

BUDGET SUMMARY AND OVERVIEW

To: The Honorable Members of the Falmouth Town Council

From: Nathan Poore, Town Manager

Date: March 24, 2011

Re: 2011 - 2012 Budget Transmittal Letter

I hereby present to you the proposed fiscal year 2012 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 the increases include expenses associated with the Lunt and Plummer-Motz buildings. All of the changes to the budget are explained in detail throughout the budget document.

The proposed General Operating Budget for the Town is \$ 10,700,651, which represents a increase of \$ 274,049 over the current year's appropriation. This translates into a 2.6% increase. 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 recent trend of decreases in our non-property tax revenues has stabilized and we are seeing glimpses of recovery in some areas. We are projecting decreases in a few non-property tax revenues, including ambulance fees and mooring fees, but these are offset by increases in State Revenue Sharing and investment earnings. Overall, revenues are up \$ 51,919 from last year's budget, which is a 1.2% increase.

Expenditures

As can be expected, there are some uncontrollable increases in expenditures. The addition of the Lunt and Plummer-Motz buildings to the municipal portion of the budget will have the greatest impact, adding \$75,000 in expense. The recent unrest in the world has increased the price for oil, so we are projecting increase in both the heating fuel and vehicle fuel accounts. Finally, other changes included increases in employer share of the MPERS retirement benefit and health insurance premium increases.

We are proposing a budget that includes many line item expenditure reductions to balance the 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.

FY2012 Budget Impacts
Funding Change FY11vs FY12
 Budget Impact: Increase/(Decrease)

Revenue

• Ambulance Fees	\$ 30,000
• Mooring Fees	\$ 20,000
• Compost Sales	\$ 15,000
• State Revenue Sharing	(\$ 70,000)
• Investment Earnings	(\$ 25,000)
• Cable Franchise Fees	(\$ 10,000)
• Building Permits	(\$ 10,000)
• Net Change in All Other Revenue	(\$ 2,000)

Revenue Sub-total Impact (\$ 52,000)

Expense

• Salaries and FICA	\$ 116,000
• Lunt & Plummer-Motz Buildings	\$ 75,000
• Health Insurance	\$ 50,500
• Heating and Vehicle Fuel	\$ 49,000
• Retirement	\$ 34,500
• Street Lights	\$ 20,000
• Legal Fees	\$ 10,000
• Ombudsman	\$ 10,000
• General Assistance	(\$ 20,000)
• Regional Transportation Program Funding	(\$ 20,000)
• Changes in Curbside Collections	(\$ 13,500)
• Animal Control Officer – from contract to employee	(\$ 12,500)
• Patrol Overtime	(\$ 10,000)
• Metro Assessment	(\$ 6,000)
• Electricity	(\$ 5,000)
• Net Change in All Other Expenses	(\$ 4,000)

Expense Sub-total Impact \$ 274,000

Other

• Overlay	(\$ 115,000)
• Unbudgeted 2011 Added Value	(\$ 43,000)
• Projected 2012 Added Value	(\$ 64,000)

Other Sub-total Impact (\$ 222,000)

Gross Total Impact on Mil Rate No Impact – same rate as FY11

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.

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 \$21 million in new construction and lot formation.

Property Tax Rate Calculation 2011-12 Town Budget	
Expenditures	10,700,641
Non-tax revenues	(4,284,329)
Net from property taxes	6,416,312
2011-12 projected valuation	2,137,702,000
2011-12 projected tax rate	3.00
2010-11 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
\$ 5,175,210	3,041,602	1,999,325	511,504

Expenditures (Personnel)

The total cost of personnel services (wages and benefits) in the FY12 budget is **\$ 5,175,210** representing a 3.6 % increase over FY11.

- The inflationary cost of retirement and health insurance has impacted this budget.
- The pay increase will be 2.5% for personnel.
- The Animal Control Officer went from a contracted position to an employee.
- Patrol overtime has been reduced.
- The vacant part-time Energy Sustainability Coordinator position will not be filled.

