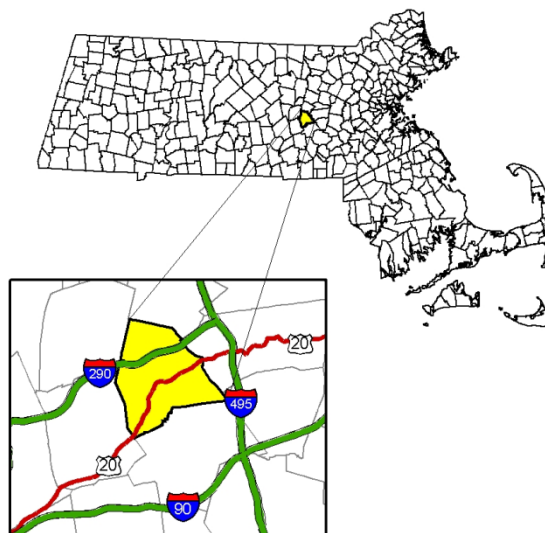


# Town of Northborough, MA Financial Trend Monitoring Report Fiscal Year 2019



FTM Report covers the period July 1, 2008 (FY2009) through June 30, 2019 (FY2019)

# Agenda

Purpose of the meeting is to “set the table” for the FY2020 budget process by:

- Reviewing Financial Indicators for significant changes
- Reviewing Five-Year Financial Projections
- Analyzing Multiple-year Projected Tax Impacts
- Developing consensus amongst the policy making Boards & Committees about opportunities or areas of concern

# What is Financial Condition?

Financial condition is broadly defined as the ability of a Town to:

- Maintain existing service levels,
- Withstand local and regional economic disruptions, and
- Meet the demands of natural growth, decline, and change.

The FTMS Report is designed to measure it

# Aspects of Financial Condition

- Cash Solvency: The Town's ability to pay immediate obligations during the next 30-60 days
- Budgetary Solvency: Its ability to pay financial obligations within the current fiscal period (balanced Fiscal Year)
- Long-Run Solvency: Its ability to continue paying obligations in future fiscal periods (debt, pensions, etc.)
- Service-Level Solvency: The Town's ability to continue providing the level of services expected by its residents

# Financial Trend Monitoring System

- Key financial indicators are analyzed in order to assess the financial direction of the Town. Many of the same benchmarks used by the credit rating industry.
- The full report is designed to bring issues and opportunities to the attention of decision-makers through a systematic method of trend analysis.
- Report developed using the ICMA manual entitled Evaluating Financial Condition, A Handbook for Local Government.

# Purpose of the FTMS

- Gain understanding of the Town's financial condition
- Identify hidden or emerging problems before they reach serious proportions
- Present a straight forward picture of strengths and weaknesses to Town Officials and citizens
- Reinforce the need for long-range considerations in the budget process
- Provide a starting place for reviewing and updating financial policies that guide decision-making

# Objectives of the FTMS

- Predict: so that the Town can be prepared to deal with fiscal distress before it becomes fiscal crisis
- Avert: and take action to avoid fiscal crisis
- Mitigate: through corrective action and/or policy changes, regain sound financial footing, or at least contain the problem
- Prevent: a recurrence of fiscal distress after the Town addresses the current issue or crisis (e.g., reliance on one-time revenues or health insurance increases)

# Fiscal Distress vs. Fiscal Crisis

- Fiscal Distress: temporary imbalance between the level of financial resources the Town has committed and its potential available resources
- Fiscal Crisis: occurs when the local government can no longer pay its bills or provide existing levels of service
- Goal is to protect our policy-making ability by ensuring that important decisions are not controlled by financial problems or emergencies.



# Executive Summary

	<b>Financial Indicator</b>	<b>FY2019</b>
1	Property Tax Revenues	<b>Favorable</b>
2	Uncollected Property Taxes	<b>Favorable</b>
3	Revenues & Expenditures per Capita	<b>Favorable</b>
4	State Aid (Intergovernmental Revenues)	<b>Unfavorable / Uncertain</b>
5	Economic Growth Revenues	<b>Uncertain</b>
6	Use of One-Time Revenues	<b>Favorable</b>
7	Personnel Costs	<b>Stable</b>
8	Employee Benefits	<b>Uncertain</b>
9	Pension Liability	<b>Unfavorable</b>
10	Other Post Employment (OPEB) Liability	<b>Unfavorable / Improving</b>
11	Debt Service Expenditures	<b>Favorable</b>
12	Financial Reserves/Fund Balance	<b>Favorable</b>
13	Capital Investment—Overall fixed asset values	<b>Favorable</b>
14	Capital Investment—Pavement Management	<b>Improving</b>

# Executive Summary

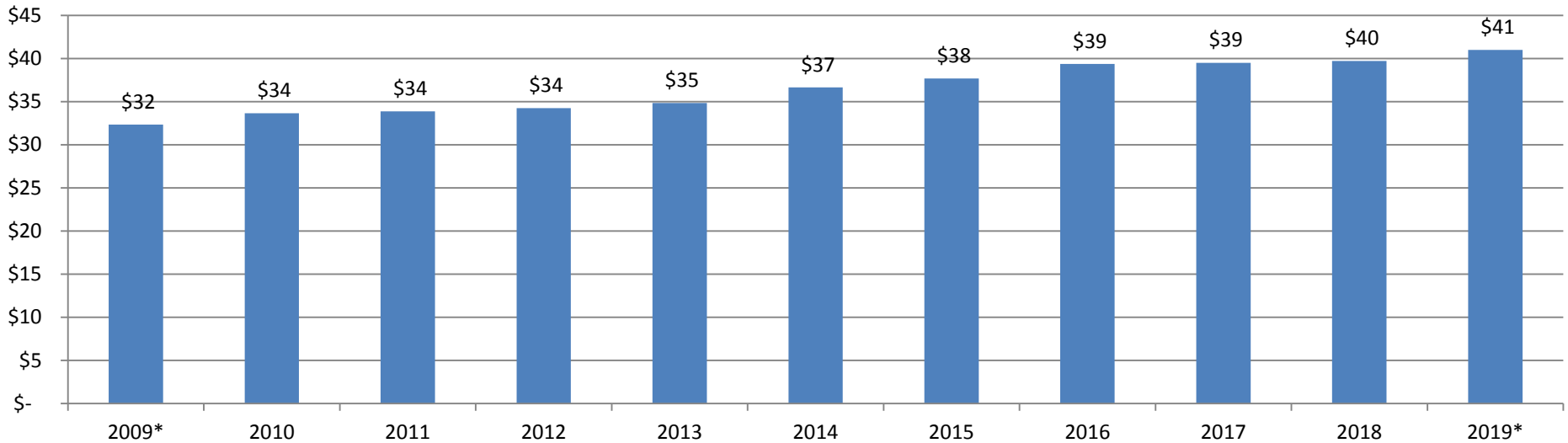
## Financial Indicator

FY2019

1	Property Tax Revenues	<b>Favorable</b>
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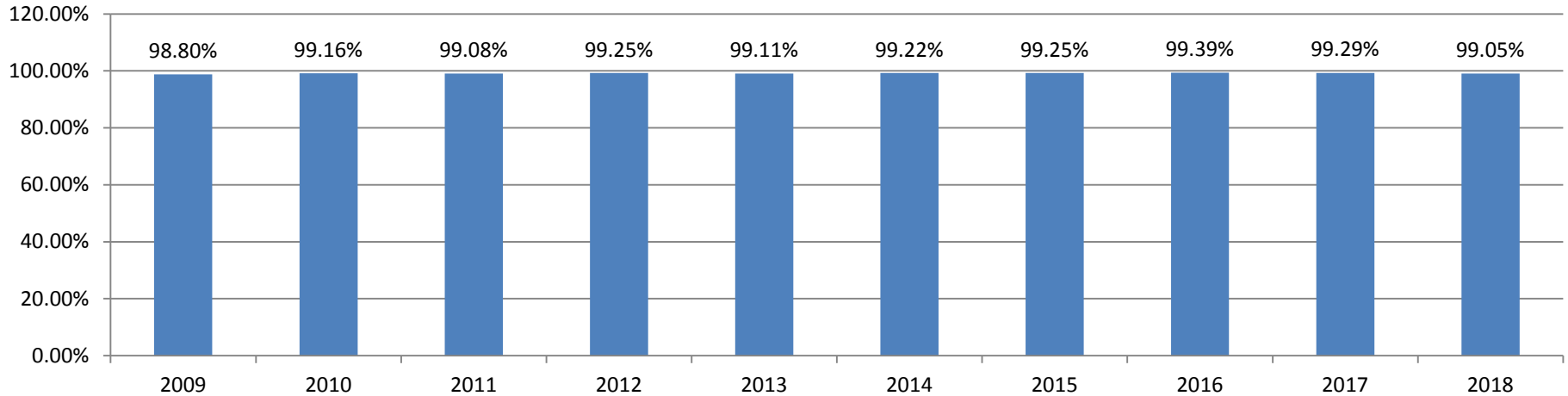
Net Property Tax Revenues (constant dollars, in millions)



