



TOWN OF NORTHBOROUGH

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MEMORANDUM

TO: Honorable Chairman and Members of the Board of Selectmen
and the Appropriations Committee

FROM: Town Administrator

SUBJECT: FY2016 Proposed Budget

DATE: March 20, 2015

I am pleased to present the Fiscal Year 2016 Proposed Budget, which incorporates the latest information available regarding revenue projections and departmental expenditure requests. As you know, the Board will be holding its annual joint budget hearing with the Appropriations Committee on March 23rd to discuss the FY2016 Proposed Budget.

While the Appropriations Committee has been holding public meetings for months to review departmental budgets, they typically begin voting their recommendations after the joint public hearing. Likewise, the Board of Selectmen will be voting its support for the various budgets and articles at its April 13th meeting.

Even though review of the budget details will continue right up until Town Meeting on April 27th, the Northborough K-8 School Budget and General Government Budget have both been developed in conformance with the goals and objectives discussed at the December 11, 2014 Financial Trend Monitoring System (FTMS) joint meeting. The Town has now received the final Assabet Valley and Algonquin Regional High School (ARHS) assessments as well.

On December 11, 2014 the Board of Selectmen, Appropriations Committee, Financial Planning Committee and the K-8 School Committee all met together to hear the latest update of the Financial Trend Monitoring System (FTMS) as well as the five-year financial forecasts. The group discussed revenue projections, the various financial indicators and the implications of the information for the upcoming FY2016 budget. The following goals and objectives are direct outcomes from that joint meeting.

Goals and objectives of the FY2016 Budget:

1. To protect and improve the Town's overall Financial Condition, which is broadly defined as our ability to maintain existing service levels; withstand local and



regional economic disruptions; and meet the demands of natural growth, decline, and change.

- By continuing to review and update the Town's Financial Trend Monitoring System (FTMS) in order to identify problems and opportunities early, so that appropriate action can be taken.
- By annually revising the Town's Five-year Financial Projections, to see if the underlying assumptions require modification based upon changing conditions or data.
- By engaging the Town's policy-making boards and committees in regular discussions that reinforce the need for long-range considerations in the annual budget process, so that important policy decisions are not controlled by financial problems or emergencies. To this end, multiple joint meetings were held during the budget process to discuss financial trends, projections, major capital improvements and various master plans.

2. To develop a budget that is in conformance with the Town's comprehensive financial policies and does not rely on one-time gimmicks or unsustainable practices.

- By ensuring that current revenues are sufficient to support current operating expenditures. Use of one-time Free Cash in the FY2016 annual budget is capped in accordance with the adopted Free Cash policy at \$500,000, or approximately 1% of the operating budget.
- By ensuring that debt is never used to fund operating expenditures and is only issued for capital improvements greater than \$25,000 with a useful life of five years or more. In practice, the Town endeavors to pay cash for vehicle and equipment purchases under \$100,000 and only issue debt for major facility or infrastructure improvements.
- By maintaining adequate financial reserves of between 5-10% of the operating budget to deal with unexpected natural or economic disruptions. Current fiscal year reserves are at 8%. The FY2016 budget maintains a comparable level of reserves.

3. To maintain Northborough as an affordable place to live and operate a business

- By developing a FY2016 Budget that is within the confines of Proposition 2 ½ and includes reasonable tax increases necessary to maintain current service levels. The tax bill for the average single family home increased just \$98 per year on average from FY2010 to FY2015. It is anticipated that due to a relatively stagnant revenue outlook and increasing debt service for the Lincoln Street School project, the FY2016 budget will require more significant tax increases absent improving State Aid and/or economic development.
- By encouraging economic development through maintenance of a single tax rate without artificial surcharges on businesses.
- By negotiating sustainable collective bargaining agreements with the Town's five non-school unions. As of this writing, all FY2016 contracts



have been settled for a sustainable 2% increase, effective July 1, 2015. FY2016 is the last year of a three year contract for non-school unions and school contracts are in year two of a three year deal set to end in FY2017.

- By advocating for legislative priorities at the State level that will improve the efficiency or effectiveness of local services, such as OPEB reform and changes to various revenue sharing models.
- 4. To protect the Town's long-run solvency beyond the immediate budget cycle by developing clear policies regarding issues such as debt, pension obligations, OPEB liabilities and capital investment.
 - By conducting a comprehensive review of major budget initiatives that seek to expand staffing or services. During FY2015 the Town is conducting a detailed staffing needs analysis for the Police and Fire Departments as part of a larger staffing study which released an interim report in March of 2014.
 - By continuing to fund the OPEB plan in FY2016 at \$500,000 in order to start addressing the Town's \$32.6 million OPEB liability.
 - By developing and funding a Pavement Management Plan (PMP) that begins to address long-term infrastructure needs; especially roadway improvements.
 - By annually reviewing the Town's six-year Capital Improvement Plan (CIP) in conjunction with the adopted debt and free cash policies.

As the FY2016 budget process unfolded, individual departmental goals and objectives were developed within these Town-wide umbrella goals to ensure that long-term perspectives that span beyond just the upcoming fiscal year are taken into consideration. In addition to these overriding goals and initiatives, each departmental budget contains more detailed goals and objects for the FY2016 budget.

Recent Developments

During the month of March, several significant budgetary items have been finalized, including Health Insurance, Debt Service, refined State Aid estimates and new growth figures. Collectively, these items represent the final pieces of the FY2016 budget.

