

**Town of Princeton
Commonwealth of Massachusetts**

Selectboard Budget Report

Fiscal Year 2022

Annual Town Meeting

Thomas Prince School

Saturday, May 15, 2021 - 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. Our goal is to provide a useful tool as you better acquaint yourself with the latest financial and planning information for the Town. 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.

Collectively, the Selectboard, Advisory Committee, and Town Finance Team (Town Administrator, Tax Collector/Treasurer, Accountant and Assessor) 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 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. The Selectboard still firmly believes that we need to build a new public safety building and that we should advance the project to shovel-ready status by completing design and construction documents. We were concerned by early numbers from the Wachusett Regional School District but were pleased when these were brought down before the final district budget was approved. We have completed Phase 1 of the PFAS work (determining who is affected) and have moved into Phase 2 (what is the source and are there areas where PFAS are still leaching into the soil). This will entail additional spending as Tighe & Bond begins soil sampling and analysis.

COVID-19 uncertainties last year motivated the Board to postpone spending on most capital items. We delayed the purchase or lease of a front-end loader for Highway and two vehicles for Police. We delayed the replacement of the Highway Salt Barn and repaving the parking lot at Thomas Prince School. These and more capital items appear in this year's budget.

There is still uncertainty around costs associated with COVID-19. We recently learned that we will be receiving funds from the American Recovery Act. We have yet to hear exactly how much, what the money can be used for, and by when it needs to be spent. We won't know for a while whether we will receive

anything from future bills moving through Congress, such as the American Jobs Plan. It is the Selectboard's position that we should not count on funds such as these, but we should do everything possible to maximize the amount we receive, and to use it in the most fiscally responsible fashion possible. Some money comes with strict guidelines, such as the Shared Streets and Spaces grant money we received in early 2020.

Overall, the Town was able to keep its budget increase to 5.66% over last year's budget. New borrowing proposed this year is modest and leases are kept short. Future borrowing for a new public safety building will affect our budget significantly and the Town will need to focus on keeping other expenses in control. Hard decisions will need to be made as we discuss our wants versus our needs.

FINANCIAL POLICIES

The Advisory Committee and Selectboard approved a set of financial policies in December that were several years in the making. The Advisory Committee took the lead in this effort at the request of the Selectboard. They began by reviewing financial policies in place in other well-run towns and recommended by the State's Division of Local Services as Best Practices.

Financial policies are an important component of any governmental financial management program. They are guidelines for operational and strategic decision-making related to financial matters, identifying acceptable or unacceptable courses of action, establishing parameters in which the government can operate, and providing standards against which a government's fiscal performance can be judged. The consequences of poor financial decision making can be severe in small towns like Princeton that have smaller budgets and less diverse tax bases.

Why Adopt Financial Policies? There are a number of benefits for Princeton:

- Financial policies help educate those municipal officials who may not have a background in government financial management. Most of our elected and appointed municipal officials have no background or expertise in government finance. Nevertheless, these officials are responsible for the administration of a budget of about ten million dollars. Written financial policies can help inform officials, either trained or untrained, of good financial practice, making it more likely that these good practices will be implemented and followed.
- Financial policies may help prevent or resolve conflicts in local government. The responsibilities of Princeton's municipal officers frequently overlap, and clear lines of authority can be hard to identify. As a result, the administration of our local government can seem complex. The key to effectively navigating this complexity is effective communication and cooperation. Financial policies can clarify both the responsibilities of local officials and lines of authority.
- Financial policies can provide continuity and efficiency in the town's financial operations. Selectboard members and other municipal officers often serve relatively short terms, and new officers may not be experienced in dealing with financial issues. Financial policies can eliminate the need to reinvent responses to recurring situations, thereby increasing efficiency by standardizing operations.
- The adoption of financial policies can foster confidence in local government by increasing transparency, accountability, and consistency in municipal decision-making. The policies can help local officials make more informed decisions about providing services, acquiring and managing capital assets, safeguarding a

town's resources, and promoting financial stewardship, all of which may result in a more stable tax rate. The adoption of policies also can help promote strategic thinking in tough economic times.

The Advisory Committee followed a careful and deliberate process as they put together their recommended financial policies. Many policies give ranges or dollar cut-offs. The Committee tested their proposed figures during the FY21 budget cycle. Were the ranges too narrow? Were the dollar cut-offs too low? Some proposed policies had to be amended to work for Princeton.

The Financial Policy document (see [version approved 12/29/20](#)) is a living document. There is a process built in to it that allows the parties involved in budgeting to divert from a recommendation after deliberation. All deviations must be documented. Over time, if the Selectboard and Advisory Committee notice that a particular guideline has been overridden for multiple years, the committees can and will discuss possible modifications to the guideline.

Though it is important to have a financial policy, it is critical for all officials involved to follow it. You will hear throughout this document how we are doing with respect to various components of the Financial Policy document.

PROCESS

The initial draft budget came from the Financial Team 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 in their budgets, that the estimates for capital requests were well researched with alternative options, and that figures for stabilization accounts, 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 based on good estimates. They also looked carefully to make sure that decisions made for FY22 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 summer of 2020 when we began discussing financial policies and forecasting.

Selectboard Budget Report

Introduction

The following is the recommended budget proposal for the Town of Princeton from the Selectboard for FY22. The operating budget for the Town is presented in one article on the Annual Town Meeting Warrant. The remaining FY22 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. Town meeting is effectively the legislative body for town. Town government cannot spend residents' money without approval from Town Meeting.

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.

PFAS

We have entered into Phase 2 of the PFAS Immediate Response Action Plan. Our Licensed Site Professional (LSP) is testing approximately one hundred private wells on a quarterly basis. Approximately thirty of those also require Point of Entry Treatment (POET) sampling. The Town is providing bottled water to about seventy-five homes each month. Though we haven't had to replace any POET cannisters, our LSP assumes that we will need to do so this year. These are all considered "consumables," items you purchase, use up, and need to purchase again later. The Selectboard and Advisory Committee believe that consumables belong in the operating budget. We have agreed that we would include a line in the operating budget for PFAS for the first time this year. We expect that we will have a line item for PFAS for years to come though we believe that over time it will decrease. We have included our best estimates at this time for PFAS operating expenses. Our assumptions after discussion with our LSP are that MassDEP will allow us to move to semi-annual testing and that only half of our POETs will need a cannister replacement this year. The following chart shows annual PFAS expenses that are in the operating budget.

