



Town of Natick

Financial Summit

October 17, 2011

Martha White, Town Administrator

Michael Walters Young, Deputy Town Administrator



Town of Natick

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Agenda

Introduction

Presentation of Indicators

Three-Year Projection & FY 2013 Outlook

Closing & Questions



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Introduction

Objectives:

- ❑ To present an analysis of Natick's financial condition, generally defined as our ability to pay for the cost of services needed and desired on a continuing basis. This analysis supports our efforts to strengthen the Town's financial condition – both short and long term.
- ❑ By identifying and responding to financial trends, we help facilitate stability within local government, as well as the cost-effective delivery of desired services, thus minimizing impact on taxpayers.



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Introduction

Strategic financial planning facilitates efforts to

- ❑ measure and monitor trends and changes in our financial condition,
- ❑ identify forces affecting our condition, and
- ❑ foresee emerging problems and identify strategies in response to these factors
- ❑ create stability in our financial condition



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Introduction

A sound financial condition allows the community to

- ❑ maintain existing service levels,
- ❑ better withstand local and regional economic disruptions, and
- ❑ anticipate and meet demands and challenges associated with economic, demographic and other growth, decline or change.



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Introduction

- **Tonight's summit and the related materials are designed to:**
 - a) Evaluate the financial health of the Town of Natick through a series of financial indicators and comparative benchmarks, where appropriate;
 - b) Present a three-year projection of Revenues & Expenditures; and
 - c) Outline the FY 2013 Budget Process & Issues



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Introduction

Overall, the Town has both fiscal strengths and weaknesses:

- Natick has **favorable** property tax collections and debt service levels (both as a percentage of operating revenues and per capita).
- Natick has **marginal** expenditures per household, personnel costs, amounts of capital investment, reserve levels, and a reliance upon one-time revenues.
- Natick has **unfavorable** and uncertain levels of State Aid, benefit expenditures, revenues related to economic growth, pension liabilities, amounts of capital investment and a reliance upon one-time revenues.



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Financial Indicators

Town of Natick – October 17, 2011



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Reminders on Indicators

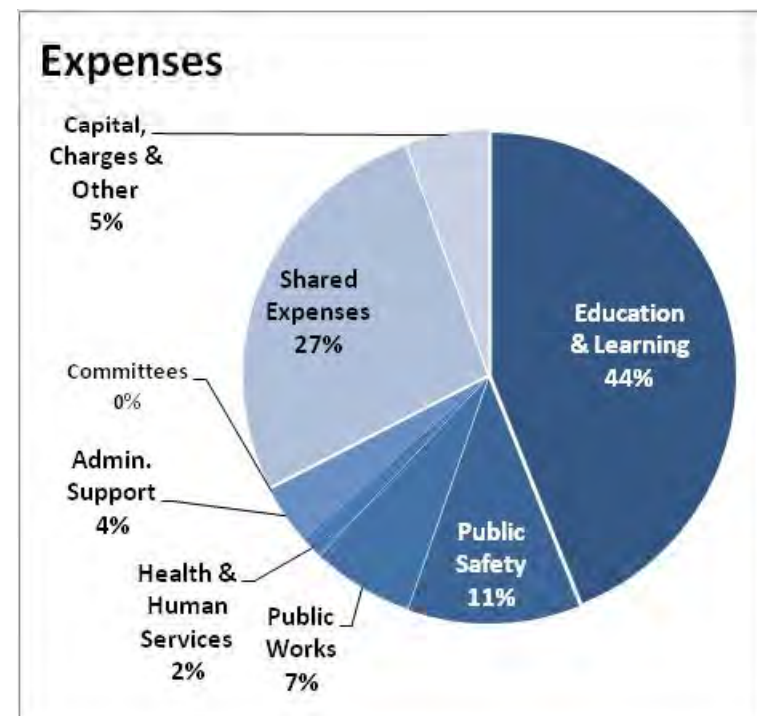
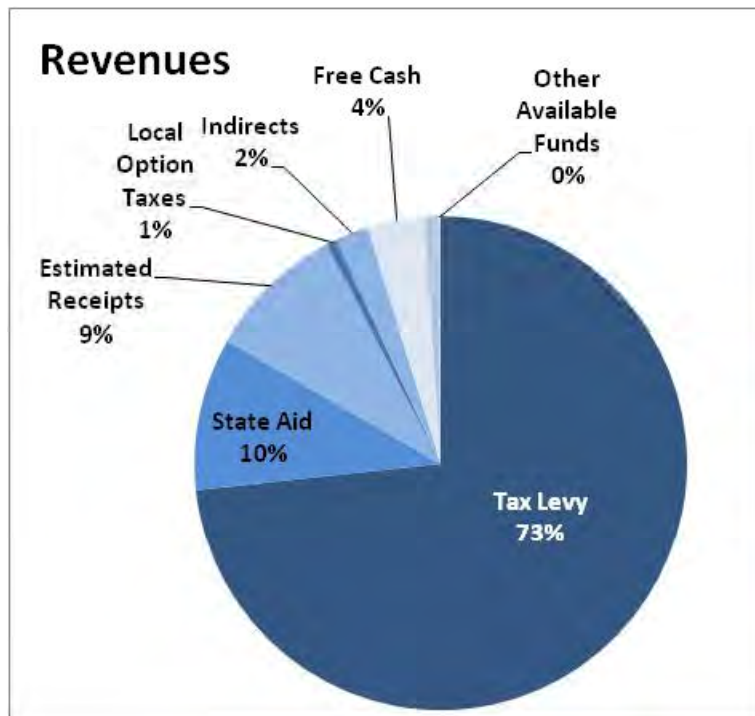
- Indicators are retrospective – actual data, actual results over a ten year time frame
- Indicators are not comparative – review is just on Natick’s performance, not our comparative communities (though several comparative measures are found in the appendix)
- Indicators are designed to assist Administration, policy makers, and financial oversight groups in completing challenging task of building the budget for Town Meeting’s review.
- *Remember: A budget is a reflection of the values of a community.*



