

APPENDIX A

FINANCIAL POLICIES AND OBJECTIVES

Originally adopted by Board of Selectmen on November 23, 2009

Revised November 8, 2010 (Free Cash Policy Added)

TOWN OF NORTHBOROUGH FINANCIAL MANAGEMENT POLICIES

I. OVERVIEW

It is the policy of the Town of Northborough that financial management is conducted with the objectives of providing municipal service in an efficient, effective and consistent manner that aligns with public policy goals as set forth by the Board of Selectmen.

To help ensure the Town's financial stewardship, an established program of managing the Town's finances is essential. To this end, the Board of Selectmen promulgates policies and procedures that are financially prudent and in the Town's best economic interest.

In adherence to this policy, the Town shall pursue the following objectives:

- To set forth operational principles that minimize the cost of government to the extent consistent with services desired by the public and that minimize financial risk;
- To continue effective financial management within the Town that conforms to generally accepted accounting principles;
- To simplify, clarify and modernize the financial systems of the Town as the need occurs;
- To provide increased public confidence in public financial management;
- To protect and enhance the Town's credit rating and prevent default on any municipal debts;
- And to provide safeguards to ensure the quality and integrity of the financial systems.

In order to attain the above objectives, the Board of Selectmen adopts the following policies.

II. ACCOUNTING, AUDITING AND FINANCIAL REPORTING

- A. The Town will utilize accounting practices that conform to generally accepted accounting principles (GAAP) as set forth by the Government Accounting Standards Board (GASB), including compliance with GASB Statements 34, 40 and 45.
- B. An annual audit will be performed by an independent public accounting firm.
- C. A Management Letter shall be provided by the independent public accounting firm as a companion document to the annual audit.

III. GENERAL FUND

- A. Budget Goals and Objectives shall be determined annually by the Board of Selectmen in consultation with the Town Administrator. However, the annual operating budget as submitted to the Town must be balanced with the estimate of proposed expenditures for a given period less than or equal to the proposed means of financing these expenditures

(from various sources of funds or revenues). In short, for a budget to be balanced, proposed expenditures shall not exceed projected resources for the given period.

- B. The Town will carefully and routinely monitor all amounts due the Town. An aggressive policy of collection will be followed for all receivables, including property taxes. An average collection rate of at least 95% of current levy shall be maintained.
- C. Charges for services and other revenues shall be reviewed on a regular on-going basis at least every three years. Charges shall be adjusted as necessary to respond to changes in the cost of providing services. The Board of Selectmen may set specific cost recovery goals for individual departments or services as appropriate.
 - 1. Recreation Department—Recreational user charges and fees will be set to recover approximately 100% of the total direct costs associated with recreational programs.
- D. Reserves reflect a community's ability to react to unforeseen circumstances and to minimize or avoid borrowing for capital expenditures. Reserves should normally average between 5% and 10% of the Town's General Fund (operating budget) Expenditures. The Town will endeavor to continue its policy of maintaining reserves at 10% of General Fund Expenditures. Reserves are defined to include the Town's Stabilization Fund and Free Cash.

The Stabilization Fund is the Town's main reserve fund designed to provide financial stability for the Town while improving the Town's credit worthiness and flexibility. The provisions of this fund are dictated by Massachusetts General Law, Chapter 40, Section 5B. The Stabilization Fund may be appropriated for any lawful purpose. However, at no time can an appropriation placed into the fund exceed 10% of the previous year's real property tax levy, nor can the fund itself exceed 10% of the equalized value of the Town.

Free Cash reserves are the remaining, unrestricted funds from operations of the previous fiscal year; these include unexpended Free Cash from the previous year, actual receipts in excess of revenue estimates and unspent amounts in budget line-items. Once certified, monies held in this reserve may be appropriated during the current budget year and may also be used as a source of revenues for the ensuing budget year.

The Town has historically used some portion of its Free Cash to subsidize the ensuing year's annual operating budget. However, it is the Town's goal to limit the amount of Free Cash used in the operating budget to a sustainable level and to use these available funds for non-recurring one-time expenses, such as capital items.

For purposes of this policy, the following are deemed to be appropriate uses of Free Cash:

- Appropriated Reserve – an amount to provide for extraordinary or unforeseen expenditures as authorized by MGL Chapter 40, Section 6.

- Operating Budget – in order to pursue a gradual transition from using Free Cash to fund recurring operational expenses, the Town will reduce its annual appropriation by \$100,000 each year until such time as the annual appropriation from Free Cash for the operating budget is lowered to \$500,000.
- Stabilization Fund – to fund or replenish the Stabilization Fund.
- Capital Improvement Program – to fund capital projects that would otherwise incur borrowing costs associated with the issuance of debt.
- Special Use – to augment the trust funds related to fringe benefits and unfunded liabilities related to employee fringe benefits.
- Extraordinary Deficits – to fund any potential deficits that would otherwise be carried over to the following fiscal year.
- Emergency Appropriations – to allow for fiscal flexibility.

The overall level of Financial Reserves is critical to maintaining the Town's Bond Rating and ensuring sufficient funds to manage unanticipated needs. Funds shall be allocated from Reserves only after an analysis has been prepared by the Town Administrator and presented to the Board of Selectmen. The analysis shall provide sufficient evidence to establish that the remaining balance is adequate to offset potential downturns in revenue sources and provide sufficient cash balance for daily financial needs.

IV. CAPITAL IMPROVEMENTS

- A. The Town shall continue to prepare a six-year Capital Improvement Program (CIP) updated on an annual basis.
- B. Definitions of Capital Improvement Program/Project:
 1. Capital Improvement Program: A comprehensive list of major public improvement projects that are proposed for the Town's expenditure within the next six years. The CIP shall be reviewed annually.
 2. Capital Improvement Project: Items included within the Capital Improvement Program will involve the improvement or betterment of the physical plant of the Town of a non-recurring nature as differentiated from ordinary repairs or maintenance of a recurring nature. Projects include acquisition of land, improvement of facilities and the replacement/purchase of equipment with a useful life of at least five (5) years and a cost of \$25,000 or more.

V. DEBT MANAGEMENT

- A. A critical measure for bond rating agencies is the ratio of debt service payments to total expenditures. The Town recognizes that maintaining debt levels within industry standards allows the Town to more easily maintain its credit standing. Bond rating agencies consider individual community needs and circumstances (including emergencies) when evaluating the fiscal health of a community. Thus, while exceeding such limits could translate into a decrease in bond rating, such a decrease is not necessarily a totally negative factor in every case in a particular community. The Town's consideration of doing so, however, should be reserved for extraordinary or unforeseeable circumstances.
- B. The Town will endeavor to manage debt so as not to exceed the following ratios, which are reflective of municipal bonding standards:
- | | |
|--|---------|
| 1. Gross General Fund debt service/General Fund expenditures | 15% |
| and | |
| 2. Net General Fund debt service/General Fund expenditures | 8 – 10% |
- C. Definitions of Gross/Net Debt Service:
1. General Fund Gross Debt Service: Annual debt payments (principal and interest) for which the Town is held accountable; inclusive of assessments from Regional School Districts, Town and K-8 School appropriations and debt exclusions. Excluded are Water and Sewer Utility Funds.
 2. General Fund Net Debt Service: After State reimbursement and State aid, the annual debt payments (principal and interest) for which the Town is held accountable; inclusive of assessments from Regional School Districts, Town and K-8 School appropriations and debt exclusions (i.e., Gross Debt Service less reimbursements/aid). Excluded are Water and Sewer Utility Funds.
- D. When considering the use of debt, the Town shall be guided by the following:
1. Borrowing versus Cash—The Town will endeavor to finance Capital Improvement Projects with a total cost of less than \$50,000 through cash appropriation rather than borrowing.
 2. Useful Life—When borrowing, the Town will ensure that the term of bonds issued will not exceed the useful life of the project.
 3. Capital Expenditure versus Capital Improvement Project—Capital expenditures not meeting the definition of “Capital Improvement Projects” should be financed through inclusion within operating budgets.
- E. When considering debt financing strategies, the Town shall be guided by the following:

Exclusions from Proposition 2-1/2 Limits

The maximum amount a community can collect in taxes in a given year is its levy limit. Proposition 2½ (Massachusetts General Laws, Chapter 59, Section 21C) restricts growth in the levy limit from one year to the next by limiting the growth to an increase of not more than 2½% over the prior fiscal year plus any increase in valuation due to new growth in the community.

There are provisions that allow a community to exceed the limits of Proposition 2½. The “debt exclusion” option is a temporary tax increase used to raise additional taxes to fund capital projects for which the community may borrow as defined in Massachusetts General Laws, Chapter 44, Sections 7 and 8. The additional amount is added to the levy limit only during the life of the debt.

A community may also temporarily exceed the levy limit by raising additional taxes for a capital improvement in order to finance the purchase with cash. Such a “capital outlay expenditure exclusion” is used for the year in which the capital item is acquired.

The Town will continue its policy to raise appropriations for large projects, such as school or municipal buildings, outside the limits of Proposition 2½, in order to retain budget capacity within the limits of Proposition 2½.

State, Federal and Other Sources of Funding

State, Federal and other sources of funding including grants and reimbursements, will be aggressively sought for eligible Town and School capital projects.

VI. ENTERPRISE FUND MANAGEMENT

Enterprise funds (Water, Sewer and Solid Waste) should be fully self-sufficient operationally with user charges and fees set to recover all costs associated with the activities of these funds including capital expenditures. Enterprise Funds are governed by Massachusetts General Law, Ch. 44 §53F½.

VII. GIFTS AND GRANTS

- A. All grants shall be managed to comply with the laws, regulations and guidance of the grantor, and all gifts and donations shall be managed and expended according to the wishes and instructions of the donor.
- B. All gifts and grants shall be evaluated for suitability and consistency with Town policies. They shall be formally accepted by the Board of Selectmen after review and recommendation by the Town Administrator. Gifts and grants of funds are governed by Massachusetts General Law Ch. 44 §53A. Gifts of tangible property are governed by Massachusetts General Law Ch. 44 §53A½.

VIII. TRUST FUND MANAGEMENT

Trust Fund management shall be consistent with the legal requirements and spirit of each respective trust document and, to the maximum extent possible, realize the purpose the trusts were intended to achieve. All Trust Funds shall be invested in accordance with Section X of these policies.

IX. INVESTMENT POLICY FOR GENERAL FUNDS, SPECIAL REVENUE FUNDS, ENTERPRISE FUNDS AND CAPITAL PROJECTS FUNDS

- A. **Scope**—Section IX of this policy applies only to short term operating funds such as general funds, special revenue funds, enterprise funds, bond proceeds and capital project funds. Section X will deal with trust funds and any other funds with special circumstances such as stabilization funds. Massachusetts Teachers Retirement Board and the Worcester Regional Retirement Board are responsible for the investment of the pension funds.
- B. **Objectives**—Massachusetts General Laws, Chapter 44, Section 55B requires the Treasurer to invest all public funds except those required to be kept uninvested for purposes of immediate distribution.

The state law further requires that invested funds are to be placed at the highest possible rate of interest reasonably available, taking account of safety, liquidity and yield. Therefore, these guidelines are intended to further the objective of securing the highest return that is consistent with safety of principal while meeting the daily cash requirements for the operation of the Town's business.

1. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit risk and interest rate risk. These risks shall be mitigated by the diversification and prudent selection of investment instruments, and choice of depository.
 - i. Credit risk is the risk of loss due to the failure of the security issuer or backer.
 - ii. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates.
2. Liquidity is the next most important objective. The overall investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the Treasurer shall carry out investment activities in a manner that provides for meeting unusual cash demands without the liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal in some cases.

3. Yield is the third, and last, objective. Investments shall be undertaken so as to achieve a fair market average rate of return, taking into account safety and liquidity constraints as well as all legal requirements.

C. Investment Instruments—Public investments in Massachusetts are not protected through provisions in State law. Therefore, they are largely uncollateralized. Many banking institutions are willing to put up collateral, albeit at a cost to the entity of a lower interest rate. The Treasurer negotiates for the highest rates possible, consistent with safety principles. **The Treasurer may legally invest in the following instruments:**

1. Massachusetts State Pooled Fund: Unlimited amounts (Pool is liquid)—The Massachusetts Municipal Depository Trust (MMDT), an investment pool for state, local, county and other independent governmental authorities, is under the auspices of the State Treasurer and currently managed by Fidelity Investments. It invests in Bankers Acceptances, Commercial Paper of high quality, Bank Certificates of Deposit, Repurchase agreements (Repos) and U.S. Treasury Obligations. It has Federal Deposit Insurance Corporation (F.D.I.C.) pass-through insurance on the C.D.'s and takes delivery on the Repos and Treasuries.
2. U. S. Treasuries that will be held to maturity: Unlimited amounts (Up to one year maturity from date of purchase).
3. U.S. Agency obligations that will be held to maturity: Unlimited amounts (Up to one year maturity from date of purchase).
4. Bank accounts or Certificates of Deposit, hitherto termed C.D.'s. (Up to one year) which are fully collateralized through a third party agreement: Unlimited amounts.
5. Bank accounts and C.D.'s (Up to one year) insured by F.D.I.C. up to at present a \$250,000 limit. All bank accounts and C.D.'s in one institution are considered in the aggregate to receive the \$250,000 insurance coverage. In some cases banking institutions carry additional insurance, Depository Insurance Fund of Massachusetts (D.I.F.M).
6. Unsecured bank deposits of any kind such as other checking, savings, money market, or Certificates of Deposit accounts at banks that do not fit the above categories. These investments are subject to the following limitations: No more than 5% of an institution's assets and no more than 25% of a municipality's cash may be composed of unsecured bank deposits. This percentage may be increased for not more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the Town in the near future. These payments may be for such items as debt service payment or regional school assessments. They will be diversified as much as possible.

D. **Authorization**—The Treasurer has authority to invest municipal funds, subject to the statutes of the Commonwealth Massachusetts General Law Chapter 44 Section 55, 55A, & 55B.

E. **Restrictions**—Chapter 44, Section 55 set forth the several restrictions that the Treasurer must be aware of when making investment selections for short term operating funds.

1. A Treasurer shall not at any one time have on deposit in a bank or trust company an amount exceeding 60% of the capital and surplus of such bank or trust company, or banking company, unless satisfactory security is given to it by such bank or trust company, or banking company for such excess.
2. The Treasurer shall not make a deposit in any bank, trust company or banking company that he is associated with as an officer or employee or has been the same for any time during the three years immediately preceding the date of any such deposit.
3. All securities shall have a maturity from date of purchase of one year or less.
4. Purchases under an agreement with a trust company, national bank or banking company for repurchase at not less than original purchase price of said securities on a fixed date, for a term that shall not exceed ninety days.

X. INVESTMENT POLICY FOR TRUST FUNDS, STABILIZATION FUNDS AND COMMUNITY PRESERVATION ACT

A. **Scope**—Section X of this policy applies to funds that could be invested long term and includes accounts that are designated as Trust Funds, Stabilization Funds, Conservation Fund and Community Preservation Funds. These funds include all accounts that are received as scholarships and perpetual care receipts.

All accounts will be maintained separately receiving their proportionate interest allocation and any realized and unrealized gains or losses. The account will be established as a pooled investment portfolio unless otherwise stated. Any additional amounts added to such accounts will be maintained in this same manner.

B. **Authorization**—Massachusetts General Law Chapter 44, Section 54 pertains to the investment of Trust Funds. All trust funds shall fall under the control of the Treasurer unless otherwise provided or directed by the donor.

C. **Objectives**—Massachusetts General Laws, Chapter 44, Section 55B requires the Treasurer to invest all public funds except those required to be kept uninvested for purposes of immediate distribution.

This section also requires that invested funds are to be placed at the highest possible rate of interest reasonably available, taking into account safety, liquidity and yield. Therefore, these guidelines are intended to further the objective of securing the highest return that is consistent with the safety of principal while meeting the daily cash requirements for the operation of the Town's business.

1. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit risk and interest rate risk. These risks shall be mitigated by the diversification and prudent selection of investment instruments, and choice of depository.
 - i. Credit risk is the risk of loss due to the failure of the security issuer or backer.
 - ii. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates.
2. Liquidity is the next most important objective. The overall investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the Treasurer shall carry out investment activities in a manner that provides for meeting unusual cash demands without the liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal in some cases.
3. Yield is the third, and last, objective. Investments shall be undertaken so as to achieve a fair market average rate of return, taking into account safety and liquidity constraints as well as all legal requirements.

D. **Investment Instruments**—Massachusetts General Laws, Chapter 44 Section 54 states that money should be deposited into savings banks, trust companies incorporated under the laws of the commonwealth, banking companies incorporated under the laws of the commonwealth which are members of the Federal Deposit Insurance Corporation, or national banks, or invested in participation units in a combined investment fund under Chapter 29, Section 38A, or in a paid-up shares and accounts of and in co-operative banks, or in shares of savings and loan associations or in share or savings deposits of federal savings and loan associations doing business in the Commonwealth.

Additionally the Treasurer may invest such funds in securities, other than mortgages or collateralized loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth; provided, that not more than fifteen percent of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half percent of such funds be invested in the stock of any one bank or insurance company. **The Treasurer may invest in the following instruments:**

1. U. S. Treasuries that may be sold prior to maturity: Unlimited amounts (With no limit to the length of maturity from date of purchase).

2. U.S. Agency obligations that may be sold prior to maturity: Unlimited amounts (With no limit to the length of maturity from date of purchase).
3. Bank accounts or Certificates of Deposit, hitherto termed C.D.'s: Unlimited amounts (With no limit to the length of maturity from date of purchase), which is fully collateralized through a third party agreement.
4. Bank accounts and C.D.'s (With no limit to the length of maturity from date of purchase), fully insured by F.D.I.C. and in some cases also Depository Insurance Fund of Massachusetts (D.I.F.M) presently with a \$250,000 limit. All bank accounts and C.D.'s in one institution are considered in the aggregate to receive the \$250,000 insurance coverage.
5. Unsecured bank deposits of any kind such as other checking, savings, money market, or Certificates of Deposit accounts at Banks that do not fit the above categories. These investments are subject to the following limitations: No more than 5% of an institution's assets and no more than 25% of a municipality's cash may be composed of unsecured bank deposits. This percentage may be increased for not more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the Town in the near future. These payments may be for such items as debt service payment or regional school assessments. They will be diversified as much as possible.
6. Common and preferred stocks that are listed in the List of Legal Investments. Massachusetts General Law Chapter 44 Section 54 sets forth that Treasurers may invest in instruments that are legal for savings banks. This list of investments is included in the Commonwealth of Massachusetts List of Legal Investments, Massachusetts General Law, Chapter 167 Section 15A.
7. Investment Funds that are listed in the List of Legal Investments, Massachusetts General Law, Chapter 167 Section 15A.
8. List of Legal Investments—All other items not separately identified here that are listed in the List of Legal Investments, Massachusetts General Law, Chapter 167 Section 15A.

Trust Funds may be co-mingled and invested in any instruments allowed by the Commonwealth of Massachusetts List of Legal Investments issued by the Banking Commissioner each July. Each Trust Fund must be accounted for separately.

XI. INVESTMENT POLICY—OVERALL PROVISIONS

- A. **Diversification**—Diversification should be interpreted in two ways: 1) in terms of maturity, and 2) in terms of instrument type and issuer. The diversification concept should include prohibition against over concentration of maturities, as well as

concentration in a specific institution, with the exception of U.S. Treasury obligations and agencies or investments fully collateralized.

- B. **Ethics**—The Treasurer and Assistant Treasurer shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair or appear to impair ability to make impartial investment decisions. Said individuals shall disclose to the Town Administrator any material financial interest they may have in financial institutions that do business with the Town. They shall also disclose any large personal financial investment positions or loans that they have which could be related to the performance of the Town's investments. All municipal employees shall comply with the State Conflict of Interest Law, Massachusetts General Laws, Chapter 268A.
- C. **Standards of Care**—The standard of prudence to be used by the Treasurer shall be the “prudent person” standard set forth in Massachusetts General Laws Chapter 203C and shall be applied in the context of managing an overall portfolio. The Treasurer acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided the purchases and sale of securities is carried out in accordance with the terms of this policy.

The “prudent person” standard states that, “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well the probable income to be derived.”

- D. **Reporting Requirements**—On an annual basis, a report containing the following information will be prepared by the Treasurer and distributed to the Town Administrator. The report will include as a minimum requirement, the following information:
1. A listing of the individual accounts and individual securities held at the end of the reporting period.
 2. A listing of the short-term investment portfolio by security type and maturity to ensure compliance with the diversification and maturity guidelines established in the "Diversification" section of this Investment Policy.
 3. A summary of the income earned on a monthly basis and on a year to date basis.
 4. The Treasurer shall include in the report a brief statement of general market and economic conditions and other factors that may affect the Town's cash position.
 5. The report should demonstrate the degree of compliance with the tenets set forth in the Investment Policy.

APPENDIX B

FUND DESCRIPTIONS & BALANCES

Fund Descriptions

The financial operations of the Town are organized into funds and account groups, each of which is a separate fiscal and accounting entity. All revenues received or expenditures made by the Town are accounted for through one of the funds or account groups listed below.

Governmental Funds

Most Town functions are financed through what are called Governmental Funds. These are the activities generally supported by “non-exchange” revenue, such as taxes. There are four types of governmental funds maintained by the Town: the General Fund, Special Revenue Funds, Permanent Funds, and the Capital Projects Fund.

General Fund: The General Fund is the major operating fund of the Town government and it encompasses a majority of Town operations, and it is defined as covering all resources that are not required to be accounted for elsewhere. The General Fund is supported by revenues from real estate & personal property taxes, state aid, excise taxes, investment income, fines & forfeitures, and fees & charges. Most of the Town’s departments including the Schools are supported in whole or in part by the General Fund.

