SECTION 4
ANALYSIS OF REVENUE AND EXPENDITURE HISTORY
FY 2008 - FY 2015

GENERAL

A review and analysis of the revenue and expenditure history of Montague during the period FY 2008 – FY 2015 is valuable because it helps us to understand the patterns that exist and the factors, some under the town's control and other that are not, which should help to guide the development of the present budget as well as the budgets going forward in FY 2016 – FY 2020 (Section Eight). The period in question is special because it includes the "Great Recession" – one of the worst financial calamities to hit the nation since the Depression. This review is an exercise in understanding how a small town meets the challenge of a major financial crisis, experiencing unparalleled losses in revenues yet still managing to continue the effective delivery of programs and services, albeit with unavoidable cuts in staff and deferred capital spending. It required a some good fortune (i.e. the timely and positive settlement of a major case before the Appellate Tax Board), and the reining in of out of control health care costs (probably leveraged by the State's Health Reform initiative) but it also strong financial management by the town staff and boards. Rousseau once described "necessity as the mother of invention". In order to meet this fiscal challenge, Montague's financial planners developed policies (currently informal) and practices, on both the revenue and expenditure side. These included the prudent use of reserves in the funding of the budget, and reducing the dependence upon reserves to fund operating expenditures, a practice that was common in the early years of the recession. The Town is now also much more cognizant of the importance of maintaining healthy levels in its Stabilization Fund and other reserves, both as a matter of good financial practice and as a way to position the town to achieve the highest possible bond rating. These policies and practices should be formalized continued in the development of the present and future budgets. The crisis also encouraged a creative approach to dealing with the spiraling costs of education through the development of the "affordable assessment". It was only through efforts such at these that the town was able to gain control over its "budget buster" accounts and to bring spending into balance with the major decline in revenues that it was experiencing. One of the lessons learned from this experience is that we are probably entering a new economic reality where the town can no longer depend upon the State to fund a major share of the budget. State aid, which once (1988) accounted for 21% of our total revenues, will only fund about 7% of our budget in 2015. The days when the State would cut its aid during recessions and restore this aid during recovery are probably over. The reality is that property taxes will now play a major role in the funding of municipal services.

REVENUES:

General: In the General Fund there are five primary sources of revenue that fund the town's budget. These are Property Taxes, State Aid, Local Receipts, Available Funds and Borrowing (for large capital projects). The Sewer Enterprise Fund and Airport Receipts generate user fees independently to fund those operations. During the study period total revenues, not including borrowing, increased from $17,283,113 to $19,987,590 or $2,704,477. This is a 15.6% increase or 2.6% per year growth, including Sewer User Fees and the use of Available Funds. It should be noted that this is a much lower rate of growth than you might expect because State Aid has still not recovered from the cuts made during the "Great Recession".

Property Taxes: The cuts made in State Aid during the Recession, and the pattern of little or no growth in Local Receipts, have resulted in a significantly greater role of Property Taxes in the funding of budgets. For example, in FY 2009, property taxes accounted for 72% of total, debt-adjusted General Fund revenues, while in FY 2015, they will make up only 83%. Montague has been extremely fortunate during this period that the town was able to generate significantly higher amounts of "new growth" than are typical in an average year. Property tax growth solely attributable to the allowable 2 ½ percent increase/year generated $2,098,999 in new tax revenues or an average of about $300,000/year.

