

# **Undistributed Expenses**

## **Section 6**



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## Undistributed Expenses

## Section 6-1

### Undistributed Expenses

In its operation the Town budgets certain overhead costs in the aggregate rather than distributing costs by department or program. These overhead costs include employee benefits of health insurance, life insurance, Worcester Regional Retirement contributions, unemployment compensation and workers' compensation insurance; comprehensive building and liability insurance; debt service; non-appropriated expenses such as State Assessments and reserves for abatements; stabilization fund contributions; a reserve fund for extraordinary and unforeseen expenses; and various Town Meeting special warrant articles. In the pages that follow each of these undistributed expenses are explained in more detail. A summary of these expenses is shown below.

	FY2012 ACTUAL	FY2013 ACTUAL	FY2014 ACTUAL	FY2015 BUDGETED	FY2015 SIX MONTHS	FY2016 PROPOSED
<b>UNDISTRIBUTED EXPENSES SUMMARY</b>						
<b>EMPLOYEE BENEFITS&amp; INSURANCE</b>						
Health Insurance	4,238,709	4,149,670	4,161,545	4,804,890	2,205,604	4,949,038
Transfer to OPEB Trust	0	0	0	500,000	500,000	500,000
Life Insurance	7,179	6,911	5,867	8,730	2,863	8,730
Other Benefits/FICA	344,611	353,527	380,818	404,998	162,407	432,727
Worcester Regional Retirement	1,118,191	1,210,083	1,241,407	1,306,702	1,306,702	1,415,244
Workers Comp	89,841	83,110	94,880	109,851	95,832	114,045
<b>SUBTOTAL EMPLOYEE BENEFITS</b>	<b>5,798,531</b>	<b>5,803,301</b>	<b>5,884,517</b>	<b>7,135,171</b>	<b>4,273,407</b>	<b>7,419,784</b>
<b>Building &amp; Liability Insurance</b>	137,565	146,883	177,119	225,545	180,026	232,311
<b>Debt Service</b>	2,460,465	2,481,623	2,307,032	2,051,341	257,096	2,598,421
<b>State Assessments</b>	423,427	351,651	326,754	300,855	117,230	329,270
<b>Reserve for Abatements<sup>1</sup></b>	351,739	679,291	530,787	462,432	0	629,640
<b>Cherry Sheet Offset Items<sup>2</sup></b>	22,815	23,084	21,827	27,591	0	19,655
<b>Stabilization Fund Contribution</b>	0	0	0	0	0	200,000
<b>Reserve Fund<sup>3</sup></b>	0	0	0	150,000	0	175,000
<b>Warrant Articles<sup>4</sup></b>	904,000	3,086,000	1,506,500	28,610,053	0	4,129,000
<b>TOTAL:    UNDISTRIBUTED EXPENSES</b>	<b>10,098,542</b>	<b>12,571,833</b>	<b>10,754,536</b>	<b>38,962,988</b>	<b>4,827,759</b>	<b>15,733,081</b>

<sup>1</sup> Amounts displayed reflect an offset to revenue rather than actual expenditures and reflect what was provided for abatements and exemptions from the property tax levy as determined by the Assessors in each year.

<sup>2</sup> Amounts displayed reflect an offset to revenue rather than actual expenditures. The amounts are the portion of total budgeted state aid that is restricted to uses in other funds, and will be received outside of the general fund (i.e. School Lunch and public library grants). In FY2016 the only offset is for public library grants.

<sup>3</sup> Amounts displayed will reflect the budget only for the Reserve Fund from which amounts may be transferred to other departments to cover extraordinary/unforeseen expenses, expenditures are not made directly from the fund.

<sup>4</sup> Amounts displayed in this row reflect budgets rather than actual expenditures because articles are generally multi-year and reflect either transfers to Capital Project Funds or Borrowing Authorizations.



### Employee Benefits and Insurance Statement

The employee benefits and insurance provided to the employees of the Town of Northborough (including those who work for the Northborough K-8 Public Schools) include both the required and contractually agreed upon benefits to protect their health, provide for their income security if they are injured on the job, and provide for their eventual retirement from the Town. Employee benefits represents the cost of providing health and life insurance for Town and K-8 School employees as well as for workers' compensation, unemployment, FICA/Medicare tax, and the Town's assessment from the Worcester Regional Retirement System.

#### Health Insurance

Pursuant to MGL Chapter 32B, as a benefit of employment, any active, permanent employee of the Town who works in excess of twenty hours per week is eligible for group health insurance coverage.

The Town offers the choice of four health insurance plans to its active employees: Fallon Health Maintenance Plan (HMO), Fallon Preferred Provider Plan (PPO), Harvard/Pilgrim HMO and Tufts HMO. As a benefit of retirement, former Town employees are also eligible for group health insurance coverage. Retirees under the age of 65 are covered on the active employee plans with the same contribution as the Town employees. The Town offers four senior plans for Medicare eligible retirees: Fallon Senior, Tufts Complement, Tufts Preferred and MEDEX.

As of March 1, 2015 a total of 277 active employees (82 Town and 195 K-8 School), 122 retirees (39 Town and 83 K-8 School) and 43 retiree dependents (11 Town and 32 School) were enrolled in one of the Town's health insurance plans.

The following estimated rate schedule was used in budgeting for FY2016.

Health Insurance Plan		7/1/2015 Renewal Monthly Rates	Town Employees				School Employees			
			7/1/2015 Town Monthly Expense		7/1/2015 Employee Monthly Expense		7/1/2015 Town Monthly Expense		7/1/2015 Employee Monthly Expense	
Fallon	Ind	778.44	66%	511.57	34%	266.87	75%	583.83	25%	194.61
	Fam	2,023.93	66%	1,329.29	34%	694.64	75%	1,517.95	25%	505.98
Fallon Pref Care PPO	Ind	934.12	50%	467.06	50%	467.06	50%	467.06	50%	467.06
	Fam	2,429.73	50%	1,214.87	50%	1,214.86	50%	1,214.87	50%	1,214.86
Harvard/Pilgrim	Ind	707.33	68%	480.76	32%	226.57	75%	530.50	25%	176.83
	Fam	1,839.05	68%	1,248.96	32%	590.09	75%	1,379.29	25%	459.76
Tufts	Ind	718.44	67%	482.67	33%	235.77	75%	538.83	25%	179.61
	Fam	1,867.90	67%	1,254.87	33%	613.03	75%	1,400.93	25%	466.97



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Several years ago, the Town negotiated a 60% Town and 40% Town employee share of any premium changes. Therefore in FY2016, the Town contribution will be 66% to 68% of the monthly HMO premiums for Town employees depending upon the specific health plan. Beginning in FY2012, the Town contribution decreased from 80% to 75% of the monthly HMO premiums for K-8 School employees and the 75% contribution will remain in place for FY2016. In accordance with Chapter 32B, the Town pays 50% of the monthly premium for the Fallon Preferred Provider Plan for both K-8 School and Town employees. The employees pay the remaining premium through bi-weekly payroll deductions.

