

**Town of Topsfield
Massachusetts**



Fiscal Years 2020-2024

**FINANCIAL FORECAST
User's Guide & Assumptions**

January 31, 2019

Special Thanks To:

*Collins Center for Public Management,
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USERS GUIDE & ASSUMPTIONS
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INTRODUCTION

The objective of the Town's Financial Forecast is to conservatively project revenues and expenditures five years into the future (FY2020-FY2024). The forecast is intended to provide policymakers with the information to make informed decisions around the Town's financial strategies and policies, long-term financial and capital planning, and long-term contracts or obligations.

Revenue and expenditure forecasting is a powerful financial planning tool that can be used to isolate the impact of particular future events and determine their effects on the Town's financial picture. The forecasting model is designed using reasonable assumptions about a wide variety of future events and, by using these assumptions along with known facts, a comprehensive view of the Town's fiscal outlook emerges. Though potential exists that any one item in the forecast may be less than accurate, when taken as a whole, a well-built model presents a fair representation of the Town's future finances.

The approach used in the forecast model for the Town of Topsfield assumes that current service levels will be maintained in the future years of the forecast. The model also assumes that existing Massachusetts General Laws and regulations will remain unchanged over the forecast period. However, as new information becomes available here forward, the assumptions and estimates used in the current projections will need to be regularly reevaluated by Town officials to determine if they are still appropriate and reasonable.

The forecast is structured as a series of Excel worksheets. Revenues are projected in detail in the "Revenue Projections" worksheet, and expenditures are projected in detail in an "Expenditure Projections" worksheet. The totals from the detailed revenue and expenditure projections flow into a "Summary" worksheet which reveals projected future operating surpluses or deficits.

More detailed sheets are available for reference and analysis of issues such as new growth ("Growth"); debt excluded from Proposition 2 ½ limits and all other non-excluded town debt ("Non-Exempt Debt Summary" and "Exempt Debt Summary"); and local receipts ("Receipts"). An additional worksheet projects the estimated impact of cost-of-living increases ("COLA") for collective bargaining agreements and salaries.

REVENUE PROJECTIONS

PROPERTY TAX LEVY

Annual tax levy growth is constrained by Proposition 2 ½ (the Massachusetts General Law that limits the annual growth in a municipality's total tax levy to 2.5 percent) plus an allowance for certain new construction and other additions to the tax rolls. The law also allows the town to increase taxes beyond this levy limit with voter approval. An override of this limit by voters becomes a permanent part of the tax levy calculation in future years, and is best used for recurring expenses in the regular operating budget. A debt exclusion may also be approved by voters to increase the levy limit temporarily to fund capital projects. Generally, these projects are financed by borrowing, and the annual debt service is added to the levy limit each year until the project is paid off.

The **FY2020-FY2024** forecast for Topsfield projects new growth to remain relatively low compared to past years. The Town has determined that there will be little new residential or commercial construction which has an impact on Town revenues and real estate taxes going forward. Over the past decade, Topsfield's annual new growth has averaged **\$198,287**. This forecast uses **\$55,000** each year for the Town's assumption. New growth is reported to the State each year on Form LA-13 which is typically submitted in late summer or early fall prior to setting a tax rate.

TOPSFIELD'S NEW GROWTH AT-A-GLANCE:

<i>10 Year Average New Growth Per Fiscal Year:</i>	<i>\$198,287</i>
<i>Lowest Free Cash Amount (FY2010):</i>	<i>\$110,265</i>
<i>Highest Free Cash Amount (FY2014):</i>	<i>\$459,862</i>
<i>Certified New Growth for FY2019:</i>	<i>\$75,041</i>
<i>Forecast Assumption Used as of 1/28/19:</i>	<i>\$55,000</i>

Topsfield has approved a number of debt exclusions in the past. As debt is issued, the Town Accountant completes the DE-1 schedule to calculate the annual debt service that can be raised outside the proposition 2 1/2 limits. Recently, the Town approved debt exclusions for the Town Hall Renovation and Addition and the Renovation and Repair of the Building Envelopes for both Proctor and Steward Schools. Since future debt costs for these projects will be covered by property tax dollars outside the limits of proposition 2 ½ and are therefore reflected in **both** the revenue projections and the expenditure projections.

