



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: FY2020 Proposed Budget

DATE: March 22, 2019

I am pleased to present the Fiscal Year 2020 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 25th to discuss the FY2020 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 8th meeting.

Even though review of the budget details will continue right up until Town Meeting on April 22nd, 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 13, 2018 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 February 27th.

On December 13, 2018 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 FY2020 budget. The following goals and objectives are direct outcomes from that joint meeting.

Goals and objectives of the FY2020 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 FY2020 annual budget will be capped in accordance with the adopted Free Cash policy at \$500,000, or approximately 1% of the operating budget.
 - By ensuring that debt is never used to fund operating expenditures and is only issued for capital improvements greater than \$25,000 with a useful life of five years or more. In practice, the Town endeavors to pay cash for vehicle and equipment purchases under \$100,000 and only issues 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 8.8%. The FY2020 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 FY2020 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 expire June 30, 2019 and are currently under negotiation for FY2020. School Department contracts are scheduled to expire on June 30, 2020.
 - By advocating for legislative priorities at the State level that will improve the efficiency or effectiveness of local services, such as Other Post-Employment Benefits (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 comprehensive reviews of any major budget initiatives that seek to expand staffing or services.
 - By continuing to fund the OPEB plan in FY2020 at a minimum of \$550,000 in order to continue addressing the Town's \$44.8 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 FY2020 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 FY2020 budget.

Recent Developments

During the month of March, several significant budgetary items have been finalized, including Health Insurance, Debt Service, State Aid estimates, New Growth figures and the pending Solid Waste & Recycling contract bid. Collectively, these items represent the final pieces of the FY2020 budget.

- Health Insurance—The FY2020 health insurance budget request of \$5.85 million represents a modest increase of \$114,571, or 2% from the amount budgeted last year. Prior to FY2010 it was common to experience health insurance increases of 9-10% each year, which would consume the majority of new revenues and drive up overall budget increases.

Through collaborative negotiations with all its employee groups, the Town has successfully mitigated health insurance budget increases to sustainable levels for the past decade. However, the last three fiscal years have been particularly troublesome as market trends have required significant changes to plan design and carrier options in order to manage this potential budget-buster. In fact, the Town has spent approximately six months out of each of the last three years negotiating changes with both general government as well as school employees.

During FY2019 the Town was facing a 15.6% health insurance budget increase that would have necessitated significant service level reductions across all departments. To address the

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%
FY2019	3.80%
FY2020	2.00%
Average	3.15%



increase, the Town, working with the employee Insurance Advisory Committee (IAC), chose to bid out its health insurance seeking consolidation under a single carrier. Based upon the bid results and the recommendation of the IAC, Fallon Community Health Plan (Fallon) was awarded the contract. Not only did the Town successfully mitigate the increases in FY2019, but it received the lowest renewal increase in five years for FY2020. Although these negotiations have consumed significant time and resources, successful management of the annual health insurance budget remains the single most important factor for Northborough's fiscal sustainability.

- **Debt Service**—The proposed FY2020 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 FY2020, the total Debt Service for the General Fund is \$2.67 million, a decrease of \$134,429.

One key factor in limiting the increase in new 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 ongoing practice of funding 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 in 2015, 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**— The current budget model assumes Northborough's State Aid will increase 1% to \$5.40 million in FY2020. The estimate is based upon the Governor's FY2020 Budget which was released on January 23rd and projects Northborough's aid to increase by 0.77%. Despite State revenue projections expected to grow by 2.7% next fiscal year, the Town does not anticipate receiving much of an increase given past experience. 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 FY2020. As discussed at the December 13th 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 8.8% in FY2020. Historically, the Town does not receive its final State Aid figures until well after Town Meeting in April, so a conservative 1% estimate appears reasonable at this time, especially given concerns of a possible recession on the horizon.

