

FY 2009 BUDGET MESSAGE

February 15, 2008

TO THE MEMBERS OF THE BOARD OF SELECTMEN AND FINANCE COMMITTEE

Submitted herein is the Fiscal Year 2009 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 09 revenue from all sources is projected to increase by \$1,143,536, an increase of 3.29% from FY 08. However, it should be noted that of this amount, \$253,849 (just under 25% of the increase) is made up of debt excluded revenue leaving only \$889,687 (2.56%) in unrestricted revenue for use in our operating budgets.

Revenue changes of note include:

- **Property Taxes** – Available property tax revenue will increase by \$1,286,465 or 5.05%. Of this amount \$590,916 is accounted for by allowable growth within the limits of Proposition 2 ½ and \$441,700 from “New Growth”. Also due to changes in SBAB reimbursement and the increase in the High School debt service, we will be levying \$253,849 additional dollars as part of the Debt Excluded portion of the Levy. This total will generate an approximate \$0.64 cents per \$1,000 increase in our tax rate with a \$73.00 tax bill impact to the average assessed home valued at \$301,800.
- **Local Aid** – Last year the inauguration of a new Governor extended the deadline for his budget submittal. Consequently, we did not have our Local Aid or our DOE requirements at the time of our FY 08 submittal. This year the Governor's budget was filed in a timely manner and as it impacts Holden presents a mixed bag. On the positive side the budget continues to address the inequity situation first raised by Holden back in 1998. This year is the second year of an unprecedented slowing in the rate of required spending by Holden for education. Holden's required contribution to the District will grow by only 0.46% or \$75,405 on a base contribution of \$16,255,617. That coupled with a very significant increase in Chapter 70 aid for the District totaling \$2,582,586 (13.35%), portends that FY 09 could be an easier year for Town and Gown relations.

However, while the news is positive on the education front the Municipal Local Aid picture is at best clouded. The Governor's budget level funds Local Aid for Holden at the FY08 level. However, to achieve level funding the Governor has linked \$283,145 of that amount to successful passage of his Casino gambling proposal. While local officials may have varied views on Casino gambling, we are I believe united on rejecting any linkage between Local Aid amounts and successful passage of a Casino proposal or any other proposal for that matter. Municipal officials should be very concerned that they not become unwilling soldiers in the battle over Casino gambling. Consistent and predictable levels of Local Aid have been the promise and that should continue to be our focus. That being said how do we address the budget impact of this battle yet to be fought? The FY 09 budget as submitted expects that Local Aid will indeed be level funded with or without successful passage of the

expanded gambling initiative. It is my belief and that of others closer to the Beacon Hill debate that even if the Legislature defeats the Casino initiative, Legislators will be reluctant to reduce Local Aid as a result. Consequently, I am as confident as one can be in this uncertain process that level funding will be achieved.

- **Free Cash** - Our original Free Cash certification for FY 07 was certified at \$728,081. This amount is in fact the amount generated from our “normal” end of year under expenditures and over collection of revenue. However, we will be recommending the necessary transfer of \$30,000 from this source to address the mandated expenses of our FY 08 Veterans Services account. The town has binding commitments to serve as the first stop for certain legislatively mandated cases and we have had 5 this year. Consequently, for FY 09 we will be budgeting the balance of \$698,081.
- **SBAB Reimbursement (Mountview)** – FY 08 was the last year of SBAB reimbursement for the debt associated with the Mountview addition. The Mountview addition was funded by two borrowings the debt service for the first expired this year as well. However, the debt service for the second borrowing has one more year left and will not expire until FY 09. Consequently, even though Holden taxpayers benefited fully from all of the reimbursement owed, the last payment did not match the last year of the expense. This occurrence is the main driver in the increase in our Debt Excluded portion of the Levy. FY 09 is the last year for both the Mountview and Library debt service payments.
- **General Estimated Receipts** – Revenue from General Estimated Receipts is expected to increase by a modest \$25,000.
- **Excise Receipts** – Reflecting a generally stagnant economy I am level funding our excise receipts for FY 09.
- **Overlay Reserve** – FY 09 will be the third year that we will be using \$100,000 from Overlay Reserve Account. While the budget appears to show an increase of \$50,000 from the FY 08 Overlay Reserve amount, in fact in FY 08 we also used \$50,000 in the DPW Depreciation Fund.

