Long Range Financial Planning Subcommittee
Report to the Finance Committee

Submitted by

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Long Range Financial Planning for the Town of Ipswich

Summary

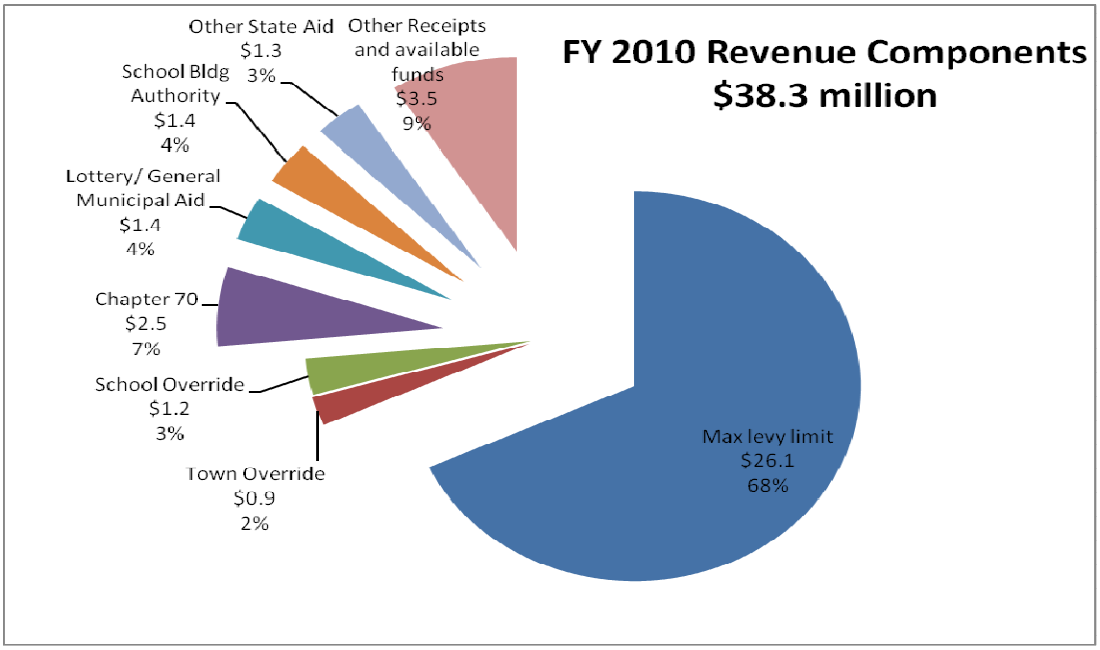
Following the 2009 regular Town Meeting, the Ipswich Finance Committee established a Long Range Financial Planning (LRFP) Subcommittee with the primary task of reviewing the town's financial well being and making recommendations. This is the first formal report from that subcommittee and is based on data available as of 3/25/10. It provides snapshot of recent revenue and expense trends and projections. Our analysis is based on recent history of the town's operating budget, as well as quantitative and qualitative research of future expectations. No one has a crystal ball, therefore this committee has attempted to describe the current state of the town's financial condition, and help town leaders anticipate possible future scenarios, so that the town's operations and essential services are on sound financial footings and are sustainable.

Our analysis shows a troubling trend; the growth rate of expenses will outpace the growth rate of revenue over the next few years leading to a shortfall in the town's ability to cover the anticipated costs of current services. This report summarizes the major financial issues leading to this situation and concludes with possible responses that the town should consider to address them.

