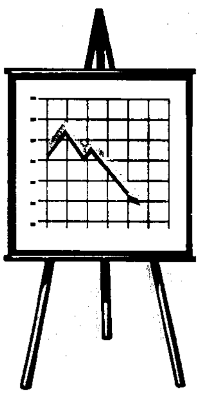
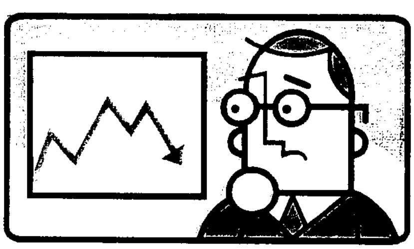
Town of Framingham

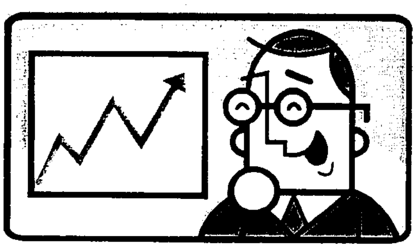
Office of the Chief Financial Officer

FY2011 – FY2015

Long Range Financial Forecast







Executive Summary

The CFO Act, adopted in 1996, requires the Chief Financial Officer to produce a long range forecast of Town finances. While this forecast is based on the most concrete data from reliable sources, we are in unprecedented times. Many of the usual economic indicators are not behaving in usual patterns; trend analysis has not always been correct. With this in mind the figures presented here are the best estimate than can be done given the uncertainty of the present, let alone the future. Almost everyone agrees that FY2011 will be dire. What is unknown, or at least not clearly predicted, is the length of the recession/recovery period. Generally, tax and fee revenue lag behind the economy. This forecast assumes two years to get back to adequate, not full, annual revenue growth.

Framingham has a unique opportunity to adopt local meals tax and increase the local room tax. Other than local fees, municipalities have no other regular stream of revenue except property and excise taxes. Local fees total 4.6% of revenue in any year; this will not be the source of great revenue no matter how much fees are increased. The additional revenue generated by the changes to room and meals taxes is a relief valve on the pressure to increase property taxes and a source to do some of things in Town that we have not been able to do. In addition, the Town must lobby the state legislature to close the remaining portion of the telecommunication tax loophole (transmission equipment). This should generate about a million dollars in tax revenue to the Town. [See Chart 3 on page 17]

It is also imperative to reign in the cost to run government. Finding ways to make government streamlined and more effective, while reducing the costs of traditional budget busters like health insurance, is more important than ever. It cannot be done alone at the local level. There are too many state mandates that limit a municipality's ability to work efficiently and effectively. Until the state changes the playing field, municipalities will always have limited alternatives to reduce expenditures.

The outlook presented in this forecast is grim. The summary graph, presented on page 8, shows that estimated expenditures outpace estimated revenue by a large margin: from $11.8 million in FY11 to $21.2 million in FY15. This deficit does not include the use of additional room and meals tax or telecommunication tax revenues, but even the inclusion of these revenues, $2.7 million in FY11 if passed, cannot close the gap completely. Expenditures must play a part. With a gap of this size, however, even efficient execution of service will not solve the problem, services must be reduced.

Revenue Forecast

Real estate and personal property taxes are 75% of total revenue for FY10; however they comprise 77% of total revenue for FY11 and FY12. Prior to FY09, this revenue component had been trending downward as a percent of total revenue. Primarily, this was because State Aid was trending upward. Over the next two years, state aid is expected to decrease and remain stagnant. Therefore, property taxes automatically become a greater component of the revenue pie. [See graphs 2 through 7 on pages 10 through 15]

The maximum amount of revenue growth in the property tax levy is 2.5% - this means 2.5% more than last year's total tax amount. In addition to base tax revenue is an estimate of taxes on new property. For every dollar of new revenue $78 dollars worth of residential value and $34 of commercial value must be developed. Therefore development needs to maintain a relatively high level to generate significant tax. For FY11, new growth is projected to decrease by 25% from the prior year. Modest growth begins again in FY13.

State aid is the most unpredictable revenue component. In FY2007, a significant adjustment was made to the Chapter 70 Education Aid formula that was favorable to Framingham. This adjustment was funded in FY08, but less so in FY09; and ultimately eliminated altogether when state aid was cut mid year. Since Chapter 70 aid has grown from 37% of total state aid to 56% of total state aid, this has become a significant funding problem. The reductions in state aid have generally come from General Government aid, including Lottery, additional assistance and state owned land. FY10 saw a decrease in most components of state aid with a total decrease of more than $4.1 million (12.3%) from the original FY09 level, and $2.9 million from the reduced amount. This is illustrated in Graph 8 on page 16. The FY10 amount used in this forecast is the original appropriation by the state. A cut to FY10 state aid is possible. The forecast assumes an 8.5% cut in Chapter 70 aid and a 9% cut in General Government aid and the elimination of the any remaining Quinn bill funding. The remaining components are relatively level funded.

Note: included in the Framingham amount for state aid is the reimbursement of debt service by the Mass. School Building Authority for the McCarthy, Cameron and Wilson schools. It does not show up on the Cherry sheets and totals $2.6 million for FY10 and $2.5 million thereafter.

The local receipts base is the FY10 voted estimate of $17.6 million. Given the substantial decreasing trend of motor vehicle excise and stagnant building, especially compared with FY09, local revenues are expected to drop by $645,461 or 3.7%. This is primarily due to a motor vehicles excise decrease as it makes up 44% of local revenue. The vehicle market is non-existent, so this tax is expected to decrease in FY11 as well. Minimal growth is expected in FY13 and return to slow growth in FY14 forward. Departmental revenue is 45 – 48% of total local revenue, the majority is building permits. Building permits are a function of town-wide investment in facilities, residential and commercial. For every $1 of permit fee generated, $83 of residential investment value and $66 of commercial value must take place. The expectation in FY11 is consistent with the contraction in new development and the shift to repair and renovation that we observed last year. This revenue is expected to remain relatively stagnant in FY11, begin the increase slightly in FY12, and achieve a return to regular levels in FY13. Starting in FY12, total local receipts are expected to increase only 1.1% rising to 2.6% by FY15. Slow growth in local receipts is consistent with prior years, again because motor vehicle excise tax does not increase by very much money, or percentage, even when the market is booming.

