

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 2006 Annual Town Meeting.

Overview

A difficult economy and rising costs have placed substantial pressure on Massachusetts cities and towns during recent years. Past reductions in state local aid and the failure of the Commonwealth of Massachusetts to restore local aid in proportion to increases in costs have combined with flat or declining local revenues. As a result, the amount of funding that must come from property tax revenues and property taxpayers to pay for local services is steadily increasing. Under Proposition 2½, cities and towns are limited in their ability to increase property taxes to meet new needs. When spending requirements outpace the growth allowed under Proposition 21/2, as has occurred in Concord, cities and towns have the option of requesting voter approval for an increase in the limits imposed by Proposition 2½.

Concord town and school leaders have worked to manage our budget to minimize growth in spending while maintaining basic services provided by the town and schools. These budgets and the Proposition 21/2 overrides necessary to support them were approved by voters at Town Meeting and at the polls.

Concord's financial circumstances have neither significantly improved nor worsened over the past year. Non-property tax revenues are projected to increase only slightly. Expenses for FY06, in particular energy-related expenses, have risen and these increases are expected to carry over into FY07. A shift in enrollments that occurred at the Concord-Carlisle Regional School District (CCRS) will result in a large increase in the FY07 Concord assessment, and the latest enrollment figures suggest that this ratio will remain constant for the near future. Special education expenses at CCRS have grown due to an increase in students requiring out-of-district services. Also, town and school personnel are still straining to meet state and federal mandates, as well as citizen demands for additional or more effective services, without increased personnel resources.

Each year, it is the objective of the Finance Committee to recommend budgets within the limits imposed by Proposition 2½. However, because necessary expenditures continue to increase faster than non-property tax revenues, the Concord Finance Committee is again recommending Proposition 2½ override budgets to the voters of Concord. The budgets presented in this Finance Committee report are the result of hard work by town and school administrators to develop spending plans that will support town and school services, yet minimize the impact on taxpayers.

The Finance Committee has approved two Proposition 2½ budget recommendations; one for budgets at the levy limit and the second for budgets at an override level. The levy limit recommendation represents the maximum amount of money available to town and school administrators to support operations, without voter approval of a Proposition 2½ override. The override budget represents the Finance Committee's recommendation on a level of funding that would preserve town and school programs and services, while at the same time minimize the burden on taxpayers.

1. The terms *Proposition 2½ property tax levy*, *excluded debt*, and *general override* are explained in more detail on pages 35-38 of this report. *Free cash* is explained on page 40.

Levy Limit Recommendation

Within the Proposition 2 ½ Levy Limit, the Finance Committee recommends the following spending levels for operating budgets:

	FY06	FY07		
	<u>Final Budget</u>	<u>Levy Limit Recommendation</u>	<u>\$ Change</u>	<u>% Change</u>
Town operations	\$14,831,000	\$15,435,363	\$ 604,363	4.1%
CPS	\$24,285,000	\$25,219,817	\$ 934,817	3.8%
CCRSD assessment for operations	<u>\$10,817,878</u>	<u>\$11,654,838</u>	<u>\$ 836,960</u>	7.7%
Total	\$49,933,878	\$52,310,018	\$2,376,140	4.8%

Resource and expense projections suggest that \$2,376,140 is available within the Proposition 2 ½ Levy Limit. This represents an increase of 4.8% over FY06.

Due to an unusually large shift in the enrollment ratio at Concord-Carlisle High School, the Concord portion of the assessment increases by \$341,253, or 3.2% of the FY06 assessment. After this increase is subtracted from available levy limit funds, \$2,034,617 remains available to divide across Town and School budgets. This would represent an increase of about 4.1% over FY06.

At the levy limit, the Town budget would increase by 4.1%, the Concord Public Schools budget would increase by 3.8% and the Concord-Carlisle Regional School District budget would increase by 4.9%.

