

**Finance Committee Meeting
Agenda & Meeting Packet**
Wednesday, November 9th, 2022
7:00 PM

Meeting will be held at the Municipal Building
2nd floor, Council Chambers
355 East Central Street

A NOTE TO RESIDENTS: All citizens are now welcome to attend public board and committee meetings in person. Additionally, in an effort to maximize citizen engagement opportunities, citizens will be able to continue to participate remotely via phone OR Zoom. The meetings will also be [live-streamed by Franklin TV](#) and shown on Comcast Channel 11 and Verizon Channel 29.

- **Link to access meeting:** November 9th, 2022 FinCom Meeting Link [HERE](#) -- Then click "Open Zoom"
 - Or copy and paste this URL into your browser: <https://us02web.zoom.us/j/87150145059>
 - **Call-In Phone Number:** Call 1-929-205-6099 & enter Meeting ID # 871 5014 5059 --Then press #
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Agenda

1. Call to Order
2. Public Comment
3. Approval of Minutes:10-26-2022
4. FY23 Operating Budget Adjustment
 - a. Town Administrator Memo
 - b. FY23 Budget Revenue and Control Sheet, adjusted
 - c. Resolution
5. Future Agenda Items
6. Adjourn

Town of Franklin

355 East Central Street
Franklin, Massachusetts 02038-1352



Phone: (508) 520-4949
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OFFICE OF THE TOWN ADMINISTRATOR

Memorandum

November 4, 2022

To: Finance Committee
From: Jamie Hellen, Town Administrator
Alecia Alleyne, Assistant to the Town Administrator

Re: FY23 Budget Adjustment & Five-Year Fiscal Forecast Update

We are requesting the Finance Committee to support the amendment to the FY23 Town operating budget as outlined in this memo and recommend the changes to the full Town Council for their approval prior to setting the annual tax rate on November 30th.

Overall, the budget appears to be right on track through 9/30/22. Revenues have hit targeted projections and the staff has done a terrific job of managing cost increases in their expense budgets. We have attached an updated revenue sheet for local receipts through 9/30/22.

Five-Year Fiscal Forecast Update

There is very little updated news since the published forecast in August 2022. Click [here for the forecast](#). Since August, the Federal Reserve has raised interest rates an additional $\frac{3}{4}$ of 1%. Home mortgage rates have reached a near 40-year high and many economic experts continue to predict a recession within the next 12 to 18 months. The federal government also announced the [federal deficit](#) is at \$31 trillion. We have attached a recent Massachusetts economic analysis from [MassBenchmarks](#), which is published through a partnership between the UMass-Amherst Donahue Institute and Federal Reserve Bank of Boston, that notes in its [October 27, 2022 quarterly report](#) the state's "declining workforce and interest rate exposure in key industries make the Commonwealth vulnerable to an economic downturn". The Town should be cognizant of these dynamics and will present new fiscal pressures on the operating budget in the coming fiscal years.

The only additional commentary is it will be our objective throughout the fiscal year to monitor the Town's financial situation through the lens of the recently awarded AAA bond rating from the rating agencies. As anyone can see in the report, recent financial actions by the Town have resulted in a top rating. As the global economy continues to adapt to geo-political situations, it is prudent to follow these trends, which will ensure the Town maintains its AAA bond rating. This policy approach is a key technique to maintain services within the tax levy.

For those who have not read the ratings report, please [click here](#). It is the most important document to read.

Revenue Adjustments

The following is a macro-synopsis of the revenue adjustments to the FY23 budget from the budget approved earlier this year at the annual budget hearings in May:

1. According to the Assessors, New Growth should attain approximately a \$271,000 increase.
2. The Local Receipts bottom line will stay the same except for the additional funds received from the J&J opioid settlement and Host Community Agreement (HCA) funds. Two revised items are:
 - a. Host Community Agreements, as predicted, will decline. The numbers here depict actual receivables to date and NOT anticipated. I expect this revenue source to be eliminated at a date uncertain in this fiscal year. The Town still has the local option excise tax at 3%.
 - b. J&J Opioid settlement is a new line item of revenue received due to the national opioid settlement. The Town has received \$67,505 to date. Expenditure for these funds have strict restrictions per state law, but amounts will be as follows:
 - i. SAFE Coalition will receive \$50,000 for direct substance abuse support; and
 - ii. Franklin Fire and Franklin Police will receive \$17,505 for narcan, training and support in responding to opioid cases in Franklin.
3. State Aid, Assessments & Other Revenues should see an overall increase of approximately \$290,000 after the state local aid, education, county assessment and state budget formulas settle out.

Expense Adjustments

The attached resolution depicts the changes within each departmental account on the voting document. All of the changes to this document reflect the actual costs of the municipal collective bargaining agreements that have been ratified, as well as the 2.5% COLA adjustment for all municipal nonunion staff. The exceptions are:

1. The Town Administrator's expense budget increased just over \$103,000, which is where the opioid and host community agreement funds will be expended from.
2. Line item 164 Elections increased \$14,738 due to state laws on mail in and early voting.
3. Line item 610 Library is noted due to the large shift from Expenses to Personnel due to collective bargaining agreement. The germane note is that the overall budget maintains the state required funding ("MAR") requirement.
4. Line items 710/750 Debt & Interest have increased \$225,044 to reflect the actual costs of the borrowing for the Municipal Building improvements and the Horace Mann drainage project.
5. Line item 910 - Comp Reserve is reduced approximately \$430,000, which are the funds transferred for the COLA and CBA's. The remaining amount in comp reserve will go toward the usual reasons for appropriation, such as unforeseen personnel decisions, retirement costs, recruitment and retention of employees, collective bargaining, etc. Additionally, I expect some funds to be used to begin implementing the Compensation & Classification Plan, which should be completed later this Fall. Any unused funds revert to the Town's Free Cash allotment for the annual Capital Plan.

Please let us know if you have any questions.