The forecast anticipates that the Town will maintain a practice of allowing some unused levy capacity each year throughout the forecast period. The Town's current practice is to maintain a minimum of \$100,000 in excess tax capacity. For **FY2019**, the excess tax levy capacity is approximately **\$197,440**. The forecast assumes an excess levy capacity amount of **\$100,000**.

Levy limit information is published each year by the Division of Local Services (<https://dls.gateway.dor.state.ma.us/gateway/Login>) and is reviewed by Town officials periodically in late summer and early fall as growth is certified.

STATE AID CHERRY SHEET

Chapter 70 – Chapter 70 education aid is determined each year by the State Department of Elementary and Secondary Education (DESE) using a complex formula. The formula entails calculating a foundation budget for each municipality or school district based on the number and characteristics of the pupils (e.g., low income, bilingual or vocational) in the district. The foundation budget represents the minimum level of spending necessary to provide an adequate education in each district. Generally, in communities with sufficient resources, required school spending (aka, “net school spending”) is well above the calculated foundation budget, reflective of historically high education spending. In communities with fewer resources and lower historical spending on education, the formula seeks to maintain required net school spending at a level at least as high as the foundation budget.

To determine the relative contributions from municipal revenues versus state Chapter 70 aid necessary to meet required education spending levels, DESE calculates target levels of local (municipal) contribution and target levels of (state) Chapter 70 aid. These calculations are based on the total income of a municipality’s residents and the total property wealth of the municipality. For example, if a community has sufficient income and property wealth to cover 60 percent of the foundation budget, then the State aid target is 40 percent of foundation. Income is measured using State Department of Revenue total income by community from state tax returns and property wealth is measured using equalized property values for each community. Equalized property values are determined by the state every two years and control for differences in local assessing practices. In cases where a municipality has a low ability to pay, less is required from the municipality and state Chapter 70 aid fills the gap between the foundation budget and the required local contribution.

Topsfield provides elementary education locally at the Proctor Elementary School and the Steward Elementary School. The Town receives Chapter 70 state school aid to offset some of the costs to educate these pupils. Topsfield’s junior and senior high school pupils attend the Masconomet Regional School District and the regional school receives Chapter 70 school aid directly from the state. Since Chapter 70 aid is sent directly to the Masconomet Regional School District, this revenue is not factored into the revenue projections within the financial forecast.

This forecast projects a conservative **1.5%** increase in Chapter 70 aid. Past state aid has ranged widely from \$25 per pupil to \$65 per pupil and it is recommended that Town officials revisit the projection of Chapter 70 funding as the State budget process progresses. However, DESE only publishes detailed Chapter 70 numbers for the Governor’s budget and the final State budget on its school finance page under the Chapter 70 heading: <http://www.doe.mass.edu/finance/chapter70/>.

Unrestricted General Government Aid (“UGGA”) – In this forecast, UGGA is projected to grow at a conservative rate of **2.5%**. To keep UGGA and the other cherry sheet accounts up to date, Town officials monitor the local aid estimates published by the Division of Local Services at each juncture of the state budget process: <http://www.mass.gov/dor/local-officials/municipal-databank-and-local-aid-unit/cherry-sheets/>. The first of these estimates come in after the release of the Governor’s budget in late January followed by the House Ways and Means Committee budget in mid-April, the final House budget in late April, the Senate Ways and Means budget in mid-May, and final Senate budget in late May. The Conference Committee’s budget, which resolves differences in the two legislative versions of the budget, is typically issued in late June. Final cherry sheets reflect any vetoes by the Governor and/or any legislative overrides of these vetoes.

Veterans Benefits and Exemptions for Veterans and Elderly – These accounts consist of reimbursements for veterans’ benefits and certain local property exemptions for qualified individuals. This forecast assumes level reimbursements.

State Owned Land – This item is for a State contribution for land owned by the Commonwealth within the town. The forecast assumes level funding.

Aid to Public Libraries -- This item is a cherry sheet offset and may be spent without an appropriation by the Town’s library. This account has no impact on the forecast since it is also raised on the expenditure side, essentially pulling these revenues out of the general revenue mix for direct use by the library.

