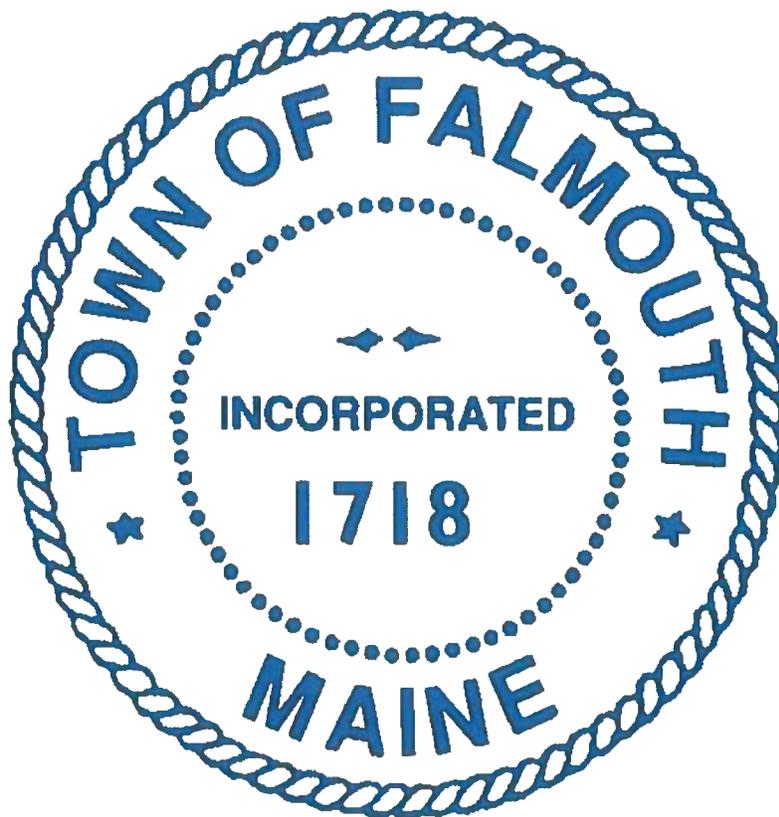


Town of Falmouth, Maine

Proposed Budget

Fiscal Year 2016-2017



Submitted by

Nathan A. Poore, Town Manager
Peter McHugh, Finance Director

A Citizen's Guide to the FY17 Budget Document

The Town of Falmouth budget document provides concise and readable information to the public about Town government. The budget document represents the definitive policy statement of the Town, establishing levels of service and determining the allocation of municipal resources.

The Table of Contents lists every subject covered in this document and its page number. As a further aid, the document is divided into the following four sections:

- Budget Summary and Overview
- Revenue Detail
- Expenditure Detail (Broken down by departments and divisions)
- Capital Improvement Program, TIF and Special Revenue Funds

The Budget Summary and Overview section provides general information about the budget. It includes the letter of transmittal from the Town Manager to the Town Council as well as information and statistical data relating to the budget.

The Revenue Detail section contains information on the Town's various revenue accounts including actual revenues for FY15, estimated revenues for FY16, and proposed revenues for FY17. Line item notes for the various revenue accounts are also included in this section.

The Expenditure Detail section provides detailed information on all expenditure accounts. This section is divided into programs within departments. Each department section includes an organizational chart of the department, expenditure detail, and line item notes for the major line item accounts. The line item expenditure detail includes actual expenditures for FY15, estimated expenditures for FY16, and proposed expenditures for FY17

The Capital Improvement Program (CIP) section contains the Town's multi-year Capital Improvement Program. This section includes a financial overview of the CIP, a description of approved CIP projects, the equipment replacement schedules for the Town's operating departments, and the Town's proposed street paving schedule.

The Tax Increment Financing District (TIF) section contains the Town's multi-year project plan for each of the TIF Districts and shows the captured value tax revenues and fund balance for each District by fiscal year.

