

MUNICIPAL FINANCE AND BUDGET

BRIEF OVERVIEW

- **Municipal finance** encompasses the ongoing planning, budgeting, accounting and evaluation of all the Town's financial resources
- The **Budget** is a one-year legal plan that appropriates funds for the operation of school and municipal services and other financial obligations of the Town.
- The **Capital Improvement Plan (CIP)** is a five-year plan of capital expenditures of the Town and the financing thereof. The first year of the CIP becomes the Capital Budget.
- The Town utilizes both ClearGov (a budgeting software) and the GFOA budget award (both a mindset and a set of criteria) for budget development.

WHAT IS THE BUDGET?

- Represents the intersection of all aspects of municipal finance
- Translates community needs and priorities into services
- Provides short- and long-term fiscal context to guide decision making
- Derives from transparent, deliberative process that informs the public
- Services as a community's single most important policy statement
- **Is more than simply matching revenues and expenditures!**

BALANCED BUDGET/DEFICITS

- The Town must pass a balanced budget
- A Town department cannot exceed its budget (including schools)
 - Must use reserve funds or transfer from other line items in a surplus
 - Exception – Snow & Ice
- The Town cannot end the year in a deficit
 - Steps must be taken to close the gap (i.e. spending freeze or STM)
 - If it can't be closed, the funds must be found in the next fiscal year

KEY PLAYERS IN FORMING THE BUDGET

- **Town Administration**

- Town Administrator
- Finance Director/Town Accountant
- Assistant Town Administrator/HR Director

This is the team that set the budget guidance for the department heads and review all department operating and capital budgets

KEY PLAYERS IN FORMING THE BUDGET

- **Finance Committee**

The finance committee is required by MGL. The committee is independently appointed by the Town Moderator and is charged with evaluating and making recommendations directly to Town Meeting on the budget and all other proposed financial appropriations.

KEY PLAYERS IN FORMING THE BUDGET

- **Select Board**

The chief elected body of the Town. The Select Board provides policy direction and authority to the Town Administrator. The Board also considers the Town Administrator's proposed budget creating a parallel and joint review with the Finance Committee.

KEY PLAYERS IN FORMING THE BUDGET

- **Middleton School Committee**

The elected School Committee is the legally responsible body in control of the school department. They approve and submit the school department's budget proposal, prepared by the School Superintendent and staff, to the Town Administration and Finance Committee. The Town retains bottom line budget authority and cannot restrict or compel the School Committee on how to allocate or expend its budget.

KEY PLAYERS IN FORMING THE BUDGET

- **Masconomet and Essex North Shore Tech**

These educational institutions are also included in the Town's budget, but due to their regional agreements and state law, the Town is provided the estimate for its contribution and can provide feedback, but the Town has little authority to affect change to this number.

KEY PLAYERS IN FORMING THE BUDGET

- **Department Heads**

In charge of individual departments. Department Heads take the guidance from the Town Administration to form their budgets. They work with vendors/contractors to determine cost changes for the upcoming year and prioritize department needs.

KEY PLAYERS IN FORMING THE BUDGET

- **Town Meeting**

Town's legislative body under Massachusetts law, which is charged with approving the budget, approving the issuance of debt, the acquisition and disposal of property, and the passage of local laws. Town Meeting cannot:

- Bind future operating budgets.
- Unduly limit executive discretion
- Restrict the school committee's legal authority ("bottom line" budget authority).

OTHER STAKEHOLDERS

- Other municipal boards and committees
- Independent auditors
- The community
- Bond rating agencies and investors
- The state

COMPONENTS OF THE BUDGET

- Revenues and expenditures
- General fund vs other funds
- Policies and new initiatives