Bottled Water for Residents	\$18,667
Private Well Testing	\$160,000
POET Sampling	\$86,667
Groundwater Monitoring	\$13,333
POET Cannister Replacements	\$16,300
Total Operating Expense	\$294,967
Proposed PFAS line in Operating Budget	\$300,000

There are other ongoing expenses for PFAS. Our LSP continues to do quarterly reports to MassDEP. They also are beginning the soil sampling that is part of Phase 2. If this soil sampling leads them to believe that remediation is needed, that will also begin. In addition, we have engaged the services of an attorney well versed in 21E issues, and he will continue to advise the Town. These costs will be paid out of the approximately \$450,000 that remains from the \$1million borrowing authorized at the 2/26/20 Special Town Meeting. It is likely that we will need to hold another Special Town Meeting in the fall to ask voters to authorize additional borrowing for PFAS. At this point, it is too early to know the amount we will need.

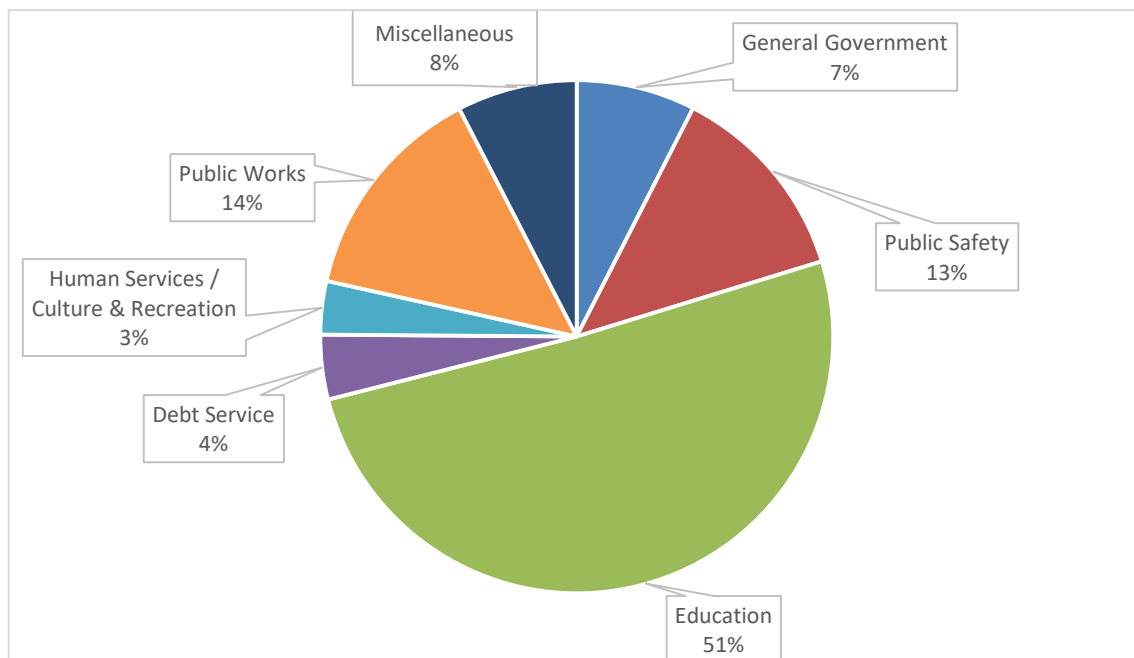
Budget Recommendations

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 ½% 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 FY22 is \$11,337,404.34, an increase of \$607,334 (5.66%) over the FY21 operating budget approved at Town Meeting. This increase is due to several factors which include

- General Government is up by 8%. Half of this can be explained by two incorrect (understated) wage lines in the FY21 budget, a new ten-hour per week Special Projects Coordinator position, the salary the Town needed to pay for our new Town Clerk, and overtime for Town Building Management. The FY21 budget misstated wages for the Town Administrator and for the part-time Administrative Assistant to the Assessor. Another increase in this part of the budget was \$20,000 in audio/visual equipment for meeting rooms to facilitate effective hybrid meetings with a mixture of in-person and remote participants.
- Public safety is up 8%. This is in part because of the Police Union contract signed in spring of 2020, but mostly because Ambulance Readiness Wages doubled. This doubling was in part because of the decision to increase our manned coverage from 5 days to 7 days, 7am to 5pm. Also, the department had to raise their on-call stipend in order to recruit sufficient EMTs and Medics to cover those shifts. \$30,000 of the increase in Ambulance Readiness was offset by a decrease in other Fire wages.
- Schools only increased by 1.5% this year. The Wachusett School District used some of their Excess and Deficiency account (like free cash) to decrease their budget this year after receiving significant feedback from member towns. Rather than a 4.66% increase like last year, the increase is only 1.7%. The Montachusett Vocational District assessment went down by 1% because of a decrease in enrollment. And finally, we didn't increase our number of out-of-district vocational placements. We do not expect the WRSD increase next year to be this low.
- Public Works and Facilities is up about 25%. This is entirely because of our decision to put routine PFAS expenses into this part of the operating budget.

The chart below shows the breakdown of the operating budget by department for FY22.



If all articles in the warrant are passed, the estimated impact on the average household's tax bill in FY22 is \$419. This impact was calculated using the Massachusetts Division of Local Services' Tax Impact Calculator.

Assessed House Value	Incremental Tax Impact to Yearly Bill
\$395,243 – Average Single-Family Residence FY21	\$419
250,000	265
350,000	371
450,000	477
550,000	583
650,000	689
750,000	795
850,000	901

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

Summary of Warrant Articles

Below is a summary of some of the monetary articles to be voted on at Town Meeting. 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.

Operating Budget: There will be an article for the annual operating budget 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 (\$395,243) is expected to be \$419 over last year's amount.**

Design and Construction Documents for the New Public Safety Building: This monetary article transfers \$152,000 from free cash and \$218,000 from the General Stabilization fund into the Public Safety Building Fund. If this article passes, we will fund the final phase of design to have bid-ready documents in hand. We believe this will position us well for grant opportunities and will prepare us for a vote at a later date to authorize the borrowing of construction funds. **This article does not increase your real estate taxes except in that free cash could have been used reduce borrowing or lease payments.**

Replacement Doors for Station 2: This monetary article transfers \$37,350 from free cash for five new apparatus bay doors at Station 2 in East Princeton. There have been several instances where the doors have crashed down, hitting a fire engine once and nearly hitting a first responder another time. The Town has been informed that repairs can no longer be done, and we must replace the doors and upgrade the openers and other equipment. **This article does not increase your real estate taxes except in that free cash could have been used reduce borrowing or lease payments.**

Exhaust Evacuation System for Station 2: This monetary article transfers \$34,500 from free cash for an exhaust evacuation system at Station 2 in East Princeton. Vehicle exhaust that isn't captured and vented outdoors exposes employees and their gear to harmful substances. Voters authorized funds for this system at a prior Town Meeting but it was installed at Station 1 instead because the need at that building was greater since there is less ability to ventilate the apparatus bays. **This article does not increase your real estate taxes except in that free cash could have been used reduce borrowing or lease payments.**

