



MEMORANDUM

TO: Board of Selectmen

FROM: Rob Addelson, Assistant Town Manager for Finance
Michael Young, Budget Officer

DATE: February 5, 2007

SUBJECT: 2nd Quarter Exceptions Report

This memorandum summarizes where general fund operating budget expenditures of the Town of Lexington are as of December 31, 2006. It also lists a series of exceptions in municipal expenditures. Exceptions for the purpose of this report are any line item of the municipal budget which either a) is above the anticipated percentage expended through six months (which in this case is 50%) or b) is significantly above previous years trends.

Overall

After the first half of the fiscal year, there are some exceptions to report. While revenue reports are not presented in this packet, revenue collections as of December 31, 2006 were reviewed. Revenues are in line with expectations. Two notable positive exceptions are higher than anticipated licenses and permits attributable to building permit collections. Through the first half of FY 2007, the Town has collected \$1,253,401 versus a budget of \$1,375,000. In addition, the Town has collected investment income totaling more than \$770,000 versus a budget of \$395,000 through December 31. Expenditures throughout the 2nd quarter are better than expected, with \$46,624,483 spent through December 31st, or 40.42% spent. When encumbrances are added, that amount increases to \$56,832,557, or 49.27% spent.

A more detailed analysis of Article 17, the Operating Budget, is provided below. Table 1 is exclusive of encumbrances. Table 2 is inclusive of encumbrances.

Table 1

Actual Expenditures, 2nd Quarter, FY 2007				
	<u>Revised Budget</u>	<u>Actual Expended</u>		<u>Amount Remaining</u>
Education	\$ 63,505,891	\$ 24,271,439	38.22%	\$ 39,234,452
Shared	\$ 26,684,346	\$ 10,870,840	40.74%	\$ 15,813,506
Municipal	\$ 25,162,461	\$ 11,482,204	45.63%	\$ 13,680,257
Total Operating Budget	\$ 115,352,698	\$ 46,624,484	40.42%	\$ 68,728,214

Table 2

Actual Expenditures + Encumbrances, 2nd Quarter, FY 2007				
	<u>Revised Budget</u>	<u>Actual Expend + Encumb.</u>		<u>Amount Remaining</u>
Education	\$ 63,505,891	\$ 32,874,833	51.77%	\$ 30,631,058
Shared	\$ 26,684,346	\$ 10,872,580	40.75%	\$ 15,811,766
Municipal	\$ 25,162,461	\$ 13,085,145	52.00%	\$ 12,077,316
Total Operating Budget	\$ 115,352,698	\$ 56,832,558	49.27%	\$ 58,520,140

Exceptions

Although the municipal budget is performing as expected through the second quarter, there are three exceptions which require attention and further analysis. They are listed below.

Line 3100-3600 DPW Personal Services

Object: 51130 Overtime

Amount: 80.0% spent

Reason: Summer construction projects, especially due to highway construction, drove overtime expenditures. Highway overtime expenses are over budget, and some amount of overtime could potentially be reclassified to capital projects. In hindsight, the budget for FY 2007 was lower than needed to meet the needs of the highway division – an issue corrected via an increased funding request for FY 2008. This should be monitored during the next two quarters.

Line 3100-3600 DPW Expenses

Object: 54500 Small Equipment

Amount: 75.3% spent

Reason: The rental of a temporary chiller unit at the Library has cost over \$50,000 year to date. A claim has been filed with our insurance company to recoup the costs of the incident. In addition the Appropriation Committee has been put on notice to the potential need of a Reserve Fund Transfer prior to the close of the fiscal year. .

Line: 4100 Law Enforcement Personal Services

Object: 51130 Overtime

Amount: 66.4% spent

Reason: LPD began the year with 4 vacancies and an officer out on extended sick leave that required the expenditure of overtime funds to maintain adequate patrol coverage. One vacancy has been filled by a "new" officer who transferred to Lexington from another police department and is presently staffing a patrol car. The other three positions have been filled but the recruits are finishing work in the academy. This should be monitored during the next two quarters

Line: 4200 Fire/EMS Personal Services

Object: 51130 Overtime

Amount: 60.5% spent

Reason: Summer vacations, one injury, one military leave vacancy and one position vacancy (now filled) increased overtime above normal levels. This should be monitored during the next two quarters.

Line: 8200 Town Manager Expenses

Object: 52123 Legal Services

Amount: 46.2%

Reason: Although this line-item has not exceed 50% as of December 31, the need for use of labor attorneys will increase substantially throughout the rest of the year as collective bargaining and contract settlement negotiations continue.

Line: Various Budgets

Object: 52203 Natural Gas

Amount: To Be Determined

Reason: It should be noted that there has been little spending posted against object code 52203 through December 31. This is due to the fact that we have just received bills for November and December from our new natural gas supplier. These will be paid in the current period (3rd quarter) and will subsequently show up in that report. Upon posting we will assess the adequacy of the natural gas budgets.

Detailed Reports

Attached to this memo is a series of Year-To-Date Budget Reports by General Fund department. (Also attached are reports for the three Enterprise funds.) These reports are broken out by object code according to the new chart of accounts. The finance staff has led an initiative to restructure the accounting system so that it contains more detailed information. This effort is designed to improve management capabilities, facilitate responses to information requests, and improve the efficiency and effectiveness of annual budget development and budget monitoring.

As you review the attached reports, you will note that some line items (highlighted for easy reference) are over 100%. In most cases, these are a reflection of the departments' estimated budget reallocations under the new chart of accounts and the transition to coding of invoices per the new chart. Unlike the exceptions cited earlier in this memo, these line items do not represent concern to the Finance Department.