The Special Revenue Fund section contains the Town's FY17 plan for both revenue and expenses and summarizes balances by Special Revenue Fund.

General Information

The accounts of the Town are organized on the basis of funds and account groups. The operations of each fund are maintained using a set of self-balancing accounts that are composed of its assets, liabilities, fund equity, revenues, and expenditures. This budget document deals with the operations of the Town's General Fund, Capital Improvements Funds, TIF Funds and Special Revenue Funds.

The general fund is used to account for all financial transactions that are not accounted for in categorical funds (sewer enterprise fund, trust and agency funds, etc.). The principle sources of revenue of the general fund are property taxes, excise taxes, inter-governmental revenue, charges for services, and miscellaneous revenue. Expenditures are for general government, financial administration, public safety, public works, community development, economic development, parks and community programs, education, and other agencies/non-departmental.

Charter/Code Requirements

Article V of the Falmouth Town Charter outlines the requirements for the budget. Per the Charter, the Town's fiscal year begins on the first day of July and ends on the last day of June. The Charter provides that, at least 35 days prior to the beginning of each budget year, the Town Manager "shall submit to the Council a budget and explanatory budget message. The Council shall be limited to the final determination of the total appropriation to be made to each of the several offices, departments and agencies of the Town, including the Department of Education."

The Charter further provides that the Town Manager's budget will be reviewed by the Town Council, which shall approve the budget with or without amendments. The Council is required to hold a public hearing on the budget. Following the hearing, the Council is required to adopt the budget, "with or without change", no later than 60 days from the beginning of the fiscal year. In the event the Council shall fail to adopt the budget within the 60 day period, the budget as presented by the Town Manager shall automatically become the budget for the fiscal year.

Article V, Section 506, of the Charter states that "the Town Council shall make a gross appropriation for each department, including the school department, for the ensuing municipal year." The gross appropriation for each department cannot be exceeded except by consent of the Council. Furthermore, the school budget is to be expended under the direction and control of the School Board.

During the budget year, the Town Council has the authority to make supplemental appropriations in order to cover unforeseen or emergency expenditures. The Charter also gives the Council authority to transfer amounts between departments within the budget. Finally, Article III, Section 302.2, provides that once a budget is adopted by the Council, the Town Manager is responsible for its administration.

Further inquiries regarding the budget and the budget process may be made by contacting either the Town Manager, Nathan Poore, or Finance Director, Peter McHugh at (207) 699-5311.

BUDGET SUMMARY AND OVERVIEW

To: The Honorable Members of the Falmouth Town Council

From: Nathan Poore, Town Manager

Date: March 31, 2016

Re: 2016 - 2017 Budget Transmittal Letter

I hereby present the proposed fiscal year 2017 municipal budget. This budget was reviewed by finance department staff, my office, and the department head/management team. This budget will not increase the municipal portion of the mil rate which remains at 3.0 mils. The changes to the budget are explained in detail throughout the budget document.

The final General Operating Budget for the Town is \$11,899,602, which represents a \$344,194 increase over the current year's (Fiscal Year 2016) 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 relatively flat non-property tax revenues continues for most categories as we are projecting flat to slightly increased revenues. We are projecting larger increases in a few non-property tax revenues, including inspection fees, ambulance fees, and interest income. Due to the strong automobile sector results in the last two years, we are predicting a 3.0% increase in automobile excise tax over the estimated FY16 total. The State Revenue Sharing projection from Maine Municipal Association shows a decrease of \$12K from the FY2016 level. Overall, non-property tax revenues have increased \$230,593 from the FY16 budget, which is a 4.7% increase.

Expenditures

As can be expected, there are some increases in expenditures. Personnel expense increases including wages, retirement, and health insurance are adding \$290,321 to the budget. The major components of the personnel cost increase were the Town cost of living increases (\$115K) and new contract provisions from the recently renewed collective bargaining agreements for Police and Public Works (\$62K). In addition, non-union employee retirement costs (\$28K) and health care costs (\$33K) contributed to the increase. Electricity rates are projected to be down sharply (\$22K) from the Fiscal Year 2016 budget and unleaded fuel and biodiesel prices are projected to be down from FY16 levels (\$18K). The other significant change in the FY17 budget is a \$75,000 increase in funding for construction of a senior center..