The town also generated an additional $1,608,500 in new growth. This is an average of $229,786/year, much higher than the $120,000/year we typically assume. The sources of this new growth vary from year to year, but certain patterns do emerge that should influence our expectations about future new growth and guide our planning for it. A spreadsheet showing the distribution of new growth-generating value between FY 2004 and FY 2014 is contained in Section Six (Financial Summaries). It was prepared at my request by the Assistant Assessor. According to this research, 50.4% of all such value during this time was generated by growth in Business/Personal Property. In fact, during the four highest years of new growth (2014, 2011, 2009, and 2004), business/personal property was the biggest contributor to new growth by a large margin. It is interesting that that three out of four of these years were either during the recession or its anemic recovery, suggesting that this type of new growth may recession proof. But, one must ask if it is reliable going forward. In contrast, value generated by Residential Growth only accounted for 32%, and that included major growth during the construction boom prior to the recession, experiencing a high of 74.6% of total in 2007. Since 2008, however, residential new growth has steadily declined to its present level of 6.6% of total. This largely mirrors the general economy and the housing crunch. Similarly, the contribution of value generated by Industrial Growth reflects economic development activity. In one year – 2010 - industrial value accounted for 41.4% of all new growth generated. Due to the lack of available industrial sites (airport industrial park is filling up) and the general economy, industrial and commercial new growth has not been a major contributor to total new growth. This underlines the importance of developing new industrial capacity at the Turnpike Road Industrial Park.

The Assessing Department has also provided valuable information about the importance of the Utilities (First Light Hydro Electric Generating Co., Western Mass Electric Company) as a component of our property tax base. The previous discussion already illustrates the role that Business and Personal Property generated value play in the generation of new growth. Much of the growth in the value of personal property has occurred in the utilities; and they are undoubtedly a major contributor to the generation of new growth. At the same time, the utility is the town's largest taxpayer and it has experienced significant growth in recent years. Since 2006 the value of First Light Hydro has grown from $47,475,700 (FY 2006) to $117,588,500 (FY 2014) and its total tax from $1,098,002 to $2,916,701. This is a $70,112, 800 or 148% increase in value and $1,818,699 or 166% increase in total tax. Consider that in FY 2006, First Light accounted for 10.94% of total tax levy, while in FY 2014, it accounts for 20.31%. WMECO has also experienced a similar growth in both taxable value and its share of the total tax base.

Section Six contains a spreadsheet that provides summary of property tax information (2005-2014) for the average single family homeowner, which is currently valued at $182,776. This individual currently is taxed at a rate of $16.64/$1,000 of valuation and pays a tax of $2,987. Montague compares well with taxes paid by residents of surrounding communities of Greenfield ($3,640), Gill ($3,108), Sunderland ($3,704), Deerfield ($3,563), Leverett ($5,630), Wendell ($2,889), Orange ($2,780), Athol ($2,069) and Holyoke ($3,330), having one of the lower tax bills, but it must be remembered that this does not include taxes paid to the Fire Districts. Since 2005, property taxes for the average single family homeowner have increased a total of 30% or about 3% per year.

State Aid: On the revenue side the most significant trend is the redefinition of the role that State Aid in municipal finance. In fact, one could go so far as say that a new state aid paradigm exists, and that the new reality will greatly affect town budgeting going forward. Montague experienced a significant loss of its State Aid during the "Great Recession". At its low point (2012), the town had lost $405,081 or 24% of its State Aid. By FY 2014 the Town had still only recovered $123,450 or 30% of this loss. This is a major departure from the practice observed following the end of prior recessions when the State promptly (over two years) restored State Aid to pre-recession levels. In the present instance, however, the prospects for recovering to FY 2008 levels, in the short term at least, is probably slim. This is due as much to the overall depth of the most recent recession and the anemic recovery, as to the changing priorities of the State and the diminishing resources available to fund all of its programs. The overall size of the discretionary spending pie is smaller for many reasons. Chief among them is the strength of the current economic recovery in which growth, at its peak, is projected to be just under 5% (State Consensus Revenue Estimate, December, 2013). This is much lower than the growth that has characterized previous recoveries when growth averaged 7 or 8 percent. It should be pointed out that each additional 1% in annual economic growth contributes about $250 million to the State's tax coffers, and provides the funds, both discretionary and non-discretionary, that are used to fund the growth of all of its programs including State Aid. Unfortunately, the State's current priorities do not favor growth in municipal state aid. Since 1993, local aid to municipalities has slowed significantly, as the Legislature has pumped new funds into the financing of the Education Reform Bill. This shift from municipal to educational aid benefitted Montague immensely during the 1990's because the Gill-Montague Regional School District was well below foundation level, and received large increments of new aid throughout the decade. These increases averaged about $300,000 or 10% each year. The state must still allocate a significant amount of available revenues (as Chapter 70) to communities that have not as yet reached foundation. The state also has many non-discretionary spending items such as debt, health care and OPEB (other post employment benefits), and a higher than anticipated caseload for Mass Health. In FY 2015, these non-discretionary funds will consume about two thirds of all available new revenues. Thus, there is a shrinking pie for discretionary spending, including the funding of increases in local aid to municipalities. The trend in a declining role for municipal state aid has been in process for two decades. Consider that in 1988 the town of Montague received $1,442,419 in state aid, more than we currently receive. At that time state aid made up 21.3% of our annual revenues. By FY 2013, net state aid to Montague was $1,372,617 or 8% of our revenues. Looking on the bright side of this trend, the town is lessening its dependence on outside sources of revenue that peak and fall with the economy. This information needs to be considered when developing the town's future revenue plan.

