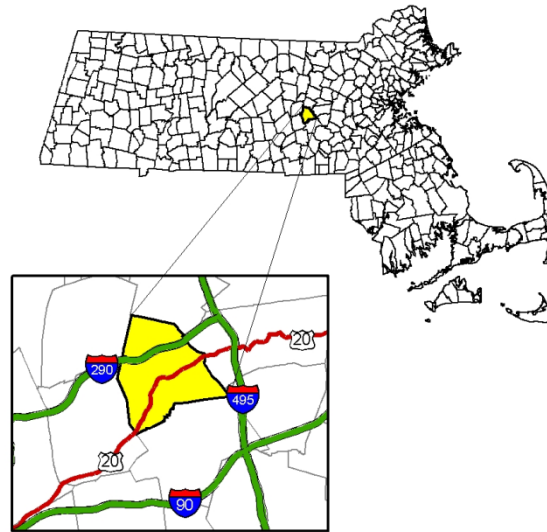




ATFC Conference 2016

Financial Trend Monitoring Presentation

John W. Coderre, Town Administrator



FTM Report covers the period July 1, 2006 (FY2007) through June 30, 2016 (FY2016)

Agenda

- What is a Financial Trend Monitoring System?
- What do we mean by Financial Condition?
- Goals & Objectives of FTMS
- Examples of Financial Indicators

What is the FTMS?

- Key financial indicators are analyzed in order to assess the financial direction of the Town. Many of the same benchmarks are used by the credit rating industry.
- The report is designed to bring issues and opportunities to the attention of decision-makers through a systematic method of trend analysis.
- Report developed using the ICMA manual entitled Evaluating Financial Condition, A Handbook for Local Government.

What is Financial Condition?

- Financial condition is broadly defined as the ability of a Town to: 1) maintain existing service levels, 2) withstand local and regional economic disruptions, and 3) meet the demands of natural growth, decline, and change.
- Exactly what do we mean when we say “sustainability” in the budget process?
- More importantly, how do you measure it?

Aspects of Financial Condition

- Cash Solvency: The Town's ability to pay immediate obligations during the next 30-60 days
- Budgetary Solvency: Its ability to pay financial obligations within the current fiscal period (balanced Fiscal Year)
- Long-Run Solvency: Its ability to continue paying obligations in future fiscal periods (debt, pensions, etc.)
- Service-Level Solvency: The Town's ability to continue providing the level of services expected by its residents

Purpose of the FTMS

- Gain understanding of the Town's financial condition
- Identify hidden or emerging problems before they reach serious proportions
- Present a straight forward picture of strengths and weaknesses to Town Officials and citizens
- Reinforce the need for long-range considerations in the budget process
- Provide a starting place for reviewing and updating financial policies that guide decision-making

Objectives of the FTMS

- Predict: so that the Town can be prepared to deal with fiscal distress before it becomes fiscal crisis
- Avert: and take action to avoid fiscal crisis
- Mitigate: through corrective action and/or policy changes, regain sound financial footing, or at least contain the problem
- Prevent: a recurrence of fiscal distress after the Town addresses the current issue or crisis (e.g., reliance on one-time revenues or health insurance increases)

Fiscal Distress vs. Fiscal Crisis

- Fiscal Distress: temporary imbalance between the level of financial resources the Town has committed and its potential available resources
- Fiscal Crisis: occurs when the local government can no longer pay its bills or provide existing levels of service
- Budget Goal is to protect our policy-making ability by ensuring that important decisions are not controlled by financial problems or emergencies.

42 Potential Indicators

27 Financial Indicators

- Revenue
- Expenditure
- Operating position
- Debt
- Unfunded Liability
- Capital Plant

15 Environmental Indicators

- Population changes
- Vacancy rates
- Crime rates
- Employment base
- Top taxpayers
- Property values

The Quickie Questionnaire

- Develop a list of questions that you want to know the answers to or issues you feel you should be tracking
- Focus on local issues since not all indicators will be relevant or even useful to your specific municipality
- Review financial polices to determine if they are serving the organization with the intended results
- Focus on questions you receive most often in your roles as municipal officials

Northborough Indicators

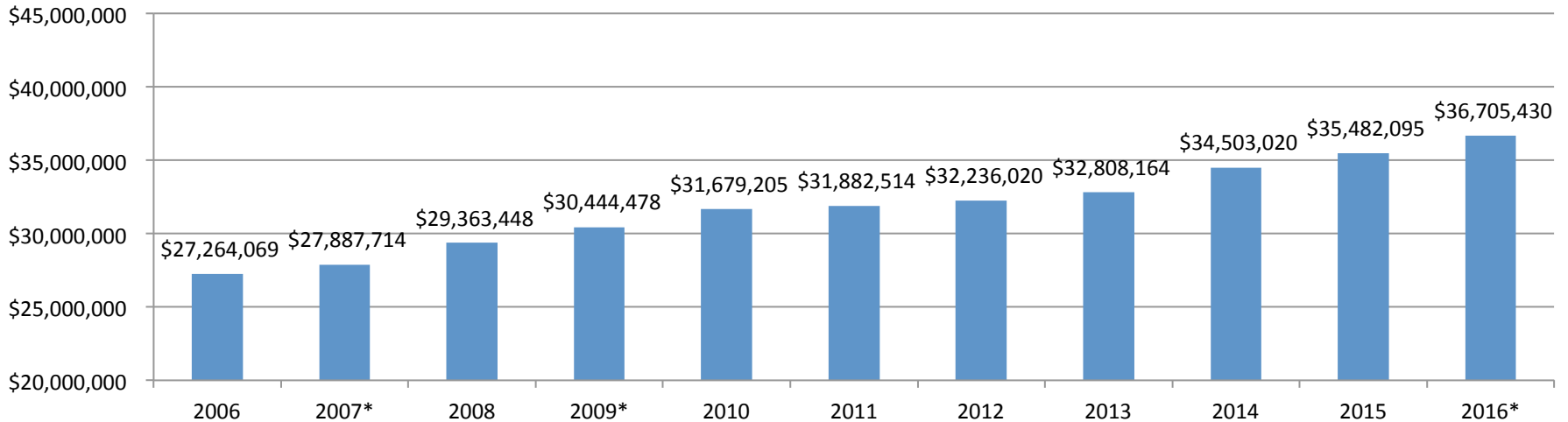
Financial Indicator

FY2016

- 1 Property Tax Revenues
- 2 Uncollected Property Taxes
- 3 Revenues & Expenditures per Capita
- 4 State Aid (Intergovernmental Revenues)
- 5 Economic Growth Revenues
- 6 Use of One-Time Revenues
- 7 Personnel Costs
- 8 Employee Benefits
- 9 Pension Liability
- 10 Other Post Employment (OPEB) Liability
- 11 Debt Service Expenditures
- 12 Financial Reserves/Fund Balance
- 13 Capital Investment—Overall fixed asset values
- 14 Capital Investment—Pavement Management



