

FY 2010 BUDGET MESSAGE

February 12, 2009

TO THE MEMBERS OF THE BOARD OF SELECTMEN AND FINANCE COMMITTEE

Submitted herein is the Fiscal Year 2010 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 10 revenue from all sources is projected to increase by \$937,713. This is an increase of 2.61% from FY 09. However, it should be noted that of this amount, \$625,000 (fully 2/3rds of the increase) is made up of estimated ambulance receipts leaving only \$312,713 (0.87%) in unrestricted revenue for use in our operating budgets. It should also be noted that \$242,291 of the Local Aid Cherry Sheet estimate is predicated on the passage of a 1% statewide Hotel/Meals tax increase that has not been approved as of this writing. If that initiative fails the Town's new unrestricted revenue would fall to approximately \$70,000.

Revenue changes of note include:

- **Property Taxes** – Available property tax revenue from all sources will increase by \$648,300 or 2.25%. Our tax levy amount for FY10 will increase by \$890,327 of which \$617,527 is accounted for by allowable growth within the limits of Proposition 2 ½ and

\$272,800 from “New Growth”. However, offsetting this gain is a reduction of \$227,027 in Debt Exclusion dollars that we will not be billing to our taxpayers as the final debt payment for the Mountview addition was made in FY09. We are also estimating that our mid year supplemental tax revenues will decline (-\$15,000) in FY10 due to a generally sluggish construction market. The overall effect of these pluses and minuses will generate an approximate \$0.34 cents per \$1,000 increase in our tax rate (to \$13.98) with a \$100.00 tax bill impact to the average assessed home valued at \$292,700.

- **Local Aid** – In late January the long anticipated reduction in FY 09 Local Aid - Lottery was announced. Holden had prepared for a reduction of 10% and impounded those dollars in the fall of 2008. The final reduction was 9.7% taking our Lottery allocation from \$2,132,435 to \$1,924,637 (-\$207,798). For FY 10 Lottery Aid will again be reduced by an additional \$247,737. However, the Governor’s House 1 budget does include a new source of revenue for cities and towns in the form of a distribution of a proposed 1% statewide increase in the hotel and meals taxes. It should be noted that this initiative has not been approved but if it is the distribution formula would allocate \$242,291 essentially offsetting the Lottery Aid loss. As with last year municipal officials should continue to be concerned that they are being asked to be the foot soldiers in any battles between the Governor and the Legislature. We would hope that much like the Casino debate of last year that the State will find a way to level fund Lottery Aid at least at the reduced FY 09 level on a stand alone basis and let the debate on other revenue sources rise or fall on their merits.

Educationally, House 1 continues the trend of the past 3 years in addressing the inequity situation first raised by Holden back in 1998. This year Holden’s required minimum school spending will actually decline from \$16,331,022 to \$16,269,045 a reduction of \$61,977. However, this budget also recognizes that Chapter 70 Education Aid held harmless in FY 09 will decline for FY 10. Anticipating that the District will require an increase from assessments to partially offset, this budget allocates some \$240,000 in new RASA spending for FY 10.

- **Free Cash** - Our Free Cash certification for FY 08 that is available to be used for this budget cycle is \$216,851. This significant decrease from last year’s \$550,000 is attributable to our use of surplus budget accounts in 2008 to offset the deficit in the Snow Removal account. Consequently less year end surplus closed out to Free Cash leaving us less revenue to use in FY 10.
- **General Estimated Receipts** – Revenue from General Estimated Receipts is expected to increase by \$40,000. This estimate is predicated on the use of \$18,500 in Conservation Commission fees to offset the expense of a part time Conservation Agent.

- **Excise Receipts** – Reflecting a generally stagnant economy I am level funding our excise receipts for FY 10.
- **Overlay Reserve** – FY 10 will be the third year that we will be using \$100,000 from Overlay Reserve Account.
- **Ambulance Receipts** – FY 10 is scheduled to be the first full year of the Town's operation of our ambulance service. While the original pro forma for this service anticipated higher first year receipts, this estimate is based on a more gradual ramp up the service and resulting revenue stream. The combination of the \$625,000 in service related fees and the historic Fire Department budget subsidy for ambulance service will cover our ambulance related expenses for FY 10 with some minor changes to the expense side of the budget.

