

BUDGET SUMMARY AND OVERVIEW

To: The Honorable Members of the Falmouth Town Council

From: Nathan Poore, Town Manager

Date: March 12, 2010

Re: 2010 - 2011 Budget Transmittal Letter

I hereby present to you the proposed fiscal year 2011 municipal budget. This budget was reviewed extensively by finance department staff, my office, and the remaining 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 despite substantive and uncontrollable increases in certain expenses. Some of these increases include expenses associated with General Assistance, Maine State Retirement System, and Health Insurance. Not unlike fiscal year 2010, non-property tax revenues are projected to decrease compared to prior year 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 \$ 10,426,603, which represents a decrease of \$ 127,037 over the current year's appropriation. This translates into a 1.2% decrease. This budget does not negatively impact the financial condition of the organization and all recommendations are solutions that can be sustained for more than one year. This is consistent with prior year decisions and financial management, that over time, has built financial stability for current and future residents of our community.

Revenues

The former trend of realizing increases in our non-property tax revenues is turning into a trend of annual and accumulating decreases. Similar to fiscal year 2010, we are projecting significant decreases in several non-property tax revenues, including State Revenue Sharing, Mooring Fees and Interest Income. Overall, revenues are down \$ 156,790 from last year's budget. Decreasing non-property tax revenues was a challenge in the development of this budget. The budget to budget decrease is 3.6%.

Expenditures

As can be expected, there are some uncontrollable increases in expenditures. An expected increase in General Assistance expense will have the greatest impact on our budget. We anticipate the fiscal year 2011 to increase from \$25,000 to \$110,000. Police patrol salaries will increase to accommodate the need to fund one position that was eliminated in fiscal year 2010. Eliminating this position is no longer a sustainable option and the decision to fund the position was supported by a benchmarking exercise that compared the Police Department with other communities in our area and New England benchmarks for communities our size. Finally, other changes included increases in employer share of the MPERS retirement benefit, software applications and health insurance premium increases.

We are proposing a budget that includes many line item expenditure reductions to balance the revenue losses and somewhat uncontrollable expense increases. The following table identifies the areas of the budget where we have reduced expenses. The table also includes a list of expenditures that are increasing along with revenues that are projected to decrease and increase. A narrative description of these changes will be provided in future presentations and in the second posting of this comprehensive budget document.

FY2011 Budget Impacts	
Funding Change FY10 v FY11	
Budget impact: Increase/(Decrease)	
Revenue	
• Investment Earnings	\$185,000
• State Revenue Sharing	\$198,000
• Mooring Fees	\$ 30,000
• Regional Dispatch	(\$ 157,000)
• General Assistance Reimbursement	(\$ 45,000)
• Metro Transit Bonus	(\$ 41,000)
• Cable Franchise Fees	(\$ 11,000)
• Net Change in All Other Revenues	(\$ 2,000)
Total Impact	\$157,000
Expenditure Increase	
• Regional Dispatch	\$ 100,000
• General Assistance	\$ 85,000
• Police Patrol Salaries	\$ 61,000
• Retirement Contribution	\$ 20,000
• Software Application Upgrades	\$ 12,000
• Health Insurance Contribution	\$ 12,000
Total Impact	\$290,000
Capital Improvement Plan	
• Open Space Funding Reduction	(\$180,000)
• Streets and Parks Capital Reserve	(\$ 57,000)
• Land Acquisition Reserve	(\$ 27,000)
• Energy Efficiency Reserve	(\$ 10,000)
• Net Change of All Other Accounts	\$ 50,000
Total Impact	(\$224,000)
Operating Budget Expenditures	
• Contingency	(\$ 47,000)
• Parks Employee Reduction via Attrition	(\$ 37,000)
• Eliminate Part-time Planning Inspector	(\$ 30,000)
• Workers Compensation	(\$ 21,000)
• Professional Services	(\$ 16,000)
• Street Lights (eliminate some lights)	(\$ 20,000)
• Metro	(\$ 8,000)
• Other	(\$ 14,000)
Total Impact	(\$193,000)

Projected Future Needs and Budget Impacts

As we move forward during a challenging economy we must continue our effort to maintain financial stability, deliver necessary services and focus on sustainable solutions.

- 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 Parks Division of the Parks and Public Works Department.
- Continue to work with the School Department to find opportunities to consolidate functions when consolidation provides a benefit that could include one or more of the following: efficiency, cost reduction or avoided future costs.

I look forward to working with the Council as we work toward meeting the needs of Falmouth citizens. I want to express my appreciation to 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 \$10 million in new construction and lot formation.