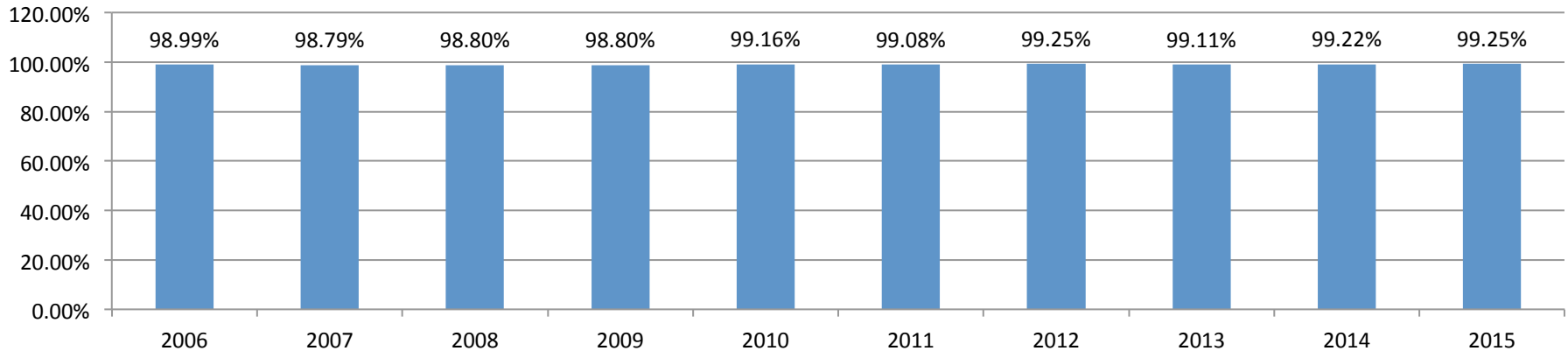
Net Property Tax Revenues (constant dollars)



- Formula: Property Tax Revenues in constant dollars
- Warning: Declining tax revenues
- Trend: **Favorable**
- Comments: Taxes represent 80% of the Town's revenue, growth has exceeded the rate of inflation by 0.06% to 5.3% annually, depending on amounts of new growth, operational overrides and remaining unused levy capacity



Percentage of Property Taxes Collected in Current Year

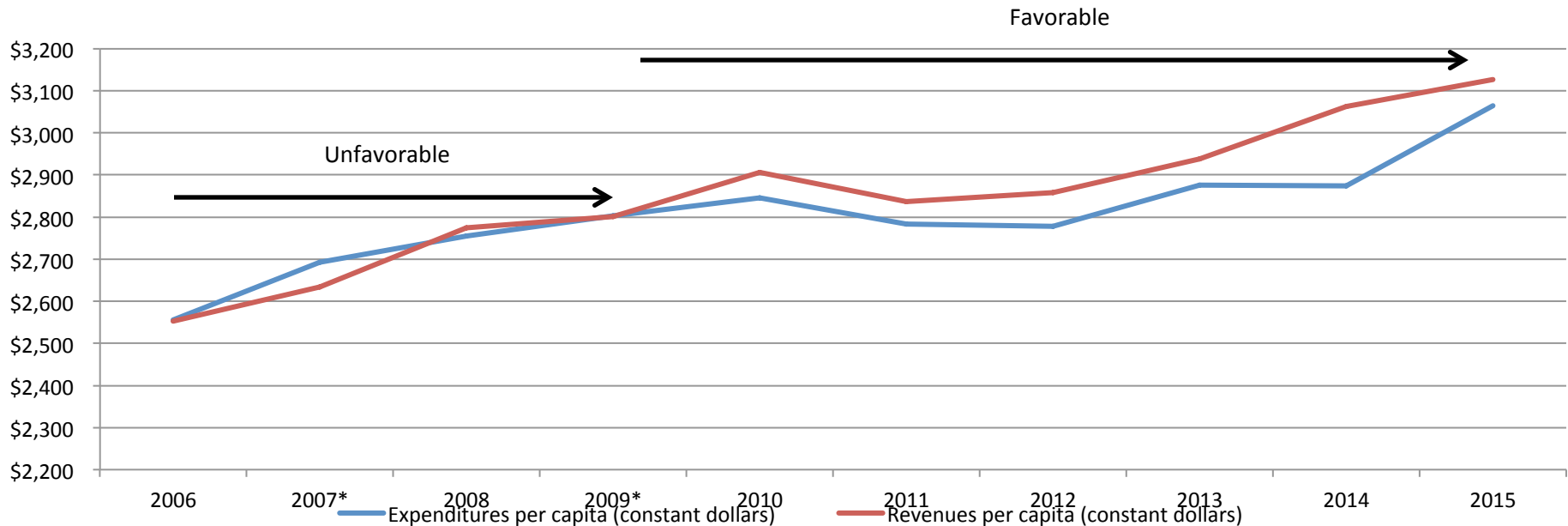


- Formula: Uncollected Property Taxes as % of Net Tax Levy
- Warning: Increasing uncollected property taxes
- Trend: **Favorable**
- Comments: Collection rates below 95% are considered negative by bond rating agencies; Northborough's collection rates are consistently between 98-99%



