

To the residents of Concord

This annual report of the Concord Finance Committee summarizes the operations of Town government, the financial position of the Town, and the articles that appear in the Warrant for the 2009 Annual Town Meeting.

Overview

In this most tumultuous year for the nation and for the cities and towns of the Commonwealth, the Finance Committee is pleased to report that Concord is in good fiscal condition and well-positioned to address the difficult financial changes and decisions facing all local governments. Prudent budgeting and careful spending over the past several years by all Town departments under the direction of the Town Manager, Christopher Whelan, and by the Concord Public Schools and the Concord-Carlisle Regional High School under the direction of former Superintendent Brenda Finn and current Superintendent Diana Rigby has strengthened the Town's already solid financial position. Combined with conservative estimates of State assistance and of our own revenue sources, which at least partially anticipated the current and prospective downturns, Concord is able to approach the coming fiscal year 2010 without the need for draconian budget cutting that is being observed in some communities. Within the budgeting guidelines that were set by the Finance Committee last November and reviewed again just prior to issuing this report, the Town Manager and Superintendent of Schools have been able to craft proposed budgets that avoid staff reductions and that maintain the existing range, scope and quality of town and school public services within the resources we can prudently forecast.

The picture is, however, not entirely rosy. Indeed, the steepness and expected lengthy duration of the nationwide economic downturn combined with an unprecedented State budget shortfall poses significant problems for all local governments as we plan for the delivery of Town services in the coming year and beyond. Continued vigilance, and careful monitoring of our fiscal facts, and prompt decisive management response to changes in conditions will be required.

In November, the Finance Committee adopted FY10 budget guidelines that provided for a General Fund budget increase of 2.8%, the smallest year-to-year budget increase since the budget adopted at the 1991 Town Meeting, which was the last time we faced a deep multi-year recession. While the current year and proposed FY10 cuts in State aid to local government announced by the Governor at the end of January have garnered the headlines,

Operating Budgets - Finance Committee recommendations				
	<u>FY09 Budget</u>	<u>FY10 Proposed</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Town Government departments	\$17,190,013	\$17,352,013	\$162,000	0.94%
Concord Public Schools, grades K-8	\$27,206,200	\$27,699,200	\$493,000	1.81%
CCRSO assessment for operations	\$12,803,885	\$13,442,936	\$639,051	4.99%
TOTAL OPERATING BUDGETS	\$57,200,098	\$58,494,149	\$1,294,051	2.26%

the economic retrenchment is being felt by Concord in myriad ways. Let's look at the dramatic changes in just a few of the Town's revenue sources financing the General Fund budget:

Major General Fund revenues (other than base property tax levy)	FY08 Actual	FY09 Budget Est.	FY10 Budget Est.
State Aid	\$ 4,242,526	\$ 4,477,986	\$ 3,882,000
Motor vehicle excise tax	2,323,178	2,150,000	2,100,000
Interest earnings	1,241,697	750,000	300,000
Building permit fees	571,197	400,000	350,000
Property taxes from New Growth	<u>1,368,514</u>	<u>947,751</u>	<u>600,000</u>
Total, selected revenues	\$ 9,746,812	\$ 8,725,737	\$ 7,232,000

These declining revenues can also be viewed in terms of their share of the total Budget plans:

	FY08 Budget	FY09 Budget	FY10 Proposed
Total General Fund budget	\$69,437,829	\$73,213,127	\$75,241,186
State aid	6.1%	6.1%	5.1%
Motor vehicle excise	3.3	2.9	2.8
Interest earnings	1.8	1.0	0.4
Building permit fees	0.8	0.5	0.5
New Growth property taxes	2.0	1.3	0.8

State Aid

The FY09 estimate for State aid was the original State budget number. In January, the Governor announced an unusual mid-year cut, only the second such mid-year cut in the past 25 years. Concord will receive \$140,000 less than the State's original advice which was used—as legally required—in setting the Town's current year property tax levy. The Town Manager and Superintendent have taken steps to reduce current spending by an equivalent amount below the budget appropriations voted by last year's annual town meeting. The FY10 State aid estimate shown above is based upon the Governor's Jan. announcement but is subject to further change by the State legislature. Additional cuts in State aid are possible before the FY10 State budget is enacted.

Motor Vehicle Excise Tax

The significant drop in new car sales through the second half of 2008 and into the first few months of 2009 will have a corresponding impact on this local revenue source. Bills are issued from the registry on a calendar year basis. We won't know the full impact until next February, but the budget forecast anticipates about a 10% drop from the average of the past few years.

