

# Town of Upton Financial Presentation

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Town Accountant  
09/19/2018

# Agenda

- 2.1.1.1 Proposition 2 ½ Primer
- 2.1.1.2 Tax Recapitulation
- 2.1.1.3 Excess Tax Levy capacity of \$100k from fiscal year 2017
- 2.1.1.4 Free Cash
- 2.1.1.5 Major Capital Considerations
- 2.1.1.6 Debt Service falling off the next 7 years
- 2.1.1.7 Other Post Employments Benefits (OPEB)

# Proposition 2 ½ Primer

- Proposition 2 ½ enacted in 1980
- Barbara Anderson, author of Prop 2 ½ passed away in 2016
- The Division of Local Services has developed a primer guide to assist local officials
- Primer guide can be overwhelming at first glance
- Try to understand a new concept each time
- What is a Levy?

## What is a Levy?

The property tax levy is the revenue a community can raise through real and personal property taxes. We will refer to the property tax levy simply as the **levy**. In Massachusetts, municipal revenues to support local spending for schools, public safety and other public services are raised through the property tax levy, state aid, local receipts and other sources. The property tax levy is the largest source of revenue for most cities and towns.

- Property Tax (RE & PPT) revenue raised for a particular fiscal year. Largest revenue source – FY2018 - \$19.8MIL - 76%

# Proposition 2 1/2 Primer – Cont.

- **What is the levy ceiling? What is a Levy limit?**
- Proposition 2 1/2 places constraints on the amount of the levy raised by a city or town and on how much the levy can be increased from year to year.
- A levy limit is a restriction on the amount of property taxes a community can levy. Proposition 2 1/2 established two types of levy limits:
- First, a community cannot levy more than 2.5 percent of the total full and fair cash value of all taxable real and personal property in the community. In this primer we will refer to the full and fair cash value limit as the levy ceiling.
- Second, a community's levy is also constrained in that it can only increase by a certain amount from year to year. We will refer to the maximum amount a community can levy in a given year as the levy limit. The levy limit will always be below, or at most, equal to the levy ceiling. The levy limit may not exceed the levy ceiling.

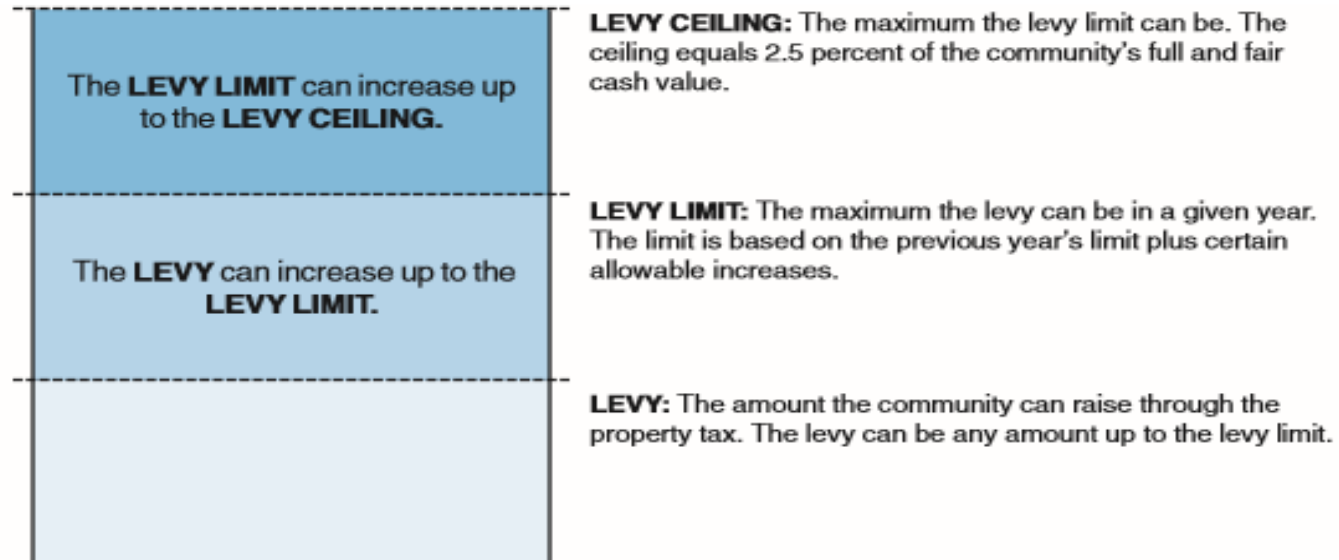
# Proposition 2 1/2 Primer – Cont.

