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MEMORANDUM

February 12, 2006

TO: Board of Selectmen

FROM: Peter Ashton

SUBJ: Budget Issues and Fincom Meeting

First let me apologize for not being able to attend Monday evening. As some of you are aware my work schedule had been crazy of late and I must be in DC all week for trial. Last Tuesday evening Don and I met with Fincom to discuss with them our budget as it currently stands. On the whole I thought it was a very good meeting and we were able to answer a number of questions and concerns. There were a few issues raised during the meeting that I believe are important for us to consider.

Some concern was expressed over a few of our budget cuts and reallocations – specifically the \$100,000 cut in highway paving, the use of alternative funding for the police cruisers this year, and the relatively small amount of OT cut from fire relative to other areas. I believe we explained that Chapter 90 funds should be available to handle the paving cut, and we indicated we are still investigating the cruiser issue, although for this year we believe it makes sense.

With regard to the fire OT, I admitted that I was much in agreement with Fincom and had raised the issue at the last BoS meeting but received little support. Let me try again! With 4 firefighters now freed from performing dispatch duty as of last year, it does seem to me that we ought to be able to cut the amount of OT in that department by a significant amount (not just cut the increase which is all we have done thus far.) The YTD figures for FY06 are disturbing because they show no decline in OT despite having four additional personnel available. It is not clear whether we are simply filling more open shifts or what, but it simply does not make sense to me that with 4 additional firefighters available for work that we cannot make headway in cutting down our OT use. Either we were dangerously short-staffed when the four firefighters were working dispatch or there has been a marked change in work patterns this year. In my opinion we ought to be able to cut at least \$100,000 from the OT budget given the availability of these additional 4 firefighters.

The other major concern voiced at the meeting by Mr. Nitschelm and Mr. Stone was that by adding several new FTE this year, we may not be able to sustain these numbers in the years going forward and that we ought to be spending more on equipment

and less on new personnel. They seemed to have two concerns: one was whether the non-tax revenue funds we had were recurring such that they could continue to pay for these people, and two, whether we could sustain the wage and benefits increases for these people going forward. On the first point, it is clear that the cable funds used to fund the equivalent of 1 FTE in IT will recur, and actually are likely to increase if Verizon enters the market. As to the second, I pointed out that we have considered the impact of adding new staff on a multi-year basis.

To further support this notion I have taken a look three years out to show that these new employees can certainly be supported as well as an increasing amount of capital (or other new FTE if necessary). This multi-year plan is attached and assumes that in each of the next three years (FY08 through FY10) we are constrained to live within a 5% annual budget increase.¹ The 5% budgetary assumption is drawn from a spreadsheet that Mr. Nitschelm had prepared and handed out at Fincom which showed that under an assumption of 5% annual increase in budgets across the board,² we would not need an override through at least FY10 (assuming some use of free cash in FY09 and FY10). What is most interesting to me about the attached multi-year plan is the fact that we can support the new personnel we are looking to hire in FY07,³ and by FY10, we could fund over \$900,000 in new capital equipment just from taxation.³

Fincom was also concerned about our ability to generate the increase in fee revenue that we are projecting for next year. I indicated that we would not commit to hiring new personnel until we were sure that this revenue would materialize and that we had some assurance from DoR we would be able to include it in the recap. I have talked with Don and John and we all feel quite confident that we will be able to generate and recognize on the recap this additional fee revenue. As the Board is aware, this is key to the new revenue sharing formula in the ALG plan.

Finally, we had a discussion about reengineering and whether we should take another look at some of the recommendations, e.g, shared services, which had not been implemented from the prior study. I suggested that we might want to look at some of these or take another, broader look at whether there might be other areas ripe for reengineering. It was also not clear to me that many of the newer members of Fincom were aware of the substantial savings we did realize from the prior reengineering study and when time allows I will be sending them information on that subject. In FY03 alone the municipal side of government recognized savings of \$1 million due to the recommendations of the reengineering report. I would not be averse to exploring these issues again.

¹ As can be seen it also assumes a cut in the Manager's legal budget of \$50,000. I have not made a cut in the fire OT, although I would certainly recommend it and it would enable us to spend more on equipment.

² An number of other assumptions were also embedded in the analysis including receipt this year and going forward of the governor's budget Ch 70 revenues.

