

**Town of Franklin**

**Fiscal Year 2015  
Budget Statement**

**Town Council**

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**Assistant to Town Administrator**

Maxine Kinhart

**Comptroller**

Susan Gagner

**Treasurer-Collector**

Jim Dacey

**March 2014**

## **Executive Summary FY 2015 Budget**

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

The FY 15 proposed budget will be a balanced budget without a requirement to reduce staff, request an override or use other one time funds. Further, I am requesting a small addition in staff both for full time and part time positions.

We continue to face huge challenges in properly funding our OPEB obligation or Other Post Employment Benefits with our current unfunded obligation at about \$89 million. Additionally, we need a plan to fund roads/sidewalks and infrastructure improvements which has a current backlog estimated at over \$50 million. Finally, we should continue to maintain proper debt capacity in the annual operating budget to fund capital improvements and revenue to maintain the level of services we currently enjoy.

The Town's property tax revenue (not including debt exclusions) will increase by 2 ½ % plus new growth, or about \$2.175 million. Local receipts, which include the excise tax and permit and license fees, etc., will increase \$182,000. Net State Aid (based on current estimates) will increase by \$112,000. The FY 15 "net" revenue increase is estimated at \$2.4 million.

### **Proposed FY 15 Highlights**

**Town Administrator** - As a result of Federal law the Town Clerk can no longer process passports. Accordingly, the budget reflects the transferring of responsibility for passports from the Town Clerk's office to the Town Administrator's office. Hours in the Town Clerk's clerical staff were reduced and increased in the Town Administrator's office.

**Facilities** - The new High School will open this year. The budget includes an additional custodian to maintain the new school. The current elementary/middle school custodial staff cleans about 35,000 square feet of area per day, while the high school staff cleans about 52,000 square feet per day. The additional staff person will bring the average area maintained in the High School to 43,000 square feet per person.

**Police** - The budget will add an additional police officer. The current police staff is 44 which is down from 50 in FY 2001. As the staff has more time on the job they earn more leave time. Accordingly, the current staff has over 600 days of leave. This means on any given day we have three less police officers available. We have also added 21 hours per week to the dispatch function in an effort to maintain that critical service in light of a reduction in force several years ago of three full-time dispatchers.

**Fire** - The budget does not include funds for wage increases for firefighters since we have yet to settle a collective bargaining agreement. Funds are budgeted in the wage settlement account in anticipation of a collective bargaining agreement. Further, we have four firefighters that are currently being paid from a grant that expires in October of 2015. These positions will need funding in FY 16.

**Regional Dispatch** – This is a new line item as Franklin, Norfolk, Plainville and Wrentham continue to move towards regional dispatch. (Metacomet Emergency Communications Center or MECC). We do not anticipate starting for approximately two years but funds are needed to prepare for setting up the administrative systems required to run the regional center. In the future, as Franklin transitions into the MECC, the police and fire budgets will be reduced as those employees will transfer to the MECC and the service will no longer be provided by each town.

**Franklin Schools** – The budget is up a little over 2%, however, we have transferred the cost of all school retiree health insurance from the School budget to the Town budget. This totals over \$555,000. Since retired teachers health insurance is not part of the educational reform formula it makes more sense to transfer to the Town budget. This will help limit increases in the School budget for costs they have no control over.

The School enrollment continues its decline since peaking in 2008. Elementary and middle school enrollment continues to decline while high school enrollment has been increasing. The net decline in the school population since 2008 is about 480 students with a total enrollment this year of approximately 5,925 students.

We will watch the effect of the opening of the new high school and hopefully an improving economy over the next several years to see if overall enrollment continues to decline, slows, levels off or begins to increase.

The other unknown is whether the Benjamin Franklin Classical Charter School will expand. They have requested permission from the State to expand, but it is unclear at this point, if they will be approved, and if so, when and where would they expand.

**DPW** - The largest increase is a request of an additional \$50,000 in the snow budget. In FY 14, we budgeted \$900,000 and will over spend that amount this year. If you look at a seven-year trend, we spent on average \$947,000. If you took out 2012 when we spent a little over \$300,000, the average jumps to \$1.1 million per year.

**Council of Aging** - As Franklin's population ages, the Senior Center continues to expand its programs and safety network. There are currently 4,400 citizens over 60, and it is expected to increase to over 7,000 by the end the decade. Accordingly the budget reflects a small increase in hours for the Outreach Coordinator. There are other staff increases funded by grants and the donations by the Friends of Franklin Elders.

