



Town of Natick

FY 2015 Preliminary Budget

Town Administrator's Budget Message



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TOWN ADMINISTRATOR
FISCAL YEAR 2015 BUDGET MESSAGE

January 2, 2014

To the Honorable Board of Selectmen and the Residents of Natick, it is my pleasure to submit the Town Administrator's Fiscal Year 2015 Preliminary Budget, which represents the culmination of weeks of effort across all levels of the general government and school administrations. This budget message will be used as an opportunity to discuss our overall fiscal condition, and to review our successes in achieving cost savings and the financial challenges we face in our future.

As has been indicated in prior budget messages and budget updates to Town Meeting, Natick has weathered the recession very well. In fact, our fiscal condition is more favorable now than when the recession began. We have significantly improved our reserve position, reduced our reliance on one-time revenues for recurring expenses and balanced our budgets without having laid off any employees. We have also enhanced our commitment to and financing of our capital needs. We have adopted and adhered to Financial Management Principles (attached) for our various funds and improved our credit rating to the highest possible level.

We are committed to a budget process that is open and informative; it is our conviction that a well-informed and engaged citizenry facilitates dialogue and debate that leads to collaborative and creative problem-solving. To this end, we have continuously improved the clarity and depth of information provided in the Town Administrator's Preliminary Budget. Together with the extensive material accompanying this budget message, we provide a comprehensive overview of the town's financial position, as required by Article 5 of the Charter of the Town of Natick.

This preliminary budget will be reviewed over the coming weeks by the Board of Selectmen, Finance Committee and School Committee. As always, this process will be transparent and available to the public, and we encourage the public's awareness and participation.

The development of the annual budget involves careful analysis of projected revenues and expenditures. With respect to revenues, we carefully evaluate all available sources and develop projections for the coming fiscal year based on past receipts and available information regarding future trends. In recent years, this process has undergone a much greater level of scrutiny; the Deputy Town Administrator/ Finance Director has developed a Revenue Model (see Section II: Revenues) detailing the methodology for forecasting each revenue source.

Our revenue projections for FY 2015 are more than \$1.86 million lower than FY 2014 anticipated revenues. At this early stage in the budget process, most revenue sources are difficult to forecast; accordingly, the current revenue projections are very conservative. Over the coming months more reliable information will become available and the forecasts will be adjusted accordingly. Inevitably, our overall revenue projections will be increased.

While significant analysis is undertaken and sound methodology is applied, it is impossible to precisely predict the total revenue that will be received from the more than 25 revenue sources, virtually all of which are subject to some level of fluctuation. Our conservative approach to forecasting would be expected to result in actual revenues exceeding projections, perhaps substantially. Conversely, if revenue projections are overly optimistic, and the projections are not achieved, inadequate funds will be available to support approved expenses, certainly a very undesirable outcome.

The resulting balance between year-end actual revenues and expenditures creates Free Cash. There has been considerable discussion recently that the administration has been overly conservative in our revenue projections, resulting in rather high Free Cash certifications. Specifically, our most recent Free Cash certification was \$6.827 million, and the prior year's certification was \$6.79 million. By way of comparison, Free Cash certifications for the prior 5 years ranged from \$2.4 million to \$5.9 million.

It is the opinion of the Administration that these recent Free Cash certifications have provided beneficial opportunities to build reserves, plan for future capital needs and reduce taxpayers' burden. Specifically, since FY 2010, we have appropriated just over \$9 million from Free Cash to our Operational ("Rainy Day") and Capital Stabilization Funds (this figure includes receipts from Local Option Taxes, which the Administration and Board of Selectmen have almost exclusively favored for use in support of our capital needs). In particular, the Administration has strongly advocated building the Capital Stabilization Fund in anticipation of sizable future capital needs, including school facilities, road and sidewalk improvements and, potentially, a parking garage in Natick Center. Our goal is to continue to build this fund to help offset the inevitable debt exclusion impacts associated with such projects.

The issue of taxpayer burden is an area of significant concern to the administration and the Board of Selectmen. While our substantial commercial and industrial tax base has helped reduce the burden on homeowners – our average single family tax bill is the 4th lowest in the region – several programs have been established to help those who are challenged to meet this obligation. Through the efforts of the Board of Assessors and with the support of Town Meeting, Natick has instituted all property tax exemption programs allowed under Massachusetts General Law, and to the greatest extent allowed by law. We also administer a successful Senior Tax Work-Off Program, and Town Meeting recently approved the establishment of a similar program for qualified Veterans. We also administer an Elderly and Disabled Taxation Fund to assist qualified property owners; this program is funded through donations from Natick residents.

