

State of the Town Forum
24 January 2005

Boxborough's Financial Status:

Budget & Override Estimates in FY '06

Finance Committee

Summary

The Goal of this Meeting is to Inform Voters of the Town's Financial Status and Seek Input From Voters on Spending & Saving Priorities

- **Moderated by the Finance Committee Chairman, Gary Kushner**
- **Financial data shown is the best estimate to date**
 - **Many particulars may change by May '05**
 - **The overall situation will not likely change significantly**
 - **FY '06 revenue and expense estimates will be continually updated to May ATM**

Proposition 2 _ and How it Works

- Proposition 2 _ **Does NOT** directly limit spending
- It places several limits on **Property Taxes**
 - Yearly increases $\leq 2 _ \%$ of prior year levy limit
 - Additional increase from expected new construction value \times prior year's tax rate
- Tax levy amounts above these levels are only allowed by an Override, Debt Exclusion, or Capital Exclusion

Structural Issues in Town Budgeting

- Revenues
 - Tax Levy increases are limited
 - State Aid is down ~ \$200,000 (10%) from FY '03 peak
 - Local Receipts (excise, permit fees) remain flat due to slow economy and development
- Expenses
 - Personnel and other expenses increase ~ 5% per year
 - Employee Benefits increasing 12% - 15% per Year
 - Regional School Assessment increasing @ 8% - 12%
 - Acton Override Drives Assessment ~ \$250,000
 - *Approximately 50% of the town's budget comprises costs outside of our direct control*

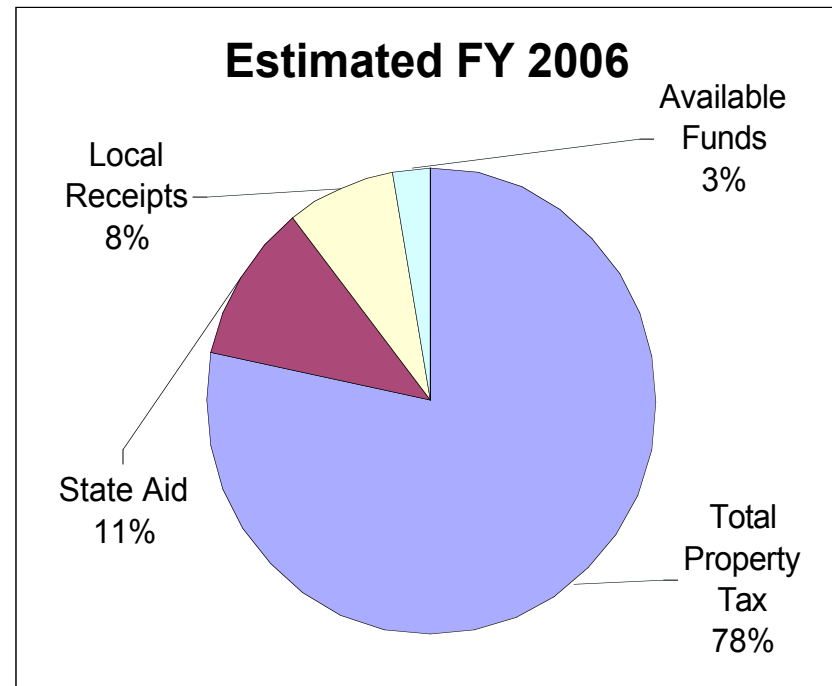
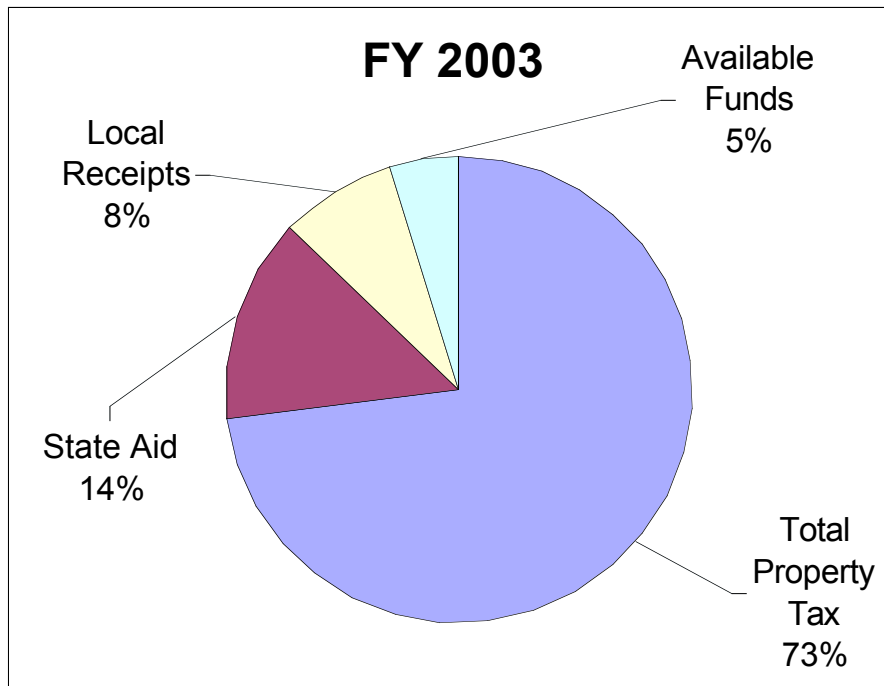
What Do These Trends Mean?

