

Financial Conditions and Strategies

Overview

For the past several years, the economic conditions in the State and our region have been improving, and state aid and local receipts are beginning to reflect that status. The annual operating budgets continue to be conservatively managed, which results in funds being turned back into the general funds at the end of the fiscal year. This sound fiscal management has allowed the Town to retain a AA+ bond rating for the past 4 years, which allows us to borrow funds, as needed at favorable rates.

There are several important factors that continue to influence the ability of the Town to pay for its capital and operating expenses:

1. Many user fees have been implemented in an effort to shift service costs wherever possible from tax revenues, constricted by Prop 2½, to actual service users.
2. Limited new growth due to lack of buildable land and restrictions imposed under the Cohen Act, have further reduced the Town's ability to see significant growth to keep pace with rising costs.
3. Increasing State controls and regulations/mandates require towns to provide costly services they have difficulty funding e.g. schools, housing, open space, transportation, etc. Reducing department budgets beyond certain levels could also result in loss of State funds.
4. The Town of West Boylston gets no special revenue for hosting the House of Correction.
5. Increased taxes will be accepted by West Boylston citizens only if they are convinced of the need, and if they feel the Town is managing the properties well.

There are no significant sources of non-recurring funds (such as grants or one time large building permit fee) to support the operating budget. There are also no significant funds to add annually to our Stabilization Fund. The Town financial policies state that an appropriate stabilization fund balance should be at least 5% of budgeted revenues. Replenishment of the Stabilization Fund should be a critical component of our financial planning, as it protects our bond rating and continued ability to manage unexpected problems.

Our Community Preservation Act fund balances are another portion of our annual revenues, as are the Sewer Enterprise account revenues (which are used to offset the annual operating costs of the sewer work done by the DPW, and the Ambulance revenues used to offset the annual operating costs of the ambulance services provided by the Fire department.

While grants are not a recurring source of funds, the Town is making active efforts each year to apply for all of the routine grant funds available annually to each specific office or department, as well as working with the two volunteer grant writers to research and apply for any appropriate grant programs to help fund specific projects.

West Boylston has a local school system with a decreasing student population. Careful analysis will need to be done to determine the affordability of maintaining local elementary, middle and high school programs and facilities. (See the Education chapter for more information on these issues.)

Regionalization of services and sharing of resources such as large vehicles and equipment will require necessary, ongoing discussion for years to come.

Key Challenges

1) Planning for future capital needs:

With very little current debt “rolling off the books” in the next few years (see Key Findings Item 1 below), capital projects resulting in new debt exclusions will result in additional tax assessments for property owners. It is possible to mitigate some of the tax rate impact of the new senior center project by structuring the borrowing so that lower payments are due for the first 8-10 years until the Town Hall debt is paid off and then redirect the funds needed to pay for the town hall debt to the senior center loan schedule. The cost and benefit of this strategy will be explored with the Town’s independent financial consultant. However, it will not be possible to approve any new projects without an additional impact on taxpayers. In light of this fact, the least costly alternatives need to be sought to achieve the capital needs of the town, with the actual affordability of the project measured in terms of the tax rate impact on the citizens. A current list of the know capital projects can be found in the Appendices. For each new project, an analysis will need to be done to determine if the project is affordable.

2) Determine a sustainable source of regular funding for Capital Needs:

The current Town policy and practice for funding the Capital needs of the Town is to appropriate available sources of money to the Capital Investment Fund when they are available. These sources include certified Free Cash, bond premiums, or other one-time sources of funds. This is generally after all other one time needs are met, with Stabilization needs set as a higher priority.

This practice does not provide a steady, reliable source of funding for the Capital Investment Board to be able to effectively address the regular occurring capital needs of the Town. Although the New Growth policy in the Town requires an appropriation to the Capital Investment Fund when New Growth exceeds 1.5% of the operational budget and stabilization needs, this level of new growth has occurred infrequently, thus not proving as a steady stream of funding for the Fund.

3) Fund OPEB (Other Post-Employment Benefits) Liability:

To date, no monies have been appropriated by the Town to provide for the Unfunded Liability for these retirement benefit costs. It is becoming increasingly important for Towns to address this problem in order to maintain their favorable bond ratings as well as provide for a very sizable and real future cost. Due to the potential negative impact on the Town's bond rating from not funding the OPEB Trust, it would be wise for the Town to begin to actively address this problem.

The first step is to adopt an OPEB liability policy, which the Town is moving to take action upon. The more difficult problem is to find a sustainable source of funds to regularly appropriate to the fund. The pending policy advocates that upon completion of the funding for retirement pensions the monies normally used for this assessment then be redirected to the OPEB trust to fund that liability. This will not likely happen until after 2035, thus the short term problem is to identify sources and determine an appropriate level of funding that will prove as a good faith effort to address the problem with regularity.

4) Decrease Reliance on Free Cash for Operational Budgets:

The current Town policy and practice for funding the annual operations budget is to fund 1% of the budget from free cash. The 1% is to be the maximum amount that is available for appropriation by the policy. This reliance upon free cash, which should ideally be used for one time purposes and to shore up the Town's reserves, has become a regular source of budgetary funding. It would be prudent for the Town to wean itself off its reliance on free cash for operational expenses. Consideration should be given to developing a schedule to reduce the amount appropriated each FY with a declining percentage each year to phase out the reliance in a set number of years. The appropriation policy should allow for the use of Free Cash as a funding source only in years of economic hardship and define what qualifies as that hardship to help regulate its use. Free cash would then be available to fund other more appropriate issues such as OPEB liability, Capital needs, etc.

