



Memorandum

To: Board of Selectmen
Finance Committee

From: Martha White, Town Administrator
Michael Walters Young, Deputy Town Administrator
Robert Palmer, Finance Director
Charles Panagopoulos, Comptroller

Date: Friday, August 07, 2009

Re: Budget Update: FY 2009, FY 2010 & FY 2011

Now that the Town is more than a month into FY 2010, the end-of-year picture can be developed for FY 2009. In addition, we can update our information regarding the current fiscal year and the FY 2011 projections.

FY 2009

Fiscal year 2009 should be remembered for a year of stark contrast – when the year began the community had generously voted an override to allow sustained government services and we all believed that we would be able to maintain those services through at least FY 2010. But given the worldwide economic downturn and the resulting impact on state aid and other revenues, by the end of the fiscal year we were happy simply to be closing the year with a positive balance.

Revenues:

Whereas property tax receipts are a relatively predictable source of revenues, state aid and estimated receipts have been particularly volatile over the last year. Mid-year state aid reductions reduced impacted our anticipated revenues by over \$900,000. Estimated receipts made up that difference.

FY 2009 General Fund	2009		Difference	
Operating Revenues	Estimated	Actual	\$	%
Tax Levy	\$ 73,083,995	\$ 72,696,077	\$(387,918)	99.47%
State Aid	\$ 12,341,007	\$ 11,419,582	\$(921,425)	92.53%
Estimated Receipts	\$ 10,801,500	\$ 11,735,232	\$ 933,732	108.64%
Other Local Receipts	\$ 6,357,196	\$ 6,605,193	\$ 247,997	103.90%
Total General Fund Revenues	\$ 102,583,698	\$ 102,456,084	\$(127,614)	99.88%

*Note: Amounts may change slightly above.

The estimated receipts detailed revenue breakdown is shown below.

Estimated Receipts	Recap FY09	Actual FY09
Motor Vehicle	\$ 3,800,000	\$ 4,187,048
Hotel Tax	\$ 835,000	\$ 833,846
Payment & Interest Taxes/Excise	\$ 200,000	\$ 641,970
Payment in Lieu of Taxes	\$ 16,500	\$ 117,635
Trash Fee	\$ 1,040,000	\$ 1,005,638
<u>Other Charges for Services</u>		
Police Special Duty Service Charges		
Ambulance Fees - Other Charges	\$ 900,000	\$ 939,660
Rentals	\$ 390,000	\$ 397,997
Recreation	\$ 75,000	\$ 75,000
<u>Other Departmental Revenue</u>		
Fines/Forfeits	\$ 230,000	\$ 198,843
Other Departmental Revenue	\$ 745,000	\$ 650,453
Investment Income	\$ 800,000	\$ 382,944
License/Permits	\$ 1,200,000	\$ 1,181,420
Special Assessments	\$ 20,000	\$ 21,243
<u>Miscellaneous Non-Recurring</u>		
SBA Reimbursement/Other	\$ -	
Tax Per Chap 59 Sec D (%% Occup.)	\$ 550,000	\$ 1,101,534
Estimated Receipts	\$ 10,801,500	\$ 11,735,232

*Note: Amounts may change slightly above.

Staff was very concerned that we would face a significant revenue shortfall this year. As indicated in the table, actual revenues in several categories were, in fact, lower than initial projections. However, rather unexpectedly, real estate tax payments were made on the Natick Collection condominium units (presently in Chapter 11 bankruptcy proceedings) and better-than-expected motor vehicle excise taxes helped to ensure that overall revenues were not as bleak as we had feared.

Expenses:

Throughout the fall and winter of FY 2009, as state and local revenue projections began to decline, a series of cost-containment measures – including voluntary work-week reductions, hiring limitations and purchasing reductions – were implemented by the Administration. These measures were critical to ensure – at a minimum – a positive end-of-year balance and – ideally – a healthy level of resulting free cash.

The results are shown below for the three major sections of town operations: Municipal Departments (including libraries), the Natick Public Schools and Shared Expenses.

FY 2009 General Fund Operating Expenses	Revised Budget	Actual	Encumbrances	Total Spent	Balance
	A	B	C	D	E
				(B+C)	(A-D)
Municipal (incl. Libraries)	27,814,029	26,023,725	441,732	26,465,457	1,348,572
Education	44,148,423	43,741,845	324,178	44,066,023	82,400
Shared (incl. Keefe Tech)	27,190,917	26,518,966	47,226	26,566,191	624,725
Other Expenses	4,286,994	4,286,138	-	4,286,138	856
Total General Fund	103,440,363	100,570,674	813,136	101,383,810	2,056,553

Notes:

Amounts shown above do not tie to Comptroller's 4th Quarter expense reports due to two reasons: capital articles included within department budgets have been removed to accurately tie back to Town Meeting appropriations for FY 2009, and the \$750,000 snow & Ice deficit for FY 2009 imbedded within Dept. 044 DPW Highway/Sanitation has been removed to be raised in FY 2010.