³ Also note that I have put in full funding of the police cruisers after FY07, and allowed reasonable budgetary increases in most categories. Of course with any forward looking plan, the numbers are likely to be volatile and subject to significant change.

5 year Budget Breakdown

	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>	<i>FY09</i>	<i>FY10</i>
SALARIES - BOARD MEMBERS	3,503	6,800	6,800	6,800	6,800
SALARIES - PROFESSIONAL	2,375,747	2,457,159	2,530,874	2,606,800	2,685,004
SALARIES - CLERICAL	816,825	824,772	849,515	875,001	901,251
SALARIES - OTHER NON EXEMPT	5,139,675	5,258,496	5,416,251	5,578,738	5,746,101
SALARIES - OVERTIME	977,679	1,081,312	1,113,751	1,147,164	1,181,579
SALARIES - COMPENSATED LEAVE					
FRINGE - LONGEVITY	29,241	30,227	31,134	32,068	33,030
FRINGE - EDUCATIONAL INCENTIVE STIPEND	239,785	279,936	288,334	296,984	305,894
FRINGE-OTHER	54,200	50,400	51,912	53,469	55,073
FRINGE-UNIFORMS	92,784	77,950	77,950	77,950	77,950
FRINGE -EMPLOYEE DEVELOPMENT	112,213	119,677	123,267	126,965	130,774
FRINGES - COURSE REQUIREMENT	-	-			
FRINGES - Health Insurance	2,330,341	2,506,578	2,757,236	3,032,960	3,305,926
FRINGES - LIFE INSURANCE	7,251	7,000	7,000	7,000	7,000
FRINGES - UNEMPLOYMENT	35,000	35,000	35,000	35,000	35,000
FRINGES - WORKERS COMP	130,000	140,000	147,000	154,350	162,068
FRINGES - PAYROLL TAXES	125,000	130,000	133,900	137,917	142,055
FRINGES - PENSION	1,802,229	2,000,340	2,200,374	2,420,411	2,662,453
ALLOCATION OF EMPLOYEE BENEFITS	(134,928)	(150,199)	(157,709)	(165,595)	(173,875)
SNOW AND ICE REMOVAL	400,000	400,671	420,705	441,740	463,827
INFRASTRUCTURE MAINTENANCE	967,337	962,080	995,753	1,025,625	1,056,394
OTHER - EQUIPMENT MAINTENANCE/RENTAL	419,016	413,979	413,979	400,000	400,000
WASTE REMOVAL	53,560	53,000	55,000	55,000	57,000
POLICE CRUISER REPLACEMENT	75,000	25,750	75,000	75,000	80,000
OTHER - PUBLIC CELEBRATION	1,250	1,500	1,700	1,800	2,000
VETERANS BENEFITS	16,000	18,000	19,000	20,000	21,000
OTHER - PURCHASE OF SERVICE	582,713	390,306	409,821	422,116	434,779
OTHER - PURCHASE OF SUPPLIES	256,881	284,683	290,377	299,088	308,061
OTHER - BOOKS AND PERIODICALS	116,981	133,907	137,924	142,062	146,324
OTHER - LEGAL	586,450	585,000	550,000	525,000	500,000
OTHER	25,000	25,000	25,000	25,000	25,000
OTHER - INSURANCE	440,850	439,720	452,912	466,499	480,494
UTILITIES	506,219	628,520	653,661	679,807	700,201
TEACHER PAY DEFERRAL	43,116	43,116	43,116	43,116	43,116
GAS AND DIESEL	174,356	213,356	221,890	231,875	242,310
DEBT	2,912,161	2,908,036	2,889,904	2,678,123	2,657,677
New Personnel - FY07 only		\$ 350,800	366,937	383,816	401,471
New Equipment		\$ 340,000	440,000	745,000	910,000
TOTAL	21,713,435	23,072,872	24,075,267	25,084,650	26,193,736
Excl. Debt	2,663,798	\$ 2,656,135	2,640,760	2,575,848	2,556,398
Total Excluding excluded debt	19,049,637	20,416,737	21,434,507	22,508,802	23,637,338
Increase w/out excl. debt			4.98%	5.01%	5.01%
ALG Target		\$ 20,417,000	5% "target" increase		
			reflects changes from current budget		