The transfer of indirect costs from the Water and Sewer Enterprise Funds total $2,489,221 in FY10. This funding is anticipated to increase by 2% per year; essentially the cost of step increases in salaries. These costs represent the proportion of work and cost provided from the General Fund that aids in the operation of the Water and Sewer Departments. Typical costs include Treasurer/Collector services, Accounting and Payroll assistance, Human Resources tasks and general management. The allocation of these costs a carefully determined to appropriately charge, but not over charge the enterprise funds and rate payers.

Free cash has been certified for the end of FY09 at $1,756,820. By Town policy, $1.5 million is used to support the operating budget for the next after certification; in this case FY2011. Forty percent of the remaining amount is delegated for the Stabilization fund and 20% of the remaining amount allocated for the capital budget. The last remaining 40% is to remain in General Fund balance. In FY2010, only $1.5 million was available, as the remaining amount was used to fund the snow and ice deficit. Nothing was put toward the stabilization fund, capital budget or fund balance. In FY11, the forecast assigned $106,328 or 40% of the net to the Stabilization fund. No funds are recommended for the capital plan, as it only amounts to $53,164, by formula and better serves General Fund balance. Free cash is estimated to settle at $2 million to $2.2 million, although no more than the $1.5 million cap is recommended for use in the operating budget. The allocation is recommended to push towards the Stabilization Fund as required by the policy.

In FY11 and FY12, funds are recommended to be used to fund the tail end of the teachers pay deferral. This expense ends in FY12 leaving the rest of the money in the Stabilization Fund with no restrictions.

The detailed amounts are in Chart 2 on page 9.

Proposed new revenue

A new meals tax of .75% and an increase in the room tax of 2% are available now as a local option to accept in the Fall Town Meeting. The total revenue generated by the change in tax is

$877,345 for FY2010, assuming implementation January 1, 2010. In FY2011 and in the future, the estimate is $1,754,568. Since the budget for FY2010 is essentially balanced without this revenue, it is recommended to be deposited into the Stabilization Fund. The Stabilization Fund has been cited as a financial weakness during the last two bond ratings; this would be a significant improvement. We cannot direct this revenue stream for future years, Town Meeting can only appropriate current revenue, so this forecast does not assume any action by Town Meeting, but simply identifies the available revenue in future years.

The state legislature could immediately close the tax loophole covering telecommunication equipment. The case is pending appeal in the state Supreme Court. However the legislature closed half of the loophole, covering poles and wires over public ways, in FY09. The closure of the remainder of the telecommunication tax loophole would generate approximately $1 million in new growth revenue.

The effect of both of these new revenue sources is detailed in Chart 3 on page 17. These funds are not included in the projection of the budget deficit shown in Chart 1 and Graph 1.

Note: the amounts included in Chart 1 for FY10 are the final amounts for state aid and state charges and differ slightly from the budget at the Annual Town Meeting. Charter School reimbursement and elderly aid were higher, but the Charter school charges were also higher. Quinn bill was almost completely cut. The net effect was to increase the deficit from the $151,705 passed at Town Meeting to $203,398, a change of less than $52,000.

Expenditure Forecast

The five year expenditure forecast uses the voted FY10 appropriations as the base and projects spending using some specific assumptions described below. However, that base is actually reduced in major sectors including most municipal departments, which saw a 5% decrease in staff in FY10; an limited increase in General Funds for the school department. The resources were required for fixed costs increasing far beyond the ability to support them.

The budget deficit for FY11 is probably the most glaring because of its size. The deficit incorporates the elimination of $2.5 million in stimulus funding used to fund the annual increase in the School Department in FY10. This is the significant factor in the 7% increase in expenditures from the General Fund.

<u>Personnel Costs</u>

Salaries and salary growth assumes no new positions in any of the fiscal years. Departments with primarily union staff increase at 4.5% per year. Non-union staffed departments and the School Department increase by 3% per year. Total salaries Town-wide increase 3.4% per year.

The growth rates assume any bargained increases and steps, offset by turnover and retirements. Salaries are just over 51% in FY10 and decrease to 48.6% of the budget in FY15. This is not due to controlling salary costs, but to operating costs increasing at a greater pace.

Operating Costs

Operating costs assume the same level of programs, supplies and services as FY10. Again this base assumes the 7% cut to this component in municipal departmental budgets that occurred in FY09. From FY10 forward the majority of Department budgets increase by 1-2%, with a few increasing by 4% and the School Department increasing by 4%. Out of district tuition rates have been increased by the state as much as 6%, with no corresponding state funding.

The greatest operating cost increase is in health insurance, which is anticipated to increase 9.5% or $2 million in FY11 and 8% in subsequent years. Health insurance funding is a combination of two things: cost increases and utilization. The last three years have seen moderate increases in cost offset by low utilization. The Town has seen three good years of claims which mitigate annual increases in the budget. The Town accepted Section 18 to require Medicare eligible retirees to enroll in Medicare; this saved $1.3 million for FY10 forward. In FY10 health insurance is 15.4% of the total budget. The 8-9.5% increase in health insurance spending pushes this cost to 18% of the budget by FY15. This cost is consuming the bulk of available revenue.

Property and liability insurance is expected to increase by 10% or about $101,000 per year. This increase is based on increased premiums over the last several years.

Retirement costs are estimated to grow at 3% in FY11, but 2 – 2.5% in future years. The current unfunded liability is $66 million and expected to fully funded by 2026. However, the investment experience of the last year would indicate that this low cost will change at the next valuation a year from now. The legislature is proposing the extension of the full funding deadline extension which should mitigation the need to drastically increase the annual contribution. The funding schedule and unfunded liability is presented in Chart 5 and Graph 10 on pages 25 and 26.

The newly required/identified unfunded liability is health insurance provided to retirees, called "Other Post Employment Benefits" or OPEB. The latest actuarial valuation indicates the liability is $216 million. The annual contributions, not mandated at this point but still incurred are $13 million in FY10 to $16.2 million in FY15. These costs are not included in the spending estimate in any of the years of this forecast. The OPEB liability is included in Chart 6 on the final page of this report.

Energy

Energy spending is only 2.6% of the total budget. It ranges from \$4.8 million in FY10 to \$5.7 million in FY15. The rate of growth in FY11 is 2.6% based on the estimate that several energy savings projects will be completed in FY10, yielding a full year of savings. Future growth is estimated at 4% to 4.6% assuming the expiring energy contracts will require increases in usage rates. It also assumes energy conservation and equipment efficiency improvements are made as part of the capital budget.

