

# Quality Municipal Service

## Financial Planning in Uncertain Times

Charles Foskett,

Town of Arlington, Finance Committee Member

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**The best-laid schemes o' mice an 'men Gang aft agley.  
- "To A Mouse", Scots Poet Robert Burns.**

# Topics

- Goals & Objectives.
- The Need for Planning.
- Critical Event Modeling.
- Quantifying Structural Deficits.
- Predicting Equitable Tax Capacity.
- Giving the Plan a *Long Life*.

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# Goals & Objectives

- Goals:
  - Quality school and town services (just enough).
  - Equitable and predictable taxation.
- Objectives – Transparency:
  - Long term financial planning (3-5 years).
  - Reserves for revenue & expense variances.
  - Define & identify structural deficits.
  - Forecast tax capacity in population.

# The Need for Planning

Many Towns:

- Do only one or two year planning
- Have a haphazard reserve policy.
- Experience broad community distrust of numbers from all sides for all reasons.
- Have little idea of what the tax burden really means to citizens other than *ad hoc* stories.
- Suffer from low reserves & structural deficits.
- Have no process for revenue growth.
- Suffer from repeated, wide variances in state income

# Elements of Long Term Plan

- Program objectives and quality standards.
- Baseline revenue & expense forecasts.
- Critical event modeling and **VARIANCE ANALYSIS**.
- Reserve policy.
- Tax capacity.
- Funding plan.

# An Example:

## Arlington Critical Event Modeling

- Fire stations: capital and operating.
- Thompson and Stratton rebuild.
- MSAB funding for school buildings.
- SBAB maintenance requirements.
- Pension fund performance.
- Under funded retiree health insurance liability.
- SPED operations and legislation.
- Changes in state aid to Town or Schools.
- Other...

# Quantifying Structural Deficits.

- Define impact in terms of operating standards.
- Define minimum duration versus short term fluctuation.
- Determine potential solutions; likely an exemption to Proposition 2½.
- Use multi-year plan to identify and track structural deficits.

