



TOWN OF EASTON
MASSACHUSETTS
Office of the Town Administrator

DAVID A. COLTON
Town Administrator

**Town of Easton
Fiscal Year 2009
Budget Information Memorandum**

Introduction. The Town of Easton took a major step towards resolving fiscal inadequacies by approving a \$3.4 M operating override for fiscal year 2007. This action benefited the Town in fiscal year 2008 by allowing it to address some deficiencies in public safety staffing and to fund most of the recommendations submitted by the Capital Planning Committee. As a result, fiscal year 2008 has been one of financial stability as well as a year where service levels did not deteriorate.

Pressures on FY 2009 Revenue and Expenditure. In fiscal year 2009, the challenge will be in maintaining the status quo in the face of the largest Consumer Price Index increase to hit the United States in 17 years, rapidly rising energy costs fueled by \$100 per barrel crude oil prices and a weak dollar, employee benefit cost increases in the high single digits, as well as revenue problems associated with the downturn in the general economy. For example, we expect that the general state of the economy will effect new car sales and thus excise taxes, building permits for new construction are down which effects growth in real estate taxes and the Commonwealth is expecting a shortfall in 2009 which cannot be good news on the local aid front. Local aid projections reflect the Governor's Budget (aka House 2). However, unlike last year there are significant issues yet to be resolved. Most importantly is the Governor's proposal to use casino licensing fees to offset decreases in Lottery Aid. Additionally, new growth in fiscal year 2008 was at a higher than expected level, and the same level can not be counted on fiscal year 2009.

Beyond 2009. Town staff and the Budget Sub-Committee are working to develop a five year projection of Town revenue and expense. Although we have not completed the projections it is clear that a general tightening will continue and is likely to worsen. According to the Massachusetts Taxpayers Foundation, the financial outlook is worsening and there is no relief in sight. This is expected to be a record year for proposed proposition 2 ½ override elections. A cursory look around the region shows several communities recently held failed override elections and others are planning elections for this year. Due to the successful override in 2006, we are better positioned than many of our neighbors; however we are not immune to the structural inadequacies of our system of municipal finance. It is only a matter of time before we too are faced with serious budget problems. Accordingly, we must take steps to forestall the coming

difficulties for as long as possible. The following list summarizes some of the steps we are taking and a few the Town ought to consider:

- ⇒ **Health Insurance.** Close monitoring of the cost of employee health insurance premiums continues to be a priority. The Town of Easton, through its membership in the Southeastern Massachusetts Health Group, must continue to seek competitive bids and entertain changes in plan design to keep the rate of increase from returning to double digits. In the past two years, with the cooperation of employee unions, the Town has increased the employee premium contribution by 5% and mitigated larger premium increases by adopting higher co-pay amounts. The effect of these actions limited the two year average increase to about 5% and brought our cost to a level that compares well with premiums paid by members of the State's Group Insurance Commission (GIC). **Annual comparison to the GIC premiums should be conducted to determine whether switching will save money.**

- ⇒ **General Insurance.** Property, Liability and Workers Compensation Insurance premiums at \$708,593 represent an 11% increase over fiscal year 2008 mostly due to increased building values as the new schools come on line. Otherwise, the increases have been held to 5% due to a multi-year contract that was entered into last year and aggressive loss control measures. The Town's Executive Loss Control Committee meets regularly with our insurer to monitor losses, implement prevention programs and administer an extensive menu of employee training aimed at minimizing both property losses and workers compensation claims. **Next year the Town ought to evaluate whether going to competitive bids might produce more favorable premiums.**

- ⇒ **Core Services.** Core services (education, public safety, and public works) make up about 70% of the operating budget and contribute greatly to the quality of life in Town. Therefore, protecting these services from erosion remains a top priority. Two areas greatly affect the cost of delivering these core services: labor and energy. Given the unionized nature of our work force, the increase in labor cost is likely to very closely track the overall cost of living. Energy dependent operations such as police patrols, ambulance runs, and snow plowing are unlikely to experience reduced demand and are therefore highly susceptible to rising energy costs. Although we have joined the US EPA Energy Challenge which causes us to constantly evaluate and re-evaluate our energy use behavior, the largest savings will come with investment in more efficient systems and renewable sources. **In 2009 the Town of Easton ought to develop a Capital Improvement Program for Energy Efficiency that includes the development of alternative and renewable sources of energy for buildings, vehicles, and other facilities.**