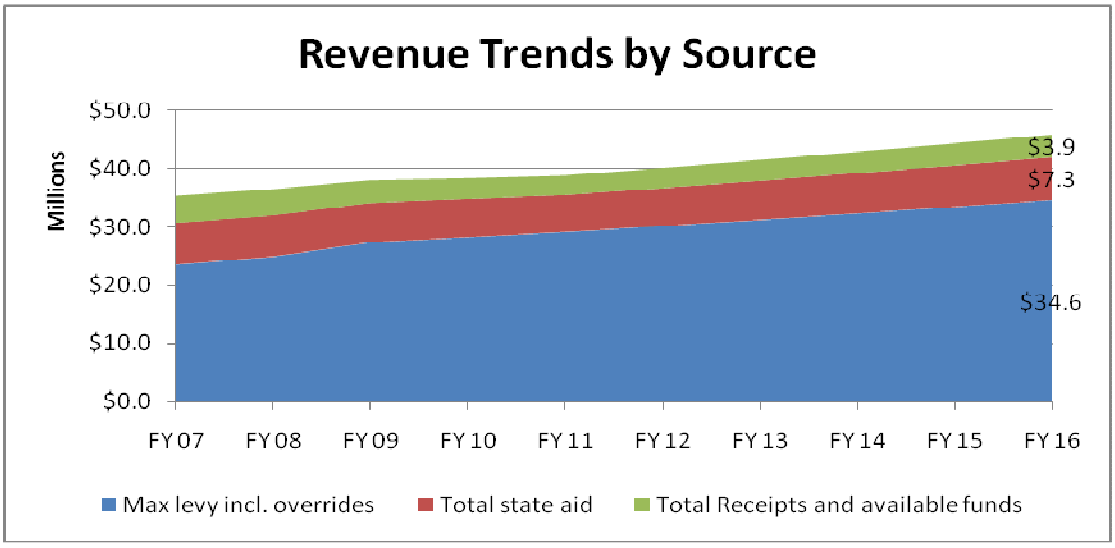
The town's fiscal position now includes structural components driven by wages, healthcare costs, retirement benefits, and unfunded mandates that will drive the town's budget to a deficit position in the near future unless the town addresses the declining rate of revenue growth and/or reduces the rate of expense expansion. Further, the town must assure that there is room in the budget for ongoing long term capital needs, including road maintenance, and other infrastructure and school support issues or risk physical and service deterioration that could undermine the quality of life in town. Ultimately the town must begin a program to broadly assess town/school services to address the realities of an increasingly limited budget horizon. The Long Range Financial Planning Committee has collected financial data for the town and peer communities and has begun to develop a model that can analyze the financial implications of different scenarios. These resources will inform a long term strategy around impending budget issues.

Revenue by Major Source

The Town's total available revenue is comprised of multiple sources of funds. Some sources are available for general municipal and school uses, while others are earmarked for specific types of expense.



Recent and Projected Revenues



About the Revenue Forecast

The model used here assumes that Total Available Revenue, used to support the Town and School Operating Budgets, will increase 3.6% each year (2.5% levy limit plus 1.1% new growth and state aid).

- Given that the expected increase this year in Total Available Revenues is 1.3% and the previous 3 years has been 2.4% in FY08, 4.7% in FY09 (override year) and 0.9% in FY10, a 3.6% annual increase assumes an improvement in the economy, which may or may not occur.

Total Receipts and Available Funds, shown above, includes Cherry Sheet (Ch. 70, lottery aid, etc.) distributions as well as local receipts (excise taxes, license and permits, etc.). This peaked in FY07 and then decreased 1.8% in FY08, 7.9% in FY09, 5.3% in FY10 and is expected to decrease again in FY11. Max Levy Including Overrides is our real estate tax. It increased by 9.8% in FY09, largely due to an override in support of the school budget. However, the reduction of $1.5M in Total Receipts and Available Funds from FY07 to FY10, plus the expected further decrease in FY11, fully offset any revenue gain that was obtained from that override.

- The continuous decline in the rate of growth of Total Receipts and Available Funds over the past few years, due largely to the effects of the economy, are straining the town's financial resources.

Although Total Available Revenues have increased during this period, the increase has been largely due to the increase in the Levy Limit and the school override. These increases have resulted in revenue growth of 2.4% in FY08 and 4.7% in FY09 (the override year), 0.9% in FY10 and a further 1.3% expected in FY11, for a total of 9.5% over 4 years.

