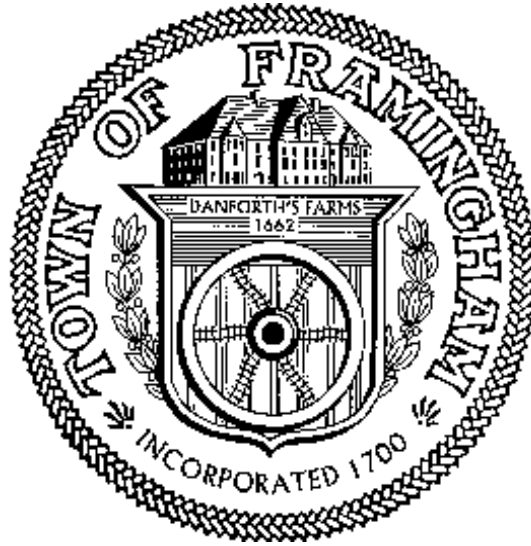


Town of Framingham



FY 2006

Long Range Financial Forecast

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Town Manager

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Introduction

This three year financial projection is intended to be used as a planning tool - an insight into the trends that the Town budget is likely to face over the next three years. None of the information in this report should be considered as an absolute, and must be evaluated in light of the circumstances as they are known at this time.

One of the biggest challenges faced when trying to construct a multi-year projection, especially in the public sector, is to make the assumption realistic. I have attempted to do so with this document, but clearly there can and should be disagreement as to the assumptions being made. One of the biggest variables in this projection is the unpredictable state of the economy, its impact on state government and in turn upon state aid. Also, the overall policy direction and priorities of the Town are subject to change as elections are held and leadership changes. These are influences that need to be kept in mind as this report is analyzed and reviewed both immediately and over time.

The document uses the proposed FY 2006 budget as the base year. There are four years of history displayed for review leading up to the base budget, followed by three years of projections beyond the base year. The projections are based upon the line items in the current year's budget. The revenue side is analyzed within categories. On the expense side, the fixed costs are itemized line by line, whereas departmental operating costs are treated more uniformly for reasons explained in the document.

Again it must be reiterated that the best use of this document is as an interactive planning tool. Please consider the trends as just that - trends that can be changed with policy decisions and economic influences. Overall the trend is negative, but through planning and understanding we have the opportunity to influence the results in a timely manner.

Revenue Analysis

Property Tax

This category accounts for over 75% of the total operating budget revenue. A portion of the annual change is very predictable given the annual levy increase is limited to 2.5% of the previous year's levy, unless overridden by the voters. The more difficult portion of the projection revolves around new growth.

In recent years, new growth has been slightly over \$2,000,000 a year and is projected to be the same in FY 2006. The only significant variance was a slight dip under that level in FY 2005 and a large spike over it in FY 2004. The FY 2005 dip is indicative of the impacts of a slowing economy. The FY 2004 spike is due to a one time influx of new growth from telecommunications equipment valuations.

The amount used for the projection is a key variable. I have used \$2,180,000 for all three years. The number was chosen as it is within \$10,000 of the five year mean and it is also very close to the 5 year median new growth number, which is the \$2,178,000 presently projected for FY 2006. Given the convergence of the two averages I have also decided to use a flat figure for all three years as there is no particular justification to show annual growth or diminution as the number has fluctuated unpredictably. Moreover, there is no practical reason to indicate the likelihood of a large increase due to a specific project. If the Exit 12 property is developed or there is a significant change in the telecommunications tax issue it may call for a change in the flat projection, otherwise most other eventualities would fit within such a projection.

Given both the present economy and the dwindling availability of developable parcels in Framingham, the number may be slightly optimistic. This variable must be monitored and updated as use of this projection continues, since economic factors, zoning restrictions and overall local business climate can have a significant impact. In addition, the Planning Board has been very diligent with new proposed projects, such as the Arcade and the Planned Unit Development. If these projects do not move forward there could be a substantial impact on this projection.

State Aid

State aid has been the most underperforming local aid category in recent years. The bottom line number of greatest significance is the "net state aid." Essentially, this is the amount that is available for local distribution after the funds have been disbursed and the charges accounted for. Nonetheless, the

projection will show a line by line analysis of state aid to reach a bottom line figure.

State aid has many different categories. The largest three consist of Chapter 70 educational aid, lottery aid, and additional assistance. Changes to these programs can have a substantial impact. The impact can be seen in a negative sense by noting a bottom line in excess of \$25,000,000 in FY 2002 reducing to just over \$20,000,000 this year. Much of the loss can be attributed to these three categories.

Future projections of state aid are very difficult to accomplish. Any major policy changes in any of these programs will have a huge impact. Presently, the state lottery does not distribute the full proceeds to cities and towns. The legislature is in the process of establishing a multi-year program to correct the inequity. Therefore, it is reasonable to project some growth in lottery aid. Chapter 70 has not seen growth the last few years, save some last minute additions in the House budget this year. A five percent annual increase is being projected based on the fact there seems to be general recognition that this category needs to be addressed. However, the specific time and amount is very hard to project, so a modest annual growth of 5% is utilized; however, even if this growth proves true, the timing will likely vary. Additional Assistance is an important revenue category for Framingham and is projected to be flat.

The state pays municipalities a fee in lieu of taxes based on the value of state owned land in each city or town. This program has also been underfunded, but is on a five year track toward full funding. The projection includes this initiative.

Charter school tuition and reimbursement is complex and still not completely understood. The projection will show an anticipated charter school cost of \$1,800,000 with no reimbursement. This may be slightly conservative in terms of reimbursement most especially for FY 2007, but optimistic in terms of the Town's ability to continually diminish the number of students leaving the public schools.

The remainder of the state aid categories are being carried flat over the projection, as they are either of little consequence, or have truly been flat for several years. Projecting state aid overall is one of the most difficult things to do, and variations will have a major impact that can be seen in its history. It is hard to believe that even the most conservative five year forecast in FY 2001 would have shown the reduction in state aid we have experienced over the last five years. Hopefully a moderate trend in the reverse direction will develop, which I believe is at least somewhat realistic as a basis for a projection.

Local Receipts

This category of revenue encompasses many different items. The fees for service that Town departments charge, license fees the Town collects, fines the Town assesses, interest and penalties collected on taxes, and interest on investments are all included here. In addition, excise tax and hotel/motel tax collections account for over 50% of this category.

Growth has been minimal in this category in recent years. Much of the bottom line fluctuation has come from one time payments being included in this category. Such items as FEMA snow reimbursement or last year's one time distribution of supplemental local aid are such examples. The recurring portions of this category are also hard to project accurately. Much of these are based on economic conditions, and different components react inversely. For example, in a better economy excise tax tends to go up, but interest rates go down so the return on investments lessens. Again, the projection will attempt to predict line by line to arrive at a bottom line figure for local receipts.

Excise tax has been among the most volatile, depending on many factors; from one as basic as timing to when the state gets the billing commitments to the Town. Overall, the projection is increasing both excise and hotel tax by 3% a year. This is reasonable expected growth in an economy on the upswing. It is doubtful that it will be quite so even in terms of actual results given past history, but it represents a reasonable view of expected value over the period.

