

BUDGET SUMMARY AND OVERVIEW

To: The Honorable Members of the Falmouth Town Council

From: Nathan Poore, Town Manager

Date: March 12, 2015

Re: 2015 - 2016 Budget Transmittal Letter

I hereby present the proposed fiscal year 2016 municipal budget. Finance Department staff, my office, and the department head/management team reviewed this budget extensively. I am pleased to report that this budget will reduce the municipal portion of the mil rate by \$.04. This has been accomplished through the creation of a new TIF district and without any significant changes to municipal services. The changes to the budget are explained in detail throughout the budget document.

The final General Operating Budget for the Town is \$11,555,408, which represents an \$109,830 increase over the current year's (Fiscal Year 2015) appropriation. This translates into a 0.95% 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 non-property tax revenues continues for most categories, and in most cases we are projecting flat to slightly increasing revenues. We are projecting larger increases in a few non-property tax revenues, including planning fees, recycling fees and construction-related permitting. Due to the strong automobile sector results in the last two years, we are predicting a modest 2.0% increase in automobile excise tax over the FY15 budget. The projected \$24K increase in State Revenue Sharing is based on the latest projection from MMA based in the Governor's proposed biennial Budget recommendation. Overall, revenues have increased \$109,869 from the FY15 budget, which is a 2.3% increase.

Expenditures

As can be expected, there are some increases in expenditures. Personnel expense increases including wages, retirement, and health insurance are adding \$208,707 to the budget. In order to offset the large increase in health insurance, we will be eliminating the more expensive POS plans and moving all employees to the PPO500 plan effective January 1, 2016. This change will include some premium cost sharing with employees which, when combined with additional wage increases should cover any additional costs of health care coverage. Electricity rates are projected to be up sharply from the Fiscal Year 2015 budget while unleaded fuel and biodiesel are projected to be slightly lower than FY15. Other changes include decreases in the need for professional and contractual services, reduced spending on building maintenance due to the

Town Hall renovation project and reduced funding of open space. We also have appropriated \$190,000 less to the Capital Fund this year as a result of a new TIF district capturing valuation from the OceanView development and the natural gas pipeline expansion. This new district allows us to move a significant portion of our Street Improvement CIP projects to the TIF.

We arrived at a final budget that includes 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.

FY2016 Budget Impacts	
Funding Change FY16 vs FY15	
Budget Impact: Increase/(Decrease)	
Revenue	
• Auto Excise Taxes	\$ 56,100
• State Revenue Sharing	\$ 24,293
• Interest Income	\$ 13,000
• Building Permits	\$ 6,660
• Yarmouth Dispatch	\$ 5,312
• Recycling Fees	\$ 5,000
• Cable TV Franchise Fees	\$ 4,200
• Tower Lease	\$ 4,000
• Ambulance Charges	\$ (6,740)
• General Assistance Reimbursement	\$ (10,000)
• Net Change in All Other Revenue	\$ 8,044
Revenue Sub-total Impact	\$ 109,869
Expense	
• Full-Time Salaries	\$ 124,194
• Health Insurance	\$ 88,804
• Electricity	\$ 46,167
• Contingency	\$ 40,000
• Library Contribution	\$ 30,674
• Retirement	\$ 18,777
• Capital Funding	\$ (190,482)
• Part-time salaries	\$ (39,014)
• Net Change in All Other Expenses	\$ (9,290)
Expense Sub-total Impact	\$ 109,830
Other	
• Projected 2016 Mil Rate and Valuation Change Effect from above	\$ (39)
• Use of Fund Balance	\$ 0
Other (Taxable Valuation) Sub-total Impact	\$ (39)
Total Impact on Mil Rate is a decrease of .04 mils from FY15 to	

3.015 mils including the fact that overlay is projected to decrease \$43,722.

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 final 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 \$15 million (new construction and lot formation).

