



TOWN OF PEPPERELL

BOARD OF SELECTMEN / TOWN ADMINISTRATOR

One Main Street – Town Hall

Pepperell, Massachusetts 01463

(978) 433-0333 Fax: (978) 433-0335

mandrews@town.pepperell.ma.us

MEMORANDUM

TO: Board of Selectmen; Chair of the Finance Committee and Finance Committee; Leadership Team; Boards, Commissions and Committees

FROM: Mark Andrews, Town Administrator

RE: FY 2018 – Town Administrator’s Submission of Budget Message and Comprehensive Budget (Operating and Capital)

CC: Lori Bolasevich, Town Accountant; Peggy Mazzola, Administrative Assistant; Maureen Bolger, Town Assessor; Debbie Nutter, Town Tax Collector/ Treasurer

DATE: January 25, 2017

Pursuant to the Town Charter (Article 6, Section 4 d, Subsections i & ii and other relevant sections of the Town Charter), please find attached the “Town Administrator’s FY 2018 Budget Message and Comprehensive Budget”, for your review, consideration, and vote of approval. Additionally, I have included my FY 2018 Budget Worksheet that illustrates Departmental Requests and my line item recommendations with reductions and budgetary adjustments. For the record, this is the third fiscal year that we have presented a balanced budget for your review and consideration.

I would like to express my sincere appreciation to Stephen Themelis, Melissa Tzanoudakis and Roland Nutter of the Board of Selectmen, our entire Financial Team, including, Lori Bolasevich, Town Accountant; Peggy Mazzola, Administrative Assistant; Maureen Bolger, Town Assessor; Debbie Nutter, Town Tax Collector/ Treasurer; John Ladik, Chair of the Finance Committee and the entire Town Finance Committee; and the entire Town Leadership Team and Departmental Staff, Town Boards, Committees and Commissions for their unyielding support and expert assistance. Your help is truly appreciated and greatly valued!

Budget Message - FY 2018 State Budget Process and Projections:

On January 21, 2017, Governor Charlie Baker announced that he will propose an increase in unrestricted local aid for municipalities in his House 1, FY 2018 State Budget. Speaking at the Massachusetts Municipal Association's (MMA) Annual Meeting, Governor Charlie Baker announced that unrestricted local aid will increase by 100% of State tax revenue growth (3.9%) in the Baker-Polito Administration's Fiscal Year 2018 budget proposal, which amounts to over \$40 million. This is the second year in a row that the Baker Administration followed this financial funding policy that provides a solid foundation for funding municipal local aid. This is a solid economic indicator of our continued "state and local government partnership" commitment and I estimate that it will translate into an additional estimate of \$55,967 for Pepperell. Governor Baker made his State of the State address on Tuesday January 24, 2017 before the Massachusetts State Legislature. I will provide a full analysis of the FY 2018 State budget as it relates to municipal management, once I get to review the details in the Governor's FY 2018 spending plan. In addition, he recommended an increase of \$90 million for school aid, which is a positive budget and economic indicator. Last, he is proposing an additional \$8.8 million for state grants that are important to Pepperell, such as Community Compact Cabinet grants, District Local Technical Assistance grants (DLTA) technical assistance which we are using on the Main Street Corridor, the Master economic development plan and other key capital proposals.

As you are aware, the Governor's FY 2018 budget will need to be reviewed and passed by the House and Senate, which will set the budget tone and tenor for state aid to the Town and for the North Middlesex Regional School District and the Nashoba Valley Technical School District. The increase in local and school aid is a solid signal that State Leaders are focused on assisting towns like Pepperell and our partners at the North Middlesex Regional School District (NMRSD) and the Nashoba Valley Technical High School (NVTHS). As of this report, I have included our best estimates for State and School aid. The State Legislature will then take up the Governor's House 1 budget shortly thereafter the Governor's budget release. Please be

advised that the State Legislature weighed in and the House and Senate Ways and Means committees met to create a joint agreement on state tax collections. State revenue is estimated to increase by 3.9% for FY 2018. This analysis provides the basis for agreement on tax collection numbers for use in the governor’s budget recommendation and by the House and Senate. This practice is very helpful to municipalities and the overall budget preparation process. Moreover, the Town Accountant and Town Administrator have been monitoring local revenue generation through FY 2017. As of December 31, 2016, the town General Fund has collected 65.61% out of a benchmark of 50%, or a 15.61% increase. This supports recent trends on local revenues.

