



Town of Stoneham:
Financial Forecast
Fiscal Years 2023-2027

Office of the Town Administrator &
Town Accountant
November 10, 2021

Current & Long Term Budget Pressures



- The unknown current and future financial impact of COVID-19 (positive and negative)
 - Increases to non-discretionary spending in Health insurance and pension costs continue to rise beyond inflation
 - New Northeast Metropolitan Regional Vocational School
 - Increasing state assessments/ out of district tuition costs
 - Plan for funding OPEB (GASB 45) prior to being mandated
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Five Year Financial Forecast

Pro-forma Assumptions – General Fund Revenues

Assumptions: Revenue

- Tax levy and levy limit, will grow at 2.5%, plus new growth, and debt exclusions
 - New high school project is not included in debt exclusion calculation; waiting on new debt schedule from financial advisor
- State aid projected to increase by 2.5%
- Local receipts to grow by \$25,000
- Water and Sewer indirects grow by 1%
- SBA (School Building Authority) reimbursement ends in FY23



Five Year Financial Forecast

Pro-forma Assumptions – Free Cash

Assumptions: Free Cash

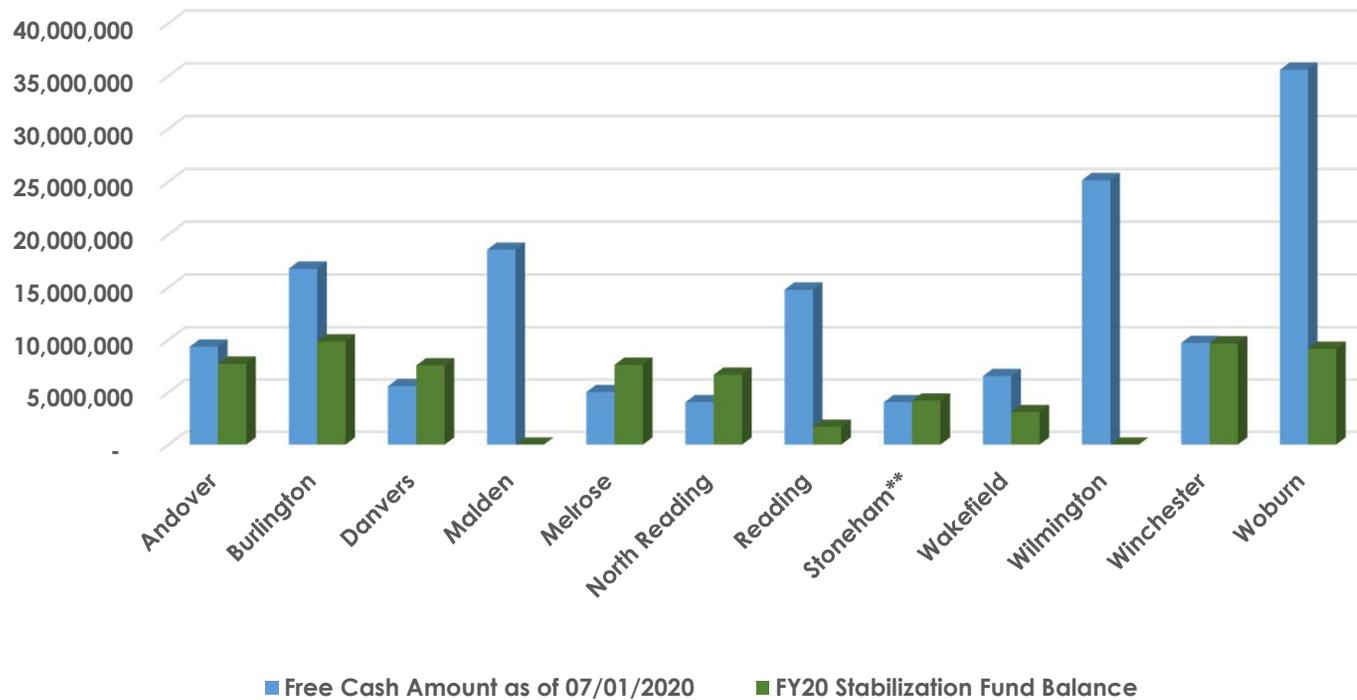
- Free Cash use/amounts governed by Fiscal Guidelines & Policies adopted May 2019 (pg. 22-23)
- Free Cash to fund OPEB, stabilization and capital stabilization funds
- No Free Cash to supplement operating budget
- Free Cash only to pay for one-time costs