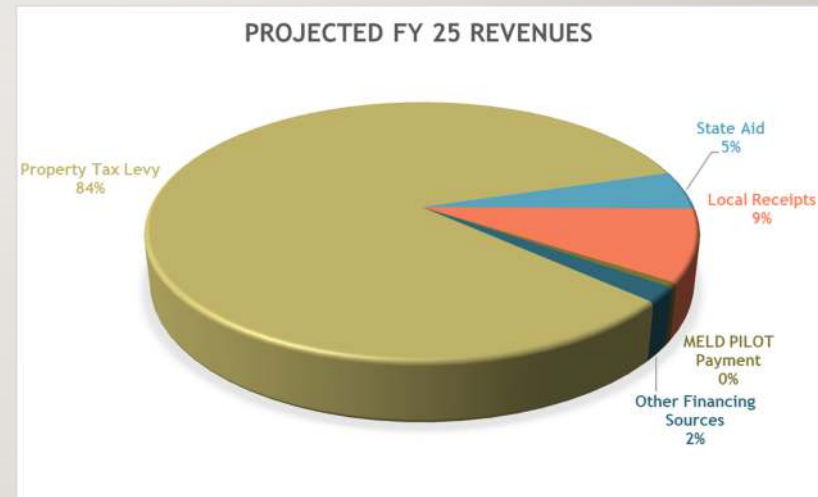
OTHER CONSIDERATIONS TO THE TOWN BUDGET

- Financial Forecasts (revenue and expense projections)
 - Operating
 - Capital
 - Fixed Costs
 - Debt
- Financial Policies
 - Important for bond rating
 - Identifies and provides parameters for reserves and certain spending

REVENUES

REVENUES – PROPERTY TAXES

- 84% of the Town's revenue
- Has limitations
 - Levy Limit
 - Proposition 2 ½
 - New Growth
 - Market changes
 - Overrides
 - Debt Exclusions



LIMITATIONS OF PROPOSITION 2 ½

Placed two caps on property taxes:

1. Property tax levy cannot exceed 2.5% of the municipality's total property assessed valuation
2. Annual property tax levy cannot grow by more than 2.5%, except for "New Growth"
 - Can ask local voters to exceed the 2.5% annual limit via an "operating override" or a "debt exclusion"

Property Tax Levy Building Blocks

Levy
Ceiling

2.5% of total Assessed Value (AV)
ex: $2.5\% \times \$1B \text{ of AV} = \$25M$

Levy
Limit

Formula essentially =
(Prior year Levy Limit * 2.5%) + New Growth + Overrides

Levy

Determined annually as part of budget process

F. FY 2023 Levy Ceiling

70,442,252

I.

33,237,896

FY 2023 Levy Limit

II. TO CALCULATE THE FY 2024 LEVY LIMIT

A. FY 2023 Levy Limit from I.

33,237,896

A1. Amended FY 2023 Growth

0

B. ADD (IIA + IIA1)*2.5%

830,947

C. ADD FY 2024 New Growth

2 635,327

C1. ADD FY 2024 New Growth Adjustment

0

D. ADD FY 2024 Override

0

E. ADD FY 2024 Subtotal

34,704,170

F. FY 2024 Levy Ceiling

1

79,847,867

II.

34,704,170

FY 2024 Levy Limit

III. TO CALCULATE THE FY 2024 MAXIMUM ALLOWABLE LEVY

A. FY 2024 Levy Limit from II.

34,704,170

B. FY 2024 Debt Exclusion(s)

3,465,917

C. FY 2024 Capital Expenditure Exclusion(s)

0

D. FY 2024 Stabilization Fund Override

0

E. FY 2024 Other Adjustment

0

F. FY 2024 Water/Sewer

0

G. FY 2024 Maximum Allowable Levy

\$

38,170,087

CLASS	(b) Levy percentage (from LA5)	(c) 1c above times each percent in col (b)	(d) Valuation by class (from LA-5)
Residential	84.0898	31,665,068.82	2,685,755,357.00
Net of Exempt Open Space	0.0000	0.00	0.00
Commercial	8.9923	3,386,163.34	287,206,932.00
Net of Exempt Industrial	5.1011	1,920,883.18	162,923,700.00
SUBTOTAL	98.1832		3,135,885,989.00
Personal	1.8168	684,138.83	58,028,699.00
TOTAL	100.0000		3,193,914,688.00

$$3,193,914,688 * 2.5\% = \$79,847,968$$

NEW GROWTH (WHAT IS IT?)

