

Undistributed Expenses

Section 6



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Undistributed Expenses

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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.

	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 ACTUAL	FY2018 BUDGETED	FY2018 SIX MONTHS	FY2019 PROPOSED
UNDISTRIBUTED EXPENSES SUMMARY						
EMPLOYEE BENEFITS& INSURANCE						
Health Insurance	4,336,371	4,590,594	4,934,245	5,522,354	2,826,850	5,732,512
Transfer to OPEB Trust	500,000	500,000	500,000	500,000	500,000	500,000
Life Insurance	5,930	7,080	5,863	8,776	3,202	8,930
Other Benefits/FICA	364,210	381,928	379,909	441,693	195,414	452,653
Worcester Regional Retirement	1,306,702	1,415,244	1,531,756	1,612,608	1,612,608	1,790,753
Workers Comp	101,440	109,700	117,619	145,878	115,356	151,330
SUBTOTAL EMPLOYEE BENEFITS	6,614,653	7,004,545	7,469,392	8,231,309	5,253,430	8,636,178
Building & Liability Insurance						
	180,631	199,061	234,703	256,395	239,303	258,959
Debt Service	2,050,723	2,488,169	2,923,648	2,959,080	853,211	2,801,244
State Assessments	275,498	258,560	184,871	206,610	105,929	234,448
Reserve for Abatements¹	462,432	623,081	366,912	280,000	280,000	619,436
Cherry Sheet Offset Items²	27,591	19,972	21,604	22,559	22,559	22,559
Stabilization Fund Contribution	0	200,000	200,000	200,000	200,000	200,000
Reserve Fund³	0	0	0	175,000	0	175,000
Warrant Articles⁴	28,610,053	4,129,000	3,560,000	2,107,000	0	1,870,000
TOTAL: UNDISTRIBUTED EXPENSES	38,221,581	14,922,388	14,961,130	14,437,953	6,954,432	14,817,824

¹ 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.

² 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). Beginning in FY2016 the only offset is for public library grants.

³ 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.

⁴ 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.

As of July 1, 2018, in an effort to control the escalating costs of health insurance, the Town issued a Request for Proposals to various health care providers. The result of that process was a move to consolidate carriers under the Fallon Community Health Plan. Under Fallon, the Town offers a Select HMO plan with a broad network, a Direct HMO plan with limited network, and continues to offer the Fallon Preferred Provider Plan (PPO). As a benefit of retirement, former Town employees are also eligible for group health insurance coverage. Retirees under the age of 65 or otherwise not Medicare eligible 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, 2018 a total of 300 active employees (86 Town and 214 K-8 School), 141 retirees (47 Town and 94 K-8 School) and 56 retiree dependents (12 Town and 44 School) were enrolled in one of the Town's health insurance plans.

The following estimated rate schedule was used in budgeting for FY2019.

Health Insurance Plan		7/1/2018 Renewal Monthly Rates	Town Employees				School Employees			
			7/1/2018 Town Monthly Expense		7/1/2018 Employee Monthly Expense		7/1/2018 Town Monthly Expense		7/1/2018 Employee Monthly Expense	
Fallon Select HMO	Ind	807.68	65.5%	529.12	34.5%	278.56	75%	605.76	25%	201.92
	Fam	2,099.92	65.5%	1,374.88	34.5%	725.04	75%	1,574.94	25%	524.98
Fallon Direct HMO	Ind	726.91	65.5%	476.13	34.5%	250.78	75%	545.18	25%	181.73
	Fam	1,889.90	65.5%	1,237.88	34.5%	652.02	75%	1,417.43	25%	472.47
Fallon Pref Care PPO	Ind	969.22	50.0%	484.61	50.0%	484.61	50%	484.61	50%	484.61
	Fam	2,519.90	50.0%	1,259.95	50.00%	1,259.95	50%	1,259.95	50%	1,259.95



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Several years ago, the Town negotiated a 60% Town and 40% Town employee share of any premium changes. Therefore in FY2019, the Town contribution will be 65.5% of the monthly Fallon HMO premiums for Town employees. Beginning in FY2012, the Town's contribution decreased from 80% to 75% of the monthly HMO premiums for K-8 School employees and the 75% contribution remains in place for FY2019. In accordance with Chapter 32B, the Town pays 50% of the monthly premium for the Fallon PPO Plan for both K-8 School and Town employees. The employees pay the remaining premium through bi-weekly payroll deductions.

