Town of Stoneham:

Financial Forecast Fiscal Years 2021-2025

Office of the Town Administrator &
Town Accountant
October 16, 2019

Current & Long Term Budget Pressures

- Increases to Non-Discretionary spending in Health Insurance and Pension costs continue to rise beyond inflation
- Base General Fund budget trending at a rate of 4.4%, down from 5% in FY20.
- Property, Casualty and Workers Compensation Insurance, fluctuations in the Trash and Energy markets continue to increase substantially
- Plan for funding OPEB (GASB 45) prior to being mandated

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
- State Aid projected to increase at 1%
- Local Receipts to grow at $25,000 per year
- Indirect Costs level funded until FY23, then grow at 1%
- SBA (School Building Authority) Reimbursement ends in FY23
- Forecast does not include Student Oppurtunity Bill

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 to only pay for one-time costs

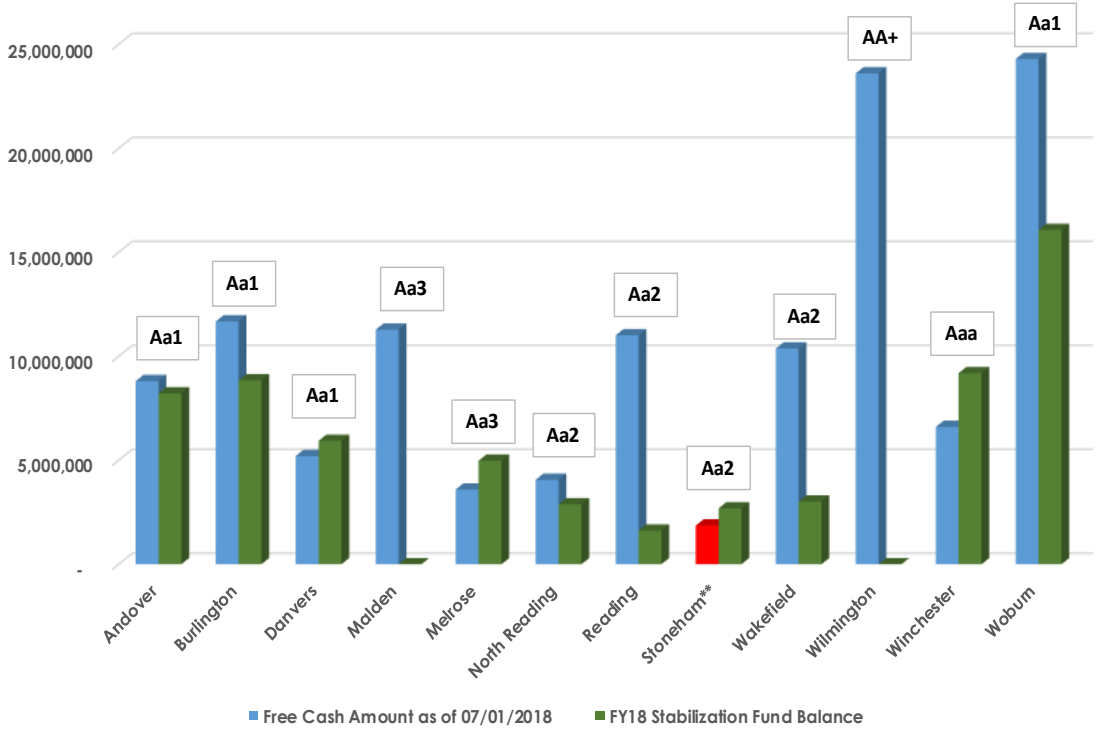
Source	Value	% of General Fund Budget
FY20 Adopted General Fund Budget	71,558,512	N/A
FY19 Certified Free Cash Available for Appropriation in FY20	3,664,688	5.12%
Free Cash Used for October STM (Capital & Reserve Article)	470,000	0.66%
Free Cash Available for FY21 Planning	3,194,688	4.46%

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.	319,469	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.	183,234	5.00%
Net Free Cash After Policy Compliance	**2,451,505**	

