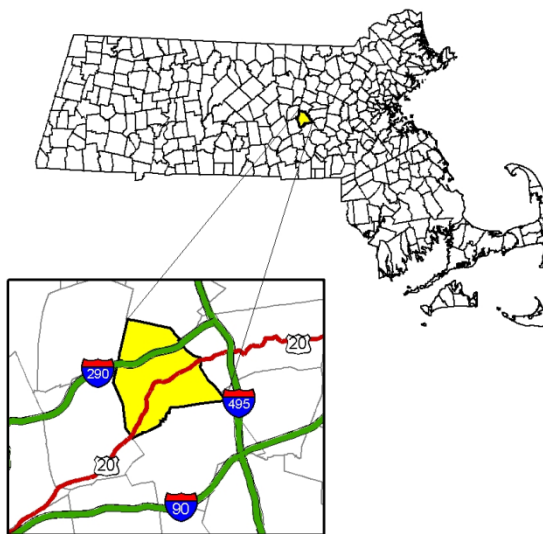


Town of Northborough, MA

Financial Trend Monitoring Report

Fiscal Year 2020



FTM Report covers the period July 1, 2009 (FY2010) through June 30, 2020 (FY2020)

Agenda

Purpose of the meeting is to “set the table” for the FY2021 budget process by:

- Reviewing Financial Indicators for significant changes
- Reviewing Five-Year Financial Projections
- Analyzing Multiple-year Projected Tax Impacts
- Developing consensus amongst the policy making Boards & Committees about opportunities or areas of concern

What is Financial Condition?

Financial condition is broadly defined as the ability of a Town to:

- Maintain existing service levels,
- Withstand local and regional economic disruptions, and
- Meet the demands of natural growth, decline, and change.

The FTMS Report is designed to measure it

Aspects of Financial Condition

- Cash Solvency: The Town's ability to pay immediate obligations during the next 30-60 days
- Budgetary Solvency: Its ability to pay financial obligations within the current fiscal period (balanced Fiscal Year)
- Long-Run Solvency: Its ability to continue paying obligations in future fiscal periods (debt, pensions, etc.)
- Service-Level Solvency: The Town's ability to continue providing the level of services expected by its residents

Financial Trend Monitoring System

- Key financial indicators are analyzed in order to assess the financial direction of the Town. Many of the same benchmarks used by the credit rating industry.
- The full report is designed to bring issues and opportunities to the attention of decision-makers through a systematic method of trend analysis.
- Report developed using the ICMA manual entitled Evaluating Financial Condition, A Handbook for Local Government.

Purpose of the FTMS

- Gain understanding of the Town's financial condition
- Identify hidden or emerging problems before they reach serious proportions
- Present a straight forward picture of strengths and weaknesses to Town Officials and citizens
- Reinforce the need for long-range considerations in the budget process
- Provide a starting place for reviewing and updating financial policies that guide decision-making

Objectives of the FTMS

- Predict: so that the Town can be prepared to deal with fiscal distress before it becomes fiscal crisis
- Avert: and take action to avoid fiscal crisis
- Mitigate: through corrective action and/or policy changes, regain sound financial footing, or at least contain the problem
- Prevent: a recurrence of fiscal distress after the Town addresses the current issue or crisis (e.g., reliance on one-time revenues or health insurance increases)

Fiscal Distress vs. Fiscal Crisis

- Fiscal Distress: temporary imbalance between the level of financial resources the Town has committed and its potential available resources
- Fiscal Crisis: occurs when the local government can no longer pay its bills or provide existing levels of service
- Goal is to protect our policy-making ability by ensuring that important decisions are not controlled by financial problems or emergencies.

Executive Summary

	Financial Indicator	FY2020
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	Stable
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

Executive Summary

Financial Indicator

FY2020

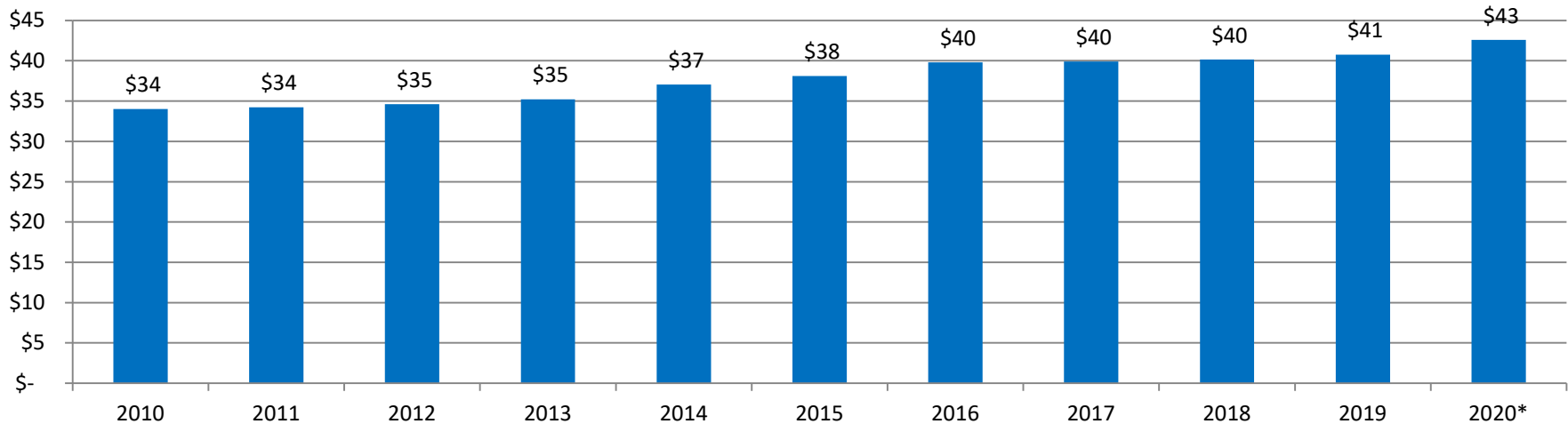
1	Property Tax Revenues	Favorable
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14	Capital Investment—Pavement Management	Improving



Town of Northborough Financial Indicators

Indicator 1: Property Tax Revenue

Net Property Tax Revenues (constant dollars, in millions)



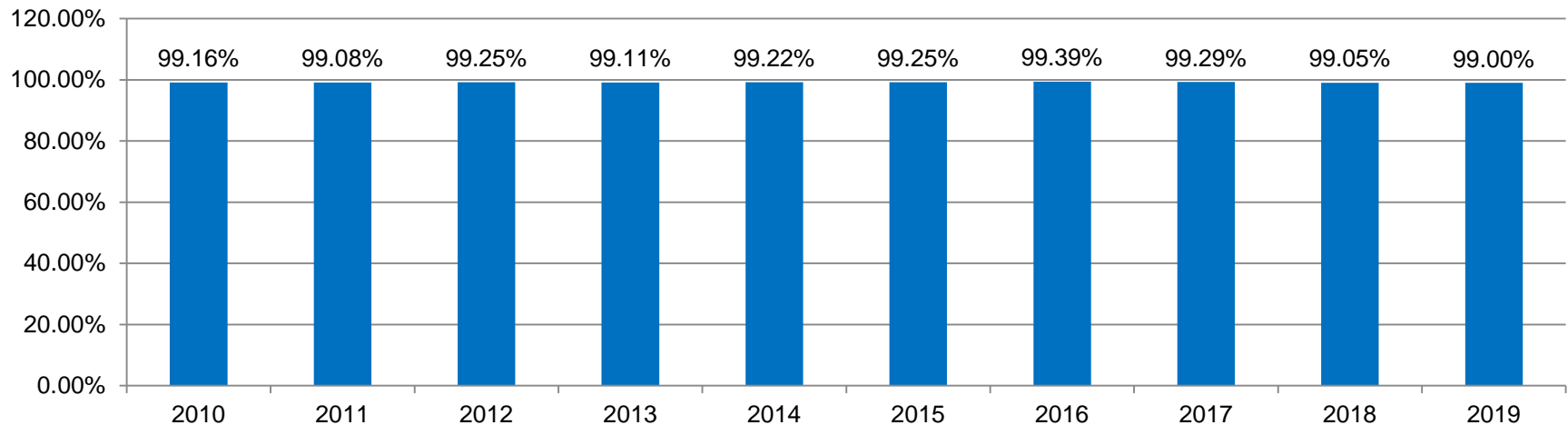
- Formula: Property Tax Revenues in constant dollars
- Warning: Declining tax revenues
- Trend: **Favorable**
- Comments: Taxes represent 80% of the Town's revenue, growth has exceeded the rate of inflation by 0.3% to 5.2% annually, depending on amounts of new growth, operational overrides and remaining unused levy capacity