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General Fund Budget Distribution: FY 2012

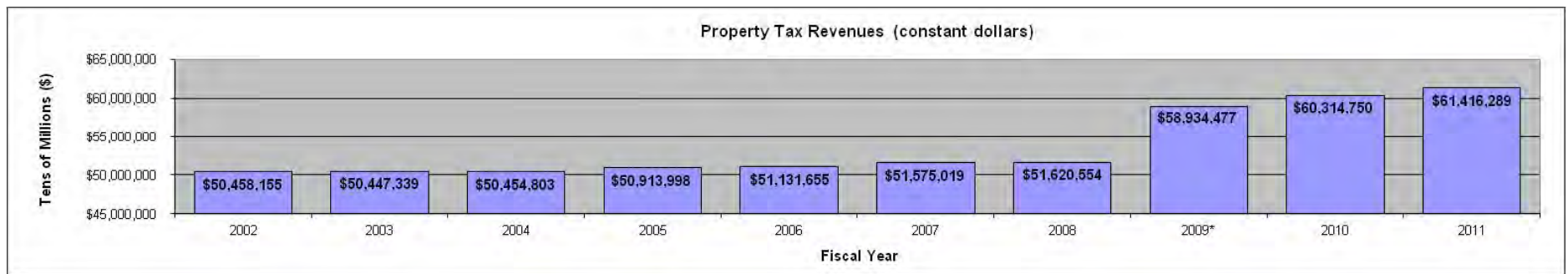




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Indicator #1: Property Tax Revenues



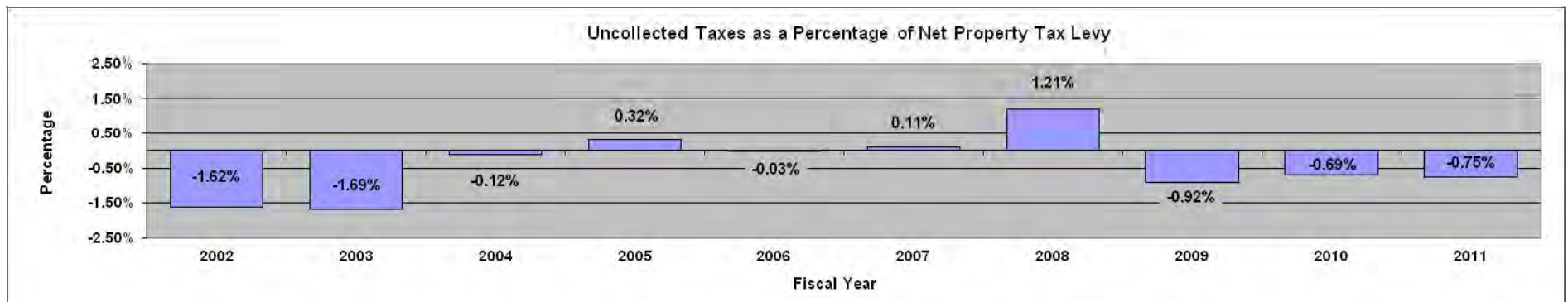
- ❑ Formula: Property Tax Revenues (constant dollars)
- ❑ Warning: When tax revenues in constant dollars decline
- ❑ Natick Trend: **Favorable/Marginal**
- ❑ Good: $\frac{3}{4}$ of revenue base comes from steady, reliable source
- ❑ Bad: (1) Only substantial growth (when accounting for inflation) comes not from $2\frac{1}{2}$ allowable increase, but overrides (2) Growth in this indicator impacts taxpayers



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Indicator #2: Uncollected Property Taxes



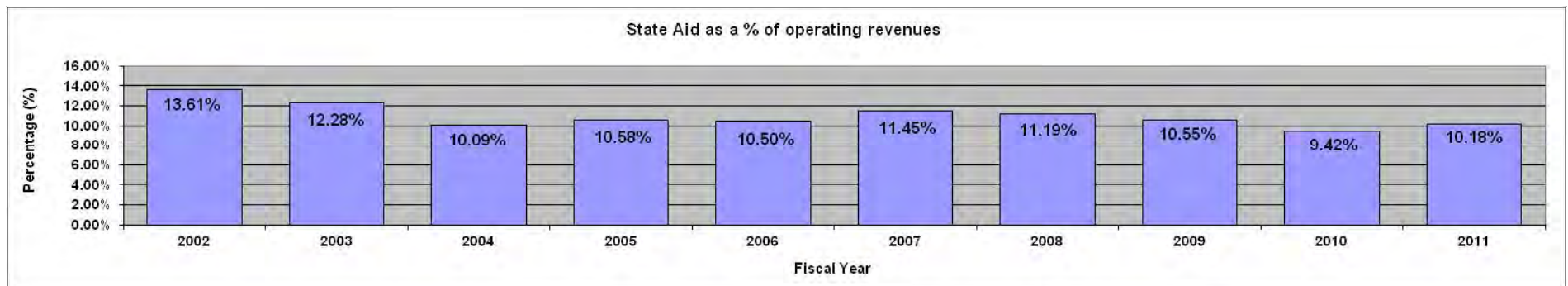
- ❑ Formula: $\text{Uncollected Property Taxes} / \text{Net Property Tax Levy}$
- ❑ Warning: When uncollected property taxes reach 5-8% of levy
- ❑ Natick Trend: **Favorable**
- ❑ Good: Strong history of collections above 100% of net levy & indication of community's ability and willingness to pay timely.