- Health Insurance— The FY2016 health insurance budget request of \$4.9 million represents a total increase of \$144,148 or 3.00% from the amount budgeted last year. Plan design changes and the adoption of Chapter 32B, Section 18 in FY2010 have continued to limit budgetary impacts for the seventh consecutive year. In fact, the average annual increase for the last seven years has only been about 2.5%. Prior to FY2010 it was common to experience health insurance increases of 8-10% each year, which would consume \$450,000 or more of new revenues. Given the reasonable FY2016 premium increases, there are no immediate plans to modify health insurance plans in the coming year. However, market

| Health Insurance Budget Increases | |
|--|--------|
| FY2007 | 9.88% |
| FY2008 | 9.31% |
| FY2009 | 11.43% |
| Average | 10.20% |
| FY2010 | 0.72% |
| FY2011 | 2.99% |
| FY2012 | 4.49% |
| FY2013 | 3.34% |
| FY2014 | 2.00% |
| FY2015 | 1.00% |
| FY2016 | 3.00% |
| Average | 2.51% |



trends appear to be pointing toward more substantial increases in the coming years as many communities that joined the State's Group Insurance Commission are facing an 8-10% increase in FY2016.

- **Debt Service**—The proposed FY2016 debt service budget provides for the payment of principal and interest costs for long and short term bonds issued by the Town for General Fund purposes. For FY2016, the total Debt Service budget for the General Fund is \$2.59 million, an increase of \$547,080. The significant increase is due to the anticipated bonding of \$7.5 million of the total \$14.85 million Lincoln Street School project cost. The anticipated debt service for the \$7.5 million issuance is \$675,000, which is being offset by decreasing debt service remaining on the Zeh School, Library and Senior Center projects. The net impact to the FY2016 budget is \$547,080.

One key factor in limiting the increase in new FY2016 debt service is the Town's Free Cash policy whereby smaller capital items are now being purchased using available funds, such as Free Cash, instead of financing with debt. For a detailed explanation of the Town's Free Cash Policy and the recent efforts to fund more pay-as-you-go capital projects, interested readers should refer to Section 9 of this budget document.

It is important to note that throughout the recent recessionary period, Northborough maintained its favorable bond rating of Aa2. Affirmation of our bond rating reflects the rating agency's confidence in the Town's ability to manage through economic cycles. The independent assessment illustrates how our planning efforts and fiscal discipline produce very real and tangible results—lower rates on bonds resulting in less tax dollars going to pay for interest.

- **State Aid**— The current budget model assumes level funding in State Aid based upon the Governor's Budget, which was released on March 4, 2015. Although the Governor's Budget proposes some modest increases to local aid accounts, the State currently faces an estimated \$1 billion FY2016 budget shortfall. The House and Senate have only just begun to debate their versions of budget, which typically does not get finalized until well after Town Meeting. In addition, the Town has limited information regarding State Assessments and it is the net effect of the new aid and the increase in charges that really determines if Northborough is better off compared to the previous year. Given the available information, the Town has chosen to assume level State Aid at \$4.92 million. Once Town Meeting passes the FY2016 Budget, any State Aid received above level funding can only be used to reduce local taxes.
- **New Growth**—In accordance with Proposition 2½, a municipality is allowed to increase its levy limit each year by an amount based on the value of new development and other growth in the tax base. The purpose of this provision is to recognize that new development results in additional municipal costs. FY2016 New Growth is estimated at \$30 million (\$501,900 in new tax dollars) in anticipation of reduced economic development following completion of the Northborough Crossing Mall

BOND RATING SYMBOLS

| Moody's Investor Service |
|--------------------------|
| Aaa |
| Aa1 |
| ➔ Aa2 |
| Aa3 |
| A1 |
| A2 |
| A3 |
| Baa1 |
| Baa2 |
| Baa3 |
| Ba1 |
| Ba2 |
| Ba3 |
| B1 |
| B2 |
| B3 |



development. Strong development activity has been Northborough's primary source of new revenue during the last several years, hitting a peak of over \$92 million in new growth valuation during FY2013 and declining to \$38 million in FY2015. As discussed at the December 11, 2014 FTMS joint meeting, new growth is expected to decline back to more historic levels of \$30-40 million per year, barring any significant new development coming to Town.

Now that these major budgetary components are settled, the remainder of the General Government departmental budgets have been finalized. With the possible exception of a State Aid Resolution passing in the Legislature, we do not anticipate any other significant financial information coming forward prior to the April Town Meeting.

Budget in Brief

Similar to prior budgets, the FY2016 Proposed Budget relies on projections regarding available revenue, thereby accepting the limits of the Town's financial resources. The budget is based upon an established ceiling of revenue derived from local property taxes in accordance with Proposition 2½. Added to these revenues are State Aid, Departmental Receipts such as fees, permits, interest earned and Available Funds such as Free Cash and Special Revenues.

At this point in time, based upon our latest projections, the proposed budgets for the key departments are estimated to increase as follows:

- Northborough K-8 Schools increase \$742,323 or 3.5% to \$21,951,539
- General Government (Town) increases \$657,943 or 3.5% to \$19,456,306
- Assabet Valley Vocational HS Operating Assessment increases by \$50,117, or 6.05% to \$878,397 due to enrollment increases
 - The Bond Anticipation Notes (BAN) interest charges associated with the ongoing renovation project are \$15,006
- Algonquin Operating Assessment increases \$321,444 or 3.5% to \$9,492,514¹
 - The debt for ARHS decreases by \$741, or 0.11% to \$656,493

¹ Due to changes made to the Chapter 70 School Aid formula during FY2014, the Town of Northborough received a \$164,727 credit to its FY2014 assessment that was applied to its FY2015 assessment. The FY2016 percentage increase of 3.5% does not include that credit in the base budget for comparison purposes. Accounting for the credit the ARHS assessment would be presented as a 5.4% increase.



