



Memorandum

To: Board of Selectmen
Finance Committee

From: Martha White, Town Administrator
Michael Walters Young, Deputy Town Administrator/Finance Director

Date: Thursday, September 19, 2013

Re: Financial Articles at the 2013 Fall Annual Town Meeting
(Articles 9, 11, 12, 13, 14, 15, 16, 17, 18, and 19)

The attached pages provide detail regarding the proposed financial actions at the upcoming 2013 Fall Annual Town Meeting. To summarize, appropriations are requested under the following articles and in the following amounts:

Appropriations by Article for 2013 Fall Town Meeting

Article 9 Feasibility Study of the Kennedy Middle School	\$	750,000
Article 11 Appropriation from Receipts Reserved Funds from Bernardi Development to Fund Purchase of Foam Concentrate for the Natick Fire Department	\$	9,625
Article 12 Unpaid Bills	\$	-
Article 13 Fiscal Year 2014 Omnibus Budget Article	\$	507,648
Article 14 Stabilization Fund	\$	-
Article 15 Stabilization Fund - Operating/Rainy Day	\$	856,633
Article 16 Stabilization Fund - Capital	\$	3,774,632
Article 17 Collective Bargaining	\$	-
Article 18 Capital Equipment	\$	2,140,310
Article 19 Capital Improvement	\$	2,610,000

Before providing detailed information for each of these appropriations, a brief narrative is warranted to explain the results of FY 2013 closing, the actual Free Cash Certification as of 7/1/2013, the major changes which have occurred since the 2013 SATM, the Administration's long term financial perspective, and the collective impact of these items on the broader 5-year capital plan and capital budgeting.

FY 2013: Preliminary Year in Review

The Town of Natick did well in Fiscal Year 2013 – a result of an improving economy, fiscal diligence, and conservative budgeting.

Revenues:

Overall, revenue collections in FY 2013 exceeded estimates, however, the Town witnessed a fourth year of actual tax collections which were slightly lower than projections. Thankfully, higher than projected local receipts more than made up for lower tax levy revenues and resulted in overall revenues in excess of estimates.

FY 2013 General Fund Revenues - Preliminary*

General Fund Revenue Summary	Budget		Actual		Difference	
					\$	%
Property Tax Levy	\$	89,323,445	\$	89,134,618	\$	(188,827) 99.79%
State Aid	\$	11,657,952	\$	11,440,476	\$	(217,476) 98.13%
Local Receipts	\$	10,012,890	\$	13,888,759	\$	3,875,869 138.71%
Available Funds	\$	7,865,589	\$	7,865,589	\$	- 100.00%
Enterprise Receipts	\$	2,535,883	\$	2,535,883	\$	- 100.00%
Total	\$	121,395,759	\$	124,865,325	\$	3,469,566 102.86%

*Note: Final revenues may change slightly from what is shown above.

The sizeable overage on local receipts deserves closer analysis. Below is the table submitted to the Department of Revenue highlighting all of the local receipt categories, including explanations as to why certain lines exceeded estimates.

FY 2013 - Breakdown of Local Receipts

	Projected	Actual	Amount above Estimate	Notes
Motor Vehicle Excise	\$ 3,795,250	\$ 4,338,121	\$ 542,871 114.30%	Collections stronger than expected; car buying did not decrease in Natick as a result of the economy
Other (Hotel/Motel) Excise	\$ 700,000	\$ 2,153,684	\$ 1,453,684 307.67%	This "over collection" is intentional - we deliberately do not budget the \$1.3 million we estimate to collect via the local option excise taxes. On an estimate of \$1.3 million, we collected \$1,334,123 in FY 2013.
Penalties and Interest	\$ 426,065	\$ 529,700	\$ 103,635 124.32%	None
Payments in lieu of taxes	\$ 24,931	\$ 35,301	\$ 10,370 141.59%	None
Charges for Services - Trash Disposal	\$ 865,603	\$ 1,019,244	\$ 153,641 117.75%	Delayed billing for FY 2012 PAYT collections was received in FY 2013.
Charges for Services - Ambulance	\$ 1,500,000	\$ 1,492,335	\$ (7,665) 99.49%	None
Rentals	\$ 40,041	\$ 49,780	\$ 9,739 124.32%	None

FY 2013 - Breakdown of Local Receipts

	Projected	Actual	Amount above Estimate	Notes
Departmental Revenue - Recreation	\$ 176,000	\$ 184,073	\$ 8,073	104.59% None
Other Departmental Revenue	\$ 670,000	\$ 751,740	\$ 81,740	112.20% Higher collections of fees than anticipated
Licenses and Permits	\$ 1,350,000	\$ 1,847,847	\$ 497,847	136.88% Continued steady growth in building and construction permits (especially Mathworks and Chrysler Road 40B)
Special Assessments	\$ 20,000	\$ 13,130	\$ (6,870)	65.65% None
Fines and Forfeits	\$ 195,000	\$ 193,106	\$ (1,894)	99.03% None
Investment Income	\$ 150,000	\$ 89,584	\$ (60,416)	59.72% Continued low interest rates
Misc. Recurring	\$ 100,000	\$ 19,551	\$ (80,449)	19.55% Anticipated temporary occupancy permits did not materialize; instead they became permanent and have been added to new tax levy growth.
Misc. Non-Recurring	\$ -	\$ 1,171,662	\$ 1,171,662	100.00% One time monies include: Tax Title - \$128,504; 2008 Medicare Part D Retiree Drug Subsidy - \$224,217; Bond Premium from FY13 Refunding - \$482,092 and FEMA reimbursements (March 2010 Flooding - \$102,186, Oct. 2011 Snowstorm -\$84,252 and Hurricane Irene (2011) - \$32,723)
Total	\$ 10,012,890	\$ 13,888,858	\$ 3,875,968	138.71%

As stated above, many of these receipts are one-time, non-recurring receipts which should not be used for ongoing operational costs. As we have acknowledged previously, it is also true that some revenue estimates have been overly conservative. After scrutinizing the FY 2012 collections, changes were made to revenue estimates in FY 2014 by increasing the budgeted estimates upward by nearly \$600,000. We do not believe the actual FY 2014 local receipts will exceed estimates as much as has been the case for the past couple of years.

