Financial Condition Analysis

Presented at Financial Summit
October 18, 2016

Danvers Board of Selectmen
Danvers School Committee
Peabody Institute Library Board of Trustees
Danvers Finance Committee

Table of Contents

Financial Condition Indicators

Introduction to the Financial Condition Analysis

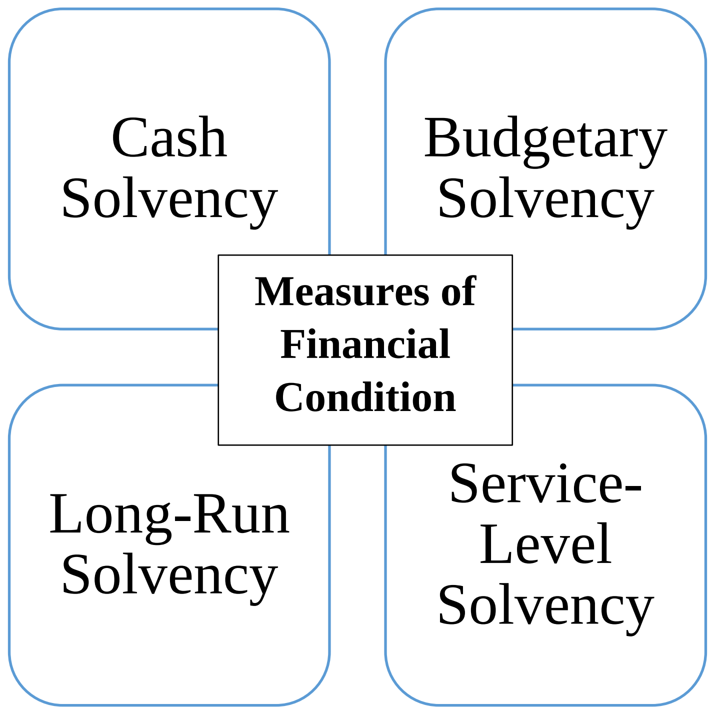
Defining "Financial Condition"

The Town of Danvers provides certain services (i.e. Public Safety, Education, Public Works, Library) at levels required to satisfy the needs of the Town's residents and to comply with State and Federal law.

The Town's "financial condition" can be determined by asking whether the Town is able to: (1) maintain existing levels of service, (2) withstand local, regional and national economic disruptions, and (3) meet the demands of natural growth, decline, and change.

Additionally, the Town's "financial condition" can be measured in the four (4) categories in the matrix below:

The ability to generate cash required to pay its bills for 30 to 60 days. This function is performed by the Treasurer/Collector's Office.



The ability to generate enough revenues over a normal budget cycle (7/1 – 6/30) to meet expenditures and not incur deficits.

The ability to fund long-term liabilities that require long-term financial plans, such as pension, OPEB, and debt service.

The ability to provide services at the level and quality required for health and safety of the community and any further services that its residents desire.

Goal of the Financial Condition Analysis

The financial management team for the Town of Danvers is responsible for identifying current or potential financial problems and developing detailed strategies for addressing them.

By engaging in an annual, systematic process of reviewing the Financial Condition Analysis, the Town will monitor changes and try to anticipate future financial challenges.

Other goals:

- Identify hidden and emerging problems before they reach serious proportions
- Present a straightforward picture of the Town's financial strengths and weaknesses to elected officials, citizens, credit-rating agencies and other interested parties
- Introduce long-range considerations into the annual budget process
- Track compliance of financial policies adopted by elected officials
- Place the events of a single year into a long-term perspective, permitting Town officials to see changes over time
- Incorporate benchmarks normally used by credit-rating agencies

Conclusions

A sound financial condition should result in the ability to withstand local, regional, and national economic disruptions. We have an excellent opportunity in 2016 to look back on the 2008 housing market crash and determine what the impacts were on the Town of Danvers.

The Town must continue to monitor potential problems, assume future market disruptions, and act accordingly. The fourteen (14) Financial Indicators in the Financial Condition Analysis were chosen because they reflect aspects of the cash, budgetary, long-run and service-level solvency the Town strives to maintain.

The Financial Condition Analysis is derived from "Evaluating Financial Condition" by ICMA (2003)

Converting Net Operating Revenues/Expenditures to "Constant Dollars"

The "Constant Dollars" calculation is meant to adjust for inflation, as tracked by the Bureau of Labor Statistics, which produces the Consumer Price Index (CPI) on a quarterly basis.

For the 2016 Financial Condition Analysis, a base year of 2000 is used. The base year becomes the year from which inflation is calculated.

In Table 1, the base index from 1982-84 is set equal to 100 in 2000, creating a new base year, and the first year that inflation is considered is 2001, using the difference in CPI from 2000 to 2001. The right-hand column of Table 1 is then brought down to Table 2 (line 2).

In Table 2, an example of $50,000,000 is used (line 1) as the net operating revenues in the base year of 2000, and the constant dollar amount in line 4 is the same. In 2001, the net operating revenues (line 1) increase by 4% as an example, but the net operating revenues in constant dollars actually decrease when inflation is calculated.

