Town of Needham
Finance Committee
111th Annual Report
Fiscal Year 2023 Proposed Budget

March 11, 2022

Fellow Town Meeting Members,

The Finance Committee is pleased to present its 111th Annual Report to Town Meeting along with its proposed operating budget for Fiscal Year 2023 (FY 2023). The Finance Committee's proposed budget for FY 2023 fully funds the same level of services for next year along with new staff and expanded services. As of the date of this letter, it has been exactly two years since the World Health Organization declared COVID-19 to be a global pandemic. Though these past two years have been difficult for residents and for Town operations, we are happy to report that Town finances remain robust. As the omicron wave of the pandemic recedes, we are cautiously optimistic that while some of the effects of the pandemic may persist, the worst of the pandemic may be behind us. Over the course of the pandemic, the Town has proven to be operationally and financially responsive, adaptable and resilient.

The Town is fortunate to have financially weathered the pandemic better than initially feared two years ago. In fact, for FY 2023 all of the significant sources of General Fund revenue, including property taxes, state aid, and local receipts, are projected to increase, even when estimating conservatively. Faced with projected increases in spending capacity, the Finance Committee recognizes the delicate balance between the desire to expand services and the aim that property taxes not be overly burdensome for current residents nor exclusionary for prospective residents.

In the sections that follow, the proposed FY 2023 operating budget is described in increasing detail, beginning with a Budgetary Overview in Section I, which describes at a high-level the amounts available for General Fund appropriation, as well as the main drivers of the proposed increases in the operating budget. The Budgetary Overview closes with additional considerations and concerns that may continue to impact upon Town finances in the future. Section II describes changes in each component of the operating budget compared to the prior year. Section III acknowledges the diligence and effort of the many people whose input and expertise have contributed to the proposed balanced budget before you.

I. Budgetary Overview

A. Amount Available for General Fund Appropriation

General Fund revenue comes primarily from property taxes, as well as monies from state aid, and local receipts. Additional funds available for appropriation come from Town reserves, stabilization funds, free cash, overlay surplus, and other sources. Though the COVID-19 pandemic brought much uncertainty, adaptations to remote work have led some economic sectors to quickly recover and grow. Other sectors, such as the hospitality industry, have been slower to recover. Overall, the FY 2023 proposed budget and Town spending plan are based on a conservative revenue projection of $238.8M, which is $8.4M or 3.9% greater than FY 2022. Of that amount, $219.1M is General Fund revenue, $16.0M is Enterprise Fund revenue and $3.7M is CPA (Community Preservation Act) funds. A total of $221.2M is available for General Fund expenditures, which includes General Fund revenue plus the CPA's share of debt service in the amount of $970K and Enterprise reimbursements in the amount of $1.25M.

Being the primary source of General Fund Revenue, property taxes make up almost 82% of the expected General Fund revenue in FY 2023. In total, FY 2023's property tax revenue is increasing by $8.3M or

4.9% over FY 2022, based on the annual increase in the tax base plus strong new growth. New growth includes increases in property values due to property improvements or a change in use. FY 2023 new growth accounts for significant public utilities equipment improvements.

State aid, which accounts for 6.5% of the estimated General Fund revenue, is projected to increase by 2.5%, an increase of more than $354K, in FY 2023. Included in the total amount is $695K of reimbursements from the Massachusetts School Building Authority (MSBA) for school building projects, as well as Cherry Sheet Aid which is comprised of aid for schools and general government aid. (The Cherry Sheet is the official notification from the Department of Revenue of the upcoming fiscal year's state aid and assessments to cities, towns, and regional school districts, which was historically printed on bright red paper.) Both Chapter 70 school aid and Unrestricted General Government Aid (known as UGGA), are projected to increase 2.7% in FY 2023, based on the Governor's proposal. 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 there is more uncertainty than usual. Chapter 70 school aid is the largest component of state aid, making up 84.4% of Cherry Sheet aid to Needham. UGGA is the second largest component of state aid, accounting for almost 14.5% of the Town's Cherry Sheet Aid.

