



## TOWN OF FRAMINGHAM FINANCE COMMITTEE

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Framingham, MA 01702

Linda Dunbrack, Chairman  
Daniel Lampl, Vice Chair  
Nicolas Sanchez, Clerk  
Leonard Finkel  
Elizabeth Funk  
Laurence W. Marsh  
Carol Sanchez  
Nancy Wilson  
John Zucchi

March 29, 2011

Dear Town Meeting Members:

We face another very difficult budget year in FY 2012. The gravity of the Town's financial situation and the difficulty of the decisions facing the Town Meeting at the 2011 Annual Town Meeting are inescapable. The potential loss of both jobs and services saving are both eye-opening and sobering, especially after absorbing the cuts in personnel from FY 2009-2011.

Many factors are out of the Town's control, most notably: unfunded mandates and instability in revenue from the federal government, state aid and local receipts. In addition, huge unfunded liabilities threaten the future fiscal stability of the Town. It is natural to feel somewhat helpless and hopeless about the situation; however it is not enough to hope for things to get better or to blame others for our problems.

It is critical to do all that we can to control our own financial destiny as a community. It is that spirit that we offer the attached recommendations, which focus on creating sustainable operating budgets.

The recommendations for your consideration relate to the following areas:

- 1. Restricting Use of Non-recurring Revenue*
- 2. Controlling Growth in Employee Compensation*
- 3. Controlling Growth in Employee Health Care Costs*
- 4. Committing to Predictable Revenue Allocation for Recurring Expenses*
- 5. Providing Context to Decision-Makers for Financial Decisions*

Please bear in mind that some of these recommendations are not immediately feasible, but rather represent ideas that should be thoughtfully integrated into budget development for FY 2013 and beyond.

Nevertheless, we hope that our recommendations will stimulate debate and discussion among Town Meeting members and provide a useful tool for thinking about short-term budget decisions in a long-term context.

The Finance Committee took the unusual step of sending this letter now instead of incorporating it into our report, because our advice needs to be timely to be helpful. We thought it was important that Standing Committees have our recommendations now as they begin their preparation for Town Meeting, and for each Town Meeting member to have the opportunity to review the recommendations prior to Town Meeting.

The attached document is Section One of what we expect to be a multi-part position paper focusing on the long-term financial health of the Town. Other areas we hope to address this year include funding and maintaining adequate reserves, buffering severe financial crises, planning for unfunded liabilities, and the budget process. Other related areas may be included in the near future.

In closing, we have the greatest appreciation for the hard work that everyone puts into their decisions at Town Meeting. We are looking diligently for options that might result in cost savings or increased revenue, and look forward to showing you the results in our Annual Report and at Town Meeting.

Thank you very much for your service to your community.

Sincerely yours,

Linda Dunbrack  
Chair, Framingham Finance Committee

Daniel Lampl, Vice Chair  
Nicolas Sanchez, Clerk  
Leonard Finkel  
Elizabeth Funk

Laurence W. Marsh  
Carol Sanchez  
Nancy Wilson  
John Zucchi

Cc: Ed Noonan, Moderator  
Julian Suso, Town Manager  
Board of Selectmen  
Mary Ellen Kelley, Chief Financial Officer  
Steven Hiersche, Superintendent  
Ed Gotgart, School Business Manager  
School Committee

## ***Finance Committee Recommendations for Strategic Planning for Long-term Financial Health***

### **SECTION 1: Creating Sustainable Operating Budgets**

The Town should do everything possible to live within its means and create operating budgets that are sustainable in the long-term. In FY 2009 to FY 2011, numerous layoffs and cuts in municipal and education services were required to address ongoing structural problems in the Town's operating budget that were related to several root causes. Specifically, the problems relate to the following:

1. The Town has not been proactive in contingency planning for revenue decreases during economic downturns.
2. New positions have been added using unreliable revenue sources, such as competitive grants, without regard to the future budget implications.
3. Salaries increases negotiated as part of collective bargaining agreements have, for some unions, increased more rapidly than recurring revenue.
4. Recurring expenses such as health care costs and out-of-district tuition have increased at more rapid rate than the recurring revenue base.

In developing strategies to resolve these issues, it is important for all stakeholders, have the same understanding of key terms when discussing the Town's budgeting challenges. The Finance Committee proposes using the list below:

*Non-recurring expenses*: one-time expenses that do not add to the long-term recurring expenditure base.

*Non-recurring revenue*: any revenue, including surplus revenue, which cannot be relied on in future budget periods.

*Statutory balance*: when operating expenses in a budget are lower than revenues for a particular fund.

*Structural balance*: when all recurring operating expenses in a budget are funded through recurring revenues.

*Structural deficit*: the difference between recurring revenue and recurring expenses in a structurally imbalanced budget.

*Surplus revenue*: additional revenue from a major recurring revenue source beyond a predictable minimum base.

*Unfunded liability*: the difference between the value of post-employment benefits (e.g. pensions and health care) earned by current and future municipal retirees and the assets that are expected to be available to meet these future obligations.

Sustainable operating budgets are in *statutory balance* each fiscal year and in *structural balance* over the long-term. A *structural deficit* in a budget can

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only be corrected by reducing recurring expenses or increasing recurring revenue. Preventing structural deficits is critical to maintaining long-term budget stability and critical to achieving the goal of sustainability.

### **Strategy 1: Restrict Use of Non-recurring Revenue**

One key aspect of prevention of structural deficits is proactive policies which support the linkage of recurring expenses to recurring revenue sources. The Town currently does not have a policy that relates to nonrecurring revenue, including surplus revenue, nor one that relates to structurally balanced budgets. In addition, the current free cash and stabilization fund policies do not specifically restrict the use of such funds to non-recurring expenses.

