Town of Framingham

Long Range Financial Forecast

FY2013 to FY2017

Fall Special Town Meeting

October 18, 2011

Office of the Chief Financial Officer

Executive Summary

The function of a Long Range Forecast is to provide the Town Administrators, Town Committees, Town Meeting Members, Framingham Taxpayers and citizens with important data regarding the finances of the Town and the outlook for the next five years. This forecast addresses only the General Fund which is funded by property taxes, state aid, local taxes, fees and fines from departments and other miscellaneous revenue. The expenditures included are all Town department operations (including education) and all fixed costs (insurances, retirement, debt service and state assessments). The forecast does not include the Enterprise Funds for Water and Sewer operations nor special programs funded by federal and state grants.

The Long Range Forecast (LRF) assumes growth of existing programs and services and existing revenues. With only one exception (full day kindergarten in the School Department), expenditures are based on the services provided today (FY12) and nothing new. Revenues have no assumptions for any new revenue sources or types; the only "new" revenue being new growth in property taxes due to new development. The new growth estimate is very conservative based on the level of development/redevelopment going on in Town now. Revenues assume no increase in any particular fee. The forecast is a tool to aid in making decisions for future spending on departmental operations, programs, services and investments. It is not the budget; it is something to help make budget choices.

One year ago the Long Range Forecast estimated a deficit for FY12 of $6.9 million. The growth of the deficit was expected to be $27 million by FY16. State aid was expected to be cut by 5% for FY12 in the two major categories and any stimulus funds would disappear. Local receipts, especially permits and vehicle excise tax, were expected to decrease dramatically. In total revenue was estimated to grow less than 1%. On the other side of the ledger, spending was expected to grow almost $9 million or 4.2%. Health insurance was expected to grow by 8.5%, liability insurance by 10%. Debt Service would grow 39% if all the capital requests were approved. In the end, education aid actually grew and General Government aid was not cut much more than anticipated. Revenue increased 2.7%. Spending was reigned in: health insurance bargaining resulted in over $1 million in savings, the capital budget was reduced, municipal departments were cut approximately 1% and the School Department budget was limited to 2.7% growth. Two major spending components grew beyond expectations: snow and ice spending, which was over budget more than during the blizzard of 1978; liability insurance coverage came in

30% higher than FY11. However, the budget was balanced and for the first time in six years, the School Department was funded at its level service request.

For FY13 to FY17, there is still a deficit; however not as overwhelming at last year's forecast. For FY13 a deficit of $2.5 million is projected, peaking in FY17 at $9.6 million. These projections do not take into account any potential reductions in health insurance spending due to health insurance reform. The capital budget projection is not reduced either; it assumes the approval of all requested projects. These two components may have significant impact on the outcome of FY13. Finally, there is no assumption of a snow and ice deficit, something which has crippled spending for the last four years by exceeding the budget by more than $1 million each year. The budget for this cost had been substantially increased the last two years in order to avoid having to roll over the deficit in the future fiscal years. The funding for the School Department includes the transition to full day kindergarten. This requires the addition of $700,000 to work as a "bridge" to state funding. The state aid allocated for full day kindergarten takes a year to catch up and always fund in arrears.