The FY2016 budget was prepared using an estimated 5% increase effective with the Senior plan renewal on January 1, 2016. The following rate schedule was in place until the calendar year renewal.

Health Insurance Plan		1/1/2015 Renewal Monthly Rates	Medicare Eligible Ret Empl*			
			1/1/2015 Town Monthly Expense	1/1/2015 Retiree Monthly Expense		
<b>Fallon Senior</b>	Ind	339.00	<b>70%</b>	237.30	<b>30%</b>	101.70
	Ind x2	678.00	<b>70%</b>	474.60	<b>30%</b>	203.40
<b>Tufts Medicare</b>	Ind	454.00	<b>70%</b>	317.80	<b>30%</b>	136.20
<b>Complement</b>	Ind x2	908.00	<b>70%</b>	635.60	<b>30%</b>	272.40
<b>Tufts Medicare</b>	Ind	258.00	<b>70%</b>	180.60	<b>30%</b>	77.40
<b>Preferred</b>	Ind x2	516.00	<b>70%</b>	361.20	<b>30%</b>	154.80
<b>MEDEX</b>	Ind	571.12	<b>51%</b>	291.27	<b>49%</b>	279.85
	Ind x2	1,142.24	<b>51%</b>	582.54	<b>49%</b>	559.70

\* Enrollment in the Senior Plans require participation in Medicare Parts A & B

The Town pays 70% of the monthly Senior Plan HMO premiums for all the retirees. In accordance with Chapter 32B, the Town pays 51% of the monthly premium for the MEDEX Plan. The retirees pay the remaining premium through monthly deductions from their retirement allowances.

In the past, the Town had experienced significant increases in its Health Insurance premiums. In order to address these rising costs, during FY2010 the Town successfully negotiated Health Insurance plan design changes with all employee groups that resulted in approximately \$400,000 in FY2010 budgetary cost avoidance. With the adoption of new plan design changes in FY2010, the Town experienced a nearly flat budget increase. In FY2010, the Town also moved to new plans with higher co-payments for office visits and prescription drugs, and for the first time deductibles for inpatient and outpatient services. A Flexible Spending Account was established to allow employees to make contributions to their account through payroll deductions and pay



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for dependent care and medical expenses on a pre-tax basis. A health insurance reimbursement account was created to reimburse employees for deductible payments made to health care plans for inpatient and outpatient hospital visits. These plan design changes and programs remain in place for FY2016.

The Town unanimously adopted MGL Chapter 32B, Section 18 at the Annual Town Meeting in April 2009. The adoption of Chapter 32B, Section 18 requires Medicare eligible retirees to move out of the HMO active health plans and into Medicare supplement or "Senior Plans," which are specifically designed for the medical needs of seniors and will effectively share these health care costs with the Federal Medicare program. By introducing a variety of Senior Plans the Town continues to realize savings as Medicare eligible retirees and their spouses are required to transition to these lower cost Senior Plans.

The FY2016 health insurance budget request of \$4.95 million represents a total increase of \$144,148 or 3.00% from the amount budgeted last year.

	FY2012 ACTUAL	FY2013 ACTUAL	FY2014 ACTUAL	FY2015 BUDGETED	FY2015 SIX MONTHS	FY2016 PROPOSED
<b>HEALTH INSURANCE</b>						
<b>Expenses</b>						
51750 Town Health Insurance	897,013	949,241	896,751	1,126,378	425,240	1,122,206
51755 Town Retiree Health Ins.	242,808	237,423	249,017	271,859	138,084	287,474
51800 School K-8 Health Insurance	2,621,169	2,464,431	2,536,665	2,870,870	1,393,846	3,030,414
51805 School K-8 Retiree Health Ins.	470,720	496,106	475,392	525,783	248,134	498,944
51850 Health Reimbursement Account	7,000	2,470	3,720	10,000	300	10,000
<b>SUBTOTAL</b>	<b>4,238,709</b>	<b>4,149,670</b>	<b>4,161,545</b>	<b>4,804,890</b>	<b>2,205,604</b>	<b>4,949,038</b>



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### Transfer to OPEB Trust

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.

Following the adoption of MGL Chapter 32B, Section 18 in 2009, the Town's GASB 45 Unfunded Actuarial Accrued Liability (UAAL) for Other Post-Employment Benefits (OPEB) for retiree medical benefits was greatly reduced from \$90.4 million to \$34.3 million.<sup>5</sup> At the close of FY2011, a GASB 45 update was required and due to the implementation of Section 18, the Town's AAL was further reduced to \$28.1 million.

Without a funding source for this obligation, the UAAL increased to \$32.6 million based on the actuarial study received at the close of FY2013 and the Town contracted with an actuary to develop an initial funding plan to begin to address this liability.

The adoption of the Meals Tax Surcharge and increase in Room Occupancy revenue provided the capacity in the FY2015 budget for initial funding in the amount of \$500,000 for the Other Post Employment Benefit (OPEB) Trust Fund. The OPEB Trust Fund has now been established and the funds have been invested with the state's Pension Reserves Investment Trust (PRIT) Fund. The PRIT Fund which contains \$60.9 billion as of January 31, 2015, is the state retiree pension fund as well as the pension fund for 93 local Massachusetts Retirement Systems. These funds are professionally managed by the Pension Reserves Investment Management Board.

Another GASB 45 actuarial update will be conducted at the close of FY2015. The Town continues to advocate for proposed legislative changes regarding the local obligation for retiree health insurance that would positively affect our OPEB liability. The FY2016 Budget provides once again for a \$500,000 contribution to the OPEB Trust Fund.

