



# Financial Review & Forecast

## Town of Natick

Select Board

September 28, 2022

# Agenda

- FY 2022 Review
- Financial Indicators
- Debt
- Forecast FY 24 - 27

# **FY 2022 Review**

Analysis and overview of the General Fund as of June 30, 2022

# Revenue Overview

- Tax Levy, State Aid and Local Receipts are major sources of operating revenues
- Tax Levy, State Aid hit the target of FY22 Budget
- Local Receipts surpassed the FY22 budget by 40%, showing a stronger economic recovery than expected
- FY22 actuals outperformed FY21 year-end by 5.07%

AS OF 6/30/2022	FY2022 Actual	% of Budget
<b>Tax Levy</b>	\$ 130,078,403.39	99.99%
<b>State Aid</b>	\$ 15,459,569.00	102.07%
<b>Local Receipts</b>	\$ 16,595,971.91	139.35%
Motor Vehicle Excise	\$ 6,445,195.68	143.23%
Other Excise	\$ 2,042,567.89	197.51%
Penalties and Interest on Taxes/Excise	\$ 598,364.62	357.95%
Payments In Lieu of Taxes	\$ 23,732.76	194.53%
Trash Disposal Fees	\$ 1,224,573.50	108.85%
Police Special Duty S/Charges	\$ 25,947.34	57.66%
Ambulance Service Fees	\$ 1,519,635.73	116.90%
Recreation	\$ 41,990.25	32.68%
Other Departmental Revenue	\$ 987,892.32	410.31%
Licenses and Permits	\$ 2,524,451.41	98.02%
Special Assessments	\$ 1,656.99	331.40%
Fines and Forfeits	\$ 94,713.56	305.53%
Investment Income	\$ 416,909.84	166.76%
Miscellaneous Recurring	\$ 468,597.63	93.72%
Miscellaneous Nonrecurring	\$ 179,742.39	
<b>Total</b>	<b>\$162,133,944.30</b>	<b>102.69%</b>

# Details on Meals, Hotel/Motel Taxes

FY 2022 - AS OF 6/30/2022

**% of Budget:** the percentage of the whole-year budget in that fiscal year.

**Historical Benchmark:**  
(5-year average before COVID)

Meals: \$900,499.49  
Hotel/Motel: \$1,438,810.69

• Meals	Actual(Q4)	% of Budget
FY 19	\$1,020,821	99.99%
FY 20	\$898,833	87.86%
FY 21	\$704,773	154.90%
FY 22	\$994,547	193.12%
• Hotel/Motel		
FY 19	\$ 1,495,581	100.00%
FY 20	\$ 1,183,138	79.78%
FY 21	\$414,385	55.25%
FY 22	\$1,045,044	202.92%

# Operating Expenditures Detail

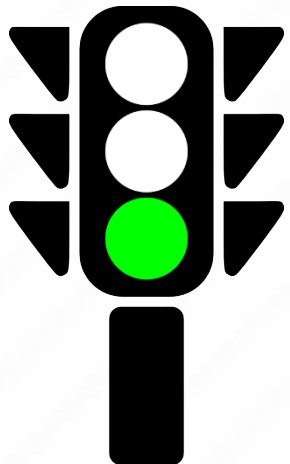
- Expenditures kept a consistent pace as historical rate
- Overall, all departments took an conservative approach towards the spending by keeping the actual below the budget

	FY 2022 Actual	FY 2022 Appropriated	% of Budget
Natick Public School	73,709,374.61	75,063,994	98.20%
Keefe Tech	1,250,715.00	1,250,715	100.00%
Libraries	2,469,702.08	2,573,173	95.98%
Public Safety	17,426,168.00	17,544,432	99.33%
Public Works	9,916,112.52	9,211,793	107.65%
Health & Human Services	2,331,114.80	2,773,178	84.06%
General Admin	6,410,202.09	7,561,459	84.77%
Committees	11,998.94	115,550	10.38%
Shared Expenses	45,345,033.45	48,265,533	93.95%
<b>Total General Fund Operating Expenses</b>	<b>158,870,421.49</b>	<b>164,359,827</b>	<b>96.66%</b>

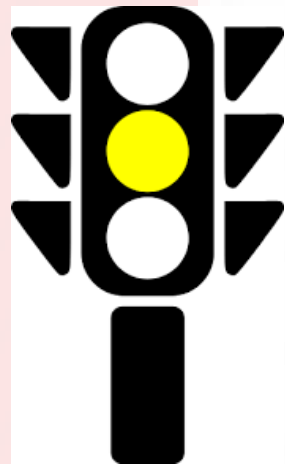
# Financial Indicators



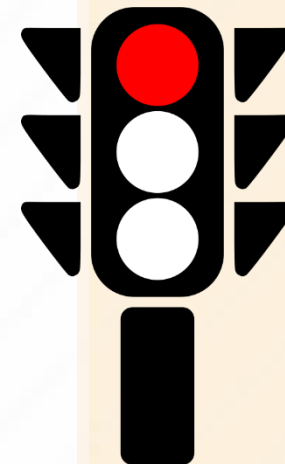
- The purpose of the financial indicators is to provide recognizable and impactful measures that help to understand the financial well-being of the Town.
- The following slides contain measures plus supplementary information to provide context to the financial health of the Town.
- Each slide has a graph, a trend guideline, analysis, and a traffic light for measures (green – favorable, yellow – marginal, red – unfavorable).



**Green** – the trend is favorable. The indicator meets any policy or performance measure set by the Town.



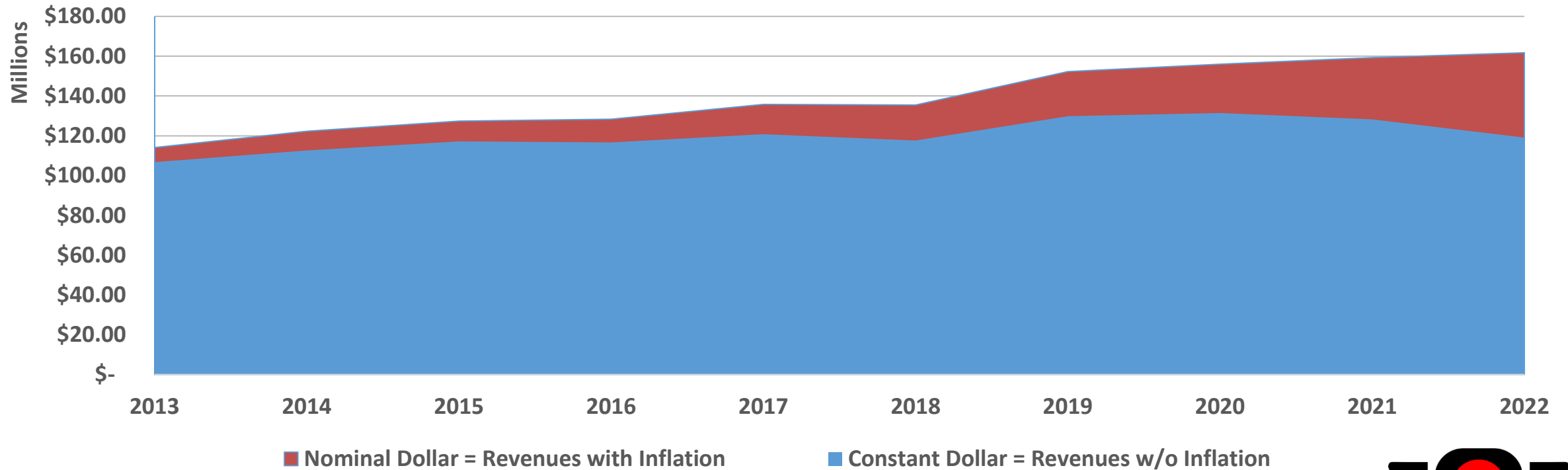
**Yellow** – the trend is uncertain. The indicator should be watched carefully because it may move in a direction that could have a negative impact on the Town's financial health.



