

Revenue SummaryFunding Sources Summary
Table 2.1

Description	FY2020 Recap	FY2021 Recap	FY2022 Estimate	\$ Change	% Change
General Fund	192,111,552	196,799,857	207,125,411	10,325,554	5.2%
Enterprise Funds	16,876,578	15,603,067	16,651,547	1,048,480	6.7%
Community Preservation Fund	4,306,287	3,698,048	3,254,939	(443,109)	-12.0%
Total Funding Sources*	213,294,417	216,100,972	227,031,897	10,930,925	5.1%

* Before adjustments, reimbursements, and subsidies

COVID-19 negatively impacted fiscal year 2020 revenues, will continue to do so during fiscal year 2021, and we anticipate that the economic impact will continue in fiscal year 2022, and perhaps in certain sectors for fiscal year 2023. The Town took proactive steps in adjusting revenue estimates for FY2021 and allocating other funds prior to enacting the budget, which proved prudent and may have contributed to greater flexibility for FY2022 than otherwise may have been possible.

The General Fund accounts for revenues and expenditures necessary to provide governmental services and expenses. By definition, all financial resources that are not required to be accounted for in other funds are accounted for in the General Fund. The above table 2.1 shows that the total estimated funding sources for FY2022 will increase by approximately \$10.9 million or 5.1%. However, the total estimated for FY2022 includes a significant amount of one-time monies and use of reserves, especially in the General Fund and Enterprise Funds. There is no assumption on the use of Community Preservation Act (CPA) Fund reserves. The actual amount of Free Cash available for appropriation is not yet known, but we estimate the amount will be more than recent years, because of the large turnback of Free Cash last year of more than \$4.5 million. For the purpose of this budget plan we assume \$12.5 million of Free Cash available for appropriation. This compares to the \$7,862,473 of Free Cash that was appropriated last year. The appropriations for FY2021 also included the use of \$961,090 of retained earnings. This budget plan has \$2,090,494 in retained earnings being used for appropriations for FY2022. The CPA revenue estimate of \$3,254,939 does not include the use of reserves to fund project requests. The CPC has ten new project requests which total \$3,566,130. If the CPC were to approve all the requests, all are fundable but not within the estimated CPA receipts for FY2022 and therefore would require use of reserves to fund.

GENERAL FUNDSummary of General Fund Resources
Table 2.2

Description	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Recap	FY2022 Estimate	\$ Change
Property Taxes	132,578,018	141,476,623	150,349,498	162,438,801	170,244,638	7,805,837
State Aid	11,788,322	12,516,580	13,091,197	13,695,326	13,342,938	(352,388)
Local Receipts	15,169,422	16,526,784	16,058,350	11,310,310	10,799,600	(510,710)
Use of Reserves and Other Available Funds	5,143,807	3,259,147	3,879,196	1,492,947	238,235	(1,254,712)
Free Cash	11,387,990	13,497,378	10,337,871	7,862,473	12,500,000	4,637,528
General Fund Revenue	176,067,559	187,276,512	193,716,113	196,799,857	207,125,411	10,325,554
<u>Adjustments to General Fund Revenue</u>						
Reimbursements & Subsidies	1,505,414	1,608,064	1,325,500	1,330,058	1,250,000	(80,058)
CPA Share of Debt Service	449,163	441,494	1,185,317	1,425,000	1,021,397	(403,603)
Adjustments to General Fund Revenue	1,954,577	2,049,558	2,510,817	2,755,058	2,271,397	(483,661)
Available for General Fund Expenditures	178,022,136	189,326,070	196,226,930	199,554,915	209,396,808	9,841,893

Table 2.2 shows total revenue available for General Fund appropriations projected at **\$209,396,808** or **\$9,841,893 more than FY2021**. Revenue from the property tax is estimated to grow by approximately \$7.8 million, state aid is assumed to decrease by approximately \$0.35 million, and local receipts are budgeted to decrease by \$0.5 million. Free Cash for appropriation has been assumed at \$12.5 million for FY2022.

The amount of reserves and other available funds is \$1,254,712 less than was used for FY2021. Free Cash is \$4.6 million more than was used for FY2021. The estimated total adjustment to General Fund revenues is \$483,661 less for FY2022 compared to FY2021. 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.

FY2022 GENERAL FUND REVENUE ESTIMATE ASSUMPTIONS

Property Taxes

Under Massachusetts General Laws, property taxes overall are restricted to increases of 2.5% plus tax revenues derived from new growth. This is referred to as the annual levy limit. An additional taxing limitation under Proposition 2½ is the levy ceiling. The levy ceiling is equal to 2.5% of the Town's valuation. The total taxable value of the Town as of January 1, 2020 was \$11,045,730,479. This puts the tax levy ceiling at \$276,143,262. The tax levy including debt exclusions for FY2021 was \$162,438,801, 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 FY2022 tax levy attributable to new growth is estimated based upon information provided by the Assessing and Building Departments.

Fiscal Year Tax Levy
Table 2.3.1

Description	FY2018 Recap	FY2019 Recap	FY2020 Recap	FY2021 Recap	FY2022 Estimate	\$ Change
Prior Year Base	118,983,942	126,800,868	134,370,075	142,426,994	150,539,475	
2- 1/2 Allowance	2,974,599	3,170,022	3,359,252	3,560,675	3,763,487	
New Growth	4,841,774	4,394,835	4,697,667	4,551,806	2,333,000	
General Override						
Levy in Abeyance	(1,281,513)	(1,528,768)	(2,999,601)	(1,757,767)		
General Tax Levy Limit	125,518,802	132,836,957	139,427,393	148,781,708	156,635,962	7,854,254
Total Excluded Debt	7,795,041	9,867,324	12,922,651	14,448,298	14,375,000	
Less Excluded Debt Offsets	(775,955)	(810,295)	(800,307)	(791,205)	(766,324)	
Excluded Debt to be Raised on Tax Levy	7,019,086	9,057,029	12,122,344	13,657,093	13,608,676	(48,417)
Property Tax Levy	132,537,888	141,893,986	151,549,737	162,438,801	170,244,638	7,805,837
Collections by Year End*	132,578,018	141,476,623	150,349,498			

* Includes collections of prior year taxes and pending refunds

Property Tax Levy

The property tax levy (Table 2.3.1) represents approximately 82.2% (Table 2.8) of all general fund revenues before adjustments. The FY2022 property tax levy is estimated to increase approximately 4.8% over the FY2021 actual tax levy, or approximately \$7.8 million. This compares to the nearly \$10.9 million increase that FY2021 tax levy was over the FY2020 actual levy, or approximately 7.2% increase. The tax revenue to support operations within the levy limit is increasing by an estimate of 7.3% over FY2021. Property tax New Growth revenue has been much higher in recent years and the increase in FY2018 was a record high. The FY2022 budget plan assumes New Growth revenue of approximately \$2.3 million but may

be amended when building activity through the end of 2020 is known. The New Growth revenue for FY2021 was higher than would have otherwise been due to the scheduled reduction in the Tax Incremental Financing (TIF) agreement with TripAdvisor from 76% of the original new construction value to one percent of the initial value. With the reduction in the TIF amount for TripAdvisor, the new tax revenue increased by more than \$1.4 million. The one percent deferral continues through FY2028. TripAdvisor also made additional investment in personal property assets which contributed approximately an additional \$0.2 million. FY2021 also represents the first year for the ten year TIF agreement with NBCU which provides for a 70% deferral of the initial new growth value. However, the NBCU project delivered \$1.5 million in new personal property tax revenue for the Town in FY2020, revenue the Town would not have realized from a standard office complex development. After accounting for the combination of the TripAdvisor and NBCU contributions to New Growth tax revenue, New Growth taxes would have been approximately \$2.9 million, meaning residential taxpayers would have had even a higher tax bill for FY2021 without these developments.

The tax levy limit is calculated by increasing the FY2021 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 FY2021 tax rate.

The increase in the levy limit above the allowable annual limit and new growth is limited to the amount to be raised to pay the debt that has been excluded from the levy limit by the voters of Needham. The base tax levy, before accounting for debt exclusions, is expected to increase by approximately \$7.85 million over the FY2021 actual base levy. The amount of tax excluded debt that is to be paid by property taxes is estimated to decrease by \$48,417 for FY2022 over the FY2021 tax levy. This is the first year that excluded debt raised on the tax levy has declined since FY2017. At the present time, the only additional excluded debt yet to be issued are for the Williams School of approximately \$2 million and the Public Safety buildings projects at approximately \$35 million. The issuance of this debt is not expected to increase the amount to be raised on the tax levy beyond the estimate for FY2022.