	FY2012 ACTUAL	FY2013 ACTUAL	FY2014 ACTUAL	FY2015 BUDGETED	FY2015 SIX MONTHS	FY2016 PROPOSED
<b>TRANSFER TO OPEB TRUST</b>						
59992 Transfer to OPEB Trust	0	0	0	500,000	500,000	500,000
<b>SUBTOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>500,000</b>	<b>500,000</b>	<b>500,000</b>

<sup>5</sup> The Governmental Accounting Standards Board (GASB) is the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments. Established in 1984 by agreement of the Financial Accounting Foundation (FAF) and 10 national associations of state and local government officials, GASB is recognized by governments, the accounting industry, and the capital markets as the official source of generally accepted accounting principles (GAAP) for state and local governments.

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### Life Insurance

The Town provides a group life insurance program available to all employees and contracts with Boston Mutual Life. All Town and K-8 School employees who choose to enroll are insured for \$5,000. In addition, Town and School Retirees are insured for \$2,000. This budget covers the Town's 50% portion of the premium. Employee payroll deductions and retiree contributions fund the balance of the premium costs. This budget also covers term life insurance policies for the Police Chief and the Town Administrator pursuant to their respective employment contracts.

	FY2012 ACTUAL	FY2013 ACTUAL	FY2014 ACTUAL	FY2015 BUDGETED	FY2015 SIX MONTHS	FY2016 PROPOSED
<b>LIFE INSURANCE</b>						
<b>Expenses</b>						
51740 Town Life insurance	2,449	2,448	1,522	4,244	683	4,244
51745 School K-8 Life Insurance	4,729	4,463	4,345	4,486	2,179	4,486
<b>SUBTOTAL</b>	<b>7,179</b>	<b>6,911</b>	<b>5,867</b>	<b>8,730</b>	<b>2,863</b>	<b>8,730</b>





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### **Other Benefits / Federal Insurance Contributions Act (FICA) Tax**

Federal Insurance Contributions Act (FICA) tax is a payroll (or employment) tax imposed by the Federal Government on both employees and employers. As a result of Federal legislation, all local government employees hired after March 31, 1986 are considered Medicare Qualified Government Employees or MQGE and are required to be covered under the Medicare program. The Town is responsible for a matching Medicare payroll tax of 1.45% on all these employees. Annual increases in this tax liability have been reflective of a rise in total Town payroll subject to this tax, as more senior employees whose wages were not subject to the tax depart and are replaced by newly-hired employees whose wages are now fully subject to this tax liability.

### **Unemployment Assistance**

The Town does not pay unemployment insurance, but instead, is assessed by the State Division of Unemployment Assistance (DUA) on a pay-as-you-go basis for the cost of any and all benefits actually paid to former Town and K-8 School employees. Currently, the maximum number of weeks an individual may receive benefits is 30. Claimants receive a weekly benefit payment that is typically about half of their average weekly wage, up to a maximum benefit amount which is currently \$698/week, plus a dependency allowance of \$25 per week for each dependent child. The Town is responsible for reimbursing the State for 100% of the benefits paid to former employees. There is an inherent complexity in tracking unemployment costs and estimating liability given that an employee's "benefit year" may cross fiscal years, claimants may be subject to partial benefits if they have other earnings, and claimants who become unemployed more than once during a benefit year may reactivate a prior claim and resume collecting benefits.

### **Miscellaneous Benefits**

Miscellaneous benefits include payment of a portion of sick leave for eligible retiring employees (capped at \$3,000 each), OBRA (Omnibus Budget Reconciliation Act) payments for the Senior Work Program, payment of the deferred compensation benefit for the Town Administrator pursuant to the employment contract, and the fee assessed by the deferred compensation program provider.

	FY2012	FY2013	FY2014	FY2015	FY2015	FY2016
	ACTUAL	ACTUAL	ACTUAL	BUDGETED	SIX MONTHS	PROPOSED
<b>OTHER BENEFITS/FICA</b>						
<b>Expenses</b>						
51730 FICA Town Share	84,624	86,454	89,581	96,109	45,130	106,843
51733 FICA School Share	202,268	219,418	230,429	232,845	112,462	249,840
51735 Unemployment Compensation	43,777	30,036	48,755	60,000	0	60,000
55090 Miscellaneous Benefits	13,942	17,619	12,053	16,044	4,814	16,044
<b>SUBTOTAL</b>	<b>344,611</b>	<b>353,527</b>	<b>380,818</b>	<b>404,998</b>	<b>162,407</b>	<b>432,727</b>

**Worcester Regional Retirement Assessment**

The Town participates in the Worcester Regional Retirement System which is a contributory retirement system composed of ninety-six (96) member towns and districts from Worcester County. Subject to the provisions of Chapter 32B and 34B of the Massachusetts General Laws, the retirement system, as well as all public retirement systems in Massachusetts, is overseen by the Public Employee Retirement Administration Commission (PERAC).

PERAC, through an actuarial study, determines the appropriate funding schedule for the retirement system's total Unfunded Actuarial Accrued Liability (UAAL). The Municipal Relief Act of 2010 extended the requirement for full funding of the pension system's liability to the year 2040. The total source of funding is the annual Town assessment together with employee contributions for each member unit.

The FY2016 assessment has been prepared using the full actuarial method of assessment calculation. Previously, the Worcester Regional Retirement System based its assessment to each member unit upon its proportional amount of payroll. The actuarial method of assessment, now fully implemented, calculates the assessment on an actuarial determination using the employee age, service and average salary data of each individual member unit. The Town of Northborough's total Unfunded Actuarial Accrued Liability is \$23,414,096 as of January 1, 2014. The Worcester Regional Retirement System regards the actuarial method as a "more fair and transparent way of assessing each unit's true liability" and noted that this is also consistent with the standards of the Government Accounting Standards Board (GASB).

