

Financial Indicators & Trend Analysis 4 Year Financial Forecasts Fy 20-24



Board of Selectmen
September 16, 2019



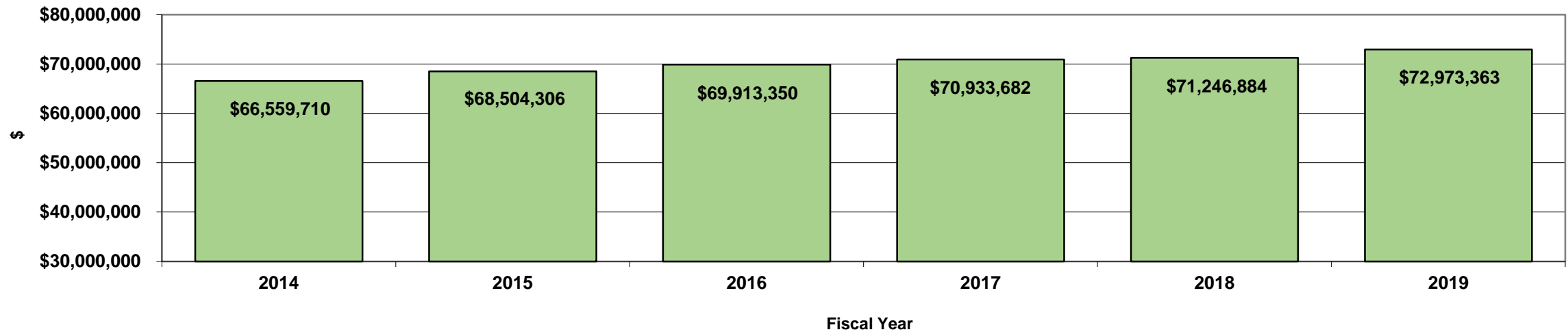
- **Financial Indicators:**

The purpose of the financial indicators is to provide recognizable and impactful measures that help define the Town's financial well-being. Overall Natick remains in a stable fiscal condition

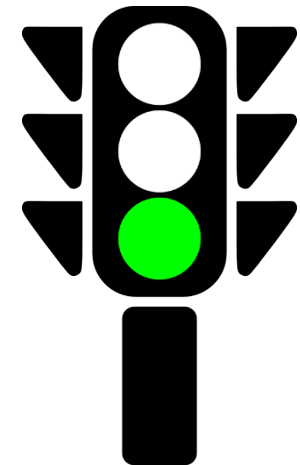
The following slides contain 15 measures plus supplementary information to provide context to the Town's financial health. Each slide has a graph, a trend guideline, analysis, and a traffic light for measures (green – favorable, yellow – marginal, red – unfavorable).



Property Tax Revenues less debt exclusions (constant dollars)

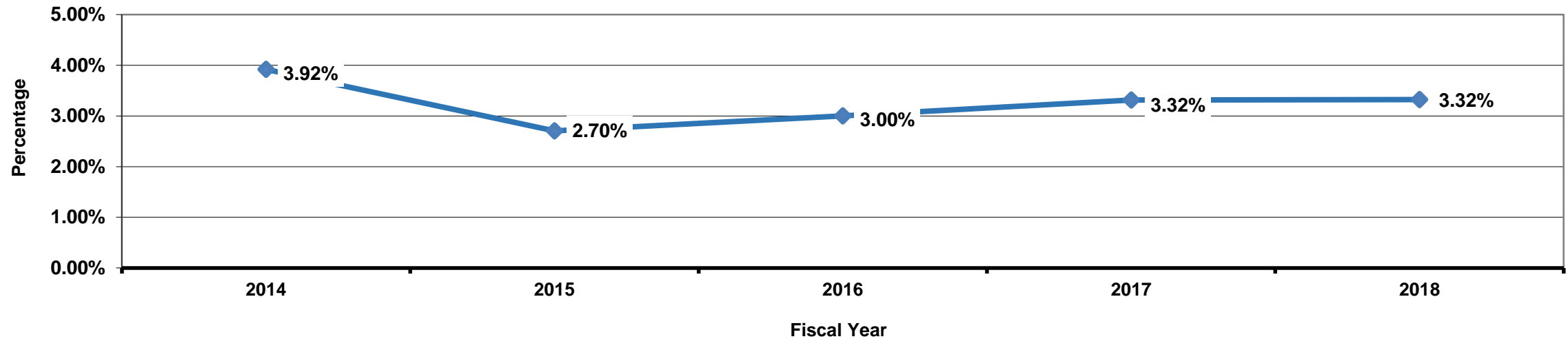


- **Trend Guideline**: A decline in property tax revenues (constant dollars) is considered a warning indicator.
- **Analysis**: Property tax revenues are analyzed separately because it is the Town's primary revenue source for both operating and capital spending. Increases due to overrides, while enhancing the Town's ability to deliver services, must be weighed against the impact on taxpayers ability to pay. Significant increases to property tax revenues are derived from New Growth and overrides.

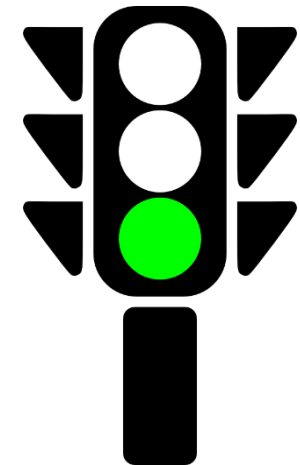




Uncollected Taxes as a Percentage of Net Property Tax Levy

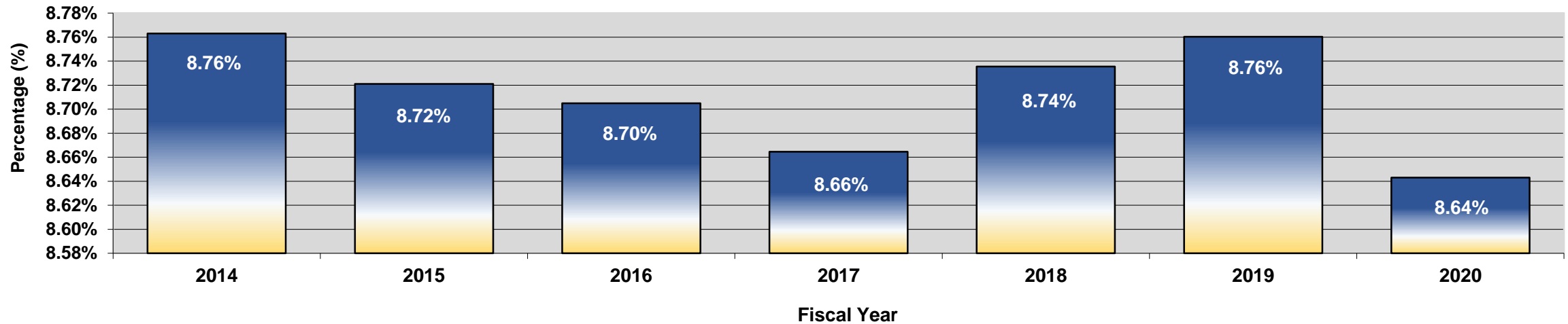


- **Trend Guideline:** Uncollected property taxes (as a percent of the tax levy) of 5 – 8% is considered a warning indicator by bond rating agencies.
- **Analysis:** If uncollected taxes remain between 5-8% of a community's net tax levy (tax levy less overlay) or the trend shows uncollected taxes increasing, a town is in a weak financial position in terms of tax collection. This may be a consequence of a weakness in the local economy or a result of inadequate tax collection procedures. An increasing percent of uncollected taxes would lead to long-term cash flow problems for the community. If left unchecked, inadequate cash flow would impact a community's ability to pay its obligations (debt or otherwise) on time, or force it to defer necessary purchases. Natick has a continued strong trend of excellent tax collection.





