

**Section I**

**Letter of Transmittal**

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Old North Bridge

# Town of Concord

TOWN MANAGER'S OFFICE  
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CHRISTOPHER WHELAN, TOWN MANAGER

January 26, 2010

The Honorable Board of Selectmen,

I herewith submit for your review the Town Manager's Proposed Budget for Fiscal Year 2011 (July 1, 2010 - June 30, 2011), in accordance with the requirements of the Town Charter. This budget contains my recommendations for appropriation amounts for the various Town departments, as they appear in Article 7 of the 2010 Annual Town Meeting Warrant. This budget document also provides background information regarding revenue and expenditure trends as well as an explanation of my recommendations.

## **Budget Summary**

I am presenting to you a recommended total Town Budget that is under the spending guidelines specified by the Finance Committee for FY11 town and school operations. The Guidelines adopted by the Finance Committee and issued on November 30 in accordance with Town Bylaw are included on page VI-5 of this document.

Specifically, with respect to the Town Government operating budget (Article 7, items 1-36), and pursuant to your request, I am recommending that proposed spending be \$553,000 below the Finance Committee Guideline, so that the FY11 Town Government operating budget will be **level funded at \$17,352,013**. The overall Town budget (including the school budget recommendations of the school committees for the Concord Public Schools (K-8), Concord Carlisle Regional School District and the Minuteman Technical High School District) is proposed at \$76,571,587, a 1.4% increase over the current year.

	FY10 <u>Budget</u>	FY11 <u>Proposed</u>	Change from FY10 to FY11	
			<u>Dollars</u>	<u>Percent</u>
Town Government	\$17,352,013	\$17,352,013	\$0	0%
Concord Public Schools	\$27,699,200	\$27,699,200	\$0	0%
Concord – Carlisle RSD	\$13,442,936	\$14,006,221	\$563,285	4.2%
<b>Subtotal</b>	\$58,494,149	\$59,057,434	\$563,285	1.0%
All Other Accounts	\$17,033,796	\$17,514,153	\$480,357	2.8%
<b>Total Budget Plan</b>	<b>\$75,527,945</b>	<b>\$76,571,587</b>	<b>\$1,043,642</b>	<b>1.4%</b>

The Total Budget Plan includes:

- the proposed budget for the operation of the Town departments and accounts under the direction of the Town Manager, referred to in this document as "Town Government Budget" and presented for Town Meeting appropriation under Article 7 of the Warrant for the 2010 Annual Town Meeting; \$32,561,795; this number includes the Town Government budget plus joint accounts (such as group insurance, retirement, and debt service for both the Town and CPS) and Town excluded debt.
- the proposed budget for the Concord Public Schools (K-8), which is the responsibility of the Superintendent of Schools under the direction of the CPS School Committee, presented for Town Meeting appropriation under Article 8 of the Warrant; \$27,699,200;
- the proposed assessment for Concord's share of the Concord-Carlisle Regional School District budget which also is the responsibility of the Superintendent of Schools under the direction of the CCRSD Regional School Committee, presented for Town Meeting appropriation under Article 9, Item #1 of the Warrant; \$14,591,804; this number includes the CCRSD operating budget plus CCRSD excluded debt service.
- the proposed assessment for Concord's share of the Minuteman Vocational Technical High School budget which is the responsibility of the MMVT Superintendent under the direction of the Minuteman Regional School Committee, presented for Town Meeting appropriation under Article 9, Item #2 of the Warrant; the assessment amount has been estimated as \$590,682, based upon preliminary information received from MMVT, but this should not yet be considered a final official estimate;
- accounts that are not subject to Town Meeting vote but which must be provided for within the FY11 financial plan, included in this document in Section V:
  - account #101 – state assessments: \$399,106
  - account #102 – an allowance for a possible deficit in the snow removal account: \$204,000
  - account #103 – an allowance for the Overlay Reserve to cover property tax exemptions and abatements: \$525,000.

