



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: FY2019 Proposed Budget

DATE: March 23, 2018

I am pleased to present the Fiscal Year 2019 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 26th to discuss the FY2019 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 9th meeting.

Even though review of the budget details will continue right up until Town Meeting on April 23rd, 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 14, 2017 Financial Trend Monitoring System joint meeting. The Town has also received the final Assabet Valley assessment and the revised Algonquin Regional High School (ARHS) assessment, which was voted on March 14th.

On December 14, 2017 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 FY2019 budget. The following goals and objectives are direct outcomes from that joint meeting.

Goals and objectives of the FY2019 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 are 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 FY2019 annual budget will be capped in accordance with the adopted Free Cash policy at \$500,000, less than 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 reserves are at 8.1%. The FY2019 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 FY2019 Budget that is within the confines of Proposition 2½ and includes reasonable tax increases necessary to maintain current service levels.
 - By encouraging economic development through maintenance of a single tax rate without artificial surcharges on businesses.
 - By negotiating sustainable collective bargaining agreements with the Town's five non-school unions. All contracts provide for a sustainable 2% increase, effective July 1, 2018. FY2019 is the last year of a three year contract for each of the non-school unions; all school contracts will expire in FY2020.
 - 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.
 - By continuing to fund the OPEB plan in FY2019 at a minimum of \$500,000 in order to continue addressing the Town's \$37.4 million OPEB liability (net of trust fund balance).
 - By updating and funding the Pavement Management Plan (PMP) at \$1.1 million in order to continue addressing 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 FY2019 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 objectives for the FY2019 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 FY2019 budget.

- Health Insurance—The FY2019 health insurance budget request of \$5.73 million represents a total increase of \$210,158 or 3.8% 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 the majority of new revenues.

More recently, market trends are resulting in higher health insurance increases, necessitating further action. To this end, the Town successfully negotiated higher copays with all employee groups, effective July 1, 2017 (FY2018). The modifications mitigated the anticipated premium increases of 12%, but still resulted in an 8.33% budget increase.

Unfortunately, due to a combination of high claims and general market trends, the FY2019 Health Insurance budget is facing a 15.6 % increase. Without negotiated plan changes the FY2019 budget is structurally unbalanced by \$653,037.

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% |
| FY2018 | 8.33% |

| | |
|---------|-------|
| Average | 3.21% |
|---------|-------|



To address this increase, the Town, working with the employee Insurance Advisory Committee (IAC), bid out its health insurance seeking consolidation under a single carrier. Based upon the bid results, Fallon Community Health Plan (Fallon) was the carrier brought forward to the IAC for recommendation. At its meeting on January 30th, the IAC formally recommended consolidating to Fallon and negotiations began with each bargaining unit for their formal approval to implement the consolidation plan. To date, the Town has received commitments from all but one bargaining unit. We continue to engage in impact bargaining with the one remaining unit with the goal of implementing the IAC recommended consolidation plan, effective July 1, 2018.

- **Debt Service**—The proposed FY2019 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 FY2019, the total Debt Service budget for the General Fund is \$2.8 million, a decrease of \$157,836.

One key factor in limiting the increase in new FY2019 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

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 Northborough's State Aid will increase 1.3% over the \$5.24 million received in FY2018. The estimate is based upon the Governor's FY2019 Budget which was released on January 24th. Despite State revenue projections expected to grow by 3.5% next fiscal year, the Town does not anticipate receiving much of an increase, given the State has overestimated revenues for the past two fiscal years resulting in midyear reductions. Over the coming months the House and Senate will release their respective budget proposals and work out the differences through a joint committee. The Town generally does a little better in terms of aid from the Legislature, in part, because they will have more up-to-date revenue information. However, it is clear that we are not going to see any meaningful increase again in FY2019. As discussed at the December 14th Financial Trend Monitoring Presentation, because State Aid continues to lag behind our general budget increases,



it has become an ever smaller percentage of our overall budget. State Aid declined from a high of 13.1% of revenues in FY2003 to just 8.9% in FY2019. 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 FY2019 tax revenues. This represents a 1% increase in the current total tax base of \$2.8 Billion. 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 steadily declined to \$31.7 million in FY2016. As discussed at the FY2018 Tax Classification Hearing held in November 2017, new growth is forecast to remain at these levels, barring any significant new development.

