

Town of Lunenburg



Financial Forecast Presentation

January 24, 2019

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What is a Financial Forecast?

- An essential financial planning and policymaking tool that projects revenues and expenditures conservatively over a multi-year period
- It is a “living document” that must be continually evaluated and updated with changing financial data

Why Forecast?

- Provides a starting point from which a balanced budget is developed
- Projects likely outcomes based on historical practices
- Allows to look at “what if” scenarios
- Indicates future budget gaps
- Projects revenues and expenditures conservatively over a five year period
- Required by Town’s Charter, Section 4-2 (s)
- Bond Rating Agencies look favorably upon communities that annually prepare a forecast document.

Forecasting v. Budgeting

- Forecast provides a long-term and “big picture” financial perspective on service delivery using both known information & assumptions on future revenues and expenditures.
- The Budget is a specific plan detailing service delivery in the coming fiscal year.

Goals of Forecasting

- Gain a long-term perspective/ basis for planning
- Determine whether fiscal problems are on the horizon
- Time to plan for change, favorable or unfavorable
- Reinforce the need for long-range considerations during the annual budget process

Forecasting- Key Concepts

- Uses reasonable, conservative assumptions that must be continually evaluated and updated
- Represents the community's projected financial position
- Is a tool to evaluate the impact of various budgeting decisions and policy choices over time
- Is a living document that can be adjusted
- Once you develop baseline projections, it's relatively easy to adjust the underlying assumptions to address issues
- Forecasted shortfall does imply that some action will be taken, or at least planned, to avoid the financing problem
 - Action to balance the budget
 - Raise revenue; Reduce expense; Adjust service levels

Forecasting Tools & Guides

- MGL, Town Bylaws, other Generally Accepted Standards
- Financial Policies
- Historical Trend Analysis
- Debt Service Schedules
- Union and Employment Contracts
- Assumptions

Financial Policies

- Financial Management Policies & Objectives include:
 - **Stabilization Fund Account:** Deposit Free Cash in the amount of 5% of current FY Omnibus into Reg. Stab.
 - **Use of Free Cash:** 1) Reg. Stab. Account (above), 2) Fund non-reoccurring expenditures (Capital), 3) Special Purpose Stab., 4) OPEB
 - **Capital Projects/ Purchases:** Projects/Assets cost \$10,000 or more and useful life of 3+ yrs
 - **Exempt and Non-Exempt Borrowing & Debt Burden:**
 - Reg. Debt no more than 4% of regular tax levy
 - Total of annual debt for exempt debt no more than 11% of tax levy
 - Net Debt Service of Exempt and Non-Exempt no more than 14% of the tax levy
 - **OPEB Funding:** 10% of certified Free Cash from previous fiscal year

Trend Analysis & Contractual Obligations

- Look at historical data to see what type of trends in revenues have occurred over periods of time. Use of historical data can assist in predicting future trends
- Union Contracts, Salary Administration Plan increases for non-union employees accepted by town meeting vote, employment contracts
- Other known contractual increases (i.e. audits and regional assessing services)
- Existing Debt Service Schedules

Assumptions for Financial Forecast- FY2020 - FY2024

Use data obtained from all sources mentioned to make assumptions about:

- Revenues
 - Property Taxes, State Aid, Estimated Local Receipts, Other Available Funds (Stabilization, Free Cash)
- Expenditures
 - All operational costs to provide a certain level of service including personnel for General Government, Public Safety, Education, Health and Sanitation, Cultural, Infrastructure costs (maintenance and utilities)
 - Debt Service
 - Assessments for Regional Services
 - Pension costs, Health/Life Insurance, General Insurance, OPEB
 - Reserve Fund, Stabilization
 - State Assessments

Revenues: Known Figures and Assumptions

- Property Taxes: Know starting levy limit (prior year tax levy) + 2.5% (comply with Proposition 2 ½)
- Add New Growth (estimate \$375,000)
- Debt Exclusions are added to the Tax Levy Limit and are known figures per the debt schedule at that point in time
- State Aid: FY20 level funded from FY19, FY21-24 assumes a 2% increase from previous fiscal year
- Local Receipts: Forecast assumes a 2.5% increase for MV Excise and a 2% increase in all other local receipt categories
- Other Available Funds: FY20 Forecast uses Target budget use of Free Cash; FY21-FY24 does not predict Free Cash and uses the known MSBA amount reserved for Debt Service amount of \$534,000 (which ends in FY24).

