

## ***BUDGET SUMMARY AND OVERVIEW***

**To:** The Honorable Members of the Falmouth Town Council

**From:** Nathan Poore, Town Manager

**Date:** May 06, 2014

**Re:** 2014 - 2015 Budget Transmittal Letter

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I hereby present the final fiscal year 2015 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 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 final General Operating Budget for the Town is \$11,445,577, which represents a \$332,835 increase over the current year's (Fiscal Year 2014) original 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, 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 and ambulance charges. Due to the strong automobile sector, we are expecting a 14.1% increase in automobile excise tax over the FY14 budget, but this is offset by a decrease in State Revenue Sharing of \$233,000. Overall, revenues have increased \$278,981 from last year's budget, which is a 6.1% increase over last year.

### **Expenditures**

As can be expected, there are some increases in expenditures. Personnel expense increases including wages, retirement, and health insurance are adding approximately \$215,000 to the budget. Fossil fuel prices are projected to be about the same as the Fiscal Year 2014 budget. Other changes include decreases in the need for small equipment and the renewed funding of open space equaling \$100,000. The EcoMaine program has eliminated \$120,000 of assessment fees for Collection Services. Other professional services has increased \$120,000 due to the proposed transition of the Assessing function to the County. \$32,000 of other contractual services increase is due primarily to an increase in animal control expenses, half of which will be offset by revenue from other towns. We also have appropriated \$30,000 less to the Capital Fund this year.

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.

<b>FY2015 Budget Impacts</b> <b>Funding Change FY14 vs FY15</b> Budget Impact: Increase/(Decrease)	
<b>Revenue</b>	
• Auto Excise Taxes	\$ 347,571
• Ambulance Fees	\$ 83,000
• Building Permits	\$ 29,800
• Planning Board Fees	\$ 17,100
• Cell Tower Lease	\$ 15,837
• Animal Control Services	\$ 12,644
• Plumbing Inspections	\$ 11,900
• State Revenue Sharing	\$ (233,000)
• Mooring Fees	\$ (11,000)
• Net Change in All Other Revenue	\$ 5,129
<b>Revenue Sub-total Impact</b>	<b>\$ 278,981</b>
<b>Expense</b>	
• Part-time salaries	\$ 128,341
• Other Professional Services	\$ 118,898
• Transfer to Open Space	\$ 100,000
• Retirement	\$ 88,534
• Other Contractual Services	\$ 31,633
• Capital Funding	\$ (28,460)
• Collection Services	\$ (120,000)
• Net Change in All Other Expenses	\$ 13,889
<b>Expense Sub-total Impact</b>	<b>\$ 332,835</b>
<b>Other</b>	
• Projected 2015 Mil Rate and Valuation Change Effect from above	\$ 53,854
• Use of Fund Balance	\$ 0
<b>Other (Taxable Valuation) Sub-total Impact</b>	<b>\$ 53,854</b>
<b>Total Impact on Mil Rate is a decrease of .021 mils from FY14 to 3.026 mils including the fact that overlay is projected to decrease \$8,960.</b>	

## **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**

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This tax rate calculation table includes a projected increase in property valuation of \$30 million (new construction and lot formation).

<b>Property Tax Rate Calculation 2014-15 Town Budget</b>	
<b>Expenditures</b>	11,445,577
<b>Overlay</b>	40,000
<b>Non-tax revenues</b>	(4,826,825)
<b>Net from property taxes</b>	6,658,752
<b>2014-15 projected valuation</b>	2,200,635.4
<b>2014-15 projected tax rate</b>	<b>3.026</b>
<b>2013-14 rate</b>	3.047
<b>Tax rate increase (decrease)</b>	(0.021)

## **Expenditures (By Object of Expenditure)**

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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.