TABLE 1

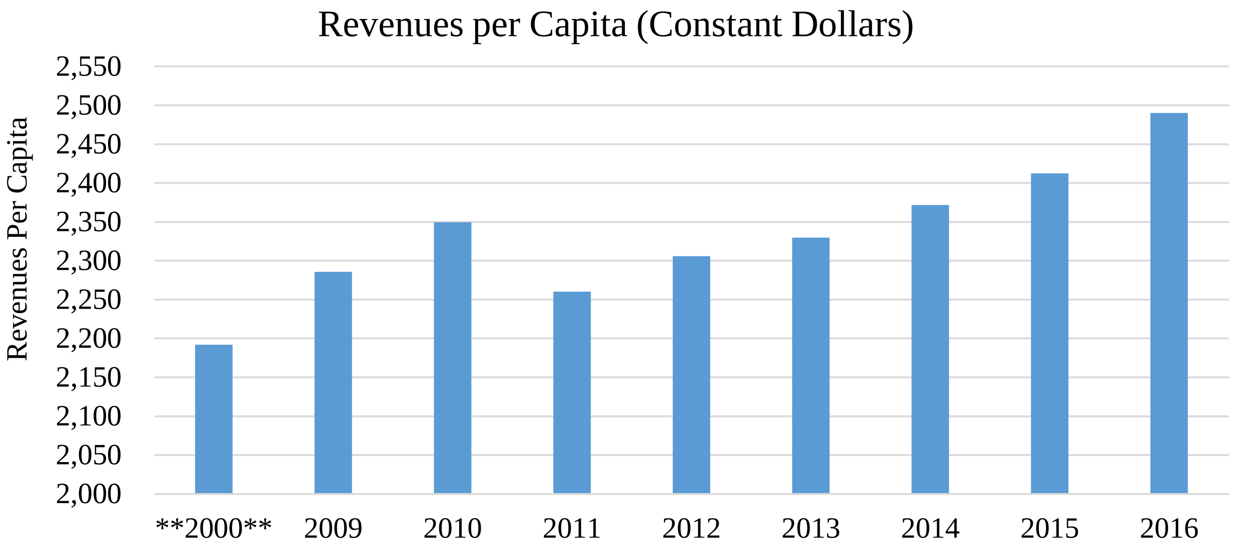
Year	1982-84 base index	Calculation	Result (2000-based index)
2000	183.6	Set equal to 100	**100.00**
2001	192.1	$\frac{100 \times 192.1}{183.6}$	**104.63**
2002	195.7	$\frac{104.63 \times 195.7}{192.1}$	**106.59**
2003	203.0	$\frac{106.59 \times 203.0}{195.7}$	**110.57**
2004	208.9	$\frac{110.57 \times 208.9}{203.00}$	**113.78**

TABLE 2

Line	Description	Source	Fiscal Year Data				
			2000	2001	2002	2003	2004
1	Net operating revenues	Division of Local Services	50,000,000	52,000,000	54,080,000	56,243,200	58,492,928
2	Consumer price index (CPI)	CPI-U Boston	**100.000**	**104.630**	**106.590**	**110.566**	**113.780**
3	CPI in decimals	Line 2, divided by 100	1.000	1.046	1.066	1.106	1.138
4	Net operating revenues (constant dollars)	Line 1, divided by line 3	50,000,000	49,699,115	50,736,270	50,868,234	51,408,816

Financial Indicator 1 – Revenues per Capita

A decrease in net operating revenues per capita (constant dollars) is considered a warning indicator.



Trend Analysis	
	favorable
X	marginal
	unfavorable
	uncertain

formula: $\frac{\text{net op. revenue (constant \$)}}{\text{population}}$

fiscal year	**2000**	2009	2010	2011	2012	2013	2014	2015	2016
Tax Levy	35,328,631	53,984,593	56,031,976	58,243,194	60,347,100	62,526,780	64,756,756	67,349,955	70,286,547
State Aid (including MSBA)	8,072,483	9,549,849	8,182,276	7,755,124	7,587,770	9,305,380	9,707,273	10,013,551	10,220,626
Less MSBA	(187,134)	(708,449)	(708,449)	(694,026)	(694,026)	(694,026)	(694,024)	(694,024)	(694,024)
Local Receipts	7,702,963	9,589,000	9,093,330	9,146,370	10,438,653	10,326,500	10,070,549	10,647,801	11,193,000
All Other	1,792,005	3,462,853	4,801,543	3,512,704	4,004,589	4,849,552	4,794,819	3,345,039	3,742,474
Free Cash	2,550,000	3,122,114	2,653,000	2,862,756	1,904,700	1,241,125	1,996,900	2,149,673	2,458,284
Operating Revenue	**55,258,948**	**78,999,960**	**80,053,676**	**80,826,122**	**83,588,786**	**87,555,311**	**90,632,273**	**92,811,995**	**97,206,907**
CPI-U, 2000 Base Year	100.00	126.92	128.61	133.04	134.16	136.75	139.05	139.98	142.05
CPI-U, 2000 Base, adj. constant dollars	100.0%	78.8%	77.8%	75.2%	74.5%	73.1%	71.9%	71.4%	70.4%
Op. Revenue, adj. constant dollars	**55,258,948**	**62,245,804**	**62,244,232**	**60,754,602**	**62,303,212**	**64,027,352**	**65,179,577**	**66,304,858**	**68,432,470**
Population (DLS)	25,212	27,232	26,493	26,880	27,020	27,483	27,483	27,483	27,483
Revenues (constant dollars) per Capita	**2,192**	**2,286**	**2,349**	**2,260**	**2,306**	**2,330**	**2,372**	**2,413**	**2,490**

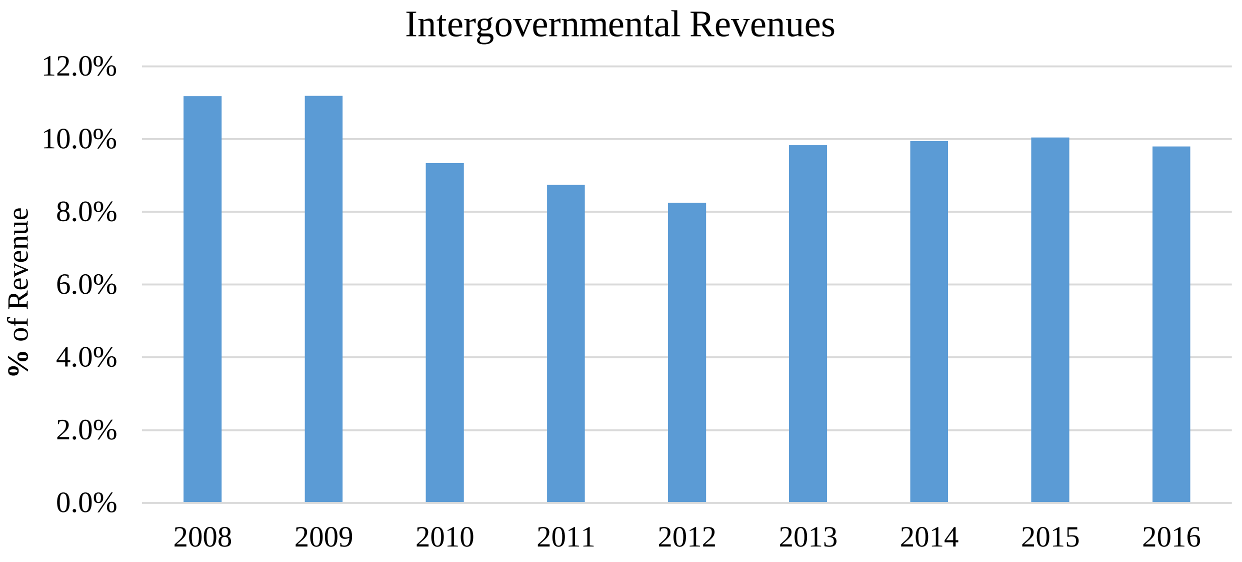
Background: Revenues are being converted to constant dollars to ensure that the Town can maintain level service while inflation increases the cost of providing these services.

