

CONCORD FINANCE COMMITTEE

Public Hearings on Budget Matters

Context and Considerations

February 24 and 26, 2014

INTRODUCTION

Purposes of these Hearings:

- Summarize Concord's financial situation;
- Presentations of and open discussion of budgets and other warrant articles;
- Elucidate issues and concerns for the Town regarding finance-related warrant articles;
- Provide information for Finance Committee relative to its recommendations on warrant articles;
- Gather information for Five-Year Projection.

Economic Context – Federal/ State

- Federal and Massachusetts economies are slowly improving but remain susceptible to impacts of federal budget cutting and evolving state and federal policies on matters such as withdrawal of fiscal stimulus, unemployment benefits, and Affordable Care Act start-up.
- Massachusetts median household income remains basically flat.
- State aid appears to be increasing modestly.
- Unemployment appears to be decreasing but with mixed signals.
- Concerns over emerging economy slowdowns and Eurozone recovery.

Economic Context: Local

- Concord is experiencing increased development activity but increases in taxable real estate valuations remain modest.
- Property tax represents 86% of town General Fund revenue.
- Town infrastructure needs are growing (public safety, facility expansion needs, water and sewer capacity expansion).
- Impact of planned increase in debt service for high school building (peaking in FY 18), and additional costs for landfill remediation at the high school and bus transportation are anticipated.
- Growth in student population and costs of special education services add significant risk to managing budgets (and are raising concern over school facility capacity).
- Concerns about high per pupil expenditures at CPS and particularly CCRSD relative to comparable peer towns.

Local Context (continued)

- Increasing burden of unfunded future liabilities for pensions, retiree health insurance and debt repayment including the Town's share of CCRSD's obligations for such liabilities

Unfunded Liabilities and Outstanding Bonded Debt at June 30, 2013

General Fund ONLY

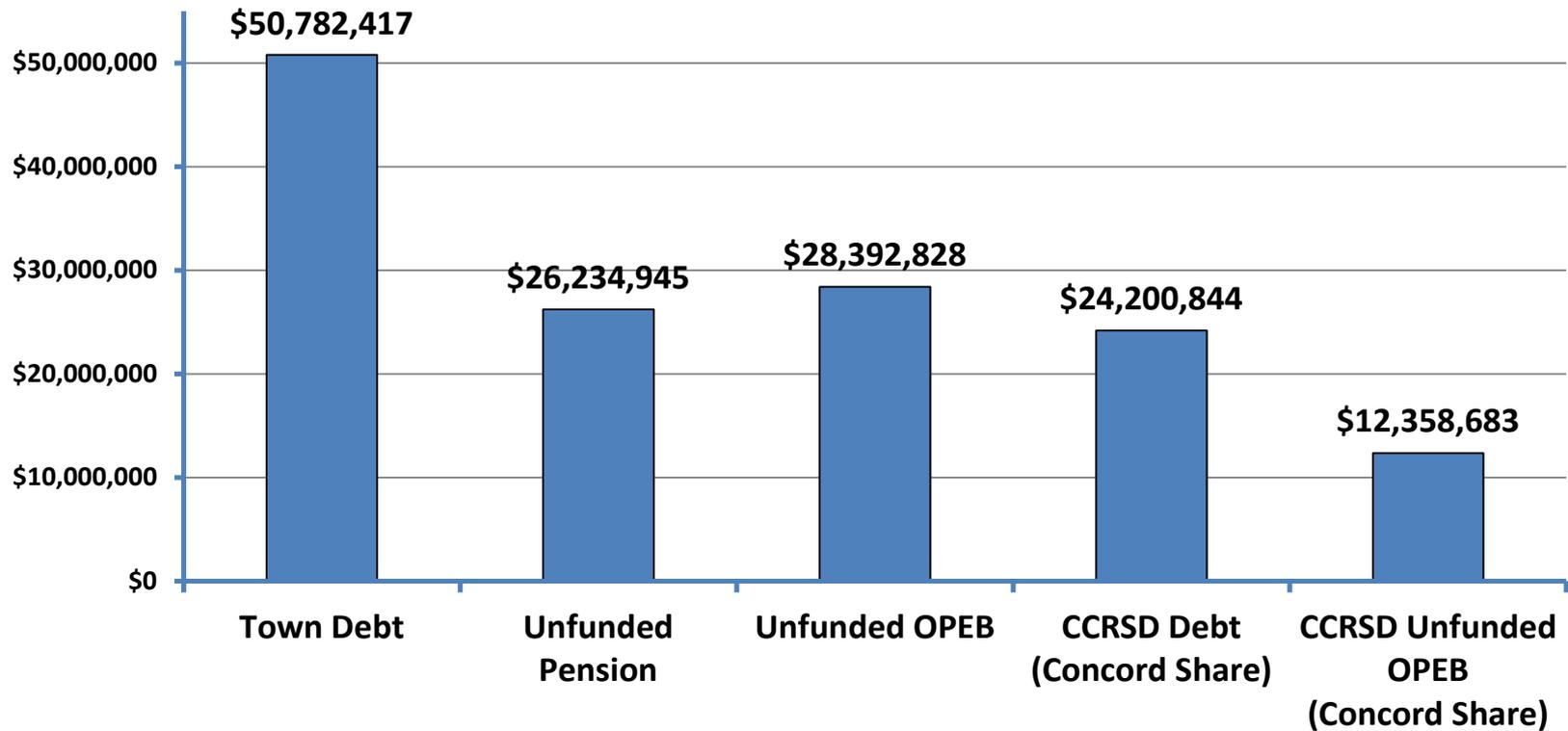
| | | <u>Reserves held</u> |
|-------------------------------------|------------------------|----------------------|
| Town Debt | \$ 50,782,417 | |
| Pension | \$ 26,234,945* | \$ 7,471,386 |
| OPEB | <u>\$ 28,392,828*</u> | <u>\$ 2,640,319</u> |
| subtotal direct | \$105,410,190 | \$10,111,705 |
| share of CCRSD **: | | |
| Debt | \$ 24,200,844 | |
| OPEB | <u>\$ 12,358,683**</u> | \$ 592,804** |
| total direct and overlapping | \$141,969,717 | |

