

## **Section II**

### **Introduction & Background**

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## Budget Book Guide

To assist the reader in navigating this budget book, we are providing this guide outlining the organization of the budget document. This guide can be used along with the Table of Contents to identify the location of a particular area of interest. Following is a description of each section of this budget book.

- Section I is the Town Manager's Letter of Transmittal. This letter is an introduction to the budget book by the Town Manager. Included in the letter is information about the Finance Committee's FY2007 budget guidelines at the levy limit and at the recommended override amount for the Town Government, Concord Public Schools, and Concord-Carlisle Regional High School. In addition, the letter highlights some of the major changes in the budget for FY2007.
- Section II – Introduction & Background, of which this guide is a part, contains materials on how to read and understand the budget book. It also contains background information: a community profile of Concord; the financial policies of the Town; descriptions of the various funds utilized by the Town; an explanation of the bases of accounting and budgeting, and their differences; and the Finance Committee's FY2007 budget guidelines memorandum. There are also a narrative, time-line chart, and calendar describing the budget process. Finally, there is a budget organization element that has information on the types of accounts that are shown in the budget detail sections (Sections IV, V, and VI).
- Section III is the Budget Summary. Here, with tables and charts, summary information about the budget as a whole is presented. This information includes the budget summary at the override level, a list of highlighted changes to budget accounts, a table showing the Town's staffing history, and a 5-year plan for capital outlay and debt authorization.
- Sections IV, V, and VI show the budget detail for each account, represented by the line item number appearing in the budget warrant article. A line item represents an account for a department, division, or program of the Town. For each account, the budget detail section provides a narrative page that describes the account and a numbers page that outlines the budget for the account. Section IV contains Town Government budget accounts (Line Items 1-48); Section V has the unappropriated accounts (Line Items 101-103); and Section VI includes the education accounts (Line Items 104-106).
- Section VII, the Appendix, contains the overall organization chart, and department support statements and organization charts; and a glossary of terms.

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# **TOWN OF CONCORD**

## **COMMUNITY PROFILE**

### **HISTORY**

Purchased from the local Indians and founded in 1635, Concord was the first interior, non-tidewater town in Massachusetts Bay Colony. Though the origin of its name is unknown, one theory is that it derived from the peaceful manner in which the colonists and Indians reached agreement on its purchase and settlement. In fact, relations between the colonists and Indians during the 1600's were such that Concord was largely spared any hostile Indian actions during King Philip's War, which began in 1675. By 1775 Concord had evolved from a frontier town into a prosperous regional center with a mixed society, including small yeoman farmers, affluent gentry, and immigrants from Italy and Norway. In 1775 the town was witness to the famous Battle of Concord, which, along with the Lexington skirmish preceding it, ushered in the Revolutionary War for Independence. In the 19<sup>th</sup> century Concord became the leader of American literature and philosophy. Louisa May Alcott, Bronson Alcott, Ralph Waldo Emerson, Henry David Thoreau, and Nathaniel Hawthorne, among others, all lived in Concord.

As the 20<sup>th</sup> century progressed Concord evolved into primarily a suburban, residential community, with a mix of non-residential activities. The community has focused on preserving its rich Colonial and literary history as a means of promoting tourism and diversity in its economy. Diversity of population is also a major community focus. Concord is a part of the Boston Metropolitan Statistical Area, and a member of the Metropolitan Area Planning Council.

### **GEOGRAPHY**

The Town of Concord in Middlesex County in eastern Massachusetts is located approximately 18 miles west of Boston, 34 miles northeast of Worcester, and 215 miles northeast of New York City. It is bordered by the towns of Maynard and Acton on the west, Carlisle on the north, Bedford and Lincoln on the east and southeast, and Sudbury and Wayland on the south. Of Concord's 25.89 square miles of gentle hills, valleys, fields, and ponds 24.92 square miles are land area. Concord is situated at the confluence of the Assabet and Sudbury Rivers, which join to flow northeast as the Concord River.

### **TRANSPORTATION AND ACCESS**

Access to Concord is excellent, with east-west Route 2 traversing the town, and Route 128/95 (circumferential to Boston) just to the east, Interstate 90 (the Massachusetts Turnpike) several miles to the south, Interstate 93 several miles to the northeast, and Interstate 495 several miles to the west. In addition, there is regular commuter rail service from Boston to both Concord and West Concord, along with freight rail service. The Massachusetts Bay Transportation Authority (MBTA), of which Concord is a member community, provides a para-transit bus service for the elderly and disabled, while Yankee Lines provides bus service (1 trip daily) to Boston. Hanscom Field, a joint civil-military airport, is located in neighboring Bedford, and provides limited commercial air services.

### **FORM OF GOVERNMENT; GOVERNMENTAL SERVICES**

Local legislative decisions are made by an open Town Meeting consisting of registered voters. Participation in Town Meeting, and volunteerism, are relatively high. Subject to town meeting decisions, and pursuant to the Town Charter adopted in 1956, the Town Manager handles the daily affairs of the Town of Concord and of the Municipal Light Plant. Matters of policy are referred first to the Town's five-member Board of Selectmen. Selectmen are elected at-large and serve three-year staggered terms. The Concord Municipal Light Plant is managed by a five-person board appointed by the Town Manager for staggered three-year terms. The Water/Sewer Division is part of the Public Works Commission managed by a five-person Board of Commissioners appointed by the Town Manager for staggered three-year terms. Local

property taxes are assessed by a board of five assessors appointed for staggered three-year terms by the Town Manager with the approval of the Board of Selectmen.

