ANNUAL TOWN MEETING

Tuesday ▪ April 29, 2014

FINANCIALS
WARRANT ARTICLES, MOTIONS AND BACKGROUND MATERIALS

ROBERT J. HALPIN, TOWN MANAGER

MARY ELLEN KELLEY, CHIEF FINANCIAL OFFICER

Town of Framingham

2014 Annual Town Meeting

Financial Articles Background Material

TOWN OF FRAMINGHAM
OFFICE OF THE BOARD OF SELECTMEN AND TOWN MANAGER
150 CONCORD STREET ▫ MEMORIAL BUILDING ▫ ROOM 121 ▫ FRAMINGHAM, MA 01702-8325 T: 508.532.5400

April 2014

Dear Town Official, Town Meeting Member, and Taxpayer,

The Fiscal Year 2015 General Fund Operating Budget outlined and presented herein represents a turning point for the Framingham community. During the prolonged period of economic downturn we worked diligently as a team to identify shared strategies and shared sacrifice to manage the ability of the Town government to deliver the services residents and businesses require against a very significant decline in both the revenues available to town government and the ability of our taxpayers to provide them. Throughout that period Framingham town government made difficult choices from year to year but always with a view towards what was eventually sustainable over the long haul. That ability to look at our budget on a sustainable, multi-year basis was further strengthened by our decision to transition our employees and retirees to the Commonwealth of Massachusetts group health insurance program – a decision which we anticipate will yield $18 million in total savings over the next 3 years – as well as certification of a very healthy General Fund balance.

The Fiscal Year 2015 Budget presented herein is part of an effort to take a three (3) year view of our budget and service delivery obligations in light of those health insurance savings and that fund balance. With this opportunity we should be thoughtful and forward-looking in the way we manage our budgets. This is particularly important in light of some challenging capital building projects, including a new, additional school building, coming our way as early as 2017. With this in mind the Board of Selectmen, Town Manager and Chief Financial Officer decided to pursue a three year budget policy and strategy intended to achieve the following goals:

- **Tax Payer Stability and Relief:** Based largely on the strength of savings in health insurance as a result of our move to the MA Group Insurance Commission health insurance program, we should pursue a goal of limiting the annual increase in the Town's property tax levy to approximately 1.25% in each of the next three years, FY15, FY16, and FY17, excluding new growth revenues. This is one half of the maximum 2.5% increase in the levy from year to year authorized by State law.

- **Stabilizing Shares of the Tax Levy Between Residential Taxpayers and Commercial Industrial Taxpayers:** The Town's taxable property valuation is 78% residential, and 22% is commercial and industrial. The Town has historically shifted the tax burden from residential taxpayers to commercial/industrial taxpayers. The Town has traditionally shifted the maximum amount authorized by state law. This has left the residential taxpayer vulnerable to massive increases in residential tax bills when residential values climb faster than commercial and industrial or, as was the case during the recession, if commercial and industrial values drop faster than residential. The three year goals we have adopted we will strive to maintain the current split in shares of the actual property tax levy at the current 60 per cent residential and 40 commercial

150 CONCORD STREET ▫ MEMORIAL BUILDING ▫ ROOM 121 ▫ FRAMINGHAM, MA 01702-8325 T: 508.532.5400

industrial. This will gradually move the Town off the maximum shift on the one hand but on the other hand provide the Board of Selectmen a very much needed tool to prevent unanticipated shifts in taxes onto residential taxpayers.

- **Hit the Highest of our High Spending Priorities:** The budget provides for modest strategic investment in municipal department budgets in FY 2015 and seeks to maintain those levels of services through the following two years. The School Department will see significant commitments to strategic investments in each of FY 2015 (6% growth) and FY 2016 (5.5% growth) and maintenance of those spending new spending levels in FY 2017.

- **Prepare for Major Capital Projects Beginning in FY 2017:** The budget plan seeks to maintain our current levels of financial reserves but also builds a new Capital Spending Reserve to help fund a portion of capital building projects that may require voter approval of a significant property tax increase (through what is known as a Debt Exclusion ballot question). We anticipate that this Capital Spending Reserve could reach $4.0 million by the end of FY 2017. Significantly, we believe that the goal of taxpayer stability and relief articulated above will greatly enhance the likelihood of taxpayer acceptance of these capital building projects, including a new school facility to accommodate growth in enrollment.

As you review the material presented below I hope you will appreciate the deliberateness as well as the discipline and focus with which we seek to manage the valuable financial resources to which you entrust us each year.