* as of Jan. 1, 2012 valuation date

** at 71.77% FY13 assessment ratio share

Long-term Liabilities CHART

Unfunded Liabilities & Outstanding Bonded Debt
General Fund Total = \$141,969,717

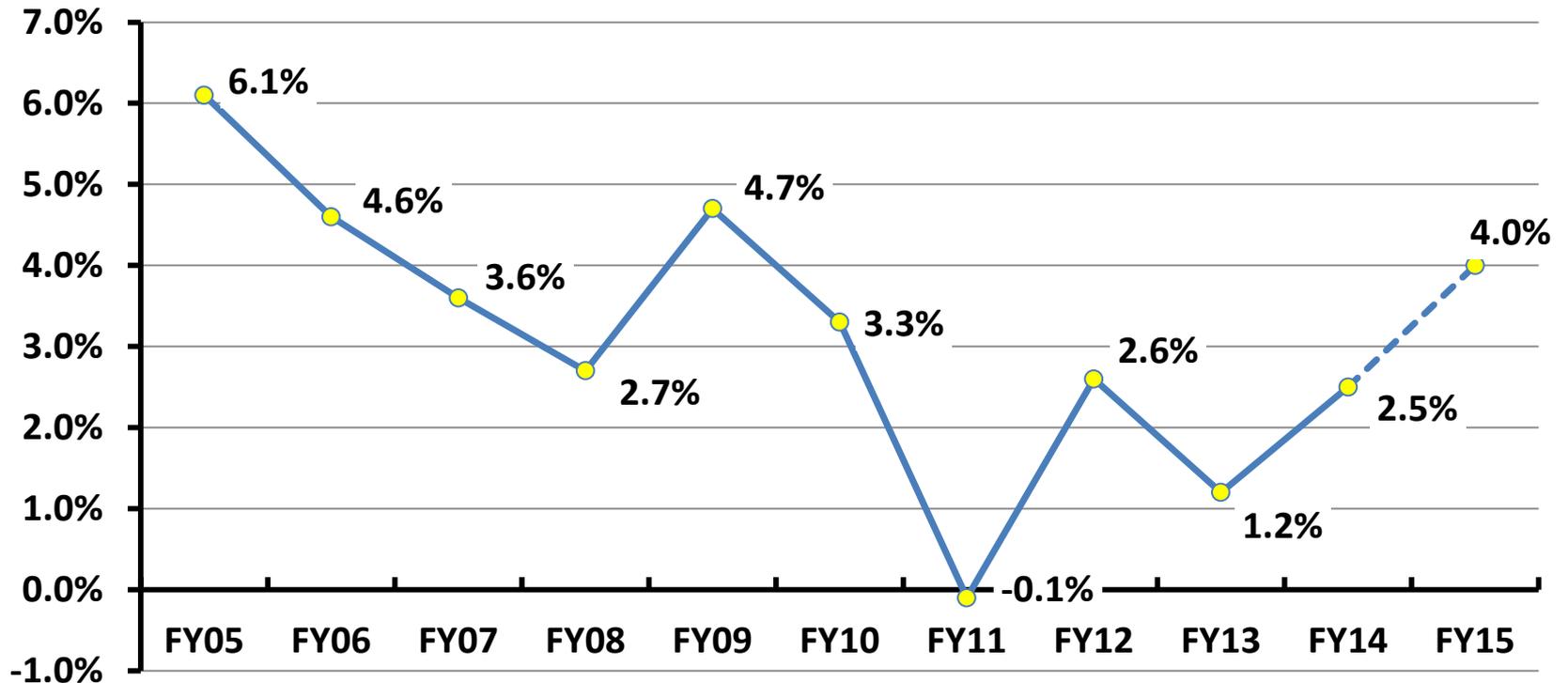


