Financial Review & Forecast

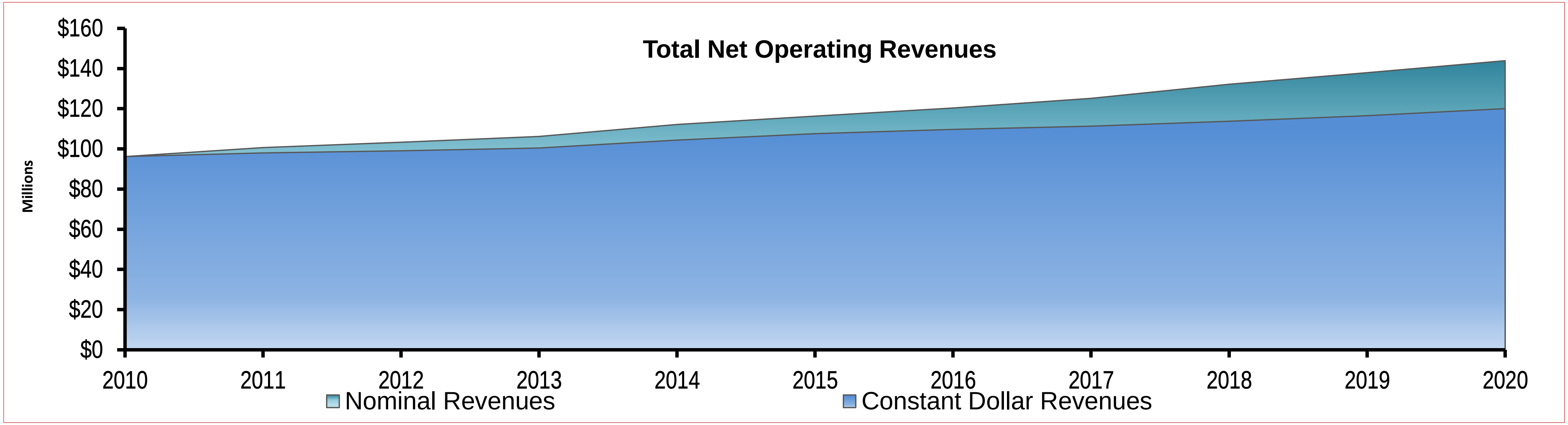
Select Board

September 30, 2020

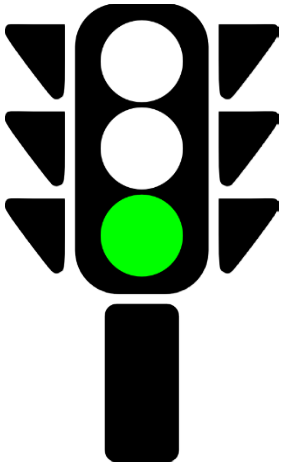
- **Financial Indicators**:

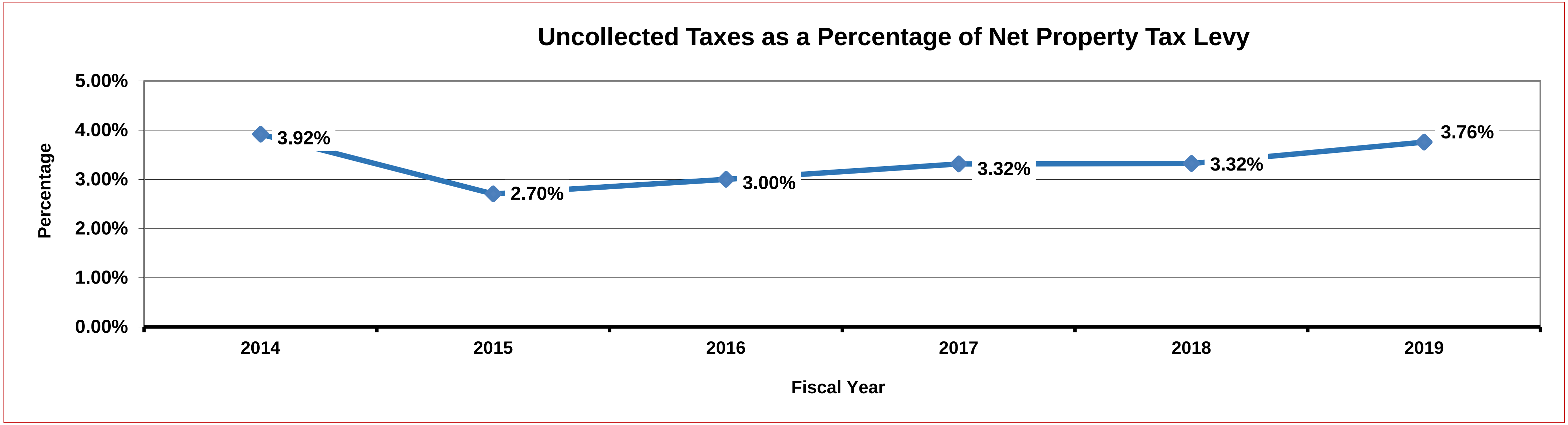
The purpose of the financial indicators is to provide recognizable and impactful measures that help to the financial well-being of the Town. Overall Natick remains in a stable fiscal condition

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

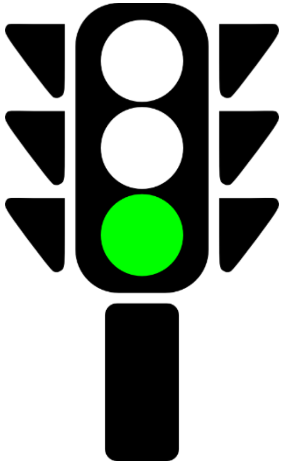


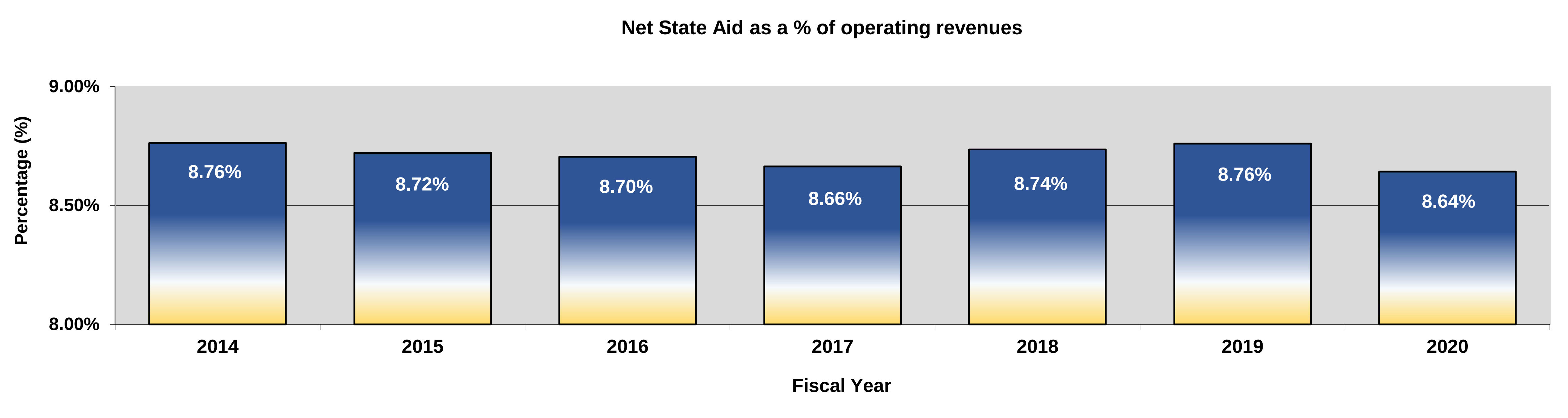
- **<u>Trend Guideline</u>**: A decline in revenues especially the property tax levy is considered a warning indicator.
- **<u>Analysis</u>:** Property tax revenues are analyzed separately because it is the Town's primary revenue source for both operating and capital spending. Increases due to overrides, 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.



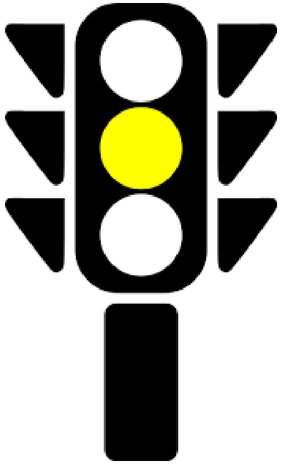


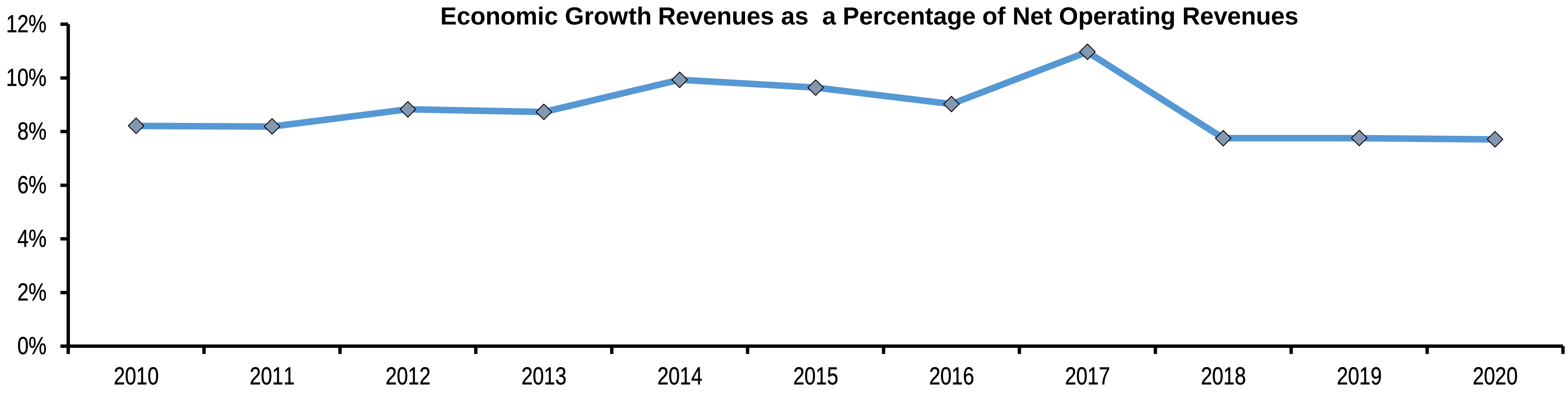
- **Trend Guideline:** Uncollected property taxes (as a percent of the tax levy) of 5 – 8% is considered a warning indicator by bond rating agencies.
- **Analysis:** If uncollected taxes remain between 5-8% of a community's net tax levy (tax levy less overlay) or the trend shows uncollected taxes increasing, 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.