- ⇒ **Vision.** Developing a vision is a way to strengthen local identity. Having a plan protects environmental resources and aesthetic qualities people value, and having a plan helps a community adopt an efficient program of capital improvements. If we are to avoid crisis management, plan appropriate economic development strategies, attract business investment, fully utilize the zoning and land use tools available under state law, and maximize grant funding, it is essential that we have a shared vision and a well staffed Planning Department to shape and shepherd that vision into reality. **Beginning in FY09, with the Community Development Plan, the Town ought to work towards the completion of a full Master Plan for the community as a whole.**

- ⇒ **Tax Base.** Property Tax Revenue accounts for two-thirds of our general fund revenue and is therefore the most important source of financing. Under proposition 2½ our tax levy cannot grow by more than 2½% in any given year unless there is new growth in our tax base. New growth is added to the tax levy in addition to the 2½%. However, not all new growth is created equally as some forms of growth (single family homes) generate more cost in terms of Town services than other forms (retail, office). Therefore, the Town must be prudent in its approach to growth and how it approves land uses. In fact, half of all commercially zoned land in Town is used for a residential use. **The Town of Easton ought to proactively seek smart development that expands the tax base while providing net fiscal benefit.**

- ⇒ **The Commonwealth.** State aid is expected to contribute 23.79% of total revenue to the Town in fiscal year 2009. This is down two-thirds of one percent as compared with fiscal year 2005. If inflation is factored in we begin to understand that in real terms state aid is not keeping pace with the cost of services being borne by local tax payers. Governor Patrick's Municipal Reform Act has met with limited legislative success. His employee health insurance plan contains collective bargaining obligations that offset expected savings; the local option meals tax has faced opposition in a legislature that is loathe to approve anything that will be seen as a tax increase, and closing the telecommunications tax loophole has yet to see any legislative action. **Town officials ought to continue to be active in the Massachusetts Municipal Association, Massachusetts Selectmen's Association and other groups involved with lobbying the Governor and Legislature for increased state aid.**

- ⇒ **Regionalization.** Efforts to expand regionalization as a method of reducing the cost of municipal services are expected to increase over the coming year. Past discussions have centered on efforts in very small towns that rely heavily on part time employees. Sharing employees can reduce the cost of benefits; however, such arrangements are very limited as the size of participating towns increases. To make any appreciable

difference we would have to look at the larger departments. Not to endorse any particular form of regionalization, but by way of example, fire service is often looked at as a candidate for regionalization. Indeed, the mutual aid system is one of the most successful forms of regionalization in Massachusetts. It may seem logical to some that mutual aid being carried to a further extreme may prove beneficial as it is conceivable that reductions in overhead and overtime could be achieved with a regional plan. Many obstacles could only be overcome with legislative help in terms of capital financing for new facilities to insure adequate coverage and relief from collective bargaining agreements to provide uniform salary and benefits across a region would need to be addressed. **The Town ought to participate in discussions at the State level involving any legislative initiative to encourage greater regionalization of municipal services.**

⇒ **Privatization.** Privatization is often cited as an effective tool in reducing the cost of municipal services. In fact, most communities (including Easton) practice some form of privatization. The Town of Easton currently utilizes private vendors for the collection and disposal of solid waste, pavement and pavement markings, collection of certain accounts, and legal counsel. One major area that some communities have privatized, that Easton has not, is ambulance service. Potential savings from privatizing ambulance service come in the form of reduced labor and capital costs. Ambulance service contributes to Fire Fighter overtime and to the requirement that all Easton Fire Fighters also be Paramedics. Each Paramedic receives \$4,650 per year in addition to the regular firefighter salary. Private ambulance service typically requires no payment by the Town, but removes a source of revenue. **The Town ought to take a comprehensive look at the potential savings in and obstacles to privatizing ambulance service and make an informed decision over the next year.**

⇒ **Self-sufficiency.** Certain Town departments such as Recreation and Council on Aging provide direct services to clients and participants in activities. Others, such as Inspectional Services and Board of Health provide direct services for a fee. It is essential that fees are appropriate in that they cover the cost of the service and are in line with fees charged by neighboring communities. To this end, the Easton Inspectional Services Department increased all fees on January 1, 2008 and I have asked the Board of Health to evaluate their fees. It is my understanding that the Health Agent is conducting such an evaluation and will be making specific proposals. Certain programs, such as those offered by the Council on Aging and Recreation Departments, are subsidized by other Town revenues because charging full fees would diminish participation and obviate the public policy goals inherent to offering these programs. However, we must in fairness to the taxpayer make sure that our fees are

the maximum practicable which balance the need of the participating client with the ability of the taxpayer to support such programs. To this end, I have instructed the department heads in these areas to evaluate their fees and take steps to ensure their programs are self-sufficient to the greatest extent possible. **The Town of Easton ought to continuously review the fees it charges for various services to ensure sufficiency of resources and fairness to taxpayers and users.**