- However, this increase barely kept pace with salaries and benefits during that period and, because revenue growth slowed significantly, was never able to overcome the structural deficit the school override was intended to offset.

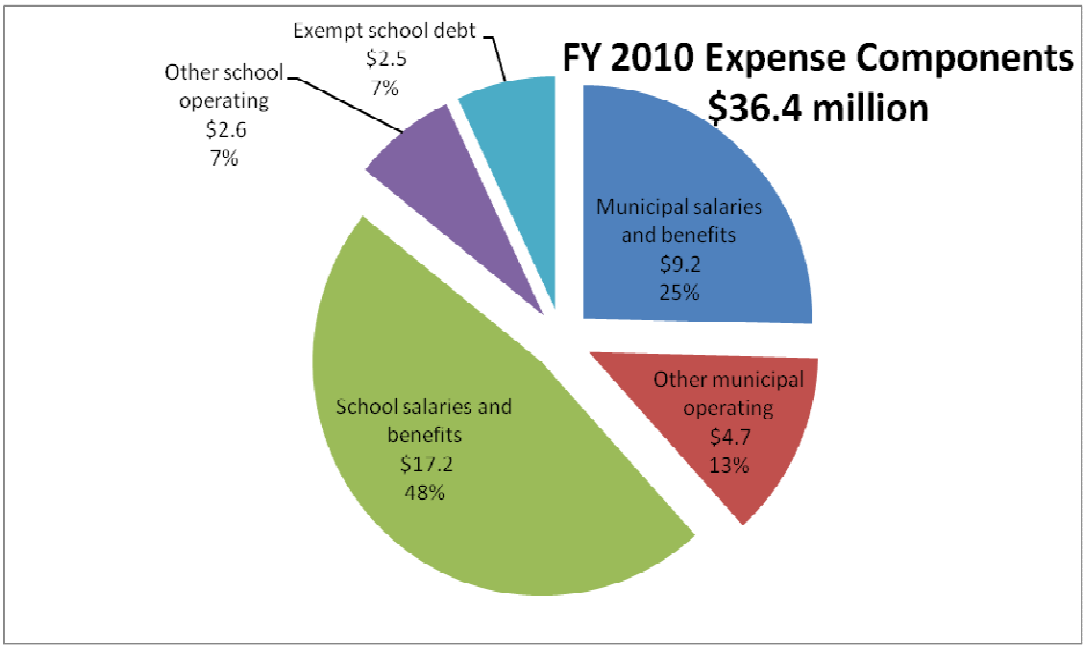
The early part of this decade saw reductions in state aid which, over the subsequent few years, gradually recovered. Nonetheless, town budget shortfalls led to the passage of an override in Ipswich in early 2008, in support of the FY09 budget. In that same FY09 budget year, Total Receipts and Available Funds, including state aid, dropped by more than 7.8%, and then another 5.3% in FY10. This offset most of the gain in revenues that had been obtained from the FY09 override.

- Overall, during the 2 year period from FY08 to FY10, the total revenue available to the town, in support of its operating budget, increased by less than 5%, from $34,228,491 to $36,134,041.

- Over the past several years, financial support from state and government sources, especially as reflected in Cherry Sheet distributions, has been unpredictable and less reliable than town sources.