We prepared a preliminary 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	\$ 229,900
• Ambulance Charges	\$ 37,740
• Interest Income	\$ 23,000
• Inspection Fees	\$ 7,875
• Building Permits	\$ (37,010)
• Planning Board Fees	\$ (17,705)
• State Revenue Share	\$ (12,765)
• Net Change in All Other Revenue	\$ (442)
Revenue Sub-total Impact	\$ 230,593
Expense	
• Full-Time Salaries/Social Security	\$ 178,892
• Capital Funding	\$ 66,547
• Retirement	\$ 61,121
• Other Contractual Services	\$ 38,940
• Library Contribution	\$ 36,638
• Health Insurance	\$ 33,452
• Other Professional Services	\$ 28,846
• Solid Waste Collection Fees	\$ (32,000)
• General Assistance	\$ (25,000)
• Electricity	\$ (22,520)
• Motor Fuel and Lubricants	\$ (18,182)
• Net Change in All Other Expenses	\$ (2,590)
Expense Sub-total Impact	\$ 344,194
Other	
• Projected 2016 Mil Rate Effect from above	\$ 113,601
Other (Taxable Valuation) Sub-total Impact	\$ 113,601
Total Impact on Mil Rate is no increase from the FY16 rate of 3.00 mils including the fact that overlay is projected to decrease \$43,173.	

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 \$22 million (new construction and lot formation).

Property Tax Rate Calculation 2016-17 Town Budget	
Expenditures	11,899,602
Overlay	25,000
Non-tax revenues	(5,167,286)
Net from property taxes	6,757,316
2016-17 projected valuation	2,252,551,900
2016-17 projected tax rate	3.00
2015-16 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 & Special Revenue Funds
\$ 6,300,609	3,184,181	1,476,287	938,525

Expenditures (Personnel)

The total cost of personnel services (wages and benefits) in the FY16 budget is **\$ 6,300,609** representing a 4.8 % increase over FY16. Much of the difference in this category is a result of the following:

- Average wage increases will be 3.0%.
- The Town recently renewed both the Police and Public Works collective bargaining agreements. New provisions in those agreements added an additional \$62K in union employee benefits in FY2017.
- Retirement is increasing for non-union employees to reflect the increased contribution requirements for FY2017 from the Maine Public Employees Retirement System.
- Health insurance cost is increasing due to a projected 11% increase in health plan premiums effective January 1, 2017 offset by the move to a lower cost health plan effective January 1, 2016.

Expenditures (Supplies and Services)

The final budget includes **\$ 3,184,181** for supplies and services, which represents a 0.3% decrease from the FY16 budget. The notable impacts in this category include:

- Increased IT costs due to the implementation of a new offsite backup solution migration to Microsoft O365 which will provide a more robust and secure backup solution that will reduce CIP costs in the future.
- An increase in Professional Services for preservation of old town records, county assessing services, software maintenance and ambulance billing charges.
- A decrease in electricity costs due to a significant reduction in projected electric rates.
- A decrease in Motor Fuel and Lubricant costs resulting from the significant drop in cost/gallon of unleaded gasoline and diesel.
- A decrease in Solid Waste Collection Fees due to the Solid Waste Bag Special Revenue Fund being able to fund an additional month of collection fees.
- All remaining Supplies and services were kept at or below FY2016 levels.

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, Tax Increment Financing Districts 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 FY17 portion of CIP. Capital outlays and debt service costs will total **\$1,476,287**, which is a 4.1% increase from the FY16 budget. This increase was due to funding for the construction of a new senior center (\$75,000).

