

Town of Framingham

FY15~FY19 Long Range Financial Forecast



Choices Today = Results Tomorrow

Office of the Chief Financial Officer

Executive Summary

“The goal of forecasting is not to predict the future but to tell what you need to know to take meaningful action in the present.”

The purpose of a Long Range Forecast is to provide Administrators, Committees, Town Meeting, and Taxpayers with important data regarding the finances of the Town. This particular document concerns the General Fund only; there is an additional report that provides a five year forecast of the two enterprise funds (Water and Sewer). This year the Long Range Forecast is significantly different than the past reports. Prior reports included estimated future revenue and expenditures based on one set of existing circumstances. This year several different scenarios are estimated and the overall effect on the bottom line is presented in a summary form with details attached as exhibits at the end.

Through out all scenarios presented in this report, the debt service on borrowing is kept within the 5% policy limit. This means that a significant amount of capital investment within the General Fund would not be authorized. This is beyond the usual level of deferral that is recommended and Town Meeting approves. The majority of road, storm water, technology and school repairs and equipment would be deferred and the Town would fall further behind in the required upkeep of Town assets. This is because two major school projects are planned for FY16 (\$48 million) and FY18 (\$20 million). Even with state funding for a portion of these projects, they are of such magnitude that they do not fit within the debt limit.

Revenue options are presented at varying tax levy limits for one year only (FY15): 2.5%, 2%, and 1.5%. The impact of reducing the levy for the one year has a five year revenue reduction of \$4.5 million (for a 2% levy) and \$9 million (for a 1.5% levy). All other revenue components are kept constant.

Expenditure options focus primarily on reducing health insurance costs and increasing funds for the OPEB liability. Health insurance spending is benchmarked as a percent of total spending. In FY14 health insurance is 14.8% of the total budget; if we can reduce that to 13% of the total budget we can save \$25 million over five years (see detailed discussion on page 5). One scenario displays increasing OPEB funding to \$2 million per year (Chart 5, page 15) and another is the combination of reducing health insurance and increasing OPEB (Chart 6, page 16).

At a 2.5% levy, a significantly reduced capital investment plan, and no other extraordinary costs, deficits are forecast for the five year term (Chart 1, page 11). It is clear that expenditures still need to be reduced and revenue sources need to be expanded and development and redevelopment encouraged. The data in this report is intended to provide some insight into the options available.

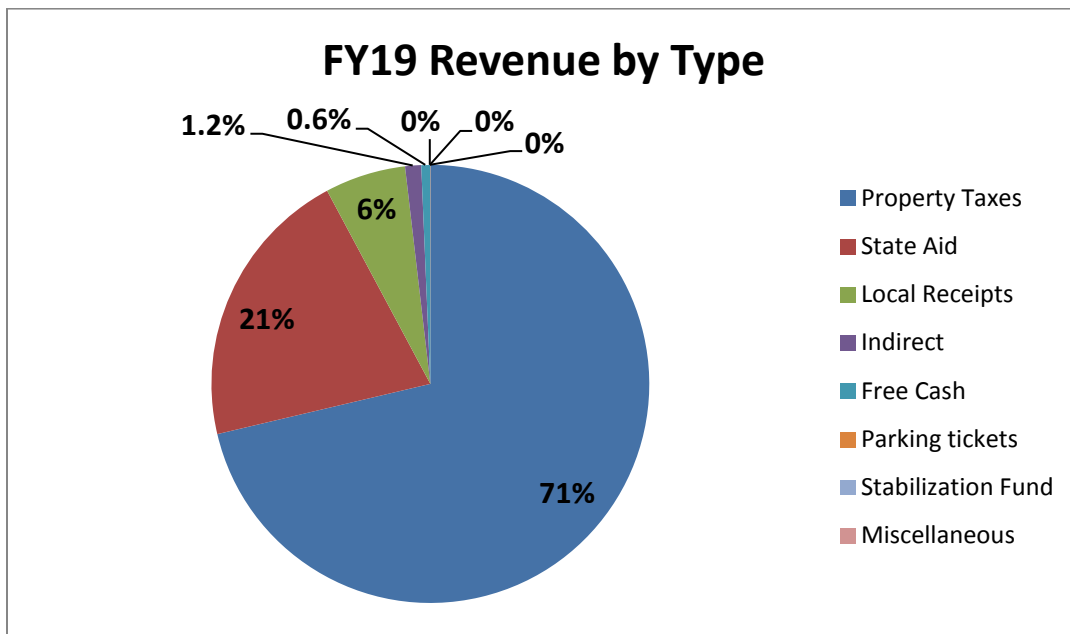
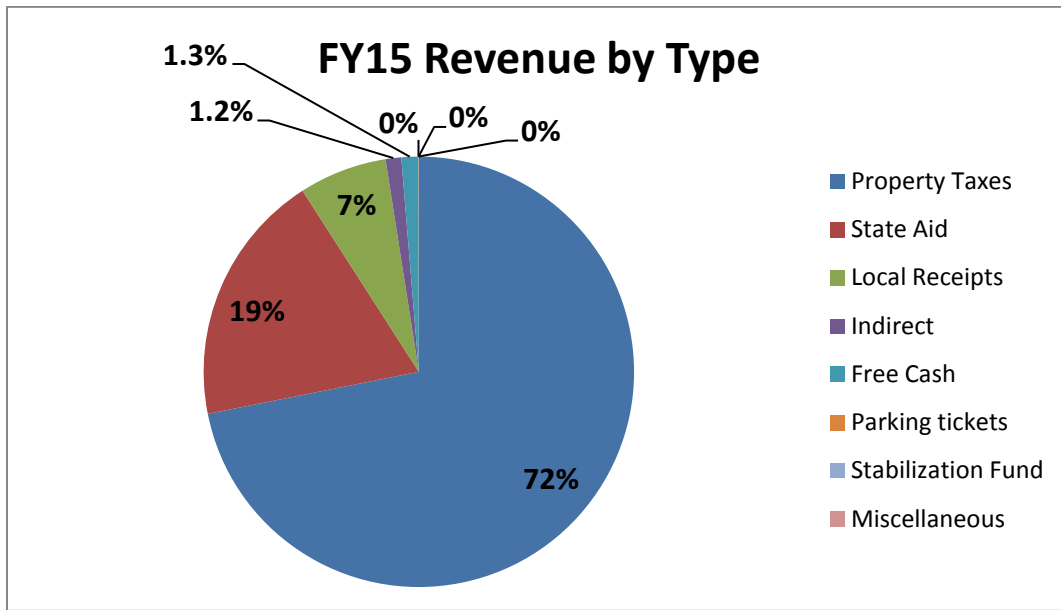
¹Saffo, P. (2007). Six Rules for Effective Forecasting. *Harvard Business Review*, 1-10.

