

**TOWN OF WELLESLEY
Advisory Committee**



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

**Chair
Morris W. Kellogg**

**Vice Chair
David S. Mooney**

**Secretary
Judith B. Donnelly**

To: All Town Boards, Committees, and Departments

From: Advisory Committee, Rusty Kellogg, Chair

Date: October 10, 2008

Re: FY10 Capital and Operating Budgets

In recent years Advisory has sent two fall letters, one outlining the capital budget schedule, and one providing guidance for operating budgets. This year, because of the time pressure of preparing for an early Special Town Meeting, as well as a need for an accelerated and focused process to prepare FY10 Budgets for the Annual Town Meeting, this will be our only letter prior to meeting with each of you in the coming weeks and months.

Background

These are challenging times. As we write this letter, credit markets are dysfunctional, debt and equity markets are in turmoil, and the economy appears to be sliding into recession. The Commonwealth's resources for state aid to towns are below budget and our expectation for Wellesley's near-term financial plan is not as optimistic as it was only six months ago. Developing our capital and operating budgets under this cloud of uncertainty will be difficult. Of course, we are not alone in that regard, or in the heightened sensitivity of taxpayers to "pocketbook" issues. However, in Wellesley we are also dealing with the reality of the new high school project, with its significant costs both in dollars and in the time that will be required by many key Town employees and volunteers. At this writing, several key elements affecting the Town's budgets are still unknown: union contract settlements, state Chapter 70 funding levels, and health care expenses, among others. This is not an unusual situation for Wellesley. However, given the current circumstances, what is unusual is that Advisory believes that it is imperative to achieve a balanced budget without an override. Advisory has made a favorable recommendation on the High School project to the Special Town Meeting, as we believe this as an essential part of the Town's long range planning. However, in light of both a likely High School debt exclusion and the uncertainties in the economy and financial markets we cannot expect that voters will have any appetite to approve an override

Capital Budgets

The FY10 Capital Budget and the Five-year Capital Improvement Plan for FY10 through FY14 are due to Advisory on or before October 28, 2008. You should have received instructions from

the Office of Financial Services for using the capital budget template that was implemented last year. When your Board or Committee approves your Capital Budget, please submit 16 paper copies and an electronic copy to Advisory. 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 FY10 that were not in prior plans, please provide a specific explanation of how these items came up on short notice.

Between October and mid-December, Advisory requests a meeting with each Board 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:

- Issues relative to the upcoming Operating Budget reviews, including staffing changes.
- Anticipated issues or actions that may be brought to the 2009 Annual Town Meeting.
- Major goals and plans for the coming year.
- Efforts to improve efficiency and/or service, and the resources that may be needed to do so.
- Methods to evaluate department performance and the use of benchmark measurements.

Each Board and Department should keep Advisory informed of any adjustments to its Capital Budget 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

The Operating Budgets are due on or before January 2, 2009. When your Board or Committee approves your operating budget please submit 16 paper copies and an electronic copy to Advisory. During January and early February, Advisory requests a meeting with each Board to review its operating budget. We will distribute a schedule of these meetings in December, when we know of other issues to come before the Annual Town Meeting.

Each year, as we approach the development of an operating budget for the Town, we face the challenge of finding the appropriate balance between spending levels on the one hand; and on the other hand, providing the services our Townspeople expect, responsibly maintaining the Town's assets, and fairly compensating our employees. Although the same goals remain in place this year, they do so in a period of severe economic challenge and uncertainty, unlike anything we have faced in quite some time.

As recently as August, Advisory had been considering basing the FY10 operating budget guidelines on the projections contained in the Town-wide Financial Plan presented at the 2008 Annual Town Meeting, with some adjustments for actual results through June 30, 2008. The anticipated increases for personal services and expenses were 6.8% for the School Department and 3.0% for Other Town Departments. These figures assumed level Cash Capital spending, a 2% increase in both State Aid and Local Receipts and a \$2.8 million deficit. We had anticipated that a projected deficit of this size was manageable, with a balanced budget and no override,

given the potential for additional revenues and some belt tightening as had been the case in each of the prior two years.

However, recognizing the high level of uncertainty in the broad financial picture, especially given the Commonwealth's difficult fiscal situation, and with no reliable way of predicting the future, Advisory believes that the Town needs to substantially modify several of the assumptions in the financial plan. Specifically, we consider it prudent to assume that there will be no increase from FY09 in State Aid or Local Receipts that we need to project a budget that is in balance, and that we cannot assume that a deficit could be "managed down" based upon possible additional revenues. Based upon these modified budget assumptions the resulting FY10 budget Guidelines for combined personal services and expenses are:

School Department	3.0%
Other Town Departments	1.0%

Given this environment, we 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* and to determine the order that 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.

While this letter is focused upon the FY10 budget guidelines, it is also very possible that the current FY09 budget may require reductions in the last half or last quarter of the fiscal year. Therefore, as part of your preparation of the FY10 budget you should also evaluate potential savings in the FY09 budget.

Advisory understands that this process will require difficult and painful choices, but we believe that recent events need to be acknowledged and all possible outcomes anticipated. As it is possible that the economic challenges facing the Commonwealth, and the nation, could continue for some time, please make budget decisions that address long term choices, not short-term fixes.

In the interest of greater transparency, we also need to better understand all the Towns' sources of off-budget receipts and reserves (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. Please speak with your Advisory liaison as to how you believe you can best aggregate and present a schedule of the relevant information on these types of receipts and reserves for your Department.

Advisory looks forward to meeting with each Board, and working together in these challenging times. 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)