

TOWN OF MILLVILLE
Office of the Town Account

To: Board of Selectmen and Finance Committee
From: Accounting Office
Re: Fiscal 2019 – 2021 Revenue and Budget Projections

To the Honorable Board of Selectmen,

We are pleased to present the attached three year fiscal projections for revenues and operating expenditures for the Town of Millville. In the following memo, I would like to take the time to outline the criteria used to make the projections, the potential pitfalls to items that are common to forecasting out three years, and highlight other areas of concerns. Please remember that the following forecasts are moderate for the revenue growth, and conservative for the expenditure growth.

REVENUE

Taxation - By law under Proposition 2 ½, the Town is allowed to increase the tax base year over year by 2.5 percent plus the value of new growth. In the estimate, the full extent of the tax levy has been utilized for the funding of the operational budget. Including new growth which has been conservatively set at \$10,000 per year, the average increase as a percentage is 2.56% year over year.

Net State Aid – State Aid is made up of two figures on an annual basis – Gross aid distributions and State Cherry Sheet Charges. The net effect of these two figures is the Net State Aid that is received by the Town each year. Gross State Aid is forecasted to remain stagnant for the foreseeable future. As of May 2017, the Commonwealth of Massachusetts is running a \$535 million deficit in receipts. This will more than likely result in a flat State Aid figure in the final iteration of the State budget to be released at the end of June or beginning of July. Increases, if any, will be marginal at best. On the other hand, Cherry Sheet charges are forecasted to continue to increase, outpacing aid distributions. Cherry Sheet charges include items such as Motor Vehicle Non-Renewal Surcharges of which the Town has no direct control over, and participation in the Central MA Mosquito Control Project.

Other Tax Rate Offsets – There are two other items that are incorporated in calculating the total amount available to the fund the annual budget which are Assessors Allowance for Abatements/Exemptions and Treasurer Tax Title Legal expenses. For Assessors Allowance for Abatements/Exemptions, otherwise known as “Overlay” we have assumed a rate of growth equal to the growth on the tax base itself of 2.56%. This trends well with historic Abatement and Exemption activity for the past years.

The Treasurer Tax Title Legal expenses are related to costs raised on the Tax Rate for the purposes of handling Title work with the Massachusetts Registry of Deeds to clean and back claims and pursue the Tax Title Taking process. These funds are in addition to what is raised as part of the Treasurer’s budget for administration of the Tax Title process. The forecast for this item is decreasing over time as the Tax Title process is carried out. The Tax Title process is most expensive at the beginning as the program is originally executed and costs less over the life of the program as properties are collected or auctioned and

finally removed from the tax rolls.

Other Financing Sources – Other Financing Sources is the final category that is made up of Local receipts and one time revenue sources such as Stabilization and Free Cash. Local Receipts are comprised of revenues brought in from the Town from sources that not related to taxation. The largest driver of Local Receipts is Motor Vehicle Excise which accounts for 65-70% of non-tax receipts into Town. The remainder is made up of Departmental Fees from licensing, permitting, and other activities. We have forecast these receipts to growth approximately 3% per year over the forecast period. Caution should be exercised when forecasting Motor Vehicle Excise as it is directly tied to local and state economic conditions and subject to large variability in times of economic slowdown that is outside of the control of the Town.

Other items in this category are related to one time revenues that should not be used for recurring operational budgeting. The three most common items in this category are Assessors Overlay Surplus, Stabilization, and Free Cash. In our projection, we have utilized only one of these sources, Free Cash, related to the financing of non-operational expenditures discussed later in this memo. A major component of future Free Cash will be Tax Title collections which would be available to the Town at a later time once a Tax Title program is established. Tax Title receipts should not be included as part of forecasted revenue as it is not possible to forecast which taxes will be paid and when.

It is important to note that Tax Title programs, once established, have a declining rate of return in later years. These programs normally generate larger amounts of Free Cash early on with a much smaller return on later years. For this reason, any early gains should not be trended into future years as part of the revenue budget.

In total, given the absence of committed economic development and commercial growth in the Town, there is an expected revenue growth of 2.77% annually on average in the coming years. At this time, the Town will continue to be primarily funded through the Residential tax base which is projected to increase to 78.94% of the budget by Fiscal 2021.