Small Capital Spending

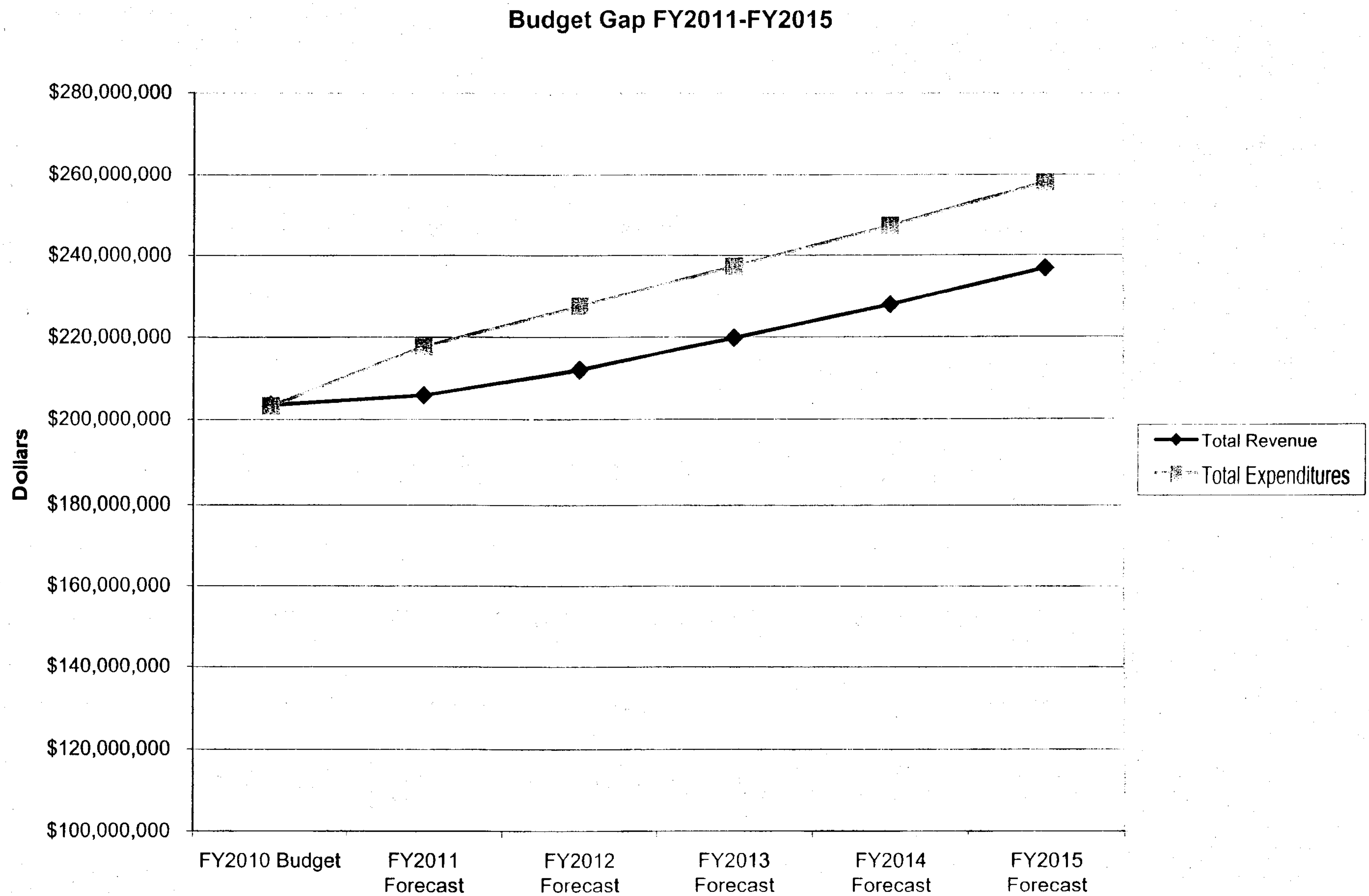
Small capital spending is for equipment and improvements that are less than \$25,000 or have a life of less than 5 years. Typical expenditures in this category are information technology, police cars, plow blades and small road repair and landscaping equipment. This cost is .6% of the budget, including all Town and School Departments, ranging from \$1.2 million in FY10 to \$1.5 million in FY15.

Conclusion

The budget deficit makes a dramatic leap in FY11 and grows steadily in future years. Unless the economy recovers faster than anticipated, we will see at least stagnant revenues. We must find creative and alternative sources of revenue. This is not a one sided problem; we must also reduce the cost and size of government. Health insurance benefits for employees must change; there is absolutely no way to sustain that cost. Town government must also operate efficiently and effectively by streamlining processes and eliminating unnecessary bureaucracy. The down side is that service provision may not be as expansive as it has in the past. However, if we do this intelligently, we will be poised to make better use of growing resources when the economy recovers.

FY2011 - FY2015 Budget Gap

	FY2010 Budget	FY2011 Forecast	FY2012 Forecast	FY2013 Forecast	FY2014 Forecast	FY2015 Forecast
Revenue						
Property Taxes	$152,037,892	$157,289,921	$162,695,016	$168,272,060	$174,041,369	$180,017,410
State Aid	$29,631,732	$27,186,662	$27,821,580	$29,350,075	$31,199,318	$33,631,791
Local Receipts	$17,597,276	$16,951,815	$17,135,866	$17,529,177	$17,971,921	$18,431,311
Enterprise Indirect Transfer	$2,489,221	$2,539,005	$2,589,785	$2,641,581	$2,694,412	$2,748,301
Free Cash	$1,500,000	$1,606,328	$1,620,000	$1,800,000	$1,800,000	$1,800,000
Parking Tickets	$66,000	$66,000	$66,000	$66,000	$66,000	$66,000
Stabilization Fund	$198,958	$198,958	$0	$0	$0	$0
Miscellaneous	$23,000	$23,000	$23,000	$23,000	$23,000	$23,000
Total Revenue	$203,544,078	$205,861,688	$211,951,248	$219,681,894	$227,796,021	$236,717,813
Revenue Growth Rate		*1.1%*	*3.0%*	*3.6%*	*3.7%*	*3.9%*
Expenditures						
Municipal Departments	$48,157,573	$50,190,763	$52,195,021	$54,164,959	$56,282,345	$58,504,798
School Departments	$94,576,553	$102,698,806	$106,100,397	$109,617,643	$113,254,593	$117,015,441
Insurances	$34,956,936	$38,124,718	$41,034,171	$44,217,549	$47,253,059	$50,502,516
Retirement	$9,968,614	$10,280,959	$10,502,693	$10,729,216	$10,952,352	$11,205,539
Debt Service	$8,110,957	$9,972,550	$11,444,559	$12,042,549	$12,894,429	$14,063,739
Stabilization/Reserves	$406,000	$512,328	$486,000	$606,000	$606,000	$606,000
Miscellaneous				$0		
Non Appropriations	$7,164,048	$5,893,422	$5,783,890	$5,860,649	$5,966,718	$6,074,850
Total Expenditures	$203,340,681	$217,673,547	$227,546,731	$237,238,565	$247,209,496	$257,972,883
Expenditure Growth Rate		*7.0%*	*4.5%*	*4.3%*	*4.2%*	*4.4%*
Projected Balance	**203,398**	**(11,811,858)**	**(15,595,483)**	**(17,556,671)**	**(19,413,475)**	**(21,255,071)**


