

OFFICE OF THE TOWN ADMINISTRATOR



MEMORANDUM

DATE: January 2016
TO: Town Council, School Committee, School Committee and Finance Committee
FROM: Jeffrey D. Nutting, Town Administrator
RE: Five Year Fiscal Forecast FY 17 - FY 21

Please find attached the five year fiscal forecast. I would like to remind everyone this is a “forecast”. It uses information from the past and present to predict the future. Similar to a weather forecast, there are many factors that will affect what will actually happen and the farther out the forecast the less reliable it is. In the end each annual budget must be balanced so the necessary steps will be taken to meet that requirement.

The take away message from the report is that Franklin is in generally good financial shape but in the long run we will continue to struggle to maintain high quality school and municipal services given the fiscal constraints that we operate under. I believe we can continue a “level service” budget in fiscal years FY 17 and FY 18, Since each budget affects the future we will continue to be prudent in our fiscal approach and decisions. Starting in FY 19 the forecast suggests we will face difficult choices. However the forecast will become clearer over time. While many departments would like to add employees to better serve the citizens the available revenues leave very few options for expanding the work force within reoccurring revenues.

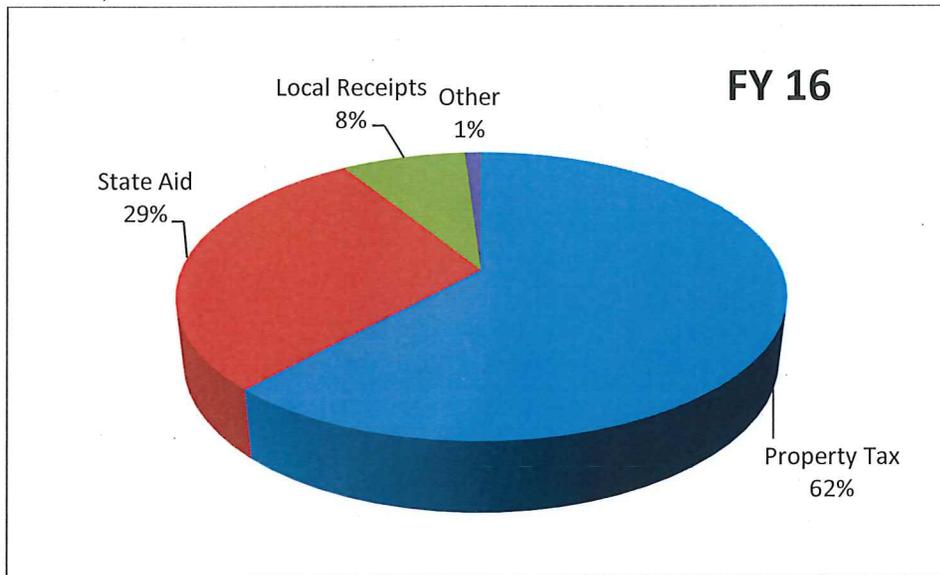
In order to have true fiscal stability there would need to be a great deal of change in Federal and state laws and regulations that drive up the cost of doing business. I do not see any major changes for the next five years that will provide relief.

We will continue to do are very best on behalf of all the citizens of Franklin to maintain a high quality of life while trying to control costs to the taxpayers.

The Budget

The town budget has many moving parts but when you get to the bottom line it is pretty simple. We collect a certain amount of revenue and we can only spend what we collect. This includes borrowing money to pay for long term debt (unless it is voted by the citizens to exclude certain debt).

We have three major sources of revenues. Property Taxes, State Aid and Local Receipts (fees for Service)



Property Taxes - FY 16 - \$ 64,222,021

Property taxes are allowed to grow by 2.5% per year plus tax revenue from new construction or renovation of existing buildings (New Growth). Over time this has been a consistent revenue source. The only variable has been during a weak economy folks do not build or renovate buildings at the same rate as a "normal economy". The fiscal forecast shows that property tax revenue will increase and that new growth from construction/renovation will be relatively consistent over the next five years.

