

**BOARD OF SELECTMEN
APPROPRIATIONS COMMITTEE
FINANCIAL PLANNING COMMITTEE
NORTHBOROUGH SCHOOL COMMITTEE**

SPECIAL JOINT MEETING MINUTES – December 15, 2022

7:00 p.m.

BOARD AND COMMITTEE MEMBERS REMOTELY PRESENT

Board of Selectmen

Mitch Cohen, Kristen Wixted, Jason Perreault and Scott Rogers

Appropriations Committee

George Brenckle, Anthony Poteete, Richard Nieber, Robert D'Amico and Janice Hight

Financial Planning Committee

David DeVries, Thomas Spataro and John Rapa

Northborough School Committee

Lauren Bailey-Jones, Kelly Guenette and Joan Frank

Others

Town Administrator John Coderre, Assistant Town Administrator Rebecca Meekins, Finance Director Jason Little, Treasurer/Collector Lisa Troast, School Superintendent Greg Martineau and Director of Finance & Operations Rebecca Pellegrino.

JOHN CODERRE, TOWN ADMINISTRATOR

Presentation of the Financial Trend Monitoring System (FTMS)

The complete FTMS presentation can be found on the Town Website.

Mr. Coderre reviewed the final FY2022 budget results and provided an update on the FY2023 Budget. The final Town FY2023 budget and tax rate were approved on November 21, 2022, resulting in an average single-family home tax bill increase of \$380.

The purpose of the FTMS is to analyze key financial indicators in order to assess the financial direction of the Town. The report is designed to bring issues and opportunities to the attention of decision-makers through a systematic method of trend analysis. The ultimate goal of the FTMS is to help local officials better assess and protect the Town's overall financial condition. The goal is to protect the Town's policy-making ability by ensuring that important decisions are not controlled by financial problems or emergencies.

Mr. Coderre reviewed the summary dashboard of all the indicators and rather than go into detail on each, instead focused on the ones in motion or having the greatest impact on the upcoming FY2023 budget, including State Aid, Economic Growth Revenues and Employee Benefits.

State Aid

The Legislature was unable to complete their Economic Development Bill prior to the July 31, 2022 expiration of the formal legislative session due to State law Chapter 62F that caps growth in tax collections resulting in nearly \$3B in taxes being returned. Governor Baker subsequently signed a \$3.7B spending package that is a combination of an Economic Development bill using ARPA funds and a FY2022 supplemental budget. The FY2023 State tax collections have surpassed budget year-to-date benchmarks by 5.7%. It is assumed that Northborough's FY2024 State Aid will increase 1% based upon trends and the Legislature's commitment through the Student Opportunities Act to divert increased aid to lower income school districts. Any State Aid received above the Town's estimate can only be used to reduce taxes.

Economic Growth Revenues

Economic Growth Revenues went from stable to uncertain overnight with the impacts of the COVID-19 pandemic at the end of FY2020. This indicator has improved and stabilized back to near pre-pandemic levels. As the Town approaches buildout, new growth and permits are likely to reduce and stabilize at lower levels absent some significant economic development.

FY2024 Local Receipts

FY2023 Local Receipts are level budgeted at \$4.2M while FY2024 Local Receipts are forecasted at \$4M. Meals receipts are strong and back to pre-pandemic estimates; however, one of Northborough's two hotels remains offline due to needed renovations. Motor Vehicle Excise (MVE) will not be known until the receipt of a major commitment in February and is being level funded as supply chain disruptions and computer chip shortages remain a concern looking forward. Although building permits have been above target in recent years due to large project fees, there are no large projects that are anticipated. Of significant note is that the \$230,000 Algonquin Regional High School (ARHS) legal settlement payment from the Town of Southborough ended in FY2023, which is the main reason for the reduction in FY2024 Local Receipts.

One Time Revenues

The Free Cash Policy reduced reliance on one-time revenues from a high of \$1.5 million in FY2005 to \$500,000 in FY2023. Free Cash was diverted to finance \$14.89 million in pay-as-you-go capital investments since FY2012.

Employee Benefits

Personnel wages and benefits represent approximately 76% of the Town's operating budget for non-school departments and remain relatively stable due to health insurance benefit changes, sustainable staffing and wage increases. Overall, employee benefits as a percentage of wages and salaries increased 2.63% from FY2013-FY2022. The Town intends to continue with the joint procurement with ARHS and the Town of Southborough as part of the FY2024 Health Insurance renewals.

The first annual \$500K transfer to the Other Post-Employment Benefits (OPEB) trust fund was in FY2015. Due to economic impacts of the pandemic trust fund contributions were postponed in FY2021, FY2022 and limited to \$300K in FY2023. Mr. Coderre stressed the importance of the Town getting back on track with its OPEB funding schedule by including

at least \$550K in the FY2024 budget. In contrast to OPEB, the unfunded liability for the pension plan is now improving to a favorable trend as the retirement assessment is increasing by approximately 10% annually to address the unfunded pension liability by 2036.

