

Town Manager

FY 2016 Preliminary Budget Presentation

Good evening and thank you for allowing me to present the FY 2016 preliminary budget to you. The budget being presented this evening is balanced. While it is balanced, I must note that it may not be in its final form as changing conditions and economic updates may require modifications to the budget now before you. Rest assured that any such changes between now and Town Meeting (Saturday, March 14th at 9:00 a.m.) will be addressed before this Board.

On a broader scale, nationally, there continues to be very slow, very steady improvement in the economic recovery. As of October 2014, the national unemployment rate has decreased since this time last year by 1.4% to 5.8%. In Massachusetts, the rate dropped 1.2% during the same period to 6.0%. However, economic growth in Massachusetts has slowed as the state has experienced losses in higher paying jobs offset by increases in lower paying jobs. Median household income, adjusted for inflation, has not recovered from the recession of 2008. Finally, long-term revenue growth in Massachusetts is expected to grow at barely 4% annually into the foreseeable future.

For FY 2015, the state had predicted 4.9% revenue growth over FY 2014. To date, revenues lag behind benchmarks by \$212 million with the potential for an additional loss of \$70 million if the reduced state income tax rate goes into effect. Add this to the \$275 million in budget deficiencies and it is clear the state could be falling on hard times. In short, the Town of Duxbury will not be looking to the State for any sort of revenue windfall.

Fortunately, the Town of Duxbury does not run like the State. We continue to provide for a balanced budget - appropriating only what we believe we can support on an ongoing basis. The overall budget has increased 2.86% while the operating portion of the budget is up 3.75%. The increase in operating costs is related to long-overdue collective bargaining contracts that have been recently settled. Taking the adjustments to be made at the FY 2015 STM, the increase is in the 2.71% range. Approximately \$1.912 million in new revenue was added to the operating budget over FY 2015.

State Aid

Local Aid grew by slightly more than 4% primarily due to a 52% increase in Veterans' Services reimbursements. Chapter 70 revenues increased by 2.57% while Undesignated Governmental Aid, formally known as Lottery, increased by 2.36% and over the past three years has shown an average annual increase of 2.45%. (1.54% over a five year period.) There is no reason to believe that there will be any dramatic increases in Local Aid. In fact, the Governor has already exercised his 9C authority as well as other cuts to the Cherry Sheet however, it is unlikely that the Legislature will support his actions.

At the same time, Local Assessments increased by 16.36% from the previous year and over the past three years has shown an average annual increase of 18.9%. (10.82% over a five year period.) These increases have been the result of astonishing increases in Charter School Assessments which increased 54.32% over FY 2013; 199.42% on average over three years; and 119.83% over a five year period.

State Aid provides slightly more than 9% of the revenue necessary to balance the Town's budget. The amount budgeted for FY 2016 is \$5,994,643 or slightly more than 2.1% over FY 2015. This percentage reflects additional State funding of Foundation aid. Additionally it reflects an upward trend in Veterans' Benefits reimbursements.

There is no reason to believe that State Aid will increase more than a minimal amount. While it looks like the legislature will live up to what it feels is its funding obligations, Beacon Hill clearly does not have its own house in order.

Local Receipts

Local receipts for FY 2016 are projected to be \$7,320,215, or about 10.4% of total revenues. This represents an increase of 3.55% over FY 2015 estimates. Local receipts increased by slightly more than 6% driven primarily by Motor Vehicle, Earnings on Investments, and Fines and Forfeits revenue. Over a three year period however, revenues have increased less than 4 percent annually.

Unlike the years before, the estimated revenues represent slightly more than 90% of the prior year's actual local receipts collected. This is a variance from our previous practice of 85%. Our conservative approach has served us well when unexpected collection anomalies occurred. However, rising expenses and collective bargaining settlements have compelled us to take this action. Local receipts collected over budgeted revenues have been the primary source of Free Cash. Free cash has been the locomotive that powers the Town's capital plan. By continuing to squeeze these projections, we will deplete our capital program and potentially affect the condition of our buildings and equipment.

