

Town of Franklin

**Fiscal Year 2016
Budget Statement**

Town Council

Robert Vallee, Chair
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Judith Pond Pfeffer, Clerk
Andrew Bissanti
Robert Dellorco
Brett Feldman
Thomas Mercer
Peter Padula
Stephen Williams

Town Administrator

Jeffrey Nutting

Comptroller

Susan Gagner

Treasurer-Collector

Jim Dacey

April 2015

Executive Summary FY 2016 Budget

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

The FY 16 proposed budget will be 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.

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.

The Town Council voted to create an OPEB Trust. This will help a little closing the gap in our unfunded liability. The voters rejected an override for roads so will do the best with can deal with 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.

The Town's property tax revenue (not including debt exclusions) will increase by 2 ½ % plus new growth, or about \$2.246 million. Local receipts, which include the excise tax and permit and license fees, etc., will increase \$320,000. This increase is due to increased motor vehicle commitments. Net State Aid (based on House budget) will increase by \$85,378. The FY 16 "net" revenue increase is estimated at \$2.65 million.

Proposed FY 16 Highlights

Town Administrator - The budget requests includes the position of Deputy Town Administrator to assist in the day to day operation of the town. Currently we have no back up for the procurement officer, the HR director will be leaving in 2017 and we need someone to learn that function. We could use assistant with various operations including but not limited to all lines of insurance, benchmarking performance, liaison to various groups, more in depth review of finances, and serving in the absence of the TA. As I see the current organization there will be turnover of several key positions in the next 3 to 4 years and it is time to start succession planning so we don't skip a beat.

Facilities - We currently maintain over 1,000,000 square feet of buildings. This budget reflects making the part time facilities manager a full time position. As all the buildings get more complicated to operate, technology will continue to change and we continue to take on building projects we cannot keep pace with a part time position. Our school/municipal buildings are in excellent shape and we need to properly safeguard the citizen's investment

Police – No changes. A recent study showed that our staffing is consistent with like size communities.

Fire - The budget reflects potential wage increases for a four year old contract that expired in 2011. Further, we have four firefighters that are currently being paid from a grant that expires in October of 2015. These four positions will be funded for the remainder of FY 16 and beyond with Town funds.

Regional Dispatch – Franklin, Norfolk, Plainville and Wrentham continue to move towards regional dispatch. (Metacomet Emergency Communications Center or MECC).

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 Elementary School enrollment continues to decline since peaking in 2008. The net enrollment decline in the school system since 2008 is about 490 students with a total enrollment this year of approximately 5,700 students. The decline has allowed the schools to move staff to middle and HS position as well as reduce class size to more reasonable levels and taken pressure of the school budget. We will continue to watch enrollment over the next few years to see if it levels off or begins to climb again

The Benjamin Franklin Classical Charter School is currently searching for new space and have been approved to add students from other communities. It is unclear at this point, when and where will they expand or what effect it will have on enrollment within the Franklin Public Schools.

Employee Benefits – This budget is increasing for several reasons. First, pension costs increased by about 10% , OPEB should increase by \$100,000 but I suggest the increase be delayed a year, workers compensation is up due to some large claims

Property and Casualty Insurance – Increase due to new High School

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. We hope the Firefighters arbitration settles prior to the adoption of the budget. Our employees are the most valuable asset in the organization and maintaining fair wages while trying to maintain services is always a challenge. We will be bargaining for new contracts with all municipal unions.

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 \$4.9 million dollars which is just under the 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 16 budget calls for a general fund debt service of \$7,136,563. 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 2015 to FY 2016				
		Principal	Interest	Total
School	FY 2015	3,198,346	2,442,258	5,640,604
	FY 2016	2,723,250	2,295,887	5,019,137
	Change	(475,096)	(146,371)	(621,467)
Municipal	FY 2015	1,374,000	576,556	1,950,556
	FY 2016	1,381,000	526,425	1,907,425
	Change	7,000	(50,131)	(43,131)
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Total General Fund		4,104,250	2,822,312	6,926,562
Sewer	FY 2015	296,727	128,903	425,630
	FY 2016	298,196	105,087	403,283
	Change	1,469	(23,816)	(22,347)
Water	FY 2015	1,350,894	534,314	1,885,208
	FY 2016	1,337,091	471,065	1,808,156
	Change	(13,803)	(63,249)	(77,052)
SUBTOTAL PRINCIPAL/INTEREST				
	FY 2015	6,219,967	3,682,031	9,901,998
	FY 2016	5,739,537	3,398,454	9,137,991
	Change	(480,430)	(283,577)	(764,007)
Short Term Interest:				
	FY 2015	-	0	0
	FY 2016	-	210,000	210,000
	Change	-	210,000	210,000
TOTAL DEBT				
	FY 2015	6,219,967	3,682,031	9,901,998
	FY 2016	5,739,537	3,032,312	9,347,991
	TOTAL NET CHANGE ALL DEBT			(554,007)

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 15 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 62.5% of net revenues (excludes use of reserves and enterprise funds). State Aid accounts for approximately 29% and local receipts 7.5% 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 \$1.546 million for FY 16 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 16 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 \$333 per year. This debt will peak in FY 17 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 FY15 net school spending requirement is \$60,049,864. The preliminary FY 16 net school spending is \$61,867,883. Franklin currently exceeds the minimum spending requirement for FY 15 by just over \$4.8 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 2016 is just under \$27.6 million. In 1993, state aid paid for about 30% of the School budget. In FY 16, it will be nearly 48% of the School budget.

The current revenue estimates (on which this budget is based) proposed for FY 16 Chapter 70 State Aid for education is \$27,575,946 and non-school aid is \$2,604,597. The Charter School tuition reimbursement is \$374,167, and the assessment for the Charter School is \$4,349,176.

An eight year history of local aid is on page 1of 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 14 the Town received over \$530,000 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 \$1.32 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 16 local receipts are \$8.15 million. The motor vehicle excise tax accounts for a little over half (54%) or \$4.33 million. On page 4 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 16 proposed trash fee will decrease from \$216 to \$204 for a 65 gallon totter and from \$196 to \$184 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 17 some of the issues that we will need to address or monitor include:

- **Employee/retiree benefits – Health Insurance and Pensions**
- **OPEB**

- **School collective bargaining agreements end in 2016**
- **School enrollment and mandates.**
- **Roads, Roads, Roads**

Acknowledgements

The preparation of this budget would not be possible without the hard work of our Comptroller Susan Gagner, the Treasurer-Collector James Dacey, 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