

**BOARD OF SELECTMEN
APPROPRIATIONS COMMITTEE
FINANCIAL PLANNING COMMITTEE
NORTHBOROUGH SCHOOL COMMITTEE**

JOINT MEETING MINUTES – December 20, 2021

7:00 p.m. - Chairman's Introduction to Remote Meeting

Chairman Perreault stated that this Joint Open Meeting of the Board of Selectmen, Appropriations Committee, Financial Planning Committee and the Northborough School Committee was being conducted remotely consistent with Governor Baker's Executive Order of June 16, 2021, an Act Relative to Extending Certain COVID-19 Measures Adopted During the State of Emergency and that all members that are remotely present are allowed and encouraged to participate remotely.

Chairman Perreault noted that the Order allows public bodies to meet entirely remotely so long as reasonable public access is afforded so that the public can follow along with the deliberations of the meeting. He indicated that the public is encouraged to follow along and indicated the various ways that the public may view this meeting as listed on the posted agenda. He added that ensuring public access does not ensure public participation unless such participation is required by law, adding that this meeting is for informational purposes only and therefore will not feature public comment.

Chairman Perreault confirmed that the following members and persons anticipated on the agenda were remotely present and could be heard.

Board of Selectmen

Jason Perreault
Leslie Rutan
Scott Rogers
Julianne Hirsh
Kristen Wixted

Appropriations Committee

Richard Nieber
George Brenckle
Janice Hight
Anthony Poteete
Timothy Kaelin
Robert D'Amico

Financial Planning Committee

David DeVries
Tom Spataro
John Rapa
William Peterson

Schools

Greg Martineau, School Superintendent
Rebecca Pellegrino, Director of Finance & Operations
Joan Frank, Northborough School Committee
Kelly Guenette, Northborough School Committee
Lauren Bailey-Jones, Northborough School Committee

Town Staff

John Coderre, Town Administrator
Rebecca Meekins, Assistant Town Administrator
Jason Little, Finance Director
Lisa Troast, Treasurer/Collector

Chairman Perreault indicated that tonight's meeting is informational only with no formal votes required. It is intended to build consensus around the upcoming budget process.

PRESENTATION REGARDING THE FY2022 BUDGET

Mr. Coderre noted that tonight's presentation will review the final FY2021 budget results, provide a status update on the FY2022 budget, review financial indicators for significant changes, review five-year financial projections and analyze multiple-year projected tax impacts that will be used to develop consensus amongst the policy making Boards and Committees regarding budget assumptions, opportunities and areas of concern.

Mr. Coderre's presentation included the following:

FY2021 Recap

- April 27, 2020 Town Meeting delayed until July 18, 2020
- FY2020 close out and audit delayed; Free Cash Certified at \$1.98M
- Final State FY2021 Budget delayed from July 1, 2020 to December 2020; Governor & Legislature committed to level State Aid in fall of 2020
- Final Town FY2021 Budget and tax rate approved November 23, 2020 using level State Aid estimate resulting in average Single Family Home tax bill reduction of \$65
- Free Cash on June 30, 2021 estimated at \$3,406,894 (pending DOR certification)

Year-End Revenues, Expenditures and Free Cash

Mr. Coderre indicated that the FY2021 year-end revenues were 2.81% above what was budgeted, while FY2021 year-end expenditures were 2.42% below what was budgeted. He added that Free Cash is at a healthy surplus of \$3.4M, which will serve as additional resources for needed capital investments in FY2023.

FY2022 Status Update

- May 1, 2021 Town Meeting held on time
- FY2021 close out and audit delayed due to Federal Aid & Grants
- Final State FY2022 Budget signed July 16, 2021 resulting in \$5.56 million (net \$12,914 above budget after assessments)
- Final Town FY2022 Budget and tax rate approved November 22, 2021 resulting in average Single Family Home tax bill increase of \$295
- Federal & State Assistance impacts on FY2022 and FY2023 still being defined

FY2023 Budget Context

- FEMA Emergency COVID Reimbursement extended to April 1, 2022
- \$1.2 Trillion Federal Infrastructure Investment & Jobs Act is subject to appropriation at the State level
- \$1.85 Trillion Federal Build Back Better Act is pending and the local impact remains to be seen
- \$4.5 Billion Federal American Rescue Plan Act (ARPA) is available and will be taken into consideration during the budget process for FY2023
- \$4 Billion State COVID Recovery Bill is earmarked for housing, behavioral services, workforce infrastructure and investment, funding for local Boards of Health, small business grants, infrastructure investment grants for water, sewer, culverts/dams and School HVAC upgrades and improvements. It is still unclear how this funding will flow through existing State programs.
- State FY2022-23 Revenue Outlook looks strong and will play into State Aid and Chapter 70 funding, which are still unknown at this time
- State ARPA funding plans are still being developed with possible focus on infrastructure improvements.