Expenses:

The FY 2013 Appropriated Budget performed like recent year's budgets. We estimate that over \$1.9 million in "turnbacks" have been generated from FY 2013. The detail is shown below.

FY 2013 General Fund Expenses - Preliminary*

General Fund Expense Summary	Budget	Actual	Difference	
			\$	%
Education & Learning	\$ 47,221,896	\$ 47,192,931	\$ 28,965	99.94%
Municipal	\$ 33,618,520	\$ 32,881,998	\$ 736,522	97.81%
Shared	\$ 33,635,223	\$ 32,516,951	\$ 1,118,272	96.68%
Misc. Costs (Assessments, Capital)	\$ 6,830,996	\$ 6,728,180	\$ 102,816	98.49%
Total	\$ 121,306,635	\$ 119,320,060	\$ 1,986,575	98.36%

*Note: Final amounts may change slightly from what is shown above.

These turnbacks are the other essential component making up Free Cash on an annual basis. The \$1,986,575 for FY 2013 is actually slightly lower than turnbacks in previous years. (Average expense turnback 2009-2012: \$2,246,595)

Free Cash

The department of revenue certified Free Cash for the General Fund and retained earnings for the Enterprise Funds on Wednesday, September 18, 2013. Free Cash is \$6,827,707, or an increase from the previous years' certification of \$35,723. The table below shows the simplified explanation of how that number is derived.

Simplified Free Cash Explanation

Certified Free Cash as of 7/1/2012	\$ 6,791,984
less Appropriations	\$ (6,049,271)
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Balance: Remaining Free Cash	\$ 742,713
add Revenues in Excess	\$ 3,469,566
add Expense Turnbacks	\$ 1,986,575
add Other Sources (changes in receiveables, closeouts)	\$ 628,853
Certified Free Cash as of 7/1/2013	\$ 6,827,707

Historically, Natick's Free Cash certifications prior to the Great Recession were in the range of \$4.7 million. The last seven years have witnessed considerable fluctuations as the table below shows.

Free Cash Balances

Fiscal Year	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Effective Date	7/1/2007	7/1/2008	7/1/2009	7/1/2010	7/1/2011	7/1/2012	7/1/2013
General Fund (Free Cash)	\$ 4,784,709	\$ 2,415,060	\$ 3,327,659	\$ 5,899,906	\$ 4,737,528	\$ 6,791,984	\$ 6,827,707
Water/Sewer Enterprise	\$ 682,304	\$ 656,440	\$ 1,390,829	\$ 1,980,622	\$ 2,386,297	\$ 849,404	\$ 2,866,966
Golf Course Enterprise	\$ 103,010	\$ 97,364	\$ 83,126	\$ 111,897	\$ 71,576	\$ 72,642	\$ 100,674

Given that this certification is as large as last year's certification, and given that we believe the majority of the increase over 'normal' Free Cash amounts is again caused by one-time receipts, it is prudent to develop a Free Cash spending plan whereby most of these one-time revenues are dedicated to one-time purposes. We believe that a significant amount of these funds would most responsibly be distributed three ways; a) to build the Operational / Rainy Day Stabilization Fund, b) to further build the Capital Stabilization Fund for future capital needs and c) to reduce the burden on Natick taxpayers for current debt excluded projects. The following chart details our proposal regarding utilization of certified free cash:

Free Cash Spenddown Proposal

<u>Item</u>	<u>Amount</u>	<u>Rationale</u>
Certified Free Cash as of 7/1/2013	\$ 6,827,707	Est. FC. Certification
.5% of G/F Revenue Set-Aside	\$ (625,500)	As per Financial Policies
<u>2013 Fall Town Meeting</u>		
Article 13: FY 2014 Omnibus Budget	\$ (437,614)	Increased to lower taxpayer cost of projects in FY 14
Article 15: Transfer to Operating/Rainy Day SF	\$ (856,633)	As per Financial Policies
Article 16: Transfer of FY 2013 Local Option Taxes to CSF	\$ (1,334,123)	As per Financial Policies
Article 16: Additional Capital SF Contribution	\$ (1,000,000)	To accommodate future Capital Needs/Tax Relief
<u>2014 Spring Town Meeting</u>		
OPEB Stabilization Fund	\$ (250,000)	Estimated amount from WSHG for 2009 Medicare Part D Reimbursement
FY 2015 Operating Budget	\$ (1,500,000)	Standard from Free Cash for next years Operating Budget
Remaining Unallocated Balance	\$ 823,837	

FY 2014: Where we are today

The major financial requests being presented to the 2014 Fall Annual Town Meeting fall into four categories: Departmental Budget Adjustments, Debt Service Adjustments (due to the May issuance/refinancing), and Capital Appropriations & Reserve Fund Building. In order to fund these adjustments, there are three major revenue changes of note:

- 1) Higher Tax Levy: New growth in the levy (resulting from new construction in the community) is significantly higher than the 2013 Spring Annual Town Meeting estimate. We estimate that the FY 2014 New Growth will be \$2,303,187, a \$1,457,451 increase over the estimate made in the spring. The reason for this significant increase is the number of projects which have been completed within the last six months. We believed that several of the new building projects would take longer to complete and as we are prone to do, conservatively estimated a 1% growth in the levy as a result.
- 2) Higher State Aid: The Final FY 2013 State Budget provided the Town with \$59,967 additional dollars of support than we forecast at the 2013 Spring Annual Town Meeting.
- 3) Free Cash: The use of Free Cash has already been detailed within this memo; however to summarize, we propose to use \$3,628,370 for a variety of sources: \$437,614 under Article 13 to lower taxpayer impact of debt excluded project, \$856,633 under Article 15 to double the size of the Operational/Rainy Day Fund and \$2,334,123 into the Capital Stabilization Fund under Article 16 for future capital needs and future mitigation of taxpayer impact for debt excluded projects.

