

Section 4
Discussion of Revenues

PROJECTED FY 2016 REVENUES

For FY 2016 it is projected that the total revenue and other funding sources will be \$21,970,352. This amount - less the \$1,730,673 in new debt that will be incurred in FY 2016 - will result in net revenues of \$20,239,679. This is a \$420,124 or 2.2% increase over the FY 2015 debt adjusted amount of \$19,819,555. Seventy four percent of the net revenue comes from the **Property Taxes** compared to seventy three percent in FY 2015. **Local Receipts** account for the 6.3 percent of the revenue budget and **State Aid** contributes 7.5%. **Sewer User Fees** will account for 9.8% of all revenues in the recommended budget.

Property Taxes: The FY 2016 net tax levy is estimated to be \$14,896,389. This represents a \$471,926 or 3.3% increase over the FY 2015 net tax levy. This includes the normal 2.5% increase plus \$120,000 in new growth. It is assumed that the Town will levy up to the maximum levy limit. In addition the town will raise \$677,864 on the tax levy for the purpose of paying debt services on projects where debt exclusions were voted (i.e. Police Station, Combined Sewer Overflow, and the Turners Falls High School/Middle School)

Local Receipts: Local receipts are projected to decline by \$30,810 or 2.4% to \$1,260,000. This reduction is due to the loss of all Medicare Part D reimbursements. The town is no longer eligible to receive reimbursements under this program.

State Aid: The town is assuming that state aid will be level funded in FY 2016. The state experienced a major funding deficit in FY 2015 and was forced to make nearly \$1 billion in cuts to the budget mid year. Municipalities were largely spared from the major budget reductions that took place this year. As the Governor has pointed out, however, this years' budget shortfall was largely expenditure driven and not caused by a decline in the economy. It is unclear, at this point, whether the impact of the shortfall will carry over into FY 2016 and require cuts in could include local aid. This will not be known until the state releases its consensus revenue estimate for FY 2016 and the Governor releases his budget.

Other Available Funds and Stabilization: Revenues from other available funds and stabilization are estimated to be \$346,000. These include the FCTS SRO Reimbursement (\$56,706), Airport User Fees (\$30,847), and Colle Receipts Reserved for Appropriation (\$80,350). The Town Administrator's budget assumes that (\$137,482) will be used from the Town Stabilization Fund to finance special articles and (\$40,615) will be used from the FCTS Stabilization fund to finance the operating assessment.

Free Cash: The Town's free cash was certified at \$894,940 on July 1, 2014. The current free cash balance is \$250,282. The FY 2016 budget includes the use of \$250,000 in free cash.

Borrowing: The budget includes \$1,730,673 in borrowing, \$385,000 of which will be borrowed by the Sewer Enterprise Fund for additional sewer line inspection and lining. The Town Administrator is also proposing that the town borrow an additional \$1,345,673 to fund Window/Door Replacements (\$1,116,764), a new boiler (\$120,000) and a new burner (\$25,000) at the Sheffield School. Funding for the window and door replacement will be reimbursed at the rate of 76% from the State under the MSBA program. The Town Administrator is also proposing that the town's share of the GMRS D Trailer (\$41,309) and Snow Plow (\$42,600) be borrowed/ The debt service for this sewer borrowing will not affect the budget until FY 2017.

