staffing needs are always a concern, since some of the Town’s biggest costs are personnel-related, including salaries and wages as well as the significant cost of benefits such as health insurance and retiree benefits. The Finance Committee looks forward to robust discussions about financing and affordability, and how best to balance interests and prioritize needs.

II. Examination of Components of Proposed FY2022 General Fund Operating Budget

This section addresses the details of the Finance Committee's recommended General Fund operating budget for FY2022. The total recommended operating budget for FY2022 is \$195,800,817, an increase of \$5.6M, or 2.9%, over the current FY2021 operating budget.

Townwide Expenses

Townwide Expenses are costs that are incurred by the Town or that apply across many or all departments. Examples include liability insurance, energy costs, and employee benefits. The Townwide Expense portion of the FY2022 budget is increasing 2.3%. As noted above, the largest component is the increase in Retirement Assessments. Other notable increases include Casualty, Liability, Property and Self-Insurance, and Classification, Performance and Settlements.

Casualty, Liability, Property and Self-Insurance: This line item accounts for the insurance coverage that the Town obtains through the Massachusetts Interlocal Insurance Association (MIIA) for buildings, vehicles, property damage, auto liability, and general liability, as well as a small contingency for non-covered claims. This line item is up \$93K, or 14.0% in FY2022. Additional funding is needed to cover premiums increases as well as coverage for new facilities including the Fire Station headquarters, the Jack Cogswell Building, Fire Station #2, and the Police headquarters. The increase has been tempered by loss prevention and risk mitigation efforts that have created premium savings.

Debt Service: This budget line covers payments for outstanding debt obligations for excluded debt (as a result of Prop. 2 ½ overrides), Community Preservation Act debt, and debt funded within the levy. The FY2022 Debt Service line is declining by \$347K or 1.6% compared to FY2021, driven by decreases in both excluded debt and CPA debt costs. Costs for debt within the levy are increasing 3.0% while the costs for excluded debt are decreasing by 0.5%, and the costs for CPA-funded debt are decreasing 28.3%. Debt service costs fluctuate in accordance with the borrowing schedules for the Town's significant capital projects. This line does not include the costs of any debt that may be authorized at the Annual or Special Town Meetings in May 2021.

Group Insurance, Employee Benefits and Administrative Costs: This line is increasing by 2.1% or \$333K. This amount assumes an 8% increase in health insurance premiums, as well as provisions for additional subscribers and an increase in the number of eligible employees. The health insurance portion of the costs in this line is increasing only 1% due to the transition of all employees to benchmark plans with lower premiums or to qualified high-deductible plans combined with a health savings account. Costs for Medicare and Social Security Tax are level-funded in FY2022. Unemployment expenses in this line are increasing 4% over FY2021. The Town has experienced significant increases in unemployment costs as a result of the pandemic. If the rate of increase continues, additional unemployment costs may be included in the warrant article for COVID-19-related costs. The Workers' Compensation costs in this line are increasing due to increasing claims and declining reserves. The Town is self-funded for workers' compensation, and unused funds may roll over into the reserve. A Special Town Meeting warrant article, if approved, will appropriate funds to replenish the Workers' Compensation Reserve. Another article, if approved, will establish a Special Injury Leave Indemnity Fund to cover public safety employees.

Needham Electric Light and Gas Program: This program covers the costs relating to electricity and natural gas usage, the costs of maintenance and repair of streetlights, and the costs of producing solar electricity that is sold to the grid. This line is decreasing 1.1% or \$43K in FY2022, driven by a reduction in the costs of natural gas, and in the estimated electricity consumption for existing buildings. The budget includes the energy costs for the full year at the new Fire Station #2, and estimates for energy at the Public Safety Complex. Energy costs at the old Police and Fire stations have been removed. The cost of solar energy production is level-funded in the FY2022 budget. This will be offset by revenue coming into

the General Fund from lease payments for property used for the solar arrays and by the sale of electricity generated by the arrays.

Retiree Insurance and Insurance Liability Fund: This line is going up 3.2% or \$228K in FY2022. The program, also known as “OPEB” (other post-employment benefits), provides funding for benefits other than pensions for eligible retirees, such as health insurance. The assumed rate of return for OPEB funds was reduced to 6.75% in the FY2021 budget, and is unchanged in the FY2022 budget. A further reduction may be considered in the future. The funding schedule for FY2022 is based on updated mortality tables and changes in assumptions such as the expected number of retirees and spouses and the costs of Medicare supplement plans, which have decreased due to the change in the Town’s health plan offerings. The most recent actuarial analysis was completed on June 30, 2019 and found that the OPEB funded ratio was 35.26% of its projected liability. This funding level compares favorably to our peer communities, though it represents a significant gap.