Local receipts are estimated to comprise a total of $11.6M, representing approximately 5.3% of General Fund revenue in FY 2023. Local receipts include motor vehicle excise taxes, hotel and meals taxes, charges for services such as ambulances, and license and permit fees. As a result of the economic downturn in the early stages of the pandemic, the actual receipts for FY 2021 dropped by almost $1.5M compared to actual local receipts in FY 2020. While the economy is faring better after the initial sharp downturn, the growth is modest in some areas, and stronger in others, depending on the nature of the economic activity involved and the relative downturn. For FY 2023, we are anticipating that local receipts will increase by almost $1.2M or 11.7% compared to FY 2022's expected receipts. All of the various types of revenue that make up local receipts are projected to increase in FY 2023. Motor vehicle excise taxes make up 38% of local receipts, the largest category, and are assumed to increase 10% or $400K in FY 2023. This increase appears large, but the FY 2023 estimate amounts to only 85% of the actual motor vehicle excise receipts in FY 2021. "Other Excise", primarily meals and hotel taxes, was hit especially hard by COVID restrictions and by associated and lingering changes in habits. Other Excise taxes previously made up over 10% of total local receipts, but are expected to account for 6.7% of FY 2023 local receipts, after having fallen to less than 5% of local receipts in FY 2021. The FY 2023 estimate of Other Excise represents a significant increase of $280K or 56% over FY 2022. The Town's "Charges for Services" category makes up 16.4% of local receipts, and is comprised of fees collected for services such as ambulance, parking permits, and DPW charges. This amount is projected to increase by $75K or just over 4%. The category of local revenue called "Licenses and Permits" includes building permits, inspection fees, alcohol licenses, and parking permits, and makes up 14.7% of the projected local receipts in FY 2023, with an increase of 2.9%. As the economy rebounds from the effects of the pandemic, we can expect that the amount of local receipts will continue to increase and to grow as a proportion of the Town's revenue. We will nonetheless continue to project conservatively to avoid unnecessary risk.

After the close of the last fiscal year, FY 2021, the Department of Revenue certified $17.0M of Free Cash available for appropriation. The extraordinarily large amount of Free Cash is in part due to $5.5M of Free Cash available in FY 2022 but unappropriated; as a result, the balance was rolled over to Free Cash available in FY 2023. Free Cash consists of unspent funds that remain at the close of the prior year, including the amount that actual revenue collected exceeds estimated revenue and the amount that appropriations exceed expenditures. Free Cash has remained substantial -- even during the pandemic -- due to several factors, including withholding of spending in some areas and lower-than-usual expenses for other activities, such as travel, professional training, and community events which were cancelled or held virtually. In addition, many COVID-related costs were covered by federal grants or reimbursements.

Thus, there were sizeable amounts of budgetary turnback. Because the level of Free Cash can be 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 FY 2023, $2.6M of Free Cash is proposed to be allocated to the operating budget. This amount represents less than 2% of the FY 2022 budget (less the Reserve Fund) and is consistent with the Town's policy on the use of Free Cash for operating expenses. The other funds will be used for non-recurring uses, such as capital, or for appropriations to reserves or stabilization funds.

As noted above, Funds other than General Fund revenue that are proposed to be appropriated by Town Meeting include $970K of CPA funds to be applied to the FY 2023 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 monies from stabilization funds with defined purposes, offsets, and previously appropriated funds from warrant articles from prior years that were not needed for the designated purposes.

B. Allocations for General Fund Appropriation for FY 2023

Operating Budget	$205.0M
Cash Capital (including individual articles)	$9.5M
Financial warrant articles	$1.7M
Reserve/stabilization funds	$1.1M
<u>Other disbursements</u>	<u>$3.9M</u>
Total	$221.2M

Please note that although the Finance Committee voted the FY 2023 operating budget recommendation prior to the preparation of this report, other appropriations proposed in the various separate warrant articles and the funding sources were still under consideration. Thus, final recommendations at Town Meeting may vary from the above allocations.

C. Operating Budget

The amount allocated to the FY 2023 operating budget is $205.0M, an increase of $9.2M or 4.7% over the operating budget for FY 2022. The primary drivers of this moderate increase are:

Townwide Expenses	+ $2.9M, or 4.7%
Education	+ $3.8M, or 4.5%
Public Facilities/Public Works	+ $1.3M, or 6.9%

The largest increases among the Townwide Expenses are attributable to Retirement Assessments, increasing almost $990K, or 9.5%, and to Group Health Insurance, Employee Benefits & Administrative Costs, increasing $793K, or 4.8%. These increases are connected not only to rising costs, but also to the growth in the number of benefitted positions. In addition, there is a proposed appropriation of $1.3M to Classification Performance & Settlements, which serves as a reserve to fund new collective bargaining agreements or other personnel cost increases during the fiscal year.

