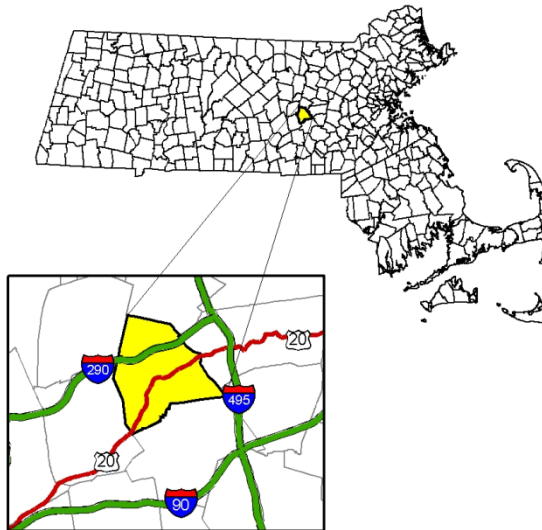


# **APPENDIX C**

## **FINANCIAL TREND MONITORING REPORT**



# **Town of Northborough, MA Financial Trend Monitoring Report Fiscal Year 2015**



**FTM Report covers the period July 1, 2004 (FY2005) through June 30, 2015 (FY2015)**



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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.

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

#### *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.*

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 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.

### ***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).*

### 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 have added new capital indicators to the FY2015 report, and hope to further expand the indicators in the future. The fourteen 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
13. Capital Investment—Overall Fixed Assets
14. Capital Investment—Pavement Management

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, 2004 through June 30, 2015. Actual data has been presented for the Town's General Fund for the Fiscal Years 2005 through 2015. 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 2014 was used for FY2015. CPI-U data is the Consumer Price Index for all urban consumers in the New England region. For the purpose of this analysis, FY2005 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. 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, a strong diversified tax base and previous 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, OPEB obligations and capital investment in Pavement Management are potential emerging problems. Uncertainty surrounding the level of State Aid and future increases in health insurance premiums remain significant areas 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 continue to fund the OPEB liability. The OPEB Trust Fund was established at the April 2011 Town Meeting for this purpose, and during FY2015 the first transfer was made to the Trust (\$500,000). Identification of additional revenue sources like the Meals Tax or Room Occupancy surcharge (adopted in FY2014), should also be explored to alleviate the tax burden on residents.

## Financial Indicator

FY2015

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

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## Section III

### Fiscal Indicator Analysis

## Indicator 1: Property Tax Revenues

### Formula:

Net Property Tax Revenues  
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 \$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	2005	2006	2007*	2008	2009*	2010	2011	2012	2013	2014	2015*
Property Tax Collections **	\$ 27,498,892	\$ 28,834,468	\$ 30,400,203	\$ 32,721,073	\$ 34,270,290	\$ 35,765,428	\$ 36,555,771	\$ 38,335,354	\$ 39,581,324	\$ 41,265,841	\$ 42,977,124
Less Debt Exclusions ***	\$ (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)	\$ (1,636,032)	\$ (1,581,420)
Net Property Tax Revenues (nominal dollars)	\$ 25,702,846	\$ 27,257,887	\$ 28,463,807	\$ 30,838,146	\$ 32,329,412	\$ 34,009,315	\$ 34,699,887	\$ 35,933,587	\$ 37,141,743	\$ 39,629,809	\$ 41,395,704
Percent increase Tax Revenues over prior year	4.3%	6.1%	4.4%	8.3%	4.8%	5.2%	2.0%	3.6%	3.4%	6.7%	4.5%
CPI-U, 2005 Base Year ****	212.1	220.5	225.1	231.6	234.2	236.7	240.0	245.8	249.6	253.3	254.6
CPI-U adjustment for constant dollars	100.0%	96.2%	94.2%	91.6%	90.6%	89.6%	88.4%	86.3%	85.0%	83.7%	83.3%
Net Property Tax Revenues (constant dollars)	\$ 25,702,846	\$ 26,225,438	\$ 26,825,325	\$ 28,244,841	\$ 29,284,688	\$ 30,472,378	\$ 30,667,942	\$ 31,007,982	\$ 31,558,266	\$ 33,188,619	\$ 34,483,007
Percent increase Tax Revenues over prior year	4.3%	2.0%	2.3%	5.3%	3.7%	4.1%	0.6%	1.1%	1.8%	5.2%	3.9%

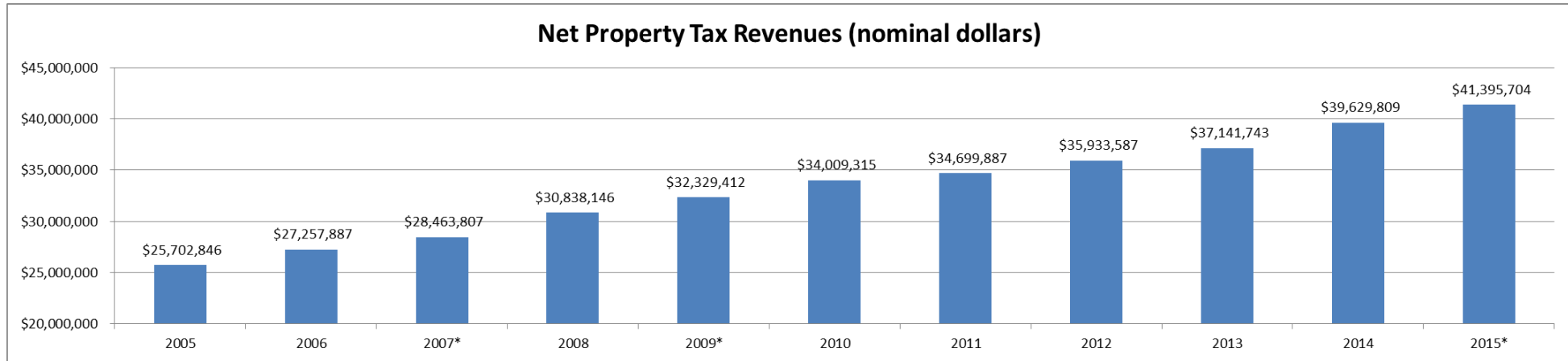
Notes:

\*Proposition 2 1/2 Overrides were approved in FY2007 (\$362,734) & FY2009 (\$316,047); FY2015 shows budget numbers rather than actual, Source: Mass. DOR Tax Recap

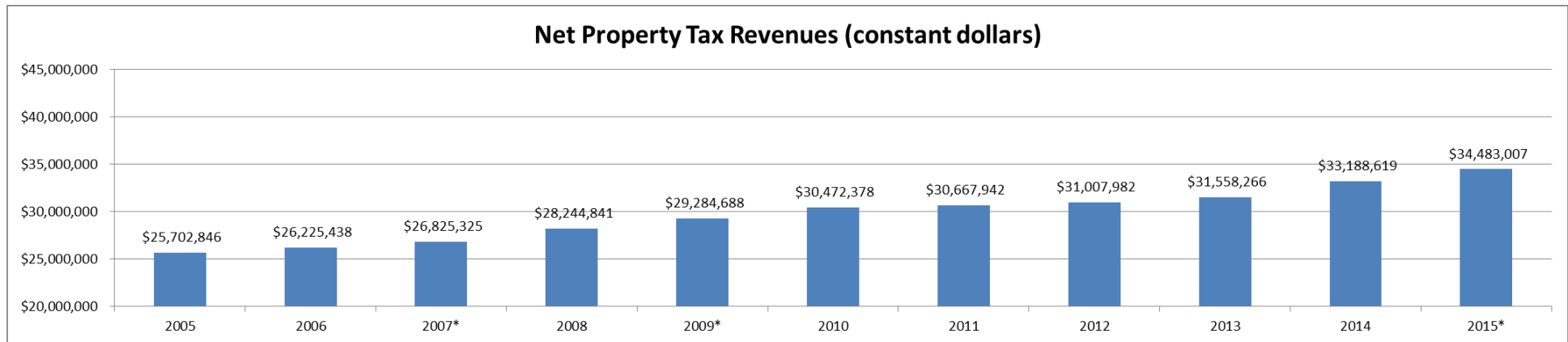
\*\* Source: Audited Financial Statements, General Fund, Budget Comparison Schedule

\*\*\* Source: Mass. DOR, Tax Recaps

\*\*\*\* Source: U.S. Dept of Labor - Bureau of Labor Statistics (Boston-Brockton-Nashua region), 6 months of calendar year 2014 used for FY2015



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 FY2005 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.

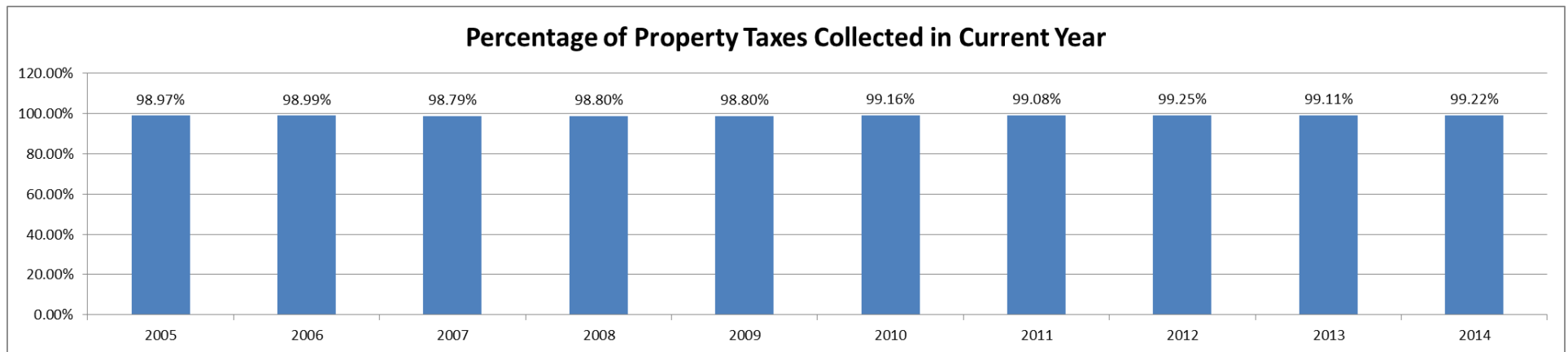
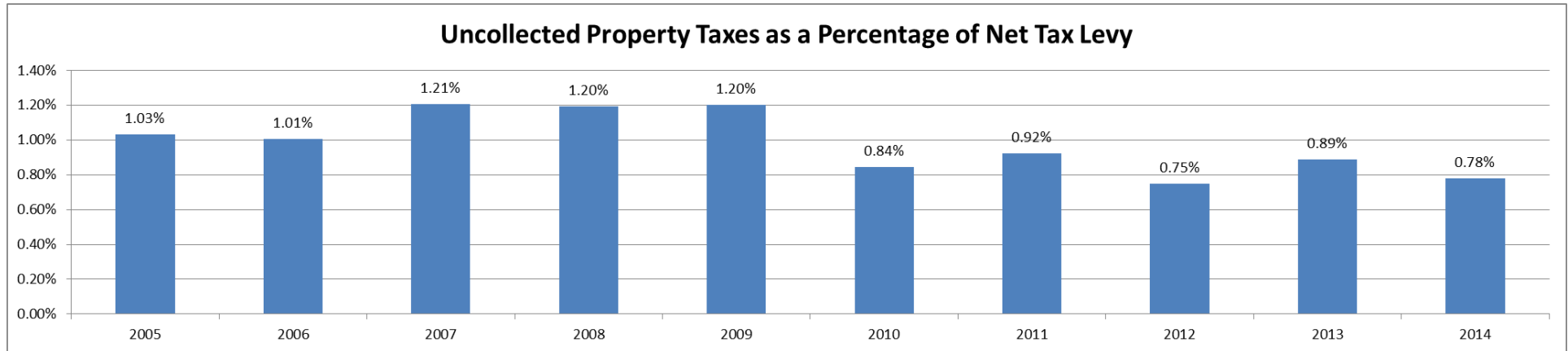
Fiscal Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Property Tax Levy *	\$ 27,576,561	\$ 28,700,649	\$ 30,739,726	\$ 32,600,217	\$ 34,239,613	\$ 35,640,190	\$ 36,695,635	\$ 38,402,738	\$ 40,143,508	\$ 41,333,959
Less Reserve for Abatements & Exemptions *	\$ (243,951)	\$ (210,981)	\$ (262,428)	\$ (249,386)	\$ (215,351)	\$ (284,717)	\$ (342,209)	\$ (351,739)	\$ (679,291)	\$ (530,787)
Net Property Tax Levy	\$ 27,332,610	\$ 28,489,668	\$ 30,477,298	\$ 32,350,830	\$ 34,024,262	\$ 35,355,473	\$ 36,353,426	\$ 38,050,999	\$ 39,464,217	\$ 40,803,172
Uncollected Taxes as of June 30 **	\$ 281,921	\$ 286,399	\$ 367,275	\$ 386,596	\$ 408,354	\$ 298,580	\$ 336,037	\$ 284,981	\$ 351,243	\$ 318,536
Uncollected taxes as a Percentage of Net Property Tax Levy	1.03%	1.01%	1.21%	1.20%	1.20%	0.84%	0.92%	0.75%	0.89%	0.78%
Percentage Collected in Current Year ***	98.97%	98.99%	98.79%	98.80%	98.80%	99.16%	99.08%	99.25%	99.11%	99.22%

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 abateements 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**

X	Favorable
	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 FY2005 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 Fund<sup>1</sup>. 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.