Local Receipts: Local receipts included revenues received from a variety of local sources, not including property taxes and sewer user fees. The most significant of these receipts are (1) Excise Taxes, (2) Municipal Charges, including trash sticker fees, (3) Other Departmental Revenues, (4) Penalties and Interest on Taxes, (5) Investment Income, and Miscellaneous Recurring revenues including Medicare Part D reimbursements. Between 2008 and 2015, local receipts declined and then leveled off to where they now currently are – about $1,300,000. There are a number of factors that help to explain this trend, and to suggest it may be a pattern that will continue into the future.

Excise taxes currently account for one half of all local receipts. Following the adoption of Proposition 2 ½ in 1983, motor vehicle excise tax revenue established itself as a reliable source of revenue growth. During the remainder of that decade they grew at an average annual rate of 17.6% per year. During the 1990's, excise tax revenue growth consistently averaged between 4 and 5 percent per year. In the new millennium, however, the growth of excise tax revenues has fallen off significantly. Between 2008 and 2015, this revenue source only increased a total of $30,859 or 5%. This is an annual rate of growth of .71%. There are many reasons for the decline in the growth of Excise Tax revenue. The most obvious of these is that the depressed economy has caused an overall decline in new car sales. This is the most obvious explanation but not the only one. Another reason is that cars are made better today and last much longer. This in itself might not be as significant if it were not for the method used to determine value of a vehicle and ultimately the tax bill. The formula used to calculate excise tax is based on the age of the vehicle beyond the Manufacturer's Suggested Retail Price (MSRP), which is assessed in year 1. For vehicles 5 years of age or more, the vehicle is valued at 10% of MSRP. This means that many car owners are paying a dramatically reduced excise tax, which was not the case in the 1980s or 90's.

Trash Sticker Fees currently account for 17% of local receipts. That number has not changed appreciably since 2008. Absent an increase in sticker fees, it is unlikely to increase much in future years, and could actually decline if the town's population achieves a higher recycling rate.

Other Department Revenues/Licenses and Permits. These sources have been fairly constant in the level of receipts that they generate because they are generally based on an established fee schedule. Fees associated with new building activity include both new construction and renovation activity. During the study period there was a significant reduction in new construction due to the depressed economy, but much of this was offset by an increase in renovations, new stoves etc. Looking forward the town could raise some new revenue by increasing the fees that it charges for licenses and permits. In some instances Montague's fees may not reflect the market. These are also areas where greater local revenues may occur in better economic times and there are more housing startups and industrial expansions.

