

TO: Residents and Taxpayers
DATE: May 5, 2014
RE: **FY 2015 BUDGET OVERVIEW**

In January 2014 departments, boards, and committees submitted budget requests for the FY2015 budget which runs from July 1, 2014 to June 30, 2015. Those requests were used in developing a budget for consideration by the Board of Selectmen and Finance Committee. The plan evolved into the attached budget which is supported by the Board of Selectmen and Finance Committee.

In developing a budget care must be taken to ensure we continue to live within our means while providing the necessary services. Town departments have largely been living with level funded budgets for several years. This is an unsustainable practice as costs continue to rise and departments, though level-funded, fall further behind due to normal inflationary pressures.

Budgeting requires that we make certain assumptions with respect to revenues and expenditures. This is an inexact science, but conservative and reasonable assumptions minimize surprises. Several of the assumptions that we must make can fluctuate from year to year. On the revenue side the most unpredictable is State aid to cities and towns (local aid). On the expense side the largest cost centers are regional school assessments and employee benefits, specifically health insurance and retirement.

In simplest terms, Townsend has a revenue problem. As will be detailed below, local aid is at FY2006 levels and is well below the peaks we saw prior to the Great Recession. We would have much greater flexibility in both the operating and capital budgets if we were receiving the local aid we received in FY08 or FY09. However, we must play the hand we are dealt and this budget does that.

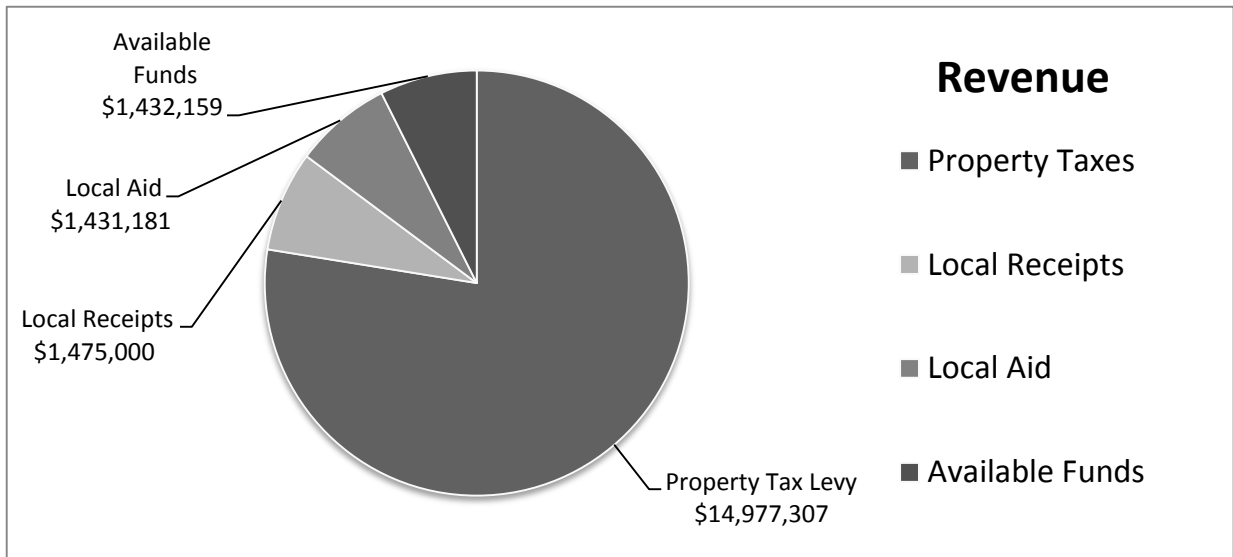
Revenues

There are four revenue categories that fund the municipal operating budget.

Property taxes: The property tax levy is the largest portion of revenue. The levy consists of last year's levy, the allowed annual 2 ½ percent increase, and new growth. It also includes amounts approved by Proposition 2 ½ overrides and debt exclusions. The tax levy is proposed to increase by the statutory 2 ½ percent. The 2 ½ percent increase for FY15 is \$351,429. In FY15 the property tax levy will be \$14,977,307.