Property Tax Rate Calculation 2010-11 Town Budget	
Expenditures	10,426,603
Overlay	129,568
Non-tax revenues	(4,231,810)
Net from property taxes	6,324,361
2010-11 projected valuation	2,106,645,400
2010-11 projected tax rate	3.00
2009-10 rate	3.00
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 that a significant amount of our budget is associated with personnel costs.

Personnel	Supplies & Services	Capital / Debt Service	Other Agencies
\$ 4,993,112	2,898,395	1,999,325	535,771

Expenditures (Personnel)

The total cost of personnel services (wages and benefits) in the FY11 budget is **\$ 4,993,112** representing a 2.4 % increase over FY10. Offsetting factors have kept this category relatively flat.

- We have added two dispatchers for Yarmouth's added volume.
- The inflationary cost of retirement and health insurance has impacted this budget.
- We added back the police officer cut in last year's budget.
- We will not fill the vacant position in Parks.
- Because of good claims experience in prior years, the Town will have a decrease in Worker's Compensation expense.

Expenditures (Supplies and Services)

The proposed budget includes **\$ 2,898,395** for supplies and services, which represents a 3.4% increase over the FY10 budget. The notable impacts in this category include:

- The economy has dictated a large increase in General Assistance.
- We will realize savings by eliminating some street lights and reducing the wattage on some other street lights.
- We have reduced the Contingency accounts.

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 FY11 portion of CIP. Capital Outlays/Debt Service costs next year will total **\$1,999,325** which reflects an 10.9% decrease from the current budget. The more notable decreases in this category include:

- Reduction in Open Space and Land Acquisition Funding.

- Reallocation/Elimination of projects realized savings in the Parks and Public Works Reserves.
- 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.

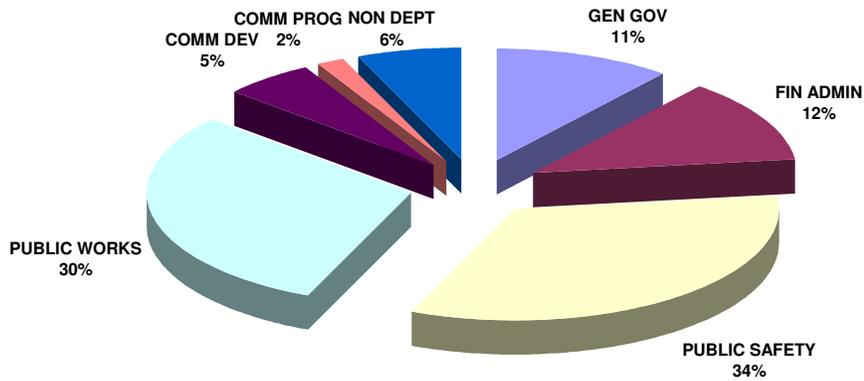
Expenditures (Contributions)

Contributions to outside agencies include the Library, Metro Bus, Highland Lake Watershed Study and Conservation, and overlay. The request is down 3.1% when compared to the FY10 budget. Funding levels, based on outside agency recommendations and requests, total **\$535,771** in FY11. The proposed budget includes a contribution toward the operations of the Library in the amount of \$372,500, which is \$2,500 more than last year. Metro Bus (including Regional Transportation Program) expenses will decrease by \$8,000, which is a 5.5% decrease from the FY10 budget.

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.