State Aid - FY 16 - \$ 30,554,710

All the funds provided by state aid are formula driven. These funds are provided by the State and are subject to the annual state budget process and vote of the legislature and Governor. The four major categories of revenue are Chapter 70, Charter School, Unrestricted Aid and All Other. Total state aid revenues from FY 11 to FY16 increased by \$650,842. Although, State Aid is still below FY 09 levels of 33,069,057.

Education Aide (Chapter 70) – FY 16 - \$27,575,946

The Town of Franklin was the recipient of large increases in Education Aid, Chapter 70 from the mid 1990's until 2009 when as a result of the economy it was reduced by \$3.2 million dollars. The increases in Chapter 70 were the result of large increases in student population growth, from a little over 3,300 students to over 6,000 students, and the formula that favored both student population growth and Franklin's fiscal status when the law was passed. The legislature has since changed the formula. Further, our school enrollment is on a decline at the elementary level. The combination of those two factors suggests that our Chapter 70 funds will grow but at a very low level compared to the past. Further, it is generally acknowledged that state aid increases more in an election year, than in a non-election year. The forecast "smooth's" that tread to an average increase every year.

Charter School Aid – FY 16 - \$374,167

Since Franklin hosts a charter school, the state provides some funding to the town, which has declined from \$801,929 in FY 11 to \$374,167 in FY 16. In the meanwhile, the charges against the town for the Charter School have risen from \$3,732,262 to \$4,351,270. The total net change is \$619,008 since FY 11.

Unrestricted Aid - FY 16 - \$ 2,277,858

These funds are from the lottery and can be used for any public purpose. In FY 11 we received \$2,089,973 and it has been slowly increasing over the past few years.

All Other State Aid – FY 16 -\$326,739

This is the total of several small accounts

State Aid Assessments FY 16 – (\$5,128,575)

It should be noted that along with revenue from the State, we receive an assessment for several services including School Choice, State Assessment, County Assessment and Charter School. With the exception of the Charter School these charges have not changed very much over the past five years.

Local Receipts - FY 16 - \$ 8,040,000

This revenue is a result of fees, excise tax, licenses etc. collected by the town. They are generally consistent, but subject to the overall economy. When new car sales are down, we collect less excise tax, if building construction slows, there are fewer permits. Over the long run the local receipts tend to rise, but given it is less than 8% of revenue, it does not have a dramatic effect on our overall revenues. Estimated receipts are slowly rising due to motor vehicle sales.

In summary:

Overall Revenues and State Assessments:

Property Tax - FY 11	\$52,779,600	FY 16 - \$64,222,021	Difference	\$11,442,421
State Aid	\$29,903,868	30,554,710		650,842
State Assessments	(553,903)	(625,961)		(72,058)
Local receipts	<u>\$ 7,192,000</u>	<u>8,040,500</u>		<u>848,500</u>
Total	\$89,321,565	\$102,191,270		\$12,869,705

Overall revenues have increased mostly as a result increased property taxes.

Property taxes are “insolated” from the economy. They can rise every year by 2.5% plus new growth no matter if the economy is doing greater of poorly. State Aid and local receipts are more reflective of economic conditions. You will note the ‘average increase in revenue per year over the last five year was slightly less than \$2,600,000 and most of that was from property taxes. Looking forward I believe the annual revenue increase will continue to be about \$2,600,000 per year and property taxes will provide about 90% of that total.

The town does not have any taxing authority above what is allowed by state law. This means generally the only way to increase revenues by any substantial amount beyond what we “normally” collect is a decision by the voters to see if they support paying higher taxes. This option comes in a several forms but the two most common are a debt exclusion override to pay for a capital project, for example the new high school, or an override to support ongoing cost of providing education and municipal services. Franklin voters have supported several Debt Exclusions from the construction of school buildings and one override in Fiscal Year 2007 for support of the operation budget. The reason a debt exclusion or override may be consider from time to time is that our revenues are constrained by law while are expenses are subject to the “market”, (the cost of goods and services, inflation, etc.), legal and statutory requirements or desire to maintain a certain level of services to our citizens and history and tradition.

