

Hubbardston Financial Forecast

Town Administrator Ryan McLane
Fiscal Years 2021-2025



Summary

- This report is a useful decision-making tool applicable to the Board of Selectmen, Finance Committee and Hubbardston residents.
- While useful, a financial forecast is not an exact science, rather a model that uses logical assumptions 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

Topic Areas

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

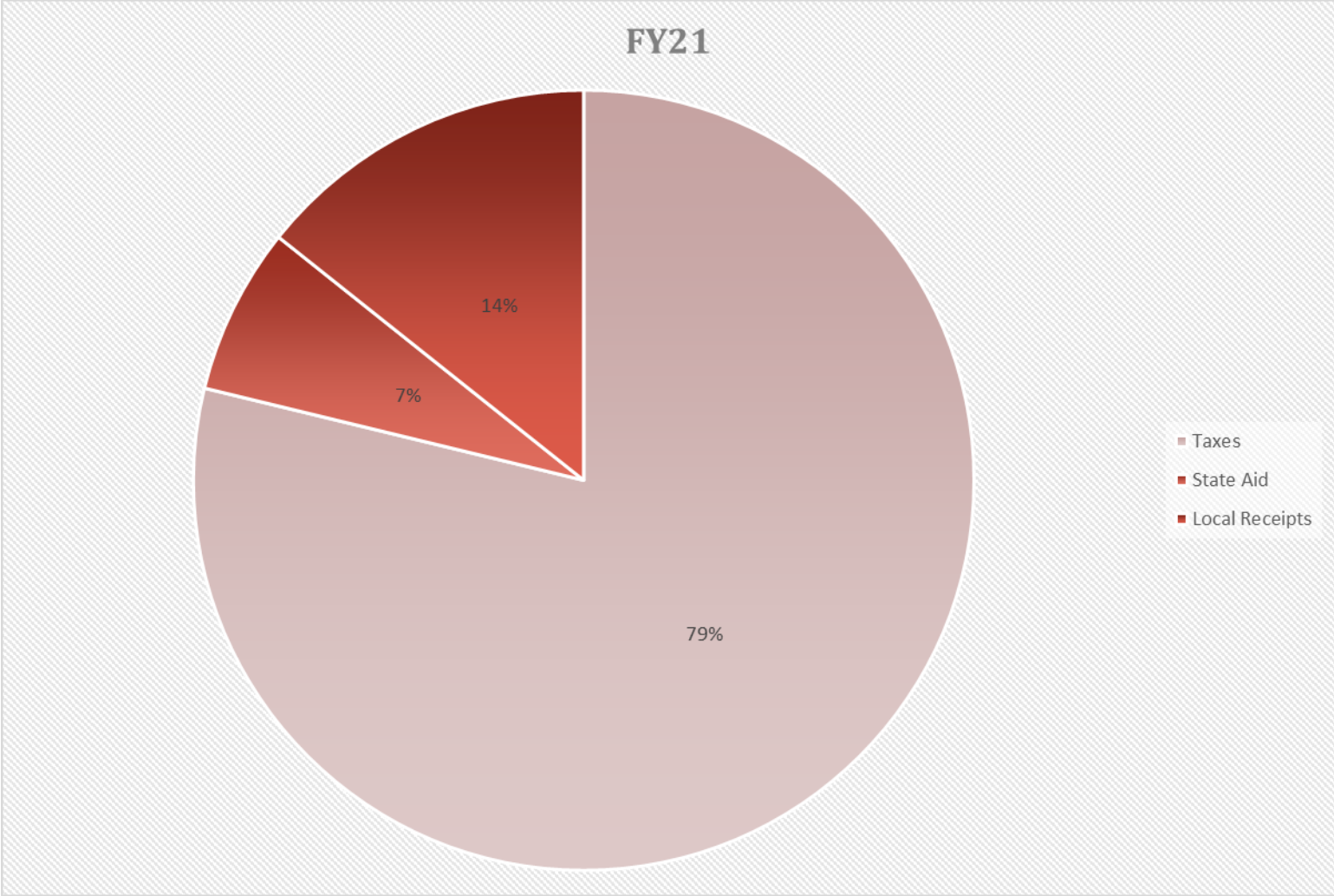
Methods

- This forecast gathered and analyzed data from FY11 to FY20. The forecasted revenues and expenditures are based on trends in addition to known changes and policy guidance from the Selectmen and FinCom.
- Although forecast assumptions rely primarily on 3, 5 and 10 year averages, outliers were removed to create a realistic financial picture
- These methods are intentionally conservative, creating a conservative baseline from which to build the FY21 budget