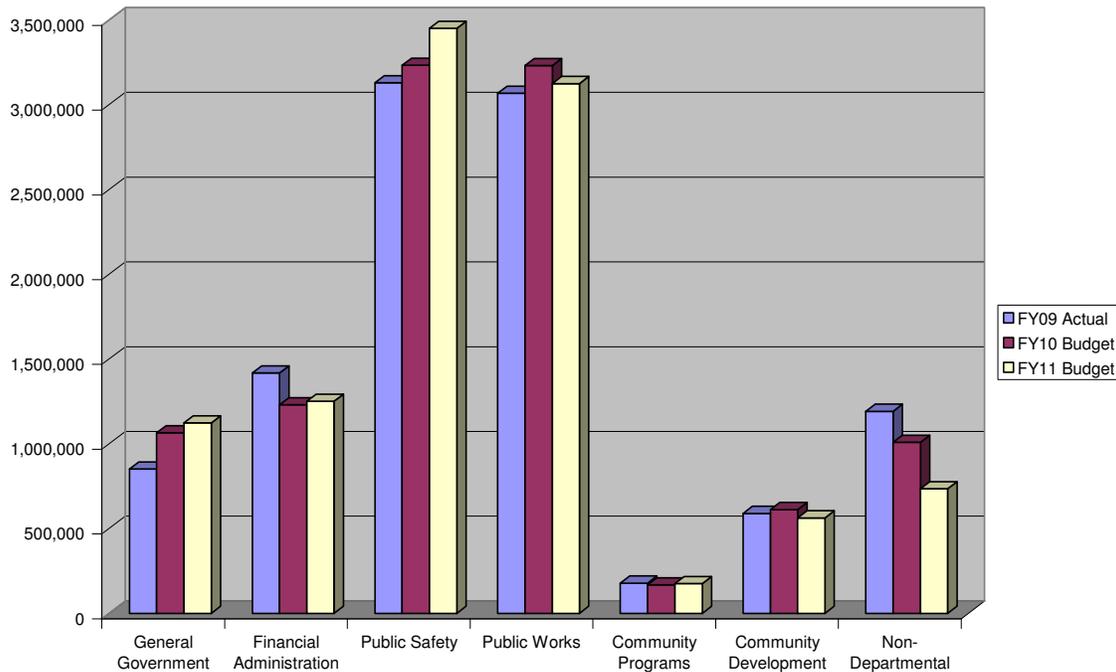
Town of Falmouth FY11 Budget



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



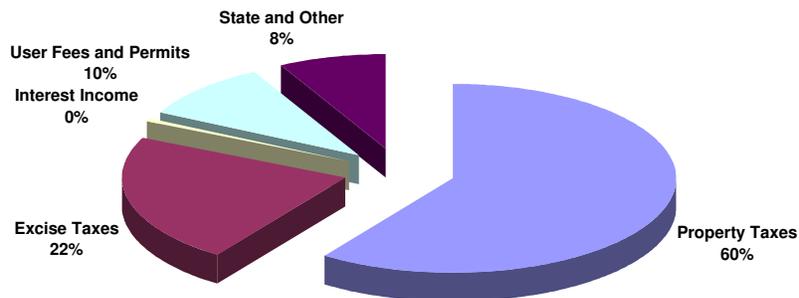
Changes in department budgets include a number of explanations such as:

- **General Government:** More demand for General Assistance is the cause of this increase.
- **Finance:** The slight increase in this area is attributed to the reallocation of computer software costs to the Information Services Department.
- **Public Safety:** An additional patrol officer, which was cut from last year's budget, plus the costs associated with adding Yarmouth to our dispatch center resulted in an increase in this area.
- **Public Works:** We will not hire the currently vacant Parks position. We will also reallocate or eliminate some projects in the Parks and the Public Works capital plan in order to reduce funding to those reserves.
- **Community Programs:** We have lowered the funding to the Recreation and Adult Education Programs. 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:** We will eliminate the part-time Planning Inspector position.
- **Non-Departmental and Other Agencies:** Reductions in Open Space, Metro, and Land Acquisition are responsible for the decrease in this area.

Revenues

Municipal services are supported by a number of revenue sources including property taxes which account for 60% 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 our heavy reliance on property taxes (chart only applies to municipal services).