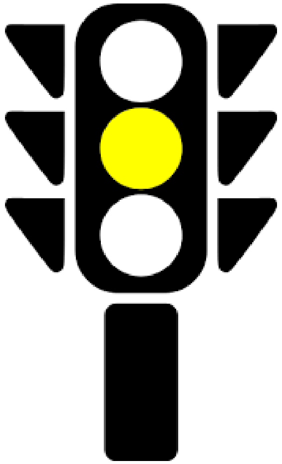


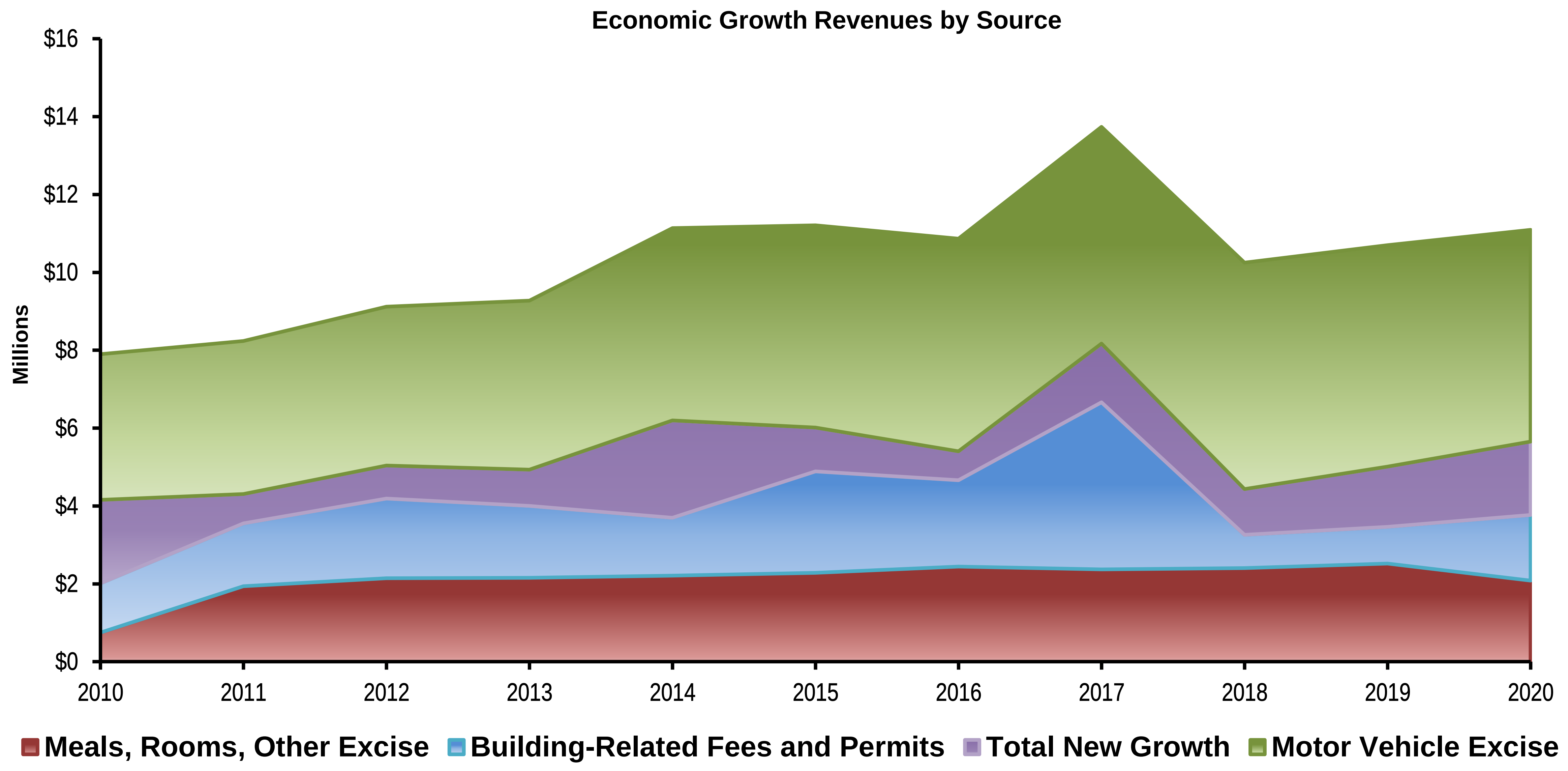
- **Trend Guideline**: Reductions in State Aid as a percentage of operating revenues is considered a warning indicator particularly if the Town does not have adequate reserves to offset reductions.
- **Analysis:** Designed to fund a variety of local services (education, veterans, and general operations), 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 (FY18 – FY21) Natick has experienced moderate increases to Net State Aid (Revenues – Charges & Offsets) of an average increase of over 3%. As a percentage of the budget Net State Aid revenues comprise over 8.5% of the operating budget.

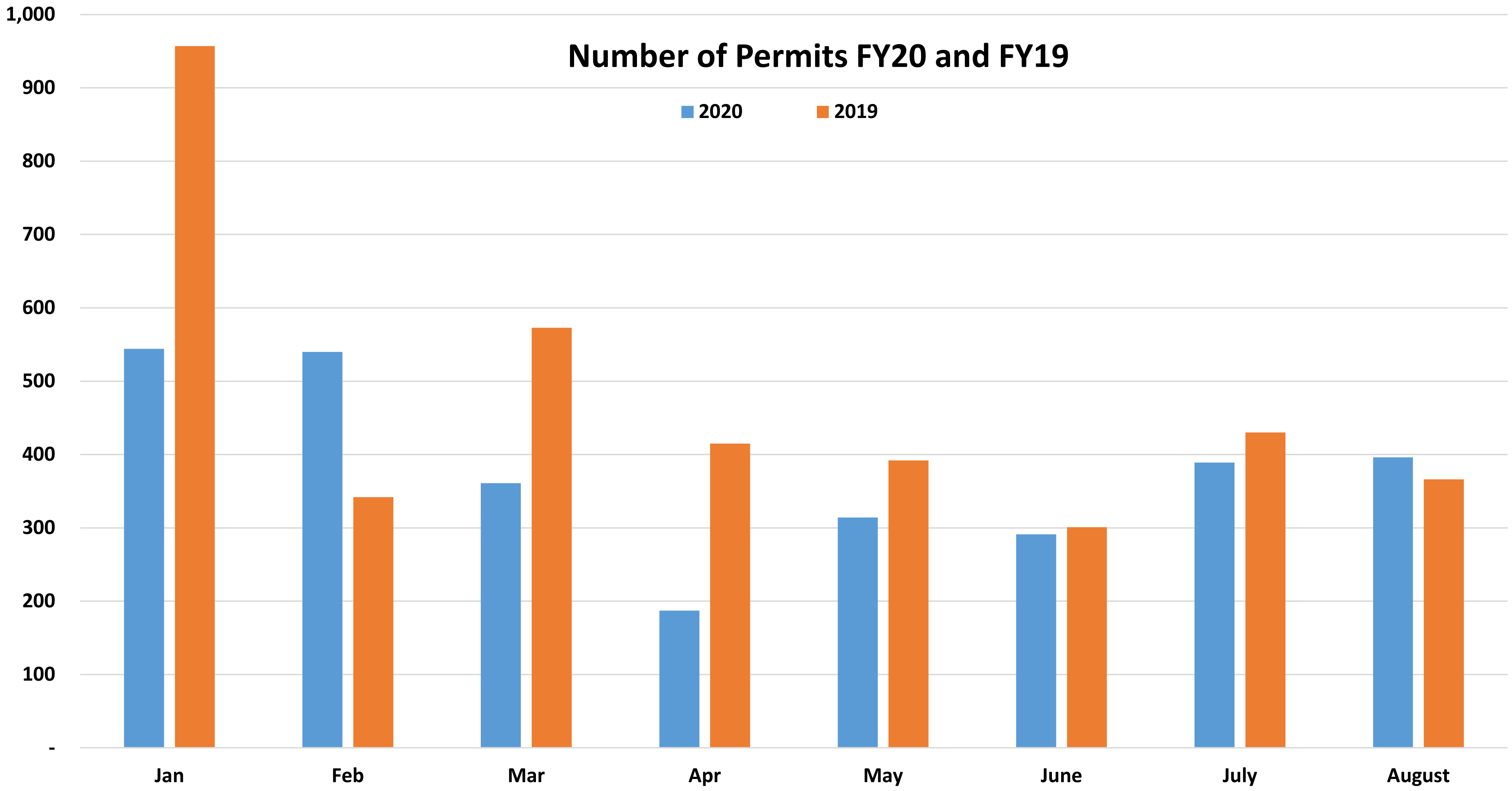


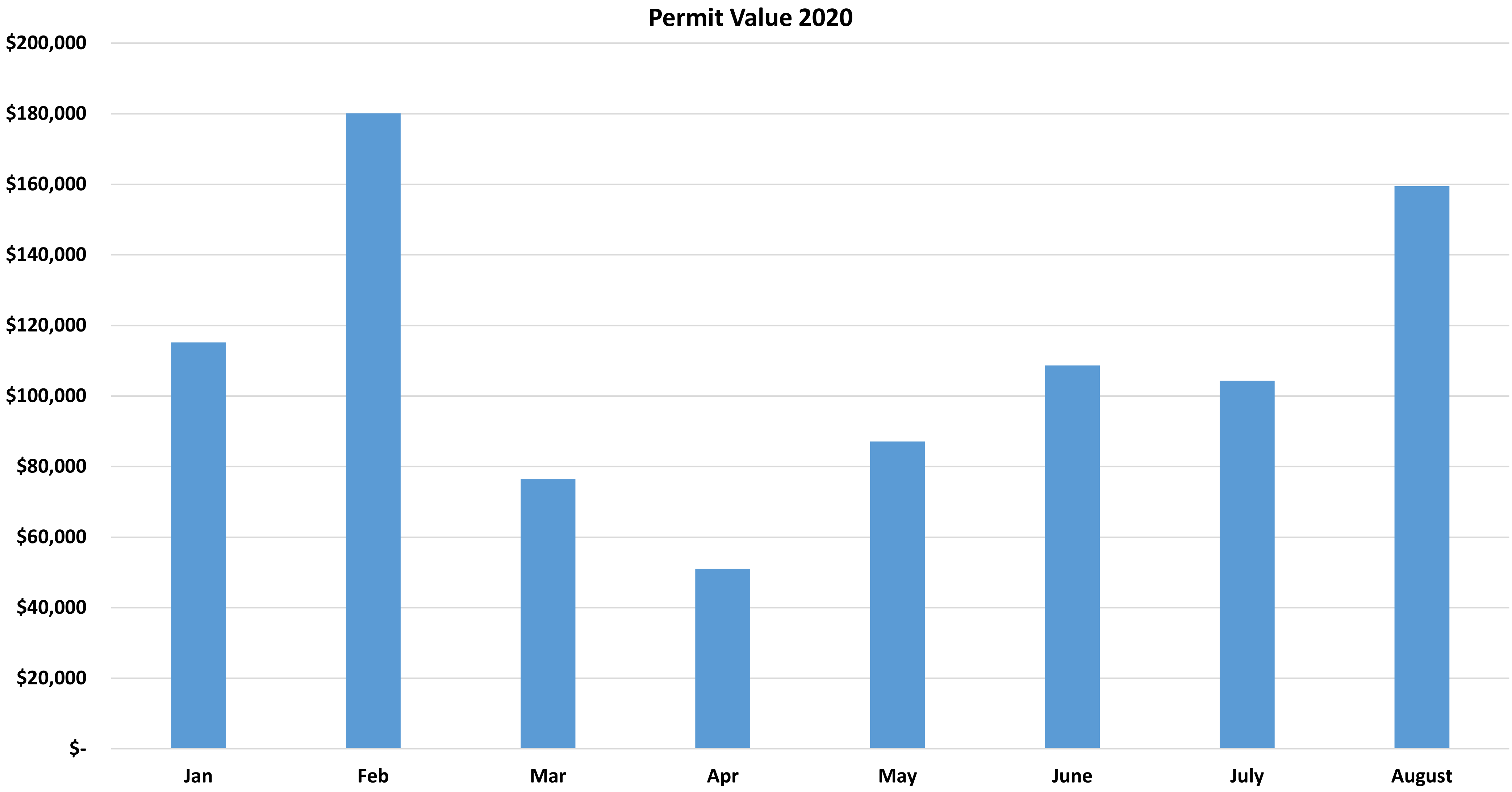


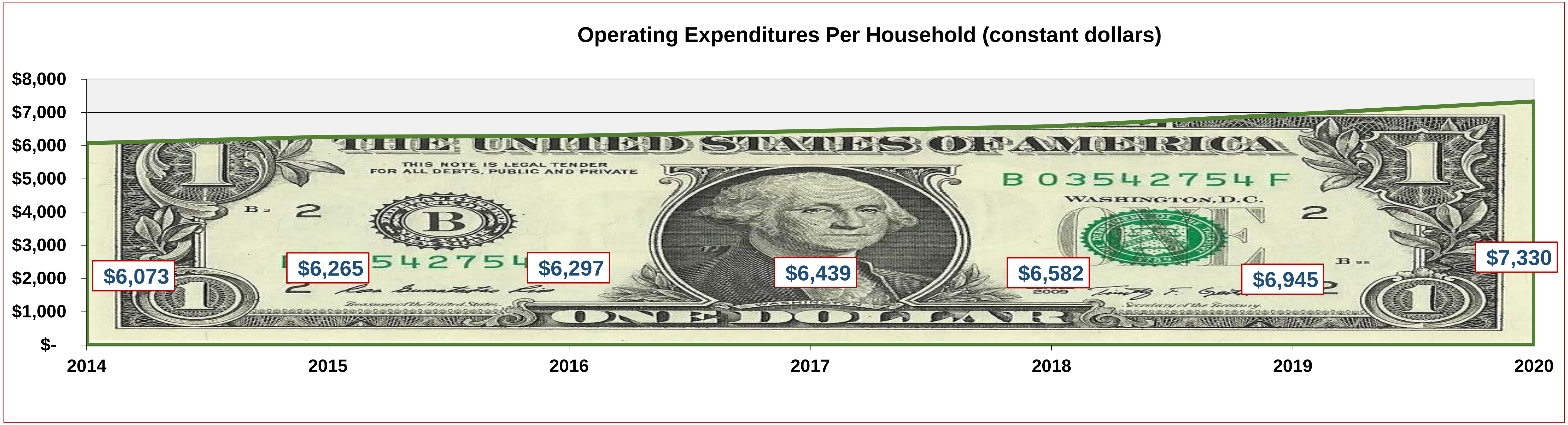
- **<u>Trend Guideline</u>**: Decreasing economic growth revenues as a percentage of net operating revenues is considered a warning indicator.
- **<u>Analysis:</u>** Revenue related to economic growth include classifications such as: permit fees, new tax levy growth resulting from new construction, and 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%.