Debt Exclusions Added to Tax Levy FY2017 - FY2021
Table 2.3.2

Description	FY2017	FY2018	FY2019	FY2020	FY2021
Debt Service					
Broadmeadow School	857,150	828,300	801,325	771,225	741,425
Eliot School	359,405	346,840	314,400	304,400	294,400
High Rock & Pollard Schools	1,319,122	1,257,541	1,227,873	1,192,035	1,087,335
High School	1,885,080	1,774,365	1,719,571	1,606,571	1,521,490
Library	902,000	870,550	830,475	796,775	-
Newman School	1,352,700	1,327,065	1,298,020	1,262,390	1,124,960
Public Safety Buildings	-	-	-	2,068,944	4,961,890
Williams School	-	1,358,112	3,678,899	4,946,992	4,716,797
Total	6,675,456	7,762,773	9,870,562	12,949,332	14,448,297
General Tax Levy	118,902,927	125,518,802	132,836,957	139,427,393	148,781,708
Excluded Debt as a % of the General Tax Levy*	5.6%	6.2%	7.4%	9.3%	9.7%
Offsets and Adjustments					
MSBA Credits	(695,148)	(695,148)	(695,148)	(695,148)	(695,148)
Premium Credits	(93,445)	(80,807)	(115,147)	(105,159)	(96,056)
Other Adjustments	-	32,268	(3,238)	(26,681)	-
Total	(788,593)	(743,687)	(813,533)	(826,988)	(791,204)
Net Raised on Tax Rate	5,886,863	7,019,086	9,057,029	12,122,344	13,657,093
Total Tax Levy	124,789,790	132,537,888	141,893,986	151,549,737	162,438,801
Net Excluded Debt as a % of the Total Tax Levy	4.7%	5.3%	6.4%	8.0%	8.4%

* Before Offsets and Adjustments

Table 2.3.2 shows the annual debt service by project that was added to the tax levy for fiscal years 2017 through 2021. The table shows the percentage that the gross excluded debt would have increased the tax levy, and the percentage that the net excluded debt (the gross debt adjusted for offsets and adjustments) made up of the total tax levy. For FY2021, the total excluded debt service was \$14,448,297 which could have added 9.7% to the tax levy, but after accounting for the allowed adjustments, the actual amount added to the tax levy was \$13,657,093 which represented 8.4% of the total tax levy for the year.

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

Chart I

Average Single Family Home Tax Bill Area Communities	
Municipality	FY2021
Weston	\$21,648
Wellesley	\$16,284
Lexington	\$16,241
Belmont	\$15,305
Winchester	\$15,035
Wayland	\$14,818
Newton	\$13,386
Needham	\$12,989
Westwood	\$12,375
Bedford	\$10,171
Milton	\$9,968
Arlington	\$9,405
Natick	\$8,699
Walpole	\$8,254
Dedham	\$7,520
Norwood	\$5,567
Framingham*	
Group Average (excluding Needham)	\$12,312
State-Wide Average	\$6,375

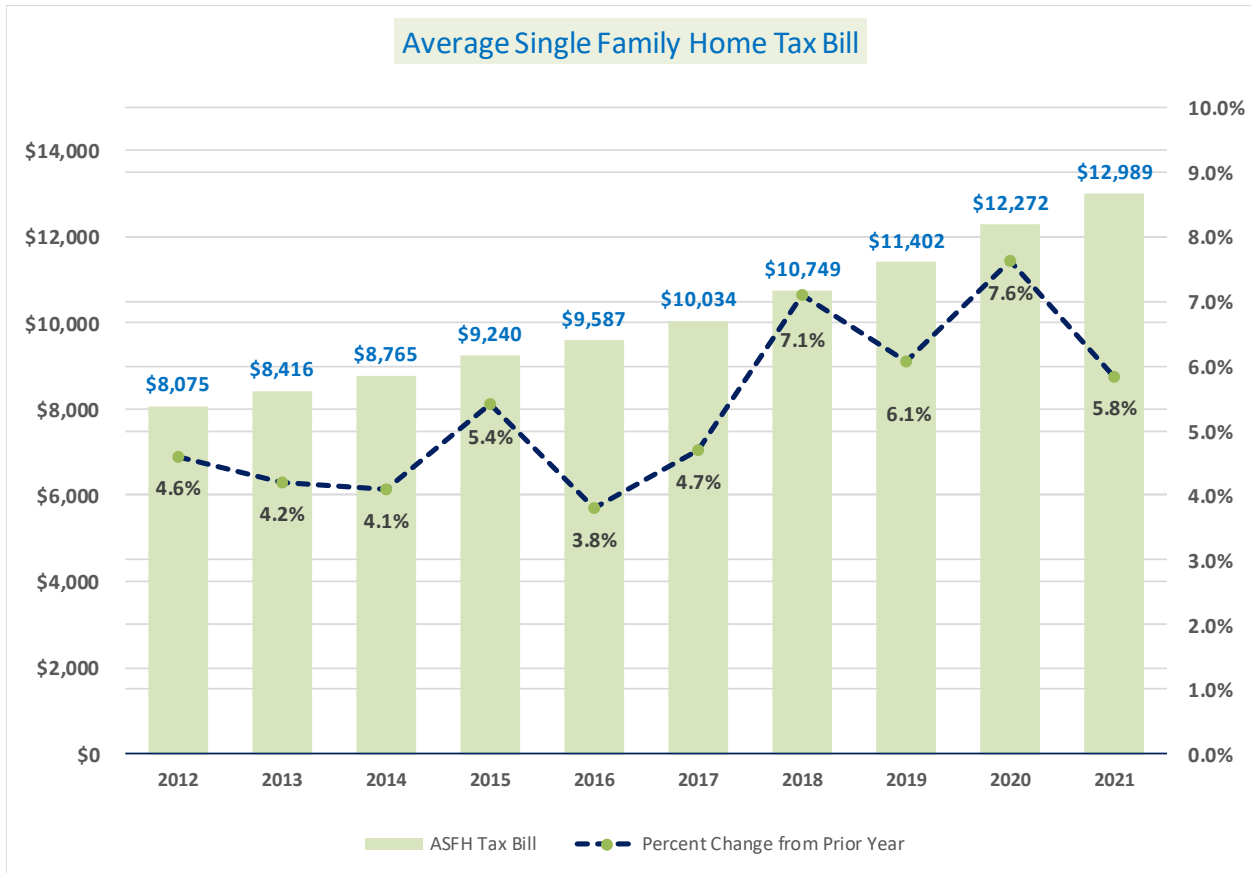
Source: DOR

* The Average Tax Bill for the City of Framingham was not available at the time this chart was produced.

The most current state-wide data available from the Department of Revenue shows that the average single family home (ASFH) property tax bill for FY2021 in the Town of Needham was \$12,989. This places Needham's average single family home property tax bill in the middle of 17 nearby or comparable communities (Chart I), but well over the state-wide average of \$6,375. 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 FY2021 was \$12,312 which is 4.2% more than the average of those communities in FY2020 (\$11,817). The average single family home tax bill in Needham for FY2021 increased by 5.8% from FY2020 (\$12,989 vs \$12,272). The higher than average increase in FY2021 for Needham in comparison to recent years was the additional debt incurred for the Williams School project and the new debt issued to finance the ongoing public safety buildings projects. Chart II (next page) shows the ASFH tax bill and the percent change from the prior year

for the period of FY2012 to FY2021 in the Town of Needham. The increase in the ASFH for FY2021 could have been 7.1%, but with the increased taxable value in commercial development a greater amount of the tax levy was able to be shifted to the business.