Override Recommendation

At the Proposition 2 ½ override level, the Finance Committee recommends the following spending amounts for operating budgets:

	FY06 Budget	FY07 Override Recommendation	\$ Change	% Change
Town operations	\$14,831,000	\$15,648,414	\$ 817,414	5.5%
CPS	\$24,285,000	\$25,460,285	\$1,175,285	4.8%
CCRSD assessment for operations	<u>\$10,817,878</u>	<u>\$11,858,857</u>	<u>\$1,040,979</u>	9.6%
Total	\$49,933,878	\$52,967,556	\$3,033,678	6.1%

The Finance Committee guidelines issued on November 17, 2005 called for a Proposition 2 ½ override of \$1,060,000. On March 16, 2006, after revisions to new growth, revenue, and expense projections, the Finance Committee voted to reduce the override recommendation to \$657,538, a property tax increase of 1.3% above the Proposition 2 ½ levy limit. The total impact of the override budget recommendation on existing taxpayers for FY07 was reduced from 6.75% projected last November to 6.1% with these recent revisions.

Recommended and Proposed Budgets
Summary of Levy Limit and Guideline budgets (revised March 16, 2006)

incremental and total tax levy and budget changes

	FY06	FY07 at Levy Limit			Finance Committee recommends		
		<i>plus</i>	<i>at</i> Levy Limit	Δ	<i>plus</i>	<i>at</i> Guideline	Δ
Town Government operations	\$14,831,000	+\$ 604,363 =	\$ 15,435,363	+4.1%	+\$ 213,051 =	\$ 15,648,414	+5.5%
Concord Public Schools (K-8)	\$24,285,000	+\$ 934,817 =	\$25,219,817	+3.8%	+\$ 240,468 =	\$25,460,285	+4.8%
CCHS assessment: without debt exclusion	\$ 10,817,878	+\$ 836,960 =	\$ 11,654,838	+7.7%	+\$ 204,019 =	\$ 11,858,857	+9.6%
debt exclusion	<u>378,169</u>		<u>477,889</u>			<u>477,889</u>	
total assessment	\$ 11,196,047		\$ 12,132,727			\$ 12,336,746	
Sum for all operating budgets:			<u>\$ 2,376,140</u> <i>(at limit)</i>		<u>+\$ 657,538</u> <i>(over limit)</i>	<u>\$ 3,033,678</u> <i>(over FY06)</i>	
Projected Tax rate Impact			+ 4.78%			+ 1.31%	
Tax Bill at median \$712,100 value	\$7,478	+ 357 =	\$7,836		+ 98 =	\$7,934	
Tax Bill per \$100,000 a.v.	\$ 1,023	+ 49 =	\$1,072		+ 13 =	\$1,085	
Cumulative budget change:			at Levy Limit		at Guideline		
Town Government operations			\$ 604,363		\$ 817,414		
Concord Public Schools			934,817	CCHS	1,175,285	CCHS	
CCHS assessment without debt			836,960	<i>operating budget: plus 3.7%</i>	1,040,979	<i>operating budget: plus 6.5%</i>	
Cumulative tax bill change:							
at median \$712,100			\$357		\$455		
per \$100,000 a.v.			\$ 49		\$ 62		

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 and creative budget management, the highest priority needs can be met without significant reductions and harm.

The total budget plan for Town Meeting action is on page 12, and the three principal components of the budget are described more fully in separate sections in 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 increase from \$8,587,250 in FY06 to \$9,188,000 in FY07, a percentage increase of 7%. The main component of this increase is a 13.3% rise in group insurance costs.

Minuteman Regional Vocational High School: The assessment for Minuteman has increased substantially in past years as enrollment and the cost of special education services have increased. The assessment for FY07 is \$502,317, an increase of 16.4% over FY06.