# Predicting Equitable Tax Capacity.

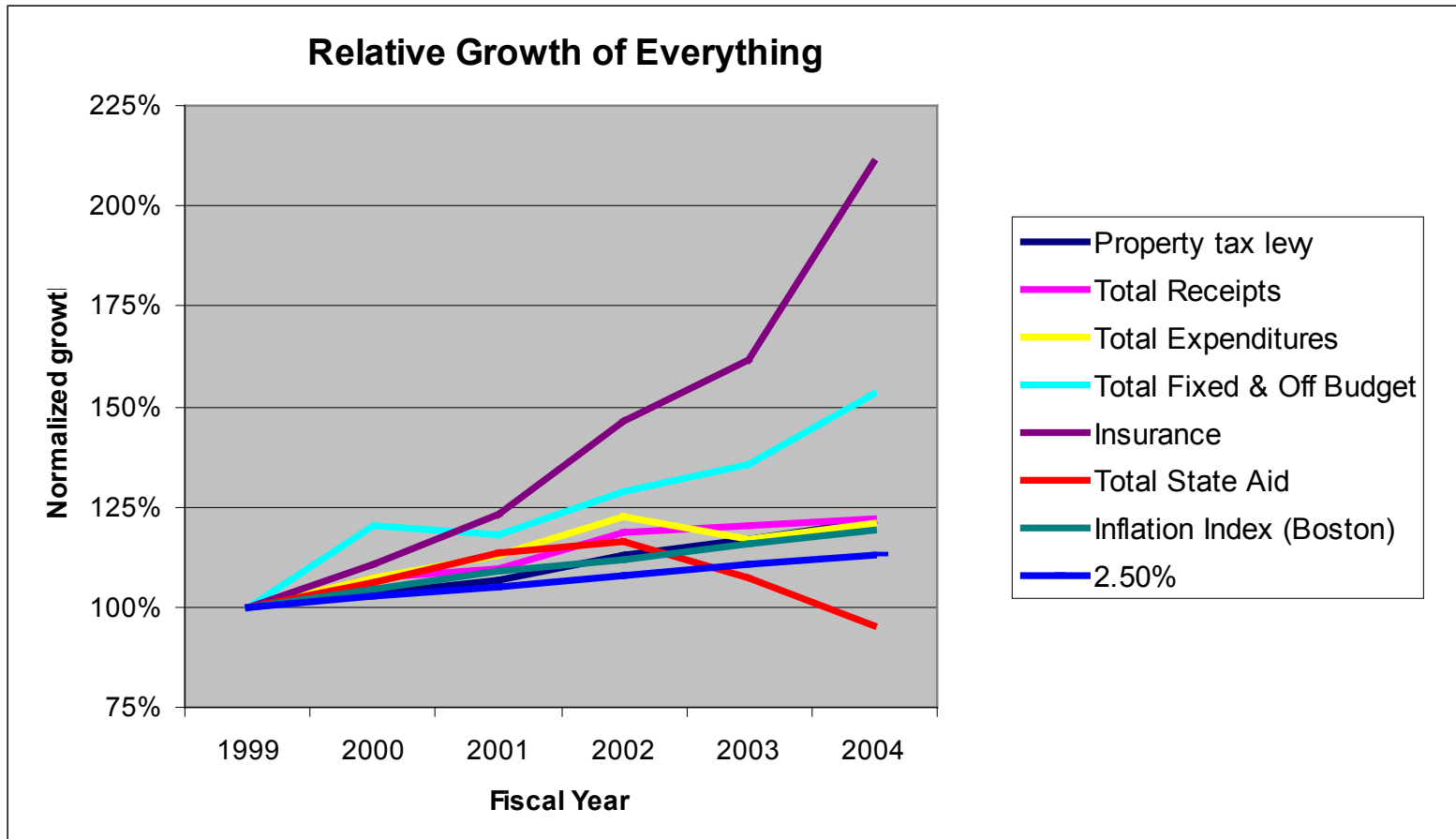
- Equitable Tax Capacity: Portion of resident income that can be allocated to property tax, based on (regression analysis of) norms.
- Norms:
  - Assessment distribution.
  - Age distribution.
  - Income distribution
  - Current tax burden