Funding for education is always a substantial part of the budget, driven primarily by the Needham Public Schools (School Department). The operating costs of the School Department comprise 42.6% of the total operating budget. This represents an increase of $3.7M, or 4.4%, over FY 2022. Note that costs associated with group health insurance for employees of the School Department are budgeted under Townwide Expenses. The increase in the School Department budget is primarily due to staffing increases. 21.48 full-time equivalent (FTE) positions funded in FY 2022 from one-time funds and hired as a result of the effects of the COVID-19 pandemic will be funded through the operating budget in FY 2023. Additional new positions will also be funded through the operating budget, for a total increase of 25.82 School Department positions funded through the operating budget in FY 2023.

The Public Facilities/Public Works segment represents over 9% of the operating budget and is increasing by 6.9%, driven by an increase in the budget for the Department of Public Works of $1.3M, or 7.3%. This increase is in part due to additional staff primarily relating to building maintenance. These needs reflect not only an increase in the inventory of Town buildings, but also in the sophistication of systems being maintained in these upgraded facilities.

D. Additional Considerations and Concerns

Needham has historically been conservative with its budgeting and spending practices, and has weathered the past two difficult years quite effectively. In the early phase of the pandemic, the Town held back significantly on spending and hiring, and saved funds or redirected them to address pandemic needs. While COVID-19 still persists, the various public health metrics are improving and restrictions are being eased. The Town has been reimbursed for a significant amount of unexpected expenses caused by the pandemic, which has relieved the financial pressure. The Town received reimbursements through the Coronavirus Aid, Relief, and Economic Security (CARES) Act and Federal Emergency Management Agency (FEMA) for costs addressing the acute needs of the early stages of the pandemic, particularly in the areas directly connected to health, safety and wellness. The Town has also been granted funds through the American Recovery Plan Act (ARPA) for further relief from the financial effects of the pandemic borne both by the Town and by local businesses and for water and sewer infrastructure upgrades. The FY 2023 budget reflects more confidence as the Town is in a position to fund not only the ongoing services, but also to provide for some additional services and programs as we continue to plan for the future.

Looking forward, the Town needs to continue to address capital needs -- particularly the aging Mitchell and Pollard school buildings -- and to prepare itself for the significant upcoming costs. On the heels of several significant capital projects initiated over the past five years, including the Sunita Williams Elementary School, Rosemary Recreation Complex, Police and Fire Headquarters and Fire Station 2, Memorial Park Fieldhouse, and the Jack Cogswell DPW facility, the Finance Committee continues the work that began last year in reviewing the School Master Plan in conjunction with the School Committee and School Department, Town Administration, and the Permanent Public Building Committee. The various scenarios of the School Master Plan, each currently estimated to cost over $300M in inflation-adjusted dollars, need to be viewed in the context of an overall financing plan that also incorporates other major construction projects, such as the Emery Grover Renovation (for which construction funds are being sought at this Annual Town Meeting) and the much-needed upgrade of the DPW administration building. It is also crucial to consider the impact of new building projects also upon the operating budget, including increased maintenance, energy, and insurance associated with the new facilities. It will be a challenge to finance all projects within the Town’s long-standing debt limits without careful prioritization and continued adherence to debt policies in order to ensure that property taxes do not become overly burdensome for current residents nor exclusionary for prospective residents.

Another area of concern for the Finance Committee is the rate of staffing increases. Staffing accounts for some of the Town’s greatest costs, which include not only salaries and wages but also the significant cost of benefits, such as health insurance and retiree benefits. The Finance Committee carefully examines all requests for increased staffing levels that are part of the Town's day-to-day operations in the operating budget. The Committee is also sensitive to the fact that new and upgraded building facilities not only trigger additional maintenance needs, but may also create additional programming space whose full potential is only realized with increased staffing. While some amount of increase in staffing is to be expected, the Finance Committee has concerns that the growth rate of FTE staff, particularly in the Schools, is unsustainable and will need to be moderated in the coming budget cycles.