January 21, 2014

Local Trends

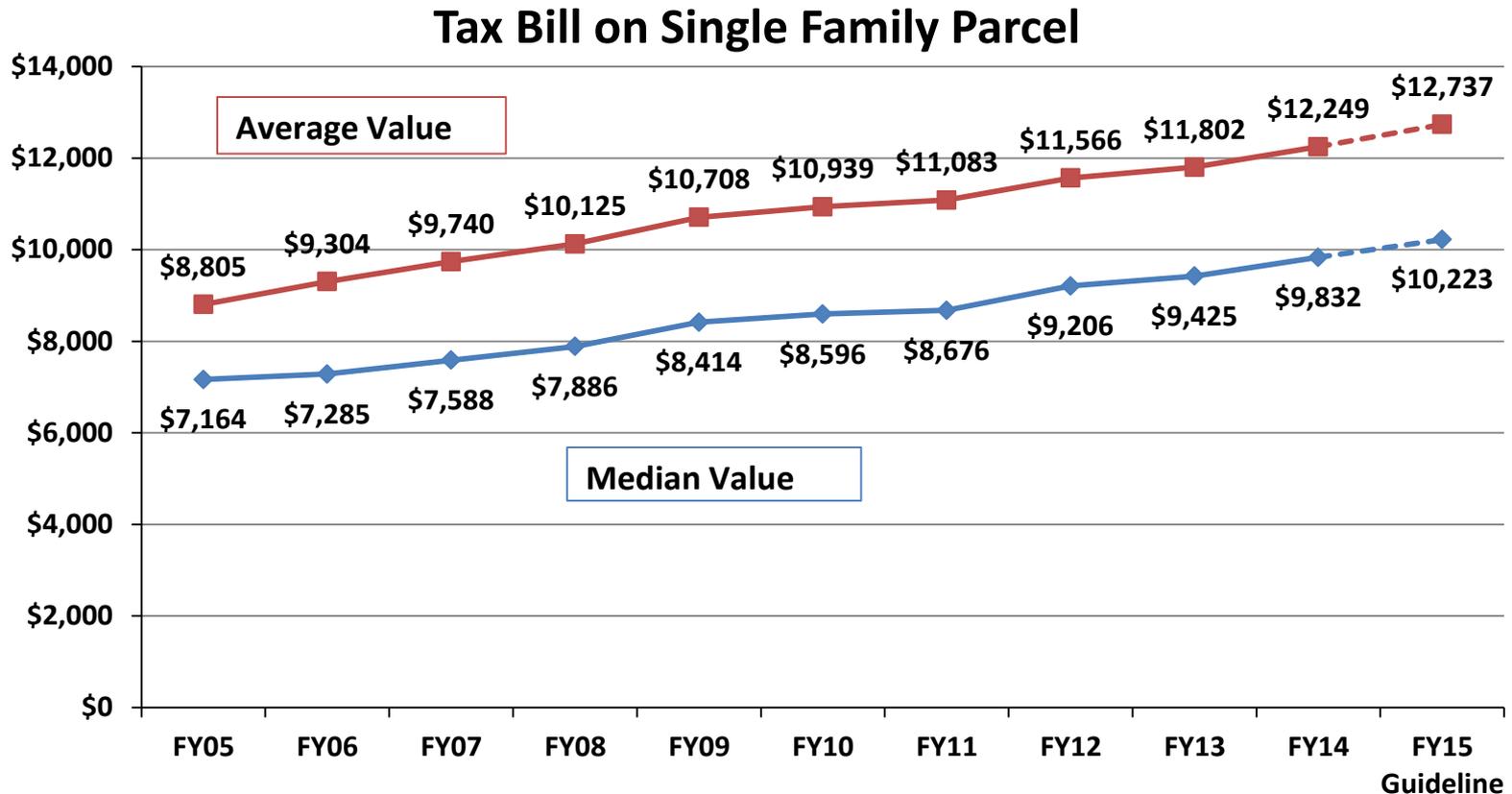
- Concerns about cumulative impact of tax increases on citizens, particularly for those having fixed and/or lower incomes