EXPENDITURES

General Government – The General Government portion of the budget is expected to increase by some \$274,000 or 6.89% for FY 10. This amount is generated by a significant increase in our **Insurance** account by \$349,020. Of this increase \$261,000 is driven by increased cost for employee health insurance. Offsetting is a recommended reduction in the wage adjustment account from last year's \$150,000 to \$0 in FY 10. The continuing spiral in health insurance costs are crippling municipalities across the Commonwealth. In Holden we have negotiated with our collective bargaining units with an eye to changes in plan design and co payment levels that can mitigate these increases. We hope and expect that those negotiations will produce changes that will significantly lower the increase of this expense for both the employer and the employee. However, should we not be successful then dollars that might have been freed up to fund modest wage increases will instead be used to fund our health insurance requirements. Simply put we have the resources to fund the increase in health insurance premiums or modest wage increases but not both. I remain confident that the great majority of our employees will see the benefit of these proposed changes and that we will conclude our negotiations successfully. Other changes in the **Insurance** account include a new line item (\$50,000) to fund a co-pay self insurance account. One of the changes in plan design proposed is to increase the employee paid deductible for in patient surgery from the current \$0 dollars to \$250.00. The Town proposes further to self insure for that amount meaning that should an employee have an in patient surgical procedure the Town will reimburse the employee for his/her \$250.00 co-pay. The vagaries of the insurance industry community rating for small groups allows that this one step can substantially lower our overall premium well beyond any direct out of pocket expense for the co-pay. This is one part of the overall package of changes and mitigation steps designed to lower the expense of our health insurance premiums but not by simply shifting expense to our employers.

Lastly we propose to offer a Flexible Spending Account for our employees that will allow them to set aside dollars for medical co-pays and other expenses on a tax free basis. The use of this account will reduce and in some cases eliminate any negative effect from other changes in plan design or co-pay level. The budgeted amount is to establish the FSA with a third party administrator and to pay the annual plan maintenance costs.

The remaining changes of note in the **General Government** portion of the budget include: a reduction of \$25,000 in the **Finance Committee** Reserve Fund, a \$19,000 increase in the **Accounting** budget reflecting a need for additional temporary assistance to cover a reduction in hours for the existing Book Keeper and \$5,500 to cover increased audit expense, a \$24,000 decrease in the **Assessors** budget reflecting the triennial nature of last year's revaluation expense, a \$15,000 increase in our **Legal** expense due to our more protracted collective bargaining negotiations, a \$40,000 increase in our **Retirement** assessment (which would have been a \$57,000 increase if not for the Treasurer's recommendation that we take advantage of an early payment option), and finally a \$35,546 increase in the **Growth Management** budget, \$28,500 of which is dedicated to the creation of a part time Conservation Agent.

Public Safety – Expenditures for the Public Safety absent our new **EMS** initiative are recommended to increase by some \$93,000 or 2.79%. The **Police** budget is recommended to increase by \$40,000, \$30,000 of which is due to the return of the street line painting program to the department from DPW. Both the DPW Director and the Chief agree that the need for off hour scheduling and coordination between the contractor and the Police make this budget a more natural fit. The **Fire** Department budget will increase by some \$42,000 made up of an amalgam of items most notably a \$10,000 increase in the Call Firefighter line item and a \$15,000 increase in the ambulance subsidy. FY 10 will be the first full year budget for our **EMS** initiative. As with any new initiative we expect to fine tune this budget over the next few years but the budget as presented is our best collective pass at this new service. We are as confident as we can be that we have estimated our revenues conservatively and our expenses based on the best available data.

Public Works – While the recommended **Public Works** budget is presented as a \$307,000 decrease from FY 09 levels in fact most all of the major initiatives requested by the Department for FY 10 have been funded albeit via alternative methods. In the **Highway** budget the 2nd half

expense (\$150,000) for the sidewalk project has been transferred to Chapter 90 funding and the funding (\$175,000) for the public buildings initiative has been budgeted instead in the DPW Depreciation fund. Changes in the FY 09 funding for these same projects is also recommended to allow funds to be freed up to cover snow removal and ice storm clean up expenses. The **Engineering** budget presents an increase in the personnel line of \$22,000 to complete the reallocation of expenses resulting from our recently completed reorganization of the staffing for the Department and the Water Sewer Enterprise Fund. Also included in the **Engineering** budget is the expense (\$26,000) of the annual National Pollution Discharge Elimination System permit. This permit is required by EPA and had been funded previously out of the Chapter 81 roads account and is more appropriately funded this year as a stand alone expense.

