

Fiscal Year 2018 First Budget Memorandum

September 21, 2016

To: Budget Subcommittee

From: David A. Colton, Town Administrator

DAC

CC: Board of Selectmen, Finance Committee, School Committee, Department Heads,
Board and Committee Chairs

The purpose of this memorandum is to briefly identify the challenges we are likely to face in fiscal year 2018 budget process. As in any year, we are challenged with minimal revenue growth. However, this year the implementation of the recently adopted financial management guidelines will bring further challenges while creating a budget that provides the same level of service while using less reserves than in the prior year.

The first task in any budgeting exercise is to identify the revenue that is expected to be available. The chart below shows general fund revenue by major category. Use of reserves as a revenue source will be analyzed separately.

GENERAL FUND REVENUE PROJECTION

General fund revenues are the recurring sources of funding from taxation, state aid and local receipts. Percentage increases in total revenue over the years have fluctuated for various reasons.

<u>Year</u>	<u>Taxation</u>	<u>State Aid</u>	<u>Local Receipts</u>	<u>Total</u>	<u>\$ Change</u>	<u>% Change</u>
FY12 Actual	43,818,646	12,403,488	6,516,074	62,738,208	2,179,272	3.6%
FY13 Actual	45,112,605	12,524,315	6,263,781	63,900,701	1,162,493	1.9%
FY14 Actual	46,930,259	12,751,419	6,853,108	66,534,786	2,634,085	4.1%
FY15 Actual	49,324,759	12,891,795	7,312,334	69,528,888	2,994,102	4.5%
FY16 Actual	50,549,833	13,032,722	7,639,704	71,222,259	1,693,371	2.4%
FY17 Budget	52,511,679	13,416,080	6,644,550	72,572,309	1,350,050	1.9%
FY18 Projected	54,481,377	13,571,123	6,802,497	74,854,997	2,282,688	3.1%

Revenue budgeting is a balancing act in itself as we must take care to budget conservatively in the event projections do not materialize and to ensure we are able to replenish our free cash certification in the following year. The attached general fund revenue history provides a more detailed breakdown of the categories above and the assumptions used for the fiscal 2018 projections. These projections are preliminary and will change throughout the budget process as more information becomes available.

OTHER FINANCING SOURCES

In addition to annual revenues generated from the three categories above, several other funding sources are used towards the budget. The main sources that have been used in the past were Ames funds, stabilization funds and free cash.

- Ames Funds - The Ames funds are recurring receipts that are received annually and transferred to the general fund as needed toward the operating budget for school and highway purposes. The amounts received are based on income earnings of trust funds and can change from year to year. At this time, the FY18 projected amount is the same as FY17, or \$425,000.
- Stabilization Funds - We do not intend to use any stabilization funds toward the FY18 operating budget as part of our commitment to rebuilding the Town's reserves.
- Free Cash - Although not ideal, the town has been using free cash to balance the operating budget for many years to avoid significant cuts to vital services. We recognize the need to limit this practice and have recently adopted new financial management guidelines to assist with this effort. Going forward, the maximum amount of free cash used for operating purposes will be limited to 50% of the amount certified. For this projection, the FY18 amount is based on 50% of an *estimated* \$2,500,000 certification or \$1,250,000.

Additional but less significant sources that have been used include, but are not limited to: septic betterments receipts reserved for appropriation (to offset debt service for the betterment loan program), conservation funds (to pay debt service on conservation land acquisitions), overlay surplus, transfer of surplus amounts from revolving funds, and surplus balances from special articles.

It has been difficult to limit the use of these funds because doing so usually means a reduction in services to our citizens. The attached general fund revenue history projects the use of \$2,235,849 in other financing sources for FY 2018, which is a reduction of \$236,095 or 9.55% from the prior year which will have to be absorbed in the overall budget process.

CONCLUSION

Overall, combined fiscal year 2018 general fund revenues and other financing sources are projected to increase by \$2,015,010 or 2.69%. While the Town managed to balance our operating budgets for fiscal year 2017 with a smaller increase in revenue than is projected here, FY18 is the third and richest year in nearly all collective bargaining agreements, which will undoubtedly strain our discretionary spending and ability to fund uncontrollable increases in fixed costs such as health insurance and pension assessments. Although these projections will change, we must take great care when considering budget increases that could limit regeneration of free cash. The combined impact of reduced reliance on reserve funds and an expected leveling off of ambulance and excise receipts necessitates realistic expectations for what the Town can afford to budget. We also face greater uncertainty this year as state revenues are lagging¹ and the results of the upcoming presidential election could significantly affect the economy for better or worse. While this year will not be without its challenges, as always I look forward to working collaboratively with the Selectmen, School Committee, and Finance Committee to deliver a balanced budget to Town Meeting in May of 2017.