FY2016 PROPOSED BUDGET

| EXPENDITURES | FY2015 Budget | FY2016 Proposed | Variance | % Change |
|----------------------------------|---------------------|---------------------|--------------------|--------------|
| General Government (Town) | \$18,798,363 | \$19,456,306 | \$657,943 | 3.50% |
| Schools | | | | |
| Northborough K-8 | \$21,209,216 | \$21,951,539 | \$742,323 | 3.50% |
| Algonquin Reg. HS 9-12 | \$9,171,070 | \$9,492,514 | \$321,444 | 3.50% |
| Algonquin FY14 Credit | (\$164,727) | \$0 | \$164,727 | -100.00% |
| Algonquin Debt Exclusion | \$657,234 | \$656,493 | -\$741 | -0.11% |
| Assabet Valley | \$828,280 | \$878,397 | \$50,117 | 6.05% |
| Assabet Valley Debt | \$11,473 | \$15,006 | \$3,533 | 30.79% |
| Warrant Articles | | | | |
| Reserve Fund | \$150,000 | \$175,000 | \$25,000 | 16.67% |
| Free Cash Capital Projects | \$893,500 | \$2,214,000 | \$1,320,500 | 147.79% |
| Transfer to Stabilization | \$0 | \$200,000 | \$200,000 | 100.00% |
| Transfer to OPEB Trust | \$500,000 | \$500,000 | \$0 | 0.00% |
| Zeh School Debt | \$462,759 | \$444,010 | -\$18,749 | -4.05% |
| Colburn St. Debt Service | \$73,673 | \$71,473 | -\$2,200 | -2.99% |
| Library Debt Service | \$407,120 | \$399,395 | -\$7,725 | -1.90% |
| Senior Center Debt Service | \$455,545 | \$445,395 | -\$10,150 | -2.23% |
| Lincoln Street Debt | \$0 | \$675,000 | \$675,000 | 100.00% |
| Other Funds | \$530,954 | \$534,058 | \$3,104 | 0.58% |
| Adjustments | (\$123,898) | \$0 | \$123,898 | -100.00% |
| Subtotal General Fund | \$53,860,561 | \$58,108,586 | \$4,248,025 | 7.89% |
| Water Enterprise Funds | \$2,174,510 | \$2,230,328 | \$55,818 | 2.57% |
| Sewer Enterprise Fund | \$1,594,271 | \$1,658,942 | \$64,671 | 4.06% |
| Solid Waste Enterprise Fund | \$755,160 | \$767,000 | \$11,840 | 1.57% |
| Subtotal Enterprise Funds | \$4,523,941 | \$4,656,270 | \$132,329 | 2.93% |
| TOTAL ALL FUNDS | \$58,384,502 | \$62,764,856 | \$4,380,354 | 7.50% |

- General Government Budget**

The total FY2016 General Government Budget (non-school) is \$19,456,306 which is an increase of \$657,943, or 3.5%. The balance of the document that follows this Budget Message provides detail regarding each departmental budget. However, it bears noting in this summary section how precarious the budget is year to year. Specifically, the health insurance budget can increase between 5-10% annually, which is \$245,000 to \$490,000 on a \$4.9 million budget. Clearly, the annual renewal of the Town's health insurance premiums is critical to the General Government budget, given that the entire FY2016 budget increase for all non-school departments is only \$657,943. It should also be noted that the health insurance costs for all K-8 School employees is carried within the General Government Budget. For detailed information regarding recent initiatives undertaken by the Town to keep the health insurance renewals to a reasonable level, please refer to Section 6 of this budget document.



- **Northborough K-8**

The Northborough K-8 Public School System serves children in grades Kindergarten through 8. There are four elementary schools: the Fannie E. Proctor School, the Lincoln Street School, the Marion E. Zeh School, and the Marguerite E. Peaslee School. These four schools serve children from Kindergarten through grade 5. There is also one middle school, the Robert E. Melican Middle School, which serves grades 6, 7 and 8. As of October 1, 2014, a total of 1,816 students attend the Northborough schools, with 1,143 students in grades K-5 at the four town elementary schools and 673 students in grades 6-8 at the Middle School.

Based on the Town's revenue forecast, it is projected that the Town's General Government Budget and the Northborough K-8 Schools may increase by 3.5% in FY2016. Therefore, the FY2016 amount available for the Northborough K-8 School department is \$21,951,539. This represents an increase of \$742,323 from the \$21,209,216 appropriated last year.

- **Algonquin Regional High School (ARHS)**

As of October 1, 2014, a total of 832 Northborough students attend the Northborough-Southborough Regional High School. This represents 57.3% of the total 1,452 student enrollment in grades 9-12. The Northborough-Southborough budget is composed of an operating assessment and a debt payment related to the completed renovation/addition project. In FY2016 the ARHS operating Assessment increases \$321,444 or 3.5% to \$9,492,514 and the debt assessment remains relatively flat at \$656,493.

- **Assabet Valley Regional Technical High School**

Assabet Valley Regional Technical High School is a vocational school composed of the member communities of Berlin, Hudson, Marlborough, Maynard, Northborough, Southborough and Westborough. Northborough's assessment is based upon the number of students from Town attending the school. The total FY2016 Assabet Budget is \$19,045,000, which is a 3.5% increase.

A \$62.4 million building renovation project was previously approved by all of the member communities. The Massachusetts School Building Authority voted to fund 53.48% of the project. Construction began in the summer of 2013 and is approximately 75% complete. Northborough's share of the debt assessment is \$15,006 in FY2016. The debt assessment is expected to peak in FY2017 at \$166,934.

As of October 1, 2014, 58 Northborough students attend Assabet Valley, which represents 7.81% of the FY2016 Assabet budget, or an operating assessment of \$878,397. This is an enrollment increase of 3 from the 55 Northborough students that attended Assabet Valley last year. The total FY2016 assessment, including the \$15,006 in debt service is \$893,403.

- **Special Warrant Articles**

In addition to the individual departmental appropriations, the Town's overall annual financial plan includes warrant articles which draw upon the funds available to the Town. A detailed description of the proposed warrant articles, including their funding sources, is provided in Section 6-19 through 6-22 of this budget document. Further



detail regarding the capital project warrant articles is contained in Section 9, the Town's Annual Capital Budget and FY2016-2021 Capital Improvement Program (CIP).

