

Section I

Letter of Transmittal

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Old North Bridge

Town of Concord

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CHRISTOPHER WHELAN, TOWN MANAGER

January 27, 2009

The Honorable Board of Selectmen,

I herewith submit for your review the Town Manager's Proposed Budget for Fiscal Year 2010 (July 1, 2009 - June 30, 2010), 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 8 of the 2009 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 Format

The format and content of the Town Manager's Proposed Budget document continues to undergo modification and continuous improvement. The changes have been made with the objective of incorporating the "best practices" for municipal budgeting as set forth by the Government Finance Officers Association (GFOA) of the United States and Canada. These practices incorporate twenty-seven criteria covering four general categories:

- the budget as a policy document;
- the budget as a financial plan;
- the budget as an operations guide;
- the budget as a communication device.

Accordingly, the format for this Budget Book has been gradually altered over the past few years to integrate information specified by the GFOA. With these changes, the objective is to provide Concord citizens with a document that more effectively communicates the important issues facing the Town and that presents information about how the budget addresses these issues.

Last year, the budget pages for each division and program were completely reformatted. This new format is retained and further refined this year. In addition, the document continues the process of providing a more structured presentation of performance information about each division and program. We consider this to be

a multi-year process. The eventual goal is to use the budgeting process to create a stronger link between a department's mission and services and programs that it provides.

As a result of the ongoing improvements, the Town Manager's Proposed Budget for Fiscal Year 2009 earned the GFOA's Distinguished Budget Presentation Award for the fourth consecutive year. The extraordinary effort of the Finance Department staff and the collaborative participation of the department heads have been particularly noteworthy in this achievement.

Budget Summary

I am presenting to you a recommended total Town Budget that conforms to the Finance Committee Guidelines for town and school operations established in November of 2008. This FY10 spending plan for the Town Government will not require consideration of an operating override ballot. It will be funded within the property tax levy limit projected for FY10.

There are several changes to the budget numbers that were established by the Finance Committee Guidelines issued on November 30, 2008. These Guidelines were based on the projections made by the Finance Director and presented at the Joint Coordination Meeting on September 18, 2008. The operating budget Guidelines established by the Finance Committee are, of course, unchanged:

• Town Government operations	\$17,672,013	+ 2.8%
• Concord Public Schools, K-8	\$27,699,200	+ 1.8%
• Concord-Carlisle High School		
- Concord's operating assessment	\$13,322,885	+ 4.1%
TOTAL OPERATING BUDGETS	\$58,694,098	+ 2.6%

Due to new information since the November Guidelines were established, two expenditure items outside of these operating guidelines have been revised. First, because the budget process at Minuteman Technical High School is proceeding concurrently with Concord's process, the FY10 annual assessment from the School has not yet been finalized. Still, it is expected that the assessment will be \$592,000, \$57,000 greater than estimated in November. Second, as a result of a stormier than expected winter, the amount budgeted to cover any Snow and Ice deficit has been increased by \$79,730 to \$239,730. With these changes, the FY10 total General Fund spending plan has increased from \$75,104,457 to \$75,241,186.

On the revenue side, several items have been revised to reflect new information about the worsening economy. Although the State government budget has not been set at this time and the amount of state aid for Concord is not known, the Governor is proposing a reduction of \$375 million in State Aid to cities and

towns in FY10. Accordingly, this budget is being prepared to take into account a decrease of as much as \$596,000 in aid to Concord, a cut of 13.3%. In addition, with short-term interest rates expected to be at historic low levels through FY10, I have revised the Interest Earnings revenue estimate down from an initially estimated \$600,000 to \$300,000, which projects an average earnings rate of just 1.25% for the next fiscal period. A downward adjustment of \$50,000 (or 12.5%) has also been made to the expected revenue from the issuance of Building Permits, as there has been a marked slowdown in permit activity, especially during the last few months.