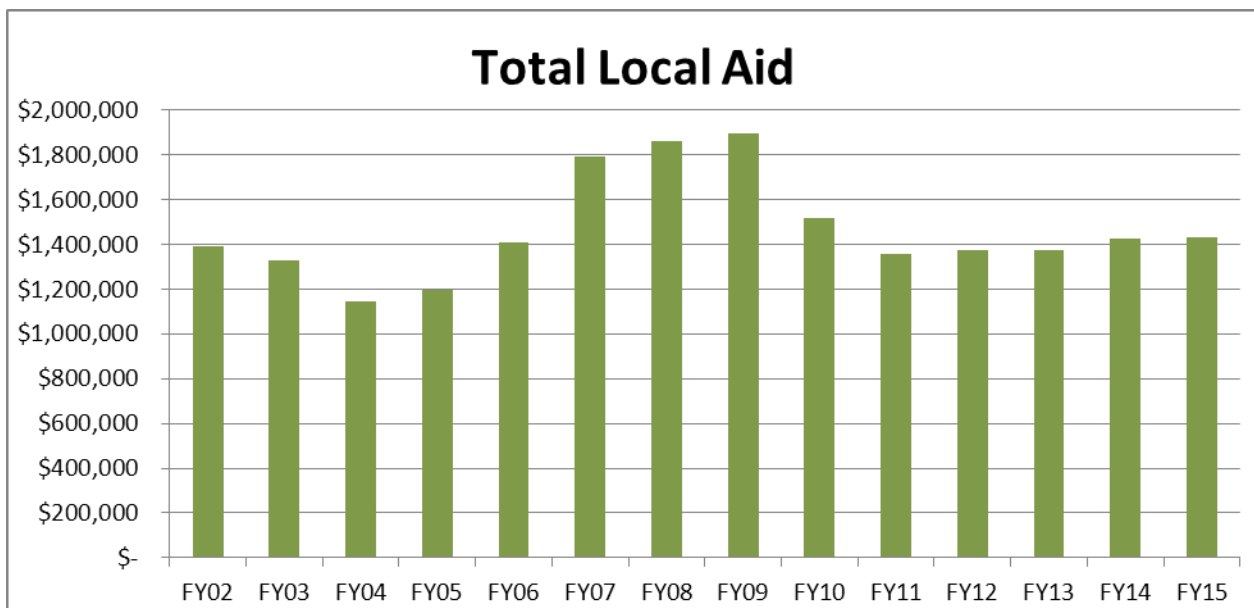
Local receipts: Local receipts, which include things such as license fees, permit fees, and excise taxes, are projected at \$1,475,000. Local receipts trailed off during the recent economic downturn and are recovering to pre-recession levels.

Available funds: Another revenue category is available funds. This category includes transfers from other departments (Ambulance, Water, cable franchise, etc.), overlay surplus, and transfers from stabilization funds or free cash to cover debt service. This category totals \$1,432,159.



Local aid: Local aid from the State is the final revenue category. The Massachusetts House and Senate adopted a joint resolution for local aid. The joint resolution numbers form the basis of our local aid numbers. The largest source of local aid is Unrestricted General Government Aid (UGGA). In FY15 UGGA is \$1,169,456. We also receive local aid for State Owned Land, Public Libraries, Veterans’ Benefits, and Elderly and Veterans Exemptions. These accounts add another \$261,725. Total local aid is \$1,431,181. The State is not expected to finalize its budget until June. Local aid will not be less than the joint resolution numbers and may be higher.

As noted above, Townsend has a revenue problem more than a spending problem. The primary culprit is local aid. As shown in the table below, total local aid from the State peaked in FY09 at \$1,892,874. Total local aid in FY15 is \$1,431,181, a drop of \$461,693. It is easy to imagine how different our fiscal picture would be with an additional half-million dollars.

