



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: FY2018 Proposed Budget

DATE: March 24, 2017

I am pleased to present the Fiscal Year 2018 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 27th to discuss the FY2018 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 10th meeting.

Even though review of the budget details will continue right up until Town Meeting on April 24th, the Northborough K-8 School Budget and General Government Budget are complete and were developed in conformance with the goals and objectives discussed at the December 15, 2016 Financial Trend Monitoring System joint meeting. The Town has also received the final Assabet Valley and Algonquin Regional High School (ARHS) assessments.

On December 15, 2016 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 FY2018 budget. The following goals and objectives are direct outcomes from that joint meeting.

Goals and objectives of the FY2018 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 budget process 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 FY2018 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 FY2018 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 FY2018 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 debt service for the Lincoln Street School project, the FY2018 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 union contracts have settled for a 2% FY2018 general wage increase.



- 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, Other Post-Employment Benefit (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 of the Police and Fire Departments to determine appropriate and sustainable service levels. Implementation of those studies is ongoing and will continue in FY2018 with the addition of one full-time firefighter/paramedic position mid fiscal year.
 - By continuing to fund the OPEB plan in FY2018 at a minimum of \$500,000 in order to continue addressing the Town’s \$34.9 million OPEB liability. Serious consideration will be given to increasing future contributions, resources permitting.
 - By updating and funding the Pavement Management Plan (PMP) at \$1.1 million in order to address long-term infrastructure and 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 FY2018 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 FY2018 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 FY2018 budget.

- Health Insurance—The FY2018 health insurance budget request of \$5.52 million represents a total increase of \$424,844 or 8.3% from the amount budgeted last year. Plan design changes and the adoption of Chapter 32B, Section 18 in FY2010 limited budgetary impacts for eight 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.

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

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%
FY2017	3.00%
Average	2.57%



copays and deductibles with all employee groups, effective July 1, 2016 (FY2017). The modifications largely mitigated the anticipated premium increases of 7-9%.

Unfortunately, at the time of this writing the FY2018 Health Insurance budget increase appears to be closer to 12% and not 8.3%. It is important to note that the FY2018 Budget as presented assumes approximately \$200,000 in savings due to plan design changes to employee health insurance benefits. Those plan design changes are currently under negotiation with all Northborough Town and School unions. Should those negotiations be unsuccessful, it will become necessary to reduce the existing General Government Budget and Northborough K-8 School budgets by a comparable amount.

- **Debt Service**—The proposed FY2018 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 FY2018, the total Debt Service budget for the General Fund is \$2.96 million, a decrease of \$75,051. This decrease takes into consideration the overall higher level of debt from the previous two years which was the result of the new debt issued for the Lincoln Street School project.

One key factor in limiting the increase in new FY2018 debt service is the Town's Free Cash policy whereby smaller capital items are 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

<u>Moody's</u> <u>Investor Service</u>	
	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 1.6% over the \$5.14 million received during FY2017. The estimate is based upon the Governor's FY2018 Budget which was released on January 25th. Despite State revenue projections expected to grow by 3.9% next fiscal year, the Massachusetts Taxpayers Foundation (MTF) estimates the State still faces a structural deficit of more than \$800 million in FY2018, due to overly optimistic revenue projections. 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 budget 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 \$521,700 in new FY2018 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 FY2017 Tax Classification Hearing held in November 2016, new growth is forecast to remain at these levels, barring any significant new development coming to Town.