Town of Northborough Financial Indicators

Indicator 2: Uncollected Property Tax Revenue

Percentage of Property Taxes Collected in Current Year

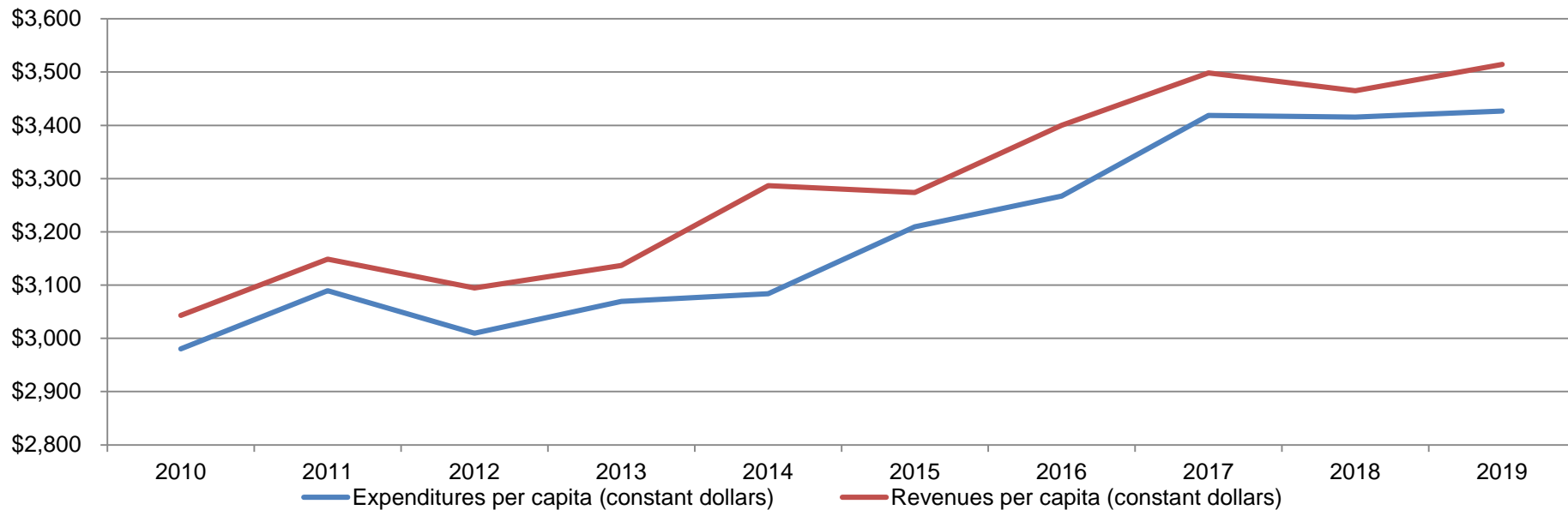


- Formula: Uncollected Property Taxes as % of Net Tax Levy
- Warning: Increasing uncollected property taxes
- Trend: **Favorable**
- Comments: Collection rates below 95% are considered negative by bond rating agencies; Northborough's collection rates are consistently between 98-99%



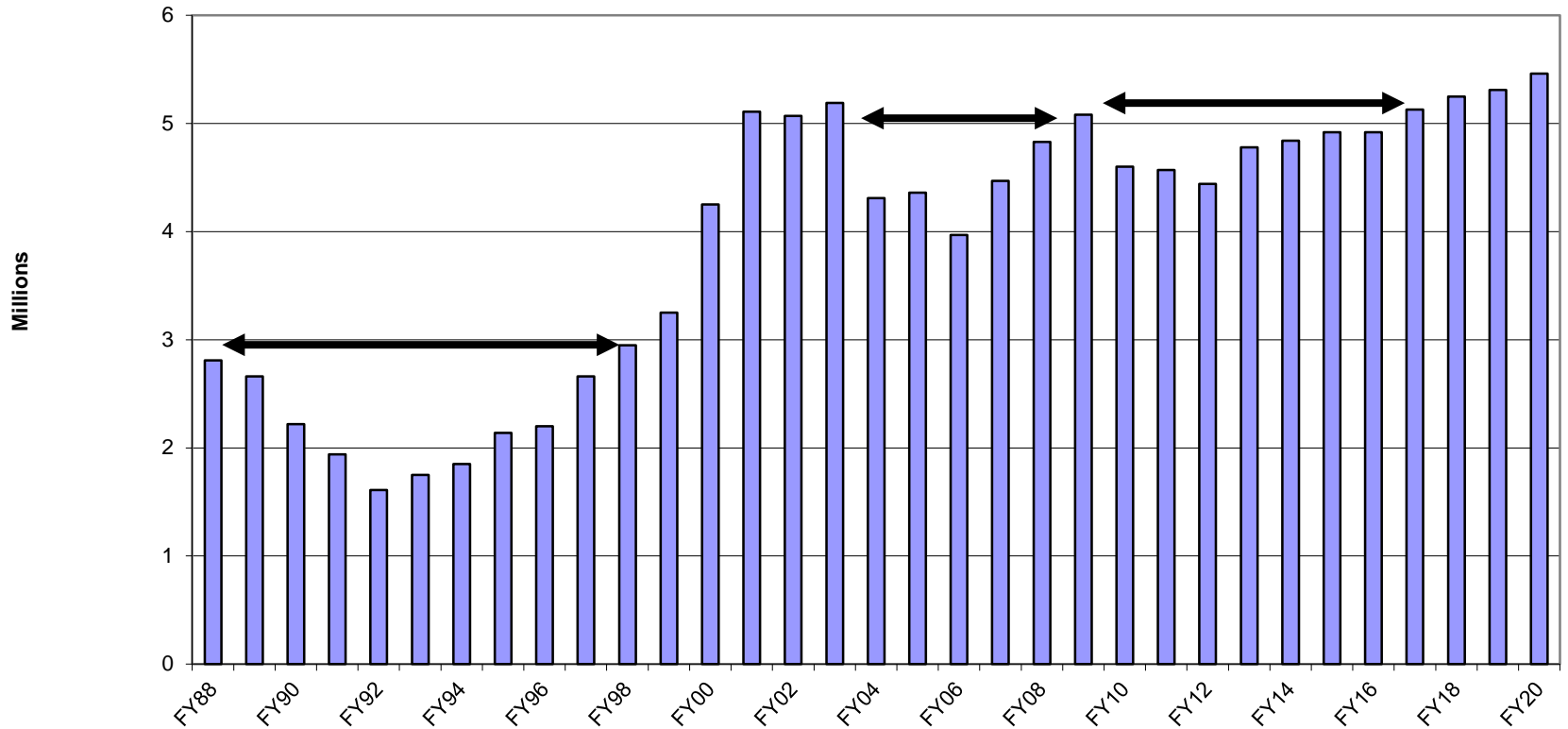
Town of Northborough Financial Indicators

Indicator 3: Revenues & Expenditures per Capita



- Formula: Revenues & Expenditures divided by population
- Warning: Expenditures per capita in excess of revenues per capita
- Trend: **Favorable**
- Comments: From FY03 to FY09 trend was negative; FY10 to present revenues per capita exceed expenditures per capita

Northborough State Aid FY1988-2020

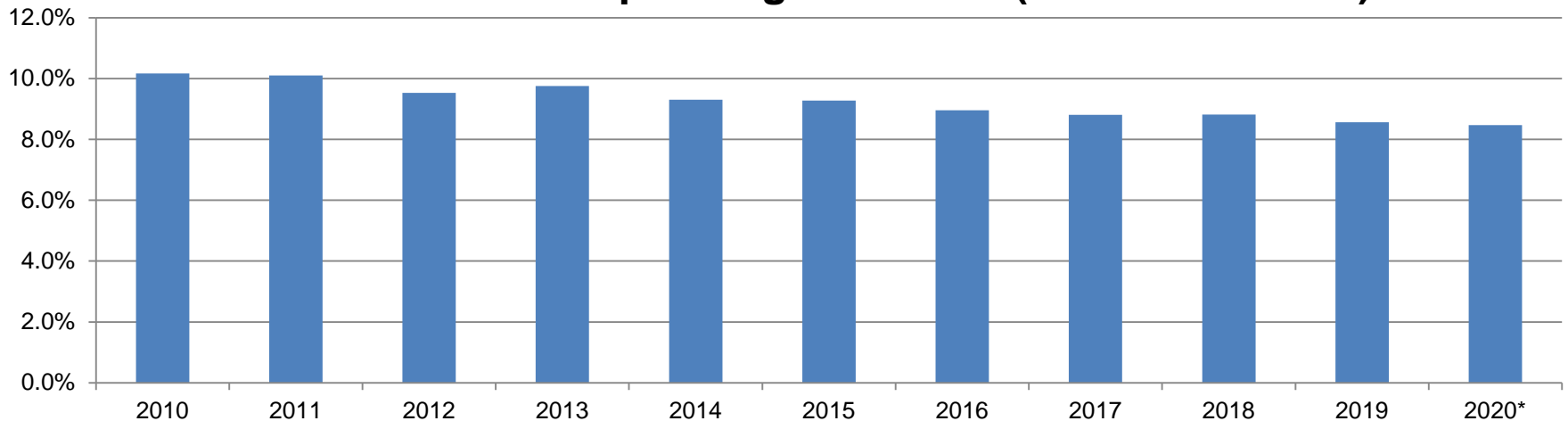




Town of Northborough
Financial Indicators

Indicator 4: State Aid (Intergovernmental Revenues)

State Aid as a % of Operating Revenues (constant dollars)



- Formula: State Aid as a percentage of operating revenues
- Warning: Significant increase or decrease as % operating revenues
- Trend: **Unfavorable / Uncertain**
- Comments: State Aid went from a high of 13.1% of revenues in FY03 to 8.5% in FY20; it has been relatively flat for the past several years with little growth.

