



Memorandum

To: Board of Selectmen
 School Superintendent
 Finance Committee
 Department Heads

From: Martha White, Town Administrator

Date: Friday, April 23, 2010

Re: FY 2011 Budget Update

Introduction

Now that the Finance Committee and Town Administrator Budget Recommendations have been finalized and distributed to Town Meeting members, budget updates would normally be expected to consist of cleaning up any small discrepancies and small changes which have occurred in the process of finishing preparation for Town Meeting. But while those final preparations were being completed, word came from Beacon Hill that the amount of state aid Natick is scheduled to receive for FY 2011 is significantly higher than was expected. The table below shows the revised state aid estimate for Natick per the House Ways & Means Budget released on April 14th.

	FY2010 Cherry Sheet Estimate	FY2011 Governor's Budget (House 1)	FY 2011 Revised Natick Estimate	FY2011 HWM	Change between FY 2011 Budget & Today (HWM)	
					\$	%
Education:						
Chapter 70	5,727,110	7,460,123	\$ 5,440,755	\$ 7,024,303	\$ 1,583,549	29.11%
School Transportation	0	0			\$ -	#DIV/0!
Retired Teachers' Pensions	0	0			\$ -	#DIV/0!
Charter Tuition Reimbursement	110,372	147,757	\$ 147,757	\$ 47,329	\$ (100,428)	-67.97%
Offset Receipts:						
School Lunch	19,186	15,595	\$ 15,595	\$ 15,595	\$ -	0.00%
School Choice Receiving Tuition	0	80,000	\$ 80,000	\$ 80,000	\$ -	0.00%
Sub-Total, All Education Items	5,856,668	7,703,475	\$ 5,684,107	\$ 7,167,227	\$ 1,483,121	26.09%
General Government:						
Unrestricted General Government Aid	3,357,406	3,357,406	\$ 3,189,536	\$ 3,223,110	\$ 33,574	1.05%
Local Share of Racing Taxes	0	0			\$ -	#DIV/0!
Regional Public Libraries	0	0			\$ -	#DIV/0!
Police Career Incentive	40,692	20,558	\$ 20,558	\$ 20,558	\$ -	0.00%
Urban Renewal Projects	0	0			\$ -	#DIV/0!
Veterans' Benefits	103,355	116,685	\$ 116,685	\$ 116,685	\$ -	0.00%
State Owned Land	194,742	115,196	\$ 115,196	\$ 115,196	\$ -	0.00%
Exemptions: Vets, Blind, Surviving Spouses & Elderly	113,028	121,758	\$ 121,758	\$ 121,758	\$ -	0.00%
Offset Receipts:						
Public Libraries	37,183	37,825	\$ 37,825	\$ 37,825	\$ -	0.00%
Sub-Total, All General Government	3,846,406	3,769,428	\$ 3,601,558	\$ 3,635,132	\$ 33,574	0.93%
Plus SBA Reimbursement	\$ 916,839	\$ 916,839	\$ 916,839	\$ 916,839	\$ -	0%
Total State Aid NOT including Stimulus	\$ 10,619,913	\$ 12,389,742	\$ 10,202,503	\$ 11,719,198	\$ 1,516,695	14.87%

When also taking into account the decrease in State Assessments, the net increase in the Town's available revenues for FY 2011 is \$1,665,267.

When building the FY 2011 budget, initially all accounts from the legislature were that we should brace for sizable cuts in local aid; we budgeted for 12.5% reductions. As the budget season progressed, the prevailing guidance suggested reductions more in the range of 4-5%; we adjusted our projections for 5% cuts and reduced departmental budgets accordingly. We also did not budget for the use of any Federal Stimulus dollars as such monies are non-recurring grants that are not subject to the Town Meeting appropriation process. Prior versions of state budgets had co-mingled stimulus dollars and general aid to schools (a.k.a. Ch. 70). For the first time, however, the House Ways & Means Budget provided a break out of actual Ch. 70 aid to municipalities and stimulus dollars. This breakout is shown below.