<b>Personnel</b>	<b>Supplies &amp; Services</b>	<b>Capital / Debt Service</b>	<b>Other Agencies &amp; Special Revenue Funds</b>
\$ 5,754,795	3,238,278	1,656,228	796,276

## **Expenditures (Personnel)**

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The total cost of personnel services (wages and benefits) in the FY15 budget is **\$ 5,754,795** representing a 3.9 % increase over FY14. Much of the difference in this category is a result of the following:

- Average wage increases will be 2.0%.
- Full-time salaries are increasing slightly and include the addition of a patrol officer and custodian, but reductions in the Assessing department.
- Part-time salaries increasing due to the need to add staff support in fire, maintenance and admin.
- Retirement increasing to reflect the increase from Maine State Retirement Services.
- A reduced health insurance projection when compared to the FY14 budget. This is supported by a modest actual increase of 3.92% over the first half of the fiscal year.

## **Expenditures (Supplies and Services)**

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The final budget includes **\$ 3,238,278** for supplies and services, which represents a 0.3% increase over the FY14 budget. The notable impacts in this category include:

- An increase in other professional services with the proposed move of the Assessing function to the County level.
- An increase in other contractual services for the rewrite of ordinances and an increase for animal control services,
- An offset by a decrease in assessment fees for waste collection services by Ecomaine.

## **Expenditures (Capital Outlay / Debt Service)**

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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 final budget includes funds for implementing the FY15 portion of CIP. Capital outlays and debt service costs will total **\$1,656,228**, which is a 2.2% decrease from the FY14 budget.

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)**

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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 FY14 budget. Funding levels, based on outside agency recommendations and requests, total **\$796,276** in FY14 an increase \$144,320 or 22.1% over last year. The final budget includes a contribution toward the operations of the Library for \$433,476, which is 4.8% more than last year. Metro Bus expenses will increase by \$4,305, which is a 2.7% increase from the FY13 budget. The majority of the increase is due to a \$100,000 proposed restoration of yearly funding for Open Space acquisitions and a \$20,000 yearly reserve to save for the property revaluation that occurs every five years.

## **Significant Projected Changes in Expense**

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This table represents a list of those expense codes with the most significant projected change compared to the FY14 budget.

<b>PART-TIME SALARIES</b>	<b>128,341</b>
<b>TRANSFER TO SPECIAL REVENUE FUND</b>	<b>120,000</b>
<b>RETIREMENT</b>	<b>88,534</b>
<b>OTHER PROFESSIONAL SERVICES</b>	<b>98,898</b>
<b>OTHER CONTRACTUAL SERVICES</b>	<b>31,633</b>
<b>TRANSFER TO CAPITAL FUND</b>	<b>(28,460)</b>
<b>COLLECTION SERVICES</b>	<b>(120,000)</b>

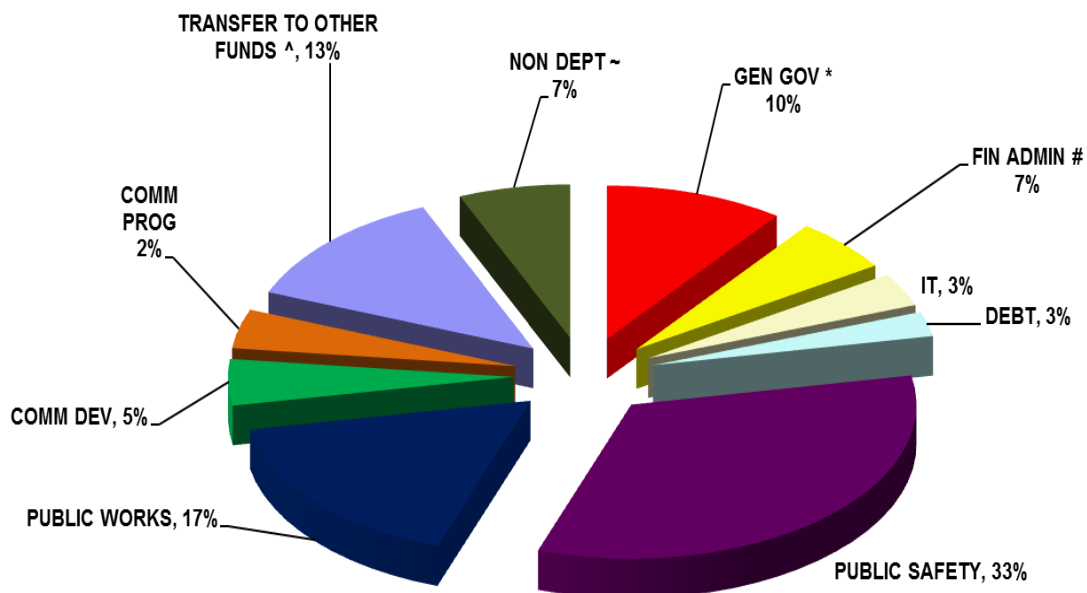
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## Expenditures (Budget Summary by Department)

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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.