Property taxes have obviously been affected by the recent debt exclusions approved by voters for the new Natick High School and the Community Senior Center. Due to our Free Cash position in recent years, we have been able to provide relief to taxpayers, and the FY 2015 budget reflects this continuing effort. Specifically this Preliminary Budget recommends that \$750,000 be appropriated from the Capital Stabilization Fund to Debt Services thus reducing the amount needed from taxpayers.

Again, to ensure that we can provide this type of taxpayer relief in future years, meet our capital needs on an ongoing basis, and in anticipation of significant future capital projects, it is the Administration's belief that we should be supplementing the Capital Stabilization Fund at every opportunity. Sizable Free Cash is necessary to accomplish these goals.

Nonetheless, a careful review of projected revenues is warranted – and performed – on an annual basis to ensure we are not overly conservative, while still protecting a healthy year-end Free Cash. Notably, current (FY 2014) year's Local Receipts were increased by almost \$600,000 over FY 2013. We will review the actual mid-year collections and if necessary, revise the FY 2015 projection accordingly.

Three other revenue categories warrant discussion. First, the Tax Levy reflects an increase of just over \$2.8 million. This reflects the value of several new projects, completed much earlier than we had predicted, which was first reflected in the FY 2014 certified New Growth and Tax Recapitulation amounts and subsequently added to the FY 2015 Tax Levy.

Second, "Indirects" are projected to reduce by \$114,338. Indirect charges represent the actual and estimated cost of General Fund services that support Enterprise Fund operations. With respect to the Water/Sewer Enterprise Fund (the subject of this revenue adjustment), these include property insurance, utilities and gasoline (which can be accurately determined) as well as the estimated value of support provided by other municipal departments, including the Town Administrator, Comptroller, Information Technology, Legal Services and many others. The value of these indirect services is reflected as an expense to the Enterprise Fund, and a revenue to the General Fund. Our evaluation suggests that the allocation of these indirect costs to the Water/Sewer Enterprise Fund may have historically been overly aggressive; we are in year 2 of a 3-year plan to adjust these indirect charges, reducing the amount charged to the Enterprise Fund and thus the amount received by the General Fund.

Finally, projected FY 2015 use of Free Cash is \$4.5 million less than the amount used in support of the FY 2014 operating budget. This is largely due to the fact that more than half of the current certification – some \$3.6 million – was already appropriated at the 2013 Fall Annual Town Meeting and used to build reserves and offset taxpayer costs of the newest building projects. We do reflect use of \$1.75 million of Free Cash in support of General Fund operations, consistent with our recent practice to use a modest amount of this funding source in support of recurring operating costs.

With respect to expenditures, General Government departments were directed to develop level-service budgets; that is, budgets that deliver the same level of service but at FY 2015 projected costs. Typically, this simply requires salary adjustments to reflect cost-of-living increases for union personnel and performance raises for non-union personnel, as applicable. Occasionally, anticipated expense increases must be reflected. For example, in FY 2015 we are projecting sizable increases or contract service support of our Munis and other software programs; this is reflected in the Information Technology Department budget.

We also advise departments that, if they recommend service enhancements, they may submit a Program Improvement Request (PIR), detailing the need, benefit and cost of such enhancement. We received 20 PIRs from 12 different departments and divisions. Upon

evaluation, we have incorporated parts of 14 PIR requests and the associated costs into this Preliminary Budget. This is not to say that the service enhancements associated with the remaining 6 PIRs are not without merit; most, if not all, reflect enhancements responsive to community need. But when considering budget increases, we must be prudent and conservative, and evaluate our ability to support these costs in future years. All Program Improvement Requests, including those not incorporated into this Preliminary Budget, are included in Appendix E.

Pursuant to the Program Improvement Requests, several new personnel are requested in this FY 2015 Preliminary Budget, including a Police Officer, a Dispatcher, staff for the Finance Department and the Selectmen's Office (both in anticipation of impending retirements), and 3 DPW Laborers. We are grateful for the support of the Selectmen, Finance Committee and Town Meeting for funding the new positions of Economic Development Planner, Information/ Communication Specialist and Payroll/Benefits Coordinator. Each has proven to be extremely beneficial to the organization and we are certain that their good work will be reflected in better service to the community. The positions requested in FY 2015 are non-management and represent either restoration of positions lost through attrition during the recession or filling an impending vacancy while providing adequate opportunity for training from the incumbent.