State Aid as a % of operating revenues

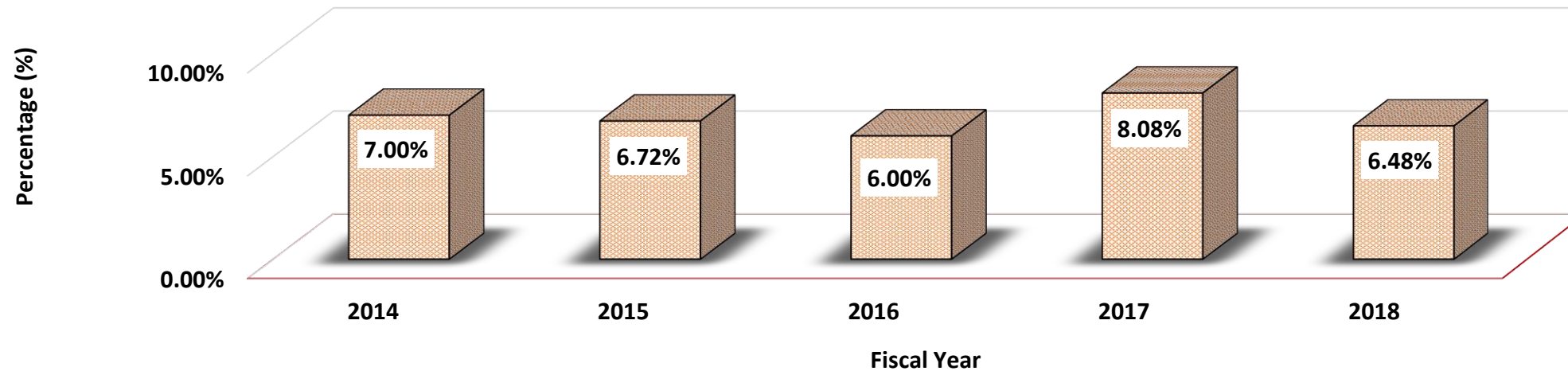


- **Trend Guideline:** Reductions in State Aid as a percentage of operating revenues is considered a warning indicator particularly if the Town does not have adequate reserves to offset reductions.
- **Analysis:** Designed to fund a variety of local services (education, veterans, and general operations), State Aid is an important component of the overall revenue picture. Any decline in State Aid is troublesome as towns have become somewhat reliant on such revenue, which is not guaranteed. In recent years Natick has experienced moderate increases to Net State Aid (Revenues – Charges & Offsets) with Net State Aid revenues comprising over 8.5% of the operating budget.





Economic Growth Revenues as a % of Operating Revenues

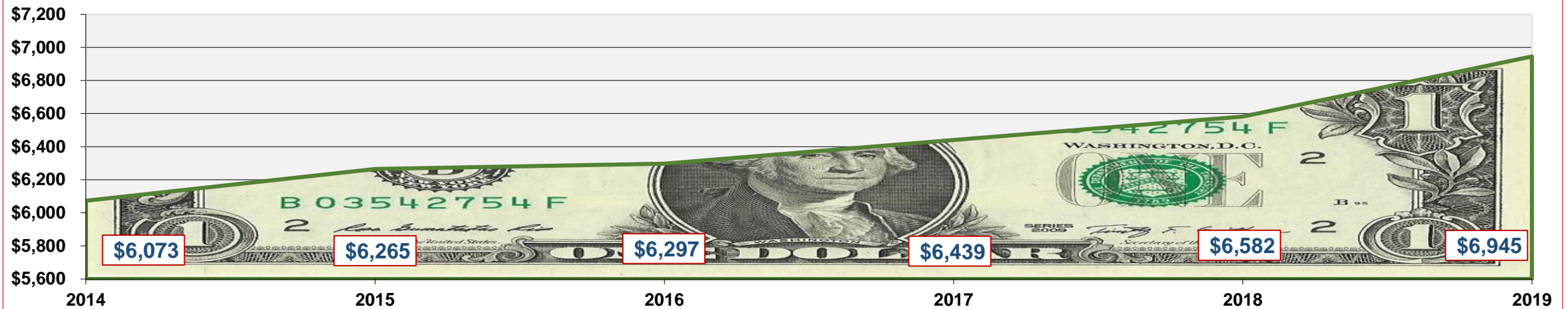


- **Trend Guideline:** Decreasing economic growth revenues as a percentage of net operating revenues is considered a warning indicator.
- **Analysis:** Revenue related to economic growth include classifications such as: permit fees, new tax levy growth resulting from new construction, and items such as motor vehicle excise taxes. A decrease in building permit fees may be a leading indicator of smaller future increases in the tax levy. Despite the inherent nature of this indicator to fluctuate with the economy, inflation and other influences, Natick has been fortunate to have consistently maintained approximately 7%. In recent years economic growth revenues have been substantial (MathWorks, and residential remodels), but it's difficult to bank on historical numbers due to the volatility of the construction market.





Operating Expenditures Per Household (constant dollars)

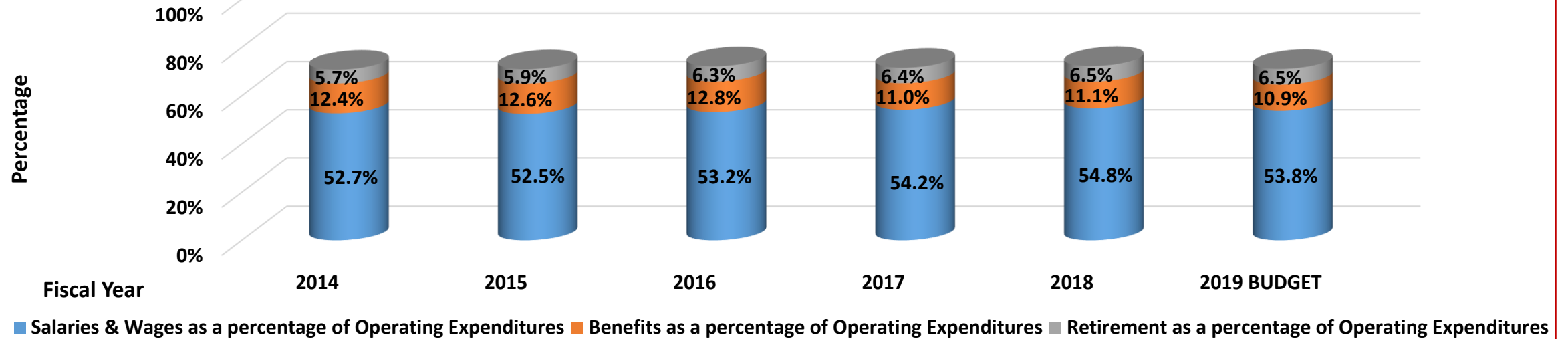


- **Trend Guideline:** Increasing net operating expenditures per household, in constant dollar, may be considered a warning indicator
- **Analysis:** Increasing operating expenditures per household can indicate that the cost of providing services is potentially outpacing taxpayer's ability to pay, especially if spending is increasing faster than household income. Increasing expenditures may also indicate that the demographics of the Town are changing, requiring increased spending in related services. In the aggregate from FY15 – FY19 the operating expenses per household has increased an average of 2.73% annually.

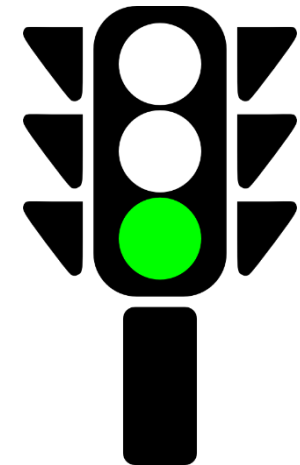




Salaries & Benefits as % of Operating Expenses

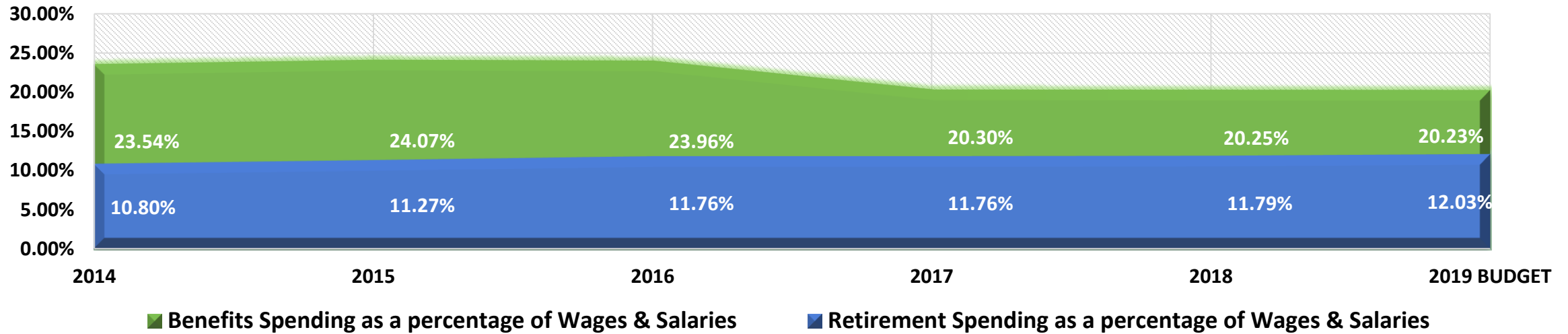


- **Trend Guideline:** Increasing personnel costs as a percentage of total spending is considered a warning factor. This graph represents municipal and school departments combined.
- **Analysis:** Increasing salaries and wages as a percent of operating expenditures may be an indicator of two trends: 1) It may point to future pension and health insurance costs since both of these items are related to the number and compensation level of employees. 2) If salaries and wages as a percent of operating expenditures are increasing, it may be an indicator that the Town is not adequately funding its capital needs or of deferred maintenance of the Town's infrastructure. As a percent of operating expenses, municipal and school departments have been consistent in using approximately 72% of the operating budget for these expenses. Staffing increases (especially benefit eligible) could impact these ratios significantly.