EXPENSES

Rather than outlining on a department by department basis for operational expenses, we will present the major contributors to budgetary growth in our analysis. This list not meant to be all inclusive, but represents the major drivers of increases in the forecast. The enumerated points that follow correspond to the items listed on the forecast itself.

1. **COLA Increases** – The forecast assumes that non-bargaining unit (Union) and non-elected employees receive an annual Cost of Living increase of 2.50% annually. We decided that this level of increase in salaries was most appropriate given that a majority of employees' salaries are already at or below the market rate for similar positions. This COLA increase would keep them proportional to where they are against the market moving forward. Elected employees require adjustment by the Town Meeting body, and therefore an there is not information to make a reasonable adjustment to those positions. Similarly, Collective Bargained employees need to go through a process to establish the level of compensation in a given year. The should acknowledge that the current level of wage increase keeps pace with the current level of compensation, and will likely need to be revised up in future years.
2. **Vocational Tuitions and Transportation** – This item was difficult to forecast because there are a number of variables that outside the Town's control, namely student enrollment and fuel prices. In reviewing prior activity to attempt to establish a trend, there was not a definitive trend line that

could be established. Using Fiscal 2018 as an example and the looking specifically at the transportation costs, the addition of a potential second bus represents a large cost increase, which is not able to be forecasted based on prior activity. We have assumed an increase of 5% annually which is largely made up of transportation costs, with minor changes for enrollment over the period. If there is future development in Town that caters to families via two and three bedroom housing, this budget forecast would need to be re-evaluated to take into consideration a growing school age population.

3. **BMR Tuition Assessment** – This forecast looked specifically at non-debt service related budget increases for the Blackstone Millville Regional School District. An analysis of prior BMR requests resulted in an average annual increase of 4.58%. For the purposes of our analysis, we used this same rate of growth for Fiscal 2019, 2020, and 2021. There are several important points to discuss related to this forecasted figure, most of which will result in a significant revision upward over the forecast period.
 - a. The forecast does not take into consideration a change in enrollment, either up or down.
 - b. Year over year, the overall budget as presented in the forecast actually decreases slightly. This is a function of the 4.58% assessment increase being offset by declining Debt Service payments.
 - c. This forecast does not assume new Debt Service for BMR
4. **Snow and Ice Removal Budget** – The Snow and Ice budget has been severely under funded up to, and including the current Fiscal 2018 budget. As noted in the following table, from the period of 2010 through 2017, the Town budgeted \$408,000 for Snow and Ice removal, but spent \$1,451,332 during the same period. This represents supplemental funding of \$1,043,332 that came from transfers, stabilization, Free Cash, and through the Tax Rate process. This is unsustainable practice as the forecast assumes declining availability of excess tax levy capacity and availability of one time revenues such as Free Cash.

Fiscal Year	Budget	Supplemental Appr.	Total Expenditures
2010	32,000	127,951.59	159,951.59
2011	32,000	186,066.73	218,066.73
2012	32,000	49,642.88	81,642.88
2013	32,000	148,699.00	180,699.00
2014	60,000	174,284.87	234,284.87
2015	80,000	162,581.10	242,581.10
2016	60,000	87,581.10	147,581.10
2017	80,000	106,525.18	186,525.18
Total	408,000	1,043,332.45	1,451,332.45

During the trending period, the Town spent an average of \$181,416.56 on Snow and Ice Removal operations. In order to account for the trend, the forecast resets the base S&I budget to \$160,000 for Fiscal 2019, and grows it annually by 15%. We believe that over the forecast period that this increase will get the total budget in line with historical trends, and also adjust properly for increases in labor and materials over the same time period. This will be an important adjustment to the operational budget as there will likely not be capacity in the Tax Rate or from other funds for supplemental appropriations to cover annual deficits.

