

MEMORANDUM

TO: Board of Selectmen
FROM: Mark Sylvia, Town Manager
Bruce T. Miller; Finance Director
DATE: November, 27 2005
SUBJECT: Fiscal Year 2007 Budget Message

Although many of the same budget constraints that have beleaguered the Town during previous budget cycles remain, many positive outcomes were recognized during the FY 2007 budget development process. The most significant outcome was the change in the Town's budget philosophy and focus. The focus changed from an appropriation budget model to a budget model that also combined financial planning components to the budget appropriation.

Rather than using level funding budget principles as was the practice in previous years, for the first time management was requested to incorporate best practice concepts such as strategic planning and performance/value based budgeting techniques when developing their respective budgets. It should be highlighted that these changes represent a fundamental paradigm shift in the Town's budget philosophy which should provide many enhancements to the Town's financial planning and customer service levels in future years. For example, these changes will improve the Town's ability to identify future budgetary constraints thereby putting the Town in a better, more flexible position to manage these constraints and, additionally, management will be better positioned to evaluate ways to improve and/or expand customer service levels across all municipal sectors.

In addition to changing the Town's budget perspective, other fundamental changes in funding strategies have also been incorporated into the recommended FY 2007 budget. Since late June and early July a collaborative effort among members of the Board of Selectmen, the School Superintendent, the Town Manager, Assistant Town Manager and the Finance Director have evaluated alternative budget options to provide coping strategies for FY 2008 and beyond. Furthermore, considerable attention was aimed at enhancing municipal service levels as this concern is among the Town's highest priorities.

Although detailed documentation is provided within the FY 2007 budget workbook, some of the most significant changes incorporated into the recommended budget follow.

- Enhancing operating cash flows by changing the capital budgeting model.
 - Matching current operating revenues with current operating expenditures by shifting current revenues from the capital budget to the operating budget.
 - Increasing levels of capital expenditures while maintaining flat budgetary expenditures by increasing levels of debt.
- Reducing the contribution to the overlay reserve account by \$750,000 from \$1,750,000 to \$1,000,000.
- Reducing the contribution to the stabilization fund until FY 2008, one year, when the BECO stabilization fund contribution is eliminated thereby providing a future funding offset.
- Increasing the local receipt estimate by 7% from 88% to 95%.
- Increasing the Town's new growth estimate by \$800,000 from \$1,500,000 to 2,300,000.

As you know, fiscal year 2008 remains the most significant fiscal/budgetary constraint the Town faces. Consequently, the Town must continue to maintain conservative budget practices in order to meet the Edison challenge when the "PILOT" payment decreases \$10,000,000.

In addition to the 2008 challenge, Fiscal Year 2007 presents several challenges of its own. These challenges are enumerated below.

- The Edison "PILOT" payment will decrease \$1,000,000 from \$12 million to \$11 million.
- Although there may be increases in net state aid, the current budget reflects a decrease of approximately \$ 180,000. This is the result of eliminating the supplemental Chapter 70 receipts from FY's 2006 aid, net of the additional funds expected to be received via uncapping the lottery distribution. Once the State confirms FY 2007 local aid distributions and assessments these changes will be incorporated into the budget, however, until then the recommended budget is level funded with the exception of the above referenced items.
- Due to GASB Statements 43 & 45, Accounting Pronouncements, and IBNR trending, it is expected that the Health Insurance Trust Fund will need continued funding of \$1,000,000. As a sidebar, as statements 43 and 45 are implemented, it is anticipated that additional financial resources in excess of \$1,000,000 will need to be allocated to the unfunded liability.
- Member benefits, especially health insurance, represents one of the greatest challenges that the Town will face during the foreseeable future. It is expected that the health care industry will continue to recognize increases as experienced during recent years. As a result, it is expected that Health Insurance and Member Benefits will be affected. Accordingly, a 9% cost escalator is being factored for these categories which will increase the aggregate appropriation by \$1,857,000.

- Although the Town's Pension Trust has recognized healthy appreciation/ investment gains, overall earnings continue to lag behind projections resulting in added pressure on the actuarial funding schedule, must notably early retirement. As a result, it is anticipated that the Pension appropriation will increase by \$494,000 over the FY 2006 appropriation.
- Fuel and utility cost are expected to increase significantly. The combined Town and School increases over the FY 2006 budgets exceed \$1,000,000.
- Union contracts, for both Town and School will be renegotiated during FY 2006 will the financial impact occurring in FY 2007. Although no agreements have been reached at this time, there will certainly be monetary pressure on the budgets as a result of these negotiations.
- The School budget is increasing approximately \$2,300,000 before negotiated salary increases and fuel costs.

In closing, although FY 2007 continues to provide budgetary challenges juxtaposed to FY 2008, the budget that is being submitted to you for consideration not only meets the challenges enumerated above, also meets the Board of Selectmen's goal by beginning to modestly restore municipal services.

At this time, I would like to recognize the efforts of all the staff who made this budget cycle a success and we look forward to continuing the recent success in future years. I look forward to discussing the budget with the Board on December 13th and if you have any questions in the meantime, please feel free to discuss your questions with either myself or the Finance Director.