Budget Gap FY2011-FY2015
$280,000,000
$260,000,000
$240,000,000
$220,000,000
$200,000,000
$180,000,000
$160,000,000
$140,000,000
$120,000,000
$100,000,000
Dollars
FY2010 Budget
FY2011 Forecast
FY2012 Forecast
FY2013 Forecast
FY2014 Forecast
FY2015 Forecast
Total Revenue
Total Expenditures

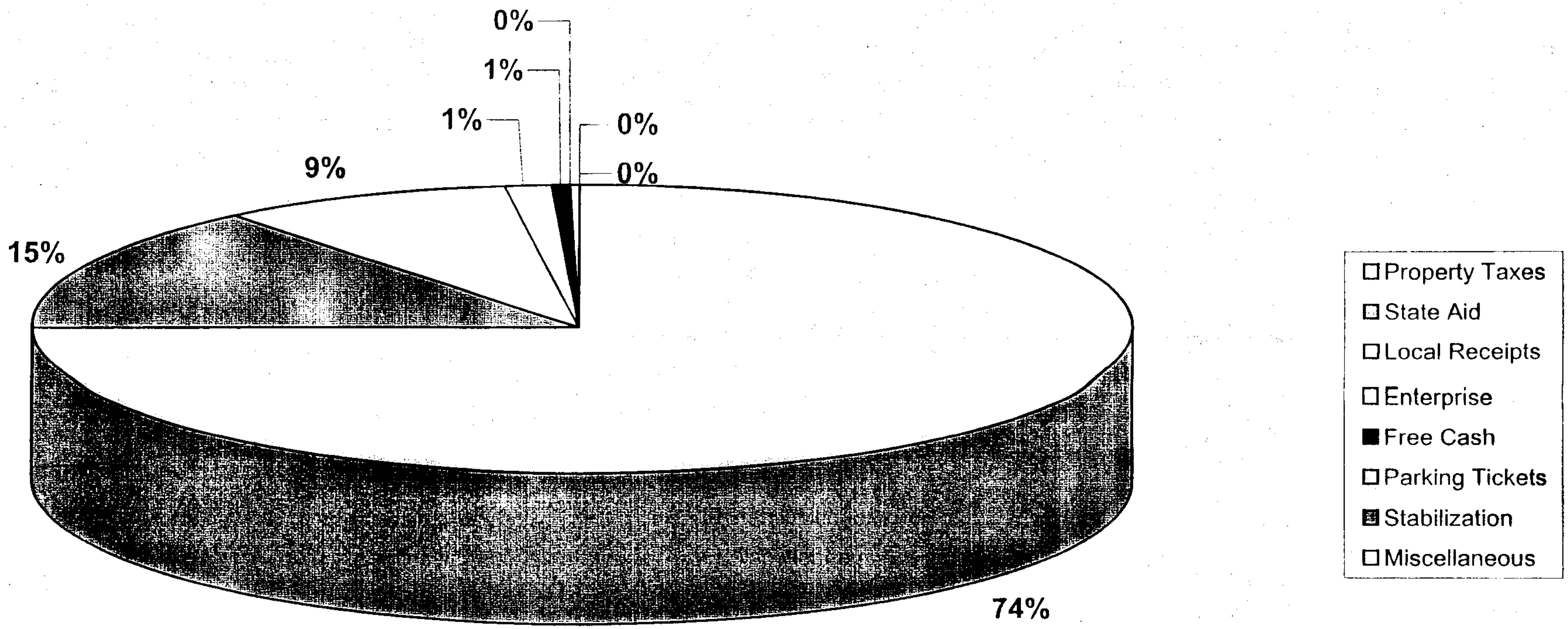
Graph 1

General Fund Revenue, by Type (no added room or meals tax)