- Formula: Property Tax Revenues in constant dollars
- Warning: Declining tax revenues
- Trend: **Favorable**
- Comments: Taxes represent 80% of the Town's revenue, growth has exceeded the rate of inflation by 0.3% to 5.2% annually, depending on amounts of new growth, operational overrides and remaining unused levy capacity



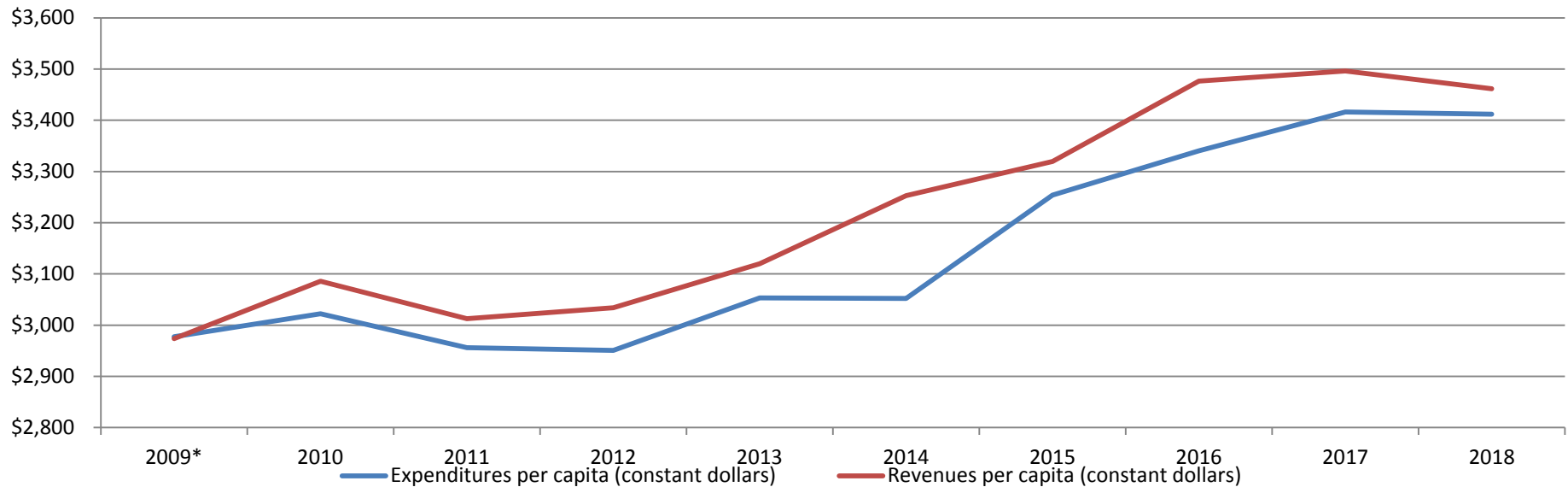
### Percentage of Property Taxes Collected in Current Year



- Formula: Uncollected Property Taxes as % of Net Tax Levy
- Warning: Increasing uncollected property taxes
- Trend: **Favorable**
- Comments: Collection rates below 95% are considered negative by bond rating agencies; Northborough's collection rates are consistently between 98-99%