**Recommendation #1:** *The Finance Committee recommends that the Board of Selectman establish policies for nonrecurring revenue and balanced operating budgets, free cash and the stabilization fund which link recurring expenses to recurring revenue and provide for operating budgets that are structurally balanced in the long term. The Finance Committee recommends that the School Committee do likewise with respect to nonrecurring revenue and balanced operating budgets related to the School Department budget, including sources of revenue beyond the Town appropriation and the expenses associated with such revenue.*

### **Strategy 2: Control Growth in Employee Compensation**

Another strategic component of preventing structural deficits relates to controlling growth in employee compensation. When roughly half of the operating budget is employee salaries, it is very problematic it is when salary growth exceeds growth in recurring revenue, regardless of whether that growth comes through adding positions, or collective increases in cost of living adjustments, lanes, steps, stipends, allowances, and differentials. Reducing and/or limiting growth in salaries reduces the Town's unfunded pension liability, another expense increasing faster than revenues in many years.

**Recommendation #2a:** *The Finance Committee recommends that, to the extent practical and permitted under the law, municipal and school administrations enact a wage freeze that includes both steps and COLAs for all municipal and school employees, effective July 1, 2011.*

**Recommendation #2b:** *The Finance Committee recommends that municipal and school collective bargaining team negotiate agreements with all collective bargaining units to relate growth in the budget impact of such agreements to 1) the projected availability of recurring revenue, and 2) the projected changes in the cost of all benefits, including health care and pensions.*

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**Recommendation #2c:** *The Finance Committee recommends that new permanent positions be added only after determining that growth in recurring revenue can support these positions after accounting for contractual and all other current and future obligations.*

### **Strategy 3: Control Growth in Employee Health Care Costs**

Health care costs went up a whopping 143% between 1999 and 2009. There is not another part of the budget that escalated at a rate even close to this amount. The Town is heavily constrained in its ability to reduce its costs with regard to all health care benefits, including those for retirees, due to its acceptance in 1993 of Chapter 32B, Section 19 of the Massachusetts General Laws by the Board of Selectmen.

Under this law, a Public Employee Committee (PEC) negotiates all changes to the group health benefits offered to all employees, retirees and survivors with the Town's negotiating agent. The PEC includes one member from each bargaining unit and one retiree, each with a vote that is proportional to the size of the group being represented, thus larger departments have greater influence over the process. The 2010 Fall Special Town Meeting passed an Article petitioning the legislature to allow the Town to rescind its participation in Section 19. A vote of the PEC would allow the Town to withdraw from participation under Section 19.

**Recommendation #3a:** *The Finance Committee recommends Town Administration and taxpayers mobilize support for the aforementioned Home Rule Petition using every available means, including an online petition.*

It is imperative that the Town pursue aggressive cost containment, not only because of the impact on current budgets, but also on future budgets. In addition to funding health care for its employees, the Town funds health care benefits for retirees upon retirement. The Town is not yet required to fund the future liability for those benefits, but it is expected that it will be required at some point. The payment of the unfunded liability for retiree health care in the first year is estimated at \$16.7 million, and between \$216 and \$380 million overall, depending on the assumptions used. Reducing health care costs now can reduce that future liability and its impact on future operating budgets.

**Recommendation #3b:** *The Finance Committee recommends achieving at least \$7.5 million in cost savings in health care over the next 3 years through a combination of changing plan design, increasing the employee contribution percentage, and eliminating "Cadillac" insurance plans.<sup>1</sup>*

<sup>1</sup> In 2018, "Cadillac" health benefit coverage that costs more than \$10,200 for an individual employee or \$27,500 for dependent coverage will be subject to a 40 percent excise tax, with increased limits for those considered to be in "high risk" professions.

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### **Strategy 4: Commit to Predictable Revenue Allocation for Recurring Expenses**

The Town needs a predictable and equitable way of allocating revenue to education and municipal services on an ongoing basis. Temporary shifts in revenue allocations to support recurring expenses create a problem: a structural deficit in the budget of the division benefitting from the temporary revenue shift. On the other hand, shifting revenue allocations for non-recurring expenses based on need or some other criteria is a positive. It allows strategic investment in areas such as technology for the schools, equipment for public safety and public works, and small building projects.

***Recommendation #4:*** *The Finance Committee recommends that revenue allocation guidelines be developed between the School Department and Town Administration to provide a fair and equitable basis for dividing recurring revenue.*

### **Strategy #5: Provide Context to Decision-Makers for Financial Decisions**

Financial transparency and information that provides context form a stronger basis for decision-making for both the current and future budget cycles. The Finance Committee is creating a separate section related to budget process that addresses, among other things, the need for context. Here are a couple of the most critical recommendations from that section.

***Recommendation #5a:*** *The Finance Committee recommends that Town Meeting request that the Chief Financial Officer (CFO) provide a 10-year history of revenues by source, and expenditures by department in the background materials for Annual Town Meeting.*

***Recommendation #5b:*** *The Finance Committee recommends that Town Meeting request that the Chief Financial Officer (CFO) and School Department provide multi-year comparative staffing information by department in the background materials for Annual Town Meeting that excludes positions left intentionally vacant in a particular year.*

***Recommendation #5c:*** *The Finance Committee recommends that Town Meeting request that the Chief Financial Officer (CFO) and School Department provide analysis of the impact of all salary and benefit increases related to each collective bargaining unit and to non-bargaining employees in the background materials for Annual Town Meeting.*