



## 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: FY2017 Proposed Budget

DATE: March 25, 2016

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I am pleased to present the Fiscal Year 2017 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 28<sup>th</sup> to discuss the FY2017 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 11<sup>th</sup> meeting.

Even though review of the budget details will continue right up until Town Meeting on April 25<sup>th</sup>, 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 17, 2015 Financial Trend Monitoring System joint meeting. The Town has now received the final Assabet Valley and Algonquin Regional High School (ARHS) assessments as well.

On December 17, 2015 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 FY2017 budget. The following goals and objectives are direct outcomes from that joint meeting.

#### **Goals and objectives of the FY2017 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 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 FY2016 and FY2017 budget processes to discuss financial trends, projections, staffing studies and major capital improvements.
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 FY2017 annual budget will be 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 FY2017 Budget will seek to maintain a comparable level of reserves by including a \$200,000 appropriation from Free Cash into the Stabilization Fund.
3. To maintain Northborough as an affordable place to live and operate a business
- By developing a FY2017 Budget that is within the confines of Proposition 2 ½ and includes reasonable tax increases necessary to maintain current service levels. It is anticipated that due to a relatively stagnant revenue outlook and increasing debt service for the Lincoln Street School project, the FY2017 Budget will require tax increases absent improving State Aid and/or significant 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 unions. As of this writing, all five non-school union contracts are set to expire on June 30, 2016 and contracts for FY2017 are in negotiation.



As part of the ongoing negotiations the Town has already negotiated plan design changes to employee health insurance coverage that will help mitigate anticipated premium increases.

- 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 FY2016 the Town completed detailed staffing and operational reviews on the Police and Fire Departments to determine appropriate and sustainable service levels.
  - By continuing to fund the OPEB plan in FY2017 at \$500,000 in order to continue addressing the Town's \$34.9 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 FY2017 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 FY2017 budget.

### **Recent Developments**

During the month of March, several significant budgetary items have been finalized, including Health Insurance, Debt Service, State Aid estimates and new growth figures. Collectively, these items represent the final pieces of the FY2017 budget.

- Health Insurance—The FY2017 health insurance budget request of \$5.1 million represents a total increase of \$148,472 or 3% from the amount budgeted last year. Plan design changes and the adoption of Chapter 32B, Section 18 in FY2010 limited budgetary impacts for seven consecutive years. 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.

Unfortunately, market trends appear to indicate a return to higher health insurance increases, necessitating another round of plan design changes. To this end, the Town successfully negotiated higher copays and deductibles with all employee

| <b>Health Insurance<br/>Budget Increases</b> |        |
|--|--------|
| FY2007                                       | 9.88%  |
| FY2008                                       | 9.31%  |
| FY2009                                       | 11.43% |
| Average                                      | 10.20% |
| FY2010                                       | 0.72%  |
| FY2011                                       | 2.99%  |
| FY2012                                       | 4.49%  |
| FY2013                                       | 3.34%  |
| FY2014                                       | 2.00%  |
| FY2015                                       | 1.00%  |
| FY2016                                       | 3.00%  |
| FY2017                                       | 3.00%  |
| Average                                      | 2.57%  |



groups, effective July 1, 2016 (FY2017). The modifications largely mitigated the anticipated premium increases of 7-9%. Given the recent changes, the Town's health benefits remain affordable with an eight year average budget increase of only 2.57%. Should market trends continue in subsequent years, additional plan design modifications may be needed.

- **Debt Service**—The proposed FY2017 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 FY2017, the total Debt Service budget for the General Fund is \$3.03 million, an increase of \$435,710. This increase is necessary to provide for the second and final permanent bonding for the Lincoln Street School addition/renovation project. The total amount financed for the Town's share of the \$25.5 million project was \$14.2 million, which added approximately \$1.14 million in total debt service over FY2016 and FY2017.

One key factor in limiting the increase in new FY2017 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.

Of significant note is that in conjunction with the bond issuances for the Lincoln Street School project, Moody's Investors Service upgraded the Town's bond rating from Aa2 to Aa1, which is Northborough's highest rating ever. During the review Moody's cited the Town's manageable debt levels, strong reserves, below average pension liabilities and its ongoing funding of OPEB liabilities as positive factors. With regard to management they commented that *"the Town has a strong management team evidenced by a multi-year trend of conservative budgeting guided by formal fiscal policies."* 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.