Again, assuming budgetary savings are realized from successful health insurance negotiations, the remainder of the General Government departmental budgets are set. With the exception of a possible 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 FY2018 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 overall General Fund budget increase is 2.78% with the proposed budgets for the key departments estimated to increase as follows:

- Northborough K-8 Schools increase \$725,174 or 3.19% to \$23,445,017
- General Government (Town) increases \$765,216 or 3.8% to \$20,902,493
- Assabet Valley Vocational High School combined operating and debt assessments increase by \$12,445, or 1.41% to \$892,893
- Algonquin Regional High School (ARHS) combined operating and debt assessments increase by \$342,587, or 3.19% to \$11,075,443



FY2018 PROPOSED BUDGET

EXPENDITURES	FY2017 Budget	FY2018 Proposed	Variance	% Change
General Government (Town)	\$20,137,277	\$20,902,493	\$765,216	3.80%
Schools				
Northborough K-8	\$22,719,843	\$23,445,017	\$725,174	3.19%
Algonquin Reg. HS 9-12	\$10,071,650	\$10,414,869	\$343,219	3.41%
Algonquin Debt Exclusion	\$661,206	\$660,574	-\$632	-0.10%
Assabet Valley	\$688,313	\$741,661	\$53,348	7.75%
Assabet Valley Debt	\$192,135	\$151,232	-\$40,903	-21.29%
Warrant Articles				
Reserve Fund	\$175,000	\$175,000	\$0	0.00%
Free Cash Capital Projects	\$1,833,460	\$1,497,000	-\$336,460	-18.35%
Transfer to Stabilization	\$200,000	\$200,000	\$0	0.00%
Transfer to OPEB Trust	\$500,000	\$500,000	\$0	0.00%
Zeh School Debt	\$424,416	\$389,854	-\$34,562	-8.14%
Colburn St. Debt Service	\$69,245	\$66,990	-\$2,255	-3.26%
Library Debt Service	\$392,025	\$383,985	-\$8,040	-2.05%
Senior Center Debt Service	\$433,795	\$422,195	-\$11,600	-2.67%
Lincoln Street Debt	\$1,144,882	\$1,124,675	-\$20,207	-1.76%
Other Funds	\$1,008,581	\$880,367	-\$128,214	-12.71%
Adjustments	-\$374,563	\$0	\$374,563	-100.00%
Subtotal General Fund	\$60,277,265	\$61,955,912	\$1,678,647	2.78%
Water Enterprise Funds	\$2,251,473	\$2,436,381	\$184,908	8.21%
Sewer Enterprise Fund	\$1,718,422	\$2,051,028	\$332,606	19.36%
Solid Waste Enterprise Fund	\$768,350	\$792,830	\$24,480	3.19%
Subtotal Enterprise Funds	\$4,738,245	\$5,280,239	\$541,994	11.44%
TOTAL ALL FUNDS	\$65,015,510	\$67,236,151	\$2,220,641	3.42%

- **General Government Budget**

The total FY2018 General Government Budget (non-school) is \$20,902,493 which is an increase of \$765,216 or 3.8%. 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 \$276,000 to \$552,000 on a \$5.52 million budget. Clearly, the annual renewal of the Town's health insurance premiums is critical to the General Government budget, given that the entire FY2018 budget increase for all non-school departments is only \$765,216. 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, 2016, a total of 1,753 students attend the Northborough schools, with 1,085 students in grades K-5 at the four elementary schools and 668 students in grades 6-8 at the Middle School.

Based on the Town's revenue forecast, it is projected that the Northborough K-8 School Budget may increase by 3.19% in FY2018. Therefore, the FY2018 amount available for the Northborough K-8 School department is \$23,445,017. This represents an increase of \$725,174 from the \$22,719,843 appropriated last year.

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

As of October 1, 2016, a total of 838 Northborough students attend the Northborough-Southborough Regional High School. This represents 57.95% of the total 1,446 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. The overall Algonquin Regional High School (ARHS) budget is increasing 3.8%. However, the ARHS operating assessment increases \$343,218, or 3.41% to \$10,414,869 based upon Northborough enrollment and changes to the State's minimum contribution formula. The debt for ARHS decreases by \$632, or 0.10% to \$660,574. The net effect of the combined operating assessment and new debt service is an overall increase of \$342,587, or 3.19%

- **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 FY2018 budget is \$20,294,000 which is a \$684,000 or 3.49% increase.