FY2021 State Aid Forecasts

- December 4, 2019 State Revenue Consensus Hearing estimates range from 2% to 2.3%
- Slower growth expected for FY2021 with concern about recessionary pressures
- Town has conservatively estimated State Aid in recent years at 1% for budgeting purposes
- Any State Aid received above the Town's conservative estimate can only be used to reduce taxes
- State Aid is a political process and not a math exercise

FY2021 State Aid Forecasts



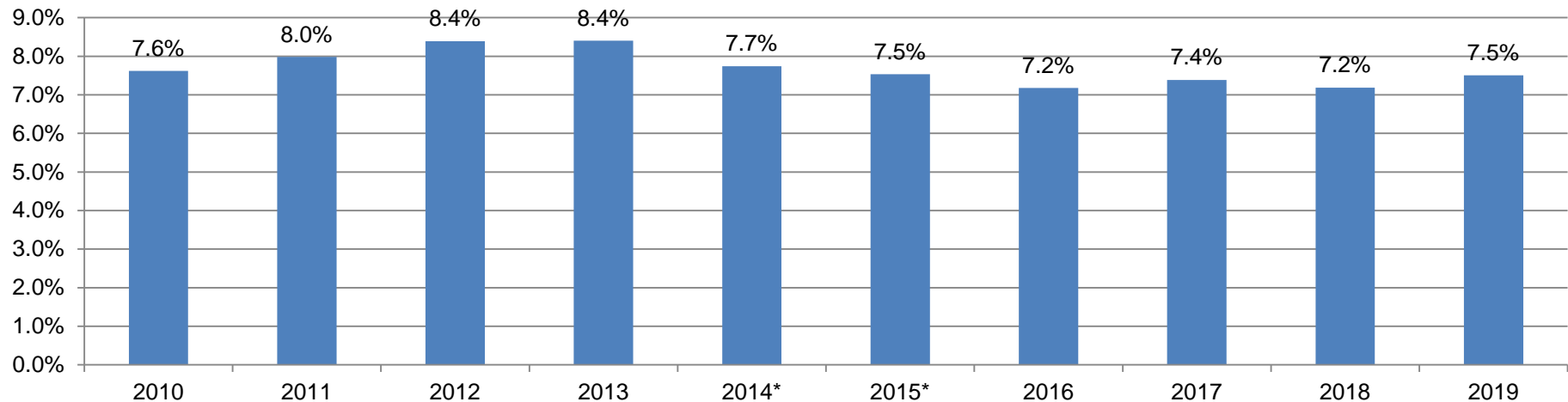
Massachusetts Taxpayers Foundation

State Changes in Tax Revenues, FY 2016 – FY 2021

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Income						
Withholding	3.26%	4.78%	6.37%	3.74%	4.32%	3.59%
Capital Gains	-15.71%	-16.33%	42.37%	22.12%	-8.88%	-12.84%
Other non-Withholding	-5.08%	-0.44%	17.86%	0.49%	-2.35%	-1.79%
Sales	4.76%	2.65%	3.93%	5.35%	2.93%	2.70%
Corporate	4.63%	-1.46%	11.10%	19.34%	2.33%	3.37%
Other Tax Revenues	6.89%	-3.14%	4.77%	6.74%	2.17%	1.77%
Total	2.22%	1.42%	8.46%	6.82%	2.27%	1.87%

