

Fiscal Year 2024 Proposed Budget

Revenue Summary

Funding Sources Summary
Table 2.1

Description	FY2022 Actual	FY2023 Recap	FY2024 Estimate	\$ Change	% Change
General Fund	213,338,911	225,082,440	229,376,013	4,293,573	1.9%
Enterprise Funds	16,222,662	15,959,434	17,355,631	1,396,197	8.7%
Community Preservation Fund	4,294,965	7,733,902	6,619,095	(1,114,807)	-14.4%
Total Funding Sources*	233,856,538	248,775,776	253,350,739	4,574,963	1.8%

* Before adjustments, reimbursements, and subsidies

The General Fund accounts for revenues and expenditures necessary to provide governmental services and expenses. By definition, all financial resources that are not required to be accounted for in other funds are accounted for in the General Fund. The above table 2.1 shows that the total estimated funding sources for FY2024 will increase by approximately \$4.6 million or 1.8%. The overall budget plan for FY2023 included a significant amount one-time CPA funds and General Fund Free Cash. The actual amount of Free Cash available for appropriation is not yet known, but we estimate the amount will be similar to the amount certified last year, in part because more than \$2.3 million was returned. For the purpose of this budget plan, we assume \$15 million of Free Cash available for appropriation. This compares to the \$14,644,455 of Free Cash that was appropriated last year. Enterprise Fund appropriations for FY2023 included the use of \$1,470,255 of retained earnings. This budget plan has \$2,864,131 in retained earnings being used for appropriations for FY2024 and receipts of \$14,491,500 (combined enterprise \$17,355,631). The Community Preservation Act (CPA) revenue estimate is \$4,343,787 and assumes \$2,275,308 in CPA reserves would be used to fund the four requests submitted to the Community Preservation Committee (CPC) for FY2024 (combined CPA \$6,619,095).

GENERAL FUND

Summary of General Fund Resources
Table 2.2

Description	FY2020 Actual	FY2021 Actual	FY2022 Actual	FY2023 Recap	FY2024 Estimate	\$ Change
Property Taxes	150,349,498	161,661,687	170,417,731	178,892,914	183,728,090	4,835,176
State Aid	13,091,197	13,645,674	13,852,710	15,221,089	15,802,127	581,038
Local Receipts	16,058,350	14,589,825	16,217,044	12,411,662	12,908,128	496,466
Use of Reserves and Other Available Funds	3,879,196	1,492,947	1,324,796	3,912,320	1,937,668	(1,974,652)
Free Cash	10,337,871	7,862,473	11,526,630	14,644,455	15,000,000	355,545
General Fund Revenue	193,716,113	199,252,605	213,338,911	225,082,440	229,376,013	4,293,573
<u>Adjustments to General Fund Revenue</u>						
Reimbursements & Subsidies	1,325,500	1,330,058	1,407,415	1,216,515	1,215,000	(1,515)
CPA Share of Debt Service	1,185,317	1,425,000	1,021,397	969,632	1,078,631	108,999
Adjustments to General Fund Revenue	2,510,817	2,755,058	2,428,812	2,186,147	2,293,631	107,484
Available for General Fund Expenditures	196,226,930	202,007,663	215,767,723	227,268,587	231,669,644	4,401,057

Table 2.2 shows total revenue available for General Fund appropriations projected at **\$231,6669,644** or **\$4,401,057** more than FY2023. Revenue from the property tax is estimated to grow by approximately \$4.8 million, state aid is estimated to grow by \$581,038, and local receipts are estimated at \$496,466 more than the current year. Free Cash for appropriation has been assumed at \$15 million for FY2024.

The use of reserves and other available funds is approximately \$2 million less than was used for FY2023. Free Cash is essentially level when compared to \$14,644,455 used for FY2023. The estimated total adjustment to General Fund revenues is \$107,484 more for FY2024 compared to FY2023. It is important to note that these are preliminary revenue projections. They are subject to change and should be viewed in this context for reasons discussed later.

FY2023 GENERAL FUND REVENUE ESTIMATE ASSUMPTIONS

Property Taxes

Under Massachusetts General Laws, property taxes overall are restricted to increases of 2.5% plus tax revenues derived from new growth. This is referred to as the annual levy limit. An additional taxing limitation under Proposition 2½ is the levy ceiling. The levy ceiling is equal to 2.5% of the Town's valuation. The total taxable value of the Town as of January 1, 2022 was \$12,247,868,326. This puts the tax levy ceiling at \$306,196,708. The tax levy including debt exclusions for FY2023 was \$178,892,914, so the Town is well below its legal ceiling.

The new growth tax revenue is derived from improvements to property by its use, reconstruction, or new construction, and is added to the tax base. The annual levy limit may also be increased by the amount of any general override (usually for operating expenses), and capital exclusion override. The annual levy limit is also increased by the amount of debt service that is payable during the year for debt that has been approved by the voters as a debt exclusion override. The increase in the FY2024 tax levy attributable to new growth is estimated based upon information provided by the Assessing and Building Departments.

Property Tax Levy

The property tax levy (refer to Table 2.3.1 on the next page) represents approximately 80.1% (Table 2.8) of all general fund revenues before adjustments. The FY2024 property tax levy is estimated to increase approximately 2.7% over the FY2023 actual tax levy, or approximately \$4.8 million. This compares to the nearly \$8.0 million increase that FY2023 tax levy was over the FY2022 actual levy, or approximately 4.7% increase. The tax revenue to support operations within the levy limit is increasing by an estimate of 4.7% over FY2023. Property tax New Growth revenue has been much higher in recent years but the amount of New Growth for FY2023 (\$3,968,707) was a decrease from FY2022 (\$4,731,856) of \$763,149. The FY2024 budget plan assumes New Growth revenue of approximately \$2.5 million but may be amended when building activity through the end of 2022 is known. The New Growth revenue during FY2021 and FY2022 was higher due to the significant investment and installation of equipment by the public utilities the last few years. New Growth revenue increase during those years resulted from the reduction of the exemption in the Tax Incremental Financing (TIF) agreement with TripAdvisor from 76% of the original new construction value to one percent of the initial value. With the reduction in the TIF amount for TripAdvisor, the new tax revenue increased by more than \$1.4 million. The one percent exemption continues through FY2028. The Town also has a ten-year TIF agreement with NBCU which provides for a 70% deferral of the initial new growth value for four years, then declines to a 5% deferral for the fifth year, and then declines to a deferral of 1% of the original growth for the last five years of the agreement. However, the NBCU project delivered \$1.5 million in new personal property tax revenue for the Town in FY2020, revenue the Town would not have realized from a standard office complex development. The redevelopment of the former MUZI dealership properties is anticipated to generate \$3 to \$5 million in New Growth revenue within the next couple of years. We have made no estimate for New Growth for FY2024 in this budget plan from that project, but will propose amending the Debt Services Stabilization Fund (DSSF) to dedicate a significant amount of the New Growth revenue resulting from the redevelopment of that property to the DSSF. Town Meeting approval is

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required. The Town can take proactive steps now to secure those funds for the considerable investment in Town assets in the coming years.

Fiscal Year Tax Levy
Table 2.3.1

Description	FY2020 Recap	FY2021 Recap	FY2022 Recap	FY2023 Recap	FY2024 Estimate	\$ Change
Prior Year Base	134,370,075	142,426,994	150,539,475	159,039,704	166,984,404	
2-1/2 Allowance	3,359,252	3,560,675	3,763,487	3,975,993	4,174,610	
New Growth	4,697,667	4,551,806	4,731,856	3,968,707	2,500,000	
General Override						
Levy in Abeyance	(2,999,601)	(1,757,767)	(603,818)	(1,175,906)		
General Tax Levy Limit	139,427,393	148,781,708	158,431,000	165,808,498	173,659,014	7,850,516
Total Excluded Debt	12,922,651	14,448,298	14,375,000	13,844,279	10,764,226	
Less Excluded Debt Offsets	(800,307)	(791,205)	(766,324)	(727,478)	(695,150)	
Debt Exclusion Adjustment			(1,205,777)	(32,385)		
Excluded Debt to be Raised on Tax Levy	12,122,344	13,657,093	12,402,899	13,084,416	10,069,076	(3,015,340)
Property Tax Levy	151,549,737	162,438,801	170,833,899	178,892,914	183,728,090	4,835,176
Collections by Year End*	150,349,498	161,661,687	170,417,731			

*Includes collections of prior year taxes and pending refunds

The tax levy limit is calculated by increasing the allowed FY2023 levy limit, exclusive of debt exclusions, by 2.5% and then adding a component for new growth. New growth is a function of the additional value generated by construction during the preceding year. The additional tax dollar amount for new growth is determined by the value on the January 1 assessment date and is then multiplied by the applicable FY2023 tax rate.

The increase in the levy limit above the allowable annual limit and new growth is limited to the amount to be raised to pay the debt that has been excluded from the levy limit by the voters of Needham. The base tax levy, before accounting for debt exclusions, is expected to increase by approximately \$7.9 million over the FY2023 actual base levy. The amount of tax excluded debt that is to be paid by property taxes is estimated to decrease by more than \$3 million for FY2024 over the FY2023 tax levy. The total excluded debt declined from \$14,375,000 in FY2022 to \$13,844,279 in FY2023. The excluded debt in FY2024 will decline to \$10,764,226. The final excluded debt issue for the Public Safety projects was completed last year, which is the last of the debt excluded projects approved by the Town. The excluded debt service and its effect on the tax levy will decline every year going forward, unless and until new projects are approved by the voters of Needham.