Lastly, the Finance Committee is aware of two emerging factors at the national and global level that may continue to impact upon Town finances. The first factor is the rising rate of inflation, which is reflected in the proposed FY 2023 operating budget in the form of increased costs for some Town expenses, such as materials and contracted services. The second factor is the ongoing War in Ukraine, which has had a precipitous impact upon energy prices in recent weeks. Increased energy prices are not reflected in the FY 2023 operating budget, and the effects of the War in Ukraine -- as with all wars -- remain unpredictable.

II. Components of Proposed FY 2023 General Fund Operating Budget

This section addresses the details of the Finance Committee's proposed General Fund operating budget for FY 2023. The total proposed operating budget for FY 2023 is $205,020,137, an increase of $9.2M, or 4.7%, over the FY 2022 operating budget.

A. 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 and retiree benefits. The Townwide Expenses portion of the FY 2023 budget is increasing 4.7%.

Casualty, Liability, Property and Self-Insurance: This line item pays 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 increasing $75K, or 9.9%, in FY 2023. This covers premium increases as well as insurance coverage for new facilities, including Fire Station #2 which came online during the second quarter of FY 2022 and the Police Headquarters which was occupied in the third quarter of FY 2022. The level of increase has been mitigated by loss prevention and risk mitigation efforts that have created premium savings. The premiums relating to the water and sewer programs are carried here, but are reimbursed from the enterprise funds and also included in General Fund revenue.

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 tax levy. The FY 2023 Debt Service line is declining by $566K, or 2.7%, following a small decline in FY 2022 as well, both due to decreases in excluded debt and CPA debt costs. Costs for debt within the levy are increasing 3.4% while the costs for excluded debt are decreasing by 4.9%, and the costs for CPA-funded debt are decreasing 5.1%. 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 2022, such as the proposed Appropriation for the Emery Grover Renovation.

Group Insurance, Employee Benefits and Administrative Costs: This line is increasing by $793K or 4.8%. This amount assumes a 5% increase in health insurance premiums, as well as provisions for additional subscribers and an increase in the number of eligible employees due to increasing headcount. The health insurance portion of the costs in this line is level-funded due to the fact that the Fallon HMO is leaving the market, and the West Suburban Health Group will be moderating their rates as those subscribers transition over. Costs for Medicare are increasing 4.9% while the Social Security Tax is level-funded in FY 2023. This budget line includes an increase of 4% in unemployment expenses for FY 2023, though this is an unpredictable expense, and could potentially be higher. The Town experienced significant increases in unemployment costs as a result of the pandemic, and is self-insured for these costs.

Needham Electric Light and Gas Program: This program covers the costs related to electricity and natural gas usage, maintenance and repair of streetlights, and producing the solar electricity that is sold to the grid. This line is increasing $263K, or 6.8%, in FY 2023 following a modest decrease last year. Rates for natural gas are higher due to the assumed increases in both the supply costs (up 20%) and the rate per therm (up 15%). Consumption is also increasing for both electricity and natural gas due to both higher use in existing buildings and the addition of the Fire Station 2 and the Police Headquarters which have come online during FY 2022. The budget is based on a three-year average of energy use at most buildings, though several buildings have less than three years of history, and thus estimates are based on the highest year.

Retiree Insurance and Insurance Liability Fund: This program, also known as “OPEB” (other post-employment benefits), provides funding for benefits other than pensions for eligible retirees, such as health insurance. This line is going up $418K, or 5.6%, in FY 2023. The assumed rate of return for OPEB funds was reduced to 6.75% in the FY 2021 budget, and was unchanged in the FY 2022 and FY 2023 budgets. Further reductions may be considered in the future. The funding schedule for FY 2023 is based on the actuarial schedule and is based on assumptions including the expected number of retirees and spouses as well as the costs of Medicare supplement plans. The most recent actuarial valuation which was completed on June 30, 2020 showed that the OPEB funded ratio was 35.7% of its projected liability, with a plan of reaching full funding in FY 2041.

Retirement Assessments: This line, which funds pensions for retirees as well as unfunded pension liability, is increasing 9.5%, or $990K, in the FY 2023 budget. This large increase, similar to the increase in FY 2022, is needed to meet the actuarial schedule. The Retirement Board reduced the assumed rate of return for pension assets to 6.5% for FY 2022, where it remains for FY 2023. The effects of the rate reduction last year are being spread over 5 years in order to moderate the impact. This decrease in the rate of return, combined with wage growth and updated 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 67.4% as of January 1, 2021, with a goal of funding outstanding unfunded pension liability in full by June 2033. Notably, the market value of the assets on January 1, 2021 were significantly higher than the actuarial valuation due to not-yet recognized investment gains.