Budget Message – Economic Development, Employment and Credit Rating:

The creation of good paying jobs is a key to economic success and this strategy has been a hallmark of the current Board of Selectmen and Town Administration. The Town Administration continues to make economic development and job creation a top priority. According to the Massachusetts Division of Unemployment Assistance, the State’s unemployment rate was 2.7 % and the Town of Pepperell had an unemployment rate of 2.3 %. Moreover, the national unemployment rate is currently at 4.9%. Job creation has been a critical element in restoring property values and providing disposable income to our local economy. The Administration is working on various economic development initiatives that will create jobs and expand our local business base. Please note that the unemployment rate is based on a monthly sample of households. The job estimates are derived from a monthly sample survey of employers. As a result, the two statistics may exhibit different monthly trends. The Town of Pepperell has continued to demonstrate solid economic resiliency and has followed the State’s pattern of economic strength. Both the State’s October 2016 unemployment rate and the town’s unemployment rate remain lower than the national rate of 4.9 percent reported by the Bureau of Labor Statistics. Over the past year, Pepperell has improved its job growth and reduced our unemployment rate with solid job creation efforts.

Please see State Chart below:

MASSACHUSETTS DIVISION OF UNEMPLOYMENT ASSISTANCE
Massachusetts Labor Force Data and National Unemployment Rate – Most Recent 13 Months

Location	Labor Force			Employment			Unemployment			Rate		
	Nov 2015	Oct 2016	Nov 2014	Nov 2015	Oct 2016	Nov 2014	Nov 2015	Oct 2016	Nov 2014	Nov 2015	Oct 2016	Nov 2014
Massachusetts	3,551,400	3,608,800	3,587,900	3,390,200	3,491,500	3,408,600	161,100	117,300	179,300	4.5 %	2.7 %	5.0 %
Pepperell	6,734	6,952	6,957	6,462	6,795	6,668	272	157	289	3.9 %	2.3 %	4.2 %

Source--Note: Labor force estimates are based upon time series models that use a combination of data from the Current Population Survey (CPS), the Current Employment Statistics (CES) survey and the Unemployment Insurance (UI) system. They also include seasonal and trend components.

It is important to note that Pepperell is making strides with major economic development projects in FY 2018. These projects include the new “Pepperell Place Business Center” located at 20 Mill Street along the Main Street corridor. Currently, under Phase I of the business plan, four new businesses have relocated to this new business center—Cell Treat, Bionostics, All Things Jeep and Fitness Your Weight Gym. Over forty (40) new jobs have been created in Pepperell.

This complex was acquired by the Lexvest Group in December 2015. The business model has been very successful in the region and it is designed to attract numerous businesses of various sizes (e.g. 5,000 sq. ft. to 25,000 sq. ft.) to fill in the new center. The renovation of the east wing, has produced an interesting business development plan that includes “Small Business Suites” that reflect a flexible business plan designed to meet companies expansion planning. This is an exhilarating opportunity in furthering our economic development plans for the future by creating jobs and productive investment in the Town of Pepperell.

In the wake of the redevelopment of the former Mill Site, 1A Auto has advanced their plans for a new 100,000 square foot office building. The project investment is projected at \$26.8 million which includes \$25 million in soft and hard construction and related costs, and \$1.8 million for personal property and associated equipment. As you know, the “mill site” is a challenging setting from both an environmental and redevelopment standpoint. This proposed facility will house their corporate headquarters and call center and retain 95 jobs in the Town of Pepperell. In addition, the new \$26.8 million facility will create 150 jobs that will require a blend of skills, including software engineers, product development personnel, call center operators, information technology experts and office and specialized administrative staff.

