

# **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 worker's 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.

	FY2010 ACTUAL	FY2011 ACTUAL	FY2012 ACTUAL	FY2013 BUDGETED	FY2013 SIX MONTHS	FY2014 PROPOSED
<b>UNDISTRIBUTED EXPENSES SUMMARY</b>						
<b>EMPLOYEE BENEFITS&amp; INSURANCE</b>						
Health Insurance	3,795,744	3,873,469	4,238,709	4,664,094	2,022,800	4,757,376
Life Insurance	7,004	7,023	7,179	8,730	2,934	8,730
Other Benefits/FICA	312,663	322,225	344,611	361,693	180,351	388,750
County Assessments	974,865	1,006,365	1,118,191	1,210,083	1,210,083	1,241,407
Workers Comp	85,828	78,103	89,841	104,704	80,594	106,798
<b>SUBTOTAL EMPLOYEE BENEFITS</b>	<b>5,176,104</b>	<b>5,287,185</b>	<b>5,798,531</b>	<b>6,349,304</b>	<b>3,496,762</b>	<b>6,503,061</b>
<b>Building &amp; Liability Insurance</b>	166,126	125,879	137,565	213,955	139,113	218,234
<b>Debt Service</b>	2,265,276	1,953,195	2,460,465	2,525,046	377,205	2,347,707
<b>State Assessments</b>	459,224	469,196	423,427	310,356	139,311	364,147
<b>Reserve for Abatements<sup>1</sup></b>	286,021	342,209	351,739	679,291	0	500,000
<b>Cherry Sheet Offset Items<sup>2</sup></b>	22,263	20,514	22,815	23,084	0	21,827
<b>Stabilization Fund Contribution</b>	0	0	0	0	0	0
<b>Reserve Fund<sup>3</sup></b>	0	0	150,000	150,000	0	150,000
<b>Warrant Articles</b>	0	127,600	904,000	3,086,000	3,086,000	1,506,500
<b>TOTAL:    UNDISTRIBUTED EXPENSES</b>	<b>8,375,014</b>	<b>8,325,778</b>	<b>10,248,542</b>	<b>13,337,036</b>	<b>7,238,391</b>	<b>11,611,476</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 Library programs).

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



### 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 Premier and MEDEX.

As of March 1, 2013 a total of 273 active employees (82 Town and 191 K-8 School), 120 retirees (36 Town and 84 K-8 School) and 38 dependents (10 Town and 28 School) were enrolled in one of the Town's health insurance plans.

The following estimated rate schedule was used in budgeting for FY2014.

Health Insurance Plan		7/1/2013 Renewal Monthly Rates	Town Employees				School Employees			
			7/1/2013 Town Monthly Expense		7/1/2013 Employee Monthly Expense		7/1/2013 Town Monthly Expense		7/1/2013 Employee Monthly Expense	
Fallon	Ind	730.24	66%	482.65	34%	247.59	75%	547.68	25%	182.56
	Fam	1,898.62	66%	1,254.11	34%	644.51	75%	1,423.97	25%	474.65
Fallon Pref Care PPO	Ind	876.28	50%	438.14	50%	438.14	50%	438.14	50%	438.14
	Fam	2,278.34	50%	1,139.17	50%	1,139.17	50%	1,139.17	50%	1,139.17
Harvard/Pilgrim	Ind	686.73	68%	468.40	32%	218.33	75%	515.05	25%	171.68
	Fam	1,785.49	68%	1,216.82	32%	568.67	75%	1,339.12	25%	446.37
Tufts	Ind	680.50	68%	459.90	32%	220.60	75%	510.38	25%	170.12
	Fam	1,769.26	68%	1,195.68	32%	573.58	75%	1,326.95	25%	442.31



## Undistributed Expenses

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Several years ago, the Town negotiated a 60% Town and 40% Town employee share of any premium changes. Therefore in FY2014, 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 FY2014. 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 FY2014 budget was prepared using an estimated 5% increase effective with the Senior plan renewal on January 1, 2014. The following rate schedule was in place until the calendar year renewal.

