

**Revenue Summary**Revenue Summary  
Table 2.1

Description	FY16 Budget	FY17 Recap	FY18 Estimate	\$ Change
General Fund	146,035,854	153,405,557	164,586,059	11,180,502
Enterprise Funds	16,633,237	16,025,446	16,584,379	558,933
Community Preservation Fund	6,057,514	3,723,750	6,435,994	2,712,244
				0
<b>Total Revenues*</b>	<b>168,726,605</b>	<b>173,154,753</b>	<b>187,606,432</b>	<b>14,451,679</b>

\* Revenue before adjustments, reimbursements, and subsidies

**GENERAL FUND**

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 revenue for FY2018 will increase by more than \$14 million or 8.3%. However, the total revenue estimated for FY2018 includes significantly more one-time monies and use of reserves, especially Free Cash than in previous years. The actual amount of Free Cash available for appropriation is not yet known, but we estimate the amount to be between \$8.6 to \$11.9 million. This plan includes setting aside funds into the various stabilization funds so as not to reduce reserves too much to cause concern for the credit rating agencies and bond holders, which could jeopardize the Town's Triple A rating and consequently increase interest expense which in turn increases the amount that must be raised on the tax levy.

Summary of General Fund Resources  
Table 2.2

Description	FY14 Actual	FY15 Actual	FY16 Actual	FY17 Recap	FY18 Estimate	\$ Change
Property Taxes	105,364,396	112,610,696	118,981,810	124,789,790	131,326,394	6,536,604
State Aid	10,372,414	10,641,851	10,760,537	11,163,358	11,163,358	
Local Receipts	11,216,189	11,605,268	13,023,475	9,681,380	10,415,500	734,120
Other Available Funds	1,344,380	645,026	1,589,850	1,580,657	3,080,807	1,500,150
Free Cash	8,135,372	4,152,348	5,931,875	6,190,372	8,600,000	2,409,628
<b>Total General Fund Revenue</b>	<b>136,432,751</b>	<b>139,655,190</b>	<b>150,287,548</b>	<b>153,405,557</b>	<b>164,586,059</b>	<b>11,180,502</b>
<i>Adjustments to General Fund Revenue</i>						
Other Amounts Required to be Raised or Otherwise Provided	(466,375)	(516,289)	(124,949)	(49,085)	(99,795)	(50,710)
State & County Assessments	(1,273,564)	(1,259,920)	(1,281,984)	(1,299,850)	(1,332,346)	(32,496)
Provisions for Abatements & Exemptions	(2,151,633)	(3,258,232)	(3,009,775)	(1,855,476)	(1,268,000)	587,476
Adjustments, Reimbursements & Subsidies	1,668,967	1,696,408	1,341,813	1,375,433	1,263,000	(112,433)
CPA Share of Debt Service	711,000	475,763	464,438	456,313	449,163	(7,150)
<b>Total</b>	<b>(1,511,605)</b>	<b>(2,862,270)</b>	<b>(2,610,458)</b>	<b>(1,372,665)</b>	<b>(987,978)</b>	<b>384,687</b>
<b>Available for General Fund Appropriation</b>	<b>134,921,146</b>	<b>136,792,920</b>	<b>147,677,090</b>	<b>152,032,892</b>	<b>163,598,081</b>	<b>11,565,189</b>

Table 2.2 shows total revenue available for General Fund appropriations projected at **\$163,598,081** or **\$11,565,189 more than FY2017**. Revenue from property tax is estimated to grow by approximately \$6.5 million, state aid is assumed level funded, and local receipts are projected to increase by \$734,120. The amount of Other Available Funds is approximately \$1.5 million more than was used for FY2017. Free Cash is estimated at \$8.6 million for FY2018. The

estimated total adjustment to General Fund revenues is \$384,687 less (meaning more revenue available) in FY2018 compared to FY2017. 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.

## **FY2018 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 as of January 1, 2016 was \$9,241,074,496. This puts the tax levy ceiling at \$231,026,862. The tax levy including debt exclusions for FY2017 was \$124,789,790, 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 FY2018 tax levy attributable to new growth is estimated based upon consultation with Assessing and Building Departments.

Fiscal Year Tax Levy  
Table 2.3.1

Description	FY14 Budget	FY15 Budget	FY16 Budget	FY17 Recap	FY18 Estimate	\$ Change
Prior Year Base	93,758,800	98,926,269	106,872,486	113,231,868	118,982,082	
2-1/2 Allowance	2,343,970	2,473,157	2,671,812	2,830,797	2,974,552	
New Growth	2,823,111	3,922,530	3,684,955	2,919,417	2,379,642	
General Override		1,548,410	0	0		
Excess Levy (Taxes Not Raised)	(27,754)	(118,456)	(12,672)	(79,155)		
General Tax Levy Limit	98,898,127	106,751,910	113,216,581	118,902,927	124,336,276	5,433,349
Total Excluded Debt	8,016,076	7,352,024	6,869,980	6,675,456	7,766,073	
Less Excluded Debt Offsets	(906,091)	(800,174)	(794,698)	(788,593)	(775,955)	
Excluded Debt to be Raised on Tax Levy	7,109,985	6,551,850	6,075,282	5,886,863	6,990,118	1,103,255
Property Tax Levy	106,008,112	113,303,760	119,291,863	124,789,790	131,326,394	6,536,604
Collections by Year End	105,364,396	112,610,696	118,981,810			

### **Property Tax Levy**

The property tax levy (Table 2.3.1) represents approximately 79.8% of all general fund revenues before adjustments. The FY2018 property tax limit is estimated to increase approximately 5.2% over the FY2017 actual tax levy, or approximately \$6.5 million. The tax revenue to support operations within the levy limit is increasing by an estimate of 4.6% over FY2017. Property tax New Growth revenue has been much higher on average during the fiscal 2014 – 2016 period, but showed a decrease in the amount for FY2017, and is anticipated to be similar in FY2018. The limit is calculated by increasing the FY2017 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 FY2017 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 nearly \$5.4 million over the FY2017 base levy. The amount of tax excluded debt that is to be paid by property taxes is estimated to increase by 18.7% or \$1,103,255 more for FY2018, than was part of the FY2017 tax levy (see Table 2.3.2). The increase is a result of the debt exclusion approved by the Voters at the November 8, 2016 election for the purchase of land and construction of a new elementary school on that land.

