



TOWN OF NATICK

OFFICE OF THE TOWN ADMINISTRATOR

Martha L. White
Town Administrator

William Chenard
Deputy Town Administrator for Operations

TOWN ADMINISTRATOR'S REPORT TO THE 2016 FALL ANNUAL TOWN MEETING

October 18, 2016

Introduction:

The roles and responsibilities of the Town Administrator - and the Administration in general - are vast and varied, but the most critical is our duty to protect and advance Natick's long-term fiscal strength and stability.

There is no singular definition of fiscal strength but, rather, there are many contributing factors, including, but certainly not limited to:

- Establishment of and adherence to financial management principles
- Stable commercial/industrial tax base from varied businesses and industries
- A strong financial management team
- Low debt position in relation to total revenues
- Long-term financial planning for operational and capital needs
- Development and maintenance of ample reserve funds
- Minimal reliance on one-time funds in support of recurring (operational) expenses
- Adequate and consistent investment in capital needs
- Sound management of the Town's debt to minimize borrowing costs while optimizing investment opportunities
- Ongoing evaluation, and implementation where appropriate, of cost-saving measures

Our commitment to these and other sound practices in our management of the Town's finances has helped ensure the continued delivery of valued and cost-effective programs and services and the advancement of initiatives that enhance the quality of life for Natick's residents. We consistently strive to balance the community's desire to improve and expand services with the associated impact on Natick's residents and taxpayers.

Our good work has been recognized by the bond rating agency Standard & Poor's Ratings Services, which for several years has assigned Natick the coveted AAA rating - presently awarded to only 46 of 351 Massachusetts communities. Notably, Natick has maintained our AAA bond rating since 2008, an achievement shared with only 15 other Massachusetts communities. This bond rating - the highest possible - ensures that our interest rates will be

the lowest available when borrowing for capital projects. Recognizing that many factors beyond our control contribute to our bond rating, the AAA rating supports our assertions as to the Administration's sound decision-making and leadership regarding our management of the Town's finances. We take this responsibility very seriously and take great pride in the many contributions this Administration has made toward strengthening the Town's financial position.

Challenges:

Notwithstanding our many achievements, we face numerous challenges. Natick's outstanding quality of life and, notably, the quality of education delivered by the Natick School Department, has fueled an influx of young families and a resulting increase in student population. Specifically, for each of the last 10 years, an average of approximately 100 students have been added to the Natick school system; this pace of enrollment growth is projected to diminish only slightly in the next few years. To maintain appropriate class sizes, respond to evolving educational mandates and further advance the district's academic goals, additional teaching and other positions have been essential, along with associated budgetary growth.

Specifically, for the 10 year period between fiscal year 2007 to fiscal year 2017, the Natick School Department budget has grown from just over \$40 million to \$57.8 million, an average of \$1.76 million per year or 4.4%. In more recent years this budget growth has been more pronounced; since fiscal year 2011 the School Department budget has increased an average of \$2.3 million or 5.2%. It is important to reiterate that this budgetary growth has been driven by the substantial and consistent growth in student enrollment and the ongoing challenges associated with ever-changing state and federal mandates regarding delivery of educational programs and services. Nonetheless, meeting these escalating costs has presented considerable challenges.

In addition, the community is advancing critically needed - and costly - capital projects, specifically development of a new Kennedy Middle School as well as development of a new West Natick Fire Station. It appears inevitable that a debt exclusion vote will be presented to Natick's voters regarding one or both of these projects; more discussion on this topic will follow later in this memo. By way of explanation, if a debt exclusion (M.G.L. c. 59, §21C(i½)) is authorized by a majority of Natick's voters, property taxes would be raised to provide the funds needed to cover the annual debt payments associated with the project or projects. The tax increase associated with a debt exclusion remains in effect only for the duration of borrowing associated with the project (typically 20 years).