#### 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**—Current budget models assume State Aid will increase 1.5% over the \$4.99 million received during FY2016. The estimate is based upon the Governor's FY2017 Budget which was released on January 27<sup>th</sup>. Despite State revenue projections expected to grow between 3.8% and 4% next fiscal year, the State's FY2017 budget is anticipating up to a \$1 billion structural budget gap due to growing expenditures and the use of significant one-time revenues in the FY2016 Budget according to an analysis by the Mass Taxpayers Foundation. Given the State's financial issues, it appears unlikely that State Aid will increase much beyond the Governor's estimate. Over the coming months the House and Senate will release their respective budget proposals and work out the differences through a joint committee. Historically, the Town does not receive its final State Aid figures until well after Town Meeting in



April, so using the Governor's figures appears to be a reasonable approach at this time.

- **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. New Growth is estimated at \$30 million based upon an analysis of building permits and ongoing construction projects, which will result in approximately \$515,000 in new FY2017 tax revenues. Strong development activity was Northborough's primary source of new revenue during the recent recessionary period, hitting a peak of over \$92 million in new growth during FY2013; however, it has steadily declined to \$31.7 million in FY2016. As discussed at the FY2016 Tax Classification Hearing held in November 2015, new growth is forecast to remain at these levels, 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**

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Similar to prior budgets, the FY2017 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 \$768,304 or 3.5% to \$22,719,843
- General Government (Town) increases \$680,971 or 3.5% to \$20,137,277
- Assabet Valley Vocational HS Operating Assessment decreases by \$180,118, or 20.74% to \$688,313 as enrollment declines by 13 students
  - Debt service associated with the recently completed renovation project increases from \$15,006 to \$192,135
  - Net effect of the combined Operating Assessment and new debt service is an overall decrease of \$2,989
- Algonquin Operating Assessment increases \$656,800 or 6.97% to \$10,078,475 due to increased enrollment
  - The debt for ARHS increases by \$4,713, or 0.72% to \$661,206



## FY2017 PROPOSED BUDGET

| EXPENDITURES                     | FY2016<br>Budget    | FY2017<br>Proposed  | Variance           | %<br>Change  |
|----------------------------------|---------------------|---------------------|--------------------|--------------|
| General Government (Town)        | \$19,456,306        | \$20,137,277        | \$680,971          | 3.50%        |
| Schools                          |                     |                     |                    |              |
| Northborough K-8                 | \$21,951,539        | \$22,719,843        | \$768,304          | 3.50%        |
| Algonquin Reg. HS 9-12           | \$9,421,675         | \$10,078,475        | \$656,800          | 6.97%        |
| Algonquin Debt Exclusion         | \$656,493           | \$661,206           | \$4,713            | 0.72%        |
| Assabet Valley                   | \$868,431           | \$688,313           | -\$180,118         | -20.74%      |
| Assabet Valley Debt              | \$15,006            | \$192,135           | \$177,129          | 1180.39%     |
| Warrant Articles                 |                     |                     |                    |              |
| Reserve Fund                     | \$175,000           | \$175,000           | \$0                | 0.00%        |
| Free Cash Capital Projects       | \$2,214,000         | \$1,833,460         | -\$380,540         | -17.19%      |
| Transfer to Stabilization        | \$200,000           | \$200,000           | \$0                | 0.00%        |
| Transfer to OPEB Trust           | \$500,000           | \$500,000           | \$0                | 0.00%        |
| Zeh School Debt                  | \$444,010           | \$424,419           | -\$19,591          | -4.41%       |
| Colburn St. Debt Service         | \$71,473            | \$69,245            | -\$2,228           | -3.12%       |
| Library Debt Service             | \$399,395           | \$392,025           | -\$7,370           | -1.85%       |
| Senior Center Debt Service       | \$445,395           | \$433,795           | -\$11,600          | -2.60%       |
| Lincoln Street Debt              | \$675,000           | \$1,144,882         | \$469,882          | 69.61%       |
| Other Funds                      | \$534,058           | \$1,008,581         | \$474,523          | 88.85%       |
| Adjustments                      | -\$62,335           | \$0                 | \$62,335           | -100.00%     |
| <b>Subtotal General Fund</b>     | <b>\$57,965,446</b> | <b>\$60,658,656</b> | <b>\$2,693,210</b> | <b>4.65%</b> |
| Water Enterprise Funds           | \$2,230,328         | \$2,251,473         | \$21,145           | 0.95%        |
| Sewer Enterprise Fund            | \$1,658,942         | \$1,718,422         | \$59,480           | 3.59%        |
| Solid Waste Enterprise Fund      | \$767,000           | \$768,350           | \$1,350            | 0.18%        |
| <b>Subtotal Enterprise Funds</b> | <b>\$4,656,270</b>  | <b>\$4,738,245</b>  | <b>\$81,975</b>    | <b>1.76%</b> |
| <b>TOTAL ALL FUNDS</b>           | <b>\$62,621,716</b> | <b>\$65,396,901</b> | <b>\$2,775,185</b> | <b>4.43%</b> |

