

**TOWN OF WELLESLEY
Advisory Committee**



**Town Hall
525 Washington Street
Wellesley, Massachusetts 02482**

**Chair
Peter F. Cory**

**Vice Chair
Katherine K. Macdonald**

**Secretary
Judith B. Donnelly**

To: All Town Boards, Committees, and Departments

From: Peter F. Cory, Chair, Advisory Committee

Date: September 24, 2009

Re: FY11 Capital and Operating Budgets

The Advisory Committee is looking forward to working with Wellesley's Boards, Committees, and Departments to deliver to Annual Town Meeting budgets that represent a continued commitment to our community, while at the same time acknowledging that the difficult fiscal environment requires a sharp focus on cost savings and creative approaches to service delivery.

The purpose of this letter is twofold: 1) to provide guidance for the preparation of operating budgets, and 2) to outline the capital budget schedule. As was the case last year, we are working under the time pressure of preparing for a fall Special Town Meeting. We also recognize the need for early guidance as you begin preparing FY11 budgets for the Annual Town Meeting in a time of severe fiscal restraint. This letter is being forwarded several weeks earlier than in prior years, so that Boards & Committees will have Advisory's budget guidelines in time for the Inter-Board meeting scheduled on September 24th. Our intent is that this will be our only letter prior to meeting with each of you in the coming weeks and months.

Background

During the Town's 2009 financial year, the country experienced possibly the most severe economic downturn and financial market collapse in over 50 years. Nonetheless, the worst of the economic and financial market crisis that dominated headlines during the last 12 months now appears to be behind us. The Chairman of the Federal Reserve and a number of academic and business economists have suggested that the national economy is growing once again, and financial markets have rebounded very sharply from the lows of early 2009.

Notwithstanding this, however, the strength and durability of the economic recovery remains highly uncertain, and the fiscal realities confronting both the Commonwealth and the Town of Wellesley remain extremely challenging. Advisory's key message, which warrants emphasis at the outset, is that developing capital and operating budgets for FY11 will be more difficult than was the case for FY10. Although revenues from local property taxes will continue to grow in FY11, there can be no assumption that the Commonwealth's aid to towns will rebound meaningfully. Indeed, there are grounds for concern that state aid might decline even further, and local revenue growth in FY11 may be modest at best. Of course, if the Local Option Meals Tax is approved at the fall Special Town Meeting called by the Board of Selectmen, an

additional source of revenue – currently estimated at around \$355,000 per annum – will be available to the Town.

On the expense side, the Town's operating cost base has increased with salary and other increases approved last year for FY10 and FY11. Benefits costs are expected to grow rapidly, with health insurance costs expected to resume their upward trend following the substantial one-time savings from the shift to the Rate Saver plan. In addition, the Wellesley Contributory Retirement System is now significantly under-funded, and the Retirement Board has already indicated that increasing infusions of funds to cover the normal costs of the plan and reduce the funding gap are likely to be needed. On top of this, and as explained in more detail below, a very significant – and very late-announced – change in the formula for state Circuit Breaker reimbursement (CBR) for Out-of-District special education tuitions opened up a large funding gap in the FY10 budget. While this will likely be partially or fully offset by the application of stimulus funds this year, FY11 may be a very different story.

Meanwhile, the new high school project is moving forward, with the accompanying bond issuance and debt service (outside the levy, but a tax increase to homeowners all the same). The Board of Selectmen is proceeding with the planning for a new Senior Center (as approved by last Spring's Annual Town Meeting), and the schools will at some point likely request funds for renovations to accommodate the continuing enrollment increases expected at both the middle school and the existing high school.

Under these circumstances, it is just not possible for the town as a whole, or for the individual Town departments, to think in terms of "business as usual" when preparing their operating budgets. There is consensus within Advisory that the fiscally-responsible path at this time is to very tightly constrain increases in both operating and cash-capital budgets. Advisory appreciates the very high caliber and dedication of the Town's employees and volunteers, and is grateful for their contribution to the richness of life in Wellesley. At the same time, there needs to be recognition of the severe limits on available funds for all uses within the Town, and the impact that this is bound to place on the both providers and users of town services.

Capital Budgets

The FY11 Capital Budget and the Five-year Capital Improvement Plan for FY11 through FY15 are due to Advisory on or before Friday, October 23, 2009; of course, if it is possible earlier would be better. If this is not a feasible target for your department, please let us know as soon as possible. Once your Board or Committee approves your Capital Budget, please submit 16 paper copies and an electronic copy. Although there is no need to put your material in binders, it would be helpful if it is 3-hole punched. The Capital Budget should be reviewed and updated over its entire five-year span. Although requirements and needs may change in the future, this exercise will provide an important perspective on emerging capital issues facing the Town. If there are any 'new' items for FY11 that were not in prior plans, please provide a specific explanation of how these items came up on short notice.

Advisory would like to meet with each Board between October and mid-December to review its Capital Budget. Attached is the current Advisory Committee schedule of meetings. If the indicated date presents a problem, please contact your Advisory liaison as soon as possible. At the Advisory meeting, following the Capital Budget review, we would like to have a broader discussion with you covering:

- Major goals and plans for the coming year.

- Methods to evaluate department performance and the use of benchmark measurement, including the results of benchmarking analysis of service levels and staffing versus neighboring towns that may have been undertaken as part of participation in the FY11 Budget Working Group.
- Efforts to improve efficiency in service delivery, and the cost reductions that might result.
- Other issues relative to the upcoming Operating Budget reviews, including recent and proposed staffing changes, a history of actual versus appropriated spending levels, the use of part-time benefited employees, departmental payments for staff overtime, and so on.
- Anticipated issues or actions that may be brought to the 2010 Annual Town Meeting.

