



Town of Reading

FY09 Budget Message #4

Overview

In the first Budget Message, we outlined the topic of Revenues for the Town. In both the second and third Budget Messages we described how the revenues are spent – on Accommodated Costs and on the three Operating Budgets (Municipal Government, School Department, and Buildings Maintenance). These three Budget Messages relied upon the balanced budget submitted by the Town Manager, with the guidance of the Finance Committee.

This fourth Budget Message will review changes that the Finance Committee (FINCOM) has voted during their review of the Town Manager's Budget. A Budget Summary – which is attached to this email (and available online), will update the Revenues and the various Expenditures for the FY09 FINCOM budget that will be presented to Town Meeting later this month.

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 – now updated to be about the FINCOM's FY09 Budget that will be submitted Town Meeting - please also read the sections labeled Detail.

These Budget messages can now be found on the Town's website at:

http://www.ci.reading.ma.us/Pages/ReadingMA_Finance/Budgets/FY09%20Index

Budget Messages #5 (today) and #6 (next week) will follow, and will describe the School and Municipal Government budgets in more detail. This is a slight change in publication plans, dictated by actions taken by the FINCOM over the past month.

Detail: Revenues

State Aid historically has been one of the most unpredictable sources of revenue for the Town of Reading. The final number was sometimes not available until after the fiscal year had already started. FINCOM had to finally adopt a policy that said a historical average would be used for determining State Aid for the budget process. Any actual variance from that average used would either flow into or out of free cash for the year, and adjustments would be made for subsequent years. If the variances were large enough, the FINCOM, School Committee and Board of Selectmen would confer and plan a course of action.

This year for the FY09 budget process, an average of +5% was used for the FY09 State Aid assumption. In the fall, with the backdrop of a softening economy, the 5% assumption was feared to be too high – but the cash position of the Town was considered adequate to supplement any shortfall less than \$500,000. In January 2008, the Governor's budget was released, with some good news for the Town. The increase would be at least \$290,000 above a +5% increase – and possibly even more if casino gambling was

approved. At the January Financial Forum, the three Boards listed above voted unanimously to use the additional \$290,000 in the FY09 budget process.

In March 2008, the Town received some more good news. An additional \$330,000 in State Aid would be available to the Town – and would not be contingent upon casino gambling. This was communicated by the Massachusetts Senate and House in a Joint FY09 Local Aid resolution: <http://www.mass.gov/legis/fy09localaid.pdf>.

The Board of Selectmen voted unanimously to use none of the \$330,000 in the operating budget, instead using it to supplement possible revenue shortfalls due to declining excise tax collections state-wide, and drops in interest earnings. The School Committee indicated a desire to use all of the additional \$330,000 in the FY09 budgets.

At a meeting on March 26, one member of FINCOM voted to use all of the additional State Aid to only supplement revenues, and pass along none to the FY09 Operating budgets. Two members voted to pass along \$100,000 to the Operating budgets. A majority of five of the eight FINCOM members voted to pass along \$200,000 to the Operating budgets, and use the remaining \$130,000 to reduce expected interest rate earnings.

The \$200,000 was divided up between the three Operating budgets, with \$128,000 to the Schools (they would use \$25,000 for benefits and \$103,000 in their own budget); \$61,000 to the Municipal Government budget, and the remaining \$11,000 for the School and Town Buildings budgets. In addition, FINCOM voted to use \$75,000 in free cash for the FY09 School budget as a one-time payment. This reflects a refund from a previous overpayment for water usage in FY07.

Please see page three of this document for the updated details on FY09 Revenues: http://www.ci.reading.ma.us/Pages/ReadingMA_Finance/Budgets/FY09/Summary/2009%20budget%20summary%20FINCOM.pdf

Summary: FY09 Operating Budgets

For FY09, the Town Manager's 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 +4.4%
- the School Department \$28,424,291 +4.4%
- Buildings Maintenance \$ 2,497,321 +5.9%

For FY09, the FINCOM budget submitted to the Town Meeting for deliberation included these Operating Budget figures (see page one of the above document, just above the line 'AA3'):

- the Municipal government \$13,603,975 +4.6%
- the School Department \$28,527,291 +4.8%
- Buildings Maintenance \$ 2,508,321 +6.4%

It should be noted that some of the \$200,000 allocated went into Accommodated Costs on behalf of the various Operating entities (benefits for new hires, curbside leaf pick-up), causing slight differences in Operating budget increases.