Revenue

The revenue estimates included in this report reflect decreasing levy limits. This is the only revenue factor that is changing in the multiple scenarios provided in this report. Other revenue components such as new growth, state aid, local receipts, enterprise fund indirect revenue and free cash do not change from scenario to scenario. The details for each revenue component are described below.

In the exhibit section at the back of this report is a revenue detail sheet for all three levy scenarios. Table 1 is the full 2.5% levy; Table 2 is the 2% levy and Table 3 is the 1.5% levy.

The trend in revenue anticipates that state aid will pick up another percentage point of the total revenue by FY19 as depicted by these two pie charts:



Property Taxes

Revenue is estimated using the full 2.5% levy increase, a lower 2% increase and a 1.5% levy increase. Over all tax revenue will be reduced as shown on this chart:

Effect of a One Year Levy Reduction						
	FY15	FY16	FY17	FY18	FY19	5 Year Total
2.5% Levy	\$176,881,272	\$182,305,406	\$187,935,291	\$193,770,258	\$199,807,928	\$940,700,154
2% levy (FY15 only)	\$176,022,921	\$181,425,596	\$187,033,486	\$192,845,908	\$198,860,469	\$936,188,380
Revenue Difference	(\$858,351)	(\$879,810)	(\$901,805)	(\$924,350)	(\$947,459)	(\$4,511,774)
1.5% levy (FY15 only)	\$175,164,570	\$180,545,787	\$186,131,681	\$191,921,558	\$197,913,010	\$931,676,606
Revenue Difference	(\$1,716,702)	(\$1,759,619)	(\$1,803,610)	(\$1,848,700)	(\$1,894,917)	(\$9,023,547)

The decrease in the average single family tax bill for a 2% levy would be approximately \$26. The decrease in the average single tax bill for a 1.5% levy would be approximately \$56.

New Growth in Property Taxes

“New Growth” is the term for increased tax revenue from new development. There are a number of development and redevelopment projects underway, including large ones at TJX, Genzyme, Pennsylvania Ave, Danforth Green and most recently the old Breyers property. The new growth projections anticipate some of that productivity as new tax revenue. Until the finalized projects are valued, however, these are just rough estimates. The range in revenue is \$919,360 in FY15 to \$1,193,414 in FY19. To generate this amount of revenue the increase in property value would range from \$23 to \$30 million.