Debt Exclusions Added to Tax Levy  
Table 2.3.2

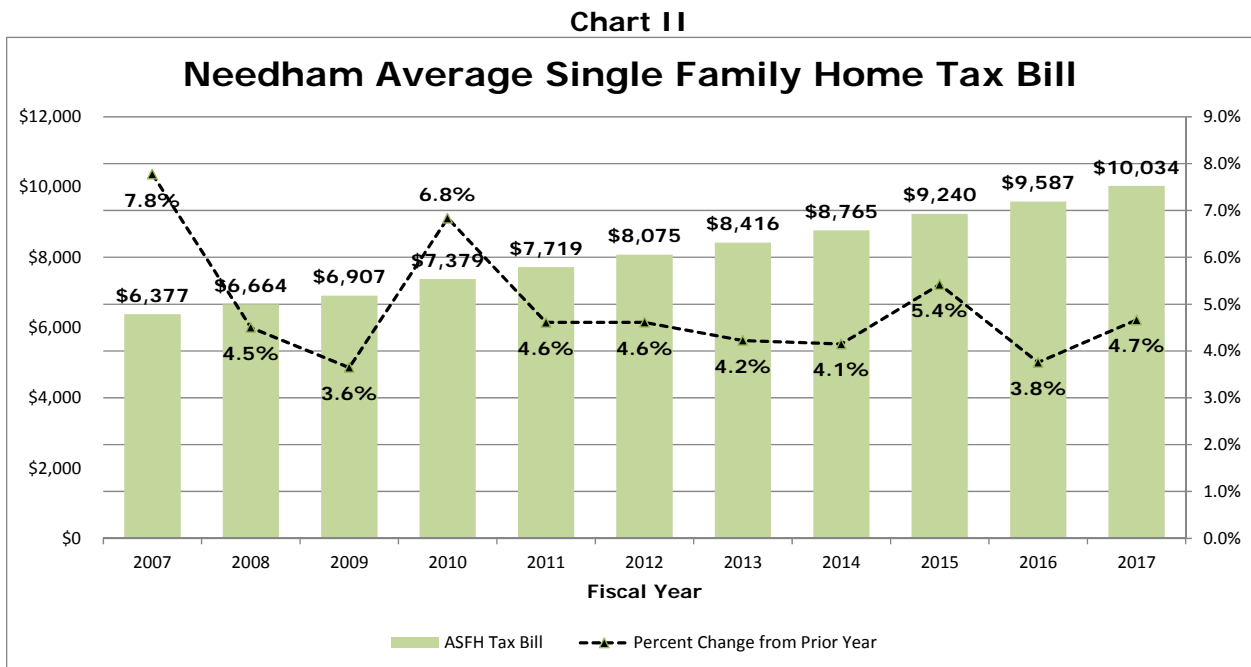
Description	2014	2015	2016	2017	2018
<b>Debt Service</b>					
Broadmeadow School	939,450	914,325	886,300	857,150	828,300
Eliot School	390,694	421,594	379,174	359,405	346,840
High Rock & Pollard Schools	1,398,679	1,369,869	1,345,406	1,319,122	1,257,541
High School	2,047,069	1,999,931	1,946,415	1,885,080	1,774,365
Library	1,088,046	1,057,445	933,750	902,000	870,550
Newman School	2,152,138	1,588,861	1,378,935	1,352,700	1,327,065
Central Avenue Elementary School Wiswall					1,361,412
<b>Total</b>	<b>8,016,076</b>	<b>7,352,024</b>	<b>6,869,980</b>	<b>6,675,456</b>	<b>7,766,073</b>
General Tax Levy	98,898,127	106,751,910	113,216,581	118,902,927	124,336,276
Excluded Debt as a % of the General Tax Levy	8.1%	6.9%	6.1%	5.6%	6.2%
<b>Offsets and Credits</b>					
MSBA Credits	(695,148)	(695,148)	(695,148)	(695,148)	(695,148)
Premium Credits	(126,271)	(105,026)	(99,550)	(93,445)	(80,807)
Other Adjustments	(84,672)				
<b>Total</b>	<b>(906,091)</b>	<b>(800,174)</b>	<b>(794,698)</b>	<b>(788,593)</b>	<b>(775,955)</b>
<b>Net Raised on Tax Rate</b>	<b>7,109,985</b>	<b>6,551,850</b>	<b>6,075,282</b>	<b>5,886,863</b>	<b>6,990,118</b>
Total Tax Levy	106,008,113	113,303,760	119,291,863	124,789,790	131,326,394
Net Excluded Debt as a % of the Total Tax Levy	6.7%	5.8%	5.1%	4.7%	5.3%

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. New Growth tax revenue has been very good the past three years compared to peer-communities. As noted earlier, both residential and commercial activity has been exceptionally strong during the last 36 months with major developments in Needham Crossing. We anticipate additional new construction activity in Needham Crossing in the coming months as well as some new multifamily residential construction that has been permitted. 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.

<b>Average Single Family Home Tax Bill Area Communities</b>	
<b>Municipality*</b>	<b>FY2017</b>
Weston	\$19,380
Wellesley	\$14,333
Concord	\$13,895
Lexington	\$13,506
Wayland	\$12,529
Sudbury	\$12,520
Belmont	\$11,950
Winchester	\$11,946
Newton	\$11,346
Westwood	\$10,596
<b>Needham</b>	<b>\$10,034</b>
Bedford	\$9,508
Milton	\$8,475
Arlington	\$7,803
Walpole	\$7,168
Natick	\$7,144
Dedham	\$6,621
Framingham	\$6,138
Norwood	\$4,658
<b>Group Average (excluding Needham)</b>	<b>\$10,529</b>
<b>State-Wide Average</b>	<b>\$5,621</b>

**Source: DOR**  
\*Because DOR does not calculate the ASFH tax bill for Brookline and Watertown, those communities are not included in this sample.

The most current state-wide data available from the Department of Revenue shows that the average single family home (ASFH) property tax bill for FY2017 in the Town of Needham was \$10,034. This places Needham's average single family home property tax bill in middle of 19 nearby or comparable communities (chart on previous page), but well over the state-wide average of \$5,621. 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 FY2017 was \$10,529, which is 4.0% more than the average of those communities in FY2016 (\$10,123). The average single family home tax bill in Needham for FY2016 increased by 4.7% from FY2016 (\$10,034 vs \$9,587). Chart II, below shows the ASFH tax bill and the percent change from the prior year for the period of FY2007 to FY2017.



**State Aid**

Most State aid, especially Cherry Sheet aid, is a function of the State budget. The Governor is not required to file his FY2018 state budget plan until the fourth Wednesday in January, which will be after the release and presentation of the Town Manager's Balanced Budget for FY2018. For the purposes of this estimate, we have assumed level-dollar funding for all State aid programs for FY2018. 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 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

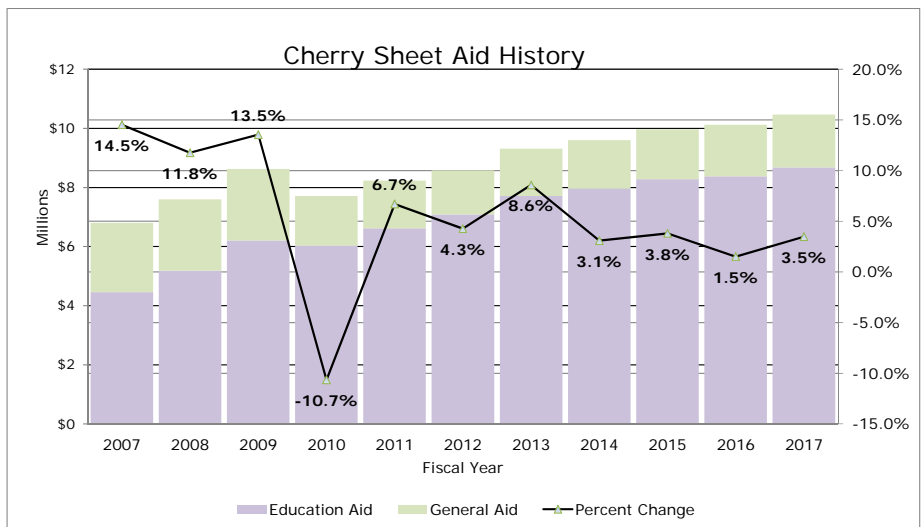
entire process, amendments are usually made which can alter the amount of aid the Town will actually receive.

State aid (Table 2.4) represents approximately 6.8% of the total general fund before adjustments and offsets. As noted earlier, the Governor’s budget plan is not expected until January 25, 2017 and is assumed to be level funded. The Governor’s budget proposal is subject to review and amendment, and final figures are not expected until late spring.