The FY2019 budget was prepared using an estimated 5% increase effective with the Senior plan renewal on January 1, 2019. The following rate schedule was in place until the calendar year renewal.

Health Insurance Plan		1/1/2018 Renewal Monthly Rates	Medicare Eligible Ret Empl*			
				1/1/2018 Town Monthly Expense		1/1/2018 Retiree Monthly Expense
Fallon Senior	Ind	405.00	70%	283.50	30%	121.50
	Ind x2	810.00	70%	567.00	30%	243.00
Tufts Medicare	Ind	599.00	70%	419.30	30%	179.70
Complement	Ind x2	1198.00	70%	838.60	30%	359.40
Tufts Medicare	Ind	310.00	70%	217.00	30%	93.00
Preferred	Ind x2	620.00	70%	434.00	30%	186.00
MEDEX 2	Ind	389.78	51%	198.79	49%	190.99
	Ind x2	779.56	51%	397.58	49%	381.98

* 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. In 2017 the Town changed the MEDEX plan offered from MEDEX 3 to MEDEX 2. 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. 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.

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In addition, to address the 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 added separate higher copayments 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 for dependent care and medical expenses on a pre-tax basis. A self-administered health reimbursement arrangement (HRA) was created to reimburse employees for the copayments made for inpatient and outpatient services.

In FY2017, healthcare costs were escalating and plan design changes were negotiated to keep the premiums at a reasonable increase. The Town implemented higher co-pays for office and emergency room visits as well as higher copayments for inpatient and outpatient services.

Again in FY2018, with unfavorable claims data, the employee groups conceded to further changes in plan design and higher co-pays for office visits and specialists. A co-pay for High Tech Imaging was also introduced.

In an effort to control the cost of health insurance in FY2019 and into the future, the Town issued a Request for Proposals and once again negotiations have been undertaken with employee groups. With the results of the RFP, the recommendation was made to move to a sole source option with one provider, Fallon Community Health Plan. This change offers the traditional HMO plan as well as a limited network HMO plan at a lower cost, which may appeal to some employees. With these changes, the budget request is \$5.7 million, which represents a total increase of \$210,158 or 3.8% from the amount budgeted last year.

	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 ACTUAL	FY2018 BUDGETED	FY2018 SIX MONTHS	FY2019 PROPOSED
HEALTH INSURANCE						
Expenses						
51750 Town Health Insurance	897,501	942,779	993,285	1,172,664	507,257	1,180,199
51755 Town Retiree Health Ins.	269,071	294,717	303,542	346,145	177,282	362,564
51800 School K-8 Health Insurance	2,686,213	2,825,639	3,043,485	3,337,251	1,814,834	3,469,138
51805 School K-8 Retiree Health Ins.	481,973	521,357	566,522	616,294	310,473	670,611
51850 Health Reimbursement Account	1,613	6,100	27,412	50,000	17,005	50,000
SUBTOTAL	4,336,371	4,590,594	4,934,245	5,522,354	2,826,850	5,732,512



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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 OPEB for retiree medical benefits was greatly reduced from \$90.4 million to \$34.3 million.⁵ At the close of FY2011, a GASB 45 update was required and due to the implementation of Section 18, the Town's UAAL 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 next actuarial study was completed at the close of FY2015 and the UAAL increased to \$34.9 million and as required, another actuarial update was conducted for the close of FY2017. The most recent OPEB Liability was calculated to be \$37.4M (net of the trust fund balance).

The adoption of the Meals Tax Surcharge and increase in Room Occupancy revenue provided the capacity for the initial \$500,000 funding in FY2015 for the OPEB Trust Fund. In FY2016, FY2017 and FY2018 another \$500,000 for each year was transferred to the 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 \$71.9 billion as of December 31, 2017, 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.

The Town continues to advocate for proposed legislative changes regarding the local obligation for retiree health insurance that would positively affect its OPEB liability. The FY2019 Budget once again provides for a \$500,000 contribution to the OPEB Trust Fund.

	FY2015	FY2016	FY2017	FY2018	FY2018	FY2019
	ACTUAL	ACTUAL	ACTUAL	BUDGETED	SIX MONTHS	PROPOSED
TRANSFER TO OPEB TRUST						
59992 Transfer to OPEB Trust	500,000	500,000	500,000	500,000	500,000	500,000
SUBTOTAL	500,000	500,000	500,000	500,000	500,000	500,000

Life Insurance

⁵ 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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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 a term life insurance policy for the Town Administrator pursuant to the employment contract.