In terms of the “split” of new revenue to the various budget entities, I have split available revenues on an approximate 50/50% basis. I have assigned some \$600,000 to the operating accounts of the District and \$606,000 to the Town operating budget. This does not take into account the increase in the High School debt service of \$44,338. Those funds are debt excluded and as such have a tax rate impact but are outside the operating funds debate. This budget also increases the funding for our Vocational School operating budget by some \$28,000. 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 – Of the approximate \$600,000 increase recommended for the entire Town operating budget, some \$350,000 of that increase is driven by three budgets in the General Government portion of the budget. We are reserving the amount of \$150,000 in the **Personnel** budget recognizing that we are now beginning negotiations with all of our union partners with an eye toward new contracts in place for July first. Additionally, we will be recommending a \$152,000 increase in the **Insurance** budget with some \$125,000 of that amount attributed to our increased cost for health insurance. Lastly, we are facing a \$67,000 increase in our **Retirement** assessment. We have an offsetting decrease of note in **Legal** – (\$30,000) but are also faced with a \$32,000 increase in the **Assessors** budget to address the triennial reappraisal of our commercial property accounts.

Public Safety – Expenditures for the Public Safety portion of the budget are recommended to increase by \$93,894 or 2.92% for FY 09. The **Fire Department** is essentially level funded as we have moved vehicle and ambulance related costs to enterprise/revolving type accounts. Those recommended changes will be more fully discussed later in this message. The **Police** budget is recommended to increase by \$96,304 or 5.08%. Fully one third or some \$32,000 of that amount is occasioned by required payments to officers who achieve higher educational benchmarks as proscribed by the Quinn Bill. While the Fire Prevention Officer position has been reclassified, there are no new positions in this budget for either the Fire or the Police Departments. It should be noted that the major building related capital requests for both Departments have been deleted pending a decision on a new Public Safety facility. Should voter approval of the funding for that building not be successful, we will have to revisit and prioritize those requests and find a mutually agreeable funding mechanism.

Public Works – Requested funding for the Public Works portion of the budget is level service funded with an overall increase of \$60,965 or 2.92%. Most all of the projected increases are based on either utilities or fuel costs. We have recommended fully funding the Street Light account in the **Highway** budget ending the Light Department subsidy for this account. Recommended also is a \$13,000 increase in the **Water/Sewer** line item and smaller \$5,000 increases in telephone and building maintenance line items in **Buildings and Grounds**. Rounding out the larger changes is a \$12,000 increase in the Fuel account in the **Garage** budget.

Education – As indicated this budget allocates \$600,000 in new operating expense dollars for the District budget. This would be in addition to the \$44,000 increase in the debt portion of their budget. We are also recommending that the budget for the Montachusett Regional Vocational Technical High School be increased by some \$28,000 or 5%. This recommendation is made in spite of the very modest increase in our state required expenditure for Education of less than ½ of one percent. However, budgeting at that admittedly unrealistic level would be counter-productive and not sustainable in a regional budget adoption process. Our recommendation would cover all of the various District expense accounts including transportation.

ENTERPRISE ACCOUNTS

Water Sewer Enterprise Account – The submitted budget for the FY 09 Water/Sewer Enterprise Fund requested a 10.85% increase in water rates and a 7.95% increase in sewer rates. These increases while never popular are designed to allow the fund to remain solvent while addressing increases in Worcester water rates (8%), sewage transport rates (7.5%) and our assessment from the Upper Blackstone WPAD which will climb by 13.61% in FY 09. In addition we are wrestling with an accounting issue that requires an additional payment for sewage transport be made in FY 08.

In reviewing this budget I was mindful of the very significant rate increases that were voted by the Board for the FY 08 budget. To that end I am recommending reductions to this budget that will lower the need for new revenue and do so in a responsible manner. However, even with those reductions, rates will have to increase to keep pace with the increases that are being passed along to us from the City and the Upper Blackstone WPAD. The recommended budget would raise water rates by 8.14% and sewer rates by 5.3%. Put another way, if approved, this rate increase will cause a \$1.64 per month increase for the average water user (670CF) and a \$1.60 monthly increase to the average sewer user.