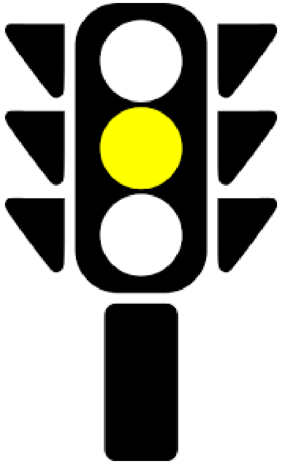

Economic Growth Revenues by Source
Millions
$16
$14
$12
$10
$8
$6
$4
$2
$0
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Meals, Rooms, Other Excise
Building-Related Fees and Permits
Total New Growth
Motor Vehicle Excise

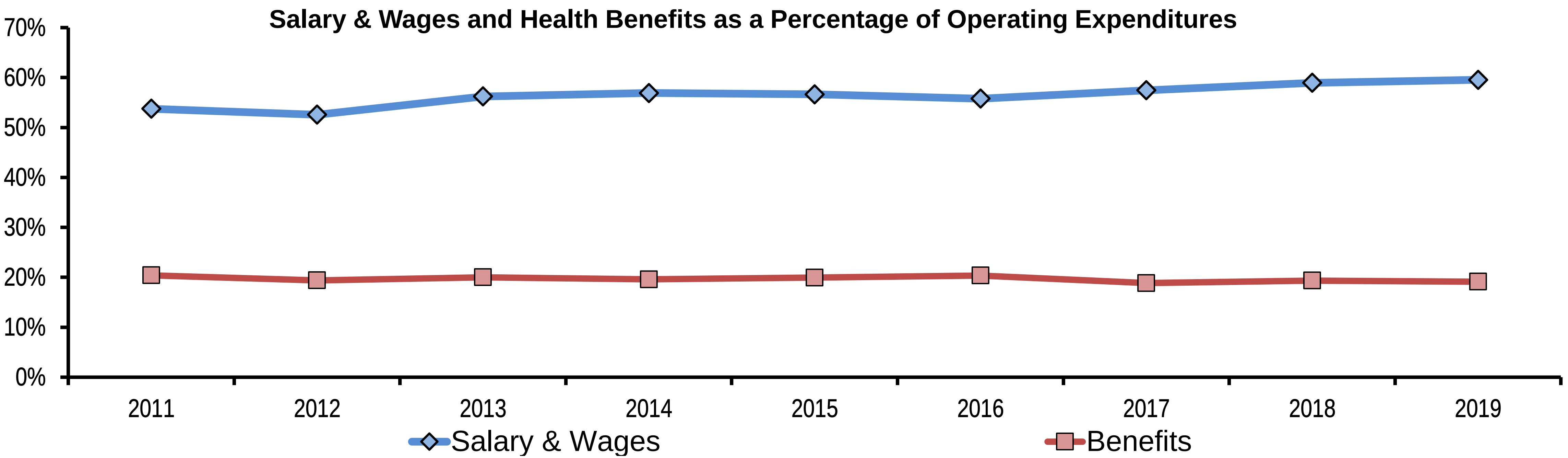

Number of Permits FY20 and FY19
2020
2019
1,000
900
800
700
600
500
400
300
200
100
-
Jan
Feb
Mar
Apr
May
June
July
August


Permit Value 2020
$200,000
$180,000
$160,000
$140,000
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$-
Jan
Feb
Mar
Apr
May
June
July
August

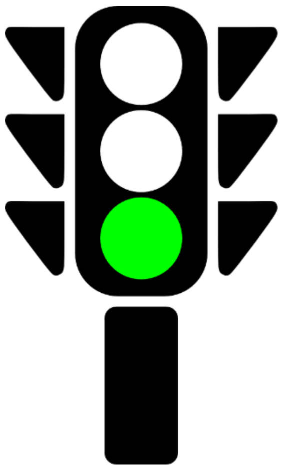


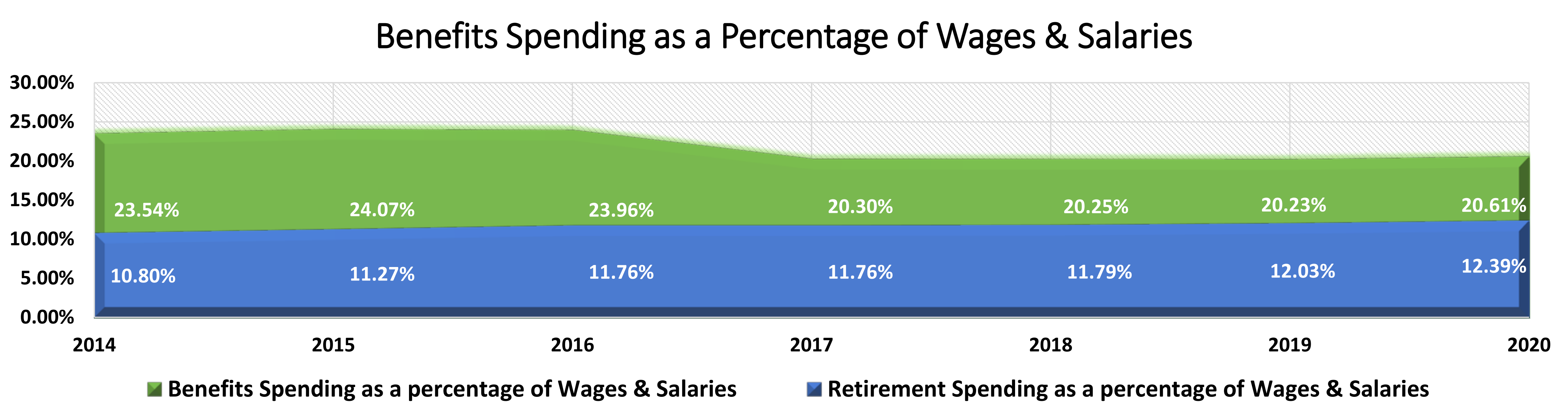
- **<u>Trend Guideline</u>**: Increasing net operating expenditures per household, in constant dollar, may be considered a warning indicator
- **<u>Analysis:</u>** Increasing operating expenditures per household can indicate that the cost of providing services is potentially outpacing taxpayer's ability 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 – FY20 the operating expenses per household has increased an average of 3.2% annually.



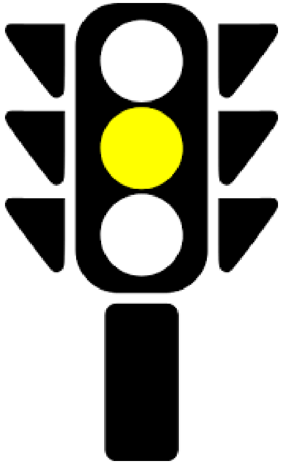


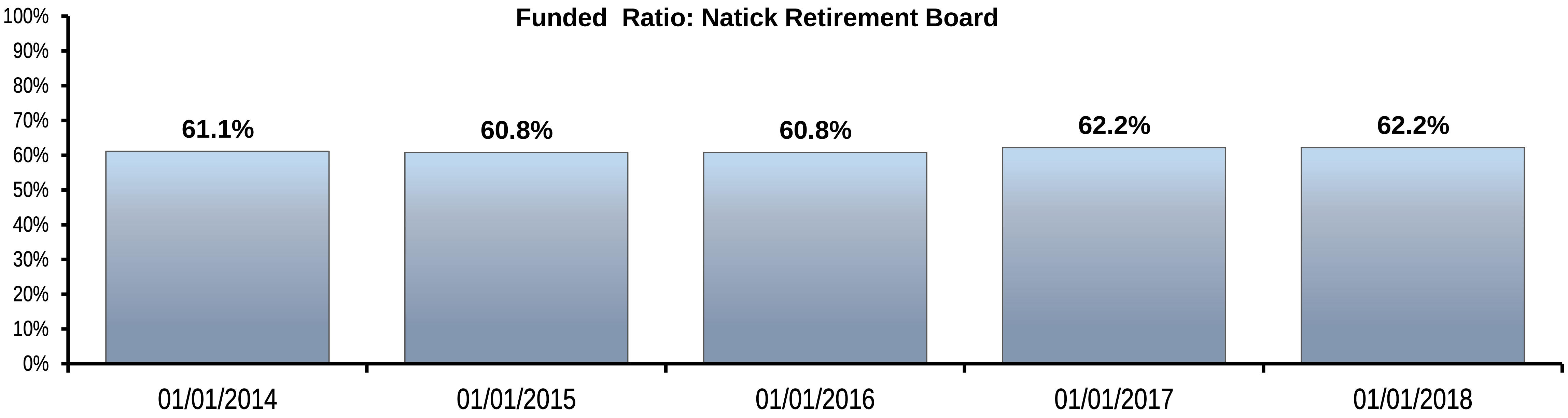
- **<u>Trend Guideline</u>**: Increasing personnel costs as a percentage of total spending is considered a warning factor. This graph represents municipal and school departments combined.
- **<u>Analysis:</u>** Increasing salaries and wages as a percent of operating expenditures may be an indicator of two trends: 1) First, it may point to <u>future</u> pension and health insurance costs since both of these items are related to the number and compensation level of employees. 2) Second, 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. Staffing increases (especially benefit eligible) could impact these ratios significantly.



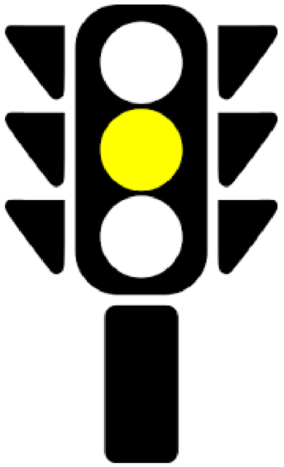


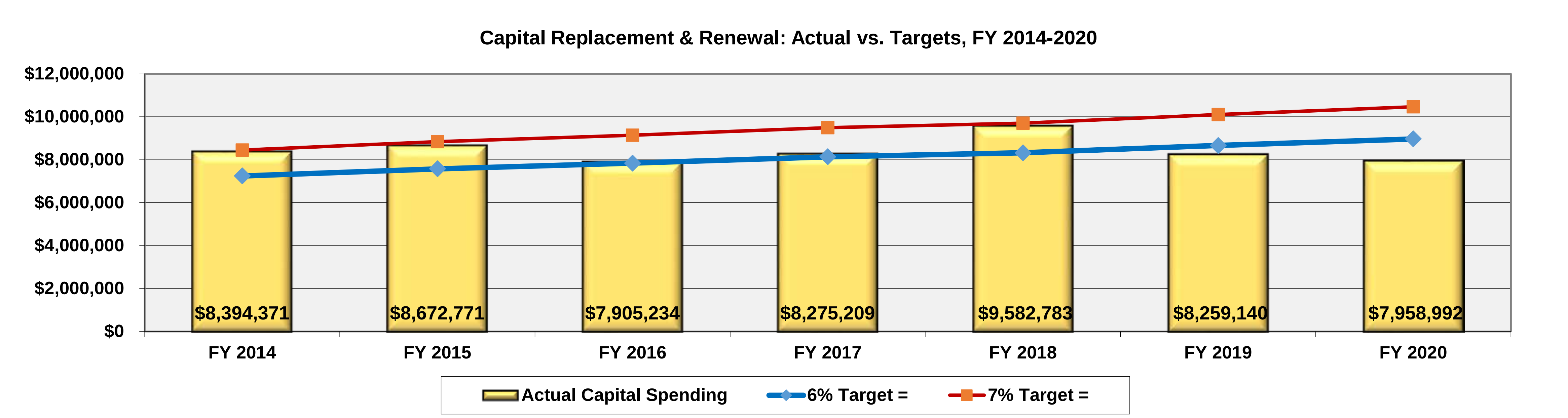
- **<u>Trend Guideline</u>**: Increasing benefit costs as a percentage of operating expenditures is considered a warning indicator
- **<u>Analysis:</u>** This indicator demonstrates significant growth in health care costs. Natick has been able to find savings in recent years by restructuring health plans from Rate Savers to Benchmark as well as High-Deductible plans. Even with those changes, premiums increased by an average of 4.5% from FY20 to FY21. The increase in health care costs means valuable available funds for other purposes are being spent to maintain an existing benefit.



