

OFFICE OF THE TOWN ADMINISTRATOR



MEMORANDUM

DATE: April, 2018
TO: Town Council, School Committee, Finance Committee, Employees, Citizens of Franklin
FROM: Jeffrey D. Nutting, Town Administrator
RE: Five Year Fiscal Forecast FY 19 - FY 23

Each year we look into the crystal ball and try to project the long term fiscal health of the community. We look at trends over the last five years, adjust for one time issues or “bumps” in the road and then try to predict the fiscal future. Looking ahead a couple of years is not that difficult while projecting five years ahead is a “best guess” of what may affect local government beyond the “normal revenue and expenses” We do not know today how the economy, Federal and State budgets, changing demographics, growing population, unknown mandates, health care, etc. will affect our fiscal health in the future. There are the potential ballot questions for the Fall of 2018 that could affect our fiscal health. The first is to reduce the sales tax from 6.25 % to 5% which will place a tremendous strain on the State budget which could trickle down to local government. The second would increase taxes for those with income over \$1,000,000 which would bring more revenue to the state but there is no guarantee if that would help local government. The bottom line is the forecast can only provide trends.

We do know that:

- Our population has increased from 29,738 in 2001 to over 34,000 in 2017 and it will continue to increase. Currently there are over 800 potential housing units under construction, in the “pipeline or proposed by developers with more to come.
- Health/pension/insurance care costs continue to be a concern.
- Wage increase have been modest but they put a huge pressure on the budget
- Our unfunded retiree health insurance obligation is \$70,000,000 (2017).
- Our unfunded pension liability is \$41,346,000 (2016).

- The FY 19 School budgets will use one time revenues to balance the budget and beyond that they will have few reserves left.
- We have no adequate funding source for roads/sidewalks.

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

The only way to maintain the same level of services in FY 19 as in FY18 is to use a good portion of our Budget Stabilization account (current balance is \$1,848,000) or reduce school and municipal services. We need to replenish the Budget Stabilization account up to \$1,000,000 in preparation of FY20. This means that any additional revenue (state aid, new growth, etc should be transferred into the account prior to setting the tax rate this fall.

We could potentially “get by” in FY 20 by draining the account and limiting budget increases but that approach could leave the town in a very difficult position in FY 21.

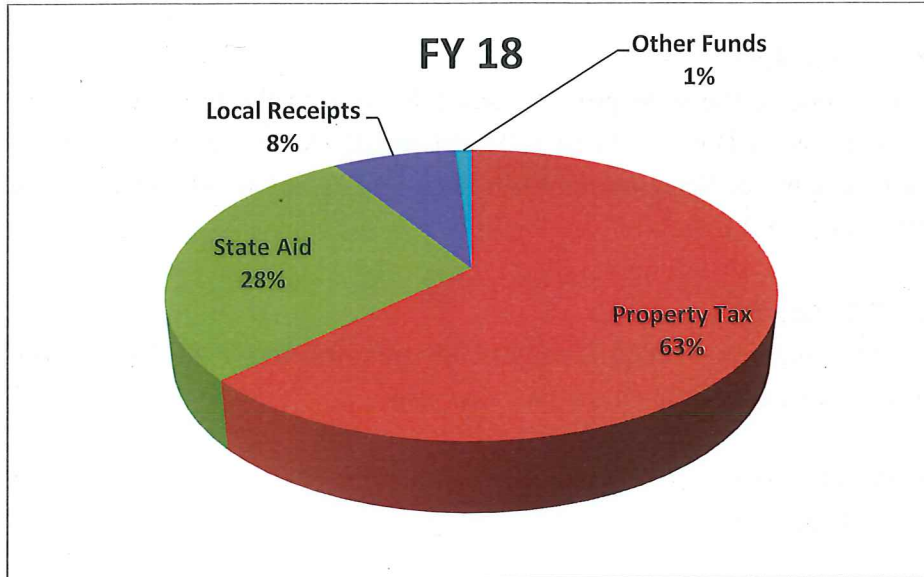
In order to have true fiscal stability there would need to be a great deal of change in Federal and State laws and regulations that drive up the cost of doing business. I do not see any political will to make major changes for the foreseeable future.

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 revenue, Property Taxes, State Aid and Local Receipts (fees for services). The projected FY 18 Revenues as follows is subject to some adjustment based on the final state budget and changes to new growth.



Property Taxes - FY 18 - \$ 69,438,434

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 18 - \$ 31,292,635

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. State Aid is still below FY 09 levels of 33,069,057.

Education Aid as part of State Aid shown above (Chapter 70) – FY 18 - \$28,020,271

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 trend to an average increase every year.