- New growth reflects certain increases in the tax base and becomes a permanent part of the levy limit base:
 - Properties that have increased in assessed valuation from prior year due to development or other changes (e.g. addition added)
 - Exempt real property returned to the tax roll
 - New personal property
 - New parcels, subdivisions or condo conversion

New growth does not include market value increases

REFERENDA (BALLOT) QUESTIONS

Overrides

Any Spending Purpose

Permanent

Amount Limited by Ceiling

Exclusions

Only Capital Purchases

Temporary



Debt
(Life of Bond)

Capital
(1 Year)

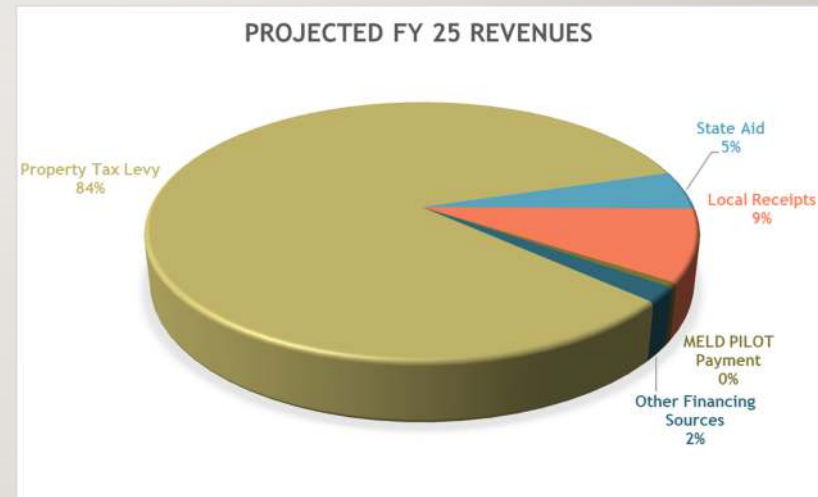
No Limit on the Number
Or Dollar Amount

CALCULATION OF THE FY25 PROPERTY TAX LEVY

	FY2024 BUDGETED	FY2025 ESTIMATE
PROPERTY TAXES		
Prior Year Levy Limit	\$ 33,237,896	\$ 34,704,170
2.5% Increase	\$ 830,947	\$ 867,604
New Growth	\$ 635,327	\$ 400,000
TOTAL LEVY LIMIT	\$ 34,704,170	\$ 35,971,774
Debt Exclusion	\$ 3,465,917	\$ 3,564,515
Excess Levy Capacity	\$ (513,833)	\$ (520,637)
TOTAL MAXIMUM LEVY LIMIT	\$ 37,656,254	\$ 39,015,652
RESERVE FOR ABATEMENT (OVERLAY)	\$ (324,406)	\$ (250,000)
NET PROPERTY TAXES RAISED	\$ 37,331,848	\$ 38,765,651

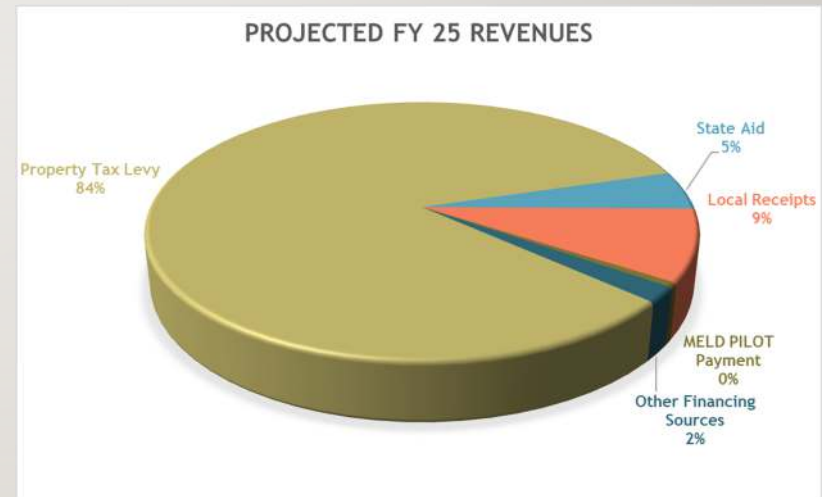
REVENUES – LOCAL RECEIPTS

- Motor vehicle excise taxes
- Hotel/motel & meals taxes
- Building permits
- Other licenses and permits
- Investment income