Concord provides a broad range of general governmental services, including police and fire protection; disposal of garbage and rubbish; water and sewer, including a secondary treatment plant; electricity; public works; parks and recreation; a community center; libraries; and a land conservation program. The Concord Housing Authority provides low-income and elderly housing.

## **EDUCATION**

Concord's school system consists of the Concord Public Schools, grades kindergarten through 8, and the Concord-Carlisle Regional High School, grades 9 through 12. Concord contributes about 70% of the enrollment in the regional high school. Total enrollment in this excellent school system is about 3,300, and has been slightly increasing since 1998. Technical education at the high school level is provided by the Minuteman Regional Vocational Technical School District, located in Lexington. Additionally, a number of fine private schools operate in Concord: Nashoba Brooks School, Concord Academy, the Fenn School, and the Middlesex School.

## **POPULATION**

The 2000 Federal Census population figure for Concord is 16,993, while a more recent local census figure is 17,076, resulting in a population density of about 660 people per square mile. These figures represent a slight decrease from the 1990 figures. While population figures have remained stable, the number of housing units since 1990 has increased by 4%. These numbers result in a decrease in average household size from 2.9 persons per household in 1980 to 2.62 in 2000. Approximately 43% of the town's population in 2000 was between 25 and 54 years of age, with the largest age category being 35-44 years of age. The median age has increased 10% from 38 to 42.2, due in part to the expansion in residential nursing homes and assisted living facilities in the town.

## **HOUSING**

Within Concord's 26 square miles of territory are approximately 16,000 acres—over 90%—of residentially zoned land, and 600 acres of commercially zoned land. About 45% of the land is developed; approximately 32% of the land is permanently protected open space in the form of private conservation land, trust land, and municipal, state, and federal park, conservation, and agricultural lands. Approximately 5,000 acres—about 28% of the land—have not been developed or permanently protected; the majority of these acres are zoned for one- and two-acre residential development. Approximately 21 acres of commercially zoned land remain undeveloped.

Concord's housing stock is in excellent condition. Over half of the housing units have been built since 1950. Those constructed before 1950 are well maintained due to the affluence of the owners, the high value of housing and land, and the increasing turnover rate. Concord has a low vacancy rate of approximately 3.3% and a high owner-occupancy rate of nearly 78%, two factors that add to the high level of maintenance of housing stock.

The rate of residential development in Concord has been relatively stable since 1993, with the number of building permits issued averaging about 30 units per year. With fewer developable lots available, the trend has been towards larger, more expensive single-family homes. Single family homes account for 80% of Concord's housing units. As of January 1, 2005 the average single-family home value was \$909,447, while the median value was \$712,100. According to the 2000 Federal Census, Concord's median value was nearly 2.5 times the value reported state-wide (\$453,400 versus \$185,700).

Such high values, coupled with a real concern for preserving diversity, have led Concord to take many actions to preserve and increase affordable housing. The Town has enacted comprehensive plans, an inclusionary housing bylaw, and a cluster development bylaw, all designed to preserve or increase affordable housing. In addition, the Town has converted a former school building into affordable units, and continues to participate in many other such efforts with the Local Housing Partnership, the Concord Housing Trust, and private developers. A key state requirement is that 10% of the housing stock of every town be affordable.

## **ECONOMIC DEVELOPMENT**

As with population diversity, Concord has long recognized the importance of preserving and enhancing its economic diversity. In 1928 the Town first adopted zoning that included business and industrial districts. Since that time the Town has continued to adopt or expand zoning and comprehensive planning designed to provide an optimum mix of residential and non-residential uses. In addition, the Town has invested considerable capital in providing infrastructure to serve its industrial areas. From 1990 to 2000, the number of firms in Concord reporting to the Massachusetts Department of Employment and Training increased approximately 22%, from 779 to 948. In 2003, there were 942 firms with an average monthly employment of 12,294 and an average weekly wage of \$1,043. Since 1990 Concord has experienced healthy growth of its medical/professional offices and facilities, and of its commercial office and retail space. The Town works closely with the Chamber of Commerce and the Concord Business Partnership to continue these trends. Working together, the community has done much to foster and enhance Concord's three distinct business districts through aesthetic and infrastructure improvements: street reconstruction, underground wiring, tree planting, municipal parking lot improvements are all ongoing projects. In addition, the new visitor center and restroom facility was completed in the summer of 2002. All of these activities and efforts are designed to enhance Concord's reputation and image as a vibrant, diverse community.

## **INCOME AND EMPLOYMENT**

Concord's population is relatively affluent. Median family income in 2000 was \$115,839, and per capita income was \$51,477 compared to \$61,664 and \$25,952, respectively, for the state as a whole. According to the state Department of Employment and Training, in July of 2004 Concord had a total labor force of 8,443, of which 8,177 were employed and 266 or 3.2% were unemployed, as compared to 4.5% unemployed for Middlesex County and 5.4% for the state. In fact, from 1994 through 2004 Concord has experienced a consistently low unemployment rate compared to Middlesex County and the state.

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# **TOWN OF CONCORD**

## **FINANCIAL POLICIES**

### **OVERVIEW**

In order to ensure its financial well-being and fiscal stewardship, the Town Manager has established the following policies and procedures that are financially prudent and in the Town's best economic interest.