Description	FY14 Actual	FY15 Actual	FY16 Actual	FY17 Recap	FY18 Estimate	\$ Change
Chapter 70 School Transportation School Construction Assistance	7,901,802	8,239,740	8,373,790	8,671,395	8,671,395	
Charter School Tuition	41,218	4,381	1,460	4,334	4,334	
Charter School Capital						
Homeless Transportation	15,263		5,355			
School Lunch	33,774	33,884				
<b>State Aid for Education</b>	<b>7,992,057</b>	<b>8,278,005</b>	<b>8,380,605</b>	<b>8,675,729</b>	<b>8,675,729</b>	
Unrestricted General Government Aid	1,511,453	1,553,368	1,609,289	1,678,488	1,678,488	
Police Career Incentive						
Veterans Benefits	24,287	30,529	28,450	28,495	28,495	
Exemption Reimbursements	118,871	47,407	9,538	48,913	48,913	
Public Library Aid	30,598	37,394	37,507	36,585	36,585	
<b>State Aid for General Government</b>	<b>1,685,209</b>	<b>1,668,698</b>	<b>1,684,784</b>	<b>1,792,481</b>	<b>1,792,481</b>	
<b>Total Cherry Sheet Aid</b>	<b>9,677,266</b>	<b>9,946,703</b>	<b>10,065,389</b>	<b>10,468,210</b>	<b>10,468,210</b>	
MSBA Payments	695,148	695,148	695,148	695,148	695,148	
Other State Aid	695,148	695,148	695,148	695,148	695,148	
<b>Total State Aid</b>	<b>10,372,414</b>	<b>10,641,851</b>	<b>10,760,537</b>	<b>11,163,358</b>	<b>11,163,358</b>	

**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

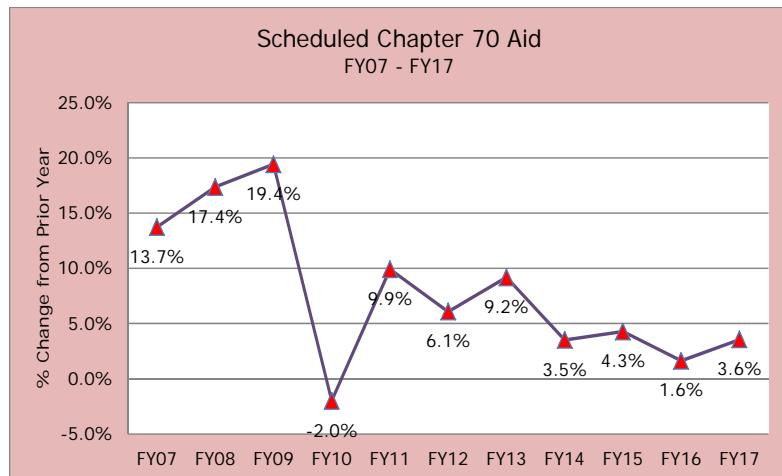


aid, i.e., funds that must be spent for specific programs. The funds received under programs designated as Offset Items may be spent without appropriation by the Town for the intended purpose (see Adjustments to General Fund Revenue). All other receipt items on the Cherry Sheet are considered revenues of the Town's general fund and may be spent for any purpose, subject to appropriation. We have assumed Cherry Sheet aid will be level dollar.

**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 takes into account 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. With the FY2007 amendments to the program, the State's goal was to get each school system to its Foundation Budget within five years by a combination of local and State monies. 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.

The Town of Needham saw an increase in Chapter 70 funding from FY2007 through FY2009, but during fiscal year 2009 the Governor reduced the amount of Chapter 70 aid for Needham from the \$6,118,846 that was appropriated to \$5,475,362, a loss of \$643,484. This cut by the Governor to the local aid programs was due to the significant drop in state tax receipts as the recession became worse. The Town received \$5,996,469 in FY2010, although less than what the Town was budgeted to receive in FY2009, it was an increase over the amount that was actually received from the Commonwealth in FY2009. Each year thereafter, the Town received increases in Chapter 70: FY2011 \$594,488 or 9.9% more, FY2012 \$400,763 or 6.1% more, and FY2013 the amount was \$642,270 or 9.2% more. After FY2013, the State continued to increase funding for Chapter 70 but the rate of increase for Needham was lower. The Town received \$267,812 more in FY2014 or 3.5%, and then \$337,938 more in FY2015, an increase of 4.3%, followed by \$134,050, an increase of 1.6% in FY2016. The FY2017 Cherry Sheet estimate shows that Town will receive \$297,605 or 3.6% more than FY2016. For the reasons previously mentioned, we have assumed level funding for FY2018

**Chart III**



The Additional Assistance and Lottery aid programs were consolidated into a new aid category called **Unrestricted General Government Aid (UGGA)** in FY2010. The combination of these two programs resulted in a net loss of \$422,882 from what the Town actually received in FY2009, and \$634,600 from what the State had budgeted for the Town. The Town received \$1,476,550 in FY2011, a loss of \$61,523 from FY2010. The FY2012 UGGA amount was \$1,369,789 or \$106,761 less than FY2011. The Town received

\$1,476,550 in UGGA funds in FY2013, the same amount as FY2011, and received \$1,511,453 in FY2014 or \$34,903 more. The Town received \$1,553,368 in FY2015 and \$1,609,289 was received in FY2016, an increase of \$55,921 over FY2015. The Town is scheduled to receive 1,678,488 or 4.3% more in FY2017 over FY2016, an increase of \$69,199. We have assumed no increase for FY2018.

The total for all the **other Cherry Sheet aid** programs that have been identified for Needham - charter school tuition, veterans' benefits, property tax exemption reimbursements, and aid to public libraries total \$118,327 for FY2017, and we have assumed level funding for FY2018. The school lunch program was removed from the Cherry Sheet distribution beginning in FY2016. The program is now a direct grant.

The Town is also expecting the eleventh 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 allows the **Massachusetts School Building Authority** (MSBA) to capture its share of the lower debt costs. The MSBA will continue making payments for its share of the school project at **\$695,148** annually through FY2023, the last year of the bond. 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. The Town issued refunding bonds during FY2015 for the Eliot School project and one of the High School project-related bonds. The result of the sale of these two bonds was a decrease in the overall interest expense, and the annual interest payments. Because both projects were funded by debt exclusion votes, this means the amount that is paid by the taxpayers of Needham is also less. Finally, the Town issued yet another refunding bond during FY2016 on debt that was issued also on the High School project and the High Rock and Pollard School projects. This refunding bond will save the Town over \$788,000 and because all the debt is excluded debt, the taxpayers will pay less than they would have had to pay on the remaining debt for the school projects.

### **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. However, the estimate for FY2017 included a new revenue source from the sale of solar generated electricity to the electric grid and the expectation of higher receipts from permits and licenses due to changes in the building fee structure that were adopted by the Board of Selectmen and took effect January 1, 2016. We also anticipate the opening of a new hotel which should generate more room excise income for the Town. A portion of this revenue and the solar revenue are planned for the Debt Service Stabilization fund. This action outlined as part of the previous year budget plan, and with the creation of a special fund to set aside recurring revenue to smooth out the debt service obligations projected in the near future for projects proposed to be funded within the levy limit, will ensure that monies are available to address future new recurring expenses expected to begin in the FY2019 to FY2021 timeframe. The Town is now receiving another new local receipt generated by the Needham Public Schools for tuition. FY2017 was the first year for an estimate to be included in the total receipt estimate; the revenue has been strong and is forecasted to continue. Taking into account these revenues, the local receipts estimate is higher than usual. This estimate, excluding nonrecurring revenue, is currently projected at approximately 81% of the 2016 actual receipts.

