

Undistributed Expenses

Section 6



This Page Intentionally Blank



Undistributed Expenses

Section 6-1

Undistributed Expenses

In its operation the Town budgets certain overhead costs in the aggregate rather than distributing costs by department or program. These overhead costs include employee benefits of health insurance, life insurance, Worcester Regional Retirement contributions, unemployment compensation and workers' compensation insurance; comprehensive building and liability insurance; debt service; non-appropriated expenses such as State Assessments and reserves for abatements; stabilization fund contributions; a reserve fund for extraordinary and unforeseen expenses; and various Town Meeting special warrant articles. In the pages that follow each of these undistributed expenses are explained in more detail. A summary of these expenses is shown below.

	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 BUDGETED	FY2017 SIX MONTHS	FY2018 PROPOSED
UNDISTRIBUTED EXPENSES SUMMARY						
EMPLOYEE BENEFITS& INSURANCE						
Health Insurance	4,161,545	4,336,371	4,590,594	5,097,510	2,586,252	5,522,354
Transfer to OPEB Trust	0	500,000	500,000	500,000	500,000	500,000
Life Insurance	5,867	5,930	7,080	8,730	3,092	8,776
Other Benefits/FICA	380,818	364,210	381,928	432,727	181,215	441,693
Worcester Regional Retirement	1,241,407	1,306,702	1,415,244	1,531,756	1,531,756	1,612,608
Workers Comp	94,880	101,440	109,700	119,497	117,409	145,878
SUBTOTAL EMPLOYEE BENEFITS	5,884,517	6,614,653	7,004,546	7,690,220	4,919,724	8,231,309
Building & Liability Insurance	177,119	180,631	199,061	248,927	220,211	256,395
Debt Service	2,307,032	2,050,723	2,488,169	3,034,131	427,993	2,959,080
State Assessments	326,754	275,498	258,560	197,742	91,937	188,000
Reserve for Abatements¹	530,787	462,432	623,081	366,912	366,912	612,089
Cherry Sheet Offset Items²	21,827	27,591	19,972	21,604	21,604	22,559
Stabilization Fund Contribution	0	0	200,000	200,000	200,000	200,000
Reserve Fund³	0	0	0	175,000	0	175,000
Warrant Articles⁴	1,506,500	28,610,053	4,129,000	3,560,000	0	2,107,000
TOTAL: UNDISTRIBUTED EXPENSES	10,754,536	38,221,581	14,922,389	15,494,536	6,248,381	14,751,432

¹ Amounts displayed reflect an offset to revenue rather than actual expenditures and reflect what was provided for abatements and exemptions from the property tax levy as determined by the Assessors in each year.

² Amounts displayed reflect an offset to revenue rather than actual expenditures. The amounts are the portion of total budgeted state aid that is restricted to uses in other funds, and will be received outside of the general fund (i.e. School Lunch and public library grants). Beginning in FY2016 the only offset is for public library grants.

³ Amounts displayed will reflect the budget only for the Reserve Fund from which amounts may be transferred to other departments to cover extraordinary/unforeseen expenses, expenditures are not made directly from the fund.

⁴ Amounts displayed in this row reflect budgets rather than actual expenditures because articles are generally multi-year and reflect either transfers to Capital Project Funds or Borrowing Authorizations.



Employee Benefits and Insurance Statement

The employee benefits and insurance provided to the employees of the Town of Northborough (including those who work for the Northborough K-8 Public Schools) include both the required and contractually agreed upon benefits to protect their health, provide for their income security if they are injured on the job, and provide for their eventual retirement from the Town. Employee benefits represents the cost of providing health and life insurance for Town and K-8 School employees as well as for workers' compensation, unemployment, FICA/Medicare tax, and the Town's assessment from the Worcester Regional Retirement System.

Health Insurance

Pursuant to MGL Chapter 32B, as a benefit of employment, any active, permanent employee of the Town who works in excess of twenty hours per week is eligible for group health insurance coverage.

The Town offers the choice of four health insurance plans to its active employees: Fallon Health Maintenance Plan (HMO), Fallon Preferred Provider Plan (PPO), Harvard/Pilgrim HMO and Tufts HMO. As a benefit of retirement, former Town employees are also eligible for group health insurance coverage. Retirees under the age of 65 are covered on the active employee plans with the same contribution as the Town employees. The Town offers four senior plans for Medicare eligible retirees: Fallon Senior, Tufts Complement, Tufts Preferred and MEDEX.

As of March 1, 2017 a total of 289 active employees (82 Town and 207 K-8 School), 139 retirees (46 Town and 93 K-8 School) and 51 retiree dependents (10 Town and 41 School) were enrolled in one of the Town's health insurance plans.

The following estimated rate schedule was used in budgeting for FY2018.

Health Insurance Plan		7/1/2017 Renewal Monthly Rates	Town Employees				School Employees			
			7/1/2017 Town Monthly Expense	7/1/2017 Employee Monthly Expense	7/1/2017 Town Monthly Expense	7/1/2017 Employee Monthly Expense				
Fallon	Ind	770.25	66%	506.66	34%	263.59	75%	577.69	25%	192.56
	Fam	2,002.63	66%	1,316.51	34%	686.12	75%	1,501.97	25%	500.66
Fallon Pref Care PPO	Ind	924.31	50%	462.15	50%	462.16	50%	462.16	50%	462.15
	Fam	2,404.22	50%	1,202.11	50%	1,202.11	50%	1,202.11	50%	1,202.11
Harvard/Pilgrim	Ind	876.47	66%	582.24	34%	294.23	75%	657.36	25%	219.11
	Fam	2,278.83	66%	1,512.83	34%	766.00	75%	1,709.12	25%	569.71
Tufts	Ind	793.45	67%	527.68	33%	265.77	75%	595.08	25%	198.37
	Fam	2,062.91	67%	1,371.88	33%	691.03	75%	1,547.18	25%	515.73



Undistributed Expenses

Section 6-3

Several years ago, the Town negotiated a 60% Town and 40% Town employee share of any premium changes. Therefore in FY2018, the Town contribution will be 65% to 67% of the monthly HMO premiums for Town employees depending upon the specific health plan. Beginning in FY2012, the Town's contribution decreased from 80% to 75% of the monthly HMO premiums for K-8 School employees and the 75% contribution remains in place for FY2018. In accordance with Chapter 32B, the Town pays 50% of the monthly premium for the Fallon Preferred Provider Plan for both K-8 School and Town employees. The employees pay the remaining premium through bi-weekly payroll deductions.