Current Stabilization Funds Compliance with Fiscal Policies and Guidelines

Current Reserve Balances	% of FY20 General Fund Budget	Policy	FY21 Forecasted Appropriation	Forecasted FY21 Balance	Forecasted % of General Fund Budget	Compliance of Policy
3,936,351	5.50%	**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.	319,469	4,255,820	5.74%	✓
265,480	0.37%	**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.	183,234	448,714	0.61%	✗

Free Cash & Stabilization Comparisons



Note: *Moody's December 7, 2017 Credit Opinion on Stoneham. Wilmington's rating from S&P. Data from DLS databank*

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the Town of Stoneham, MA's $1.6 million General Obligation Municipal Purpose Loan of 2017 Bonds. Moody's maintains a Aa2 rating on the town's outstanding general obligation bonds.

The Aa2 rating incorporates the town's stable financial position with satisfactory reserve levels, moderately sized tax base with above average income levels and manageable debt and pension liabilities.

Credit Strengths

» Conservative fiscal management

» History of voter approvals for debt exclusions to Proposition 2 ½

» Aggressive pension liability funding date of 2023

Credit Challenges

» Potential high school project could cause a large increase in the debt burden

» Limited operating flexibility given revenue constraints of Proposition 2 ½

Rating Outlook

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

» Significant increase in reserves

» Material increase in the tax base

Factors that Could Lead to a Downgrade

» Large increase in the debt burden

» Trend of operating deficits resulting in the decline of reserves

Five Year Financial Forecast

Pro-forma Assumptions – General Fund Expenses

Assumptions: Discretionary

- Base Operating Expenses (including Schools) to grow at 3% for FY21
  ~2.5% FY22-FY23
  ~3.0% FY24-FY25
- Health Insurance to grow at 4%
- Debt Service based upon current and future capital needs. Governed by fiscal policy adopted in May 2019 (pg. 15)
- Forecast does not include potential future high school borrowing

Assumptions: Non-Discretionary

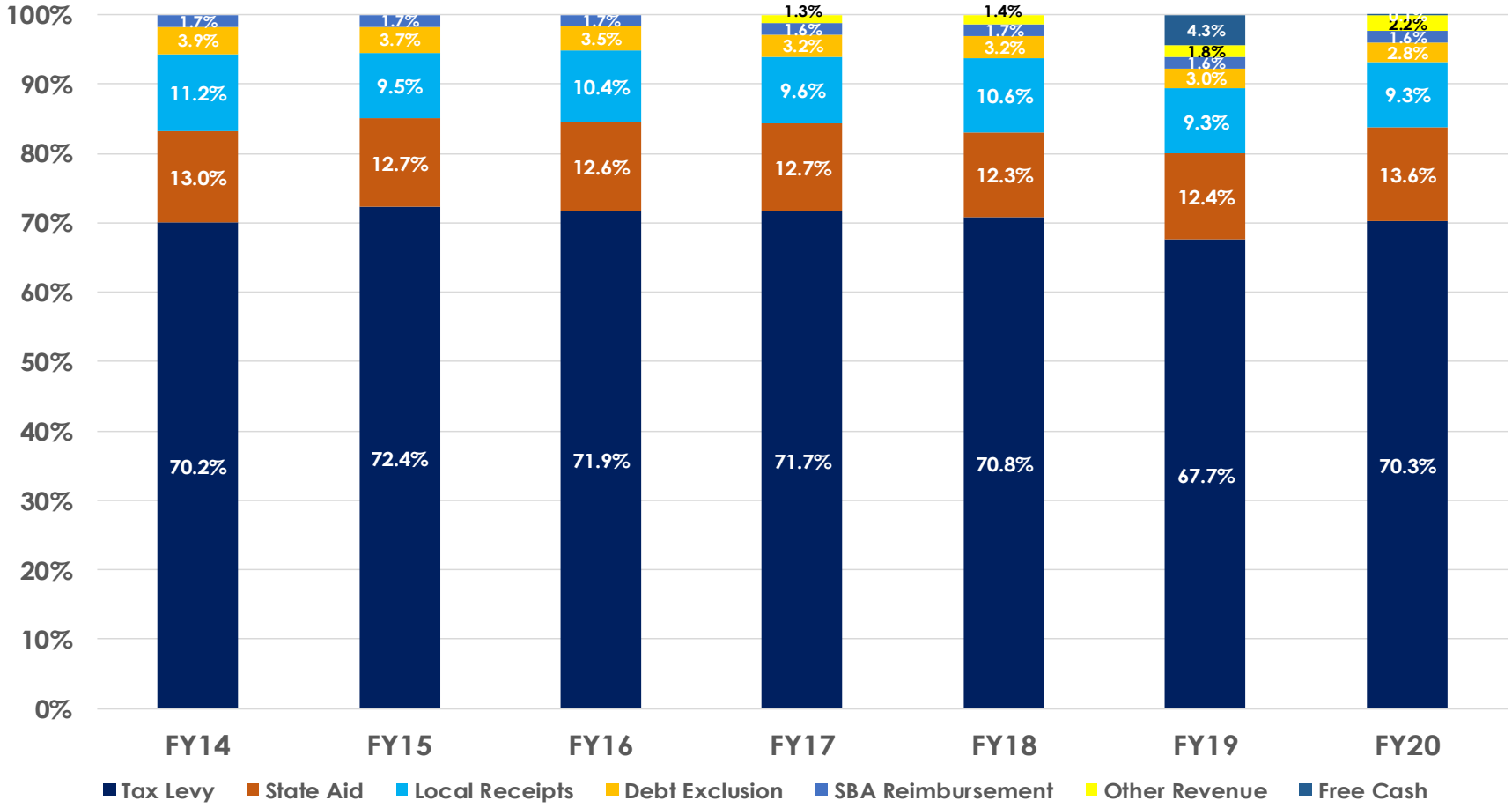
- Non Appropriated Expenses to grow at 1%
  ~Non appropriated expenses are State Assessments, State Offsets and Overlay Reserve
- Contributory Pension to grow at 3.46% until FY24. Projected to be fully funded in FY25.

