

# Lenox Long Term Financial Plan

## Finance Committee

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# This Presentation

- General underlying factors
- Opportunities and challenges particular to Lenox
- Debts and liabilities to manage around
- 10 year projection of recurring revenues and expenses
- Capital requests
- Recommendations

# Some Fixed Points for Planning

- Small town with full array of services to support
  - 5,191 residents; 3,538 registered voters, 3,001 taxable parcels<sup>1</sup>
    - 2,100 town water; 1,500 town sewer <sup>2</sup>
  - 2011 school enrollment -804<sup>1</sup> (568 town residents)
  - 192 active employees, 142 retired <sup>2</sup>
- Berkshire County population declining<sup>3</sup>
  - Most growth 55+
  - Biggest decline 25-44 and school age (1-16)
- State and federal funding – flat at best

1. 2011 Town Annual Report 2. Town Manager – October 2012 3. Labor Market Trends in the Berkshire Region, A Joint Project of the Commonwealth Corporation and The New England Public Policy Center of the Federal Reserve Bank of Boston

# Particular Lenox Characteristics to Consider

- Many pluses :
  - Cultural offerings, history, landscape – supports tourism as well as attracting new residents particularly non- geography bound businesses and retirees
  - Excellent schools
- Major challenge – continuing to offer competitive property tax vs. cost trends
  - Cost drivers: personnel, debt service, capital costs
  - Vs. similar towns<sup>1</sup>
    - Debt higher as a % revenue
    - School age population smaller % total population and cost per pupil higher
  - Local taxes vs state<sup>2</sup> , county
    - Mil rates competitive but average tax paid somewhat higher
    - Other Berkshire communities may be becoming more conservative in raising rates
    - Consider issues of use vs. taxes/fees – commercial vs residential mil rates; town water, sewer vs. no

1. Pioneer Public Policy Institute, Guide to Sound Fiscal Management for Municipalities, July 1, 2012 2. Massachusetts Department of Revenue, Division of Local Services Municipal Databank/ Local Aid Section 2010

# Borrowing

Borrowing for	Remaining \$(MM) Debt	2013 Payment \$(000)	Year Paid Off
Water Source Funding	1.5	344	2015
Morris	1.0	383	2015
LMHS	3.0	661	2016
Sewer New Lenox Pump St.	4.5	267	2017
Town Hall	0.5	75	2017
DPW	2.3	366	2018
Bartoni Property	0.6	131	2018
Reservoir Repair	1.5	134	2022
Library	1.6	135	2023
Sewer System	4.1	142	2028
Water System	1.6	98	2028
<b>TOTAL</b>	<b>22.2MM</b>	<b>2,734M</b>	

# Long Term Liability Situation

- Current borrowing ~\$22MM, current payments ~\$2.7MM/ year
- Debt payments decline by ~ \$1.5MM/year by 2017 (also lose ~\$1MM in state support)
  - If continue to spend \$2.7MM/ year after 2017, could add ~\$20MM in new borrowing<sup>1</sup>
- Liability for retiree health insurance \$2MM<sup>2</sup> as of 2012 vs. \$200M presently funded
  - Roche plan + other funding = \$3.4MM in reserve by 2023

1. Assumes \$70,000 in debt service can support \$1M of borrowing for 15 years. 2. Segal Company, Actuarial Study August 30, 2011

# Key Recurring Rev. and Exp. Assumptions

Rate of Change	2010-2012	2013-2023	Alternatives and Comments
<b>Revenue</b>	<b>0.5%</b>	<b>2.0%</b>	
Property tax	2.5%	2.5%	Also 2% increase
Water, Sewer Rev.	5.0%	5.0%	Also 10% increase
Hotel, Meal	39%	3.5%	(2010-2012 reflects start up)
<b>Expense</b>	<b>1.5%</b>	<b>2.8%</b>	Also \$250,000 - \$750,000/year reductions
School	2.5%	3.0%	
Water and Sewer	7.0%	5.0%	
DPW	-5%	2.5%	
Fire and Safety	NC	2.5%	
General Govt.	-2%	2.0%	
Debt and capital	-	-	Solve for amount made available

