

THE ABRAHAMS GROUP

FOR BETTER GOVERNMENTS

December 20, 2016

Mr. Michael Farrell
Town Administrator
Town Hall
1 Library Street
Georgetown, MA 01833

Dear Mr. Farrell:

I am pleased to submit this report summarizing our analysis on the Town of Georgetown's projected revenues and expenditures over the upcoming 10-year period.

INTRODUCTION

This project is funded by the Community Compact Cabinet initiative (www.mass.gov/CCC). Through this grant, The Abrahams Group developed a financial forecast for the Town of Georgetown. The goal of the program is to encourage the implementation of municipal best practices that promote good governance, in this case by developing a financial forecast, thereby fostering efficiency, accountability, and transparency in local government.

As a best practice, a financial forecast is an essential fiscal planning and policymaking tool that conservatively projects revenues and expenditures over a multi-year period. It is designed to allow a municipality to evaluate the impact of various financial decisions and policy choices over time. A financial forecast includes reasonable assumptions that must be continuously evaluated and updated to reflect changing circumstances and events. Thus, the forecast provides a fair representation of the Town's fiscal future to help facilitate the budget and planning process.

The main goals of a financial forecast are to conservatively project revenues and expenditures over a period of years based on documented assumptions and to provide a tool to continuously update those assumptions and forecasts. The financial forecast is not to present a balanced forecast, which is the function and role of a budget.

To develop this financial forecast, meetings with Town and School officials were held, budget-related documents were reviewed, and financial data was analyzed. The financial forecast offers a comprehensive look into the various revenue and expenditure components and the assumptions used to construct a 10-year financial outlook for the Town of Georgetown. Accompanying this report is an Excel-based financial forecasting tool for the Town's use. The financial forecast can provide the Town with information and a tool to facilitate financial decisions going forward.

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This report contains results of our analysis on projected revenues, projected expenditures, and the gap between projected revenues and projected expenditures in each of the years analyzed. The report also indicates what assumptions were used in the analysis.

With many unknowns in the near future, certain assumptions were made in order to project revenues and expenditures in the upcoming 10 fiscal years. The Town should continuously update this forecast as assumptions change and become reality.

BACKGROUND

The Town of Georgetown ("Town") had a \$27.4 million operating budget in FY 2016. If overlay, charges and offsets from the Cherry Sheet, and the snow and ice deficit are included, the amount increases to \$28.0 million. The Town has a \$28.6 million operating budget in FY 2017. If overlay and charges and offsets from the Cherry Sheet are included, the amount increases to \$29.2 million. The breakdown of expenditures for FY 2016 and FY 2017 is presented in the table below:

	FY 2016		FY 2017	
	Budget		Budget	
	Amount	Percent	Amount	Percent
Departmental Expenses	\$ 19,882,347	70.95%	\$ 20,221,821	69.22%
Debt	\$ 2,786,360	9.94%	\$ 3,263,262	11.17%
Insurance & Retirement	\$ 4,719,828	16.84%	\$ 5,090,610	17.43%
Overlay	\$ 75,000	0.27%	\$ 90,000	0.31%
Cherry Sheet Charges/Offsets	\$ 493,741	1.76%	\$ 547,565	1.87%
Snow and Ice Deficit	\$ 67,243	0.24%	\$ -	0.00%
Total	\$ 28,024,520	100.00%	\$ 29,213,258	100.00%

The Town had revenues of \$28.0 million in FY 2016 and is projecting revenues of \$29.2 million in FY 2017. The breakdown of revenues for FY 2016 and FY 2017 is presented in the table below:

	FY 2016		FY 2017	
	Actual		Projected	
	Amount	Percent	Amount	Percent
Property Taxes	\$ 18,689,652	66.75%	\$ 19,515,051	66.90%
State Revenues	\$ 6,396,199	22.84%	\$ 6,529,018	22.38%
Local Receipts	\$ 2,575,038	9.20%	\$ 2,625,335	9.00%
Other Available Funds	\$ 337,503	1.21%	\$ 500,886	1.72%
Total	\$ 27,998,392	100.00%	\$ 29,170,289	100.00%

In recent years, the percentage of revenues from property taxes has increased as State revenues have declined. Ten years ago, the Town collected 50% of its revenues from property taxes and 29% of its revenue from the State, with the rest from local receipts and other available funds. The revenue breakdown back then is much different than the breakdown presented in the table above.

