



Town of Lunenburg

Financial Summit Presentation

November 13, 2008

[Why Forecast?]

- Best Financial & Management Practices
- Required by Town's Charter, Section 4-2 (s)
- Bond Rating Agencies are favorably impressed with forecasting

[Forecasting v. Budgeting]

- Forecast provides a long-term and comprehensive financial perspective on service delivery using both known information & hypothesis
- Budget is a specific plan detailing service delivery in the coming fiscal year

Goals of Forecasting

- Gain a Long-term perspective/ basis for planning
- Determine whether fiscal problems are on the horizon
- Time to plan for change, favorable or unfavorable
- Reinforce the need for long-range considerations during the annual budget process

Forecasting- Key Concepts

- Projections are not inalterable prophecies, but merely guidelines which may be adjusted as necessary
- Once you develop baseline projections, it's relatively easy to adjust the underlying assumptions to address issues
- Forecasted shortfall does imply that some action will be taken, or at least planned, to avoid the financing problem

[Forecasting Guides & Tools]

- MGL, Town Bylaws, other Generally Accepted Standards
- Financial Policies
- Trends Analysis
- Debt Service Schedules
- Union Contracts
- Assumptions, general or specific

MGL, Town Bylaws, or other Generally Accepted Standards

- MGL governs labor, employee benefits, & requires delivery of certain services
- Town Bylaws require delivery of certain services; enforcement of bylaws
- GAAP/ GASB standards, minimum manning standards, etc.

Financial Policies

- Financial Management Policies & Objectives adopted by the Board of Selectmen July 2004

- Address:
 - Operating budgets vs. Capital Program
 - Free Cash
 - Stabilization Fund
 - Borrowing

Trends Analysis

- Financial Trend Monitoring Report, November 2008, Full Copy in Handout
- Evaluates Financial Condition, through analysis of indicators.
 - Indicators identify the factors that affect financial condition and arranges them to facilitate analysis and measurement
- Review of last 5 years worth of data
- Forecasting relies heavily on trends analysis as overall trends are generally linked together
- Should be updated & expanded if possible, on an annual basis

Trends Analysis-

Evaluating Financial Condition

- What is Financial Condition?
- Cash Solvency: ability to generate enough cash over 30 to 60 days to pay bills
- Budgetary Solvency: ability to generate enough revenues over a normal budgetary period to meet expenditures and not incur a deficit

Trends Analysis-

Evaluating Financial Condition

- Long-run Solvency: ability over time to pay all the costs of doing business, including annual expenditures, as well as those that will appear only in the years in which they must be paid, such as pension costs, other retiree benefits, and debt service.

Trends Analysis-

Evaluating Financial Condition

- Service-Level Solvency: ability to provide services at the level and quality that are required for the health, safety, and welfare of the community and that its residents desire.
- A government lacking service-level solvency may in all other respects be financially sound, but can't provide adequate levels of a service (fire protection) without causing a budgetary problem.

Trends Analysis-

Evaluating Financial Condition

- Broadly defined as a local government's ability to finance its services on a continuing basis.
- Specifically defined as ability to:
 - maintain existing service levels
 - withstand local and regional economic
 - meet the demands of natural growth, decline & change

Trends Analysis-

Obstacles to measuring financial condition

- The nature of a public entity
- The state of municipal financial analysis
- The character of municipal accounting practices

Trends Analysis-

Obstacles to measuring financial condition

- Nature of a public entity
 - Profit is not a motive
 - Efficiency is only one of many objectives
 - Objectives can only be measured subjectively

Trends Analysis-

Obstacles to measuring financial condition

- **Municipal Financial Analysis**
 - Generally focuses on cash and budgetary solvency
 - Lack of normative standards for the financial characteristic of a local government...benchmarks must be considered with other subjective data

Trends Analysis-

Obstacles to measuring financial condition

- Municipal Accounting Practices
 - Systems stress legal compliance
 - Developed to insure auditability
 - Financial statements track cash in/ cash out
 - Systems to track cost of providing service have not been established

Trends Analysis-

What is the Financial Trends Monitoring System?

- A management tool
 - pulls together information from budgets and financial reports
 - combines it with economic and demographic information
 - Creates a series of indicators
 - Over time can be used to monitor changes in financial condition

Trends Analysis-

What is the Financial Trends Monitoring System?

- Purpose
- Bring issues to the attention of decision makers
- Give early warning of emerging problems/
highlight corrective action
- Introduce the need for long-range
considerations during annual budget
process
- Provide a starting place for policy
development

Trends Analysis-

What is the Financial Trends Monitoring System?

- Framework
- Formula
- Warning Trend
- Local Trend
- Description of Indicator
- Analysis