There are a series of budget adjustments proposed at the upcoming 2013 Fall Annual Town Meeting. They are shown on the table:

Article 13 - FY 2014 Omnibus Budget Changes

2013 SATM Article Being Amended	Line Item Amended/Description	Amount
Article 12, Motion B	Police Expenses Addition of \$16,000 for funding an Assessment Center for Police Sergeant Exam	\$ 16,000
Article 12, Motion E	Selectmen Salaries Addition of \$20,000 for a period of overlap between outgoing and incoming Deputy Town Administrator/Finance Directors	\$ 20,000
Article 12, Motion E	Selectmen Expenses Addition of \$85,000 for department head recruitment and hiring assistance. These funds will be used for advertising in regional/national publications and for the employment of recruitment firms if necessary. Funds will not be spent unless necessary.	\$ 85,000
Article 12, Motion G	Add Debt Service Principal Addition of \$224,600 as a result of issuance of bonds in May 2013. Primary driver is additional money issued for Natick High School and Community-Senior Center. Cost proposed to be covered by Free Cash and will not be borne by taxpayers in FY 2014.	\$ 224,600
Article 12, Motion G	Add Debt Service Interest Addition of \$148,912 as a result of issuance of bonds in May 2013. Primary driver is additional money issued for Natick High School and Community-Senior Center. Cost proposed to be covered by Free Cash and will not be borne by taxpayers in FY 2014.	\$ 148,912
Article 12, Motion H1	Add W/S Debt Service Principal Addition of \$5,000 as a result of issuance of bonds in May 2013.	\$ 5,000
Article 12, Motion H1	Add W/S Debt Service Interest Addition of \$49,773 as a result of issuance of bonds in May 2013.	\$ 49,773
Article 12, Motion I1	Reduce G/C Debt Service Principal Reduction of \$18,210 as a result of refinancing original golf course bonds in May 2013. Refinancing will save on average \$20,000+ annually for the duration of the bonds (2022).	\$ (18,210)
Article 12, Motion I1	Reduce G/C Debt Service Interest Reduction of \$23,427 as a result of refinancing original golf course bonds in May 2013. Refinancing will save on average \$20,000+ annually for the duration of the bonds (2022).	\$ (23,427)
Total Budget Changes		\$ 507,648

Capital Planning: FY 2014-2018 and Beyond

Natick has over the past few years been able to invest significant money in our capital needs. The new Natick High School and the new Community/Senior Center have both come in on-time and either within budget (in the case of the Community-Senior Center) or under budget (in the case of the New Natick High School). We have also created the financial mechanisms – through the creation of a Capital Stabilization Fund and its annual funding with the Town’s Local Option Meals and Hotel/Motel taxes – to ensure the Town’s continued ability to adequately fund its capital needs.

To ensure adequate capital investments on an ongoing basis, several years ago we developed a capital spending target as part of our overall financial policies. For within-levy spending (exclusive of debt excluded projects), this target specifies that 6% of General Fund Revenues should be used to support each year's capital needs, specifically each year's "cash capital" expenditures plus that year's debt budget. As shown below, we have done well over the last five years in meeting this 6% target.

Recommended Capital Spending - Financial Management Principles					Within-levy Dollars ONLY
The numbers shown below reflect ONLY General Fund Revenues & Expenditures.					
	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Total Revenues	\$ 102,021,869	\$ 103,904,157	\$ 107,472,425	\$ 116,594,383	\$ 122,741,389
<i>less debt exclusion taxes</i>	\$ 937,705	\$ 918,361	\$ 921,017	\$ 5,057,862	\$ 4,768,302
Net Revenues	\$ 101,084,164	\$ 102,985,796	\$ 106,551,408	\$ 111,536,521	\$ 117,973,087
Target:	6%	6%	6%	6%	6%
6% (minimum) Target =	\$ 6,065,050	\$ 6,179,148	\$ 6,393,084	\$ 6,692,191	\$ 7,078,385
Actual Capital Spending					
Cash	\$ 293,900	\$ 300,940	\$ 543,120	\$ 1,401,900	\$ 1,282,777
Debt Service	\$ 5,977,493	\$ 6,240,397	\$ 6,096,302	\$ 5,892,283	\$ 5,440,219
Total Capital Spending	\$ 6,271,393	\$ 6,541,337	\$ 6,639,422	\$ 7,294,183	\$ 6,722,996
Total Cap. Spending As %	6.15%	6.30%	6.18%	6.26%	5.48%

Notes:

All columns reflect actual Town Meeting Appropriations and borrowing authorizations; some projects were subsequently deferred.

Last year, pursuant to our analysis, significant funds were deposited into the Capital Stabilization Fund. We subsequently examined the 6% threshold to evaluate whether or not we can continue to meet this target moving forward. This year we have renewed that analysis. The following chart projects what 6% of General Fund Revenues will look like as a dollar value over the next five years.

Recommended Within-Levy Capital Spending Targets

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Total Revenues	\$ 122,842,518	\$ 124,555,760	\$ 125,916,205	\$ 126,966,961	\$ 129,506,300	\$ 132,096,426
<i>less debt exclusion taxes</i>	\$ 5,083,069	\$ 5,437,950	\$ 5,352,331	\$ 5,236,631	\$ 5,053,781	\$ 4,936,881
Net Revenues	\$ 117,759,449	\$ 119,117,810	\$ 120,563,874	\$ 121,730,330	\$ 124,452,519	\$ 127,159,545
Target:	6%	6%	6%	6%	6%	6%
6% (minimum) Target =	\$ 7,065,567	\$ 7,147,069	\$ 7,233,832	\$ 7,303,820	\$ 7,467,151	\$ 7,629,573

In evaluating whether or not sufficient funds will be available to meet these spending targets (cash capital plus debt budget), as well as determining whether these targets will be adequate to meet our future capital needs, we have evaluated the:

- Projected within levy debt budget,
- Projected available funds from the Capital Stabilization Fund, and
- Annual funding needs associated with the current five-year Capital Improvement Plan

Note that the current 5-year Capital Improvement Plan has over \$52 million worth of General Fund projects included.

Our analysis still finds that a 6% minimum target should be adequate to meet our future capital funding needs and that adequate resources will be available to fund this 6% target. The charts below show the projected debt service obligations and Capital Stabilization Fund balances based on projected funding needs for the current 5-Year Capital Improvement Plan.

Debt Service Obligations (within-levy)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Existing	\$ 5,043,351	\$ 5,441,093	\$ 4,844,084	\$ 3,847,513	\$ 3,499,608	\$ 2,578,732
Proposed (CIP Projects)	\$ -	\$ -	\$ 973,544	\$ 2,468,859	\$ 3,780,174	\$ 4,544,814
Projected Within-Levy Debt	\$ 5,043,351	\$ 5,441,093	\$ 5,817,628	\$ 6,316,372	\$ 7,279,782	\$ 7,123,547

Notes:

- Assumes issuing debt @ 3% interest for varying terms: Design of Buildings/Systems - 5 years, Equipment - 5-7 years, Building systems - 10 years and Road and Infrastructure improvements - 15 years

- Does NOT include Fire Station 4 and Downtown Parking Garage

The chart above shows existing within-levy debt and proposed should nearly all projects be funded.

