

Inside Town Finances

Volume 9: The Five-Year Forecast

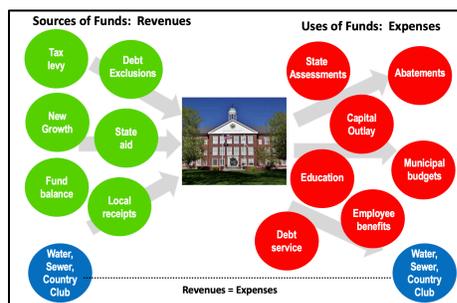
Why develop a Five-Year Forecast?

The Five-Year Forecast is an important planning and decision tool that enables a municipality to evaluate the impact of decisions over time. Moreover, by providing the Town with a picture of current and future revenue and expenses, it informs goal setting, the annual budget process, and personnel-management activities such as collective bargaining and benefits. The Five-Year Forecast also allows for early issue identification.

What's included in the Five-Year Forecast?

The Five-Year Forecast shows projected Sources (revenue) and Uses of funds (expenses) for the next five fiscal years. Both are described in more detail in other volumes of this series.

Revenue and expenses from the Weir River Water System, the South Shore Country Club, and the Sewer Department are also captured on the Five-Year Forecast. Revenues from user fees offset all expenses in these operations, so the Five-Year Forecast's Excess/Shortfall is unaffected by these activities. These funds are described in more detail in *Volume 10* of this series.



How are revenue projections developed?

Revenue projections are developed using a data-driven process that reflects the limits imposed by Proposition 2 ½, overall economic conditions, historical trends, building-permit activity, the Town's Debt Schedule, and guidance from organizations such as the Massachusetts Taxpayers Foundation. The chart to the right summarizes forecasted revenue projections for the next four fiscal years.

Revenue source	% of total revenue	Average yearly forecasted change (FY25 to FY29)
Tax levy (Proposition 2 ½ + new growth)	75%	+ 3.3% per year
Local receipts	9%	+2.6% per year
State aid	8%	+ 1.5% per year
Excluded Debt (equals debt service payment)	5%	+ 10.7% per year
All other	3%	-20.6% per year

The Town has taken steps to increase both tax and non-tax revenue including adopting the Meals Tax, establishing a fee-based ambulance service, reviewing fees and permit costs every three years, pursuing grant opportunities, establishing Stabilization Funds, authorizing a \$7.9 million override for Fiscal Year 2024, and initiating an economic development strategic plan.

How are expense projections developed?

Under Massachusetts General Laws, municipalities must prepare a balanced budget in which expenses must match available revenue.

The 2022 Sustainable Budget Task Force recommended that Municipal and School departments target a 3.5% expenditure growth rate in future years. This recommendation served as the basis for the adoption of the FY24 Override Framework and FY24-28 Financial Management Plan, which was signed by the Select Board, Town Administrator, School Committee, School Superintendent, and Advisory Committee. This plan commits to budget cap growth rates and not considering an operational override will be until at least Fiscal Year 2028. The chart above summarizes forecasted expense projections for the next four fiscal years.

Expense Category	Average yearly forecasted change FY25 to FY29
Municipal Budgets	+3.5% per year
Education Budget	+3.5% per year
Employee Benefits	+10% per year
Unclassified	+10% per year
State Assessments	+5% per year
Capital Outlay	+\$100,000 per year

Should the Town be concerned about deficits in the Five-Year Forecast?

Yes. Consistent deficits in the Five-Year Forecast signal that expenses are projected to grow faster than revenue. Left unaddressed – or allowed to grow – this leads to a structural deficit in which available revenue cannot support existing expenses. While the Town has created a Tax Mitigation Stabilization Fund to address deficits in the short-term, resolving structural deficits requires cultivating new recurring revenue sources or facing difficult tradeoffs, such as reducing services (typically requiring personnel reductions) and/or requesting large and frequent overrides to maintain services.