Trends Analysis- Revenue Indicators

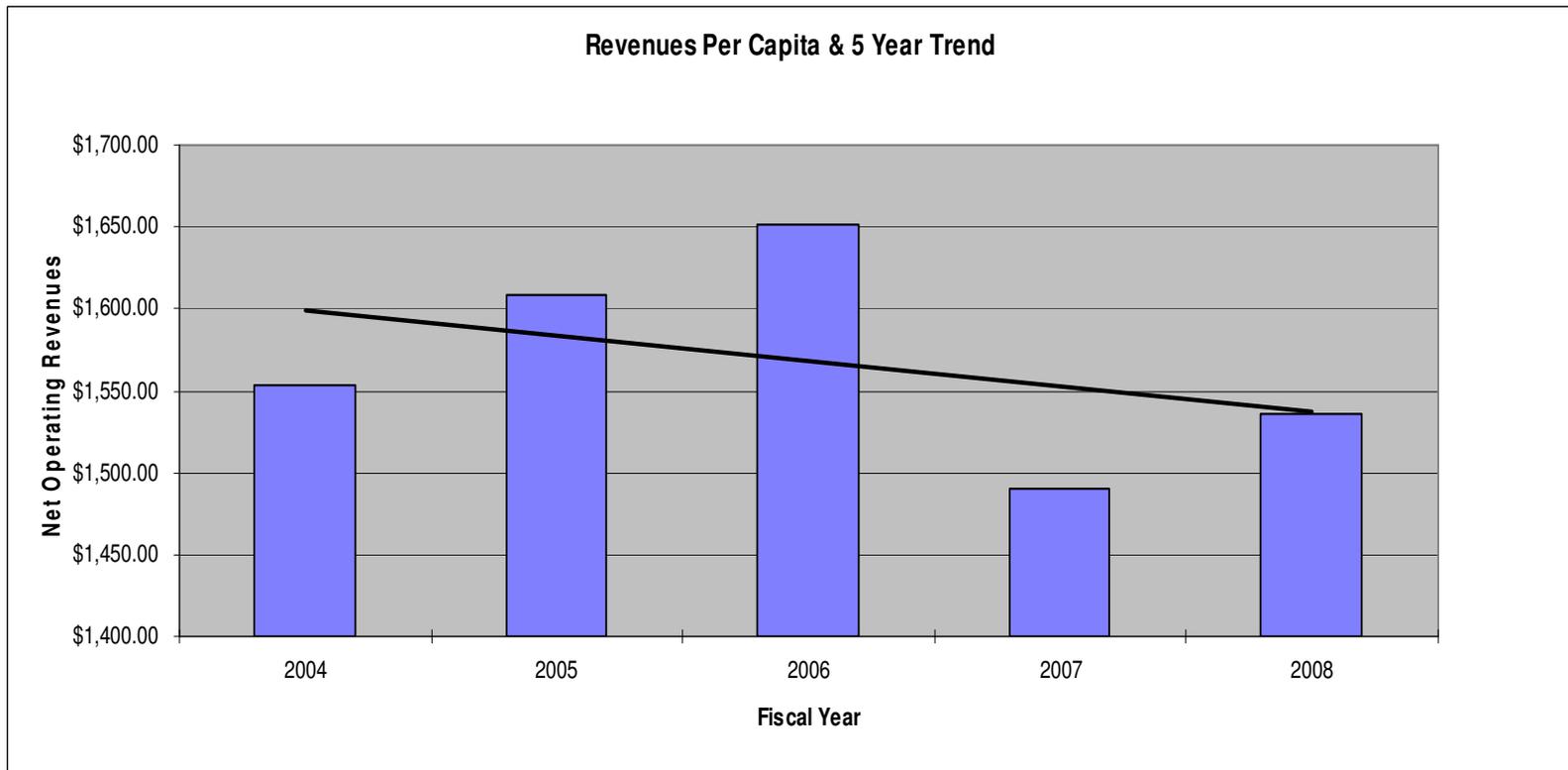
- Determine the capacity of local government to provide services
- Consider flexibility, dependability, diversity, administration & elasticity
- Flexible to adjust to changing conditions
- Balance between elastic & inelastic to protect against economic cycles

Trends Analysis- Revenue Indicators

- Analyzing revenue structure helps to identify problems
 - Deterioration of revenue base
 - Practices or policies that affect revenue yield
 - Poor revenue estimating techniques
 - Inefficiencies in collection and/ or administration
 - User fees that do not cover cost of providing service