Benefits Spending as a Percentage of Wages & Salaries

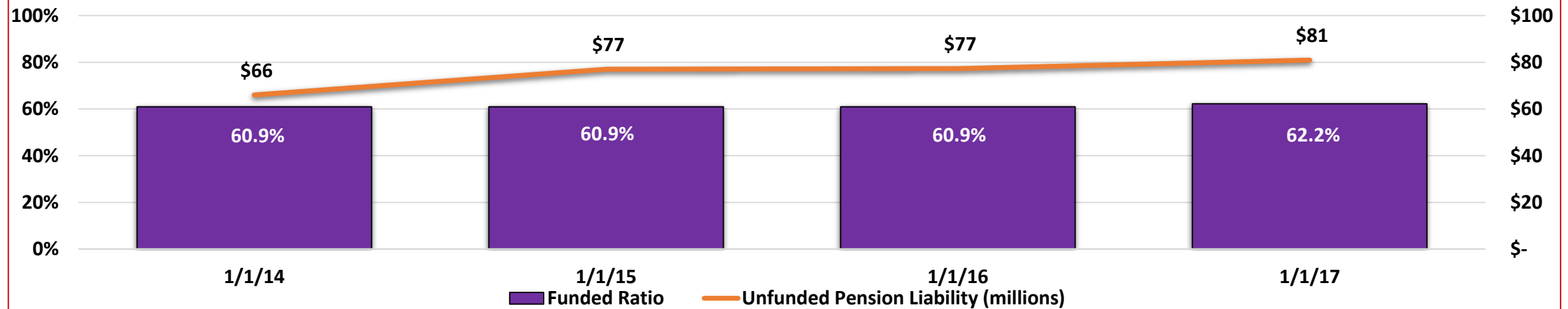


- **Trend Guideline:** Increasing benefit costs as a percentage of wages and salaries is considered a warning indicator
- **Analysis:** This indicator demonstrates significant growth in health care costs. Natick has been able to find savings in recent years by restructuring health plans from Rate Savers to Benchmark as well as High-Deductible plans. Even with those changes, premiums increased by 5 - 9.5% from FY19 to FY20. The increase in health care costs means funds for other purposes are being spent to maintain an existing benefit.





Pension Liability (% funded) & Unfunded Pension Liability

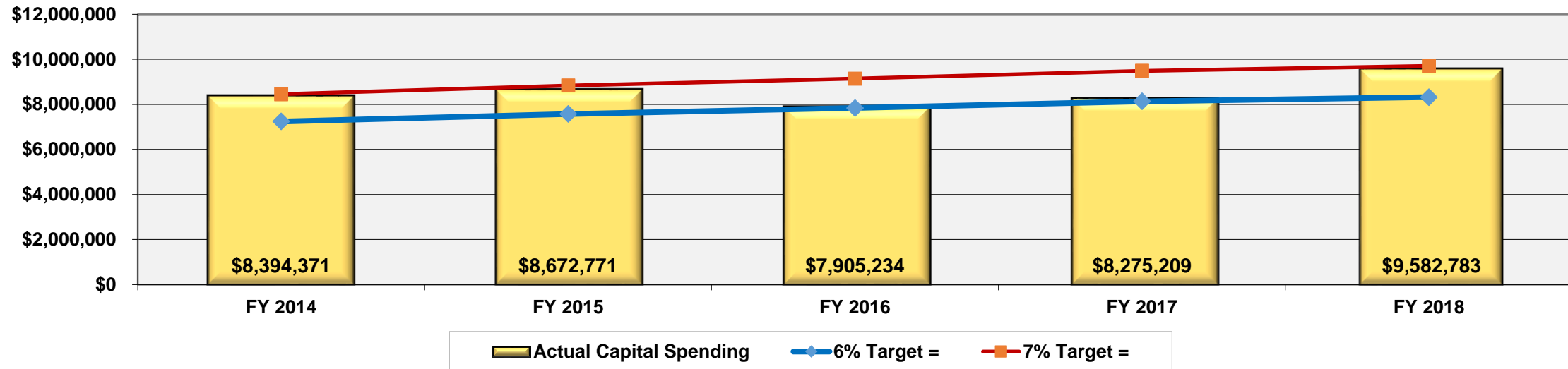


- **Trend Guideline:** An unfunded pension liability or increase in the unfunded liability is considered a warning indicator.
- **Analysis:** As of January 1, 2017, there were 1,179 participants in the Natick Retirement System - 644 active, 138 inactive and 397 retired participants and beneficiaries. Town Meeting appropriates an annual contribution to the system as determined by an actuarial study.

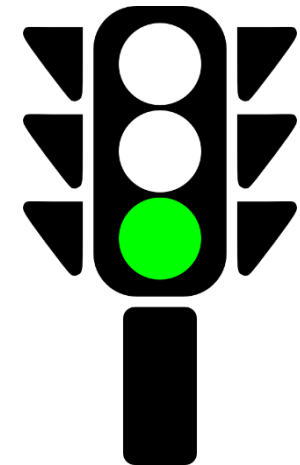




Capital Replacement & Renewal: Actual vs. Targets, FY 2014-2018



- **Trend Guideline:** A three or more year decline in capital spending from operating funds as a percentage of gross operating revenues is considered a warning indicator.
- **Analysis:** Timely replacement of capital equipment and infrastructure benefits the community in the long-run as it increases efficiency and keeps maintenance costs lower while providing better facilities to the general public. A decline of spending on capital over a three-year period is considered a warning sign by industry standards.