Revenue Type	FY10	FY11	%	FY12	%	FY13	%	FY14	%	FY15	%
Town Property Taxes											
Property Tax Levy	$150,103,117	$155,838,839	3.8%	$161,222,169	3.5%	$166,762,392	3.4%	$172,478,862	3.4%	$178,392,403	3.4%
New Growth Estimate	$1,934,775	$1,451,081	-25%	$1,472,847	1.5%	$1,509,669	2.5%	$1,562,507	3.5%	$1,625,007	4.0%
Total Taxes	$152,037,892	$157,289,921	3.5%	$162,695,016	3.4%	$168,272,060	3.4%	$174,041,369	3.4%	$180,017,410	3.4%
State Aid											
Chapter 70	$16,793,161	$15,365,742	-8.5%	$15,980,372	4.0%	$17,418,605	9.0%	19,160,466	10.0%	21,459,722	12.0%
Unrestricted Gen'l Govt Aid	$8,765,666	$7,976,756	-9.0%	$7,976,756	0.0%	$8,056,524	1.0%	8,153,202	1.2%	8,275,500	1.5%
Additional Assistance	$0		0.0%		0.0%		0.0%		0.0%		0.0%
Charter Schools	$532,981	$532,981	0.0%	$532,981	0.0%	$532,981	0.0%	532,981	0.0%	532,981	0.0%
State Owned Land	$509,335	$514,428	1.0%	$524,717	2.0%	$535,211	2.0%	545,915	2.0%	556,834	2.0%
Police Career Incentive	$87,745	$0	0.0%	$0	0.0%	$0	0.0%	$0	0.0%	$0	0.0%
Elderly/Surviving Spouses	$145,759	$145,759	0.0%	$145,759	0.0%	$145,759	0.0%	145,759	0.0%	145,759	0.0%
Veterans	$135,126	$140,000	3.6%	$150,000	7.1%	$150,000	0.0%	150,000	0.0%	150,000	0.0%
SBA Reimbursements	$2,661,959	$2,510,995	-5.7%	$2,510,995	0.0%	$2,510,995	0.0%	$2,510,995	0.0%	2,510,995	0.0%
Total State Aid	$29,631,732	$27,186,662	-8.3%	$27,821,580	2.3%	$29,350,075	5.5%	31,199,318	6.3%	33,631,791	7.8%
Local Receipts											
Excise & other Taxes	$8,199,905	$7,461,914	-9.0%	$7,387,294	-1.0%	$7,424,231	0.5%	7,498,473	1.0%	7,573,458	1.0%
User Fees	$1,107,474	$1,119,657	1.1%	$1,153,246	3.0%	$1,210,909	5.0%	1,271,454	5.0%	1,335,027	5.0%
Penalties, Interest, Fines	$1,501,091	$1,516,102	1.0%	$1,546,424	2.0%	$1,577,352	2.0%	1,608,899	2.0%	1,641,077	2.0%
Licenses & Permits	$2,493,848	$2,521,281	1.1%	$2,596,919	3.0%	$2,713,781	4.5%	2,849,470	5.0%	2,991,943	5.0%
PILOT	$862,358	$862,225	0.0%	$869,213	0.8%	$875,298	0.7%	875,298	0.0%	875,298	0.0%
Investment Income	$809,412	$819,125	1.2%	$843,698	3.0%	$877,446	4.0%	912,544	4.0%	949,046	4.0%
Rental	$740,520	$768,846	3.8%	$812,255	5.6%	$854,492	5.2%	888,672	4.0%	924,218	4.0%
Loring Arena	$411,000	$411,000	0.0%	$411,000	0.0%	$419,220	2.0%	427,604	2.0%	436,156	2.0%
Miscellaneous	$1,471,667	$1,471,667	0.0%	$1,515,817	3.0%	$1,576,449	4.0%	1,639,507	4.0%	1,705,088	4.0%
Total Local Receipts	$17,597,276	$16,951,815	-3.7%	$17,135,866	1.1%	$17,529,177	2.3%	17,971,921	2.5%	18,431,311	2.6%
Enterprise Indirect Transfer											
Water Indirect	$1,292,109	$1,317,951	2%	$1,344,310	2%	$1,371,196	2%	1,398,620	2%	1,426,592	2.0%
Sewer Indirect	$1,197,112	$1,221,054	2%	$1,245,475	2%	$1,270,385	2%	1,295,792	2%	1,321,708	2.0%
Total Indirect	$2,489,221	$2,539,005	2%	$2,589,785	2%	$2,641,581	2%	2,694,412	2%	2,748,301	2.0%
Certified Free Cash	$1,869,250	$1,765,820	-6%	$1,700,000	-4%	$2,000,000	18%	2,200,000	10%	2,200,000	0.0%
Operating	$1,500,000	$1,500,000	0%	$1,500,000	0%	$1,500,000	0%	1,500,000	0.0%	1,500,000	0.0%
Capital	$0	$0	0%	$40,000	100%	$100,000	150%	100,000	0.0%	100,000	0.0%
Stabilization	$0	$106,328	100%	$80,000	-25%	$200,000	150%	200,000	0.0%	200,000	0.0%
Total Used in Budget	$1,500,000	$1,606,328	7%	$1,620,000	1%	$1,800,000	11%	$1,800,000	0.0%	1,800,000	0.0%
Parking Tickets	$66,000	$66,000	0.0%	$66,000	0.0%	$66,000	0.0%	$66,000	0.0%	$66,000	0.0%
Stabilization Fund	$198,958	$198,958	0.0%		-100%	$0	0.0%	$0	0.0%	$0	0.0%
Miscellaneous	$23,000	$23,000	0.0%	$23,000	0.0%	$23,000	0.0%	$23,000	0.0%	$23,000	0.0%
Grand Total	$203,544,078	$205,861,688	1.1%	$211,951,248	3.0%	$219,681,894	3.6%	$227,796,021	3.7%	$236,717,813	3.9%
Annual Dollar growth		$2,317,610		$6,089,560		$7,730,646		$8,114,127		$8,921,792	