State Aid

Total state aid is estimated to grow by 4.6% to 6.1% from FY15 to FY19. Growth rates of the individual state aid components are listed in the revenue detail sheet, Table 1, in the exhibits section of this report. Note that the state reimbursement for school debt service decreases by 15% in FY16. Chapter 70 aid has been increasing by large amounts due to a phased in formula adjustment. This adjustment is expected to end for FY15 when growth rates drop to 7% per year. Unrestricted General Government Aid, growth of which has been paltry to non-existent until FY14, is expected to continue to grow slowly for FY15 and FY16 and then at 4% thereafter.

Local Receipts

Local receipts are fees, user charges, local taxes, rent, investment income and fines created and/or controlled by the municipality. The Town collects three taxes: motor vehicle excise, 6% room tax and .75% meals tax. Excise tax has rebounded due to the recovery automobile market. Room and meals taxes are expected to grow slightly as well. Overall local receipts are projected to increase by a little over 2% in FY15 and FY16. The elimination of rental income from the Farley School will cause local receipts to decrease by 3% in FY18. The detail growth rates are included on Table 1 in the exhibits section of this report.

Free Cash

Free cash is the amount of money left over and unrestricted in the General Fund at the end of the fiscal year. The long term plan for free cash is to eliminate its use in the operating budget and to designate 60% of it for the Stabilization Fund, Capital, and OPEB Liability; as described in the table below:

	FY14	%	FY15	%	FY16	%	FY17	%	FY18	%	FY19
Certified Free Cash	\$3,265,650	-1%	\$4,500,000	38%	\$2,800,000	-38%	\$2,800,000	0.0%	\$2,800,000	0%	\$2,800,000
Operating	\$1,300,000	-13%	\$1,100,000	-15%	\$900,000	-18%	\$700,000	-22%	500,000	-29%	300,000
Capital (20%)	\$393,130	8%	\$680,000	73%	\$380,000	-44%	\$420,000	11%	\$460,000	10%	\$500,000
Stabilization (25%)	\$589,695	-19%	\$850,000	44%	\$475,000	-44%	\$525,000	11%	\$575,000	10%	\$625,000
OPEB Trust (15%)	\$196,565	100%	\$510,000	159%	\$285,000	-44%	\$315,000	11%	\$345,000	10%	\$375,000
Total Allocated	\$2,479,390	-4%	\$3,140,000	27%	\$2,040,000	-35%	\$1,960,000	-4%	\$1,880,000	-4%	\$1,800,000

Enterprise Indirect Charges

State regulation allows a municipality to charge other funds for the overhead costs to manage the programs and the finances of the specific fund. The charges must be proportional to the level of effort spent by staff and managers and the direct costs of overhead expenses. This revenue source ranges from \$2.8 million to \$3.3 million with a growth rate of 3-4%.

Estimated Expenditures

Generally expenditures are forecast based on existing services and programs. No new programs or additional staff is added. Personnel costs for increased by 3-4% per year depending upon the salary schedules and collective bargaining increases. This assumes only a 1% COLA in future years. Operating costs are projected at 2-6% growth depending upon the cost type. Special Education costs, roadway supplies and roadway salt, for example, increase at higher percentages (4-6%). Energy costs are still forecast at 3% growth; the potential for savings from any energy services contracts are not included.

This forecast focuses on three cost components and forecasts several options for attention: the limits of debt service in relation to several large capital projects; reducing the cost of health insurance; and increasing investment in the OPEB Trust to reduce our unfunded liability. These ideas are described below.

Debt Service is restricted to 5% of the Operating Budget

Debt service is the annual cost of paying for borrowing for capital projects. Capital project capacity is limited to incurring debt service at or below the 5% policy limit that was created in FY02. In two fiscal years, FY16 and FY19, there are two extraordinary projects that take up almost the entire capital project budget. The Fuller/Farley School replacement project is \$48 million in FY16 while a \$20 million unspecified project is scheduled for FY19. Both of these projects assume 40% MSBA funding, reducing the amounts to borrow by \$20 million and \$8 million respectively. The significant restriction on the ability to keep up with capital maintenance and replacement on every other capital project, including the roadway management plan, maintenance and repair of other school buildings, storm water repairs and improvements, municipal equipment, park maintenance and recreation facility upkeep, is reflected in the following chart.