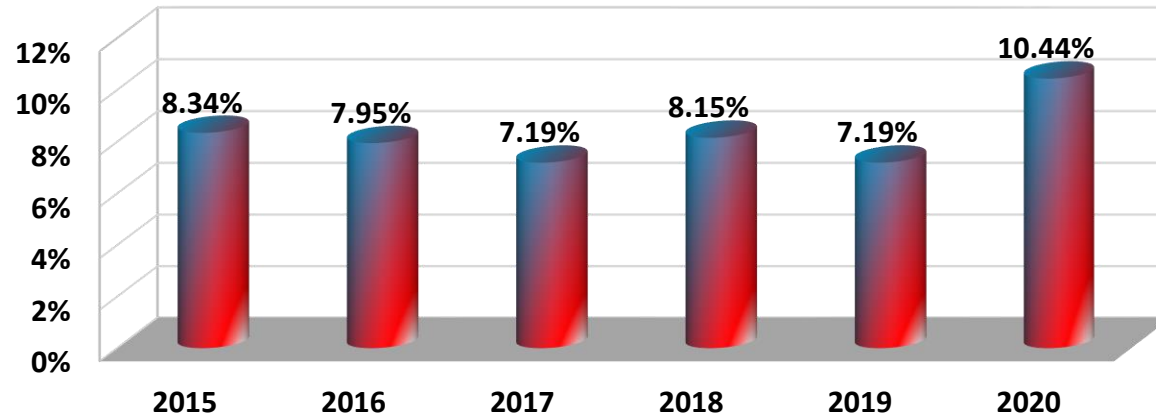




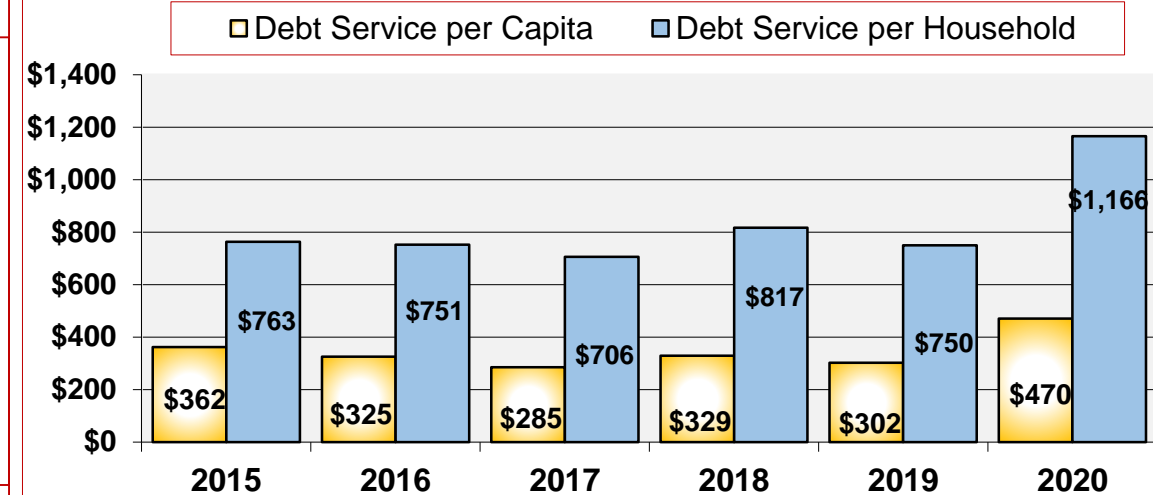
Town of Natick: Financial Indicators

Indicator 10: Debt Service

Debt Service as a % of General Fund Revenue



Debt Service per Capita/per Household

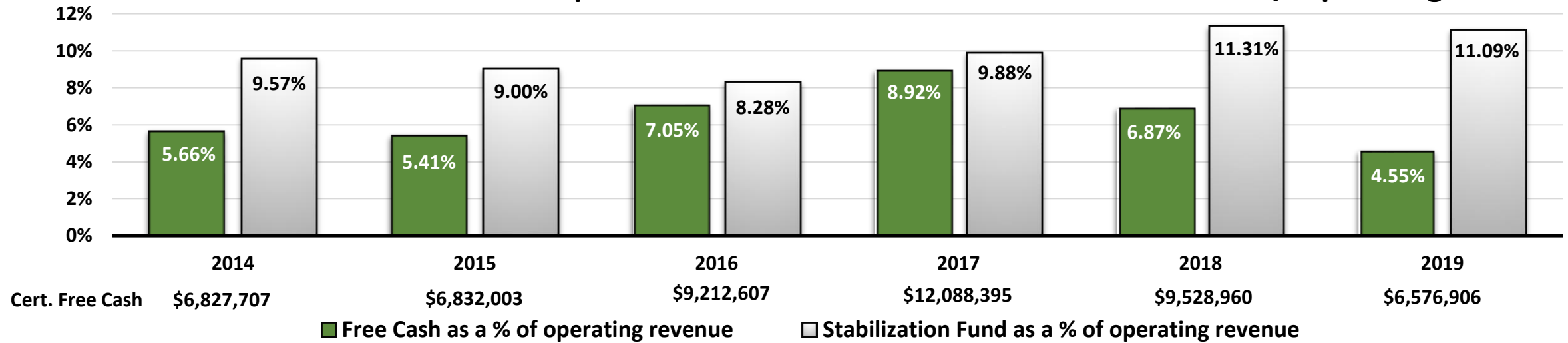


- **Trend Guideline:** Debt Service exceeding 20% of operating revenues is considered a significant warning indicator by credit rating agencies.
- **Analysis:** Debt is the chief financing tool utilized by municipalities to continually replace and maintain its capital infrastructure. It is important to monitor how much debt the Town has and determine what impact the amount of debt service has on the operating budget and the taxpayers.

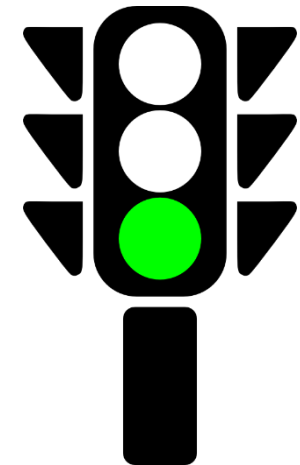




General & Operational Stabilization and Free Cash Balances / Operating Revenue

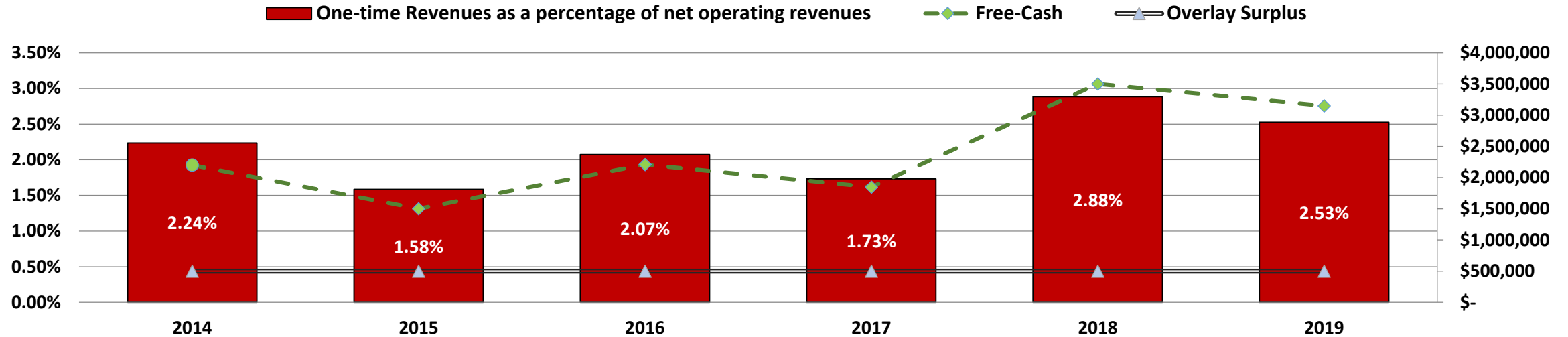


- **Trend Guideline:** Declining reserves as a percentage of operating revenues is considered a warning indicator. GFOA recommends undesignated fund balance be 5-15% of operating revenues.
- **Analysis:** Reserves can be used for many different purposes. Primarily, reserves are used to buffer against service reductions due to economic downturns or major emergencies. AAA communities are expected to maintain reserve positions between 8-15% of net operating revenues.

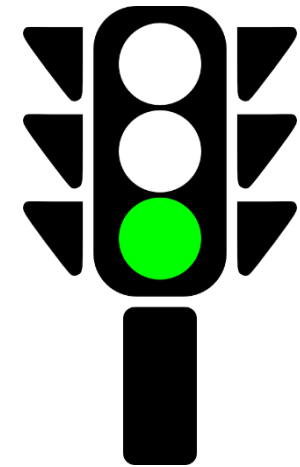




One-Time Operating Revenues / Net Operating Revenues & One-Time Trends

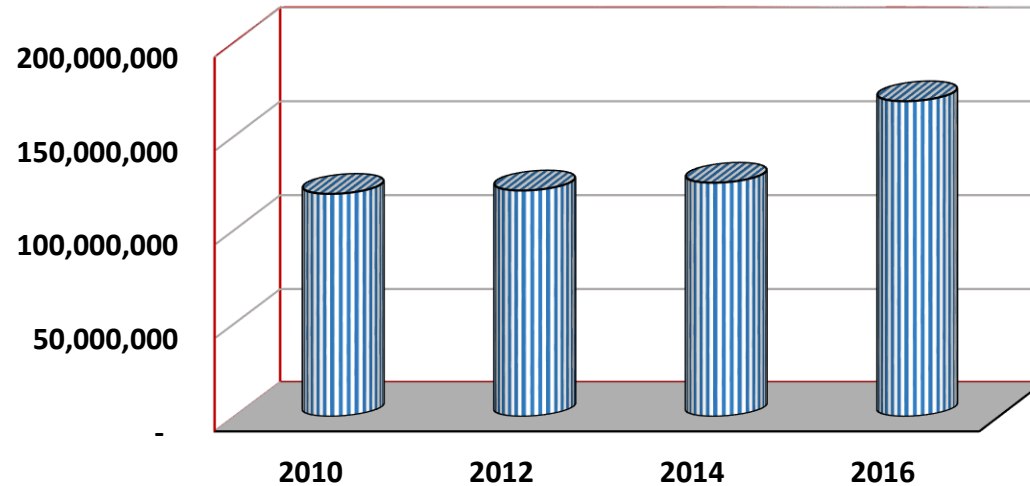


- **Trend Guideline:** Increasing use of one-time revenues as a percentage of operating revenues is considered a warning indicator.
- **Analysis:** Municipalities may utilize reserves and one-time revenues to balance annual operating budgets, sustain programs in times of economic downturn, or fund one-time expenses. As a general rule, however, one-time revenues should not be used to sustain ongoing operations because they exist only once and then they are depleted.