Table 2.3.2 (next page) shows the annual debt service by project that was added to the tax levy for fiscal years 2020 through 2023, and the amount to be added to FY2024. The table shows the percentage that the gross excluded debt would have increased the tax levy, and the percentage that the net excluded debt (the gross debt adjusted for offsets and adjustments) made up of the total tax levy. For FY2023, the total excluded debt service was \$13,844,279 which could have added 8.3% to the tax levy, but after accounting for the allowed adjustments, the actual amount added to the tax levy was \$13,084,416 which represented 7.3% of the total tax levy for the year. For FY2024, the \$10,764,226 in total excluded debt would add 6.2% to the estimated levy for the year, but with the MSBA credit, the net to be raised as the percent of the levy would be 5.5%; additional adjustments are pending for FY2024 which will further reduce the amount to be raised.

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Debt Exclusions Added to Tax Levy FY2020 - FY2024
Table 2.3.2

Description	FY2020	FY2021	FY2022	FY2023	FY2024
Debt Service					
Broadmeadow School	771,225	741,425	708,700	678,000	642,600
Eliot School	304,400	294,400	284,400	269,500	259,700
High Rock & Pollard Schools	1,192,035	1,087,335	1,041,410	1,007,160	970,760
High School	1,606,571	1,521,490	1,438,687	1,388,240	1,333,015
Library	796,775	-	-	-	-
Newman School	1,262,390	1,124,960	1,058,043	1,033,975	1,000,845
Public Safety Buildings	2,068,944	4,961,890	7,443,229	7,129,823	4,282,675
Williams School	4,946,992	4,716,797	2,400,531	2,337,581	2,274,631
Total	12,949,332	14,448,297	14,375,000	13,844,279	10,764,226
General Tax Levy	139,427,393	148,781,708	158,431,000	165,808,498	173,659,014
Excluded Debt as a % of the General Tax Levy*	9.3%	9.7%	9.1%	8.3%	6.2%
Offsets and Adjustments					
MSBA Credits	(695,148)	(695,148)	(695,148)	(695,150)	(695,150)
Premium Credits	(105,159)	(96,056)	(71,176)	(32,328)	
Other Adjustments	(26,681)		(1,205,777)	(32,385)	
Total	(826,988)	(791,204)	(1,972,101)	(759,863)	(695,150)
Net Excluded Debt Raised on Tax Rate	12,122,344	13,657,093	12,402,899	13,084,416	10,069,076
Total Tax Levy (Excluded and Within the Levy Limit)	151,549,737	162,438,801	170,833,899	178,892,914	183,728,090
Net Excluded Debt as a % of the Total Tax Levy	8.0%	8.4%	7.3%	7.3%	5.5%
* Before Offsets and Adjustments					

The property tax that one pays is primarily influenced by three factors: 1) Town Meeting appropriations and other amounts that the Town is required to pay, 2) the property tax allocation between commercial and residential, and 3) property values (assessments). The real estate market in Needham has remained strong compared to other areas in the state and the nation. The actual New Growth Figure will not be finalized until the fall and cannot be incorporated in the tax recap until certified by the Massachusetts Department of Revenue.

Chart I

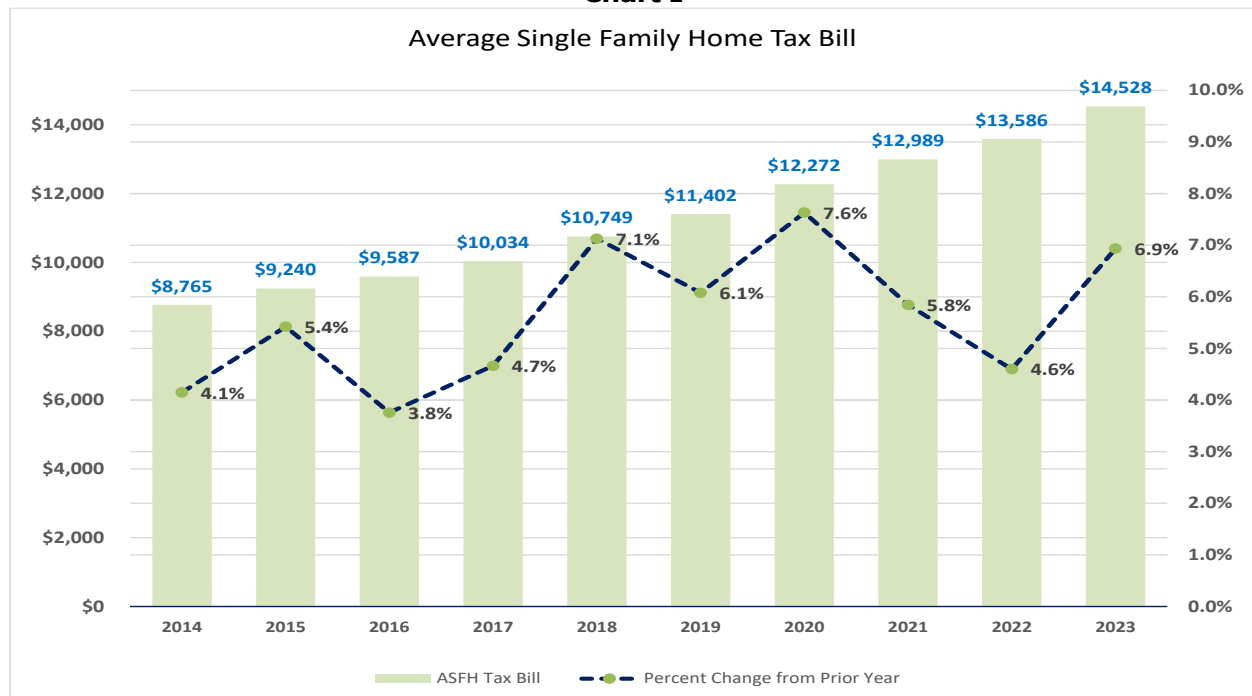


Chart II
Average Single Family Home Tax Bill
Area Communities

Municipality	FY2023
Weston	\$23,893
Brookline	\$21,372
Wellesley	\$18,087
Lexington	\$17,514
Concord	\$17,481
Belmont	\$16,450
Winchester	\$16,214
Wayland	\$15,958
Sudbury	\$14,961
Newton	\$14,793
Needham	\$14,528
Westwood	\$13,270
Milton	\$10,669
Bedford	\$10,454
Arlington	\$10,228
Natick	\$9,597
Walpole	\$9,217
Dedham	\$8,581
Framingham	\$7,113
Norwood	\$6,223
Group Average (excluding Needham)	\$13,793
State-Wide Average	\$6,916

Source: DOR

The Average Single-Family Home (ASFH) property tax bill for FY2023 in the Town of Needham was \$14,528. The chart on the previous page (Chart I) shows the ASFH tax bill for Needham and the percent change from the prior year for the period of FY2014 to FY2023. Based on the most current data from the Department of Revenue, Needham's average single family home property tax bill in the middle of 20 nearby or comparable communities (Chart II), but well over the state-wide average of \$6,916. Other than the Town of Norwood, all the communities in the group are above the state-wide average. This should not be unexpected as the values of homes in this area are much greater than in the state overall. The average tax bill of the identified communities (excluding Needham), for FY2023 was \$13,793 which is 4.9% more than the average of those communities in FY2022 (\$13,148). The average single family home tax bill in Needham for FY2023 increased by 6.9% from FY2022 (\$14,528 vs \$13,586). The average single family home tax bill increase state-wide was 6.2% (\$6,916 vs \$6,514).

State Aid

Most State aid, especially Cherry Sheet aid, is a function of the State budget. The Governor is not required to file the state budget plan until the fourth Wednesday in January. However, in a year when there is a newly elected governor, the new Governor is allowed eight weeks after Legislature convenes to submit the state budget plan. This will be well after the release and presentation of the Town Manager's Balanced Budget for FY2024. For the purposes of this estimate, we assumed an increase of four percent based on the average change in total state aid over the prior ten years rounded to the whole percentage. Therefore, we have assumed a 4.0% increase over the current fiscal year in both Chapter 70 and Unrestricted General Government Aid (UGGA). We have also assumed that all the other Cherry Sheet aid programs which the Town is scheduled to receive for FY2023 will be increased by 4.0% for FY2024. During the winter and spring months, the Legislature will review the Governor's budget proposal, and will release its own budget proposal. In past years, such changes to local aid have altered both the amount of aid and the method of distribution.

