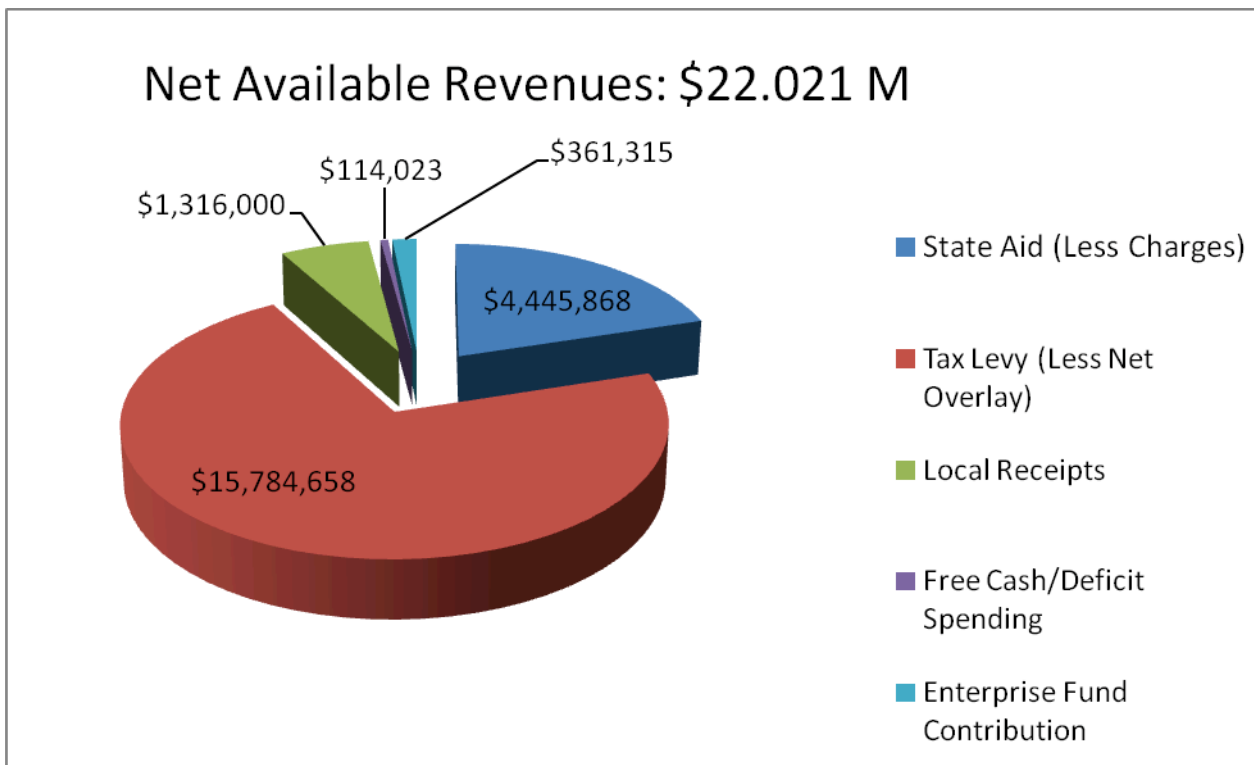


Town of Ayer  
Finance Committee  
Budget Recommendation  
For the Fiscal Year 2010: July 1, 2009 – June 30, 2010