Revenue Summary

- Projected revenue growth comes primarily from the 2.5 percent tax increase allowed by Massachusetts General Law (MGL)
- New growth numbers are projected at \$50,000 per year in this model. This is a moderately conservative number given the 10 year average of Hubbardston new growth figures.
- This forecast more accurately projects local receipts, relying on averages and eliminating outliers to create more stable predictions.
- State aid has reliably increased in recent years, but cannot be depended on for forecasting purposes

FY21 Revenue Projections



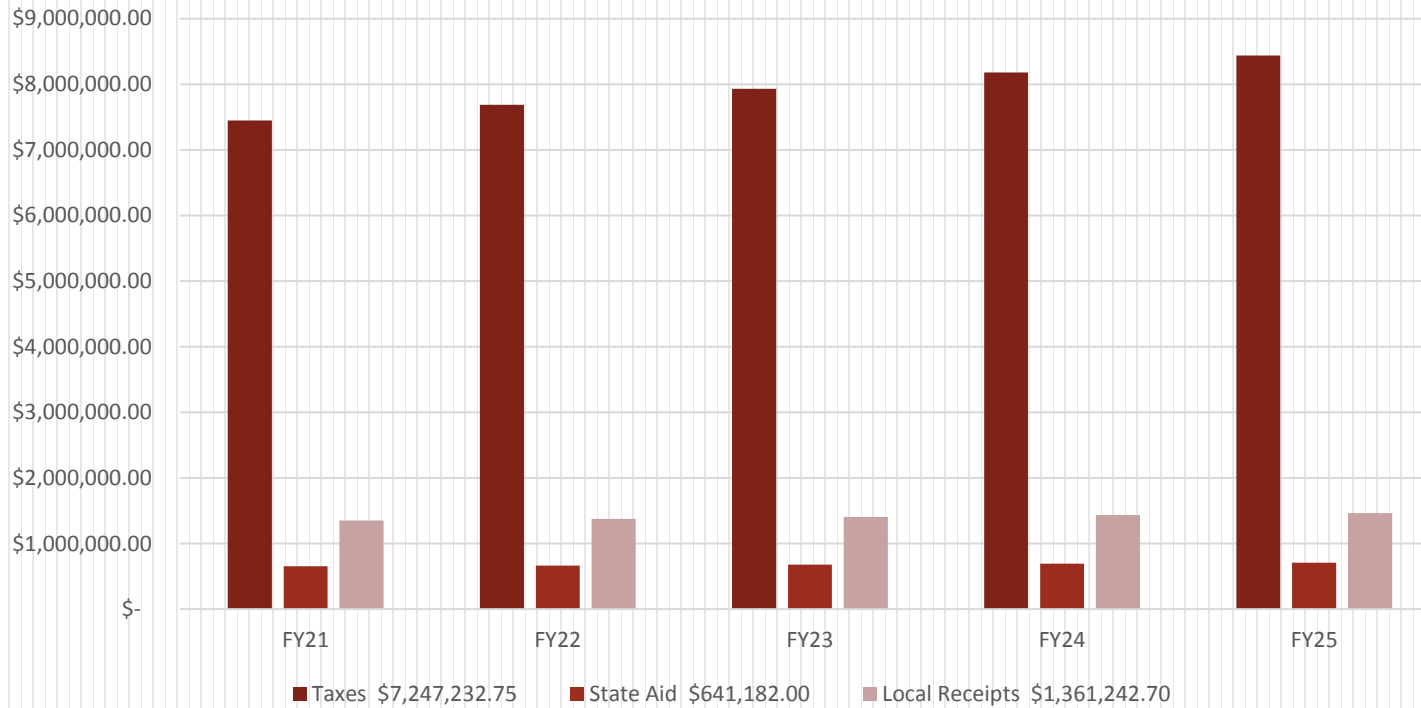
	FY20	FY21	
Taxes	\$ 7,247,232.75	\$ 7,449,288.57	2.71%
State Aid	\$ 641,182.00	\$ 653,939.97	1.95%
Local Receipts	\$ 1,361,242.70	\$ 1,350,760.24	-0.78%
Free Cash	\$ 100,000.00		
Total:	\$ 9,349,657.45	\$ 9,453,988.78	1.10%