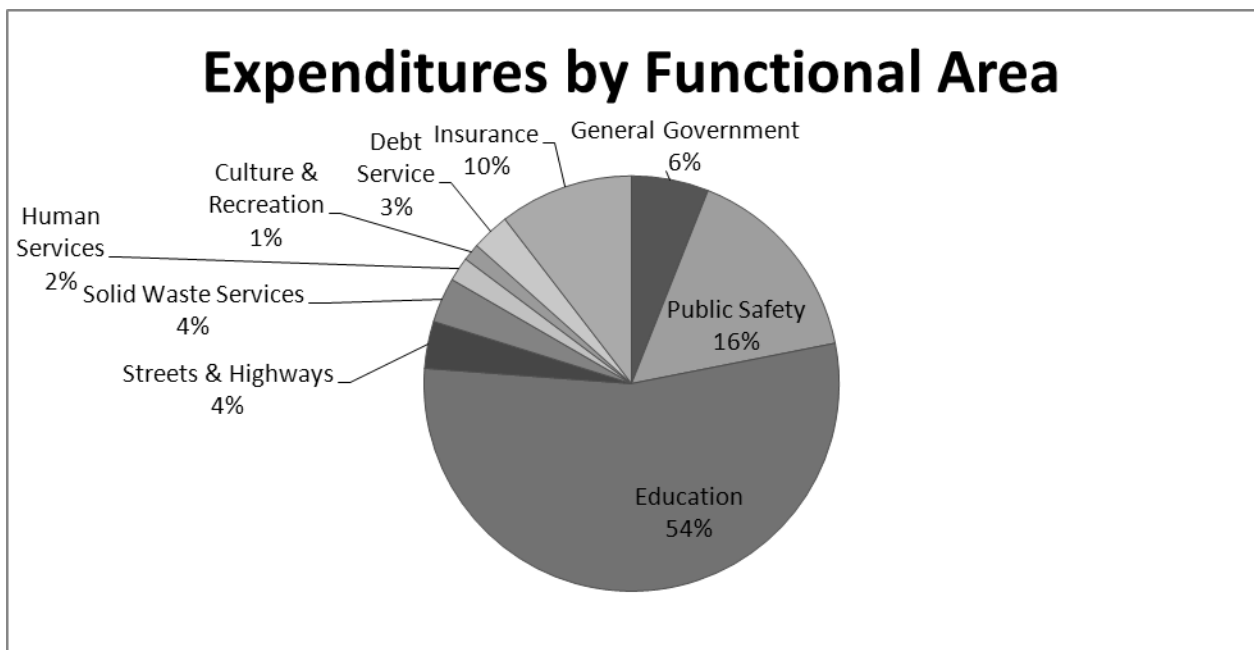


Expenditures

Expenditures are the other piece of the budget puzzle. The following are some expenditure highlights:

Education: Public education is our largest expenditure at 54% of the General Fund budget. The Nashoba Valley Technical High School (NVTHS) approved a budget that was 5% higher than FY14. Townsend’s assessment is \$1,034,072, an increase of \$70,241 over FY14. The North Middlesex Regional School District (NMRSD) certified its budget with a 2% increase. This resulted in an assessment of \$8,987,368, an increase of \$406,943. The school assessments more than exhaust our allowable 2 ½% increase under Proposition 2 ½. This makes funding non-school budgets challenging.

Municipal Spending: Forty-six percent (46%) of the budget belongs to non-school or municipal functions. The largest of these is public safety at 16%, insurance at 10%, and general government at 6%. The remaining 14% of expenditures is shared among streets and highways, solid waste, human services, culture and recreation, and debt.



County Retirement Assessment: Last year saw a 36% increase in our Middlesex County Retirement assessment. This was necessary for the system to fully fund its obligations by 2040 and bring average annual growth assumptions in line with market performance for the years prior to FY14. The FY15 assessment is \$673,724, a 4.4% increase. Recent years have seen strong performance in equity markets. We hope this will bode well for our assessments in future years.

Health Insurance: Employee health insurance is another significant cost center originally projected to increase by as much as 10%. By soliciting quotes from other carriers, working with our insurance pool, the Massachusetts Interlocal Insurance Association (MIIA), and our benefits advisors, Cook & Co., we were able to get MIIA to offer a two percent reduction in HMO rates while keeping rates level on the PPO and Medex. Health insurance is \$954,289.

Curbside Trash Collection: The Town’s curbside trash collection program is a large cost center and one over which we have some control. Due to limitations on the number of bags or barrels

residents can put out for collection we have seen reductions in tonnage. In FY15 each household will be able to place two 35 gallon bags or barrels out for pick up, down from three in FY14. This is expected to result in further tonnage reductions, saving us tipping changes. The curbside collection budget is \$629,000.

Personnel Costs: Personnel costs are a large piece of our budget. The budget does not propose any reductions to current employees for FY15. There may be opportunities to reduce costs as positions become vacant and we will continue to explore options while maintaining services. The Board of Selectmen made a commitment to employees with the compensation and classification plan. Increases of 2 ½% for non-union personnel are factored in. Most collective bargaining units are scheduled for 2% increases.

Other Post-Employment Benefits (OPEB): Funding of other post-employment benefits, primarily retiree health insurance, is a huge nationwide problem. Cities and towns are scrambling to fund their OPEB liabilities. Among area communities the lowest OPEB liability is \$5.5M and the largest is \$168M. Townsend does not provide retiree health insurance and therefore does not have an OPEB liability that needs to be funded. We are fortunate to be in this position. However, we are watching legislation that could dramatically alter this landscape.

The proposed general fund budget represents a 4.4% increase over FY14. The budget is sound, balanced, and maintains the essential services that residents demand.