**Library** – As a result of the ongoing book sale at the Library they will collect enough revenue to cover the cost of being open on Sundays from after Labor Day until Memorial Day. This will be the first time since 2002 that the library will be open on Sunday. We also added 10 hours per week of additional staff hours.

We still do not meet the minimum requirement for spending and will continue to request a waiver from the State Library Commissioners but this is a step in the right direction. The Friends of the Library also donate much needed funds to provide books, programs, etc.

**Employee Benefits** – This budget is increasing for several reasons. First, we transferred the responsibility of school retirees’ health insurance from the school budget to this budget. Second, health insurance in general will increase by nearly 8%. Third, the OPEB budget is up \$200,000. Fourth, workers compensation is anticipated to increase (no budget as of March 3<sup>rd</sup>) due to some large claims. The good news is that while we were told to anticipate a 10% increase in pensions every year for the next five years, the FY 15 budget is actually level funded. Once we have up to date information, this budget may be adjusted prior to the Town Council adopting the budget.

**Property and Casualty Insurance** – This is an estimated amount. As of March 3<sup>rd</sup> we do not have a quote for this budget. I anticipate it will increase by about 5% plus the cost of insuring the new High School. Once we have more information this budget may be adjusted prior to the Town Council voting on the budget

### **Budget 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 15 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** - No one time funds are being used to balance the budget

We have not addressed our GASB 45 obligation (post retirement health insurance) although this year we have budgeted \$400,000 to continue to fund the obligation of over \$89 million (2013 actuarial study).

## **Compensation and benefits**

- Budget with current revenues
- Compensate at market rates

**Current status** – We have nine municipal unions. Eight of the nine unions have collective bargaining agreements through June 30, 2015. The firefighters have yet to agree to a contract and the Fire Salary budget does not include raises for those employees. The wages settlement account anticipates the FF's contract will be settled in FY15. 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. New growth and local receipts have been adjusted to reflect the trends in actual collections. Included in the projection are the enterprise funds direct and indirect charges that pay back the general fund for costs attributable to those funds. Again this year we are charging the water and sewer enterprise accounts for their OPEB obligation.

## **Financial Reserves**

- Adequately fund and maintain reserves (Stabilization, Free Cash, Overlay Surplus)
- Maintain Stabilization account at \$5 million 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 and non-recurring expenses.

**Current status** - the General Stabilization fund balance is just over \$4.8 million dollars which is on target for the Town's 5% of general fund revenue policy.

## **Long-Term Debt - Proposed**

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

**Current Status** - The FY 15 budget calls for a general fund debt service of \$7,591,000. 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. We were recently upgraded to AA+ one grade below the highest rating of AAA.

**TOWN OF FRANKLIN**  
**Change in Debt Service**  
**FY 2014 to FY 2015**

|                                    |                                  | <b>Principal</b> | <b>Interest</b>  | <b>Total</b>     |
|------------------------------------|----------------------------------|------------------|------------------|------------------|
| School                             |                                  |                  |                  |                  |
|                                    | FY 2014                          | 2,323,825        | 643,706          | 2,967,531        |
|                                    | FY 2015                          | 3,198,346        | 2,442,258        | 5,640,604        |
|                                    | Change                           | 874,521          | 1,798,552        | 2,673,073        |
| Municipal                          |                                  |                  |                  |                  |
|                                    | FY 2014                          | 1,377,000        | 616,072          | 1,993,072        |
|                                    | FY 2015                          | 1,374,000        | 576,556          | 1,950,556        |
|                                    | Change                           | (3,000)          | ( 39,516)        | ( 42,516)        |
| <b>Total General Fund</b>          |                                  | <b>4,572,346</b> | <b>3,018,814</b> | <b>7,591,160</b> |
|                                    |                                  |                  |                  |                  |
| Sewer                              |                                  |                  |                  |                  |
|                                    | FY 2014                          | 296,727          | 142,253          | 438,980          |
|                                    | FY 2015                          | 296,727          | 128,903          | 425,630          |
|                                    | Change                           | (0)              | (13,350)         | (13,350)         |
| Water                              |                                  |                  |                  |                  |
|                                    | FY 2014                          | 1,004,474        | 506,843          | 1,511,317        |
|                                    | FY 2015                          | 1,350,894        | 534,314          | 1,885,208        |
|                                    | Change                           | 346,420          | 27,471           | 373,891          |
|                                    |                                  |                  |                  |                  |
| <b>SUBTOTAL PRINCIPAL/INTEREST</b> |                                  |                  |                  |                  |
|                                    | FY 2014                          | 5,002,026        | 1,908,874        | 6,910,900        |
|                                    | FY 2015                          | 6,219,967        | 3,682,031        | 9,901,998        |
|                                    | <b>Change</b>                    | <b>1,217,941</b> | <b>1,773,157</b> | <b>2,991,098</b> |
|                                    |                                  |                  |                  |                  |
| <b>Short Term Interest:</b>        |                                  |                  |                  |                  |
|                                    | FY 2014                          | -                | 1,015,000        | 1,015,000        |
|                                    | FY 2015                          | -                | <b>0</b>         | <b>0</b>         |
|                                    | Change                           | -                | (1,015,000)      | (1,015,000)      |
|                                    |                                  |                  |                  |                  |
| <b>TOTAL DEBT</b>                  |                                  |                  |                  |                  |
|                                    | FY 2014                          | 5,002,026        | 2,293,874        | 7,925,900        |
|                                    | FY 2015                          | 6,219,967        | 3,682,031        | 9,901,998        |
|                                    | <b>TOTAL NET CHANGE ALL DEBT</b> |                  |                  | <b>1,976,098</b> |