Revenues-Property Taxes

Town of Lunenburg

Revenue Projections

	FY2018 Budget	FY2019 Budget	FY2020 Projected	FY2021 Projected	FY2022 Projected	FY2023 Projected	FY2024 Projected
PROPERTY TAX LEVY							
Prior Year Tax Levy Limit	22,054,802	23,087,668	24,137,396	25,115,831	26,118,727	27,146,695	28,200,362
Amended Prior Growth							
2.5% Increase	551,370	577,192	603,435	627,896	652,968	678,667	705,009
Certified New Growth	481,496	472,536	375,000	375,000	375,000	375,000	375,000
Override							
TAX LEVY LIMIT TOTAL	23,087,668	24,137,396	25,115,831	26,118,727	27,146,695	28,200,362	29,280,371
Debt Exclusion(s)	2,760,808	2,857,515	2,799,553	2,716,968	2,693,719	2,696,089	2,336,360
Capital Expenditure Exclusion(s)							
Stabilization Fund Override	-	-	-	-	-		
Other Adjustment							
Water/Sewer							
MAXIMUM ALLOWABLE LEVY ①	25,848,476	26,994,911	27,915,384	28,835,695	29,840,414	30,896,451	31,616,731
LESS Excess Tax Levy Capacity	929	53,706	-	-	-	-	-
TOTAL Tax Levy ②	25,847,547	26,941,205	27,915,384	28,835,695	29,840,414	30,896,451	31,616,731

Revenues-State Aid

	FY2018 Budget	FY2019 Budget	FY2020 Projected	FY2021 Projected	FY2022 Projected	FY2023 Projected	FY2024 Projected
STATE AID CHERRY SHEET							
Chapter 70 Education Aid	7,272,505	7,538,072	7,538,072	7,688,833	7,842,610	7,999,462	8,159,452
Charter Tuition Reimbursement	78,091	17,860	17,860	18,217	18,582	18,953	19,332
Charter Facility Reimbursement							
Smart Growth	119,257	29,195	29,195	29,779	30,374	30,982	31,602
School Lunch (offset)	-	-	-				
School Choice Receiving Tuition (offset)	281,212	241,647	241,647	246,480	251,410	256,438	261,566
Unrestricted General Government Aid	1,056,431	1,093,406	1,093,406	1,115,274	1,137,580	1,160,331	1,183,538
Veterans Benefits	45,280	35,873	35,873	36,590	37,322	38,069	38,830
Exemptions VBS and Elderly	58,172	55,517	55,517	56,627	57,760	58,915	60,093
State Owned land	47,230	47,230	47,230	48,175	49,138	50,121	51,123
Police Career Incentive	-						
Public Libraries (offset)	14,615	15,534	15,534	15,845	16,162	16,485	16,815
TOTAL Cherry Sheet ③	8,972,793	9,074,334	9,074,334	9,255,821	9,440,937	9,629,756	9,822,351