Budget Message – Major Grants:

In addition, on January 23, 2017, the Town signed a “Letter of Agreement” with the Northern Middlesex Council of Governments (NMCOG) that further fund and continue critical economic development projects during 2017-2018 with District Local Technical Assistance (DLTA) funds. First, a review of the “Main Street” corridor will be undertaken to determine the best economic development plans for this area. Given the new business development along Main Street and ancillary side streets, this study will be critical for future economic growth. Moreover, a second economic study will focus on an overall “Master Economic Development Strategy” for the town. These studies are included in our basic assessment from Northern Middlesex Council of Governments (NMCOG) and there is no additional charge for these professional services. Our Economic Development Advisory Committee (EDAC) has been instrumental in coordinating these important grants.

In addition, the Town filed a third grant application to use District Local Technical Assistance (DLTA) funds for funding for a “Master Plan” that is needed for our town’s planning efforts.

This grant application was filed in conjunction with a “Best Practices” application under the Commonwealth’s Community Compact Cabinet grant program and reflects the Town Administration’s strong commitment to aggressively pursue grant opportunities.

In addition, the town received a Moody’s Investors Service signal in their “Issuer Comment” dated December 31, 2016, that reported the following on Pepperell’s “Economy and Tax base”—“the economy and tax base of the town are very healthy and are a modest credit strength when compared with its Aa3 rating.” Moreover, under the section entitled “Credit Overview”, Moody’s assessed Pepperell’s credit rating as “very healthy, and its Aa3 rating is equal to the median rating of Aa3 for US cities. Key credit factors include a moderate pension liability with a negligible debt burden.” This is a solid financial assessment for the Town of Pepperell.

Budget Message – Debt Position:

Over the past two fiscal years, the Town has worked to reduce its long term debt. In part, this has been directly tied to the refinancing of long term debt with a goal of gaining the benefits of lower interest rates and reducing interest expenses now, and in the future. The town’s General Fund long term debt has been reduced from \$141,413 in FY 2017 to \$121,173 in FY 2018, which is this is a reduction of \$20,240 or 14.3%. The Town’s General Fund short term debt is static at \$36,187. In the “Issuer Comment” dated December 31, 2016, Moody’s Investors Service indicated that the *“Town has small debt and pension burdens, which are favorable when compared with the assigned rating of Aa3.”* This is a positive sign for the town’s debt position as reported by Moody’s Investors Service.

The Town Administration and Treasurer/Collector have worked closely over the past two years to present to the Board of Selectmen a multi-year long term debt plan to reduce interest costs and lower our outstanding debt. Further, the Board of Selectmen authorized the issuance of bonds or notes for the purpose of refunding all or any portion of its bonds under Chapter 44, Section 21A of the Massachusetts General Laws. This plan was guided by UniBank, the town’s financial advisor. The Town reduced its debt by \$153,151 through reduced interest savings over the entire term of the plan.

For FY 2018, the Town of Pepperell’s estimated portion of long term debt service (as a Debt Exclusion) for the North Middlesex Regional School District is \$578,842 in total (e.g. Nissitissit at \$316,450; Varnum Brook at \$0; and the New High School at \$262,392). Additionally, the

town has long term debt associated with the Nashoba Valley Technical School District (Debt Exclusion at \$134,212). The Town Administration is exploring alternative methods of long term financing for larger capital items (e.g. a new fire ladder truck, ambulances, heavy equipment) with UniBank, our Financial Advisors.

I will continue to carefully monitor our overall debt position and explore any other methods of reducing our debt.

FY 2018 Local Budget Development and Formation:

The FY 2018 municipal budget is balanced. Our FY 2018 operational and capital budget is \$24,192,874 (please see budget highlights, supplemental budget documents and pertinent attachments). The local budget formation was based upon local revenues and the best state estimates of local and school aid as of the writing of this budget message. It is imperative that the town keep a close watch on State aid for both the town and our regional schools.

