



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: FY2012 Proposed Budget

DATE: March 28, 2011

I am pleased to present the Fiscal Year 2012 Proposed Budget, which incorporates the latest information available regarding revenue projections and departmental expenditure requests. Since the preliminary budget discussion on February 28nd, several developments have occurred that require discussion. However, the overall FY2012 budget has developed without any major surprises, as most key budgetary impacts were anticipated during our planning process.

Background Work

As you know, we have spent the past six months working on the key factors that will allow the Town to successfully navigate the FY2012 budget process. These include refinement of the Town's Financial Policies in the form of the new Free Cash Policy, negotiation of sustainable collective bargaining agreements, financing of the Solid Waste Enterprise Fund, and development of the six-year Capital Improvement Program.

The key goals at the start of the FY2012 budget process were to:

- Develop the FY2012 Budget within confines of Prop 2 ½
- Maintain level services
- Negotiate financially sustainable collective bargaining agreements
- Mitigate Health Insurance premium increases with increased Teacher contributions
- Implement a financially stable Solid Waste Enterprise funding plan
- Minimize tax increases, given projected increases in debt service
- And, focus on the Town's long-term financial planning and sustainability



Recent Developments

During the month of March, several significant budgetary items have been finalized, including Health Insurance, Debt Service, revised State Aid estimates and new growth figures. Collectively, these items represent the final pieces to the FY2012 budget.

- Health Insurance—With regard to health insurance, the FY2012 budget request of \$4.5 million represents a total increase of \$193,938 or 4.5% from the amount budgeted last year. While the premiums for some individual health insurance plans may increase significantly, plan design changes and the adoption of Chapter 32B, Section 18 in FY2010 have helped limit the budgetary increases in FY2012. Most importantly, the Town has worked closely with the School Department to increase teacher contributions from 20% to 25% for Health Insurance in FY2012, resulting in approximately \$150,000 in savings. The increased contribution rate sets the stage for another possible collaboration with the employees in FY2013 to possibly consolidate plans, provided it makes sense for both the employees and the Town.

- Debt Service—The proposed FY2012 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 FY2012, the total Debt Service budget for the General Fund is \$2.49 million, a significant increase of \$495,559 due primarily to the March 2011 sale of permanent bonds for the construction of the new Senior Center. The Town received a very favorable rate of 3.09% on the bonds resulting in savings of approximately \$100,000 from the estimated rate of 4.75% originally used for budgeting purposes.

It is important to note that throughout the recessionary period, Northborough has 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 the current economic cycle. At a time of fiscal uncertainty this 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.

BOND RATING SYMBOLS

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

- State Aid—Since the release of the Governor's House 1 Budget on January 26, 2011, legislators have warned that funding for local aid could be lower than the amounts released in the House 1 Budget. Therefore, in order to maintain a conservative position, we have prepared our FY2012 budget assuming a 5% reduction in Chapter 70 aid from the level in the Governor's House 1 Budget. In total, State Aid is estimated to decrease by 5.83% to \$4.30 million, or \$266,275 below the FY2011 actual of \$4.57 million.
- 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. Due to the expansion of existing commercial and industrial businesses as well as several new development



projects, our revenue from New Growth in recent years has been significant. In FY2012, we are planning for a \$38 million increase in valuation and \$574,180 in additional tax revenue due to New Growth. The positive economic development in Town is one of the main reasons Northborough has been able to weather the repeated annual cuts in State Aid.

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

Budget in Brief

Similar to prior budgets, the FY2012 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.