## **Capital Improvement Program**

- A five-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 will vote on the FY 14 Capital plan this spring. 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 61% of net revenues (excludes use of reserves and enterprise funds). State Aid accounts for approximately 31% and local receipts 7% of the overall revenues. The remaining 1% is other available funds.

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 can increase by 2.5% over the previous year's tax levy limit. This accounts for approximately \$1.49 million for FY 15 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 15 is \$700,000. Included in this budget in the Historical Financial Information Section on page 5 is a chart reflecting New Growth since FY 2007.
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 four debt exclusions to construct new schools since 1995. The cost of these debt exclusions is reflected in the current tax bill and costs the average taxpayer approximately \$339 per year. This debt will peak in FY 15 and then decline over time.

### **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. The FY14 net school spending requirement is \$58,490,655. The preliminary FY 15 net school spending is \$60,049,864. Franklin currently exceeds the minimum spending requirement for FY 14 by just under \$4.36 million.

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 2009, the Town's state aid was at a high of just over \$33 million; the projection for 2015 is just over \$27.4 million. This has forced us to reduce jobs and increase class size over the last several years.

In 1993, state aid paid for about 30% of the School budget. In FY 15, it will be nearly 50% of the School budget.

The current revenue estimates (on which this budget is based) proposed for FY 15 Chapter 70 State Aid for education is \$27,423,796 and non-school aid is \$2,446,406. The Charter School tuition reimbursement is \$507,873, and the assessment for the Charter School is \$4,255,745.



An eight year history of local aid is on page 1 and 2 of the Historical Financial Information Section of this budget.

### **Hotel /Motel Tax**

The Town receives a 6% room tax from each hotel room rented. In FY 13 the Town received over \$500,000 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.

The current balance in the open space account is approximately \$1.2 million.

### **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 15 local receipts are \$7.4 million. The motor vehicle excise tax accounts for half (50%) of the total of \$3.7 million. On page 3 of the Historical Financial Information Section of this budget is an eight year history of Local Receipts.

### **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. The FY 15 proposed trash fee will increase from \$212 to \$216 for a 65 gallon totter and from \$192 to \$196 for a 35 gallon totter. There are no proposed increases in the water or sewer rates.

### **Operating Budget**

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.

### **Future Outlook**

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. There is no one single answer to the problem. Sharing services, changing the way we do business, eliminating outdated State laws, increase revenues, etc all have to be discussed if we are to continue to provide high quality service. Please see the five year fiscal forecast for more details. However if we look ahead to FY 16 some of the issues that we will need to address or monitor include:

- **Funding the four firefighter positions currently being paid by a grant**
- **Employee benefits – Health Insurance and Pensions**
- **OPEB**
- **All municipal collective bargaining agreements end on June 30, 2015**
- **School enrollment and mandates.**
- **Relocation of the Recreation Department**

### **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, the Human Resource Director Stephanie McNeil 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. Finally thanks to the Finance Committee for their role in the budget process. The more eye and ears that participate in our Government the stronger we become as a community.

Please feel free to call me or visit if you have any questions or suggestions.

Jeff Nutting, Town Administrator