Revenue Assumptions

- Revenue is conservatively estimated to increase as follows:
 - Tax Levy: 2.5% - based on MGL
 - Local Receipts: -1% - based on policy for FY21, 1 percent annually to follow
 - State Aid 2% - based on trend analysis
- Town financial policies have focused recently on accurately projecting local revenues and being conservative with estimates. This will continue to reduce available revenues until projections are aligned with policy.
- State aid continues to increase. 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

FY21-25 Revenue Projections



	FY21	FY22	FY23	FY24	FY25
Taxes	\$ 7,449,288.57	\$ 7,687,145.78	\$ 7,930,949.43	\$ 8,180,848.16	\$ 8,436,994.37
State Aid	\$ 653,939.97	\$ 666,952.44	\$ 680,224.50	\$ 693,761.33	\$ 707,568.22
Local Receipts	\$ 1,350,760.24	\$ 1,377,775.44	\$ 1,405,330.95	\$ 1,433,437.57	\$ 1,462,106.32
Free Cash					
Total:	\$ 9,453,988.78	\$ 9,731,873.67	\$ 10,016,504.88	\$ 10,308,047.07	\$ 10,606,668.91
% Increase		2.86%	2.84%	2.83%	2.82%

Expenditure Summary

- Education continues to be the primary driver of expenditure growth, making up 59% of the projected budget in FY20 and beyond. The QRSD comprises 52 percent of the budget and Monty Tech comprises 7 percent.
- While level funded budgets and growth control measures are limiting expenditures, there are few areas for large scale cuts, requiring careful allocation of additional revenues for schools and municipal spending.
- We will continue to look for regionalization efforts, but most opportunities are now exercised with most departments at maximum efficiencies