- **General Government Budget**

The total FY2017 General Government Budget (non-school) is \$20,137,277 which is an increase of \$680,971, 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 \$255,000 to \$510,000 on a \$5.1 million budget. Clearly, the annual renewal of the Town's health insurance premiums is critical to the General Government budget, given that the entire FY2017 budget increase for all non-school departments is only \$680,971. 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, 2015, a total of 1,758 students attend the Northborough schools, with 1,098 students in grades K-5 at the four elementary schools and 660 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 FY2017. Therefore, the FY2017 amount available for the Northborough K-8 School department is \$22,719,843. This represents an increase of \$768,304 from the \$21,951,539 appropriated last year.

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

As of October 1, 2015, a total of 855 Northborough students attend the Northborough-Southborough Regional High School. This represents 58.84% of the total 1,458 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 FY2017 the ARHS operating Assessment increases \$656,800 or 6.97% to \$10,078,475 and the debt assessment remains relatively flat at \$661,206. Although the ARHS budget is only increasing by 3.8%, Northborough's share is increasing disproportionately primarily due to increased enrollment.

- **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 FY2017 budget is \$19,610,000 which is a \$565,000 or 2.97% increase.

A \$62.4 million building renovation project was previously approved by all of the member communities and the Massachusetts School Building Authority voted to fund 53.48% of the project. Construction began in the summer of 2013 and is now complete. Northborough's share of the debt assessment is at the peak in FY2017 at \$192,135 and is structured to decline in subsequent years.

As of October 1, 2015, 45 Northborough students attend Assabet Valley, which represents 5.93% of the FY2017 Assabet budget, or an operating assessment of \$688,313. This is an enrollment decrease of 13 from the 58 Northborough students that attended Assabet Valley last year. The total FY2017 assessment, including the \$192,135 in debt service is \$880,448, which is an overall decrease of \$2,989 from FY2016.

- **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 FY2017-2022 Capital Improvement Program (CIP).

Overall, the Fiscal Year 2017 total operating budget for all funds is \$65,396,901 or a 4.43% increase over FY2016; however, the increase includes one-time pay-as-you-go capital expenditures, a one-time contribution to the Stabilization Fund and the new debt service for the voter approved Lincoln Street School project. 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 FY2016 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.

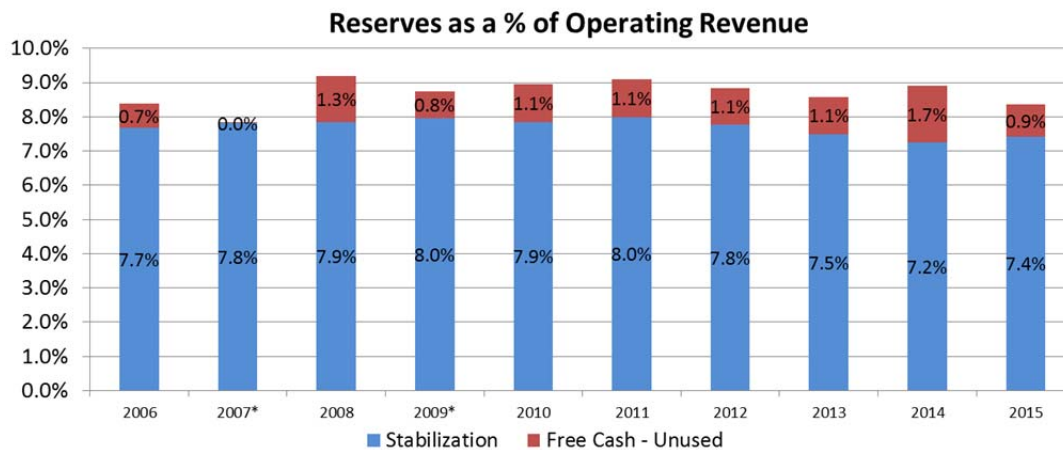
### Financial Trend Monitoring System Indicator Summary