The Board of Selectmen and Administration are also advancing a project to develop a municipal parking garage on the site of the Middlesex Avenue parking lot, where a multi-level parking garage formerly existed. Innumerable studies have quantified the need for additional parking in Natick Center to meet existing demand and, importantly, to facilitate redevelopment of underused upper levels in existing downtown buildings and accommodate future development in Natick Center. The November 1, 2016 Special Town Meeting includes a request to fund a Middlesex Garage Feasibility Analysis, through which a number of evaluations would be conducted, concluding in the development of a conceptual design. Subject to future support by Town Meeting, the next step would be an appropriation for development of final design plans

and specifications and, subsequently, a request to fund construction of a new municipal Middlesex Avenue Parking Garage.

While this project is not as advanced as the Kennedy Middle School and West Natick Fire Station, the Selectmen and Administration are hopeful that this project will finally move forward with the community's support. Various financing options for this project will be identified and evaluated; a debt exclusion will inevitably be among the financing options considered.

Another challenge is our financial obligation regarding Natick's Other Post-Employment Benefits (OPEB) liability. Other post-employment benefits are the benefits that an employee will begin to receive at the start of retirement such as health care and life insurance premiums, but excluding pension benefits. Communities are required to identify the magnitude of their OPEB liability but, at this time, there is no funding obligation. However, failure to initiate a funding program would be viewed very unfavorably by our bond rating agency and put our AAA rating at risk.

OPEB liabilities are very substantial; per our most recent actuarial study, Natick's Unfunded Actuarial Accrued Liability is over \$125 million and, to fund this liability with a 30 year amortization, our recommended annual contribution is almost \$13 million. Obviously, as is the case with virtually every U.S. community, meeting this obligation is well beyond our means. To date, with Town Meeting's support, we have contributed just over \$1 million to the OPEB Trust Fund and, under Article 8 of the upcoming Fall Annual Town Meeting, we are seeking a further appropriation of \$1 million.

It is our intent to continue to contribute to the OPEB Trust Fund to the greatest extent possible as part of our overall financial planning process. We have proposed an amendment to our Financial Management Principles to provide that at each Fall Annual Town Meeting, after deducting ½ % of gross revenues from Free Cash as a set-aside, and after deducting the amount of the local option taxes collected during the previous fiscal year, the Town should appropriate at least 10% of the remaining Free Cash to the OPEB Trust Fund.

Further, it is important to note that in FY 2030, our unfunded pension liability will have been met, and our annual appropriation will be substantially reduced. At that time, it is our intent to apply, on an annual basis, all or part of the reduced retirement appropriation toward our OPEB obligation.

To quantify this proposal in broad terms, in FY 2017 our appropriation to the Retirement Board was just over \$8 million; per our actuarial study and accounting for state-mandated increases in our annual appropriations, the FY 2030 appropriation is projected to be almost \$18 million. However, once our unfunded liability has been met, annual appropriations need only meet actual annual retirement costs. Per the actuarial study, actual annual retirement costs represent approximately 25% of the total appropriation, thus our FY 2031 appropriation should be approximately 75% lower than that in FY 2030. Accordingly, if the actuarial projections hold true, over \$13 million would be freed-up in FY 2031, allowing us to address our OPEB liability in a meaningful way.

It is important to note that an updated actuarial study of our OPEB obligation is currently underway. We are hopeful that recent changes in employees' health insurance costs - that is, more employees enrolled in the lower cost Fallon programs - will reduce Natick's OPEB liability, however, this anticipated reduction of this liability will likely be offset - at least to some extent - by growth in the number of Town employees, most notably School Department employees as previously noted. In any event, our OPEB liability will certainly still be very substantial and addressing it presents a considerable challenge.

We also face substantial and multi-year costs associated with two infrastructure needs:

- A recently completed Master Plan for Parks and Fields has recommended extensive improvements to meet growing demands for passive and active recreational facilities, comply with state and federal accessibility requirements and meet current safety standards. Based on the study's recommendations and priorities, we will seek funding support from Town Meeting over the next several years.
- Diminishing State funds for roads and sidewalks shifts more of the burden onto municipalities; we anticipate a growing need for funding to maintain and improve these critical infrastructures.