Prior to this analysis, the Town did not have a tool to forecast its finances in the form of a financial plan. The Town sought one to help it sustain a strong financial position in the fiscal years to come. As a benefit to the Town, the Excel workbook that accompanies this report can be used as a planning tool to analyze the impact of certain changes to Town finances on projected revenues and/or expenditures. Additionally, the Excel workbook can be used as a tool to gauge the potential impact of future capital expenditures on the Town's free cash and debt service.

PROJECTED EXPENDITURES AND REVENUES

Exhibit 1 presents a table that contains a comparison of revenues and expenditures using actuals from FY 2016 and projections for FY 2017 through FY 2027, as well as a calculated surplus or deficit for each of the fiscal years, in the accompanying Excel file. The expenditures include planned capital expenditures based on the Town's Capital Improvement Plan (CIP), which contains almost \$9.5 million of planned capital expenditures from the 10-year period analyzed.

The following chart displays the total revenues and expenditures, including the planned capital expenditures in the CIP, and shows the gap between the two totals, by year:

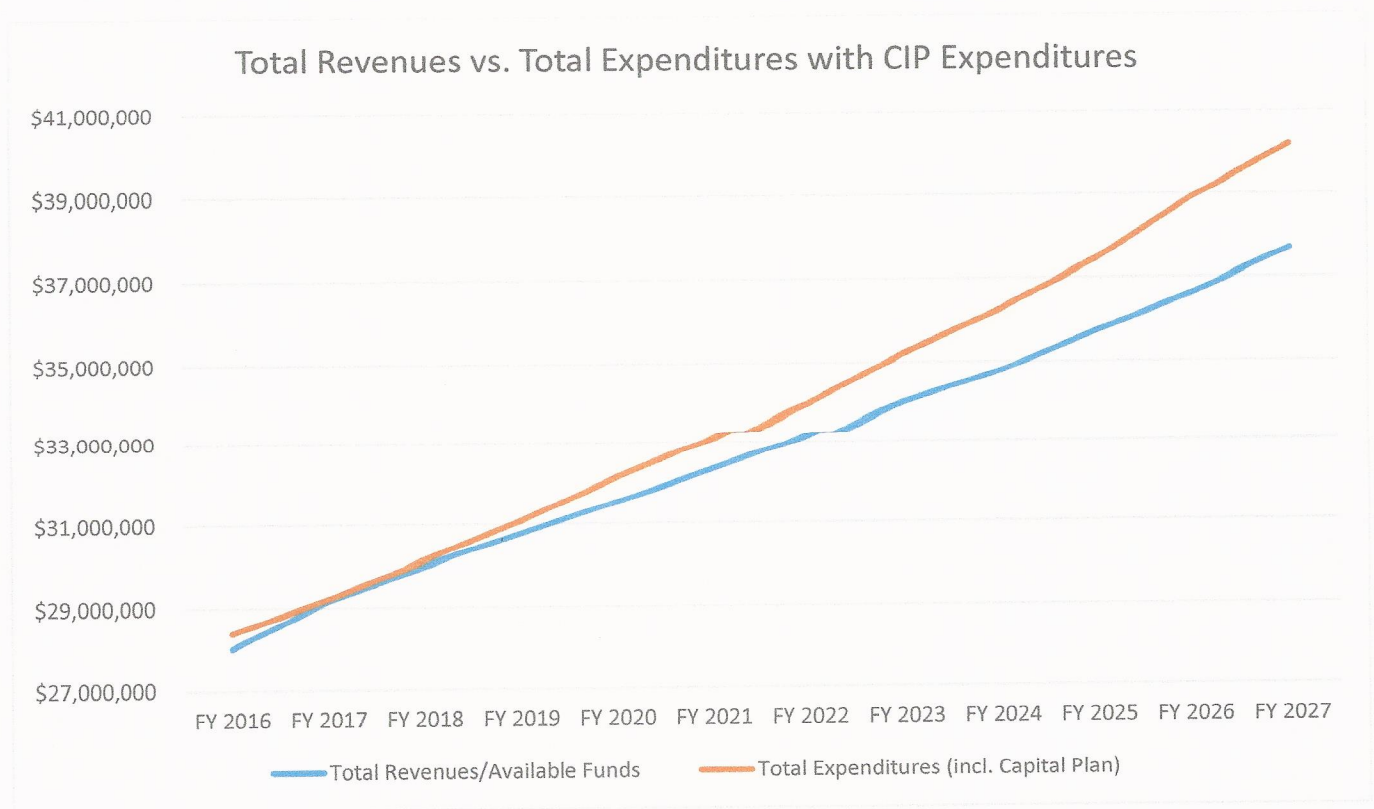
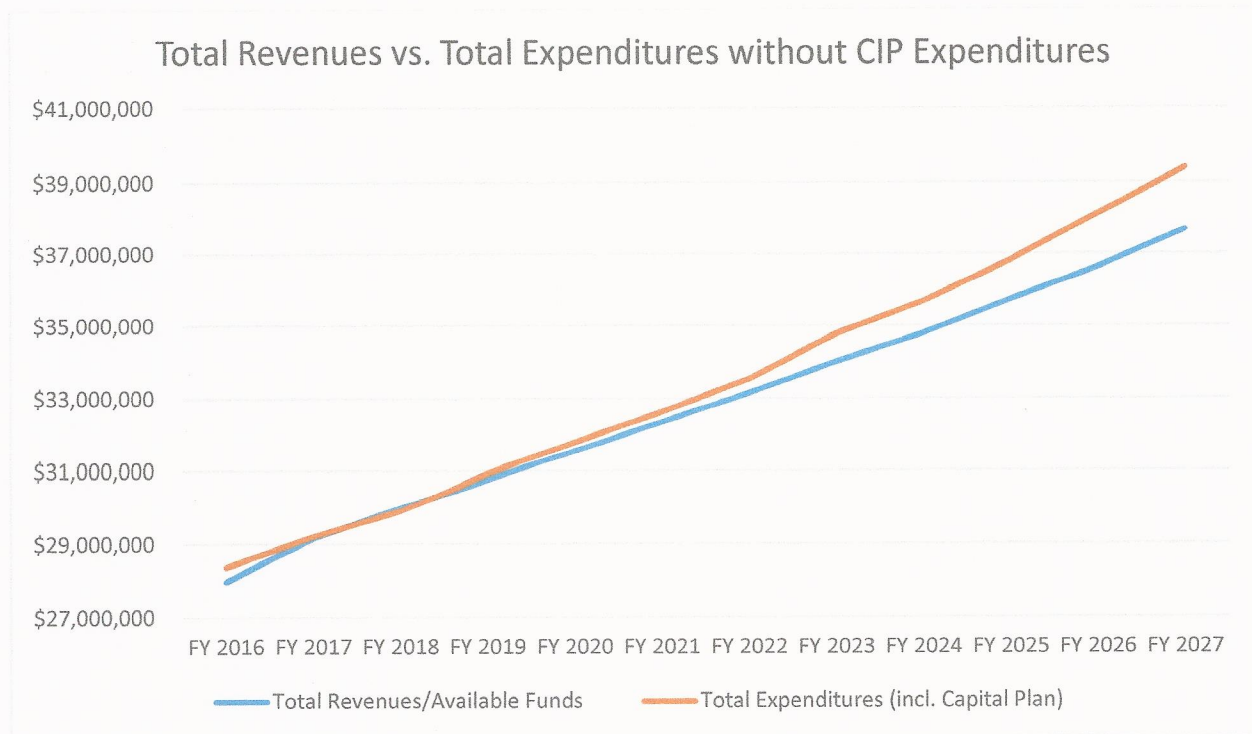


Exhibit 2 presents the same table as the one in Exhibit 1, but without the planned capital expenditures in the CIP.

The following chart displays the total revenues and expenditures, not including the planned capital expenditures in the CIP, and shows the gap between the two totals, by year:



PROJECTED EXPENDITURES

The Town currently has \$3,564,202 in outstanding bond anticipation notes (BANs) that it plans to pay back by the end of FY 2017. Of the total outstanding BAN amount, \$64,202 is for capital equipment that will not be borrowed long-term. The remaining \$3.5 million, of which \$1 million is for construction at the Middle/High School and \$2.5 million is for construction at the Penn Brook School, less MSBA reimbursements and BAN proceeds not spent, will be borrowed long-term at the end of FY 2017. Additionally, \$1.8 million for the Elm Street road project will be borrowed long-term at the end of FY 2017. A BAN was not issued for the Elm Street project, and one will not be, prior to the long-term borrowing.