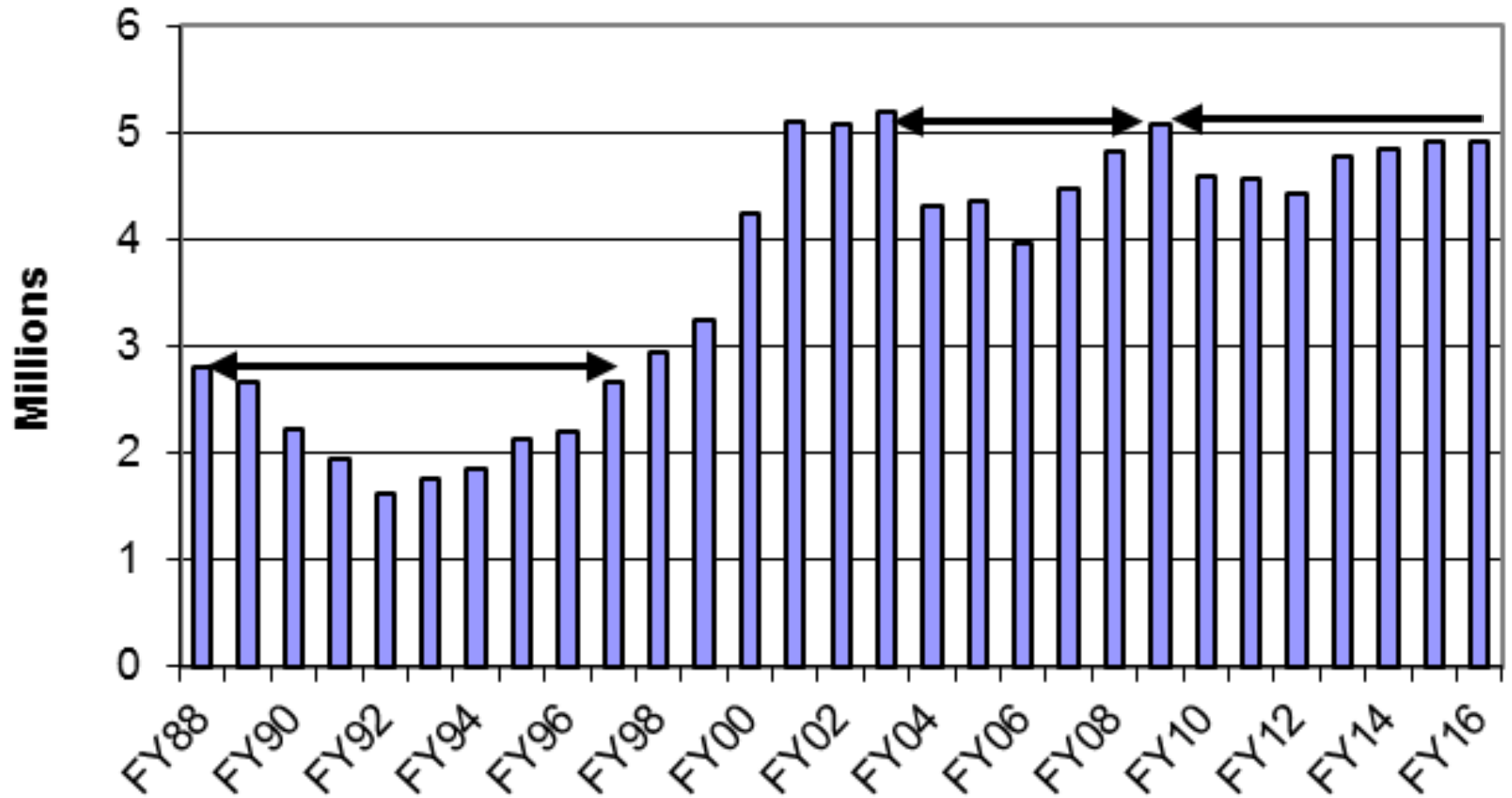
Town of Northborough Financial Indicators

Indicator 3: Revenues & Expenditures per Capita



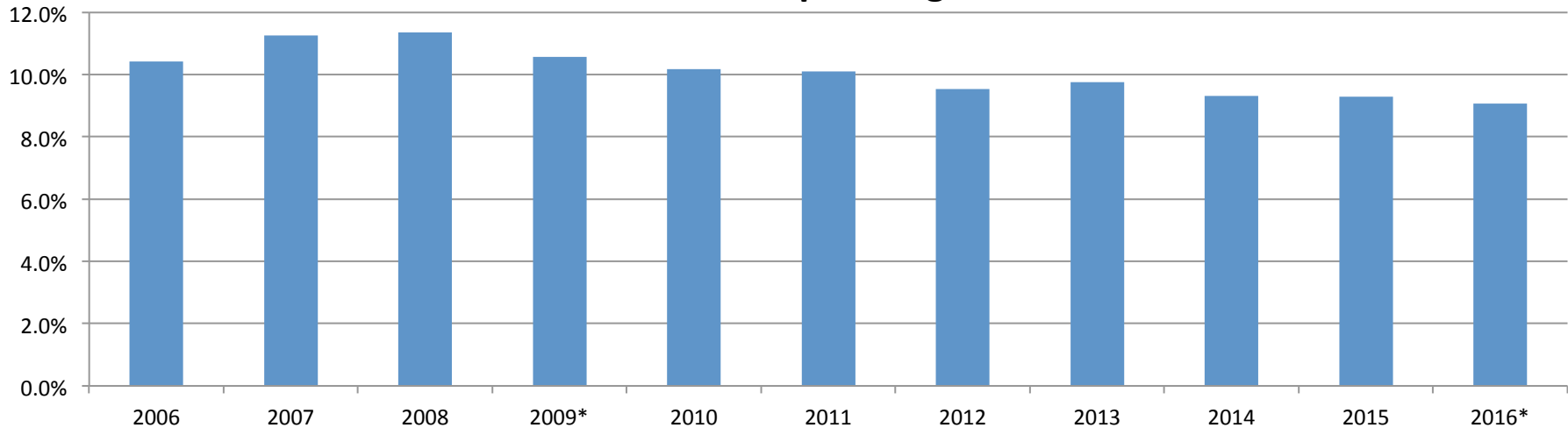
- Formula: Revenues & Expenditures divided by population
- Warning: Expenditures per capita in excess of revenues per capita
- Trend: **Favorable**
- Comments: From FY03 to FY08 negative trend; FY09 to present revenues per capita exceed expenditures per capita

