

# Hubbardston Financial Forecast

Town Administrator Ryan McLane  
Fiscal Years 2020-2024



# Summary

- This report is a useful decision-making tool applicable to the Select Board, Finance Committee, Town Administrator and Hubbardston residents.
- While useful, a financial forecast is not an exact science, rather a model that uses logical assumption to help predict future revenue and expenses
- This forecast will be presented prior to the creation of each year's budget and will be updated following town meeting appropriation. The Town Administrator is responsible for presenting and updating the forecast

Forecasting Policy

[https://www.hubbardstonma.us/sites/hubbardstonma/files/uploads/hubbardston\\_forecasting\\_policy.pdf](https://www.hubbardstonma.us/sites/hubbardstonma/files/uploads/hubbardston_forecasting_policy.pdf)

# Topic Areas

- Methods
- Revenue
- Expenditure
- Capital (future inclusion)
- Debt
- Reserves
- Recommendations
- Summary

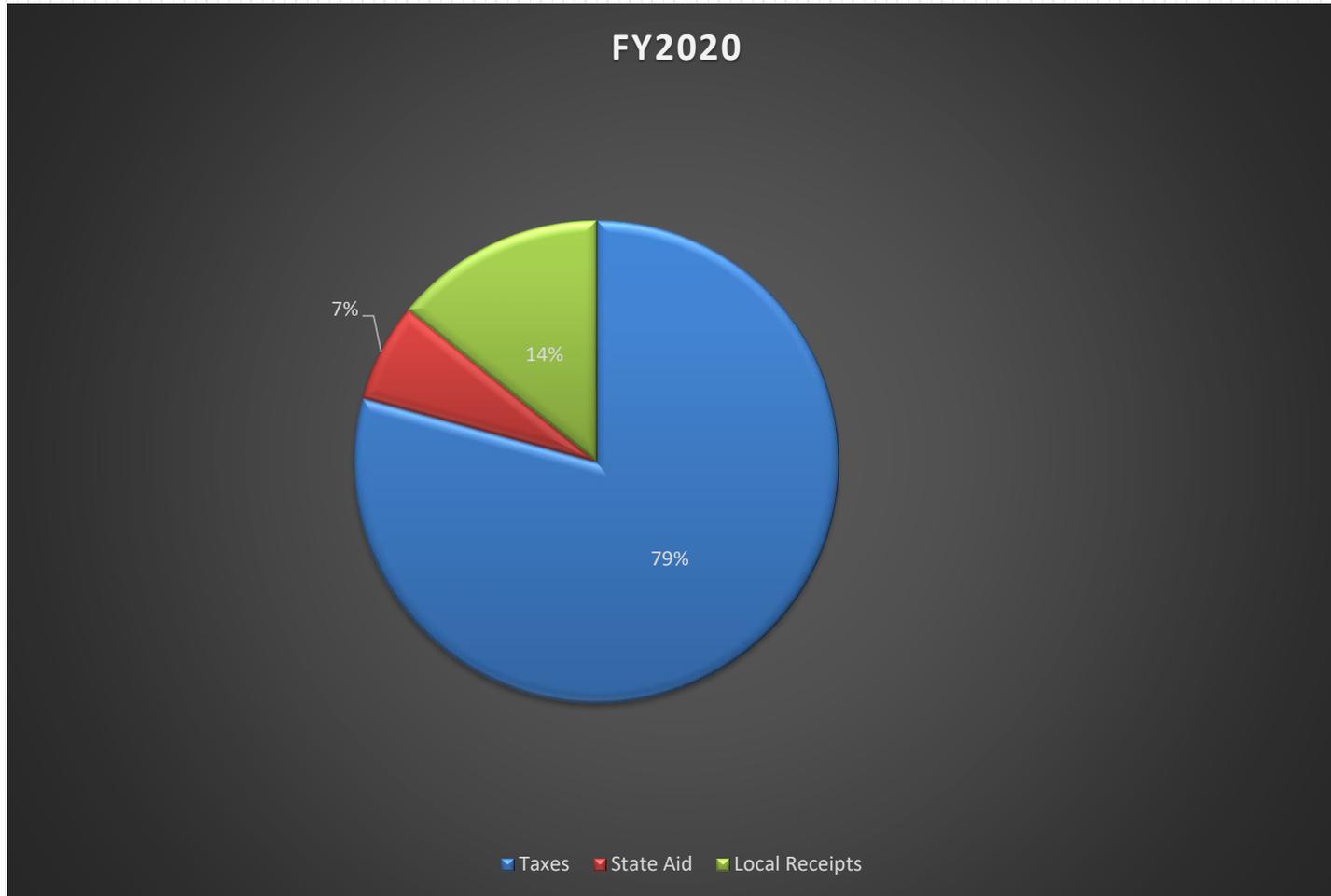
# Methods

- Data for this forecast was gathered and analyzed from FY15 to FY20. The forecasted revenues and expenditures are based on trends in addition to known changes and policy guidance from the Select Board and FinCom.
- Although forecast assumptions rely primarily on five-year averages, outliers were removed to create a realistic financial picture
- Additions were made to previously used forecasts. These additions include an analysis of town reserves and debt management policy

# Revenue Summary

- The primary driver of revenue growth is new growth estimates (calculated by the Assessing Department) and the 2.5% increase allowed by MGL
- New growth numbers are projected conservatively at \$50,000 per year in this model, limiting revenue growth unless implemented economic development measures change the town's long-term outlook
- This forecast corrects the overestimating of local-receipt revenue in previous fiscal years, allowing for a more accurate and conservative approach that matches limited revenue increases
- Revenue forecasts are assumption based and conservative, meaning they can change once actual revenue numbers are known