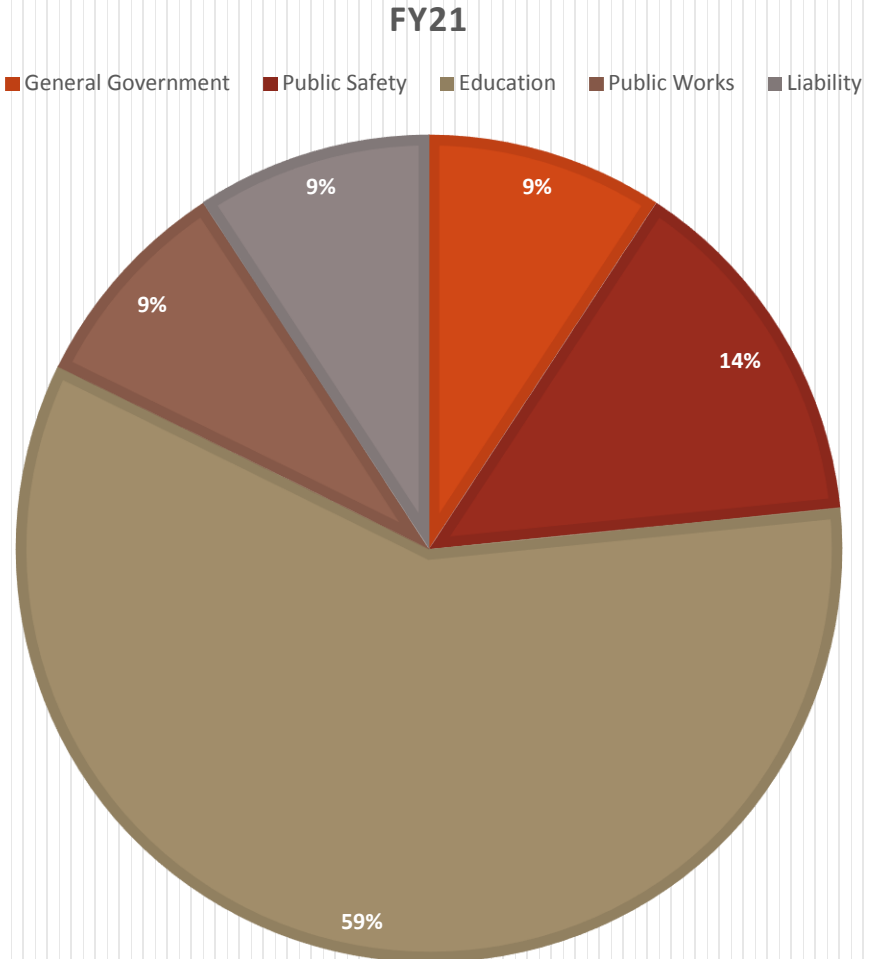
10-Year Look Back - Expenses

Monty Tech			Rutland Regional Dispatch			Quabbin		
FY10	\$ 259,356.00		FY10	\$ 80,000.00		FY10	\$ 3,300,000.00	
FY11	\$ 287,584.00	9.82%	FY11	\$ 85,000.00	5.88%	FY11	\$ 3,430,541.00	3.81%
FY12	\$ 309,380.00	7.05%	FY12	\$ 80,000.00	-6.25%	FY12	\$ 3,500,000.00	1.98%
FY13	\$ 350,635.00	11.77%	FY13	\$ 82,154.00	2.62%	FY13	\$ 3,547,421.00	1.34%
FY14	\$ 418,737.00	16.26%	FY14	\$ 84,440.00	2.71%	FY14	\$ 3,761,061.00	5.68%
FY15	\$ 471,062.00	11.11%	FY15	\$ 98,189.00	14.00%	FY15	\$ 3,961,061.00	5.05%
FY16	\$ 513,838.00	8.32%	FY16	\$ 106,495.00	7.80%	FY16	\$ 4,034,784.00	1.83%
FY17	\$ 609,993.00	15.76%	FY17	\$ 128,000.00	16.80%	FY17	\$ 4,274,783.00	5.61%
FY18	\$ 665,027.00	8.28%	FY18	\$ 126,584.00	-1.12%	FY18	\$ 4,323,137.00	1.12%
FY19	\$ 654,389.00	-1.63%	FY19	\$ 134,000.00	5.53%	FY19	\$ 4,470,046.00	3.29%
FY20	\$ 649,021.00	-0.83%	FY20	\$ 127,000.00	-5.51%	FY20	\$ 4,751,988.00	5.93%
Three Year		1.94%	Three Year		-0.37%	Three Year		3.45%
Five Year		5.98%	Five Year		4.70%	Five Year		3.56%
10 Year		8.59%	10 Year		4.25%	10 Year		3.56%
	Estimate	5.50%		Estimate	2.86%		Estimate	3.52%
General Insurance			Retirement					
FY10	\$ 100,000.00		FY10	\$ 145,000.00				
FY11	\$ 109,921.00	9.03%	FY11	\$ 154,046.00	5.87%			
FY12	\$ 109,000.00	-0.84%	FY12	\$ 160,000.00	3.72%			
FY13	\$ 104,921.00	-3.89%	FY13	\$ 166,794.00	4.07%			
FY14	\$ 89,921.00	-16.68%	FY14	\$ 152,121.00	-9.65%			
FY15	\$ 118,133.00	23.88%	FY15	\$ 151,350.00	-0.51%			
FY16	\$ 137,500.00	14.09%	FY16	\$ 200,440.00	24.49%			
FY17	\$ 128,000.00	-7.42%	FY17	\$ 209,870.00	4.49%			
FY18	\$ 140,000.00	8.57%	FY18	\$ 238,741.00	12.09%			
FY19	\$ 110,000.00	-27.27%	FY19	\$ 260,487.00	8.35%			
FY20	\$ 117,000.00	5.98%	FY20	\$ 255,716.00	-1.87%			
Three Year		-4.24%	Three Year		6.19%			
Five Year		-1.21%	Five Year		9.51%			
10 Year		0.54%	10 Year		5.11%			
	Estimate	-1.64%		Estimate	6.94%			