We continue to look at ways to push back against the “market”, fight unfunded mandates and other laws that drive up the cost of government while maintaining service levels we believe the citizens of Franklin desire. Sometimes despite our efforts the citizens are left with two choices, reduce services or pay higher taxes. The good news is that it is the citizen’s choice.

Personal Costs (wages and staffing)

We have trimmed the staff over time to balance the budget. While we would like to provide better service to our citizens it is beyond are ability to fund added positions without compromising other services.

Personnel costs (wages and benefits) account for 86% of the budget. We continue to look at the appropriate staffing size in each department, part time employees when appropriate, sharing health insurance costs and providing a competitive wages to our employees.

Almost all municipal collective bargaining contracts are settled until June 30, 2018, and the School Administration and Teachers are now negotiating a new contract for FY 2017 - FY 2019.

Pension System

The Town belongs to the Norfolk County Retirement System. Municipal employees that work 20 hours per week are required to belong to the system and teachers belong to the state teacher's retirement system. If you are a member of the retirement system you do not pay into social security. Employees pay between 7% and 11% of their pay into to county system and can retire at different ages depending on which position you hold. The retirement system and almost all of the over 100 public retirement systems in the Commonwealth are underfunded due to many factors, but the biggest reason is that communities didn't pay sufficient funds from the 1930's until about 1988 when each system was required to be fully funded by 2028 (now changed to 2040). Norfolk County's system is scheduled to be fully funded by 2032. However that is subject to change. Once the pension is fully funded the town will have a dramatic reduction in pension costs and overall pensions will be less than 4% of payroll.

The Norfolk County Retirement Board announced that all communities should expect a 10% increase in pension costs each year for the next four years. Unfortunately in the short run pensions costs will rise and put additional pressure on the annual operating budget for the foreseeable future. Changes to the pension system are solely under the control of the state, accordingly I see no relief in sight on rising cost of pensions.

Health Insurance

The town, working in cooperation from our employees has done an excellent job constraining the relentless upward pressure on health insurance costs. Our health insurance costs are equal to the Commonwealth's of Massachusetts's most popular plan and we continue to look at ways to fairly share the cost. Unfortunately health care continues generally to rise, our employee average age continues to rise, and as baby boomers retire our retiree health insurance is now a huge problem that needs to be addressed.

OPEB (Other Post Retirement Benefits) The Town's Other Post Retirement Benefits (OPEB) is the cost for retiree health insurance. Currently our obligation is nearly \$93,000,000. If we were able to properly fund our OPEB obligation it would be reduced to \$52,000,000 but we would need to pay over \$2,600,000 per year toward the obligation. Since our new revenues are about

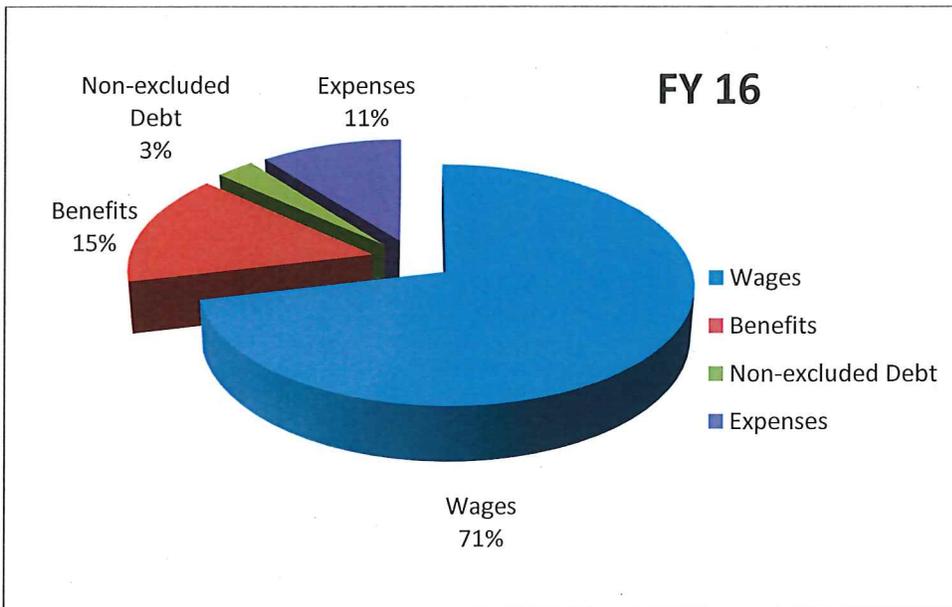
\$2.6 million per year it is impossible to properly fund OPEB without major reductions in current services. I believe we need to consider changing retiree health benefits in order to maintain the levels of service that the citizens desire.