The combined result of the Administration's efforts and the near break-even results of revenues should position the Town reasonably well for end-of-year free cash, all things considered. A very preliminary and unofficial estimate for Free Cash is shown below. As is stated anytime such a projection is made, this can at best be described as an educated guess. Official Free Cash certifications are only made by the Department of Revenue, and are the product of a series of calculations which can alter this estimate considerably.

Estimated Free Cash	PRELIMINARY - for information ONLY
Certified Free Cash as of 7/1/2008	2,415,060
Less Appropriations	(2,247,667)
Plus Expense Turnbacks	2,056,553
Plus Revenues in Excess of Estimates	(127,614)
Plus Major Changes	TBD
Est. Certified Free Cash as of 7/1/2009	2,096,332

Although we should generate sufficient free cash to meet revised FY 2011 targets, our fiscal concerns are certainly not yet over.

FY 2010

The Fiscal Year 2010 budget took a long time to piece together, and our fiscal outlook has changed since Town Meeting approved the spending plan in May. A series of potential positive and negative impacts is listed below. The FY 2010 budget remains in balance, but given the precarious outlook for FY 2011, staff efforts from now until the Fall Town Meeting will be focused on identifying the areas in which spending can be reduced; we would propose that such funding be re-appropriated to the Stabilization Fund, thus making these funds available for the FY 2011 budget. The downside of this plan is the resulting negative impact on Free Cash at the close of FY 2010 (thus reducing available Free Cash for the FY 2012 budget year). This is a short-term solution designed to shepherd the Town through these difficult times on a year-to-year basis until the economy improves.

Known/potential positive impacts for FY 2010:

1. [Known] Higher than originally anticipated new growth with the successful completion of the Natick Collection Condominiums (at least \$400,000 more)
2. [Potential] Local option taxes, if implemented effective January 1, 2010 have projected value of \$176,661 (meals tax) plus \$191,768 (2% room tax) = \$368,429 using DOR data. It should be noted that these estimates may be optimistic and could be lower.

3. [Potential] Savings in certain line-items which may be eligible for reappropriation (i.e. Unemployment Insurance)

Known/potential negative impacts for FY 2010:

1. [Known] Implementing the FLSA pay methodology for police department (going forward, not including the back payment) will cost us a minimum of \$60,000 in FY 2010
2. [Known] Courthouse closure (loss of approximately \$163,000 in revenue)
3. [Potential] Quinn bill – if we have to pay full amount (state’s portion) the cost will be over \$180,000 (above and beyond our already budgeted costs)
4. [Potential] State Aid and Future 9C Cuts – certainly possible as we go forward throughout FY 2010 as state revenue collections have continued to underperform even revised estimates for the last 8 months counting.

FY 2011

The Administration’s most recent three-year projections for the period FY 2010-2012 attempted to balance conservative revenue estimates with reasonable expense forecasts to illustrate the relative level of balance/imbalance of future years. At that time, the forecast showed a potential deficit of \$2,926,461 for FY 2011. That deficit has grown to \$3,338,155 as of today. The major drivers for this change are lower state aid amounts since the production of the forecast.

A forecast reflecting these revised state aid projections is attached to this memorandum

Similar to FY 2010, a series of positive and negative impacts are evolving for FY 2011:

Known/potential positive impacts for FY 2011:

1. [Potential] Local option taxes, if implemented, have projected full year value of \$423,987 (meals tax) plus \$460,245 (2% room tax) = \$884,232 using DOR data. It should be noted that these estimates may be optimistic and could be lower.
2. [Potential] Negotiations with collective bargaining units on health care changes could net savings in the range of \$1M plus.

Known/potential negative impacts for FY 2011:

1. [Known] Permanent loss of \$217,000 in Natick District Court rental receipts.
2. [Known] State land values have been reduced and this will negatively impact cherry sheet/state aid. This is not huge money but FY 10 receipts are \$194,742; this will be reduced by about ½ in FY 2011.
3. [Potential] Anticipated lower than originally estimated new growth for FY 2011 (only 0.5%).
4. [Potential] Uncertain nature of recurring Federal Stimulus resources (ARRA) for the Natick Public Schools (the so-called “funding cliff”).