Special Revenue Funds: Special Revenue Funds are used to account for revenues that are legally restricted to specific purposes, with the exception of major capital projects and permanent funds. These revenues must be accounted for separately from the General Fund for a variety of reasons, and often span multiple fiscal years. The Town’s Special Revenue Funds are grouped into five categories:

1. **Revolving Funds:** Revolving Funds allow the Town to raise revenues from a specific program and use those revenues to support the program without appropriation. Revolving Funds are established by statute or by-law and may require reauthorization each year at Town Meeting. The Town maintains revolving funds for a number of purposes including Council on Aging, Family and Youth Services Department, Fire Department, Police Department, Recreation Department, Library Lost Books, School Department Student Activities, and the School Lunch Program.
2. **Receipts Reserved for Appropriation:** The funds in this grouping are restricted to a specific use by statute and also require appropriation by Town Meeting. These funds include property insurance claims greater than \$20,000, monies from Cemetery sale of lots and graves, Premiums received on Excluded Debt, and Conservation Wetland Protection fees.
3. **School Grants:** The School Grant Funds account for specially financed education programs using revenue from grants received from the Federal or State government. These include the State Kindergarten Enhancement grant, the State Special Education Revolving Fund (Circuit Breaker), and Federal Title I and Title IIA grants.

4. **Other Intergovernmental Funds:** These funds account for revenues received by the Town from the Federal or State government for specific purposes other than education. These include a variety of grants such as the Chapter 90 Highway Program, State Election Grants, State Library Aid, and the Elderly Formula Grant.
5. **Other Special Revenue Funds:** These funds account for any other miscellaneous special revenues not included in the previous categories. These include private donations for specific purposes, such as grants received from private or non-profit foundations, gifts made to specific departments, and payments from developers for infrastructure improvements related to proposed projects. This category also includes the Community Preservation Fund and the Conservation Fund.

Permanent Funds: Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used to support the government and its citizens. Many times such funds are referred to as ‘Trust’ funds, and the acceptance of such funds generally involves acceptance by Town Meeting for each fund’s individual specifications and/or requirements. There are two accounts associated with each permanent fund, the expendable income, and the non-expendable principal.

1. **Expendable Trust Funds:** This heading accounts for the expendable income portion of the permanent funds. This heading is also used to account for funds received by the Town in a trustee capacity where both the principal and earnings of the fund may be expended on a restricted basis for the benefit of the Town or its Citizens. This includes the Scholarship Tax Check-off Fund and the Elderly/Disabled Fund.
2. **Non-expendable Trusts:** are used to account for trusts where the principal must remain intact. Generally income earned on the non-expendable trust principal may be expended in accordance with the conditions of a trust instrument or statute, and is accounted for in the previous category. An example is the Cemetery Department’s Perpetual Care Trust.

Capital Projects Fund: The Capital Projects Fund is used to account for monies used for the acquisition or construction of major capital facilities (buildings, roads, etc.) other than those financed by other dedicated funds, such as the Community Preservation Act Fund or Chapter 90 Highway Funds. In addition to “projects,” the Town’s Capital Projects Fund also accounts for capital outlay for items purchased pursuant to the town’s capital plan, such as Departmental Equipment. The source of funding for this fund is primarily proceeds from the Town’s issuance of bonds, but may also be derived from private sources, grants, or transfers from other Town funds.

Proprietary (Enterprise) Funds

Proprietary Funds cover the town's "business-type" activities, and are referred to as such in the financial statements. These statements comprise the Water and Sewer Enterprise Funds of the Town. All direct and indirect costs including overhead of each service are intended to be captured by user fees and/or general fund subsidies. These funds account for their own fixed assets and long term liabilities. Although the long term debt of the funds is ultimately the legal obligation of the general fund, it is budgeted and paid for by the Enterprise Fund for which the project was approved. Town Meeting has approved the use of the Enterprise Fund accounting for the Water, Sewer, and Solid Waste utilities. However for the purposes of the financial statements only the Water and Sewer Funds are considered "business-type" activities.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. The Town is the trustee, or fiduciary, and the government and its citizenry do not benefit directly from such funds. This means that the Town is responsible for assets in a purely custodial manner that can be used only for the trust beneficiaries and Agency Funds. Under this heading the Town maintains only Agency Funds, such funds for "special detail" for overtime labor billed to outside parties, collection of Deputy Fees payable to the Deputy Collector, firearms licenses payable to the Commonwealth, and fees derived from and expenses related to the use of school facilities by outside parties.

Account Groups

The last category of fund account entities maintained by the Town is the Account Groups. For which there are two, the General Long-term Debt Account Group and the General Fixed Assets Account Group.

The first of these groups is the General Long-term Debt Account Group which accounts for the balances due on long-term debt that the Town has approved. The liabilities accounted for in this fund extend to future years, versus those that affect the current year alone shown in other funds. When borrowing is approved the liability is increased in this fund, and when debt is paid down or rescinded the liability is reduced.

The second of these groups is the General Fixed Asset Account Group. As infrastructure is developed, construction completed, and capital outlays are made, the Town's inventory of Fixed Assets is increased. The value of these assets is then depreciated on a fixed schedule annually.

Basis of Accounting

By necessity the Town produces financial reports that have different bases of accounting. Since the goal of financial reporting is to provide useful information to its users, the measurement focuses of reporting must change with respect to the needs of the audience.

The day to day method of accounting used by the Town is UMAS, the Commonwealth of Massachusetts' Universal Municipal Accounting System. This accounting system is prescribed by the Commonwealth of Massachusetts Department of Revenue and is intended to demonstrate compliance with state statutes and local near-term decisions (e.g. budget). This system prescribes the use of the modified accrual basis of accounting, which is the basis used by all governmental fund types. Under the modified accrual basis, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers that property taxes are available if they are collected within 60 days after year-end. Expenditures are recorded when the liability is incurred. Principal and interest on general long-term debt are recorded as liabilities in the fiscal years that the payments are due.

The full accrual basis of accounting is used for the Town's financial statements, which are produced based on generally accepted accounting principles (GAAP). The statements report information about the Town with a broad overview. The statements use accounting methods most similar to those used by a private-sector business and are typically used to demonstrate the long term financial position of the Town. The users of this information are often bond rating agencies and others seeking information consistent with entities in other states. The Government Accounting Standards Board (GASB) issues guidance for how GAAP based financial statements should be prepared for government entities. The accrual basis of accounting is utilized by the proprietary and agency funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Budgeting

An annual budget is adopted for the Town's General and Enterprise Funds. Although legislative approval is required for capital projects, borrowing authorizations, and other warrant articles, annual budgets are not prepared for any other fund. Note however that although there are informational budgets presented for capital spending with regard to the Capital Improvement Plan and also by the Community Preservation Committee for spending from the Community Preservation Act Fund, the related spending for such purposes is approved article by article versus the adoption of an annual consolidated budget.

The Town's annual budget is adopted on a statutory basis, specific to the Commonwealth of Massachusetts, and it differs in some respects from GAAP. The major differences between the budget and GAAP basis are that:

1. Budgeted revenues are recorded when cash is received, except for real estate and personal property taxes, which are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
2. For the budget, encumbrances are treated as expenditures in the year the commitment is made. Also, certain appropriations, known as special articles, do not lapse and are treated as budgetary expenditures in the year they are authorized as opposed to when the liability is actually incurred (GAAP).
3. The depreciation of Fixed Assets is not recognized as a current expense on a budgetary basis, except to the extent that actual maintenance costs are included in departmental budgets.

Following are three tables which are excerpted from the Town's financial statements prepared on a GAAP basis. These tables display the results of operations for the fiscal year ending June 30, 2012. There's one table for Governmental Funds and one for Proprietary Funds. Since Fiduciary funds do not involve the measurement of operations, there is no corresponding table for that grouping.

Under GASB Statement 34, and further by Statement 54, "major funds" are defined as individual funds that have reached a significant threshold with respect to total fund balance, and have dedicated revenue sources. "Major Funds" must be shown separately from the general fund. The remaining individual funds are aggregated in the "Non-major" category for the purposes of the financial statements. The third and final table displayed is the statement for the "Non-major" Governmental Funds.

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2012

	General Fund	Nonmajor Governmental Funds	Total
Revenues:			
Property taxes	\$ 38,258,094	436,592	38,694,686
Excise taxes	2,171,749	-	2,171,749
Payments in lieu of taxes	107,169	-	107,169
Departmental charges for services	207,119	2,345,585	2,552,704
Licenses and permits	517,665	159,806	677,471
Intergovernmental	8,338,116	2,228,019	10,566,135
Fines and forfeits	1,580	190,741	192,321
Investment income	85,822	40,944	126,766
Other	337,536	657,490	995,026
Total revenues	50,024,850	6,059,177	56,084,027
Expenditures:			
Current:			
General government	2,107,412	1,722,650	3,830,062
Public safety	3,823,221	807,954	4,631,175
Education	28,195,237	2,933,011	31,128,248
Public works	1,311,760	1,323,613	2,635,373
Human services	527,103	136,817	663,920
Recreation and culture	847,820	512,101	1,359,921
Intergovernmental	423,427	-	423,427
Employee benefits	9,090,928	-	9,090,928
Other	137,565	-	137,565
Debt service	2,461,963	6,632	2,468,595
Total expenditures	48,926,436	7,442,778	56,369,214
Excess (deficiency) of revenues over expenditures	1,098,414	(1,383,601)	(285,187)
Other financing sources (uses):			
Operating transfers in	371,273	1,401,570	1,772,843
Operating transfers out	(1,051,570)	(721,273)	(1,772,843)
Total other financing sources (uses)	(680,297)	680,297	-
Net changes in fund balances	418,117	(703,304)	(285,187)
Fund balance, beginning of year	8,331,458	8,924,049	17,255,507
Fund balance, end of year	\$ 8,749,575	8,220,745	16,970,320

The notes to the financial statements are an integral part of this statement.

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended June 30, 2012

	Water Enterprise Fund	Sewer Enterprise Fund	Total
Operating revenues:			
Charges for services	\$ 1,886,542	1,020,340	\$ 2,906,882
Special Assessments	143,360	337,321	480,681
Total operating revenues	2,029,902	1,357,661	3,387,563
Operating expenditures:			
Salaries, wages and employee benefits	359,587	243,908	603,495
Energy purchases	750,478	169,445	919,923
Other operating expenses	140,903	195,140	336,043
Depreciation	301,916	207,006	508,922
Total operating expenditures	1,552,884	815,499	2,368,383
Operating income	477,018	542,162	1,019,180
Nonoperating revenues (expenses):			
Interest income	1,660	3,616	5,276
Interest expense	(109,977)	(173,083)	(283,060)
Other	-	3,592	3,592
Total nonoperating revenues (expenses)	(108,317)	(165,875)	(274,192)
Income before transfers	368,701	376,287	744,988
Operating transfers in (out)	-	-	-
Changes in net assets	368,701	376,287	744,988
Net assets, beginning of year	7,215,308	7,057,759	14,273,067
Net assets, end of year	\$ 7,584,009	7,434,046	\$ 15,018,055

The notes to the financial statements are an integral part of this statement.

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2012

	<u>Special Revenue</u>		<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals</u>
	<u>School</u>	<u>Other</u>			
Revenues:					
Property taxes	\$ -	436,592	-	-	436,592
Departmental charges for services	334,947	1,989,813	-	20,825	2,345,585
Licenses and permits	-	159,806	-	-	159,806
Intergovernmental	1,284,494	682,398	261,127	-	2,228,019
Fines and forfeits	-	190,741	-	-	190,741
Investment income	63	30,392	-	10,489	40,944
Other	-	612,051	20,598	24,841	657,490
Total revenues	1,619,504	4,101,793	281,725	56,155	6,059,177
Expenditures:					
Current:					
General government	-	1,703,865	-	18,785	1,722,650
Public safety	-	740,860	67,094	-	807,954
Education	1,338,288	500,196	1,094,527	-	2,933,011
Public works	-	969,925	353,688	-	1,323,613
Human services	-	136,817	-	-	136,817
Recreation and culture	-	503,756	8,345	-	512,101
Employee benefits	-	-	-	-	-
Debt service	-	6,632	-	-	6,632
Total expenditures	1,338,288	4,562,051	1,523,654	18,785	7,442,778
Excess (deficiency) of revenues over expenditures	281,216	(460,258)	(1,241,929)	37,370	(1,383,601)
Other financing sources (uses):					
Proceeds from issuance of bonds	-	-	-	-	-
Operating transfers in	-	247,570	1,154,000	-	1,401,570
Operating transfers out	-	(721,273)	-	-	(721,273)
Net changes in fund balances	281,216	(933,961)	(87,929)	37,370	(703,304)
Fund balance, beginning of year	577,161	6,251,839	1,378,685	716,364	8,924,049
Fund balance, end of year	\$ 858,377	5,317,878	1,290,756	753,734	8,220,745

Changes in Fund Balance

General Fund

It is important to note that while the General Fund's fund balance shown on the preceding GAAP based statements is a measure of resources that are available to the Town on a long-term basis, the full amount is not available for appropriation in its entirety on a statutory basis. Under Massachusetts General Law, the Massachusetts Department of Revenue (DOR) certifies the amount available, which is referred to as "Free Cash." This certified amount is available for appropriation by the legislative body. The amount certified by the DOR at the close of FY2012 is \$2,459,307 while the GAAP based Fund financial statements reflect an Unassigned Fund Balance of \$3,008,047.

Within the Town's Financial Policies (See Appendix A), is a reserve policy which defines reserves as being the combination of Free Cash & Stabilization Fund Balances. This reserve policy requires that the Town maintain reserves at a level of between 5 to 10% of the Town's General Fund expenditures. Under the Free Cash plan for the proposed FY2014 budget, the amount of \$500,000 will be used for the operating budget, \$150,000 will be used to fund the Appropriations Committee Reserve Fund, and \$1,309,307 will be used to fund capital expenditures. With respect to the proposed FY2014 budget, no transfers from Stabilization are contemplated, while use of Free Cash in the total amount of \$1,959,307 is proposed.

The following schedule demonstrates the Town's compliance with its fiscal policies, and that the proposed use of Free Cash for the current year will not yield a significant change in Fund Balance from the budget proposed in the prior year. The figures shown below reflect the amounts that are contemplated at the time of Town Meeting:

PROPOSED BUDGET	FY2013	FY2014
Certified Free Cash as of June 30 prior year	\$ 1,869,209	\$ 2,459,307
Proposed use for budget	\$ (1,365,000)	\$ (1,959,307)
Unappropriated Certified Free Cash	\$ 504,209	\$ 500,000
Stabilization Fund Balance as of June 30	\$ 3,605,888	\$ 3,660,076
Investment Income through December 31	\$ 25,638	\$ 13,745
Stabilization Fund Balance as of December 31	\$ 3,631,526	\$ 3,673,821
Total Reserves	\$ 4,135,735	\$ 4,173,821
Proposed Expenditure Budget	\$ 49,659,402	\$ 51,823,182
Reserves as Percentage of Budget	8.3%	8.0%

Free Cash will be recalculated for June 30, 2013 once FY2013 is closed and the Town has submitted its balance sheet to the DOR. While the amount voted for use in FY2014 will reduce the amount shown in the preceding calculation, positive results from unspent appropriations and revenues above budget in FY2013 will add to the balance. Note that the figure for the adopted budget is determined when the Town's tax rate is set later during the current fiscal year (Tax Recapitulation). The adopted budget changes from the proposed due to a number of factors, primarily assessments that are estimated at the time of Town Meeting, and finalized when the property tax rate is set and approved by the DOR. The following table shows the Town's reserves as calculated following the adoption of the budget and most recent Free Cash certifications (at close of prior fiscal year):

ADOPTED BUDGET	FY2012	FY2013
Certified Free Cash as of June 30	\$ 1,869,209	\$ 2,459,307
Stabilization Fund Balance as of June 30	\$ 3,605,888	\$ 3,660,076
Total Reserves	\$ 5,475,097	\$ 6,119,383
Adopted Budget	\$ 47,744,144	\$ 49,802,233
Reserves as Percentage of Budget	11.5%	12.3%

The preceding two tables demonstrate the Town's approach to maintain sufficient reserves through conservative fiscal policies, and shows the approach that is used to develop its free cash plan. For FY2014, the increase of Free Cash certified at June 30, 2012 allows for amounts to be appropriated for capital in addition to the operating budget. In the case of FY2013, \$615,000 in capital expenditures were approved, and for FY2014 \$1,309,307 is being contemplated for capital expenditures. This approach allows for sufficient reserves to be maintained, while at the same time reserves are used to fund one-time expenses such as capital purchases.

Additionally, for the purposes of long term trend analysis, the level of the Town's reserves are compared to "Operating Revenues" as an indicator in its Financial Trend Monitoring System (FTMS) rather than the expenditure budget (see Appendix C for further information). "Operating Revenues" reflect the actual cash received in the General Fund during the fiscal year, and does not include the use of Free Cash or other "one-time revenues", or accruals. The indicator compares the percentage of reserves remaining at the close of the year to actual revenue. The indicator, also seeks to reflect allocations or reservations subsequently made, to reflect spending decisions made after balances are certified. The table below shows the data excerpted for the most recently closed two years included in the analysis:

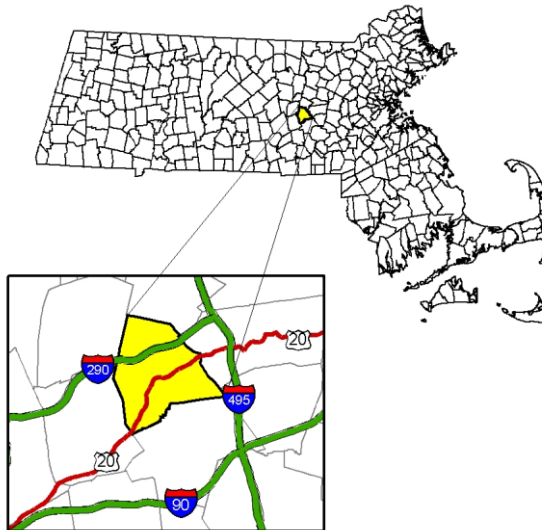
RESERVES VS. OPERATING REVENUES	FY2011	FY2012
Certified Free Cash as of June 30	\$ 1,869,209	\$ 2,459,307
Stabilization Fund Balance as of June 30	\$ 3,605,888	\$ 3,660,076
Total Reserves	\$ 5,475,097	\$ 6,119,383
Total Revenues	\$ 45,181,626	\$ 47,132,299
Reserves as % of Operating Revenues	12.1%	13.0%
Reserves Subsequently Used	\$ (1,365,000)	\$ (1,959,307)
Total Adjusted Reserves	\$ 4,110,097	\$ 4,160,076
Total Revenues	\$ 45,181,626	\$ 47,132,299
Reserves as % of Operating Revenues	9.1%	8.8%



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Town of Northborough, MA Financial Trend Monitoring Report Fiscal Year 2013



FTM Report covers the period July 1, 2002 (FY2003) through June 30, 2013 (FY2013)



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I. INTRODUCTION—THE FINANCIAL TREND MONITORING SYSTEM

Welcome to the Town of Northborough’s Financial Trend Monitoring System (FTMS) Report. The purpose of the FTMS is to analyze key financial indicators in order to assess the financial direction of the Town. The report is designed to bring issues and opportunities to the attention of decision-makers through a systematic method of trend analysis. If employed correctly, the FTMS will help Town officials:

- Gain a better understanding of the Town’s current financial condition.
- Identify hidden and emerging problems before they reach serious proportions.
- Present a straightforward picture of the Town’s financial strengths and weaknesses to elected and appointed officials, citizens, and credit rating firms.
- Reinforce the need for long-range considerations during the annual budget process.
- Provide a starting place for setting, reviewing and updating of financial policies that guide financial decision-making.

The ultimate goal of the FTMS is to help local officials better assess and protect the Town of Northborough’s overall financial condition.

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. It is often discussed from the perspectives of cash solvency, budgetary solvency, long-run solvency and service-level solvency.

In the narrowest sense, financial condition means the ability of the Town to pay its immediate obligations over the next 30 to 90 days in order to maintain operations. This is typically referred to as “cash solvency.”

Beyond meeting its monthly cash obligations, a Town must also be able to generate enough revenues during a fiscal year to meet all its expenditures, without incurring operational deficits. With few exceptions, such as snow and ice overdrafts, the Town is legally obligated to maintain “budgetary solvency,” or a balanced fiscal year budget, while providing services to residents.

Aspects of Financial Condition

- *Cash Solvency: A government's ability to pay immediate obligations,*
- *Budgetary Solvency: Its ability to pay financial obligations within the current fiscal period,*
- *Long-Run Solvency: Its ability to continue paying obligations in future fiscal periods, and*
- *Service-Level Solvency: The government's ability to continue providing the level of services expected by its constituents.*

In a broader sense, financial condition means the Town's ability in the long-run to pay all the costs of doing business, including those which may not appear during the current fiscal year, such as pension costs and liabilities for other post-employment benefits. This long-run balance between revenues and costs is referred to as "long-run solvency" and includes items such as debt commitments and investments designed to maintain capital facilities such as buildings and roads. As many municipalities know all too well, it is possible to defer such costs in the short-run, but failure to adequately invest in capital needs will cost more in the future and could even create issues of budgetary solvency if the needs go unmet for too long.

