

DRAFT

Five Year Financial Outlook Mid-Year Update

Town of Franklin, MA

Prepared by the Long-Range Financial Planning Committee

April 2010



Background and Purpose

- Background
 - Long Range Financial Planning Committee (10 members)
 - Town Council (3), School Committee (2), Finance Committee (2)
 - Citizens at large (3)
 - Issued Five Year Financial Outlook (FY 2010-2014) in October 2009
 - Committee found:
 - Franklin faces a structural deficit, whereby annual revenue growth is insufficient to maintain existing Town services from year to year
 - Over the next five years, expenses are expected to grow faster than revenues by \$7M to \$10M
 - In November 2009 Town Council voted 9-0 in favor of a resolution endorsing the report
- Purpose
 - To provide a mid-year update of the FY 2010-2014 forecast

What's Changed

- Revenue
 - Outlook for state aid has deteriorated
 - FY11 reduction in state aid expected to be \$1.7M*
 - State fiscal challenges ongoing
 - Franklin at risk if state aid allocation formula changes in future
 - Local receipts growth assumption scaled back
- Expenses
 - Low inflation should result in lower than expected cost of living adjustments (COLA) for Town/School employees
 - High unemployment rate and fiscal challenges in towns across the commonwealth should help contain growth in employee compensation while remaining competitive

* Partially offset by one time grant of \$500K in FY 2011

Net Effect of Changes on Forecast is Minimal

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\$ in Millions

	2010	2011	2012	2013	2014
Original Forecasted Deficit	(\$4.7)	(\$6.3)	(\$8.1)	(\$9.9)	(\$11.8)
One-time revenue / reserves	\$1.3				
Deferral of salary increases	\$1.2				
2010 headcount reductions and cost cuts	\$2.2	\$2.2	\$2.2	\$2.2	\$2.2
Adjusted for Deficit Reduction Measures in 2010¹	\$0.0	(\$4.1)	(\$5.9)	(\$7.7)	(\$9.6)
Expected one-time revenue / use of reserves in 2011		\$1.0			
Unfavorable change in state aid outlook	\$0.2	(\$1.0)	(\$1.3)	(\$1.4)	(\$1.4)
Net favorable changes in other forecast assumptions	\$0.0	\$1.1	\$1.6	\$2.1	\$2.7
Revised Deficit - Mid Year Update	\$0.2	(\$3.0)	(\$5.5)	(\$7.0)	(\$8.3)
Change from October 2009 Report	\$0.2	\$1.1	\$0.4	\$0.7	\$1.3
% of Forecasted Revenue	< 1%	1.3%	< 1%	< 1%	1.3%

See full updated forecast on next page

Notes:

¹ Adjusted for deficit reduction measures taken by the Town in conjunction with FY 2010 budget; in spite of a forecasted deficit, the Town is required to address deficits and may only pass a balanced budget.

Revised Forecast FY 2010 to FY 2014

In \$millions	Forecast					Avg Yrly % Chg
	2010	2011	2012	2013	2014	
Property Taxes	\$ 52.2	\$ 54.2	\$ 56.3	\$ 58.4	\$ 60.6	3.8%
State Aid, Net	\$ 27.2	\$ 26.0	\$ 25.7	\$ 25.6	\$ 25.6	-1.5%
Local Receipts	\$ 8.0	\$ 8.0	\$ 8.2	\$ 8.5	\$ 8.7	2.2%
Total Revenue	\$ 87.4	\$ 88.2	\$ 90.2	\$ 92.5	\$ 95.0	2.1%
School Salaries	\$ 39.9	\$ 40.5	\$ 41.8	\$ 43.1	\$ 44.4	2.7%
Town Salaries	\$ 15.6	\$ 15.6	\$ 15.9	\$ 16.3	\$ 16.6	1.6%
Employee Benefits	\$ 12.3	\$ 13.4	\$ 14.5	\$ 15.7	\$ 16.8	8.0%
Debt Service	\$ 5.1	\$ 5.1	\$ 5.1	\$ 5.1	\$ 5.1	0.0%
Other Costs	\$ 19.1	\$ 19.2	\$ 19.6	\$ 20.1	\$ 20.6	2.0%
Additional Unfunded Mandates		\$ 0.5	\$ 1.0	\$ 1.5	\$ 2.0	
Operating Fund Expenses	\$ 91.9	\$ 94.4	\$ 97.9	\$ 101.7	\$ 105.5	3.5%
Projected Surplus / (Deficit)	\$ (4.5)	\$ (6.2)	\$ (7.7)	\$ (9.2)	\$ (10.5)	
Non Recurring Items	\$ 2.5	\$ 1.0				
FY10 Cost Reductions	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	
Adjusted Projected Surplus / (Deficit)	\$ 0.2	\$ (3.0)	\$ (5.5)	\$ (7.0)	\$ (8.3)	

Notes:

- Forecasting is inherently imprecise. While the Committee's current forecast projects expenditures will exceed revenue by \$8.3M in 2014, a reasonable change in key assumptions could result in forecasted deficits anywhere in the \$5M to \$11M range over the same time frame.
- Forecast excludes potential debt service costs associated with the high school renovation, which could fall in the \$2M-\$3M range per year, beginning in 2014 or 2015, based on preliminary estimates.

See Appendix A for Key Assumptions

Updated Metrics (FY 2009)

- Franklin still depends heavily on state aid
 - Rank: #1 out of 30 in percent of town revenue from state aid
 - 75% above peer average (30% vs. 17%)
- Property taxes levels remain relatively low
 - Tax rate¹ is 9% below peer average
 - Tax bill¹ is 17% below peer average
- School spending remains below peers
 - Rank: #27 out of 29 in school spending per pupil²
 - 13% below peer average (\$10,010 vs. \$11,515)
- Municipal spending remains below peers
 - Rank: #19 out of 27 in per capita municipal spending²
 - 8% below peer average
- Debt service as a percent of budget is 33% below peer average

1 Data is for residential taxes only; 15 of our comparable towns have higher tax rates for commercial/industrial

2 Our peer group consists of 30 similar and/or neighboring towns. Peers towns were excluded only when data was unavailable or, in one instance, not comparable due to regionalization of certain costs

Final Thoughts

- Franklin has experienced a steady erosion of services
- The reason is a structural budget deficit
 - Annual revenue growth is less than what is required to maintain Town services
- Trend is expected to continue over the next five years and beyond
 - Cost of existing services expected to increase faster than revenue by \$8.3M through 2014
 - Key variables include:
 - State aid levels
 - Inflation
 - Collective bargaining
 - Operating efficiencies (e.g., regionalization)
 - Unfunded mandates

Appendix A: Key Assumptions

Assumptions in mid-year update are generally consistent with those used in October 15, 2009 report, except as follows:

- Local receipts to grow at 2.2% (mirroring inflation) rather than 8%
- State aid to decline at an annual rate of 1.5% rather than remain flat, due to FY11 expected declines and future risks associated with the economy, state fiscal health, and Chapter 70 formula
- Annual cost of living increases for employees assumed to average 2% per year from 2012 to 2014, rather than 3%, due primarily to residual effects of current low inflation, high unemployment and statewide fiscal constraints
 - Note: actual results depend on collective bargaining that will occur in the future and may be higher or lower than this assumption
- Other costs to grow at a reduced rate of inflation, which starts at 1% and grows to 2.5% by 2014, instead of a flat 3%, reflecting recent inflation trends
 - Note: Recent and likely future increases in U.S. national debt may trigger significantly higher inflation, which would cause the forecasted deficit to increase