# FY20 Revenue Projections

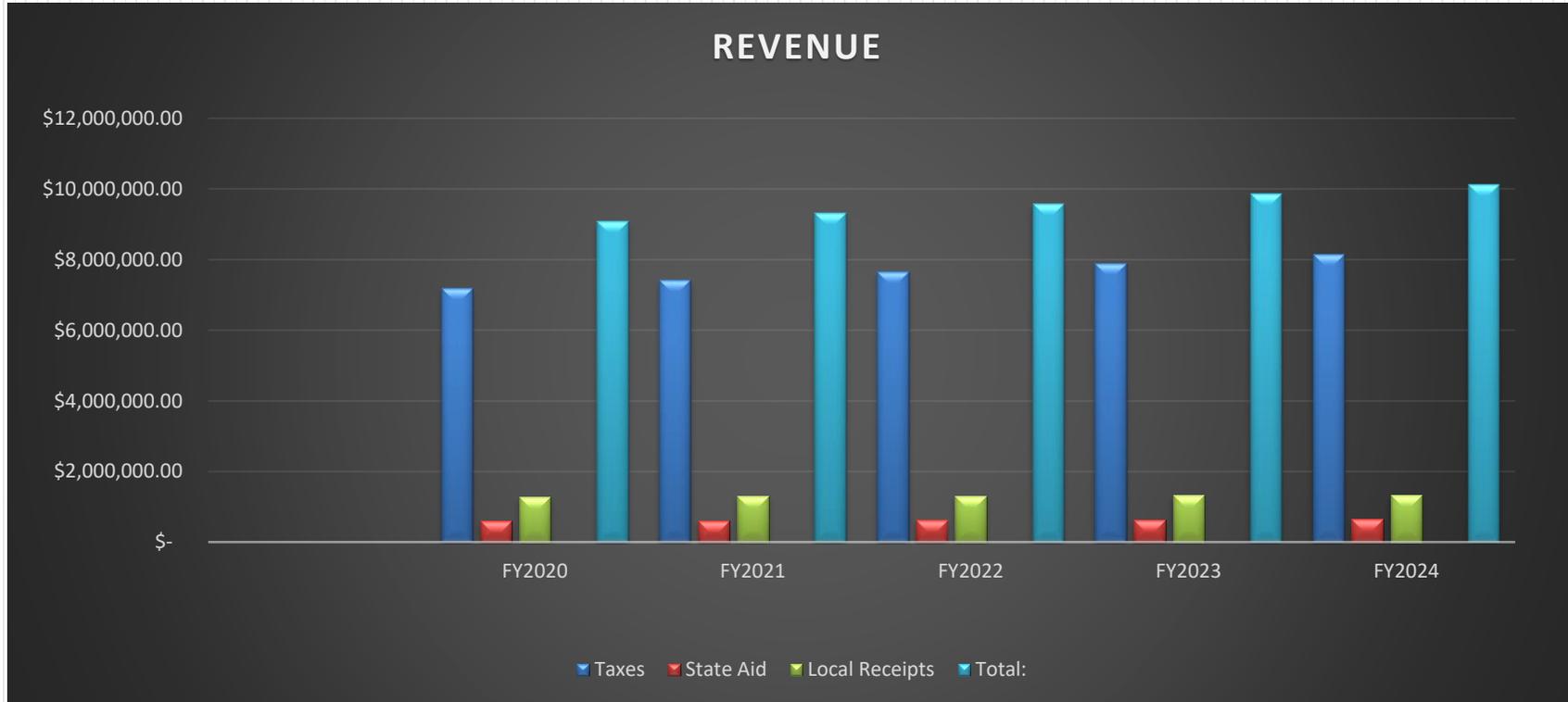


REVENUE	FY2020
Taxes	\$ 7,185,395.73
State Aid	\$ 598,639.02
Local Receipts	\$ 1,280,388.46
<b>Total:</b>	<b>\$ 9,064,423.21</b>

