

Budget Message Toward Sustainability

How can the Town meet the needs of today's residents for improved facilities, expanded classroom space, and decent roads without deferring today's costs to future generations? How can we continue to meet citizen expectations for programs and services within the limited revenue available after accounting for fixed costs?

Attend a conference, read a professional journal, or speak to a colleague in almost any field, and sooner rather than later you will be discussing sustainability – the “issue of our age.” Sustainability is generally viewed as having environmental, social and economic applications, and has two key features: meeting the needs of the present without compromising the ability of future generations to meet their own needs, and improving quality of life while living within the carrying capacity of the supporting environment.¹ While most often viewed in the context of environmentalism, the concept of sustainability will play an increasingly important role in state and local planning and budgeting in the coming decade.

Over the past five years, the Town has worked aggressively to balance its operating budget without recourse to operating overrides whenever possible. We have succeeded in this effort in large part by reducing discretionary programs. The budget was balanced in FY03 by eliminating the entire capital improvement plan (thereby allocating a significant amount of non-recurring revenue for on-going operations, which is unsustainable). In FY04, while the voters approved approximately \$2,450,000 in increased funding for education, public safety, and roads, other municipal department budgets were cut by just under \$500,000, or 3.5% (including more than ten full-time equivalent employees). In FY05, Town Meeting was presented with only a modest capital budget, and department budgets were again reduced to meet a budget gap of more than \$2 million. Based in part on the conversion of our health insurance program to the West Suburban Health Group, we were able to work together to achieve a balanced budget without a Proposition 2 ½ property tax increase in fiscal year 2006. In FY07, voters approved a modest operating override for municipal operations in the amount of \$597,370, although a companion override for the Public Schools, in the amount of \$1,476,017, did not pass, requiring difficult choices on the part of the School Superintendent and School Committee.

Since the advent of Proposition 2 ½, communities like Needham have experienced pendulum swings in budgetary cycles. In good years, revenue is sufficient to build up reserves and add services. In lean years, reserves are drawn down as the community awaits the next up-turn. Unfortunately, there is no hint that an up-turn significant enough to meet the growing demand for services is anywhere on the horizon.

Needham has historically and continues to exhibit best practices for sustainable government. Needham was one of the first local retirement systems to begin addressing the unfunded pension liability in the late 1980's. Similarly, Needham is one of only a handful of cities and towns that has established a funding mechanism for post-employment

¹ Michael Willis, “Sustainability: The Issue of Our Age,” PM Magazine, August, 2006

benefits. Since 2002, the Town has appropriated more than \$2 million toward a current unfunded liability of over \$45 million. Importantly, FY08 marks the first year that we are recommending an appropriation in accordance with the actuarial funding table. For the first time, and similar to the pension system, retiree health insurance would be paid directly from the insurance liability fund under this proposal. Disclosure of unfunded post-employment benefit liabilities is now required by the Government Accounting Standards Board (GASB) under Standard 45, and Needham's efforts in this regard have been identified by Standard and Poor's in the maintenance of the Town's AAA bond rating.

The Town has worked aggressively to secure the maximum amount of State reimbursement for public library and public school construction projects. The Town received a grant of over \$3 million toward the Public Library which opened in FY06. Within the last year, the Town has secured full reimbursement of the State's share of the Newman School project, full reimbursement of the State's share of the Eliot School project, begun receiving payments for the State's share of the Broadmeadow and High School HVAC projects, and begun receiving direct payments for the State's share of the on-going High School construction project.

Finally, the Town has been generally successful in reducing its reliance on appropriating non-recurring funds for operating expenses. Moreover, the Town has established and continues to modestly fund a Capital Equipment Fund, and has refrained from appropriating any portion of the Stabilization Fund toward operating expenses even during the recent fiscal crisis.

