

BUDGET SUMMARY AND OVERVIEW

To: The Honorable Members of the Falmouth Town Council

From: Nathan Poore, Town Manager

Date: March 7, 2013

Re: 2013 - 2014 Budget Transmittal Letter

I hereby present the proposed fiscal year 2014 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 \$11,112,742, which represents an \$80,087 increase over the current year's (fiscal year 2013) original appropriation. This translates into a 0.7% 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 relatively flat to slightly decreasing non-property tax revenues continues, and in most cases we are projecting flat or decreasing revenues. We are projecting minor increases in a few non-property tax revenues, including investment earnings and ambulance charges, but these are offset by decreases in automobile excise taxes and State Revenue Sharing. Overall, revenues have been reduced \$1,239 from last year's budget, which is effectively no percentage change compared to last year.

Expenditures

As can be expected, there are some increases in expenditures. Personnel expense increases including wages and health insurance are adding approximately \$250,000 to the budget. Fossil fuel prices are projected to be less than the Fiscal Year 2013 budget. We are projecting a price decrease in both the heating fuel and vehicle fuel accounts. Other changes include decreases in the need for small equipment and a one year eliminated funding in the purchase of open space equaling \$100,000. In order to continue to fund our Fire Apparatuses, \$25,000 is being moved from unassigned fund balance to the respective reserve in the capital fund.

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.

FY2014 Budget Impacts
Funding Change FY13 vs FY14
 Budget Impact: Increase/(Decrease)

Revenue

• Auto Excise Taxes	\$ 51,473
• General Assistance Reimbursement	\$ 10,000
• Building Permits	\$ (10,000)
• Interest Income	\$ (10,000)
• Plumbing Inspections	\$ (12,000)
• Tree Growth Reimbursement	\$ (13,000)
• Ambulance Fees	\$ (15,000)
• Net Change in All Other Revenue	\$ (234)

Revenue Sub-total Impact \$ 1,239

Expense

• Salaries	\$ 198,463
• Investment in Capital Assets	\$ 103,347
• Healthcare	\$ 84,163
• Fuel Oil	\$ (20,180)
• Renovations to Parks	\$ (23,500)
• Workers Compensation & Retirement	\$ (44,730)
• Equipment	\$ (41,900)
• Contingency	\$ (65,522)
• Subsidy for Open Space Purchases, Recreation and Adult Ed	\$ (122,985)
• Net Change in All Other Expenses	\$ 12,931

Expense Sub-total Impact \$ 80,087

Other

• Projected 2014 Added Real Estate Property Valuation	\$ (71,326)
• Use of Fund Balance	\$ 15,000

Other (Taxable Valuation) Sub-total Impact \$ (66,326)

Gross Total Impact on Mil Rate \$15,000 – an increase of .01 mils from FY13 to 3.02 mils

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 involved in the development of the proposed budget, including all department heads/managers and their staff.

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 2013-14 Town Budget	
Expenditures	11,112,742
Non-tax revenues (includes use of \$25K of fund balance)	(4,547,844)
Net from property taxes	6,564,898
2013-14 projected valuation	2,172,690,300
2013-14 projected tax rate	3.02
2012-13 rate	3.01
Tax rate increase (decrease)	0.01

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 & Special Revenue Funds
\$ 5,539,897	3,227,701	1,693,188	651,956

Expenditures (Personnel)

The total cost of personnel services (wages and benefits) in the FY14 budget is **\$ 5,539,897** representing a 4.7 % increase over FY13. Much of the difference in this category is a result of the following:

- Average wage increases will be 2.0%.
- Union wage increases from negotiated contracts.
- Healthcare is projected to increase 12.5% over the FY13 budget. This is due to an increase in premium rates.
- The Town's modification rate for worker's compensation insurance has decreased. This will lower our overall worker's compensation cost.

Expenditures (Supplies and Services)

The proposed budget includes **\$ 3,227,701** for supplies and services, which represents a 5.2% decrease over the FY13 budget. The notable impacts in this category include:

- Park renovations have been decreased for FY2014.
- Increasingly unstable petroleum markets have contributed to our decision to project decreases in heating fuel and vehicle fuel. These were based on analyzing the futures markets projected out for the period of one year.
- The need for Information Technology Equipment has decreased by over \$30K for the current year.
- The current trend shows a decrease in General Assistance, although a \$3K increase was budgeted for Social Service Agencies. The budget has been reduced for Other Professional Services and Legal Services.