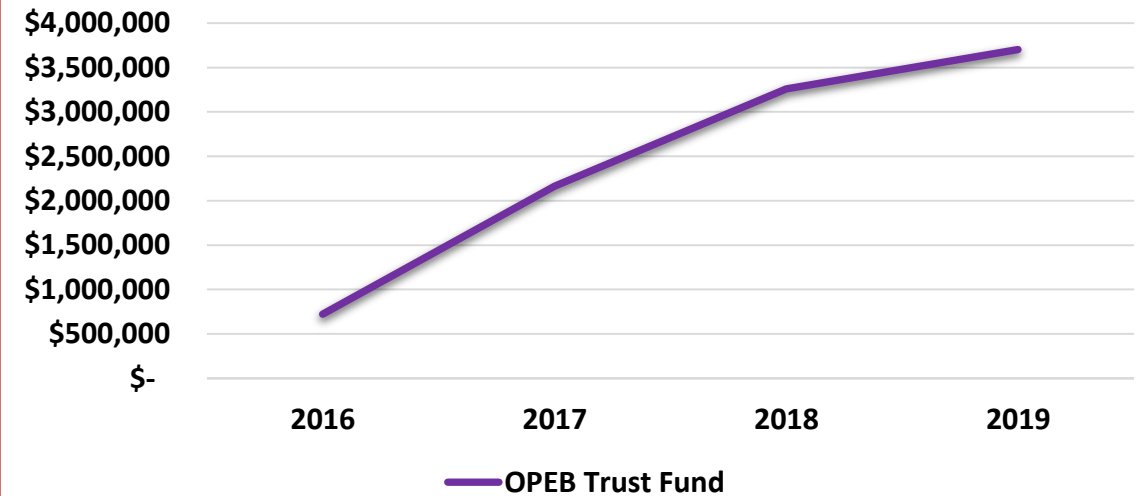




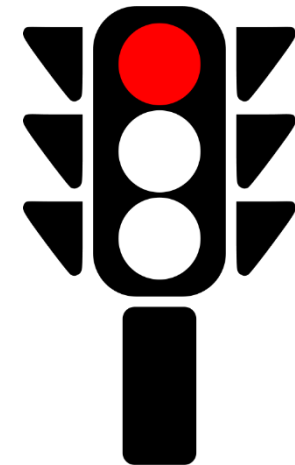
OPEB UAAL



OPEB Trust Fund

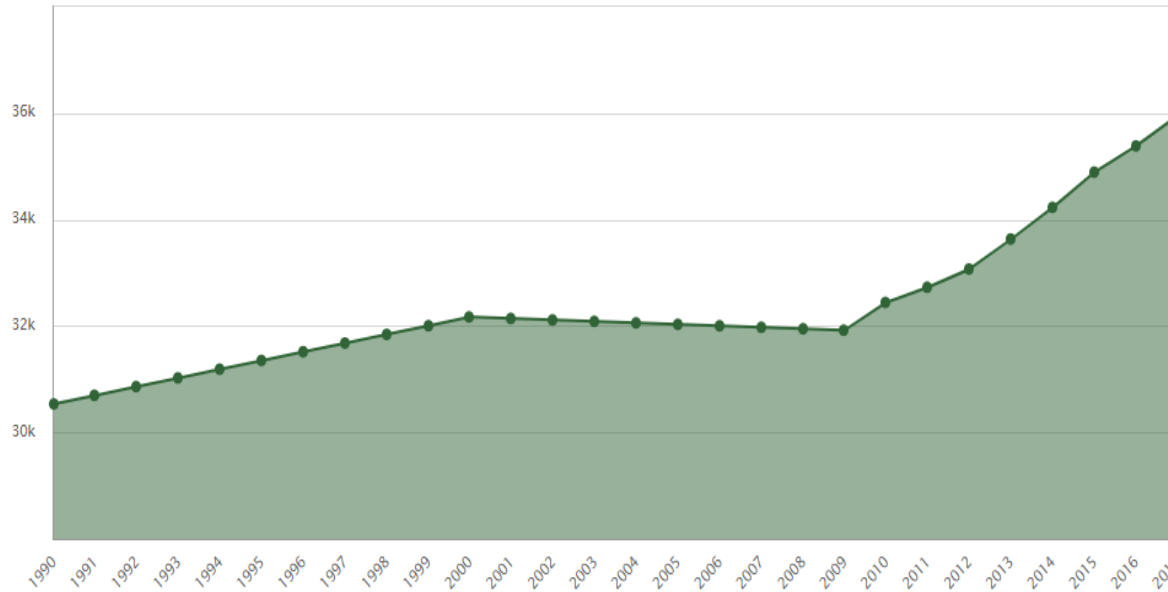


- **Trend Guideline:** An unfunded OPEB liability or increase in the unfunded liability is considered a warning indicator.
- **Analysis:** OPEB (Other Post-Employment Benefits) are healthcare and life insurance benefits provided by the Town for retirees (including schools). As of July 1, 2016, the unfunded actuarial accrued liability (UAAL) was approximately \$168M.



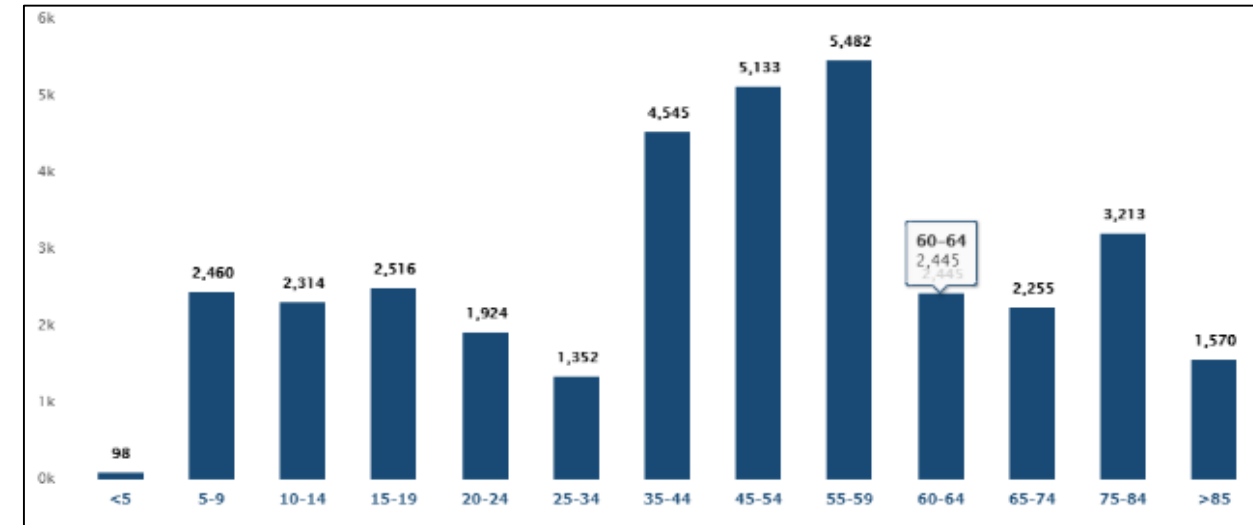


Population



* Data Source: American Community Survey, 2010 Census, 2000 US Census and 1990 US Census

Population by Age Group

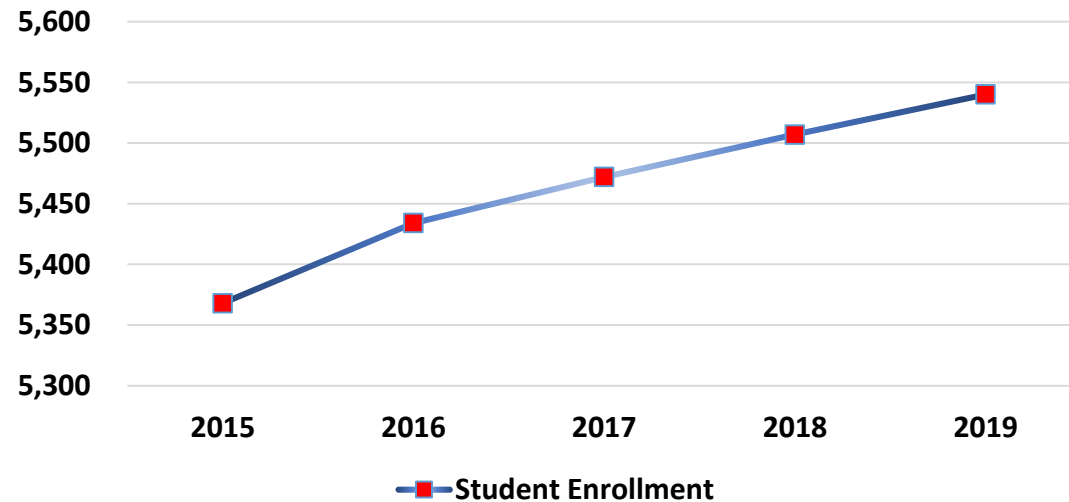


- **Trend Guideline:** Rapid changes in population which may affect service levels may be considered a warning indicator
- **Analysis:** Population has steadily increased in recent years and remains fairly balanced across age groups.