For the purpose of this projection, most of the other subcategories are being held flat as history would suggest that to be the case. Small growth is being shown both in permits and fees, mainly reflective of building permits. Also, school revenue is growing based on rental payments for the lease at Mass Bay, and incremental increases in Medicaid reimbursements. However, that category is also very hard to predict.

The bottom line shows small growth in this category over the course of the projection. The rationale for the growth is reasonable, but the history of the category shows the growth is neither regular nor consistent. However, any attempt to predict the irregular pattern would be pure guess work, and therefore a conservative growth model seems most appropriate.

Enterprise Fund Indirect Costs

These funds are paid from the enterprise fund to reimburse the general fund for costs that are incurred on behalf of the enterprise fund. The most unpredictable aspect of these costs, health insurance, was removed from this category in FY 2005, and is now paid directly to the health insurance trust fund. Therefore,

based on the overall cost of operations and past history, it is reasonable to assume a 5% annual increase in this line item.

Free Cash

The free cash policy that was adopted last year calls for the Town to reduce its free cash spending as part of the operations budget to a sustainable amount, presently determined to be \$1,500,000 a year. I have kept that steady for the balance of the projection.

If the revenue projections continue to be on target and our budgets stretched thin, the sustainability of even the \$1,500,000 level may need to be reconsidered. The projection of free cash should be reviewed on an annual basis.

There is going to be some pressure to divert from the free cash policy from time to time, as the final FY 2006 recommendation did to a degree. While each request has to be judged in light of the circumstances that are presented, the Town should be very careful deviating from this policy. It took ten years to get to this point of stability and any deviation can set back the progress substantially.

Overlay Surplus

We have been utilizing \$500,000 a year in overlay surplus as operating revenue. This is derived when the assessors close out the money put aside for tax abatements in a specific fiscal year. In FY 2006 there is only \$200,000 available in this account, essentially creating a revenue reduction of \$300,000 from FY 2005. This is a perfect example of the dangers of relying upon non-recurring income.

I am recommending this account no longer be used as a revenue source due to its unreliability. The amount we have set aside annually, about \$1,700,000, has remained level while the total value of our tax levy has been rising. Therefore, although the dollars reserved are flat, the percentage reserved has been shrinking each year, making the likelihood of a surplus of any significance more remote. Since we have seen the diminution to such a low level, I believe it only makes sense to no longer rely on it. If it becomes available in the future, it can be used for one time expenses or put into the stabilization fund.

Stabilization Fund

The Town's stabilization fund presently has a balance of over \$4,000,000. A portion of the money was obtained from an accounting maneuver over ten years

ago, having to do with deferring the charge for teachers summer pay to the next fiscal year. This allowed the Town to put about \$3,000,000 in the stabilization fund. Beginning in FY 1997, this money had to be paid back over a 15-year period. The annual payment amount is \$198,958 and is has been paid from a payback directly from where it was deposited, namely the stabilization fund, in recent years.

The balance of the fund, nearly \$3,000,000 is unencumbered. The unencumbered amount has been built up over the last six years from just over \$1,000, 000. This represents good work during difficult financial times. Through a 2/3 vote of Town Meeting, this money can be spent on any municipal purpose. Beginning in FY 2005, the Town agreed to a plan that would use up to \$500,000 in FY 05, \$300,000 in FY 06 and \$100,000 in FY 07 as general fund revenue to help us out of the economic slowdown. We utilized the full amount in FY 05 at the Annual Town Meeting, but were able to pay it back to the fund in the fall when more revenue materialized. The FY 06 recommendation includes the full amount of \$300,000. Technically, in FY 06 the money will come from free cash, as the \$647,000 stabilization fund deposit dictated by the free cash policy is being reduced by \$300,000 to meet this amount.

Free Cash to Stabilization Fund

This represents the amount of money that the free cash policy dictates can be deposited into the stabilization fund. In FY 2006, this amount is reduced by the amount utilized for the operations budget. In FY 2007 this line item is being zeroed out and held in this manner for the balance of the projection as this has little ability to predict the amount of excess free cash available. This does not mean that whatever money is available under the free cash policy will not be recommended for deposit, as it will be. It is simply not possible to project.

Town of Framingham
FY06 Long Range Financial Forecast
Revenue Projections

PROPERTY TAXES	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
Previous Year Levy Limit \$	97,933,331	\$ 102,629,161	\$ 114,480,009	\$ 120,210,257	\$ 124,914,485	\$ 130,215,347	\$ 135,650,731	\$ 141,221,999
ADD Amended Previous Year Growth \$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
ADD (IA + IAI) X 2.5% \$	2,448,333	\$ 2,565,729	\$ 2,862,000	\$ 3,005,256	\$ 3,122,862	\$ 3,255,384	\$ 3,391,268	\$ 3,530,550
ADD Current Year New Growth \$	2,094,439	\$ 2,268,764	\$ 2,868,248	\$ 1,533,905	\$ 2,178,000	\$ 2,180,000	\$ 2,180,000	\$ 2,180,000
General Fund Property Tax Revenue	\$ 102,476,103	\$ 107,463,654	\$ 120,210,257	\$ 124,749,419	\$ 130,215,347	\$ 135,650,731	\$ 141,221,999	\$ 146,932,549
		\$ 4,987,551	\$ 12,746,603	\$ 4,539,161	\$ 5,465,928	\$ 5,435,384	\$ 5,571,268	\$ 5,710,550

STATE AID	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
A. EDUCATION								
Chapter 70 \$	9,814,588	\$ 10,164,588	\$ 8,131,670	\$ 8,131,670	\$ 8,530,321	\$ 8,956,837	\$ 9,404,679	\$ 9,874,913
School Transportation Programs \$	844,968	\$ 861,148						
School Construction \$	2,807,396	\$ 2,807,396	\$ 2,779,322	\$ 2,807,396	\$ 2,722,083	\$ 2,722,083	\$ 2,722,083	\$ 2,722,083
Tuition of State Wards								
Charter Tuition Assessment Reimbursement \$	8,768	\$	\$ 390,736	\$ 1,557,671	\$ 600,159	\$ -	\$ -	\$ -
B.GENERAL GOVERNMENT								
Lottery, Beano and Charity Games \$	6,506,019	\$ 5,897,706	\$ 5,530,116	\$ 5,530,116	\$ 6,321,058	\$ 6,638,401	\$ 6,955,744	\$ 7,273,087
Additional Assistance \$	5,911,189	\$ 5,009,746	\$ 4,697,500	\$ 4,697,500	\$ 4,697,500	\$ 4,697,500	\$ 4,697,500	\$ 4,697,500
Highway Fund \$	97,652							
Police Career Incentive \$	332,578	\$ 330,841	\$ 394,715	\$ 390,439	\$ 403,034	\$ 403,034	\$ 403,034	\$ 403,034
Veterans' Benefits \$	50,009	\$ 20,311	\$ 15,145					
Exemptions: Vets, Blind and SS \$	74,507	\$ 75,757	\$ 75,921	\$ 75,757	\$ 75,921	\$ 75,000	\$ 75,000	\$ 75,000
Exemptions: Elderly \$	30,120	\$ 25,212	\$ 23,092	\$ 23,092	\$ 19,076	\$ 20,000	\$ 20,000	\$ 20,000
State Owned Land \$	488,917	\$ 326,294	\$ 261,223	\$ 358,012	\$ 432,157	\$ 506,302	\$ 580,447	\$ 654,592
Remediation Assistance								
Education Improvement Grants								
Prior Year Overestimates								
EDUCATIONAL OFFSET ITEMS								
Racial Equality \$	238,954	\$ 238,956	\$ 220,142	\$ 252,479	\$ 252,479	\$ 252,479	\$ 252,479	\$ 252,479
School Lunch \$	35,592	\$ 44,111	\$ 38,009	\$ 33,785	\$ 34,755	\$ 34,755	\$ 34,755	\$ 34,755
Aid To Reduce Class Size \$	215,509	\$ 200,089						
Public Libraries \$	108,725	\$ 92,513	\$ 86,680	\$ 97,953	\$ 94,494	\$ 94,494	\$ 94,494	\$ 94,494
Total: \$	598,780	\$ 575,670	\$ 344,831	\$ 384,217	\$ 381,748	\$ 381,748	\$ 381,748	\$ 381,748
TOTAL STATE AID/REIMBURSEMENTS	\$ 26,966,711	\$ 25,518,999	\$ 22,299,440	\$ 23,571,653	\$ 23,801,309	\$ 24,019,157	\$ 24,858,487	\$ 25,720,209