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Indicator #3: State Aid



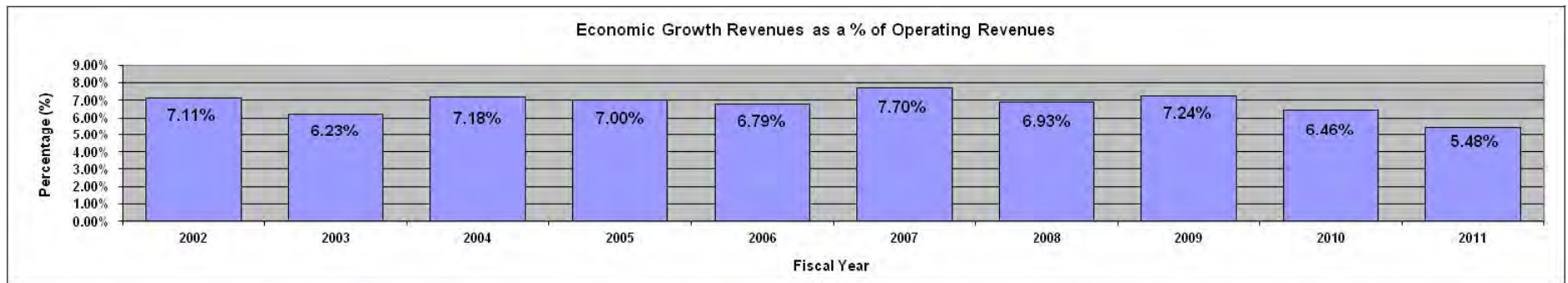
- ❑ Formula: State Aid / Operating Revenues
- ❑ Warning: When State aid as % of Oper. Rev. declines
- ❑ Natick Trend: **Marginal/Uncertain**
- ❑ Bad: Unreliability and continual mandates from state to provide service increase fiscal challenge to community and impact service delivery and/or shift burden to local taxpayers



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Indicator #4: Revenues Related to Economic Growth



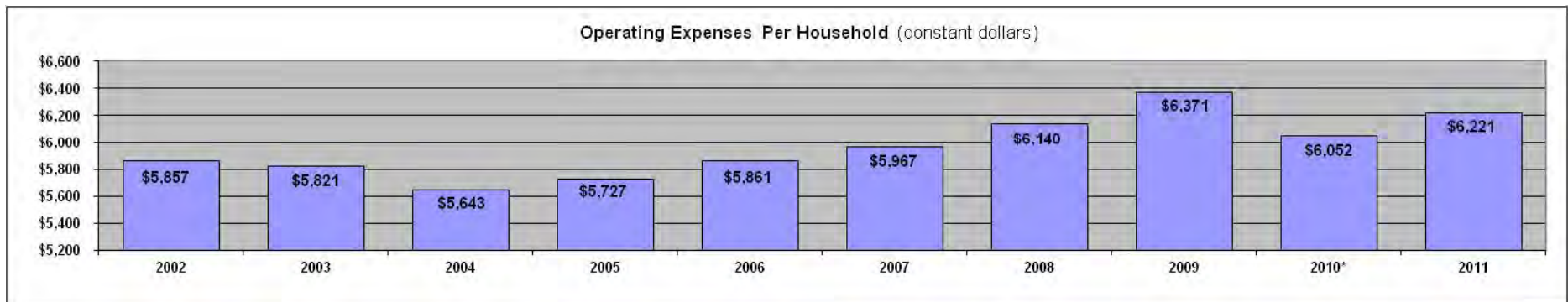
- ❑ Formula: Economic Growth Revenues / Operating Revenues
- ❑ Warning: Decreasing revenues as a % of operating revenues
- ❑ Natick Trend: **Unfavorable/Uncertain**
- ❑ Bad: Economic conditions have worsened over the last three years, dropping this indicator to its lowest point in over a decade. It now is less than 6% of total operating revenues



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Indicator #5: Expenditures/Household



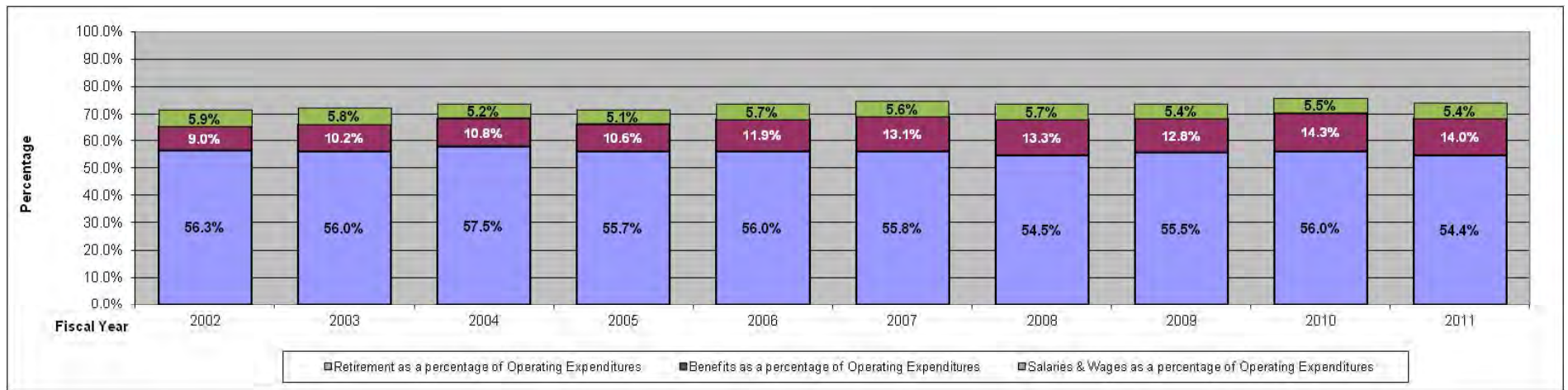
- ❑ Formula: Net Operating Expenses (constant dollars) / Households
- ❑ Warning: Increasing Oper. Exp./household in constant dollars
- ❑ Natick Trend: **Marginal**
- ❑ Good: Growth is less than 1%/yr. on avg. in constant dollars over last decade
- ❑ Bad: With tax revenue in constant dollars flat, increased expenses have been afforded through use of one-time revenues