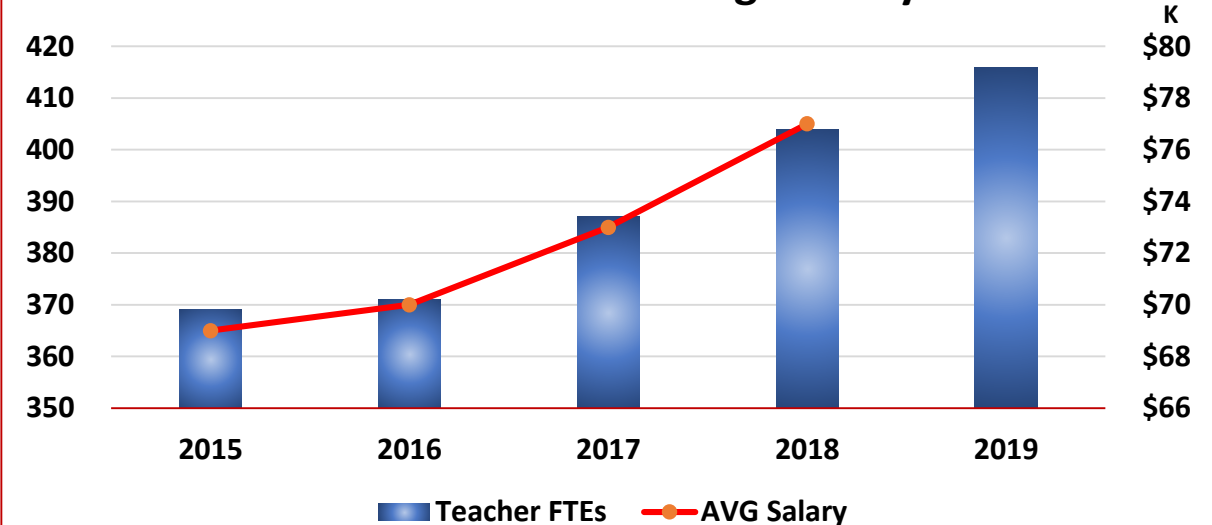




Student Enrollment



Teacher FTEs & Average Salary



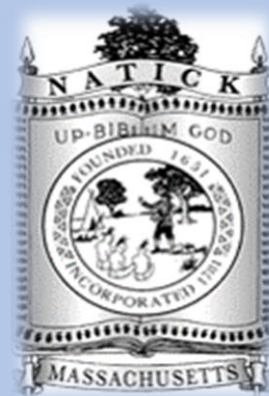
- **Trend Guideline:** Rapid changes in school enrollment may affect service levels may be considered a warning indicator. (Above graphs Student Enrollment and Teacher FTE & Average Salary pulled from Resource Allocation and District Action Reports RADAR)
- **Analysis:** Similar to municipal services with increases in population, increases in student enrollment put pressure on operating budgets to provide quality education.





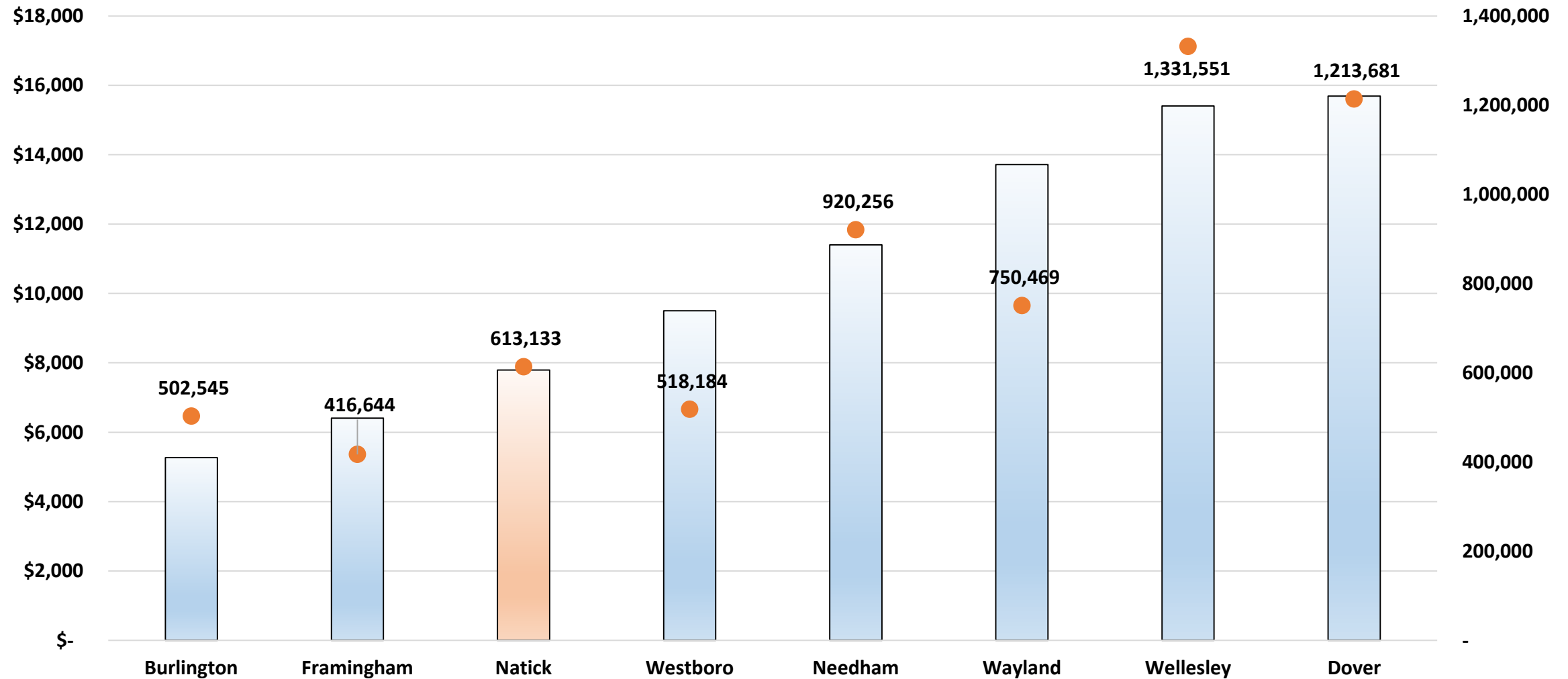
Natick Financial Indicators Dashboard		
Financial Indicator	Trend	Highlights
Property Tax Revenue	Favorable	Adjusted for inflation, property tax collections have experienced modest growth
Uncollected Property Taxes	Favorable	Uncollected property taxes have remained close to 3%
State Aid	Marginal	State Aid receipts has increased along with assessments and other charges
Economic Growth Revenue	Marginal	Economic Growth Revenue has been positive lately but in the past has been volatile
Expenditures per Household	Marginal	Expenses per household have increased by an avg. of 2.7% annually from FY15-19
Personnel Costs	Favorable	Total Natick personnel costs have remained proportional with the budget over time
Employee Benefits	Marginal	Health plans have been restructured to achieve savings but still experience increases
Pension Liability	Marginal	Funded ratio of 62% and the current plan includes 7% increases 2030 funding schedule
Capital Assets & Renewal	Favorable	Strong capital planning and allocation of resources to avoid costly deferred mtnce.
Debt Service	Marginal	Future large scale projects will need to be balanced with the ability to pay
Reserves & Fund Balance	Favorable	Natick remains in the range of expected reserves
One-time Revenues for Operations	Favorable	One-time revenues are spent for operations sustainably
OPEB Liability	Unfavorable	Significant unfunded liability; plan in place to fund after pension is fully funded
Population	Marginal	Moderate population growth has increased the need for services
School Enrollment & Teachers	Marginal	Moderate enrollment growth has increased the need for services