*\*\$1,074,000 in school debt service paid off by 2017 but state aid reduced by like amount*

# Alternative Projections 2013-23

Assumption	Recurring Revenue (\$MM – 10 yr. cum.)	Recurring Expense (\$MM – 10 yr. cum.)	10 Year Accumulation for Debt and Capital* \$MM
Base Case - 2010-2012 (see prior slide)	285	222	39
<i>Alternatives</i>			
A. Property tax limited to 2% inc	279	222	33
B. Enterprise revenue to 10% inc.	297	222	51
C. Expense reductions - \$250M in 2016 rising to \$750M by 2020	285	217	43
<i>Combined alternatives</i>	294	217	52

\*After deducting \$6MM in reserves and \$18MM for debt already incurred

# Capital Requests\*

	1. Already Committed Through 2017	2. Additional Requested	3. Total As Requested 2013-2023	4. Potential Adjusted Request	Potential Adjusted Total 2013-2023 (1 + 4)
Sewer	9.7	20.3	30.0	13.3	23.0
Water	7.0	29.9	36.9	18.0	25.0
DPW	9.9	15.8	26.0	9.0	18.9
Police and Fire	1.0	10.0	11.0	1.0	2.0
School	2.1	0	2.1	0	2.1
Other	0.8	0.9	1.7	0.9	1.7
<b>TOTAL</b>	<b>30.5</b>	<b>76.6</b>	<b>107.1</b>	<b>42.2</b>	<b>72.7</b>

\*from Aug.-Sept. presentations to Board of Selectmen and follow up discussions with Jeff Vincent

# So What's the Plan for the 10 Year Plan?

- Stretch out/ reduce capital investment by ~\$34MM over 10 year period (from \$107MM to \$73MM)
- Right size expenditure to more closely track population growth
- Remain competitive and distribute added costs fairly
  - Hold property tax rate of increase to 2%
  - Raise water, sewer charges by 10%/ year
- Fund bulk of capital costs from cash flow; borrow additional \$10MM as of 2016 and another \$10MM by 2023

