



Town of Holden MASSACHUSETTS

OFFICE OF THE TOWN MANAGER

Peter M. Lukes
Town Manager

February 12, 2018

TO THE MEMBERS OF THE FINANCE COMMITTEE AND BOARD OF SELECTMEN FY 2019 BUDGET MESSAGE & RESOURCE PROFILE

Submitted herein are the Fiscal Year 2019 Operating and Capital Budgets and Resource Profile for the Town of Holden. The priorities of every municipal budget require a balance between providing effective and efficient services, while maintaining a level of taxation that is not overly burdensome to our residents and businesses. Through prudent spending in the past, we have been able to keep Holden affordable, safe, inviting and well served by local government. By continuing on a path of fiscal responsibility, we can build upon and maintain our strong financial standing – one which has rewarded the town with excellent Bond Ratings from both Standard & Poors and Moody's. The Town Manager's office and our Department Heads have worked diligently to propose spending that will provide the services Holden residents have come to expect, while making our best efforts to minimize increases to spending. This budget represents our collective work to craft a \$63.2 Million budget that will meet our goals in FY 19 and in the foreseeable future.

HIGHLIGHTS

The Resource Profile is a summary of the FY 2019 Budget's revenue and expenditures along with a projected tax rate and resulting change in the average residential tax bill. The expenditures side of the budget contains general expenditures in the total amount of \$52,219,463, plus another \$11,055,737 in restricted expenditures. The total of our municipal expenditure budget results in the amount of \$63,275,200. Also included in this document are a Five-Year Financial Plan and Municipal Budget Comparisons.

New DPW Facility – Replacing our DPW Facility is the number one capital priority for the Town. The new DPW Facility will provide needed space for our fleet and equipment, much of which is currently stored outside, and will house all of our Department's operations under one roof.

A DPW Facilities Committee was established in 2016 to study possible sites and recommend plans for a facility. In FY17, \$315,000 was appropriated at Town Meeting to support the planning and development of the new facility. The Town accepted title to the property at 18 Industrial Drive when it was gifted by the former owner in 2017. In FY18, approximately \$1,700,000 was transferred from the Infrastructure Investment Fund and General Stabilization Fund by vote at a Special Town Meeting in

order to fund the site preparation and other costs associated with preparing 18 Industrial Drive as the site of the new facility. In FY19, the DPW Facility Committee expects to propose a full project at a Special Town Meeting.

The actual construction and initial borrowing (BAN) for this project is planned for FY 2019 depending on when the project is approved by Town Meeting, contingent upon a subsequent debt exclusion vote. At the current time, should voters approve this project, the permanent borrowings would be coordinated to come online after the retirement of the Elementary School Debt in FY 20. Debt service on our Mountview Feasibility study was retired in FY 17. The debt for the Dawson Rec Pool was paid off in FY 18.

Capital Asset Study. In FY 17, Town Meeting approved the appropriation of \$160,000 from available funds to upgrade the WiFi at Holden Elementary Schools and to purchase Information Technology Equipment. In FY 18, the Town Manager's budget proposed \$150,000 to be appropriated to augment and update various IT throughout the three Elementary Schools as well as improvements to school security. That proposal did not appear on the final warrant at Town Meeting. The Town of Holden has strongly supported its schools in the past and would like to continue to do so to the best of our legal authority and ability. The Voluntary Regional Assessment (RASA) has been approved in full by Holden Town Meeting consistently, but often lowered when it was not approved by the requisite number of other towns in the Regional School District. We are proposing a capital asset study in the FY 2019 budget so that the Town can properly anticipate and financially plan for continuous upgrades, replacements, and expansions to our school buildings, along with all other town owned buildings, in the future. Our town buildings are not only our most valuable asset but they are the most used and vital parts of our operations. Maintaining these properties through a strategic plan will save the Town money in the long run and provide our staff, the general public, and students with functioning places to work, do business and go to school. We have budgeted \$150,000 for the study.

Open Space Stabilization Fund – The Open Space Stabilization Fund was created in FY 17 to support the acquisition of open space. The amount of \$50,000 was transferred into the Open Space Fund in FY 17 and an additional \$50,000 was added in FY 18. We have once again proposed adding \$50,000 to the fund for FY 2019.