Interest earnings

Local income from short term investments is declining as the Federal Reserve Board has driven short-term rates to nearly zero. The Town invests temporary cash in its treasury according to State law that prudently restricts us to "money market" rates. As short-term rates have been cut, the impact on the Town's budgeted revenue forecast has been dramatic, a decline of almost \$1 million from FY 2008 to the FY 2010 estimate. Many households have experienced the same drop in earnings on cash investments.

Building Permit Fees and the tax levy from new construction

As the economy contracts, construction activity generally can be expected to slow down. We expect to see this impact as a reduction in building permit fees and in the property tax that is generated by new construction, referred to as New Growth. Concord has a number of large projects ready to proceed, but we don't yet know if they will be delayed.

Spending guidelines

The Finance Committee established General Fund budget guidelines for the schools' and the Town's budgets initially last November at about \$900,000 less than our first assumptions of FY10 revenues made last Sept. In the intervening months, this cushion has disappeared. Fortunately, the Town Manager has been able to propose a budget for Town departments and the Superintendent has been able to propose a Concord Public Schools budget within their guidelines. The Concord-Carlisle Regional School District has proposed a budget which exceeds their guideline by \$120,000 and the Finance Committee has voted to support this request and an additional Free Cash allocation to fund it. For the third consecutive year, no override request is anticipated to meet the operating budget recommendations.

The budgets as presented will result in a tax levy increase of 4.1%, which will bring the levy to the projected Levy Limit. This tax increase assumes a 2.80% budget increase in Town operations, a 1.81% budget increase for the Concord Public Schools, and a 4.05% increase in the Concord-Carlisle High School operating assessment. This will result in a \$48 tax increase per each \$100,000 of assessed (although some taxpayers may see a higher or lower impact as property assessed value changes are not likely to be exactly proportional across all 6,000 taxable parcels).

Financing the Willard School project

At the 2008 Annual Town Meeting, we established an Elementary School Debt Stabilization Fund. This was funded by a transfer of \$2.5 million from Free Cash. This action was taken in anticipation of an expected long-term bond issuance in the spring of 2010 to permanently finance the construction cost of the new Willard elementary school. This \$27 million project is about 60% complete and is on schedule for a September 2009 opening. It is also under budget, as the November Special Town Meeting had authorized \$29.4 million for the construction.

The intent of the Stabilization Fund creation was to begin drawing it down starting in FY11, the first year that debt repayment would be due on the expected Willard bond. While it is the Town's normal practice to issue short-term notes during construction and to wait until project completion before selling a permanent long-term bond, bond market conditions have led to a change in plans. Bonds for the first half of the Willard School construction cost—expenses already incurred to date, \$11.9 million—are being issued now, March 2009, a year earlier than initially planned, due to favorable interest rates and market conditions that favor triple A credits such as Concord. There is also concern that continued troubles in the national economy could lead to an upturn in interest rates if we wait another year for full project completion. It is in the Town's best long-term interest to lock in part of the Willard long-term debt at current interest rates.

As a consequence of issuing a \$12 million long-term bond now, debt repayment will be payable in FY10 that was not initially included in the proposed budget. Accordingly, the Finance Committee will propose to add the required amount to the FY10 appropriation (Article 8, item 41) and to fund the added cost from an additional allocation of Free Cash (Article 14). This will avoid a higher FY10 property tax levy while using the same Free Cash allocation that the Finance Committee had originally planned to recommend for Article 13. This change in strategy means that no motion will be made under Article 13.

Concord-Carlisle High School debt

The only debt exclusion article (Article 12) is a request for \$750,000 for improvements to the high school building. The Article includes \$250,000 for planning capital projects at the high school while a plan is put in place for the long-term rebuilding of the school or even its possible replacement. This Article is contingent on a positive vote at the Town Election March 31.

In conclusion

The Finance Committee will review income figures right up until Town Meeting so as to be able to have the most accurate figures on which to base its recommendations. In these financially volatile times situations can change for the worse or the better. Flexibility is the key to good fiscal management.

The Finance Committee would like to thank the Town and school administrations, led by Christopher Whelan, Town Manager, and Diana Rigby, Superintendent of Schools for the development and presentation of their budgets and their assistance to the Finance Committee. We also express our thanks to the Town Finance Director, Anthony Logalbo, and the Deputy Superintendent, John Flaherty, as well as to their staffs, for their dedicated work throughout the year in maintaining the Town's fiscal health and providing wise counsel to the Finance Committee.