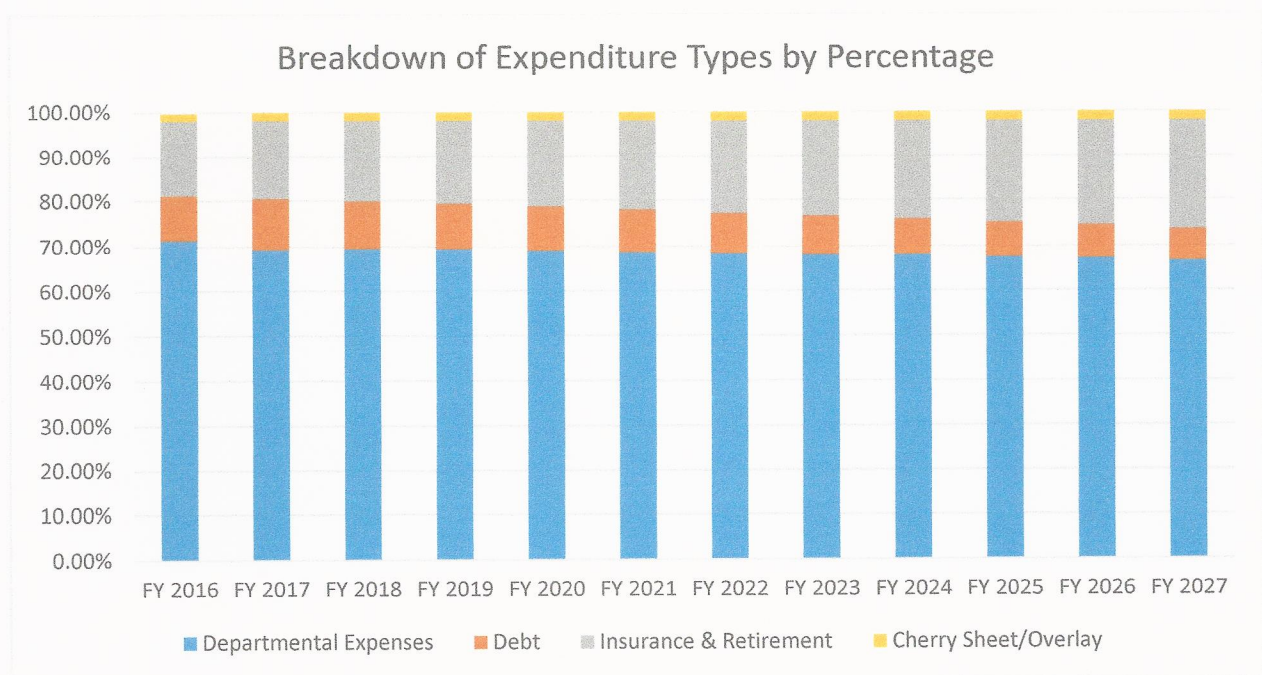
Exhibit 3 presents a table that contains projected debt service for these borrowings over the 10 years analyzed in the accompanying Excel file. The Town's CIP contains planned capital expenditures for each year included in this analysis. Exhibit 4 contains a breakdown of the planned capital expenditures by year in the accompanying Excel file.

The Town plans to fund each of the capital expenditures that is \$100,000 or less out of free cash and each that is over \$100,000 via long-term borrowings. Exhibit 5 presents a table that contains

capital outlay and new debt projections, based on planned capital expenditures in the CIP in the accompanying Excel file.

Exhibit 6 presents a table that contains projected total expenditures for the Town over the next 10 fiscal years, using the same breakdown of expenditures presented earlier in this report in the accompanying Excel file.