# How to Make it Happen

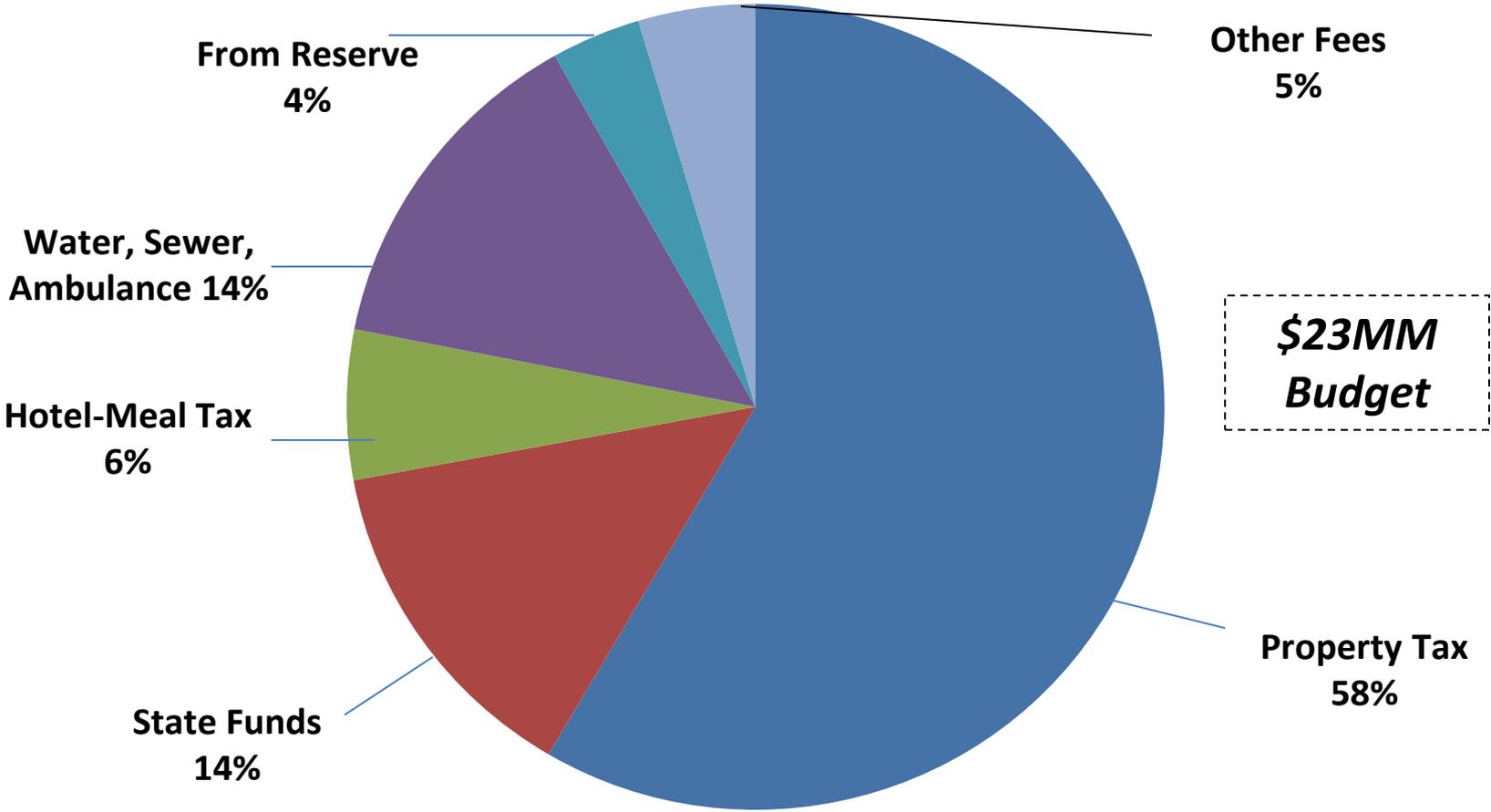
- Revisit capital budget in out years – re-activate capital committee
- Agree (or not) to recommendations and communicate to other committees and general public
- Implement Roche agreement and rest of OPEB reserve plan
- Reconsider health plans – aim for \$100M/ year in savings starting in 2015
- Target \$750,000 in expense reduction by year 5 (2017) : Regionalize, rationalize, privatize, i.e.
  - Review cost of choice
  - Re-visit recent staff additions
  - Regionalization of fire, safety, DPW, water and sewer, schools (at least some services) – start immediately
  - Implement shared services study on combining school and town financial operations; seek other efficiencies
- Step up transparency and efficiency of financial reporting and analysis
- And – for what it's worth – lobby for state, federal funding

