

John Murray

From: Allen Nitschelm
Sent: Sunday, January 22, 2006 5:05 AM
To: David Stone
Cc: Board of Selectmen; aps_school_committee@mail.ab.mec.edu; Don Johnson; Bill Ryan; Finance Committee
Subject: Spreadsheet (A Study in Scarlet), cost-cutting, and transfers

Hi David, FinCom, et al,

I have attached my "back of the envelope" spreadsheet that I handed out at the school budget workshop on Saturday. Let me apologize in advance if there are any mistakes. I am not an Excel expert but hopefully the math is right.

As a simple explanation, what I tried to do was look at a sample \$65m overall budget, assume 6% budget growth per year, assume 4% income growth per year, and figure out what our yearly deficit and cumulative deficit would be over 5 years.

I then started changing variables and have about 10 or so scenarios.

I was surprised to see how important it is to try to control costs. Cutting a little bit ("cutting" is defined as reducing the requested increase) makes a huge difference over time. This is probably a concept most of us are quite familiar with. I then mixed in some use of free cash in the various scenarios and some overrides, and the combination of small cuts, a bit of free cash, and a small override presents a very favorable long-term scenario which would allow for a couple million in capital investments in that timeframe.

I added one chart showing capital expense investments out of Free Cash at the end.

Besides getting some insight into how important it is to make some cuts now, versus waiting until some future time, I think the information is also helpful in showing how important it is to look at long-term (5+ years) scenarios. This was something stressed at the MMA workshops that I attended and it is why we shouldn't make "free cash" spending decisions by simply looking at this year's budget and how we can take the unexpected "revenues" of overlay funds and spend them without regard to the long-term impact. "Balancing the budget" in the short-term by taking these revenues makes for a huge deficit in future years. This is a danger we must avoid.

I think we need to examine how each major budget area (local schools, regional schools, and town) can accomplish its budget goals and provide better service while staying at a 5% growth model, approximately. One of the questions I had is whether our management is essentially "keeping things the same" and then suggesting what staff is needed rather than proposing any cuts or efficiencies because of a fear that the cuts would be done but the needed staff wouldn't be added. In a bureaucracy, this is a real concern. I wonder if we can get past this fear for the benefit of the town as a whole.

Maybe ALG is the appropriate place to talk about this, or maybe we need some more joint meetings. While both the schools and the town did a fantastic job with their budget presentations, there was little discussion of how to reduce expenses or find efficiencies. For example, the concept of combining departments was not discussed at the school budget workshop nor at the ALG meeting nor at FinCom's meeting. I think this is one way we might be able to help limit budget growth this year to 5%. We would have to look at laying off duplicative management structures and we would have to live with town and schools not always being first on the list to have their parking lots plowed or their grass cut or their hallways swept.

If we can hold overall budget increases to 5% without using Free Cash, and also really tighten the belt and maybe raise fees, we might be able to add personnel (and/or shift personnel from areas that aren't as important) to our "core" mission in those areas that need attention. In the schools, I would say hiring classroom teachers is vital. We need 5 new teachers in 7th grade and another 5 teachers in the high school (plus whatever Choice would allow us to hire). I think this is more important than at the elementary level because, while class sizes are the same, JHS and HS teachers have far more students and homework to correct because they each have 5 classes. So as a suggestion to the SC, if we can't cut office support staff, administrators, groundskeepers, SPED transportation, hall monitors, aides, or anything else, I'd take Herman's suggestion and reduce the classes like woodshop that serve 1-7 students and switch those monies into one of the core subjects, and do that 5 times at JHS and HS. This would be in addition to combining school/town departments, because those cost savings would go to keeping the budget growth at 5%.

One of the things that I like about this idea is that (speaking about the schools) this could be a very positive change. Adding classroom teachers, adding a team, and reducing class size are real accomplishments that we can point to. These are goals worth striving for. But we can't "shift" resources without layoffs (unless a janitor happens to have a Masters in Education and a minor in Math.) If we can redirect a small portion of our spending from management or support in the various budgets, we can shift some of these savings to core spending, which better serves our constituents. And that would go a long way to reducing side-effect issues like teacher burnout.