Notable Cost-Saving Measures

In all of our actions, we are mindful of the impact that our decisions have on Natick's taxpayers, and that many face financial challenges and worry about being able to remain in their homes and the community they love. Conversely, many residents advocate for expanded services, particularly within the School Department. Each year, this Administration endeavors to strike the proper balance between such perspectives and priorities, recommending a range of services and programs intended to meet community needs while limiting budget increases to the greatest extent practicable. Importantly, we also continuously seek out opportunities for cost savings and efficiencies. A few of these are highlighted below

Energy-Related Cost Savings: Natick was designated by the Massachusetts Department of Energy Resources as a Green Community in 2010, and remains focused on reducing costs through efficiency and clean energy programs. Since 2008, we have reduced our energy usage by 21%, the equivalent of more than \$500,000 in savings each year. We are continuing these efforts in FY 2017 through a combination of grants and utility incentives valued at \$320,000, and will be implementing energy conservation measures at Town Hall, the Community-Senior Center, and Lilja Elementary School. We have also had great success in reducing our energy costs with several solar installations. In 2012, Natick installed solar on five schools and the Community-Senior Center. This fall, we are adding solar to Lilja Elementary, the DPW and William Chase Ice Arena. In total, these systems are projected to save the Town more than \$4 million over their 20 year lifespan. Several additional solar installation opportunities are currently being evaluated.

Health Insurance Cost Savings: We have introduced numerous initiatives in recent years to help contain health insurance costs including requiring Medicare-eligible retirees to transfer from employee insurance programs to Medicare and a Town-sponsored supplement plan, eliminating traditional HMO plans in favor of more cost-effective Rate Saver plans, negotiating

reductions in the percentage that the Town contributes toward employees' health insurance, and more.

Our most recent - and most successful - cost saving program resulted from our FY 2016 negotiations with the 19 General Government and School Department unions, through which we reached agreement to reduce the Town's health insurance contribution from 75% to 62% on all Rate Saver plans with the exception of the Fallon plans. To incentivize employees to enroll in the more affordable Fallon plans, the Town will continue to contribute 75% toward these plans. As a result of this change, which became effective in FY 2017, over 65% of employees who had been enrolled in a plan other than Fallon shifted to a Fallon plan. Accordingly, our FY 2017 health insurance costs are anticipated to be over \$2 million less than actual FY 2016 costs whereas, of course, such costs would have otherwise been expected to increase 5-10%. I am very grateful to the union representatives who participated in these negotiations as well as the union memberships who supported this proposal.

Initiatives to Mitigate Taxpayer Impacts:

Again, recognizing the challenges faced by many taxpayers, and because it is sound practice, we have made considerable efforts to mitigate taxpayer impacts. Specifically, since the debt exclusions for the High School and Community-Senior Center were included on property tax bills (FY 2011) we have appropriated a total of almost \$3 million to offset the tax increase associated with these debt exclusions.

Opportunities

It has been the longstanding policy of this Administration - and our accepted Financial Management Principles stipulate - that reserves and one-time revenues should be used only for capital or other non-recurring expenses. Nonetheless, for the last several years we have used between \$1,500,000 to \$2,400,000 of Free Cash in support of our operating budgets; in FY 2017, approximately \$3.4 million of Free Cash was initially appropriated in support of operating expenses. Given our sizable Free Cash certifications of recent years, some use of this one-time revenue source has not been overly objectionable, but it is contrary to our Financial Management Principles and unwise from the perspective of stable, sustainable long-term financial planning. However, the amount of Free Cash used for the FY 2017 operating budget admittedly exceeded the Administration's comfort level.