Replace Fire Turnout Gear: This monetary article transfers \$30,000 from free cash for ten sets of turnout gear. This replaces gear that is about to expire. The Fire Department recently received a Firefighter Safety Equipment Grant for \$9,926. The terms of the grant require the Town to purchase the gear and then be reimbursed. The \$9,926 of reimbursement will be in next year's free cash. **This article does not increase your real estate taxes except in that free cash could have been used reduce borrowing or lease payments.**

Thomas Prince Parking Lot Improvement: This monetary article transfers \$24,605 from free cash to be used with \$100,000 we received from a Small Town Capital Grant program to repair and repave the parking lot at Thomas Prince School. **This article does not increase your real estate taxes except in that free cash could have been used reduce borrowing or lease payments.**

Highway Salt Barn: This monetary article authorizes the Town to borrow 125,000 to purchase and install a new salt barn at the Highway Department. The Town has recently received a \$20,000 grant from DCR toward this project, which will help protect the Wachusett Watershed from salt leaching into the ground. **The impact of this borrowing on the average home in Princeton (\$395,243) is expected to be an**

additional \$11.86/year for a 10-year loan at 3.5% starting in FY23. The interest-only payment due in FY22 is in the operating budget.

New Generator for Highway Barn: This monetary article transfers \$43,000 from free cash to purchase and install a new generator at the Highway Barn. This generator will help the Highway Department keep their plows on the road during big storms. **This article does not increase your real estate taxes except in that free cash could have been used reduce borrowing or lease payments.**

Leasing New Front-end Loader, Police Chief Vehicle, and Police Cruiser: This monetary article authorizes the Town to lease these three new vehicles. Since there is no payment due for a year, there is no FY22 impact but the purchases will impact future years. **This article does not increase your real estate taxes *this year*.**

Construction Funds for Goodnow Library Clock Tower Repair: This monetary article authorizes the Town to borrow \$481,259 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. Last year voters authorized spending for design and construction documents. This funding will pay for actual repairs. **The impact of this borrowing on the average home in Princeton (\$395,243) is expected to be an additional \$39.52/year for a 10 year loan at 3.5% starting in FY23. The interest-only payment due in FY22 is in the operating budget.**

Revenue

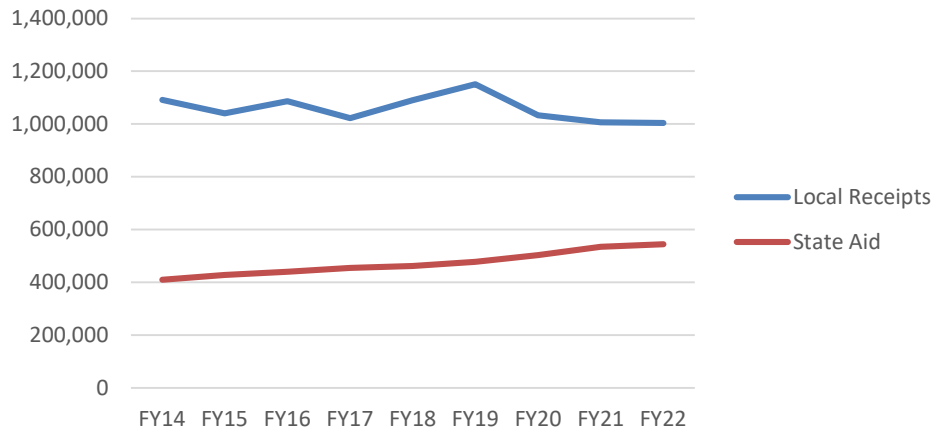
The sources of funds for the Town of Princeton are Property Taxes, Local Receipts, Other Sources (certified free cash and stabilization funds), and State Aid.

This year the State has not provided any cautions regarding State Aid, so the numbers are from the Governor's budget. Local Receipts have been estimated by the Financial Team based on FY20 actuals, FY21 projections, and current conditions.

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

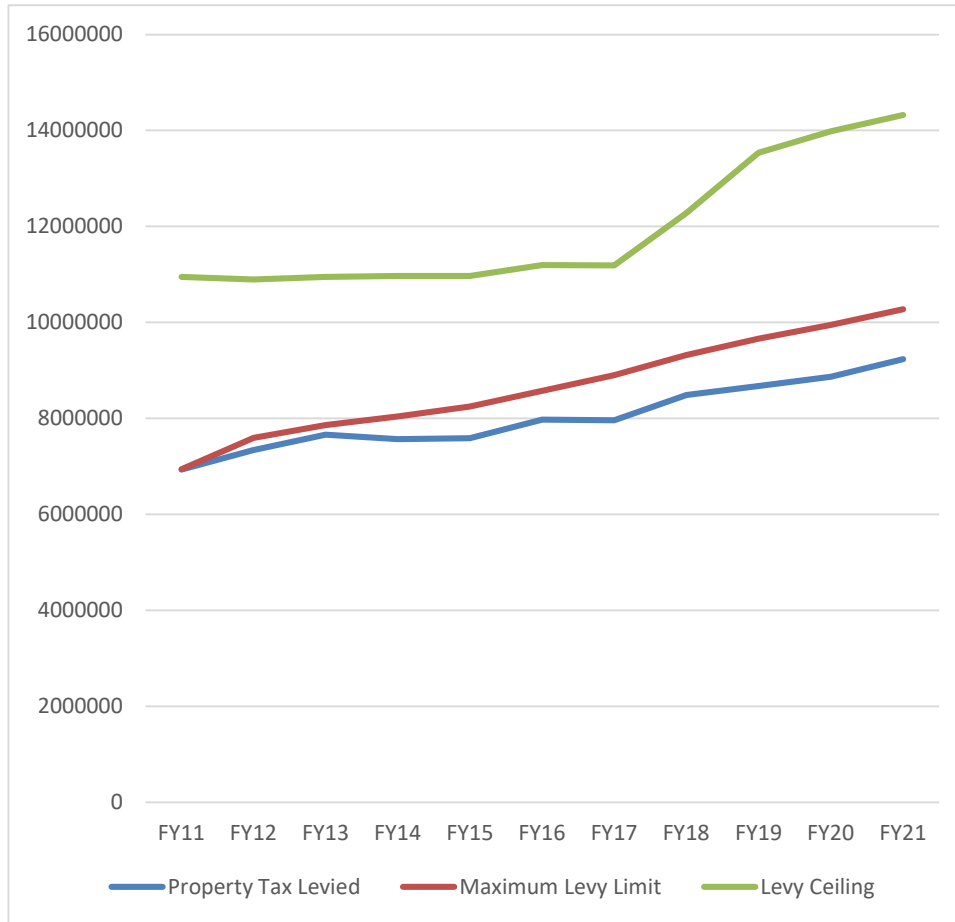
The following graph shows Local Receipts and State Aid. Note that FY21 numbers are projected and FY22 are estimates by the Financial Team. These estimates are deliberately very conservative.

