

DRAFT of **Finance Committee's Message** for Annual Town Meeting Warrant

Acton's Bylaws require that the Finance Committee "consider any and all municipal questions for the purpose of making reports and recommendations." Thus, despite the word "Finance" in our name, our purview is not limited to financial matters. We are appointed by the Moderator, but our primary role is to provide you, the voter, with an independent source of information and analysis regarding matters that come before Town Meeting. As you read through the warrant, you will see that many of our recommendations are "deferred". This is because we continue to work right up to the night of Town Meeting in order to base our advice on the latest information.

The FY07 Budgets Remain Uncertain

As noted in the Selectmen's message, the FY07 budget outlook remains uncertain. If the levels of state aid proposed in the Governor's budget are maintained by the legislature, Acton will receive about \$1.8M more aid than last year, an increase about \$1.5M higher than we had initially expected. In this scenario, we will be able to fund the currently proposed 6-8% increases in the municipal and school budgets without an operating override or the use of reserve funds. This will allow additions to personnel for both the town and schools and the purchase of a number of capital items. If the legislature elects to cut aid to Acton, an outcome that won't be known until after Town Meeting, we will need to close the resulting gap by budget cuts, the use of reserves, or a combination. As a hedge against this uncertainty, the municipal and school departments will defer new hiring and capital purchases until the state aid numbers are finalized.

The New ALG Formula and Increased Fees

Until this year, revenue from most fees charged by municipal departments was included in the ALG (Acton Leadership Group) budget, and any increase was split approximately 30%/70% between the town and schools. Most school fees and some municipal fees, such as those charged by the ambulance service, go into revolving accounts and are excluded from the ALG budget. This year, the ALG formula was changed to split only property and excise taxes, while allocating all other revenue sources to either the municipal or school budgets. In response to this new approach, the town has projected that it can collect \$1.2M in fees in FY07, a \$0.5M increase or 70% over FY06. This increased fee revenue equates to a 2.6% increase in the municipal budget, with an additional roughly 5% increase expected to be supported by higher state aid. Town staff feels confident that the projected fee increases are achievable, and within the limits set by state law, which prohibits charging more than the actual cost for a particular service.

Living With Proposition 2 ½

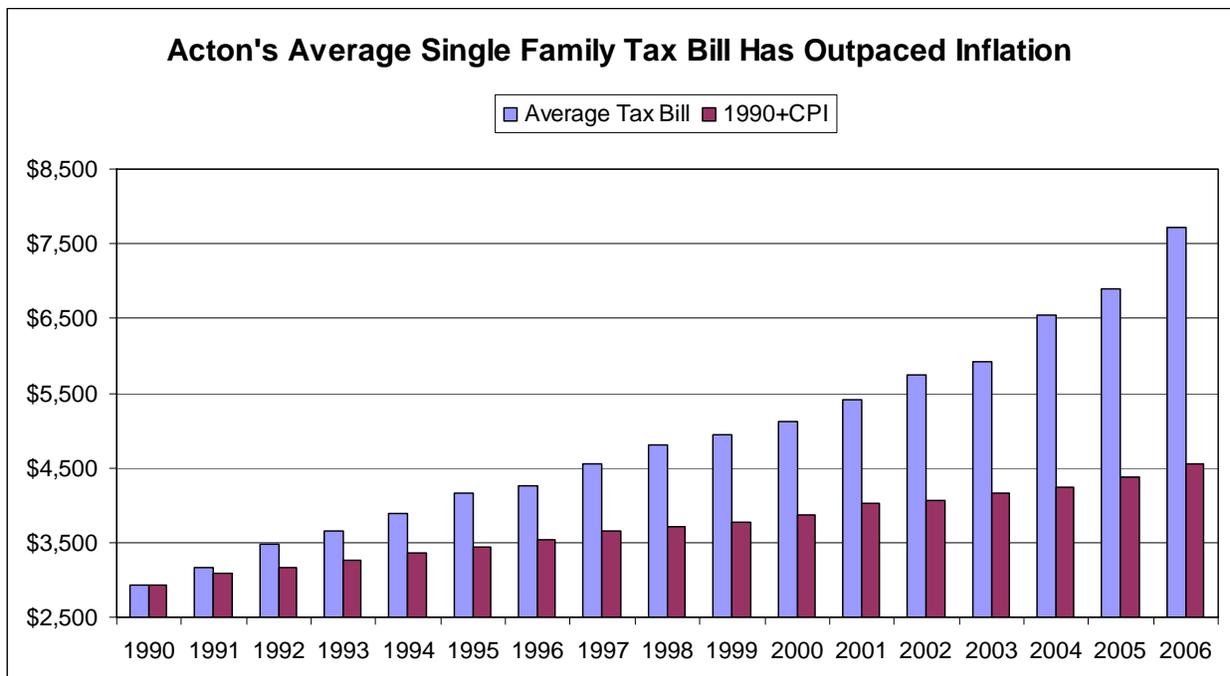
As most everyone knows, the state law known as Proposition 2 ½ limits the annual increase in Acton's tax levy to 2.5%, plus new growth, which adds another 1-2% depending on the rate of new construction. Thus, the roughly 80% of our local budgets that is supported by property taxes can't sustain annual growth of more than about 3.5% to 4.5% without overrides. This year, we hope to benefit from a big increase in state aid, which supports about 13% of our budgets, but we can't expect this to continue. The remainder of our revenues comprises excise taxes (5%) and fees and interest (2%). We can reduce pressure on residential taxes by increasing commercial development, but this isn't easily done and involves other trade-offs. So the challenge facing the Selectmen and School Committees nearly every year is finding the right balance between raising taxes and controlling costs.

Thinking about Costs

Personnel costs account for roughly 70% of our budgets and most of our employees are covered by collective bargaining agreements. When a contract calls for a 2% or 3% annual wage adjustment, this refers to the increase in the base wage at each level. The actual increase in wage costs is a mixture of several factors. Recently hired employees are moving up the “steps” of the wage structure, and may see 5-10% increases. Longer-term employees, who’ve reached the maximum level, may receive only the contract increase. And turnover can result in replacing senior level employees with more junior new hires. In recent years the overall result has been about a 4-5% annual increase in salary costs, roughly in line with what local tax revenues can support. Unfortunately, health insurance and retirement benefit costs have been growing much faster, on the order of 15% or more per year. And benefits account for about one third of total employment costs. Thus, the only really effective way to control personnel costs is by managing headcount, which in most years means finding ways to do more with less.

A Longer Term Perspective

With the wind at our backs from the expected increases in state aid, the FY07 budgets are likely to pass at Town Meeting without much controversy. However, it’s worth keeping an eye on the long-term trend. The light bars on the graph below show Acton’s average single family tax bill, as reported by the state’s Division of Local Services. From 1990 to 2006, the average tax bill has grown from \$2,922 to \$7,724, an average increase of 6.26% per year. This is more than double the 2.8% rate of inflation, as measured by the Consumer Price Index. If Acton’s average single family tax bill had grown only as fast as inflation, as shown by the dark bars, it would be only \$4,548 in 2006 or more than 40% less.



The light bars show Acton’s average single family tax bill (see <http://www.dls.state.ma.us/mdmstuf/proptax.htm>). The dark bars show the value of the 1990 tax bill adjusted for inflation based on the Consumer Price Index (see <http://www.bls.gov/cpi/>).