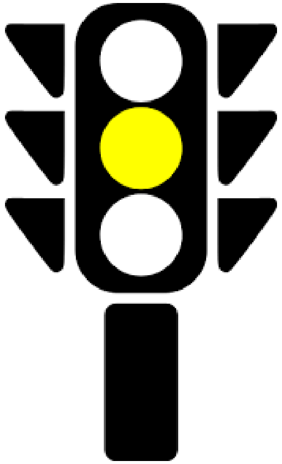


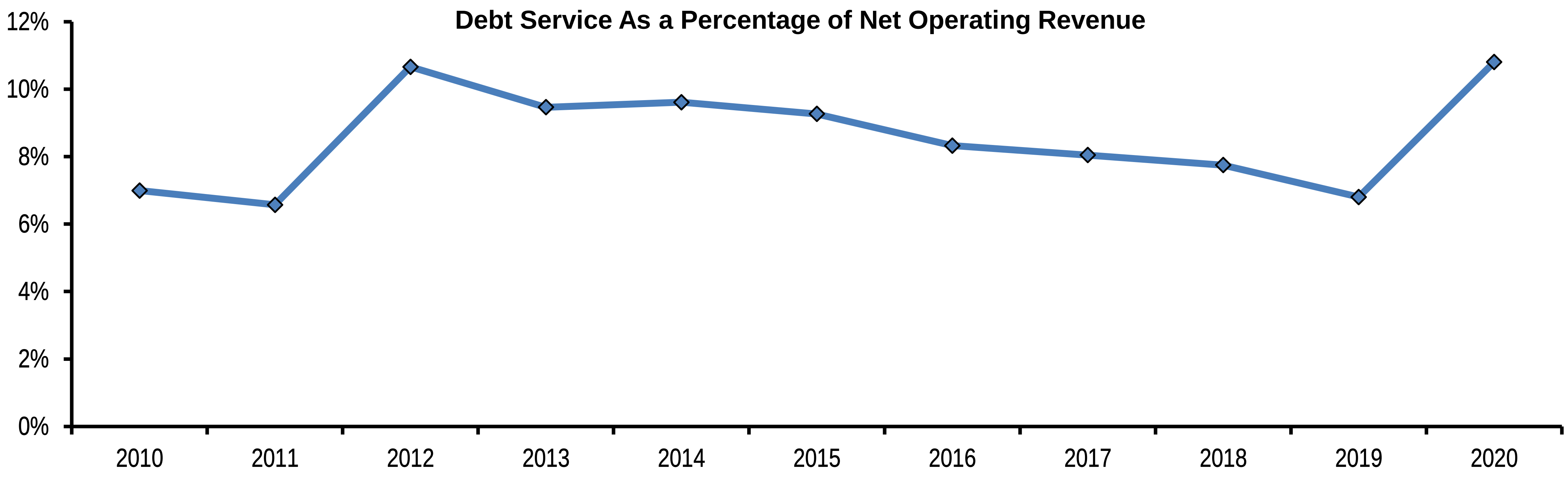
- **<u>Trend Guideline</u>**: An unfunded pension liability or increase in the unfunded liability is considered a warning indicator.
- **<u>Analysis:</u>** As of January 1, 2018, there were 1,041 participants in the Natick Retirement System - 644 active, and 397 retired participants and beneficiaries. Town Meeting appropriates an annual contribution to the system as determined by an actuarial study. For FY21 the budget appropriation for the Town of Natick Retirement System was over $10.8M.



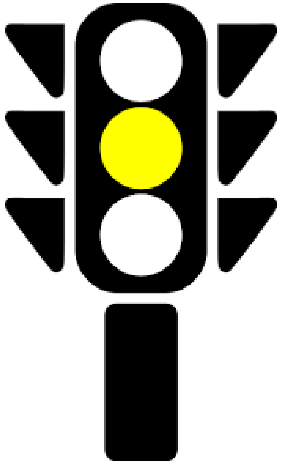


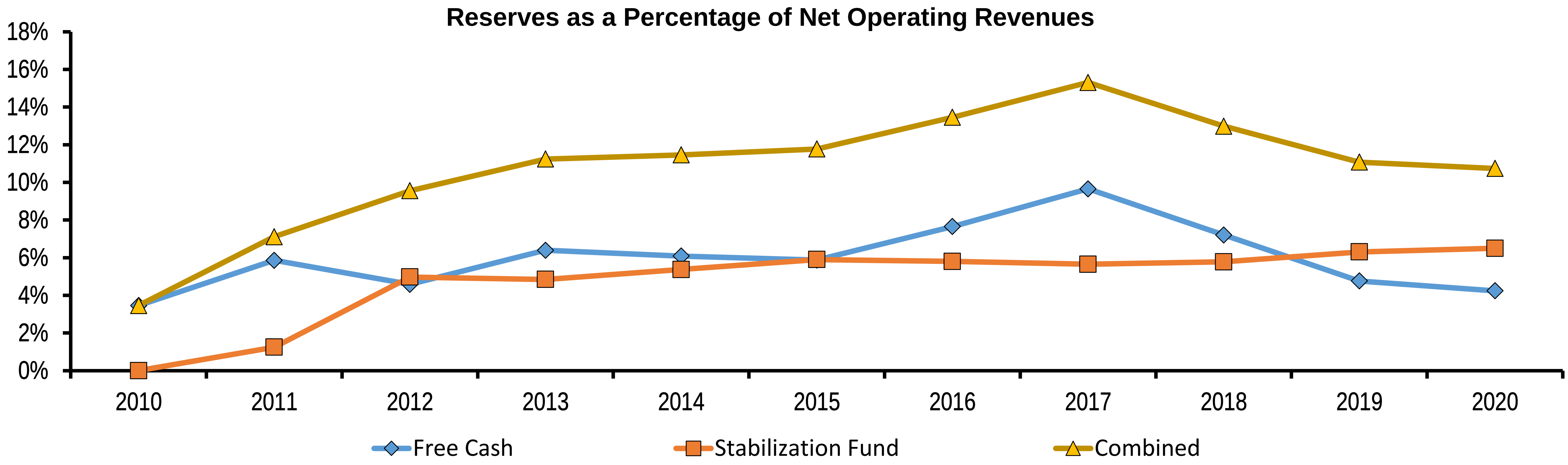
- **Trend Guideline**: A three or more year decline in capital spending form operating funds as a percentage of gross operating revenues is considered a warning indicator.
- **Analysis:** Timely replacement of capital equipment and infrastructure benefits the community in the long-run as it increases 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.



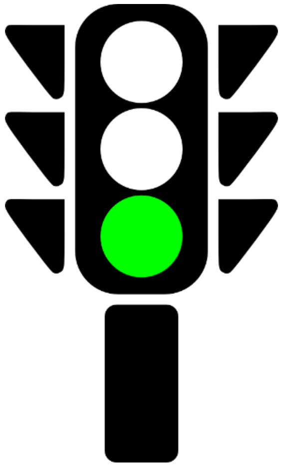


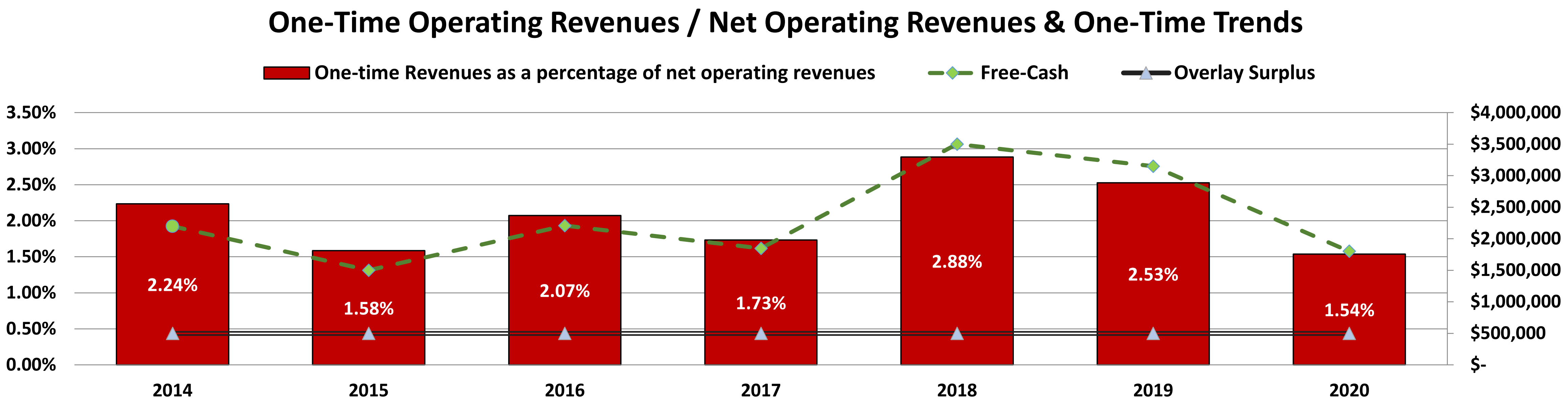
- **Trend Guideline**: Debt Service exceeding 20% of net operating revenues is considered a dire warning indicator by the credit rating agencies.
- **Analysis:** Debt is the chief financing tool utilized by municipalities to continually replace and maintain its capital infrastructure. It is important 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.



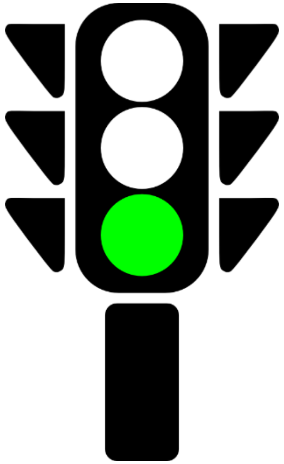


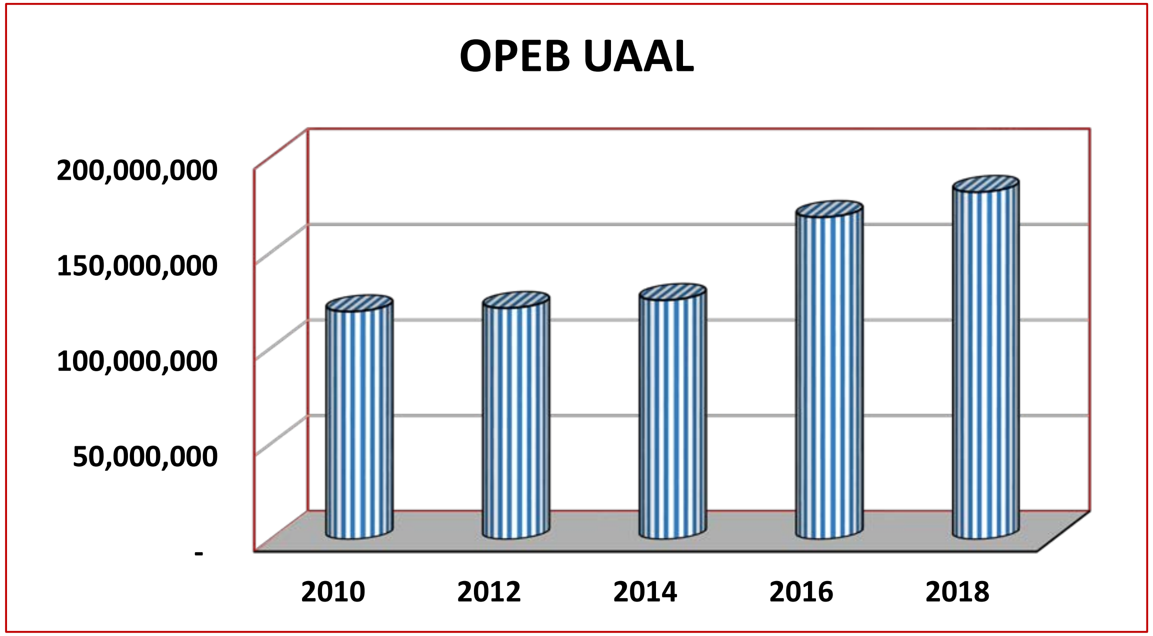
- **<u>Trend Guideline</u>**: Declining reserves as a percentage of operating revenues is considered a warning indicator. GFOA recommends undesignated fund balance be 5-15% of operating revenues.
- **<u>Analysis:</u>** Reserves can be used for many different purposes. Primarily, reserves are use to buffer 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.