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 FY14 portion of CIP. Capital outlays and debt service costs will total **\$1,693,188**

which is a 0.4% decrease from the FY13 budget. While there is an increased investment in Capital Outlay occurring of \$103K, last year transfers for certain revolving accounts for \$102K are now reclassified as a transfer to special revenue funds for FY2014 and are no longer in this category. Also the interest on debt service has declined \$8K.

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 & Transfers to Special Revenue Funds)

Contributions to outside agencies include the Falmouth Memorial Library and Metro Bus. The contributions and transfers to special revenue funds are flat when compared to the FY13 budget. Funding levels, based on outside agency recommendations and requests, total **\$651,956** in FY14. The proposed budget includes a contribution toward the operations of the Library in the amount of \$413,461, which is \$14,183 or 3.6% more than last year. Metro Bus expenses will increase by \$5,868 which is a 4.3% increase from the FY13 budget. The Town has reduced funding for Adult Education and Recreation programs and increased participant fees by a similar amount of approximately \$24K.

Significant Projected Changes in Expense

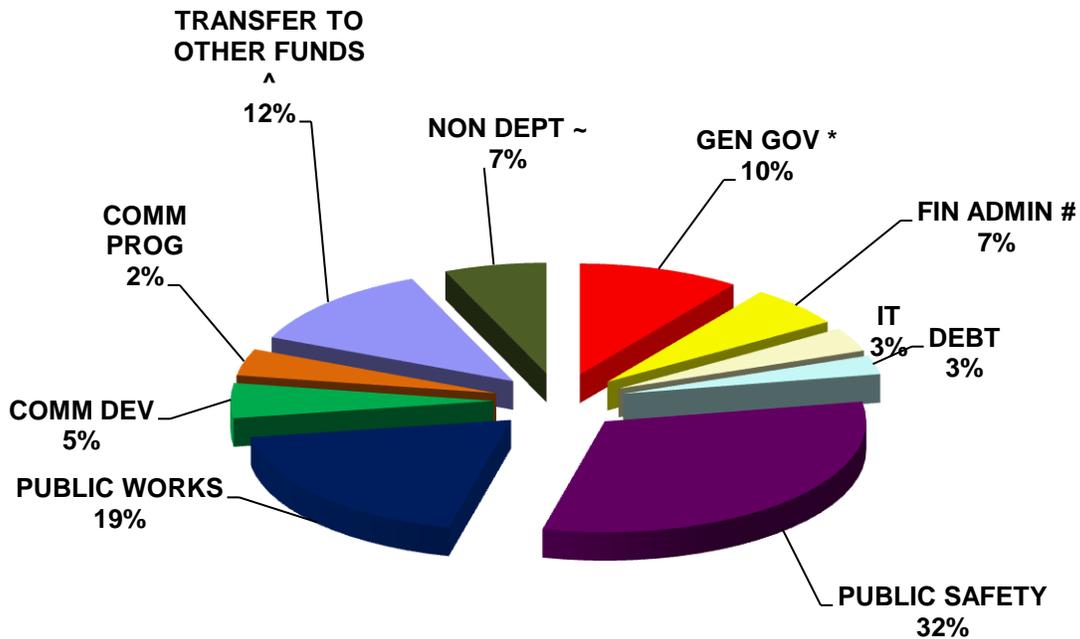
This table represents a list of those expense codes with the most significant projected change compared to the FY13 budget.