Northborough State Aid FY1988-2016





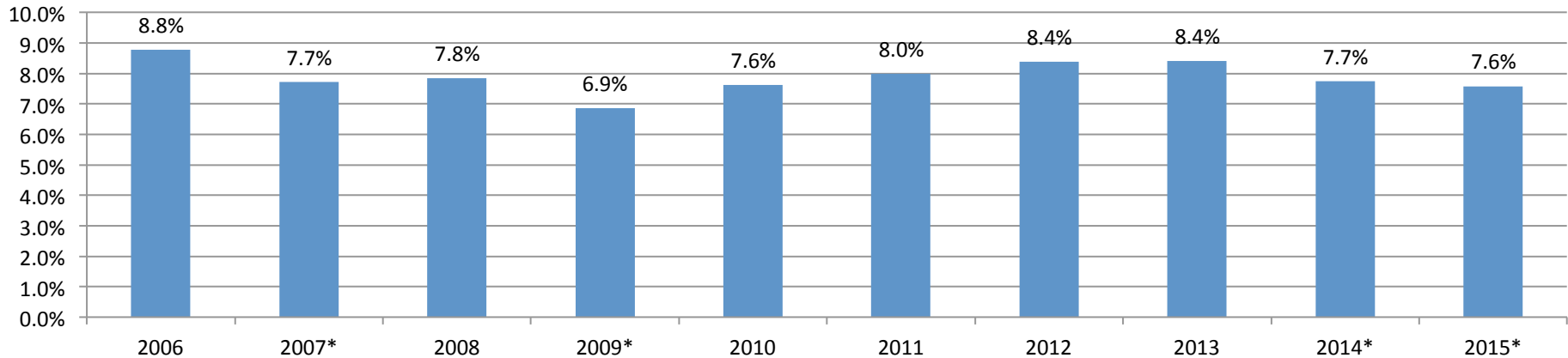
State Aid as a % of Operating Revenues



- Formula: State Aid as a percentage of operating revenues
- Warning: Significant increase or decrease as % operating revenues
- Trend: **Unfavorable**
- Comments: Once adjusted for inflation, State Aid went from a high of 13.1% of revenues in FY03 to 9.1% in FY16; it has been relatively flat for the past several years with little growth.



Economic Growth Revenues as a % of Operating Revenues

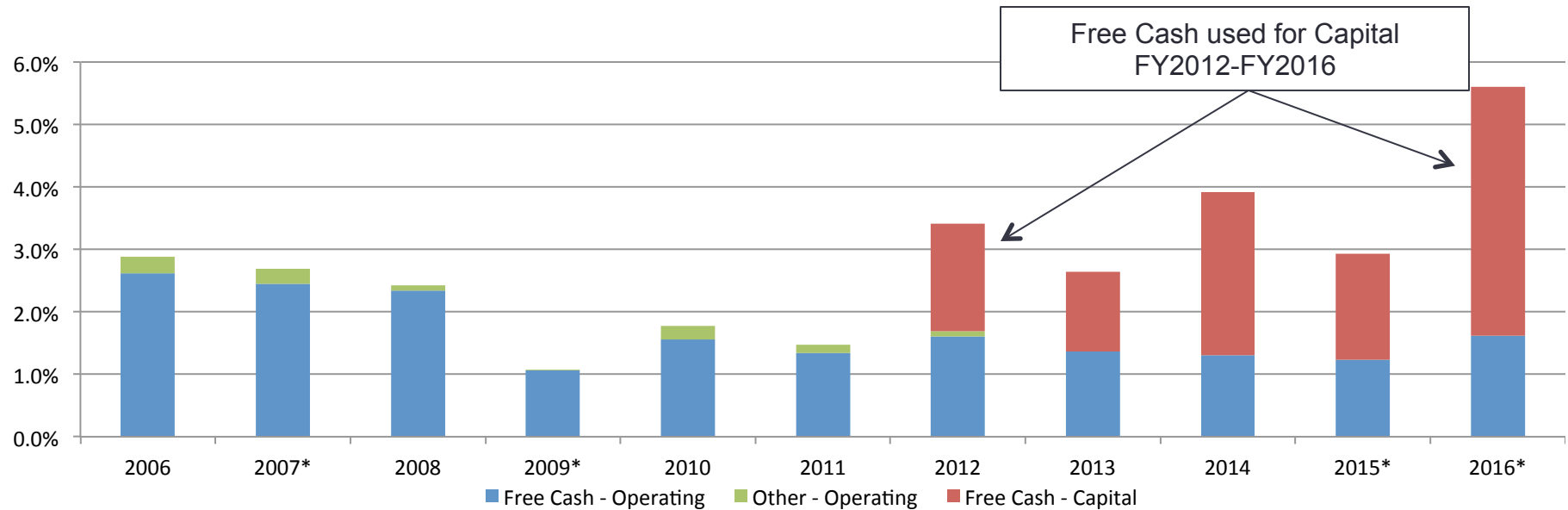


- Formula: Economic Growth Revenues divided by net revenues
- Warning: Decreasing Economic Growth Revenues as % revenues
- Trend: **Uncertain**
- Comments: Economic Growth Revenues increased from FY09 to FY13, but future revenues are uncertain following completion of several large developments and fewer projects in the permitting pipeline