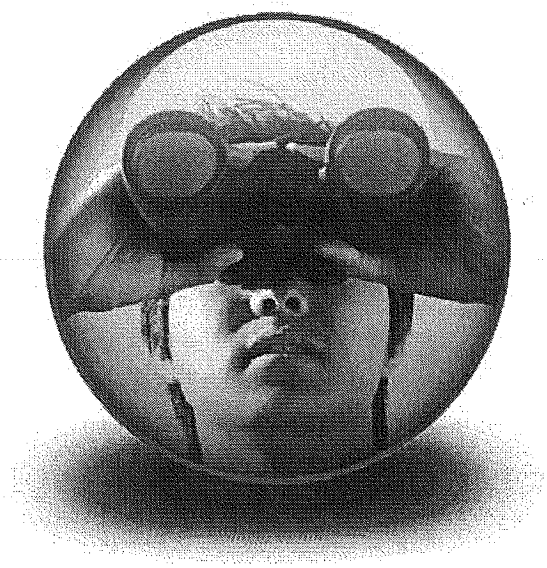
Sincerely,

Robert J. Halpin
Town Manager

Town of Framingham

Fiscal Year 2015

General Fund Budget Recommendation



Preparing for Our Future

Office of the Town Manager &

Chief Financial Officer

Executive Summary

Building a budget is not simply a practice of making numbers add up to a balanced bottom line. A properly built budget takes into consideration the goals of the Town and the priorities of its citizens. Budgets should not be built a year a time. The annual budget for any type of entity has an impact on the future actions that are available. The same is true for Framingham; what we do in our budget today has implications on what we can and cannot do in the future.

The Town has always incorporated future forecasts of revenues and expenditures in its decision-making. But this year we are actually taking specific budgetary action as part of a three year budget plan. The Town is in a unique position to start FY15 in that we have significantly reduced spending needs for employee and retiree health insurance as part of an agreement to join the state Group Insurance Commission for the next three calendar years. We have a very healthy General Fund balance with available FY13 year-end cash of $9.1 million (called free cash). The Stabilization Fund is at its policy threshold of 5% of the total budget. We have a solid financial base.

The goal is to use the reduced health insurance spending and free cash over the next three years to enact tax relief and make strategic investments in Framingham Schools and four major municipal services: Facilities Management, Public Health, Police and projects that create summer jobs for Framingham youth.

The recommended action for the next three fiscal years is the raise the property tax levy by 1.25% in FY15, FY16 and FY17 rather the maximum 2.5%. The intent is to keep the tax bill for the average single family home to an increase of no more than $100 for FY15, FY16 and FY17. This budget includes a reserve to regulate movement of tax burden between residential and commercial taxpayers. The intent is to keep the share of tax burden at 60% residential and 40% commercial; and keep the tax burden from "swinging" toward residential due to changes in value.

The primary outcome of this three year plan is to create stability for taxpayers as we approach the need for a substantial capital/financial investment in Framingham School buildings: initially the Fuller and Farley School renovation project in FY16/FY17; and additional school building renovations in FY19 and FY22. Even with the financial aid of the Massachusetts School Building Authority, we will need a debt exclusion override to finance these projects as they far exceed the tax levy capacity of the Town.

Revenue Estimate for the FY15 Budget

The revenue estimate is created by developing solid estimates for state aid, the Towns local revenue receipts, enterprise indirect charges, any free cash we intend to use and miscellaneous revenue. Then we determine the estimate of new growth in property tax revenue and the overall tax revenue needed to balance the budget. The total revenue estimate is $246,118,134 and increase of 3.1% from FY14. This is not the maximum amount the revenue can increase as we are purposefully limiting the tax levy increase to 1.25%. We have set every other revenue component is at its maximum estimate. The specific revenue components are:

State Aid

The estimate for State Aid is $46,880,927. This includes Chapter 70 aid of $34 million, a $2.2 million increase (7%). Undesignated General Government Aid (UGGA) is $8.7 million and increase of $129,209 or 1.5%. The State Legislature passed a resolution which increased Chapter 70 aid by only $1,791,432; which is $434,920 less than what is assumed in this budget. The UGGA portion of the state aid resolution is higher than the Town estimate by $109,672. The other components of state aid are based on the current FY15 Governor's recommendation.

	Our Revenue Estimate	State Legislative Resolution	Difference
Chapter 70	$34,031,375	$33,596,455	($434,920)
Unrestricted Gen'l Govt Aid	$8,743,162	$8,852,834	$109,672

Local Receipts

Local receipts are local taxes, fees, fines, permits, licenses, service revenues and investment income. In FY13 local revenue growth was substantial, and we reset the bar for FY14 to match the base for FY13. We continue to use that higher base and project a 2.2% increase of $421,000 for total local revenue, a total of $19.48 million. The greatest growth comes in building permits, licenses and user fees, all growing at 4%.

Enterprise Indirect Revenue

This revenue source is $2.8 million for FY15 and increase of 3% from FY14. This is an overhead charge to for the administrative and centralized costs provided to the Water and Sewer Departments by General Fund resources.

Free Cash

Free Cash, the closing unreserved General fund balance certified by the Department of Revenue at the end of every fiscal year, was $9.1 million for FY13. As a Town policy we use this as a revenue source in the second year after it is certified (so, FY15). In FY15 we would have use $1.1 million as general revenue. We would then allocate 25% of the remainder to the Stabilization fund, 20% for use in the Capital Budget and 15% to OPEB. However, as part of our three year plan and in light of the substantial amount of free cash, we are modifying the plan to support tax relief and tax burden stability over a three year period. We recommend that NO free cash be used as general revenue for FY15. Only the