**SUMMARY OF THE PROPOSED FY11 GENERAL FUND SPENDING PLAN**

	<b>FY2011 Proposed</b>	<b>percent change from FY2010</b>
<b>Town government operations</b>	\$ 17,352,013	0.0 %
• <i>accounts #1-36 in this document</i>		
<b>Concord Public Schools (K-8)</b>	\$ 27,699,200	0.0 %
• <i>account #104 in this document</i>		
<b>Concord-Carlisle High School</b>		
<i>operating assessment</i>	\$ 14,006,221	4.2 %
<i>debt assessment</i>	\$ 585,583	8.6 %
• <i>account #105 in this document</i>		
<b>Minuteman Vocational Technical H.S.</b>	\$ 590,682	- 7.4 %
• <i>account #106 in this document</i>		
<b>Joint Accounts, Town and CPS</b>	\$ 15,209,782	3.3 %
• <i>accounts #37-41 in this document</i>		
<b>accounts not appropriated by Town Meeting</b>	\$ 1,128,106	- 0.7 %
• <i>accounts #101-103 in this doc.</i>		
<b>GRAND TOTAL</b>	<b>\$ 76,571,587</b>	<b>+ 1.4 %</b>

While the education budgets are not under the Town Manager's jurisdiction, summary pages for the three school accounts are included in this document (accounts #104-106) in order to present a comprehensive spending plan to the citizens of Concord. Also, it is the responsibility of the Town Manager under the Town Charter to provide an estimate of the revenues available and required in total to support all component parts of the town's budget.

The schools are not separate taxing entities. The Concord Public Schools (grades K-8) are legally part of the Town of Concord but are under the jurisdiction of the elected School Committee.

The two Regional High Schools each are separate political subdivisions of the Commonwealth of Massachusetts but derive their resources primarily from assessments billed to the member communities rather than directly from the taxpayers. The full school budget documents may be obtained from their respective superintendents.

## **Tax Impact**

At the FY11 forecasted property tax levy, the tax rate impact is projected to be +1.77%. At the median single family residential value of \$656,700, this represents an additional \$152 or an added \$23 for each \$100,000 of assessed value (see page II-10).

## **Highlights**

The following section provides information about the Town's reserves, revenues, and expenditures.

### ***Reserves***

There are several steps that the Town has taken to make sure that it remains in good financial health. These steps include maintaining a strong unreserved fund balance ("Free Cash") position, proposing a budget for FY11 that will require a tax levy lower than the projected "Proposition 2 ½ levy limit, and establishing a stabilization fund to cover part of the future debt service costs of the long-term bonds that have financed the construction of three new elementary schools – Alcott (2004), Thoreau (2006) and Willard (2009).

### **Free Cash**

Every year, the Massachusetts Department of Revenue certifies the Town's Free Cash, the amount of money that the Town has in reserve that is not committed to any program or service. As of June 30, 2009, the certified Free Cash balance was \$8,471,337, equivalent to 11.1% of the FY10 total budget. The Town's strong reserve position is a key component of its "Triple A" credit rating, reaffirmed by Moody's Investors Service in connection with a January 15, 2010 long-term bond sale.

### **Unused Levy Capacity**

Pursuant to the 1981 Massachusetts State Law known as "Proposition 2 ½", the annual permitted property tax levy is capped at a level which can only be exceeded by voter authorization through a town-wide ballot. This limit is calculated by taking the previous year's levy limit, increasing it by 2.5%, adding the property taxes generated by any new construction that has occurred in the Town in the prior fiscal period and is newly being added to taxable assessed property in the tax year, and including the current debt service cost of any borrowing that has been so authorized by a town-wide ballot.

The unused levy capacity is the difference between the amount to be raised by property taxes and this upper limit. For FY11, it is projected that the unused levy capacity will be approximately \$1.2 million, about 1.9% of the projected levy limit (see page II-7).

### Elementary School Debt Stabilization Fund

With the construction of three new elementary schools in a relatively short period of time, the Town was concerned about the effect of a spike in property taxes as the bonds for the third school (Willard) were planned for FY10 issuance. Accordingly, the 2008 Annual Town Meeting established a stabilization fund of \$2.5 million to be separately invested by the Treasurer and then applied by future Town Meeting votes over a period of years to lessen the tax impact of debt repayment. Article 10 on the 2010 Town Meeting Warrant proposes to allocate \$1,000,000 from this fund to offset the debt service cost resulting from the Willard School bond issue of January 15, 2010. As a result, the tax levy for the FY11 debt service on all excluded debt will be \$4,450,365, a slight decrease from the FY10 excluded debt service levy of \$4,512,636. An allocation from a Stabilization Fund requires a two-thirds vote of Town Meeting. This allocation is incorporated in my proposed funding plan for the FY11 budget.