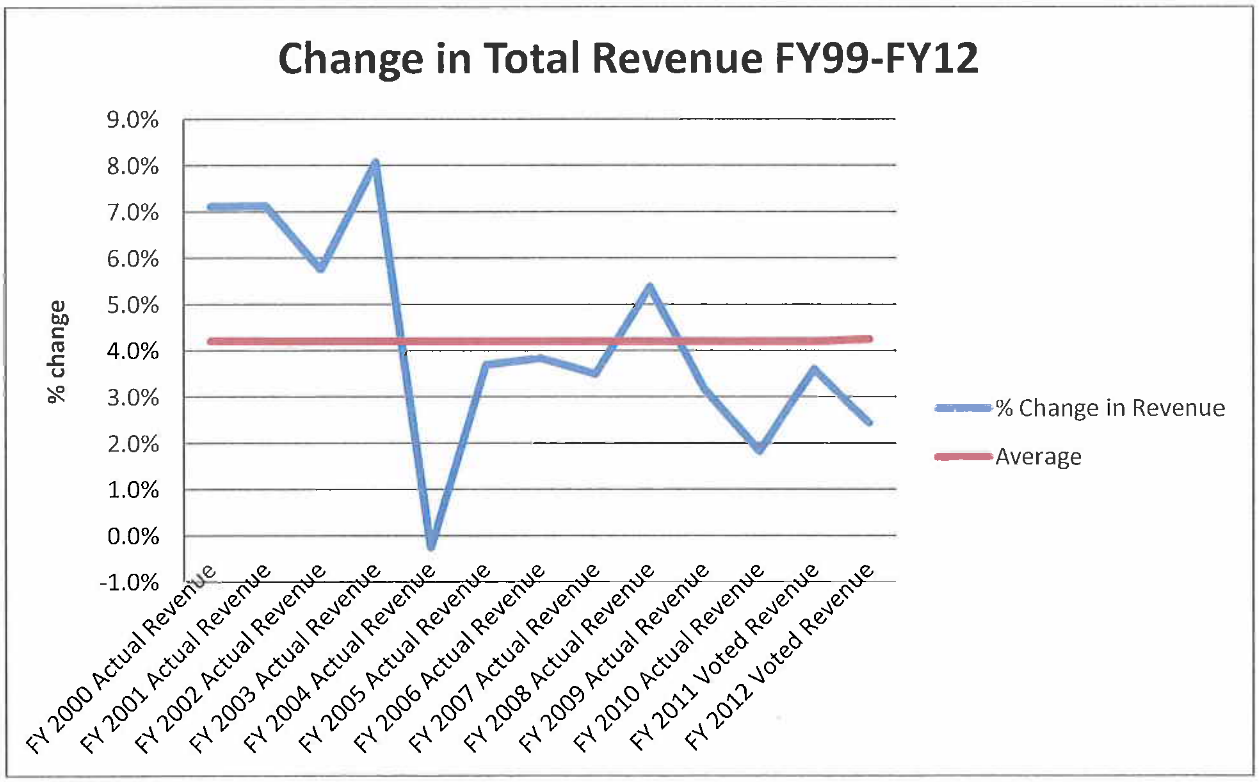
There are still some lingering effects of the initial drop of the Great Recession: the Town's pension fund, which has made some headway in regaining its losses, still has to recognize and record part of the loss that the state allowed to be deferred. This will either increase the contribution required by the Town or add a year to the full funding schedule for the fund; or some combination of the two. There is also the OPEB future benefits liability, which will require annual appropriations in the range of $16 million. However, the privatization of the bus drivers, current change to health insurance, and future changes to health insurance mandated by the state should have a helpful impact on the total unfunded liability.

If the state upholds its obligation to fund Local Aid and its responsibilities for Special Education Circuit Breaker and PILOT payments for state owned land we could increase revenue growth to just over 4% by FY17. On the other side of the ledger, the state cannot continue to pile on unfunded mandates such as stormwater regulations, trench regulations, and special education tuition increases. If these costs can be mitigated, we may be able to control expenditures to match revenue.

