

TO: Residents and Taxpayers
FROM: Andrew J. Sheehan, Town Administrator
DATE: May 5, 2015
RE: **FY 2016 BUDGET OVERVIEW**

In January 2015 departments, boards, and committees submitted budget requests for the FY2016 budget which runs from July 1, 2015 to June 30, 2016. Those requests were used in developing a budget for consideration by the Board of Selectmen and Finance Committee and ultimately the Town Meeting. 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 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 and most unpredictable cost centers are regional school assessments and employee benefits, specifically health insurance and county retirement.

In recent years I have stated on numerous occasions that Townsend has a revenue problem. As will be detailed below, local aid has been flat since the Great Recession ended and is \$402,531 below FY09. 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 seeks to do that.

Revenues

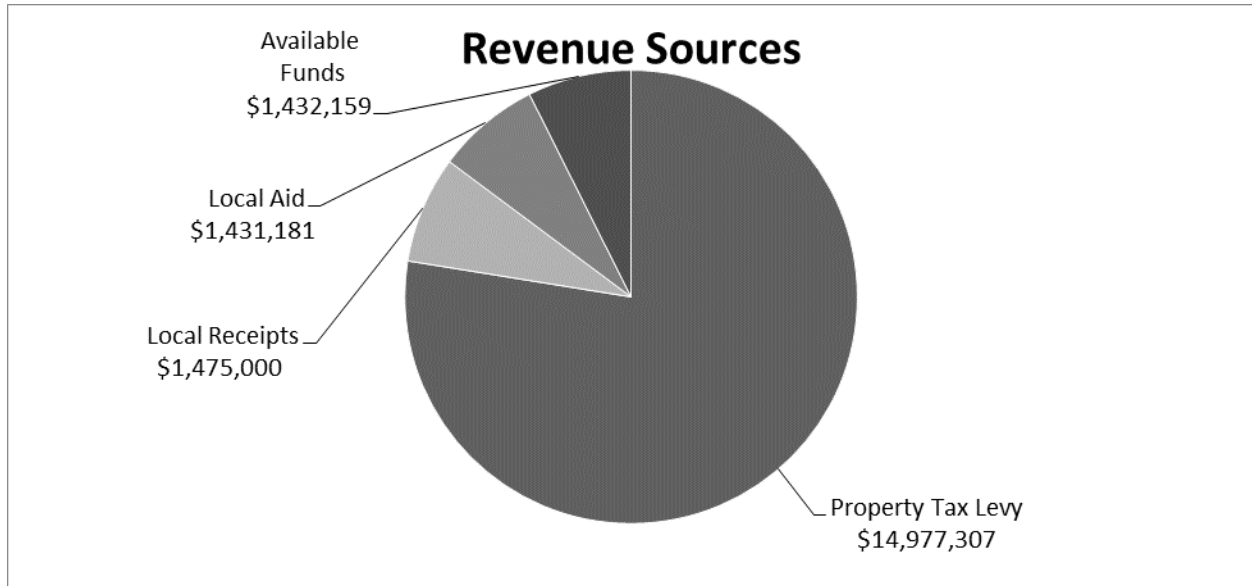
There are four revenue categories that fund the municipal general fund operating budget.

Property taxes: The property tax levy is the largest revenue source. The levy consists of last year's property tax levy, the allowed 2 ½ percent increase, an estimate of new growth, and amounts voted by Proposition 2 ½ overrides and debt exclusions. The tax levy is proposed to increase in FY16 by the statutory 2 ½ percent or \$362,916 and new growth is estimated at \$110,000. In FY16 the property tax levy will be \$15,472,334.