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 FY2019 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 4% with the proposed budgets for the key departments estimated to increase as follows:

- Northborough K-8 Schools increase \$820,576, or 3.5% to \$24,265,593
- General Government (Town) increases \$731,587, or 3.5% to \$21,634,080
- Assabet Valley Vocational High School combined operating and debt assessments decrease by \$135,171, or 15.14% to \$757,722
- Algonquin Regional High School (ARHS) combined operating and debt assessments increase by \$866,863, or 7.83% to \$11,933,763



FY2019 PROPOSED BUDGET

| EXPENDITURES | FY2018 Budget | FY2019 Proposed | Variance | % Change |
|----------------------------------|---------------------|---------------------|--------------------|--------------|
| General Government (Town) | \$20,902,493 | \$21,634,080 | \$731,587 | 3.50% |
| Schools | | | | |
| Northborough K-8 | \$23,445,017 | \$24,265,593 | \$820,576 | 3.50% |
| Algonquin Reg. HS 9-12 | \$10,406,326 | \$11,322,989 | \$916,663 | 8.81% |
| Algonquin Debt Exclusion | \$660,574 | \$610,774 | -\$49,800 | -7.54% |
| Assabet Valley | \$741,661 | \$612,406 | -\$129,255 | -17.43% |
| Assabet Valley Debt | \$151,232 | \$145,316 | -\$5,916 | -3.91% |
| Warrant Articles | | | | |
| Reserve Fund | \$175,000 | \$175,000 | \$0 | 0.00% |
| Free Cash Capital Projects | \$1,497,000 | \$1,360,000 | -\$137,000 | -9.15% |
| Transfer to Stabilization | \$200,000 | \$200,000 | \$0 | 0.00% |
| Transfer to OPEB Trust | \$500,000 | \$500,000 | \$0 | 0.00% |
| Zeh School Debt | \$389,854 | \$371,447 | -\$18,407 | -4.72% |
| Colburn St. Debt Service | \$66,990 | \$64,680 | -\$2,310 | -3.45% |
| Library Debt Service | \$383,985 | \$373,605 | -\$10,380 | -2.70% |
| Senior Center Debt Service | \$422,195 | \$409,145 | -\$13,050 | -3.09% |
| Lincoln Street Debt | \$1,124,675 | \$1,100,275 | -\$24,400 | -2.17% |
| Other Funds | \$880,367 | \$967,828 | \$87,461 | 9.93% |
| Adjustments | -\$313,479 | | \$313,479 | -100.00% |
| Subtotal General Fund | \$61,633,890 | \$64,113,138 | \$2,479,248 | 4.02% |
| Water Enterprise Funds | \$2,436,381 | \$2,496,718 | \$60,337 | 2.48% |
| Sewer Enterprise Fund | \$2,051,028 | \$2,132,715 | \$81,687 | 3.98% |
| Solid Waste Enterprise Fund | \$792,830 | \$811,839 | \$19,009 | 2.40% |
| Subtotal Enterprise Funds | \$5,280,239 | \$5,441,272 | \$161,033 | 3.05% |
| TOTAL ALL FUNDS | \$66,914,129 | \$69,554,410 | \$2,640,281 | 3.95% |

• **General Government Budget**

The total FY2019 General Government Budget (non-school) is \$21,634,080 which is an increase of \$731,587 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 \$285,000 to \$570,000 on a \$5.7 million budget. Clearly, the annual renewal of the Town's health insurance premiums is critical to the General Government budget, given that the entire FY2019 budget increase for all non-school departments is only \$731,587. It should also be noted that the health insurance cost 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 an affordable level, please refer to Section 6 of this budget document.



- **Northborough K-8 Schools**

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, 2017, a total of 1,648 students attend the Northborough schools, with 1,022 students in grades K-5 at the four elementary schools and 626 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 3.5% in FY2019. Therefore, the FY2019 amount available for the Northborough K-8 School department is \$24,265,593. This represents an increase of \$820,576 from the \$23,445,017 appropriated last year.