# Revenue Assumptions

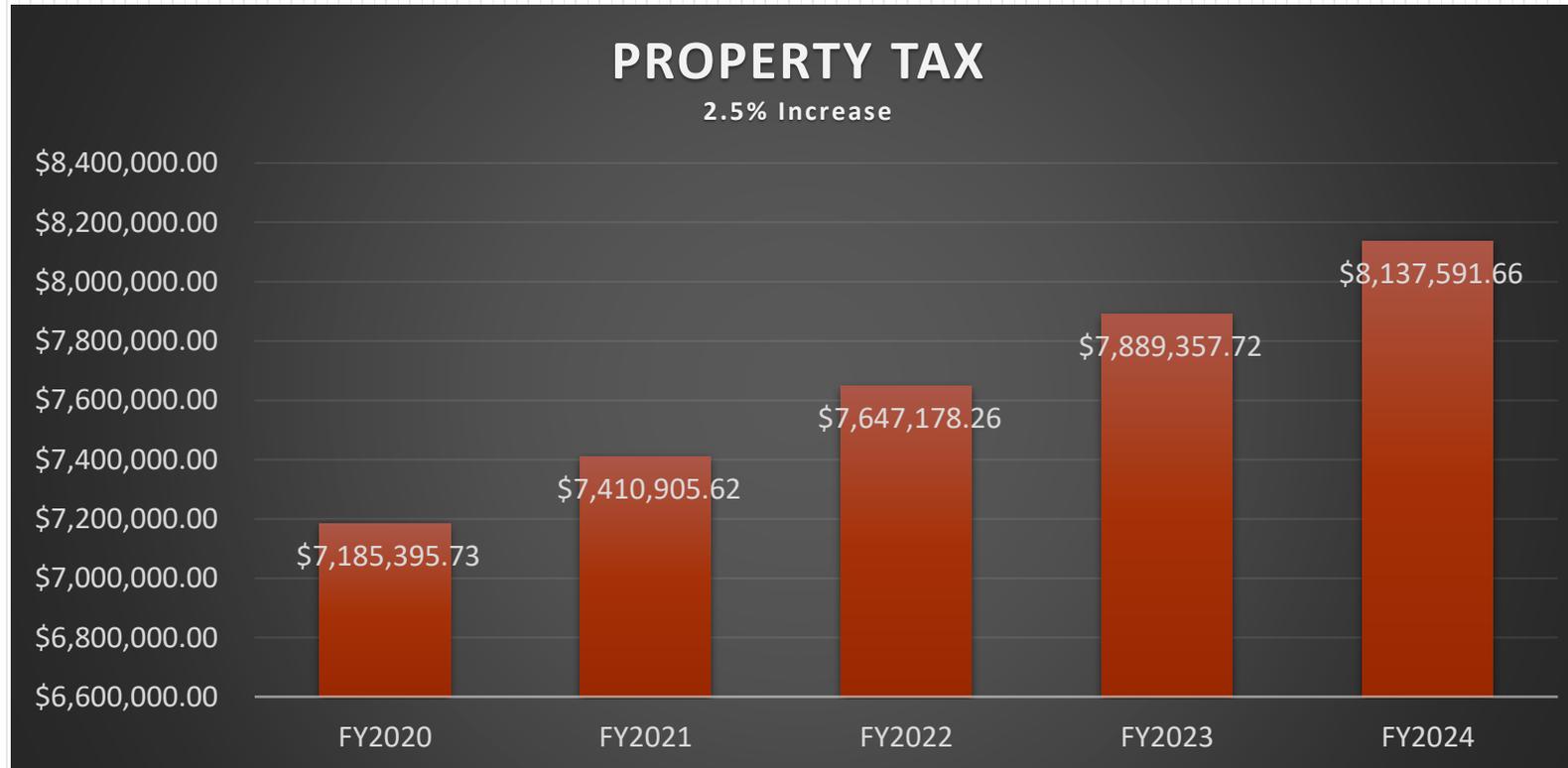
- Revenue is conservatively estimated to increase as follows:
  - Tax Levy: 2.5% - based on MGL
  - Local Receipts: 1% - based on trend analysis
  - State Aid 2% - based on trend analysis
- Recent over projections of local receipts have led to negative balances at year's end. Current policy recommends projecting local receipts at 95% of previous year actuals to avoid creating false revenue assumptions.
- State aid continues to increase, albeit slowly. Although trend analysis indicates 2-5 percent annual growth, the more conservative of these numbers is prudent given the unpredictability of state funding

# Revenue Forecasts - Total



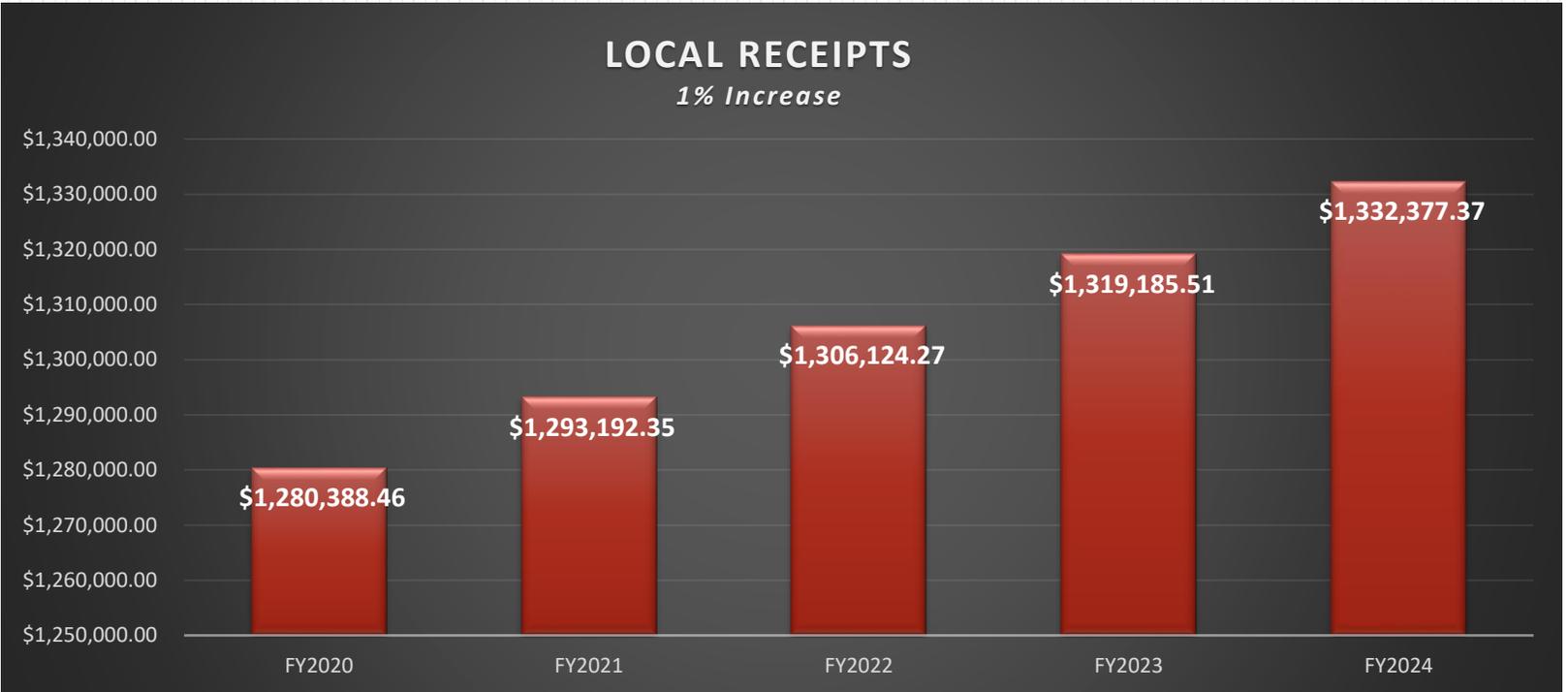
REVENUE		FY2020	FY2021	FY2022	FY2023	FY2024
Taxes		\$ 7,185,395.73	\$ 7,410,905.62	\$ 7,647,178.26	\$ 7,889,357.72	\$ 8,137,591.66
State Aid		\$ 598,639.02	\$ 610,611.80	\$ 622,824.04	\$ 635,280.52	\$ 647,986.13
Local Receipts		\$ 1,280,388.46	\$ 1,293,192.35	\$ 1,306,124.27	\$ 1,319,185.51	\$ 1,332,377.37
<b>Total:</b>		\$ 9,064,423.21	\$ 9,314,709.77	\$ 9,576,126.57	\$ 9,843,823.75	\$ 10,117,955.16