Additional Information



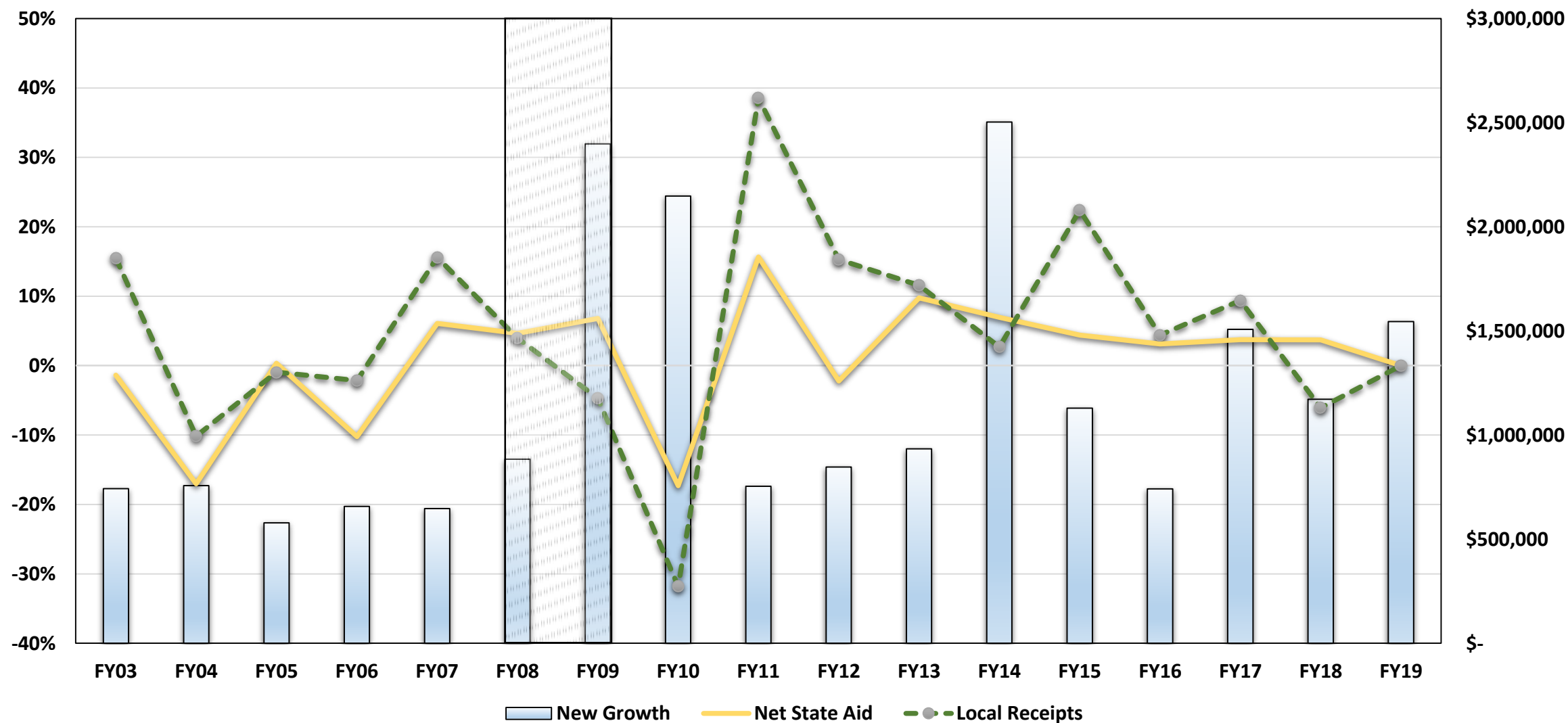


FY19 Avg. Single Family Tax Bill & Assessed Value



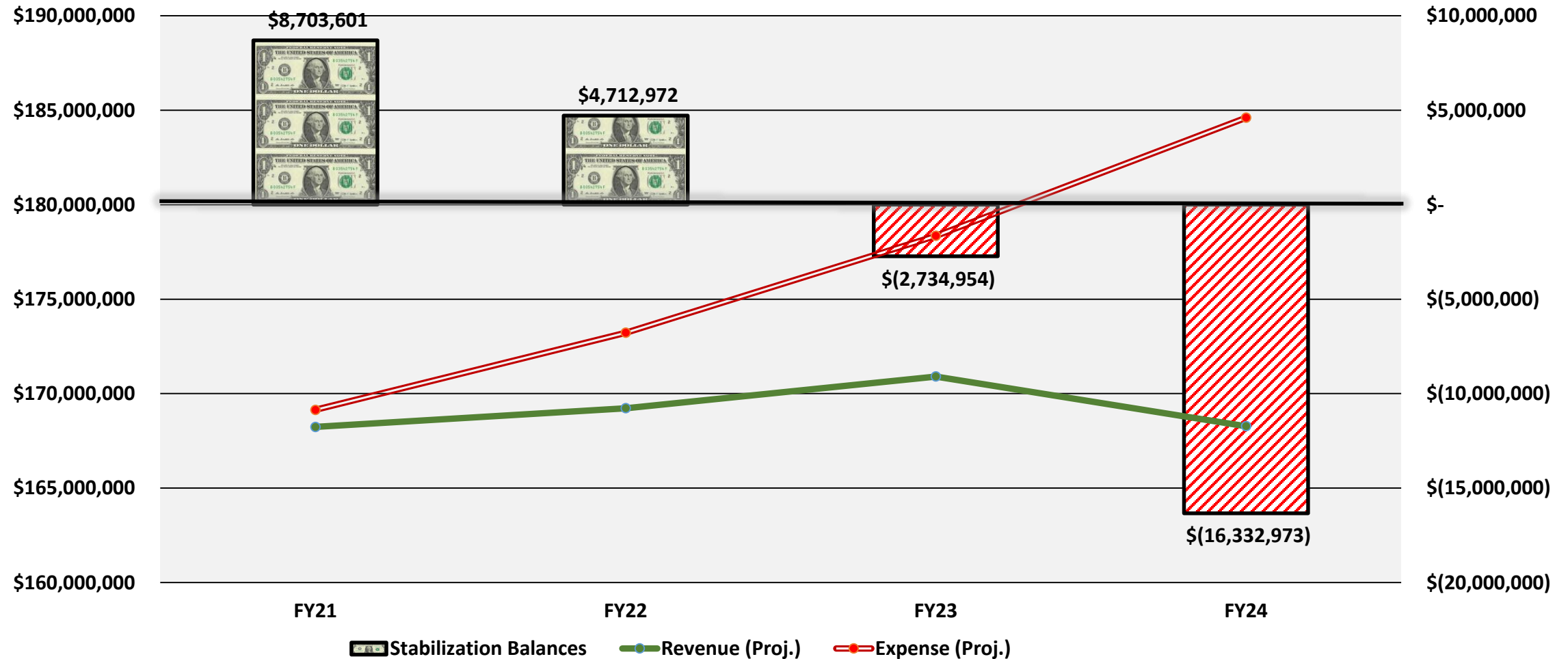


New Growth \$ & Changes in Local Receipts and Net State Aid





Economic Downturn Scenario



With a 2% downturn in State Aid & a 9% reduction in Local Receipts, Stabilization funds (General & Operational) should last 1.8 years with stable operations

4 Year Financial Forecasts





- **Forecast Goals:**

The Four-Year Financial Projection provides an overview of potential revenues and expenditures for the upcoming fiscal years. The intent of the forecast is to have a realistic outlook that will highlight town-wide operating trends and facilitate productive financial planning.





- **“Actual” Forecast:**

The “actual” forecast takes into account expense trends by account as well as the projected CBAs and personnel costs. The actual forecast also takes into account a vacancy rate of close to 4% which is discounted from the personnel appropriations.

- **“Budget” Forecast:**

The budget forecast outlines potential appropriation increases based on CBAs, personnel costs, and operating expense inflationary increases.

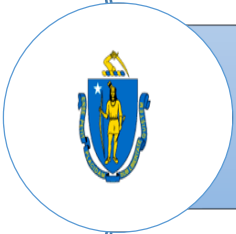




- **Revenue Assumptions:**



Tax Levy – 2.5% Levy, \$1.2M - \$950k New Growth, plus debt exclusions



State Aid – 2% to 3% growth annually (1% increase in charges)



Local Receipts – Decrease in FY21 with 2% growth annually



REVENUE FORECAST FY21 – FY24

	2020 Budget	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	Comments
General Fund Revenues						
1 Tax Levy	121,251,682	125,194,491	129,082,091	132,915,312	131,497,142	2.5% Levy, \$1.2M - \$950k New Growth, plus debt exclusions
2 State Aid	14,938,819	15,379,797	15,802,741	16,197,810	16,521,766	Assumes 2-3% growth annually
3 Local Receipts	17,901,540	16,887,035	17,224,775	17,569,271	17,920,656	Assumes 2% growth annually
4 Other Local Receipts						
5 Indirects	2,585,229	2,624,007	2,663,368	2,703,318	2,743,868	Dependent on GF operating budget assuming 1.5%
6 Free Cash	4,150,000	4,150,000	4,150,000	4,150,000	4,150,000	Assuming level for projection
7 Stabilization Fund	3,617,000	3,216,200	2,117,700	1,611,200	1,923,200	Based on Capital Plan
8 Overlay Surplus	500,000	500,000	500,000	500,000	500,000	Can change based on ATB liabilities
9 Other Available Funds	291,309	282,740	273,992	266,614	257,110	Parking Meter Receipts, Other State Remb., Bond Premiums for HS/CSC
Total General Fund Revenues	165,235,579	168,234,270	171,814,667	175,913,524	175,513,742	



Town of Natick: Financial Indicators

Expense Forecast – “Budget Forecast”