The FY2018 budget was prepared using an estimated 5% increase effective with the Senior plan renewal on January 1, 2018. The following rate schedule was in place until the calendar year renewal.

Health Insurance Plan		1/1/2017 Renewal Monthly Rates	Medicare Eligible Ret Empl*			
				1/1/2017 Town Monthly Expense		1/1/2017 Retiree Monthly Expense
Fallon Senior	Ind	349.00	70%	244.30	30%	104.70
	Ind x2	698.00	70%	488.60	30%	209.40
Tufts Medicare	Ind	548.00	70%	383.60	30%	164.40
Complement	Ind x2	1,096.00	70%	767.20	30%	328.80
Tufts Medicare	Ind	292.00	70%	204.40	30%	87.60
Preferred	Ind x2	584.00	70%	408.80	30%	175.20
MEDEX 2	Ind	383.71	51%	195.69	49%	188.02
	Ind x2	767.42	51%	391.38	49%	376.04

* Enrollment in the Senior Plans require participation in Medicare Parts A & B

The Town pays 70% of the monthly Senior Plan HMO premiums for all the retirees. In accordance with Chapter 32B, the Town pays 51% of the monthly premium for the MEDEX Plan. In 2017 the Town changed the MEDEX plan offered from MEDEX 3 to MEDEX 2. The retirees pay the remaining premium through monthly deductions from their retirement allowances.

In the past, the Town had experienced significant increases in its Health Insurance premiums. The Town unanimously adopted MGL Chapter 32B, Section 18 at the Annual Town Meeting in April 2009. The adoption of Chapter 32B, Section 18 requires Medicare eligible retirees to move out of the HMO active health plans and into Medicare supplement or "Senior Plans," which are specifically designed for the medical needs of seniors and will effectively share these health care costs with the Federal Medicare program. By introducing a variety of Senior Plans



Section 6-4 Undistributed Expenses

the Town continues to realize savings as Medicare-eligible retirees and their spouses are required to transition to these lower cost Senior Plans.

In addition, to address the rising costs, during FY2010 the Town successfully negotiated Health Insurance plan design changes with all employee groups that resulted in approximately \$400,000 in FY2010 budgetary cost avoidance. With the adoption of new plan design changes in FY2010, the Town experienced a nearly flat budget increase. In FY2010, the Town also moved to new plans with higher co-payments for office visits and prescription drugs, and for the first time deductibles for inpatient and outpatient services. A Flexible Spending Account was established to allow employees to make contributions to their account through payroll deductions and pay for dependent care and medical expenses on a pre-tax basis. A self-administered health reimbursement arrangement (HRA) was created to reimburse employees for the copayments made for inpatient and outpatient services.

Last year, in FY2017, healthcare costs were escalating and plan design changes were negotiated to keep the premiums at a reasonable increase. The Town implemented higher co-pays for office and emergency room visits as well as higher deductibles for inpatient and outpatient services.

Due to market uncertainty and unfavorable claims data the FY2018 renewals are trending high, and again negotiations have been undertaken with employee groups for further plan design changes. The negotiated changes are required to bring the budget request down to \$5.5 million, which represents a total increase of \$424,844 or 8.33% from the amount budgeted last year. It's expected that considerable discussion will take place in the next year surrounding options for further controlling these costs.

	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 BUDGETED	FY2017 SIX MONTHS	FY2018 PROPOSED
HEALTH INSURANCE						
Expenses						
51750 Town Health Insurance	896,751	897,501	942,779	1,078,375	491,493	1,172,664
51755 Town Retiree Health Ins.	249,017	269,071	294,717	316,495	153,502	346,145
51800 School K-8 Health Insurance	2,536,665	2,686,213	2,825,639	3,094,242	1,651,639	3,337,251
51805 School K-8 Retiree Health Ins.	475,392	481,973	521,357	558,398	284,156	616,294
51850 Health Reimbursement Account	3,720	1,613	6,100	50,000	5,462	50,000
SUBTOTAL	4,161,545	4,336,371	4,590,594	5,097,510	2,586,252	5,522,354



Undistributed Expenses

Section 6-5

Transfer to OPEB Trust

Other Post-Employment Benefits (OPEB) are the benefits, other than retiree pensions, offered to retirees and their dependents. These benefits mainly consist of medical insurance. OPEB liability is the present value of benefits for retired and vested employees. An unfunded liability reflects an incurred obligation, payable in the future, for which no reserves have been set aside.

Following the adoption of MGL Chapter 32B, Section 18 in 2009, the Town’s GASB 45 Unfunded Actuarial Accrued Liability (UAAL) for Other Post-Employment Benefits (OPEB) for retiree medical benefits was greatly reduced from \$90.4 million to \$34.3 million.⁵ At the close of FY2011, a GASB 45 update was required and due to the implementation of Section 18, the Town’s UAAL was further reduced to \$28.1 million.

Without a funding source for this obligation, the UAAL increased to \$32.6 million based on the actuarial study received at the close of FY2013 and the Town contracted with an actuary to develop an initial funding plan to begin to address this liability.

The most recent actuarial study was completed at the close of FY2015 and the UAAL increased to \$34.9 million and as required, another GASB 45 actuarial update will be conducted for the close of FY2017. This study is currently underway, but not yet finalized.

The adoption of the Meals Tax Surcharge and increase in Room Occupancy revenue provided the capacity for the initial \$500,000 funding in FY2015 for the OPEB Trust Fund. In FY2016 and FY2017 another \$500,000 for each year was transferred to the OPEB Trust fund.

The OPEB Trust Fund has now been established and the funds have been invested with the state’s Pension Reserves Investment Trust (PRIT) Fund. The PRIT Fund, which contains \$62.7 billion as of December 31, 2016, is the state retiree pension fund as well as the pension fund for 93 local Massachusetts Retirement Systems. These funds are professionally managed by the Pension Reserves Investment Management Board.

The Town continues to advocate for proposed legislative changes regarding the local obligation for retiree health insurance that would positively affect its OPEB liability. The FY2018 Budget once again provides for a \$500,000 contribution to the OPEB Trust Fund.