In recent years there have been changes to Massachusetts pension benefits brought about by various Pension Reform legislation in an attempt to reign in pension liability costs. The liability had increased due to lack of performance in investments and the inability of the pay-as-you-go funding to keep pace with the defined benefits. It is important to note that a municipal employee hired after 1996 will contribute 9% of their total compensation plus another 2% of any regular compensation over \$30,000 to the retirement system. This non-public safety employee, if retired with 25 years of creditable service and the investment return assumption is met, will effectively pay for their entire pension.<sup>6</sup> The Town's assessment together with the employee contributions are intended to meet the pension costs for all Town and Northborough K-8 School (non-teaching positions) retirees covered by this retirement system, as well as to amortize over time the previous unfunded pension liability created by insufficient contributions by member units over a number of years.

It should be noted that Northborough K-8 School teachers are not part of the Worcester Regional Retirement System, but are instead covered by the Massachusetts Teachers' Retirement System which is governed by MGL, Chapter 32. Teacher retirement costs are funded directly with an appropriation by the Commonwealth of Massachusetts and employee contributions. For the fiscal year ended June 30, 2014, the State's contribution to this plan on behalf of the Town was \$3,494,613.

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<sup>6</sup> Information from Actuary James R. Lamenzo of the Public Employee Retirement Administration (PERAC).



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The total FY2016 Worcester Regional Retirement Assessment is \$1,485,299. The \$1,415,244 portion included in the General Fund budget below does not include the retirement costs contained in the Water Enterprise Fund (\$37,175), the Sewer Enterprise Fund (\$24,786) or the Cable Access TV (\$8,094)<sup>7</sup>.

		FY2012	FY2013	FY2014	FY2015	FY2015	FY2016
		ACTUAL	ACTUAL	ACTUAL	BUDGETED	SIX MONTHS	PROPOSED
<b>WORCESTER REGIONAL RETIREMENT</b>							
<b>Expenses</b>							
56220	Retirement Assessment	1,118,191	1,210,083	1,241,407	1,306,702	1,306,702	1,415,244
	<b>SUBTOTAL</b>	<b>1,118,191</b>	<b>1,210,083</b>	<b>1,241,407</b>	<b>1,306,702</b>	<b>1,306,702</b>	<b>1,415,244</b>

<sup>7</sup> The Water & Sewer Enterprise Funds are designed to capture all costs associated with the service and are fully explained in Section 8 of this budget document. The Cable Public Access TV Department is funded by fees added to the cable TV subscriber bills, which pay for the related retirement costs of the Cable Access Director (see Section 5 of the budget for more information regarding Public Access TV).



### **Workers' Compensation Insurance**

Workers' Compensation is available to those employees injured on the job. The Town is insured through the Massachusetts Interlocal Insurance Agency (MIIA) which is owned and operated by the municipalities of Massachusetts<sup>8</sup>. Employees injured on the job receive 60% of their pay tax-free and the Town is responsible for 100% of associated medical bills.

Also included in this budget are medical payments to cover separated police and fire personnel. MGL, Chapter 41, Section 100B requires the Town to continue to pay for related medical payments and associated expenses for retired police and fire employees injured on duty. The actual Injured on Duty (IOD) insurance premium for police and fire personnel is contained in the Building & Liability Insurance budget.

The Town's Workers' Compensation insurance premiums reflect a 3.8% budgetary increase for FY2016.

	FY2012 ACTUAL	FY2013 ACTUAL	FY2014 ACTUAL	FY2015 BUDGETED	FY2015 SIX MONTHS	FY2016 PROPOSED
<b>WORKERS' COMPENSATION INSURANCE</b>						
<b>Expenses</b>						
51710 Workers' Compensation	86,688	80,344	92,419	104,851	95,521	109,045
53080 Police/Fire Injured on Duty (IOD) Medical Payments	3,154	2,766	2,461	5,000	311	5,000
<b>SUBTOTAL</b>	<b>89,841</b>	<b>83,110</b>	<b>94,880</b>	<b>109,851</b>	<b>95,832</b>	<b>114,045</b>

<sup>8</sup> Massachusetts Interlocal Insurance Association (MIIA) was incorporated by the Massachusetts Municipal Association in 1982 as a nonprofit organization to provide insurance services to the cities, towns and other governmental entities in Massachusetts that are members of the MMA. MIIA insures approximately 300 cities and towns across Massachusetts.



## Undistributed Expenses

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### Building & Liability Insurance

This budget category includes property and liability coverage for all Town owned property, as well as liability coverage for all elected and appointed Town officials.

In addition, because fire and police personnel are not eligible under Massachusetts law for regular workers' compensation coverage, a separate insurance policy with premiums based largely on claims experience is purchased to cover these personnel for injuries incurred in the line of duty. The police and fire MGL Chapter 41 Section 111F Injured on Duty (IOD) premium is also included here. Under this statute, public safety employees injured on duty receive 100% of their regular earnings. These IOD earnings are considered non-taxable wages by both the Department of Revenue and the Internal Revenue Service.

The Town's Building and Liability insurance premiums reflect a 3% budgetary increase for FY2016.

	FY2012	FY2013	FY2014	FY2015	FY2015	FY2016
	ACTUAL	ACTUAL	ACTUAL	BUDGETED	SIX MONTHS	PROPOSED
<b>BUILDING &amp; LIABILITY INSURANCE</b>						
<b>Expenses</b>						
57410 Building & Liability Ins.	137,565	146,883	177,119	225,545	180,026	232,311
<b>SUBTOTAL</b>	<b>137,565</b>	<b>146,883</b>	<b>177,119</b>	<b>225,545</b>	<b>180,026</b>	<b>232,311</b>



### Debt Service

Debt Service appropriations provide for the payment of principal and interest costs for long and short term bonds issued by the Town for capital projects for General Fund purposes. The debt service appropriations for the Water & Sewer Enterprise Funds appear in their respective budgets (Section 8 of this budget document).

Typically, larger projects such as the Senior Center are bonded for twenty years, while the financing for other General Fund projects and equipment is retired within five to ten years. The Town's goal is to finance capital projects for the shortest feasible term over the useful life of the project in accordance with the terms outlined in Massachusetts General Laws. This ensures that our debt burden will remain manageable.