FY2012 PROPOSED BUDGET

EXPENDITURES	FY2011 Budget	FY2012 Proposed	Variance	% Change
Town	\$15,941,145	\$16,576,910	\$635,765	3.99%
Schools				
Northborough K-8	\$17,985,566	\$18,702,867	\$717,301	3.99%
Algonquin Reg. HS 9-12	\$7,696,524	\$7,817,716	\$121,192	1.57%
HS Debt Exclusion	\$1,131,427	\$1,267,629	\$136,202	12.04%
Assabet Valley	\$680,836	\$517,488	-\$163,348	-23.99%
Warrant Articles				
Reserve Fund	\$0	\$150,000	\$150,000	100%
Capital Improvement Articles	\$0	\$804,000	\$804,000	100%
Election Equipment	\$27,600	\$0	-\$27,600	100%
Declaratory Judgement	\$100,000	\$0	-\$100,000	100%
Zeh School Debt	\$540,830	\$520,567	-\$20,263	-3.75%
Colburn St. Debt Service	\$81,922	\$79,997	-\$1,925	-2.35%
Library Debt Service	\$430,395	\$424,995	-\$5,400	-1.25%
Senior Center Debt Service	\$255,170	\$609,135	\$353,965	138.72%
Other Funds	\$391,012	\$392,079	\$1,067	0.27%
Adjustments	\$10,521	\$0		
Subtotal General Fund	\$45,272,948	\$47,863,383	\$2,590,435	5.72%
Water Enterprise Funds	\$1,725,110	\$1,922,930	\$197,820	11.47%
Sewer Enterprise Fund	\$1,194,677	\$1,311,875	\$117,198	9.81%
Solid Waste Enterprise Fund	\$826,447	\$727,570	(\$98,877)	-11.96%
Subtotal Enterprise Funds	\$3,746,234	\$3,962,375	\$216,141	5.77%
TOTAL ALL FUNDS	\$49,019,182	\$51,825,758	\$2,806,576	5.73%



- **Northborough K-8**

Based upon the revenue forecasts, it is projected that the Town's General Government Budget and Northborough K-8 Schools may increase by 3.99% in FY2012. Therefore, the FY2012 amount available for the Northborough K-8 School department is \$18,702,867. This represents an increase of \$717,301 from the \$17.9 million appropriated last year. In FY2012, the School District will no longer receive any direct aid in the form of Federal Stimulus Funds with the exception of the EdJobs Grant. This grant of approximately \$232,000 was made available in FY2011 but is expected to be used in by the Northborough School Department in FY2012. The expenditures will be from the grant program, so they will not be reflected within the General Fund funded portion of their budget.

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

The total FY2012 ARHS assessment to Northborough is \$9,085,345. This represents a 2.92% increase of \$257,394. The moderate increase was necessary in order to bring the Town of Southborough's assessment to a manageable level. Due to shifting enrollment as well as the State Department of Education's funding formulas, Northborough's assessment increases 2.92%, while Southborough's increases 8.01%.

The assessment amount includes an increase of \$136,203 for the debt service assessment for the ARHS additional/renovation project, as well as a \$121,191 assessment increase for the regional school operating budget. The debt service assessment is a debt-excluded item.

- **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. As of October 1, 2010, 41 Northborough students attend Assabet Valley, which represents 5.94% of its FY2012 budget, or \$517,488. This assessment is down from 53 students on October 1, 2009, resulting in a FY2012 assesment decrease of \$163,348.

- **Special Warrant Articles**

In addition to the individual departmental appropriations, the Town's overall annual financial plan includes additional warrant articles which draw upon the funds available to the Town. In FY2012 these warrant articles total \$954,000 (\$150,000 Reserve Fund and \$804,000 in capital improvement articles) and are all funded using Free Cash, which means no additional tax impact will be incurred when these articles are approved. During November of 2010, the Board of Selectmen adopted a Free Cash Policy, which now provides a funding source for projects, other than municipal bonds. The new Free Cash Policy is on page 2 in Appendix A of this budget document, which contains the Town's comprehensive financial policies. The new Free Cash Policy and plan are discussed at length in the transmittal letter of the Capital Improvement Plan contained in pages Section 9-1 through 9-5 of this document.

Total Fiscal Year 2012 operating budget for all funds is \$51,825,758, or a 5.73% increase over FY2011. An in-depth review of revenues and expenditures is provided in the Budget Highlights Section 1 that follows this Budget Message.