School Enrollment

The good news is that the overall school enrollment has generally declined at the elementary and middle school levels while increasing at the High School. Since 2008 the K-8 enrollment has dropped from 4,478 to 3654, a reduction of 824 students while the high school has increased from 1,574 to 1,734, an increase of 160 students. This reduction in elementary/middle school enrollment has helped the schools balance their budget and reduce class size with minimal increases to their annual operating budget. We will continue to review enrollment projections as they will play a major role in fiscal decisions.

Expenses

We will continue to look at all available options to streamline operations. Please note that almost 86% of the budget is personnel costs with expenses making up about 14%. There is very little savings to be had on the expense side of the ledger.



We constantly look to save funds in all areas of the expense budgets, as we have for a years. We review energy efficiency, cost of materials, solicit bids for almost everything we purchase, use state wide bid list as well as group purchasing collaborates.

Where Are We Headed

The forecast shows that we should be able to maintain service levels for FY 17 (July 1, 2016) And FY 18 (July 1, 2017). Beyond the next two years the budget will be challenging as our “normal” revenue increase does not keep pace with “normal” expense increases. It is difficult to look beyond FY 18 given the uncertainty of so many factors. Further we have the potential of over 600 housing units (Houses, Condo’s and Apartments) being built in the next few years, adding additional pressure on school and municipal services.

Sample of potential increases (for illustration only)

It is projected that revenue will increase about \$2.5 - \$2.6 million dollars annually. By way of example if the following took place in a given fiscal year costs would exceed revenues

Anticipated Increases

School budget	\$1,400,000
Pension increase in FY 16	\$ 400,000
OPEB increase per year	\$ 50,000
Town “wage increases”	\$ 400,000
Health Insurance increase per year	\$ 175,000
Retiree Health Insurance	\$ 125,000
Other	<u>\$ 150,000</u>
Total	\$ 2,700,000

This does not include increases in School SPED cost, transportation, mandates, future contract obligations, maintaining appropriate class size, providing sufficient police, fire, and other, etc.

Summary

The only short term way to reduce costs is to further reduce staffing levels. This will directly affect the quality of education and public services currently provided by the Town. I would argue that we should be adding positions in selective areas on the municipal and school system to adequately maintain services. Finally the budget will be balanced and we will do the best we can with the revenues that are available.

Executive Summary - Five Year Fiscal Forecast FY 17 - FY 21

Revenues – Assumptions

1. The FY 17 and FY 18 budgets will be balanced on reoccurring revenue
2. New growth will continue at a steady pace.
3. The economy will remain stable and local receipts will grow modestly.
4. State Aid will grow modestly.
5. The change in the Charter School funding unknown at this time.