FY 2016 REVENUE SUMMARY

	FY 14 Budget	FY15 Budget	FY16 Requested	FY16 TA Recommend
Revenue				
Property Tax (Net Levy)	\$14,007,061	\$14,424,463	\$14,896,389	\$14,896,389
Local Receipts	\$ 1,424,397	\$ 1,290,810	\$ 1,260,000	\$ 1,260,000
State Aid (Net of Charges)	\$ 1,417,661	\$ 1,509,148	\$ 1,509,148	\$ 1,509,148
Free Cash	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Other Available Funds				
FCTS SRO Reimbursement	\$ 0	\$ 76,645	\$ 56,706	\$ 56,706
Spec. Article Balances	\$ 0	\$ 15,000	\$ -	\$ -
Receipts Reserved for Appropriation	\$ 94,216	\$ 86,738	\$ 80,350	\$ 80,350
Free Cash for Spec Articles	\$ 0	\$ 0	\$ 0	\$ 0
Town Stabilization	\$ 275,054	\$ 113,000	\$ 91,000	\$ 137,482
FCTS Stabilization	\$ 24,000	\$ 0	\$ 40,615	\$ 40,615
Town Borrowing	\$ 0	\$ 400,000	\$ 1,345,673	\$ 1,345,673
Sewer Borrowing	\$ 0	\$ 3,160,000	\$ 961,036	\$ 385,000
Sewer User Fees	\$ 1,733,363	\$ 2,018,586	\$ 2,059,099	\$ 1,978,987
Airport User Fees	\$ 31,461	\$ 36,165	\$ 30,847	\$ 30,847
Total Revenues	\$19,256,214	\$23,379,555	\$22,695,863	\$21,970,352

REVENUE HISTORY*

REVENUE SOURCE	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
	Actual	Actual	Actual	Actual	Actual	Budget	Recommend
Tax Levy	12,110,036	12,604,537	13,021,727	13,501,567	14,007,061	14,424,463	14,896,389
State Aid	1,386,447	1,358,131	1,294,211	1,372,617	1,417,661	1,509,148	1,509,148
Local Receipts	1,496,676	1,471,008	1,332,878	1,457,654	1,424,397	1,290,810	1,260,000
Other Available Funds	497,914	561,284	580,909	298,582	368,271	290,383	203,056
Free Cash	309,500	351,500	250,000	250,000	250,000	250,000	250,000
Total Revenues	15,800,573	16,346,460	16,479,519	16,880,330	17,467,390	17,764,804	18,118,593

***Note: Total revenues do not include Borrowing, Colle RRA, Airport User Fees or Sewer User Fees**

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 is constructed 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 (former Director of the Massachusetts Taxpayers Foundation) once summed it up, “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.

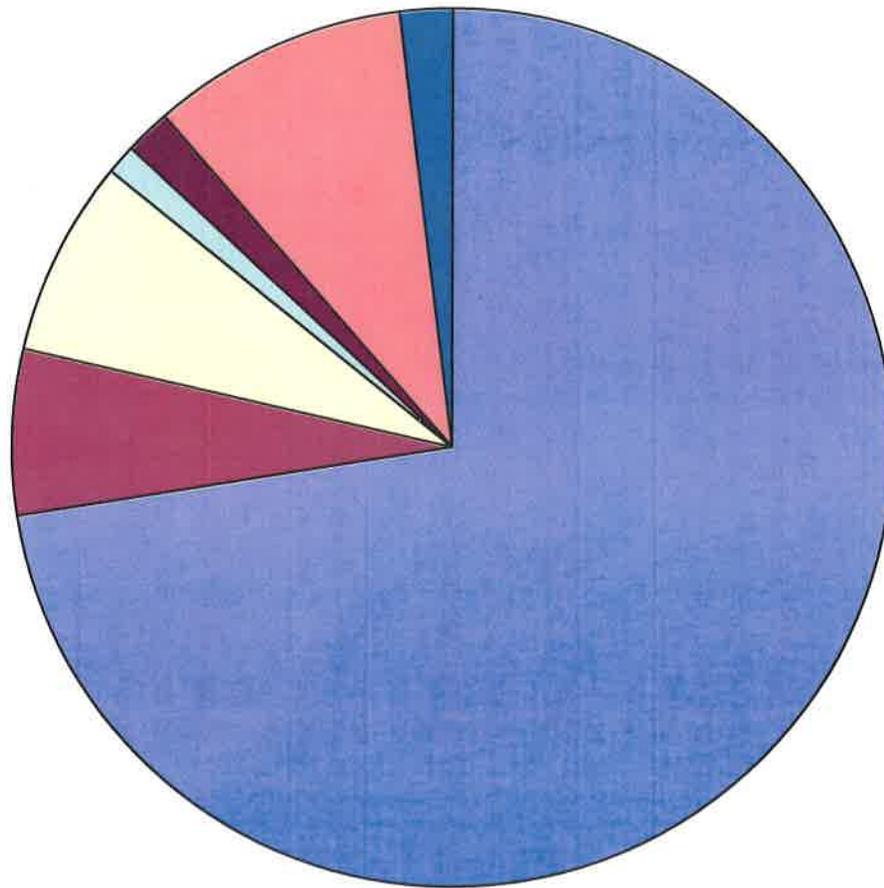
Available Funds:

- 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.
- The Town should continue the policy of building its reserves to levels established in its Financial Policies and Procedures manual (2014)

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 for debt. These criteria are 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.

Where the Money Comes From

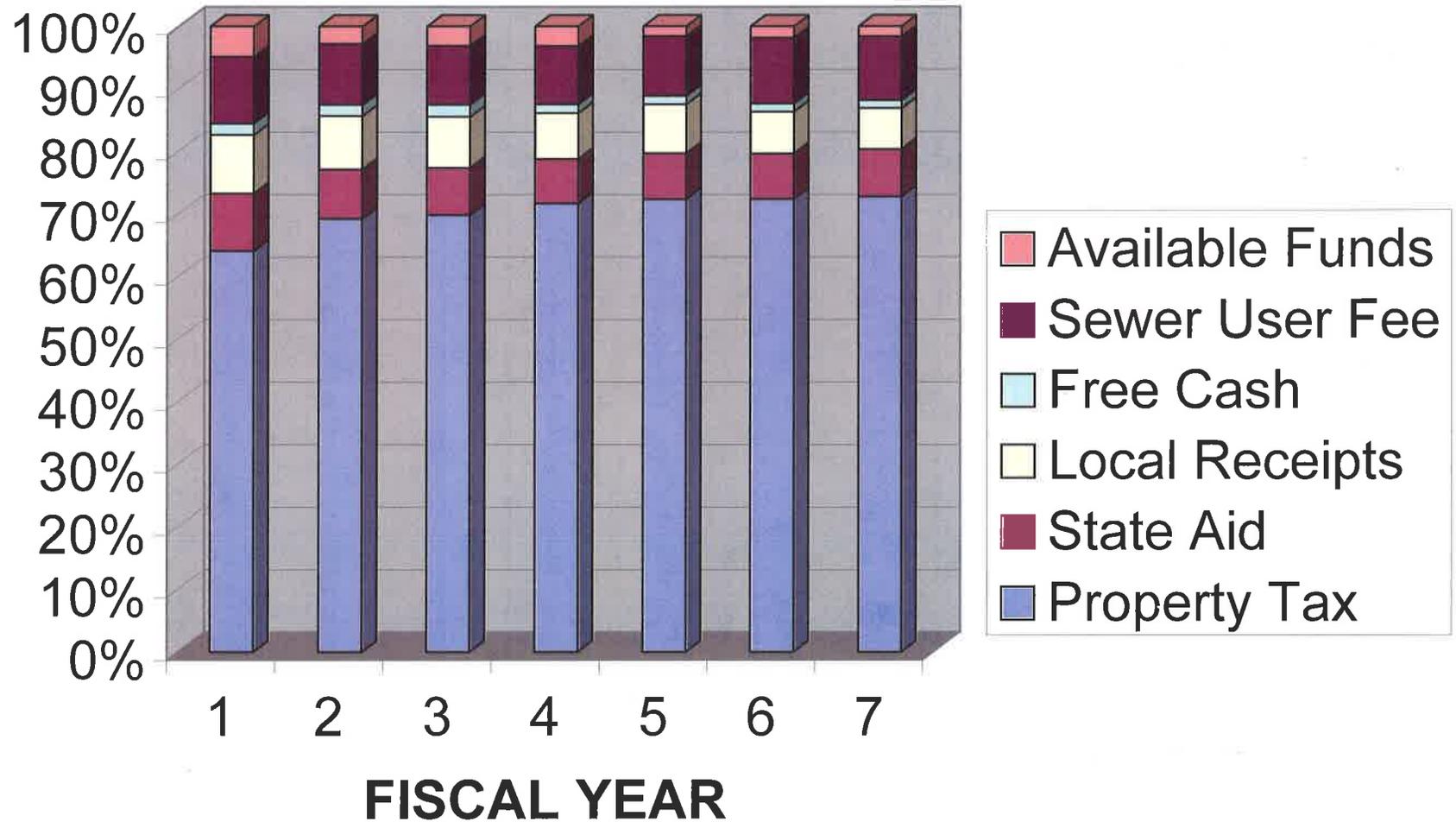


- Property Taxes
- Local Receipts
- State Aid
- Free Cash
- Other Available Funds
- Sewer
- Borrowing

REVENUE HISTORY: FY 2009 - FY 2015

CATEGORY	FY 09	FY10	FY 11	FY 12	FY 13	FY 14	FY 15
Property Tax	\$ 11,075,724.00	\$ 12,110,036.00	\$ 12,604,537.00	\$ 13,021,727.00	\$ 13,501,567.00	\$ 14,007,061.00	\$ 14,424,463.00
State Aid	\$ 1,589,865.00	\$ 1,386,447.00	\$ 1,358,131.00	\$ 1,294,211.00	\$ 1,372,617.00	\$ 1,417,661.00	\$ 1,509,148.00
Local Receipts	\$ 1,621,486.00	\$ 1,496,676.00	\$ 1,471,008.00	\$ 1,333,108.00	\$ 1,457,654.00	\$ 1,290,000.00	\$ 1,290,810.00
Free Cash	\$ 309,500.00	\$ 309,500.00	\$ 351,500.00	\$ 250,000.00	\$ 250,000.00	\$ 250,000.00	\$ 250,000.00
Sewer User Fee	\$ 1,844,258.00	\$ 1,694,658.00	\$ 1,695,197.00	\$ 1,689,511.00	\$ 1,777,826.00	\$ 2,028,774.00	\$ 2,018,586.00
Available Funds	\$ 842,280.00	\$ 497,914.00	\$ 561,284.00	\$ 580,909.00	\$ 298,582.00	\$ 362,143.00	\$ 327,548.00
Total	\$ 17,283,113.00	\$ 17,495,231.00	\$ 18,041,657.00	\$ 18,169,466.00	\$ 18,658,246.00	\$ 19,355,639.00	\$ 19,820,555.00