	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 BUDGETED	FY2017 SIX MONTHS	FY2018 PROPOSED
TRANSFER TO OPEB TRUST						
59992 Transfer to OPEB Trust	0	500,000	500,000	500,000	500,000	500,000
SUBTOTAL	0	500,000	500,000	500,000	500,000	500,000

⁵ The Governmental Accounting Standards Board (GASB) is the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments. Established in 1984 by agreement of the Financial Accounting Foundation (FAF) and 10 national associations of state and local government officials, GASB is recognized by governments, the accounting industry, and the capital markets as the official source of generally accepted accounting principles (GAAP) for state and local governments.

Section 6-6

Undistributed Expenses



Life Insurance

The Town provides a group life insurance program available to all employees and contracts with Boston Mutual Life. All Town and K-8 School employees who choose to enroll are insured for \$5,000. In addition, Town and School Retirees are insured for \$2,000. This budget covers the Town's 50% portion of the premium. Employee payroll deductions and retiree contributions fund the balance of the premium costs. This budget also covers a term life insurance policies for the Town Administrator pursuant to the employment contract.

	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 BUDGETED	FY2017 SIX MONTHS	FY2018 PROPOSED
LIFE INSURANCE						
Expenses						
51740 Town Life insurance	1,522	1,540	2,451	4,060	746	4,106
51745 School K-8 Life Insurance	4,345	4,390	4,628	4,670	2,347	4,670
SUBTOTAL	5,867	5,930	7,080	8,730	3,092	8,776



Other Benefits / Federal Insurance Contributions Act (FICA) Tax

Federal Insurance Contributions Act (FICA) tax is a payroll (or employment) tax imposed by the Federal Government on both employees and employers. As a result of Federal legislation, all local government employees hired after March 31, 1986 are considered Medicare Qualified Government Employees (MQGE) and are required to be covered under the Medicare program. The Town is responsible for a matching Medicare payroll tax of 1.45% on these employees. Annual increases in this tax liability reflect a rise in the payroll subject to this tax.

Massachusetts is one of a handful of “non-Social Security” states. Most full-time employees, as members of contributory retirement systems, pay into defined-benefit public pension systems instead of Social Security. The Town is not subject to the 6.2% matching FICA tax and Town employees do not earn Social Security “credits” or “quarters” for their service.

Part-time and temporary employees who are not covered by the contributory retirement system are required to participate in an alternative as permitted by the federal Omnibus Budget Reconciliation Act of 1990. Such employees pay into a defined contribution plan at a rate of 7.5%. There is no employer cost for this program.

Unemployment Assistance

The Town does not pay unemployment insurance, but instead, is assessed by the State Division of Unemployment Assistance (DUA) on a pay-as-you-go basis for the cost of any and all benefits actually paid to former Town and K-8 School employees. Currently, the maximum number of weeks an individual may receive benefits is 30 and the maximum weekly benefit amount is currently \$742/week, plus a dependency allowance of \$25 per week for each dependent child. The Town is responsible for reimbursing the State 100% of the benefits paid to former employees. There is an inherent complexity in tracking unemployment costs and estimating liability given that an employee’s “benefit year” may cross fiscal years, claimants may be subject to partial benefits if they have other earnings, and claimants who become unemployed more than once during a benefit year may reactivate a prior claim.

Miscellaneous Benefits

Miscellaneous benefits include payment of a portion of sick leave for eligible retiring employees (capped at \$3,000 each), OBRA payments for the Senior Work Program, payment of the deferred compensation benefit for the Town Administrator pursuant to the employment contract, and the fee assessed by the deferred compensation program provider.

	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 BUDGETED	FY2017 SIX MONTHS	FY2018 PROPOSED
OTHER BENEFITS/FICA						
Expenses						
51730 FICA Town Share	89,581	95,750	116,969	106,843	50,390	107,456
51733 FICA School Share	230,429	237,603	238,851	249,840	122,785	257,897
51735 Unemployment Compensation	48,755	12,090	7,344	60,000	0	60,000
55090 Miscellaneous Benefits	12,053	18,768	18,764	16,044	8,040	16,340
SUBTOTAL	380,818	364,210	381,928	432,727	181,215	441,693



Section 6-8 Undistributed Expenses

Worcester Regional Retirement Assessment

The Town participates in the Worcester Regional Retirement System which is a contributory retirement system composed of ninety-six (96) member towns and districts from Worcester County. Subject to the provisions of Chapter 32B and 34B of the Massachusetts General Laws, the retirement system, as well as all public retirement systems in Massachusetts, is overseen by the Public Employee Retirement Administration Commission (PERAC).

PERAC, through an actuarial study, determines the appropriate funding schedule for the retirement system's total Unfunded Actuarial Accrued Liability (UAAL). The Municipal Relief Act of 2010 extended the requirement for full funding of the pension system's liability to the year 2040. The total source of funding is the annual Town assessment together with employee contributions for each member unit.

The FY2018 assessment was prepared using the full actuarial method of assessment calculation. Previously, the Worcester Regional Retirement System based its assessment to each member unit upon its proportional amount of payroll. The actuarial method of assessment, now fully implemented, calculates the assessment on an actuarial determination using the employee age, service and average salary data of each individual member unit. The Town of Northborough's total Unfunded Actuarial Accrued Liability is \$29,718,687 as of January 1, 2016. The Worcester Regional Retirement System regards the actuarial method as a "more fair and transparent way of assessing each unit's true liability" and noted that this is also consistent with the standards of the Government Accounting Standards Board (GASB).

In recent years there have been changes to Massachusetts pension benefits brought about by various Pension Reform legislation in an attempt to rein in pension liability costs. The liability had increased due to lack of performance in investments and the inability of the pay-as-you-go funding to keep pace with the defined benefits. It is important to note that a municipal employee hired after 1996 will contribute 9% of their total compensation plus another 2% of any regular compensation over \$30,000 to the retirement system. This non-public safety employee, if retired with 25 years of creditable service and the investment return assumption is met, will effectively pay for their entire pension.⁶ The Town's assessment together with the employee contributions are intended to meet the pension costs for all Town and Northborough K-8 School (non-teaching positions) retirees covered by this retirement system, as well as to amortize over time the previous unfunded pension liability created by insufficient contributions by member units over a number of years.

It should be noted that Northborough K-8 School teachers are not part of the Worcester Regional Retirement System, but are instead covered by the Massachusetts Teachers' Retirement System which is governed by MGL, Chapter 32. Teacher retirement costs are funded directly with an appropriation by the Commonwealth of Massachusetts and employee contributions. For the fiscal year ended June 30, 2016, the State's contribution to this plan was \$1,021,930,000. The Town's proportionate share of these contributions was \$2,226,813.