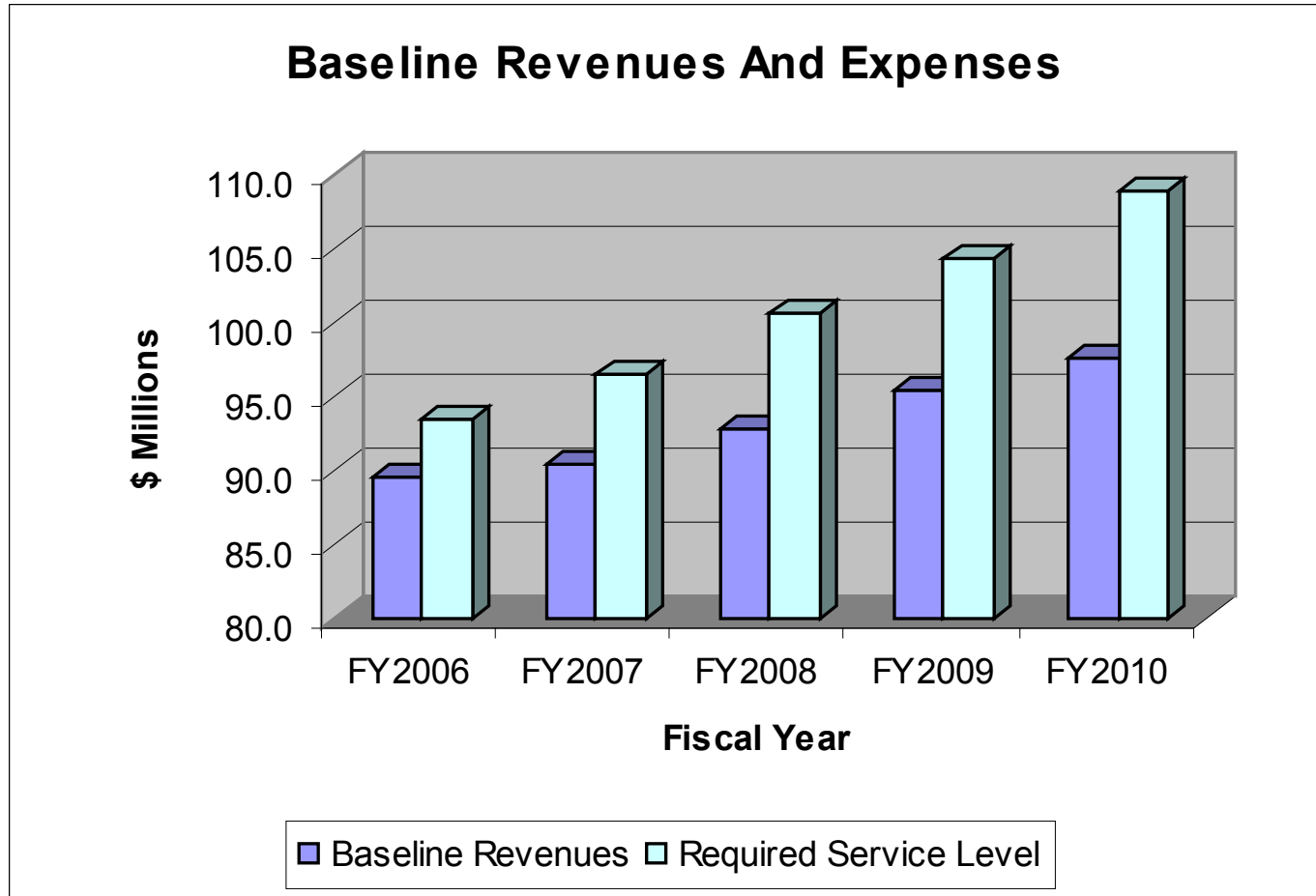
# Exemption to Prop 2½

- Case has to be made:
  - Based on structural deficit.
  - Based on infrequent recourse.
- Only possible if taxing capacity exists for a majority of the taxpayers:
  - Must be convinced that need is justified.
  - That the overall tax burden is affordable.
  - Some taxpayers may be “taxed out” after three debt exclusions and a Water & Sewer rate increase.