# Revenue Forecast – Property Tax



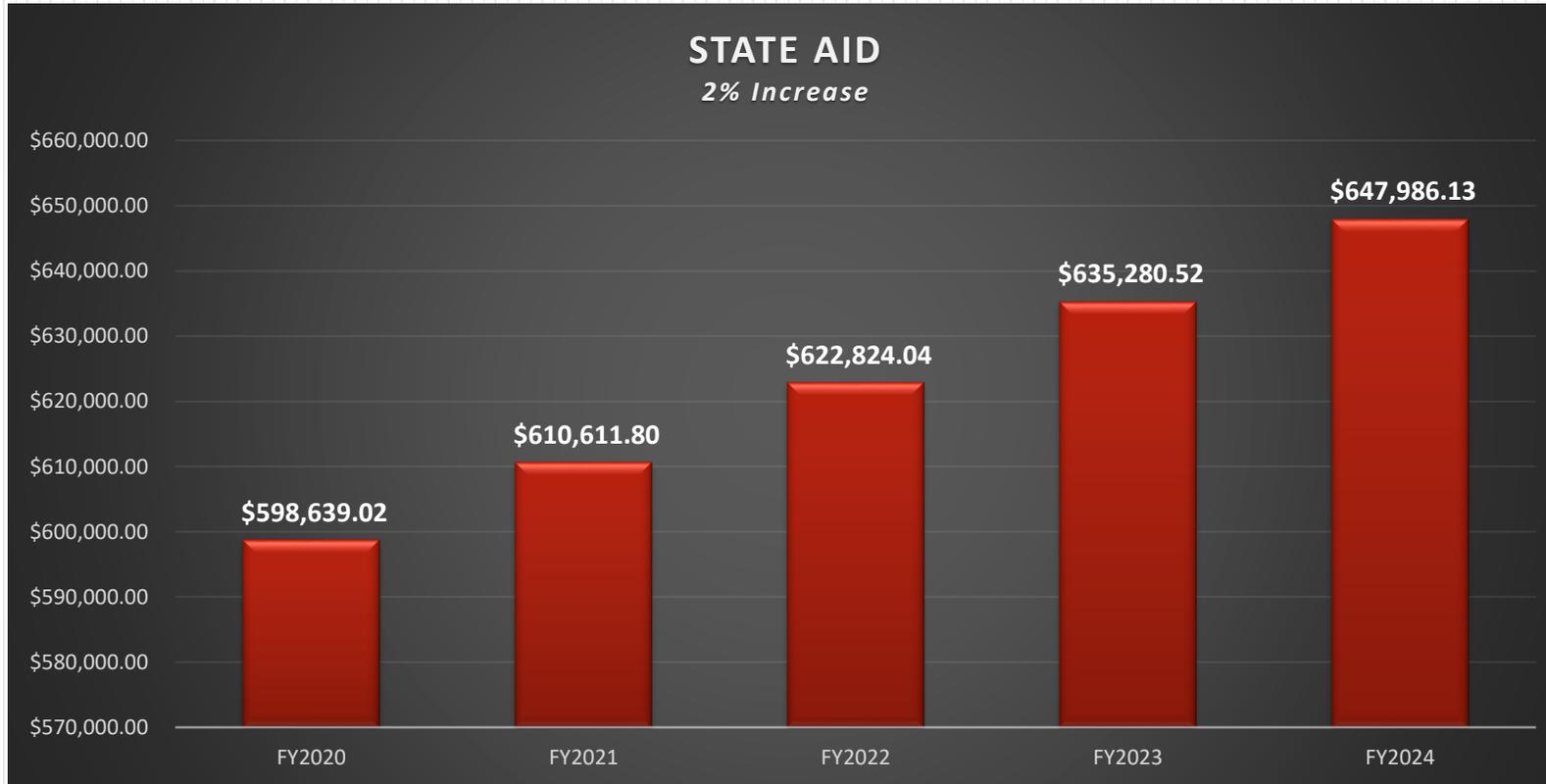
Property Tax	FY2020	FY2021	FY2022	FY2023	FY2024
<b>Total:</b>	\$ 7,185,395.73	\$ 7,410,905.62	\$ 7,647,178.26	\$ 7,889,357.72	\$ 8,137,591.66

# Revenue Forecast – Local Receipts



Local Receipts	FY2020	FY2021	FY2022	FY2023	FY2024
<b>Total:</b>	\$ 1,280,388.46	\$ 1,293,192.35	\$ 1,306,124.27	\$ 1,319,185.51	\$ 1,332,377.37