We prepare the projections of local receipts by comparing FY2016 estimated receipts to actual receipts; FY2016 actual receipts to FY2015 actual receipts, FY2017 estimated receipts

to the FY2016 actual receipts and FY2017 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 FY2017 estimated receipts were revised. As the year progresses, further analysis of collections will be performed to determine if fiscal year 2017 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  
Table 2.5

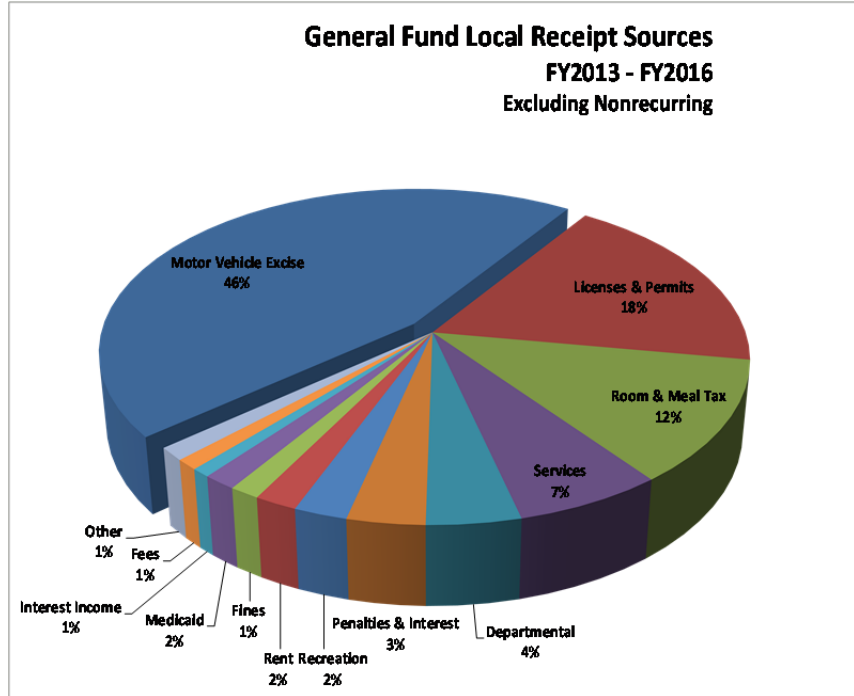
Description	FY13 Actual	FY14 Actual	FY15 Actual	FY16 Actual	FY17 Recap	FY18 Estimate	\$ Change
Motor Vehicle Excise	4,620,449	4,923,980	5,242,444	5,627,887	4,400,000	4,750,000	350,000
Other Excise	982,743	1,288,328	1,500,981	1,608,643	1,110,000	1,360,000	250,000
Penalties & Interest	257,070	244,733	300,493	728,071	195,000	200,000	5,000
Payment in Lieu of Tax	49,926	83,433	51,389	73,478	50,000	52,000	2,000
Charges for Services	613,376	670,395	678,724	967,143	1,385,000	1,420,000	35,000
Fees	108,282	110,907	129,658	112,891	93,735	100,000	6,265
Rents	208,277	209,000	212,303	217,914	175,000	179,000	4,000
School Income				36,222	4,000	20,000	16,000
Library Department Income	57,510	54,421	52,905	42,121	34,000	34,000	
Recreation Department Income	250,621	288,404	267,266	246,636	175,000	145,000	(30,000)
Other Department Income	596,892	417,396	354,139	479,447	310,260	320,000	9,740
Licenses & Permits	1,869,446	2,306,750	1,702,030	2,314,222	1,529,385	1,545,000	15,615
Special Assessments	1,594	1,594	3,182	1,367			
Fines & Forfeits	162,051	140,523	151,293	144,396	117,000	120,000	3,000
Investment Income	84,803	77,523	101,273	111,638	67,500	80,000	12,500
Medicaid Reimbursement	203,297	73,511	211,056	176,672	25,000	80,000	55,000
Miscellaneous Income	16,339	17,993	13,758	14,200	10,500	10,500	
Nonrecurring Income	1,288,907	307,299	632,377	120,525			
<b>Total</b>	<b>11,371,581</b>	<b>11,216,189</b>	<b>11,605,268</b>	<b>13,023,475</b>	<b>9,681,380</b>	<b>10,415,500</b>	<b>734,120</b>

Local receipts represent approximately 6.3% of the total general fund before adjustments and offsets. 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 estimate for FY2018 of **\$10,415,500** (Table 2.5) is an increase of \$734,120 or 7.6% from the revised FY2017 budget of \$9,681,380. When completing the tax rate setting process, we reduced some of the estimates and increased others for the FY2017 receipts based on FY2016 results and trends. The total was within the target range for estimating.

The three major sources of local receipts which made up more than 75% of total receipts over the last four years (see chart next page) are Motor Vehicle Excise, License and Permits, and Room and Meal Excises. Year after year motor vehicle excise tax is the major local revenue source accounting for as much as 50% or more, and therefore an overestimation of this revenue will have negative impact on the Town's position. The three receipt types are



all impacted by the economy, locally and nationally. Many of the other receipts have been stable, but flat, e.g., fees, fines and forfeits, and rents, while others have been flat or trending downward e.g., library and other departmental income. Other local receipts can have significant swings from year to year such as Medicaid reimbursements, payment in lieu of tax, and penalties and interest. Revenue from services has increased significantly because of the new revenue stream from solar power. Overall, revenue



should be stable for FY2017. Therefore, we have increased the estimate for each of the three major receipts, excise, permits, and lodging and meals excises, however pushing these receipt estimates too high would not be prudent. We have assumed a lower estimate for recreation 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 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 through the Commonwealth. We have assumed an approximately 8.0% increase or \$350,000 over the FY2017 estimate. Motor vehicle excise receipts for FY2018 are projected at approximately **\$4.75 million**. 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 been positive and growing, due to the strong economy and the increase in establishments in Needham. The total receipts in FY2013 were \$982,743, \$1,288,328 in FY2014, and \$1,500,981 for FY2015. The total receipts in FY2016 were \$1,608,643, another increase but the rate of increase is slowing. The budget estimate for FY2017 is \$1,110,000. The estimate for FY2018 is **\$1,360,000** which is 22.5% more than the FY2017 estimate and is approximately 85% of the FY2016 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. The fluctuations in actual collections reflect the unpredictability of the timing of payments, particularly settlements on deferred taxes and tax title accounts. The estimate for FY2018 is **\$200,000**, an increase of \$5,000 over the current year estimate and is approximately 28% of the FY2016 actual. Actual income in FY2016 was significantly higher because of collections on some long overdue accounts during the year. The FY2018 estimate of \$200,000 is approximately 75% of the three year average (FY2013 – FY2015).

**Payment In Lieu of Tax** is a voluntary payment made by certain tax-exempt entities. The Town received a much greater payment from the Housing Authority in FY2016 through a Federal pass-through program. It is not clear whether this will be an ongoing payment. The Town also receives an annual amount from the Hospital that is paid in installments. The amount that is paid by the Hospital is increased by the change in the CPI. The revenue estimate for FY2017 is \$50,000, and we have assumed an increase of 4% or **\$52,000** for FY2018. This is approximately 71% of the FY2016 actual revenue.

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 Town began receiving payments for power in the later part of FY2016 and consequently increased the revenue estimate for this revenue category both in the planning stage for the FY2017 budget and subsequently after the start of the fiscal year at the October 2016 Special Town Meeting because the array was generating more than the minimum assurance. The Town pays Solar City (producer of the power) appropriately \$0.09 per kWh of electricity produced. We have calculated the revenue estimate from the sale of solar power to be \$815,000 based on an average price of \$0.18 per kWh. This assumes generation of 4,527,778 KW, which is 261,959 KW over the guaranteed obligation of 4,265,819 KW but is on par with the power generation estimate for the current year. The total estimated income for FY2018 is **\$1,420,000** which is approximately 46% more than the FY2016 actual revenue. The estimate above actual is based on solar revenue contributing \$815,000 to the total estimate.

The Town collects various **Fees** which include returned checks, FID cards, administrative fees for details, and Registry of Motor Vehicle license and registration non-renewal releases. The total collected in FY2013 was \$108,282, \$110,907 in FY2014, and \$129,658 for FY2015. The Town received \$112,891 in FY2016. The original estimate for FY2017 was \$100,000 but was decreased to \$93,735 after the December review. The **\$100,000** estimate for FY2018 is approximately 87% of the FY2016 actual.

**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. Rental income in FY2013 was \$208,277 which came from both the Golf Course and use of Powers Hall at Town Hall. The rental income was flat for FY2014 at an even \$209,000. The rental income increased to \$212,303 for FY2015, and increased to \$217,914 for FY2016. The Powers Hall rental payments are now accounted for through a revolving fund. The original estimate for FY2017 was \$170,000 but was increased to \$175,000 after the December review. The estimate for FY2018 is **\$179,000**, an increase of \$4,000 and is approximately 82% of the FY2016 actual income.

