

BUDGET SUMMARY AND OVERVIEW

To: The Honorable Members of the Falmouth Town Council

From: Nathan Poore, Town Manager

Date: March 7, 2012

Re: 2012 - 2013 Budget Transmittal Letter

I hereby present the proposed fiscal year 2013 municipal budget. This budget was reviewed extensively by Finance Department staff, my office, and 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 without any significant changes to municipal services. The changes to the budget are explained in detail throughout the budget document.

The proposed General Operating Budget for the Town is \$ 11,016,755, which represents an increase of \$ 318,728 over the current year's (fiscal year 2012) appropriation. This translates into a 3.0% increase. This budget does not negatively impact the financial condition of the organization and all substantial changes within the budget are sustainable. This is consistent with prior year decisions and financial management practices, which over time have built financial stability for current and future residents of our community.

Revenues

The recent trend of decreases in our non-property tax revenues seems to be stabilizing and in some cases we are projecting increases such as auto excise tax collection. We are projecting minor decreases in a few non-property tax revenues, including investment earnings and miscellaneous revenue, but these are offset by increases in automobile excise taxes and cable television franchise fees. Overall, revenues are up \$ 267,254 from last year's budget, which is a 6.2% increase.

Expenditures

As can be expected, there are some increases in expenditures. Employee wage increases and planned increases in capital have the greatest impact, each adding over \$70,000 in expense. The volatility in fossil fuels prices are again increasing. 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 professional fee increases.

We propose a budget that includes many line item expenditure reductions to balance other expense increases. The following table identifies the areas where we reduced expenses. The table also includes a list of expenditures that are increasing along with revenues that are projected to change. A narrative description of these changes will be provided in future presentations.

FY2013 Budget Impacts

Funding Change FY12vs FY13

Budget Impact: Increase/(Decrease)

Revenue

| | |
|------------------------------------|--------------|
| • Interest Income | \$ 25,000 |
| • Miscellaneous Revenue | \$ 23,000 |
| • General Assistance Reimbursement | \$ 13,000 |
| • Auto Excise Fees | (\$ 239,000) |
| • Cable Franchise Fees | (\$ 35,000) |
| • State Revenue Sharing | (\$ 13,000) |
| • Recycling Center | (\$ 12,000) |
| • Ambulance Fees | (\$ 10,000) |
| • Net Change in All Other Revenue | (\$ 19,000) |

Revenue Sub-total Impact (\$ 267,000)

Expense

| | |
|------------------------------------|-------------|
| • Salaries, Overtime, and FICA | \$ 123,000 |
| • Contingency | \$ 75,000 |
| • Capital | \$ 70,000 |
| • Heating and Vehicle Fuel | \$ 30,000 |
| • Library | \$ 19,000 |
| • MUNIS Upgrade | \$ 16,000 |
| • Professional Fees | \$ 16,000 |
| • Retirement | \$ 8,000 |
| • Metro Assessment | \$ 6,000 |
| • Lunt and Plummer-Motz Buildings | (\$ 29,000) |
| • Worker's Compensation Insurance | (\$ 18,000) |
| • General Assistance | (\$ 10,000) |
| • Bond Interest | (\$ 8,000) |
| • Net Change in All Other Expenses | \$ 21,000 |

Expense Sub-total Impact \$ 319,000

Other

| | |
|---|-------------|
| • Projected 2013 Added Real Estate Property Valuation | (\$ 52,000) |
|---|-------------|

Other (Taxable Valuation) Sub-total Impact (\$ 52,000)

Gross Total Impact on Mil Rate No Impact – same rate as FY12

Projected Future Needs and Budget Impacts

This budget continues to maintain financial stability, deliver necessary services and focus on sustainable solutions.

