



Town of Reading

FY09 Budget Message #1

Overview

We have provided two methods of reading through this material and that which follows in subsequent emails. For those that are interested in summary-level information only, please read through the portions so labeled. For those that are interested in further details, please additionally read through those portions.

There are four important terms to distinguish in the overall budget discussion:

Municipal government: consists of the departments for Accounting, Finance, the Public Library, Town Manager's Office, Community Services, Public Works, and Public Safety (Police, Fire and Dispatch).

School Department: All areas of Public Education.

Buildings Maintenance: Facilities group for all Municipal and School Buildings.

Town: The combination of the Municipal government, the School Department, and the Buildings Maintenance.

Summary: Budget Process

Informally, it is an ongoing year-round continuous process for Town staff to make the best use of all available resources. The budget is certainly not an annual exercise where documents are dusted off and updated, and then put away until the next year.

Formally, the budget process has evolved over many years, and drawn upon the experience of many dedicated and knowledgeable volunteers from the community, as well as from Town staff. The process works well not because it is a rigid set of perfect instructions, but because it is an open dialogue that allows for change as times change, and always draws upon the wisdom of many folks that are involved. Ideas, comments and suggestions are always most welcome, and are often being implemented.

By Town Charter, the Town Manager must present a balanced budget to the Finance Committee (please see http://www.ci.reading.ma.us/Pages/ReadingMA_BComm/finance) in mid-February. FINCOM reviews the budget through March, and makes its recommendations to the Annual Town Meeting (in the form of the large budget book that all Town Meeting members receive). The final vote of Town Meeting in April or May determines broadly how the resources of the Town are spent for the upcoming fiscal year that begins on July 1st.

The Town Manager seeks input from many groups before submitting the budget to the FINCOM each February. In the Budget Messages that follow we will outline the process that occurs between October and January of each year that involves meetings with Town staff, elected and appointed Boards, Committees and Commissions, and meetings with the general public. Hopefully you have been tracking the set of many budget meetings

held by the Selectmen, School Committee, and the Finance Committee via our website at this link: http://www.ci.reading.ma.us/Pages/ReadingMA_WebDocs/FY09budget

Summary: September - Revenues

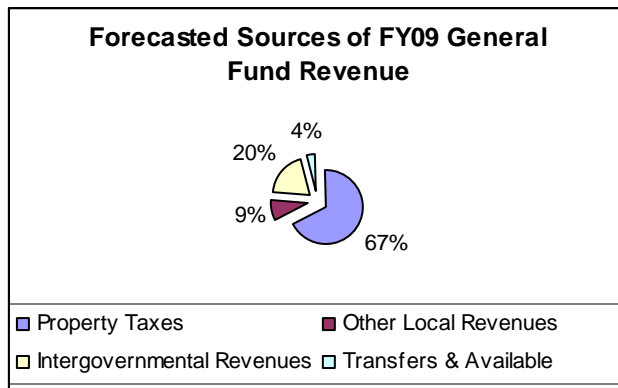
In September, Town staff puts together a forecast of Revenues that will be available for the upcoming budget year. Some revenues are known with certainty (such as a 2.5% increase in existing property taxes if the full tax levy is used), some will not be known until a date later in the budget process (state aid), and some won't be known for another 21 months when the actual year is completed (interest earnings). Thus the forecast of Revenues is an imperfect estimate – and one that is hopefully just a bit conservatively lower than what really happens. Extra revenues above the forecast flow directly into free cash, which can then support savings for a rainy day, or certain one-time expenses (such as capital).

Summary: October - Financial Forum The forecast of revenues is an important first step in the budget process that begins each year in the fall. In mid-October, the FINCOM invites the School Committee, Board of Selectmen, and Library Trustees to hear an update of revenues. At this point the FINCOM gives preliminary budget guidance to the Town on what funds will be available. Subsequent Budget Messages will describe the cost/expense portion of the October meeting in further detail.

Summary: Revenues Update

On the **FY09 Summary** you have printed out, the top one-third of the page describes Revenues for the Town of Reading. Actual historical numbers are presented for FY06 and FY07; previously budgeted numbers are shown for the current fiscal year (FY08); and projections are shown for the next three future fiscal years (FY09-10-11). Other sections of the **FY09 Summary** document (such as Accommodated Costs and Operating Costs) will be explained in subsequent Budget Messages.

General fund revenues are expected to be \$72.5 million in FY09. This consists of property taxes (67%); local revenues (9%); intergovernmental revenues (20%); and transfers & available funds (4%):



This is an increase of 3.3% when compared with the current fiscal year – a somewhat typical figure for the Town.