LOCAL ESTIMATED RECEIPTS

Local estimated receipts are locally generated revenues, other than real and personal property taxes. Examples include motor vehicle excise, investment income, payments in lieu of taxes, penalties and interest on taxes, departmental revenue, fines, and permit fees. Topsfield reports on 11 categories of local receipts. The history of local receipts versus actual receipts is shown on the local receipts worksheet in the forecast file. The Town has a fiscally sound practice of conservatively budgeting these items and routinely collects more than was budgeted. As a result, local receipts in excess of estimates have been a significant factor in the Town’s free cash certifications.

Motor vehicle excise revenue is the Town’s largest local receipt constituting more than half of total estimated receipts. Other significant local receipts include license and permits, fees, and other departmental revenue. For forecast purposes, motor vehicle excise is projected to increase 5% per year and other items will remain stable. This results in a net projected compound annual growth rate of 3.35% per year over the five year projection period.

Town officials should strive to regularly review and update charges for fees and permits, and consider the pros and cons of adopting local option taxes. For example, it is estimated that the Town would generate approximately **\$50,000 to \$60,000** in new local aid each year if Town Meeting adopted the 0.75% Local Option Meals Tax.

ENTERPRISE FUNDS

Water Budget and Indirect Costs - The Town utilizes an enterprise fund for its Water Department. Revenues generated are used to cover all water costs, including capital outlay and indirect costs. Revenues listed in this section are used to cover all of the water costs projected in the expenditure section. As part of the tax rate setting process, the Town Accountant completes a form submitted to the State that details all water revenues and expenditures.

Solid Waste Fund – These funds have been used for professional engineering and monitoring services related to the capping and closure of the Town’s sanitary landfill. The fund, initially established with the proceeds from a legal settlement, was depleted in Fiscal Year 2019. The fund was replaced with an annual appropriation and new budget line-item in the Fiscal Year 2019 operational budget in order to continue to fund environmental monitoring fees as mandated.

AVAILABLE FUNDS/OTHER FINANCING SOURCES

Available Funds for Operating Budget- This line item represents funds that are dedicated to offset expenditures in the expenditure section.

Capital Outlay Articles from Other Accounts - This line item funds various one-time expenses and capital items typically from the left-over balances from prior appropriations. Each year, the Town Accountant, in cooperation with the Town Administrator and Finance Committee, reviews accounts for any unexpended appropriations. The forecast does not estimate these amounts for future years.

Chapter 90 Funds – These funds are provided by the State to the Town for road work maintenance and construction. The forecast projects Chapter 90 funds to match Chapter 90 expenditures.

Other Articles from Available Funds – Periodically there are other items that are funded by the Town from non-tax sources.

FREE CASH

Annually, the Town utilizes an amount of free cash to provide additional funding support for the operating budget. The forecast conservatively assumes the use of around **\$800,000** each year, down from **\$907,923** in FY2018 and **\$1,141,933** in FY2019. The Town's free cash policy is to maintain a minimum of **3%** of the prior year's tax levy (after town meeting appropriations) at the commencement of each fiscal year.

Free Cash for Reserves - The Town has utilized free cash to fund the Capital Stabilization Fund, the General Stabilization Fund, the OPEB Fund, the Employee Separation Reserve, and the Salary/Wage Reserve. The financial forecast assumes that the Employee Separation Reserve and the Salary Wage Reserve will be included as part of the regular operating budget and will not be funded by use of free cash because these represent recurring budget expenses.

Free Cash for Other Purposes – The Town supports social service activities to the Tri-Town Council and Senior Care via free cash. These expenses are voted as separate warrant articles by Town Meeting.

Free Cash for Capital Projects- In the financial forecast, the amount of free cash projected to be spent on annual capital projects is forecasted to increase at a rate of **2.5%** per year in accordance with the previous Capital Improvement Plan policy and minimum spending target of **\$300,000** per year. The newly adopted financial policy guidelines note that the Town should “strive to target **1-2%** of the General Fund Budget towards pay-as-you-go-capital spending” and that “modest amounts from the capital stabilization or other reserves above target levels” may be utilized to fund these needs. This forecast may need an additional update based upon the new policy guidelines and any formal deliberations regarding the Fiscal Year 2020 Capital budget requests and approval process.

Free Cash to Support Operating Budget – The forecast conservatively projects a decreased utilization of excess Free Cash to offset operating expenses. The forecast projects Free Cash to Support Operating Budget at a level of less than **1% of the Total Tax Levy**, resulting in an average of around **\$200,000** a year during the projection period. This forecast may need an additional update based upon the formal deliberations and decisions voted throughout the budget review and approval process.