Notes:

The Concord Finance Committee was established by Town bylaw in 1921 and comprises 15 members appointed by the Moderator for staggered three-year terms. By tradition, members serve no more than two terms. By this arrangement, there is always a mix of new and experienced members and a mix of new points of view and institutional memory. The appointment process is designed so that the Finance Committee remains independent of the Town's administrative structure and elected boards.

The Finance Committee has the following responsibilities:

- Establish fiscal guidelines for the Town Manager, the Concord Public School Committee, and the Concord-Carlisle Regional School Committee in preparing their budgets. Under Town by-law, these guidelines must be published by the end of November each year.
- Conduct public hearings on the budgets and other financial matters expected to come before annual and special Town Meetings.
- Prepare this report for distribution to all residents, including recommendations on warrant articles before the Annual Town Meeting and a summary of the Town's financial status.
- Conduct special studies to gather and disseminate information about financial issues affecting the Town.
- Manage a Reserve Fund account to meet extraordinary and unforeseen expenditures (proposed at \$225,000 for FY10).

Individual committee members are assigned as observers to attend public meetings of other Town boards and committees. Reports from these observers are included in the Observer Reports section of this document.

It is important to emphasize that the role of the Finance Committee is limited to making recommendations. The Finance Committee regularly makes recommendations to Town Meeting, the Town Manager, the Board of Selectmen, the school committees, the Superintendent of Schools, other boards and committees, and the citizens of the Town. Responsibility for making decisions is reserved to the citizens through Town Meeting and Town elections and to staff members, boards, and committees to whom specific responsibilities have been delegated by Town by-law and/or State law.

That being said, the Finance Committees recommendation for the allocation of the limited resources within the Levy Limit has the *de facto* force of a formal decision. This is because the three major budgetary entities—the Town Manager, Concord Public Schools, and the Concord-Carlisle Regional School District—have constituencies of roughly equal weight. Therefore, as a practical matter, any one entity is rarely able to increase its share at the expense of the others without the Finance Committee's support.

Finance Committee Policies

For many years, the Finance Committee has had a set of long-range financial policies for prudent financial management of the Town. Starting in FY06, the Town began to document its financial policies in the Town Manager's annual budget in a comprehensive way, following the recommended practices of the Government Finance Officers Association of the United States and Canada. The following is a summary of some of these policies, from the perspective of the Finance Committee:

Maintain a fixed percentage of the annual budget in Free Cash. This forms the core of the Town's reserves and its working capital. Since the mid-1990s, the percentage has been 5%, equivalent to about \$3.75 million as we enter FY10.

Spend about 7% to 8% of the annual budget on routine recurring capital maintenance and renewal of the Town's facilities and infrastructure (including schools). Included in this, up to 5% is reserved for debt service for large items and projects funded by borrowing.

Avoid earmarking of revenues, except as established by statute or the Enterprise and Special Revenue Funds. All other revenues go into the General Fund, where they form part of the current year resources and/or contribute to Free Cash for future years.

Maximize the efficiency of capital with an aggressive program of repayment of debt principal, thereby minimizing the proportion of debt service paid in interest and making tax dollars go farther.

Adjust these policies only gradually and deliberately, not in response to pressures of the moment.

In general, the Finance Committee's position is that debt service within the Levy Limit should be focused on routine things over which the Town has little discretion, e.g., roofs, roads, equipment, workspaces for employees. Debt exclusion financing should be reserved for community amenities that are direct additions or improvement in basic services and that would otherwise push essential maintenance out of the capital budget.

Budget Process

The budget process begins each summer when the Finance Committee formulates a series of requests for information from the Town Manager and School Superintendent regarding overall trends and issues. In September, a joint coordination meeting is held, including the Finance Committee, the Board of Selectmen, the School Committees, the Carlisle Board of Selectmen, and the Carlisle Finance Committee. During this meeting, the general parameters of revenue, state aid, and fixed costs are laid out, along with matters of coordination between the two towns regarding the Regional School District.

During the fall, the Town Manager and the School Superintendent begin their annual budget process with their own department managers. In October, the Guideline Subcommittee of the Finance Committee meets with each of them to begin to frame the allocation of resources within the Levy Limit and any override for the coming fiscal year. This is presented to the full Finance Committee, which publishes its *Tentative Guideline* by the end of October.