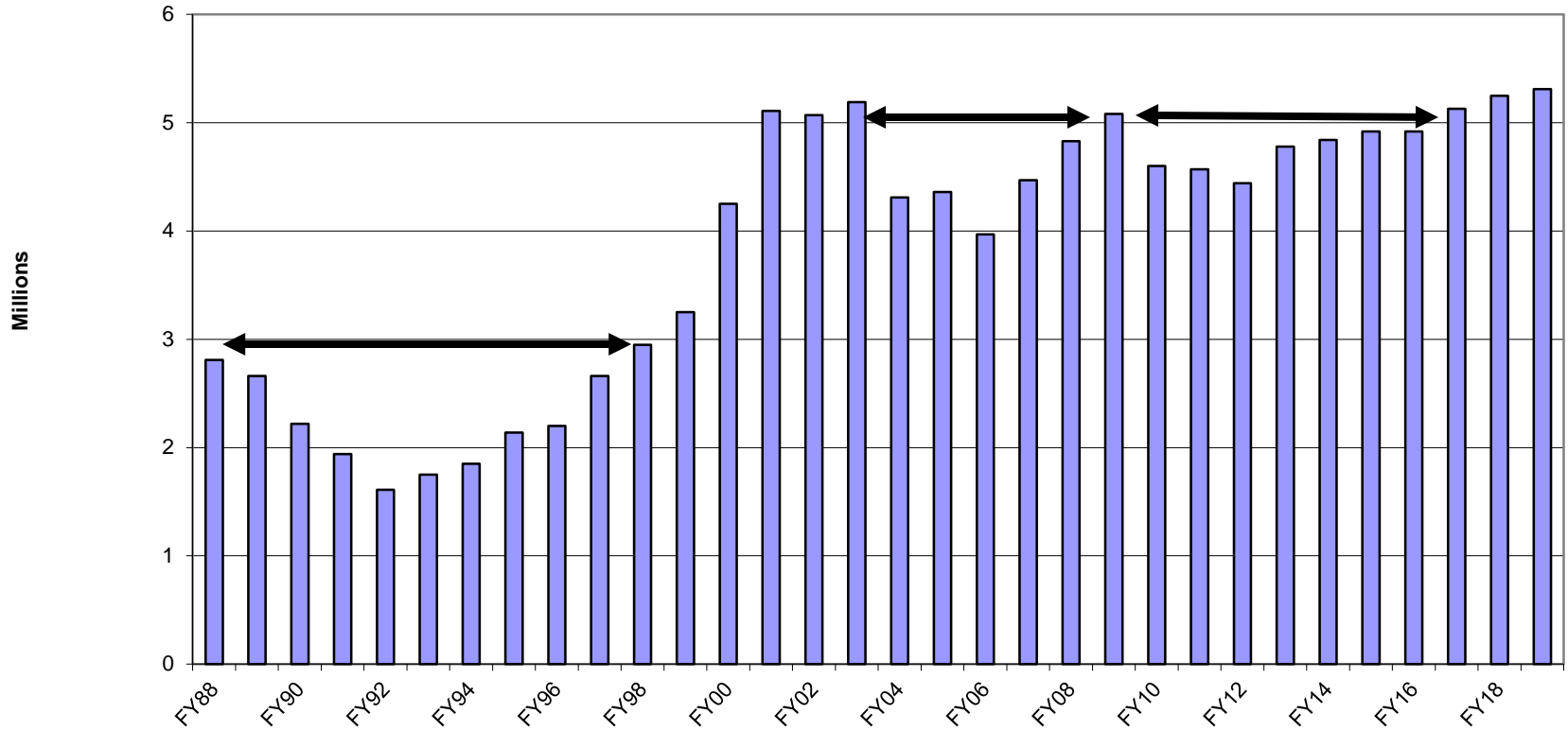


### Operating Revenues & Expenditures Per Capita (constant dollars)



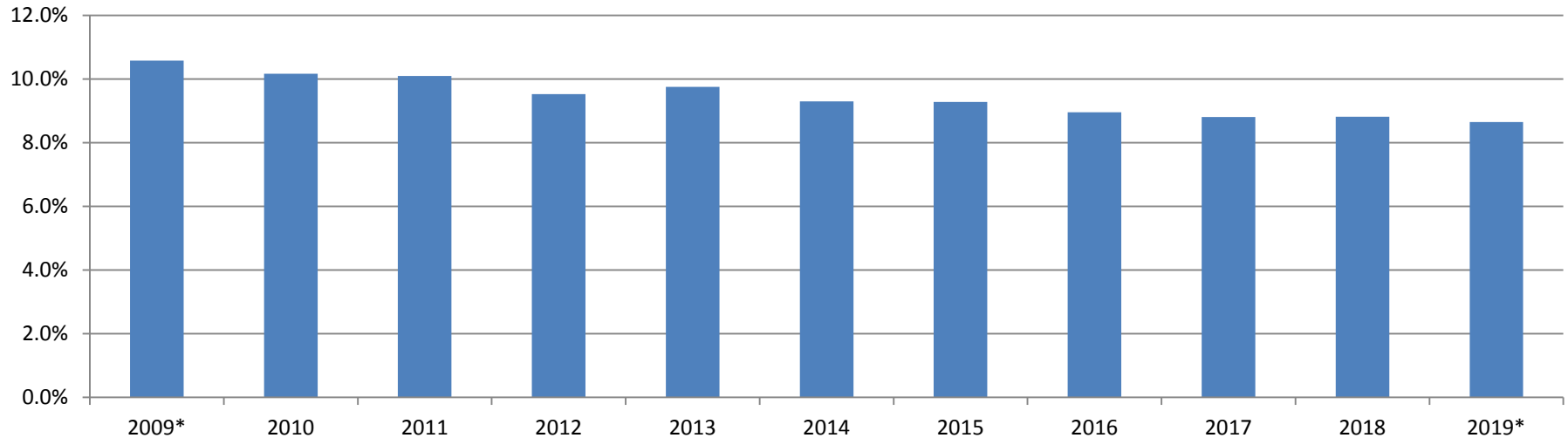
- Formula: Revenues & Expenditures divided by population
- Warning: Expenditures per capita in excess of revenues per capita
- Trend: **Favorable**
- Comments: From FY03 to FY09 negative trend; FY10 to present revenues per capita exceed expenditures per capita

# Northborough State Aid FY1988-2019





### State Aid as a % of Operating Revenues (constant dollars)



- Formula: State Aid as a percentage of operating revenues
- Warning: Significant increase or decrease as % operating revenues
- Trend: **Unfavorable** / **Uncertain**
- Comments: State Aid went from a high of 13.1% of revenues in FY03 to 8.6% in FY19; it has been relatively flat for the past several years with little growth.

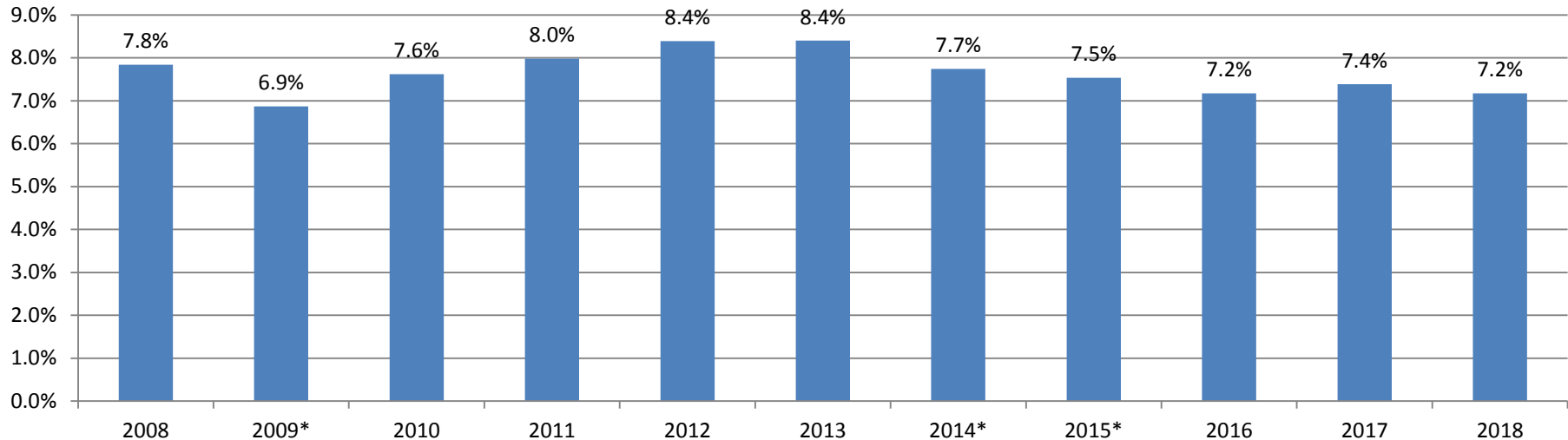
# FY2020 State Aid Forecasts

- December 5, 2018 State Revenue Consensus Hearing estimates range from 2% to 3.2%
- Universal concern regarding timing of the next recession
- Town has conservatively estimated State Aid in recent years at 1-1.5% for budgeting purposes
- State Aid is a political process and not a math exercise
- Any State Aid received above the Town's conservative estimate can only be used to reduce taxes