The Governor's budget is presented to the Legislature, and the House of Representatives reviews it. The House Ways and Means Committee will develop its own recommendations to present to the full House for debate and amendment. After the House adopts a budget plan, it is forwarded to the Senate for a similar process. After the Senate prepares and votes on its budget plan, the House and Senate conference by way of a committee to resolve any

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

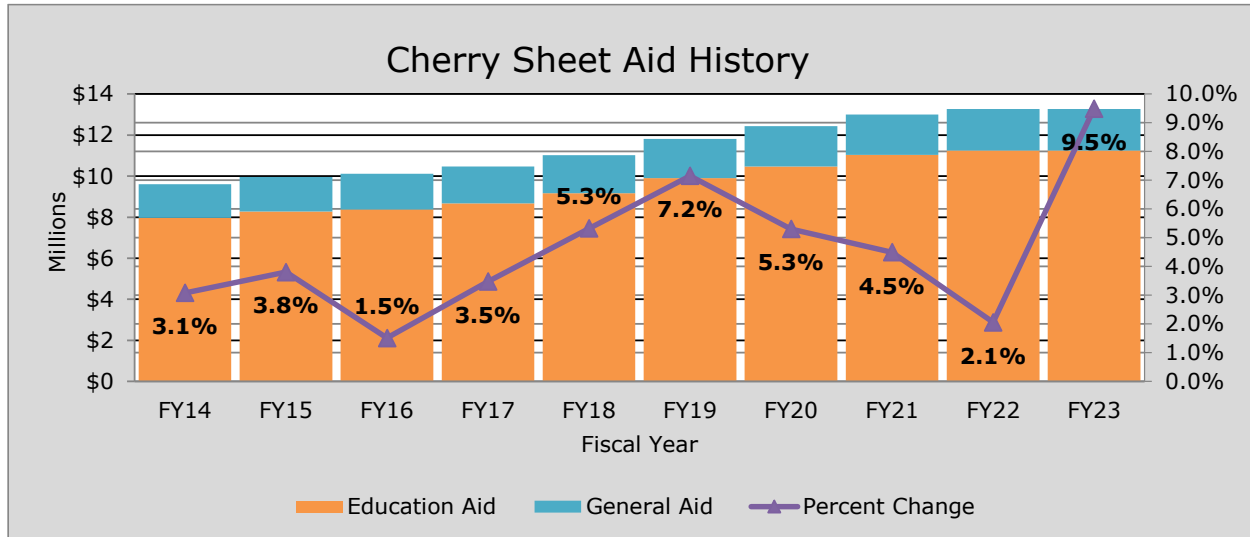
State aid (Table 2.4) represents approximately 6.9% (Table 2.8) of the total general fund before adjustments. As noted earlier, the Governor's budget plan is not expected until late February and perhaps as late as March 1st, and unless the Governor's budget plan assumes less total aid to Needham than our estimate, any revision to revenue would be directed towards regularly recurring expenses proposed to be funded from reserves. The Governor's budget proposal is subject to review and amendment, and final figures are not expected until late spring.

State Aid Table 2.4						
Description	FY2020 Actual	FY2021 Actual	FY2022 Actual	FY2023 Recap	FY2024 Estimate	\$ Change
Chapter 70	10,451,715	11,025,783	11,192,613	12,371,314	12,866,167	494,853
School Transportation						
School Construction Assistance						
Charter School Tuition	11,573	3,698	28,264	17,774	18,485	711
Homeless Transportation	3,927		23,764			
State Aid for Education	10,467,215	11,029,481	11,244,641	12,389,088	12,884,652	495,564
Unrestricted General Government Aid	1,853,722	1,853,722	1,801,326	2,022,207	2,103,095	80,888
Police Career Incentive						
Veterans Benefits	21,672	15,033	13,693	14,980	15,579	599
Chapter 59 Elderly Exemptions	6,709	6,526	48,878	40,023	41,624	1,601
Public Library Aid	41,164	45,764	48,842	59,641	62,027	2,386
State Aid for General Government	1,923,267	1,921,045	1,912,739	2,136,851	2,222,325	85,474
Total Cherry Sheet Aid	12,390,482	12,950,526	13,157,380	14,525,939	15,106,977	581,038
MSBA Payments	695,148	695,148	695,148	695,150	695,150	
Other State Payments	5,567		182			
Other State Aid	700,715	695,148	695,330	695,150	695,150	
Total State Aid	13,091,197	13,645,674	13,852,710	15,221,089	15,802,127	581,038

Cherry Sheet Aid

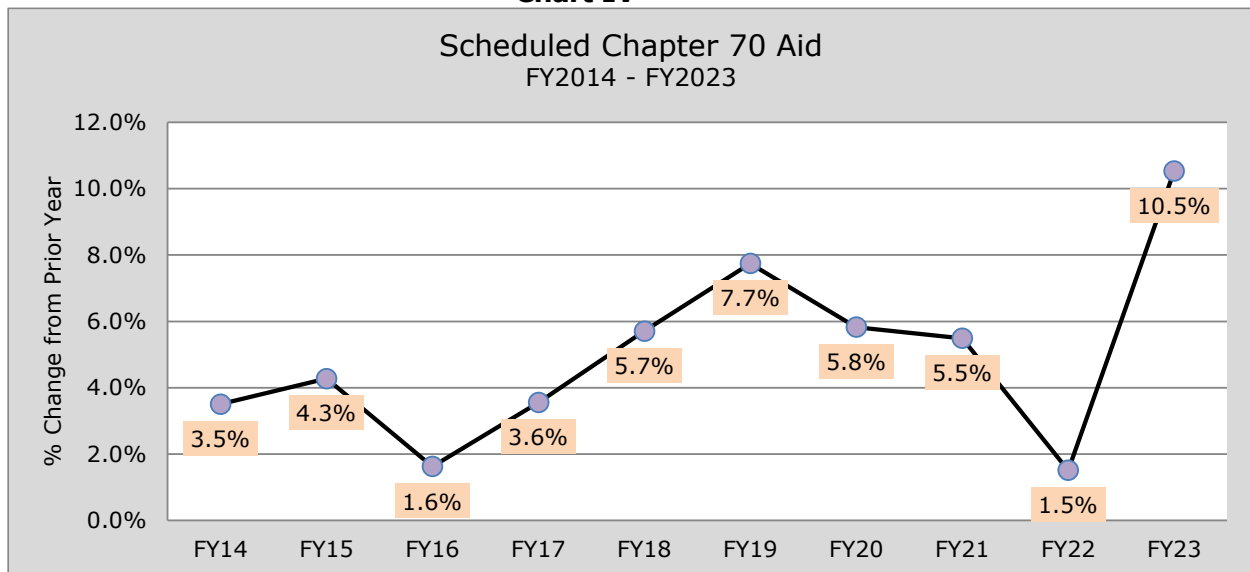
Cherry Sheet aid comes from the Commonwealth where funds are allocated either through distribution formulas or reimbursement formulas. Distribution formulas often incorporate equity factors such as property wealth, income, and effort. Reimbursement formulas provide full or partial funding for program expenditures or foregone revenues. In addition to reimbursements and distributions, there are also Cherry Sheet programs designated as Offset Items. These items are amounts that constitute categorical aid, i.e., funds that must be spent for specific programs. The funds received under programs designated as Offset Items may be spent without appropriation by the Town for the intended purpose (see Adjustments to General Fund Revenue). All other receipt items on the Cherry Sheet are considered revenues of the Town's general fund and may be spent for any purpose, subject to appropriation. Chart III (next page) reflects the history of the total amount of Cherry Sheet aid broken out by general and education aid with the annual percentage change in the total for the years FY2014 through FY2023.

Chart III



Chapter 70 aid is commonly referred to as general school aid. The State explains that Chapter 70 is a formula aid program that is based on a Foundation Budget that is calculated by the Commonwealth for each school system, which considers enrollment, pupil characteristics, inflation, and geographical differences in costs such as wages. The Foundation Budget is what the State has determined to be the minimum spending level for a school system. The formula takes into consideration a community's ability to pay the cost of education based on property values and income. This information is based on equalized property valuation calculated by the Massachusetts Department of Revenue every other year and income data from State tax returns. The State's goal was to ensure that a minimum of 17.5% of the calculated budget for each school system was made up of State aid. This is not 17.5% of what a community may choose to fund.

Chart IV



The Town of Needham saw an increase in Chapter 70 funding every year since FY2014. The Town received \$7,901,802 in FY2014, an increase of \$267,812 or 3.5% more than the prior

year. The Town received \$337,938 more in FY2015, an increase of 4.3%, followed by \$134,050 increase, 1.6% in FY2016. The distribution from the State in FY2017 was \$297,605 more or 3.6% over FY2016, and FY2018 was \$494,965 over FY2017, an increase of 5.7%. The Town received \$709,792, an increase of 7.7% in FY2019, followed by a 5.8% increase or \$575,563 in FY2020, and \$574,068 more in FY2021 or 5.5%. During FY2022 the Town received just \$166,830, 1.5% more than FY2021, but the Town is scheduled to receive \$12,371,314 during FY2023, or \$1,178,701 an increase of 10.5% over FY2022 and is the highest dollar and percent increase over the ten-year period. As mentioned, our \$12,866,167 estimate for FY2024 is \$494,853 higher than the current year, or a 4.0% increase. Chart IV (previous page) shows the annual percent change in Chapter 70 aid from FY2014 through FY2023.

The Additional Assistance and Lottery aid programs were consolidated into a new aid category called **Unrestricted General Government Aid (UGGA)** in FY2010. The Town received \$1,853,722 in FY2020, an increase of \$48,735 or 2.7% more than the prior year; for FY2021 the Town received the same amount (\$1,853,722), and for FY2022 the Town received \$1,801,326 a decrease of \$52,396. The Town was scheduled to receive \$1,918,602 for FY2022 or \$64,880 (3.5%) more than the prior year, but the State distribution was not received until after end of the fiscal year. The monies have been credited to FY2023. The Town is scheduled to receive \$2,022,207 for FY2023 in addition to the \$52,396 that has already been recorded as FY2023 revenue. We have estimated \$2,103,095 for FY2024, or \$80,888 (4.0%) more than the FY2023 Cherry Sheet amount.

The total for all the **other Cherry Sheet aid** programs that have been identified for Needham - charter school tuition, homeless transportation reimbursements, veterans' benefits, property tax exemption reimbursements, and aid to public libraries totaled \$85,045 for FY2020. The Town received \$71,021 in FY2021, and for FY2022 the Town received a total of \$163,441. The total of the other Cherry Sheet aid programs is \$132,418 for FY2023. We have assumed a four percent increase (\$5,297) for FY2024 or \$137,715.