- 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 \$514,500 in new FY2020 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 previous recession, 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 FY2019 Tax Classification Hearing held in November 2018, new growth is forecast to remain at these levels, barring any significant new development. More importantly, Northborough is getting closer to buildout as one of the last remaining large tracks of industrially zoned land in the southeast section of Town off Bartlett Street is under development. Buildout will eventually result in permanently lower levels of future new growth.
- Solid Waste and Recycling Budget—The last major outstanding budget issue is the Town's solid waste and recycling collection contract, which is set to expire on June 30, 2019. Historically the cost for the marketing and disposal of recyclable materials has been included in the collection contract. However, the recycling industry is currently going through a tumultuous period of adjusting to China's 2018 decision to basically get out of the international recycling business. The impact to Massachusetts is similar to that of the rest of the nation. In years past, the value of recyclable materials would offset the cost of collecting and sorting them, which is no longer the case. It can be summarized simply that there is far too much supply and very little demand.

It is anticipated that in FY2020 it will cost as much, if not more, to dispose of recycling as it does trash. As a result, the Town is anticipating that its next solid waste and recycling contract will increase by approximately 15% and require another \$200,000 in General Fund subsidy. Market instability is projected to continue until new material recovery facilities can be brought on-line here in the United States and in emerging countries around the world. For a full review of the pay-as-you-throw trash program, as well as a more detailed discussion regarding recent market issues, interested readers are referred to the Solid Waste Enterprise Fund budget contained in Section 8 of this budget document.

Assuming the Solid Waste and Recycling bid comes in as projected, 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 FY2020 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.

FY2020 PROPOSED BUDGET

EXPENDITURES	FY2019 Budget	FY2020 Proposed	Variance	% Change
General Government (Town)	\$21,634,080	\$22,391,273	\$757,193	3.50%
Schools				
Northborough K-8	\$24,265,593	\$24,928,558	\$662,965	2.73%
Algonquin Reg. HS 9-12	\$11,304,714	\$12,252,514	\$947,800	8.38%
Algonquin Debt Exclusion	\$610,774	\$621,442	\$10,668	1.75%
Assabet Valley	\$612,406	\$694,822	\$82,416	13.46%
Assabet Valley Debt	\$145,316	\$141,488	-\$3,828	-2.63%
Warrant Articles				
Reserve Fund	\$175,000	\$175,000	\$0	0.00%
Free Cash Capital Projects	\$1,360,000	\$861,167	-\$498,833	-36.68%
Transfer to Stabilization	\$200,000	\$200,000	\$0	0.00%
Transfer to OPEB Trust	\$500,000	\$550,000	\$50,000	10.00%
Zeh School Debt	\$371,447	\$350,578	-\$20,869	-5.62%
Colburn St. Debt Service	\$64,680	\$62,315	-\$2,365	-3.66%
Library Debt Service	\$373,605	\$364,928	-\$8,677	-2.32%
Senior Center Debt Service	\$409,145	\$394,645	-\$14,500	-3.54%
Lincoln Street Debt	\$1,100,275	\$1,075,875	-\$24,400	-2.22%
Other Funds	\$967,828	\$952,083	-\$15,745	-1.63%
Adjustments	-\$256,673		\$256,673	-100.00%
Subtotal General Fund	\$63,838,190	\$66,016,688	\$2,178,498	3.41%
Water Enterprise Funds	\$2,496,718	\$2,548,680	\$51,962	2.08%
Sewer Enterprise Fund	\$2,132,715	\$2,244,114	\$111,399	5.22%
Solid Waste Enterprise Fund	\$811,839	\$933,959	\$122,120	15.04%
Subtotal Enterprise Funds	\$5,441,272	\$5,726,753	\$285,481	5.25%
TOTAL ALL FUNDS	\$69,279,462	\$71,743,441	\$2,463,979	3.56%

At this point in time, based upon our latest projections, the overall General Fund budget increase is 3.41% with the proposed budgets for the key departments estimated to increase as follows:

- Northborough K-8 Schools increase \$662,965 or 2.73% to \$24,928,558



- General Government (Town) increases \$757,193, or 3.50% to \$22,391,273
- Assabet Valley Vocational High School combined operating and debt assessments increase by \$78,588, or 10.37% to \$836,310
- Algonquin Regional High School (ARHS) combined operating and debt assessments increase by \$958,467, or 8.04% to \$12,873,956

- **General Government Budget**

The total FY2020 General Government Budget (non-school) is \$22,391,273, which is an increase of \$757,193 or 3.50%. 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 \$292,500 to \$585,000 on a \$5.85 million budget. Clearly, the annual renewal of the Town's health insurance premiums is critical to the General Government budget, given that the entire FY2020 budget increase for all non-school departments is only \$757,193. 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, 2018, a total of 1,588 students attend the Northborough schools, with 1,008 students in grades K-5 at the four elementary schools and 580 students in grades 6-8 at the Middle School.

The FY2020 Budget for Northborough K-8 Schools is proposed at \$24,928,558, which is an increase of \$662,965, or 2.73%. The budget includes a reduction of 1.8 full-time equivalent positions based upon declining enrollment.

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

The Northborough-Southborough Regional High School budget is composed of an operating assessment and a debt payment related to the completed renovation/addition project. The FY2020 operating assessment is \$12,252,514, which is a \$947,800 increase, or 8.38%. This significant increase is primarily due to 21 additional students attending the high school from Northborough. The debt for ARHS increases by \$10,668, or 1.75%, to \$621,442. Additionally, the debt exclusion will be reduced by \$220,000 which is the amount of the estimated FY2020 settlement payment from the Town of Southborough as a result of the declaratory judgement for the renovation/addition project. The net effect of the combined operating assessment and new debt service is an overall budget increase of \$958,468, or 8.04%, to \$12,873,956.



- **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 FY2020 Assabet budget is \$21,960,000, which is an increase of \$896,000, or 4.25%.

As of October 1, 2018, 45 Northborough students attend Assabet Valley, which represents 5.38% of the FY2020 overall Assabet budget, or an operating assessment of \$694,822. This is an enrollment increase of 4 from the 41 Northborough students that attended Assabet Valley last year. Northborough's FY2020 share of the debt assessment from the completed building renovation project is \$141,488, which will continue to decline in subsequent years. The net effect of the combined Operating Assessment and new Debt Assessment is \$836,310, which is an overall FY2020 increase of \$78,588, or 10.37%.

- **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 FY2020-2025 Capital Improvement Program.

Overall, the Fiscal Year 2020 total operating budget for all funds is \$71,743,441 or a 3.56% increase over FY2019; 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 FY2019 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.



The conclusion of the FTMS analysis is that Northborough is in relatively good financial condition. The Town's financial reserves are strong at 8.8% and use of the \$4.56 million Stabilization (rainy day) Fund has not been necessary. The Town's debt level is manageable at 4.07% of the operating budget (4.93% including overlapping debt for ARHS and Assabet) 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 through successful negotiation of plan design changes and carrier consolidation with employee bargaining units.

