

BUDGET SUMMARY AND OVERVIEW

To: The Honorable Members of the Falmouth Town Council

From: Nathan Poore, Town Manager

Date: March 9, 2009

Re: 2009-10 Budget Transmittal Letter

I hereby present to you the proposed fiscal year 2010 municipal budget. This budget was reviewed extensively by finance department staff, my office, and the rest of the department head/management team. I am pleased to report that this budget will not have any impact on the municipal portion of the mil rate. This has been accomplished while adding substantive expenses associated with previously approved programs such as becoming a full member of Metro as well as significant decreases in our non-property tax revenues. All of the changes to the budget are explained in detail throughout the budget document.

The proposed General Operating Budget for the Town is \$ 10,474,437, which represents a decrease of \$ 369,443 over the current year's appropriation. This translates into a 3.4% decrease. Despite significant changes in various funding levels, this budget is consistent with the long tradition of financial stability for the town. I believe that former Councils made excellent decisions supporting budgets that adequately funded capital needs and the tradition needs to be carried forward.

Revenues

The recent trend of realizing increases in our non-property tax revenues has turned. With the economic downturn, we are projecting significant decreases in some of our larger non-property tax revenues, including Auto Excise Taxes, State Revenue Sharing, Building Permits and Fees, and Interest Income. Overall, revenues are down \$ 579,700 from last year's budget. Decreasing non-property tax revenues was one of the greatest challenges in the development of this budget. The budget to budget decrease is 11.7%.

Expenditures

The Capital Improvement Plan (CIP) is a significant part of the budget and decreased from FY09 approved appropriations. The retirement of two bonds significantly lowered our capital funding needs. Budget challenges also required a major reduction in Open Space funding. The remaining CIP was evaluated by examining replacement schedules and adjusting life expectancy projections. We also looked at anticipated inflationary cost increases. We chose to extend out some projects as well as eliminate some previously funded projects in order to reduce the capital funding for the proposed budget year and in future years. The eliminated projects were not considered part of the core needs of the Town. This process allowed us to have sustainable reductions in funding of some reserves, while maintaining confidence that we are not underfunding future capital expenditures

The reduction in the CIP did not completely compensate for the reduction in Revenues. There were also some expense increases that we needed to account for in this budget. These increases include program changes like becoming full Metro members , adding a new asset management system, and inclusion in the Regional Crime Lab, a 1.5% pay increase for personnel, adjustments in health and liability insurance, and inflationary increases in vehicle maintenance and curbside pick-up costs.

To overcome the revenue losses and expense increases, the staff worked hard while reviewing their budgets to find ways to reduce expense. We used innovative practices to save money, like implementing a four day work week at Town Hall and adjusting job duties at the Transfer Station to eliminate some contracted services. We will eliminate two vacant positions as well as adjust working practices to reduce overtime. There are realized savings in the Assessing Department and Overlay due to the conclusion of the revaluation. Smart decisions like purchasing the hybrid vehicles and replacing our old heating systems to more efficient ones has helped us save money on Transportation and Heating Fuel costs. The Department Heads have cut costs where they could, with large reductions in various Consulting and Contingency accounts.

Projected Future Needs and Budget Impacts

There are some items that were discussed during budget development meetings and included in department budget requests that are not funded in this budget. Most of our discussions focused on staffing needs.

- Implementation of our new asset management software will allow us to track the conditions of our infrastructure (roads, drainage systems, and wastewater collection systems) and make adjustments based on quantitative data and condition analysis.
- We will continue to explore innovative ways to reduce cost, while continuing all current programs and core needs.
- We will monitor the reduction of one position in the Town Clerk Department and the elimination of one Patrol Officer to determine if these are long-term sustainable commitments.
- We are continuing our efforts to analyze the condition of infrastructure and facilities and developing plans to manage these assets.

I look forward to working with the Council as we work toward meeting the needs of Falmouth citizens. I need to acknowledge and thank everyone who participated in the development of the proposed budget including all department heads/managers and their staff. Special appreciation and acknowledgement is also owed to John McNaughton and Randy Davis.

Budget Analysis

This section of the budget document, identified as the Budget Analysis, provides an overview of spending at multiple levels. The information in this section will illustrate budget impacts, explain changes and new programs, and compare resource allocation.

Tax Rate Calculation

This tax rate calculation table utilizes an added valuation projection of \$15 million in new construction and lot formation.