Chart II



State Aid

Most State aid, especially Cherry Sheet aid, is a function of the State budget. The Governor is not required to file his FY2022 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 FY2022. For the purposes of this estimate, we have assumed reductions for all State aid programs for FY2022 except Chapter 70. We have assumed a level dollar funding in Chapter 70 aid for Needham and a reduction of 12.5% in Unrestricted General Government Aid (UGGA). We have assumed no funding of all the other Cherry Sheet aid programs which the Town is scheduled to receive for FY2021. 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 6.4% (Table 2.8) of the total general fund before adjustments. As noted earlier, the Governor’s budget plan is not expected until January 27, 2021 and unless the Governor’s budget plan assumes even less total aid to Needham than our estimate, any revision to revenue would be directed towards regularly recurring expenses proposed to be funded from reserves. The Governor’s budget proposal is subject to review and amendment, and final figures are not expected until late spring.

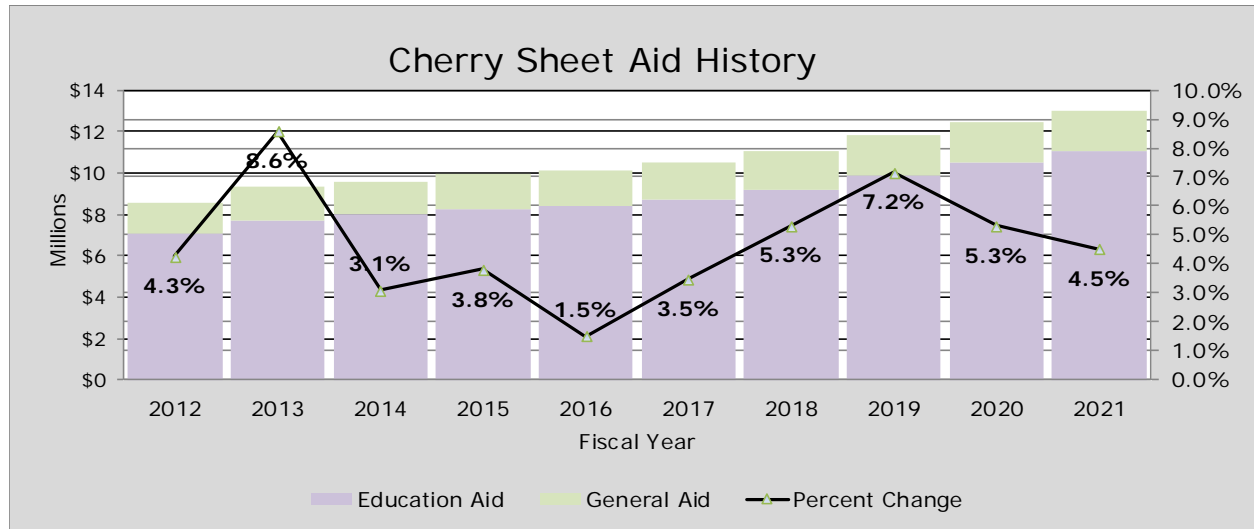
State Aid
Table 2.4

Description	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Recap	FY2022 Estimate	\$ Change
Chapter 70	9,166,360	9,876,152	10,451,715	11,025,783	11,025,783	
Charter School Tuition	16,875	25,481	11,573	4,840		(4,840)
Homeless Transportation	4,016	2,746	3,927			
State Aid for Education	9,187,251	9,904,379	10,467,215	11,030,623	11,025,783	(4,840)
Unrestricted General Government Aid	1,743,949	1,804,987	1,853,722	1,853,722	1,622,007	(231,715)
Veterans Benefits	20,850	16,570	21,672	17,358		(17,358)
Chapter 59 Elderly Exemptions	92,581	49,759	6,709	49,866		(49,866)
Public Library Aid	37,365	37,780	41,164	48,609		(48,609)
State Aid for General Government	1,894,745	1,909,096	1,923,267	1,969,555	1,622,007	(347,548)
Total Cherry Sheet Aid	11,081,996	11,813,475	12,390,482	13,000,178	12,647,790	(352,388)
MSBA Payments	695,148	695,148	695,148	695,148	695,148	
Other State Payments	11,179	7,957	5,567			
Other State Aid	706,327	703,105	700,715	695,148	695,148	
Total State Aid	11,788,322	12,516,580	13,091,197	13,695,326	13,342,938	(352,388)

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

Chart III



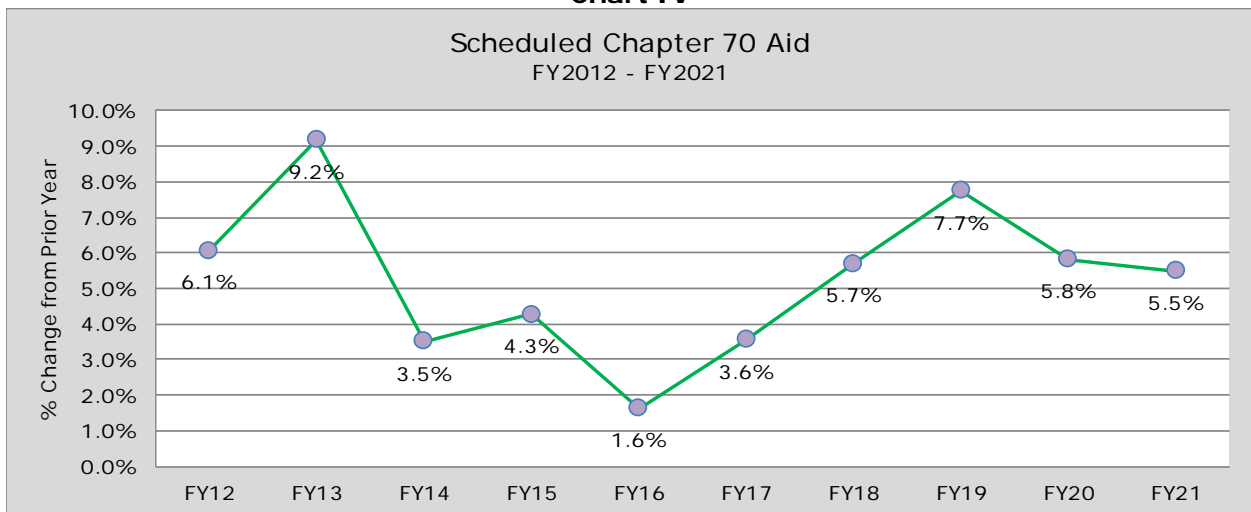
reimbursements and distributions, there are also Cherry Sheet programs designated as Offset Items. These items are amounts that constitute categorical aid, i.e., funds that must be spent for specific programs. The funds received under programs designated as Offset Items may

be spent without appropriation by the Town for the intended purpose (see Adjustments to General Fund Revenue). All other receipt items on the Cherry Sheet are considered revenues of the Town's general fund and may be spent for any purpose, subject to appropriation. Chart III, shown on the previous page, reflects the history of the total amount of Cherry Sheet aid broken out by general and education aid with the annual percentage change in the total for the years FY2012 through FY2021.

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. 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 every year since FY2012. The Town received \$6,991,720 in FY2012, an increase of \$400,763 or 6.1% more than the prior year. The Town received its highest percentage increase in FY2013 of 9.2% (\$642,270) over the ten year period. The Town received \$267,812 more in FY2014 or 3.5%, followed by a \$337,938 increase in FY2015, 4.3%, followed by \$134,050, an increase of 1.6% in FY2016. The distribution from the State in FY2017 was \$297,605 more or 3.6% over FY2016, and FY2018 was \$494,965 over FY2017, an increase of 5.7%. The Town received \$709,792, an increase of 7.7% in FY2019, followed by a 5.8% increase or \$575,563 more for FY2020. The initial budget plan for FY2021 had Needham receiving \$11,508,550 or \$1,056,835 more, an increase of 10.1% which included additional funds for full-day kindergarten, however with the significant drop in state revenues as a consequence of the COVID-19 restrictions, the approved State Budget funded \$11,025,783, which was still an increase of \$574,068 or 5.5%, but a drop of \$482,767 from the assumption prior to COVID-19. The estimate for FY2022 is the same as budgeted for FY2021. Chart IV shows the annual percent change in Chapter 70 aid from FY2012 through FY2021.

Chart IV



The Additional Assistance and Lottery aid programs were consolidated into a new aid category called **Unrestricted General Government Aid (UGGA)** in FY2010. The percentage of increase in the distribution has been declining for several years. The Town received \$1,743,949 in FY2018, an increase of \$65,461 or 3.9% more than the prior year; for FY2019 the Town received \$1,804,987, which was 3.5% more, and in FY2020 the Town received \$1,853,722, a 2.7% increase. The Town is now scheduled to receive a level dollar amount of \$1,853,722 for FY2021. With an anticipated decline in lottery and casino revenue for the year, we have assumed a 12.5% decrease for FY2022 for an estimate of \$1,622,007.