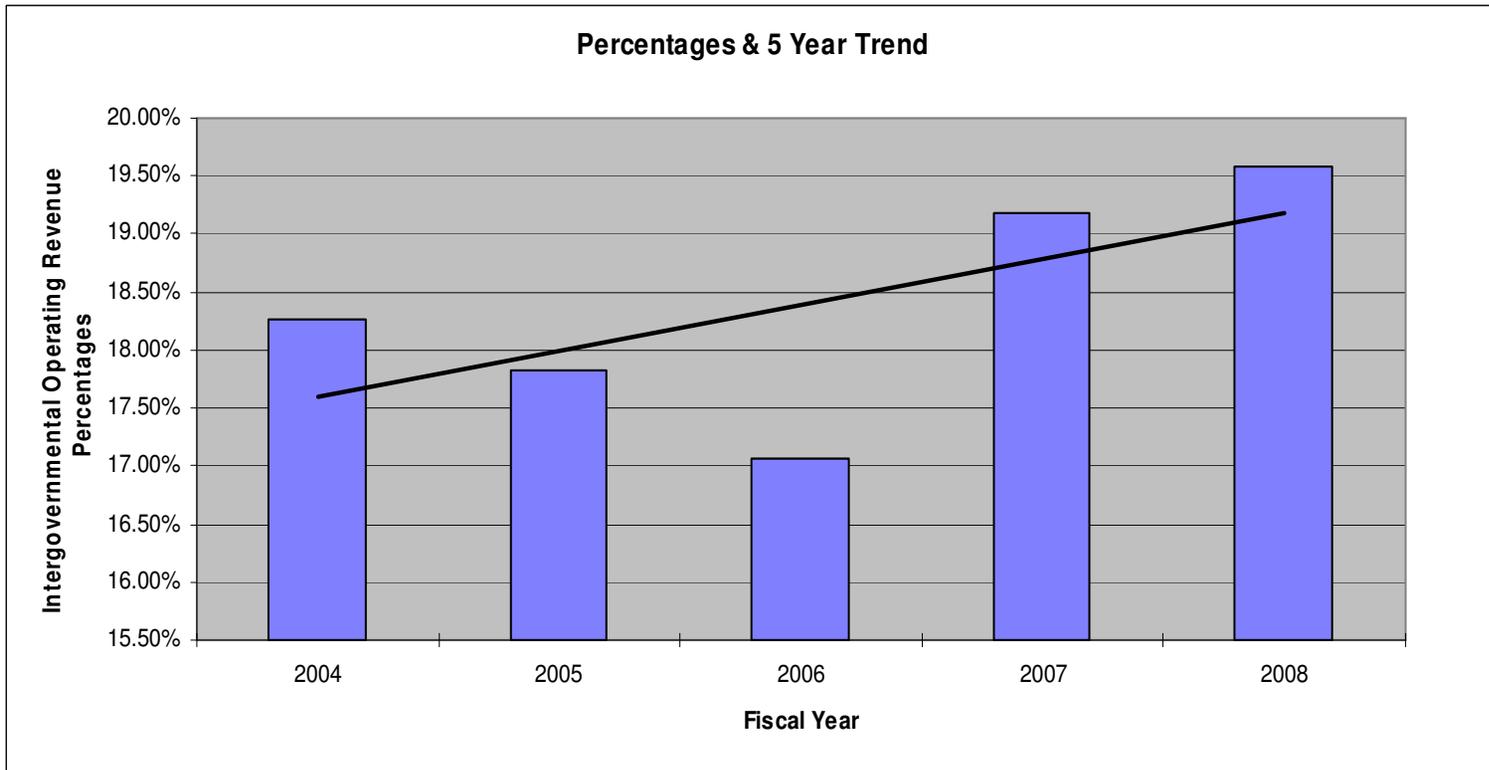
Trends Analysis-

Revenue Indicators- Revenue per Capita

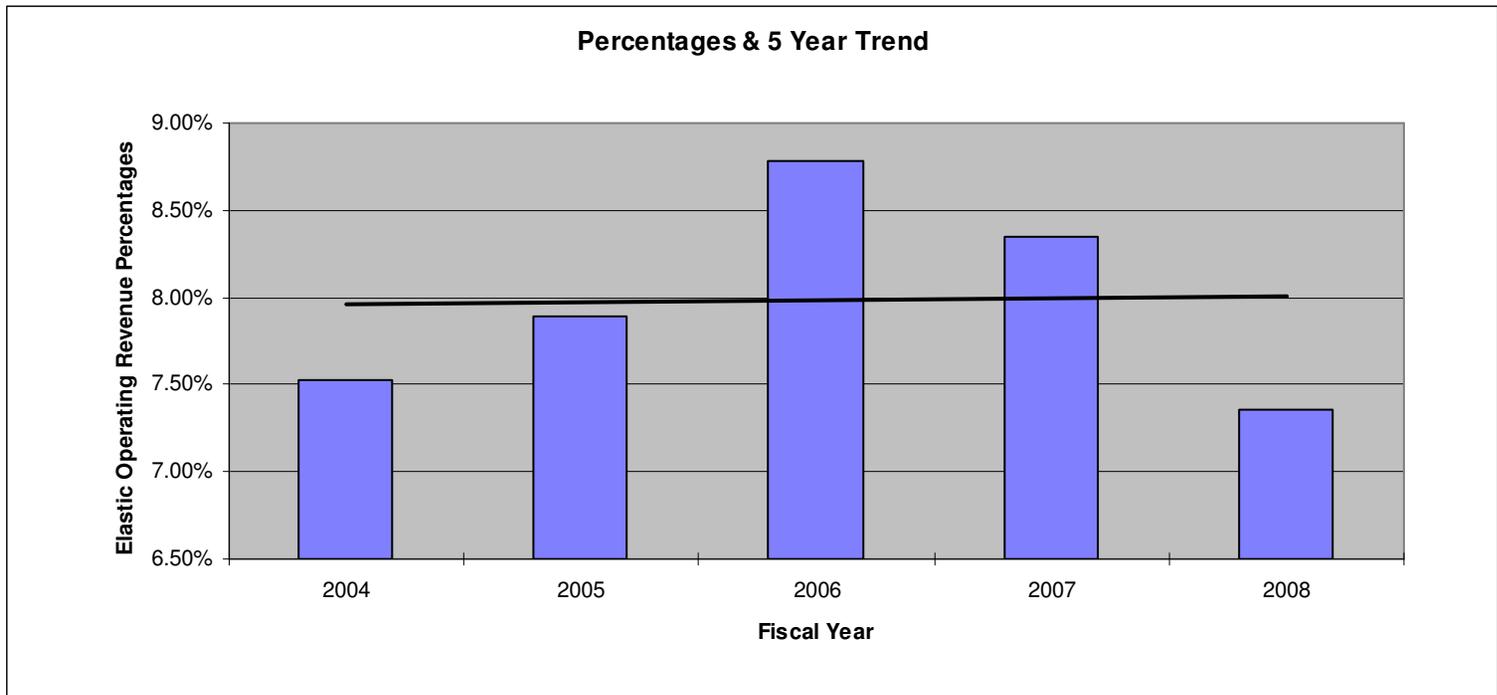


Trends Analysis-

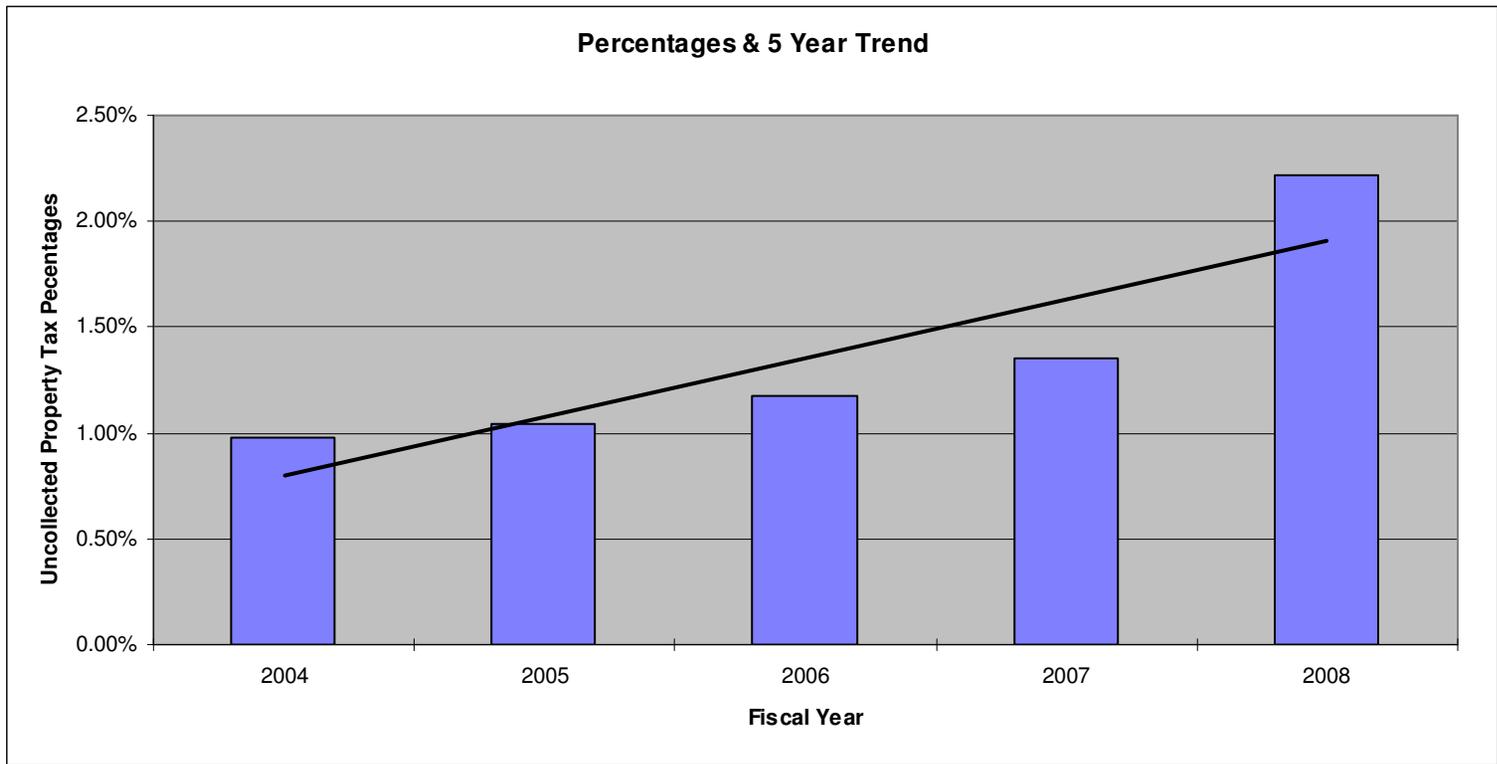
