



# TOWN OF PEPPERELL

## BOARD OF SELECTMEN / TOWN ADMINISTRATOR

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### 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 2016 – Town Administrator’s Submission of Budget Message and Comprehensive Budget (Operating and Capital)

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

**DATE:** April 7, 2015

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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 2016 Budget Message and Comprehensive Budget”, for your review, consideration and vote of approval. Additionally, I have included my FY 2016 Budget Worksheet that illustrates Departmental Requests and my line item recommendations with reductions. I would like to express my sincere appreciation to the Board of Selectmen, Finance Committee and our entire Financial Team, including, Lori Blanchard, Town Accountant; Peggy Mazzola, Administrative Assistant; Maureen Bolger, Town Assessor; Debbie Nutter, Town Tax Collector/ Treasurer; Melissa Tzanoudakis, Chair of the Finance Committee; and the entire Town Leadership Team and Departmental Staff for their unyielding support and expert assistance. Your help is truly appreciated and valued!

## **Budget Message - FY 2016 State Budget Process and Projections:**

As you are aware, the Governor's House 1 budget for FY 2016 set the tone and tenor for state aid to the Town and to North Middlesex Regional School District and the Nashoba Valley Technical School District. In addition, Governor Baker had an additional thirty days to submit his first budget to the State Legislature for their review and consideration. This process was further exasperated by the FY 2015 budget gap of approximately \$1 billion. These two mitigating factors played a critical role in ascertaining the Governor's recommendation for school aid to the North Middlesex Regional School District (NMRSD) and the Nashoba Valley Technical High School (NVTHS) in FY 2015 and further in the beginning stages of the FY 2016 budgets.

While the Town received a modest increase of \$75,745, with \$47,811 in Unrestricted General Government Aid (UGGA); the regional school districts did not fare that well. Under the Governor's FY 2016 proposed budget, North Middlesex Regional School District received a total reduction of \$528,261; and Nashoba Valley Technical High School received a total reduction of \$98,779. The State Legislature will now take up the Governor's House 1 budget.

In January 2015, the Massachusetts Municipal Association projected "modest" increases in state revenue collections. State leaders indicated that a small level of growth is expected and that a growing national economy is expected to keep state tax collections on track to reach the forecast for fiscal 2015 and that taxes can be expected to grow again next year, although only modestly. Additionally, the State Legislature weighed in and the House and Senate Ways and Means committees met to create a joint agreement on state tax collections. This analysis provides the basis for agreement on tax collection numbers for use in the governor's budget recommendation, which was filed on March 4, and in the House and Senate Ways and Means Committee budgets released in April and May, respectively. The hearing was led by House Ways and Means Committee Chair State Representative, Brian Dempsey, newly appointed Senate Ways and Means Chair State Senator Karen Spilka, and Kristen Lepore, the Governor's Secretary of Administration and Finance Secretary. It was noted by the Massachusetts Taxpayers Foundation, that tax collections for fiscal 2015 to end the year are projected to be slightly higher than the original forecast and that taxes will grow by a modest 4.5 percent in fiscal 2016 to about \$25.5 billion, a gain of \$1.1 billion. The forecasts for both years assume implementation of income tax rate cuts from 5.2 percent to 5.15 percent, which took effect January 1, 2015 and to 5.1 percent effective January 1, 2016.

A plan to balance FY 2015 was filed by Governor Baker and approved by the House and Senate. The FY 2015 shortfall has been ascribed mainly to underfunded health care accounts in the state budget and to non-tax revenues that are not on track to reach projected levels. In addition, Governor Baker indicated that problems with the State’s Health Connector were tied to about \$230 million of the shortfall, and the state’s Group Insurance Commission accounted for another \$155 million. State Departmental revenues were expected to fall short of targets by about \$180 million.

Last, the State Lottery has been experiencing a flattening of revenue but the agency is expected to meet expectations this year. However, net revenues are projected to fall by \$22 million in fiscal 2016 due to Lottery players choosing higher pay-out games. Another qualifying factor that may help is the opening of the Plainridge gaming facility early this summer. Gaming tax revenue from the slot machines at Plainridge are expected to cover all or a portion of the loss in Lottery revenues, according to Lottery Commission officials.