Budget in Brief

The FY08 operating budget recommendation totals \$96,867,694, or \$10,688,778 less than the FY07 budget. However, after accounting for the revenue and expense relating to an extraordinary debt service payment by the Commonwealth, spending levels proposed for FY08 are 3.04% percent higher than in FY07. After five very difficult years, the budget picture has moderated slightly in FY08. In FY07, the projected increase in fixed costs (including Town Wide Expenses and Public Facilities) represented over \$2.8 million, or 62% of new revenue. In FY08, that figure is \$882,708, absorbing "only" 32% of new revenue. Moreover, after years of decline or stagnation, the Town received an increase in local aid in FY07. As a result, some funding is available to allocate to the schools and general government departments.

Included in this document, along with the balanced budget, is a performance improvement budget. This budget consists of those items that we recommend that the Board of Selectmen and Finance Committee consider for funding if an operating override is proposed, or if revenue is otherwise made available.

Budgeting Best Practices

In developing the FY08 budget, we have employed the following best practices in order to produce a budget that preserves the Town's fiscal sustainability:

1. Current revenues must be sufficient to support current expenditures.
2. Debt must not be used to fund on-going operating expenses.

3. The use of Free Cash to fund operations should be minimized.
4. Adequate contingency funds should be maintained.
5. Sufficient maintenance and replacement funds should be allocated to ensure that capital facilities and equipment are properly maintained.

Core Budget Priorities

In consultation with the Board of Selectmen, we have adopted the following core budget priorities for non-school operations. These priorities served as a key guideline in our evaluation of departmental spending requests.

Tier A

- Invest in maintenance and/or renovation of capital assets including buildings, fields, and recreation facilities.
- Ensure continued investment in the Town's infrastructure.
- Provide resources to adequately address general administration of the Town, particularly in the areas of records management, performance measurement, customer satisfaction, personnel administration, risk management, and budgetary control.
- Support the acquisition and maintenance of rolling stock and equipment to maintain efficient operations in the Police, Fire, Public Works and Public Facilities Departments.

Tier B

- Maintain the current, modest level of spending on community services (Recreation, Health, Library, Youth, Veterans, Seniors, Disability Committee, Historic Commission, Memorial Park) representing 2.7% of the FY07 operating budget.
- Support new or expanded initiatives that directly improve the Town's ability to address and respond to emergency situations and hazards. (*Note: maintenance of the current funding level for public safety functions is assumed and is a top priority.*)
- Support initiatives that will improve the economic vitality of the Town's business centers.

Tier C

- Achieve an adequate investment in services provided at the newly renovated Public Library.
- Support initiatives aimed at achieving greater coordination and efficiency in land use and community development department operations.

Budget Process

The Town Manager, the Finance Committee, the Board of Selectmen, and the School Committee all play different and important roles in the budget process. The General By-laws of the Town of Needham provides for the following:

Section 2.2.1 Operating Budget

The Town Manager shall issue budget guidelines and instructions for all Town departments to submit their spending requests for the ensuing fiscal year. The Town Manager shall consult with the Finance Committee prior to the issuance of said guidelines and instructions. The Town Manager and/or his/her designee and the Finance Committee shall consult with each other throughout the budget process. The Town Manager and the School Superintendent will provide the Finance Committee with copies of their respective departmental spending requests on or before the 2nd Wednesday of December. Following receipt of these spending requests, the Finance Committee may begin its consideration of same, including the commencement of budget hearings. The Town Manager, after consultation with the Board of Selectmen and School Committee, shall not later than the 31st day of January, present to the Finance Committee a balanced budget recommendation in the form of an executive budget, which shall include the spending priorities of all Town departments for the ensuing fiscal year, including in addition thereto, the voted School Committee budget requests if different than that contained in the proposed balanced budget. The Town Manager's executive budget recommendation shall not be binding on the Finance Committee. Said executive budget recommendation shall include the estimates of Town revenues and proposed expenditures of all Town departments, including debt service and other amounts required to be raised for the ensuing fiscal year. The Town Manager may amend or otherwise revise revenue estimates as may be warranted. All such revisions shall be provided in writing to the Board of Selectmen, School Committee and Finance Committee.