Excluded debt service: The Town debt service that is excluded from Proposition 2 ½ rises from \$2,108,374 to \$2,219,677, an increase of 5.3%. This net increase primarily reflects the retirement of elementary school building design funds in FY06, additional interest costs associated with the renewal of current short-term notes and the planned issuance of additional short-term debt for the Alcott and Thoreau school construction projects, the issuance of permanent bond financing for all or a portion of the Thoreau project planned for fall 2006 issuance, and the commencement of debt service for the tax-supported portion of the Phase 1 Wastewater Management Plan construction financing. Excluded debt related to Concord - Carlisle Regional School District capital improvement projects (for Concord's assessed share) increases from \$378,169 in FY06 to \$477,889 in FY07.

Non-appropriated accounts: Several accounts presented within the total budget plan do not require Town Meeting appropriations. Snow and Ice deficit funding for FY07 is projected to be lower than last year's record expense due to the relatively mild winter we have experienced thus far during FY06. The Overlay account, used to fund property tax abatements and exemptions, can prudently be funded at a slightly lowered level based upon the present status of valuation appeals before the Board of Assessors. State Assessments are expected to increase slightly. These changes result in a net decrease of \$175,646 or 15% in the non-appropriated monies accounts.

The spreadsheet on page 13 summarizes the sources of funding for the General Fund which finances the total budget plan. Most revenue account projections are relatively unchanged. Only investment earnings and other local revenue such as fees are expected to increase slightly.

Capital expenditures

One of the ingredients of a financially well-managed community—and of a Aaa credit rating—is a rational and disciplined plan for financing capital maintenance, renewal, and reconstruction of the Town's infrastructure, such as roofs and buildings, roads and culverts, parks and playing fields, and rolling stock and other equipment. As a matter of policy, Concord seeks to set aside 7-8% of each year's total budget (net of excluded debt service) for this purpose. Of this, 5% is the target for debt service within the Levy Limit and 2-3% is the target range for capital expenditures financed from current-year operating budgets. In general, borrowing is used for items and projects of \$100,000 or more, while smaller outlays and recurring purchases are funded from within current-year operating budget totals.

It is tempting during times of fiscal hardship for municipalities to cut back on capital spending. Not surprisingly, Concord did this during recent years to balance its budgets. However, while cuts in spending might produce

short-term savings, they produce long-term pain. Reductions in spending for roofs, roads, equipment replacements, etc., are not true budget cuts but only deferrals. The needs do not disappear. These deferrals come with two costs: Increased maintenance costs, and a need to catch up. The level of capital spending eventually must be restored to pre-cut levels, and funds must be restored for the deferred replacements as well.

The FY07 budget contains \$4,313,000 for capital expenditure financing, of which \$2,750,000 for debt service and the remainder is for capital outlay for town and school projects. This figure is just short of the 7% lower limit of the town capital financing policy. While efforts were made to increase capital financing in FY07, more attention is necessary. The Finance Committee will continue to monitor this issue in the coming year.

Excluded Debt

As a result of a number of successful Proposition 2 1/2 debt exclusion votes, Concord will see its total debt rise from about \$19.5 million as of June 30, 2005 to over \$39 million by June 30, 2007. An affirmative vote on Willard this year and next would bring this to about \$61 million by June 30, 2010. Excluded debt service is now about 4.7% of the property tax levy, and if Willard is approved could rise to about 8% by 2011. This will probably represent about \$800 on the median annual tax bill. While this is not likely to be a concern to lenders and credit agencies, Concord citizens must weigh the implications of this level of taxation and balance it against their desire for a high level of services from the town and schools.

Highlights

Following is a summary of high profile issues confronting Town Meeting voters this year. More detailed information is available in the body of this Finance Committee Report.

School building projects: Concord is in a school rebuilding phase. The Alcott Elementary School has been built. A new Thoreau Elementary School is scheduled to open next fall. A debt exclusion ballot question for design funds for a new Willard Elementary School will be considered on March 28, 2006, and if approved, will be put before voters in Article 42 at the 2006 Annual Town Meeting. The Finance Committee believes that it is time to rebuild the Willard School. Spending valuable tax monies on short-term repairs in order to defer a rebuilding project will only cost Concord citizens more tax money, in both the short and long terms.