Expenditures (Supplies and Services)

The proposed budget includes **\$ 3,041,602** for supplies and services, which represents a 4.9% increase over the FY11 budget. The notable impacts in this category include:

- The Town will be responsible for the maintenance of the Lunt and Plummer-Motz buildings which will add \$75,000 to the budget. This increase is the largest contributing factor to the increase in this expenditure category.
- The FY11 budget proposed a street light reduction program to save approximately \$20,000. The project was canceled resulting in the need to fully fund street lights in FY12.
 - Unstable petroleum markets have contributed to our decision to project increases in heating fuel and vehicle fuel.
 - The three-year historical trend indicates that we need to increase the amount budgeted for legal fees.
 - The amount of time needed to purchase new land and manage recent land acquisitions in our Open Space program warrant an increase in our Ombudsman services.
 - A change in the curbside collection practices will result in a decrease in this budget.
 - Hiring an Animal Control Officer will result in a decrease in contracted services.
 - The current trend is showing a large decrease in General Assistance.

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 FY12 portion of CIP. Capital outlays and debt service costs will total **\$1,999,325** which is the same as the current budget.

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.

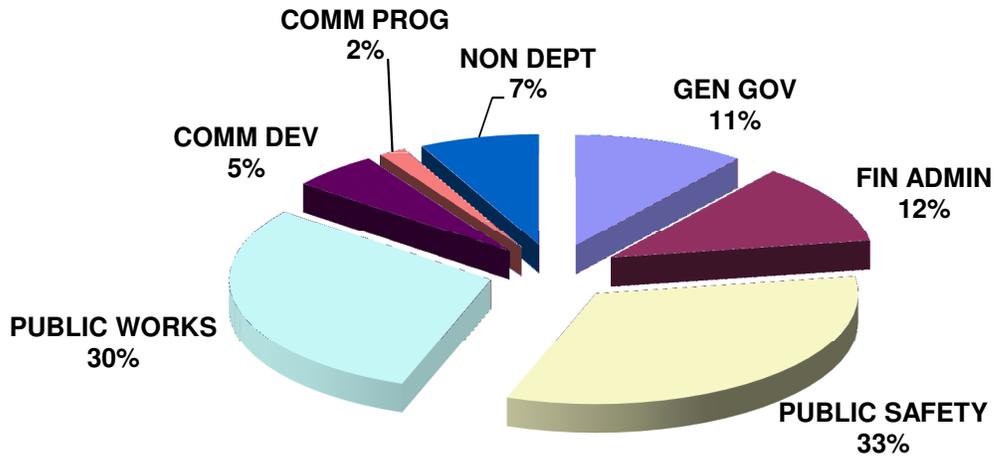
Expenditures (Contributions)

Contributions to outside agencies include the Falmouth Memorial Library and Metro Bus. The contributions are down 4.5% when compared to the FY11 budget. Funding levels, based on outside agency recommendations and requests, total **\$511,504** in FY12. The proposed budget includes a contribution toward the operations of the Library in the amount of \$380,265, which is \$3,765 more than last year. Metro Bus, including Regional Transportation Program (RTP) expenses will decrease by \$26,000 which is a 16.5% decrease from the FY11 budget. The decrease associated with mass transit is a combination of client changes in Regional Transportation Program services and an FY11 budget that was too high for Metro Bus.

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, and 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. Finance administrative services also support some School Department functions.