### Town of Falmouth FY15 Budget



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

# Includes Assessing, Finance, and Insurance

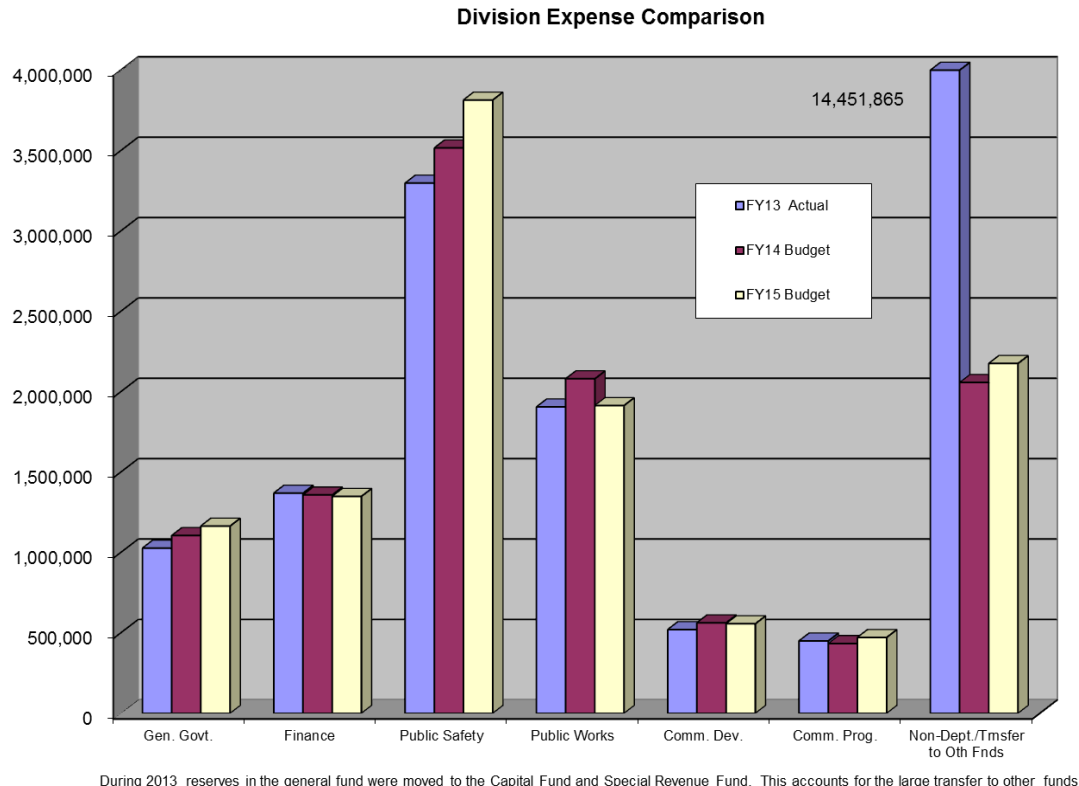
~ Includes Library, Metro, Mason-Motz, Contingency & Transfer to Other Funds

^ 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.