Health Insurance Plan		1/1/2013 Renewal Monthly Rates	Medicare Eligible Ret Empl*			
				1/1/2013 Town Monthly Expense		1/1/2013 Retiree Monthly Expense
<b>Fallon Senior</b>	Ind	286.00	<b>70%</b>	200.20	<b>30%</b>	85.80
	Ind x2	572.00	<b>70%</b>	400.40	<b>30%</b>	171.60
<b>Tufts Medicare</b>	Ind	443.00	<b>70%</b>	310.10	<b>30%</b>	132.90
<b>Complement</b>	Ind x2	886.00	<b>70%</b>	620.20	<b>30%</b>	265.80
<b>Tufts Medicare</b>	Ind	246.00	<b>70%</b>	172.20	<b>30%</b>	73.80
<b>Preferred</b>	Ind x2	492.00	<b>70%</b>	344.40	<b>30%</b>	147.60
<b>MEDEX</b>	Ind	551.02	<b>51%</b>	281.02	<b>49%</b>	270.00
	Ind x2	1,102.04	<b>51%</b>	562.04	<b>49%</b>	540.00

\* 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 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 in-patient and out-patient hospital visits. These plan design changes and programs remain in place for FY2014.

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## Undistributed Expenses



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 adopting Section 18 the Town’s GASB 45 Unfunded Actuarial Accrued Liability (AAL) for Other Post Employment Benefits (OPEB) for retiree medical benefits was greatly reduced from \$90.4 million to \$34.3 million.<sup>4</sup> At the close of FY2011, a GASB 45 update was required and due to the implementation of Section 18, our AAL has been reduced to \$28.1 million. 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.

Another GASB 45 actuarial update will need to be conducted at the close of FY2013. The Town continues to monitor proposed legislative changes regarding the local obligation for retiree health insurance that would affect our OPEB liability.

The FY2014 budget request of \$4.76 million represents a total increase of \$93,282 or 2.00% from the amount budgeted last year.

	FY2010 ACTUAL	FY2011 ACTUAL	FY2012 ACTUAL	FY2013 BUDGETED	FY2013 SIX MONTHS	FY2014 PROPOSED
<b>HEALTH INSURANCE</b>						
<b>Expenses</b>						
51750 Town Health Insurance	932,021	986,985	1,139,821	1,455,460	518,681	1,477,326
51800 School K-8 Health Insurance	2,857,803	2,879,976	3,091,888	3,198,634	1,503,819	3,270,050
51850 Health Reimbursement Account	5,920	6,509	7,000	10,000	300	10,000
<b>SUBTOTAL</b>	<b>3,795,744</b>	<b>3,873,469</b>	<b>4,238,709</b>	<b>4,664,094</b>	<b>2,022,800</b>	<b>4,757,376</b>

<sup>4</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, the 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.



## Undistributed Expenses

## Section 6-5

### 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.

	FY2010 ACTUAL	FY2011 ACTUAL	FY2012 ACTUAL	FY2013 BUDGETED	FY2013 SIX MONTHS	FY2014 PROPOSED
<b>LIFE INSURANCE</b>						
<b>Expenses</b>						
51740 Town Life insurance	2,452	2,459	2,449	4,244	694	4,244
51745 School K-8 Life Insurance	4,552	4,564	4,729	4,486	2,240	4,486
<b>SUBTOTAL</b>	<b>7,004</b>	<b>7,023</b>	<b>7,179</b>	<b>8,730</b>	<b>2,934</b>	<b>8,730</b>



### **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 its former Town and K-8 School employees. Presently, the Town is liable for up to 50 weeks of benefits per claimant – up to 30 weeks of regular benefits and up to 20 weeks of additional federally-legislated “extended benefits”. 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 \$625/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), 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.

	FY2010 ACTUAL	FY2011 ACTUAL	FY2012 ACTUAL	FY2013 BUDGETED	FY2013 SIX MONTHS	FY2014 PROPOSED
<b>OTHER BENEFITS/FICA</b>						
<b>Expenses</b>						
51730 FICA Town Share	79,008	83,293	84,624	88,588	40,926	94,138
51733 FICA School Share	183,479	195,518	202,268	197,212	102,875	218,568
51735 Unemployment Compensation	42,569	35,629	43,777	60,000	26,338	60,000
55090 Miscellaneous Benefits	7,607	7,785	13,942	15,893	10,212	16,044
<b>SUBTOTAL</b>	<b>312,663</b>	<b>322,225</b>	<b>344,611</b>	<b>361,693</b>	<b>180,351</b>	<b>388,750</b>



### **Worcester Regional Retirement Assessment**

The Town participates in the Worcester Regional Retirement System which is a contributory retirement system comprised of ninety four (94) 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).

The Public Employee Retirement Administration Commission, 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 until the year 2040. The total source of funding is the annual Town assessment together with employee contributions for each member unit.