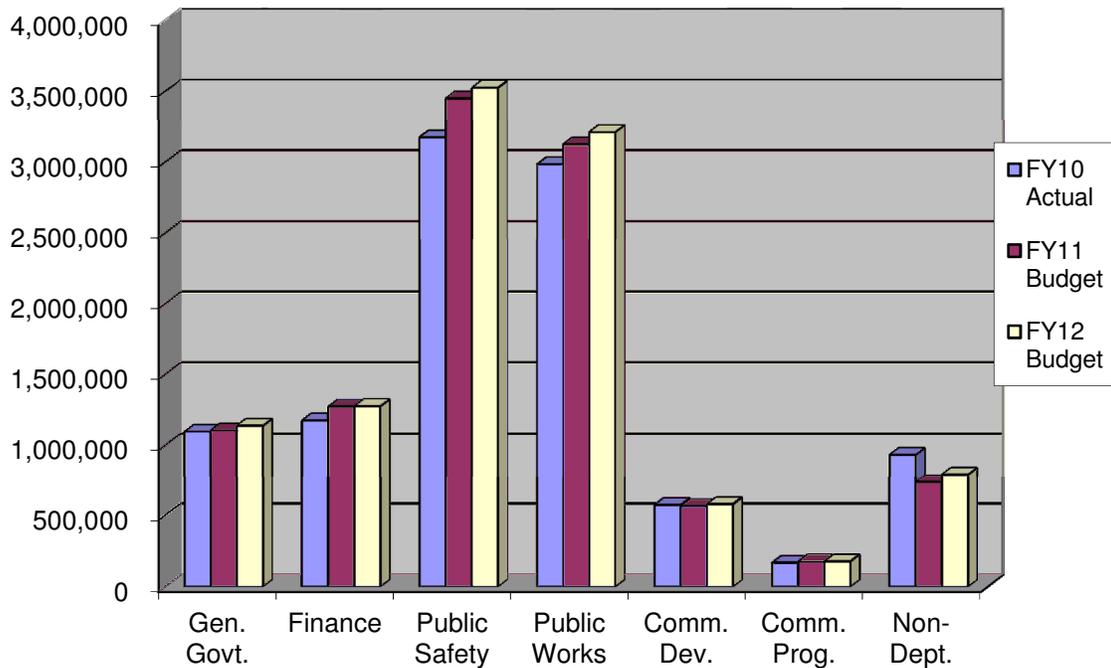
Town of Falmouth FY12 Budget



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



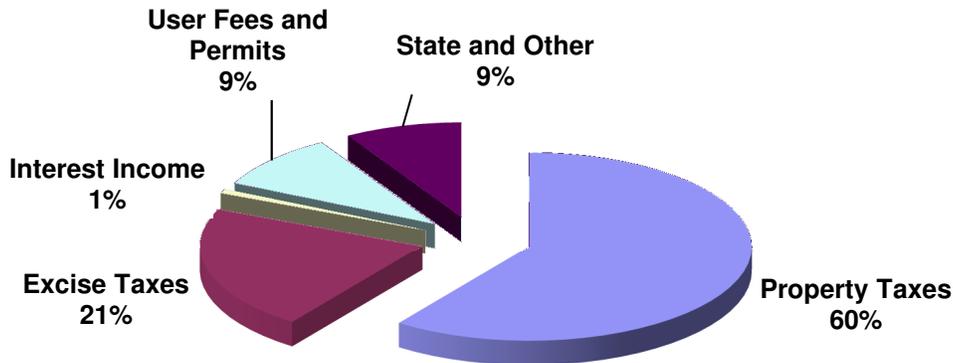
Changes in department budgets include a number of explanations such as:

- **General Government:** Increases in legal fees and Open Space Ombudsman costs.
- **Finance:** Remains flat with increases in salary and benefits offset by decreases in bond interest.
- **Public Safety:** Adding back the street light expense with the increases in salary and benefits are the cause for this increase. These are partially offset by the reduction in patrol overtime and the hiring of the Animal Control Officer.
- **Public Works:** This slight increase results from added costs for contractual services and vehicle maintenance. Changing the curb side collection practices will reduce costs in this area.
- **Community Programs:** Slight increase is due to salary and benefit increase.
- **Community Development:** Slight increase is due to salary and benefit increase.
- **Non-Departmental and Other Agencies:** This increase is due to the additional expenses for the Lunt and Plummer-Motz buildings.

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 76% 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