Revenues from Local Receipts and State Aid



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.

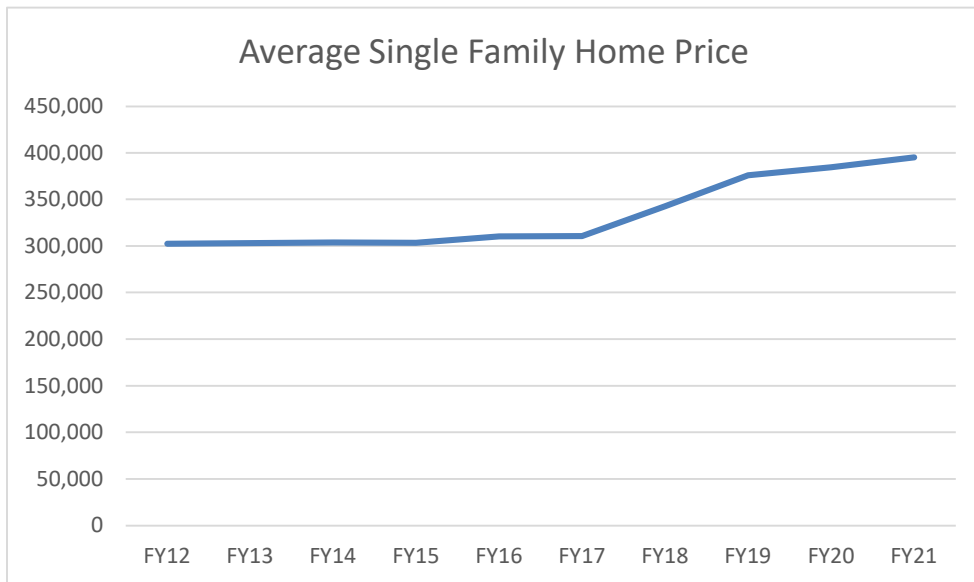


The current (FY21) tax rate is **\$16.12** per \$1,000 of valuation. This is based upon the valuation of all property in Town for FY21 of \$573,051,540. Both the valuations and the tax rate will change in the fall for FY22. The valuations are completed sometime in November, and the tax rate is set at the end of November or first week of December. Per the Mass.gov DLS Gateway Property Tax Impact Calculator, any increase of \$100,000 in spending will increase the tax rate by approximately \$0.17 per \$1,000 of assessed value.

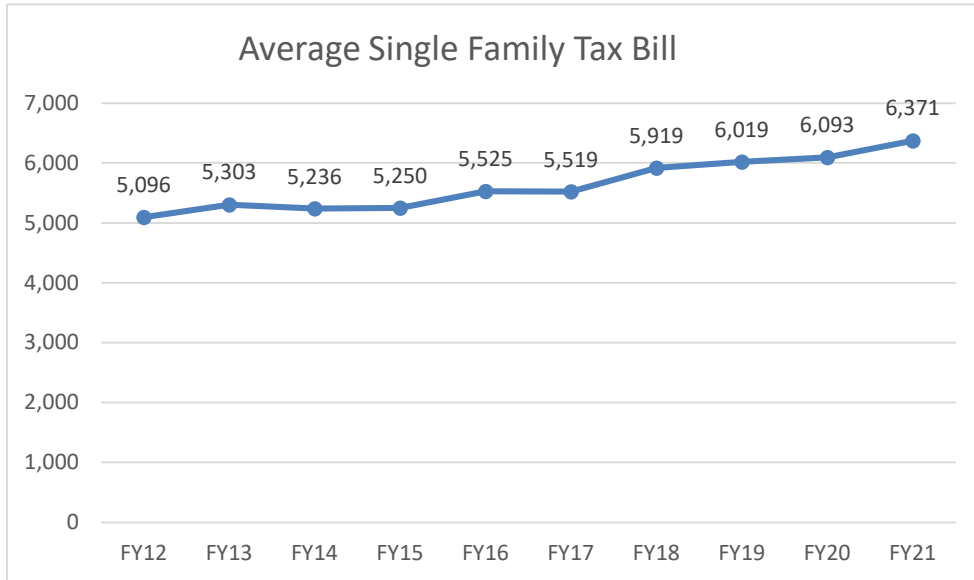
Found below are the average (mean, not median) “Single-Family Home” tax bills and the percentage of home value these tax bills represent. Note the Average Home Value is calculated by taking the total assessed value for all single-family homes and dividing it by the number of single-family homes. In FY21, the mean single-family value in Princeton was \$395,243 while the median value was \$364k. We have one of the lowest tax rates of the towns listed, but because our houses are worth more, we don’t have the lowest average tax bill.

Municipality	Population (2018)	Average Single-Family Value (FY21)	Residential (and commercial and industrial) Tax Rate	Average Single-Family Tax Bill	% of Tax Levy that is Residential
Holden	19163	355,533	17.4	6186	94.50
Hubbardston	4787	286,533	14.8	4244	93.57
Paxton	4963	345,292	19.7	6813	95.47
Princeton	3478	395,243	16.1	6371	95.82
Rutland	8846	320,652	16.7	5355	93.71
Sterling	8190	377,755	16.5	6241	87.57
Westminster	7884	314,728	16.8	5275	86.97

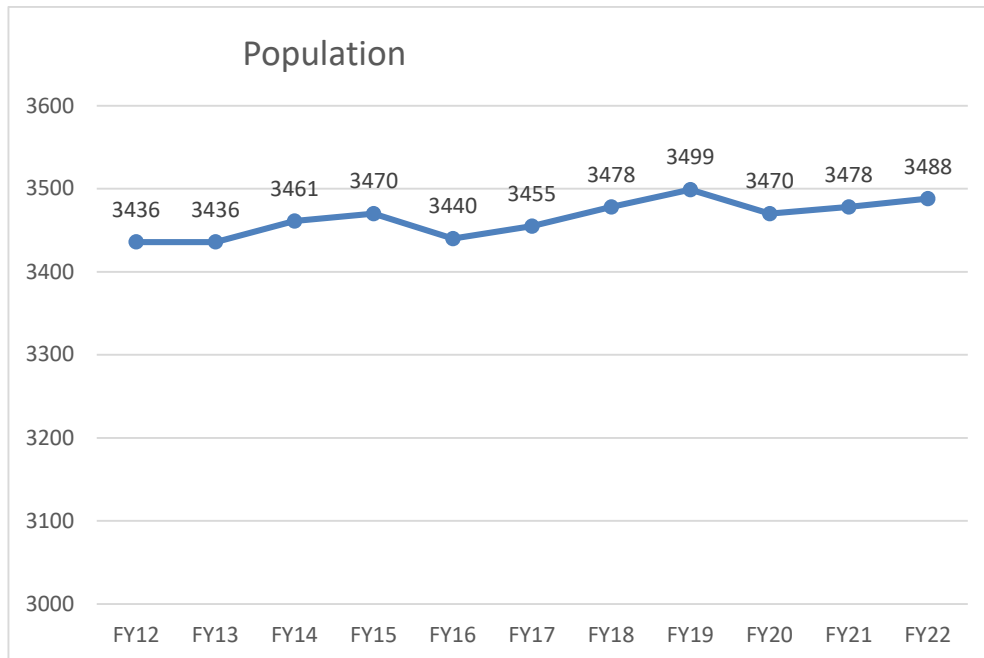
The following chart illustrates the average single-family home values in the Town of Princeton over the past ten years. Home values remained relatively stable between FY12 and FY17. There has been a 27% increase since then.



