Town of Franklin

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355 East Central Street
Franklin, Massachusetts 02038-1352

Joint Budget Subcommittee Meeting
(Comprised of members of the Town Council, School Committee & Finance Committee)

June 19, 2019
3rd Floor Training Room
Municipal Building
355 East Central Street

6:00 PM

Agenda

1. FY20 & Beyond Budget Overview

This is a meeting of the Franklin Town Council Sub-Committee; under the Open Meeting Law, this subcommittee is a separate "public body" from the Town Council. Therefore, unless the Town Council has separately noticed and posted its own meeting, Councilors who are not members of this subcommittee will not be permitted to speak or otherwise actively participate @ this meeting, although they may attend and observe. This prohibition is necessary to avoid the potential for an Open Meeting Law Violation.

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DATE: June 19, 2019

TO: Town Council, School Committee, Finance Committee, Employees, Citizens of Franklin

FROM: Jamie Hellen, Town Administrator

RE: Five Year Fiscal Forecast FY20-FY24 UPDATE

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. The forecast shows deficits in each year, but the Town is required by law to have a balanced budget, so decisions will be made along the way to ensure we comply with the requirement.

The takeaway message from all reports is that Franklin will continue to struggle to maintain high quality school and municipal services given the fiscal constraints that we operate under. In the long run, it will come down to a decision by the voters of Franklin to pay higher taxes or reduce the current level of services. The forecast shows that if the town wants to maintain the same service level it will need about a $4 million override for FY 21. This amount could change based on many unknowns and assumptions at this time, however I can't see any scenario that would not require additional tax dollars.

In short, the cost of doing business is exceeding our ability to raise the necessary revenue to pay for the services we enjoy. I cannot put it more succinctly than that.

This is not a new message. Over the past many years, we have both reduced services and increased taxes in order to arrive at the level of service the citizens enjoy today. Both the School Department and the Municipal departments have all made significant reforms to their operations to keep our tax rate low. We will never stop this effort and will continue to work within what the citizens give us to work with.

We do know that:

- Our population has increased from about 30,000 in 2001 to over 35,000 in 2020 and it will continue to increase. Currently there are over 1,000 housing units recently constructed, under construction or in the "pipeline".
- Health/pension/insurance care costs continue to be a concern.
- Wage increases have been modest but they put a huge pressure on the budget.
- Our unfunded retiree health insurance obligation is $74,000,000 (2018).
- Our unfunded pension liability is $41,000,000 (2018).
- We do not have the funds to provide "level services for the FY 20 School budgets and the Town services.

- We have no adequate funding source for roads/sidewalks.
- The Town's capital needs will continue to grow and in a couple years, the capital needs of our schools, facilities and fields will me in the millions.
- Water sewer rates will continue to rise due to long overdue infrastructure needs, mostly for sewer and the Beaver Street Interceptor.
- Open space is at a critical state where with little land left, the Town will need to invest in open space, as well.

Franklin is in generally good financial shape today but we will continue to struggle to maintain high quality school and municipal services given the operating fiscal constraints that we operate under.

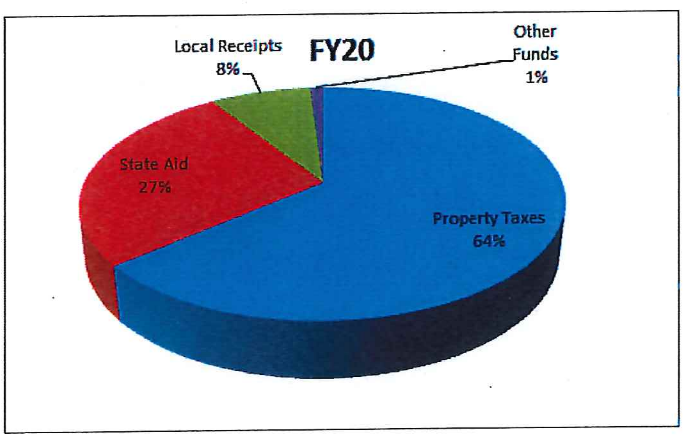
We are unable to maintain level service budget in FY 20 even with the use of reserves. We will need to consider an override on FY 21 to maintain level services for the citizens of Franklin.

