

TOWN ADMINISTRATOR  
FISCAL YEAR 2011 BUDGET MESSAGE

January 4, 2010

To the Honorable Board of Selectmen and the Residents of Natick, it is my pleasure to submit the Town Administrator's Fiscal Year 2011 Budget, which represents the culmination of weeks of effort across all levels of the administration.

***The Budget Process***

The process of developing the budget began internally in the early fall with the issuance of the Budget Manual to all general government departments. Departments were advised to ensure that their budget requests represented comprehensive and careful consideration of resources needed to accomplish the mission, goals and objectives of their departments. Other key instructions included:

- Departments developed budgets that offer the same level of service as is currently being provided in FY 2010; employee compensation and departmental expenses were budgeted accordingly accounting for fixed cost increases (i.e. contractual services, contractual employee step raises, etc.).
- With respect to utilities, departments were advised to level-fund all costs, including gasoline and diesel, at FY 2010 funding levels. The finance staff have made adjustments as applicable to ensure consistency in cost increases.
- No Cost of Living Allowances (COLAs) have been included, as all collective bargaining agreements expire effective June 30, 2010 and successor agreements have not yet been negotiated. To the extent that negotiated COLAs are determined during the budget process, they will be accounted for separately.
- Departmental budgets include only recurring costs; one-time expense items have been removed from budget proposals.

Department heads were encouraged to solicit participation from all levels of staff during development of their budgets in order to more fully identify and address the budget needs associated with the department's programs and services and to bring a variety of perspectives to the process.

During the month of December, the Town Administrator met with all department heads to review the budget requests and develop the sum of the parts into a cohesive whole. These meetings also provided an opportunity to assess mid-year progress on departmental goals.

To the greatest extent practicable, and consistent with our practice in recent years, the Town Administrator's Financial Management Principles (copy attached) were used as a policy guide in the development of the budget. Notably, although Free Cash is proposed in support of the operating budget, we are not proposing to use any funds from the

Stabilization Fund. This represents a significant move towards compliance with the policy to use reserves and one-time revenues only for capital and non-recurring expenses.

Simultaneous with the development of the general government operating budget, the School Department has undertaken a separate process for developing the operating budget of the Natick Public Schools; the Superintendent will submit his budget request to the School Committee in January.

Note that a Capital Budget and five-year Capital Improvement Program – essential components of the Town’s Budget – have been developed in advance of the operating budget such that capital expenditures – whether funded from available funds or borrowing – are incorporated into the operating budget. The goal of the five-year Program is to ensure that adequate resources are available each year to meet the capital needs of the Town without overburdening the operating budget.

As required by Charter, the Town Administrator is responsible for making budget recommendations for all Town programs, including a total School budget. The budget as detailed in the following pages is complete, although it is not in balance; in fact, a deficit of over \$3.1 million results from the projected revenues and requested general government, school and shared expenses. The General Fund Revenue/Expenditure Summary (see the following pages) details these projections and changes from the current fiscal year.

Various measures to address the variance between available revenues and proposed expenditures are identified later in this report; these proposals will be further detailed and evaluated throughout the Finance Committee’s public hearings and the Selectmen’s and School Committee’s policy discussions over the coming weeks leading up to the Spring Annual Town Meeting.

With this FY 2011 budget submission, the Administration is pleased to continue its efforts to improve the comprehensive budget presentation. This year, we have provided Performance Indicators – a process that will be refined over several years. Although the narrative and other budget sections are crucial to understanding how the departments function and the challenges and opportunities they face, the Performance Indicators provide quantifiable and objective data with which we will be able to measure departmental performance.

The first phase of this effort, implemented for the FY 2011 budget, is to identify the appropriate Performance Indicators to measure various workloads or to report the quantity or volume of products and services provided by the division or department. In future years we will refine the Indicators and utilize this data to measure efficiency and outcomes.

The quality, detail and presentation of budget materials have been vastly improved in this and last year through the efforts of Deputy Town Administrator Michael Walters Young.

I am most grateful for his proficiency in this and many other areas, through which the efforts of the administration are enhanced across all operations.

***The Budget Shortfall***

While the Town of Natick has withstood the challenges of the widespread economic downturn better than many communities, we have been far from immune and continue to face significant challenges.

State Aid – which in FY 2010 represents 10% of all revenues – continues to decline. While we won't have initial official estimates until the Governor releases his budget later in January, the Administration is projecting a net 11.4% reduction from current year levels. This alone represents a reduction of over \$1 million in revenue.

Other notable declines in revenue are in the categories of Stabilization Fund and Overlay Surplus; we are proposing that no funds from these sources be used in support of the FY 2011 operating budget. The administration has reiterated for several years the critical goal of reducing our reliance on these non-recurring revenue sources.

