

**Town of Princeton
Commonwealth of Massachusetts**

Selectboard Budget Report

Fiscal Year 2021

Annual Town Meeting

Thomas Prince School

Saturday, June 27, 2020 - 10:00 a.m.

Prepared by the Princeton Selectboard

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Message from the Selectboard

This report is provided to voters ahead of the Annual Town Meeting to give you time to better understand the operating budget and the decisions that went into its preparation. This report is intended to serve as a policy document, a financial guide, and a communications device to our residents. The report was created to help orient interested readers by providing a brief overview of the budget process, as well as an explanation of the organization of the budget itself. We hope you find this a useful tool as you better acquaint yourself with the latest financial and planning information for the Town. In the future, we intend to write this report in conjunction with the Advisory Committee. This is the first time in our memory that the Board has created a report of this nature. We hope that you find it helpful and look forward to your feedback.

Please note we have included an appendix at the end with definitions of many of the terms used in this document.

We refer in several places to a Financial Policies document that the Advisory Committee is working on. They have been using this budget cycle as a time to test and refine their recommended policies. We expect the Advisory Committee to formally recommend these policies to the Selectboard within the next few months.

Collectively, the SelectBoard, Advisory Committee, and Town Finance Team are focused on increased financial transparency and additional planning and reporting. This scope of this work encompasses a year-round timeline of planning for the Operating Budget, 5-year Capital Forecast, 5-year Financial Outlook, and the correlated Debt Schedule. This foundation is built on the Town Hall financial staff, the assessors, and the new accounting system to which we recently migrated.

The goal of the Selectboard in preparing this operating budget was to provide the same level of service as last year and to try to keep the overall operating budget increase under 3%. We started the process by asking all departments to provide a level-funded budget. If they needed to exceed that level of funding, we required justification. We also asked all departments to review their capital needs for the next five years. We asked departments that could do so to look into purchasing used versus new items and to explore leasing versus purchasing.

The Board knew going into the budgeting process that there were a few big-ticket items that were imminent. Road, bridge, and culvert repairs are on the Road Advisory Committee's multiyear plan, as well as the capital plan project we did with the Collins Center last year. The Selectboard still firmly believes that we will need to build a new public safety building and that we should be planning for that. We were also told early on that the proposed Wachusett Regional School District (WRSD) budget for Princeton was 4.66% higher than last year's number.

COVID-19 threw a giant wrench into budget preparation. We typically plan our budget based on municipal allocation estimates from the State that come out in January. State budget numbers aren't final until the State passes its budget, with the Governor's budget in mid-summer. There is quite a bit of concern that the State's revenues for FY20 and FY21 will be significantly decreased based on forecasts from trusted advisories

including Mass Taxpayers Association. We don't know yet how the State's revenues and their planned borrowing will affect Princeton allocations as well as the WRSD allocations. The State has provided little revenue guidance to the Town. If we don't pass a budget at Town Meeting before June 30, we can operate on a 1/12th budget (we would be allowed to spend up to 1/12 of FY20's annual budget each month). However, we must hold our Annual Town Meeting within 30 days of the Governor rescinding the State of Emergency. Given that we don't know when that will be and how much notice we will get, the Selectboard decided it was better for the Town to pass a minimal budget based on conservative revenue estimates than to operate on a 1/12th budget. However, we are requesting authorization to operate on a 1/12th budget in case we can't hold our meeting on June 27th, we don't get a quorum of voters, or the operating budget article fails to pass.

Why does the revenue estimate matter for Town Meeting? Throughout the meeting, voters will be asked to "raise and appropriate" funds for various purposes. The amount we need to raise through property taxes is higher if other revenues are lower. The tax impact on the average single-family home we display in monetary articles will be based on FY20's revenues per the Division of Local Services' Tax Impact Calculator.

Besides lowering our revenue estimates, the Selectboard also voted (2 to 1) to reduce the amount we budget for the Wachusett Regional School District. Though the District asked for a 4.66% increase for Princeton (4.48% overall for the district), neither the Selectboard nor the Advisory Committee support this increase, and we expect some of the other towns in the District will not vote in favor of the requested increase. In March, the town did send a letter to WRSD requesting they revisit their budget to lower assessments for all towns including Princeton, for a district increase in the range of 3-3.5%, which was consistent with the Fall 2019 WRSD Roundtable guidance towns provided to the district. At least four of the five WRSD towns must vote to approve the WRSD budget or a new budget must be created by WRSD and voted on by all towns that didn't pass the original budget proposal. Princeton's school enrollment is no longer decreasing and offsetting the District increase. The Selectboard voted to include a 3.5% increase in the budget for the WRSD. If the final approved budget for the District is higher than this, we will need to hold a Special Town Meeting to appropriate more funds. If it is lower, unspent funds will end up in free cash for next fiscal year. The District is reworking their budget and has further advised DESE and the district towns they will operate under 1/12^{ths} of their FY20 budget starting in July. We expect the district to issue a revised budget later in the summer when the state can give more financial guidance for allocations.

Based on input from the group working on election and Town Meeting safety, we decided to try to focus only on essential articles and to defer other articles for a meeting either later in the year or next year. In addition, given our revenue and other uncertainties, we also decided to postpone most capital requests for a later time. Our plan is to transfer most of our free cash into the general stabilization fund. Some call this a "rainy day" fund, and as Sean Cronin from the Department of Revenue said, "Remember that rainy day fund? It's pouring!" When we have a better handle on revenues, we may hold a Special Town Meeting to address some of the capital projects. At that time, voters can decide by a 2/3rd majority vote to transfer money out of the general stabilization fund for deferred important projects. The following capital projects were targeted for FY21 but were deferred: a new police cruiser for the Chief (hers is 11 years old), a new salt barn for the Highway Department (existing one is beyond repair), replacing the 20 year old front-end loader for the Highway Department, and repaving the Thomas Prince School's parking lots.