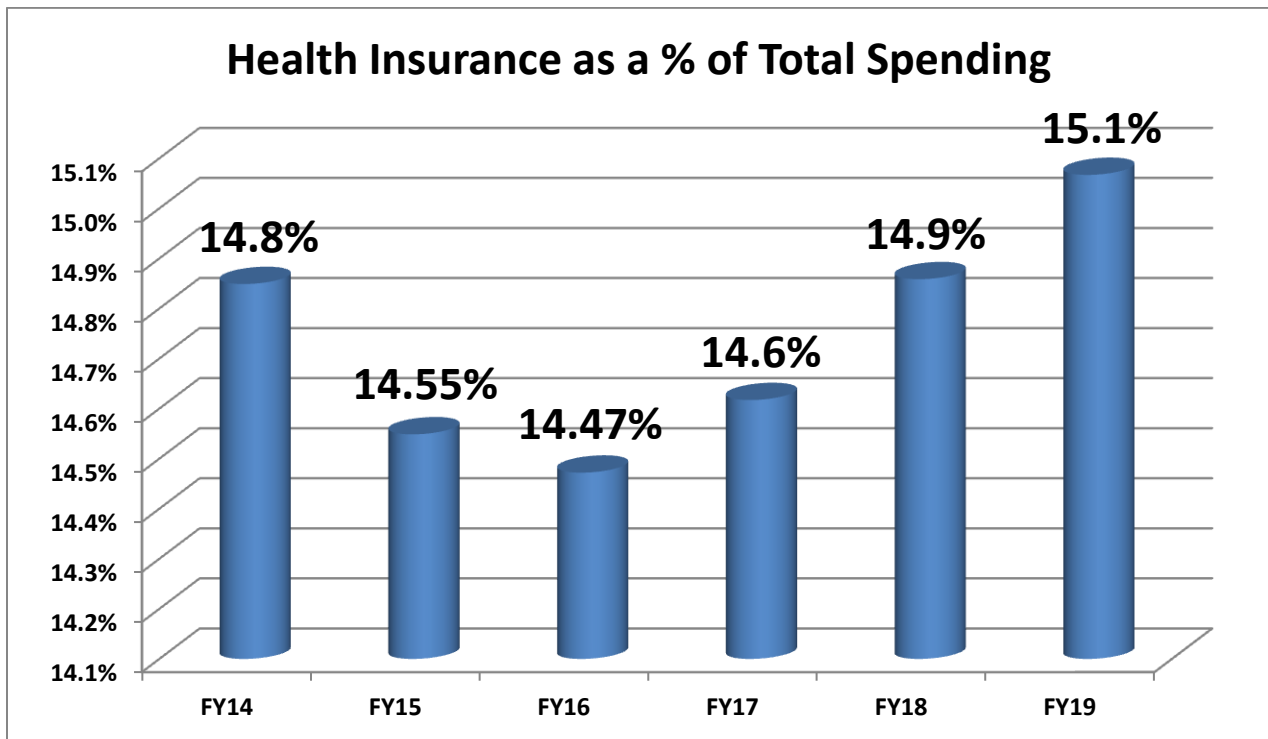
Capital Impact of Maintaining 5% Debt Service limit FY15 to FY19 General Fund						
	FY15	FY16*	FY17	FY18	FY19*	5 Year Total
GF Capital Plan	\$22,451,101	\$67,256,310	\$19,586,268	\$30,266,578	\$32,533,706	\$172,093,963
Available Under 5% Debt Service Cap	\$14,400,570	\$37,529,860	\$8,648,574	\$13,789,965	\$19,164,009	\$93,532,978
Need to Defer	\$8,050,531	\$29,726,450	\$10,937,694	\$16,476,613	\$13,369,697	\$78,560,985
% Available	36%	44%	56%	54%	41%	46%
Average Approval Rate	70%	70%	70%	70%	70%	70%
Average Deferral	\$6,735,330	\$20,176,893	\$5,875,880	\$9,079,973	\$9,760,112	\$51,628,189
Lost Capital Maint/ Investment	(\$1,315,201)	(\$9,549,557)	(\$5,061,814)	(\$7,396,640)	(\$3,609,585)	(\$26,932,796)

* includes \$48 million and \$20 million for two school projects that would be bonded for \$28 million and \$12 million assuming MSBA funding of 41%.

It is clear that, like the High School project, these major School building contraction projects should be considered for financing outside the debt limit via debt exclusion. A debt exclusion authorization requires both the vote of Town Meeting and a Town-wide ballot vote.

Health Insurance

The Town’s cost of health insurance has long been an area of concern. One metric for benchmarking health insurance costs is its percent of the total operating budget. The FY14 ratio is 14.8%. If we do nothing to curb the cost of health insurance, the cost will increase to over 15% of the budget in five years.