EXPENDITURE PROJECTIONS

MUNICIPAL DEPARTMENTS

In the forecast, Town departments have been grouped by major categories consistent with Town budget and state expenditure reporting. The department budgets are reported as follows: General Government, Public Safety, Public Works & Facilities, Human Services, and Culture & Recreation. The Water Department is a self-supporting enterprise fund and is reported separately.

For FY2020, all union and non-union employee wages and salaries are included in the Forecast, except for the Reserve Officers whose contract expired June 30, 2018. To ensure that contract settlements or employment agreements are adequately funded, a separate Salary/Wages Reserve includes funding for anticipated settlement negotiations.

Current wage settlements for union employees expire at the end of **FY2020**. For **FY2021** and beyond, for projection purposes, the impacts of potential wage settlements have been estimated and factored into the COLA salary worksheet. The forecast utilizes a **2%** COLA but is intended as an example of cost impact moving forward and not a recommendation for wage settlements. In addition, non-union Town employees are eligible for annual performance-based step increases. The forecast utilizes a **2.75%** step increase across the board, however not all employees are eligible for step advancement.

“Other Expenses” represent non-personnel, departmental operating expenses. For **FY2020**, all departmental requests, plus any contractual and non-discretionary budget requests “above guidelines” have been included. For **FY2021** and beyond, the forecast assumes that these expenses will increase by **3%** per year. That noted, the Finance Committee Budget Guidelines for **FY2019** and **FY2020** established a **0%** increase (or “level funding”) assumption for departments to present their departmental operations budget requests. Since Departments may submit budget requests categorized as “essential-yet-unfunded”, the forecast maintains a **3%** projection and cost assumption to ensure that non-discretionary increases can be realistically anticipated and planned within the Town’s full budget planning process.

EDUCATION

Topsfield School Department – The Topsfield School Department, under the jurisdiction of the Topsfield School Committee, provides education services at two schools, Steward Elementary (K-3) and Proctor (4-6). The forecast utilizes the **3%** increase factor which is a Finance Committee beginning guideline. As the budget review process proceeds, adjustments may be made to the forecast.

Masconomet Assessment and Debt - Topsfield, Boxford, and Middleton comprise the Masconomet Regional School District which provides education in two facilities located in Boxford. These include a middle school for grades 7-8 and a high school for grades 9-12. These schools are led by the Masconomet School Committee which includes one elected representative from each town. Budget costs are assessed to each member community based upon the number of students. In addition, member communities are assessed a proportionate share of net debt service. This model utilizes the Finance Committee guideline of a **3%** increase in the assessment for the operating budget and a share of the debt based upon the actual debt schedule from Masconomet for future years. These assessments will change as new student counts occur. The last year for the debt assessment will be **FY2023**.

North Shore Vocational School (NSVS) – Topsfield sends some students to the North Shore Vocational School. This item reflects its share of the annual NSVS budget. This assessment will change as new student counts are updated each fall.

DEBT SERVICE

General Fund Non-Exempt - Debt Service costs in this category are funded within the limits of Proposition 2 ½. **FY2022** is the last year for debt payments for projects bonded prior to **FY2015**. However, since **FY2015**, the Town has a number of borrowings that have been approved; the projected debt costs for these projects and items are shown in the column entitled “Authorized/Unissued Non-Exempt”. Note that actual debt costs will be based upon timing, amount and interest rate and debt structure as determined by the Town Treasurer with the assistance of the Town’s financial advisor.

General Fund Prop 2 ½ Exempt - Debt Service costs in this category are funded outside the limits of Proposition 2 ½. **FY2022** is the last year for debt payments for projects bonded prior to **FY2015**. In the forecast, the second column lists the actual existing debt service for excluded projects. The next column “Authorized/Unissued Non-Exempt” lists the projected debt costs for the Town Hall Project approved at the 2016 Annual Town Meeting and general election. However, actual debt costs will be based upon timing, amount and interest rate and debt structure as determined by the Town Treasurer with the assistance of the Town’s financial advisor.

