

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.

	FY2013 ACTUAL	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 BUDGETED	FY2016 SIX MONTHS	FY2017 PROPOSED
UNDISTRIBUTED EXPENSES SUMMARY						
EMPLOYEE BENEFITS& INSURANCE						
Health Insurance	4,149,670	4,161,545	4,336,371	4,949,038	2,413,674	5,097,510
Transfer to OPEB Trust	0	0	500,000	500,000	500,000	500,000
Life Insurance	6,911	5,867	5,930	8,730	2,949	8,730
Other Benefits/FICA	353,527	380,818	364,210	432,727	186,537	432,727
Worcester Regional Retirement	1,210,083	1,241,407	1,306,702	1,415,244	1,415,244	1,531,756
Workers Comp	83,110	94,880	101,440	114,045	107,834	119,497
SUBTOTAL EMPLOYEE BENEFITS	5,803,301	5,884,517	6,614,653	7,419,784	4,626,238	7,690,220
Building & Liability Insurance	146,883	177,119	180,631	232,311	198,057	248,927
Debt Service	2,481,623	2,307,032	2,050,723	2,598,421	333,831	3,034,131
State Assessments	351,651	326,754	275,498	273,178	105,109	317,967
Reserve for Abatements¹	679,291	530,787	462,432	623,081	0	623,081
Cherry Sheet Offset Items²	23,084	21,827	27,591	19,972	0	21,792
Stabilization Fund Contribution	0	0	0	200,000	200,000	200,000
Reserve Fund³	0	0	0	175,000	0	175,000
Warrant Articles⁴	3,086,000	1,506,500	28,760,053	4,129,000	0	3,560,000
TOTAL: UNDISTRIBUTED EXPENSES	12,571,833	10,754,536	38,371,581	15,670,747	5,463,235	15,871,118

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.

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, 2016 a total of 287 active employees (82 Town and 205 K-8 School), 130 retirees (40 Town and 90 K-8 School) and 47 retiree dependents (10 Town and 37 School) were enrolled in one of the Town's health insurance plans.

The following estimated rate schedule was used in budgeting for FY2017.

Health Insurance Plan		7/1/2016 Renewal Monthly Rates	Town Employees				School Employees			
			7/1/2016 Town Monthly Expense		7/1/2016 Employee Monthly Expense		7/1/2016 Town Monthly Expense		7/1/2016 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	792.21	67%	531.69	33%	226.57	75%	594.16	25%	198.05
	Fam	2,059.74	67%	1,381.37	33%	590.09	75%	1,544.80	25%	514.93
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 FY2017, the Town contribution will be 66% to 67% 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 remains in place for FY2017. 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 FY2017 budget was prepared using an estimated 5% increase effective with the Senior plan renewal on January 1, 2017. The following rate schedule was in place until the calendar year renewal.

Health Insurance Plan		1/1/2016 Renewal Monthly Rates	Medicare Eligible Ret Empl*			
			1/1/2016 Town Monthly Expense		1/1/2016 Retiree Monthly Expense	
Fallon Senior	Ind	393.00	70%	275.10	30%	117.90
	Ind x2	786.00	70%	550.20	30%	235.80
Tufts Medicare	Ind	494.00	70%	345.80	30%	148.20
Complement	Ind x2	988.00	70%	691.60	30%	296.40
Tufts Medicare	Ind	263.00	70%	184.10	30%	78.90
Preferred	Ind x2	526.00	70%	368.20	30%	157.80
MEDEX	Ind	571.12	51%	291.27	49%	279.85
	Ind x2	1,142.24	51%	582.54	49%	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.

In FY2017, the trending healthcare costs once again required negotiation of further plan design changes to temper the effect of the health insurance premium increases. Effective July 1, 2016, the Town will implement higher co-payments for office and emergency room visits as well as higher deductibles for inpatient and outpatient services. The FY2017 budget reflects these changes.

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 FY2017 health insurance budget request of \$5.1 million represents a total increase of \$148,471 or 3.00% from the amount budgeted last year.