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.

<u>The Budget</u>

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 revenue, Property taxes, State Aid and Local Receipts (fees for services). The projected FY 20 Revenues as follows is subject to some adjustment based on the final state budget and changes to new growth.



Property Taxes -FY 20 - $76,174,000

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 20- $31,773,000

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, Chapter School, Unrestricted Aid and All Other. Total State aid revenues from FY11 to FY20 increased by $1,869,408 or about .6% per year on average. **However they are still $3,600,000 below FY 2009 levels.**

Education Aid as part of State Aid shown above (Chapter 70) - FY 20 - $28,416,000

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 students population growth and Franklin's fiscal status when the law was passed. The legislature has since changes the formula. Further, our school enrollment is on a decline at the elementary level and middle school levels. 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 trend to an average increase every year. **Unless there is a major overhaul of the funding formula along with new revenue from the State this will only increase a small amount each year**

Charter School Aid - FY 20- $357,000

Since Franklin hosts a charter school, the state provides some funding to the town, which has declined from $837,016 (actual received) in FY11 to 357,246 in FY 20. At the same time, the charges against the town for the Charter School have risen from $3,732,262 to $5,042,519. The total net change is $1,310,257 since FY11. **IT IS CRITICAL THAT THE FUNDING FORMULA IS FIXED AND FUNDED SO WE ARE NOT PITTING SCHOOL SYSTEMS AGAINST ONE ANOTHER FOR PRECIOUS DOLLARS.**

Unrestricted Aid- FY20 - $2,623,839

These funds are from the lottery and can be used for any public purpose. In FY11 we received $2,089,973 and it has been slowly increasing over the past few years.

All Other State Aid - FY 20 - $376,030

This is the total of several small accounts.

State Aid Assessments FY 20- $5,374,616

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 theses charges have not changed very much over the past five years until FY 20. **The change from FY19 to FY20 is due to an increase in the Charter school assessment.**

Local Receipts - FY 20 - $10,040,000

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 that 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/County Assessments:

	FY 15	FY 20	Difference
Property Tax	$57,171,540	$76,173,658	$19,002,118
State Aid	$30,129,463	$31,773,276	$1,643,813
State/County charges	($580,608)	($778,5090	($197,901)
Charter School	($4,112,316)	($5,042,519)	($930,203)
Overlay	($725,141)	($650,000)	$75,141
Local Receipts	$7,050,000	$10,040,000	$2,990,000
Total	$88,932,938	$111,515,906	$22,582,968

Overall revenues have increased mostly as a result increased property taxes. Property taxes are "insulated" from the economy. They can rise every year by 2.5% pls new growth no matter if the economy is doing great or poorly, but also factor the housing market and if it plummets, revenues will decrease on our biggest portion of revenue. State Aid and local receipts are more reflective of economic conditions. You will note the 'average increase in revenue per year over the last six years was slightly less than $3.764 million and most of that was from property taxes. Looking forward I believe the annual revenue increase will continue to be about $2.8 million per year and property taxes will provide about 63% of that total. **Due to a decline in proposed State Aid in FY 20 the net revenue increase will be less than $2,000,000**

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 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 and override to support ongoing cost of providing education and municipal services. Franklin voters have supported several Debt Exclusions for the construction of school buildings and one override in Fiscal Year 2007 for support of the operating budget. The reason a debt exclusion or override may be considered from time to time is that our revenues are constrained by law while our expenses are subject to the "market", (the cost of goods and services, inflation, etc.), legal and statutory requirements or the 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 our staff over time to balance the budget. While we would like to provide better service to our citizens it is beyond our ability to fund many added positions without compromising other services.

Personnel costs (wages and benefits) account for 77% 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 competitive wages for our employees.

Almost all school/municipal collective bargaining contracts expire in 2019.

For the municipal side, staffing levels are very good for the services we provide. Every department in town has seen an increase in demand for service, notably the Police and Fire with record breaking calls.