The FY2014 assessment is the second of a three-year phase in to the actuarial method of assessment calculation. Previously, the Worcester Regional Retirement System based its assessment to each member unit upon actual payroll. The actuarial method of assessment, once fully implemented, will base 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 system's total Unfunded Actuarial Accrued Liability is \$19,902,356 as of January 1, 2012. 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 employee, if retired with 25 years of creditable service and the investment return assumption is met, will effectively pay for their entire pension.<sup>5</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, 2012, the State's contribution to this plan on behalf of the Town was \$3,285,388.

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<sup>5</sup> Information from Actuary, James R. Lamenzo of the Public Employee Retirement Administration (PERAC).

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## Undistributed Expenses



The total FY2014 Worcester Regional Retirement Assessment is \$1,302,857. The \$1,241,407 portion included in the General Fund budget below does not include the retirement costs contained in the Water Enterprise Fund (\$32,609), the Sewer Enterprise Fund (\$21,741) or the Cable Access TV (\$7,100)<sup>6</sup>.

		FY2010	FY2011	FY2012	FY2013	FY2013	FY2014
		ACTUAL	ACTUAL	ACTUAL	BUDGETED	SIX MONTHS	PROPOSED
<b>WORCESTER REGIONAL RETIREMENT</b>							
<b>Expenses</b>							
56220	Retirement Assessment	974,865	1,006,365	1,118,191	1,210,083	1,210,083	1,241,407
	<b>SUBTOTAL</b>	<b>974,865</b>	<b>1,006,365</b>	<b>1,118,191</b>	<b>1,210,083</b>	<b>1,210,083</b>	<b>1,241,407</b>

<sup>6</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.)



## Undistributed Expenses

## Section 6-9

### Worker's Compensation Insurance

Worker's 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>7</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.

	FY2010	FY2011	FY2012	FY2013	FY2013	FY2014
	ACTUAL	ACTUAL	ACTUAL	BUDGETED	SIX MONTHS	PROPOSED
<b>WORKERS' COMPENSATION INSURANCE</b>						
<b>Expenses</b>						
51710 Workers' Compensation	82,965	75,894	86,688	99,704	79,529	101,798
53080 Police/Fire Injured on Duty (IOD) Medical Payments	2,863	2,209	3,154	5,000	1,066	5,000
<b>SUBTOTAL</b>	<b>85,828</b>	<b>78,103</b>	<b>89,841</b>	<b>104,704</b>	<b>80,594</b>	<b>106,798</b>

<sup>7</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.



### 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 worker's 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 2.00% budgetary increase for FY2014.

	FY2010 ACTUAL	FY2011 ACTUAL	FY2012 ACTUAL	FY2013 BUDGETED	FY2013 SIX MONTHS	FY2014 PROPOSED
<b>BUILDING &amp; LIABILITY INSURANCE</b>						
<b>Expenses</b>						
57410 Building & Liability Ins.	166,126	125,879	137,565	213,955	139,113	218,234
<b>SUBTOTAL</b>	<b>166,126</b>	<b>125,879</b>	<b>137,565</b>	<b>213,955</b>	<b>139,113</b>	<b>218,234</b>



## Undistributed Expenses

## Section 6-11

### 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. Additionally in our most recent ratings review, Moody's Investors Service indicated their expectation that our debt position should remain manageable. Moody's cited our overall debt burden at 1.8% of our Equalized Valuation and our average rate of 71.4% principal amortization within the next ten years as indicators of a manageable debt burden.

	FY2010	FY2011	FY2012	FY2013	FY2013	FY2014
	ACTUAL	ACTUAL	ACTUAL	BUDGETED	SIX MONTHS	PROPOSED
<b>DEBT SERVICE</b>						
<b>Expenses</b>						
59100 Principal/Long-term Debt	1,617,021	1,428,085	1,802,063	1,727,834	64,534	1,739,784
59150 Interest/Long-term Debt	484,940	384,645	639,798	593,433	297,109	576,875
59270 Interest/Temporary Loans	163,314	140,464	18,603	203,779	15,562	31,048
<b>SUBTOTAL</b>	<b>2,265,276</b>	<b>1,953,195</b>	<b>2,460,465</b>	<b>2,525,046</b>	<b>377,205</b>	<b>2,347,707</b>

Bond Anticipation Notes were issued last year in the amount of \$1.6 million for various borrowing authorizations for the Melican Middle School roof repair, CPA land acquisition, a water fund project and to purchase departmental equipment. The temporary one-year bond anticipation notes will mature and in April 2013, the notes will be permanently financed with a bond offering which will include the Town share of the Lincoln Street School feasibility project. Therefore, in the near future, our current Aa2 Bond Rating will be evaluated with a very thorough review process by Moody's Investors Service.