- How is a Levy Ceiling Calculated?

The levy ceiling is determined by calculating 2.5 percent of the total full and fair cash value of taxable real and personal property in the community:

$$\begin{aligned} \text{Full and Fair Cash Value} \times 2.5\% &= \text{LEVY CEILING} \\ \text{Full and Fair Cash Value} &= \$100,000,000 \\ \$100,000,000 \times 2.5\% &= \$2,500,000 \end{aligned}$$

In this example, the levy ceiling is \$2,500,000.



# Proposition 2 ½ Primer – Cont.

- **How is a Levy Limit increased?**
- The levy limit is increased from year to year as long as it remains below the levy ceiling. Permanent increases in the levy limit result from the following:
- Automatic 2.5 percent increase. Each year, a community's levy limit automatically increases by 2.5 percent over the previous year's levy limit. This does not require any action on the part of local officials; the Department of Revenue calculates this increase automatically.
- New Growth. A community is able to increase its levy limit each year to reflect new growth in the tax base. Assessors are required to submit information on growth in the tax base for approval by the Department of Revenue as part of the tax rate setting process.
- Overrides. A community can permanently increase its levy limit by successfully voting an override. **The amount of the override becomes a permanent part of the levy limit base. FY2016 - \$1.39M**

# Proposition 2 1/2 Primer – Cont.

- Levy Limit is recalculated every fiscal year

In summary, the levy limit can increase from year to year in these ways: automatic 2.5 percent increase, new growth and overrides. Once the levy limit is increased in any of these ways, the increased levy limit amount becomes the base upon which levy limits are calculated for future years. See *Figure 3*.