Trend/Analysis: The impact of the constant dollar calculation is best illustrated in the years immediately following the market crash of 2008, while a relatively stable market environment from 2012 to 2016 illustrates that revenues have kept up with and exceeded inflation. The increase in revenue above inflation is most closely tied to significant increases in motor vehicle excise and the room tax (hotel/motel).

Forecast/Projection: The tax levy remains stable due to Proposition 2 1/2, but the Town is preparing for local receipts (due mainly to Motor Vehicle Excise) to flatten out.

Financial Indicator 2 – State Aid

Reductions in State Aid, as a percentage of operating revenues, is considered a warning indicator.



Trend Analysis	
X	favorable
	marginal
	unfavorable
	uncertain

formula: $\frac{\text{state aid}}{\text{operating revenue}}$

fiscal year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Net Operating Revenue	75,770,355	78,999,960	80,053,676	80,826,122	83,588,786	87,555,311	90,632,273	92,811,995	97,206,907
State Aid (Cherry Sheet) revenues	9,181,455	9,549,849	8,182,276	7,755,124	7,587,770	9,305,380	9,707,273	10,013,511	10,220,626
Less: School building reimbursements	(714,037)	(708,449)	(708,449)	(694,026)	(694,026)	(694,026)	(694,024)	(694,024)	(694,024)
Net State Aid revenues	**8,467,418**	**8,841,400**	**7,473,827**	**7,061,098**	**6,893,744**	**8,611,354**	**9,013,249**	**9,319,487**	**9,526,602**
State Aid as percentage of operating revenues	**11.2%**	**11.2%**	**9.3%**	**8.7%**	**8.2%**	**9.8%**	**9.9%**	**10.0%**	**9.8%**

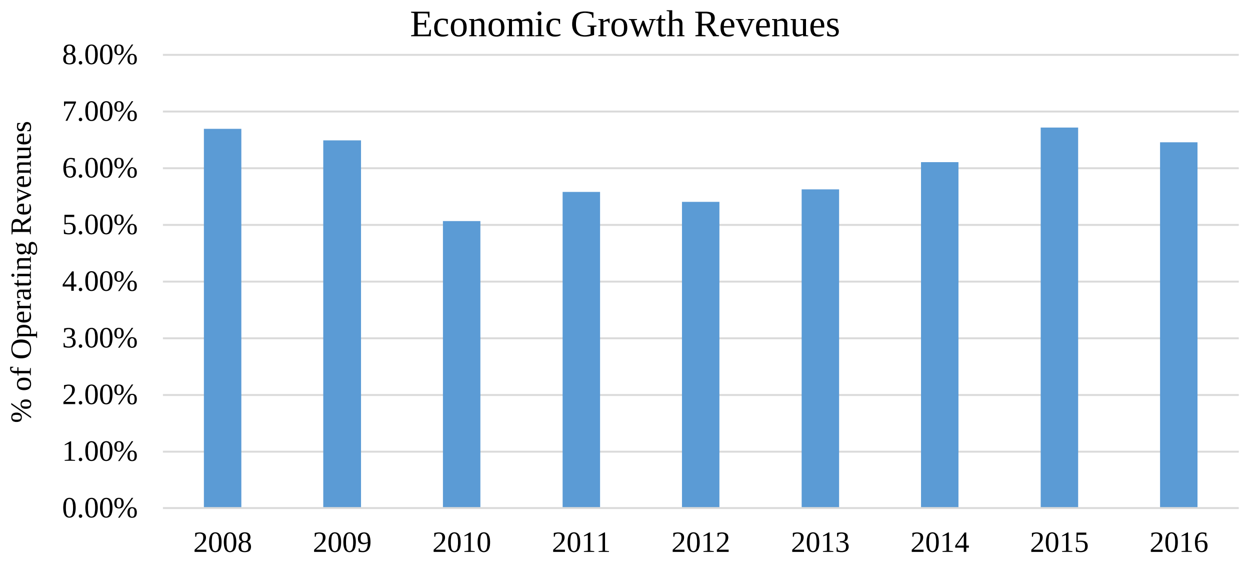
Background: Bond rating agencies view state revenue as volatile. Considering the current budget environment for the Commonwealth of Massachusetts, that concern appears to be valid. Towns that overly rely on state aid can be hit very hard when the state makes budget cuts. MSBA revenue is removed from the calculation because the state is contractually obligated to pay it.

Trend/Analysis: This table perfectly exemplifies why bond rating agencies don't like to see Town's relying on state aid - following the market crash of 2008 state aid began to decline for the Town at the exact point when the Town could have used more non-tax-levy revenue.

Forecast/Projection: The Town will continue to rely on state aid, but at approximately 10% of net operating revenue, bond rating agencies would not consider this an over-reliance.