Overall, it is the policy of the Town of Concord that financial management be conducted with the objectives of providing municipal service in an efficient, effective, and consistent manner that aligns with public policy goals as set forth by the Board of Selectmen and the Annual Town Meeting. In adherence to this policy, the Town shall pursue the following objectives:

- to set forth operational programs that minimize the cost of government to the extent consistent with services desired by the public;
- to instill public confidence in the Town's financial management;
- to protect and enhance the Town's credit rating and prevent default on any municipal debts;
- to maintain effective financial management that conforms to generally accepted accounting principles for governmental entities as set forth by the Governmental Accounting Standards Board (GASB);
- to simplify, clarify, and modernize the financial systems of the Town as the need occurs;
- to provide safeguards to ensure the quality and integrity of the financial systems.

### **ACCOUNTING, AUDITING, AND FINANCIAL PLANNING POLICIES**

1. The Town shall utilize accounting practices that conform to generally accepted accounting principles as set forth by GASB. In accordance with GASB Statement 34, the Town shall track, report, and depreciate capital assets as required.
2. All Town Government funds shall be placed at the highest possible rate, taking into account safety, liquidity, and yield, subject to the constraints established by State law and in compliance therewith.
3. An annual audit shall be performed by an independent public accounting firm.
4. A management letter, a list of areas for potential improvement in the Town's financial management, shall be provided by the independent public accounting firm. Additional findings and recommendations may be communicated in a separate letter.

### **GENERAL FUND POLICIES**

1. The annual operating budget shall be balanced. A "balanced budget" for any given fund is defined as a plan of financial operation in which the estimate of proposed expenditures for a given period is less than or equal to the proposed means of financing these expenditures (from various sources of funds or revenues). In short, for a budget to be balanced, proposed expenditures shall not exceed projected resources for the period.

2. The Town shall explore the utilization of as broad a diversity of revenues as possible under state law to ensure the Town's ability to handle fluctuations in the various sources of revenues with minimal negative impact on the overall budget.
3. One-time revenues shall not be used to fund ongoing expenditures. One-time and unpredictable revenues shall be utilized to fund one-time or intermittent expenditures, or shall be added to reserves.
4. In accordance with state law, debt shall not be used to fund current operating expenditures.
5. Adequate maintenance of reserves is a priority. Free cash, which is the available undesignated fund balance in the General Fund, shall be maintained at a level no less than 5% of the total budget.
6. The Reserve Fund, an appropriated contingency account that is allocated during the year by vote of the Finance Committee pursuant to a request by the Town Manager, shall be used to provide financing for extraordinary or unforeseen expenditures, as required by state law.
7. Property valuation for the purpose of taxation shall meet the annual market value standards set by the state Bureau of Local Assessment.
8. The Tax Collector shall follow a comprehensive policy of collecting property tax revenues. An average collection rate of at least 98 percent of current levy shall be maintained.
9. Charges and fees for services, and other revenues, shall, to the extent feasible, reflect the full cost of the services, and shall be examined periodically (preferably annually) by each department as deemed necessary to respond to changes in the cost of services. Recommendations for charge and fee adjustments shall be provided by the Town departments to the Town Manager for action.
10. The Town shall avoid budgetary procedures that defer the recognition of current expenditures at the expense of meeting future year's expenditures, such as delaying the recognition of expenditure obligations until the next fiscal year.

## **CAPITAL BUDGET POLICIES**

1. A capital item shall be defined as a major, non-recurring expenditure involving one of the following:
  - a. Real Property – includes the purchase or lease of land, existing buildings and appurtenant structures, and fixtures attached to land and buildings.
  - b. Equipment – includes the replacement or addition of major items of equipment with a life expectancy of at least 2 years and a cost of at least \$5,000. Similar items can be bundled together.
  - c. Projects – include activities such as the following:
    1. Construction of new buildings or facilities (including architectural, engineering and related fees);
    2. Improvements or major repairs (costing \$5,000 or more) of existing buildings or facilities aside from routine maintenance;
    3. Studies or other activities (costing \$5,000 or more) that either relate to future "brick and mortar" projects or are part of a multi-year program of infrastructure improvements;
    4. An annual sum available for routine building improvements, renovations, or repairs.
2. The Town Manager shall prepare a 5-year capital improvement program annually.
3. For the Town Government and Concord Public Schools, the total budget allocation within the levy limit for capital needs (cash capital outlay, principal and interest repayment, related debt issuance

costs, and short-term interest expense) shall be in the range of 7-8% of the total General Fund budget.

4. One-third of total capital needs (that is, of the above 7-8% allocation limit) shall be met from current resources, limiting the cost of borrowing to approximately 5% of the total General Fund budget.

#### **GENERAL OBLIGATION DEBT POLICIES**

1. As a general policy, the threshold for an item for debt financing shall be an expenditure of at least \$100,000 and a useful life in excess of 5 years.
2. The term of long-term debt shall not exceed the expected useful life of the capital asset being financed, and in general it shall not exceed 20 years.
3. A rapid debt repayment schedule shall be maintained, with a goal of 60% principal repayment within 5 years and 90% repayment within 10 years.
4. Debt supported outside the levy limit—that is, through a debt exclusion—may be above the 7-8% allocation limit, and may be structured for a longer repayment schedule; such debt shall be reserved for large capital improvements, generally those costing over \$1 million and bonded for 10 years or more.
5. For all debt exclusion items, the impact on property tax rates shall be calculated.
6. All debt of the Town shall be issued as general obligation debt. As a policy, debt for enterprises may be paid for from fee revenue rather than through taxes.

#### **ENTERPRISE FUND POLICIES**

1. Rates charged by an enterprise shall be designed to generate enough revenue to cover the full cost of the enterprise (including depreciation expense).
2. Renovation or replacement of an enterprise's capital assets shall be funded with current revenues. Capital assets associated with expansion of service may be funded through borrowing.

