Town of Acton Massachusetts

Finance Committee Point-of-View for FY18 [DRAFT]

Fall 2016

Agenda

- **Town financial status**
- Concerns
- Recommendations
  - New Finance Committee reserve policy
  - Recommendations for FY18
  - Key conclusions

The Town's Financial Status Is Solid

- Standard & Poor's rated Acton AAA
  - Very strong economy
  - Strong management, with good financial policies and practices
    - Strong budgetary performance, repeated operating surpluses
  - Very strong budgetary flexibility
  - Very strong liquidity
  - Very strong debt and contingent liability position, value
    - Current debt to be fully retired by 2030

Economic Indicators

- Median family income is $149,882, 40% higher than Middlesex County and 73% higher than the state median
- Median value of owner occupied housing unit is $502,000, 24% above Middlesex County and 53% above the statewide number
- Unemployment is down to 3.2% from 4.5% in 2012, 1.4% points better than the state
- Acton has largely recovered from the Great Recession

Continuing Budget Surpluses

	Town of Acton		Surplus/(Deficit)	
Fiscal Year	**Revenue**	**Expenditure**	**Actual**	**Budget**
2016 P		$ 86,023,000		
2015	$ 83,337,915	$ 81,817,479	$ 1,520,436	-2,290,000
2014	$ 85,794,512	$ 83,826,570	$ 1,967,942	-1,838,000
2013	$ 83,248,530	$ 80,051,768	$ 3,196,762	-1,701,000
2012	$ 79,767,576	$ 78,502,308	$ 1,265,268	-2,001,000
2011	$ 77,725,090	$ 75,314,070	$ 2,411,020	-2,219,000
Average				
Ann. % Change				
2011-2016	1.8%	2.8%		
Source Mass Department of Revenue				
Includes Acton's share of School Revenues and Expenditures				

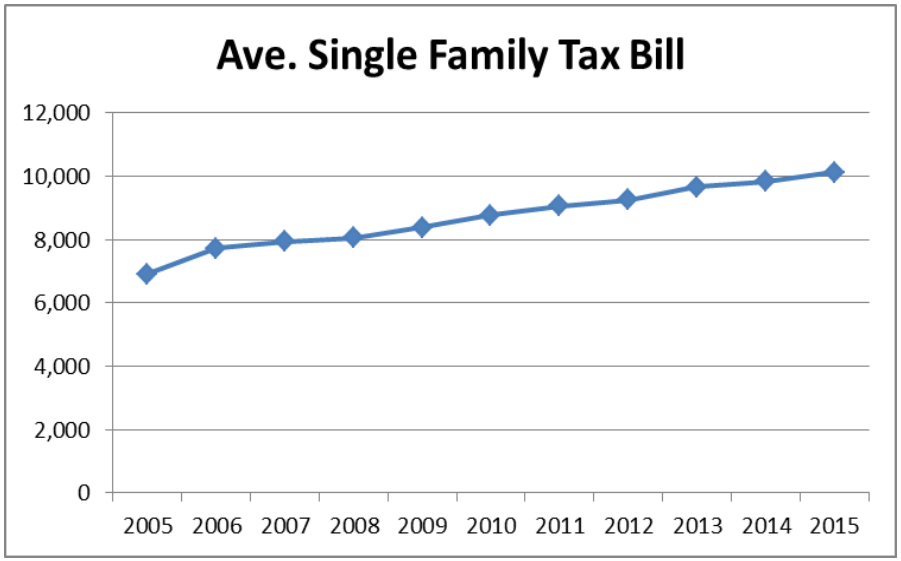
- Although the Town often uses substantial reserves to plug deficits in forecasted operating budgets, it frequently closes out the year with substantial surpluses.
- This is due in part from state regulations which do not allow for a completely accurate revenue forecast