Lastly, financial condition must also be viewed from the perspective of the services that residents desire. "Service-level solvency" refers to the level and quality of the services that residents expect in order to maintain the health, safety and welfare of the community. A Town lacking service-level solvency might in all other respects be in sound financial condition, but be unable to support critical services at an adequate level. In a financial crisis situation, trying to maintain service-level solvency might result in a municipality experiencing cash, budgetary, or long-run solvency problems. That is why it is important to view the issue of financial condition from all four perspectives. During this prolonged period of chronic fiscal constraint, the goal is to prevent fiscal distress, which is a temporary imbalance, from becoming fiscal crisis where obligations can no longer be met.

Fiscal Distress vs. Fiscal Crisis

- *Fiscal Distress: 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*

Although unforeseen events can sometimes create a fiscal crisis, the signs of fiscal distress are often revealed in several recurring indicators. These include structural, economic, demographic and institutional factors. The indicators might manifest in an erosion of the economic base, a significant change in population size, or an interruption in the tax base. A loss of financial independence (through a greater reliance on intergovernmental revenues), a decline in productivity, or a large amount of immediate local government costs can also be indicative of the development of financial imbalances. For the Town of Northborough, which is in relatively good financial condition despite several years of fiscal constraints, the FTMS will help provide a systematic way to monitor changes and anticipate future problems.

What is a Financial Trend Monitoring System?

The Financial Trend Monitoring System (FTMS), as adapted from the system developed by the International City/County Management Association (ICMA), "identifies the factors that affect financial condition and arranges them in a rational order so that they can be more easily analyzed and measured." It is a management tool that pulls together the pertinent information from the Town's budgetary and financial reports, mixes it with the appropriate economic and demographic data, and creates a series of Town-specific financial indicators that, when plotted over

a period of time, can be used to monitor changes in financial condition. The financial indicators include such things as revenue and expenditure trends, financial reserves, changes in the tax base, one-time revenue dependencies, debt, and external revenue dependencies.

What are Financial Indicators?

Financial indicators are the primary tools of the Financial Trend Monitoring System. They represent a way to quantify changes in the factors with which they are associated. Many aspects of financial condition cannot be measured explicitly; however, by quantifying indicators and plotting them over a period of time, decision-makers can begin to monitor and evaluate the Town’s financial performance. The use of these indicators will not provide answers as to why a problem is occurring or what the appropriate solution is, but it may provide the opportunity to make an informed management response.

Expenditure Indicators

Expenditures are a rough measure of a local government’s service output. Generally, the more a local government spends in constant dollars, the more services it is providing, although this axiom does not take into account how effective the services are or how efficiently they are delivered. To determine whether a government is living within its revenues, the first issue to consider is expenditure growth rate.

Because local governments are required to have a balanced budget, it would seem unlikely that expenditure growth would exceed revenue growth. Nevertheless, the annual budget can be balanced in a number of subtle ways that will create a long-run imbalance in which expenditure outlays and commitments grow faster than revenues. Some of the more common ways are to use non-recurring revenues (one-time monies), to borrow (pay for operating capital through a long-term capital improvement plan), or make use of reserve funds (Stabilization or Free Cash) to fund operational expenses. Other ways are to defer maintenance on capital items or to defer funding of a future liability, such as a pension obligation or other retiree benefits. In each case, the annual budget remains balanced, but the long-run budget develops a deficit. Although long-run deficits might, conceivably, be made up through windfalls such as additional State Aid, grants, or other revenue surges, allowing such deficits to develop is risky.

A second issue to consider is expenditure flexibility. Expenditure flexibility is a measure of a local government’s freedom to adjust its service levels to changing conditions, and considers the level of mandatory or fixed costs. Ideally, a government’s expenditure growth rate will not exceed its revenue

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, and*
- *Prevent: a recurrence of fiscal distress after the Town addresses the current issue or crisis (i.e., reliance on one-time revenues or health insurance increases).*

growth rate, and the government will have maximum flexibility to adjust spending. An increase in mandatory costs, such as debt service, employee benefits, and property and other insurances, renders a government less able to adjust to change.

Revenue Indicators

Revenues determine the capacity of a local government to provide service. Important issues to consider in revenue analysis are growth, flexibility, dependability, diversity, administration, and elasticity. Under ideal conditions, revenues would grow at a rate equal to or greater than the combined effects of inflation and expenditures. They would be sufficiently flexible (free from spending restrictions) to allow adjustments to changing conditions. They would be balanced between elastic and inelastic in relation to inflation and the economic base; that is, some would grow with inflation and the economic base and others would remain relatively constant. Revenue sources would be diversified—not overly dependent on residential, commercial, or industrial land uses, or on external funding sources, such as discretionary State Aid. User fees would be regularly evaluated to cover cost increases.

Analyzing revenue structure will help to identify the following types of problems:

- Deterioration of the revenue base
- Practices or policies that may adversely affect revenue yields
- Poor revenue-estimating practices
- Inefficiency in the collection and administration of revenues
- Overdependence on obsolete or intergovernmental revenue sources
- User fees that are not covering the cost of services

This analysis may be used to provide the framework for the development of new, and update of existing fiscal policies to guide budget development.

Which Fiscal Indicators are included in the report?

Although the comprehensive ICMA model contains dozens of potential indicators for measuring municipal financial condition, a relevant sample has been selected as part of Northborough's Financial Trend Monitoring Report (FTMR). Others were omitted because either they are not applicable to Northborough's situation or because we do not have the data to be able to consistently develop these indicators at this time. We hope to be able to expand the indicators included in the report in the future. The twelve indicators that have been selected for use in monitoring the Town of Northborough's financial condition are displayed graphically on the following pages and were chosen based upon the availability of data and their appropriateness for Northborough. The selected indicators include:

1. Property Tax Revenues
2. Uncollected Property Taxes
3. Revenues & Expenditures per Capita
4. State Aid (Intergovernmental Revenues)
5. Economic Growth Revenues
6. Use of One-Time Revenues
7. Personnel Costs
8. Employee Benefits
9. Pension Liability
10. Other Post-Employment Benefits (OPEB) Liability
11. Debt Service Expenditures
12. Financial Reserves/Fund Balance

The FTMR is intended to assist the Town's Administration, Board of Selectmen, Appropriations Committee and the Financial Planning Committee in setting long-range policy priorities, and can provide a logical way of introducing long-range considerations into the annual budget process. The following report has been developed using the ICMA manual entitled Evaluating Financial Condition, A Handbook for Local Government.

What Methodology was used to compile the data in the report?

The Financial Trend Monitoring System (FTMS) analysis covers the period of July 1, 2002 through June 30, 2013. Actual data has been presented for the Town's General Fund for the Fiscal Years 2003 through 2013. The actual data is taken from the Audited Financial Statements; Budget Comparison Schedules and Department of Revenue (DOR) Tax Rate Recapitulation reports as well as from various other DOR reports. Adjustments and exceptions are noted in the report.

Constant dollars are nominal dollars adjusted for inflation using data from the U.S. Department of Labor, Bureau of Labor Statistics for the Boston-Brockton-Nashua statistical area. Six months of calendar year 2012 was used for FY2013. CPI-U data is the Consumer Price Index for all urban consumers in the New England region. For the purpose of this analysis, FY2003 is the base year beginning at 100%.

Population data used in the per capita computations is taken from the Town Clerk's Annual Town Census.

Section II

Executive Summary

FTMR Executive Summary

- **Current Financial Condition**

Northborough is in relatively good financial condition especially considering the economic climate of the past several recessionary years. The Town's financial reserves are strong and the use of the \$3.6 million Stabilization Fund has not been necessary. Debt level is manageable and our bond rating of Aa2 has been maintained for several years. The Town continues to have favorable economic growth and reliance on one-time revenues in the operating budget has been significantly curtailed. Further, the impact of rising health insurance costs has been mitigated by successful negotiation of plan design changes with our local bargaining units.

- **Identify Emerging Problems**

Based on the analysis, it is apparent that long-run solvency surrounding unfunded pension liability and OPEB obligations are potential emerging problems for the Town of Northborough. Uncertainty surrounding the level of State Aid and future increases in health insurance premiums remain a significant area of exposure for the annual operating budget.

- **Financial Strengths and Weaknesses**

The adoption of the Free Cash Policy in 2010 strengthened the Town's financial condition with less reliance on one-time revenues in the operating budget. In addition, the use of Free Cash for significant capital investment has insured that one-time funds are only utilized for one-time expenditures. The growth in revenue from property taxes, which has kept pace with inflation, as well as excellent tax collections are financial strengths for the Town. While expenditures per capita have risen indicating an increase in service needs, the Town's revenues per capita have increased as well.

- **Long-Range Budget Considerations**

The Town of Northborough is growing, yet the budgetary resources devoted to personnel has remained very stable. The need to address this growth and maintain service-level solvency may require a corresponding increase in personnel in the future.

- **Policy Updates**

Moving forward it will be important for the Town to plan for and eventually fund the OPEB liability. The OPEB Trust Fund was established at the April 2011 Town Meeting for this purpose. Identification of additional revenue sources such as the adoption of the Meals Tax or Room Occupancy surcharge should also be explored to alleviate the tax burden on residents. Given the reasonable increases in health insurance over the past several years, no action is required during this budget cycle.

Financial Indicator

FY2013

1	Property Tax Revenues	Favorable
2	Uncollected Property Taxes	Favorable
3	Revenues & Expenditures per Capita	Marginal/Improving
4	State Aid (Intergovernmental Revenues)	Unfavorable/Uncertain
5	Economic Growth Revenues	Favorable/Uncertain
6	Use of One-Time Revenues	Favorable
7	Personnel Costs	Marginal
8	Employee Benefits	Favorable/Uncertain
9	Pension Liability	Unfavorable
10	Other Post Employment (OPEB) Liability	Unfavorable
11	Debt Service Expenditures	Favorable
12	Financial Reserve/Fund Balance	Favorable

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Section III

Financial Indicator Analysis

Indicator 1: Property Tax Revenues

Formula:

$$\frac{\text{Net Property Tax Revenues}}{\text{Consumer Price Index}}$$

Northborough Trend

X	Favorable
	Marginal
	Unfavorable
	Uncertain

Warning Trend: A decline in property tax revenues (measured in constant dollars).

Description:

Property tax revenue is the primary source of revenue for municipal government and accounts for over 80% of Northborough's revenue. A decline in or diminished growth rate of property taxes can have a number of causes. It may reflect an overall decline in property values, a decline in economic health, default on property taxes by property owners, or the movement of retail or industrial operations to other communities. Increases to property taxes are limited by the confines of Proposition 2 ½ and any potential revenue increases from an override would need to be weighed carefully with the additional tax impact upon residents.

Analysis: The analysis shows that property tax revenue adjusted to constant dollars is positive and therefore has kept pace with inflation. Further, the Town's revenue growth has occurred with minimal operating Proposition 2 ½ overrides. Overrides were approved to provide additional funding for public schools in the amounts of \$487,370 in FY2003, \$362,734 in FY2007 and \$316,047 in FY2009. The other years that had property tax revenue increases over the Proposition 2.5% limit used excess levy capacity from the preceding year to increase the tax levy. This excess levy capacity was generated from conservative budget estimates of new growth.

Fiscal Year	2003*	2004	2005	2006	2007*	2008	2009*	2010	2011	2012	2013*
Property Tax Collections **	\$ 23,784,620	\$ 26,996,422	\$ 27,498,892	\$ 28,834,468	\$ 30,400,203	\$ 32,721,073	\$ 34,270,290	\$ 35,765,428	\$ 36,555,771	\$ 38,335,354	\$ 39,564,217
Less Debt Exclusions ***	\$ (645,888)	\$ (2,341,902)	\$ (1,796,046)	\$ (1,576,581)	\$ (1,936,396)	\$ (1,882,927)	\$ (1,940,878)	\$ (1,756,113)	\$ (1,855,884)	\$ (2,401,767)	\$ (2,439,581)
Net Property Tax Revenues (nominal dollars)	\$ 23,138,732	\$ 24,654,520	\$ 25,702,846	\$ 27,257,887	\$ 28,463,807	\$ 30,838,146	\$ 32,329,412	\$ 34,009,315	\$ 34,699,887	\$ 35,933,587	\$ 37,124,636
Percent increase Tax Revenues over prior year		6.6%	4.3%	6.1%	4.4%	8.3%	4.8%	5.2%	2.0%	3.6%	3.3%
CPI-U, 2003 Base Year ****	200.3	207.3	212.1	220.5	225.1	231.6	234.2	236.7	240.0	245.8	246.6
CPI-U adjustment for constant dollars	100.0%	96.6%	94.4%	90.9%	89.0%	86.5%	85.5%	84.6%	83.5%	81.5%	81.2%
Net Property Tax Revenues (constant dollars)	\$ 23,138,732	\$ 23,827,746	\$ 24,272,890	\$ 24,766,409	\$ 25,332,921	\$ 26,673,464	\$ 27,655,460	\$ 28,777,074	\$ 28,961,757	\$ 29,282,879	\$ 30,156,437
Percent increase Tax Revenues over prior year		3.0%	1.9%	2.0%	2.3%	5.3%	3.7%	4.1%	0.6%	1.1%	3.0%

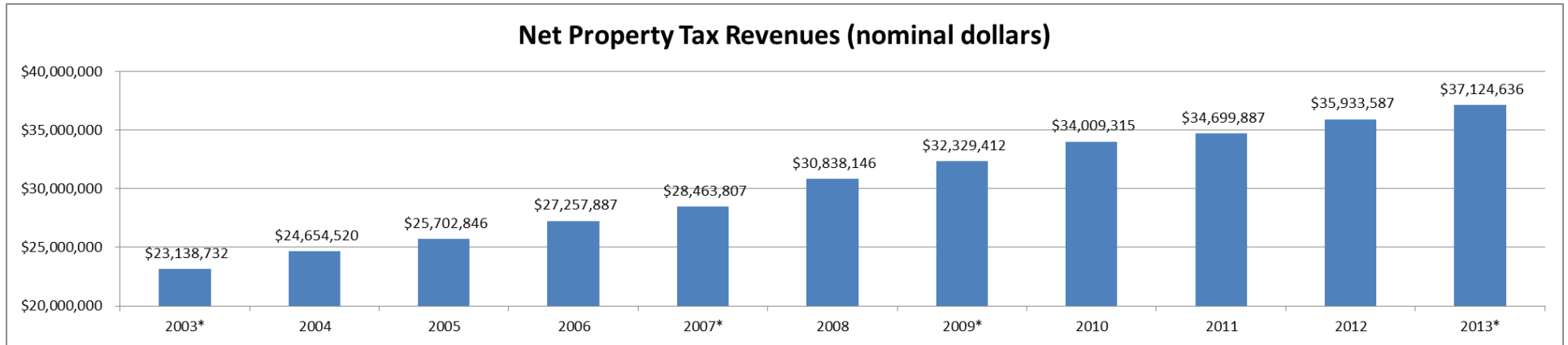
Notes:

*Proposition 2 1/2 Overrides were approved in FY2003 (\$487,370), FY2007 (\$362,734), & FY2009 (\$316,047); FY2013 shows budget numbers rather than actual, Source: Mass. DOR Tax Recap

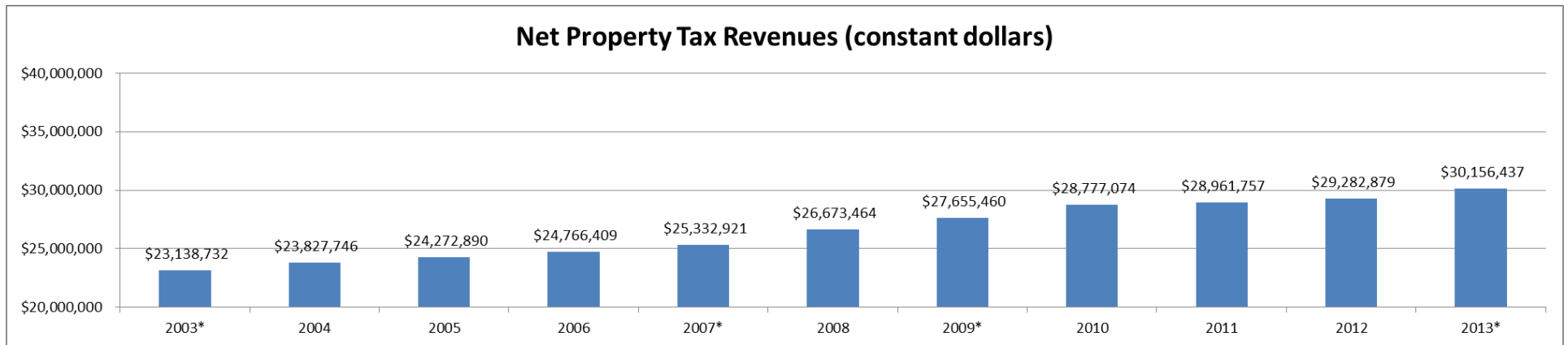
** Source: Audited Financial Statements, General Fund, Budget Comparison Schedule

*** Source: Mass. DOR, Tax Recaps

**** Source: U.S. Dept of Labor - Bureau of Labor Statistics (Boston-Brockton-Nashua region), 6 months of calendar year 2012 used for FY2013



Note: The chart above shows net property tax revenues that have not been adjusted for inflation



Note: The chart above shows net property tax revenues adjusted for inflation using FY2003 as the base year

Indicator 2: Uncollected Property Taxes

Formula:

Uncollected Property Taxes (as of June 30)
Net Property Tax Levy

Northborough Trend

X	Favorable
	Marginal
	Unfavorable
	Uncertain

Warning Trend: Increasing amount of uncollected property taxes as a percentage of net property tax levy.

Description:

Uncollected property taxes as a percentage of the net tax levy of 5% or more is considered negative by bond rating organizations. An increase in uncollected property taxes could signal an overall decline or potential instability in the tax base of the town. As uncollected property taxes rise, liquidity is decreased and there is less cash on hand to pay bills or to invest. This early warning indicator is particularly critical to watch during periods of economic decline or uncertainty.

Analysis:

Property taxes provide over 80% of Northborough's operating revenue, representing the single most important source of revenue. The analysis below indicates that Northborough's property tax collection rate is excellent. The Town consistently collects 99% of property taxes in each fiscal year. The Town's stable trend is positive and even shows a slight increase in an already outstanding collection rate.

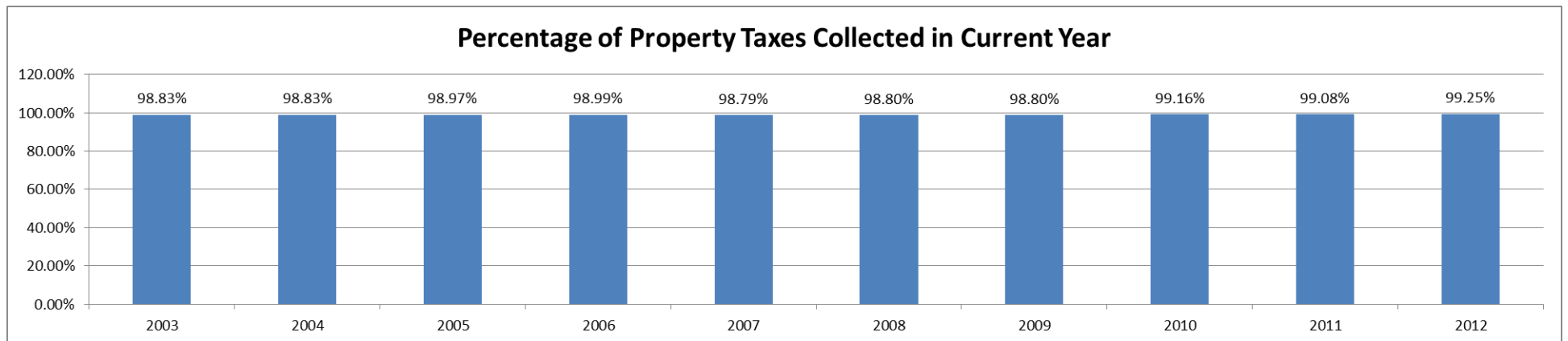
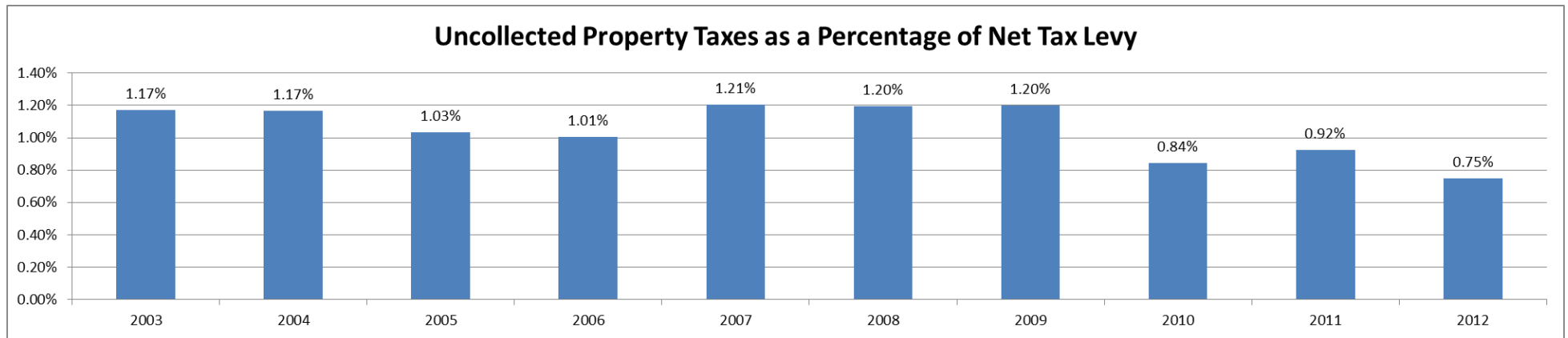
Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Property Tax Levy *	\$ 23,808,395	\$ 27,217,019	\$ 27,576,561	\$ 28,700,649	\$ 30,739,726	\$ 32,600,217	\$ 34,239,613	\$ 35,640,190	\$ 36,695,635	\$ 38,402,738
Less Reserve for Abatements & Exemptions *	\$ (189,645)	\$ (228,056)	\$ (243,951)	\$ (210,981)	\$ (262,428)	\$ (249,386)	\$ (215,351)	\$ (284,717)	\$ (342,209)	\$ (351,739)
Net Property Tax Levy	\$ 23,618,750	\$ 26,988,963	\$ 27,332,610	\$ 28,489,668	\$ 30,477,298	\$ 32,350,830	\$ 34,024,262	\$ 35,355,473	\$ 36,353,426	\$ 38,050,999
Uncollected Taxes as of June 30 **	\$ 276,192	\$ 315,298	\$ 281,921	\$ 286,399	\$ 367,275	\$ 386,596	\$ 408,354	\$ 298,580	\$ 336,037	\$ 284,981
Uncollected taxes as a Percentage of Net Property Tax Levy	1.17%	1.17%	1.03%	1.01%	1.21%	1.20%	1.20%	0.84%	0.92%	0.75%
Percentage Collected in Current Year ***	98.83%	98.83%	98.97%	98.99%	98.79%	98.80%	98.80%	99.16%	99.08%	99.25%

Notes:

* Source: Mass. DOR, Tax Recaps

** Source: Mass. DOR Outstanding Receivables Report

*** Percent of Net Levy collected, abated, and/or taken during current year



Note: Property tax collections are shown net of reserves for abatements and exemptions, which the Town assumes will not be collected.

