

**Section I**

**Letter of Transmittal**

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Old North Bridge

# Town of Concord

TOWN MANAGER'S OFFICE  
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CHRISTOPHER WHELAN, TOWN MANAGER

January 25, 2011

The Honorable Board of Selectmen,

I herewith submit for your review the Town Manager's Proposed Budget for Fiscal Year 2012 (July 1, 2011 - June 30, 2012), in accordance with the requirements of the Town Charter. This budget contains the details of my recommendations for appropriation amounts to fund the various Town departments, as well as explanatory information about the recommendations and background data regarding the Town's reserves, revenues and expenditures.

The recommendations for a Total Town Budget are within the spending guidelines specified by the Finance Committee for FY12 Town and School operations. The Guidelines were adopted and issued by the Finance Committee on November 30, as is required by Town Bylaw. An overview of the recommended budget is shown with the chart below:

	<b><u>FY11 Budget</u></b>	<b><u>FY12 Proposed</u></b>	<b>Change from FY11 to FY12</b>	
			<b><u>Amount</u></b>	<b><u>Percent</u></b>
Town Government	\$17,352,013	\$18,102,013	\$750,000	4.3%
Concord Public Schools	\$27,699,200	\$28,474,200	\$775,000	2.8%
Concord-Carlisle RSD	\$14,006,221	\$14,766,221	\$760,000	5.4%
Subtotal	\$59,057,434	\$61,342,434	\$2,285,000	3.9%
All Other Accounts <sup>1</sup>	\$18,503,360	\$18,814,495	\$311,135	1.7%
Total Budget Plan	\$77,560,794	\$80,156,929	\$2,596,135	3.3%

<sup>1</sup> All Other Accounts consists of Group Insurance (\$4,800,000), Retirement (\$2,860,000), Debt Service (\$3,275,000), Excluded Debt Service (\$5,198,859), Accounts not subject to Appropriation (\$1,162,785), Minuteman Vocational Technical High School (\$532,851), Social Security / Medicare (\$610,000), and Other Fixed & Mandated Accounts (\$375,000).

This budget is to be presented at the 2011 Annual Town Meeting in the form of the following Warrant Articles:

- Article 6 – Town Government Budget of \$34,196,347: The proposed budget for the operation of the Town departments and accounts under the direction of the Town Manager. This number includes the Town Government budget plus joint accounts (such as group insurance, retirement, and debt service for both the Town and CPS) and Town excluded debt, less \$700,000 provided by the Debt Stabilization Fund.<sup>1</sup>
- Article 8 – Concord Public Schools (CPS) Budget of \$28,474,200: The proposed budget is the responsibility of the Superintendent of Schools under the direction of the CPS School Committee.
- Article 9 – Concord-Carlisle Regional School District (CCRS) Budget of \$15,090,746: The proposed assessment for Concord's share of the CCRSD budget which also is the responsibility of the Superintendent of Schools under the direction of the CCRSD Regional School Committee. This number includes the CCRSD operating budget (\$14,766,221) plus CCRSD excluded debt service (\$324,525).
- Article 10 – Minuteman Vocational Technical High School (MMVT) of \$532,851: The proposed assessment for Concord's share of the MMVT budget which is the responsibility of the MMVT Superintendent under the direction of the Minuteman Regional School Committee. The assessment amount has been estimated as of January 5, 2011, based upon preliminary information received from MMVT, but this should not yet be considered a final official estimate.
- Accounts not subject to Appropriation of \$1,162,785. The following accounts are not subject to Town Meeting vote but must be provided for within the FY12 financial plan:
  - State Assessments: \$452,785,
  - Allowance for a possible deficit in the snow removal account: \$160,000, and
  - Allowance for the Overlay Reserve to cover property tax exemptions and abatements: \$550,000.