Town of Northborough Financial Indicators

Indicator 6: One-Time Revenues

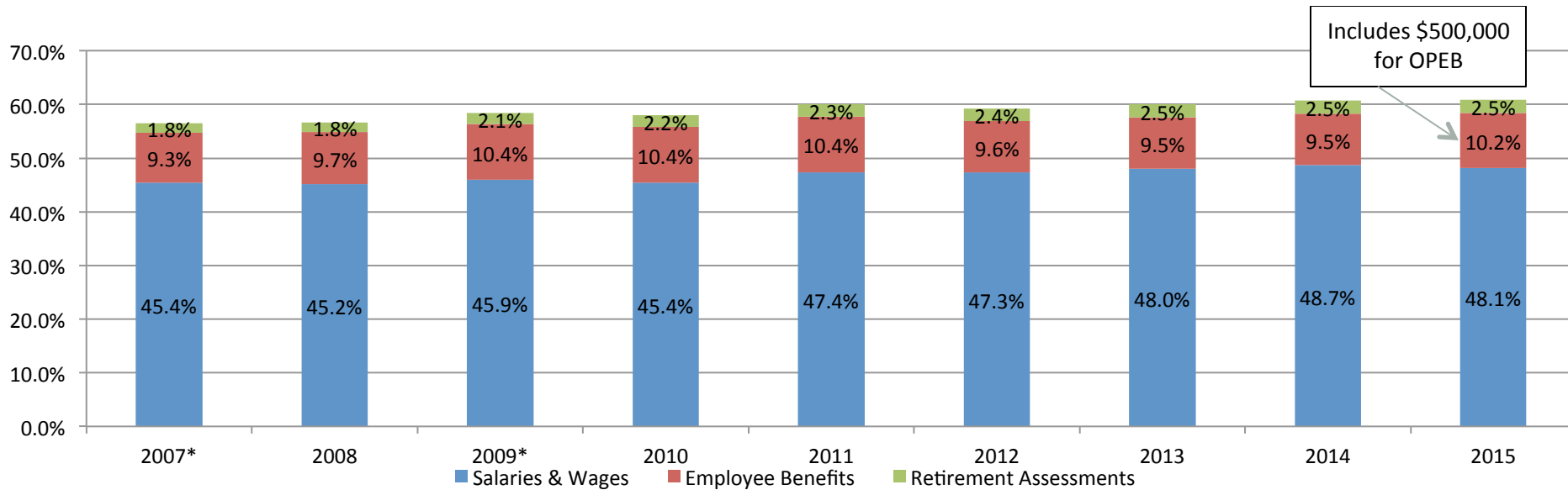


- Formula: One-Time Revenues as % of Operating Budget
- Warning: Increasing amount of one-time revenues in the budget
- Trend: **Favorable**
- Comments: Adoption of Free Cash Policy reduced reliance on one-time revenues from a high of \$1.5 million (4.3%) in FY05 to \$650,000 (1.2%) in FY15; Free Cash was diverted to finance \$5.8 million pay-as-you-go capital investments in FY12 through FY16



Town of Northborough Financial Indicators

Indicator 7: Personnel Costs

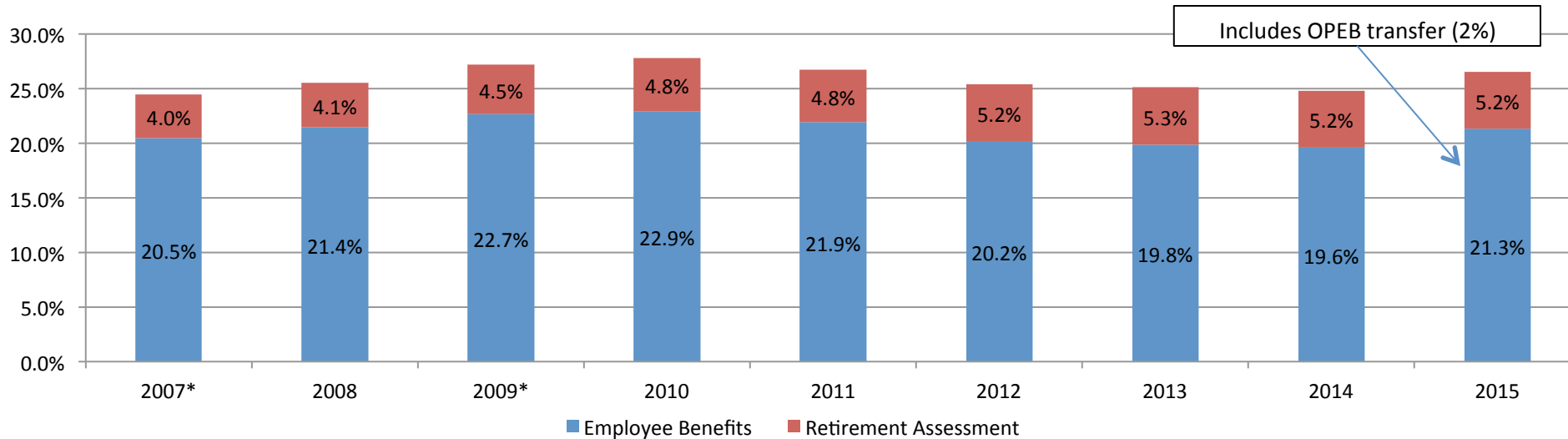


- Formula: Personnel expenses as % of Budget
- Warning: Increasing salaries & wages as % of expenditures
- Trend: **Marginal /Stable**
- Comments: Personnel wages & benefits represent approximately 60% of the Town's operating budget and remain relatively stable due to past health insurance changes and wage contracts