PROCESS: The initial draft budget came from the Financial Team (Town Administrator, Accountant, Treasurer, Assessor) and was based on departmental requests. It was reviewed, discussed, and refined over

many months by the Selectboard, Advisory Committee, and Financial Team. The Financial Team worked to ensure that departments had what they needed, that the estimates for capital requests were well researched with alternative options, and that figures for stabilization, free cash, and local receipts were as accurate as possible. The Selectboard worked to make sure that important Town priorities were funded, that capital requests were justified and were timed correctly, and that the budget increase would be reasonable. The Advisory Committee reviewed all the numbers for accuracy and need, and ensured that capital requests were adequately reviewed and sufficient work went into getting estimates. They also looked carefully to make sure that decisions made for FY21 would enable the Town to handle its current and future obligations, while also providing financial flexibility and options for future year projects and needs. We are all pleased to say that the multi-team approach to budgeting this year was very productive and helpful. The teams have been working closely together since last summer when we began discussing financial policies and forecasting.

CHALLENGES: There are some parts of the operating budget that increased more than we would have liked. For example, there is a significant increase in State-mandated training for the police and the Town just signed a new 3-year contract with the police union. Police salaries went up because of the new contract which affects pay, overtime, shift-differentials, longevity, and other pay-related items for full-time and part-time officers. That line item also went up because of the need for more backfilling of shifts (for example, when an officer is in training, his shift must be filled).

Selectboard Budget Report

Introduction

The following is the recommended budget proposal for the Town of Princeton from the Selectboard for FY21. The operating budget for the Town is presented in one article on the Annual Town Meeting Warrant. The remaining FY21 budget is comprised of additional articles that cover capital expenditures and requests for special services by the Town. Each year Town Meeting reviews the proposed budget and adopts it by voting to approve each warrant article.

Please note that the operating budget bottom line has been approved by the Selectboard but that individual sections will need to be re-voted before the Warrant is final.

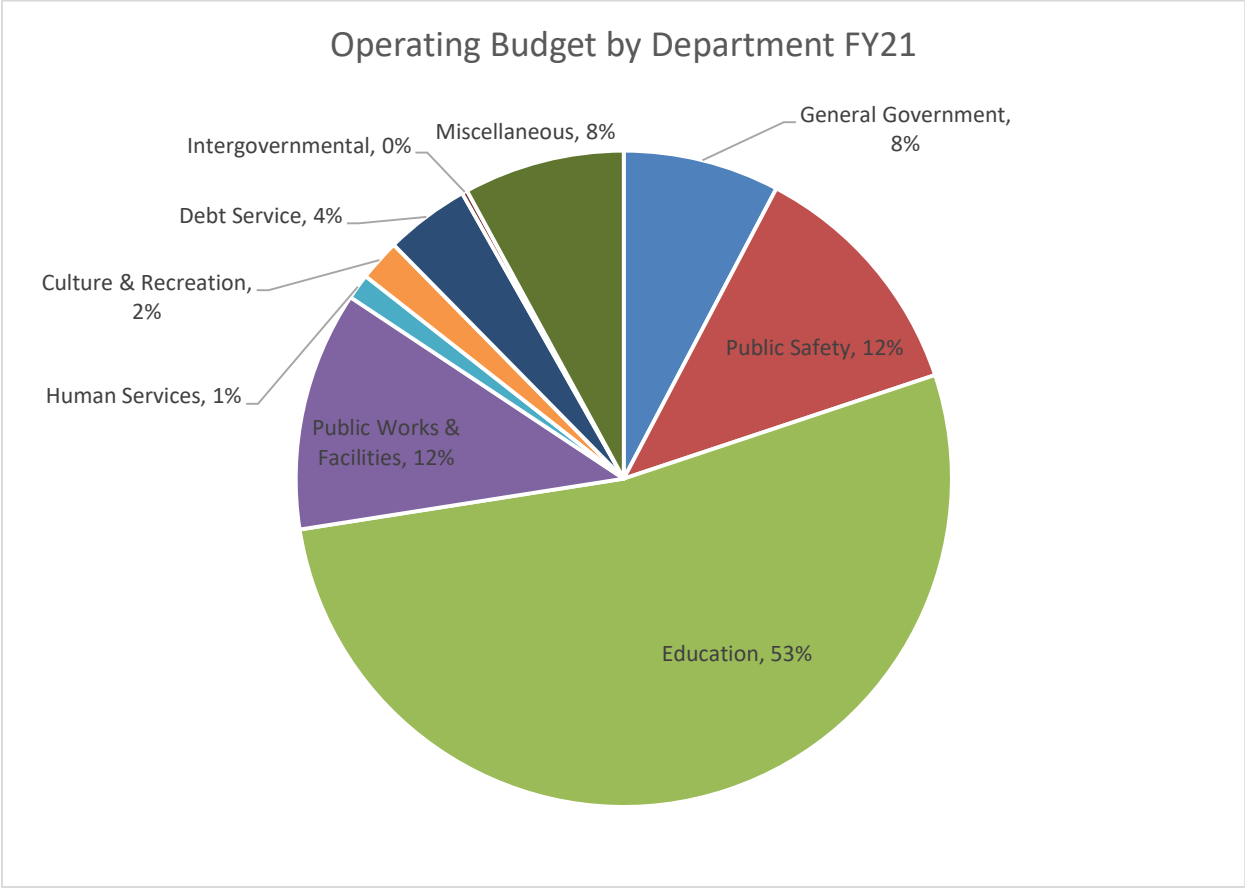
Budget Recommendations

The current budget recommendation is a responsible balanced budget that is within the 2 ½ plus growth guidelines of Proposition 2 ½. That law says that the tax rate cannot be higher than \$25.00 per \$1,000 of valuation and that the tax levy must be within the property tax levy limit (see definition in appendix) the value of which is 2 1/2% higher than the prior years' levy limit, with additions for new growth and exceptions allowed for overrides and exclusions as adopted by the voters.