Fire Stabilization Fund - Holden took possession of a new ambulance in FY 18 but we do expect to maintain a three year rotation in which we replace one of our three ambulances every three years. In order to lessen the impact during the purchase year, we increased the amount requested for this fund in FY 19 to \$100,000 from last year's \$50,000.

Health Insurance and Retirement – The Town made a strategic decision in November, 2017 to leave the Group Insurance Commission. The Town will contract directly with Fallon for health insurance starting July 1, 2018. The GIC has since announced several decisions, some of which were subsequently rescinded, regarding their health insurance plans and coverage. Contracting directly with Fallon will cost the Town an increase of approximately 4%. However, the added cost is still believed to be less than what the cost would have been had the Town stayed in the GIC system. Health Insurance and Retirement mark the two biggest year over year, single line item increases to the FY 19 General Government operating budget.

Regional Dispatch – The Towns of Holden and Princeton formed the Wachusett Regional Emergency Communication Center in December 2014 using grants from State 911. The town of West Boylston joined WRECC in early 2017. Ongoing grants from State 911 and proportional payments from the Towns of Princeton and West Boylston will augment the costs of the Dispatch Center and thus lower Holden’s costs, while providing a higher level of service for our residents. Part of our inter-municipal agreement with Princeton and West Boylston provides for the payment of an annual capital equipment charge. These funds have been deposited into the Dispatch Capital Fund. The proposed FY 19 addition will be \$18,000. WRECC continues to lead the way with advanced dispatch services. They will soon be adding the ability to receive cell phone 911 calls directly to our dispatch rather than patching through the Mass State Police. We have begun the process to add a fourth town to WRECC and anticipate that they will come on line sometime in FY 2019. The only new position being created in the FY 19 budget falls under Dispatch. The potential addition of another town to the WRECC, along with added cell phone coverage, requires another full time position in this department. Further, this position will be paid for with funds from the State 911 grant in FY 19 and is expected to be paid out of this grant for several more years. If the grant was to deteriorate or even be eliminated, the cost would remain shared by the member towns in proportion to their call volume/annual contribution.

Reserves – During the past few years, we have developed policies to address our Other Post Employment Benefits (OPEB) liability, establish an appropriate level of financial reserves, and with regard to the use of Free Cash. This Budget is consistent with these policies. A contribution in FY 19 to the OPEB Fund in the amount of \$404,693 represents ten percent of certified Free Cash. \$500,000 is being added to the General Stabilization Fund. Another \$568,000 of Free Cash will be applied to other Stabilization Funds and the Capital Budget. According to the recommendations in this document, a total of 36.4% of Free Cash has been tapped to offset the overall budget in FY 2019. The combined balance in our General Stabilization Fund of \$4,075,583 along with unappropriated Free Cash of \$2,574,235 results in reserves of \$6,649,818.

REVENUES

The FY 2019 Budget estimates total General Fund revenue at \$52,251,763, exclusive of our special funds. Of this amount, 79.9% or \$36,670,009 is derived from the Tax Levy; State Cherry Sheet revenue is estimated to be \$2,116,325 or 4.6%. As usual, we have set level funding on state aide because the state legislature will not vote on the final amount until much later in the budget season. The amount of \$5,402,026 is expected from Local Receipts representing 11.8 %; \$1,702,799 from Free Cash and other Intra-Government Transfers, or 3.7 %; and \$6,328,304 from so-called Debt Excluded Revenue.