Property Tax Rate Calculation 2009-10 Town Budget	
Expenditures	10,474,437
Overlay	75,000
Non-tax revenues	(4,388,600)
Net from property taxes	6,160,837
2009-10 projected valuation	2,086,360,000
2009-10 projected tax rate	2.95
2008-09 rate	2.95
Tax rate increase (decrease)	0.00

Expenditures (By Object of Expenditure)

This table and following chart demonstrates how funds are allocated between four major categories. We are primarily a service providing organization so it is not surprising to see that a significant amount of our budget is associated with personnel costs.

Personnel	Supplies & Services	Capital / Debt Service	Other Agencies
\$ 4,873,865	2,802,814	2,244,865	552,875

Expenditures (Personnel)

The total cost of personnel services (wages and benefits) in the FY09 budget is \$ **4,873,885** representing a 2.3 % increase over FY09. Offsetting factors have kept this category relatively flat.

- The upgrade to the paramedic service from 12 hours to 24 hours a day has increased the part-time salaries in this budget.
- The inflationary cost of health insurance has impacted this budget.
- The pay increase will be 1.5% for personnel.
- We will not fill two vacant positions.
- Because of good claims experience in prior years, the Town will see a decrease in Worker's Compensation expense.

Expenditures (Supplies and Services)

The proposed budget includes \$ **2,802,814** for supplies and services, which represents a 4.6% decrease under the FY09 budget. The more notable decreases in this category include:

- The Town made a conscious decision to lessen the dependence on outside Consultants to complete our tasks.
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- We adjusted the duties of the Transfer Station employees in order to reduce the need for contracted services, while maintaining the current operation.
- Updated heating systems has shown a decrease in Heating Fuel.

Expenditures (Capital Outlay / Debt Service)

Funding levels in this particular category are the foundation to ongoing fiscal stability. We will continue to fund capital needs from annual revenues; special reserve funds, and the issuance of debt. A successful capital improvement program (CIP) will not show mil rate impact fluctuations with substantial peaks and valleys. This budget and the remaining CIP are structured to accommodate the goal of steady funding without significant changes in the mil rate. The proposed budget includes funds for implementing the FY10 portion of CIP. Capital Outlays / Debt Service costs next year will total \$2,244,865 which reflects a 14.8% decrease from the current budget. The more notable decreases in this category include:

- Retirement of two investment bonds.
- Reduction in Open Space Funding.
- Eliminating some non-essential items from the capital plan.

The Town's strategy of making prudent investments in its capital equipment/facilities and infrastructure should be continued. Continuing this strategy will sustain the condition of our infrastructure and minimize long-term maintenance costs.

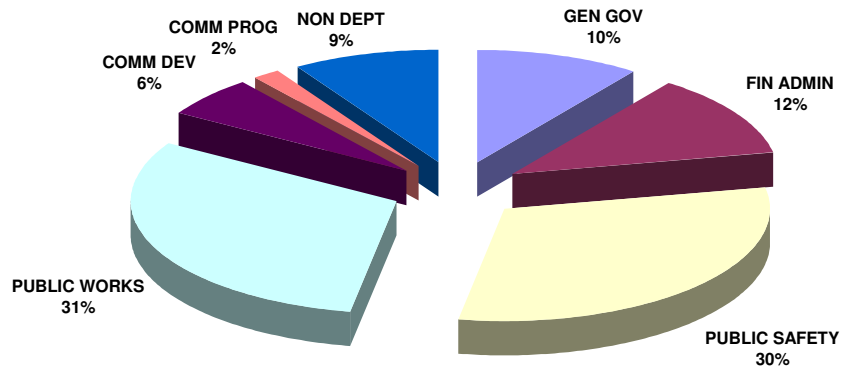
Expenditures (Contributions)

Contributions to outside agencies include the Library, Metro Bus, Highland Lake Watershed Study and Conservation, and overlay. The request is up 9.4% when compared to the FY09 budget. Funding levels, based on outside agency recommendations and requests, total **\$552,873** in FY10. The proposed budget includes a contribution toward the operations of the Library in the amount of \$374,000, which is the same as last year. Metro Bus (including Regional Transportation Program) expenses will increase by \$70,000, which is a 69.7% increase over the FY09 budget. The new permanent partnership with Metro Bus explains the significant increase in this funding category.