While the education budgets are not under the Town Manager's jurisdiction, summary pages for the three school accounts are included in this document (Accounts 104-106) in order to present a comprehensive spending plan to the citizens of Concord. Also, it is the responsibility of the Town Manager under the Town Charter to provide an estimate of the revenues available and required in total to support all component parts of the town's budget.

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<sup>1</sup> In terms of a comparison to the budget presented on the previous page, the amount of \$34,196,347 is comprised of the budgets for Town Government (\$18,102,013) and All Other Accounts (\$18,814,495) with the exclusion of the budget associated with CCRSD Debt Exclusion (\$324,525), Minuteman Vocational Technical High School (\$532,851), Accounts not subject to Appropriation (\$1,162,785), as well as \$700,000 proposed to be allocated from the Debt Stabilization Fund in Warrant Article 26 of the 2011 Annual Town Meeting.

The schools are not separate taxing entities. The Concord Public Schools (grades K-8) are legally part of the Town of Concord but are under the jurisdiction of the elected School Committee.

The two Regional High Schools each are separate political subdivisions of the Commonwealth of Massachusetts but derive their resources primarily from assessments billed to the member communities rather than directly from the taxpayers. The full school budget documents may be obtained from their respective superintendents.

### **Tax Impact**

At the FY12 forecasted property tax levy, the tax rate impact is projected to be +3.76% for existing taxpayers. At the median single family residential assessed value of \$657,750, this represents an additional \$326 in property taxes.

The increase of 3.76% is comprised of the following components:

- 2.50% -- The allowable 2.5% as governed by Proposition 2 ½
- 1.18% -- From the partial use of the prior Unused Levy Limit
- 0.08% -- Excluded amount from increased Debt Service outside the Levy Limit, net of \$700,000 proposed to be allocated from the Debt Stabilization Fund.

### **Highlights**

The following section provides information about the Town's reserves, revenues, and expenditures.

### ***Reserves***

There are several steps that the Town has taken to make sure that it remains in good financial health. These steps include maintaining a strong unreserved fund balance ("Free Cash") position, proposing a budget for FY12 that will require a tax levy lower than the projected Proposition 2 ½ levy limit, and utilizing an established stabilization fund to mitigate the debt service costs of the long-term bonds that have financed the construction of three new elementary schools – Alcott (2004), Thoreau (2006) and Willard (2009).

### **Free Cash**

Every year, the Massachusetts Department of Revenue certifies the Town's Free Cash, the amount of money that the Town has in reserve that is not committed to any program or service. As of July 1, 2010, the certified Free Cash balance was \$8,635,340, equivalent to 11.1% of the FY11 total budget. The Town's strong reserve position is a key component of its "Triple A" credit rating, reaffirmed by Moody's Investors Service in connection with a January 2010 long-term bond sale.

### Unused Levy Capacity

Pursuant to the 1981 Massachusetts State Law known as "Proposition 2 ½", the annual permitted property tax levy is capped at a level which can only be exceeded by voter authorization through a town-wide ballot. This limit is calculated by taking the previous year's levy limit, increasing it by 2.5%, adding the property taxes generated by any new construction that has occurred in the Town in the prior fiscal period and is newly being added to taxable assessed property in the tax year, and including the current debt service cost of any borrowing that has been authorized by a town-wide ballot to be financed from taxation outside the levy limit.

The unused levy capacity is the difference between the amount to be raised by property taxes and this upper limit. For FY12, the projected unused levy capacity will be approximately \$1.2 million, about 1.7% of the projected levy limit.

### Elementary School Debt Stabilization Fund

With the construction of three new elementary schools in a relatively short period of time, the Town was concerned about the effect of a spike in property taxes as the bonds for the third school (Willard) were planned for FY10 issuance. Accordingly, the 2008 Annual Town Meeting established a stabilization fund of \$2.5 million to be separately invested by the Treasurer and then applied by future Town Meeting votes over a period of years to lessen the tax impact of debt repayment. At the 2010 Town Meeting with the adoption of Warrant Article #10, \$1 million from this fund was allocated to offset the debt service cost resulting from the Willard School bond issue of January 15, 2010. The 2011 Town Meeting will consider the adoption of Warrant Article 26, which would allocate \$700,000 to mitigate the effects of the rise in debt service costs.

