



*Town of Natick*

FY 2012 Preliminary Budget

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# **Town Administrator's Budget Message**

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TOWN ADMINISTRATOR  
FISCAL YEAR 2012 BUDGET MESSAGE

January 3, 2011

To the Honorable Board of Selectmen and the Residents of Natick, it is my pleasure to submit the Town Administrator's Fiscal Year 2012 Preliminary 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 2011; employee compensation and departmental expenses were budgeted accordingly accounting for fixed cost increases (i.e. contractual services, contractual employee step raises, negotiated cost-of-living allowances, etc.). Note that no COLA has been included for members of the DPW Laborers' Union or the Patrol Officers' Union as, as of this date, successor collective bargaining agreements have not yet been negotiated. To the extent that negotiated COLAs are determined during the budget process, they will be accounted for separately.
- A 2% COLA has been included for non-union personnel to coincide with the movement of those employees to the Rate Saver health care plans.
- 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.

As has been the case for several years, to the greatest extent practicable the Town's Financial Management Principles (copy attached) were used as a policy guide in the development of the budget. It is worth noting that FY 2011 was the first time in many years that Stabilization Funds were not used in support of the operating budget. This represented a significant move towards compliance with the Principle that we should use reserves and one-time revenues only for capital and non-recurring expenses.

With this FY 2012 budget submission, the Administration is pleased to continue its efforts to improve the comprehensive budget presentation. This year, we have provided a Revenue Model, a tool to provide historical revenue data and to ensure consistent methodology in our revenue forecasting. We also have continued to refine the

departmental Performance Indicators, first introduced with the FY 2011 budget. The indicators supplement the narrative and other budget sections by providing quantifiable and objective data with which we will be able to measure departmental performance, workloads or to report the quantity or volume of products and services provided by the division or department. Ultimately we will utilize this data to measure efficiency and outcomes.

Reviewers will also note that this year's School Department submission provides a greater level of detail and is in a format consistent with other departmental budgets, for ease of review.

Note that other sections of the FY 2012 Preliminary Budget, specifically the Budget Overview and the Deficit Reduction Plan, are incorporated into this Budget Message by reference.

### ***The Town's Reserve Position***

Over the last couple of years, the Town has taken significant positive steps towards strengthening its reserve position, consistent with guidelines contained in the Town's Financial Management Principles. Specifically, our Stabilization Fund has a present balance of approximately \$4.3 million, only slightly shy of the \$5 million recommended target. Further, we recently created a separate Capital Stabilization Fund to provide transparency to the amount of monies generated through the local option meals tax and the recently increased hotel/motel tax, and to ensure that these funds are used for capital/debt purposes only.

As we approach FY 2012, we are in the unique position of having relatively high one-time revenues, specifically Free Cash and Overlay Surplus. While we must be prudent in the use of these revenues and resist the urge to use them in support of recurring operating costs, these funds provide us with a unique opportunity to develop and implement a plan aimed at helping to stabilize the Town's available revenues during times of economic downturn – to help level out declines in State Aid and/or Local Receipts such that we can continue to support the desired level of services to residents.

Specifically, the Administration proposes the creation of a third Stabilization Fund to be known as a "rainy day" or "operational" reserve or, officially, as the Operational Stabilization Fund. The creation of this fund is detailed under the Deficit Reduction Plan section of the budget in the document entitled "Focus On: Operational Reserves and Prudent Usage of One-Time Revenues for Operations." Amendments to the Town's Financial Management Principles are proposed to reflect establishment of this Rainy Day Reserve as well as the Capital Stabilization Fund (see attached). These proposed policy amendments will be reviewed by the Board of Selectmen during their budget deliberations over the coming weeks.

The concept of a Rainy Day reserve is not new. The Commonwealth of Massachusetts has for many years maintained multiple reserves - often dubbing one as the "Rainy Day Fund" for use in subsidizing the state budgets.

Creation of this fund will allow us to further enhance our reserve position. While the Administration maintains its position that the general Stabilization Fund should not be used in support of recurring costs, prudent use of this Rainy Day Fund could help the Town weather fluctuations in revenues from year-to-year.

The “Focus” document within the Deficit Reduction Plan section of the budget provides definitions for this reserve fund as well as targets for when and how to use it. Under this plan, we would seek Town Meeting’s authorization to appropriate \$1,751,922 into the fund and utilize \$481,672 in support of the FY 2012 operating budget.

### ***Budget Shortfall***

These additional funds are certainly needed as, preliminarily, balancing the FY 2012 budget is proving more challenging than previously anticipated. Specifically, at the Town Administrator’s Financial Summit in September, 2010, we forecasted an FY 2012 budget shortfall of approximately \$1.8 million. At present, the forecasted FY 2012 shortfall is approximately \$4.37 million. Utilizing the accepted “split” methodology for allocating this deficit between the general government and school departments, the current general government deficit projection is \$1,160,880 and the school department projected deficit is \$3,211,352.