The recommended operating budget for FY21 is \$10,650,970.34, an increase of \$398,566 (3.89%) over the FY20 operating budget approved at Town Meeting. This increase is due to several factors which include

- Public safety is up because of the new union contract for police, increased police equipment costs, increased mandated police training, and a new contract with the Fire Chief.
- Schools are up because of the budgeted WRSD increase, increase in number of Monty Tech students (with a higher cost per student than at WRSD), and an out-of-district vocational school placement. The Town will be required to pay the full cost of that placement, \$60,000, which includes transportation.
- Human Services is up because of another veteran in Town. Note that the State reimburses the Town for this but there is a one-year delay.
- Culture and Recreation is down even though Library is up, based mostly on cutbacks to Parks and Recreation. Until the Town comes up with a more definitive plan for Parks and Recreation, the Board decided to not replace Director Hollie Lucht, to no longer run the after-school programming, and to spend less at Krashes Field by no longer maintaining the upper soccer field to its current state. In addition, we will be relying more heavily on the DPW for field maintenance.
- Our Insurance number is up due, in part, to the Selectboard and Advisory Committee's decision to budget for a likely increase in property coverage when our buildings are inspected. The replacement value for some of our buildings, in particular Bagg Hall and the Goodnow Library, is assumed to be too low.
- We have allocated \$12,000 for COVID-related expenses this year. Though much of that will hopefully be reimbursed by FEMA and MEMA, including a line in the budget gives us room to operate until an eventual reimbursement is received.
- We included a placeholder of \$15,000 in the IT budget for online permitting. The first year's cost includes startup costs and annual licensing fees. We are looking at several options for permitting software that can handle building, electrical, plumbing, brush burning, and Board of Health permits. Though we might be able to fund part of this through a grant, we are including the amount in the budget just in case. Many towns include the annual licensing fee for such software in the permit fees.

The chart below shows the breakdown of the operating budget by department for FY21.



If all articles in the warrant are passed, the estimated impact on the average household’s tax bill in FY21 is \$272.95. Additionally, at past town meetings we have approved debt for Bagg Hall and PFAs projects. The full taxpayer obligations will increase in FY22 by \$123 for the average household, for both principal and interest payments, whereas in FY20-21 the payments have been for short-term interest-only payments.

Assessed House Value	Incremental Tax Impact to Yearly Bill
\$384,442 – Average Single-Family Residence	\$272.95
250,000	177.50
350,000	248.50
450,000	319.50
550,000	390.50
650,000	461.50
750,000	532.50
850,000	603.50
950,000	674.50
1,050,000	745.50
1,150,000	816.50
1,250,000	887.50

Please note that the above chart is based on the Division of Local Services data and assumes revenues are level from the previous year. If revenues are lower, the tax impact will increase.

Summary of Warrant Articles

Below is a summary of some of articles to be voted on at Town Meeting (both monetary and nonmonetary). As of the date of this report, the Selectboard has not yet voted on the final warrant. This gives an overview of the warrant but is subject to change.

Operation Budget: There will be an article for the annual operating budget (above) that includes all operating departments, including the schools. The Operating budget is mainly funded through Raise and Appropriate (real estate taxes) with the remainder coming from others sources of revenue such as state aid, local receipts, and some of the revolving funds. **The impact of approving this article on the taxes of the average home in Princeton (\$384,442) is expected to be \$272.95 over last year's amount.**

Stabilization Fund: This is another monetary article that is always on the warrant. It allows us to transfer \$242,424 from free cash into our general stabilization fund. The Stabilization fund is a State-mandated fund that is used to offset irregularities in revenues. As mentioned earlier in the report, the Selectboard is deferring most capital projects and is setting aside our free cash for later. At a future Town Meeting, we can vote to transfer money out of Stabilization for another purpose, but it will require a 2/3rd majority. **This article does not increase your real estate taxes.**

Design and Construction Documents for Goodnow Library Clock Tower Repair: This monetary article transfers \$60,000 from free cash to pay for design and construction documents for the repair of the Goodnow Library clock tower. Inspection of the Tower by Chris Conway uncovered damage that needs to be repaired. The Library Trustees funded the preliminary design work by Jones Whitsett Architects. The remaining documents are needed to search for grants and to pay to repair the Tower in a timely fashion. **This article does not increase your real estate taxes.**

Adopt the Massachusetts Stretch Energy Code: This is a nonmonetary article that authorizes the Town to adopt the Massachusetts Stretch Energy Code (which, for residential construction, only applies to new construction, not renovation or additions). Adopting the Stretch Code is one of five required steps to becoming a Green Community. As a Green Community, we would have access to grants that we wouldn't have otherwise. Please note that the Environmental Action Committee has information on the Stretch Code on their [website](#), will be presenting on the Stretch Code at the Advisory Committee Hearing on June 10, and can be contacted at princetoneac@gmail.com. **This article has no impact on your real estate taxes.**

Fund an Energy Audit: This monetary article allows the Town to raise and appropriate \$25,000 to have an energy audit performed for Town buildings. This is one of the requirements for achieving Green Community Status. The original plan was to apply for a META grant to cover the cost of the audit. Because of the COVID-19 restrictions, the audit would need to be remote. META doesn't cover the cost of remote audits. The Energy Advisory Committee (EAC) and Town will continue to pursue ways to have the audit done without using Town funds. However, the Selectboard and EAC believe that it is in the Town's best interest to complete the steps needed to become a Green Community and have access to the related grant opportunities. The PMLD Commissioners voted to pay half the cost of the audit as long as the Town approves the Stretch Energy Code warrant article. Though the article includes the full \$25,000, it will be amended on the floor to be \$12,500 if the Stretch Code article passes. **The impact of approving this article on the taxes of the average home in Princeton (\$384,442) is expected to be an additional \$15.38 (\$7.69 if amended to \$12,500).**

Fund the Installation of an Existing Generator in Police/Fire Station 1: This is an accounting article that transfers existing funds from one account to another. It moves \$18,000 from the Town Hall Annex Repair Account into the Public Safety Building Repair Account to install a generator, which we received a few years ago through a grant, into the public safety building. The Selectboard voted to not invest in repairing the Annex, and the funds in the Annex Repair Account can be used for other purposes.