In the November Guideline, the total FY10 budget plan was projected to be below the levy limit and there was \$937,368 of unused levy capacity. The budget that I am presenting now incorporates increases in expenditures of \$136,730 and decreases in revenues of \$800,638 for a total budget which remains at the projected FY10 levy limit. This Proposed Budget now projects NO unused levy capacity at the Finance Committee's Guidelines.

With these adjustments, the total FY10 General Fund spending plan of \$75,241,186 is an increase of 2.8% from FY09. This total 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 8 of the Warrant for the 2009 Annual Town Meeting; \$31,953,132;
- 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 9 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 10, Item #1 of the Warrant; \$13,862,124; (It should be noted that the Finance Committee Guideline is \$220,049 less than the present recommendation of the Regional School Committee.)

- 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 10, Item #2 of the Warrant; the assessment amount has been estimated as \$592,000, 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 FY10 financial plan, included in this document in Section V (accounts 101-103: state assessments, an allowance for a possible deficit in the snow removal account, and an allowance for the Overlay Reserve to cover property tax exemptions and abatements related to the FY10 property tax levy that may be granted by the Board of Assessors); \$1,134,730.

SUMMARY OF THE PROPOSED FY10 GENERAL FUND SPENDING PLAN
Recommended by the November 2008 Finance Committee Guidelines
Revised January 2009

	FY2010 Proposed	percent change from FY2009
Town government operations	\$ 17,672,013	2.8 %
• <i>accounts #1-36 in this document</i>		
Concord Public Schools (K-8)	\$ 27,699,200	1.8 %
• <i>account #104 in this document</i>		
Concord-Carlisle High School		
<i>operating assessment</i>	\$ 13,322,885	4.0 %
<i>debt assessment</i>	\$ 539,239	- 21.1 %
• <i>account #105 in this document</i>		
Minuteman Vocational Technical H.S.	\$ 592,000	21.6 %
<i>estimated assessment</i>		
• <i>account #106 in this document</i>		
Joint Accounts, Town and CPS	\$ 14,281,119	5.2 %
• <i>accounts #37-41 in this document</i>		
accounts not appropriated by Town Meeting	\$ 1,134,730	-10.3 %
• <i>accounts #101-103 in this doc.</i>		
GRAND TOTAL	\$ 75,241,186	+ 2.8 %

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.

The Guidelines of the Finance Committee were based upon resource estimates for FY10 made in September 2008. In November, the Finance Committee issued its Guidelines for FY10 town and school budgets. As noted above, with new information, I have incorporated certain revenue and expenditure changes. The Finance Committee is aware of these changes but has not yet formally revised its November Guidelines.

The Town Government budget of \$31,953,132 submitted by the Town Manager meets the Finance Committee Guidelines. In view of the current economic situation and impact of probable reductions in state aid, this is a noteworthy accomplishment on the part of the Town's department heads and staff.

Tax Impact

At the FY10 forecasted property tax levy, the tax rate impact is projected to be +4.07%. At the median single family residence value of \$707,100, this represents an additional \$342 in total or \$48 for each \$100,000 of assessed value.

While the "Proposition 2 ½" limit permits a 2.5% increase each year in the prior Levy Limit, the projection for FY10 also incorporates the use of the unused levy limit capacity carried forward from FY09 (\$916,771) and the increased debt service cost for debt-financed projects already approved as exclusions from the levy limit by previous votes of the town electorate (an added \$141,422 for FY10).

• Tax levy increase from 2.5% allowed Levy Limit change	\$1,490,852	
• Unused Levy Limit from prior year	\$ 916,771	
• Debt exclusion levy increase	<u>\$ 141,422</u>	
Change in tax levy from existing taxpayers	\$2,549,045	(+4.07%)
• Tax Levy projected from New Growth	<u>\$ 600,000</u>	
Total budgeted change in tax levy	\$3,149,045	(+5.03%)

Revenues and Expenditures Highlights

Revenues

The resource projections on which the November Guidelines and January revisions were based will be subject to further review and change prior to the April Town Meeting. Several key revenue elements are discussed here:

State Aid

In FY09, state aid comprised 6.1% of total budgetary resources. On January 28th, the Governor released his budget proposals, which included cuts in Lottery and Additional Assistance aid to cities and towns amounting to \$375 million. Concord's reduction would be \$500,000. The reduction for the Concord-Carlisle Regional High School would be about \$28,000. Additionally, the Governor announced current year state aid cuts of \$125 million, an immediate cut of \$140,000 to Concord (with no change to the Regional High School).