The Town is also expecting the last annual contract assistance payment for the Broadmeadow School project. The payment was decreased from \$745,381 to \$695,148 in FY2014. The decrease reflected lower interest expense the Town realized when it issued refunding bonds on the then existing Broadmeadow School project bonds. The reduction allowed the **Massachusetts School Building Authority (MSBA)** to capture its share of the lower debt costs. The MSBA final payment is estimated at **\$695,150**. The payment is applied as a credit against the annual debt service for the Broadmeadow School and hence reduces the amount that is paid on the property tax bill (refer back to Table 2.3.2).

Local Receipts

Our time-honored approach of conservatively estimating local receipts is based on a target range. Our goal is to have a local estimate total, by the time the tax rate is sent to the Department of Revenue (DOR) for review, which is less than 80 percent of the prior year's actual receipts excluding non-recurring revenue. The FY2022 actual receipts were higher than FY2021 receipts by \$1,627,220. This was the first increase in total actual receipt since 2019. The FY2022 actual receipts of \$16,217,044 included \$319,369 of receipts that are classified as nonrecurring receipts. We have estimated total local receipts will increase by four percent over the FY2023 estimate. This estimate, excluding nonrecurring revenue, is currently projected at approximately 81.2% of the 2022 actual receipts.

We prepare the projections of local receipts by comparing FY2022 estimated receipts to actual receipts; FY2022 actual receipts to FY2021 actual receipts, FY2023 estimated receipts to the

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FY2022 actual receipts and FY2023 year-to-date numbers. We also look at trend lines over three and five years. The Department of Revenue will only allow a community to forecast local revenue up to the level of collection in the previous fiscal year. Under certain circumstances and with appropriate documentation, the Department of Revenue may allow a community to exceed its prior year actual revenue, e.g., for establishing a new fee or significantly increasing an existing fee or charge. During this analysis, the FY2023 estimated receipts were revised. As the year progresses, further analysis of collections will be performed to determine if fiscal year 2023 activity demonstrates a trend that deviates from projections. It is also important to note that if certain budgetary reductions are made to departments that generate or manage the collection of receipts, the estimate may need to be revisited.

Consequences of overly aggressive local receipt estimation include a reduction in the margin between budgeted and actual receipts to cover unanticipated drops in other revenue sources and unexpected increases in expenses (particularly non-appropriated costs), and lower Free Cash certification for the future year than would otherwise be possible. A tighter margin could also negatively impact the Town's credit rating, and hence increase borrowing costs for the Town and consequently higher tax bills for residents.

Local receipts represent approximately 5.6% (Table 2.8) of the total general fund before adjustments. Local receipts consist of items such as other taxes and excises, licenses, permits, and penalties, fines and forfeitures, investment income, and income from departmental activities and services. The budget estimate for FY2023 of **\$12,908,128** (Table 2.5) is an increase of \$496,466 or 4.0% from the revised FY2023 budget of \$12,411,662. When completing the tax rate setting process, we reduced some of the estimates and increased others for the FY2023 receipts based on FY2022 results and trends. The total was within the target range for estimating.

Description	FY2020 Actual	FY2021 Actual	FY2022 Actual	FY2023 Recap	FY2024 Estimate	\$ Change
Motor Vehicle Excise	5,679,213	5,129,306	5,837,070	4,700,000	5,060,000	360,000
Other Excise	1,684,874	643,481	1,415,760	900,000	1,225,000	325,000
Penalties & Interest	272,719	499,343	515,392	270,000	280,000	10,000
Payment in Lieu of Tax	93,000	139,204	147,913	110,000	120,000	10,000
Solid Waste Fee	1,108,099	1,448,570	1,189,410	1,000,000	1,000,000	
Charges for Services	1,889,262	2,435,242	2,245,676	1,900,000	1,973,128	73,128
Fees	351,189	405,578	419,607	155,000	165,000	10,000
Rents	114,739	265,619	208,202	175,000	180,000	5,000
School Income		8,507				
Recreation Department Income	358,649	196,578	236,392	195,000	205,000	10,000
Other Department Income	575,385	461,491	600,976	485,000	505,000	20,000
Licenses & Permits	2,381,660	2,068,299	2,771,497	1,920,000	2,000,000	80,000
Special Assessments	914	363				
Fines & Forfeits	234,549	60,974	110,191			
Investment Income	834,163	228,969	194,651	250,000	195,000	(55,000)
Medicaid Reimbursement	67,188	2,319	1,642			
Miscellaneous Income	7,967	3,282	3,296			
Nonrecurring Income	404,781	592,701	319,369	351,662		(351,662)
Total	16,058,350	14,589,825	16,217,044	12,411,662	12,908,128	496,466

The three major sources of local receipts, which made up nearly 68% of total receipts over the last four years (see Chart V), are Motor Vehicle Excise, Charges for Services, and License and Permits. Year after year motor vehicle excise tax is the major local revenue source accounting for as much as 38% of the total local receipts in a given year and the average percentage over the 2019 – 2022 time period was 36.2%. Therefore, an overestimation of this revenue will have negative impact on the Town's financial position. All three receipt categories are influenced by the economy, locally and nationally, more so than other receipts.

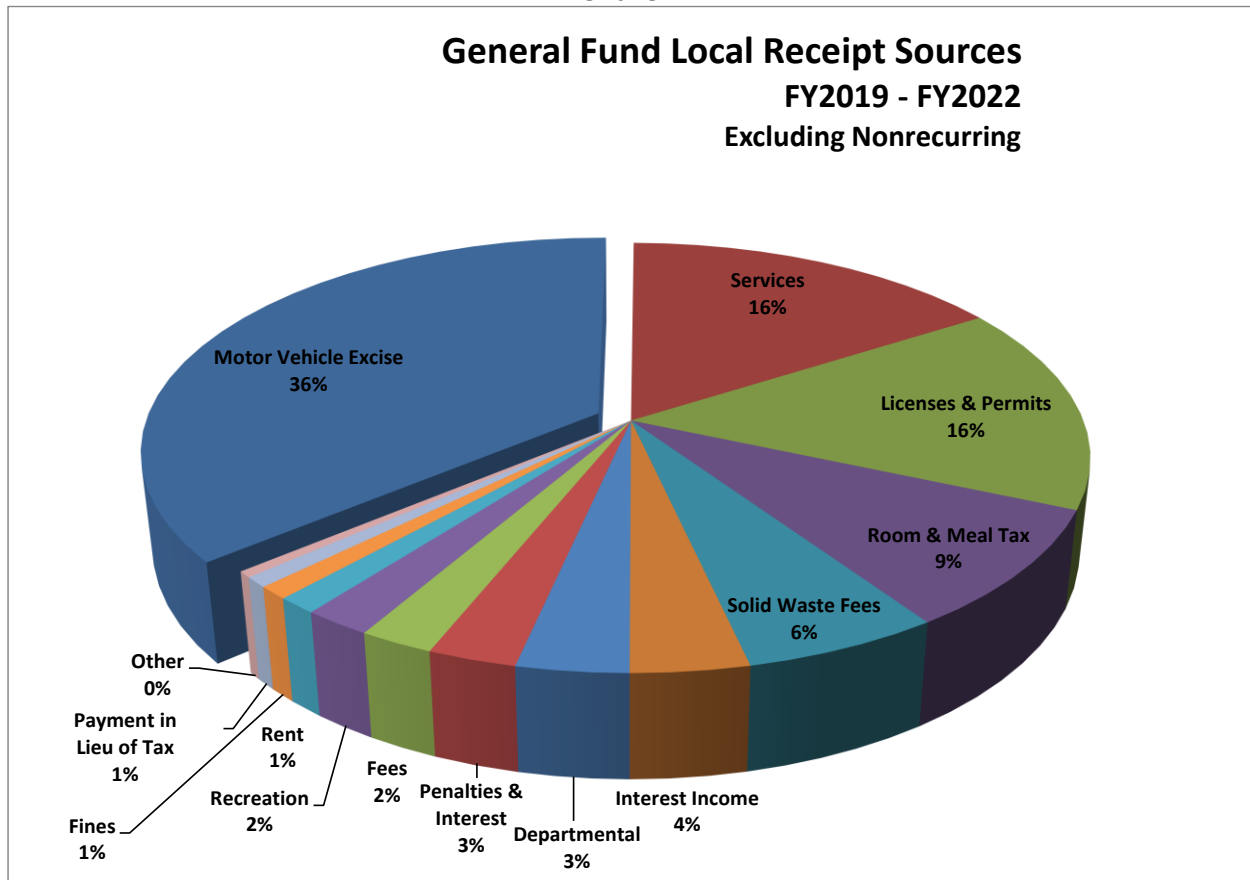
All vehicle owners who have their vehicles registered in the Commonwealth of Massachusetts pay an annual **Motor Vehicle Excise** tax to the community in which the vehicle is principally garaged. The Registry of Motor Vehicles provides listings several times during the year with the vehicles that are registered in Needham, along with the value for each. The vehicle values are the manufacturers' list prices for vehicles in their year of manufacture. The present market value, price paid, and/or condition are not considered for excise tax purposes. The excise tax law establishes its own formula for valuation for state tax purposes whereby only the manufacturer's list price and the age of the motor vehicle are considered. In the year preceding the model year of the vehicle (i.e., 2024 vehicle purchased in 2023) the value is 50%; in the model year the value is 90%; in the second year the value is 60%; in the third year the value is 40%; in the fourth year the value is 25%; and in the fifth and succeeding years the value is 10%. The Town relies on this information to calculate and issue excise bills. The motor vehicle excise tax rate is set by State law at \$25 per \$1,000 valuation. The rate is uniform throughout the Commonwealth.