Expenditures (Budget Summary by Department)

This pie chart illustrates how the proposed budget allocates resources by Department. It is clear that the majority of our spending goes toward the delivery of actual services such as Community Programs, Public Safety, Parks and Public Works. Administration expenses are much smaller pieces of the pie which is desirable so that more resources can be used for the actual delivery of services.

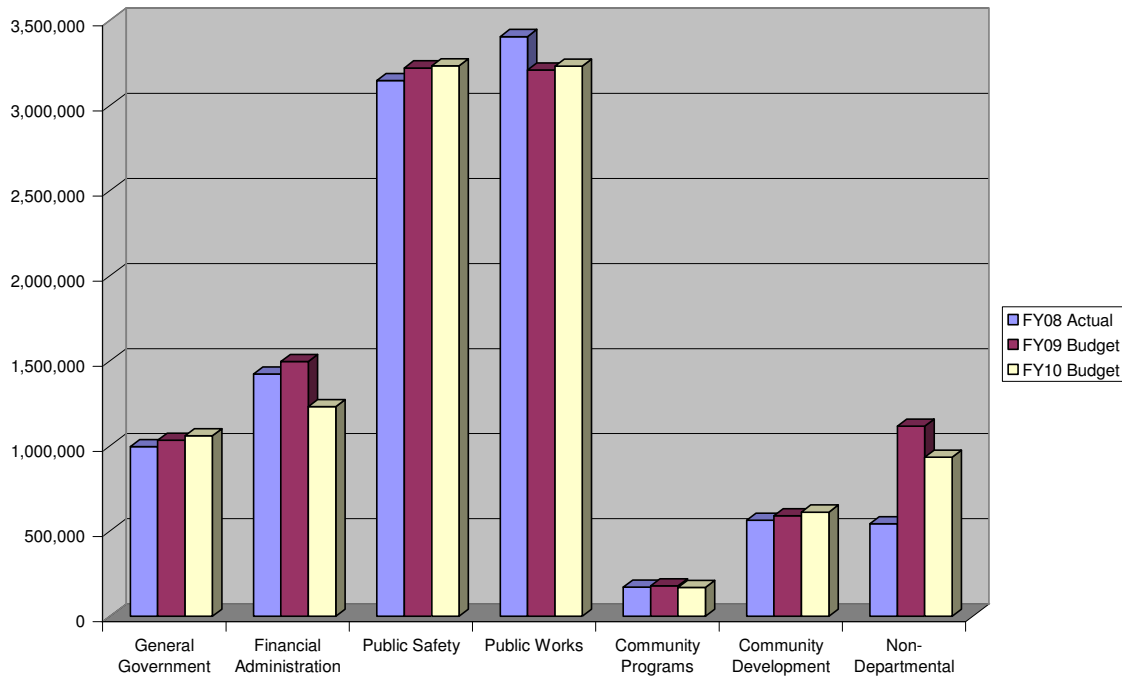
Town of Falmouth FY10 Budget



Budget Allocation by Department

The bar graph shown below presents a budget comparison by department. The explanation for variations are different depending on many factors including but not limited to varying levels of inflation (depending on the types of expenditures made within each department), reductions in some areas, and program changes.

Division Expense Comparison



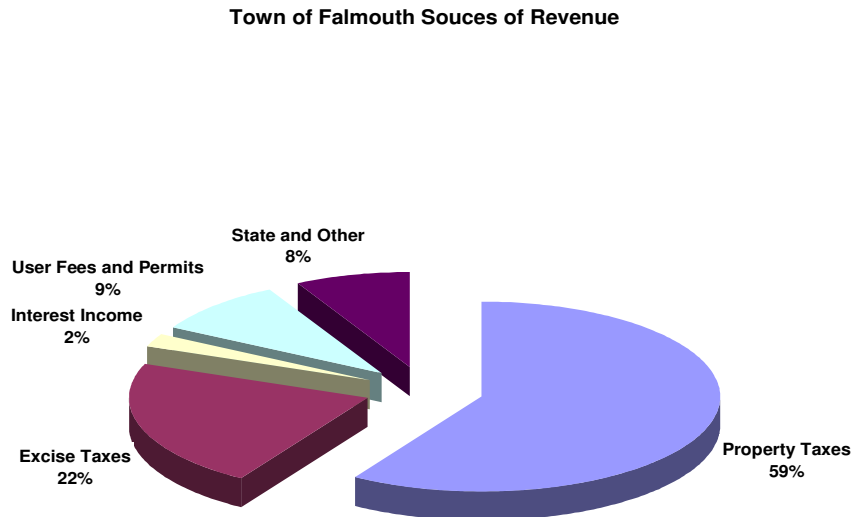
Changes in department budgets include a number of explanations such as:

- **General Government:** There is a reallocation of personnel resources to the Town Clerk that is causing this slight increase.
- **Finance:** The decreases in this area consist of reduced Assessing costs because of the conclusion of the revaluation, reduction of one FTE from the Finance Department because of tax collection consolidation with the Town Clerk duties, and lower debt payments because of the 1998 CIP Bond retirement.
- **Public Safety:** This slight increase is attributed to the implementation of the expanded paramedic program.
- **Public Works:** We will begin hauling the silver bullets and the large containers at the Transfer Station in-house, which will reduce our cost and reliance on outside contractors. In addition, we will implement a new salt brine system which will reduce our salt cost.
- **Community Programs:** We have lowered the funding to the Recreation Program. The management of this program has been very efficient over the past few years. The accounts associated with this department have a surplus that will allow a sustainable decrease in funding.
- **Community Development:** Contractual salary and benefit agreements are responsible for the increase in this department.

- Non-Departmental and Other Agencies: The primary reason for an increase in this area results from new funding for open space land acquisition and increased funding for the Metro and RTP bus programs.

Revenues

Municipal services are supported by a number of revenue sources including property taxes which account for 59% of all revenue sources for municipal (non-education) services. Property taxes are used exclusively to fund the Cumberland County assessment and 75% of the funding required to support education comes from property tax revenues. The following pie chart shows where all our revenues come from and demonstrates how much we rely on property taxes (chart only applies to municipal services).