	FY2013 ACTUAL	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 BUDGETED	FY2016 SIX MONTHS	FY2017 PROPOSED
HEALTH INSURANCE						
Expenses						
51750 Town Health Insurance	949,241	896,751	897,501	1,122,206	458,592	1,078,375
51755 Town Retiree Health Ins.	237,423	249,017	269,071	287,474	156,675	316,495
51800 School K-8 Health Insurance	2,464,431	2,536,665	2,686,213	3,030,414	1,530,294	3,094,242
51805 School K-8 Retiree Health Ins.	496,106	475,392	481,973	498,944	267,113	558,398
51850 Health Reimbursement Account	2,470	3,720	1,613	10,000	1,000	50,000
SUBTOTAL	4,149,670	4,161,545	4,336,371	4,949,038	2,413,674	5,097,510



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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.⁵ 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 most recent actuarial study was completed at the close of FY2015 and the UAAL increased to \$34.9 million and as required, another GASB 45 actuarial update will be conducted for the close of FY2017.

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 Other Post Employment Benefit (OPEB) Trust Fund. Another \$500,000 was transferred to the OPEB Trust fund in FY2016.

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 \$57.9 billion as of February 29, 2016, 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 FY2017 Budget once again provides for a \$500,000 contribution to the OPEB Trust Fund.

	FY2013 ACTUAL	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 BUDGETED	FY2016 SIX MONTHS	FY2017 PROPOSED
TRANSFER TO OPEB TRUST						
59992 Transfer to OPEB Trust	0	0	500,000	500,000	500,000	500,000
SUBTOTAL	0	0	500,000	500,000	500,000	500,000

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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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.

	FY2013	FY2014	FY2015	FY2016	FY2016	FY2017
	ACTUAL	ACTUAL	ACTUAL	BUDGETED	SIX MONTHS	PROPOSED
LIFE INSURANCE						
Expenses						
51740 Town Life insurance	2,448	1,522	1,540	4,244	663	4,060
51745 School K-8 Life Insurance	4,463	4,345	4,390	4,486	2,286	4,670
SUBTOTAL	6,911	5,867	5,930	8,730	2,949	8,730



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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 (WRRS or MTRS), 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.

Most part-time employees are not members of the of the contributory retirement systems are required to participate in OBRA (Omnibus Budget Reconciliation Act) as permitted by federal law (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 \$722/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.

	FY2013 ACTUAL	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 BUDGETED	FY2016 SIX MONTHS	FY2017 PROPOSED
OTHER BENEFITS/FICA						
Expenses						
51730 FICA Town Share	86,454	89,581	95,750	106,843	49,552	106,843
51733 FICA School Share	219,418	230,429	237,603	249,840	124,753	249,840
51735 Unemployment Compensation	30,036	48,755	12,090	60,000	3,656	60,000
55090 Miscellaneous Benefits	17,619	12,053	18,768	16,044	8,575	16,044
SUBTOTAL	353,527	380,818	364,210	432,727	186,537	432,727



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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 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 FY2017 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.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, 2015, the State's contribution to this plan was \$937,379,260. The Town's proportionate share of these contributions was \$2,053,548.

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



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The total FY2017 Worcester Regional Retirement Assessment is \$1,613,924. The \$1,531,756 portion included in the General Fund budget below does not include the retirement costs contained in the Water Enterprise Fund (\$40,394), the Sewer Enterprise Fund (\$26,932) or the Cable Access TV (\$14,841)⁷.

		FY2013	FY2014	FY2015	FY2016	FY2016	FY2017
		ACTUAL	ACTUAL	ACTUAL	BUDGETED	SIX MONTHS	PROPOSED
WORCESTER REGIONAL RETIREMENT							
Expenses							
56220	Retirement Assessment	1,210,083	1,241,407	1,306,702	1,415,244	1,415,244	1,531,756
	SUBTOTAL	1,210,083	1,241,407	1,306,702	1,415,244	1,415,244	1,531,756

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 5% budgetary increase for FY2017.

	FY2013 ACTUAL	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 BUDGETED	FY2016 SIX MONTHS	FY2017 PROPOSED
WORKERS' COMPENSATION INSURANCE						
Expenses						
51710 Workers' Compensation	80,344	92,419	98,758	109,045	107,512	114,497
53080 Police/Fire Injured on Duty (IOD) Medical Payments	2,766	2,461	2,682	5,000	322	5,000
SUBTOTAL	83,110	94,880	101,440	114,045	107,834	119,497

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 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 5% budgetary increase for FY2017.

	FY2013 ACTUAL	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 BUDGETED	FY2016 SIX MONTHS	FY2017 PROPOSED
BUILDING & LIABILITY INSURANCE						
Expenses						
57410 Building & Liability Ins.	146,883	177,119	180,631	232,311	198,057	248,927
SUBTOTAL	146,883	177,119	180,631	232,311	198,057	248,927



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.