	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 ACTUAL	FY2018 BUDGETED	FY2018 SIX MONTHS	FY2019 PROPOSED
LIFE INSURANCE						
Expenses						
51740 Town Life insurance	1,540	2,451	1,508	4,106	739	4,108
51745 School K-8 Life Insurance	4,390	4,628	4,355	4,670	2,464	4,822
SUBTOTAL	5,930	7,080	5,863	8,776	3,202	8,930



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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 (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 these employees. Annual increases in this tax liability reflect a rise in the payroll subject to this tax.

Massachusetts is one of a handful of “non-Social Security” states. Most full-time employees, as members of contributory retirement systems, pay into defined-benefit public pension systems instead of Social Security. The Town is not subject to the 6.2% matching FICA tax and Town employees do not earn Social Security “credits” or “quarters” for their service.

Part-time and temporary employees who are not covered by the contributory retirement system are required to participate in an alternative as permitted by the federal Omnibus Budget Reconciliation Act of 1990. Such employees pay into a defined contribution plan at a rate of 7.5%. There is no employer cost for this program.

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 and the maximum weekly benefit amount is currently \$742/week, plus a dependency allowance of \$25 per week for each dependent child. The Town is responsible for reimbursing the State 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.

Miscellaneous Benefits

Miscellaneous benefits include payment of a portion of sick leave for eligible retiring employees (capped at \$3,000 each), OBRA 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.

	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 ACTUAL	FY2018 BUDGETED	FY2018 SIX MONTHS	FY2019 PROPOSED
OTHER BENEFITS/FICA						
Expenses						
51730 FICA Town Share	95,750	116,969	108,634	107,456	54,387	110,679
51733 FICA School Share	237,603	238,851	255,296	257,897	126,960	265,634
51735 Unemployment Compensation	12,090	7,344	0	60,000	5,929	60,000
55090 Miscellaneous Benefits	18,768	18,764	15,979	16,340	8,139	16,340
SUBTOTAL	364,210	381,928	379,909	441,693	195,414	452,653



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Worcester Regional Retirement Assessment

The Town participates in the Worcester Regional Retirement System which is a contributory retirement system composed of one hundred (100) 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 FY2019 assessment was 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 \$29,718,687 as of January 1, 2016. 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 rein 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.⁶ 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, 2017, the State's contribution to this plan was \$1,124,583,000. The Town's proportionate share of these contributions was \$2,484,203.

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



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The total FY2019 Worcester Regional Retirement Assessment is \$1,886,814. The \$1,790,753 portion included in the General Fund budget below does not include the retirement costs contained in the Water Enterprise Fund (\$47,225), the Sewer Enterprise Fund (\$31,486) or the Cable Access TV budget (\$17,350)⁷.

		FY2015	FY2016	FY2017	FY2018	FY2018	FY2019
		ACTUAL	ACTUAL	ACTUAL	BUDGETED	SIX MONTHS	PROPOSED
WORCESTER REGIONAL RETIREMENT							
Expenses							
56220	Retirement Assessment	1,306,702	1,415,244	1,531,756	1,612,608	1,612,608	1,790,753
	SUBTOTAL	1,306,702	1,415,244	1,531,756	1,612,608	1,612,608	1,790,753

⁷ 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 full-time Cable Access staff (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.⁸ 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 and Liability Insurance budget.

The Town's Workers' Compensation insurance premiums reflect a 3.7% budgetary increase for FY2019. There are two key contributors to this increase: higher payroll costs (associated with increases in wage rates and salaries as well as expenses resulting from additional staffing) and increased claims. During recent years, both the Town of Northborough, as well as the larger pool of communities participating in MIIA's workers' compensation program, have experienced increased claim costs. Additionally, the Commonwealth of Massachusetts implemented a statewide workers' compensation rate hike on July 1, 2016.

	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 ACTUAL	FY2018 BUDGETED	FY2018 SIX MONTHS	FY2019 PROPOSED
WORKERS' COMPENSATION INSURANCE						
Expenses						
51710 Workers' Compensation	98,758	109,119	114,363	140,878	115,251	146,330
53080 Police/Fire Injured on Duty (IOD) Medical Payments	2,682	581	3,256	5,000	105	5,000
SUBTOTAL	101,440	109,700	117,619	145,878	115,356	151,330

⁸ 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.