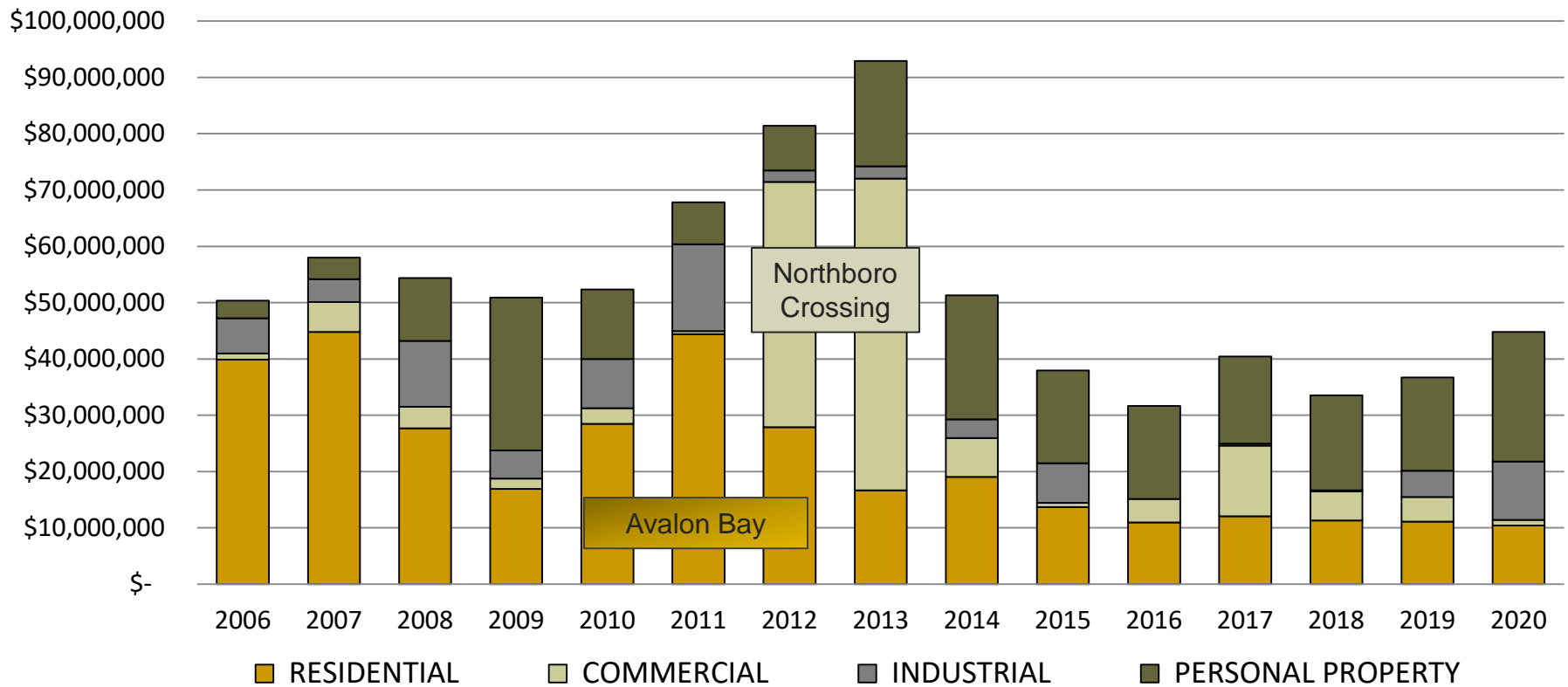


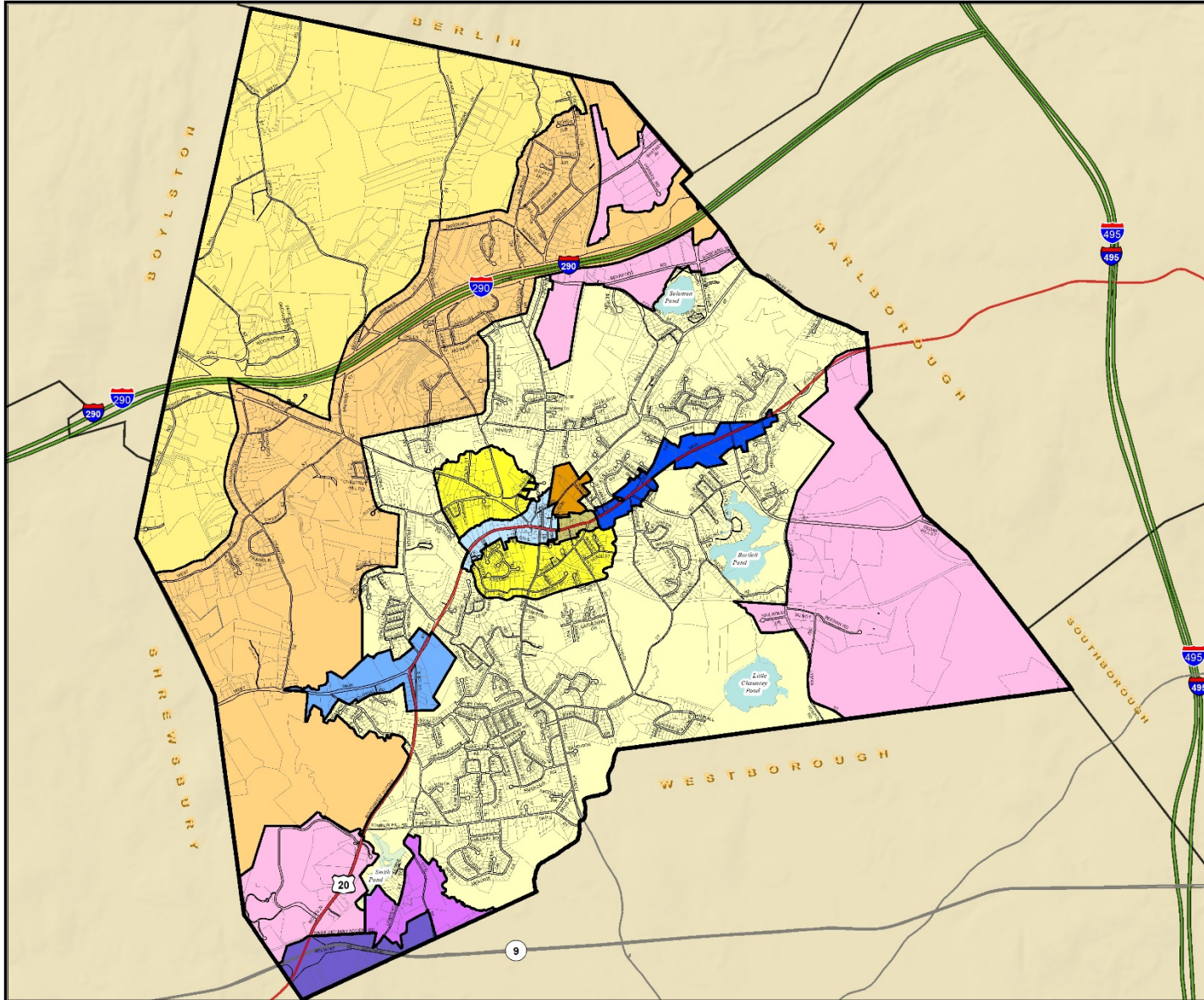
Economic Growth Revenues as a % of Operating Revenues



- Formula: Economic Growth Revenues divided by net revenues
- Warning: Decreasing Economic Growth Revenues as % revenues
- Trend: **Stable**
- Comments: Economic Growth Revenues remain stable with favorable increases in building permits and new growth. However, indicator should be monitored closely as Town approaches build-out.

New Growth History








TOWN OF NORTHBOROUGH OFFICIAL ZONING MAP



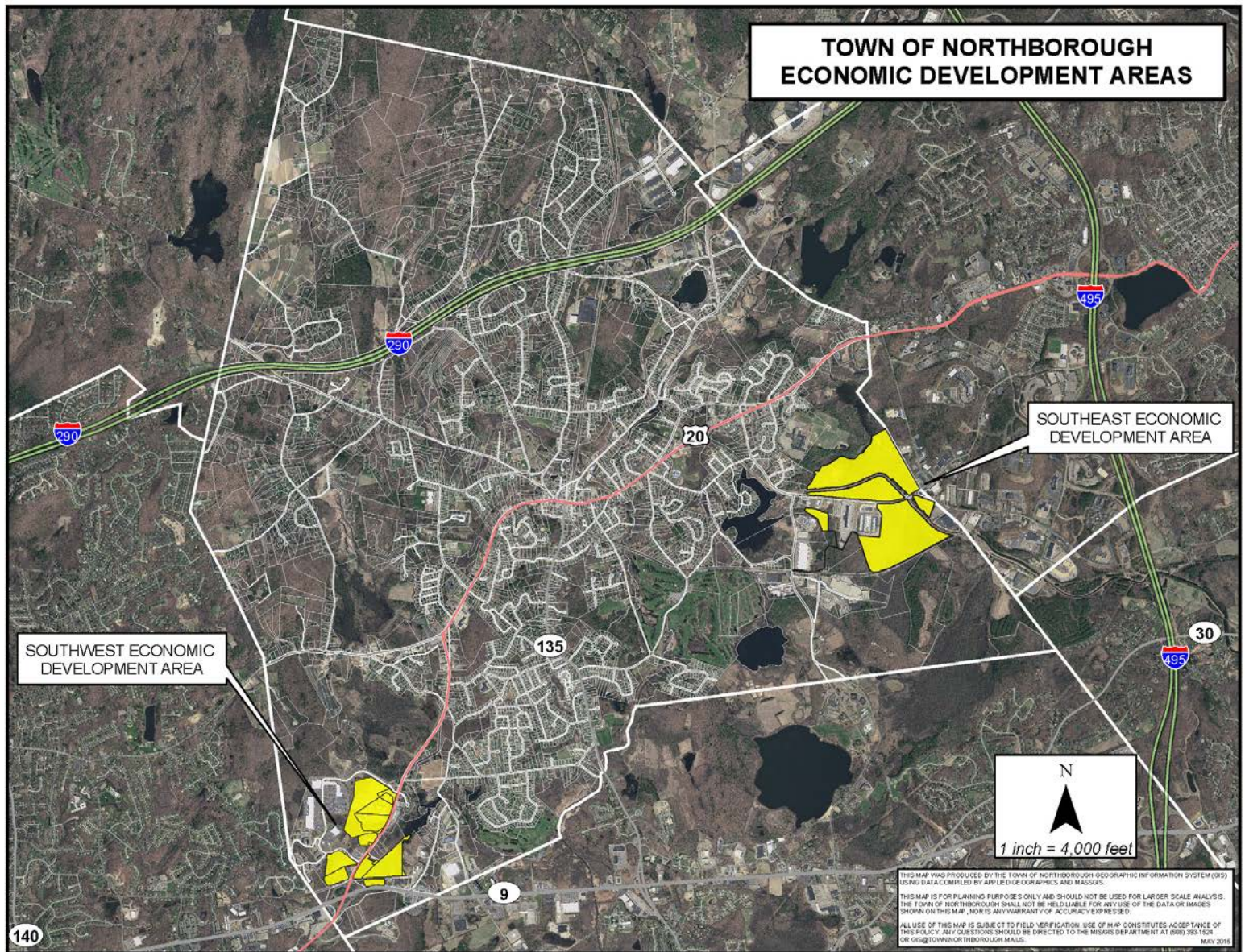
ZONING DISTRICTS

-  BUSINESS EAST (BE)
-  INDUSTRIAL (I)
-  BUSINESS SOUTH (BS)
-  BUSINESS WEST (BW)
-  HIGHWAY BUSINESS (HB)
-  DOWNTOWN BUSINESS (DB)
-  DOWNTOWN NEIGHBORHOOD (DN)
-  RESIDENCE A (RA)
-  RESIDENCE B (RB)
-  RESIDENCE C (RC)
-  GENERAL RESIDENTIAL (GR)
-  MAIN STREET RESIDENTIAL (MSR)



This map was produced by the Town of Northborough Geographic Information System (GIS) using aerial photography and/or satellite imagery performed by the Town of Northborough or its consultants. The Town of Northborough shall not be held liable for any use of the data or images shown on this map, nor is any warranty of accuracy expressed. All uses of this data set are subject to field verification.

Use of this map constitutes acceptance of this policy. Any questions should be directed to the GIS Department at (508) 861-1124 or gis@town.northborough.ma.us.



TOWN OF NORTHBOROUGH SOUTHEAST ECONOMIC DEVELOPMENT AREA



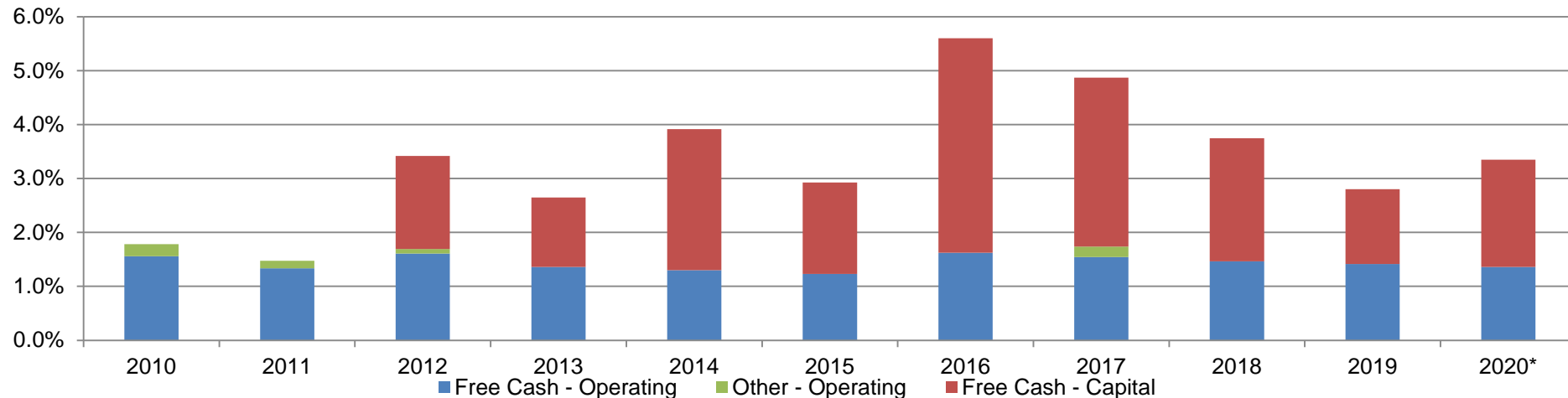
TOWN OF NORTHBOROUGH
SOUTHWEST ECONOMIC DEVELOPMENT AREA





