Town of Easton

Summary Report of Financial Condition

Fiscal Year 2015

Prepared for the Easton Board of Selectmen

and Finance Committee

By Town Administrator David A. Colton

April 5, 2016

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Overview

This is the fifth annual financial condition report to the Town. It is intended to help inform Selectmen and Finance Committee financial decision making as the budget process proceeds each year. Information in the report relies on several sources including the Commonwealth of Massachusetts Department of Revenue (DOR), First Southwest Company (The Town's financial advisor), and the Massachusetts Public Employees Retirement Administration Commission (PERAC).

The report provides financial analysis in several key areas: Revenue and Expenditures, Tax Levy (including new growth and overrides), State Aid, Local Receipts, Reserves, Debt, and Pension Liability. Except for this overview, we will mostly let the numbers speak for themselves adding commentary for the purpose of clarification.

The good news is that the Town of Easton finished fiscal year 2015 in the black by $1,494,817. This is an increase of $271,914 over 2014's surplus of $1,222,903. However, fiscal year 2015 was not without some challenges. Last winter dropped record snowfall, creating a deficit in the snow and ice budget of $894,103. The financial impact of raising a deficit of this magnitude from the following year's tax levy would have been devastating to the fiscal 2016 budget, but fortunately cities and town were provided relief in the form of a one-time option to amortize the deficit over a three year period. Balancing the fiscal year budget has become increasingly difficult over the last few years and has led to an increased reliance on the use of reserves such as free cash and stabilization funds to balance the operating budget. In fact, the use of reserves increased by $432,823 over FY 2014 from $2,287,646 to

$2,720,469. This represents an increase of 18.9% and the use of reserves now accounts for 3.7% of total general fund financing sources. It has been a difficult balance to provide the services our citizens expect and deserve amidst an environment of rising costs and limited revenue growth.

Tax Levy

We are fortunate that new growth has continued to rise and was up by $149,281 over fiscal 2014, which provided a much needed increase in revenue in fiscal 2015. The Town of Easton has and will continue to levy taxes to the statutory limit which stood at just under $49M in fiscal 2015. The levy[1] is limited by proposition 2 ½ and includes amounts voted at an override election and new growth. Prior to FY 2009 new growth exceeded half a million dollars per year on a consistent basis, but between 2009 and 2011, it leveled off at below $400,000 per year. Fortunately, new growth has been improving. In FY 2014 it reached $637,523 and in FY 2015 it reached $786,804. This is one area that we anticipate will remain healthy for at least the next few years, however we are anticipating more modest increases during this time.

State Aid

State aid (local aid) has not been keeping pace expenditure growth, despite additional state mandates placed on cities and towns. The lack of growth in this vital revenue category is the largest contributing factor toward our increased reliance on the use of reserves to balance the operating budget. As you can see in Table 6, net state aid peaked in 2009 at $12,024,566, yet in FY 2015 the Town received a net of

[1] See Table 2 – pg. 7

$11,123,382, which is a *decrease* of $901,184. Even if state aid had remained flat at the fiscal 2009 level over the last six years, on a cumulative basis we would have received $6,697,688 more in revenue, which averages roughly $1,116,000 per year. Even now, years after the Great Recession, increases in local aid are not even keeping pace with annual growth in state revenues. Had it not been for the success of the operational override in 2007, the impact of this loss of revenue would have had devastating impacts on services provided to the community. Insufficient growth in local aid continues to strain the ability of cities and towns to provide necessary services to their residents.

Local Receipts

Local receipts have performed well as a whole over the last few years and we have seen significant growth in ambulance receipts. We are always looking to maximize revenue in this area and will continue to do so, but it is likely these revenues will level off in the coming years.

Reserves

Our reserve position increased slightly from 5.28% to 5.34% of relevant expenditures. This is due largely to the cooperative relationship between town government and school administration and efforts to minimize costs and maximize savings in areas such as electricity through net metering credits. Based on recommendations from the Town's financial advisors and bond rating agency, we recently adopted a fund balance policy that recommends a reserve level between 7% and 10%. We are very much below even the minimum level and need to make building reserves a priority. Our continued reliance on the use of reserves to balance the operating budget will only increase this gap.

