

March 29, 2004

**REPORT OF THE FINANCE COMMITTEE
FOR PROPOSED 2006
FISCAL YEAR BUDGET**

By: Henry H. (Terry) Williams III – Chairman

The primary goal of the Finance Committee, Select Board, and Town Manager during the preparation of the Fiscal Year 2006 budget was to ensure that any increase in Dalton's tax levy be as small as possible while continuing to provide the services expected by our residents. Doing this requires all involved parties to actively seek out areas where expenses can be reduced and revenues enhanced. Unfortunately this is becoming ever more difficult in the current environment of a stagnant economy with runaway inflationary increases in health and liability insurance as well as energy costs. At the same time, the state budget has yet to overcome a structural deficit impeding its ability to meet its obligation to properly share its revenues with municipalities. Thus the town faces its own imbalance between revenues and expenses, and must confront unpleasant choices of raising taxes, cutting services, depleting reserves or some combination of the three to balance the budget. During the past two years the single-family average residential tax bill has increased at an annual rate of 9% per year, so it is not surprising that the committee believes it is important to minimize any increase to the extent possible.

With this in mind, our overall proposed spending plan for FY06 contemplates up to total appropriations of \$13,300,823, which would translate to an increase of 12% or \$1.4 million from last year. However this jump is deceptive as it includes an increase of nearly a half million in additional transfers of reserve funds into the Stabilization Fund to be used for tax relief, and another appropriation \$500,000 for the school budget that is contingent on receiving a majority of votes at a Proposition 2-1/2 Override referendum. In fact, our combined town operating budget and school assessment for FY2006 is expected to increase 4.2% to a total of \$11,165,588 when considered without the contingency against last year's appropriation. On the revenue side, it appears that direct state aid to the town (as opposed to the school district) will be approximately 14% greater than last year, primarily from \$149,445 in additional Lottery receipts based on Governor Romney's proposed budget. The legislative proposal is expected to be late this year and is not likely to increase aid to cities and towns much more than the Governor's, if at all. Local receipt estimates (excise taxes, permits, fees, fines & investment income) are budgeted at the same level as last year. Therefore the committee, with the advice and consent of the rest of the financial team, proposes to direct at least \$700,000 dollars of targeted Stabilization Funds as a revenue source to reduce the tax rate increase. (This transfer can be made because the town currently has \$300,003 in General Stabilization and \$1,566,723 in Free Cash of which a portion is to be transferred to Stabilization. The remainder of our Stabilization of approximately \$1.4 million is allocated in specific accounts as voted by prior town meetings, the majority of which is for long term capital projects such as the plan for a new library.) Full approval of all of our recommendations would result in a property tax assessment increase of about \$412,000 or 5.2% above FY2005. This would place us only about one thousand dollars below the adjusted Proposition 2-1/2 levy limit. Any additional property tax levy this year will require passage

of an override. This will be further discussed later in this report.

This year, as in the recent past, budget guidelines directed department heads to level-fund expense accounts where possible. The committee has also concurred with the recommendation of budgeting only for step increases at this time for all full-time non-bargaining town employees, except where individual employment contracts take precedence. Meanwhile, contract negotiations for employees subject to bargaining agreements are now underway. These include the Police, Highway, Cemetery, and the Communications departments. Should any contracts be finalized prior to town meeting the committee will review the agreements and make additional recommendations if warranted.

Of the 74 individual town accounts the committee evaluated this year representing a total boost of about \$275 thousand, 17 are recommended for reduction, and 22 would remain the same. The rest are increasing. It speaks volumes that cost of insurances represent 64% of the total increase in the town side of the budget. The health insurance line alone has increased 245% since 2002. Most of increases though are small in terms of both absolute and percentage, but some specific areas of the budget recommended for a notable increase are: Property Revaluation (+10,000) to begin work on the FY2007 state mandated triennial recertification of all property values; Tax Foreclosure (+5,000) for the maintenance of properties acquired by the town through foreclosure; Council on Aging (+5,297) primarily for increased hours for van drivers outside of the revolving account which keeps the fares reasonable, and to cover a rental increase from the CRA; Library (+5,297) to cover renewed membership the CWMARS program and the additional cost of heating oil; Berkshire County Retirement (+9,010) for increased assessment from the county system, we plan to transfer some funds from the Pension Reserve to lessen the large impact from last year's 31% spike; Group Health Insurance (+162,714) is a combination of a 31% premium increase in health insurance and a 7% dental coverage increase; Town Liability Insurance (+13,133) for an estimated general 10% increase; and Snow & Ice Removal (+11,500) is due to increases in the cost of gasoline & diesel as well as salt/sand for the roads.