Town of Northborough Financial Indicators

Indicator 6: One-Time Revenues



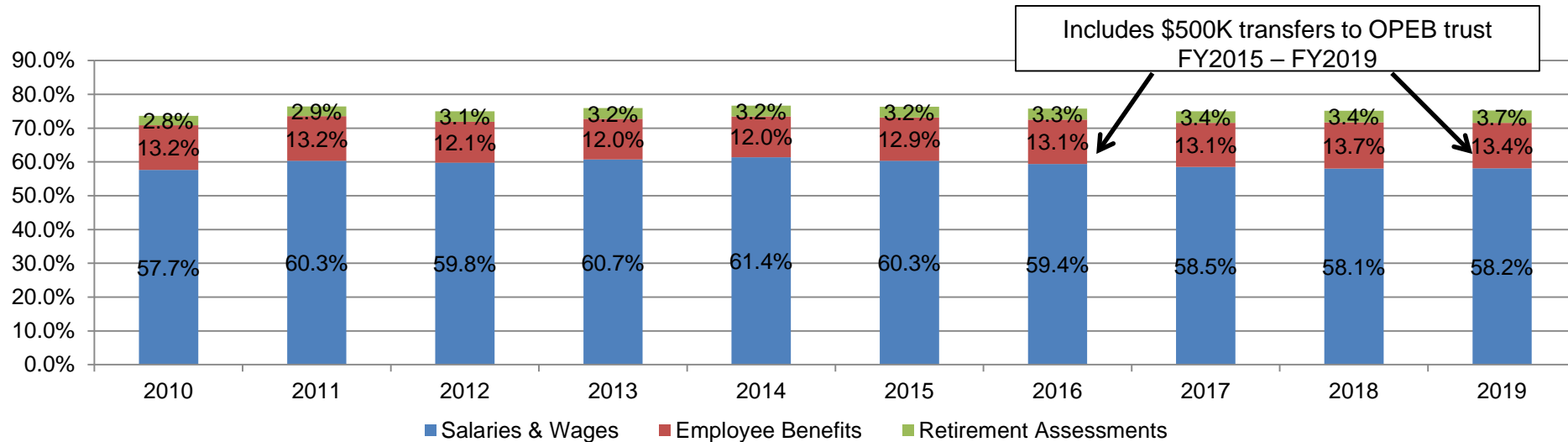
- Formula: One-Time Revenues as % of Operating Budget
- Warning: Increasing amount of one-time revenues in the budget
- Trend: **Favorable**
- Comments: Free Cash Policy reduced reliance on one-time revenues from a high of \$1.5 million (4.1%) in FY05 to \$875,000 (1.4%) in FY20 (FY16-FY20 include \$200k transfers to Stabilization). Free Cash was diverted to finance \$11.3 million pay-as-you-go capital investments in FY12 through FY20.



Town of Northborough Financial Indicators

Indicator 7: Personnel Costs

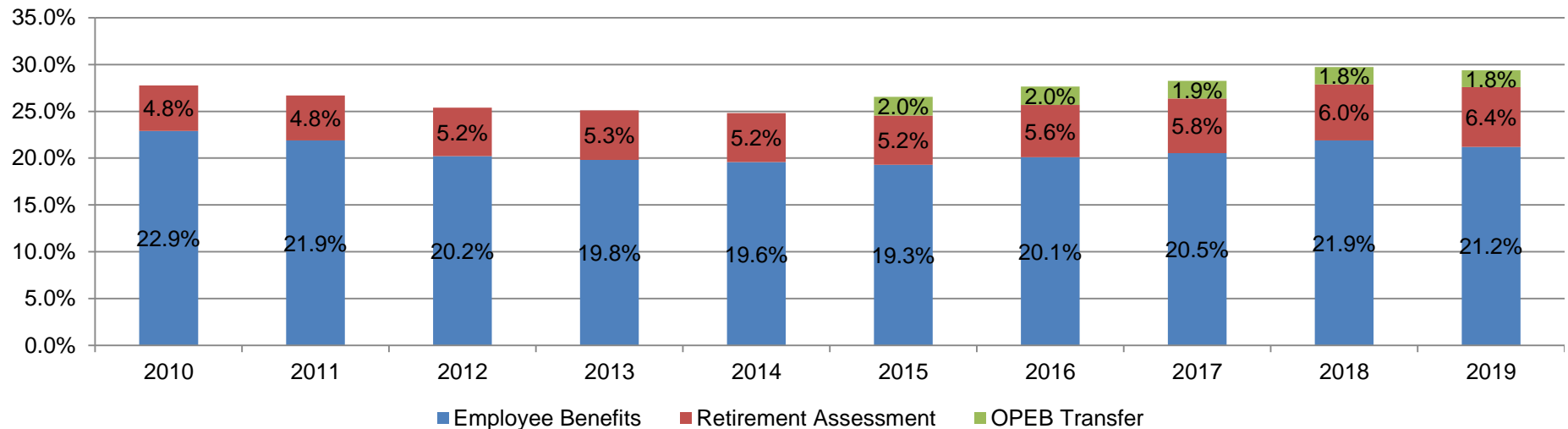
Personnel, Wages, and Benefits as a % of Operating Expenditures



- Formula: Personnel expenses as % of Budget
- Warning: Salaries & wages increasing as % of expenditures
- Trend: **Stable**
- Comments: Personnel wages & benefits represent approximately 75% of the Town's operating budget net of ARHS & Assabet school assessments and remain relatively stable due to health insurance benefit changes, sustainable staffing and wage increases



Employee Benefits Spending as a % of Wages & Salaries



- Formula: Employee benefit costs as % of salaries & wages
- Warning: Increasing employee benefits as % of salaries & wages
- Trend: **Uncertain**
- Comments: Overall, employee benefits as a % of wages & salaries increased 1.6% from FY10-FY19 due to negotiated health insurance plan design changes; FY15 includes the first annual \$500k transfer to OPEB trust fund

FY2021 Health Insurance

- FY2010 Plan Design Changes and adoption of MGL c.32B, Section 18
- FY2012 Teacher contributions increased 5%
- FY2017 Plan Design Changes
- FY2018 Plan Design Changes but still experienced an 8.33% increase
- FY2019 Negotiated Carrier Consolidation resulted in a 3.8% budget increase
- FY2020 Zero percent premium increase, resulted in 2% budget increase

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%

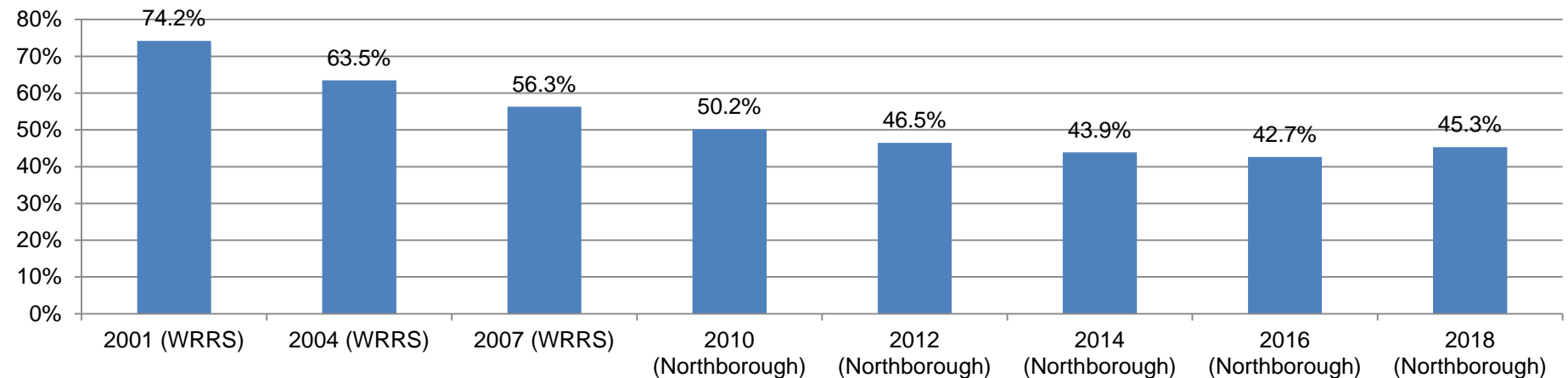
FY2021 Health Insurance

Why is the Health Insurance budget increase so critical?