With the passage of Warrant Article 26, the tax levy for the FY12 debt service on all excluded debt will be \$4,071,446, a 1.4% increase from the FY11 excluded debt service levy of \$4,015,430. An allocation from a Stabilization Fund requires a two-thirds vote of Town Meeting. This allocation is incorporated in my proposed funding plan for the FY12 budget.

### ***Revenues***

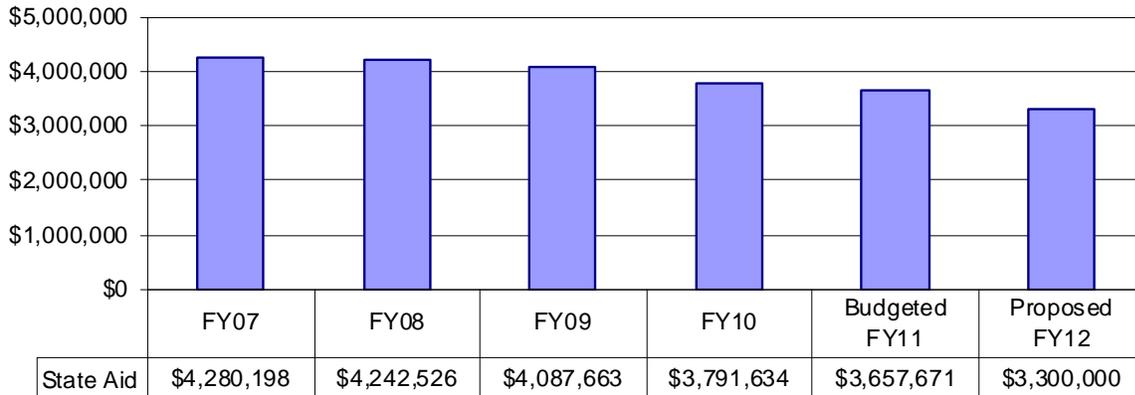
Although the estimate of revenues is subject to the uncertainty in the economy and the corresponding unpredictability of amounts to be received in State Aid and from other sources, this budget has been established with realistic assumptions.

The following sources of revenue are particularly noteworthy:

State Aid

The Town is less reliant on State Aid as a source of revenue than many other municipalities. In FY11, State Aid comprises just 4.7% of total budgetary resources.

**State Aid**



For the past 5 years, the Town has seen a steady decrease in State Aid. With a FY12 State Budget projected to have a deficit of over a billion dollars, it is anticipated that there will be an additional reduction in State Aid. For the purposes of the Town’s FY12 budget, I am estimating that the decrease in State Aid will be in the range of 10 percent from the FY11 level. Accordingly, this budget presentation is anticipating that approximately \$3.3 million of funding will be provided by the State to the Town.

Massachusetts School Building Authority Grant

To help offset the cost of construction of the Thoreau Elementary School, the Town has been awarded a grant of \$6.3 million from the Massachusetts School Building Authority (MSBA) to be applied over the life of the Thoreau School bonds. In FY11, the amount applied is \$431,796 and in FY12 it is anticipated to be \$427,413. These funds are used to offset the debt service on the bonds issued for the Thoreau School.

Motor Vehicle Excise Tax

The economic environment continues to have an impact on automobile sales. With the general uncertainty about the economy, individuals have postponed making new purchases. While Concord tends to see less severe downturns in such economic periods, it is not immune. Since the local motor vehicle excise tax is based upon a rapidly declining depreciation schedule, our billable total each year is very sensitive to any drop-off in the registration of new vehicles. In FY10, the Town received \$2,199,860 from this tax. The FY12 budget forecasts revenue from the motor vehicle excise tax at \$2,000,000. The peak year for this revenue source was FY06 at \$2,458,012.