However, we have been presented with an opportunity to reduce the amount of Free Cash used in support of the FY 2017 operating budget. Specifically, final revenue figures for New Growth and State Aid were recently received and exceed initial projections by \$356,846 and \$299,181, respectively. Accordingly, and given our concern regarding the amount of Free Cash initially used in support of the FY 2017 operating budget, among the many actions proposed under Article 1 of the 2016 Fall Annual Town Meeting, we are seeking Town Meeting's authorization to decrease use of Free Cash in support of the FY 2017 operating budget by \$1,141,764, and supplement these funds with available New Growth and State Aid, coupled with a net reduction in the overall FY 2017 operating budget, detailed under Article 1.

This reduced amount of Free Cash is now available for future appropriation and can effectively be added to our certified Free Cash amount in terms of available funds; our FY 2016 year-end Free Cash was recently certified by the Massachusetts Department of Revenue at \$12,088,395.

While many of the factors contributing to this Free Cash amount are unique and non-recurring, the Administration views this amount as excessive. Free Cash levels such as this demand that we re-evaluate our practices regarding development of the operating budget, and perhaps specifically our projection of revenues available in support of operating expenses. While our Financial Management Principles stipulate that "Revenue estimates should be realistic, yet conservative, to minimize the potential of shortfalls in the subsequent year's operating budgets and corresponding impacts on free cash," perhaps we are being overly conservative in these projections. As noted, we will be re-evaluating revenue projections when developing the FY 2018 operating budget.

But these available funds provide us with a great opportunity. Here is a summary of our current spending plan for Free Cash:

Free Cash Spenddown Proposal

<u>Item</u>	<u>Amount</u>	<u>Rationale</u>
Certified Free Cash as of 7/1/2016	\$ 12,088,395	Certified by DOR
.5% of G/F Revenue Set-Aside	\$ 711,472	As per Financial Policies
<u>2016 Fall Town Meeting</u>		
Article 4: Transfer of FY 2015 Local Option Taxes to CSF	\$ (1,425,532)	As per Financial Management Principles
Article 4: Supplement the Capital Stabilization Fund	\$ (2,500,000)	Planning for upcoming Large Capital Projects
Article 8: OPEB Fund	\$ (1,000,000)	See Warrant Article
Article 9: Capital Equipment	\$ (1,291,000)	See Warrant Article
Article 10: Capital Improvement	\$ (245,000)	See Warrant Article
<u>2017 Spring Annual Town Meeting</u>		
Snow and Ice Supplement		FY17 Budget Support
Other Post Employment Benefits (OPEB) Fund		Transfer To OPEB Trust Fund
Remaining Unallocated Balance	\$ 6,338,335	

Note that this spending plan provides that over \$6 million of Free Cash will remain unallocated, and, as noted earlier, over \$1 million of Free Cash previously allocated to the FY 2017 operating budget is being released under Article 1 and will be available for appropriation. We are currently evaluating how these funds can best be used to the community's benefit and, specifically, to benefit taxpayers. One concept we are currently exploring is whether we can avoid, or at least mitigate, the amount of the debt exclusions for the large capital projects previously mentioned. As these projects are further advanced, and costs become better known, we can develop this financing plan further. It is likely that we will "bank" the bulk of the remaining \$6 million of Free Cash into the Capital Stabilization Fund at the 2017 Spring Annual Town Meeting. Depending on the findings of the OPEB actuarial study, further appropriations to the OPEB Trust Fund may also be considered.

In the strongest terms, the Administration cautions against allowing the availability of these funds to produce complacency in our fiscal conservatism. They must not be used in support of operating budget growth or other recurring costs.

As I enter my 10th year as Natick's Town Administrator, I have reflected upon my accomplishments to date. Undoubtedly, I am most proud of my Administration's role in bringing fiscal strength and stability to this fine community. Equally important is our success in Natick's leadership role in sustainability initiatives. These and many other achievements would not be possible without the creativity and hard work of the Administration's department heads, managers and staff at all levels. I am also very grateful for the support that the Administration has received over the years by Town Meeting.

Sincerely,

Martha L. White,
Town Administrator