EXPENDITURES

Wachusett Regional School District. Holden’s largest allocation is for Education, which includes the Town’s expenditures to support the Wachusett Regional School District and Montachusett Regional Vocational School District. The FY 2019 proposed budget accounts for an increase of nearly 4% over last year’s final WRSD assessment. Total Educational expenses reflected in this budget amount to \$27,903,567 and comprise 51.4 % of our operating budget. This predicted

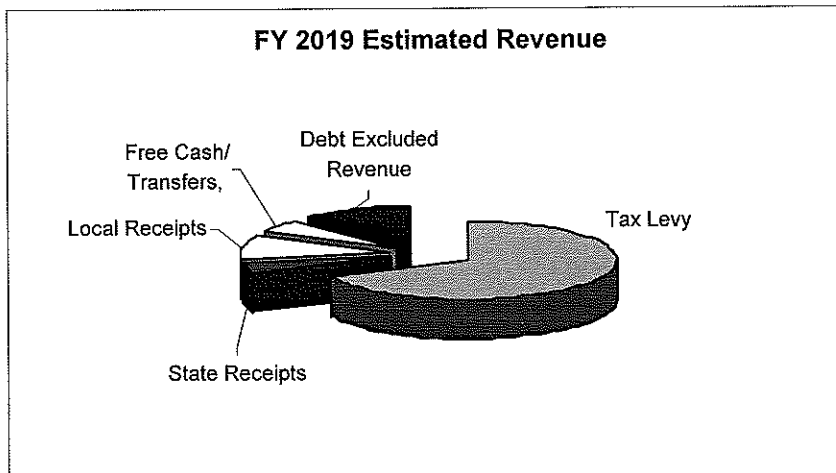
amount was derived from the Massachusetts Department of Elementary and Secondary Education (DESE) Chapter 70 Preliminary FY 19 summary for the Wachusett Regional School District Minimum Local Contribution. As of the time of completion for this budget, WRSD has not made a formal request for FY 19. However, in FY 18 WRSD requested \$2,405,440, or 10% over FY 17's final budget. The Town may have to make drastic changes to the municipal FY 19 spending contained herein if the WRSD presents another year-over-year increase similar to FY 18.

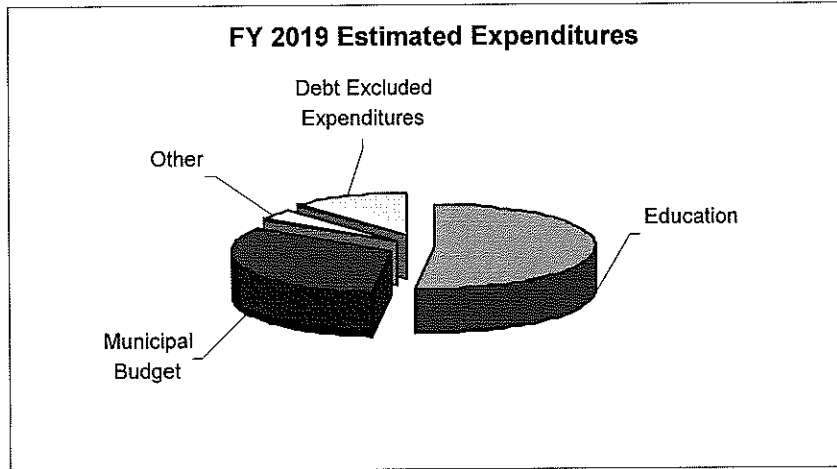
The WRSD Assessment consists of four categories: the Minimum Local Contribution which is set by the MA Department of Elementary and Secondary Education, bus transportation, debt service (Wachusett Regional High School project) which are required payments to the District. The budget request includes an additional amount that has come to be called the Regional Agreement Spending Assessment, or voluntary payment which is over and above the required amount. The WRSD budget set forth herein is our best estimate at this time.

Over the past several years, the District's initial budget did not receive the required support of four out of five District Member Towns. In FY 17, Holden's WRSD assessment was reduced by \$587,034 after the initial budget was approved by the Holden Town Meeting. In FY 18, Holden's WRSD assessment was reduced by \$307,170. Unlike in prior years, our tax levy was subsequently reduced by this amount thus lowering our overall tax rate in both FY 17 and FY 18. Another effect of lowering the tax levy is that that the difference will not 'fall' to our Free Cash.