Cost reduction comes not just from changes in employee/employer contributions. In fact overall savings can be greater from changes in health plans (“plan design”) that encourage more cost

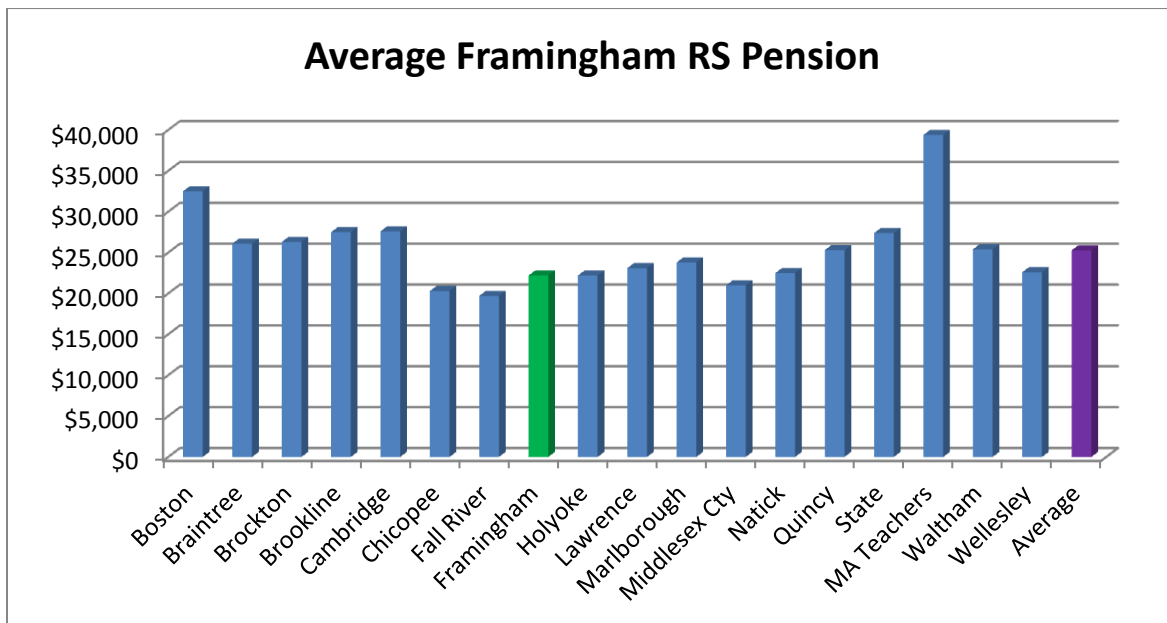
effective choices and from maximizing health cost subsidies. If the costs of health insurance were to be reduced to 13% of the total budget it could save more than \$25 million over 5 years. In order to save that kind of money we need to take advantage of ALL the cost reduction resources we have available.

Health Insurance Spending Reduced to 13% of Total Budget						
	FY15	FY16	FY17	FY18	FY19	5 Year Total
No change in Benefits or Contribution Rates	\$35,860,845	\$36,936,670	\$39,152,870	\$41,502,043	\$43,992,165	\$197,444,593
Spending at 13%	\$31,757,691	\$32,488,118	\$34,112,524	\$35,818,150	\$37,537,421	\$171,713,904
Cost Reduction	\$4,103,154	\$4,448,552	\$5,040,347	\$5,683,893	\$6,454,744	\$25,730,689