Percent Increase to Existing Taxpayers



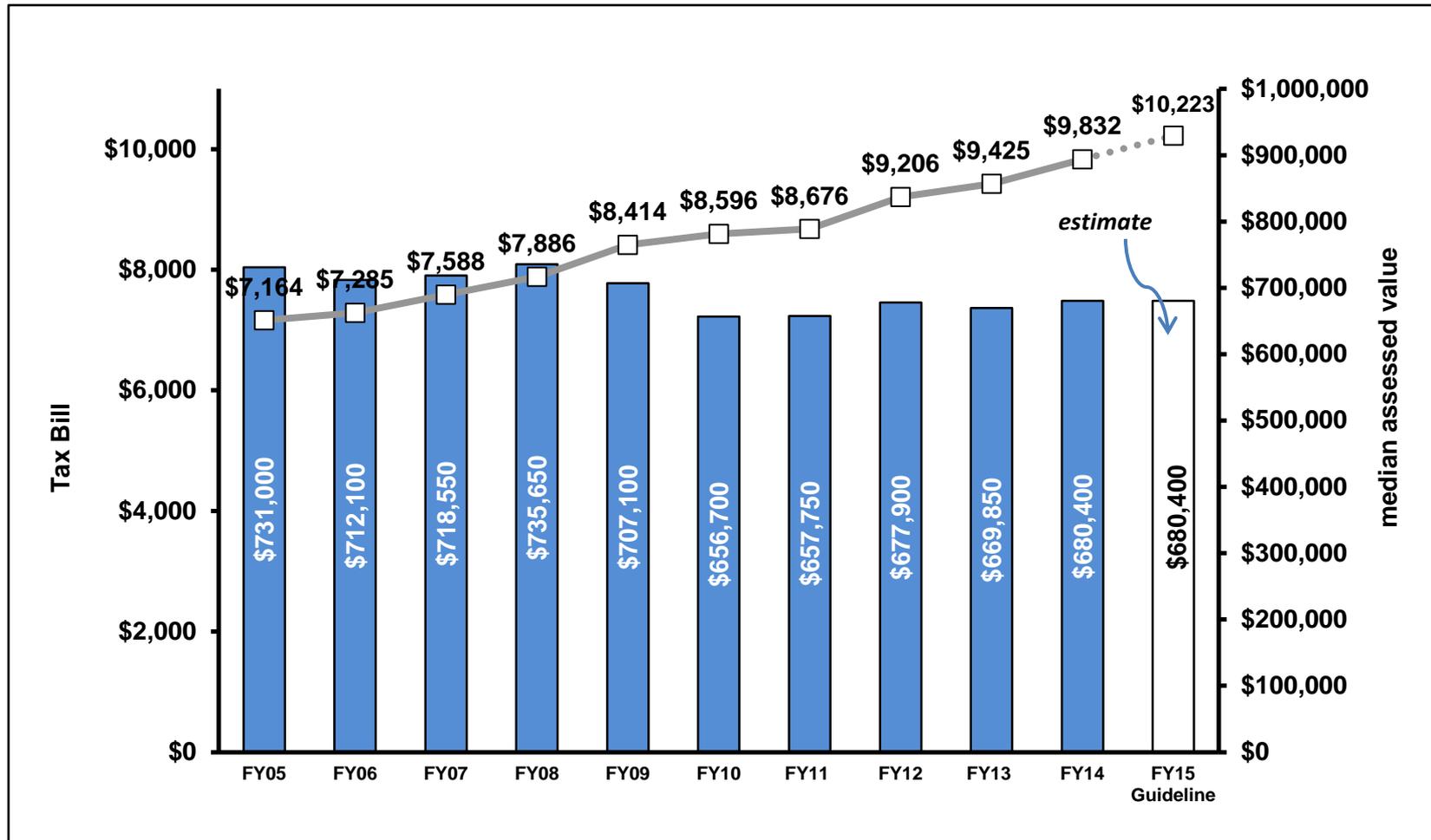
Historical Trends

- Concerns about Concord's median and average tax bill



February 24 and 26, 2014

Single Family Residential Median Values and Median Tax Bill



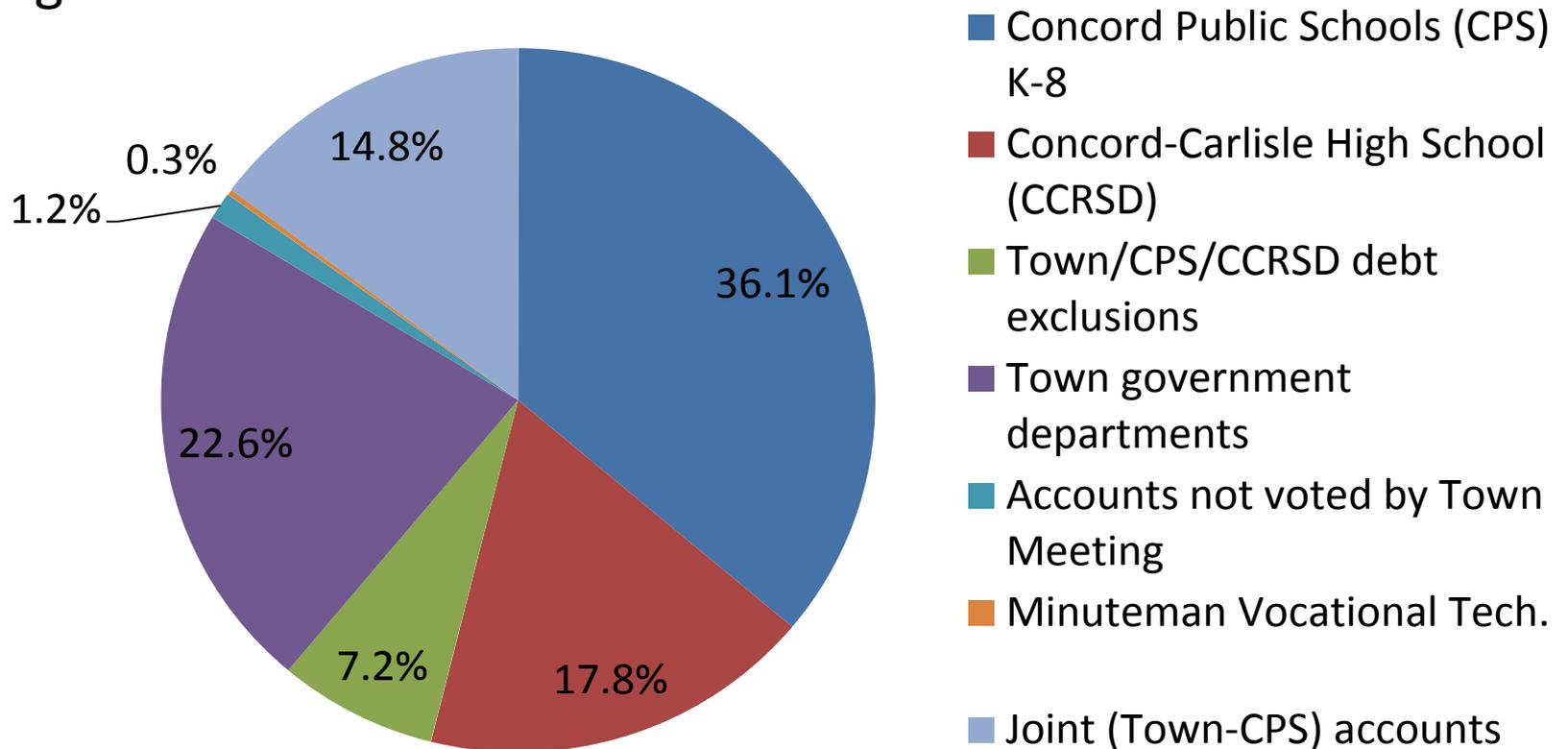
February 24 and 26, 2014

Projected Trends

- The increase in the total property tax levy from FY13 to FY14 is 4.22%, comprised of 1.72% due to new growth and 2.50% on the FY13 base.
- The projected increase in the total property tax levy from FY 14 to FY 15 at the guideline level, including the effect of estimated new growth and the change in the excluded debt levy, is 4.93%. The increase in the levy on existing taxpayers (the FY14 base) is projected to be 3.99%.
- Continued increases at these levels are not sustainable as they will erode the unused levy limit within four years.