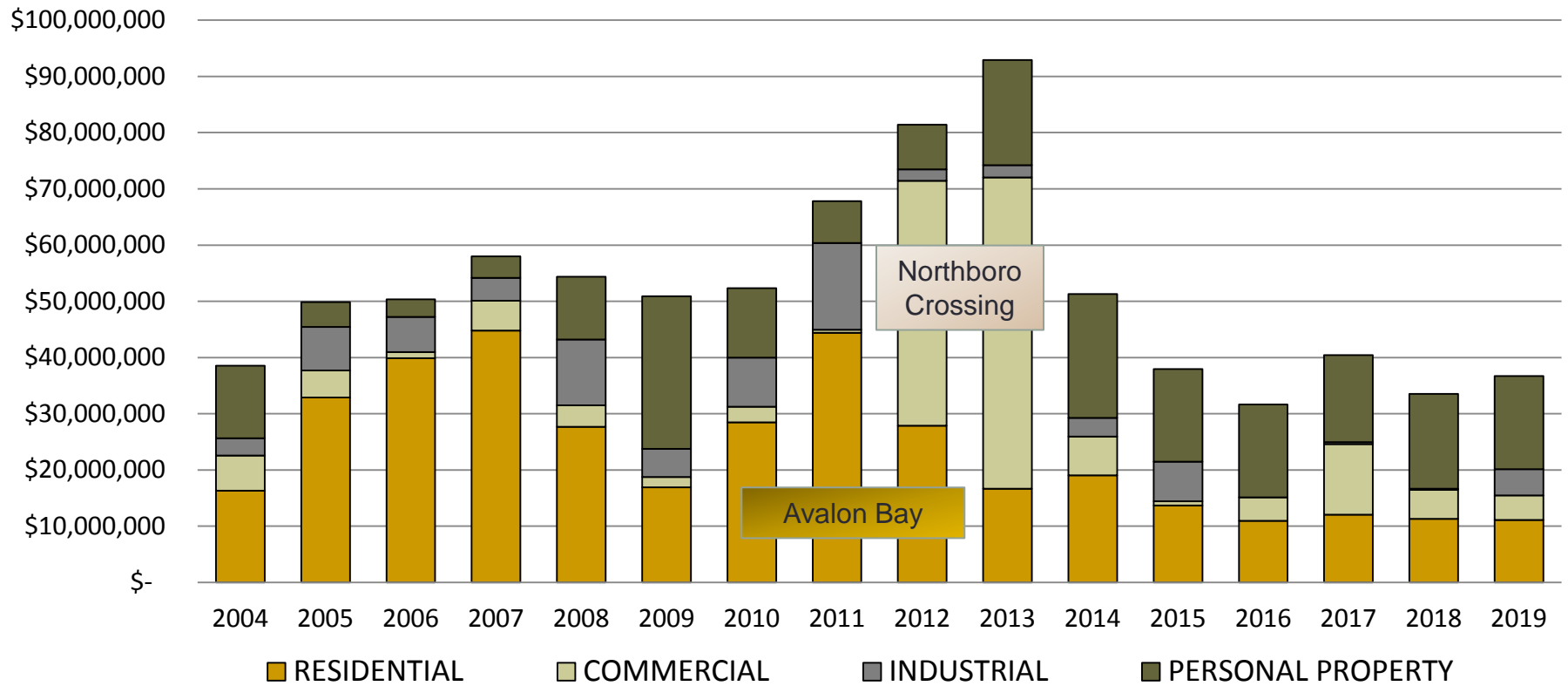


### Economic Growth Revenues as a % of Operating Revenues



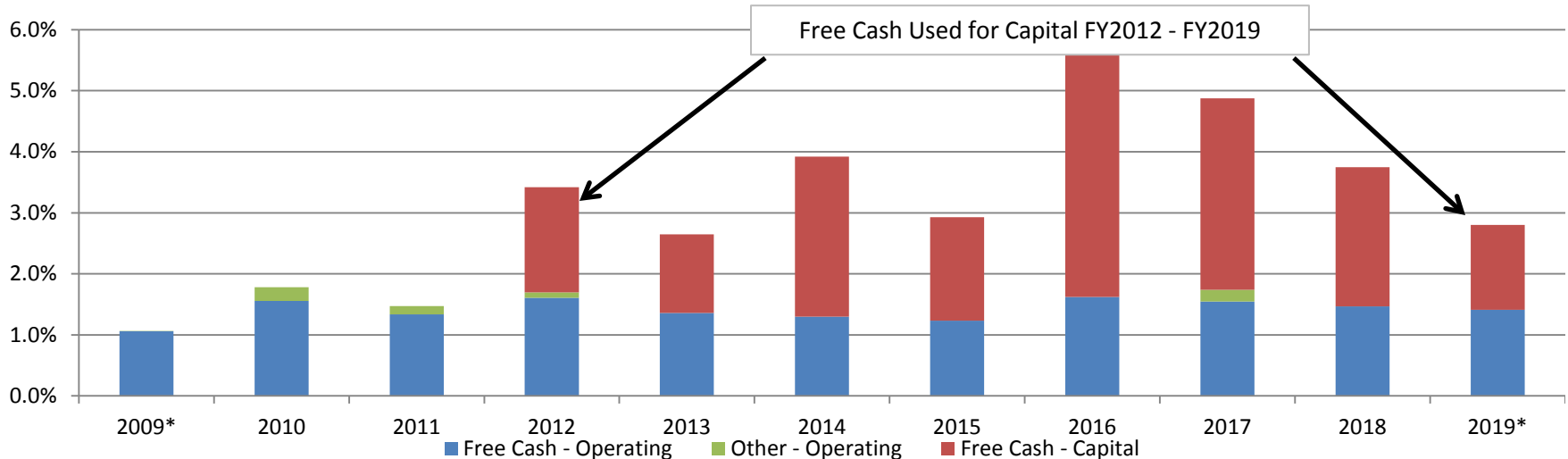
- Formula: Economic Growth Revenues divided by net revenues
- Warning: Decreasing Economic Growth Revenues as % revenues
- Trend: **Uncertain**
- Comments: Economic Growth Revenues increased from FY09 to FY13, but future revenues are uncertain following completion of several large developments and fewer projects in the permitting pipeline

# New Growth History





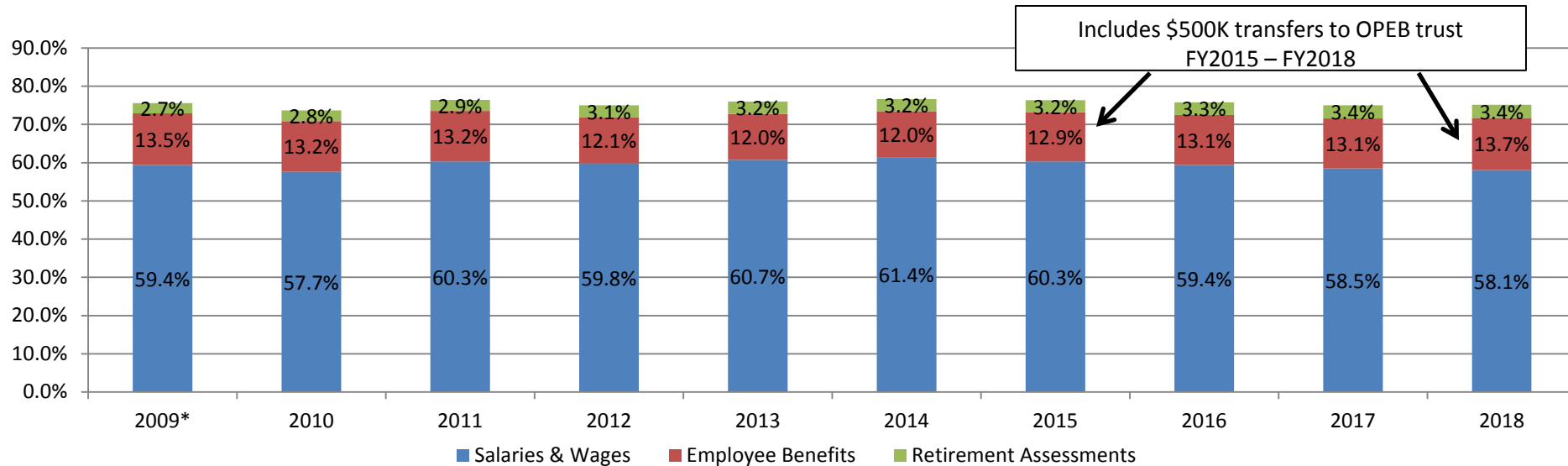
### One Time Revenues as a % of Expenditure Budget



- Formula: One-Time Revenues as % of Operating Budget
- Warning: Increasing amount of one-time revenues in the budget
- Trend: **Favorable**
- Comments: Free Cash Policy reduced reliance on one-time revenues from a high of \$1.5 million (4.1%) in FY05 to \$875,000 (1.4%) in FY19 (FY16-FY19 include \$200k transfers to Stabilization). Free Cash was diverted to finance \$10.5 million pay-as-you-go capital investments in FY12 through FY19.



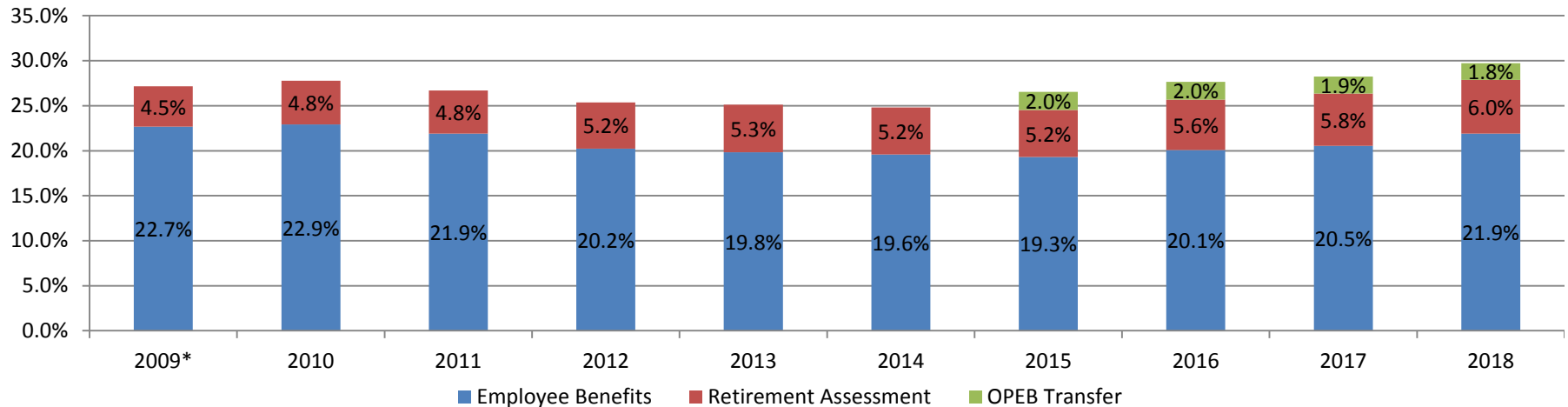
### Personnel, Wages, and Benefits as a % of Operating Expenditures