### Local Option Meals and Room Occupancy Excise Taxes

With the passage of the Local Option Meals Excise Tax (Article 31) and Local Option Room Occupancy Tax (Article 32) at the 2010 Annual Town Meeting, the Town established a 0.75% tax on the sale of restaurant meals and an additional 2% tax (from 4% to 6%) on room occupancy. In FY12, the Town expects to collect \$170,000 in meals taxes and \$230,000 in room occupancy taxes.

### Interest Earnings

As a result of Federal Reserve policy to keep short-term interest rates extraordinarily low, the amount that the Town expects to receive from earnings on operating cash is at historically low levels. State law limits operating cash to a money-market environment and a one-year maximum term on any allowed investments such as bank certificates of deposit or US Treasury notes. Just a few years ago in FY08 when short-term interest rates were high, the Town earned \$1,242,000 for the General Fund, with an annual rate of return of 4.27%. In FY10, the Town's investments earned \$201,633. For FY12, the Town is expecting to receive \$300,000 in earnings from investments.

### Building Permit and Inspection Fees

During normal years when there are not large-scale development projects, the Town can expect to receive approximately \$400,000 in building permit and inspection fees. However, in FY12 there will be such a large-scale project. With the application of permits for the Alexan Concord housing development by West Concord Development, LLC, an affiliate of Trammell Crow Residential, 350 new housing units will need to be inspected over a two-year period. For this project, fees generated from building permits total approximately \$450,000. Although this fee has already been collected, one-third of these revenues are to be recognized in FY11 and two-thirds in FY12, as determined by the timing of actual inspections and after consultations with the Town's auditors. Accordingly, in FY12, additional revenues from building permits will be in the range of \$300,000. As this payment occurred in January, it is not yet reflected in my current revenue estimate; nor is the added inspection cost shown in the proposed budget for the Building Inspections Division. I expect to review this situation with the Finance Committee prior to Town Meeting.

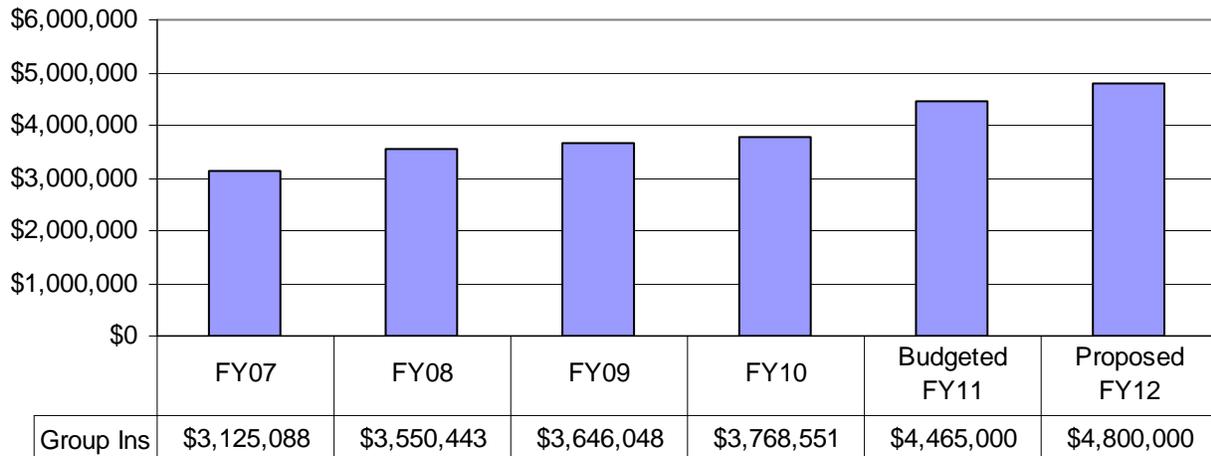
### ***Expenditures***

The budget process has been made even more challenging due to upward pressures on costs of several expenditure items.