Source	Value	% of General Fund Budget
FY22 Adopted General Fund Budget	73,883,332	N/A
FY21 Certified Free Cash Available for Appropriation in FY22-FY23	5,613,265	7.60%
Free Cash Used for October STM (Capital & Reserve Article)	625,000	0.85%
Free Cash Available for FY22 Planning	4,988,265	6.75%
Policy	Value	% of Free Cash Used
Fiscal Guidelines & Policies (Stabilization): If free cash exceeds five (5) percent (%) of the town budget, the town shall appropriate no less than ten (10) percent (%) of available Surplus Revenue at the next Town Meeting into the general stabilization fund.	498,827	10.00%
Fiscal Guidelines & Policies (Capital Stabilization): The Town will annually appropriate five (5) percent (%) of the certified free cash to this fund until it minimally achieves a balance equal to two – four (2-4) percent (%) of the general fund operating budget. By sustaining funding in this reserve, the Town can balance debt with pay-as-you-go practices and protect against unforeseen costs.	280,663	5.00%
Net Free Cash After Policy Compliance	4,208,775	

Current Stabilization Funds Compliance with Fiscal Policies and Guidelines

Current Reserve Balances	% of FY22 General Fund Budget	Policy	FY23 Forecasted Appropriation	Forecasted FY23 Balance	Forecasted % of General Fund Budget
4,873,666	6.60%	Fiscal Guidelines & Policies (Stabilization): The Town will endeavor to maintain a minimum balance of five (5) percent (%) of the current operating budget in its general stabilization fund.	498,827	5,372,493	7.04%
644,377	0.87%	Fiscal Guidelines & Policies (Capital Stabilization): The Town will annually appropriate five (5) percent (%) of the certified free cash to this fund until it minimally achieves a balance equal to two – four (2-4) percent (%) of the general fund operating budget.	280,663	925,040	1.21%

Free Cash & Stabilization Comparisons



Note: Data from DLS databank

S&P Rating Rational



Note: S&P's September 9, 2021 Credit Opinion on Stoneham

Summary Rating Rational

On September 9, 2021, S&P Global Ratings assigned a rating of AA+ to the Town of Stoneham, MA's \$2.8 million General Obligation Municipal Purpose Loan of 2021 Bonds. The rating reflects the town's solid financial performance based on robust and well-integrated management policies and practices.

Credit Strengths

- Very strong management, with strong financial policies and practices
- Strong revenue trends and improving financial position
- Current debt position

Credit Challenges

- Large OPEB liability
- Debt burden will materially increase due to new high school
- Fund balance still trails most higher-rated peers

Rating Outlook

- Overall credit quality is believed to remain stable, reflecting the strong revenue base, generous federal funding over the next three years, and management's historic ability to maintain balanced operations.