<sup>1</sup> 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	2005	2006	2007*	2008	2009*	2010	2011	2012	2013	2014
Expenditures (Net of Capital Transfers)**	\$ 36,360,145	\$ 37,623,327	\$ 40,358,092	\$ 42,106,943	\$ 43,394,613	\$ 44,296,562	\$ 44,332,468	\$ 45,832,802	\$ 47,661,629	\$ 48,704,150
Revenues **	\$ 35,791,676	\$ 37,583,206	\$ 39,476,229	\$ 42,390,894	\$ 43,343,178	\$ 45,230,381	\$ 45,181,626	\$ 47,132,299	\$ 48,704,343	\$ 51,912,939
One Time Revenues Budgeted **	\$ 1,500,000	\$ 1,100,000	\$ 1,100,000	\$ 1,040,000	\$ 473,250	\$ 800,000	\$ 661,703	\$ 791,479	\$ 650,000	\$ 650,000
CPI-U, 2005 Base Year ***	212.1	220.5	225.1	231.6	234.2	236.7	240.0	245.8	249.6	253.3
CPI-U adjustment for constant dollars	100.0%	96.2%	94.2%	91.6%	90.6%	89.6%	88.4%	86.3%	85.0%	83.7%
Expenditures (constant dollars)	\$ 36,360,145	\$ 36,198,266	\$ 38,034,931	\$ 38,565,999	\$ 39,307,789	\$ 39,689,761	\$ 39,181,267	\$ 39,550,259	\$ 40,496,709	\$ 40,788,072
Revenues (constant dollars)	\$ 35,791,676	\$ 36,159,664	\$ 37,203,831	\$ 38,826,071	\$ 39,261,198	\$ 40,526,464	\$ 39,931,758	\$ 40,671,627	\$ 41,382,673	\$ 43,475,324
Population ****	14,505	14,726	14,685	14,550	14,575	14,498	14,632	14,798	14,643	14,754
Expenditures per capita (nominal dollars)	\$ 2,507	\$ 2,555	\$ 2,748	\$ 2,894	\$ 2,977	\$ 3,055	\$ 3,030	\$ 3,097	\$ 3,255	\$ 3,301
Revenues per capita (nominal dollars)	\$ 2,468	\$ 2,552	\$ 2,688	\$ 2,913	\$ 2,974	\$ 3,120	\$ 3,088	\$ 3,185	\$ 3,326	\$ 3,519
Expenditures per capita (constant dollars)	\$ 2,507	\$ 2,458	\$ 2,590	\$ 2,651	\$ 2,697	\$ 2,738	\$ 2,678	\$ 2,673	\$ 2,766	\$ 2,765
Revenues per capita (constant dollars)	\$ 2,468	\$ 2,455	\$ 2,533	\$ 2,668	\$ 2,694	\$ 2,795	\$ 2,729	\$ 2,748	\$ 2,826	\$ 2,947

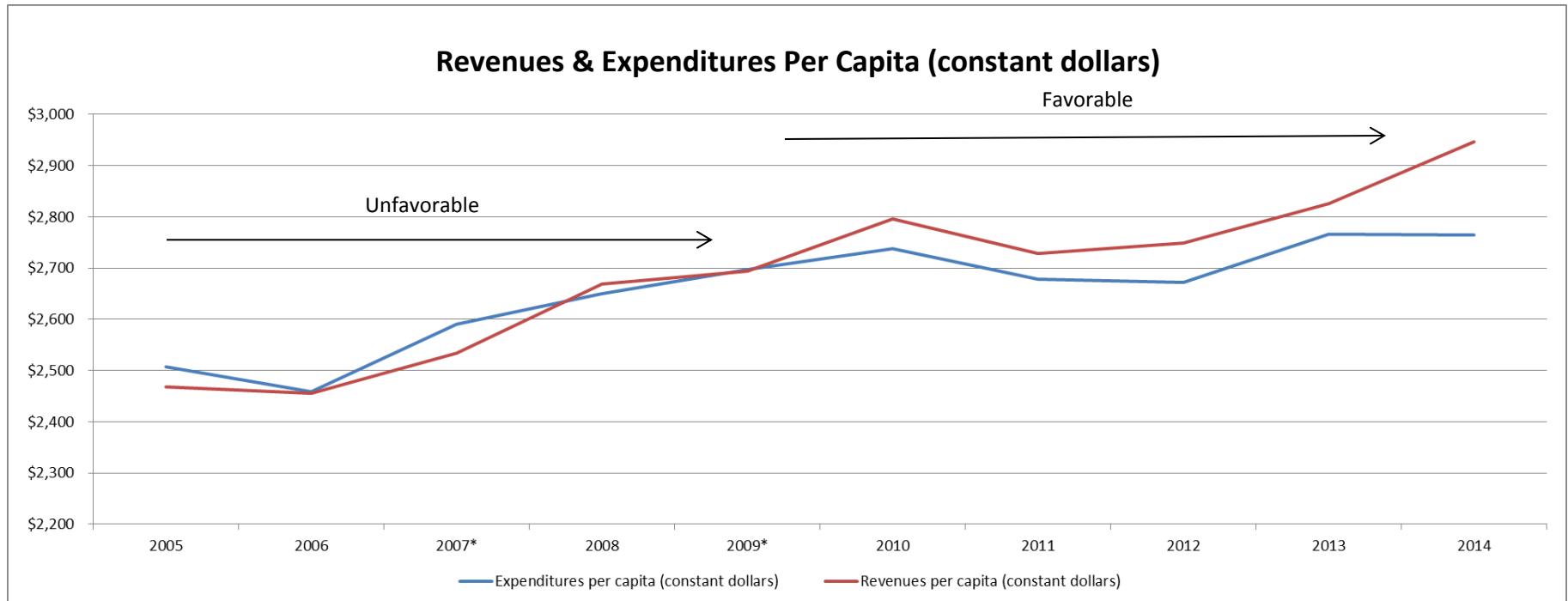
Notes:

\*Proposition 2 1/2 Overrides were approved in 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 & \$615,000 in FY2013 following Town's Free Cash Policy

\*\*\* Source: U.S. Dept of Labor - Bureau of Labor Statistics (Boston-Brockton-Nashua region)

\*\*\*\*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:** Volatility of 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 Massachusetts<sup>2</sup>. 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. Northborough's State Aid has yet to be restored to the peak levels reached in FY2008, 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.

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

Fiscal Year*	2005	2006	2007	2008	2009*	2010	2011	2012	2013	2014	2015
Operating Revenues**	\$ 35,791,676	\$ 37,583,206	\$ 39,476,229	\$ 42,390,894	\$ 43,343,178	\$ 45,230,381	\$ 45,181,626	\$ 47,132,299	\$ 48,704,343	\$ 51,912,939	\$ 51,827,038
State Aid Revenues***	\$ 4,408,500	\$ 4,597,277	\$ 5,090,155	\$ 5,464,855	\$ 5,201,804	\$ 5,213,984	\$ 4,945,569	\$ 4,873,203	\$ 5,134,652	\$ 5,211,800	\$ 5,310,983
Less School Building Reimbursement	\$ (675,720)	\$ (679,053)	\$ (650,933)	\$ (650,933)	\$ (615,942)	\$ (615,941)	\$ (382,543)	\$ (382,543)	\$ (382,543)	\$ (382,543)	\$ (382,543)
Net State Aid Revenues	\$ 3,732,780	\$ 3,918,224	\$ 4,439,222	\$ 4,813,922	\$ 4,585,862	\$ 4,598,043	\$ 4,563,026	\$ 4,490,660	\$ 4,752,109	\$ 4,829,257	\$ 4,928,440
CPI-U, 2005 Base Year ****	212.1	220.5	225.1	231.6	234.2	236.7	240.0	245.8	249.6	253.3	254.6
CPI-U adjustment for constant dollars	100.0%	96.2%	94.2%	91.6%	90.6%	89.6%	88.4%	86.3%	85.0%	83.7%	83.3%
Operating Revenues (constant dollars)	\$ 35,791,676	\$ 36,159,664	\$ 37,203,831	\$ 38,826,071	\$ 39,261,198	\$ 40,526,464	\$ 39,931,758	\$ 40,671,627	\$ 41,382,673	\$ 43,475,324	\$ 43,172,406
Net State Aid Revenue (constant dollars)	\$ 3,732,780	\$ 3,769,813	\$ 4,183,684	\$ 4,409,100	\$ 4,153,974	\$ 4,119,851	\$ 4,032,826	\$ 3,875,102	\$ 4,037,730	\$ 4,044,339	\$ 4,105,436
State Aid as a % of Operating Revenues (constant dollars)	10.4%	10.4%	11.2%	11.4%	10.6%	10.2%	10.1%	9.5%	9.8%	9.3%	9.5%

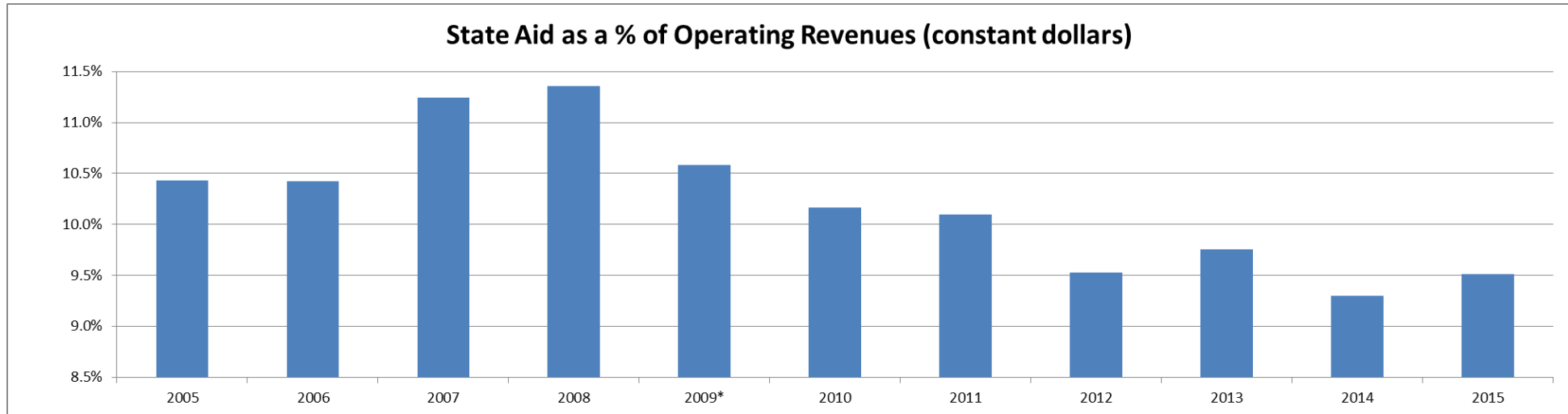
Notes:

\* FY2009 reflects a \$352,035 cut in CH70 Education Aid which was replaced by a Federal ARRA grant (outside of general fund); FY2015 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)