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 \$1,275 more than it was in FY12 or approximately 25% higher (9% without inflation). This is a 2.5% increase compounded annually.



The Population Chart below illustrates the population growth from FY12 to FY22. Note that numbers through FY19 are Census estimates and the rest are State Cherry Sheet estimates. The population in FY12 was 3,436 compared to 3,470 in FY15 (an increase of 34). After falling in FY16, growth averaged 0.2% for the next six 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. For the current budget cycle, the Town Administrator, Selectboard, and Advisory Committee met with department heads starting in approximately November to discuss their capital needs for FY22-FY26. Much work was done to ensure the cost estimates and timeframes were accurate.

The five-year capital plan is the best estimate by all departments of what their capital needs will be in the next five years. Guidance, now formalized in the Financial Policy, was given to the department heads on what should be capital versus operating budget expenses. Once the financial team was comfortable with the approximate size and timing of these requests, attention turned to the FY22 capital requests. For each, extra scrutiny was given to ensure the cost was based on good estimates, the item really belonged in capital and not the operating budget, and it was needed in the upcoming fiscal year.

In accordance with the newly adopted Financial Policy, please note that smaller items that might have been considered capital in the past were included in the operating budget this year.

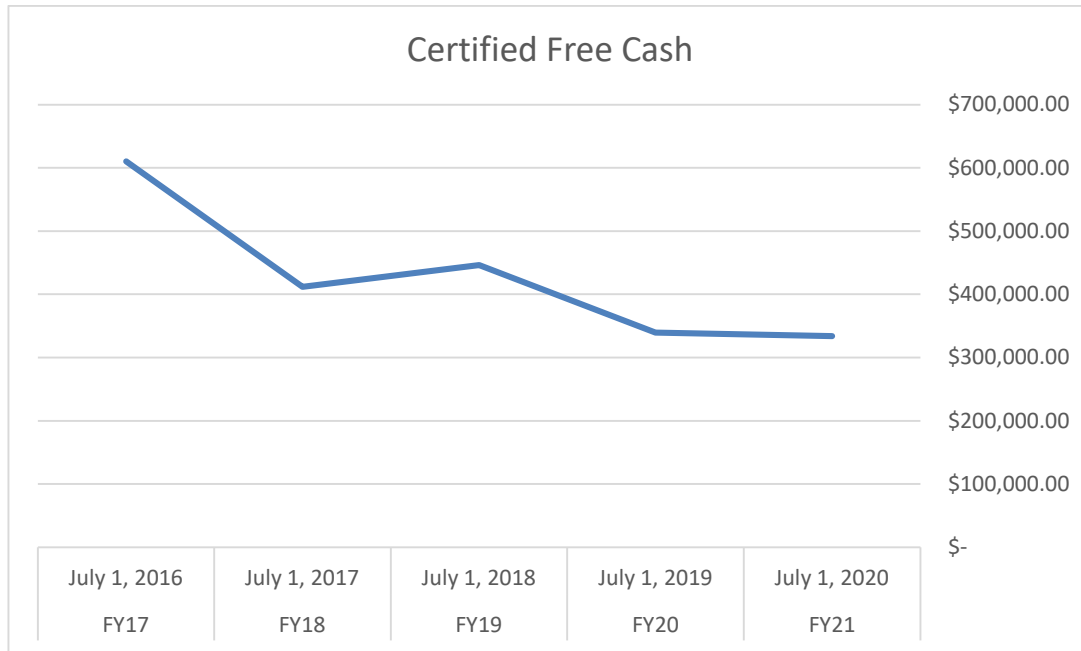
The next step in capital planning is to discuss how an item should be funded. Is it a vehicle or piece of equipment that should be leased? Is it a longer-lived item that really should be financed over a longer period through borrowing?

Some capital items can be paid for outright or the cost might be offset in part through other means. For example, some capital items are expected to be funded through grants. Others might be funded through transfers from free cash or a stabilization fund. Discussion of these follows.

Free Cash

The certified free cash for FY21 was \$334,243 dollars. This is down just slightly from \$339,471 last year. There are many contributing factors for keeping free cash low, but tighter fiscal controls and careful, realistic budgeting have helped bring the budget in-line with actual spending.

Per our Financial Policy, it is our goal to general certified Free Cash at a level of three (3) to six (6) percent of General Fund revenues. FY21 certified free cash is based on FY20 actuals and can be spend during FY22. FY22 General Fund revenues are projected to be \$12,120,022. Our certified free cash percentage is 2.8%.