During November, the Guideline Subcommittee again meets with the Town Manager and School Superintendent to finalize the recommended Guideline. This Guideline is published by the Finance Committee no later than the end of November.

School budgets are voted by the school committees in early January, in time for summarizing in the Town Manager's proposed budget. By Town Charter, the Town Manager's budget proposal must be presented to the Board of Selectmen 90 days before the start of Town Meeting. About two months before Town Meeting, the Town and Education budgets are presented for public comment at the Finance Committee's public hearings. The period between these hearings and Town Meeting is for resolving issues, addressing comments and questions, and refining the budgets.

**General Fund Budget - All Accounts
Five Years: FY06 - FY09 Budgets and FY10 Proposed**

Line #		FY06 Budget	FY07 Budget	FY08 Budget	FY09 Budget	FY10 Proposed	Percent Change	Percent Of Total
Town Government								
1	personal services	\$ 10,835,602	\$ 11,335,704	\$ 11,876,664	\$ 12,390,155	\$ 12,713,627		
2	O & M	2,609,398	2,841,710	2,940,310	3,108,858	3,112,886		
3	capital outlay	1,186,000	1,271,000	1,356,000	1,466,000	1,300,500		
4	Reserve Fund	200,000	200,000	225,000	225,000	225,000		
5	Total	\$ 14,831,000	\$ 15,648,414	\$ 16,397,974	\$ 17,190,013	\$ 17,352,013	0.9%	23.0%
6	Concord Public Schools	\$ 24,285,000	\$ 25,460,285	\$ 26,423,840	\$ 27,206,200	\$ 27,699,200	1.8%	36.7%
7	Concord-Carlisle RSD	\$ 10,817,878	\$ 11,858,857	\$ 12,191,417	\$ 12,803,885	\$ 13,442,936	5.0%	17.8%
9	Total Operating Budgets	\$ 49,933,878	\$ 52,967,556	\$ 55,013,231	\$ 57,200,098	\$ 58,494,149	2.3%	77.4%
9	Group Insurance	\$ 2,820,000	\$ 3,195,000	\$ 3,600,000	\$ 3,845,000	\$ 4,152,600	8.0%	
10	Retirement	2,242,250	2,310,000	2,380,000	2,450,000	2,500,000	2.0%	
11	Debt Service	2,650,000	2,750,000	2,909,750	3,100,000	3,150,000	1.6%	
12	Social Security/Medicare	475,000	508,000	522,000	510,000	545,000	6.9%	
13	Other Fixed & Mandated	400,000	425,000	425,000	425,000	400,000	-5.9%	
14	subtotal	\$ 8,587,250	\$ 9,188,000	\$ 9,836,750	\$ 10,330,000	\$ 10,747,600	4.0%	14.2%
15	Minuteman Voc Tech	\$ 431,529	\$ 502,317	\$ 604,702	\$ 486,660	\$ 637,601	31.0%	0.8%
16	High School Debt Exclusion	378,169	477,889	476,557	684,143	539,239	-21.2%	0.7%
17	Town Debt Exclusion	2,108,374	2,219,677	2,550,432	3,247,193	3,973,397	22.4%	5.3%
		\$ 2,918,072	\$ 3,199,883	\$ 3,631,691	\$ 4,417,996	\$ 5,150,237		
18	TOWN MEETING VOTE	\$ 61,439,200	\$ 65,355,439	\$ 68,481,672	\$ 71,948,094	\$ 74,391,986	3.4%	
19	State assessments	\$ 353,815	\$ 368,084	\$ 367,696	\$ 382,563	\$ 395,000	3.3%	0.5%
20	Snow/Ice & other deficits	338,937	111,857	0	358,915	239,730	-33.2%	0.3%
21	Overlay	481,979	453,991	588,461	523,555	500,000	-4.5%	0.7%
22	subtotal	\$ 1,174,731	\$ 933,932	\$ 956,157	\$ 1,265,033	\$ 1,134,730	-10.3%	
23	TOTAL BUDGET PLAN	\$ 62,613,931	\$ 66,289,371	\$ 69,437,829	\$ 73,213,127	\$ 75,526,716	3.2%	

"Concord-Carlisle RSD" is Concord's share of the assessable portion of the High School budget.
 "Other Fixed & Mandated" includes: Property & Liability Insurance, Unemployment and Worker's Compensation.