STATE AID (continued)	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
A. COUNTY ASSESSMENT, COUNTY TAX								
B. STATE ASSESSMENTS AND CHARGES								
Supervision of Retirement Systems								
Retired Employees Health Insurance \$	196 \$	343 \$	69 \$	- \$	- \$			
Air Pollution Districts \$	16,244 \$	16,660 \$	16,822 \$	17,124 \$	17,413 \$	17,413 \$	17,413 \$	17,413 \$
MAPC \$	16,450 \$	16,774 \$	17,193 \$	17,630 \$	17,822 \$	17,822 \$	17,822 \$	17,822 \$
Charter School Tuition								
RMV Non-Renewal Charge \$	94,060 \$	100,400 \$	96,300 \$	96,300 \$	89,900 \$	90,000 \$	90,000 \$	90,000 \$
Criminal Justice Training								
School Choice Assessment	\$	127,887 \$	115,895 \$	115,895 \$	83,893 \$	85,000 \$	85,000 \$	85,000 \$
Charter School Sending Tuition	\$	965,915 \$	1,672,987 \$	2,456,938 \$	1,785,190 \$	1,800,000 \$	1,800,000 \$	1,800,000 \$
C. TRANSPORTATION AUTHORITIES								
MBTA \$	1,491,741 \$	1,427,829 \$	1,367,976 \$	1,302,992 \$	1,237,379 \$	1,268,313 \$	1,300,021 \$	1,332,522 \$
Boston Metro Transportation								
Regional Transit								
D. ANNUAL CHARGES AGAINST RECEIPTS								
Special Education \$	12,201 \$	47,339 \$	32,104 \$	33,141 \$	34,467 \$	35,000 \$	35,000 \$	35,000 \$
TOTAL STATE AID/ASSESSMENTS \$	(1,630,892) \$	(2,703,147) \$	(3,319,346) \$	(4,040,020) \$	(3,266,064) \$	(3,313,548) \$	(3,345,256) \$	(3,377,757) \$
Net State Aid \$	25,335,819 \$	22,815,852 \$	18,980,094 \$	19,531,633 \$	20,535,245 \$	20,705,609 \$	21,513,231 \$	22,342,452 \$
Local Receipts	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
Motor Vehicle Excise Tax \$	6,988,684 \$	6,732,861 \$	6,881,218 \$	7,000,000 \$	7,200,000 \$	7,416,000 \$	7,638,480 \$	7,867,634 \$
Other excise \$	821,157 \$	648,642 \$	932,700 \$	786,825 \$	812,000 \$	800,000 \$	824,000 \$	848,720 \$
Penalties and Interest on Taxes \$	599,018 \$	1,681,776 \$	511,660 \$	482,500 \$	646,550 \$	600,000 \$	600,000 \$	600,000 \$
Payments in lieu of Taxes \$	515,428 \$	456,951 \$	511,058 \$	507,200 \$	551,556 \$	550,000 \$	550,000 \$	550,000 \$
Sanitation \$	98,687 \$	120,433 \$	90,910 \$	110,300 \$	133,360 \$	100,000 \$	105,000 \$	110,000 \$
Other Charges for Service			\$	336,500 \$	326,000 \$	319,350 \$	325,000 \$	325,000 \$
Fees			\$	352,550 \$	421,635 \$	413,420 \$	400,000 \$	400,000 \$
Rentals			\$	127,303 \$	131,000 \$	135,918 \$	140,000 \$	145,000 \$
School Revenue \$	1,659,845 \$	1,364,516 \$	1,234,500 \$	1,500,000 \$	1,484,450 \$	1,550,000 \$	1,600,000 \$	1,650,000 \$
Library Revenue \$	91,208 \$	93,339 \$	74,500 \$	85,000 \$	83,290 \$	75,000 \$	75,000 \$	75,000 \$
Other departmental Revenue \$	417,049 \$	498,253 \$	75,730 \$	119,945 \$	63,975 \$	75,000 \$	75,000 \$	75,000 \$
Licenses and permits \$	500,947 \$	523,058 \$	1,570,195 \$	1,509,466 \$	1,684,825 \$	1,735,370 \$	1,787,431 \$	1,841,054 \$
Fines and forfeits \$	461,239 \$	637,982 \$	639,130 \$	651,630 \$	542,500 \$	550,000 \$	575,000 \$	600,000 \$
Investment income \$	775,517 \$	646,892 \$	850,000 \$	700,000 \$	700,000 \$	700,000 \$	700,000 \$	700,000 \$
Misc recurring \$	2,442,849 \$	1,645,143 \$	10,000 \$	96,998 \$	108,956 \$	100,000 \$	100,000 \$	100,000 \$
Misc non-recurring \$	1,162,747 \$	548,717 \$	10,000 \$	7,800 \$	22,800 \$	- \$	- \$	- \$
State Revenue			\$	- \$	605,035 \$	- \$	- \$	- \$
Other Financing Sources			\$	100 \$	- \$	- \$	- \$	- \$
TOTAL LOCAL RECEIPTS \$	16,534,375 \$	15,598,563 \$	14,208,054 \$	15,041,334 \$	14,902,950 \$	15,116,370 \$	15,499,911 \$	15,892,408 \$
OTHER FINANCING SOURCES	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
Enterprise Indirect \$	2,321,940 \$	1,643,851 \$	1,676,448 \$	1,704,634 \$	1,921,865 \$	2,017,958 \$	2,118,856 \$	2,224,799 \$
Free Cash \$	2,012,242 \$	3,478,796 \$	3,124,067 \$	2,322,621 \$	2,805,382 \$	1,500,000 \$	1,500,000 \$	1,500,000 \$
Overlay Surplus \$	648,157 \$	500,000 \$	500,000 \$	500,000 \$	200,000 \$	- \$	- \$	- \$
Parking Meters \$	66,000 \$	66,000 \$	66,000 \$	66,000 \$	66,000 \$	66,000 \$	66,000 \$	66,000 \$
Stabilization \$	198,958 \$	198,958 \$	698,958 \$	698,958 \$	198,958 \$	298,958 \$	198,958 \$	198,958 \$
Free Cash to Stabilization					\$	347,285 \$	- \$	- \$
Other \$	10,214 \$				\$	31,660 \$	- \$	- \$
TOTAL OTHER FINANCING SOURCES \$	5,197,511 \$	5,917,613 \$	6,005,473 \$	4,631,213 \$	5,535,245 \$	3,921,913 \$	3,817,814 \$	3,825,757 \$
TOTAL GENERAL FUND REVENUE \$	151,234,700 \$	154,468,821 \$	162,783,224 \$	168,654,619 \$	174,490,756 \$	178,669,174 \$	185,464,211 \$	192,534,923 \$