### ***Revenues***

Although the estimate of revenues is subject to the uncertainty in the economy and the corresponding unpredictability of amounts to be received in state aid and from other sources, this budget has been established with the following realistic assumptions.

### State Aid

The Town is less reliant on state aid as a source of revenue than many other municipalities. In FY10, state aid comprises just 5.0% of total budgetary resources. Although the budget that the Governor has submitted to the legislature in January 2010 calls for level funding of state aid, the continued precarious condition of state government finances suggests that the final enacted budget may produce a much different result.

Accordingly, this budget has been based on the projection of a 10% decrease in funding that the Town anticipates receiving from the State. In FY10, the Town is budgeted to receive \$3,808,876 in state aid, and the FY11 budget estimate is \$3,400,000. The peak year of state aid to Concord was FY07 at \$4,280,198.

## Motor Vehicle Excise Tax

The economic environment of the past two years has had a dramatic impact on automobile sales. Due to tight credit markets and general uncertainty about the economy, individuals have postponed making new purchases. While Concord tends to see less severe downturns in such economic periods, it is not immune. Since the local motor vehicle excise tax is based upon a rapidly declining depreciation schedule, our billable total each year is very sensitive to any drop-off in the registration of new vehicles. In FY09 the Town received \$2,269,633 from this tax. The FY11 budget forecasts revenue from the motor vehicle excise tax at \$2,100,000. The peak year for this revenue source was FY06 at \$2,458,012.

## Interest Earnings

As a result of Federal Reserve policy to keep short-term interest rates extraordinarily low, the amount that the Town expects to receive from earnings on operating cash is at historically low levels. State law limits operating cash to a money-market environment and a one-year maximum term on any allowed investments such as bank certificates of deposit or US Treasury notes. Just a few years ago in FY08 when short-term interest rates were high, the Town earned \$1,242,000 for the General Fund, with an annual rate of return of 4.27%. In the current year, the Town expects to earn just over \$200,000, an amount equivalent to a return of less than 1%. For FY11, the Town is expecting to receive \$300,000, an annual rate of return of about 1.2%. Achieving this estimate will be dependent upon a change in Federal Reserve policy sometime during the next fiscal year.

## Building Permit and Inspection Fees

I am anticipating that revenue from building permit and inspection fees will be approximately \$350,000 in FY11. The Town took in \$385,617 during FY09, down substantially from \$720,000 in FY07. The FY11 projection may increase dramatically if the West Concord Alexan project proceeds to construction.

## ***Expenditures***

The budget process has been made even more challenging due to upward pressures on costs of several expenditure items.

## Employee Health Insurance Costs

Employee health insurance costs continue to be one of the fastest growing components of our budget. The town pays on average about 54% of employee group health insurance costs and 50% of retiree costs. State law requires us to pay at least 50% and most of the surrounding towns pay a higher proportion (although our total plan price is generally lower).

This budget item has continued to increase significantly despite the fact that Concord has been in the forefront of municipal collaborative efforts to restrain costs and wring out unneeded overhead expense through our leadership of the 17 towns and regional school districts now in the Minuteman Nashoba Health Group (MNHG). The group, covering more than 4,000 employees and retirees and another 6,000 family members, is self-funded, which means we pay claims costs, not premiums. The MNHG Board, consisting of one member from each jurisdiction designated by the Board of Selectmen or Regional School Committee, sets internal premium rates designed to cover projected claims costs.

Medical provider cost trends in eastern Massachusetts continue to be rising in excess of 10% per year. The FY11 Group Insurance General Fund appropriation is proposed to be increased by \$312,400 (+7.5%), as the budget anticipates that an increasing number of employees will select from the MNHG's "rate saver" plans, first offered in June 2009, which carry a significantly lower premium rate but bear higher co-pay and deductible provisions.