# Revenue Forecast – State Aid

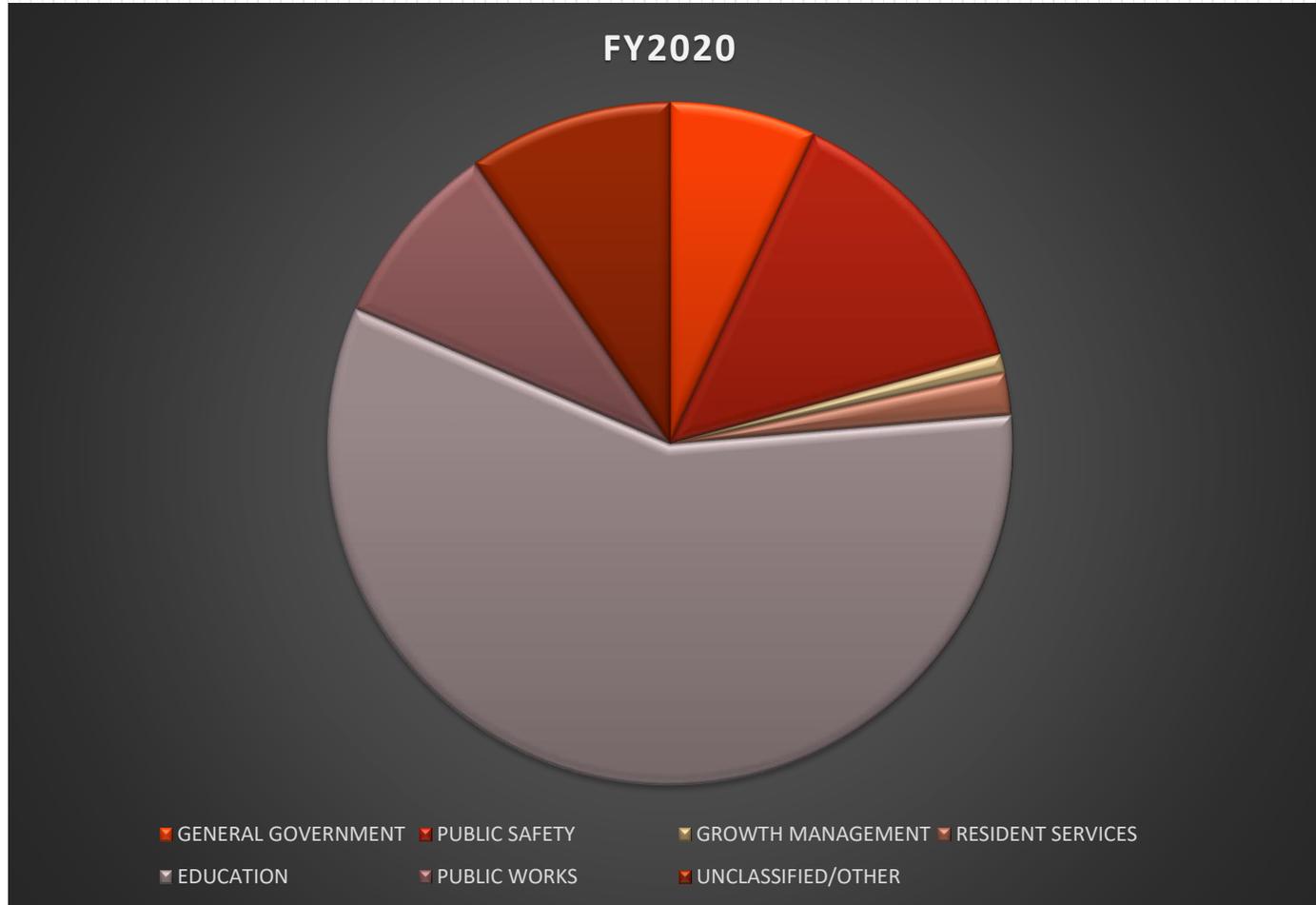


State Aid	FY2020	FY2021	FY2022	FY2023	FY2024
<b>Total:</b>	\$ 598,639.02	\$ 610,611.80	\$ 622,824.04	\$ 635,280.52	\$ 647,986.13

# Expenditure Summary

- Education continues to be the primary driver of expenditure growth, making up 58% of the projected budget in FY20 and beyond
- While level funded budgets and growth control measures are limiting expenditures, there is not enough room in the budget to continue to cut without dramatically reducing services
- Regionalization/grant efforts continue to create efficiencies, but even with major changes, expenditures will continue to grow due to fixed costs
- This model does not account for necessary changes tied to long-term planning like snow and ice budget planning, FinCom reserve policies and wage parity