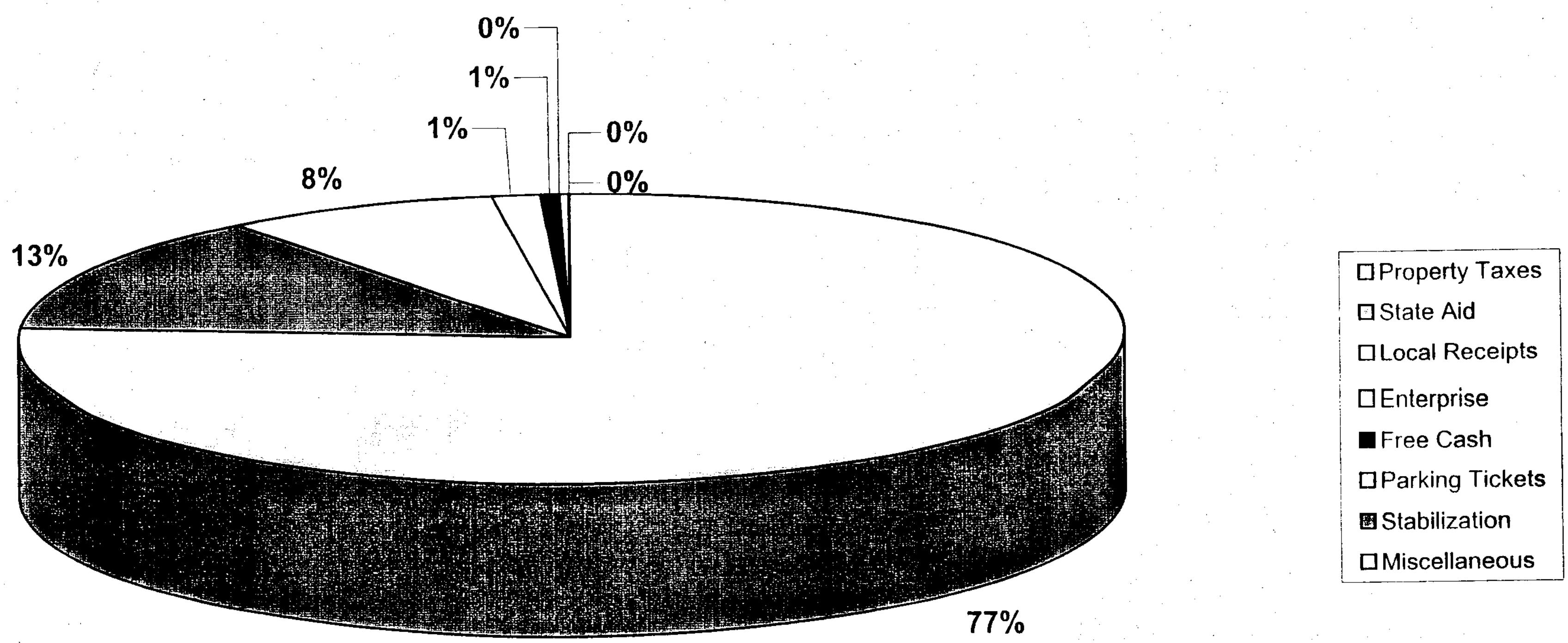
Chart 2

FY10 Revenue by Type



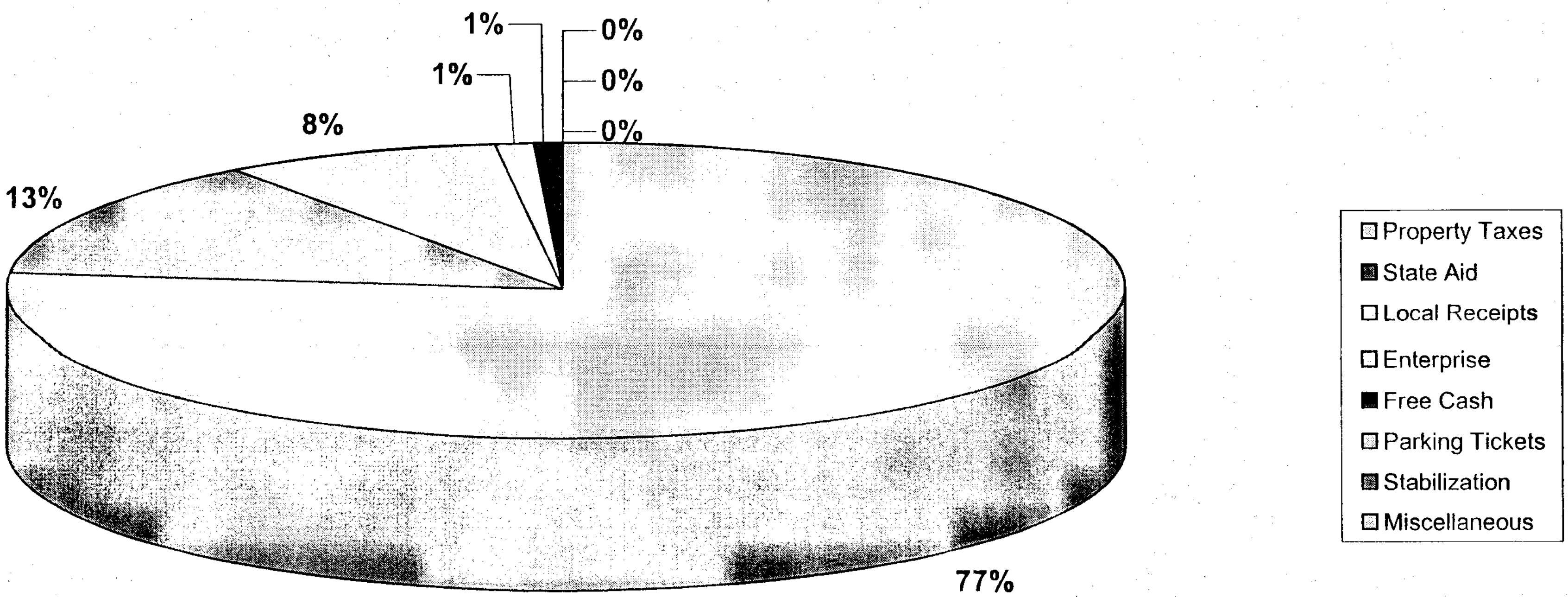
Graph 2

FY11 Revenue by Type

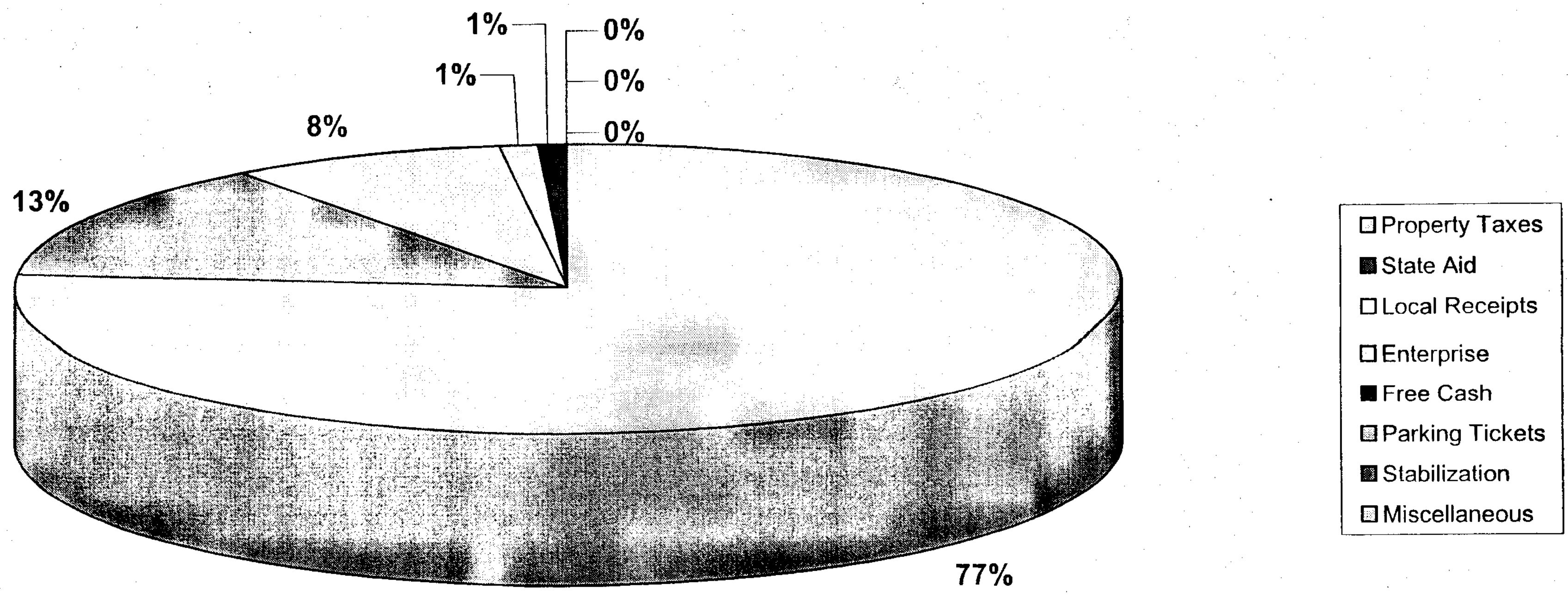


Graph 3

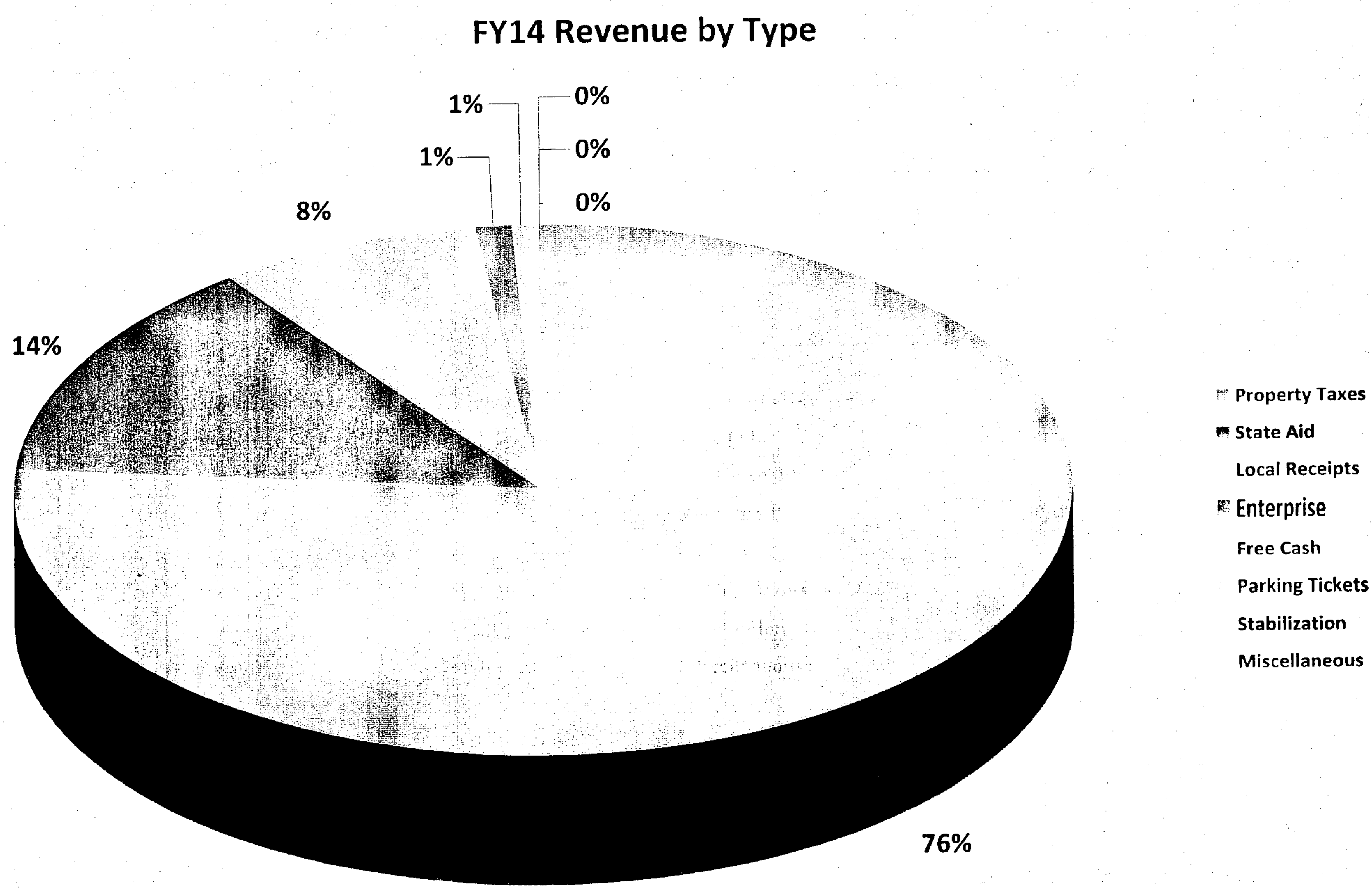