#### Post-Retirement Health Insurance Liability

While our General Fund revenues can be expected to increase annually only in the low single-digit range, health care costs have been rising significantly for the past decade and are expected to continue to rise at least 5% to 10% annually beyond FY11. Approximately a quarter of the total group health insurance expenditure is for retirees. New governmental accounting standards that became effective for financial reporting as of June 30, 2009 require municipalities to account for the unfunded portion of post-retirement health insurance benefits, in much the same way that the Town now accounts for pension liabilities. The requirement is solely to report the future liability on the Town's annual financial statements, and it is not required to immediately add this cost to the annual budget.

Funding this liability as a current cost – that is, accumulating the necessary assets during an employee's working years - will represent a significant new budget expense. This budget does not propose any "seed" funding, but it is likely that we will need to address the funding issue over the next several years. The November 5, 2007 Special Town Meeting approved the filing of a Home Rule petition to create a Trust Fund and establish the necessary investment authority for the Treasurer to manage any funds accumulated for this long-term purpose. Without proper investment authority, the accumulation of assets to address future long-term liabilities but invested at short-term money market rates would be a money-losing and pointless proposition. This legislation was enacted as Chapter 185 of the Acts of 2008 with the strenuous support and assistance of Representative Cory Atkins.

The first actuarial analysis of the Post-Retirement Health Insurance Liability (often referred to as “OPEB” for “**O**ther **P**ost-retirement **E**mployee **B**enefits”) has been received from our actuary and is being analyzed by Town and CCRSD staff. The analysis was performed jointly with the Concord-Carlisle Regional School District. Initial review indicates that the Town’s General Fund cost to meet its current actuarial liability for Town and Concord Public School employees and retirees would require an additional \$2,000,000 in the annual budget; the CCRSD additional cost would be on the order of \$700,000 annually. The size of this liability and the lack of authority at the local level to reduce the level of benefits (state law controls this area) makes this issue one of the most critical on our financial horizon. We will be devoting the next year to the search for a viable plan.

### Energy Prices

Energy prices seem to have stabilized. In the FY10 budget, the Town made allowances for the price increases that had been seen during FY08. Accordingly, as compared with the current year budget, the FY11 budget does not increase the allocation for gasoline, diesel, and natural gas cost. However, price levels will need to be continuously monitored.

Higher electric rates are expected, however, as the Concord Municipal Light Plant’s (CMLP) favorable power supply contract negotiated in 2002 came to the end of its seven-year contracted period in October 2009. The CMLP has been preparing for a number of years for the adjustment of its rates to handle the more than 40% rise in power costs compared to the 2002 contract price. However, we do anticipate annual rate increases of at least 5% per year for several years. Concerted efforts are therefore being made to reduce energy consumption in all town and school buildings.

### The “Snow” account

As of late January, Concord has experienced a moderate level of snowfall this winter and is still within its budgeted expense level. Nevertheless, it is possible that the cost of snow removal may be greater than the current year \$455,000 appropriation. A sum of \$204,000 is presently earmarked in the FY11 Plan in anticipation of any current year deficit. Although the deficit in FY10 must be raised in the FY11 tax levy, the total amount of \$455,000 budgeted in FY10 and \$204,000 as a deficit allowance may be sufficient to get us through this winter. Still, if the amount needed for snow and ice removal during this winter exceeds \$659,000, FY11 operating budget cuts might need to be considered very late in the annual budgeting cycle.

## Excluded Debt

With the construction of three new elementary schools, the amount that the Town must appropriate for debt service repayment on the bonds has increased over the last several years. In FY07, the Town expended \$2.2 million for excluded debt service and in FY11 this amount has increased to \$5.5 million (including our assessed share of CCRSD debt service, and before the proposed allocation of \$1 million from the Elementary School Debt Stabilization Fund). Although the tax levy for excluded debt service is outside the levy limit in accordance with the past decisions of the voters, this amount adds to the taxes that current Concord property owners pay.

## Budget Priorities

It has been my priority to present a FY11 budget for Town Government operations that is level-funded. This has been a very challenging process. As has been shown in the above sections, revenues are decreasing while some expenditures are increasing. Moreover, with the cost of such items as health care and wages/salaries rising, savings need to be found in other areas to arrive at a level funded budget.