This article does not increase your real estate taxes.

Borrow for Bridge and Culvert Reconstruction: This article authorizes the borrowing of \$700,000 for reconstruction of a culvert on Route 31 near Mirick Road (\$239,651), and the bridge on Route 31 behind the old Highway Barn (\$956,375). Combined, these projects total \$1,196,026. A Small Bridge grant and available Chapter 90 funds will provide partial funding for these projects. The borrowing authorized in this article is meant to provide the balance. This strategy of borrowing for large, long-lived projects helps the road budget go further by avoiding a large one-time drawdown of available funds which would severely restrict the amount of available funds for future road reconstruction activity. Any borrowing undertaken now would be at historically low interest rates and would spread the cost of these nontraditional road projects out over time and enable the Town to continue with its program of rebuilding a portion of the Town's road system each year. **There will be no impact of this borrowing on your real estate taxes because all debt service payments will come out of the yearly appropriation we make for roads in future years (\$350,000 typically).**

Pay Additional Stabilization Expenses for Police/Fire Station 1: This is an accounting article that transfers existing funds from one account to another. It moves \$15,000 from the Town Hall Annex Repair Account into the Public Safety Building Repair Account to pay unexpected repair costs. **This article does not increase your real estate taxes.**

Pay Additional Stabilization Expenses for Bagg Hall: This article authorizes the Town to borrow an additional \$80,000 to cover unexpected costs and have funds available in case of future unexpected issues with the Bagg Hall Stabilization project. Excavation in the basement has already uncovered several problems that will need to be addressed. This amount would be added to the \$1.2 million authorized in May 2017. **The impact of this borrowing on the average home in Princeton (\$384,442) is expected to be an additional \$7.69 for a 10 year loan at 3.5% starting in FY22 .**

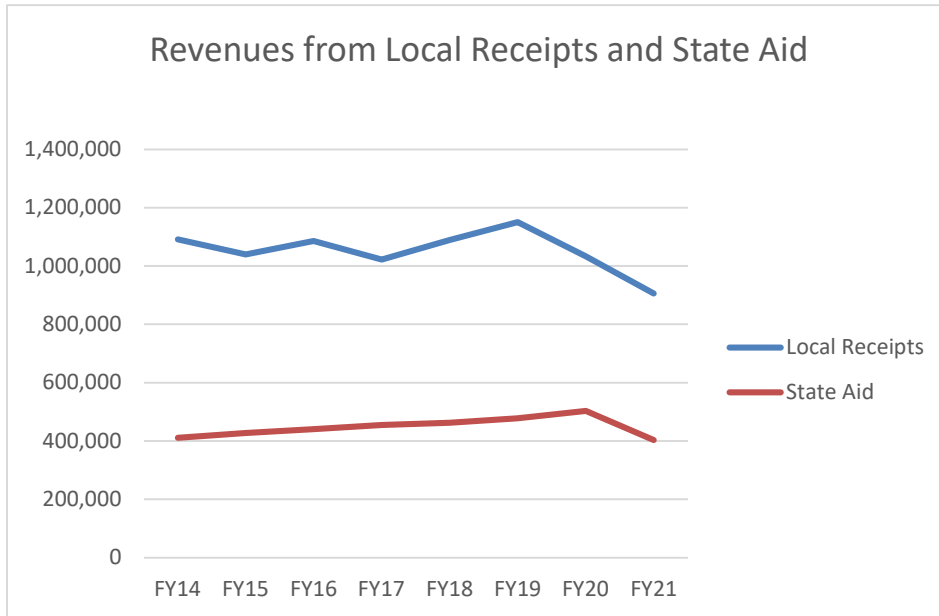
Revenue

The sources of funds for the Town of Princeton are Property Taxes, Local Receipts, Other Sources (certified free cash and stabilization funds), and State Aid. Local Receipts include Payment in Lieu of Taxes (PILOT), Excise Taxes, Licenses/Permits, Fees and Fines/Penalties.

The State has cautioned towns to not rely on State Aid estimates that were issued earlier in the year because revenue projections they relied upon are expected to be significantly lowered. In addition, the State has higher than expected expenses due to COVID-19. The Selectboard, working closely with the Advisory Committee and the Financial Team, chose to reduce the estimated state aid by 20%, an 18.6% reduction from FY20. Local Receipts have also been quite conservatively estimated (down 7.5% from FY20).

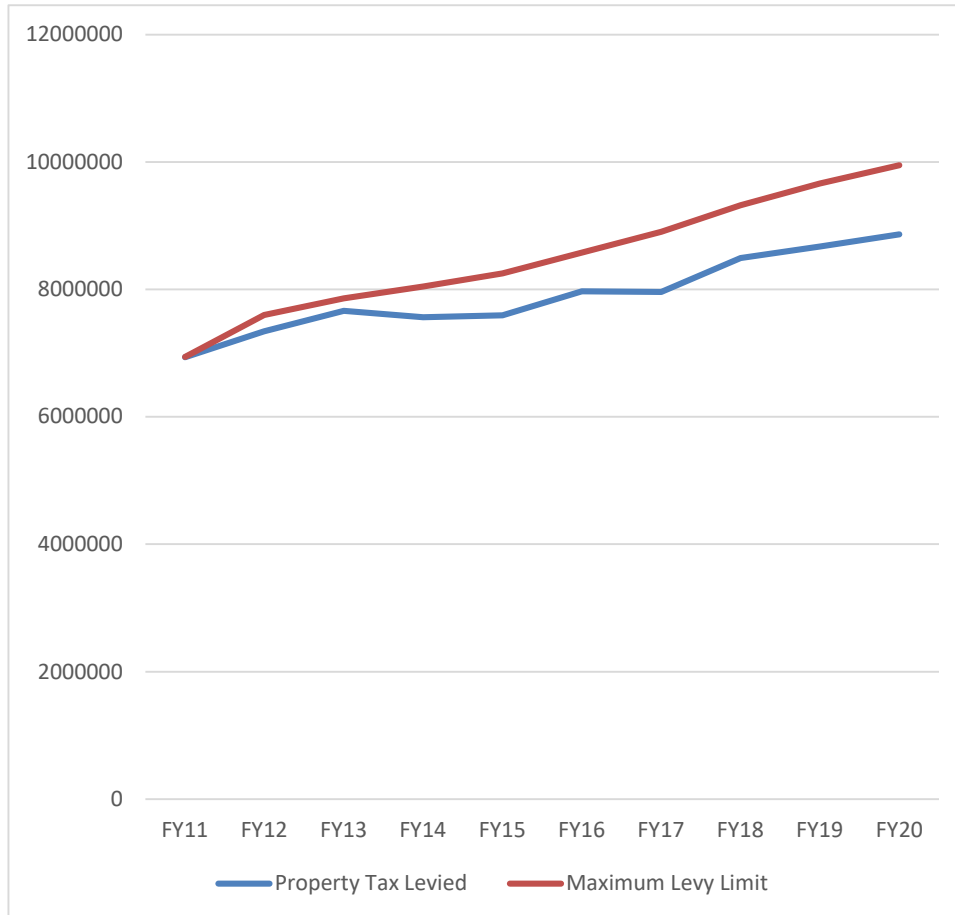
The source for all the Levy, Property Tax, and Population Data information is the <http://www.mass.gov/dor/local-officials/> website.

