

# Town of Framingham

Fiscal Year 2014

## Budget Recommendation

General Fund Budget



A Strategic Investment in Framingham's Future

Office of the Town Manager &

Chief Financial Officer

## Overview

### FY14 Revenue

The total revenue estimate for the FY14 General fund operating budget is \$236,548,526. This is an increase of \$8.4 million or 3.7% more than FY13. The major revenue source assumptions are:

### Taxes

- Assumes a levy increase of the maximum 2.5%. This is an increase of \$4.16 million from FY13.
- This is an increase to the FY13 total levy which was increased 1.5%. The FY14 proposed tax levy maintains the 1% untaxed levy capacity created in FY13.
- New Growth tax revenue of \$884,000. There are no substantial projects in the permitting queue that have come on line this year which would generate additional tax revenue for FY14; projects are relatively small.

### State Aid

- Chapter 70 aid increase \$3,338,423 or 11.9%. The legislature will not go along with the Governor's recommendation. Analysis and discussions with a number of informed officials indicates this increase is slightly ambitious but not completely unrealistic. The fact that we have adequately funded reserves makes an ambitious revenue estimate a little less risky.
- Unrestricted General Government Aid is level funded. As advised by the Legislature any additional aid for this category would only be fueled by additional taxes, which seem unlikely.

### Local Receipts

- Revenue sources specific to Framingham, generated locally by people and businesses that live and work in the Town. This is a slight increase of 2.1% or \$335,000. Primarily moved by increasing licenses and permit revenue and room and meals taxes.

### Free Cash

- Unstable revenue source because it is the ending "bank" balance from a previous fiscal year.
- Reduce the general operating fund allocation from \$1.5 million to \$1.3 million.
- Policy allocation of \$589,695 to the Stabilization Fund. This is the minimum amount to keep the fund at the 5% budget threshold.

- Another portion of the remaining amount of free cash is allocated to the Capital budget to be used instead of borrowing. For FY14 this would be \$393,130. However it is our recommendation to set this aside for this year while borrowing costs are low and begin to build a Capital Reserve for more expensive projects coming in the future.
- New this year, we are allocating a 10% share of Free Cash to the OPEB Trust Fund to begin to reduce our outstanding retiree health benefits liability. This amount is \$196,565.
- The remaining amount of free cash, \$589,695 is to remain in the General Fund balance. This balance is exceedingly low given the size of the budget. By comparison, if your household income was \$100,000 you would have \$249 in your checkbook at the end of the year. In the future, the Town should move toward spending no free cash in the operating budget; allocate a maintenance amount into the stabilization fund; allocate a significant portion to the OPEB liability; and a significant portion should remain in the General Fund balance as a savings measure.

### **Enterprise Fund Indirect Charges**

- Both the Water Department and the Sewer Department require the management and oversight services of staff and resources funded by the General Fund. We charge each of these departments the cost of that staffing and resources.
- The total for the Water Department is \$1.45 million and the total for the Sewer Department is \$1.35 million. This is an increase for FY14 of 3%, or \$81,680 combined for both of the enterprise funds.

### **FY14 Recommended Expenditures**

For the first time since 2007, the finances of the Town allow us to make investments in the services provided to residents. Total recommended spending for the CFO recommended budget is \$236,282,906. In addition to the recommendations for the operating budgets this plan includes the recommendation for a special purpose account to fund a School/Town Safety Plan which includes enhancements to safety training, equipment and staffing. There will be more details on the plan as the final project is presented.



We have significantly changed the format of how we present the budget for FY14. The detail data on salary and operating costs are still available in the more in depth background material, however, attached to this narrative is a comprehensive table that summarizes the base budget increase from FY13 (Level Service Budget); the specific Service Improvements added to the budget and the Requested Items that were excluded. This summary sheet is organized by Department, listed alphabetically for easy reference. The Level Service budget changes are broken down by salary and operating costs; the number of FTEs that are funded and unfunded. The same detail is provided for the Strategic Investments for Service Improvement recommended for FY14 and the requests that were excluded. This is the first time that we have

attempted to provide a comprehensive look at the budget, by Department, in one single document. The budget data for Centralized costs is included in the narrative below. Highlights of the recommended Strategic Investments are listed immediately below.

### Strategic Investments

- **Enhancements in Education:**
  - FY14 budget recommended at \$102.1 million for Framingham School Department, includes fully funding Level Service budget increase of \$3.35 million, plus \$1.2 million for education improvement
  
- **Investment in Public Safety**
  - Add 7 police officers to increase the ability to be more proactive, improve traffic enforcement, community interaction, and allocate resources to schools
  - Add Inspection and Fire Protection staff to the Fire Department to which will reduce need for firefighters and fire apparatus to perform routine inspections and speed up the permitting process
  - Add 2 Code Enforcement Inspectors to improve the function of the Interdepartmental Code Enforcement Task Force and assist in the HOME program
  
- **Investment in Economic Development**
  - Allocation of Room and Meals tax to EDIC for Project Development investment, creates a \$110,000 fund (9.2% of room and meals tax) to give the EDIC resources to engage developers to invest in Framingham
  
- **Improve Departmental Operations**
  - Dedicated DPW maintenance staff to Downtown
  - Increased Activity and Support Services to Seniors
  - Increased support Services to Veterans
  - Additional Hazardous Waste Collection Day
  - Additional Library hours on Sundays to match the School year to support to school students
  - Enhanced Technology Services to include high level Web and Network support to manage the increasing demand on the Town website, the town wide data network and interactive web programs coming online in FY14

## Centralized/Fixed Costs

### Stabilization/Reserve Fund [*\$589,695 decreased \$1.6 million*]

The Stabilization Fund and the Reserve Fund are not the same. The Reserve Fund is an operating budget item that is appropriated every year as an immediate emergency fund to be used for unforeseen circumstances in that fiscal year only. This fund is under the authority of the Town's Finance Committee, appointed by the Moderator. The funds are transferred for specific projects or costs based on an application for need made to the Finance Committee. Funds are transferred after a public meeting, review and a vote of the Finance Committee. If there are funds remaining after the end of the fiscal year, they close out to free cash. The fund is \$400,000 the same as prior years.