Town of Falmouth Sources of Revenue

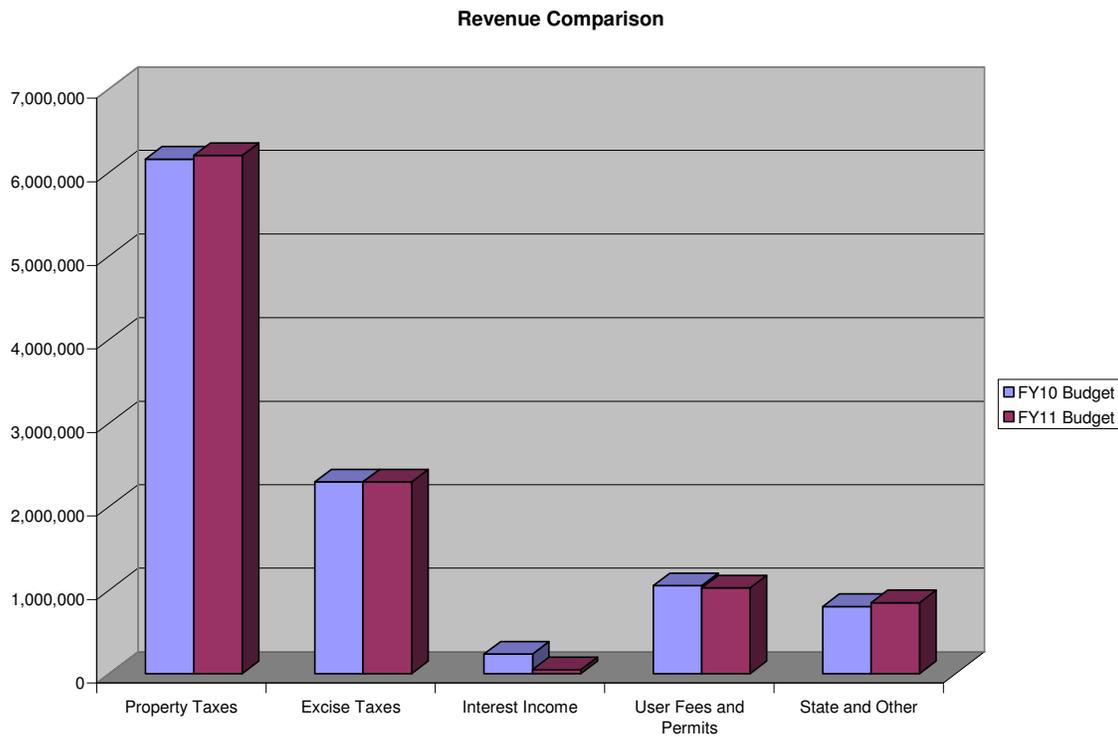


Because non-property tax revenues can fluctuate beyond the control of local officials, conservative estimates are common practice. However, the estimated revenues in FY11 are not conservative and leave very little room for unanticipated adjustments. The projected revenue estimates are similar to revised FY10 estimates. Projected FY11 revenues are lower than the original FY10 budget which was one of the greatest challenges in the development of this budget. The budget to budget decrease is 3.6% with the following revenue sources providing the most significant impacts:

▪ Investment Income	(185,000)
▪ State Revenue Sharing	(198,000)
▪ Mooring Fees	(30,000)
▪ Yarmouth Dispatch	157,000

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 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 FY10 and FY11 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 and 2008 is the most current data.

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 demonstrates that Falmouth's full value rate is \$1.63 below the regional average.

Greater Portland Communities	2008	2007	2006	2005	2004	2003
Cape Elizabeth	13.05	11.92	10.89	11.71	12.48	12.72
Cumberland	13.51	13.26	14.85	12.54	13.70	14.22
Falmouth	11.81	11.36	10.74	12.44	14.38	15.28
Gorham	13.38	12.84	11.98	12.69	14.37	15.22
Portland	15.88	15.09	14.27	14.91	15.96	17.59
Scarborough	11.58	11.17	10.71	11.23	12.52	12.86
South Portland	13.77	13.41	12.75	13.23	14.09	14.91
Westbrook	15.32	15.20	14.90	15.27	17.97	17.30
Windham	10.91	10.74	10.88	11.72	14.11	13.91
Yarmouth	15.21	14.43	14.43	15.22	16.63	18.00
Average Full Value Rate	13.44	12.94	12.64	13.09	14.62	15.20
Falmouth	11.81	11.36	10.74	12.44	14.38	15.28
Variance from Average	1.63	1.58	1.90	0.66	0.24	(0.08)

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, 2010, Falmouth's gross debt/valuation ratio will be 0.70%. When the state subsidy for the 2000 high school bond issue is factored in, the effective debt/valuation ratio drops to 0.47%. It should be noted that the bonded indebtedness of the Town's sewer utility is paid through sewer user charges, and not through property tax dollars, and is not reflected 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
2010	11,900	\$2,219,406	\$15,542	0.70%	\$1,306.05
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

***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 \$10 million, or 0.47% to the Town's assessed valuation for FY 2011 for a total valuation of \$2,106,645,414 (exclusive of TIF valuation). This total valuation equates to over \$177,000 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 97% 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, 2009 was \$9,892,643. 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 (6/30/09)	\$9,892,643
Net Receivables	(384,147)
Tax-acquired property	(6,950)
Other non-cash assets	(147,621)
Unencumbered Fund Balance	9,353,925
Minimum Reserve required by Fund Balance Policy (16.7% of total 2009-10 expenditure budget)	(6,118,098)
Estimated Supplemental Appropriations in FY 10 (for emergency general assistance)	(70,000)
Projected "Available" Fund Balance	\$3,165,827

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 2010-11 is calculated as follows:

Actual 2009-10 municipal tax levy limit	\$6,851,208
Plus estimated 3.77% 2010-11 growth limit	258,291
Plus estimated reduced state revenue sharing	<u>140,000</u>
Estimated 2010-11 tax levy limit	\$7,249,499
Proposed 2010-11 municipal tax levy	6,324,361
Amount under estimated tax levy limit	925,138
Percent under estimated tax levy limit	12.8%