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

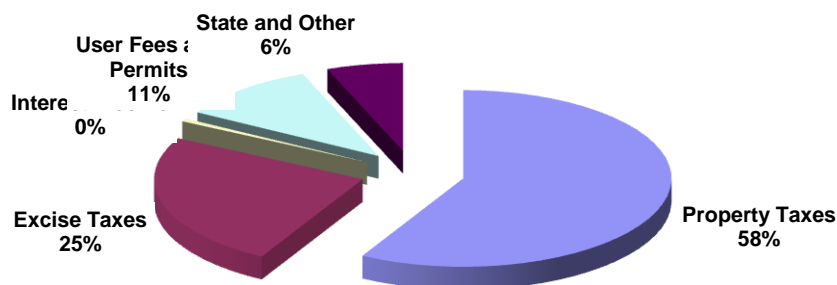
- **General Government:** Overall this category has increased 5.4%. This is mostly driven by the addition of an additional custodian. There is also slight increase in salary and benefits, which is offset by decreases in general assistance, and legal fees.
- **Finance:** Overall this category has decreased 0.7%. Other professional services are increasing due to the proposed movement of Assessing to the County level. Salaries, benefits and other expenses of that department at the Town level offset this. Insurances have increased and a part-time administrative position has been added.
- **Public Safety:** The 2015 8.5% increase is driven by increases in salary and benefits, the need to add an officer and the need for the addition of part-time Fire/EMS positions.

- **Public Works:** The 2015 8.0% decrease is driven by a reduction in assessment fees of \$120,000 for waste collection services by Ecomaine.
- **Community Programs:** An increase of 8.7% due to increases in salary and benefits, partially from the addition of part-time hours.
- **Community Development:** A decrease of 1.1% due to a slight decrease in salary and benefits.
- **Non-Departmental and Other Agencies:** An increase of 5.8% attributable to a \$100,000 proposed restoration of yearly funding for Open Space acquisitions and a \$20,000 yearly reserve to save for the property revaluation that occurs every five years.. When looking at the graph above note that for Fiscal Year 2013, almost all reserve funds that resided in the General Fund were moved to other funds. This resulted in the large transfer out noted above in the graph. This was a one-time realignment of the books and was a transfer of funds and not an expense.

## Revenues

Municipal services are supported by a number of revenue sources including property taxes that account for 58% of all revenue sources for municipal (non-education) services. For the FY15 Budget 73% of the funding required to support education general fund expenses 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**

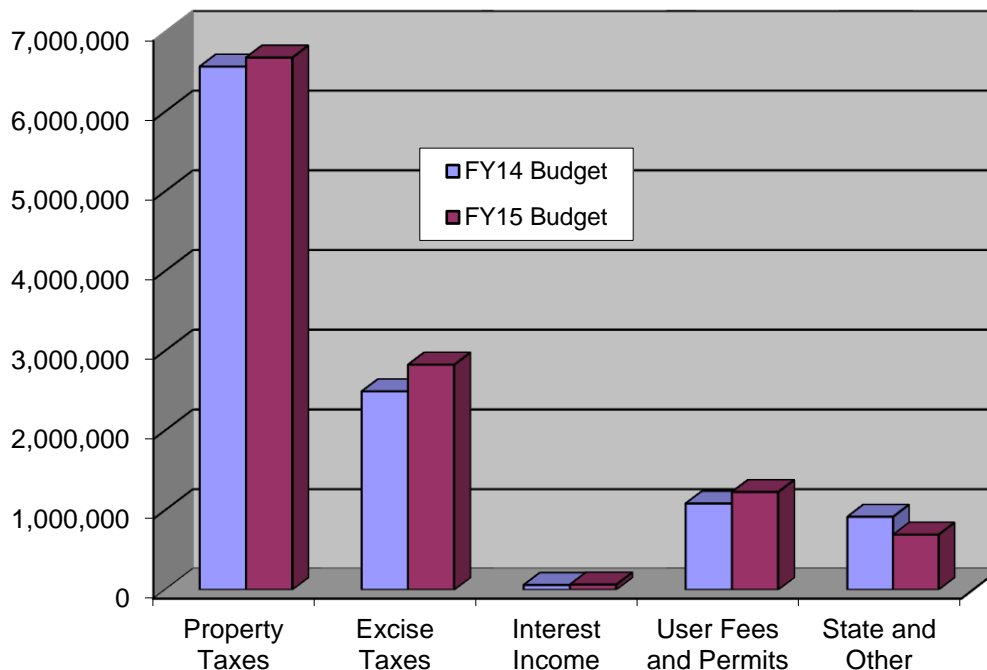


The estimated non- property tax revenues in FY15 are projections based on prior year trends and known changes in state and federal laws. There is a budget-to-budget increase of 5.7%. This table represents a list of those revenues with the most significant projected change compared to the FY14 budget.