Analysis of Expenses

Fixed Expenses

Property and Liability Insurance

This account has seen double digit increases in recent years. The combination of insurance industry trends and some experience problems has been the cause of these increases. The industry trend is presently the more dominant factor, and work has been done on the experience problems with some decent success. 15% is a reasonable increase to expect over the next three years, though there may be some hope for a reduction in this increase as the years progress.

Self Insurance

The money in this account is used to pay deductibles for the property and liability insurance. Two years ago deductibles were raised to save money on the premium. The resulting savings has more than outweighed the cost of establishing this account.

For the purposes of balancing the budget this amount has been reduced in FY 06. The \$60,000 level is a desirable level for the future. The Town should begin accumulating this money on a multi-year basis by creating an insurance stabilization fund in FY 2006. The larger the balance that can be built in this fund, the more potential savings can be obtained by restructuring of the insurance coverage.

Worker Compensation

Progress has been made in recent years controlling the costs of this program and transferring the costs to other budgets. This has allowed the budget to be level funded for a number of years. The budget is very tight in FY 2005 and it is necessary to predict some future growth in this expense. The projection shows it at a modest 5% a year.

Unemployment Insurance

The FY 2006 budgeted amount is being reduced to \$300,000. If the budget is to be met it will be the lowest amount spent in a number of years. Even without layoffs there are many people who become eligible for benefits for any number of reasons. One of the most frustrating situations occurs when someone quits their position in Framingham and

goes to a new employer. If they are then laid off from the new employer within a fixed period of their work experience in Framingham, the Town is required to pick up some of the cost of their unemployment benefits. The projection is for a flat \$300,000 in this line item, but an argument could be made that this amount would not be sufficient, given the potential for some layoffs.

Sick Leave Buy Back

This item has been level funded for a number of years, and is in distress in FY 2005. Given the increase in overall salaries and the slight expansion of this benefit in some collective bargaining agreements, a minimal increase of \$10,000 per year is projected.

Health Insurance

This "budget buster" is predicted to increase at the rate of 12% per year. In recent years the increases have been mitigated somewhat, keeping the growth at the low end of industry averages. The FY 2006 increase is being budgeted at only 10%. If that increase were to be sustained in future fiscal years, the savings would be more than \$500,000 per year, a significant variation to the budget projection. The converse of course is also true. Either way, a change of a couple of percentage points has a significant impact on the budget's bottom line.

A more predictable way to minimize this cost increase would be either by obtaining a higher employee contribution or insuring less people. Both these approaches would have a significant positive impact on the cost.

This line item accounts for one of every seven dollars we spend as an organization. Until meaningful change is achieved it will remain one of the most critical items in the entire budget.

Stabilization Fund

There are no projections in this line item, as it is almost impossible to predict free cash availability. It would seem that any significant appropriation to the stabilization fund would come from excess free cash as dictated by the free cash policy. It is unlikely that there would be sufficient excess general fund revenue to make a deposit to the fund. A continued building of this fund is critical to the Town's financial stabilization.

Reserve Fund

This line item is held constant in the projection. In recent years due to bottom line budgeting the reserve fund has been looked to for covering snow and ice deficits more than anything else. If some growth is experienced in the snow and ice line item there is a chance the reliance on the reserve fund will be reduced. Overall, this amount is lower than desirable, but with other reserves and efficient budget management practices in place and the understanding that it may not cover the bottom line brought on by a bad winter, the amount is satisfactory.

Medicaid Contract

This pays for a vendor to file the paperwork to recover Medicaid payments for services provided by the school department. The revenue from this service is over \$1,000,000. The cost should be relatively steady.

Reserve for Energy

Energy is a volatile line item and it would be in the best interests of the Town to fund this line item in the area of \$100,000 per year. Achieving this goal will be a challenge as there is no funding recommended for FY 2006 despite the need for a reserve.

Retirement

The retirement line item will grow in the vicinity of 4.5% each year. The change is dependent upon the updated actuarial studies that are performed every two to three years on the system. Better investment returns will make the payments more predictable, but a succession of several bad years in a row could raise the payment above the 4.5% level.

The Medicare portion of the budget continues to grow as most public employees are now covered. The payment is based on a percentage of salary, and as salaries increase the cost of the Town's Medicare portion does as well.

Debt Service

This category has been reduced as a percentage of the overall budget in recent years in order to supplement the operating budget. The projection for this line item is based on the capital budget being approved each

subsequent year in the vicinity of \$5,000,000 of bonding. As has been demonstrated the needs of the Town greatly exceed that amount.

Over a number of years the idea of spending 5% of the operating budget on bonded debt has been utilized as a desirable target. The budget will fall far short of that mark throughout the projection period. If the budget were to be set at the projected figure of 5%, or even increased annually to achieve it, it would have a significantly detrimental effect on the operating budget in light of the limited revenues.

A key part to Framingham's long term budget planning involves reaching an agreement on an integrated capital budget planning process. The Town has to be able to develop a streamlined and consensus building approach to this very important issue before the impacts, both fiscally and practically, can be discerned.

This line item is one of the larger "fixed expenses," but is somewhat unique in that it is quite variable and within the policy control of the budget makers. If no capital budget funding was appropriated over the period, the line item would be reduced by nearly \$500,000 per year by FY 2009. If the annual budget was doubled, a similar increase above the projection would be seen.

The interest on the abatements line item is held constant; however, with the large tax levy this item may not be sufficient over time as it represents a smaller and smaller percentage of the whole.

Operations

Projecting the increase for operating budgets is difficult as so many variables play a role. Most major operating divisions have shown an increase somewhere between 2.5% and 3% in recent years. Some of the smaller divisions have varied a bit, and one larger division (DPW) has increased above the norm. The period analyzed of course included FY 2004 when major cuts and layoffs were made, thus keeping this growth lower than may be expected.