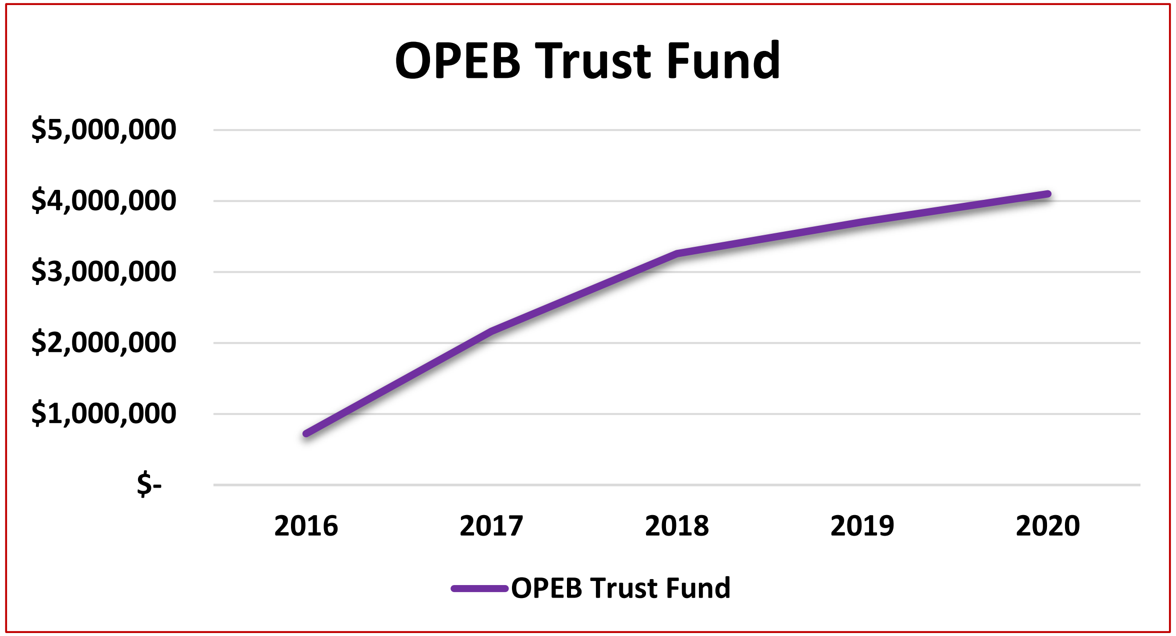




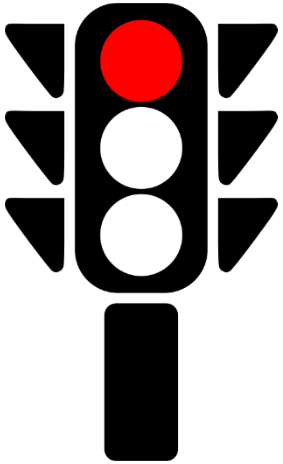
- **<u>Trend Guideline</u>**: Increasing use of one-time revenues as a percentage of operating revenues is considered a warning indicator.
- **<u>Analysis:</u>** Municipalities may utilize reserves and one-time revenues to balance annual operating budgets, sustain programs in times of economic downturn, 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.

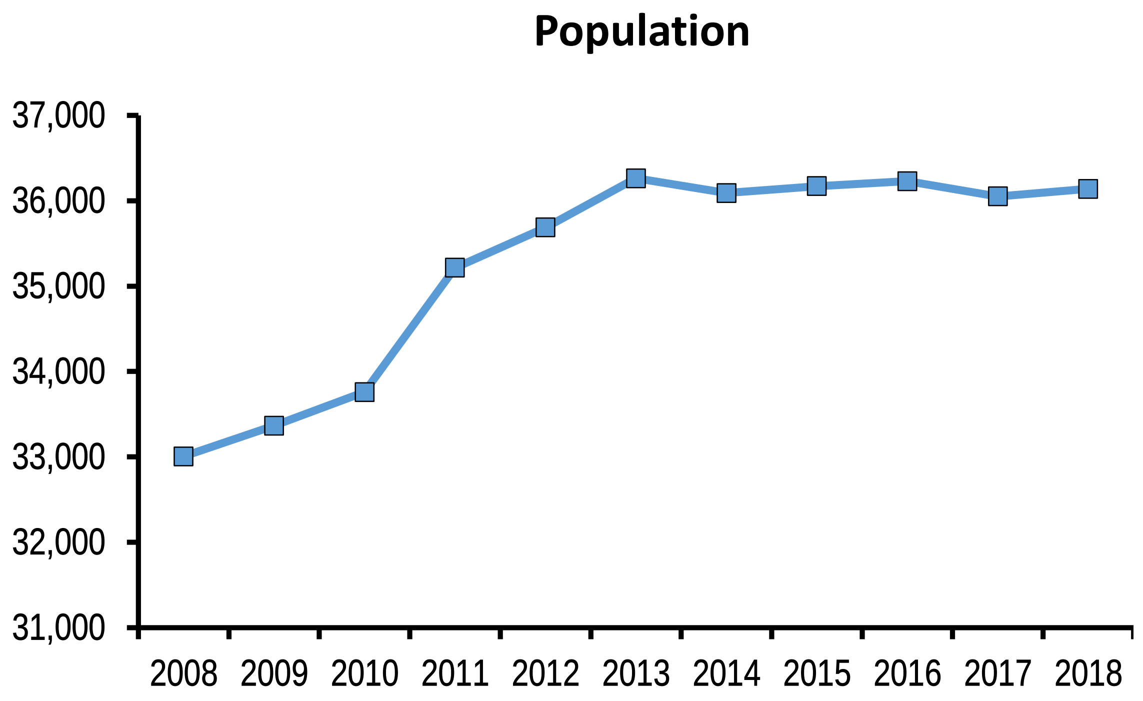


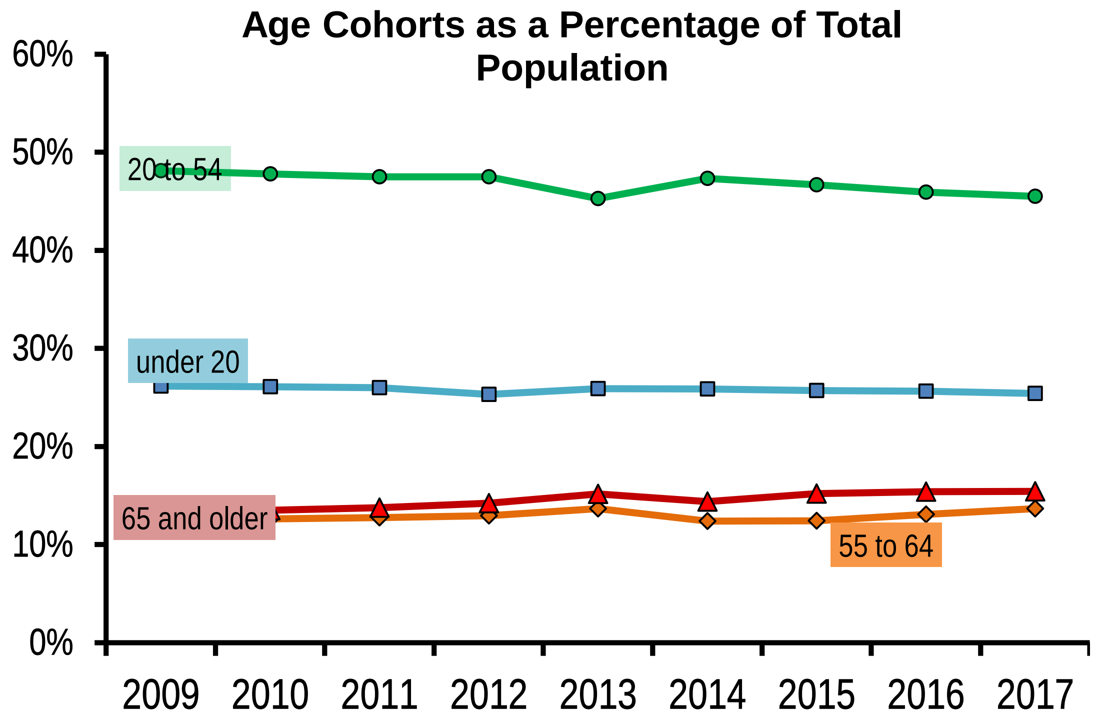




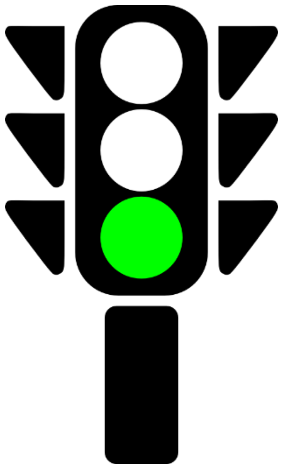
- **<u>Trend Guideline</u>**: An unfunded OPEB liability or increase in the unfunded liability is considered a warning indicator.
- **<u>Analysis:</u>** OPEB (Other Post-Employment Benefits) are healthcare and life insurance benefits provided by the Town for retirees (including schools). As of July 1, 2018, the unfunded actuarial accrued liability (UAAL) was approximately $181M.



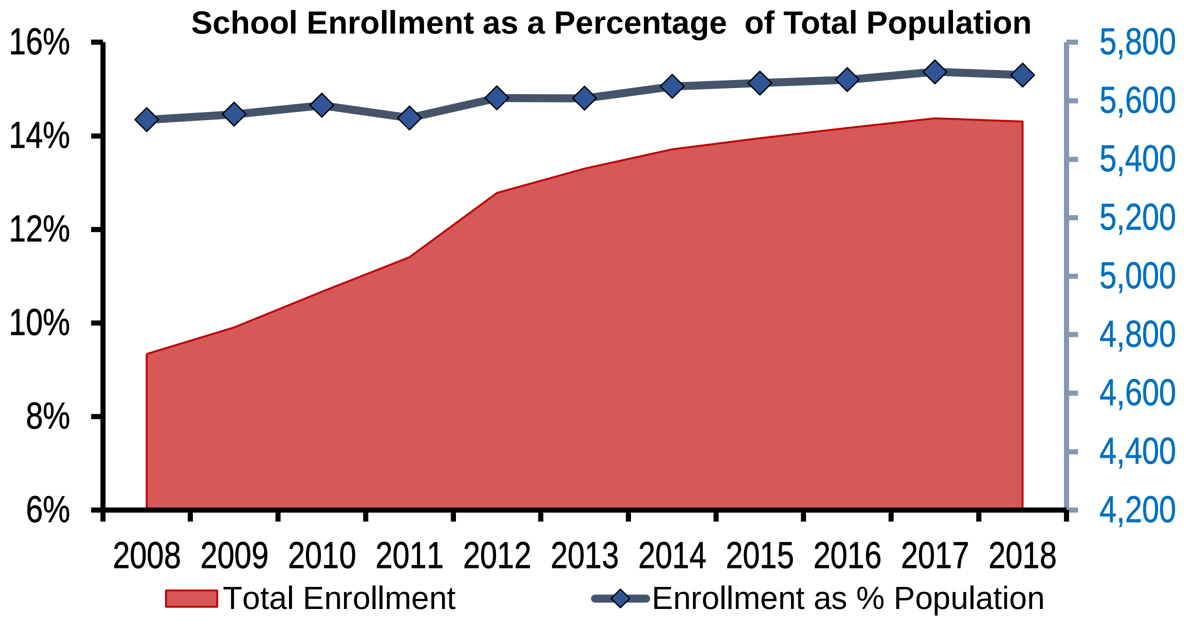


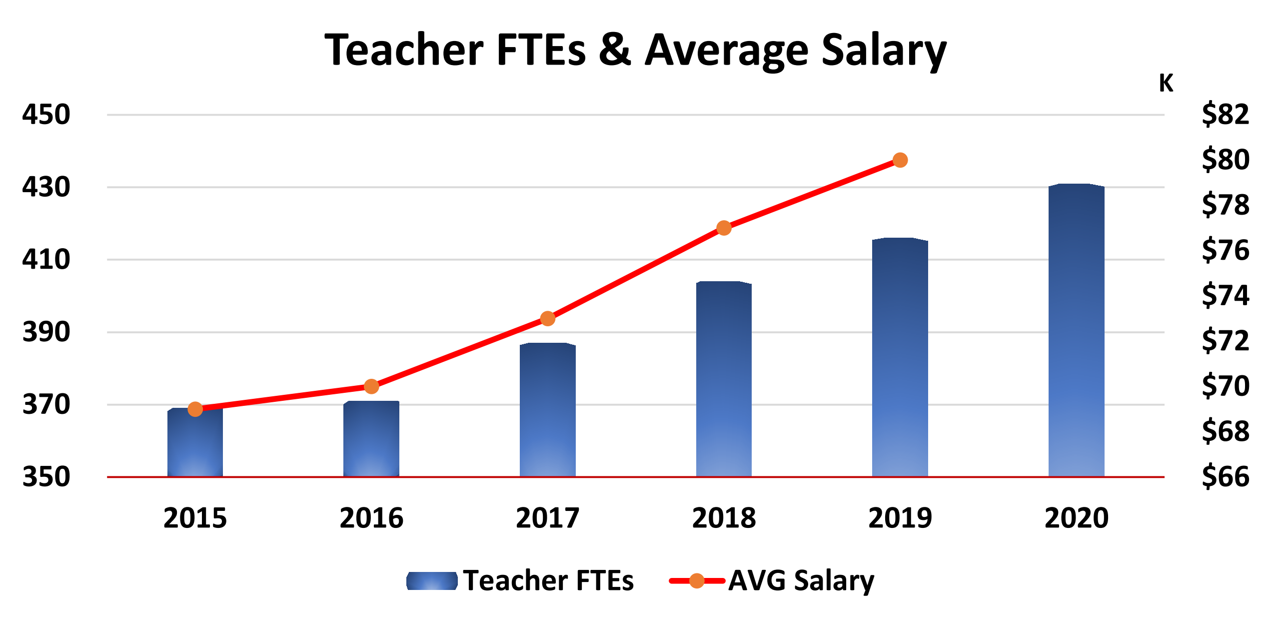


- **<u>Trend Guideline</u>**: Rapid changes in population which may affect service levels may be considered a warning indicator
- **<u>Analysis:</u>** Population has steadily increased in recent years and remains fairly balanced across age groups.