Debt Service Capacity vs. Projected Total Debt - FY 2013-2018 (within-levy)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Existing	\$ 5,043,351	\$ 5,441,093	\$ 4,844,084	\$ 3,847,513	\$ 3,499,608	\$ 2,578,732
Proposed	\$ -	\$ -	\$ 973,544	\$ 2,468,859	\$ 3,780,174	\$ 4,544,814
Total Within-Levy	\$ 5,043,351	\$ 5,441,093	\$ 5,817,628	\$ 6,316,372	\$ 7,279,782	\$ 7,123,547
2 1/2% Debt Increase	\$ 5,043,351	\$ 5,441,093	\$ 5,577,121	\$ 5,716,549	\$ 5,859,462	\$ 6,005,949
Projected Within-Levy Debt	\$ 5,043,351	\$ 5,441,093	\$ 5,817,628	\$ 6,316,372	\$ 7,279,782	\$ 7,123,547
Additional Impact of funding New CIP Projects	\$ -	\$ -	\$ (240,508)	\$ (599,824)	\$ (1,420,320)	\$ (1,117,598)

This chart shows what the allowable increase in debt is by taking the current amount of within-levy debt and increasing it by the allowable 2.5% annual increase in the tax levy. The difference is the additional impact of funding new CIP projects and must be offset by other sources – like it was this year from the Capital Stabilization Fund.

Projected Capital Stabilization Fund Balances (post 2013 FATM)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Starting Balance	\$ 1,478,084	\$ 3,691,483	\$ 2,601,377	\$ 1,560,638	\$ 1,569,753	\$ 698,533
Add to Fund	\$ 3,275,551	\$ 1,334,123	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000
Less Cash Appropriations	\$ (953,902)	\$ (1,725,150)	\$ (1,901,900)	\$ (608,400)	\$ (750,900)	\$ (425,400)
Less Subsidy for HS & CSC	\$ (108,250)	\$ (250,000)	\$ (198,331)	\$ (82,661)	\$ -	\$ -
Less Additional debt	\$ -	\$ (449,079)	\$ (240,508)	\$ (599,824)	\$ (1,420,320)	\$ (1,117,598)
Capital Stab. Fund	\$ 3,691,483	\$ 2,601,377	\$ 1,560,638	\$ 1,569,753	\$ 698,533	\$ 455,536

Notes:

- Assumes annual collections from local option taxes of \$1.3 million going forward.
- Assumes paying for all projects on CIP under \$75,000 annually with cash from the Capital S.F.
- Assumes continued subsidy of \$1,500,000 for taxpayer impact for new Debt Excluded projects (HS & C-SC) until FY 2017

As you can see above, these forecasts suggest that the Capital Stabilization Fund alone should now be sufficient to meet our future capital needs. However, this projection does not include some very important variables:

First, the FY 2014-FY 2018 CIP includes a series of projects that may not be undertaken; or if they are undertaken, may not be fully funded through the tax levy. These include:

- \$2 Million+ of renovations to the Kennedy Middle School that may instead be incorporated into much larger renovation or replacement projects put forward under debt exclusion proposals. This would add more money back to the fund, as it would eliminate these projects which have currently been accounted for.
- Development of a new Fire Station 4, of which a significant portion has already been funded through the receipt of Mall Mitigation funds; we hope to garner additional mitigation funds from any future development in West Natick. This project is estimated to cost at least \$4,500,000.
- Downtown Parking Garage, of which a significant portion may be funded through state grants or subsidies. Without subsidies, we estimate initially this costing at least \$7,000,000 in tax levy funding.

Second, although virtually all capital needs are listed in the CIP, there are several major items not fully accounted for:

- Three school buildings are slated for major renovation or replacement over the coming several years, which, given their cost, must be considered for Debt Exclusion
- Roads and Sidewalks - although nearly \$7,000,000 in roadway improvements is already included in the 5-year Capital Improvement Plan and thus included in the above analysis, even more funding is needed.

Third, a modest amount of tax relief for the costs of the High School and the Community-Senior Center is included in this projection. It is, however, only the amount necessary to equal the cost to taxpayers in FY 2012 – the first year the costs of projects were added to the tax rolls.

However, we increased that subsidy significantly in FY 2014 from \$108,250 in FY 2013 to \$937,614 in FY 2014. Although we wish to provide relief when we can, and the favorable financial years witnessed in FY 2012 and FY 2013 provide us with that opportunity, we are left with a question: exactly how much money should be set aside for tax relief?

The table below shows the amount of money necessary to meet three different targets moving forward regarding tax relief for the excluded projects:

Long -Range Debt Service - Town of Natick										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Exempt Debt Options										
Gross	\$ 5,148,544	\$ 5,090,410	\$ 5,437,950	\$ 5,352,331	\$ 5,236,631	\$ 5,053,781	\$ 4,936,881	\$ 4,819,981	\$ 4,678,631	\$ 4,565,894
Reductions		\$ -								
- Premiums	\$ (93,498)	\$ (90,681)	\$ (90,681)	\$ (90,681)	\$ (90,681)	\$ (90,681)	\$ (90,681)	\$ (90,681)	\$ (90,681)	\$ (90,681)
			\$ (16,077)	\$ (16,077)	\$ (16,077)	\$ (16,077)	\$ (16,077)	\$ (16,077)	\$ (16,077)	\$ (16,077)
- Free Cash/CSF		\$ (108,250)	\$ (937,614)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
- SBA Reimb.	\$ (130,970)	\$ (123,167)	\$ (123,167)	\$ (123,167)	\$ (123,167)	\$ (123,167)	\$ (123,167)	\$ (123,167)	\$ (123,167)	\$ (123,167)
Actual Excluded Debt	\$ 4,924,076	\$ 4,768,312	\$ 4,270,411	\$ 5,122,406	\$ 5,006,706	\$ 4,823,856	\$ 4,706,956	\$ 4,590,056	\$ 4,448,706	\$ 4,335,969
Amount needed to hit FY 2012 target	\$ -	\$ -	\$ -	\$ 198,331	\$ 82,631	\$ -	\$ -	\$ -	\$ -	\$ -
Total needed for FY 2012 Target				\$ 280,961						
Amount needed to hit 2013 target	\$ -	\$ -	\$ -	\$ 354,095	\$ 238,395	\$ 55,545	\$ -	\$ -	\$ -	\$ -
Total needed for FY 2013 Target				\$ 648,034						
Amount needed to hit 2014 target	\$ -	\$ -	\$ 687,614	\$ 851,995	\$ 736,295	\$ 553,445	\$ 436,545	\$ 319,645	\$ 178,295	\$ 65,557
Total needed for FY 2014 Target				\$ 3,829,391						