Personnel Summary

In a relative sense, the fastest growing cost segment of the budget is personnel and personnel-related expenses such as health insurance, pension costs and Medicare contributions. As vacancies occur, every effort is made to re-examine positions with a view toward restructuring, reducing or eliminating the position, where possible. No new positions are proposed to be added to General Government although minor adjustments to hours worked are reflected in the summary table below. Similarly, minor changes to the K-8 School FTEs are also noted.

TOWN OF NORTHBOROUGH PERSONNEL SUMMARY FY2009 – FY2012

Town Government	FY 2009 FTE	FY 2010 FTE	FY 2011 FTE	FY 2012 FTE	Change FY09- FY12
Executive Office	3.75	3.75	3.75	3.75	0.00
Public Buildings	0.50	0.50	0.50	0.50	0.00
Financial Offices	10.00	9.25	9.25	9.35	-0.65
MIS/GIS	2.00	2.00	2.00	2.00	0.00
Town Clerk's Office	2.00	2.00	2.00	2.00	0.00
Planning & Engineering	3.21	3.21	3.23	3.23	0.02
Police Department	27.50	27.50	27.50	27.50	0.00
Fire Department	19.73	19.73	19.73	19.71	-0.02
Building Department	2.80	2.80	2.80	2.80	0.00
Health Department	2.20	2.20	2.20	2.20	0.00
Dog Officer	1.00	1.00	1.00	1.00	0.00
Department of Public Works	16.75	16.75	16.75	16.75	0.00
Senior Center/COA	2.89	2.89	2.89	2.86	-0.03
Library	12.04	9.19	9.51	9.16	-2.88
Recreation	2.00	2.00	2.00	2.00	0.00
Family & Youth Services	1.96	1.96	1.96	1.96	0.00
Cable Access TV	1.75	1.75	1.75	1.75	0.00
Veterans' Services	0.29	0.29	0.29	0.29	0.00
Town Subtotal	112.37	108.77	109.11	108.81	-3.56
School Department (K-8)	FY 2009 FTE	FY 2010 FTE	FY 2011 FTE	FY 2012 FTE	Change FY09- FY12
K-5 Teachers	67.00	62.50	62.50	63.50	-3.50
Grade 6-8 Teachers	34.60	34.20	34.20	33.40	-1.20
Specialists	33.40	34.30	34.30	35.30	1.90
Special Education Staff	39.45	37.60	37.60	37.60	-1.85
Administration	6.00	6.00	6.00	6.00	0.00
Support Staff	94.10	96.60	96.60	96.60	2.5
K-8 Schools Subtotal	274.55	271.20	271.20	272.40	-2.15
Total Town & K-8 FTEs	386.92	379.97	380.31	381.21	-5.71



Overall, General Government FTEs are down -3.56 and K-8 School FTEs are down -2.15 since FY2009. Further detail on specific positions is provided within the departmental personnel summaries contained in Budget Sections 2 through 5.

At the time of this writing, the Town has successfully negotiated sustainable collective bargaining agreements with Public Safety Dispatchers (1%), Police Sergeants (0%), Fire (1%), and Northborough Municipal Employees Association (1%) in FY2012. The only outstanding negotiation for FY2012 remains the Police Patrol Officers. Non-union employee wage increases are budgeted at 1% in FY2012 and reflected within the departmental operating budgets as presented.

Capital Budget

Enclosed in Section 9 of this document are the Town's Annual Capital Budget and FY2012-2017 Capital Improvement Program (CIP). The Table on the following page represents the Proposed Capital Requests being made by the General Government Departments, as well as the Northborough K-8 School Department for FY2012.

Excluding the \$500,000 Lincoln Street Elementary School Feasibility Project, which is still awaiting approval by MSBA, the funding sources for the FY2012 Capital Budget rely on only \$150,000 in debt. The balance of the \$2.38 million in project expenses, or 94%, is to be paid for using a combination of Free Cash, State Grants and available mitigation funds. The proposed funding approach limits the tax impact to just \$150,000. The pie chart on page 9-3 of the CIP shows the funding sources for the proposed FY2012 Capital Budget.