As of October 1, 2016, 49 Northborough students attend Assabet Valley, which represents 6.14% of the FY2018 overall Assabet budget, or an operating assessment of \$741,661. This is an enrollment increase of 3 from the 46 Northborough students that attended Assabet Valley last year. Northborough's FY2018 share of the debt assessment from the completed building renovation project is \$151,232, which will continue to decline in subsequent years. The net effect of the combined operating assessment and new debt service is \$892,893, which is an increase of \$12,445, or 1.41%.

- **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 FY2018-2023 Capital Improvement Program.

Overall, the Fiscal Year 2018 total operating budget for all funds is \$67,236,151 or a 3.42% increase over FY2017; however, the increase includes one-time pay-as-you-go capital expenditures, a one-time contribution to the Stabilization Fund and increases to the Water & Sewer Enterprise Funds. 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 FY2017 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.

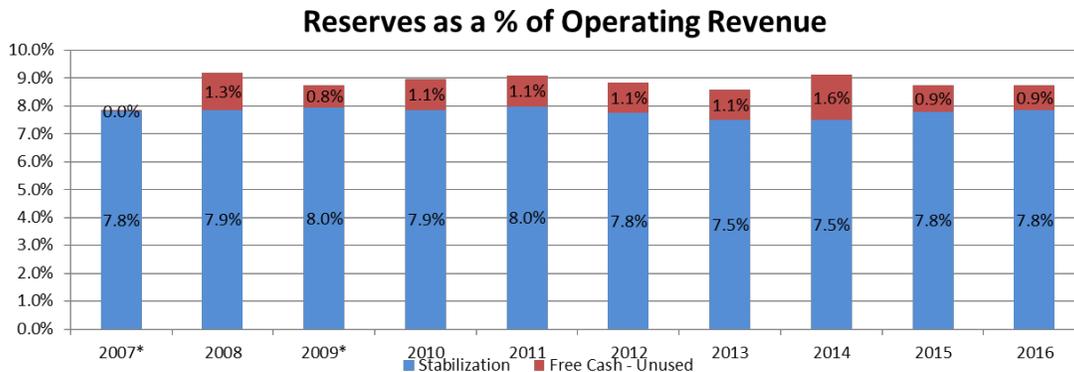
Financial Trend Monitoring System Indicator Summary

	Financial Indicator	FY2017
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 / Improving

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 \$4.17 million Stabilization (rainy day) Fund has not been necessary. The Town's debt level is



manageable at 4.8% 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, although it appears future increases will be challenging.



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 has experienced significant economic development in recent years but staffing remained relatively level during the last recessionary period. In order to maintain service-level solvency the Town conducted a comprehensive review of Town-wide staffing in 2014. 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 staffing needs were significantly less than requested, some increases were warranted for coverage reasons. As a result, the Town added two police officers, created a new Sergeant position, and added three firefighter/paramedics to reach a new shift staffing of five personnel. The FY2018 Budget includes the addition of the last firefighter/paramedic position needed to reach the recommended staffing levels.



Moving forward, it will be important for the Town to continue to refine the funding plan for its Other Post-Employment Benefits 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 and FY2017 budgets appropriated another \$500,000 each into the OPEB Trust fund and the FY2018 budget sustains that level. At the close of FY2017 another Government Accounting Standards Board (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 76% of the Town's operating budget and remain relatively stable. 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)¹ positions by department, including any proposed changes for FY2018.

In total, Town Government staffing is up 1.14 FTEs from FY2017. The change includes the addition of a Firefighter/Paramedic in accordance with the recently completed public safety staffing studies. The new Firefighter position is the last addition needed to get to five staff per shift, which is the recommended staffing level. In addition to the full-time firefighter position, an 8 hour per week Library Page position is being restored in FY2018.

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

¹ 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.