Available Funds: include the use of Stabilization Funds, Overlay Reserve, Receipts Reserved for Appropriation, and Special Article balances. Free cash may also be used to fund special articles or to fund operating expenses as it is currently done. During the period 2008-2014, the town used a total of $3,982,734 or an average of $568,962 per year in available funds. Significantly, the greatest amounts of these funds were used in 2008 and 2009, the first two years of the "Great Recession". In 2008, at total of $399,626 in Town Stabilization and overlay Reserve was used, while in FY 2009, the same two sources accounted for $539,293 in spending. Some but not all of this funding was used to fund capital projects. The town was fortunate that it had a significant balance in its reserve accounts due to a favorable settlement with the Appellate Tax Board.

EXPENDITURES

General: The operating budget of the General Fund increased by $1,779,773 or 27.5% between FY 2008 and FY 2015. This is a 3.9% average annual increase (including the new Student Resource Officer at the Franklin County Technical School, full implementation of the pay and classification study and the additional new debt). During this period debt increased by $388,904 or 142% due to the addition of the Police Station and CSO projects. If we adjust for what was mostly excluded debt, the budget grew by $1,390,869 or 22%. This is an average annual rate of growth of 3.14%. This is more in line with the actual revenue growth during this period, as supplemented by the use of reserve funds during the early years of the "Great Recession".

Personnel: Personnel costs (including the FCTS School Resource Officer) and the full implementation of the Pay and Classification Study grew by a total of $611,566 or 20% during the same period. This is a 2.86% increase/year. During the period 2008 to 2013, personnel costs only rose by $102,896 or 3.4%. This is an annual increase of .68%/year. Clearly, town personnel were one of the casualties of the economic downtown. During this period no cost of living raises were granted. Many experienced employees were already maxed out on their salary schedules and were also not eligible for step increases. Some positions were eliminated and others reduced in hours. In May, 2008, town meeting was asked to approve a Proposition 2 ½ override that would have funded several positions: Part-time Public Health Nurse, Libraries (equivalent to two branches) Animal Control Officer, Curbside Recycling, the Parks and Recreation Department, and the Council on Aging. Although this article never passed, at least one position (Animal Control Officer) was cut and the hours of others reduced.

Between 2013 and 2015, however, spending on personnel rebounded reflecting a slightly improved economy and revenues. This included funding for the full implementation of the Pay and Classification Study that had been performed in 2012/2013, and for the FCTS Student Resource Officer. During this period personnel costs rose $524,201 or 16.6%. This is an increase of 8.3% per year. If adjusted for the SRO, which is 100% reimbursed by the Technical School, these costs increased $473,899 or 15.02% - a 7.5% increase per year. This increase might seem excessive however it must be pointed out that the total increase includes the addition of a few new positions: a Groundskeeper in the DPW, a twenty six hour/week Library Assistant, a part-time Shared Animal Control Officer, and a twenty hour/week Health Agent. This year the Board of Selectmen will also be requesting that the work week of the Executive Assistant be increased this year to thirty hours. All of these changes combine to increase the total payroll.

It should be noted that Montague's employment base has been amazingly stable over the past decade. In 2005, Montague had a total workforce of 80 employees (64 full-time and 16 part-time.) In 2015, the town will still have 80 employees (63 full-time and 17 part-time), but during this period there have been reductions in force, with some of these employees never replaced. The winners in the redistribution of staff include the Public Safety, Recreation & Culture and the WPCF Programs, if Town Meeting decides to increase their staffing from seven to eight and one half employees. Net losers include the Public Works and General Government Programs, though the changes in percentages are really minimal.

The other significant driver behind the growth in the personnel budget was the implementation of the Pay and Classification Study. Tables listing the comparable towns that were used in the comparison of wages and salaries of Montague's staff are contained in Section Six. The study found that the overall compensation paid by the town was 7.5% below the market average prior to the study, although the disparities were not uniform for all positions. The goal of the study was to make the town more competitive in the municipal market place. The Board of Selectmen voted to adopt a compensation plan that compensates employees at 50% of the median of the communities studied.