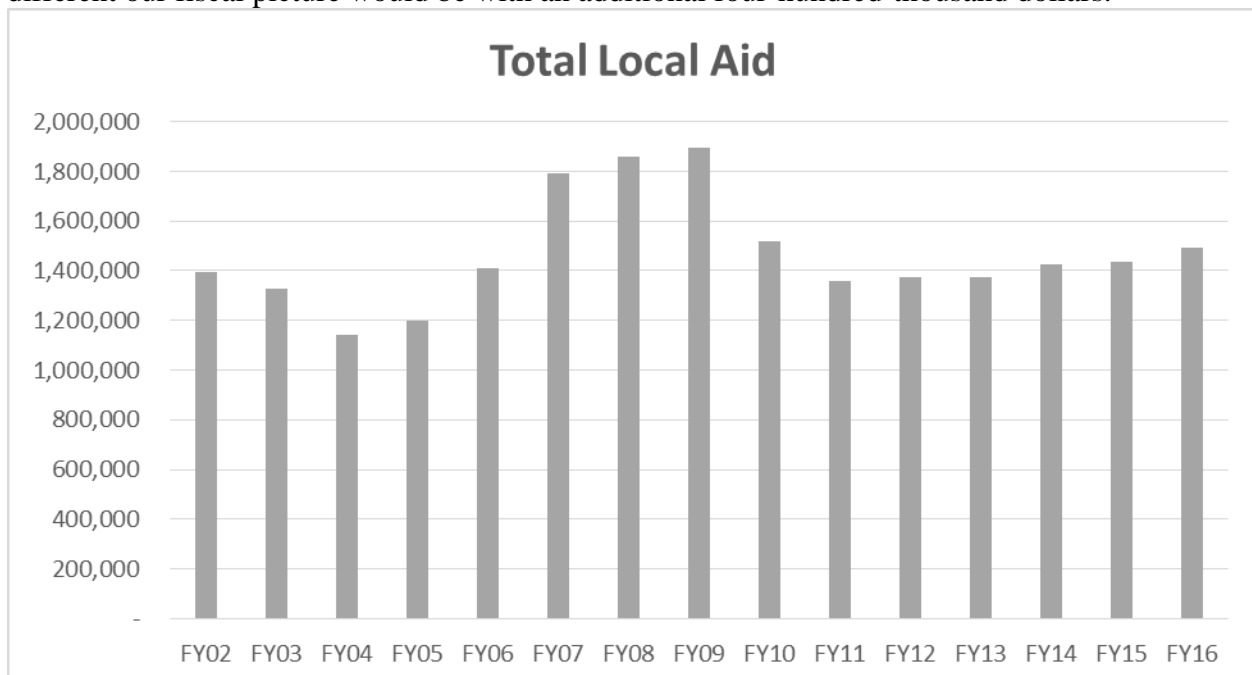
Local receipts: Local receipts are locally generated revenues such as license and permit fees, and automobile and meals excise taxes. Local receipts trailed off during the Great Recession and are recovering to pre-recession levels. FY16 local receipts are projected at \$1,564,497.

Available funds: Available funds are internal transfers from other funds. Townsend transfers money from ambulance receipts to offset the operation of the Fire-EMS Department, from the Water Department to reimburse the general fund for expenses such as health and auto insurance and pension assessments, a portion of the cable franchise fee to offset the MIS budget, and others. This can also include transfers from the Assessors overlay surplus and transfers from

stabilization funds or free cash. This category totals \$1,523,979 and includes the use of \$59,971 from the stabilization fund.



Local aid: Local aid from the State is the final revenue category. The Governor proposed a local aid amount in March and the House Ways & Means Committee unveiled its budget and local aid proposal in April. The local aid numbers from the Governor and the House are similar and they form the basis of our local aid estimate. The State is not expected to finalize its budget until June, but based on conversations with legislators local aid is unlikely to be less than the numbers presented by the Governor and House Ways & Means. The largest source of local aid is Unrestricted General Government Aid (UGGA). In FY16 UGGA is proposed to be \$1,211,556. We also receive local aid for State Owned Land, Public Libraries, Veterans’ Benefits, and Elderly and Veterans Exemptions. These accounts add another \$278,787. Total local aid is \$1,490,343. As shown in the table below, total local aid from the State peaked in FY09 at \$1,892,874. Total local aid in FY16 is \$1,490,343, a drop of \$402,531. It is easy to imagine how different our fiscal picture would be with an additional four-hundred-thousand dollars.