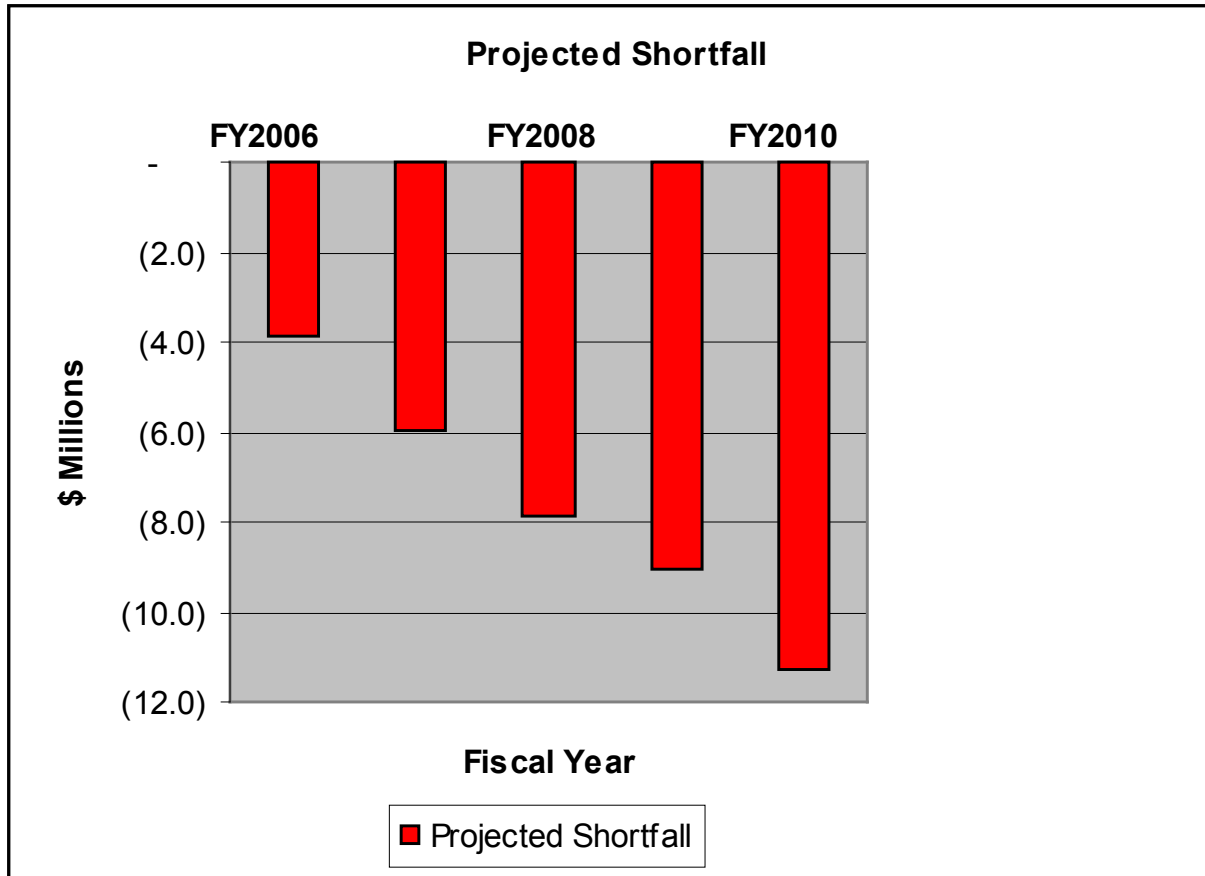
# Growth Trends Seen in Jan 2005



# 2005 Forecast: Revenue Lags Costs



# Forecast Structural Deficit: \$38 Million



# Taxing Capacity

- Local tax as % of Local Income
  - 1981 - 5.88%
  - 1999 - 3.52%
  - 2008 – 6.9% (estimate based on 2.5% income inflation)
  - In 2005 data argued for tax capacity but demographic changes not homogeneous.
  - In 2009 burden higher than pre-proposition 2.5 due to
    - Annual 2.5% increase
    - Three debt exclusions
    - 2005 override
- Levy increases have to offer some “hold harmless” characteristics for infirm and low income aged at least.

# Proposed Solution

## 2005 Solution:

- Fix a five year plan (the “Lyons Plan”).
- Fund the current year and reserves for a five year period.
- Avoid returning to taxpayers for additional overrides for planning period.
- Requires a substantial override (12%).

## 2010 Solution:

- State aid dropping
- Unemployment rate
- Tax capacity reduced

# Stabilizing with an Override: an Example

	<b>Operating Stabilization Fund</b>						
	2006	2007	2008	2009	2010	2011	2012
Structural Deficit	(1,000,000)	(1,100,000)	(1,210,000)	(1,331,000)	(1,464,100)	(1,610,510)	(1,771,561)
Deficit grow th	10%						
Levy Grow th rate	2.50%						
O/R to Sab Fund	1,250,000	1,281,250	1,313,281	1,346,113	1,379,766	1,414,260	1,449,617
Appropriate to Budget	1,000,000	1,100,000	1,210,000	1,331,000	1,464,100	1,610,510	1,771,561
Interest Rate	3.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Funds Flow :							
<b>Operating Stab Fund</b>							
Beginning Balance		268,750	481,828	624,956	685,499	649,304	500,529
From Tax levy	1,250,000	1,281,250	1,313,281	1,346,113	1,379,766	1,414,260	1,449,617
Interest Income	18,750	31,828	39,846	45,430	48,138	47,475	42,887
To General Fund	(1,000,000)	(1,100,000)	(1,210,000)	(1,331,000)	(1,464,100)	(1,610,510)	(1,771,561)
Ending Balance	268,750	481,828	624,956	685,499	649,304	500,529	221,472

# Lyons Plan - 2005

- Operating budget growth limited to 4%.
- Pensions and benefits growth at 7%.
- Increased State Aid.
- Override reserve fund.
- Protection for infirm and aged.