Compounding our problems in realistically budgeting for this service is an accounting issue that has been brought to our attention by our auditors. Since inception the Water/Sewer Enterprise Fund has been budgeting and paying four quarterly bills for sewage transport. However, due to very lax billing practices by one of our major vendors, in one of those years the fourth quarter of a given fiscal year was billed so late that it was paid with funds from the then current fiscal year instead of the previous year for which it was generated. This goes back at least 5 years and anecdotally it may go back as far as 10 years. No harm or foul as far as internal accounting because except for that one year when only 3 quarters were paid, every other year was billed 4 quarters and 4 were paid. Now, however, the auditors have determined that this "fifth" quarter must be paid in the FY 08 fiscal year. The downside to not doing so would mean the Town would receive a "qualified" opinion on this audit which can have consequences for our bond rating. While I have concerns as to how this opinion was generated, there is no doubt that it is legally correct. Consequently, while we will address the process that got us here, we have developed a proposal that will if adopted allow the Fund to "borrow" against older under utilized warrant articles in FY 08. Dollars are never free and the Fund will have to pay those funds back in FY 09. However, having made a place for that level of funding in the FY 09 budget, policy makers may want to consider keeping that surcharge in place and assigning future revenue into a rate stabilization account to prevent the wilder swings of rate shock experienced as of late. However, made permanent or not, we have a one year problem that is fixable if not pretty.

Solid Waste Enterprise Account – On the good news front Holden residents' embrace of the new single stream recycling program has caused a significant increase in our rate of recycling and a corresponding decrease in disposal costs. Based on these results we will be able to maintain our current solid waste monthly rates of \$15.00 for the large and \$11.00 for the small toters for FY 09.

Fire Vehicle Stabilization Account – FY 09 is the first year for the Fire Department Vehicle Stabilization fund. This fund was established last year with a first time appropriation of \$325,000 from a state grant and a \$75,000 contribution from the Fire Department budget. This year we will continue to budget the \$75,000 payment from the Fire operating budget and capture the interest income and retain it in the fund. However, the Fire Department has requested the purchase of a new vehicle with an estimated price of \$450,000. The vehicle would be funded via a 5 year note and a payment schedule for this and a future vehicle is included with this budget. Of note is that in FY 13 the town will make its last payment on the Quint fire truck. If policy makers then were to reroute that \$14,000 payment into this fund it would make the fund much more viable for the long term without disruption to the budget process. Lastly, if approved, the first payment for the new fire vehicle requested would not come until FY 10. Hence, there are no dollars budgeted in FY 09 but a debt authorization vote is needed.

EMS Enterprise Fund – On October 3, 2007 I appointed a Committee to look into the feasibility of bringing the presently contracted out ambulance service, in-house. The Committee has completed its work and recommended that the Town directly provide this service to our

residents. We cast no aspersions on our current service provider in making this recommendation. AMR and their predecessors have provided quality service over the years. However, a service that was for many years free has now grown to occupy a significant portion of our budget. Additionally the municipal marketplace has shrunk for AMR and we are one of the few Central Massachusetts Towns still purchasing service from them. I will leave it to the policy makers to debate the efficacy of bringing this service in-house. However, as a practical matter there are steps that would need to be taken to start up this service should that be the choice. First we recommend that the ambulance service be offered and accounted for on an Enterprise Fund basis. The goal medium term should be to have the service become self sufficient. However, in the short term Town expense for ambulance services should not exceed those expenses we currently incur. From an accounting standpoint grouping all of our revenues and expenses in one discrete financing vehicle seems to make the most sense and will make it easier for our residents to keep track of our progress. Secondly, even with an Enterprise Fund approach we will need dollars to start up this service that will likely not be offset with matching revenue. Employees will have to be hired prior to starting to offer the service and capital equipment will have to be purchased. It is our Public Safety professionals' opinion that this service can be launched with an original appropriation of \$192,000. Should that be the adopted dollar amount, then I would propose use of the Wachusett Fund's current balance of \$64,000 and the remaining \$128,000 come from the Sub Fund of the IIF. One time start up type dollars are especially difficult to come up with. However, we are fortunate that a balance remains in the Wachusett Fund and that funding in the IIF Sub Fund can be accessed. While perhaps not a technical "capital" item it certainly is a one time need which the fund was designed to address. What is clear is that if you wish to embark on this service, you will need to find the one time dollars to pay for initial start up. The recommendation does that with minimal impact to our other operating needs.

CONCLUSION

In conclusion, 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.

Brian J. Bullock
Town/Light Manager

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