Revenue Indicators- State Aid



Trends Analysis- Revenue Indicators- Local Receipts



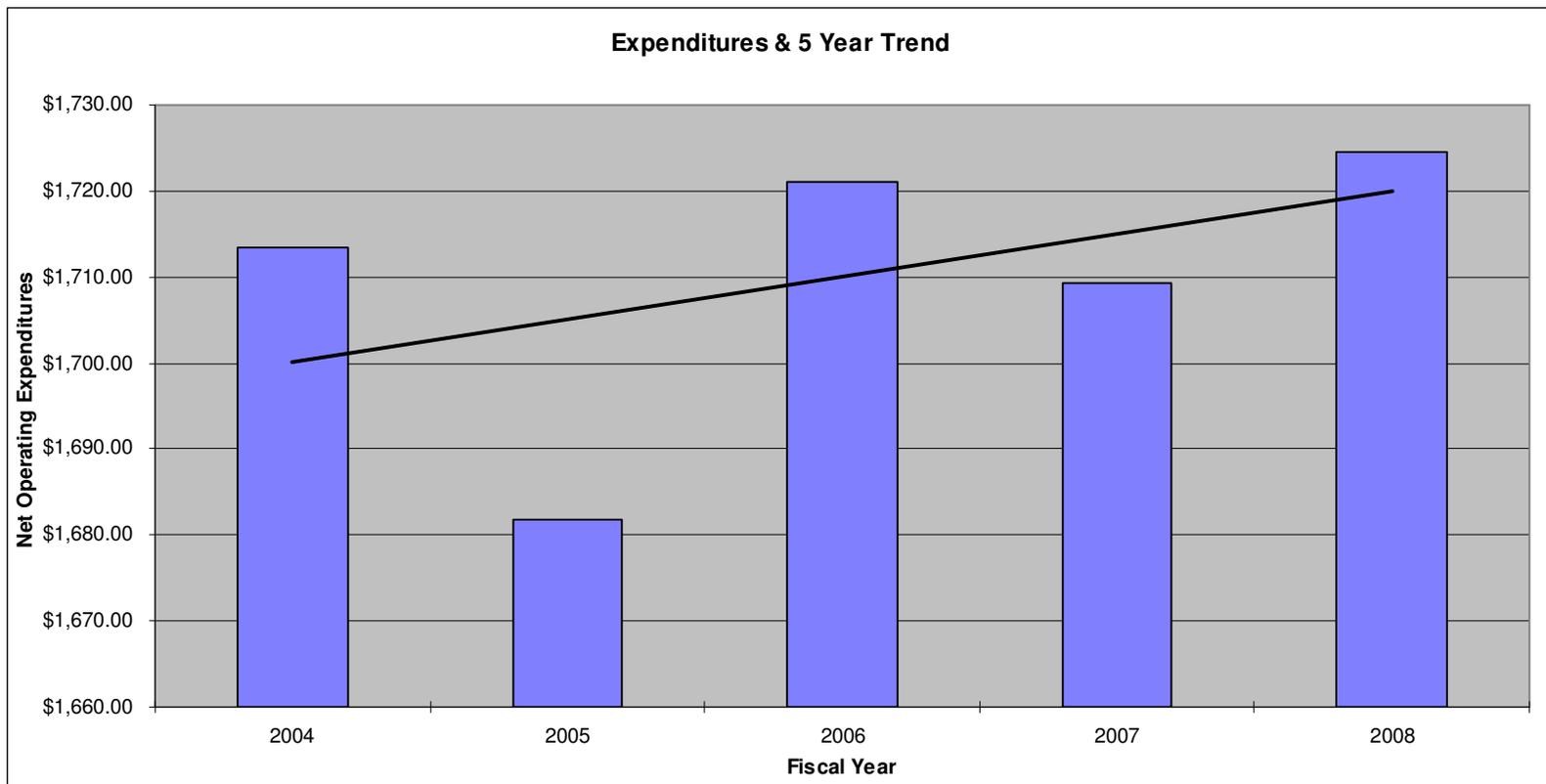
Trends Analysis- Revenue Indicators- Uncollected Property Tax



