



Town of Reading

FY09 Budget Message #3

Overview

In the first Budget Message, we outlined the topic of Revenues for the Town, and in the second Budget message we described one way the revenues are spent – on Accommodated Costs. In this third Budget Message we will describe where the rest of the revenues go – to the three Operating Budgets – and how FINCOM allocates funds between these budgets.

Again, these Budget Messages may be read as a brief summary only by reviewing the sections labeled as Summary. For those interested in more detail – often about the Town Manager’s FY09 Budget that has been submitted to FINCOM for deliberation – please also read the sections labeled Detail.

Summary: Operating Costs

For purposes of the budget process, the Town is divided into three Operating Budgets (please see the previous **Budget Message #1** for the definitions):

- the Municipal government;
- the School Department;
- Buildings Maintenance.

If an expense of the General Fund is not classified as an Accommodated Cost (see **Budget Message #2**), it therefore belongs to one of these three Operating Budgets. In FY09, a total of \$44,510,505 is available to fund the three Operating Budgets, after subtracting all of the Accommodated Costs from the Revenues. If these funds were divided equally in the same ratio as the previous FY08 Operating Budgets, all three of the FY09 Operating Budgets would increase by 4.48%.

Details: Two Philosophical Approaches

FINCOM requests that a Baseline Budget is built for the three Operating Budgets. This reflects the cost of rehiring the exact same staff as of the October Financial Forum, and capping expenses across each of the Operating Budgets at a 2% increase. FINCOM recognizes that the exact same staff and a 2% expense increase may not provide the same level of service, in any area where the demands for service have changed during the past year. They also recognize that this budget will probably not reflect the actual budget priorities. Instead, this mechanical exercise is done for reasons that will be explained below.

FINCOM then examines two philosophies in determining how to allocate the \$44.5 million among the three Operating Budgets:

- First is the equal allocation (+4.48%) method described above, where each Operating Budget receives the same proportional amount of funding. This method presumes that the Accommodated Costs essentially give the Operating Budgets a method to have their most volatile costs paid for first, and that what is left in all

Operating Budgets is roughly comparable. (FINCOM has a category of Accommodated Costs called Community Priorities (section 'K') to deal with times when they are not roughly comparable. In FY09, the Finance Department will begin to pay an annual licensing fee for the new financial software system that will be used by all three Operating Budgets. Because the Finance Department could not pay for this new expense within the normal expense cap guidelines, as an Accommodated Cost it is paid for first out of revenues, before Operating funds are allocated).

- Second is the method that includes the Baseline Budgets. If one of the three Operating Budgets has some significant non-Accommodated cost rising at a fast (slow) rate, this method allows extra funding to be directed towards (away from) that purpose. If the same cost misbehaves for a period of time (and pays for an essential service), the FINCOM would consider adding it to the list of Accommodated Costs. Again, although Baseline Budgets may not reflect actual budget priorities, they do serve as another measure of 'financial need'.

FINCOM combines these two approaches (using a 50% weighting to each one) in order to arrive at the final allocation for the Operating Budgets. At the January Financial Forum, FINCOM voted the following increases for the FY09 Operating budgets:

- the Municipal government \$13,588,893 +4.39%
- the School Department \$28,424,291 +4.40%
- Buildings Maintenance \$ 2,497,321 +5.88%

One can see that the Buildings Maintenance budget required some additional funding because of its higher Baseline costs. This extra funding came about in equal proportions from the other two Operating Budgets, which displayed nearly equal FY09 Baseline Budget increases.

Summary: Budgets that look more familiar to Town Meeting

For presentation to Town Meeting, budgets are reassembled according to budgetary authority. We will demonstrate this in a rather large Table below. In some cases, Accommodated Costs are voted & reviewed individually; in some cases they are voted individually but reviewed as part of a specific budget; and in some cases they are simply rolled into another budget which is then voted by Town meeting.

The best way to view Table 1 below is to begin at the top of one of the columns, and read straight down the list to see how the budgets are reassembled. The columns represent:

- Other Budgets (Accommodated Costs voted individually);
- The Municipal Government Departmental budgets (combinations of Accommodated & Operating Costs, voted sometimes as line items and sometimes as Departmental totals);
- the School Budget (combinations of Accommodated & Operating Costs, voted as one grand total); and
- the Town Building maintenance budget (also combinations of Accommodated & Operating Costs voted as one grand total).