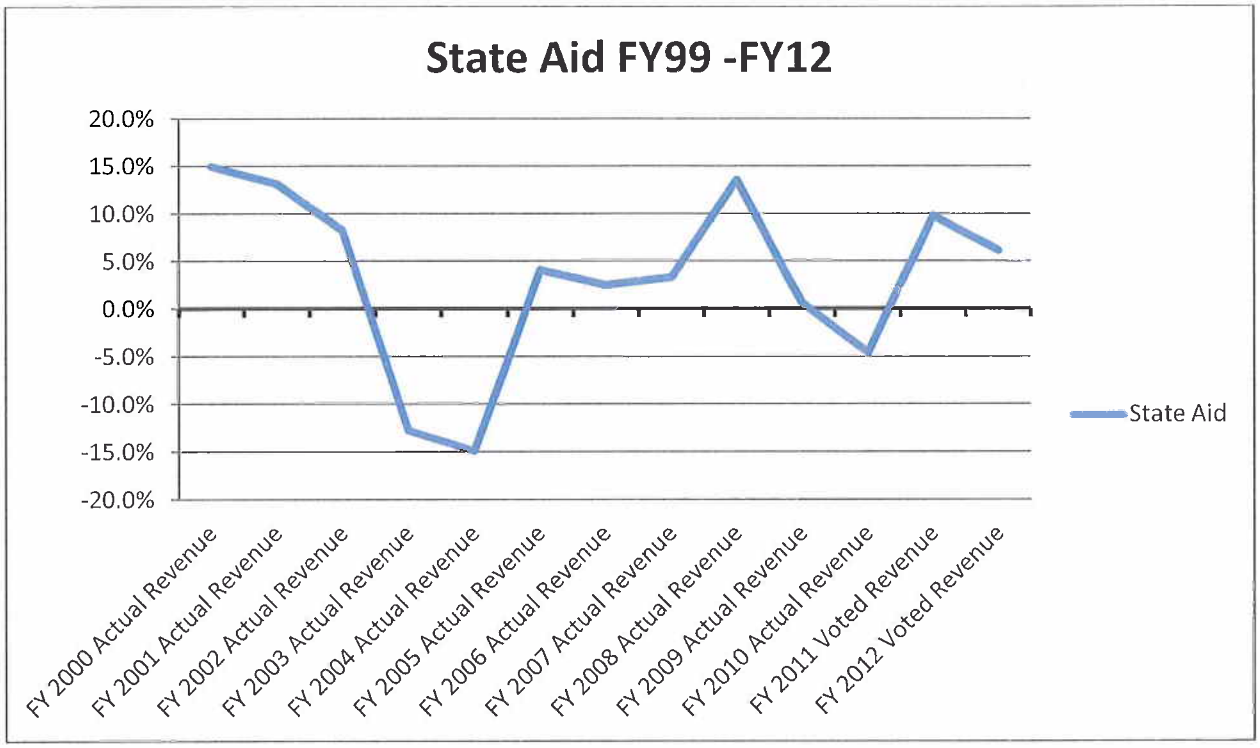
Revenue Trends

Historical Revenue Data: FY1999 to FY2012 (est)

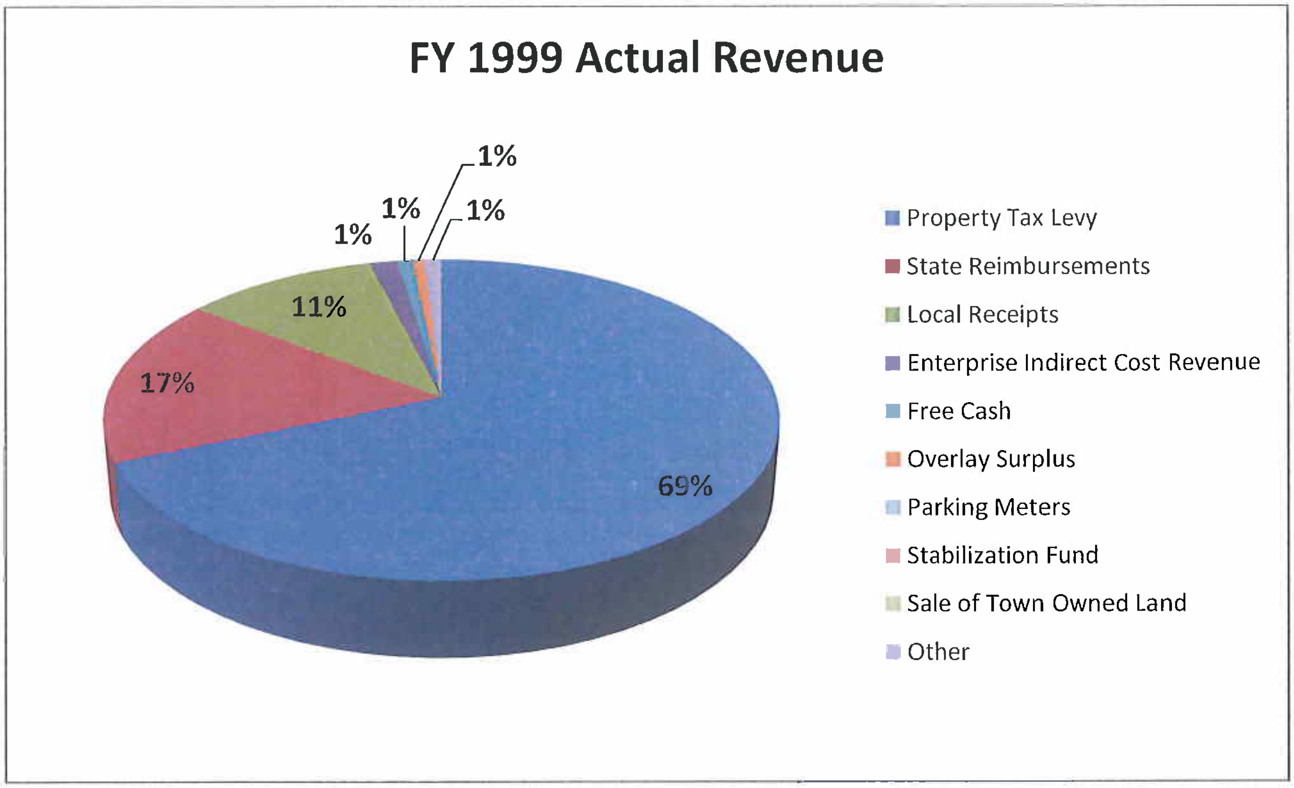
Thirteen years ago (FY99) the revenue total for the General Fund was $126.7 million. For FY12 the revenue estimate is $217.4 million. The increase is 71% or $90 million. This averages out to 4.2% per year. However if we used this historical number to forecast revenue, the forecast would have grossly over-stated revenues in eight of the 13 years in this analysis. Revenues would be underestimated for five of the 13 years. The graph below illustrates the change in percent growth over time and its relationship to the statistical average rate of growth for the period. The substantial drop on revenue in the graph is the two years of state aid reductions of $3.8 million each year. The pattern of revenue closely matches the giant swings in state aid, indicating that that is the source of the unpredictable revenue change, which in the second graph below you can see that taxes and local receipts are fairly steady in their pattern of change.