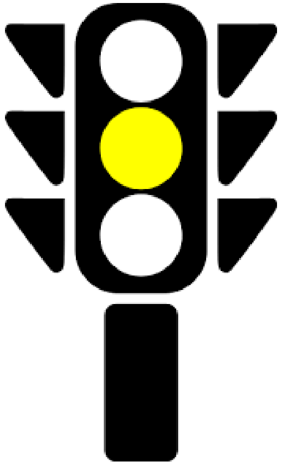


Indicator 15: School Enrollment & Teachers





- **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.



Town of Natick: Financial Indicators

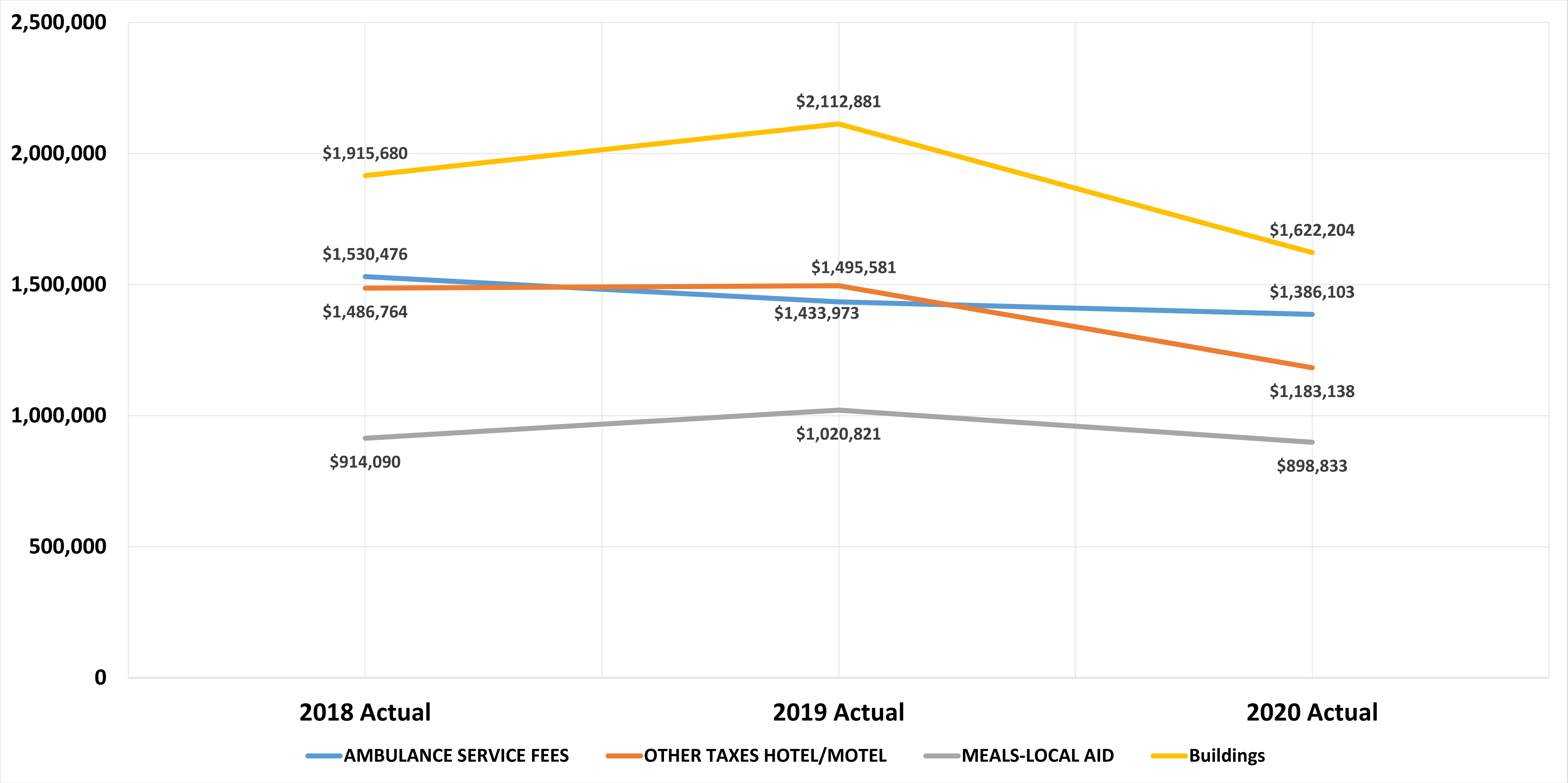
Dashboard

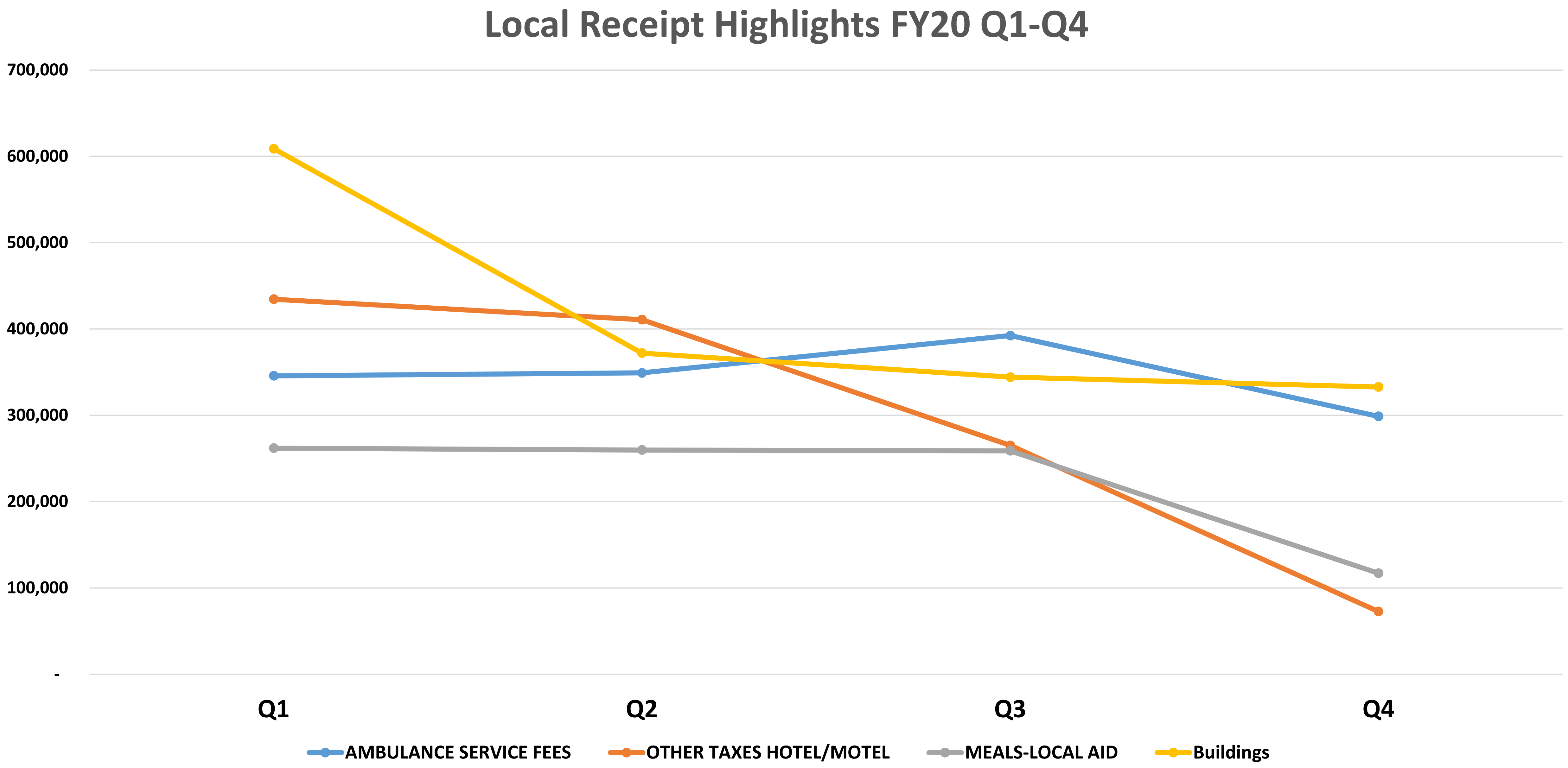
Natick Financial Indicators Dashboard		
Financial Indicator	**Trend**	**Highlights**
Net Operating Revenues	Favorable	Adjusted for inflation, property tax collections have experienced modest growth
Uncollected Property Taxes	Favorable	Uncollected property taxes have remained close to 3%
State Aid	Marginal	State Aid receipts has increased along with assessments and other charges
Economic Growth Revenue	Marginal	Experienced a significant decline in Q4 with the impact of COVID19
Expenditures per Household	Marginal	Expenses per household have increased by an avg. of 3.2% annually from FY15-20
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	Marginal	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	Favorable	Stable population base
School Enrollment & Teachers	Marginal	Moderate enrollment growth has increased the need for services