Financial Trend Monitoring System Indicator Summary

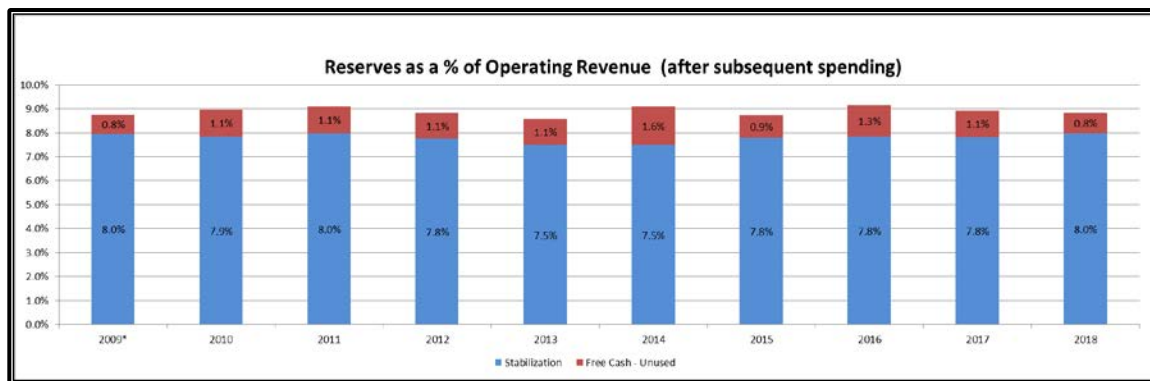
	Financial Indicator	FY2019
1	Property Tax Revenues	Favorable
2	Uncollected Property Taxes	Favorable
3	Revenues & Expenditures per Capita	Favorable
4	State Aid (Intergovernmental Revenues)	Unfavorable / Uncertain
5	Economic Growth Revenues	Uncertain
6	Use of One-Time Revenues	Favorable
7	Personnel Costs	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

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 concerns 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 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 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 Town's OPEB liability increased to \$44.88 million (net of trust fund balance) based on the most recent actuarial study, which was received at the close of FY2018. 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. In FY2015 the Town adopted the optional Meals Tax Surcharge and increased the Room Occupancy Tax in order to provide capacity within budget to begin funding the OPEB Trust Fund. Since FY2015 the General Fund budget has appropriated \$500,000 annually into the OPEB Trust Fund and in FY2020 that amount will be increased to \$550,000.

To date, the Town has appropriated \$2.5 million into the OPEB Trust Fund and the Fund balance as of February 28, 2019 is approximately \$3 million, exclusive of the planned contribution of \$550,000 in FY2020. 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 following page provides a five year history of Full-time Equivalent (FTE)¹ positions by department, including any proposed changes for FY2020.

In total, Town Government staffing is up 0.83 FTE from FY2019. The change includes the addition of a full-time facilities manager position to oversee the Town's public buildings. This full-time position is budgeted to start mid fiscal year, in January of 2020, and will be responsible for overseeing maintenance and repairs of all town-owned buildings under control of the Town Administrator.

Facilities management, maintenance and long-term planning are areas that have long been identified as a priority need. In 2013, the Board of Selectmen's ad hoc Staffing Committee heard requests from multiple departments, including the Library, Senior Center and Town Administration for a Facilities Manager to assist with building maintenance and improvement issues at the various Town facilities. The position was formally created as part of the Town's classification/compensation plan in 2005, but never funded, due to fiscal constraints. In recent years, the Town prioritized the hiring of an additional Police Officer and three additional Firefighter/Paramedics in accordance with the recommendations of the staffing study.

In addition to maintaining facilities presently in use by Town departments, there are a significant number of building/facility initiatives both underway, and contemplated in the near future, including the Fire Station building project, the ongoing assessment of White Cliffs, significant repairs to the Town Offices building, the potential return of the Old Town Hall building located at 4 West Main Street, as well as the Town's participation in the Green Communities program. The addition of this position is intended to provide a more centralized and dedicated approach to protect the millions of dollars of investments taxpayers have made in public facilities throughout Town. The position would lend technical assistance to Town departments during the Capital Improvement Planning process, including taking a leadership role in the bidding and oversight of approved capital projects. The Town has been successful in obtaining grants and other funding sources for projects, such as the Community Preservation Act, which have also added to the need for a dedicated facilities manager.