Municipal Budget. After Education, the Municipal Budget represents the next largest portion of expenditures (32.8%). These expenses include General Government, Public Safety, Public Works, Culture (Library and Historic Commission), Human Services (Senior Center and Veterans), and the Annual Capital Program. The Municipal Budget totals \$17,137,756 or an increase of 5.14% compared to last year. Other expenditures such as transfers to General Stabilization, other reserve funds, OPEB, and Overlay total \$1,904,959. Debt Excluded Expenditures are \$6,331,804 or 12.1 % of the General Fund Expenditures.

The following two charts illustrate our revenue from various sources and our expenditures – where the money comes from, and where it goes to. Note that approximately 79.9% of our revenue is derived from the property taxes and about 95% of our tax base is residential.





RESOURCE PROFILE

Pursuant to the 1981 MA State Law known as ‘Proposition 2 ½’, the annual permitted property tax levy is capped at a level which can only be exceeded by voter authorization through a town-wide ballot. This limit is calculated by taking the previous year’s levy limit, increasing it by 2.5%, adding the property taxes generated by any new construction that has occurred in the Town in the prior year, and adding the current debt service cost of any borrowing that has been excluded from the limits of Prop 2 ½ by a town-wide ballot.

Taking these factors into consideration, our total allowable Proposition 2 ½ increase next year would be \$911,704. The unused levy capacity is the difference between the needed expense appropriation and the Proposition 2 ½ cap. For FY 2019, the total Tax Levy based on this budget is estimated to be \$36,670,009. This budget uses 0% (ZERO) of the FY 19 allowable ‘2 ½’ increase, leaving a net excess levy capacity of \$1,384,852.

Free Cash was certified as of July 1, 2017 at \$ 4,046,928. We are proposing to apply \$1,472,693 of Free Cash to offset the expenses of this budget. Five hundred thousand dollars (\$500,000) goes to Stabilization, \$404,693 to OPEB, \$100,000 will be contributed to the Fire Stabilization Fund, \$50,000 into the Open Space Fund, \$100,000 to DPW Depreciation Fund, \$18,000 into Dispatch Infrastructure Stabilization, and \$300,000 would be applied to the General Fund portion of the FY 2019 Capital Improvement Program. As mentioned previously, this would amount to using about 36.4% of Free Cash and will leave a balance in Free Cash of \$2,574,235.

The projected tax rate for FY 2019 is \$18.30 per thousand dollars of assessed valuation. This is a \$0.69 increase compared to FY 2018 recap (\$17.61) -- a 3.9 % increase in the rate. This is an estimated rate only and subject to change; the actual rate will be established once the Budget is approved at Town

Meeting, four out of five towns vote the District's Educational Assessment, the Recapitulation (Recap) Sheets are filed with the Department of Revenue, a unified tax rate has been established, and the Board of Assessors set the town-wide valuation schedules (November 2018). The average home value for FY19 as exhibited in the Resource Profile would be \$314,281 representing a 2% increase in values. Based on a tax rate of \$18.30, an average home owner can expect to pay about \$5,751 per year in real estate taxes, or \$324.56 more per household (5.9%) compared to last year. The increase is mainly due to rising costs of health insurance, retirement, capital spending and anticipated increase in the school assessment.

OTHER FUNDS

The Town has other funds, separate from the General Fund, which are considered 'restricted funds' and are supported, in general, by service fees. We have two Enterprise Funds: Water-Sewer and Solid Waste and Recycling, and four Revolving Funds: Recreation, Before- and After-School, Inspections, and Community Television.

Water Sewer Enterprise Fund

As proposed for FY 19, the Water Sewer Enterprise Fund's expenditures are increasing slightly more than 2 percent. This increase is primarily attributed to increases in costs related to the purchase of drinking water from the City of Worcester, the cost to transport sewerage through Worcester, and the costs to treat that sewerage at the Upper Blackstone Water Pollution Abatement District (UBWPAD). The costs associated with just these three line items is up over 5.5 percent alone. An additional contributor to the cost increases is the Debt Service line item. This item is increasing as a result of in the increased capital investment that has been made in both the water and sewer systems.