The following graph shows Local Receipts and State Aid. Note that FY20 numbers are projected and FY21 are estimates by the Selectboard, Advisory Committee, and Financial Team. These estimates are deliberately very conservative.



Revenue – Property Tax Data

The following graph shows the Total Property Tax Levied compared to the Maximum Levy Limit for Princeton since FY11. This illustrates what many consider the Town’s ability to pay. The space between the two lines represents the amount of flexibility the voters have to fund additional projects.

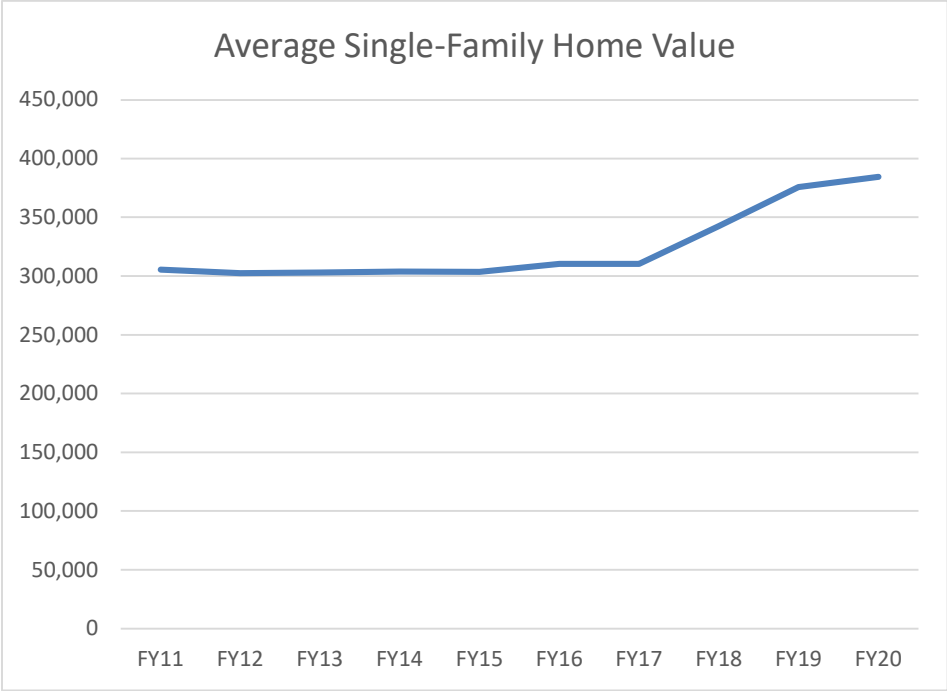


The current (FY20) tax rate is **\$15.85** per \$1,000 of valuation. This is based upon the valuation of all property in Town for FY20 of \$559,323,387. Both the valuations and the tax rate will change in the fall for FY21. The valuations are completed sometime in November, and the tax rate is set at the end of November or first week of December. Any increase of \$100,000 in spending will increase the tax rate by approximately \$0.18 per \$1,000 of assessed value.

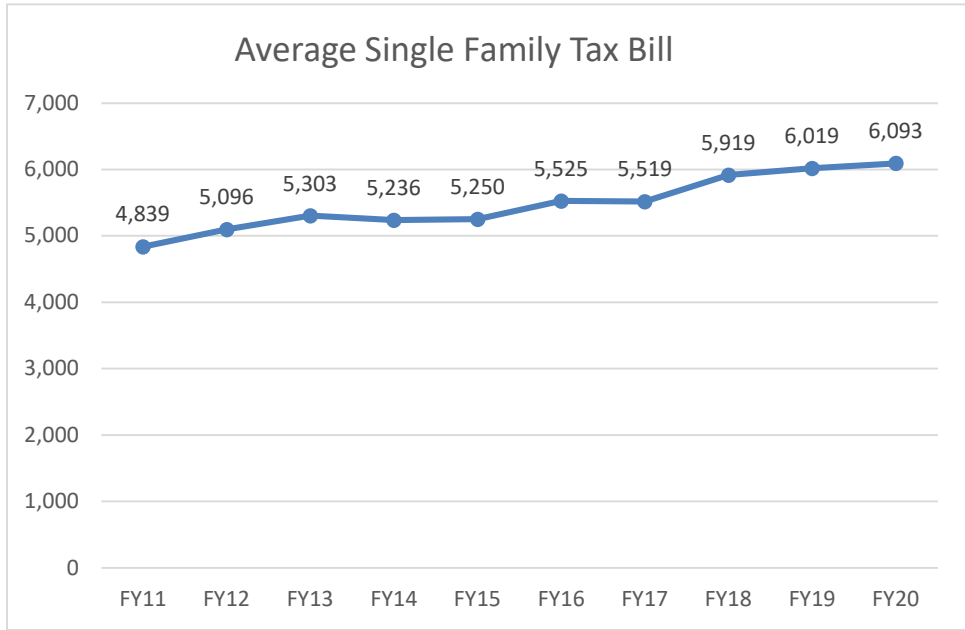
Found below are the average (mean, not median) “Single-Family Home” tax bills and the percentage of home value these tax bills represent. Note the Average Home Value is calculated by taking the total assessed value for all single-family homes and dividing it by the number of single-family homes. In FY20, the mean single-family value in Princeton was \$384k while the median value was \$365k.