TOWN OF NORTHBOROUGH PERSONNEL SUMMARY FY2014–FY2018

Town Government	FY 2014 FTE	FY 2015 FTE	FY 2016 FTE	FY 2017 FTE	FY 2018 FTE	Change FY17-FY18
Executive Office	3.75	3.50	3.50	4.00	4.00	0.00
Public Buildings	0.50	0.50	0.50	0.50	0.50	0.00
Financial Offices	9.38	9.50	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	1.98	1.98	2.00	2.00	0.00
Planning & Conservation	3.71	2.71	2.76	2.78	2.78	0.00
Police Department	28.50	28.50	28.50	29.50	29.50	0.00
Fire Department	20.43	20.45	21.53	22.41	23.35	0.94
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	17.00	18.48	20.48	20.48	20.48	0.00
Senior Center/COA	3.00	3.00	3.00	3.00	3.00	0.00
Library	9.36	9.40	9.60	10.28	10.48	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	district	district	district	district	district	0.00
Town Subtotal	108.59	108.98	112.31	115.41	116.55	1.14
School Department (K-8)						
K-5 Teachers	63.50	59.00	56.00	56.00	52.50	-3.50
Grade 6-8 Teachers	32.90	33.40	33.00	33.00	33.00	0.00
Specialists	35.39	38.90	40.90	41.80	42.30	0.50
Special Education Staff	41.65	38.40	40.15	45.10	46.60	1.50
Administration	6.00	6.00	6.00	6.00	6.00	0.00
Support Staff	107.10	109.30	105.30	97.74	95.00	-2.74
K-8 Schools Subtotal	286.54	285.00	281.35	279.64	275.40	-4.24
Total Town & K-8 FTEs	395.13	393.98	393.66	395.05	391.95	-3.10

It is important to note that all collective bargaining contracts are settled for FY2018 and include a 2% cost of living (COLA) wage increase for Police Patrol Officers, Police Sergeants, Public Safety Dispatchers, Firefighters and the Northborough Municipal Employees Association. Non-union personnel are also budgeted at a 2% COLA.

With regard to the Northborough K-8 Schools there are 4.24 fewer FTEs in the FY2018 budget. Please refer to the Superintendent's budget presentation for more detail.



Capital Budget

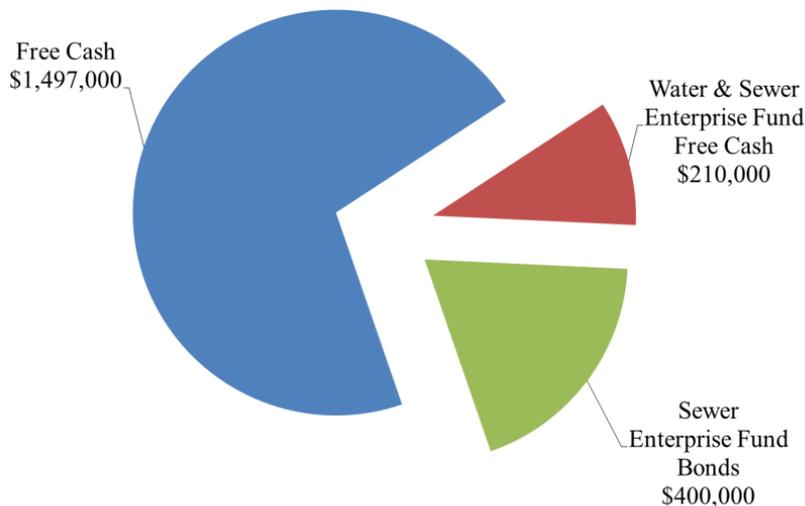
Enclosed in Section 9 of this document are the Town's Annual Capital Budget and FY2018-2023 Capital Improvement Program (CIP). The table on the following page represents the Proposed Capital Requests being made by the General Government Departments and the Northborough K-8 School Department for FY2018.