### Group Insurance Costs

Group Insurance covers accounts such as Health Insurance, Life Insurance, Dental Insurance, and Other Post-Employment Benefits (OPEB). By far, the largest component of Group Insurance is Health Insurance; over 86% of funding for Group Insurance is allocated to cover the cost of Health Insurance. The chart on the next page presents data about the General Fund allocation for Group Insurance.

## Group Insurance



### Health Insurance

Employee health insurance costs continue to be one of the fastest growing components of our budget. The town pays on average about 54% of employee group health insurance costs and 50% of retiree costs. State law requires us to pay at least 50% and most of the surrounding towns pay a higher proportion (although our total plan price is generally lower).

This budget item has continued to increase significantly despite the fact that Concord has been in the forefront of municipal collaborative efforts to restrain costs and wring out unneeded overhead expense through our leadership of the 17 towns and regional school districts now in the Minuteman Nashoba Health Group (MNHG). The group, covering more than 4,000 employees and retirees and another 6,000 family members, is self-funded, which means we pay claims costs, not premiums. The MNHG Board, consisting of one member from each jurisdiction designated by the Board of Selectmen or Regional School Committee, sets internal premium rates designed to cover projected claims costs.

Medical provider cost trends in eastern Massachusetts continue to be rising in excess of 10% per year. The FY12 General Fund Health Insurance appropriation is proposed to be increased by \$200,000 (+4.3%), as the budget anticipates that an increasing number of employees will select from the MNHG's "rate saver" plans, first offered in June 2009, which carry a significantly lower premium rate but bear higher co-pay and deductible provisions.

### Post-Employment Health Insurance Liability

While our General Fund revenues can be expected to increase annually only in the low single-digit range, health care costs have been rising significantly for the past decade and are expected to continue to rise at least 5% to 10% annually beyond FY12. Approximately a quarter of the total group health insurance expenditure is for retirees. New governmental accounting standards that became effective for financial reporting as of June 30, 2009 require municipalities to account for the unfunded portion of post-retirement health insurance benefits, in much the same way that the Town now accounts for pension liabilities. The requirement is solely to report the future liability on the Town's annual financial statements, and it is not required to immediately add this cost to the annual budget. Funding this liability as a current cost – that is, accumulating the necessary assets during an employee's working years – will represent a significant new budget expense.

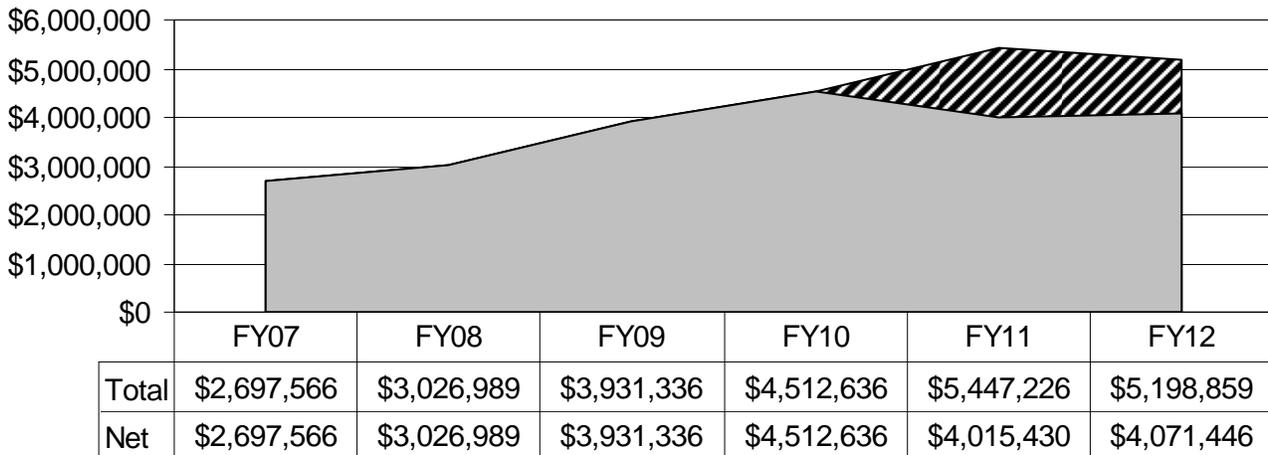
In January 2010, the Town hired Stone Consulting to provide an actuarial analysis of the Other Post-Employment Benefits for the Town and the Concord-Carlisle Regional School District. The analysis concludes that the Town's General Fund cost to meet its current actuarial liability for Town and Concord Public School employees and retirees would require an additional \$2 million in the annual budget; the CCRSD additional cost would be on the order of \$750,000 annually. The size of this liability and the lack of authority at the local level to reduce the level of benefits (state law controls this area) makes this issue one of the most critical on our financial horizon. In the FY12 budget, I am proposing that the Town begin funding the OPEB liability with an initial contribution of \$150,000.