**Budget Message – Economic Development and Employment:**

The creation of good paying jobs is a key to economic success. The administration has made economic development and job creation a top priority. According to the Massachusetts Division of Unemployment Assistance, the State’s unemployment rate was 5.6% and the Town of Pepperell had an unemployment rate of 5.0 percent. Moreover, the national unemployment rate is currently at 5.7%. 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. Please see below:

**MASSACHUSETTS DIVISION OF UNEMPLOYMENT ASSISTANCE**  
**Massachusetts Labor Force Data and National Unemployment Rate**

Location	Labor Force			Employment			Unemployment			Rate		
	Jan 2015	Dec 2014	Jan 2014	Jan 2015	Dec 2014	Jan 2014	Jan 2015	Dec 2014	Jan 2014	Jan 2015	Dec 2014	Jan 2014
Massachusetts	3,565,700	3,576,900	3,503,600	3,367,500	3,400,800	3,263,200	198,200	176,000	240,300	5.6 %	4.9 %	6.9 %
Pepperell	6,939	6,940	6,861	6,589	6,652	6,430	350	288	431	5.0 %	4.1 %	6.3 %

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 2016. These projects include the new Southern New Hampshire Medical Center and the establishment of the corporate headquarters of 1A Auto Corporation. In the winter of 2015, the Southern New Hampshire Medical Center opened on Main Street in their newly constructed 11,000 square foot building with an expected twenty (20) to thirty (30) jobs at this new medical complex. The building's estimated assessed valuation is \$1,046,000 to be taxed in FY 2016. This is a state-of-the-art medical facility that is expected to create an estimated \$100,000 in new recurring transportation services revenue for the Town. One Ambulance/Paramedic was added to our Ambulance service at \$49,870 to assist with the expansion of the Southern New Hampshire Medical Center and related transportation needs.

The redevelopment of the former Mill Site started to take shape in March of 2015. 1A Auto has proposed to build a new 100,000 square foot office building to create their signature North American headquarters in Pepperell. 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, call center operators, information technology experts and office and administrative staff. Moreover, a myriad of temporary construction jobs will add to the local "multiplier-effect" and circulate those dollars in the local economy. Currently, it is estimated that 1A Auto contracts with dozens of local businesses which employ over 100 employees in town. Please note that the distribution centers are located in other facilities in Kansas, Arizona and Massachusetts.

The new State Economic Development Incentive Program will provide for certain local incentives and state investment tax credits for this project. On Monday March 30, 2015, the Board of Selectmen voted unanimously to adopt a Tax Increment Financing (TIF) plan for this important project. This Tax Increment Financing (TIF) plan will be presented at our Annual Town Meeting on May 4, 2015.

### **Budget Message – Debt Position:**

The Town has begun the process to refinance long term debt with an eye towards lower interest rates, and thus, cost savings to the Town. At the March 9, 2015 meeting of the Board of Selectmen, a presentation was made by representatives of UniBank, the town's financial advisors. The Board of Selectmen voted to reduce interest costs on 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. It is estimated that in the fall of 2015, interest savings would be realized to the town.

The Town of Pepperell has long term debt service requirements of \$1,354,387 for municipal related capital projects in FY 2016. A decrease of \$53,157 will occur in FY 2016 as compared to FY 2015, which was \$1,407,544.

For FY 2016, the Town of Pepperell's portion of long term debt service for the North Middlesex Regional School District is \$599,070 (e.g. Nissitissit at \$362,338; Varnum Brook at \$224,400; and \$12,332 of debt associated with the new High School). Additionally, the town has long term debt associated with the Nashoba Valley Technical School District (Roof Project at \$146,357). In contrast, for FY 2015, the long term debt service for the North Middlesex Regional School District was \$331,209 (e.g. Nissitissit at \$371,438; Varnum Brook at -\$40,229) and the Nashoba Valley Technical School District Roof Project at \$106,444. I will continue to closely and carefully monitor our overall debt position and explore any other methods of reducing the impact to the taxpayers and town (e.g. the FY 2016 Refinancing Plan).

#### **FY 2016 Local Budget Development and Formation:**

The FY 2016 municipal budget is balanced. Our FY 2016 operational and capital budget is \$22,279,010 (please see budget highlights, supplemental budget documents and pertinent attachments that are enclosed). The local budget formation was based upon local revenues and the best state estimates of local and school aid. At first review, \$291,074 of operating requests were reduced by the Town Administrator in order to balance the FY 2016 proposed spending plan. In a follow up review, the Town Administrator further reduced \$271,619 of municipal operating requests submitted by town departments. Also, the Town Administrator has recommended that town departments aggressively seek grants, and other forms of revenue be used to cover various operating costs whenever possible. This is consistent with the FY 2016 Town Administrator's Budget Message and Instructions. Moreover, \$221,000 in capital requests have been recommended for funding with "certified free cash", an appropriate funding source for one-time capital expenses.