Expenses – Assumptions

1. The forecast is based on current Fiscal Policies.
2. There will only be minor changes in municipal staffing levels.
3. School enrollment remains a big question.
4. Wages, Health Insurance, Pension and Retiree health Insurance (OPEB) are the biggest costs drivers and will continue to put pressure on the annual budgets.
5. We are not funding OPEB at a sufficient level at this time
6. By FY 19 the forecast strongly suggests we could be in a position to use some reserves, reduce the current level of services, and consider a tax increase or some combination of the above to balance the budget.

Potential Long-Term Solutions

1. Consider changing retiree health insurance from 68/32 to 50/50% over some period of time
2. Continue to hire part time employees when appropriate
3. Continue to lobby against unfunded mandates
4. Continue to look to shared services when available
5. Continue to consider technology as a way to maximize efficient operations.
6. Continued with commercial/industrial development where appropriate to increase property tax revenues.
7. Encourage hotels (room tax) and restaurants (meals tax) to do business in Franklin
8. Continue to lobby to change outmode and expensive laws.

Five Year Forecast

Town of Franklin	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21
Estimated Revenues	Estimated	Estimate	Estimate	Estimate	Estimate	Estimate
AVAILABLE RESOURCES:						
TAX LEVY						
Prior Year Levy Limit plus 2 1/2%	63,402,017	65,827,571	68,190,760	70,613,029	73,095,855	75,640,752
New Growth	820,004	700,000	700,000	700,000	700,000	700,000
Unused Levy						
Subtotal, Levy Limit	64,222,021	66,527,571	68,890,760	71,313,029	73,795,855	76,340,752
Debt Exclusions:						
Rem/Jepp Bond (Net of SBA)						
Horace Mann (\$2,000,000)						
Keller/Sullivan Bond						
HM - Bond						
High School						
Subtotal, Debt Exclusions	3,483,820	3,867,760	3,833,135	3,804,885	3,774,810	3,743,295
Total, Tax Levy	67,705,841	70,395,331	72,723,895	75,117,914	77,570,665	80,084,047
STATE REVENUE (Net of Offsets)						
Chapter 70 School Aid (Net)	27,575,946	27,715,946	27,855,946	27,995,946	28,135,946	28,275,946
School - Charter School	374,167	374,167	375,000	375,000	375,000	375,000
Unrestricted aid	2,277,858	2,327,858	2,377,858	2,427,858	2,477,858	2,527,858
All Other	326,739	326,739	326,739	326,739	326,739	326,739
Prior Year Overestimates						
Total, State Revenue	30,554,710	30,744,710	30,935,543	31,125,543	31,315,543	31,505,543
School Building Ass't Rem/Jepp	825,934					
Total State Ass't	31,380,644	30,744,710	30,935,543	31,125,543	31,315,543	31,505,543
OTHER REVENUES						
Local Receipts - General Fund	8,040,000	8,200,000	8,300,000	8,400,000	8,500,000	8,600,000
hotel tax not included in calculations						
Total, Local Receipts	8,040,000	8,200,000	8,300,000	8,400,000	8,500,000	8,600,000
OTHER AVAILABLE FUNDS						
Excluded debt						
Affordable gift						
Parking Meter Receipts Reserved	40,000	40,000	41,000	42,000	43,000	43,000
Overlay						
Stabilization						
Solid waste Indirects						
Enterprise Indirects	1,042,000	1,042,000	1,050,000	1,055,000	1,060,000	1,065,000
other funds / stabilization				500,000		
Total, Other Revenues	1,082,000	1,082,000	1,050,000	1,555,000	1,060,000	1,065,000
Total Available Revenues	108,208,485	110,422,041	113,009,438	116,198,457	118,446,208	121,254,590