Trying to determine the proper percentage increase to project a multitude of varied operations on is difficult to do. For the purpose of this projection education is projected to increase at 5% and all other departments at 3.5%. I considered the possibility of increasing departments at varying rates given their mission and experience. However, whenever collective bargaining increases are in place at 3%, the projection becomes simple and uniform. In the case of the schools,

they have significant obligations for step raises that cost well in excess of the 3% COLA. For that reason, combined with the unpredictability of special education costs, the 5% growth projection for the education budgets seems sensible.

When looking at pressures that increase the operating costs, particularly increased energy costs, an additional .5% a year at minimum is seemingly necessary, hence the 3.5% figure for municipal operating departments. The consequence of growth at a rate less than that will quite possibly mean a reduction in service. Even though the growth rate has been lower in many divisions in recent years, there few if any new efficiencies to be gained to absorb such a small increase.

One operating expense that has been increased to objectively meet obvious demands is snow and ice. An annual increase of \$100,000 has been added into the projection.

The one issue that dramatically alters this projection is the recognition that FY 2008 and FY 2009 do not have collective bargaining agreements in place at this time. If the projection were to assume no COLA obligations beyond the current contracts, the deficit for FY 2008 would be reduced by over \$3,000,000 and FY 2009 by over \$6,000,000. The projection does not assume this eventuality, as it is unrealistic to believe it could occur. The projections allows for a 3% COLA in each of those fiscal years. ***When analyzing this item at this time, it should be remembered this issue provides the single biggest variable to be considered going forward.***

At this time the projections for operating departments are as stated above, but a few comments about specific operations are in order.

Education

The Framingham Public Schools have done a remarkable job in recent years in maintaining services during a time of small budget growth. Between collective bargaining costs, step raises, special education costs and utilities, the need to increase the budget by 5% per year to maintain services is realistic. It is unlikely at that level any expansion of services or reduction in class sizes could occur.

Keefe Tech is projected at 5% to maintain consistency in the realm of education. Realistically that increase should be slightly lower. Framingham's percentage of student population is at a high level in FY 2006, and there is some reasonable expectation to believe a small

decrease could occur. If that happens it has a diminishing effect on the contribution.

Municipal Operations

The large departments continue to drive the costs and are the most volatile in terms of actual dollars. Both public safety and public works have done an excellent job maintaining services with minimal increases, in some cases below the cost of labor increases. The projection clearly assumes no new programs in any of these major service areas and does not necessarily provide increases adequate to maintain level services.

The cost of increasing service in many of the smaller departments is less problematical in terms of actual dollars. Minor increases to critically necessary areas, such as the FY 2006 initiative in the Planning Department, may be possible but are not presently allocated.

Expenditures not Requiring Appropriation

These are the "silent" expenses that are never seen, as their allocation is provided for in other areas of state law. The two largest of these are the cherry sheet charges from the state and the setting aside of funds to pay abatements.

The tax title amount and the teacher pay deferral repayment are held steady throughout the projection. The teacher pay deferral is paid from the stabilization fund.

The state charges are predicted to remain even throughout the projection. The "state charges" line has two major components: the MBTA assessment and the charter school tuition. The charter school is more volatile and could swing dramatically as described previously. The MBTA assessment has been decreasing for five years as provided for in the MBTA forward funding legislation passed in 2000. However, beginning in FY 2007 the assessment will be increased based on inflation to a maximum of 2.5%. There is potentially this could go higher with other MBTA costs passed on, but the projection utilizes 2.5% for the increase.

The overlay account is level as it has been for many years. In reality this amount should be considered for increase. As the tax levy has risen in recent years, there has been no corresponding increase in the overlay. I have held the amount steady throughout the projection since it has been steady for years and an increase may be artificial. I believe the decision

not to increase this amount is mitigated by the fact that I have not utilized overlay surplus as revenue.

Arena

The amount of the general fund arena subsidy has increased by 3.5%, to reflect other operating departments. In recent years the increase has grown more dramatically; however, much of that was due to the increase of debt service. Still, no new debt has been assumed in recent years and a relatively significant increase in rates will occur in FY 2006. This is a relatively low impact line item, but it is hard to project.

Town of Framingham
FY06 Long Range Financial Forecast
Expenses Projection

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UNCLASSIFIED								
Property/Liability Insurance	\$275,097	\$546,589	\$526,280	\$626,612	\$695,604	\$799,945	\$919,936	\$1,057,927
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Unemployment Insurance	\$195,736	\$434,541	\$551,897	\$403,428	\$300,000	\$300,000	\$300,000	\$300,000
Sick Leave Buyback	\$41,881	\$50,542	\$28,412	\$60,000	\$60,000	\$70,000	\$80,000	\$90,000
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Stabilization Fund	\$0	\$0	\$201,914	\$600,000	\$347,285	\$0	\$0	\$0
Reserve For Classification	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Salary Reserve	\$0	\$0	\$0	\$31,241	\$0	\$0	\$0	\$0
Reserve Fund	\$0	\$229,000	\$63,760	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000
Medicaid Part I Contract	\$60,546	\$36,695	\$37,860	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000
Reserve For Energy Costs	\$0	\$100,000	\$0	\$50,000	\$0	\$100,000	\$100,000	\$100,000
Total:	\$16,509,723	\$19,492,870	\$21,835,958	\$24,875,335	\$26,685,248	\$29,523,317	\$32,945,420	\$36,778,660
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Retirement	\$6,503,588	\$7,187,190	\$7,593,461	\$7,593,461	\$7,938,478	\$8,331,433	\$8,743,839	\$9,176,659
Medicare/ FICA	\$896,921	\$928,573	\$974,048	\$1,150,000	\$1,150,000	\$1,219,000	\$1,292,140	\$1,369,668
Total:	\$7,400,509	\$8,115,763	\$8,567,509	\$8,743,461	\$9,088,478	\$9,550,433	\$10,035,979	\$10,546,327
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Principal & Interest - Bonds	\$8,824,698	\$8,482,765	\$8,509,139	\$8,231,155	\$7,675,944	\$7,681,000	\$7,931,000	\$7,781,000
Interest On Temp Loans	\$55,425	\$47,672	\$1,069,105	\$70,000	\$158,128	\$75,000	\$75,000	\$75,000
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Framingham School Department	\$68,157,488	\$72,536,050	\$72,489,443	\$73,112,341	\$75,533,887	\$79,310,581	\$83,276,110	\$87,439,916
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Total:	\$74,516,872	\$78,837,598	\$79,265,497	\$79,905,076	\$82,930,627	\$87,077,158	\$91,431,016	\$96,002,567
FIRE								
Fire Department	\$9,570,012	\$9,772,816	\$9,702,775	\$10,416,897	\$10,902,867	\$11,284,467	\$11,679,424	\$12,088,204
Framingham Emergency Management Agency	\$10,175	\$17,976	\$15,320	\$15,328	\$15,430	\$15,000	\$15,000	\$15,000
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Police	\$8,550,688	\$8,881,546	\$8,847,433	\$9,407,802	\$9,739,470	\$10,080,351	\$10,433,164	\$10,798,324
Animal Control	\$140,247	\$142,886	\$149,533	\$163,367	\$171,253	\$177,247	\$183,450	\$189,871
Total:	\$8,690,935	\$9,024,431	\$8,996,967	\$9,571,169	\$9,910,723	\$10,257,598	\$10,616,614	\$10,988,196
DEPARTMENT OF PUBLIC WORKS								
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Snow And Ice	\$641,400	\$665,123	\$617,101	\$641,500	\$641,500	\$750,000	\$850,000	\$950,000
Fleet Services	\$686,627	\$719,255	\$800,702	\$919,440	\$965,084	\$998,862	\$1,033,822	\$1,070,006
Sanitation	\$3,253,454	\$3,063,346	\$3,315,410	\$3,549,388	\$3,698,540	\$3,827,989	\$3,961,969	\$4,100,637
Engineering	\$382,967	\$400,143	\$519,196	\$636,948	\$702,521	\$727,109	\$752,558	\$778,898
Total:	\$7,965,938	\$7,801,845	\$8,366,027	\$9,068,076	\$9,417,775	\$9,833,445	\$10,251,365	\$10,680,413
ELECTED BOARDS								
Libraries	\$1,937,127	\$1,993,758	\$1,875,503	\$2,191,892	\$2,326,743	\$2,408,179	\$2,492,465	\$2,579,702
Planning Board	\$154,944	\$146,820	\$145,122	\$148,035	\$147,232	\$152,385	\$157,719	\$163,239
Town Clerk	\$235,821	\$226,429	\$218,279	\$223,132	\$225,647	\$233,545	\$241,719	\$250,179
Elections	\$163,576	\$161,332	\$117,282	\$170,795	\$125,878	\$130,284	\$134,844	\$139,563
Total:	\$2,491,468	\$2,528,338	\$2,356,185	\$2,733,854	\$2,825,500	\$2,924,393	\$3,026,746	\$3,132,682
GENERAL GOVERNMENT								
Selectmen/ Town Manager	\$357,186	\$420,849	\$376,708	\$390,636	\$417,748	\$432,369	\$447,502	\$463,165
Legal	\$374,528	\$627,204	\$705,163	\$533,450	\$537,800	\$556,623	\$576,105	\$596,268
Building Services	\$1,352,264	\$1,380,774	\$1,259,542	\$1,070,089	\$1,095,476	\$1,133,818	\$1,173,501	\$1,214,574
Purchasing	\$118,000	\$118,594	\$112,910	\$116,686	\$129,847	\$134,392	\$139,095	\$143,964
Town Committees	\$1,606	\$6,067	\$2,856	\$6,890	\$6,890	\$7,131	\$7,381	\$7,639
Total:	\$2,203,584	\$2,553,488	\$2,457,180	\$2,117,751	\$2,187,761	\$2,264,333	\$2,343,584	\$2,425,610
PARKS AND RECREATION								