# Original Five Year Outlook

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
<b>I REVENUE</b>							
A. State Aid	14,790,887	15,600,746	15,980,823	16,480,823	16,980,823	17,480,823	17,980,823
School Construction Aid	2,332,555	2,269,282	2,546,280	2,572,570	2,572,570	2,572,570	2,572,570
B. Local Receipts	8,448,336	8,172,024	8,527,444	9,663,193	9,713,193	9,413,193	9,438,193
C. Free Cash	1,614,155	2,084,695	954,736	1,818,787	1,000,000	1,000,000	1,000,000
D. Overlay Reserve Surplus	400,000	400,000	500,000	400,000	400,000	400,000	400,000
E. Property Tax	73,525,801	76,778,350	78,896,711	80,907,070	83,116,422	85,393,396	87,723,784
F. Override Stabilization Fund	0				2,203,661	2,681,919	
<b>TOTAL REVENUES</b>	<b>101,111,734</b>	<b>105,305,097</b>	<b>107,405,994</b>	<b>111,842,443</b>	<b>115,986,669</b>	<b>118,941,901</b>	<b>119,115,370</b>
<b>II APPROPRIATIONS</b>							
A. Operating Budgets							
School	34,280,903	35,363,743	36,775,603	38,246,627	39,776,492	41,367,552	43,022,254
Minuteman	2,573,834	2,893,035	3,242,219	3,371,908	3,506,784	3,647,055	3,792,938
Town Personnel Services	19,289,018	19,880,738	20,926,813	21,763,886	22,634,441	23,539,819	24,481,411
Expenses	7,996,769	8,434,905	8,722,073	9,044,790	9,379,447	9,729,300	10,092,203
<i>Less Offsets:</i>							
Enterprise Fund/Other	1,486,247	1,535,102	1,843,186	1,916,913	1,993,590	2,073,334	2,156,267
Tip Fee Stabilization Fund	400,000	680,000	680,000	680,000	680,000	680,000	680,000
<b>Net Town Budget</b>	<b>25,399,540</b>	<b>26,100,541</b>	<b>27,125,700</b>	<b>28,211,762</b>	<b>29,340,298</b>	<b>30,515,785</b>	<b>31,737,348</b>
MWRA Debt Shift	5,475,486	5,593,112	5,593,112	5,593,112	5,593,112	5,593,112	5,593,112
B. Capital budget							
Exempt Debt Service	3,231,757	3,143,808	3,114,096	2,904,056	2,810,551	2,727,097	2,638,046
Non-Exempt Service	4,075,799	3,950,037	4,471,942	4,535,287	4,720,085	5,180,547	5,267,337
Cash	707,110	917,458	806,708	864,250	854,750	883,927	891,700
<b>Total Capital</b>	<b>8,014,666</b>	<b>8,011,303</b>	<b>8,392,746</b>	<b>8,303,593</b>	<b>8,385,386</b>	<b>8,791,571</b>	<b>8,797,083</b>
C. Pensions	6,345,069	6,496,453	6,706,716	6,974,985	7,253,985	7,544,144	7,845,910
D. Insurance	12,259,672	14,082,511	15,009,885	16,060,577	17,184,817	18,387,755	19,674,897
E. State Assessments	2,543,085	2,605,385	2,683,277	2,750,359	2,819,118	2,889,596	2,961,836
F. Offset Aid - Library & School	497,260	75,461	75,761	75,761	75,761	75,761	75,761
G. Overlay Reserve	902,675	1,194,924	600,000	600,000	800,000	600,000	600,000
H. Other Crt Jdgmnts/ Snow Deficit	499,606	413,733	206,000	300,000	300,000	300,000	300,000
I. Warrant Articles	2,319,938	374,896	894,975	950,916	950,916	950,916	950,916
J. Override Stabilization Fund		2,100,000	100,000	402,843			
<b>K. TOTAL APPROPRIATIONS</b>	<b>101,111,734</b>	<b>105,305,097</b>	<b>107,405,994</b>	<b>111,842,443</b>	<b>115,986,669</b>	<b>120,663,247</b>	<b>125,352,054</b>
BALANCE	(0)	(0)	(0)	(0)	0	(1,721,346)	(6,236,684)