⁶ Information from Actuary James R. Lamenza of the Public Employee Retirement Administration (PERAC).



Undistributed Expenses

Section 6-9

The total FY2018 Worcester Regional Retirement Assessment is \$1,699,113. The \$1,612,608 portion included in the General Fund budget below does not include the retirement costs contained in the Water Enterprise Fund (\$42,527), the Sewer Enterprise Fund (\$28,354) or the Cable Access TV budget (\$15,624)⁷.

	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 BUDGETED	FY2017 SIX MONTHS	FY2018 PROPOSED
WORCESTER REGIONAL RETIREMENT						
Expenses						
56220 Retirement Assessment	1,241,407	1,306,702	1,415,244	1,531,756	1,531,756	1,612,608
SUBTOTAL	1,241,407	1,306,702	1,415,244	1,531,756	1,531,756	1,612,608

⁷ The Water & Sewer Enterprise Funds are designed to capture all costs associated with the service and are fully explained in Section 8 of this budget document. The Cable Public Access TV Department is funded by fees added to the cable TV subscriber bills, which pay for the related retirement costs of the full-time Cable Access staff (see Section 5 of the budget for more information regarding Public Access TV).



Workers' Compensation Insurance

Workers' Compensation is available to those employees injured on the job. The Town is insured through the Massachusetts Interlocal Insurance Agency (MIIA) which is owned and operated by the municipalities of Massachusetts.⁸ Employees injured on the job receive 60% of their pay tax-free and the Town is responsible for 100% of associated medical bills.

Also included in this budget are medical payments to cover separated police and fire personnel. MGL, Chapter 41, Section 100B requires the Town to continue to pay for related medical payments and associated expenses for retired police and fire employees injured on duty. The actual Injured on Duty (IOD) insurance premium for police and fire personnel is contained in the Building and Liability Insurance budget.

The Town's Workers' Compensation insurance premiums reflect a 22% budgetary increase for FY2018. There are two key contributors to this increase: higher payroll costs (associated with increases in wage rates and salaries as well as expenses resulting from additional staffing) and increased claims. During recent years, both the Town of Northborough, as well as the larger pool of communities participating in MIIA's workers' compensation program, have experienced increased claim costs. Additionally, the Commonwealth of Massachusetts implemented a statewide workers' compensation rate hike on July 1, 2016.

	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 BUDGETED	FY2017 SIX MONTHS	FY2018 PROPOSED
WORKERS' COMPENSATION INSURANCE						
Expenses						
51710 Workers' Compensation	92,419	98,758	109,119	114,497	114,363	140,878
53080 Police/Fire Injured on Duty (IOD) Medical Payments	2,461	2,682	581	5,000	3,046	5,000
SUBTOTAL	94,880	101,440	109,700	119,497	117,409	145,878

⁸ Massachusetts Interlocal Insurance Association (MIIA) was incorporated by the Massachusetts Municipal Association in 1982 as a nonprofit organization to provide insurance services to the cities, towns and other governmental entities in Massachusetts that are members of the MMA. MIIA insures approximately 300 cities and towns across Massachusetts.



Undistributed Expenses

Section 6-11

Building & Liability Insurance

This budget category includes property and liability coverage for all Town owned property, as well as liability coverage for all elected and appointed Town officials.

In addition, because fire and police personnel are not eligible under Massachusetts law for regular workers' compensation coverage, a separate insurance policy with premiums based largely on claims experience is purchased to cover these personnel for injuries sustained in the line of duty. The police and fire MGL Chapter 41 Section 111F Injured on Duty (IOD) premium is also included here. Under this statute, public safety employees injured on duty receive 100% of their regular earnings. These IOD earnings are considered non-taxable wages by both the Department of Revenue and the Internal Revenue Service.

The Town's Building and Liability insurance premiums reflect a 3% budgetary increase for FY2018.

	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 BUDGETED	FY2017 SIX MONTHS	FY2018 PROPOSED
BUILDING & LIABILITY INSURANCE						
Expenses						
57410 Building & Liability Ins.	177,119	180,631	199,061	248,927	220,211	256,395
SUBTOTAL	177,119	180,631	199,061	248,927	220,211	256,395



Debt Service

Debt Service appropriations provide for the payment of principal and interest costs for long and short term bonds issued by the Town for capital projects for General Fund purposes. The debt service appropriations for the Water & Sewer Enterprise Funds appear in their respective budgets (Section 8 of this budget document).

Typically, larger projects such as the Lincoln Street School are bonded for twenty years, while the financing for other General Fund projects and equipment is retired within five to ten years. The Town’s goal is to finance capital projects for the shortest feasible term over the useful life of the project in accordance with the terms outlined in Massachusetts General Laws. This ensures that our debt burden will remain manageable.

	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 BUDGETED	FY2017 SIX MONTHS	FY2018 PROPOSED
DEBT SERVICE						
Expenses						
59100 Principal/Long-term Debt	1,739,784	1,536,532	1,827,532	2,072,533	4,532	2,136,383
59150 Interest/Long-term Debt	567,248	514,191	659,680	851,116	423,461	822,697
59270 Interest/Temporary Loans	0	0	957	110,482	0	0
SUBTOTAL	2,307,032	2,050,723	2,488,169	3,034,131	427,993	2,959,080

For FY2018, the total Debt Service budget for the General Fund is \$2.96 million, a decrease of \$75,051. The budget reflects the addition of the first of ten installments for the \$1,027,000, Church Street Culvert construction project.

The FY2018 Lincoln Street School Debt service is \$1,124,675 and it has decreased slightly from the FY2017 peak of \$1,144,882. In preparation for this significant School building project and to minimize the tax impact for this debt excluded project, issuance of debt for smaller capital projects has been curtailed and in accordance with the Town’s Free Cash Policy for the past five years, as these smaller capital items have been purchased using available funds. Please see Section 9 of this budget document for a more detailed explanation of the Free Cash Policy and the recent successful efforts to fund more pay-as-you-go capital projects.

Statutory Debt Limit

The aggregate level of the Town of Northborough’s outstanding debt obligation is limited by State law. The statutory debt limit is established by Massachusetts General Laws, Chapter 44, Section 10 at 5% of our total Equalized Valuation (EQV). The EQV is determined every other year by the State Department of Revenue.