Importantly, and consistent with the Administration’s practice and the Town’s Financial Management Principles, this preliminary budget reflects conservative projections in all revenue categories. Most notably, we have projected a 10% decrease, or \$1,086,823 drop, in State Aid. We will continue to refine State Aid and all other revenue categories throughout the budget process, and make adjustments – hopefully upward – as conditions warrant.

However, the significant changes between the Financial Summit forecast and today’s Preliminary Budget deficit are within the expense categories. Most notably, we had initially forecast a 4.5% increase in the Natick Public Schools budget whereas their preliminary proposal reflects a 7.66% increase over their FY 2011 appropriated budget. This represents a \$1.8 million increase over our Financial Summit projections and a \$3.78 million increase over the School Department’s FY 2011 appropriation. Some of this increase reflects the loss of federal stimulus funds. Specifically, in FY 2011, the School Department received approximately \$1.13 million in federal stimulus funds that they will not receive in FY 2012; over \$800,000 of these funds had been used in support of teacher salaries and other recurring expenses, consistent with federal guidelines.

The General Government department operating budgets also increased from our Financial Summit projections. Specifically, we had initially forecast a 2.5% increase in these departmental budgets whereas the preliminary proposal reflects a 5.4% increase over the General Government FY 2011 appropriated budgets. For these General Government operating budgets, this represents a \$777,061 increase over our Financial Summit projections and a \$1.45 million increase over the FY 2011 appropriations.

The relatively modest increase in Employee Fringe Benefits should be noted; this is one of several so-called Shared Expenses in that it is shared by General Government and School Departments. Historically, we have budgeted – and often realized – a 10% increase in this category due to the significant cost increases for employee health care. Due to the shift of most employees to the so-called Rate Saver health insurance plans, we are projecting just a 3.5% increase in this category.

The Debt Budget – another Shared Expense – is projected to increase by over \$1.8 million, or 25%; the increase is attributable in large part to the new Community/Senior Center and High School projects. All debt levels are well within norms dictated by the Town's Financial Indicators (see Appendix A).

The budgets submitted by the General Government and School Departments all reflect "level service" budget requests aimed at providing the same level of service in FY 2012 as is currently being provided in FY 2011. Importantly, the budgets presented herein represent each department's analysis and estimation of the costs to provide these levels of services; deliberately, the administration has made no reductions as of yet such that the full cost for these services is presented in this Preliminary Budget. Over the coming weeks, the School Superintendent, Town Administrator, Department Heads, Board of Selectmen, School Committee and Finance Committee will all work to reduce these expenses as necessary to bring the budget into balance.

Strategies to bring the budget into balance are detailed in the Deficit Reduction Plan section, included within this Preliminary Budget document. Those strategies include the following:

- Close monitoring of several revenue categories that we hope will turn more favorable during the budget review process, notably State Aid and Ambulance receipts. Based on only 3 months of data - not sufficient to view as a trend - the ambulance receipts may produce \$300,000 or more than we have currently projected.
- Evaluation of opportunities for fee increases.
- Evaluation of areas where budgeted amounts may be able to be reduced without impact, including costs for electricity (electric supply bids due next week could be more favorable than current rates), funding levels of "safety nets" associated with the Rate Saver health insurance programs, and others.
- Evaluation of the feasibility and benefits of combining General Government and School Administration's various facility management functions; this evaluation is underway
- Personnel reductions will certainly be evaluated; preliminary estimates suggest that as many as 11 full-time-equivalent positions may need to be eliminated within general government operations, along with the associated program or service reductions.

In the end, the budget closing scenario will inevitably involve a combination of these, and perhaps other, strategies.

### ***Capital Planning and Budgeting***

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 noted earlier in this Budget Message, one-time revenues may appropriately be used in support of the Capital Budget, and the Town is in the unique position of having relatively high levels of one-time funds. Accordingly, and particularly given the inadequate funding of our capital needs in recent years, we propose to use over \$1.5 million in Free Cash for our capital needs.

### ***Conclusion***

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. As indicated previously, the FY 2012 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 2011. Based on the best available projected revenues, this creates a resulting deficit of over \$4.37 million.

We have been successful in achieving cost-cutting and revenue-enhancing measures in FY 2011, most notably negotiating health care changes with most of the Town’s 17 collective bargaining units. Other critical evaluations must be aggressively advanced – and the administration is committed to doing so – including:

- Regionalization of services. Ideas being explored with area communities include:
  - Solid waste, recycling and yard waste. We have received a technical assistance grant to evaluate opportunities for the Towns of Natick and Sherborn collaborate with respect to the provision of these services.
  - Regional Dispatch. Natick is part of an eight-town collaborative that received a grant to study the feasibility of this opportunity; if feasible, this would be a multi-year effort as we move toward implementation.
- As previously noted, the potential of combining General Government and School Department facility management functions. While complex, many towns have moved in this direction and realized cost savings, efficiency improvements, or both.

Natick provides an outstanding 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.

Thus, we again face significant challenges as we undertake the process of bringing the budget into balance. The Administration will diligently meet these challenges with due care and concern for both 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 our means based on reliable, 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.