- 10% increase on \$5.847 million health budget is \$585,000
- 3.5% increase on the Total General Government Budget is approximately \$784,000
- Health Insurance would consume 75% of all new FY2021 revenues. It swamps all other budget considerations.



Pension Liability - % Funded



- Formula: Pension Assets divided by Pension Liabilities
- Warning: Unfunded liability or increase in unfunded liability
- Trend: **Unfavorable**
- Comments: Northborough is part of Worcester Regional Retirement System which is on schedule to be fully funded by 2035—five years before the 2040 deadline; the new funding schedule, recent pension reform and improving economy are all forces for future improvement. Northborough's current unfunded liability is \$29.7M.



Town of Northborough Financial Indicators

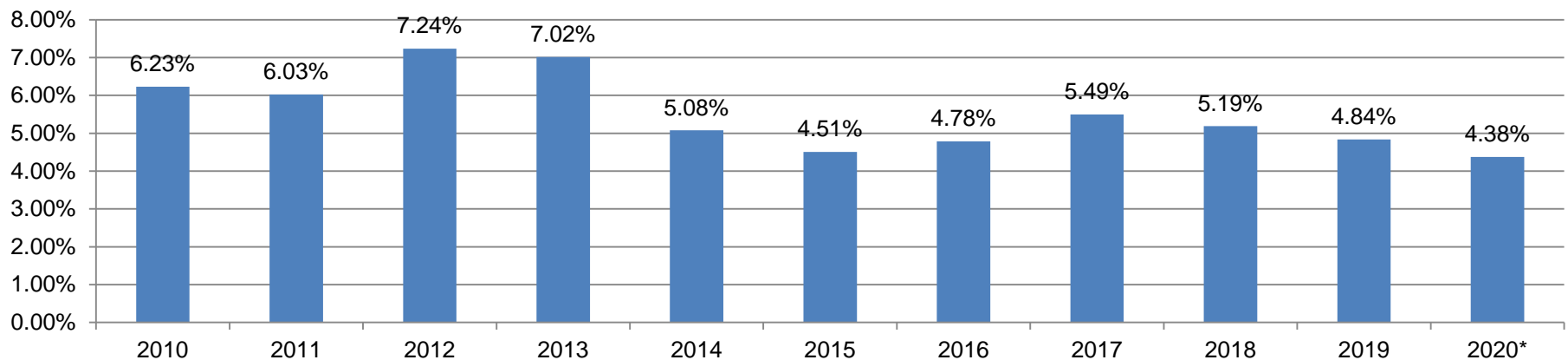
Indicator 10: Other Post-Employment Benefits

Reporting Period*	FY2009	FY2009	FY2011	FY2013	FY2015	FY2016	FY2017	FY2018	FY2019
In Millions	Original	Revised							
Total OPEB Liability	\$90.44	\$34.29	\$28.07	\$32.64	\$35.38	\$36.57	\$39.14	\$47.33	\$37.75
Actuarial Value of Assets	-	-	-	-	\$0.50	\$1.05	\$1.73	\$2.44	\$3.11
Net OPEB Liability	\$90.44	\$34.29	\$28.07	\$32.64	\$34.88	\$35.52	\$37.41	\$44.89	\$34.64
Discount Rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	6.00%	5.25%	6.25%
Funded Ratio	0.00%	0.00%	0.00%	0.00%	1.43%	2.87%	4.43%	5.15%	8.25%

- Formula: Other Post-Employment Assets divided by Liabilities
- Warning: Unfunded liability or increase in unfunded liability
- Trend: **Unfavorable / Improving**
- Comments: Health insurance plan design changes, adoption of MGL c.32B §18 and \$500K in planned annual contributions to the OPEB Trust Fund beginning in FY15 have started to improve the Town's funding ratio. As of 10/31/2019 the Fund has \$3.8M.



Debt Service as a % of General Fund Expenditures



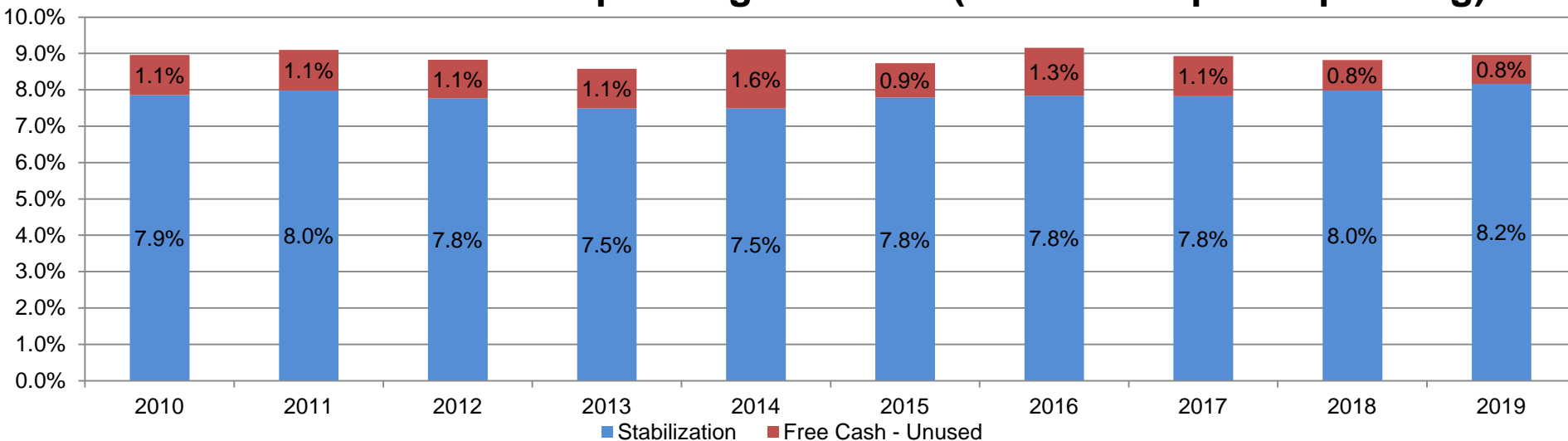
- Formula: Debt Service as % of General Fund Expenditures
- Warning: Increasing debt service as % of operating expenditures
- Trend: **Favorable**
- Comments: Overall, the Town's level of debt service is within the 5% to 10% suggested by the debt policy and represents an appropriate level of capital investment; FY16 & FY17 included \$14.2 million in new debt for the Lincoln St. School building project



Town of Northborough Financial Indicators

Indicator 12: Reserves/Fund Balance

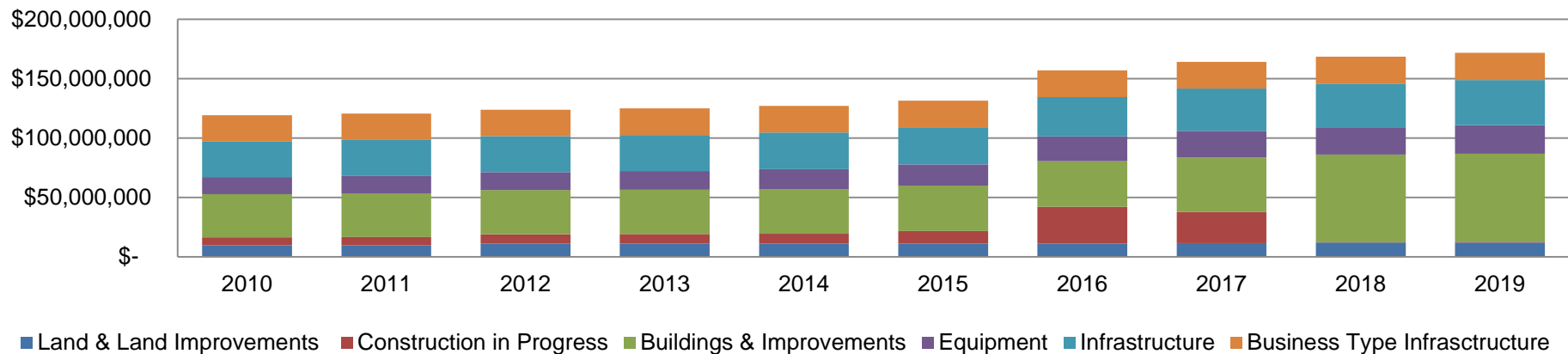
Reserves as a % of Operating Revenue (after subsequent spending)



- Formula: Financial Reserves as % of operating revenues
- Warning: Declining reserves as % of operating revenues
- Trend: **Favorable**
- Comments: Northborough's financial policy provides for reserves to average between 5% and 10% of the Town's General Fund (Operating Budget) expenditures. FY15-FY19 include a \$200K contribution to the Stabilization Fund to help maintain reserves