Mr. Coderre stated that it is important to remember that there is a process in place for budget priorities that takes into consideration Federal and State grants and funding. The budget process includes the existing financial Boards and Committees, financial policies, FTMS & forecasts, 6-year capital plan, master plan, services & staffing and COVID response sustainability.

Mr. Coderre noted that Northborough's fiscal policies and conservative planning enabled the Town to successfully navigate the pandemic response while maintaining core service levels, adding that the priority should be restoration of the temporary cuts and postponed capital projects.

Pandemic Budget Reductions

- Cut Operating Budgets to 1% in FY2021 and constrained increases in FY2022
- Used \$378,000 in one-time Free Cash in the FY2021 Budget
- Cut \$200,000 in Stabilization Fund Contributions in both FY2021 & FY2022
- Postponed Capital Investments in FY2021 and had less Free Cash to fund pay-as-you-go projects in FY2022
- Cut over \$1 million in contributions to Other Post-Employment Benefits Trust Fund (OPEB)

Mr. Coderre presented the results of the Town's updated Financial Trend Monitoring System (FTMS) Report. The purpose of the FTMS is to analyze key financial indicators in order to assess the financial direction of the Town. The report is designed to bring issues and opportunities to the attention of decision-makers through a systematic method of trend analysis. The ultimate goal of the FTMS is to help local officials better assess and protect the Town's overall financial condition.

Mr. Coderre summarized the following indicators and rather than go into detail on each, he reviewed the fiscal indicators summary and stated that he would focus on the ones in motion or having the greatest impact on the upcoming FY20223 budget, including State Aid, Employee Benefits and Economic Growth Revenues and OPEB liability.

<u>Financial Indicator</u>	<u>FY2022</u>
Property Tax Revenues	Favorable
Uncollected Property Taxes	Favorable
Revenues & Expenditures per Capita	Favorable
State Aid (Intergovernmental Revenues)	Unfavorable
Economic Growth Revenues	Unfavorable/Uncertain
Use of One-Time Revenues	Favorable
Personnel Costs	Stable
Employee Benefits	Stable/Uncertain
Pension Liability	Unfavorable
Other Post-Employment (OPEB) Liability	Unfavorable/Improving
Debt Service Expenditures	Favorable
Financial Reserves/Fund Balance	Favorable
Capital Investment – Overall fixed Asset Values	Pending Audit
Capital Investment – Pavement Management	Stable

State Aid (Intergovernmental Revenues)

Mr. Coderre indicated that State Aid went from a high of 13.1% of revenues in FY2003 to 8.4% in FY2022. He added that future aid remains uncertain given the ongoing impacts of the COVID-19 pandemic on the economy. He reviewed the following highlights for FY2023 State Aid:

- On December 3, 2021 Department of Revenue announced that tax collections for the first 5 months of FY2022 totaled 18.7% above collections through the same period a year ago
- Thus far, FY2022 State tax collections have surpassed budget benchmarks by 7.2%
- State Revenue Consensus Hearing will be held on December 21, 2021
- Governor's FY2023 Budget is scheduled to be released January 26, 2022
- The FY2023 budget model assumes State Aid will increase 1% based upon historic trends
- Any State Aid received above the Town's estimate can only be used to reduce taxes

Economic Growth Revenues

Mr. Coderre indicated that Economic Growth Revenues went from stable to unfavorable overnight with the impacts of the COVID-19 pandemic. This indicator has seen recent improvement but will require close monitoring over the balance of FY2022 as more financial and economic data becomes available. As Northborough approaches buildout, new growth and permits are likely to decline. The highlights of FY2023 Local Receipts are as follows:

- FY2022 Local Receipts were budgeted to increase 8% to \$4.2M
- FY2023 Local Receipts forecasted at level funding:
 - Anticipated Meal taxes lowered from original estimate
 - One of Northborough's two hotels is offline with no anticipated return date
 - Motor Vehicle Excise will not be known until receipt of major commitment in February. Supply chain disruptions and computer chip shortages are of concern looking forward
 - Building Permits were above target last year due to a large project fee; however, no new large projects are anticipated

FY2023 Health Insurance

Mr. Coderre stated that the 13-year history of health insurance budget increases averaged just 3%. He reviewed the following contributors that mitigated past increases:

- FY2010 Plan Design Changes and adoption of MGL c.32B, Section 18
- FY2012 Teacher contributions increased 5%
- FY2017 Plan Design Changes Implemented
- FY2018 Plan Design Changes but still experienced an 8.33% increase
- FY2019 Negotiated Carrier Consolidation resulted in a 3.8% budget increase
- FY2023 Out to bid following Fallon's exit from the commercial market

Mr. Coderre indicated that the FY2023 health insurance increase is critical due to the following factors:

- 10% increase on \$6.12 million health budget is \$612,000
- 3% increase on the Total General Government Budget is approximately \$709,000
- A 10% Health Insurance increase would consume 86% of all new FY2023 revenues for non-school departments. It swamps all other budget considerations.