**Massachusetts Department of Revenue
Division of Local Services
Municipal Databank/Local Aid Section**

Chapter 70 and SFSF

			Fiscal Year 2010			Fiscal Year 2011		
LEA Code	DOR Code	Municipality	FY2010 Chapter 70	FY2010 SFSF	Ch70 & SFSF FY2010	HWM FY2011 Chapter 70	HWM FY2011 SFSF	FY2011 HWM Ch70 & SFSF
198	198	NATICK	5,727,110	1,733,013	7,460,123	7,024,303	137,415	7,161,718

We assumed that we would receive a reduction on base aid in FY 2011 from FY 2010 as had been forecast by state officials. Instead, as shown above, we will see a significant increase in base aid, though the combination of Ch. 70 aid and stimulus dollars in FY 2011 will be less than in FY 2010.

Impacts on the Split

The resulting revised split is shown on the next page. This revised split will be discussed at the next Financial Planning Committee meeting on April 28, 2010.

Moving Forward

With new-found revenues comes both opportunity and responsibility. The reality of additional state aid means that we can now discuss the possibility of restoring some, but not all, of the reductions incorporated into the FY 2011 budget. Prudently, some of this money should be reserved for future use. The reasons for this are three-fold.

- 1) Unreliability of aid moving forward into FY 2012 and beyond. While we are greatly appreciative of additional aid from the state, the total state revenue picture is still murky at best, and the gross state budget uses well over \$1.6 Billion in one-time Federal stimulus dollars in areas other than aid to municipalities. Fundamentally, this administration has worked to not support ongoing operations with one-time revenues. We have an ongoing concern that the level of state aid provided this year may not be sustainable in future years.
- 2) Unsettled Contracts. As of this time no labor agreement has been settled for FY 2011 or beyond. No COLA adjustment or other wage increases other than step raises are built into the education or municipal budgets for FY 2011.
- 3) Large Deficits loom for FY 2012 and 2013. As available in the summary section of the Finance Committee Recommendation book (and provided as an attachment to this memorandum), we project deficits of \$3.4 Million in FY 2012 and \$6.6 Million in FY 2013. These are, of course, conservative projections and improvements to state revenues, changes to health care plans and contract settlements can improve these projections. But serious – and unfunded – challenges face the community, such as rapidly increasing pension assessments (growing as much as 60% by FY 2013 from FY 2011 levels), other-post employment benefits liabilities and a continual backlog of capital needs.

Given this recent change in the revenue picture, neither the Administration nor any major board or committee has had time to fully assess and review the impact of this news. Therefore, it is the Administration's intent to ask Town Meeting to postpone consideration of financial articles (Articles 1-15) until May 13th. The delay will allow the Board of Selectmen, School Committee, Finance Committee, and their respective staffs to analyze, review and make new recommendations to Town Meeting.

Closing

Natick, through fiscal prudence and strong discipline, has weathered the fiscal challenges of the last several years better than many – if not most – communities in the Commonwealth and nationwide. In doing so we have had to make sobering and difficult choices. Moving forward we must continue to be nimble – in our plans, our thoughts and our actions – to respond to changes and challenges that come our way and to minimize to the greatest extent possible impacts on the services that we deliver to Natick citizens every day. But the reality has been and will continue to be that there are not sufficient resources to maintain operations in the future. A tremendous amount of effort went into building a reduced but prudent spending plan in FY 2011, and many of the changes incorporated into that budget were, and remain, sound ideas. We must resist the temptations that will inevitably result from this increased state aid. Now is not the time to waver in our commitment to prudent budgeting – an approach that has served us so well to date and helped us weather significant financial downturns.

Attachments:

- Revised State Aid & Assessments History – FY 2011
- G/F Revenue & Expenditure Summary
- FY 2011-2013 Three Year Projections