



*Town of Littleton, Massachusetts
Department of Finance and Budget*

*Bonnie-mae Holston, Assistant Town Administrator for Finance & Budget
Michelle Reynolds, Assistant Town Accountant*

To: Keith Bergman, Town Administrator
From: Bonnie Holston, Assistant Town Administrator/Finance Director
Date: January 7, 2012
Re: FY2013 Budget Analysis

At the Board of Selectmen's meeting held on December 19, 2011, the Selectmen indicated the desire to schedule a joint meeting with the Finance Committee and the School Committee in January 2012 to continue budget discussions. As a result, please accept this as confirmation that two such meetings have been scheduled. The first is on Tuesday, January 10th at 7:00pm and the second is the following Tuesday, January 17th at 7:00 PM.

In preparation for those joint meetings, please find below an update which provides further information on the projected school shortfall for FY 2012 and what impacts that may have on the FY 2013 budget guidelines previously adopted.

FY2013 Town Department Budgets

As directed by the Board of Selectmen on October 17, 2011, all Town (non-School) departments have submitted two department budget scenarios for FY2013:

1. **Level Funded** – budget prepared at the FY2012 appropriation level as adjusted by the November 14 STM.
2. **Level Staffing** – budget prepared with the same staffing levels as FY2012 inclusive of increases to support any Steps that may be due. Expenses to be level funded at the FY2012 amount. No COLA has been factored.

Both budgets incorporate contractual obligations (such as Step increases) for bargaining units previously agreed upon. All contracts expire on 6/30/2012, and therefore no Cost of Living Adjustments (COLA) have been factored for this coming year.

The Town Department level funded budget represents a 0.34% increase over FY2012 levels – due primarily to licensing expense increases for Technology that cannot be mitigated. Funding the contractual salary obligations within the level funded budget was attained by making reductions to existing staffing levels or adjustments in expense budgets. Expense Budgets have been level funded or reduced the past four fiscal years, and are at minimum levels.

The Town Department level staffing budget represents a 2.82% increase over FY2012 levels – primarily due to a \$75,000 increase in Legal Expense and a \$10,000 increase in Wastewater Management Expense in to bring these budgets in line with the actual expenditures experienced over the past five years. Without these two proposed increases, the level staffing budget increase would have been 1.54%.

As a reminder - funding any step or COLA obligations within either scenario will require making supplemental appropriations at Town Meeting, or reductions to department expenses or existing staffing levels.

The largest increase to the budget was in Fringe/Fixed Costs at 11.23% – due primarily to projected increases in Health insurance premiums and enrollment, as well as a programmed increase in the Other Post Employment Benefit (OPEB) Trust fund. While we are currently exploring the options available to the Town through the Health Insurance reforms recently passed, any savings recognized from the final outcome of Health Insurance plan changes should be re-directed to funding the obligation in our OPEB account, which includes Health Insurance Benefits for retirees.

The Town was has a \$3.9 million OPEB liability related to the government activities ending in its 2011 financial statements. The unfunded actuarial accrued liability for government activities as of July 1, 2011 was \$32.9 million. This liability grows each year as we are unable to fully fund the annual obligations, even with the \$900k funded from the 32B Trust in FY2011, \$500k for FY2012 and \$550k planned for FY2013.

Recommendations will be forthcoming from the Insurance Advisory Committee (IAC) on the plans presented.

FY2012-2013 School Department Budget

FY2012

FY2011 Ending School Reserves – Circuit Breaker and School Choice Funds – were \$1.2 million. While the School appropriation shows a zero (0%) increase over FY2011, the actual School budget increased by 4.73% as a result of the use of \$803,674 in reserves and \$218,291 in Stimulus Grant funding to support the FY2012 budget increase. This drawdown would leave approximately \$400,000 remaining from the FY2011 reserve ending balance. Continued use of reserves and non-recurring revenues on the School operating budget cannot be sustained in future years.