Local receipts are not likely to increase anytime soon. Currently our only method of increasing revenues in this area is to increase fees, permits, and rentals. We continue to review these items to ensure that our charges are fair and in line with other communities.

Taxation

Taxation revenue provides over 80% of the revenue required to balance the budget. Proposition 2 ½, passed by the voters in 1980, caps revenue growth at 2.5% of the previous year's tax levy. Added to this is new tax revenues from construction and improvements to buildings and property as well as voter authorized debt excluded from the constraints of Proposition 2 ½.

Proposition 2 ½ taxation increases for FY 2016 amount to slightly more than \$1,179,767. New growth through FY 2015 continues to show unexpected strength. Increases in building permits has remained strong, suggesting that new growth revenue for FY 2016 will remain at or around the FY 2015 amount of \$434,274. The value of an average single family home rose slightly more than 7 percent over FY 2014 to \$609,200. This is a significant increase in home values that has not been seen in several years. While this news appears promising we will remain cautiously optimistic.

In FY 2015 the Town utilized all but \$119,758 in allowable taxation. This is down significantly from the \$492,117 of unused levy capacity in FY 2014. This is a clear sign that we need to apply nearly all of our revenue sources to provide services to the residents of Duxbury.

Expenditures

The Preliminary FY 2016 Budget being presented tonight amounts to \$68,946,726. Additionally I am presenting a Water Enterprise Fund budget of \$2,259,675 and a Pool Enterprise Fund Budget of \$384,193. In total, these appropriations equal \$71,590,594. All of these expenditures will be funded with ongoing, renewable revenues.

The General Fund operating budget for FY 2016 is an increase of 3.03% over the budget voted for FY 2015. This comparison does not include any adjustments to be made for FY 2015 in the upcoming STM. A further breakdown of the increases in the General Fund operating budget shows an increase of 3.71% to provide services to the Town and its residents. Member Benefits and Insurances increased 4.35% due primarily to the increase in the Plymouth County Retirement Assessment. Debt Service for FY 2016 will remain at a level equal to that of FY 2015. Budgeting for the second Middle School /High School bond will offset any reductions from prior years' bonds.

A line item in this category worthy of note is Health Insurance. This year the Town's share of Health insurance will increase 2.38% or \$150,000 over FY 2015. A recent article published on the Commonwealth Fund website studied company healthcare costs from 2003 through 2013 found that over that period "premiums for family coverage increased 73 percent...employees' contributions to their contributions climbed by 93%". During the ten year period leading up to the FY 2016 request, the Town's appropriation has actually seen a decline of \$200,000 or 3.0%. During that time, employee premiums have only increased twice for a total of 20% over ten years.

Fiscal Year 2016 will, in many ways, be a year of transition which is certainly a challenge when trying to forecast revenues and expenditures six to eighteen months into the future. FY 2016 will provide funding for all union settlements with the exception of Firefighters and Dispatchers. While these settlements have a profound effect on the budget, they have been long overdue and resulted in all parties being reasonably happy with the outcomes. Negotiations will continue with those unions whose contracts expire at the end of the current fiscal year and negotiations will start anew for those contracts that will be expiring at the end of FY 2016.

Discussions have begun regarding the disposal of residential waste. The Town's current contract with SEMASS expires on December 31, 2015, and the Town is exploring several options that we believe will result in a greatly reduced rate ranging from remaining with SEMASS to considering a number of alternative solid waste removal firms.

Perhaps the greatest unknown that we face in FY 2016 is the cost of utilities. The Town is currently under utility contracts that provide very favorable rates. Unfortunately the Town's natural gas contract expires on July 31, 2015. At this time we are still getting a feel for the actual utility costs of our Police Station and the new Middle School/High School is even more of an unknown as we will not have any sort of consumption history.