Town of Northborough Financial Indicators

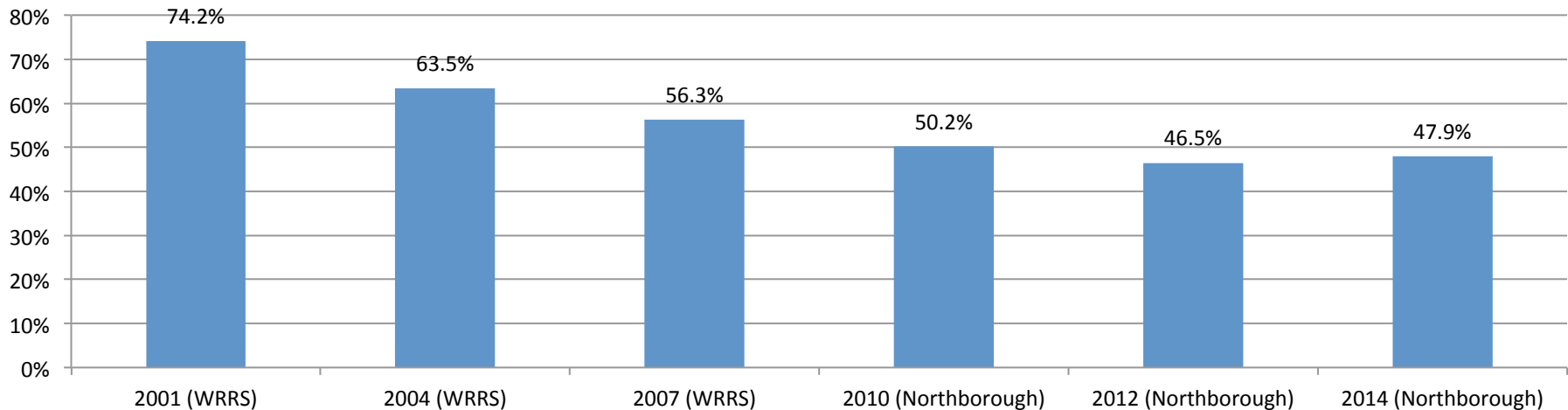
Indicator 8: Employee Benefits



- Formula: Employee benefit costs as % of salaries & wages
- Warning: Increasing employee benefits as % of salaries & wages
- Trend: **Favorable** / **Uncertain**
- Comments: Overall, employee benefits as a % of wages & salaries increased 2% from FY07-FY15 due to negotiated health insurance plan design changes; FY15 includes the first annual \$500k transfer to OPEB trust fund; future increases remain uncertain



Pension Liability - % Funded



- Formula: Pension Assets divided by Pension Liabilities
- Warning: Unfunded liability or increase in unfunded liability
- Trend: **Unfavorable** / Improving
- Comments: Northborough is part of Worcester Regional Retirement System which is on schedule to be fully funded by 2035—five years before the 2040 deadline; the new funding schedule, recent pension reform and improving economy are all forces for future improvement



Town of Northborough
Financial Indicators

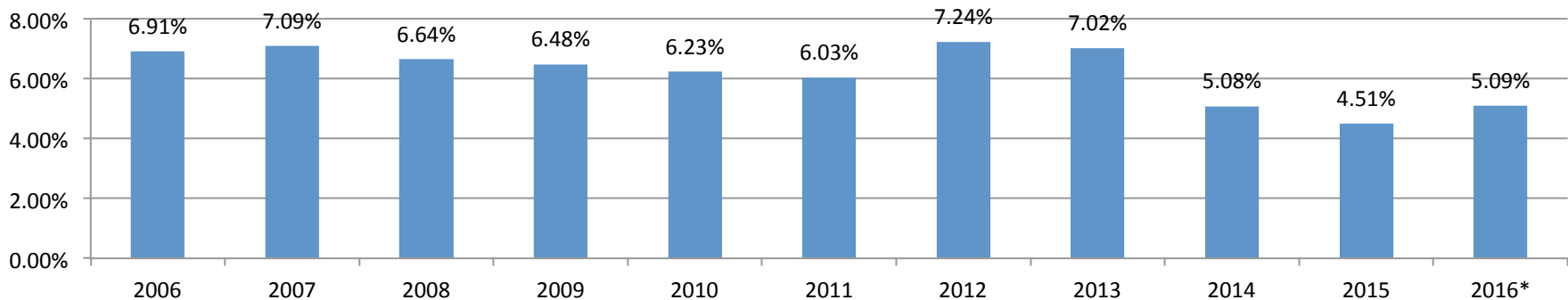
Indicator 10: Other Post-Employment Benefits

Actuarial Valuation Date	FY2009	FY2009	FY2011	FY2013	FY2015
	Original	Revised			
Unfunded Actuarial Accrued Liability	\$90,444,000	\$34,289,000	\$28,072,976	\$32,638,652	\$34,881,934
Actuarial Value of Assets	\$ -	\$ -	\$ -	\$ -	\$500,000
Funded Ratio	0%	0%	0%	0%	1%

- Formula: Other Post-Employment Assets divided by Liabilities
- Warning: Unfunded liability or increase in unfunded liability
- Trend: **Unfavorable / Improving**
- Comments: Health insurance plan design changes, adoption of MGL c.32B §18 and \$500K in planned annual contributions to the OPEB Trust Fund beginning in FY15 have greatly reduced the Town’s outstanding liability.



Debt Service as a % of GF Expenditures



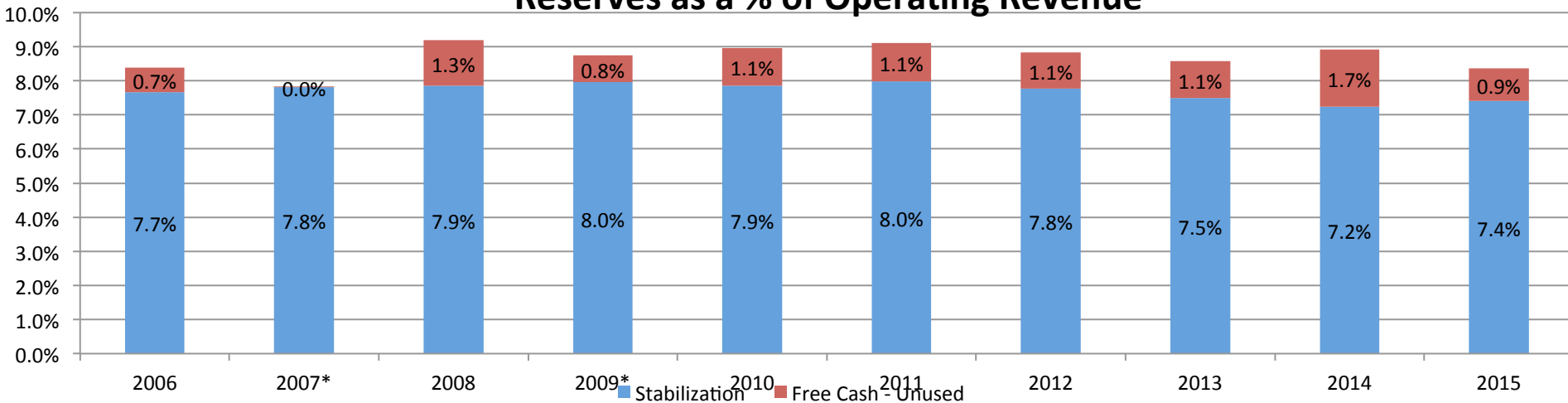
- Formula: Debt Service as % of General Fund Expenditures
- Warning: Increasing debt service as % of operating expenditures
- Trend: **Favorable**
- Comments: Overall, the Town's level of debt service is within the 5% to 10% suggested by the debt policy and represents an appropriate level of capital investment; FY16 includes \$7.5 million in new debt for the Lincoln St. School building project