# Override Math \$6,000,000

- \$4,000,000 to eliminate 2006 deficit.
- \$2,000,000 banked for 2+ years.
- Override reserve funds shortfalls in later years.

## Arlington Draft

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
<b>Reserve Balances</b>							
Free Cash	3,179,389	1,221,870	1,554,736	1,818,787	1,000,000	1,000,000	1,000,000
Stabilization Fund	2,215,051	2,375,252	2,470,262	2,569,072	2,671,835	2,778,709	2,889,857
Override Stabilization Fund	2,064,528	4,247,109	4,516,993	4,697,673	2,681,919	(0)	(0)
Tip Fee Stabilization Fund	3,429,498	3,545,977	3,007,817	2,448,129	1,866,054	1,260,697	631,124
Municipal Bldg Ins. Trust Fund	549,105	674,406	680,757	697,675	725,582	754,605	784,790
<b>TOTAL:</b>	<b>11,437,571</b>	<b>12,064,614</b>	<b>12,230,564</b>	<b>12,231,337</b>	<b>8,945,391</b>	<b>5,794,010</b>	<b>5,305,771</b>
% of General Fund Revenue	11%	11%	11%	11%	8%	5%	4%

# Arlington Multi-year Planning Tool

- Developed by Nancy Galkowski, Deputy Town Manager
- Five year and three year versions
- Compares current plan to “What if” Version
- Analyze revenue sensitivity

## Two Year View for Slide

	FY 2011					FY 2012			
	FY 2011	Dollar Change	Percent Change	WHAT IF?	PERCENT CHANGE	FY 2012	Percent Change	WHAT IF?	PERCENT CHANGE
<b>I REVENUE</b>									
A. State Aid	12,024,380	(1,278,899)	-9.61%	12,024,381	-9.61%	12,024,380	0.00%	12,024,380	0.00%
School Construction Aid	2,540,434	0	0.00%	2,540,434	0.00%	2,540,434	0.00%	2,540,434	0.00%
Federal Stimulus Funds	469,416			469,416					
IDEA Funds	749,327			749,327					
B. Local Receipts	8,700,000	121,400	1.42%	8,700,000	1.42%	8,750,000	0.57%	8,750,000	0.57%
C. Free Cash	582,051	(915,856)	-61.14%	582,051	-61.14%	500,000	-14.10%	582,051	0.00%
D. Overlay Reserve Surplus	200,000	(300,000)	-60.00%	200,000	-60.00%	200,000	0.00%	200,000	0.00%
E. Property Tax	85,289,801	2,182,443	2.63%	95,039,801	14.36%	87,519,674	2.61%	97,513,424	2.60%
F. Override Stabilization Fund	1,346,935	(1,395,441)		1,346,935					
<b>TOTAL REVENUES</b>	<b>111,902,344</b>	<b>(2,055,769)</b>	<b>-1.80%</b>	<b>121,652,345</b>	<b>6.75%</b>	<b>111,534,488</b>	<b>-0.33%</b>	<b>121,610,289</b>	