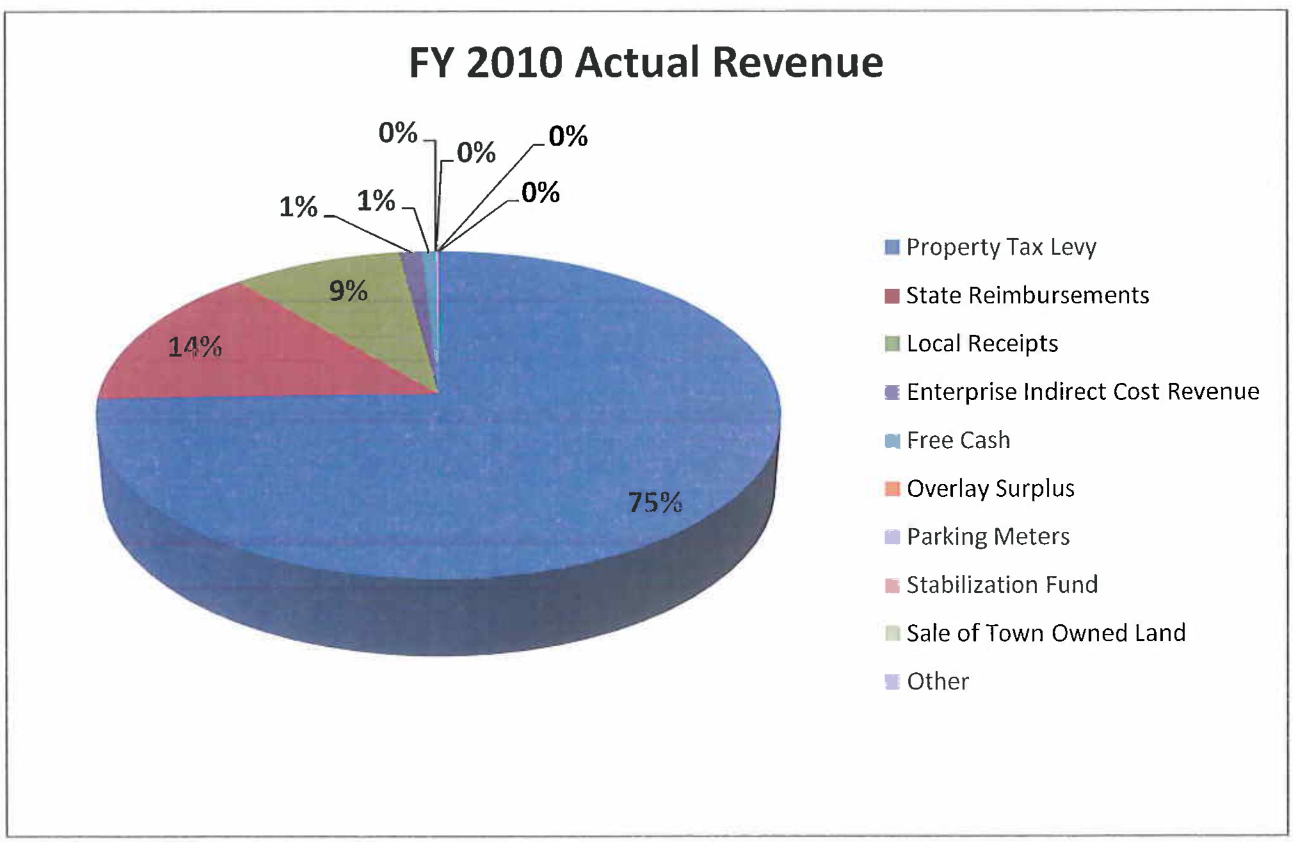


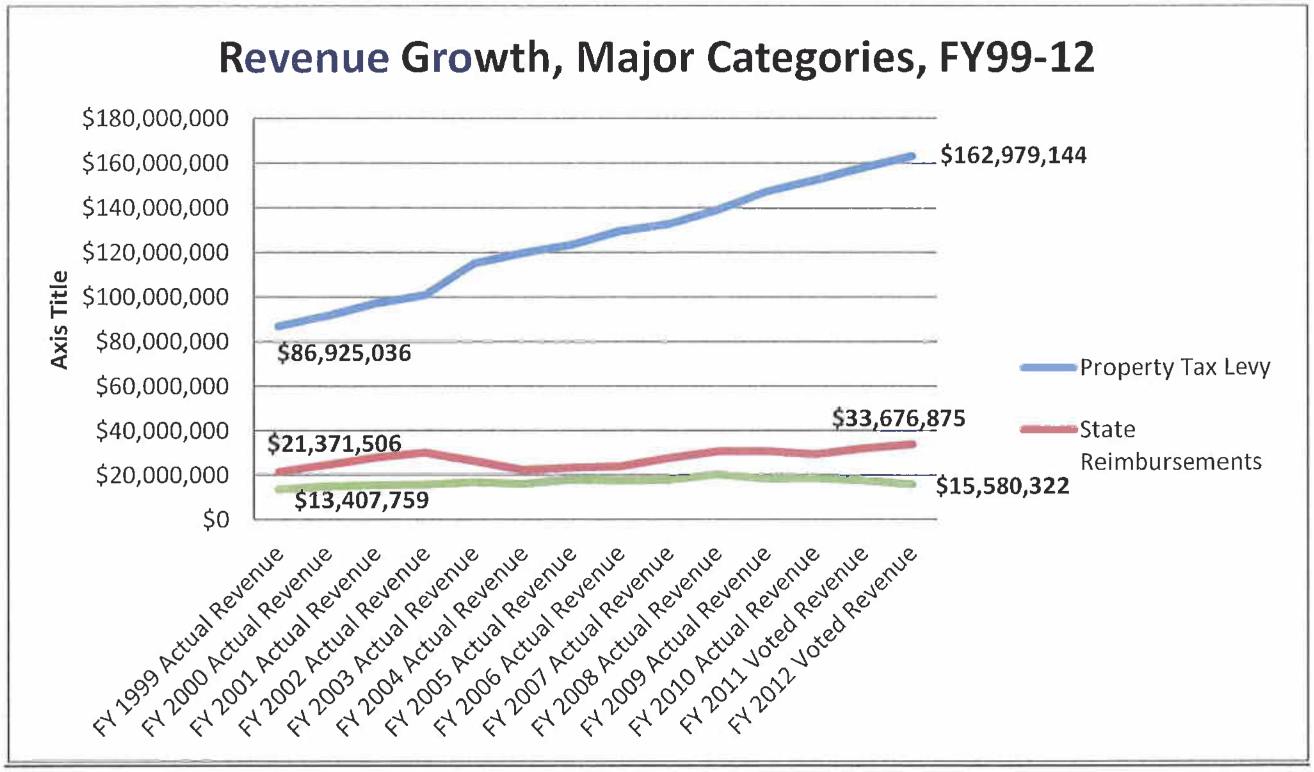
The type of revenue that is most volatile is state aid, with annual changes that swing from a 15% *increase* to a 15% *decrease.* There is NO short term trend with which to forecast let alone a long term trend. In two of the years in this time period state aid was cut mid-year, further exacerbating the ability to predict and budget for this revenue source. The graph below shows the annual percent changes in State Aid from FY00 to the FY12 amount voted at the 2011 Annual Town Meeting. Note that only the Cherry Sheet State Aid is included. The amount of total state aid counted in the budget includes School Building Assistance (SBA) debt service offsets for three schools (McCarthy, Cameron, and Wilson) which does not come through the Cherry Sheets (it is bond funds and is not subject to the state General Fund issues and political manipulation).