For FY2014, the total Debt Service budget for the General Fund is \$2.35 million, a decrease of \$177,339. The decrease is primarily attributable to the Town's Free Cash policy whereby smaller capital items are purchased using available funds instead of financing with debt. Please see Section 9 of this budget document for a more detailed explanation of the Free Cash Policy and the recent efforts to fund more pay-as-you-go capital projects.



### Statutory Debt Limit

The aggregate level of our 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 2012 EQV	\$2,664,457,400
Debt Limit (5% of EQV)	\$ 133,222,870

Northborough's total issued and outstanding long term debt principal, both inside and outside the debt limit as of June 30, 2012, is \$23,642,335, significantly below the statutory debt limit.

### Debt Policy Limits

Further there is a local limit placed on Northborough's 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%

At the time of the printing of this document, we were preparing to issue \$1.8 million in General Obligation Bonds. Even with this additional debt, the estimated FY2014 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 2013 Annual Town Meeting.

### **BOND RATING SYMBOLS**

### 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 bond rating of Aa2.

<b>Moody's Investor Service</b>
Aaa
Aa1
➡Aa2
Aa3
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Baa1
Baa2
Baa3
Ba1
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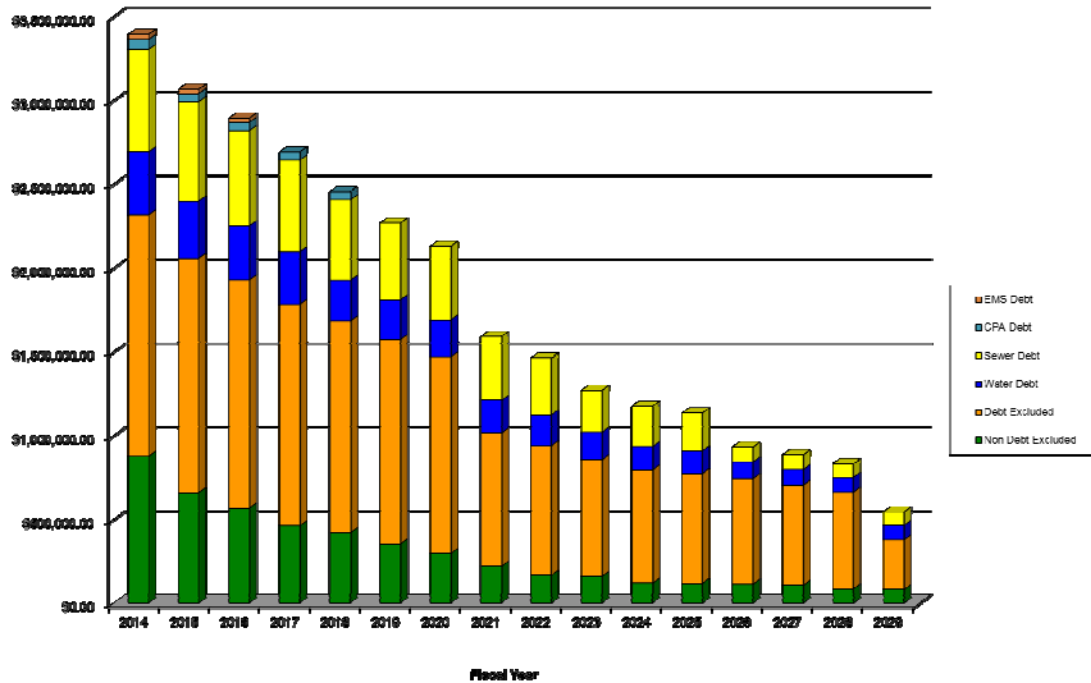
## Undistributed Expenses

## Section 6-13

### Total Long Term Debt Service - All Funds

The total long term annual debt service from FY2014 through FY2029, including both principal and interest, is shown below. The interest on the April 2013 bonds has been included at an estimated 2.75% rate. 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 Funds.

