

April 2007

To the Residents of the Town 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 2007 Annual Town Meeting.

Overview

Due to a combination of factors, the budget process for FY08 was less onerous than it has been in the recent past. For the first time in seven years, the Finance Committee has determined that the levy limit is sufficient to adequately, though not fully, fund the operating budgets of the Town, Concord Public Schools and the Concord portion of the regional school budgets.

Proposition 2 ½ imposes strict limits on increases to the property tax levy. Despite prudent financial management and careful budgeting, the maintenance of existing programs has in recent years required funding beyond the limits of Proposition 2 ½. The source of these additional funds has come from operating overrides voted at Town Meeting and at the polls.

For the past six years Concord residents have generously supported overrides to the levy limit. This has had the cumulative effect of building up the base budgets to recover some of the substantial ground lost as a result of severe state funding cuts in 2003-04. Though some revenue has been restored, when inflation is taken into account the level is still below what it was prior to 2003-04.

Increased reliance on property tax revenue to fund Town and School budgets is a trend that will not change in the future unless cities and towns are either given the power to develop additional local/regional sources of revenue, or guaranteed a larger portion of state revenue.

In the past two years, the amount of State funding has become somewhat more stable, which has allowed for more accurate budget predictions.

Special education costs have risen dramatically over the past several years. In order to address this, the school administration has developed several in-house programs to meet the needs of students, particularly in the pre-kindergarten and early school years. This effort began in earnest several years ago under the guidance of the current school administration. As a result of this and the relative stabilization of state Circuit Breaker funding, the special education budget has increased minimally this year over last.

The Finance Committee has approved a budget recommendation at the levy limit for FY08. The levy limit represents the maximum amount of money available to town and school administrators to support operations without voter approval of a Proposition 2 ½ override.

The following spending levels are recommended for operating budgets:

	<u>FY07 Budget</u>	<u>FY08 Guideline</u>	<u>\$ Change</u>	<u>% Change</u>
Town operations	\$15,648,414	\$16,397,974	\$749,560	4.8%
CPS	\$25,460,285	\$26,423,840	\$963,555	3.8%
CCRSB assessment for operations	<u>\$11,858,857</u>	<u>\$12,191,417</u>	<u>\$332,560</u>	<u>2.8%</u>
Total	\$52,967,556	\$55,013,231	\$2,045,675	3.9%

Continued

Resource and expense projections suggest that there will be \$2,045,675 available within the Proposition 2 ½ Levy Limit to divide across Town and school FY08 operating budgets. This represents an increase of 3.9% over FY07.

As shown on the previous page, the proposed budgets allow for a 4.8% increase in the Town operations budget, a 3.8% increase in the Concord Public Schools (CPS) budget and a 2.8% increase in the Concord assessment for Concord Carlisle Regional School District (CCRSB).

Although this amount does not meet the specified needs of the Town and Schools in their entirety, the Finance Committee believes it is a prudent level of spending, and hopes that through careful management this budget will support the most important needs of the town and schools.

The total budget plan for the Town Meeting action is on page 4, and the three principal components of the budget are described more fully in separate sections of this report. The total budget plan also includes a number of joint accounts and budget items over which the Town has very little discretion from year to year.

Joint Accounts: The joint Town and CPS accounts, which include group insurance, retirement, social security and Medicare tax, debt service and other mandated costs, rise from \$9,188,000 in FY07 to \$9,802,000 in FY08 (line 15, Table on page 12. Most of this increase is due to a 12.7% increase in the budget for the cost of group insurance.

Minuteman Regional Vocational High School (MMRVHS): The assessment for Minuteman has risen substantially in recent years as enrollment and the cost of special education services have increased. Nearly half of the students at MMRVHS are receiving special education services. While school-wide enrollment decreased from last year to this year, Concord's enrollment increased. The Concord assessment shows an increase of 20.4%, from \$502,317 in FY07 to \$604,702 in FY08.