Another strategic budgetary initiative is our effort to collect our delinquent back taxes owed to the town. During FY 2015, I have worked closely with Debbie Nutter, Town Tax Collector/Treasurer to place delinquent tax accounts into tax title. Currently, we have over \$350,000 in this process with an eye towards final collection and/or a bulk tax lien sale. Finally, a new budget presentation format was introduced in FY 2016. 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 2016 budget is \$1,698,445. This represents a 20.27% increase from FY 2015 to FY 2016 or \$286,247 (e.g. the FY 2015 total assessment was \$1,412,198 compared to \$1,698,445). For example, from a budget to actual standpoint, the total operating assessment (operating and transportation) for the Nashoba Valley Technical High School (NVTHS) has been trending at +7.36% for the past eight years. Pepperell increased a total of nineteen (19) students (from 140 to 159) as of the enrollment period dated October 1, 2014. Our 159 students represent a total of 22.59% of the 704 students currently enrolled at Nashoba Valley Technical High School (NVTHS). Additionally, the Town of Pepperell ranks second in the “minimum contribution” estimated at \$1,333,463; and second in “increase in minimum contribution” at \$90,341. Also, an amount of \$146,357 of debt service is included in our FY 2016 assessment.

### **Partnership with Regional School District Leadership Pays Dividends**

The Town of Pepperell worked closely with our partners at the North Middlesex Regional School District Leadership and School Committee to reduce the town’s assessment. On Monday April 6, 2015 a lower assessment was voted by the North Middlesex Regional School Committee. Our new assessment for operations and transportation is \$12,133,036, or a reduction of \$257,582 from the original voted assessment of \$12,390,618. The Town’s portion of school debt remains at the same levels we projected and are funded in the FY 2016 budget. This was an unprecedented coalition of local and regional leaders committed to quality education coupled with a close understanding of finite town resources. The North Middlesex Regional School District Leadership and School Committee understood that this has been an extraordinary year for unexpected costs for the town. For example, the town incurred an additional \$227,000 over our budgeted \$180,000 for a total of \$407,000 for historical “snow and ice” costs in FY 2015. The \$227,000 will need to be covered by the town’s free cash. I hope and trust that we can continue to build on this newly fostered relationship for the future.

### **FY 2016 Local Budget Highlights:**

- ✓ **The Town Administrator worked 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 2016 budget planning was an engaging and collaborative process that involved all town departments, boards, commissions and committees.**
- ✓ **Operational Budget Highlights Include—**
  - **Added One Full Time Paramedic to the Ambulance budget at \$41,537 and thus growing our local revenue by an estimated \$100,000. Federal “SAFER Grant” authorized to be used for July and August 2015 (e.g. \$8,333 of grant funds). The position total is \$49,870. Reduced Ambulance overtime by \$18,500.**
  - **Increased Library by \$14,738 for obligations to Staff.**
  - **Added \$10,000 to Veterans’ Benefits Program, following the upward trend for services in FY 2015.**
  - **Restored hours to Conservation Administrator at \$3,059 (2 hours per week); Planning Administrator at \$5,946 (4 hours per week); and Administrative Assistant to Inspections Office & Fire Department at \$2,028 (1.5 hours per week), given local projects underway.**
  - **Restored the Emergency Management line by \$2,295 for required training and certifications.**
  - **Secured Assessor’s parcel updates under agreement with Northern Middlesex Council of Governments. The result: a savings of \$3,000.**
  - **Reduced Animal Control by \$5,030 with new hire and reorganization.**

- **Reduced electricity costs across the board based on our Master Electricity Agreement at 10.67 cents per KWH.**
- **Reduced Legal Expenses by \$6,500. Cut from \$22,000 to \$15,500.**
- **Reduced Tax Title by \$4,500, given our aggressive program in FY 2015.**
- **Reduced Health Care Plans by \$23,135.**
- **Reduced Unemployment Insurance by \$44,000.**
- **Reduced Medicare by \$5,000 due to new hires at lower pay rates.**
- **Added \$3,800 for Professional and Technical Services.**
- **Funded Federal EPA Program – “MS4” Required Environmental Mapping work with creative plan to use our Conservation Administrator at \$19,857 for field work.**

✓ **Capital Plan Budget Highlights Include—**

- **Funded the first year of a 5 Year Capital Plan at \$221,000 including,**
  - **New Email System at \$33,500**
  - **Computer Equipment at \$5,000**
  - **Town Hall Building Renewal at \$4,250**
  - **Two Police Cruisers at \$72,000**
  - **Six sets of Fire Gear at \$12,000**
  - **Forest Warden Equipment at \$2,000**
  - **Highway Vehicles at \$40,000**
  - **Highway Excavator at \$5,000**
  - **Board of Health Landfill Closure Monitoring at \$9,850**
  - **Board of Health Hazardous Waste Disposal at \$6,500**
  - **Library Computers at \$900**
  - **Library Furnace at \$30,000**