- Formula: Personnel expenses as % of Budget
- Warning: Salaries & wages increasing as % of expenditures
- Trend: **Stable**
- Comments: Personnel wages & benefits represent approximately 75% of the Town's operating budget net of ARHS & Assabet school assessments and remain relatively stable due to health insurance benefit changes, sustainable staffing and wage increases



### Employee Benefits Spending as a % of Wages & Salaries



- Formula: Employee benefit costs as % of salaries & wages
- Warning: Increasing employee benefits as % of salaries & wages
- Trend: **Uncertain**
- Comments: Overall, employee benefits as a % of wages & salaries increased 2.57% from FY09-FY18 due to negotiated health insurance plan design changes; FY15 includes the first annual \$500k transfer to OPEB trust fund; future increases remain uncertain

# FY2020 Health Insurance

- FY2010 Plan Design Changes and adoption of MGL c.32B, Section 18
- FY2012 Teacher contributions increased 5%
- FY2017 Plan Design Changes
- FY2018 Plan Design Changes but still experienced an 8.33% increase
- FY2019 Negotiated Carrier Consolidation resulted in a 3.8% budget increase

<b>Health Insurance Budget Increases</b>	
FY2007	9.88%
FY2008	9.31%
FY2009	11.43%
Average	10.20%
FY2010	0.72%
FY2011	2.99%
FY2012	4.49%
FY2013	3.34%
FY2014	2.00%
FY2015	1.00%
FY2016	3.00%
FY2017	3.00%
FY2018	8.33%
Average	3.21%

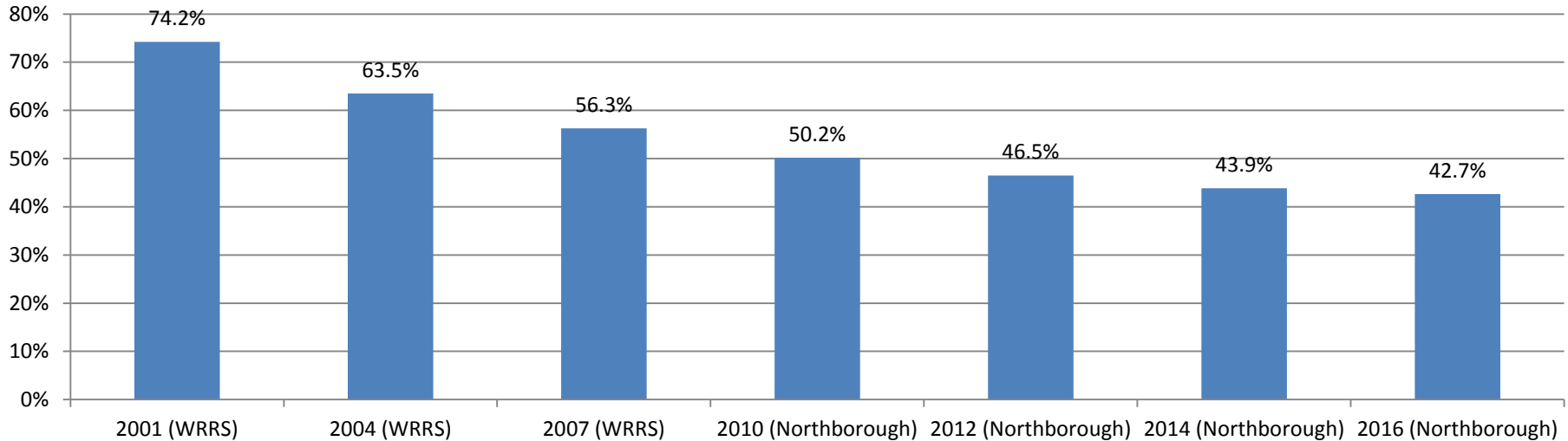
# FY2020 Health Insurance

## **Why is the Health Insurance budget increase so critical?**

- 10% increase on \$5.73 million health budget is \$573,000
- 3.5% increase on the Total General Government Budget is approximately \$757,000
- Health Insurance would consume 75% of all new FY2020 revenues. It swamps all other budget considerations.



### Pension Liability - % Funded



- Formula: Pension Assets divided by Pension Liabilities
- Warning: Unfunded liability or increase in unfunded liability
- Trend: **Unfavorable**
- Comments: Northborough is part of Worcester Regional Retirement System which is on schedule to be fully funded by 2035—five years before the 2040 deadline; the new funding schedule, recent pension reform and improving economy are all forces for future improvement. Northborough's current unfunded liability is \$29.7M.





**Town of Northborough**  
Financial Indicators

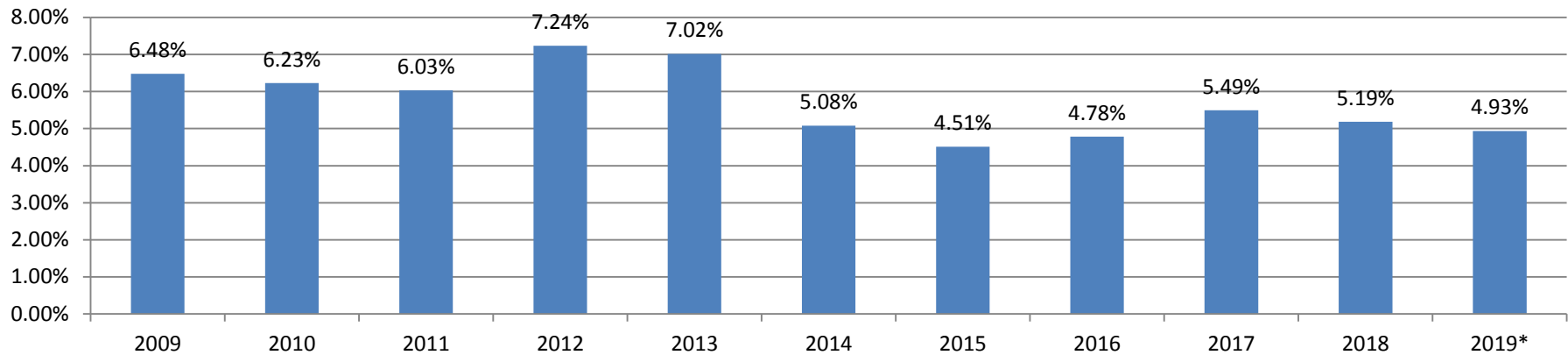
**Indicator 10: Other Post-Employment Benefits**

Reporting Period*	FY2009 Original	FY2009 Revised	FY2011	FY2013	FY2015	FY2016	FY2017	FY2018
Total OPEB Liability	\$90,444,000	\$34,289,000	\$28,072,976	\$32,638,652	\$35,381,934	\$36,566,852	\$39,143,474	\$47,326,709
Actuarial Value of Assets	\$ -	\$ -	\$ -	\$ -	\$500,000	\$1,051,207	\$1,734,723	\$2,438,590
Net OPEB Liability	\$90,444,000	\$34,289,000	\$28,072,976	\$32,638,652	\$34,881,934	\$35,515,645	\$37,408,751	\$44,888,119
Discount Rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	6.00%	5.25%
<b>Funded Ratio</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>1.43%</b>	<b>2.87%</b>	<b>4.43%</b>	<b>5.15%</b>

- Formula: Other Post-Employment Assets divided by Liabilities
- Warning: Unfunded liability or increase in unfunded liability
- Trend: **Unfavorable / Improving**
- Comments: Health insurance plan design changes, adoption of MGL c.32B §18 and \$500K in planned annual contributions to the OPEB Trust Fund beginning in FY15 have started to improve the Town's funding ratio. As of 9/30/2018 the Fund has \$3.0M.