FY14 Total Budget Allocation

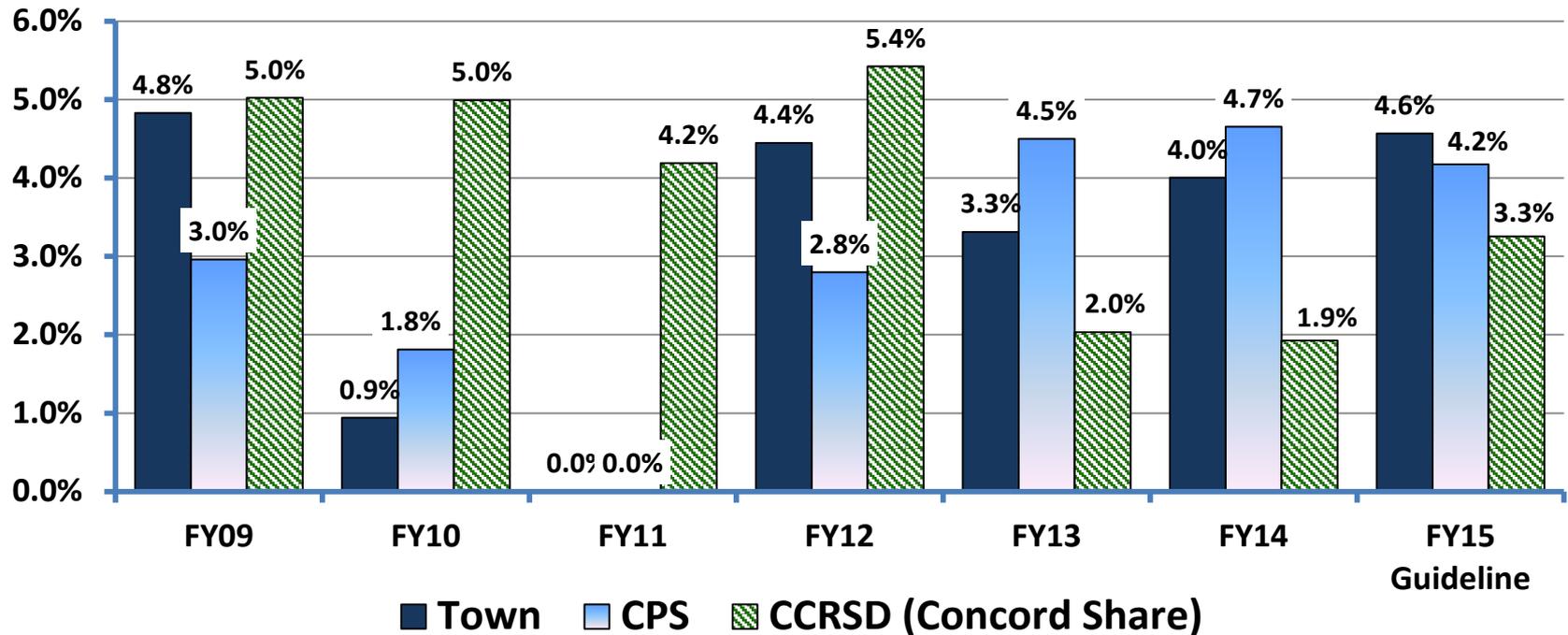
Education (including debt and benefits) is roughly 65% of overall budget



Historical Trends

Town and School Operating Budget increases have varied in response to population trends, economic conditions, service needs and regulatory requirements.