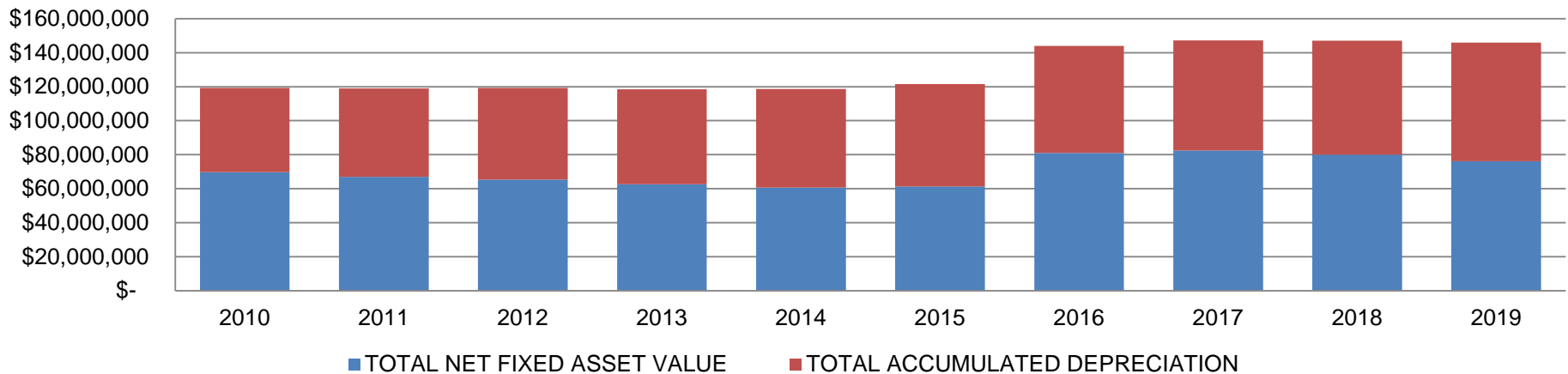
Gross Fixed Asset Value Nominal Dollars - Governmental & Business-Type Activities



- Formula: Value of assets in service before depreciation
- Warning: Declining value of assets
- Trend: **Favorable**
- Comments: Reflects Northborough's overall investment in the various categories of capital assets. However, the above chart is not adjusted for inflation and does not reflect routine depreciation of assets.



Fixed Asset Values Constant Dollars - Governmental & Business-Type Activities

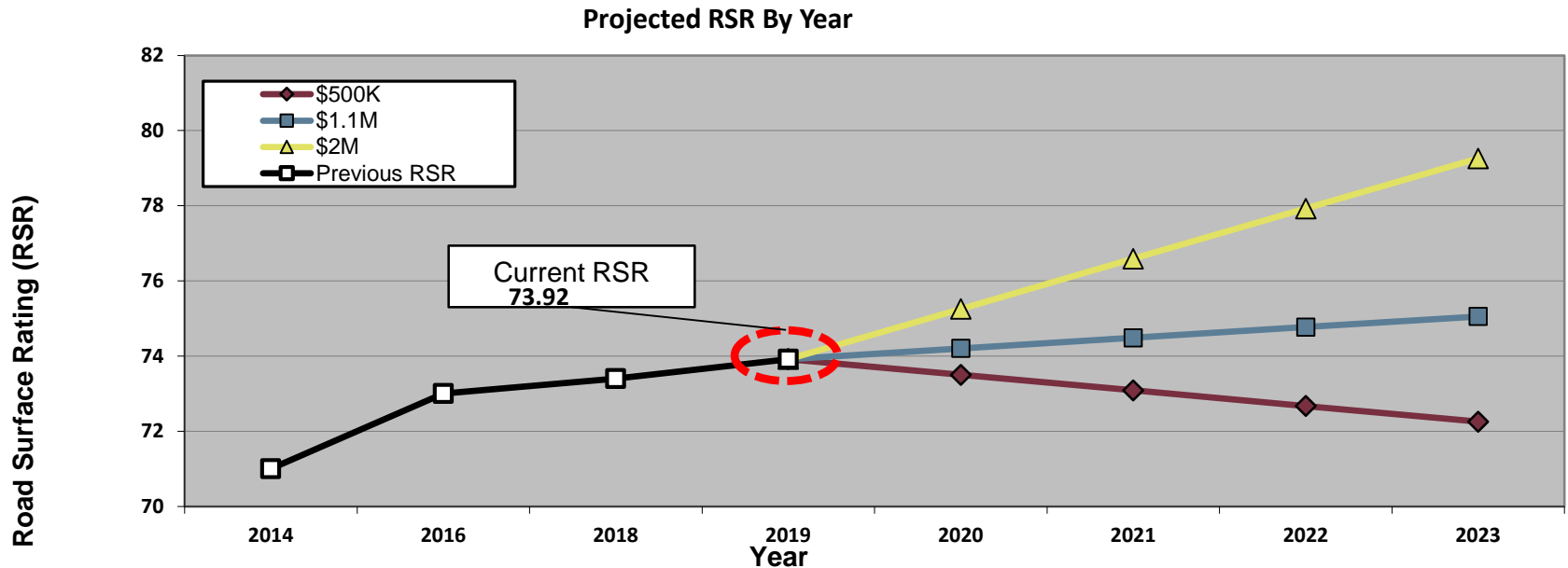


- Formula: Total fixed asset values adjusted for inflation
- Warning: Declining values
- Trend: **Favorable**
- Comments: Reflects Northborough's continued effort to maintain its fixed asset values even after adjusting for the effects of inflation and depreciation. The blue portion of the bar graph above shows relatively constant asset value indicating regular capital investment.



Town of Northborough Financial Indicators

Indicator 14: Capital Investment–Pavement Management



- Formula: Average Road Surface Rating (RSR, formerly PCI)
- Warning: Declining overall average RSR
- Trend: **Improving**
- Comments: The minimum annual investment needed to maintain the current average RSR is \$1.1 million. The target was met again in FY20 with \$300K in the operating budget, \$300K in the capital plan, and \$518K in State Chapter 90 Funds. The RSR improved from 71 to 73.9 over the last five years.

Executive Summary

	Financial Indicator	FY2020
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	Stable
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

December 2019 Presentation Summary

Current Financial Condition

- Northborough is in relatively good financial condition
- Tax base is strong with good diversification
- Financial Reserves are healthy at 9%
- Debt level is manageable with preferred Aa1 bond rating
- Reliance on one-time revenues in the operating budget is at the policy target of \$500,000, or approximately 1%
- Pay-as-you-go capital investments continue

December 2019 Presentation Summary

Potential Emerging Concerns

- Long-run solvency surrounding unfunded pension liability and OPEB obligations require regular assessment
- Uncertainty surrounding future levels of State Aid
- Uncertainty surrounding future increases in health insurance premiums
- Uncertainty surrounding future economic development (new growth) revenues as we approach buildout
- Possible recessionary period on the horizon

FY2021 Budget Considerations

- Other Post-Employment Benefits (OPEB) Liability
 - Must continue to fund at least \$550,000
- Sustainable Personnel Expenses (contracts & staffing)
- New Growth projected at \$45 million for FY2021
- State Aid continues to lag budget growth
- Maintain infrastructure investment plans (implementation of pavement management plan)
- All decisions must be made while maintaining compliance with the Town's adopted Comprehensive Financial Policies (Appendix A of the Budget)

Financial Projections

Overview

- Five-Year Projections
- Assumptions Used for Projections
- Future Tax Impact
- Financial Outlook

Financial Projections

Methodology

- Revenue driven model
 - Based upon the existing revenue sharing model
 - Establishes a revenue ceiling based upon Proposition 2 ½ and backs into the allowable annual budget growth
 - Uses FY2020 as the base and looks out 5 years
- Focuses on the top three revenue sources, or 95%
 - Taxes 80%, State Aid 10%, Motor Vehicle Excise 5%)
- Minimum goal is to maintain level service budget
 - Can we protect and maintain what we have now?
 - Will we be able to address future wants and needs?