Including actual FY 2016 expenditures and projected FY 2017 expenditures, the following bar graph shows the projected changes to the breakdown of expenditures:



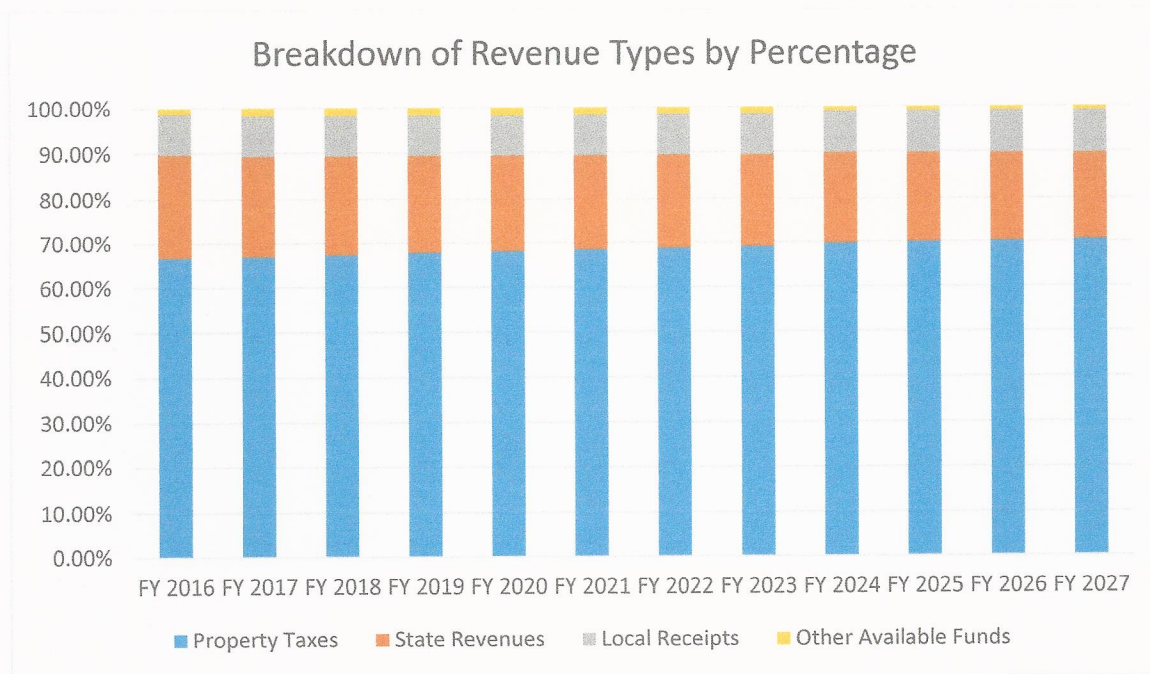
The CIP and the projected CIP-related expenditures can be found in the accompanying Excel file.

PROJECTED REVENUES

The Middle/High School and Penn Brook School construction projects and the Elm Street road project were voted by taxpayers to be debt-excluded projects. Therefore, any projected debt for the final phase of the two school projects and for the Elm Street project is included as additional property tax revenues, starting when the first payment on the borrowings for these projects is projected to take place, which is in FY 2018. This analysis does not contain any revenues that have been specifically identified to fund planned capital expenditures identified in the CIP.

Exhibit 7 contains projected total revenues for the Town over the next 10 fiscal years, using the same breakdown of revenues presented earlier in this report in the accompanying Excel file.

Including actual FY 2016 revenues and projected FY 2017 revenues, the following bar graph shows the projected changes to the breakdown of revenues:



CHAPTER 70 AID PROJECTIONS

Projecting what aid the Town will receive from the State is difficult due to, in part, the following:

- Whether the required local contribution of municipalities is based on full equity or continues to be reduced. Currently, equity is at 85% local effort reduction.
- Whether the formula the State uses to determine Chapter 70 aid stays the same or changes.
- Whether the increases in foundation budget for health insurance, SPED, and other costs, as recommended by the Foundation Budget Review Commission, will be implemented or not and to what extent changes would impact local contributions and Chapter 70 distributions.
- The Town does not have a projection of future enrollment that could be used in such an analysis.

If fully equity is achieved, the Town's required local contribution would decrease by about \$31,500. This decrease would decrease the Town's net school spending amount by the same amount. Since the Town continuously spends in excess of its net school spending requirement, the implementation of full equity would not materially affect Chapter 70 aid projections and School Department expense projections. Full equity is likely to be achieved in the next few years.