Five Year Forecast

Town of Franklin

Estimated Revenues

	FY 16 Estimated	FY 17 Estimate	FY 18 Estimate	FY 19 Estimate	FY 20 Estimate	FY 21 Estimate
Estimated Charges						
School Choice (Est.) - Ded from CH 70	151,344	151,344	155,000	155,000	155,000	155,000
State Assessments (Est.)	402,676	402,676	410,000	420,000	430,000	440,000
State Prior Underestimates (Est.) or deficit						
County Assessment (Est.)	223,285	228,867	234,589	240,454	246,465	252,626
Charter School Assessment	4,351,270	4,450,000	4,550,000	4,650,000	4,750,000	4,850,000
CRC/PC Assessment						
Abateements & Exemptions (Overlay)	663,607	700,000	700,000	700,000	700,000	700,000
Prior year funds to be raised						
Amounts to be Raised	5,792,182	5,932,887	6,049,589	6,165,454	6,281,465	6,397,626
Net revenues	102,416,303	104,489,154	106,959,850	110,033,004	112,164,743	114,856,963
Budget Model	102,368,606	104,657,692	107,437,096	111,867,144	114,503,500	117,613,755
Excess/shortfall	47,697	(168,538)	(477,246)	(1,834,140)	(2,338,757)	(2,756,792)

Debt Excluded Debt will change
once HS project is completely bonded

<u>FY 15 Proposed Budget and Forecast</u>		Projected FY16	Projected FY17	Projected FY18	Projected FY19	Projected FY20	Projected FY21
Department	Total						
Town Council	4,000	4,000	4,080	4,162	4,245	4,330	4,330
Town Administration	404,158	449,028	458,847	470,167	481,766	493,653	493,653
Finance Committee	1,500	1,500	1,530	1,561	1,592	1,624	1,624
Comptroller	446,367	470,914	481,146	492,849	504,837	517,119	517,119
Assessors	325,122	339,580	346,901	355,191	363,681	372,375	372,375
Treasurer	432,234	451,579	461,332	472,404	483,743	495,356	495,356
Legal	143,537	146,224	149,345	152,834	156,406	160,061	160,061
Human Resources	153,845	169,478	173,164	177,384	181,707	186,137	186,137
Data Processing	137,257	140,002	142,802	145,658	148,571	151,543	151,543
Town Clerk	169,325	164,371	167,954	172,067	176,281	180,599	180,599
Elections & Registration	52,019	49,278	50,324	51,483	52,670	53,885	53,885
Appeals Board	5,000	5,000	5,100	5,202	5,306	5,412	5,412
Planning & Growth Manage	299,793	305,383	312,027	319,637	327,433	335,421	335,421
Public Property & Buildings	6,561,839	6,621,807	6,759,161	6,906,908	7,057,924	7,212,282	7,212,282
Central Service	115,000	125,000	127,500	130,050	132,651	135,304	135,304
Subtotal, Gen Govern	9,250,996	9,443,144	9,513,712	9,857,556	10,078,814	10,305,100	10,305,100
Police	4,893,168	5,013,979	5,123,667	5,250,178	5,379,821	5,512,673	5,512,673
Fire	4,912,700	5,033,329	5,143,169	5,269,472	5,398,886	5,531,489	5,531,489
Regional Dispatch	94,000	94,000	100,000	100,000	100,000	175,000	175,000
Inspection	365,852	388,463	396,959	406,755	416,793	427,080	427,080
Animal Control	69,026	70,752	72,167	73,610	75,082	76,584	76,584
Parking	2,000	2,000	2,040	2,081	2,122	2,165	2,165
Subtotal, Public Safety	10,336,746	10,602,522	10,838,002	11,102,096	11,372,705	11,724,991	11,724,991
Town Schools	56,950,000	58,300,000	59,700,000	61,100,000	62,500,000	63,900,000	63,900,000
Regional School	2,138,832	2,202,997	2,258,072	2,314,524	2,372,387	4,875,255	4,875,255
Norfolk Aggie	34,000	28,000	30,000	30,000	30,000	30,000	30,000
Subtotal, Education	59,122,832	60,502,997	61,988,072	63,444,524	64,902,387	66,373,558	66,373,558
DPW - Hwy -Admin-Engineer	4,089,369	4,295,607	4,434,639	4,581,303	4,728,032	4,884,097	4,884,097
Roads							
Street Lighting	148,000	160,000	163,200	166,464	169,793	173,189	173,189
Subtotal, Public Works	4,237,369	4,455,607	4,597,839	4,747,767	4,900,893	5,057,286	5,057,286