EMPLOYEE BENEFITS

Retirement - Town pension costs are projected based on the estimated appropriations issued by the Public Employee Retirement Administration Commission (PERAC) for the Essex County Retirement System. An annual appropriation letter from PERAC breaks down the assessments to all member towns, school districts and housing authorities, and shows the percentage of the total borne by each entity. The specific allocation for Topsfield is detailed in the Retirement worksheet. The forecast applies Topsfield’s percentage to the future appropriation amounts identified by PERAC as necessary to maintain the pension funding schedule going forward. The Essex County appropriation notice requires an adjustment to the projected pension costs for Topsfield and should be monitored each year to reflect any revisions in necessary funding levels.

Unemployment – Unemployment is funded at **\$15,000** and increases by **2%** each year of the forecast. The Town established an Unemployment Reserve Fund in 2018 to allow funding to “roll-over” each year if it is not expended during the fiscal year. The expense will be evaluated annually to ensure that expenses from the previous year are replenished in the upcoming budget year. A reduction from **\$60,000 in FY2018 to \$15,000 in FY2019** reflects the fact that the Town has not incurred significant unemployment costs as a result of layoffs in recent years.

Health Insurance – The Town receives its health insurance through the Massachusetts Interlocal Insurance Association (MIIA) a health insurance program representing many Massachusetts communities. The forecast utilizes current estimates from MIIA for **FY2020 at 6.5%** based on industry trend. For FY2021 and beyond, the forecast assumes an annual 10% increase. Due to the Town’s recent adoption of MGL 32B, Sections 21-23, as well as two rounds of negotiated changes to the Town’s health plan design, the prior assumption was reduced from 13% to 10%. This early estimate will be updated

over the next few months as MIIA reviews costs, utilization and officially publishes the Town's health insurance premiums. While this annual increase may exceed Finance Committee budget guidelines, the expense represents a non-discretionary cost item that must be funded by the Town based on actual health insurance premiums, employee head count, and insurance eligibility for personnel as determined based on state and federal law.

Life Insurance – The Town offers a small cost shared life insurance plan for employees in the amount of \$10,000. Retirees are eligible for a \$5,000 life insurance policy. No growth is anticipated for this item. The cost has been level funded for this projection.

Medicare – The Town must contribute 1.45% of wages to Medicare for employees hired after 1986. In the forecast, Medicare has been projected with an increase of 3% percent per year. While this annual increase may exceed Finance Committee budget guidelines, the expense does represent a non-discretionary cost item that must be funded by the Town based on actual personnel costs.

PROPERTY/LIABILITY INSURANCES

Workers Compensation- Topsfield participates in the MIIA workers compensation program. Early estimates of workers compensation rates and payroll changes are projected at 10% per year.

Accident-Public Safety (Police/Fire) - This insurance covers public safety personnel eligible for IIIIF benefits under state law. The policy is used in lieu of the Town's Workers Compensation Policy when a police officer or firefighter is injured in the line of duty. This cost was renegotiated last year and generated a \$65,000 savings for FY2019 and FY2020. Since rate increases have been relatively stable in recent years, the forecast adjusts for the cost reduction and then assumes modest growth at 2.5%.

Property/Liability Insurance - This insurance covers municipal buildings and contents, motor vehicles and public official liability insurance. This cost will increase in FY2020 by approximately \$65,000 due to the newly updated valuation for the elementary schools, Town Hall and addition and the new Water Treatment Plant. Aside from the recent increase in values and necessary adjustment, the Town's premium costs have been relatively stable in recent years. The forecast adjusts for the cost increase and then grows modestly at 2.5%.

ENTERPRISE FUNDS

The Water Department is a self-sufficient operation. All of the direct costs for water are listed in this category. The water share for all of the indirect costs are budgeted within the various operating budgets and are allocated in the enterprise report submitted to the State when the tax rate is set. These costs are offset by water revenues as indirect costs in the revenue detail worksheet.

OTHER AMOUNTS TO BE RAISED

The Cherry Sheet offset in Topsfield is for Public Library aid. Library aid is forecast to remain stable. As an offset, however, any change has no impact on the budget as these receipts are earmarked for library spending without appropriation. As such, any growth in this revenue is offset on the expenditure side of the forecast to essentially remove this aid from the town's general revenues.