Expenses: Between 2008 and 2015, overall departmental expenses (not including debt or employee benefits) increased by $949,814 or 54.1%. This is a 7.7% increase that, on the surface, seems very excessive given the fiscal constraints that existed. It is largely driven by debt, much of its subject to a debt exclusion, which accounted for $388,904 or 41% of the total increase. If we adjust for debt, expenses grew by $560,910 or 37.9%. This is a 5.4%/year increase. The largest increases in departmental spending were concentrated in the DPW – 42% of total growth, Human Services – 25% of total, and Public Safety – 16% and General Government – 13%. Some of the primary drivers behind this growth were: (1.) DPW: the privatization of the solid waste collection program in June, 2009, where more of the costs were now recognized as expenses; and adjustments to the expense budget reflecting a more realistic assessment of the true costs. This resulted in increased spending on repairs and maintenance, gasoline and public work supplies; (2.) Human Services: a 304% increase in the cost of veteran's benefits, seventy five percent of which is reimbursed by the State, and (3.) Public Safety: increases in both the Police and Dispatch departments to fund enhanced training required by law but significantly underfunded during the early part of the study period. It should be pointed out that the town also realized significant savings during this period in key areas. These savings included the cost of energy, where the implementation of energy conservation and efficiency projects funded through Green Communities and other grants resulted have resulted in a seventeen percent reduction in energy use. Through effective negotiation with the town's solid waste vendor, the town has also realized significant savings in solid waste collection and disposal ($60,000 in 2009 when a five-year agreement was signed with Allied Waste; and close to $50,000 in savings with the implementation of a new five year agreement set to go into effect on July 1st.

Debt Service: Increases in debt service ($388,904) account for 40.9% of the total increase in spending during this period. Most of this new debt was subject to a voter approved debt exclusion vote, meaning that it is not counted as part of the increase allowed under Proposition 2 ½. This debt was associated with the construction of a new public safety facility and the Combined Sewer Overflow/WPCF Facility Improvements.

Employee Benefits:

Employee Benefits, which includes pensions and health and life insurance for both active and retired employees as well as several smaller categories (workers compensation, unemployment and Medicare) increased by 13.1% between 2008 and 2015. This is a 1.9% increase/year. The town's success in stabilizing health insurance spending was clearly the most significant development during the study period. Double-digit increases in health insurance costs between 2001 and 2007 caused the total cost to rise by 109% or 15.6%/year during that period. During the same period increases in Health Insurance (in excess of $400,000) claimed 42% of all budget growth and as a percentage of the overall budget grew from 7.6% in 2001 to 14% in 2007.

The trend of out-of-control growth in health insurance was not just common to Montague; and it quickly drew the attention of the State Legislature which implemented health care reform. Communities could, if they wish, join the Group Insurance Commission (GIC) where bulk purchasing promised to save towns a lot of money. Montague has, up until now, chosen not to join the GIC, but has still benefitted from the availability of that option. Our primary health provider (Blue Cross), seeing the GIC as a competitor, has consistently sharpened its pencil when setting rates for the town. Between 2008 and 2015, health insurance spending only increased by a total of $21,500 or 2.4%. This is a .003% per year rate of growth; and during this period Health Insurance only claimed 1.2% of total budget growth. And this latest cost estimate includes the proposed School Resource Officer, the Library Assistant and the Groundskeeper positions, recently added to the budget. Health Insurance now claims only 11% of General Fund expenditures, down from 14% at the beginning of this study period.

The other large potential big ticket spending items in employee benefits are Pension and OPEB (other post employment benefit) costs. Montague appears to have its pension costs well under control. The Montague Retirement System had, as of January 2012, funded 75% percent of its unfunded pension liability; and is on schedule to be fully funded by 2025. This performance rates among the better ones in the state. In addition, the State Legislature recently enacted pension reforms that will significantly reduce the long term costs of pensions for all municipal employees. During the study period, pension costs increased by 28.4% or an average of 4.1% per year.