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Indicator #6: Personnel Costs



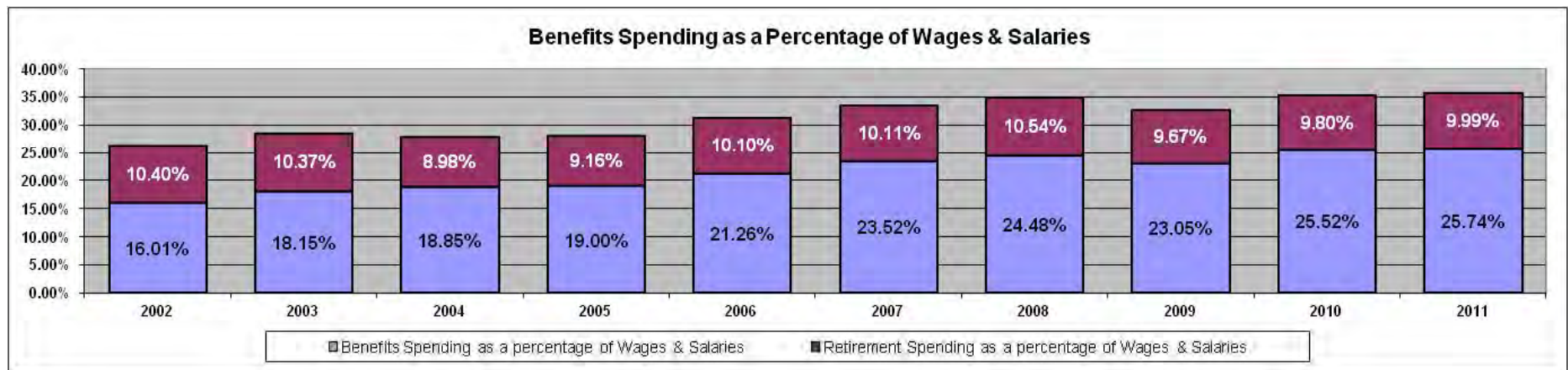
- ❑ Formula: Personnel Costs/Operating Expenditures
- ❑ Warning: Increasing personnel costs as % of total expenses
- ❑ Natick Trend: **Marginal/Uncertain**
- ❑ Good: 2% shift to personnel over decade is predictable & manageable, albeit significant
- ❑ Bad: Cost shift to personnel = reduced resources for other expenses, services and employee retention



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Indicator #7: Employee Benefits



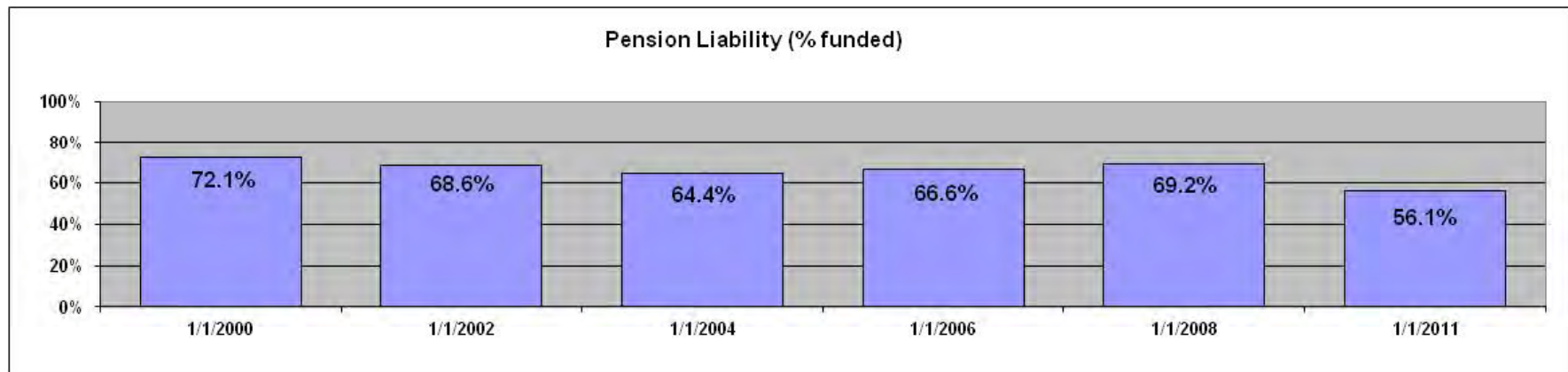
- ❑ Formula: $\text{Employee Benefits} / \text{Wages \& Salaries}$
- ❑ Warning: When benefit costs increases as a % of salaries
- ❑ Natick Trend: **Unfavorable**
- ❑ Good: Growth in this indicator is not as significant as it would have been had the Town not successfully negotiated changes in the health care plans
- ❑ Bad: Town spends nearly 115% times more on health care now than it did in 2002; this means less money available to maintain services



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Indicator #8: Pension Liability