Revenues- Local Receipts

	FY2018 Budget	FY2019 Budget	FY2020 Projected	FY2021 Projected	FY2022 Projected	FY2023 Projected	FY2024 Projected
ESTIMATED LOCAL RECEIPTS							
1. Motor Vehicle Excise	1,582,088	1,621,640	1,662,181	1,703,736	1,746,329	1,789,987	1,834,737
2a. Meals Excise	100,666	96,113	98,035	99,996	101,996	104,036	106,117
2b. Room Excise	-	-	-	-	-	-	-
2c. Other Excise	-	-	-	-	-	-	-
3. Penalties/Interest on Taxes and Excises	202,888	193,552	197,423	201,372	205,399	209,507	213,697
4. Payment In Lieu of Taxes	1,700	1,735	1,770	1,805	1,841	1,878	1,916
5. Charges for Services-Water	-	-	-	-	-	-	-
6. Charges for Services-Sewer	-	-	-	-	-	-	-
7. Charges for Services-Hospital	-	-	-	-	-	-	-
8. Charges for Services-Solid Waste Fees	-	-	-	-	-	-	-
9. Other Charges for Services	-	-	-	-	-	-	-
10. Fees	126,250	161,382	164,610	167,902	171,260	174,685	178,179
11. Rentals	-	-	-	-	-	-	-
12. Dept. Revenue-Schools	71,400	140,343	143,150	146,013	148,933	151,912	154,950
13. Dept. Revenue-Libraries	-	-	-	-	-	-	-
14. Dept. Revenue-Cemeteries	4,162	5,350	5,350	5,350	5,350	5,350	5,350
15. Dept. Revenue-Recreation	-	-	-	-	-	-	-
16. Other Departmental Revenue	248,100	243,953	248,832	253,809	258,885	264,063	269,344
17. Licenses/Permits	273,378	202,350	206,397	210,525	214,735	219,030	223,411
18. Special Assessments	15,294	15,162	15,465	15,775	16,090	16,412	16,740
19. Fines and Forfeits	22,500	29,716	30,310	30,917	31,535	32,166	32,809
20. Investment Income	45,000	61,701	62,935	64,194	65,478	66,787	68,123
21. Medicaid Reimbursement	-	-	-	-	-	-	-
22. Misc. Recurring	-	1,376	1,376	1,376	1,376	-	-
23. Misc. Non-Recurring	247,391	235,780	240,496	245,306	250,212	255,216	260,320
TOTAL Local Receipts	2,940,817	3,010,153	3,078,330	3,148,073	3,219,418	3,291,028	3,365,691

Revenues- Free Cash and Other Available Funds

	FY2018 Budget	FY2019 Budget	FY2020 Projected	FY2021 Projected	FY2022 Projected	FY2023 Projected	FY2024 Projected
AVAILABLE FUNDS/OTHER FINANCING							
Free Cash	720,953	602,736	1,360,621	-	-		
Other Available Funds	97,590	167,417	297,505	107,285	104,859	102,397	99,290
TOTAL Available Funds	818,542	770,153	1,658,126	107,285	104,859	102,397	99,290

- Other Available Funds includes funds from the Artificial Turf Revolving fund to pay for the turf field and MSBA funds reserved for debt service
- Budgeted as needed to cover appropriate expenses
- Forecast does not project using Free Cash as a revenue source for FY21-FY24, does not use free cash for operating expenses.
- Follows financial policies on stabilization fund balances and use of free cash

Revenue Assumptions- Enterprise Funds

- Revenues from Enterprise Funds are segregated from the general fund. These funds are self-supporting
- Receipts = Projected Expenses plus indirect costs budgeted in the general fund
- Sewer, Water, Solid Waste and in FY20 Public Access

Five Year Forecast: Revenues vs. Expenditures

Town of Lunenburg

Summary of Projected Revenues and Expenditures

	FY2020	FY2021	FY2022	FY2023	FY2024
Grand Total Revenues	\$44,490,549.63	\$44,077,678.08	\$45,237,978.06	\$46,534,097.65	\$47,477,354.23
Grand Total Expenditures	\$44,465,420.38	\$44,478,961.69	\$45,646,998.23	\$46,949,380.58	\$47,396,223.59
Total Surplus/(Shortfall)	25,129	(401,284)	(409,020)	(415,283)	81,131

Expenditures

- Forecast uses moderately conservative approach
- Looks at actual expenditures from previous years for historical trends
- Uses the current budget year as the base
- Personnel costs: only current obligations in collective bargaining contracts, current employment contracts, and approved wage and classification plans for non-union personnel
- Future contract settlements and compensation plan adjustments should be analyzed in separate worksheet to see the net effect using % increases
- Expenses: Look at annually, historical expenditures, forecast conservatively and maintain service levels

Expenditure Categories

- Personnel and expenses related to providing a level of service which includes contractual obligations
- Education costs
- Debt Service (General Fund, Enterprise Funds, Temp. Interest)
- Capital
- Group health/life insurance, retirement, general insurance
- Amounts to be raised: Tax Title, Overlay, Cherry Sheet Offsets, Prior year deficits, snow and ice deficits, court judgments
- State Assessments
- Reserve Fund, Special Articles, transfers to stabilization, special purpose stabilization, OPEB