Summary: FY09 Budget

The FINCOM budget that will be submitted to Town Meeting will include \$72.8 million in expenditures, balanced against \$72.8 million available in revenues. Please refer to this Budget Summary document – pages one and two – for this discussion:

http://www.ci.reading.ma.us/Pages/ReadingMA_Finance/Budgets/FY09/Summary/2009%20budget%20summary%20FINCOM.pdf

The \$72.8 million in general fund expenditures for FY09 includes \$15.3 million for Accommodated costs that are not part of any Operating entities (primarily benefits, capital and debt service). This is only a 0.3% increase when compared to the FY08 voted budgets.

However, one point to make clear is that this FY08 figure includes the substantial use of free cash at November 2007 for additional capital items and debt (for a ladder truck and Birch Meadow tennis courts). Ignoring the actions by November Town Meeting which added to FY08 expenditures, the increase of these Accommodated costs that are not part of any Operating entities would have been +7.0%. This distinction will be important when discussing budget sustainability for the future.

The \$72.8 million in general fund expenditures for FY09 also includes \$4.2 million for debt service that is paid for by earmarked revenues, including the debt exclusion and MSBA reimbursements for prior school building projects. This figure is unchanged from the prior year.

The \$53.3 million remainder of the \$72.8 million will be spent on the Operating entities:

- \$44.6 million will be spent on the Operating budgets (as shown in the chart above, with the Municipal Government and School budgets up about 4.7%, and the Buildings Maintenance budgets up 6.4%). The annual increase for these budgets is +4.8%.
- \$8.7 million will be spent on Accommodated costs related to these Operating entities. This is an annual decrease of 2.4%. The decrease was largely driven by cost reductions in out of district Special Education and Energy. This point will be another key element in discussing budget sustainability for the future.

Summary: FY10 and Beyond – Budget Sustainability

On page two of the Budget Summary document is a brief glimpse at what the future might hold. Two scenarios are presented, one for the Optimists in the crowd, and one for the Pessimists in the crowd. These scenarios are not meant to be in depth analysis conducted in a scientific manner. One could well do that, of course, and have results that are not any more valid.

The Optimistic scenario shows 4% Revenue growth for the next two years. If a 7.5% annual increase in both State Aid and in Local Revenues happens – and all other revenues behave as they have historically – then this is possible. Recall that in FY09 we have a +10% increase in State Aid, but a 0% increase in Local Revenues.

Optimists will also believe that the Accommodated costs that are not part of any Operating entities will increase at a 4% rate, as opposed to the 7% rate this year (which ignores using extra money for capital, as described above).

They will finally tell you that the Accommodated Costs shared by the Operating entities will rise at 4% a year. This is a figure well below the historic average, but more in line with the recent 2.4% reduction last year. In fact, these costs might well decrease next year also.

Optimists will be left with enough funding to allow the Operating budgets to grow at about 4.4% for the next two years given these assumptions. And they will believe that things may well work out even better than that, so the 4.8% increase this year becomes an annual event – one to be surpassed in fact.

The Pessimistic scenario shows 2.75% Revenue growth for the next two years. If a 2.5% annual increase in both State Aid and in Local Revenues happens – and all other revenues behave as they have historically – then this is possible. Over a twenty-year period, these figures have increased at about 5% annually – but just as the Optimists used +7.5%, the Pessimists use +2.5%. And they will add that in the current economy, any increase may not be possible.

Pessimists will also believe that the Accommodated costs that are not part of any Operating entities will increase at an 8% rate, as opposed to the 7% rate this year (which ignores using extra money for capital, as described above). They will worry about double digit increases in health care costs that make things even worse.

They will finally tell you that the Accommodated Costs shared by the Operating entities will rise at 8% a year. This is a figure is more in line with the historic average. They will point to FY09 as an anomaly.

Pessimists will be left with enough to level fund the Operating budgets for the next two years given these assumptions. Due to contractual obligations, this will lead to reductions in services they will say. The Pessimists will believe that things may well work out even worse than that, so the 4.8% increase this year quickly becomes the Good Olde Days.

Of course, reality might be in between these possibilities

Or it might be to either side of them.

*Next: **Budget Message #5**– “The School Budget” and **Budget Message #6** “The Municipal Government Budget”.*