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 FY2016–FY2020

Town Government	FY 2016 FTE	FY 2017 FTE	FY 2018 FTE	FY 2019 FTE	FY2020 FTE	Change FY19- FY20
Executive Office	3.50	4.00	4.00	4.00	4.00	0.00
Public Buildings	0.50	0.50	0.50	0.50	1.50	1.00
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	2.00	2.00	2.00	2.00	0.00
Planning & Conservation	2.76	2.78	2.93	3.45	3.45	0.00
Police Department	28.50	29.50	29.50	30.50	30.50	0.00
Fire Department	21.53	22.41	23.35	23.35	23.18	-0.17
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	20.48	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	9.60	10.28	10.48	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	112.31	115.41	116.70	118.22	119.05	0.83
School Department (K-8)						
K-5 Teachers	56.00	56.00	52.50	52.00	52.00	0.00
Grade 6-8 Teachers	33.00	33.00	33.00	31.00	29.00	-2.00
Specialists	40.90	41.80	42.30	42.90	41.90	-1.00
Special Education Staff	40.15	45.10	46.60	46.10	46.30	0.20
Administration	6.00	6.00	6.00	6.00	6.00	0.00
Support Staff	105.30	97.74	95.00	93.30	94.30	1.00
K-8 Schools Subtotal	281.35	279.64	275.40	271.30	269.50	-1.80
Total Town & K-8 FTEs	393.66	395.05	392.10	389.52	388.55	-0.97

It is important to note that FY2019 is the last year of the previously negotiated collective bargaining agreements for Police Patrol Officers, Police Sergeants, Public Safety Dispatchers, Firefighters and the Northborough Municipal Employees Association. A significant amount of time will be devoted to negotiating fair and sustainable increases for personnel during the contract period of FY2020 through FY2022. Pending contract settlements, all FY2020 wage increases, including non-union personnel, are being budgeted centrally and not reflected in the individual General Government budgets.

With regard to the Northborough K-8 Schools there are 1.8 fewer FTEs in the FY2020 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

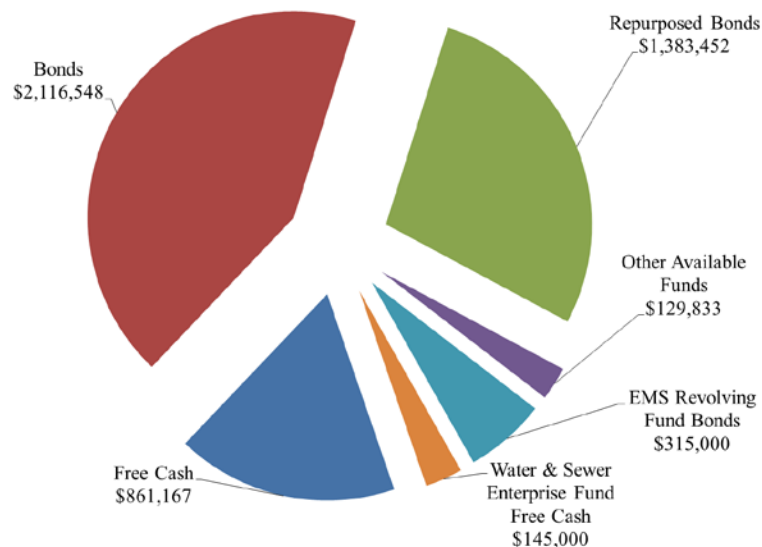
Enclosed in Section 9 of this document are the Town's Annual Capital Budget and FY2020-2025 Capital Improvement Program (CIP). The table on the following page represents the Proposed Capital Requests being made by the General Government Departments and the Northborough K-8 School Department for FY2020.

Although the detail for proposed projects has been incorporated as Section 9 of the annual Operating Budget document, funding for all recommended FY2020 projects requires Town Meeting approval of specific Articles contained in the April 2019 Annual Town Meeting Warrant.

The proposed FY2020 Capital Budget totals \$4,951,000, which includes \$3.5 million for the design and land acquisition costs associated with the proposed Fire Station building project. The Capital Budget will use \$861,167 in Free Cash (one-time revenues), resulting in no additional tax impact. In addition to the use of Free Cash in FY2020, the Town will be repurposing \$1,383,452 in unexpended bond proceeds remaining from the recently completed Lincoln Street School Building Project. Massachusetts General Laws, Chapter 44, Section 20 allows for Town Meeting to approve the appropriation of the balance of any bond proceeds that remain from completed projects so long as they are being used for a project of similar term. The repurposing of these funds will provide another significant funding for the FY2020 Capital Budget with no additional tax impact on residents.