Indicator 3: Revenues and Expenditures per Capita

Formula:

$$\frac{\text{Net Operating Revenues or Expenditures (constant dollars)}}{\text{Population}}$$

Northborough Trend

	Favorable
X	Marginal/Improving
	Unfavorable
	Uncertain

Warning Trend: Decreasing revenues per capita and increasing operating expenditures per capita (measured in constant dollars) is considered a warning trend, especially if spending is increasing faster than revenues or if one-time revenues are consistently needed to achieve budgetary balance.

Description:

Revenues and expenditures per capita show changes relative to population. For further analysis, revenues and expenditures per capita charted together provide a method to measure both sides of the municipal budget. As population increases, it might be expected that revenues and the need for services would increase proportionately and therefore the level of per capita revenues would remain constant. If per capita revenues are decreasing, the municipality may not be able to maintain existing service levels unless cost savings or new revenue sources are found. Changes in per capita expenditures that reflect an increase may indicate that the cost of providing municipal services is outpacing the community's ability to pay for those services, especially if spending is greater than can be counted for by inflation or the addition of new services.

Analysis:

From FY2003 through FY2008, expenditures per capita exceeded revenues per capita due to the use of one-time funds in the operating budget, mainly from Free Cash. With a significant reduction in the Free Cash available for the FY2009 operating budget, the need for a policy revision was apparent. With the subsequent adoption of the Free Cash Policy in November 2010, the use of one-time revenue for the operating budget was phased down and capped at \$500,000, with an additional \$150,000 used for the Appropriations Committee Reserve Fund¹. Therefore from FY2010 forward, the Town's revenues per capita exceed expenditures per capita. The funds represented by the difference are now closed to surplus (i.e. Free Cash) and are then available to fund capital items and other one-time expenditures in accordance with the Free Cash Policy.

¹ Reserve Fund is an amount set aside annually within the budget of the town to provide a funding source for extraordinary or unforeseen expenditures. The Appropriations Committee can authorize transfers from this fund. If unused, these funds return to Free Cash at the close of the Fiscal Year.

Fiscal Year	2003*	2004	2005	2006	2007*	2008	2009*	2010	2011	2012
Expenditures (Net of Capital Transfers)**	\$ 32,799,208	\$ 35,543,475	\$ 36,360,145	\$ 37,623,327	\$ 40,358,092	\$ 42,106,943	\$ 43,394,613	\$ 44,296,562	\$ 44,332,468	\$ 45,832,802
Revenues **	\$ 32,626,221	\$ 35,100,823	\$ 35,791,676	\$ 37,583,206	\$ 39,476,229	\$ 42,390,894	\$ 43,343,178	\$ 45,230,381	\$ 45,181,626	\$ 47,132,299
One Time Revenues Budgeted **	\$ 1,200,000	\$ 1,194,180	\$ 1,500,000	\$ 1,100,000	\$ 1,100,000	\$ 1,040,000	\$ 473,250	\$ 800,000	\$ 661,703	\$ 791,479
CPI-U, 2003 Base Year ***	200.3	207.3	212.1	220.5	225.1	231.6	234.2	236.7	240.0	245.8
CPI-U adjustment for constant dollars	100.0%	96.6%	94.4%	90.9%	89.0%	86.5%	85.5%	84.6%	83.5%	81.5%
Expenditures (constant dollars)	\$ 32,799,208	\$ 34,351,547	\$ 34,337,280	\$ 34,184,406	\$ 35,918,890	\$ 36,420,413	\$ 37,120,934	\$ 37,481,656	\$ 37,001,452	\$ 37,349,915
Revenues (constant dollars)	\$ 32,626,221	\$ 33,923,739	\$ 33,800,437	\$ 34,147,953	\$ 35,134,028	\$ 36,666,016	\$ 37,076,935	\$ 38,271,809	\$ 37,710,189	\$ 38,408,897
Population ****	14,080	14,293	14,505	14,726	14,685	14,550	14,575	14,498	14,632	14,798
Expenditures per capita (nominal dollars)	\$ 2,329	\$ 2,487	\$ 2,507	\$ 2,555	\$ 2,748	\$ 2,894	\$ 2,977	\$ 3,055	\$ 3,030	\$ 3,097
Revenues per capita (nominal dollars)	\$ 2,317	\$ 2,456	\$ 2,468	\$ 2,552	\$ 2,688	\$ 2,913	\$ 2,974	\$ 3,120	\$ 3,088	\$ 3,185
Expenditures per capita (constant dollars)	\$ 2,329	\$ 2,403	\$ 2,367	\$ 2,321	\$ 2,446	\$ 2,503	\$ 2,547	\$ 2,585	\$ 2,529	\$ 2,524
Revenues per capita (constant dollars)	\$ 2,317	\$ 2,373	\$ 2,330	\$ 2,319	\$ 2,393	\$ 2,520	\$ 2,544	\$ 2,640	\$ 2,577	\$ 2,596

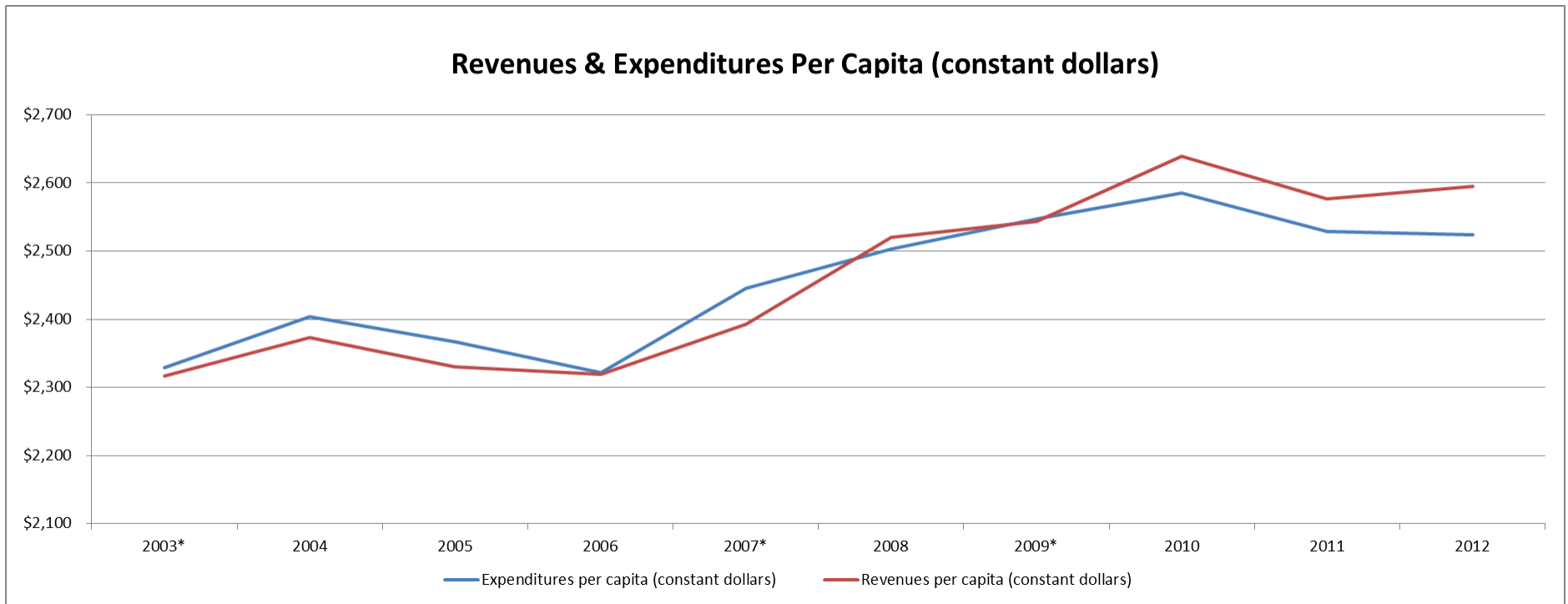
Notes:

*Proposition 2 1/2 Overrides were approved in FY2003 (\$487,370), FY2007 (\$362,734), & FY2009 (\$316,047)

** Source: Audited Financial Statements, General Fund, Budget Comparison Schedule, adjustment made to exclude transfers to capital project funds \$804,000 in FY2012 following Town's Free Cash Policy

*** Source: U.S. Dept of Labor - Bureau of Labor Statistics (Boston-Brockton-Nashua region), 6 months of calendar year 2012 used for FY2013

****Source: Town Clerk - Annual Town Census



Indicator 4: State Aid (Intergovernmental Revenues)

Formula:

$$\frac{\text{Net State Aid Revenues}}{\text{Operating Revenues}}$$

Northborough Trend

	Favorable
	Marginal
X	Unfavorable
X	Uncertain

Warning Trend: Significant increases or decreases in State Aid (intergovernmental revenues) as a percentage of operating revenues.

Description:

A reduction in State Aid as a percentage of operating revenues is generally perceived as a warning trend. However, intergovernmental revenues as a percentage of the operating budget are also important because an overdependence upon such revenues can be harmful. State governments struggle with their own budget problems and when the economy is not robust, frequently they have reduced aid to local governments. The reduction of intergovernmental funds leaves the municipal government with the dilemma of cutting programs or funding them from general fund revenues. Any decline in intergovernmental funding is difficult for a municipality to absorb.

Analysis:

The level of State Aid and other intergovernmental revenues provided to municipalities is a continuing concern in Massachusetts². State mandates are imposed on already strained municipal budgets with no corresponding funding. State Aid to Northborough generally represents approximately 10% of total municipal revenue with the exception of FY2003 when State Aid represented 13.1% of revenue. Northborough's State Aid has yet to be restored to the peak levels reached in FY2003, especially when controlling for inflation (constant dollars). Due to the uncertainty in the level of State Aid provided from year to year, this represents an unfavorable trend with an uncertain outlook for the Town of Northborough. The potential for the Commonwealth to cut State Aid requires the Town to carefully monitor these revenues, and to have contingency plans if State Aid were reduced.

² This indicator may not reflect changes in Federal/State grant programs that are reported outside of the General Fund.

Fiscal Year*	2003	2004	2005	2006	2007	2008	2009*	2010	2011	2012	2013*
Operating Revenues**	\$ 32,626,221	\$ 35,100,823	\$ 35,791,676	\$ 37,583,206	\$ 39,476,229	\$ 42,390,894	\$ 43,343,178	\$ 45,230,381	\$ 45,181,626	\$ 47,132,299	\$ 47,734,858
State Aid Revenues***	\$ 4,980,879	\$ 4,317,207	\$ 4,408,500	\$ 4,597,277	\$ 5,090,155	\$ 5,464,855	\$ 5,201,804	\$ 5,213,984	\$ 4,945,569	\$ 4,873,203	\$ 5,136,276
Less School Building Reimbursement	\$ (698,728)	\$ (669,211)	\$ (675,720)	\$ (679,053)	\$ (650,933)	\$ (650,933)	\$ (615,942)	\$ (615,941)	\$ (382,543)	\$ (382,543)	\$ (382,543)
Net State Aid Revenues	\$ 4,282,151	\$ 3,647,996	\$ 3,732,780	\$ 3,918,224	\$ 4,439,222	\$ 4,813,922	\$ 4,585,862	\$ 4,598,043	\$ 4,563,026	\$ 4,490,660	\$ 4,753,733
CPI-U, 2003 Base Year ****	200.3	207.3	212.1	220.5	225.1	231.6	234.2	236.7	240.0	245.8	246.6
CPI-U adjustment for constant dollars	100.0%	96.6%	94.4%	90.9%	89.0%	86.5%	85.5%	84.6%	83.5%	81.5%	81.2%
Operating Revenues (constant dollars)	\$ 32,626,221	\$ 33,923,739	\$ 33,800,437	\$ 34,147,953	\$ 35,134,028	\$ 36,666,016	\$ 37,076,935	\$ 38,271,809	\$ 37,710,189	\$ 38,408,897	\$ 38,775,147
Net State Aid Revenue (constant dollars)	\$ 4,282,151	\$ 3,525,663	\$ 3,525,110	\$ 3,560,083	\$ 3,950,928	\$ 4,163,803	\$ 3,922,871	\$ 3,890,647	\$ 3,808,463	\$ 3,659,514	\$ 3,861,469
State Aid as a % of Operating Revenues (constant)	13.1%	10.4%	10.4%	10.4%	11.2%	11.4%	10.6%	10.2%	10.1%	9.5%	10.0%

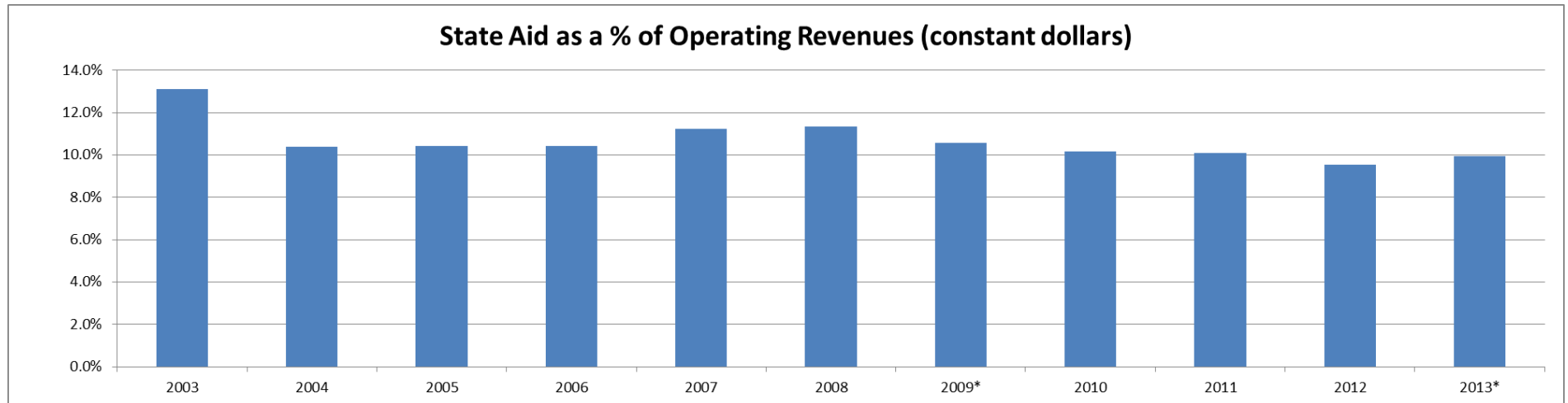
Notes:

* FY2009 reflects a \$352,035 cut in CH70 Education Aid which was replaced by a Federal ARRA grant (outside of general fund); FY2013 reflects budgeted revenues per Mass. DOR Tax Recap

** Source: Audited Financial Statements, General Fund, Budget Comparison Schedule

*** Source: Budget Comparison Schedule (adjustment to exclude FEMA/MEMA and School Medicaid in FY2012)

**** Source: U.S. Dept of Labor - Bureau of Labor Statistics (Boston-Brockton-Nashua region), 6 months of CY2012 used for FY2013



*Note: FY2013 reflects budgeted revenues per the Mass. DOR Tax Recap

Indicator 5: Economic Growth Revenues

Formula:

$$\frac{\text{Economic Growth Revenues}}{\text{Net Operating Revenues}}$$

Northborough Trend

X	Favorable
	Marginal
	Unfavorable
X	Uncertain

Warning Trend: Decreasing amount of economic growth operating revenues as a percentage of net operating revenues

Description:

Revenues related to economic growth (elastic revenue sources) include tax levy growth from new development, motor vehicle excise taxes, as well as building permits and construction related permit fees. These revenues are sensitive to changes in the level of economic activity. A decrease in new economic development and building permit fees may be a leading indicator of smaller future increases in the tax levy.

Analysis:

Northborough's revenues from economic growth have increased since FY2009 despite a weak State and national economy. An important factor has been the construction of a 382 unit apartment complex known as Avalon Bay beginning in FY2010 and the recent completion of the 640,000 square foot Northborough Crossing Shopping Center in FY2013. Although the past several years have seen a positive trend in Northborough's economic revenues, future growth is uncertain as these major projects are now completed and there are fewer significant developments currently in the permitting stage. Looking forward, the Town's future revenue from economic growth remains uncertain.

Fiscal Year	2003*	2004	2005	2006	2007*	2008	2009*	2010	2011	2012
Revenues **	\$ 32,626,221	\$ 35,100,823	\$ 35,791,676	\$ 37,583,206	\$ 39,476,229	\$ 42,390,894	\$ 43,343,178	\$ 45,230,381	\$ 45,181,626	\$ 47,132,299
Less Debt Exclusions ***	\$ (645,888)	\$ (2,341,902)	\$ (1,796,046)	\$ (1,576,581)	\$ (1,936,396)	\$ (1,882,927)	\$ (1,940,878)	\$ (1,756,113)	\$ (1,855,884)	\$ (2,401,767)
Net Revenues (nominal dollars)	\$ 31,980,333	\$ 32,758,921	\$ 33,995,630	\$ 36,006,625	\$ 37,539,833	\$ 40,507,967	\$ 41,402,300	\$ 43,474,268	\$ 43,325,742	\$ 44,730,532
Building Related Fees & Permits ****	\$ 504,468	\$ 195,711	\$ 400,348	\$ 493,049	\$ 260,864	\$ 411,490	\$ 215,027	\$ 749,803	\$ 405,896	\$ 384,836
Motor Vehicle Excise ***	\$ 2,161,185	\$ 1,934,777	\$ 1,936,356	\$ 1,933,222	\$ 1,858,223	\$ 2,011,037	\$ 1,887,442	\$ 1,799,335	\$ 2,019,845	\$ 2,040,212
Other Excise ****	\$ 157,377	\$ 74,473	\$ 69,893	\$ 67,965	\$ 64,208	\$ 78,852	\$ 65,676	\$ 42,643	\$ 57,196	\$ 92,342
Levy Growth (New Growth) ***	\$ 551,353	\$ 610,361	\$ 687,840	\$ 670,495	\$ 711,720	\$ 673,617	\$ 676,247	\$ 720,133	\$ 975,576	\$ 1,229,983
Total Economic Growth Revenues	\$ 3,374,383	\$ 2,815,322	\$ 3,094,437	\$ 3,164,731	\$ 2,895,015	\$ 3,174,995	\$ 2,844,392	\$ 3,311,913	\$ 3,458,513	\$ 3,747,374
Economic Growth Revenues as a % of Operating Revenues	10.6%	8.6%	9.1%	8.8%	7.7%	7.8%	6.9%	7.6%	8.0%	8.4%

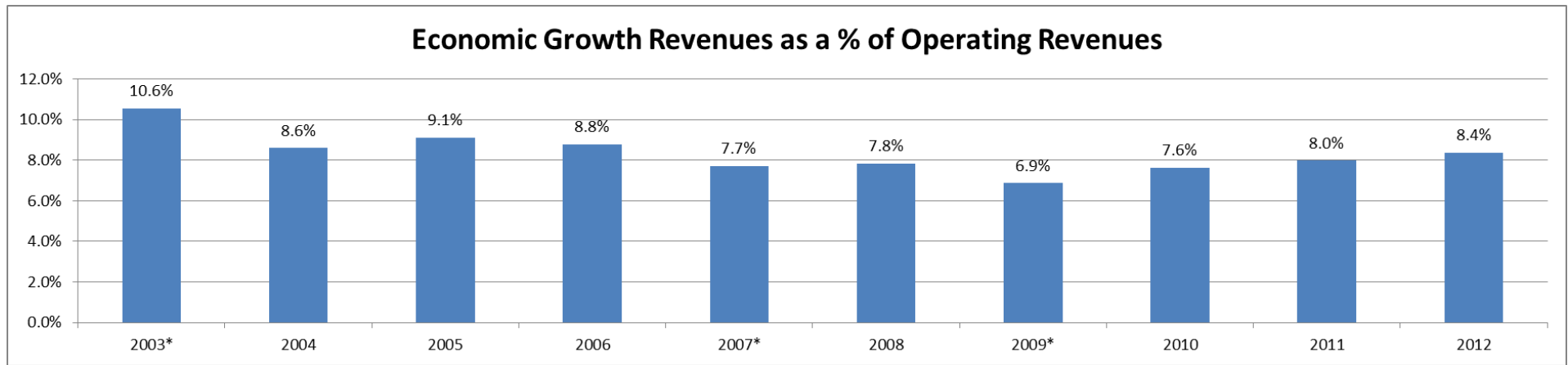
Notes:

*Proposition 2 1/2 Overrides were approved in FY2003 (\$487,370), FY2007 (\$362,734), & FY2009 (\$316,047)

** Source: Audited Financial Statements, General Fund, Budget Comparison Schedule

*** Source: Mass. DOR Tax Recaps

**** Source: General Ledger Detail, Revenue from Building, Wiring, Planning Board, ZBA Fees & Permits; Other Excise includes Hotel/Motel



Indicator 6: Use of One-Time Revenues

Formula:

$$\frac{\text{One-Time Operating Revenues}}{\text{Operating Budget}}$$

Northborough Trend

X	Favorable
	Marginal
	Unfavorable
	Uncertain

Warning Trend: Increasing use of one-time operating revenues as a percentage of operating budget.