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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 sustained 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 1% budgetary increase for FY2019.

	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 ACTUAL	FY2018 BUDGETED	FY2018 SIX MONTHS	FY2019 PROPOSED
BUILDING & LIABILITY INSURANCE						
Expenses						
57410 Building & Liability Ins.	180,631	199,061	234,703	256,395	239,303	258,959
SUBTOTAL	180,631	199,061	234,703	256,395	239,303	258,959



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 Lincoln Street School 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.

	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 ACTUAL	FY2018 BUDGETED	FY2018 SIX MONTHS	FY2019 PROPOSED
DEBT SERVICE						
Expenses						
59100 Principal/Long-term Debt	1,536,532	1,827,532	2,072,532	2,136,383	344,532	2,060,533
59150 Interest/Long-term Debt	514,191	659,680	851,115	822,697	508,679	740,711
59270 Interest/Temporary Loans	0	957	0	0	0	0
SUBTOTAL	2,050,723	2,488,169	2,923,648	2,959,080	853,211	2,801,244

For FY2019, the total Debt Service for the General Fund is \$2.80 million, a decrease of \$157,836.

The FY2019 Lincoln Street School Debt service is \$1,100,275 and it has decreased slightly from the FY2017 peak of \$1,144,882. The Lincoln Street School Building Project has now been finalized. It was completed on time and approximately \$1.34 Million under budget. It is anticipated that the unused bond proceeds from this project will be used to fund the next phase of the Fire Station Building project. In preparation for this significant School building project and to minimize the tax impact for this debt excluded project, issuance of debt for smaller capital projects has been curtailed, in accordance with the Town's FY2010 Free Cash Policy, as 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.

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 2016 EQV	\$2,719,405,300
Debt Limit (5% of EQV)	\$ 135,970,265



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Northborough's total issued and outstanding long term debt principal, both inside and outside the debt limit as of June 30, 2017, is \$27,917,525, 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 FY2018 General Fund debt service budget is well under the local debt policy limits, as net General Fund debt represents only 5.5% of FY2019 expenditures.

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.

In May 2015, in conjunction with the bond issuances for the Lincoln Street School project, Moody's Investors Service upgraded the Town's bond rating from Aa2 to Aa1, which is Northborough's highest rating ever. During the review Moody's cited the Town's manageable debt levels, strong reserves, below average pension liabilities and its ongoing funding of OPEB liabilities as positive factors. With regard to management they commented that *"the Town has a strong management team evidenced by a multi-year trend of conservative budgeting guided by formal fiscal policies."* The independent assessment illustrates how our planning efforts and fiscal discipline produce very real and tangible results—lower rates on bonds resulting in less tax dollars going to pay for interest.