Northborough’s 2016 EQV	\$2,719,405,300
Debt Limit (5% of EQV)	\$ 135,970,265



Undistributed Expenses

Section 6-13

Northborough’s total issued and outstanding long term debt principal, both inside and outside the debt limit as of June 30, 2016, is \$29,729,007, significantly below the statutory debt limit.

Debt Policy Limits

There is an additional local limit placed on Northborough’s total debt obligation through the Debt Policy adopted by the Board of Selectmen in September 2000. The Debt Policy provides for specific Gross and Net debt limits for the annual General Fund debt service expressed as a percentage of the proposed budget.

Gross GF Debt Limit	Not to Exceed	15%
Net GF Debt Limit	Not to Exceed	8% – 10%

The estimated FY2018 General Fund debt service budget is well under the local debt policy limits, as net General Fund debt represents only 5.5% of FY2018 expenditures.

Bond Rating

In order to comply with complex tax regulations, secure access to the municipal bond market, and assure a competitive climate for bids, the Town uses the services of Bond Counsel, a Financial Advisor and a private credit rating agency to prepare for the issuance of bonds.

In May 2015, in conjunction with the bond issuances for the Lincoln Street School project, Moody’s Investors Service upgraded the Town’s bond rating from Aa2 to Aa1, which is Northborough’s highest rating ever. During the review Moody’s cited the Town’s manageable debt levels, strong reserves, below average pension liabilities and its ongoing funding of OPEB liabilities as positive factors. With regard to management they commented that *“the Town has a strong management team evidenced by a multi-year trend of conservative budgeting guided by formal fiscal policies.”* The independent assessment illustrates how our planning efforts and fiscal discipline produce very real and tangible results—lower rates on bonds resulting in less tax dollars going to pay for interest.

Moody’s Investor Service Bond Rating
Aaa
➔ Aa1
Aa2
Aa3
A1
A2
A3
Baa1
Baa2
Baa3
Ba1
Ba2
Ba3
B1
B2

Total Long Term Debt Service - All Funds

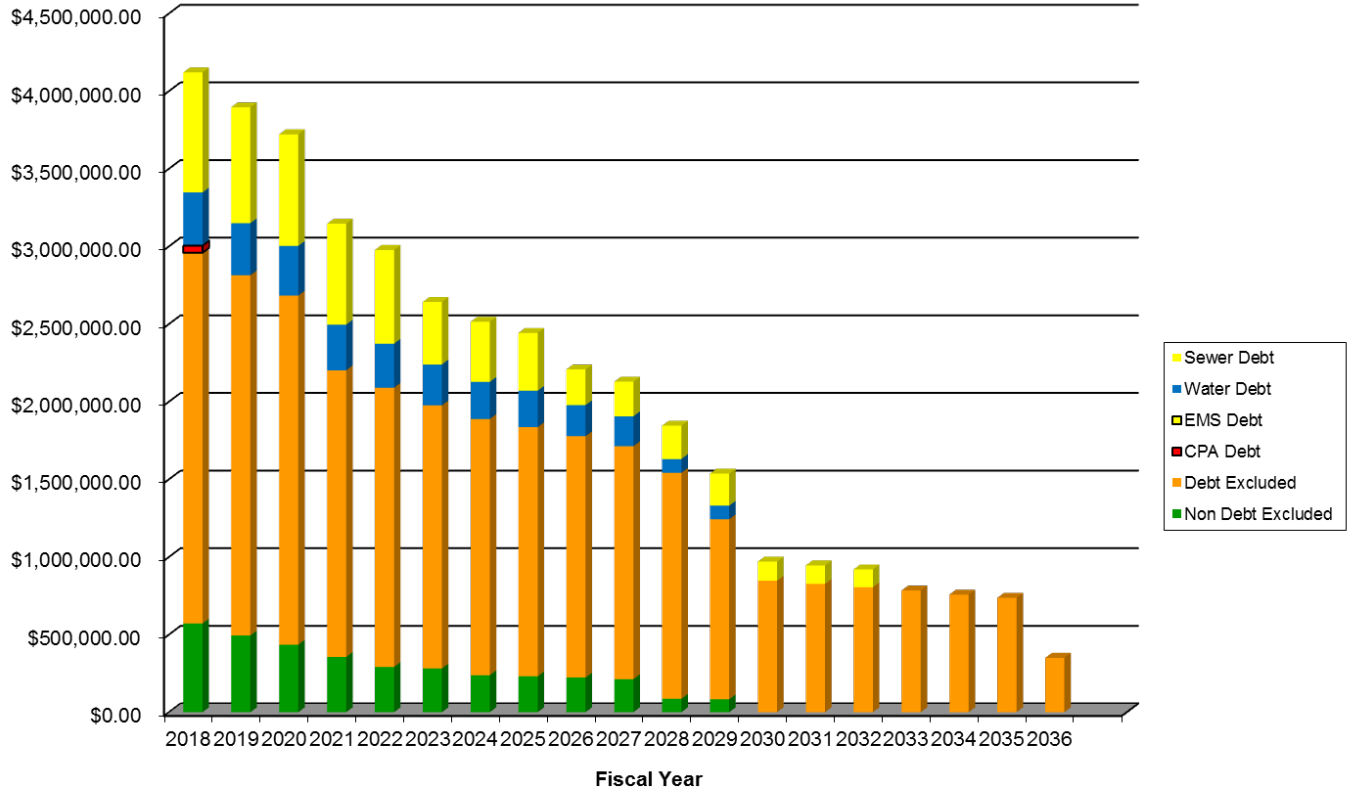
The total long term annual debt service from FY2018 through FY2036, including both principal and interest, is shown on the following page. The chart indicates the amount of long term debt service for the General Fund (both Debt Excluded and Non-Excluded), as well as the long term debt service for the Community Preservation Act (CPA) Fund, Emergency Medical Services and Water & Sewer Enterprise Fund.