Municipality	Population (2018)	Average Single-Family Value (FY20)	Residential (and commercial and industrial) Tax Rate	Average Single-Family Tax Bill	% of Tax Levy that is Residential
Holden	19163	346,538	17.00	5891	94.32
Hubbardston	4787	278,987	14.82	4135	93.46
Paxton	4963	336,075	19.73	6631	95.40
Princeton	3478	384,442	15.85	6093	95.83
Rutland	8846	298,534	17.61	5257	93.92
Sterling	8190	363,364	16.81	6108	87.25
Westminster	7884	290,751	17.55	5103	86.23

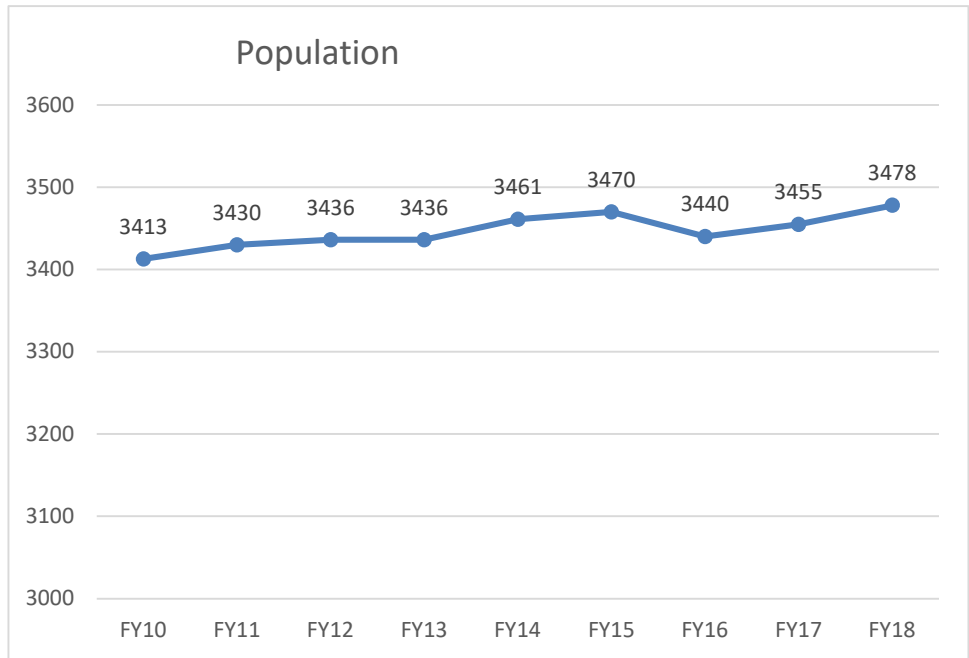
The following chart illustrates the average single-family home values in the Town of Princeton over the past ten years. Home values remained relatively stable between FY11 and FY17. There has been a 24% increase since then.



The following chart illustrates the average single-family tax bill for the Town of Princeton over the past ten years. The average single-family tax bill is \$1,254 more than it was in FY11 or approximately 26% higher. This is a 2.6% increase compounded annually.



The Population Chart below illustrates the population growth from FY10 to FY18. The population in FY10 was 3,413 compared to 3,470 in FY15 (an increase of 57). After falling in FY16, growth averaged 0.5% for the next two years.



Capital Planning

Princeton does not have a Capital Planning Committee. A five-year capital plan was developed in conjunction with the Collins Center for the FY20 budget. This budget cycle, the Town Administrator, Selectboard, and Advisory Committee met with department heads starting in approximately November to discuss their capital needs for FY21-FY25. Much work was done to ensure the cost estimates and timeframes were accurate.

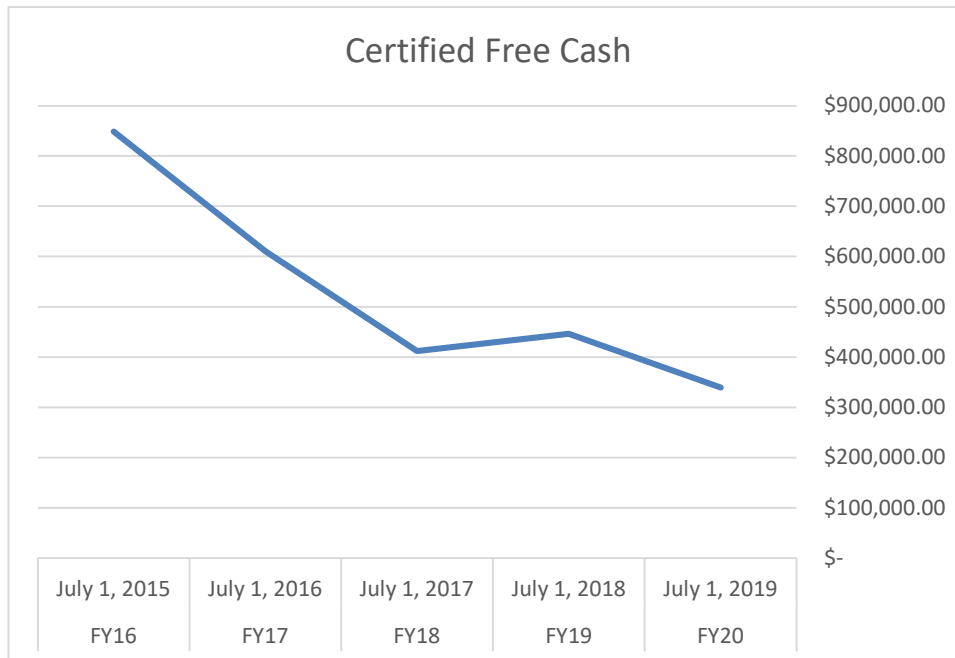
Given the lack of clarity with respect to State Aid and expected shortfalls in other Revenue categories because of the economic impacts of COVID-19, the team decided to delay most capital expenditures.