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

As of October 1, 2017, a total of 873 Northborough students attend the Northborough-Southborough Regional High School. This represents 59.31% of the total 1,472 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 3.5%. However, the ARHS operating assessment increases \$916,663, or 8.81% to \$11,322,989 based upon Northborough enrollment and changes to the State's minimum contribution formula. The debt for ARHS decreases by \$49,800, or 7.54% to \$610,774. The net effect of the combined operating assessment and new debt service is an overall budget increase of \$866,863, or 7.83%, to \$11,933,763.

- **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 FY2019 budget is \$21,064,000 which is a \$770,000 or 3.79% increase.

As of October 1, 2017, 41 Northborough students attend Assabet Valley, which represents 4.92% of the FY2019 overall Assabet budget, or an operating assessment of \$612,406. This is an enrollment decrease of 8 from the 49 Northborough students that attended Assabet Valley last year. Northborough's FY2019 share of the debt assessment from the completed building renovation project is \$145,316, which will continue to decline in subsequent years. The net effect of the combined operating assessment and new debt service is \$757,722, which is a decrease of \$135,171, or 15.14%.

- **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 FY2019-2024 Capital Improvement Program.

Overall, the Fiscal Year 2019 total operating budget for all funds is \$69,554,410 or a 3.95% increase over FY2018; however, the increase includes one-time pay-as-you-go capital expenditures, a 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 FY2018 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, unfunded liabilities, changes in the tax base, one-time revenue dependencies, debt, capital investments, and external revenue dependencies. The updated FTMS Report is included in its entirety as Appendix C of this budget document.

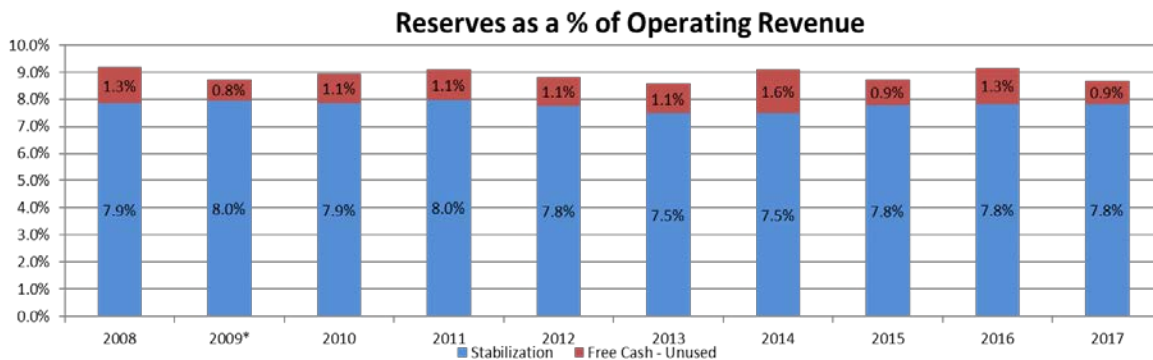
Financial Trend Monitoring System Indicator Summary

| | Financial Indicator | FY2018 |
|----|---|-------------------------|
| 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 | 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 | 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 8.1% of the FY2019 Proposed Budget and use of the \$4.36 million Stabilization (rainy day) Fund has not been



necessary. The Town's debt level (including overlapping debt for ARHS and Assabet) is manageable at 5.5% 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, 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. FY2018 included the addition of the last firefighter/paramedic position needed to reach the recommended public safety 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.

The OPEB liability increased to \$37.4 million (net of trust fund balance) based on the most recent actuarial study, received at the close of FY2017. Following the acknowledgment of OPEB in FY2009 as required by Government Accounting Standards Board (GASB), the Town has continued to contract with an actuary to update the liability, but also to develop a funding plan to address the liability. The Town adopted the Meals Tax Surcharge and increased the Room Occupancy Tax in order to provide capacity in the FY2015 budget to begin funding the OPEB Trust Fund. The FY2015, FY2016, FY2017 and FY2018 budgets have appropriated \$500,000 annually into the OPEB Trust Fund and the FY2019 budget sustains that level. At the close of FY2018 another GASB 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 75% 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 FY2019.