Section 6-14

Undistributed Expenses



Total Long Term Annual Debt Service By Fund



Total Long Term Annual Debt Service By Fund							
Fiscal Year	General Fund	General Fund Debt Excluded	CPA Debt	EMS Debt	Water Enterprise Fund	Sewer Enterprise Fund	Total Debt Service
2018	571,380	2,387,699	45,900		341,809	773,582	4,120,370
2019	494,246	2,319,152			335,928	746,212	3,895,539
2020	434,174	2,248,341			320,367	718,292	3,721,174
2021	355,394	1,845,790			294,181	650,156	3,145,521
2022	290,514	1,799,263			283,576	603,356	2,976,709
2023	281,384	1,694,308			264,091	402,050	2,641,833
2024	238,166	1,649,793			239,189	387,085	2,514,233
2025	230,686	1,604,843			234,649	371,970	2,442,148
2026	223,020	1,553,979			199,983	229,910	2,206,891
2027	213,168	1,499,236			193,465	222,280	2,128,149
2028	86,400	1,454,919			89,075	214,650	1,845,044
2029	83,200	1,159,225			87,581	206,925	1,536,931
2030		846,775				123,200	969,975
2031		826,400				118,800	945,200
2032		805,100				114,400	919,500
2033		783,800					783,800
2034		757,500					757,500
2035		736,350					736,350
2036		350,200					350,200
	3,501,731	26,322,670	45,900	-	2,883,895	5,882,869	38,637,065



Undistributed Expenses

Section 6-15

Non-Appropriated Expenses

Beyond the specific appropriations contained within the Budget Article and other Town Meeting articles, the Town must account for those expenses which do not require votes for appropriations. This category of mandated expenditures and assessments are automatically added to the tax rate without appropriation. Such costs include various state assessments for services such as: charter schools, county services, prior year budget overdrafts in snow and ice removal, court judgments, and an amount estimated for tax abatements and exemptions or the overlay.

State Assessments

Three categories of State assessments account for approximately 80% of the expenses—Mosquito Control, MBTA and Regional Transportation.

1. Mosquito Control Assessment: Pursuant to MGL Chapter 252, Section 5A (Chapter 2, Section 41, Acts of 1986) there are eight mosquito control districts whose costs are apportioned to member municipalities on the Cherry Sheet. Each district is also allocated a proportional share of expenses for the State Reclamation Board that administers these programs.
2. Massachusetts Bay Transportation Authority (MBTA): For services rendered to those cities and towns within the Authority, an assessment is administered in order to maintain and operate regional public transportation.
3. Regional Transportation Assessment: To assess municipalities in order to provide for a system of regional transportation authorities to develop, finance, and contract for the operation of transportation facilities and service outside the Metropolitan Boston area. Northborough is serviced by the Worcester Regional Transportation Authority (WRTA).

	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 BUDGETED	FY2017 SIX MONTHS	FY2018 PROPOSED
STATE ASSESSMENTS						
Expenses						
56390 Mosquito Control Assessment	53,226	54,437	50,238	58,514	29,259	59,821
56400 Air Pollution Assessment	5,093	5,149	5,269	5,401	2,701	5,229
56410 County Assessment ch. 35	0	0	0	0	0	0
56420 MBTA	68,597	72,455	74,302	74,530	37,266	72,019
56430 Regional transportation Ch 161 B	24,144	23,570	22,473	22,844	11,424	26,271
56440 Charge Against Receipts--SPED	0	0	0	0	0	0
56450 Parking Surcharge Ch 90	8,760	8,760	8,760	8,760	4,114	7,960
56455 School Choice Sending Tuition	47,171	28,586	13,268	13,400	7,173	16,700
56460 Charter School Sending Tuition	119,763	82,541	84,250	14,293	0	0
SUBTOTAL	326,754	275,498	258,560	197,742	91,937	188,000

**Reserve for Abatements**

The Reserve or Allowance for Abatements and Exemptions or Overlay is an account established annually to fund anticipated property tax abatements, exemptions and uncollected taxes in that year. The overlay reserve need not be funded by the normal appropriation process, but rather is raised on the tax rate recapitulation sheet.

The Board of Assessors process a variety of statutory exemption applications for elderly, veteran, blind and hardship taxpayers. If approved, the exemptions are funded by the Overlay Reserve for Abatements and Exemptions. Additionally, taxpayers may file for an abatement of their property taxes. If approved, the exemptions are funded by the Overlay Reserve for Abatements and Exemptions.

Massachusetts' Municipal Modernization Act passed and went into effect in November 2016. The new law created a single overlay reserve to cover the costs of potential abatements or exemptions granted by the assessors or ordered by the Appellate Tax Board for any fiscal year. Now all balances in all overlay accounts for prior years will be merged into a single overlay account. An amount will still need to be raised each year to be sure there are sufficient funds to cover all the abatements and exemptions, however the amount raised in the current year may be reduced at the time the tax rate is set in November if sufficient surplus remains in the reserve.

In FY2018, the proposed funding for the Overlay Reserve for Abatements and Exemptions is \$612,089, which represents approximately 1.25% of the estimated tax levy.

Cherry Sheet Offset Items

Cherry Sheet Offset Items are local aid that may be spent without appropriation in the budget, but which must be spent for specific municipal and regional school district programs.

The only offset item for FY2018 is \$22,559 for public library grants.



Stabilization Fund Contribution

The Stabilization fund is designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose (MGL Chapter 40, Section 5B). Communities may establish one or more stabilization funds for different purposes and may appropriate into them in any year an amount not to exceed ten percent of the prior year's tax levy. The total of all stabilization fund balances shall not exceed ten percent of the community's equalized value, and any interest shall be added to and become a part of the funds. A two-thirds vote of town meeting is required to establish, amend the purpose of, or appropriate money from the stabilization fund. However, funds may be appropriated into the fund by a simple majority vote.

As of June 30, 2016, the balance in the Stabilization Fund is \$4.17 million. Historically the budget had provided for an annual appropriation of \$100,000 to be added to the Stabilization Fund. However, for several years the appropriation was not possible due to financial constraints. Beginning in FY2016, the contribution to the Stabilization Fund was restored and augmented with additional funding for a total contribution of \$200,000. The FY2018 budget provides for another contribution to the Stabilization Fund of \$200,000 in order to maintain preferred reserve levels of approximately 8%. Future contributions to the Stabilization Account will require a yearly review of the Town's financial position.

Overall, the Town's reserves remain within the acceptable levels prescribed by its financial policies, which is 5-10% of operating revenues. Detailed information regarding the level of reserves can be found in Appendix B, pages 9 and 10.

