

Town of Franklin

**Fiscal Year 2011
Budget Statement**

Town Council

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Town Administrator

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Treasurer-Collector

Jim Dacey

April 2010

Executive Summary FY 2011 Budget

While fiscal challenges remain difficult, our resolve to overcome them is relentless.

The Town's property tax revenues (not including debt exclusions) will increase by 2 ½ % plus new growth, or about \$1,800,000. Local receipts, which include the excise tax and permit and license fees, etc., increased \$100,000. Net State Aid (based on the House Ways and Means budget) will decline by approximately \$1,700,000. **The FY 11 "net" revenues increased an estimated \$200,000.** This is due to the slow economy and a large reduction in State Aid. The State is planning to provide \$522,000 in education aid as a direct grant to the school department. The overall result of these figures will be fewer employees and reduced services provided to the citizens and students in FY 11. We will do our best to mitigate these reductions. I am very concerned about FY 12 and how we will continue to provide services to the citizens.

The requested FY 11 "level service" budgets totaled \$3,500,000 above current estimated revenues. Tri-County Vocational School is requesting an increase of over \$500,000 due to increased enrollment. With only a \$200,000 net increase in revenues, this, essentially, equates to a level funded budget for education and municipal government.

We are hopeful that all School/Town employees will again be amenable to absorbing higher health insurance co-pays (with a reduction to the increase in premiums) that will save the school/town over \$500,000. I truly want to thank all the town employees for their commitment to the community and their fellow workers.

The proposed budget has been balanced with a combination of factors including a reduction of positions and the use of one-time revenues. The one-time revenues are related to the school budget that includes Federal Stimulus funds and some revolving accounts. The other one-time use of revenues is from our Debt Stabilization Account.

Despite the use of one-time revenues, health insurance savings, and the final year of Federal stimulus funds, the Town will eliminate nine (9) positions in order to balance the budget. Over the last several years, we have reduced staffing from 300 to 250 positions. The school department budget has not been finalized as of April 22, 2010, but they have a potential gap of approximately \$1,900,000. This will lead to a reduction of positions in our schools.

Overview

In compliance with Article Six, Sections 6-3-1 through 6-5-2 of the Franklin Town Charter, I am submitting the proposed FY 11 budget to the Town Council and Finance Committee.

Process

Each department is required to submit a proposed budget to the Town Administrator. The Town Administrator, the Comptroller, and the individual Department Head review their budget request.

The Town Administrator also reviews the highlights of the Town's fiscal plan with the budget subcommittee of the Town Council. Based on input and the meetings with the Department Head, the Town Administrator makes a budget recommendation to the Town Council and the Finance Committee. The Finance Committee reviews the Town

Administrator's proposed budget and forwards their recommendation to the Town Council. The Town Council holds two public hearings prior to adopting a budget.

Financial Policy Summary

While the budget process identifies issues and concerns that the Town will address on an annual basis, it also must do so based in a framework of sound financial management. The Town Council has adopted fiscal policies in the past and should continue to update and review them on a regular basis. Below is a summary of current policies:

Balanced Budget

- Annual costs funded from current revenues.
- Do not defer current costs to future years.

Current status - The proposed budget uses one-time revenues and savings to close the budget gap. These one-time savings include, increased health insurance co-pays, elimination of nine (9) positions and the use of \$200,000 in Debt Stabilization funds. School staffing reductions have not been determined at this point. The bottom line is that school and municipal services will continue to decline in order to balance the budget.

We have not addressed our GASB 45 obligation (post retirement health insurance), and this does not address a few major capital items that will need to be addressed in the foreseeable future.

Compensation and benefits

- Budget with current revenues
- Compensate at market rates

Current status – All eight (8) municipal unions and the teacher's collective bargaining agreements expire in June 2010. The Town Administrator and the School Committee will work hard to provide fair wages while taking into consideration the fiscal health of the Town. There are no funds budgeted for cost of living adjustments in FY 11; however, cost of living adjustments that were deferred in FY 10 are included in the FY 11 budget. Our employees are the most valuable asset in the organization and maintaining fair wages while trying to maintain services is always a challenge.