Sound financial management, as espoused in the Town Administrator's Financial Management Principles, mandates that reserves and one-time revenues should be used only for capital or other non-recurring expenses. Yet, Natick has for years balanced its budgets by drawing upon sources of revenues that are not considered to be recurring. Increasing costs have simply outpaced increases in available recurring revenues. It was hoped that the 2008 Override would enable Natick to cease such practices and adequately fund the Town's exemplary services with recurring revenue sources, while also adequately funding our capital needs. Regrettably, economic conditions that extend far beyond our boundaries have made this goal unattainable.

Despite the budgetary challenges we face yet again in FY 2011, the Administration has not proposed use of Stabilization Fund resources in support of the operating budget. I urge the School Committee, Finance Committee, Board of Selectmen and Town Meeting to resist the urge to draw from these funds. At times, such funds can appropriately be used to bridge a community through difficult short-term crisis. But this is not a short-term challenge we are facing; we have been using non-recurring funding sources far too long. We must break this cycle and doing so has never been more critical than now given the importance of maintaining our exemplary Aaa bond rating at a time when the community may choose to borrow significant funds for a new High School and/or a new Community/Senior Center.

As indicated previously, the FY 2011 budget is not yet in balance. All departments – General Government and School – have put forward operating budgets that offer the same level of service as is currently being provided in FY 2010. Based on the best available projected revenues, a deficit of over \$3.1 million results.

Utilizing the accepted methodology for allocating this deficit between the general government and school departments, the current general government deficit projection is

\$1,376,175 and the school department projected deficit is \$1,766,568. Specific notable challenges driving this deficit include:

- Natick Police Department. As was anticipated and discussed at the 2009 Fall Annual Town Meeting, the FY 2011 Police Department budget has been increased to accommodate the additional overtime costs mandated by the Federal Fair Labor Standards Act. In addition, the salary of a police sergeant that was not included in the FY 2010 budget due to his year-long deployment to active duty in Iraq has been added back in the FY 2011 budget. Further, the current submission for the Police budget includes full funding for the police educational incentive program (“Quinn Bill”). Again, as was discussed at the Fall ATM, in FY 2010 the State significantly under-funded their share this program and we certainly do not expect them to restore this funding in FY 2011. This failure by the state to live up to its statutory obligations has put communities in a most difficult position. Managers across the Commonwealth are in frequent communication to determine what their neighbors and comparable communities will do – or are obligated to do under collective bargaining agreements – with respect to the educational incentive program. Communities do not want to be in the position of losing their best, and best educated, police officers to communities offering better incentives for advanced degrees, an important component of quality police work. The outcome in a related litigation filed by the Massachusetts Coalition of Police on behalf of Mashpee police officers seeking full funding of the Quinn bill entitlements could have far-reaching effects for municipalities that will force our hands in this regard. This is a critical issue that will continue to be closely monitored with an eye to save money without sacrificing the quality and job satisfaction of our police force.
- Natick Fire Department. The lessons learned through the Federal Fair Labor Standards Act (FLSA) litigation in which the Town was involved with our Police Department are applicable to the Fire Department as well. We are working with Fire Department leadership in this regard in an effort to address the problem pro-actively to avoid litigation. This will be costly nonetheless. Specifically, the more costly but federally mandated FLSA methodology for calculating overtime will be employed in FY 2011 and future years; an additional \$150,000 is budgeted . In addition, consistent with FLSA law, we will have a separate obligation for the two year period prior to implementation of the proper overtime methodology; this obligation will be handled under a separate warrant article and has been budgeted at \$750,000. It is important to note that the current year (FY 2010) overtime funding, and the proposed level-service FY 2011 overtime funding may well prove inadequate to ensure that all four fire stations remain open at all times.
- Keefe Tech School. Keefe Tech has been faced with significant state aid reductions particularly in the transportation aid category. These shortfalls in state funding will have to be made up by member municipalities. We have

budgeted a 10% increase in this appropriation (\$128,316) but a higher amount may well be needed.

- Natick School Department budget. In the Town Administrator's projections to date for the FY 2011 budget, we had built in an anticipated 3% increase across general government departments and a 5% increase in the school department budget; both projections included anticipated cost-of-living adjustments (COLAs) for all employees. The preliminary budget submitted by the school department however provides for a 7% increase (including COLA). As noted earlier in this report, given that all collective bargaining agreements (general government and school) expire at the end of this fiscal year, no COLA is being budgeted at this time and will be accounted for separately as warranted. Therefore, the Town Administration has adjusted the school department's budget to eliminate their COLA; the resulting 5% increase significantly exceeds the cost increases for which we had planned and which we can afford.

Unfortunately, our fiscal challenges have been made even more difficult by various actions at the state level. During the past year, the state has reduced local aid, passed its obligation under the Quinn Bill to communities, continued to impose upon communities costly unfunded mandates, slashed the value of state-owned land thus reducing their reimbursements to communities, and failed to deliver on meaningful reform under the Municipal Relief Act. We will continue to lobby and advocate for change to provide true relief for municipalities.