FY2012 School Budget breakdown as Voted by School Committee:

Appropriation	\$ 14,977,076	Town Meeting Appropriation
Reserves	\$ 803,674	Circuit Breaker and School Choice
Stimulus Grant	<u>\$ 218,291</u>	Grant Funding
Total	\$ 15,999,041	Total FY2012 School Budget

Recent developments within the FY2012 School Budget indicate the school budget has been additionally burdened by approximately \$400k in unanticipated FY2012 SPED costs. Unless budget reductions are approved within the school budget to absorb these costs, the FY2011 reserve ending balances would be entirely consumed by FY2012 operations and the Total School budget would rise to approximately \$16,400,000.

FY2013

We have not received the budget request from the School Department as of yet, and therefore we are using essentially a level funded figure as a placeholder. This level funded budget appropriation is based on the assumption that there is no change in FY2013 net school state aid. As in the past, under the current funding arrangement of the School receiving Net School State Aid (NSSA) should the state increase or decrease Chapter 70 Aid or increase Educational Assessments the school appropriation will be adjusted accordingly. Discussions regarding this funding formula will be undertaken shortly between the Finance Department, School and Finance Committee.

Assumptions also include the same level of funding of \$1 million from school reserves in FY2013 – which would essentially exhaust the entire projected FY2012 ending balance.

FY2012 is expected to generate \$978k in new reserve monies (circuit breaker at 588k and school choice at 390k), leaving the FY2012 ending reserves balance at \$978,000. Even if this draconian tactic were utilized just to level fund the school budget, it does not address funding the contractually obligated Step and Lane changes within the collective bargaining units (with no COLA) of approximately \$230,000, as well as the estimated \$400,000 in unforeseen FY2012 SPED costs.

Unless adjusted/reduced elsewhere this fiscal year, the assumptions on a level service school budget for FY2013 would be approximately as follows:

FY2012 Budget	\$16,400,000	with the FY12 Sped costs
PLUS steps and lanes	<u>\$ 250,000</u>	estimated
Estimated Level Service	\$16,650,000	estimated starting point for level staffing

FY2013 School Funding Estimates at this time:

Appropriation	\$14,977,076	assuming level funding
Reserves	\$ 978,000	FY2012 ending balance
Stimulus Grant	<u>\$ 0</u>	Unless other Grant Funding available
Total Funding Available	\$15,955,076	

Shortfall (\$ 694,924) Estimated Shortfall

Possible Action Plans/Solutions

- Chapter 70 Aid increases could help offset this – if any. Some discussions have indicated maybe an additional 100-200k, but very early to predict this with any certainty.
- Could use projected FY2013 reserves revenues of \$900k to offset the FY2013 budget
 1. That would then leave nothing to use for FY2014, essentially kicking the problem out just one year.
 2. If FY2013 projected revenues are overestimated it could create a larger deficit.
 3. Leaves no reserves if another Spec Ed influx hits the school mid-year.
- Budget/Program cuts
- Combination of some/all

As further information, the School Reserves summary estimates appear as such:

6/30/2011 ending	\$1,200,000	
FY2012 budget allocation	- 803,000	
FY2012 Spec Ed	- 397,000	unanticipated FY2012
FY2012 Revenue CB	+ 588,000	Circuit Breaker funds in
FY2012 Revenue SC	+ <u>390,000</u>	school choice in
FY2012 PROJECTED ENDING \$	978,000	Estimated Ending Balance 6/30/2012

The Town further supports the School budget by bearing the cost of the Health insurance benefits for School Employees, who make up 70% of the enrollees. At this point in time the revenue that can be raised under Proposition 2 1/2 is almost entirely consumed by Health Insurance increases for employees and retirees.

Revenues

Highlights of the assumptions utilized for FY2013 revenue projections are as follows:

- 3.81% increase in local receipts – attributed to Building Permit activity increase
- No reduction in General Municipal Aid
- No reduction in actual Chapter 70 Aid from FY2012 – we will need to continue monitoring this for information on adjustments
- No change in State Assessments
- \$100,000 in new growth for FY2013

I am hopeful that future years will reflect some growth in the following from the Great Road commercial development:

- New Growth – possibly \$1-2.5 million over the multi-year build out period, dependent on investment in infrastructure
- Local Room Occupancy Tax - \$100-200K should reasonably sized/occupied hotel locate within the property

I will keep the Board apprised of any additional developments as they are received. Please do not hesitate to contact me directly with any questions throughout this process.