|    | Financial Indicator                           | FY2016                  |
|----|---|-------------------------|
| 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 / Improving |
| 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 \$3.9 million Stabilization (rainy day) Fund has not been necessary. The Town's debt level is manageable at 5% of the operating budget and its bond rating was upgraded to Aa1 in 2015. 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 relatively 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. During FY2015 comprehensive assessments of the Police and Fire Departments were conducted by an independent third party consultant. While the studies concluded that the staffing needs were significantly less than requested, some increases are warranted. It is anticipated that recommendations of the Staffing Committee will be phased into future budgets commensurate with growth in recurring revenues.

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 \$34.9 million based on the actuarial study received at the close of FY2015. 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. The FY2016 budget appropriated another \$500,000 into the OPEB Trust fund and the FY2017 budget sustains that level. At the close of FY2017 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.

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### **Personnel Summary**

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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 its 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)<sup>1</sup> positions by department, including any proposed changes for FY2017.

In total, Town Government staffing is up 3.1 FTEs from FY2016. The change includes the addition of a Police Officer and a Firefighter/Paramedic in accordance with the recently completed public safety staffing studies. The positions are budgeted to start mid

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<sup>1</sup> 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.



fiscal year in January of 2017. In addition, a part-time Executive Assistant position that was previously reduced in FY2015 is being restored. The reduction was an effort to job share a position between the Selectmen's Office and the Town Clerk's Office; however scheduling conflicts and new State-mandates have added workload that necessitates increasing staff. Lastly, a new 19 hour per week part-time position has been returned to the Library, as well as an 8 hour per week Library Page position. The increase in Library staff was made possible through reductions in the Substitute Librarian budget line as well as salary savings associated with new staff. Beyond the material changes above, very minor adjustments were also made to a part-time Board Secretary position for the Planning Board in order to provide adequate meeting coverage.

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

## TOWN OF NORTHBOROUGH PERSONNEL SUMMARY FY2013–FY2017

| <b>Town Government</b>           | <b>FY 2013<br/>FTE</b> | <b>FY 2014<br/>FTE</b> | <b>FY 2015<br/>FTE</b> | <b>FY 2016<br/>FTE</b> | <b>FY 2017<br/>FTE</b> | <b>Change<br/>FY16-FY17</b> |
|----------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|-----------------------------|
| Executive Office                 | 3.75                   | 3.75                   | 3.50                   | 3.50                   | 4.00                   | 0.50                        |
| Public Buildings                 | 0.50                   | 0.50                   | 0.50                   | 0.50                   | 0.50                   | 0.00                        |
| Financial Offices                | 9.35                   | 9.38                   | 9.50                   | 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                   | 1.98                   | 1.98                   | 2.00                   | 0.02                        |
| Planning & Conservation          | 3.73                   | 3.73                   | 2.73                   | 2.78                   | 2.80                   | 0.02                        |
| Police Department                | 27.50                  | 28.50                  | 28.50                  | 28.50                  | 29.50                  | 1.00                        |
| Fire Department                  | 19.67                  | 20.43                  | 20.45                  | 21.53                  | 22.41                  | 0.88                        |
| 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                      | contract               | contract               | contract               | contract               | contract               | 0.00                        |
| Dept. of Public Works            | 16.88                  | 17.00                  | 18.48                  | 20.48                  | 20.48                  | 0.00                        |
| Senior Center/COA                | 3.00                   | 3.00                   | 3.00                   | 3.00                   | 3.00                   | 0.00                        |
| Library                          | 9.15                   | 9.36                   | 9.40                   | 9.60                   | 10.28                  | 0.68                        |
| 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                   | district               | district               | district               | district               | 0.00                        |
| <b>Town Subtotal</b>             | <b>106.78</b>          | <b>108.61</b>          | <b>109.00</b>          | <b>112.33</b>          | <b>115.43</b>          | <b>3.10</b>                 |
| <b>School Department (K-8)</b>   |                        |                        |                        |                        |                        |                             |
| K-5 Teachers                     | 64.00                  | 63.50                  | 59.00                  | 56.00                  | 56.00                  | 0.00                        |
| Grade 6-8 Teachers               | 33.40                  | 32.90                  | 33.40                  | 33.00                  | 33.00                  | 0.00                        |
| Specialists                      | 35.80                  | 35.39                  | 38.90                  | 40.90                  | 41.80                  | 0.90                        |
| Special Education Staff          | 38.80                  | 41.65                  | 38.40                  | 40.15                  | 45.10                  | 4.95                        |
| Administration                   | 6.00                   | 6.00                   | 6.00                   | 6.00                   | 6.00                   | 0.00                        |
| Support Staff                    | 105.60                 | 107.10                 | 109.30                 | 105.30                 | 97.74                  | -7.56                       |
| <b>K-8 Schools Subtotal</b>      | <b>283.60</b>          | <b>286.54</b>          | <b>285.00</b>          | <b>281.35</b>          | <b>279.64</b>          | <b>-1.71</b>                |
| <b>Total Town &amp; K-8 FTEs</b> | <b>390.38</b>          | <b>395.15</b>          | <b>394.00</b>          | <b>393.68</b>          | <b>395.07</b>          | <b>1.39</b>                 |