The Town has averaged \$56,748 in annual Chapter 70 aid increases over the past four fiscal years. These increases are due to minimum aid. If the State's Chapter 70 aid formula does not change, then the Town should continue to receive small increases in Chapter 70 aid on a yearly basis. However, the Town receives more base Chapter 70 aid than it does foundation aid. The excess of base aid over foundation aid may be reduced or eliminated over time if the State legislature decides to make the Chapter 70 distributions more equitable. For FY 2017, the Town's base Chapter 70 aid of approximately \$5.3 million is approximately \$2 million more than its foundation aid of approximately \$3.3 million.

If the recommended foundation budget changes are implemented, communities' local contributions and Chapter 70 aid would increase, the extent of which is not known.

For Chapter 70 aid projections in this analysis, a conservative minimum aid amount of \$25, down from the \$55 minimum aid amount in FY 2017, is used, as well as consistent foundation enrollment projections, based on the FY 2017 foundation enrollment of 1,376. The Town can utilize the Excel tool to update the financial forecast with Chapter 70-related data. Exhibit 8 contains the FY 2017 Chapter 70 aid amount and projected Chapter 70 aid amounts in future years in the accompanying Excel file.

FREE CASH

The Town's Free Cash, as of July 1, 2016, was certified by the Department of Revenue (DOR) at \$473,860, down from the certified amount of approximately \$770,000 the prior year. Town Meeting recently voted to use \$110,000 from Free Cash for the purchase of real estate and also recently voted to use \$40,000 from Free Cash for the removal of an oil tank at a school. The Town typically uses funds out of Free Cash to pay for its snow and ice deficit.

The Town's Free Cash Policy states that, annually, after Free Cash certification, at least 25% of the certified Free Cash will be used to fund capital expenditures and at least 25% of the certified Free Cash will be placed in the Stabilization Fund. The policy also states that fiscal conditions may affect the implementation of the policy.

Based on the most recent certification, at least \$118,000 of Free Cash should be used to fund capital expenditures in FY 2017 and at least the same amount should be placed in the Stabilization Fund. With the two items voted at the most recent Town Meeting, the Town has satisfied the capital expenditure portion of the policy for FY 2017. With \$92,000 placed in the Stabilization Fund in FY 2017, the Town has not satisfied the Stabilization Fund portion of the policy, but has come close to doing so.

Exhibit 9 contains planned capital outlay expenditures identified in the CIP in the accompanying Excel file.

Except for one, the total capital outlay expenditures planned for each of the fiscal years exceeds 25% of the most recent Free Cash certification, which suggests that the Town will be challenged to fund each of these capital outlay expenditures as planned.

STABILIZATION FUND

At the time of this report, the Town had approximately \$834,000 in its Stabilization Fund and less than \$5,000 in its Capital Stabilization Fund. Considering the Town does not plan to fund capital expenditures using funds from the Stabilization Fund, like it did recently for a fire engine, and has no immediate plans to add funds to the Capital Stabilization Fund, the Town will likely not be able to use funds from its stabilization funds to help pay for planned capital expenditures.

The Town's Stabilization Fund Policy states that the Town's goal is to have an amount in the Stabilization Fund between 5% and 10% of the operating budget and that, when the balance is less than 5% of the operating budget, no appropriations from the Stabilization Fund will be considered except in cases of extreme fiscal emergency. Based on the policy, in FY 2017, the Stabilization Fund should have between approximately \$1.4 million and \$2.8 million. The Town is currently short of its Stabilization Fund goal as it currently has an amount about 3% of the operating budget. The Town should refrain from appropriating funds from the Stabilization Fund until its amount satisfies the Town's policy.

ASSUMPTIONS

In order to complete the analysis, certain assumptions were made. Some noteworthy assumptions made are:

- The Water Enterprise Fund and the Ambulance Enterprise Fund are self-sustaining funds. Their revenues and expenditures are not included in this analysis. Only General Fund revenues and expenditures are included in this analysis.
- The Town is anticipating an additional revenue stream tied to a local marijuana dispensary in upcoming fiscal years. Due to too many unknowns at the time of this report, anticipated revenues related to the dispensary were not included in this analysis.
- For capital expenditures on the Town's CIP, the following criteria was used:
 - Any expenditure less than or equal to \$100,000 would be funded out of free cash during the fiscal year identified in the CIP.
 - Any expenditure greater than \$100,000 would be borrowed long-term using the following criteria:
 - Term of five years for equipment, 20 years for buildings, and 10 years for everything else
 - Interest rate of 3.50%