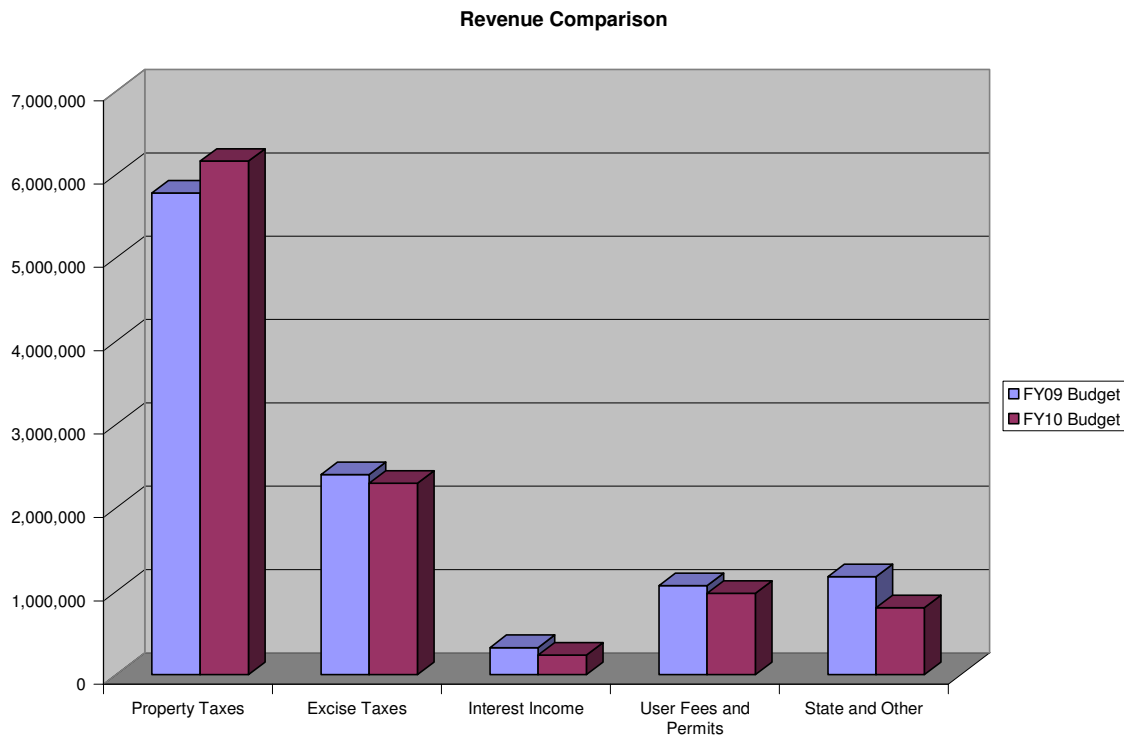


Because non-property tax revenues can fluctuate beyond the control of local officials, conservative estimates are common practice. The estimated revenues in FY10 are not conservative and leave very little room for unanticipated adjustments. The projected revenue estimates are similar to revised FY09 estimates. Projected FY10 revenues are lower than the original FY09 budget which was one of the greatest challenges in the development of this budget. The budget to budget decrease is 11.7% with the following revenue sources providing the most significant impacts:

▪ Auto Excise Taxes	(100,000)
▪ Investment Income	(90,000)
▪ State Revenue Sharing	(100,000)
▪ Authorized Use of Fund Balance	(250,000)
▪ Building Permits	(68,000)
▪ Ambulance Charges	35,000

The decrease in non-property taxes revenues created significant challenges during the development of this budget. Normally, we can depend on an increase in these revenues (average increase over the last five years was approximately \$164,000) to combine with added property valuation growth. For the past few years, this formula has worked well in Falmouth but the drop in non-property tax revenues created an immediate challenge resulting in a need to consider significant cuts and adjustments on the expense side of the budget.

The following bar graph compares FY09 and FY10 revenue projections. The increase in total property tax collections is not due to an increase in the rate but rather a small increase in the actual property valuation (new homes, lot splits, new businesses and additions/renovations).



Financial Condition

One of the primary strengths of this organization has been and continues to be its stable financial condition. This part of the report demonstrates financial condition through analyzing several characteristics and practices. Collectively, these snapshots of our organization show that the Town is in a stable fiscal condition, despite the current economic climate.

Financial analysts use several financial indicators to measure a municipality's financial condition. This report identifies, similar to previous reports, the following information/indicators: property tax burden; ratio of bonded debt to assessed valuation; direct debt per capita; tax collection rate; and the Town's undesignated, unreserved fund balance.

Property Tax Burden

The State Bureau of Taxation publishes full value tax rates for all Maine communities each year. Full value tax rates are used so that fair comparisons can be made between communities. The rate is calculated by using the State determined valuations and the locally determined property tax commitments. State valuations are always behind two years, therefore, data for 2007 and 2008 is not available.

This table compares Falmouth's full value rate with other area communities. Since 2000, Falmouth has had a rate below the average in each year with the exception of 2003. This table relies on State derived data and the most recent data identifies Scarborough as the only community with a lower rate than Falmouth (.03 variance).

Greater Portland Communities	2006	2005	2004	2003	2002	2001
Cape Elizabeth	10.89	11.71	12.48	12.72	13.91	15.07
Cumberland	14.85	12.54	13.70	14.22	15.67	16.74
Falmouth	10.74	12.44	14.38	15.28	15.48	16.38
Gorham	11.98	12.69	14.37	15.22	16.11	16.61
Portland	14.27	14.91	15.96	17.59	19.03	19.57
Scarborough	10.71	11.23	12.52	12.86	13.93	15.11
South Portland	12.75	13.23	14.09	14.91	16.40	18.53
Westbrook	14.90	15.27	17.97	17.30	18.44	19.30
Windham	10.88	11.72	14.11	13.91	14.33	14.78
Yarmouth	14.43	15.22	16.63	18.00	19.33	18.46
Average Full Value Rate	12.85	13.09	14.62	15.20	16.26	17.05
Falmouth	10.74	12.44	14.38	15.28	15.48	16.38
Variance from Average	2.11	0.66	0.24	(0.08)	0.79	0.67

Debt Ratios

The Maine Municipal Bond Bank has found the average debt/valuation ratio for Maine municipalities to be 2.1%. Municipalities have a legal debt limit of 15%; however, bond analysts consider anything under a 3% debt/valuation ratio to be acceptable. As of June 30, 2009, Falmouth's gross debt/valuation ratio will be 0.77%. When the state subsidy for the 2000 high school bond issue is factored in, the effective debt/valuation ratio drops to 0.52%. It should be noted that the bonded indebtedness of the Town's sewer utility is paid for through sewer user charges, and not through property tax dollars, and therefore is not shown in this table.