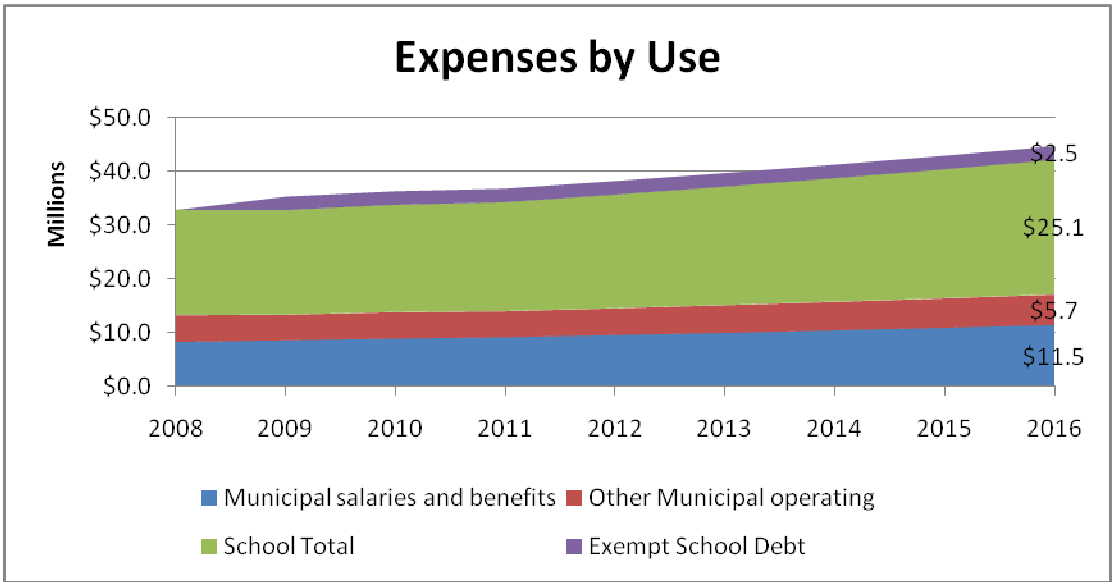
Expenses

The Ipswich budget is divided into two major operations: municipal services and the schools. Revenue from the above sources is distributed according to approximately a 60% schools; 40% municipal formula, which determines the resources available to support the two operations.



By FY 2010 compensation costs represent 87% of the school budget and 66% of the municipal budget. This dichotomy demonstrates that while the schools have struggled to keep cuts "as far from the students as possible" they have only avoided significant teacher cuts by sacrificing investments in professional development, supplies, technology and building maintenance. The town budget still has some capacity for non-personnel expenditures, but has been unable to adequately address roads, vehicle replacement and the need for a new fire station.

Expense Trends



Salary increases on the municipal side have been held to virtually zero over the past two years. Prudent efforts by the town to control wages and salaries have been eroded by significant increases in benefit cost and revenues that have not kept pace. Over a three year period, from FY08 to the proposed FY11 budget, built in

benefit costs, such as health care, retirement and Medicare, incurred by the town for its employees, rose by 29%. The chart above incorporates the assumptions that benefit costs (health pension, Medicare, etc) will continue to increases 10% annually. If this recent rate of increase continues, it is a major contributor to projected deficits.

Other large components of the municipal budget are roads, services, ambulance/trash, reserve fund and debt. The base scenario uses the following assumptions for annual increases in these accounts:

	FY 12 Increase	**FY 13 Increase**	**FY 14 Increase**	**FY 15 Increase**	**FY 16 Increase**
Roads, Vehicles, Repairs, Maintenance	5.0%	5.0%	5.0%	5.0%	5.0%
Services, Advertising, Consultants	3.0%	3.0%	3.0%	3.0%	3.0%
Ambulance, Trash, Office, Other Supplies	2.0%	2.0%	2.0%	2.0%	2.0%
Reserve Fund, Misc Insurance	3.0%	3.0%	3.0%	3.0%	3.0%
Debt	3.0%	3.0%	3.0%	3.0%	3.0%