With regard to the Northborough K-8 School requests, it is unclear at the time of this writing whether or not the Massachusetts School Building Authority (MSBA) will approve the Lincoln Elementary School Feasibility Project. Without MSBA's approval prior to Town Meeting, it is likely that the Feasibility Project Request will be passed over and delayed to another year. Were the Town to proceed without prior approval, it would risk future State funding assistance on the project. Additional information will be presented at Town Meeting.

Section 9 of this budget document contains Project Detail Sheets for every capital project contained in the Town's 6-year CIP. Part III of the CIP contains the Financial Planning Committee's review and recommendations on the FY2012 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 its input and comments are an important part of the Town's capital planning process.

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



FY2012 PROPOSED CAPITAL BUDGET

PROJECTS BY DEPARTMENT		EXPENDITURE
GENERAL GOVERNMENT	<u>Fire Department</u>	
	Ambulance Replacement	230,000
	Pick-up Truck Replacement	60,000
	<u>Police Department</u>	
	Dispatch/Station Phone System	35,000
	<u>DPW: Highway Division</u>	
	Highway Garage Truck Lift	60,000
	One Ton Pick-up Truck w/Plow	39,000
	Street Sweeper	164,000
	One Ton Dump Truck w/Plow	71,000
General Government Subtotal		\$659,000
NORTHBOROUGH K-8 SCHOOLS	<u>Peaslee Elementary School</u>	
	Flat Roof Replacement	525,000
	<u>Melican Middle School</u>	
	Boiler/Window Replacement (MSBA Program)	1,200,000
	<u>Lincoln Elementary</u>	
	Feasibility Study	500,000
Northborough K-8 Public Schools Subtotal		\$2,225,000
CAPITAL PROJECTS TOTAL		2,884,000

FY2011 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 FY2011 several key goals and initiatives were achieved. These include:

1. **GFOA Distinguished Budget Award:** The Town received its first ever national budget award in FY2011 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 FY2011 Budget document was rated "proficient" in all four categories, as well as the fourteen mandatory criteria within those categories, to receive the award. The FY2011 Budget passed Town Meeting with the unanimous support of the Board of Selectmen, Appropriations Committee, Financial Planning Committee and the School Department.

2. Comprehensive Financial Policies Expanded: The Board of Selectmen adopted the Town's first set of Comprehensive Financial Policies effective in FY2011. During November of 2010 the Board of Selectmen unanimously adopted a new Free Cash Policy, resulting in \$804,000 in proposed FY2012 capital investments without future tax impacts. Adoption of the policies eliminated several recurring comments in the annual audit pertaining to investments and risk management.
3. Public Safety Communication Tower Bid: Under Article 39 of the April 26, 2010 Annual Town Meeting the Town bid out the rental of space to cell carriers already interested in locating a cell tower near the Police Station. This creative solution has numerous benefits, including: 1) eliminates the estimated cost of \$250,000 from the Capital Improvement Plan to remove the old tower, install a new tower, and outfit the tower with new public safety communications equipment; 2) the Town will receive lease payments from the tower operator totaling \$651,000 over the twenty-year lease term; and 3) the Town will receive as much as \$250,000 in rental revenues from wireless co-locators. In all, the initiative has a value in excess of \$1,000,000, at no cost to Northborough taxpayers.
4. Positive Economic Development: One of Northborough's success stories is the positive economic development in FY2011. During a period when little economic expansion was seen around Central Massachusetts, Northborough added \$68 million in new growth for FY2011, resulting in almost \$1 million in new tax dollars. In addition, Northborough has successfully enhanced its public image as a positive place to do business by coordinating early with major developments in order to ensure a smooth process.
5. Collective Bargaining: Successfully negotiated sustainable collective bargaining agreements with Police Sergeants (0%), Fire (1%), and NMEA (1%) for FY2012. The only outstanding negotiation for FY2012 remains the Police Patrol Officers.
6. Solid Waste Program Structure & Funding Finalized: Following two budget cycles of policy review and funding research, the Solid Waste Enterprise Fund program structure and financing were finalized. The Solid Waste contract was bid out, and numerous options presented and reviewed, thereby allowing the Board of Selectmen to make an informed policy decision. The existing Pay-As-You-Throw bag program will continue for the next five years at an overall reduced cost with a General Fund Subsidy that eliminates the need for an addition of a flat fee. The positive aspects of the current program that allow our users to control costs and reduce trash remain in effect.