Expenditure Assumptions

- Trend analysis indicates the following increases by category:
 - Personnel 3.5%
 - Employee Support 3.5%
 - QRSD 6%
 - Monty Tech 6%
 - Health Insurance 6%
 - Retirement 7%
 - Insurance 6%
 - Expenses 2.5%
 - Supplies 2.5%
 - Snow and Ice 2.5%
- Estimates are based on recent trends compared to 3, 5 and 10 year averages.
- Even with annual direction to level fund the budget, expenditures are rising faster than revenue with most costs contractually/legally obligated

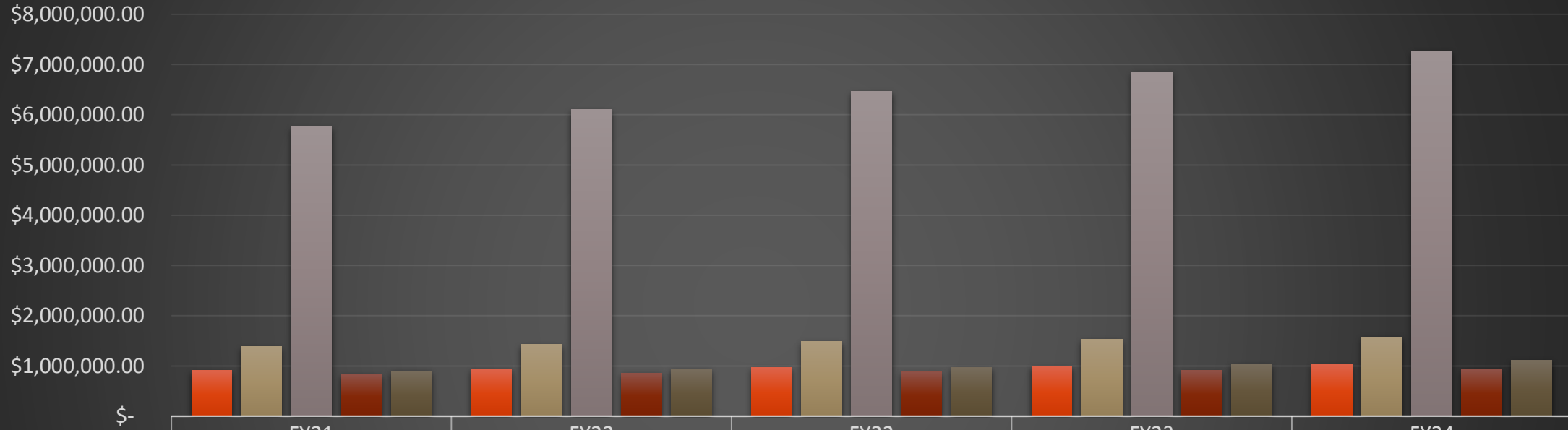
FY21 Expenditure Projections



Expenditures		FY21
General Government	\$	904,368.46
Public Safety	\$	1,386,604.77
Education	\$	5,756,957.29
Public Works	\$	833,743.39
Liability	\$	902,292.40
Total	\$	9,783,966.30