# Arlington Multi-year Planning Tool

- Analyze expenditure sensitivity

## Two Year View for Slide

		FY 2011				FY 2012				
		FY 2011	Dollar Change	Percent Change	WHAT IF?	PERCENT CHANGE	FY 2012	Percent Change	WHAT IF?	PERCENT CHANGE
<b>II APPROPRIATIONS</b>										
<b>A. Operating Budgets</b>										
	School	25,193,696	1,483,729		26,414,051		27,468,937		27,470,613	4.00%
	Fed Stimulus & IDEA Funds	1,218,743								
	Net School Budget	<b>26,412,439</b>	<b>1,014,313</b>	<b>3.99%</b>	26,414,051	4.00%	<b>27,468,937</b>	<b>3.99%</b>	27,470,613	4.00%
	Minuteman	3,213,983	123,615	-2.08%	3,213,983	4.00%	3,342,542	4.00%	3,342,542	4.00%
	Town									
	Personnel Services	22,033,587	847,446				22,914,930			
	Expenses	9,216,153	155,237				9,514,798			
	<b>Less Offsets:</b>									
	Enterprise Fund/Other	1,707,926	65,689	4.00%			1,776,244	4.00%		
	Tip Fee Stabilization Fund	500,000	(180,000)	-26.47%			450,000	-10.00%		
	<b>Net Town Budget</b>	<b>29,041,813</b>	<b>1,116,993</b>	<b>4.00%</b>	29,041,813	4.00%	<b>30,203,485</b>	<b>4.00%</b>	30,203,485	4.00%
	MWRA Debt Shift	5,593,112	0	0.00%	5,593,112	0.00%	5,593,112	0.00%	5,593,112	0.00%
<b>B. Capital budget</b>										
	Exempt Debt Service	2,618,094	(79,674)	-2.95%	2,618,094	-2.95%	2,529,197	-3.40%	2,529,197	-3.40%
	Non-Exempt Service	4,590,090	(317,213)	-6.46%	4,590,090	-6.46%	4,622,012	0.70%	4,622,012	0.70%
	Cash	651,917	(103,823)	-13.74%	651,917	-13.74%	717,000	9.98%	717,000	9.98%
	Minus Capital Carry Forward	(300,000)			(300,000)					
	<b>Total Capital</b>	<b>7,560,101</b>	<b>(547,663)</b>	<b>-6.75%</b>	7,560,101	-6.75%	<b>7,868,209</b>	<b>4.08%</b>	7,868,209	4.08%
<b>C. Pensions</b>		6,991,014	395,718	6.00%	6,991,014	6.00%	7,410,475	6.00%	7,410,475	6.00%
<b>D. OTHER INSURANCE</b>		1,846,250	39,900	2.21%	1,932,795	7.00%	1,975,488	7.00%	2,068,090	7.00%
	<b>HEALTH INSURANCE ONLY</b>	17,631,361	1,418,000	8.75%	17,348,297	7.00%	18,865,556	7.00%	18,562,678	7.00%
	<b>SPECIAL ED.- IN DISTRICT</b>	6,833,015	262,808	4.00%	6,833,015	4.00%	7,106,336	4.00%	7,106,336	4.00%
	<b>SPECIAL ED.- OUT-OF-DISTRICT</b>	5,836,529	224,482	4.00%	5,834,919	3.97%	6,069,990	4.00%	6,068,316	4.00%
	<b>SPECIAL ED.- TRANSPORTATION</b>	910,000	35,000	4.00%	910,000	4.00%	946,400	4.00%	946,400	4.00%
<b>E. State Assessments</b>		2,706,525	66,013	2.50%	2,706,525	2.50%	2,774,188	2.50%	2,774,188	2.50%
<b>F. Offset Aid - Library &amp; School</b>		63,036	0	0.00%	63,036	0.00%	63,036	0.00%	63,036	0.00%
<b>G. Overlay Reserve</b>		600,000	(233,600)	-28.02%	600,000	-28.02%	600,000	0.00%	600,000	0.00%
<b>H. Other Crd Jdgmnts/ Snow Deficit</b>		700,000	(1,288,000)	-64.79%	700,000	-64.79%	700,000	0.00%	700,000	0.00%
<b>I. Warrant Articles</b>		646,514	0	0.00%	646,514	0.00%	646,514	0.00%	646,514	0.00%
<b>J. Override Stabilization Fund</b>										
<b>K. TOTAL APPROPRIATIONS</b>		<b>116,585,692</b>	<b>2,627,579</b>	<b>2.31%</b>	116,389,174	2.13%	<b>121,634,267</b>	<b>4.33%</b>	121,423,993	4.33%
<b>BALANCE</b>		<b>(4,683,348)</b>			<b>5,263,172</b>		<b>(10,099,780)</b>		<b>186,296</b>	