It is important to note that FY2016 is the last year of the previously negotiated collective bargaining agreements for Police Patrol Officers, Police Sergeants, Public Safety Dispatchers, Fire and the Northborough Municipal Employees Association. A significant amount of time will be devoted to negotiating fair and sustainable increases for personnel during the contract period of FY2017 through FY2019. Pending contract settlements, all FY2017 wage increases, including non-union personnel, are being budgeted centrally and not reflected in the individual General Government budgets.

With regard to the Northborough K-8 Schools there are 1.71 fewer FTEs in the FY2017 budget. Please refer to the Superintendent's budget presentation for more detail.

### **Capital Budget**

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Enclosed in Section 9 of this document are the Town's Annual Capital Budget and FY2017-2022 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 FY2017.

Although the detail for proposed projects has been incorporated as Section 9 of the annual Operating Budget document, funding for all recommended FY2017 projects requires Town Meeting approval of specific Articles contained in the April 2016 Annual Town Meeting Warrant.

The proposed FY2017 Capital Budget totals \$3,540,000, of which \$1,813,460 is anticipated to be funded with Free Cash (one-time revenues), resulting in no additional tax impact. In addition \$170,000 in funding will come from the Water & Sewer Enterprise Fund balance with no additional impact on rate payers. Out of the projects listed in the table on the opposite page only \$1,027,000 of the \$2,000,000 Church Street Culvert project will be financed with debt from the General Fund and \$500,000 for the Inflow & Infiltration Study will be financed with debt paid by the Sewer Enterprise Fund. The balance of the projects listed will be paid for using available funds, resulting in no additional tax or fee impact to the residents.

The pie chart on the following page shows the breakdown of funding sources by category for the proposed FY2017 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 over 50% of the FY2017 Capital Budget.

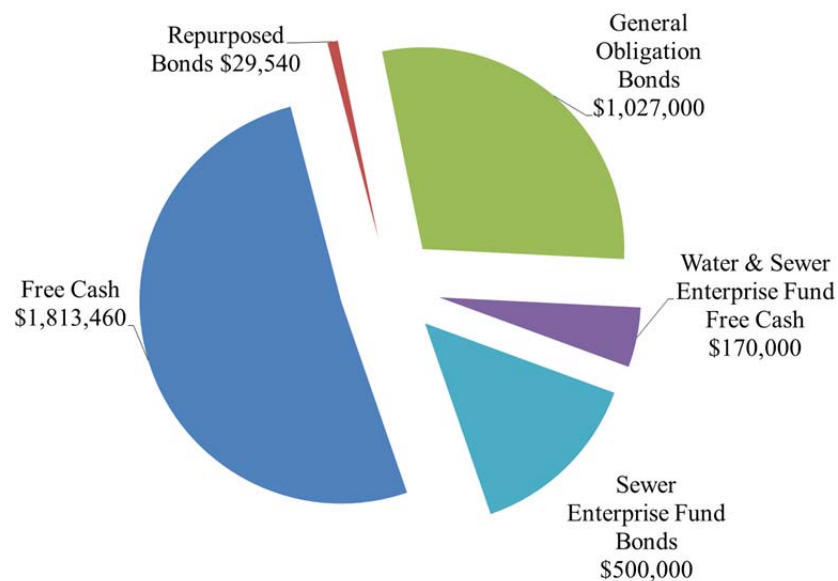
Section 9 of this budget document contains Project Detail Sheets for every capital project included in the Town's 6-year CIP. Part III of the CIP contains the Financial Planning Committee's review and recommendations on the FY2017 Capital Projects and the CIP as a whole. The Financial Planning Committee's 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.



