Forecast considerations
February 13, 2018

Context

"Those who do not learn from history are doomed to repeat it."

(George Santayana)

The situation in 2009

- Pressures on personal finances
- Slower than expected growth
- Declining local receipts
- State aid reduction
- Negative credit outlook from rating agencies

Moody’s outlook in 2009

- **What would remove the negative outlook:**
  - Significant progress funding retirement obligations to current and former Town employees (OPEB)
  - Maintain infrastructure through capital investment
  - Restoration of fund balance to manage unexpected events

- **What could move the rating DOWN:**
  - Failure to grow reserves
  - Adoption of structurally imbalanced budgets
  - Less conservative assumptions for revenue and expenditure growth
  - Significant appropriations of free cash without replenishment

2009: Actions taken by the Town

1. **Retirement obligations to current and former town employees (OPEB)**

→ 1. **Budgeted and funded according to 30 year schedule**
   - 2009 Trust balance: $300,000
   - 2017 Trust balance: $12 million

2. **Capital investments to maintain our infrastructure**

→ 2. **Funded capital to level specified in financial policy; stopped paying for capital from fund balance (app. $500,000 per year 2005-09)**

3. **Reserves to manage unexpected events**

→ 3. **Replenished reserves from Operating budget (annual budget turnbacks, unexpected revenue), adopted financial policy**

Town Financial Policy: Forecast considerations

- …the Town should be cautious in incorporating long-term growth assumptions into its financial forecasts and consequent expenditure growth.

- Long-term financial obligations and liabilities should be funded, at a minimum, as required by law…

- When Unassigned Fund Balance exceeds 20%, the Advisory Committee should consider recommending that Town Meeting apply such amounts in excess of 20% to items such as unfunded long-term liabilities, capital expenditures, retirement of debt, or tax relief. **Excess Unassigned Fund Balance should not be used to fund recurring operating budget items.**

Value of a Aaa bond rating

2002 Saved taxpayers **$400,000** over the life of the bond issue for South and High School renovations

2008 Hingham borrowed at **1.09%** interest rate. No Aaa rating meant no credit available at any price.

2009 Saved **close to $1,000,000** over the life of the bond on $43 million in debt in October

Since 2009

- **2015: Financed $36.3 million for HMS and HS Fields at 3.0%**
- **2016: Refinanced $22 million bond at 1.39% ($2.0 million savings over 13 years remaining)**

Lessons learned

- Don’t push the revenue forecast too far
- Forecast and budget expenses based on available revenue
  - Available revenue determines Town annual budget “ceiling”
- Keep funding long-term liabilities
- Don’t be short-sighted on capital
- Keep the rainy day fund for a rainy day
  - Don’t rely too much on fund balance or one-time money to balance the budget

> “Those who do not learn
> from history
> are doomed to repeat it.”
>
> (George Santayana)