Retirement Assessments: This line, which funds pensions for retirees as well as unfunded pension liability, is increasing by 9.5%, or \$904K in the FY2022 budget. The Retirement Board reduced the assumed rate of return for pension assets to 7.25% two years ago and further to 6.5% for FY2022. The effects of the reduced rate are being spread over 5 years in order to modulate the impact. The decrease in the rate of return, along with wage growth and mortality data, have resulted in an increase in the Town’s unfunded liability and thus the need to increase the annual contributions in the funding schedule. The Town’s funding status was 65.6% as of January 1, 2020, with a goal of funding outstanding unfunded pension liability in full by June 2033.

Classification, Performance and Settlements: This line item is budgeted at \$858K for FY2022. These funds serve as a reserve for additional personnel-related costs during the fiscal year, including performance-based salary increases for managers or increases resulting from new collective bargaining agreements. The funds may be transferred to the budget lines for the various departments as needed during the fiscal year. As of the date of this report, the collective bargaining agreements for the Needham Independent Town Workers, Needham Independent Public Employees Association, Needham Police Union, Needham Police Superior Officers Association, and Needham Fire Union had not yet settled for FY2022. Therefore, the FY2022 budgets for the affected department budgets do not include funding for salary increases for positions covered by those unions.

Reserve Fund: The Reserve Fund line is a contingency reserve for extraordinary or unforeseen budget needs that arise during the fiscal year. Transfers from the Reserve Fund to other budget lines must be authorized by the Finance Committee. The initial budget request for this line is determined through a formula, but the amount is often adjusted during the budget process. In the past, the Reserve Fund has been used to fund expenses such as unanticipated legal costs or extraordinary costs associated with snow and ice removal. For FY2022, the recommended Reserve Fund appropriation is level-funded at \$2,077,091. The Finance Committee anticipates that this amount will be sufficient. To the extent that the Reserve Fund has a balance at the end of the fiscal year, the funds will flow to free cash for use in a future fiscal year.

A. Municipal Departments (excluding Education)

The Municipal Departments category includes 20 different budgets for operational departments, boards, and committees, as well as the municipal parking program. This report groups the Municipal Departments by functions. It is important to note that, as mentioned above, the recommended budget does not include cost-of-living salary or wage increases for positions covered by the unions which have not yet reached agreements with the Town, specifically: Needham Independent Town Workers, Needham Independent Public Employees Association, Needham Police Union, Needham Police Superior Officers, and Needham Fire Union. Step increases and longevity raises are included at the current year’s rates. If these

departments need additional funding for contractual salary increases during the fiscal year, the funds may be transferred from the Classification, Performance and Settlements line in Townwide Expenses. These budgets also exclude costs that are attributable to COVID-19 and not expected to be needed when the pandemic abates. Those costs, which will be needed in FY2022, have been separately accounted for, to be funded through an article in the Special Town Meeting warrant.

General Government

The FY2022 proposed budget for all General Government departments is 0.7% higher than the FY2021 budget.

Select Board/Office of the Town Manager: This budget is increasing 10.4%, primarily in the salary line due to the transfer of the Economic Development Manager position from the Planning and Community Development Department into the Office of the Town Manager. This budget also has an increase to fund two additional assessment centers in the Human Resources department. (Assessment centers consist of various tests and exercises used to determine suitability of candidates for certain positions, such as law enforcement leadership.) The Human Resources budget also includes some software costs that were previously carried in the Finance Department budget. The Finance Committee has deferred a request to fund the Public Information Officer position in the FY2022 operating budget, instead recommending to fund the position via a warrant article for two additional years, in order to evaluate the need for the position outside of the context of the current public health crisis.

Office of Town Clerk and Board of Registrars: This budget is decreasing by 7.8% due to typical fluctuations attributable to election-related wages and expenses. In FY2022, the Town will conduct one scheduled election, compared to three elections in FY2021.