\*\*\*\* Source: U.S. Dept of Labor - Bureau of Labor Statistics (Boston-Brockton-Nashua region), 6 months of calendar year 2014 used for FY2015



\*Note: FY2015 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**

	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 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	2005	2006	2007*	2008	2009*	2010	2011	2012	2013	2014*
Revenues **	\$ 35,791,676	\$ 37,583,206	\$ 39,476,229	\$ 42,390,894	\$ 43,343,178	\$ 45,230,381	\$ 45,181,626	\$ 47,132,299	\$ 48,704,343	\$ 51,912,939
Less Debt Exclusions ***	\$ (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)	\$ (1,636,032)
Net Revenues (nominal dollars)	\$ 33,995,630	\$ 36,006,625	\$ 37,539,833	\$ 40,507,967	\$ 41,402,300	\$ 43,474,268	\$ 43,325,742	\$ 44,730,532	\$ 46,264,762	\$ 50,276,907
Building Related Fees & Permits ****	\$ 400,348	\$ 493,049	\$ 260,864	\$ 411,490	\$ 215,027	\$ 749,803	\$ 405,896	\$ 388,874	\$ 297,249	\$ 349,709
Motor Vehicle Excise ***	\$ 1,936,356	\$ 1,933,222	\$ 1,858,223	\$ 2,011,037	\$ 1,887,442	\$ 1,799,335	\$ 2,019,845	\$ 2,040,212	\$ 2,080,090	\$ 2,401,053
Other Excise ****	\$ 69,893	\$ 67,965	\$ 64,208	\$ 78,852	\$ 65,676	\$ 42,643	\$ 57,196	\$ 92,342	\$ 69,372	\$ 314,356
Levy Growth (New Growth) ***	\$ 687,840	\$ 670,495	\$ 711,720	\$ 673,617	\$ 676,247	\$ 720,133	\$ 975,576	\$ 1,229,983	\$ 1,439,307	\$ 826,728
Total Economic Growth Revenues	\$ 3,094,437	\$ 3,164,731	\$ 2,895,015	\$ 3,174,995	\$ 2,844,392	\$ 3,311,913	\$ 3,458,513	\$ 3,751,411	\$ 3,886,019	\$ 3,891,846
Economic Growth Revenues as a % of Operating Revenues	9.1%	8.8%	7.7%	7.8%	6.9%	7.6%	8.0%	8.4%	8.4%	7.7%

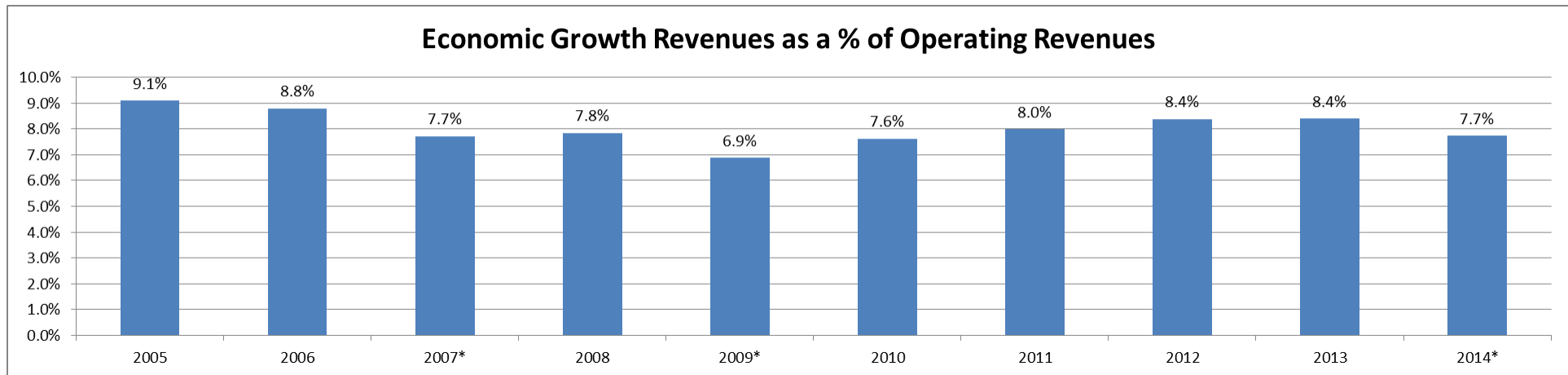
Notes:

\*Proposition 2 1/2 Overrides were approved in FY2007 (\$362,734), & FY2009 (\$316,047); Meals Tax Surcharge (.75%) added & Hotel/Motel excise increased (from 4-6%) in FY2014 (10 Months)

\*\* 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 4.1% or \$1.5 Million in FY2005 to 1.2% or \$650,000 in FY2015, where it will remain stable in accordance with the Free Cash Policy. Free Cash was used to fund \$3.6 million in pay as you go capital investment in FY2012 through FY2015.

Fiscal Year	2005	2006	2007*	2008	2009*	2010	2011	2012	2013	2014	2015*
Expenditure Budget **	\$ 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	\$ 49,997,242	\$ 52,477,038
Revenues Budgeted **	\$ 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	\$ 49,347,242	\$ 51,827,038
One Time Revenues Budgeted **	\$ 1,500,000	\$ 1,100,000	\$ 1,100,000	\$ 1,040,000	\$ 473,250	\$ 800,000	\$ 661,703	\$ 1,595,479	\$ 1,265,000	\$ 1,959,307	\$ 1,543,500
Free Cash Used for Operating Budget ***	\$ 1,500,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 470,000	\$ 700,000	\$ 600,000	\$ 750,000	\$ 650,000	\$ 650,000	\$ 650,000
Free Cash Used for Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 804,000	\$ 615,000	\$ 1,309,307	\$ 893,500
Other One Time Revenues Used for Operating Budget ****	\$ -	\$ 100,000	\$ 100,000	\$ 40,000	\$ 3,250	\$ 100,000	\$ 61,703	\$ 41,479	\$ -	\$ -	\$ -
Percentage Free Cash Used for Operating Budget	4.1%	2.6%	2.4%	2.3%	1.1%	1.6%	1.3%	1.6%	1.4%	1.3%	1.2%
Percentage Free Cash Used for Capital	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.7%	1.3%	2.6%	1.7%
Percentage Other Reserves used for Operating Budget	0.0%	0.3%	0.2%	0.1%	0.0%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%
Total Percentage of One Time Revenue used for Operating Budget	4.1%	2.9%	2.7%	2.4%	1.1%	1.8%	1.5%	1.7%	1.4%	1.3%	1.2%
Total Percentage of One time Revenue Used	4.1%	2.9%	2.7%	2.4%	1.1%	1.8%	1.5%	3.4%	2.6%	3.9%	2.9%

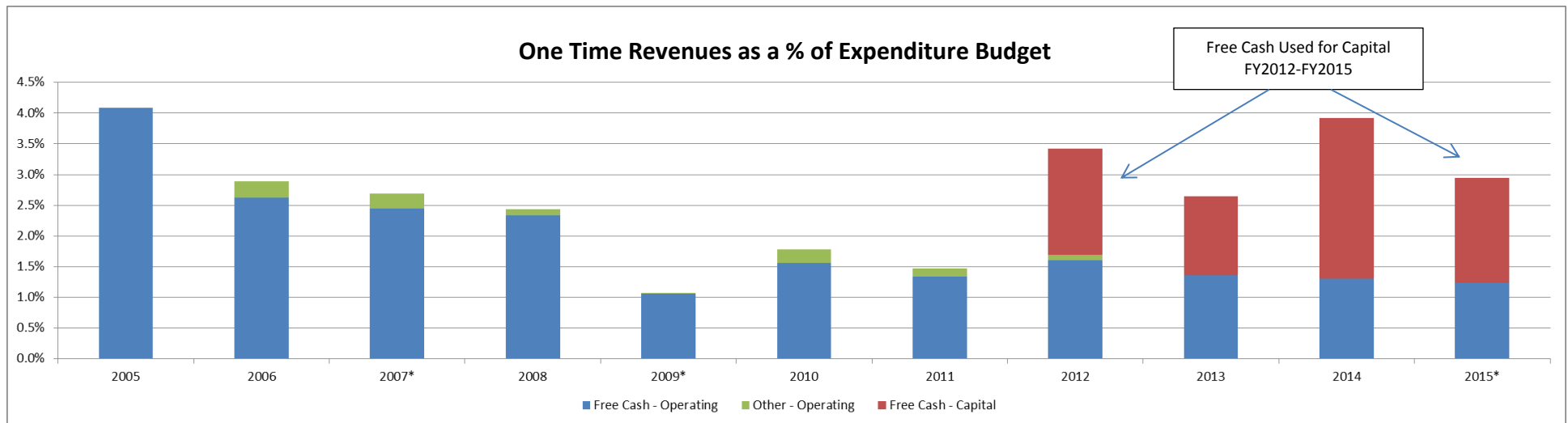
Notes:

\*Proposition 2 1/2 Overrides were approved in FY2007 (\$362,734) & FY2009 (\$316,047); Fiscal Year 2015 Source: Mass. DOR Tax Recap

\*\* Source: Audited Financial Statements, General Fund, Budget Comparison Schedule, adjustment made to exclude transfers to capital project funds: \$804,000 in FY2012, \$615,000 in FY2013, \$1,309,307 in FY2014, & \$893,500 in FY2015 (transferred during FY2014) following Town's Free Cash Policy; the amounts do include transfers for Solid Waste Enterprise subsidy \$301,447 in FY2011, \$247,570 in FY2012, \$247,570 in FY2013, \$239,099 in FY2014, & 217,160 in FY2015

\*\*\* In FY2012 - FY2014 \$500,000 for operating budget & \$150,000 for Reserve Fund; For FY2012 \$100,000 supplemental appropriation made from Free Cash for Emergency Expenses

\*\*\*\* 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/Stable
	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 though 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 3.0% from FY2007 to FY2014. The largest increase was in salaries and wages with an increase of 2.4%, employee benefits accounted for only 0.4% and increases in the amount of the annual retirement assessment were 0.2% 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.

FY2016 is the last year of the previously negotiated collective bargaining agreements for Police Patrol Officers, Police Sergeants, Dispatchers, Fire and the Northborough Municipal Employees Association. A significant amount of time in FY2016 will be devoted to negotiating fair and sustainable increases for personnel during the contract period of FY2017 through FY2019.

Fiscal Year	2007*	2008	2009*	2010	2011	2012	2013	2014
Expenditures (Net of Capital Transfers)**	\$ 40,358,092	\$ 42,106,943	\$ 43,394,613	\$ 44,296,562	\$ 44,332,468	\$ 45,832,802	\$ 47,661,629	\$ 48,704,150
Municipal & K-8 School Department Wages ***	\$ 18,336,853	\$ 19,021,305	\$ 19,919,684	\$ 20,101,625	\$ 21,007,614	\$ 21,670,351	\$ 22,885,953	\$ 23,714,419
Employee Benefits ****	\$ 3,756,553	\$ 4,077,623	\$ 4,516,875	\$ 4,606,672	\$ 4,600,048	\$ 4,381,576	\$ 4,537,088	\$ 4,643,198
Retirement Assessment ****	\$ 732,717	\$ 773,438	\$ 892,411	\$ 974,865	\$ 1,006,365	\$ 1,118,191	\$ 1,210,083	\$ 1,241,407
Total Wage & Benefit Costs	\$ 22,826,123	\$ 23,872,366	\$ 25,328,970	\$ 25,683,162	\$ 26,614,027	\$ 27,170,118	\$ 28,633,124	\$ 29,599,024
Salaries & Wages as a percentage of Operating Expenditures	45.4%	45.2%	45.9%	45.4%	47.4%	47.3%	48.0%	48.7%
Benefits as a percentage of Operating Expenditures	9.3%	9.7%	10.4%	10.4%	10.4%	9.6%	9.5%	9.5%
Retirement Assessments as a percentage of Operating Expenditures	1.8%	1.8%	2.1%	2.2%	2.3%	2.4%	2.5%	2.5%
Total Wage & Benefit Costs as a percentage of Operating Expenditures	56.6%	56.7%	58.4%	58.0%	60.0%	59.3%	60.1%	60.8%