Would we be able to hire new teachers and allow them to teach 4 classes and then act as a monitor for one period? This would be a better workload and, with 5 new hires, we might be able to eliminate a staff support position (with benefits?). Or maybe give this option to experienced teachers or department heads.

I'm looking hard for that "middle ground" where we can have smaller, less frequent overrides (that are more likely to pass), shift services to core areas, and maintain Free Cash as a reserve and as a fund to increase capital spending. A few smaller steps now will result in huge savings and avoid many of the doomsday scenarios from happening that we heard about last year.

Hope this is helpful and thanks for your review.

Allen Nitschelm



ACTON BUDGET
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In deciding whether or not to spend Free Cash, especially in an operating budget, we should look at:

- * Free Cash Policy by Finance Committee
- * Potential (known and estimated) renewals of Free Cash
- * Stabilization Fund balance
- * Whether renewal of Free Cash from a future Operating Budget will cause hardship
- * Multi-year plan (5 years)

Sample Town Budget with estimated growth in budget. (6%)
starting figures: 0.06 Expenditure Growth 0.04 Revenue Growth 500,000 FC Growth

YEAR	Total Expenditures	Estimated Revenues	Starting Deficit	Running Deficit	FC Balance	Windfalls	Amt. FC Used
2007	66,000,000	65,000,000	1,000,000	1,000,000	337,000	1,000,000	0
2008	69,960,000	67,600,000	2,360,000	3,360,000	1,837,000	0	0
2009	74,157,600	70,304,000	3,853,600	7,113,600	2,337,000	2,000,000	0
2010	78,607,056	73,116,160	5,490,896	12,704,496	4,837,000	0	0
2011	83,323,479	76,040,806	7,282,673	19,987,169	5,337,000	0	0

Sample Town Budget with estimated growth in budget. (6%) USING SOME FREE CASH
starting figures: 0.06 Expenditure Growth 0.04 Revenue Growth 500,000 FC Growth

YEAR	Total Expenditures	Estimated Revenues	Starting Deficit	Running Deficit	FC Balance	Windfalls	Amt. FC Used
2007	66,000,000	65,000,000	1,000,000	200,000	337,000	1,000,000	800,000
2008	69,960,000	67,600,000	2,360,000	2,560,000	1,037,000	0	0
2009	74,157,600	70,304,000	3,853,600	6,413,600	1,537,000	2,000,000	0
2010	78,607,056	73,116,160	5,490,896	11,904,496	4,037,000	0	0
2011	83,323,479	76,040,806	7,282,673	19,187,169	4,537,000	0	0

Sample Town Budget with estimated growth in budget. (6%) USING SOME FREE CASH
starting figures: 0.06 Expenditure Growth 0.04 Revenue Growth 500,000 FC Growth

YEAR	Total Expenditures	Estimated Revenues	Starting Deficit	Running Deficit	FC Balance	Windfalls	Amt. FC Used
2007	66,000,000	65,000,000	1,000,000	200,000	337,000	1,000,000	800,000
2008	69,960,000	67,600,000	2,360,000	1,760,000	1,037,000	0	0
2009	74,157,600	70,304,000	3,853,600	4,613,600	737,000	2,000,000	100,000
2010	78,607,056	73,116,160	5,490,896	9,104,496	2,237,000	0	100,000
2011	83,323,479	76,040,806	7,282,673	15,387,169	1,737,000	0	100,000

Sample Town Budget with estimated growth in budget. (6%)
starting figures: 0.05 Expenditure Growth 0.04 Revenue Growth 500,000 FC Growth

YEAR	Total Expenditures	Estimated Revenues	Starting Deficit	Running Deficit	FC Balance	Windfalls	Amt. FC Used
2007	66,000,000	65,000,000	1,000,000	1,000,000	337,000	1,000,000	0
2008	69,900,000	67,600,000	1,700,000	2,700,000	1,837,000	0	0
2009	72,765,000	70,304,000	2,461,000	5,161,000	2,337,000	2,000,000	0
2010	76,403,250	73,116,160	3,287,090	8,448,090	4,837,000	0	0
2011	80,223,413	76,040,806	4,182,606	12,630,696	5,337,000	0	0