Table 1.1

KEY DATES FOR THE FY 2008 BUDGET PROCESS

Day	Date			Activity
THU	August	17	2006	Town Manager issues capital request guidelines to department managers.
WED	September	6	2006	Town Manager budget consultation with the Finance Committee.
TUE	September	12	2006	Town Manager budget consultation with Board of Selectmen.
THU	September	21	2006	Department capital requests are due. Town Manager issues budget guidelines to department managers.
FRI	September	29	2006	Department spending requests to other departments are due, e.g., building maintenance needs, technology needs, etc.
THU	October	19	2006	Department spending requests are due.

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TUE	December	05	2006	Town Manager consultation with Board of Selectmen and School Committee
WED	December	13	2006	Department spending requests are due to Finance Committee from the Town Manager and School Superintendent
TUE	January	02	2007	FY 2008 – FY 2012 Capital Improvement Plan is Distributed
TUE	January	23	2007	Board of Selectmen opens the May 7, 2007 Annual Town Meeting Warrant
TUE	January	30	2007	Town Manager’s Budget Presentation
WED	January	31	2007	Town Manager’s Budget is due to the Finance Committee
MON	February	05	2007	Warrant articles for 2007 Annual Town Meeting are due to Board of Selectmen.
THU	February	22	2007	Finance Committee’s FY 2008 draft budget is due to the Town Manager
TUE	February	27	2007	Board of Selectmen closes the May 7, 2007 Annual Town Meeting Warrant. <i>(Last regularly scheduled meeting to vote ballot questions for Annual Town Election)</i>
THU	March	15	2007	Finance Committee’s recommendations are due for inclusion in the Annual Town Meeting Warrant.
TUE	April	10	2007	Town Election
MON	May	07	2007	Annual Town Meeting Begins
SUN	July	01	2007	Start of Fiscal Year 2008

Budget guidelines were distributed to departments, boards, and committees on September 21, 2006, with spending requests due on October 19, 2006. The senior management team held numerous budget review meetings during the month of November. Finance Committee and Community Preservation Committee liaisons were invited to attend these meetings in order to prepare for their own deliberations. Discussions with the Board of Selectmen, Finance Committee and School Committee continued during the fall, and the School Committee held a public hearing on the budget for the Needham Public Schools on January 16th. In accordance with the By-law, the voted budget of the School Committee is included for consideration and is listed under the “Performance Budget” category. Departments were asked to use the following guidelines in preparing their spending requests:

Level Service Budget The initial budget requests reflect the amounts necessary to provide the same level of service in FY08 as in FY07. Spending requests include increases for contractual or mandated items, items subject to significant inflationary pressure, and/or any other item deemed appropriate after consultation with the Town Manager. One-time

items funded in FY07 have not been carried forward into FY08 unless they meet the level service test.

Performance Improvement Budget Departments wishing to request additional funding for salary or expense items did so under the performance improvement budget. Priority has been given to performance improvement requests that are critical to the provision of current services, directly related to the identified goals, challenges, and/or opportunities for the department, and identified as core budget priorities by the Town Manager and Board of Selectmen.

Budget Narrative Each Budget Narrative section includes a brief description of the general purpose and primary functions of the department. This section includes a description of revolving funds and related activity for FY06, the nature and amount of fees charged by each department, and fees collected in FY06.

Performance Measures The Performance Measures section of the spending request includes specific objectives for FY08, challenges and/or opportunities the department expects to encounter in the next three to five year period, and indicators of workload or performance.