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 \$20.9K when compared to the FY16 budget. Funding levels, based on outside agency recommendations and requests, total **\$938,525** in FY17 an increase of \$4,828 or 0.5% over last year. The budget includes a contribution toward the operations of the Library of \$500,788, which is 7.9% more than last year (Appendix D contains the Library Budget). Metro Bus expenses decrease \$15,297 or 9.1% from the FY2016 level.

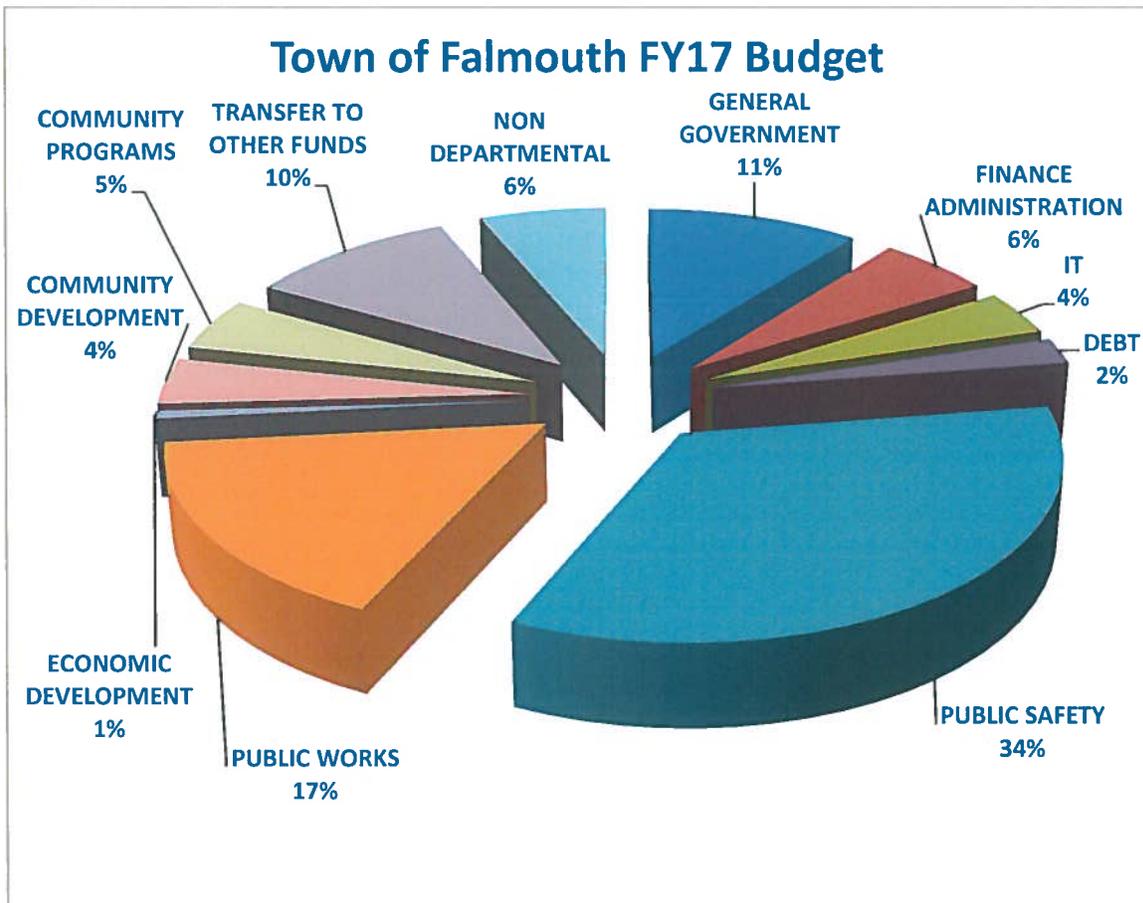
Significant Projected Changes in Expense

This table represents a list of those expense codes with the most significant projected change compared to the FY16 budget.