# FY20 Expenditure Projections

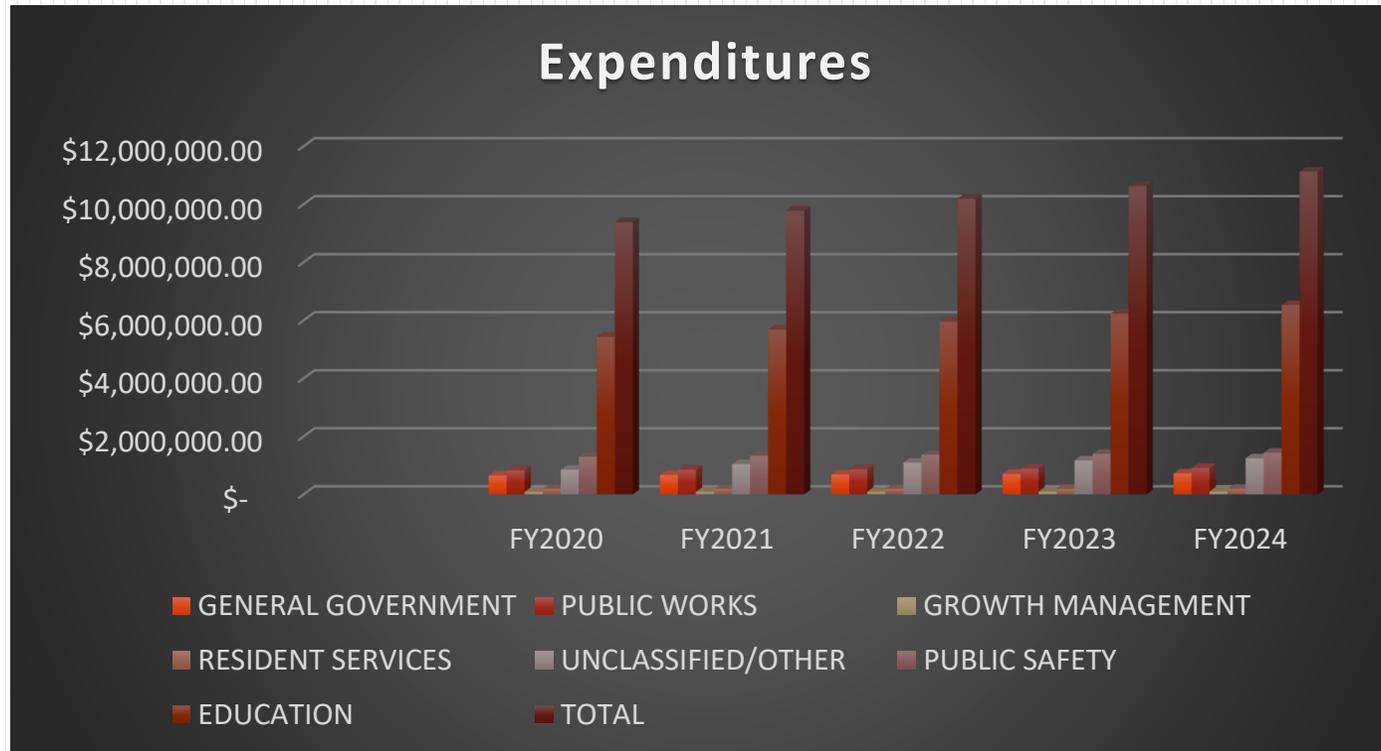


EXPENDITURES	FY2020
GENERAL GOVERNMENT	\$ 649,007.70
PUBLIC SAFETY	\$ 1,300,216.33
GROWTH MANAGEMENT	\$ 86,043.82
RESIDENT SERVICES	\$ 182,166.61
EDUCATION	\$ 5,426,871.96
PUBLIC WORKS	\$ 829,474.00
UNCLASSIFIED/OTHER	\$ 906,140.83
<b>Total</b>	<b>\$ 9,379,921.24</b>

# Expenditure Assumptions

- Trend analysis indicates the following increases by category:
  - Salaries: 2.5%
  - QRSD: 5%
  - Monty Tech 3%
  - Health Insurance 9%
  - Retirement 9%
  - Insurance 8%
  - Expenses 2%
  - Police (Contractual) 2%-3%
  - Fire (Contractual) 2%-3%
  - DPW (Contractual) 2%-3%
- Estimates are on the conservative end of a five-year average
- Even with annual direction to level fund the budget, expenditures are rising faster than revenue with most costs contractually/legally obligated