**Town of Franklin
Local Receipts / Enterprise Funds Revenues
Budget vs Actual
Through 9/30/2022**

Account	FY2022 Received	Received Through 9/30/2021	2023 Budget	Received Through 9/30/2022	Percentage Collected
Motor Vehicle Excise Tax	5,281,048	421,938	4,538,642	366,900	8.1%
Meals Tax	638,451	152,727	548,366	176,435	32.2%
Room (Hotel) Tax	441,500	68,512	379,204	171,729	45.3%
Cannabis Excise Tax	104,228	-	89,521	64,286	71.8%
Penalties and Interest	301,597	79,805	259,042	121,804	47.0%
Payment in Lieu of Taxes	25,369	24,000	25,369	20,000	78.8%
Fees	2,562,710	623,360	2,201,112	752,219	34.2%
Rentals	277,426	85,894	238,281	84,252	35.4%
Departmental Revenue Recreation	601,884	183,050	516,958	217,984	42.2%
Licenses and Permits	1,500,310	328,594	1,288,616	405,261	31.4%
Special Assessments / Cannabis Fee	356,558	300,000	335,295	335,295	100.0%
Fines and Forfeits	67,022	7,375	57,565	9,616	16.7%
Investment Income	32,873	20,048	28,235	24,235	85.8%
Medicaid Reimbursement	540,482	36,361	339,220	-	- %
Miscellaneous	245,732	8,982	75,825	80,730	106.5%
General Fund (0100)	12,977,190	2,340,645	10,921,251	2,830,745	25.9%
Water Usage Charges	7,832,074	1,960,920	6,937,829	2,163,669	31.2%
Other Departmental Services	153,128	45,967	153,128	18,992	12.4%
Investment Income	15,825	-	15,825	-	- %
Water Enterprise Fund (6000)	8,001,027	2,006,887	7,106,782	2,182,661	30.7%
Sewer Usage Charges	5,826,221	1,441,152	5,296,363	1,563,686	29.5%
Other Departmental Services	185,555	146,788	185,555	4,325	2.3%
Investment Income	11,900	-	11,900	-	- %
Sewer Enterprise Fund (6500)	6,023,676	1,587,939	5,493,818	1,568,011	28.5%
Solid Waste Charges	2,721,097	629,386	2,656,160	630,402	23.7%
Other Departmental Services	27,170	5,344	27,170	4,401	16.2%
Investment Income	2,625	-	2,625	-	- %
Solid Waste Enterprise Fund (6900)	2,750,892	634,730	2,685,955	634,802	23.6%
Enterprise Funds	16,775,594	4,229,556	15,286,555	4,385,474	28.7%



TOWN OF FRANKLIN RESOLUTION 22-XX

APPROPRIATION: General Funds Appropriation, Transfers and Adjustments FY23

PURPOSE: To raise and appropriate, transfer and adjust the FY23 General Fund appropriations as follows:

<u>Dept #</u>	<u>Department</u>	<u>Appropriation</u>	<u>Increase (Reduction)</u>
123	Town Administrator	Salaries	9,390
123	Town Administrator	Expenses	103,550
135	Comptroller	Salaries	10,555
141	Assessors	Salaries	8,183
147	Treasurer	Salaries	9,505
151	Legal	Salaries	2,743
152	Human Resources	Salaries	4,283
161	Town Clerk	Salaries	10,497
164	Elections	Salaries	6,838
164	Elections	Expenses	7,900
177	Planning	Salaries	5,510
192	Facilities	Salaries	116,206
210	Police	Salaries	146,986
220	Fire	Salaries	169,051
220	Fire	Expenses	24,263
240	Inspections	Salaries	12,037
422	Public Works	Salaries	67,819
510	Health	Salaries	6,429
541	Senior Center	Salaries	13,168
543	Veterans	Salaries	2,227
610	Library	Salaries	75,000
610	Library	Expenses	(75,000)
630	Recreation	Salaries	10,111
710	Debt Service-Principal	Expenses	175,000
750	Debt Service-Interest	Expenses	50,044
910	Benefits	Expenses	(429,728)
			<u>542,567</u>

MOTION: **BE IT MOVED AND VOTED** by the Town Council to raise and appropriate, transfer and adjust the FY23 General Fund individual appropriations in the amounts and to the accounts specified above, that, in total, amount to an increase in the operating budget of Five Hundred Forty-Two Thousand Five Hundred and Sixty-Seven Dollars (\$542,567).

Finance Committee Recommendation

Meeting Date:

Vote:

Recommended Amount:

This resolution shall become effective according to the provisions of the Town of Franklin Home Rule Charter.

DATED: _____, 2022

VOTED: _____

UNANIMOUS: _____

A TRUE RECORD ATTEST:

YES: _____ **NO:** _____

ABSTAIN: _____ **ABSENT:** _____

RECUSED: _____

Nancy Danello, CMC
Town Clerk

Glenn Jones, Clerk
Franklin Town Council

**TOWN OF FRANKLIN
FY 2023 REVENUE AND CONTROL SHEET**

	FINAL FY21	FINAL FY22	PROPOSED FY23	AMENDED FY23	AMENDED INCREASE/ (DECREASE)
TAX LEVY					
Prior Year Levy Limit plus 2 1/2%	\$ 79,066,528	\$ 82,753,293	\$ 85,955,820	\$ 85,955,820	\$ -
New Growth	1,668,392	1,106,044	1,000,000	1,271,631	271,631
	80,734,920	83,859,337	86,955,820	87,227,451	271,631
DEBT EXCLUSIONS					
Horace Mann Issue #1	106,180	101,880	93,600	93,600	-
Lincoln Street	423,695	408,750	390,910	390,910	-
Horace Mann Issue #2	315,400	305,200	290,000	290,000	-
High School Issue #1	2,876,663	2,880,663	2,881,163	2,881,163	-
High School Issue #2	149,438	151,438	149,813	149,813	-
	3,871,376	3,847,930	3,805,486	3,805,486	-
TOTAL POTENTIAL TAX LEVY	84,606,296	87,707,267	90,761,306	91,032,937	271,631
STATE REVENUE					
Chapter 70 School Aid	28,416,161	28,574,921	28,730,321	28,885,721	155,400
Charter School Reimbursements	512,605	365,403	1,095,327	971,965	(123,362)
Unrestricted Aid	2,623,839	2,715,673	2,788,996	2,862,319	73,323
All Other Net of Offsets	360,527	379,107	368,977	414,166	45,189
	31,913,132	32,035,104	32,983,621	33,134,171	150,550
OTHER REVENUES					
Local Receipts - General Fund	8,647,269	9,413,451	10,518,451	10,518,451	-
Host Community Agreement	300,000	600,000	425,000	335,295	(89,705)
J&J Opioid Settlement	-	-	-	67,505	67,505
	8,947,269	10,013,451	10,943,451	10,921,251	(22,200)
OTHER AVAILABLE FUNDS					
Net Budget Stabilization / Other Transfers					
Enterprise Fund (Indirects)	1,173,000	1,214,000	1,255,000	1,255,000	-
	1,173,000	1,214,000	1,255,000	1,255,000	-
TOTAL REVENUES & OTHER FUNDS	126,639,697	130,969,822	135,943,378	136,343,359	399,981
ASSESSMENTS & OTHER VOTES					
School Choice	324,599	328,176	417,478	496,436	78,958
State Assessments	474,209	480,465	502,026	502,519	493
County Assessment	235,073	240,493	246,505	246,505	-
Charter School Assessment	4,990,567	5,025,758	5,766,145	5,544,108	(222,037)
Provision for Abatements & Exemptions	652,415	634,944	650,000	650,000	-
Subsequent Votes	1,003,842	600,000			-
	7,680,705	7,309,836	7,582,154	7,439,568	(142,586)
TOTAL NET REVENUE	118,958,992	123,659,986	128,361,224	128,903,791	542,567
LESS: TOTAL GENERAL FUND BUDGET	(118,943,015)	(123,605,718)	(128,360,032)	(128,902,599)	(542,567)
UNUSED LEVY	\$ 15,977	\$ 54,268	\$ 1,192	\$ 1,192	\$ -