- Expenses are rising faster than revenue constraints of Prop. 2 _
- We have used our savings to avoid overrides for the past 5 years
- To maintain “Level Services” we need a Proposition 2 _ Override in FY '06
- Even if no override is passed, tax bills will increase approximately 4% - 5%

Taxes = Proposition 2 _ + increased exempt debt service

Changing Revenue Picture

Reductions in State Aid and Cash Reserves Must be Made up in Tax Levy



Budgeting Realities and Issues

- Historically we have used 20% - 35% of our available cash to balance the Town's budget
- These cash reserves are not replenishing at the same rate as in years past (tighter budgeting)
- Current cash reserves are approximately \$1.5 million
- Prudent use of reserves (30% - 40%) will **Not** balance the FY '06 budget
- Maintaining cash reserves at a prudent level maintains our bond rating
 - Town Bond Rating has been upgraded by Moody's to AA+
 - Better Bond Rating means reduced borrowing cost

FY 2006 Anticipated Expenses as of December 2004

1/17/2005

	FY 2005	FY 2006	Δ\$	Δ%
Budget under Local Authority				
Town	\$3,382,942	\$3,559,544	\$176,602	5.2%
Blanchard School	\$4,791,317	\$5,040,378	\$249,061	5.2%
Reserve Fund	\$146,000	\$146,000	\$0	0.0%
Subtotal	<u>\$8,320,259</u>	<u>\$8,745,922</u>	<u>\$425,663</u>	<u>5.1%</u>
Assessments				
AB Regional Schools	\$4,788,078	\$5,217,669	\$429,591	9.0% (1)
Minuteman Vocational	\$174,774	\$183,513	\$8,739	5.0%
Employee Benefits	\$1,345,604	\$1,520,532	\$174,928	13.0%
Debt Service	\$1,112,066	\$1,353,085	\$241,019	21.7% (2)
RE Tax Overlay	\$200,404	\$200,000	-\$404	-0.2%
Subtotal	<u>\$7,620,926</u>	<u>\$8,474,799</u>	<u>\$853,873</u>	<u>11.2%</u>
ATM Articles & Other	\$122,270	??	??	??
Total Anticipated Expenses	<u>\$16,063,455</u>	<u>\$17,220,721</u>	<u>\$1,157,266</u>	<u>7.2%</u>

(1) Function of expense growth, flat or declining state aid and increasing Boxborough percentage of students

