

## FY 2008 BUDGET MESSAGE

February 14, 2007

### TO THE MEMBERS OF THE BOARD OF SELECTMEN AND FINANCE COMMITTEE

Submitted herein is the Fiscal year 2008 recommended budget for the Town of Holden. This year's format retains the expanded documentation and traditional four areas of (1) Resource Profile; (2) Budget Summary; (3) Budget Detail; and (4) Capital Funding Program.

#### **REVENUE**

FY 08 revenue from all sources is projected to increase by \$1,635,373, an increase of 4.95% from FY 07. However, of this amount \$586,194 (1.77%) is made up of debt excluded revenue leaving only \$1,049,179 (3.18%) in unrestricted revenue for use in our operating budgets.

Revenue changes of note include:

- **Property Taxes** – Available property tax revenue will increase by \$1,196,714 or 5.35%. Of this amount \$563,331 is accounted for by allowable growth within the limits of Proposition 2 ½ and \$633,383 from “New Growth”. This total will generate an approximate \$0.50 cents per \$1,000 increase in our tax rate. However, the overall tax rate is projected to increase by \$0.85/1000 due to the impact of the High School borrowing.

In FY07 the impact of this borrowing was offset by a partial return of modular debt payments for which the District was reimbursed. Absent an additional return of the remaining modular payments this year, our tax rate will increase by an additional \$0.35 or \$0.85 in total. Should that occur, the average assessed home (currently \$ 311,300) would see an increase of \$267.00.

- **Local Aid** – With the inauguration of a new Governor the deadline for budget submittal is extended. Consequently, as of this writing the Governor's recommendations for the Local Aid and Chapter 70 remain unclear. However, Governor Patrick has made some public pronouncements regarding Local Aid both during the campaign and more recently at the Annual Meeting of the Massachusetts Municipal Association. From those comments and his staff's interaction with the MMA, the following is a very likely scenario.
  - The State is facing a \$1.4 billion dollar structural deficit for FY08. This is due to a combination of factors most notably a slowing of growth to 4% down from the 2004 – 2006 averages of 6 ½ %
  - The Governor's Secretary of Administration and Finance and the Chairmen of the House and Senate Ways and Means Committees have agreed to a “consensus” new growth revenue estimate of 3.2% This is considered significant in that all of the key components necessary for budget adoption have now agreed to what new revenue the Commonwealth will have to spend in FY08.

- There is only a remote chance that the Lottery will perform at a rate necessary to allow it to meet its projected \$920,000 distribution to Cities and Towns for FY07. However, the Patrick administration has indicated that they will not reduce the amount Cities and Towns were promised making up the difference in any shortfall from their own reserves.
- Likewise the Patrick administration has indicated that it will not reduce Local Aid for FY08 and in fact will increase it “modestly” most likely in the categories of Chapter 70 and PILOT. Consequently, local officials have been assured that there will be no reduction in the traditional sources of Local Aid for FY08. Certainly it is more likely that the Lottery can meet the \$920,000 distribution with a second year of growth, however, reserves would remain the backup should that not occur.
- Municipal Relief Package – The Governor will be announcing a Municipal Relief Package that will include a number of initiatives designed to assist Cities and Towns in meeting their own revenue needs. Those initiatives will include a 1% local option meals tax, a 1% increase in the Hotel Motel tax, end of the telecommunications tax loophole, halting the planned drop in the tax classification differential, allowing communities to join the Group Insurance Commission, and requiring underperforming local pension systems to join the state pension plan. The MRP will also include a host of lesser items including reform to the Civil Service process to making it easier to go to biweekly payroll mostly designed to make the use of Home Rule Petitions less necessary.

Based on the above, I am submitting this budget with level funded Local Aid expecting any increase of significance to occur in the Chapter 70 category.

- **Free Cash** - Our original Free Cash certification for FY 06 was certified at \$638,881. This amount is in fact the amount generated from our “normal” end of year under expenditures and over collection of revenue. However, this figure did not take into account the \$800,000 grant the Town received from the State based on a legislative initiative. After a prolonged “discussion” with the Department of Revenue, they did eventually credit some \$790,000 of that grant to our Free Cash raising our certified amount to \$1,428,676. From that amount the recent Special Town Meeting action expended \$148,440 to procure architect services and to make necessary repairs to the Police and Fire stations.