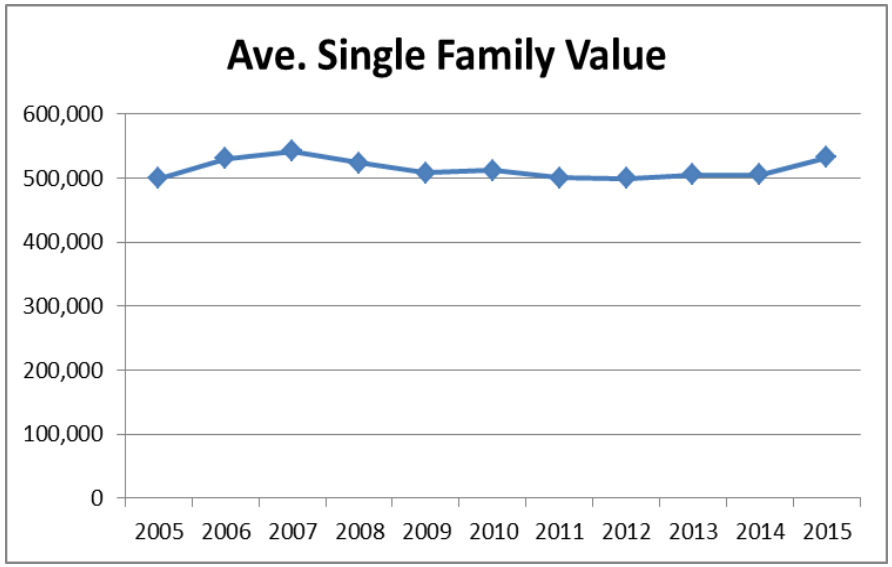
2016 Tax Rate: A Comparison

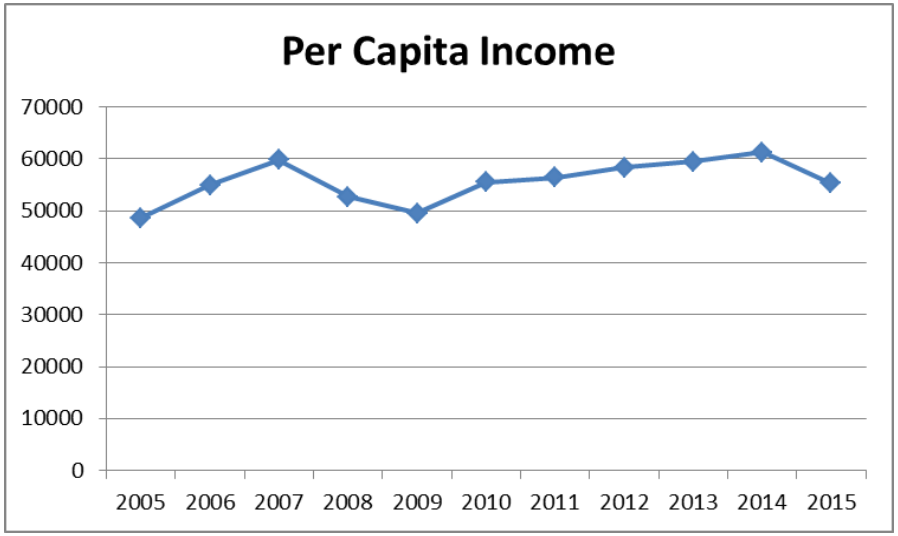
Measure	Acton	Boxborough
Rate:	$ 19.23	$16.36
Single family average tax bill:	$10,382	$8,981
1 year change in avg tax bill:	3%	2%
10 year average change in avg tax bill:	34%	23%

Source: Bizjournal.com/boston

Tax Bills Growing Faster than Home Values or Income







- Tax bills have increased 4.7% per year from 2005-2015
- Home values have only increased 0.6 % per year
- Per capita Income has increased only 1.4% per year

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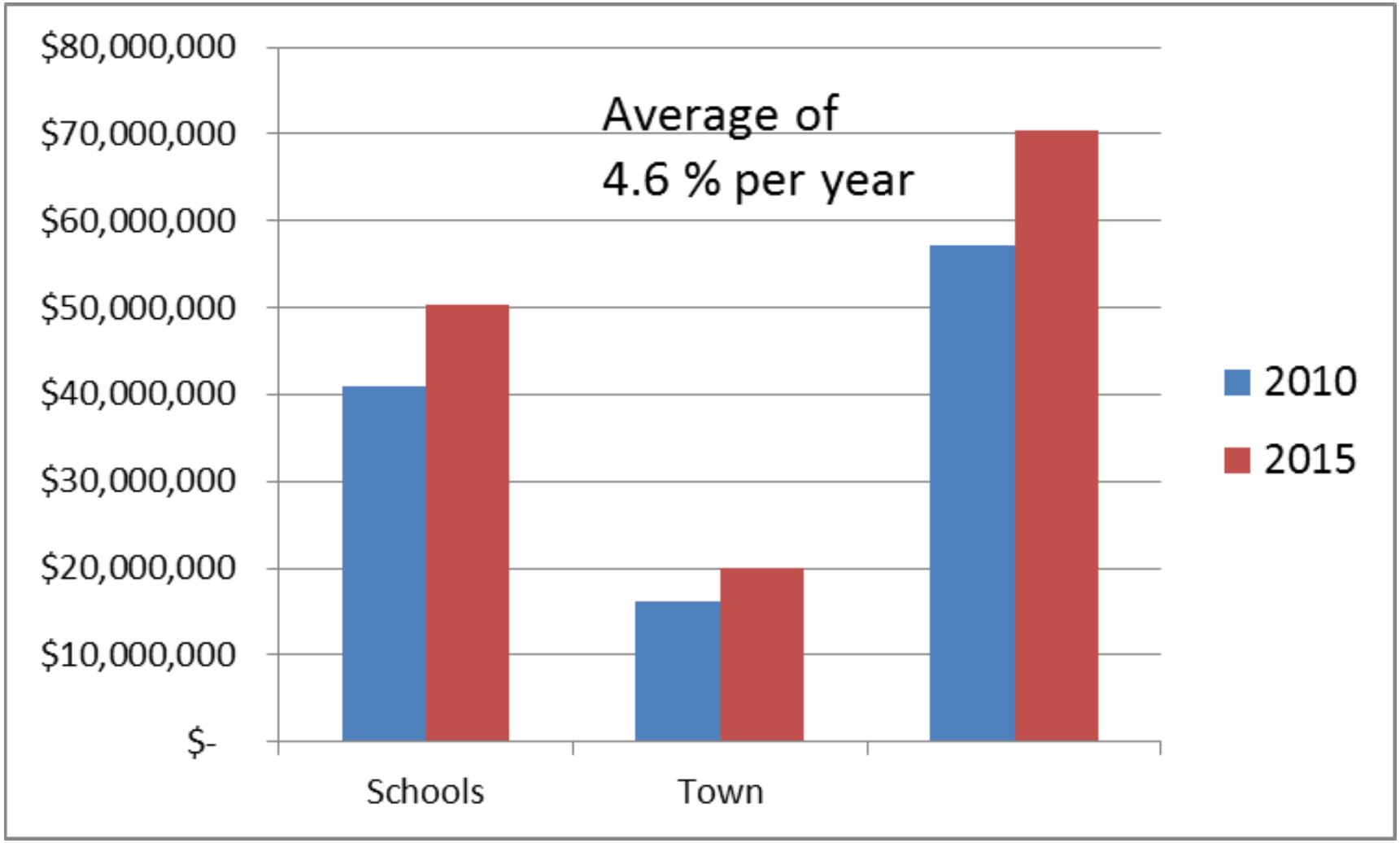
Concerns