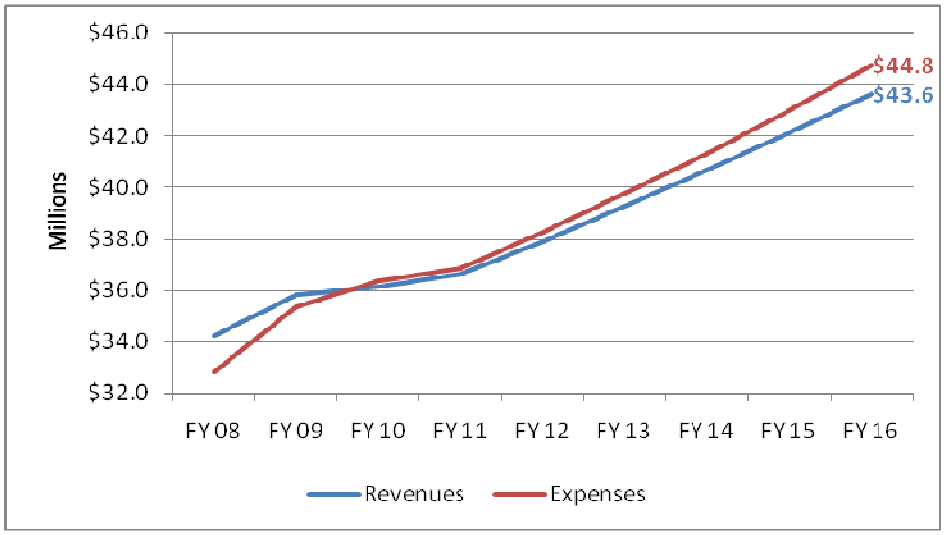
On the municipal side we've been able to affect some significant savings through modifications to our waste disposal practices (reduction to two curbside containers now, and further to one container in July, and single streaming of recyclables) and renegotiation of ambulance services. On the school side, savings are expected from installation and operation of the wind turbine.

The schools have cut staff, eliminated programs and reduced staff development, equipment replacement, basic technology funds and building maintenance to reach a balanced budget. While these are considered vital components of education delivery, they continue to be underfunded in this constrained economic environment. On the municipal side, road repair, vehicle replacement and a new fire station are serious issues that need to be addressed. Where will the resources come from?

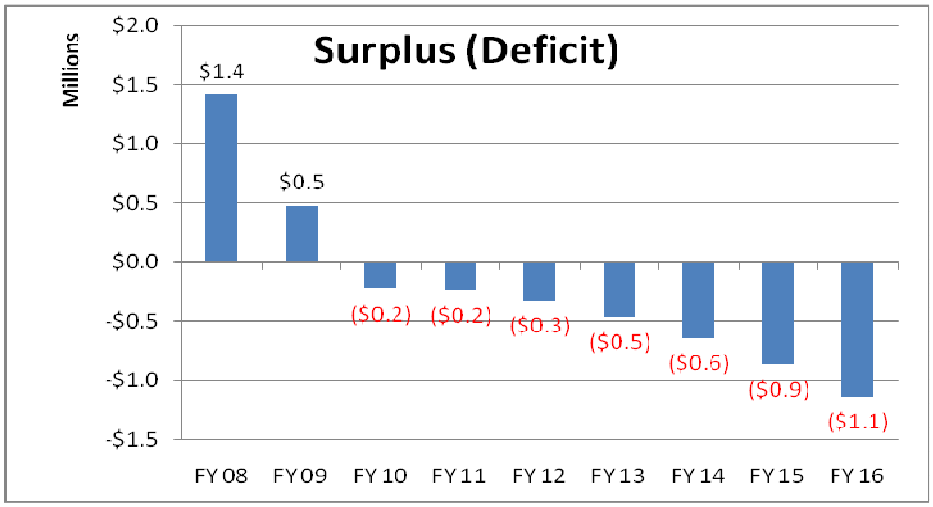
In order to identify where this is heading, a forecast of expenditures and revenues was undertaken and the result was used to determine what the balance or imbalance was. Forecasted expenditures were based on: (1) the current submitted FY11 budgets from the town and the schools, (2) the expectation that overall salary costs will increase at 3% from FY12 on, (3) that health insurance, retirement, and Medicare costs, etc would increase by 10% a year and (4) that other costs would rise at annual rates of 1%-5%.

Base Case Revenue and Expense Expectations

The following charts show that starting in FY 2010 the town has insufficient revenues to support anticipated costs.



Surplus (Deficit) Projections



Issues and Possible Responses

In order to overcome the shortfall in revenues to cover anticipated expenses, actions to grow revenues and/or reduce expenses are warranted. The following list was identified:

Possible Revenue Sources

- Given the growing deficit, the town may have to reconsider a meals tax.
- A settlement with the Feofees will mitigate some of the shortfall in school funding.
- Parking fee at the commuter rail lot and/or other service fees.
- Improving contributions from state and federal sources.
- Override.