Charter School Aid – FY 18 - \$ 424,351

Since Franklin hosts a charter school, the state provides some funding to the town, which has declined from \$837,016 (actual received) in FY 11 to \$424,351 in FY 18. At the same time, the charges against the town for the Charter School have risen from \$3,732,262 to \$4,158,184. The total net change is \$ 838,587 since FY 11.

Unrestricted Aid - FY 18 - \$ 2,468,462

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 18 -\$379,551

This is the total of several small accounts.

State Aid Assessments FY 18 – (\$5,029,771)

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 18 - \$ 8,650,000

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/County Assessments:

	<u>FY 13</u>	<u>FY 18</u>	<u>Difference</u>
Property Tax	\$ 57,171,540	\$ 69,438,434	\$ 12,266,894
State Aid	\$ 30,129,463	\$ 31,292,635	\$1,163,172
State/County charges	(\$ 580,608)	(\$ 648,607)	(\$67,999)
Charter School	(\$ 4,112,316)	(\$ 4,158,184)	(\$45,868)
Overlay	(\$725,141)	(\$715,000)	(\$10,141)
Local receipts	<u>\$ 7,050,000</u>	<u>\$ 8,650,000</u>	<u>\$ 1,600,000</u>
Total	\$ 88,932,938	\$ 103,859,278	\$ 14,926,340

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 great or 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 years was slightly less than \$2.985 million and most of that was from property taxes. Looking forward I believe the annual revenue increase will continue to be about \$2.9 million per year and property taxes will provide about 82% 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 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 are 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 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 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 a competitive wages to our employees.

Almost all municipal collective bargaining contracts are settled until June 30, 2019, and the School Teachers contracts in 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 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 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 \$93 million. If we were able to properly fund our OPEB obligation it would be reduced to \$52 million but we would need to pay over \$2.6 million per year toward this obligation. Since our new revenues are about \$2.9 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. I expect the unfunded obligation to increase when the study is complete in 2017.

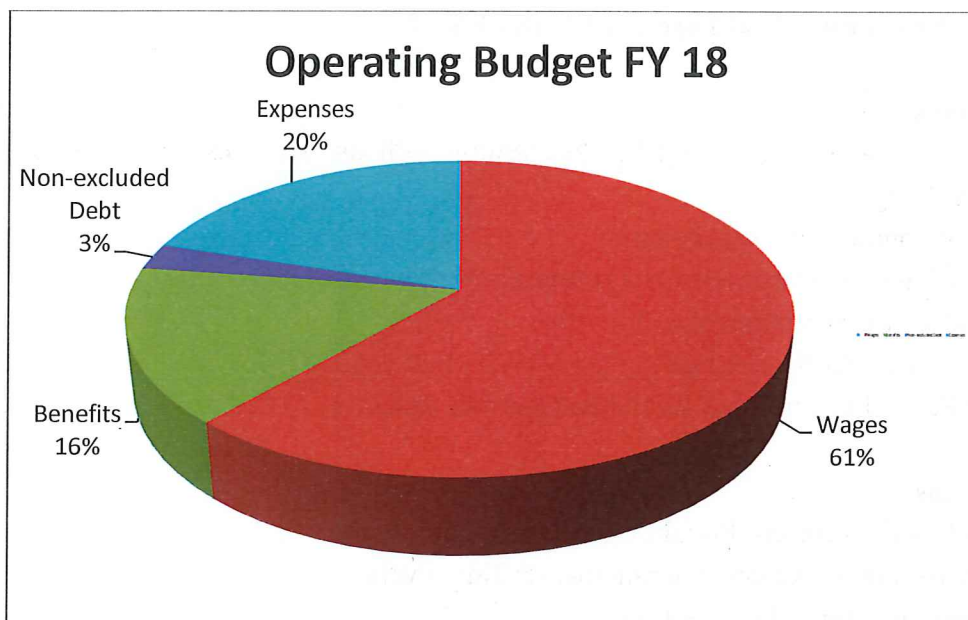
School Enrollment

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 3,654, 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 and non-excluded debt

We will continue to look at all 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 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 collaboratives.

Where Are We Headed

The forecast shows that we should be able to maintain service levels for FY 18 (July 1, 2017). Beyond the next year 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 19 given the uncertainty of so many factors. Further we have the potential of over 800 housing units (Houses, Condo's and Apartments) being built in the next few years, adding additional pressure on school and municipal services.

It is projected that revenues will increase about \$2.9 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 18 - FY 22

Revenues – Assumptions

1. **The FY 19 budgets will be balanced but the schools will use reserves once again to balance their budget.**
2. New growth will continue at a steady pace.
3. The economy will remain stable and local receipts will grow modestly.
4. Future State Aid will be an unknown at this time.
5. The 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. **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.**
7. **Unless something changes FY 20 will be very tough to balance without the changes listed above.**

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.
9. Lobby for an increase in the local marijuana tax.

Attached is the forecast for the next five years.