Other amounts raised also include the annual allowance for abatements and exemptions (Overlay). The overlay has been projected to increase by 2.5% per year. In a revaluation year, a community typically has more abatement requests, so a good practice is to increase the overlay to reflect the risk of additional abatements.

STATE / COUNTY ASSESSMENTS

All State and County assessments included in the forecast are based on the Cherry Sheet estimates published by the Division of Local Services. The most significant of the State assessments in Topsfield are the Mosquito Control Assessment, the Massachusetts Bay Transit Authority (MBTA) and the Essex County Emergency Communications Center. All three of these are projected to increase by 2.5% per year, consistent with the limitations on the overall annual growth of these assessments. All other assessments are projected to remain constant. As of January 28, 2019, the Town's assessment for the Essex County Emergency Communications Center is listed on the Cherry Sheet, however, plans are currently underway for the State 9-1-1 Department to take over the operations of the Center as of July 1, 2019. Ongoing discussions are underway to determine what costs will be necessary for the transition and any negotiated changes in communications infrastructure, shared frequencies and future operations of the Center. The forecast assumes status quo for the expense since negotiations are ongoing.

Similar to the Cherry Sheet state aid accounts on the revenue side, Town officials will continue to monitor the state budget process and follow the release of local aid estimates until the State budget process concludes with the issuance of final Cherry Sheets.

FREE CASH - RESERVES

Finance Committee Reserve Fund- In FY2017 and previous years, the reserve fund was budgeted using free cash. This practice changed in FY2018 and the Reserve Fund is now included as part of the annual budget.

Capital Stabilization Fund- Topsfield established a Capital Stabilization Fund in FY2015 to set aside money for future capital projects. Since FY2016, a minimum of \$100,000 has transferred to this fund from free cash. With interest, this fund currently has a balance of **\$428,373**. No money has been appropriated out of this fund. The continued use of this fund will be discussed as the CIP project and recommendations are finalized during the budget review process.

General Stabilization Fund- Topsfield appropriates free cash to a General Stabilization Fund. The Town's Finance Committee practice has been to maintain a minimum of **\$1,000,000** in this fund with a minimum annual contribution of **\$25,000**. This fund currently has a balance of **\$1,252,330**. For the last 4 fiscal years, the Town has appropriated **\$25,000** each year.

OPEB Fund- Other Post-Employment Benefits (mainly retiree health insurance) is a significant future cost for municipalities in Massachusetts and across the U.S. Unlike Massachusetts retirement law, there is no requirement to put money aside for these future costs that are being incurred as employees work. State law provides a legal mechanism for municipalities to set aside funds voluntarily in a special fund to accumulate money to pay for these future costs. Topsfield has established such a fund in FY2013 and

appropriated \$100,000 from free cash each fiscal year through FY2018. The current balance in the General Fund OPEB is **\$996,597** and **\$36,500** in the Water Enterprise OPEB. In FY2019, the Town appropriated \$300,000 into the OPEB Fund. The Town's new financial policy guidelines outline a target minimum appropriation of **\$300,000** each year plus an additional **\$20,000** each year beginning in FY2021. This forecast assumes an annual contribution from free cash to support this funding strategy.

Compensated Absences Fund - This item (*formally known as the "Employee Separation Reserve"*) is a set aside fund to pay for any accumulated benefits that an employee is entitled to upon separation from service. The amount has been paid from free cash in previous years, however, it is recommended that the expense be funded from the General Fund budget since the expense is accumulated based on existing employees. The forecast projects **\$40,000** a year and a 2% annual increase for **FY2020** and beyond based on our knowledge of three to five (3-5) potential retirements. This number may shift up or down each year based on personal retirement plans, therefore, forecast assumptions in this category should be analyzed and reconsidered each year. Analysis should include a review of actual prior year expenditures from the fund and retirements anticipated in the coming year.

Salary/Wage Reserve- This line is an estimated appropriation to meet any anticipated, yet unsettled, contractual wage increases as related to anticipated contract negotiations and employment contract renewals.

FREE CASH – OTHER PURPOSES

Lease of Emerson Field - This line is for an appropriation from free cash to support the lease of land for recreational and athletic purposes as managed by the Parks and Cemeteries Commissioners.

Social Service Agencies - These lines are for appropriations from free cash to support the Tri-Town Council and Senior Care.