The pie chart below shows the breakdown of funding sources by category for the proposed FY2020 Capital Budget. With the exception of approximately \$2.1 million in new bonds needed for the Fire Station Project and \$315,000 in EMS Revolving Fund bonds for the new ambulance, the balance of the proposed expenditures will come from available funds.

FY2020 CAPITAL FUNDING SOURCES





FY2020 CAPITAL BUDGET

PROJECTS BY DEPARTMENT		EXPENDITURE
Police		
	Police Cruiser Replacements	145,000
	Police Subtotal	\$145,000
Fire		
	Ambulance 1 Replacement	315,000
	Fire Station Design, OPM and Land Expenses	3,500,000
	Fire Subtotal	\$3,815,000
DPW: Highway Division		
	One-Ton Pickup Truck w/Plow	90,000
	20-Ton Dump Truck w/ Spreader & Plow	271,000
	Roadway Improvements/Maintenance	300,000
	Highway Subtotal	\$661,000
DPW: Sewer Enterprise Fund		
	Water/Sewer Garage Design	75,000
	Sewer Enterprise Fund Subtotal	\$75,000
DPW: Water Enterprise Fund		
	Assabet Water Storage Tank Rehabilitation Design	70,000
	Water Enterprise Fund Subtotal	\$70,000
Northborough K-8 Public Schools		
	Communication and Security Upgrades	185,000
	Northborough K-8 Schools Subtotal	\$185,000
TOTAL FY2020 CAPITAL BUDGET		\$4,951,000

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 FY2020 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.



FY2019 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 FY2019 several key goals and initiatives were achieved. These include:

1. GFOA Distinguished Budget Award Submission: The Town submitted its FY2019 budget to the Government Finance Officers Association's Distinguished Budget Award program. If successful, it will be the 9th consecutive national budget award for Northborough. 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 must 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 FY2019 Budget document must be rated "proficient" in all four categories, as well as the fourteen mandatory criteria within those categories, to receive the award. The FY2019 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 13, 2018 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 FY2018 with approximately \$2.23 million in Free Cash on June 30, 2018 and no material issues or deficiencies were noted in the annual audit.
4. Classification & Compensation Study: During FY2019 the Town began 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 continue into FY2020 and the results will be subject to negotiation for union positions. Potential FY2020 financial impacts have been budgeted centrally pending the outcome of the study and contract settlements.

5. FY2019 Capital Budget included \$1,870,000 in Projects with no additional tax impact: The approved FY2019 Capital Budget totaled \$1,870,000 of which \$1,360,000 was funded with Free Cash (one-time revenues), resulting in no additional tax impact. In addition \$510,000 in funding came from Water & Sewer Enterprise Fund balances with no additional impact on rate payers. Since FY2012 the Town has invested \$14 million in pay-as-you-go capital investments with no additional tax impact. That includes \$10.49 million in Free Cash and approximately \$3.51 million in other funding sources.
6. Pavement Management Plan and Improved Condition Index: During FY2019 the Town implemented the fourth 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 updated assessment, the Town's overall Road Surface Rating (RSR, formerly 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.
7. Solid Waste & Recycling Contract Bid: FY2019 is the last year of the three-year solid waste hauling and recycling contract. The Town conducted a policy review of the current Pay-as-you-throw (PAYT) program in terms of the existing service level (single stream recycling), bag fees and General Fund subsidy as part of the contract bid process. Given the turmoil caused by China's 2018 decision to effectively exit the recycling market, the Town opted to issue a bid for hauling and negotiate a separate contract directly with the recycling facility to better isolate and manage escalating recycling costs. It is anticipated that recycling disposal will soon cost more than trash disposal, and as a result, will require significant monitoring and active management during the upcoming contract.
8. Successfully Negotiated Health Insurance Plan Design Changes: For the 3rd consecutive year the Town successfully negotiated health insurance changes to balance the overall budget. Due to a combination of high claims and general market trends, the FY2019 Health Insurance budget was facing a 15.6 % increase. Without negotiated plan changes, the FY2019 budget was structurally unbalanced by \$653,037 and would have necessitated significant service level reductions across all departments. To address the 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 and the recommendation of the IAC, Fallon Community Health Plan (Fallon) was awarded the contract and the overall Health Insurance increase was mitigated to just 3.8%.