⇒ **Payments in lieu of taxes.** In Fiscal Year 2008 the Town received \$66,800 in payments from the state for tax exempt land it owns. This is based on formulas set by the state and is subject to periodic review. The next review is scheduled for 2010. On the other hand, our other major owner of tax exempt land (Stonehill College) is subject to no agreement. Each year the College makes a gift to the Town of \$20,000, an amount that hasn't been revisited in many years. This year the Chairman of the Board of Selectmen and I initiated discussions with Stonehill College to address this issue. Those discussions are on-going and are expected to produce an increase in this payment. **The Town needs to be involved in the revaluation of State owned land to be conducted in 2010 and continue to press Stonehill for increased contributions for services in lieu of taxes.**

The following budget is not balanced and therefore will be revised over the coming six weeks leading up to Town Meeting. Most Town department head requests are based on specific instructions to develop "level service" budgets. The major exception is the Police Department, where two new positions are being proposed. One of these new positions is being subsidized by the Southeastern Regional School to cover the cost of a school resource officer. In addition, the Board of the Ames Free Library is seeking a 32% increase. I have cut that to a 5% increase in Town support. In addition, the Department of Planning and Community Development is seeking additional funds in order to complete a community development plan. This plan is necessary to qualify the Town for certain grant programs, such as one which could provide funding for the renovation of the senior center at Frothingham Hall.

The School Department has indicated that they will request a 6.4% increase in the operating budget for education. Details of that budget will be forthcoming from the School Committee and Superintendent. Indications are that the School Department is facing the challenge of increased energy costs to operate the many school buildings.

The non-operational budget items are much clearer than is typically the case at this point in the process. For example, our health insurance is based on a firm bid price that was solicited last fall by the Southeastern Massachusetts Health Insurance Group, and our insurance costs are more reliable due to a multi-year contract negotiated last year. However, due to the increased value of the new school buildings, we expect a premium increase in our property insurance.

Revenue estimates are less clear at this time, with the exception of taxation. Taxation is expected to grow by 5.13%. Local receipts have stalled with estimated growth of only 3.07%, mainly due to the reduction in motor vehicle excise tax receipts and the slowdown in building permits. State aid estimates appear solid with an increase of 6.33%; however, we remain concerned over the contingent nature of the Governor's budget proposal to restore proposed cuts to lottery aid.

This preliminary budget does not make any recommendation regarding the use of reserves in addition to the amount used to support the fiscal 2008 budget. Free cash was certified by the Department of Revenue at \$1,612,338. We used \$522,963 in the fall at the special town meeting, of which \$400,000 was transferred to the Stabilization Fund. This leaves us with an available balance of \$1,089,375. Whenever possible, free cash should be used only for one time costs or costs that do not recur annually. The current Stabilization Fund balance is approximately \$2.5M. This amount was designated to help stabilize the Town's financial condition and maximize the period of time between overrides. In my preliminary budget message last year I said, "It is likely that we will see some use of the Stabilization Fund, given the increases resulting from level service budgets and the continued escalation of health insurance and utility costs." Luckily we were able to avoid this through changes in our health insurance program that led to record low increases. This year we will not be able to repeat that performance, although we have held the increase to single digits.

The Selectmen, School Committee, and Finance Committee will need to work together to bring this budget into balance through the judicious use of stabilization, free cash, and targeted cuts in requested budgets.

The Numbers. First, revenue is summarized below. It is still too early to determine revenues with absolute certainty but a good working estimate of the overall increase in general fund revenue is 4.93%.