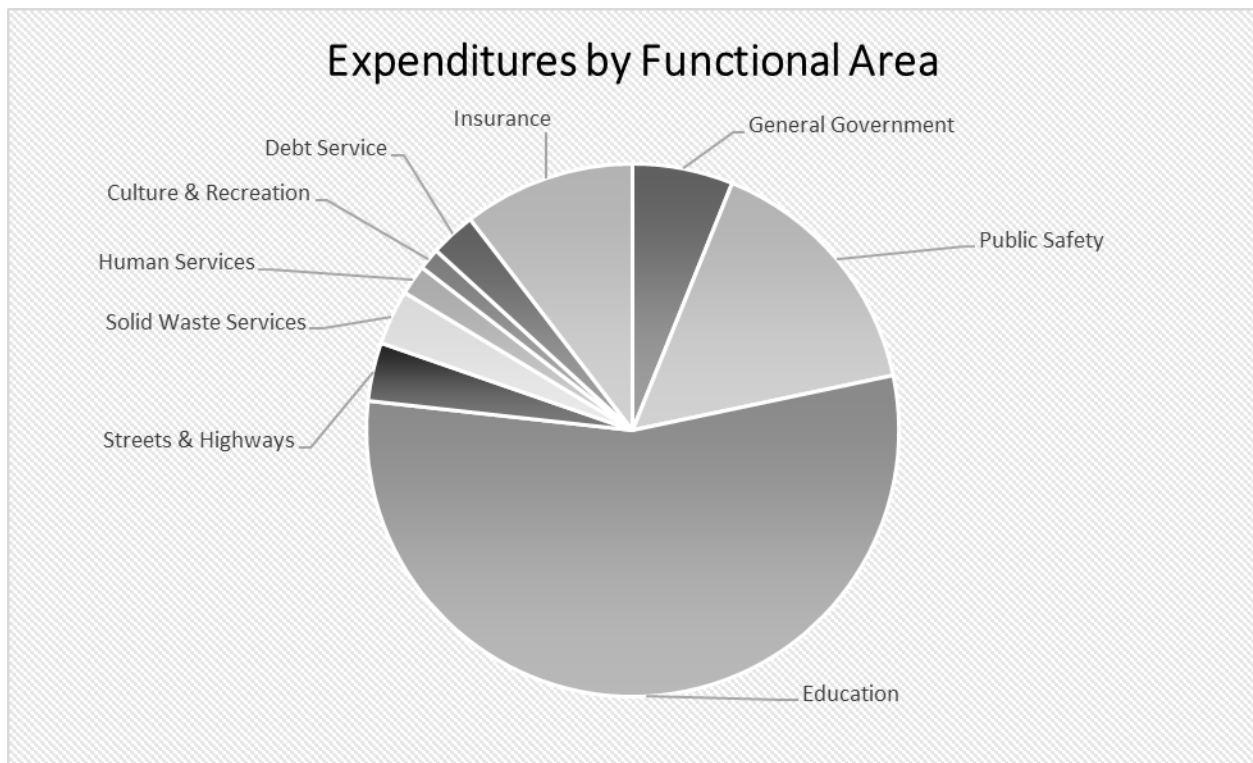


Expenditures

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

Education: Public education is our largest expenditure at 55% of the General Fund budget. Due to a drop in enrollment, Townsend's assessment for Nashoba Valley Technical High School (NVTHS) dropped \$65,310 from FY15. Townsend's FY16 assessment is \$968,762. The North Middlesex Regional School District (NMRSD) certified its budget with a 2.48% increase. This resulted in an assessment of \$9,600,172, an increase of \$612,804. This is largely due to how the minimum local contribution is calculated in the State's school funding law. As a result of the State formula NMRSD's 2.48% budget increase resulted in a 6.8% increase in Townsend's assessment. The school assessments more than exhaust our allowable 2 ½% increase under Proposition 2 ½, which makes funding non-school budgets challenging.

Municipal Spending: Forty-five percent (45%) of the general fund budget belongs to spending for municipal (non-school) functions. The largest of these is public safety at 15.6% of the total budget, insurance at 10.4%, and general government at 6.1%. The remainder of expenditures is shared among streets and highways, solid waste, human services, culture and recreation, and debt.



Retirement Assessment: FY14 saw a 36% spike 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. The FY16 assessment is \$717,516, a 6.5% increase. Recent years have seen strong performance in equity markets and we hope this will have a positive effect on future assessments.

Health Insurance: Employee health insurance is another significant cost center. We projected a 10% increase in rates and our projection was on target. However, by closely analyzing our current and projected census we have held down the increase in the overall health insurance budget, despite the 10% rate increase. Health insurance is budgeted at \$1,009,378.

Personnel Costs: Personnel costs are a large piece of our budget. The budget does not propose any reductions to current employees for FY16. Vacancies present opportunities to reevaluate positions 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 into the budget. Collective bargaining units are scheduled for contractually bargained increases ranging from 1-2 ½%.

The proposed general fund budget represents a 3.74% increase over FY15. The budget is sound, balanced, and maintains the essential services that residents demand.