Although the detail for proposed projects has been incorporated as Section 9 of the annual Operating Budget document, funding for all recommended FY2018 projects requires Town Meeting approval of specific Articles contained in the April 2017 Annual Town Meeting Warrant.

The proposed FY2018 Capital Budget totals \$2,107,000 of which \$1,497,000 is anticipated to be funded with Free Cash (one-time revenues), resulting in no additional tax impact. In addition \$210,000 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 to the right the only debt being proposed is \$400,000 for the Sewer Enterprise Fund West Main Street Pump Station Improvements. Debt for this project will be financed with sewer user fees, not general fund tax dollars. 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 below shows the breakdown of funding sources by category for the proposed FY2018 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 71% of the FY2018 Capital Budget.

FY2018 CAPITAL FUNDING SOURCES





FY2018 CAPITAL BUDGET

PROJECTS BY DEPARTMENT	EXPENDITURE
Police	
Police Cruiser Replacement	87,000
Police Subtotal	\$87,000
Fire	
Forestry Unit Replacement	65,000
Highway Subtotal	\$65,000
DPW: Highway Division	
Six-Wheel Dump Truck w/ Spreader & Plow	240,000
One-Ton Dump Truck w/Plow	95,000
One-Ton Truck w/Chip Body & Plow	95,000
Crawford Street Retaining Wall	200,000
Chipper	65,000
Fisher Street Culvert Replacement Design	50,000
Roadway Improvements/Maintenance	300,000
Highway Subtotal	\$1,045,000
DPW: Sewer Enterprise Fund	
Line Inspection Camera	110,000
West Main St. Pump Station Improvements	400,000
Sewer Enterprise Fund Subtotal	\$510,000
DPW: Water Enterprise Fund	
One Ton Service Truck w/Plow	100,000
Water Enterprise Fund Subtotal	\$100,000
Northborough K-8 Public Schools	
Proctor Elementary Pitched Roof Replacement	300,000
Northborough K-8 Schools Subtotal	\$300,000
TOTAL FY18 CAPITAL BUDGET	2,107,000

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 FY2018 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.



FY2017 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 FY2017 several key goals and initiatives were achieved. These include:

1. GFOA Distinguished Budget Award: The Town received its seventh consecutive national budget award in FY2017 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 FY2017 Budget document was rated "proficient" in all four categories, as well as the fourteen mandatory criteria within those categories, to receive the award. The FY2017 Budget passed Town Meeting with the unanimous support of the Board of Selectmen, Appropriations Committee, Financial Planning Committee and the School Committee.

2. Financial Trend Monitoring Report Updated: The Financial Team updated the Town's Financial Trend Monitoring System (FTMS) Report and held a joint meeting on December 15, 2016 with the Board of Selectmen, Financial Planning Committee, Appropriations Committee and K-8 School Committee to review the results. 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. The ultimate goal of the FTMS is to help local officials better assess and protect the Town of Northborough's overall financial condition. The updated 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 FY2016 with approximately \$3.1 million in Free Cash on June 30, 2016 and no material issues or deficiencies were noted in the annual audit.
4. Implementation of the Comprehensive Police & Fire Department Operational Reviews: 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 staffing and operational reviews of the Police and Fire Departments. Based upon the report recommendations one police officer and one firefighter/paramedic were added in FY2017. Beyond FY2017 the studies recommend adding one more firefighter/paramedic in FY2018 and a deputy chief at some point in



the future, resources permitting. The full staffing reports are available on the Town's webpage <http://www.town.northborough.ma.us> under "Reports and Documents".

5. Successfully Completed the Lincoln Street Elementary School 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 was estimated to cost \$25.5 million, with MSBA providing a maximum grant of \$10.4 million. As of this writing the project is 99% complete, ahead of schedule and approximately \$1 million under budget. In accordance with MSBA policies, the final project closeout and grant reimbursement calculation will take place 10 months following substantial completion, which is expected to be in July of 2017. The facility is fully operational with just minor loaming and seeding to be completed in the spring of 2017.