**TOWN OF FRANKLIN
FY 2023 OPERATING BUDGET**

OPERATING BUDGET	ORIGINAL FINAL FY21	ORIGINAL FINAL FY22	PROPOSED FY23	AMENDED FY23	AMENDED INCREASE/ (DECREASE)
111 Town Council expenses	4,000	4,000	4,000	4,000	-
	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>-</u>
123 Town Administration salaries	373,279	390,485	391,083	400,473	9,390
expenses	33,700	33,750	34,532	138,082	103,550
	<u>406,979</u>	<u>424,235</u>	<u>425,615</u>	<u>538,555</u>	<u>112,940</u>
131 Finance Committee expenses	1,500	1,500	1,500	1,500	-
	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>-</u>
135 Comptroller salaries	467,998	493,285	491,450	502,005	10,555
expenses	70,150	75,150	81,300	81,300	-
	<u>538,148</u>	<u>568,435</u>	<u>572,750</u>	<u>583,305</u>	<u>10,555</u>
141 Assessors salaries	368,803	327,321	327,321	335,504	8,183
expenses	94,350	99,900	99,900	99,900	-
	<u>463,153</u>	<u>427,221</u>	<u>427,221</u>	<u>435,404</u>	<u>8,183</u>
147 Treasurer-Collector salaries	328,995	390,892	379,142	388,647	9,505
expenses	91,105	91,105	91,105	91,105	-
	<u>420,100</u>	<u>481,997</u>	<u>470,247</u>	<u>479,752</u>	<u>9,505</u>
151 Legal salaries	107,584	109,736	109,736	112,479	2,743
expenses	60,000	60,000	60,000	60,000	-
	<u>167,584</u>	<u>169,736</u>	<u>169,736</u>	<u>172,479</u>	<u>2,743</u>
152 Human Resources salaries	170,845	174,261	241,532	245,815	4,283
expenses	28,630	53,650	34,750	34,750	-
	<u>199,475</u>	<u>227,911</u>	<u>276,282</u>	<u>280,565</u>	<u>4,283</u>
155 Information Technology salaries		37,500	37,645	37,645	-
expenses	293,693	307,706	384,597	384,597	-
	<u>293,693</u>	<u>345,206</u>	<u>422,242</u>	<u>422,242</u>	<u>-</u>
161 Town Clerk salaries	189,850	208,014	198,019	208,516	10,497
expenses	16,746	20,550	19,650	19,650	-
	<u>206,596</u>	<u>228,564</u>	<u>217,669</u>	<u>228,166</u>	<u>10,497</u>
164 Elections & Registration salaries	29,621	15,000	26,791	33,629	6,838
expenses	23,000	31,800	34,800	42,700	7,900
	<u>52,621</u>	<u>46,800</u>	<u>61,591</u>	<u>76,329</u>	<u>14,738</u>
176 Appeals Board expenses	6,000	8,000	10,000	10,000	-
	<u>6,000</u>	<u>8,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
177 Planning & Growth Management salaries	323,279	316,227	395,971	401,481	5,510
expenses	32,300	32,300	32,300	32,300	-
	<u>355,579</u>	<u>348,527</u>	<u>428,271</u>	<u>433,781</u>	<u>5,510</u>
184 Agricultural Commission expenses	1,000	1,000	1,000	1,000	-
	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>-</u>

192	Public Property & Buildings					
	salaries	2,930,726	2,861,523	2,967,959	3,084,165	116,206
	expenses	4,109,950	4,400,000	4,539,000	4,539,000	-
		7,040,676	7,261,523	7,506,959	7,623,165	116,206
196	Central Services					
	expenses	123,000	118,700	150,500	150,500	-
		123,000	118,700	150,500	150,500	-
	Subtotal, General Government	10,280,104	10,663,355	11,145,583	11,440,743	295,160
210	Police					
	salaries	5,438,989	5,751,420	5,866,231	6,013,217	146,986
	expenses	302,485	296,340	316,140	316,140	-
		5,741,474	6,047,760	6,182,371	6,329,357	146,986
220	Fire					
	salaries	5,507,400	5,921,247	5,930,474	6,099,525	169,051
	expenses	492,500	520,500	538,800	563,063	24,263
		5,999,900	6,441,747	6,469,274	6,662,588	193,314
225	Regional Dispatch					
	expenses	447,355	435,074	610,664	610,664	-
		447,355	435,074	610,664	610,664	-
240	Inspection					
	salaries	384,392	426,676	340,608	352,645	12,037
	expenses	23,820	22,712	22,712	22,712	-
		408,212	449,388	363,320	375,357	12,037
292	Animal Control					
	expenses	76,700	77,700	80,700	80,700	-
		76,700	77,700	80,700	80,700	-
	Subtotal, Public Safety	12,673,641	13,451,669	13,706,329	14,058,666	352,337
300	Town Schools	65,658,500	67,820,825	70,220,825	70,220,825	-
390	Tri-County Regional School	2,504,543	2,449,637	2,540,198	2,540,198	-
395	Norfolk Aggie	47,250	37,250	66,660	66,660	-
	Subtotal, Education	68,210,293	70,307,712	72,827,683	72,827,683	-
422	DPW-Highway Dept					
	salaries	1,964,761	2,042,745	2,082,677	2,150,496	67,819
	expenses	3,148,390	3,358,640	3,669,550	3,669,550	-
		5,113,151	5,401,385	5,752,227	5,820,046	67,819
	TOTAL DPW - Hwy	5,113,151	5,401,385	5,752,227	5,820,046	67,819
510	Health					
	salaries	170,484	205,235	257,056	263,485	6,429
	expenses	64,000	41,500	48,400	48,400	-
		234,484	246,735	305,456	311,885	6,429
541	Council on Aging					
	salaries	260,780	334,595	460,951	474,119	13,168
	expenses	6,100	6,100	6,700	6,700	-
		266,880	340,695	467,651	480,819	13,168
543	Veterans Services					
	salaries	-	73,814	89,054	91,281	2,227
	expenses	67,840	13,700	11,115	11,115	-
	veterans assistance	185,000	160,000	165,000	165,000	-
		252,840	247,514	265,169	267,396	2,227
	Subtotal, Human Services	754,204	834,944	1,038,276	1,060,100	21,824