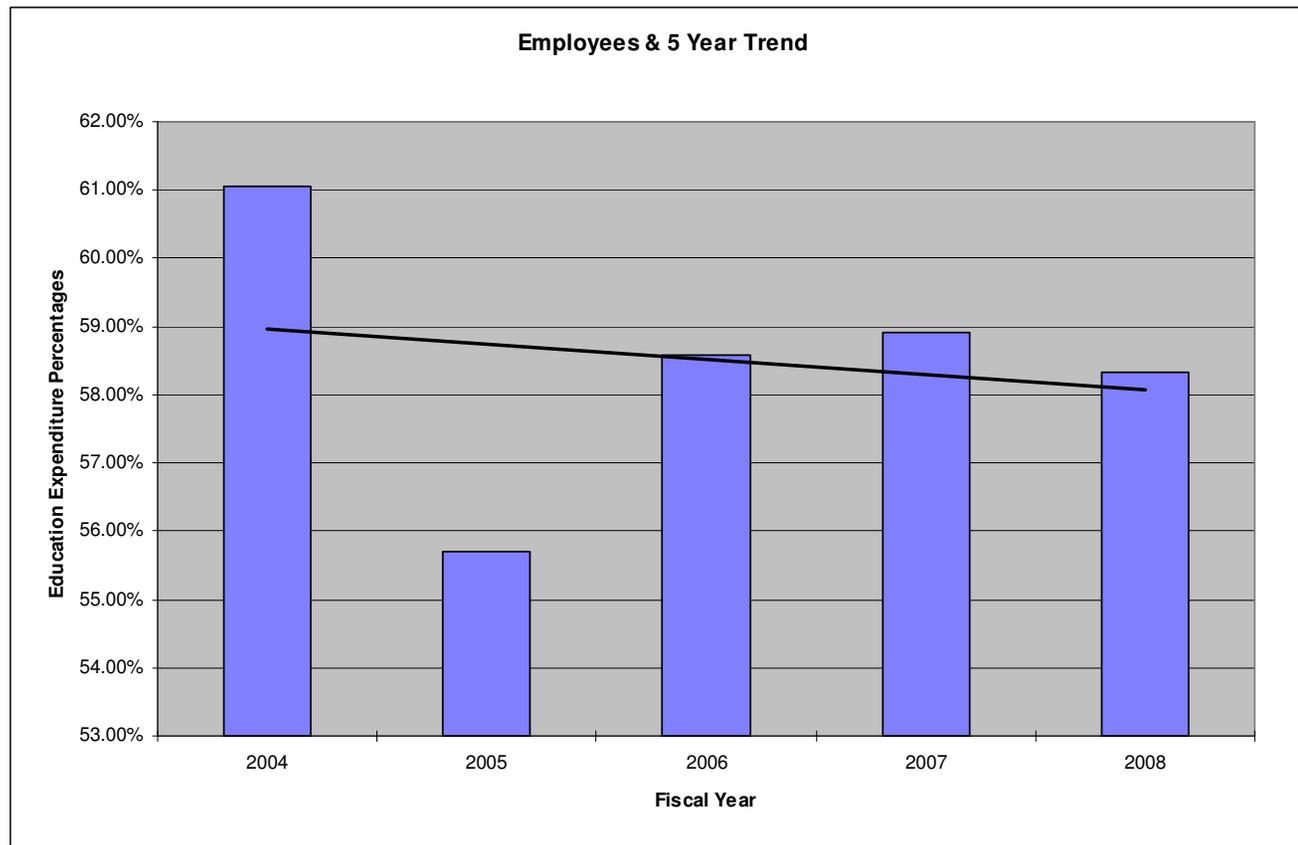
Trends Analysis- Expenditure Indicators-

- A rough measure of service output
- Expenditure flexibility
- Seems unlikely that expenditure growth would exceed revenue growth
 - One-time monies
 - Borrow for operating capital
 - Reserve Funds
 - Defer long-term/ future obligations

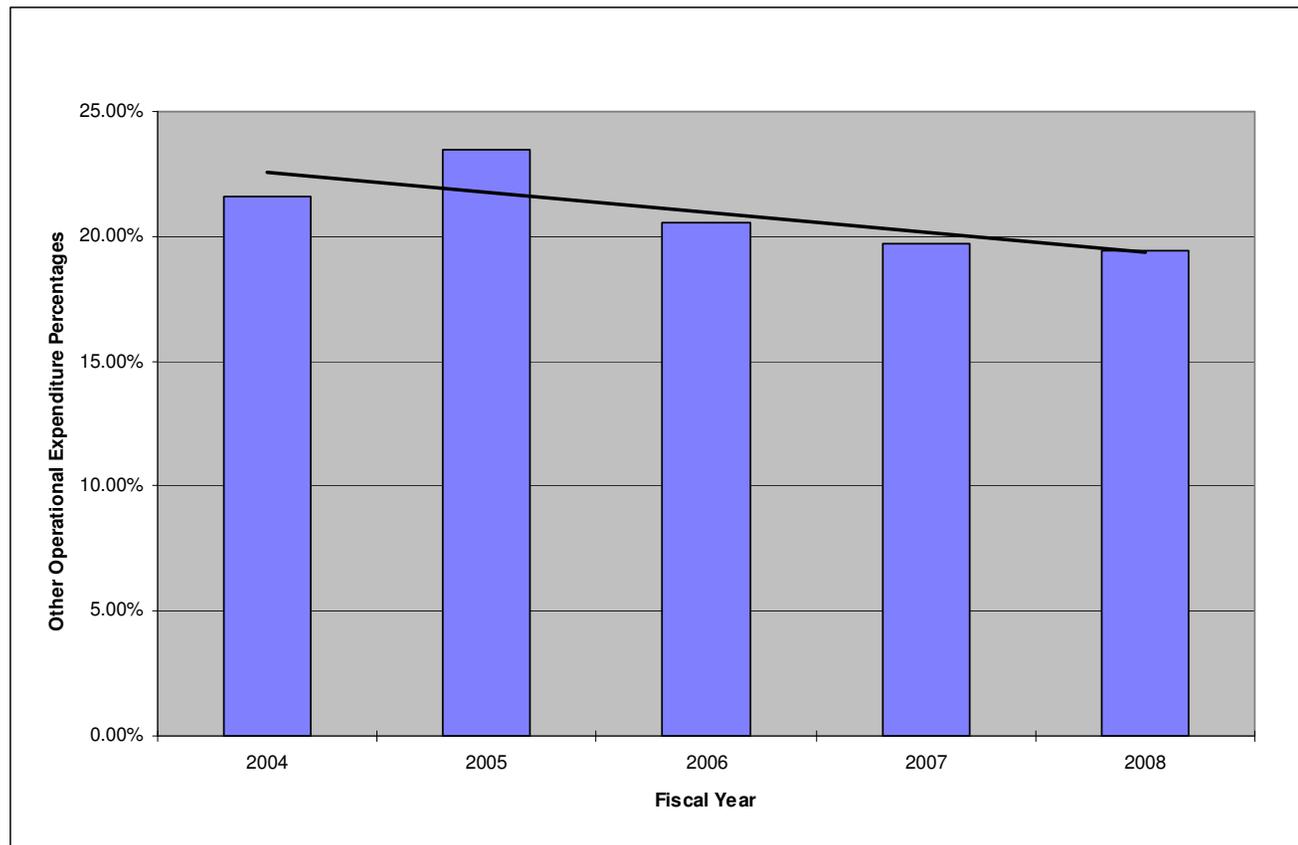
Trends Analysis- Expenditure Indicators- Expenditures per Capita