Overall, the Fiscal Year 2016 total operating budget for all funds is \$62,764,856 or a 7.5% increase over FY2015; however, controlling for the rather significant one-time pay-as-you-go capital expenditures, one-time contribution to the Stabilization Fund and the new debt service for the voter approved Lincoln Street School project, the recurring operational budgets are up just 3.7%. An in-depth review of revenues and expenditures is provided in the Budget Summaries Section 1 that follows this Budget Message.

Financial Condition and Outlook

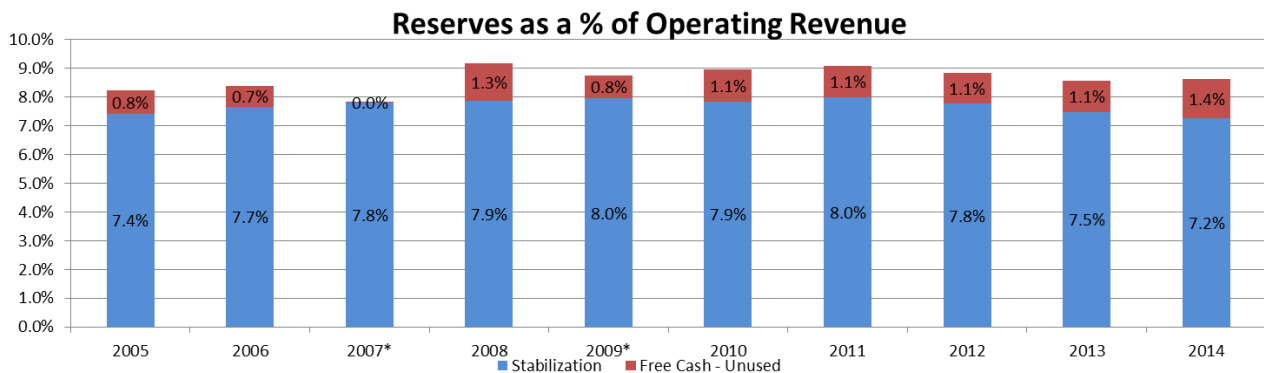
During FY2015 the Town updated its Financial Trend Monitoring System (FTMS) analysis designed to assess the Town's Financial Condition. The FTMS, as adapted from the system developed by the International City/County Management Association (ICMA), "identifies the factors that affect financial condition 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 the Town's financial condition. The financial indicators include such areas as revenue and expenditure trends, financial reserves, changes in the tax base, one-time revenue dependencies, debt, and external revenue dependencies. The updated FTMS Report is included in its entirety as Appendix C of this budget document.

Financial Trend Monitoring System Indicator Summary

| | Financial Indicator | FY2015 |
|----|---|-------------------------|
| 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 Reserves/Fund Balance | Favorable |
| 13 | Capital Investment—Overall fixed asset values | Favorable |
| 14 | Capital Investment—Pavement Management | Unfavorable |



The conclusion of the FTMS analysis is that Northborough is in relatively good financial condition, especially considering the economic climate of the past several years. The Town's financial reserves are strong at approximately 8% and the use of the \$3.6 million Stabilization (rainy day) Fund has not been necessary. The Town's debt level is manageable at 4.5% of the operating budget and its bond rating of Aa2 remains strong. Although recent economic development has dropped back in line with historic levels, the tax base remains strong and diverse. Capital investments continue and reliance on one-time revenues in the operating budget has been curtailed to approximately 1% of the operating budget. Further, the impact of rising health insurance costs has been mitigated since FY2010 by successful negotiation of plan design changes with employee bargaining units.



Based on the FTMS analysis, it is apparent that long-run solvency surrounding unfunded pension liability and Other Post-Employment Benefits (OPEB) obligations are potential emerging problems for the Town. Uncertainties surrounding the level of State Aid and future increases in health insurance premiums remain significant areas of potential exposure to be watched during future budget cycles.

It is clear that the adoption of the Free Cash Policy in 2010 strengthened the Town's financial condition by decreasing its reliance on one-time revenues in the operating budget. In addition, the use of Free Cash for significant capital investment has ensured that one-time funds are primarily used 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 proportionally as well.

The Town of Northborough is growing, yet the budgetary resources devoted to personnel have remained very stable. The need to address this growth and maintain service-level solvency may require a corresponding increase in personnel in the future. To this end, a comprehensive review of Town-wide staffing was conducted during FY2014. The resulting Interim Report and a draft request for proposals for consulting services were presented to the Board of Selectmen in March of 2014. The Police and Fire Departments continue to coordinate with the Board of Selectmen's Ad Hoc Staffing Committee and its Consultant to assess future staffing and facility needs. It is anticipated that



recommendations will be coming forward during FY2016 for consideration in the FY2017 budget process.

Moving forward, it will be important for the Town to continue to refine the funding plan for its Other Post-Employment Benefits (OPEB) liability. Other Post-Employment Benefits (OPEB) are the benefits, other than retiree pensions, offered to retirees and their dependents. These benefits mainly consist of medical insurance. OPEB liability is the present value of benefits for retired and vested employees. An unfunded liability reflects an incurred obligation, payable in the future, for which no reserves have been set aside.

Without a funding source for this obligation, the liability increased to \$32.6 million based on the actuarial study received at the close of FY2013. The Town previously contracted with an actuary to develop an initial funding plan to begin to address this liability. The adoption of the Meals Tax Surcharge and increase in Room Occupancy revenue provided capacity in the FY2015 budget for initial funding in the amount of \$500,000 for the OPEB Trust Fund, which appeared for the first time in FY2015. The FY2016 budget contains another \$500,000 appropriation to the OPEB Trust fund and at the close of FY2015 another GASB 45 actuarial update will be conducted to assess the long-run impact of the current plan. In addition to funding the liability, the Town continues to advocate for proposed legislative changes at the State level regarding the local obligation for retiree health insurance that would reduce its OPEB liability.