### Excluded Debt Service

Total Debt Service represents the funds needed to pay for the annual obligation of principal and interest on outstanding borrowing. It is comprised of three categories: Town Debt Service authorized within the levy limit, Town Excluded Debt Service authorized above the levy limit through a Proposition 2 ½ override vote, and Concord-Carlisle Regional School District Excluded Debt Service, separated out because CCRSD is a distinct political entity, which issues its own debt and assesses the costs to Concord and Carlisle.

Over the past several years, the amount of the Town Excluded Debt Service has risen in order to pay off the bonds issued to cover the construction cost of the Alcott, Thoreau, and Willard Elementary Schools. From FY07 to FY12, the budget for Total Excluded Debt Service (Town and CCRSD) has risen from \$2.7 million to \$5.2 million.

## Excluded Debt Service



To mitigate the sharp increase in Total Excluded Debt Service, the Town in July 2008 established a \$2.5 million Debt Service Stabilization Fund, from which \$700,000 is proposed to be used in FY12 to pay part of the borrowing expense. In addition, a Massachusetts School Building Authority grant received in June 2010 will provide \$427,413 to be applied to the debt service for the Thoreau School. As shown in the graph above, the solid grey area represents the amount that taxpayers pay in excluded debt service and the striped area shows the amount covered by these other sources.

### **Budget Priorities for Town Government Operations**

In FY11, it was my priority to recommend a budget for Town Government operations that was level-funded from the previous year. As a consequence of level-funding the budget, some items, which are important for the Town, were deferred. With the FY12 budget, I am attempting to provide the proper balance between the need for fiscal restraint and the need to adequately fund the Town's services.

The major budget priorities and funding objectives are discussed below.

#### **Staff Compensation**

The proposed FY12 Town Government operating budget under my jurisdiction is expected to provide, for non-union town employees, an adjustment of 1% on the pay scales effective July 1, 2011 and a merit increase averaging 3.5% based on the written performance evaluation at each employee's review date. In FY11, these non-union employees received a 2% increase on the pay scales. This is an important component of my budget proposal, as we strive to maintain the highly professional, experienced and well-trained staff the town has recruited over the years.

The Salary Reserve line item of \$470,000 also includes the cost of Police, Fire and Dispatcher collective bargaining agreements. Contract negotiations with the Concord Police Association and the Concord Firefighters Association are proceeding as each of their contracts are up on June 30, 2011. The contract with the Teamsters Local 25 (Public Safety Dispatchers) runs through June 30, 2012.

In the FY11 State budget, the State continued a substantial funding reduction of its 50% share of Police Officer educational incentives (the so-called “Quinn Bill” career incentive pay) without, however, altering the underlying statute for current officers. Concord’s existing contract provides for recovery of any state share shortfall from the officers retroactively. The process for that recovery and the future scope and details of the educational incentive pay program remain to be negotiated at the local level for the 254 communities that had voted to join the “Quinn” program since its inception in 1970.