Five Year Financial Forecast
Revenue and Expenditure Summary General Fund

	FY20 - TM Adopted	FY21 Estimate	FY22 Estimate	FY23 Estimate	FY24 Estimate	FY25 Estimate
REVENUES						
Property Taxes	49,995,241	51,655,122	53,356,500	55,100,413	56,887,923	58,720,121
New Growth	400,000	400,000	400,000	400,000	400,000	400,000
Debt Exclusion	2,025,731	1,914,125	1,542,622	1,425,274	1,258,050	1,257,450
TOTAL TAX REVENUE	**52,420,972**	**53,969,247**	**55,299,122**	**56,925,687**	**58,545,973**	**60,377,571**
Local Receipts	6,620,000	6,400,000	6,425,000	6,450,000	6,475,000	6,500,000
State Aid	9,659,611	9,756,207	9,853,769	9,952,307	10,051,830	10,152,348
Free Cash/Overlay Surplus	115,000	552,703	295,151	295,151	295,151	295,151
Water & Sewer Indirects	1,595,404	1,611,358	1,611,358	1,627,472	1,643,746	1,660,184
SBA Reimbursement	1,148,092	1,148,092	341,826	341,826	-	-
TOTAL REVENUE	**71,559,079**	**73,437,607**	**73,826,226**	**75,592,442**	**77,011,700**	**78,985,253**
Expenses						
Base Operating Expense	50,092,681	51,595,461	52,885,348	54,207,482	55,833,706	57,508,717
Group Health	8,384,348	8,719,722	9,068,511	9,431,251	9,808,501	10,200,841
Contributory Pension	6,611,111	6,839,855	7,076,514	7,321,362	7,574,681	1,727,429
Debt Service - CIP	4,203,459	4,218,141	4,230,447	4,200,295	4,122,446	4,213,456
OPEB/Capital Stabilization/Stabilization	100,000	552,703	295,151	295,151	295,151	5,295,151
Non Appropriated Expenses	2,166,913	2,188,582	2,210,468	2,232,573	2,254,898	2,277,447
TOTAL EXPENSES	**71,558,512**	**74,114,466**	**75,766,439**	**77,688,113**	**79,889,383**	**81,223,042**
SURPLUS (DEFICIT)	**567**	**(676,858)**	**(1,940,213)**	**(2,095,671)**	**(2,877,684)**	**(2,237,788)**