610 Library					
salaries	646,345	687,373	705,524	780,524	75,000
expenses	379,000	352,000	352,000	277,000	(75,000)
	<u>1,025,345</u>	<u>1,039,373</u>	<u>1,057,524</u>	<u>1,057,524</u>	<u>-</u>
630 Recreation					
salaries	308,994	327,986	336,147	346,258	10,111
expenses	127,802	273,400	273,400	273,400	-
	<u>436,796</u>	<u>601,386</u>	<u>609,547</u>	<u>619,658</u>	<u>10,111</u>
690 Historical Museum					
salaries	29,125	29,708	29,708	29,708	-
expenses	1,000	1,000	1,000	1,000	-
	<u>30,125</u>	<u>30,708</u>	<u>30,708</u>	<u>30,708</u>	<u>-</u>
691 Historical Commission					
expenses	4,000	4,000	4,000	4,000	-
	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>-</u>
695 Cultural Council					
expenses	15,000	15,000	15,000	15,000	-
	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>
696 Cultural District Committee					
expenses	1,000	1,000	1,000	1,000	-
	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>-</u>
Subtotal, Culture & Recreation	1,512,266	1,691,467	1,717,779	1,727,890	10,111
710 Retirement of Debt					
non-excluded	2,098,000	2,249,400	2,005,000	2,180,000	175,000
excluded	2,066,000	2,138,500	2,194,000	2,194,000	-
	<u>4,164,000</u>	<u>4,387,900</u>	<u>4,199,000</u>	<u>4,374,000</u>	<u>175,000</u>
750 Interest					
non-excluded	692,366	690,739	638,635	688,679	50,044
excluded	1,805,375	1,709,430	1,611,485	1,611,485	-
	<u>2,497,741</u>	<u>2,400,169</u>	<u>2,250,120</u>	<u>2,300,164</u>	<u>50,044</u>
Subtotal, Debt Service	6,661,741	6,788,069	6,449,120	6,674,164	225,044
Benefits:					
910 Retirement & Pension	6,174,365	6,693,600	7,183,210	7,183,210	-
Health/Life Insurance Benefits	3,315,000	3,486,500	3,520,825	3,520,825	-
Retired Teacher Health Insurance	872,000	810,000	800,000	800,000	-
Non-GIC School Retirees	1,050,000	1,055,000	1,107,750	1,107,750	-
Workers Compensation	525,000	530,000	500,000	500,000	-
Unemployment Compensation	110,000	150,000	120,000	120,000	-
Medicare	341,250	341,250	341,250	341,250	-
OPEB	650,000	700,000	750,000	750,000	-
Compensation Reserve	125,000	64,227	700,000	270,272	(429,728)
	<u>13,162,615</u>	<u>13,830,577</u>	<u>15,023,035</u>	<u>14,593,307</u>	<u>(429,728)</u>
945 Liability Insurance	575,000	636,540	700,000	700,000	-
	<u>575,000</u>	<u>636,540</u>	<u>700,000</u>	<u>700,000</u>	<u>-</u>
Subtotal, Benefits & Insurance	13,737,615	14,467,117	15,723,035	15,293,307	(429,728)
TOTAL ALL BUDGETS	118,943,015	123,605,718	128,360,032	128,902,599	542,567
Surplus/(Deficit)	15,977	54,268	1,192	1,192	-
ENTERPRISE FUNDS:					
434 Solid Waste Disposal					
salaries	106,857	120,800	99,955	99,955	-

expenses	2,365,000	2,543,000	2,467,000	2,467,000	-
	2,471,857	2,663,800	2,566,955	2,566,955	-
440 Sewer					
salaries	742,609	768,946	802,798	802,798	-
expenses	461,145	497,950	530,750	530,750	-
charles river assessment	3,216,857	3,376,800	3,291,760	3,291,760	-
OPEB	6,000	6,000	6,000	6,000	-
principal & interest	330,990	599,700	373,010	373,010	-
	4,757,601	5,249,396	5,004,318	5,004,318	-
450 Water					
salaries	1,400,158	1,434,375	1,479,850	1,479,850	-
expenses	2,097,180	2,251,700	2,290,000	2,290,000	-
OPEB	16,000	16,000	16,000	16,000	-
prinicipal & interest	2,114,853	2,889,204	2,674,432	2,674,432	-
	5,628,191	6,591,279	6,460,282	6,460,282	-
TOTAL ENTERPRISE FUNDS	12,857,649	14,504,475	14,031,555	14,031,555	-
TOTAL OPERATING BUDGET	131,800,664	138,110,193	142,391,587	142,934,154	542,567



Jamie Hellen <jhellen@franklinma.gov>

Benchmarks Bulletin

1 message

MassBenchmarks <chrbell@donahue.umass.edu>
Reply-To: chrbell@donahue.umass.edu
To: jhellen@franklinma.gov

Thu, Oct 27, 2022 at 1:40 PM

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BENCHMARKS BULLETIN

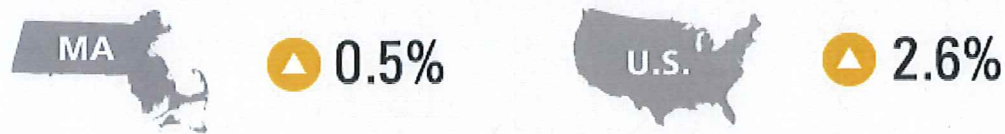
October 27, 2022

Nation Outpaces State Economy in Q3, UMass Journal Reports

Declining workforce & interest-rate exposure in key industries make the Commonwealth vulnerable to an economic downturn



In the third quarter of 2022, Massachusetts real gross domestic product (GDP) increased at a 0.5 percent annualized rate, according to MassBenchmarks, while U.S. GDP increased at a 2.6 percent annualized rate according to the U.S. Bureau of Economic Analysis (BEA). In the second quarter of this year, the BEA estimates that Massachusetts GDP decreased at an annual rate of 2.6 percent while the U.S. declined at a just revised 0.6 percent rate. In the first quarter of this year, the BEA's annualized growth estimates showed declines of 0.9 percent for Massachusetts and 1.6 percent for the U.S. The Commonwealth's growth has lagged that of the U.S. in three of the last four quarters.



Despite the apparent improvement in output growth in the third quarter, the Massachusetts economy appeared to slow along other dimensions, as job growth decelerated, the labor force shrunk (in absolute terms and as a share of the population), and weaknesses emerged in the sectors most affected by rising interest rates, most notably housing. Inflation does not appear to be accelerating but remains well above the target levels set by the Fed. Consumer spending has remained robust, but as inflation continues to undermine household wage gains and erode the savings stockpiles accumulated during the pandemic, spending is likely to slow going forward. The Massachusetts economy may be more vulnerable than that of the U.S. for reasons discussed below.

Payroll employment growth in both the state and the nation decelerated over the last year. Compared to the third quarter of last year, there were 3.8 percent more jobs in Massachusetts in the third quarter of 2022. However, job growth in the second quarter slowed to a 3.7 percent annual rate and eased further in the third quarter (2.2 percent). The U.S. followed a similar pattern with 4.0 percent job growth year over year, 3.3 percent in the second quarter, and 3.1 percent in the third quarter. This deceleration may be related to the shrinking pool of available workers as the recovery from the COVID downturn has progressed to its later stages. In September, the unemployment rate in Massachusetts stood at 3.4 percent, down from 5.1 percent in September 2021. More recently, the declining unemployment rate has been in part the result of a declining workforce — in September 2022 the labor force was smaller than in September 2021 — underscoring the challenge presented by a scarcity of available workers going forward. The U.S. unemployment rate stood at

3.5 percent in September, down from 4.7 percent in September 2021. In September, the number of payroll jobs nationally exceeded the pre-COVID peak of February 2020 by 0.3 percent. Massachusetts remains 1.3 percent below the February 2020 peak.

Inflation, consumer spending, and interest rates have affected sectors of the economy differently. Rising mortgage rates have dramatically slowed transactions in the housing market and consumer spending on household goods like furniture and appliances that are associated with home buying and new household formation.