In total, Town Government staffing is up 1.52 FTEs from FY2018. The change includes the addition of a Public Safety Dispatcher to better manage peak call hours and the restoration of a full-time Conservation Agent which is currently budgeted at 19 hours 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 FY2015–FY2019

| Town Government | FY 2015 FTE | FY 2016 FTE | FY 2017 FTE | FY 2018 FTE | FY 2019 FTE | Change FY18-FY19 |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|---------------------|
| Executive Office | 3.50 | 3.50 | 4.00 | 4.00 | 4.00 | 0.00 |
| Public Buildings | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.00 |
| Financial Offices | 9.50 | 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 | 1.98 | 1.98 | 2.00 | 2.00 | 2.00 | 0.00 |
| Planning & Conservation | 2.71 | 2.76 | 2.78 | 2.93 | 3.45 | 0.52 |
| Police Department | 28.50 | 28.50 | 29.50 | 29.50 | 30.50 | 1.00 |
| Fire Department | 20.45 | 21.53 | 22.41 | 23.35 | 23.35 | 0.00 |
| 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 | 18.48 | 20.48 | 20.48 | 20.48 | 20.48 | 0.00 |
| Senior Center/COA | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 0.00 |
| Library | 9.40 | 9.60 | 10.28 | 10.48 | 10.48 | 0.00 |
| 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 | 108.98 | 112.31 | 115.41 | 116.70 | 118.22 | 1.52 |
| School Department (K-8) | | | | | | |
| K-5 Teachers | 59.00 | 56.00 | 56.00 | 52.50 | 52.00 | -0.50 |
| Grade 6-8 Teachers | 33.40 | 33.00 | 33.00 | 33.00 | 31.00 | -2.00 |
| Specialists | 38.90 | 40.90 | 41.80 | 42.30 | 42.90 | 0.60 |
| Special Education Staff | 38.40 | 40.15 | 45.10 | 46.60 | 46.10 | -0.50 |
| Administration | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 | 0.00 |
| Support Staff | 109.30 | 105.30 | 97.74 | 95.00 | 93.30 | -1.70 |
| K-8 Schools Subtotal | 285.00 | 281.35 | 279.64 | 275.40 | 271.30 | -4.10 |
| Total Town & K-8 FTEs | 393.98 | 393.66 | 395.05 | 392.10 | 389.52 | -2.58 |

It is important to note that all collective bargaining contracts are settled for FY2019 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 4.1 fewer FTEs in the FY2019 budget². Please refer to the Superintendent's budget presentation for more detail.

² K-8 staffing does not include Central Administration staff which is shared on a budgetary basis between Northborough K-8 Schools (40%), Southborough K-8 Schools (30%) and Algonquin Regional HS (30%).



Capital Budget

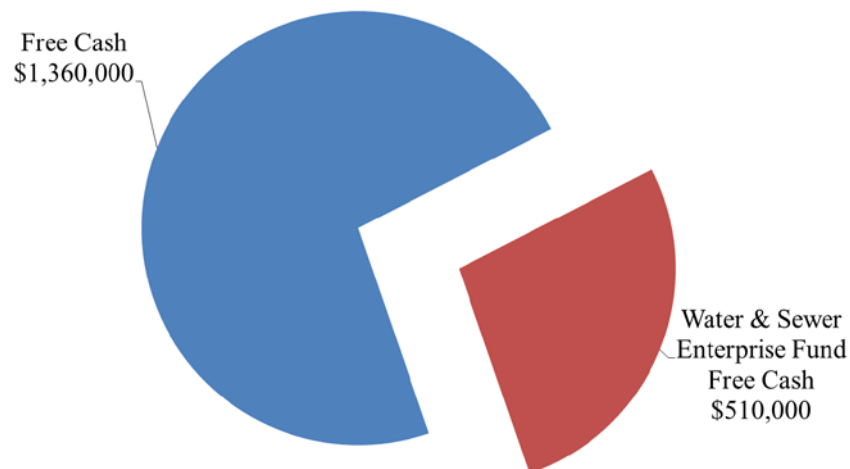
Enclosed in Section 9 of this document are the Town's Annual Capital Budget and FY2019-2024 Capital Improvement Program (CIP). The table on the following page represents the Proposed Capital Requests being made by the General Government Departments and the Northborough K-8 School Department for FY2019.