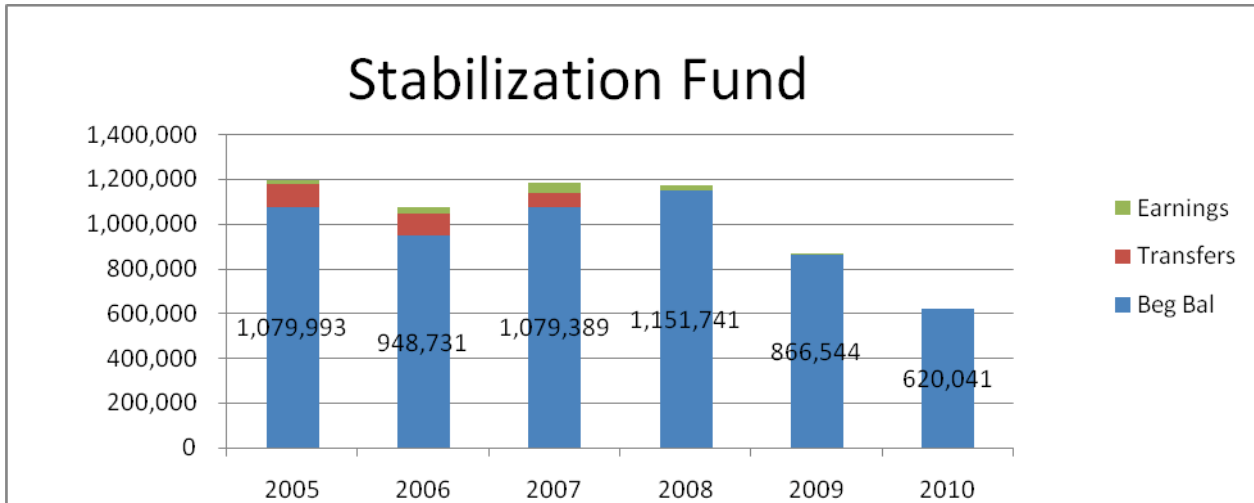
The Budget Review process begins with an estimate of Projected Revenues available for appropriation at Town Meeting. The chart below illustrates the consensus estimate of available revenues for fiscal year 2010, as of April 15, 2009, which includes the state aid estimate proposed by the House Ways and Means committee. Net available revenues are \$22,021,864, which is 1.8% lower than FY 2008.

The state aid figure has been a moving target as the Governor, House and Senate continually revise state revenue estimates downward as the national recession hammers capital gains revenues and unemployment continues to rise. Although federal emergency relief and education funding have stabilized the school department's funding sources, the cuts to local aid have been significant and there is every indication that the final revenues available for Ayer could be reduced further as the state budget deficit continues to rise to over \$3.6 billion.

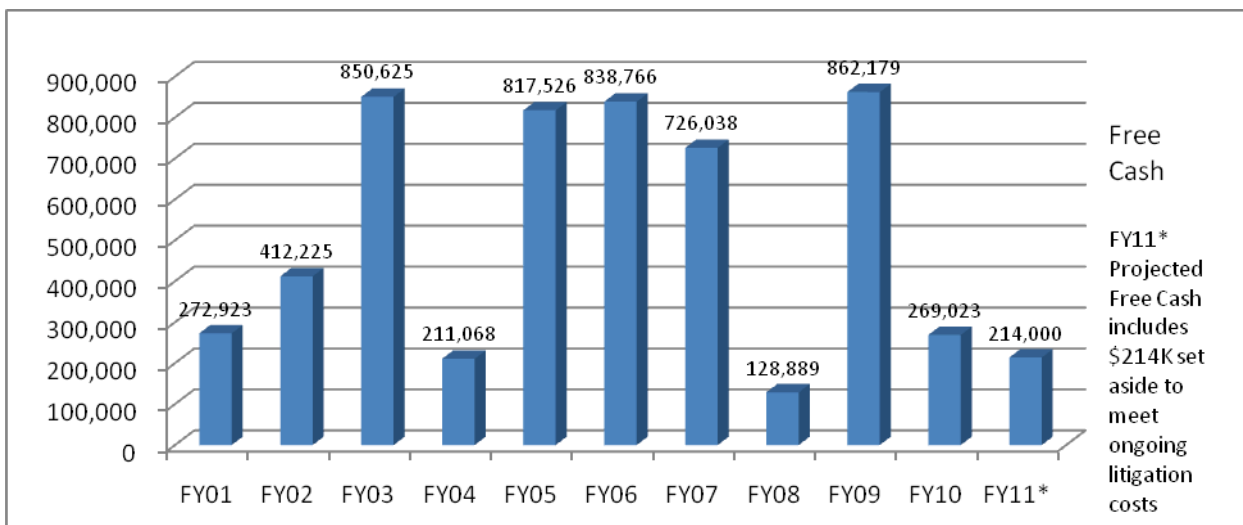


All of this volatility and uncertainty has reinforced the Fincom's conservative approach to the budget, with our focus on how to retain critical services and the jobs of our valued town employees, while preserving the town's Stabilization Fund (reserves similar to a savings account). Over the past five years the stabilization fund has been drawn down \$841,722 to pay for health insurance premiums, wage offsets for health insurance and litigation defense costs.