#### **GIFTS AND GRANTS POLICIES**

1. All gifts and grants shall be evaluated for suitability and consistency with Town policies.
2. All gifts and donations shall be managed and expended according to the wishes and instructions of the donor; all grants shall be managed to comply with the laws, regulations, and guidance of the grantor.
3. For amounts less than or equal to \$500, the Town Manager shall formally accept the gift. For amounts over \$500, the Board of Selectmen shall formally accept the gift.

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# Fund Descriptions

## Governmental Funds

Most Town functions are financed through what are called governmental funds. There are **four** types of governmental funds maintained by the Town: the General Fund, three Enterprise Funds, several Special Revenue Funds, and the Capital Projects Fund.

**General Fund:** The General Fund is the major operating fund of the Town government, and it accounts for the vast majority of Town operations. The General Fund is supported by revenues from real estate and personal property taxes, state and federal aid, excise taxes, investment income, fines and forfeitures, and fees and charges. Most of the Town's departments, including the schools, are supported in whole or in part by the General Fund.

**Enterprise Funds:** The Town maintains three Enterprise Funds: one for the Sewer Division of Public Works, one for the Water Division of Public Works, and one for the Concord Municipal Light Plant. In addition, the Solid Waste Disposal Fund, which technically is a Special Revenue Fund, is treated as an Enterprise Fund, but without any capital improvement activity. An enterprise operation is a business-type activity supported primarily by charges for services received. Funds raised from charges are dedicated to the specific purpose of the enterprise operation, and cannot be diverted to other unrelated uses. The concept of an enterprise operation also includes the maintenance of the capital facilities of the business. That is, fees for services are charged to recover not only the operating costs of the activity but also the "using up" (depreciation) of the capital investments supporting the service.

Budget and financial reports for enterprise operations utilize terms and concepts that differ significantly from those utilized for General Fund tax-supported reports that are the routine focus of public attention. The purpose of enterprise financial reporting is to measure with reasonable accuracy and consistency the net income derived from operations, and then to measure the availability and use of capital acquisition and construction financing. The presentation of the enterprise budgets utilizes budgetary terms and concepts, and the reporting structure found in the audited financial statements for the same enterprise funds. As such, the key measures are *Net Income* and *Capital Resource Availability*.

**Special Revenue Funds:** The Town maintains several Special Revenue Funds, which are used to account for those types of revenues that are legally restricted to being spent for a specific purpose (except expendable trusts, or major capital projects). These revenues must be accounted for separately from the General Fund for a variety of reasons, and do not necessarily follow the same fiscal year as the General Fund. In addition to the Solid Waste Disposal Fund, which is treated as an Enterprise Fund, Special Revenue Funds include the following types of funds:

1. **Revolving Funds:** Revolving Funds allow the Town to raise revenues from a specific service, and use those revenues to support the service without appropriation. Revolving Funds are established by statute or bylaw, and may require re-authorization each year at Town Meeting. The Town maintains a number of Revolving Funds, such as the Road Repair and Recreation Revolving Funds.

2. **Receipts Reserved for Appropriation:** These receipts are special revenues that are restricted to a specific use, but also require appropriation by Town Meeting, such as sewer betterment fees, monies from the sale of cemetery lots and graves, conservation wetland protection fees, and the proceeds from the sale of Town property.

3. **School Grants:** These grants account for several specially-financed education programs under grants received from the federal or state governments, including professional development, SPED early childhood development, drug-free school programs, and certain capital improvements.

4. **Other Intergovernmental Funds:** These funds account for several grants or monies received by the Town from the federal or state governments, including a variety of community policing grants, Chapter 90 highway monies, state election grants, state library aid, and various Council on Aging programs, such as “meals-on-wheels.”

5. **Other Special Revenue Funds:** These funds account for miscellaneous special revenues often involving private donations for a specific purpose, such as the Arts & Technology Education Fund, departmental gifts for police and fire, various Council on Aging programs, and Planning Board gifts from developers for infrastructure improvements related to proposed projects.

**Capital Projects Fund:** The Capital Projects Fund is used to account for monies used for the acquisition or construction of major capital facilities (buildings, roads, etc.) other than those financed by trust funds. The Town’s Capital Projects Fund is funded primarily by the receipt of bond proceeds resulting from the Town’s issuance of bonds for specific project grants, but may also be derived from private sources, grants, or transfers from other Town funds.

## **Fiduciary Funds**

Fiduciary Funds are used to account for assets held by the Town in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. Fiduciary Funds include expendable trusts, non-expendable trusts, and agency funds.

1. **Expendable Trusts:** Expendable Trusts are used to account for monies received by the Town in a trustee capacity where both the principal and the earnings of the fund may be expended. An example of an expendable trust fund is the Town’s Stabilization Fund.

2. **Non-expendable Trusts:** These trusts are used to account for trusts where the principal must remain intact (that is, cannot be expended). Generally income earned on the non-expendable trust principal may be expended in accordance with the conditions of the trust. An example is the Cemetery Department’s Principal Care Trust.

3. **Agency Funds:** Agency Funds are used to account for funds that are custodial in nature, and do not involve the measurement of operations, such as the fund for the Town’s deferred compensation plan.

## **Account Groups**

The last category of funds maintained by the Town is the General Long-term Debt Account group, which accounts for the balances due on long-term debt that the Town has financed.