For a more detailed explanation regarding the individual fiscal indicators and FTMS, interested readers are encouraged to review the introductory section to Appendix C of this budget document.

Personnel Summary

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 FY2010 through negotiated plan design changes with the employees. As vacancies occur, every effort is made to re-examine positions with a view toward restructuring, reducing or eliminating the position, where possible. The table on the opposite page provides a five year history of Full-time Equivalent (FTE)² positions by department, including any proposed changes for FY2016.

In total, Town Government staffing is up 2.33 FTEs from FY2015. The change includes the restoration of the Assistant DPW Director and a Light Equipment Operator which were cut from the budget during the recent recession. In addition, an 8 hour per month, or 0.05 FTE Board Secretary was added to the Planning Board to cover meeting minutes. Lastly, one of the three previously cut 8 hour per week (0.20 FTE) Page positions was restored to the Library Department.

² Full Time Equivalents are based upon 40 hours per week (i.e., 30hrs/40hrs = .75 FTE). The Cable Access TV staff are not shown as part of the summary table as they are funded through cable license fees.



Further detail on specific positions is provided within the departmental personnel summaries contained in Budget Sections 2 through 5.

It is important to note that FY2016 is the third and final year of the negotiated collective bargaining agreements for Police Patrol Officers (2%), Police Sergeants (2%), Public Safety Dispatchers (2%), Fire (2%) and the Northborough Municipal Employees Association (2%). These wage increases are reflected in the FY2016 departmental budgets.

TOWN OF NORTHBOROUGH PERSONNEL SUMMARY FY2012–FY2016

| Town Government | FY 2012 FTE | FY 2013 FTE | FY 2014 FTE | FY 2015 FTE | FY 2016 FTE | Change FY15-FY16 |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|---------------------|
| Executive Office | 3.75 | 3.75 | 3.75 | 3.50 | 3.50 | 0.00 |
| Public Buildings | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.00 |
| Financial Offices | 9.35 | 9.35 | 9.38 | 9.50 | 9.50 | 0.00 |
| MIS/GIS | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 0.00 |
| Town Clerk's Office | 2.00 | 2.00 | 2.00 | 1.98 | 1.98 | 0.00 |
| Planning & Conservation | 3.23 | 3.73 | 3.73 | 2.73 | 2.78 | 0.05 |
| Police Department | 27.50 | 27.50 | 28.50 | 28.50 | 28.50 | 0.00 |
| Fire Department | 19.71 | 19.67 | 20.43 | 20.45 | 20.53 | 0.08 |
| Building Department | 2.80 | 2.80 | 2.80 | 2.80 | 2.80 | 0.00 |
| Health Department | 2.20 | 2.20 | 2.20 | 2.20 | 2.20 | 0.00 |
| Dog Officer | 1.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Dept. of Public Works | 16.75 | 16.88 | 17.00 | 18.48 | 20.48 | 2.00 |
| Senior Center/COA | 2.86 | 3.00 | 3.00 | 3.00 | 3.00 | 0.00 |
| Library | 9.16 | 9.15 | 9.36 | 9.40 | 9.60 | 0.20 |
| Recreation | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 0.00 |
| Family & Youth Services | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 0.00 |
| Veterans' Services | 0.29 | 0.29 | 0.00 | 0.00 | 0.00 | 0.00 |
| Town Subtotal | 107.06 | 106.78 | 108.61 | 109.00 | 111.33 | 2.33 |
| School Department (K-8) | | | | | | |
| K-5 Teachers | 63.50 | 64.00 | 63.50 | 59.00 | 56.00 | -3.00 |
| Grade 6-8 Teachers | 33.40 | 33.40 | 32.90 | 33.40 | 33.00 | -0.40 |
| Specialists | 35.30 | 35.80 | 35.39 | 38.90 | 40.90 | 2.00 |
| Special Education Staff | 37.60 | 38.80 | 41.65 | 38.40 | 40.15 | 1.75 |
| Administration | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 | 0.00 |
| Support Staff | 96.60 | 105.60 | 107.10 | 109.30 | 105.30 | -4.00 |
| K-8 Schools Subtotal | 272.40 | 283.60 | 286.54 | 285.00 | 281.35 | -3.65 |
| Total Town & K-8 FTEs | 379.46 | 390.38 | 395.15 | 394.00 | 392.68 | -1.32 |

With regard to the Northborough K-8 Schools there are 1.32 fewer FTEs in the FY2016 budget. Please refer to the Superintendent's budget presentation for more detail.



Capital Budget

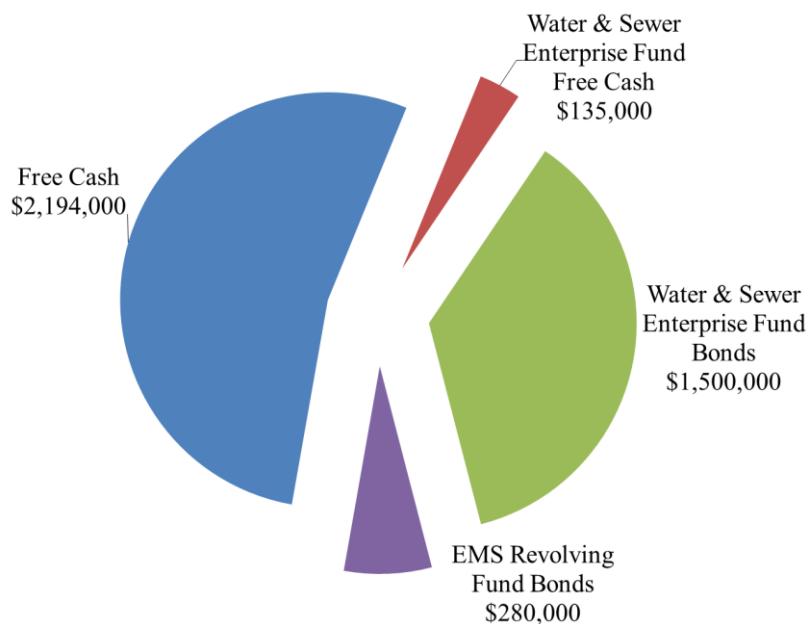
Enclosed in Section 9 of this document are the Town's Annual Capital Budget and FY2016-2021 Capital Improvement Program (CIP). The table on the following page represents the Proposed Capital Requests being made by the General Government Departments and the Northborough K-8 School Department for FY2016.