With an operating budget of \$22 million, the town should have a Stabilization Fund of approximately \$1.1 million to meet unexpected costs or capital expenditures. The last year that the town had excess funds to transfer to the Stabilization fund was 2007. As you can see from the chart below, we have been using up the Stabilization Fund and further depletion of the Stabilization Fund will cause the Town's bond rating to be negatively impacted, which will result in higher interest costs on future borrowings and may cripple our ability to address emergency situations that may arise. Preservation of the Stabilization Fund has been a primary focus of the Fincom during the budget process.



Balancing these objectives with less revenue has been a challenge. Year after year, we have pared down the budget to meet the balanced budget requirement. The effect of these cuts over time has been to reduce the Free Cash (a component of Net Revenues Available for Appropriation) for the next fiscal year.



Beginning in January 2009 the Finance Committee (“Fincom”) conducted a series of public hearings to review department budget projections for fiscal year 2010. Department managers were instructed by the Board of Selectmen to prepare two budgets that would include a 1% and 2 ½ % reductions in spending should state aid be reduced.

Department managers presented budgets with the proposed cuts to line items such as Services, Supplies and Other Charges, excluding any reductions in work hours, salaries, benefits, stipends, longevity payments or other salary items, such as reimbursements for education, uniforms, overtime, etc. Salaries, employee and retiree benefits now make up over 71% of all appropriations on an annual basis. The preliminary budget had a deficit of \$52,477, which required the Fincom to consider other cuts to balance the budget.

Department Managers Preliminary Budget	Appropriation	Change From FY09	Percent Change FY09
<b>Dept 100 - General Government</b>	562,516	(19,684)	-3.38%
<b>Dept 200 - Finance</b>	6,688,463	(98,208)	-1.45%
<b>Dept 300 - Public Safety</b>	2,950,186	(32,768)	-1.10%
<b>Dept 400 - Public Works</b>	937,420	(16,292)	-1.71%
<b>Dept 500 - Human Services</b>	788,738	30,865	4.07%
<b>Dept 600 - Education</b>	10,064,382	(76,970)	-0.76%
<b>Dept 700 - Management Support</b>	82,636	(32,920)	-28.49%
Total Budget	22,074,341	(245,977)	-1.10%
<b>Net Revenues Available</b>	22,021,864		
<b>Deficit</b>	-52,477		

Based on the information available to the Fincom, it seemed that the only way to achieve a balanced budget and retain services and jobs was to seek a wage concession from all town employees. For most employees, this wage concession would take the form of a reduced cola; for a few employees earning at the top of their pay grade, the wage concession would be a reduction in salary for the fiscal year. For recently unionized town employees without a collective bargaining agreement, they would continue to earn their grade and step pay for the coming year and then a wage concession. On February 27, 2009 the Fincom submitted a preliminary report to the Board of Selectmen and urged them to approach the unions about potential wage concessions and pursue other revenue enhancements, such as updating rates and fees.

While the tri-board was informed of this strategy, there has not been a consensus as to the “tipping point” that would warrant a wage concession. On April 15, 2009 the Fincom met and debated where to make cuts in the budget and the impact of these reductions on town jobs and services. The Fincom voted to recommend a balanced budget to the Board of Selectmen of \$22,021,864 for fiscal year 2010. This represents a reduction of 1.34% or \$298,454 from the current fiscal year budget.

The fincom committee members agreed on the budget approach. However, a consensus on whether to restore certain services or not, was evenly split by the members and a consensus budget was not attainable under the tight time constraints under which the members considered the options. As a result, the fincom proposed two

Options for the Balanced Budget Recommendation (summaries of each option are shown below). The committee members felt that these two options provided a range of wage concessions to retain services.