Town of Framingham
FY06 Long Range Financial Forecast
Expenses Projection

EXPENSES	FY 02 Actual	FY 03 Actual	FY 04 Actual	FY 05 Actual	FY 06 Recommended	FY 07 Projected	FY 08 Projected	FY 09 Projected
Parks and Recreation	\$1,592,723	\$1,613,220	\$1,561,015	\$1,652,992	\$1,717,861	\$1,777,986	\$1,840,216	\$1,904,623
Cemeteries	\$25,214	\$26,430	\$24,212	\$27,630	\$36,970	\$38,264	\$39,603	\$40,989
Council on Aging	\$205,119	\$180,613	\$186,715	\$246,866	\$262,800	\$271,998	\$281,518	\$291,371
Total:	\$1,823,057	\$1,820,263	\$1,771,942	\$1,927,488	\$2,017,631	\$2,088,248	\$2,161,337	\$2,236,984
FINANCE								
FinCom	\$1,212	\$2,216	\$2,050	\$2,050	\$2,050	\$2,050	\$2,050	\$2,050
Chief Financial Officer	\$216,443	\$216,116	\$194,648	\$234,332	\$245,235	\$253,818	\$262,702	\$271,896
Accounting	\$207,807	\$220,026	\$220,727	\$231,508	\$241,076	\$249,514	\$258,247	\$267,285
Assessing	\$432,683	\$428,592	\$400,924	\$417,278	\$457,615	\$473,632	\$490,209	\$507,366
Treasurer	\$692,109	\$670,012	\$583,356	\$628,441	\$643,660	\$666,188	\$689,505	\$713,637
Total:	\$1,550,253	\$1,536,963	\$1,401,706	\$1,513,609	\$1,589,636	\$1,645,202	\$1,702,712	\$1,762,235
INSPECTIONAL SERVICES								
Building Inspection	\$609,219	\$561,781	\$535,383	\$593,496	\$606,349	\$627,571	\$649,536	\$672,270
Health Department	\$489,668	\$493,722	\$513,162	\$552,096	\$565,233	\$585,016	\$605,492	\$626,684
Weights and Measures	\$158,624	\$90,190	\$81,150	\$95,921	\$130,041	\$134,592	\$139,303	\$144,179
Total:	\$1,257,510	\$1,145,693	\$1,129,695	\$1,241,513	\$1,301,623	\$1,347,180	\$1,394,331	\$1,443,133
PLANNING AND ECONOMIC DEVELOPMENT								
Planning and Economic Development	\$541,053	\$561,763	\$489,435	\$532,607	\$686,710	\$710,745	\$735,621	\$761,368
Human Relations	\$102,361	\$48,613	\$0	\$0	\$0	\$0	\$0	\$0
Conservation Commission	\$94,864	\$102,310	\$95,730	\$99,960	\$106,568	\$110,298	\$114,158	\$118,154
Zoning Board of Appeals	\$51,206	\$55,938	\$13,490	\$49,480	\$53,169	\$55,030	\$56,956	\$58,949
Total:	\$789,485	\$768,623	\$598,655	\$682,046	\$846,447	\$876,073	\$906,735	\$938,471
INFORMATION SERVICES								
Technology Services	\$791,345	\$825,844	\$877,622	\$918,126	\$1,039,134	\$1,075,504	\$1,113,146	\$1,152,106
Total:	\$791,345	\$825,844	\$877,622	\$918,126	\$1,039,134	\$1,075,504	\$1,113,146	\$1,152,106
HUMAN RESOURCES								
Human Resources	\$408,939	\$399,317	\$375,091	\$385,875	\$363,834	\$376,568	\$389,748	\$403,389
Veterans Services	\$171,639	\$161,439	\$170,416	\$169,145	\$170,875	\$176,856	\$183,046	\$189,452
Total:	\$580,578	\$560,756	\$545,507	\$555,020	\$534,709	\$553,424	\$572,794	\$592,841
TOWN MEETING APPROPRIATION								
Subtotal	\$145,041,265	\$153,383,799	\$157,500,226	\$162,645,905	\$169,187,662	\$178,131,773	\$188,262,203	\$198,699,429
EXPENDITURES NOT REQUIRING APPROPRIATIONS								
Tax Title	\$9,626	\$50,000	\$5,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Overlay Deficit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cherry Sheet Offsets	\$598,780	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Teachers' Pay Deferral	\$198,958	\$198,958	\$198,958	\$198,958	\$198,958	\$198,958	\$198,958	\$198,958
Snow & Ice Removal Deficit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cherry Sheet Charges	\$1,630,892	\$2,703,147	\$4,338,229	\$4,040,020	\$3,266,064	\$3,313,548	\$3,345,256	\$3,377,757
Overlay	\$1,700,000	\$1,850,000	\$869,000	\$1,700,000	\$1,700,000	\$1,700,000	\$1,700,000	\$1,700,000
Debt Exclusion	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Others	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total:	\$4,138,256	\$4,802,105	\$5,411,187	\$5,978,585	\$5,215,022	\$5,262,506	\$5,294,214	\$5,326,715
TOTAL OPERATING BUDGET:	\$149,179,520	\$158,185,904	\$162,911,413	\$168,624,490	\$174,402,684	\$183,394,279	\$193,556,417	\$204,026,144
Monetary Articles:	\$839	\$10,090		\$600,000	\$80,000	\$0	\$0	\$0
Transfer to Arena	\$142,158	\$151,972	\$130,166	\$165,766	\$212,681	\$220,125	\$227,829	\$235,803
Capital Budget (Non-Enterprise/ Non-Borrowing)	\$0	\$0			\$0	\$0	\$0	\$0
TOTAL OPERATING AND CAPITAL BUDGET	\$149,322,517	\$158,347,966	\$163,041,579	\$169,390,256	\$174,695,365	\$183,614,404	\$193,784,246	\$204,261,947
Revenues (From Above)					\$174,490,756	\$178,669,174	\$185,464,211	\$192,534,923
Surplus/ (Shortfall)					\$-204,609	\$-4,945,230	\$-8,320,035	\$-11,727,024