Workers’ Compensation: This line provides funding for workers’ compensation claims for School Department and General Government employees, as well as pre-employment physicals where needed. The town is self-insured for workers compensation. Any unused funds in this line are rolled into the Workers’ Compensation Fund which reserves funds for potential larger future claims. This FY 2023 allocation to workers’ compensation is almost $97K, or 11.6%, lower than FY 2022 with the removal of the Injury on Duty funds to a separate budget line. Of note, there was an additional appropriation of $337K to the Workers Compensation Reserve in May 2021, and another $130K is proposed for appropriation at this Annual Town Meeting.

Injury on Duty & 111F: This new line in the operating budget consists of the funds available for payment of injury leave compensation or medical bills for public safety personnel, who are not covered by other workers’ compensation programs. In the FY 2023 budget, these funds are separated out from the Workers’ Compensation line since these two different lines serve similar purposes but are available to entirely different employees by statute. The Town has had the Workers’ Compensation Fund for years, but only last year created the Public Safety Injury on Duty Fund, now allowed under the Municipal Modernization Act, which will establish a reserve for unspent funds appropriated to this line to be carried over for future injury leave costs. The FY 2023 allocation to the Injury on Duty line is $151K. An additional $300K is proposed for appropriation to the Public Safety Injury on Duty Fund in a separate warrant article of this Annual Town Meeting.

Classification, Performance & Settlements: This line item is budgeted at $1.3M for FY 2023. 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 department budget lines as needed during the fiscal year. As of the date of this report, the collective bargaining agreements for the Needham Building Custodians and Trades Independent Association, Needham Independent Public Employees Association, Needham Police Union, Needham Police Superior Officers Association, and Needham Fire Union had not yet settled for FY 2023. The FY 2023 department budgets do not include funding for cost-of-living increases for positions covered by those unions. The FY 2022 appropriation for this line was $858K, since there were unsettled agreements, though not as many.

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. 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. The initial budget request for this line is determined through a formula, but the amount is often adjusted during the budget process. For FY 2023, the proposed Reserve Fund appropriation is $2,077,091 and remains level-funded since FY 2021. Based on historical transfers from this budget line, the Finance Committee expects that this continued level of funding will provide sufficient protection against unexpected expenses in FY 2023. 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.

B. Municipal Departments (excluding Education)

The Municipal Departments category includes 19 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 proposed budget does not include cost-of-living salary or wage increases for positions covered by the unions which have not yet ratified agreements with the Town, specifically: Needham Building Custodians and Trades Independent Association, Needham Independent Public Employees Association, Needham Police Union, Needham Police Superior Officers Association, and Needham Fire Union. Step increases and longevity raises are included at the current year's rates. If necessary, funds for contractual salary increases during the fiscal year may be transferred to any department from the Classification, Performance & Settlements line in Townwide Expenses. The FY 2023 Department budgets include a new line within Community Services to provide funding for the Needham Council on Arts and Culture, as described below.

General Government

The FY 2023 proposed budget for all General Government departments is 5.0% higher than the FY 2022 budget.

Select Board and Office of the Town Manager: This budget is increasing 6.7%. Over 60% of this increase is due the Finance Committee's recommendation to add $50K to the expense line in order to fund the new Diversity, Equity and Inclusion (DEI) program. The program was originally planned as a pilot to be funded through separate warrant article, but the Finance Committee found that the clear intention was to develop an ongoing program that would eventually be incorporated into the operating budget. The Committee felt that it was appropriate for this program to be considered for funding in the operating budget from the outset so that it would be weighed against other budget priorities before being established. Excluding that additional expense, the budget for the Select Board and Office of the Town Manager is increasing 2.6% due to annual salary increases for staff and some additional recruiting expenses for Human Resources.

Office of the Town Clerk: This budget is increasing by 13.2% due to typical fluctuations attributable to election-related wages and expenses. The Town will conduct three scheduled elections during FY 2023, compared to one scheduled election in the FY 2022 budget. The FY 2022 budget had represented a 7.8% decrease from the prior year.

Legal Services: This budget is level-funded for FY 2023. The Select Board appointed a law firm to serve as Town Counsel after the sad loss of David Tobin, the Town's long-serving Town Counsel. The services were not put out to bid prior to appointing the current firm as Town Counsel.