# **Basis of Accounting & Basis of Budgeting**

## **Basis of Accounting**

The modified accrual basis of accounting is used by all governmental fund types, expendable trust funds, and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, that is, when they become both measurable and available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period, or soon enough thereafter to be used to pay liabilities of the current period. The Town considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

The accrual basis of accounting is utilized by non-expendable trust funds. Under this basis of accounting, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

## **Basis of Budgeting**

An annual budget is adopted by the Town Meeting for the Town's General Fund. Town Meeting approval is also required for certain capital projects and borrowing authorizations. The Town's General Fund annual budget is adopted on a statutory basis that differs in some respects from generally accepted accounting principals (GAAP). The major differences between the budget basis and GAAP basis of accounting are that:

1. Budgeted revenues are recorded when cash is received, except for real estate and personal property revenues, which are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
2. Encumbrances are treated as expenditures in the year the commitment is made. Also, certain appropriations, known as special articles, do not lapse, and are treated as budgetary expenditures in the year they are authorized.

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**Date:** November 18, 2005

**To:** Board of Selectmen  
Concord Public School Committee  
Concord-Carlisle Regional School Committee  
Mr. Christopher Whelan, Town Manager  
Dr. Brenda Finn, Superintendent of Schools

**From:** Mark Russell Prior, Chair of Finance Committee  
Susan Bates, Vice-Chair, and Chair of Guideline Subcommittee

**Re:** **Finance Committee Final FY07 Budget Guidelines**

As required by Town by-law, the Finance Committee, on November 17, 2005, approved Final Guidelines to support the budget development process for the fiscal year beginning July 1, 2006 ("FY07").

At the conclusion of FY05, it appeared that the fiscal pressure under which Town and School administrators have been operating might ease. During the budget process for FY06, the Board of Selectmen, the School Committees and the Finance Committee were able to come to agreement on budget levels that were supported by Town Meeting and subsequently by voters at the polls. FY05 revenues, including state aid, came in slightly higher than expected. Expenses came in slightly lower. Through careful management, Town and School administrators were able to make small investments in capital and programs that began to restore some of the cuts made in recent years.

However, since the beginning of FY06, the fiscal picture has darkened. Revenues are projected to decline. Expenses for FY06, in particular energy-related expenses, are rising and are likely to carry over into FY07. A shift in enrollments has occurred at CCRSD that will result in a large increase in the FY07 Concord assessment. Special education expenses at CCRSD are projected to grow due to an increase in students requiring out-of-district services. Also, Town and School personnel are straining to meet state and federal mandates, as well as citizen demands for additional or more effective services, without increased personnel resources.

Concord citizens have been very supportive of both the Town and the Schools. In each of the past five years, voters have supported Proposition 2½ overrides for Town and School budgets. This support, however, has not been without cost. Concord taxpayers, facing an economic situation similar to that of the Town and Schools, have been confronted with steadily increasing property tax bills.

Monies approved in past override votes have been well spent. By minimizing growth and searching for efficiencies in business practices, Town and School administrators have been able to preserve important programs and services during a very difficult financial downturn.

In early October and then again in November, Town and School administrators presented their views of the fiscal needs and issues that Concord will be facing in FY07. The Finance Committee commends administrators for the cautious budget management approach displayed during the guideline process.

The Finance Committee has approved two Proposition 2½ guidelines; a levy limit guideline and an override guideline. The levy limit guideline 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 guideline represents the Finance Committee's recommendation on a level of funding that would allow Town and School administrators to responsibly preserve town and school programs and services, while at the same time minimize the burden on taxpayers.

### Levy Limit Guideline

Within the Proposition 2½ Levy Limit, the Finance Committee recommends the following budget guideline for operating budgets:

	<b>FY06 Final Budget</b>	<b>FY07 Levy Limit Guideline</b>	<b>\$Change</b>	<b>% Change</b>	<b>% of Total</b>
Town operations	\$14,831,000	\$15,315,827	\$484,827	3.27%	29.5%
CPS	\$24,285,000	\$25,078,354	\$793,354	3.27%	48.3%
CCRSD assessment for operations	<u>\$10,817,878</u>	<u>\$11,513,375</u>	<u>\$695,497</u>	6.43%	22.2%
<b>Total</b>	<b>\$49,933,878</b>	<b>\$51,907,556</b>	<b>\$1,973,678</b>	<b>3.95%</b>	<b>100.0%</b>

Resource and expense projections suggest that \$1,973,678 is available within the Proposition 2½ Levy Limit. This represents an increase of 3.95% over FY06.

Due to an unusually large 2% shift in the enrollment ratio at Concord-Carlisle High School, the Concord portion of the assessment increases by \$341,253. After this increase is subtracted from available levy limit funds, \$1,632,415 remains available to divide across Town and School budgets. This would represent an increase of about 3.3% over FY06.

Information presented in the October 5 and October 13 guideline meetings by the Town Manager and the Superintendent of Schools suggested that the highest priority needs expressed will have roughly the same impact on Town and School budgets. As a result, the Finance Committee decided that in setting the preliminary Levy Limit Guideline available monies would be distributed in a manner that would allow the Town, CPS operating budgets to increase proportionately by an approximately equal amount of 3.27%. The CCRSD assessment for operations increases by 6.27% due to the allocation of funds to address the enrollment ratio change. The Concord assessment at the Levy Limit Guideline permits a 3.74% increase in the CCRSD operating budget.