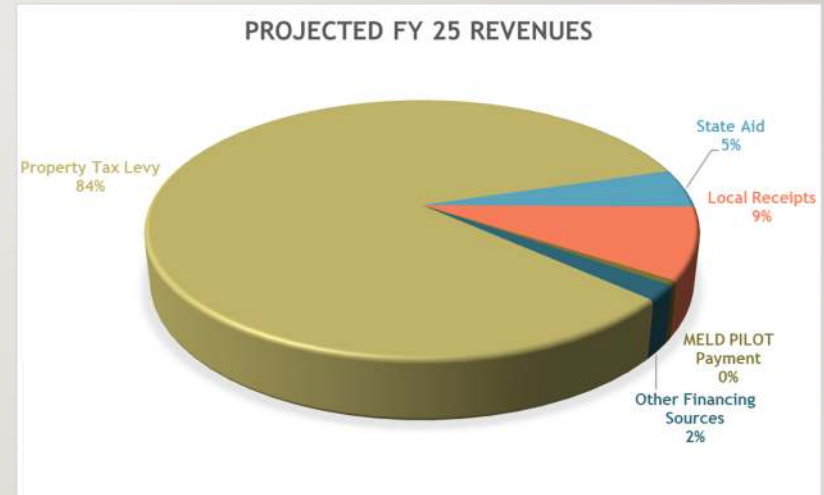
REVENUES – STATE AID

- “Cherry Sheet”
 - UGGA
 - Chapter 70
 - Reimbursement programs
- Other Federal & State Grants
 - “Off Budget”



REVENUES – OTHER FINANCING SOURCES

- Support from enterprise funds
- Special trust funds and dedicated revenues
 - Ambulance
 - PEG
 - Stabilization Funds



REVENUES – FREE CASH

- Free Cash is the term used for end of year fund balance
- A portion of free cash is held back to support the Town's financial stability and reserve position
- Regulated by Town policy for non-operating purposes
 - Capital projects
 - Reserves
 - Special purpose funds
- Main funding source for stabilization funds
 - General Stabilization
 - Capital Stabilization
 - Pension Stabilization
 - Special Education Stabilization
 - Facilities Complex Stabilization
 - Sidewalk Stabilization

FREE CASH CALCULATION – FY25 EXAMPLE

Free Cash Available as of July 1, 2023	\$ 4,552,945	A
Fiscal Year 2023 operating appropriation	46,320,589	
Free Cash at a target range of at least 3% of the prior year general fund operating appropriation	1,389,618	B
Free Cash appropriated at October STM	740,552	C
Available amount from Free Cash to fund Fiscal Year 2025 capital projects/warrant articles	<u>\$ 2,422,776</u>	A-B-C = D
Proposed Free Cash spending for 2025	<u>2,309,628</u>	E
Remaining Free Cash	<u>\$ 113,148</u>	D-E
Free Cash Balance to be Carried Over	<u>\$ 1,502,765</u>	A-C-E

EXPENDITURES

SNAPSHOT OF THE FY25 EXPENSE BUDGET

	<u>FY2024 BUDGET</u>	<u>FY2025 PROPOSED</u>	<u>\$ Change</u>	<u>% Change</u>
TOWN SERVICES				
Personnel Services	\$ 7,893,522	\$ 8,267,362	\$ 373,840	4.7%
Contractual Services	\$ 2,996,586	\$ 3,254,277	\$ 257,691	8.6%
Retirement, Health Ins & Unclassified	\$ 3,555,087	\$ 3,579,082	\$ 23,995	0.7%
TOTAL TOWN SERVICES	<u>\$ 14,445,195</u>	<u>\$ 15,100,721</u>	<u>\$ 655,526</u>	<u>4.5%</u>
TOWN DEBT SERVICE	<u>\$ 3,805,330</u>	<u>\$ 3,828,178</u>	<u>\$ 22,848</u>	<u>0.6%</u>
ELEMENTARY SCHOOLS	<u>\$ 14,724,501</u>	<u>\$ 15,312,562</u>	<u>\$ 588,061</u>	<u>4.0%</u>
MASCONOMET REGIONAL SCHOOL ASSESSMENT	<u>\$ 10,896,460</u>	<u>\$ 11,103,806</u>	<u>\$ 207,346</u>	<u>1.9%</u>
ESSEX TECHNICAL SCHOOL				
Essex Tech Regional Assessment	\$ 807,180	\$ 910,615	\$ 103,435	12.8%
Essex Tech Debt Service	\$ 67,215	\$ 71,538	\$ 4,323	6.4%
TOTAL ESSEX TECHNICAL SCHOOL ASSESSMENT	<u>\$ 874,395</u>	<u>\$ 982,153</u>	<u>\$ 107,758</u>	<u>12.3%</u>
TOTAL EXPENDITURES	<u>\$ 44,745,881</u>	<u>\$ 46,327,420</u>	<u>\$1,581,539</u>	<u>3.5%</u>