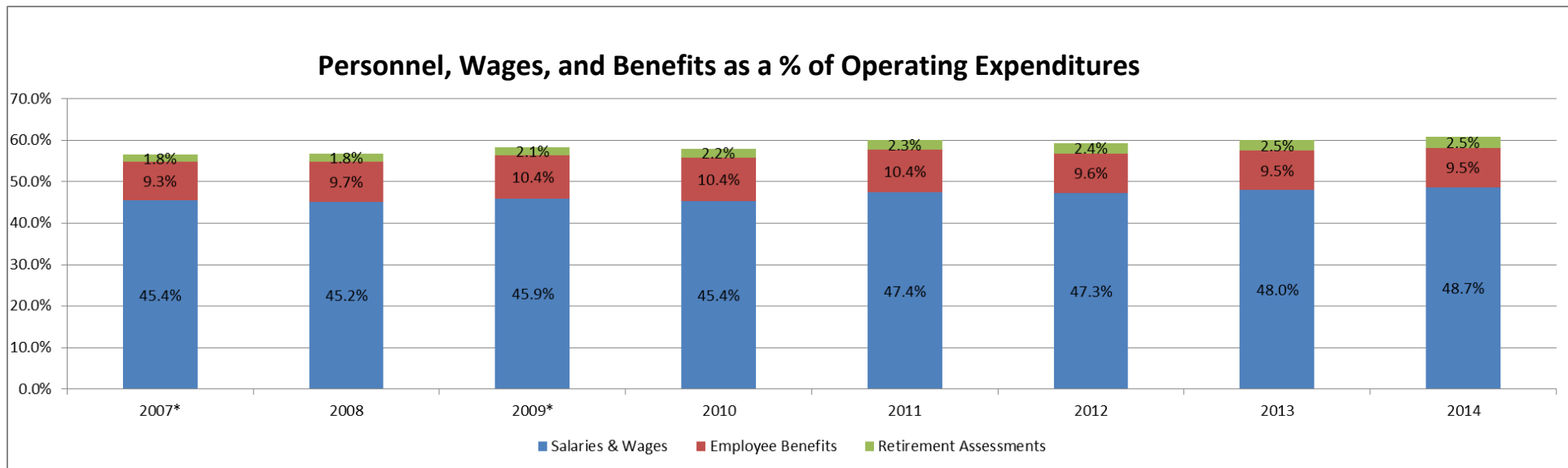
Notes:

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

\*\* Source: Audited Financial Statements, General Fund, Budget Comparison Schedule (less Retirement), adjustment made to exclude transfers to capital project funds (FY2012-FY2014)

\*\*\* 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), General Fund Retirement Assessment taken from detail



## Indicator 8: Employee Benefits

**Formula:**  
$$\frac{\text{Employee Benefits}}{\text{Wages \& Salaries}}$$

### 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 FY2014. However, the retirement assessment has consistently increased, rising from 4.0% in FY2007 to 5.2% in FY2014. 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 decreased to 19.6% of wages and salaries in FY2014. 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 FY2015 health insurance budget of \$4.8 million represents a total increase of just \$47,514, or 1%, from the amount budgeted in FY2014. 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 FY2015. 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 FY2015 premium increases, there are no immediate plans to further modify health insurance plans during FY2016.

Fiscal Year	2007*	2008	2009*	2010	2011	2012	2013	2014
Municipal & K-8 School Department Wages **	\$ 18,336,853	\$ 19,021,305	\$ 19,919,684	\$ 20,101,625	\$ 21,007,614	\$ 21,670,351	\$ 22,885,953	\$ 23,714,419
Employee Benefits ***	\$ 3,756,553	\$ 4,077,623	\$ 4,516,875	\$ 4,606,672	\$ 4,600,048	\$ 4,381,576	\$ 4,537,088	\$ 4,643,198
Retirement Assessment ****	\$ 732,717	\$ 773,438	\$ 892,411	\$ 974,865	\$ 1,006,365	\$ 1,118,191	\$ 1,210,083	\$ 1,241,407
Total Benefit Costs	\$ 4,489,270	\$ 4,851,061	\$ 5,409,286	\$ 5,581,537	\$ 5,606,413	\$ 5,499,767	\$ 5,747,171	\$ 5,884,605
Benefits as a percentage of Wages & Salaries	20.5%	21.4%	22.7%	22.9%	21.9%	20.2%	19.8%	19.6%
Retirement as a percentage of Wages & Salaries	4.0%	4.1%	4.5%	4.8%	4.8%	5.2%	5.3%	5.2%
Total Benefits Spending as percentage of Wages & Salaries	24.5%	25.5%	27.2%	27.8%	26.7%	25.4%	25.1%	24.8%

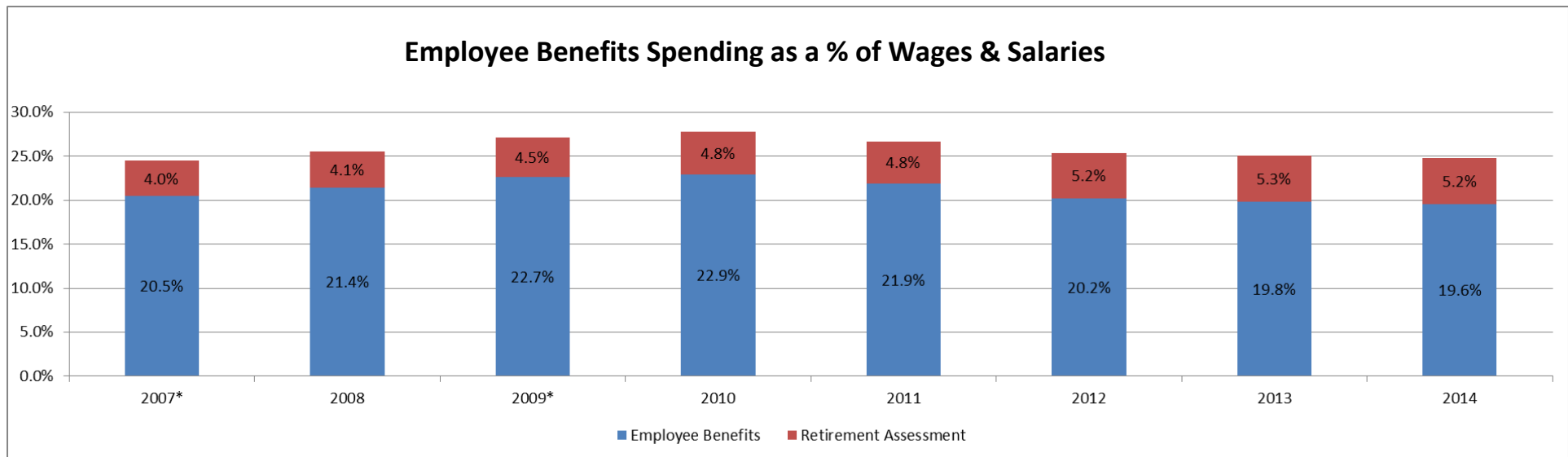
Notes:

\*Proposition 2 1/2 Overrides were approved in 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, 2014, there were 367 Northborough participants with 212 active, 55 inactive and 100 retired members.

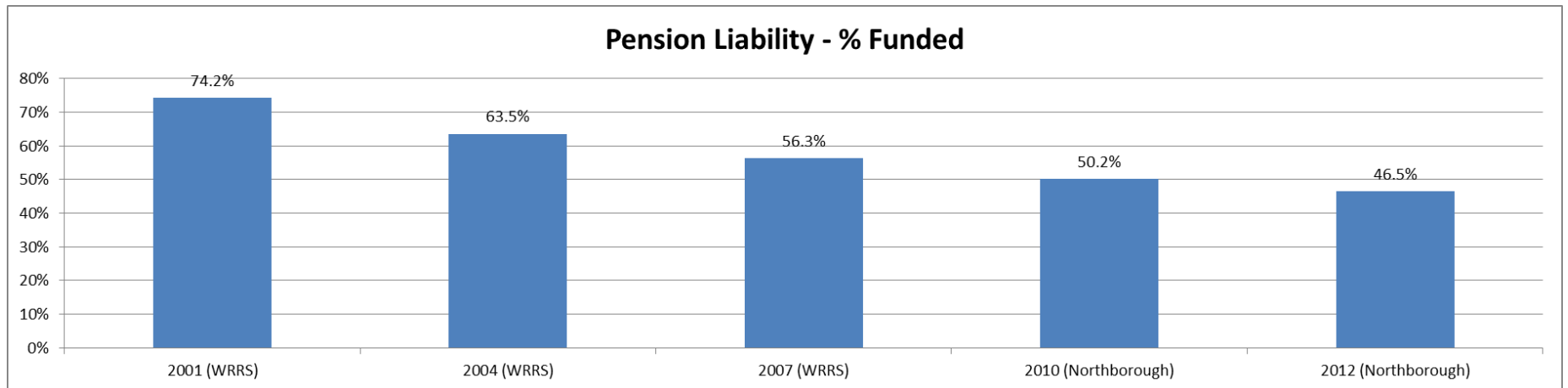
The assets of the Worcester Regional Retirement System were transferred to the Massachusetts Pension Reserve Investment Trust (PRIT) Fund in July 2007. The \$57.9 Billion PRIT Fund manages the pension investments for the Massachusetts State Employees, the Teachers Retirement System as well as several local retirement systems. 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 introduced benefit changes intended to reduce the Town's future pension liability. In accordance with MGL, Chapter 32, Section 22F, the retirement system is required to be fully funded by the year 2040; however, the Worcester Regional Retirement System has implemented a more ambitious funding schedule and plans to be fully funded in 2035, well in advance of the mandatory deadline.

Northborough's unfunded pension liability remains an area of concern. The system is funded through both investment performance and assessments to member communities. 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 plan for 2035 and the mandate of 2040, annual assessments to member communities may increase.

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/Improving
	Uncertain

**Warning Trend:** 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. Legislation, which is expected to contain many of the Commission's recommendations, has been debated and may be filed once again in the near future.

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 Unfunded Actuarial Accrued Liability (UAAL) for Other Post-Employment Benefits (OPEB) for retiree medical benefits was immediately reduced from \$90.4 million to \$34.3 million. Upon the first revaluation the liability was further reduced to an estimated \$28.1 million, however without committing funds to an irrevocable trust fund the UAAL has grown to \$32.6 million upon the most recent valuation.

The Town created an OPEB Trust Fund at the April 2011 Annual Town Meeting for setting aside future OPEB funds to reduce this liability and then appropriated an initial \$500,000 in FY2015. The OPEB funds have been invested with the Pension Reserves Investment Trust (PRIT) Fund. The PRIT Fund is a pooled investment trust fund established to invest the assets of the Massachusetts Teachers and Employees Retirement Systems as well as the assets of various County, Authority, District and Municipal Retirement Systems throughout the Commonwealth. The PRIT Fund is professionally managed by the Pension Reserves Investment Management Board.

While the Town is waiting to assess the outcome of possible changes at the State level described above, the Town is currently working with an actuary to develop future funding plan options for the Town. Discussion on how best to address OPEB liabilities will become a key issue during upcoming budget cycles.

<b>Actuarial Valuation Date</b>	<b>7/1/2008 Original</b>	<b>7/1/2008 Revised</b>	<b>7/1/2009 Estimated</b>	<b>7/1/2010</b>	<b>7/1/2011 Estimated</b>	<b>7/1/2012</b>	<b>7/1/2013 Estimated</b>
<b>Unfunded Actuarial Accrued Liability</b>	<b>\$90,444,000</b>	<b>\$34,289,000</b>	<b>\$36,023,000</b>	<b>\$28,072,976</b>	<b>\$29,623,142</b>	<b>\$32,638,652</b>	<b>\$35,252,772</b>
<b>Actuarial Value of Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Funded Ratio</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

Source: Town Actuarial Valuation Studies  
Original study conducted effective July 1, 2008 (FY2009), and revaluations conducted for July 1, 2010 and July 1, 2012  
Per GASB 45 full valuations must be done no less frequently than every two years.

## 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 FY2004, our levels of debt service are well within this range with the exception of FY2004 which 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.