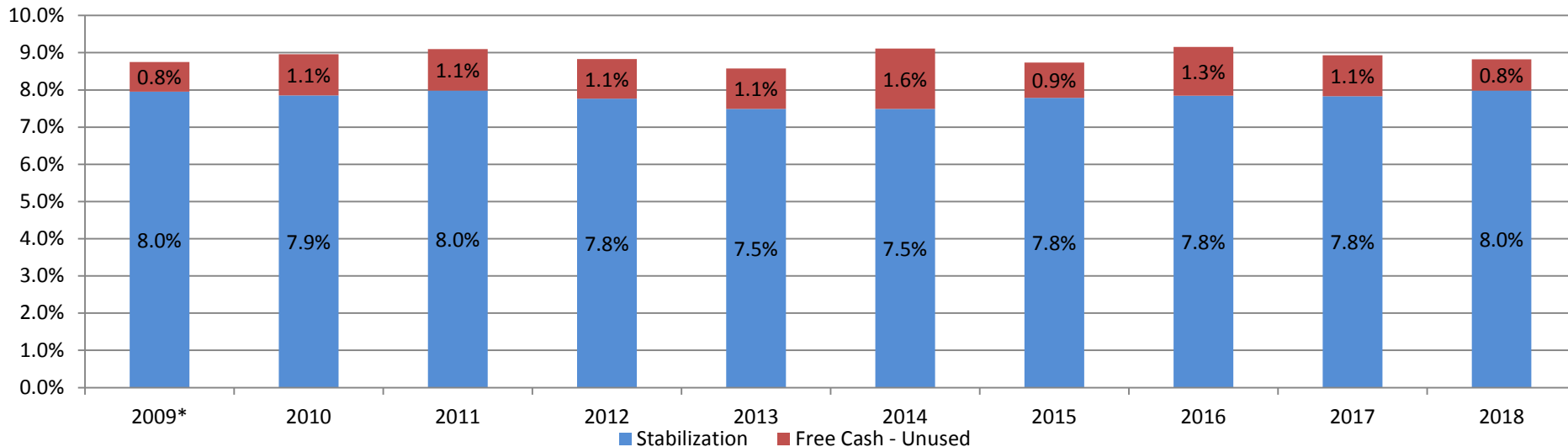
### Debt Service as a % of General Fund Expenditures



- Formula: Debt Service as % of General Fund Expenditures
- Warning: Increasing debt service as % of operating expenditures
- Trend: **Favorable**
- Comments: Overall, the Town's level of debt service is within the 5% to 10% suggested by the debt policy and represents an appropriate level of capital investment; FY16 & FY17 included \$14.2 million in new debt for the Lincoln St. School building project



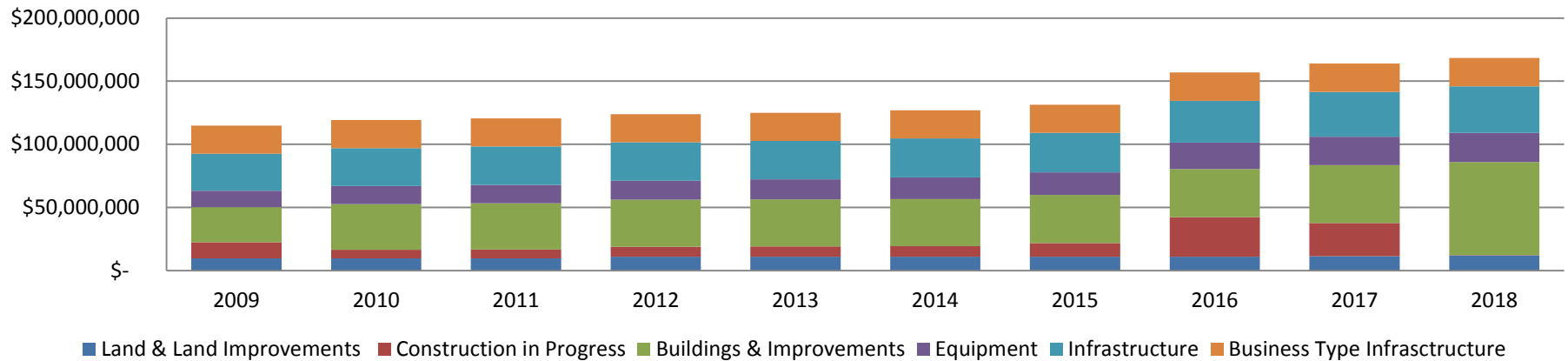
### Reserves as a % of Operating Revenue (after subsequent spending)



- Formula: Financial Reserves as % of operating revenues
- Warning: Declining reserves as % of operating revenues
- Trend: **Favorable**
- Comments: Northborough's financial policy provides for reserves to average between 5% and 10% of the Town's General Fund (Operating Budget) expenditures. FY15-FY18 include a \$200K contribution to the Stabilization Fund to help maintain reserves



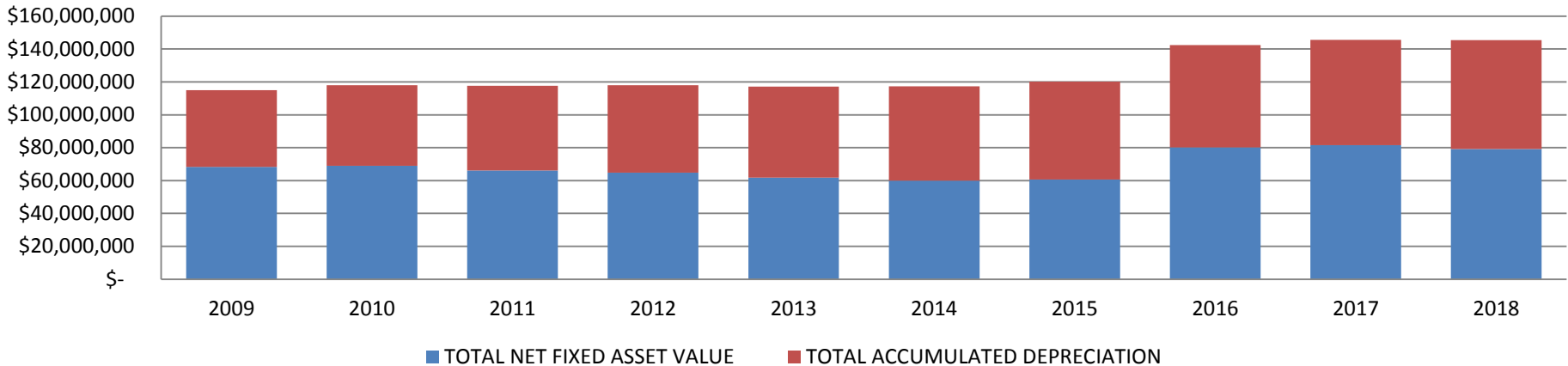
### Gross Fixed Asset Value Nominal Dollars - Governmental & Business-Type Activities



- Formula: Value of assets in service before depreciation
- Warning: Declining value of assets
- Trend: **Favorable**
- Comments: Reflects Northborough’s overall investment in the various categories of capital assets. However, the above chart is not adjusted for inflation and does not reflect routine depreciation of assets.



