SECTION 5
BUDGET ASSUMPTIONS

The analysis of prior budget performance is important in an understanding the budget trends that are operable, as well as the opportunities and constraints that exist within our budget. As such, they guide the development of revenue and expenditure assumptions to be used in the preparation of the FY 2015 budget and the multi year (FY 2015 – FY 2020) that is being proposed.

Revenue Assumptions

Property Taxes:

- Due to the unreliability of all other sources of revenue, the majority of all growth in the town's future revenue base will be property taxes; and the town will have to take full advantage of it by levying to the maximum levy limit.
- New growth will return to more normal levels. Although $120,000/year may be conservative it is prudent to project a goal that will usually be attainable. In a good year you will be pleasantly surprised.
- It is probably not reasonable to expect new growth from business/personal property – the primary source during the study period – to continue into the future. Without it large amounts of new growth (i.e. in excess of $400,000 in a given year) will probably be rare.
- New growth from residential and industrial uses may increase if (1) the economy heats up and more housing construction (if Montague is able to absorb it) occurs; and (2) the town builds its new industrial park on Turnpike Road and succeeds in attracting new industries.
- In order to address the major capital needs that currently exist, Montague will have to vote one or more Proposition 2 ½ debt exclusions. These will be added to the overall tax base.
- Assuming that the Assessor's proposed new (FY 2014) values for the utility companies survives any potential appeals before the Appellate Tax Board (ATB), the utilities will pay a larger percentage share of total taxes (approximately 25%) and property taxes for all other residents should go down proportionally.
- Conservative assumptions about new growth (i.e. $120,000/year) will yield a total annual average increase in property tax revenue of about 3.4%. This projection is consistently lower than 6.02% and 4.7% increases in property taxes (not including debt) that occurred in FY 2014 and FY 2011, when new growth was $455,610 and $262,676 respectively

State Aid:

- The town can no longer expect the State to be a source of significant new revenues. As Michael Widmer (Massachusetts Taxpayers Foundation) summed it up at a recent MMA conference, we are entering a "new era for financing public service. There will be no return to the glory days."
- The tepid nature of the present economic recovery combined with new, non discretionary budgetary demands at the state level mean that there will be less money available for municipal aid. In the short term this means that the state is unlikely to restore the aid that was cut during the "Great Recession", as they had in all previous recessions. In the long term it means that annual increases in municipal state aid will probably be much smaller (in the 2% range) rather than the 5-7% that characterized previous business cycles.
- Montague will become less and less dependent upon State Aid (once 21% of total revenues and now 7%), and the insecurity of rising and falling business cycles, but it will only come at the expense of a greater role for property taxes and other revenue sources.

Local Receipts:

- Local receipts will continue to be relatively flat into the foreseeable future because there is very little flexibility in how most of these revenues are generated.
- Unless there is a change in the way excise tax valuations are calculated that revenue source will never return be the dependable source of new revenue growth that it once was.
- There is probably little political will to increase trash sticker fees again in the near future, as this could actually encourage more people to recycle and result in a loss of revenues.
- There may be some opportunities to increase other local revenues (permits, licenses) by raising fees. The town should evaluate its fee structure periodically to determine if it is charging the market rate.

Free Cash:

- The town should continue its practice of limiting the total amount of free cash that in effect is used to reduce the tax rate. The current amount of $250,000 is healthy when compared to the much higher sums ($500,000 or more) that were used by the town at one time.

- Free cash for one time capital expenses are also a good use of free cash. The present practice of voting funds from free cash into our stabilization fund essentially does this because the town then will often vote the use of stabilization for capital items. This policy should be formalized in a written policy.

Available Funds:

- Available funds should be used with caution when funding the budget. In particular, the town should avoid the use of reserves to fund operating expenses, as we did in the early years of this study. This results in reserves getting built into the budget base and ultimately the need for significant budget cuts if there are no longer reserves to fund them in subsequent years.
- It is appropriate to use funds specifically generated by a particular use (Airport and Colle Building leases) as receipts reserved for appropriation to fund operating expenses.
- Wherever possible reserves such as stabilization and overlay reserve should be used for one-time, non-recurring capital expenses.

Borrowing:

- There are times when borrowing is the appropriate source of funding.. These include large, capital projects that would significantly impact the operating budget, or draw down reserves, if funded in one year.
- The Town will never be able to address its laundry list of capital needs without resorting to borrowing.
- Much of the new debt particularly that associated with larger projects such as a new senior center, library and town garage will probably be best funded as a voter approved debt exclusion.
- The town needs to develop a long term financing plan for its capital program. In developing this plan we should follow the criteria used by our bond underwriters (Standard and Poor and Moody) to evaluate our current debt burden and future capacity To incur new debt. These criteria area based on the amount of debt per capita, debt as a percent of market value, and debt service carrying charges measured as a percent of expenditures.

Expenditure Assumptions

Personnel:

- The Pay and Classification Plan will be accepted by all unions as is or similar form. Spending on personnel will increase by an average of about 2.5% per year assuming that there are no major changes in the classification plan, no new employees are hired after FY 2015 and cost of living raises do not exceed 1% per year.

Expenses:

- It is assumed that expenses will increase at a rate of 4% per year in both the General Fund and Sewer Enterprise.
- Energy costs will continue to be stable or even improved throughout the proposed budget period (FY 2015 – FY 2015) as a result of efficiency measures already implemented (or to be introduced) under the Green Communities program.
- Larger than normal (more than inflation) increases in may occur in certain areas, causing the overall rate of growth to exceed 4%. These are hard to predict.
- Solid waste collection and disposal costs in both the town (DPW) and the Sewer Enterprise will continue be fairly stable (due to a good contract) and, in the case of the Sewer Enterprise, may experience major savings as a result of success in the new process currently under experimentation.

Debt Service:

- For planning purposes future debt service costs only include payments due for projects already funded. This establishes the base on which the town can calculate its capacity to take on new debt.

Employee Benefits:

- Future growth in the cost of employee benefits is one of the most important considerations when determining the affordability of future budgets. Health insurance costs, in turn, are the most significant driver of employee benefits costs.
- For the purpose of this analysis, three different health insurance scenarios have been calculated (3%, 5% and 9% annual increases)

- The difference between a 3% increase in health insurance and a 9% increase is extremely significant. Its impact upon the budget is equally significant. Under the 3% increase scenario, health insurance would cost $921,300 in FY 2015 and $1,068,045 in FY 2020. The cost under the 9% increase scenario would be $921,300 in FY 2015 and $1,417,535 in FY 2020.