TOWN REVENUE				
Description	FY 2008 <u>Budget</u>	FY 2009 <u>Projected</u>	Increase/ <u>Decrease</u>	Percent <u>Change</u>
Taxation	\$ 37,650,812	\$ 39,581,129	\$ 1,930,317	5.13%
Local Receipts	5,292,198	5,454,500	162,302	3.07%
State Revenue	<u>13,207,936</u>	<u>14,043,620</u>	<u>835,684</u>	6.33%
Total General Fund Revenue	\$ 56,150,946	\$ 59,079,249	\$ 2,928,303	5.21%
Less Exempt Debt Adjustments	<u>(1,723,328)</u>	<u>(1,968,977)</u>	<u>(245,649)</u>	14.25%
Net General Fund Revenue	\$ 54,427,618	\$ 57,110,272	\$ 2,682,654	4.93%
Water Enterprise	<u>3,004,494</u>	<u>3,040,413</u>	<u>35,919</u>	1.20%
Total	<u>\$ 57,432,112</u>	<u>\$ 60,150,685</u>	<u>\$ 2,718,573</u>	4.73%

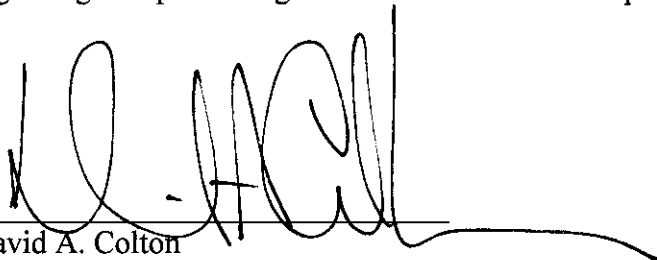
Second, we show requested operating expenditures in the table that follows. Overall, the Department Heads are requesting an increase of approximately 4.51%, which is lower than predicted revenue growth. Costs in other categories such as employee health insurance, state/county assessments, and pension expense will increase at a greater rate with few additional opportunities to control these costs.

<u>Expenditures</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>\$Diff</u>	<u>%Diff</u>
Public Safety	\$6,818,678	\$7,206,965	\$388,287	5.69%
Police	3,501,901	3,714,184		
Fire	2,656,279	2,817,861		
Ambulance	383,420	391,014		
Fire Alarm	21,792	21,792		
Inspectional Services	255,286	262,114		
Public Works	\$5,044,935	\$5,201,424	\$156,489	3.10%
DPW	2,588,194	2,708,764		
Water	2,456,741	2,492,660		
Public Services	\$1,676,223	\$1,755,730	\$79,507	4.74%
Town Clerk	236,266	249,721		
Planning & Comm Dev	273,267	298,485		
Board of Health	237,066	215,409		
Council on Aging	191,996	207,654		
Veterans	216,250	238,296		
Recreation	91,411	94,700		
Library	429,967	451,465		
General Government	\$1,552,269	\$1,581,065	\$28,796	1.86%
Selectmen	281,147	289,301		
Town Counsel	180,000	180,000		
Accountant	166,589	173,833		
Assessors	212,383	217,779		
Collector/Treasurer	277,760	281,527		
Information Tech.	245,265	242,315		
Finance Committee	3,000	3,000		
Reserve Fund	80,000	80,000		
Other	106,125	113,310		
Collective Bargaining Reserve	\$83,000	\$115,000	\$ 32,000	38.55%
Total Operational Departments	\$15,175,105	\$15,860,184	\$ 685,079	4.51%

An alternative way of viewing this fiscal picture is to understand that the Town Operating Budget is seeking approximately 25% of the total predicted growth in revenue and the School Department is seeking approximately 69% for its operating budget. The balance of 6% is not sufficient to cover increases in debt service, cherry sheet charges, employee and retiree benefits, insurance and other expenditures such as the snow and ice deficit from fiscal 2008, which as of this writing is at \$201,000 and still potentially growing. Covering these increases will utilize almost 43% of predicted revenue growth. This will prove difficult to attain without some combination of cuts from requested budgets and increased use of reserves.

In real terms, the Town budget at this early point in the process is \$1,059,806 in deficit. For all of the reasons discussed above I am not optimistic about bring this into balance without some difficult decisions around budget cuts. Although stabilization can and should be used we must do so carefully to insure that the fund remains viable into the future.

Next Steps. We will continue to work with department heads to fine-tune the requests and endeavor to obtain reliable estimates of other costs and revenues. The budgeting process at the State level will be followed closely with regard to local aid estimates. Discussions at the Budget Sub-Committee level need to take place over a strategy for use of free cash and stabilization. In the coming weeks I will be making recommendations regarding a Capital Budget that will also effect the process of reaching a balance budget.

A handwritten signature in black ink, appearing to read 'D. Colton', written over a horizontal line.

David A. Colton
Town Administrator
February 29, 2008