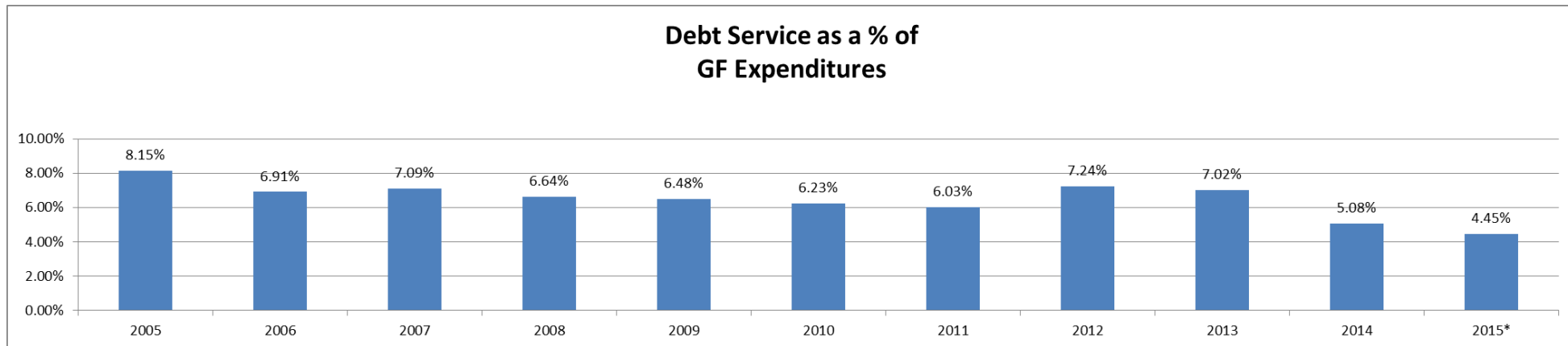
Overall, the Town's level of debt service is within the 5% to 10% suggested by the debt policy and represents an appropriate level of capital investment in infrastructure. The credit rating agency, Moody's Investors Service indicated in a recent review that the Town's "overall debt burden will remain manageable" and noted that the principal amortization of 71.4% within 10 years was favorable. Debt service as a percentage of the budget decreased from 7.02% in FY2013 to 4.45% in FY2015 due to the \$10 Million ARHS Building project bond being fully satisfied in FY2013. However, the percentage will likely increase again in the coming years as the \$14.85 Million debt for the Lincoln Street School building project is scheduled to be issued in calendar year 2015.

Fiscal Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*
Debt Service**	\$ 1,806,232	\$ 1,640,033	\$ 1,509,743	\$ 1,561,156	\$ 1,790,064	\$ 2,265,276	\$ 1,923,505	\$ 2,489,898	\$ 2,481,623	\$ 2,307,032	\$ 2,051,341
Less School Building Reimbursement	\$ (392,632)	\$ (392,632)	\$ (392,632)	\$ (409,777)	\$ (382,543)	\$ (382,543)	\$ (382,543)	\$ (382,543)	\$ (382,543)	\$ (382,543)	\$ (382,543)
Net Debt Service	\$ 1,413,600	\$ 1,247,401	\$ 1,117,111	\$ 1,151,379	\$ 1,407,521	\$ 1,882,733	\$ 1,540,962	\$ 2,107,355	\$ 2,099,080	\$ 1,924,489	\$ 1,668,798
Overlapping Debt - Assabet Debt Assessment										\$ 1,044	\$ 11,473
Overlapping Debt - ARHS Debt Assessment	\$ 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	\$ 659,761	\$ 657,234
Total Debt Service	\$ 2,962,856	\$ 2,600,335	\$ 2,862,261	\$ 2,797,159	\$ 2,811,896	\$ 2,758,604	\$ 2,672,389	\$ 3,374,984	\$ 3,388,174	\$ 2,585,294	\$ 2,337,505
General Fund Expenditures	\$ 36,360,145	\$ 37,623,327	\$ 40,358,092	\$ 42,106,943	\$ 43,394,613	\$ 44,296,562	\$ 44,332,468	\$ 46,636,802	\$ 48,276,629	\$ 50,906,957	\$ 52,477,038
Net Debt Service as % of GF Expenditures	3.89%	3.32%	2.77%	2.73%	3.24%	4.25%	3.48%	4.52%	4.35%	3.78%	3.18%
Overlapping Debt - ARHS as % of GF Expenditures	4.26%	3.60%	4.32%	3.91%	3.24%	1.98%	2.55%	2.72%	2.67%	1.30%	1.25%
Total Debt Service as a % of GF Expenditures	8.15%	6.91%	7.09%	6.64%	6.48%	6.23%	6.03%	7.24%	7.02%	5.08%	4.45%

Notes:

\* FY2015 as Budgeted

\*\* Source: Audited Financial Statements, General Fund, Budget Comparison Schedule, as budgeted (adjusted for principal paid down)



## 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:

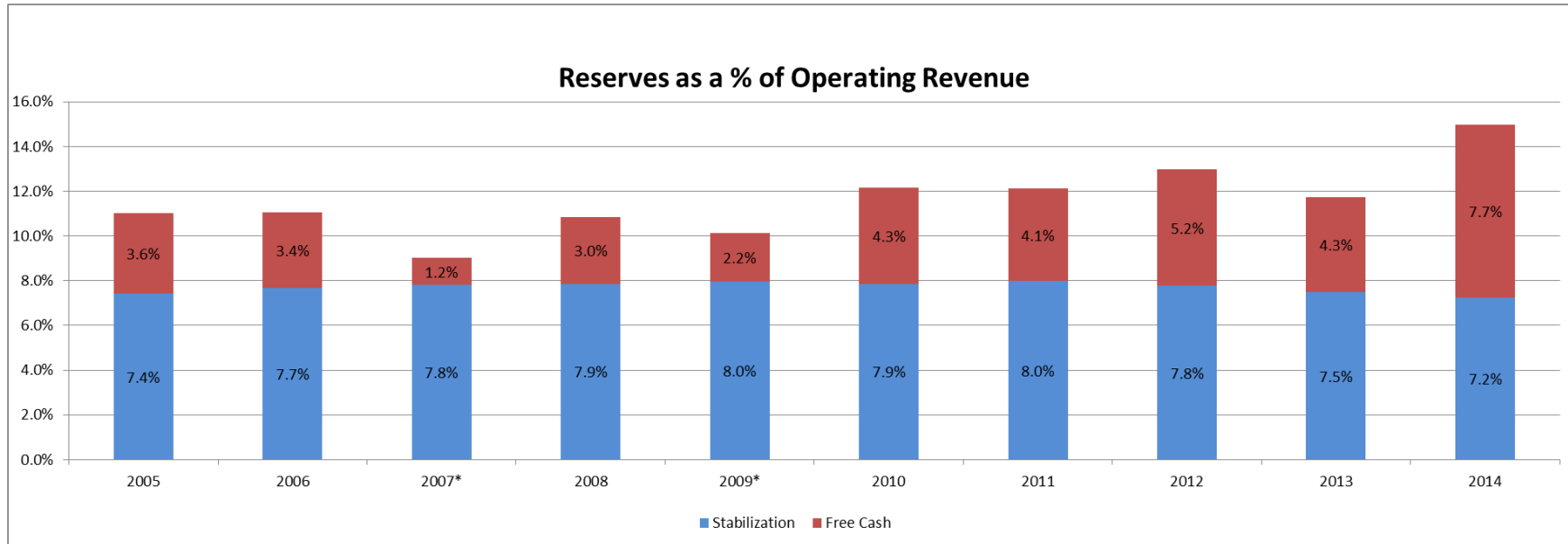
The size of a local government's fund balance can affect its ability to withstand financial emergencies. It can also affect its ability to accumulate funds for capital purchases without having to borrow. Municipalities usually try to operate each year at a surplus to maintain positive fund balance and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

### Analysis:

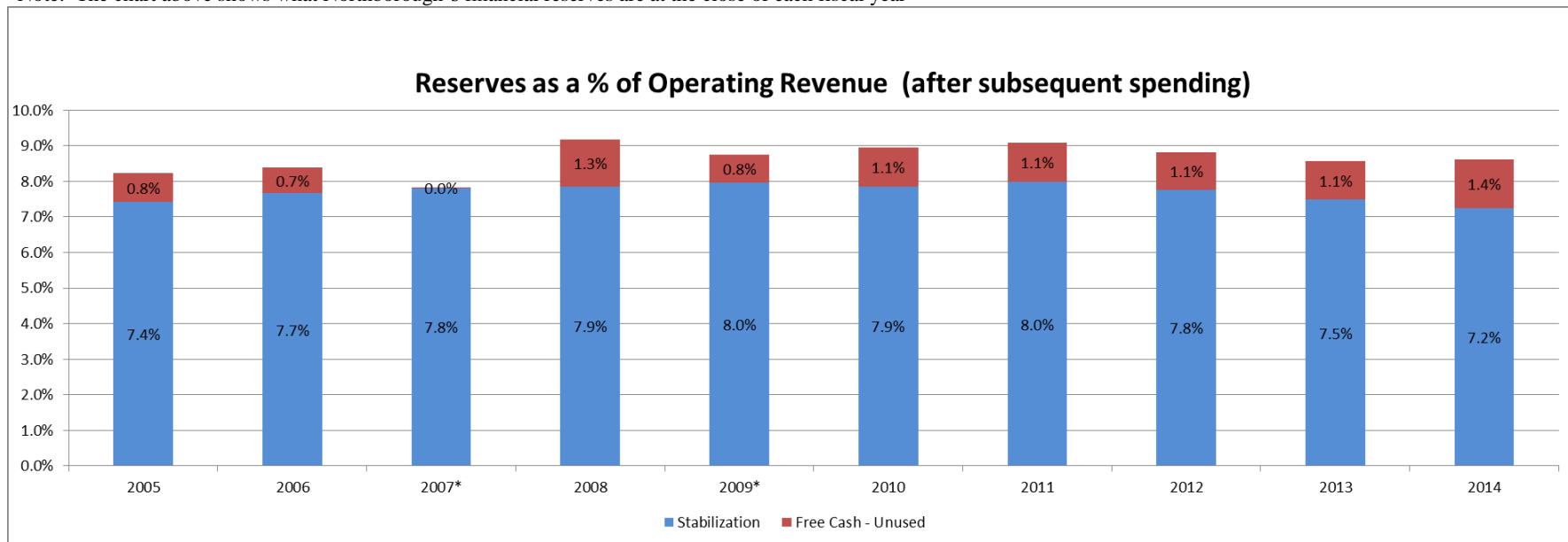
The Government Finance Officers Association (GFOA) recommends the undesignated fund balance should be between 5% to 15% of operating revenues. Northborough's financial policy provides for reserves to average between 5% and 10% of the Town's General Fund (Operating Budget) expenditures. The reserves are 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	2005	2006	2007*	2008	2009*	2010	2011	2012	2013	2014
Certified Free Cash **	\$ 1,289,670	\$ 1,273,342	\$ 470,988	\$ 1,265,111	\$ 946,294	\$ 1,954,708	\$ 1,869,209	\$ 2,459,307	\$ 2,074,920	\$ 3,932,028
Stabilization Fund Balance **	\$ 2,654,063	\$ 2,881,521	\$ 3,085,177	\$ 3,329,086	\$ 3,447,529	\$ 3,551,789	\$ 3,605,888	\$ 3,660,077	\$ 3,646,820	\$ 3,686,792
Operating Revenues ***	\$ 35,791,676	\$ 37,583,206	\$ 39,476,229	\$ 42,390,894	\$ 43,343,178	\$ 45,230,381	\$ 45,181,626	\$ 47,132,299	\$ 48,704,343	\$ 50,864,790
Free Cash Percentage of Operating Revenue	3.6%	3.4%	1.2%	3.0%	2.2%	4.3%	4.1%	5.2%	4.3%	7.7%
Stabilization Percentage of Operating Revenue	7.4%	7.7%	7.8%	7.9%	8.0%	7.9%	8.0%	7.8%	7.5%	7.2%
Net Reserves Percentage of Operating Revenue	11.0%	11.1%	9.0%	10.8%	10.1%	12.2%	12.1%	13.0%	11.7%	15.0%
Free Cash Subsequently Used****	\$ 1,000,000	\$ 1,000,000	\$ 470,000	\$ 700,000	\$ 600,000	\$ 1,454,000	\$ 1,365,000	\$ 1,959,307	\$ 1,543,500	\$ 3,232,028
Free Cash Subsequently Used-Operating	\$ 1,000,000	\$ 1,000,000	\$ 470,000	\$ 700,000	\$ 600,000	\$ 650,000	\$ 750,000	\$ 650,000	\$ 650,000	\$ 650,000
Free Cash Subsequently Used-Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 804,000	\$ 615,000	\$ 1,309,307	\$ 893,500	\$ 2,582,028
Free Cash Not Used	\$ 289,670	\$ 273,342	\$ 988	\$ 565,111	\$ 346,294	\$ 500,708	\$ 504,209	\$ 500,000	\$ 531,420	\$ 700,000
Percent Free Cash Subsequently Used	2.8%	2.7%	1.2%	1.7%	1.4%	3.2%	3.0%	4.2%	3.2%	6.4%
Percent Free Cash Not Used	0.8%	0.7%	0.0%	1.3%	0.8%	1.1%	1.1%	1.1%	1.1%	1.4%
Percent of Reserves after subs spending	8.2%	8.4%	7.8%	9.2%	8.8%	9.0%	9.1%	8.8%	8.6%	8.6%

Notes: \*Proposition 2 1/2 Overrides were approved in 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. 2004 Free Cash voted for use by April, 2005 ATM toward FY2006 budget; Figures shown for FY2014 are projected FY2016 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.