REVENUE HISTORY: 2009 - 2015



CATEGORY	HISTORY OF TAX LEVY						
	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
PROPERTY TAX							
Prior year	\$ 10,442,531.00	\$ 10,990,057.00	\$ 11,458,597.00	\$ 12,007,635.00	\$ 12,456,970.00	\$ 12,911,745.00	\$ 13,690,149.00
Plus 2 1/2	\$ 261,107.00	\$ 274,751.00	\$ 286,462.00	\$ 300,207.00	\$ 311,424.00	\$ 322,794.00	\$ 342,254.00
Plus New Growth	\$ 284,678.00	\$ 193,689.00	\$ 262,676.00	\$ 148,496.00	\$ 143,351.00	\$ 455,610.00	\$ 112,499.00
New Levy Limit	\$ 10,988,316.00	\$ 11,458,497.00	\$ 12,007,635.00	\$ 12,456,970.00	\$ 12,911,745.00	\$ 13,690,149.00	\$ 14,144,902.00
Plus Overrides	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Exclusions	\$ 259,535.00	\$ 781,725.00	\$ 717,927.00	\$ 695,026.00	\$ 713,128.00	\$ 674,566.00	\$ 679,626.00
Max Allowable Levy	\$ 11,249,592.00	\$ 12,240,222.00	\$ 12,725,562.00	\$ 13,151,996.00	\$ 13,624,873.00	\$ 14,364,715.00	\$ 14,824,528.00
Less Abatements	\$ 173,868.00	\$ 130,186.00	\$ 121,025.00	\$ 130,269.00	\$ 123,306.00	\$ 357,654.00	\$ 400,065.00
Total Net Levy	\$ 11,075,724.00	\$ 12,110,036.00	\$ 12,604,537.00	\$ 13,021,727.00	\$ 13,501,567.00	\$ 14,007,061.00	\$ 14,424,463.00
Less Debt Exclu.		\$ 470,181.00	\$ 549,138.00	\$ 449,335.00	\$ 454,775.00	\$ 778,404.00	\$ 417,402.00
Perc. Increase		4.28	4.79	3.74	3.7	6.02	3