Property Tax Rate Calculation 2015-16 Town Budget	
Expenditures	11,555,408
Overlay	40,000
Non-tax revenues	(4,936,693)
Net from property taxes	6,658,715
2015-16 projected valuation	2,220,769.1
2015-16 projected tax rate	2.998
2013-14 rate	3.038
Tax rate increase (decrease)	(0.04)

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
\$ 5,963,502	3,163,677	1,447,746	980,483

Expenditures (Personnel)

The total cost of personnel services (wages and benefits) in the FY16 budget is \$ **5,963,502** representing a 3.6 % increase over FY15. Much of the difference in this category is a result of the following:

- Average wage increases will be 2.0% to 3.0%.
- Full-time salaries are increasing slightly due to the addition of a Life Safety/EMA/Maintenance Coordinator to the Fire Department and some pay equity adjustments to bring employees to proper wage levels when compared to other municipalities.
- Part-time salaries are decreasing due to reductions in Fire Department part time wages as a result of adding the Safety/EMA/Maintenance Coordinator.
- Retirement is increasing to reflect the increased contribution requirements for FY2016 from Maine State Retirement Services.
- An increasing health insurance cost projection when compared to the FY15 budget due to a 9.5% - 11% increase in health plan premiums offset by the movement of employees from the more expensive POS plans to the PPO 500 plans effective January 1, 2016.

Expenditures (Supplies and Services)

The final budget includes \$ **3,163,677** for supplies and services, which represents a 2.3% decrease over the FY15 budget. The notable impacts in this category include:

- A decrease in Motor Fuel and Lubricant costs resulting from the significant drop in cost/gallon of unleaded gasoline.
- A decrease in Building Maintenance due to savings resulting from the Town Hall renovation project completed in FY2015.
- All remaining Supplies and services were kept at the same level as FY2015.

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 budget includes funds for implementing the FY16 portion of CIP. Capital outlays and debt service costs will total **\$1,447,746**, which is a 12.6% decrease from the FY15 budget. Much of this reduction was made possible by a new TIF district created to capture valuation from the OceanView development and the natural gas line expansion project.

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 down \$21.5K when compared to the FY15 budget. Funding levels, based on outside agency recommendations and requests, total **\$980,483** in FY16 an increase of \$184,207 or 23.1% over last year. The budget includes a contribution toward the operations of the Library of \$464,150, which is 7.1% more than last year (Appendix B contains the Library Budget). Metro Bus expenses will increase by \$4,434, which is a 3.0% increase from the FY15 budget. The Town Contingency account increased due to uncertainty related to union contract negotiations.

Significant Projected Changes in Expense

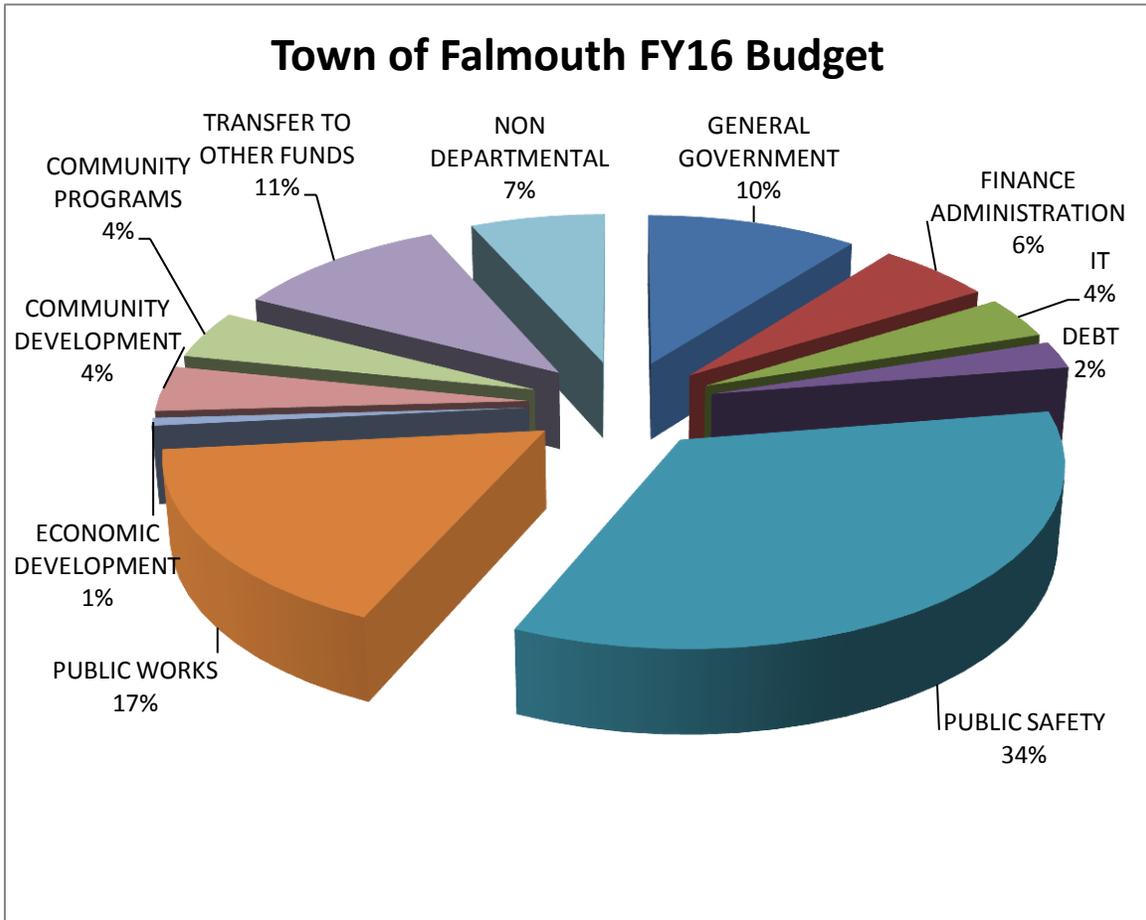
This table represents a list of those expense codes with the most significant projected change compared to the FY15 budget.