Free cash balances have held relatively steady with the exception of 2009 when a mid-year cut in local aid was mitigated through unplanned use of free cash[2]. The certification on 7/1/15 was up from the previous year due mostly to a tax lien sale conducted by the town which resulted in the collection of almost $1M in back taxes and interest. We will continue to look for opportunities to maximize revenues and savings through operational efficiencies. However, it should be noted that at the time of this report, the stabilization fund balance has been reduced to $1,089,419 and it will be necessary to use the remaining unappropriated free cash from the 7/1/15 certification to balance to the FY17 operating budget.

Debt and Pension Liability

Long term financial conditions are always a concern. Debt and pension liability are two areas that this report tracks[3]. Our level of total debt is modest relative to some nearby communities and our credit rating of Aa3 is pretty strong. We must take care to preserve this rating. Our strong management and recent adoption of a fund balance policy have helped to maintain it and we will adopt additional policies in the near future. A much stronger reserve position would be needed to upgrade our rating to Aa2. Pensions are managed by the Bristol County Retirement System. Valuations are typically conducted on a biennial basis and the latest published data from 2014 is

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[2] See Table 7 – pg. 12

[3] See Tables 9,10 – pg. 14, 15 respectively

unchanged from last year's report. Bristol County's funded ratio is 61.4% and they are still on track to be fully funded by 2030 which compares favorably to the Commonwealth's target of 2040.

Table 1

Final Statement of General Fund Revenue and Expenses					
		% of			% of
	FY 15	**Total**		**FY 14**	**Total**
Revenues:					
Tax Levy	$49,325,089	67.4%		$46,930,259	67.3%
State Aid	$12,891,795	17.6%		$12,751,419	18.3%
Local Receipts	$7,729,948	10.6%		$7,193,108	10.3%
Use of Reserves	$2,720,469	3.7%		$2,287,646	3.3%
Other	$547,753	.7%		$547,753	.8%
Total Revenues	**$73,215,054**	**100.0%**		**$69,710,185**	**100.0%**
Expenditures:					
Operating Budget	$54,242,171	75.7%		$51,252,620	74.8%
Transfer to Stabilization	$250,000	.3%		$250,000	.4%
Debt Service	$4,742,358	6.6%		$4,854,707	7.1%
EE Benefits and Insurance	$11,893,133	16.6%		$11,503,153	16.8%
Regional School	$592,575	.8%		$626,802	.9%
Total Expenditures	**$71,720,237**	**100.0%**		**$68,487,282**	**100.0%**
Net:	**$1,494,817**			**$1,222,903**	

Table 2

Tax Levy FY 2005-2015		
Year	**Actual Levy**	**Levy Limit**
2005	$29,005,102	$29,031,179
2006	$31,350,853	$31,360,796
2007	$36,065,634	$36,066,695
2008	$37,650,812	$37,674,741
2009	$39,433,261	$39,452,762
2010	$41,261,393	$41,285,551
2011	$42,667,348	$42,671,102
2012	$44,064,182	$44,089,596
2013	$45,522,543	$45,537,416
2014	$47,091,463	$47,095,252
2015	$48,941,862	$48,957,789

Increases include new growth and override amounts for excludable debt.

An operational override was passed in 2006 and took effect in FY 2007.

Table 3

Tax Levy Breakdown FY 2005-2015				
		Operational	Debt	Total
Year	**Base Levy**	**Override**	**Exclusion**	**Levy**
2005	$28,045,037		$960,065	$29,005,102
2006	$29,311,343		$2,039,510	$31,350,853
2007	$31,067,313	$3,400,000	$1,598,321	$36,065,634
2008	$35,927,484		$1,723,328	$37,650,812
2009	$37,202,330		$2,230,931	$39,433,261
2010	$38,488,317		$2,773,076	$41,261,393
2011	$39,851,840		$2,815,508	$42,667,348
2012	$41,304,500		$2,759,682	$44,064,182
2013	$42,761,294		$2,761,249	$45,522,543
2014	$44,479,305		$2,612,158	$47,091,463
2015	$46,366,048		$2,575,814	$48,941,862

Table 4

New Growth FY 2005-2015		
Year	**Amount**	
2005	$961,817	(1)
2006	$548,394	
2007	$1,014,056	(2)
2008	$621,330	
2009	$371,633	
2010	$360,098	
2011	$380,307	
2012	$469,919	
2013	$413,005	
2014	$637,523	(3)
2015	$786,804	

New Growth-is generated by an increase in the valuation of properties due to new construction or other improvements. The net increase in value is multiplied by the prior year's tax rate to determine the dollar amount of new growth.