Town of Northborough Financial Indicators

Indicator 12: Reserves/Fund Balance

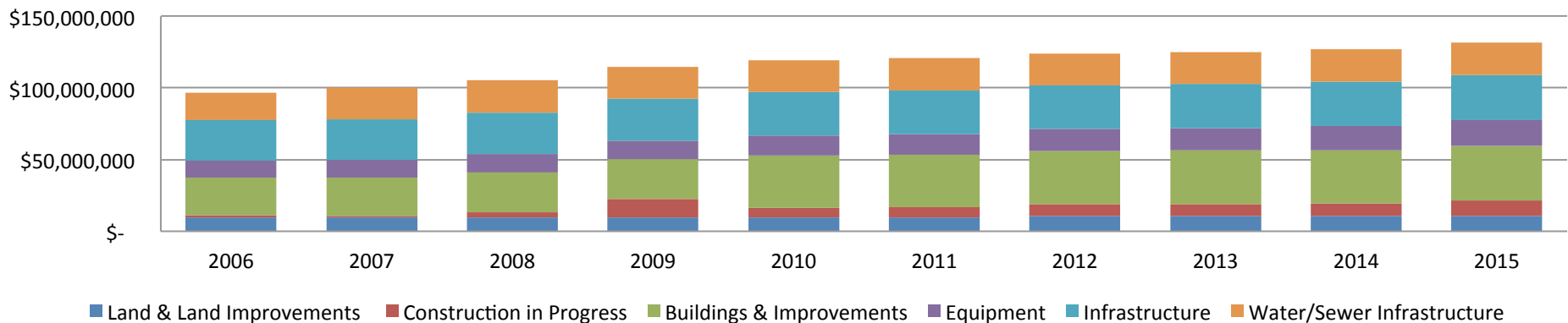
Reserves as a % of Operating Revenue



- Formula: Financial Reserves as % of operating revenues
- Warning: Declining reserves as % of operating revenues
- Trend: **Favorable**
- Comments: Northborough's financial policy provides for reserves to average between 5% and 10% of the Town's General Fund (Operating Budget) expenditures. FY16 includes a \$200K contribution to the Stabilization Fund to help maintain reserves



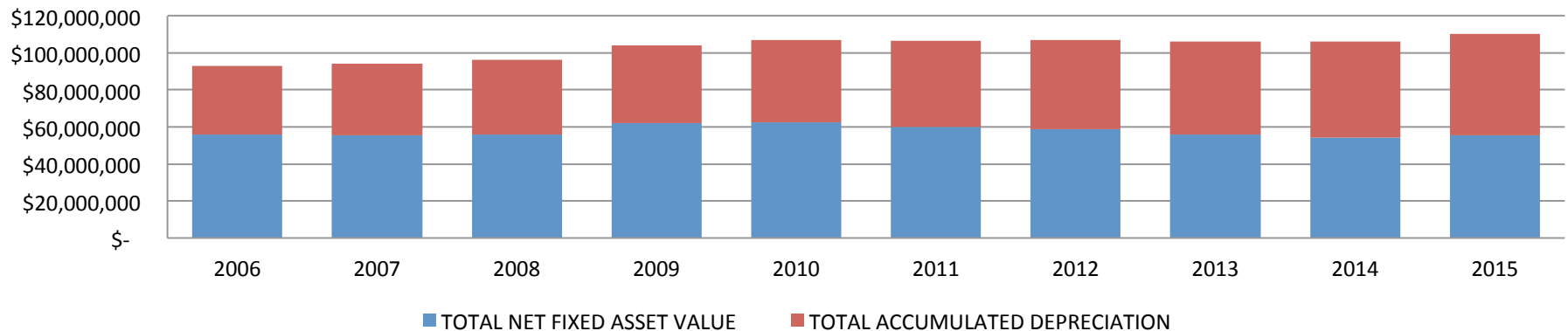
Gross Fixed Asset Value Nominal Dollars – Governmental & Business-Type Activities



- Formula: Value of assets in service before depreciation
- Warning: Declining value of assets
- Trend: **Favorable**
- Comments: Reflects Northborough's overall investment in the various categories of capital assets. However, the above chart is not adjusted for inflation and does not reflect routine depreciation of assets.



