

**PRESENTATION REGARDING THE FISCAL YEAR 2009 BUDGET, THE TOWN'S FISCAL
STATE OF AFFAIRS AND THE PROPOSED
PROPOSITION 2 ½ OVERRIDE
March 10, 2008**

We encourage all residents to familiarize themselves with the Town's budgeting process and fiscal state of affairs. This report will be available on the town's website www.natickma.gov and other related information will be added to the site as it becomes available.

A REVIEW OF THE BUDGET PROCESS

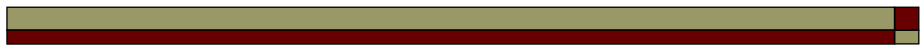
To better understand the town's financial situation, one should first understand the basics of the budgeting process. Similar to your household budget, the Town's budget is basically income compared to expenses – in recent years the increase in the Town's expenses has significantly outpaced the increase in our available revenues.

Revenues

Projected revenues for fiscal year 2009 total \$99,551,021.

Generally speaking, there are three types of revenues:

1. Taxation – This is the only category subject to the limitations of Proposition 2 ½. The following chart depicts the formula for projecting available taxation revenue. The “new growth” figure reflects projected new development between tax dates (for FY 2009, this would be new development between January 1, 2007 and December 31, 2007).



TAXATION – Limited by Proposition 2 1/2

FY 2008 Taxation	\$64,249,905
Add 2 ½%	1,606,248
Add Anticipated New Growth	<u>1,639,851</u>
 Projected Taxation Available for FY 2009	 \$67,496,004
 Debt Exclusion Wilson School	 \$937,705
Natick Collection Projected Tax	<u>\$750,000</u>
Total Tax Levy	\$69,183,708

2. Local Receipts – This is the only revenue category over which we have some control through the amount we charge for licenses, fees, etc. Note that revenue from the Natick Collection began to impact Local Receipts in FY 2007, notably due to permit fees. In FY 2008 revenues for the Natick Collection

began coming in as pro rata “supplemental tax” (which is counted under Local Receipts, not Taxation) as we began issuing certificates of occupancy.

LOCAL RECEIPTS

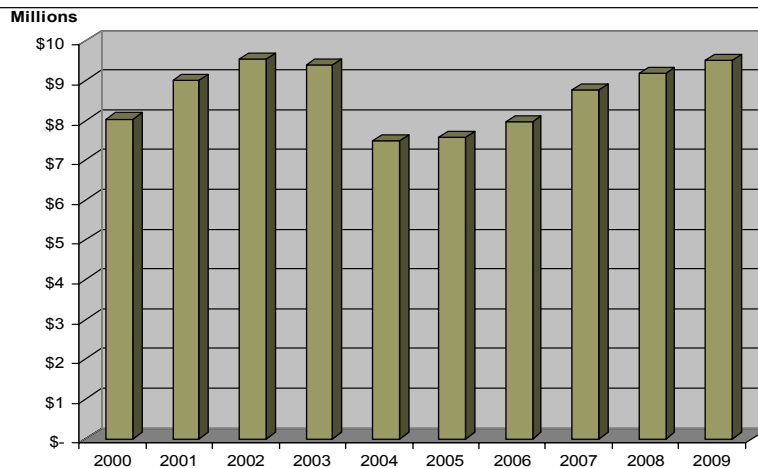
Includes a variety of categories of revenue such as:

- ❑ Motor Vehicle Excise
- ❑ Penalties and Interest on Taxes
- ❑ Licenses and Permits
- ❑ Fees
- ❑ Ambulance Revenues
- ❑ Hotel/Motel Tax
- ❑ Pay as You Throw Revenues
- ❑ Investment Income
- ❑ Supplemental Tax
 - A pro rata taxation on properties for which an occupancy permit was issued during a fiscal year
 - We expect \$750,000 in Supplemental Tax on the Natick Collection in FY 2009

Local receipts projected for fiscal year 2009 total \$17,640,347.

3. State Aid is determined by the state legislature. Net state aid is the figure most commonly used for comparison purposes as it reflects state receipts (net of School Building Authority reimbursements) adjusted for State & County Assessments and so-called “Cherry Sheet Offsets” imposed by the state. Natick’s net state aid has fluctuated in recent years from a high in FY02 of \$9,540,984 to a low in FY04 of \$7,480,270. Current state budget figures project the FY 09 net state aid will be \$9,496,104, a 3.47% increase over FY08 net state aid. (Note that FY 09 gross State Aid – not adjusted for State & County Assessments and Cherry Sheet Offsets – totals \$12,726,966). State Aid represents about 10% of the Town’s total revenue.