	FY2013 ACTUAL	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 BUDGETED	FY2016 SIX MONTHS	FY2017 PROPOSED
DEBT SERVICE						
Expenses						
59100 Principal/Long-term Debt	1,858,534	1,739,784	1,536,532	1,832,533	4,532	2,072,533
59150 Interest/Long-term Debt	593,226	567,248	514,191	765,888	329,298	851,116
59270 Interest/Temporary Loans	29,863	0	0	0	0	110,482
SUBTOTAL	2,481,623	2,307,032	2,050,723	2,598,421	333,831	3,034,131

For FY2017, the total Debt Service budget for the General Fund is \$3.0 million, an increase of \$435,710. This increase is necessary to provide for the second and final permanent bonding for the Lincoln Street School addition/renovation project.

The total amount financed for the Town's share of this project, which was originally budgeted at \$14.85 million, was finalized and permanently financed at an all-time low interest rate and at only \$14.2 million due to the significant premiums received at the time of the bond issuance.

The Lincoln Street School Debt service is scheduled to peak at \$1,144,882 in FY2017. 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 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.

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.



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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, 2015, is \$25,510,018, 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 FY2017 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 2016 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.

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.

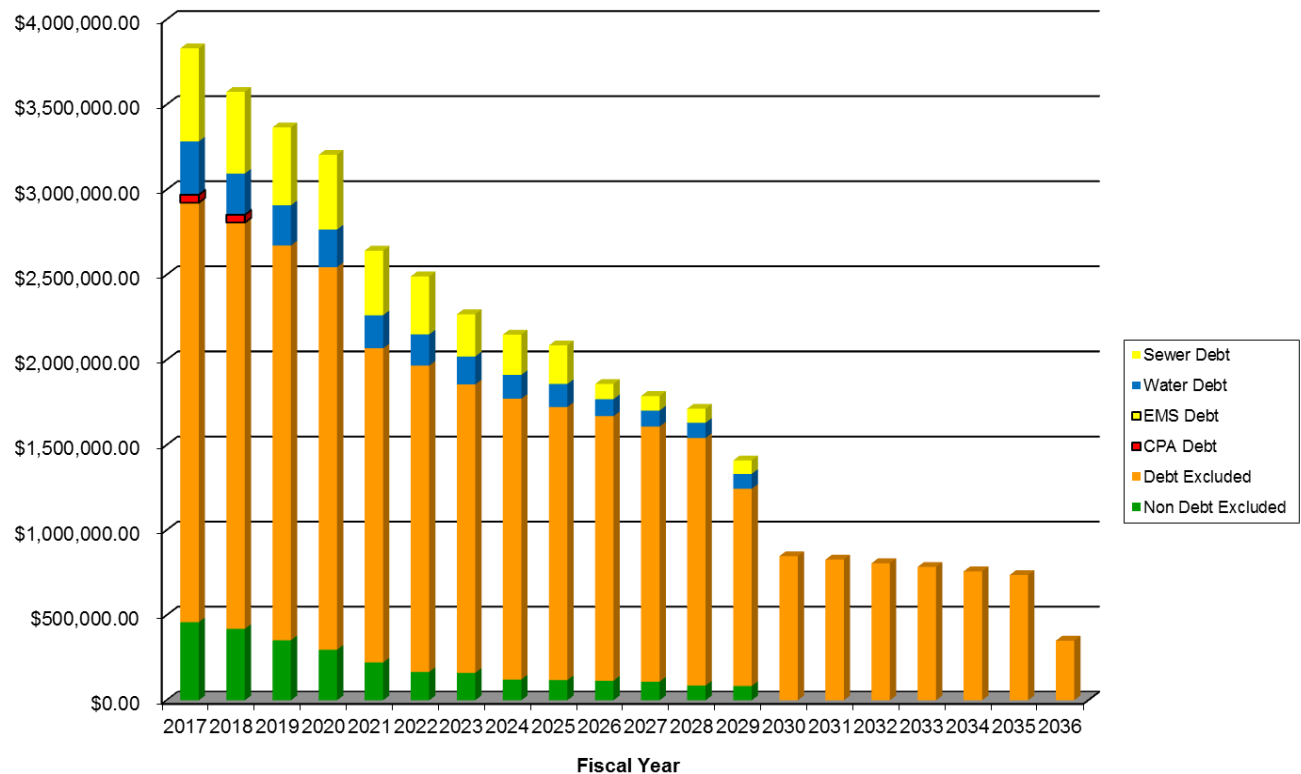
Moody's Investor Service Bond Rating
Aaa
➡ Aa1
Aa2
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A1
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B2