	2020 Budget	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	Comments
General Fund Expenses						
Education & Learning						
10 Natick Public Schools	67,810,346	70,861,812	74,050,593	77,382,870	80,865,099	Assumes 4.5% increase
12 Keefe Tech	1,554,748	1,601,390	1,649,432	1,695,121	1,743,602	Assumes 2.7 - 3% increases
13 Morse Institute Library	2,275,499	2,389,502	2,433,764	2,478,793	2,516,153	Assumes Avg increase of 2.6%
14 Bacon Free Library	190,792	194,068	197,659	201,304	205,542	Assumes Avg increase of 1.9%
15 Public Safety	16,568,716	17,253,437	17,614,432	17,973,184	18,262,486	Assumes Avg increase of 2.5%
16 Public Works	8,858,627	9,355,323	9,494,857	9,667,071	9,826,823	Assumes Avg increase of 2.6%
17 Health & Human Services	2,611,475	2,492,057	2,542,040	2,592,587	2,633,530	Assumes Avg increase of 1.9% (post restructure)
18 Administrative Support Services	7,502,649	6,606,369	6,731,797	6,858,796	6,965,620	Assumes Avg increase of 1.8% (CBA line has been distributed)
19 Committees	120,550	120,550	120,550	120,550	120,550	Assumes level funding
20 Shared Expenses						
21 Fringe Benefits	16,743,422	17,078,290	17,419,856	17,768,253	18,123,618	Assumes 2% increase
22 Prop & Liab. Insurance	807,150	849,275	892,679	934,325	978,548	Assumes Avg increase of 4.9%
23 Retirement	10,070,552	10,752,491	11,505,165	12,310,527	13,172,263	Assumes 7% increases less Non-Contributory Retirement
24 Debt Services	16,626,732	16,456,666	16,445,766	16,810,809	17,302,114	Based on capital plan debt service schedule
25 Reserve Fund	250,000	250,000	250,000	250,000	250,000	Level-Funded
26 Facilities Management	3,426,619	3,592,203	3,656,264	3,723,342	3,774,073	Assumes 2.5% increase
General Fund Oper. Expenses	155,417,877	159,853,434	165,004,855	170,767,532	176,740,022	
26 Capital Improvements	3,617,000	3,216,200	2,117,700	1,611,200	1,923,200	Capital Stab. Fund provides cash funding moving forward.
27 School Bus Transportation	410,137	421,416	433,005	444,912	457,147	Assumes 2.75% annual increase
28 State & County Assessments	1,504,841	1,519,889	1,535,088	1,550,439	1,565,944	Assumes 1% annual increase
29 Cherry Sheet Offsets	359,312	362,905	366,534	370,200	373,902	Assumes 1% annual increase
31 Snow Removal Supplement	350,000	465,000	465,000	465,000	465,000	Assumes Snow & Ice costs of \$1M
32 Overlay	1,015,000	1,000,000	1,000,000	1,000,000	1,000,000	Varies dependent upon valuations, revaluation years
33 Golf Course Deficit	240,000	250,000	245,000	90,000	30,000	Per STGC 5-Year Projection
34 General Stabilization Fund	100,000	100,000	100,000	100,000	100,000	Assumes level funding
35 Operational Stabilization Fund	100,000	100,000	100,000	100,000	100,000	Assumes level funding
36 Capital Stabilization Fund	1,450,000	1,450,000	1,450,000	1,450,000	1,450,000	Assumes level funding
37 OPEB Trust	300,000	300,000	300,000	300,000	300,000	Assumes level funding
38 Misc. Articles	100,000	100,000	100,000	100,000	100,000	Assumes level funding
Total General Fund Expenses	164,964,167	169,138,845	173,217,182	178,349,283	184,605,214	
Net Excess / (Deficit)	271,412	-904,575	-1,402,515	-2,435,759	-9,091,472	



Town of Natick: Financial Indicators

Expense Forecast – “Actual Forecast”

	2020 Budget	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	Comments
General Fund Expenses						
Education & Learning						
10 Natick Public Schools	67,810,346	72,201,014	76,424,774	80,895,623	85,628,017	Assumes 5.85% annual increase based on last 5 year increases
12 Keefe Tech	1,554,748	1,601,390	1,649,432	1,695,121	1,743,602	Assumes 2.7 - 3% increases
13 Morse Institute Library	2,275,499	2,373,100	2,411,309	2,462,066	2,500,072	Assumes Avg increase of 2.4%
14 Bacon Free Library	190,792	194,068	197,659	201,304	205,542	Assumes Avg increase of 1.9%
15 Public Safety	16,568,716	16,921,529	17,275,527	17,627,332	17,911,079	Assumes Avg increase of 2.0%
16 Public Works	8,858,627	9,191,561	9,327,070	9,495,207	9,651,663	Assumes Avg increase of 2.2%
17 Health & Human Services	2,611,475	2,414,342	2,462,693	2,511,585	2,551,257	Assumes Avg increase of 2.3% (post restructure)
18 Administrative Support Services	7,502,649	6,110,007	6,227,177	6,346,506	6,447,129	Assumes Avg increase of 1.8% (CBA line has been distributed)
19 Committees	120,550	105,000	106,785	108,600	110,447	Assumes 1.7% increases
20 Shared Expenses						
21 Fringe Benefits	16,743,422	16,871,597	17,004,361	17,129,232	17,263,522	Assumes 0.8% increases (will vary dependent upon plan changes)
22 Prop & Liab. Insurance	807,150	849,275	892,679	934,325	978,548	Assumes Avg increase of 4.9%
23 Retirement	10,070,552	10,752,491	11,505,165	12,310,527	13,172,263	Assumes 7% increases less Non-Contributory Retirement
24 Debt Services	16,626,732	16,456,666	16,445,766	16,810,809	17,302,114	Based on capital plan debt service schedule
25 Reserve Fund	250,000	250,000	250,000	250,000	250,000	Level-Funded
26 Facilities Management	3,426,619	3,336,096	3,395,866	3,458,686	3,505,968	Assumes 1.4% increase
General Fund Oper. Expenses	155,417,877	159,628,136	165,576,264	172,236,923	179,221,223	
26 Capital Improvements	3,617,000	3,216,200	2,117,700	1,611,200	1,923,200	Capital Stab. Fund provides cash funding moving forward.
27 School Bus Transportation	410,137	421,416	433,005	444,912	457,147	Assumes 2.75% annual increase
28 State & County Assessments	1,504,841	1,519,889	1,535,088	1,550,439	1,565,944	Assumes 1% annual increase
29 Cherry Sheet Offsets	359,312	362,905	366,534	370,200	373,902	Assumes 1% annual increase
31 Snow Removal Supplement	350,000	465,000	465,000	465,000	465,000	Assumes Snow & Ice costs of \$1M
32 Overlay	1,015,000	1,000,000	1,000,000	1,000,000	1,000,000	Varies dependent upon valuations, revaluation years
33 Golf Course Deficit	240,000	250,000	245,000	90,000	30,000	Per STGC 5-Year Projection
34 General Stabilization Fund	100,000	100,000	100,000	100,000	100,000	Assumes level funding
35 Operational Stabilization Fund	100,000	100,000	100,000	100,000	100,000	Assumes level funding
36 Capital Stabilization Fund	1,450,000	1,450,000	1,450,000	1,450,000	1,450,000	Assumes level funding
37 OPEB Trust	300,000	300,000	300,000	300,000	300,000	Assumes level funding
38 Misc. Articles	100,000	100,000	100,000	100,000	100,000	Assumes level funding
Total General Fund Expenses	164,964,167	168,913,546	173,788,591	179,818,674	187,086,415	
Net Excess / (Deficit)	271,412	-679,277	-1,973,923	-3,905,150	-11,572,673	



Revenue Side Forecast Issues:

- New Growth is an estimate for FY21
- State Aid is assuming the trend of 2-3% increases. If the state economy faces a downturn, local aid may as well.
- Local Receipts is projected conservatively given the FY19 experience. Overall FY19 numbers were consistent with expectations, however some key revenue sources dipped unexpectedly (ambulance, motor vehicle excise). These were offset by increased investment income as well as supplemental tax bills; both of which are difficult to predict.



Expense Side Forecast Issues:

- Outstanding CBAs & LIUNA
- Projections don't include new initiatives (new programs/positions)
- NPS expenses are exclusively based off of historical appropriations
- Uncertainty with Fringe Benefits (health insurance volatility)
- Debt service schedule is based on current plan and excludes any additional large-scale infrastructure
- Funding of stabilization funds & miscellaneous articles is a placeholder currently



Planning: A first step in designing a prudent fiscal plan.



Sustainability: Balancing immediate needs v. long term goals



Potential Outcomes