Description:

One-time revenues are sources that cannot reasonably be expected to recur, such as a single-purpose federal grant, an inter-fund transfer, or use of reserves. Municipalities will sometimes use reserves and one-time revenues to balance an operating budget. However the continued use of one-time revenues to support operations is not sustainable. Continual use of one-time revenues to balance the annual budget can indicate that the revenue base is not strong enough to support current service levels. It can also mean that the municipality is incurring operating deficits and would have little room to maneuver if there were a downturn in revenue. Use of one-time revenues also increases the probability that a municipality will have to make significant cutbacks if such revenues cease to be available as may happen when reserves are depleted. Therefore, increased dependence on one-time revenues to support operations can place operations and municipal services at risk.

Analysis:

Northborough's use of one-time revenue to fund the operating budget was significantly curtailed during the past several years. The Free Cash Policy adopted in 2010 limited the use of Free Cash to one-time expenditures with a limited amount to be used toward the operating budget. Any additional Free Cash above this level is used to fund one-time capital expenditures, or for emergency spending. One-time revenue in the operating budget has declined from a high of 4.3% or \$1.5 Million in FY2005 to 1.4% or \$650,000 in FY2013, where it will remain stable in accordance with the Free Cash Policy.

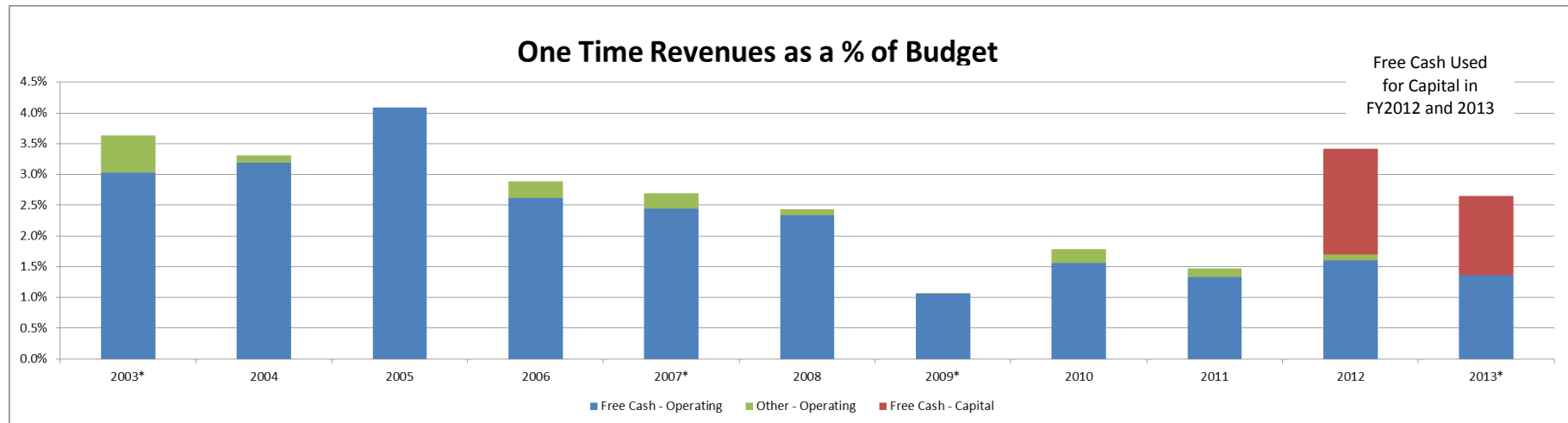
Fiscal Year	2003*	2004	2005	2006	2007*	2008	2009*	2010	2011	2012	2013*
Expenditure Budget **	\$ 33,052,174	\$ 36,052,853	\$ 36,714,951	\$ 38,136,483	\$ 40,820,271	\$ 42,760,582	\$ 44,350,863	\$ 44,912,699	\$ 44,910,225	\$ 46,665,590	\$ 47,769,858
Revenues Budgeted **	\$ 31,852,174	\$ 34,858,673	\$ 35,214,951	\$ 37,036,483	\$ 39,720,271	\$ 41,720,582	\$ 43,877,613	\$ 44,112,699	\$ 44,248,522	\$ 45,874,111	\$ 47,734,858
One Time Revenues Budgeted **	\$ 1,200,000	\$ 1,194,180	\$ 1,500,000	\$ 1,100,000	\$ 1,100,000	\$ 1,040,000	\$ 473,250	\$ 800,000	\$ 661,703	\$ 1,595,479	\$ 1,265,000
Free Cash Used for Operating Budget ***	\$ 1,000,000	\$ 1,149,180	\$ 1,500,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 470,000	\$ 700,000	\$ 600,000	\$ 750,000	\$ 650,000
Free Cash Used for Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 804,000	\$ 615,000
Other One Time Revenues Used for Operating Budget ****	\$ 200,000	\$ 45,000	\$ -	\$ 100,000	\$ 100,000	\$ 40,000	\$ 3,250	\$ 100,000	\$ 61,703	\$ 41,479	\$ -
Percentage Free Cash Used for Operating Budget	3.0%	3.2%	4.1%	2.6%	2.4%	2.3%	1.1%	1.6%	1.3%	1.6%	1.4%
Percentage Free Cash Used for Capital	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.7%	1.3%
Percentage Other Reserves used for Operating Budget	0.6%	0.1%	0.0%	0.3%	0.2%	0.1%	0.0%	0.2%	0.1%	0.1%	0.0%
Total Percentage of One Time Revenue used for Operating Budget	3.6%	3.3%	4.1%	2.9%	2.7%	2.4%	1.1%	1.8%	1.5%	1.7%	1.4%
Total Percentage of One time Revenue Used	3.6%	3.3%	4.1%	2.9%	2.7%	2.4%	1.1%	1.8%	1.5%	3.4%	2.6%

Notes:

*Proposition 2 1/2 Overrides were approved in FY2003 (\$487,370), FY2007 (\$362,734), & FY2009 (\$316,047); Fiscal Year 2013 Source: Mass. DOR Tax Recap

** Source: Audited Financial Statements, General Fund, Budget Comparison Schedule / Mass. DOR Tax Recaps

*** Other One Time Revenues from FY2003-2010 are Overlay Surplus & FY2011-2012 are Debt Exclusion Reserves



Indicator 7: Personnel Costs

Formula:

$$\frac{\text{Personnel Wages \& Benefits}}{\text{Net Operating Budget}}$$

Northborough Trend

	Favorable
X	Marginal
	Unfavorable
	Uncertain

Warning Trend: Increasing personnel costs as a percentage of operating expenditures.

Description:

Increasing salaries and wages as a percent of operating expenditures may be an indicator of two trends. First, it may point to future increased pension and health insurance costs since both of these items are related to the number and compensation level of employees. Second, if salaries and wages as a percentage of operating expenditures are increasing, it may be an indicator that resources are not available to adequately fund capital and/or infrastructure needs.

Analysis:

Overall, personnel wages and benefits represent approximately 60% of the Town's operating budget and remain relatively stable. Although health insurance previously increased at double-digit rates annually, the Town has been able to mitigate these increases since FY2009 through negotiated plan design changes with the employees. More detail regarding the plan design changes is explained under Indicator #8.

Wages, salaries and employee benefits as a percentage of operating expenditures increased 2.7% from FY2007 to FY2012. The largest increase was in salaries and wages with an increase of 1.9%, employee benefits accounted for only 0.3% and increases in the amount of the annual retirement assessment were 0.6% of the increase. In recent years many municipalities have experienced a dramatic increase in health insurance obligations. This expenditure trend, although increasing, represents a stable rate of growth. Looking forward, the rate of growth is contingent upon negotiating future collective bargaining agreements that are sustainable, as well as balancing the addition of any new staff with new, recurring revenue sources.

FY2013 is the last year of the previously negotiated collective bargaining agreements for Police Patrol Officers (0%), Police Sergeants (0%), Dispatchers (1%), Fire (1%) and the Northborough Municipal Employees Association (1%). A significant amount of time in FY2013 will be devoted to negotiating fair and sustainable increases for personnel during the contract period of FY2014 through FY2016.

Fiscal Year	2007*	2008	2009*	2010	2011	2012
Expenditures (Net of Capital Transfers)**	\$ 40,358,092	\$ 42,106,943	\$ 43,394,613	\$ 44,296,562	\$ 44,332,468	\$ 45,832,802
Municipal & K-8 School Department Wages ***	\$ 18,336,853	\$ 19,021,305	\$ 19,919,684	\$ 20,101,625	\$ 21,007,614	\$ 21,670,351
Employee Benefits **	\$ 3,756,553	\$ 4,077,623	\$ 4,516,875	\$ 4,606,672	\$ 4,600,048	\$ 4,381,576
Retirement Assessment***	\$ 732,717	\$ 773,438	\$ 892,411	\$ 974,865	\$ 1,006,365	\$ 1,118,191
Total Wage & Benefit Costs	\$ 22,826,123	\$ 23,872,366	\$ 25,328,970	\$ 25,683,162	\$ 26,614,027	\$ 27,170,118
Salaries & Wages as a percentage of Operating Expenditures	45.4%	45.2%	45.9%	45.4%	47.4%	47.3%
Benefits as a percentage of Operating Expenditures	9.3%	9.7%	10.4%	10.4%	10.4%	9.6%
Retirement Assessments as a percentage of Operating Expenditures	1.8%	1.8%	2.1%	2.2%	2.3%	2.4%
Total Wage & Benefit Costs as a percentage of Operating Expenditures	56.6%	56.7%	58.4%	58.0%	60.0%	59.3%

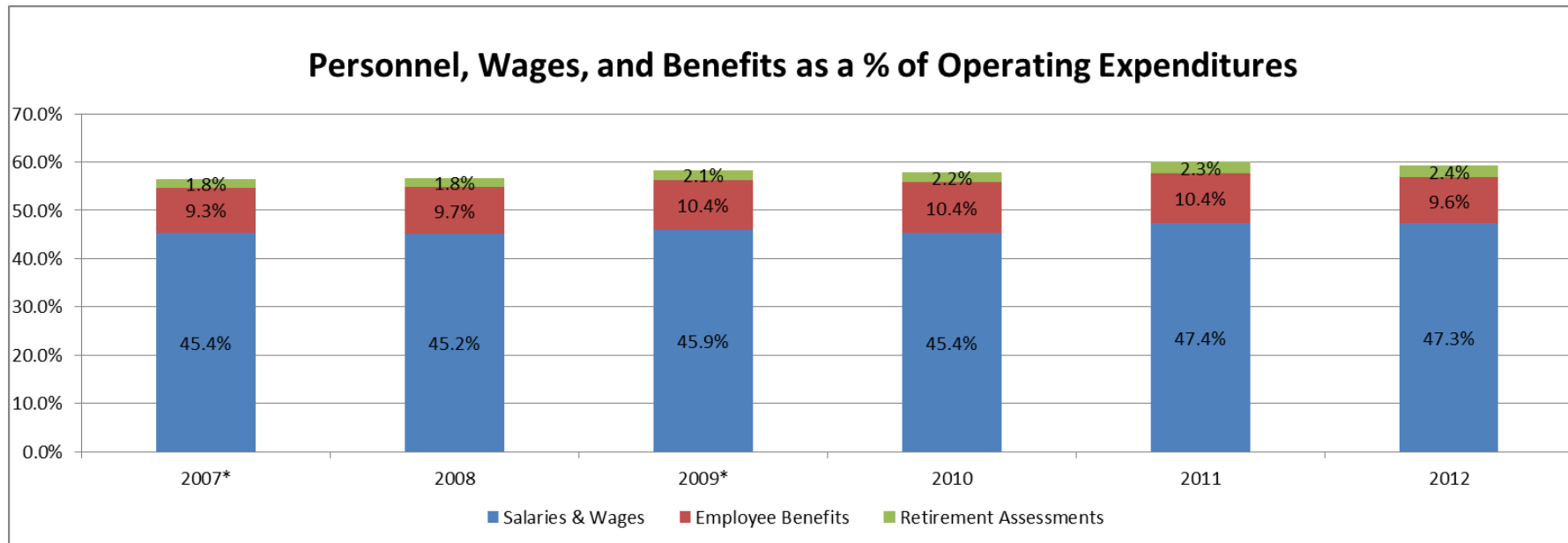
Notes:

*Proposition 2 1/2 Overrides were approved in FY2003 (\$487,370), FY2007 (\$362,734), & FY2009 (\$316,047)

** Source: Audited Financial Statements, General Fund, Budget Comparison Schedule (less Retirement), adjustment made to FY2012 to exclude \$804,000 transfer to Capital Project Fund

*** From Mass. DOR Schedule A report - General Fund Salaries; Does not include Enterprise Funds

**** From General Ledger Detail, General Fund Retirement Assessment



Indicator 8: Employee Benefits

Formula:

Employee Benefits
Wages & Salaries

Northborough Trend

X	Favorable
	Marginal
	Unfavorable
X	Uncertain

Warning Trend: Increasing employee benefit costs as a percentage of salaries and wages.

Description:

The two most significant benefit items to consider in personnel discussions are health insurance and pensions. Both of these are, for the most part, prescribed by Commonwealth law, and municipalities are limited in the changes they can make to these items (pensions more so than health insurance). As employers, municipalities must offer health insurance to all benefit-eligible employees and current employees become vested in the pension system after ten years of creditable service. Municipalities do have some ability to manage and control both health insurance and pension costs. For example, communities can work to reduce their health insurance premium contribution rates, increase co-pays/deductibles, or move to the State Group Insurance Commission (GIC). Prudent management of staffing levels is also critical as increases in staffing increase both health insurance and pension costs.

Analysis:

Overall, employee benefits as a percentage of wages and salaries has increased less than 1% from FY2007 through FY2012. However, the retirement assessment has consistently increased, rising from 4.0% in FY2007 to 5.2% in FY2012. In analyzing the employee benefits alone, which are primarily composed of the cost of health insurance, employee benefits increased to a peak of 22.9% in FY2010. Plan design changes to health insurance that were implemented in FY2010 have halted that increasing trend and employee benefits have now decreased to 20.2 % of wages and salaries in FY2012. It should be noted that if health insurance premiums were to return to 10-15% annual increases, there would be a significant impact on future operating budgets for all departments.

The FY2013 health insurance budget of \$4.66 million represents a total increase of just \$150,847, or 3.34%, from the amount budgeted last year. While the premiums for some individual health insurance plans may increase, plan design changes and the adoption of Chapter 32B, Section 18 in FY2010 have helped limit budgetary increases again in FY2013. In addition, the Town worked closely with the School Department to increase teacher contributions during FY2012 from 20% to 25% for Health Insurance. Given the reasonable FY2013 premium increases, there are no immediate plans to further modify health insurance plans during FY2013.

Fiscal Year	2007*	2008	2009*	2010	2011	2012
Municipal & K-8 School Department Wages **	\$ 18,336,853	\$ 19,021,305	\$ 19,919,684	\$ 20,101,625	\$ 21,007,614	\$ 21,670,351
Employee Benefits ***	\$ 3,756,553	\$ 4,077,623	\$ 4,516,875	\$ 4,606,672	\$ 4,600,048	\$ 4,381,576
Retirement Assessment ****	\$ 732,717	\$ 773,438	\$ 892,411	\$ 974,865	\$ 1,006,365	\$ 1,118,191
Total Benefit Costs	\$ 4,489,270	\$ 4,851,061	\$ 5,409,286	\$ 5,581,537	\$ 5,606,413	\$ 5,499,767
Benefits as a percentage of Wages & Salaries	20.5%	21.4%	22.7%	22.9%	21.9%	20.2%
Retirement as a percentage of Wages & Salaries	4.0%	4.1%	4.5%	4.8%	4.8%	5.2%
Total Benefits Spending as percentage of Wages & Salaries	24.5%	25.5%	27.2%	27.8%	26.7%	25.4%

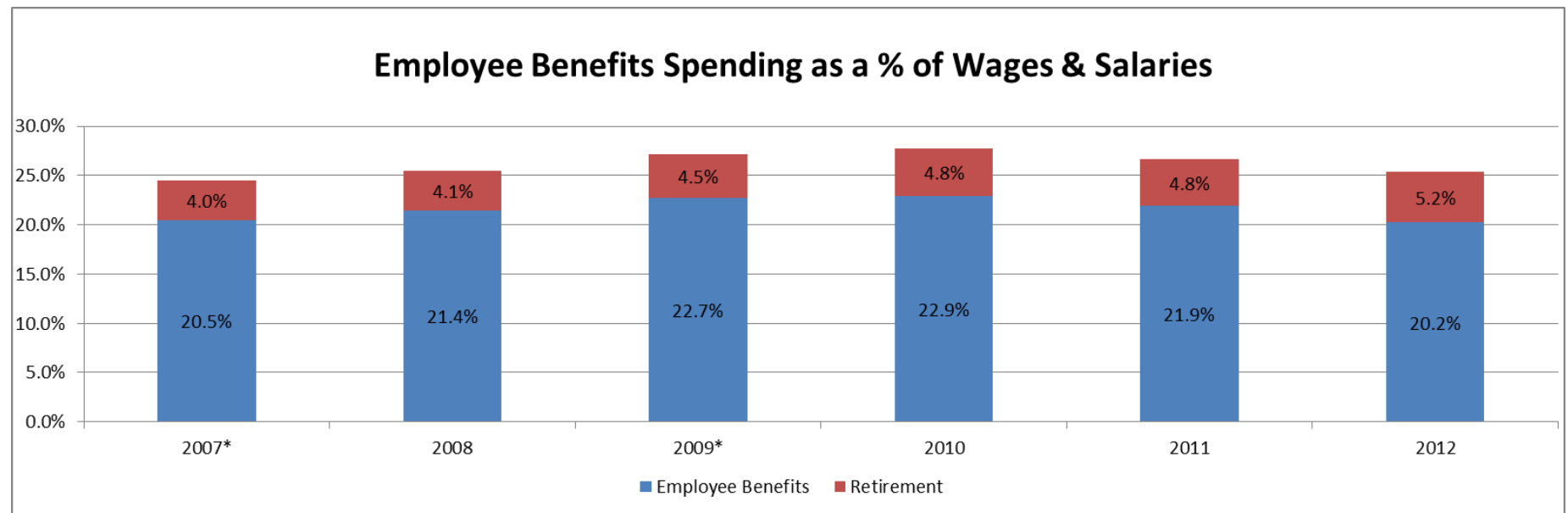
Notes:

*Proposition 2 1/2 Overrides were approved in FY2003 (\$487,370), FY2007 (\$362,734), & FY2009 (\$316,047);

** From Mass. DOR Schedule A report - General Fund Salaries; Does not include Enterprise Funds

*** Source: Audited Financial Statements, General Fund, Budget Comparison Schedule (less Retirement)

**** From General Ledger Detail, General Fund Retirement Assessment



Indicator 9: Pension Liability

Formula:
$$\frac{\text{Pension Assets}}{\text{Pension Liability}}$$

Northborough Trend

	Favorable
	Marginal
X	Unfavorable
	Uncertain

Warning Trend: Unfunded liability or increase in unfunded liability.

Description:

An unfunded liability is one that has been incurred during the current or prior year, which does not have to be paid until a future year and for which reserves have not been set aside. It is a legal commitment to pay at some time in the future. If such obligations are permitted to grow over a long period of time, they can have a substantial effect on a government's financial condition.

Analysis:

Northborough is one of 95 governmental units that comprise the Worcester Regional Retirement System (WRRS). This regional system provides pension benefits for the retired municipal employees of the Town of Northborough. As of January 1, 2012, there were 342 Northborough participants with 197 active, 52 inactive and 93 retired members.

The assets of the Worcester Regional Retirement System were transferred to the Massachusetts Pension Reserve Investment Trust (PRIT) Fund in July 2007. The \$50.8 billion PRIT Fund manages the pension investments for the Massachusetts State Employees, the Teachers Retirement System as well as several local retirement systems³. The PRIT Fund is professionally managed by the Pension Reserves Investment Management Board.

Actuarial valuations are now individually prepared for each member unit and are completed every two years. Recent pension reform legislation has introduced benefit changes that were intended to reduce our pension liability in the future. Therefore, these changes should lead to an improved level of funding with the next actuarial valuation scheduled for January 1, 2014. In accordance with MGL, Chapter 32, Section 22F, the retirement system is required to be fully funded by the year 2040. The system is funded through both investment performance and assessments to member communities. Northborough's unfunded pension liability remains an area of concern. The constant decrease in funding level of our pension liability represents a negative trend for Northborough. Investment performance has been volatile and as we progress toward the full funding mandate of 2040, annual assessments to member communities may increase.