FULL-TIME SALARIES	174,928
TRANSFER TO CAPITAL FUND	103,347
HEALTH INSURANCE	84,163
OTHER CONTRACTUAL SERVICES	37,255
PART-TIME SALARIES	23,535
FUEL OIL	(20,180)
RETIREMENT	(20,879)
PARKS RENOVATIONS	(23,500)
WORKERS COMPENSATION	(23,851)
OTHER PROFESSIONAL SERVICES	(36,911)
EQUIPMENT	(41,900)
CONTINGENCY	(65,522)
TRANSFERS TO REVOLVING ACCOUNT/SPECIAL REVENUE FUNDS	(122,985)

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 FY14 Budget



* Includes Administration, Council, Legal, Town Clerk, Town Hall Building Maintenance, and Cable TV

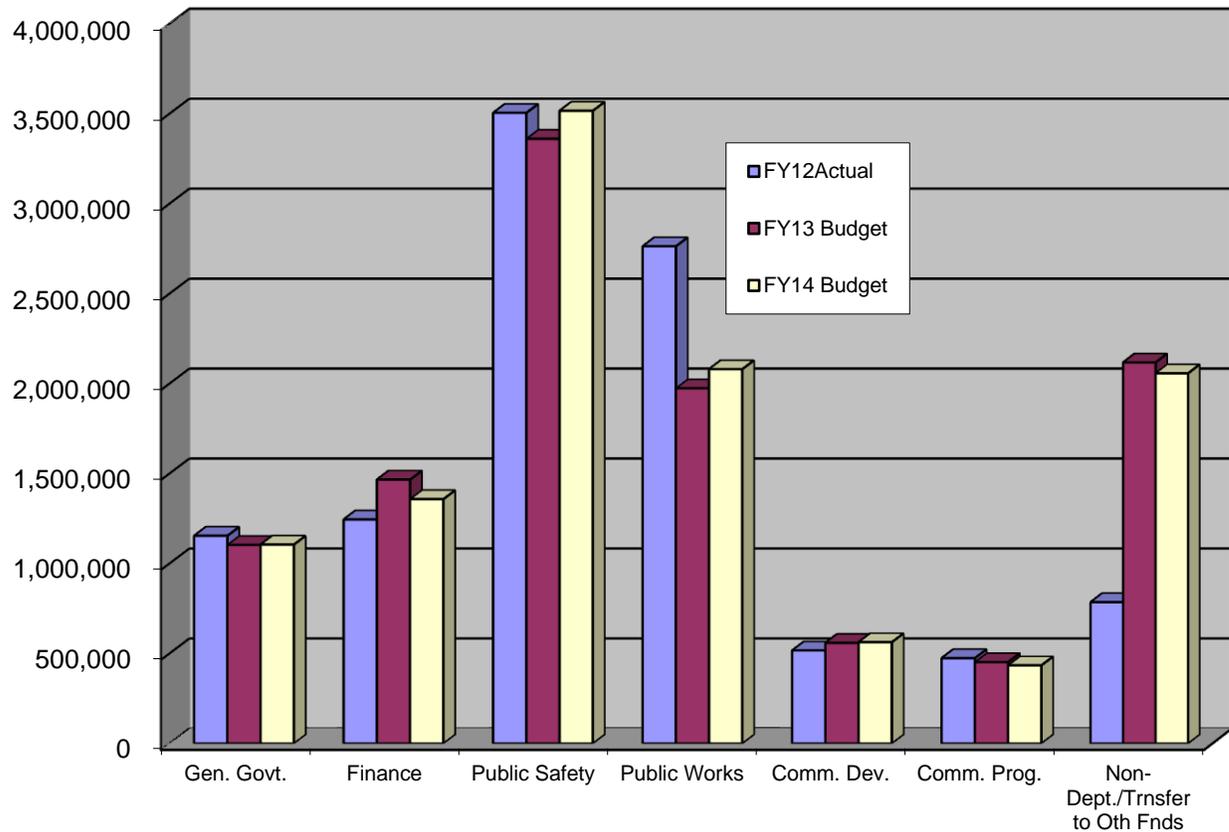
Includes Assessing, Finance, and Insurance

^ Includes Investment in the Capital Fund

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



In 2013 Transfers to Reserves were removed from the Departments. Small expenses remained in the departments' operational expenses while capital expenditures are now grouped in a transfer to the Capital Fund.