OPEB costs are another potential "budget buster" that has recently received a lot of attention from policymakers and the State Administration. Montague is fortunate that it did not take advantage of recent changes in law that would have allowed the retirement systems to extend the amortization of pension costs until 2040. Facing serious budget shortfalls many communities did choose to do this. Because Montague did not exercise this option, the retirement system will in 2025 be able to reallocate the appropriation currently being used to finance unfunded pension costs to finance unfunded OPEB (other post employment benefit cost). OPEB costs are those health and life insurance benefits that the town is obligated to pay when its employees retire. Montague has historically funded its OPEB liability on a pay-as-you-go basis. According to a recent audit, in 2012, the town's annual OPEB cost was $1.1 million, and it contributed $492,000. As of the most recent valuation date, the town's unfunded actuarial accrued liability was $13.6 million. The town's combined pension and OPEB contributions represented 13.2% of total spending.

School Assessments:

Assuming that the affordable assessment will be adopted by the Gill-Montague Regional School District in 2015, educational assessments will have risen by $1,152,723 or 15% since 2008. This is an average annual rate of growth of 2.14%. Most of this increase was in the Gill-Montague Regional School assessment which rose $1,125,848 or 15.8% (2.3% per year). The Franklin

County Technical School Assessment, as proposed for FY 2015, has only increased by a total of $26,817 or 4% (.57 % per year) since 2008.

Between 2000 and 2007 educational assessments grew at an unsustainable rate. GMRSD assessments, net of debt, grew $1,929,723 or approximately $321,620 per year – a 6.35% average annual growth rate, while the FCTS assessments grew by $355,620 or 120% - a 17.5% annual growth rate. The demands made on the town budget during this earlier period were significant, with educational assessments claiming much, if not all, of the town's overall annual revenue growth and the town often having to resort to the use of reserves to fund operating expenditures – a risky financial practice.

Clearly, the budgets adopted during this earlier period were not sustainable. This was the impetus for the creation of the tech committee and the development of an affordable assessment formula for the GMRSD. This formula was predicated on a partnership between the member towns (Gill and Montague), the GMRSD and the State as the provider of Chapter 70 school aid. While the implementation of this agreement has not been perfect it has stabilized the GMRSD assessments. FCTS assessments have also had less of an impact on the town budget. In fact, they have been almost flat during the period 2008-2015 due to stable enrollment of Montague students attending the technical school.

Sewer Enterprise:

Between 2008 and 2015, the sewer budget increased from $1,808,292 to the current request of $2,298,294. This is an increase of $490,002 or 27% - a 3.9% increase per year. It should be noted that most of the increase has occurred in the past two years. Between 2008 and 2013 total Water Pollution Control Facility (WPCF) costs only increased a total of $75; and sewer rates have been held constant for a period of four years. This is because during the earlier period sewer expenses actually fell by $64,277 and pretty much absorbed any increases in personnel costs. Assuming that all of the proposed spending is approved in FY 2015, the sewer budget will have increased by $514,957 or 28.9% since FY 2013. This is a 14.4% annual rate of growth.

Some of the factors contributing to this growth are: (1) new debt service required to pay for $1.7 million in emergency sewer replacement work done in 2013; (2) proposed sewer rehabilitation work ($175,000) and drainage improvements under the power canal; (3) the addition of new staff (1.5 FTE) at the WPCF in response to concerns raised by the Mass. Department of Environmental Protection (DEP); (4) the reclassification of most WPCF staff at a level that is higher than that contained in the Pay and Classification

Study. An additional $3 million capital project (replacement of two pump stations) may also be authorized in FY 2015, but it will not affect the operating budget until FY 2017.