Financial Indicator 3 – Economic Growth

Decreasing economic growth revenue, as a percent of net operating revenues, is considered a warning indicator



Trend Analysis	
X	favorable
	marginal
	unfavorable
	uncertain

formula: $\frac{\text{economic growth revenues}}{\text{operating revenues}}$

fiscal year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Operating Revenues	75,770,355	78,999,960	80,053,676	80,826,122	83,588,786	87,555,311	90,632,273	92,811,995	97,206,907
Building Permit Fees	977,048	280,328	152,001	306,480	430,775	471,338	494,546	663,871	716,210
Motor Vehicle Excise	3,431,792	3,455,075	3,295,282	3,393,048	3,478,878	3,770,170	4,133,383	4,374,021	4,702,448
Tax Levy from New Construction	663,796	1,392,636	608,195	809,088	609,480	682,026	906,401	1,197,233	859,357
Total: Economic Growth Revenues	**5,072,636**	**5,128,039**	**4,055,478**	**4,508,616**	**4,519,133**	**4,923,534**	**5,534,330**	**6,235,125**	**6,278,015**
Economic Growth rev. as a % of operating revenues	**6.7%**	**6.5%**	**5.1%**	**5.6%**	**5.4%**	**5.6%**	**6.1%**	**6.7%**	**6.5%**

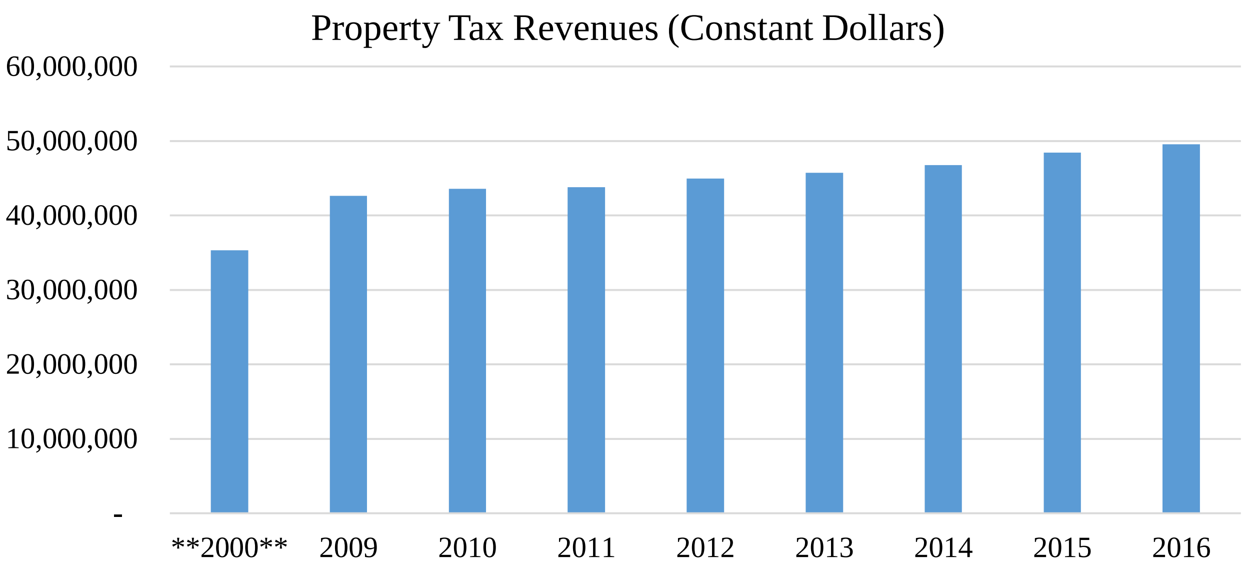
Background: ICMA and GFOA consider (1) Building Permit Fees, (2) Motor Vehicle Excise and (3) New Growth as being indicative of economic growth. Tracking these factors as compared to operating revenues (which generally increase annually) means that even if this ratio is flat, the Town is still experiencing economic growth.

Trend/Analysis: The reason for the decrease from 2009 to 2010 is due to the timing of when new growth is calculated. The significant drop in building permits from 2008 ($977k) to 2009 ($280k) corresponds with the drop in New Growth from 2009 ($1.4m) to 2010 ($608k).

Forecast/Projection: Building permit fee revenue and new growth have returned to stable levels after 2008. On the flipside, motor vehicle excise tax is the highest it has ever been.

Financial Indicator 4 – Property Tax Revenues

A decline in property tax revenues (constant dollars) is considered a warning indicator



Trend Analysis	
X	favorable
	marginal
	unfavorable
	uncertain

formula: property tax levy (constant $)

Background: The Property Tax Levy is the revenue category that directly impacts home owners and is therefore shown with its own indicator.

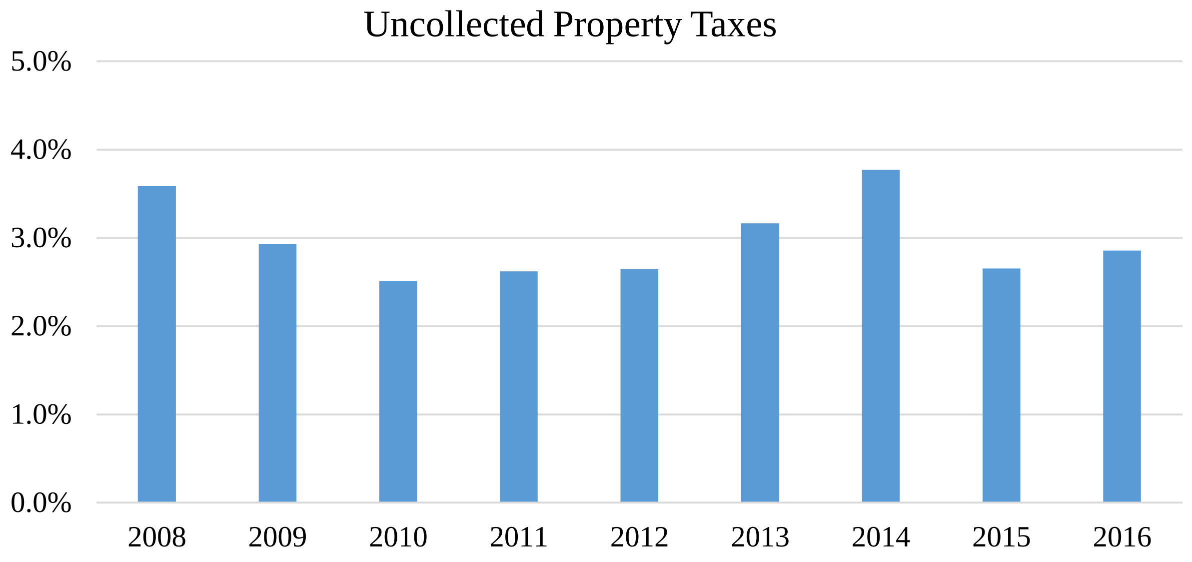
Trend/Analysis: Any decrease in property tax revenues (constant dollars) should be monitored to ensure that the collection rate of taxes remains high.