Town Counsel: This budget remains flat for FY2022. With the unfortunate loss of longtime Town Counsel David Tobin, the Select Board hired a law firm to serve as Town Counsel. While it is not required by law, the Finance Committee is encouraging the Board to put these services out to bid.

Finance Department: This budget includes a 1.7% increase. The Finance Department provides numerous services through its divisions: Accounting, Assessing, Collector, Information Technology Center (ITC), Parking Clerk, Purchasing, and Treasurer. There are often notable annual increases in software licensing fees. However, such increases in the FY2022 budget were offset by the decision to transfer software licensing costs from ITC to other departments that have software for their sole use, reducing the ITC budget by \$38K. Licensed software used by more than one department remains covered by the ITC budget. The Finance Department budget includes step and longevity increases only for employees in the ITWA union, but at the FY2021 rate, since a new labor agreement has not been reached.

Finance Committee: This budget is essentially level-funded.

Planning and Community Development: This budget shows a substantial decrease of 15.6% due to the transfer of the Economic Development Director position to the Office of the Town Manager. The remainder of the department, with the divisions of Planning, Conservation, Design Review Board, and Board of Appeals, is level-funded.

Public Safety

The Public Safety category, which includes the Police, Fire, and Building Departments, has a combined increase of 1.6% in the FY2022 budget. This increase is low because several public safety and administrative collective bargaining agreements were not yet settled when the Finance Committee voted its FY2022 budget recommendation. As noted above, funds have been provided in the Classification, Performance and Settlements line in Townwide Expenses for any personnel-related increases needed after

the budget is approved. In addition, there have been some decreases in spending requests, and minimal increases requested.

Police Department: This budget is decreasing 1.6%. The Police Department salary line does not include cost-of-living increases for administrative staff and dispatchers or for positions covered by the police unions since the various bargaining agreements have not settled, as mentioned above, but does include step increases and longevity payments under the current rates. The overall decrease in this department is because of a \$171K reduction in the capital equipment line. This reduction is a result of an extension of the replacement cycle for cruisers, as well as the fact that the FY2021 budget was bumped up to cover the costs of new cruiser equipment needed to fit the new vehicle models. While the new plan is to replace four cruisers every other year rather than every year, there is some concern that this strategy may lead to large fluctuations in the annual budget. The Police Department has filled the new community outreach officer position that was created to focus on issues including mental health, substance abuse, and domestic violence. The Department has requested additional funds in the FY2022 budget for Clinical Support work. This would pay for a Clinician from Riverside Community Care to work on similar issues as the community outreach officer, but with emphasis on the clinical side (half-time, shared with Dedham) in order to help individuals secure the appropriate care and follow-through. The Finance Committee recognizes the importance of such a service, but is recommending to fund the program through a financial warrant article rather than in the FY2022 operating budget in order to give the Department a better opportunity to assess whether the proposed program is the best approach to address the need.

Fire Department: This budget is increasing by 4.2% in FY2022. The Fire Department staffing level increased significantly two years ago with the addition of eight new firefighters. These positions were supported by three years of grant funding, which will be finished in FY2022. Thus, the grant will cover 35% of these salaries for the first eight months of FY2022, and then the operating budget will fund the full salaries for these positions for the last four months of the fiscal year. Starting in FY2023, the operating budget will need to fund the full annual costs of these salaries. As mentioned above, this budget does not include salary cost-of-living increases for the positions covered by the union contracts that are still under negotiation. The overtime budget for the Fire Department is increasing since there are more staff and thus more absences to cover, as well as vacant positions that need to be covered and that have been difficult to fill due to the pandemic and the cancellation of Civil Service exams. The Finance Committee supported funding the request for a replacement “stair chair” to help transport patients down stairs, making it safer for the patients as well as EMS personnel.

Building Department: This budget is increasing 1.5% due to contractual increases in the salary line, and no change in the expense line.

Public Facilities and Public Works

The total combined budget for the Building Design and Construction Department and the Department of Public Works is increasing by 3.1%.

Building Design and Construction Department (BDCD): The BDCD budget has a substantial decrease of 29.9% due to a reduction of 2 positions as the workload ebbs due to the completion (or anticipated completion) of a number of large construction projects over recent years. One project manager is being reassigned from BDCD to the DPW Building Maintenance division to manage construction projects in that department. The second position will be eliminated upon an anticipated retirement in the first quarter. The small expense budget is also decreasing by 22.2% with fewer staff.