	FY2012	FY2013	FY2014	FY2015	FY2015	FY2016
	ACTUAL	ACTUAL	ACTUAL	BUDGETED	SIX MONTHS	PROPOSED
<b>DEBT SERVICE</b>						
<b>Expenses</b>						
59100 Principal/Long-term Debt	1,802,063	1,858,534	1,739,784	1,536,533	0	1,832,533
59150 Interest/Long-term Debt	639,798	593,226	567,248	514,192	257,096	765,888
59270 Interest/Temporary Loans	18,603	29,863	0	616	0	0
<b>SUBTOTAL</b>	<b>2,460,465</b>	<b>2,481,623</b>	<b>2,307,032</b>	<b>2,051,341</b>	<b>257,096</b>	<b>2,598,421</b>

In conjunction with the April 2013 bond issuance, Moody's Investors Service affirmed the Town's Aa2 Bond Rating and indicated their expectation that our debt position should remain manageable. Moody's specifically cited Northborough's overall debt burden at 1.1% of its Equalized Valuation and its average rate of 76% principal amortization within the next ten years as two important indicators of a manageable debt burden.

For FY2016, the total Debt Service budget for the General Fund is \$2.59 million, an increase of \$547,080. This increase is necessary to provide for the initial estimated \$675,000 debt service required in FY2016 to fund the \$14.85 million Town portion of the Lincoln Street School addition/renovation project. The estimated Lincoln Street School Debt service is projected to peak at \$1,324,000 in FY2017. The \$7.5 million first phase of the bond issuance is scheduled for June 2015 and the Town's rating will be reviewed once again at that time. In preparation for this significant School building project, issuance of debt for smaller capital projects has been curtailed and in accordance with the Town's Free Cash Policy for the past five years, these smaller capital items have been purchased using available funds. Please see Section 9 of this budget document for a more detailed explanation of the Free Cash Policy and the recent successful efforts to fund more pay-as-you-go capital projects.



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### Statutory Debt Limit

The aggregate level of the Town of Northborough's outstanding debt obligation is limited by State law. The statutory debt limit is established by Massachusetts General Laws, Chapter 44, Section 10 at 5% of our total Equalized Valuation (EQV). The EQV is determined every other year by the State Department of Revenue.

Northborough's 2014 EQV	\$2,670,546,700
Debt Limit (5% of EQV)	\$ 133,527,335

Northborough's total issued and outstanding long term debt principal, both inside and outside the debt limit as of June 30, 2014, is \$20,424,551, significantly below the statutory debt limit.

### Debt Policy Limits

There is an additional local limit placed on Northborough's total debt obligation through the Debt Policy adopted by the Board of Selectmen in September 2000. The Debt Policy provides for specific Gross and Net debt limits for the annual General Fund debt service expressed as a percentage of the proposed budget.

Gross GF Debt Limit	Not to Exceed	15%
Net GF Debt Limit	Not to Exceed	8% – 10%

The estimated FY2016 General Fund debt service budget appears to be well under the local debt policy limits. The exact debt ratio will be available at the April 2015 Annual Town Meeting.

### Bond Rating

In order to comply with complex tax regulations, secure access to the municipal bond market, and assure a competitive climate for bids, the Town uses the services of Bond Counsel, a Financial Advisor and a private credit rating agency to prepare for the issuance of bonds.

The credit rating agency, Moody's Investors Service, recently recalibrated municipal bond ratings to a global scale which is now comparable with corporate bond ratings. This recalibration brought the Town's previous rating of Aa3 up to a current bond rating of Aa2.

### **BOND RATING SYMBOLS**

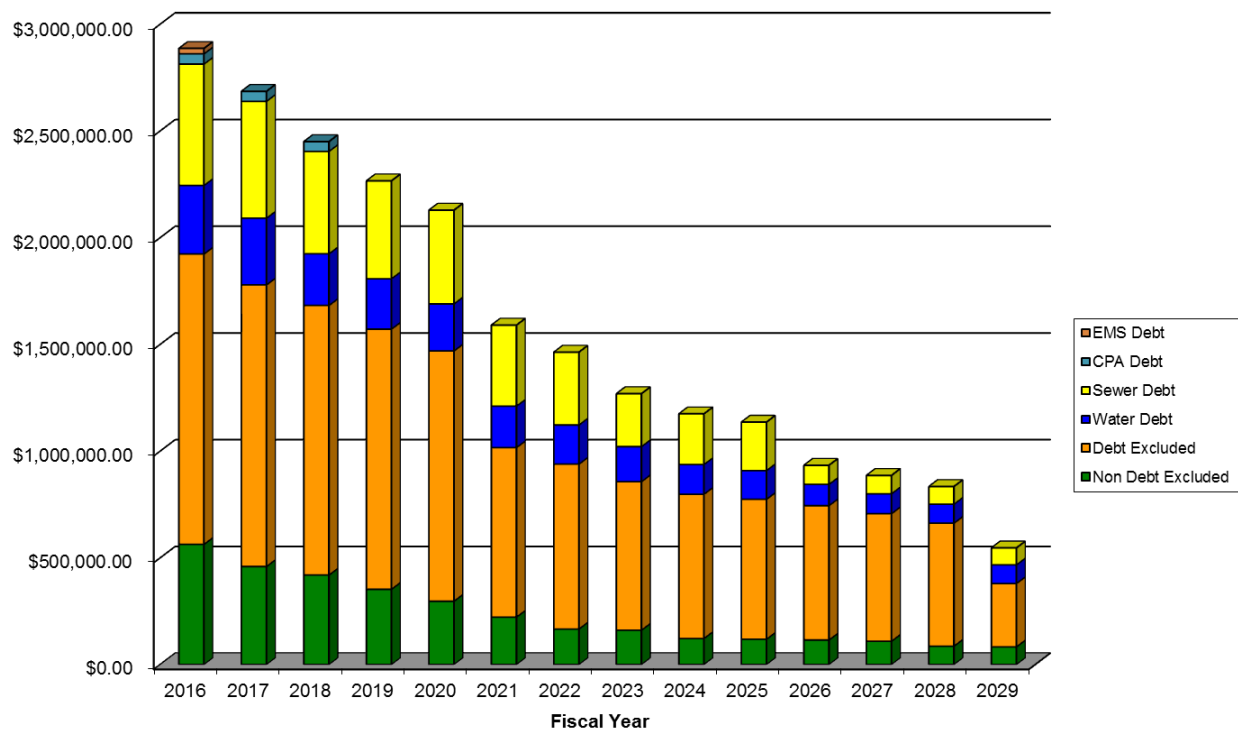
Moody's Investor Service
Aaa
Aa1
→Aa2
Aa3
A1
A2
A3
Baa1
Baa2
Baa3
Ba1
Ba2
Ba3
B1
B2
B3



### Total Long Term Debt Service - All Funds

The total long term annual debt service from FY2016 through FY2029, including both principal and interest, is shown below. The chart indicates the amount of long term debt service for the General Fund (both Debt Excluded and Non-Excluded), as well as the long term debt service for the Community Preservation Act (CPA) Fund, Emergency Medical Services and Water & Sewer Enterprise Fund.