At the same time, consumer spending on services such as travel, leisure, and hospitality has increased robustly. Through August, real U.S. consumer spending was still rising, with increases in services more than offsetting declines in real goods spending. In Massachusetts, nominal spending on goods subject to the state sales tax and motor vehicle tax fell in the third quarter at a 5.1 percent annual rate, but this followed very sharp growth in the second quarter. Relative to the third quarter of 2021, such spending in Massachusetts was up 7.8 percent in the third quarter of 2022, outstripping inflation.

“Technology, banking, and finance have been hurt by rising interest rates and asset value declines,” noted Alan Clayton-Matthews, Senior Contributing Editor and Professor Emeritus of Economics and Public Policy at Northeastern University, who compiles and analyzes the Current and Leading Indexes for MassBenchmarks.

“With a concentration in information technology and biotechnology, Massachusetts is especially vulnerable to the effects of higher interest rates on the supply of venture capital and private investment. Several tech companies have announced hiring slowdowns, pauses, or layoffs and the tech-heavy NASDAQ and Massachusetts Bloomberg stock indexes have both performed significantly worse than the S&P 500 and the Dow Jones indexes,” Clayton-Matthews added.

Massachusetts wage and salary income growth has lagged that of the U.S. and has fallen far short of inflation on a per-worker basis. The U.S. Bureau of Economic Analysis reported annualized nominal wage and salary income growth in Massachusetts in the second quarter of only 3.9 percent, relative to U.S. wage and salary growth of 6.9 percent. This trend appears to have continued in the third quarter. Based on state withholding taxes, MassBenchmarks estimates that Massachusetts wage and salary income grew at a 3.3 percent annualized rate in the third quarter, as compared to 7.9 percent for the for U.S. (BEA’s estimate of U.S. wage and salary growth in the third quarter will be released Friday, along with revisions to the second quarter estimates.) On an average per-payroll-worker basis,

Massachusetts nominal wage and salary income grew at a meager 0.2 percent rate in the second quarter and 1.1 percent in the third quarter. The Boston CPI-U price index in the third quarter increased 7.6 percent from the third quarter of 2021 for all items and 4.9 percent excluding food and energy. The corresponding all metro areas CPI-U inflation rate for the U.S. was 8.3 percent for all items and 6.3 percent excluding food and energy.

The outlook for the rest of this year and for the first quarter of 2023 calls for slower growth, with a real possibility of outright declines in output. Economists who contributed to the Wall Street Journal's October survey of forecasters on average projected U.S. real annualized GDP growth of 0.4 percent in the fourth quarter and a decline of 0.2 percent in the first quarter of 2023, and assigned a 63 percent probability of a recession by October 2023. The MassBenchmarks leading index is projecting annualized rates of decline in state GDP of 0.5 percent in the fourth quarter and 1.2 percent in the first quarter of next year, respectively.

While these projections are speculative and based on a limited set of leading economic indicators, given the Commonwealth's older demographic profile (holding back labor force growth) and its exposure in the interest-sensitive technology sector, the risks to the state's economic outlook are decidedly skewed to the downside.

[Download the Detailed Report](#)

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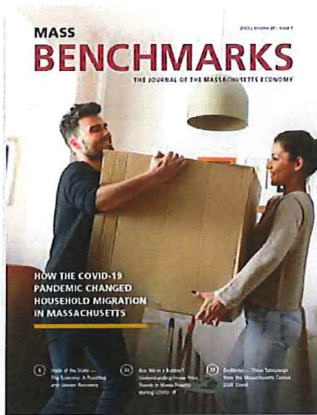
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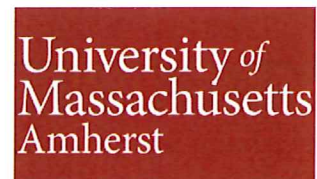
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MassBenchmarks is published by the University of Massachusetts Amherst Donahue Institute in cooperation with the Federal Reserve Bank of Boston. The Donahue Institute is the public service, outreach, and economic development unit of the University of Massachusetts. The Current and Leading Indexes are compiled and analyzed by Dr. Alan Clayton-Matthews, Professor Emeritus of Economics & Public Policy at Northeastern University and released quarterly by MassBenchmarks.

A comprehensive analysis of the state of the Massachusetts economy can be found in the most recent issue of MassBenchmarks.



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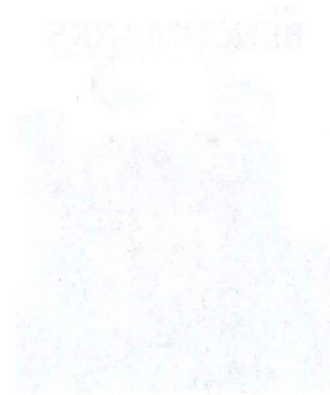
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About the MassBenchmarks Journal

The MassBenchmarks Journal is a quarterly publication that provides a comprehensive overview of the state's performance on various benchmarks. It is a valuable resource for policymakers, researchers, and the general public. The journal covers a wide range of topics, including economic development, education, health care, and environmental quality. It also provides detailed analysis and commentary on the data presented. The journal is published by the Massachusetts Office of Performance Review and is available both in print and online.