Department of Public Works (DPW): This budget is increasing by 4.2%. This department maintains the Town’s infrastructure with the following divisions: Fleet, Highway, Recycling/Solid Waste, Parks and

Forestry, Engineering, Building Maintenance, and Administration. The FY2022 DPW budget includes a new project management position in Building Maintenance to oversee the increasing number of construction projects in this department. The position is essentially a transfer from the BDCD. The FY2022 budget funds an additional staff plumber to help maintain and provide emergency services for the growing number of facilities. The budget also funds a new co-operative program with the Minuteman School or another regional school to hire and provide training to a trades student (such as plumbing or electrical) in Building Maintenance and a horticulture student in Parks and Forestry who will gain career skills and provide support to the divisions. This initiative is expected to help the Town's recruitment of qualified individuals. The Finance Committee's budget does not fund requests for an additional manager for service and parts in the Fleet Division or for additional summer help in Parks and Forestry.

Community Services

The seven departments in the Community Services section of the budget represent less than 3% of the overall FY2022 operating budget while providing invaluable services to residents and businesses throughout the community. These services provided by these departments are funded primarily from the operating budget, but they also secure substantial funding from fees, grants, and donations. Many also receive support through volunteer services. The Community Services budgets together are increasing 5.1% in FY2022, driven by additional summer staffing in the Park and Recreation Department.

Municipal Parking Program: This budget is up 3.1% due to an annual increase in contracted maintenance and repair and leasing costs.

Health and Human Services (HHS): The HHS Department is made up of four divisions: Public Health, Aging Services, Youth and Family Services, and Veterans' Services. HHS also shares certain Emergency Management functions with the Fire Department. The HHS budget is increasing 1.3% in FY2022. While this department has been at the forefront of the Town's services related to the global COVID-19 pandemic, the FY2022 budget assumes "business as usual" and does not include the additional costs needed to administer programs or services or to pay for additional expenses needed due to the ongoing crisis. HHS has done an extraordinary job disseminating public health information, often on a daily basis, creating new programs, including vaccine clinics, and re-designing existing programs to safely meet the needs of residents which have only grown during this difficult time. All of the COVID-19-related costs will be funded through a separate financial warrant article. The small increase in the FY2022 operating budget reflects annual salary increases for staff and some increased expense due to the transfer of software licensing fees to the budget. These increases are offset by a decrease in the Town's Veterans' Services costs. The Town is part of a veterans' service district which is expanding to include an additional town, and which will decrease the cost per member.

Commission on Disabilities: No change in this small budget.

Historical Commission: No change in this small budget.

Needham Public Library: This budget is increasing 0.9% in FY2022, primarily due to contractual salary increases for staff. The Finance Committee recommends deferring the Library's request for an additional reference librarian who would also handle communications efforts. It is unclear how much Library operations may change for good in the wake of the pandemic. Thus, the Finance Committee feels more time is needed to determine whether additional reference services are needed, or whether the Public Information Officer in the Town Manager's Office might assist with communications. The Finance Committee did not recommend funding the OverDrive and WorldCat electronic media subscriptions in the Library's FY2022 operating budget. These important items have been funded for years through the Library's state aid funding. The Finance Committee has had many discussions over the years on whether costs should be included in the operating budget when there is ample money in the Library's state aid

account. The Finance Committee realizes that, in general, certain core services should be funded in the annual operating budget. However, the Library's state aid provides a unique external source of funding. The Finance Committee hopes to work with the Library Trustees as they plan to implement a policy for the Library's use of state aid funding, which should provide guidance during the budgeting process in the coming years. Since state revenue has been negatively affected by the COVID-19 pandemic, there is a chance that the Library's state aid will be cut this year. In the event that the Library does not have sufficient funds for these expenses, they may request a transfer of funds from the Reserve Fund.

Park and Recreation: The Department budget is increasing by a significant 23.3%, primarily due to the costs related to operating the Rosemary Pool facility. The FY2022 budget now funds certain staff positions that were previously funded through a warrant article, and also funds additional staff needed to meet expected demand and maintain safety standards. Pool attendance in the summer of 2019 far exceeded expectations, and staffing increases are needed to properly staff the various areas of the facility. The 2021 minimum wage increase also affects much of the summer staffing. Depending on COVID-19 restrictions, sales of passes may offset the pool's operational expenses to a large extent.