EXPENDITURES – TOWN DEPARTMENTS

- Appropriated in separate categories including personnel, contractual services, and recurring capital expenses
- There are 34 active departments in the Town not including “departments” for fixed costs

111	TOWN MODERATOR	162	ELECTION	296	CONSTABLE	543	VETERAN'S AGENT
122	SELECT BOARD	171	CONSERVATION	301	SCHOOL	545	TRI TOWN COUNCIL
131	FINANCE COMMITTEE	175	PLANNING DEPARTMENT	314	MASCO ASSESSMENT	548	GARDEN CLUB
135	TOWN ACCOUNTANT	192	TOWN BUILDINGS	315	NS ESSEX TECH ASSESSMENT	610	LIBRARY
141	ASSESSOR	195	TOWN REPORT	420	PUBLIC WORKS	630	RECREATION
145	TREASURER/COLLECTOR	210	POLICE DEPARTMENT	423	SNOW & ICE REMOVAL	691	HISTORICAL COMMISSION
151	TOWN COUNSEL	220	FIRE DEPARTMENT	425	TRANSFER STATION	692	MEMORIAL DAY
155	INFORMATION TECHNOLOGY	241	BUILDING INSPECTION	511	BOARD OF HEALTH		
161	TOWN CLERK	292	ANIMAL CONTROL	541	COUNCIL ON AGING		

EXPENDITURES – NON DEPARTMENTAL

- Employee benefits
 - Health Insurance
 - Other Post Employment Benefits (OPEB)
- Debt & Interest
- Retirement Contribution
- General Insurance
 - Property & Liability
 - Worker's Comp
- State Assessments (Cherry Sheet)

710 DEBT SERVICE
820 STATE ASSESSMENTS & CHARGES
910 EMPLOYEE BENEFITS
911 RETIREMENT
913 UNEMPLOYMENT
914 HEALTH INSURANCE
915 LIFE INSURANCE
916 MEDICARE/DEP TAX
945 LIABILITY INSURANCE

EXPENDITURES – SPECIAL APPROPRIATIONS

- Capital Projects
 - The CIP is funded through a combination of direct appropriations and the issuance of debt
 - Projects may also be funded through capital stabilization or another fund transfer

	Community Preservation Fund	Proposed Free Cash Contributi	Debt Service	State & Federal Funding
Administration				
Natsue Way Remediation, Parking and Sidewalk		\$483,040		
Total Administration	\$0	\$483,040	\$0	\$0
Information Technology				
Server & Network Migration		\$30,000		
IT & Cybersecurity		\$27,157		
DPW Konica Wide Format & MFP Printer Replacement		\$20,000		
Town-Wide Phone Migration & Upgrade		\$26,466		
AssessPro 5 Upgrade		\$11,000		
Total Information Technology	\$0	\$114,623	\$0	\$0

REVENUES VS EXPENDITURES (SUMMARY)

REVENUES

	<u>\$ Change</u>	<u>% Change</u>
NET PROPERTY TAXES RAISED	\$ 1,433,803	3.8%
TOTAL NET STATE AID	64,492	3.0%
TOTAL LOCAL RECEIPTS	178,498	4.5%
TOTAL OFFSET RECEIPTS	<u>(95,254)</u>	<u>-7.7%</u>
TOTAL REVENUES	<u>\$ 1,581,539</u>	<u>3.5%</u>

EXPENDITURES

	<u>\$ Change</u>	<u>% Change</u>
TOTAL TOWN SERVICES	\$ 655,526	4.5%
TOWN DEBT SERVICE	22,848	0.6%
ELEMENTARY SCHOOLS	588,061	4.0%
TOTAL MASCONOMET ASSESSMENT	207,346	1.9%
TOTAL ESSEX NORTH SHORE ASSESSMENT	<u>107,758</u>	<u>12.3%</u>
TOTAL EXPENDITURES	<u>\$ 1,581,539</u>	<u>3.5%</u>

ADDITIONAL RESOURCES

- [Local receipts](#)
- [Average Single Family Tax](#)
- [Municipal Finance Assessment](#)
- [Free Cash Use](#)
- [Municipal Data Bank](#)
- [GFOA Document](#)
- [Financial Management Policies](#)
- [Budget and Finance Page](#)