FULL-TIME SALARIES/SOC SECURITY	178,892
TRANSFERS TO CAPITAL FUND	66,547
RETIREMENT	61,171
OTHER CONTRACTUAL SERVICES	38,940
LIBRARY CONTRIBUTION	36,638
HEALTH INSURANCE	33,452
OTHER PROFESSIONAL SERVICES	28,846
SOLID WASTE COLLECTION FEES	(32,000)
GENERAL ASSISTANCE	(25,000)
ELECTRICITY	(22,520)
MOTOR FUEL AND LUBRICANTS	(18,182)

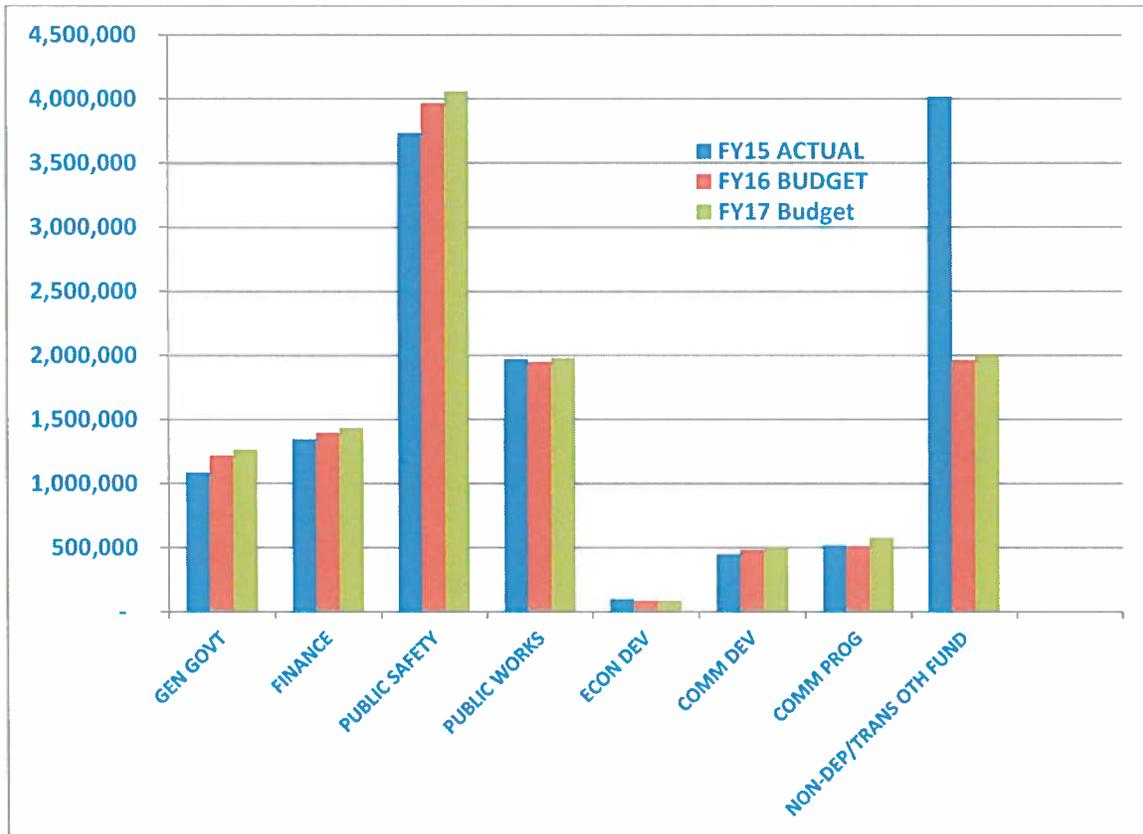
Expenditures (Budget Summary by Department)