Net State Aid



Expenses

Generally speaking, there are two kinds of expenses – Operational Costs and Fixed Costs:

2 TYPES OF EXPENSES

- ❑ Operational Costs – Typically are predictable and don't vary much year to year other than wages
 - General Government increase \$ 597,171 (2.4%)
 - School Department increase \$2,046,401 (5.0%)

 - ❑ Fixed Costs – Includes increases in
 - Health Insurance/Fringe \$ 915,309
 - Property and Liability Insurance \$ 36,750
 - Pension Assessment \$(214,852)
 - Energy Costs \$ 85,854
 - \$ 823,061
- * Note that these fixed cost increases more than consume the projected Supplemental Tax from the Natick Collection!

Fiscal year 2009 projected operational expenses total \$69,847,607; fixed costs are projected at \$32,541,855. The Budget Comparison worksheet attached as Exhibit 1 details the projected revenues and expenses for fiscal year 2009.

Summary

The fiscal year 2009 operating budget was developed utilizing the best available revenue and expenditure information; the budgets were developed as “level service” budgets and resulted in a projected deficit of \$2.8 million. The projected revenues and expenditures will continue to be refined as information becomes available.

USE OF RESERVES AND ONE-TIME FUNDING SOURCES TO BALANCE THE OPERATING BUDGET

In addition to use of recurring revenues of taxation, local receipts and state aid, non-recurring revenue sources and reserves are proposed to be used to balance the FY 2009 operating budget. A basic principle on which most would agree is that ongoing operating expenses should be fully supported by reliable, recurring sources of revenue. To support ongoing expenses with one time funding sources or reserves is like paying your electric bill from your savings account. Eventually the savings will be depleted but the electric bills will continue to arrive.

The “savings accounts” we are using to balance the FY 09 budget include:

1. Free Cash – put very simply (and the actual method of calculation is far more complex), Free Cash is calculated at the end of each fiscal year, taking the free cash balance from the prior year, plus actual

revenues received during that year, minus expenditures made. The FY 2009 operating budget proposes the use of \$3 million in Free Cash; \$5,057,917 in Free Cash was used to help balance the FY 2008 budget.

An unofficial target for end-of-year free cash (after appropriations are made from the fund throughout the course of the year) is a minimum of ½% of general fund revenues, or \$551,000. Higher levels are recommended.

2. Stabilization Fund – Our current balance in the Stabilization Fund is \$3.35 million. The FY 2009 budget proposes to utilize \$600,000 from this fund; \$256,102 from the Stabilization Fund was used to balance the FY 2008 budget. Natick’s initial use of Stabilization Funds in response to what was hoped to be a temporary downturn in state aid was not inappropriate, but persistent and ongoing use of these funds is contrary to recommended practice. In recent years we have used as much as \$750,000 from this reserve to fund ongoing operating expenses.

3. Overlay surplus

Each year’s operating budget includes an overlay reserve account to fund property tax abatements and exemptions that may be granted in that fiscal year. The account is controlled by Board of Assessors. Once all exemptions and abatements for a particular fiscal year are resolved or can be reliably predicted, the remaining overlay reserve funds may be declared by the assessors as overlay surplus.

Typically the overlay surplus is released incrementally, and is often used to fund capital needs. But to help balance the fiscal year 2008 budget the assessors were asked to and did release all potential surpluses from FY 2006 and earlier; a total of \$1,226,024 was released. Thus the availability of this funding source in future years is limited until the reserve is replenished; no overlay surplus is proposed for use for the Fiscal Year 2009 budget.

4. Summary

Natick’s initial use of reserves and one-time funding sources in response to abrupt reductions in state aid around FY 2003 was not necessarily an unsound decision, as it was hoped that the state would quickly restore its commitment to local governments. Unfortunately, while state aid has been on the up-rise, it is not yet at its prior levels as a percentage of overall revenues. Thus, we are more reliant on Local Receipts and Taxation, as well as reserves and one-time revenues, to fund ongoing operating costs.