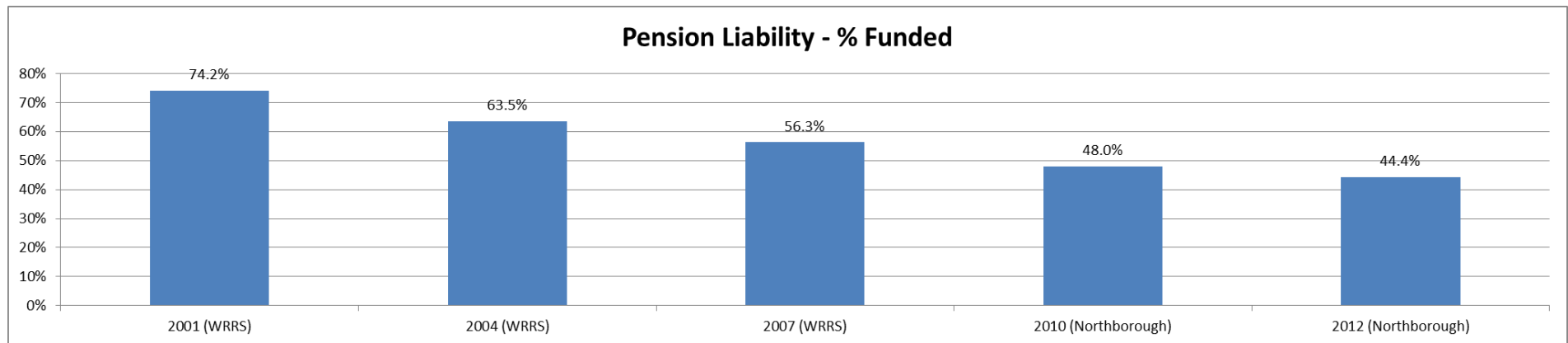
³ PRIT Fund assets as of November 30, 2012

Year		1/1/2001	1/1/2004	1/1/2007	1/1/2010	1/1/2012
Worcester Regional Retirement System - Estimated Accrued Liability		426,280,953	552,773,550	692,768,325	863,002,067	982,796,782
Worcester Regional Retirement System- Pension Assets		316,389,108	350,879,900	389,758,785	413,976,785	436,671,982
Worcester Regional Retirement System - Pension Liability - Unfunded		109,891,845	201,893,650	303,009,540	449,025,282	546,124,800
Worcester Regional Retirement System - Percent Funded		74.2%	63.5%	56.3%	48.0%	44.4%
Northborough - Estimated Accrued Liability					33,802,878	37,199,035
Northborough - Pension Assets					16,976,508	17,296,679
Northborough - Pension Liability-Unfunded					16,826,370	19,902,356
Northborough - Percent Funded					50.2%	46.5%

Sources:

Public Employee Retirement Administration Annual Report

Worcester Regional Retirement System Valuation Results Report



Indicator 10: Other Post-Employment Benefits (OPEB) Liability

Formula:
$$\frac{\text{OPEB Assets}}{\text{OPEB Liability}}$$

Northborough Trend

	Favorable
	Marginal
X	Unfavorable
	Uncertain

Warning Trend: Unfunded liability or increase in unfunded liability for Other Post-Employment Benefits (OPEB).

Description:

An unfunded liability is one that has been incurred during the current or prior year, which does not have to be paid until a future year and for which reserves have not been set aside. It is a legal commitment to pay at some time in the future. If such obligations are permitted to grow over a long period of time, they can have a substantial effect on a government's financial condition.

Analysis:

OPEBs are the set of benefits offered to retirees and their dependents other than pensions. These benefits mainly consist of medical insurance. Currently, employees who retire at age 55 having worked for at least 20 hours per week for at least ten years are eligible to receive these medical benefits for life. Unlike pensions, these medical benefits are not adjusted to account for full or part-time work, years of service, or age of the recipient at the time of retirement.

Obligations for Other Post-Employment Benefits (OPEBs) represent a \$30 billion liability for municipalities in the Commonwealth. The magnitude of these costs becomes even more relevant as bond rating agencies are looking to require that OPEB liabilities be reported on municipal balance sheets.

In 2011, the state enacted municipal health insurance reform, giving municipal officials a set of tools to change plan design features for active employees and retirees. But even with this authority, municipalities have little or no control over the primary drivers of general health care costs. With communities having little or no recourse for raising revenues in the Proposition 2 ½ era, if untouched, this unsustainable cost will crowd out funding for other key line items in municipal budgets, threatening jobs and core municipal services.

On December 20, 2012, a special commission charged with studying OPEBs issued its final report which recognized that the current thresholds for benefits are unsustainable. If adopted, the Commission's recommendations to increase eligibility standards are estimated to save

communities between \$9 billion and \$12 billion in OPEB costs over the next 30 years. The Governor is currently preparing to file legislation, which is expected to contain many of the Commission's recommendations, and would likely be debated before legislative committees in early spring.

In terms of what has been done to date in Northborough, in addition to FY2010 plan design changes the Town also unanimously adopted MGL Chapter 32B, Section 18 at the Annual Town Meeting in April 2009. The adoption of Chapter 32B, Section 18 required Medicare eligible retirees to move out of the HMO active health plans on 7/1/10 and into Medicare supplement or "Senior Plans," which are specifically designed for the medical needs of seniors and effectively shares these health care costs with the Medicare program. By adopting Section 18 the Town's GASB 45 Actuarial Accrued Liability (AAL) for Other Post-Employment Benefits (OPEB) for retiree medical benefits was immediately reduced from \$90.4 million to \$34.3 million. Current liabilities have further reduced to an estimated \$28 million based upon favorable employee demographics and medical premium trends.

The Town created an OPEB Trust Fund at the April 2011 Annual Town Meeting for setting aside future OPEB funds to reduce this liability. The Town is waiting to assess the outcome of possible changes at the State level described above and is currently working with an actuary to develop funding plan options for the Town. Discussion on how best to address OPEB liabilities will become a key issue during upcoming budget cycles.

Actuarial Valuation Date	7/1/2008 Original	7/1/2008 Revised	7/1/2009	7/1/2010
Unfunded Actuarial Accrued Liability	\$90,444,000	\$34,289,000	\$36,023,000	\$28,072,976
Actuarial Value of Assets	\$ -	\$ -	\$ -	\$ -
Funded Ratio	0%	0%	0%	0%

Source:
Town Actuarial Valuation Studies

Indicator 11: Debt Service Expenditures

Formula:

$$\frac{\text{Debt Service Expenditures}}{\text{Operating Expenditures}}$$

Northborough Trend

X	Favorable
	Marginal
	Unfavorable
	Uncertain

Warning Trend: Increasing debt service expenditures as a percentage of total net operating expenditures.

Description:

Debt service is defined here as the amount of principal and interest that a municipality must pay each year on bonded long and short term debt. Increasing debt service reduces expenditure flexibility by adding to the Town's obligations. Overlapping debt is the bonded debt of another jurisdiction that is issued against the tax base of the community. Taken together, the total debt service represents a significant part of a municipality's fixed costs and its increase may indicate excessive debt and fiscal strain.

Analysis:

The total debt service for Northborough is comprised of both the general obligation bonds of the Town as well as the overlapping debt associated with the Northborough's share for the Algonquin Regional High School (ARHS). Once permanent bonds are issued, these fixed expenses are mandatory. Therefore, significant levels of debt service can serve to limit flexibility in funding operating budgets. The Town's Debt Policy provides that the Town will endeavor to manage debt so as not to exceed a ratio of 5% to 10% of the net general fund debt service to total general fund expenditures. Since FY2003, our levels of debt service are well within this range with the exception of FY2004. That was the first year of the \$10 Million, 10-year bond issued for the ARHS Building Project with the debt structured with a significant \$1,850,000 principal payment in the first year.

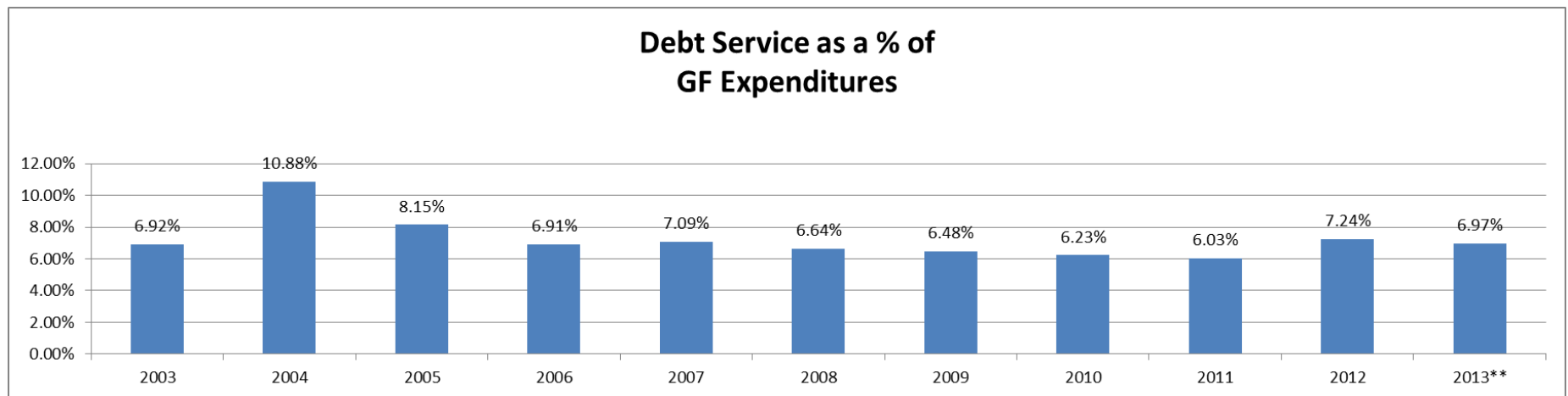
Overall, the Town's level of debt service is within the 5% to 10% suggested by the debt policy and represents an appropriate level of capital investment in infrastructure. The credit rating agency, Moody's Investors Service indicated in a recent review that the Town's "overall debt burden will remain manageable" and noted that the principal amortization of 71.4% within 10 years was favorable. The trend is downward with future debt service expected to decrease from the 6.97% level in FY2013 as the \$10 Million ARHS Building project bond will be fully satisfied in FY2013.

Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013**
Debt Service*	\$ 2,046,988	\$ 2,111,474	\$ 1,806,232	\$ 1,640,033	\$ 1,509,743	\$ 1,561,156	\$ 1,790,064	\$ 2,265,276	\$ 1,923,505	\$ 2,489,898	\$ 2,509,484
Less School Building Reimbursement	\$ (392,632)	\$ (388,706)	\$ (392,632)	\$ (392,632)	\$ (392,632)	\$ (409,777)	\$ (382,543)	\$ (382,543)	\$ (382,543)	\$ (382,543)	\$ (382,543)
Net Debt Service	\$ 1,654,356	\$ 1,722,768	\$ 1,413,600	\$ 1,247,401	\$ 1,117,111	\$ 1,151,379	\$ 1,407,521	\$ 1,882,733	\$ 1,540,962	\$ 2,107,355	\$ 2,126,941
Overlapping Debt - ARHS Debt Assessment	\$ 615,260	\$ 2,146,071	\$ 1,549,256	\$ 1,352,934	\$ 1,745,150	\$ 1,645,780	\$ 1,404,375	\$ 875,871	\$ 1,131,427	\$ 1,267,629	\$ 1,289,094
Total Debt Service	\$ 2,269,616	\$ 3,868,839	\$ 2,962,856	\$ 2,600,335	\$ 2,862,261	\$ 2,797,159	\$ 2,811,896	\$ 2,758,604	\$ 2,672,389	\$ 3,374,984	\$ 3,416,035
General Fund Expenditures	\$ 32,799,208	\$ 35,543,475	\$ 36,360,145	\$ 37,623,327	\$ 40,358,092	\$ 42,106,943	\$ 43,394,613	\$ 44,296,562	\$ 44,332,468	\$ 46,636,802	\$ 48,999,858
Net Debt Service as % of GF Expenditures	5.04%	4.85%	3.89%	3.32%	2.77%	2.73%	3.24%	4.25%	3.48%	4.52%	4.34%
Overlapping Debt - ARHS as % of GF Expenditures	1.88%	6.04%	4.26%	3.60%	4.32%	3.91%	3.24%	1.98%	2.55%	2.72%	2.63%
Total Debt Service as a % of GF Expenditures	6.92%	10.88%	8.15%	6.91%	7.09%	6.64%	6.48%	6.23%	6.03%	7.24%	6.97%

Notes:

* Source: Audited Financial Statements, General Fund, Budget Comparison Schedule, FY2008, FY2009 & FY2011 budgeted amounts

** FY2013 as Budgeted



Indicator 12: Financial Reserves/Fund Balance

Formula:

Financial Reserves
Net Operating Revenues

Northborough Trend

X	Favorable
	Marginal
	Unfavorable
	Uncertain

Warning Trend: Declining financial reserves as a percentage of net operating revenues.

Description:

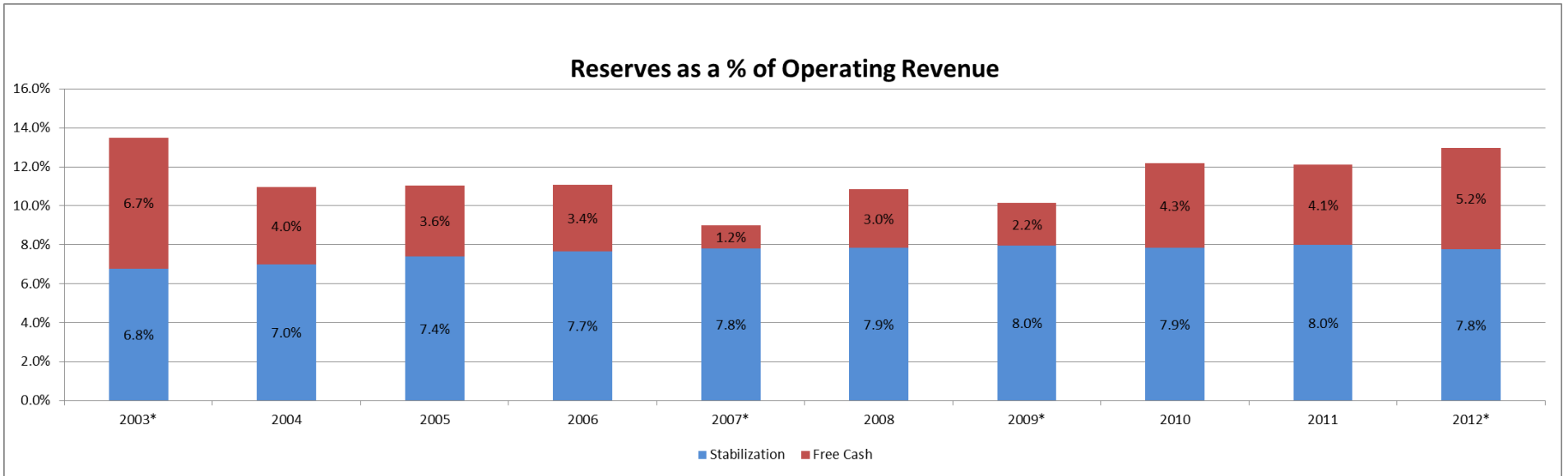
The size of a local government's fund balance can affect its ability to withstand financial emergencies. It can also affect its ability to accumulate funds for capital purchases without having to borrow. Municipalities usually try to operate each year at a surplus to maintain positive fund balance and thus maintain adequate reserves. An unplanned decline in fund balance may mean that the municipality will be unable to meet a future need.

Analysis:

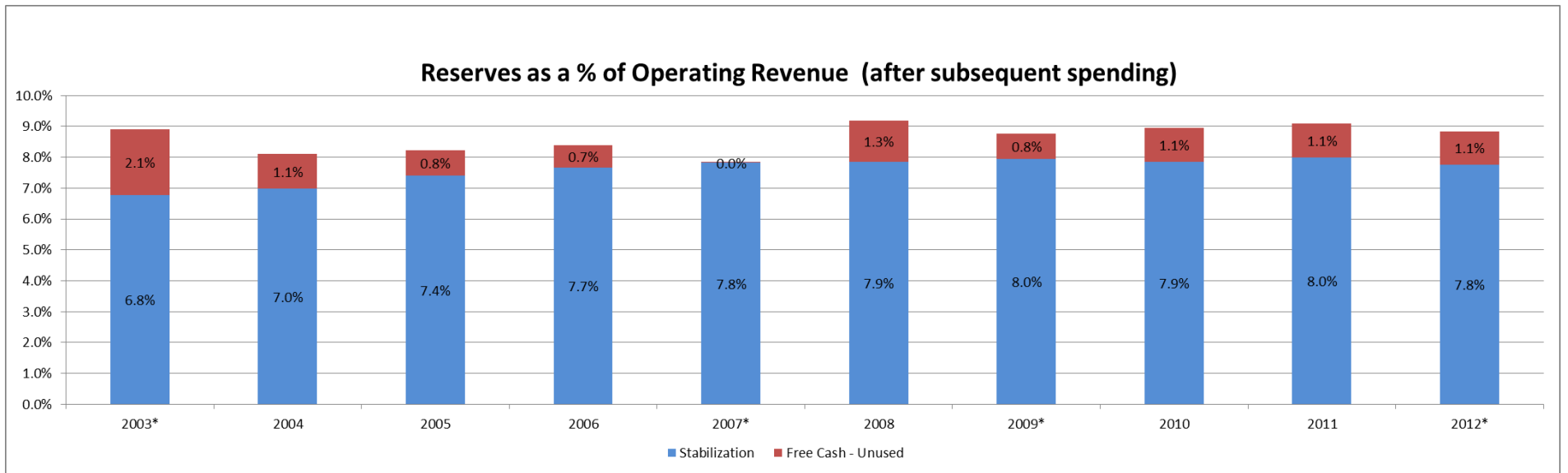
The Government Finance Officers Association (GFOA) recommends the undesignated fund balance should be between 5% to 15% of operating revenues. Northborough's financial policy provides for reserves to average between 5% and 10% of the Town's General Fund (Operating Budget) expenditures. The reserves are defined to include the Town's Stabilization Fund and Free Cash. The Town's level of reserves is therefore in accordance with the Town policy.

Fiscal Year	2003*	2004	2005	2006	2007*	2008	2009*	2010	2011	2012*
Certified Free Cash **	\$ 2,192,279	\$ 1,392,178	\$ 1,289,670	\$ 1,273,342	\$ 470,988	\$ 1,265,111	\$ 946,294	\$ 1,954,708	\$ 1,869,209	\$ 2,459,307
Stabilization Fund Balance **	\$ 2,210,689	\$ 2,449,754	\$ 2,654,063	\$ 2,881,521	\$ 3,085,177	\$ 3,329,086	\$ 3,447,529	\$ 3,551,789	\$ 3,605,888	\$ 3,660,077
Operating Revenues ***	\$ 32,626,221	\$ 35,100,823	\$ 35,791,676	\$ 37,583,206	\$ 39,476,229	\$ 42,390,894	\$ 43,343,178	\$ 45,230,381	\$ 45,181,626	\$ 47,132,299
Free Cash Percentage of Operating Revenue	6.7%	4.0%	3.6%	3.4%	1.2%	3.0%	2.2%	4.3%	4.1%	5.2%
Stabilization Percentage of Operating Revenue	6.8%	7.0%	7.4%	7.7%	7.8%	7.9%	8.0%	7.9%	8.0%	7.8%
Net Reserves Percentage of Operating Revenue	13.5%	10.9%	11.0%	11.1%	9.0%	10.8%	10.1%	12.2%	12.1%	13.0%
Free Cash Subsequently Used****	\$ 1,500,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 470,000	\$ 700,000	\$ 600,000	\$ 1,454,000	\$ 1,365,000	\$ 1,959,307
Free Cash Subsequently Used-Operating	\$ 1,500,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 470,000	\$ 700,000	\$ 600,000	\$ 650,000	\$ 750,000	\$ 650,000
Free Cash Subsequently Used-Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 804,000	\$ 615,000	\$ 1,309,307
Percent Free Cash Subsequently Used	4.6%	2.8%	2.8%	2.7%	1.2%	1.7%	1.4%	3.2%	3.0%	4.2%
Percent Free Cash Not Used	2.1%	1.1%	0.8%	0.7%	0.0%	1.3%	0.8%	1.1%	1.1%	1.1%

Notes: *Proposition 2 1/2 Overrides were approved in FY2003 (\$487,370), FY2007 (\$362,734), & FY2009 (\$316,047), ** Source: Free Cash & Stabilization at end of fiscal year, Mass. DOR Databank, *** Source: Audited Financial Statements, General Fund, Budget Comparison Schedule, **** Source: Mass. DOR Tax Recaps, amounts subsequently spent by Town Meeting, e.g. 2003 Free Cash voted for use by April, 2004 ATM toward FY2005 budget; Figures shown for FY2012 are projected FY2014 budget



*Note: The chart above shows what Northborough's financial reserves are at the close of each fiscal year



*Note: The chart above shows Northborough's financial reserves at the start of the new fiscal year after a portion of Free Cash is spent in accordance with the Town's Free Cash Policy.