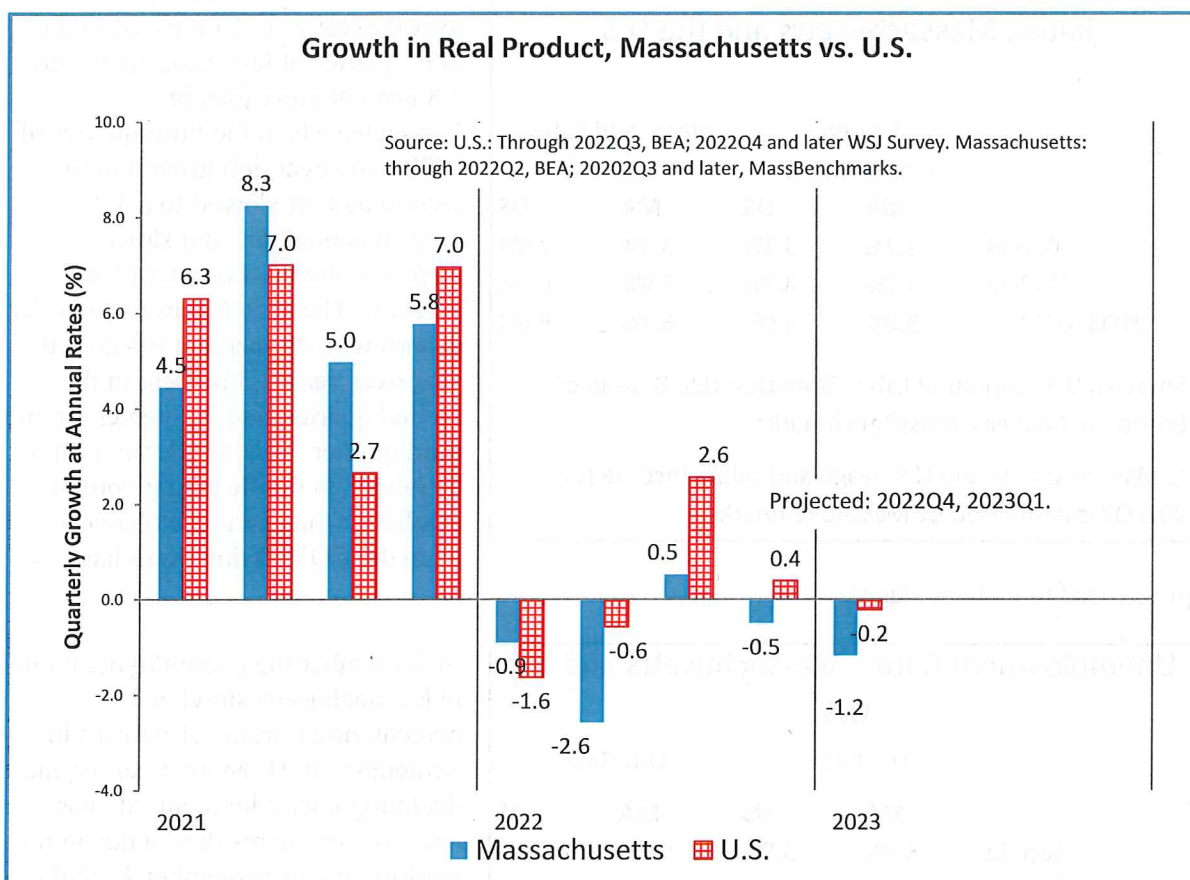
MASSBENCHMARKS JOURNAL

The journal is a key component of the MassBenchmarks program, which tracks and reports on the state's performance across a variety of key areas. It provides a clear and concise summary of the state's progress and challenges, and is an essential tool for understanding the state's overall health and trajectory. The journal is published by the Massachusetts Office of Performance Review and is available both in print and online.



Massachusetts Current and Leading Economic Indices

The Massachusetts Current Economic Index for September was 234.4, up 3.2 percent from August (at annual rates), and up 8.0 percent from September 2021. The current index is normalized to 100 in October 1987 and is calibrated to grow at the same rate as Massachusetts real gross domestic product over the 1978–2021 period.



In the third quarter of 2022, Massachusetts real gross domestic product (GDP) increased at a 0.5 percent annualized rate, according to MassBenchmarks, while U.S. GDP increased at a 2.6 percent annualized rate according to the U.S. Bureau of Economic Analysis (BEA). In the second quarter of this year, the BEA estimates that Massachusetts GDP decreased at an annual rate of 2.6 percent while the U.S. declined at a 0.6 percent rate. In the first quarter of this year, the BEA’s annualized growth estimates showed declines of 0.9 percent for Massachusetts and 1.6 percent for the U.S. The Commonwealth’s growth has lagged that of the U.S. in three of the last four quarters.

Despite the apparent improvement in output growth in the third quarter, the Massachusetts economy appeared to slow along other dimensions, as job growth decelerated, the labor force shrank (in absolute terms and as a share of the population), and weaknesses emerged in the sectors most affected by rising interest rates, most notably housing. Inflation does not appear to

be accelerating but remains well above the target levels set by the Fed. Consumer spending has remained robust, but as inflation continues to undermine household wage gains and erode the savings stockpiles accumulated during the pandemic, spending is likely to slow going forward. The Massachusetts economy may be more vulnerable than that of the U.S. for reasons discussed below.

Employment and Earnings Growth at Annual Rates, Massachusetts and the U.S.				
	Payroll Employment		Wage and Salary Income /1	
	MA	US	MA	US
2022Q3	2.2%	3.1%	3.3%	7.9%
2022Q2	3.7%	3.3%	3.9%	6.9%
21Q3 to '22Q3	3.8%	4.0%	6.7%	8.6%

Sources: U.S. Bureau of Labor Statistics; U.S. Bureau of Economic Analysis; MassBenchmarks.

1. Massachusetts and U.S. wage and salary income for 2022Q3 is estimated by MassBenchmarks.

Payroll employment growth in both the state and the nation decelerated over the last year. Compared to the third quarter of last year, there were 3.8 percent more jobs in Massachusetts in the third quarter of 2022. However, job growth in the second quarter slowed to a 3.7 percent annual rate and slowed further in the third quarter (2.2 percent). The U.S. followed a similar pattern with 4.0 percent job growth year over year, 3.3 percent in the second quarter, and 3.1 percent in the third quarter. This deceleration may be related to the shrinking pool of available workers as the recovery from the COVID downturn has

progressed to its later stages.

Unemployment Rates, Massachusetts and the U.S.				
	U-3 Rate		U-6 Rate	
	MA	US	MA	US
Sep-22	3.4%	3.5%	5.9%	6.7%
Jun-22	3.7%	3.6%	5.6%	6.7%
Sep-21	5.1%	4.7%	8.7%	8.5%

Sources: U.S. Bureau of Labor Statistics/ MassBenchmarks.

In September the unemployment rate in Massachusetts stood at 3.4 percent, down from 5.1 percent in September 2021. More recently, the declining unemployment rate has been in part the result of a declining workforce – in September 2022 the labor force was smaller than in September 2021 – underscoring the challenge presented by a scarcity of available workers going forward. The

U.S. unemployment rate stood at 3.5 percent in September, down from 4.7 percent in September 2021. In September, the number of payroll jobs nationally exceeded the pre-COVID peak of February 2020 by 0.3 percent. Massachusetts remains 1.3 percent below the February 2020 peak.

Inflation, consumer spending, and interest rates have affected sectors of the economy differently. Rising mortgage rates have dramatically slowed transactions in the housing market and consumer spending on household goods like furniture and appliances that are associated with home buying and new household formation.

At the same time, consumer spending on services such as travel, leisure and hospitality has increased robustly. Through August, real U.S. consumer spending was still increasing, with increases in services more than offsetting declines in real goods spending. In Massachusetts, nominal spending on goods subject to the state sales tax and motor vehicle tax fell in the third quarter at a 5.1 percent annual rate, but this followed very sharp growth in the second quarter. Relative to the third quarter of 2021, such spending in Massachusetts was up 7.8 percent in the third quarter of 2022, outstripping inflation.

Technology, banking, and finance have been hurt by rising interest rates and asset value declines. With a concentration in information technology and biotechnology, Massachusetts is especially vulnerable to the effect of higher interest rates on the supply of venture capital and private investment. Several tech companies have announced hiring slowdowns, pauses, or layoffs and the tech-heavy NASDAQ and Massachusetts Bloomberg stock indexes have both performed significantly worse than the S&P 500 and the Dow Jones indexes.

Massachusetts wage and salary income growth has lagged that of the U.S. and has fallen far short of inflation on a per-worker basis. The U.S. Bureau of Economic Analysis reported annualized nominal wage and salary income growth in Massachusetts in the second quarter of only 3.9 percent, relative to U.S. wage and salary growth of 6.9 percent. This trend appears to have continued in the third quarter. Based on state withholding taxes, MassBenchmarks estimates that Massachusetts wage and salary income grew at a 3.3 percent annualized rate in the third quarter, as compared to 7.9 percent for the for U.S. (BEA’s estimate of U.S. wage and salary growth in the third quarter will be released Friday, along with revisions to the second quarter estimates.) On an average per-payroll-worker basis, Massachusetts nominal wage and salary income grew at a meager 0.2 percent rate in the second quarter and 1.1 percent in the third quarter.