A concerning trend over this time is the make-up of total revenue. In FY1999, property taxes comprised a smaller portion of total revenue, yet by 2012 it is 75% of the total. Since the total pool of revenue from taxes can increase no more than 2.5% without an override; unless we can control costs even going to the maximum levy every single year will not provide enough revenue to balance the budget. The state must uphold its obligation to increase funds to their ever increasing mandates, especially in education. Other sources of revenue must fill in the gap in addition to minimizing growth in spending and the state must give flexibility to cities and towns to create those alternative revenues and not depend on simply increasing fees to residents. The two graphs below illustrate the changing dynamic in revenue sources.


FY 1999 Actual Revenue
1%
1%
1%
1%
11%
17%
69%
Property Tax Levy
State Reimbursements
Local Receipts
Enterprise Indirect Cost Revenue
Free Cash
Overlay Surplus
Parking Meters
Stabilization Fund
Sale of Town Owned Land
Other


FY 2010 Actual Revenue
0%
0%
0%
0%
1%
1%
9%
14%
75%
Property Tax Levy
State Reimbursements
Local Receipts
Enterprise Indirect Cost Revenue
Free Cash
Overlay Surplus
Parking Meters
Stabilization Fund
Sale of Town Owned Land
Other



Future Revenue Projections: 2013 to 2017

A detailed table of the revenue forecast is included on Chart 2, page 18. It lists each revenue source by major category, broken down into subcategories. Each subcategory has a rate of growth listed to the right of the individual source.

Property taxes

Property taxes are projected to increase by 2.5% as restricted by Proposition 2 1/2. The rule is that the total tax levy from the prior year is multiplied by 2.5% to get the maximum next year levy. The total levy of the prior year includes the base tax levy, plus the taxable amount of new growth in value. For the term of the forecast the projected revenue assumes going to the maximum levy *every single year, and we still will have a deficit.* New growth, those taxes generated by new development, is added on top of the tax levy in its initial year and the folded into the base levy in subsequent years. The Town has had some significant redevelopment in the past couple of years. But for the next few years there appears to be growth on in Technology Park. Therefore, new growth is markedly reduced for the term of this forecast, starting at $950,000 and growing by only 2% for the next two years for the forecast and three and four percent for the last two years.

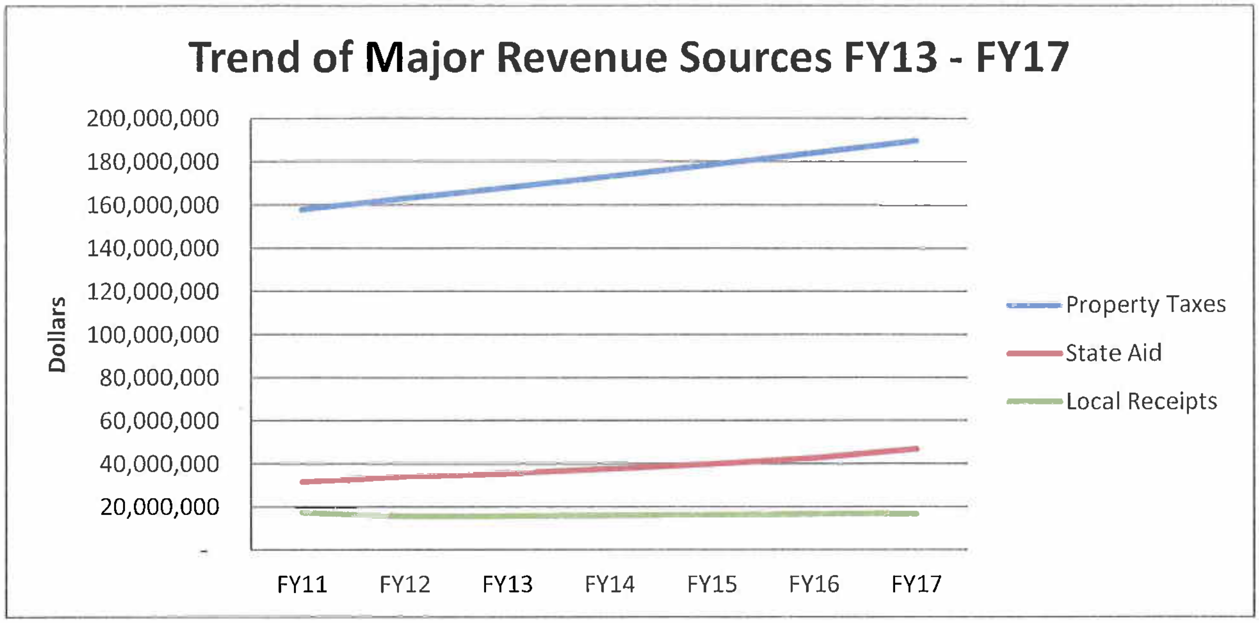
There is no assumption of changes to telecommunication tax exemptions. The state has not closed the loophole for telecommunication equipment. The timeline for that change is uncertain if at all possible in the current economic and political climate. If the loophole was closed, Framingham would gain $1.5 million in personal property taxes.

