



# *Town of Natick*

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# Financial Summit

September 22, 2010

*Martha White, Town Administrator*  
*Michael Walters Young, Deputy Town Administrator*



# *Town of Natick*

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## Agenda

**Introduction**

**Presentation of Indicators**

**Three-Year Projection & FY 2012 Outlook**

**Closing & Questions**



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## Introduction

### Objectives:

- ❑ To present an analysis of Natick's financial condition, generally defined as our ability to pay for the cost of services needed and desired on a continuing basis. This analysis supports our efforts to strengthen the Town's financial condition – both short and long term.
- ❑ By identifying and responding to financial trends, we help facilitate stability within local government, as well as the cost-effective delivery of desired services, thus minimizing impact on taxpayers.



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## Introduction

### **Strategic financial planning facilitates effort to**

- ❑ measure and monitor trends and changes in our financial condition,
- ❑ identify forces affecting our condition, and
- ❑ foresee emerging problems and identify strategies in response to these factors
- ❑ create stability in our financial condition



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## Introduction

**A sound financial condition allows the community to**

- ❑ maintain existing service levels,
- ❑ better withstand local and regional economic disruptions, and
- ❑ anticipate and meet demands and challenges associated with economic, demographic and other growth, decline or change.



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## Introduction

- **Tonight's summit and the related materials are designed to:**
  - a) Evaluate the financial health of the Town of Natick through a series of financial indicators and comparative benchmarks, where appropriate;
  - b) Present a three-year projection of Revenues & Expenditures; and
  - c) Outline the FY 2012 Budget Process & Issues



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## Introduction

**Overall, the Town has both fiscal strengths and weaknesses:**

- Natick has **favorable** property tax collections, revenues related to economic growth, and debt service levels (both as a percentage of operating revenues and per capita).
- Natick has **marginal** expenditures per household and personnel costs, and reserve levels.
- Natick has **unfavorable** and uncertain levels of State Aid, benefit expenditures, pension liabilities, amounts of capital investment and a reliance upon one-time revenues.



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# Financial Indicators



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### **Reminders on Indicators**

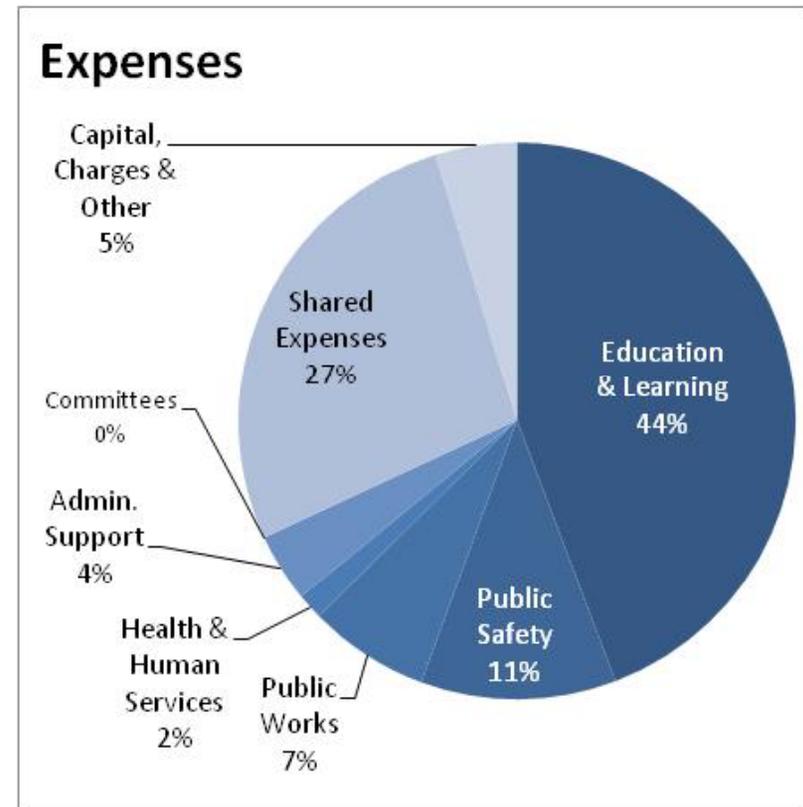
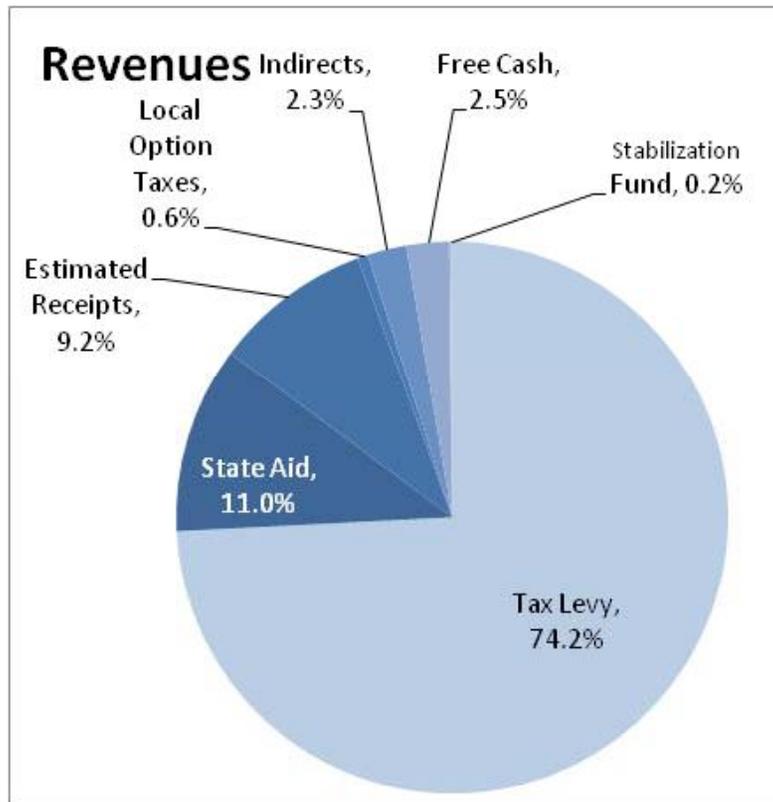
- Indicators are retrospective – actual data, actual results over a ten year time frame
- Indicators are not comparative – review is just on Natick’s performance, not our comparative communities (though several comparative measures are found in the appendix)
- Indicators are designed to assist taxpayers, policy makers, financial oversight groups and budgeteers in completing challenging task of building the budget.
- *Remember: A budget is a reflection of the values of a community.*