Each Board and Department should keep Advisory informed of any adjustments to its Capital Budget request following the submission to Advisory, including those resulting from collaboration with the Board of Selectmen in preparation of the Town's Five Year Capital Budget Program.

Operating Budget Guidelines

Advisory is requesting that, if possible, Operating Budgets be submitted earlier than in prior years, by Tuesday, December 15, 2009. If this is not a feasible target for your department, please let us know as soon as possible and we will give you an extension until Wednesday, January 6. Advisory hopes to begin scheduling meetings with Boards and Committees to review operating budgets in mid-December, and we will distribute a schedule of proposed meetings in the near future. When your Board or Committee approves your operating budget, please submit 16 paper copies (3-hole punched preferred) and an electronic copy.

As noted above, the Town faces a serious challenge in finding an appropriate balance of taxes and spending, levels of service to the Town's residents and businesses, and fair treatment of the Town's employees. As we try to meet this challenge, sacrifice will be needed from everyone – taxpayers, service recipients, and employees. The projections contained in the Town-wide Financial Plan presented at the 2009 Annual Town Meeting recognized the likelihood of a very difficult budgetary environment and therefore anticipated increases for personal services and expenses of just 2.0% for the School Department and 0.0% for Other Town Departments. Accordingly, Town Boards & Committees should have already prepared themselves for a difficult year.

Also as previously noted, the Commonwealth imposed significant cuts in the Circuit Breaker reimbursement formula for Out-of-District special education tuitions (from 70% to 40%) for FY10, well after the approval of the budget appropriation at Annual Town Meeting in the spring. More modest cuts in other state aid (including cuts to Quinn Bill funding) were also made. These cuts opened up a deficit in the FY10 budget in excess of \$1 million. Fortunately, federal and state stimulus funds appear to be available and adequate to fill much of the gap in FY10, but by FY11 state and federal stimulus funds will quite possibly be exhausted, with no guarantees that funding from more traditional sources will be restored. In other words, there is a substantial, new, and highly uncertain element added to a mandated expense that even in normal times is both very substantial and very difficult to accurately forecast. The burden of a major shortfall in Circuit Breaker reimbursement on the School Department and town budgets could be very damaging, but it is something that the Town must prepare for.

Advisory therefore expects Boards & Committees to apply unusual rigor in holding the line on costs. The major Boards and Committees embarked on a town-wide effort to identify opportunities for operating efficiencies and cost savings following the 2009 Annual Town Meeting, and this work continued over the summer and into the fall. The results of these efforts should be demonstrable to Advisory and to next year's Annual Town Meeting. In addition, in some circumstances fees and charges can and should be further adjusted to reflect the true cost of service provision to users.

Under these circumstances, Advisory's FY11 budget guidelines for combined personal services and expenses relative to the FY10 budget appropriation (as approved by ATM last Spring) are tight, and are based on a somewhat modified approach. Given the gross uncertainty regarding the CBR formula and funding for FY11, Advisory is proposing guideline budget increases for the School Department at two levels: 1) operating expenses **excluding** the Special Tuition & Transportation (ST&T) category, and 2) the aggregate operating budget **including** ST&T. The shortfall in the state CBR funding formula in FY10 was \$910,000, and within the guidelines Advisory is proposing to allocate \$750,000 to the School Department to substantially offset this amount in FY11. It is Advisory's explicit expectation that if the CBR formula is "effectively" restored, either partially or fully, through regular state funding, the provision of stimulus funds, or otherwise, then the School Department will return the corresponding funds to the Town, and not apply them for other purposes within the district.

Advisory's operating budget guidelines for FY11 are as follows:

School Department (excluding ST&T)	1.00%
School Department (including ST&T)	2.25%
All Other Town Departments	1.00%

Advisory's expectation is that in aggregate departmental cash capital budgets (including that of the School Department) will also be no more than 1.0% greater than the level reflected in the FY10 appropriated budget, and that Departments will prepare their cash capital budgets accordingly.

Advisory understands that the budget process will, unquestionably more so than last year, require difficult and painful choices. Given the environment, we also want to stress the need for every department to be prepared to make additional reductions from the levels that we are targeting today. We urge you to make your evaluations now to determine the order in which you would make potential additional reductions in your budgets. It may not be necessary, but should the situation require it, thoughtful evaluation now is likely to lead to better decisions later, when there could be little time and substantial pressures on decision making. Further, while this letter is focused upon the FY11 operating budget guidelines, it is also very possible that the FY10 budget may require reductions during the current fiscal year. Therefore, as part of your preparation of the FY11 budget you should also evaluate potential savings in the FY10 budget.

As requested last year, in the interest of greater transparency, we again ask for a better understanding of all the Towns' sources of off-budget receipts and reserves (e.g., gifts, trusts, revolving funds, building use funds, and other non-General Fund accounts), as well as unexpended capital budget appropriations. It is not our intent to control or curtail such funding. However, we believe that full awareness of such sources will help to present a complete

picture of the Town's resources and what it takes to deliver services within the Town. We would like to understand how you manage and allocate such funds.

Advisory looks forward to meeting with each Board and working together to meet the challenges facing the Town. We greatly appreciate the contribution that all Boards and departments are making to the Town's well-being. Should you have any questions or comments, please contact your Advisory liaison or me.

Attachments:

Roster of Advisory Members

Advisory Committee Meeting Schedule (subject to change)