Possible Expense Controls

- A significant driver of the shortfall is wage increases
- Ancillary costs related to healthcare, pensions etc. are growing faster than the rate of increase of town revenues.
- Every major union contract will have expired by July 1, 2010. Contract renegotiations create opportunities to recalibrate personnel costs.
- Greater efficiencies afforded by regionalization.
- Collaboration between the schools and the town.

Possible Expense Burdens

- Unfunded liabilities of retirement pension and benefits
- The potential for large and unexpected capital improvements and capital projects such as a fire station and road improvement.
- Significant unfunded programs on the school side such as technology updates, Programs being cut and teaching material (texts) needs, as well as a growing building maintenance backlog.

Appendix:

Ipswich Compared to Other Towns

Another point worth making is that Ipswich lies in the middle or lower third of most measures when compared with similar and surrounding towns. This suggests that our tax rate and expenditures are generally reasonable as compared against other communities. The following table compares Ipswich with 16 other towns and you can see that Ipswich ranges between 5 out of 17 and 12 out of 17 in all the financial measures.

				FY08					
Town	2008 Est Census	Land - Sq Miles	2008 Public Road Mileage	Expenditures ($000s)	Expenditure Per Capita	Total Assessed Value ($000s)	2008 EQV/2008 US Census	Composite Tax Rate	Avg RE Taxes Paid Per Capita
Ipswich Rank	12/17	17/17	14/17	12/17	6/17	9/17	9/17	5/17	6/17
Mean	10,629	14.80	69.00	$36,719	$3,443	$2,142,236	$224,475	$10.63	$2,332
Boxford	8,131	23.97	99.71	$28,100	$3,456	1,890,189	$246,840	$10.95	$2,703
Danvers	26,762	13.28	126.71	$92,491	$3,456	4,363,591	$179,610	$11.76	$2,112
Essex	3,333	14.16	29.99	$14,195	$4,259	811,316	$264,389	$10.75	$2,842
Georgetown	8,629	12.94	65.36	$24,793	$2,873	1,308,396	$160,910	$9.30	$1,496
Hamilton	8,155	14.60	51.81	$26,365	$3,233	1,479,272	$201,158	$13.39	$2,694
Ipswich	13,219	32.58	95.99	$43,280	$3,274	2,694,169	$219,254	$9.23	$2,024
Lynnfield	11,412	10.14	74.52	$43,165	$3,782	2,501,455	$233,548	$10.13	$2,366
Manchester-by-the-Sea	5,260	9.29	39.36	$24,493	$4,656	2,153,027	$446,112	$7.53	$3,359
Newbury	6,934	24.25	64.86	$16,687	$2,407	1,417,442	$221,884	$8.57	$1,902
Newburyport	17,542	8.38	75.88	$61,064	$3,481	3,624,203	$219,824	$10.13	$2,227
North Reading	14,444	13.25	86.96	$54,105	$3,746	2,682,546	$164,328	$11.50	$1,890
Rowley	5,738	18.72	48.06	$14,748	$2,570	962,069	$185,743	$10.38	$1,928
Salisbury	8,417	15.43	55.59	$22,307	$2,650	1,584,203	$202,249	$8.46	$1,711
Scituate	17,926	17.18	119.20	$65,606	$3,660	4,243,305	$255,218	$9.22	$2,353
Swampscott	13,944	3.05	46.36	$53,905	$3,866	2,580,170	$198,383	$14.41	$2,859
Topsfield	6,051	12.74	60.62	$22,357	$3,695	1,289,200	$227,051	$12.02	$2,729
Wenham	4,788	7.72	32.08	$16,561	$3,459	833,457	$189,582	$12.92	$2,449

Source: Massachusetts Department of Revenue, Division of Local Services, Municipal Data Bank/Local Aid Section