Revenues

- Estimate annual revenues in detail and project for the following three years.
- Maintain full and fair market value of property assessments.
- Ensure fees charged cover costs incurred.

Current status – Future revenue projections are included in the budget. We have adjusted new growth and local receipts to reflect the trends in actual collections and include water, sewer, and trash direct and indirect charges to the general fund revenue estimates.

Financial Reserves –

- Adequately fund and maintain reserves (Stabilization, Free Cash, Overlay Surplus)

- Maintain Stabilization account at \$5,000,000 or 5% of recurring general fund revenue (less debt exclusions and SBA reimbursement).
- Short-term revenue surpluses shall fund non-recurring projects.
- Free Cash will be used to fund the capital budget and for unforeseen expenses.
- Overlay surplus will be used for capital budgets or non-recurring expenses.

Current status - the Stabilization fund balance is \$4,618,333 or just about 5% of recurring general revenues.

Long Term Debt - Proposed

- Reserved for large capital projects.
- Net general fund debt service (non-excluded debt or funded from enterprise accounts) shall be between 3.5% - 4.0% of recurring general fund revenue.

Current Status - The FY 11 budget calls for a general fund debt service of 3.08%. This percentage is calculated based on the use of debt stabilization funds. Without the use of the Debt Stabilization fund the general fund debt service percentage would be 3.30%. According to the independent bond rating agency Standard and Poor's, our debt level is moderate and manageable. Our debt plan will help to obtain our goal of improving the infrastructure of the Town without the need for debt exclusions (except schools) while maintaining a reasonable debt level.

The following chart reflects a summarization of the change in debt service

TOWN OF FRANKLIN				
Change in Debt Service				
FY 2010 to FY 2011				
		Principal	Interest	Total
School	FY 2010	2,137,356	1,062,493	3,199,849
	FY 2011	2,036,461	838,611	2,875,072
	Change	(100,895)	(223,882)	(324,777)
Municipal	FY 2010	1,809,000	725,727	2,534,727
	FY 2011	1,659,000	823,425	2,482,425
	Change	(150,000)	97,698	(52,302)
Total 2011 General Fund		3,695,461	1,662,036	5,357,497
Sewer	FY 2010	391,715	201,429	593,144
	FY 2011	301,727	185,722	487,449
	Change	(89,988)	(15,707)	(105,695)
Water	FY 2010	1,024,698	539,421	1,564,119
	FY 2011	986,934	503,971	1,490,905
	Change	(37,764)	(35,450)	(73,214)

SUBTOTAL PRINCIPAL/INTEREST

FY 2010	5,362,769	2,529,070	7,891,839
FY 2011	4,984,122	2,351,729	7,335,851
Change	(378,647)	(177,341)	(555,988)

Short Term Interest:

General fund

FY 2010	-	- 0 -	-0-
FY 2011	-	- 0 -	-0-
Change	-	- 0 -	-0-

TOTAL DEBT

FY 2010	5,362,769	2,529,070	7,891,839
FY 2011	4,984,122	2,351,729	7,335,851
TOTAL NET CHANGE ALL DEBT			(555,988)

Capital Improvement Program.

- A six-year plan updated annually shall be maintained.
- Budget operating costs associated with CIP projects.
- Delaying maintenance on existing assets results in higher costs in future years.
- Postponing improvements to buildings/infrastructure results in higher costs.
- Free Cash, Overlay Surplus, and short-term revenues shall be used for the recurring capital items and smaller one-time purchases or projects.
- Bonds will be used for large capital projects.

Current Status: The CIP subcommittee of the Council meets each fall/winter to review the requests of each department. The Town Administrator presents the CIP to the Finance Committee and Town Council for review and adoption. The Town Council has recently taken action on the FY 10 Capital Budget. It is critical that we maintain a Capital Budget to ensure that the departments have the proper equipment and technology, etc. to perform their duties.