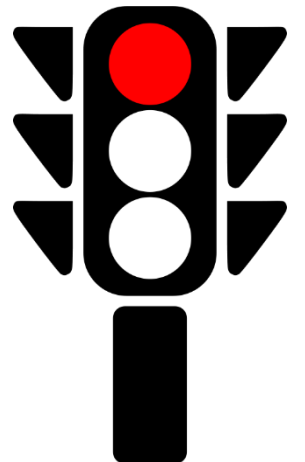
**Red** – the warning trend has been observed. The indicator does not meet the policy or performance measure set by the Town. More information should be gathered and corrective action should be taken.

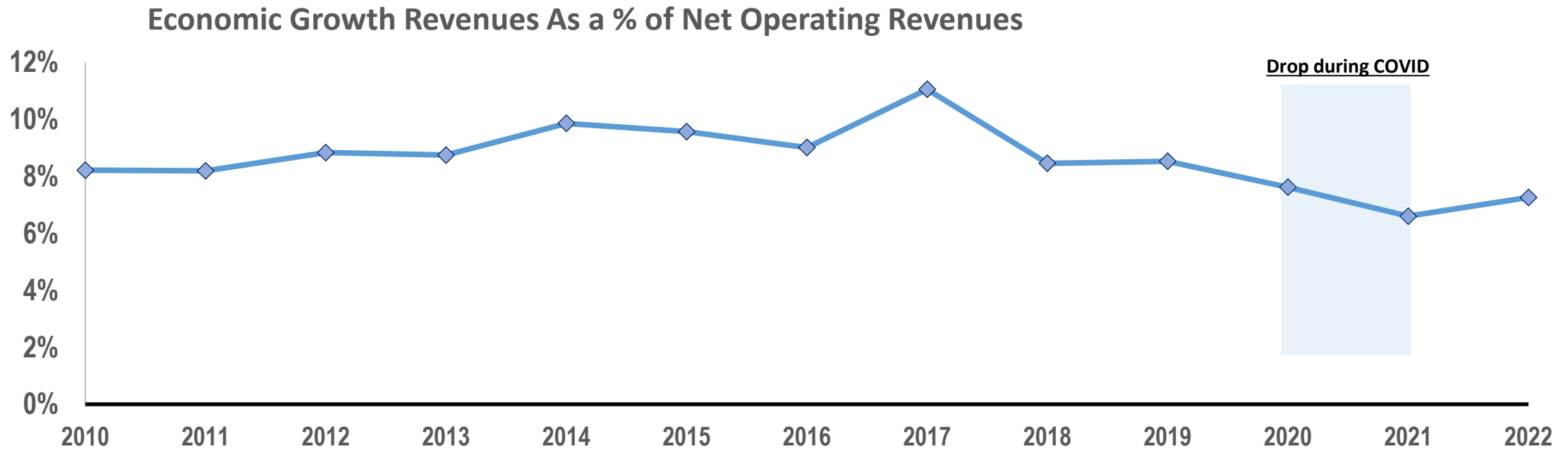


Total Net Operating Revenues



- **Trend Guideline**: A decline in constant dollar amount of net operating revenues is considered as a warning indicator.
- **Analysis**: Constant dollar here stands for the net operating revenues after adjusted for inflation and nominal dollar represents the actual amount of money received. Under the pressure of high inflation during 2021 and 2022, constant net operating revenues has experiences -0.18% declining trend in the 5-year timeframe, while constant expenditures are increasing at 1.32% over the same period. Significant increases to operating revenues are derived from new growth and overrides.