Although the detail for proposed projects has been incorporated as Section 9 of the annual Operating Budget document, funding for all recommended FY2019 projects requires Town Meeting approval of specific Articles contained in the April 2018 Annual Town Meeting Warrant.

The proposed FY2019 Capital Budget totals \$1,870,000 of which \$1,360,000 is anticipated to be funded with Free Cash (one-time revenues), resulting in no additional tax impact. In addition \$510,000 in funding will come from the Water & Sewer Enterprise Fund balances with no additional impact on rate payers. All of the projects listed will be paid for using available funds, resulting in no additional tax or fee impact to residents.

The pie chart below shows the breakdown of funding sources by category for the proposed FY2019 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 73% of the FY2019 Capital Budget.

FY2019 CAPITAL FUNDING SOURCES





FY2019 CAPITAL BUDGET

| PROJECTS BY DEPARTMENT | | EXPENDITURE |
|--|---|--------------------|
| Police | | |
| | Police Cruiser Replacement | 87,000 |
| | Police Subtotal | \$87,000 |
| MIS/GIS | | |
| | GIS Aerial Photography | 140,000 |
| | MIS/GIS Subtotal | \$140,000 |
| DPW: Highway Division | | |
| | One-Ton Dump Truck w/Plow & Hotbox | 140,000 |
| | Street Sweeper | 231,000 |
| | Skid Steer Replacement | 105,000 |
| | Roadway Improvements/Maintenance | 300,000 |
| | Highway Subtotal | \$776,000 |
| DPW: Sewer Enterprise Fund | | |
| | Excavator (60/40% split \$96K Water, \$64K Sewer) | 64,000 |
| | Sewer Enterprise Fund Subtotal | \$64,000 |
| DPW: Water Enterprise Fund | | |
| | Excavator (60/40% split \$96K Water, \$64K Sewer) | 96,000 |
| | Repair & Replace Water Mains | 350,000 |
| | Water Enterprise Fund Subtotal | \$446,000 |
| Northborough K-8 Public Schools | | |
| | Zeh School Boiler Replacement | 357,000 |
| | Northborough K-8 Schools Subtotal | \$357,000 |
| | TOTAL FY19 CAPITAL BUDGET | \$1,870,000 |

Section 9 of this budget document contains Project Detail Sheets for every capital project included in the Town's Six-year CIP. Part III of the CIP contains the Financial Planning Committee's review and recommendations on the FY2019 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.



FY2018 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 FY2018 several key goals and initiatives were achieved. These include:

1. GFOA Distinguished Budget Award: The Town received its eighth consecutive national budget award in FY2018 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 FY2018 Budget document was rated "proficient" in all four categories, as well as the fourteen mandatory criteria within those categories, to receive the award. The FY2018 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 presented the results at a joint meeting on December 14, 2017 with the Board of Selectmen, Financial Planning Committee, Appropriations Committee and K-8 School Committee. The purpose of the FTMS is to analyze key financial indicators in order to assess the financial direction of the Town. The report brings 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'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 FY2017 with approximately \$2.87 million in Free Cash on June 30, 2017 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. In FY2018 the final firefighter/paramedic was added and both the Police and Fire Departments are now at



their recommended staffing levels with the Fire Department now staffed at 5 personnel per shift. The only outstanding study recommendation is to add a deputy fire chief at some point in the future, resources permitting. The full Police and Fire staffing reports are available at <http://www.town.northborough.ma.us> under “Reports and Documents”.