Total Long Term Annual Debt Service By Fund



Total Long Term Annual Debt Service By Fund							
Fiscal Year	General	General Fund	CPA	EMS	Water Enterprise	Sewer Enterprise	Total
Due	Fund	Debt Excluded	Debt	Debt	Fund	Fund	Debt Service
2016	563,147	1,360,272	47,700	25,500	321,203	568,682	2,886,504
2017	459,285	1,319,481	46,800		312,444	547,472	2,685,482
2018	419,441	1,263,024	45,900		241,809	479,971	2,450,145
2019	352,646	1,218,877			235,928	458,612	2,266,064
2020	296,774	1,172,466			220,367	439,092	2,128,699
2021	222,194	794,315			194,181	379,356	1,590,046
2022	166,514	772,488			183,576	340,956	1,463,534
2023	161,384	695,633			164,091	248,050	1,269,158
2024	122,166	675,818			139,189	237,485	1,174,658
2025	118,686	655,568			134,649	226,770	1,135,673
2026	115,020	629,404			99,983	89,110	933,516
2027	109,168	597,511			93,465	85,880	886,024
2028	86,400	576,044			89,075	82,650	834,169
2029	83,200	296,400			87,581	79,325	546,506
	3,276,024	12,027,298	140,400	25,500	2,517,543	4,263,411	22,250,177





## Undistributed Expenses

## Section 6-15

### Non-Appropriated Expenses

Beyond the specific appropriations contained within the Budget Article and other Town Meeting articles, the Town must account for those expenses which do not require votes for appropriations. This category of mandated expenditures and assessments are automatically added to the tax rate without appropriation. Such costs include various state assessments for services such as: charter schools, county services, prior year budget overdrafts in snow and ice removal, court judgments, and an amount estimated for tax abatements and exemptions or the overlay.

#### State Assessments

Three categories of State assessments account for approximately 75% of the expenses—Mosquito Control, MBTA and Charter Schools.

1. Mosquito Control Assessment: Pursuant to MGL Chapter 252, Section 5A (Chapter 2, Section 41, Acts of 1986) there are eight mosquito control districts whose costs are apportioned to member municipalities on the Cherry Sheet. Each district is also allocated a proportional share of expenses for the State Reclamation Board that administers these programs.
2. Massachusetts Bay Transportation Authority (MBTA): For services rendered to those cities and towns within the Authority, an assessment will be administered in order to maintain and operate regional public transportation.
3. Charter School Assessment: To assess the sending municipality or regional school district for pupils attending charter schools. Charter school tuition charges are assessed against the sending district and paid to the charter school district. Charter Schools shall receive per-pupil payments from sending districts equal to the average cost per student in that district, plus a capital funding share equal to the state average of what districts pay per pupil in principal and interest for land and buildings.

	FY2012 ACTUAL	FY2013 ACTUAL	FY2014 ACTUAL	FY2015 BUDGETED	FY2015 SIX MONTHS	FY2016 PROPOSED
<b>STATE ASSESSMENTS</b>						
<b>Expenses</b>						
56390 Mosquito Control Assessment	45,349	48,507	53,226	52,400	27,221	54,556
56400 Air Pollution Assessment	4,744	4,769	5,093	5,149	2,575	5,269
56410 County Assessment ch. 35	0	0		0	0	0
56420 MBTA	75,090	75,030	68,597	72,455	36,228	74,302
56430 Regional transportation Ch 161 B	17,265	16,983	24,144	23,570	11,786	23,570
56440 Charge Against Receipts--SPED	0	12,623	0	0	0	0
56450 Parking Surcharge Ch 90	8,120	8,800	8,760	8,760	4,380	8,760
56455 School Choice Sending Tuition	15,000	73,302	47,171	47,171	22,658	45,000
56460 Charter School Sending Tuition	257,859	111,637	119,763	91,350	12,382	117,813
<b>SUBTOTAL</b>	<b>423,427</b>	<b>351,651</b>	<b>326,754</b>	<b>300,855</b>	<b>117,230</b>	<b>329,270</b>



### **Reserve for Abatements**

The Reserve or Allowance for Abatements and Exemptions or Overlay is an account established annually to fund anticipated property tax abatements, exemptions and uncollected taxes in that year. The overlay reserve need not be funded by the normal appropriation process, but rather is raised on the tax rate recapitulation sheet.

The Board of Assessors process a variety of statutory exemption applications for elderly, veteran, blind and hardship taxpayers. If approved, the exemptions are funded by the Overlay Reserve for Abatements and Exemptions. Additionally, the taxpayers may file for an abatement of their property taxes. If approved, the exemptions are funded by the Overlay Reserve for Abatements and Exemptions.

FY2013 was a revaluation year and the amount of \$679,291 shown in the table in Section 6-1 included \$518,907 raised for the current year, and an additional \$160,384 which was raised to cover an extraordinary abatement due to a telecommunications company following the conclusion of a court case at the state level. The property was taxed in a prior year in this case and was “centrally valued,” meaning the state assigned the value rather than local assessors.

Typically in a full revaluation year, the amount required to be funded for the Overlay is higher than in a non-revaluation year due to an increase in the volume of abatement applications. In FY2016, a revaluation year, our proposed funding for the Overlay Reserve for Abatements and Exemptions is \$629,640, which represents approximately 1.39% of the estimated tax levy.

### **Cherry Sheet Offset Items**

Cherry Sheet Offset Items are local aid that may be spent without appropriation in the budget, but which must be spent for specific municipal and regional school district programs.

The only offset item for FY2016 is \$19,655 for public library grants.