I look forward to working with the Council to meet the needs of Falmouth's citizens. I want to express my appreciation to everyone whom participated in the development of the proposed budget, including all department heads/managers and their staff. Special appreciation and acknowledgement is also owed to Robert Boschen 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 includes a projected increase in property valuation of \$16 million (new construction and lot formation).

| Property Tax Rate Calculation 2012-13 Town Budget | |
|--|---------------|
| Expenditures | 11,016,755 |
| Non-tax revenues | (4,549,083) |
| Net from property taxes | 6,467,672 |
| 2012-13 projected valuation | 2,152,685,000 |
| 2012-13 projected tax rate | 3.00 |
| 2011-12 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 which is why a significant amount of our budget is associated with personnel costs.

| Personnel | Supplies & Services | Capital / Debt Service | Other Agencies |
|------------------|--------------------------------|-------------------------------|-----------------------|
| \$ 5,289,819 | 3,389,207 | 1,800,824 | 536,905 |

Expenditures (Personnel)

The total cost of personnel services (wages and benefits) in the FY13 budget is **\$ 5,289,819** representing a 2.2 % increase over FY12. Much of the difference in this category is a result of the following:

- The inflationary cost of retirement has impacted this budget.
- Average wage increases will be 2.0%.
- Part-Time hours have increased in Police Patrol, Communications, and EMS.
- Police Patrol and Communications overtime is higher than previous budgets.
- The Town's modification rate for worker's compensation insurance has decreased which will lower our overall worker's compensation cost.

Expenditures (Supplies and Services)

The proposed budget includes **\$ 3,389,207** for supplies and services, which represents an 11.8% increase over the FY12 budget. The notable impacts in this category include:

- The majority of this increase is due to moving the allocation of funds for small renovation projects and equipment purchases from capital reserves to operating expenses. This increase is offset by a significant decrease in capital funding. Most of this change should be considered an accounting adjustment rather than an impact to the overall budget.
- The Town is currently upgrading the human resource management, permitting, and financial management software. This change will result in higher annual maintenance fees. These upgrades improve our overall management system by giving modern tools to staff which will hopefully add capacity to absorb growing demands on staff.
- Increasingly unstable petroleum markets have contributed to our decision to project increases in heating fuel and vehicle fuel.
- A new contract in Information Technology and anticipated new projects will increase Professional Fees..
- The Lunt and Plummer-Motz expenses will decrease due to the sale of the property part way through the fiscal year.
- The current trend shows a decrease in General Assistance.

Expenditures (Capital Outlay / Debt Service)

Funding levels in this particular category are the foundation for 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 FY13 portion of CIP. Capital outlays and debt service costs will total **\$1,800,824** which is a 9.9% decrease from the FY12 budget.

This decrease is due to changing the allocation of funds for small renovation projects and equipment purchases from capital reserves to operating expenses. The corresponding increase is found in supplies and services.

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

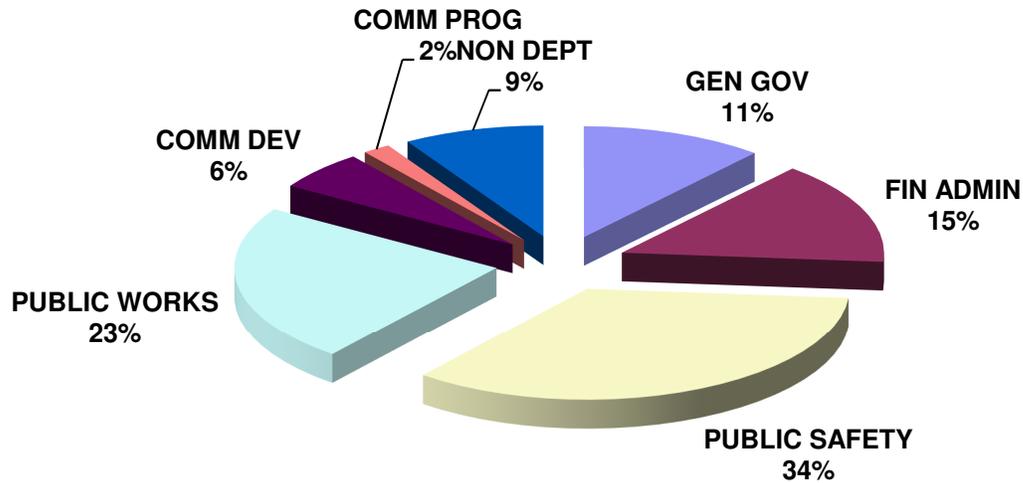
Expenditures (Contributions)