**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
2014	877,605	1,439,055	59,408	31,173	375,814	611,097	3,394,151
2015	659,127	1,399,096	49,950	26,375	340,409	591,717	3,066,675
2016	568,660	1,360,272	48,713	25,688	322,478	568,682	2,894,492
2017	463,297	1,319,481	47,475		313,532	547,472	2,691,257
2018	422,404	1,263,024	46,238		242,709	479,971	2,454,345
2019	354,559	1,218,877			236,678	458,612	2,268,726
2020	298,011	1,172,466			220,967	439,092	2,130,536
2021	222,756	794,315			194,631	379,356	1,591,059
2022	166,889	772,488			183,876	340,956	1,464,209
2023	161,571	695,633			164,241	248,050	1,269,495
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
	4,829,519	14,865,449	251,783	83,235	3,239,278	5,466,226	28,735,490



### 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 66% of the expenses—Mosquito Control, MBTA and Charter Schools.

##### 1. Mosquito Control Assessment

Pursuant to MGL Ch. 252, §5A (Ch. 2, §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.

	FY2010 ACTUAL	FY2011 ACTUAL	FY2012 ACTUAL	FY2013 BUDGETED	FY2013 SIX MONTHS	FY2014 PROPOSED
<b>STATE ASSESSMENTS</b>						
<b>Expenses</b>						
56390 Mosquito Control Assessment	44,730	44,376	45,349	48,507	24,255	51,418
56400 Air Pollution Assessment	4,439	4,539	4,744	4,769	2,385	5,093
56410 County Assessment ch. 35	13,524	0	0	0	0	0
56420 MBTA	73,790	75,790	75,090	75,030	37,516	68,597
56430 Regional transportation Ch 161 B	19,272	16,871	17,265	16,983	8,492	24,144
56440 Charge Against Receipts--SPED	0	0	0	0	0	12,557
56450 Parking Surcharge Ch 90	9,180	10,100	8,120	8,120	4,400	8,800
56455 School Choice Sending Tuition	0	0	15,000	15,000	24,667	74,000
56460 Charter School Sending Tuition	294,289	317,520	257,859	141,947	37,596	119,538
<b>SUBTOTAL</b>	<b>459,224</b>	<b>469,196</b>	<b>423,427</b>	<b>310,356</b>	<b>139,311</b>	<b>364,147</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. 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 FY2014 our proposed funding for the Overlay Reserve for Abatements and Exemptions is \$500,000, which represents approximately 1.2% of the estimated tax levy.

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.

### **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.

Current offset items for FY2014 include \$7,294 for school lunch grants and \$14,533 for public libraries 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 Ch. 40 §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, 2012, the balance in the Stabilization Fund is \$3.66 Million. Historically the budget has provided for an annual appropriation of \$100,000 to be added to the Stabilization Fund. However, in recent fiscal years the appropriation has not been possible due to financial constraints. Overall, our reserves remain within the acceptable levels prescribed by our financial policies. More information regarding our level of reserves can be found in Appendix B, pages 9 and 10.

	FY2010 ACTUAL	FY2011 ACTUAL	FY2012 ACTUAL	FY2013 BUDGETED	FY2013 SIX MONTHS	FY2014 PROPOSED
<b>STABILIZATION FUND CONTRIBUTION</b>						
<b>Expenses</b>						
59950 Stabilization Fund	0	0	0	0	0	0
<b>SUBTOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL: STABILIZATION FUND CONTR.</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>



## Undistributed Expenses

## Section 6-17

### 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 has 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 FY2014 proposed Reserve Fund amount is level funded from FY2012 and FY2013 at \$150,000.

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 the budgeted funds were transferred into other accounts in order to balance them.

		FY2010	FY2011	FY2012	FY2013	FY2013	FY2014
		ACTUAL	ACTUAL	ACTUAL	BUDGETED	SIX MONTHS	PROPOSED
<b>RESERVE FUND</b>							
<b>Expenses</b>							
59810 Reserve Fund		0	0	0	0	0	See warrant
<b>SUBTOTAL</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>Articles</b>
<b>TOTAL:</b>	<b>RESERVE FUND</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>



### 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 repurposed bond proceeds and Free Cash. The use of these funding sources results in no additional tax impact. In FY2014, these warrant articles include \$150,000 for the Reserve Fund from Free Cash, funding the FY2014 Capital Budget with \$1,309,307 from Free Cash and \$197,193 from repurposed bond proceeds. The warrant articles total \$1,656,500.