The Stabilization Fund is a permanent fund created to mitigate drastic decreases in revenue or extraordinary Town wide expenditure such as a natural disaster. The Town policy for the Stabilization Fund sets a full funding amount at 5% of the total budget. For FY14 that would be \$589,695.

### Salary Reserve [*\$878,000 increased \$252,801*]

The salary reserve for FY14 has two components: (1) funds for a 2% cost of living adjustment for all Town employees if that is negotiated during the 2014 fiscal year; and (2) funds for a \$78,000 for adjustments recommended by the Human Resources Director and Personnel Board for updated Classification and Compensation Plan.

### Liability Insurance [*\$1,268,307 increased \$135,622 or 12%*]

This insurance covers all Town buildings and equipment, including schools, and all Town employees and public officials for liability.

### Health Insurance [*\$35,157,691 increased \$2.1 million 6.3%*]

The FY14 Health Insurance budget assumes no changes in plan design of contribution costs between employees and the Town. The current contract will cover the first six month of FY14 and makes no changes. The cost of health insurance is increasing due to the higher cost of claims and inflation. The Town will bargain this summer/fall for a new agreement for calendar year 2014.

The control of the future cost of health insurance is critical to the financial viability of the Town. It is important not only to reduce the burden that health insurance creates on the budget, and therefore the taxpayer, but to create plans that actually reduce the overall cost of health care coverage. The administration of the Town will continue to move in that direction to reduce the burden of health insurance on the overall budget.

Retirement [\$11,998,971 decreased \$280,692, -2.3%]

The Retirement budget category includes the Town's contributory pension fund and the Town's non-contributory pension fund and an appropriation for the unfunded "other post employment benefits" liability (OPEB). The contributory pension funding is based on an approved actuarial valuation of pension costs including an unfunded liability of future pensions. The pension funding amount includes a portion for the actual annual pension cost of retirees plus a portion to fund the future liability. The current pension funding schedule increases by 4.5% each year, and that is include here. The current pension valuation includes a funding schedule that intends to fully fund the pension system by the year 2030.

The FY14 recommended allocation to the unfunded OPEB liability is less than half of the amount in FY13. OPEB is the future cost of health insurance coverage for current and future retirees. While this does not nearly fund the required annual contribution, it does begin the process of paying down this liability. At the same time the Town will be bargaining with employees to further reduce the cost of health insurance overall, which will reduce the OPEB liability. If we can get the annual amount down to \$7 million or \$8 million, then the amount we are contributing to the unfunded pension liability can be shifted after 2031 to fund the OPEB liability. For the near future, the funding recommendation will be to use some free cash and the room and meals tax to increase this appropriation when the stabilization fund is fully funded.

The 2012 valuation of this liability was recently completed. A reduction of more than \$16 million to \$184.6 million was achieved. More work needs to be done to reduce the overall liability but we are moving in the right direction.

Debt Service [\$10,909,344 increased \$465,073, 4.5%]

This category of spending includes the principle and interest payments for outstanding bonds, the interest costs for short term borrowing, and the interest on abatements settled at the Appellate Tax Board. Principle and interest on bonds is recommended at \$10,181,758. This is an increase of \$381,758. Short term interest is budgeted at \$527,586, an increase of \$83,315. Interest on abatements is budgeted at \$200,000, level with FY13.

Snow and Ice Removal [\$1.5 million increased \$32,717 or 2.2%]

This budget is increased by anticipated inflation in salt and salaries. Remaining costs are level funded.

Non-Appropriations

This segment of the budget is not voted by Town Meeting, however it is still required as part of the total budget. The budget for tax title costs, Cherry Sheet charges, any snow and ice or overlay deficits, and the tax overlay amount is included in this category. The budget for tax title costs, the funds spent by the Treasurer taking delinquent taxpayers to land court, is \$50,000.

This budget amount has been relatively constant for a number of years. Cherry Sheet Charges are the costs assessed by the State for certain services. These include the MBTA assessment for the commuter rail, the MWRTA assessment for regional bus service, tuition assessments for Framingham students attending the McAuliffe Charter School and school choice. Cherry sheet charges total \$5.1 million for FY14.

### Impact on Taxes

The impact of the budget on taxes depends upon how much the budgeted amount requires an increase in the levy. The CFO budget recommended here assumes a 2.5% increase in the levy. There are other factors that cause the tax rate to increase: the value of residential property in the Town; the value of commercial, industrial and business personal property (CIP); and the shift of the tax burden from residential to commercial (CIP). Assuming all the value and shift factors do not change from FY13, the increased cost to the average single family home tax bill is \$148 (including the high school debt service payment). In order to eliminate this increase in the average single family residential tax bill the budget would need to be reduced by \$3.4 million dollars. For every \$10 decrease to that \$148 impact the budget would have to be reduced by \$288,680.

More property valuation analysis is underway; the tax impact will be more defined as we get closer to Town Meeting.