As a result of the above actions, I have budgeted as follows. I have designated \$638,881 as the amount of Free Cash available for FY 08. This is a decrease of \$25,550 from the amount used in FY 07. Budget participants have come to expect that our previously certified Free Cash will be available for appropriation and this will not change in my budget for FY 08. The balance of the Free Cash that was generated from the State grant, less the January 29<sup>th</sup> expenditures (\$641,355), will be set aside for appropriation into the sub fund of the IIF. I think we can all agree that to use this one time revenue to balance an operating budget would be poor practice and consequently is not recommended.

- **General Estimated Receipts** – Revenue from General Estimated Receipts is expected to remain flat except for a modest \$75,000 increase in interest income.
- **Excise Receipts** – Reflecting a slowing of new car sales I am estimating a decrease in our excise receipts for FY 08. The \$2,100,000 figure is some \$75,000 less than the current year and equals our FY06 amount.
- **Overlay Reserve** – While the budget appears to show a decrease of \$100,000 from the FY07 Overlay Reserve amount, in fact the FY07 amount was added to general revenue only at the end of last year's budget process to close a spending gap. The recommendation last year was for a \$50,000 expenditure from the source to be applied to the DPW Depreciation Fund. This year's recommendation is for a \$100,000 expenditure from this source split evenly between the DPW Depreciation and IIF funds. This recommendation is included in the restricted revenue section of the Budget.

In terms of the "split" of new revenue to the various budget entities, I have applied an approximate 3.5% increase to both education and municipal budgets. From an actual dollars perspective I have assigned some \$671,219 to the various school accounts and \$346,437 to the municipal budget. This does not take into account the newly required \$539,030 needed to pay for the high school project. Those funds are debt excluded and as such have a very real tax rate impact but are outside the operating funds debate. There are changes in other expenditure categories that make up the overall budget that account for any vagaries in this apportionment split. This is simply my best pass at a fair and equitable distribution of a very limited set of resources.

## **EXPENDITURES**

Our goal in approaching the FY 08 budget was two fold. First, to meet our state mandated or other fixed cost increases and secondly to address the budget goals as outlined by the Board of Selectmen and Finance Committee. No small task.

**General Government** - Expenditures for the General Government portion of our budget (exclusive of Debt) is recommended to increase \$77,637 or 2.16%. This is due to a number of factors including a recommended increase of \$46,170 in our **Information Technology** division to fund a second position. The requirements and responsibilities have increased every year since we have inaugurated this division. Both the Finance Committee and the Board of Selectmen have asked us to do more with technology and to a large measure we have. Our web site was just recently upgraded and we have steadily expanded the number of services and on line payment options our residents can avail themselves of. However, in the process we have clearly maxed out the sole practitioner who is our division and the time to provide assistance here is long overdue. During the upcoming year we expect to move aggressively into a Town GIS system. To do so and to keep up with our presently expanding responsibilities requires this additional person. We have also expanded the hours from 19 to 25 for the Data Collector in the **Assessors** Office. Holden is a community that has chosen to use our in house skill and expertise to complete its revaluations of real property. This has saved the town many thousands of dollars in fees that would have gone to outside vendors to complete the work. However, this process and the steadily increasing requirements of the state for tax value and rate setting require a level of detail that this expanded position can assist with. Lastly, Holden like every other municipality and private company is dealing with the effects of annual double digit increases in our health insurance budget. I am estimating a 15% increase (\$140,000) in

this budget for FY08 and an overall **Insurance** budget increase of \$154,700. Partially offsetting these increases is the fact that FY07 was the last payment (\$50,000) in our investment in the Master Planning process. This reduction netted a \$35,033 reduction in the **Growth Management** budget.

**Public Safety** – Expenditures for the Public Safety portion of the budget are recommended to increase \$88,384 or 2.90% for FY08. The **Fire Department** has received the largest increase with allocations for the first full year of previously approved fulltime firefighters, and some additional modest capital improvements totaling some \$89,880. No new positions were recommended in this budget for either the Fire or the Police Departments.