During the fiscal years 2005 through 2009, the Town has used between \$3.6 million to \$4.36 million each year in reserves and one-time revenues. Our continued use of such funding sources has put the community in a very precarious financial position that appears unsustainable in future years. Further, by using these financial resources for ongoing operating needs, we’ve jeopardized our ability to keep pace with the town’s capital needs, which will only cost the town more in the long run.

THE PROPOSITION 2½ OVERRIDE PROPOSAL

The Board of Selectmen formed a Financial Planning Committee which is made up of two members from the Board of Selectmen, two members from the Finance Committee, two members from the School Committee, the Superintendent of Schools and the Town Administrator. The primary objective of the

Financial Planning Committee is to develop consensus regarding projected revenues and expenditures for coming fiscal years and to develop strategies to respond to projected shortfalls.

The Financial Planning Committee voted to recommend to the Board of Selectmen that a Proposition 2 ½ Override question be presented to voters and specifically indicated that, in order to preserve Natick's existing services and infrastructure, an Override in the range of \$5.5 to \$6.5 million should be considered. This number reflected the Committee's commitment to the capital needs of the Town; the intent is that the funding would be used not only to address the operating budget shortfall but to fund a significant backlog of capital needs.

As the Board of Selectmen debated the challenges facing the community as well as the Financial Planning Committee's recommendation, the primary factors under consideration were the impact on services in the event that an override is not presented or not approved by voters, and the impact on taxpayers if an override is approved.

In the end, the Board of Selectmen voted unanimously to present to the voters a Proposition 2 ½ Override in the amount of \$3.9 million. The election on this ballot question is Tuesday, March 25, 2008.

If the Override is Approved

This override, if approved, will permanently add \$3.9 million to the overall amount that the town collects in taxes. These additional funds will allow the general government and schools to maintain existing service levels, fund modest additions to certain operations in the general government and school system and address additional capital needs.

Specifically, if the override is approved, the School Department is proposing to fund \$400,000 for continued upgrade of its technology programs and \$100,000 for basic classroom supplies. In addition, \$100,000 would be put in reserve to be used, with Finance Committee approval, for repairs on an as-needed basis at the High School.

If the override is approved, the Town proposes to add a Housing Planner in the Community Development Office and two part-time staff in the Human Services Department at a total cost of \$140,590, including benefits.

A Planner – particularly in the area of housing planning – is critically needed in the Community Development Department. The number and complexity of development proposals reviewed by this department is staggering and, to a large extent, limits opportunities for long range planning; development and administration of grant opportunities; enhancement and support of initiatives such as downtown revitalization, affordable housing, open space planning and much more.

The positions within the Human Services department – a Licensed Independent Clinical Social Worker and an Outreach Worker – were identified as critical if the override passes to ensure that we are offering access to all available financial and other resources for our residents in need of such services. It is critical that we consider the inevitable impact on our residents should the override pass – in particular the impact on those with a limited ability to pay. Efforts must be made to mitigate this impact to the greatest extent possible. One obvious response is to ensure that our Human Services department has the

capacity to respond to those seeking its services. The Human Services department works to ensure that residents have access to all available resources such as financial assistance, access to health care, transportation and more. Because of the anticipated additional case load for this department if the override passes, the additional staff positions are proposed.

Finally, approval of the override would allow additional capital needs to be addressed. In the absence of an override, only the most critical of our capital needs would be funded (“Tier IA”); these total \$1,283,900 and would be funded by a combination of borrowing and free cash. If the override is approved, an additional \$2.8 million in capital needs would be funded (“Tier I”); these projects and purchases would all be funded by borrowing. A list of the projects is attached as Exhibit 2. It should be noted that a significant backlog of unfunded capital needs will remain even if we are able to fund Tier IA and Tier I capital projects. Specifically, the list of capital needs for FY 2009 total over \$7 million, thus if Tier IA and Tier I projects are funded, approximately \$3 million in remaining needs will be unfunded.

If the override is approved by voters, tax bills will increase approximately 6%. By way of example, for a home assessed at \$400,000, the current tax bill is \$4,004. The override would increase this tax bill by \$240 to \$4,244

If the Override Fails

If the Override is not successful, significant cuts totaling \$2.8 million will be necessary across the school and general government operations.