Stabilization Fund Summary

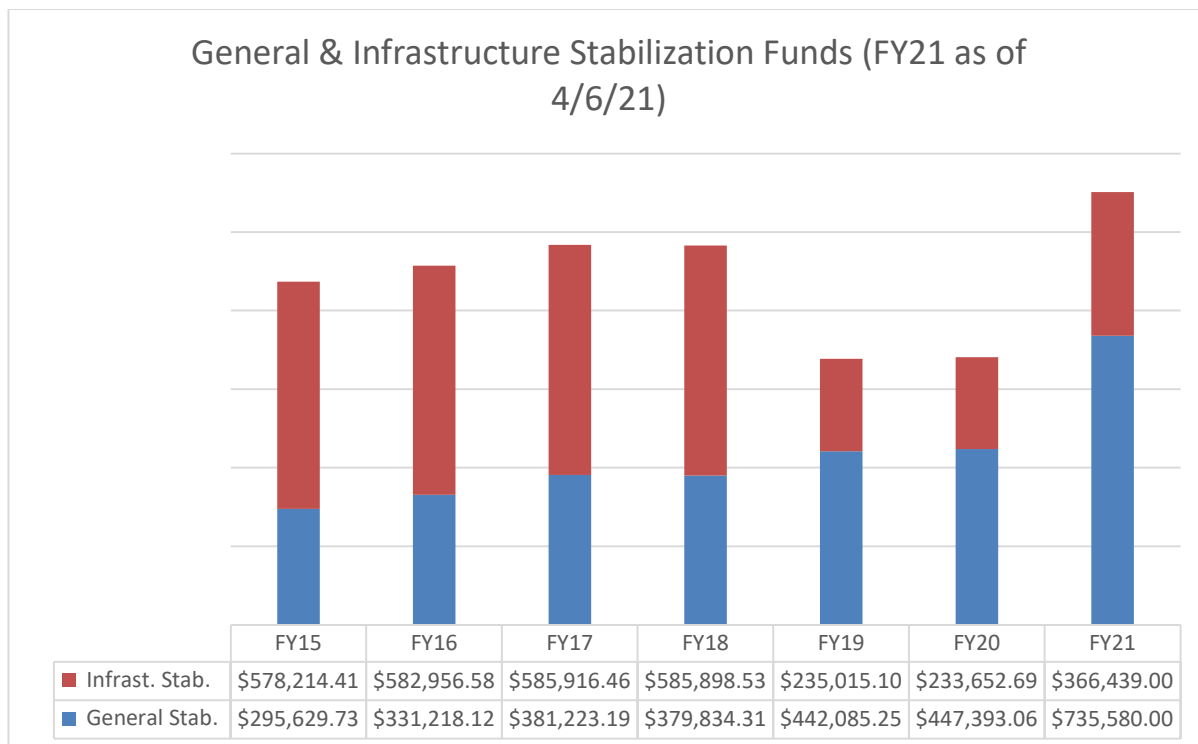
Part of the CIP is funded from Stabilization Funds. Maintaining adequate stabilization fund levels is important to the financial stability of the Town. The Financial Policy defines minimum levels for each stabilization fund. As the five-year CIP is revised and funding sources are identified, the stabilization fund levels are 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 FY21 (amount includes the General and Infrastructure 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.

In June of 2020, voters transferred \$267,424 from free cash into the General Stabilization fund. The management team was concerned about the uncertainties surrounding COVID and decided to put off several capital projects and hold a Special Town Meeting later in the year. The free cash was moved into the Stabilization account in anticipation of transfer requests at that next meeting. Instead, those items were deferred until this budget cycle and the money remains in the fund.

This year voters will be asked to approve the transfer of \$218,000 from the General Stabilization fund to help pay for the New Public Safety Building design and construction documents.

	General Stabilization	Infrastructure Stabilization
Fund Balance if all articles pass	\$517,580	\$366,439
FY22 Projected General Fund operating revenue	12,120,022	12,120,022
Financial Policy Goal	5% of operating revenue	3.5% of operating revenue
Financial Policy Targeted Fund Minimum Balance	\$606,000	\$424,200
% of Operating Revenue	4.3%	3.0%



Per the Financial Policy, it is also important to look at what is funded using the stabilization funds. For the general stabilization fund, it is intended to be used to avoid the incurrence of debt. This year, the fund is only used to help fund the design and construction documents for the New Public Safety Building. If these funds weren't used, the Town might have needed to borrow \$218,000.

The Infrastructure Stabilization Fund should only be used for furniture, fixtures, equipment, purchase or improvement of real property, or any item costing more than \$25,000 that has a useful life of at least 5 years. This year, the fund is not used.

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 last year, the only warrant articles dealing with new borrowing were the one for Bridges and Culverts and the one for increased borrowing for Bagg Hall Stabilization.

This year, there is a warrant article for borrowing for the library clock tower repair. This increased debt shows up on our debt forecast.

The following tables shows the five-year debt service and lease payment projections: (updated as of 4/5/21).

Debt Summary - 5 year projection (updated 4/14/20)
Existing Debt (long-term borrowing done) and Lease Payments

			Original					
Existing Debt	Start Date	End Date	Principal	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Hazmat Cleanup at TPS								
Principal	11/16/2012	11/15/2019	225,000					
Interest								
Total				-	-	-	-	-
Broadband Make Ready								
Principal	3/17/2017	3/15/2027	1,000,000	100,000	100,000	100,000	100,000	100,000
Interest				18,300	15,300	12,300	9,300	6,300
Total				118,300	115,300	112,300	109,300	106,300
Fieldstone Farm	6/8/2016	1/11/2019	650,000					
Principal								
Interest								
Total				-	-	-	-	-
Fire Trucks	12/7/2018	12/1/2022	480,000					
Principal				120,000	120,000			
Interest				6,300	2,100			
Total				126,300	122,100	-	-	-
Green Repair at TPS	10/28/2014	10/15/2024	1,105,000					
Principal				110,000	110,000	110,000	110,000	
Interest				7,700	5,500	3,300	1,100	
Total				117,700	115,500	113,300	111,100	-
Other								
Principal				25,000	25,000	25,000	25,000	25,000
Interest								

Total				25,000	25,000	25,000	25,000	25,000
Bagg Hall Stabilization/Roadwork	6/19/2020	6/18/2021	2,586,569					
Principal								
Interest				8,966				
Total				8,966	-	-	-	-
Highway Roadwork	10/8/2020	6/18/2021	700,000					
Principal								
Interest								
Total					-	-	-	-
Police Cruiser Leases				17,000				
Total Town Only								
Principal				355,000	355,000	235,000	235,000	125,000
Interest				41,266	22,900	15,600	10,400	6,300
Police Cruiser Leases				17,000	-	-	-	-
Total				413,266	377,900	250,600	245,400	131,300

Debt Summary - 5 year projection
Proposed Borrowing and Projects without Long-term Borrowing Complete

			Original					
Proposed Debt	Start Date	End Date	Principal	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Public Safety Facility	7/1/2023	7/1/2053	10,950,000					
P&I Payment @	3.50%				136,875	191,625	595,366	595,366
Bagg Hall,Road Work,Clock Tower	7/1/2023	7/1/2038	2,586,569					
P&I Payment @	3.50%				32,332	224,579	224,579	224,579
PFAS Phase I Permanent	7/1/2023	7/1/2038	1,000,000	15,000	12,500			
PFAS Phase II	7/1/2023							
P&I Payment	3.50%	Total	1,000,000			120,241	120,241	120,241
Highway Department Portion	7/1/2023	7/1/2038	700,000					
P&I Payment				8,448	60,778	60,778	60,778	60,778
Total Proposed P&I				55,780	373,954	536,445	940,186	940,186

Note that there are some lines in the above table that are for borrowing that was authorized at prior Town Meetings (e.g. PFAS Phase 1, Bagg Hall, and Road Work). When the Town begins a project, it takes out short-term, low-interest, interest-only notes called BANs (bond anticipation notes). After a project is complete, the Town goes out for long-term borrowing. There are administrative costs to doing borrowings, so we try to lump smaller notes together into a single borrowing. Since the Clock Tower project is expected to be complete by the end of December 2021, our plan is to go for long-term borrowing for the Salt Barn, Bagg Hall, Road Work, and Clock Tower together. The PFAS BAN will be extended for another year.