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

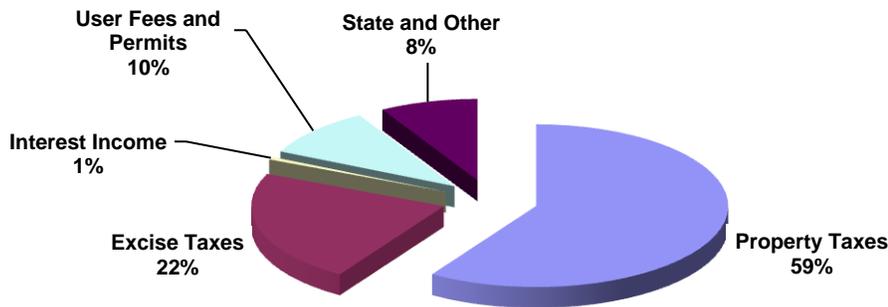
- **General Government:** Slight decrease with increases in salary and benefits offset by decreases in general assistance, other professional services moved to Community Programs, and legal fees. Elimination of the transfer to reserve accounts in the department contributed to the budget decrease in 2013.
- **Finance:** Consolidating all Workers' Compensation and Liability Insurance expenses to one department are the cause for this increase in 2013. In 2014 reductions in insurance, Maine State Retirement payments, staff and hourly realignments, and a reduced need for non-capital equipment purchases in Information Technology are responsible for the drop in this department.

- **Public Safety:** The 2014 increase is driven by increases in salary and benefits. Elimination of the transfer to reserve accounts in the department contributed to the budget decrease in 2013.
- **Public Works:** The 2014 increase is driven by increases in salary and benefits. Elimination of the transfer to reserve accounts in the department contributed to the budget decrease in 2013. Note that the Parks Department is now classified under Community Programs.
- **Community Programs:** Remains flat with increases in salary and benefits and the absorption of other professional services from Administration. This is offset by reduced Parks Renovations and reduced funding of Recreation and Adult Education programs. This funding will be offset by increased fees for program participants. Elimination of the transfer to reserve accounts in the department contributed to the budget decrease in 2013. The Parks Department is now classified under this area.
- **Community Development:** Due to volume of work an increase in full time equivalents will occur in this department in 2014. A reduction in Other Contractual Services will offset this increase. Elimination of the transfer to reserve accounts within the department contributed to a budget decrease in 2013, but this was more than offset by increased salaries and expected contractual and legal services.
- **Non-Departmental and Other Agencies:** The overall drop in FY14 is due to the reduced support needed for the Motz facility, and to the elimination of Open Space funding for one year. These are offset by an increased investment in our Capital Fund of \$103K and an increased funding for other agencies of \$20K. Elimination of the transfer to reserve accounts and transferring the capital and special revenue portion of these to other funds was the cause of the budget increase in 2013.

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. For the FY13 Budget 73% 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 reliance on property taxes (chart only applies to municipal services).