FULL-TIME SALARIES	124,194
HEALTH INSURANCE	88,804
ELECTRICITY	46,167
CONTINGENCY	40,000
LIBRARY CONTRIBUTION	30,674
RETIREMENT	18,777
TRANSFERS TO CAPITAL FUND	(190,482)
PART-TIME SALARIES	(39,014)

Expenditures (Budget Summary by Department)

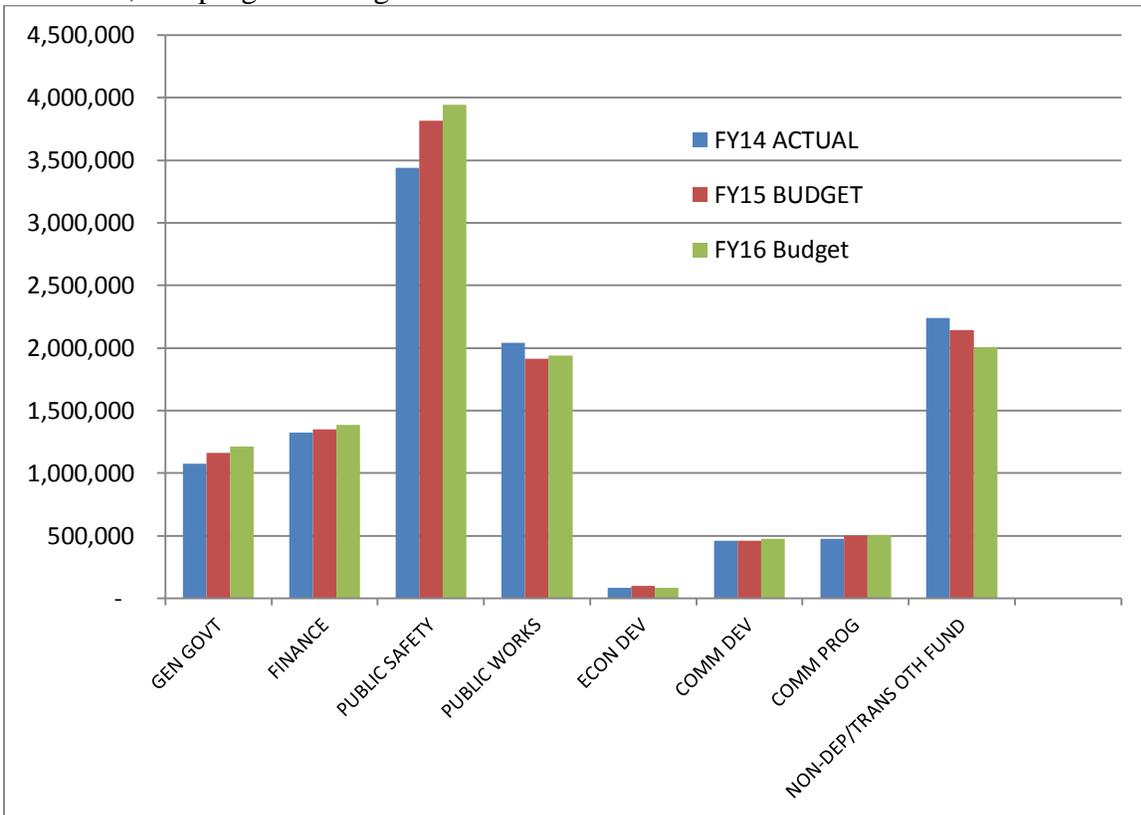
This pie chart illustrates the final budget allocated by department. The majority of our spending goes toward the delivery of actual services such as Community Programs, Public Safety, and Parks and Public Works. Administration expenses are much smaller, which is desirable so that