Although the detail for proposed projects has been incorporated as Section 9 of the annual Operating Budget document, funding for all recommended FY2016 projects requires Town Meeting approval of specific Articles contained in the April 2015 Annual Town Meeting Warrant.

The proposed FY2016 Capital Budget totals \$4,109,000, of which \$2,194,000 is anticipated to be funded with Free Cash (one-time revenues), resulting in no additional tax impact. In addition \$135,000 in funding will come from the Water & Sewer Enterprise Fund balance with no additional impact on rate payers. The proposed funding approach eliminates any additional tax impact on residents and will add no new debt service to the general fund budget. The only debt being issued is for the Sewer Enterprise Fund Hudson Street pump station improvements and the new Fire ambulance. These two projects will be financed with debt that is paid for by user fees (not general fund tax dollars).

The pie chart below shows the breakdown of funding sources by category for the proposed FY2016 Capital Budget. It is important to note that prior to FY2010 virtually all projects contained in the CIP were funded with debt. Today, there are dedicated funding sources for capital projects, such as Free Cash, which is funding approximately 53% of the FY2016 Capital Budget.

FY2016 CAPITAL FUNDING SOURCES





FY2016 CAPITAL BUDGET

| PROJECTS BY DEPARTMENT | | EXPENDITURE |
|--|---|--------------------|
| Fire | | |
| | Engine 2 Replacement | 688,000 |
| | Ambulance Replacement | 280,000 |
| | SCBA Bottle Replacement | 45,000 |
| | Fire Subtotal | \$1,013,000 |
| Police | | |
| | Police Cruiser Replacement | 85,000 |
| | Communications Dispatch Console | 161,000 |
| | Police Subtotal | \$246,000 |
| Planning Department | | |
| | Master Plan | 130,000 |
| | Planning Department Subtotal | \$130,000 |
| DPW: Highway Division | | |
| | Otis Street Culvert Replacement | 325,000 |
| | Roadside Mower Replacement | 130,000 |
| | One-Ton Dump Truck w/Plow Replacement | 90,000 |
| | One-Ton Pick Up Truck w/Plow Replacement | 60,000 |
| | Backhoe Replacement | 145,000 |
| | Mini Excavator | 85,000 |
| | Ellsworth McAfee Park Gazebo and Pavilion | 50,000 |
| | Highway Subtotal | \$885,000 |
| DPW: Sewer Enterprise Fund | | |
| | Hudson Street Pump Station Improvements | 1,500,000 |
| | Sewer Enterprise Fund Subtotal | \$1,500,000 |
| DPW: Water Enterprise Fund | | |
| | One-Ton Service Truck w/Plow Replacement | 75,000 |
| | One-Ton Pick Up Truck w/Plow Replacement | 60,000 |
| | Water Enterprise Fund Subtotal | \$135,000 |
| Northborough K-8 Public Schools | | |
| | Proctor Elementary Roof Repairs | 200,000 |
| | Northborough K-8 Schools Subtotal | \$200,000 |
| TOTAL FY16 CAPITAL BUDGET | | \$4,109,000 |



Section 9 of this budget document contains Project Detail Sheets for every capital project included in the Town's 6-year CIP. Part III of the CIP contains the Financial Planning Committee's review and recommendations on the FY2016 Capital Projects and the CIP as a whole. The Financial Planning Committee's role is to act in an advisory capacity to Town Officials and the citizens at Town Meeting, so the Committee's input and comments are an important part of the Town's capital planning process.

The full CIP included in Section 9 of this budget document also contains a question and answer introduction that provides a user-friendly overview of Capital Planning in Northborough.

FY2015 Goals & Accomplishments

The most important aspect of the budget process is the generation of operational and financial plans, program review and the establishment of goals and objectives that will serve the citizens of the community in this and future years. The financial data that is generated is intended to support the Town's policies, programs and objectives that are identified and articulated during the budget process. The budget serves not only as a financial plan, but also as a short-term strategic plan linked to our more long-term objectives and vision for our community.

During FY2015 several key goals and initiatives were achieved. These include:

1. GFOA Distinguished Budget Award: The Town received its fifth consecutive national budget award in FY2015 from the Government Finance Officers Association. The award represents a significant achievement by the Town. It reflects the commitment of the Board of Selectmen and staff to meeting the highest principles of governmental budgeting. In order to receive the budget award, the Town had to satisfy nationally recognized guidelines for effective budget presentation. These guidelines are designed to assess how well the Town's budget serves as a policy document, a financial plan, an operations guide and a communications device.

The Town's FY2015 Budget document was rated "proficient" in all four categories, as well as the fourteen mandatory criteria within those categories, to receive the award. The FY2015 Budget passed Town Meeting with the unanimous support of the Board of Selectmen, Appropriations Committee, Financial Planning Committee and the School Department.