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### General Fund Budget Distribution: FY 2011

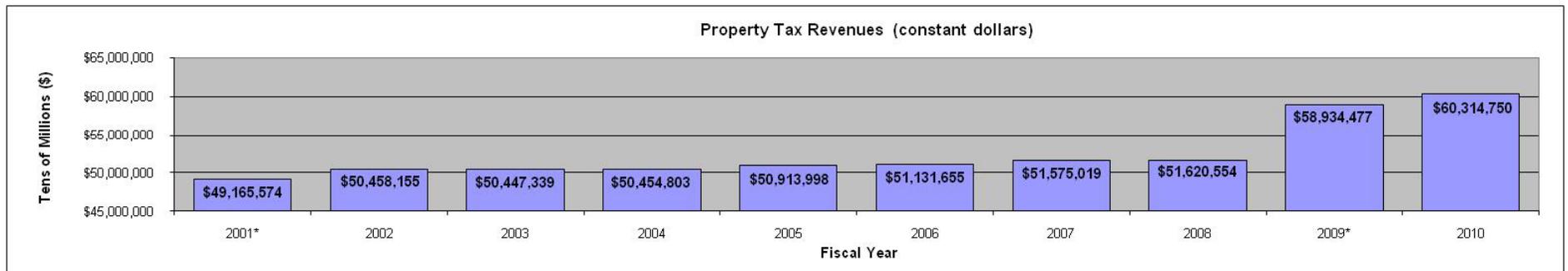




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### Indicator #1: Property Tax Revenues