The total for all the **other Cherry Sheet aid** programs that have been identified for Needham - charter school tuition, homeless transportation reimbursements, veterans' benefits, property tax exemption reimbursements, and aid to public libraries totaled \$171,687 for FY2018. For FY2019 the Town was budgeted to receive \$132,803; the Town received a total of \$132,336. The State estimated the total payment for those categories to the Town during FY2020 was \$135,164, the Town received \$85,045. The adopted State budget for FY2021 has the Town receiving \$119,989; at the time when the Tax Recap was approved by the Department of Revenue the Town was to receive \$120,673. As of January 15, 2021, the Town has recorded \$13,876. Therefore, we have assumed no revenue from those above referenced categories for FY2022.

The Town is also expecting the 14th annual contract assistance payment for the Broadmeadow School project. The payment was decreased from \$745,381 to \$695,148 in FY2014. The decrease reflected lower interest expense the Town realized when it issued refunding bonds on the then existing Broadmeadow School project bonds. The reduction allowed the **Massachusetts School Building Authority (MSBA)** to capture its share of the lower debt costs. The MSBA will continue making payments for its share of the school project at **\$695,148** annually through FY2024, 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 (see Table 2.3.2).

Local Receipts

Our time-honored approach of conservatively estimating local receipts is based on a target range. Our goal is to have a local estimate total, by the time the tax rate is sent to the Department of Revenue (DOR) for review, which is less than 80 percent of the prior year's actual receipts excluding non-recurring revenue. With a few exceptions, the Town's receipts are lower now than they were at this same time last year. However, we amended the original revenue estimates for FY2021 from \$14,362,600 to \$11,310,310, a 21% reduction. Many economic reports suggest that the economy will have a slow recovery even with proactive initiatives anticipated to be taken by Washington. Therefore, we have lowered some of the of the receipts estimate and kept other basically flat with a net reduction of \$510,710. The FY2021 estimate, excluding nonrecurring revenue, is approximately 69% of the 2020 actual receipts.

We prepare the projections of local receipts by comparing FY2020 estimated receipts to actual receipts; FY2020 actual receipts to FY2019 actual receipts, FY2021 estimated receipts to the FY2020 actual receipts and FY2021 year-to-date numbers. We also look at trend lines over three and five years. However, activity of the last 12 months weighed more heavily in our revenue assumption than the longer trend because of COVID-19. 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 FY2021 estimated receipts were revised. As the year progresses, further analysis of collections will be performed to determine if fiscal year 2021 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	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Recap	FY2022 Estimate	\$ Change
Motor Vehicle Excise	5,910,555	6,138,951	5,679,213	5,000,000	4,750,000	(250,000)
Other Excise	1,543,308	1,901,101	1,684,874	380,000	570,000	190,000
Penalties & Interest	457,279	397,594	272,719	270,000	270,000	
Payment in Lieu of Tax	131,587	110,088	93,000	90,000	90,000	
Solid Waste Fee			1,108,099	950,000	950,000	
Charges for Services	2,224,465	2,285,167	1,889,262	1,825,000	1,525,000	(300,000)
Fees	233,523	246,976	351,189	125,000	125,000	
Rents	215,852	190,393	114,739	100,000	100,000	
School Income	36,195	15,212				
Library Department Income	17,002					
Recreation Department Income	310,891	518,004	358,649	70,000	70,000	
Other Department Income	342,747	481,601	575,385	385,000	385,000	
Licenses & Permits	2,603,017	2,590,858	2,381,660	1,800,000	1,700,000	(100,000)
Special Assessments	3,534	1,277	914			
Fines & Forfeits	187,560	205,399	234,549	50,000		(50,000)
Investment Income	434,319	979,649	834,163	264,710	264,000	(710)
Medicaid Reimbursement	207,679	180,672	67,188			
Miscellaneous Income	4,169	885	7,967	600	600	
Nonrecurring Income	305,739	282,956	404,781			
Total	15,169,422	16,526,784	16,058,350	11,310,310	10,799,600	(510,710)

Local receipts represent approximately 5.2% (Table 2.8) of the total general fund before adjustments. Local receipts consist of items such as other taxes and excises, licenses, permits, and penalties, fines and forfeitures, investment income, and income from departmental activities and services. The budget estimate for FY2022 of **\$10,799,600** (Table 2.5) is a decrease of \$510,710 or 4.5% from the revised FY2021 budget of \$11,310,310. As previously mentioned, the original FY2021 revenue estimate for FY2021 was \$14,362,600 but was amended downward prior to the adoption of the FY2021 budget by Town Meeting in June, 2020. When completing the tax rate setting process, we further reduced some of the estimates and increased others for the FY2021 receipts based on the final FY2020 results and collections through the first five months of the year.

The three major sources of local receipts, which made up more than 72% of total receipts over the last four years (see chart next page), are Motor Vehicle Excise, License and Permits, and Charges for Services. Year after year motor vehicle excise tax is the major local revenue source accounting for as much as 40% of the total local receipts in a given year and the average percentage over the 2017 – 2020 time period was 37%. Therefore, an overestimation of this revenue will have negative impact on the Town's financial position. All three receipt categories are influenced by the economy, locally and nationally, more so than other receipts.

All vehicle owners who have their vehicles registered in the Commonwealth of Massachusetts pay an annual **Motor Vehicle Excise** tax to the community in which the vehicle is principally

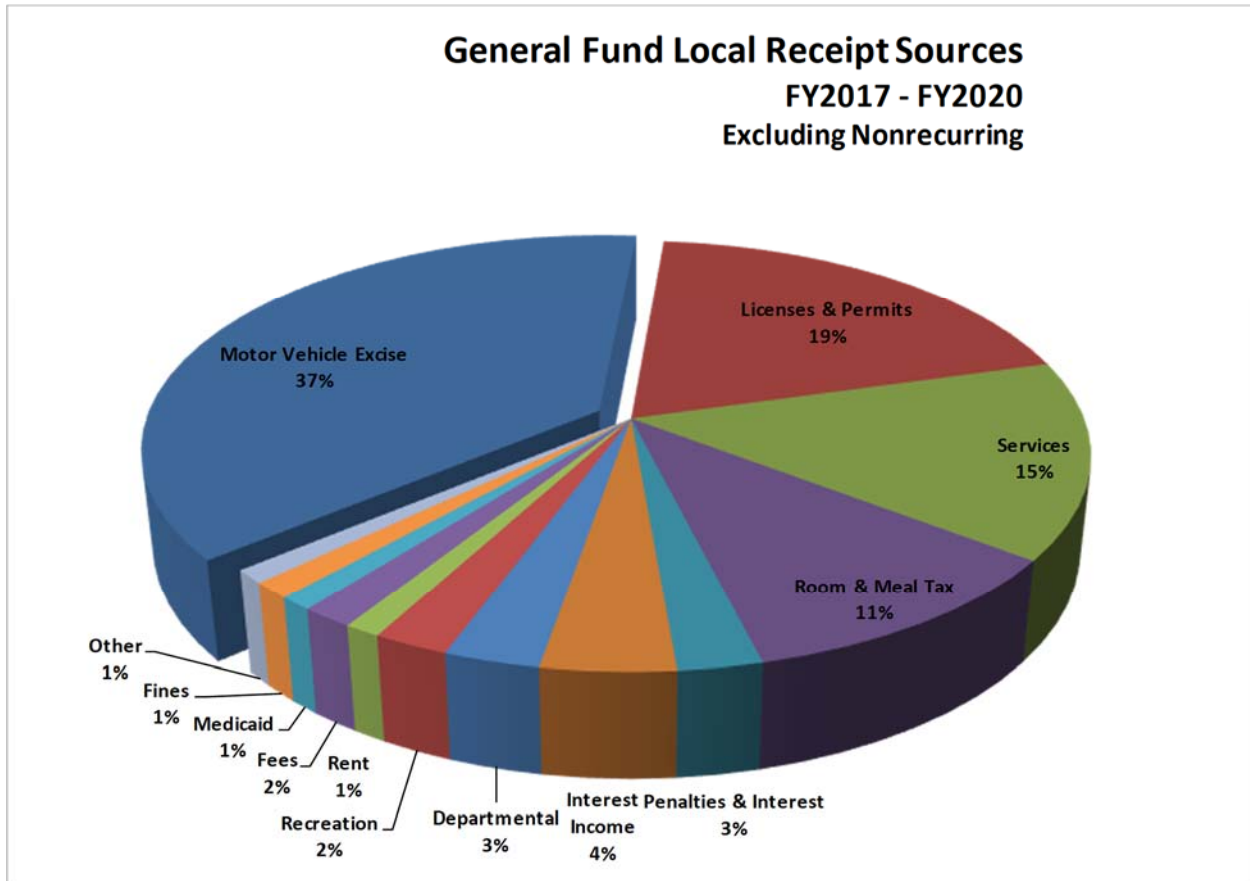
garaged. The Registry of Motor Vehicles provides listings several times during the year with the vehicles that are registered in Needham, along with the value for each. The vehicle values are the manufacturers' list prices for vehicles in their year of manufacture. The present market value, price paid, and/or condition are not considered for excise tax purposes. The excise tax law establishes its own formula for valuation for state tax purposes whereby only the manufacturer's list price and the age of the motor vehicle are considered. In the year preceding the model year of the vehicle (i.e., 2021 vehicle sold in 2020) the value is 50%; in the model year the value is 90%; in the second year the value is 60%; in the third year the value is 40%; in the fourth year the value is 25%; and in the fifth and succeeding years the value is 10%. The Town relies on this information to calculate and issue excise bills. The motor vehicle excise tax rate is set by State law at \$25 per \$1,000 valuation. The rate is uniform throughout the Commonwealth.