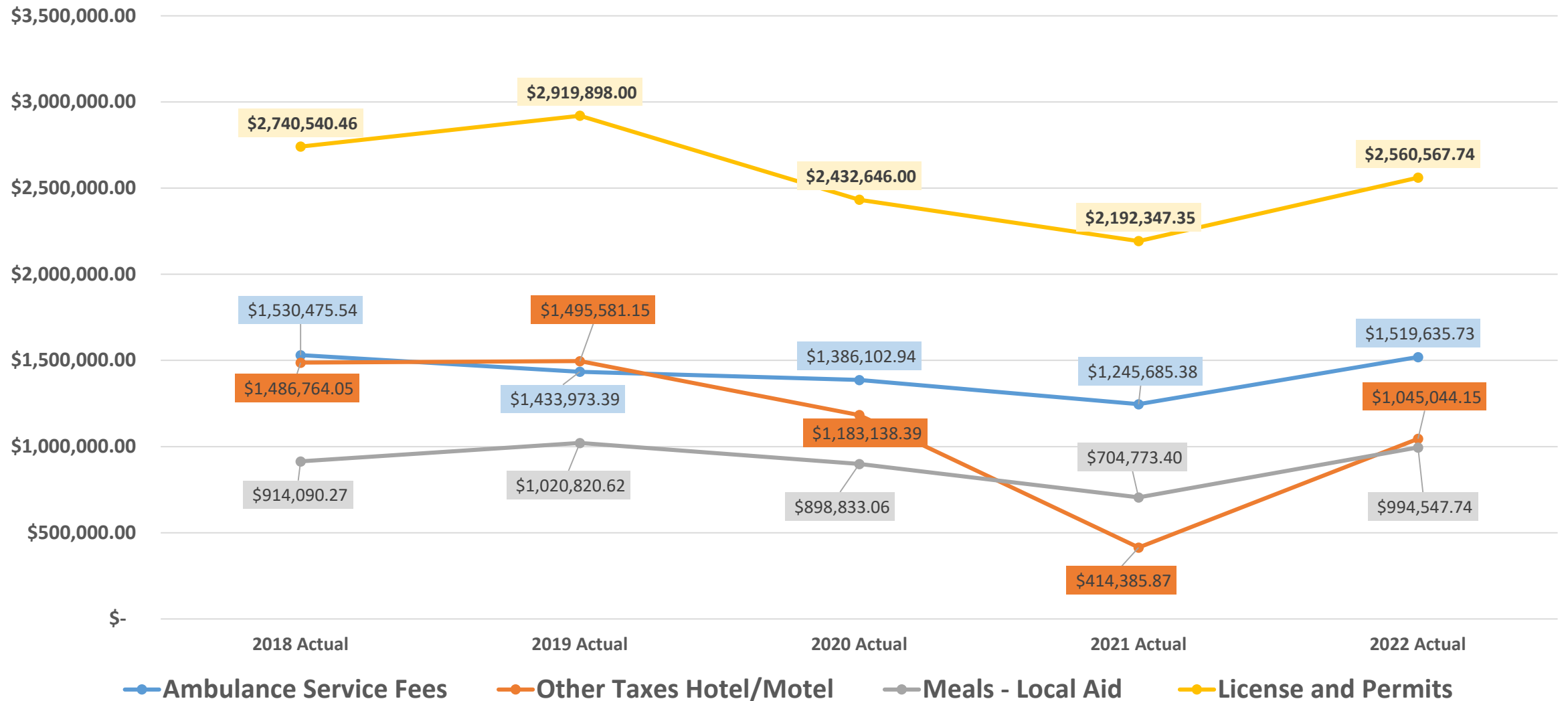




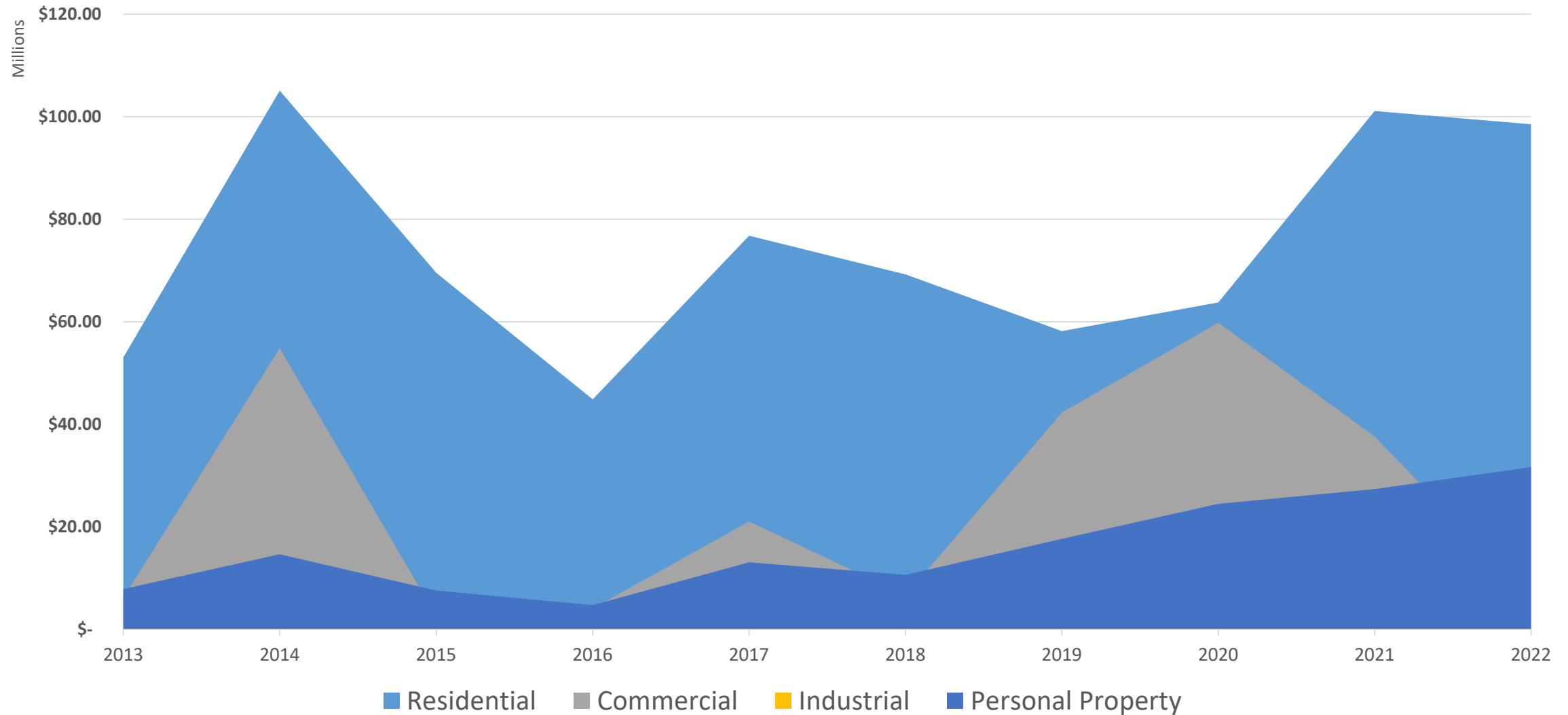
- **Trend Guideline:** Decreasing economic growth revenues as a percentage of net operating revenues is considered a warning indicator.
- **Analysis:** Revenue related to economic growth include classifications such as: permit fees, new tax levy growth resulting from new construction, and items such as motor vehicle excise taxes and meals & hotel taxes. Despite the inherent nature of this indicator to fluctuate with the economy, inflation and other influences, **Natick has been fortunate to have consistently maintained the economic growth revenues at 7% of net operating revenues. 2021 has experienced a 1% drop because of the pandemic, but a moderate and steady recovery is seen in 2022 and is expected in the following years.**