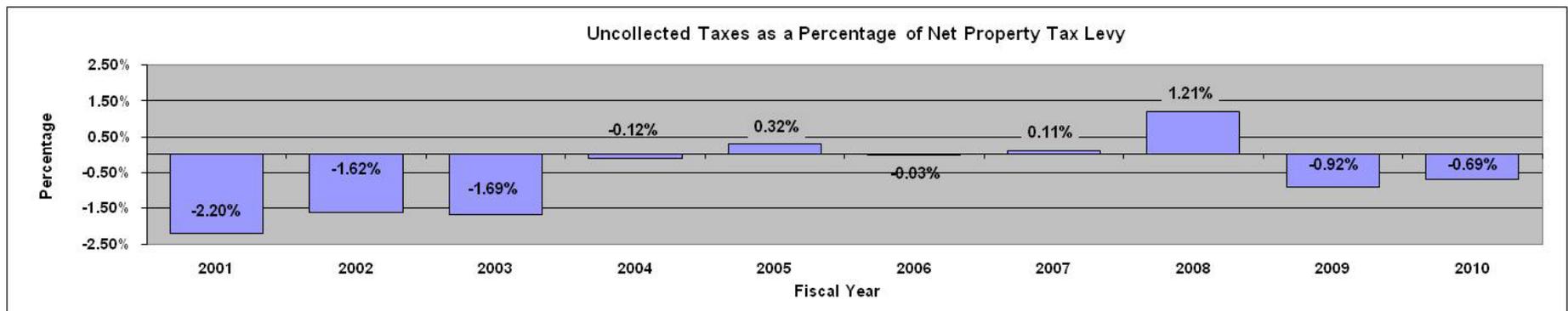
- ❑ Formula: Property Tax Revenues (constant dollars)
- ❑ Warning: When tax revenues in constant dollars decline
- ❑ Natick Trend: **Favorable/Marginal**
- ❑ Good:  $\frac{3}{4}$  of income base comes from steady, reliable source
- ❑ Bad: Only real growth comes not from  $2\frac{1}{2}$  allowable increase, but overrides



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### Indicator #2: Uncollected Property Taxes



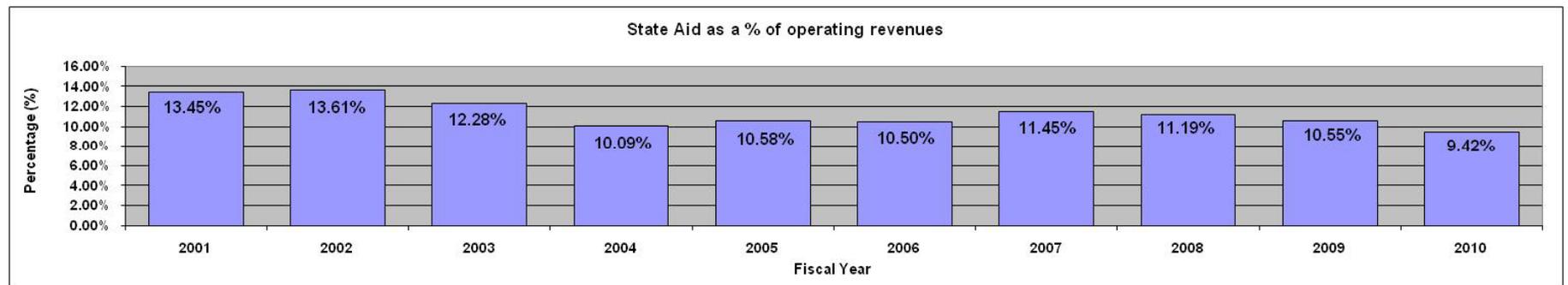
- ❑ Formula:  $\text{Uncollected Property Taxes} / \text{Net Property Tax Levy}$
- ❑ Warning: When uncollected property taxes reach 5-8% of levy
- ❑ Natick Trend: **Favorable**
- ❑ Good: Strong history of collections above 100% of net levy & indication of community's ability and willingness to pay timely.



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### Indicator #3: State Aid



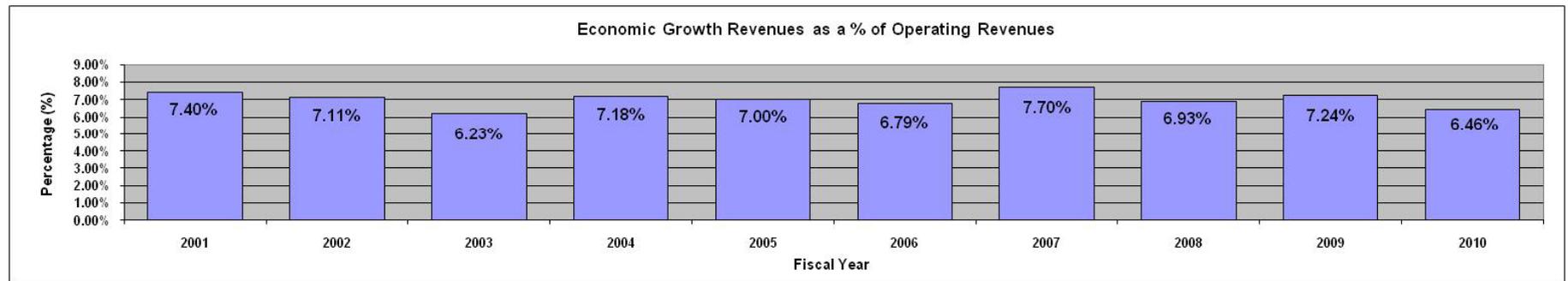
- ❑ Formula: State Aid / Operating Revenues
- ❑ Warning: When State aid as % of Oper. Rev. declines
- ❑ Natick Trend: **Unfavorable/Uncertain**
- ❑ Bad: Unreliability and continual mandates from state to provide service increase fiscal challenge to community and impact service delivery and/or shift burden to local taxpayers