## Indicator 13: Capital Investment – Overall Fixed Assets

**Formula:**

Fixed Asset Values  
Consumer Price Index

**Northborough Trend**

X	Favorable
	Marginal
	Unfavorable
	Uncertain

**Warning Trend:** Declining values

**Description:**

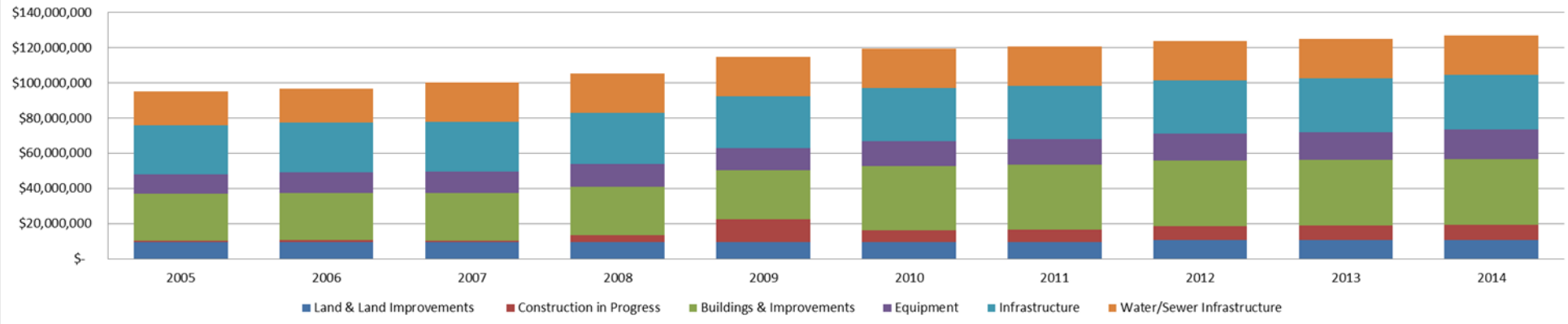
The majority of the Town's Assets shown on its balance sheet are its fixed assets. These are sometimes referred to as "physical assets" or the "capital plant." The assets consist of town-owned land, buildings, equipment and its entire infrastructure, which includes roads, sidewalks, catch basins, water/sewer mains, etc. For the financial statements most gross values are then "depreciated" over the useful life of the asset, meaning that the expense for purchasing the asset is recorded incrementally over its useful life rather than solely in the year it was acquired, while the value of the asset is lessened over time.

Local governments will frequently defer investment in capital assets, in order to devote resources to operating expenses in the face of scarce resources. When maintenance is deferred, it can lead to increased costs for replacement rather than maintenance.

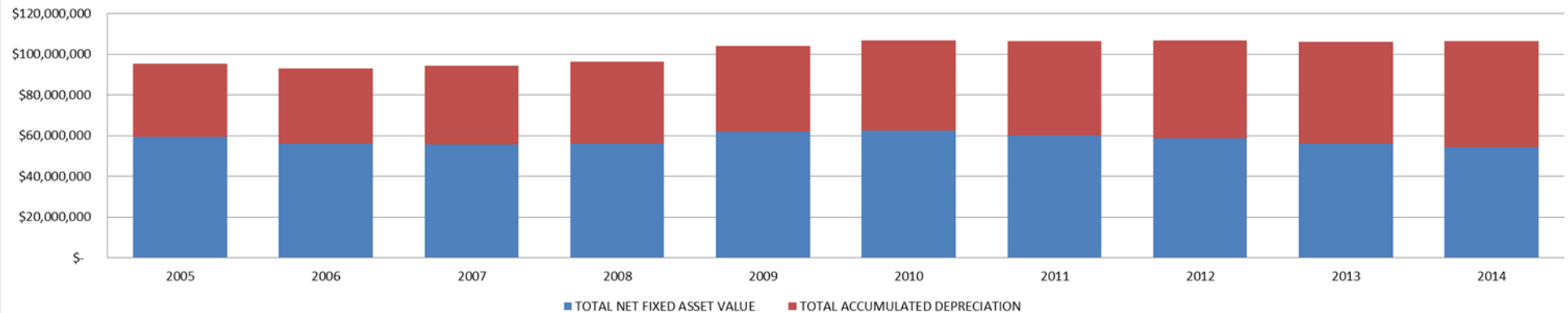
**Analysis:**

The analysis reflects that the Town has continued its effort to maintain its fixed asset values, while adjusting for the effects of inflation and depreciation. The first graph reflects the gross value of the assets, and the underlying categories that make up the Town's assets, while the second graph reflects that the net values of the assets in service remain relatively constant after accounting for depreciation and inflation.

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



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





Fiscal Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Governmental Activities</b>										
Land & Land Improvements	\$ 6,830,009	\$ 6,836,364	\$ 6,836,364	\$ 6,844,803	\$ 6,891,319	\$ 6,891,319	\$ 6,893,175	\$ 8,133,175	\$ 8,133,175	\$ 8,133,175
Construction in Progress	\$ 145,400	\$ 190,550	\$ 558,560	\$ 3,338,904	\$ 11,907,123	\$ 6,357,921	\$ 6,487,688	\$ 7,051,508	\$ 7,414,195	\$ 7,620,105
Buildings & Improvements	\$ 22,982,107	\$ 23,140,311	\$ 23,546,392	\$ 23,616,707	\$ 23,846,205	\$ 31,601,625	\$ 32,028,074	\$ 32,564,954	\$ 32,590,754	\$ 32,597,691
Equipment	\$ 10,059,219	\$ 10,763,787	\$ 10,903,486	\$ 11,673,880	\$ 11,632,195	\$ 12,985,461	\$ 13,247,370	\$ 13,799,152	\$ 14,333,553	\$ 15,463,209
Infrastructure	\$ 27,967,626	\$ 28,029,383	\$ 28,481,765	\$ 28,971,274	\$ 29,432,686	\$ 29,948,314	\$ 30,325,194	\$ 30,373,250	\$ 30,423,281	\$ 30,902,882
Gross Fixed Asset Value	\$ 67,984,361	\$ 68,960,395	\$ 70,326,567	\$ 74,445,568	\$ 83,709,528	\$ 87,784,640	\$ 88,981,501	\$ 91,922,039	\$ 92,894,958	\$ 94,717,062
Less Accumulated Depreciation	\$ (25,746,346)	\$ (27,935,828)	\$ (29,913,832)	\$ (32,280,563)	\$ (34,172,749)	\$ (36,566,516)	\$ (39,313,220)	\$ (42,024,286)	\$ (44,587,392)	\$ (47,180,124)
Net Fixed Asset Value	\$ 42,238,015	\$ 41,024,567	\$ 40,412,735	\$ 42,165,005	\$ 49,536,779	\$ 51,218,124	\$ 49,668,281	\$ 49,897,753	\$ 48,307,566	\$ 47,536,938
<b>Business-Type Activities</b>										
Land & Land Improvements	\$ 2,766,179	\$ 2,766,179	\$ 2,769,498	\$ 2,769,498	\$ 2,769,498	\$ 2,771,038	\$ 2,771,038	\$ 2,771,038	\$ 2,771,038	\$ 2,771,038
Construction in Progress	\$ 747,008	\$ 1,174,697	\$ 261,585	\$ 471,848	\$ 891,343	\$ 390,198	\$ 493,087	\$ 840,138	\$ 840,138	\$ 840,138
Buildings & Improvements	\$ 3,455,724	\$ 3,455,724	\$ 3,455,724	\$ 3,955,724	\$ 3,955,724	\$ 4,703,635	\$ 4,703,635	\$ 4,703,635	\$ 4,703,635	\$ 4,703,635
Equipment	\$ 1,043,800	\$ 1,098,875	\$ 1,216,628	\$ 1,216,628	\$ 1,216,628	\$ 1,261,049	\$ 1,289,093	\$ 1,305,449	\$ 1,393,986	\$ 1,575,046
Infrastructure	\$ 19,309,865	\$ 19,318,665	\$ 22,135,335	\$ 22,321,383	\$ 22,360,279	\$ 22,360,279	\$ 22,360,279	\$ 22,360,279	\$ 22,360,279	\$ 22,360,281
Gross Fixed Asset Value	\$ 27,322,576	\$ 27,814,140	\$ 29,838,770	\$ 30,735,081	\$ 31,193,472	\$ 31,486,199	\$ 31,617,132	\$ 31,980,539	\$ 32,069,076	\$ 32,250,138
Less Accumulated Depreciation	\$ (10,288,946)	\$ (10,766,671)	\$ (11,277,673)	\$ (11,825,067)	\$ (12,352,409)	\$ (12,903,256)	\$ (13,434,041)	\$ (13,919,503)	\$ (14,412,089)	\$ (14,899,201)
Net Fixed Asset Value	\$ 17,033,630	\$ 17,047,469	\$ 18,561,097	\$ 18,910,014	\$ 18,841,063	\$ 18,582,943	\$ 18,183,091	\$ 18,061,036	\$ 17,656,987	\$ 17,350,937
<b>Governmental &amp; Business-Type Activities</b>										
Land & Land Improvements	\$ 9,596,188	\$ 9,602,543	\$ 9,605,862	\$ 9,614,301	\$ 9,660,817	\$ 9,662,357	\$ 9,664,213	\$ 10,904,213	\$ 10,904,213	\$ 10,904,213
Construction in Progress	\$ 892,408	\$ 1,365,247	\$ 820,145	\$ 3,810,752	\$ 12,798,466	\$ 6,748,119	\$ 6,980,775	\$ 7,891,646	\$ 8,254,333	\$ 8,460,243
Buildings & Improvements	\$ 26,437,831	\$ 26,596,035	\$ 27,002,116	\$ 27,572,431	\$ 27,801,929	\$ 36,305,260	\$ 36,731,709	\$ 37,268,589	\$ 37,294,389	\$ 37,301,326
Equipment	\$ 11,103,019	\$ 11,862,662	\$ 12,120,114	\$ 12,890,508	\$ 12,848,823	\$ 14,246,510	\$ 14,536,463	\$ 15,104,601	\$ 15,727,539	\$ 17,038,255
Infrastructure	\$ 27,967,626	\$ 28,029,383	\$ 28,481,765	\$ 28,971,274	\$ 29,432,686	\$ 29,948,314	\$ 30,325,194	\$ 30,373,250	\$ 30,423,281	\$ 30,902,882
Business Type Infrastructure	\$ 19,309,865	\$ 19,318,665	\$ 22,135,335	\$ 22,321,383	\$ 22,360,279	\$ 22,360,279	\$ 22,360,279	\$ 22,360,279	\$ 22,360,279	\$ 22,360,281
Gross Fixed Asset Value	\$ 95,306,937	\$ 96,774,535	\$ 100,165,337	\$ 105,180,649	\$ 114,903,000	\$ 119,270,839	\$ 120,598,633	\$ 123,902,578	\$ 124,964,034	\$ 126,967,200
Less Accumulated Depreciation	\$ (36,035,292)	\$ (38,702,499)	\$ (41,191,505)	\$ (44,105,630)	\$ (46,525,158)	\$ (49,469,772)	\$ (52,747,261)	\$ (55,943,789)	\$ (58,999,481)	\$ (62,079,325)
Net Fixed Asset Value	\$ 59,271,645	\$ 58,072,036	\$ 58,973,832	\$ 61,075,019	\$ 68,377,842	\$ 69,801,067	\$ 67,851,372	\$ 67,958,789	\$ 65,964,553	\$ 64,887,875
TOTAL GROSS FIXED ASSET VALUE	\$ 95,306,937	\$ 96,774,535	\$ 100,165,337	\$ 105,180,649	\$ 114,903,000	\$ 119,270,839	\$ 120,598,633	\$ 123,902,578	\$ 124,964,034	\$ 126,967,200
TOTAL ACCUMULATED DEPRECIATION	\$ (36,035,292)	\$ (38,702,499)	\$ (41,191,505)	\$ (44,105,630)	\$ (46,525,158)	\$ (49,469,772)	\$ (52,747,261)	\$ (55,943,789)	\$ (58,999,481)	\$ (62,079,325)
TOTAL NET FIXED ASSET VALUE	\$ 59,271,645	\$ 58,072,036	\$ 58,973,832	\$ 61,075,019	\$ 68,377,842	\$ 69,801,067	\$ 67,851,372	\$ 67,958,789	\$ 65,964,553	\$ 64,887,875
CPI-U, 2005 Base Year ****	212.1	220.5	225.1	231.6	234.2	236.7	240.0	245.8	249.6	253.3
CPI-U adjustment for constant dollars	100.0%	96.2%	94.2%	91.6%	90.6%	89.6%	88.4%	86.3%	85.0%	83.7%
TOTAL GROSS FIXED ASSET VALUE	\$ 95,306,937	\$ 93,108,999	\$ 94,399,449	\$ 96,335,580	\$ 104,081,649	\$ 106,866,785	\$ 106,585,704	\$ 106,918,601	\$ 106,178,329	\$ 106,330,719
TOTAL ACCUMULATED DEPRECIATION	\$ 36,035,292	\$ 37,236,562	\$ 38,820,369	\$ 40,396,608	\$ 42,143,505	\$ 44,324,963	\$ 46,618,306	\$ 48,275,280	\$ 50,130,154	\$ 51,989,327
TOTAL NET FIXED ASSET VALUE	\$ 59,271,645	\$ 55,872,437	\$ 55,579,080	\$ 55,938,972	\$ 61,938,144	\$ 62,541,822	\$ 59,967,398	\$ 58,643,321	\$ 56,048,175	\$ 54,341,392