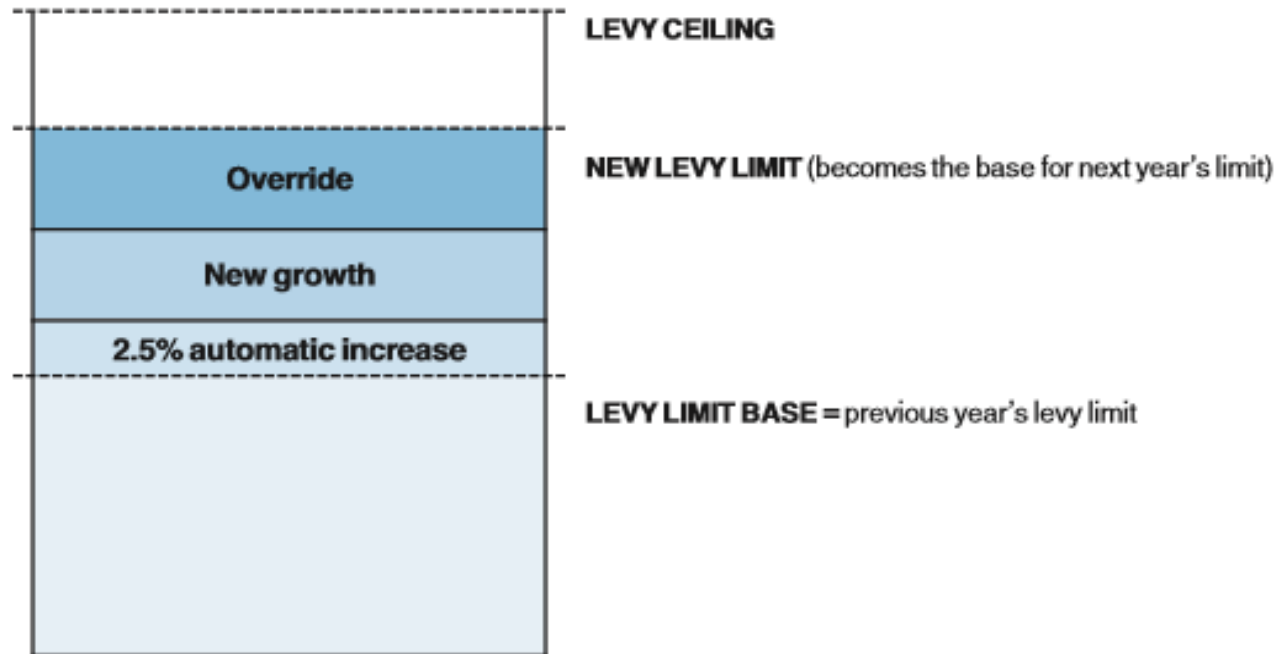


Figure 3

# Proposition 2 1/2 Primer – Cont.

- **What is New Growth?**
- Proposition 2 1/2 allows a community to increase its levy limit annually by an amount based on the increased value of new development and other growth in the tax base that is not the result of revaluation. The purpose of this provision is to recognize that new development results in additional municipal costs; for instance, the construction of a new housing development may result in increased school enrollment, public safety costs, and so on. New growth under this provision includes:
  - Properties that have increased in assessed valuation since the prior year because of development or other changes. New subdivision parcels and condominium conversions.



# Proposition 2 1/2 Primer – Cont.

- **What is an override?**
- Proposition 2 1/2 allows a community to assess taxes in excess of the automatic annual 2.5 percent increase and any increase due to new growth by passing an override. A community may take this action as long as it is **below its levy ceiling**, or 2.5 percent of full and fair cash value. An override cannot increase a community's levy limit above the level of the community's levy ceiling.
- When an override is passed, the levy limit for the year is calculated by including the amount of the override. The override results in a permanent increase in the levy limit of a community, which as part of the levy limit base, increases at the rate of 2.5 percent each year.
- A majority vote of a community's selectmen, or town or city council (with the mayor's approval if required by law) allows an override question to be placed on the ballot. Override questions must be presented in dollar terms and must specify the purpose of the override. Overrides require a majority vote of approval by the electorate.

# Proposition 2 1/2 Primer – Cont.

- **What is a Debt Exclusion? What is a Capital Outlay Expenditure Exclusion?**
- Debt exclusion is for the purpose of funding debt service.
- Capital Outlay Expenditure Exclusion is for the purpose of funding an actual capital purpose. i.e. Truck or equipment.
- Both temporary increases to the levy. Once payments are done, levy increase goes away.
- **Excess Levy Capacity**
- Town may choose to set its levy at any amount below or equal to its levy limit. When a community sets its levy below the limit, the difference between the levy and the levy limit is commonly referred to as excess levy capacity. This is an additional amount the community could, but chose not to, levy.
- Levy Limit – Levy = Excess Levy Capacity

# Proposition 2 1/2 Primer – Cont.

- **What is an override?**
- Proposition 2 1/2 allows a community to reduce its levy limit by passing an override. When an override is passed , the levy limit for the year is calculated by subtracting the amount of the override. The override results in a permanent decrease in the levy limit of a community because it reduces the base upon which levy limits are calculated for future years.
- A majority vote of a community's selectmen, or town or city council (with the mayor's approval if required by law) allows an override question to be placed on the ballot. An override question may also be placed on the ballot by the people using a local initiative procedure, if one is provided by law. Override questions must state a dollar amount and require a majority vote of approval by the electorate.

# Tax Recapitulation

- Town's Tax Recap is prepared online via DOR Gateway System, since fiscal year 2011
- Team effort – Board of Assessors/ Assessors Office, Town Clerk, Town Treasurer, Town Accountant and Town Manager/Board of Selectmen. **Approved by DOR.**
- Public Hearing on Tax Classification by class, Residential and CIP – Commercial, Industrial and Personal Property. The Board of Selectmen approved a single tax rate in FY2018 and has historically.
- In FY2018, total valuation was \$1.1 Billion for all classes of property. Residential represents 94.59% of total property.
- Full & Fair Cash Value = \$1.1B x 2 ½ = \$28MIL Levy Ceiling
- Actual Single FY2018 Tax Rate - \$17.23 per \$1,000
- Levy Ceiling FY2018 Tax Rate - \$25.00 per \$1,000 – 45% Inc.

# Tax Recapitulation - Continued

## Tax Rate Recap

### Tax Rate Recap

Final Tax Rate set.