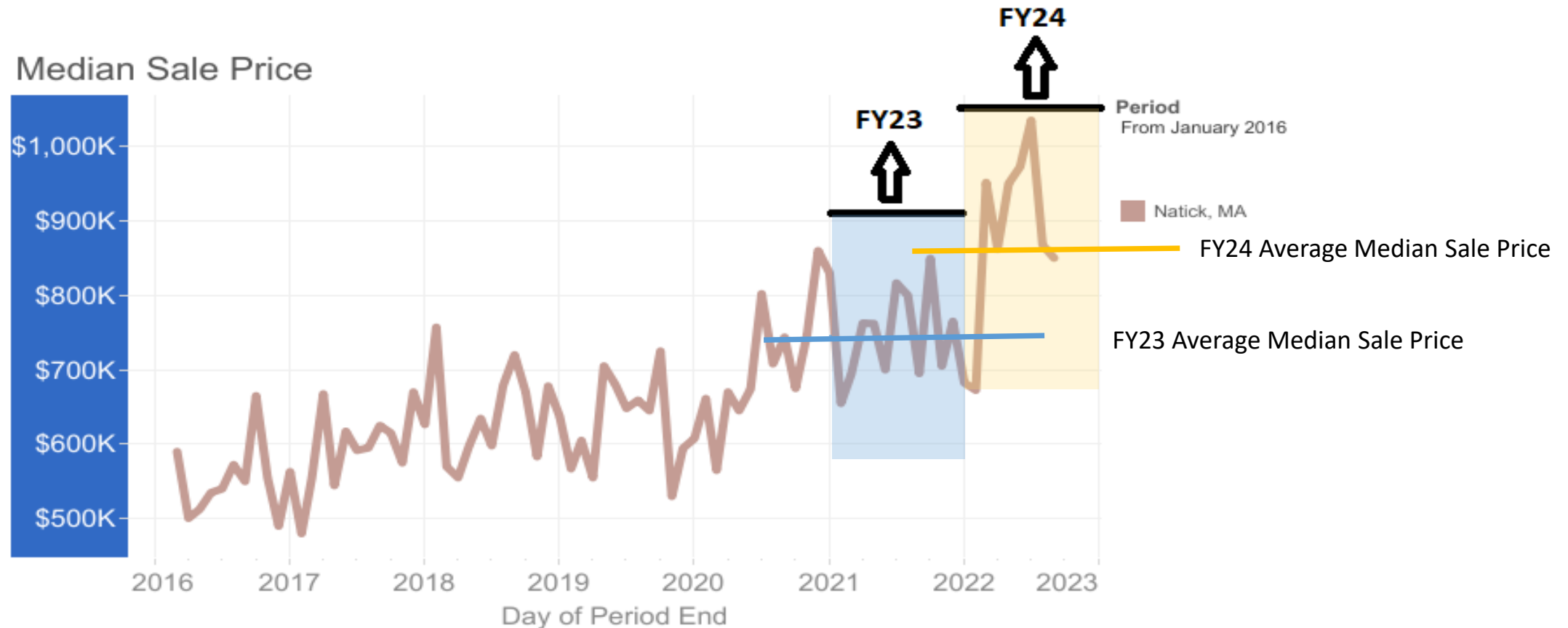
# Local Receipt Historical Trends



New Growth by Class



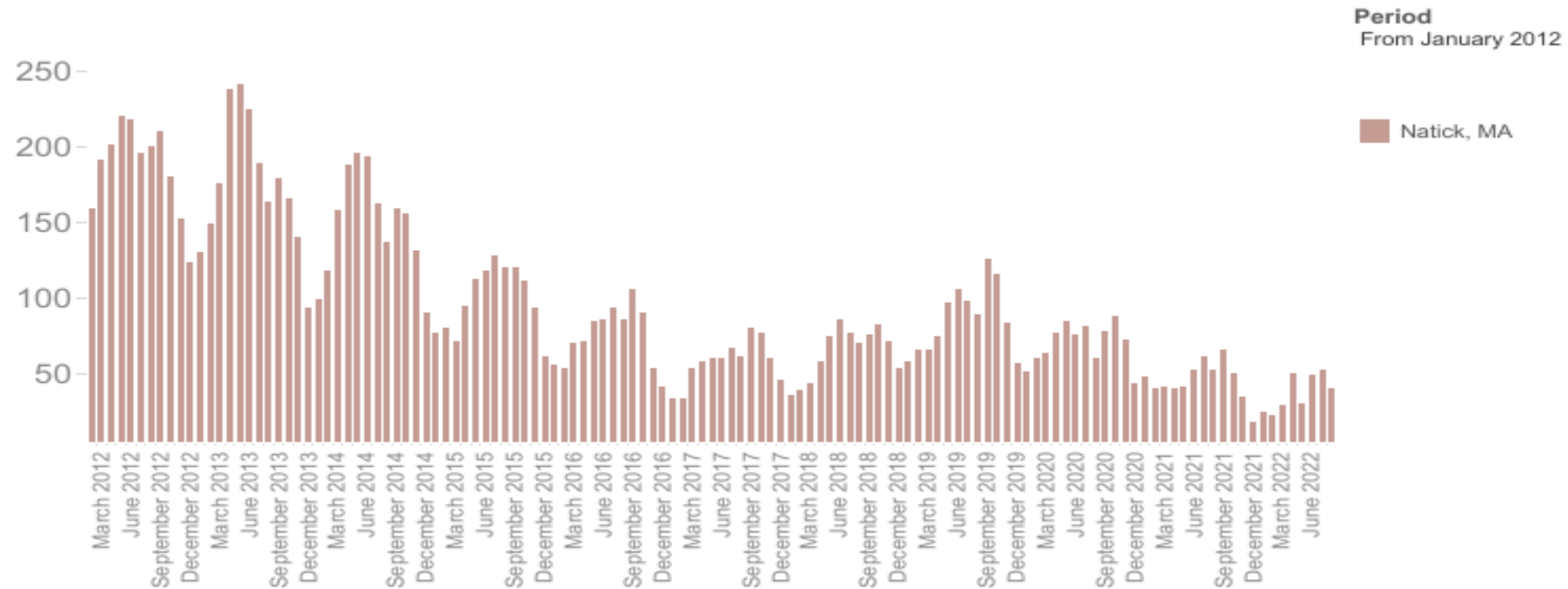
## Real Estate Market



- Residential values have increased while we have maintained our Commercial Values.
- Interest rates have changed and this has resulted in a “slow down” in the market.
- This slow down has affected the demand side, buyers, as monthly payments are now increased.
- The supply side, was already extremely low, leading to some of these price increases.

## Real Estate Market

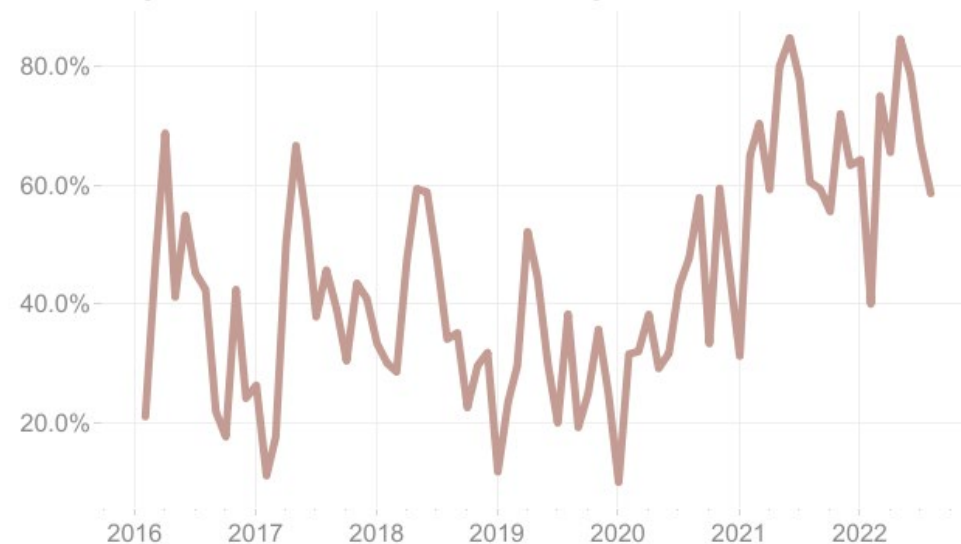
### All Homes for Sale



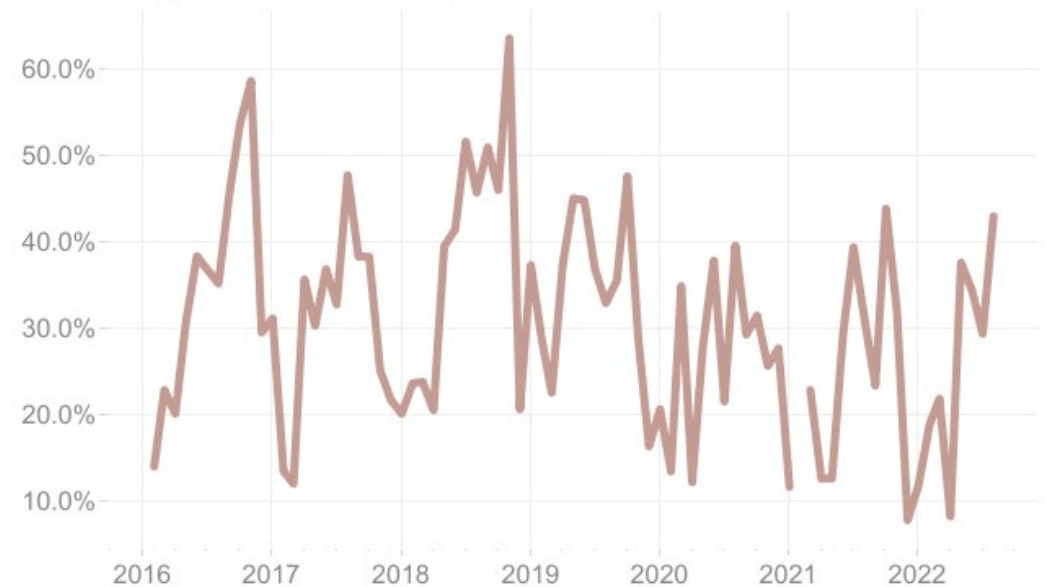
Looking further into the Supply side, with supply levels still extremely low, significant price depreciation is unlikely.