We have assumed approximately a 3.0% further decrease or \$200,000 from the FY2021 revised estimate of \$5 million. Motor vehicle excise receipts for FY2022 are projected at approximately **\$4.8 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 had been positive and growing but saw some unexpected declines. The FY2018 revenue declined with total receipts of \$1,543,308 – even with a new hotel opening. However, revenues recovered in FY2019 with \$1,901,101 received. Revenues for FY2020 were on pace to exceed the prior year, but with the COVID-19 travel restrictions and the general slowdown in commerce, the hospitality industry saw many cancellations, fewer people were eating out at restaurants, and the closure of many establishments caused revenues to plummet and the Town's FY2020 receipts came in under FY2019 with \$1,684,874 at 12% decline. With COVID-19 travel and operational restrictions expected to continue through FY2021, we lowered the revenue estimate from \$1,685,000 to \$380,000. With the anticipated vaccination program rolling out over the coming months we have assumed an increase of \$190,000 for a total of **\$570,000** for the year, but the estimate is still much lower than recent years.

The **Penalties & Interest** category includes penalties charged for the late payment of real estate and motor vehicle excise bills, tax lien redemptions, and interest accrued on deferred taxes. This is a revenue source can have major swings from year to year. The fluctuations in actual collections reflect the unpredictability of the timing of payments, particularly settlements on deferred taxes and tax title accounts. The FY2018 actual receipts were \$457,279. The FY2019 collections declined by \$59,685 to \$397,594. The FY2020 receipts also saw a noticeable decline with collections of \$272,719. However, this decline was reflective of the additional time that taxpayers were given to make payment on various bills without incurring interest and/or late fees. Furthermore, there were number of late payments made after the July 1, 2020 and after the waiver date for interest, so revenue was higher which allowed us to amend the original estimate of \$225,000 for FY2021 to \$270,000. The estimate for FY2022 is level dollar at **\$270,000**.

Chart V



Payment In Lieu of Tax is a voluntary payment made by certain tax-exempt entities. The Town receives payments from BID/Needham and the Needham Housing Authority (NHA), but payment from the NHA is dependent on Federal funding. The Town and the Hospital executed a new PILOT agreement in June 2018. The Town received \$131,587 in FY2018, which declined in FY2019 to \$110,088, and declined again in FY2020 to \$93,000. However, there was a delay in receiving scheduled payments during FY2020. The **\$90,000** revenue estimate for FY2022 is the same as budgeted for FY2021. This is approximately 97% of the FY2020 receipts.

Solid Waste Fees are the charges and fees collected for the disposal of solid waste and other items. This will be the third year that this revenue is part of the General Fund. FY2020 was the first year that this revenue was part of the General Fund which generated \$1,108,099. The estimate for FY2021 was amended and is level dollar at **\$950,000** for FY2022. This represents approximately 86% of the FY2020 actual.

The category of **Charges for Services** includes charges for ambulance services, certain parking revenue, and charges by the DPW. This revenue also includes solar electric payments the Town receives from Eversource for power generated by the solar array at the former landfill. The Town received \$2,224,465 in FY2018, which increased approximately 2.7% in FY2019 with \$2,285,167. The impact of COVID-19 both operational and activity was noticeable with the decline in actual revenue for FY2020 of more than 17% for a total of \$1,889,262. We have calculated the revenue estimate from the sale of solar power to be \$728,500 based on an average price of \$0.235 per kWh. The total estimated income from

the various charges and solar revenue for FY2022 is **\$1,525,000**, a decrease of \$125,000 over the FY2021 estimate of \$1,825,000. The estimate for FY2022 is approximately 81% of the FY2020 actual revenue.

The Town collects various **Fees** which include returned checks, FID cards, administrative fees for details, Registry of Motor Vehicle license and registration non-renewal releases, and parking meter receipts. The total fees collected in FY2018 was \$233,523, which increased to \$246,976 for FY2019. FY2020 showed another increase with \$351,189, however this included payment of cannabis related fees of \$135,685 which included more than one year. Excluding that income actual receipts for FY2020 would have been lower than the prior year at \$215,503. The Select Board also approved waiver of parking fees which has been extended to June 30, 2021. Consequently, the original revenue estimate for FY2021 of \$220,000 was amended downward to \$125,000. The estimate for FY2022 is also **\$125,000** which is approximately 36% of the FY2020 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. The Town also has a rental agreement with Tesla for use of the former landfill site where the solar panels are located. The Town also collects rent on the use of Town facilities such as Powers Hall. Total rental income for FY2018 was \$215,852 for FY2018, followed by a decrease with \$190,393 for FY2019, and FY2020 ended with \$114,739. The FY2021 estimate had to be lowered to \$100,000 from the \$160,000 initial estimate for the year because of the actual received. The estimate for FY2022 is also **\$100,000** which is approximately 87% of the FY2020 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 \$36,195 for FY2018, \$15,212 for FY2019, and nothing in FY2020. There was no estimate for FY2021 and based on current trends, we are estimating no revenue for FY2022.

Library Income had been declining year over year. The last year income was reported under this line was FY2018 with \$17,002. The Library's plan is to end overdue fines, but those funds are accounted for under the Fines and Forfeits account. With no reported income under this revenue category since FY2019, there is no revenue estimate for FY2022.

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 opened late in the summer of 2018. However, even with the late opening receipts increased to \$310,891 for FY2018 compared to the \$243,016 collected during FY2017. Rosemary Pool receipts accounted for \$127,511 of the total collections in FY2018. The FY2019 actual receipts totaled \$518,004. However, the impact of COVID-19 on recreational programs, and long delayed limited opening of the pool reduced revenues for FY2020 to \$358,649. With COVID-19 restrictions still in effect for FY2021, the revenue estimate for FY2021 was reduced from \$465,000 to \$70,000. Even with the promise of the vaccine, the summer of 2021 is anticipated to have very limited activities that will generate income, so the estimate for FY2022 is also at **\$70,000** which represents approximately 19.5% of the FY2020 actual.

Other Department Income includes revenue collected by the various Town departments, which are not properly accounted for in the other accounts. This would include amounts

received by planning and conservation departments. The total receipts for FY2018 were \$342,747, which increased to \$481,601 for FY2019, and increased to \$575,385 for FY2020. With the cancelation of some activities, longer timelines for departments to respond to requests because of COVID-19 restrictions, and general slowdown in local activity this revenue was anticipated to decline so the original estimate was lowered from \$432,000 for FY2021 to \$385,000. We anticipate that this revenue stream should recover quicker than some other categories, but we have kept the same **\$385,000** estimate for FY2022, which is approximately 67% of the FY2020 actual.