Status: FORM APPROVED

UPTON - 303 2018

Jurisdiction  Fiscal Year

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PAGE 2

PAGE 3

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### I. TAX RATE SUMMARY

Ia. Total amount to be raised (from Iie)	25,974,011.13
Ib. Total estimated receipts and other revenue sources (from IIIe)	6,191,780.01
Ic. Tax Levy (Ia minus Ib)	19,782,231.12
Id. Distribution of Tax Rates and levies	

CLASS	(b) Levy percentage (from LA5)	(c) Ic above times each percent in col (b)	(d) Valuation by class (from LA-5)	(e) Tax Rates (c) / (d) x 1000	(f) Levy by class (d) x (e) / 1000
Residential	94.5992	18,713,832.38	1,086,118,974.00	17.23	18,713,829.92
Net of Exempt					
Open Space	0.0000	0.00	0.00	0.00	0.00
Commercial	1.9710	389,907.78	22,629,063.00	17.23	389,898.76
Net of Exempt					
Industrial	0.9152	181,046.98	10,508,242.00	17.23	181,057.01
SUBTOTAL	97.4854		1,119,256,279.00		19,284,785.69
Personal	2.5146	497,443.98	28,870,890.00	17.23	497,445.43
TOTAL	100.0000		1,148,127,169.00		19,782,231.12

# Excess Tax Levy Capacity

- Excess Tax Levy Capacity is covered in the Proposition 2 ½ Primer
- The LA-5 reports the excess tax levy capacity

8. The LA-5 excess capacity for the current fiscal year is calculated as 3,113.88

The LA-5 excess capacity for the prior fiscal year is calculated as 100,005.05

- FY2017 Tax Recap included \$100k excess capacity
- FY2018 Tax Recap included \$3k excess capacity
- Excess capacity is rolled into the next year. Removed only through an override, if the Town so chooses to remove it.

# Free Cash

- Calculated annually and certified by DOR in the fall.
- Expires on June 30<sup>th</sup> each year
- Can be appropriated for any municipal purpose at town meeting – majority vote
- Free Cash certified amount can be + positive and - negative
- Free cash is a revenue source that results from the calculation, as of July 1, of a community's remaining, unrestricted funds from its operations of the previous fiscal year based on the balance sheet as of June 30. It typically includes actual receipts in excess of revenue estimates and unspent amounts in departmental budget line items for the year just ending, plus unexpended free cash from the previous year. Free cash is offset by property tax receivables and certain deficits, and as a result, can be a negative number.
- One time funding that should be use for one-time expenses

# Free Cash - Continued

**Massachusetts Department of Revenue Division of Local Services**

Christopher C. Harding, Commissioner

Sean R. Cronin, Senior Deputy Commissioner of Local Services

10/12/2017

**NOTIFICATION OF FREE CASH APPROVAL - Town of Upton**

Based upon the un-audited balance sheet submitted, I hereby certify that the amount of available funds or "free cash" as of July 1, 2017 for the Town of Upton is:

General Fund	\$1,407,901.00
Enterprise Fund Water Enterprise MGL Chapter 44 Section 53F1/2	\$667,429.00
Enterprise Fund Sewer Enterprise MGL Chapter 44 Section 53F1/2	\$527,708.00

This certification is in accordance with the provisions of G. L. Chapter 59, §23, as amended.

Certification letters will be emailed to the mayor/manager, board of selectmen, prudential committee, finance director and treasurer immediately upon approval, provided an email address is reported in DLS' Local Officials Directory. Please forward to other officials as you deem appropriate.

Sincerely,

*Director of Accounts signature*

Mary Jane Handy  
Director of Accounts  
Massachusetts Department of Revenue





# Major Capital Considerations

- Community Center (library, senior center, cable access)
- DPW Building
- 3 Milford Street disposition
- Waste Water Treatment Plant
- Roads

# Debt Service - falling off in 7 years

General obligation bonds outstanding at June 30, 2017 are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Maturities and Retirements</u>	<u>Ending Balance</u>
<i><u>Governmental Activities:</u></i>					
General obligation bonds	2.00 - 5.00%	\$ 5,901,000	\$ -	\$ (681,000)	\$ 5,220,000
Total Governmental Activities		<u>\$ 5,901,000</u>	<u>\$ -</u>	<u>\$ (681,000)</u>	<u>\$ 5,220,000</u>
<i><u>Business-type Activities - Water</u></i>					
General obligation bonds	1.75 - 5.00%	\$ 4,070,522	\$ -	\$ (292,801)	\$ 3,777,721
<i><u>Business-type Activities - Sewer</u></i>					
General obligation bond	3.50 - 5.00%	183,479	-	(11,200)	172,279
MCWT Note	1.25%	952,800	-	(308,400)	644,400
Sewer enterprise		<u>1,136,279</u>	<u>-</u>	<u>(319,600)</u>	<u>816,679</u>
Total Business-type Activities		<u>\$ 5,206,801</u>	<u>\$ -</u>	<u>\$ (612,401)</u>	<u>\$ 4,594,400</u>
Total General Obligation Bond and Note Debt		<u>\$ 11,107,801</u>	<u>\$ -</u>	<u>\$ (1,293,401)</u>	<u>\$ 9,814,400</u>