Town of Framingham
FY06 Long Range Financial Forecast
Expenses Projection

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Total:	\$2,491,468	\$2,528,338	\$2,356,185	\$2,733,854	\$2,825,500	\$2,924,393	\$3,026,746	\$3,132,682
GENERAL GOVERNMENT								
Selectmen/ Town Manager	\$357,186	\$420,849	\$376,708	\$390,636	\$417,748	\$432,369	\$447,502	\$463,165
Legal	\$374,528	\$627,204	\$705,163	\$533,450	\$537,800	\$556,623	\$576,105	\$596,268
Building Services	\$1,352,264	\$1,380,774	\$1,259,542	\$1,070,089	\$1,095,476	\$1,133,818	\$1,173,501	\$1,214,574
Purchasing	\$118,000	\$118,594	\$112,910	\$116,686	\$129,847	\$134,392	\$139,095	\$143,964
Town Committees	\$1,606	\$6,067	\$2,856	\$6,890	\$6,890	\$7,131	\$7,381	\$7,639
Total:	\$2,203,584	\$2,553,488	\$2,457,180	\$2,117,751	\$2,187,761	\$2,264,333	\$2,343,584	\$2,425,610
PARKS AND RECREATION								

Town of Framingham
FY06 Long Range Financial Forecast
Expenses Projection

EXPENSES	FY 02 Actual	FY 03 Actual	FY 04 Actual	FY 05 Actual	FY 06 Recommended	FY 07 Projected	FY 08 Projected	FY 09 Projected
Parks and Recreation	\$1,592,723	\$1,613,220	\$1,561,015	\$1,652,992	\$1,717,861	\$1,777,986	\$1,840,216	\$1,904,623
Cemeteries	\$25,214	\$26,430	\$24,212	\$27,630	\$36,970	\$38,264	\$39,603	\$40,989
Council on Aging	\$205,119	\$180,613	\$186,715	\$246,866	\$262,800	\$271,998	\$281,518	\$291,371
Total:	\$1,823,057	\$1,820,263	\$1,771,942	\$1,927,488	\$2,017,631	\$2,088,248	\$2,161,337	\$2,236,984
FINANCE								
FinCom	\$1,212	\$2,216	\$2,050	\$2,050	\$2,050	\$2,050	\$2,050	\$2,050
Chief Financial Officer	\$216,443	\$216,116	\$194,648	\$234,332	\$245,235	\$253,818	\$262,702	\$271,896
Accounting	\$207,807	\$220,026	\$220,727	\$231,508	\$241,076	\$249,514	\$258,247	\$267,285
Assessing	\$432,683	\$428,592	\$400,924	\$417,278	\$457,615	\$473,632	\$490,209	\$507,366
Treasurer	\$692,109	\$670,012	\$583,356	\$628,441	\$643,660	\$666,188	\$689,505	\$713,637
Total:	\$1,550,253	\$1,536,963	\$1,401,706	\$1,513,609	\$1,589,636	\$1,645,202	\$1,702,712	\$1,762,235
INSPECTIONAL SERVICES								
Building Inspection	\$609,219	\$561,781	\$535,383	\$593,496	\$606,349	\$627,571	\$649,536	\$672,270
Health Department	\$489,668	\$493,722	\$513,162	\$552,096	\$565,233	\$585,016	\$605,492	\$626,684
Weights and Measures	\$158,624	\$90,190	\$81,150	\$95,921	\$130,041	\$134,592	\$139,303	\$144,179
Total:	\$1,257,510	\$1,145,693	\$1,129,695	\$1,241,513	\$1,301,623	\$1,347,180	\$1,394,331	\$1,443,133
PLANNING AND ECONOMIC DEVELOPMENT								
Planning and Economic Development	\$541,053	\$561,763	\$489,435	\$532,607	\$686,710	\$710,745	\$735,621	\$761,368
Human Relations	\$102,361	\$48,613	\$0	\$0	\$0	\$0	\$0	\$0
Conservation Commission	\$94,864	\$102,310	\$95,730	\$99,960	\$106,568	\$110,298	\$114,158	\$118,154
Zoning Board of Appeals	\$51,206	\$55,938	\$13,490	\$49,480	\$53,169	\$55,030	\$56,956	\$58,949
Total:	\$789,485	\$768,623	\$598,655	\$682,046	\$846,447	\$876,073	\$906,735	\$938,471
INFORMATION SERVICES								
Technology Services	\$791,345	\$825,844	\$877,622	\$918,126	\$1,039,134	\$1,075,504	\$1,113,146	\$1,152,106
Total:	\$791,345	\$825,844	\$877,622	\$918,126	\$1,039,134	\$1,075,504	\$1,113,146	\$1,152,106
HUMAN RESOURCES								
Human Resources	\$408,939	\$399,317	\$375,091	\$385,875	\$363,834	\$376,568	\$389,748	\$403,389
Veterans Services	\$171,639	\$161,439	\$170,416	\$169,145	\$170,875	\$176,856	\$183,046	\$189,452
Total:	\$580,578	\$560,756	\$545,507	\$555,020	\$534,709	\$553,424	\$572,794	\$592,841
TOWN MEETING APPROPRIATION								
Subtotal	\$145,041,265	\$153,383,799	\$157,500,226	\$162,645,905	\$169,187,662	\$178,131,773	\$188,262,203	\$198,699,429
EXPENDITURES NOT REQUIRING APPROPRIATIONS								
Tax Title	\$9,626	\$50,000	\$5,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Overlay Deficit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cherry Sheet Offsets	\$598,780	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Teachers' Pay Deferral	\$198,958	\$198,958	\$198,958	\$198,958	\$198,958	\$198,958	\$198,958	\$198,958
Snow & Ice Removal Deficit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cherry Sheet Charges	\$1,630,892	\$2,703,147	\$4,338,229	\$4,040,020	\$3,266,064	\$3,313,548	\$3,345,256	\$3,377,757
Overlay	\$1,700,000	\$1,850,000	\$869,000	\$1,700,000	\$1,700,000	\$1,700,000	\$1,700,000	\$1,700,000
Debt Exclusion	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Others	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total:	\$4,138,256	\$4,802,105	\$5,411,187	\$5,978,585	\$5,215,022	\$5,262,506	\$5,294,214	\$5,326,715
TOTAL OPERATING BUDGET:	\$149,179,520	\$158,185,904	\$162,911,413	\$168,624,490	\$174,402,684	\$183,394,279	\$193,556,417	\$204,026,144
						\$1,362,325		
Monetary Articles:	\$839	\$10,090		\$600,000	\$80,000	\$0	\$0	\$0
Transfer to Arena	\$142,158	\$151,972	\$130,166	\$165,766	\$212,681	\$220,125	\$227,829	\$235,803
Capital Budget (Non-Enterprise/ Non-Borrowing)	\$0	\$0			\$0	\$0	\$0	\$0
TOTAL OPERATING AND CAPITAL BUDGET	\$149,322,517	\$158,347,966	\$163,041,579	\$169,390,256	\$174,695,365	\$183,614,404	\$193,784,246	\$204,261,947
Revenues (From Above)					\$174,490,756	\$178,669,174	\$185,464,211	\$192,534,923
Surplus/ (Shortfall)					-\$204,609	-\$4,945,230	-\$8,320,035	-\$11,727,024