Financing the Budget Plan

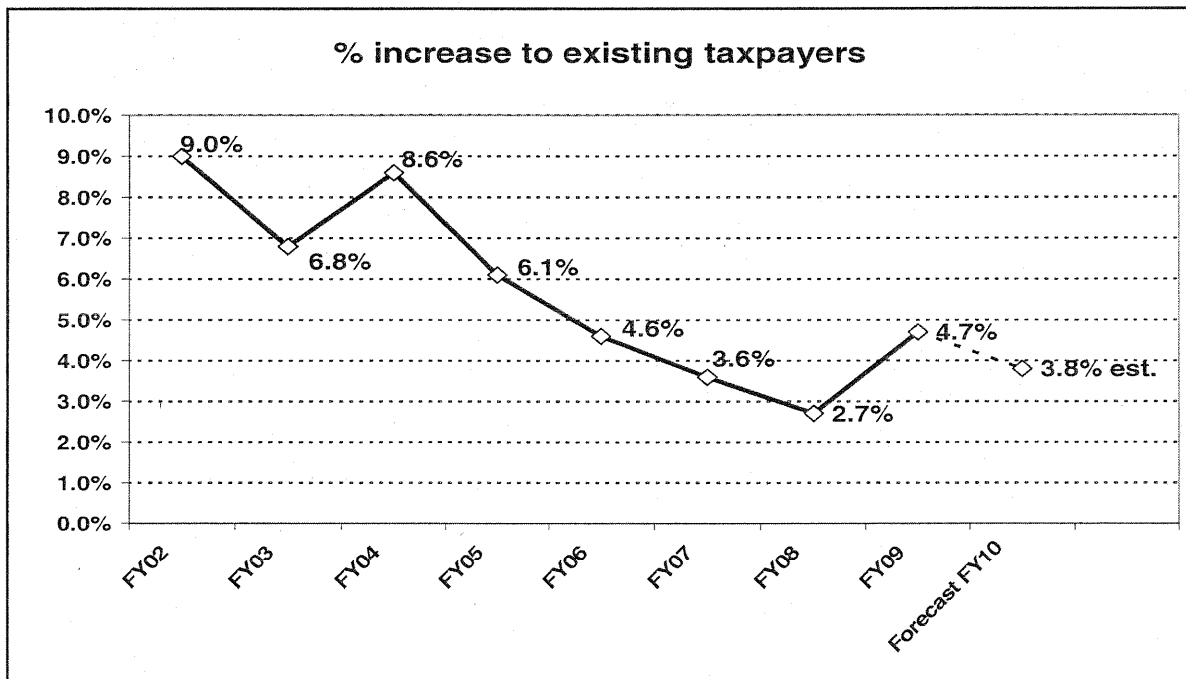
		FY06 Budget	FY07 Budget	FY08 Budget	FY09 Budget	FY10 Guidelines	FY10 Percent Change	FY10 Percent of Total
24	state aid	\$ 3,644,019	\$ 4,122,776	\$ 4,234,876	\$ 4,477,986	\$ 3,882,000	-13.3%	5.1%
25	motor vehicle excise tax	2,350,000	2,350,000	2,300,000	2,150,000	2,100,000	-2.3%	2.8%
26	investment earnings	630,000	900,000	1,000,000	750,000	300,000	-60.0%	0.4%
27	other local revenue	1,876,825	2,010,875	2,116,500	2,246,500	2,206,500	-1.8%	2.9%
28	transfers to General Fund:							
29	from CMLP (Light Fund)	340,000	340,000	340,000	340,000	355,000	4.4%	0.5%
30	"free cash" transfer	500,000	500,000	500,000	600,000	1,040,000	73.3%	1.4%
31	subtotal	\$ 9,340,844	\$ 10,223,651	\$ 10,491,376	\$ 10,564,486	\$ 9,883,500	-6.4%	13.1%
Property Tax:								
32	property tax base	\$ 49,216,147	\$ 51,811,551	\$ 54,550,950	\$ 57,769,554	\$ 60,530,580		
33	override voted	752,480	657,538	0	0	0		
34	new growth	817,917	894,270	1,368,514	947,751	600,000		
35	total within the Levy Limit	\$ 50,786,544	\$ 53,363,359	\$ 55,919,464	\$ 58,717,305	\$ 61,130,580	4.1%	
36	debt exclusion	2,486,543	2,702,361	3,026,989	3,931,336	4,512,636	14.8%	
37	total property tax	\$ 53,273,087	\$ 56,065,720	\$ 58,946,453	\$ 62,648,641	\$ 65,643,216	4.8%	86.9%
TOTAL RESOURCES		\$ 62,613,931	\$ 66,289,371	\$ 69,437,829	\$ 73,213,127	\$ 75,526,716	3.2%	