During the month of December 2016 and January 2017, the Finance Committee and Town Administration held the “first reading” of the budget with the Leadership Team and all Town Departments. This was an aggressive schedule. After in depth presentations by our Leadership Team, I worked closely with each department to review on a line-item basis, their operating and capital requests. This process was used to close an initial \$719,947 in requests to the FY 2018 budget. This was the “second reading” of the budget. In the end, the proposed FY 2018 budget was reduced through cuts, consolidations and apportionments to produce the Town Administrator’s FY 2018 balanced budget. This budget review and reduction process was modeled after balanced budget models for FY 2016 and FY 2017 that passed unanimously at Town Meeting.

Also, the Town Administrator has vigorously recommended that town departments continue to aggressively seek grants, and other forms of recurring revenue be used to cover various operating costs whenever possible. This is consistent with the FY 2018 Town Administrator’s Budget Message and Instructions, which focused on cost-benefit analysis as a tool for proposed FY 2018 budget.

Moreover, \$235,470 in capital requests have been recommended for funding with “certified free cash”, an appropriate funding source for one-time capital expenses. The capital budget recommendation for FY 2018 represents a significant investment in capital improvements for the town. Also, it continues a solid process for financing capital items on our Five Year Capital Improvement Plan. In addition, as a designated “Green Community”, the Town received and completed \$152,910 of energy conservation improvements in both town buildings and our

schools in Pepperell. This was a monumental step forward that will better position the Town for additional grants in the future.

Another strategic budgetary initiative centered upon our efforts to collect delinquent back taxes owed to the town. During FY 2016 and FY 2017, I have worked closely with Debbie Nutter, Town Tax Collector/ Treasurer to place delinquent tax accounts into tax title and collect monies due the town.

Finally, we have continued to use the standard “historical trending” in FY 2018. This format is effectively used as a budgetary tool that looks back eight (8) fiscal years and compares final budget to actual financial data. In addition, these reports function as “Financial Appropriation and Accountability Reports” (FAAR) for appropriate use throughout the fiscal year to track expenditures and continue our “Zero Based Budgeting” action plan. This new financial reporting mechanism assisted the town in budgetary planning and was instrumental in communicating various fiscal trends with our local State Legislative Delegation and their colleagues on Beacon Hill.

Nashoba Valley Technical High School (NVTHS)

The Nashoba Valley Technical High School (NVTHS) FY 2018 total budget is \$1,740,503. In essence, our operating assessment for FY 2018 is \$1,606,291 and the debt service is \$134,212 for the total of \$1,740,503. This assessment is based on a modest increase of two (2) students and other factors based on the current State funding formula. A municipal officers meeting was held on January 27, 2017 to review the assessments for Nashoba Valley Technical High School.

Continued Partnership with Regional School District Leadership Pays Dividends – New Budget and Finance Model Underway

The Town of Pepperell worked closely with our partners at the North Middlesex Regional School District (NMRSD) Leadership and School Committee to reduce the town’s assessment. I have included our best estimate of \$13,159,439 or a 3% increase of \$383,285 over \$12,776,154 for FY 2017. The Town’s estimated portion of school debt remains at the same levels we projected and are funded in the FY 2018 budget. Our unparalleled coalition of local and regional leaders committed to quality education along with joint grant opportunities have established a solid foundation for financial parity and overall success. For example, the town and NMRSD partnered in the application for designation as a “Green Community” in 2015. On December 22, 2015, the Town of Pepperell and NMRSD received this special designation and an initial Green Communities grant award of \$152,910. As of the writing of this report, all 11 town and school projects have been completed. Our joint “municipal and schools” partnership

provided \$52,912 of grant funds for a long needed upgrade of the energy management systems, demand control ventilation and front end upgrade at the Nissitissit Middle School; and \$30,231 of the grant funded the weatherization at the Varnum Brook Elementary School. This pioneering joint effort is aimed at securing available State grant funds while investing in our buildings and infrastructure. Also, it ultimately will improve the learning environment for our children and reduce our overall energy costs. I hope and trust that we can continue to build on this important working relationship for the future to reduce energy costs.

