

Town Meeting: Why Are There Two Budget Articles?

At the Annual Town Meeting on June 20, 2020, you, as a resident of Town of Hamilton, will be asked to vote on the Town budget, including Hamilton's portion of the school budget. This is your chance to have input into how much the Town spends on services and how that money should be spent. Because Hamilton's budget is funded mostly by residential property taxes, this has a direct effect on your tax rate. Voting at Town Meeting is the most direct way for you to influence the tax and spending policies and thus the future of our Town.

The Finance and Advisory Committee wishes to inform the residents of Hamilton about the budgets you will be voting on, the current and future impact on the tax rate, and the importance of other revenue sources. The goal of the Financial and Advisory Committee (FINCOM) is to give residents the information they need to make informed decisions. FINCOM will also provide its advice on each individual warrant article separately, as it has in years past.

Please keep in mind that the following is a summary, and contains estimates and forecasts. For more detail and analysis please review the official budgets, warrant articles and committee meeting minutes.

Background:

This is a general overview of Proposition 2 ½, provided as background, only.

Prop 2 ½ is a state law that limits the amount of money a town can raise through real and personal property taxes (the "tax levy") each year. Each town is required to prepare an annual budget to forecast what they will need in the coming year. The town sets the tax rate based on the budget forecast.

While some increase in the size of the budget from year to year is normally to be expected even when the size of town government and the level of services stays the same (so-called "level services budget"), Prop 2 ½ limits how much the budget can grow each year. This is called the levy limit, and is calculated by the state every year. Basically, the levy limit is calculated by taking the prior year's levy limit and adding 2.5% plus any "new growth" in the community. Any increase in a town's budget that would put the town over this levy limit is discouraged, and requires a special vote by the community to approve it.

For the past several years, Hamilton was able to keep its tax levy below its levy limit. In other words, it had "excess levy capacity."

Hamilton's levy limit for FY 20:	\$28,911,424
Hamilton's estimated levy limit for FY 21:	\$29,834,209

The Current Budget Proposal:

Early this year, the Town and the School District produced proposed FY21 budgets that they planned to present to voters in April at the Annual Town Meeting. The Town presented a "level services" budget with a modest increase of 3.7% over the prior year (excluding financial reserve transfers). The Corona virus pandemic significantly changed the circumstances and the predictions that are required to prepare a budget. The Town, recognizing that funding would be cut and estimates of rising property values would need to be reduced, created a new budget. The revised Town budget provides for about a **-5.2% reduction** (excluding financial reserve transfers).

Despite the anticipated reduction in funding and income, the School District has not reduced the amount of money it is requesting from the Towns. Hamilton's share of the budget that the School District proposed was **8.25% more** than its FY20 budget. While the School District faces a significant reduction in state funding separate from the town's funding and has discussed budget cuts that could be made in light of those cuts, the School District decided not to reduce the amount of money it is requesting from the towns.

The following table compares the Town services portion of the budget with the School District's portion of the budget, and the percentage increase below/over the prior year. Be aware that Hamilton and Wenham share the cost of the school district, based on the number of students from each town. This year, Hamilton must contribute 63.85% of the school budget, and Wenham is responsible for the other 36.15%. The school budgets represent around 60% of Hamilton's total budget each year.

Most of the money in the budget must be raised through property taxes. The Town projects expected non-tax revenue of \$3,769,936. Therefore, \$30,419,644 must be raised through property taxes:

Total budget	\$34,189,580
Non-tax revenue	<u>\$ 3,769,936</u>
	\$30,419,644

This is within \$150,000 of reaching our levy ceiling and needing an override.

The projected Tax Rate to raise this amount in Fiscal Year 21 is \$17.82 per \$1,000. This translates to a tax bill on an average home of \$10,924.