# Expenditure Forecasts - Total

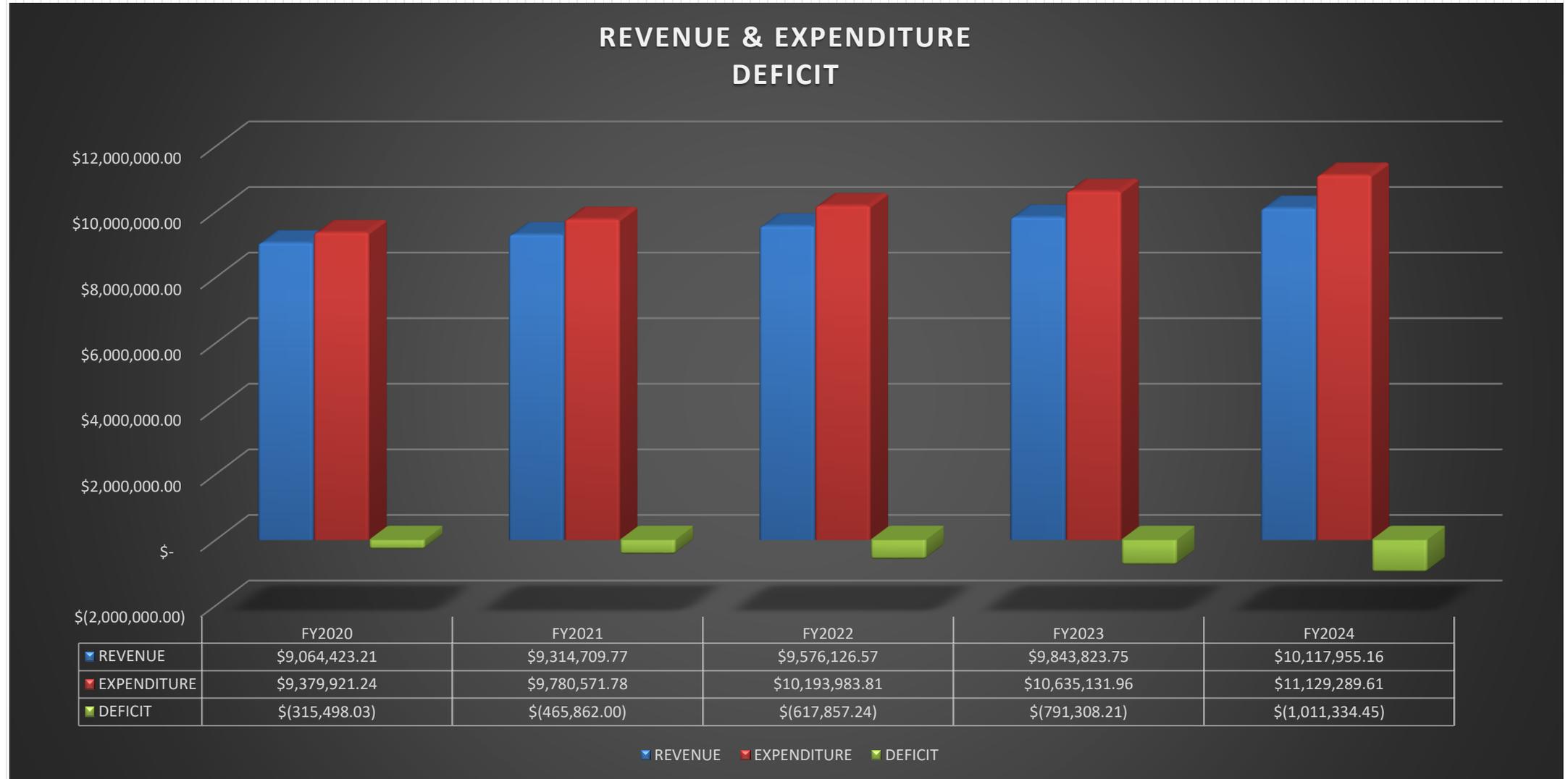


EXPENDITURES	FY2020	FY2021	FY2022	FY2023	FY2024
GENERAL GOVERNMENT	\$ 649,007.70	\$ 668,564.62	\$ 686,343.00	\$ 702,611.76	\$ 719,353.10
PUBLIC WORKS	\$ 829,474.00	\$ 846,512.84	\$ 866,392.85	\$ 889,295.59	\$ 912,821.26
GROWTH MANAGEMENT	\$ 86,043.82	\$ 88,559.15	\$ 91,123.16	\$ 93,737.01	\$ 96,401.92
RESIDENT SERVICES	\$ 182,166.61	\$ 184,615.05	\$ 187,619.58	\$ 190,181.51	\$ 192,802.16
UNCLASSIFIED/OTHER	\$ 852,508.58	\$ 1,045,007.05	\$ 1,093,760.41	\$ 1,168,768.99	\$ 1,241,656.40
PUBLIC SAFETY	\$ 1,300,216.33	\$ 1,331,335.02	\$ 1,363,320.52	\$ 1,398,040.22	\$ 1,433,750.09
EDUCATION	\$ 5,426,871.96	\$ 5,682,397.62	\$ 5,950,330.47	\$ 6,231,524.59	\$ 6,526,370.12
<b>TOTAL</b>	<b>\$ 9,379,921.24</b>	<b>\$ 9,780,571.78</b>	<b>\$ 10,193,983.81</b>	<b>\$ 10,635,131.96</b>	<b>\$ 11,129,289.61</b>

# Budget Deficit Summary

- Revenues and expenditures determine the ability to deliver services; reducing the deficit without increase revenue equals the use of one time funds (not recommended) or a reduction in services/personnel
- The forecast continues to demonstrate a structural imbalance between current, available revenue and the cost of providing services.
- The deficit increases from \$315,498 in 2020 to \$1,011,334 in 2024.

# Budget Deficit – Revenue v. Expenditure



# Capital Plan

- Hubbardston received a Community Compact Grant in FY19 to study the town's capital needs and produce a new comprehensive five-year capital plan. This plan will be published in January.
- In future versions of this forecast, the capital plan will be included