- The borrowing would commence at the end of the fiscal year identified in the CIP, which means the following year would contain only one payment and it would be an interest-only payment. One principal and interest payment and one interest-only payment would be made in the second year of payment on the borrowing and in each subsequent year until the borrowing was paid back.
 - A BAN would be issued for the long-term borrowing amount and would be paid off at the time of long-term borrowing with interest equal to 1.00% of the borrowing amount.
- The CIP used to identify planned capital expenditures to include in this report was a 12-year plan from FY 2018 to FY 2029, but this analysis only reflects those expenditures planned for FY 2018 to FY 2027.
- At the end of FY 2017, the Town will borrow less than the full outstanding BAN amounts for the final phase of construction for the Middle/High School and for the final phase of construction for the Penn Brook School. The Town will borrow \$523,000 for the Middle/High School since the Town projects \$477,000 of the \$1 million BAN proceeds will not be spent and therefore not need to be borrowed long-term. The Town will borrow \$1,896,000 for the Penn Brook School since the Town anticipates \$534,000 in MSBA reimbursements and \$70,000 of the \$2.5 million BAN proceeds will not be spent and therefore not need to be borrowed long-term.
- Known bond premiums were included as a revenue source, but no additional premiums were included in the projection of future revenues since whether the Town will receive additional premiums is not known at the time of this report.
- Whether any capital projects will be voted as debt exclusions is not known at the time of this report and, therefore, no debt exclusions, besides the ones known at the time of this report, were included in the projections of property tax revenues in future years.
- When projecting most of the revenues and most of the expenditures, a factor used to increase each on a year-to-year basis was discussed and agreed upon. Generally, most of the factors used are conservative, which translates to potentially-understated projected revenues and potentially-overstated projected expenditures. The following list contains some specific assumptions related to projecting revenues and expenditures:
 - New growth in town is projected to increase by \$12,000 on a yearly basis.
 - Revenues from SPED Tuition are included as expected revenue in FY 2017 and FY 2018, but not beyond that, based on plans for a particular student.
 - Revenues from State-owned land are projected on a level basis yearly.
 - Revenues from miscellaneous local receipts are projected on a level basis yearly.
 - Medicaid revenues are projected to increase by 1.0% yearly.
 - Indirect costs transferred from the Water Enterprise Fund are projected to increase 2.5% yearly.

- Generally, personnel services expenses are projected to increase 1.5% on a yearly basis. An exception is for School Department personnel since those expenses are projected to increase 2.5% on a yearly basis, except for those years that are the first years of a new contract. For the first year of new contracts, School Department personnel expenses are projected to increase by over 4.0%.
- Generally, non-personnel expenses are projected to increase 3.0% yearly.
- The regional assessments the Town is charged are projected to increase by 5.0% on a yearly basis. Recent assessment increases were higher than 5.0%, but the School Department believes that the 5.0% yearly increase accurately reflects what the assessments should be based on current and projected enrollment. Similarly, State revenues for tuition received for School Choice students are increased by 5.0% yearly.
- Expenses for County retirement are projected to increase 7.2% on a yearly basis.
- Expenses for workers' compensation are projected to increase 3.5% on a yearly basis.
- Expenses for health insurance are projected to increase 7.5% on a yearly basis.
- Expenses for vehicle, property, and liability insurance are projected to increase 5.0% on a yearly basis.
- Certain revenues and expenditures, like Chapter 70 aid and school assessments, are based, in part, on foundation enrollment. The School Department has not performed an enrollment study. If one is performed, the forecast can be adjusted accordingly.

CONCLUSION

The Town of Georgetown is facing a challenge: projected revenues are not sufficient to meet projected expenditures. The Town may need to consider alternate revenues and an operational override and/or additional debt exclusions for upcoming capital projects in order to bring in additional revenues to address projected operational deficits in upcoming fiscal years. The Town may consider a capital outlay expenditure exclusion as another way to bring in additional revenues. The Town should seek to identify ways to reduce expenditures in upcoming fiscal years by seeking to lower health insurance costs, for example.

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We are pleased to provide assistance to the Town of Georgetown on this important and challenging project. I will be pleased to discuss this letter with you at your earliest convenience.

Sincerely yours,



Mark D. Abrahams, CPA
President