FREE CASH - CAPITAL PURCHASES

Capital Outlay - This item represents the amount of money appropriated from free cash to fund capital outlay. The forecast assumes a continuing minimum commitment to fund capital. The forecast assumes, and continues the prior year's minimum pay-as-you-go-capital allocation of **\$300,000**, for the updated forecast. The Town's newly adopted financial policy guidelines state that **1-2%** of the General Fund Budget should be a target for funding Capital Outlay expenses. The use of free cash (and any other sources of available funding) will be discussed further as the Town's Capital Improvement Plan and its recommendations are finalized in the upcoming weeks. For forecasting purposes, it is important to note that free cash revenues offset one-time capital expenses – therefore, generally speaking, these expenses will not impact the forecast's balanced budget scenarios for **FY2020** planning purposes.

ARTICLES FROM AVAILABLE FUNDS

Chapter 90 Highway Funds – This amount represents the amount of State aid received by the Town in the form of an annual grant allocation and funds the Town's highway department in order to contract and or perform "Chapter 90" road work in the Town of Topsfield. No growth is anticipated for this item.

Warrant Articles - Topsfield funds some capital outlay expenses by transferring and re-appropriating excess available funds during its Special Town Meeting and budget amendments. In **FY2017**, the Town utilized **\$252,936** for various capital expenses. This forecast does not forecast funds for this purpose in future years because it cannot be anticipated.

PROCESS TO UPDATE FORECAST

DESCRIPTION OF WORKSHEETS

The Topsfield Revenue/Expenditure Forecast file has a number of interconnected worksheets, including:

- Summary
- Revenue Projections
- Growth
- Capital
- Expenditure Projections
- Non-Exempt Debt Summary
- Exempt Debt Summary
- Water Debt Summary
- Short Term BAN Debt
- Projected Debt Service for Authorized/Unissued Bonds
- MASCO Debt
- Retirement
- COLA and Wages

Summary – This worksheet rolls up from the Revenue and Expenditure forecast details to provide a quick overview of the five year plan.

Revenue Projections – This worksheet is used to list the details of the various revenue categories and the assumptions that are used in the projections. The Final Recap column requires manual data entry each year to input actual revenues collected. Future year projections are calculated utilizing the straight-line percentage change column on the far right. If no growth is expected, a 0 should be input in the “percentage projection” column. If a revenue is not projected to grow linearly, the revenue expectations should be input manually into the forecast. Once the final tax recap is approved, changes in the revenue detail must be incorporated into the worksheet.

Expenditure Projections – This worksheet lists the details of the various departments and other expenses categories that are in the Town budget warrant article. In addition, it lists all the financial appropriation warrant articles for Town Meeting. Finally, it lists other expenditure categories that do not require Town Meeting approval but that are expenses that must be included in the tax rate setting process. The wage line for each department is automatically changed when the user enters information into the COLA worksheet. The user must also enter manually or use the cost increase straight-line factor for the other cost items listed.

Growth – This worksheet is a summary of the new growth taxes that the Town can raise within the limits of Proposition 2 ½ for the fiscal year. Once the final growth amount is calculated by the Assessors, the Board of Selectmen votes to set the tax rate, and the tax recap is approved by the State, the final

amounts must be added to the worksheet. When updating the forecast each year, the Finance Team should discuss any changes in the growth projections.

Capital Investment– The capital worksheet brings together the Town’s existing general fund debt service, estimated debt for projects approved by Town Meeting and other capital appropriations with the funding anticipated to be available for the Town’s developing capital plan. The underlying assumption built into this worksheet is that a minimum of \$300,000 will continue to be available on a recurring annual basis to finance capital items. It also assumes that a minimum of \$100,000 will be appropriated annually to the Capital Stabilization Fund.

The worksheet also calculates the Town’s annual general fund capital investment as a percent of net revenues, which excludes the enterprise fund. The Town’s FY2017 capital investment as a percent of net revenue was 4.23 percent. The Town’s investment target was projected to increase by FY2020 to 5.78 percent of net revenue as a result of the new debt for the town hall renovation, and that the Town would maintain a minimum Town investment of 5.78%. This tab can be used on an iterative basis to identify the amount of capital investment needed to reach the Town’s target for capital as a percent of prior year revenues, and is recommended to be established in the Town’s financial policy guidelines.