Excluded Debt Service: The Town debt service that is excluded from Proposition 2 ½ increases by 16.5%, from \$2,697,566 in FY07 to \$3,061,739 in FY08 (lines 17 and 18, Table on page 12). The increase is due primarily to a \$10 million bond issue in September 2006 for part of the cost of the new Thoreau School and a \$2.35 million bond issue in February 2007 for Phase 2 of the Alcott School project.

Non-appropriated accounts: Several accounts presented within the total budget plan do not require Town Meeting appropriations. These are: State Assessments, Snow and Ice and other deficits, and the Overlay Account. Collectively, these decrease by 6.9% from FY07 to FY08 (line 24, Table on page 12). The State Assessment account, which must be financed within the levy limit, consists primarily (89%) of the assessment for the Massachusetts Bay Transit Authority (MBTA). Snow and Ice deficit funding, which is money budgeted over and above the operating portion of the Snow and Ice account, is not expected to be needed for the current year, due to an unusually mild and snow-free winter. The budgeted number (Article 10, item 21) is prudently based on a 10-year average to take into account the wide variations in winter weather from year to year. The Overlay account is used to cover property tax abatements and exemptions granted by the Board of Assessors.

Revenues: Property tax revenue is expected to cover 85.5% of expenses, up from 84.6% in FY07 (line 41, Table on page 13). This is partly a result of the expected decreased in local revenue (interest, excise tax, etc.). However, this increasing reliance on property tax to fund operating budgets is of concern. Like many other cities and towns in the Commonwealth, Concord has few options for raising local revenue. Until we have the legislative means to do so, or until the amount of state aid we reliably receive increases, we will be dependent on property tax revenue to fund the lion's share of operating budgets.

Capital expenditures: A financially well-managed community, such as Concord, must have a disciplined plan for financing capital maintenance, renewal and reconstruction of the Town's infrastructure. The policy in Concord is to set aside 7-8% of each year's total budget (net of excluded debt) for this purpose. The FY08 budget for capital expenditure financing is \$4,609,940, or 6.95% of the proposed total budget. Similarly, in

FY07 the capital expenditure financing was just shy of 7%. The Finance Committee will continue to encourage adequate funding for capital maintenance.

Articles of Interest

There are several articles on the Town Warrant that are of particular interest.

Athletic Fields Proposal

Concord has not added new athletic fields in the past several decades. Article 30, sponsored by the Town, proposes to authorize borrowing of \$1,500,000 for the construction of recreational and athletic fields on the campus of CCHS and other sites in town. Along with Town funds of \$1.5 million, the Community Preservation Committee is recommending a \$1.5 million allocation (Article 32). The third substantial source of funding is private donations.

The Beede Center

This is the first full year of operation for the Beede Swim and Fitness Center. The facility, build solely through private donations, was donated to the Town in February 2007. This year has been a great success, with membership far exceeding last year's projections. The center is operating as an Enterprise Fund and the results of its first full year of operations will be examined via Article 23.

Community Preservation Act (CPA)

This is the second full year of Concord's participation in the Community Preservation Act. The Community Preservation Committee will present a slate of worthy projects for housing, historic preservation, open space and recreation using CPA funding under Articles 32, 33, and 34. The total dollar amount to be considered is \$2,931,383 (\$1.4 million from the uncommitted fund balance at June 30, 2006, and \$1.5 million from local and State matching projected revenue of the next fiscal year).

Senior Tax Relief

Although there are no specific articles related to this topic, a committee has been formed to examine mechanisms for financial assistance to those who are struggling with increasing property tax bills. More detail is available in the Observer Reports.

General Outlook

Each year the Finance Committee approaches the budget process with the objective of maintaining Town and School programs and services within the levy limit. This year that objective has been met. As noted earlier, this is due to the convergence of several conditions this year combined with our expectations for next year.