<u>FY 15 Proposed Budget and Forecast Department</u>	<u>Projected FY16 Total</u>	<u>Projected FY17 Total</u>	<u>Projected FY18 Total</u>	<u>Projected FY19 Total</u>	<u>Projected FY20 Total</u>	<u>Projected FY21 Total</u>
Health	178,188	188,391	192,527	197,318	202,228	207,261
Public Health Services	20,000	20,000	20,000	20,000	20,000	20,000
Council on Aging	169,806	185,976	190,058	194,784	199,627	204,591
Veterans Services	219,000	225,000	229,500	234,090	238,772	243,547
Veterans Assistance						
Subtotal, Human Services	586,994	619,367	632,085	646,192	660,627	675,400
Library	690,996	705,780	742,146	759,540	777,347	795,575
Recreation/Human Services	535,375	545,960	557,501	570,240	583,274	596,609
Cultural Council	3,000	4,000	3,000	3,000	3,000	3,060
Historical Commission	4,000	4,000	5,000	5,000	5,000	5,100
Memorial Day	1,200	1,400	1,600	1,600	1,600	1,632
Subtotal, Cult & Rec	1,234,571	1,261,140	1,309,247	1,339,381	1,370,221	1,401,976
Future Debt		260,000	345,000	1,092,000	1,067,000	1,041,000
Non Excluded Debt	2,017,000	2,008,000	2,006,000	1,995,000	1,687,000	1,683,000
Non Excluded Interest	809,809	648,466	566,536	484,126	420,751	362,121
Subtotal debt	2,826,809	2,916,466	2,917,536	3,571,126	3,174,751	3,086,121
Excluded Debt	2,087,250	1,835,000	1,880,000	1,925,000	1,970,000	2,021,000
Excluded Interest	2,222,504	2,032,760	1,953,135	1,879,885	1,804,810	1,722,295
Subtotal, Debt Service	7,136,563	6,784,226	6,750,671	7,376,011	6,949,561	6,829,416
Retirement & Pension	3,947,535	4,342,289	4,776,517	5,254,169	5,779,586	6,357,545
Workers' Compensation	600,000	618,000	648,900	665,123	681,751	698,794
Unemployment Comp	125,000	125,000	125,000	125,000	125,000	125,000
Retired Teachers HI Trust	910,000	850,000	850,000	850,000	800,000	750,000
Retired School employees	750,000	900,000	950,000	1,000,000	1,200,000	1,400,000
Employee Health Insurance	2,500,000	2,600,000	2,750,000	2,915,000	3,089,900	3,275,294
OPEB	400,000	450,000	500,000	550,000	600,000	650,000
Medicare Insurance	260,000	267,800	275,834	284,109	292,632	301,411
Wage/Salary	450,000	40,000	50,000	50,000	50,000	50,000
Subtotal, Ins & Other	9,942,535	10,193,089	10,910,801	11,693,401	12,618,869	13,608,044

<u>FY 15 Proposed Budget and Forecast Department</u>	<u>Projected FY16</u>		<u>Projected FY17</u>		<u>Projected FY18</u>		<u>Projected FY19</u>		<u>Projected FY20</u>		<u>Projected FY21</u>	
	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total
Insurance	520,000	520,000	535,600	551,668	568,218	582,423	596,984					
TOTAL ALL BUDGETS	102,368,606	102,368,606	104,657,692	107,437,096	111,867,144	114,503,500	117,613,755					
Revenues	102,416,303	102,416,303	104,489,154	106,959,850	110,033,004	112,164,743	114,856,963.1					
Surplus/(Shortfall)	47,697	47,697	(168,538)	(477,246)	(1,834,140)	(2,338,757)	(2,756,792)					