### ***Balancing the Budget***

Natick provides a tremendous value for residents' tax dollars and residents have continuously demonstrated their appreciation for the variety and quality of services offered. Proposals to scale back or eliminate services have consistently been met with strong resistance. Each and every year, innovative measures are explored and implemented to improve cost efficiencies in an effort to avoid program or service elimination. But the reality of increasing costs in the face of declining or stagnant revenues cannot be escaped.

To meet the projected general government deficit of \$1,376,175, several specific opportunities are being explored and evaluated for their expected savings and likelihood of being implemented in a timely manner, including:

- Health care plan changes. As noted, all collective bargaining agreements – general government and school – expire at the end of this fiscal year. With those bargaining units that we have commenced negotiations, we have been clear that changes in the health insurance plans are critically important. A specific proposal that appears most advantageous is to transition all employees to the so-called Rate Saver insurance plans. With the adoption of these programs, significant savings would be realized (approximately \$1.16 million across all operations, including school) while offering employees and their families the continued ability to access high quality care with their current

doctors. Importantly, it is anticipated that plans of this type may be less likely to see significant spikes in cost in future years. Our negotiations with general government and school unions will continue during the budget season and it is hoped that constructive dialogue will lead to positive outcomes for all parties. Changes to employee health plans is the primary cost-saving objective of the administration. Such changes are likely to represent the largest savings of any one budget-balancing measure and would represent a major effort in containing future cost increases in this rapidly escalating cost item.

- Regionalization of services. Several ideas have been explored with area communities with varying success.
  - Veterans' Services District. Over the past several weeks, the Administration has explored opportunities to form a Veterans' Services District with all contiguous communities. It does appear that Wellesley and Needham are moving forward to form such a district with Wellesley as the lead community. It is the Administration's position that participation in a district in which Natick veterans would have to travel to a neighboring community to receive service, and that such service would be shared with other communities of comparable size, would be a disservice to our veterans. We will continue to explore opportunities in which Natick could serve as lead community in a district for which other, smaller, communities such that Natick would serve as lead community and the formation of a district would not significantly draw on the service delivery to Natick's veterans.
  - Solid waste, recycling and yard waste. The Administration has been involved in discussions with the Town of Sherborn with respect to these services; these opportunities have not yet been vetted with either community's Board of Selectmen but may represent significant opportunities for cost savings and enhanced services for both communities. Effective July 1, we anticipate that Natick residents could be afforded access to the Sherborn "swap shop" at which residents can drop off furnishings and other goods that would be of benefit to others, or pick up items for which they have a need. Sherborn residents, in turn, would be afforded access to Natick's yard waste disposal area. Again, these proposals require approval of the respective Boards of Selectmen. While these opportunities both represent convenience only – not cost savings – several other ideas are under consideration to expand upon this collaboration and through which considerable savings could result. This is an area with great opportunity for several years to come.
- Service and staff reductions. These areas will, yet again, demand evaluation. It must be noted that, in FY 2010 the Fire and DPW departments endured significant staff reductions, primarily through the successful early retirement program. It is the position of the administration that these departments can not withstand further staff reductions without notably sacrificing service delivery. Therefore, if staff reductions are necessary, they will focus first on other municipal departments.

- Other personnel cost reductions. Employee furloughs, wage freezes and other measures to contain or reduce personnel costs will be explored if needed although it is hoped that such measures can be avoided.
- Increased fees. New revenues must be evaluated as well.
  - Stormwater fees. Many communities have adopted or are considering a fee for use of the town's stormwater system. Such fees have become increasingly popular due to the escalating costs associated with the significant and unfunded stormwater management mandates imposed by the federal government. Compliance with these regulations is expected to cost the Town of Natick \$80,000 in FY 2011 and close to \$120,000 in FY 2012. Instituting a stormwater fee to offset these costs certainly warrants our consideration.
  - Pay-as-you-Throw bag fee increases. While this was a contentious issue last year, it must again be evaluated. Based on last year's analysis, increases in these fees by \$0.25 per bag would result in additional revenue of approximately \$188,000.
- Hotel/Motel tax increase. An article has been included on the Special Town Meeting #1 warrant to provide for an increase in the town's hotel/motel tax from the current 4% to 6%. The projected revenue from this incremental increase is approximately \$400,000. The Selectmen have identified as a policy objective that the revenue from the approved meals tax and from the hotel/motel tax increase, if approved, would be used to mitigate the taxpayer impact should the proposed High School and/or Community/Senior Center debt exclusion projects be approved. A distribution of such revenues to also mitigate the budgetary deficit warrants consideration.

We face significant challenges over the coming months. The Administration will meet these challenges with due care and concern for residents and employees. Our ongoing efforts to identify opportunities for efficiency improvements and cost-saving measures will continue, but programs and services enjoyed by many may be reduced or eliminated through the budget process. Such changes will not be without controversy, but the status quo cannot continue in the economy we face. We must live within the means afforded us through recurring revenues. The upcoming budget process will be – as always – transparent and available to the public, and we encourage the public's awareness and participation in this challenging effort.

Sincerely,



Martha L. White  
Town Administrator