Senior tax relief: As property taxes have increased to offset declining revenues and cover rising costs, and spending on capital projects has increased, some Concord taxpayers have begun to struggle with property taxes. During the past year, the Board of Selectmen and others have focused on identifying opportunities for property tax relief to senior citizens in Concord. The Senior Citizen Tax Relief Task Force was formed to investigate opportunities for senior tax relief, and has proposed a number of actions for consideration.

One such action would make more attractive the existing Senior Property Tax Deferral program by reducing the interest rate for property tax deferral to a number less than the state mandated 8%. The Board of Selectmen and the Finance Committee have agreed that a more appropriate interest rate would be 4%. While this interest rate would not completely cover the costs of the deferral program, it would provide an incentive for qualified applicants to consider the program. This proposal will be discussed under Article 15 of the Town Meeting Warrant.

An important question arises when tax relief measures are considered. How will the deferrals and exemptions be funded? The source of funding depends on the mechanism under consideration. Unfortunately, all of the approaches currently available will reduce the amount of money available to support Town and school services. The Finance Committee will continue to work with the Board of Selectmen and other interested parties to provide input on the impact of proposed tax relief mechanisms and to develop ways of covering the expenses of the relief mechanisms.

Community Swim and Fitness Center: Slated to open in April 2006 just prior to Town Meeting, the new Swim and Fitness Center is a state-of-the-art facility. Voters at the 2006 Annual Town Meeting will have the responsibility for approving the first annual enterprise fund operating budget for the new facility. An appropriation of \$2,218,210 will be proposed under Article 27, fully covered by expected annual revenues of the facility.

Community Preservation Act (CPA): At the 2006 Annual Town Meeting, voters will approve for the first time a number of projects funded by Community Preservation Act funds. After a year of careful and very extensive preparation, the Community Preservation Committee (CPC), responsible for implementation of the CPA in Concord, has prepared a slate of worthy projects. Under Article 28, the CPC will propose approximately \$1.8 million in funding to address housing, historic preservation, open space and recreation needs.

Board of Assessors (BOA): After a stormy period, the operations of the Board of Assessors and the Town Assessing Department have stabilized and improved. This is very much due to the work of the BOA and the new Town Appraiser to improve the transparency of assessing procedures and the communications between property owners and the BOA. As required by the state Department of Revenue, FY08 will be a triennial revaluation year. Proposed in the Town Manager's Budget for FY07, Article 8, is \$100,000 for preparation for the triennial revaluation and the first phase of a full town-wide interior property inspection. This investment will help to ensure that Concord properties are accurately and fairly valued.

Conclusion

While the financial issues we face in Concord are challenging, all is not gloom and doom. FY07 is the sixth consecutive year of Proposition 2 ½ overrides presented to voters. However, it is also the smallest override yet. Thanks to the support of Concord taxpayers and to the professional competence of town and school administrators and employees, the town and schools have passed through a difficult economic period, yet continue to deliver high quality services to Concord citizens. In return for the trust of taxpayers, Concord town and school leaders have worked to restrict growth in operating budgets and to reduce the long term costs of capital projects. Other cities and towns struggling with the same financial issues have had to cope with very large funding cuts that have resulted in major reductions in quality of public safety, education, buildings, roads, and more.

Maintaining the things that make Concord attractive—its educational system, its historical traditions, its natural beauty, and its quality of life—is a challenge, and requires a careful balancing act. The Finance Committee believes that the current budget and capital spending recommendations contained in this report maintain that balance for the coming year.

Mark Russell Prior, Chair
Concord Finance Committee

Notes:

The Finance Committee

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 \$200,000 for FY07).

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-1990's, that percentage has been 5%, equivalent to about \$3.3 million as we enter FY07.

- 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.