We have assumed approximately a 10% increase or \$360,000 from the FY2023 revised estimate of \$4.7 million. Motor vehicle excise receipts for FY2024 are projected at approximately **\$5.1 million** which is 86.7% of the FY2022 actual. This is a revenue source that we continue to monitor closely. We do not anticipate increasing this revenue estimate any higher because a negative swing with this revenue item can have a notable impact on Free Cash.

In 1986, the Town of Needham adopted a local option room excise tax at 4%; the Town adopted the State-allowed rate of 6% which became effective January 1, 2010. Hotels, motels, and certain other establishments collect this excise on the taxable portion of rents they collect. The businesses remit the funds to the State. The State sends payments to the Town during the year, which is accounted for as **Other Excise** under the local receipts group. The Town of Needham also accepted the 0.75% local option meals excise effective January 1, 2010. The local establishments report and remit the meals tax to the Department of Revenue (DOR). Collections from both the room excise and the meals excise have shown recovery after the downturn due to COVID which negatively impacted these revenue sources for couple of years. During FY2020 the Town received \$1,684,874 which was a decrease from the prior year. Revenues for FY2021 dropped to \$643,481, a decline of more than \$1 million from FY2020. However, during FY2022 the Town received \$1,415,760, a swing of \$772,279, more than 120% increase over the prior year. The revised estimate for FY2023 was set at \$900,000. We are optimistic that even with recent inflation concerns, the hospitality industry will be solid and have move the FY2024 estimate to **\$1,225,000**, a 36.1% increase over the FY2023 estimate and represents approximately 87% of the FY2022 actual.

The **Penalties & Interest** category includes penalties charged for the late payment of real estate and motor vehicle excise bills, tax lien redemptions, and interest accrued on deferred taxes. This is a revenue source can have major swings from year to year. The fluctuations in actual collections reflect the unpredictability of the timing of payments, particularly settlements on deferred taxes and tax title accounts. The FY2020 actual receipts were \$272,719. The FY2021 receipts were 499,343 for FY2021, an 83% increase, and the FY2022 actual receipts were \$515,341, a 32% increase. The estimate for FY2023 is \$270,000 and we have increased the estimate for FY2024 to **\$280,000**.

Chart V



Payment In Lieu of Tax is a voluntary payment made by certain tax-exempt entities. The Town receives payments from BID/Needham and the Needham Housing Authority (NHA), but payment from the NHA is dependent on Federal funding. The Town and the Hospital executed a new PILOT agreement in June 2018. The Town received \$93,000 in FY2020 which was a decline from the prior year. However, there was a delay in receiving scheduled payments during FY2020. There was a bump up in revenue for FY2021 with \$139,204, and a further increase for FY2022 at \$147,913. The estimate for FY2024 is **\$120,000**, 9.1% more the \$110,000 revenue estimate for FY2023. This is approximately 81% of the FY2022 receipts.

Solid Waste Fees are the charges and fees collected for the disposal of solid waste and other items. This will be the fourth year that this revenue is part of the General Fund. FY2020 was the first year that this revenue was part of the General Fund which generated \$1,108,099. There was a visible uptick in activity at the RTS which generated \$1,448,570 in solid waste disposal fees for FY2021. During FY2022, there was a decline of \$259,160 (17.9%) in disposal receipts with a total of \$1,189,410 collected. The estimate for FY2023 was lowered from the original estimate of \$1,200,000 to \$1,000,000. The estimate for FY2024 is level dollar at **\$1,000,000**. This represents approximately 84% of the FY2022 actual.

The category of **Charges for Services** includes charges for ambulance services, certain parking revenue, and charges by the DPW. This revenue also includes solar electric payments the Town receives from Eversource for power generated by the solar array at the former landfill. The amount generated from the solar array is a significant portion of the total receipts under this category, but fluctuates. The revenue generated from the solar payments is

affected by the amount of power produced, the time of day the power is provided (the utility pays different rate depending on the peak and off-peak demands), and the actual rate Eversource must pay for the production. A history of the last six completed fiscal years collections is shown in Chart VI. The total from all services provided was \$1,889,262 in FY2020. With the increase in solar revenues, the running of two full-time ambulances, and the resumption of the sale of parking permits, revenue collections improved with \$2,435,242 received during FY2021. The FY2022 receipts declined to \$2,245,676. However, revenue for the first half of FY2023 was improved so we maintained the estimate at \$1,900,000 for the current year. The total estimated income from the various charges and solar revenue for FY2024 is **\$1,973,128**, an increase of \$73,128 over FY2023 estimate, or 3.8% more. The estimate for FY2024 is approximately 88% of the FY2022 actual revenue.

Chart VI
Solar Energy Payments

Fiscal Year	Payment	Fiscal Year	Payment
2017	\$909,146	2020	\$807,467
2018	\$1,025,931	2021	\$1,234,585
2019	\$1,147,907	2022	\$905,263

The Town collects various **Fees** which include returned checks, FID cards, administrative fees for details, Registry of Motor Vehicle license and registration non-renewal releases, and parking meter receipts. The total fees collected in FY2020 was \$351,189 which included payment of cannabis related fees of \$135,685. During FY2021 the Town received \$405,578 again benefitting from the increase in cannabis revenue with \$263,488 paid to the Town. The total amount in fees collected during FY2022 increased to \$419,67, of which \$228,025 was from cannabis. The original estimate under this category for FY2023 was \$320,000, but we decreased the estimate to \$155,000. This was done in anticipation that state law will be amended to restrict local agreements with cannabis operators from making payment to the municipality beyond direct cost offsets. Should the law not be amended in such a manner, and the local cannabis dispensary makes payment in accordance with the local agreement, the proceeds would become Free Cash for the following fiscal year and a like amount may be appropriated for health and safety related services. The estimate for FY2024 is **\$165,000** which is 6.5% more than the revised estimate for FY2023.

Rental Income is collected on a lease with the Needham Golf Club. The Town has a long-term lease with the Needham Golf Club (NGC) which runs for twenty years. The land which the NGC leases is considered taxable. The Town also has a rental agreement with Tesla for use of the former landfill site where the solar panels are located. The Town also collects rent on the use of Town facilities such as Powers Hall. Total rental income for FY2020 was \$114,739 which was a decline and was directly related to the impact of COVID. A combination of cancelled events and delays in making payment. FY2021 saw total revenue of \$265,619 as the Town collected on back rent from the prior year. The total rents collected during FY2022 was \$208,202. The estimate for FY2024 is \$5,000 (2.9%) more than the current year or **\$180,000** which is approximately 86% of the FY2022 actual.

School Income generated by the School Department for tuitions received began in FY2016. Most all revenue received by the School Department from its activities is accounted through revolving funds and special revenue accounts and is not available for general governmental purposes. The School Department turned in \$8,507 for FY202 and nothing in FY2022. There was no estimate for FY2023, and we assume the same for FY2024.

Library Income had been declining year over year. The last year income was reported under this line was FY2018 with \$17,002. There is no revenue estimate for FY2024.

Recreation fees are collected by the Park and Recreation Department for Rosemary Pool, summer programs, and rental of fields. Other Park and Recreation programs are accounted for separately in a revolving fund. Park and Recreation was one of the departments that were financially impacted negatively because of COVID. FY2020 actual receipts totaled \$358,649, which was a decline from the previous year and FY2021 revenue declined to \$196,578. Revenue increased during FY2022 with \$236,392 as most activities were running and attendance levels high. The estimate for FY2023 is \$195,000 and the FY2024 estimate has been increased by \$10,000 to **\$205,000** which represents approximately 87% of the FY2022 actual.

Other Department Income includes revenue collected by the various Town departments, which are not properly accounted for in the other accounts. This would include amounts received by planning and conservation departments. The total receipts for FY2020 were \$575,385, which decreased to \$461,491 for FY2021. Total receipts for FY2022 increased to \$600,976. The revised estimate for FY2023 is \$485,000; the original estimate was \$370,000. The estimate for FY2024 has been increased as well to **\$505,000**, which is approximately 84% of the FY2022 actual.

The category of **Licenses and Permits** includes licenses issued by the Select Board and Town Clerk, and permits issued by the Building, Fire, and Health Departments. Actual receipts in FY2020 were \$2,381,660, which was a decline from the prior year and the decline continued for FY2021 with total receipts of \$2,068,299, a drop of 13% from the prior year. Revenue increased during FY2022 with \$2,771,497 in total receipts, or \$703,199, approximately a 34% increase. The revised estimate for FY2023 is \$1,920,000 and the estimate for FY2024 was increased by \$80,000 to **\$2,000,000**. This estimate is approximately 72% of the FY2022 actual. Building permit activity is the primary and important revenue stream for this category of receipts. Chart VII provides the history of the actual building permit revenue collected during the past six completed fiscal years. Over the six-year period, building permits generated revenue with a high of more than \$4.1 million (FY2017) and a low of \$1.8 million (FY2021). Building and construction activity is volatile, and has a greater sensitivity to changes in interest rates, and hence we estimate a lower percent of the actual than most receipts.

Chart VII
Building Permit Activity

Fiscal Year	Permits	Fiscal Year	Permits
2017	\$4,149,937	2020	\$2,079,634
2018	\$2,257,261	2021	\$1,822,461
2019	\$2,261,032	2022	\$2,508,020

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

The category of **Fines and Forfeits** includes parking tickets, court fines, and other violations. Enforcement of parking regulations and other non-criminal infractions were limited due to concerns related to COVID, but resumed in 2021. There has also been a growing trend across the United States to not overtly depend on fines and forfeiture to fund governmental activities,

which tend to fall more heavily on those with limited means. The Needham Public Library ended the assessment of fines for overdue returns.