Sample Town Budget with estimated growth in budget. (6%) PLUS ONE-TIME CUTS OF \$1M TO BALANCE BUDGET
starting figures: 0.05 Expenditure Growth 0.04 Revenue Growth 500,000 FC Growth

YEAR	Total Expenditures	Estimated Revenues	Starting Deficit	Running Deficit	FC Balance	Windfalls	Amt. FC Used
2007	65,000,000	65,000,000	0	0	337,000	1,000,000	0
2008	68,250,000	67,600,000	650,000	650,000	1,837,000	0	0
2009	71,662,500	70,304,000	1,358,500	2,008,500	2,337,000	2,000,000	0
2010	75,245,625	73,116,160	2,129,465	4,137,965	4,837,000	0	0
2011	79,007,906	76,040,806	2,967,100	7,105,065	5,337,000	0	0

Sample Town Budget with estimated growth in budget. (6%) WITH OVERRIDES FACTORED IN
starting figures: 0.06 Expenditure Growth 0.04 Revenue Growth 500,000 FC Growth

YEAR	Total Expenditures	Estimated Revenues	Starting Deficit	Running Deficit	FC Balance	Windfalls	Amt. FC Used	OVERRIDE
2007	66,000,000	65,000,000	1,000,000	1,000,000	337,000	1,000,000	0	0
2008	69,960,000	68,600,000	1,360,000	2,360,000	1,837,000	0	0	1,000,000
2009	74,157,600	71,344,000	2,813,600	5,173,600	2,337,000	2,000,000	0	0
2010	78,607,056	74,197,760	4,409,296	9,582,896	4,837,000	0	0	0
2011	83,323,479	77,165,670	6,157,809	15,740,705	5,337,000	0	0	0

Sample Town Budget with estimated growth in budget. (6%) USING SOME FREE CASH
starting figures: 0.06 Expenditure Growth 0.04 Revenue Growth 500,000 FC Growth

YEAR	Total Expenditures	Estimated Revenues	Starting Deficit	Running Deficit	FC Balance	Windfalls	Amt. FC Used	OVERRIDE
2007	66,000,000	65,000,000	1,000,000	200,000	337,000	1,000,000	800,000	0
2008	69,960,000	68,600,000	1,360,000	1,560,000	1,037,000	0	0	1,000,000
2009	74,157,600	71,344,000	2,813,600	4,373,600	1,537,000	2,000,000	0	0
2010	78,607,056	74,197,760	4,409,296	8,782,896	4,037,000	0	0	0
2011	83,323,479	77,165,670	6,157,809	14,940,705	4,537,000	0	0	0

Sample Town Budget with estimated growth in budget. (6%) USING SOME FREE CASH
starting figures: 0.05 Expenditure Growth 0.04 Revenue Growth 500,000 FC Growth

YEAR	Total Expenditures	Estimated Revenues	Starting Deficit	Running Deficit	FC Balance	Windfalls	Amt. FC Used	OVERRIDE
2007	66,000,000	65,000,000	1,000,000	200,000	337,000	1,000,000	800,000	0
2008	69,960,000	68,600,000	1,360,000	1,560,000	1,037,000	0	0	1,000,000
2009	74,157,600	71,344,000	2,813,600	2,573,600	737,000	2,000,000	100,000	0
2010	78,607,056	74,197,760	4,409,296	5,982,896	2,237,000	0	0	100,000
2011	83,323,479	77,165,670	6,157,809	11,140,705	1,737,000	0	0	100,000

Sample Town Budget with estimated growth in budget. (6%)
starting figures: 0.05 Expenditure Growth 0.04 Revenue Growth 500,000 FC Growth

YEAR	Total Expenditures	Estimated Revenues	Starting Deficit	Running Deficit	FC Balance	Windfalls	Amt. FC Used	OVERRIDE
2007	66,000,000	65,000,000	1,000,000	1,000,000	337,000	1,000,000	0	0
2008	69,900,000	67,600,000	700,000	1,700,000	1,837,000	0	0	1,000,000
2009	72,765,000	71,344,000	1,421,000	3,121,000	2,337,000	2,000,000	0	0
2010	76,403,250	74,197,760	2,205,490	5,326,490	4,837,000	0	0	0
2011	80,223,413	77,165,670	3,057,742	8,384,232	5,337,000	0	0	0