Another line in the above table that deserves explanation is “Highway Department Portion.” The agreement between all parties was that we would borrow for roadwork but that the debt service would be paid out of the operating budget for Highway. You will see further down that this amount is subtracted from the overall debt service line in the operating budget.

Though this warrant does not seek construction funds for the New Public Safety Building, we show the projected debt for this project for information purposes. The assumption is that we would begin construction in FY23. The amounts for FY23 and FY24 are interest payments on the BAN. In FY25, we have gone for

long-term borrowing at 3.5% for 30 years. The debt service amount climbs in FY25 when we begin to pay off both principal and interest. The debt service would remain at the FY25 level for the life of the borrowing. This item does not affect this year's budget.

**Debt Summary - 5 year projection
Proposed Leased Equipment**

			Original					
Proposed Leased Equipment	Start Date	End Date	Principal	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Front End Loader (856H)	FY 2023	FY 2029	159,890.00					
7 Years @ 2.98%					25,644	25,644	25,644	25,644
Chief Vehicle	FY 2023	FY 2027	49,153.28					
5 Years @ 3.19%					10,791	10,791	10,791	10,791
Police Cruiser	FY 2023	FY 2025	62,705.29					
3 years @3.09%					22,207	22,207	22,207	
Total					58,642	58,642	58,642	36,435

Per the Financial Policy, large capital items can be paid for in a number of ways, two of which are leasing and borrowing. The Financial Team looked at lease options for several vehicles and determined that leasing made more sense for the Town than borrowing. You may note that the interest rate on the front-end loader is less than for the other vehicles. This is most likely because the machine will hold its value longer than the Police vehicles.

Total of Existing and Proposed Borrowing and Proposed Leases

			Original					
	Start Date	End Date	Principal	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Total existing, proposed & leased				469,047	810,496	845,687	1,244,228	1,107,922
Total Existing, Proposed and								
Leased, LESS: Highway Roadwork				460,599	749,718	784,910	1,183,451	1,047,144

The above table shows the amount of debt service & leasing payments we are projected to pay if all the warrant articles pass. You will note that the difference between the two sets of numbers is that the Highway-funded debt service is pulled out because it is in the Highway’s operational budget.

The importance of managing our debt level

Per our Financial Policy, the Town strives to maintain a debt ratio of 5-7% (including regional school system debt). In particular, the annual debt service on General Fund debt shall not exceed 7% of the annual General Fund revenues.

For FY22, our debt ratio is $(455,968 + 131,293 \text{ of WRSD debt}) / 11,738,545 = 5.0\%$. We will look at this topic again when we discuss the 5-year Budget Forecast.

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 (updated 4/6/20)

The goal of the Town of Princeton's financial forecast is to conservatively project revenues and expenditures five years into the future (FY2022-FY2026). The forecast is intended to provide residents and the management team with the information they need to make informed decisions around the Town's financial strategies and policies, long-term financial and capital planning, and long-term contracts or obligations.

Revenue and expenditure forecasting is a powerful financial planning tool that can be used to isolate the impact of particular future events, and determine their effects on the Town's financial picture. The forecasting model is designed using reasonable assumptions about a wide variety of future events and, by using these assumptions along with known facts, a comprehensive view of the Town's fiscal outlook emerges. Though potential exists that any one item in the forecast may be less than accurate, when taken as a whole, a well-built model presents a fair representation of the Town's future finances.

The approach used in the forecast model for the Town of Princeton assumes that current staffing service levels will be maintained in the future years of the forecast. The model also assumes that existing Massachusetts General Laws and regulations will remain unchanged over the forecast period. However, as new information becomes available, the assumptions and estimates used in the current projections will need to be regularly reevaluated by Town officials to determine if they are still appropriate and reasonable.

Revenue Projections

Property Tax Levy

Annual tax levy growth is constrained by Proposition 2½, the Massachusetts General Law that limits the annual growth in a municipality's total tax levy to 2.5%, plus an allowance for certain new construction and other additions to the tax rolls. The law also allows a city or town to increase taxes beyond this annual levy limit with voter approval. An override of this limit by voters becomes a permanent part of the tax levy calculation in future years and is best used for recurring expenses in the regular operating budget.

A debt exclusion may also be approved by voters to increase the levy limit temporarily to fund capital projects. Generally, these projects are financed by borrowing and the annual debt service is added to the levy limit each year until the project is paid off.

The FY2022-FY2026 forecast for Princeton projects new growth to be eight new average value homes per year. This is a simplification since new growth depends not just upon new homes but also upon the value of additions and renovations. However, looking at the past five years, this seems like a reasonable assumption.

State Aid Cherry Sheet

There are multiple components of State Aid: Unrestricted General Government Aid (UGGA), State Owned Land, Veterans Benefits and Exemptions for Veterans and Elderly, and Aid to Public Libraries. The Selectboard issued a letter to residents on [Sources of Revenue](#) in 2018 which showed that UGGA and State-Owned Land made up over 90% of Cherry Sheet revenue. This forecast uses the conservative assumption that Cherry Sheet revenue will increase by 2% per year. Year-over-year increases in FY15 thru FY20 were:

FY15: 4.1%

FY16: 2.8%

FY17: 3.0%

FY18: 2.1%

FY19: 3.2%

FY20: 5.1%

Note that FY22 is projected to be lower because of COVID.

Local Estimated Receipts

Local estimated receipts are locally-generated revenues, other than real and personal property taxes. Examples include motor vehicle excise, investment income, payments in lieu of taxes, penalties and interest on taxes, departmental revenue, fines, and permit fees. This forecast uses the conservative assumption that Local Estimated Receipts will increase by 2% per year. Year over year increases in FY15-FY20 were:

FY15: (4.7%)

FY16: 4.4%

FY17: (5.8%)

FY18: 6.5%

FY19: 5.6%

FY20: (6.8%)

Note that we believe FY20 was lower than usual and FY21 will be as well because of COVID.

Red Cardinal

We make the assumption that we will begin receiving 3% excise taxes from Red Cardinal's cannabis sales beginning in FY23. We use the number presented in their proposal to the Town and grow it by 2% per year. Note that we will also receive 2-3% of their revenue as a community impact fee but since that fee is designed to offset expenses to the Town, we don't include it in the forecast.

Free Cash

Free Cash is funds remaining from the operations of the previous fiscal year which are certified by the State's Department of Revenue as available for appropriation (use). It is the Town's policy to not use Free Cash to offset General Fund expenses but instead to use it for snow & ice deficits, stabilization funds, OPEB, one-time capital expenses, reduction of debt, and reduction of the tax levy. For the sake of this forecast, the assumption is that approximately the same amount of free cash will be generated each year and it will be used to fund approximately the same amount of capital expenditures. You will not see free

cash in the forecast.