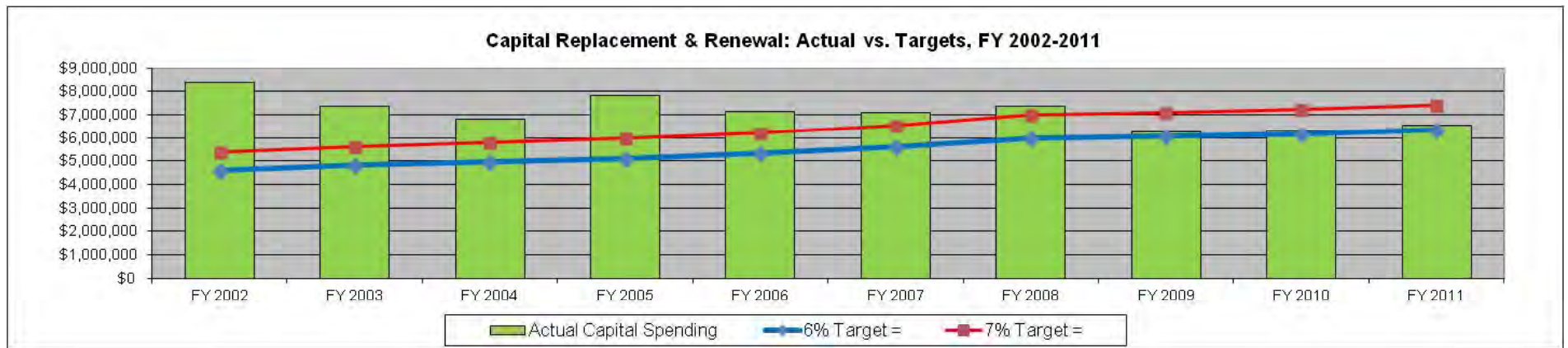
- ❑ Formula: Pension Assets / Pension Liability
- ❑ Warning: Unfunded liability OR increase in unfunded liability
- ❑ Natick Trend: **Unfavorable**
- ❑ Bad: Unfunded liability grew from 2000 to 2011; 29 years remain to fully fund system under state law. Result: Higher annual assessments (2013)



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Indicator #9: Capital Asset & Renewal



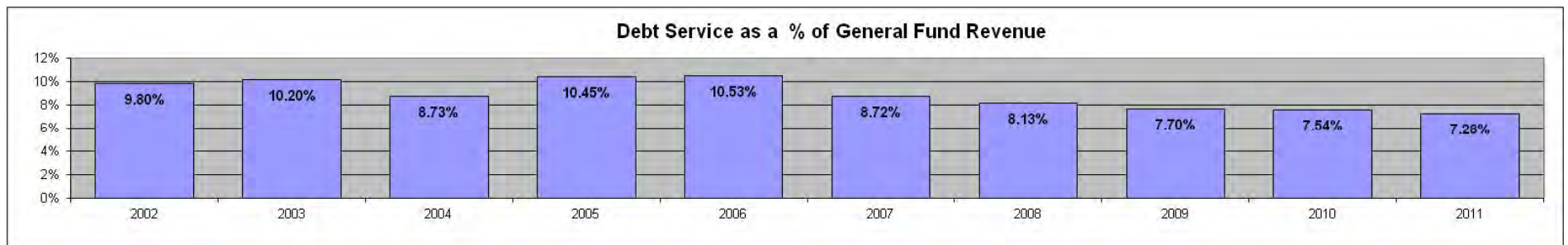
- ❑ Formula: Capital Spending vs. Recommended Targets
- ❑ Warning: When capital spending as % of revenues declines for three years
- ❑ Natick Trend: **Marginal**
- ❑ Town has kept pace with capital investment in recent years; albeit at the lowest points of the recommended targets.



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Indicator #10: Debt Service



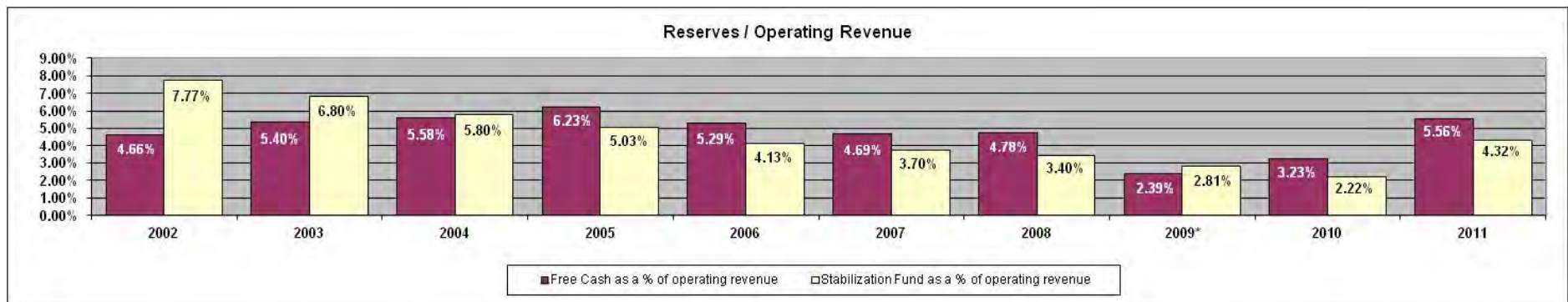
- ❑ Formula: Debt Service (including excluded debt) as % of General Fund Revenue
- ❑ Warning: Debt Service exceeds 20% of G.F. Revenue
- ❑ Natick Trend: **Favorable**
- ❑ Good: Natick average is 7.5%-10.5% of G. F. Revenue dedicated to debt service. Also low per capita and per household debt costs as well.