### Capital Outlay

This category of expense includes a wide variety of purposes, from police and public works vehicles and equipment to small-scale but continuous repair projects on all of the town buildings (exclusive of schools, which are the responsibility of the school committees and the school budgets). These are the components of our continuous investment for which we cannot issue debt under the law or should not do so as a matter of sound fiscal policy. Rather, we allocate a portion of the scarce current resources which are also in demand to fund our other operational needs. For example, the funding for sidewalk repairs and drainage/culvert repairs and improvements (Accounts 21 and 22) demonstrates the critical nature of these continuing annual commitments. Because of its recurring and consumable nature, this category of expense is grouped in our budget presentation as part of the “Town Government Operating Budget.”

I am proposing the capital outlay accounts be increased by \$69,500 or 5.3% as compared with FY11. In FY11, the annual increase was just \$15,000. The FY12 amount of \$1,385,000 for capital outlay items is 7.7% of the town government operating budget (\$18,102,013). The recommendation represents only 70% of the approximately \$2 million worth of departmental requests.

### Building Maintenance

Upon the recommendations of two committees (the Facilities Planning Committee and the Joint School / Town Building Maintenance Study Committee) which studied the facility needs of the Town in 2003, the Town initiated an account to fund the capital maintenance of Town buildings. Initial funding was \$40,000 in FY05 and has increased to a level of \$159,000 proposed for FY12. Based on the original recommendations, our long-term target funding level for this account is in excess of \$400,000 annually, or 2.75% of the replacement cost of the buildings.

The objective of the account is to provide funding for the continuing maintenance of Town buildings. Beginning in FY11, the Town hired a Facilities Maintenance Manager whose responsibility is to oversee the maintenance of Town’s buildings and the account provides resources to pay his salary.

### Building Energy Efficiency

With a generous gift of \$1.7 million from the Sawyer Trust received in January 2008, the Town has embarked on an effort to make Town-owned buildings more energy efficient. The Comprehensive Sustainable Energy Committee (CSEC) provides assistance to the Town Manager on issues regarding the allocation for funding specific projects. As of January 2011, the Town has committed a total of approximately \$700,000 of these funds to energy efficiency improvements. These improvements include the installation of energy-efficient lighting, replacement of existing heating systems with high-efficiency boilers, and improvement in the insulation of Town buildings.

### Opening of the Renovated Fowler Branch

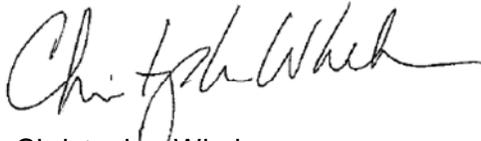
In March 2011, the Fowler Branch Library reopens to the public after being closed for renovations. These renovations were financed through private donations to the Trustees of the Concord Free Public Library Corporation, which owns the building. Under a long-standing agreement with the Corporation, the Town is responsible for funding the Library's daily operations. To properly staff the newly expanded branch, I am proposing an increase in staff of 0.5 FTE, so that there will be at least two Library staff members on the premises at all times during operating hours.

### Conclusion

By maintaining strong reserves, conservatively estimating expected revenues, and keeping expenditures in check, I am proposing a budget that continues with Concord's tradition of sound financial management. Recognition of this sound financial management can be seen in the fact that Moody's Investors Service has given Concord its highest rating (Aaa) continuously since 1987.

It is noted that forecasted revenues and expenditures will need to be reviewed before final FY12 recommendations are made in March by the Finance Committee and the Board of Selectmen, and final revisions may be made in April prior to the Annual Town Meeting.

Sincerely,



Christopher Whelan  
Town Manager

Cc: Finance Committee members  
Committee Chairpersons  
Town Department Heads

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