New Budget and Finance Model under Development:

In FY 2016, the towns of Pepperell, Ashby and Townsend joined together with the North Middlesex Regional School District to collaborate on a new budget model that will assist and guide the towns and school district in this important process. This budget study is underway and is expected to be reported to each entity in the at an upcoming joint budget meeting.

FY 2018 Local Budget Highlights:

- ✓ **The Town Administrator worked closely with the Board of Selectmen and Finance Committee to meet the requirements of the new Town Charter and to meet the best possible timelines.**
- ✓ **FY 2018 budget planning was an engaging and collaborative process that involved all town departments, boards, commissions and committees.**
- ✓ **Operational Budget Highlights Include—**
 - **Recommended One Full Time Police Officer at \$80,906 to the Police Department (includes, wages, health care estimate and union contract obligations) to be presented at our Fall Town Meeting.**
 - **Funded the Strong Fire Chief position at \$80,000 which required an additional \$3,519 for this position. This recommendation was made via a human resources study.**
 - **Added \$41,600 for Per Diem services for Ambulance coverage on “Tuesdays – Thursdays – Saturdays and Sundays” which has been a challenge to get “on-call” coverage.**
 - **Added \$2,500 for an upgrade for all Ambulance “on-call” coverage. (Adds \$1.00 per hour x 2,233 hours).**

- **Maintained our strong commitment to meet the State requirement for local support in FY 2018 for the Lawrence Library. This is the second year of fully funding our library, which added \$45,053 from FY 2016 to FY 2018. The result: the Town will not have to apply for a waiver in FY 2018.**
- **Added \$2,800 for 14 non-union Staff Members increase of \$200 for Longevity.**
- **Funded \$5,539 for a specialized Senior Center Outreach Worker.**
- **Funded a human resources report that made recommendations for upgrades to the “Finance Team”--Town Accountant, \$8,800; Town Assessor, \$2,500; Town Treasurer Collector, \$2,000. Also, we funded recommendations for \$2,000 for the Town Clerk (position studied as a transition from elected to appointed 2016).**
- **Funded \$13,000 for a Personnel Classification Study of all non-union personnel (not previously studied). The last Personnel Classification Study was conducted in 2009.**
- **Funded \$50,000 for a full-time Building Inspector for a comprehensive code enforcement and safety program.**
- **Funded \$69,500 for a full-time certified Town Planner (first full fiscal year).**
- **Funded \$3,000 for new auditing requirements for OPEB.**

✓ **Capital Plan Budget Highlights Include—**

- **Funded the third year of a 5 Year Capital Plan at \$235,470 including:**
 - **\$50,000 for One New Police Cruiser.**
 - **\$26,000 for the Replacement of Bulletproof Vests.**
 - **\$5,000 for the Replacement of New Fire Hose.**
 - **\$11,000 for IV Pumps for Ambulances.**
 - **\$7,000 for One Toughbook Computer for Ambulance.**

- **\$12,000 for New Computer Equipment.**
- **\$15,000 for Capital Adaptation & Renewal.**
- **\$10,000 for MS4 Storm Water Federal EPA Compliance.**
- **\$1,000 for Public Outreach for MS4 Storm Water Federal EPA Compliance.**
- **\$45,000 for the Replacement of One Highway Department Six Wheel Dump Truck.**
- **\$3,370 for One Ton Static Roller for the Highway Department (lease payment)**
- **\$7,820 for the Board of Health Landfill Closure Monitoring Required by the Massachusetts Department of Environmental Program**
- **\$7,247 for the Board of Health Hazardous Waste Disposal Program – Mass Toss Program**
- **\$5,033 for Library Elevator Repairs – Door Sensors**
- **\$30,000 for a Master Plan (MGL, Chapter 41, Section 81D as Required)**

✓ **Major Capital Improvement Grants—**

- **\$152,910 of Green Communities Grant funding for Weatherization Improvements, Lighting Upgrades and Energy Management Systems (State Funded and Completed). A new \$250,000 Grant Application is in process.**