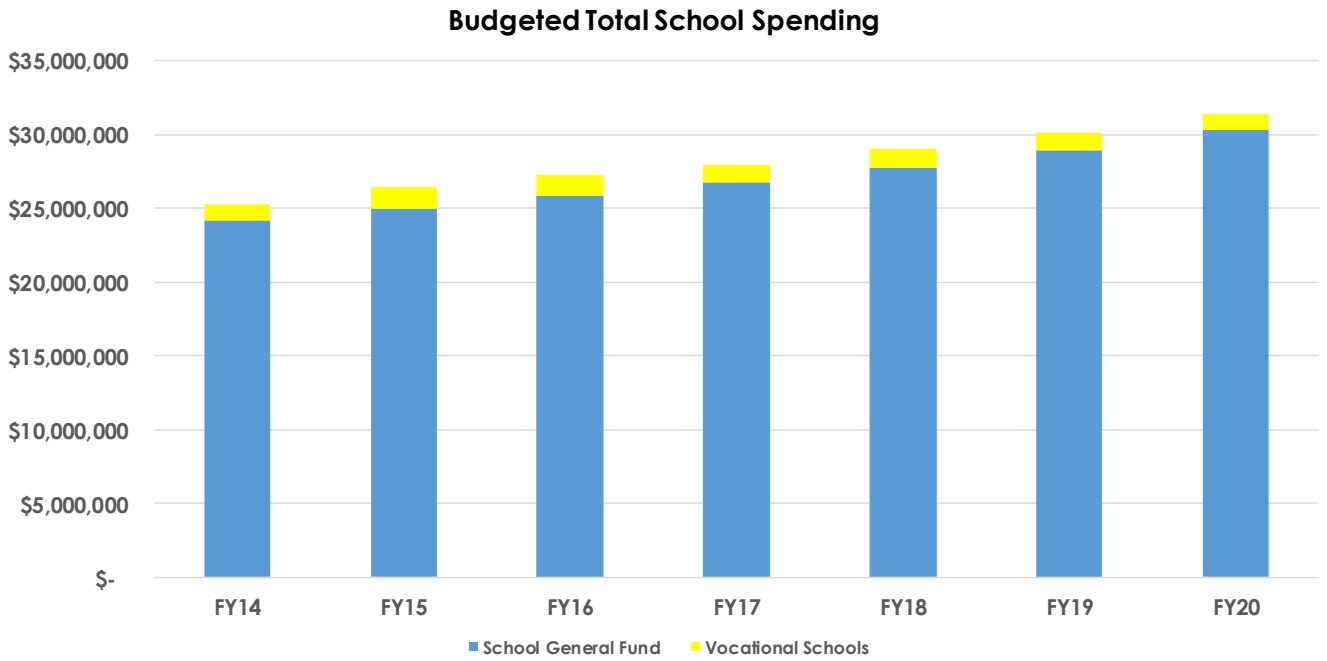
Note: *Forecast does not include potential future high school borrowing & Student Opportunity Bill*