Rather than discussing the FY21 Capital Improvement Plan (CIP) and the 5-year financial forecast in this report, we will defer that discussion until a later date. However, some aspects of capital planning, in particular looking at free cash, stabilization accounts, and debt are still relevant.

In accordance with the Advisory Committee's developing financial policy, please note that smaller items that might have been considered capital in the past were included in the operating budget this year.

Free Cash

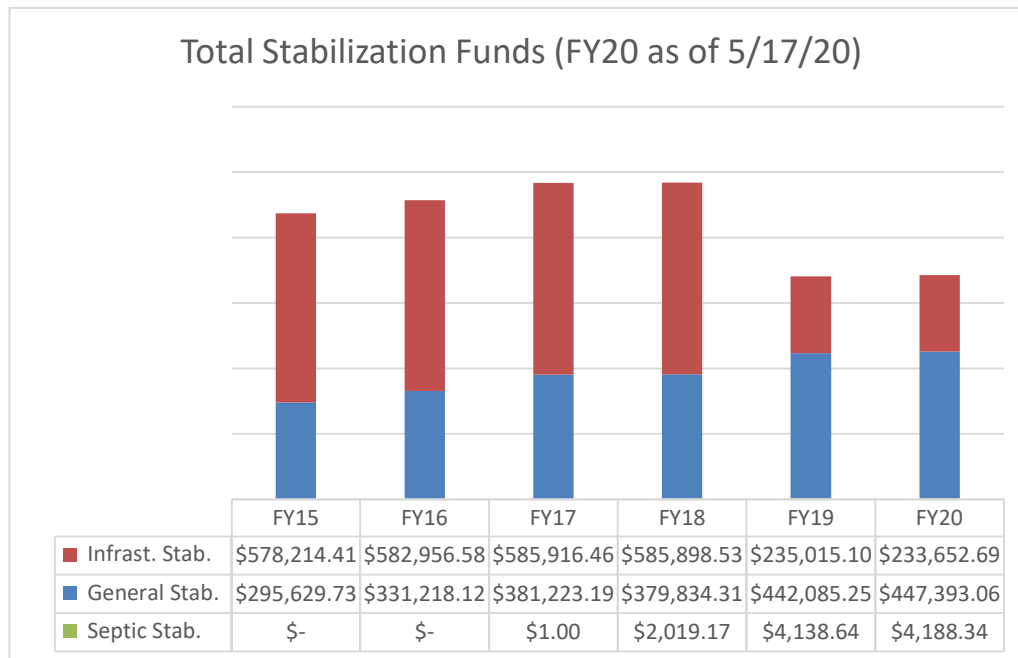
The certified free cash for FY20 was approximately \$340,000 dollars. This is lower than in prior years. There are many contributing factors, but tighter fiscal controls and careful, realistic budgeting have helped bring the budget in-line with actual spending.



Stabilization Fund Summary

Part of the CIP is funded from Stabilization Funds. Maintaining adequate stabilization fund levels is important to the financial stability of the Town. The Advisory Committee is working on defining minimum levels for each stabilization fund as part of their financial policies document. As the five-year CIP is revised and funding sources are identified, the stabilization fund levels will be monitored. Adjustments to the five-year CIP and/or funding sources may be required if future Stabilization Fund levels drop too low. The chart below illustrates the stabilization fund levels from FY15 to FY20 (amount includes the General, Infrastructure, and Septic Stabilization Funds).

The significant drop in the Infrastructure Stabilization Fund between FY18 and FY19 was because voters transferred \$500,000 from Infrastructure Stabilization to a capital fund for a new public safety building in May of 2018. The remainder of the cost of the building was to be borrowed. Although the borrowing passed at Town Meeting, it failed at the ballot. In May of 2019, voters transferred \$130,000 from Free Cash to Infrastructure Stabilization and voted to raise and appropriate \$100,000 for Infrastructure Stabilization.



Debt Summary

A comprehensive CIP involves a strategy that includes a debt management plan. The debt management plan should be developed to meet the financing needs of the Town in a cost-

effective manner, taking into account Town priorities, as well as legal, financial, and structural considerations.

Please recall that the only warrant articles dealing with new borrowing are the one for Bridges and Culverts and the one for increased borrowing for Bagg Hall Stabilization. This increased debt shows up on our debt forecast.

The following Table shows the current five-year debt projections: (updated 6/1/20). The information is broken out to show the date of vote, debt excluded vs non-debt-excluded, amount and mature date of the projects.

**Table 3
Debt Summary - 5 year projection**

	Start Date	End Date	Original Principal	FY21	FY22	FY23	FY24	FY25
					New Approvals which have not yet been borrowed. These are estimates.			
					Placeholder Only.			
Broadband Make Ready	3/17/17	3/15/27	1,000,000	121,300	118,300	115,300	112,300	109,300
Fire Trucks	12/7/18	12/1/22	480,000	130,500	126,300	122,100		
Green Repair at TPS	10/28/14	10/15/24	1,105,000	119,900	117,700	115,500	113,300	111,100
Other				25,000	25,000	25,000	25,000	25,000
Police Cruiser Leases				16,470				
Bagg Hall Stabilization				19,000	181,000	153,400	150,800	148,200
PFAS Remediation	4/1/20	4/1/25	1,000,000	13,000	30,000	62,500	232,500	240,000
Public Safety Facility 3.0%	7/1/22	7/1/52	14,000,000		140,000	280,000	714,270	714,270
Anticipated Roadwork 3.0%	7/15/20	7/15/36	700,000		74,000	82,061	82,061	82,061
Total Town Only				445,700	812,300	955,861	140,231	1,429,931

Bagg Hall Stabilization has been paid for so far with Bond Anticipation Notes (BANs). When the project is complete, the full amount will be borrowed and the BANs will be paid off.