### Override Guideline

At the Proposition 2½ override guideline level, the Finance Committee recommends the following override budget guideline for operating budgets:

	<b>FY06 Budget</b>	<b>FY07 Override Guideline</b>	<b>\$Change</b>	<b>% Change</b>	<b>% of Total</b>
Town operations	\$14,831,000	\$15,648,414	\$817,414	5.5%	29.5%
CPS	\$24,285,000	\$25,460,285	\$1,175,285	4.8%	48.1%
CCRSD assessment for operations	<u>\$10,817,878</u>	<u>\$11,858,857</u>	<u>\$1,040,979</u>	9.6%	<u>22.4%</u>
<b>Total</b>	<b>\$49,933,878</b>	<b>\$52,967,556</b>	<b>\$3,033,678</b>	<b>6.1%</b>	<b>100.00%</b>

During the guideline development process, Town and School administrators presented nearly \$1.5 million in high priority needs that would not be funded within the anticipated FY07 levy limit. Funding all of these needs would require an additional 2.8% increase above the 4.8% property tax increase already planned at the levy limit.

In addition to salaries for existing staff, the primary cost drivers of the property tax increase include rising costs of special education, debt service, energy, and health care. Also a factor was the CCRSD enroll-

ment ratio change. Because these costs are unavoidable, funding would have to come from decreases to other accounts. These funding shifts would have a significant and negative impact on Town and School services.

After thorough analysis and extensive discussion, the Finance Committee voted to recommend an override guideline that would increase the property tax impact by two percent above the levy limit monies available under Proposition 2½, and proposed that the funds be allocated in proportion to the identified needs presented by the Town and Schools. If supported by voters, this override would make available an additional \$1,060,000 for operating budgets. Although this amount does not meet anticipated needs 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 to other accounts.

### **Key Assumptions**

The Finance Committee assumed that total state aid to Concord would essentially be level to that provided in FY06, that interest earnings would decrease by approximately \$150,000 and that other local receipts would decrease by approximately \$140,000.

To support this Levy Limit guideline, the Finance Committee recommends that **\$500,000** be allocated from **Free Cash** to reduce the FY07 Property Tax Levy.

### **Free Cash Requirements**

Based on FY05 financial results, including Town revenues, state aid, and unspent appropriations, the Finance Committee estimates a Free Cash balance of approximately \$4.5 million as of June 30, 2005. This amount is still only an estimate; the Free Cash level has not yet been certified by the state. The Finance Committee's policy is to reserve a minimum of 5% of the total annual budget in Free Cash. Under this policy, the Committee recommends reservation of about \$3.3 million of Free Cash, anticipating a total budget of approximately \$66 million.

The Finance Committee has decided to recommend the allocation of \$500,000 at this time to reduce the FY07 property tax levy. After this allocation, approximately 1.1%, or \$700,000 would remain available to address unanticipated needs that arise as the current fiscal year progresses.

### **Property Tax Impact**

The impact of the Levy Limit Guideline on the property tax levy is an increase of approximately **4.8%** for existing taxpayers. At the override guideline level the increase would be approximately **6.8%** for existing taxpayers. The Finance Committee assumed that new growth would result in additional property tax revenue of approximately \$400,000 in FY07.

### **Other Assumptions**

Total General Fund revenue and expense estimates were based on documents presented by the Town Finance Director at the October 20, 2005 Finance Committee guideline meeting. Of the projected \$65,317,223 total FY07 revenue at the Levy Limit, \$56,099,348 or 86%, is expected to come from the property tax levy.

The Town received official notification of FY06 state aid estimates in July. Because the final state aid estimate was higher than expected, a small amount of excess levy limit capacity was created. This excess capacity has been fully allocated in the FY07 Levy Limit Guideline.

In setting the guidelines, the Finance Committee assumed essentially level funding in total state aid from FY06 to FY07. The Finance Committee will continue to monitor the state aid situation throughout the budget season and may choose to revise the Levy Limit Guideline if circumstances warrant.

A new state formula for reimbursement of Special Education expenses, called Circuit Breaker, went into effect in FY04. This formula originally called for reimbursement of 75% of the qualifying expenses above a state-defined threshold. Funded in FY04 at 42%, in FY05, this account was funded at 72%. FY06 and FY07 reimbursements are projected at 72%. As reductions in this funding would have a great impact on CPS and CCRSD budgets, the Finance Committee will continue to monitor this area of concern.

The assessment for the Minuteman Regional School District is unknown at this time. An increase of 10.1% was used for guideline calculation purposes. The Finance Committee will continue to monitor this situation.

### **Conclusion**

The fiscal environment in which the Finance Committee developed its guidelines for FY07 is characterized by a number of significant factors. There is no indication at this time that Concord's non-property tax revenues will improve in upcoming years, or that rising fixed costs will decrease. In addition, the rising cost of debt for capital projects has begun to compete with operating budgets for the same limited pool of funding. In the absence of new revenues, we must expect further reliance on property taxpayers to support necessary operating and capital expenditures.

Past Proposition 2½ overrides have been well justified and voter supported, and approved funds have been prudently spent. However, the Finance Committee recognizes the burden created by the cumulative effect of these overrides. As the FY07 budget development process progresses, the Finance Committee hopes that the tax impact of the recommended FY07 budget guideline can be reduced.

As we move forward into the budget development process, the Finance Committee requests that Town and School administrators continue to maintain fiscal discipline, work creatively to contain growth, and operate within Finance Committee guidelines to develop budgets that may be sustained with limited resources in upcoming years.