(1) Reflects 18 months of growth (valuation timeframe changed from calendar to fiscal year)

(2) Includes one-time increase in growth resulting from condominium conversion of large rental housing complex.

(3) Increase resulting from increased construction activity and revaluation of Town.

Table 5

State Aid Comparison FY 2005-2015			
	State Aid	State	Net
Year	Net of Offsets[1]	Assessments	Aid
2005	$10,999,438	$661,077	$10,338,361
2006	$10,304,102	$677,799	$9,626,303
2007	$11,196,979	$684,209	$10,512,770
2008	$11,962,002	$719,467	$11,242,535
2009	$12,742,039[2]	$717,473	$12,024,566[2]
2010	$11,906,097	$735,739	$11,170,358
2011	$11,334,953	$643,901	$10,691,052
2012	$11,283,260	$682,186	$10,601,074
2013	$11,559,466	$676,961	$10,882,505
2014	$11,687,489	$706,152	$10,981,337
2015	$11,871,166	$747,784	$11,123,382

(1) Excludes School Construction Aid
(2) Net of 9(c) cut by governor of $265,587

Table 6

Local Receipts FY 2005-2015	
Year	**Actual Local Receipts**
2005	$5,694,132
2006	$5,944,571
2007	$5,419,287
2008	$5,692,297
2009	$5,464,550
2010	$5,447,222
2011	$6,216,156
2012	$6,277,926
2013	$6,601,788
2014	$7,193,107
2015	$7,737,004

Table 7

Free Cash Balances FY 2005-2015		
Certification Date	Amount	
7/1/2005	$1,414,793	
7/1/2006	$1,366,111	
7/1/2007	$1,612,338	
7/1/2008	$1,511,527	
7/1/2009	$688,651	(1)
7/1/2010	$1,515,679	
7/1/2011	$1,402,992	
7/1/2012	$1,776,910	
7/1/2013	$1,865,659	
7/1/2014	$1,536,299	
7/1/2015	$2,019,943	

Surplus created by unexpended amounts in budgetary accounts and local revenues in excess of estimated revenues. This balance less uncollected property taxes is free cash & may be spent with the approval of Town Meeting.

(1) Free cash was unusually low this year due to mid-year cuts in state aid and revenue shortfalls in motor vehicle excise taxes and licenses & permits.

Table 8

Computation of Town Reserve Position Relative to Certain Expenditures*				
	FY15	**%**	**FY14**	**%**
FY 2015 Operating Budget	$54,242,171		$51,252,620	
Transfer to Unemployment Trust	-		-	
Debt Service	4,742,358		4,854,707	
EE Benefits and Insurance	11,893,133		11,503,153	
Regional School	592,575		626,802	
Total Expenditures	$71,470,237		$68,237,282	
Goal: Rule of thumb suggested reserves (Free Cash and Stabilization Funds) be 7% - 10% of above expenditures	$5,002,917	7.00%	$4,776,610	7.00%
Actual Reserves as of 6/30/15:				
Free cash	$2,019,943		$1,536,299	
Stabilization	1,372,679		1,649,324	
Capital Stabilization	421,653		416,317	
Total Reserves	$3,814,275	5.34%	$3,601,940	5.28%
Difference	($1,188,642)	(1.66%)	($1,174,670)	(1.72%)

* Excludes enterprise funds

Table 9

Per Capita Debt as of 6/30/15				
Credit Rating of Selected Towns				
			Credit Rating	
	Per Capita Debt	Moody's	Standard & Poor's	
Easton	$1,828	Aa3	-	
Sharon	$2,894	Aa2	AA	
Mansfield	$2,043	Aa2	AA+	
Stoughton	$1,187	Aa3	-	
Norton	$1,233	-	AA+	
Raynham	$1,886	A1	-	
Foxboro	$2,458	Aa2	AA+	
Canton	$3,103	-	AAA	
West Bridgewater	$1,301	A1	AA	
	Per capita debt: 2014 long-term debt outstanding divided by 2013 population			
	2014 State average = $1,976			

Table 10

Funded Ratio and Return on Investment			
Bristol County and select MA Retirement Systems			
			2013
	Date	Ratio	Market ROI
Bristol County	1/1/14	61.40%	17.92%
Brockton	1/1/14	64.01%	8.00%
Hampden County	1/1/14	47.20%	13.81%
Norfolk County	1/1/14	55.80%	17.43%
Taunton	1/1/14	65.60%	17.68%
Commonwealth of MA	1/1/14	69.01%	8.00%
Values from PERAC website.			