CPI-U Inflation, Boston Metro and the U.S.				
	All Items		Core	
	BOS	US	BOS	US
2022Q3	6.0%	5.7%	4.6%	6.4%
2022Q2	8.1%	10.5%	4.5%	6.6%
21Q3 to '22Q3	7.6%	8.3%	4.9%	6.3%

Sources: U.S. Bureau of Labor Statistics, CPI-U; Core inflation excludes food and energy. For Boston, the CPI is available for odd months only -- January, March, etc. Even months are interpolated. Boston seasonally adjusted by MassBenchmarks.

The Boston CPI-U price index in the third quarter increased 7.6 percent from the third quarter of 2021 for all items and 4.9 percent excluding food and energy. The corresponding all metro areas CPI-U inflation rate for the U.S. was 8.3 percent for all items and 6.3 percent excluding food and energy.

During the third quarter overall (for all items) prices in the Boston metropolitan area rose 6.0 percent on an annual basis from the second

quarter according to the Bureau of Labor Statistics’ CPI-U inflation measure. Excluding food and energy, so-called core prices increased at a 4.6 percent annual rate in the third quarter from the second quarter. Second quarter prices in the Boston area for all items rose by 8.1 percent (annualized) from the first quarter, while core prices rose by 4.5 percent (annualized). The deceleration in inflation from the second to third quarters for all items was driven primarily by decreases in gasoline and other energy prices.

For the U.S., overall prices rose 5.7 percent (annualized) in the third quarter from the second quarter and 10.5 percent in the second quarter from the first quarter, according to the BLS CPI-U for all cities. Corresponding core inflation was 6.4 percent in the third quarter from the second, and 6.6 percent in the second quarter from the first quarter.

This pattern of price changes suggests that inflation in the third quarter was not accelerating, although it was still well above the target inflation rate goal of the Fed. Cutbacks in oil production and probable shortages of natural gas and other energy this fall and winter could increase the rate of inflation once again.

The outlook for the rest of this year and for the first quarter of 2023 calls for slower growth, with a real possibility of outright declines in output. Economists who contributed to the Wall Street Journal's October survey of forecasters on average projected U.S. real annualized GDP growth of 0.4 percent in the fourth quarter and a decline of 0.2 percent in the first quarter of 2023, with the probability of a recession by October 2023 of 63 percent. The MassBenchmarks leading index is projecting annualized rates of decline in state GDP of 0.5 percent in the fourth quarter and 1.2 percent in the first quarter of next year, respectively.

While these projections are speculative and based on a limited set of leading economic indicators, given the state's older demographic profile (holding back labor force growth) and its exposure in the interest-sensitive technology sector, the risks to the state's economic outlook are weighted towards the downside.

The current and historical quarterly estimates for state domestic product growth include adjustments for changes in productivity growth. These adjustments are estimates of the quarterly deviations from the 1978-2021 trend in the growth of the ratio of output to employment. In the third quarter of 2022 these adjustments subtracted 3.1 percentage points from growth. In the second quarter of 2022 these adjustments subtracted 6.3 percentage points from growth. In the first quarter of 2022 these adjustments subtracted 8.6 percentage points from growth. In the fourth quarter of this year and the first quarter of 2023 these adjustments are expected to subtract 2.5 percent and 1.5 percent from growth respectively.

The current and historical quarterly estimates also include "cyclical" adjustments, as the relationship between the growth in the current indicators and that of gross domestic product changes over the course of the business cycle. In the third quarter of 2022 these adjustments did not affect growth. In the second quarter of 2022 these adjustments subtracted 2.4 percent points from growth. In the first quarter of 2022 these adjustments subtracted 3.6 percentage points from growth. These adjustments are expected to add 2.0 percentage points to growth in the fourth quarter of this year and 2.0 percentage points to growth in the first quarter of 2023.

Several recent months of the current index are revised each release. These revisions are a result of the statistical method used to create the index, as well as revisions in the underlying indicators.

All the indicators in the current index refer to Massachusetts. The current index is composed of four indicators: nonagricultural employment, withholding taxes, sales taxes, and the unemployment rate. Withholding taxes and sales taxes are deflated by the U.S. consumer price index for all urban consumers, excluding food and energy. The employment and the unemployment rate are through September, and the withholding and sales taxes are through August.

For a description of the methodology used to construct this index, see: Alan Clayton-Matthews and James H. Stock, "An application of the Stock/Watson index methodology to the Massachusetts economy", *Journal of Economic and Social Measurement*, vol. 25 (1998/1999), pp. 183-233.

Alan Clayton-Matthews
MassBenchmarks
Northeastern University, School of Public Policy and Urban Affairs

October 27, 2022

1. The first part of the document is a letter from the author to the editor, dated 10/10/10. The letter discusses the author's interest in the journal and the potential for a new section on 'The History of Mathematics'.

2. The second part of the document is a letter from the editor to the author, dated 10/15/10. The editor expresses interest in the author's proposal and asks for more details.

3. The third part of the document is a letter from the author to the editor, dated 10/20/10. The author provides more details about the proposed section and asks for the editor's feedback.

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ECONOMY

The Fed is poised for another jumbo interest rate hike. Many are wondering what's next