Fixed Asset Values Constant Dollars - Governmental & Business-Type Activities

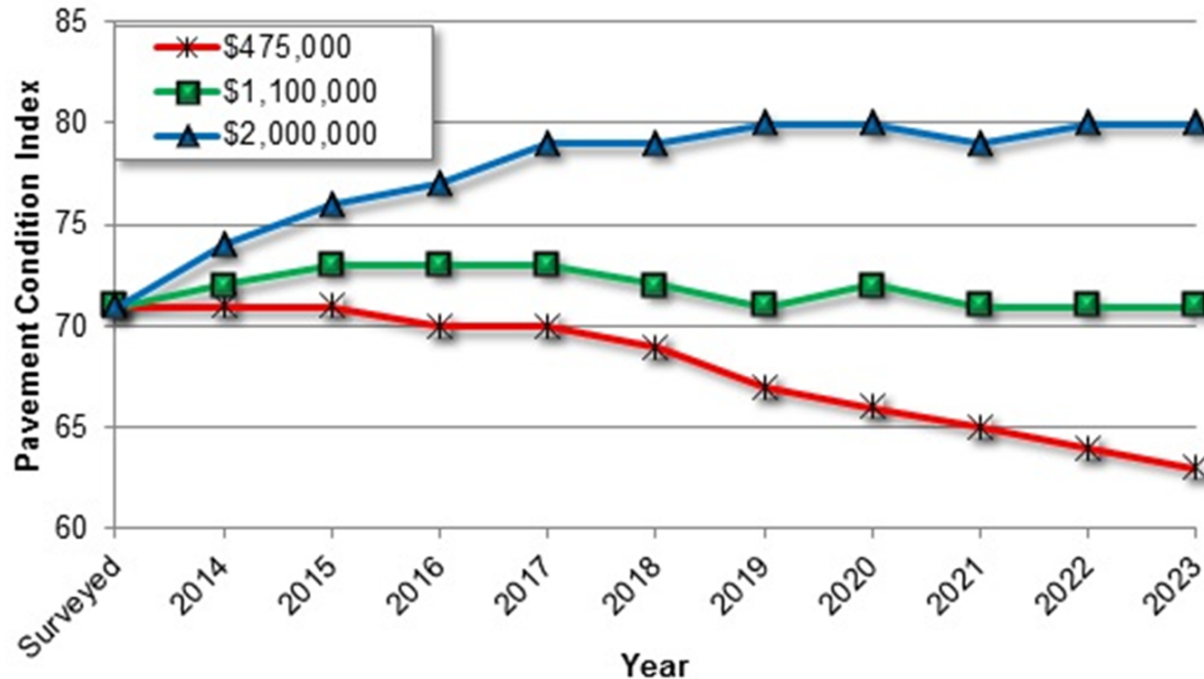


- Formula: Total fixed asset values adjusted for inflation
- Warning: Declining values
- Trend: **Favorable**
- Comments: Reflects Northborough's continued effort to maintain its fixed asset values even after adjusting for the effects of inflation and depreciation. The blue portion of the bar graph above shows relatively constant asset value indicating regular capital investment.



Town of Northborough Financial Indicators

Indicator 14: Capital Investment–Pavement Management



- Formula: Average Pavement Condition Index (PCI)
- Warning: Declining overall average PCI
- Trend: **Unfavorable**
- Comments: The minimum annual investment needed to maintain the current average PCI of 71 is \$1.1 million. The target will be short by approximately \$300K due mainly to the State's reduction of Chapter 90 roadway funds from \$744K in FY15 to \$492K in FY16.

Executive Summary

	Financial Indicator	FY2016
1	Property Tax Revenues	Favorable
2	Uncollected Property Taxes	Favorable
3	Revenues & Expenditures per Capita	Favorable
4	State Aid (Intergovernmental Revenues)	Unfavorable / Uncertain
5	Economic Growth Revenues	Uncertain
6	Use of One-Time Revenues	Favorable
7	Personnel Costs	Marginal / Stable
8	Employee Benefits	Favorable / Uncertain
9	Pension Liability	Unfavorable / Improving
10	Other Post Employment (OPEB) Liability	Unfavorable / Improving
11	Debt Service Expenditures	Favorable
12	Financial Reserves/Fund Balance	Favorable
13	Capital Investment—Overall fixed asset values	Favorable
14	Capital Investment—Pavement Management	Unfavorable

December 2015 Presentation Summary

Current Financial Condition

- Northborough is in relatively good financial condition
- Tax base is strong with good diversification
- Financial reserves are healthy at approximately 8%
- Debt level is manageable with upgraded Aa1 bond rating
- Reliance on one-time revenues in the operating budget is at the policy target of \$500,000, or approximately 1%
- Pay-as-you-go capital investments continue
- Rising health insurance costs have been mitigated (for now)

December 2015 Presentation Summary

Potential Emerging Concerns

- Long-run solvency surrounding unfunded pension liability and OPEB obligations are potential emerging problems
- Uncertainty surrounding future levels of State Aid
- Uncertainty surrounding future increases in health insurance premiums
- Uncertainty surrounding future economic development (new growth) revenues
- Long-run solvency surrounding infrastructure investment

FY2017 Budget Considerations

- Other Post-Employment Benefits (OPEB) Liability
 - Must continue to fund at least \$500,000
- Sustainable Personnel Expenses (contracts & staffing)
- Non-tax revenues are flat—less New Growth and State Aid
- Plan for infrastructure investment (implementation of pavement management plan)
- All decisions must be made while maintaining compliance with the Town's adopted Comprehensive Financial Policies (Appendix A of the Budget)

Causes of Financial Trouble

- Unsustainable collective bargaining agreements (wages, benefits, minimum staffing requirements)
- Taking on too much debt
- Running operational deficits
 - Expanding staffing and/or services beyond available resources
 - Pattern of expenses outpacing revenues
 - Using one-time funds for recurring expenses
- Failing to address unfunded liabilities
- Erosion of tax base or other revenue sources
 - Defaults on tax payments (reduced collections)
 - Loss of business and/or declining economic development

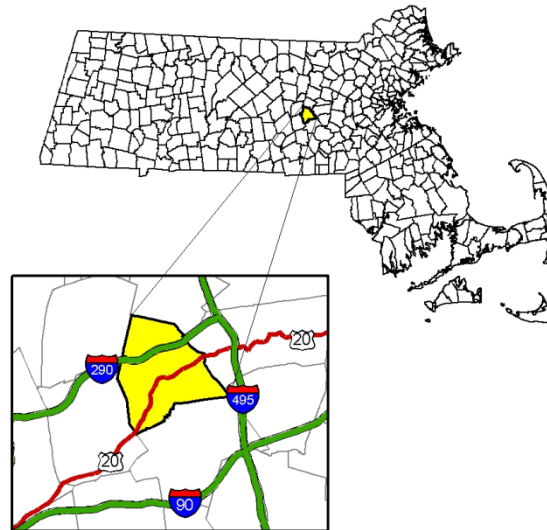
Causes of Financial Trouble

The one commonality among the financial pitfalls identified is that they are more likely to occur when decision-makers fail to track fiscal indicators, fail to adopt and adhere to financial policies, and fail to acknowledge and take timely action when presented with new or unpleasant information.



Financial Trend Monitoring Report

QUESTIONS?



<http://www.town.northborough.ma.us>

The full FTMS Report is available on the Town web site under “Reports & Documents” as Appendix C of the FY2017 Budget. The video is on the Town Administrator’s web page.