### Fixed Asset Values Constant Dollars - Governmental & Business-Type Activities



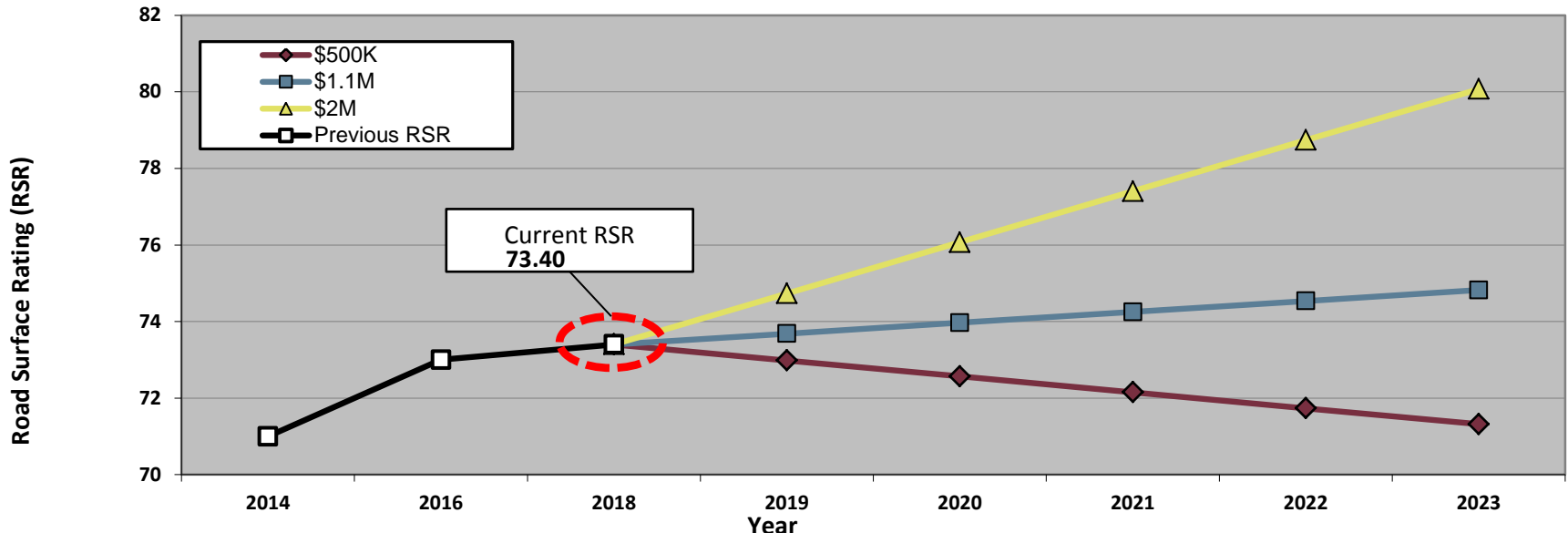
- Formula: Total fixed asset values adjusted for inflation
- Warning: Declining values
- Trend: **Favorable**
- Comments: Reflects Northborough’s continued effort to maintain its fixed asset values even after adjusting for the effects of inflation and depreciation. The blue portion of the bar graph above shows relatively constant asset value indicating regular capital investment.



## Town of Northborough Financial Indicators

## Indicator 14: Capital Investment–Pavement Management

Projected RSR By Year



- Formula: Average Road Service Rating (RSR, formerly PCI)
- Warning: Declining overall average RSR
- Trend: **Improving**
- Comments: The minimum annual investment needed to maintain the current average RSR is \$1.1 million. The target was met again in FY19 with \$300K in the operating budget, \$300K in the capital plan, and \$519K in State Chapter 90 Funds. Due to the planned investment, the RSR improved slightly from 71 to 73.4 over the last four years

# Executive Summary

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13	Capital Investment—Overall fixed asset values	<b>Favorable</b>
14	Capital Investment—Pavement Management	<b>Improving</b>

# December 2018 Presentation Summary

## **Current Financial Condition**

- Northborough is in relatively good financial condition
- Tax base is strong with good diversification
- Financial Reserves are healthy at 8.8%
- Debt level is manageable with preferred Aa1 bond rating
- Reliance on one-time revenues in the operating budget is at the policy target of \$500,000, or approximately 1%
- Pay-as-you-go capital investments continue



# December 2018 Presentation Summary

## Potential Emerging Concerns

- Long-run solvency surrounding unfunded pension liability and OPEB obligations require regular assessment
- Uncertainty surrounding future levels of State Aid
- Uncertainty surrounding future increases in health insurance premiums
- Uncertainty surrounding future economic development (new growth) revenues as we approach buildout
- Possible recessionary period on the horizon

# FY2020 Budget Considerations

- Other Post-Employment Benefits (OPEB) Liability
  - Must continue to fund at least \$500,000
- Sustainable Personnel Expenses (contracts & staffing)
- Low New Growth and State Aid lagging budget growth
- Maintain infrastructure investment plans (implementation of pavement management plan)
- All decisions must be made while maintaining compliance with the Town's adopted Comprehensive Financial Policies (Appendix A of the Budget)

# Financial Projections

## Overview

- Five-Year Projections
- Assumptions Used for Projections
- Future Tax Impact
- Financial Outlook

# Financial Projections

## Methodology

- Revenue driven model
  - Based upon the existing revenue sharing model
  - Establishes a revenue ceiling based upon Proposition 2 ½ and backs into the allowable annual budget growth
  - Uses FY2019 as the base and looks out 5 years
- Focuses on the top three revenue sources, or 95%
  - Taxes 80%, State Aid 10%, Motor Vehicle Excise 5%)
- Minimum goal is to maintain level service budget
  - Can we protect and maintain what we have now?
  - Will we be able to address future wants and needs?

# Financial Projections

## Assumptions

- Taxes increase by allowable Proposition 2 ½
  - New growth \$30 million in value (\$515K in new taxes) annually
  - Existing unused levy capacity is available for use
- State Aid increases 1% annually
- MVE and misc. local receipts level budgeted
- Adhere to adopted Financial Policies
  - No one-time revenue gimmicks
  - Maintain financial reserves
  - Continue to invest in Capital Improvement Plan (CIP)

# Financial Projections

## Assumptions (con't)

- OPEB at least funding increased to \$550,000 annually
- Benefit costs increase 5% (health, pension, FICA, etc.)
- Debt service for major capital projects included
  - Fire Station Project (Debt Exclusion)
- Key budgets increased to forecast for FY2020 and then least 3.5 - 4% annually
  - NB K-8 Schools, General Government, ARHS
  - Attempt is to maintain level services

# Five-Year Expense Projections

	FY2020 Projection	FY2021 Projection	FY2022 Projection	FY2023 Projection	FY2024 Projection
<u>General Fund Expenses</u>					
<u>Education</u>					
Northborough K-8	25,049,372	26,051,347	27,093,401	28,177,137	29,304,222
Algonquin 9-12	12,096,044	12,579,886	13,083,081	13,606,404	14,150,661
ARHS Debt Service	610,774	663,475	663,559	665,724	663,325
Assabet	737,128	766,613	797,278	829,169	862,336
Assabet Renovation Project	141,488	137,660	133,832	130,004	126,176
Lincoln Street School Building	1,075,875	1,051,475	1,026,775	998,675	973,975
<u>Town Departments</u>	12,903,621	13,419,766	13,956,556	14,514,819	15,095,411
<u>Undistributed Expenses</u>					
Employee Benefits & Insurance	8,542,987	8,970,136	9,418,643	9,889,575	10,384,054
Building & Liability Insurance	269,317	280,090	291,294	302,945	315,063
Debt Service & CIP	1,624,939	1,551,459	2,959,201	2,817,916	2,703,784
State Assessments	243,826	253,579	263,722	274,271	285,242
Reserve Fund	175,000	175,000	175,000	175,000	175,000
Special Warrant Articles - Capital	861,167				
Solid Waste Subsidy	217,160	217,160	217,160	217,160	217,160
OPEB Trust	550,000	550,000	550,000	550,000	550,000
Stabilization Fund	200,000				
<u>Reserve for Abatements</u>	706,084	742,967	782,104	837,354	872,626
Library & School Lunch Aid - Offsets	22,559	22,559	22,559	22,559	22,559
<b>Total General Fund Expenses</b>	<b>66,027,342</b>	<b>67,433,172</b>	<b>71,434,165</b>	<b>74,008,712</b>	<b>76,701,593</b>