Financial Projections

Assumptions

- Taxes increase by allowable Proposition 2 ½
 - New growth \$45 million in value (\$776K in new taxes) for FY2021 & FY2022, \$30 million from FY2023-FY2025
 - Existing unused levy capacity is available for use
- State Aid increases 1% annually
- MVE and misc. local receipts level budgeted
- Adhere to adopted Financial Policies
 - No one-time revenue gimmicks
 - Maintain financial reserves
 - Continue to invest in Capital Improvement Plan (CIP)

Financial Projections

Assumptions (con't)

- OPEB funding sustained at \$550,000 annually
- Debt service for major capital projects included
 - Fire Station Project (Debt Exclusion)
- Key budget increases
 - NB K-8 Schools & General Government 3.5% for FY2021, then 4% annually
 - ARHS Assessments 7% for FY2021 & 5% for FY2022 based on revised enrollment trends, 4% for FY2023-FY2025
 - Assabet 25% enrollment increase FY2021, then 4% annually
 - Attempt is to maintain level services

Five-Year Expense Projections

		FY2021	FY2022	FY2023	FY2024	FY2025
		Projection	Projection	Projection	Projection	Projection
<u>General Fund Expenses</u>						
<u>Education</u>						
	Northborough K-8	25,801,058	26,833,100	27,906,424	29,022,681	30,183,589
	Algonquin 9-12 Operating	13,110,190	13,765,700	14,316,327	14,888,981	15,484,540
	ARHS Debt Service	632,417	648,713	655,976	658,876	655,356
	Assabet	868,528	903,269	939,400	976,976	1,016,055
	Assabet Debt Service	137,660	133,832	130,004	126,176	122,348
	Education Subtotal	40,549,853	42,284,614	43,948,132	45,673,690	47,461,887
<u>Town Budget</u>						
	Town Department Subtotal	23,174,967	24,101,966	25,066,045	26,068,687	27,111,434
<u>Debt Exclusions</u>						
	Lincoln St School Debt Service	1,051,475	1,026,775	998,675	973,975	949,275
	Fire Station Debt Service	296,317	1,908,000	1,819,000	1,805,800	1,775,000
	Other Debt Excluded Debt Service	794,315	772,488	695,633	675,818	655,568
<u>Other Funds</u>		982,384	900,000	900,000	900,000	900,000
<u>OPEB Trust</u>		550,000	550,000	550,000	550,000	550,000
<u>Stabilization Fund</u>		200,000	200,000	200,000	200,000	200,000
<u>Reserve Fund</u>		175,000	175,000	175,000	175,000	175,000
<u>Capital Articles</u>		1,479,397				
Total General Fund Expenses		69,253,707	71,918,842	74,352,485	77,022,970	79,778,164

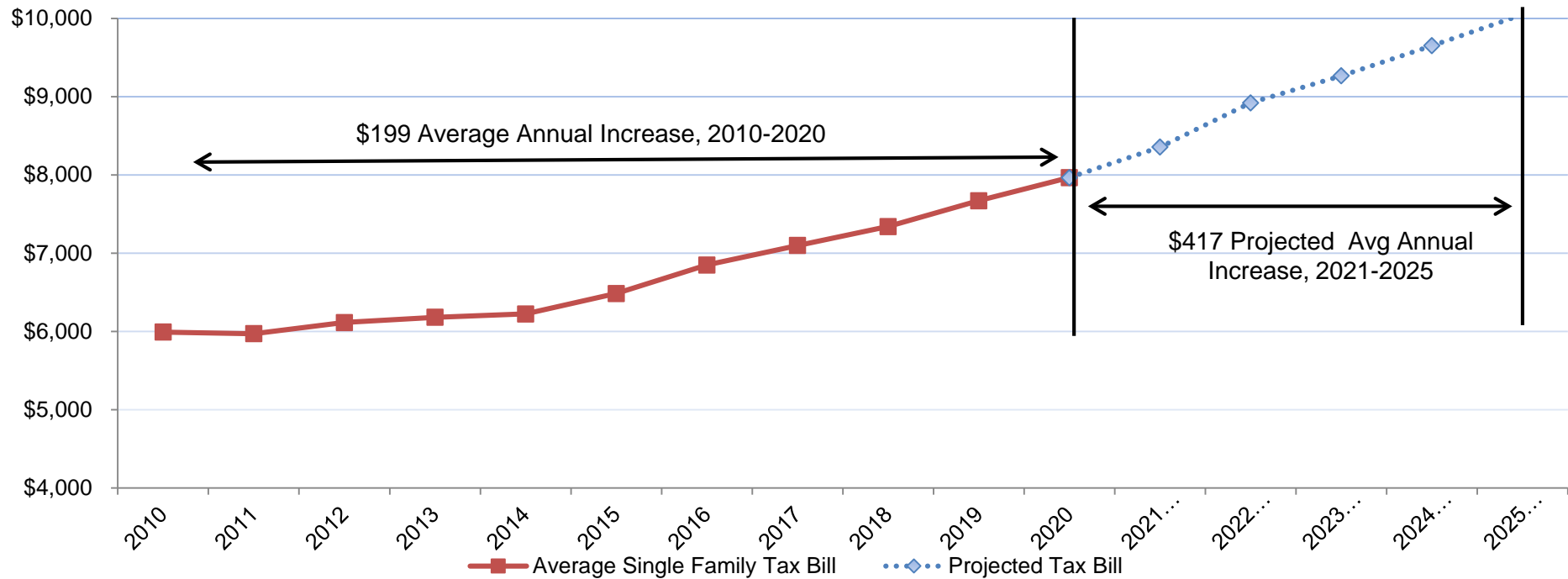
Five-Year Revenue Projections

		FY2021	FY2022	FY2023	FY2024	FY2025
		Projection	Projection	Projection	Projection	Projection
<u>General Fund Revenues</u>						
	Prior Year Levy Limit	52,997,340	55,098,524	57,274,193	59,263,281	61,312,304
	2.5%	1,324,934	1,377,463	1,431,855	1,481,582	1,532,808
	New Growth	776,250	798,206	557,233	567,441	579,342
	Levy Limit	55,098,524	57,274,193	59,263,281	61,312,304	63,424,454
	Other Debt Exclusions	724,151	703,246	687,391	668,623	649,474
	ARHS Debt Exclusions	412,417	428,713	435,976	658,876	655,356
	Lincoln St Sch Bldg Debt Exclusion	1,050,837	1,026,182	998,130	973,476	948,821
	Fire Station Debt Exclusion	296,317	1,908,000	1,819,000	1,805,800	1,775,000
	Maximum Levy	57,582,246	61,340,334	63,203,778	65,419,078	67,453,105
	Unused Levy Capacity	(1,599,814)	(1,185,650)	(670,664)	(271,243)	393,604
Total Tax Levy		55,982,432	60,154,684	62,533,114	65,147,836	67,846,709
State Aid	Cherry Sheet	5,466,494	5,521,159	5,576,371	5,632,134	5,688,456
Local Receipts		4,468,000	4,468,000	4,468,000	4,468,000	4,468,000
Fund Balance Allocations & Transfers						
	Free Cash - Operating Budget	500,000	500,000	500,000	500,000	500,000
	Free Cash - Appropriated Reserve	175,000	175,000	175,000	175,000	175,000
	Free Cash - Transfer to Stabilization	200,000	200,000	200,000	200,000	200,000
	Free Cash - Capital/Other	1,479,397				
	Other Available Funds	982,384	900,000	900,000	900,000	900,000
Total General Fund Revenues		69,253,707	71,918,842	74,352,485	77,022,970	79,778,164

Projected Tax Impact

		FY2021	FY2022	FY2023	FY2024	FY2025
		Projection	Projection	Projection	Projection	Projection
Projected Tax Impact						
	Tax Base / Valuation	3,156,090,381	3,238,574,719	3,306,059,057	3,373,543,395	3,441,027,733
	Avg Single Fam	470,979	480,398	490,006	499,807	509,803
	Tax Rate	17.74	18.57	18.91	19.31	19.72
	Avg Tax Bill	8,354	8,923	9,268	9,652	10,052
	Increase (\$)	389	569	345	384	400
	Increase (%)	4.9%	6.8%	3.9%	4.1%	4.1%
Note: Tax Impact assumes a 2% increase in Single Family Home Values annually FY2021-FY2025; Valuation reflects \$45M newgrowth in FY2021 & FY2022 and \$30M from FY2023-2025 and corresponding growth in overall Single Family Home values						

Historic & Projected Tax Bills



Financial Projections

Financial Outlook

- Budgets increase minimally to maintain services
 - No significant staffing or service level increases
- Existing \$2.1M unused levy capacity drawn down to \$271K through FY2024, \$394K override needed in FY2025
- Taxes increase between 3.9% to 6.8% annually
 - FY2021 is the next revaluation year, market adjustments to property values continue to increase annually
- Assumes no major budget “surprises”

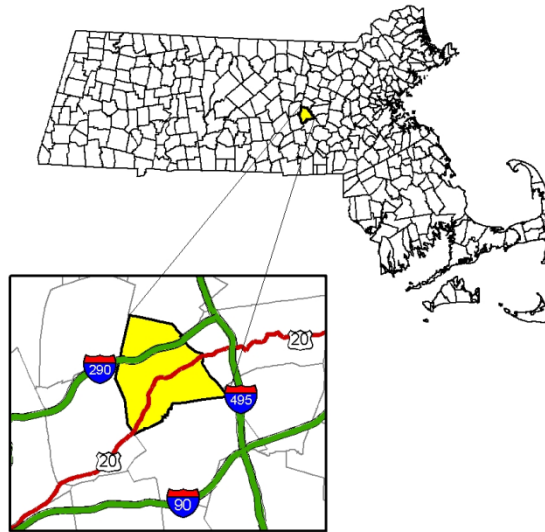
Conclusion

- Continue funding the OPEB liability in FY2021
- Continue to explore Health Insurance modifications to control costs
- Upcoming FY2021 budget decisions must be made within the context of the financial indicators and projections
- We need to continue monitoring our Financial Condition, work collaboratively to address Town-wide issues, and strive to balance departmental needs with the impact on the taxpayer



Financial Trend Monitoring Report

QUESTIONS?



FTM Report covers the period July 1, 2009 (FY2010) through June 30, 2020 (FY2020)