Finance Department: This budget includes a 3.9% increase. The Finance Department provides numerous services through its divisions: Accounting, Assessing, Collector, Information Technology Center (ITC), Parking Clerk, Purchasing, and Treasurer. The IT Department budget no longer includes software licensing fees that apply only to one department, though licensed software used by more than one department remains covered by the ITC budget. The IT department does, however, provide software support to the various departments. The Finance Committee supported a request to fund an additional Applications Administrator position in IT to provide added availability and consistency of support to Town departments, particularly when the current Applications Administrator is absent. The Finance Committee also supported funding for a new Student Intern position in Accounting to help with the department's additional workload during the transition between fiscal years in the summer. This internship will provide a valuable opportunity for a student to gain professional experience in municipal finance.

Finance Committee: This budget includes an increase of 5.6% due to a salary increase for existing staff and a small increase in expenses. There was no increase last year.

Planning and Community Development: This budget is increasing by 4.5%, which includes an increase in hours of the Zoning Specialist in order to provide for better support to the Zoning Board of Appeals. This position was recently reclassified from Administrative Specialist.

Public Safety

The FY 2023 budget of the Public Safety category, comprised of the Police, Fire, and Building Departments, is proposed to increase 3.9% over the FY 2022 budget. As of the date of this report, there were no settled agreements for the Police and Fire collective bargaining units. As noted above, funds have been provided in the Classification, Performance & Settlements line in Townwide Expenses for any personnel-related increases needed after the budget is approved.

Police Department: This budget is increasing 2.8%. The Police Department salary line does not include cost-of-living increases for positions covered by the Police Union or Police Superior Officers Union but does include step increases and longevity payments under the current rates. The Police Department received funding through a warrant article approved at the May 2021 Special Town Meeting for a Clinician from Riverside Community Care to provide clinical support on a half-time basis, shared with Dedham, in order to help initiate the appropriate clinical care and follow-through for individuals in need of mental health support who are in contact with the Police. The support has been invaluable to the Department, and is being included in the FY 2023 operating budget. The Finance Committee urges the Department to continue assessing the current half-time arrangement and to consider whether this service should be expanded.

Fire Department: This budget is increasing by 5.0% in FY 2023. The FY 2023 operating budget fully incorporates the salaries of the eight new firefighters who were hired with funding through the three-year SAFER grant. The FY 2022 budget included the last of the grant funds which covered 35% of the salaries of the eight firefighters for the first eight months of the fiscal year. As in other departments, this budget does not include cost-of-living increases for the positions covered by the Fire Union contract that is still under negotiation. The overtime budget for the Fire Department continues to increase since there are more staff and thus more absences to cover, as well as vacant positions that need to be covered but have been difficult to fill due to the pandemic and the cancellation of Civil Service exams. The Finance Committee supported funding the new fire records software application that will record more information than the current software and be more available in the field.

Building Department: This budget is increasing 1.1% due to contractual increases in the salary line, with no change in the expense line. The Finance Committee initiated a new priority-based budget review this year, starting with the Building Department. The Finance Committee liaison worked closely with the Building Commissioner to look carefully at the functions and priorities of the department and to review how the activities played a part in achieving those goals. This entailed some additional work, but the Finance Committee felt the Commissioner gained a more detailed understanding of each staff member's activities. The Committee plans to continue to rotate through the other departments with a similar level of review in the coming years.

Public Facilities and Public Works

The total combined budget for the Building Design & Construction Department and the Department of Public Works is increasing by 6.9% in FY 2023.

Building Design & Construction Department (BDCD): The FY 2023 BDCD budget is 8.9% lower than the FY 2022 budget due to the retirement of the longtime Director after the first quarter of FY 2022. This completes a planned two-position staff reduction in BDBC since FY 2021 following the completion of a number of substantial construction projects over recent years. There are several large building projects currently under discussion which may require reconsideration of the staffing level in this department.