The current Town-side Budget numbers were reached as the result of significant cuts in department heads' budget requests. Certain expenditures have been postponed but will need to be addressed at a Special Town Meeting in the fall or in coming years. Requests for new hires were stricken, hours reduced, duties combined, and positions not filled, resulting in minimal or below minimal staffing for some services. The cuts to town services will be significant. It is important to understand that future budgets are unlikely to be limited to 2 1/2% increase.

The Town has built up cash reserves consistent with good fiscal policies. The Town's current budget uses the small amount of cash reserves that are above the minimum required to be retained, to fund financial reserve transfers. It is not considered good fiscal policy to use free cash or other reserves for recurring budget items. Cash and other reserves are intended to be like savings or insurance, to cover one-time, unforeseeable expenses.

What This Means for the Future:

For the past several years, we have been able to stay within the levy limits imposed by Prop 2 ½. Because we are right at the limit this year, it is apparent that any increase in the budget above approximately 2.5% next year will require an override.

Over the past 3 years, the town budget has increased 2.2%, 6.9% and -5.2% (excluding financial reserve transfers), for an average increase of 1.3%. The school budget has increased 5.8%, 5.3%, 8.25%, for an average of 6.45%.

In addition, the School District has increasing obligations for retirees' insurance and other benefits ("Other Post-Employment Benefits" or "OPEB"). According to the School District, the liability, last assessed in mid-2017, was \$35M; a reasonable estimate of a three-year increase brings us close to \$40M, and Hamilton's share (approx. 2/3rds), funded in most part by property tax, is around \$24M, of which none has been saved or budgeted for to date.

Given the small amount of new growth per year, under prop 2 ½ we will not be able to sustain budget increases much over 2.5 % without an override. It is obvious that the school budget will continue to increase. Given the math, an override is anticipated, and repetitive overrides will be required in the foreseeable future.

Why Two Budget Articles?

The School District budget approved by the School Committee was 8.25% more for Hamilton's share than the amount appropriated the prior year, representing an increase of \$1,541,408 for Hamilton. The Board of Selectmen voted to present the School District operating budget to the voters in two parts, Articles 2-2 and 2-3. (Article 2-4 relates to the School District's request for Capital Expenditures.) The Total School Expenses sought is \$20,745,261. (This is for the HWRSD, the Essex North Shore Agricultural Technical School, and debt service for both.)

In Article 2-2, the voters are asked whether to appropriate \$20,142,186 to the School District. This represents of an increase of 5% over the prior year's appropriation. The 5% number was picked as a compromise number, and is close to the historical average.

In Article 2-3, the voters are asked whether to appropriate the additional \$603,075 requested by the School District.

The presentation of the Total School Expenses in two warrant articles gives voters the opportunity to express their preferences about the school budget. Aside from electing school committee members, the sole method that taxpayers have to control school spending is voting on the school budget. While often the budget is voted on as a whole, the use of two warrant articles gives residents the choice. If a municipal or education budget request is defeated, the respective responsible government agencies must revisit the rejected budget request for subsequent town meeting review and vote.

Voters who are in favor of appropriating the entire amount sought by the School District may vote in favor of both articles. Those who are in favor of appropriating more money than what was appropriated last year but not the full 8.25% increase may vote in favor of Article 2-2 and against Article 2-3. Voting against Article 2-2 defeats the school budget AND the town budget.

The Financial and Advisory Committee presents its recommendations regarding each article in its commentary attached to the Warrant.

What Else Could We Do?

Aside from decreasing spending or increasing property taxes, there is one other alternative: increase revenue from sources other than property taxes.

The efforts of the Financial and Advisory Committee are not just to educate about controlling expenditures or rising tax rates. The committee seeks to explore other revenue sources, while keeping in mind what the residents value in their town, which include open spaces and a small-town feel. To a large extent the town is dependent on residential property tax because there is so little commercial development. FINCOM and some Town officials are interested in commercial development while being sensitive to the impact it has on citizens. Revenue from commercial development is an important part of the solution to increasing property taxes and must be considered in the context of a comprehensive plan for the future.