The legislature had previously granted the Governor authority to make the FY09 mid-year cuts, and the loss of \$140,000 will be managed without the expectation of staff layoffs either at Town departments or at the Concord Public Schools (grades K-8) Department. The reduction proposed by the Governor for the next fiscal year is more substantial but is within the amount that this proposed \$75.2 million budget anticipated. Still, it should be understood that the State Legislature will also have a say in determining the extent of the cuts and that changes having a greater impact on the Town of Concord and the Concord-Carlisle High School District may be made before the next state budget is finally enacted. Due to this uncertainty, my revenue estimates allow for a state aid reduction of \$596,000 from the FY09 level (as previously stated), slightly more than is presently indicated.

Motor Vehicle Excise Tax

The current economic crisis has had an impact on automobile sales. Due to the tight credit markets and general uncertainty about the financial situation, individuals have postponed making new purchases. Since the local motor vehicle excise tax is based upon a rapidly declining depreciation schedule, our billable total is very sensitive to any drop-off in the registration of new vehicles. In FY08, the Town received \$2,323,178 from this tax. The FY10 budget is forecasting that revenue from motor vehicle excise tax will be reduced to \$2,100,000. This source of revenue will be monitored carefully.

Interest Earnings

In the recent past, we have had the opportunity of investing Town funds at abnormally high short-term interest rates. The treasury has been able to take prudent advantage of this fact to produce record interest earnings for the General Fund. During this decade, interest earnings moved from a low point of \$264,081 earned in FY04 (when short-term interest rates were briefly below 1%) to a level of \$1,241,697 earned in FY08. However, the pendulum has moved back in the other direction. With short-term interest rates back at historically low levels, I am proposing that the amount expected from interest earnings be reduced from \$750,000 in FY09 to \$300,000 in FY10.

Building Inspection Fees

Finally, it is worth noting that I am adjusting revenue from building and inspection permits downward by \$50,000 from the FY09 budget level. Although the level of construction activity has remained stronger than that in many surrounding communities, information gathered during the last few months indicate that a slowdown is occurring and may be with us through most or all of FY10.

Revenue forecasts for the FY10 budget will remain conservative and this approach has been very appropriate in the current economic climate.

Expenditures

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

The "Snow" account

As of the writing of this letter, Concord has experienced greater snowfall than usual and the cost of snow removal this winter is expected to be greater than the current year \$452,000 appropriation. The sum of \$239,730 is presently earmarked in the FY10 Plan in anticipation of a current year deficit. Although any deficit in FY09 must be raised in the FY10 tax levy within the levy limit, the total amount of \$452,000 budgeted in FY09 and \$239,730 available in FY10 may be sufficient to get us through this winter. Still, if the amount needed for snow and ice removal during this winter exceeds the level of \$691,730, this event could force operating budget cuts very late in the annual budgeting cycle.

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. 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 eliminate unneeded overhead expense through our leadership of the 17 towns and regional school districts now in the Minuteman Nashoba Health Group. The FY10 Group Insurance budget is proposed to be increased by \$307,600 (+8%).

Post-Retirement Health Insurance Liability

While our General Fund revenues can be expected to increase annually only in the 3-4% range, health care costs have been rising significantly for the past six years and are expected to continue to rise at least 5% to 10% annually beyond FY10. Approximately a quarter of the total group health insurance expenditure is for retirees. New governmental accounting standards that will become effective for financial reporting as of June 30, 2009 will 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, not that it must immediately be added as an item in 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 2007 Special Town Meeting of November 5th approved the filing of a Home Rule petition that would 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 proposition. This legislation was enacted as Chapter 185 of the Acts of 2008 with the active support and assistance of Representative Cory Atkins.