	FY 22	FY23	FY24	FY25	FY26
	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
Receipts Excluding R/E Tax					
Excise, PILOT, Misc.	1,093,440	1,115,309	1,137,615	1,160,367	1,183,575
State Aid	531,420	542,048	552,889	563,947	575,226
Red Cardinal	150,000	153,000	156,060	159,181	162,365
Total Receipts Excluding R/E Tax	<u>1,624,860</u>	<u>1,810,357</u>	<u>1,846,564</u>	<u>1,883,496</u>	<u>1,921,166</u>
Cumulative Increase					20.6%
Amount to Raise Through R/E Tax	<u>\$9,719,465</u>	<u>\$10,539,637</u>	<u>\$10,944,429</u>	<u>\$11,677,560</u>	<u>\$11,888,047</u>
Cumulative Increase					30.1%
Real Property					
Residential Value	560,100,258	571,302,263	582,728,308	594,382,875	606,270,532
Commercial Value	7,984,572	8,144,264	8,307,149	8,473,292	8,642,758
Industrial Value	1,938,612	1,977,384	2,016,932	2,057,271	2,098,416
New Residential Growth	4,488,000	9,155,520	14,007,946	19,050,806	24,289,778
New Commercial Growth					
Personal Property	14,489,129	14,778,911	15,074,489	15,375,979	15,683,499
Total Real Property	<u>\$589,000,571</u>	<u>\$605,358,342</u>	<u>\$622,134,824</u>	<u>\$639,340,222</u>	<u>\$656,984,982</u>
Cumulative Increase					14.6%

Expenditure Projections

Municipal Departments

In the forecast, Town departments have been grouped by major categories consistent with Town budget and state expenditure reporting. The department budgets are reported as follows: General Government; Police; Fire; Animal, Tree & Emergency; Schools; Public Works; COA & Veterans; Library, Parks, etc.

For projection purposes, the impact of the three-year Police Union contract signed in 2020 has been factored into the Police forecast of 3.5% annual growth.

Schools have historically grown at a higher rate than most other parts of the budget. Between FY16 and FY21, schools rose by an average of 3.9% per year. The forecast uses a 4% per year increase.

Other departmental operating budget accounts have been projected to increase by 2% per year. For the past

three budget cycles, guidance to the departments has been to level fund unless they can make a good case for an increase. Wage increases have made this difficult but departmental growth has slowed.

Debt Service

Debt Service is projected based on existing obligations, the new public safety building, the library clock tower, a replacement fire truck, a replacement ambulance, and a placeholder of \$25,000 in miscellaneous new debt service per year. Note the debt service line in our forecast does not include a projection of the WRSD debt service.

Retirement, Benefits, and Payroll Taxes

The forecast assumes these will grow at 2% per year.

	FY 22	FY 23	FY 24	FY 25	FY 26
Disbursements	<i>Budgeted</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
General Government	\$850,372	\$867,379	\$884,727	\$902,422	\$920,470
Police Department	941,317	974,263	1,008,362	1,043,655	1,080,183
Fire Department	457,318	466,464	475,794	485,310	495,016
Animal, Tree & Emergency	47,107	48,049	49,010	49,990	50,990
Schools	5,758,968	5,989,327	6,228,900	6,478,056	6,737,178
Public Works	1,580,989	1,612,609	1,644,861	1,677,758	1,711,313
COA & Veterans	138,492	141,262	144,087	146,969	149,908
Library, Parks, etc.	241,053	245,874	250,792	255,808	260,924
Debt Service (schedule)	459,470	1,118,143	1,200,105	1,598,646	1,462,339
<i>Debt Service %</i>	<i>4.1%</i>	<i>9.1%</i>	<i>9.4%</i>	<i>11.8%</i>	<i>10.6%</i>
Intergovernmental					
Retirement, Benefits & Payroll Taxes	<u>869,238</u>	<u>886,623</u>	<u>904,356</u>	<u>922,443</u>	<u>940,892</u>
Total Disbursements	<u>\$11,344,325</u>	<u>\$12,349,994</u>	<u>\$12,790,993</u>	<u>\$13,561,056</u>	<u>\$13,809,213</u>
Annual Increase	<i>5.7%</i>	<i>8.9%</i>	<i>3.6%</i>	<i>6.0%</i>	<i>1.8%</i>
Cumulative Increase					<i>28.7%</i>

Tax Impact

The projected tax impact is based on the excess of projected spending over projected receipts.

	FY 22	FY 23	FY 24	FY 25	FY 26
	<i>Budgeted</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
Tax Rate	\$16.50	\$17.41	\$17.59	\$18.27	\$18.09
Example Home Value	408,000	416,160	424,483	432,973	441,632
Tax on example home	<u>\$6,733</u>	<u>\$7,246</u>	<u>\$7,467</u>	<u>\$7,908</u>	<u>\$7,991</u>
Annual Tax Increase	5.6%	7.6%	3.1%	5.9%	1.0%
Cumulative R/E Tax Increase			-	-	<u>25.3%</u>
Levy Ceiling Total Valuation (2.5%)	\$15,133,959	\$15,553,371	\$15,983,506	\$16,424,625	
Levy Limit Annual Growth	10,646,252	11,141,296	11,770,027	12,540,548	
Excess Levy Capacity	<u>\$926,787</u>	<u>\$601,659</u>	<u>\$825,598</u>	<u>\$862,988</u>	

Forecast Summary and Discussion

The forecasted impact on the taxpayer is a bumpy rise in the tax rate and therefore property taxes. The projected tax increases are:

FY22: 5.6%

FY23: 7.6%

FY24: 3.1%

FY25: 5.9%

FY26: 1.0%

There are also impacts on the Town. Our excess levy capacity (a measure of the Town's ability to raise taxes) decreases from \$1.039m in FY21 to \$863k in FY26. This is an indicator that the Town could increase its spending and raise taxes without violating Proposition 2 ½ but we are eating into that capacity. It is interesting to note that Holden, Hubbardston, Paxton, and Rutland have almost no excess levy capacity as of FY21 and may be facing override votes. Sterling has an excess levy capacity of about 6%, Princeton is at 10%, and Westminster is at 11%.

Another measure that is important to look at is the Debt Service Percentage. In this forecast, it rises from 4.1% in FY21 to a peak of 11.8% in FY25 and then lowers some in FY26. Per the Town's financial policy, we strive to maintain a Debt Service Percentage of 5-7% (including WRSD debt). If this number climbs too high, it is an indicator that the Town is using too much of its revenue to service its debt. While the Town is paying off the new public safety building, it will need to be conservative as it considers taking on new debt.

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 know 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.