Forecast/Projection: Proposition 2 1/2 limits property tax increases to 2.5% increase to the tax levy + new growth.

fiscal year	****2000****	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Property Tax Levy Limit (incl. unused levy capacity)	35,328,631	54,116,618	56,077,728	58,288,759	60,355,458	62,546,370	65,016,430	67,839,074	70,394,408
CPI-U, 2000 Base Year	100.0	126.9	128.6	133.0	134.2	136.7	139.1	140.0	142.0
CPI-U, 2000 Base, adj. constant dollars	100.0%	78.8%	77.8%	75.2%	74.5%	73.1%	71.9%	71.4%	70.4%
Property Tax Revenues (constant dollars)	**35,328,631**	**42,639,672**	**43,602,184**	**43,813,934**	**44,986,165**	**45,738,841**	**46,757,554**	**48,464,212**	**49,556,799**

Financial Indicator 5 – Uncollected Property Tax

Uncollected property taxes (as a percent of the tax levy) of 5-8 percent is considered a warning indicator



Trend Analysis	
	favorable
	marginal
	unfavorable
	uncertain

formula: $\frac{\text{uncollected property taxes}}{\text{net property tax levy}}$

fiscal year	2008	2009	2010	2011	2012	2013	2014	2015	2016
Property Tax Levy	51,331,368	53,984,592	56,031,976	58,243,194	60,347,100	62,526,780	64,756,757	67,349,955	70,286,547
Overlay Reserve for Abatements and Exemptions	(744,375)	(883,940)	(695,985)	(704,514)	(690,940)	(676,495)	(761,632)	(865,802)	(850,555)
Net Property Tax Levy, less Overlay Reserve	50,586,993	53,100,652	55,335,991	57,538,680	59,656,160	61,850,285	63,995,125	66,484,153	69,435,992
Uncollected Taxes as of June 30	**1,813,808**	**1,555,716**	**1,389,168**	**1,507,856**	**1,578,738**	**1,957,784**	**2,412,524**	**1,765,335**	**1,982,707**
Uncollected Taxes as a % of Net Property Tax Levy	**3.6%**	**2.9%**	**2.5%**	**2.6%**	**2.6%**	**3.2%**	**3.8%**	**2.7%**	**2.9%**

Background: Uncollected property taxes signify a potential problem where tax payers may be experiencing an inability to pay their local taxes.

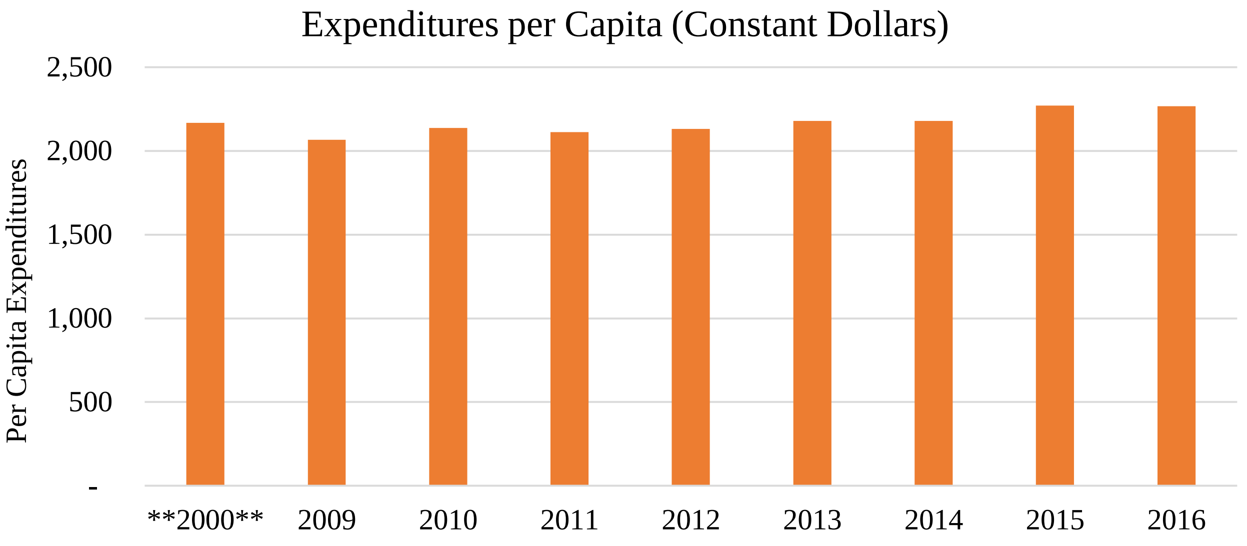
Trend/Analysis: The uncollected property tax ratio went in a positive direction for the Town following the market downturn of 2008, which is a good indication that the Town's taxpayers do not fall into a risk category for bond rating agencies. The steady increase from 2011 to 2014 was resolved by the Treasurer/Collector and Town Counsel working collaboratively with delinquent tax payers.

Forecast/Projection: The Town has been tracking this category through the CAFR for a number of years and will maintain its current process of working with delinquent tax payers to ensure payment without putting undue pressure on the Town's residents.

Source Data: DLS Databank; Treasurer/Collector's Office

Financial Indicator 6 – Expenditures per Capita

Increasing net operating expenditures per capita (constant dollars) may be considered a warning indicator