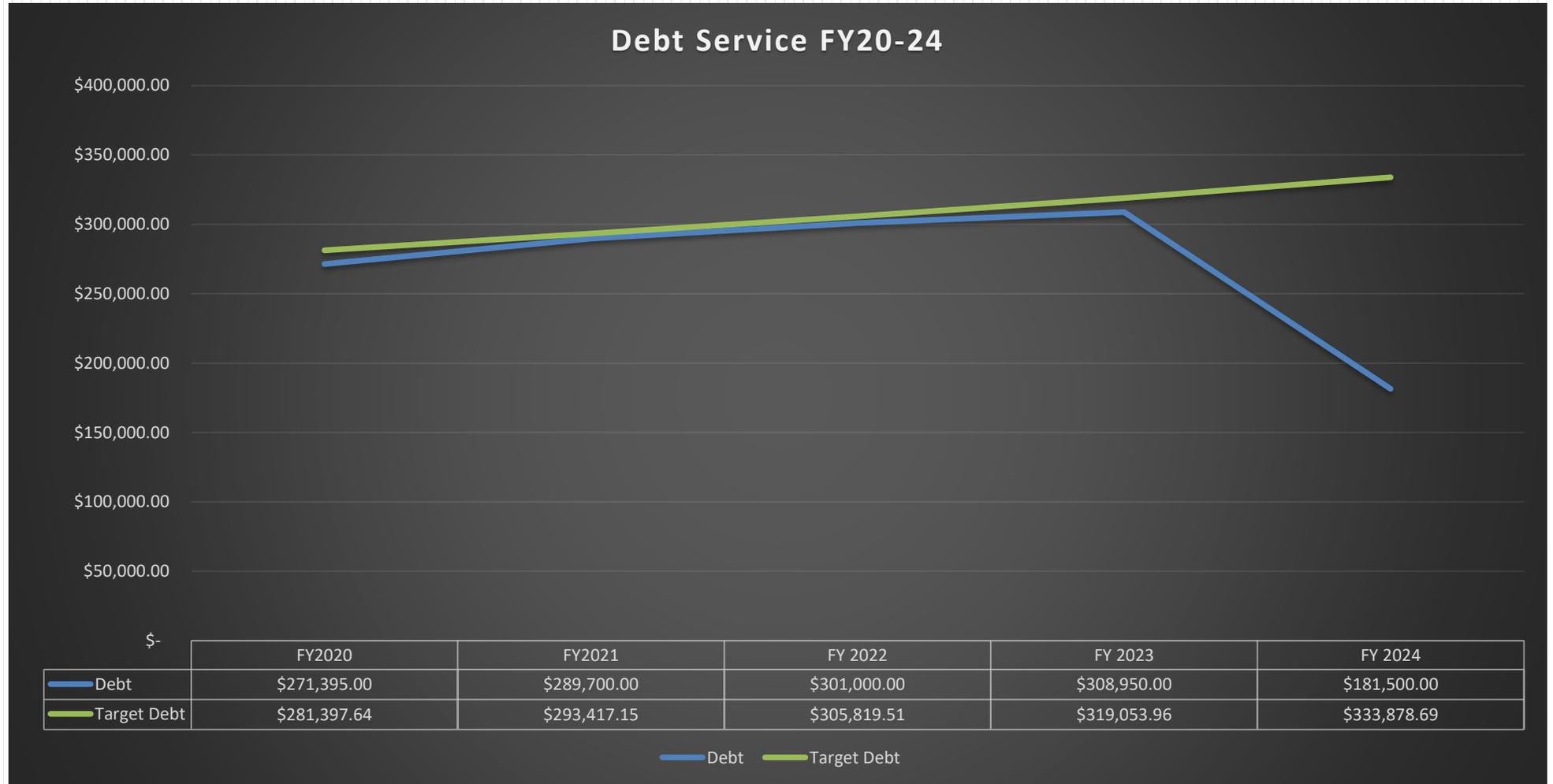
# Debt

- It is important to strike a balance with debt, using capacity to fund larger projects (need) while fighting the temptation to borrow for wants
- Current policy sets the debt target as 2-5% of the operating budget. Spending under this target limits the town's capacity to fund large capital projects. Spending over this target creates the potential for overleveraging an already stretched budget

Debt Management Policy

[https://www.hubbardstonma.us/sites/hubbardstonma/files/uploads/hubbardston\\_debt\\_management\\_policy\\_-\\_final.pdf](https://www.hubbardstonma.us/sites/hubbardstonma/files/uploads/hubbardston_debt_management_policy_-_final.pdf)

# Debt – Projections



# Reserves

- While not part of the operating budget, an analysis of the town's financial reserves is an important part of annual budget discussions
- Hubbardston's policy-driven reserve targets as a percentage of the annual operating budget are as follows:
  - Stabilization: 5%
  - Capital Stabilization: 1%
  - Free Cash 5%
  - **Total Reserves 11%**

## Financial Reserves Policy

[https://www.hubbardstonma.us/sites/hubbardstonma/files/uploads/hubbardston\\_financial\\_reserves\\_policy\\_-\\_final.pdf](https://www.hubbardstonma.us/sites/hubbardstonma/files/uploads/hubbardston_financial_reserves_policy_-_final.pdf)

# Reserve Summary

- Current stabilization reserves are 3.46% based on FY20 budget forecasts. This is on the low end of the DOR recommended 3-5 percent savings
- The municipal stabilization fund is higher than recommended levels (1%). This should be maintained in order to fund the five-year capital plan even when free cash numbers fall short of projections
- Free cash targets, generated by conservative revenue estimates and expenditure turn backs, allow for the following:
  - Flexible reserves
  - Pay as you go capital expenditure
  - Rainy day fund (operating budget during recession, revenue shortfalls)

# Current Reserves

Account	Current	FY20 Projected	Deficit
Stabilization	\$ 324,830.00	\$ 468,996.06	\$ (144,166.06)
Capital Stabilization	\$ 156,759.00	\$ 93,799.21	\$ 62,959.79

## Free Cash Targets

	FY20	FY21	FY22	FY22	FY22
Free Cash	\$ 468,996.06	\$ 489,028.59	\$ 509,699.19	\$ 531,756.60	\$ 556,464.48

## Total Reserves

	FY20	FY21	FY22	FY22	FY22
Total Reserves	\$ 1,031,791.34	\$ 1,075,862.90	\$ 1,121,338.22	\$ 1,169,864.52	\$ 1,224,221.86

# Budget Recommendations

- Continue improving relationships with the QRSD and other departments to help control budget growth and reduce the structural deficit
- Continue to develop a transparent budget process that allows residents to see projected and actual need
- Continue to explore ways to reduce budget deficit to include increasing new growth (economic development), exploring regionalization, reducing the budget and if possible, presenting a well defined operational override to Town Meeting
- Tie all budget decisions to forecasts, plans and policies, allowing for long-term decision making that improves bond ratings and financial flexibility

# Financial Forecast Summary

- Expenditures continue to grow faster than revenues, creating an unsustainable structural deficit that needs to be addressed
- While the town continues to explore potential budget cuts, there is limited room for future cuts short of personnel changes and service reduction
- Defining policies, to include the use of this forecast as a decision-making tool, allows for prioritized decisions about the town's future
- To avoid extensive budget cuts in FY20, a limited-growth budget is necessary.