## Stabilization Fund Contribution

The Stabilization fund is designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose (MGL Chapter 40, Section 5B). Communities may establish one or more stabilization funds for different purposes and may appropriate into them in any year an amount not to exceed ten percent of the prior year's tax levy. The total of all stabilization fund balances shall not exceed ten percent of the community's equalized value, and any interest shall be added to and become a part of the funds. A two-thirds vote of town meeting or city council is required to establish, amend the purpose of, or appropriate money into or from the stabilization fund.

As of June 30, 2014, the balance in the Stabilization Fund is \$3.68 million. Historically the budget had provided for an annual appropriation of \$100,000 to be added to the Stabilization Fund. However, for the past several years the appropriation was not possible due to financial constraints. In FY2016, the contribution to the Stabilization Fund has not only been restored but augmented with additional funding. This addition to the Town's savings account was made possible by the significant amount of Free Cash certified on July 1, 2014. Future contributions to the Stabilization Account will require a yearly review of the Town's financial position. The FY2016 budget provides for a contribution to the Stabilization Fund of \$200,000.

Overall, our reserves remain within the acceptable levels prescribed by our financial policies, which is 5-10% of operating revenues. More information regarding our level of reserves can be found in Appendix B, pages 9 and 10.

	FY2012	FY2013	FY2014	FY2015	FY2015	FY2016
	ACTUAL	ACTUAL	ACTUAL	BUDGETED	SIX MONTHS	PROPOSED
<b>STABILIZATION FUND CONTRIBUTION</b>						
<b>Expenses</b>						
59950 Stabilization Fund	0	0	0	0	0	200,000
<b>SUBTOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>200,000</b>
<b>TOTAL: STABILIZATION FUND CONTR.</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>200,000</b>

\*\*\*The transfer to the Stabilization Fund is voted as a separate warrant article, and is not included in the warrant article for the Town Budget. \*\*\*



### Reserve Fund

Authorized by state statute, the Reserve Fund provides the Town operations with an option for the funding of extraordinary or unforeseen expenditures during the year. Transfers from this account require the approval of the Appropriations Committee. Historically the fund has contained approximately \$118,500 at the start of the budget year. In recent fiscal years the fund had been significantly less due to financial constraints, specifically \$75,000 in FY2010 and \$80,000 in FY2011. In FY2012, the Board of Selectmen adopted a Free Cash Policy and identified the Reserve Fund as an appropriate use of Free Cash. Beginning in FY2012 the Reserve Fund was appropriated from Free Cash as a separate Warrant Article at Town Meeting. The Reserve Fund amount was level funded from FY2012, FY2013, FY2014 and FY2015 at \$150,000. To meet the increasing need, the FY2016 budget provides for an appropriation in the Reserve Fund of \$175,000.

Most commonly, the Reserve Fund account has been used to make up for any snow and ice budget overdrafts. The table below shows past year “actuals” as zero because budgeted funds are transferred into other accounts when approved by the Committee, rather than expenses being charged directly to the Reserve Fund.

		FY2012 ACTUAL	FY2013 ACTUAL	FY2014 ACTUAL	FY2015 BUDGETED	FY2015 SIX MONTHS	FY2016 PROPOSED
<b>RESERVE FUND</b>							
<b>Expenses</b>							
59810	Reserve Fund	0	0	0	150,000	0	175,000
	<b>SUBTOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>150,000</b>	<b>0</b>	<b>175,000</b>
<b>TOTAL:</b>	<b>RESERVE FUND</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>150,000</b>	<b>0</b>	<b>175,000</b>

\*\*\*The transfer to the Reserve Fund is voted as a separate warrant article, and is not included in the warrant article for the Town Budget.\*\*\*



### 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. The warrant articles contain proposed funding using a combination of Free Cash and bond proceeds. In FY2016, these warrant articles include \$175,000 for the Reserve Fund from Free Cash, \$200,000 to the Stabilization Fund from Free Cash, funding the FY2016 Capital Budget with \$2,194,000 from Free Cash, \$280,000 to be borrowed for an Ambulance with the debt service paid by the EMS Revolving Fund, \$135,000 for Departmental Equipment from Water/Sewer Enterprise Funds Free Cash, \$1,500,000 to be borrowed for the Hudson Street Pump Station with the debt service paid by the Sewer Enterprise Fund and \$20,000 for the use of the 250<sup>th</sup> Town Anniversary Committee from Free Cash.

During November of 2010 the Board of Selectmen adopted a Free Cash Policy, which provides a funding source for projects, other than municipal bonds. The Free Cash Policy is on page 2 in Appendix A of this budget document, which contains the Town's comprehensive financial policies. The Free Cash Policy and plan are discussed at length in the transmittal letter of the Capital Improvement Plan contained in pages Section 9-1 through 9-6 of this document.

In summary, the FY2016 Town Meeting Warrant Articles include the following:

- \$175,000 for the Appropriation Committee's Reserve Fund—Authorized by state statute, the Reserve Fund provides the Town operations with an option for the funding of extraordinary or unforeseen expenditures during the year (see page 6-18 for more detail).
- \$200,000 for the Stabilization Fund—After several years without an appropriation, funding for the Stabilization Fund has been restored and increased to \$200,000 (see page 6-17 for more detail).
- \$688,000 for Engine 2 Replacement—This project will replace the Fire Department's current 1996 Engine 2 Fire vehicle.
- \$45,000 for SCBA Bottle Replacement— The article provides funds for thirty-five (35) 45-minute carbon composite self-contained breathing apparatus (SCBA) bottles for the Fire Department.
- \$85,000 for Police Cruiser Replacement — This request provides for the purchase of two new Ford Escape SUVs to replace a 2007 Ford Explorer SUV and a 2008 Ford Expedition SUV for the Police Department.
- \$161,000 for Communication Dispatch Console — This request will replace a the existing twenty-five year old two-position, analog based safety dispatch console used at the Police Station for all public safety dispatch services.
- \$130,000 for Master Plan — This provides funds to update the Town's Master Plan, a required document, which was last updated in 1997.
- \$325,000 for Otis Street Culvert Replacement— This request provides funds to replace the culvert over the Smith Pond outlet on Otis Street.
- \$130,000 for Roadside Mower— This request provides funds to replace the existing DPW 2000 John Deere tractor with a side boom mower and articulating arm.