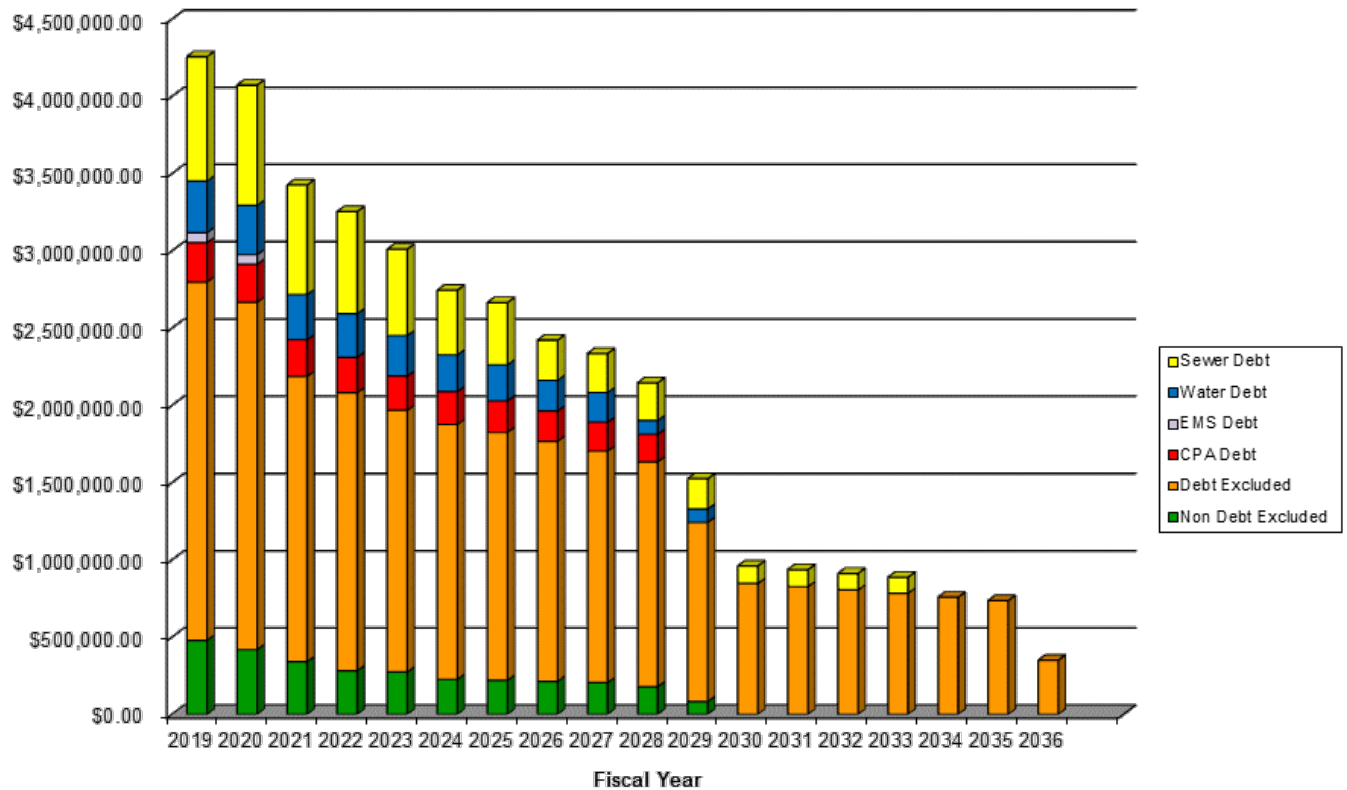
<u>Moody's</u> <u>Investor Service</u> <u>Bond Rating</u>
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Total Long Term Debt Service - All Funds

The total long term annual debt service from FY2019 through FY2036, including both principal and interest, is shown on the following page. 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 Fund	General Fund	CPA	EMS	Water Enterprise	Sewer Enterprise	Total
Due	Fund	Debt Excluded	Debt	Debt	Fund	Fund	Debt Service
2019	478,686	2,319,152	255,000	64,260	334,534	804,735	4,256,366
2020	418,749	2,248,341	246,500	61,880	318,973	777,592	4,072,034
2021	341,081	1,845,790	238,000		292,787	708,356	3,426,014
2022	282,314	1,799,263	229,500		282,182	660,456	3,253,714
2023	274,096	1,694,308	221,000		262,697	558,050	3,010,150
2024	226,791	1,649,793	212,500		237,794	417,985	2,744,863
2025	220,386	1,604,843	204,000		233,254	402,420	2,664,903
2026	213,795	1,553,979	195,500		198,588	259,910	2,421,772
2027	205,018	1,499,236	187,000		192,070	251,830	2,335,154
2028	179,325	1,454,919	178,500		89,075	243,750	2,145,569
2029	83,200	1,159,225			87,581	195,575	1,525,581
2030		846,775				113,000	959,775
2031		826,400				109,750	936,150
2032		805,100				106,500	911,600
2033		783,800				103,250	887,050
2034		757,500					757,500
2035		736,350					736,350
2036		350,200					350,200
	2,923,441	23,934,971	2,167,500	126,140	2,529,534	5,713,159	37,394,745



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 School Assessments.

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 is 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.

	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 ACTUAL	FY2018 BUDGETED	FY2018 SIX MONTHS	FY2019 PROPOSED
STATE ASSESSMENTS						
Expenses						
56390 Mosquito Control Assessment	54,437	50,238	58,514	60,159	30,084	62,232
56400 Air Pollution Assessment	5,149	5,269	5,401	5,229	2,616	5,367
56420 MBTA	72,455	74,302	74,530	72,019	36,012	74,866
56430 Regional transportation Ch 161 B	23,570	22,473	22,844	26,271	13,140	25,601
56450 Parking Surcharge Ch 90	8,760	8,760	7,960	7,960	3,984	7,960
56455 School Choice Sending Tuition	28,586	13,268	15,622	18,555	9,465	19,200
56460 Charter School Sending Tuition	82,541	84,250	0	16,417	10,628	39,222
SUBTOTAL	275,498	258,560	184,871	206,610	105,929	234,448



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, taxpayers may file for an abatement of their property taxes. If approved, the exemptions are funded by the Overlay Reserve for Abatements and Exemptions.