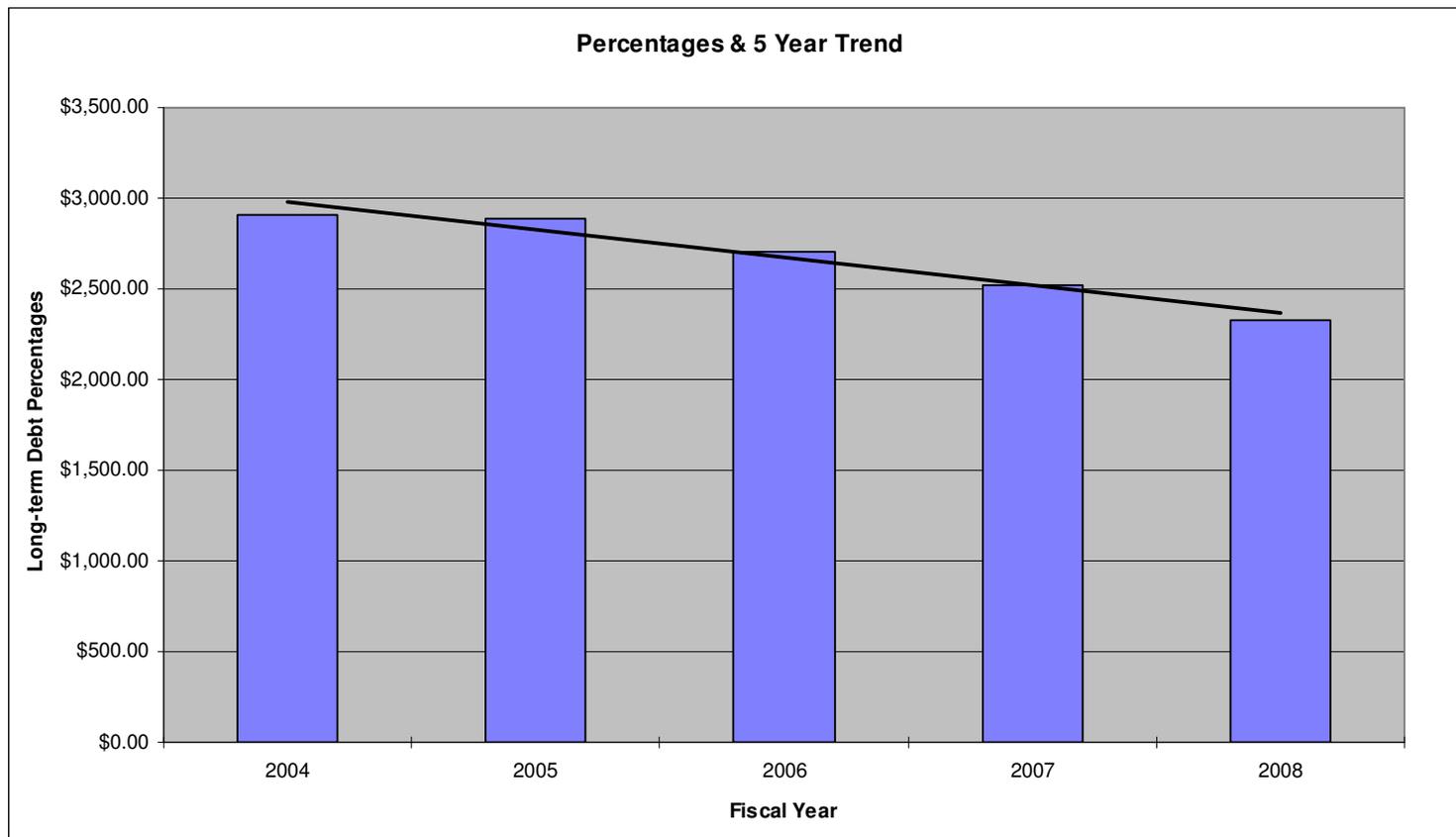
Trends Analysis- Expenditure Indicators- Education



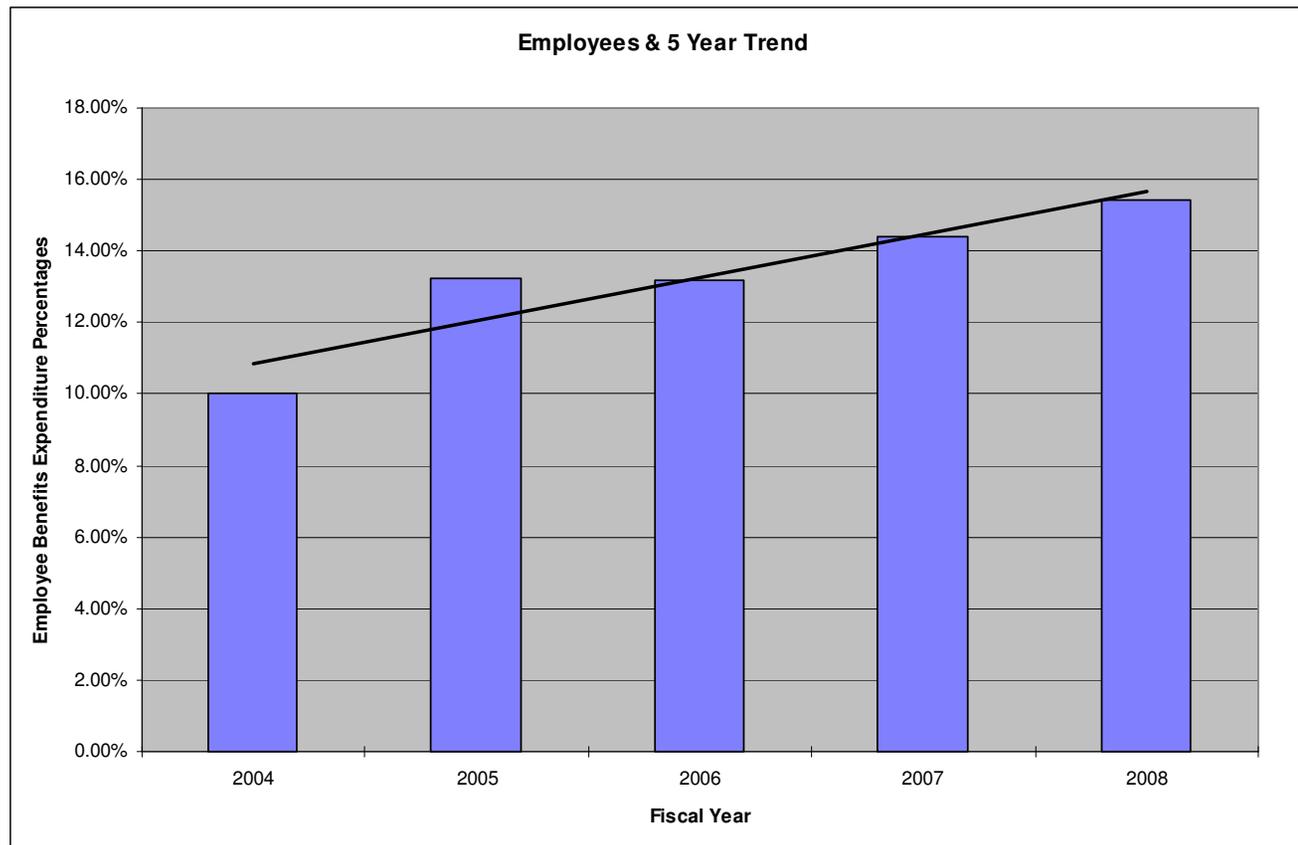
Trends Analysis- Expenditure Indicators- Other Operational