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### Indicator #4: Revenues Related to Economic Growth



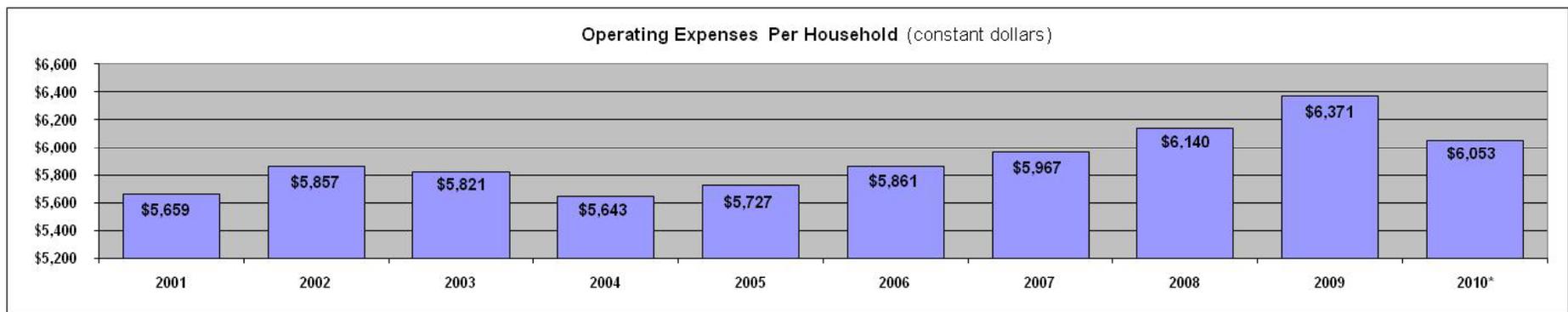
- ❑ Formula: Economic Growth Revenues / Operating Revenues
- ❑ Warning: Decreasing revenues as a % of operating revenues
- ❑ Natick Trend: **Favorable/Uncertain**
- ❑ Good: Despite of economic conditions, between 6.5-7.5% of operating revenues derived from economic growth categories. Significant as growth in the 2000's comes primarily from non-residential developments.



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### Indicator #5: Expenditures/Household



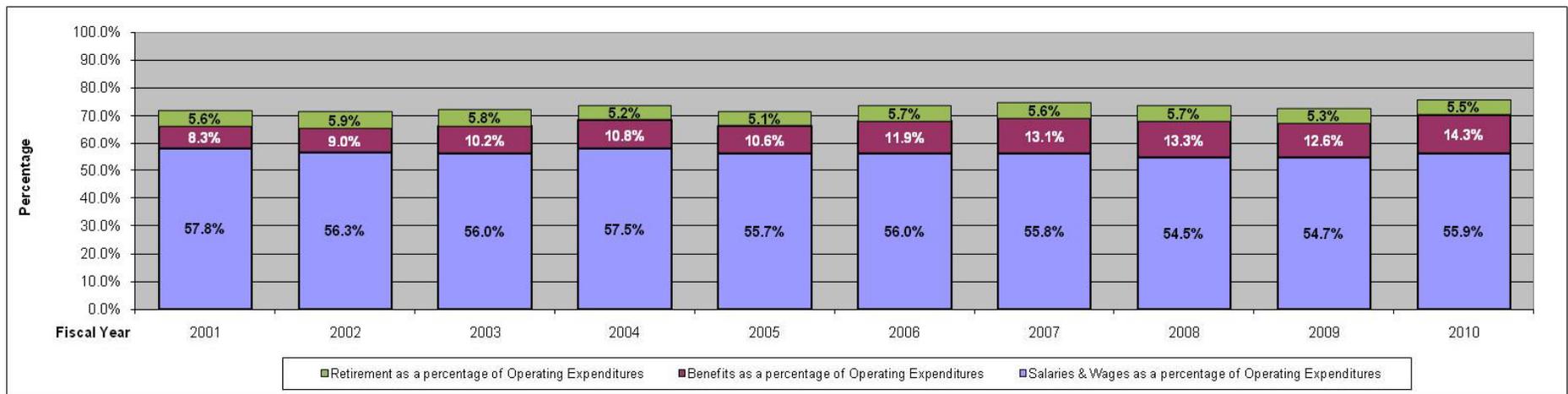
- ❑ Formula: Net Operating Expenses (constant dollars) / Households
- ❑ Warning: Increasing Oper. Exp./household in constant dollars
- ❑ Natick Trend: **Marginal**
- ❑ Good: Growth is less than 1%/yr. on avg. in constant dollars over last decade
- ❑ Bad: With tax revenue in constant dollars flat, increased expenses have been afforded through use of one-time revenues