**Public Works** – Requested funding for the Public Works portion of the budget is essentially level funded with an actual decrease of \$13,342 or -0.55%. While modest increases are recommended in 4 of the divisions, the deletion of capital requests in the **Buildings and Grounds** budget was significant enough to cause the overall decrease. It is the expectation that some of the work requested in FY08 can be accomplished in FY07 given the likelihood of a surplus situation with our weather affected accounts. Of note in the **Engineering Division** is the deletion of the requested second engineering position. It is the hope that the responsibilities for the operation of the GIS system will transfer to the new Information Technology position thereby lessening the need for this position.

**Education** – As indicated I have allocated an approximate 3.5% increase to the various education budget categories which totals some \$670,000 in new funding for FY08. It should be noted that we have not yet received our state mandated Net School Spending requirement for FY08. Should that requirement come in at the 3.5% calculation and should the Governor's promise of new Chapter 70 aid come to fruition, we may well be able to equal last year's early and amicable budget resolution. However, to the extent that the NSS calculation exceeds the amount we have allocated then we will by necessity have to look at the voluntary RASA allocation to make up any difference. Absent relief from the requirements of Proposition 2 ½ in the form of an override, the dollars we have to allocate are significantly restricted for FY08. This reality makes their fair and equitable distribution all that more important as we move forward.

### ***ENTERPRISE ACCOUNTS***

FY 08 will be a difficult year for both our Water/Sewer and Solid Waste Enterprise accounts. Both will need rate increases that while perhaps not large from a dollar standpoint are significant from a percentage perspective.

**Water Sewer Enterprise Account** - We are recommending a 11.2% increase in our Water and a 11.9% increase in our sewer rates for FY08. This is occasioned by a slowing in the growth of our water and sewer use along with increases in our cost for DCR Disposal and Worcester water. A projected increase for FY07 has been deferred via the use of existing Free Cash, a source that is diminished for FY08 further limiting our ability to avoid the increase in rates. If approved this rate increase will cause a \$1.61 per month increase for the average water user (670CF) and a \$3.85 monthly increase to the average sewer user.

**Solid Waste Enterprise Account** - During FY08 Holden's costs for the disposal of its solid waste at the Wheelabrator facility will jump from \$36.52 per ton to \$63.00. This 72% increase (which will come in two stages on July 1 and January 1, 2008) in this major expense coupled with the effects of a renegotiated contract for collection with Central Massachusetts Disposal (projected at 19%) means that we will be forced to implement a rate increase for FY08 to keep this fund solvent. Our recommendation is three fold. First that the Town adopt a \$25.00 large

burnable bulk item fee. Currently there is no fee for the first sticker and a \$20.00 fee for all stickers thereafter. Given that our fee is both substantially below the cost of other private disposal vendors and well below our actual cost to dispose of the item we have a very popular program. Popularity that unfortunately cannot be sustained under the present fee structure. Secondly, we propose a rate increase of \$3.00 per month in the expense for our large toter and a \$1.00 dollar increase in the monthly fee for the small toter. Differentiating the fee increase will cause some migration amongst our customers but this proposal is designed to encourage both the low volume user to continue their practices and the large volume user to recycle more to moderate their expense.

### **CONCLUSION**

In conclusion, we begin the FY08 process with some trepidation as we adjust to new leadership at the state level and with the sure knowledge that we have difficult choices and decisions to make. However, we also begin with the hope that reasonable people can recognize the value in all of the services that the Town and District offer and balance those competing interests equitably. To that end I believe that this fiscal plan represents our best collective effort to meet the diverse needs of our community as we see them. I want to take this opportunity to thank the Department Heads and our many talented employees for their assistance in the preparation of this budget and for the skills they bring to their jobs on a daily basis. Special thanks to Judy Sikes for her production skills and her endless patience.

I look forward to working with the Board of Selectmen, Finance Committee and other interested citizens to produce a finished budget that meets the needs of the citizens of Holden in a fiscally responsible way.

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Brian J. Bullock  
Town Manager

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