- Compensation growth in excess of 4% is not sustainable
  - With Prop 2 ½ limiting the largest source of revenue, excise and new growth cannot consistently cover this rate or increase.
- State aid is unlikely to increase more than 1%
- Capital and facilities in need of attention
  - Now
    - Needed health & safety repairs and upgrades to existing facilities should be addressed immediately, from BOTH third-party surveys of our infrastructure
  - Intermediate term
    - Repairs to buildings that will remain, without triggering code-mandating changes
  - Long term
    - Replacement of elementary school(s) – addresses large % of our shortfall per Dore & Whittier, and eases overcrowding
    - New fire station

2010 -2015 Compensation Growth



Salaries and Fringes (excluding OPEB) for Town plus Acton % of ABRSD

State Aid is Unlikely to Increase

- "In FY15, there were approximately $1.188 billion in one-time revenues and savings used to balance the Commonwealth's budget, up from approximately $754 million in FY14 one-time solutions"
    - Comptroller of the Commonwealth Statutory Basis Financial Report For the Fiscal Year Ended June 30, 2015.
- "State budget cuts from Governor Charlie Baker are probably coming soon to Massachusetts. The Department of Revenue announced Tuesday that state revenue grew only one-half of 1 percent from August 2015 to August 2016 — a surprisingly tiny amount"
    - **By** Joshua Miller GLOBE STAFF SEPTEMBER 06, 2016

Our School Buildings Need Investment

- In their report in February of 2016, school district consulting architects, Dore & Whittier concluded:
  - $4.4 million is needed for “Health Safety and Welfare,” repairs spanning all of the district’s elementary schools
  - Total identified investment exceeds $100 million

Our Town Buildings Need Investment

- In their report to the Town in June of 2015, LLB Architects concluded:
  - $2.1 million is needed in “Critical immediate repairs” for town facilities
  - Total identified investment was in excess of $16 million

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Finance Committee Reserve Policy

- The Finance Committee believes that it is prudent to set both upper and lower thresholds on the reserves in order to
  - Maintain Town's strong financial standing
  - Balance the focus on municipal vs school budgets
  - Spend down the Town's reserves for one-time items such as capital or other Town priorities, or refund them to taxpayers
- To that end we recommend
  - The lower threshold be 5% of *municipal spending*
  - The upper threshold be 3% of *total Acton spending,* including the school assessments

Recommendations for FY18

- Operating budgets should increase by no more than the 3.3% increase in total revenue including new growth and excise
- There is no need for an operating override but property taxes should increase by no more than the 2.5%
- There is no need to use previously untaxed levy capacity to increase taxes by more that 2.5%
- Near term capital needs must be addressed
  - Prioritized lists for the Town and for the Schools need to be developed as soon as possible
- Funding for OPEB should continue at present levels (Acton's OPEB funding is a strength compared to other towns)
- Reserves-
  - For FY18 only we recommend allocating $1.6 million in free cash to budgeted spending (this is consistent with what was agreed in ALG Spring 2017)
  - After allowing for that amount, any reserves in excess of the upper threshold (as outlined in the reserve policy) should be used to address near term capital needs

Key Conclusions

- Near term
  - There is no need for a proposition 2.5% override this year
  - If the capital repairs are not funded from reserves a near term capital override may be necessary
- Longer Term
  - Given the magnitude of capital needed for facilities one or more capital overrides may be needed in the next 2-5 years