more resources can be used for the actual delivery of services. Finance administrative services also support some School Department functions.



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.



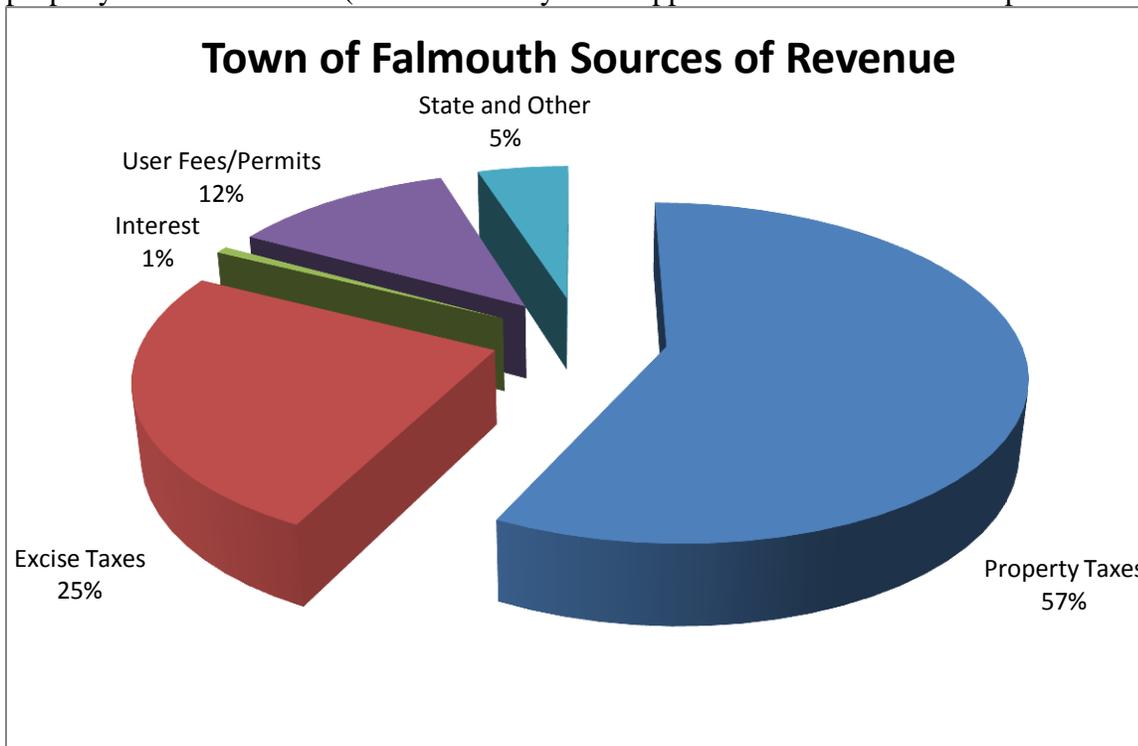
Changes in department budgets include a number of explanations such as:

- **General Government:** Overall this category has increased 4.1%. This is mostly driven by changes in staff allocations, health insurance and retirement increases, legal fee increases and electricity costs.
- **Finance:** Overall this category has increased 2.9%. Full-Time Salaries are increasing due to having a full year of the Finance Director in FY16 and some equity wage adjustments in the department. Other professional services are increasing due to inflation adjustments to the County Assessing Budget.
- **Public Safety:** The FY16 3.3% increase is driven by increases in salary and benefits particularly health insurance, and the need to add a full-time Life Safety/EMA/Maintenance Coordinator position to the Fire Department.
- **Public Works:** The 2016 1.3% increase is driven by health insurance increases, vehicle maintenance increases and an increase in road maintenance.