Proposed FY10 Budgets Property Tax impact

incremental and total tax levy and budget changes

	FY09	FY10 Recommended budgets		
		plus	Proposed budget	Δ
Town Government operations	\$17,190,013	+\$ 162,000 =	\$ 17,352,013	+0.9%
Concord Public Schools (K-8)	\$27,206,200	+\$ 493,000 =	\$27,699,200	+1.8%
CCHS assessment:				
without debt exclusion	\$ 12,803,885	+\$ 639,051 =	\$ 13,442,936	+5.0%
debt exclusion	<u>684,143</u>		<u>539,239</u>	
total assessment	\$ 13,488,028		\$ 13,982,175	
<i>Concord's assessment share:</i>				
	FY09: 71.82%			
	FY10: 71.91%			
Sum for all operating budgets:			<u>\$ 1,294,051</u>	
Projected Tax rate Impact			+ 3.82%	
Tax Bill at median \$707,100 value	\$ 8,414	+ 321 =	\$ 8,735	
Tax Bill per \$100,000 a.v.	\$ 1,190	+ 45 =	\$ 1,235	

About one-fourth (+0.98 %) of the projected increase is due to debt service on excluded debt approved by the voters, principally for Alcott, Thoreau and Willard schools.



Property Tax Data: Fiscal Years 2002-2009 and forecasted 2010

Assessment Date	Fiscal Year	single family parcel value		Tax rate	Tax Bill	Average. Single family value	Average Tax Bill	Total Tax Levy	New Growth Levy	impact on existing taxpayers	
		single family value	parcel value							Net Levy	% over prior total levy
Jan. 1, 2001	(b)	\$529,000	\$529,000	\$9.83	\$5,200	\$674,799	\$6,633	\$39,068,686	1,010,486 (a)	38,058,200	+9.0%
Jan. 1, 2002		584,250	584,250	\$9.64	5,632	754,153	7,270	42,496,029	760,672	41,735,357	+6.8%
Jan. 1, 2003		581,950	581,950	\$10.59	6,163	754,200	7,987	46,721,518	578,456	46,143,062	+8.6%
Jan. 1, 2004	(b)	731,000	731,000	\$9.80	7,164	898,455	8,805	50,147,585	558,743	49,588,842	+6.1%
Jan. 1, 2005		712,100	712,100	\$10.23	7,285	909,447	9,304	53,273,087	817,917	52,455,170	+4.6%
Jan. 1, 2006		718,550	718,550	\$10.56	7,588	922,372	9,740	56,065,720	894,270	55,171,450	+3.6%
Jan. 1, 2007	(b)	735,650	735,650	\$10.72	7,886	944,487	10,125	58,946,453	1,368,514	57,577,939	+2.7%
current year											
Jan. 1, 2008	2009	707,100	707,100	\$11.90	8,414	899,866	10,708	\$62,648,641	\$947,751	\$61,700,890	+4.7%
forecasted											
Jan. 1, 2009	2010				\$8,735			\$65,643,216	\$600,000	\$65,043,216	+3.8%

notes: (a) reflects 18-months new growth due to change to June 30th valuation date for new construction (2001 Annual Town Meeting, Article 21, adopting MGL Ch 59, section 2A(a))
 (b) valuation certification year, Mass. Dept. of Revenue on-site review

Fiscal Year	Operating Override levy	Voted Operating Override % incr. in levy	Debt Exclusion Levy	Change from prior year	Total change in tax levy
2002	\$2,249,222	6.44%	\$842,228	\$160,658	\$4,161,791
2003	1,478,773	3.79%	713,204	(129,024)	3,427,343
2004	1,532,364	3.61%	1,560,304	847,100	4,225,489
2005	1,858,160	3.98%	1,854,324	294,020	3,426,067
2006	752,480	1.50%	2,486,543	632,219	3,125,502
2007	657,538	1.23%	2,702,361	215,818	2,792,633
2008	none		3,026,989	324,628	2,880,733
budget 2009	none		3,931,336	904,347	3,702,188
proposed 2010	none		\$4,512,636	\$581,300	\$2,994,575