Energy Prices

Energy prices remain extremely volatile. In the FY09 budget, the Town made allowances for the price increases that had been seen during FY08. Accordingly, as compared with the current year budget, the FY10 budget does not greatly increase the allocation for gasoline, diesel, and natural gas cost. However, price levels will need to be continuously monitored. Budgets for electricity cost are also under pressure as the Concord Municipal Light Plant faces higher power supply costs after October 2009 with the expiration of the Constellation contract.

These and other changes in forecasted revenues and expenditures will need to be reviewed before final FY10 recommendations are made in March by the Finance Committee and final revisions are made in April prior to the Town Meeting.

Budget Priorities

By state statute and town by-law, we are required to present a balanced budget to Town Meeting. An increase in expenditures in one area must be matched with either a corresponding decrease in expenditures in another area or a corresponding increase in revenues. Although previous Proposition 2 ½ overrides have played an important role in helping the town maintain the services provided to the public, we have, nevertheless, had to constrain funding for many operating and capital accounts for which there is a continuing need. The major budget priorities and funding objectives are discussed below.

Staff Compensation

The proposed FY10 budget will provide, for non-union employees, an adjustment of 2% on the pay scales effective July 1, 2009 and a merit increase averaging 2 ½% based on written performance evaluation at each employee's review date. 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.

The Salary Reserve line item of \$550,000 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, 2009.

Capital Outlay

Another area that requires constant vigilance in the budget process is the capital outlay group of accounts. This 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. 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 used 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.

Due to budget constraints, I am proposing a decrease of \$95,500 in capital outlay funding as compared with FY09. Nevertheless, this amount of \$1,370,500 for FY10 capital outlay items represents 7.8% of the town government budget (\$17,672,013) and 1.9% of the total budget net of excluded debt (\$71,168,428).

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 \$135,000 proposed for FY10. 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 Fund, the Town is embarking on an effort to make Town-owned buildings more energy efficient. Accordingly, the Town has contracted with an energy audit firm to review and analyze the energy efficiency of 9 Town buildings and 3 Concord Public School buildings. (The Alcott, Thoreau, and Willard elementary schools have not been included in this audit because they either have been recently built or are in the process of being built and should have energy efficient systems; the Concord-Carlisle Regional High School is not a Town-owned building and so it does not qualify to receive funds from the Sawyer Trust). The energy audit will provide us with better information for making decisions on how to use the Sawyer Trust Fund money.

Initiatives on Performance Measurement and Efficiency

Throughout this document, the reader will note reference to the results of scientific statistically valid citizen surveys conducted in September 2006 and November 2008. It is our intent to continue on a biennial basis to monitor public opinion and citizen ratings of town services and priorities in this rigorous manner. I believe this will provide Town management with effective feedback and guidance for future improvement.

In October 2008, I established an Employee Efficiency Team, comprised of mid-level professional, administrative and laboring staff, charged with identifying possible service reductions, efficiency improvements and revenue opportunities. This 15-member team, with representation from all departments, will report periodically to the Senior Management Team (the Town Manager and the eight department heads). The Employee Efficiency Team has been directed to solicit ideas and suggestions from all town staff, and I expect that this Team will be an ongoing component of the Town's organization, not simply a response to a crisis period.

Conclusion and Acknowledgments

The Guideline budget of \$17,672,013 for the Town Government Operating Budget (accounts 1 – 36 of Article 8) provides for all critical town operations and will allow the town’s professional staff to continue to offer the highest quality services.

I would like to express my sincere appreciation to all of the Town’s board and committee members, as well as the Town’s staff, who contributed to the development of this budget document. Special thanks are due to Finance Director Anthony Logalbo. Thanks also go to Budget and Purchasing Administrator Jon Harris, Budget Analyst Adam Roberts, and Assistant Town Manager Douglas Meagher, who dedicated many hours to bringing this budget to completion.

Sincerely,



Christopher Whelan
Town Manager

Cc: Finance Committee members
Committee Chairpersons
Town Department Heads

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