Budget Format

As in previous years, we continue to recommend that the “purchase of service” and “expense” line items be presented to Town Meeting as one line. We have included the breakdown of each for informational purposes. Combining the lines will significantly impact the operational efficiency of General Government departments, as they will not need to wait until a Town Meeting to move funds from one line to another. For example, a department that has an expense line for vehicle supplies cannot currently pay for a vehicle to be repaired at a private facility, which is considered a service. The FY08 budget also represents the first year that the Youth, Veterans and Council on Aging Departments have been consolidated into the Diversified Community Social Services Department. Finally, projected expenses for retiree health insurance have been segregated from active employees and reallocated to the Insurance Liability Fund.

Fiscal Partnership with the Commonwealth

The Massachusetts Municipal Association (MMA) has been working to help cities and towns reestablish a fiscal partnership with the Commonwealth. The cornerstone of the MMA plan is a fixed share revenue policy, which has been endorsed by the non-partisan Massachusetts Taxpayers Foundation (MTF). MTF recommends dedicating 40 percent of income, sales and corporate taxes to the state’s major local aid accounts. “This MTF proposal would restore the deep cuts in aid during the state’s fiscal crisis and expand future aid for our cash-strapped municipalities. Cities and towns face a long-term financial crunch due to dependence on uncertain state aid, rapidly rising costs, particularly for employee health care, and limited ability to raise revenues. The proposal would give local taxpayers much needed relief, while providing local officials with a degree of certainty about the ongoing share of state resources on which they can rely.”²

² “The Long-Term Mismatch between Available Resources and Important State Priorities,” MTF, September 2006

At the 2007 MMA Annual meeting, newly elected Governor Deval Patrick said that he supports “predictable, equitable and adequate local aid” and pledged not to close the projected state budget gap on the backs of local government.³

Lottery Aid, historically intended for cities and towns, was diverted for other State spending between FY02 and FY06. We estimate that **\$1,138,022** in revenue that would have been provided to Needham in accordance with the Lottery formula was subject to diversion. On a positive note, the FY07 State budget ends the Lottery diversion in its entirety. However, the outlook for Lottery revenue is cautionary: “There is also growing concern about State lottery revenue this year and next. Lottery revenue so far this year is running far below the amount needed to fund the \$920 million distribution on the fiscal 2007 Cherry Sheets and is on track to be short of funding any increase in fiscal year 2008.”⁴ Needham received a **19.5%** increase in lottery funding in FY07, or **\$316,766**.

The major categories of **Non-School Aid** have been reduced by **\$149,175** or **42%** since FY01:

Table 1.2
Non-School Aid FY01 – FY07

	<u>Additional Assistance</u>	<u>Gasoline Tax</u>
FY01	\$259,216	\$95,952
FY02	\$259,216	\$23,958
FY03	\$242,345	\$0
FY04	\$205,993	\$0
FY05	\$205,993	\$0
FY06	\$205,993	\$0
FY07	\$205,993	\$0

The **School Aid** picture is mixed. While Chapter 70 funding increased by **\$527,325 (13.7%)** in FY07, State funding for education remains **\$138,724** below the FY03 level:

Table 1.3
Total School Aid FY01 – FY07

	<u>Chapter 70</u>	<u>School Transportation</u>
FY01	\$4,152,973	\$179,030
FY02	\$4,504,997	\$140,339
FY03	\$4,504,997	\$149,373
FY04	\$3,603,998	\$0
FY05	\$3,603,998	\$0
Fy06	\$3,838,948	\$0
FY07	4,366,273	\$0

³ “Gov. Patrick Meets with Local Officials,” MMA Website, January 13, 2007

⁴ “Deleo to House: State Faces a Tough Budget Year,” MMA Website, January 26, 2007

Coupled with only modest growth in State aid and local receipts, the Town is grappling with growing service demands in all sectors – calls for emergency services, an increasing elderly population, and most visibly a growing school age population. The number of students in the Needham Public Schools grew more than 21% since 1996. The impact of a growing school age population has ramifications beyond the budget for the Needham Public Schools and Public Facilities Departments – this population is also served by the Park and Recreation Department, the Park and Forestry Division of Public Works, the Youth Commission, public safety departments and others.