Expenditure Assumptions

- Forecast document will:
 - Adhere to adopted financial policies
 - Make deposit to Stabilization Fund to maintain required balance
 - Honor all contractual obligations, such as debt service schedules and union contracts
 - Provide same level of service, except where noted
 - Include 2% increase in most services & commodities
 - Utility costs level funded in FY20 and between 1-3% for FY21-FY24
 - Assumes 10% increase in Retirement Assessment each year of forecast
 - Assumes 8% increase for Health Insurance each year of forecast
 - FY20 reflects target budget figures that departments were asked to meet when developing their budget

Expenditure Assumptions Cont.

- State Assessments and Cherry Sheet Offsets level funded for FY20 and assume 2.5% increase for FY21-24
- Assumes Tax Title Cost \$12,000 for FY20-FY24
- Increases the Overlay Account by \$10K each year of the forecast based on historical data
- Increases the Pavement Management Line by \$50K each year
- Assumes 2.5% increases for the LPS and Monty Tech
- Assumes level funding the Reserve Account

Expenditures

FY2018 Actual FY2019 Actual FY2020 Projected FY2021 Projected FY2022 Projected FY2023 Projected FY2024 Projected

Expenditures

General Government	1,336,339	1,426,619	1,531,006	1,576,136	1,623,752	1,672,963	1,724,073
Public Safety	2,941,492	3,249,106	3,455,048	3,504,412	3,554,763	3,606,121	3,658,506
Education	20,598,833	21,031,807	21,557,161	22,095,647	22,647,596	23,213,344	23,793,236
Public Works	1,589,171	1,674,835	1,794,078	1,885,731	1,979,317	2,075,113	2,173,507
Facilities & Buildings	753,216	672,445	704,790	713,322	723,997	734,996	748,159
Recycling Program	153,230	156,360	221,032	225,452	229,961	234,561	239,252
Health & Sanitation	70,867	73,839	76,183	78,685	81,288	83,995	86,811
Library	381,710	412,063	413,592	429,134	445,335	462,227	479,840
Public Assistance	239,800	245,494	249,569	253,897	258,399	263,083	267,956
Debt Service	4,824,108	4,758,053	4,623,304	4,507,172	4,376,216	4,312,180	3,317,569
General Government Unclassified	2,911,296	3,111,981	3,350,393	3,643,021	3,964,411	4,317,429	4,705,229
Central Purchasing	55,303	55,303	60,303	61,509	62,739	63,994	65,274
Other Amounts Raised	1,584,880	1,671,859	1,815,898	1,967,763	2,133,332	2,313,963	2,511,152
State Assessments	1,388,782	1,044,696	1,044,696	1,070,813	1,097,584	1,125,023	1,153,149
Free Cash/Other Financing Uses	1,136,882	1,569,652	2,134,100	1,052,000	1,054,040	1,056,121	1,058,243
Total Expenditures	\$ 39,965,910	\$ 41,154,110	\$ 43,031,152	\$ 43,064,694	\$ 44,232,730	\$ 45,535,113	\$ 45,981,956