(2) 95% exempt from proposition 2.5; includes ABRS

FY 2006 Anticipated Revenue as of December 2004

1/17/2005

	FY 2005	FY 2006	Δ\$	Δ%
Real Estate Taxes				
FY 2005 levy limit		\$11,320,260		
Allowed 2.5 % Growth		\$283,007		
New Growth		\$190,773		
Current Year Levy Limit	\$11,320,260	\$11,794,040	\$473,780	4.2%
Exempt Debt Service	\$675,864	\$916,827	\$240,963	35.7% (1)
Maximum RE Taxes	\$11,996,124	\$12,710,867	\$714,743	6.0%
State Aid (net)	\$1,848,991	\$1,895,216	\$46,225	2.5%
Local Receipts	\$1,344,600	\$1,315,567	-\$29,033	-2.2%
Overlay Surplus & Other	\$168,036	??	??	??
Total Anticipated Revenue	\$15,357,751	\$15,921,650	\$563,899	3.7%
Total Anticipated Expenses	\$16,063,455	\$17,220,721	\$1,157,266	7.2%
Anticipated Budget Deficit	\$705,704	\$1,299,071		

(1) Net of State School Construction Aid

If Expenses Are Larger Than Proposition 2 _ Revenues - *Override Needed* -

- Estimated FY '06 Expenses - \$17,220,721
- Estimated FY '06 Revenues - \$15,921,650
- *FY'06 Projected Deficit* - \$ 1,299,071

- How Do We Cover the Deficit
 - Use Available Funds \$450,000 - \$600,000
 - Prop. 2 _ Override Range \$700,000 – \$850,000
 - ***Potential*** Override \$800,000

Possible Override Scenarios

- “Structural Override” to Maintain Present Services
 - Combined Town and School Amount ~ \$800,000
- “Restorative” or “Unmet Needs” Override
 - Town Functional Improvements ~ \$100,000
 - Restore Blanchard School Services ~ \$150,000
- The BoS determines the override questions presented to the town. They need your input in order to make this important decision.

Override Procedure

- Pass the budget (Article 5) with majority vote
 - 2/3 for Capital Exclusion or Debt Exclusions
- Pass the election ballot with majority vote
- If the election fails we must go back to Town Meeting to balance the budget.

Tax Impact on Average Homeowner

- Prior to Override
 - Tax bill in FY '05 is \$6,655 for the average \$508,000 Home
 - Proposition 2 _ increase in FY '06 will be ~ \$260 - \$300
- Structural Override
 - \$800,000 equals approximately \$85 per \$100,000 valuation
 - \$432 for the average home
- Restoration or Unmet Needs Override
 - \$250,000 Equals Approximately \$27 per \$100,000
 - \$135 for the Average Home
- Total Potential Override Taxpayer Impact
 - \$567 for the Average Homeowner

What if the Proposed Override Does Not Pass?

- Cannot Reduce Assessments
 - Debt Service
 - Regional Schools
 - Employee Benefits
 - Overlay (Real Estate Tax Abatements)
- Will use ~ \$500,000 of available cash as planned
- Town and Blanchard Budgets (\$8.6 Million of Total) would absorb \$800,000 in cuts

Effect on Town and School

- \$800K in cuts is a **9.3%** reduction from FY'06 proposed budget levels
- Pro Rata split between Town & Blanchard is approximately 40/60
- Town would lose **\$320,000** from base FY '06 budget
 - *Reduced **\$143,000** from Current FY '05 Budget*
- Blanchard would lose **\$480,000** from base FY '06 budget
 - *Reduced **\$231,000** from Current FY '05 Budget*

What Happens in FY '07 and Beyond?

- Property Tax Levy can still only increase by ~ 2 _ % (+) without significant new development
- State Aid may increase slightly, but we do not anticipate large increases
- Local Receipts cannot significantly increase without new development
- *We Will Likely Be Faced with Override Situations for the Foreseeable Future*