## Real Estate Market

Percentage of Homes Sold Above Asking



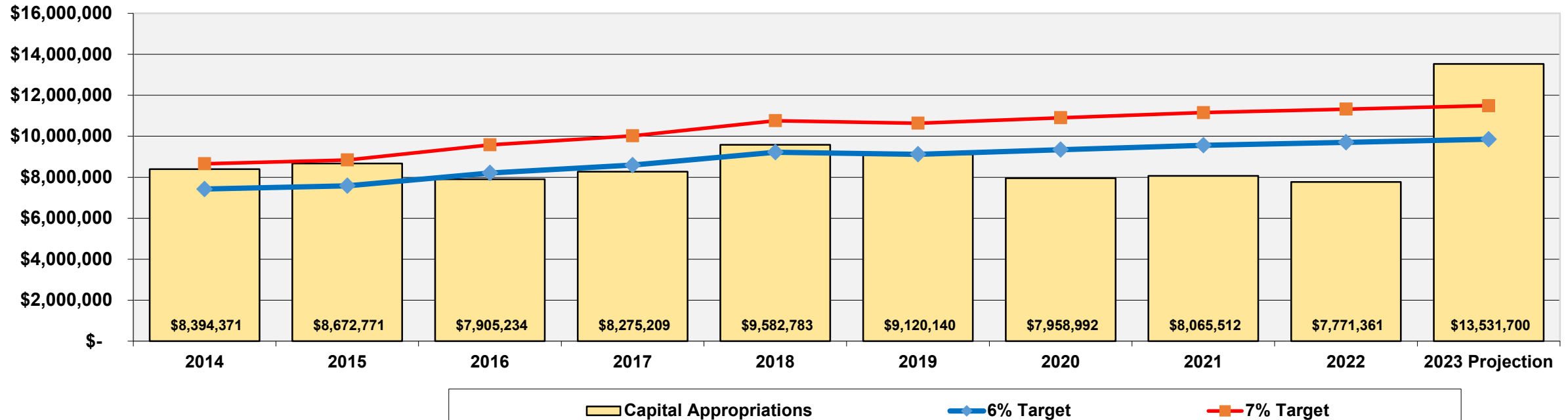
Percentage of Active Listings with Price Drops



- This slow down is still far from a normal market and while there has been an increase in price drops, prices overall have not dropped.
- These trends will be closely reviewed going forward.

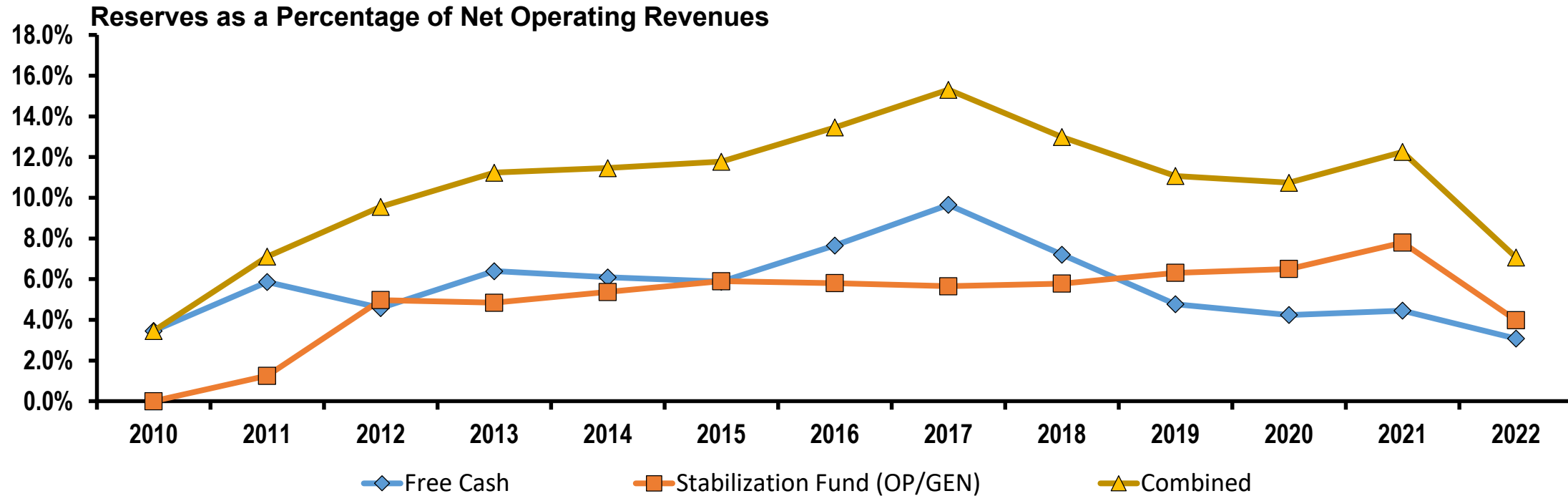


### Capital Replacement & Renewal: Actual vs. Targets, FY 2014-2023

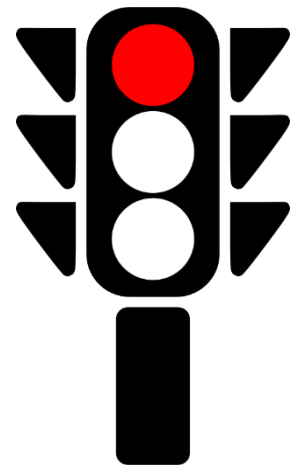


- **Trend Guideline:** A three or more year decline in capital spending from operating funds as a percentage of gross operating revenues is considered a warning indicator.
- **Analysis:** The decline of spending on capital during FY20 – 22 is resulted from the pandemic, when the town was experiencing revenue losses and thus, delay the capital expenditures. To catch up with the target, In FY23, the Town of Natick issued a \$12.15 million General Obligation Bonds that covers the capital projects appropriated from FY20-FY22.
- 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.

