

Finance Committee
Town of Needham
1471 Highland Avenue
Needham, MA 02492

February 19, 2013

Ms. Kate Fitzpatrick
Town Manager
Needham Town Hall
1471 Highland Avenue
Needham, MA 02492

Re: Needham Finance Committee- Fiscal Year 2014 Draft Budget Recommendation

Dear Ms. Fitzpatrick:

On behalf of the Finance Committee, I am pleased to enclose our draft balanced budget recommendation for the fiscal year 2014. Our recommendation, which totals \$123,590,136, is \$21,458 lower than your recommended budget, reflecting a revised contribution to the RTS from the General Fund. This revision resulted from a calculation of the RTS contribution using updated data, in accordance with the policy that was jointly approved by the Board of Selectman and the Finance Committee.

Our recommended budget largely tracks your recommended budget with respect to the operating departments, with the following exceptions, listed in the order of their sequencing on the attached spreadsheet.

Fire Department	Municipal Lighting Program
Building Department	Department of Public Facilities
Minuteman Reg. School Assessment	Health Department
Department of Public Works	

The specifics of our recommendations for each one of these departments are detailed below. But before turning to those specifics, some discussion of the amount recommended for the Needham Public Schools is appropriate, even though our recommended total is identical to yours. While this figure represents an increase of 5.6% over last year's budget, we are in agreement that the combination of anticipated salary increases stemming from the new teachers' contract currently under negotiation, the need to continue to address our high student-teacher ratios and enrollment growth, particularly at the Middle and High School grades, warrants such an increase. Notwithstanding this, as you are well aware, the School Committee voted a budget that is \$309,527 greater than your recommended budget. This difference can be broken down as follows; approximately \$142K as a reserve against the potential that the so-called Federal Sequester becomes a reality and \$167K in expenses. We have advised the School Committee to

structure their budget on the assumption that the Sequester does not adversely impact the School Department's operations. In the event that an adverse impact does develop, however, we will work with both the School Department and the School Committee to address this issue, including providing support from the Reserve Fund, if necessary. (As explained more fully at the end of this letter, this is one of the reasons that we believe that a Reserve Fund that is higher than normal is appropriate.) We understand that the School Department and Committee are working to identify reductions of this amount. We recognize that our proposed budget level is, nonetheless, below what the School Department and the School Committee believe is necessary to maintain level services. The Finance Committee wants to go on record as expressing its deep appreciation and respect for the positive approach that they both have taken at liaison and full Committee sessions as we have collectively addressed the difficult process of reconciling competing challenges.

Departmental Budgets

As mentioned above, the following discussion identifies the specific changes to your recommended budget.

Fire Department: While we fully support the acquisition of a radio remote satellite receiver at the Charles River Water treatment facility, we believe that this one-time expenditure is more appropriately addressed through a year end transfer from the FY13 Reserve Fund as a warrant article at the May Special Town Meeting. This results in a decrease of \$11,425 to this line item. We have included the recurring expenses related to the receiver in the Fire Department expense budget. While on the subject of the Fire Department, we take note of the fact that the Department has taken pains to extend the useful lives of many of its staple items. While this has kept its year over year budget increases at modest levels, it is quite likely that necessary equipment replacement may necessitate an above normal increase in the FY15 budget. This is quite understandable and the Finance Committee will be sure to make this clear in both its written and oral communication to the Town Meeting members. Any other posture would have the effect of penalizing a Department for commendable stewardship of Town resources.

Building Department. We have proposed an increase of \$52,562 to this Department's budget, in recognition of the current and anticipated increased permitting and inspection activities. We are proposing that the requested positions of Department Assistant 2 and Part Time Local Building inspector be funded in lieu of the increased hours for the Substitute Inspector provided for in your proposed budget. The net cost on this budget line is the \$52K figure quoted above. In addition, we are proposing an additional \$15,000, to the Employee Benefits line under Town Wide expenses to cover the associated benefit costs.

