

Grafton State of the Town Message  
May 8, 2017  
Finance Committee  
Chairperson, Edward A. Prisby

**I. Introduction**

Town government works in the shadow of proposition 2.5. Local government is both enhanced by its mandate for efficiency, and hindered by its artificial constraint on income that is divorced from the reality of yearly cost increases. It is in this context that Finance Committee is proud to present to you a balanced FY2018 balanced budget, which accounts for both Grafton's growing demand for services, and Grafton's annual income.

As has been said, a budget is merely a reflection of your values and priorities. So then, please allow us to present to you a reflection of our town's values and priorities for fiscal year 2018.

**II. Values and Priorities**

This year's total budget of **\$58,758,324**, represents an increase of **3.5%** over last year's town budget. This represents approximately \$1.9 million dollars of new revenue, of which \$1.3M is dedicated to the Grafton Public Schools.

Additionally, Grafton has proposed spending **\$846,194.00** on capital items identified by the town administrator and the Capital Planning and Improvement Committee, and proposes transferring this amount from Free Cash in addition to funds still existing in articles, totaling \$74,000.

Unfortunately, due in part to unforeseen and unexpected healthcare cost increases in the amount of **\$319,515**, Grafton will not be contributing additional funds to our Stabilization account, instead drawing on free cash reserves to partially cover the health insurance increase, which is an operating cost.

Schools

After we passed the 2014 override, the Board of Selectmen informally agreed with the School Committee that the school budget would increase at 5.25% per year moving forward. This rate of increase was less than the higher annual increases previously received by the school committee, and was designed to allow the override funds to maintain until fiscal year 2020, while maintain the quality of Grafton Public Schools.

In fiscal year '18, the school budget only will increase by 4.1%, despite our previous agreement. This is because the cost of healthcare for the Town of Grafton under the GIC increase by 6.3%, which was a larger than expected increase. Schools are being asked to absorb a portion of this cost increase.

## Town

Within the municipal center, the Town has restricted non-union salary growth to 2% to accommodate for proposition 2.5, and has chosen not to hire a new assistant town administrator this year, instead consolidating those responsibilities within pre-existing positions. The position of Assistant Town Administrator may be filled at a later time.

## Long Term Capital Projects – the Library and the Department of Public Works facility

The Finance Committee has voted favorably on two debt-exclusion warrant article to fund the DPW facility and the library, with approval for the library contingent upon receipt of a grant from the state covering costs up to 45.5%. Finance Committee believes that both projects are necessary, and that putting them off would only serve to increase costs later, which would ultimately waste tomorrow's dollars today.

### **III. Financial Trends**

The Finance Committee's goal in the budget process is to identify both positive and negative financial trends in the town, and provide Grafton voters with the information that they need to make informed financial decisions for the town.

Those trends include: 1. Immediate financial status; 2. Long term financial projections; 3. our per capita revenue; 4. Economic growth; 5. our reliance on one-time revenues to balance our budget; 6. Growth of employee benefits as a percentage of wages; 7. Growth of our unfunded (OPEB) liabilities; 8. Level of our cash reserves; and 9. Reliance on state aid.

#### Present Financial Status

As of now, Grafton is in favorable financial condition. We have presented a balanced \$58,758,324 budget that funds our operational and immediate capital needs. Grafton has reported over \$851 million dollars in reportable income to the Massachusetts Department of Revenue.

Our unemployment rate is 2.5%.

Our average single family tax bill for FY17 was \$5,978, which compares favorably to comparable communities. Our single tax rate is \$16.40.

Our average single family home value as of 2016 was \$364,531.

We have a bond rating of AA+, one step down from the maximum AAA rating.

## Long Term Financial Projections

Our long term financial projections, however, are not favorable.

The Town Administrator has put together a long term financial forecast that takes into account already existing obligations, such as police and teacher contracts. The forecast assumes \$1 million dollars in FY 2020 and 2021 in new growth from development along Route 30 and only 4% annual school growth. *If* we limit school growth from 5.25 % to 4%, which is the amount the school committee has said it needs just to open the doors, and *if* we receive increased state aid *and* c.70 aid increases to \$55 per pupil, up from \$20 per pupil, Grafton will experience no budget shortfall in the coming years.