Contributions to outside agencies include the Falmouth Memorial Library and Metro Bus. The contributions are up 5.0% when compared to the FY12 budget. Funding levels, based on outside agency recommendations and requests, total **\$536,905** in FY13. The proposed budget includes a contribution toward the operations of the Library in the amount of \$399,278, which is \$19,013 or 5.0% more than last year. Metro Bus expenses will increase by \$6,388 which is a 4.9% increase from the FY12 budget.

Expenditures (Budget Summary by Department)

This pie chart illustrates the proposed budget allocated by Department. 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 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.

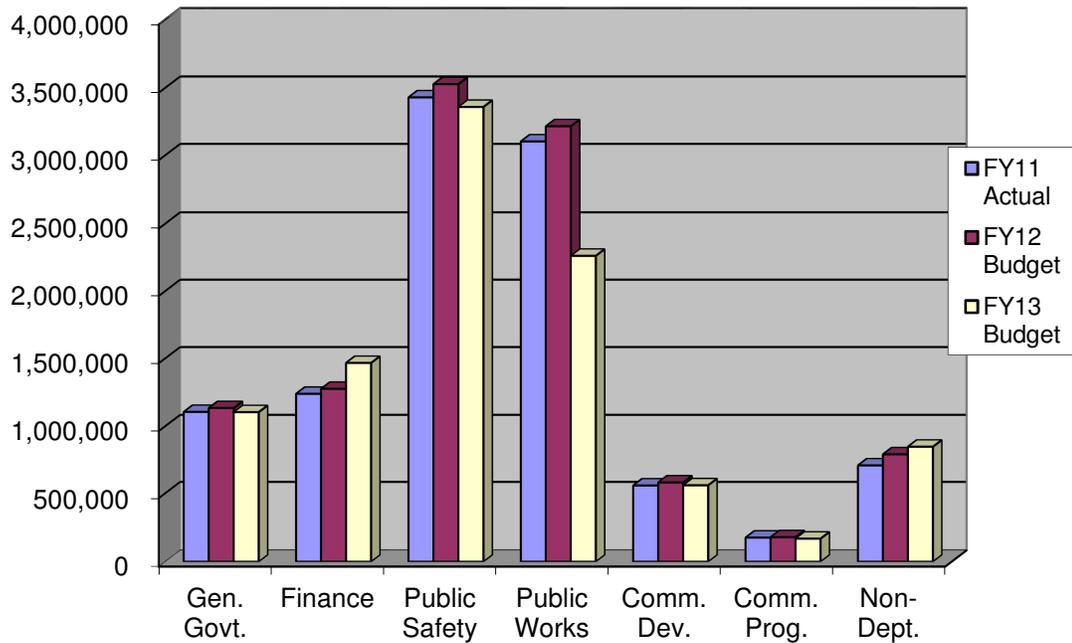
Town of Falmouth FY13 Budget



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:

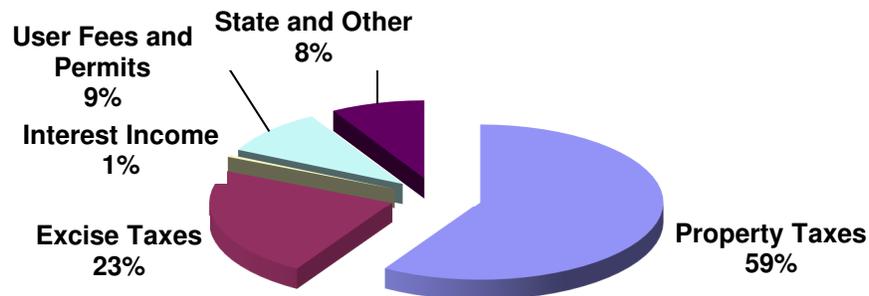
- **General Government:** Remains flat with increases in salary and benefits offset by decreases in general assistance. Adjustments in the newly formatted capital plan have impacted these departments.
- **Finance:** Consolidating all Worker's Compensation and Liability Insurance expenses to one department and the human resource and financial software update are the cause for this increase.
- **Public Safety:** Increases include salary and benefits, higher vehicle and heating fuel prices, and greater usage of part time help and overtime. Adjustments in the newly formatted capital plan have impacted these departments.
- **Public Works:** Adjustments in the newly formatted capital plan have impacted these departments. This decrease is slightly offset by increases to salary and benefits and fuel.
- **Community Programs:** Remains flat with increases in salary and benefits. Adjustments in the newly formatted capital plan have impacted these departments.
- **Community Development:** Remains flat with increases in salary and benefits. Adjustments in the newly formatted capital plan have impacted these departments.

- Non-Departmental and Other Agencies: The overall increase is due to additional funding for the Library and an increase in Contingency to address any issues with new accounting systems associated with the new capital program. The overall increase is partially offset by the Lunt and Plummer-Motz expenses decreasing due to the sale of the properties.

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 76% of the funding required to support education comes from property tax revenues. The following pie chart shows where all our revenues originate and demonstrates our heavy reliance on property taxes (chart only applies to municipal services).

Town of Falmouth Sources of Revenue

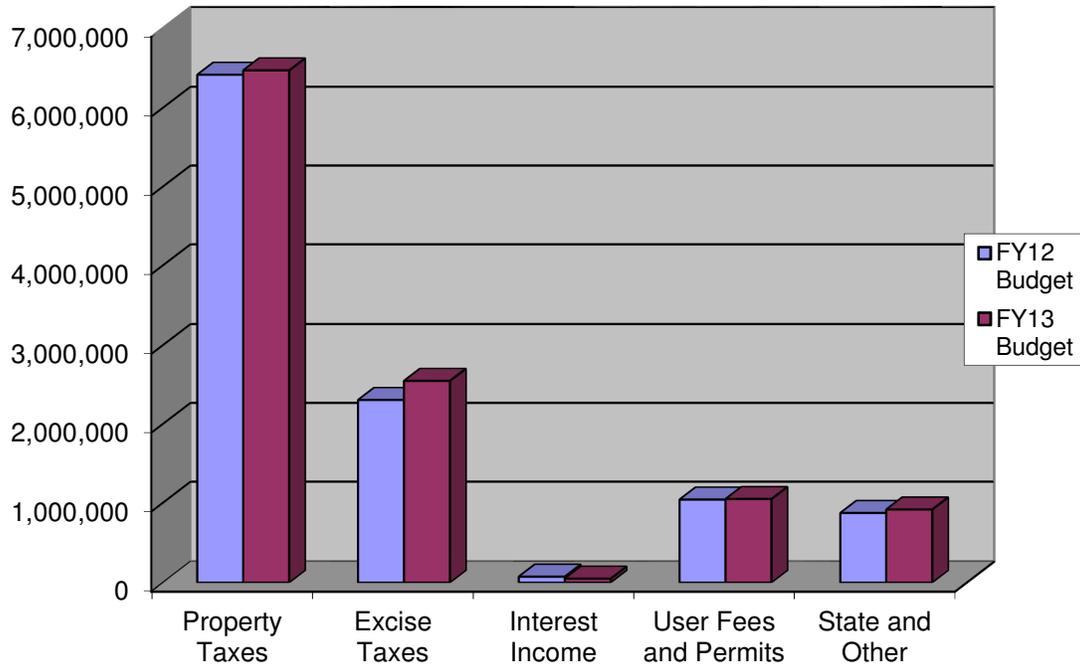


The estimated revenues in FY13 are projections based on prior year trends and known changes in state and federal laws. The budget to budget increase is 6.2%. This table represents a list of those revenues with the most significant projected change compared to the FY12 budget.

| | |
|------------------------------------|----------|
| ▪ Automobile Excise Fees | 239,000 |
| ▪ Cable Franchise Fees | 35,000 |
| ▪ State Revenue Sharing | 13,000 |
| ▪ Recycling Center | 12,000 |
| ▪ Ambulance Fees | 10,000 |
| ▪ General Assistance Reimbursement | (12,500) |
| ▪ Miscellaneous Revenue | (23,000) |
| ▪ Interest Income | (25,000) |

The following bar graph compares FY12 and FY13 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 show that the Town's fiscal condition is stable.