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### Indicator #6: Personnel Costs



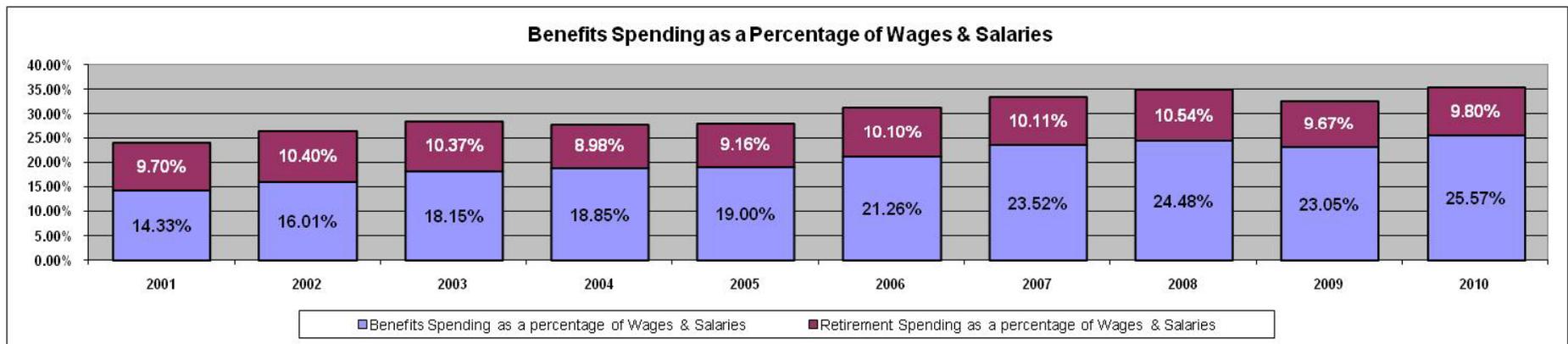
- ❑ Formula: Personnel Costs/Operating Expenditures
- ❑ Warning: Increasing personnel costs as % of total expenses
- ❑ Natick Trend: **Marginal/Uncertain**
- ❑ Good: 4% shift to personnel over decade is predictable & manageable, albeit significant
- ❑ Bad: Cost shift to personnel = reduced resources for other expenses, services and employee retention



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### Indicator #7: Employee Benefits



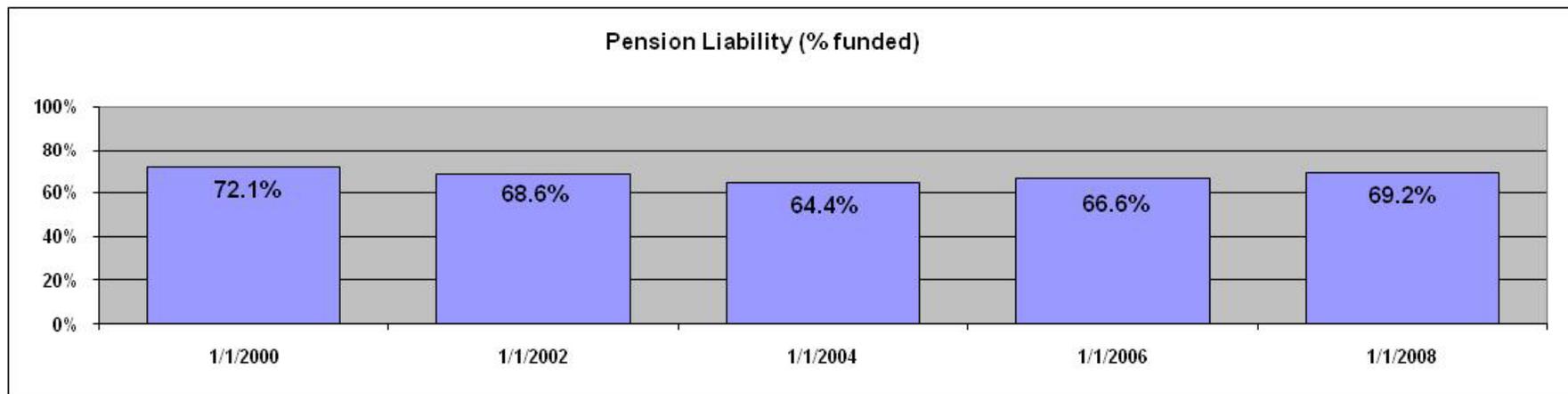
- ❑ Formula: Employee Benefits / Wages & Salaries
- ❑ Warning: When benefit costs increases as a % of salaries
- ❑ Natick Trend: **Unfavorable**
- ❑ Bad: Town spends nearly 2 ½ times more on health care now than it did in 2001; this means less money available to maintain services