Table 1.4

**Needham Public Schools Enrollment
1996/1997 - 2006/2007**

	<u>Enrollment</u>	<u>Percentage Change</u>
1996/1997	4,110	
1997/1998	4,281	4.2%
1998/1999	4,303	0.5%
1999/2000	4,334	0.7%
2000/2001	4,374	0.9%
2001/2002	4,439	1.5%
2002/2003	4,565	2.8%
2003/2004	4,667	2.2%
2004/2005	4,838	3.7%
2005/2006	4,915	1.6%
2006/2007	4,979	1.3%

1996/1997 - 2006/2007 Increase:	21.1%
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Source: Future School Needs Committee Annual Reports

Personnel and Benefits Costs

A significant share of municipal spending is allocated to salaries and personnel-related costs such as retirement and health insurance. Annual increases in salary line items over the past six years have generally mirrored the overall increase in revenue (4% overall; 5% for the Needham Public Schools and 3% for General Government Departments). However, increasing fixed costs over that same period have absorbed the majority of new revenue, resulting in budget cuts or override requests. The number of full-time equivalent employees over the same six-year period for General Government Departments has actually declined by .4%, while School Department FTE's grew by 7% since FY03 (see Table 1.5).

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Table 1.5

**Full-time Equivalent Employees
FY01 to FY07**

	Funded FY01	Funded FY02	Funded FY03	Funded FY04	Funded FY05	Funded FY06	Funded FY07	FY01-07 % Change
BOS/TM	6.8	6.8	6.8	6.8	6.8	6.8	6.7	-1%
Town Clerk	4.4	4.4	4.4	4.4	4.4	4.4	4.4	0%
Finance	22.9	22.9	22.8	20.7	20.7	20.7	21.7	-5%
Finance Committee	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0%
Police	58.0	58.0	58.0	58.0	58.0	58.0	58.0	0%
Fire	75.0	75.0	75.0	75.0	75.0	74.0	74.0	-1%
Building	6.3	5.9	5.9	5.9	5.9	7.2	7.2	15%
DPW	85.0	88.0	88.0	84.0	85.0	85.0	87.0	2%
Public Facilities	54.1	52.1	56.1	52.1	53.7	50.5	50.5	-7%
Health	5.4	5.5	5.5	5.5	5.5	5.5	5.5	2%
Div. Comm. Social Serv.	9.5	9.5	9.5	9.4	9.4	9.4	8.9	-6%
Planning	2.0	2.0	2.0	2.0	2.0	2.0	2.4	20%
Board of Appeals	0.3	0.3	0.3	0.3	0.6	0.6	0.6	100%
Conservation	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0%
Library	18.6	18.6	18.6	18.0	18.0	20.0	20.0	7%
Park and Recreation	4.0	4.0	4.0	4.0	4.0	4.0	4.0	0%
Total	353.5	354.2	358.1	347.2	350.1	349.3	352.1	-0.4%
Needham Public Schools FY03 - FY07 Change			509.0	519.4	531.7	548.1	542.7	7%

Controlling the growth in municipal health costs has been the subject of many research projects and task force reports over the past few years. Municipal health insurance programs are strictly regulated by State law and are subject to collective bargaining. As a result, the Town is limited in its ability to control costs. However, at an average of 66%⁵, the Town's contribution to employee health care costs is among the lowest in the Commonwealth. Moreover, the Town recently elected to join a purchasing group, which has had a positive impact on the growth in premiums. The Town continues to see an increase in the number of employees and retirees participating in the plan, as private sector companies reduce or eliminate family and/or retiree coverage, with total enrollment up 23% since FY97.

Table 1.6

⁵ On a weighted average basis, the Town contributes 71% of the health insurance premiums for active employees, 61% for retirees, and 66% overall.