November 2, 2022 · 5:01 AM ET

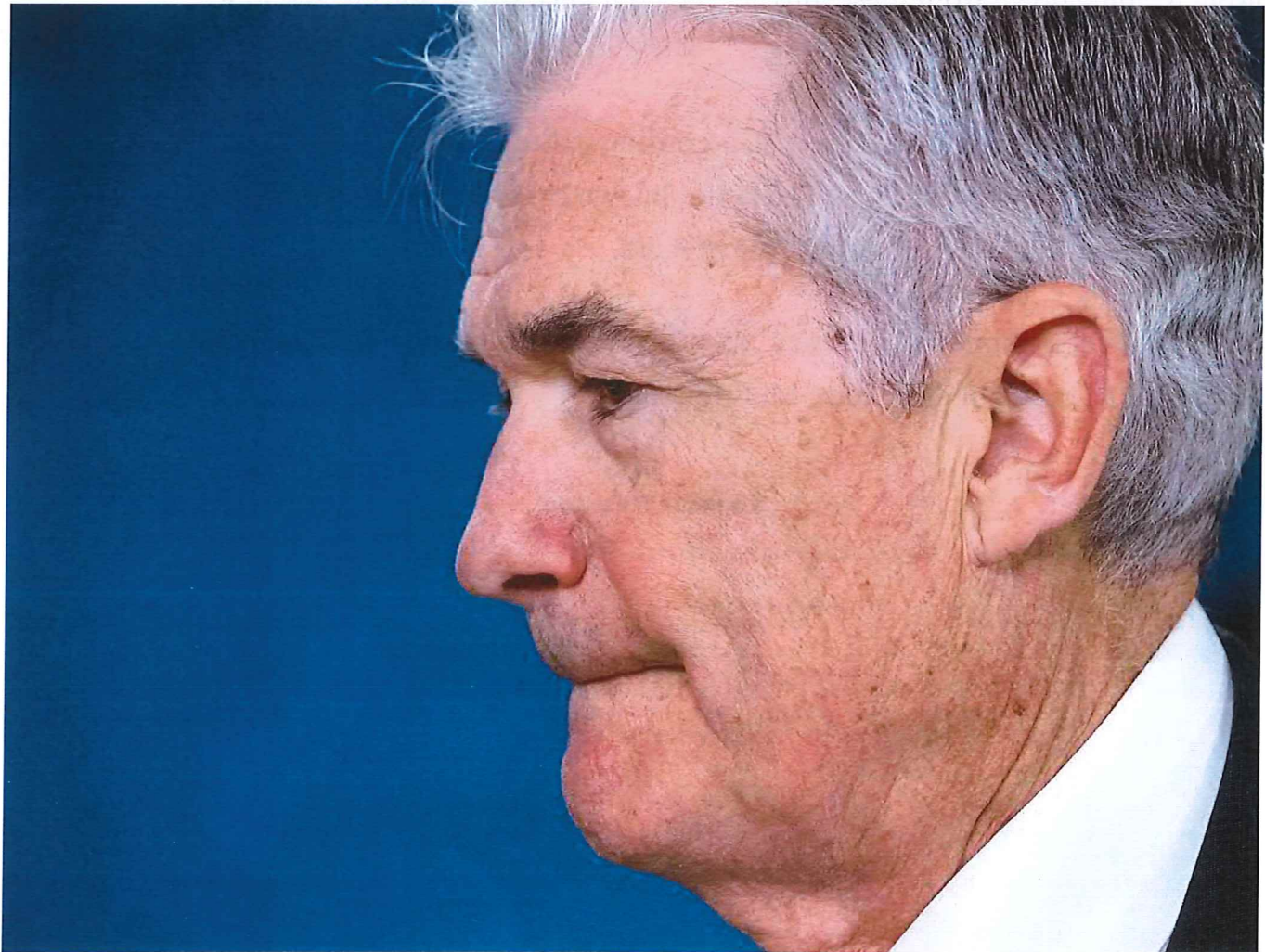
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Federal Reserve Chair Jerome Powell attends a meeting of the International Monetary and Financial Committee in Washington, DC, on Oct. 14. Powell is expected to announce another interest rate hike on Wednesday.

JIM WATSON/AFP via Getty Images

The Federal Reserve is expected to order another big boost in interest rates Wednesday, as questions bubble up about how much higher borrowing costs will have to go before stubborn inflation starts to come down.

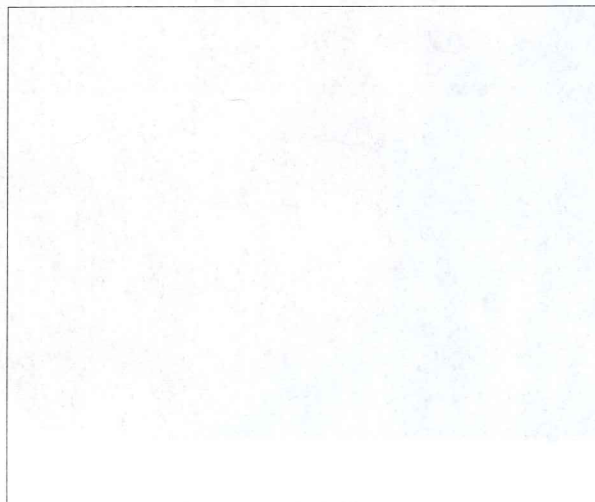
The central bank has already raised its benchmark interest rate by 3 percentage points since March, and it's expected to tack on another 3/4 of a point at this week's meeting. That's the most aggressive string of rate hikes in decades, but so far it's done little to bring prices under control.

"Interest rates have risen at a whiplash-inducing speed, and we're not done yet," said Greg McBride, chief financial analyst at Bankrate. "It's going to take some time for inflation to come down from these lofty levels, even once we do start to see some improvement."

Annual inflation in September was 6.2%, according to the Fed's preferred yardstick — unchanged from the month before. The better known consumer price index shows prices rising even faster, at an annual rate of 8.2%.

"The Fed looks at a number of different inflation barometers, and none of them is really moving in the right direction," McBride said.

Sponsor Message



It's possible that Wednesday's rate hike will be the last super-sized increase for a while. Markets will be on the lookout for any signal that the Fed plans to scale back to a smaller increase in December. But McBride argues that in order to curb inflation, borrowing costs will likely have to remain elevated for an extended period.



ECONOMY

High inflation leads to the biggest raise in Social Security in more than 40 years

"The mantra for 2023 is 'higher for longer,'" he said. "When inflation's been running at 6, 7, 8% and the target is 2%, it's going to take a while."

Rate hikes are having an effect, even if inflation remains untamed

Higher borrowing costs have already put a big dent in the housing market. And other parts of the economy are beginning to slow. But consumers, still flush with cash saved up early in the pandemic, continue to spend money. As a result, the Fed may have to tap the brakes harder, for longer, than it otherwise would.

"We see today that there is a bit of a savings buffer still sitting for households, that may allow them to continue to spend in a way that keeps demand strong," said Esther George, president of the Federal Reserve Bank of Kansas City. "That suggests we may have to keep at this for a while."

Like her colleagues on the Fed's rate-setting committee, George has expressed a determination to control inflation. But she's also cautioned against raising rates too rapidly at a time of economic uncertainty.

"I have been in the camp of steadier and slower [rate increases], to begin to see how those effects from a lag will unfold," George said last month. "My concern being that a succession of very super-sized rate hikes might cause you to oversteer and not be able to see those turning points."

With polls showing inflation is a top concern among voters, the Biden administration and most members of Congress have stayed out of the Fed's way as it tries to control prices. But a handful of Democrats have begun to challenge the central bank's approach, warning that aggressive rates hikes could put millions of people out of work.



ECONOMY

New GDP report shows an economic turnaround, but don't be fooled

"We are deeply concerned that your interest rate hikes risk slowing the economy to a crawl while failing to slow rising prices that continue to harm families," Sen. Elizabeth Warren, D-Mass., and colleagues wrote in a letter Monday to Fed chairman Jerome Powell.

The housing market has already slowed to a crawl, as mortgage rates top 7% for the first time in two decades.

Kansas City homebuilder Shawn Woods said his company has gone from selling a dozen houses a month before the Fed started raising rates to fewer than five.

"Never in my wildest dreams would I have thought we'd go from 3% [mortgage rates] to 7% within six months," said Woods, president of Ashlar Homes and the Home Builders Association of Kansas City.

"I think we're in for a rough six or eight months," Woods said. "Typically, housing leads us into downturns and it leads us out of downturns. And I think from a housing perspective, we've probably been in a housing recession since March or April."

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