FY12 Revenue Types



FY13 Revenue by Type

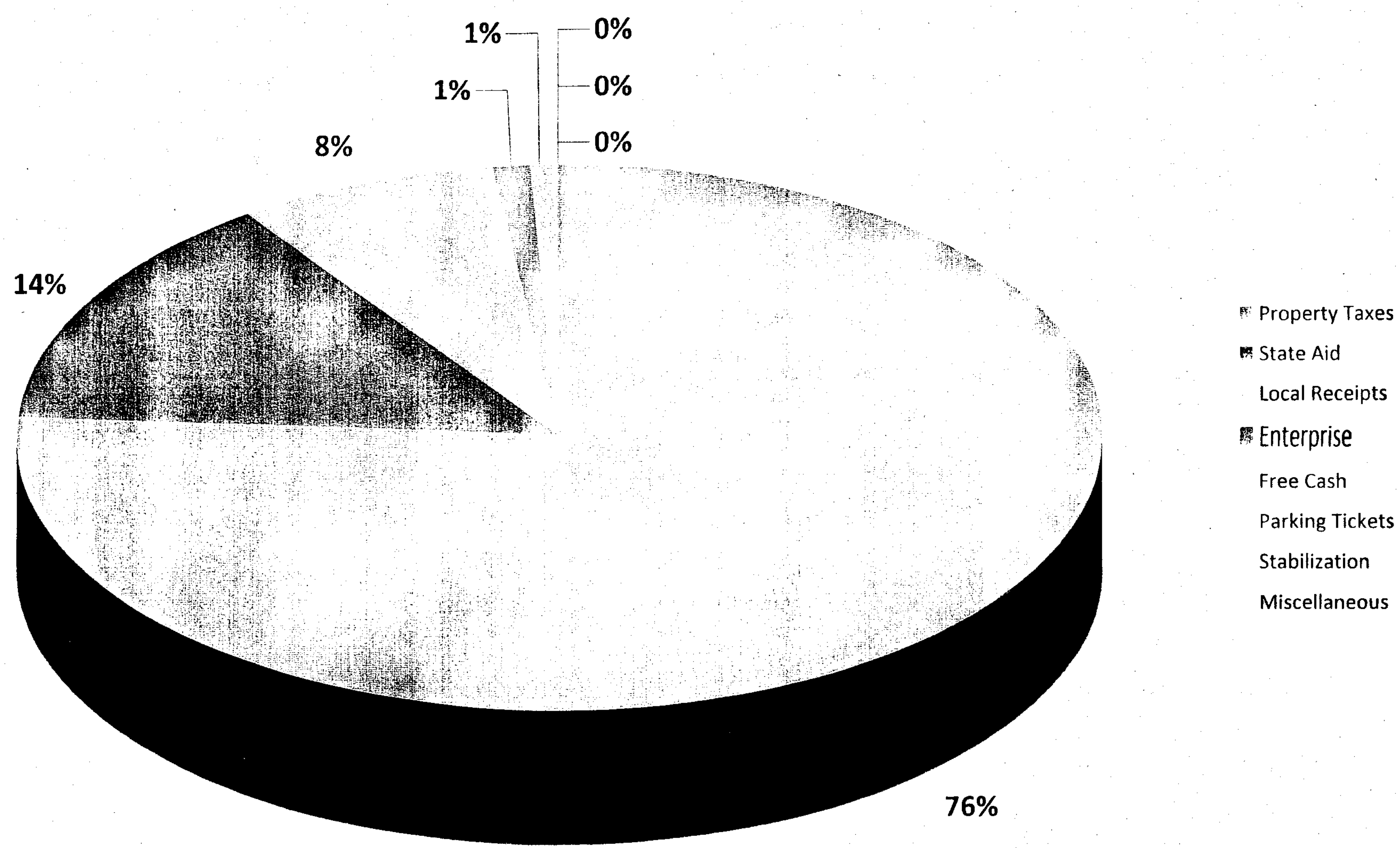


Graph 5

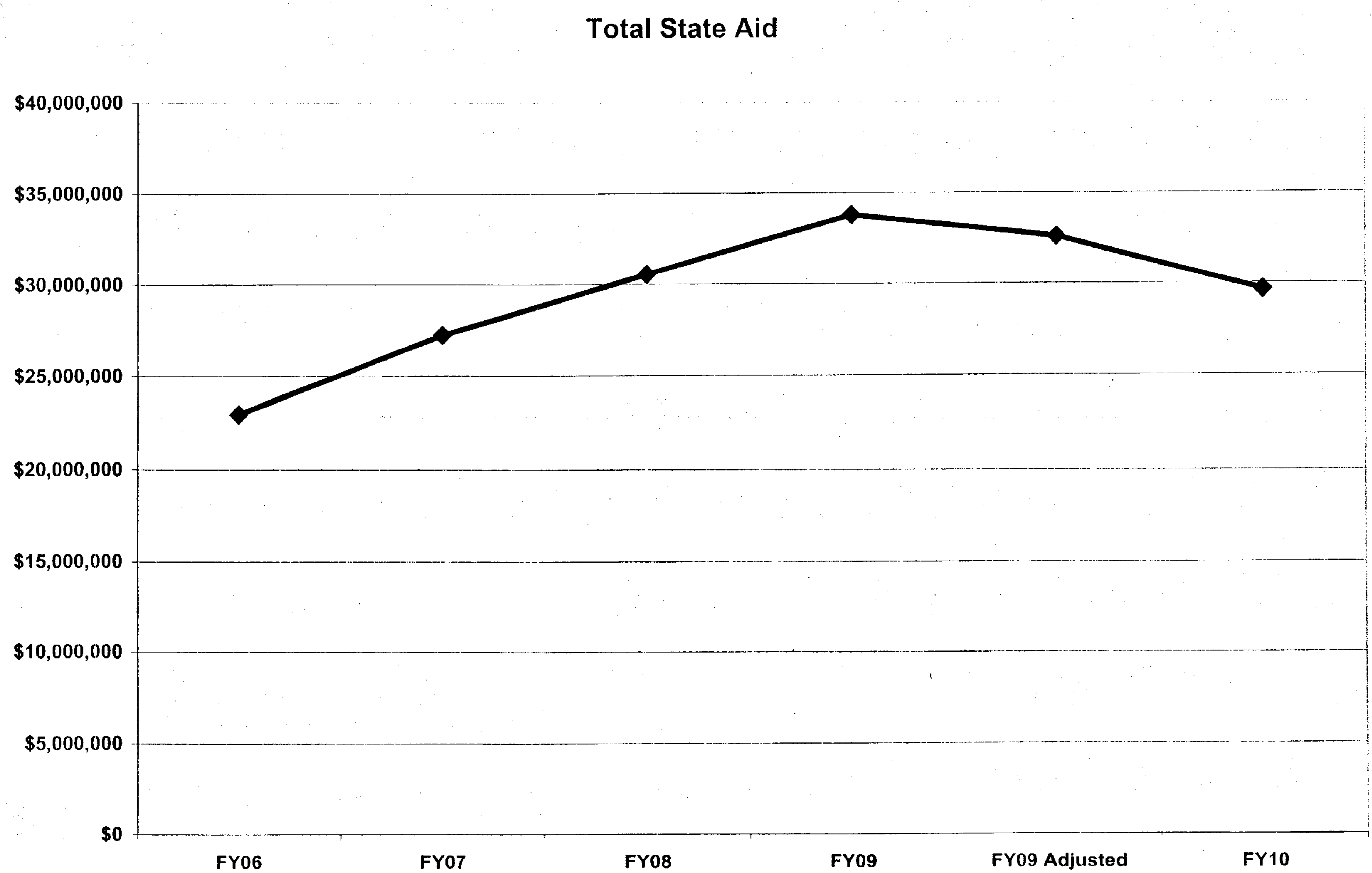

FY14 Revenue by Type
1%
1%
0%
0%
0%
8%
14%
76%
Property Taxes
State Aid
Local Receipts
Enterprise
Free Cash
Parking Tickets
Stabilization
Miscellaneous

Graph 6

FY15 Revenue by Type



Graph 7


Total State Aid
$40,000,000
$35,000,000
$30,000,000
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
FY06
FY07
FY08
FY09
FY09 Adjusted
FY10

Graph 8