	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 BUDGETED	FY2017 SIX MONTHS	FY2018 PROPOSED
STABILIZATION FUND CONTRIBUTION						
Expenses						
59950 Stabilization Fund	0	0	200,000	200,000	200,000	200,000
SUBTOTAL	0	0	200,000	200,000	200,000	200,000
TOTAL: STABILIZATION FUND CONTR.	0	0	200,000	200,000	200,000	200,000

***The transfer to the Stabilization Fund is voted as a separate warrant article, and is not included in the warrant article for the Town Budget. ***



Reserve Fund

Authorized by state statute, the Reserve Fund provides the Town operations with an option for the funding of extraordinary or unforeseen expenditures during the year. Transfers from this account require approval of the Appropriations Committee. Historically the fund has contained approximately \$118,500 at the start of the budget year. In recent fiscal years the fund had been significantly less due to financial constraints, specifically \$75,000 in FY2010 and \$80,000 in FY2011. In FY2012, the Board of Selectmen adopted a Free Cash Policy and identified the Reserve Fund as an appropriate use of Free Cash. Beginning in FY2012 the Reserve Fund was appropriated from Free Cash as a separate Warrant Article at Town Meeting. The Reserve Fund amount was level funded from FY2012, FY2013, FY2014 and FY2015 at \$150,000. In FY2016, to meet the increasing need, the budget provided for an appropriation in the Reserve Fund of \$175,000. The appropriation to the Reserve Fund remained funded at \$175,000 in FY2017, and \$175,000 is again proposed for FY2018.

Most commonly, the Reserve Fund account has been used to make up for any snow and ice budget overdrafts. The table below shows past year “actuals” as zero because budgeted funds are transferred into other accounts when approved by the Committee, rather than expenses being charged directly to the Reserve Fund.

	FY2014 ACTUAL	FY2015 ACTUAL	FY2016 ACTUAL	FY2017 BUDGETED	FY2017 SIX MONTHS	FY2018 PROPOSED
RESERVE FUND						
Expenses						
59810 Reserve Fund	0	0	0	175,000	0	175,000
SUBTOTAL	0	0	0	175,000	0	175,000
TOTAL: RESERVE FUND	0	0	0	175,000	0	175,000

The transfer to the Reserve Fund is voted as a separate warrant article, and is not included in the warrant article for the Town Budget.



Warrant Articles

In addition to the individual departmental appropriations, the Town's overall annual financial plan includes warrant articles which draw upon the funds available to the Town. The warrant articles contain proposed funding using a combination of Free Cash and bond proceeds. In FY2018, these warrant articles include \$175,000 for the Reserve Fund from Free Cash, \$200,000 to the Stabilization Fund from Free Cash, funding the FY2018 Capital Budget with \$1,497,000 from Free Cash, \$400,000 to be borrowed for the West Main Street Pump Station with the debt service paid by the Sewer Enterprise Fund, \$110,000 for a Sewer Inspection Camera to be paid from Sewer Enterprise Free Cash, and \$100,000 to purchase a Water/Sewer Truck to be paid from Water/Sewer Enterprise Free Cash. The Capital Budget totals \$2,107,000, and together with the other warrant articles the total expenditures come to \$2,482,000.

Effective in FY2012 the Board of Selectmen adopted a Free Cash Policy, which provides a funding source for projects other than municipal bonds. The Free Cash Policy is on page 2 in Appendix A of this budget document, which contains the Town's comprehensive financial policies. The Free Cash Policy and plan are discussed at length in the transmittal letter of the Capital Improvement Plan contained in Section 9-1 through 9-6 of this document.

In summary, the FY2018 Town Meeting Warrant Articles include the following:

- \$175,000 for the Appropriation Committee's Reserve Fund—Authorized by state statute, the Reserve Fund provides the Town operations with an option for the funding of extraordinary or unforeseen expenditures during the year (see page 6-18 for more detail).
- \$200,000 for the Stabilization Fund—After multiple years without an appropriation, funding for the Stabilization Fund was restored in FY2016, funded in FY2017 and included again in FY2018 in the amount of \$200,000 (see page 6-17 for more detail).
- \$65,000 for Fire Forestry Truck — This request provides for the purchase of one new forestry truck to replace two existing 2005 forestry trucks for the Fire Department. This acquisition will permanently reduce the Fire Department's fleet by one vehicle.
- \$87,000 for Police Cruiser Replacements — This request provides for the purchase of two new patrol vehicles for the use of the Police Department. Included in the funding request is the cost of outfitting the vehicles with ancillary equipment and mobile data terminals.
- \$240,000 for DPW Six-Wheel Dump Truck with Spreader and Plow — This request provides for the purchase of one new six-wheel dump truck with a spreader and plow to replace a 1995 International truck that has surpassed its useful life expectancy of about 15 to 20 years.
- \$95,000 for DPW One-Ton Dump Truck with Plow — This request provides funds for the purchase of one-ton dump truck with plow to replace a 2006 dump truck. The 2006 dump truck has surpassed its useful life expectancy of about 10 to 12 years.
- \$95,000 for DPW One-Ton Dump Truck with Chip Body and Plow — This request provides funds for the purchase of one new one-ton dump truck with a chip body and a plow to replace a 2000 one-ton cab and chassis truck which has surpassed its useful life expectancy of about 15 to 20 years.