The current forecast shows us using the amount of \$280,961 for tax relief in FY 2015 and 2016. This will meet the promise that the most Natick citizens ever pay in one year for the costs of the High School and Community-Senior Center will be what was paid in FY 2012. A second option is shown below that amount, and that is to spend \$648,034 over fiscal years 2015-2017 to have taxpayers pay what they did in FY 2013. A third option is to spend \$3,829,391 from FY 2015-2021 to ensure taxpayers pay the same for the projects as they do this year.

We believe a middle ground – the setting aside of \$1,500,000 for use in FY 2015, 2016 and 2017 is in order for tax relief. This ensures that we honor our commitment that citizens will continue to pay less than they did in FY 2012 for the projects. It also ensures that funds remain in the Capital Stabilization Fund to mitigate known but difficult to forecast needs, such as the cost of a new Kennedy Middle School.

In total, we propose adding \$3,774,632 under Article 16 into the Capital Stabilization Fund - \$1,334,123 from Local Option Tax Collections, \$1,000,000 from Free Cash and \$1,440,509 from the Tax Levy (as a result of new growth). Based on the above outline of future building needs that will inevitably result in debt exclusion requests, doing so would be a prudent move as it will minimize, to some degree, the impact on the taxpayers, hopefully to an even greater degree than we have been able to accomplish for the taxpayers with respect to the High School & Community-Senior Center. Further, these additional funds will provide a buffer in the event

that our conservative forecasting of revenues (and full-funding of the CIP) proves true; that is it will help ensure future funding of our within-levy capital needs.

The following chart depicts a revised Capital Stabilization Fund including the proposed addition of \$3,774,632 under Article 16 and dedicating \$1,500,000 of that amount to future tax relief:

Projected Capital Stabilization Fund Balances (post 2013 FATM)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Starting Balance	\$ 1,478,084	\$ 3,691,483	\$ 5,507,461	\$ 3,915,053	\$ 3,506,829	\$ 2,385,609
Add to Fund	\$ 3,275,551	\$ 4,240,207	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000
Less Cash Appropriations	\$ (953,902)	\$ (1,725,150)	\$ (1,901,900)	\$ (608,400)	\$ (750,900)	\$ (425,400)
Less Subsidy for HS & CSC	\$ (108,250)	\$ (250,000)	\$ (750,000)	\$ (500,000)	\$ (250,000)	\$ -
Less Additional debt	\$ -	\$ (449,079)	\$ (240,508)	\$ (599,824)	\$ (1,420,320)	\$ (1,117,598)
Capital Stab. Fund	\$ 3,691,483	\$ 5,507,461	\$ 3,915,053	\$ 3,506,829	\$ 2,385,609	\$ 2,142,612

Notes:

- Assumes annual collections from local option taxes of \$1.3 million going forward.
- Assumes paying for all projects on CIP under \$75,000 annually with cash from the Capital S.F.
- Assumes continued subsidy of \$1,500,000 for taxpayer impact for new Debt Excluded projects (HS & C-SC) until FY 2017

It should be noted that the total amount of \$4,420,207 shown above includes \$465,575 added at the 2013 Spring Annual Town Meeting.

Attached to this memorandum for informational purposes include:

- FY 2014 General Revenue/Expenditure Summary
- Summary of Changes from 2013 SATM to 2013 FATM
- Detail for Local Option Tax Collections (detail for Appropriation under Article 16)

Closing

This memo details a series of complex analyses, forecasts and proposals. It reflects the Administration’s commitment to fiscal conservatism, utilization of analysis of past trends and sound projections, and long range forecasts aimed at protecting the Town’s fiscal future. The Administration strongly urges that we continue to apply these practices as they have positioned this community as one of the more financially sound in the region.

Several key points must be summarized:

- We have been certified at project a higher than usual free cash certification for the second year in a row.
- Given the anticipated need for substantial investment in school buildings and other facilities and infrastructure within the next several years, the inevitability that all or some of these projects can only be funded through excluded debt, and given our Free Cash position, it would be prudent to put monies aside so as to reduce the impact of these projects on the taxpayers.

- Given also the positive nature of our year-end financial standing the last two years, it is also prudent to reserve part of the money collected to give back to taxpayers. This ability must be balanced with prudent investment in reserve building and our overall financial stability.
- We have expressed several times the Administration's goal to stabilize the debt budget as much as possible, so as to avoid spikes and dips which would impact other operations. As we look out to future years and the associated capital requests, this may prove to be more difficult than anticipated. It is inevitable that we will utilize the Capital Stabilization Fund to level out this operating cost. That is, in a year when the debt budget is scheduled to spike, we can cover that spike with Capital Stabilization Funds rather than face a commensurate reduction in other budget areas.

This Administration devotes very careful analysis to this community's budget to protect our fiscal future. It is a challenge. While we have added several new positions in FY 14, additional personnel are badly needed within many municipal operations. We believe we can continue to do this, incrementally, over the coming years, but we must be prudent. The conservative approach of this Administration has put this community in an extraordinary position of fiscal strength during a time of economic challenge. This is the foundation which we must build upon and sustain.