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Indicator #11: Reserves



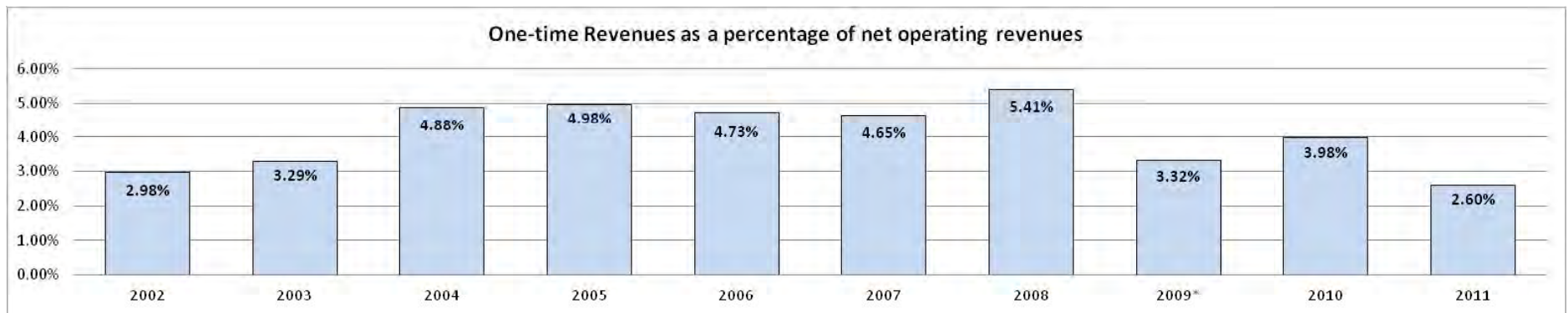
- ❑ Formula: Type of Reserve / Operating Revenues
- ❑ Warning: When reserves decline as % of operating revenues
- ❑ Natick Trend: **Marginal/Uncertain**
- ❑ Bad: Reserve levels steadily declined every year until FY 2010; rebound in FY 2010 & FY 2011 is extremely positive – but still too early to tell if it can be sustained; lack of reserves limits Natick’s ability to respond to further economic downturns and major emergencies



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Indicator #12: Use of One-Time Revenues



- ❑ Formula: One-time revenues / net operating revenues
- ❑ Warning: Increasing use of one-time revenues as % of oper. revenues
- ❑ Natick Trend: **Marginal**
- ❑ Bad: Use of one-time revenues to support operations is not sustainable; results in decreased reserves, instability in service delivery



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Indicator	FY 2009	FY 2010	FY 2011
Property Tax Revenues	Favorable/Marginal	Favorable/Marginal	Favorable/Marginal
Uncollected Taxes	Favorable	Favorable	Favorable
State Aid	Unfavorable/Uncertain	Unfavorable/Uncertain	Marginal/Uncertain
Revenues Related to Economic Growth	Favorable/Uncertain	Favorable/Uncertain	Unfavorable/Uncertain
Expenditures per Household	Marginal	Marginal	Marginal
Personnel Costs	Marginal	Marginal/Uncertain	Marginal/Uncertain
Employee Benefits	Unfavorable	Unfavorable	Unfavorable
Pension Liability	Unfavorable	Unfavorable	Unfavorable
Capital Investment	Unfavorable	Unfavorable	Marginal
Debt Service	Favorable	Favorable	Favorable
Reserves/Fund Balance	Unfavorable	Marginal/Uncertain	Marginal/Uncertain
Use of One-Time Revenues & Reserves	Unfavorable	Unfavorable	Marginal



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Remediation of Lagging Indicators

State Aid	Marginal / Uncertain	The State's allocation of aid to cities and towns is largely out of our control, however Natick's elected and appointed officials consistently lobby our elected officials on the importance of reliable, stable state aid.
Revenues Related to Economic Growth	Unfavorable/ Uncertain	These revenues are largely driven by larger economic conditions. However, Natick's position in the greater Boston and Metrowest region position us well for fairly stable economic growth.
Expenditures per Household	Marginal	Efforts to address this marginal trend will be geared toward controlling overall expenses and, effectively, living within our means, i.e. balancing the budget using only recurring revenues.



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Remediation of Lagging Indicators

Personnel Costs	Marginal / Uncertain	The key to reversing this unfavorable is to control health care costs and, to a lesser extent, pension spending. Changes in the Town's health care programs are a matter of collective bargaining with the Town's 16 unions. Reducing pension costs are even more challenging, given governing state laws. However, we continue to evaluate opportunities and benefits for investing local pension funds in the state pension system.
Employee Benefits	Unfavorable	Same answer as above.
Pension Liability	Unfavorable	Same answer as above.



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Remediation of Lagging Indicators

Capital Investment	Marginal	Significant investment in our capital has been achieved at the last two Town Meetings and with the creation of the Capital Stabilization Fund as a permanent funding source for capital and debt service related purposes. Further efforts, including completion of an evaluation of long term capital needs and a continued commitment to this effort should help turn this trend to a more favorable outlook.
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Remediation of Lagging Indicators

Reserves/Fund Balance	Marginal/ Uncertain	There has been a concerted effort to not use funds from one-time sources to support ongoing operations over the last several years. No funds have been used from the General Stabilization Fund to support ongoing operations in several fiscal years, and the town has aggressively pursued restoration of reserves through the creation of a portfolio of reserves. These efforts must continue.
Use of One-Time Revenues & Reserves	Marginal	Same answer as above.



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Three-Year Projections



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Three-Year Projections

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Revenues	117,223,379	115,957,385	119,196,442
Expenses	117,223,379	118,831,060	124,196,924
Balance	0	-2,873,674	-5,000,482



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FY 2013 Budget Policy Issues

- 1. Health Care Concessions
- 2. Collective Bargaining Agreements
- 3. Continued implementation of Town's Financial Management Principles
 - Adequately funding capital needs
 - Reduced reliance on one-time revenues & reserves to fund recurring operations
- 4. Continued exploration and implementation of cost containment measures
 - Coordinated delivery or sharing of services with neighboring communities
 - Reorganization of departmental operations



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Home of Champions

Thank You!