State Aid

State aid is the least predictable of the revenue sources. As previously described it has varied greatly in the last 13 years. The amount of funding depends upon state revenue amounts and is distributed via complicated state formulas. It is also subject to political manipulation; reallocating funds to politically powerful cities and towns at the expense of less powerful ones. State Aid for Framingham consists of Chapter 70 Education Aid, the largest component; Unrestricted General Government Aid, Charter School Reimbursements, payments for loss of property tax for state owned land, and reimbursements for tax exemptions for Veterans, the elderly and surviving spouses of each. In the case of Framingham, it also includes reimbursement of debt service by the School building Authority in the amount of $2,510,995 for the next five years. The forecast assumes an increase in Chapter 70 aid ranging from 6% in FY13 to 12% in FY17. General Government Aid decreases $300,000 from the recently amended FY12 level in FY13 and increases by little over 1% in FY14-FY16 and 5% in FY17. While language in the law approving the additional Unrestricted General Government Aid allows this to be a recurring payment, a number of state level officials have dubbed this a one-time receipt. This forecast hedges that risk and counts on half the amount in FY13. There is some risk, but the entire amount is not included in the forecast. The remaining components of state aid stay level for the term of the forecast.

Local Receipts

Local receipts are fees, user charges, local taxes, rent, investment income and fines created and/or controlled by the municipality. The Town collects three taxes: motor vehicle excise, 6% room tax and .75% meals tax. The excise tax actually decreases over time. The room and meals tax will hold steady. No growth in this revenue type is projected for FY 13, while growth in the subsequent years is 1%. User fees, penalties and fines and licenses and permits grow at 3%, 2% and 1% respectively. Investment income is projected to increase by 3% this year after a severe reduction last year. The remaining revenue sources within Local Receipts remain steady for FY13 and beyond.



Overhead Charges to Enterprise Funds

State regulation allows a municipality to charge other funds for the overhead costs to manage the programs and the finances of the specific fund. The charges must be proportional to the level of effort spent by staff and managers and the direct costs of overhead expenses. The Town created a computer model that calculates salaries, operating costs, insurances and legal costs that are dedicated to managing the water and sewer departments. This model is reviewed periodically for accuracy and the amounts adjusted for the annual increase in costs. The rate of growth for this forecast is 3%. The indirect charges provide $2.7 million in revenue to the General Fund in FY13 and grow to almost $3.1 million in FY17.

Free Cash

Free cash is the amount of money left over and unrestricted in the General Fund at the end of the fiscal year. The Town's policy for the use of free cash allows the use of up to $1.5 million for the operating budget in the next budget cycle (i.e. FY11 free cash is used in the FY13 budget). The remaining amount of free cash is then allocated to the Stabilization Fund (40%), capital projects (20%) and to remain in General Fund balance (40%). This does not necessarily mean there will be funds available for all of these allocations. In FY09 there was only $1.2 million of free cash available, so no funds were allocated for the stabilization fund or capital projects or to remain in the fund balance, we used it all to fund the budget. In FY12, $1.5 million was used in the operating budget and the allocation for the stabilization fund was $220,000 and $100,000 in the capital budget. In this forecast free cash is estimated at