

Town of Acton
Observations/Comments on the
“FINCOM FY18 POV”

11/7/16

FINCOM FY18 POV

Contains specific recommendations on:

A - Reserve Policy

B - FY18 Spending (Budget) Increases

C - Maintaining Untaxed levy capacity

D - FY18 reserve use = \$1.6m

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A - FINCOM Recommendation on Reserve Policy – 3 major points

“Formal” policy requested

Range = between \$1.6m and \$2.7m

“Excess” used for near term capital needs

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A - FINCOM Recommendation on
“Reserve Policy”

FINCOM RANGE CALCULATION

Ceiling = 3% of “Total Spending”

FY17 Total spending = \$89,201,356

POV Ceiling = (\$89.2m * .03) = \$2,676,000

Floor = 5% of “Municipal Spending”

FY17 Town spending = \$32,656,604

POV Floor = (\$32.7m * .05) = \$1,635,000

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Current Town Reserve Policy

“Informal” policy which allows Town to maintain maximum flexibility

Actual Town Reserves @ 6-30-16:

Free Cash - \$4.9m**

Stabilization - \$2.0m

Subtotal - \$6.9m

**Approx. \$1m free cash spent @ 10/5/16 STM not included above

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Staff Comment(s) on “Reserve Policy”

- 1) We agree a “formal policy” or “guideline” may assist the Community in financial planning

- 2) We think the FINCOM POV “Floor” and “Ceiling” formula’s are too low for Acton and should be increased

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Staff Comment(s) on “Reserve Policy”

2) Staff recommends a 8% Ceiling and 3% Floor for the reserve ranges:

$$\text{Ceiling} = (\$89.2\text{m} * 8\%) = \$7.1\text{m}$$

$$\text{Floor} = (\$89.2\text{m} * 3\%) = \$2.7\text{m}$$

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Staff Comment(s) on “Reserve Policy”

	POV	Town
<u>Range</u>	<u>FINCOM</u>	<u>Staff</u>
Ceiling	\$2.7m	\$7.1m
Floor	\$1.6m	\$2.7m

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Staff Comment(s) on “Reserve Policy”

- **Town’s reserve policy ultimately is reflected in our “AAA bond rating”**
- **AAA bond rating translates into the Town or ABRSD “cost of borrowing”**
- **For every $\frac{1}{4}$ of 1% shift in “cost to borrow” on \$50m project over 25 years = \$1.6m in savings**

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Staff Comment(s) on “Reserve Policy”

3) We need clarification from FINCOM on what happens when reserves hit “floor”?

- Why do we need a “floor”?
- Reserves should be replenished?
- Do spending cuts occur?

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B- FINCOM Recommendation on FY18 Budget Increase

No more than 3.3%

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B- FINCOM Recommendation on FY18 Budget Increase

Annual ALG Plan spending allocation(s)**

	<u>Town</u>	<u>ABRSD</u>
FY16	2.0%	7.0%
FY17	2.2%	4.5%
FY18	3.5%	4.7%
FY19	<u>3.5%</u>	<u>4.7%</u>
(4) Yr average	<u>2.8%</u>	<u>5.2%</u>

** Does not reflect any supplemental appropriation authorizations

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Staff Comment(s) on “FY18 Budget Increase”

- 1) We can work to craft an FY18 Operating Budget with an increase of 3.3%
- 2) Given FY18 financial impact of Senior Center lease and Ambulance Subsidy necessary this will be very challenging

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Staff Comment(s) on “FY18 Budget Increase”

- 3) Any Municipal capital will require more than a 3.3% increase
- 4) Option(s) include a long-term bond or accessing reserves/other accounts for one-time capital

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C - FINCOM Recommendation on Maintaining Untaxed Levy Capacity

No need to use previously untaxed levy capacity of \$985k

Municipal View on Maintaining Untaxed Levy Capacity

Current ALG plan reports a \$767k deficit for FY18 while taxing to the full extent of Proposition 2.5. This proposal will add \$985k to the FY18 deficit.

Staff would recommend that in order to provide all Municipal and Educational services, the Town should levy in accordance with Proposition 2 1/2 and tax to the full extent allowed.

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D - FINCOM Recommendation on Maintaining FY18 Reserve use at \$1.6m

Allocate \$1.6m in free cash to budgeted spending

Reserves in excess of ceiling should be used for near term capital

Municipal View on Maintaining FY18 Reserve use at \$1.6m

Town has over \$2.0m identified as short term building infrastructure repairs/upgrades deemed as Priority 1 needs per LLB Facility Study

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What happens in FY18 if we implement FINCOM POV?

FY18 Revenue:

Lowered by \$985k untaxed levy capacity

FY18 Expenses:

Town cut from 3.5% to 3.3% = \$ 65k cut

ABRSD cut from 4.7% to 3.84% = \$ 478k cut

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Effect of FINCOM POV on FY18 ALG Plan:

Current deficit	(\$767k)
POV – revenue loss	(\$985k)
POV – Town expense cut	\$ 65k
POV – ABRSD expense cut	<u>\$478k</u>
New Deficit	<u>(\$1.2m)</u>

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	Current	ALG Plan adapted From FY18 FINCOM POV
	ALG Plan	
<u>ALG Plan Metric</u>	<u>Oct. 2016</u>	<u>Oct. 2016</u>
Untaxed Levy Capacity	\$0	\$985,000
Reserve Use	\$1,600,000	\$1,600,000
FY18 Municipal Spending %	3.50%	3.30%
FY18 ABRSD Spending %	4.70%	3.84%
Net Position	(\$767,154)	(\$1,209,136)
% change in SF Tax Bill	4.71%	3.49%

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Things for the BOS to consider?

- 1) Consider Reserve Policy “Floor” & “Ceiling”
- 2) Consider need for “floor”
- 3) Clarification from FINCOM of reserve policy “floor” ramifications?
- 4) Direct Town Manager to construct FY18 Operating Budget at 3.3%

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How could a \$1.2m deficit be resolved?

- 1) Increase reserve use from \$1.6m
- 2) Lower untaxed levy capacity from \$985k
- 3) Cut entity spending below 3.3%
- 4) Combination of any of the above