Overall, General Government department expenses are projected to increase 1.89%.

Pursuant to Section 5-2 of the Town of Natick Home Rule Charter, the School Superintendent has submitted the proposed School Department budget, which has been incorporated into this Preliminary Budget. The School Department budget is projected to increase 9.42%. The Superintendent has indicated that this increase is driven primarily by contractually obligated salary increases for school personnel, the proposed addition of 22 staff positions – driven by special education compliance requirements and continued increases in student enrollment, and significantly higher special education out-of-district tuition costs.

Several budgets make up Shared Expenses, including the Debt Budget, Employee Fringe Benefits, Property & Liability Insurance, Contributory Retirement and Facilities Management. These expenses are considered to be shared by both the General Government and School Departments, rather than being specifically attributed to one or the other. Some of these categories warrant explanation. First, health care costs (a major component of Fringe Benefits) are projected to increase 10%. We will know the actual increase in mid-February and are hopeful that it will be less than our projection. Contributory Retirement costs are projected to increase 8%; we will likely be facing this level of increase for many years in an effort to fulfill a state mandate that the system become "fully funded" by 2040. A substantial increase is reflected in the Facilities Management budget, but this is due largely to the reallocation of funds for building maintenance supplies and materials from the DPW budget to the Facilities Management budget; that is, there is a commensurate decrease in the DPW budget.

Based on the current projections for FY 2015 revenues and expenditures, a deficit of \$3,749,401 results; this is a fairly typical position at this early stage in the budget process.

Based on the so called “split” methodology that has been utilized for several years to determine the allocation of revenues to the general government and school department, the school department is facing a \$3.7 million deficit while general government is not in a deficit position. It is important to recognize however, that the split methodology is a mathematical formula that does not incorporate community priorities, changing needs and other subjective values that must be taken into consideration as we discuss and debate the overall budget deficit over the coming weeks.

As described earlier, our revenue projections are necessarily conservative and will inevitably increase. It is also inevitable that, through the Finance Committee’s budget review process as well as further evaluation by the General Government and School Department Administrations, the Board of Selectmen and School Committee, the expense budgets will be reduced. As required by Section 5-5 of the Charter, the various scenarios that will be evaluated to close this deficit are detailed within this Preliminary Budget (see Deficit Reduction Plan). A balanced budget will be achieved and presented to Town Meeting.

As stated earlier, Natick’s fiscal condition is stronger now than it was before the recession. This did not happen by chance. This administration has been conservative in its spending, consistently evaluated services and operations for opportunities to enhance cost-effectiveness and viewed the long-range financial stability of the community as our highest priority.

We have realized substantial savings through several recent initiatives. Almost all of the streetlights throughout the community have been replaced with longer-lasting, energy efficient LED bulbs; the only remaining lights to be changed over are the decorative lamps in Natick Center and those at several parking lots. We are already experiencing substantial savings within the DPW Energy budget and anticipate a total savings of over \$72,000. This year we also established an in-house curbside recycling collection program; this service has historically been performed by a private contractor. After working out a few minor mis-steps, this program is running smoothly. Not only are substantial savings anticipated, we will be exploring opportunities to expand the service and increase our recycling collection rates.

The summary of this budget message is that, notwithstanding the deficit position reflected in this preliminary budget, we are in a rather solid financial position. This enviable position should encourage us to continue our conservative financial practices with a keen eye on the many needs and challenges that lie ahead. Discretion and good sense must be our guide as we evaluate our opportunities. Over the several years that I have been serving this community, we have endeavored to raise the level of professionalism we provide and be responsive to the needs of the community. These needs evolve over time, and inevitably they do not lessen.

I am grateful to all of 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.

In particular, I cannot overstate my appreciation for the leadership role of the Deputy Town Administrator/ Finance Director Michael Walters Young in the development of both the annual operating and capital budgets. Each and every year, Michael identifies and

implements opportunities to improve the quality, detail and presentation of the Town's budget materials to facilitate clear understanding of the Town's budget by the public and the Boards and Committees responsible for reviewing it. Michael will soon be moving on to other opportunities, but we will benefit from his good work for many years to come.

Sincerely,

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

Martha L. White
Town Administrator