Public Safety Facility is on the horizon and will be expensive. We wanted to show this as a placeholder so that we know it is coming and we plan accordingly.

Long-term borrowing of PFAS Remediation funds has not happened yet but the Selectboard just authorized the award for a BAN.

The importance of managing our debt level

The Advisory Committee is working on a debt policy to ensure that debt is managed within sustainable levels based upon annual revenues. DLS (the Massachusetts Division of Local Services) recommends that a town's debt service level should not routinely exceed 5%-7% of its operating budget.

There are several reasons why it is important to carefully manage the Town's debt:

- Moody's Investor Services, a debt rating company, looks at the magnitude of a town's debt obligations relative to: 1) its resources (using property tax base as the proxy), and 2) its operations (using operating revenues as a proxy). They indicate that one of Princeton's credit strengths is its low debt. A material increase in the debt burden could lead to a downgrade in our bond rating and therefore an increase in our cost of borrowing.
 - Additional debt can translate into an increase in our tax rates and therefore an increase in our real estate tax bills.
 - Taking on too much debt (having too large a debt service payment) can squeeze out other parts of our town budget. For example, a town might need to cut back on services (hours at the library, amount of plowing/sanding/pothole repair, number of employee hours) or might find it harder and harder to pay for schools.

Projecting debt/financials into the future allows the town to phase its borrowing in a way that maximizes return to the town and minimizes sudden shocks to the taxpayer.

Five-Year Budget Forecast

Though the Selectboard and Advisory Committee understand the value of creating and looking at a 5-year budget forecast, we find ourselves ill-equipped to forecast at this point. It is relatively simple to make an assumption about the rate at which our operating budget grows. The more difficult part is to fold the 5-year CIP with its funding decisions into the forecast. The forecast is particularly helpful when trying to determine the longer-term impact of debt or lease-fund capital purchases. It is less necessary when trying to determine whether to support the operating budget or not. As mentioned earlier, we have removed those capital items from the warrant this spring.

We don't know what to expect for revenues in FY21 or, probably, beyond. We also are taking a wait and see approach with some of our spending. Rather than presenting you with a forecast in which we don't have a high level of confidence, we defer the forecast until the 2021 Annual Town Meeting.

Primer on Town Finances (simplified)

The town takes in money from various sources, mainly real estate and excise tax revenue, local aid, payments in lieu of taxes, local receipts, and grants.

The town pays its bills out of those proceeds and by borrowing.

The Selectboard, in conjunction with the Town Administrator and the Advisory Committee, proposes a budget for the following year. This budget is approved or amended by citizens at Town Meeting. From that budget, it determines how much funding must come from real estate taxes, and that number is distributed across the total assessed real estate value, EQV, in the Town to determine the tax rate (\$/thousand in property value) needed to fund the operations of the Town for the fiscal year. They must pay attention to not exceed either the Proposition 2 ½ Levy Limit or the Proposition 2 ½ Levy Ceiling when setting the budget.

At town meeting, the town can vote to pay bills out of Free Cash, the Stabilization Fund, the Reserve Fund, through a debt exclusion, or with a Proposition 2 ½ override. Note that an override is not required if the taxes needed to fund the budget are less than the Levy Limit. Voters can raise taxes to any amount (even by more than 2 ½%) that is below the Levy Limit and does not exceed the Levy Ceiling.

Definitions of Interest:

Debt Burden: The amount of debt carried by the town. Sometimes refers to debt service costs as a percentage of the total annual budget.

Debt Exclusion: An action taken by the voters to raise the funds necessary to pay debt service costs for a particular project from the property tax levy, but outside the limits under Proposition 2 ½. The amount is only added to the levy limit for the life of the debt and may increase the levy above the levy ceiling.

Debt Limit: The maximum amount of debt that a town may authorize for qualified purchases under state law. This is set at 5% of EQV but town may get permission to go to 10%.

Debt Service: The repayment cost, based on an amortization schedule, of the principal and interest on any particular bond issue.

EQV (equalized valuations): The determination of the full and fair cash value of all property in the Commonwealth that is subject to local taxes. The state Commissioner of Revenue determines the town's EQV biannually.

Excess Levy Capacity: The difference between the levy limit and the amount of real and personal property taxes actually levied in a given year.

Free Cash: Money, raised through taxation and unexpended from the previous year's operations. Typically, free cash is used for special purchases, put into the Stabilization Fund, or used to reduce property taxes. As often noted, Free Cash is not free.

Full and Fair Cash Value: This has been defined by the MA Supreme Judicial Court at length. For this document, it is defined as the fair market value of all the real and personal property in the town.

Levy: Also known as the Tax Levy. This is the amount raised through taxes.

Levy Ceiling: Proposition 2 ½ states that, in any year, the real and personal property taxes imposed may not exceed 2 ½ percent of the total full and fair cash value of all taxable property.

Levy Limit: Proposition 2 ½ also states that real and personal property taxes imposed by the town may only grow each year by 2 ½ percent of the prior year's levy limit, plus new growth and any overrides or exclusions. The levy limit can exceed the levy ceiling only if the community passes a capital expenditure exclusion, debt exclusion, or special exclusion.

New Growth: The additional tax revenue generated by new construction, renovations and other increases in the property tax base during a calendar year. It does not include value increases caused by normal market forces or revaluations.

Reserve Fund: An amount set aside annually within the budget (not to exceed 5 percent of the tax levy for the preceding year) to provide a funding source for extraordinary or unforeseen expenditures.

Stabilization Fund: A fund designed to accumulate amounts for capital and other future spending purposes, although the money may be appropriated for any lawful purpose. Appropriation from the stabilization fund requires a two-thirds majority vote.

Tax Levy: The amount of money raised by real estate and property taxes.