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## Indicator #8: Pension Liability



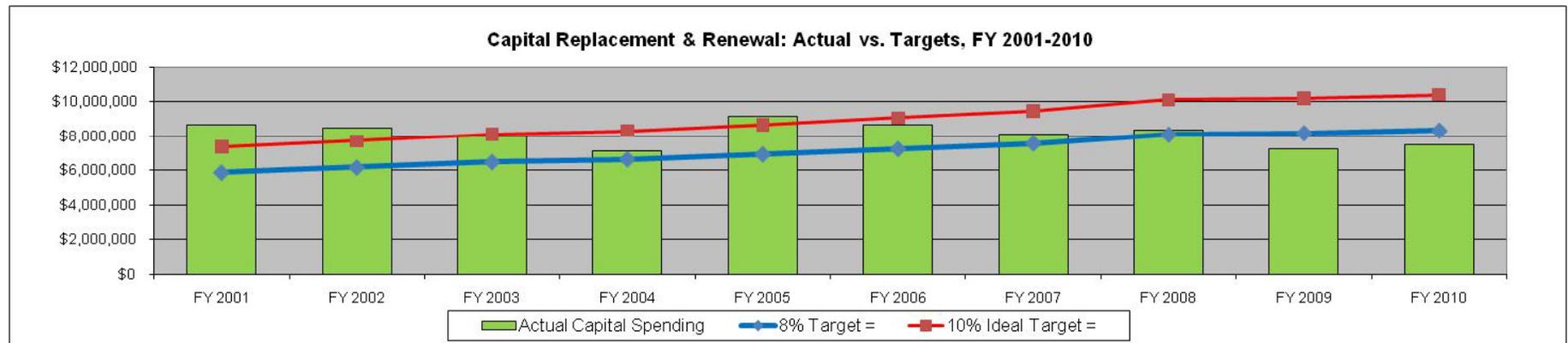
- ❑ Formula: Pension Assets / Pension Liability
- ❑ Warning: Unfunded liability OR increase in unfunded liability
- ❑ Natick Trend: **Unfavorable**
- ❑ Bad: Unfunded liability grew from 2000 to 2008; 30 years remain to fully fund system under state law. Result: Higher annual assessments (2012)



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### Indicator #9: Capital Asset & Renewal



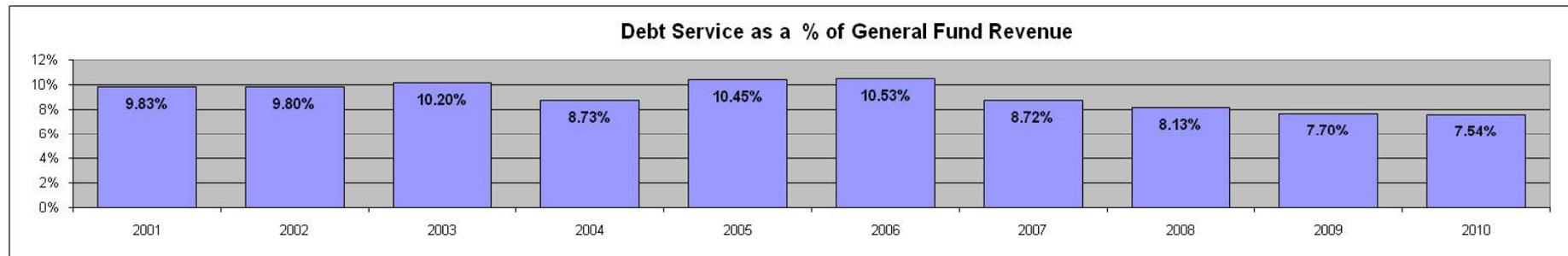
- ❑ Formula: Capital Spending vs. Recommended Targets
- ❑ Warning: When capital spending as % of revenues declines for three years
- ❑ Natick Trend: **Unfavorable**
- ❑ Bad: Declines over last 5 years in capital spending; eventually leads to lower efficiency, increased maintenance and higher replacement costs



