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Town of Acton Finance Committee

Memorandum

To: Acton Citizens and Policymakers
From: Town of Acton Finance Committee
Date: November 19, 2008
Re: Our "Point of View" with Respect to FY 2010 Budget Planning

Introduction

At our meeting on November 18, 2008, the Finance Committee unanimously adopted the following as a First Draft Point of View with Respect to Budget Planning for FY2010 (the "FY 2010 Point of View"). The motion requested the Chair to transmit the FY2010 Point of View to all relevant interested parties, as determined by the Chair, with an invitation to comment. Comments from individual citizens may be directed to the Finance Committee at fincom@acton-ma.gov.

FY 2010 Finance Committee Point of View with Respect to the 2010 Budget Planning Process

Background

Intent

- This memorandum is intended to describe the FinCom's Point of View with respect to planning for the FY2010 Town and School Budgets.
- Our original date for delivering this Point of View was October 1, 2008 or thereabouts. Necessarily, its creation has been delayed due to the Special Town Meeting.
- As with prior FinCom Points of View, we invite comments back from the relevant operating boards and administrators.

The Overall Economy

- The current macro-economic climate is 1) extremely adverse, 2) volatile and 3) trending negatively in nearly all sectors.
- Uncertainty is high; confidence at all levels, but especially consumer confidence, is at record lows.
- Ironically, overall inflation has abated and is not a factor with respect to 2010 budgets. Further, with respect to "drivers" inflationary cost is un-linked to macro inflation.
- The potential for and fear of deflation will weigh down on local and state revenue growth.
- State revenue changes generally lag the overall economy, but the sharpness of the drop in macro economic activity has severely shortened or eliminated that lag.

State of Massachusetts Fiscal Picture

- Overall, the picture is bleak. Historically, when the state budget is strained, municipal finances are disrupted.
- Massachusetts Taxpayers Foundation is estimating the current FY 2010 revenue shortfall to be at least \$1.4 billion.
- Capital gains tax is the most likely revenue source to decline, and if it does, the shortfall could be higher.
- Also, revenues due to communities from the Lottery proceeds are more uncertain. Last year the Governor recommended that the Lottery's shortfall not be made up out of state revenues. The legislature declined to take that tack using "rainy day" funds to fill the gap. The state's contribution

to make up the Lottery shortfall is now apparently up to \$138 million. The make-up is likely to go away.

Point of View with Respect to Acton's FY 2010 Budget

Liquidity Assumptions

The following, rough liquidity assumptions were used in creating this document.

- Free cash in the range of \$ \$2.5-3.0 million.
- E&D in the range of \$1.0-1.1 million.
- NESWC fund balance in the range of \$4.4 million, with \$1 million reserved for settlement purposes
- Health Insurance Trust reserve of \$2.8-3.0 million.

The Current State of Acton Finance

- The Town of Acton's financial position is strong, albeit not as strong as in recent years due to macroeconomic factors.
- With respect to the balance sheet, Acton is in strong shape with substantial reserves. Balance sheet sources of cash, such as free cash, E&D and NESWC fund balances continue to provide latitude with respect to financial decisions.
- With respect to the income statement:
 - Revenue remains steady although it is clear that both FY09 and FY10 revenue is and will be under pressure;
 - Expense growth has been moderate enough to avoid tax increases even to the 2 ½% trigger levels over the last two fiscal years.
- Solid financial management, combined with certain large increases in marginal revenues (most especially Chapter 70 funds), has contributed to this strong picture.
- The operating entities policy actions to curtail new expenditure for the current fiscal year (FY 2009) are wholly appropriate and to be applauded. Further cost reduction for the current fiscal year (FY 2009) must be planned, even if not executed.

Overall FY2010 Budget Planning

- There is no need for an operating override.
- Indeed, this is not the time for any override of any kind, including capital or debt exclusion.
- Capital plans should focus on maintaining existing assets and, if essential, must be funded within Proposition 2 ½ limits.
- The operating entities should impose strict hiring restrictions, allow attrition and not pay any bonuses. In view of the salary parity proposal adopted for FY09 for Town employees, normal compensation growth is appropriate. Overall, management should seek to provide essential services and avoid layoffs.
- Continued effort must be maintained to identify cost savings through elimination, substitution and automation. The notion of shared services across operating groups and with neighboring communities must be pursued steadily.

Driver Expectations

- Personnel. Growth in personnel for both major operating entities should be sharply curtailed. New personnel should only be hired to fill existing vacant, critical positions. Overtime should be reduced.
- Salary growth. While we all acknowledge the collective bargaining constraints, all growth in negotiations must take cognizance of the sharply declining economy and the pressure of taxpayers own economic pain. We need to take a "hard reality" approach to negotiations.
- Benefits adjustment. Early Retirement Incentive and tuition reimbursement benefits for school administrative contracts should be reduced.

- ❑ Chapter 70 funding is expected, at best case, to be level funded for FY 2010. This may still result in an increase to the Schools, due to the way the formula works, but the rate of growth over the past three years is gone.
- ❑ Health insurance expense. The Trustees of the Health Insurance Trust believe that underlying health inflation is running at about 10%. We do not have any information to contradict this assumption about costs, although the Trust itself is in strong financial position. This could be an area of savings as certainty increases.
- ❑ Utilities Expense. Ironically, the run up in 2008 global utility costs and the recent sharp declines may present an opportunity for locking in favorable contracts. The latest Energy Department numbers show a decline for 2009 v. 2008 in all categories.

Revenue Split

- ❑ The revenue split in place should be maintained.
- ❑ As has been recent practice, “leftover, unspent dollars” from the prior fiscal year should be allocated off the top to the entity that did not spend those unspent dollars.
- ❑ A proposal to change the split on marginal revenues has been discussed. More needs to be understood about this concept, but fighting over “marginal positive revenue” during these economic times is a delusion.
- ❑ As a general principle, the “Town” side of the revenue split should increase over time, as the Town has given up revenue over the last several years to accommodate the expansion in school age population growth.

Citizen Expectations with respect to Taxes and Services

- ❑ The opportunity to reduce the increase in property taxes below the 2 ½% trigger has now passed until stability returns in the overall economy.
- ❑ It is very likely that taxpayers will face increased difficulty in paying taxes, so all abatement programs must be actively advertised.
- ❑ On the other side of the coin, the downturn in the economy requires that the town and schools adopt a vigilant approach to our most vulnerable citizens, who will need to be supported by our community through additional services, which may carry a financial cost.
- ❑ Citizens should be prepared to experience moderate service reductions in the short term as the policies of the operating entities engage. Similarly, all citizens should be aware that the capacity to respond to requests not contemplated in the annual budget will be limited in order to preserve flexibility necessary to accommodate the changing economic picture.