5. Final Project Reimbursement for Lincoln Street Elementary School Project: At the April 2014 Town Meeting the preferred design solution for the Lincoln Street Elementary School Renovation/Addition project was presented and approved, followed by a successful debt exclusion vote at the May 12, 2014 Town election. The project was estimated to cost \$25.5 million, with the Massachusetts School Building Authority (MSBA) providing a maximum grant of \$10.4 million. The project was completed and opened on time for the 2016/2017 school year. During 2018 MSBA completed the final project audit and grant reimbursement to the Town totaling \$9.83 million. The final project was completed approximately \$1.38 million under budget. It is anticipated that the unused bond proceeds from this project will be used to fund the next phase of the Fire Station building project.
6. FY2018 Capital Budget included \$1,497,000 in Projects with no additional tax impact: The approved FY2018 Capital Budget totaled \$2,107,000 of which \$1,497,000 was funded with Free Cash (one-time revenues), resulting in no additional tax impact. In addition \$210,000 in funding came from Water & Sewer Enterprise Fund balances with no additional impact on rate payers. The only project requiring debt was \$400,000 for the Sewer Enterprise Fund West Main Street Pump Station Improvements. Since FY2012 more than \$9.1 million in Free Cash has been used to fund capital projects without adding any additional tax impact or debt.
7. Pavement Management Plan and Improved Condition Index: During FY2018 the Town implemented the third 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. According to the FY2018 updated assessment, the Town’s overall Pavement Condition Index (PCI) improved for the first time from a 71 to a 73 out of a potential score of 100. Subsequent annual appropriations will be necessary to maintain the plan, coupled with continued advocacy with the Massachusetts Municipal Association to get the State to increase Chapter 90 (transportation bond) funding.
8. Successfully Negotiated Health Insurance Plan Design Changes: The Town successfully negotiated higher copays and plan design changes with all employee groups, effective for the start of FY2018 on July 1, 2017. The modifications mitigated the anticipated premium increases of 12%. The new plan design resulted in an 8.3% health insurance budget increase for FY2018, avoiding approximately \$200,000 in additional costs.
9. Historic White Cliffs Facility Purchase & Sale Completed: With the lack of a buyer and demolition of the historic White Cliffs facility imminent, Town Meeting voted in April of 2016 to purchase the property with Community Preservation Act Funds. Prior to closing on the property, the Town conducted an environmental site assessment, which resulted in the identification of a large leaking underground



storage tank. Working with the seller the Town watched over the lengthy remediation of the property through its consultant to ensure all work was completed in accordance with the purchase and sale agreement. Side agreements for the preservation of artifacts that had been previously removed from the building and numerous extensions were negotiated to allow for the required remediation. On September 26, 2017, the Town finally closed on the property and assumed full ownership.

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 FY2019.

Major Upcoming Issues or Projects

Looking forward to FY2019, 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 FY2019 include:

1. GFOA Distinguished Budget Award Program: Continue to refine the Town's Award winning budget for the FY2019 submission to the Government Finance Officers Association (GFOA) Distinguished Budget Award Program. FY2019 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.
2. Fire Station Feasibility Study: During FY2018 the Fire Station Feasibility Study Committee issued a qualifications-based bid to hire an architectural/engineering firm to assess the Fire Station's location and building needs. Johnson Roberts Associates, Inc. was unanimously selected and the feasibility study is underway to determine if the existing Fire Station can be renovated and expanded on the current site, or if a new site is needed. A preferred design solution and site location is expected to be brought forward for Town Meeting consideration in FY2019.
3. Health Insurance Plan Design Changes to be Negotiated: During FY2018 the Town successfully negotiated health insurance plan design changes with all bargaining units that largely mitigated anticipated premium increases. Unfortunately, due to a combination of high claims and general market trends, the Town and employees are facing a \$927,000, or 13.57%, premium increase in FY2019.

To address this increase, the Town, working with the employee Insurance Advisory Committee (IAC), bid out its health insurance seeking one consolidated carrier. Based upon the bid results, Fallon was the carrier brought forward to the IAC for recommendation. At its meeting on January 30th, the IAC formally recommended consolidating to Fallon and negotiations began with each bargaining unit for their formal approval to implement the consolidation plan. To date, the Town has received commitments from all but one bargaining unit. We continue to engage in impact bargaining with the one remaining unit with the goal of implementing the IAC recommended consolidation plan, effective July 1, 2018.