Option A-requires additional cuts of \$52,477 from the department managers' preliminary budget: These cuts represent a wage concession of 0.46% of projected salaries for fiscal year 2010.

Option A Summary Departments	Appropriation	Change From FY09	Percent Change FY09	Wage Concession 0.46%
<b>Dept 100 - General Government</b>	561,181	(21,019)	-3.61%	(1,335)
<b>Dept 200 - Finance</b>	6,684,250	(102,421)	-1.51%	(4,213)
<b>Dept 300 - Public Safety</b>	2,937,411	(45,543)	-1.53%	(12,775)
<b>Dept 400 - Public Works</b>	935,053	(18,659)	-1.96%	(2,367)
<b>Dept 500 - Human Services</b>	786,605	28,732	3.79%	(2,133)
<b>Dept 600 - Education</b>	10,032,898	(108,454)	-1.07%	(31,484)
<b>Dept 700 - Management Support</b>	82,360	(33,196)	-28.73%	(276)
<b>Total Budget</b>	<b>22,019,757</b>	<b>(300,561)</b>	<b>-1.35%</b>	<b>(54,583)</b>
Surplus	2,107	2,107		2,107
Net Funds Available for Appropriation	22,021,864	298,454		(52,476)

Option B -requires additional cuts of \$175,196 from the preliminary budget, including cost cutting measures already presented by department managers and restores the fire department coverage for 51 (12 hour shifts) to 3 men on and full-time ambulance callback; (\$65,000), police reserve positions for holiday coverage; (\$25,000) and the funding for 50% of the economic development director position; (\$32,719). These cuts represent a wage concession of 1.54% of projected salaries for fiscal year 2010.

Option B Summary Departments	Appropriation	Change From FY09	Percent Change FY09	Wage Concession 0.46%
<b>Dept 100 - General Government</b>	558,072	(24,128)	-4.14%	(4,444)
<b>Dept 200 - Finance</b>	6,681,450	(105,221)	-1.55%	(7,013)
<b>Dept 300 - Public Safety</b>	2,997,658	14,704	0.49%	(42,529)
<b>Dept 400 - Public Works</b>	929,542	(24,170)	-2.53%	(7,878)
<b>Dept 500 - Human Services</b>	781,636	23,763	3.14%	(7,102)
<b>Dept 600 - Education</b>	9,959,573	(181,779)	-1.79%	(104,809)
<b>Dept 700 - Management Support</b>	113,933	(1,623)	-1.40%	(1,422)
<b>Total Budget</b>	<b>22,021,864</b>	<b>(298,454)</b>	<b>-1.34%</b>	<b>(175,196)</b>

On April 22, 2009 the Town Administrator presented to the fincom a balanced budget, which included a 1% wage concession for all departments. The fincom voted to approve this budget for the town warrant. The committee members felt that this budget represented a compromise, which fell within the range (Options A & B) that our committee had recommended.

On the one hand, it restored most of the public safety services and a 1% wage concession across all departments, and on the other hand it also included wage provisions such as a 3% cola for non-union employees and recently unionized employees; as well as a proposed wage freeze, which sends a mixed signal; employees get a 3% raise, rather than a step increase of 2 ¼ % as provided in the town's compensation plan, before then applying a wage concession.

However, subsequently, at the Board of Selectmen's Public Hearing on the budget, the Town Administrator surprisingly removed the wage concessions and asked for additional cuts in services of approximately \$33,000, because the School Superintendant had agreed to absorb a further reduction of education appropriations of \$68,000, in order to avoid wage concessions. The additional cuts were approved by the board of selectmen to balance the town administrator's revised budget proposal and are included in the budget presented in the warrant.

The risks to the town in this budget cycle are costs being slashed everywhere except salaries, benefits, and overtime. Cost overruns and unexpected expenses will ultimately put further strain on the town's stabilization fund, particularly if the reserve fund is not adequate to cover the shortages.

The fincom continues to urge the Board of Selectmen and the School Committee to begin the process of seeking wage concessions, by bringing our union employees to the bargaining table, so that they can be part of the solution if the situation deteriorates further.