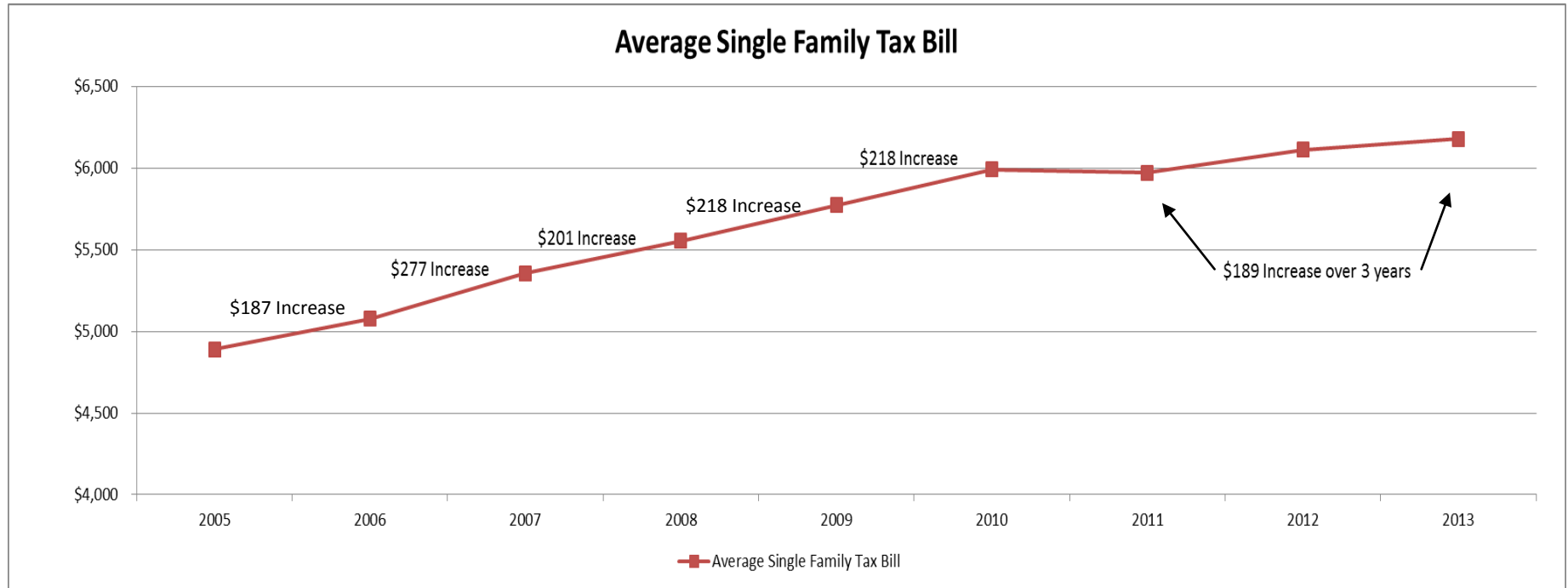
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Section IV

Supplemental Information

Average Residential Tax Bill



Fiscal Year	2005	2006	2007	2008	2009	2010	2011	2012	2013
Assessed Value	\$1,442,443,100	\$1,640,196,100	\$1,723,718,900	\$1,673,218,700	\$1,679,332,500	\$1,669,159,700	\$1,583,648,800	\$1,581,989,200	\$1,536,502,300
Parcels	3,928	3,963	3,988	3,999	4,002	4,006	4,007	4,008	4,005
Average Single Family Home Value **	\$ 367,221	\$ 413,877	\$ 432,226	\$ 418,409	\$ 419,623	\$ 416,665	\$ 395,221	\$ 394,708	\$ 383,646
Tax Rate Per Thousand	\$ 13.32	\$ 12.27	\$ 12.39	\$ 13.28	\$ 13.76	\$ 14.38	\$ 15.11	\$ 15.49	\$ 16.11
Average Single Family Tax Bill	\$ 4,891	\$ 5,078	\$ 5,355	\$ 5,556	\$ 5,774	\$ 5,992	\$ 5,972	\$ 6,114	\$ 6,181
Increase over prior year	\$ (11)	\$ 187	\$ 277	\$ 201	\$ 218	\$ 218	\$ (20)	\$ 142	\$ 67
Hi-Lo Rank**	49	52	51	50	52	49	53	55	59

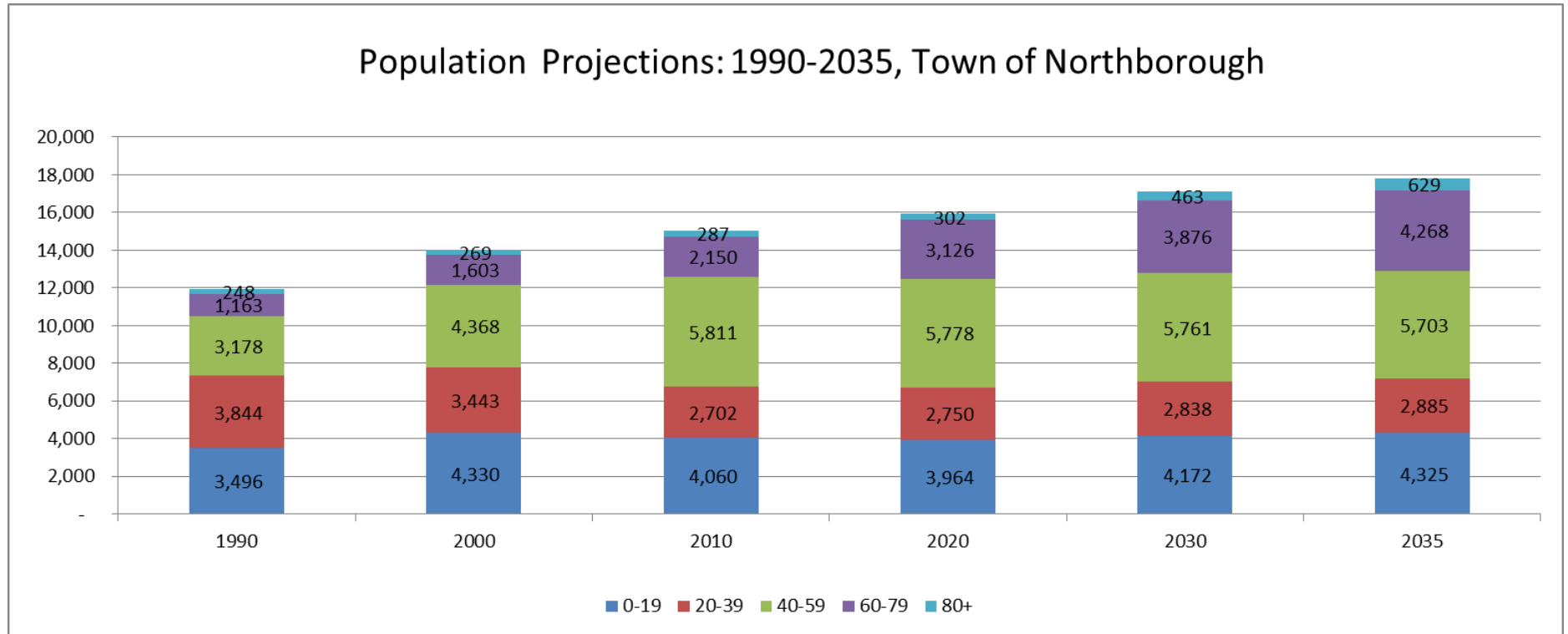
The FY2013 real estate tax bill for an average single family home in the Town of Northborough is \$6,181. This represents only a \$189 increase since FY2010. Previous yearly increases since the base year of FY2005 have averaged \$220 per year. Further, Northborough's Hi-Lo rank for the average single family home has dropped to a low point. It is the 59th highest in FY2013 and has fallen from the 49th highest in FY2010. The Board of Selectmen have established a budget goal to minimize the tax impact in the last three fiscal years.

Notes:

* Source: Mass. DOR Tax Recap

** Source: Mass. DOR Databank

Population Projections



Age	1990	2000	2010	2020	2030	2035	Percent Change 2010-2035
0-19	3,496	4,330	4,060	3,964	4,172	4,325	6.53%
20-39	3,844	3,443	2,702	2,750	2,838	2,885	6.77%
40-59	3,178	4,368	5,811	5,778	5,761	5,703	-1.86%
60-79	1,163	1,603	2,150	3,126	3,876	4,268	98.51%
80+	248	269	287	302	463	629	119.16%
Total	11,929	14,013	15,010	15,920	17,110	17,810	18.65%

Population data and trends are extremely important to review and understand for the future allocation of resources. The projections provided by the Metropolitan Area Planning Council indicate that Northborough is expected to grow in population by 18.65% or 2,800 people over the next 25 years. The projections indicate Northborough's population is expected to rise gradually and will allow officials and policymakers to plan carefully for future needs. The school age population (0-19) is estimated to increase by 6.53%, and any future changes will need to be correlated with the estimates from the School Department to plan for the future needs of the children of Northborough. The largest growth is estimated in the over age 60 segment of the population with 2,460 more people over age 60 living in Northborough in the next 25 years.

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APPENDIX D

GLOSSARY OF TERMS

Glossary of Terms

Abatement: A reduction or elimination of a real or personal property tax, motor vehicle excise, a fee, charge, or special assessment imposed by a governmental unit. Granted only on application of the person seeking the abatement and only by the committing governmental unit.

Accounting System: The total structure of records and procedures that identify record, classify, and report information on the financial position and operations of a governmental unit or any of its funds, account groups, and organizational components.

Accrued Interest: The amount of interest that has accumulated on the bond since the date of the last interest payment, and in the sale of a bond, the amount accrued up to but not including the date of delivery (settlement date). (See Interest)

Amortization: The gradual repayment of an obligation over time and in accordance with a predetermined payment schedule.

Appellate Tax Board (ATB): Appointed by the governor, the ATB has jurisdiction to decide appeals from local decisions relating to property taxes, motor vehicle excises, state owned land (SOL) valuations, exemption eligibility, property classification, and equalized valuations.

Appropriation: An authorization granted by a town meeting, city council or other legislative body to expend money and incur obligations for specific public purposes. An appropriation is usually limited in amount and as to the time period within which it may be expended. (See Encumbrance, Free Cash)

Arbitrage: As applied to municipal debt, the investment of tax-exempt bonds or note proceeds in higher yielding, taxable securities. Section 103 of the Internal Revenue Service (IRS) Code restricts this practice and requires (beyond certain limits) that earnings be rebated (paid) to the IRS.

Assessed Valuation: A value assigned to real estate or other property by a government as the basis for levying taxes. In Massachusetts,

assessed valuation is based on the property's full and fair cash value as set by the Assessors. (See Full and Fair Cash Value)

Audit: An examination of a community's financial systems, procedures, and data by a certified public accountant (independent auditor), and a report on the fairness of financial statements and on local compliance with statutes and regulations. The audit serves as a valuable management tool for evaluating the fiscal performance of a community.

Audit Report: Prepared by an independent auditor, an audit report includes: (a) a statement of the scope of the audit; (b) explanatory comments as to application of auditing procedures; (c) findings and opinions; (d) financial statements and schedules; and (e) statistical tables, supplementary comments, and recommendations. It is almost always accompanied by a management letter.

Available Funds: Balances in the various fund types that represent non-recurring revenue sources. As a matter of sound practice, they are frequently appropriated to meet unforeseen expenses, for capital expenditures or other onetime costs. Examples of available funds include free cash, stabilization funds, overlay surplus, water surplus, and enterprise net assets unrestricted (formerly retained earnings).

Balance Sheet: A statement that discloses the assets, liabilities, reserves and equities of a fund or governmental unit at a specified date.

Betterments (Special Assessments): Whenever a specific area of a community receives benefit from a public improvement (e.g., water, sewer, sidewalk, etc.), special property taxes may be assessed to reimburse the governmental entity for all or part of the costs it incurred. Each parcel receiving benefit from the improvement is assessed for its proportionate share of the cost of such improvements. The proportionate share may be paid in full or the property owner may request that the assessors apportion the betterment over 20 years. Over the life of the betterment, one year's apportionment along with one year's committed interest computed from October 1 to October 1

Glossary of Terms

is added to the tax bill until the betterment has been paid.

Bond: A means to raise money through the issuance of debt. A bond issuer/borrower promises in writing to repay a specified sum of money, alternately referred to as face value, par value or bond principal, to the buyer of the bond on a specified future date (maturity date), together with periodic interest at a specified rate. The term of a bond is always greater than one year. (See Note)

Bond and Interest Record: (Bond Register) – The permanent and complete record maintained by a treasurer for each bond issue. It shows the amount of interest and principal coming due each date and all other pertinent information concerning the bond issue.

Bond Anticipation Note (BAN): Short-term debt instrument used to generate cash for initial project costs and with the expectation that the debt will be replaced later by permanent bonding. Typically issued for a term of less than one year, BANs may be re-issued for up to five years, provided principal repayment begins after two years (MGL Ch. 44 §17). Principal payments on school related BANs may be deferred up to seven years (increased in 2002 from five years) if the community has an approved project on the Massachusetts School Building Authority (MSBA) priority list. BANs are full faith and credit obligations.

Bond Authorization: The action of town meeting or a city council authorizing the executive branch to raise money through the sale of bonds in a specific amount and for a specific purpose. Once authorized, issuance is by the treasurer upon the signature of the mayor, or selectmen. (See Bond issue)

Bonds Authorized and Unissued: Balance of a bond authorization not yet sold. Upon completion or abandonment of a project, any remaining balance of authorized and unissued bonds may not be used for other purposes, but must be rescinded by town meeting or the city council to be removed from community's books.

Bond Issue: Generally, the sale of a certain number of bonds at one time by a governmental unit.

Bond Rating (Municipal): A credit rating assigned to a municipality to help investors assess the future ability, legal obligation, and willingness of the municipality (bond issuer) to make timely debt service payments. Stated otherwise, a rating helps prospective investors determine the level of risk associated with a given fixed-income investment. Rating agencies, such as Moody's and Standard and Poors, use rating systems, which designate a letter or a combination of letters and numerals where AAA is the highest rating and C1 is a very low rating.

Budget: A plan for allocating resources to support particular services, purposes and functions over a specified period of time. (See Performance Budget, Program Budget)

Budget Message: A statement that, among other things, offers context by summarizing the main points of a budget, explains priorities, describes underlying policies that drive funding decisions, and otherwise justifies the expenditure plan and provides a vision for the future.

Budget Unit: A board or department to which the municipality's legislative body appropriates funds.

Capital Assets: All tangible property used in the operation of government, which is not easily converted into cash, and has an initial useful life extending beyond a single financial reporting period. Capital assets include land and land improvements; infrastructure such as roads, bridges, water and sewer lines; easements; buildings and building improvements; vehicles, machinery and equipment. Communities typically define capital assets in terms of a minimum useful life and a minimum initial cost. (See Fixed Assets)

Capital Budget: An appropriation or spending plan that uses borrowing or direct outlay for capital or fixed asset improvements. Among other information, a capital budget should identify the method of financing each

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recommended expenditure, i.e., tax levy or rates, and identify those items that were not recommended. (See Capital Assets, Fixed Assets)

Capital Improvements Program: A blueprint for planning a community's capital expenditures that comprises an annual capital budget and a five-year capital program. It coordinates community planning, fiscal capacity and physical development. While all of the community's needs should be identified in the program, there is a set of criteria that prioritizes the expenditures.

Capital Outlay Expenditure Exclusion: A temporary increase in the tax levy to fund a capital project or make a capital acquisition. Exclusions require two-thirds vote of the selectmen or city council (sometimes with the mayor's approval) and a majority vote in a community-wide referendum. The exclusion is added to the tax levy only during the year in which the project is being funded and may increase the tax levy above the levy ceiling.

Cash: Currency, coin, checks, postal and express money orders and bankers' drafts on hand or on deposit with an official or agent designated as custodian of cash and bank deposits.

Cash Management: The process of monitoring the ebb and flow of money in an out of municipal accounts to ensure cash availability to pay bills and to facilitate decisions on the need for short-term borrowing and investment of idle cash.

Cemetery Perpetual Care: These funds are donated by individuals for the care of grave sites. According to Ch. 114, s 25, funds from this account must be invested and spent as directed by perpetual care agreements. If no agreements exist, interest (but not principal) may be used as directed by the cemetery commissioners for the purpose of maintaining cemeteries.

Certification: Verification of authenticity. Can refer to the action of a bank, trust company, or DOR's Bureau of Accounts (BOA) in the

issuance of State House Notes, to confirm the genuineness of the municipal signatures and seal on bond issues. The certifying agency may also supervise the printing of bonds and otherwise safeguard their preparation against fraud, counterfeiting, or overissue. Also refers to the certification by the Bureau of Local Assessment (BLA) that a community's assessed values represent full and fair cash value (FFCV). (See Triennial Certification)

Certificate of Deposit (CD): A bank deposit evidenced by a negotiable or non-negotiable instrument, which provides on its face that the amount of such deposit plus a specified interest payable to a bearer or to any specified person on a certain specified date, at the expiration of a certain specified time, or upon notice in writing.

Cherry Sheet: Named for the cherry colored paper on which they were originally printed, the Cherry Sheet is the official notification to cities, towns and regional school districts of the next fiscal year's state aid and assessments. The aid is in the form of distributions, which provide funds based on formulas and reimbursements that provide funds for costs incurred during a prior period for certain programs or services. Links to the Cherry Sheets are located on the DLS website at www.mass.gov/dls. (See Cherry Sheet Assessments, Estimated Receipts)

Cherry Sheet Assessments: Estimates of annual charges to cover the cost of certain state and county programs.

Cherry Sheet Offset Items: Local aid that may be spent without appropriation in the budget, but which must be spent for specific municipal and regional school district programs. Current offset items include racial equality grants, school lunch grants, and public libraries grants. (See Offset Receipts)

Classification of Real Property: Assessors are required to classify all real property according to use into one of four classes: residential, open space, commercial, and industrial. Having classified its real properties, local officials are permitted to determine locally, within limitations established by statute and the Commissioner of Revenue, what percentage of

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the tax burden is to be borne by each class of real property and by personal property owners. (see Classification of the Tax Rate).

Classification of the Tax Rate: Each year, the selectmen or city council vote whether to exercise certain tax rate options. Those options include choosing a residential factor (MGL Ch. 40 §56), and determining whether to offer an open space discount, a residential exemption (Ch. 59, §5C), and/or a small commercial exemption (Ch. 59, §5I) to property owners.

Collective Bargaining: The process of negotiating workers' wages, hours, benefits, working conditions, etc., between an employer and some or all of its employees, who are represented by a recognized labor union. regarding wages, hours and working conditions.

Community Preservation Act (CPA): Enacted as MGL Ch. 44B in 2000, CPA permits cities and towns accepting its provisions to establish a restricted fund from which monies can be appropriated only for a) the acquisition, creation and preservation of open space; b) the acquisition, preservation, rehabilitation, and restoration of historic resources; and c) the acquisition, creation and preservation of land for recreational use; d) the creation, preservation and support of community housing; and e) the rehabilitation and restoration of open space, land for recreational use and community housing that is acquired or created using monies from the fund. Acceptance requires town meeting or city council approval or a citizen petition, together with referendum approval by majority vote. The local program is funded by a local surcharge up to 3 percent on real property tax bills and matching dollars from the state generated from registry of deeds fees. (See DOR IGR 00-209 as amended by IGR 01-207 and IGR 02-208)

Community Preservation Fund: A special revenue fund established pursuant to MGL Ch. 44B to receive all monies collected to support a community preservation program, including but not limited to, tax surcharge receipts, proceeds from borrowings, funds received from the Commonwealth, and proceeds from the sale of certain real estate.

Compensating Balance Agreement: An alternative to the payment of direct fees for banking services. In this case, a bank specifies a minimum balance that the municipality must maintain in non-interest bearing accounts. The bank can then lend this money (subject to a reserve requirement) and earn interest, which will at least cover the cost of services provided to the municipality. Compensating balance agreements are permitted under MGL Ch. 44 §53F and must be approved annually by town meeting or the city council.

Conservation Fund: A city or town may appropriate money to a conservation fund. This money may be expended by the conservation commission for lawful conservation purposes as described in MGL Ch. 40 §8C. The money may also be expended by the conservation commission for damages arising from an eminent domain taking provided that the taking was approved by a two-thirds vote of city council or town meeting.

Consumer Price Index: The statistical measure of changes, if any, in the overall price level of consumer goods and services. The index is often called the "cost-of-living index."

Cost-Benefit Analysis: A decision-making tool that allows a comparison of options based on the level of benefit derived and the cost to achieve the benefit from different alternatives.

Debt Authorization: Formal approval by a two thirds vote of town meeting or city council to incur debt, in accordance with procedures stated in MGL Ch. 44 §§1, 2, 3, 4a, 6-15.

Debt Burden: The amount of debt carried by an issuer usually expressed as a measure of value (i.e., debt as a percentage of assessed value, debt per capita, etc.). Sometimes debt burden refers to debt service costs as a percentage of the total annual budget.

Debt Exclusion: An action taken by a community through a referendum vote to raise the funds necessary to pay debt service costs for a particular project from the property tax levy, but outside the limits under Proposition 2½. By

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approving a debt exclusion, a community calculates its annual levy limit under Proposition 2½, then adds the excluded debt service cost. The amount is added to the levy limit for the life of the debt only and may increase the levy above the levy ceiling.

Debt Limit: The maximum amount of debt that a municipality may authorize for qualified purposes under state law. Under MGL Ch. 44 §10, debt limits are set at 5 percent of EQV. By petition to the Municipal Finance Oversight Board, cities and towns can receive approval to increase their debt limit to 10 percent of EQV.

Debt Service: The repayment cost, usually stated in annual terms and based on an amortization schedule, of the principal and interest on any particular bond issue.