Department of Public Works (DPW): The DPW budget is increasing by 7.3% in FY 2023. This department maintains the Town's infrastructure with the following divisions: Fleet, Highway, Recycling and Solid Waste, Parks and Forestry, Engineering, Building Maintenance, Administration, Water and Sewer. (The expenditures and fee revenue for the Water and Sewer Divisions are accounted for separately in enterprise funds, outside of the General Fund.) The FY 2023 DPW budget includes three new positions including: HVAC Supervisor, to help address the increased need for technical expertise in maintaining more sophisticated building systems and coordinating the HVAC work of the other staff; Civil Engineer, to address the backlog of survey and plan review work; and Highway Laborer to provide sufficient staff to run a second crew and increase productivity. The budget also funds additional hours of cleaning to cover the new Public Safety buildings on weekends. The Finance Committee also supported funding a new Outdoor Specialist position in the Parks and Forestry Division. This position was requested by the Park and Recreation Department to monitor the Town's parks and help with daily maintenance. The Finance Committee proposes that this position be part of the DPW which has access to the equipment needed for this work. The Finance Committee's proposed budget does not fund requests for additional administrative staffing in the Fleet and the Engineering Divisions or for an additional custodian in Building Maintenance. A request for additional overtime staff to assist with costs for High School early release and game days will be covered within the existing budget.

Community Services

The eight departments in the Community Services section of the budget represent less than 3% of the overall FY 2023 operating budget while providing invaluable services to residents and businesses throughout the community. These services are funded primarily through the operating budget, but many departments also secure substantial funding from fees, grants and donations, and often receive support through volunteer services. The Community Services budgets together are increasing 3.8% in FY 2023, driven by additional summer staffing and the increase in minimum wage that affects much of the summer staff in the Park and Recreation Department.

Municipal Parking Program: This budget is up 12.8% due to annual increases in leasing costs and to inflationary increases in the costs of labor and materials for contracted maintenance and repair services.

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 collaborates on Emergency Management functions with the Fire Department. The HHS budget is increasing 2.2% in FY 2023. While this department has been heavily involved in running services related to the COVID-19 pandemic, such costs are funded through state and federal programs and grants; the FY 2023 operating budget funds the typical department activities. HHS has continued its excellent work in providing its customary services as well as its work to combat the public health crisis. The department has run vaccine clinics, managed public health policies and information campaigns, and also worked to meet the growing need for mental health services while continuing myriad programs to meet the needs of residents and keep people safe including expanding into virtual programming. The small increase in the FY 2023 operating budget reflects annual salary increases for staff and some increases in software licensing fees.

Commission on Disabilities: No change in this small budget which provides for a stipend for the Town's staff liaison and expenses such as handicap parking signs.

Historical Commission: No change in this small budget which covers the costs of maintaining the Historic Inventory and of purchasing house plaques.

Needham Public Library: This budget is increasing 3.0% in FY 2023, primarily due to salary increases for staff. The Finance Committee supports an increase in the hours of an Administrative Assistant from part time to full time in order to provide more bandwidth and to free up the Director's time. The Finance Committee recommends funding the OverDrive electronic media subscriptions in the Library's FY 2023 operating budget. This important service, along with several other electronic media subscriptions, have been funded for years from the Library's state aid account. The Finance Committee has often considered whether or not certain costs should be included in the operating budget when there is ample money in the Library's state aid account, and the Finance Committee has discussed with the Library Trustees their recently adopted policy on the use of state aid funds. The Finance Committee agrees that, in general, core services should be funded in the annual operating budget. However, the Library's state aid provides a unique external source of funding which should be used to enhance services where appropriate rather than saved indefinitely.

Park and Recreation: The Park and Rec budget is increasing by 6.8%, primarily attributable to summer programs and the minimum wage increase which affects much of the summer staffing. The FY 2023 budget supports a request for additional summer program counsellors and a program director to build the capacity in the Town's summer programming. The additional programming will be fee-based and is expected to provide positive net revenue. Park and Rec also requested two Outdoor Specialist positions to work in the field to monitor and help maintain parks. The Finance Committee is recommending funding one such position and has added it to the DPW's Parks and Forestry Division where the person would have access to equipment needed for the work.

Memorial Park: No change in this small budget which covers the costs of American and POW flags.

Needham Council on Arts and Culture: This line has been added to provide funding for the Needham Council on Arts and Culture (NCAC) to supplement the NCAC's annual funding from the state. The NCAC operates autonomously and provides grants to projects and programs that support culture and arts in Needham. The appropriation will also allow more long-term planning for the NCAC.

C. Education

The proposed FY 2023 budget for public education, which encompasses both the Needham Public Schools operating budget and the Minuteman Regional School Assessment, is $88.6M, an increase of 4.5% over the FY 2022 budget.