The major budget priorities and funding objectives are discussed below.

## Staff Compensation

The proposed FY11 Town Government operating budget under my jurisdiction will provide, for non-union town employees, an adjustment of 2% on the pay scales effective July 1, 2010. This is an important component of my budget proposal, as we strive to maintain the highly professional, experienced and well-trained staff the town has recruited over the years. For a second year, the budget assumes that step increases for non-union town staff will be frozen

The Salary Reserve line item of \$350,000 also includes the cost of Police, Fire and Dispatcher collective bargaining agreements. Contract agreements are in place with the Concord Police Association and the Concord Firefighters Association through June 30, 2011 and with the Teamsters Local #25 (Public Safety Dispatchers) through June 30, 2012.

In the FY10 state budget, the state made a substantial and unprecedented reduction from paying its 50% share of Police Officer educational incentives (the so-called "Quinn Bill" career incentive pay) without, however, altering the underlying statute for current officers. Concord's existing contract provides for recovery of any state share shortfall from the officers retroactively. The process for that recovery and the future scope and details of the educational incentive pay program remain to

be negotiated at the local level for the 254 communities that had voted to join the “Quinn” program since its inception in 1970.

### Capital Outlay

This category of expense includes a wide variety of purposes, from police and public works vehicles and equipment to small-scale but continuous repair projects on all of the town buildings (exclusive of schools, which are the responsibility of the school committees and the school budgets). These are the components of our continuous investment for which we cannot issue debt under the law or should not do so as a matter of sound fiscal policy. Rather, we allocate a portion of the scarce current resources which are also in demand to fund our other operational needs. For example, the funding for sidewalk repairs and drainage/culvert repairs and improvements (accounts #21 and #22) demonstrates the critical nature of these continuing annual commitments. Because of its recurring and consumable nature, this category of expense is grouped in our budget presentation as part of the “Town Government Operating Budget.”

Due to budget constraints, I am proposing the capital outlay accounts be increased by only \$15,000 or 1.2% as compared with FY10. Nevertheless, this amount of \$1,315,500 for FY11 capital outlay items represents 7.6% of the town government operating budget (\$17,352,013). The recommendations represent 70% of departmental requests of \$1.9 million.

### Building Maintenance

Upon the recommendations of two committees, in the FY05 budget the Town initiated an account to fund capital maintenance of Town buildings. Initial funding was \$40,000 in FY05 and has increased to a level of \$150,000 proposed for FY11. The objective of the account is to provide funding for the continuing maintenance of Town buildings. Based on the original recommendations made five years ago by the Facilities Planning Committee, our long-term target funding level for this account is in excess of \$400,000 annually.

### Building Efficiency

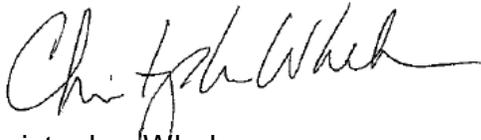
With a generous gift of \$1.7 million from the Sawyer Trust, the Town is embarking on an effort to make Town-owned buildings more energy efficient. The Comprehensive Sustainable Energy Committee (CSEC) provides recommendations to the Town Manager on the allocation of funding to specific projects. So far, funding has gone to ten projects, including replacing old boilers at the West Concord Fire Station with more energy efficient units, improving the HVAC system at 135 Keyes Road, and making energy-efficient renovations at the Sleepy Hollow Cemetery building (24 Court Lane). This new town office space, a graceful historic structure rescued from disuse, will be occupied by the Assessing Division of the Finance Department.

**Conclusion**

By maintaining strong reserves, conservatively estimating expected revenues, and keeping expenditures in check, I am proposing a budget that continues with Concord's tradition of sound financial management. Recognition of this sound financial management can be seen in the fact that Moody's Investors Service has given Concord its highest rating (Aaa) continuously since 1987.

It is noted that forecasted revenues and expenditures will need to be reviewed before final FY11 recommendations are made in March by the Finance Committee and the Board of Selectmen, and final revisions may be made in April prior to the Annual Town Meeting.

Sincerely,



Christopher Whelan  
Town Manager

Cc: Finance Committee members  
Committee Chairpersons  
Town Department Heads

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