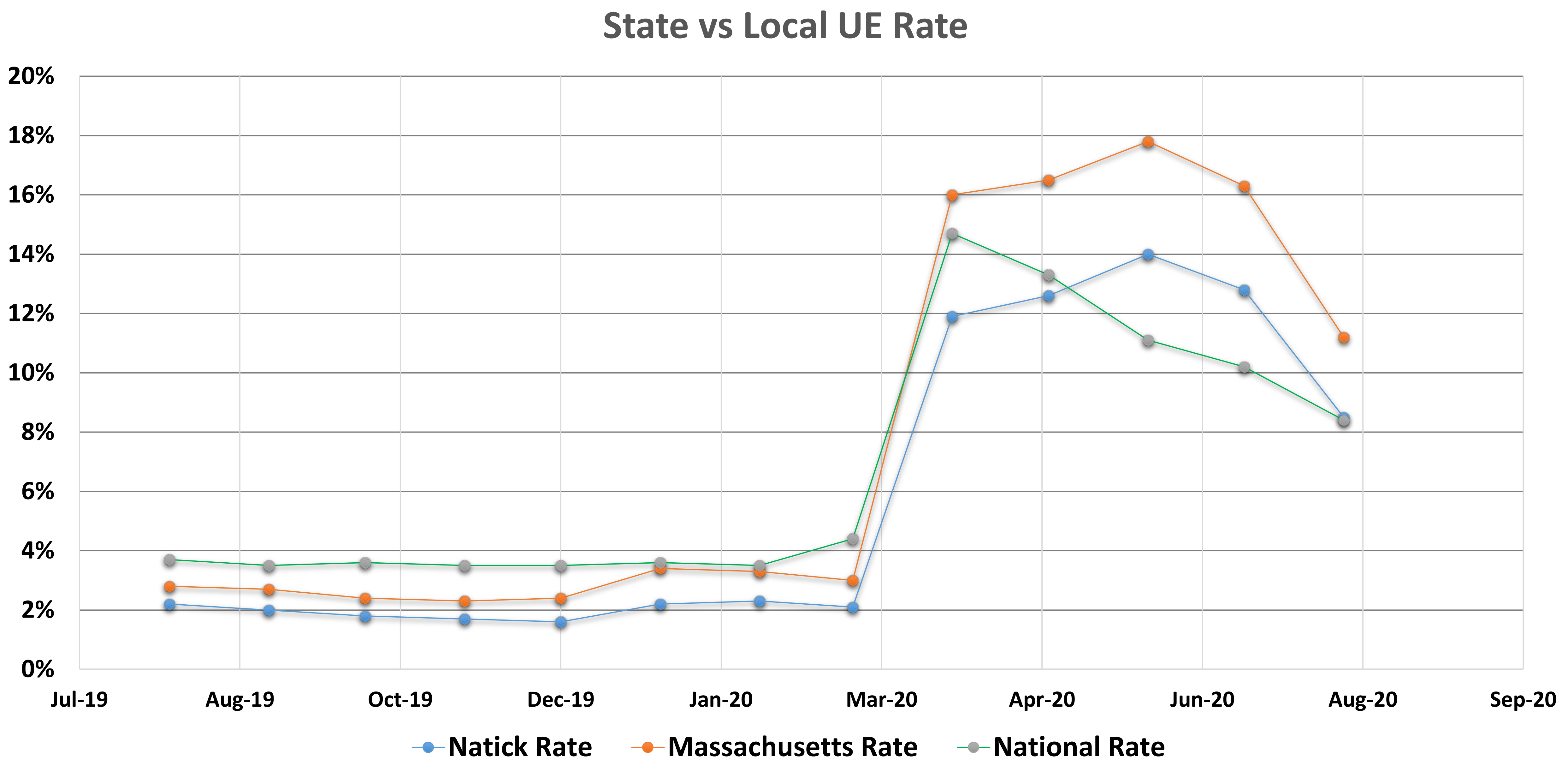
Supplementary Information

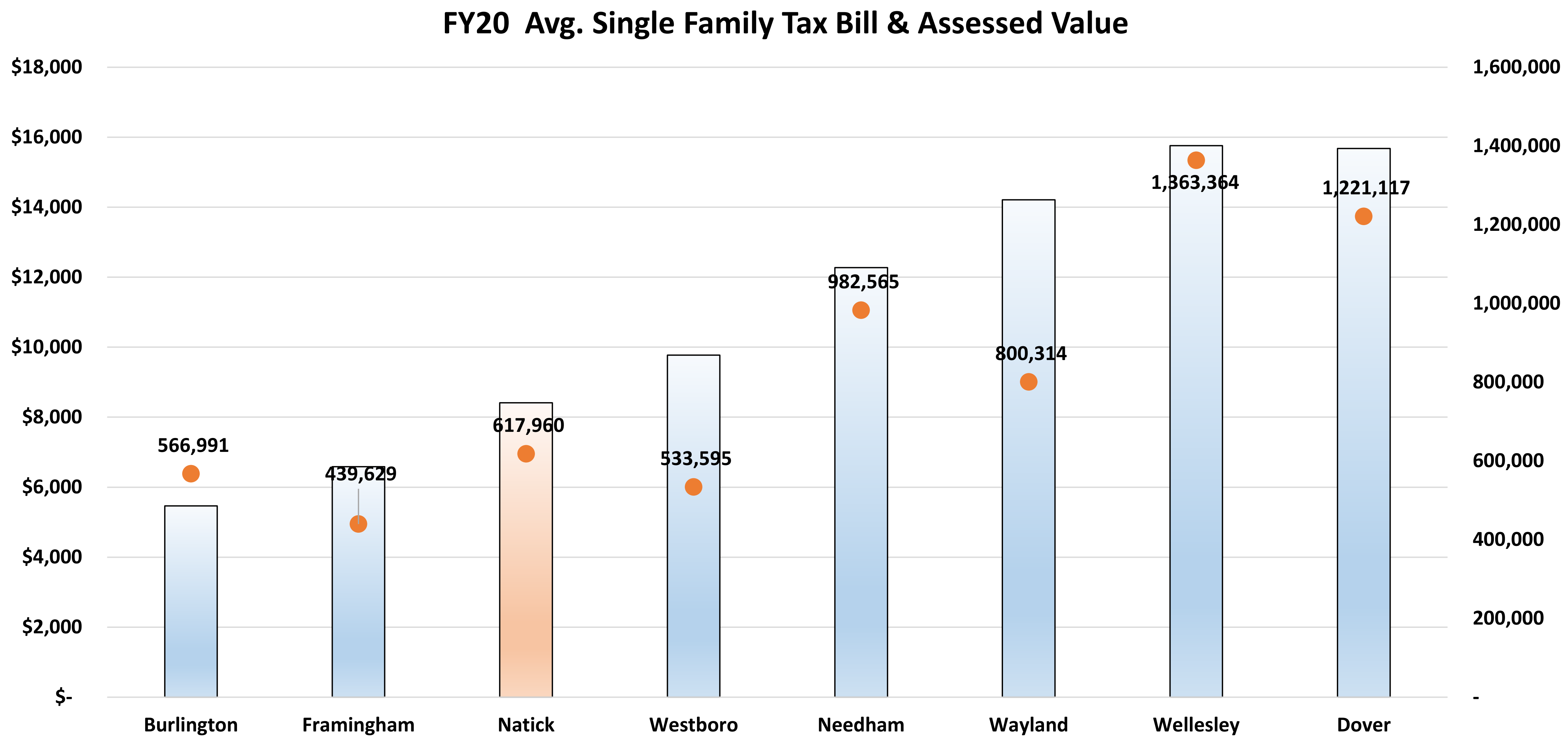
ACCOUNT	BUDGET	ACTUAL	BUDGET – ACTUAL $	BUDGET – ACTUAL %
GENERAL FUND REVENUE				
Property Tax	121,562,585	119,991,378	(1,571,207)	98.7%
State Aid	14,579,507	14,501,723	(77,784)	99.5%
Local Receipts	17,201,040	16,976,324	(224,716)	98.7%
Other	2,585,230	2,673,910	88,680	103.4%
GF Revenue	155,928,362	154,143,335	(1,785,027)	98.9%
GENERAL FUND EXPENSE				
Municipal	39,516,881	36,184,512	3,332,369	92%
Education*	69,775,231	69,518,695	256,536	99%
Shared	47,411,606	45,708,935	1,702,671	96%
State Charges		1,396,120		
OP EXP	156,703,718	152,808,262	3,895,456	98%
NET		1,335,073		

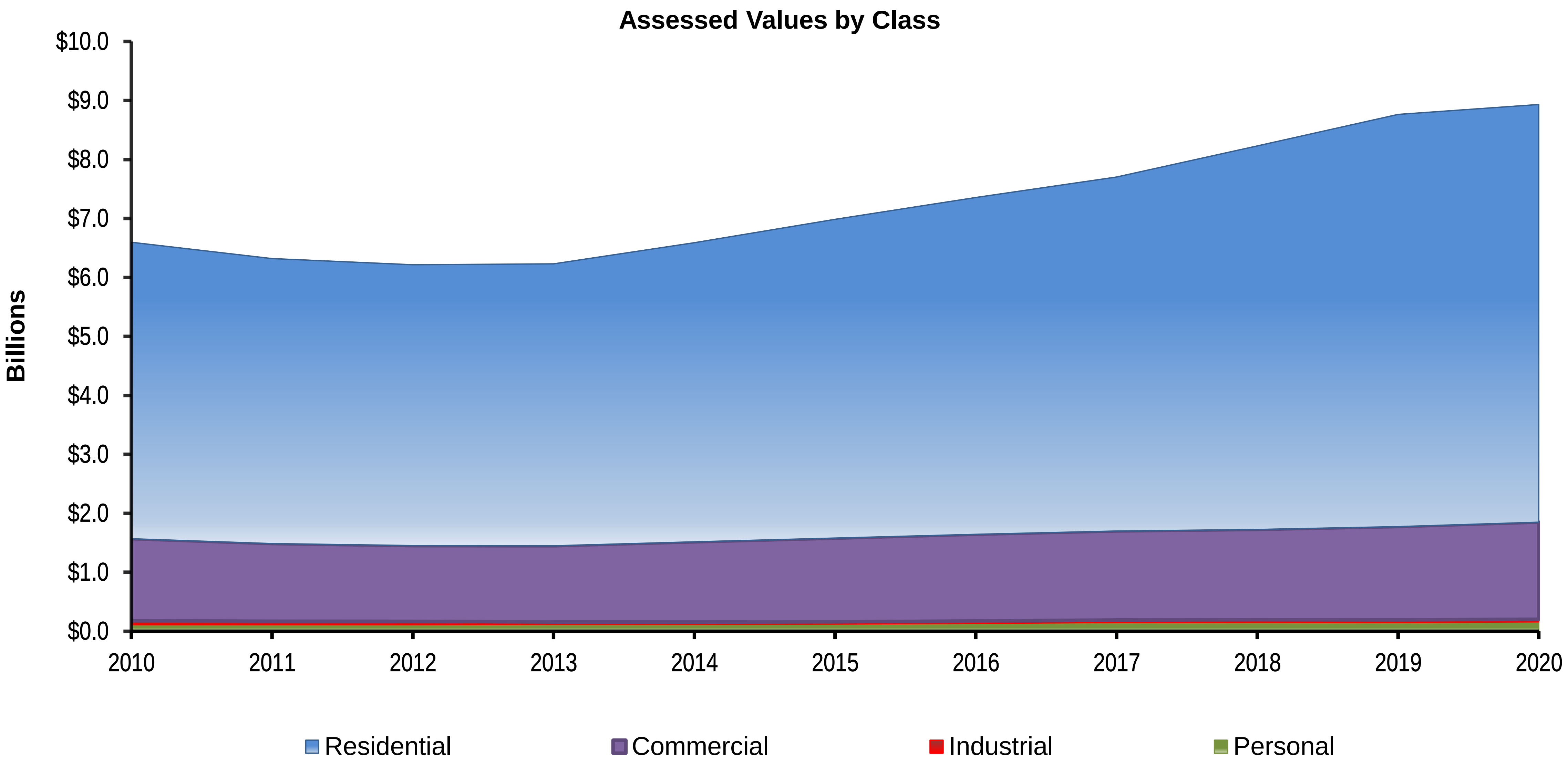
*Includes Keefe Tech and Bus Subsidy


2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
$1,915,680
$2,112,881
$1,622,204
$1,530,476
$1,495,581
$1,386,103
$1,486,764
$1,433,973
$1,183,138
$1,020,821
$914,090
$898,833
2018 Actual
2019 Actual
2020 Actual
AMBULANCE SERVICE FEES
OTHER TAXES HOTEL/MOTEL
MEALS-LOCAL AID
Buildings


Local Receipt Highlights FY20 Q1-Q4
700,000
600,000
500,000
400,000
300,000
200,000
100,000
-
Q1
Q2
Q3
Q4
AMBULANCE SERVICE FEES
OTHER TAXES HOTEL/MOTEL
MEALS-LOCAL AID
Buildings

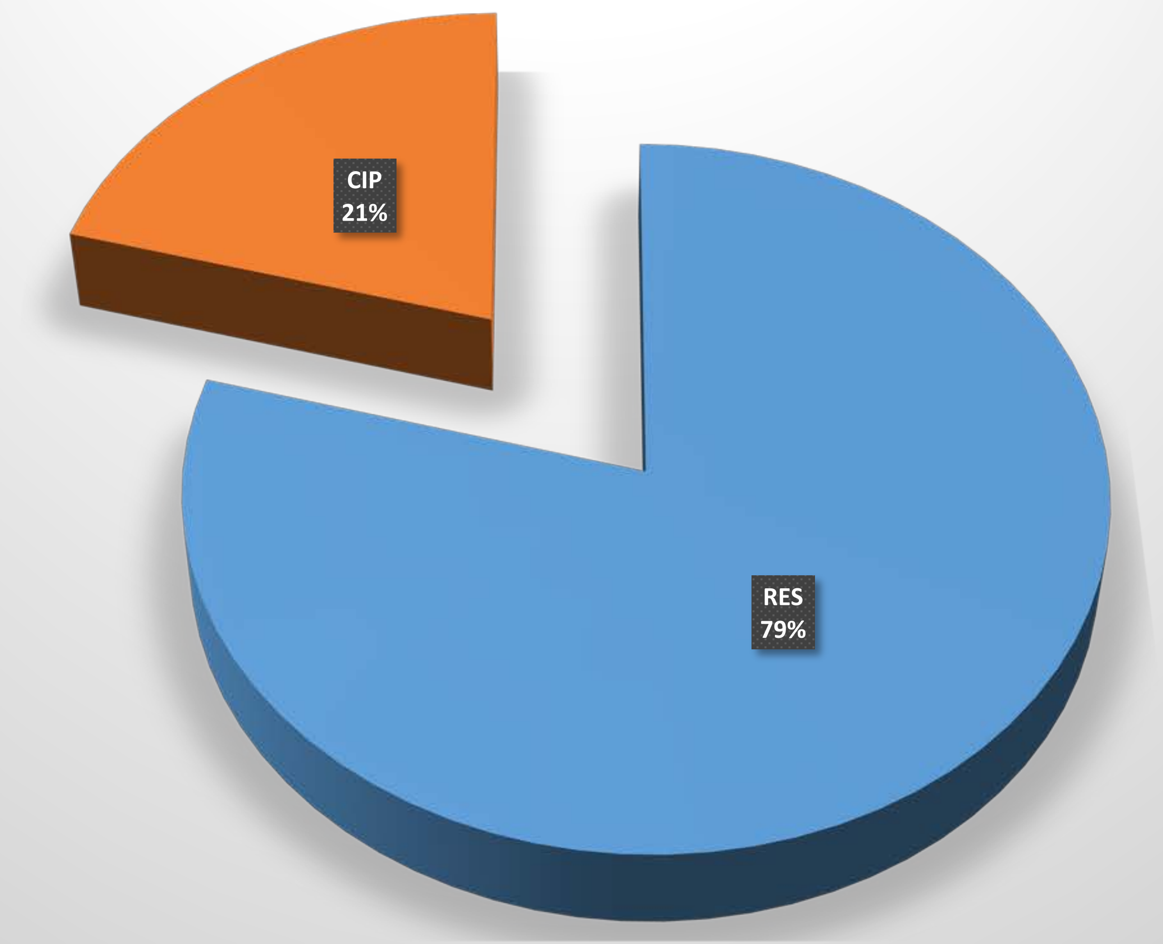

State vs Local UE Rate
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
Jul-19
Aug-19
Oct-19
Dec-19
Jan-20
Mar-20
Apr-20
Jun-20
Aug-20
Sep-20
Natick Rate
Massachusetts Rate
National Rate