Encumbrance: A reservation of funds to cover obligations arising from purchase orders, contracts, or salary commitments that is chargeable to, but not yet paid from, a specific appropriation account.

Enterprise Funds: An enterprise fund, authorized by MGL Ch. 44 §53F½, is a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. It allows a community to demonstrate to the public the portion of total costs of a service that is recovered through user charges and the portion that is subsidized by the tax levy, if any. With an enterprise fund, all costs of service delivery--direct, indirect, and capital costs—are identified. This allows the community to recover total service costs through user fees if it chooses. Enterprise accounting also enables communities to reserve the "surplus" or net assets unrestricted generated by the operation of the enterprise rather than closing it out to the general fund at year-end. Services that may be treated as enterprises include, but are not limited to, water, sewer, hospital, and airport services. (See DOR IGR 08-101)

Equalized Valuations (EQVs): The determination of the full and fair cash value of all property in the commonwealth that is subject to local taxation. EQVs have historically been

used as variables in distributing certain state aid accounts and for determining county assessments and certain other costs. The Commissioner of Revenue, in accordance with M.G.L. Ch. 58 s 10C, is charged with the responsibility of bi-annually determining an equalized valuation for each town and city in the Commonwealth.

Estimated Receipts: A term that typically refers to anticipated local revenues listed on page three of the Tax Recapitulation Sheet. Projections of local revenues are often based on the previous year's receipts and represent funding sources necessary to support a community's annual budget. (See Local Receipts)

Excess and Deficiency (E&D): Also called the "surplus revenue" account, this is the amount by which cash, accounts receivable, and other assets exceed a regional school district's liabilities and reserves as certified by the Director of Accounts. The calculation is based on a year-end balance sheet, which is submitted to DOR by the district's auditor, accountant, or comptroller as of June 30. The regional school committee must apply certified amounts exceeding five percent of the district's prior year operating and capital costs to reduce the assessment on member cities and towns. Important: E&D is not available for appropriation until certified by the Director of Accounts.

Excess Levy Capacity: The difference between the levy limit and the amount of real and personal property taxes actually levied in a given year. Annually, the board of selectmen or council must be informed of excess levying capacity and evidence of such acknowledgment must be submitted to DOR when setting the tax rate.

Exemptions: A discharge, established by statute, from the obligation to pay all or a portion of a property tax. The exemption is available to particular categories of property or persons upon the timely submission and approval of an application to the assessors. Properties exempt from taxation include hospitals, schools, houses of worship, and

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cultural institutions. Persons who may qualify for exemptions include disabled veterans, blind individuals, surviving spouses, and seniors.

Expenditure: An outlay of money made by municipalities to provide the programs and services within their approved budget.

Fiduciary Funds: Repository of money held by a municipality in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. These include pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

Fiscal Year (FY): Since 1974, the Commonwealth and municipalities have operated on a budget cycle that begins July 1 and ends June 30. The designation of the fiscal year is that of the calendar year in which the fiscal year ends. Since 1976, the federal government fiscal year has begun on October 1 and ended September 30.

Fixed Assets: Long-lived, tangible assets such as buildings, equipment and land obtained or controlled as a result of past transactions or circumstances.

Fixed Costs: Costs that are legally or contractually mandated such as retirement, FICA/Social Security, insurance, debt service costs or interest on loans.

Float: The difference between the bank balance for a local government's account and its book balance at the end of the day. The primary factor creating float is clearing time on checks and deposits. Delays in receiving deposit and withdrawal information also influence float.

Foundation Budget: The spending target imposed by the Education Reform Act of 1993 for each school district as the level necessary to provide an adequate education for all students.

Free Cash: (Also Budgetary Fund Balance) Remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax

recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. Important: free cash is not available for appropriation until certified by the Director of Accounts. (See Available Funds)

Full and Fair Cash Value (FFCV): Fair cash value has been defined by the Massachusetts Supreme Judicial Court as "fair market value, which is the price an owner willing but not under compulsion to sell ought to receive from one willing but not under compulsion to buy. It means the highest price that a normal purchaser not under peculiar compulsion will pay at the time, and cannot exceed the sum that the owner after reasonable effort could obtain for his property. A valuation limited to what the property is worth to the purchaser is not market value. The fair cash value is the value the property would have on January first of any taxable year in the hands of any owner, including the present owner." (Boston Gas Co. v. Assessors of Boston, 334 Mass. 549, 566 (1956))

Full Faith and Credit: A pledge of the general taxing powers for the payment of governmental obligations. Bonds carrying such pledges are usually referred to as general obligation or full faith and credit bonds.

Fund: An accounting entity with a self balancing set of accounts that is segregated for the purpose of carrying on identified activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations.

Fund Accounting: Organizing the financial records of a municipality into multiple, segregated locations for money. A fund is a distinct entity within the municipal government in which financial resources and activity (assets, liabilities, fund balances, revenues, and expenditures) are accounted for independently in accordance with specific regulations, restrictions or limitations. Examples of funds include the general fund and enterprise funds. Communities

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whose accounting records are organized according to the Uniform Municipal Accounting System (UMAS) use multiple funds.

GASB 34: A major pronouncement of the Governmental Accounting Standards Board that establishes new criteria on the form and content of governmental financial statements. GASB 34 requires a report on overall financial health, not just on individual funds. It requires more complete information on the cost of delivering value estimates on public infrastructure assets, such as bridges, road, sewers, etc. It also requires the presentation of a narrative statement the government's financial performance, trends and prospects for the future.

GASB 45: This is another Governmental Accounting Standards Board major pronouncement that each public entity account for and report other postemployment benefits in its accounting statements. Through actuarial analysis, municipalities must identify the true costs of the OPEB earned by employees over their estimated years of actual service.

General Fund: The fund used to account for most financial resources and activities governed by the normal town meeting/city council appropriation process.

General Obligation Bonds: Bonds issued by a municipality for purposes allowed by statute that are backed by the full faith and credit of its taxing authority.

Governing Body: A board, committee, commission, or other executive or policymaking body including the school committee of a municipality.

Governmental Accounting Standards Board (GASB): The ultimate authoritative accounting and financial reporting standard-setting body for state and local governments.

Indirect Cost: Costs of a service not reflected in the operating budget of the entity providing the service. An example of an indirect cost of providing water service would be the value of time spent by non-water department employees processing water bills. A determination of these

costs is necessary to analyze the total cost of service delivery. The matter of indirect costs arises most often in the context of enterprise funds.

Interest: Compensation paid or to be paid for the use of money, including amounts payable at periodic intervals or discounted at the time a loan is made. In the case of municipal bonds, interest payments accrue on a day-to-day basis, but are paid every six months.

Interest Rate: The interest payable, expressed as a percentage of the principal available for use during a specified period of time. It is always expressed in annual terms.

Investments: Securities and real estate held for the production of income in the form of interest, dividends, rentals or lease payments. The term does not include fixed assets used in governmental operations.

Law Enforcement Trust Fund: A revolving fund established to account for a portion of the proceeds from the sale of property seized from illegal drug-related activities. Funds may be expended to defray certain qualified law enforcement costs as outlined in MGL Ch. 94C, s 47. Funds from this account may be expended by the police chief without further appropriation.

Levy Ceiling: A levy ceiling is one of two types of levy (tax) restrictions imposed by MGL Ch. 59 §21C (Proposition 2½). It states that, in any year, the real and personal property taxes imposed may not exceed 2½ percent of the total full and fair cash value of all taxable property. Property taxes levied may exceed this limit only if the community passes a capital exclusion, a debt exclusion, or a special exclusion. (See Levy Limit)

Levy Limit: A levy limit is one of two types of levy (tax) restrictions imposed by MGL Ch. 59 §21C (Proposition 2½). It states that the real and personal property taxes imposed by a city or town may only grow each year by 2½ percent of the prior year's levy limit, plus new growth and any overrides or exclusions. The levy limit can exceed the levy ceiling only if the community passes a capital expenditure exclusion, debt

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exclusion, or special exclusion. (See Levy Ceiling)

Line Item Budget: A budget that separates spending into categories, or greater detail, such as supplies, equipment, maintenance, or salaries, as opposed to a program budget.

Local Aid: Revenue allocated by the Commonwealth to cities, towns, and regional school districts. Estimates of local aid are transmitted to cities, towns, and districts annually by the "Cherry Sheets." Most Cherry Sheet aid programs are considered general fund revenues and may be spent for any purpose, subject to appropriation.

Local Appropriation Authority: In a town, the town meeting has the power to appropriate funds, including the authorization of debt. In a city, the city council has the power upon the recommendation of the mayor.

Local Receipts: Locally generated revenues, other than real and personal property taxes. Examples include motor vehicle excise, investment income, hotel/motel tax, fees, rentals, and charges. Annual estimates of local receipts are shown on the tax rate recapitulation sheet. (See Estimated Receipts)

Maturity Date: The date that the principal of a bond becomes due and payable in full.

Massachusetts Municipal Depository Trust: An investment program, founded in 1977 under the supervision of the State Treasurer, in which municipalities may pool excess cash for investment.

Minimum Required Local Contribution: The minimum that a city or town must appropriate from property taxes and other local revenues for the support of schools (Education Reform Act of 1993).

Municipal(s): (As used in the bond trade) "Municipal" refers to any state or subordinate governmental unit. "Municipals" (i.e., municipal bonds) include not only the bonds of all political

subdivisions, such as cities, towns, school districts, special districts, but also bonds of the state and agencies of the state.

Municipal Revenue Growth Factor (MRGF): An estimate of the percentage change in a municipality's revenue growth for a fiscal year. It represents the combined percentage increase in the following revenue components: automatic 2 1/2 percent increase in the levy limit, estimated new growth, the change in selected unrestricted state aid categories and the change in selected unrestricted local receipts.

M.G.L.: Massachusetts General Laws.

Net School Spending (NSS): School budget and municipal budget amounts attributable to education, excluding long-term debt service, student transportation, school lunches and certain other specified school expenditures. A community's NSS funding must equal or exceed the NSS Requirement established annually by the Department of Education (DOE). (See Education Reform Act of 1993) Includes both school budget and municipal budget amounts attributable to education, excluding long-term debt service, student transportation, school lunches and certain other specified school expenditures. A community's NSS funding must equal or exceed the NSS Requirement established annually by the Department of Education.

New Growth: The additional tax revenue generated by new construction, renovations and other increases in the property tax base during a calendar year. It does not include value increases caused by normal market forces or by revaluations. New growth is calculated by multiplying the assessed value associated with new construction, renovations and other increases by the prior year tax rate. The additional tax revenue is then incorporated into the calculation of the next year's levy limit. For example, new growth for FY07 is based on new construction, etc. that occurred between January and December 2005 (or July 2005 and June 2006 for accelerated new growth communities). In the fall of 2006, when new growth is being determined to set the FY07 levy limit, the FY06 tax rate is used in the calculation.

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Note: A short-term loan, typically with a maturity date of a year or less.

Objects of Expenditures: A classification of expenditures that is used for coding any department disbursement, such as “personal services,” “expenses,” or “capital outlay.”

Official Statement: A document prepared for potential investors that contains information about a prospective bond or note issue and the issuer. The official statement is typically published with the notice of sale. It is sometimes called an offering circular or prospectus.

Offset Receipts: A local option that allows estimated receipts of a particular department to be earmarked for use of the department and appropriated to offset its annual operating budget. If accepted, MGL Ch. 44 §53E limits the amount of offset receipts appropriated to no more than the actual receipts collected for the prior fiscal year. The Director of Accounts must approve use of a higher amount before appropriation. Actual collections greater than the amount appropriated close to the general fund at year-end. If actual collections are less, the deficit must be raised in the next year’s tax rate.

Operating Budget: A plan of proposed expenditures for personnel, supplies, and other expenses for the coming fiscal year.

Other Amounts to be Raised: (Tax Recapitulation Sheet) Amounts not appropriated but raised through taxation. Generally, these are locally generated expenditures (e.g., overlay, teacher pay deferral, deficits) as well as state, county and other special district charges. Because they must be funded in the annual budget, special consideration should be given to them when finalizing the budget recommendations to the city council or town meeting.

Overlapping Debt: A community's proportionate share of the debt incurred by an overlapping government entity, such as a regional school district, regional transit authority, etc.

Overlay: (Overlay Reserve or Allowance for Abatements and Exemptions) An account established annually to fund anticipated property tax abatements, exemptions and uncollected taxes in that year. The overlay reserve need not be funded by the normal appropriation process, but rather is raised on the tax rate recapitulation sheet.

Overlay Deficit: A deficit that occurs when the amount of overlay raised in a given year is insufficient to cover abatements, statutory exemptions, and uncollected taxes for that year. Overlay deficits must be provided for in the next fiscal year.

Overlay Surplus: Any balance in the overlay account of a given year in excess of the amount remaining to be collected or abated can be transferred into this account. Within 10 days of a written request by the chief executive officer of a city or town, the assessors must provide a certification of the excess amount of overlay available to transfer. Overlay surplus may be appropriated for any lawful purpose. At the end of each fiscal year, unused overlay surplus is “closed” to surplus revenue, i.e., it becomes a part of free cash.

Override: A vote by a community at an election to permanently increase the levy limit. An override vote may increase the levy limit no higher than the levy ceiling. The override question on the election ballot must state a purpose for the override and the dollar amount. (See Underride.)

Override Capacity: The difference between a community’s levy ceiling and its levy limit. It is the maximum amount by which a community may override its levy limit.

Performance Budget: A budget that stresses output both in terms of economy and efficiency.

Principal: The face amount of a bond, exclusive of accrued interest.

Program: A combination of activities to accomplish an end.

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Program Budget: A budget that relates expenditures to the programs they fund. The emphasis of a program budget is on output.

Proposition 2½: A state law enacted in 1980, Proposition 2½ regulates local property tax administration and limits the amount of revenue a city or town may raise from local property taxes each year to fund municipal operations.

Purchased Services: The cost of services that are provided by a vendor.

Refunding of Debt: Transaction where one bond issue is redeemed and replaced by a new bond issue under conditions generally more favorable to the issuer.

Reserve for Abatements and Exemptions: (See Overlay)

Reserve Fund: An amount set aside annually within the budget of a city (not to exceed 3 percent of the tax levy for the preceding year) or town (not to exceed 5 percent of the tax levy for the preceding year) to provide a funding source for extraordinary or unforeseen expenditures. In a town, the finance committee can authorize transfers from this fund for "extraordinary or unforeseen" expenditures. Other uses of the fund require budgetary transfers by town meeting. In a city, transfers from this fund may be voted by the city council upon recommendation of the mayor.

Revaluation: The assessors of each community are responsible for developing a reasonable and realistic program to achieve the fair cash valuation of property in accordance with constitutional and statutory requirements. The nature and extent of that program will depend on the assessors' analysis and consideration of many factors, including, but not limited to, the status of the existing valuation system, the results of an in-depth sales ratio study, and the accuracy of existing property record information. Every three years, assessors must submit property values to the DOR for certification. Assessors must also maintain fair cash values in the years between certifications so that each taxpayer in the community pays his or her share of the cost of local government in

proportion to the value of his property. (See Triennial Certification)

Revenue Anticipation Borrowing: Cities, towns and districts may issue temporary notes in anticipation of taxes (TANs) or other revenue (RANs). The amount of this type of borrowing is limited to the total of the prior year's tax levy, the net amount collected in motor vehicle and trailer excise in the prior year and payments made by the Commonwealth in lieu of taxes in the prior year. According to MGL Ch. 44 s 4, cities, towns and districts may borrow for up to one year in anticipation of such revenue.

Revenue Anticipation Note (RAN): A short-term loan issued to be paid off by revenues, such as tax collections and state aid. RANs are full faith and credit obligations. (See Bond Anticipation Note)

Revenue Bond: A bond payable from and secured solely by specific revenues and thereby not a full faith and credit obligation.

Revolving Fund: Allows a community to raise revenues from a specific service and use those revenues without appropriation to support the service. For departmental revolving funds, MGL Ch. 44 §53E½ stipulates that each fund must be reauthorized each year at annual town meeting or by city council action, and that a limit on the total amount that may be spent from each fund must be established at that time. The aggregate of all revolving funds may not exceed ten percent of the amount raised by taxation by the city or town in the most recent fiscal year, and no more than one percent of the amount raised by taxation may be administered by a single fund. Wages or salaries for full-time employees may be paid from the revolving fund only if the fund is also charged for all associated fringe benefits.

Sale of Cemetery Lots Fund: A fund established to account for proceeds of the sale of cemetery lots. The proceeds may only be appropriated to pay for the cost of the land, its care and improvement or the enlargement of the cemetery under provisions of MGL Ch. 114 §15.

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Sale of Real Estate Fund: A fund established to account for the proceeds of the sale of municipal real estate other than proceeds acquired through tax title foreclosure. MGL Chapter 44 s 63 states that such proceeds shall be applied first to the retirement of debt on the property sold. In the absence of such debt, funds may generally be used for purposes for which the town or city is authorized to borrow for a period of five years or more.

Security: For Massachusetts municipalities, bonds or notes evidencing a legal debt on the part of the issuer.

Special Assessments: (See Betterments)

Special Exclusion: For a few limited capital purposes, a community may exceed its levy limit or levy ceiling without voter approval. Presently, there are two special expenditure exclusions: 1) water and sewer project debt service costs which reduce the water and sewer rates by the same amount; and 2) a program to assist homeowners to repair or replace faulty septic systems, remove underground fuel storage tanks, or remove dangerous levels of lead paint to meet public health and safety code requirements. In the second special exclusion, homeowners repay the municipality for the cost plus interest apportioned over a period of time, not to exceed 20 years (similar to betterments).

Stabilization Fund: A fund designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose (MGL Ch. 40 §5B). Communities may establish one or more stabilization funds for different purposes and may appropriate into them in any year an amount not to exceed ten percent of the prior year's tax levy. The total of all stabilization fund balances shall not exceed ten percent of the community's equalized value, and any interest shall be added to and become a part of the funds. A two-thirds vote of town meeting or city council is required to establish, amend the purpose of, or appropriate money into or from the stabilization fund. (See DOR IGR 04-201)

Surplus Revenue: The amount by which cash, accounts receivable, and other assets exceed liabilities and reserves.

Tax Rate: The amount of property tax stated in terms of a unit of the municipal tax base; for example, \$14.80 per \$1,000 of assessed valuation of taxable real and personal property.

Tax Rate Recapitulation Sheet (Recap Sheet): A document submitted by a city or town to the DOR in order to set a property tax rate. The recap sheet shows all estimated revenues and actual appropriations that affect the property tax rate. The recap sheet should be submitted to the DOR by September 1 (in order to issue the first-half semiannual property tax bills before October 1) or by December 1 (in order to issue the third quarterly property tax bills before January 1).

Tax Title (or Tax Taking): A collection procedure that secures a city or town's lien on real property and protects the municipality's right to payment of overdue property taxes. Otherwise, the lien expires if five years elapse from the January 1 assessment date and the property has been transferred to another owner. If amounts remain outstanding on the property after issuing a demand for overdue property taxes and after publishing a notice of tax taking, the collector may take the property for the city or town. After properly recording the instrument of taking, the collector transfers responsibility for collecting the overdue amounts to the treasurer. After six months, the treasurer may initiate foreclosure proceedings.

Tax Title Foreclosure: The procedure initiated by a city or town treasurer in Land Court or through land of low value to obtain legal title to real property already in tax title and on which property taxes are over due. The treasurer must wait at least six months from the date of a tax taking to initiate Land Court foreclosure proceedings (MGL Ch. 60 §65).

Triennial Certification: The Commissioner of Revenue, through the Bureau of Local Assessment, is required to review local assessed values every three years and to certify that they

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represent full and fair cash value (FFCV). Refer to MGL Ch. 40 §56 and Ch. 59 §2A(c).

Trust Fund: In general, a fund for money donated or transferred to a municipality with specific instructions on its use. As custodian of trust funds, the treasurer invests and expends such funds as stipulated by trust agreements, as directed by the commissioners of trust funds or by town meeting. Both principal and interest may be used if the trust is established as an expendable trust. For nonexpendable trust funds, only interest (not principal) may be expended as directed.

Uncollected Funds: Recently deposited checks included in an account's balance but drawn on other banks and not yet credited by the Federal Reserve Bank or local clearinghouse to the bank cashing the checks. (These funds may not be loaned or used as part of the bank's reserves and they are not available for disbursement.)

Override: A vote by a community to permanently decrease the tax levy limit. As such, it is the opposite of an override. (See Override)

Undesignated Fund Balance: Monies in the various government funds as of June 30 that are neither encumbered nor reserved, and are therefore available for expenditure once certified as part of free cash.

Uniform Municipal Accounting System (UMAS): UMAS succeeds the so-called Statutory System (STAT) and is regarded as the professional standard for municipal accounting in Massachusetts. As a uniform system for local governments, it conforms to Generally Accepted Accounting Principles (GAAP), offers increased consistency in reporting and record keeping, as well as enhanced comparability of data among cities and towns.

Unreserved Fund Balance (Surplus Revenue Account): The amount by which cash, accounts receivable, and other assets exceed liabilities and restricted reserves. It is akin to a "stockholders' equity" account on a corporate balance sheet. It is not, however, available for appropriation in full because a portion of the assets listed as

"accounts receivable" may be taxes receivable and uncollected. (See Free Cash)

Valuation (100 Percent): The legal requirement that a community's assessed value on property must reflect its market, or full and fair cash value.

Warrant: An authorization for an action. For example, a town meeting warrant establishes the matters that may be acted on by that town meeting. A treasury warrant authorizes the treasurer to pay specific bills. The assessors' warrant authorizes the tax collector to collect taxes in the amount and from the persons listed, respectively.



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