Next year, the budget process may take place in a very different environment. While we continue to ask the Town and schools to budget prudently and watch expenses carefully, the larger economic environment will have an impact on our decision-making. Although we have received encouraging financial news from the new governor, as reflected in his budget, the State faces a large deficit. Whether the help he has promised will be available this year and in future years remains to be seen.

Legislation to enable towns to levy an additional percent on the hotel room occupancy tax and to levy a meals tax is being considered by the State legislature. It is too early to determine the likelihood of its passage, but it is worth noting as a possible new source of local non-property tax income. Concord already levies a 4% room occupancy tax, generating about \$160,000 per year.

The real estate market has softened nation-wide in the past year. Concord has been affected less than most communities. The Building Commissioner continues to report a steady stream of permits requested for renovations and additions to existing housing stock as well as for new construction. Several proposals are being negotiated for additional housing—a possible 350-unit complex in Concord on the Sudbury/Maynard line, a possible 20-unit Planned Residential Development (PRD) on Strawberry Hill Road, along with some

other smaller projects. Town and school administrations are gathering data to plan for the impact these new projects will have on Town services.

With two new elementary schools built and running, the Town is in the process of designing a new Willard Elementary School. The Selectmen have approved a Special Town Meeting to be held in the late fall. It is expected that construction funds will be requested at that time.

Another major future capital project is the high school. The CCHS building received the lowest grade possible during a recent State-wide building assessment of schools. Major capital investment in the form of a new school or a substantial renovation and addition to CCHS will need to be considered in the near future.

New capital projects have an impact on the level of taxpayer-supported excluded debt. Debt exclusion costs as a percentage of the tax levy have increased from 1.69% in FY02 to a projected 4.41% in FY08. This represents excluded debt for projects approved and funded but does not include projects approved but not yet funded. As we proceed, the Finance Committee will focus on the timing of new debt and try to mitigate the impact on taxpayers. This will require careful planning and cooperation among Town boards and committees.

Leveraging Municipal Funds

Along with the opening of the new Thoreau School, there are several other events of note:

- The Beede Center was completed and turned over to the Town. Private donations with the approximate value of \$11 million funded the construction.
- We will consider a proposal for new athletic fields funded by a combination of Town funds, CPA funds and private donations.
- This year the Fire Department received a federal grant that will allow increased staffing for the new firefighters to be partially paid by the grant for four years.
- For the first time this year the Selectmen issued an appeal for donations to the Town.

All of these are creative examples that recognize the limits of municipal funds. Going forward we hope to see many more examples that will help us achieve worthy goals by leveraging municipal funds with revenue from sources.

Susan Bates, Chair

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:

- Establishing 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.
- Conducting public hearings on the budgets and other financial matters expected to come before annual and special Town Meetings.
- Preparing 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.
- Conducting special studies and activities to gather and disseminate information about financial issues affecting the Town.
- Managing a Reserve Fund account to meet extraordinary and unforeseen expenditures (proposed at \$225,000 for FY08).

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 Committee's 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 last year, the Town began documenting these 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. Following is a summary of some of those 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, that percentage has been 5%, equivalent to about \$3.5 million as we enter FY08.

- Spend about 7-8% of the annual budget on routine capital maintenance and renewal of the Town's facilities and infrastructure (including schools). Included in this, 5% is reserved for debt service for large items and projects funded by borrowing.
- Do not earmark 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 year in the 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 the 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, School Superintendent, and interested citizens to finalize the recommended Guideline. This is published by the Finance Committee by the end of November.

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

The Finance Committee appreciates the tireless efforts of the town and school administrations, led by Town Manager Chris Whelan and School Superintendent Brenda Finn, in the development and presentation of their budgets and their assistance to the Finance Committee. In particular, we express special thanks to Tony Logalbo, the Town's Finance Director and Treasurer, and to John Flaherty, Director of Financial Services for CPS and CCRSD, as well as to their staffs for their dedicated work throughout the year in maintaining the Town's fiscal health.