Massachusetts' Municipal Modernization Act passed and went into effect in November 2016. The new law created a single overlay reserve to cover the costs of potential abatements or exemptions granted by the assessors or ordered by the Appellate Tax Board for any fiscal year. Now all balances in all overlay accounts for prior years will be merged into a single overlay account. An amount will still need to be raised each year to be sure there are sufficient funds to cover all the abatements and exemptions, however the amount raised in the current year may be reduced at the time the tax rate is set in November if sufficient surplus remains in the reserve.

In FY2019, the proposed funding for the Overlay Reserve for Abatements and Exemptions is \$619,436, which represents approximately 1.22% of the estimated tax levy.

Cherry Sheet Offset Items

Cherry Sheet Offset Items represents State Aid revenue that is included with the Town's revenue estimates that are provided by the State called the "Cherry Sheet." The estimates include specific revenue items dedicated to be used for certain purposes, and are received and expended outside the General Fund. Therefore the General Fund expenditure budget must reflect an "offset" for this anticipated revenue.

The only offset item for FY2019 is \$22,559 estimated 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 is required to establish, amend the purpose of, or appropriate money from the stabilization fund. However, funds may be appropriated into the fund by a simple majority vote.

As of June 30, 2017, the balance in the Stabilization Fund is \$4.36 million. Historically the budget had provided for an annual appropriation of \$100,000 to be added to the Stabilization Fund. However, for several years the appropriation was not possible due to financial constraints. Beginning in FY2016, the contribution to the Stabilization Fund was restored and augmented with additional funding for a total contribution of \$200,000. The FY2019 budget provides for another contribution to the Stabilization Fund of \$200,000 in order to maintain preferred reserve levels of approximately 8%. Future contributions to the Stabilization Account will require a yearly review of the Town's financial position.

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

	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 ACTUAL	FY2018 BUDGETED	FY2018 SIX MONTHS	FY2019 PROPOSED
STABILIZATION FUND CONTRIBUTION						
Expenses						
59950 Stabilization Fund	0	200,000	200,000	200,000	200,000	200,000
SUBTOTAL	0	200,000	200,000	200,000	200,000	200,000
TOTAL: STABILIZATION FUND CONTR.	0	200,000	200,000	200,000	200,000	200,000

***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 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. In FY2016, to meet the increasing need, the budget provided for an appropriation in the Reserve Fund of \$175,000. The appropriation to the Reserve Fund remained funded at \$175,000 in FY2017 and FY2018. An appropriation of \$175,000 from Free Cash is again proposed for FY2019.

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.

		FY2015	FY2016	FY2017	FY2018	FY2018	FY2019
		ACTUAL	ACTUAL	ACTUAL	BUDGETED	SIX MONTHS	PROPOSED
RESERVE FUND							
Expenses							
59810	Reserve Fund	0	0	0	175,000	0	175,000
	SUBTOTAL	0	0	0	175,000	0	175,000
TOTAL:	RESERVE FUND	0	0	0	175,000	0	175,000

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 FY2019, these warrant articles include \$175,000 for the Reserve Fund from Free Cash, \$200,000 to the Stabilization Fund from Free Cash, funding the FY2019 Capital Budget with \$1,360,000 from Free Cash, \$350,000 to Repair and Replace Water Mains to be paid from Water Enterprise Free Cash, and \$160,000 to purchase an Excavator to paid from Water/Sewer Enterprise Free Cash. The Capital Budget totals \$1,870,000, and together with the other warrant articles the total expenditures come to \$2,245,000.

Effective in FY2012 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 Section 9-1 through 9-6 of this document.