A rate increase in the amount of approximately \$220,000 is proposed. This rate increase represents an approximate increase of 3.8-percent of the total rates. At this time, we have not determined the final structure of the rate increases to be recommended, but as an example, the last increase in water and sewer rates was in July, 2016, for FY 17. At that time, the rate increase was for 3.6-percent of revenue. The increase was entirely in the sewer fixed fee portion of the rate structure, and represented less than \$40 per year for an average residential household. The 3.8-percent rate increase recommended for FY 19 represents the Water Sewer Enterprise Fund's attempt to incur small, periodic rate increases to cover increases in expenses, and to avoid larger, infrequent increases.

Solid Waste/ Recycling Fund

The Solid Waste/ Recycling Fund will break even in FY 2019. The Board of Selectmen raised fees at the beginning of FY 18, which included a plan to raise fees again in FY 2020, when a deficit would be anticipated if fees adjusted at that time. Fees for the solid waste/recycling program were raised as part of a restructuring that needed to take place after the new contract with Casella waste management was entered into at the beginning of FY 18. An increase in fees was necessitated due to changes in the recycling markets and increased costs for tipping fees at Wheelabrator of Millbury.

Inspections

The fees for our various building permits and inspections – building, electrical, plumbing, gas, etc., have not been adjusted in over fifteen years, and the fees collected do not offset our costs. My office is working in conjunction with the Planning and Development department to create a fee schedule that will bring Holden’s inspection fees into closer proximity with surrounding towns while minimizing impact to local businesses and homeowners. We believe that the consistent and robust level of new construction that has taken place over the last several years will continue and that the market can easily absorb increased inspection fees. The new fee schedule will be presented at some point in the Spring of 2018.

CONCLUSION

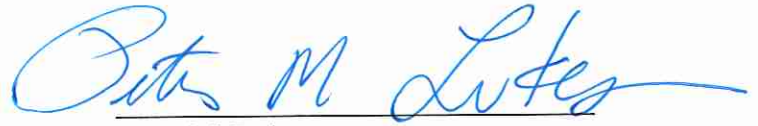
The proposed FY 2019 budget maintains our municipal services at levels that residents have come to expect. This budget also supports our commitment to our schools by proposing a nearly one million dollar increase to education. At the time of this writing, the WRSD budget has not yet been released, but if a more significant increase is proposed by the school district, paying for such would likely require cuts to the municipal side or a more sizable increase to the tax rate.

This budget provides unprecedented financial reserves, continues to fund our capital and infrastructure improvements, and continues to address our OPEB obligation. Due to the strength of our financial picture, in the past five years, the Town’s credit rating has been upgraded by Standard and Poors from AA-- to AA, and from AA to AA+ . Moody’s also upgraded our Municipal Credit Rating to AA2 in 2016. A good credit rating means lower interest rates on our borrowings which translates into cost savings to our taxpayers. The fiscal health of our other funds such as Water-Sewer Enterprise, Solid Waste & Recycling Fund, and Recreation Revolving Fund also play a part in the Town’s stable financial outlook.

Over the coming weeks, I look forward to working with the Finance Committee, the Board of Selectmen, and other interested citizens to produce a final budget that meets the needs and expectations of the citizens of Holden. We have a growing and thriving community that requires a balance between providing the very best municipal services possible while doing so in an efficient, cost effective manner. Holden is an inviting place to live and work for a multitude of reasons; it is a safe town, it is a town where our youth have a host of options for recreation, where our elderly have access to quality services and a vibrant Senior Center, where our children can get a great public education, where people of all ages can enjoy a welcoming and bustling library, and where we truly do “care for each other” as some of the older road signs entering town still say. Theoretically, any government can provide all of these things but in the end, the cost of services must remain affordable for all of our residents, no matter their socio-economic background.

Lastly, I’d like to thank and acknowledge our Department Heads, especially our finance team, and our many talented employees for their assistance in the preparation of this budget and for the dedication

that they hold to the Town of Holden. We were able to prepare this budget on a strict timeline, and due to everyone's hard work in meeting deadlines, the Finance Committee and Board of Selectmen will have more time than usual to review the material. Special thanks go to Lori Rose, Town Accountant, for her expertise and good counsel, and to Donna Cross, Administrative Assistant, for her skills preparing and assembling this document and her endless patience.



Peter M. Lukes
Town Manager