The initiatives and changes made during FY2011 will continue to benefit us as we move into FY2012.

Major Upcoming Issues or Projects

Looking forward to FY2012, 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 FY2012 include:

1. GFOA Distinguished Budget Award Program: Continue to refine the Town's award-winning budget for the FY2012 submission to the Government Financial Officers Association (GFOA) Distinguished Budget Award Program. FY2012 enhancements will focus on more long-range financial planning and the creation of a Fiscal Indicators Report using the International City Manager's Association (ICMA) best practices model.
2. Downtown Traffic Improvements: On September 10, 2009 a public hearing was held to review the proposed downtown traffic improvements. The proposed project consists of widening along Route 20 to provide left turn lanes at Church Street (eastbound), South Street (westbound) and Hudson Street (eastbound), with additional widening along Church Street and Hudson Street to provide additional turn lanes. The existing signal equipment at Church Street and South Street will be upgraded and a new traffic signal will be installed at Hudson Street. The three (3) signals will be designed as a coordinated signal system for improved vehicle progression. The design also incorporates provisions for emergency vehicle access and pre-emption for the Fire Department, protected pedestrian crossings at signalized locations and railroad pre-emption for the at-grade crossing of Route 20. After a delay in finding a solution to the Patty Lane component of the redesign, it is anticipated that the project will move forward in 2011 and have significant impacts on staff and resources.
3. Town Offices Building Improvements: During FY2010, a building assessment was conducted on the Town Offices building and a series of prioritized improvements were recommended. The first phase of improvements during FY2011 focused on the building envelope and included repairs to the roof as well as the front and side entry ways. Additional review and plans will be developed during FY2012 for necessary HVAC improvements.
4. Algonquin Regional High School MSBA Reimbursement: The April 2010 Town Meeting Warrant included funding to seek a declaratory judgment in order to bring the longstanding disagreement over the manner in which the Massachusetts School Building Authority (MSBA) reimbursement for the Algonquin Regional High School was allocated. The Town of Southborough believes the Regional Agreement is the appropriate method and Northborough is of the opinion that MGL Chapter 70B should apply. Final resolution to this disagreement is expected to take place during FY2012.



5. Fire Department Feasibility Study—With regard to the Fire Station, there is a project placeholder in the FY2013/2014 Capital Improvement Plan that provides for the renovation or relocation of the existing 1974 fire station. Previously appropriated capital funds in the amount of \$75,000 will be used to complete a limited Feasibility Study during the summer of 2011 to better define the proposed project location, design and cost estimates. The study will provide information that is necessary to develop a formalized approach in FY2013.
6. Health Insurance—Lastly, the Town will continue to explore options in FY2012 for possible consolidation of Health plan providers. Working with employees and the Town's Insurance Advisory Committee, any and all options that might result in cost savings will be reviewed.

Conclusion

It is important to note that the FY2012 Proposed Budget as presented assumes ongoing savings due to plan design changes to employee health insurance benefits that were successfully negotiated at the start of FY2010. Those plan design changes, coupled with the adoption of MGL, c.32B, Section 18 at the April 2009 Annual Town Meeting are two key factors that have allowed the Town to sustain the core services residents have come to depend upon.

The FY2012 Proposed Budget that follows is balanced pending passage of the final State Budget, is within the budgetary increase allowable under limits of Proposition 2 ½, does not impact core services, and does not require further reductions in General Government personnel. However, out of necessity, most of the cuts and reductions made during FY2010 and FY2011, persist in the FY2012 Proposed Budget. These impacts are fully detailed in the Departmental Budget pages contained in Sections 2 through 5.

Following this Budget Message is Section 1—Budget Summaries, which contains both the revenue and expenditure highlights of the FY2012 Proposed Budget and further details the challenges and opportunities facing the Town of Northborough.

Respectfully submitted,

John W. Coderre
Town Administrator