Cuts in general government staff and programming as proposed by the Town Administrator include elimination of 8.5 positions in the Department of Public Works; these cuts will affect the timeliness of all DPW operations including street and sidewalk maintenance, snowplowing, building maintenance, athletic and other field and park maintenance, and equipment maintenance. In addition, among other budget and program reductions, the Council on Aging transportation program would be reduced, the school crossing guard positions would be eliminated, the Morse Institute library would be closed on Sundays and funding for staff at the Natick Community Organic Farm would be eliminated. Complete details of all budget cuts are provided as Exhibit 3. The Board of Selectmen has not yet taken a vote with respect to these proposals.

The Superintendent has proposed budgetary cuts that include reductions in teaching positions, arts and athletic program funding, building maintenance funding, guidance and behavioral counselors, and more throughout the school system. A complete list of budget cuts, as well as a list of fee increases that are proposed by the Superintendent, is attached as Exhibit 4. The School Committee has not yet taken a vote with respect to these proposals.

WHERE DO WE GO FROM HERE?

Whether or not the Override is approved by voters, it is essential that we continue our ongoing efforts to ensure that efficiency and cost-effectiveness are the standard throughout all government operations. We must also continue our efforts to educate and engage the public regarding the budgeting process and the short and long term financial challenges.

There are many positive efforts underway or planned, including:

1. Analyzing the opportunity to join the state's Group Insurance Commission for employee health care
2. Reviewing departmental fees to ensure we are maximizing these revenue opportunities
3. Improving the transparency of Capital Planning process including:
 - a. communicating the vast number of capital improvement and capital equipment needs that are not funded in a timely manner
 - b. establishing within the Financial Management Policies a reliable and realistic funding plan for capital needs
4. Assessing opportunities to further improve energy utilization in buildings and facilities
5. Working with Natick's Retirement Board towards improvement of returns on investment, and advocating for passage of pending legislation that would allow the state to take over investment of these funds
6. Evaluating opportunities to regionalize services
7. Identifying opportunities to provide financial relief for taxpayers with a limited ability to pay tax increases; see Exhibit 5 for a list of such resources.

Recent cost-saving successes include adoption of Mass. General Law Chapter 32B, section 18 which provides that Medicare-eligible retirees from Town service enroll in Medicare and a town-sponsored Medicare supplement program; this is estimated to save the town at least \$600,000 per year. And our recent decision to join the Metrowest Regional Transit Authority should not only save the town approximately \$70,000 per year, but facilitate improved public transportation for residents of Natick and the region.

This is by no means a complete list but rather examples of efforts to effectively use all available resources to deliver high quality cost-effective municipal services and to creatively meet our financial challenges. The Selectmen's recent decision to form a Revenue Enhancement Task Force and an Expenditure Reduction Task Force should serve to enhance ongoing efforts by staff to identify and pursue the most effective opportunities to conserve our financial resources.

But even the best of efforts will not overcome the budgetary shortfall anticipated for FY 2009. The financial challenges we are facing today have been predicted for years. An override was very carefully considered last year to help fund the FY 2008 budget. However, through the Finance Committee review process, extensive use of additional reserves and one-time revenues was recommended instead. In making this recommendation the Finance Committee was clear that the strategy of using extensive reserves and one-time revenues could not be sustained, and that the community will face difficult decisions in FY 09 and beyond regarding the need for substantial additional revenues through a Proposition 2½ Override if existing service levels are to be maintained.

In hindsight, this may not have been the most financially sound approach as the inevitable (a requested Proposition 2 ½ override) was only delayed, not avoided. More importantly, however, our reserves have been further diminished and we still are not adequately funding our ongoing capital needs.

Approval of the Proposition 2 ½ override proposal would allow us to maintain existing services and address a critical area – planning and managing growth – identified as a priority through the Natick 360 long-range strategic planning effort process. It also allows us to enhance service to the segment of the

population most impacted by the override due to their limited ability to pay. Further, with the override proposal, we are able to fund more of our capital needs. While the “backlog” of needs is not addressed, our highest priorities are funded in the override scenario.

Absent the override, we face significant reductions in critical service areas across all government functions. It will be up to the voters to choose between service reductions or the override. I hope that this and other information that we provide will enable you, the voter, to make an informed decision.

Sincerely,

Martha L. White,
Town Administrator