**Library Income** includes book fines and other fees charged by the Needham Free Public Library. The revenue collected in FY2013 was \$57,510, but decreased to \$54,421 for FY2014, and was even lower for FY2015 at \$52,905, and dropped significantly in FY2016 to

\$42,121. Consequently the original estimate for FY2017 was reduced from \$42,500 to \$34,000 after the December review. The estimate of **\$34,000** is the level dollar for FY2018 which is approximately 81% of the FY2016 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 \$36,222 for FY2016. We were allowed to estimate a fraction of this income for FY2017 at \$4,000. Based on revenue activity to-date for the year, we have increase the estimate for FY2018 to **\$20,000** which is approximately 55% of the FY2016 actual.

**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. The Rosemary Pool has been officially closed so that the facility may be reconstructed – funding is anticipated at the 2017 Annual Town Meeting - and will not be open during FY2017, but may be open prior to the close of FY2018. Actual receipts in FY2013 were \$250,621, increased to \$288,404 for FY2014, and then declined to \$267,266 for FY2015, and declined again to \$246,636. The estimate for FY2017 was decreased to \$175,000 and we have assumed another decrease for FY2018 of \$30,000. The FY2018 estimate is **\$145,000**.

**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 FY2013 were \$596,892, but dropped to \$417,396 for FY2014 and decline yet again in FY2015 to \$354,139. FY2016 saw much higher income, from various departments, much attributed to review of planned development and actual construction activity throughout the town. The total revenue in FY2016 was \$479,447. The estimate for FY2018 is **\$320,000**, which is approximately 67% of FY2016 actual.

The category of **Licenses and Permits** includes licenses issued by the Selectmen and Town Clerk, and permits issued by the Building, Fire, and Health Departments. The Town has increased many of its fees in this category, some due to added demands on the departments, which provide the related services and others, because they had not been adjusted for a number of years. The Board of Selectmen approved a new rate schedule for building permits which took effect January 1, 2016. Actual receipts in FY2013 were \$1,869,446, then increased in FY2014 to \$2,306,750, and then dropped to \$1,702,030. This is reflective of the great variability in the permitting of projects and the timing of when construction begins. The original estimate for FY2016 was \$1,532,500 but was lowered to \$1,430,000 after the final results for FY2015 were known. However, the change to the fee structure appears to have impacted construction activity, actual revenue is FY2016 was \$2,314,222. Construction activity in town still is strong for FY2017, but mortgage rates have increased and it is not certain what impact may have on new home construction. So we have assumed only a 1% increase of the FY2017 estimate of \$1,529,385 to **\$1,545,000**. This is approximately 67% of the FY2016 actual, which should provide an adequate cushion should actual revenue decline if construction activity does slow in 2018.

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

The category of **Fines and Forfeits** includes parking ticket and court fines. Revenue in this category has fluctuated due to staff resources over the years, with FY2013 actual receipts at

\$162,051, then declining in FY2014 to \$140,523. Revenue increased to \$151,293 in FY2015 only to decrease again in FY2016 to \$144,396. However, based on the December review we have assumed a 2.6% increase for FY2018 over the FY2017 estimate of \$117,000. The **\$120,000** estimate is approximately 83% of the FY2016 actual.

**Investment Income** has been a volatile revenue stream over time with more than \$1.2 million earned in FY2008 to just \$77,523 in FY2014. Indeed, the original estimate for FY2012 of \$325,000 had to be reduced to \$150,000, yet the total for the year came in at \$103,130. The FY2013 original estimate of \$150,000 was dropped to \$80,000 which we believed was as low as the revenue could drop; the actual income was \$84,803. The original estimate for FY2014 was \$80,000, but given the FY2013 actual income, the estimate was revised downward to \$67,500, and as noted, actual income came in at \$77,523. In FY2015, we saw interest income increase for the first time in several years with \$101,273, and FY2016 increased to \$111,638. We held the estimate of \$67,500 for FY2016 for FY2017. However, we have assumed an increase for FY2018 estimate to **\$80,000** which is 72% of the FY2016 actual income.

**Medicaid and Miscellaneous Income** Medicaid reimbursement has been at times, very significant revenue, but often fluctuates from year to year. In FY2013 the Town received \$203,297 in Medicaid revenue, and then saw a significant drop in FY2014 to \$73,511 – a drop of more than 63% from the prior year. Medicaid increased to \$211,056 in FY2015, but declined in FY2016 to \$176,672. We have estimated **\$80,000** for FY2018, an increase of \$55,000 over the FY2017 estimate. The \$80,000 is approximately 45% of the FY2016 actual revenue. Miscellaneous receipts represent various revenues that are not associated with one of the recognized local receipt categories. The actual revenue was \$16,339 in FY2013, and increased slightly to \$17,993 in FY2014, and declined to \$13,758 in FY2015. Income increased in FY2016 to \$14,200. We have estimated FY2018 at the level dollar amount, or **\$10,500**. This represents approximately 74% of the FY2016 actual.

**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. The FY2013 nonrecurring receipts totaling \$1,288,907 resulted mostly to one major source, a very sizable premium received on the sale of bonds in the amount of \$811,162. The Town also received a distribution of \$303,727 from a Medicare Part D reimbursement, the last payment to the Town as future reimbursements will be incorporated in the premiums that the Town pays for certain retiree health insurance. The bond premiums and the Medicare reimbursements together, accounted for 86% of the total nonrecurring revenue in FY2013. The Town was successful in collecting some old receivables, previously considered uncollectible in the amount of \$43,157. The Town also received \$20,945 from MEMA for Hurricane Irene related expenses. The balance of \$109,916 came from other sources. The Town received \$307,299 in nonrecurring receipts in FY2014. One major source was premiums received on the sale of bonds in the amount of \$146,553. This receipt accounted for approximately 48% of the total nonrecurring revenue. The Town received \$51,263 from the sale of surplus equipment, and \$41,342 was from unused flexible spending accounts. The Town also received \$26,600 in energy efficiency rebates from Northeast Utilities. The balance of \$41,541 came from various sources, reimbursements, and returns which are not recurring. In FY2015 the Town received \$632,377. One major source was premiums received on the sale of bonds in the amount of \$336,304. This receipt accounted for approximately 53% of the total nonrecurring revenue. The Town received property and casualty premium credits of \$126,698, payment of \$81,659 for details previously adjusted, \$44,427 from the sale of surplus equipment, plus an additional \$5,400 on the trade of police vehicles, and a \$7,753 lien payment (non-tax) recovered by Town Counsel. The \$30,136 balance represents various refunds and recoveries received by the Town and

School departments. In FY2016, the Town received \$120,525 in receipts that are classified as nonrecurring receipts. Two major sources were premiums received on the sale of bonds last year in the amount of \$54,740 and \$26,780 from the sale of surplus equipment. The combination of these two receipts accounted for approximately 68% of the total nonrecurring revenue. The balance of \$39,005 represents various refunds and recoveries received by the Town and School departments. No revenue meeting this criterion has been identified for FY2018.

General Fund Recurring Receipts  
Table 2.6

Description	FY14 Actual	FY15 Actual	FY16 Actual	FY17 Recap	FY18 Estimate	\$ Change
Property Taxes	98,254,411	106,058,846	112,906,528	118,902,927	124,336,276	5,433,349
State Aid	9,612,894	9,875,425	10,065,389	10,468,210	10,468,210	
Local Receipts	10,908,890	10,972,892	12,902,950	9,681,380	10,415,500	734,120
<b>Total Receipts</b>	<b>118,776,195</b>	<b>126,907,163</b>	<b>135,874,868</b>	<b>139,052,517</b>	<b>145,219,986</b>	<b>6,167,469</b>

### Other Available Funds

Other available funds (\$3,080,807) represent 1.9% 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 three available funds that have been recurring are Debt Exclusion Offsets, Overlay Surplus, and Parking Meter Fund. Other available funds are correlated to expenses. These funds must be specifically identified by Town Meeting in the motion in order to be used.