Mr. Coderre stated that the Town is investigating a joint procurement with ARHS and Southborough as part of the FY2023 Health Insurance bid process.

Other Post-Employment Benefits (OPEB)

Mr. Coderre indicated that in FY2015 the Town started planning an annual contribution of \$500K to the OPEB Trust Fund, which started to improve the Town's funding ratio. As of October 31 2021, the Fund has \$5.1 million. Positive investment income marginally improved the funding ratio despite pandemic impacts preventing financial contributions in FY2021 and FY2022. He stressed that reinstatement of annual contributions should be a priority in FY2023 and beyond.

FTMS Summary

Mr. Coderre was pleased to report that overall Northborough is still in relatively good financial condition due to the following:

- Tax base is strong with good diversification
- Financial Reserves are healthy at 9%
- Debt service is manageable at less than 5% of operating budget with preferred Aa1 bond rating
- Reliance on one-time revenues in the operating budget is back down to the policy target of \$500,000, or approximately 1% (FY2021 used an additional \$378,000)
- Capital investments were strong leading up to the pandemic which allowed for temporary project postponements

Mr. Coderre discussed the following potential emerging concerns:

- Postponement of OPEB funding in FY2021 and FY2022 requires reassessment of future investment plans in FY2023
- Postponement of capital investments in FY2021 and FY2022 must be addressed beginning in the FY2023 Capital Improvement Plan

- Postponement of Stabilization Fund contributions (rainy day fund) in FY2021 and FY2022, requires reassessment
- Uncertainty surrounding future levels of State Aid and Federal Assistance
- Uncertainty surrounding Local Receipts and economic recovery following vaccinations
- Reduced future economic development (new growth) revenues as Town approaches buildout

FY2023 Budget Assumptions

Mr. Coderre indicated that all decisions must be made while maintaining compliance with the Town's adopted comprehensive financial policies, which can be found under Appendix A of the Budget Document. He reviewed the following FY2023 Budget Assumptions:

- Tax increase includes using \$300,000 excess levy capacity for OPEB
- State Aid increases 1% over FY2022 Actual
- Local Receipts level funded
- No additional Free Cash in the operating budget beyond \$500K policy limit
- \$500,000 contribution to OPEB Trust Fund (using a combination of taxes and ARPA)
- \$200,000 Stabilization Fund contribution from Free Cash
- General Government budget increases 3.39%
- K-8 Schools budget increase 3.39%
- ARHS Assessment increases 3.39%

Financial Projections

Mr. Coderre made a presentation on the Five-year Financial Projections in terms of methodology and assumptions as follows:

Methodology

- Revenue driven model
 - Based upon the existing revenue sharing model
 - Establishes a revenue ceiling based upon Proposition 2 ½ and backs into the allowable annual budget growth
 - Uses FY2022 as the base and looks out 5 years
- Focuses on the top three revenue sources, or 95%
 - Taxes 82%, State Aid 8%, Motor Vehicle Excise 5%
- Minimum goal is to maintain a level service budget
 - Can we protect and maintain what we have now?
 - Will we be able to address future wants and needs?

Assumptions

- Taxes increase by allowable Proposition 2 ½
 - New growth \$40 million in value (\$660K in new taxes) for FY2023, \$30 million from FY2024-FY2027
 - Existing unused levy capacity is available for use as needed to maintain services

- State Aid increases 1% annually
- MVE and other local receipts are projected to return to FY2020 levels by FY2025 and be level funded through FY2027
- Adhere to adopted Financial Policies
 - No one-time revenue gimmicks
 - Maintain financial reserves
 - Continue to invest in Capital Improvement Plan (CIP)
- OPEB funding returned to budget in FY2023 at \$500,000 and assumes \$550,000-\$600,000 annually from FY2024-FY2027
- Debt service for major capital projects included
 - Fire Station Project (Debt Exclusion)
- Key budget increases
 - NB K-8 Schools & General Government 3.39% for FY2023, then 3.5% annually
 - ARHS Assessments 3.39% for FY2023 , then 3.5% annually
 - Assabet 5% increase FY2023, then 3.5% annually
 - Goal is to maintain level services

Five-Year Revenue Projections

The five-year revenue projections are summarized below:

		FY2023 Projection	FY2024 Projection	FY2025 Projection	FY2026 Projection	FY2027 Projection
General Fund Revenues						
	Prior Year Levy Limit	57,890,129	59,996,982	61,977,436	64,018,760	66,133,711
	2.5%	1,447,253	1,499,925	1,549,436	1,600,469	1,653,343
	New Growth	659,600	480,529	491,888	514,482	523,030
	Levy Limit	59,996,982	61,977,436	64,018,760	66,133,711	68,310,084
	Other Debt Exclusions	620,705	605,560	580,605	560,810	525,820
	ARHS Debt Exclusions	415,687	655,976	658,876	655,356	655,356
	Lincoln St Sch Bldg Debt Exclusion	998,130	973,476	948,821	924,167	901,357
	Fire Station Debt Exclusion	42,200	253,200	2,095,400	2,046,960	1,998,520
	Maximum Levy	62,073,704	64,465,648	68,302,463	70,321,004	72,391,137
	Unused Levy Capacity	(4,062,781)	(3,928,731)	(3,777,283)	(3,495,925)	(3,131,949)
	Total Tax Levy	58,010,923	60,536,917	64,525,180	66,825,079	69,259,187
	Federal Aid					
	ARPA	2,500,000	2,016,183			
	State Aid					
	Cherry Sheet	5,613,083	5,669,214	5,725,906	5,783,165	5,783,165
	Local Receipts	4,171,000	4,297,000	4,468,000	4,468,000	4,468,000
	Fund Balance Allocations & Transfers					
	Free Cash - Operating Budget	500,000	500,000	500,000	500,000	500,000
	Free Cash - Appropriated Reserve	175,000	175,000	175,000	175,000	175,000
	Free Cash - Transfer to Stabilization	200,000	200,000	200,000	200,000	200,000
	Free Cash - Capital/Other	2,031,894	800,000	800,000	800,000	800,000
	Other Available Funds	734,161	800,000	900,000	900,000	900,000
	Total General Fund Revenues	73,936,061	74,994,314	77,294,086	79,651,244	82,085,352

Projected Tax Impact

Based upon the methodology and assumptions presented, along with the significant increase of 10% in residential property values, it is anticipated that there will be a \$560 increase in the average single family tax bill. He added historically, the average single family tax bill has increased on average at a very reasonable rate of \$184 between FY2011 – FY022.

Mr. Coderre reviewed the following highlights for the financial outlook:

- Budgets increase minimally to maintain services
 - No significant staffing or service level increases
- Existing \$4.3M unused levy capacity drawn down to maintain level services
- Taxes increase between 3.7% to 6.8% annually
 - FY2021 was revaluation year, market adjustments to property values continue to increase annually
 - FY2023 assumes 10% increase in single family home valuations
- Assumes no major budget surprises

Mr. Coderre ended the presentation with an assurance that the Town will continue to reassess future investment plans for the funding of OPEB liability and future capital improvement plans, will continue to monitor health insurance costs and will continue to evaluate the COVID-19 recovery and its economic impacts. The Town's financial condition will continue to be monitored by working collaboratively to address Town-wide issues, while at the same time striving to balance departmental needs with projected tax impacts.

School Superintendent Greg Martineau stated that it is early in the budget process, adding that it is expected that key information from the State will be released in the next month or two. School and Town staff will continue to work collaboratively in gathering the latest data to help in making informed decisions moving forward. He added that the Regional School District is also waiting to finalize the increase in health insurance costs.

In response to questions, Finance Director Jason Little explained the significance of the discount rate in respect to the OPEB Liability and Mr. Coderre explained the variables in the bid process for health insurance.

Chairman Perreault thanked everyone for their dedication and hard work in adhering to the policies and methodologies that have been in place for a decade and that have served the Town extremely well during the COVID-19 pandemic.

Mr. Coderre reminded the public that the tonight's PowerPoint presentation and a video of tonight's meeting will be available on the Town website.

Chairman Perreault noted that tonight's joint meeting is hosted by the Board of Selectmen with the Appropriations Committee, Financial Planning Committee and the Northborough School Committee participating as guests. With that being said, the Board of Selectmen will produce one set of joint meeting minutes that will be forwarded to everyone present this evening for informational purposes.

ADJOURNMENT

Selectman Rogers moved the Board vote to adjourn; Selectman Rutan seconded the motion. The roll call vote was taken as follows:

Wixted	“aye”	Rutan	“aye”
Hirsh	“aye”	Perreault	“aye”
Rogers	“aye”		

Meeting adjourned at 8:55 p.m.

Respectfully submitted,

Diane M. Wackell
Executive Assistant to the
Board of Selectmen

Documents used during meeting:

1. December 20, 2021 Meeting Agenda
2. FTMS Power Point Presentation