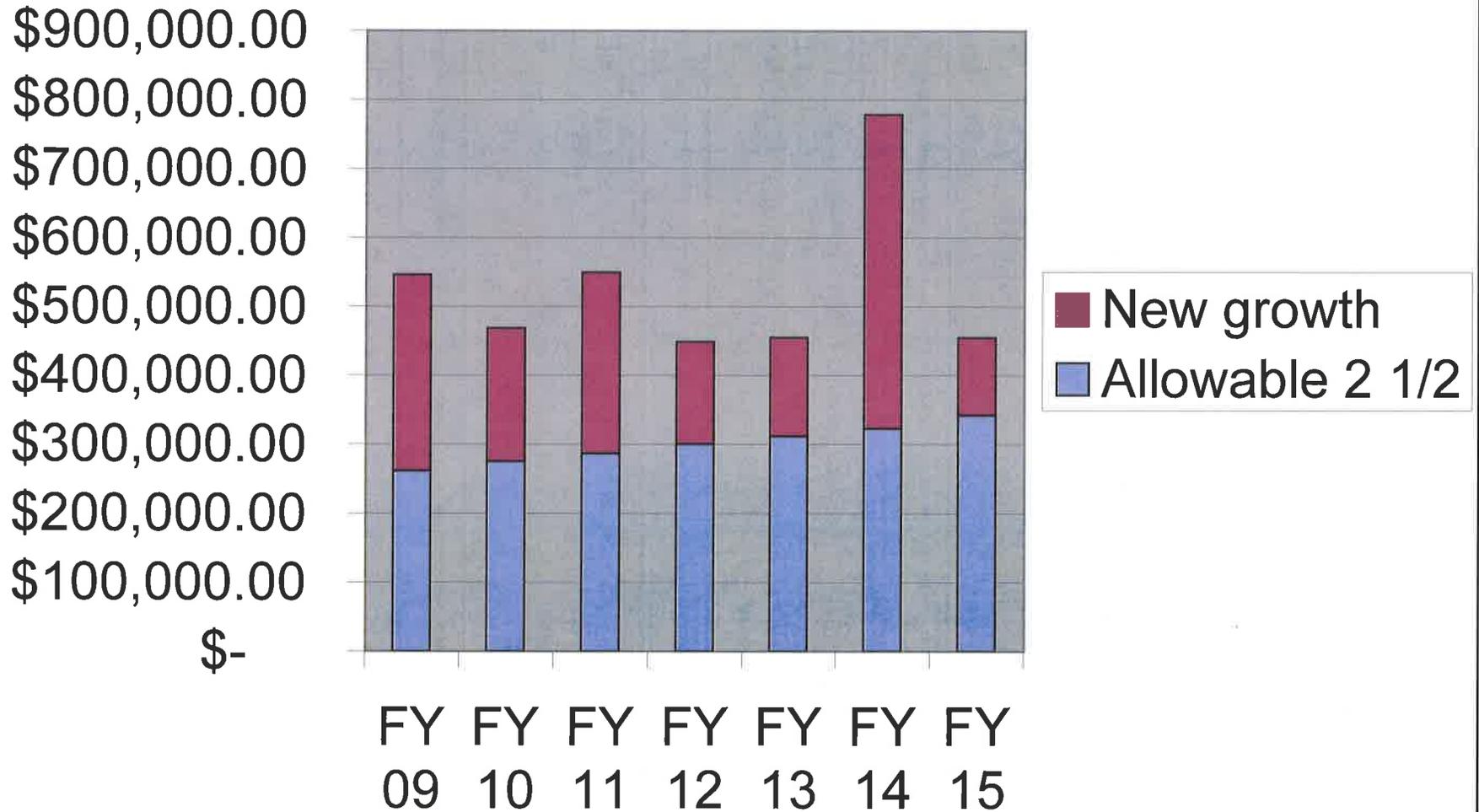
Total increase: \$3,348,739

30% or 5% increase per year

New Growth accounted for \$1,600,999 or 47.8% of this tax levy growth. This is \$228,714/year