Investment (Interest) Income is another revenue stream that has significant up and down swings (Chart VIII). The actual interest earnings of \$834,163 during FY2020 were lower than FY2019 (\$979,649), and FY2021 saw a momentous decline in total interest of \$228,969, more than a 72% drop. The decline in interest earnings was driven by the actions taken by the Federal Reserve Board to lower interest rates to near zero to stimulate the economy during the Pandemic. We revised the original FY2022 estimate from \$264,000 to \$150,000. Actual income earned during FY2022 declined to \$194,651, a decline of nearly 15%. However, interest rates climbed as the Fed has changed course from one of stimulating the economy to slowing the economy to lessen the inflation rate, and conversely interest income was increasing which resulted in an increased estimate for FY2023 to \$250,000. However, recent suggestions that inflation is declining and that the Fed may pull back interest rates in the second half of next year, caused us to reduce the estimate for FY2024 to **\$195,000** which is 100% of the FY2022 actual.

Chart VIII

General Fund Investment (Interest) Income

Fiscal Year	Interest	Fiscal Year	Interest
2017	\$278,831	2020	\$834,163
2018	\$434,319	2021	\$228,969
2019	\$979,649	2022	\$194,651

Medicaid reimbursements are classified as a local receipts revenue source, which often fluctuates from year to year (Chart IX), but the last few years the trend has been one of noticeable decline. In FY2020 the Town received \$67,188 in Medicaid revenue, which was a decline of \$113,484 or 62% from FY2019, and FY2021 the revenue declined to \$2,319. FY2022 was the lowest at \$1,642. We made no estimate for FY2023, nor an estimate for FY2024.

Chart IX

Medicaid Reimbursements

Fiscal Year	Medicaid	Fiscal Year	Medicaid
2017	\$194,935	2020	\$67,188
2018	\$207,679	2021	\$2,319
2019	\$180,672	2022	\$1,642

Miscellaneous Income totaled \$7,967 for FY2020, and declined to \$3,282 for FY2021. The total for FY2022 was just \$14 more (\$3,296). For recurring miscellaneous income, we have made no estimate for the current year nor FY2024.

Nonrecurring Income represents funds that may be received but are not expected to reoccur, e.g., one-time grants, financial assistance for an event, etc. In FY2020, the Town reported \$404,781 in nonrecurring receipts. The largest receipt was \$203,655 from Town's insurance carrier from program and loss prevention incentives. As in recent years, the sale

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of surplus equipment generated the second largest amount considered nonrecurring receipts with \$111,171. The combined total of those two sources accounted for 78% of the nonrecurring revenue. The Town received \$54,480 from Eversource for energy efficiency efforts by the Town in the construction of the Sunita L Williams elementary school. The balance of the nonrecurring receipts (\$35,475) represents various refunds, recoveries, and one-time monies received by the Town during the year. FY2021 the Town reported nonrecurring receipts of \$592,701. Most of the nonrecurring receipts were a result of various refunds and rebates which totaled \$394,001. The sale of surplus equipment by the Town and the School departments generated \$108,575. The Town also received payment of \$90,125 from its solar energy producer because the company did not meet its power production guarantee. The \$319,369 of nonrecurring receipts received during FY2022 were a result of various refunds and rebates which totaled \$31,089. The sale of surplus equipment by the Town and the School departments generated \$266,691. The Town also received payment of \$10,159 for an energy rebate and \$8,662 in electricity refunds from Eversource. The Town collected \$2,768 in prior year receivables that were previously deemed uncollectible and written off. We have an estimate of \$351,662 of miscellaneous nonrecurring receipts for FY2023 which represents proceeds anticipated from the sale of surplus equipment and supplies by the Town and the School departments this year. There is no estimate for miscellaneous nonrecurring receipts for fiscal 2024.

General Fund Recurring Receipts
Table 2.6

Description	FY2020 Actual	FY2021 Actual	FY2022 Actual	FY2023 Recap	FY2024 Estimate	\$ Change
Property Taxes	138,227,154	148,004,594	158,014,832	165,808,498	173,659,014	7,850,516
State Aid	12,390,482	12,950,526	13,157,380	14,525,939	15,106,977	581,038
Local Receipts	15,653,569	13,997,123	15,897,676	12,060,000	12,908,128	848,128
Total Receipts	166,271,206	174,952,243	187,069,887	192,394,437	201,674,119	9,279,682

Other Available Funds

Other available funds (\$1,937,668) represent 0.8% (Table 2.8) of the total general fund before adjustments and offsets. Projections of reserves follow past budget methodology. The uses of the funds are based on historical uses of these funds. The two available funds that have been recurring are Debt Exclusion Offsets and Overlay Surplus. Other available funds are correlated to expenses. These funds must be specifically identified by Town Meeting in the motion in order to be used.

Debt Exclusion Offset is an amount equal to the amortized value of a premium that may have been received on a debt-excluded bond or note and is spread over the life of the loan. The offset reduces the amount of the excluded debt service that is raised on the tax levy. The amount for FY2024 is \$27,668.

Overlay Surplus is generated when it is determined that all claims for abatements and exemptions on property tax levies of a particular fiscal year have been resolved, and uncollected taxes for the year have been secured with a tax taking lien filed with the Registry of Deeds or Land Court, depending upon the type of property, leaving a balance in the overlay account. Abatement and exemption activity is tracked on a fiscal year basis, but the overlay reserve which covers those costs is held in a single account. From time to time the Board of Assessors may vote to release funds from the overlay fund, which then is considered a surplus and may be used as a funding source by Town Meeting during the year that the surplus is declared. Any funds declared as surplus and not appropriated by Town Meeting will be closed out to fund balance and will contribute to the Free Cash certified in the following fiscal year. We have planned on the use of **\$1,910,000** to fund appropriations. Per state statute, the

Board of Assessors must formally vote to release any determined surplus before it is available for appropriation. The Board approved the released \$3,000,000 at the July 14, 2022 meeting. \$1,090,000 of the overlay surplus was appropriated at the October 24, 2022 Special Town Meeting.

The **Parking Meter Fund** is reserved for appropriation and the revenues are derived from parking meters, which under State Law must be used for parking-related purposes. With the passage of the Municipal Modernization Act, parking meter receipts collected after November 7, 2016 are now considered General Funds. The Act allows the Town to reestablish the Parking Fund, but this budget plan does not contemplate such action. The residual balance is \$244,224.

Transportation Infrastructure Funds are received funds from the Commonwealth through a state assessment on transportation network companies, such as Uber and Lyft, operating in the state. Each company reports to the State the number of rides that originated in Needham and remits a per-ride assessment of \$0.20, which is credited to the State's Transportation Infrastructure Enhancement Fund of which one half of the amount is sent to the Town. The distributed funds are special revenue, which require appropriation prior to use. The funds are reserved to be appropriated by Town Meeting for expenses related to the operation of transportation network services in the town including, but not limited to, the complete streets program established in Chapter 90 and other programs that support alternative modes of transportation. The amount for FY2024 is not yet known.

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

Free Cash

Free Cash balance is largely a function of actual revenue collections in excess of estimates and expenditures less than appropriations. Given the nature of Free Cash, it should not be depended upon as an operating revenue source, but rather a supplemental source. We have taken deliberate steps to reduce the level of Free Cash that is used to support ongoing operating expenses, and recommend using it to improve reserves, invest in capital assets, support one-time or short duration programs, or as a temporary funding source for recurring expenses if an increase in recurring revenue is anticipated.

The Free Cash has not yet been certified for FY2023. We have assumed **\$15,000,000** for this budget plan. Free Cash above the amount for this budget plan may be directed to larger capital projects and or reserved for future years. The \$15 million represents 6.5% of the total general fund before adjustments and offsets. This is an increase of \$355,545 from the amount that was appropriated last year. The expected Free Cash figure is due to several factors: the FY2022 operating budget return, which resulted from a greater number of vacancies during the year in many departments, a much larger return from the school department budget (\$2,045,756) than in recent years, the economic recovery from COVID happened sooner than assumed which resulted in higher revenue growth, and using less of the certified Free Cash last year (during FY2022) for FY2023 appropriations so that a greater amount would be rolled over to this year. The Certified Free Cash in FY2022 was \$16,952,126 of which \$14,644,455 was appropriated and \$2,307,671 was closed out at the end of the year and should become part of the Free Cash that will be certified by the State this year. The Certified Free Cash in FY2021 was \$16,665,406 of which \$11,526,630 was used for FY2022 appropriations and the balance of \$5,138,776 was closed out at end of the year. The Certified Free Cash in FY2020 was \$12,369,898 of which \$7,862,473 was used for FY2020 and FY2021 appropriations and the balance of \$4,507,426 was closed out at the end of the year. The certified Free Cash in

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FY2019 was \$10,387,871 of which \$10,337,871 was used for FY2019 and FY2020 appropriations and the balance was closed out at the end of the year. Table 2.7.1 shows how much Free Cash was used for the operating budget, cash capital, other financial warrant articles, reserves, or closed out.