4. Classification & Compensation Study: During FY2019 the Town will conduct a comprehensive Classification & Compensation study designed to review the current labor market to provide information to determine whether the Town's pay structure is appropriate or may need adjustment; provide insight and recommendations as to whether the Town's current compensation structure, policies and practices are effective or potentially in need of adjustment; determine if the current job classification structure is efficiently structured or may need the introduction of new job classes, mergers of existing classes or the re-titling of classes; and evaluate the Town's current job descriptions and the potential need to perform edits and/or major re-writes of the documents to ensure they accurately reflect current job duties and comply with all legal requirements. It is anticipated that the study will take the better part of a year to complete with the goal of bringing any proposed changes forward to the 2019 Town Meeting.
5. Negotiate a new Inter-municipal Agreement (IMA) with the City of Marlborough: The Town of Northborough does not own its own sewer treatment plant, but instead sends its flow to the City of Marlborough's Westerly Treatment Plant under a long-standing IMA that dates back to the 1960s. On November 16, 2009, after spending more than 8 years working with both the State DEP and Federal EPA, the National Pollutant Discharge Elimination System (NPDES) Permit modification for the Marlborough Westerly Treatment Plant was finally granted. The permit allowed the Westerly Treatment Plant additional sewer capacity by increasing the permitted flow of treated effluent into the Assabet River.

Unfortunately, after granting the increase in flow, the EPA abruptly and unexpectedly rescinded the NPDES permit on February 23, 2010. However, since the granting of the initial permit, Marlborough has completed a \$30 million expansion and upgrade project at the plant. A major ongoing initiative will be to increase 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. The matter is currently in litigation, the outcome of which will establish our contribution to the operational expenses of the Westerly Wastewater Treatment Plant as well as Northborough's share of the \$30 million plant improvement project. For more information regarding the Town's sewer history and the EPA permit process, please see Section 8-5 of this budget document.

6. All Collective Bargaining Agreements to be Negotiated: FY2019 is the last year of the previously negotiated collective bargaining agreements for Dispatchers (2%), Police Patrol Officers (2%), Police Sergeants (2%), Fire (2%) and the Northborough Municipal Employees Association (2%). A significant amount of time during FY2019 will be devoted to negotiating fair and sustainable future increases for personnel in FY2020-FY2022, including possible modifications to health insurance plans.
7. Solid Waste Contract Negotiations: FY2019 is the last year of the existing solid waste hauling and recycling contract. The Town will need to conduct a policy review of the current Pay-as-you-throw (PAYT) program in terms of the existing service level (single stream recycling), bags fees and General Fund subsidy as part of any



contract renewal or bid. Given China's recent decision to restrict the amount and types of recycling it is willing to accept, it is anticipated that future recycling contracts will be significantly impacted.

8. Cable TV License Renewals with Charter Communications and Verizon: During FY2019 the Town will be negotiating new cable licenses with Charter and Verizon. The Verizon contract will expire on July 20, 2018 and Charter on October 16, 2018. The key contract highlights to the amendment include an additional capital grant and PEG Access operational funding. Also the ability to broadcast live from additional locations will be negotiated.
9. Infrastructure Improvements: The Town will continue implementing the Pavement Management Plan in FY2019; complete the Fisher Street bridge/culvert replacement; manage the design and construction of the expanded Downtown Common project to include the 20 Rear Gale property; and continue to provide time and resources to the White Cliffs Reuse Committee as it evaluates various options for preserving the historic facility. These projects as well as many smaller capital improvements scheduled throughout FY2019 will continue to add to the quality and economic vitality of the Northborough community.
10. Development of IT/MIS Strategic Plan: Using \$40,000 in funding received under the State Community Compact Grant program, the Town will hire an independent third party consultant to assist with the development of a comprehensive IT/GIS Strategic Plan that focuses on aligning technology investment with overall organizational priorities.
11. Master Plan: During FY2019 the Town will complete a comprehensive update to its Master Plan, which is a comprehensive long-range plan intended to guide growth and development of the Town. It includes analysis, recommendations, and proposals for the community's population, economy, housing, transportation, preservation, energy, community facilities, and land use. It is based on public input, surveys, planning initiatives, existing development, physical characteristics, and social and economic conditions. While the plan has little direct authority, it is an expression of Northborough's intention for the future and provides guidance to accomplish that vision.

Conclusion

The FY2019 Proposed Budget that follows is balanced pending implementation of final health insurance plan changes being negotiated with all employee groups. The FY2019 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 FY2019 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



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