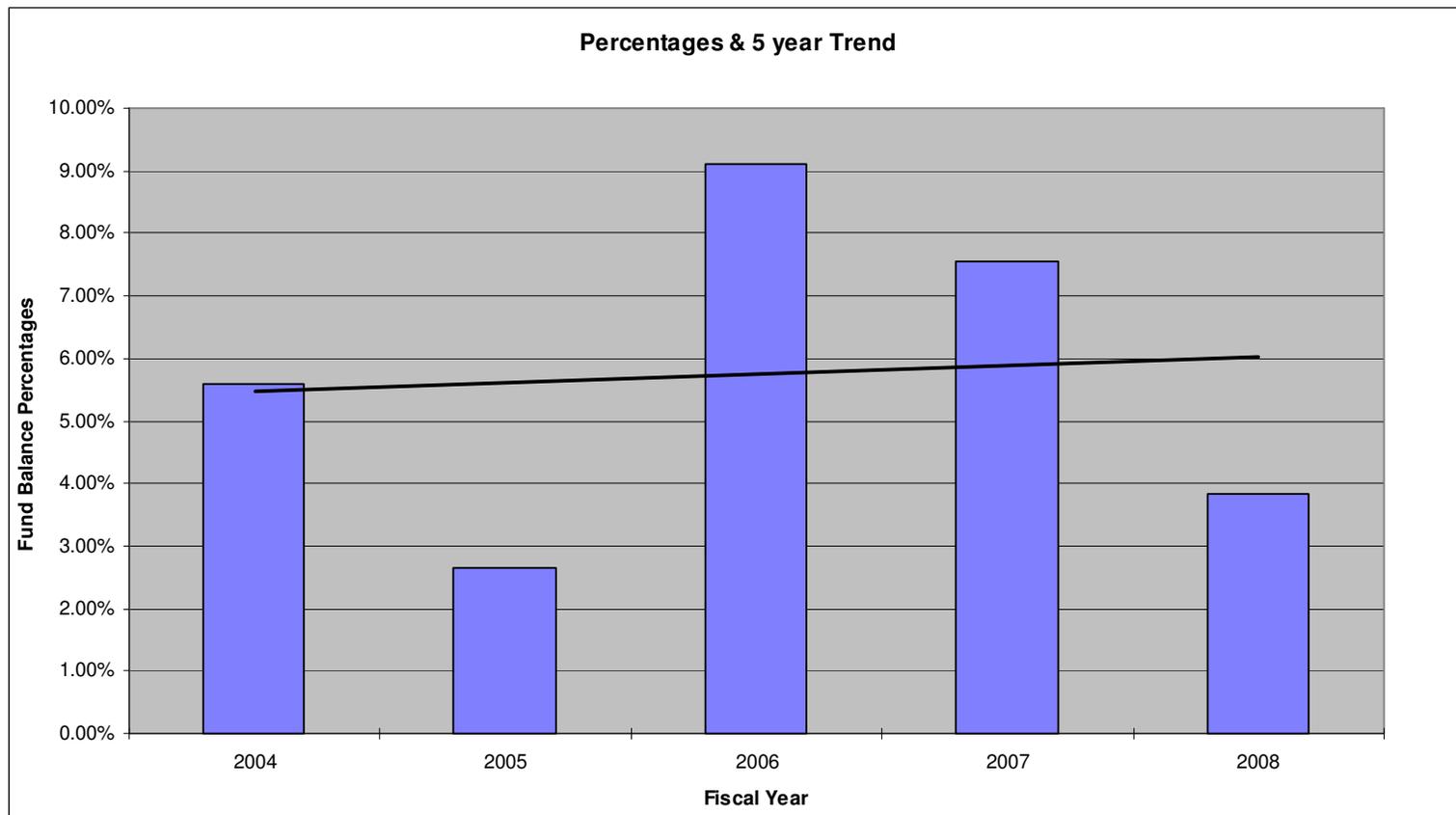
Trends Analysis- Expenditure Indicators- Debt Service