Operating Budget Increases



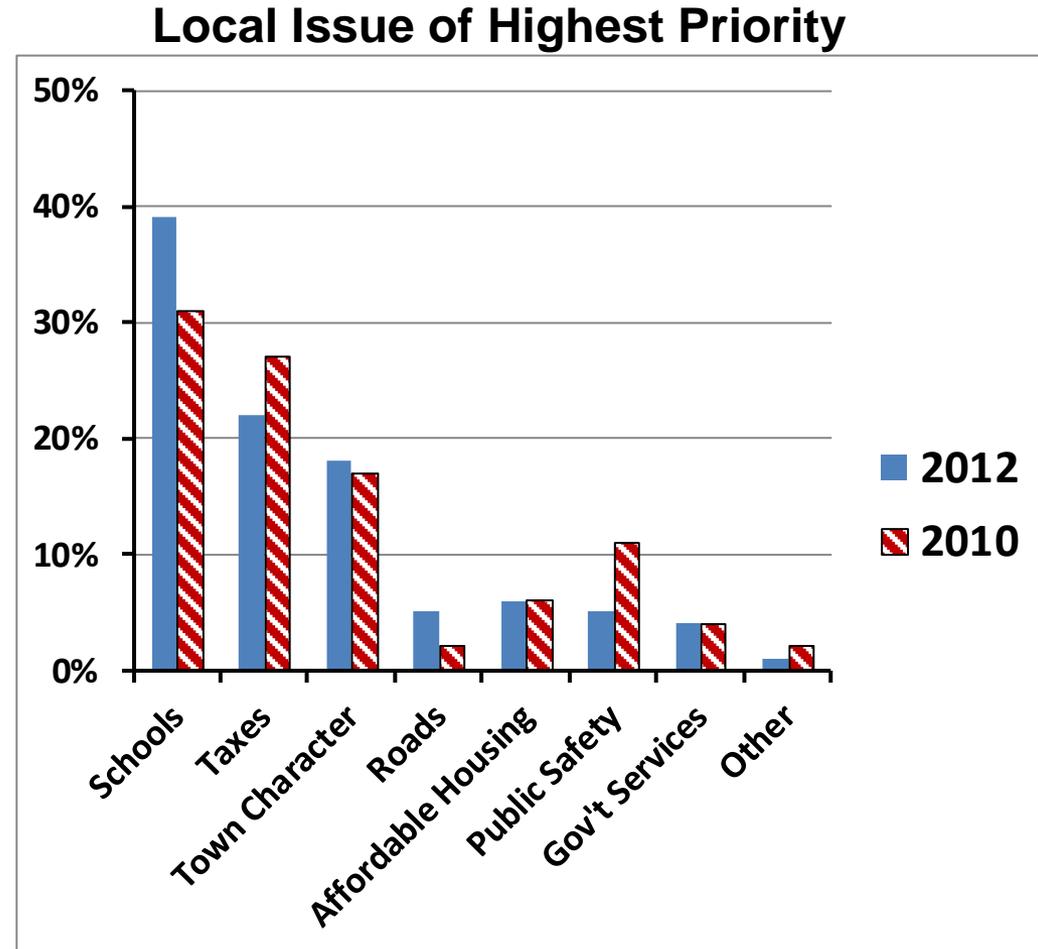
Town Demographics

- The total population of Concord has been relatively stable over the last 20 years but has started to grow moderately in recent years.
- The percentage of residents over 60 years old has been slowly increasing, while the percentage of residents between the ages of 30 and 60 has been correspondingly decreasing.
- Dramatic increases in school enrollment in FY13 and FY14 may indicate a long-term change in demographics.
- Enrollment growth is impacting Concord's share of the CCRSD budget. Concord's percentage has grown from 71.77% in FY13 to 73.1% for FY15.

Citizen Satisfaction

As reported in the survey completed in fall 2012:

- Over 90% of respondents are satisfied with Town Government services.
- 88% of respondents felt that there was “about the right amount of spending” for Town Government, 66% for CPS, but only 61% for CCRSD.
- Schools remained the highest priority.



Source: Concord Finance Department, “Results of the 2012 Citizen Survey”

FY 15 Budget Guidelines

| Operating Budget | FY 2012 | FY 2013 | FY 2014 | FY 2015 Increase | FY 2015 | Percent Increase |
|--------------------------|---------------------|---------------------|---------------------|-------------------------|---------------------|-------------------------|
| Town | \$18,124,013 | \$18,724,013 | \$19,474,013 | \$890,000 | \$20,364,013 | 4.57% |
| Concord Public Schools | 28,474,200 | 29,755,538 | 31,140,538 | 1,300,000 | 32,440,538 | 4.17% |
| CCRS (Concord Only) | 14,766,221 | 15,066,221 | 15,356,221 | 500,000 | 15,856,221 | 3.26% |
| Operating Budget | 61,364,434 | 63,545,772 | 65,970,772 | 2,690,000 | 68,660,772 | 4.08% |
| Other Accounts | 13,580,324 | 13,740,456 | 14,073,267 | 574,233 | 14,647,500 | 4.08% |
| Excluded Debt Service | 5,197,275 | 4,973,599 | 6,176,300 | 178,173 | 6,354,473 | 2.88% |
| Total Budget Plan | \$80,142,033 | \$82,259,827 | \$86,220,339 | \$3,442,406 | \$89,662,745 | 3.99% |

Budget Drivers FY 15

- Town
 - Salary increases, collective bargaining agreements
 - Staffing for a 2nd ambulance in West Concord to meet increasing demand for public safety services
 - Support for increasing service demands across departments
- Schools
 - Salary increases , collective bargaining agreements
 - Rising enrollments, including students aged 18-22
 - Meeting educational needs for Special Education and English Language Learners
 - Implementation of Educator Evaluation System
 - Technology and related goals for Personalized Learning Plans
 - Restore OPEB funding schedule at CCRSD