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 the 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 unfunded 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 requires 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 announces that all communities should expect a 10% increase in pension costs each year for the next four years. Unfortunately in the short run pension 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 costs of pensions.

Health Insurance
The Town, working in cooperation with 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 of Massachusetts' most popular plan and we continue to look at ways to fairly share the cost. Unfortunately health care continues to rise, our employee average age continues to rise, and as the baby boomers retire our retiree health insurance is now a huge issue that needs to be addressed.

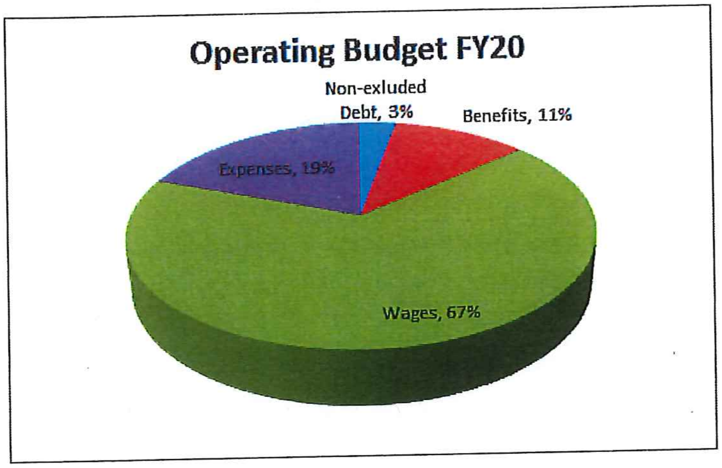
OPEB (Other Post Retirement Benefits)
The Town's Other Post Retirement Benefits (OPEB) is the cost for retiree health insurance. Currently our obligation is nearly $74 million. The only ways to address the issue is to change the amount retirees pay for health insurance and/or a change of law that would require a vote of the Legislature and the Governor.

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 3,365, a reduction of 1,113 students while the high school has increased from 1,574 to 1,753, an increase of 179 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. **The Schools may need to investigate whether it is time to close an elementary school to save money.**

Expenses and non-excluded debt

We will continue to look at all the available options to streamline operations. Please note that 77% of the budget is personnel costs with expenses making up about 20% and non-excluded debt at 3%. 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 year. We review energy efficiency, cost of materials, solicit bids for almost everything we purchase, use statewide bid list as well as group purchasing collaboratives.

Where Are We Headed

The forecast shows that in FY 21 we will need additional revenues or make large cuts in the current service levels. It is difficult to look beyond FY 21 given the uncertainty of so many factors. If an override passes we should be able to sustain services for four or five years. If not, cuts will be made.
It is projected that revenues will increase 2.8 million dollars annually. However wages, health insurance, pensions, OPEB, general insurance, SPED , School transportation will exceed that amount. Further maintaining appropriate class size, providing sufficient police, fire, and other services will be a challenge.

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 municipal departments and the 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 20 - FY 24

Revenues- Assumptions

1. The FY 20 budgets will be balances but the school and town will use reserves once again to help manage the budget as well as make cuts and potentially increase fees.
2. New growth will begin to decline in FY 21.
3. Local receipts will be stable in the short run and decline if the economy stumbles.
4. Future State Aid is unknown at this time.
5. Any change in the Charter School funding is unknown at this time.
6. Actions by the Federal government are 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 cost 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. FY 21 will require and override to maintain services.

Potential Long-Term Solution

1. Consider changing retiree health insurance from 68/32 to 50/50% over some period of time or for employees that retire after 2025 via special legislation.
2. Continue to hire part time employees when appropriate to keep health care costs down.
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. Continue 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.
9. Lobby for an increase in the local marijuana tax.
10. Lobby to have local options for hotel, meals and gas taxes.

In the end it is up to the citizens to decide how much service they want for their tax dollars. Franklin has taken many positive steps over the years to provide the best education, public safety and other services to our citizens. If you like what you have then it will cost more money to keep it. No one likes to hear this but it is the reality you face as a community.