# Five-Year Revenue Projections

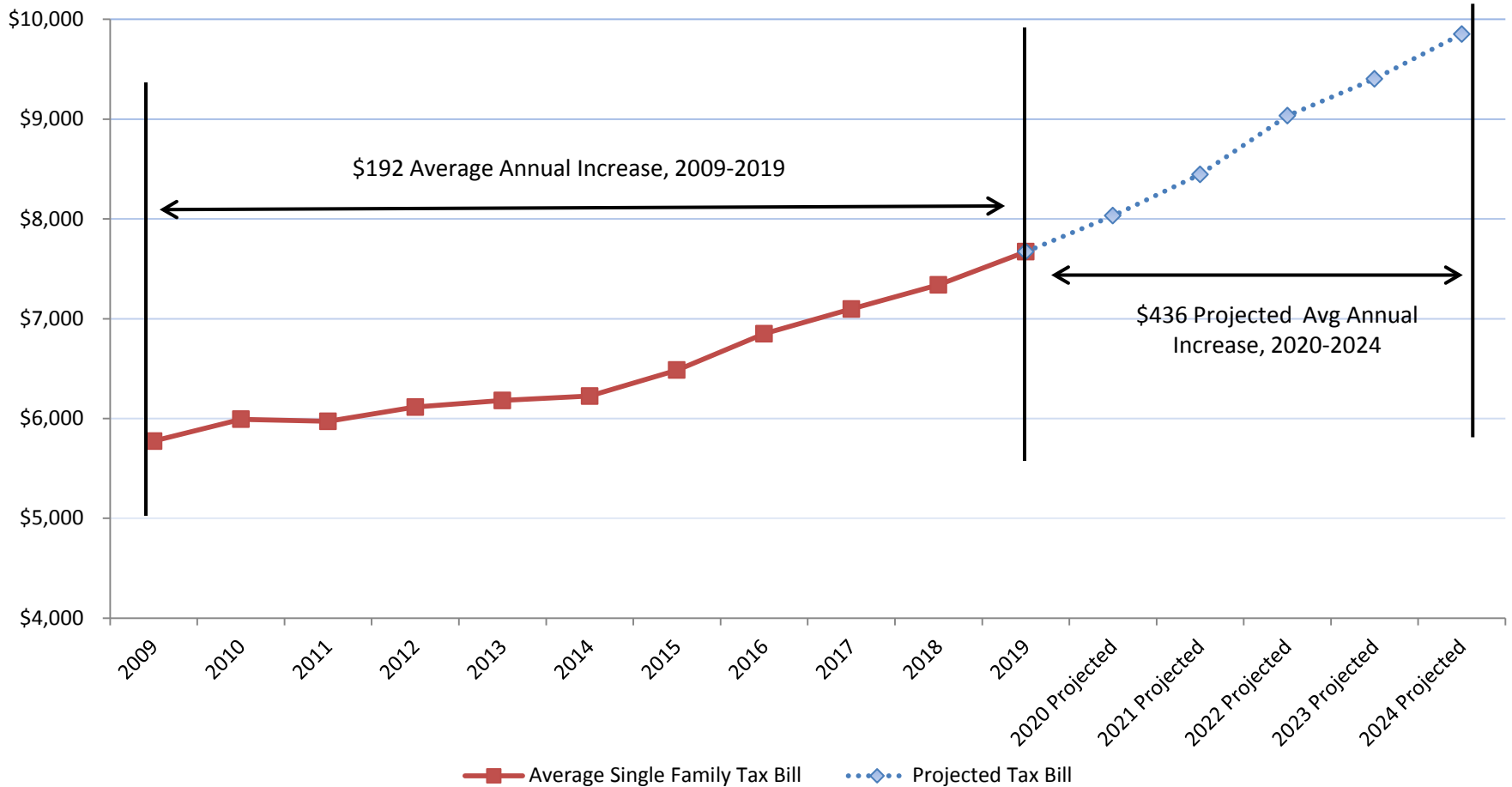
	FY2020 Projection	FY2021 Projection	FY2022 Projection	FY2023 Projection	FY2024 Projection
<b>General Fund Revenues</b>					
Prior Year Levy Limit	50,983,446	52,772,532	54,606,345	56,486,004	58,412,654
2.5%	1,274,586	1,319,313	1,365,159	1,412,150	1,460,316
New Growth	514,500	514,500	514,500	514,500	514,500
Levy Limit	52,772,532	54,606,345	56,486,004	58,412,654	60,387,470
Debt Exclusions	718,050	724,074	703,246	687,391	668,623
ARHS Debt Exclusions	390,774	443,475	443,559	445,724	663,325
Lincoln St Sch Bldg Debt Exclusion	1,075,199	1,050,836	1,026,182	998,130	973,476
Fire Station Debt Exclusion	34,000	417,500	1,908,000	1,856,900	1,805,800
Maximum Levy	54,990,555	57,242,231	60,566,991	62,400,799	64,498,694
Unused Levy Capacity	(1,921,490)	(1,377,665)	(756,009)	(70,393)	468,918
<b>Total Tax Levy</b>	<b>53,069,065</b>	<b>55,864,566</b>	<b>59,810,982</b>	<b>62,330,406</b>	<b>64,967,612</b>
State Aid	5,403,739	5,457,776	5,512,354	5,567,478	5,623,152
Estimated Receipts	3,962,000	3,962,000	3,962,000	3,962,000	3,962,000
<b>Other Local Receipts</b>					
Free Cash - Operating Budget	500,000	500,000	500,000	500,000	500,000
Free Cash - Appropriated Reserve	175,000	175,000	175,000	175,000	175,000
Free Cash - Capital/Other	1,061,167				
MSBA	382,543				
Meals/Rooms Tax	506,000	506,000	506,000	506,000	506,000
Other Available Funds	967,828	967,828	967,828	967,828	967,828
<b>Total General Fund Revenues</b>	<b>66,027,342</b>	<b>67,433,170</b>	<b>71,434,164</b>	<b>74,008,712</b>	<b>76,701,592</b>



# Projected Tax Impact

		FY2020 Projection	FY2021 Projection	FY2022 Projection	FY2023 Projection	FY2024 Projection
<b>Tax Impact</b>						
Valuation		3,043,883,694	3,077,751,513	3,111,808,011	3,146,055,073	3,161,055,073
Avg Single Fam		460,691	465,298	469,951	474,651	479,397
Tax Rate		17.43	18.15	19.22	19.81	20.55
Avg Tax Bill		8,032	8,446	9,033	9,404	9,853
Increase (\$)		361	414	587	371	449
Increase (%)		4.7%	5.2%	7.0%	4.1%	4.8%
Note: Tax Impact assumes a 3% increase in Single Family Home Values in FY2020 & 1% in FY2021-FY2023; Valuation reflects \$30M new growth in FY2020, \$15M new growth from FY2021-2024 and corresponding growth in overall Single Family Home values						

# Historic & Projected Tax Bills



# Financial Projections

## Financial Outlook

- Budgets increase minimally to maintain services
  - No significant staffing or service level increases
- Existing unused levy capacity used up by FY2024
- Taxes increase between 4.1% to 7% annually
  - FY2021 is the next revaluation year, market adjustments to property values continue to increase annually
- Assumes no major budget “surprises”

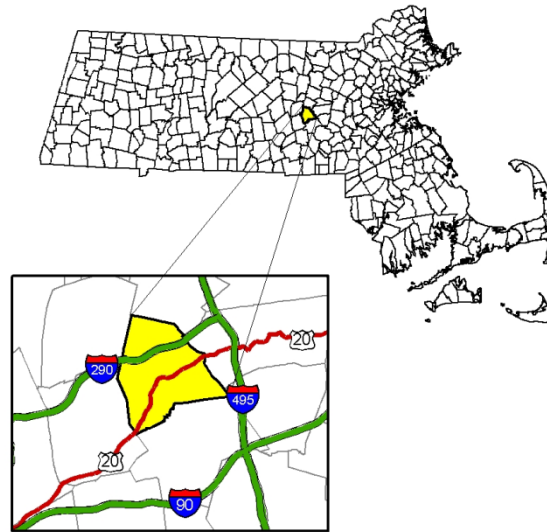
# Conclusion

- Continue funding the OPEB liability in FY2020
- Continue to explore Health Insurance modifications to control costs
- Upcoming FY2020 budget decisions must be made within the context of the financial indicators and projections
- We need to continue monitoring our Financial Condition, work collaboratively to address Town-wide issues, and strive to balance departmental needs with the impact on the taxpayer



# Financial Trend Monitoring Report

## QUESTIONS?



FTM Report covers the period July 1, 2008 (FY2009) through June 30, 2019 (FY2019)