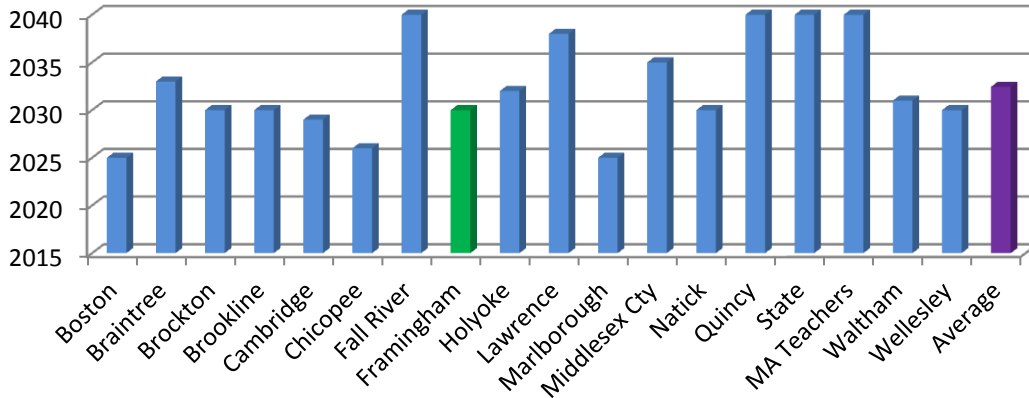
Retirement Costs

Pensions

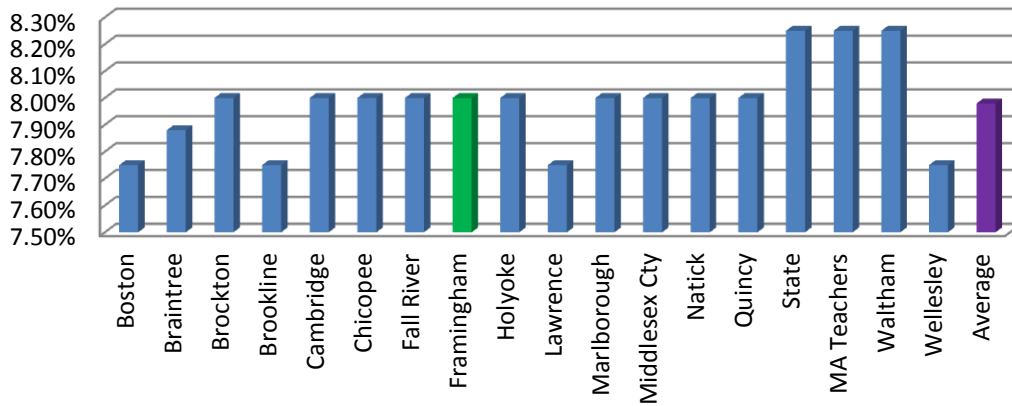
The Town pension fund contribution is increasing 5% per year based on the recently funding schedule. Investment return recovery has been fairly aggressive allowing the Retirement Board to adopt a funding schedule that maintains the current date for achieving full funding (2030). By keeping the funding schedule at the 2030 full funding timeline the Framingham Retirement System saves \$4.6 million in interest costs. Accordingly the Town of Framingham saves 96.13% of that. This forecast simply holds to that schedule. The next valuation is scheduled for January of 2014. At that point we expect to see the results of the fund recovery from the loss of 2008. In the 28 year history of the Framingham Pension fund (through 2012) the actual rate of return is 9.35%. The graphs below highlight some interesting facts related to Framingham’s Retirement System.