The **Debt Exclusion Offset** is an amount equal to the amortized value of a premium that may have been received on 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 FY2017 is \$80,807.

**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 of that fiscal year. When the Board of Assessors makes that determination, it can declare the balance surplus and available for appropriation by Town Meeting. We have assumed \$3,000,000 will be available 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 use of the funds would be \$900,000 for the operating budget and \$2,100,000 for nonrecurring capital expenditures. Due to a change in accounting made possible by the Municipal Modernization Act, the individual fiscal year reserves are now grouped in a single pool and may be used to fund abatements and exemptions granted for any fiscal year, and serves as an offset for outstanding taxes. This change has allowed for a significant one-time release of prior balances - \$3 million has been requested.

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. Therefore, there is no transfer to the operating budget for FY2018. Parking meter receipts are now part of the local receipts category.

Other available funds in prior years have included items such as unexpended balances of prior warrant articles and special grants. 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 FY2017, but preliminary estimates have Free Cash between \$8.6 and \$11.9 million. We have assumed **\$8,600,000** for this budget plan. This represents 5.2% of the total general fund before adjustments and offsets. This is an increase of \$2,409,628 over the amount that was used for the current year. The certified Free Cash in FY2016 was \$6,890,372 of which \$6,190,372 was used for FY2016 and FY2017 appropriations and the balance was closed out at the end of the year and will be part of the FY2017 certification. The certified Free Cash in FY2015 was \$6,207,875 of which \$5,931,875 was used for FY2016 appropriations and the balance was closed out at the end of the year. Free Cash certified in FY2014 was \$10,133,912 of which \$5,981,564 was used for FY2014 and \$4,152,348 was used for FY2015. In FY2013, only \$2,153,808 was certified as Free Cash of which the entire amount was used for FY2014 appropriations. The combined FY2013 and the part of the FY2014 certified Free Cash used for FY2014 appropriations totaled \$8,135,372. 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	Returned
FY2013	FY2014	2,153,808	2,225,067	1,619,224	534,584			-
FY2014	FY14/15	10,133,912	2,120,776	2,032,765	7,499,617	35,000	566,530	-
FY2015	FY2016	6,207,875	1,873,669	1,941,264	2,394,911	750,000	845,700	276,000
FY2016	FY2017	6,890,372	1,779,710	1,763,165	2,639,117	553,222	1,234,868	700,000
FY2017^	FY2018	8,600,000	2,700,921	2,689,482	3,307,467	1,095,000	1,508,051	-

^ Estimate

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. In recognition that the operating budget structure has been amended, and begun in FY2017 budget plan a sizable amount of expenses have been removed from the departmental budgets into a new Townwide expense budget (to account and track electric and natural gas expenses, including payments for the production of solar power, related expenses and the street lighting program), we amended what is included in the Free Cash "use for operating expenses" calculation. We continue to recommend that the amount 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. However, in the revised calculation, we use the final adjusted operating budget, excluding the Reserve Fund to calculate the 2% amount. 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 five 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
2012	111,739,534	2,313,340	111,253,362	2,226,818	2.0%	86,522	3.7%	2,225,067
2013	118,098,423	2,672,092	116,839,992	2,120,776	1.8%	551,316	20.6%	2,336,800
2014	124,101,249	2,463,826	122,653,006	1,873,669	1.5%	590,157	24.0%	2,453,060
2015	129,531,899	1,944,545	127,889,742	1,779,710	1.4%	164,835	8.5%	2,557,795
2016	136,570,837	4,406,846	135,046,070	3,404,341	2.5%	1,002,505	22.7%	2,700,921

Two percent of the FY2016 adjusted final budget equals \$2,700,921; the actual FY2016 budget return less the Reserve Fund return was \$3,404,341 which is more than two percent and is more than the return for the prior four years (Table 2.7.2). The budget plan has \$2,689,482 of the estimated Free Cash being used for operating expenses; the amount falls under the allowance. The balance of the estimated Free Cash for FY2017 is proposed to be used to fund cash capital, reserves, and warrant articles. If DOR certifies a greater amount we recommend that those funds be appropriated to reserves. 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.

Revenue as a % of Total General Fund Revenue  
Table 2.8

Description	FY14 Actual	FY15 Actual	FY16 Actual	FY17 Recap	FY18 Estimate
Property Taxes	77.2%	80.6%	79.2%	81.3%	79.8%
State Aid	7.6%	7.6%	7.2%	7.3%	6.8%
Local Receipts	8.2%	8.3%	8.7%	6.3%	6.3%
Other Available Funds	1.0%	0.5%	1.1%	1.0%	1.9%
Free Cash	6.0%	3.0%	3.9%	4.0%	5.2%
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 the majority of solid waste and recycling center service costs are accounted for in the Recycling Center and Transfer Station (RTS) 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 RTS-related general fund expenditures are funded with transfers of revenue from the enterprise fund to the general fund. The amount projected for FY2018 is based on the current year and is estimated at **\$310,000**.

Enterprise Reimbursements to the General Fund  
Table 2.9

Description	FY14 Actual	FY15 Actual	FY16 Actual	FY17 Recap	FY18 Estimate
Solid Waste	276,871	278,317	317,608	314,739	310,000
Sewer	429,205	464,518	363,721	376,586	338,000
Water	962,891	953,573	660,484	684,108	615,000
<b>Total</b>	<b>1,668,967</b>	<b>1,696,408</b>	<b>1,341,813</b>	<b>1,375,433</b>	<b>1,263,000</b>

As with the RTS fund, while the majority of sewer and water related service costs are accounted for in the Sewer Enterprise Fund and Water Enterprise Fund, certain costs of the departments are reflected in the general fund budgets of other Town departments (e.g., treasurer/collector, information technology, personnel, insurance, etc.). These general fund expenditures are funded with transfers of revenue from the sewer and water enterprise funds. The projected amounts for FY2018 for sewer and water are estimated at **\$338,000** and **\$615,000**, respectively. Because indirect costs associated with the three funds are a factor of Town Meeting appropriations, the actual FY2018 transfers may be adjusted accordingly.

FY2018 is the seventh operating budget that will include **CPA** supported debt service. The Town Hall financing plan calls for debt service paid by CPA funds to be **\$449,163**, which is a decrease of \$7,150 from the FY2017 amount of \$456,313. The annual debt service will decline each year on the Town Hall project until it is paid off in 2031. However, the Rosemary Recreation Complex project is anticipated to be presented to Town Meeting at the May 2017 Annual Town Meeting and a significant portion of the project is proposed to be funded by debt that will be supported by CPA funds. If approved, the annual debt service will increase from that which is currently obligated. We reflect \$449,163 as another adjustment to General Fund revenue because the CPA debt is included in the general operating budget of the Town.

**Cherry Sheet Assessments** are charges levied for services provided to the Town by State and other governmental agencies (e.g., MBTA assessment, county tax, mosquito control, etc.). The estimate of **\$1,332,346** for FY2018 is 2.5% over the FY2017 estimate.

**Allowance for Abatements and Exemptions** are funds reserved for property tax abatements and statutory exemptions. The preliminary estimate, subject to the approval of the Board of Assessors and the Department of Revenue, has been set at **\$1,268,000** which is a decrease of \$587,476 from the current year and is \$1,741,775 less than the reserve from two years ago. The Municipal Modernization Act changed the way that these funds are reserved and accounted. Previously, each fiscal year reserve had to be held in a separate account and reserved just for that fiscal year's levy. Now all the balances are grouped in a single pool and may be used to address abatement and exemption activity of any fiscal year, as well as outstanding taxes. As mentioned earlier, this change has allowed for a significant one-time release of prior balances, \$3 million has been requested, and we are cautiously setting the preliminary allowance at a much lower amount. FY2018 is the required triennial property valuation review by the Department of Revenue's Bureau of Local Assessment which will review and recertify the Town's property values to ensure they are at full and fair market value. This can increase the workload on the Town's assessing division and could impact the number of abatement and exemption applications received. However, the Act also changed the interval for review from three to five years. How exactly the annual valuation process will be impacted is not known until later in the year. The Reserve projection is the minimum recommended for the year; should additional new growth tax revenue be realized for FY2018, the amount of overlay may be increased. The final amount



of the reserve is determined by the Department of Revenue when it approves the tax rate in December.