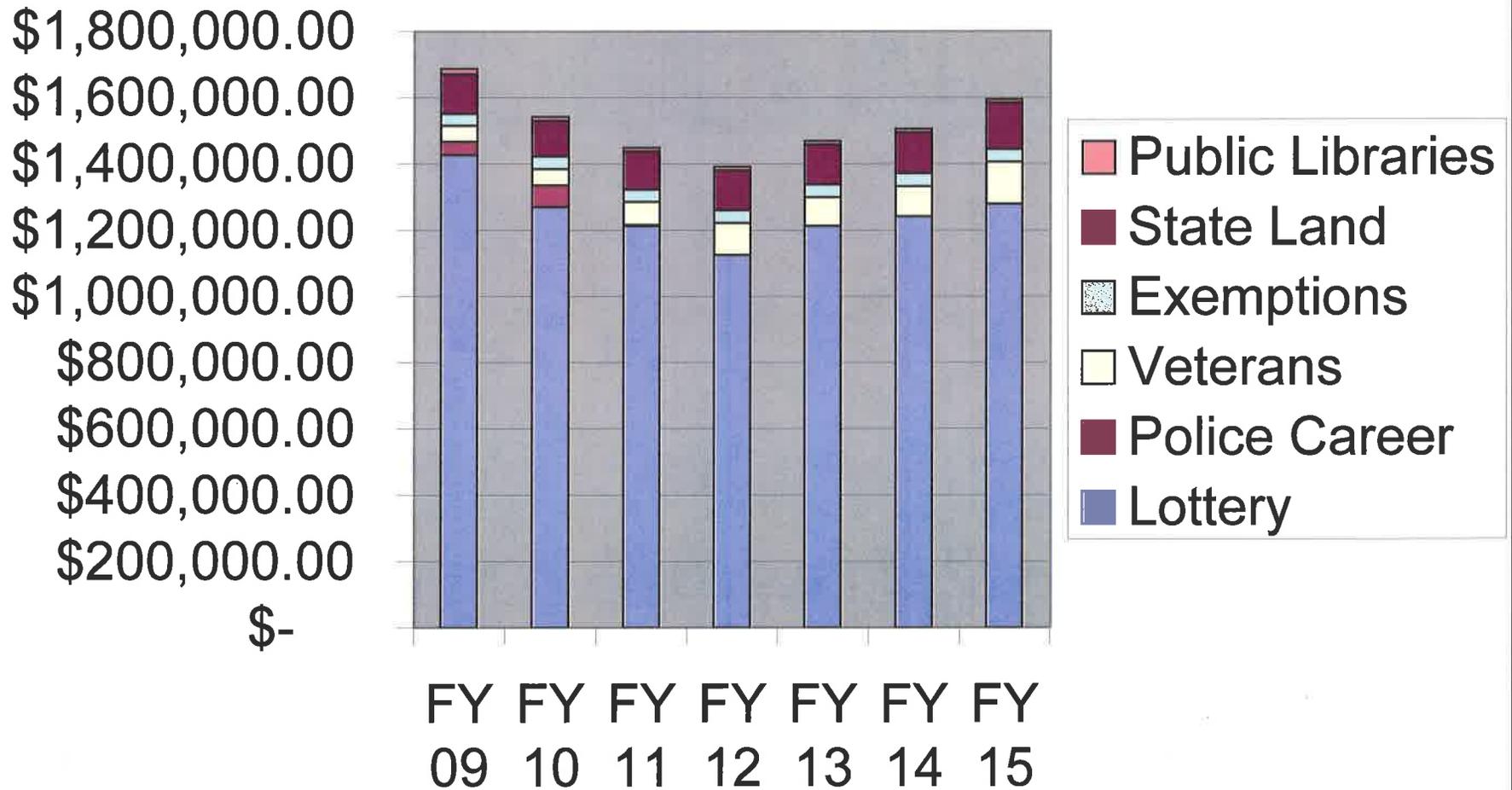
If new growth had averaged \$120,000 per year total tax growth would have been \$2,938,999 or 26.5%, and annual growth only 4.42%