Key Findings

1. The current general fund debt is almost all newly issued with maturity dates a number of years away:
 - a. Library Renovations – matures 2030 (debt exclusion)
 - b. Town Hall – matures 2028 (debt exclusion)
 - c. Police Station – matures 2038 (debt exclusion)
 - d. Senior Center – projected maturity 2039 (debt exclusion)
 - e. Fire Truck – projected maturity 2023 (non-excluded debt)

This will require any new debt funded capital projects to be carefully considered as to whether the Town has capacity to fund additional debt, as well as the impacts on real estate taxes prior to bringing the necessary debt exclusion votes forward. The total General Fund debt service, including General Fund debt exclusions and self-supporting debt, should be less than 10% of general fund revenues; however, prior to issuance of any new General Fund debt service, the Town shall evaluate its ability to handle the additional debt obligations given the financial conditions of the Town at that time. The Town's current FY2018 debt service is at \$852,298. The FY2018 G/F Revenues are \$23,559,847. The % Debt Service / GF Revenues = 3.62%.

2. The financing of smaller capital projects (less than \$100,000), will require annual contributions into the Capital Investment Fund. The past four years annual appropriations, annual expenditures, and closing fund balances were as follows:

Fiscal Year	Annual Appropriation Into Capital Fund	Annual Expenditure Out of Capital Fund	Annual Year End Capital Fund Balance
FY2018	\$189,500	\$42,000	\$652,222
FY2017	\$180,584	\$244,900	\$488,741
FY2016	\$152,287	\$200,500	\$548,552
FY2015	\$390,803	\$430,000	\$585,483

The Town must be careful to ensure that the annual allocations exceed the annual expenditures to allow for a growth in the fund.

4. The Stabilization Fund is the Town's largest general reserve of funds. The Town considers a balance equal to less than 5% of the General Fund Operating Budget to be cause for concern, and will work to restore the balance above that level as soon as possible. The last four years show the amounts to be as follows:

Fiscal Year	Stabilization Fund Balance	General Fund Operating Budgets	Percentage Stabilization of Total Operating Budget
FY2018	\$1,276,119	\$23,360,208	5.46%
FY2017	\$1,168,168	\$22,912,114	5.10%
FY2016	\$1,151,972	\$22,583,615	5.10%
FY2015	\$1,058,864	\$21,798,168	4.86%

5. Our current OPEB unfunded liability (as of the last actuarial study completed in 2016) is \$32,049,341. We have taken several steps to reduce this liability by taking the following measures:

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- a. Adopted MGL 32B to require Medicare eligible retirees to transfer off the Town’s plans and take the Medicare coverage, thus reducing the Towns costs considerably.
- b. Careful structuring of retiree health insurance plans

6. The Town’s financial policies allow up to 1% of the annual operating budget to be funded with use of Free Cash. Actual free cash usage in the past four years shows the recent trend of reduced free cash usage over the past two years as follows:

- a. FY2018 - \$235,000
- b. FY2017 - \$252,312
- c. FY2016 - \$257,714
- d. FY2015 – \$220,000

Financial Conditions and Strategies Goals

- 1. Planning for future capital needs.
- 2. Determine a sustainable source of regular funding for Capital Needs
- 3. Fund OPEB (Other Post-Employment Benefits) Liability
- 4. Decrease Reliance on Free Cash for Operational Deficit

Financial Conditions and Strategies Plan

The following actions will help us meet our Financial Conditions and Strategies Goals.

Item	What	Why	Goal(s)	Who	When
1	<u>Plan For Future Capital Needs</u> and resulting tax impacts. Consider all options for capital needs and consider the lowest cost options when possible. Consider the feasibility that any future borrowings be done to minimize lower payments in earlier years of the repayment to allow older debt to roll off.	The current general fund debt is almost all newly issued with maturity dates a number of years away. Any new projects without an additional impact on taxpayers.	Use the 20 year capital plan to identify large debt funded projects and expected years of activation. Work to analyze potential tax impact.	Capital Investment Board (CIB); Town Administrator; Accountant; State Dept. of Revenue (DLS)	FY2020 upon completion of the FY19's 20-year capital plan, and then annually per the Capital Planning Bylaw
2	Determine a sustainable source of regular funding for Capital needs	Current capital plans project ongoing capital facilities and infrastructure needs that must be funded.	Identify prioritized sources of funds that can be earmarked to be deposited into the Capital Investment Fund when available.	CIB; BoS; FinCom; Town Administrator; Accountant	Begin Oct 2018
3	Fund OPEB Liability through regular appropriations into the Fund.	Our current liability is \$ 32,049,341 . By funding the OPEB trust fund, we are seen as more financially secure and it will help us in any future bond rating.	Implement a new OPEB Policy and begin funding the OPEB Trust account. Identify creative options for ongoing funding.	BoS; Town Administrator; FinCom; Accountant	Oct Town Meeting, 2018
4	Decrease Reliance on Free Cash for Operational Deficit	Annual use of Free cash reduces the amount of dollars available to build the Stabilization Fund and the Capital Investment Fund.	Set a 1/10 th of a % of annual reduction of Free Cash use over a multi-year period, to get to zero Free Cash use in the operating budgets.	Town Administrator; BoS; FinCom; Accountant	Beginning FY20