Minuteman Regional School Assessment. Our proposed budget reduces this line item by \$5,595, consistent with the revised estimate received after submission of your proposed budget.

Department of Public Works. Our budget reduces this line item by \$22,180, reflecting our conclusion that, as was the case last year, it is unlikely that the Garage Division will expend the full requested amount of vehicular repair parts.

Municipal Lighting Program. We are proposing a reduction of \$10,000, in this line item, relative to your proposed budget, reflecting our conclusion that the proposed expenditures for repairs are overstated by at least that amount. We recognize, of course, that repairs to damaged poles are not optional and must be done if the situation presents itself.

Department of Public Facilities. We have reduced this line item by \$50,000, reflecting our conclusion that the energy budget is overstated by at least this amount. Our conclusion is driven largely by our projection of the natural gas costs for heating the Newman School. We believe that the estimate that was submitted for this new heating unit was too conservative. Again, heating the School is not a discretionary matter, and may necessitate a Reserve Fund transfer if this situation presents itself.

Health Department. We have added \$10,000 to this line item to increase the funding of the Riverside Home Based Care Program from \$60,000 to \$70,000. This program is directed at home visits for high risk adults, and the requested increase responds to an identified need for more services.

Cash Capital. At this point of our process we have not concluded our consideration of cash capital. Nonetheless, we have discussed the “timing” phenomenon that is being presented this year because of the review process at the DOR. While this will necessitate a two stage approach, we believe that both “stages” should be part of one comprehensive plan. We look forward to working out the details of this approach.

Town Wide Expenses. We very much appreciated the briefing that we received from the Actuarial Consultant at our meeting on February 13th. We remain fully committed to the principle of full and consistent funding of both the Retirement and OPEB Funds. Indeed, the long term financial benefit of over funding those accounts, if the opportunity is presented, is compelling and needs to be a “front of mind” consideration.

Reference was made to the Reserve Fund earlier in this letter. This account has been increased by 4.9% over the FY13 budget, compared to an increase of 4.65% for the Operating Budget, including the Schools. We believe that this is appropriate. In addition to the “normal” exposure of the Reserve Fund to adverse developments in Operations, the Town will be faced with the potential of the Federal Sequester. The School Department has estimated that its exposure is in the neighborhood of \$140K. Other Departments, such as Police, Health, Human Services and the Library have exposure as well, an exposure that has not been quantified. An overall potential exposure in excess of \$500K is not unreasonable. Moreover, it is quite likely that the dimensions of the financial impact of the Sequester, if it does occur, may take months to be clarified; a time period stretching well beyond our budget cycle. Consequently we believe that it is prudent to provide for more capacity in our Reserve Fund.

Even if the Sequester does not become a reality, it seems inescapable that some significant portion of the monies that we receive from external sources- the Federal Government and the Commonwealth of Massachusetts, for example- is vulnerable at this time. While there is no reason to believe that the return of the tax dollars that we pay to these entities will be cut off completely, there is every reason to expect that the return could be diminished. We estimate that,

today, some 15- 20% of the services the residents of the Town of Needham receive are financed from these and other “external” sources. To the extent that these sources are diminished, we will be faced with the choice of reducing the level of services that we receive or finding alternative funding sources for those services. This will be challenging to say the least. One example of this in the Finance Committee’s FY14 draft budget is the funding for two part-time van drivers for the Council on Aging that were previously covered by grants and private donations. We need to develop an approach for understanding the choices we will be faced with and how to go about making those choices in a balanced and thoughtful manner.

Please let us know if you or the Board of Selectmen would like to meet with the Finance Committee to discuss our budget recommendations, or any of the other points that we have raised in this letter, prior to the time we vote the budget for the Warrant. We expect that will likely occur on March 6th.

The Finance Committee wants to thank you, the Finance Director, the Director of Operations, the Department Managers, the School Superintendent and the School Department staff for the cooperative and constructive manner which all parties evidenced throughout the challenging process of arriving at a reasonable, balanced budget.

Sincerely,

Richard M. Reilly
Chair
Needham Finance Committee.