**Amounts required to be raised or otherwise provided** is a contingency for those items that are required to be raised but as of this date are not known. Expenses such as overlay deficits for prior years – which is highly unlikely because of the change to the Overlay Reserve rules - snow and ice deficits, or revenue deficits or shortfall in other estimates are items provided for in this allowance. The reserved estimate is **\$99,795** for FY2018. This amount includes the Cherry Sheet Offsets which are programs that are classified by the State as “Offset Items”; that is, these funds are expended without appropriation for specific purposes (i.e., remediation assistance and public libraries). As they are estimated as a component of State Aid, they must be shown as a reduction in revenue because of their categorical nature (i.e., they are not available for general appropriation purposes). Expenditure of these funds does not require Town Meeting appropriation. The amount for FY2018 is based on the assumption that state aid will be level funded so the total is the same as FY2017 at \$36,585. Another requirement is the amount that is certified by the tax collector for tax title purposes and is assumed to be level dollar for FY2018 at \$12,500. A third item is a required exclusion adjustment for reduce interest expenses related to advance refunding bonds and bond anticipation note interest which was not included in the FY2017 tax recapitulation. The total of the offset items in FY2017 was \$49,085 and in FY2016 it was \$122,519.

#### OTHER RESERVES AVAILABLE FOR APPROPRIATION

The available balance in the **Stabilization Fund** as of December 31, 2016 is \$3,971,879. 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.

The Town also established a **Capital Improvement Fund** for the purpose of general fund capital equipment. The balance in the fund as of December 31, 2016 is \$703,749. The budget plan calls for an appropriation of \$28,051 to the Fund.

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 December 31, 2016 is \$1,318,071. NO addition to the Fund is proposed at this time.

The Town also established an **Athletic Facility 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 December 31, 2016 is \$2,652,058. The budget plan calls for an appropriation of \$1,295,000 to the Fund.

The Town also established a **Debt 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 December 31, 2016 is \$934,056. The budget plan calls for an appropriation of \$1,091,874 to the Fund. This transfer represents recurring revenue which would be available to address future General Fund operating expenses when not appropriated to the Fund. The creation of this Fund was meant to address two different issues, smoothing out long-term debt obligations funded within the levy limit (a/k/a the three percent measure) by having extra funds on hand for Town Meeting to appropriate to allow for a much greater pay down of Notes rather than converting to long-term bonds, and to keep a portion of the current higher recurring revenue growth available to fund known

future recurring operating expenses. These include implementation of full-day kindergarten, and public safety services needed to address increasing commercial activity and changing demographics. The increased revenue being generated from Needham Crossing development activity is greater than the increased public safety and infrastructure demands that will need to be funded.

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 for the Recycling Center and Transfer Station. The enterprise funds are fully 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	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Budget	FY2018 Estimate	\$ Change
RTS	1,621,182	1,196,091	1,239,871	1,181,928	1,193,747	11,819
Sewer	7,949,827	8,794,290	8,884,328	8,191,198	8,273,110	81,912
Water	6,374,765	7,128,001	7,009,201	5,570,529	5,626,234	55,705
<b>Total*</b>	<b>15,945,774</b>	<b>17,118,382</b>	<b>17,133,399</b>	<b>14,943,655</b>	<b>15,093,091</b>	<b>149,436</b>

\* Receipts before adjustments, reimbursements, and subsidies

The combination of the Recycling and Transfer Station (RTS), Sewer, and Water Enterprise funds has total receipts at \$15,093,091 for FY2018 compared to \$14,943,655 for FY2017 (Table 2.10). This is an increase of \$149,436 or one percent more. The estimate for each of the funds is higher than the FY2017 budget figures but lower than the actual receipts received during FY2016. The income earned on many recycled items is declining, and although recycling is less expense than disposing of waste, the income earned on the recycled materials is not keeping pace with the cost of providing the services. Actual sewer and water receipts are still projected to decline as the Town's efforts to promote less water use gains cooperation by citizens. The budget plan calls for a reassignment of one administrative position that supports multiple divisions from sewer enterprise to water enterprise. The change will help mitigate the growing pressure on the sewer rates. An increase to the sewer rates is anticipated for FY2018, even with reliance on reserves to fund the operating budget, and reducing a position that is currently paid from just sewer revenue to water.

For FY2018, the total enterprise fund revenues are estimated at \$16,584,379 or 3.5% more than FY2017. This figure is inclusive of the use of \$1,491,288 in retained earnings, which is \$409,497 more than was used for FY2017.

The budget calls for the use of **\$783,040** of retained earnings in the RTS Enterprise to support the operating budget (\$72,698) and cash capital (\$710,342). The Sewer Enterprise will use **\$237,174** in retained earnings to support the operating budget (\$404,156), but retained earnings will not be used for the capital program. There is only one project, which will be financed by debt proposed for FY2018. The FY2018 water enterprise budget plan recommends **\$471,074** of retained earnings for cash capital.

Fiscal Year 2018 Proposed Budget

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

Description	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Budget	FY2018 Estimate	\$ Change
RTS	337,100	321,095	158,000	258,096	783,040	524,944
Sewer	987,597	706,000	1,373,949	478,016	237,174	(240,842)
Water	1,922,667	1,161,050	1,162,104	345,679	471,074	125,395
<b>Total</b>	<b>3,247,364</b>	<b>2,188,145</b>	<b>2,694,053</b>	<b>1,081,791</b>	<b>1,491,288</b>	<b>409,497</b>

The **Solid Waste Enterprise Fund** was established pursuant to a vote of the Special Town Meeting held on November 19, 1997, which established an enterprise fund to account for receipts and expenditures of the Town's solid waste operation at the Recycling and Transfer Station (RTS) effective July 1, 1998. Sticker and bag fees helped to support tipping and recycling expenses. A transfer from the tax levy has historically funded the general operations of the RTS. However, the amount had been declining since the inception of the enterprise fund until recent years. The Board of Selectmen and the Finance Committee approved a policy to determine the amount that should be used to offset costs incurred by the RTS. However, the formula has not been sufficient in every year to meet the required revenue. Given the restrictions on estimating revenue above the actual amount of the prior year, an additional amount from the General Fund has been required in some years in order to balance the RTS budget. The General Fund transfer for FY2013 was \$576,938 and for FY2014 it was \$801,458. Effective in FY2015, with the elimination of the residential sticker fee, a greater General Fund contribution to the operation was approved. The voted amount for FY2015 was \$1,420,000. However, due to the restrictions in revenue estimation, the Town needed to provide a subsidy of \$72,270 to be approved by the DOR. The General Fund contribution for FY2016 was \$1,420,000 and the same amount was approved for FY2017. Recycling related expenses are growing faster than revenue; the budget plan has \$72,698 in retained earnings proposed to support the budget, and necessitates an increase in the General Fund contribution of \$42,500 to **\$1,462,500**, a three percent increase. Over the next fiscal year we will analyze the viability of running the operation on an enterprise accounting basis, with any changes, if any, recommended with the FY2019 budget.

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 will now be made from the General Fund to the Sewer Enterprise Fund Budget. The payment in FY2012 was \$469,610, FY2013 was \$493,932, for FY2014 was \$468,936, for FY2015 the amount was \$463,430, and FY2016 was \$494,488. The FY2017 contribution was \$519,846, but the FY2018 budget recommendation is **\$491,749** a decrease of \$28,097, (-5.4%). The decrease is due primarily to a reduction in the salary and wage expense, and deferring action on the new position request. At the time of publication of the budget, the MWRA sewer assessment has not been received, and therefore the plan level funds the assessment. Any change will be funded by retained earnings.