Fiscal Year End June 30	Pop.	Assessed Valuation (x 1,000)	Total Direct Debt* (x 1,000)	Debt as % of Assessed Value	Direct Debt per Capita
2009	11,900	2,195,699	16,831	0.77%	1,414.37
2008	11,900	1,752,772	18,414	1.05%	1,547.39
2007	11,760	1,705,815	19,998	1.17%	1,884.23
2006	11,460	1,658,290	17,486	1.05%	1,525.83
2005	11,320	1,643,281	18,925	1.15%	1,671.82
2004	11,205	1,534,080	20,863	1.36%	1,861.94
2003	11,021	1,135,149	22,022	1.94%	2,013.53
2002	10,802	1,099,391	23,570	2.14%	2,182.00
2001	10,556	1,027,758	23,845	2.32%	2,270.95
2000	10,310	889,126	18,703	2.10%	1,814.06
*Reflects School Debt and does not reflect state subsidy for high school bond issue.					

Assessed Valuation

Over the past 20 years, Falmouth's valuation has increased between 1-4% per year as a result of new construction. The Town Assessor has projected that new construction will add \$15 million, or 0.7% to the Town's assessed valuation for 2010 for a total valuation of \$2,086,360,000 (exclusive of TIF valuation). This total valuation equates to over \$175,000 per capita, which is generally considered a very good valuation ratio for a community with limited commercial tax base.

Tax Collection Rates

A municipality's tax collection rate is another indicator of financial stability. Falmouth has had an excellent collection rate averaging over 98% in each of the past five years. Unfortunately, with the economic downturn, we may see a decline in the collection rate in the next few years, which may negatively impact the Town's fund balance.

Undesignated Fund Balance

Falmouth’s unreserved, undesignated fund balance as of June 30, 2007 was \$10,319,158. The fund balance should not be viewed as “cash on hand” or surplus funds. There are many encumbrances against the fund balance such as reserves for receivables (unpaid taxes). For example, if the tax collection rate declined to 91%, as it did during the recession in the early 1990’s, the amount that would need to be reserved for tax receivables would substantially increase. Fortunately, the current fund balance exceeds the minimum standards set by the Council’s adopted fund balance policy, providing the Town with a healthy “available” fund balance. A copy of the fund balance policy is attached as Appendix D.

The fund balance provides the Town with adequate coverage for various liabilities, accounts receivable, unforeseen expenses or shortfalls in revenues. It has also enabled the Town to meet most of its cash flow needs despite the timing of property tax collections, which are well into the fiscal year.

Analysis of Fund Balance	
Unreserved, undesignated Fund Balance (6/30/08)	\$10,012,721
Net Receivables	(344,992)
Tax-acquired property	(6,950)
Other non-cash assets	(61,207)
Unencumbered Fund Balance	9,599,572
Council’s Minimum Fund Balance Reserve* * 16.7% of total 2008-09 expenditure budget	(6,198,554)
Supplemental Appropriations	(130,000)
Budgeted for CIP in FY 2008-09	(250,000)
Projected “Available” Fund Balance	\$3,021,018

The “available” fund balance should not be relied upon for regular tax relief. In accordance with Council fund balance policy, this available balance should be used for what is commonly called “one-time” expenses. Regular reliance on fund balance could artificially reduce the tax rate but when fund balance is no longer available, the tax rate will dramatically increase. “Available” fund balance is essential for the Town’s ability to respond to unforeseen circumstances. These unforeseen circumstances can include natural disasters, premature infrastructure failure, and economic influences uncontrollable at the local level.

LD1 Compliance

In 2004, the Maine legislature passed the municipal “expenditure cap” statute known as “LD1”. Under this statute, the annual percent increase in the municipal (non-school and non-county) property tax levy is subject to a maximum cap based on both a statistical income growth limit percentage established each year by the state, as well as a property growth limit calculated by the Town’s Assessor. The estimated LD1 limit for 2008-09 is calculated as follows:

Actual 2008-09 municipal tax levy limit	\$6,492,556
Plus estimated 3.87% 2009-10 growth limit	251,262
Plus reduced state revenue sharing revenue	<u>115,094</u>
Projected 2009-10 tax levy limit	\$6,858,912
Projected 2009-10 municipal tax levy	<u>6,160,837</u>
Amount under tax levy limit	\$698,075
Percent Under tax levy limit	10.2%