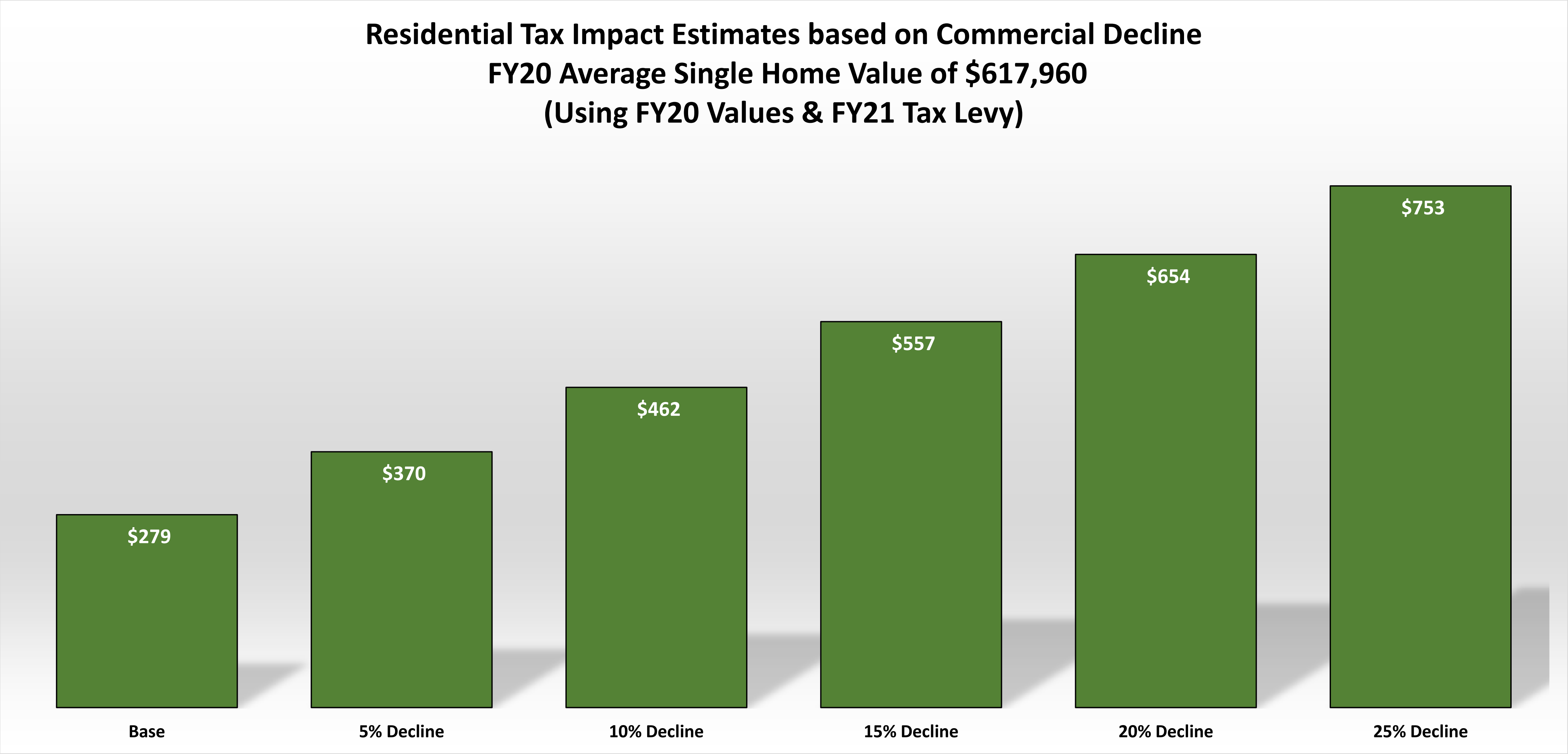

FY20 Avg. Single Family Tax Bill & Assessed Value
$18,000
$16,000
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$-
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
-
566,991
439,629
617,960
533,595
982,565
800,314
1,363,364
1,221,117
Burlington
Framingham
Natick
Westboro
Needham
Wayland
Wellesley
Dover


Assessed Values by Class
Billions
$10.0
$9.0
$8.0
$7.0
$6.0
$5.0
$4.0
$3.0
$2.0
$1.0
$0.0
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Residential
Commercial
Industrial
Personal


New Growth By Class
Millions
$250
$200
$150
$100
$50
$0
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Personal
Commercial/ Industrial
Residential

FY20 Tax Base (Residential & CIP)




Residential Tax Impact Estimates based on Commercial Decline
FY20 Average Single Home Value of $617,960
(Using FY20 Values & FY21 Tax Levy)
$279
$370
$462
$557
$654
$753
Base
5% Decline
10% Decline
15% Decline
20% Decline
25% Decline

From DOR -

"COVID19 Impact on Assessments: While the COVID19 crisis has severely impacted unemployment and certain businesses, it is unclear what effect it will have on the market for real estate. Because assessments are retrospective, any abatement due to overvaluation filed in FY2021 must be based on the analysis of market conditions that occurred in 2019 or an actual error in data and not on the COVID19 impact. Over this next year, assessors will be monitoring the real estate market and see its impact on sales and investment properties in preparation for assessments for FY2022."

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.

Operational Forecast:

The FY22 – FY25 forecast focuses on the estimated operational changes over the next four years. On the revenue side this excludes uses of Free Cash and Stabilization Funds while on the expense side excluding capital expenses, stabilization contributions, and miscellaneous items. The rationale being to identify operational trends and to develop solutions as a team based on those trends.

• Revenue Assumptions:

Tax Levy – 2.5% Levy, $700-$850k New Growth, plus debt exclusions

State Aid – 10% decline then 3% annual increases

Local Receipts – Recovery of 3% annually

REVENUE FORECAST FY22 – FY25

	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	Comments
General Fund Revenues					
Tax Levy	129,621,274	133,229,327	137,079,567	140,737,073	2.5% Levy, $700k - $850k New Growth, plus debt exclusions
State Aid	13,519,637	13,925,226	14,342,983	14,773,272	Assumes 10% decline in FY22 with 3% annual increases after
Local Receipts	13,070,950	13,463,079	13,866,971	14,282,980	Assumes 3% growth annually
Other Local Receipts					
Indirects	2,663,368	2,703,318	2,743,868	2,785,026	Dependent on GF operating budget assuming 1.5%
Free Cash					Zeroed out for operational analysis
Stabilization Fund					Zeroed out for operational analysis
Overlay Surplus	500,000	500,000	500,000	500,000	Can change based on ATB liabilities
Other Available Funds	273,992	266,614	257,110	131,949	Parking Meter Receipts, Other State Remb., Bond Premiums for HS/CSC
Total General Fund Revenues	**159,649,220**	**164,087,564**	**168,790,498**	**173,210,301**	

Town of Natick: Financial Indicators

Expense Forecast

		2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	Comments
	General Fund Expenses					
	Education & Learning					
10	Natick Public Schools	69,110,163	71,183,468	73,318,972	75,518,541	Assumes over 60% of Gen. Fund ops. Less shared
12	Keefe Tech	1,334,398	1,367,758	1,401,952	1,437,001	Assumes 2.5% of increase
13	Morse Institute Library	2,347,603	2,389,469	2,423,674	2,466,456	Assumes Avg increase of 1.7%
14	Bacon Free Library	132,445	134,244	136,080	137,952	Assumes Avg increase of 1.4%
15	Public Safety	17,634,302	18,009,523	18,361,262	18,711,549	Assumes Avg increase of 2.0%
16	Public Works	9,046,194	9,190,852	9,332,984	9,476,313	Assumes Avg increase of 1.6%
17	Health & Human Services	2,579,580	2,623,334	2,656,318	2,693,465	Assumes Avg increase of 1.5%
18	Administrative Support Services	6,642,906	6,742,478	6,855,076	7,002,444	Assumes Avg increase of 1.8% (CBA line has been distributed)
19	Committees	115,500	115,500	115,500	115,500	Assumes level funding
20	Shared Expenses					
21	Fringe Benefits	16,924,233	17,093,475	17,264,410	17,437,054	Assumes 1% increases (will vary dependent upon plan changes)
22	Prop & Liab. Insurance	907,171	952,529	1,000,156	1,050,163	Assumes Avg increase of 5%
23	Retirement	11,691,296	12,509,687	13,385,365	14,322,340	Assumes 7% increases less Non-Contributory Retirement
24	Debt Service	15,331,359	15,724,607	16,016,746	15,813,822	Based on capital plan debt service schedule
25	Reserve Fund	250,000	250,000	250,000	250,000	Level-Funded
26	Facilities Management	3,730,121	3,824,325	3,904,097	3,986,336	Assumes 2.2% increase
	General Fund Oper. Expenses	**157,777,270**	**162,111,250**	**166,422,591**	**170,418,936**	
26	Capital Improvements					Zeroed out for operational analysis
27	School Bus Transportation	431,951	442,750	453,819	465,164	Assumes 2.5% annual increase
28	State & County Assessments	1,358,293	1,371,876	1,385,595	1,399,451	Assumes 1% annual increase
29	Cherry Sheet Offsets	324,122	327,363	330,637	333,943	Assumes 1% annual increase
31	Snow Removal Supplement	450,000	450,000	450,000	450,000	Assumes Snow & Ice costs of $1M
32	Overlay	1,000,000	1,000,000	1,000,000	1,000,000	Varies dependent upon valuations, revaluation years
33	Golf Course Deficit	245,000	245,000	245,000	245,000	Assumes level funding
34	General Stablization Fund					Zeroed out for operational analysis
35	Operational Stabilization Fund					Zeroed out for operational analysis
36	Capital Stabilization Fund					Zeroed out for operational analysis
37	OPEB Trust					Zeroed out for operational analysis
38	Misc. Articles					Zeroed out for operational analysis
	Total General Fund Expenses	**161,586,637**	**165,948,240**	**170,287,642**	**174,312,495**	
	Net Excess / (Deficit)	**-1,937,417**	**-1,860,676**	**-1,497,144**	**-1,102,195**	

Revenue Side Forecast Issues:

- New Growth likely to be mostly residential in future years
- State Aid is assuming a decline in 10% in FY22 with recovery in the out years of 3% per year
- Local Receipts is projected conservatively given the FY20 experience. The duration and impact of the pandemic will play a significant factor especially with the impact on restaurants and hotels

Expense Side Forecast Issues:

- Outstanding CBAs & LIUNA
- Projections don’t include new initiatives (new programs/positions)
- NPS expenses are exclusively based off of a 3% annual increase (not a budget)
- Uncertainty with Fringe Benefits (health insurance volatility)
- Debt service schedule is based on current plan and excludes any additional large-scale infrastructure
- No funding of stabilization and OPEB funds

Planning: A first step in financial planning & discussion

Sustainability: Balancing immediate needs v. long term goals

Potential Outcomes:
Financial Stability, Override Discussion