Uses of Free Cash
Table 2.7.1

Certification Year	Budget Year Use	Free Cash	Operating Statement Maximum	Budget	Capital	FWA	Reserves	Total of Uses	Returned
FY2019	FY2020	10,387,871	3,027,431	2,068,301	7,418,252	684,706	166,612	10,337,871	50,000
FY2020	FY2021	12,369,898	3,217,536	3,208,040	3,939,433	715,000	-	7,862,473	4,507,426
FY2021	FY2022	16,665,406	3,527,570	3,527,570	6,246,653	1,752,407	-	11,526,630	5,138,776
FY2022	FY2023	16,952,126	3,763,414	3,625,000	10,475,329	492,000	52,126	14,644,455	2,307,671

Given that the Town of Needham develops its annual operating and capital budgets in such a way that Free Cash can be counted upon each year, some amount of Free Cash has been used to support operating expenses. We continue to recommend that the amount of Free Cash used to fund the operating budget should not be more than 2% of the budget turn back of the prior completed fiscal year or the actual amount returned, whichever is less. We use the final adjusted operating budget to calculate the two percent figure. We define the final adjusted operating budget as the total of the Departmental budgets and Townwide expenses, except for the Reserve Fund. We do not include any transfer from the Reserve Fund line into the Departmental budgets. Any return from the Reserve Fund would not be considered part of the budget return when calculating the lesser of the two calculations: two percent of the final adjusted budget, or actual return, wherever is less. In table 2.7.2, we show what the budget returns have been in the past four years and what the two percent of the final adjusted operating budget would have been.

Operating Budget Returns
Table 2.7.2

Fiscal Year Activity	Final Budget	Returned	Adjusted Final Budget	Related Return	Percent of Budget	Reserve Fund Return	Reserve Fund Return as a % of Total Return	Two Percent of the Adjusted Final Budget
2019	162,736,704	4,894,717	160,876,813	3,342,618	2.1%	1,552,099	31.7%	3,217,536
2020	178,260,006	7,634,782	176,378,506	5,783,282	3.3%	1,851,500	24.3%	3,527,570
2021	190,247,810	6,473,319	188,170,719	4,787,338	2.5%	1,685,981	26.0%	3,763,414
2022	195,800,817	7,658,330	193,723,726	6,354,076	3.3%	1,304,254	17.0%	3,874,475

Two percent of the FY2022 adjusted final budget equals \$3,874,475; the actual FY2022 budget return less the Reserve Fund return was \$6,354,076 which is more than two percent. The budget plan has **\$3,597,105** of the Free Cash being used for operating expenses. Free Cash is also proposed to be used to fund cash capital and warrant articles. Certification of Free Cash above the amount identified for use is proposed to fund capital that otherwise may require debt, provide advance funding to a Stormwater Stabilization fund, reserve for future projects, or a combination of the aforementioned. The Town has been following the recommended practice of limiting the amount of Free Cash that supports the operating budget by using the funds to pay not only for needed cash capital, but also to put aside funds for future demands that may arise unexpectedly and for various one-time financial warrant articles.

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Revenue as a % of Total General Fund Revenue
Table 2.8

Description	FY2020 Actual	FY2021 Actual	FY2022 Actual	FY2023 Recap	FY2024 Estimate
Property Taxes	77.6%	81.1%	79.9%	79.5%	80.1%
State Aid	6.8%	6.8%	6.5%	6.8%	6.9%
Local Receipts	8.3%	7.3%	7.6%	5.5%	5.6%
Other Available Funds	2.0%	0.7%	0.6%	1.7%	0.8%
Free Cash	5.3%	3.9%	5.4%	6.5%	6.5%
Total General Fund Revenue*	100.0%	100.0%	100.0%	100.0%	100.0%

*May not equal 100% due to rounding

ADJUSTMENTS TO GENERAL FUND REVENUE

While most enterprise fund expenses are accounted for in the enterprise fund, certain costs of the department are reflected in the general fund budgets of other Town departments (e.g., treasurer/collector, information technology, personnel, insurance, etc.). These enterprise-related general fund expenditures are funded with transfers of revenue from the enterprise fund to the general fund. The amount projected for FY2024 is based on the current year and is estimated at **\$1,215,000**.

The preliminary estimate for the sewer fund reimbursement is **\$500,000**. The estimate for the water fund is **\$715,000**. Because indirect costs associated with the two funds are a factor of Town Meeting appropriations, the actual FY2024 transfers may be adjusted accordingly.

Enterprise Reimbursements to the General Fund
Table 2.9

Description	FY2020 Actual	FY2021 Actual	FY2022 Actual	FY2023 Recap	FY2024 Estimate	\$ Change
Sewer	472,345	465,865	507,526	500,948	500,000	(948)
Water	853,155	864,193	899,889	715,567	715,000	(567)
Total	1,325,500	1,330,058	1,407,415	1,216,515	1,215,000	(1,515)

FY2024 is the 13th operating budget that will include **CPA** supported debt service. The Town Hall financing plan calls for debt service paid by CPA funds to be \$ 363,900, which is a decrease of \$12,750 from FY2023. This is the fifth year that debt service related to the Rosemary Recreation Complex (RRC) project comes due. The amount payable during FY2023 is \$574,731 which is a decrease of \$18,251 from FY2023. The annual debt service will decline each year on the Town Hall and Rosemary Recreation Complex projects until they are paid off: Town Hall in 2031, and RRC in 2039. However, the Emery Grover project was approved last year that will be financed in part from CPA funded debt which will increase the annual debt expense beginning in FY2024.

The total transfer for FY2024 is **\$1,078,631**, an increase of \$108,999, or approximately 11.2%. We reflect \$1,078,631 as another adjustment to General Fund revenue because the CPA debt is included in the general operating budget of the Town.

OTHER RESERVES AVAILABLE FOR APPROPRIATION

The available balance in the **Stabilization Fund** as of October 31, 2022 was \$4,563,839. The Stabilization Fund may be appropriated, by a vote of Town Meeting, for any municipal purpose. No assumption about an appropriation from the Stabilization Fund to support the Town's operating budget is made in this projection.

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The Town also established an **Athletic Facility Improvement Fund** for the purpose of reserving funds for future extraordinary athletic field and artificial turf replacement and maintenance costs. The balance in the fund as of October 31, 2022 was \$1,072,514. The budget plan calls for an appropriation of \$33,533 to the Fund, which is the same amount proposed last year which was based on a five-year average of use fees collected by Park and Recreation for this purpose.

The Town also established a **Capital Facility Fund** for the purpose of reserving funds for future extraordinary capital facility maintenance costs. The balance in the fund as of October 31, 2022 was \$1,944,103. No appropriation to the Fund is planned for the 2023 Annual Town Meeting but there may be an appropriation recommendation to the Fund at a Special Town Meeting.

The Town also established a **Capital Improvement Fund** for the purpose of general fund capital equipment. The balance in the fund as of October 31, 2022 was \$1,461,528. No appropriation to the Fund is planned for the 2023 Annual Town Meeting but there may be an appropriation recommendation to the Fund at a Special Town Meeting.

The Town also established a **Debt Service Stabilization Fund** for the purpose of setting aside funds to smooth out the impact of General Fund Debt Service within the levy limit that may exceed the Town's goal that only three percent of General Fund revenues be designated for debt. The balance in the fund as of October 31, 2022 was \$2,179,210. No appropriation to the Fund is planned for the 2023 Annual Town Meeting but there may be an appropriation recommendation to the Fund at a Special Town Meeting.

ENTERPRISE FUNDS

An enterprise fund is used to account for those operations that are financed and operated in a manner similar to a private business. The Department of Revenue states that Enterprise Funds allow a community to demonstrate to the public the portion of total costs of a service that is recovered through user charges and the portion that is subsidized by the tax levy or other available funds, if any. The Town has established an Enterprise Fund for its water operation, sewer operation, and until last year, for the Recycling Center and Transfer Station (solid waste disposal). The enterprise funds are reimbursing the general fund for their related indirect costs (e.g., enterprise employee benefits, property insurance, shared staff, etc.).

Enterprise Receipts Table 2.10						
Description	FY2020 Actual	FY2021 Actual	FY2022 Actual	FY2023 Budget	FY2024 Estimate	\$ Change
Sewer Enterprise	9,060,044	9,521,834	8,405,195	8,404,492	8,405,000	508
Water Enterprise	6,303,298	7,452,180	6,085,833	6,084,687	6,086,500	1,813
Total*	15,363,342	16,974,014	14,491,028	14,489,179	14,491,500	2,321

* Receipts before adjustments, reimbursements, and subsidies

The combination of the Sewer and Water Enterprise funds has total receipts at \$14,491,500 for FY2024 compared to the \$14,489,179 estimate for FY2023 (Table 2.10). This represents a slight increase of \$2,321 or approximately 0.02%. However, the MWRA sewer and water assessments have not been received, and therefore the plan level funds the assessments. Any change will be reflected by an adjustment to receipts.

Fiscal Year 2024 Proposed Budget

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

Description	FY2020 Actual	FY2021 Actual	FY2022 Actual	FY2023 Budget	FY2024 Estimate	\$ Change
Sewer Enterprise	1,631,487	918,088	365,000	1,470,255	1,458,051	(12,204)
Water Enterprise	291,500	43,002	1,370,913		1,406,080	1,406,080
Total	1,922,987	961,090	1,735,913	1,470,255	2,864,131	1,393,876

* Revenue before adjustments, reimbursements, and subsidies

The budget calls for the use of **\$1,458,051** of retained earnings in Sewer Enterprise for a combination of funding the operating budget (\$723,410), other financial warrant articles (\$150,000) and cash capital (\$584,641) for FY2024. The Water Enterprise budget calls for the use of **\$1,406,080** of retained earnings for the operating budget (\$634,447) and cash capital (\$771,633) for FY2024. There are some significant water projects that are planned in the coming year which maintaining the retained earnings will help finance those projects to reduce the amount of debt that would otherwise be incurred. Table 2.11 shows the total appropriated from enterprise reserves and other one-time funds since FY2020.