Financial Resources

Proposition 2 ½, passed by the voters in 1980, caps revenue growth to the largest portion of our revenues (property tax) to 2½% of the previous year's tax levy plus new tax revenues from construction/ improvements of buildings.

The vast majority of revenues collected by the Town are controlled by state law or by the annual appropriation of State Aid. During difficult financial times, State Aid growth may be curtailed or reduced.

Further, fixed costs (health insurance, general insurance, energy, pensions, etc.) continue to increase and must be paid with limited growth in revenues. These forces all combine to place additional financial pressure on the overall municipal budget.

Estimated Revenues

Property Taxes - The primary source of revenue for Franklin is the property tax. Property taxes account for approximately 59% of net revenues (excludes use of reserves and

enterprise funds). State Aid accounts for approximately 33% and local receipts 8% of the overall revenues.

The Town's Board of Assessors determines the value of all taxable real and personal property under guidelines established by the Massachusetts Department of Revenue. For the purpose of taxation, real property includes: land, buildings, and improvements erected on/or affixed to land. Personal property includes: stock, inventory, furniture, fixtures, and machinery. The Assessors determine the full and fair market value every three years and update the values annually.

There are three major factors affecting the real and personal property.

1. **Automatic 2.5% increase** - Each year, a community's levy limit automatically increases by 2.5% over the previous year's tax levy limit. This accounted for approximately \$1,274,000 this year in new tax revenues. (excluding new growth)
2. **New Growth** - A community is able to increase its tax levy limit each year to reflect new growth in the tax base. Assessors are required to submit information on growth in the tax base for approval by the Department of Revenue as part of the Tax rate setting process. The estimated new growth for FY 11 is \$550,000. This is the lowest new growth amount in a very long time and is reflective of the slow economy.

Following is a five year history of New Growth

New Growth History

	2006	2007	2008	2009	2010
Parcel count	11,378	11,559	11,479	11,529	11,509
Class 1 Residential value	3,756,711,515	3,991,846,715	3,768,434,349	3,536,563,074	3,399,580,062
Class 3 Commercial	339,775,976	347,227,194	356,742,088	347,851,538	333,182,926
Class 4 Industrial	528,461,000	527,204,100	525,145,270	517,805,150	489,851,380
Class 5 Personal Property	90,055,530	125,558,860	101,661,910	122,436,070	132,142,780
Total Value	4,715,004,021	4,991,836,869	4,751,983,617	4,524,655,832	4,354,757,148
New Growth:					
Residential	509,659	658,097	271,104	454,814	379,819
Commercial	38,852	67,340	168,184	40,345	25,485
Industrial	92,176	75,508	74,973	23,213	11,828
Personal Property	124,219	375,582	199,085	288,189	270,631
Total New Growth	764,906	1,176,527	713,346	806,561	687,763
Tax Rate	9.02	8.86	10.23	11.17	12.03

3. **Overrides/Debt Exclusions –**

A community can permanently increase its tax levy limit by approving an override of a certain dollar amount by approval of the voters at the ballot. Franklin voters approved an override of Proposition 2 ½ in 2007, the only approval of an override question since Proposition 2 ½ began in 1980.

Debt Exclusions are a temporary increase in a community's levy limit for the life of the debt to pay for the project. The voters have approved three debt exclusions to construct new schools over the past decade. The cost of these debt exclusions is reflected in the current tax bill and costs the average taxpayer approximately \$140 per year.

State Aid

Massachusetts General Laws provides that the Commissioner of Revenue estimate the state's funding of local assistance programs authorized by law and appropriated annually by the legislature. State Aid line items are based on pre-established formulas, but the amount of funding is subject to annual review by the Governor and the Legislature.

There are many different categories of State Aid. A few of the categories (Library Aid, School Lunch, and School Choice) restrict funds for a specific purpose. All other State Aid is considered a general receipt that can be used to fund the Town's overall general fund budget as long as we meet the minimum spending requirements of the Education Reform Act. Franklin currently exceeds the minimum spending requirement for FY 10 by over \$1.9 million dollars. The FY 2010 net school spending requirement is \$58,397,605. The preliminary FY 2011 net school spending is \$56,924,239.