The **Water Enterprise Fund Budget** will shoulder the administrative position that was previously accounted for in the Sewer Enterprise; the position provides services to both, but more for water operations than sewer operations and would be better managed through the water enterprise. This change would ease the pressure in sewer rates. The F.T.E. count in water will increase by one to 17 and the count in sewer will decrease by one to 11. Just as with the MWRA sewer assessment for FY2018, the water assessment has been level funded, and any change will be funded by retained earnings.

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 30<sup>th</sup>. Once certified by the Massachusetts Department of Revenue, retained earnings are then available for appropriation or reserved to support the enterprise. Retained earnings for FY2017 have not been certified by the Department of Revenue as of the publication of this plan, but are estimated to be greater than the proposed amounts to be used and take into consideration the needed reservations and future appropriations. Table 2.12 shows the amounts which were certified as retained earnings by the Department of Revenue for the previous five complete fiscal years.

Certified Retained Earnings  
Table 2.12

	FY2012	FY2013	FY2014	FY2015	FY2016
Recycling and Transfer Station	490,410	442,722	686,044	690,498	980,788
Sewer Enterprise	2,550,263	1,951,436	1,971,156	1,667,645	1,863,803
Water Enterprise	2,932,408	2,740,398	2,254,842	2,049,563	2,833,584

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 rate that Needham received on its FY2013 CPA surcharge revenue was 52.23%, which decreased to a 31.46% match on its FY2014 surcharge revenue, and then dropped to a 29.67% match on the FY2015 surcharge revenue that was distributed in November 2015. The state match on the FY2016 revenue was 20.6%, which was received on December 1, 2016.

We believe the distribution range in FY2018 on the FY2017 revenue will be between 10% and 20% and our revenue estimate is at the low-point. The current estimate based on FY2017 collections that will be received as **state matching funds** in FY2018 is **\$210,994** or 10%. The 2% **CPA surcharge** on FY2018 property tax bills is estimated at **\$2,230,000**. The estimated receipts for FY2018 are currently at \$2,440,994. This is a decline from the FY2017 receipt estimate of \$2,660,750, or \$219,756 less. This is due chiefly to an assumed decrease in the state matching program. The decrease is assumed because of the trend of

lower percentage matches annually and because of the increased number of communities now eligible for funding from the State Trust. The CPA program was approved by 11 municipalities at the November 8, 2016 election, and now 172 of the 351 cities and towns in the Commonwealth are participating.

The \$2,440,994 estimate provides for a budget plan of \$82,000 to be appropriated to the Community Preservation Committee's (CPC) administrative budget and \$269,000 credited to both the Community Housing Reserve and Open Space Reserve. The \$269,000 figure is approximately 11% of the new revenue estimate for FY2018. 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 FY2018 debt budget includes \$449,163 of debt service for the Town Hall project. The Town Hall project was previously designated as a historic preservation project, and therefore the \$449,163 appropriation to the General Fund operating budget will satisfy minimum requirement for Historic Resources. The balance of the CPA revenue estimate of \$1,371,831 would be transferred to the Community Preservation Fund General Reserve for FY2018. 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.

The certified CPA Free Cash balance as of December 31, 2016 is **\$4,150,727** and remains available for appropriation until June 30, 2017. The CPA General Reserve has a balance of **\$1,537,037** and the funds remain available for appropriation until June 30, 2017 as well. The CPA Free Cash and General Reserve will close out to the CPA fund balance after the end of the FY2017 and does not become available for use in FY2018 until after the CPA Free Cash is certified for FY2018. The Community Preservation Committee (CPC) has not yet made any funding recommendations for FY2018. The amounts currently held in the three required reserves as of December 31, 2016 are as follows:

Community Housing Reserve	\$1,470,573
Historic Resources Reserve	\$ 15,820
Open Space Reserve	\$ 835,954

**Town of Needham  
Community Preservation Fund  
Revenue and Appropriations  
FY2018**

**Community Preservation Fund Revenue Estimates**

Surcharge Revenue Estimate	2,230,000
State Trust Fund Distribution Estimate	210,994

Revenue Estimate	2,440,994
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**Community Preservation Fund Appropriation Estimates without Projects**

Town Hall Project Debt Service (GF Debt Operating Budget)	449,163
Community Preservation Committee Administrative Budget	82,000
Community Housing Reserve	269,000
Historic Resources Reserve	0
Open Space Reserve	269,000
Community Preservation Fund Reserve	1,371,831

Appropriation Estimates	2,440,994
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**Specific Appropriation Requests**

Central Avenue School Trails	210,000
Cricket Field	285,000
Echo Bridge Railings	250,000
Needham Reservoir Trail	850,000
Rosemary Lake Sediment Removal	2,400,000
Rosemary Recreation Complex	Debt

Total Project Requests	3,995,000
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### **Basis of Accounting**

The Town of Needham adheres to the Uniform Massachusetts Accounting System (UMAS) for the operation of its accounting system. UMAS is based on Generally Accepted Accounting Principles (GAAP). The Town uses the modified accrual basis of accounting for all governmental fund types, expendable trust funds, and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, that is, when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period, or soon enough thereafter to be used to pay liabilities of the current period. The Town considers property taxes as available in the year they are levied. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

### **Basis of Budgeting**

The annual budgets (General Fund, Recycling and Transfer Station, Sewer and Water Enterprise Funds, and Community Preservation Fund) are adopted by the Town Meeting. Town Meeting approval is also required for certain special revenue funds and for capital projects funded from cash and/or borrowing authorizations. The Town's budget is adopted on a statutory basis which differs in some respects from GAAP. The noteworthy differences between the budgetary basis and GAAP accounting basis are:

Budgeted revenues are recorded when cash is received (budgetary basis), as opposed to when susceptible to accrual (GAAP). The property tax levy is recorded as a receivable when levied but then is fully reserved until collected.

Encumbrances are treated as expenditures in the year the commitment is made. Certain appropriations, other than the operating budget articles, that are voted by Town Meeting are referred to as Other Financial Warrant Articles and remain in effect and available for use until the purposes for which the appropriation was initially made have been certified as completed or no longer needed. These articles are treated as budgetary expenditures in the year of authorization or the ensuing fiscal year as specified by the vote.

### **Basis of Funds**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds** are used to account for most of the Town's activities. This includes the Town's annual General Fund operating budget, special revenue funds, such as revolving funds, grants, donations, and intergovernmental transfers, and capital appropriations.

**Proprietary funds** are business type activities operated by the Town and are referred to as enterprise funds. The Town has three enterprise funds: a sewer fund that is used to report the Town's sewer enterprise fund operations; a water fund that is used to report the Town's water enterprise fund operations; and a solid waste fund that is used to report the Town's recycling and transfer station enterprise fund operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal service funds are used to account for self-insured workers compensation programs and property and casualty insurance.

**Fiduciary funds** are used to account for resources held for the benefit of parties outside the government and therefore are not available to support the Town's own programs. Fiduciary funds include expendable trusts, non-expendable trusts, and agency funds. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Basis of Fund Balance**

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

Non-spendable - This fund balance classification represents non-major governmental fund reserves for the principal portion of permanent trust funds.

Restricted - This fund balance classification includes general fund encumbrances funded by bond issuances, community preservation funds, various special revenue funds, and the income portion of permanent trust funds.

Committed - This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, and capital project funds funded by cash capital.

Assigned - This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned – This represents the residual classification for the general fund and all other amounts that are not contained in other classifications. Unassigned amounts are available for any purpose (upon certification by the Commonwealth of the availability, referred to as "Free Cash"). When expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: committed, restricted, assigned and unassigned.