# Budget Process

## Overview

The Town of Concord operates under state statutes in general; under the Town Charter as amended, which established the present Selectmen-Town Manager form of government; and under various Town bylaws. The legislative body of Concord is an open Town Meeting, in which all voters registered in Concord are permitted to participate. Town Meeting has the sole authority to appropriate funds for the operating budget and capital projects, except for specific instances where statutes or regulations do not require appropriation. Any amendments to appropriations adopted at a Town Meeting require subsequent approval at either a regular Town Meeting or Special Town Meeting. Only the Town Meeting can authorize the transfer of funds between appropriation accounts within the Town Government budget (Article 8, Line Items 1-48 on the 2006 Annual Town Meeting Warrant). The procedures for Town Meetings are specified in the Town bylaws. During the year, only the Finance Committee can authorize additions to appropriation accounts by transfer from the appropriated Reserve Fund (Article 8, Line Item 40, proposed at \$200,000).

For the Concord Public Schools budget, state law gives the School Committee the power to authorize transfers **within** the appropriation total voted by Town Meeting. The regional high schools both are separate political jurisdictions of the Commonwealth that can assess member municipalities but do not have separate taxing powers. The regional school committees have the power to authorize transfers within their adopted budgets.

Under the Town Charter and Town bylaws, the Town Manager is required to submit a proposed budget to the Board of Selectmen. The Board of Selectmen in turn is required to transmit to the Finance Committee a copy of the Town Manager's Proposed Budget, together with its recommendations. Finally, the Finance Committee must make budget recommendations to Town Meeting.

Like prior budgets, this FY2007 budget has been developed based upon projected assumptions of available revenue. The budget is based upon a budget ceiling or levy limit of revenue derived from local property taxes in accordance with Proposition 2½. Added to these revenues are projections for state aid; miscellaneous revenues, such as fees, permits, and interest earned; and available funds, such as free cash and special revenues. This levy limit may be increased if the Town Meeting adopts a budget requiring an override and the override amount is approved by a majority of voters at the polls.

While the projection of available revenues creates a budget ceiling for the Town, an expenditure floor is created by calculating certain fixed or semi-fixed costs such as debt payments, employee benefits, and various assessments. These costs subtracted from projected revenues leave remaining funds that are available for discretionary spending, such as education, public safety, infrastructure maintenance, municipal administration, and community services.

For the past several fiscal years this budget development framework has been altered to meet expected fiscal reductions. Departments have been instructed to provide budget requests that equaled the prior year's appropriation. These requests were then further adjusted to meet revenue estimates while avoiding major service or personnel reductions.

## Budget Schedule

Beginning in September each fiscal year, the key boards and committees discuss budget issues and provide policy guidance to the Town and School staff at a series of working meetings. The Finance Committee issues its budget guidelines to the Board of Selectmen and School Committees by November 30<sup>th</sup>. With input from these groups, the Town Manager submits the recommended budget to the Board of Selectmen at least 90 days prior to the beginning of the Annual Town Meeting, which begins in late April.

In late February and early March, the Finance Committee holds public hearings on the Town Manager's recommended budget, and on the recommended School budgets. Prior to the first public hearing, all Concord households are mailed a copy of the Town Warrant containing all the financial and non-financial articles to be considered by Town Meeting. A Report from the Finance Committee is mailed to every Concord household prior to the first session of Town Meeting, with specific recommendations and background information. Town Meeting considers the recommended budget and the recommendations of the Selectmen, Finance Committee, and School Committees, and votes on final appropriation amounts after making any amendments it deems appropriate, within the constraints of Proposition 2½ and balanced budget requirements. The precise timing of the process varies somewhat from year-to-year. Shown on the following pages are a chart of the budget schedule and a calendar of important dates for developing and acting on the FY2007 budget.

# Town of Concord FY2007 Budget Schedule

July	August	Sept	October	Nov	Dec	January	Feb	March	April	May	June
<b>Implement Adopted FY2006 Budget (Ongoing)</b>											
	Establish goals; hold planning meeting										
		Depts develop operating & CIP budget requests									
			Depts present budget requests; Finance Comm presents budget guidelines								
					Warrant is open						
					Town Manager reviews budgets & submits them to the Board of Selectmen						
						Departments develop & submit Enterprise Fund budgets to Town Manager					
							Finance Comm holds hearings & completes final recommendations on Town Mgr & education budgets & all articles				
								Town Mgr reviews, publishes & holds hearing on Enterprise Fund budgets			
									Town Meeting discusses & adopts Town, education, & CIP budgets		
<b>July</b>	<b>August</b>	<b>Sept</b>	<b>October</b>	<b>Nov</b>	<b>Dec</b>	<b>January</b>	<b>Feb</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>

## Town of Concord FY2007 Budget Calendar

*This calendar describes the steps leading to adoption of the budget for those accounts overseen by the Town Manager under the jurisdiction of the Board of Selectmen, and requiring appropriation by the Town Meeting. The School Superintendent and School Committees carry out similar steps leading to Town Meeting.*

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*Note: "FY" stands for "fiscal year", which ends on June 30 of the designated year*