Factors that Could Lead to an Upgrade

- Maintain higher levels of available fund balance over time
- Retirement costs moderate without resulting in budgetary pressure

Factors that Could Lead to a Downgrade

- Performance materially deteriorates
- Sustained declines in reserves
- Increased debt service from new debt

Five Year Financial Forecast

Pro-forma Assumptions – General Fund Expenses

Assumptions: Discretionary

- Base operating expenses (including Schools) to grow at 3% plus estimated cost of new Northeast Vocational building
- Health insurance to grow at 5%
- Debt service based upon current and future capital needs. Governed by fiscal policy adopted in May 2019 (pg. 15)
 - Does not include FY22 capital projects approved at May 2021 town meeting or new high school borrowing; waiting on new debt schedule from financial advisor
- Increased FY27 OPEB using surplus of \$2M

Assumptions: Non-Discretionary

- Non appropriated expenses to grow at 8%
 - Non appropriated expenses are State assessments, State offsets and overlay reserve
- Contributory pension growth based on funding schedule provided by Stone Consulting as of July 1, 2021. Projected to be fully funded in FY27.

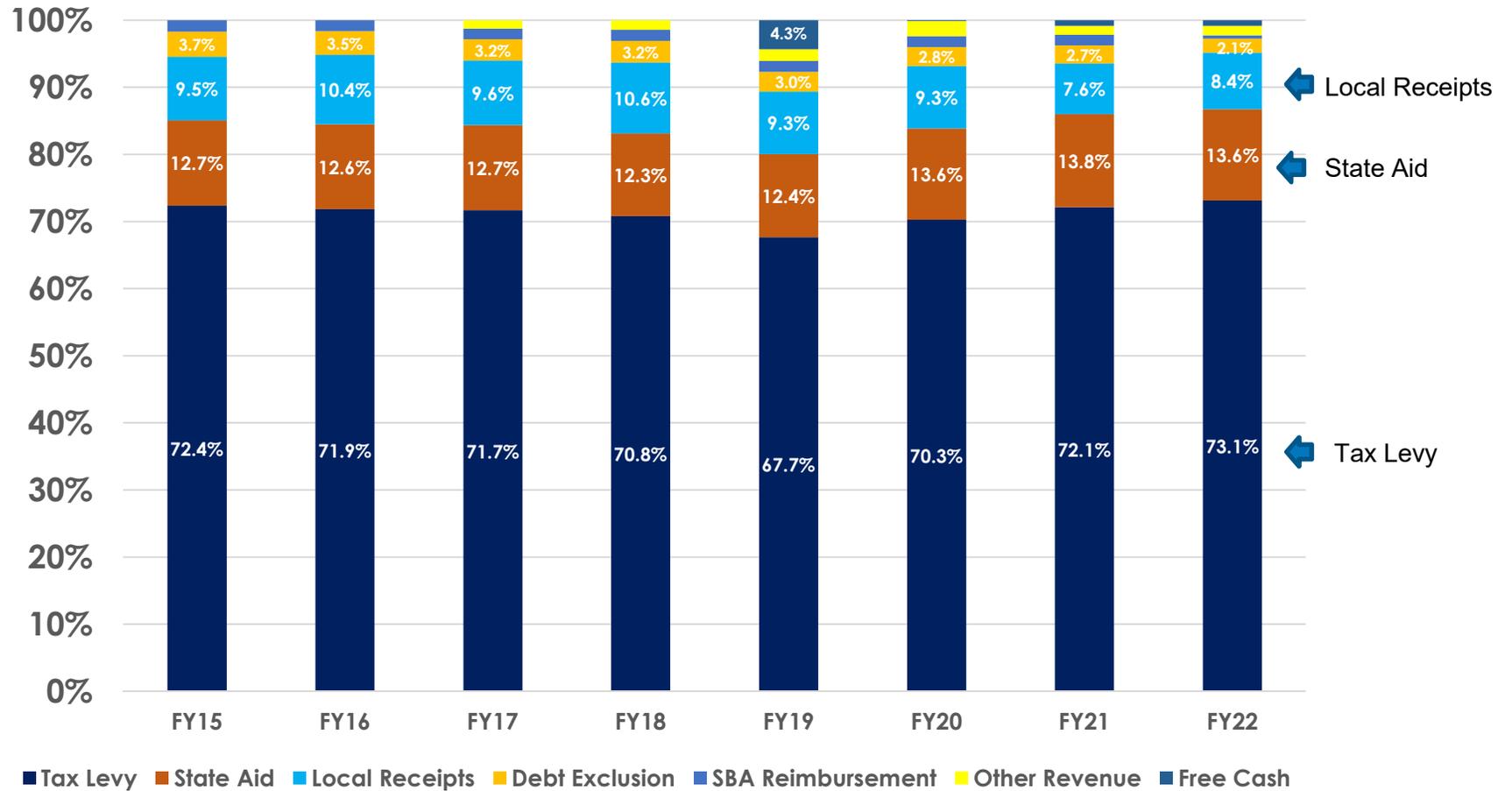
Five Year Financial Forecast

Revenue and Expenditure Summary General Fund

Note: Forecast does not include new Stoneham high school borrowing

	FY22 - TM Adopted	FY23 Estimate	FY24 Estimate	FY25 Estimate	FY26 Estimate	FY27 Estimate