Revenue Allocation by Percentage

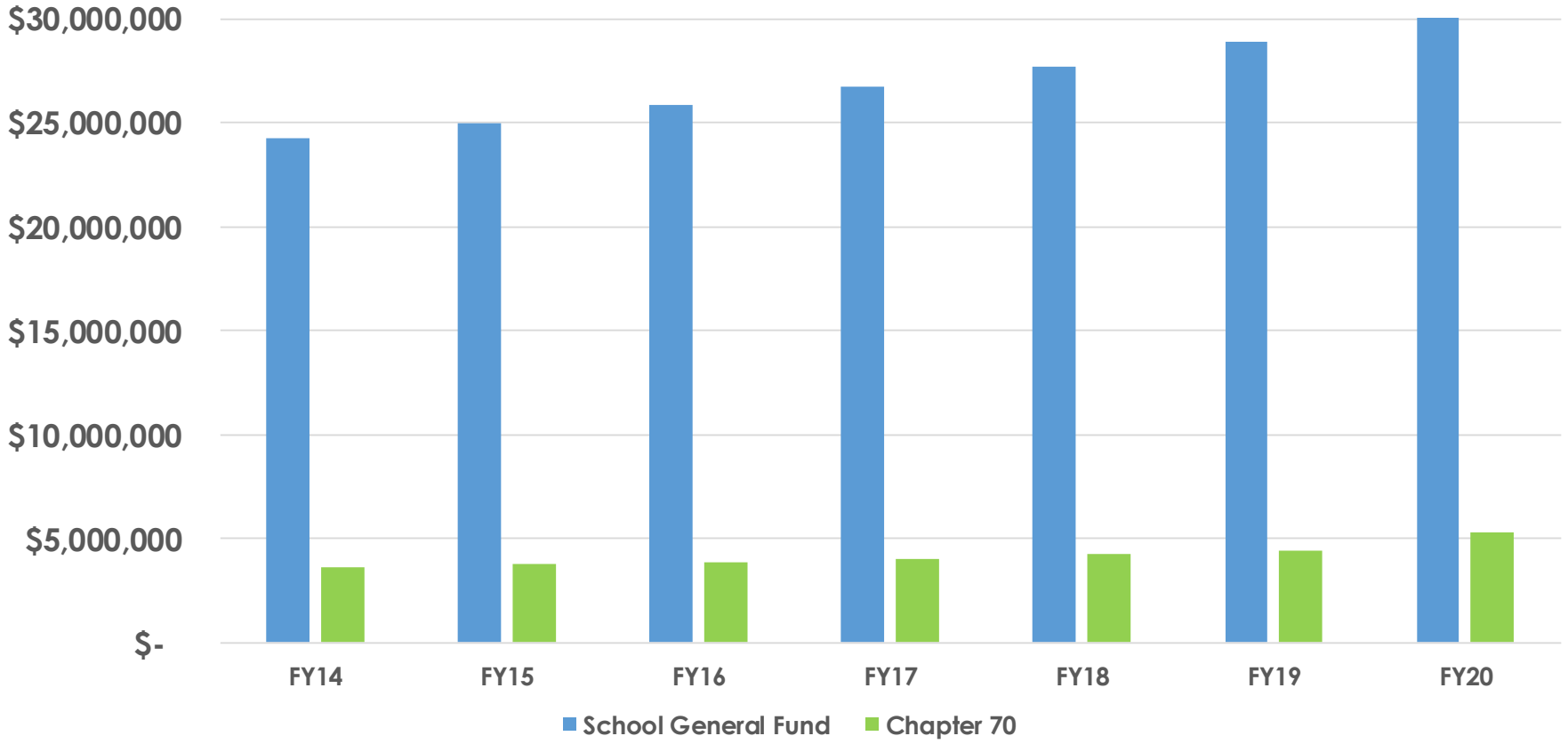


School Related Spending –General Fund

	FY14	FY15	FY16	FY17	FY18	FY19	FY20
School General Fund	$ 24,251,891	$ 25,022,305	$ 25,888,516	$ 26,734,742	$ 27,734,642	$ 28,916,729	$ 30,291,726
Essex North Shore Agricultural	$ -	$ 272,025	$ 279,644	$ 231,243	$ 196,223	$ 210,000	$ 174,000
Minuteman Regional	$ 46,618	$ 41,434	$ 57,168	$ 53,892	$ 54,684	$ 50,000	$ -
Northeast Vocational	$ 948,815	$ 1,099,192	$ 1,076,254	$ 970,818	$ 1,046,697	$ 970,535	$ 979,474
	$ 25,247,324	**$ 26,434,956**	**$ 27,301,582**	**$ 27,990,695**	**$ 29,032,246**	**$ 30,147,264**	**$ 31,445,200**



School Related Spending – General Fund/Ch.70



Attention areas: Risks to Budget

- Not funding our Reserves to appropriate levels, impacting Bond Rating, Cost of Capital
- Reserves not funded to appropriate levels to weather Economic Downturns and Unexpected Expenses
- Not having a viable Long-Term Maintenance and Replacement Plan for Town’s capital assets, resulting in Unsustainable increases in Cost of Capital