Trend Analysis	
	favorable
✖	marginal
	unfavorable
	uncertain

formula: $\frac{\text{net expenditures (constant \$)}}{\text{population}}$

fiscal year	**2000**	2009	2010	2011	2012	2013	2014	2015	2016
General Government	1,773,535	2,780,370	2,700,114	2,698,261	2,719,061	2,842,413	2,909,901	3,303,550	3,207,512
Education (incl. Voke)	20,623,451	30,561,792	31,100,257	32,483,473	33,782,787	35,459,478	35,825,212	37,977,094	39,247,140
Public Safety	6,885,269	9,602,218	9,591,082	10,185,237	10,182,459	10,536,264	10,473,264	10,841,753	10,843,317
DPW (Tax Supported)	8,701,667	10,396,887	9,907,056	10,168,240	9,239,665	9,935,284	10,562,422	11,145,259	10,036,037
Planning & Human Services	1,167,590	1,338,338	1,387,719	1,451,494	1,459,753	1,471,841	1,566,494	1,617,997	1,842,783
Peabody Institute Library	826,114	1,124,958	1,153,843	1,178,425	1,186,617	1,190,589	1,220,062	1,247,858	1,281,331
Retirement Contribution (Tax Supported)	2,535,112	3,304,166	3,964,796	3,680,583	3,859,140	4,030,812	4,444,222	4,605,919	4,977,259
Debt Service	2,672,162	3,539,828	3,964,001	4,120,841	4,790,222	5,669,824	5,454,769	5,415,417	5,505,055
Insurance & Benefits	5,867,505	8,808,292	9,069,493	9,603,384	10,029,973	10,753,164	10,863,017	11,258,516	11,577,433
Operating Expenditures	**51,052,405**	**71,456,848**	**72,838,360**	**75,569,937**	**77,249,677**	**81,889,668**	**83,319,362**	**87,413,363**	**88,517,867**
CPI-U, 2000 Base Year	100.00	126.92	128.61	133.04	134.16	136.75	139.05	139.98	142.05
CPI-U, 2000 Base, adj. constant dollars	100.0%	78.8%	77.8%	75.2%	74.5%	73.1%	71.9%	71.4%	70.4%
Op. Revenue, adj. constant dollars	**51,052,405**	**56,302,420**	**56,634,099**	**56,803,683**	**57,578,334**	**59,884,186**	**59,920,386**	**62,448,077**	**62,315,492**
Population (DLS)	25,212	27,232	26,493	26,880	27,020	27,483	27,483	27,483	27,483
Expenditures per Capita	**2,025**	**2,068**	**2,138**	**2,113**	**2,131**	**2,179**	**2,180**	**2,272**	**2,267**

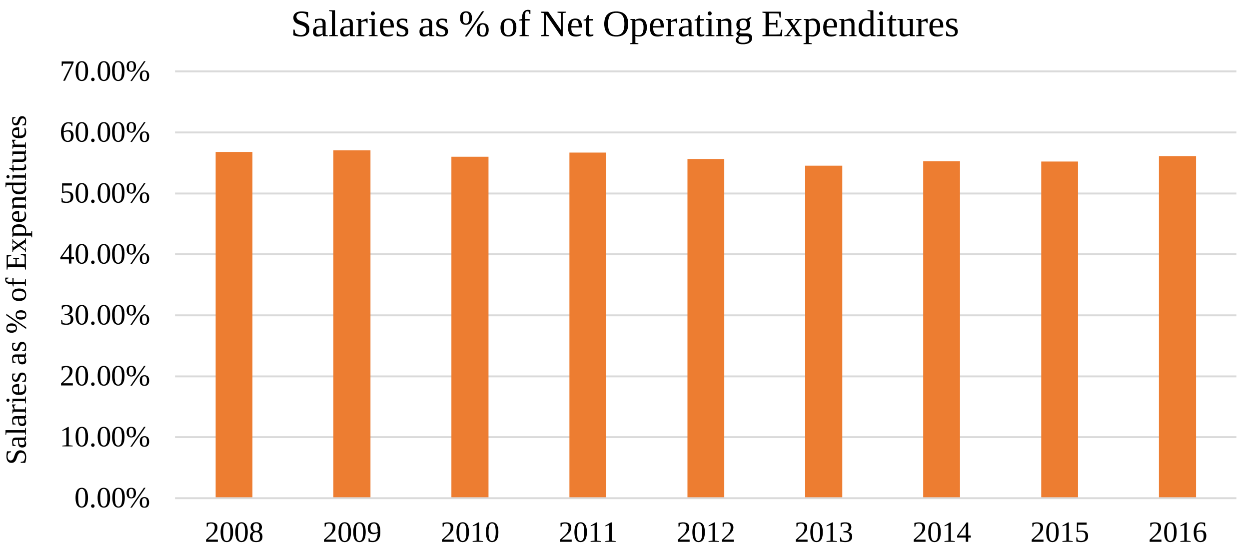
Background: Increasing per capita expenditures (in constant dollars) can indicate that the cost of providing service is increasing more rapidly than the Town's ability to pay, especially if spending is increasing faster than residents' collective personal income. Increasing expenditures may also indicate that the demographics of the Town are changing, which is also monitored.

Trend/Analysis: The Town's increase in expenditures has largely been related to increasing costs for retirement and health care benefits (see Indicator 8). In FY2015, Tax-Supported DPW expenditures spiked due to snow and ice costs associated with historic snowfall.

Forecast/Projection: The retirement contribution is projected to have 8% increases for the next 4-8 years. Additionally, a 5.75% increase in health care premiums in FY17 was the highest increase since the Town switched to Tufts in FY2012, which is being monitored as a potential budget issue in the coming years (70% of premiums paid by Town, 30% by employees).

Financial Indicator 7 – Salaries & Wages

Increasing personnel costs as a percentage of total spending is considered a warning indicator



Trend Analysis	
	favorable
	marginal
	unfavorable
	uncertain

formula: $\frac{\text{salaries}}{\text{net operating expenditures}}$

fiscal year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Net Operating Expenditures	69,189,616	71,456,848	72,838,360	75,569,937	77,249,677	81,889,668	83,319,362	87,413,363	88,517,867
School Salaries (less grants)	22,997,057	24,018,441	24,088,475	25,323,962	25,658,613	26,675,051	28,013,432	29,328,550	30,651,608
General Government Salaries	16,310,354	16,740,471	16,721,813	17,533,713	17,342,997	17,971,221	18,063,868	18,935,411	19,042,879
Salaries & Wages as % of Exp.	**56.8%**	**57.0%**	**56.0%**	**56.7%**	**55.7%**	**54.5%**	**55.3%**	**55.2%**	**56.1%**