2. Enhanced Financial Trend Monitoring Report: As previously discussed, the Financial Team updated the Town's Financial Trend Monitoring System (FTMS) Report. During FY2015 two new Capital Investment Indicators were developed which measure and track overall capital asset investments and investments in roadway infrastructure. 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:

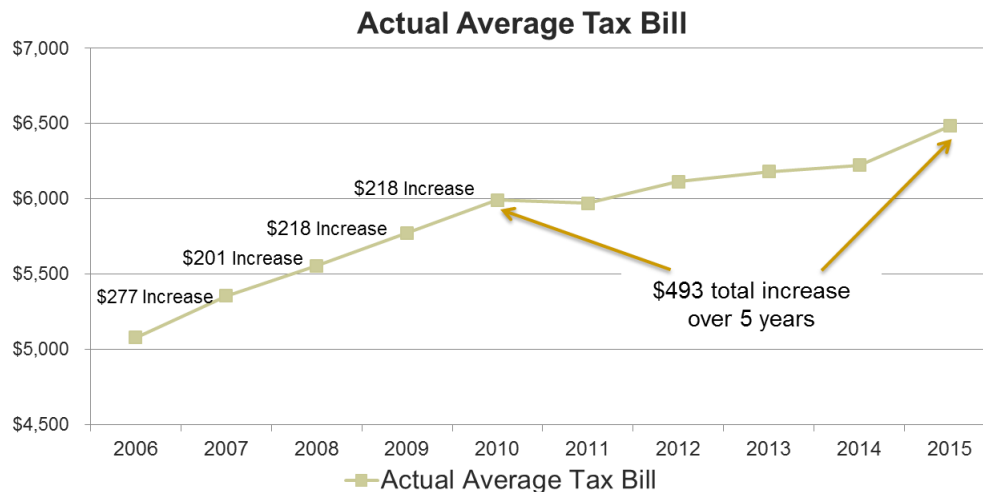
- Gain a better understanding of the Town's current financial condition.



- 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. The new FTMS Report is included in its entirety as Appendix C of this budget document.

3. Clean Annual Audit and Positive Free Cash: The Town closed out FY2014 with approximately \$3.9 million in Free Cash on June 30, 2014 and no material issues or deficiencies were noted in the annual audit.
4. Maintain Northborough as an Affordable Community: Despite increasing home values and relatively stagnant revenue growth, the average single family tax bill increased from \$5,992 in FY2010 to \$6,485 in FY2015, or just \$98 on average over the last five years. According to a March 16, 2014 article in the *Boston Globe* newspaper, Northborough had the lowest overall tax increase for the last 10 years among the fifty-two area communities surveyed.



5. Comprehensive Operational Reviews Conducted on Police & Fire Departments: Following the Interim Report of the Selectmen's Ad Hoc Staffing Committee in March of 2014, proposals were sought for consulting services to conduct comprehensive operational reviews of the Police and Fire Departments. The reviews have been ongoing during FY2015 and it is anticipated that final reports will be completed by the end of FY2015.



6. Lincoln Street Elementary School Renovation/Addition Project: At the April 2012 Annual Town Meeting, \$500,000 was approved as part of the FY2013 Capital Budget to conduct a Feasibility Study of the Lincoln Street Elementary School. Following Town Meeting approval work on the study commenced, resulting in the hiring of a project management firm (Strategic Building Solutions) and an architectural firm (Lamoureux-Pagano Associates). The Lincoln Street School Building Committee, which includes town officials, school officials and citizens, worked in partnership with the Massachusetts School Building Authority (MSBA) to develop a preferred design solution, which was unanimously endorsed by the Building Committee, K-8 School Committee and MSBA.

At the April 2014 Town Meeting the preferred design solution was presented and approved, followed by a successful debt exclusion vote at the May 12, 2014 Town election ballot. The project is estimated to cost \$25.5 million, with MSBA providing a maximum grant of \$10.4 million. The Building Committee spent most of FY2015 working with the architect and project manager to fully develop the design and create construction bid documents. The project is 100% designed and the bid documents have been advertised with construction anticipated to begin in the spring of 2015.

7. FY2015 Capital Budget Approved \$3,079,500 in Projects with no additional tax impact: The approved FY2015 Capital Budget totaled \$3,079,500, of which \$893,500 was funded with Free Cash, \$46,000 with Cable License Franchise Fees, and \$165,000 from Water & Sewer Enterprise Fund Free Cash. The funding approach eliminated any additional tax impact on residents and added no new debt service to the general fund budget. The only debt issued was \$1,975,000 for three Water & Sewer Enterprise Fund projects which were financed with debt that is paid for by user fees (not general fund tax dollars).
8. Creation of a Pavement Management Plan: During FY2015 a comprehensive pavement management plan inventory and assessment was completed. Results indicate that the Town needs to spend at least \$1.1 million each year to maintain its average existing pavement condition index (PCI) score of 71 (out of scale of 0-100). Recent advocacy by the Massachusetts Municipal Association (MMA) resulted in the increase of Chapter 90 (transportation bond) funding from \$200 to \$300 million statewide. This equates to an increase of \$269,000 (difference between prior years allocation of \$475,000 versus the new allotment of \$744,000) that Northborough will receive annually from this program. The FY2016 Public Works operating budget includes a line item of \$300,000 for roadway maintenance. This money is in addition to the \$744,000 in State funds. Adding these two funding sources together brings the total to nearly the \$1.1 million needed for roadway maintenance in order to maintain the PCI.
9. New Fiber Optic Wide-Area-Network (WAN) Installed: A new fiber plant was installed along Main Street, replacing the leased I-Net from Charter Communications. Core network infrastructure linking the Police Department, Town Hall, Library and Fire Department was put in place, updating equipment installed in 1999. This project was done in conjunction with the replacement of the Town's main computer servers and various software upgrades that will allow for enhanced online services.