Expenditure Forecast - Total

Expenditure Forecast



	FY21	FY22	FY22	FY23	FY24
General Government	\$904,368.46	\$936,807.12	\$970,067.26	\$999,135.80	\$1,029,038.27
Public Safety	\$1,386,604.77	\$1,432,467.81	\$1,479,866.04	\$1,528,851.38	\$1,579,477.49
Education	\$5,756,957.29	\$6,101,258.66	\$6,466,190.20	\$6,852,989.04	\$7,262,966.50
Public Works	\$833,743.39	\$858,133.67	\$883,257.84	\$909,138.59	\$935,799.35
Liability	\$902,292.40	\$928,819.14	\$969,917.66	\$1,041,848.23	\$1,106,481.65

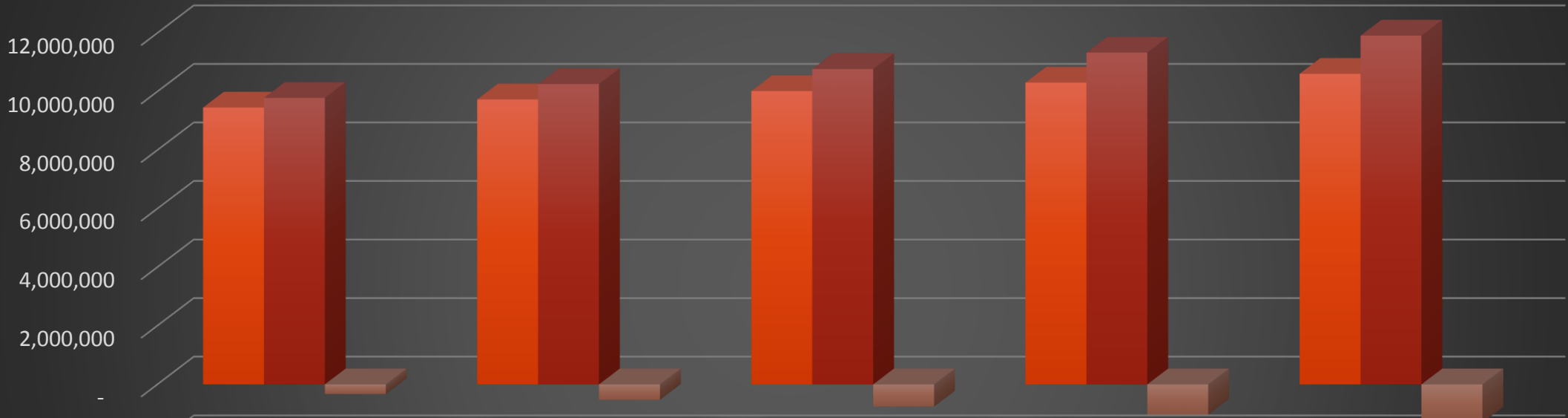
■ General Government
 ■ Public Safety
 ■ Education
 ■ Public Works
 ■ Liability

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 \$329,978 in 2021 to \$1,307,094 in 2025.

Budget Deficit – Revenue v. Expenditure

Five Year Forecast



	FY2021	FY2022	FY2023	FY2024	FY2025
Revenue	9,453,989	9,731,874	10,016,505	10,308,047	10,606,669
Expense	9,783,966	10,257,486	10,769,299	11,331,963	11,913,763
Deficit	(329,978)	(525,613)	(752,794)	(1,023,916)	(1,307,094)