6. FY2017 Capital Budget included \$1,813,460 in Projects with no additional tax impact: The approved FY2017 Capital Budget totaled \$3,540,000, of which \$1,813,460 was funded with Free Cash (one-time revenues), resulting in no additional tax impact. In addition \$170,000 in funding came from Water & Sewer Enterprise Fund balances with no additional impact on rate payers. Since FY2012 more than \$7.62 million in Free Cash has been used to fund capital projects without adding any additional tax impact or debt.
7. Implementation of the Pavement Management Plan: During FY2017 the Town implemented the second year of a comprehensive pavement management plan. Through a combination of State and local funding sources the Town invested approximately \$1.1 million in roadway infrastructure with the goal of maintaining or improving the Town's average pavement condition index score of 71 out of 100. 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. Successfully Negotiated all Collective Bargaining Contracts for FY2018: The Town successfully negotiated sustainable collective bargaining contracts with all five of its unions for FY2018: Police Dispatchers (2%), Police Patrol Officers (2%), Police Sergeants (2%), Fire (2%), and Northborough Municipal Employees Association (2%).



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%. The new plan design resulted in a 3% health insurance budget increase for FY2017.
10. Department Head Recruitments Completed: During FY2017 the Town successfully conducted a Police Chief recruitment and contract negotiation process. The DPW Director recruitment was also completed, resulting in the promotion of the Assistant DPW Director.
11. 250th Town Anniversary Celebration Events: In March 2014, the Northborough Board of Selectmen created a 250th Town Anniversary Committee to plan events during the 2016 calendar year for the 250th Anniversary Celebration of Northborough. The Committee planned and coordinated a series of events, learning activities, social and cultural opportunities which led to an expanded awareness and appreciation by all of the rich 250 year history of the Town of Northborough.

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 FY2018.

Major Upcoming Issues or Projects

Looking forward to FY2018, 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 FY2018 include:

1. GFOA Distinguished Budget Award Program: Continue to refine the Town's Award winning budget for the FY2018 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 proceeds in FY2018.
2. Fire Station Feasibility Study: During FY2017 the Town formed a Fire Station Feasibility Study Committee which is charged with issuing a Request for Qualifications (RFQ) to hire an architectural/engineering firm to assess the Fire Station's location and building needs. The goal of the feasibility study is to determine if the existing Fire Station can be renovated and expanded at the current location, or if a new site is needed. The feasibility study will include the development of conceptual designs and cost estimates for funding consideration at a future Town Meeting.
3. Health Insurance Plan Design Changes to be Negotiated: During FY2017 the Town successfully negotiated health insurance plan design changes with all bargaining units



that largely mitigated the anticipated premium increases. Unfortunately, the FY2018 anticipated health insurance budget increase of 12% will once again necessitate negotiating plan design changes with all bargaining units in order to get the overall FY2018 budget increase down to 8%. Although the average health insurance budget increase for the last eight years has remained manageable at just 2.57%, ongoing market uncertainty appears to be signaling a period of escalation that will require active management in FY2018 and FY2019. The Town's Insurance Advisory Committee (IAC) has been meeting regularly to gather information and make recommendations regarding the various options.

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 a \$30 million expansion and upgrade project at 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 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.

5. Infrastructure Improvements: The Town will continue implementing the Pavement Management Plan in FY2018; move forward with the completion of the Church Street bridge/culvert replacement; manage the design and construction of 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 FY2018 will continue to add to the quality and economic vitality of the Northborough community.

Conclusion

The FY2018 Proposed Budget that follows is balanced pending implementation of final health insurance plan design changes being negotiated with all employee groups. The FY2018 Proposed Budget is within the budgetary increase allowable under the 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 FY2018 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