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



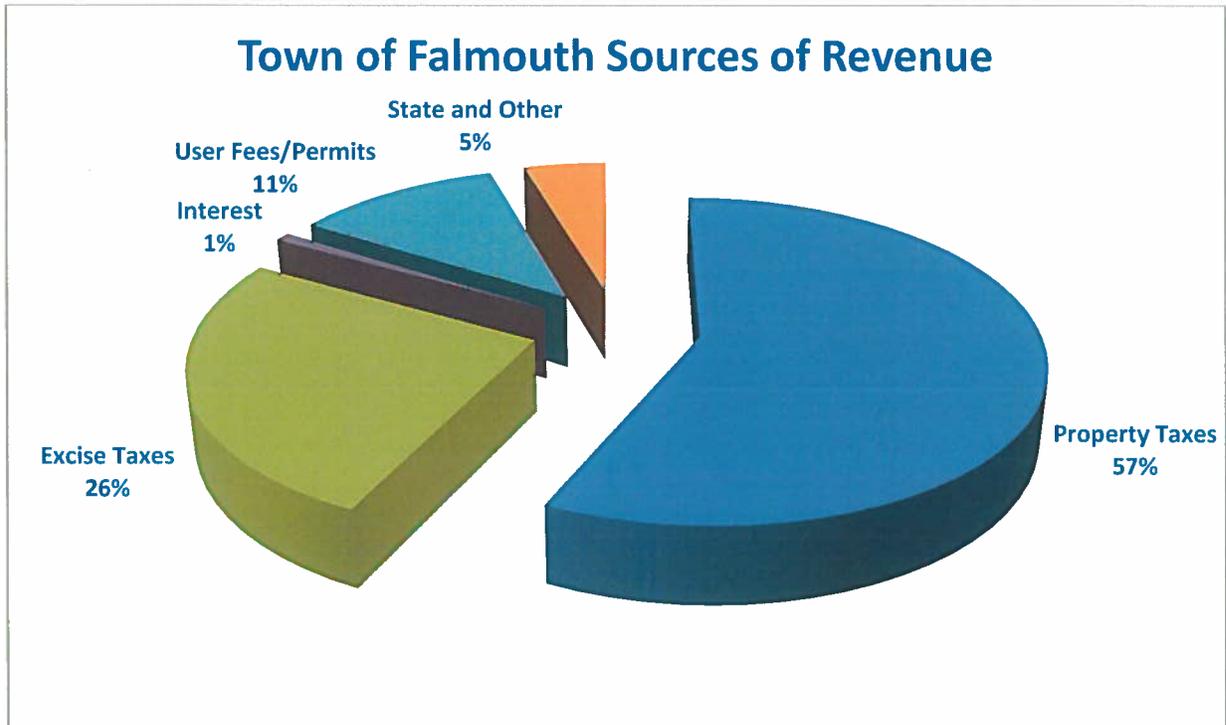
Changes in department budgets include a number of explanations such as:

- **General Government:** This category has increased 3.9%. This is a result of staff salary increases, health insurance and retirement increases, legal fee increases and professional and contract services.
- **Finance:** This category has increased 2.8%. Full-time salaries are up because of cost of living adjustments. Other professional services are increasing due to the move to the Microsoft O360 platform and the transition to an offsite network and data backup system.

- **Public Safety:** The FY17 2.4% increase is due to increases in salary and benefits particularly retirement, and the adjustments to the recently completed collective bargaining agreement.
- **Public Works:** The 2017 1.7% increase is due to wage and benefit increases, vehicle maintenance increases, and the offsetting savings in solid waste collection fees due to the Solid Waste Bag Fee Special Revenue Fund picking up one more month of collection fees.
- **Community Programs:** An increase of 13.4% due to increases in wages and benefits, expenses related to the new community center, and increases in the appropriation to support recreation and adult education programs.
- **Community Development:** An increase of 4.4% primarily due to salary, health insurance, and retirement costs.
- **Economic Development:** An increase of 2.0% due to salary, health insurance and retirement costs.
- **Non-Departmental and Other Agencies:** An increase of 2.0% attributable to an increase in the appropriation to construct a new senior center (\$75K) and an increase in the contribution to the Falmouth Memorial Library (\$37K).