5. **Trash and Recycling** – We have forecasted the town wide trash and recycling program to increase an average of 3% per year over the forecast period. This is meant to be an informational average of the forecast, but we would expect that it will increase in more erratic jumps over time. The cost of transportation, collection, and disposal on the whole for all communities is forecasted to

- increase due to environmental standards associated with the management of trash and recycling.
6. **Debt Service** – The forecast assumes that current debt service for the Town will continue to retirement and decrease over time. It is likely that the Town may need to borrow in the future given the current state of the Town Hall which would require an adjustment to this budget.
 7. **Regional Retirement** – Town employees who work more than 960 hours per year must contribute to the County Retirement System. The retirement system annually issues an assessment to pay for the costs of current and retired employees of the Town of Millville. The forecast assumes a 7% increase annually for this budget as the Worcester Regional Retirement System continues to fund it's own OPEB liability, as well as the rising cost of providing health insurance to retiree's over the coming years.
 8. **Health Insurance** - Health insurance is provided to all Town employee who work more than 20 hours per week. The cost of insurance provided by the marketplace is based on the Town's experience of usage in the past, and the makeup of the insured pool of employees. Communities have seen increases of the past several years ranging from 5-20% depending on their circumstances. For the purposes of budgeting, the forecast has assumed 7.5% which is consistent with both Millville's trend, as well as several other communities in the Blackstone Valley. Given the small pool size associated with Millville, the Town lacks sufficient mass to effectively negotiate lower rates, and will rather need to "shop the market" in the future if insurances rates begin to escalate to an unaffordable level.
 9. **Employer Share Medicare** – The Town of Millville, much like private employers, is responsible for paying its share of Federal taxes on employee earnings. Because full time Town employee contributing to the retirement are not eligible for Social Security through their municipal earnings, the Town pays only the contribution to Federal Medicare for each dollar eared. We have forecasted this budget to increase by the same rate as wages, currently 2.5%. As discussed in item #1, additional changes in wages will need to reflect an adjustment to Medicare in order to be fully funded.
 10. **Property, Liability, and Workers Compensation Insurance** – This budget is most directly influenced when the Town experiences an insured loss that is funded by the insurance company. We have estimated that the category as a whole will increase 4% annually over the forecast period. The Town should expect the majority of that increase to hit in Fiscal 2019 due to the situation with the Town Hall, with lower amounts on 2020 and 2021. Any other major losses will require an additional adjustment to this budget.
 11. **OPEB Funding** – OPEB or Other Post Employment Benefits is the cost of providing insurance and other coverage to employee who have retired, or will retire from the service of the Town of Millville. This cost is a liability of every public entity, including BMR, that requires funding for the future costs of providing these services. Every three years the Town is required to get an updated actuarial valuation to account for new hires, retirees, deaths, and funding contributions to determine the rate of which funding needs to occur. For the purposes of the forecast, we have increased the annual contribution to \$15,000 per year to account for little or no funding in previous fiscal years. NOTE – because this item is non-operational, we have listed the funding source as Free Cash.
 12. **Mandatory Stabilization Contributions** – We have included as part of the projection a budgeted contribution to the Town's stabilization fund of \$75,000 per year. Stabilization represents the Town's "Rainy Day Fund" and should be used for non-operational, one-time costs. The Town has relied to heavily on Stabilization in the past several years for operational budgets, and as a result, there is a structural budget deficit that cannot be rectified without the continued use of one time revenues. In order to reverse this trend, and build the Stabilization balance to an appropriate amount, we suggest that at least \$75,000 per year, net of any withdrawals, be added to the fund until it reaches approximately 10% of the total operating budget. NOTE – because this item is

non-operational, we have listed the funding source as Free Cash.

BOTTOM LINE

As previously stated, revenues in this projection are moderately aggressive, while expenses are forecasted at what we believe to be conservative. With that said, the average revenue growth over the period is approximately 2.77% versus an expense growth of 4.29% over the same period. This results in a Fiscal 2019 net operating deficit of \$452,153 which is primarily made up of the Fiscal 2016 and 2017 BMR increases funded through one-time revenues, and the remainder from the large increase to the Snow and Ice budget. From there, the deficit continues to grow to \$642,280 in Fiscal 2021 if all assumptions hold.

The Town will not be able to continue providing services at this rate while remaining financially solvent, and the need to come together and review options is sooner rather than later. This projection is our interpretation of the current state of things, and should not be considered all-inclusive. The figures can be changed and updated based on other variables not to our knowledge, or as situations evolve.

We look forward to working with the Town management in the future to continue to revise this forecast, and to come up with a sustainable plan for the Town for the future.

Respectfully Submitted,

Justin Cole
Town Accountant