Source of Tax Growth



CATEGORY	STATE AID HISTORY 2009 - 2015						
	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
Lottery	\$ 1,426,662.00	\$ 1,269,073.00	\$ 1,212,188.00	\$ 1,124,542.00	\$ 1,212,188.00	\$ 1,240,842.00	\$ 1,278,067.00
Police Career	\$ 39,989.00	\$ 65,555.00	\$ 3,500.00	\$ -	\$ -	\$ -	\$ -
Veterans	\$ 48,631.00	\$ 49,112.00	\$ 68,967.00	\$ 96,606.00	\$ 86,490.00	\$ 91,061.00	\$ 127,386.00
Exemptions	\$ 35,904.00	\$ 39,031.00	\$ 36,922.00	\$ 38,296.00	\$ 38,679.00	\$ 38,857.00	\$ 38,651.00
State Land	\$ 119,042.00	\$ 107,241.00	\$ 115,321.00	\$ 120,336.00	\$ 120,375.00	\$ 122,756.00	\$ 139,672.00
Public Libraries	\$ 16,991.00	\$ 12,196.00	\$ 11,851.00	\$ 11,308.00	\$ 11,227.00	\$ 11,276.00	\$ 10,732.00
Total	\$ 1,687,219.00	\$ 1,542,208.00	\$ 1,448,749.00	\$ 1,391,088.00	\$ 1,468,959.00	\$ 1,504,792.00	\$ 1,594,508.00
Less Library	\$ 16,991.00	\$ 12,196.00	\$ 11,851.00	\$ 11,308.00	\$ 11,227.00	\$ 11,276.00	\$ 10,732.00
Net Receipts	\$ 1,670,228.00	\$ 1,471,012.00	\$ 1,436,898.00	\$ 1,379,780.00	\$ 1,457,732.00	\$ 1,493,516.00	\$ 1,583,776.00
Charges	\$ 80,363.00	\$ 84,565.00	\$ 78,767.00	\$ 85,569.00	\$ 85,115.00	\$ 75,855.00	\$ 74,473.00
State Aid	\$ 1,589,865.00	\$ 1,386,447.00	\$ 1,358,131.00	\$ 1,294,211.00	\$ 1,372,617.00	\$ 1,417,661.00	\$ 1,509,303.00

State Receipts 2009 -2015



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