During November of 2010 the Board of Selectmen adopted a Free Cash Policy, which now 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 FY2014 Town Meeting Warrant Articles include the following:

1. \$150,000 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
2. \$50,000 for Self Contained Breathing Apparatus (SCBA) Air Compressor—This project will replace the Fire Department's current SCBA air compressor which was purchased in 1991. The compressor is used to refill depleted SCBA bottles with purified, pressurized breathing air for firefighting and dive rescue.
3. \$28,000 for an Emergency Shelter Trailer and Supplies—This request is for a 24-foot trailer stocked with cots, blankets and other supplies necessary for emergency sheltering operations. As a result of the increased frequency of extreme weather events in recent years, the Town has enhanced its emergency sheltering planning activities and has identified both the human and physical resources needed to provide residents with temporary shelter facilities in the event of natural or manmade disasters.
4. \$800,000 for DPW Salt Shed Replacement—This request seeks funding to replace the existing salt shed with a new structure adequate in size to store the salt used during snow removal operations. The existing salt shed is currently in disrepair – the wood frame is disintegrating, the doors cannot close, the roof leaks (causing salt to freeze in extreme temperatures) and the walls are bowing outward.
5. \$425,000 for Highway Garage Fuel Island Replacement— This project seeks funding for the construction of a new fuel island with above-ground fuel tanks (unleaded& diesel), dispensers and canopy to replace the existing underground fuel tanks and dispensers at the Public Works facility.
6. \$203,500 for DPW Loader—This request is to replace the 1997 Caterpillar 938 loader with a new model. Used on an almost daily basis, the loader is one of the most heavily-used pieces of equipment in the Public Works fleet.



# Undistributed Expenses

## Section 6-19

	FY2010 BUDGETED <sup>8</sup>	FY2011 BUDGETED	FY2012 BUDGETED	FY2013 BUDGETED	FY2013 SIX MONTHS	FY2014 PROPOSED
<b>TOWN MEETING</b>						
<b>SPECIAL WARRANT ARTICLES</b>						
<b>Expenses</b>						
52022 Declaratory Judgment ARHS	0	100,000	0	0	0	0
58018 Voting Machines	0	27,600	0	0	0	0
59810 Reserve Fund ART 19 <sup>9</sup>	0	0	150,000	150,000	0	150,000
Fire Pickup	0	0	60,000	0	0	0
Police Phone System	0	0	35,000	0	0	0
DPW Truck Lift	0	0	60,000	0	0	0
DPW Pickup w/ Plow	0	0	39,000	0	0	0
DPW Street Sweeper	0	0	164,000	0	0	0
DPW Hwy Dump Truck	0	0	71,000	0	0	0
Peaslee School Roof	0	0	375,000	0	0	0
Emergency 10/29/12 Storm Exp.	0	0	100,000	0	0	0
Fire Engine Tender Truck	0	0	0	350,000	350,000	0
Narrowband Radio Conversion	0	0	0	85,000	85,000	0
Town Offices Building Repair	0	0	0	1,152,000	1,152,000	0
Ellsworth McAfee Park Track	0	0	0	40,000	40,000	0
DPW One-Ton Service Truck	0	0	0	56,000	56,000	0
Sidewalk Plow	0	0	0	153,000	153,000	0
Portable Emergency Generator	0	0	0	100,000	100,000	0
Lyman Street Well Repairs	0	0	0	250,000	250,000	0
Lincoln School Feasibility Study	0	0	0	500,000	500,000	0
Middle School Emer Generator	0	0	0	400,000	400,000	0
Fire SCBA Compressor	0	0	0	0	0	50,000
Emergency Shelter Trailer	0	0	0	0	0	28,000
DPW Salt Shed Replacement	0	0	0	0	0	800,000
DPW Fueling Island	0	0	0	0	0	425,000
DPW Front-end Loader	0	0	0	0	0	203,500
<b>SUBTOTAL</b>	<b>0</b>	<b>127,600</b>	<b>1,054,000</b>	<b>3,236,000</b>	<b>3,086,000</b>	<b>1,656,500</b>

<sup>8</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 rather than actual expenditures, which may cross fiscal years, therefore the depiction of budget rather than actual expenditures is used in this case. There were no warrants articles to spend current resources in FY2010.

<sup>9</sup> Amounts in the table reflect the Reserve Fund budgeted and appropriated as a separate article from the Town's operating budget. The source for the fund is Free Cash starting in FY2012. The Reserve Fund within the Town budget was \$75,000 in FY2010 and \$80,000 in FY2011.



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