Revenues

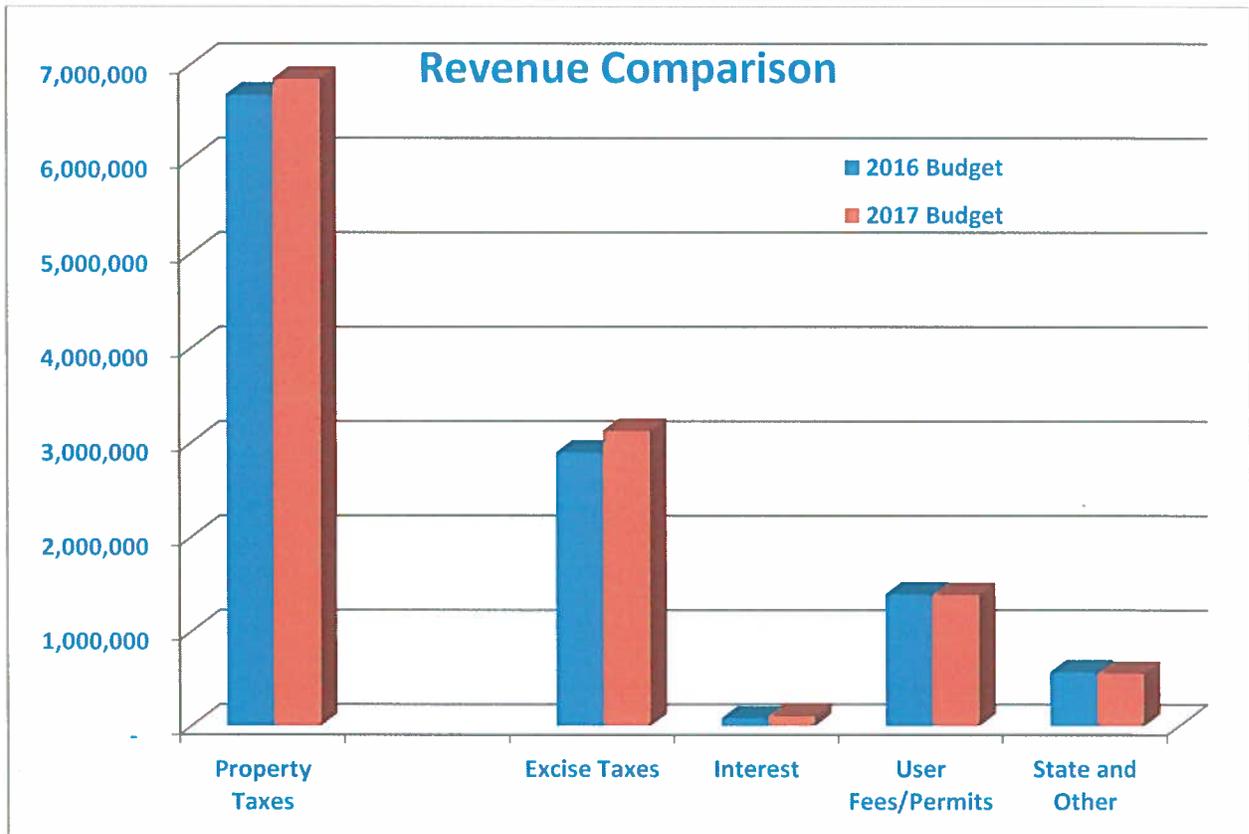
Municipal services are supported by a number of revenue sources including property taxes that account for 57% of all revenue sources for municipal (non-education) services. For the FY16 Budget, 73% of the funding required to support education general fund expenses came from property tax revenues (we will update this once we have the FY17 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 FY17 are projections based on prior year trends and known changes in state and federal laws. There is a budget-to-budget increase of 4.7%. This table represents a list of those revenues with the most significant projected change compared to the FY16 budget.

