



TOWN OF NORTHBOROUGH

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BOARD OF SELECTMEN
APPROPRIATIONS COMMITTEE
FINANCIAL PLANNING COMMITTEE
NORTHBOROUGH SCHOOL COMMITTEE

SPECIAL JOINT MEETING MINUTES – December 10, 2013

Northborough Free Library, 34 Main Street, Northborough, MA

BOARD AND COMMITTEE MEMBERS PRESENT

Board of Selectmen

Leslie Rutan, Dawn Rand, Jeff Amberson and William Pantazis

Appropriations Committee

Janice Hight, Dan McInnis and Anthony Poteete

Financial Planning Committee

Jason Perreault, Roger Leland, David DeVries, Heidi Bourque Gleason, Richard Smith

Northborough School Committee

Christine Johnson, Patricia Kress, Joan Frank and Jennifer Drohan

Personnel Board/Staffing Committee

Susan LaDue

Others

Town Administrator John Coderre, Assistant Town Administrator Kimberly Foster, Finance Director June Hubbard-Ward, Town Accountant Jason Little, Principal Assessor Daniel Brogie, School Superintendent Charles Gobron, School Business Director Cheryl Levesque and Executive Assistant Diane Wackell

7:00 p.m. - **JOHN CODERRE, TOWN ADMINISTRATOR**
Presentation of the new Financial Trend Monitoring System.

Mr. Coderre presented the results of the Town's updated Financial Trend Monitoring System (FTMS) Report. 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 of Northborough's overall financial condition.

The FTMS will help Town officials:

- Gain a better understanding of the Town's current financial condition.
- Identify hidden and emerging problems before they reach serious proportions.
- Present a straightforward picture of the Town's financial strengths and weaknesses to elected and appointed officials, citizens and credit rating firms.
- Reinforce the need for long-range considerations during the annual budget process.
- Provide a starting place for setting, reviewing and updating of financial policies that guide financial decision-making.

Mr. Coderre reviewed the financial indicators, the five-year financial projections, as well as historic and projected tax impacts. Following is a summary of his presentation:

Current Financial Condition

Northborough continues to be in relatively good financial condition. The Town's financial reserves remain strong. Our debt level is manageable with a bond rating of Aa2. Reliance on one-time revenues in the operating budget having been significantly curtailed. The impact of rising health insurance costs have been mitigated by successful negotiation of plan design changes with our local bargaining units, and the pay-as-you-go capital investments have resulted in lower debt levels.

Identify Emerging Problems

Based on the analysis, it is apparent that long-run solvency surrounding unfunded pension and Other Post-Employment Benefits (OPEB) liability obligations are potential emerging problems for the Town of Northborough. Uncertainty surrounding the level of State Aid and future increases in health insurance premiums remain a significant area of exposure for the annual operating budget. There is some uncertainty surrounding economic development (new growth) revenues. Also of concern are recent staffing requests and the associated costs.

OPEB Liability

Mr. Coderre explained that OPEB liability is the cost associated with Other Post-Employment Benefits, other than retiree pensions. He indicated that the Town's OPEB liability is currently \$32.6 million. It will continue to grow due to increases in healthcare costs and life expectancy of retirees. Because the Town is not presently setting aside funds for this future benefit, it creates an unfunded liability, which could ultimately have a negative impact on the Town's financial condition and bond rating.

Mr. Coderre reviewed the potential funding options, including the following:

- Do nothing, which would result in the unfunded liability to \$177 Million by 2044
- Fully fund – requires annual investment of \$1.36 Million
- Begin to fund with:
 1. FY2015 Meals/Rooms Revenue of \$300,000
 2. Additional resources of \$200,000
 3. Total initial investment of \$500,000 annually built into budget base

Mr. Coderre indicated that at this point in the budget process, the plan is to appropriate \$500,000 during FY2015 for OPEB liability with a commitment to review this approach annually. Mr. Coderre also indicated that the State Legislation is reviewing possible OPEB reforms that would reduce the Town's liability, but it appears such reforms will not be proposed this year.

Financial Projections

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

Methodology

- Revenue driven model
 - Based upon the existing revenue sharing model
 - Establishes a revenue ceiling based upon Proposition 2 ½ and backs into the allowable annual budget growth
 - Uses FY2014 as the base and looks out 5 years
- Focuses on the top three revenue sources, or 95%
 - Taxes 80%, State Aid 10%, Motor Vehicle Excise (MVE) 5%
- Minimum goal is to maintain level service budget
 - Can we protect and maintain what we have now?
 - Will we be able to address future wants and needs?

Assumptions

- Taxes increase by allowable Proposition 2 ½
 - New growth \$30 million in value (\$500,000 in new taxes) annually
 - Existing unused levy capacity is available for use
 - No operational budget overrides included in model
- State Aid level funded
- MVE and misc. local receipts level funded
- Adhere to adopted Financial Policies
 - No one-time revenue gimmicks
 - Maintain financial reserves
- OPEB funded at least \$500,000 annually
- Benefit costs increase 5% (health, pension, FICA, etc.)
- Major Capital Projects proceed
 - Lincoln Street Elementary School add/renovation project (debt exclusion)
 - Assabet Valley renovation project (general fund debt)
- Key budgets increase at least 4% annually
 - Northborough K-8 Schools, General Government, Algonquin Regional High School
 - Minimum goal is to maintain level services

Based upon the methodology and assumptions presented it was forecasted that the Town should be able to maintain the current level of services as long as there are no significant increases in staffing or the level of services provided. Also, the model assumes that no significant budget “surprises” are encountered.

The Committees then discussed all the recent budget “surprises” encountered during the past five budget cycles and stressed the need to remain conservative in the upcoming budget years due to the high level of uncertainty that exists in the national and state economies.

Following questions and comments from the various Board and Committee members, Mr. Coderre and members of the Finance Team received much praise for their efforts.

Mr. Coderre noted that the Financial Trend Monitoring System Report will be updated annually and will be used to kick-off the annual budget process each December.

ADJOURNMENT

At 8:35 p.m., the meeting adjourned.

Respectfully submitted,

Diane M. Wackell
Executive Assistant

Documents used during meeting

1. December 10, 2013 Joint Meeting Agenda.
2. Information Packet – Financial Trend Monitoring System Report.