Details: Revenue adjustments for the Budget Process

Two types of revenues cause an adjustment to be made for analytical purposes (this will be discussed further in subsequent Budget Messages). They include property taxes received for the Debt Exclusion (largely for Reading Memorial High School) and reimbursements from the School Building Authority that offset a portion of our debt costs for previous school building projects. Line A98 on the **FY09 Summary** shows the effect of removing these revenues. They are removed because they are earmarked for those very specific purposes, and not available to be spent at the discretion of the Town for any different purposes. Thus the figure on line A98 of \$68.35 million is what is available for all other expenses of the general fund used to run the Town. This figure is 3.5% higher than last year, which is also a somewhat typical number historically.

Another adjustment is made to revenues in line A5 on the **FY09 Summary**, which is the use of free cash and savings. November 2007 Town Meeting voted to use free cash in support of several FY08 budget amendments, including a deposit of \$500,000 into the stabilization fund, and spending funds on various capital projects. Thus line A99 represents the Net Available Revenues for the Town in FY08, a figure of \$67.2 million. This figure called Net Available Revenue will be important in a future Budget Message discussion about debt and capital.

The projected FY09 budget does not include the use of any free cash as a revenue source. The Finance Committee has a strict policy on the use of cash reserves. Please see http://www.ci.reading.ma.us/Pages/ReadingMA_Finance/cashreservespolicy for more details.

Details: Revenues Update

The overall general fund revenue of \$72.5 million has changed since it was first forecast in September, increasing by about \$600,000, or about 0.8%. This is a relatively large change during a budget process, and is almost entirely due to two items:

- The Board of Assessors and the State direct us as to what actual New Growth happened in the Town during the previous year (FY07). This figure is then rolled forward through FY08 and FY09 (and increased by 2.5% each time). Finally, it is compared to an estimate we have been carrying, and the Revenue forecast modified as needed.
- The Governor's proposed budget included a higher figure for the Town than we had been forecasting. After some discussion with the School Committee and the Board of Selectmen, the FINCOM agreed to increase this forecasted revenue by nearly \$300,000 – an amount that does NOT rely on any revenue from casinos.

More Revenues details are available on the **FY09 Revenues** attachment and will be described below:

- Property taxes (67%; forecast at +2.9%) consist mostly of the existing tax levy, known to be \$45.8 million in FY09, and the tax levy for the debt exclusion

- (primarily for the High School) known to be \$2.8 million in FY09. Two smaller and less certain components round out this category. New Growth is forecast to be \$250,000 for FY09. This is a rough baseline average of the past ten years, excluding some one-time events such as the development of the landfill. (No new growth is presumed to happen in FY09 from the former Addison –Wesley site). Abatements and exemptions are the other relatively small unknown. The Board of Assessors set aside funds each year to pay for property tax workers (about \$16,000 in total) and in case taxpayers dispute their tax bills. The Town has had an exceptionally accurate valuation historically, and a large portion of these funds are released to the general fund in future years as the disputes are resolved.
- Other local revenues (9%; forecast at +1.3%) – the list on **FY09 Revenues** describes these items. Motor vehicle excise tax comprises over 40% of these revenues, and is forecast to decline in FY09 as the economy has softened.
 - Intergovernmental revenue (20%; forecast at +6.6%) is primarily state aid, and also includes MSBA school project reimbursements. In October 2007, the state aid figure was forecast at +5%, in line with twenty years of actual data. FINCOM has a policy that this forecasted state aid figure will be supplemented with free cash if the actual number comes in below the forecast. This is a rare use of free cash in the budgeting process, and is done for two reasons: (1) the state aid figure, which represents about 18% of the total general fund revenues to the Town, is a very unpredictable amount; and (2) the actual state aid figure is generally not known until late in the spring (often after Reading’s Annual Town Meeting has approved the Town’s budget). In January 2008, this state aid figure was revised upwards above +5% to reflect the proposed Governor’s budget – without including the portion that would be funded by revenues from casinos.
 - Transfers & Available Funds (4%; forecast at -2.4%) is a variety of miscellaneous items. An earnings distribution from RMLD (+2.6% determined annually by a CPI calculation) is the largest component. Medicare D reimbursement is not forecast for FY09, pending some possible changes to the Town’s health insurance program as well as the revised expected timing of such reimbursements from the Federal government.

Summary: FY09 Budget Message #1

This first Budget Message outlines the topic of Revenues for the Town. Except for the adjustments for the debt exclusion and MSBA reimbursements (if you read the details above), this is information that Town Meeting has seen for many years. Subsequent Budget Messages will describe some differences in how the budget process for costs/expenses works in contrast with what Town Meeting members are used to seeing.

*Next: **Budget Message #2** – “Accommodated Costs”*