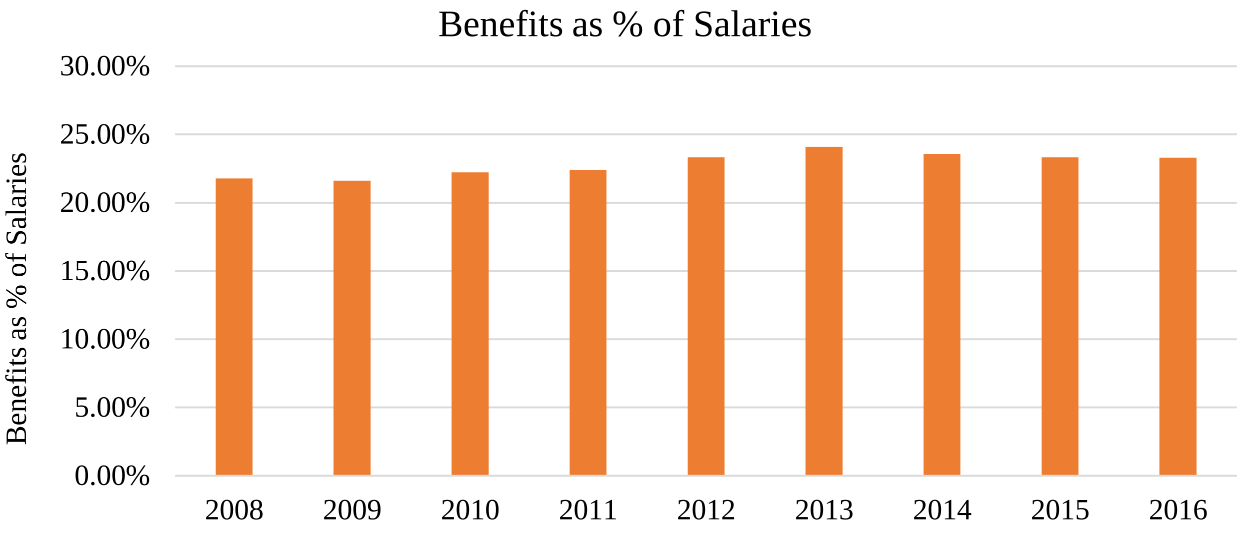
Background: Increasing salaries and wages as a percent of operating expenditures may be an indicator of two trends: (1) It may point to future pension and health insurance costs since both are related to the number of employees and their compensation levels; and (2) If salaries and wages as a percent of operating expenditures are increasing because the Town is reducing its expenditures on maintenance and capital outlay, it may be an indicator of deferred maintenance of the Town's infrastructure.

Trend/Analysis: Salaries and Wages as a percent of net operating expenditures was highest in FY2009, following the market crash when "other expense" lines can be cut but salary and wage costs can only be altered by laying off staff. The Town was able to get through the 2008 crash without significant personnel cuts.

Forecast/Projection: The Town's seven (7) collective bargaining agreements expire 6/30/2017.

Financial Indicator 8 - Benefits

Increasing benefits costs as a percentage of total spending is considered a warning indicator



Trend Analysis	
	favorable
	marginal
	unfavorable
	uncertain

formula: $\frac{\text{benefits}}{\text{salaries}}$

fiscal year	2008	2009	2010	2011	2012	2013	2014	2015	2016
Insurance & Benefits	8,559,842	8,808,292	9,069,493	9,603,384	10,029,973	10,753,164	10,863,017	11,258,516	11,577,433
less: Casualty/Liability Insurance	(212,911)	(192,500)	(197,898)	(182,266)	(93,246)	(108,573)	(216,403)	(229,832)	(236,231)
Employee Benefits	**8,346,931**	**8,615,792**	**8,871,596**	**9,421,117**	**9,936,727**	**10,644,590**	**10,646,614**	**11,028,684**	**11,341,202**
School Salaries (less grants)	22,997,057	24,018,441	24,088,475	25,323,962	25,658,613	26,675,051	28,013,432	29,328,550	30,651,608
General Government Salaries	16,310,354	16,740,471	16,721,813	17,533,713	17,342,997	17,971,221	18,063,868	18,935,411	19,042,879
General Govt & School Salaries	**39,307,411**	**40,758,912**	**40,810,288**	**42,857,675**	**43,001,610**	**44,646,272**	**46,077,300**	**48,263,961**	**49,694,487**
Benefits as % of Salaries & Wages	**21.8%**	**21.6%**	**22.2%**	**22.4%**	**23.3%**	**24.1%**	**23.6%**	**23.3%**	**23.3%**

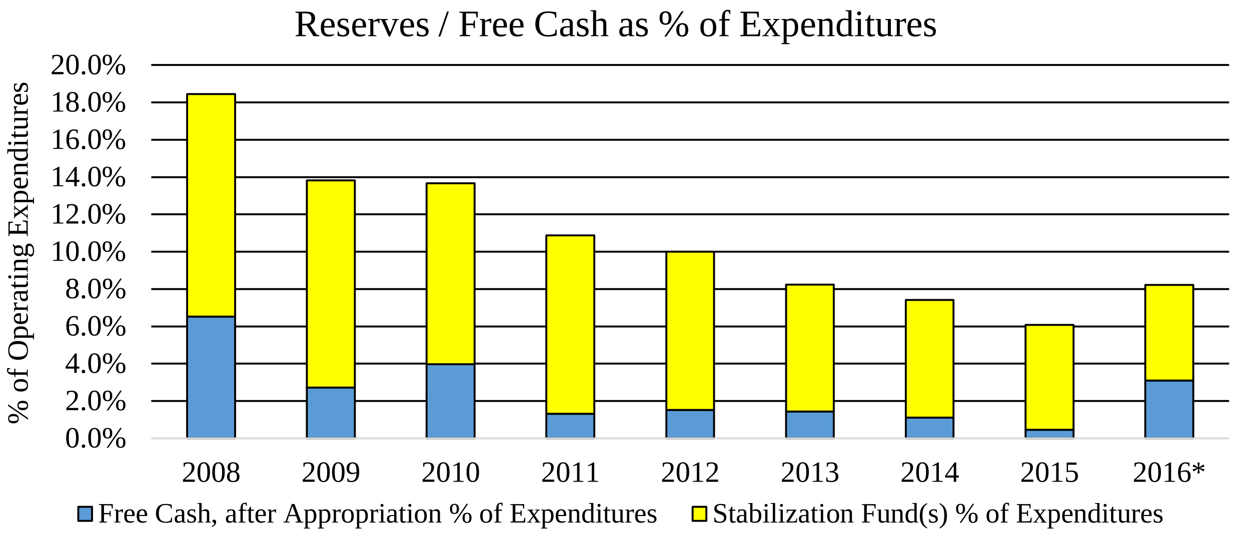
Background: Health care benefits represent a significant share of the Town's operating costs, and this analysis understates the true cost because it does not include the OPEB Liability.