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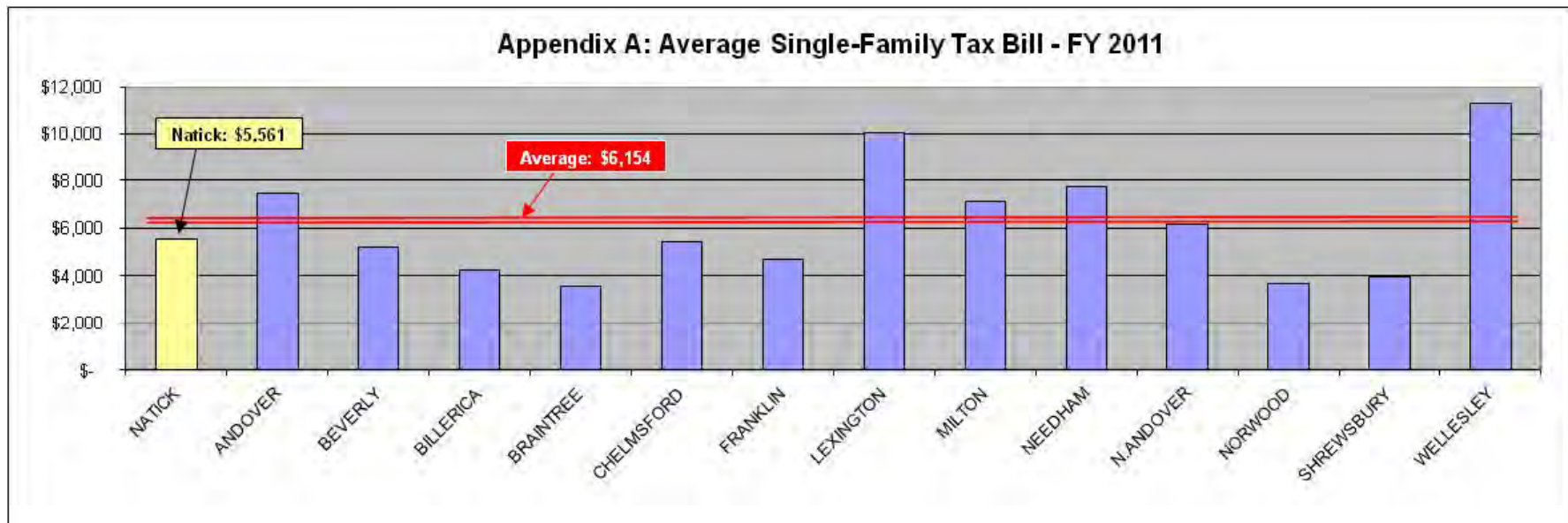
Extra Slides



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Appendix A: Average Tax Bill



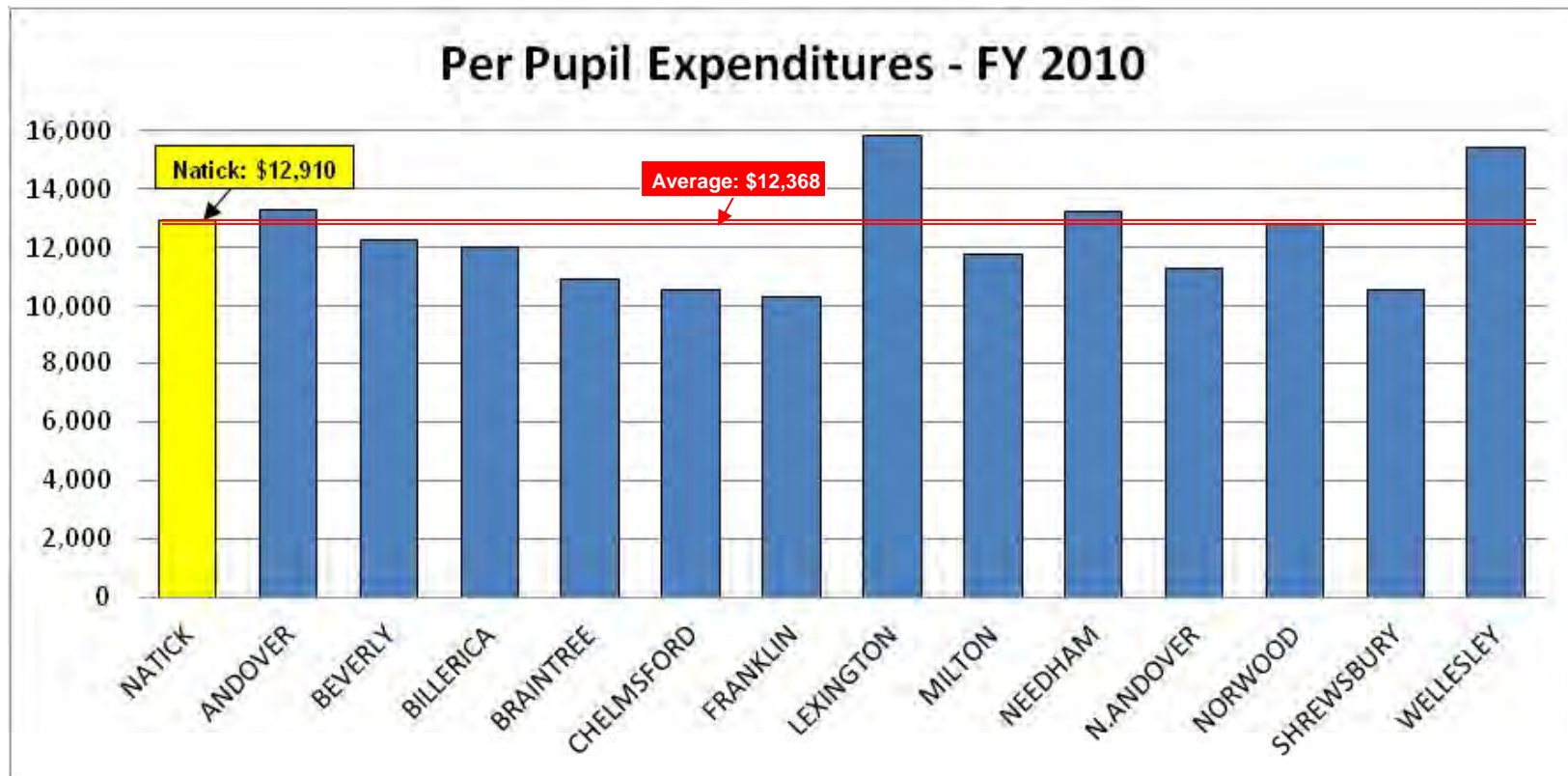
- Below average for comparable communities
- FY 2011 Average Increase: Natick \$279, Overall: \$252