Total Long Term Debt Service - All Funds

The total long term annual debt service from FY2017 through FY2036, 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 Due	General Fund	General Fund Debt Excluded	CPA Debt	EMS Debt	Water Enterprise Fund	Sewer Enterprise Fund	Total Debt Service
2017	459,285	2,464,363	46,800		312,444	547,472	3,830,364
2018	419,441	2,387,699	45,900		241,809	479,971	3,574,820
2019	352,646	2,319,152			235,928	458,612	3,366,339
2020	296,774	2,248,341			220,367	439,092	3,204,574
2021	222,194	1,845,790			194,181	379,356	2,641,521
2022	166,514	1,799,263			183,576	340,956	2,490,309
2023	161,384	1,694,308			164,091	248,050	2,267,833
2024	122,166	1,649,793			139,189	237,485	2,148,633
2025	118,686	1,604,843			134,649	226,770	2,084,948
2026	115,020	1,553,979			99,983	89,110	1,858,091
2027	109,168	1,499,236			93,465	85,880	1,787,749
2028	86,400	1,454,919			89,075	82,650	1,713,044
2029	83,200	1,159,225			87,581	79,325	1,409,331
2030		846,775					846,775
2031		826,400					826,400
2032		805,100					805,100
2033		783,800					783,800
2034		757,500					757,500
2035		736,350					736,350
2036		350,200					350,200
	2,712,877	28,787,033	92,700	-	2,196,339	3,694,730	37,483,679



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 80% 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.

	FY2013 ACTUAL	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 BUDGETED	FY2016 SIX MONTHS	FY2017 PROPOSED
STATE ASSESSMENTS						
Expenses						
56390 Mosquito Control Assessment	48,507	53,226	54,437	50,238	25,122	58,514
56400 Air Pollution Assessment	4,769	5,093	5,149	5,269	2,635	5,401
56410 County Assessment ch. 35	0	0	0	0	0	0
56420 MBTA	75,030	68,597	72,455	74,302	37,152	74,530
56430 Regional transportation Ch 161 B	16,983	24,144	23,570	22,473	11,238	22,844
56440 Charge Against Receipts--SPED	12,623	0	0	0	0	0
56450 Parking Surcharge Ch 90	8,800	8,760	8,760	8,760	4,380	8,760
56455 School Choice Sending Tuition	73,302	47,171	28,586	28,953	13,542	22,400
56460 Charter School Sending Tuition	111,637	119,763	82,541	83,183	11,040	125,518
SUBTOTAL	351,651	326,754	275,498	273,178	105,109	317,967



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.

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.

In FY2017, the proposed funding for the Overlay Reserve for Abatements and Exemptions is \$623,081, which represents approximately 1.32% 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 FY2017 is \$21,792 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, 2015, the balance in the Stabilization Fund is \$3.91 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 FY2017 budget provides for another contribution to the Stabilization Fund of \$200,000. 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. More information regarding the level of reserves can be found in Appendix B, pages 9 and 10.

	FY2013 ACTUAL	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 BUDGETED	FY2016 SIX MONTHS	FY2017 PROPOSED
STABILIZATION FUND CONTRIBUTION						
Expenses						
59950 Stabilization Fund	0	0	0	200,000	200,000	200,000
SUBTOTAL	0	0	0	200,000	200,000	200,000
TOTAL: STABILIZATION FUND CONTR.	0	0	0	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 remains funded at \$175,000 in FY2017.

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.

		FY2013 ACTUAL	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 BUDGETED	FY2016 SIX MONTHS	FY2017 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 FY2017, these warrant articles include \$175,000 for the Reserve Fund from Free Cash, \$200,000 to the Stabilization Fund from Free Cash, funding the FY2017 Capital Budget with \$1,813,460 from Free Cash, \$1,027,000 to be borrowed for the Church Street Culvert (bridge) project with the debt service paid by the General Fund, \$29,540 in repurposed bonds to be transferred from the completed Colburn Street remediation project to the Church Street Culvert project, \$170,000 for Departmental Equipment from Water/Sewer Enterprise Funds Free Cash, \$500,000 to be borrowed for a Sewer Inflow & Infiltration (I&I) Study with the debt service to be paid by the Sewer Enterprise Fund and \$20,000 for the use of the 250th Town Anniversary Committee from Free Cash. The Capital Budget totals \$3,560,000, and together with the others articles the total of the warrant articles comes to \$3,935,000.