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### Indicator #10: Debt Service



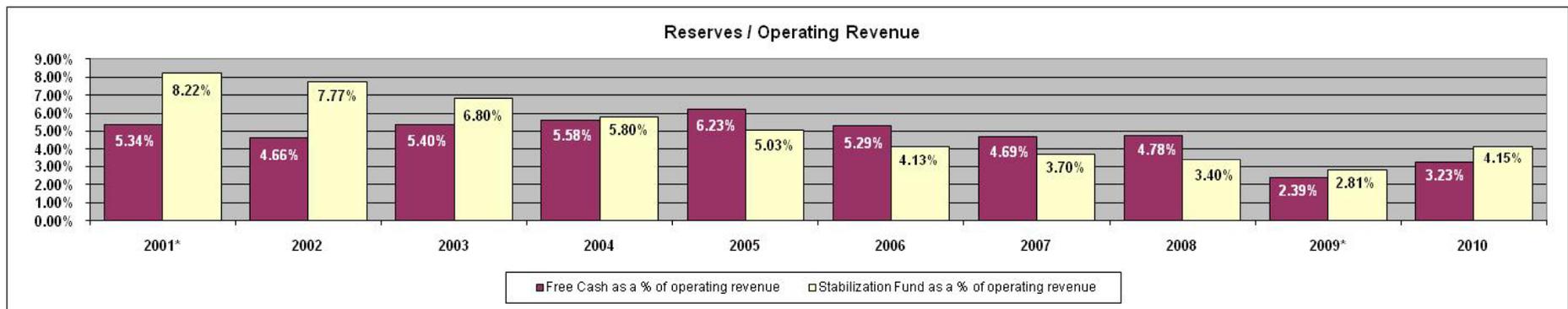
- ❑ Formula: Debt Service as % of General Fund Revenue
- ❑ Warning: Debt Service exceeds 20% of G.F. Oper. Revenues
- ❑ Natick Trend: **Favorable**
- ❑ Good: Natick average is 7.5%-10.5% of G. F. Oper. Revenues dedicated to debt service. Also low per capita and per household debt costs as well.



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### Indicator #11: Reserves



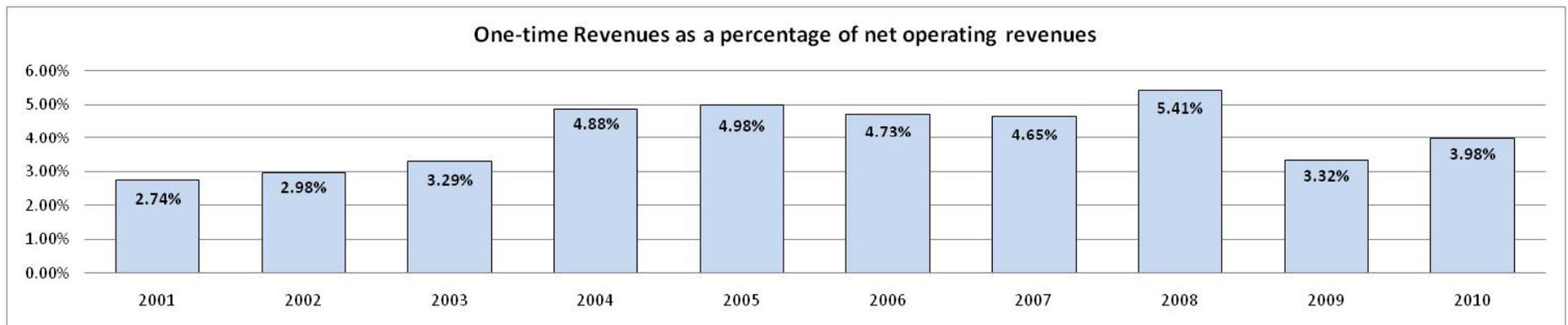
- ❑ Formula: Type of Reserve / Operating Revenues
- ❑ Warning: When reserves decline as % of operating revenues
- ❑ Natick Trend: **Marginal/Uncertain**
- ❑ Bad: Reserve levels steadily declined every year until FY 2010; rebound in FY 2010 is extremely positive – but still too early to tell if it can be sustained; lack of reserves limits Natick’s ability to respond to further economic downturns and major emergencies



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### Indicator #12: Use of One-Time Revenues