*If*, however, economic trends remain consistent, Grafton will experience a revenue shortfall and be unable to meet its present needs by FY2020. Recently, for example, annual growth has been \$450,000. The school budget since the 2014 override has grown at 5.25% to maintain the status quo and quality of our program. If we assume level growth and 5.25% school-side spending, our projected deficit for FY 20 could be over two million dollars.

Because each year Grafton must balance its budget, in order to maintain even its present level of services past 2020, the town will need to see significant new revenue either from economic growth or another increase in our levy limit.

## Per Capita Revenue

Grafton's trend in per capita and household income continues to be favorable. Grafton's income per household has risen to \$92,724, and Grafton's per capita income continues to trend up from \$38,800 ten years ago to over \$47,000 today.

## Economic Growth

Grafton's economic growth, while it contributes to our tax base favorably, continues to exhibit flat annual growth below two percent, and since 2009, has made up approximately 9% of the town's total value.

Grafton should continue to emphasize economic growth as a means of supplementing its residential tax burden. As demonstrated in tonight's warrant, the Town is actively working to develop the Route 30 corridor, which potentially could bring in millions of dollars in new revenue to the town.

## Reliance on one-time revenue in operating budget

Grafton traditionally, and wisely, refrains from using one-time revenue such as free cash for on-going operational expenses. As a percent of our operational expenditures, one-time funds make up only .51% of the budget, which is well within acceptable parameters.

However, the use of one-time funds to pay for health insurance costs this year is notable. After paying for our capital projects, this health insurance cost, and other items, we will have approximately \$550,000, down over \$1.4 million dollars from last year. \$550,000 would represent an historic low in free cash over the past decade.

#### Growth of Benefits as a percentage of employee income

It is no secret that the rising cost of healthcare has contributed to enormous strain on municipal budgets around the Commonwealth. Grafton is no exception. Despite the rising cost of healthcare, the percentage cost of health benefits in employee compensation in Grafton remains level at approximately 13%.

#### OPEB Liability Growth

Our outstanding OPEB liability remains a concern. Although we contribute to reducing this amount annually, the outstanding obligation is valued at over \$30M. Grafton needs a better solution to mitigating this continuing liability.

#### Cash Reserves Level

Grafton's cash reserve level in stabilization is favorable, at approximately 7% of the town budget, which is recommended. Keeping stabilization funds at between 5-10% of our annual budget allows us to maintain a favorable rating with credit bureaus, which reduces our long term borrowing costs, saving the town money. It should be noted, however, the Grafton will not contribute to stabilization this year from free cash. Grafton leaders should take care to contribute to stabilization in the future.

#### State Aid

State aid to Grafton is less favorable than it once was. Since the 2008 recession, state aid has decreased as a percentage of our operating budget from a high of 27%, to approximately 22% now. That represents a decrease in aid of almost \$2.8M annually. As you can see from our long term projections, that income is sorely missed.

This also comes at a time we've seen a dramatic increase in Grafton's state-mandated costs in education over the past five years. Not only are we getting less money from Beacon Hill as a percentage of our spending, but we're spending more due to mandates from Beacon Hill.

### **IV. Conclusion**

In conclusion, Grafton presents a balanced FY18 budget, maintains a AA+ bond rating, and our ability to provide quality town services is strong at present. Grafton leaders, however, must continue to vigilantly monitor these economic indicators as we move forward, to maintain our ability to provide our present level of services. Where several

of our financial indicators present as “unfavorable”, Grafton may soon be forced to make difficult choices to maintain its current level of services, beyond FY18.

The Finance Committee would like to thank Susan Fiacco, Tim McInerney, Rebecca Meekins, Anita Patel, the School Committee, Jay Cummings, Dan Gale and the Selectmen for their work in collaborating on this annual message.