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 FY2017 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 and included again in FY2017 in the amount of \$200,000 (see page 6-17 for more detail).
- \$85,000 for Police Cruiser Replacement — This request provides for the purchase of two new vehicles to replace a 2011 Ford Crown Victoria and a 2012 Ford Expedition SUV for the Police Department.
- \$90,000 for Police Station Roof — This request will replace the Police Station Roof with a 30-year asphalt roof.
- \$2,000,000 for Church Street Culvert Replacement— This request provides funds for the replacement of the Church Street culvert over Cold Harbor Brook. This structure provides a critical link between major routes such as Route 20 to the south and I-290 to the north. The current structure is in fair condition but the granite support under the sidewalk has severely cracked. Part of this project includes a widening of this portion of Church Street to accommodate an extra lane of traffic approaching the Route 20 intersection. The source for this article is surplus bond funds (\$29,540), Free Cash (\$943,460), and the remainder (\$1,027,000) is a borrowing authorization.



Section 6-20

Undistributed Expenses

- \$215,000 for DPW Six Wheel Dump Truck— This request provides funds to replace a 1997 International truck with a dump truck with a plow and spreader. The 1997 International truck has surpassed its useful life expectancy of about 15 to 20 years.
- \$180,000 for DPW Sidewalk Machine—This request provides funds to replace an existing 2002 sidewalk machine. These vehicles are used to clear snow from various sidewalks throughout Town.
- \$500,000 for Sewer Inflow & Infiltration Study - This Article provides funds for a study to determine inflow and infiltration (I&I) into the Town's sanitary sewer system. This inflow is from flowing storm water and runoff making its way into manhole covers. Infiltration is the seeping of groundwater into the system through pipe connections, cracks in the manholes or other small openings in the system below grade. Identifying and mitigating this I & I greatly reduces the volumes of 'clean' water sent to the waste water treatment plant for processing. This article is a borrowing authorization, with the debt service on the bonds to be paid by the Sewer Enterprise Fund.
- \$75,000 for Water Division Valve Maintenance Trailer - This Article provides funds to purchase a Water Gate Valve Maintenance Trailer to satisfy a mandate by the State DEP to perform an annual gate valve exercise program throughout Town. This includes locating, inspecting, cleaning and operating/exercising each gate valve within the Town's system. This article will be funded by a transfer from Water Enterprise Free Cash.
- \$95,000 for Water/Sewer Division One Ton Dump Truck with Plow – This Article provides funds to replace a 2006 dump truck. The one-ton dump trucks are the most used equipment in the fleet. These vehicles are used to perform everyday tasks including moving materials and equipment that is carried and towed by these vehicles. These trucks are also paired with large 6-wheel dump trucks to perform snow removal. This article will be funded by a transfer of \$57,000 (60%) from Water Enterprise Free Cash and a transfer of \$38,000 (40%) from Sewer Enterprise Free Cash.
- \$20,000 for the 250th Town Anniversary Committee – This request provides funds to continue supporting the 250th celebration efforts during the 2016 calendar year.



Undistributed Expenses

Section 6-21

		FY2013	FY2014	FY2015	FY2016	FY2016	FY2017
		BUDGETED ⁹	BUDGETED	BUDGETED	BUDGETED	SIX MONTHS	PROPOSED
TOWN MEETING							
SPECIAL WARRANT ARTICLES							
Expenses							
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			
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			

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)

		FY2013	FY2014	FY2015	FY2016	FY2016	FY2017
		BUDGETED ¹⁰	BUDGETED	BUDGETED	BUDGETED	SIX MONTHS	PROPOSED
TOWN MEETING							
SPECIAL WARRANT ARTICLES							
Expenses							
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		
51721	Police Cruiser Replacements						85,000
51722	Police Station Roof Replacement						90,000
51723	DPW Church St Culvert						2,000,000
51724	DPW Dump Truck Replacement						215,000
51725	DPW Sidewalk Machine						180,000
51726	DPW Road Improvements						300,000
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
	SUBTOTAL	3,086,000	1,506,500	28,760,053	4,129,000		3,560,000
59810	Reserve Fund	150,000	150,000	150,000	175,000		175,000
59950	Stabilization Fund				200,000		200,000
	TOTAL	3,236,000	1,656,500	28,760,053	4,504,000		3,935,000

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.