REVENUES						
Property Taxes	53,671,242	55,474,273	57,271,130	59,112,908	61,000,731	62,935,749
New Growth	450,000	400,000	400,000	400,000	400,000	400,000
Debt Exclusion	1,542,622	1,425,274	1,258,050	1,257,450	1,260,450	1,256,850
TOTAL TAX REVENUE	55,663,864	57,299,547	58,929,180	60,770,358	62,661,181	64,592,599
Local Receipts	6,175,000	6,200,000	6,225,000	6,250,000	6,275,000	6,300,000
State Aid	9,992,887	10,242,709	10,498,777	10,761,246	11,030,277	11,306,034
Free Cash/Overlay Surplus	670,210	603,000	603,000	603,000	603,000	603,000
Water & Sewer Indirects	1,039,766	1,050,164	1,060,665	1,071,272	1,081,985	1,092,805
MSBA Reimbursement	341,826	341,826	-	-	-	-
TOTAL REVENUE	73,883,553	75,737,246	77,316,622	79,455,876	81,651,443	83,894,438
Expenses						
Base Operating Expense	51,687,045	53,355,995	55,073,097	57,076,591	59,536,980	62,071,654
Group Health	8,822,472	9,263,596	9,726,775	10,213,114	10,723,770	11,259,958
Contributory Pension	6,880,229	7,086,636	7,299,235	7,518,212	8,073,056	1,714,717
Debt Service - CIP	2,964,572	2,606,163	2,064,588	1,890,463	1,815,388	1,735,187.50
OPEB/Capital Stabilization/Stabilization	630,210	879,490	731,316	745,943	760,861	2,853,627
Non Appropriated Expenses	2,898,804	3,130,708	3,381,165	3,651,658	3,943,791	4,259,294
	-	-	-	-	-	-
TOTAL EXPENSES	73,883,332	76,322,587	78,276,176	81,095,981	84,853,846	83,894,438
SURPLUS (DEFICIT)	221	(585,342)	(959,554)	(1,640,104)	(3,202,403)	0