Revenue Expense Deficit

Debt

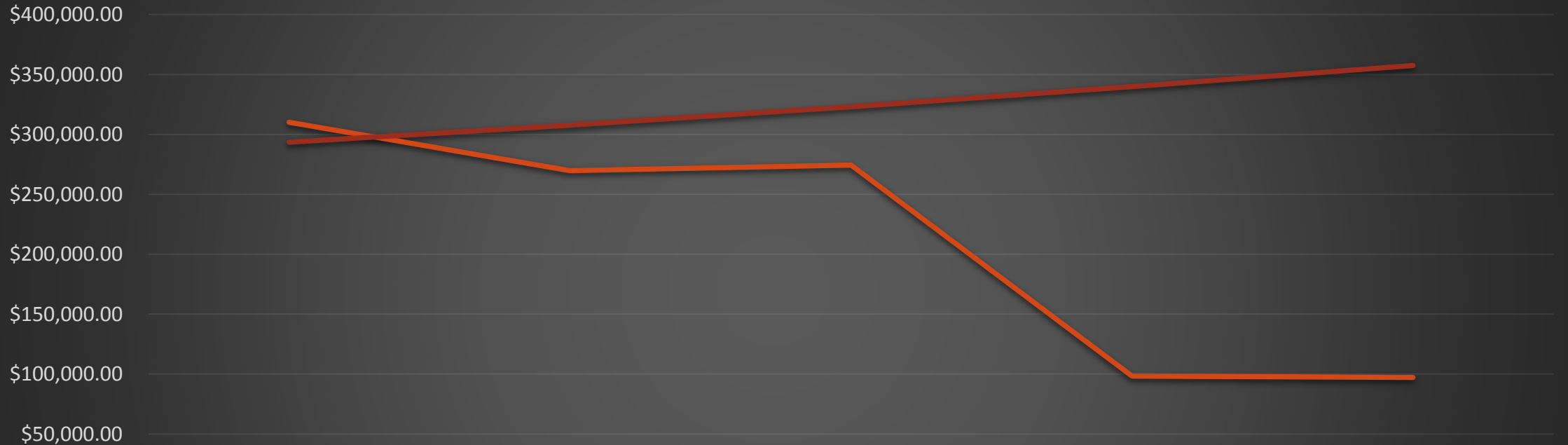
- It is important to strike a balance with debt, using capacity to fund larger projects (need) while fighting the temptation to borrow for wants
- Current policy sets the debt target as 2-5% of the operating budget. Spending under this target limits the town's capacity to fund large capital projects.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

Debt – Projections

Debt Service FY21-25



	FY21	FY22	FY23	FY24	FY25
Total Debt	\$310,087.75	\$269,684.94	\$274,452.07	\$98,339.62	\$97,198.11
Target	\$293,518.99	\$307,724.59	\$323,078.97	\$339,958.89	\$357,412.90

— Total Debt — Target

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

Reserve Summary

- Current stabilization reserves are 4.26% based on FY21 budget forecasts. This is short of the town's goal, but within DOR best practices of 3-5%. With projected increases, the town must continue to save money in order to maintain an adequate amount of reserves.
- The municipal stabilization fund is lower than recommended levels due to usage in the FY20 capital budget and funding the Center School Roof Feasibility Study. This should be addressed once the stabilization fund is at 5% of the operating budget.
- 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

	FY21	FY22	FY23	FY24	FY25
Stabilization Target	\$ 489,198.32	\$ 512,874.32	\$ 538,464.95	\$ 566,598.15	\$ 595,688.16
Actual	\$ 416,354.00	\$ 416,354.00	\$ 416,354.00	\$ 416,354.00	\$ 416,354.00
%	4.26%	4.06%	3.87%	3.67%	3.49%
Capital Stabilization Target	\$ 97,839.66	\$ 102,574.86	\$ 107,692.99	\$ 113,319.63	\$ 119,137.63
Actual	\$ 44,170.00	\$ 44,170.00	\$ 44,170.00	\$ 44,170.00	\$ 44,170.00
%	0.45%	0.43%	0.41%	0.39%	0.37%
Free Cash Target	\$ 489,198.32	\$ 512,874.32	\$ 538,464.95	\$ 566,598.15	\$ 595,688.16
Actual/Projected	\$ 545,743.00	\$ 538,518.04	\$ 565,388.20	\$ 594,928.06	\$ 625,472.57
%	5.58%	5.25%	5.25%	5.25%	5.25%
Reserve Target	\$ 1,076,236.29	\$ 1,128,323.50	\$ 1,184,622.89	\$ 1,246,515.94	\$ 1,310,513.96
Actual/Projected	\$ 1,006,267.00	\$ 999,042.04	\$ 1,025,912.20	\$ 1,055,452.06	\$ 1,085,996.57
%	10.28%	9.74%	9.53%	9.31%	9.12%

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 reductions
- 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 FY21, a limited-growth budget is necessary