Franklin has reaped the benefit of the funding formula for Chapter 70 State Aid as the result of the tremendous growth in the student population over the years. This has resulted in a shift of support for public education from the property tax to State Aid.

In 1993 State Aid paid for about 30% of the school budget. In 2011 it will be approximately 53% of the school budget.

The current revenue estimates (on which this budget is based) proposed for FY 11 Chapter 70 State Aid for education is \$26,714,222 and non-school aid is \$2,395,497. The charter school tuition reimbursement is \$809,849, and the assessment for the Charter School is \$3,732,262. The school will receive SFSF money via state grant in the amount of \$522,605 (one time revenues) to help offset the reduction in Chapter 70 Aid.

Following page is a five-year history of local aid:

Five Year Local Aid History

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Chapter 70	25,088,793	26,478,420	28,726,706	28,152,172	26,714,222
School Transportation	0	0	0	0	0
School Construction	1,444,633	1,444,633	1,444,633	1,444,633	825,934
Charter Tuition/Capital Facility	589,070	679,529	765,659	727,543	809,849
Education	27,122,496	28,602,582	30,936,998	30,324,348	28,350,005
Lottery	3,021,144	3,075,295	3,075,295	2,177,055	2,089,973
Police Career Incentive	154,656	172,367	183,811	33,566	17,428
Veterans' Benefits	54,024	50,516	70,030	92,717	125,099
Exemptions: Vets, Blind, SS	23,378	50,247	51,055	62,967	61,708
Exemptions: Elderly	14,636	14,626	14,624	0	0
State Owned Land	143,672	160,519	172,245	155,048	101,289
General Gov't	3,411,510	3,523,570	3,567,060	2,521,353	2,395,497
School Lunch	21,503	26,351	25,869	25,596	21,353
School Choice Receiving	138,119	254,030	381,715	320,033	234,912
Public Libraries	34,773	38,019	38,019	27,461	28,825
Offsets	194,395	318,400	445,603	373,090	285,090
Plus SFSF grant funds					522,605
	30,728,401	32,444,552	33,505,028	33,218,791	31,553,197
% increase over previous year	8%	5%	3%	-1%	-5%

Hotel /Motel Tax

The Town receives a 6% room tax from each hotel room rented. The amount of funds collected each year is directly related to the number of rooms rented. Generally the Town receives approximately \$400,000 per year in hotel tax revenue.

The Town filed special legislation, which was approved, to earmark all of the revenue from this source to be used for the purchase of open space and recreation land or the construction of recreation facilities. The Town Council may also vote to use the new revenues for any other purposes. In FY 2010, the Council voted to appropriate \$300,000 for capital improvements to the Library and Historic Museum, and in FY 2009 they voted the funds into the stabilization account. The current balance in the open space account is approximately \$1,812,000.

Local Receipts

This is a broad category of revenues including motor vehicle excise tax, ambulance fees, permit fees, fines, and interest income, etc. The estimated FY 11 local receipts are \$6,815,000. Motor vehicle excise tax accounts for a little over half (53%) of the total of \$3,600,000. Due to DOR mandates, the enterprise fund indirect costs are removed from estimated receipts and are now listed as an available fund.

On the following page is a five-year breakdown of local receipts:

LOCAL RECEIPTS	ACTUAL 2007	ACTUAL 2008	ACTUAL 2009	ESTIMATED 2010	ESTICATED 2011
MOTOR VEHICLE EXCISE:	4,039,584	4,354,235	3,767,787	3,505,000	3,600,000
OTHER TAX (BOAT/HOTEL/MOTEL/MEALS)		-	1,490	561,200	342,500
PENALTIES & INTEREST ON TAXES:	213,298	314,664	260,824	215,400	223,000
PAYMENTS IN LIEU OF TAXES:	659	652	16,566	13,500	13,500
FEES/AMBULANCE:	647,731	771,101	721,324	650,000	650,000
FEES/OTHER:	456,064	399,003	872,239	320,000	375,000
DEPARTMENTAL REVENUE - SCHOOLS:	-	-	-	-	-
DEPARTMENTAL REVENUE - LIBRARY:	9,345	7,974	10,863	8,300	8,300
DEPARTMENTAL REVENUE - RECREATION:	377,772	394,288	440,633	455,305	480,000
TOTAL OTHER DEPARTMENTAL REVENUE:	1,072	675	1,005	600	45,500
LICENSES & PERMITS:	886,973	1,043,734	642,836	580,000	771,200
SPECIAL ASSESSMENTS:	9,793	17,787	7,669	6,000	6,000
FINES & FORFEITS:	133,718	132,902	110,107	89,000	75,000
INVESTMENT INCOME:	928,322	643,319	401,073	250,000	150,000
MISCELLANEOUS RECURRING:	884,500	884,500	927,000	345,000	75,000
MISCELLANEOUS NONRECURRING:	703,217	950,040	1,015,248	-	-
TOTAL LOCAL RECEIPTS:	9,292,047	9,914,875	9,196,663	6,999,305	6,815,000

NOTE: OTHER TAX HOTEL/MOTEL \$300,000 USED FOR CAPITAL PROJECT IN FY 2010

Enterprise Accounts (Water, Sewer, Solid Waste)

These accounts are self supporting and set up as enterprise accounts in accordance with Mass General Laws. Changes to these budgets do not affect the general fund budget. If there are any excess funds at the end of the fiscal year, they are automatically closed to their respective account's fund balance. The Town charges these accounts indirect costs that are transferred to the general fund to offset expenses paid for in the general fund but attributable to the enterprise funds.

We are currently reviewing proposed water and sewer revenue and expenses to determine if a rate increase will be required in FY 11. The Town Council has already established the Solid Waste rate next year at \$220.

Operating Budgets

The Town Council sets annual and long-term goals for the Town and the Administrator. In turn, the Town Administrator meets with Department heads and they jointly establish goals for their department. The proposed budget attempts to meet the goals established by the Council and the Town Administrator. The fiscal constraints limit the ability of some departments to accomplish their established goals.

Recommended programmatic changes in the FY 11 budget

The requested changes include –

1. Reducing staffing in the police dispatch (3), fire (1), DPW (3), clerical (1.5), Library (.5)
2. School reductions have not been determined as of April 22, 2010.

Future Outlook

Despite a long list of restrictions the Town Council has placed on single-family development, the population and school enrollment are projected to continue to rise to approximately 40,000 citizens over the next couple of decades.

The growth in fixed costs (health insurance, pensions, energy, salaries, etc) and the limited revenues allowed by state law have required us to reduce staffing levels of many municipal departments

As demand for services rise and costs rise, there are two unpleasant solutions to the problem: reduce services or increase taxes. The Town will still face difficulty in funding a level service budget in the future. School and municipal services will decline without an increase in tax revenues. Municipalities throughout the Commonwealth are struggling with the same issue and no one has developed a plan that resolves the problem.

Recently, the Fiscal Planning Committee updated their Five-Year Fiscal Forecast which shows larger deficits for the future. Please read the entire report on the Towns Web Page.

We completed our mandatory study of our financial obligation for unfunded retiree benefits (GASB 45). This is required under a new accounting procedure. The estimated obligation as of 2009 is \$80 million dollars. Currently, there is no plan to address this issue in the short run but it must be addressed over a long period of time. This may have an impact on the overall stability of local governments throughout the nation.

Acknowledgements

The preparation of this budget would not be possible without the hard work of our Comptroller Susan Gagner, the Treasurer-Collector James Dacey, my assistant Maxine Kinhart and the cooperation of all the department heads and employees.

I am proud of all of our employees. They are dedicated in their working lives and in many cases they donate their free time to make Franklin a great community to live and work. We can't solve all the problems, but each employee gives their all in an effort to provide the highest quality of life for the least amount of money.

Please feel free to call me or visit if you have any questions or suggestions.
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Jeff Nutting
Town Administrator