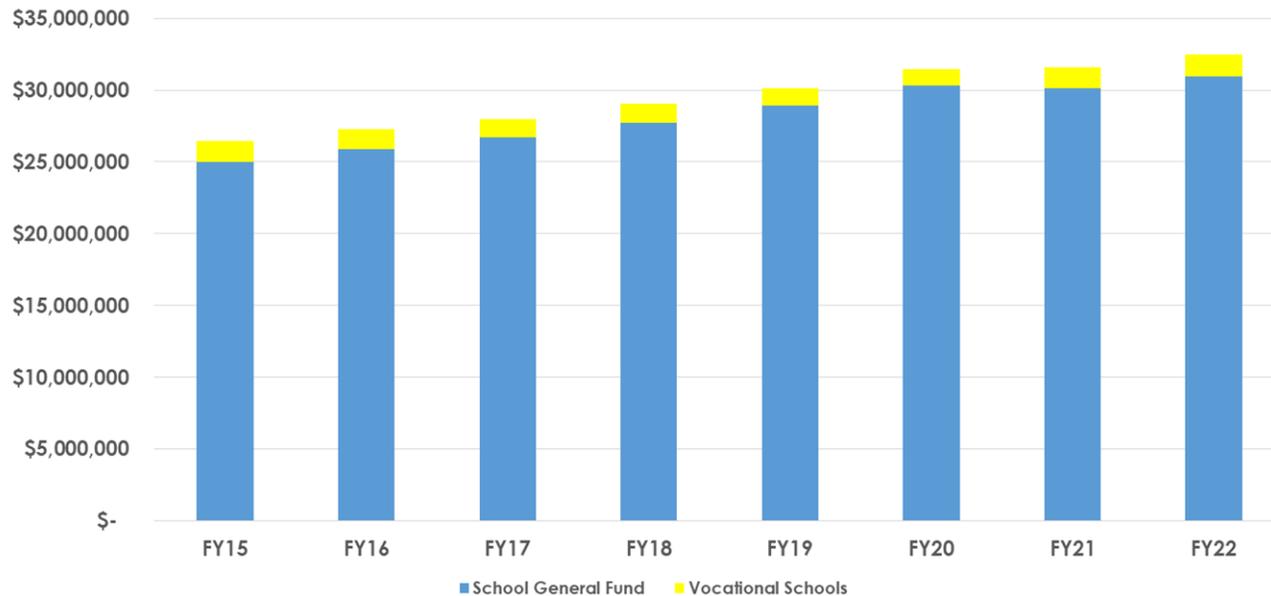
Revenue Allocation by Percentage



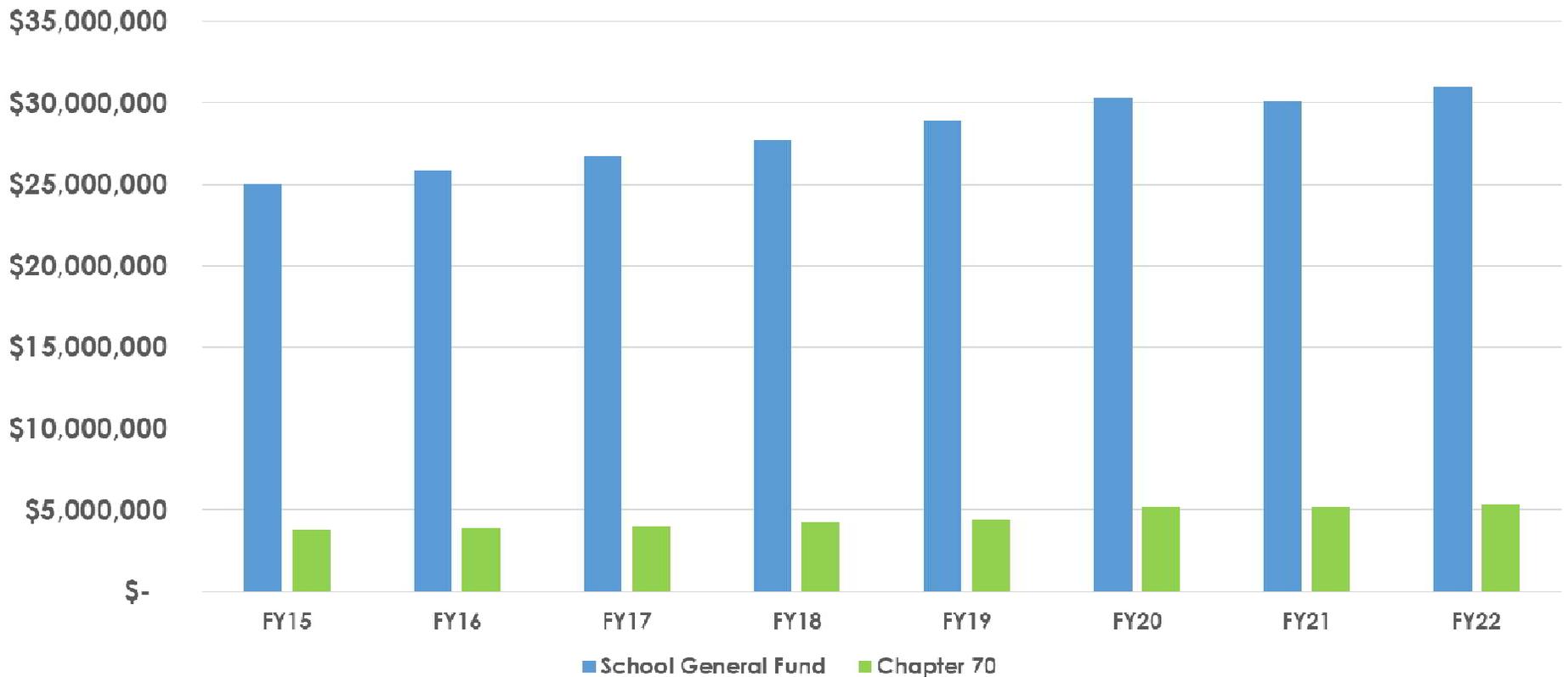
School Related Spending – General Fund

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
School General Fund	\$ 25,022,305	\$ 25,888,516	\$ 26,734,742	\$ 27,734,642	\$ 28,916,729	\$ 30,291,726	\$ 30,126,729	\$ 30,963,029
Essex North Shore Agricultural	\$ 272,025	\$ 279,644	\$ 231,243	\$ 196,223	\$ 210,000	\$ 174,000	\$ 110,000	\$ 110,000
Minuteman Regional	\$ 41,434	\$ 57,168	\$ 53,892	\$ 54,684	\$ 50,000	\$ -		
Northeast Vocational	\$ 1,099,192	\$ 1,076,254	\$ 970,818	\$ 1,046,697	\$ 970,535	\$ 979,474	\$ 1,335,229	\$ 1,375,880
	\$ 26,434,956	\$ 27,301,582	\$ 27,990,695	\$ 29,032,246	\$ 30,147,264	\$ 31,445,200	\$ 31,571,958	\$ 32,448,909

Budgeted Total School Spending



School Related Spending – General Fund/Ch.70



Attention areas: Budget Revenue Risks

Chip Shortage Makes Big Dent in Automakers' U.S. Sales

General Motors, Toyota, Honda, Stellantis and Nissan reported recent declines as problems in the global supply chain held down output and inventories.

- Financial Impact of COVID on receipts, specifically motor vehicle excise taxes (52.5 % of local receipts)

Calculating Motor Vehicle Excise Taxes

Motor vehicle excise is taxed on the calendar year. It is an assessment in lieu of a personal property tax. The excise due is calculated by multiplying the value of the vehicle by the motor vehicle tax rate. The tax rate is fixed at \$25 per one thousand dollars of value. The value of a vehicle is determined as a percentage of the manufacturer's suggested retail price for that vehicle based on the year of manufacture.

Applicable Percentage from M.G.L. 60A§1	% of MSRP
Year preceding year of manufacture (i.e. - 2005 model in 2004)	50
Year of manufacture	90
2nd year	60
3rd year	40
4th year	25
5th and succeeding years	10

Preceding model year (2005 model in 2004) ► $\$30,000 \times 50\% = \$15,000 \times .025 = \$375$

Attention areas: Risks to Budget



Photo credit: Jeanne Craigie

- Reserves not funded to appropriate levels to weather economic downturns and unexpected expenses
- Not funding our reserves to appropriate levels, impacting the town's bond rating and cost of capital
- Not having a viable long-term maintenance and replacement plan for town's capital assets, resulting in unsustainable increases in cost of capital