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## Indicator 14: Capital Investment - Pavement Management

### Formula:

Average Pavement Condition Index (PCI)

### Northborough Trend

	Favorable
	Marginal
X	Unfavorable
	Uncertain

**Warning Trend:** Declining overall average Pavement Condition Index (PCI)

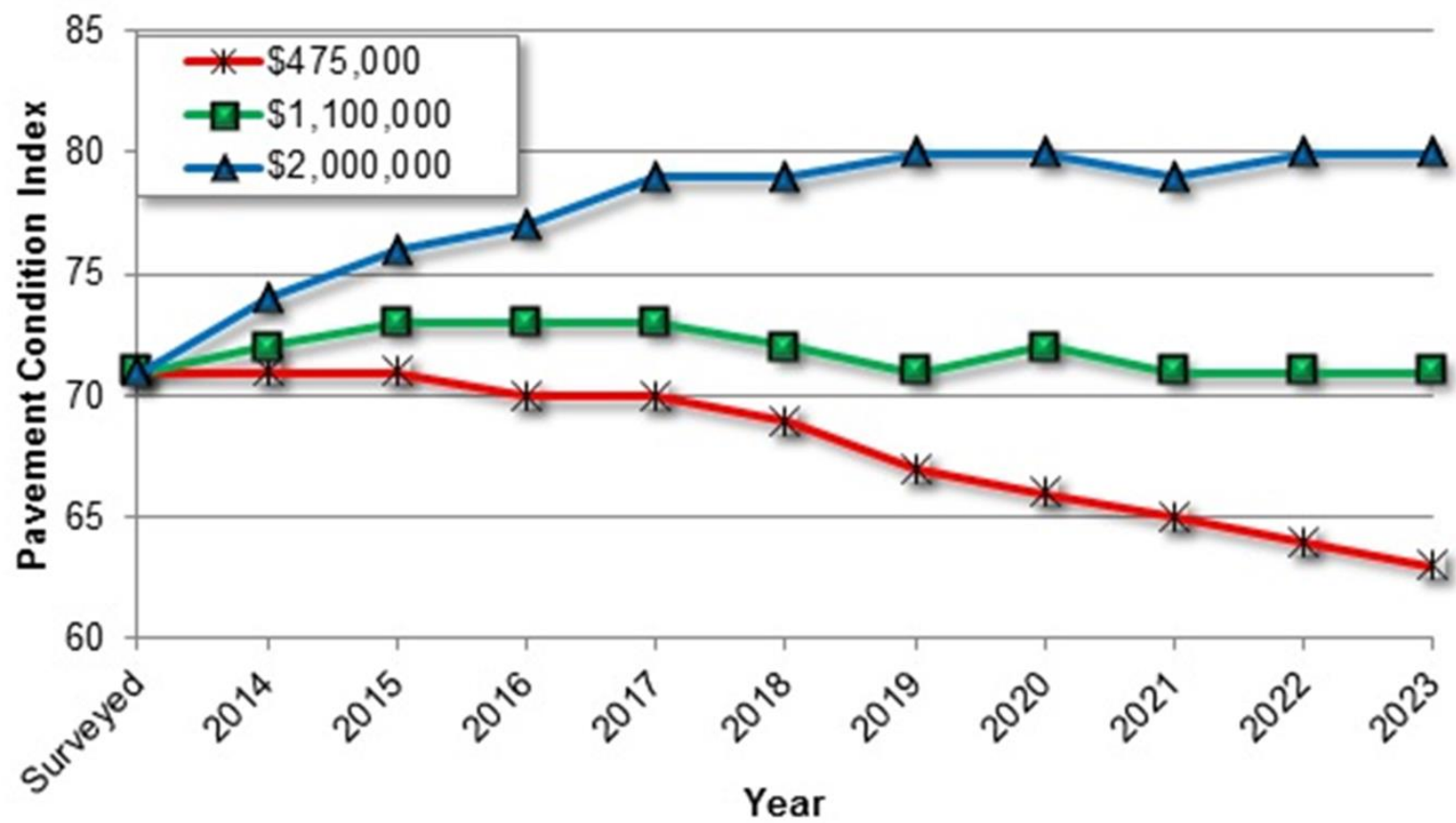
### Description:

One of the Town's most significant assets is its pavement network, or its roadways. Pavement management is the practice of planning for pavement maintenance and rehabilitation with the goal of maximizing the value and life of a pavement network. Pavement management involves inventorying, assessing, evaluating and scoring roads using a Pavement Condition Index (PCI) calculation on a 0 - 100 scale. This process ultimately allows the Town to define treatment options and test various budget scenarios and projects the impact on the Town's overall PCI based upon funding scenarios (Northborough's overall PCI is 71). Local governments will frequently defer investment in capital assets, in order to devote resources to operating expenses in the face of scarce resources. When maintenance is deferred, it can lead to increased costs for replacement rather than maintenance.

### Analysis:

During FY2015, the Town completed a comprehensive pavement management study which assessed the condition of the Town's roadways. The results of the study are being used to assist officials in the development of a more aggressive roadway maintenance and rehabilitation plan, the implementation of which will involve a higher rate of investment in the "infrastructure" category using local resources as well as leveraging state resources. Notably, only 4% of the Town's roadways are currently in excellent condition and in need of no maintenance, and over one quarter (27%) of the roads are in such poor condition that they require reclamation or reconstruction. Ultimately, deferring investment in our roadways will negatively impact the Town's financial condition by increasing costs and reducing the Town's ability to fund other services.

The Town's pavement management study projects that if the Town were to continue to fund its current annual investment of \$475,000 over the next ten years, the backlog of roadway maintenance work would increase from the current estimated \$17 million to almost \$44 million. The Town is actively working to develop and fund a pavement management plan that would maximize the value and life of the Town's pavement network. The chart on the opposite page projects the trend of the Town's overall average PCI for its roads based upon three funding levels. It is the Town's goal in FY2016 to fund the Pavement Management Plan at \$1.1 million annually in order to maintain the average PCI score of 71. Moving forward, it is clear that the policy goal of improving the overall average PCI of the Town's roads will require identification of additional resources.



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## Section IV

### Five-Year Financial Forecast— Revenue and Expenditure Projections

#### **IV. FIVE-YEAR FINANCIAL FORECAST—REVENUE AND EXPENDITURE PROJECTIONS**

The following pages contain the Five-Year Financial Forecast of revenue and expenditures along with a projected financial outlook for the Town of Northborough.

A revenue driven model was the methodology used to prepare the financial projections. The projections began with FY2015 as the base and were calculated out five years using the Proposition 2 ½ allowable annual budget growth. The projections focused on the top three revenue sources. These are real estate taxes, state aid and motor vehicle excise taxes. Together these sources represent approximately 95% of our total revenue.

The revenue projections were calculated with the following assumptions:

- Real estate taxes increase by the allowable amount under Proposition 2 ½
- New growth is estimated at \$30 million annually
- Existing unused levy capacity is available for use
- No operational budget overrides
- State aid level funded
- Local receipts such as motor vehicle excise are level funded
- Adherence to our financial policies

The expenditure projections were calculated with the following assumptions:

- OPEB is funded at \$500,000 each year
- Employee benefit costs increase 5% per year
- Major capital projects, including debt exclusions, proceed in accordance with our six-year capital plan
- Key budgets increase 4% annually

#### **Financial Outlook**

Given these assumptions, the revenue and expenditure projections indicate that real estate taxes will increase between 3.2% to 5.7% annually. This model assumes no major “budget surprises” and no significant staffing or increase in service levels. It is important to note that with these conservative estimates, the model indicates that the existing levy capacity will be depleted by FY2020.

# Five-Year Revenue Projections

		FY2016	FY2017	FY2018	FY2019	FY2020
		Projection	Projection	Projection	Projection	Projection
<u>General Fund Revenues</u>						
	Prior Year Levy Limit	43,891,046	45,490,222	47,129,378	48,809,512	50,531,650
	2.5%	1,097,276	1,137,256	1,178,234	1,220,238	1,263,291
	New Growth	501,900	501,900	501,900	501,900	501,900
	Levy Limit	45,490,222	47,129,378	48,809,512	50,531,650	52,296,841
	Debt Exclusions	911,173	871,680	826,524	743,842	729,051
	ARHS Debt Exclusions	657,856	657,458	657,169	658,761	657,950
	Lincoln St Sch Bldg Debt Exclusion	675,000	1,324,000	1,294,200	1,264,400	1,234,600
	Maximum Levy	47,734,251	49,982,516	51,587,405	53,198,653	54,918,442
	Unused Levy Capacity	(1,864,235)	(1,315,667)	(768,654)	(236,797)	599,649
Total Tax Levy		45,870,016	48,666,849	50,818,751	52,961,856	55,518,091
State Aid		4,928,440	4,928,440	4,928,440	4,928,440	4,928,440
Estimated Receipts		3,198,000	3,198,000	3,198,000	3,198,000	3,198,000
Other Local Receipts						
	Free Cash - Operating Budget	500,000	500,000	500,000	500,000	500,000
	Free Cash - Appropriated Reserve	150,000	150,000	150,000	150,000	150,000
	Free Cash - Capital Expenditures	2,582,028				
	MSBA	382,543	382,543	382,543	382,543	382,543
	Meals/Rooms Tax	300,000	300,000	300,000	300,000	300,000
	Other Available Funds	530,954	530,954	530,954	530,954	530,954
Total General Fund Revenues		58,441,981	58,656,786	60,808,688	62,951,793	65,508,028

