

BOARD OF SELECTMEN
APPROPRIATIONS COMMITTEE
FINANCIAL PLANNING COMMITTEE
NORTHBOROUGH SCHOOL COMMITTEE

SPECIAL JOINT MEETING MINUTES – December 17, 2015

Northborough Free Library, 34 Main Street, Northborough, MA

BOARD AND COMMITTEE MEMBERS PRESENT

Board of Selectmen

William Pantazis and Jason Perreault

Appropriations Committee

Elaine Kelly

Financial Planning Committee

David DeVries and Thomas Spataro

Northborough School Committee

Joan Frank

Others

Town Administrator John Coderre, Assistant Town Administrator Kimberly Foster, Finance Director June Hubbard-Ward, Town Accountant Jason Little, Executive Assistant Diane Wackell, School Superintendent Christine Johnson and School Business Director Cheryl Levesque

7:00 p.m. - **JOHN CODERRE, TOWN ADMINISTRATOR**
Presentation of the 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 helps 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.
- Sets the table for the upcoming FY2017 Budget process by providing appropriate contextual data.

Following a brief review of the status of each of the financial indicators, Mr. Coderre's presentation included updates on the following:

Current Financial Condition

Northborough continues to be in relatively good financial condition. The Town's financial reserves are healthy at approximately 8%. It's debt level is manageable with an upgraded bond rating of Aa1. Reliance on one-time revenues in the operating budget is capped at the policy target of \$500,000 or 1%. The impact of rising health insurance costs have been mitigated for now and the pay-as-you-go capital investments continue to result in lower debt levels.

Potential Emerging Problems

Based on the analysis, it is apparent that long-run solvency surrounding unfunded pension liability and Other Post-Employment Benefits (OPEB) liability obligations continue to pose potential emerging problems for the Town. 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 future economic development (new growth) revenues, as well as long-run solvency surrounding infrastructure investment.

FY2017 Budget Considerations

Budget considerations for FY2017 include ongoing funding of the OPEB Liability, sustainable personnel expenses and infrastructure investment (pavement management plan).

It was indicated that the minimum annual investment needed to maintain the current average Pavement Condition Index (PCI) of 71 is \$1.1 million. The target will be short by approximately \$300,000 due mainly to the State's reduction of Chapter 90 roadway funds from \$744,000 in FY2015 to \$492,000 in FY2016.

Mr. Coderre also indicated that health insurance is expected to increase approximately 8% in FY2017. Negotiations with the various unions will focus on additional plan design changes to help mitigate the anticipated increase.

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 between the General Government Departments and the Schools.
 - Establishes a revenue ceiling based upon Proposition 2 ½ and backs into the allowable annual budget growth
 - Uses FY2016 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 a 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 (\$515,000 in new taxes) annually
 - Existing unused levy capacity is available for use
- State Aid increased 1% annually
- MVE and misc. local receipts level funded
- Adhere to adopted Financial Policies
 - No one-time revenue gimmicks
 - Maintain financial reserves
 - Continue to invest in Capital Improvement Plan (CIP)
- OPEB funded at least \$500,000 annually
- Assuming plan design changes are made - benefit costs increase 5% (health, pension, FICA, etc.)
- Debt Service for Major Capital Projects include
 - 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
 - Attempt 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. Tax impacts will continue to be closely monitored as taxes are expected to increase 4.5% to 5.6% annually due to the debt for the Lincoln Street School project hitting in FY2016 & FY2017 and the debt for the Assabet Valley Regional School project hitting in FY2017. Because FY2016 was a revaluation year, market adjustments to property values are expected to be less in FY2017. Mr. Coderre added that this model also assumes that no significant budget surprises are encountered.

Following a review of the five-year financial projections, as well as historic and projected tax impacts, Mr. Coderre warned that absent significant new growth in economic development and increased State Aid, there will continue to be strong upward pressure on local taxes. In addition, rising single family home values will increase tax bills independent of any budgeting increases or decisions. The example was given that if the average single family home value increases by \$10,000 the tax bill will increase approximately \$195, independent of any expenditure decisions. Lastly, since commercial

and industrial properties continue to appreciate at a slower rate, the tax burden is projected to shift more to the residential properties during the next several years.

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 projected impact on the taxpayer.

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 continue to be updated annually and will be used to kick-off the annual budget process each December.

ADJOURNMENT

At 8:45 p.m., the meeting adjourned.

Respectfully submitted,

Diane M. Wackell
Executive Assistant

Documents used during meeting

1. December 17, 2015 Joint Meeting Agenda.
2. Information Packet – Financial Trend Monitoring System Report.