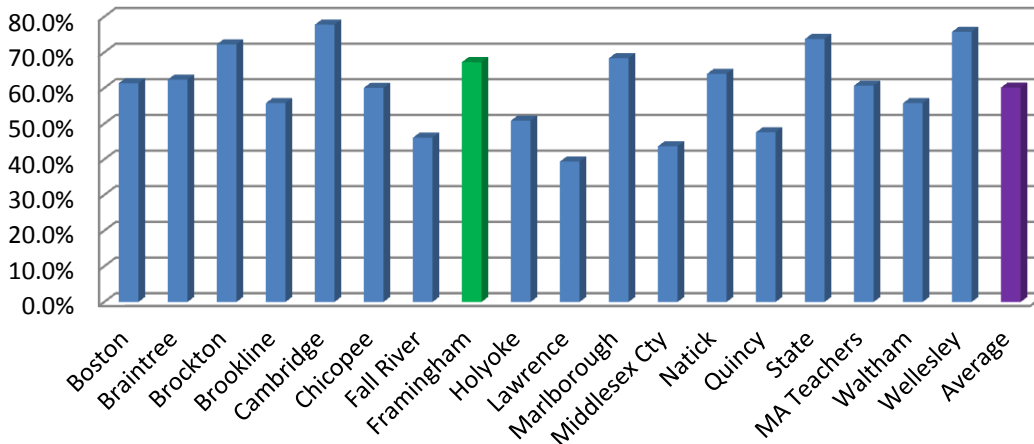
FRS Year Fully Funded



FRS Assumed Rate of Return

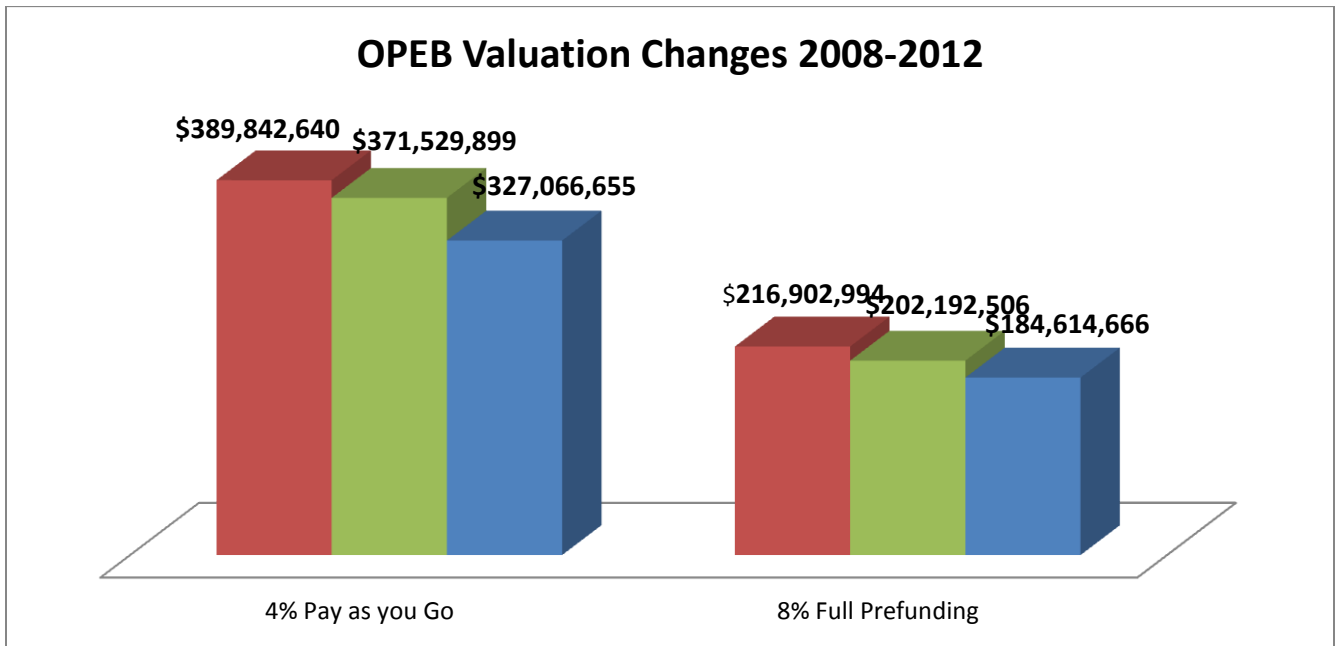


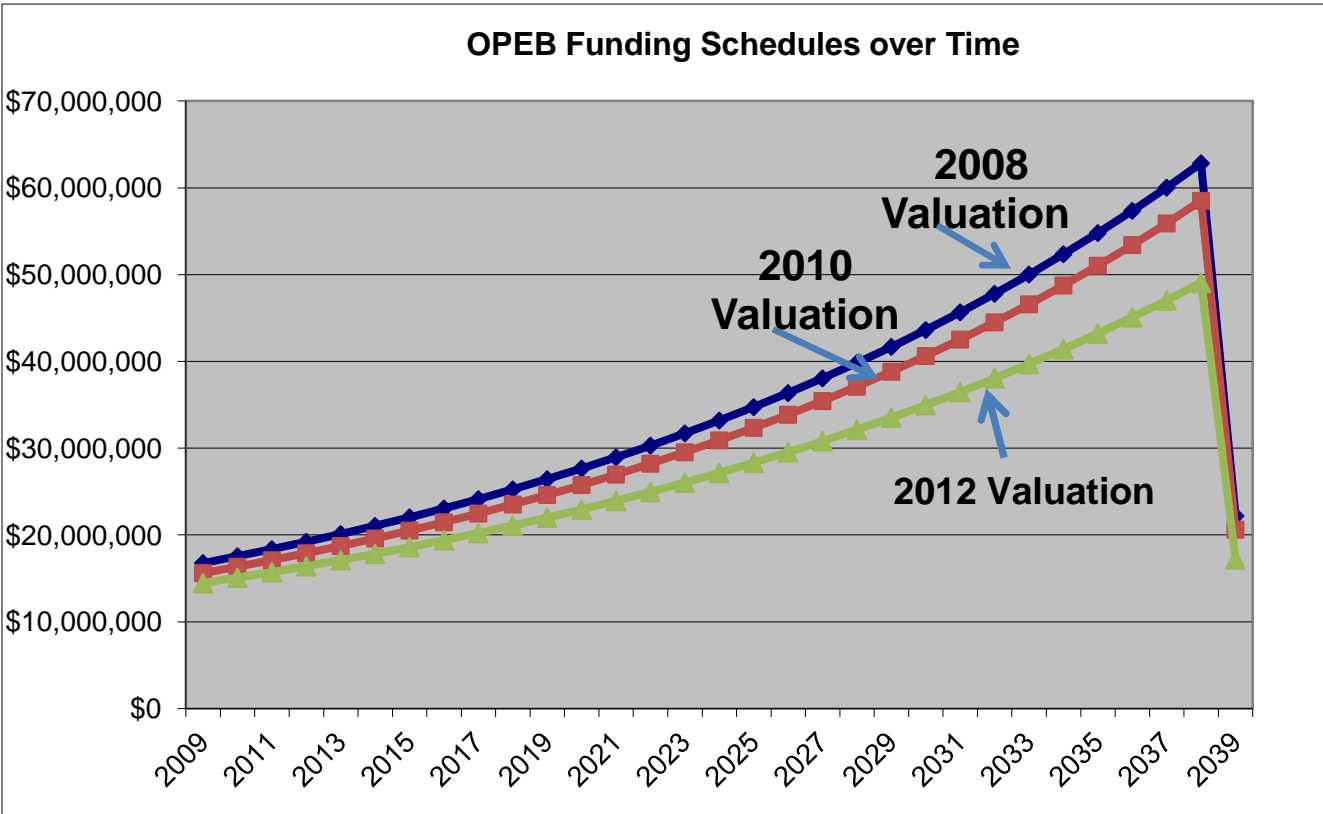
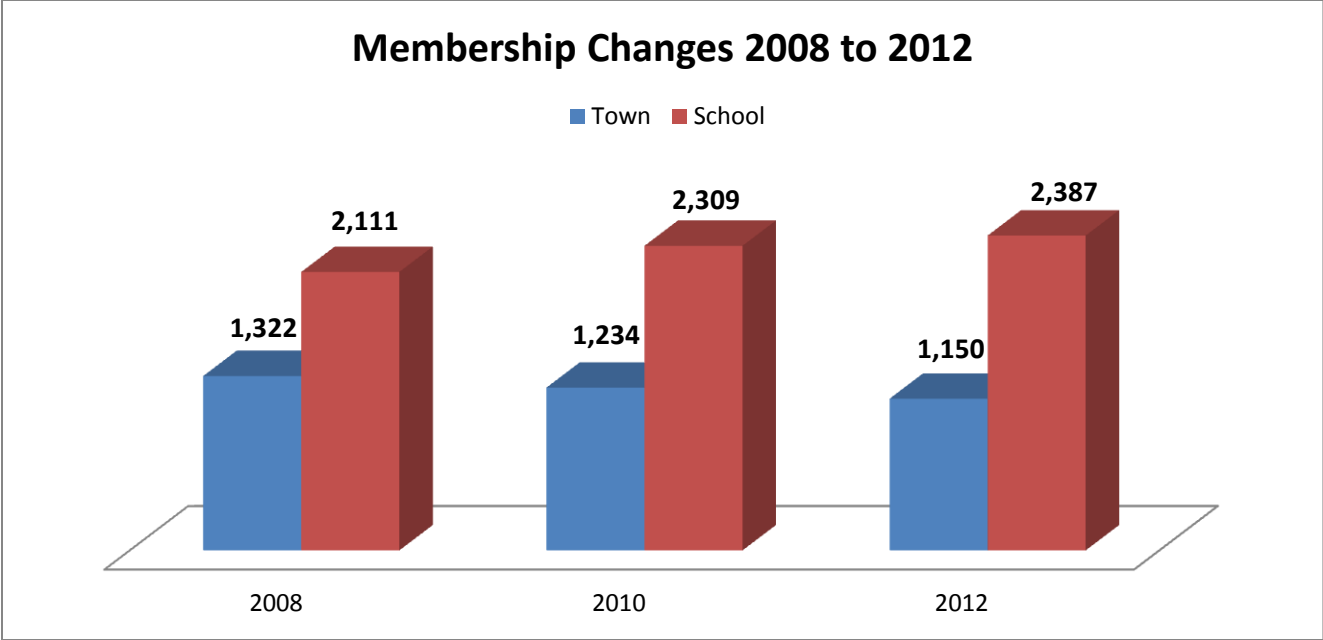
FRS Current % Funded