# Arlington Multi-year Planning Tool

- Track Reserve Balances
- Determine use of reserves
- Determine additional revenues, e.g., state aid or override

## Two Year View for Slide

		FY 2011				FY 2012				
		FY 2011	Dollar Change	Percent Change	WHAT IF?	PERCENT CHANGE	FY 2012	Percent Change	WHAT IF?	PERCENT CHANGE
<b>Reserve Balances</b>										
	Free Cash	1,000,000			1,000,000		1,000,000		1,000,000	
	Stabilization Fund	2,544,270			2,544,270		2,595,155		2,595,155	
	Override Stabilization Fund	0			5,263,172		0		10,817,902	
	Tip Fee Stabilization Fund	1,401,455			1,401,455		979,484		979,484	
	Municipal Bldg Ins. Trust Fund	567,608			567,608		578,960		578,960	
	<b>TOTAL:</b>	<b>5,513,333</b>			<b>10,776,505</b>		<b>5,153,600</b>		<b>15,971,502</b>	
	% of General Fund Revenue	5%			9%		5%		13%	
	<b>INCREASE IN TAX LEVY:</b> Place an amount of projected increase in tax levy in highlighted cell				9,750,000					

# The Math in FY 2011

- State aid drop
  - 15% down in 2010
  - Another 15% in 2011?
- New 9c cuts pending for FY 2010.
- Possible stabilization of health care costs through GIC.
- Major drop in PRIT fund increases pension liability by \$53 million and increases annual pension rate of growth by at least 50%.
- Local real estate taxing capacity at or near limit.
- Modest relief from new hotel and other local taxes.
- Total deficit outlook \$4,800,000 in FY11, \$10,000,000 in FY 12

# The Best Laid Schemes...

- Annual Prop 2.5 increase 2.5%
- O/R base increase 10%.
- Effective compound increase 4.5%.
- Drop in state aid 15% - 30% over several years.
- Questions:
  - Can we plan for five years in view of state level instability?
  - Can local residents bear burden of 10% to 13% increase?
  - Are state and local pension strategies fundamentally flawed?
    - Abandon guaranteed pension income?
  - Are local and state government living beyond their means?
    - Entitlement programs baked in to state budgets?
  - Abandon union shop regulations and take similar drastic measures on entitlement programs?

## What Is Arlington Doing Now

- BoS have convened a “financial summit”.
- Quarterly public meetings to develop long-term strategy.
- Town, School, FinCom, CPC and Public.
- Collect input on expenses, revenues, value of services.
- Prepare next five-year plan.



# Conclusion

- You can have a five-year plan for operating on one, single, starting override.
- If the plan is done right, people can manage to live within it.
- Arlington is an example of a five-year plan that worked, and despite a major fiscal crisis at the state level, managed to stick with the five-year plan and may finish with a surplus.
- The on-going fiscal crisis is turning out to be a challenge of the highest order for management, fiscal planning and public priorities.
- Arlington's enhanced five year planning tool and prior long-range planning process is proving invaluable in the current fiscal environment.

# Thank You

Charlie Foskett [charlie.foskett@foskettco.com](mailto:charlie.foskett@foskettco.com)

Document <http://www.foskettco.com/atfc-oct-2009>