Trends Analysis- Expenditure Indicators- Employee Benefits



Trends Analysis- Operating Position- Fund Balance



Trends Analysis- Conclusions

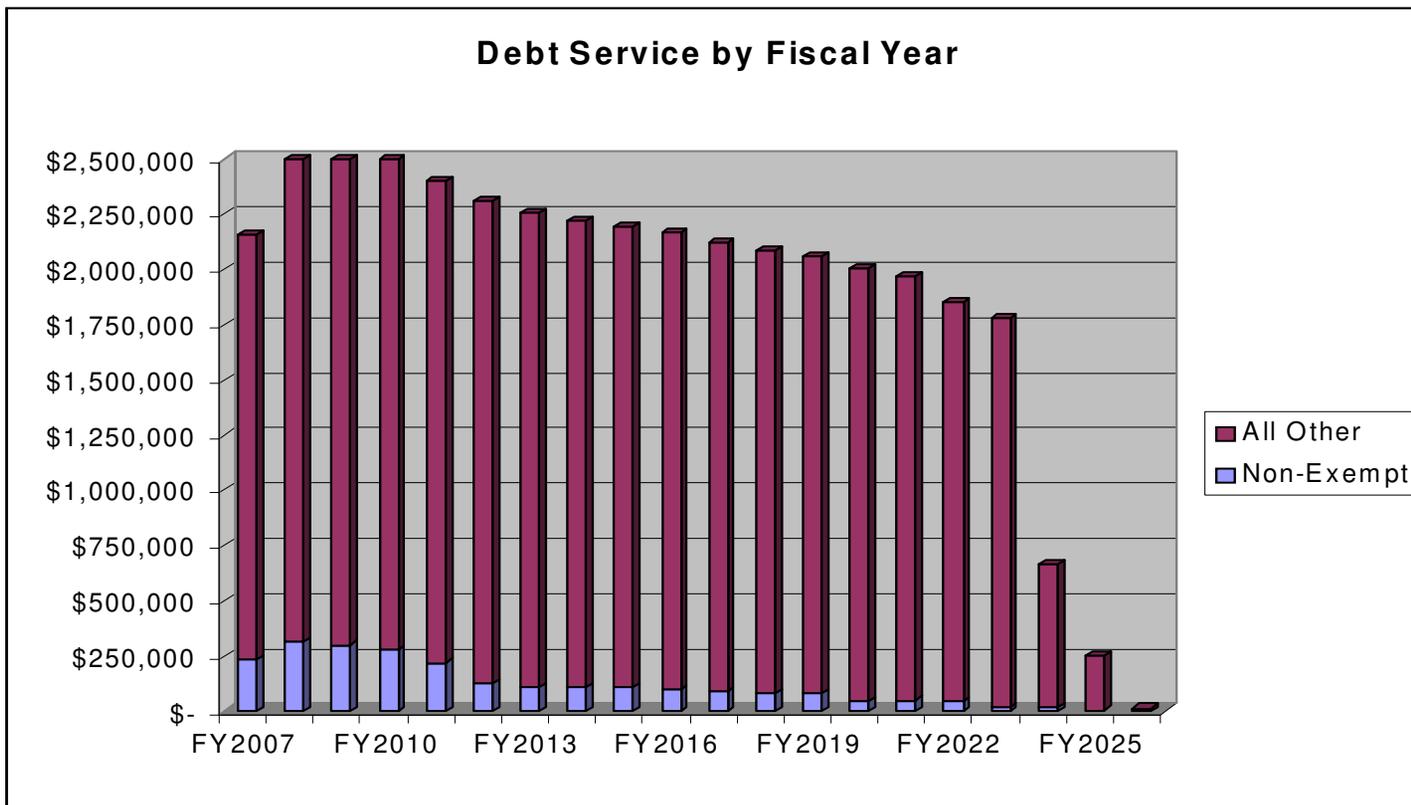
- Important time to have done analysis
- Results would have been different, perhaps significantly different if done 5 years ago
- Important to continue to monitor trends
- Good time to review current practices, & make adjustments to insure fiscal stability

Debt Service

- Fixed, non-discretionary costs once issued
- Poorly designed or poorly managed bond issues can burden taxpayers with excess interest costs over the life of the issue.

Bond Re-funding (Refinancing) opportunities should be reviewed annually
To determine if savings may be realized.

Debt Service



[Union Contracts]

- IAFF, PFFM, Fire 2008
- IBPO, Police 2008
- AFSCME, Clerical 2008
- IUONA, Public Works (2) 2009
- Various School 2009
- AFL-CIO, Dispatchers 2010

Assumptions for Financial Forecast- FY2010 - 2014

- Service Levels
- Future of the local economy
- Revenue structure
- Cost of services

A detailed list of assumptions is provided in the packet

[Assumptions- Service Levels]

- Forecast document, to the extent possible, will adhere to adopted financial policies
- Forecast document will honor all contractual obligations, such as debt service schedules and union contracts
- Level of services currently being offered will continue to be offered, and delivered in the same manner, throughout the life of the forecast
 - No increase in personnel (Public Safety & Public Works)
 - No long term plan for implementing Capital Improvement Plan

Assumptions- Future of the Economy

- No basis for assuming that the economy will change significantly during the life of the forecast
- Significant concern over the level of State Aid
- Concern over the level of New Growth

Assumptions- Revenue Structure

■ Revenues

- Property Tax- 2 ½% increase, lower New Growth
- State Aid- 10% reduction in major categories (-\$660K)
- Available Funds- no use of Stabilization
Fund to fund operating costs
- Local Receipts- 10% reduction in MVX; decrease in Building Permits (currently off by 50%), overall reduction of (-\$270K)
- Enterprise Revenue- will continue to fully fund enterprise operations

[Assumptions- Cost of Services]

- Personnel Costs- union & non-union- 3.5% overall
- Expenses
 - General
 - Overall expenses to increase 2.5%
 - Utilities to increase 5%
 - Department Specific
 - Recycling = Cover full amount of program (inc. \$40K)
 - Snow & Ice =5%
 - Health Insurance & Pension = 7.5%
 - Education Expenses = 5%, to account for loss of Shirley Tuitions

Forecast- to provide Level Services

Line Code & Description	FY 2009 Appropriated	FY2010	FY 2011	FY 2012	FY 2013	FY 2014
Total: Expenditures	\$27,977,426	\$28,658,239	\$29,728,915	\$30,934,843	\$32,258,015	\$33,644,633
Projected Revenue	\$ 27,977,426	\$26,946,529	\$27,713,381	\$28,642,821	\$29,567,967	\$ 30,428,870
Surplus/ Deficit	\$ -	\$ (1,711,710)	\$ (2,015,535)	\$ (2,292,022)	\$ (2,690,049)	\$ (3,215,764)
Percentage Surplus/ Deficit		-6.12%	-7.48%	-8.27%	-9.39%	-10.88%

Projected Deficits:

FY2010	1,711,710
FY2010	2,015,535
FY2011	2,292,022
FY2012	2,690,049
FY2013	3,215,764

[Forecast- Conclusions]

- We have fiscal issues to address
- We can't sustain this level of spending
- We must review all services to see if they are being provided in the most economical and efficient manner
- We must get public input to determine if the level of service provided is meeting the needs of the community

Action Plan

- Review:
 - Past & current service levels
 - Long-term priorities
 - Possible consolidations
 - Possible service reductions
 - Fee Structure
- FY2010 Budget Instructions
 - Level Funded
 - Level minus 5%
 - Level minus 10%

[Timetable]

- 12/12/08 Budget Requests Due
- 02/15/09 CAFO Preliminary Budget Recommendation Due
- 02/17/09 Preliminary Budget Public Hearing
- March & April Finance Committee Reviews PB & makes recommendation
- 05/02/09 Annual Town Meeting