# Extras

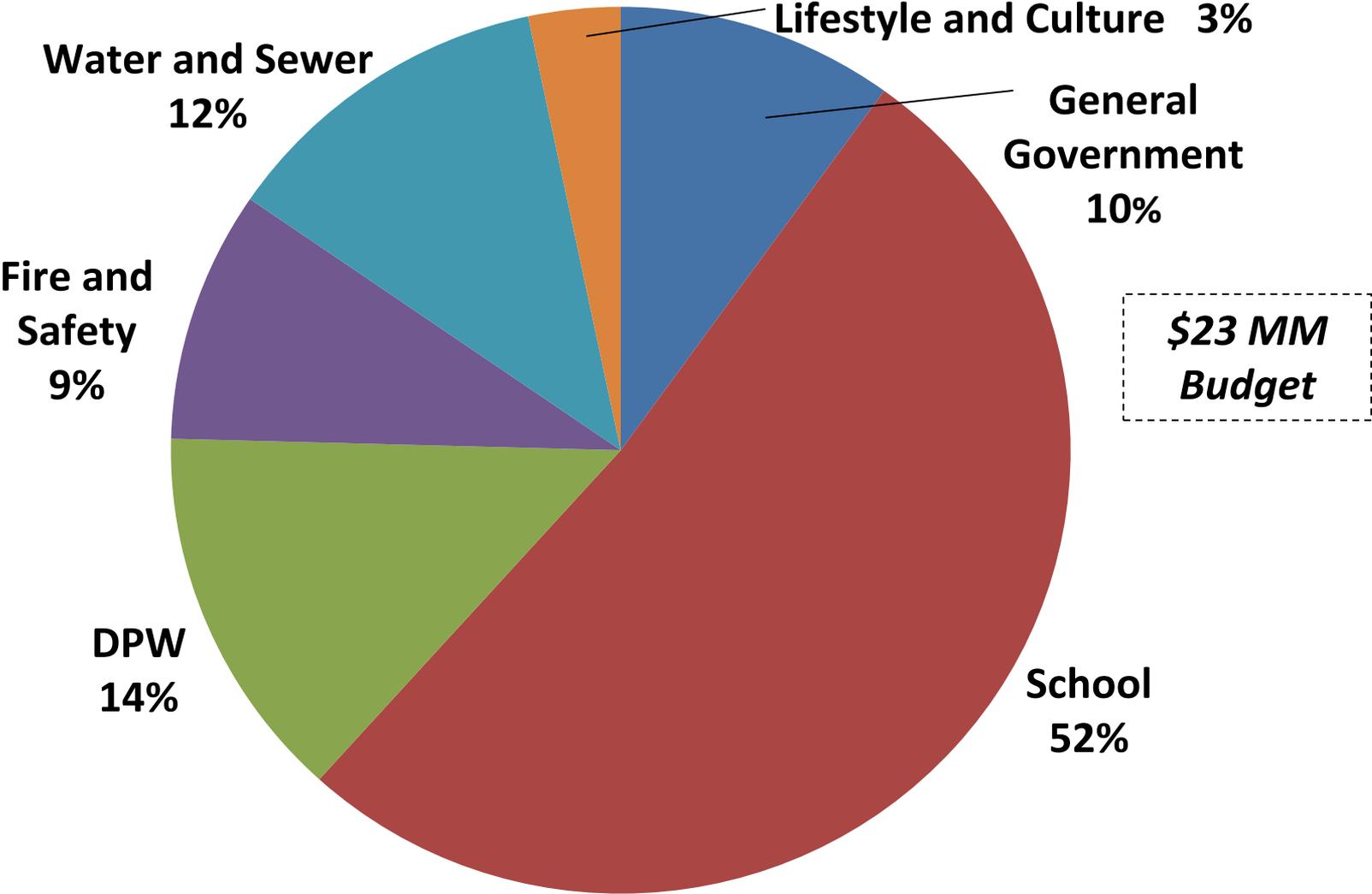
# Revenue and Expense Drivers

- Revenue
  - Fixed - Property tax – increased capped at 2.5% ; state? Assume flat; inbound school choice \$5,000 per
  - Variable – Water and sewer (+5% 2011-2013), hotel and meals (+x 2011-2012), other fees
- Expenses
  - Fixed – debt service (12 % of 2012 Total)
  - Limited control of increases – benefits, supplies (mostly fuel), and utilities (21% of 2012 Total)
  - Largest source of expense (direct personnel – 43%) – level of compensation and benefits controlled by contract for most

# Property Taxes Biggest Revenue Source



# Largest % Expense Budget = Schools



# Across Departments – Capital, Debt Service Costs and Personnel Dominate