Area of Sensitivity

I have attempted to point out the areas of the most sensitivity throughout the document; however, I believe it is helpful to reiterate the major points in one summary. They include:

Revenue

State Aid

The projection relies on modest annual increases in state aid. After a few very difficult years we have seen the trend begin to become positive in FY 2006. If this continues it is certainly beneficial to the Town, but there is still a long way to travel to even obtain parity with FY 2002. The 5% increase utilized in the major categories could be low, especially if a change in the Chapter 70 formula is achieved. This area of revenue is the most volatile and thus the hardest to predict - it can change dramatically and quickly, as we have seen. As time progresses this must be the most flexible assumption in the projection.

Free Cash

Free cash is utilized at what has been determined to be a sustainable amount of \$1,500,000. If this amount does not prove to be sustainable, then the impact will be felt. However, this projection for the first time uses a realistic amount of free cash, without relying on annual windfalls, and that is positive for the Town's finances.

Expenses

Health Insurance

Due to good management of this expense Framingham has seen increases in recent years that are on the low end of industry norms. The projection uses an annual increase of 12%. This is a bit higher than recent years, but seems to be in the middle to slightly below industry averages. If the good experience continues, then impact is at least 250,000 for each percent point saved. The converse is also true, and this very volatile and unpredictable expense needs constant monitoring.

COLAs

The projection builds in a cost of living increase of 3% in each year. Contractually the Town is only obligated through FY 2007. For a payroll that averages about \$100,000,000 annually, this translates to a cost of about \$3,000,000 a year, on a compound basis. Although it is unrealistic to expect the Town could achieve settlements with no provisions for COLAs in the last two years of the projection, even a small variance from 3% will have a major impact on the projection.

Snow and Ice

Over the six winters I have been Town Manager we have failed to exceed the budgeted amount only once. The projection shows this increasing about \$100,000 per year throughout the projection. This is a seemingly necessary approach to offer a more realistic budget, but it is also a new approach as this budget has not been raised for many years. The consequence of this impacts the projection by \$300,000 by FY 2009.

Energy

Energy has the potential to drive operational costs much higher than projected. If energy stays at the current prices, the operating projections of the major departments will have to be increased by an amount that could exceed \$250,000 in the aggregate.

New Programs

This projection attempts to maintain the status quo with some increases in line items to reflect growing expenses. No new programs of any significance are provided for in the budget.

The projection in its entirety bears close scrutiny. The above areas are intended to highlight some of the biggest impacts in the most variable expenses.

Conclusions

The ability to maintain level services over the next three years is threatened by the lack of revenue growth. The task is all the more difficult due to the many efficiency methods that have been introduced in recent years. There are not many "easy" reductions left to consider, and if revenue growth remains soft the Town faces the real possibility of further downsizing despite only modest increases in expenses.

More than five out of every seven dollars spent goes toward supporting human resources. If a need comes about to significantly reduce expenses it will almost certainly require a reduction in this area. Health insurance will play a key role due to its double digit annual growth rate. If the Town is able to share a larger portion of the cost with its employees, or reduce the number of employees covered by the plan, significant savings are possible. Savings are also possible by broadening the effort to have the cost of health insurance for all non-general fund employees paid from the same source as the salaries. If growth of the health insurance program relative to the number of employees covered continues and the present contribution rate is maintained, the outlook is much more ominous. This issue combined with decisions on future COLA's will play a large role in determining the true size of any potential future deficits.

In addition to human resources, the buildings and infrastructure owned by the Town need significant attention. In reality millions of dollars per year are needed to completely update our capital plant. Only a minimal amount is provided for in this projection, and any major capital program is going to be greatly challenged to identify the needed revenue to implement it. If the necessary revenue cannot be found the Town may be forced to steer operating funds into capital accounts which could impact operations significantly.

The only obvious source from which the Town has the potential to see excessive growth of revenue, without the use of an override, is from the state. After significant cuts and years of inequitable treatment through the Chapter 70 formula, there is some realistic hope that Framingham will finally get its fair share. The fight to achieve that though will be long, difficult and uncertain. Absent success in this area, significant annual revenue growth looks to be limited to the annual property tax increase and new growth factor. However, this steady growth is not enough to support the demands on the Town's expenses. The issue is a major concern in terms of the economic viability and equity of relying on such a regressive tax for a large part of the total revenue.

The bottom line is that state revenue must increase disproportionately in order for the Town to maintain level services over an extended period. Short of that, difficult decisions will have to be made in terms of reducing service or increasing revenue. Neither choice will be easy or desirable.

It is important to emphasize this document is a planning tool. The overall economic trend is negative and the potential bottom line is indicative of such a scenario. At the same time, it is irresponsible at this time to suggest that the potential deficits are certainties. Even by FY2009, which reflects the largest potential shortfall, the total amount of deficit is less than 5% of the budget for that year, much of it caused by factors the Town is not yet obligated to. Perspective must be considered as the numbers are large in dollars, but not unmanageable in terms of impact. The advantage of the projection as a planning tool is that it gives the community time to review the projection and engage in dialogue as to both the validity of the assumptions and the potential response actions.