As is the case this early in the Fiscal Year, this list is only partial, and the projections for next year are designed to be realistically conservative so as to guide the most prudent budget process in these difficult times. Staff will continue to monitor all budgets and revenues and regularly update the Board and the Finance Committee on changes.

Three-Year Projection

	2008	2009	2010	2011	2012	Notes
	Actual	Actual	Current	Projection	Projection	
General Fund Revenues						
Tax Levy	64,617,822	72,696,077	76,228,308	78,515,157	80,870,612	Assumes only 2.5% allowable increase and nominal 0.5% for new growth
State Aid	12,315,120	11,419,582	10,533,589	9,743,570	9,743,570	Assumes continued declines in State Aid, State Land Values in FY 2011
Estimated Receipts	13,692,857	11,735,232	9,523,423	9,783,000	10,000,000	Assumes stabilization of local receipts, loss of Court rental in FY 2010 & 2011
Other Local Receipts						
Indirects	2,379,592	2,546,345	2,506,416	2,506,416	2,506,416	Assumes level-funding
Free Cash	5,057,917	3,247,997	2,000,000	1,500,000	1,500,000	Based upon initial projection for free-cash @ FY 2009. (May change)
Stabilization Fund	256,102	600,000	600,000	0	0	SF dollars likely to be necessary for legal settlements (FLSA)
Overlay Surplus	1,116,024	0	500,000	0	500,000	Can change based upon final settlement of outstanding ATB cases
Other Available Funds	323,167	210,851	210,851	210,851	210,851	No Change
Revenues set-aside for Free Cash			-252,202	0	0	N/A
Total General Fund Revenues	99,758,601	102,456,084	101,850,385	102,258,994	105,331,449	
General Fund Expenses						
Education & Learning						
Natick Public Schools	40,905,762	44,066,023	42,141,517	44,248,593	46,461,022	5% increase; based upon projected growth of costs & level-service.
Keefe Tech	1,051,116	1,135,347	1,283,158	1,411,474	1,552,621	Assumes continued presence of Natick students & contraction of total population.
Morse Institute Library	1,708,525	1,745,853	1,729,807	1,781,701	1,835,152	3% increase
Bacon Free Library	114,313	116,309	115,896	119,373	122,954	3% increase
Public Safety	11,225,820	11,561,105	11,443,888	11,787,205	12,140,821	3% increase and additional ongoing settlement related overtime
Public Works	7,196,327	7,241,445	7,322,776	7,542,459	7,768,733	3% increase
Health & Human Services	1,413,949	1,600,816	1,556,215	1,602,901	1,650,988	3% increase
Administrative Support Services	4,232,899	4,182,407	4,056,112	4,177,795	4,303,129	3% increase
Committees	15,339	17,522	18,510	18,510	18,510	Level-funded
Shared Expenses						
Fringe Benefits	12,486,833	12,964,453	14,395,784	15,835,362	17,418,899	10% increase; Assumes higher rates in FY 2011, 2012
Prop & Liab. Insurance	420,705	415,799	496,150	520,958	547,005	Assumes higher rates in FY 2011, 2012
Retirement	5,376,574	5,154,961	5,271,467	5,390,165	6,662,000	Assumes correction for market declines, early retirement in FY 2012
Debt Services	7,243,778	6,895,632	7,158,728	6,506,929	6,500,000	Assumes no new levy funded debt service in 2011, roughly \$300K in FY 2012
Reserve Fund	0	0	400,000	400,000	400,000	Level-funded
General Fund Oper. Expenses	93,391,940	97,097,672	97,390,007	101,343,425	107,381,835	
Capital Improvements	1,122,250	293,900	153,560	350,000	350,000	Attempts to maintain at least \$350,000 of levy supported capital
School Bus Transportation	302,122	302,122	311,186	320,522	330,137	Assumes 3.0% increase
State & County Assessments	1,643,654	1,552,943	1,494,494	1,679,624	1,738,411	Assumes 3.5% increase
Cherry Sheet Offsets	66,398	68,029	48,624	73,578	76,153	Assumes 3.5% increase
Tax Title	25,000	25,000	25,000	25,000	25,000	Level-funded
Snow Removal Supplement	201,261	650,000	750,000	350,000	350,000	Hopeful...
Overlay	1,003,911	1,039,144	1,150,000	1,100,000	1,100,000	
Golf Course Deficit	355,000	355,000	355,000	355,000	355,000	Level-funded
Collective Bargaining (Art. 10)			162,514			
Misc. Articles (Art. 24)			10,000			N/A
Total General Fund Expenses	98,111,536	101,383,810	101,850,385	105,597,149	111,706,537	
Net Excess / (Deficit)	1,647,065	1,072,274	0	-3,338,155	-6,375,088	