# Debt Service - falling off in 7 years - Continued

*Future Debt Payoff* – Payments on general long-term debt obligation bonds and notes payable due in future years consists of the following:

Year Ending June 30,	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
<i>Governmental Activities</i>							
2018	\$ 547,000	\$ -	\$ 547,000	\$ 189,221	\$ -	\$ 189,221	\$ 736,221
2019	562,000	-	562,000	169,574	-	169,574	731,574
2020	582,000	-	582,000	147,678	-	147,678	729,678
2021	237,000	-	237,000	123,107	-	123,107	360,107
2022	242,000	-	242,000	116,061	-	116,061	358,061
2023 - 2027	1,115,000	-	1,115,000	477,425	-	477,425	1,592,425
2028 - 2032	1,325,000	-	1,325,000	257,238	-	257,238	1,582,238
2033 - 2034	610,000	-	610,000	24,600	-	24,600	634,600
<b>Total</b>	<b>\$ 5,220,000</b>	<b>\$ -</b>	<b>\$ 5,220,000</b>	<b>\$ 1,504,904</b>	<b>\$ -</b>	<b>\$ 1,504,904</b>	<b>\$ 6,724,904</b>
<i>Business-Type Activities: Total</i>							
2018	\$ 560,601	\$ (80,621)	\$ 479,980	\$ 133,550	\$ (24,280)	\$ 109,270	\$ 589,250
2019	574,801	(84,927)	489,874	111,105	(8,170)	102,935	592,809
2020	252,999	-	252,999	96,175	-	96,175	349,174
2021	283,000	-	283,000	88,840	-	88,840	371,840
2022	288,000	-	288,000	80,980	-	80,980	368,980
2023 - 2027	1,364,999	-	1,364,999	291,188	-	291,188	1,656,187
2028 - 2032	1,070,000	-	1,070,000	110,712	-	110,712	1,180,712
2033	200,000	-	200,000	5,500	-	5,500	205,500
<b>Total</b>	<b>\$ 4,594,400</b>	<b>\$ (165,548)</b>	<b>\$ 4,428,852</b>	<b>\$ 918,050</b>	<b>\$ (32,450)</b>	<b>\$ 885,600</b>	<b>\$ 5,314,452</b>

# Debt Service - falling off in 7 years - Continued

## *Business-Type Activities: Water*

2018	\$ 231,801	\$ -	\$ 231,801	\$ 103,063	\$ -	\$ 103,063	\$ 334,864
2019	236,801	-	236,801	97,176	-	97,176	333,977
2020	240,939	-	240,939	90,920	-	90,920	331,859
2021	265,770	-	265,770	84,188	-	84,188	349,958
2022	270,770	-	270,770	76,888	-	76,888	347,658
2023 - 2027	1,278,850	-	1,278,850	279,256	-	279,256	1,558,106
2028 - 2032	1,052,790	-	1,052,790	110,109	-	110,109	1,162,899
2033	200,000	-	200,000	5,500	-	5,500	205,500
<b>Total</b>	<b>\$ 3,777,721</b>	<b>\$ -</b>	<b>\$ 3,777,721</b>	<b>\$ 847,100</b>	<b>\$ -</b>	<b>\$ 847,100</b>	<b>\$ 4,624,821</b>

## *Business-Type Activities: Sewer*

2018	\$ 328,800	\$ (80,621)	\$ 248,179	\$ 30,487	\$ (24,280)	\$ 6,207	\$ 254,386
2019	338,000	(84,927)	253,073	13,929	(8,170)	5,759	258,832
2020	12,060	-	12,060	5,255	-	5,255	17,315
2021	17,230	-	17,230	4,652	-	4,652	21,882
2022	17,230	-	17,230	4,092	-	4,092	21,322
2023 - 2027	86,149	-	86,149	11,932	-	11,932	98,081
2028	17,210	-	17,210	603	-	603	17,813
<b>Total</b>	<b>\$ 816,679</b>	<b>\$ (165,548)</b>	<b>\$ 651,131</b>	<b>\$ 70,950</b>	<b>\$ (32,450)</b>	<b>\$ 38,500</b>	<b>\$ 689,631</b>

*Authorized and Unissued Debt* – At June 30, 2017, the Town had authorized and unissued debt totaling \$878,702 for road projects subject to state reimbursement.