Town of Falmouth Sources of Revenue

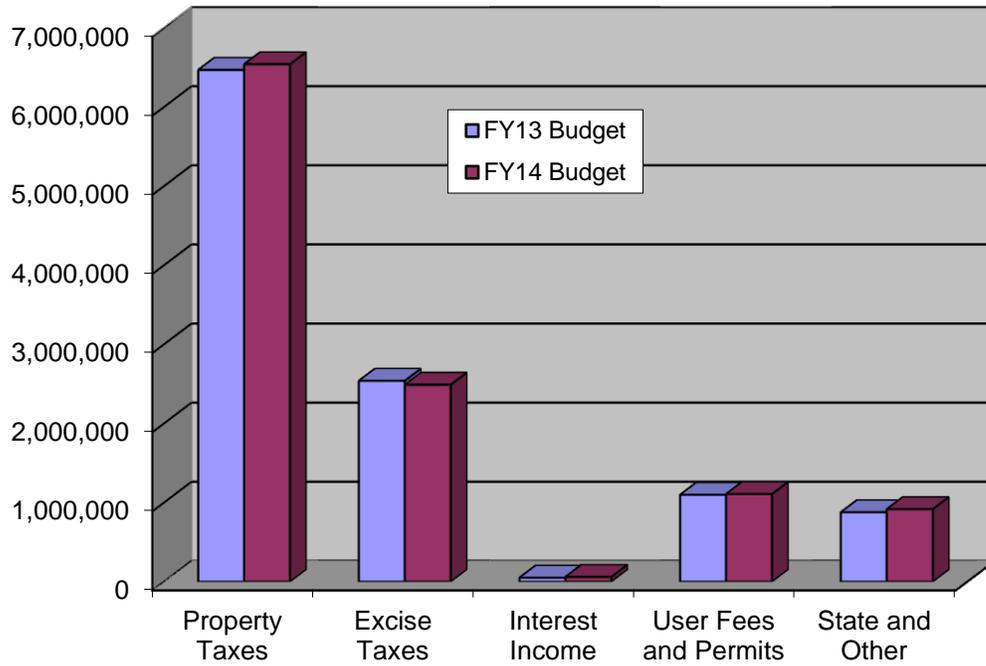


The estimated revenues in FY14 are projections based on prior year trends and known changes in state and federal laws. There is a slight budget to budget decrease of 0.03% - essentially no change. This table represents a list of those revenues with the most significant projected change compared to the FY13 budget.

Ambulance Charges	15,000
Tree Growth Reimbursement	13,000
Plumbing Inspections	12,000
Building Permits	10,000
Interest Income	10,000
Mooring Fees	8,000
Yarmouth Dispatch	5,008
Planning Dept. Inspection Fees	(7,000)
General Assistance Reimbursement	(10,000)
Auto Excise Taxes	(51,473)

The following bar graph compares FY13 and FY14 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 the Town of Falmouth 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 to provide fair comparisons between communities. The rate is calculated by using the State determined valuations and the adjusted locally determined property tax commitments. The most current data available from the State is from 2010.

This table compares Falmouth's full value rate with other area communities. Since 2005 Falmouth has had a rate below the average every year. This table relies on State derived data and the most recent data demonstrates that Falmouth's full value rate is \$2.05 below the regional average.

Greater Portland Communities	2010	2009	2008	2007	2006	2005
Cape Elizabeth	14.19	13.20	13.05	11.92	10.89	11.71
Cumberland	15.78	14.67	13.51	13.26	14.85	12.54
Falmouth	12.60	12.16	11.81	11.36	10.74	12.44
Gorham	13.77	13.50	13.38	12.84	11.98	12.69
Portland	17.27	16.54	15.88	15.09	14.27	14.91
Scarborough	12.55	11.97	11.58	11.17	10.71	11.23
South Portland	15.28	14.66	13.77	13.41	12.75	13.23
Westbrook	16.48	16.14	15.32	15.20	14.90	15.27
Windham	12.75	12.00	10.91	10.74	10.88	11.72
Yarmouth	17.00	16.11	15.21	14.43	14.43	15.22
Average Full Value Rate	14.75	14.10	13.44	12.94	12.64	13.09
Falmouth	12.60	12.16	11.81	11.36	10.74	12.44
Variance from Average	2.05	1.94	1.63	1.58	1.90	0.66

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, 2013, Falmouth's gross debt/valuation ratio will be an estimated 0.43%. 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
2013	11,185	\$2,286,352	\$ 9,749	0.43%	871.61
2012	11,185	2,261,304	10,446	0.46%	933.93
2011	11,185	2,240,376	10,885	0.49%	973.13
2010	11,185	2,219,406	15,542	0.70%	1,389.53

***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 0.75% to 4% per year as a result of new construction. It is projected that net new valuation will add \$16 million, or 0.75% to the Town's assessed valuation for FY 2014 for a total valuation of \$2,172,690,000 (exclusive of TIF valuation). This total valuation equates to over \$194,250 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 equal to or over 97% in each of the past five years. Although we have experienced an economic downturn, tax collection rates remained relatively strong and consistent.

Unassigned Fund Balance

Falmouth's unreserved, unassigned fund balance as of June 30, 2012, was \$11,514,542. 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. 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 \$194,000 increase in the unassigned fund balance compared to FY2011. The FY2012 higher revenues and lower expenditures were offset by utilization of reserves mostly to invest in assets for the Town. This results in an overall decrease of \$855,000 in all fund balances. These reserves include General CIP, Stabilization, and Land Acquisition.

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 (6/30/12)	\$11,514,542
Minimum Reserve required by Fund Balance Policy (16.7% of total 2012-13 expenditure budget and \$1,000,000 further reserve for capital investments)	(7,901,267)
Projected "Available" Fund Balance	\$3,613,275

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 would 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.