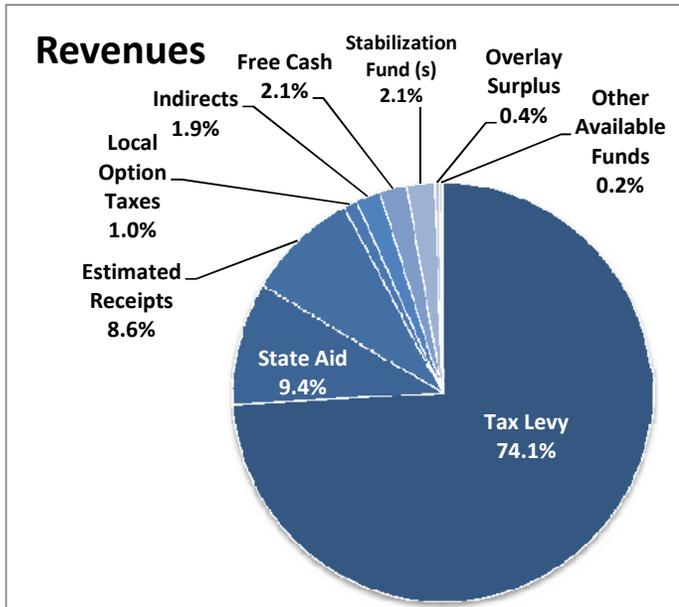
General Fund Revenue/Expenditure Summary

	2012	2013	2014	2014	2013 vs. 2014	
General Fund Revenues	Actual	Appropriated	SATM	FATM	\$	%
Tax Levy	\$ 85,587,087	\$ 89,323,445	\$ 91,804,040	\$ 93,261,492	3,938,047	4.41%
State Aid	\$ 11,449,436	\$ 11,657,952	\$ 12,303,773	\$ 12,363,740	705,788	6.05%
Estimated Receipts	\$ 13,080,747	\$ 10,012,890	\$ 10,691,750	\$ 10,691,750	678,860	6.78%
Local Option Taxes	\$ 1,275,551	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000	0	0.00%
Other Local Receipts						
Indirects	\$ 2,535,683	\$ 2,581,514	\$ 2,355,825	\$ 2,355,825	-225,689	-8.74%
Free Cash	\$ 5,466,393	\$ 6,343,030	\$ 2,685,581	\$ 6,313,951	-29,079	-0.46%
Stabilization Fund (s)	\$ 689,340	\$ 1,062,152	\$ 2,633,259	\$ 2,424,229	1,362,077	128.24%
Overlay Surplus	\$ 1,000,000	\$ -	\$ 500,000	\$ 500,000	500,000	#DIV/0!
Other Available Funds	\$ 281,532	\$ 460,407	\$ 281,532	\$ 307,234	-153,173	-33.27%
Total General Fund Revenues	121,365,769	122,741,389	124,555,760	129,518,221	6,776,832	5.52%
General Fund Expenses						
Education & Learning						
Natick Public Schools	\$ 46,622,656	\$ 46,558,714	\$ 48,588,672	\$ 48,588,672	2,029,958	4.36%
Keefe Tech	\$ 1,396,865	\$ 1,271,613	\$ 1,270,852	\$ 1,270,852	-761	-0.06%
Morse Institute Library	\$ 1,852,078	\$ 1,884,687	\$ 1,965,777	\$ 1,965,777	81,090	4.30%
Bacon Free Library	\$ 118,675	\$ 130,082	\$ 139,582	\$ 139,582	9,500	7.30%
Public Safety	\$ 12,920,185	\$ 13,723,417	\$ 14,039,239	\$ 14,055,239	331,822	2.42%
Public Works	\$ 7,351,758	\$ 7,394,083	\$ 7,091,649	\$ 7,091,649	-302,434	-4.09%
Health & Human Services	\$ 1,712,263	\$ 1,856,338	\$ 1,982,921	\$ 1,982,921	126,583	6.82%
Administrative Support Services	\$ 4,094,438	\$ 4,820,673	\$ 5,037,416	\$ 5,142,416	321,743	6.67%
Committees	\$ 17,178	\$ 26,010	\$ 26,060	\$ 26,060	50	0.19%
Shared Expenses						
Fringe Benefits	\$ 14,167,955	\$ 15,109,016	\$ 15,361,236	\$ 15,361,236	252,220	1.67%
Prop & Liab. Insurance	\$ 471,865	\$ 553,175	\$ 588,175	\$ 588,175	35,000	6.33%
Retirement	\$ 5,701,675	\$ 6,150,200	\$ 6,610,068	\$ 6,610,068	459,868	7.48%
Debt Services	\$ 11,055,991	\$ 10,208,521	\$ 10,587,531	\$ 10,961,043	752,522	7.37%
Reserve Fund	\$ -	\$ 400,000	\$ 300,000	\$ 300,000	-100,000	-25.00%
Facilities Management	\$ -	\$ 2,479,630	\$ 2,590,381	\$ 2,590,381	110,751	4.47%
General Fund Oper. Expenses	\$ 107,483,582	\$ 112,566,158	\$ 116,179,559	\$ 116,674,071	\$ 4,107,913	3.65%
Capital Improvements	\$ 1,401,900	\$ 1,282,777	\$ 1,934,180	\$ 1,725,150	442,373	34.49%
School Bus Transportation	\$ 330,137	\$ 340,041	\$ 350,243	\$ 350,243	10,201	3.00%
State & County Assessments	\$ 1,360,929	\$ 1,524,561	\$ 1,520,289	\$ 1,526,142	1,581	0.10%
Cherry Sheet Offsets	\$ 155,298	\$ 239,005	\$ 269,451	\$ 257,572	18,567	7.77%
Tax Title	\$ 25,000	\$ 25,000	\$ -	\$ -	-25,000	-100.00%
Snow Removal Supplement	\$ 765,163	\$ 102,008	\$ 800,000	\$ 712,115	610,107	598.10%
Overlay	\$ 1,133,967	\$ 1,463,310	\$ 1,150,000	\$ 1,300,000	-163,310	-11.16%
Golf Course Deficit	\$ 320,000	\$ 310,000	\$ 332,246	\$ 312,246	2,246	0.72%
Operational Stabilization Fund	\$ 856,478	\$ -	\$ -	\$ 856,633	856,633	100.00%
Capital Stabilization Fund	\$ 1,859,511	\$ 3,275,551	\$ 465,575	\$ 4,240,207	964,656	29.45%
FLSA Settlement	\$ 593,032	\$ -	\$ -	\$ -	0	0.00%
Misc. Articles	\$ 100,000	\$ 312,977	\$ 254,217	\$ 263,842	-49,135	-15.70%
Anticip. Local Opt. Taxes for CSF	\$ -	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000	0	0.00%
Total General Fund Expenses	\$ 116,384,997	\$ 122,741,389	\$ 124,555,760	\$ 129,518,221	6,776,832	5.52%
Net Excess / (Deficit)	4,980,772	0	0	0		