Looking Ahead

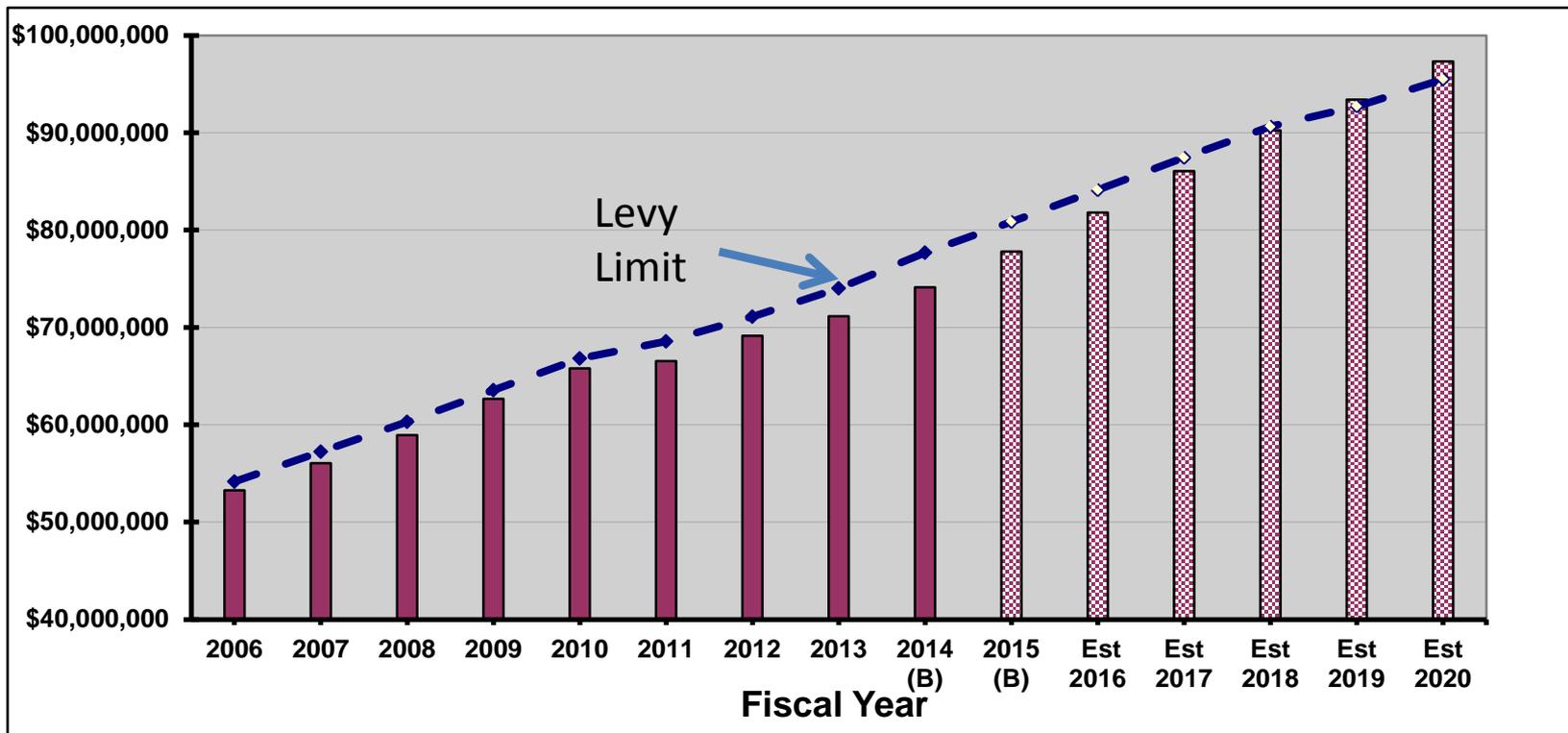
- Debt service for bonded debt for the new high school will peak in FY18. Adding funds to the High School Debt Stabilization Fund, when feasible, remains an important strategy for managing tax impacts.
- Maintaining planned funding schedules for meeting OPEB liability is important and will gain increasing importance as the degree of response to this liability is more broadly recognized in financial markets.

Looking Ahead (con't)

- There are several drivers of future tax levy increases of unknown magnitude and timing:
 - Residential and business development
 - Future bus transportation solution and related infrastructure
 - Remediation of landfill site on high school campus
 - Middle School infrastructure capital projects
 - Need for additional facility expansion for town services (West Concord Fire Station, Keyes Road Complex)
 - Collective bargaining: CCRSD, police and fire in FY 15, and CPS for FY16
 - Minuteman Technical and Vocational High School Building

Looking Ahead (con't)

- Finance Committee's current 5-year projection model suggests that with 4% annual operating budget increases for town and schools, the unused levy limit would be exceeded in FY19, necessitating an override ballot.
- With an annual 3% increase, unused levy capacity would be retained for a significantly longer time



Looking Ahead (con't)

- Unexpected revenues in recent years have allowed actual levy increases on existing taxpayers to average less than 2% annually over the past five years, but such windfalls are not guaranteed to occur again.
- On a statewide basis the number of levy override approvals by voters has fallen sharply in recent years.
- Benchmarking of town and school services is important for evaluation of new and expanded services. Metrics should evolve to support evaluation of future funding needs.