So what do we know? The results of consolidating building maintenance have been better than we could have expected. Maintenance needs, both expected and unexpected, have been handled in a more expedient manner. The hiring of an HVACR Technician has greatly reduced our need for outside help. The Facilities Director has laid the groundwork for a building maintenance program that will certainly reduce the need for major repairs and overhauls that were the norm in the past.

With the implementation of the Town's new financial application software we are now able to access information more easily than ever before. As an all-inclusive software, we need to rely less and less on outside supplemental spreadsheets to make up for the shortcomings of the previous system. Accounts Payable commenced on July 1, 2014; Treasury & Receivables began in August; and Real Estate and Personal Property tax bills will be issued under the new software.

The Town's department heads and their staff continue to find ways to provide services more efficiently; recognizing that there is, and will continue to be, little room for budget expansion.

Capital Improvement Program

As has been our practice for the last several years, we intend to provide a minimum of \$1,000,000 in Free Cash to fund the Town's capital improvement program. While Free Cash continues to be the foundation of our program funding, we will continue to utilize, whenever possible, other one-time revenues to fund worthy programs. In FY 2015 the program totaled Over \$1.6 million funded with \$914,342 in Free Cash with an additional \$455,000 coming from such sources as Overlay Surplus, Sales of Lots & Graves, Insurance Proceeds, and unused prior years' article balances.

This year's requests total \$2,183,598. This amount represents several vehicle requests such as a Fire Department Pumping Engine, a Six Wheel Dump Truck, emergency Cardiac Defibrillators, and a number of other important requests. There are also requests for Fire Detection equipment and communication upgrades. While we will not be able to fund all requests, we are confident that we will be able to fund the Town's most urgent building and equipment needs.

Water Enterprise Fund

The operating budget for FY 2016 remains relatively flat from FY 2015, showing a slight decrease of less than one percent. Debt Service, however, will increase by over 11% due to the

bond sold for the installation of water mains on Pine Street. The project was completed under budget allowing for a bond sale of \$864,000 financed over five years.

The Water Department has several capital requests this year above and beyond the usual water mains replacement and PCE pipe replacement ongoing projects. Additional requests include the purchase of a dump truck, the rehabilitation of the Evergreen Well and the extension of water mains on Temple Street. The cost of these projects is \$1,042 million. Funding for these projects will come from Retained Earnings within the Water Enterprise Fund.

Pool Enterprise Fund

The FY 2016 operating budget for the Percy Walker Pool totals \$384,193, a 3.43% increase over FY 2015. While the pool remains a busy and vibrant focal point in Duxbury, revenues continue to just meet or fall slightly below budget. That means that the facility is not yet able to provide for its own capital improvements. Funded primarily through rentals and other fees, the fund does receive a small, 5% General Fund subsidy.

During the late winter/early spring of the current fiscal year, the pool water will be replaced, the pool surface regouted, and other repairs done that cannot be done when the pool is full. This should go along way in continuing to make the pool an enjoyable experience for its users.

Conclusion

Finally, I want to thank Finance Director, John Madden, for his tremendous help in preparing the budget and this information for you this evening. His assistance has made this year's budget process even more smooth and efficient than last year's and I like to think that our concerted efforts are helping to create an easier budgetary working environment for all involved from Department Heads to the Finance Committee and the Fiscal Advisory Committee. In fact, our level of efficiency almost got the best of me last week when I sat before the Finance Committee prepared to ask them to vote on lines of the budget without having presented it to the Board of Selectmen first. Needless to say, clarity of thought returned and I asked them to hold off until their next meeting after this evening's meeting.

Also, I would thank the Board of Selectmen for your support and guidance in addition to that of the Finance Committee. I appreciate each of your individual perspectives and value your input greatly.

Finally, I would be remiss if I did not thank the department heads and their terrific support staffs all of whom continue to be so helpful throughout this process. I know that budgeting is not the easiest of tasks particularly when faced with the variety of factors that I have noted above. Every one of those people continues to meet the various financial challenges placed before them while continuing to provide the excellent levels of service that we enjoy here in Duxbury.

They all have my sincerest gratitude and I thank them.