Expenditures-Debt

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Debt

	FY2018 Budget	FY2019 Projected	FY2020 Projected	FY2021 Projected	FY2022 Projected	FY2023 Projected	FY2024 Projected
Total General Fund Regular Debt	\$ 679,453.60	\$ 549,778.24	\$ 485,646.57	\$ 450,585.08	\$ 441,630.04	\$ 393,412.48	\$ 274,266.21
Total General Fund Excludable Debt	\$ 3,296,637.16	\$ 3,393,089.25	\$ 3,334,870.36	\$ 3,252,019.64	\$ 3,228,498.15	\$ 3,230,589.79	\$ 2,396,328.76
Total General Fund Short-term Interest	\$ 4,157.21	\$ 1,991.78	\$ -	\$ -	\$ -	\$ -	\$ -
Total Sewer Debt	\$ 836,151.59	\$ 806,851.33	\$ 812,828.95	\$ 800,201.18	\$ 702,691.70	\$ 685,558.29	\$ 645,143.85
Grand Total Debt Service	\$ 4,816,399.56	\$ 4,751,710.60	\$ 4,633,345.88	\$ 4,502,805.90	\$ 4,372,819.89	\$ 4,309,560.56	\$ 3,315,738.82
Premiums/MSBA Reimb Excludable Debt	\$ 535,829.39	\$ 535,574.41	\$ 535,316.88	\$ 535,051.19	\$ 534,779.55	\$ 534,501.26	\$ 59,968.64
Net Excludable Debt - Tax Levy - DE1	\$ 2,760,807.77	\$ 2,857,514.84	\$ 2,799,553.48	\$ 2,716,968.45	\$ 2,693,718.60	\$ 2,696,088.53	\$ 2,336,360.12
Regular Debt Administrative Fees	\$ 312.03	\$ 287.65	\$ 262.78	\$ 237.40	\$ 211.51	\$ 185.10	\$ 158.15
Sewer Debt Administrative Fees	\$ 7,396.65	\$ 6,054.25	\$ 5,072.45	\$ 4,128.72	\$ 3,184.46	\$ 2,434.03	\$ 1,672.43
Transfer from Sewer Enterprise - Sewer Debt Service	\$ 843,548.24	\$ 812,905.58	\$ 817,901.40	\$ 804,329.90	\$ 705,876.16	\$ 687,992.32	\$ 646,816.28
Transfer from Septic Receipts Reserved	\$ 10,868.00	\$ 10,868.00					
Meadow Woods Water Betterment Revenue	\$ 62,781.00	\$ 58,468.13	\$ 56,837.50	\$ 55,837.50	\$ 54,837.50	\$ 58,837.50	\$ 57,587.50
Transfer from Artificial Turf Revolving		\$ 44,930.56	\$ 43,500.00	\$ 46,473.00	\$ 44,318.19	\$ 42,134.74	\$ 39,321.78
Net Regular Debt Service	\$ 610,273.84	\$ 437,790.98	\$ 385,571.85	\$ 348,511.98	\$ 342,685.86	\$ 292,625.34	\$ 177,515.08
% of Net Regular Debt to Levy (cap of 4% per Policy)	2.64%	1.81%	1.54%	1.33%	1.26%	1.04%	0.61%
Available Capacity to reach cap of 4% policy			2.59%	2.03%	2.56%	3.29%	5.44%
Available Capacity to reach cap of 4% policy			\$ 650,518.05	\$ 531,466.30	\$ 695,545.70	\$ 927,512.86	\$ 1,593,627.79
Net Excludable Debt	\$ 2,760,807.77	\$ 2,857,514.84	\$ 2,799,553.48	\$ 2,716,968.45	\$ 2,693,718.60	\$ 2,696,088.53	\$ 2,336,360.12
% of Excludable Debt to Total Levy (cap of 11% per Policy)	10.68%	10.61%	10.03%	9.42%	9.03%	8.73%	7.39%
% of Aggregate Debt Service Costs to Total Levy (cap of 14% per Policy)	13.04%	12.23%	11.41%	10.63%	10.18%	9.67%	7.95%

Forecast Conclusions

- Conclusions:
 - Indicates stable financial status by using conservative revenue estimates, contractual obligations, conservative expenditure projections.
 - Revenue projections for FY21-FY24 does not assume use of free cash but has expenditures on the expenditure projections that would be funded typically with free cash.
 - FY2024 surplus projected due to drop off of debt.

Forecast Next Steps

- Continued discussion of Assumptions, if needed
- Firm up Revenue Estimates
- Review of Department's requests against target budgets
- Receive insurance renewals & other Assessments
- Currently reviewing FY20 Budget submissions
 - Town Manager's Recommendation 02/14/19
 - Target & Above Target
 - Target Budget leaves a surplus of \$150,000 in Free Cash that could go towards next year's Free Cash balance or Snow and Ice Deficit
 - BOS & FinCom Review, February – March 2019
 - Annual Town Meeting- May 4, 2019