Section 6-20 Undistributed Expenses

- \$65,000 for DPW Chipper — This request provides funds for the purchase of a chipper to replace a 2009 Brush Bandit Chipper.
- \$50,000 for DPW Fisher Street Culvert Replacement — This request provides funds for the design and construction bid documents for replacement of the Fisher Street culvert over Cold Harbor Brook. The current structural support and decking is in poor condition and needs to be replaced. Once design and construction bid documents are complete, funding will be sought in FY2019 to construct the new culvert. Replacement of the culvert is part of a comprehensive roadway improvement plan.
- \$200,000 for DPW Crawford Street Slope Easements & Retaining Wall — This Article provides for the acceptance of two easements along Crawford Street to allow the DPW to repair an existing stone retaining wall and slope the land within the easements in a reasonable manner, thereby reducing the height of the retaining wall. It also provides funds for the design and construction of a 200 linear foot replacement retaining wall on Crawford Street.
- \$300,000 for Roadway Maintenance and Improvements — This Article provides funds in addition to the FY2018 Chapter 90 allocation in order to maintain current road conditions in accordance with the Pavement Management Plan.
- \$110,000 for Sewer Division Sewer Inspection Camera — This request provides funds to purchase a skid-mounted sewer camera and recorder system that can fit into the back of a pickup truck. The camera is used to inspect sewer mains and laterals before and after cleaning, locate breaks/roots or cracks in pipes, measure the defects of the pipe on screen and aid in determining causes for sinkholes in the roadway without having to excavate – saving time, materials and disruption of services.
- \$400,000 for Sewer Division – West Main Street Sewer Pump Station Improvements — This Article provides funds for the design and construction improvements to the West Main Street Sewer Pump Station located adjacent to the Post Office on West Main Street. The station was built in 1996. In addition to the original design flows, it now received sewerage from all the restaurants in and around West Main Street as well as the assisted living facility and Lincoln Street Sewer Pump Station. The station is significantly under sized because of increased flows, therefore the alarm/notification system and pumps are in need of upgrading to more efficient and effective systems. This article is a borrowing authorization, with the debt service on the bonds to be paid by the Sewer Enterprise Fund.
- \$100,000 for Water/Sewer Division Ione-Ton Service Truck with Plow — This Article provides funds to purchase of a one-ton service truck with plow to replace a 2008 utility body truck with on-board fuel tank and crane. This vehicle is used daily to perform the regular inspections and general maintenance of the Town’s water and sewer system. This article will be funded by a transfer from Water and Sewer Enterprise Free Cash.
- \$300,000 for School Department Proctor School Roof Repairs — This Article provides funds for roof repairs to the Proctor School. This is the second phase of the roof project and involves replacement of the 13,000 square feet of shingled pitched roof with a metal roofing system carrying a warranty of 30 years and a projected life span of 50 years.



Undistributed Expenses

Section 6-21

		FY2014	FY2015	FY2016	FY2017	FY2017	FY2018
		BUDGETED ⁹	BUDGETED	BUDGETED	BUDGETED	SIX MONTHS	PROPOSED
TOWN MEETING							
SPECIAL WARRANT ARTICLES							
Expenses							
51421	Fire SCBA Compressor	50,000					
51422	Emergency Shelter Trailer	28,000					
51424	DPW Salt Shed Replacement	800,000					
51425	DPW Fueling Island	425,000					
51423	DPW Front-end Loader	203,500					
51521	Fire Car On Replacement		66,000				
51522	Fire Forestry One Replacement		175,000				
51523	Police Closed Circuit TV System		53,500				
51524	MIS Wide Area Fiber Network		110,000				
51525	DPW Six-wheel Dump Truck/Plow		195,000				
51526	DPW Wing Mower Replacement		55,000				
51527	DPW Tractor Replacement		55,000				
51528	Church Street Culvert Design		120,000				
51529	Otis Street Culvert Design		110,000				
51534	DPW Vacuum/Jetter		100,000				
51533	DPW W&S One Ton Truck Replc		65,000				
51519	Lincoln Street School Ren/Add'n		25,530,553				
51530	Hudson St Sewer Pump Station		150,000				
51531	Meter Replacement/Billing system		1,500,000				
51532	Edmund Hill Water Tank Rehab		325,000				
51619	Fire Engine 2 Replacement			688,000			
51620	Fire Ambulance Replacement			280,000			
51621	Fire SCBA Bottles Replacement			45,000			
51622	Police Cruiser Replacements			85,000			
51623	Police Dispatch Console			161,000			
51624	Master Plan			130,000			
51625	DPW Otis St Culvert			325,000			
51626	DPW Road Mower Replacement			130,000			
51627	DPW Dump Truck Replacement			90,000			
51628	DPW Pickup Truck Replacement			60,000			
51629	DPW Backhoe Replacement			145,000			
51630	DPW Mini Excavator			85,000			

⁹ Amounts in the table reflect the total budget for the article in the column of the year proposed. Warrant articles are generally multi-year and reflect transfers from the General Fund to Capital Project Funds or Borrowing Authorizations rather than actual expenditures, which may cross fiscal years, therefore the depiction of budget rather than actual expenditures is used in this case.

Section 6-22

Undistributed Expenses



(Continued)

FY2014 FY2015 FY2016 FY2017 FY2017 FY2018
 BUDGETED¹⁰ BUDGETED BUDGETED BUDGETED SIX MONTHS PROPOSED

**TOWN MEETING
 SPECIAL WARRANT ARTICLES**

Expenses							
51631	DPW E/M Park Improvements			50,000			
51632	Hudson St Sewer Improvements			1,500,000			
51633	Water Service Truck Replacement			75,000			
51634	Water Pickup Truck Replacement			60,000			
51635	Proctor School Roof Repairs			200,000			
51721	Police Cruiser Replacements				85,000		
51722	Police Station Roof Replacement				90,000		
51723	DPW Church St Culvert				2,000,000		
51724	DPW Dump Truck Replacement				215,000		
51725	DPW Sidewalk Machine				180,000		
51726	DPW Road Improvements				300,000		
51727	Sewer Inflow & Infiltration Study				500,000		
51728	Water Valve Maintenance Trailer				75,000		
51729	Water Dump Truck Replacement				95,000		
59990	250 th Celebration Committee			20,000	20,000		
51821	Fire Forestry Truck						65,000
51822	Police Cruiser Replacements						87,000
51823	DPW Six-Wheel Dump Truck						240,000
51824	DPW One Ton Dump Truck						95,000
51825	DPW Dump Truck w/ Chip Body						95,000
51826	DPW Chipper						65,000
51827	DPW Fisher Street Culvert Plans						50,000
51828	DPW Crawford St Retaining Wall						200,000
51829	DPW Road Improvements						300,000
51830	Sewer Inspection Camera						110,000
51831	Sewer W Main St Pump Stn						400,000
51832	Water Service Truck Replacement						100,000
51833	Proctor School Roof Repairs						300,000
	SUBTOTAL	1,506,500	28,610,053	4,129,000	3,560,000	0	2,107,000
59810	Reserve Fund	150,000	150,000	175,000	175,000	0	175,000
59950	Stabilization Fund			200,000	200,000	0	200,000
	TOTAL	1,656,500	28,760,053	4,504,000	3,935,000	0	2,482,000

¹⁰ Amounts in the table reflect the total budget for the article in the column of the year proposed. Warrant articles are generally multi-year and reflect transfers from the General Fund to Capital Project Funds or Borrowing Authorizations rather than actual expenditures, which may cross fiscal years, therefore the depiction of budget rather than actual expenditures is used in this case.