9. Master Plan: During FY2019 the Town began the process of updating 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. The Master Planning process is scheduled to be completed in the fall of 2019.

The focus of the Board of Selectmen and Town Administration continues to be on long-range planning initiatives, 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 FY2020.

Major Upcoming Issues or Projects

Looking forward to FY2020, 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 FY2020 include:

1. GFOA Distinguished Budget Award Program: Continue to refine the Town's Award winning budget for the FY2020 submission to the Government Finance Officers Association (GFOA) Distinguished Budget Award Program. FY2020 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 FY2019 the Fire Station Feasibility Study Committee completed its work. The Committee determined that the existing station is inadequate to meet the programmatic needs of the department and that the current site is also too small to accommodate a renovation/addition. As a result, the Committee issued a Request for Proposals to find land in the downtown area appropriate for a potential station site. Following an exhaustive process the Committee recommended acquisition of 61-65 Main Street with 10 Monroe as the preferred site for a new station. The proposed FY2020 Capital Budget includes \$3.5 million for the design and land acquisition costs associated with the proposed Fire Station building project. If approved, the project will be fully designed and bid during FY2020 and brought back for construction approval at the April 2020 Town Meeting.
3. 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 is 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.

4. All Collective Bargaining Agreements in Negotiations: All five of the Town's collective bargaining agreements are set to expire on June 30, 2019. The Town is in the process of negotiating fair and sustainable future increases for personnel covering FY2020 through FY2022. Included in the negotiations will be any impacts to union employees associated with the ongoing Classification & Compensation Study.
5. Cable TV License Renewals with Charter Communications and Verizon: During FY2020 the Town will complete negotiations for new cable licenses with Charter and Verizon, including new capital and operating agreements for PEG Access funding.
6. Infrastructure Improvements: The Town will continue implementing the Pavement Management Plan in FY2020; complete the Rice Avenue bridge/culvert replacement; manage the construction of the Downtown Common project; and develop new ADA compliant designs for Assabet Park. These projects as well as many smaller capital improvements scheduled throughout FY2020 will continue to add to the quality and economic vitality of the Northborough community.
7. Development of Information Technology/GIS 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. The Town will also be updating the functionality of its webpage with new software. Due to resource constraints this project was postponed to FY2020.
8. Historic White Cliffs Facility Reuse: During FY2019, the Town sought proposals from architectural and engineering firms to perform a comprehensive assessment of the historic White Cliffs facility acquired in FY2018. The Town selected DBVW Architects to conduct a multi-phase assessment of the building to assist the Town in its efforts to preserve the facility while considering potential future uses of the property. To date, the firm has employed technology to scan the building and capture information necessary to create floor plans and elevations, and has completed an initial assessment of the building envelope and shared preliminary findings with the



White Cliffs Committee. Following the development of construction documents and bidding, work will be completed to secure the building envelope while more detailed assessments of the existing conditions continue in FY2020.

Conclusion

The FY2020 Proposed Budget that follows is balanced pending passage of the final State Budget and meets the previously determined budget goals. The FY2020 Proposed Budget is within the budgetary increase allowable under limits of Proposition 2½, although it does make use of approximately \$900,000 in excess levy capacity in order to maintain current service levels. The budget attempts to minimize the tax impact while maintaining core services, especially at the Regional High School, where Northborough's rising enrollments have resulted in significant assessment increases.

Following this Budget Message is Section 1—Budget Summaries, which contains both the revenue and expenditure highlights of the FY2020 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 and Finance Director 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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