<b>Auto Excise Taxes</b>	<b>347,571</b>
<b>Ambulance Charges</b>	<b>83,000</b>
<b>Building Permits</b>	<b>29,800</b>
<b>Miscellaneous Revenues (Town)</b>	<b>26,000</b>
<b>Planning Board Fees</b>	<b>17,100</b>
<b>Tower Lease</b>	<b>15,837</b>
<b>Plumbing Inspections</b>	<b>11,900</b>
<b>Mooring Fees</b>	<b>(11,000)</b>
<b>Transit Bonus</b>	<b>(37,000)</b>
<b>State Revenue Sharing</b>	<b>(233,000)</b>

The following bar graph compares FY14 and FY15 revenue budget. The increase in total property tax collections is not due to an increase in the rate but rather an increase in the actual property valuation (new homes, lot splits, new businesses and additions/renovations). There is also a projection in excise tax due to the continued expected strength in the automobile sector. This is offsetting continued expected declines in State Revenue sharing.

**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 2011, which is still under State review.

This table compares Falmouth's full value rate with other area communities. Since 2006, 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 \$2.39 below the regional average.

<b>Greater Portland Communities</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Cape Elizabeth	15.00	14.19	13.20	13.05	11.92	10.89
Cumberland	16.53	15.78	14.67	13.51	13.26	14.85
Falmouth	13.15	12.60	12.16	11.81	11.36	10.74
Gorham	14.66	13.77	13.50	13.38	12.84	11.98
Portland	17.90	17.27	16.54	15.88	15.09	14.27
Scarborough	13.27	12.55	11.97	11.58	11.17	10.71
South Portland	15.90	15.28	14.66	13.77	13.41	12.75
Westbrook	17.45	16.48	16.14	15.32	15.20	14.90
Windham	13.60	12.75	12.00	10.91	10.74	10.88
Yarmouth	17.94	17.00	16.11	15.21	14.43	14.43
Average Full Value Rate	15.54	14.75	14.10	13.44	12.94	12.64
Falmouth	13.15	12.60	12.16	11.81	11.36	10.74
Variance from Average	2.39	2.15	1.94	1.63	1.58	1.90

## Debt Ratios

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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 0.61%. The Town issued \$5,000,000 of General Obligation Bonds in October of 2013 for improvements and renovations for the schools. 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.

<b>Fiscal Year End June 30</b>	<b>Pop.**</b>	<b>Assessed Valuation* (x 1,000)</b>	<b>Total Direct Debt (x 1,000)</b>	<b>Debt as % of Assessed Value</b>	<b>Direct Debt per Capita</b>
2014	11,185	\$2,305,590	\$ 14,051	0.61%	871.61
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
<b>*Includes TIF valuation</b> <b>**Source: U.S. Census Bureau</b> <b>Total Direct Debt includes High School construction, Public Safety building improvements, and the local-only share of 2011 Elementary School bond</b>					

## Assessed Valuation

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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 \$30 million, or 1.24% to the Town's assessed valuation for FY 2014 for a total valuation of \$2,200,635,000 (exclusive of TIF valuation). This total valuation equates to over \$196,749 per capita, which is generally considered a very good valuation ratio for a community with limited commercial tax base.

## Tax Collection Rates

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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, 2013, was \$13,266,470. 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 \$1,751,928 increase in the unassigned fund balance compared to FY2012. The FY2013 higher revenues and lower expenditures were offset by the transfer to the capital and other funds to invest and reserve for the Town's future. The Town also sold \$3,332,054 of capital assets. This results in an overall decrease of \$3,812,027 in the total General Fund balance. Total Governmental Funds, including the Capital and Special Revenue Funds, for the Town increased \$652,498.

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

<b>Analysis of Fund Balance</b>	
<b>Unreserved, unassigned Fund Balance (6/30/13)</b>	<b>\$13,266,470</b>
<b>Minimum Reserve required by Fund Balance Policy (16.7% of total 2013-14 expenditure budget and \$1,000,000 further reserve for capital investments)</b>	<b>(8,129,000)</b>
<b>Projected "Available" Fund Balance</b>	<b>\$5,137,470</b>

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.