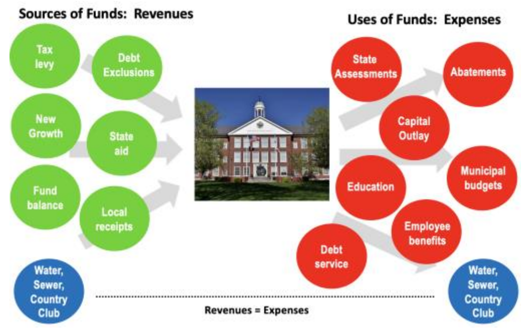
Inside Town Finances
Volume 9: The Five-Year Forecast

Why develop a Five-Year Forecast?

The Five-Year Forecast is an important planning and decision tool. 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. The Five-Year Forecast also allows for early identification of potential future issues such as structural deficits.

What's included in the Five-Year Forecast?



The Five-Year Forecast shows both Sources and Uses of funds for the next five fiscal years. Sources of funds – or revenue – include the tax levy, New Growth, debt exclusions, state aid, local receipts, and fund balance. These are described in more detail in *Volumes 1-3* of this series.

Uses of funds – or expenses – include state assessments, an 'overlay' for property-tax abatements, as well as Town Meeting appropriations for all municipal and education expenses, capital outlay, employee benefits, and debt service.

Revenue and expenses from the Weir River Water System, the South Shore Country Club, and the Sewer Commission 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.

How are revenue projections developed?

Revenue source	5-year forecast
Tax levy	+ 3.0% per year (Proposition 2 ½ + new growth)
State aid	Flat
Local receipts	+2.5% per year

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, and guidance from organizations such as the Massachusetts Taxpayers Foundation.
Over the next five years, Town revenues are projected to increase by approximately 2.5%-3.0% each year.

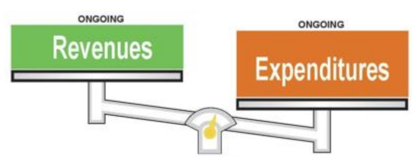
What steps has the Town taken to increase revenue?

The Town has increased **local receipts** by adopting the Meals Tax, establishing a fee-based ambulance service, and by reviewing fees and permit costs every three years. To encourage **New Growth**, the Town has maintained a single tax rate for residential and commercial properties, adopted a statute (43D) to accelerate commercial development, and commissioned the South Hingham Study Group to explore development options. The Town also pursues **grant** opportunities, securing $2.8 million during 2019.

How are expense projections developed?

Under Massachusetts General Laws, municipalities must prepare a balanced budget in which expenses must match available revenue. The expense portion of the Five-Year Forecast shows **one way to apply available revenue**. Since 75% of Town revenue is subject to the limits of Proposition 2 ½, most expense projections assume 2% annual growth. Exceptions include debt service and long-term liability obligations – which are forecasted based on funding schedules – and Health insurance costs for active and retired employees which are forecasted based on historical rate increases.

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. Resolving structural deficits may force difficult tradeoffs, such as reducing services (typically requiring personnel reductions) and/or increasing taxes beyond what is allowed by right under Proposition 2 ½.