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 unassigned 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 adjusted locally determined property tax commitments. 2009 is the most current data available from the State.

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 \$1.94 below the regional average.

| Greater Portland Communities | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Cape Elizabeth | 13.20 | 13.05 | 11.92 | 10.89 | 11.71 | 12.48 |
| Cumberland | 14.67 | 13.51 | 13.26 | 14.85 | 12.54 | 13.70 |
| Falmouth | 12.16 | 11.81 | 11.36 | 10.74 | 12.44 | 14.38 |
| Gorham | 13.50 | 13.38 | 12.84 | 11.98 | 12.69 | 14.37 |
| Portland | 16.54 | 15.88 | 15.09 | 14.27 | 14.91 | 15.96 |
| Scarborough | 11.97 | 11.58 | 11.17 | 10.71 | 11.23 | 12.52 |
| South Portland | 14.66 | 13.77 | 13.41 | 12.75 | 13.23 | 14.09 |
| Westbrook | 16.14 | 15.32 | 15.20 | 14.90 | 15.27 | 17.97 |
| Windham | 12.00 | 10.91 | 10.74 | 10.88 | 11.72 | 14.11 |
| Yarmouth | 16.11 | 15.21 | 14.43 | 14.43 | 15.22 | 16.63 |
| Average Full Value Rate | 14.10 | 13.44 | 12.94 | 12.64 | 13.09 | 14.62 |
| Falmouth | 12.16 | 11.81 | 11.36 | 10.74 | 12.44 | 14.38 |
| Variance from Average | 1.94 | 1.63 | 1.58 | 1.90 | 0.66 | 0.24 |

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 0.83%. 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 |
|-------------------------|--------|-------------------------------|-----------------------------|-----------------------------|------------------------|
| 2012 | 11,185 | \$2,277,294 | \$18,910 | 0.83% | \$1,690.65 |
| 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**
****Source: U.S. Census Bureau**
Total Direct Debt includes High School construction, Public Safety building improvements, and the local-only share of 2011 Elementary School bond

Assessed Valuation

Over the past 20 years, Falmouth's valuation has increased between 1% to 4% per year as a result of new construction. The Town Assessor has projected that new construction will add \$16 million, or 0.75% to the Town's assessed valuation for FY 2013 for a total valuation of \$2,152,685,000 (exclusive of TIF valuation). This total valuation equates to over \$192,462 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.

Unassigned Fund Balance

Falmouth's unreserved, unassigned fund balance as of June 30, 2011, was \$11,320,373. 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.

There is a significant increase in the unassigned fund balance compared to last year. The prior year's higher revenues and lower expenditures than budget resulted in a transfer of funds (\$350,000) back to fund balance. The remaining difference (\$800,000) is due to adhering to the new accounting rules that restate some funds in reserve accounts to unassigned fund balance. These reserves include General CIP, Stabilization, and Land Acquisition. Some of these funds will move back from unassigned to committed once the new capital program is implemented.

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, unassigned Fund Balance (6/30/11) | \$11,320,373 |
| Net Receivables | (454,324) |
| Tax-acquired property | (6,950) |
| Other non-cash assets | (108,766) |
| Unencumbered Fund Balance | 10,750,333 |
| Minimum Reserve required by Fund Balance Policy (16.7% of total 2011-12 expenditure budget) | (6,376,815) |
| | |
| Projected "Available" Fund Balance | \$4,373,518 |
| | |

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.