I am deeply grateful to the Deputy Town Administrator Michael Walters Young, whose skills have vastly improved the quality, detail and presentation of the Town’s budget materials, as well as to the Department Heads, whose dedication to this community and ability to continuously do more with less enables us to provide high-quality cost-effective services across all operations.

Sincerely,

A handwritten signature in cursive script that reads "Martha L. White".

Martha L. White  
Town Administrator

# Financial Management Principles - Existing

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## **PART 1: GENERAL**

To protect the town's financial stability, to ensure the availability of adequate financial resources in times of emergency, to capitalize on high bond ratings (and thus low interest rates), it is essential that policies regarding the town's financial management be adopted and adhered to in the preparation and implementation of the town's operating and capital budgets.

## **PART 2: PRINCIPLES**

### **Reserves: Use and Recommended Balances**

- Reserves and one-time revenues should be used only for capital or other non-recurring expenses.
- The Town will strive to maintain unappropriated free cash at a minimum of 1% of revenues, and unappropriated free cash should never be less than ½ % of revenues.
- The stabilization fund should, at a minimum, be at a level equal to 2% of revenues, with the target being 5% of revenues; the stabilization fund should be replenished with surplus funds whenever possible.
- Existing reserves should be enhanced whenever possible.

### **Capital Planning and Budgeting**

- A 5-Year capital plan should be developed and updated annually, per Section 5-7 of the Town's Charter.
- Whenever practical, capital funding should be done in the fall after free cash has been certified.
- A minimum of 8% of general fund revenues should be set aside annually to fund capital needs, inclusive of cash appropriations and the subject year's debt budget. Not included in this target are those capital improvements and equipment purchases funded through debt exclusion, Enterprise Fund or Intergovernmental or other sources such as Chapter 90, mitigation funds, etc. Ideally, this target should provide for a minimum of 10% of general fund revenues set aside in support of annual capital budget given the size of the Town's capital assets. However, the Town's current fiscal situation makes such a target unrealistic. This goal should be revisited at the earliest possible opportunity.

### **Debt Issuance and Management**

- Capital projects should be carefully scheduled and monitored to minimize borrowing costs while optimizing investment opportunities.
- Large capital project, generally costing over \$1 million and having a useful life of ten years or more, are typically funded with debt to spread the cost out over many years. In order to prevent such projects from absorbing significant capacity within the levy, careful consideration should always be given to excluding these projects from the limits of Proposition 2 ½ through debt exclusion question to the voters.
- Whenever practical, the issuance of expensive short-term Bond Anticipation Notes should be avoided.

### **Financial Planning and Forecasting**

- Revenue estimates should be realistic, yet conservative, to minimize the potential of shortfalls in the subsequent year's operating budgets and corresponding impacts on free cash.
- Three year revenue and expenditure forecasts should be updated annually.

### **Cash Management**

- Balances in prior Town Meeting funding articles shall be reviewed annually and excess balances shall be closed out to free cash.
- Fees and charges will be reviewed regularly to ensure that – where appropriate – they cover direct and indirect costs associated with the related service.

*Adopted by the Board of Selectmen January 4, 2010*

# Financial Management Principles – *Proposed changes in red italics*

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## PART 1: GENERAL

To protect the town's financial stability, to ensure the availability of adequate financial resources in times of emergency, to capitalize on high bond ratings (and thus low interest rates), it is essential that policies regarding the town's financial management be adopted and adhered to in the preparation and implementation of the town's operating and capital budgets.

## PART 2: PRINCIPLES

### Reserves: Use and Recommended Balances

- Reserves and one-time revenues should be used only for capital or other non-recurring expenses, *except as noted below.*
- The Town will strive to maintain unappropriated free cash at a minimum of 1% of revenues, and unappropriated free cash should never be less than ½ % of revenues.
- *The Town will maintain a diversified series of permanent reserves in the form of stabilization funds. These stabilization funds will consist of three types:*
  - *1. A General Stabilization Fund should be maintained for the purpose of unforeseen and catastrophic emergencies. It should, at a minimum, be at a level equal to 2% of revenues, with the target being 5% of revenues.*
  - *2. An Operational Stabilization Fund should be maintained for the purpose of augmenting operations in case of sustained economic downturn and associated loss of revenues in support of operations. Sustained economic downturn will be any situation whereby State Aid and/or local receipts are significantly reduced from one-year to the next. ("Significantly" being defined as more than 5% of the total for the respective revenue category.) The target amount of money in the Operational Stabilization Fund should be sufficient to sustain operations through a three-year period of economic downturn. This shall be equivalent to 10% of State Aid Revenues and 5% of Estimated Receipts cumulative for a three-year period.*
  - *3. A Capital Stabilization Fund should be maintained for the purpose of funding any capital related project, or pieces of capital equipment, or debt-service payment related thereto. It shall be funded through local option taxes*
- Existing reserves should be enhanced whenever possible.

### Capital Planning and Budgeting

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*Adopted by the Board of Selectmen January 4, 2010  
**Proposed Amendments by Town Administration, January 1, 2011***



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FY 2012 Preliminary Budget

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