- Community Programs: An increase of 1.3% due to increases in health insurance offset by a reduction in part-time seasonal salaries.
- Community Development: An increase of 4.3% due to some equity wage adjustments, increased retirement costs and increases in health insurance.
- Economic Development: A decrease of 16.1% due to an allocation of the Economic Development Director to the new TIF offset by increases in salaries, health insurance and retirement costs.
- Non-Departmental and Other Agencies: A decrease of 6.4% attributable to a decrease in transfers to capital improvements (\$190K) and special revenue funds (\$22K) due to the favorable impact of the new TIF budgeted to be added in FY2016.. This was slightly offset by increases in both the Metro assessment and the Library contribution.

Revenues

Municipal services are supported by a number of revenue sources including property taxes that account for 57% of all revenue sources for municipal (non-education) services. For the FY15 Budget, 73% of the funding required to support education general fund expenses came from property tax revenues (we will update this once we have the FY16 School Budget numbers). The following pie chart shows where all our revenues originate and demonstrates our reliance on property taxes (chart only applies to municipal services).

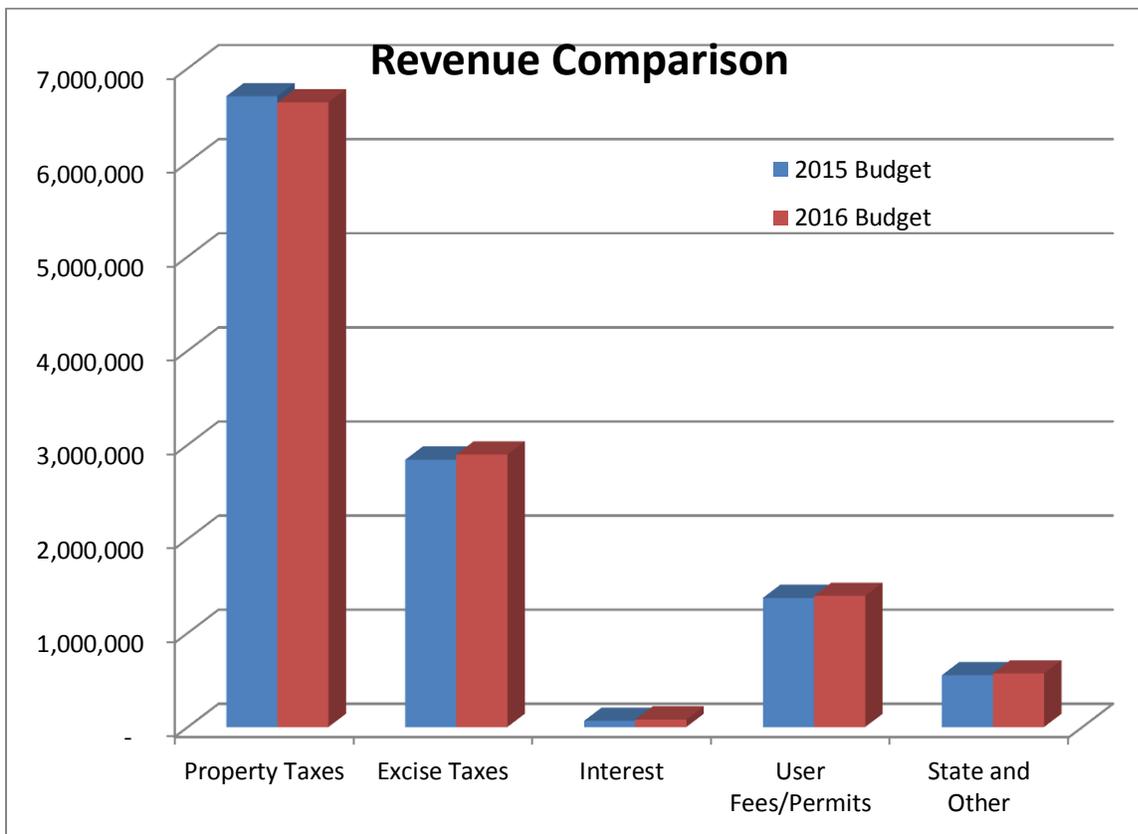


The estimated non- property tax revenues in FY16 are projections based on prior year trends and known changes in state and federal laws. There is a budget-to-budget increase of 2.3%. This

table represents a list of those revenues with the most significant projected change compared to the FY15 budget.