Table 1 Recipe for Building Town Meeting Budgets

	Other Budgets	Municipal Gov't Depts.	Schools	Town Building Maintenance
Operating Budgets				
Municipal Gov't		Start – add this		
School Department			Start – add this	
Building Maintenance			Extract & add School Buildings	Extract & add Town Buildings

	Other Budgets	Municipal Gov't Depts.	Schools	Town Building Maintenance
Accommodated Costs				
B99: Benefits C99: Capital D99: Debt	Vote as separate (VS) line items			
E1: Street lighting		VS in DPW		
E2: Heat Town bldgs				Add this
E3: Heat School bldgs			Add this	
E4: Utilities Town bldg				Add this
E5: Utilities Schl bldg			Add this	
E6: Fuel		Add to DPW		
F1: Casualty Insurance		Add to Town Manager		
F2: Veteran's Assistance		Add to Comm. Services		
F3: FINCOM Reserves		Add to Finance		
G99: Out of district Special Education			Add this	
H1: Vocational Ed.	VS			
J1: Rubbish J2: Snow & Ice J3: State Assessment	TM does not vote	VS in DPW VS in DPW		
J4 & J5:		Add to DPW		
K: Community Priorities (MUNIS)		Add to Finance		

Details: FY09 Operating Budgets

For FY09, the Town Manager's balanced budget submitted to the FINCOM for deliberation included Operating Budget figures identical to those suggested by FINCOM at the January Financial Forum:

- the Municipal government \$13,588,893 +4.39%
- the School Department \$28,424,291 +4.40%
- Buildings Maintenance \$ 2,497,321 +5.88%

Please see attachment '**TMB-4 Municipal Departments**' and '**TMB-5 Schools & Buildings**' for a complete but quick overview of these Operating Budgets, which will be the topics of the next two Budget Messages.

The total increase in the Municipal Government Operating Budget was 4.39%, including a proposed \$25,000 increase in fire fees. This budget matched the allocation suggested by FINCOM. Municipal wages increased by 4.5% (including hiring two new public safety officers). Municipal expenses increased by 2.5%. Please see '**TMB-4 Municipal Departments**' for more summary-level details. **Budget Message #4** will describe all of the components of this budget in greater detail.

The School Department budget is more difficult to compare FY08 and FY09 in individual categories. Please see a complete explanation on this in the '**TMB-5 Schools & Buildings**' document. In total, the School Committee voted a budget that was \$381,664 higher in the Operating Budget (+5.80%) than the figure suggested by FINCOM (+4.40%). The Town Manager's Budget matches the FINCOM figure.

Similarly, for Buildings Maintenance the School Committee voted a budget that was \$11,661 higher in the Operating Budget (+6.38%) than the figure suggested by FINCOM (+5.88%). The Town Manager's Budget also matches the FINCOM figure.

'**Budget Message #5**' will describe all of the components of the School Department and Buildings Maintenance budgets in greater detail. For clarity, recall that the total School Budget voted at Town Meeting consists of the School Department budget plus the School Buildings Maintenance budget, as shown in Table 1 above.

Summary: FY09 Budget Message #3

This third Budget Message outlines the topic of Operating Costs for the Town. All costs/expenses of the Town are described as either Accommodated Costs or Operating Costs for the budget process. This distinction is one that is used to allocate Revenues – first to all of the Accommodated Costs, and then whatever is left to be divided between the three Operating budgets.

For the Town Manager's balanced FY09 budget, Revenues (+3.5%) have increased at a faster rate than the Accommodated Costs (+2.6%), which allow for a larger increase in the Operating Budgets (+4.5%).

FINCOM combines two methods to allocate the remaining funds to the three Operating Budgets. As a group, they received a +4.48% increase. The Municipal Government was allocated +4.39%; the School Department was allocated +4.40%; and the Buildings Maintenance was allocated +5.88% for FY09.

When the final FINCOM budget to Town Meeting is presented, none of these figures above will be apparent. Many budgets are a combination of Accommodated Costs and the above Operating Costs, as described in Table 1 above.

*Next: **Budget Message #4** – “The Municipal Government Departmental Budgets”*