Other Post Employment Benefits (OPEB)

OPEB is the future benefit cost of current and future retirees. OPEB is currently an unfunded liability, but it is not required by law to be funded. This liability must be recorded on the financial statements of the Town, which it has since 2008. A substantial number of communities have begun funding this cost, either in whole or in part. For FY13, Town Meeting voted to create an irrevocable trust fund to invest OPEB contributions. Contributions to the trust were \$1.5 million in FY13 and \$700,565 in FY14. During the term of this forecast the total annual contribution would be \$15 to \$18.6 million. However, any amount we contribute now before we are mandated reduces the overall liability for this future cost. In addition to making contributions to the trust, another way to reduce the liability is to reduce the cost of and Town obligation for health insurance now. Refer back to the section on health insurance and carry that idea to the OPEB liability; you can see how important and effective a reduction in health insurance cost is. The latest OPEB liability valuation was issued as of July 1, 2012. A significant reduction in the liability was achieved due to the recent efforts to reduce health insurance costs. The graphs below illustrate:





This forecast includes a scenario that increases the contribution to the OPEB trust to \$2,000,000 annually; a combination of free cash and General Fund revenues (exhibits Chart 5 on page 15). It also includes a scenario that reduces health insurance to 13% of the total budget AND the increase in OPEB (exhibits Chart 6 on page 16).



Exhibits

Long Range Forecast Summaries: Charts 1-6..... Page 11-16

Revenue Detail: Tables 1-3..... Pages 17-19

Expenditure Detail: Table 4..... Pages 20-21