- \$90,000 One-Ton Dump Truck with Plow Replacement—This request provides funds to replace a model year 2000 one-ton dump truck used by the DPW with a similar model truck.
- \$60,000 One-Ton Pick-Up Truck with Plow Replacement—This request provides funds to replace a 1996 vehicle which is one of three one-ton pick-up trucks used by the DPW.
- \$145,000 for Backhoe Replacement—This request provides funds to replace a 2005 model backhoe that is used by the DPW Highway Division.
- \$85,000 for Mini Excavator—This request provides funds to purchase a mini excavator to be used by the DPW crew at the cemetery and for various road and drainage projects.
- \$50,000 for Ellsworth McAfee Park Gazebo Replacement and Pavilion Renovation—This request provides funds for the replacement of the Ellsworth McAfee Park Gazebo and renovation of the Pavilion which will be undertaken by the students in the carpentry program at Assabet Valley Technical high School.
- \$75,000 for One-Ton Service Truck with Plow Replacement—This request provides funds to replace a 1996 service truck used by the Water and Sewer Division.
- \$60,000 for One-Ton Pick-up Truck with Plow Replacement—This request provides funds to replace a 2005 pick-up truck primarily used by the Water/Sewer Supervisor.
- \$200,000 for Proctor School Roof Repairs—This request provides funds to repair the flat sections of the roof on the Fannie E. Proctor School.
- \$20,000 for the 250<sup>th</sup> Town Anniversary Committee— This request provides funds to support the 250<sup>th</sup> celebration efforts during the 2016 calendar year.

### **Borrowing Authorizations**

- \$280,000 for Ambulance Replacement— This project seeks to replace a 2008 ambulance. The debt service on the bonds for this project will be paid by the EMS revolving account.
- \$1,500,000 for Hudson Street Pump Station Improvements— This request provides the funds for improvements to the Hudson Street Pump Station which was designed and publically bid in 2014/2015. The debt service for this project will be paid from sewer user fees



# Undistributed Expenses

# Section 6-21

		FY2012	FY2013	FY2014	FY2015	FY2015	FY2016
		BUDGETED <sup>9</sup>	BUDGETED	BUDGETED	BUDGETED	SIX MONTHS	PROPOSED
<b>TOWN MEETING</b>							
<b>SPECIAL WARRANT ARTICLES</b>							
<b>Expenses</b>							
51221	Fire Pickup	60,000					
51222	Police Phone System	35,000					
51223	DPW Truck Lift	60,000					
51224	DPW Pickup w/ Plow	39,000					
51225	DPW Street Sweeper	164,000					
51226	DPW Hwy Dump Truck	71,000					
51227	Peaslee School Roof	375,000					
52800	Emergency 10/29/12 Storm Exp.	100,000					
51322	Fire Engine Tender Truck		350,000				
51323	Narrowband Radio Conversion		85,000				
51324	Town Offices Building Repair		1,152,000				
51325	Ellsworth McAfee Park Track		40,000				
51326	DPW One-Ton Service Truck		56,000				
51327	Sidewalk Plow		153,000				
51328	Portable Emergency Generator		100,000				
51329	Lyman Street Well Repairs		250,000				
51331	Lincoln School Feasibility Study		500,000				
51330	Middle School Emer Generator		400,000				
51421	Fire SCBA Compressor			50,000			
51422	Emergency Shelter Trailer			28,000			
51424	DPW Salt Shed Replacement			800,000			
51425	DPW Fueling Island			425,000			
51423	DPW Front-end Loader			203,500			
51521	Fire Car On Replacement				66,000		
51522	Fire Forestry One Replacement				175,000		
51523	Police Closed Circuit TV System				53,500		
51524	MIS Wide Area Fiber Network				110,000		
51525	DPW Six-wheel Dump Truck/Plow				195,000		
51526	DPW Wing Mower Replacement				55,000		
51527	DPW Tractor Replacement				55,000		

<sup>9</sup> Amounts in the table reflect the total budget for the article in the column of the year proposed. Warrant articles are generally multi-year and reflect transfers from the General Fund to Capital Project Funds or Borrowing Authorizations rather than actual expenditures, which may cross fiscal years, therefore the depiction of budget rather than actual expenditures is used in this case.

## Section 6-22

## Undistributed Expenses



(Continued)

FY2012      FY2013      FY2014      FY2015      FY2015      FY2016  
BUDGETED<sup>10</sup> BUDGETED BUDGETED BUDGETED SIX MONTHS PROPOSED

### TOWN MEETING SPECIAL WARRANT ARTICLES

Expenses						
51528 Church Street Culvert Design				120,000		
51529 Otis Street Culvert Design				110,000		
51534 DPW Vacuum/Jetter				100,000		
51533 DPW W&S One Ton Truck Replc				65,000		
51519 Lincoln Street School Ren/Add'n				25,530,553		
51530 Hudson St Sewer Pump Station				150,000		
51531 Meter Replacement/Billing system				1,500,000		
51532 Edmund Hill Water Tank Rehab				325,000		
51619 Fire Engine 2 Replacement						688,000
51620 Fire Ambulance Replacement						280,000
51621 Fire SCBA Bottles Replacement						45,000
51622 Police Cruiser Replacements						85,000
51623 Police Dispatch Console						161,000
51624 Master Plan						130,000
51625 DPW Otis St Culvert						325,000
51626 DPW Road Mower Replacement						130,000
51627 DPW Dump Truck Replacement						90,000
51628 DPW Pickup Truck replacement						60,000
51629 DPW Backhoe Replacement						145,000
51630 DPW Mini Excavator						85,000
51631 DPW E/M Park Improvements						50,000
51632 Hudson St Sewer Improvements						1,500,000
51633 Water Service Truck Replacement						75,000
51634 Water Pickup Truck Replacement						60,000
51635 Proctor School Roof Repairs						200,000
59990 250 <sup>th</sup> Celebration Committee						20,000
<b>SUBTOTAL</b>	<b>904,000</b>	<b>3,086,000</b>	<b>1,506,500</b>	<b>28,610,053</b>	<b>0</b>	<b>4,129,000</b>

<sup>10</sup> Amounts in the table reflect the total budget for the article in the column of the year proposed. Warrant articles are generally multi-year and reflect transfers from the General Fund to Capital Project Funds or Borrowing Authorizations rather than actual expenditures, which may cross fiscal years, therefore the depiction of budget rather than actual expenditures is used in this case.