¹ See: <http://www.mma.org/local-aid-and-finance/17056-revenue-slump-clouds-state-budget-picture>

**TOWN OF EASTON
GENERAL FUND REVENUE HISTORY**

	FY18 Projection Assumptions	FY12 Actual	FY13 Actual	FY14 Actual	FY15 Actual	FY16 Actual	FY17 Budget	FY18 Projected	\$ Change	% Change
REVENUES										
TAXATION										
Prior Year Levy Limit	Prev Yr Lim	40,136,575	41,418,791	43,192,211	43,884,820	47,064,444	48,335,679	50,244,071	1,908,392	
Proposition 2 1/2 levy limit increase	2.50%			-	1,112,077		1,208,392	1,256,102	47,710	
New Growth	0.00%	469,919	413,005	638,204	786,804	794,155	700,000	700,000	-	
TAX LEVY LIMIT		40,606,494	41,831,796	43,830,415	45,783,701	47,858,599	50,244,071	52,200,173	1,956,102	3.89%
Debt Exclusion	varies	2,759,682	2,761,249	2,612,158	2,575,814	2,411,825	2,267,608	2,281,204	13,596	0.60%
Other Taxes	0.00%	452,470	519,560	487,686	965,244	279,409				
TOTAL TAXATION	varies	43,818,646	45,112,605	46,930,259	49,324,759	50,549,833	52,511,679	54,481,377	1,969,698	3.75%
LOCAL RECEIPTS										
Motor Vehicle Excise	3.00%	2,853,547	3,049,302	3,231,966	3,362,887	3,434,255	3,300,000	3,399,000	99,000	3.00%
Licenses & Permits	1.00%	730,252	671,741	850,399	724,717	1,073,116	707,000	714,070	7,070	1.00%
Ambulance	3.00%	855,198	1,018,915	1,194,550	1,310,509	1,595,298	1,300,000	1,339,000	39,000	3.00%
Fees	1.00%	287,036	262,181	250,926	239,121	322,494	237,350	239,724	2,374	1.00%
Meals Tax	1.00%	252,039	291,277	279,621	299,599	314,957	300,000	303,000	3,000	1.00%
Penalties and Interest	1.00%	301,413	389,257	412,867	587,065	316,114	338,350	341,734	3,384	1.00%
Fines and Forfeitures	1.00%	29,864	25,597	47,151	18,955	29,295	18,180	18,362	182	1.00%
Investment Income	1.00%	31,937	21,457	24,970	26,691	34,473	25,250	25,503	253	1.00%
Medicare D. Subsidy	0.00%	138,843	177,625	124,450	219,855	55,382	-	-	-	
Medicaid Reimbursement	1.00%	178,756	162,359	109,641	173,200	169,762	151,000	152,510	1,510	1.00%
SE Regional School Reimb	0.00%	50,000	50,000	50,000	50,000	50,000	50,000	50,000	-	0.00%
Supplemental Taxes	1.00%	51,373	51,703	82,990	54,777		42,420	42,844	424	1.00%
Miscellaneous Revenue	1.00%	755,816	92,367	193,577	244,958	244,558	175,000	176,750	1,750	1.00%
TOTAL: LOCAL RECEIPTS		6,516,074	6,263,781	6,853,108	7,312,334	7,639,704	6,644,550	6,802,497	157,947	2.38%
CHERRY SHEET REVENUE (STATE AID)										
State Aid Chapter 70	1.00%	9,192,536	9,343,416	9,437,566	9,531,741	9,624,016	9,823,611	9,921,847	98,236	1.00%
Unrestricted General Government Aid	1.00%	1,852,233	1,852,233	1,896,016	1,948,596	2,018,745	2,105,551	2,126,607	21,056	1.00%
Charter Tuition Reimbursement	1.00%	10,171	7,139	75,147	28,908	10,702	34,733	35,080	347	1.00%
Veterans Benefits	1.00%	203,921	174,243	183,546	193,094	217,236	289,160	292,052	2,892	1.00%
State Owned Land	0.00%	66,169	66,190	67,499	87,151	87,151	86,113	86,113	-	0.00%
Exemptions: Vets, Blind, Surv Sp & Elderly	1.00%	94,478	97,114	98,844	98,956	85,484	92,932	93,861	929	1.00%
Police Career Incentive	N/A						-	-	-	
Homeless Transportation	N/A			8,821	19,369	5,408	-	-	-	
TOTAL: CHERRY SHEET REVENUE (STATE AID)		11,419,508	11,540,335	11,767,439	11,907,815	12,048,742	12,432,100	12,555,560	123,460	0.99%
SCHOOL BLDG ASSISTANCE	per SBA	983,980	983,980	983,980	983,980	983,980	983,980	983,980	-	0.00%
TOTAL REVENUES		62,738,208	63,900,701	66,534,786	69,528,888	71,222,259	72,572,309	74,823,414	2,251,105	3.10%
OTHER FINANCIAL SOURCES (OFS)										
Ames Funds	Varies	320,000	340,000	340,000	525,000	425,000	425,000	425,000	-	0.00%
Septic Betterments	Varies	76,675		17,709	24,449	69,492	67,571	67,571	-	0.00%
Other Special Revenue	Varies	26,000	34,709	41,729	61,078	278,668	117,930	30,000	(87,930)	-74.56%
Stabilization Fund	Varies			-	544,866	797,278	483,976	-	(483,976)	-100.00%
Conservation Fund	Varies	61,057	6,834	6,740	6,373	6,025	5,775	5,525	(250)	-4.33%
Enterprise Funds	Varies	457,753	457,753	457,753	457,753	457,753	457,753	457,753	-	0.00%
Free Cash	Varies	1,265,000	1,100,000	1,345,777	1,082,332	1,243,288	913,939	1,250,000	336,061	36.77%
Other	N/A	70,000			12,729			-	-	0.00%
TOTAL: OTHER FINANCING SOURCES (OFS)		2,276,485	1,939,296	2,209,708	2,714,580	3,277,504	2,471,944	2,235,849	(236,095)	-9.55%
TOTAL GENERAL FUND REVENUE AND OFS		65,014,693	65,839,997	68,744,494	72,243,468	74,499,763	75,044,253	77,059,263	2,015,010	2.69%