The category of **Licenses and Permits** includes licenses issued by the Select Board and Town Clerk, and permits issued by the Building, Fire, and Health Departments. Actual receipts in FY2018 saw a very significant decrease by more than 58% from FY2017 with \$2,603,017. FY2019 revenue declined as well with \$2,590,858, followed by another drop in income for FY2020 with \$2,381,660. This is reflective of the great variability in the permitting of projects and the timing of when construction begins. The original estimate for FY2021 was reduced from \$2,050,000 to \$1,800,000. At the present, based on continued construction activity, and anticipation that more establishments will be open in FY2022, we have held the estimate for FY2022 at **\$1,700,000**. This estimate is 71% of the FY2020 actual.

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

The category of **Fines and Forfeits** includes parking tickets, court fines, library fines, and other violations. Enforcement of parking regulations and other non-criminal infractions were limited due to concerns related to COVID-19. There has also been a growing trend across the United States to not overtly depend on fines and forfeiture to fund governmental activities, which tend to fall more heavily on those with limited means. Actions such as planned by the Library to suspend fines is growing, so budgetarily, we will not assume a revenue estimate to fund governmental services.

Investment (Interest) Income has been a volatile revenue stream over time (see Chart VI). 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, and more than doubled for FY2017 at \$278,831. FY2018 saw total General Fund interest earning of \$434,319. The FY2019 actual interest earnings were significantly higher with \$979,649, a level not seen since the 2000's. The actual interest earnings in FY2020 were lower with \$834,163. However, interest rates declined precipitously with the impact of COVID-19. The estimate for FY2021 was amended to \$264,710 because of the decline in interest rates. The FY2022 estimate is **\$264,000** which is approximately 32% of the FY2020 actual.

Chart VI

General Fund Interest Income

Fiscal Year	Interest	Fiscal Year	Interest	Fiscal Year	Interest
2012	\$103,130	2015	\$101,273	2018	\$434,319
2013	\$84,803	2016	\$111,638	2019	\$979,649
2014	\$77,523	2017	\$278,831	2020	\$834,163

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. Revenue in FY2017 was higher at \$194,935 and increased to \$207,679 for FY2018, but actual revenue declined in FY2019 with \$180,672. The FY2020 actual revenue dropped even more to \$67,188. With continued uncertainty with Federal revenue in this area, and the reliance on the guidance provided by the Department of Revenue, we made no estimate for FY2021, nor an estimate for FY2022. For recurring miscellaneous income, we have kept the estimate for FY2022 at **\$600**, the same as the estimate for FY2021.

Chart VII

Medicaid Reimbursements

Fiscal Year	Interest	Fiscal Year	Interest	Fiscal Year	Interest
2012	\$134,618	2015	\$211,056	2018	\$207,679
2013	\$203,297	2016	\$176,672	2019	\$180,672
2014	\$73,511	2017	\$194,935	2020	\$67,188

Nonrecurring Income represents funds that may be received but are not expected to reoccur, e.g., one-time grants, financial assistance for an event, etc. In FY2017, Town recorded \$305,739 in nonrecurring receipts. The largest receipt was from the sale of surplus equipment of \$166,612. The second largest amount was from the recapture of tailings and void checks from prior years totaling \$111,324. During FY2019 the Town collected \$282,956 in nonrecurring receipts. The largest receipt for that year was a rebate of \$113,549 from Public Power for prior year assessments. The sale of surplus equipment generated \$81,000 during FY2019. During FY2020, the Town reported \$404,781 in nonrecurring receipts. The largest receipt was \$203,655 from Town’s insurance carrier from program and loss prevention incentives. As in recent years, the sale of surplus equipment generated the second largest amount considered nonrecurring receipts with \$111,171. The combined total of those two sources accounted for 78% of the nonrecurring revenue. The Town received \$54,480 from Eversource for energy efficiency efforts by the Town in the construction of the Sunita L Williams elementary school. The balance of the nonrecurring receipts (\$35,475) represents various refunds, recoveries, and one-time monies received by the Town during the year. There is no estimate for miscellaneous nonrecurring receipts for fiscal 2022.

General Fund Recurring Receipts
Table 2.6

Description	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Recap	FY2022 Estimate	\$ Change
Property Taxes	125,558,932	132,419,594	138,227,154	148,781,708	156,635,962	7,854,254
State Aid	11,081,996	11,813,475	12,390,482	13,000,178	12,647,790	(352,388)
Local Receipts	14,863,683	16,243,828	15,653,569	11,310,310	10,799,600	(510,710)
Total Receipts	151,504,610	160,476,898	166,271,206	173,092,196	180,083,352	6,991,156

Other Available Funds

Other available funds (\$238,235) represent 0.1% (Table 2.8) of the total general fund before adjustments and offsets. Projections of reserves follow past budget methodology. The uses of the funds are based on historical uses of these funds. The three available funds that have been recurring are Debt Exclusion Offsets, Overlay Surplus, and until FY2018, the 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.

Debt Exclusion Offset is an amount equal to the amortized value of a premium that may have been received on a debt-excluded bond or note and is spread over the life of the loan. The offset reduces the amount of the excluded debt service that is raised on the tax levy. The amount for FY2022 is \$71,176.

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. Previously each fiscal year required its own overlay account, but with the passage of Municipal Modernization Act several years ago, all individual overlay accounts were combined into a single account. However abatement and exemption activity is still tracked on a fiscal year basis. The change eliminates the need for a year by year reconciliation of the abatement recordings and provides greater flexibility to satisfy valid claims for adjustment of taxes. From time to time the Board of Assessors may vote to release funds from the overlay fund, which then is considered a surplus and may be used as a funding source by Town Meeting during the year that the surplus is declared. Any funds declared as surplus and not appropriated by Town Meeting will be closed out to fund balance and will contribute to the Free Cash certified in the following fiscal year. We have planned on the use of **\$150,000** to fund appropriations. Per state statute, the Board of Assessors must formally vote to release any determined surplus before it is available for appropriation. The Board released \$1,000,000 earlier in the year of which \$850,000 was appropriated at the October 4, 2020 Special Town Meeting.

The **Parking Meter Fund** is reserved for appropriation and the revenues are derived from parking meters, which under State Law must be used for parking-related purposes. With the passage of the Municipal Modernization Act, parking meter receipts collected after November 7, 2016 are now considered General Funds. The Act allows the Town to reestablish the Parking Fund, but this budget plan does not contemplate such action. Therefore, there was no transfer to the operating budget for FY2019, FY2020, FY2021, or planned for FY2022. Parking meter receipts have been part of the General Fund local receipts category since the 2016 change.

Transportation Infrastructure Funds are received funds from the Commonwealth through a state assessment on transportation network companies, such as Uber and Lyft, operating in the state. Each company reports to the State the number of rides that originated in Needham and remits a per-ride assessment of \$0.20, which is credited to the State's Transportation Infrastructure Enhancement Fund of which one half of the amount is sent to the Town. There was a bill filed last year to increase the assessment to \$1.00 per trip. The distributed funds are special revenue, which require appropriation prior to use. The funds are reserved to be appropriated by Town Meeting for expenses related to the operation of transportation network services in the town including, but not limited to, the complete streets program established in Chapter 90 and other programs that support alternative modes of transportation. The amount estimated for FY2022 is \$17,059.