Minuteman Regional High School Assessment: The assessment for FY 2023 is $1.4M, an increase of 11.2%. The assessment is based on increased enrollment from Needham (using a 4-year rolling average) and the Town's share of the Minuteman Regional Vocational Technical School District's capital costs.

Needham Public Schools: The budget for FY 2023 is $87.3M, an increase of $3.7M, or 4.4%. The School Department budget represents 42.6% of Needham's FY 2023 operating budget. The Finance Committee's proposed FY 2023 operating budget fully funds the School Committee's recommendation. Because state law allows Town Meeting to vote only the total bottom-line appropriation for the School Department, without restrictions or specific allocations, the Finance Committee's proposed budget provides a single bottom line recommendation for the School budget. However, the Finance Committee carefully reviews the Superintendent's requested budget and the School Committee's recommendation in considerable detail.

Unlike many prior years when enrollment growth has led to budget increases in the School Department budget, enrollment is remaining relatively level following a sudden decline at the start of the pandemic. Enrollment in the Needham Public Schools dropped by 221 students in school year 2020-2021 compared to the prior school year. Along with fewer new students enrolled in kindergarten and pre-K, student cohorts currently in grades 7 and 8 exhibited a sizeable number of demits (i.e. students unenrolling from the Needham Public Schools) relative to 2019-2020 enrollment when the same students were in grades 5 and 6. Enrollment increased in most other student cohorts this year but continued to decline among these two cohorts. Though some modest increases in enrollment overall are projected in the coming years, enrollment is not expected to reach pre-pandemic levels for over a decade.

The School budget increase for FY 2023 is driven primarily by contractual annual salary increases for existing staff, and by the significant number of positions being added to the Department. Salaries make up the largest 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 FY 2023. The contractual step and cost-of-living increases have remained within sustainability benchmarks. It is important to note that this budget line does not include the costs for health insurance and certain other benefits for School Department employees, which are included in Townwide Expenses. (Teacher pensions are provided by the Massachusetts Teachers' Retirement System and not through the Town.) The School Department budget also does not include school building costs such as maintenance, energy, or debt costs.

The School Department's FY 2023 budget includes funding for 25.82 additional full-time equivalent (FTE) positions. This is an extraordinary amount and is needed to meet the increasing demand for student support services and special education, driven to a great extent by the pandemic. The school district has recently experienced an increase in the number and severity of mental health and behavioral issues as well as issues stemming from the disruption of learning that are all causing a growing need for academic intervention and learning support. 14 of the new FTEs will be addressing special education and student interventions and support, and will also aim to ease caseloads for counselors and nurses. Another 2.5 FTEs are being added to provide math and literacy support. A number of these new positions have already been introduced on a temporary basis using federal pandemic-relief funds, and have been deemed necessary to address ongoing needs. 4 additional FTEs, including classroom teachers and specialists (e.g., music, art and wellness teachers), are being added in the elementary schools to reduce class sizes. Some shifting of staff among schools will also be undertaken to help reduce class sizes. 5 FTEs are being added to expand the math curriculum leadership, to provide clerical support to the School Administration, and to provide additional support for the world language and performing arts programs in the High School.

III. Closing Comments and Acknowledgements

The Finance Committee remains impressed by the hard work and dedication of managers, staff, and volunteers, as well as the elected and appointed officials across Needham for their ability to keep the Town not only functioning, but also continuing to thrive throughout the course of the COVID-19 pandemic. As we saw over the past two years, many people have had to work harder than ever and to adapt to changing circumstances with little or no precedence. We are optimistic that though the challenges of the COVID-19 pandemic may persist for a while longer, the worst of the pandemic is behind us.

As a result of the waning pandemic, the Finance Committee's proposed budget for FY 2023 is based on revenue estimates that are stronger than last year while remaining conservative. Our proposed budget will provide the resources needed to sustain or improve the high level of services that local residents and businesses currently enjoy while maintaining our infrastructure and funding certain capital needs.

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 with 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 commit their time and expertise to serve 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 diligence and meticulous work in reviewing Town finances, balancing the budget, and assessing the Town's capital plans and investments. I feel honored to serve alongside such intelligent and talented people as we craft the annual budget proposal and seek to make financial recommendations that will serve the best interests of the Town and its residents.

Respectfully submitted on behalf of the Finance Committee,

Joshua W. Levy, Chair

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