AUTO EXCISE TAX	229,900
AMBULANCE CHARGES	37,740
INTEREST INCOME	23,000
INSPECTION FEES	7,875
BUILDING PERMITS	(37,010)
PLANNING BOARD FEES	(17,705)
STATE REVENUE SHARE	(12,765)

The following bar graph compares FY17 and FY16 revenue budget. The increase in total property tax collections is due to a projected mil rate increase of \$.04 or 1.5%. The mil rate increase is due to an increase in net Town expenditures offset by an increase in the projected property valuation (new homes, lot splits, new businesses and additions/renovations) upon which the tax rate is based. Excise taxes are projected to increase 3% over the current FY2016 revenue projection.



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 by analyzing several characteristics and practices. This information will demonstrate the Town's stable fiscal condition.

Analysts use several financial indicators to measure a municipality's financial condition. This report identifies 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 annual full value tax rates for all Maine communities. 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 2013.

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 \$2.03 below the regional average.

Greater Portland							
Communities	2013	2012	2011	2010	2009	2008	2007
Cape Elizabeth	15.79	15.65	15.00	14.19	13.20	13.05	11.92
Cumberland	17.85	17.75	16.53	15.78	14.67	13.51	13.26
Falmouth	14.30	13.82	13.15	12.60	12.16	11.81	11.36
Gorham	15.54	14.93	14.66	13.77	13.50	13.38	12.84
Portland	18.71	18.57	17.90	17.27	16.54	15.88	15.09
Scarborough	14.67	13.93	13.27	12.55	11.97	11.58	11.17
South Portland	16.43	16.37	15.90	15.28	14.66	13.77	13.41
Westbrook	17.13	17.51	17.45	16.48	16.14	15.32	15.20
Windham	14.19	14.33	13.60	12.75	12.00	10.91	10.74
Yarmouth	18.66	18.56	17.94	17.00	16.11	15.21	14.43
Average Full Value Rate	16.33	16.14	15.54	14.77	14.10	13.44	12.94
Falmouth	14.30	13.82	13.15	12.60	12.16	11.81	11.36
Variance from Average	2.03	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, 2016, Falmouth's gross debt/valuation ratio will be an estimated 2.1%. 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
2016	11,185	\$2,419,550	\$50,865	2.10%	4,547.61
2015	11,185	2,368,572	\$54,840	2.32%	4,903.00
2014	11,185	2,328,863	44,420	1.91%	3,971.39
2013	11,185	2,287,140	47,020	2.06%	4,203.84
2012	11,185	2,268,623	50,700	2.23%	4,532.86

***Includes TIF valuation**
****Source: U.S. Census Bureau**
Total Direct Debt includes High School construction, Public Safety building improvements, Route 1 South infrastructure, Middle School Construction and the Elementary School Construction

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 \$22.3 million, or 1.0% to the Town's assessed valuation for FY 2017 for a total valuation of \$2,252,551,900 (exclusive of TIF valuation). This total valuation equates to over \$201,390 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.

Unassigned Fund Balance

Falmouth’s unreserved, unassigned fund balance as of June 30, 2015, was \$10,578,837. 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 was a \$1,429,016 decrease in the unassigned fund balance compared to FY2014. The FY2015 excess revenues over expenditures were offset by the transfer to the capital improvement and special revenue funds in addition to supplemental appropriations for Town Hall (\$601K) and Mason Motz (\$984K) renovations. This results in an overall decrease of \$1,614,782 in the total General Fund balance. Total Governmental Funds, including the Capital, TIF and Special Revenue Funds, for the Town decreased \$11,396,316 primarily due to the capital spending and decreased TIF fund balance related to spending on the Route One South Infrastructure project.

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 reaffirmed at AAA by Standard and Poor’s and Aa1 by Moody’s during 2015.

Analysis of Fund Balance	
Unreserved, unassigned Fund Balance (6/30/15)	\$ 10,578,837.00
Minimum Reserve required by Fund Balance Policy (16.7% of total 2015-16 expenditure budget and \$1,000,000 further reserve for capital investments)	(8,714,399)
Projected “Available” Fund Balance	\$ 1,864,438.00

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.