Non-Exempt Debt Summary – This worksheet summarizes the Town’s debt service by fiscal year for debt that is funded by the General Fund within the limits of Proposition 2 /12. The cost information includes both existing debt and an estimate of debt for projects that have been approved by Town Meeting but not yet permanently borrowed. This worksheet must be updated whenever the Town issues permanent debt and/or adds new debt authorizations approved by Town Meeting. The Town Treasurer and the Financial Advisor play an invaluable tool in maintaining this data.

Exempt Debt Summary – This worksheet summarizes the Town’s debt service by fiscal year for debt that is excluded from the limits of Proposition 2 ½, i.e., has been approved by a voter override. The cost information includes both existing debt and an estimate of debt for projects that have been approved by Town Meeting but not yet permanently borrowed. This worksheet must be updated whenever the Town issues permanent debt and/or adds new debt authorizations approved by Town Meeting. The Town Treasurer and the Financial Advisor play an invaluable tool in maintaining this data. The data in this spreadsheet is linked to the Revenue Projections tab as each year exempt debt is funded by an increase to the tax levy.

Water Debt Summary – This worksheet summarizes the Town’s debt service by fiscal year for debt funded by the Water Enterprise Fund. The cost information includes both existing debt and an estimate of debt for projects that have been approved by Town Meeting but not yet permanently borrowed. This worksheet must be updated whenever the Town issues permanent debt and/or adds new debt authorizations approved by Town Meeting. The Town Treasurer and the Financial Advisor play an invaluable tool in maintaining this data.

Short Term BANS – This worksheet estimates the interest cost for the upcoming fiscal year for short term borrowing for projects that have been approved by prior Town Meetings. The Financial Advisor and Town Treasurer work together to estimate this cost.

Projected Long Term Debt Service for Authorized/Unissued Debt – This worksheet projects the timing and estimated debt service for projects that have been approved by Town Meeting but have not yet been permanently borrowed. The Financial Advisor, Town Treasurer, and Town Administrator work together to time the issue and principal amount based on needs, budget impact and market.

Retirement – This worksheet lists the current PERAC retirement appropriation for Essex County and Topsfield’s share. The funding schedule is updated by an actuary hired by the County every 3 years and Information will be provided to Topsfield to update the forecast.

COLA and Wages – This worksheet provides the user with multiple “what if” scenarios on COLA and step increases. Factors entered into the COLA and/or step cells automatically update the department wage line in the Expenditure Projections detail.

STEPS TO UPDATE

The process for updating the forecasting spreadsheet to reflect a new base year must be done systematically and with care as changes to certain data and formulas will be needed. As a result, it is strongly recommended that users save a separate back-up file of the spreadsheet before any changes are saved in the spreadsheet they are updating.

Generally, the updating of the Revenue and Expenditure spreadsheets should occur after the end of the current fiscal year after the Town’s budget for next year has been adopted by Town Meeting and final cherry sheets are issued. Both spreadsheets must be updated one final time when the tax recap approved by the State.

This final step will update the structure of the forecast to make room for a new Year 5. To do this, insert a column to the right of the last Projection year in both the Revenue and Expenditure spreadsheets and copy the data and formulas from the prior column. This step will add the data for the last year of the five year forecast. This same process should be followed for all tabs of the worksheet.

Data for what was previously the base year of the forecast must also be updated with actuals. For the **FY2020-FY2024** forecast, the base year is **FY2019** and included revenues and expenditure expectations approved in the Town’s adopted budget. These must now be replaced with actual revenues and expenditures. The new base year will then need to be updated using that year’s approved budget. The next update will change the forecast to **FY2021-FY2025** and **FY2020** will become the base year.

After the base year has been updated, the user is now ready to prepare the five year forecasts working with the appropriate individual worksheets. To forecast the first year revenues or expenditures, a percent change is applied to the base year to yield the projected amount. To project the second year, the percent change is applied to the first forecast year as the base. In other words, the selected percent change is applied to each year of the forecast. This is accomplished by modifying, if appropriate, the percentage change column to reflect recent experience and new information/expectations

In some instances, the user may find that it is easier to simply enter values for certain items. This is fine as long as the user remembers to replace the formulas later if they want to determine the projections based on percent change in other years.

APPENDIX: FY2020-FY2024 FORECAST SPREADSHEETS