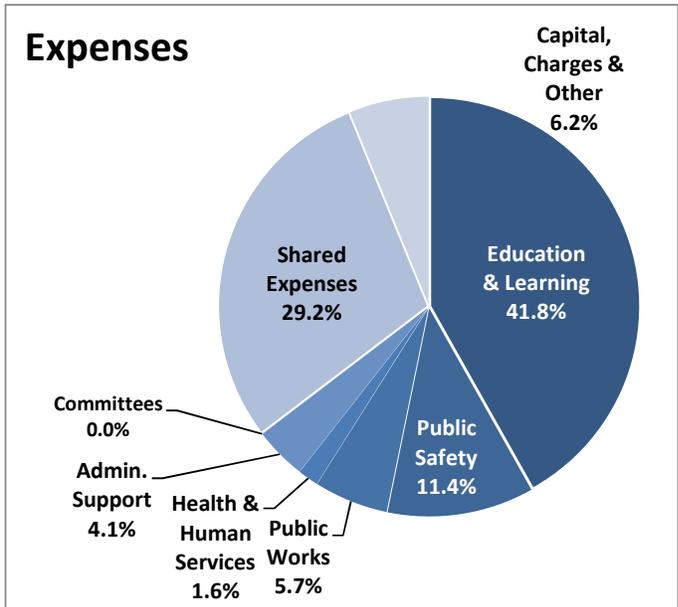
General Fund Revenue/Expenditure Summary

The following charts detail the overall revenues and expenditures for the General Fund for the Town of Natick.