Memorial Park: No change in this small budget.

B. Education

The recommended FY2022 budget for public education, which includes both the Needham Public Schools operating budget and the Minuteman Regional School Assessment, is \$84,833,684, an increase of 3.7% over the FY2021 budget.

Minuteman Regional High School Assessment: The assessment for FY2022 is \$1,230,287, an increase of 11.9%. The assessment is based on increased enrollment from Needham (using a 4-year rolling average) combined with the Town's portion of the Minuteman district's capital costs.

Needham Public Schools: The budget for FY2022 is \$83,603,397, an increase of \$2.9M or 3.6%. The School Department budget represents 63.2% of Needham's departmental budget. It is important to note that this figure does not include the costs for benefits for the School Department employees, which are included in Townwide Expenses with the benefits for all Town employees. (Teacher pensions are provided by the Massachusetts Teachers' Retirement System, not through the Town.) The School Department budget is also exclusive of school facilities costs such as maintenance, energy, or debt costs. The Finance Committee's FY2022 operating budget recommendation fully funds the Superintendent's request and the School Committee's voted budget. Because state law allows Town Meeting to vote only the total appropriation for the School Department, without restrictions or specific allocations, the Finance Committee's recommended budget provides a single bottom line recommendation for the School budget. The Finance Committee does, however, carefully review the Superintendent's requested budget and the School Committee's voted budget.

The School budget increase for FY2022 is a result of the same drivers that we typically see: contractual salary increases and an increasing need for student support services. Often these needs are compounded by enrollment growth. While enrollment is expected to increase from FY2021 to FY2022, enrollment fell significantly due to the COVID-19 pandemic, and is not expected to recover to the same level for at least three years. Salaries are the most significant part of the School budget, accounting for approximately 85% of the total budget. Contractual salary increases account for over 50% of the School budget increase for FY2022. The contractual step and cost-of-living increases have remained within sustainability benchmarks.

Two areas with significant School expenditures are student support services and special education. 4.7 additional FTEs will be needed in these areas in order to provide services to additional students, cover

rising out-of-district tuition costs, and provide all mandated services. The School Department has made many efforts in recent years to build capacity to provide special services to students within the district, which has likely helped temper increases, particularly in special education, and helped keep the requested funding increase for FY2022 at a more sustainable level.

As with the rest of the budget, the School Department's budget is based on "normal" conditions that we expect to see after the pandemic recedes. The School Department anticipates significant additional expenses if COVID-19 protocols are in place during FY2022. The Department has projected that there could be as much as \$3.2M of supplemental costs for Covid-related needs, including 20 more FTEs to run the remote learning academy, support hybrid learners, allow for social distancing, and take other steps to ensure health and safety of students, faculty, and staff. At the time this report was prepared, there was no FDA-approved COVID-19 vaccine for people under the age of 16. Since most students in grades K-12 are under the age of 16, the lack of a vaccine could substantially slow the return to "normal" for the district.

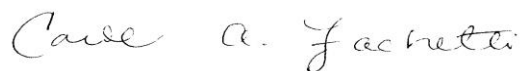
III. Closing Comments

The Finance Committee is deeply grateful for the tireless efforts of managers, staff, volunteers, and elected and appointed officials across Needham for helping to keep the Town functioning at a truly impressive level in the face of the most difficult circumstances. A great many people have had to work harder than ever before to keep up their usual work, and often take on significantly more, often in new or unfamiliar ways. The spending requests this year were clearly mindful of the need to continue to get things done, and also to hold back wherever possible. The Finance Committee's recommended budget for FY2022 provides the resources needed to fund ongoing capital projects and to sustain or improve the high level of services that local residents and businesses currently enjoy. The budget shows that fiscal restraint and careful planning have enabled us to address the growing capital and service needs, but also to prepare for upcoming demands. The Town must continue to consider not only the benefits of each project it undertakes, and the associated capital costs, but the effects on the Town's overall debt capacity, the long-term implications to the operating budget, and the burden on individual taxpayers.

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

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

Respectfully submitted on behalf of the Finance Committee,



Carol Smith-Fachetti, Chair

Committee Members:

Joshua W. Levy, Vice Chair

Barry J. Coffman
John Connelly
James Healy
Thomas M. Jacob
Richard Lunetta
Louise L.E. Miller
Richard Reilly
Louise Mizgerd, Analyst