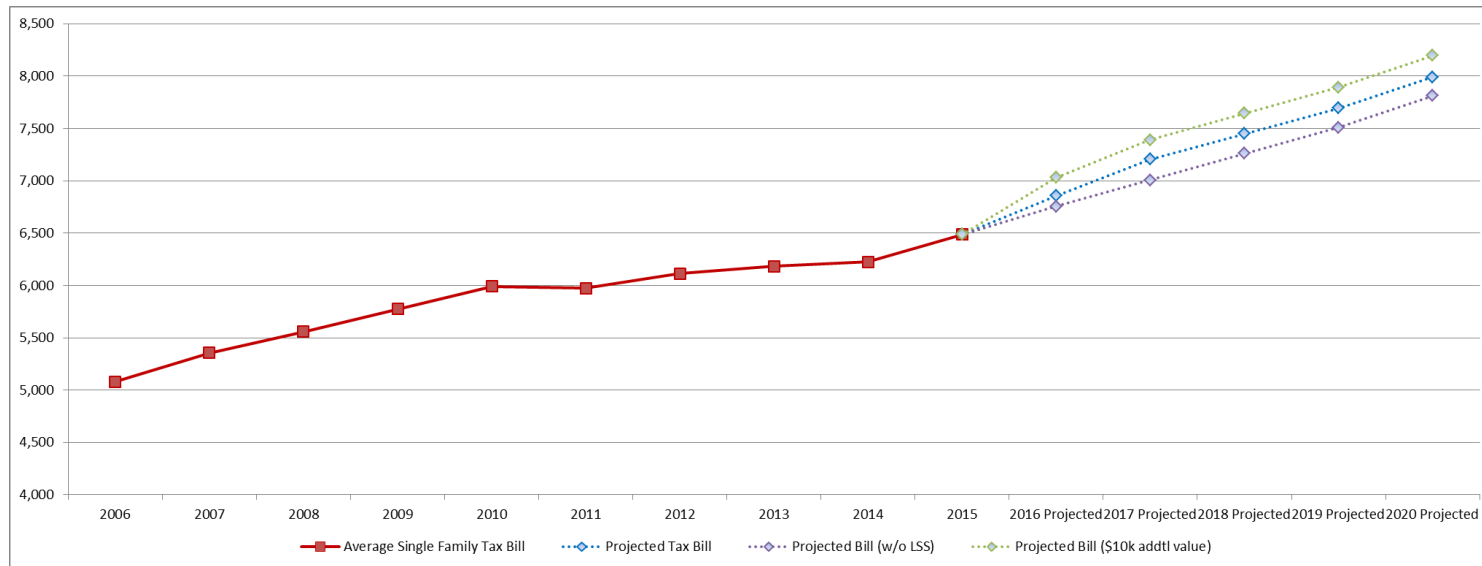


# Five-Year Expense Projections

		FY2016	FY2017	FY2018	FY2019	FY2020
		Projection	Projection	Projection	Projection	Projection
<u>General Fund Expenses</u>						
<u>Education</u>						
	Northborough K-8	22,057,585	22,939,888	23,857,484	24,811,783	25,804,254
	Algonquin 9-12	9,366,597	9,741,261	10,130,911	10,536,147	10,957,593
	ARHS Debt Exclusion	657,856	657,458	657,168	658,761	657,950
	Assabet	948,757	986,707	1,026,176	1,067,223	1,109,911
	Assabet Renovation Project	15,006	155,920	152,675	149,431	146,186
	Lincoln Street School Building	675,000	1,324,000	1,294,200	1,264,400	1,234,600
<u>Town Departments</u>		11,113,238	11,557,768	12,020,078	12,500,882	13,000,917
<u>Undistributed Expenses</u>						
	Employee Benefits & Insurance	6,966,930	7,315,276	7,681,040	8,065,092	8,468,346
	Building & Liability Insurance	234,567	243,949	253,707	263,856	274,410
	Debt Service	1,971,120	1,825,566	1,772,365	1,615,523	1,777,239
	State Assessments	312,889	325,405	338,421	351,958	366,036
	Reserve Fund	150,000	150,000	150,000	150,000	150,000
	Special Warrant Articles - Capital	2,582,028				
	Solid Waste Subsidy	217,160	217,160	217,160	217,160	217,160
	OPEB Trust	500,000	500,000	500,000	500,000	500,000
<u>Reserve for Abatements</u>		645,658	688,837	729,712	771,987	815,834
<u>Library &amp; School Lunch Aid - Offsets</u>		27,591	27,591	27,591	27,591	27,591
<u>Total General Fund Expenses</u>		58,441,981	58,656,786	60,808,688	62,951,793	65,508,028

# Projected Tax Impact

		FY2016	FY2017	FY2018	FY2019	FY2020
		Projection	Projection	Projection	Projection	Projection
<u>Tax Impact</u>						
	Valuation	2,593,865,746	2,618,865,746	2,643,865,746	2,668,865,746	2,693,865,746
	Avg Single Fam	387,617	387,617	387,617	387,617	387,617
	Tax Rate	17.68	18.58	19.22	19.84	20.61
	Avg Tax Bill	6,855	7,203	7,451	7,692	7,988
	General Increase (\$)	269	254	247	241	296
	Increase due to LSS Debt Excl (\$)	101	95			
	Total Increase (\$)	370	349	247	241	296
	Total Increase (%)	5.7%	5.1%	3.4%	3.2%	3.9%



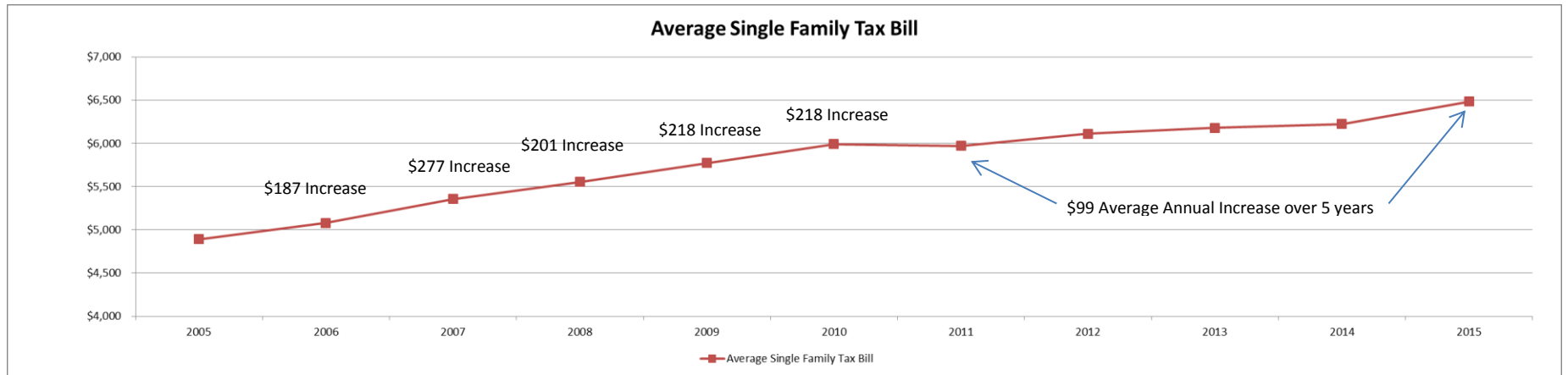
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# Section V

## Appendix

## Appendix A: Average Residential Tax Bill



Fiscal Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
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	\$ 1,506,142,900	\$ 1,558,995,700
Parcels	3,928	3,963	3,988	3,999	4,002	4,006	4,007	4,008	4,005	4,014	4,022
Average Single Family Home Value **	\$ 367,221	\$ 413,877	\$ 432,226	\$ 418,409	\$ 419,623	\$ 416,665	\$ 395,221	\$ 394,708	\$ 383,646	\$ 375,222	\$ 387,617
Tax Rate Per Thousand	\$ 13.32	\$ 12.27	\$ 12.39	\$ 13.28	\$ 13.76	\$ 14.38	\$ 15.11	\$ 15.49	\$ 16.11	\$ 16.59	\$ 16.73
Average Single Family Tax Bill	\$ 4,891	\$ 5,078	\$ 5,355	\$ 5,556	\$ 5,774	\$ 5,992	\$ 5,972	\$ 6,114	\$ 6,181	\$ 6,225	\$ 6,485
Increase over prior year	\$ (11)	\$ 187	\$ 277	\$ 201	\$ 218	\$ 218	\$ (20)	\$ 142	\$ 67	\$ 44	\$ 260
Hi-Lo Rank**	49	52	51	50	52	49	53	55	59	63	N/A

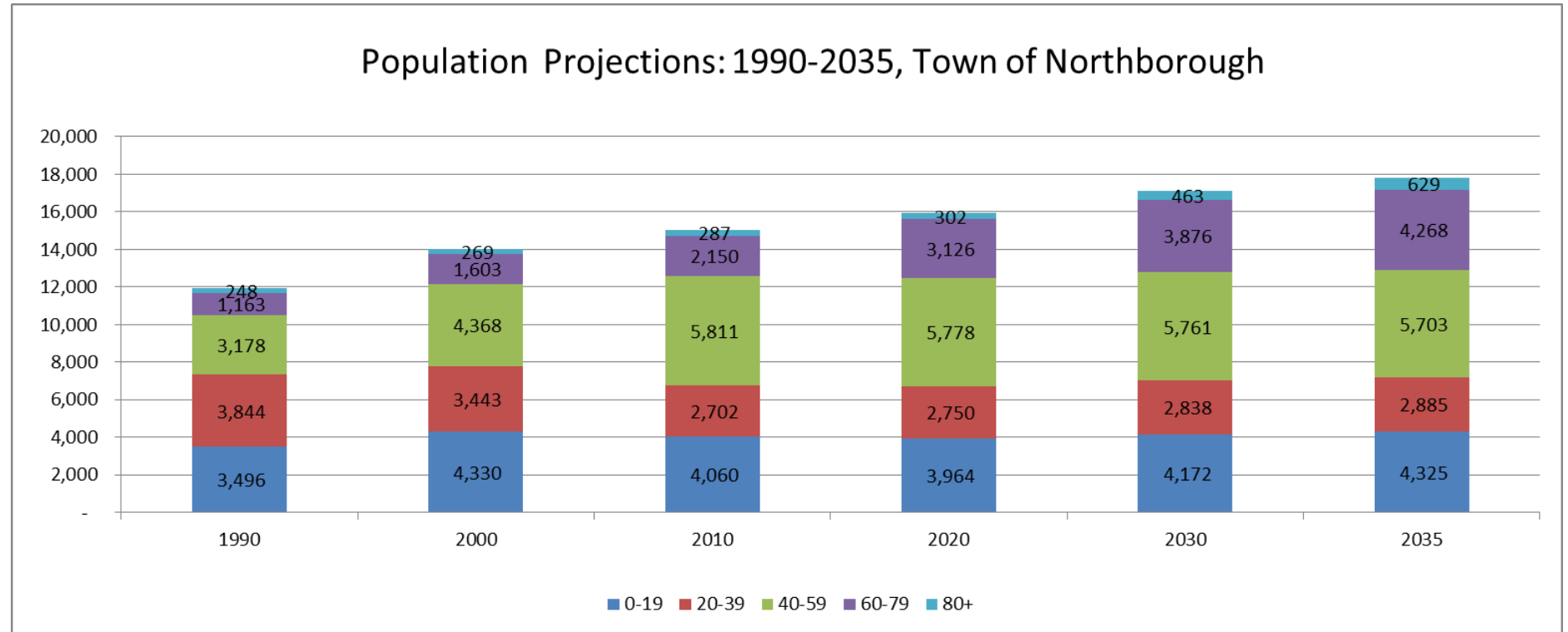
The FY2015 real estate tax bill for an average single family home in the Town of Northborough is \$6,485. This represents a \$493 increase over the 5 years since FY2010. Previous yearly increases since the base year of FY2005 have averaged \$220 per year. Further, the Massachusetts Department of Revenue's "Hi-Lo" ranking, which is the rank of Massachusetts Cities and Town's average single family tax bills, for Northborough's tax bill has dropped to a low point in FY2014. Northborough had the 63rd highest in the state in FY2014, and has fallen from the 49th highest in FY2010. The Board of Selectmen have established a budget goal to minimize the tax impact during the most recent 5 years.

### Notes:

\* Source: Mass. DOR Tax Recap

\*\* Source: Mass. DOR Databank

## Appendix B: 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%
<b>Total</b>	<b>11,929</b>	<b>14,013</b>	<b>15,010</b>	<b>15,920</b>	<b>17,110</b>	<b>17,810</b>	<b>18.65%</b>

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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