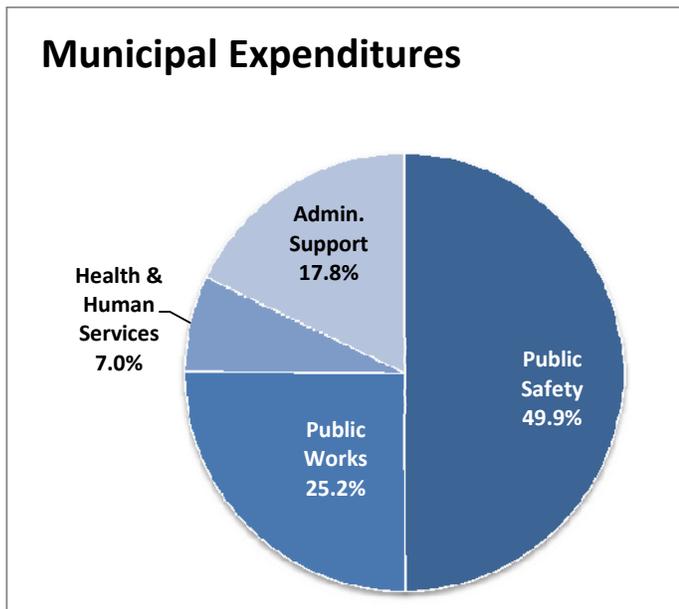
General Fund Revenues - FY 2014



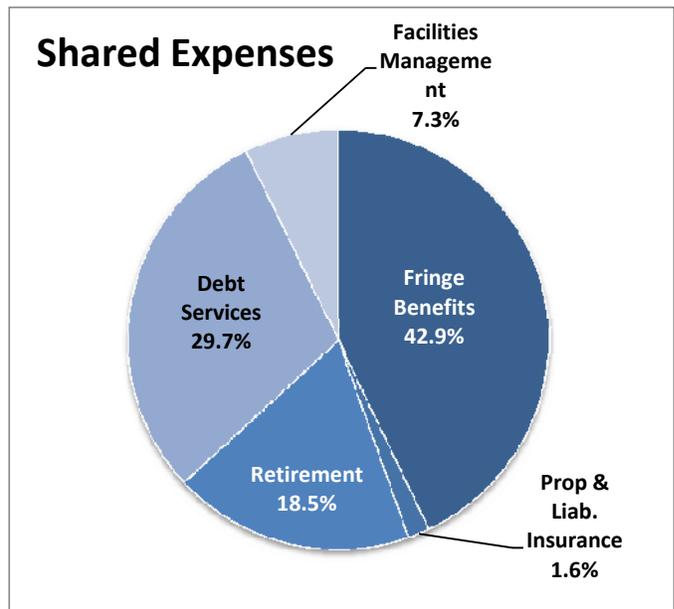
General Fund Expenditures - FY 2014



Municipal Expenditures - FY 2014



Shared Expenditures - FY 2014



Changes since 2013 SATM

	<u>SATM</u>	<u>FATM</u>	<u>Difference</u>	
Revenues				
Tax Levy	\$ 91,804,040	\$ 93,261,492	\$ 1,457,452	New growth significantly higher than thought
State Aid	\$ 12,303,773	\$ 12,363,740	\$ 59,967	Final State Aid
Estimated Receipts	\$ 10,691,750	\$ 10,691,750	\$ -	
Local Option Taxes	\$ 1,300,000	\$ 1,300,000	\$ -	
Other Local Receipts				
Indirects	\$ 2,355,825	\$ 2,355,825	\$ -	
Free Cash	\$ 2,685,581	\$ 6,313,951	\$ 3,628,370	Additional Free Cash to fund Articles 13, 15 and 16
Stabilization Fund (s)	\$ 2,633,259	\$ 2,424,229	\$ (209,030)	Reduction based on fewer capital projects @ 2013 FATM
Overlay Surplus	\$ 500,000	\$ 500,000	\$ -	
Other Available Funds	\$ 281,532	\$ 307,234	\$ 25,702	Additional Appropriation under Article 11, Debt Service
Total General Fund Revenues	\$ 124,555,760	\$ 129,518,221	\$ 4,962,461	
General Fund Expenses				
Education & Learning				
Natick Public Schools	\$ 48,588,672	\$ 48,588,672	\$ -	
Keefe Tech	\$ 1,270,852	\$ 1,270,852	\$ -	
Morse Institute Library	\$ 1,965,777	\$ 1,965,777	\$ -	
Bacon Free Library	\$ 139,582	\$ 139,582	\$ -	
Public Safety	\$ 14,039,239	\$ 14,055,239	\$ 16,000	Add'l monies for Sgt.s Promotional exam
Public Works	\$ 7,091,649	\$ 7,091,649	\$ -	
Health & Human Services	\$ 1,982,921	\$ 1,982,921	\$ -	
Administrative Support Services	\$ 5,037,416	\$ 5,142,416	\$ 105,000	Add'l monies for DTA/FD overlap, recruitment & advertising
Committees	\$ 26,060	\$ 26,060	\$ -	
Shared Expenses				
Fringe Benefits	\$ 15,361,236	\$ 15,361,236	\$ -	
Prop & Liab. Insurance	\$ 588,175	\$ 588,175	\$ -	
Retirement	\$ 6,610,068	\$ 6,610,068	\$ -	
Debt Services	\$ 10,587,531	\$ 10,961,043	\$ 373,512	Debt Service increases resulting from June bond issuance
Reserve Fund	\$ 300,000	\$ 300,000	\$ -	
Facilities Management	\$ 2,590,381	\$ 2,590,381	\$ -	
General Fund Oper. Expenses	\$ 116,179,559	\$ 116,674,071	\$ 494,512	
Capital Improvements	\$ 1,934,180	\$ 1,725,150	\$ (209,030)	Reduction based on fewer capital projects @ 2013 FATM
School Bus Transportation	\$ 350,243	\$ 350,243	\$ -	
State & County Assessments	\$ 1,520,289	\$ 1,526,142	\$ 5,853	Final State Aid
Cherry Sheet Offsets	\$ 269,451	\$ 257,572	\$ (11,879)	Final State Aid
Tax Title	\$ -	\$ -	\$ -	
Snow Removal Supplement	\$ 800,000	\$ 712,115	\$ (87,885)	Actual Snow & Ice Deficit for FY 2013
Overlay	\$ 1,150,000	\$ 1,300,000	\$ 150,000	Increase necessary as result of increased growth, values
Golf Course Deficit	\$ 332,246	\$ 312,246	\$ (20,000)	Reduction due to savings from refinancing of golf debt
Operational Stabilization Fund	\$ -	\$ 856,633	\$ 856,633	Proposal will double size of rainy day fund (from FC)
Capital Stabilization Fund	\$ 465,575	\$ 4,240,207	\$ 3,774,632	Added funds for future projects & tax relief from projects
FLSA Settlement	\$ -	\$ -	\$ -	
Misc. Articles	\$ 254,217	\$ 263,842	\$ 9,625	Additional Appropriation under Article 11
Collective Barg./Non-Union Adj.	\$ -	\$ -	\$ -	
Anticip. Local Opt. Taxes for CSF	\$ 1,300,000	\$ 1,300,000	\$ -	
Total General Fund Expenses	\$ 124,555,760	\$ 129,518,221	\$ 4,962,461	
Net Excess / (Deficit)	\$ 0	\$ 0	\$ 0	

Local Option Tax Collections - from Inception through 2013 Fall Annual Town Meeting

Breakout:						
Local Option Taxes	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Recap	FY 2013 Actual	Difference
Hotel Motel Taxes - State Portion (4%)	\$ 678,411	\$ 769,807	\$ 864,948	\$ 700,000	\$ 816,313	\$ 116,313
Hotel Motel Taxes - Town Portion (2%)*	\$ 70,296	\$ 384,904	\$ 432,474	\$ 350,000	\$ 408,157	\$ 58,157
Local Option Meals Taxes - Town Portion (.75%)**	\$ 305,860	\$ 718,924	\$ 843,077	\$ 950,000	\$ 925,967	\$ (24,033)
Amount Appropriated into CSF from Local Option 2010	\$ 376,156					
Amount from FY 2011 Receipts Appropriated into CSF under Article 7 - 2011 FATM***		\$ 1,172,071				
Amount from FY 2012 Receipts Appropriated into CSF under Article 4 - 2012 FATM			\$ 1,275,551			
FY 2013 Budget Estimate				\$ 1,300,000		
Amount from FY 2013 Receipts recommended for Appropriation into CSF under Article 16 - 2013 FATM					\$ 1,334,123	

Notes:

* FY 2010 Actual collected for only one quarter - April-June 2010

** FY 2010 Actual collected for two quarters - January-June 2010

*** Supplemental collection from FY 2010 came in after the end of the Fiscal Year. Closed to free cash in FY 2011 and as per policy, was appropriated under Art. 7

Capital Stabilization Fund

Initial Balance		\$ 307,913	FY 2011
Balance After 2011 Spring ATM		\$ 995,353	FY 2012
Use @ 2011 FATM (Articles 9 and 10)		\$ (689,340)	
Amount Appropriated from Free Cash under Article 7		\$ 1,172,071	
Balance After 2011 Fall ATM		\$ 1,478,084	FY 2013
Use @ 2012 Spring ATM		\$ (477,812)	
Balance After 2012 Spring ATM		\$ 1,000,272	
Use @ 2012 Fall ATM		\$ (584,340)	
Amount Appropriated from Free Cash (local option taxes)		\$ 1,275,551	
Amount Appropriated from Free Cash (additional funds)		\$ 2,000,000	
Balance After 2012 Fall ATM		\$ 3,691,483	FY 2014
Use @ 2013 Spring ATM - Capital Equipment & Improvement		\$ (925,840)	
Use @ 2013 Spring ATM - Debt Service		\$ (449,079)	
Use @ 2013 Spring ATM - Excluded Debt Service Tax Reduction		\$ (250,000)	
Amount Appropriated from Tax Levy (additional funds)		\$ 254,211	
Amount Appropriated from Free Cash (additional funds)		\$ 211,364	
Balance After 2013 Spring ATM		\$ 2,532,139	
Use @ 2013 Fall ATM		\$ (799,310)	
Amount Town Administration Recommends Appropriated from Free Cash (local option taxes)		\$ 1,334,123	
Amount Town Administration Recommends Appropriated from Tax Levy (additional funds)		\$ 1,440,509	
Amount Town Administration Recommends Appropriated from Free Cash (additional funds)		\$ 1,000,000	
Balance After 2013 Fall ATM		\$ 5,507,461	

2013 Fall Annual Meeting Memorandum