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

Free Cash

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

The Free Cash has not yet been certified for FY2021, but preliminary estimates have Free Cash between \$12 and \$17 million. We have assumed **\$12,500,000** for this budget plan. Free Cash above the amount for this budget plan may be one of the primary funding sources, if needed, for COVID-19 expenses projected for FY2022. At the time of publication, the estimated one-time costs related to COVID-19 is appropriately \$4.8 million. The \$12.5 million represents 6% of the total general fund before adjustments and offsets. This is an increase of \$4,637,528 from the amount that was used for the current year. The expected higher Free Cash figure is due to several factors: spending restraints implemented during FY2020 which resulted in a greater percentage budget turnback, using less of the certified Free Cash last year so that a greater amount would be rolled over to this year, and the dissolution of the RTS Enterprise Fund. At the close of FY2020, the RTS enterprise fund assets, including retained earnings were transferred into the General Fund. The Certified Free Cash in FY2020 was \$12,369,898 of which \$7,862,473 was used for FY2020 and FY2021 appropriations and the balance of \$4,507,426 was closed out at the end of the year and should become part of the Free Cash that will be certified by the State this year. The certified Free Cash in FY2019 was \$10,387,871 of which \$10,337,871 was used for FY2019 and FY2020 appropriations and the balance was closed out at the end of the year. The certified Free Cash in FY2018 was \$13,518,622 of which \$13,298,378 was used for FY2018 and FY2019 appropriations and the balance was closed out at the end of the year. The Free Cash certified in FY2017 was \$13,849,687 of which \$11,387,990 was used for appropriations during FY2018. 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
FY2017	FY2018	13,849,687	2,700,921	2,689,482	5,438,467	1,145,000	2,115,041	2,461,697
FY2018	FY2019	13,518,622	2,858,833	2,506,298	9,020,289	181,000	1,590,791	220,244
FY2019	FY2020	10,387,871	3,027,431	2,068,301	7,418,252	684,706	166,612	50,000
FY2020	FY2021	12,369,898	3,217,536	3,208,040	3,939,433	715,000	-	4,507,426

Given that the Town of Needham develops its annual operating and capital budgets in such a way that Free Cash can be counted upon each year, some amount of Free Cash has been used to support operating expenses. We continue to recommend that the amount of Free Cash used to fund the operating budget should not be more than 2% of the budget turn back of the prior completed fiscal year or the actual amount returned, whichever is less. We use the final adjusted operating budget to calculate the two percent figure. We define the final

adjusted operating budget as the total of the Departmental budgets and Townwide expenses, except for the Reserve Fund. We do not include any transfer from the Reserve Fund line into the Departmental budgets. Any return from the Reserve Fund would not be considered part of the budget return when calculating the lesser of the two calculations: two percent of the final adjusted budget, or actual return, wherever is less. In table 2.7.2, we show what the budget returns have been in the past four years and what the two percent of the final adjusted operating budget would have been.

Operating Budget Returns
Table 2.7.2

Fiscal Year Activity	Final Budget	Returned	Adjusted Final Budget	Related Return	Percent of Budget	Reserve Fund Return	Reserve Fund Return as a % of Total Return	Two Percent of the Adjusted Final Budget
2017	144,396,032	4,031,697	142,941,656	3,287,076	2.3%	744,621	18.5%	2,858,833
2018	153,184,148	4,450,548	151,371,548	3,615,609	2.4%	834,939	18.8%	3,027,431
2019	162,736,704	4,894,717	160,876,813	3,342,618	2.1%	1,552,099	31.7%	3,217,536
2020	178,260,006	7,634,782	176,378,506	5,783,282	3.3%	1,851,500	24.3%	3,527,570

Two percent of the FY2020 adjusted final budget equals \$3,527,570; the actual FY2020 budget return less the Reserve Fund return was \$5,783,282 which is more than two percent (Table 2.7.2). The budget plan has **\$3,527,570** of the Free Cash being used for operating expenses, the maximum under the allowance. Free Cash is also proposed to be used to fund cash capital and warrant articles, including temporary COVID-19 related expenses that are not covered by Federal or State assistance. 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	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Recap	FY2022 Estimate
Property Taxes	75.3%	75.5%	77.6%	82.5%	82.2%
State Aid	6.7%	6.7%	6.8%	7.0%	6.4%
Local Receipts	8.6%	8.8%	8.3%	5.7%	5.2%
Other Available Funds	2.9%	1.7%	2.0%	0.8%	0.1%
Free Cash	6.5%	7.2%	5.3%	4.0%	6.0%
Total General Fund Revenue*	100.0%	100.0%	100.0%	100.0%	100.0%

*May not equal 100% due to rounding

ADJUSTMENTS TO GENERAL FUND REVENUE

While most enterprise fund expenses are accounted for in the enterprise fund, certain costs of the department are reflected in the general fund budgets of other Town departments (e.g., treasurer/collector, information technology, personnel, insurance, etc.). These enterprise-related general fund expenditures are funded with transfers of revenue from the enterprise fund to the general fund. The amount projected for FY2022 is based on the current year and is estimated at **\$1,250,000**.

The preliminary estimate for the sewer fund reimbursement is **\$425,000**. The estimate for the water fund is **\$825,000**. Because indirect costs associated with the two funds are a factor of Town Meeting appropriations, the actual FY2022 transfers may be adjusted accordingly.

Enterprise Reimbursements to the General Fund
Table 2.9

Description	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Recap	FY2022 Estimate
Solid Waste	322,037	265,250			
Sewer	428,888	471,071	472,345	465,865	425,000
Water	754,489	871,743	853,155	864,193	825,000
Total	1,505,414	1,608,064	1,325,500	1,330,058	1,250,000

FY2022 is the 11th operating budget that will include **CPA** supported debt service. The Town Hall financing plan calls for debt service paid by CPA funds to be \$405,041, which is a decrease of \$11,632 from FY2021. This is the third year that debt service related to the Rosemary Recreation Complex and Pool project comes due. The amount payable during FY2022 is \$616,356 which is a decrease of \$391,969 from FY2021. The total transfer for FY2022 is **\$1,021,397**, a decrease of \$403,603, or approximately 28.3%. We reflect \$1,021,397 as another adjustment to General Fund revenue because the CPA debt is included in the general operating budget of the Town.

OTHER RESERVES AVAILABLE FOR APPROPRIATION

The available balance in the **Stabilization Fund** as of December 31, 2020 was \$4,408,061. 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 an **Athletic Facility Improvement Fund** for the purpose of reserving funds for future extraordinary athletic field and artificial turf replacement and maintenance costs. The balance in the fund as of December 31, 2020 was \$270,031. The budget plan calls for an appropriation of \$30,815 to the Fund, which represents the five year average of use fees collected by Park and Recreation for this purpose.

The Town also established a **Capital Facility Fund** for the purpose of reserving funds for future extraordinary capital facility maintenance costs. The balance in the fund as of December 31, 2020 was \$1,920,617. No appropriation to the Fund is planned for the 2021 Annual Town Meeting but there may be a transfer recommendation to the Fund at a Special Town Meeting.

The Town also established a **Capital Improvement Fund** for the purpose of general fund capital equipment. The balance in the fund as of December 31, 2020 was \$1,096,370. No appropriation to the Fund is planned for the 2021 Annual Town Meeting but there may be a transfer recommendation to the Fund at a Special Town Meeting related to the sale of surplus equipment during 2019 and 2020.

The Town also established a **Debt Service Stabilization Fund** for the purpose of setting aside funds to smooth out the impact of General Fund Debt Service within the levy limit that may exceed the Town's goal that only three percent of General Fund revenues be designated for debt. The balance in the fund as of December 31, 2020 was \$2,152,709. No appropriation to the Fund is planned for the 2021 Annual Town Meeting.

ENTERPRISE FUNDS

An enterprise fund is used to account for those operations that are financed and operated in a manner similar to a private business. The Department of Revenue states that Enterprise Funds allow a community to demonstrate to the public the portion of total costs of a service

that is recovered through user charges and the portion that is subsidized by the tax levy or other available funds, if any. The Town has established an Enterprise Fund for its water operation, sewer operation, and until last year, for the Recycling Center and Transfer Station (solid waste disposal). The enterprise funds are reimbursing the general fund for their related indirect costs (e.g., enterprise employee benefits, property insurance, shared staff, etc.).

Enterprise Receipts
Table 2.10

Description	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Budget	FY2022 Estimate	\$ Change
Recycling and Transfer Station	1,190,844	1,246,292				
Sewer Enterprise	9,177,665	8,881,252	9,060,044	8,388,447	8,536,815	148,368
Water Enterprise	6,798,747	6,741,752	6,303,298	6,153,530	6,024,238	(129,292)
Total*	17,167,256	16,869,296	15,363,342	14,541,977	14,561,053	19,076

* Receipts before adjustments, reimbursements, and subsidies

The combination of the Sewer and Water Enterprise funds has total receipts at \$14,561,053 for FY2022 compared to \$14,541,977 estimate for FY2021 (Table 2.10). This represents an increase of \$19,076 or approximately 0.13%. However, the MWRA sewer and water assessments have not been received, and therefore the plan level funds the assessments. Any change will be reflected by an adjustment to receipts.