10. Algonquin Regional High School MSBA Reimbursement: After years of discussing the disagreement regarding allocation of the Massachusetts School Building Authority (MSBA) reimbursement for the Algonquin Regional High School (ARHS) project, a systematic effort was coordinated to move the issue along. Following an unsuccessful compromise deal, the 2010 Annual Town Meeting approved funding to seek a declaratory judgment in order to bring the longstanding disagreement to a head. On December 26, 2014 a final Motion for Acceptance of Agreement for Judgement was recorded in Northborough's favor with no appeal option. The result is the repayment of approximately \$1.7 million to Northborough over the next eight years. The first payment of \$212,000 is due to be received in August of 2015.
11. Annual Town Report Third Place Award: On January 24, 2014, at the Award Ceremony of the Massachusetts Municipal Association's 2014 Annual Meeting and Trade Show, the MMA presented the Town of Northborough with a Third Place Award Certificate in Category 1 (population 12,500 and up) of the MMA's Annual Town Report Contest. Town Reports serve to communicate important information to town residents. It is used as an effective and informative tool in promoting an understanding of local government.

MMA judging criteria for the annual town-report contest include cover design and layout; logical arrangement of material; basic information, such as Town Meeting warrants and results and reports from boards and commissions; summaries of the town's achievements and evidence of planning for the future; broad reader appeal with concise yet comprehensive information; and graphic presentation, which enhances a citizen's understanding of town government. The FY2015 award represents the third time in the last four years that Northborough placed as one of the top three communities in this state-wide competition.

The focus of the Board of Selectmen and Town Administration continues to be on enhancing communication through quality publications, good financial planning and the encouragement of appropriate economic development. These key areas of focus will continue as we move into FY2016.

Major Upcoming Issues or Projects

Looking forward to FY2016, the primary issues likely to continue dominating much of our focus over the next year involve financial planning and various capital projects. The primary projects in FY2016 include:

1. GFOA Distinguished Budget Award Program: Continue to refine the Town's Award winning budget for the FY2016 submission to the Government Finance Officers Association (GFOA) Distinguished Budget Award Program. FY2016 enhancements will continue to focus on long-range financial planning and refinement of the FTMS, as well as the introduction of meaningful performance measures into the operating budgets. Results from the comprehensive Staffing Study will be incorporated into the financial projections as priorities take shape.



2. Lincoln Street Renovation/Addition Project: As discussed under FY2015 accomplishments, the Lincoln Street Elementary School renovation /addition building project will begin construction in the spring of 2015 and it is anticipated that coordination and oversight of the project will continue to consume considerable staff resources throughout FY2016.
3. Staffing Study and Operational Reviews: As the Police and Fire Department operational reviews get completed during the close of FY2015, staff will continue to coordinate with the Board of Selectmen's Ad Hoc Staffing Committee and its Consultant to assess future staffing and facility needs. It is anticipated that recommendations will be coming forward during FY2016 for consideration in the FY2017 budget process.
4. All Collective Bargaining Agreements to be Negotiated: FY2016 is the last year of the previously negotiated collective bargaining agreements for Police Patrol Officers (2%), Police Sergeants (2%), Fire (2%) and the Northborough Municipal Employees Association (2%). A significant amount of time during FY2016 will be devoted to negotiating fair and sustainable future increases for personnel in FY2017-FY2019, including possible modifications to health insurance plans.
5. Negotiate a new Inter-municipal Agreement (IMA) with the City of Marlborough: The Town of Northborough does not own its own sewer treatment plant, but instead sends its flow to the City of Marlborough's Westerly Treatment Plant under a long-standing IMA that dates back to the 1960s. On November 16, 2009, after spending more than 8 years working with both the State DEP and Federal EPA, the National Pollutant Discharge Elimination System (NPDES) Permit modification for the Marlborough Westerly Treatment Plant was finally granted. The permit allowed the Westerly Treatment Plant additional sewer capacity by increasing the permitted flow of treated effluent into the Assabet River.

Unfortunately, after granting the increase in flow, the EPA abruptly and unexpectedly rescinded the NPDES permit on February 23, 2010. However, since the granting of the initial permit, Marlborough has completed the \$30 million expansion and upgrades to the plant. A major initiative during FY2016 will be increasing Northborough's advocacy to get the EPA's NPDES Permit released and subsequently negotiate a new IMA with Marlborough. Release of the permit and securing of additional sewer capacity through a new IMA is critical to Northborough's future economic development. For more information regarding the Town's sewer history and the EPA permit process, please see Section 8-5 of this budget document.

6. Infrastructure Improvements: In addition to the Lincoln Street School Building Project, the Town will begin implementing the newly created Pavement Management Plan using the enhanced funding approved at both the state and local level; move forward with the replacement of the Otis Street bridge/culvert; rebuild the Hudson Street pump station, which handles 98% of the Town's sewer flow; and move forward with the design of the Church Street intersection and bridge/culvert replacement. These projects as well as many smaller capital improvements scheduled throughout FY2016 will continue to add to the quality and economic vitality of the Northborough community.



Conclusion

The FY2016 Proposed Budget follows is balanced pending passage of the final State Budget and meets the previously determined budget goals. The FY2016 Proposed Budget is within the budgetary increase allowable under limits of Proposition 2½, minimizes the tax impact while maintaining a level services budget, does not impact core services and provides for a modest increase to personnel.

Following this Budget Message is Section 1—Budget Summaries, which contains both the revenue and expenditure highlights of the FY2016 Proposed Budget and further details the challenges and opportunities facing the Town of Northborough.

I would like to take this opportunity to thank the members of the Financial Team—Assistant Town Administrator Kimberly Foster, Finance Director June Hubbard-Ward and Town Accountant Jason Little for their tireless contributions. I would also like to thank Superintendent of Schools Christine Johnson for her excellent communication and cooperation during this past year. The level of professionalism and sense of teamwork exhibited by all the financial Boards and Committees in Northborough is something our community can be proud of.

Respectfully submitted,

John W. Coderre
Town Administrator