It should be noted that each increase of $10,000 in the WPCF operating budget results in a 4.5 cent/1,000 gallon increase in sewer rates, assuming that other revenues, such as sewer retained earnings, are not applied towards the funding of the budget. For the average sewer user who uses 65,000 gallons/year this would translate into a $2.88 annual increase in their sewer bill for every $10,000 increase in the operating budget. Using this calculation, $514,000 in new spending (solely funded by sewer user rates) would cost the average sewer user $147/year more.

It is important to remember that this scenario does *not* assume the use of sewer retained earnings which are generated by spending less than budgeted and revenues in excess of those anticipated during the a prior year. Sewer retained earnings are certified by the Mass. Department of Revenue as of July1st of a given year. It is known that the WPCF has been generating revenues in the current fiscal year that are far in excess of those anticipated. This is primarily due to the processing of out-of-town sludge and acceptance of greater quantities of septage. In addition, the Montague WPCF has been conducting experiments with its treatment process that might greatly reduce overall treatment of its sludge by-product. This could result in significant end of year returns (money not spent) from the operating budget. Assuming that this scenario continues to play out for the remainder of this fiscal year, both the excess revenues and the lower operating costs could significantly impact the sewer retained earnings number and ease the overall burden on the sewer users of proposed spending.

Capital Spending

During the period 2008 – 2015, the town has, or will, authorize spending of $14,726,373 on capital projects – some within the General Fund and others the Sewer Enterprise or Airport. This spending was allocated as follows: $9,337,573 in the General Fund, including $6,856,000 in Borrowing and $2,481,573 in "pay as you go" capital projects, which is an annual average of $310,197. The Sewer Enterprise Fund had $5,388,800 in capital spending authorized (or to be authorized at the May 2014 annual town meeting) including $4,935,000 in borrowing. It also had "Pay Go" appropriations totaling $453,800 or $56,725 per year. All of this data is summarized tables contained in Section Six which shows the distribution of funds by Program.

Capital spending is characterized as either "Pay Go" or subject to the issuance of General Obligation (GO) or Sewer bonds. "Pay go" projects are those which are subject to annual appropriations contained in special articles. These are either paid entirely in a given year or through leases which typically are for five years. Bonding requires long term borrowing usually over a period of 20 years, though occasionally longer if permitted by law.

Bond authorizations during this period include $6,856,000 by the town, the largest of which was the new Public Safety Facility. Sewer enterprise bonds will total $4,875,000 and include $1,700,000 for the sewer emergency and $3,000,000 proposed for the replacement of two pump stations. The latter project will be funded under the State's Revolving Loan program where the town will pay an effective interest rate of 2% or less. It also includes $175,000 for sewer rehabilitation work on Millers Falls Road and Crescent Street in Millers Falls. The last two projects are recommended in the FY 2015 budget.

"Pay as you go" capital projects include on the town side a total of $2,298,576 or an average of $328,368/year. This includes spending at both the annual town meeting and special town meetings held throughout the year. This annual rate is somewhat skewed when large projects, such as a $212,000 sweeper, are funded entirely out stabilization in a given year. Sewer "pay go" projects totaled $251,300 or an average of $35,900 year.

On the town side, capital spending was clearly biased towards the funding of DPW vehicles and equipment. Total spending on this category during the study period was $1,324,285 or fifty eight percent of the total. Economic development, a distant second, accounted for $263,920 or eleven percent of total, while spending on town facilities and school facilities together totaled $452,775 or 20% of "pay go" capital spending. Police vehicles and equipment total $111,800 or 5%, but this figure did not always include the cost of police cruisers which have frequently been included in the operating budget.

During the study period the town funded a large majority of its capital items out of stabilization, free cash or overlay reserve, particularly during the earlier years of the recession (2008 – 2011). Few, if any, projects were funded out of taxation during this earlier period. Since 2013, the town has funded an increasing amount of capital projects out of taxation. This is a positive trend as it is building the financing of capital projects into the tax base at some level, and will avoid dependence upon the use of reserves that may become exhausted in future years.