Education – As of this writing the WRSD budget has not been presented and we also do not know with certainty the impact of State reductions on Chapter 70 and other funding sources for the District. However, it does seem clear that this will be a difficult year for the District and its member Towns. Our FY 10 recommendations would, if adopted, allocate \$240,000 in new operating expense dollars for the **District** budget. This would translate to an approximate funding increase of \$600,000 in the assessment portion of District revenue. Our recommendation would cover all of the various District expense accounts including transportation. We are also recommending that the budget for the **Montachusett Regional Vocational Technical High School** be increased by some \$22,000 or 4.26%

ENTERPRISE ACCOUNTS

Water Sewer Enterprise Account – The submitted FY 10 Water Sewer Enterprise Fund budget presents a comprehensive approach to meet the myriad of fiscal, operational and long term capital challenges facing our water and sewer system. This budget responds to the greater emphasis on capital need expressed by policy makers during the current fiscal year. To that end we are recommending the establishment of a Water Sewer Depreciation account. Similar to the process followed at the Light Department we recommend the regular deposit into the fund to provide long term stability of the fund and to mitigate spikes in operational budgets from necessary capital projects. We further recommend that funding for this account be initially funded by depositing into it the proceeds from our MTBE settlement of \$247,000 along with first year annual deposit of \$50,000. We have also looked at other means of reducing expenses in a fiscally responsible manner. To that end we have reorganized our management staffing and have eliminated the position of Water/Sewer Superintendent in lieu of devoting more of the Director's time to enterprise fund management. As a result of his reorganization the personnel portion of the budget will decline for FY 10 from \$511,794 to \$484,605. The recommended

budget continues to allocate funds (\$73,334) for the “5th Quarter” reserve identified by our auditors last year and also begins the repayment back to the general fund (\$50,000) of the levy dollars allocated to the fund to balance the FY 08 budget. Expenditure increases of note include a \$19,000 increase in health insurance, a \$27,000 increase in the rate for Worcester transport of our sewage flow, and a \$20,000 increase in our Worcester Water account.

To realistically fund the above initiatives and to responsibly address regular and ongoing expenses of the fund (70% of which are fixed or controlled by others) will require a rate increase of approximately 9% which would produce some \$350,000 in new revenue. We will present a number of different scenarios as to how this rate increase can be designed to minimize the impact on the lower block users. However, as an order of magnitude if this request were divided evenly between water and sewer customers the average water customer using 670 cf would see a \$1.97 increase per month and the average sewer customer would see an increase of \$3.49.

Separately we will be presenting a plan to balance the FY 09 deficit for the fund along with other deficit accounts in snow removal, local aid reductions and storm related costs.

Solid Waste Enterprise Account – Holden residents continue to embrace the new single stream recycling program and we thank them for that. Their support has made Holden’s program one of the best in the Commonwealth. In addition due to that support we were also able to hold our monthly rate for the current fiscal year at \$15.00 for the large totter and \$11.00 per month for the small. However, while we were able to absorb this year’s increases the combined effect of 2 years of increasing costs will require that we adjust rates for FY 10. For example the cost for disposal fees increased from \$229,051 in FY 08 to \$299,500 in FY 09 which the fund absorbed. In addition, absorbing those increases also used up any elasticity in the fund which means we have no Free Cash to offset expenses for FY 10. As you would expect we have also looked at expenses and have moved the increasing cost for Holden’s share of the regional household hazardous facility construction from the fund to the DPW Depreciation Fund which we feel is a more appropriate fund for that type of expense. When all is said and done to keep this fund solvent for FY 10 we recommend a \$1.00 increase in the rate for both the large and small totters.

CONCLUSION

Production of the FY 10 budget was especially difficult this year given the timing of the December Ice Storm. So I would like 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 all the more so given the challenges of storm related missed deadlines.

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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