**Health Insurance Enrollment
FY1997 - 2007**

Fiscal Year	Town	School	Total Actives	Retirees	Total Active & Retired
FY95	251	350	601	664	1,339
FY96	249	364	613	700	1,377
FY97	241	370	611	661	1,272
FY98	243	404	647	646	1,293
FY99	276	389	665	660	1,325
FY00	282	406	688	649	1,337
FY01	286	422	708	673	1,381
FY02	293	426	708	665	1,373
FY03	292	439	731	704	1,435
FY04	285	474	759	716	1,475
FY05	305	491	796	750	1,546
FY06	298	507	805	759	1,564
FY07	304	492	796	771	1,567
Total Change					
FY97-FY07	26%	33%	30%	17%	23%

Capital Budget Summary

The focus of this document is the FY08 General Fund, Enterprise Fund, and Community Preservation Fund budgets. The FY08 – FY12 Capital Improvement Plan (CIP) is published as a separate document. Section 6 of this document contains the executive summary of the FY08-FY12 CIP. An integral part of the balanced budget proposal contained herein, however, is the funding of capital and other non-recurring items (financial warrant articles) with non-recurring revenue. We continue to recommend that not more than \$2 million of Free Cash be appropriated for operating expenses. Therefore, just over \$1.2 million of the \$3.2 million certified Free Cash amount has been recommend for cash capital spending.

Financial Warrant Articles/Other Appropriations

We intend to recommend the following financial warrant articles and other appropriations:

1. Household Hazardous Waste Collection (Solid Waste Enterprise) \$8,000
2. Compensated Absences Fund \$100,000
3. Senior Corps Program \$10,000
4. General Fund Contribution \$443,500
5. Miscellaneous and Non-Recurring \$75,000

A recommendation for appropriation to the Capital Improvement Fund, in accordance with the standard formula, is also forthcoming.

Challenges Ahead

The Town has a critical need for investment in public infrastructure, including buildings, roads, fields, water mains, and the like, which will require creative approaches to meet the goal of equitable distribution of the debt burden among generations. The Town is working with a private, non-profit organization which is raising funds to begin the renovation of the Memorial and DeFazio complexes. Future phases will likely compete for Town funding. The Town is also beginning the implementation of the Facility Master Plan, with design for a sixth grade center at High Rock approved by the November 1, 2006 Special Town Meeting. A second project, the conversion of the Morse-Bradley Estate at Ridge Hill Reservation to be used as a Senior Center, is also underway. The recently released Facility Master Plan includes many other urgently needed projects. To this end, we recommend the establishment of a capital facility stabilization fund to begin the process of saving for the known and extraordinary expenses identified on the plan.

The Town is also embarking on an effort to ensure the continued economic vitality of its business districts in order to maintain both the sense of community and tax revenue generated by a thriving business sector. The downtown design study was funded through a combination of Town appropriation, a smart growth grant from the Commonwealth of Massachusetts, and contributions from local business and property owners. This on-going and highly dynamic process will engage the Town in a focused and prioritized planning effort to improve the downtown area. The intent is to present any necessary zoning changes to the fall, 2007 Special Town Meeting.

Conclusion

So how do we begin our progress toward sustainable government? Earlier this month, I was fortunate to accompany 11 individuals to the Mississippi Gulf Coast through Needham Cares. Needham Cares is one of many Needham-based service organizations dedicated to improving the quality of life for fellow citizens. Needham Cares provides financial, emotional, and physical support to residents in the Gulf Coast who have limited access to the resources necessary to rebuild their homes and neighborhoods. The work of this organization is illustrative of the sense of community that still flourishes in Needham, and represents sustainability in its purest state – citizens using the resources they already have to improve the quality of life for their neighbors. This spirit, then, represents that intangible factor that may be our only hope for turning an unsustainable financial model to one that balances resources and community expectations.

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Logan, Patty Carey, Ann MacFate, Dan Walsh, Kristen Phelps, Steve Popper, Mark LaFleur, and Chip Davis.

Respectfully Submitted,

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