- ❑ Formula: One-time revenues / net operating revenues
- ❑ Warning: Increasing use of one-time revenues as % of oper. revenues
- ❑ Natick Trend: **Unfavorable**
- ❑ Bad: Use of one-time revenues to support operations is not sustainable; results in decreased reserves, instability in service delivery



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Indicator	Original (FY 2009)	Current (FY 2010)	Future (FY 2011)
Property Tax Revenues	Favorable/Marginal	Favorable/Marginal	Favorable/Marginal
Uncollected Taxes	Favorable	Favorable	Favorable/Uncertain
State Aid	Unfavorable/Uncertain	Unfavorable/Uncertain	Marginal/Uncertain
Revenues Related to Economic Growth	Favorable/Uncertain	Favorable/Uncertain	Marginal/Uncertain
Expenditures per Household	Marginal	Marginal	Marginal
Personnel Costs	Marginal	Marginal/Uncertain	Unfavorable/Uncertain
Employee Benefits	Unfavorable	Unfavorable	Unfavorable/Uncertain
Pension Liability	Unfavorable	Unfavorable	Unfavorable/Uncertain
Capital Investment	Unfavorable	Unfavorable	Unfavorable
Debt Service	Favorable	Favorable	Favorable
Reserves/Fund Balance	Unfavorable	Marginal/Uncertain	Favorable/Uncertain
Use of One-Time Revenues & Reserves	Unfavorable	Unfavorable	Favorable/Uncertain



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## Remediation of Lagging Indicators

<b>State Aid</b>	<b>Unfavorable/ Uncertain</b>	The State's allocation of aid to cities and towns is largely out of our control, however Natick elected and appointed officials consistently lobby our elected officials on the importance of reliable, stable state aid.
<b>Revenues Related to Economic Growth</b>	<b>Favorable/ Uncertain</b>	These revenues are largely driven by larger economic conditions. However, Natick's position in the greater Boston and Metrowest region position us well for fairly stable economic growth. The efforts of the newly created Economic Development Committee should serve to enhance stability in this area.
<b>Expenditures per Household</b>	<b>Marginal</b>	Efforts to address this marginal trend will be geared toward controlling overall expenses and, effectively, living within our means, i.e. balancing the budget using only recurring revenues.

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### Remediation of Lagging Indicators

<b>Personnel Costs</b>	<b>Unfavorable</b>	<p>The key to reversing this unfavorable is to control health care costs and, to a lesser extent, pension spending. Changes in the Town's health care programs are a matter of collective bargaining with the Town's 17 unions. Reducing pension costs are even more challenging, given governing state laws. However, we continue to evaluate opportunities and benefits for investing local pension funds in the state pension system.</p>
<b>Employee Benefits</b>	<b>Unfavorable</b>	
<b>Pension Liability</b>	<b>Unfavorable</b>	

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## Remediation of Lagging Indicators

 <p><b>Capital Investment</b></p>	<p><b>Unfavorable</b></p>	<p>While this administration is committed to adequately funding our capital needs, the economic challenges of recent years have not allowed us to do so. We are proposing significant investment at the upcoming Fall Annual Town Meeting, however due to minimal funding last spring, our total numbers for FY 2011 will still fall short of the mark. Creation of the Capital Stabilization Fund, completion of the evaluation of long term needs compared to debt capacity and continued commitment to this effort should help turn this trend to a more favorable outlook.</p>
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## Remediation of Lagging Indicators

<b>Reserves/Fund Balance</b>	<b>Marginal/ Uncertain</b>	Given that the FY 2011 operating budget was balanced without the use of funds from either the Stabilization Fund or the Overlay Reserve, we are very hopeful that we have turned the corner on this trend; we even added funds to the Stabilization Fund at the last Spring Annual Town Meeting. These efforts must continue.
<b>Use of One-Time Revenues &amp; Reserves</b>	<b>Unfavorable</b>	Same answer as above.

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# Three-Year Projections



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## Three-Year Projections

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Revenues	106,958,773	108,271,473	111,923,670
Expenses	106,958,773	109,998,550	115,175,465
Balance	0	-1,797,117	-3,251,795



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## FY 2012 Budget Policy Issues

- 1. Health Care Concessions
- 2. Collective Bargaining Agreements
- 3. Continued implementation of Town's Financial Management Principles
  - Adequately funding capital needs
  - Reduced reliance on one-time revenues & reserves to fund recurring operations
- 4. Continued exploration and implementation of cost containment measures
  - Coordinated delivery or sharing of services with neighboring communities
  - Reorganization of departmental operations



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Home of Champions

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# *Thank You!*