# Debt Service - falling off in 7 years - Continues

- Governmental Activities over the next 7 years
- In Fiscal Year 2020, there's \$345,000 of final principal payments related to the Fire Station and Stefan #1 that will be paid off and will go away in FY2021.
- There's a catch, the debt service principal payments are part of 2 debt exclusions. As you know, once the debt service is paid in full, the debt exclusion on the tax recap goes away as a funding source.
- Current debt will be paid in full in 15 years or FY2034. No significant drop in debt service from FY2021 – 2034. The average annual debt service principal is approximately \$250k between that time.

# Debt Service - falling off in 7 years - Continues

- Water Activities over the next 7 years
- No significant drop in Water debt service until FY2033. There's new debt coming soon related to Water Mains – total of \$1.3 million.
- 50% is funded by General Fund and 50% funded by Water Enterprise Fund.
- Waste water Activities over the next 7 years
- In Fiscal Year 2019, there's \$241,000 of final principal payments related to the Sewer Plant that will be paid off and will go away in FY2020.
- There's another catch, the debt service principal payments are part of 1 debt exclusion as 50% of the General Fund. As you know, once the debt service is paid in full, the debt exclusion on the tax recap goes away as a funding source.
- 50% is funded by General Fund and 50% funded by Waste Water Enterprise Fund.
- There's a strong possibility that the FY2020 Waste water Enterprise Fund budget will be self supporting.

# Other Post-Employment Benefits (OPEB)

## SUMMARY OF PRINCIPAL RESULTS

A summary of the principal results for the current and prior valuations follows:

<b>Valuation Date</b>	<b><u>July 1, 2015</u></b>	<b><u>July 1, 2012</u></b> *
<b>Summary of Member Data</b>		
Active Members	56	58
Average Age	47.6	48.0
Average Service	12.4	12.0
Retired Employees and Survivors	13	11
Average Age	69.9	Not Available
Covered Spouses	6	Not Available
<b>Discount rate</b>	4.00%	4.00%
<b>Actuarial Accrued Liability</b>	\$6,904,487	\$4,180,000
<b>Normal Cost</b>	\$332,757	\$260,000
<b>Assets</b>	\$95,096	\$0
<b>Unfunded Actuarial Accrued Liability</b>	\$6,809,391	\$4,180,000
<b>Annual Required Contribution</b>	\$739,936	\$520,000
<b>Expected Benefit Payments</b>	\$80,020	\$60,000

\* Results from the July 1, 2012 valuation are from an actuarial report prepared by Danziger & Markhoff, LLP.



# Other Post-Employment Benefits (OPEB) - Continued

- KMS Actuaries is currently preparing a new actuarial valuation report as of July 1, 2017 based on the active and retiree data provided by the Town. Thank you to Sandy Hakala and Deb Teta! The report will be complete before the end of the year.
- Under the new GASB 74 & 75, the Town is required to update it's report annually. The full valuation is done now every 2 years, as oppose to every 3 years under old GASB 45.
- Based on the 7/1/2015 OPEB report, the Unfunded Actuarial Liability (UAL) as of 7/1/2015 - \$6.8 million vs. \$4.2 million as of 7/1/2012. That's an increase of \$2.6 million. I anticipate the UAL to be closer to \$8 million in the upcoming report.
- OPEB Trust Fund Assets, over \$516,899 as of today. Funded ratio is approximately 1% of the unfunded actuarial liability.

# Other Post-Employment Benefits (OPEB) - Continued

- The annual required contribution is \$739,936 and the discount rate is 4.00%
- Employee demographics are important to review.
- There's 9 active employees that are between 50 – 70 years old and up with 25 – 29 years of creditable service. That's 16% of the population and the next wave of employees to retire in the next 5 years.
- Funding plan for OPEB - The Town should continue to fund the OPEB Trust Fund when funds become available. At a minimum, the Town should at least fund \$100,000 annually to the OPEB Trust Fund. The Pension windfall in FY2041 may help fund the OPEB Trust Fund. OPEB reform from the legislature may help. New employees can contribute to the OPEB Trust Fund. We need to think outside the box.

# The End!!!

- Does anyone have any questions?
- E-mail is best to contact me – [kcosta@uptonma.gov](mailto:kcosta@uptonma.gov)
- Thank you!



**"Is my allowance an unfunded liability?"**