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

Description	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Budget	FY2022 Estimate	\$ Change
Recycling and Transfer Station	798,040	482,753				
Sewer Enterprise	368,556	2,551,111	1,631,487	1,018,088	1,073,860	55,772
Water Enterprise	433,074	3,532,048	291,500	43,002	1,016,634	973,632
Total	1,599,670	6,565,912	1,922,987	1,061,090	2,090,494	1,029,404

The budget calls for the use of **\$1,073,860** of retained earnings in Sewer Enterprise for cash capital and **\$ 1,016,634** in Water Enterprise fund retained earnings for capital. The increases are driven by previously planned capital investment which is to be funded by cash, not debt.

Transfers to the Enterprise Funds

The Town approved a change effective with the FY2012 budget that the expenses associated with the Drains Program that were carried in the DPW General Fund Operating Budget are now part of the **Sewer Enterprise Fund Budget**. The employees who perform a majority of the drains-related work are assigned to either the water or sewer division. There are benefits for the Town to have the water and sewer employees perform the drains-related work rather than hiring additional staff for the sole purpose of drain work. The drains program is considered a general fund expense and not a sewer or water fund expense. The weekly tracking and processing of drains related procurement, accounts payable, and payroll, as well as the budgeting process is easier and more efficient (less cross-fund accounting work) to process the finance-related tasks through one of the enterprise funds, rather than the prior three fund process (general fund, sewer fund, and water fund). The General Fund still pays the drains-related costs, but the appropriation is made from the General Fund to the Sewer Enterprise Fund Budget. The FY2022 budget recommendation is **\$526,368**, a decrease of \$18,330 (-3.4%) from the FY2021 funding of \$544,698. Chart VIII shows the payment made to the Sewer Enterprise Fund since FY2012.

Chart VIII
General Fund Payment

Fiscal Year	Interest	Fiscal Year	Interest	Fiscal Year	Interest
2012	\$469,610	2015	\$463,430	2018	\$491,749
2013	\$493,932	2016	\$494,488	2019	\$504,750
2014	\$468,936	2017	\$519,846	2020	\$530,467

The **Water Enterprise Fund Budget** will not require a General Fund subsidy.

ENTERPRISE FUND RETAINED EARNINGS

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

Similar to Free Cash, retained earnings are a function of the operations of the prior fiscal year and are generated by revenues collected in excess of estimates and unexpended balances of appropriations, as of June 30th. Once certified by the Massachusetts Department of Revenue, retained earnings are then available for appropriation or reserved to support the enterprise. Retained earnings for FY2021 have not been certified by the Department of Revenue as of the publication of this plan.

Table 2.12 shows the amounts which were certified as retained earnings by the Department of Revenue for the previous four complete fiscal years. The RTS retained earnings that were certified last year were closed out to the General Fund with the dissolution of the enterprise fund and will contribute to the higher anticipated Free Cash certification for FY2021. The decline in the Sewer retained earnings was due to a greater use to fund operations expenses in order to not raise rates for FY2021. We anticipate a further decline in Sewer retained earnings. The Town's use of Water retained earnings last year was limited in order to preserve the account balance and to prepare for funding several major capital projects coming for a vote in the next three years that will rely on retained earnings in order to reduce the amount that would otherwise be financed by debt.

Certified Retained Earnings
Table 2.12

Fund	FY2017	FY2018	FY2019	FY2020	FY2021
Recycling and Transfer Station	1,135,503	490,750	71,727	420,749	N.A.
Sewer Enterprise	3,433,474	4,500,960	3,286,421	2,097,365	Pending
Water Enterprise	4,168,418	5,368,805	3,080,815	4,134,675	Pending

COMMUNITY PRESERVATION FUNDS

Town voters approved a 2% Community Preservation Act surcharge on real estate property tax bills effective July 1, 2005. The 2% surcharge is assessed on the total property tax due,

adjusted for certain exemptions. The tax on the first \$100,000 of residential valuation is not included in the CPA surcharge, and there are also exemptions for certain low and/or moderate-income taxpayers. Actual CPA revenues collected by the Town in the prior year are eligible for matching funds from the State. The match is equal to a percentage determined annually based on available funds for distribution, not to exceed 100% of the receiving community's actual receipts. The distribution 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% and dropped to 17.2% on the FY2017 revenue. With a supplemental appropriation to the CPA trust fund by the Legislature for FY2018, the Town received a state match of 18.93% on the FY2018 revenue. The state match on the FY2019 revenue was approximately 14%; the Town received \$248,287 in November 2019. The State provided an additional \$244,092 as a match for the prior year, which combined with the earlier payment totaled \$592,379. The effective state match on the FY2020 revenue was 23.92%. The total received in FY2021 for FY2020 surcharges was \$754,080. The higher amounts receive will require a supplemental appropriation to the Community Housing and Open Space reserves.

We believe the distribution range in FY2022 on the FY2021 revenue will be between 10% and 25% and our revenue estimate is at the low-point. The current estimate based on FY2021 collections that will be received as **state matching funds** in FY2022 is **\$280,939** or 10%. The 2% **CPA surcharge** on FY2022 property tax bills is estimated at **\$2,974,000**. The total estimated receipts for FY2022 are currently at \$3,254,939.

The estimate provides for \$82,000 to be appropriated to the Community Preservation Committee's (CPC) administrative budget and \$358,044 to be credited to both the Community Housing Reserve and Open Space Reserve. The \$358,044 figure is approximately 11% of the new revenue estimate for FY2022. 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 FY2022 debt budget includes \$ 405,041 of debt service for the Town Hall project and \$616,356 of debt service for the Rosemary Recreation Complex. The Town Hall project was previously designated as a historic preservation project, and therefore the \$1,021,397 appropriation to the General Fund operating budget will satisfy minimum requirement for spending on Historic Resources. The balance of the CPA revenue estimate of \$1,435,454 would be transferred to the Community Preservation Fund General Reserve for FY2022. 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 has not been determined yet. After it has been approved, the balance remains available for appropriation until June 30, 2021. The FY2021 CPA General Reserve has a balance of **\$817,977** and the funds remain available for appropriation until June 30, 2021 as well. The CPA Free Cash and General Reserve will close out to the CPA fund balance after the end of the FY2021 and will not become available for use in FY2022 until after the CPA Free Cash is certified for FY2021. The Community Preservation Committee (CPC) has not yet made any funding recommendations for FY2022. The amounts currently held in the three required reserves as of December 31, 2020 are as follows:

Community Housing Reserve	\$2,459,763
Historic Resources Reserve	\$ 15,820
Open Space Reserve	\$1,441,944

Town of Needham Community Preservation Fund Revenue and Appropriations FY2022
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Community Preservation Fund Revenue Estimates

Surcharge Revenue Estimate	2,974,000
State Trust Fund Distribution Estimate	280,939

Revenue Estimate	3,254,939
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Community Preservation Fund Appropriation Estimates without Projects

Town Hall Project Debt Service (GF Debt Operating Budget)	405,041
Rosemary Recreation Complex Project Debt Service (GF Debt Operating Budget)	616,356
Community Preservation Committee Administrative Budget	82,000
Community Housing Reserve	358,044
Historic Resources Reserve	0
Open Space Reserve	358,044
Community Preservation Fund Reserve	1,435,454

Appropriation Estimates	3,254,939
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Reserve Balances 12/31/2020

Community Housing Reserve	2,459,763
Historic Resources Reserve	15,820
Open Space Reserve	1,441,944

FY2021 General Reserve (A single year reserve, any unused balance closes out 6/30/2021)	817,977
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CPA Free Cash (A single year reserve, any unused balance closes out 6/30/2021)	Pending
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Total Reserves	4,735,504
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Specific Appropriation Requests

Emery Grover Renovation/ Addition Project	1,475,130
Preservation of Town of Needham Marriage Records	25,000
Town Hall Clock Repairs	83,000
Town Common Historic Redesign and Beautification	1,364,000
Fisher St. Trailhead, Needham Rail Trail	15,000
Resurface Synthetic Track at DeFazio	166,000
McCleod Field Renovation	45,000
Trail Identification Professional Design Services	6,000
Walker Pond Improvements	125,000
Town Reservoir Sediment Removal	262,000
Total Project Requests	3,566,130