The committee recommends that certain accounts be reduced for FY 2006. Significant reductions are planned in the Town Manager's budget (-4,759) due to a 5,000 reduction in "other purchased services"; Elections (-4,813) as this is an off-year in the election cycle with no state election dates; Old Dalton High (-1,000) has been mothballed awaiting the Library/Senior Center project and savings continue to be larger than anticipated; Employment Fringe Benefits (-6,700) because of a reduction in the both of the lines for extended sick leave and sick time buy-back; Judgments & Claims (-10,287) to return the line item to normal after a unusual year of claims; and Vocational Education (-17,425) is due to fewer students currently anticipated to register for this program than last year, however this is always a difficult line item to forecast properly as students often change their plans and the tuitions from the three institutions that our students attend are still only estimates.

As mentioned annually, the budget of the Central Berkshire Regional School District has the greatest impact on the town of Dalton since their operating assessment to us comprises over 50% of the total town budget. This budget is not under the direct

control of the member towns. Town meeting votes on the requested assessment based on the adopted budget; if the respective amounts pass in 5 of the 7 member towns the entire budget is approved and the school district then decides how to allocate the funding. Should the requested assessment fail in at least three towns, the school committee must lower the budget (and assessments). Each community is responsible to appropriate their required share of the final certified level, which is calculated on the basis of state and local formulas. During some past years the enormity of the assessment, coupled with the lack of direct control to accept or reject the bottom line, has even caused undesirable reductions in town services to preclude Dalton from exceeding the taxation levy limit while paying our share. Increases in the gross CBRSD budget have averaged 6.4% annually over the past fourteen years, a pace of more than double the inflation rate expanding it from \$11.5 million in FY92 to a level of \$21.6 million being requested this year. This even includes one year (FY04) where the budget had to be reduced by 6.1%. This upward trend has been primarily driven by the cost of salary and benefits. Yet, during this time the district has seen student enrollments decline. Since FY97 total students attending district schools has dropped 12.4% (-313), which when combined with budget increases are helping to drive an annual 7.2% average increase in the cost per student. During the nineties, this could be overlooked, as the large jumps in the school budgets were more than offset by hefty infusions of state aid prompted by the Educational Reform Act of 1993 kept assessments in check. However since 2000 these increases slowed to a crawl and then went into reverse. Amazingly, the proposed level of school state aid for 2006 is less than that of six years ago. The past three years in particular have certainly been the most difficult. The state budget crisis is forcing cities and towns to push their property tax assessments to record high levels while simultaneously depleting their reserve cushion.

Unfortunately, there comes a point at which it is no longer prudent to continue down this path towards fiscal irresponsibility. Over the past two difficult years our town has risen to the occasion, and supported the school district by increasing its contribution by an average of 7.7% per year; last year Dalton contributed \$746,904 more than just two years ago. This year alone the school is requesting an assessment increase of 789,141 or 14.1%. This would amount to 1.3 million dollars more than the net minimum contribution, which is the lowest amount the state requires the town contribute. After careful consideration and realizing that the town has reached the levy limit, we have concluded that the only way that Dalton can meet the request of the school district for FY 06 is for the town voters to specifically agree to tax themselves an additional \$500,000. With this in mind, the Select Board has agreed to place a series of questions on the May 9th annual election ballot giving the voters to option of supporting additional levels of funding from \$100,000 to the \$500,000. Passage of the maximum amount will result in an approximate increase of \$1.12 per thousand on the tax rate in addition to the .90 increase already presumed. The finance committee supported a motion recommending the outright approval of all but that \$500,000 portion of the assessment (including the transportation line) by a 6-2 vote (the two were not in favor of the level of the budget request under any circumstance). The committee's recommendation means support of an increase of at least 5.2%, which is similar to that in the town budget. As to the whether the committee members will recommend supporting the override, depends on how the district plans and prioritizes reductions to be made in their budget. It certainly will not be easy, but there exists a general view that there are changes that can be made without

harming the integrity of their educational mission statement.

The school capital budget assessment covers new construction and major improvements to the infrastructure of the school district and has been reduced this year by \$196 as the debt decreases on most of the projects. Each town pays a pro-rata share of the total net debt and interest due on each project based on number of Dalton students attending the respective facility based on enrollment figures as of 10/1/04. Dalton's portion includes debt and interest payments on Nessacus, Wahconah roof, and a small portions of the Becket and Kittredge projects. The committee recommends this item for approval at the requested level of \$343,447.

In conclusion, the committee continues to be committed to work closely with all town and school officials to further improve the efficiency and outcome of our final budget which is the result of many hours of hard work by all of those involved in a process that began one-half year ago. The residents of Dalton are privileged to have a dedicated group of public servants interested in assuring that the multitude of services to improve life in this community at the most reasonable cost possible are provided. We would like to thank all the participants in this endeavor especially the town financial team, lead by Town Manager, Ken Walto and assisted by Town Accountant, Sandy Albano and Town Treasurer, Sharon Messenger. We also want to recognize our recording secretary, Susanne Hinkel, who has done an outstanding job reporting the minutes of our committee work. We would like to express our sincere gratitude for the contributions of fellow members, Bryan Boeskin, Tim Kiely, and Ron Rice who are stepping down after many devoted years of service to the committee and the town. Their counsel will be sorely missed; we wish them well in their future endeavors.