Transfers to the Enterprise Funds

The Town approved a change effective with the FY2012 budget that the expenses associated with the Drains Program that were carried in the DPW General Fund Operating Budget are now part of the **Sewer Enterprise Fund Budget**. The employees who perform a majority of the drains-related work are assigned to either the water or sewer division. There are benefits for the Town to have the water and sewer employees perform the drains-related work rather than hiring additional staff for the sole purpose of drain work. The drains program is considered a general fund expense and not a sewer or water fund expense. The weekly tracking and processing of drains related procurement, accounts payable, and payroll, as well as the budgeting process is easier and more efficient (less cross-fund accounting work) to process the finance-related tasks through one of the enterprise funds, rather than the prior three fund process (general fund, sewer fund, and water fund). The General Fund still pays the drains-related costs, but the appropriation is made from the General Fund to the Sewer Enterprise Fund Budget. The FY2024 budget recommendation is **\$10,358**, an increase of \$27,430 (3.5%) from the FY2023 funding of \$782,928. Chart XIII shows the payment made to the Sewer Enterprise Fund since FY2017. The current operating budget required a General Fund subsidy of \$52,323. The Select Board approved sewer use rate increases effective October 1, 2022 which should alleviate the need of a subsidy in FY2024.

Chart XIII
General Fund Payment

Fiscal Year	Payment	Fiscal Year	Payment
2017	\$519,846	2020	\$530,467
2018	\$491,749	2021	\$544,698
2019	\$504,750	2022	\$526,368

The **Water Enterprise Fund Budget** required a General Fund subsidy of \$284,721 due to the limitation on estimating receipts this year. The subsidy should be recaptured next year because actual collections year-to-date should offset the shortfall. The Water Enterprise should not require a General Fund subsidy for FY2024.

ENTERPRISE FUND RETAINED EARNINGS

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

Similar to Free Cash, retained earnings are a function of the operations of the prior fiscal year and are generated by revenues collected in excess of estimates and unexpended balances of appropriations, as of June 30th. Once certified by the Massachusetts Department of Revenue, retained earnings are then available for appropriation or reserved to support the enterprise. Retained earnings for FY2023 have not been certified by the Department of Revenue as of the publication of this plan.

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

Certified Retained Earnings
Table 2.12

Fund	FY2020	FY2021	FY2022	FY2023
Recycling and Transfer Station	420,749	N.A.	N.A.	N.A.
Sewer Enterprise	2,097,365	1,745,424	3,088,415	Pending
Water Enterprise	4,134,675	4,737,743	5,382,804	Pending

COMMUNITY PRESERVATION FUNDS

Town voters approved a 2% Community Preservation Act surcharge on real estate property tax bills effective July 1, 2005. The 2% surcharge is assessed on the total property tax due, adjusted for certain exemptions. The tax on the first \$100,000 of residential valuation is not included in the CPA surcharge, and there are also exemptions for certain low and/or moderate-income taxpayers. Actual CPA revenues collected by the Town in the prior year are eligible for matching funds from the State. The match is equal to a percentage determined annually based on available funds for distribution, not to exceed 100% of the receiving community's actual receipts.

The distribution that Needham anticipated receiving on its FY2019 CPA surcharge revenue was \$348,287, but the State provided an additional \$244,092 as a match, which combined totaled \$592,379 for FY2020. The effective state match rate was 23.92%. The total received in FY2021 for FY2020 surcharges was \$754,080 or 28.63% of the prior year surcharge. The initial state distribution to the Town in FY2022 for FY2021 surcharges was \$1,112,652.

Fiscal Year 2024 Proposed Budget

Because the amount was higher than assumed the allocation to the required reserves was not met and required a supplemental appropriation to the Historic Resources and Open Space reserves and the CPC opted to add more to the Community Housing Reserve in order to keep to its stated goal for FY2022 that 20% of receipts would be designated to that reserve. However, the State then released another distribution which the Town received an additional \$126,313 during FY2022 for FY2021. This will require an additional supplemental transfer (appropriation) to the three reserves for a total of \$48,868; refer to the FY2022 Final Minimum Requirement calculation below. The funding source would be the FY2023 General Reserve. The effective distribution rate for FY2022 on the FY2021 receipts was 43.84%

Community Preservation Act Minimum Requirement FY2022 Final	
CPA Commitment	2,950,863
State Contribution	1,238,965
Total Estimated Receipts	4,189,828
Ten Percent	418,983

	Community Housing	Historic Resources	Open Space
FY2022 Original Reservation	764,783		382,391
FY2022 Reservation Supplement (May 2022 ATM)	48,749	29,067	24,375
Less Qualifying Project Appropriations (from FY2022 receipts)			
Town Hall CPA Debt Service		377,699	
Total	813,532	406,766	406,766
Required 10%	418,983	418,983	418,983
Short Fall	None	12,217	12,217
Fund Community Housing at 20%	837,966		
Amount to Transfer to Reserve	24,434	12,217	12,217

We now anticipate the FY2023 total state distribution match for FY2022 receipts will be \$1,131,787. As a result, a supplemental appropriation to the required reserves for FY2023 is necessary as well. The Town will need to transfer a total of \$86,060 from the FY2023 General Reserve to the three required reserves.

Community Preservation Act Minimum Requirement FY2023 Final	
CPA Commitment	3,130,359
State Contribution	1,131,787
Total Estimated Receipts	4,262,146
Ten Percent	426,215

	Community Housing	Historic Resources	Open Space
FY2023 Reservation	809,400	28,050	404,700
Qualifying Project Appropriations (from FY2023 receipts)			
Town Hall CPA Debt Service		376,650	
Total	809,400	404,700	404,700
Required	426,215	426,215	426,215
Short Fall	None	21,515	21,515
Fund Community Housing at 20%	852,430		
Amount to Transfer to Reserve	43,030	21,515	21,515

Fiscal Year 2024 Proposed Budget

We believe the distribution range for FY2024 on the FY2023 revenue will be between 25% and 45% but given the distributions over the past couple of years have been notably higher, we will assume a level dollar distribution. Our **state matching funds** estimate for FY2024 is also **\$1,131,787**. The 2% **CPA surcharge** on FY2024 property tax bills is currently estimated at **\$3,212,000**. The total estimated receipts for FY2024 are currently at \$4,343,787.

The estimate provides for \$82,000 to be appropriated to the Community Preservation Committee's (CPC) administrative budget and \$477,817 to be credited to both the Community Housing Reserve and Open Space Reserve. The \$477,817 figure is approximately 11% of the new revenue estimate for FY2024. Because the final revenue estimate is usually not known until the actual tax rate has been approved and the bills calculated, the practice has been to appropriate an amount of 11% of the revenue estimate to each of the required reserves to better ensure that the minimum CPA use requirement is satisfied. The FY2024 debt budget includes \$ 363,900 of debt service for the Town Hall project and \$ 574,731 of debt service for the Rosemary Recreation Complex. As mentioned previously, FY2024 will also include the Emery Grover renovation and reconstruction project which includes funding from CPA supported debt. The debt service for the project is \$140,000. The Town Hall project was previously designated as a historic preservation project, and the portion of the Emery Grover project that is funded from CPA is also designated as a historic preservation project. The combined debt service for FY2024 for those two projects is \$503,900, which is more than our \$477,817 estimate to be reserved, so no appropriation from CPA receipts for Historic Resources is necessary. The balance of the CPA revenue estimate of \$2,227,522 would be transferred to the Community Preservation Fund General Reserve for FY2024. The amount that is actually appropriated to each reserve would be adjusted as needed based on the CPC's project funding recommendations and Town Meeting votes on those recommendations.

CPA Free Cash for FY2023 has not been certified as yet. After the amount has been determined and declared, the amount remains available for appropriation until June 30, 2023. The FY2023 CPA General Reserve has a balance of **\$1,385,308** and the funds remain available for appropriation until June 30, 2023 as well. The CPA Free Cash and General Reserve will close out to the CPA fund balance after the end of the FY2023 and will not become available for use in FY2024 until after the CPA Free Cash is certified for the year. The Community Preservation Committee (CPC) has not yet made any funding recommendations for FY2024. The amounts currently held in the three required reserves as of December 31, 2022 are as follows:

Community Housing Reserve	\$2,626,652
Historic Resources Reserve	\$ 72,937
Open Space Reserve	\$1,890,345

Fiscal Year 2024 Proposed Budget

Town of Needham Community Preservation Fund Revenue and Appropriations FY2024	
<u>Community Preservation Fund Revenue Estimates</u>	
Surcharge Revenue Estimate	3,212,000
State Trust Fund Distribution Estimate	1,131,787
Revenue Estimate	4,343,787
<u>Community Preservation Fund Appropriation Estimates without Projects</u>	
Town Hall Project Debt Service (GF Debt Budget)	363,900
Rosemary Recreation Complex Project (GF Debt Budget)	574,731
Emergy Grover (GF Debt Budget)	140,000
Community Preservation Committee Administrative Budget	82,000
Community Housing Reserve	477,817
Historic Resources Reserve	0
Open Space Reserve	477,817
Community Preservation Fund Reserve	2,227,522
Appropriation Estimates	4,343,787
<u>Reserve Balances 12/31/2022</u>	
Community Housing Reserve	2,626,652
Historic Resources Reserve	72,937
Open Space Reserve	1,890,345
FY2023 General Reserve*	1,385,308
CPA Free Cash*	Pending
Total Reserves	5,975,242
<u>Specific Appropriation Requests</u>	
NHA Sebeds Cook Preservation	240,308
NHA Linden Chambers	1,000,000
DeFazio Playground Renovation	35,000
Claxton Field	1,000,000
Total Project Requests	2,275,308

*This a single year reserve, any unused balance closes out June 30, 2023.