Sample Town Budget with estimated growth in budget. (6%) PLUS ONE-TIME CUTS OF \$1M TO BALANCE BUDGET
starting figures: 0.05 Expenditure Growth 0.04 Revenue Growth 500,000 FC Growth

YEAR	Total Expenditures	Estimated Revenues	Starting Deficit	Running Deficit	FC Balance	Windfalls	Amt. FC Used	OVERRIDE
2007	65,000,000	65,000,000	0	0	337,000	1,000,000	0	0
2008	68,250,000	68,600,000	-350,000	-350,000	1,837,000	0	0	1,000,000
2009	71,662,500	71,804,000	-141,500	-58,500	2,337,000	2,000,000	0	150,000
2010	75,245,625	74,676,160	569,465	1,077,965	4,837,000	0	0	0
2011	79,007,906	77,663,206	1,344,700	2,422,665	5,337,000	0	0	0

SCENARIO WITH \$1.5M OVERRIDE IN YEAR 3 (2009)

Sample Town Budget with estimated growth in budget. (6%) PLUS ONE-TIME CUTS OF \$1M TO BALANCE BUDGET
starting figures: 0.05 Expenditure Growth 0.04 Revenue Growth 500,000 FC Growth

YEAR	Total Expenditures	Estimated Revenues	Starting Deficit	Running Deficit	FC Balance	Windfalls	Amt. FC Used	OVERRIDE
2007	65,000,000	65,000,000	0	0	337,000	1,000,000	0	0
2008	68,250,000	67,600,000	650,000	650,000	1,837,000	0	0	0
2009	71,662,500	71,804,000	-141,500	-58,500	2,337,000	2,000,000	0	150,000
2010	75,245,625	74,676,160	569,465	1,077,965	4,837,000	0	0	0
2011	79,007,906	77,663,206	1,344,700	2,422,665	5,337,000	0	0	0

SCENARIO WITH \$1.5M OVERRIDE IN YEAR 3 PLUS SOME FREE CASH USE

Sample Town Budget with estimated growth in budget. (6%) PLUS ONE-TIME CUTS OF \$1M TO BALANCE BUDGET
starting figures: 0.05 Expenditure Growth 0.04 Revenue Growth 500,000 FC Growth

YEAR	Total Expenditures	Estimated Revenues	Starting Deficit	Running Deficit	FC Balance	Windfalls	Amt. FC Used	OVERRIDE
2007	65,000,000	65,000,000	0	0	337,000	1,000,000	0	0
2008	68,250,000	67,600,000	650,000	350,000	1,587,000	0	30,000	0
2009	71,662,500	71,804,000	-141,500	-81,500	1,437,000	2,000,000	30,000	150,000
2010	75,245,625	74,676,160	569,465	177,965	3,237,000	0	30,000	0
2011	79,007,906	77,663,206	1,344,700	1,222,665	4,437,000	0	30,000	0

SCENARIO WITH \$1.5M OVERRIDE IN YEAR 3 PLUS SOME FREE CASH USE WITH CAPEX SPENDING ADDED FROM FC
starting figures: 0.05 Expenditure Growth 0.04 Revenue Growth 500,000 FC Growth

YEAR	Total Expenditures	Estimated Revenues	Starting Deficit	Running Deficit	FC Balance	Windfalls	Amt. FC Used	OVERRIDE	CAPITAL SPENDING
2007	65,000,000	65,000,000	0	0	337,000	1,000,000	0	0	250,000
2008	68,250,000	67,600,000	650,000	350,000	1,587,000	0	30,000	0	350,000
2009	71,662,500	71,804,000	-141,500	-81,500	1,437,000	2,000,000	30,000	150,000	400,000
2010	75,245,625	74,676,160	569,465	177,965	3,237,000	0	30,000	0	500,000
2011	79,007,906	77,663,206	1,344,700	1,222,665	2,937,000	0	30,000	0	500,1750