## FY2017 CAPITAL BUDGET

| PROJECTS BY DEPARTMENT            |   | EXPENDITURE        |
|-----------------------------------|---|--------------------|
| <b>Police</b>                     |   |                    |
|                                   | Police Cruiser Replacement              | 85,000             |
|                                   | Police Station Roof Replacement         | 90,000             |
|                                   | <b>Police Subtotal</b>                  | <b>\$175,000</b>   |
| <b>DPW: Highway Division</b>      |   |                    |
|                                   | Church Street Culvert Replacement       | 2,000,000          |
|                                   | Six-Wheel Dump Truck w/ Spreader & Plow | 215,000            |
|                                   | Sidewalk Machine                        | 180,000            |
|                                   | Roadway Improvements/Maintenance        | 300,000            |
|                                   | <b>Highway Subtotal</b>                 | <b>\$2,695,000</b> |
| <b>DPW: Sewer Enterprise Fund</b> |   |                    |
|                                   | Inflow & Infiltration (I&I) Study       | 500,000            |
|                                   | <b>Sewer Enterprise Fund Subtotal</b>   | <b>\$500,000</b>   |
| <b>DPW: Water Enterprise Fund</b> |   |                    |
|                                   | Valve Maintenance Trailer System        | 75,000             |
|                                   | One Ton Dump Truck w/Plow               | 95,000             |
|                                   | <b>Water Enterprise Fund Subtotal</b>   | <b>\$170,000</b>   |
| <b>TOTAL FY17 CAPITAL BUDGET</b>  |   | <b>\$3,540,000</b> |

## FY2017 CAPITAL FUNDING SOURCES





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.

### **FY2016 Goals & Accomplishments**

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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 FY2016 several key goals and initiatives were achieved. These include:

1. GFOA Distinguished Budget Award: The Town received its sixth consecutive national budget award in FY2016 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 FY2016 Budget document was rated "proficient" in all four categories, as well as the fourteen mandatory criteria within those categories, to receive the award. The FY2016 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 FY2016 two new Capital Investment Indicators were implemented to 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 FY2015 with approximately \$3.2 million in Free Cash on June 30, 2015 and no material issues or deficiencies were noted in the annual audit.
4. Completed Comprehensive Operational Reviews of 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 were completed during FY2016 and presented in October of 2015 at a joint meeting of the Staffing Committee, Appropriations Committee, Financial Planning Committee and the Board of Selectmen. Based upon the report recommendations one police officer and one firefighter/paramedic are being added mid-year in FY2017 budget. Beyond FY2017 the studies recommend adding one more firefighter/paramedic and a deputy chief, resources permitting. The full staffing reports are available on the Town's webpage <http://www.town.northborough.ma.us> under "Reports and Documents".
5. 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 original estimated tax impact on the average single family home over the life of the project was \$148 per year with a peak impact of approximately \$201 in FY2017. However, in light of the Town's upgraded bond rating and the advantageous interest rates received on the bonds, the average impact will be closer to \$137 per year with a \$155 impact in FY2017. As of this writing the project is approximately 70% complete, ahead of schedule and under budget with minimal change orders. Project completion is anticipated in the fall of 2016.

6. FY2016 Capital Budget Approved \$4,109,000 in Projects with no additional tax impact: The approved FY2016 Capital Budget totaled \$4,109,000, of which \$2,194,000 was funded with Free Cash (one-time revenues), resulting in no additional tax impact. In addition \$135,000 in funding came from the Water & Sewer Enterprise Fund balance with no additional impact on rate payers. 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 \$1,500,000 for the Water & Sewer Enterprise Fund Hudson Street Pump Station Improvements and \$280,000 for the Fire Department's EMS Revolving Fund Ambulance purchase. Debt for the two projects were financed by user fees (not general fund tax dollars).