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Appendix B: Per Pupil Expenditure

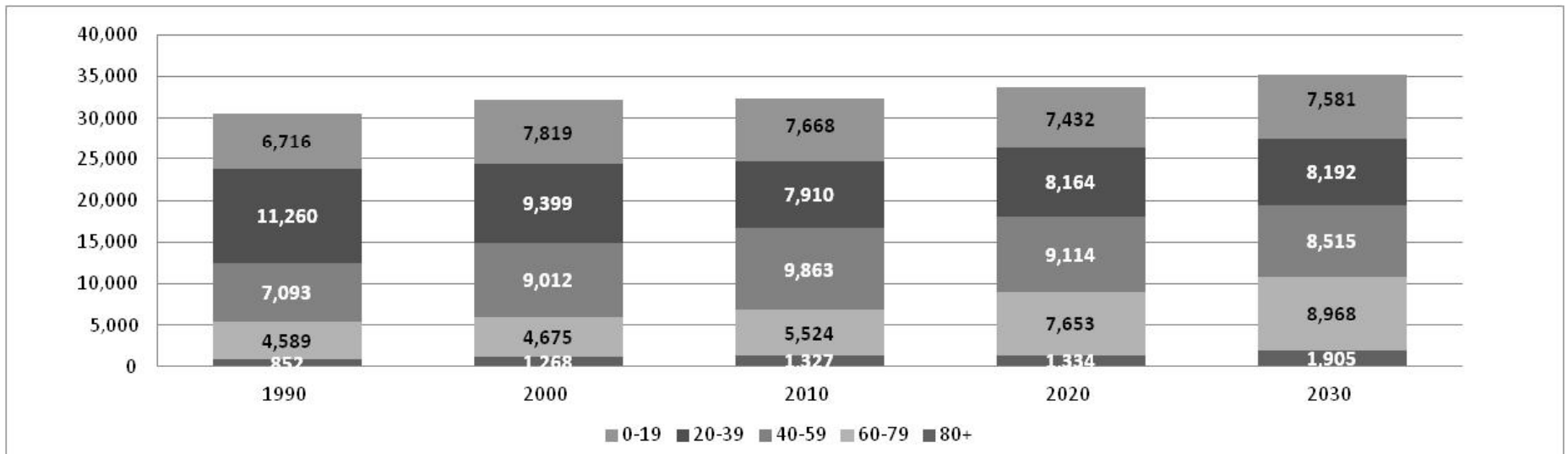




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Appendix C: Population Projections



Age	1990	2000	2010	2020	2030	2035	Percent Change 2010 to 2035
0-19	6,716	7,819	7,668	7,432	7,581	7,737	0.90%
20-39	11,260	9,399	7,910	8,164	8,192	8,168	3.26%
40-59	7,093	9,012	9,863	9,114	8,515	8,388	-14.96%
60-79	4,589	4,675	5,524	7,653	8,968	9,571	73.27%
80+	852	1,268	1,327	1,334	1,905	2,200	65.73%
Total	30,510	32,173	32,292	33,698	35,161	36,063	11.68%



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Appendix D: OPEB

OPEB Liability Growth as a result of GASB 45

FY 2011

For FY 2011, the actuarial study has estimated that our total cost is: <i>(this is a cumulation of both the normal cost of care plus the amount we need to pay to "catch-up" to make sure the liability is paid down in 30 years)</i>	\$ 27,007,851
Less our current contributions:	\$ (3,704,594)
Total FY 2011 Year-end Outstanding Liability for OPEB:	\$ 23,303,257

FY 2012

Beginning Outstanding Liability (from FY 2011):	\$ 23,303,257
FY 2012 estimated total cost:	\$ 11,552,723
Less our current contributions:	\$ (3,808,433)
Total FY 2012 Year-end Outstanding Liability for OPEB:	\$ 31,047,547

and so on...



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Appendix E: FY 2013 Budget Schedule

August 2011

Capital

September 2011

Capital Update Submitted September 1st

October 2011

★ Operating Budget Development (Internal Schools & Municipal) Late October
 ★ Summit - Discuss Financial Indicators & Long-Term Projections October 17th
 ★ 2011 Fall Town Meeting Begins October 18th

November 2011

Operating Budget Development (Internal Schools & Municipal) All November
 BOS - Review of Budget Goals & Objectives November Meetings

December 2011

Operating Budget Refinement (Internal Schools & Municipal) All December
 BOS - Review of Budget Goals & Objectives December Meetings
 SC - Superintendent's Presentation of School Budget Early December

January 2012

Submittal of FY 2012 Administrator's Proposed Budget to BOS & FC **January 1st**
 Finance Committee Public Hearings on Budget All January
 BOS - Review of Budget

February 2012

BOS - Review of Budget February
 SC- Public Hearings on Budget February
 Finance Committee Public Hearings on Budget All February

March 2012

Finance Committee Public Hearings on Budget to March 20
 Preparation of March 20-27
 Municipal Election Late March

April - May 2012

Town Meeting April-May

July 2012

Start of FY 2013 July 1