Auto Excise Taxes	56,100
State Revenue Sharing	24,293
Interest Income	13,000
Building Permits	6,660
Yarmouth Dispatch	5,312
Recycling Fees	5,000
Cable TV Franchise Fees	4,200
Tower Lease	4,000
Ambulance Charges	(6,740)
General Assistance Reimb	(10,000)

The following bar graph compares FY16 and FY15 revenue budget. The decrease in total property tax collections is due to a \$.05 mil rate decrease partially offset by an increase in the actual property valuation (new homes, lot splits, new businesses and additions/renovations). There is also a more conservative projection for excise tax due to an assumption that new car sales growth will slow.



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 2012.

This table compares Falmouth’s full value rate with other area communities. Since 2007, 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 \$2.32 below the regional average.

Greater Portland Communities							
	2012	2011	2010	2009	2008	2007	
Cape Elizabeth	15.65	15.00	14.19	13.20	13.05	11.92	
Cumberland	17.75	16.53	15.78	14.67	13.51	13.26	
Falmouth	13.82	13.15	12.60	12.16	11.81	11.36	
Gorham	14.93	14.66	13.77	13.50	13.38	12.84	
Portland	18.57	17.90	17.27	16.54	15.88	15.09	
Scarborough	13.93	13.27	12.55	11.97	11.58	11.17	
South Portland	16.37	15.90	15.28	14.66	13.77	13.41	
Westbrook	17.51	17.45	16.48	16.14	15.32	15.20	
Windham	14.33	13.60	12.75	12.00	10.91	10.74	
Yarmouth	18.56	17.94	17.00	16.11	15.21	14.43	
Average Full Value Rate	16.14	15.54	14.77	14.10	13.44	12.94	
Falmouth	13.82	13.15	12.60	12.16	11.81	11.36	
Variance from Average	2.32	2.39	2.17	1.94	1.63	1.58	

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, 2015, Falmouth's gross debt/valuation ratio will be an estimated 1.00%. The Town issued \$9,400,000 of General Obligation Bonds in May of 2014 for infrastructure improvements in the Route 1 South TIF District. 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
2015	11,185	\$2,352,152	\$ 23,451	1.00%	2,096.62
2014	11,185	2,328,863	14,051	0.60%	1,256.21
2013	11,185	2,287,140	9,749	0.43%	871.61
2012	11,185	2,268,623	10,446	0.46%	933.93
*Includes TIF valuation **Source: U.S. Census Bureau Total Direct Debt includes High School construction, Public Safety building improvements, Route 1 South infrastructure 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 because of new construction. It is projected that net new valuation will add \$15 million, or 0.67% to the Town's assessed valuation for FY 2015 for a total valuation of \$2,200,528,000 (exclusive of TIF valuation). This total valuation equates to over \$196,739 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, 2014, was \$12,007,853. 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 \$1,258,617 decrease in the unassigned fund balance compared to FY2013. The FY2014 higher revenues and lower expenditures were offset by the transfer to the capital, other funds and supplemental appropriations for Town Hall (\$601K) and Mason Motz (\$984K) renovations. This results in an overall decrease of \$945,572 in the total General Fund balance. Total Governmental Funds, including the Capital, TIF and Special Revenue Funds, for the Town increased \$11,132,335 primarily due to the increased TIF fund balance from debt issuance.

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 all 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. The Town’s credit rating was raised to AAA by Standard and Poor’s and reaffirmed at Aa1 by Moody’s during 2013.

Analysis of Fund Balance	
Unreserved, unassigned Fund Balance (6/30/14)	\$12,007,853
Minimum Reserve required by Fund Balance Policy (16.7% of total 2014-15 expenditure budget and \$1,000,000 further reserve for capital investments)	(8,204,500)
Projected “Available” Fund Balance	\$3,803,353

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.