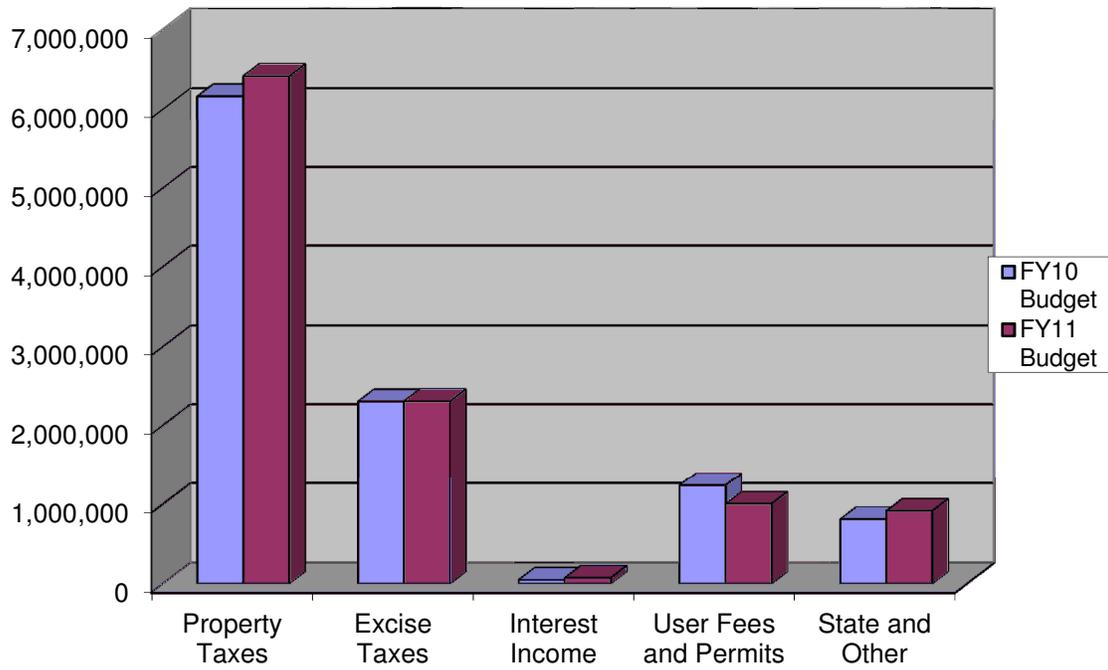


Because non-property tax revenues can fluctuate beyond the control of local officials, conservative estimates are common practice. However, the estimated revenues in FY12 are not conservative and leave very little room for unanticipated adjustments. The budget to budget increase is 1.2% with the following revenue sources providing the most significant impacts:

▪ State Revenue Sharing	70,000
▪ Investment Earnings	25,000
▪ Cable Franchise Fees	10,000
▪ Building Permits	10,000
▪ Ambulance Fees	(30,000)
▪ Mooring Fees	(20,000)
▪ Compost Sales	(15,000)

The following bar graph compares FY11 and FY12 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).

Revenue Comparison



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, 2011, Falmouth's gross debt/valuation ratio will be an estimated 0.86%. 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
2011	10,823	\$2,240,376	\$19,304	0.86%	\$1,783.61
2010	10,823	2,219,406	15,542	0.77%	1,436.02
2009	10,823	2,195,699	16,831	0.77%	1,555.11

*Includes TIF valuation
**Includes estimate for local-only share of 2011 Elementary School bond
***Source: U.S. Census Bureau

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 \$21 million, or 1.0% to the Town's assessed valuation for FY 2012 for a total valuation of \$2,137,702,000 (exclusive of TIF valuation). This total valuation equates to over \$179,600 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. Although we have been experiencing an economic downturn, tax collection rates remain relatively strong.

Undesignated Fund Balance

Falmouth's unreserved, undesignated fund balance as of June 30, 2010, was \$10,172,493. 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. Credit rating institutions such as Moody's and Standard & Poor's, consider fund balance when rating municipalities.

Analysis of Fund Balance	
Unreserved, undesignated Fund Balance (6/30/10)	\$10,172,493
Net Receivables	(887,028)
Tax-acquired property	(6,950)
Other non-cash assets	(110,073)
Unencumbered Fund Balance	9,168,442
Minimum Reserve required by Fund Balance Policy (16.7% of total 2009-10 expenditure budget)	(6,043,031)
Projected "Available" Fund Balance	\$3,125,411

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 2011-12 is calculated as follows:

Actual 2010-11 municipal tax levy limit	\$7,167,998
Plus estimated 2.67% 2011-12 growth limit	191,386
Plus estimated reduced state revenue sharing	<u>56,198</u>
Estimated 2011-12 tax levy limit	\$7,415,582
Proposed 2011-12 municipal tax levy	6,416,312
Amount under estimated tax levy limit	999,260
Percent under estimated tax levy limit	13.5%