Debt Service

Overall, the Town's level of debt service is below the 5% to 10% suggested by the debt policy due to the delay of several large building projects during the pandemic. FY2016 and FY2017 included \$14.2 million in debt for the Lincoln Street School building project. The Town remains well positioned to finance upcoming building projects, including the new Fire Station.

Capital Investment – Pavement Management

The minimum annual investment needed to maintain the current average Road Surface Rating (RSR) is \$1.1 million. The target was met in FY2020 with \$300K in the operating budget, \$300K in the capital plan, and \$518K in State Chapter 90 Funds. The RSR improved from 71 to 73.9 over the last five years but reduced in FY2020 due to needed culvert work. Additional investments in roadway paving, sidewalks and drainage remains a top priority for the Town, which continues to lobby the State for appropriate increases in Chapter 90 roadway funds.

Mr. Coderre's presentation also included updates on the following:

Overall Current Financial Condition Summary

Northborough continues to be in relatively good financial condition with a strong tax base and good diversification. The Town's financial reserves are healthy at 8.2%. The debt level is manageable at less than 4% of operating costs with a preferred Aa1 bond rating. Reliance on one-time revenues in the operating budget is at the policy target of \$500K, or less than 1%. Capital investments were strong leading up to the pandemic, which allowed for temporary project postponements.

Potential Emerging Problems

Postponement of OPEB funding in FY2021 and FY2022 requires reassessment and commitment to future investment plans. Postponement of capital investments in FY2021 and FY2022 coupled with large new projects must be balanced with tax impacts. Uncertainty in surrounding future levels of State Aid and reduced future economic development (new growth) revenues as the town approaches buildout are areas to be closely monitored moving forward.

FY2024 Budget Assumptions

Taxes include additional increase of \$250K for OPEB to return annual trust fund contribution to \$550K. A 1% increase in State Aid over the actual FY2023 budget. Local Receipts are expected to be level funded, less the Southborough legal payment. A contribution of \$200K from Free Cash to the Stabilization Fund is recommended to maintain financial reserve ratios. General Government, K-8 Schools and ARHS Assessment all increase 3.5%.

Financial Projections

Mr. Coderre made a presentation on the five-year financial projections in terms of methodology and assumptions as follows:

Methodology

- Revenue driven model
 - Based upon the existing revenue sharing model between the schools and general government departments
 - Establishes a revenue ceiling based upon Proposition 2 ½ and backs into the allowable annual budget growth
 - Uses FY2023 as the base and looks out 5 years
- Focuses on the top three revenue sources, or 95%
 - Taxes 82%, State Aid 8%, Motor Vehicle Excise 5%
- Minimum goal is to maintain a level service budget

Assumptions

- Taxes increase by allowable Proposition 2½
 - New growth \$40 million in value (\$592K in new taxes) for FY2024, \$30 million from FY2025-FY2028
 - Existing unused levy capacity is available for use to maintain current service levels
- State Aid increases 1% annually
- MVE and other local receipts projected to increase 2.5% per year from FY2024-FY2028
- Continued adherence to adopted Financial Policies
 - No one-time revenue gimmicks
 - Maintain financial reserves
 - Continue to invest in Capital Improvement Plan (CIP)
- OPEB funding returned to budget in FY2024 at \$550K and assumes \$600K annually from FY2025 through FY2028
- Debt service for major capital projects are included
- Key budget increases
 - Northborough K-8 Schools, General Government and ARHS Assessments 3.5% annually
 - Assabet 5% increase for FY2024, then 3.5% annually
 - Attempt to maintain level services

Projected Tax Impact

The projected tax impact assumes a 5% increase in FY2022 on single-family home values, then 2% increases annually from FY2023-FY2026. The valuation reflects \$40M in new growth for FY2022, \$30M from FY2023-FY2026 and corresponding growth in overall single-family home values.

Financial Outlook

- Budgets increase minimally to maintain services
 - No significant staffing or service level increases
- Existing \$4.79M in unused levy capacity drawn down to maintain level services as needed
- Average single-family home tax bills increase between 4.5% to 11% annually
 - FY2024 assumes a 5% increase in single family home valuations
- Assumes no major budget surprises

Conclusion

Mr. Coderre ended the presentation with an assurance that the Town's financial condition will continue to be monitored by working collaboratively to address Town-wide issues, while at the same time striving to balance departmental needs with the impact on the taxpayer. He stressed the need to carefully evaluate the impacts of any proposed staffing or service level expansions, as well as the need to use one-time revenues in a way that will enhance the future financial condition of the Town.

The meeting concluded at 8:30 p.m.

Respectfully submitted,

Diane M. Wackell
Executive Assistant to the
Board of Selectmen

Documents used during meeting:

1. December 15, 2022 Meeting Agenda
2. Financial Trend Monitoring Report presentation