7. Implementation of a Pavement Management Plan: During FY2016 the Town implemented the first year of a comprehensive pavement management plan. Through a combination of State and local funding sources the Town was able to invest approximately \$1.1 million in roadway infrastructure with the goal of preventing the Town's average pavement condition index score of 71 out of 100 from deteriorating further. Subsequent annual appropriations will be necessary in order to maintain the plan, coupled with continued advocacy with the Massachusetts Municipal Association (MMA) to get the State to increase its Chapter 90 (transportation bond) funding from \$200 to \$300 million statewide.
8. Upgraded Bond Rating to Aa1: In conjunction with the bond issuances for the Lincoln Street School project, Moody's Investors Service upgraded the Town's bond rating from Aa2 to Aa1, which is Northborough's highest rating ever. During the review Moody's cited the Town's manageable debt levels, strong reserves, below average pension liabilities and its ongoing funding of OPEB liabilities as positive factors. With regard to management they commented that "*the Town has a strong management team evidenced by a multi-year trend of conservative budgeting guided by formal fiscal policies.*" In January of 2016 the Town issued the last of the Lincoln Street project bonds and received a rate of 2.27% on the 20 year notes, the lowest rate ever received.
9. Successfully Negotiated Health Insurance Plan Design Changes: The Town successfully negotiated higher copays and deductibles with all employee groups, effective for the start of FY2017 on July 1, 2016. The modifications largely mitigated the anticipated premium increases of 7-9%. With the new plan design changes in place resulting in an anticipated 3% budget increase for FY2017, the average health insurance budget increase for the last eight years remains manageable at just 2.57%.
10. 250<sup>th</sup> Town Anniversary Celebration Events: In March 2014, the Northborough Board of Selectmen created a 250<sup>th</sup> Town Anniversary Committee to plan events during the 2016 calendar year for the 250<sup>th</sup> Anniversary Celebration of Northborough. The Committee's mission is to plan and coordinate a series of events, learning activities, social and cultural opportunities which will lead to an expanded awareness and appreciation by all of the rich 250 year history, life experience and growth of the Town of Northborough. Several events were held during FY2016 with the balance still to come in the fall of 2016.

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 FY2017.





### Major Upcoming Issues or Projects

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Looking forward to FY2017, 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 FY2017 include:

1. GFOA Distinguished Budget Award Program: Continue to refine the Town's Award winning budget for the FY2017 submission to the Government Finance Officers Association (GFOA) Distinguished Budget Award Program. FY2017 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 implementation plans take shape.
2. Lincoln Street Renovation/Addition Project Completion: As discussed under FY2016 accomplishments, the Lincoln Street Elementary School renovation /addition building project will be completing in the fall of 2016. Project closeout and MSBA audits will still consume significant staff time long after the students are occupying the new space.
3. All Collective Bargaining Agreements to be Negotiated: FY2016 is the last year of the previously negotiated collective bargaining agreements for Police Patrol Officers, Police Sergeants, Fire and the Northborough Municipal Employees Association. A significant amount of time will be devoted to negotiating fair and sustainable future increases for personnel in FY2017-FY2019.
4. 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 ongoing initiative 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 8-12 of this budget document.

5. Municipal Aggregation Project: In accordance with Massachusetts General Laws Chapter 164 Section 134, the Town will initiate a residential electricity aggregation program whereby the Town buys electric power on behalf of those living within its



boundaries at a discounted rate and passes the savings on to its residents. Participation in the program is not required and residents may “opt out” at their discretion. The sole purpose for initiating such a program is to save residents money on their electric bills.

6. Infrastructure Improvements: In addition to the Lincoln Street School Building Project, the Town will continue implementing the Pavement Management Plan in FY2017; move forward with the replacement of the Church Street bridge/culvert; complete the upgrade of the Hudson Street pump station, which handles 98% of the Town’s sewer flow; manage the Downtown Common project; and continue to provide time and resources to the Community Preservation Committee as it evaluates the various options for preserving the historic White Cliffs facility. These projects as well as many smaller capital improvements scheduled throughout FY2017 will continue to add to the quality and economic vitality of the Northborough community.

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## Conclusion

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The FY2017 Proposed Budget that follows is balanced pending passage of the final State Budget and meets the previously determined budget goals. The FY2017 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 FY2017 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 I am proud to be a part of.

Respectfully submitted,

John W. Coderre  
Town Administrator