### 2005

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|-------------------|---|
| September 22      | FY2007 fiscal planning meeting: Board of Selectmen, School Committee, Finance Committee   |
| September 29      | Budget Instructions issued to all departments, boards, and committees   |
| October 14        | Capital Improvement Program FY2007-2011 requests due  |
| November 4        | FY2007 Operating Budget requests due  |
| Nov. 14 - Dec. 2  | Operating and Capital Budget Request review: meetings with Town department heads, Budget Review Team  |
| November 17       | Finance Committee votes Budget Guidelines, which are issued to Selectmen and School Committees by November 30   |
| November 28       | Classification Report submitted by Board of Assessors to Board of Selectmen (setting the FY2006 property tax rate or rates)   |
| December 3 (Sat.) | Selectmen/Committees Coordination Meeting: planning session for April 2006 Annual Town Meeting  |
| December 5        | Public hearing (Classification Hearing), proposed property tax rates for FY2006 (based on FY2006 appropriations voted at April 2005 Town Meeting)                         |
| December 5        | Warrant opened for 2006 Annual Town Meeting   |
| December 19       | Preliminary FY2007 Operating Budget recommendations, and final recommendations for FY2007-2011 CIP compiled by Budget Review Team for Town Manager's review and decisions |

## **FY2007 Budget Calendar (continued)**

### **2006**

- January 2 Preliminary draft of Town Manager's expenditure/appropriation recommendations for FY2007 Operating Budget submitted to Board of Selectmen
- January 3 Warrant for Town Meeting closes at 4:00 p.m.
- January 24 90 days prior to the Annual Town Meeting the Town Manager's Proposed Budget for FY2007 (General Fund operations and proposed appropriations) is published and submitted to Selectmen; also, no later than this date, the Superintendent of Schools submits budgets for Concord Public Schools and Concord-Carlisle High School to respective School Committees; through February these committees and Finance Committee conduct reviews
- February 3 Proposed operating budgets for FY2007 Enterprise Funds submitted by departments to Town Manager
- February 16 Public hearings advertised for General Fund operations for FY2007
- February 17 Legal deadline for mailing of Town Meeting Warrant to residents (at least 10 days prior to public hearing)
- February 27 Finance Committee's public hearing on Town Manager's General Fund operating budget proposals for FY2007, and all other non-school financial articles on the Town Meeting Warrant
- February 28 Finance Committee's public hearing on Education budget proposals for FY2007 (CPS and CCRSD School Committees, and Minuteman Science-Technology High School)
- March 16 Finance Committee completes its recommendations for Town Meeting
- March 17 Town Manager's Proposed Budget for FY2007 Enterprise Operations published (10 days prior to public hearing)
- March 27 Public Hearing on Enterprise Fund budgets and warrant articles
- March 31 Finance Committee Report to printer
- April 14 Finance Committee Report mailed to residents (at least 10 days prior to Town Meeting)
- April 24 Town Meeting (first session): consideration of budget and enactment of appropriations

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# Budget Organization

## What Is Included

This budget includes the General Fund accounts that will be submitted to the Town Meeting for enactment, as well as accounts not appropriated by Town Meeting. These unappropriated accounts, incorporated in the setting of the property tax rate, are:

Line Item 101: State Assessments

Line Item 102: Snow/Ice and Other Deficits

Line Item 103: the Overlay account, which is an amount added to the tax levy by the Board of Assessors to meet the anticipated cost of exemptions and abatements (but counted within the levy limit)

## Appropriation Level

Each numbered line item is a separate account appropriation. Line items designated with a letter are sub-accounts within an appropriation grouping (as is the case for the divisions of the Finance Department and the Planning & Land Management Department). The sub-accounts are shown in this budget to provide more detailed information for review.

## Total Expenditure Plan (Budget vs. Appropriation)

For each General Fund account in this budget document, all other fund resources are also shown in order to provide a complete picture of each department's total expenditure plan. In most cases, this involves the allocation of resources from the Town's enterprise operations (Water, Sewer, and Light), or Special Revenue Funds for management services provided (such as accounting and treasury services), or direct expenditures incurred and allocated from a central account (such as group insurance and debt service). The total of all resources is termed "BUDGET" as shown on the ACCOUNT SUMMARY pages and in each account's EXPENDITURE DETAIL.

In those instances where the allocation of overhead costs among funds has been changed materially, this was done only after a review by the responsible department head and the concurrence of the fund manager proposed to be charged. This procedure was set forth in the Town Manager's budget instructions.

The General Fund portion of the BUDGET, as shown in each account's FUNDING PLAN, is the APPROPRIATION. Only the APPROPRIATION amount is voted by the Town Meeting.

The budgets of the enterprises are not included in full here, however. In accordance with Town Bylaw, the budgets of the enterprises and certain Special Revenue funds (such as Recreation and Cemetery) are not appropriated by Town Meeting but rather are adopted by designated boards and committees. Under the Town Charter, the Town Manager serves as Manager of all Town enterprises and Special Revenue funds. The Town Manager supervises all personnel and expenditures, exclusive of the schools, regardless of the funding source. The enterprise budgets are presented to Town Meeting for information purposes, and the Warrant for the Town Meeting provides for a series of votes authorizing the Town Manager to operate the enterprises for the ensuing year. A separate document including the Town Manager's Proposed FY2007 Budgets for **enterprise operations** is scheduled for publication on March 17, 2006 and a public hearing is scheduled for March 27, 2006.

## **Salary Changes**

Only those salary changes that are already known are incorporated into the departmental budget recommendations shown in this document. Thus, scheduled step increases for existing staff are included in the appropriate department totals. The Salary Reserve Account, Line Item 41, includes all other funding estimated to be required for salary revisions on and after July 1, 2006, including the FY2007 cost of multi-year collective bargaining agreements already negotiated. The Town Meeting vote adopting the annual budget also authorizes the Town Manager to initiate transfers from this line item to the various department accounts as needed pursuant to salary levels established at July 1 and thereafter. Salary levels are set by the salary schedules adopted by Town Meeting, a merit pay plan established in accordance with the Personnel Bylaws, and various collective bargaining agreements.

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