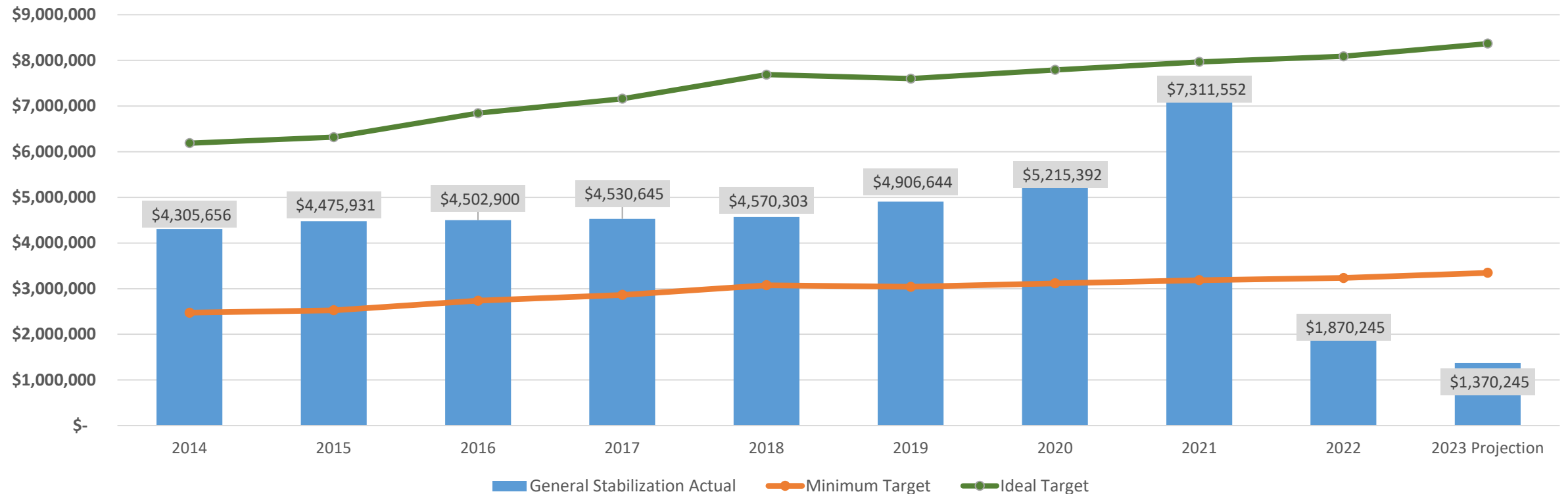




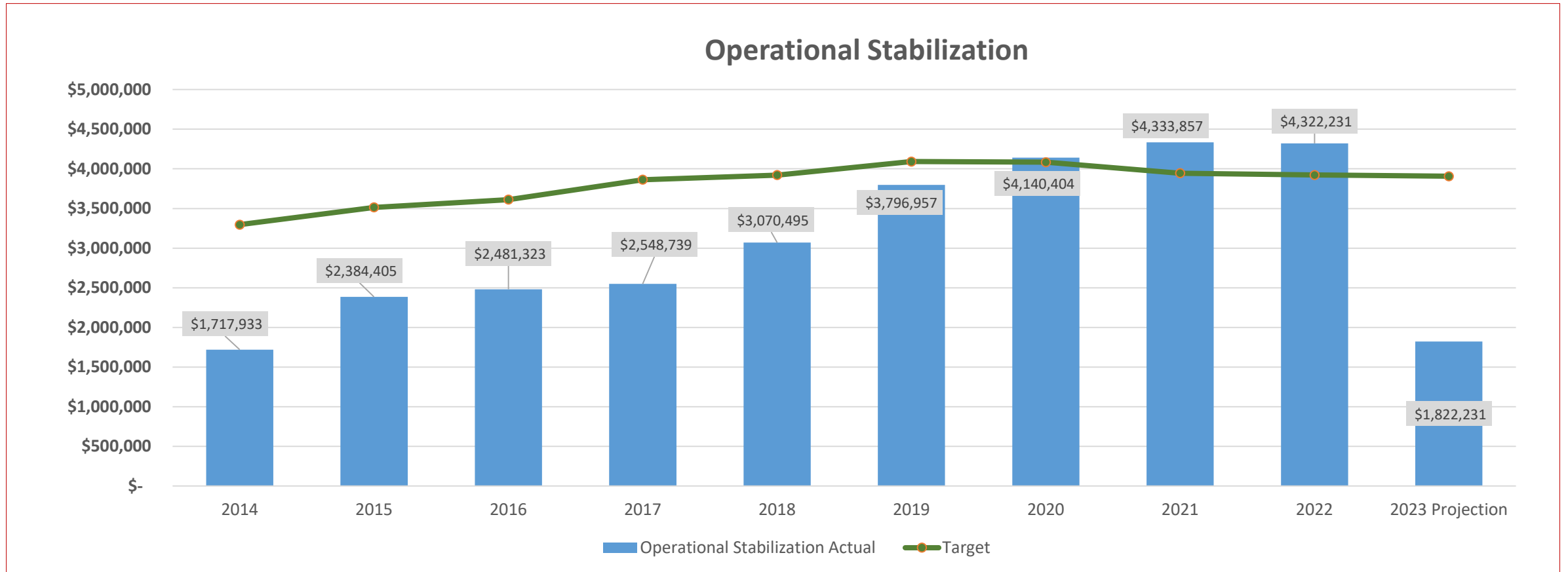
- **Trend Guideline:** Declining reserves as a percentage of operating revenues is considered a warning indicator.
- **Analysis:** Reserves can be used for many different purposes. Primarily, reserves are used to buffer against service reductions due to economic downturns or major emergencies. AAA communities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



General Stabilization Fund Actuals vs. Targets

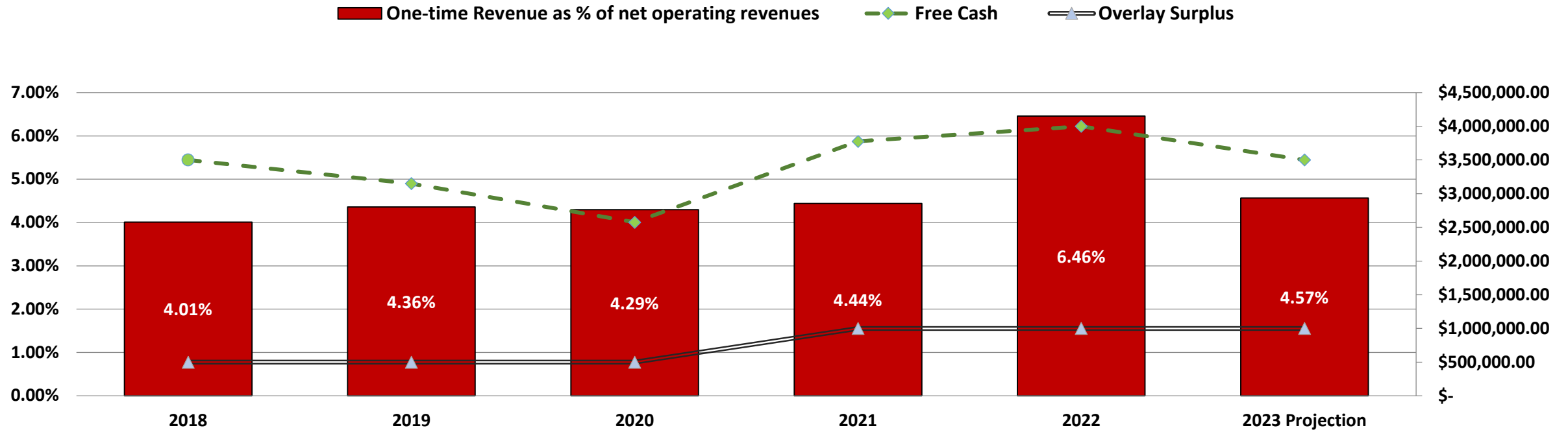


Under the Financial Management Principles of the Town, General Stabilization Fund should maintain the balance, at minimum, 2% of revenues and target at the 5% of revenues.



Under the Financial Management Principles, Operational Stabilization Fund should maintain the balance at the equivalent value to 10% of state aid and 5% of estimated local receipts cumulative for three-year period.

### Use of One-Time Revenues towards Operations / Net Operating Revenues & One-Time Trends



- **Trend Guideline:** Increasing 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. We expect to decrease the use of stabilization fund steadily after the economy recovery from COVID. However, looking in a 5-year period, the operational use of one-time revenue still shows an upward trend overall.