In summary, the FY2019 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 multiple years without an appropriation, funding for the Stabilization Fund was restored in FY2016, funded in FY2017 and FY2018 included again in FY2019 in the amount of \$200,000 (see page 6-17 for more detail).
- \$87,000 for Police Cruiser Replacements — This request provides for the replacement of two patrol vehicles for the use of the Police Department. Included in the funding request is the cost of outfitting the vehicles with ancillary equipment, including radars and emergency warning equipment.
- \$140,000 for MIS Aerial Photography—This request provides for the new aerial photography project to update the Town's Geographic Information System.
- \$140,000 for DPW One-Ton Dump Truck with Hot Box and Plow — This request provides funds to replace a 2008 model year vehicle with a one-ton cab and chassis truck outfitted with an asphalt hot box. The truck will also have a plow to aid in snow removal operations. The 2008 vehicle has surpassed its useful life expectancy of about 10 to 12 years.
- \$231,000 for Street Sweeper Replacement —This request provides funds to replace the existing 2007 Elgin Pelican Street Sweeper. The useful life expectancy is approximately 10 years.
- \$105,000 for Skid Steer Replacement — This request provides funds to replace a 2006 John Deere Skid Steer.
- \$300,000 for Roadway Maintenance and Improvements—This Article provides funds in addition to the FY2018 Chapter 90 allocation in order to maintain current road conditions in accordance with the Pavement Management Plan.



Section 6-20

Undistributed Expenses

- \$160,000 for Water/Sewer Division Excavator—This request provides funds to purchase an excavator for the use by the Water and Sewer Division. The excavator will supplement a 2005 backhoe that was transferred from the Highway Division. This article will be funded by a transfer from Water and Sewer Enterprise Free Cash.
- \$350,000 for Water Division – Water Main Repair and Replacement— This request is to fund a Water Main and Service Replacement Program as part of an ongoing commitment to provide quality water services to the residents of Northborough. This article will be funded by a transfer from Water Enterprise Free Cash and will be used for system improvements in the Park Street and Winn Street neighborhood.
- \$357,000 for School Department Zeh School Boiler Replacement —This Article provides funds to replace the 1999 Boiler at the Zeh School. this project consists of installing two 2,500,000 BTU Lochinvar Crest Boilers. The new boilers are more fuel efficient with an estimated fuel savings of around 35 to 40 percent. Two variable speed drives will be installed to reduce electric energy consumption. The expected useful life of the new boiler is 20 years.



Undistributed Expenses

Section 6-21

		FY2015	FY2016	FY2017	FY2018	FY2018	FY2019
		BUDGETED ⁹	BUDGETED	BUDGETED	BUDGETED	SIX MONTHS	PROPOSED
TOWN MEETING							
SPECIAL WARRANT ARTICLES							
Expenses							
51521	Fire Car One 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					
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	65,000					
51519	Lincoln Street School Add/Ren	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				
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				
51722	Police Station Roof Replacement			90,000			
51723	DPW Church St Culvert			2,000,000			

⁹ 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)

FY2015 FY2016 FY2017 FY2018 FY2018 FY2019
BUDGETED¹⁰ BUDGETED BUDGETED BUDGETED SIX MONTHS PROPOSED

TOWN MEETING SPECIAL WARRANT ARTICLES

Expenses						
51724 DPW Dump Truck Replacement			215,000			
51725 DPW Sidewalk Machine			180,000			
51727 Sewer Inflow & Infiltration Study			500,000			
51728 Water Valve Maintenance Trailer			75,000			
51729 Water Dump Truck Replacement			95,000			
59990 250 th Celebration Committee		20,000	20,000			
51821 Fire Forestry Truck				65,000		
51823 DPW Six-Wheel Dump Truck				240,000		
51824 DPW One Ton Dump Truck				95,000		
51825 DPW Dump Truck w/ Chip Body				95,000		
51826 DPW Chipper				65,000		
51827 DPW Fisher Street Culvert Plans				50,000		
51828 DPW Crawford St Retaining Wall				200,000		
51830 Sewer Inspection Camera				110,000		
51831 Sewer W Main Pump Station				400,000		
51832 Water Service Truck Replacement				100,000		
51833* Proctor School Roof Repairs		200,000		300,000		
51915* Police Cruiser Replacements		85,000	85,000	87,000		87,000
51916 GIS Aerial Photography						140,000
51917 DPW One-Ton Dump Truck						140,000
51918 DPW Street Sweeper						231,000
51919 DPW Skid Steer						105,000
51920* DPW Road Improvements			300,000	300,000		300,000
51921 Water Dept. Excavator						160,000
51922 Water Main Repairs						350,000
51923 Zeh School Boiler Replacement						357,000
SUBTOTAL	28,610,053	4,129,000	3,560,000	2,107,000		1,870,000
59810 Reserve Fund	150,000	175,000	175,000	175,000		175,000
59950 Stabilization Fund		200,000	200,000	200,000		200,000
TOTAL	28,760,053	4,504,000	3,935,000	2,482,000		2,245,000

*Multiple account numbers combined for display purposes

¹⁰ 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.