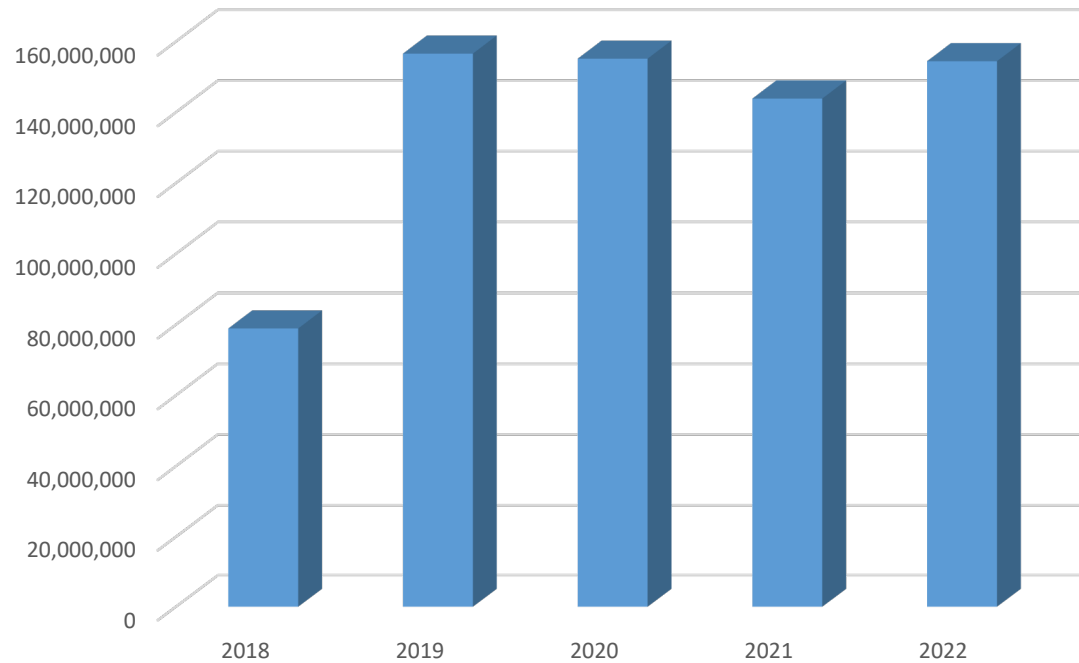


Natick Financial Indicators Dashboard		
Financial Indicator	Trend	Highlights
Net Operating Revenues	Unfavorable	Adjusted for inflation, property tax collections have experienced a slight decrease during FY21-22.
Uncollected Property Taxes	Favorable	Uncollected property taxes have remained close to 4%
State Aid	Favorable	State Aid receipts has increased along with assessments and other charges
Economic Growth Revenue	Marginal	Experienced a decline during COVID but a mild recovery has been seen in FY22.
Expenditures per Household	Marginal	Expenses per household have increased by an avg. of 2.65% annually from FY15-22
Personnel Costs	Favorable	Total Natick personnel costs have remained proportional with the budget over time
Employee Benefits	Marginal	Health insurance cost will experience increases after the shift of plan
Pension Liability	Favorable	Funded ratio of 70.4% and the current plan includes 7% increases 2030 funding schedule
Capital Assets & Renewal	Marginal	Capital Expenditures delayed during COVID but a new bond has been issued to cover
Debt Service	Marginal	Future large scale projects will need to be balanced with the ability to pay
Reserves & Fund Balance	Unfavorable	Experienced a significant decline in the past two years due to COVID impact.
One-time Revenues for Operations	Marginal	One-time revenues spent for operations have experienced a moderate growth
Population	Favorable	Stable population base
School Enrollment & Teachers	Marginal	School enrollment experienced a slight decrease from FY21-22

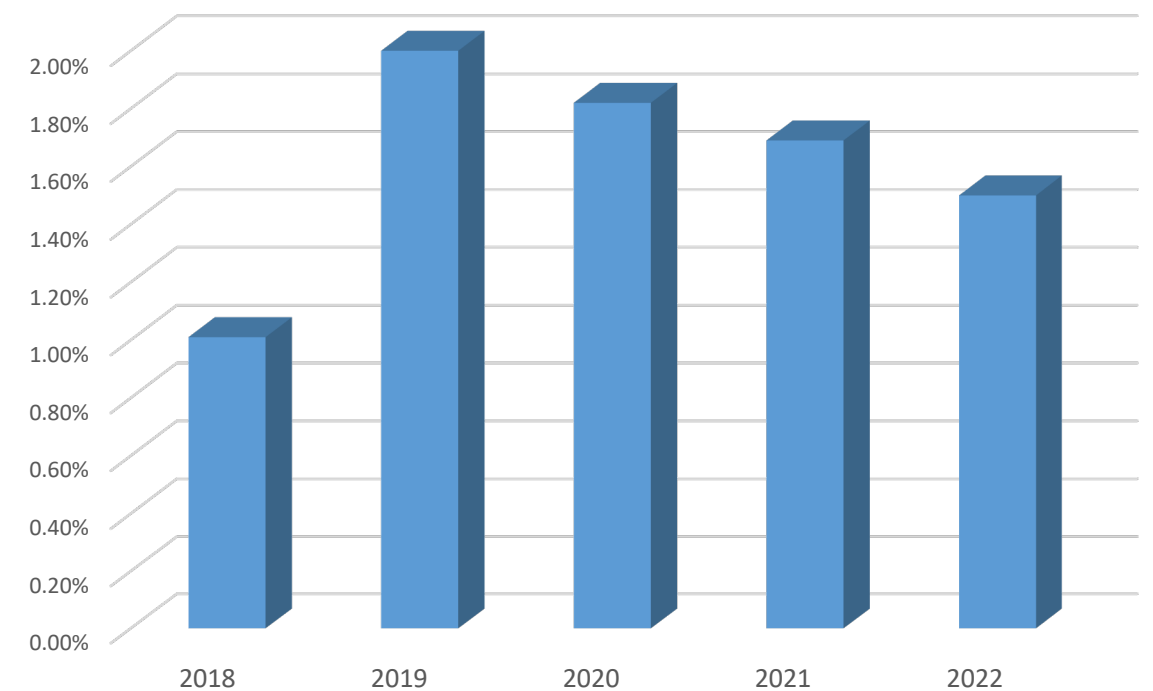
# Debt Review



Fiscal Year Outstanding Debt - All accounts



Outstanding Debt as % of EQV



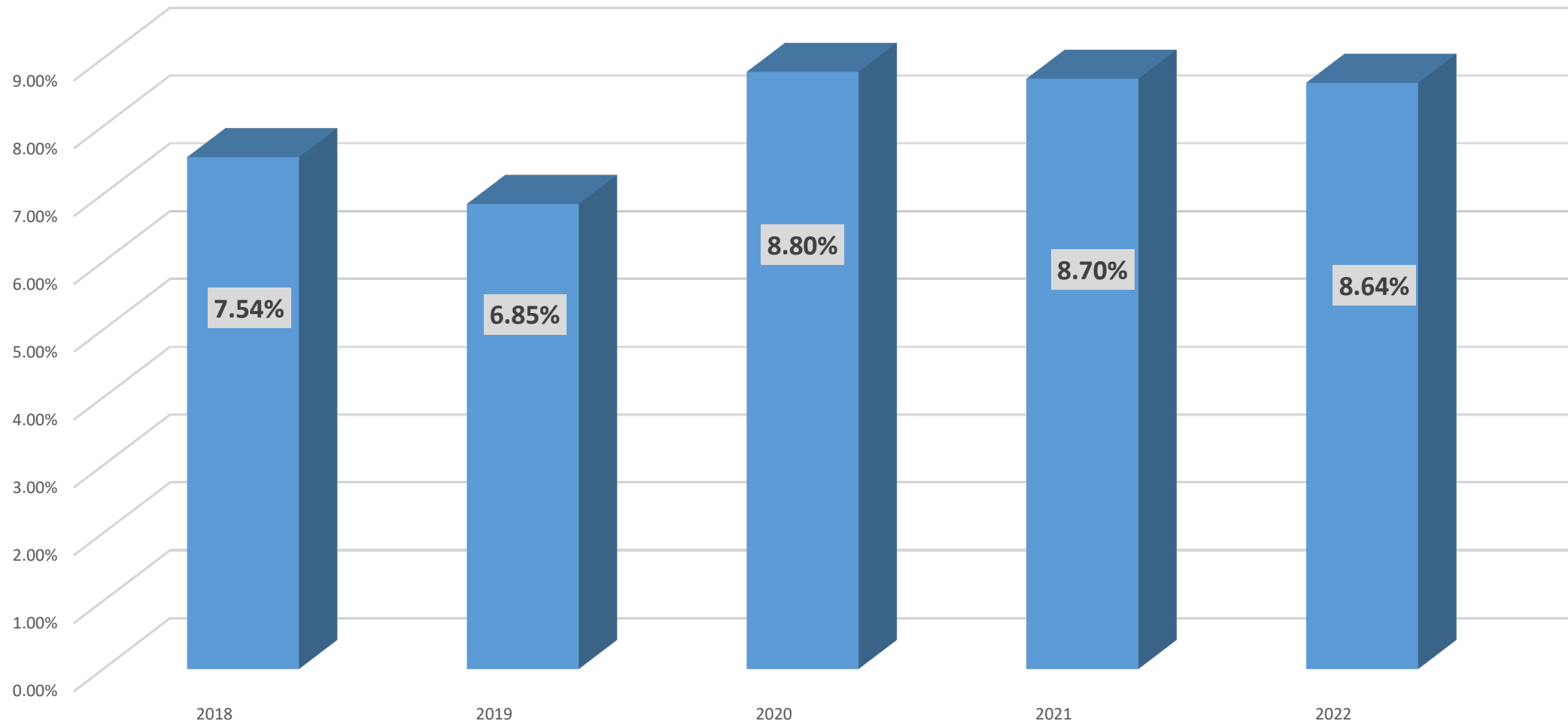
### Key takeaways:

- Maximum allowed debt as of Equalized Valuations is 5%.
- Latest Natick EQV (Equalized Valuation): \$10,516,104,300

# Town of Natick: Financial Indicators

## Debt Service as % of Budget

Debt Service as a % of Budget



# 4 Year Financial Forecasts

- Forecast Goals:
- **THIS IS NOT A BUDGET**
- Provides an overview of **potential** revenues and expenditures
- Present a realistic outlook that highlight town-wide operating trends
- Facilitate productive financial planning



**Tax Levy** – 2.5% Levy, \$1.1M New Growth, plus debt exclusions



**State Aid** –3.21% annual increases



**Local Receipts** –Steady recovery of 3% annually after FY24



**One Time Funds** – Free Cash - \$4 mil, Overlay Surplus \$500k after FY24  
ARPA - \$3 mil in FY24 and \$1.1 mil in FY25

## REVENUE FORECAST FY24 – FY27

General Fund Forecast 09-23-2022	FY 2024 Forecast	FY 2025 Forecast	FY 2026 Forecast	FY 2027 Forecast
TAX LEVY	\$139,007,498	\$143,631,847	\$148,371,805	\$153,416,447
STATE AID	\$17,844,054	\$18,416,848	\$19,008,029	\$19,618,187
LOCAL RECEIPTS	\$15,326,750	\$15,786,553	\$16,260,149	\$16,747,954
INDIRECT	\$3,195,188	\$3,259,091	\$3,324,273	\$3,390,759
FREE CASH	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000
STABILIZATION FUND (S)	\$0	\$0	\$0	\$0
OVERLAY SURPLUS	\$1,000,000	\$500,000	\$500,000	\$500,000
OTHER AVAILABLE FUNDS	\$3,210,335	\$1,310,335	\$280,000	\$280,000
TOTAL GENERAL FUND REVENUES	\$183,583,825	\$186,904,675	\$191,744,256	\$197,953,347



**Collective Bargaining Agreements**— most will expire FY 2024/FY 2025



**New Initiatives** – Not included



**School Costs** – Based on NPS projections



**Debt Service** – Includes all projects with borrowing on CIP



# Town of Natick: Financial Indicators

# Expense Forecast

General Fund Forecast 09-23-2022	FY 2024 Forecast	FY 2025 Forecast	FY 2026 Forecast	FY 2027 Forecast
Education	\$87,405,055	\$90,266,067	\$93,220,944	\$96,272,768
Municipal	\$39,418,639	\$40,470,306	\$41,553,340	\$42,382,096
Shared Expenses	\$55,003,207	\$56,552,409	\$58,333,226	\$60,399,160
<b>GENERAL FUND OPER. EXPENSES</b>	<b>\$181,826,900</b>	<b>\$187,288,783</b>	<b>\$193,107,510</b>	<b>\$199,054,025</b>
CAPITAL IMPROVEMENTS	\$500,000	\$500,000	\$1,000,000	\$1,000,000
SCHOOL BUS TRANSPORTATION	\$421,416	\$421,416	\$421,416	\$421,416
STATE & COUNTY ASSESSMENTS	\$1,388,246	\$1,402,128	\$1,416,150	\$1,430,311
CHERRY SHEET OFFSETS	\$330,540	\$340,457	\$350,670	\$361,190
SNOW REMOVAL SUPPLEMENT	\$350,000	\$350,000	\$350,000	\$350,000
OVERLAY	\$1,150,000	\$1,150,000	\$1,150,000	\$1,150,000
GOLF COURSE DEFICIT	\$ --	\$ --	\$ --	\$ --
GENERAL STABILIZATION FUND	\$ --	\$ --	\$500,000	\$900,000
OPERATIONAL STABILIZATION FUND	\$ --	\$ --	\$500,000	\$900,000
CAPITAL STABILIZATION FUND	\$500,000	\$500,000	\$500,000	\$500,000
OPEB TRUST FUND	\$250,000	\$250,000	\$250,000	\$250,000
MISC. ARTICLES	\$20,000	\$20,000	\$20,000	\$20,000
<b>SUBTOTAL</b>	<b>\$186,737,103</b>	<b>\$192,222,784</b>	<b>\$199,565,746</b>	<b>\$206,336,942</b>
<b>NET EXCESS / (DEFICIT)</b>	<b>-\$3,153,278</b>	<b>-\$5,318,109</b>	<b>-\$7,821,488</b>	<b>-\$8,383,596</b>

- Natick remains a financially stable town

### **Strengths**

- ✓ Solid residential tax base
- ✓ Strong commercial base
- ✓ Diverse revenue streams
- ✓ Low tax rates
- ✓ S&P AAA Credit Rating (June 2022)
- ✓ Conservative and stable budgetary performance
- ✓ Strong Management with strong financial-management policies
- ✓ Strong Institutional Framework

### **Challenges**

- ✓ Low reserves
- ✓ Weakening revenue streams
- ✓ Structural deficit
- ✓ Reliance on one time revenues
- ✓ Capital needs – growing debt
- ✓ Growing staffing costs
- ✓ Pension and OPEB Obligations

## **Fall Town Meeting Action:**

- Support upcoming capital programs with sufficient debt capacity
- ARPA Support to FY22 Omnibus Budget
- Use of New Growth and Free Cash to replenish the stabilization funds

*\*Forecast is subject to changes along with the certifications of Free Cash and New Growth and CBA Settlements*

Town of Natick: Financial Indicators				ARPA Allocations				
Item	Estimate 12/2021	Estimate 7/2022	July 2021 - June 2022	July 2022 - June 2023	July 2023 - June 2024	July 2024 - June 2025	July 2025 - June 2026	Allowable Use Category
Communications/Website Upgrades	\$ 200,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	Address Negative Economic Impact
Contact Tracing Contingency Funds	\$ 100,000	\$ 50,000	\$ -	\$ 25,000	\$ 25,000	\$ -	\$ -	Public Health Expenditure
DEI Coordinator / Manager	\$ 300,000	\$ 300,000	\$ -	\$ 90,000	\$ 90,000	\$ 90,000	\$ 30,000	Address Negative Economic Impact
Faciltiies upgrades to HVAC Systems	\$ 2,500,000	\$ 325,250	\$ -	\$ 325,250	\$ -	\$ -	\$ -	Infrastructure
Golden Triangle Economic Recovery	\$ 300,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	Address Negative Economic Impact
Human/Family Resources - Study	\$ 150,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	Address Negative Economic Impact
Natick Housing Authority Upgrades	\$ 2,500,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	Address Negative Economic Impact
PPE for Schools/Public Safety/Town	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	Public Health Expenditure
Public Safety - Advocate Clinician (NEW)	\$ -	\$ 50,000	\$ -	\$ 50,000	\$ -	\$ -	\$ -	Public Health Expenditure
Town Revenue Recovery (NEW)	\$ -	\$ 6,600,000	\$ -	\$2,500,000	\$3,000,000	\$1,100,000		Address Negative Economic Impact
School Educational Response	\$ 2,500,000	\$ 1,624,750	\$ -	\$ -	\$1,000,000	\$ 624,750	\$ -	Address Negative Economic Impact
Water/Sewer PFAS Upgrades	\$ 2,000,000	\$ 1,700,000	\$1,700,000	\$ -	\$ -	\$ -	\$ -	Invest in W/S Infrastructure
ARPA TOTAL	\$10,650,000	\$10,650,000	\$1,700,000	\$2,990,250	\$4,115,000	\$1,814,750	\$ 30,000	