Trend/Analysis: While the cost of premiums has been favorable for the Town since changing to Tufts in 2012 (as compared with the market and the GIC), this ratio has increased slightly.

Forecast/Projection: After a 5.75% increase in premiums in FY2017, the Town's IAC will convene prior to the FY2018 budget process in order to determine if the cost structure of the current Tufts plan should be altered to help save employees and the Town from significant increases in premiums in the future.

Financial Indicator 9 – Reserves / Free Cash (after Approp.)

Declining reserves as a percentage of operating expenditures is considered a warning indicator



Trend Analysis	
	favorable
X	marginal
	unfavorable
	uncertain

formula: $\frac{\text{free cash \& reserves}}{\text{net operating exp.}}$

fiscal year	2008	2009	2010	2011	2012	2013	2014	2015	2016*
Net Operating Expenditures	69,189,616	71,456,848	72,838,360	75,569,937	77,249,677	81,889,668	83,319,362	87,413,363	87,413,363
Certified Free Cash (DOR) **	7,194,731	5,065,890	5,541,821	3,860,866	3,083,190	2,408,514	2,924,780	2,554,469	5,162,836
Amount Appropriated	(2,685,565)	(3,122,114)	(2,653,000)	(2,862,756)	(1,904,700)	(1,241,125)	(1,996,900)	(2,149,673)	(2,458,284)
Net of Free Cash after Appropriation	**4,509,166**	**1,943,776**	**2,888,821**	**998,110**	**1,178,490**	**1,167,389**	**927,880**	**404,796**	**2,704,552**
General Stabilization Fund	1,084,253	898,416	466,863	1,118,592	1,141,970	718,192	729,791	720,097	728,724
School Building Stabilization Fund	7,170,904	6,907,741	6,500,176	6,106,404	5,404,587	4,840,310	4,475,174	4,109,879	3,678,667
Subtotal - Stabilization Funds	**8,255,157**	**7,806,157**	**6,967,039**	**7,224,996**	**6,546,557**	**5,558,502**	**5,204,965**	**4,829,976**	**4,407,391**
Total as a % of net operating expenditures	**18.4%**	**13.8%**	**13.7%**	**10.9%**	**10.0%**	**8.2%**	**7.4%**	**6.1%**	**8.2%**

**The stabilization fund balances for FY2016 are unaudited as of October 18, 2016*

***Due to timing of when Free Cash is certified, Free Cash certified as of 7/1/14 was used to appropriate for FY2016. The Free Cash available for FY17 budget was $6.1M*

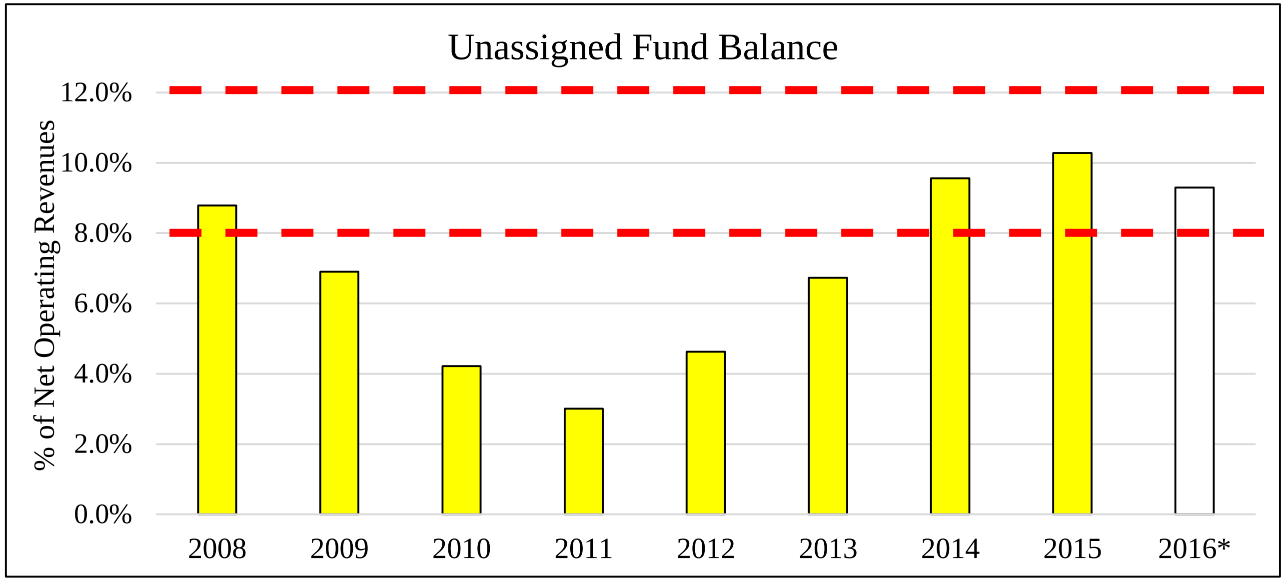
Background: Free Cash is generated as a result of favorable revenue/expenditure to budget outcomes. It is certified annually by MassDOR. During the budget process, Free Cash is used to pay for large, one-time expenditures, generally capital improvements. Town Meeting is responsible for appropriating Free Cash (see Town Reserve Policy).

Trend/Analysis: Reserves are needed to help the Town weather economic downturns, such as 2008, and this indicator illustrates the long-term impacts of the housing market crash. Free Cash has been used very effectively to pay for capital projects on an annual basis, mitigating the need to borrow.

Forecast/Projection: The Town will continue to estimate revenues conservatively and watch spending which will allow healthy Free Cash numbers in the future. In the FY2017 budget, the Town made a concerted effort to reverse the draw-down on the School Building Stabilization Fund by putting $1.1 million into the fund and only using $500,000 to offset debt service.

Financial Indicator 10 – Unassigned Fund Balance (UFB)

The Town has a goal of maintain a UFB in the range of 8-12% of net operating expenditures; below 5% is a warning indicator



Trend Analysis	
X	favorable
	marginal
	unfavorable
	uncertain

formula: $\frac{\text{unassigned fund balance}}{\text{net operating expenditures}}$

fiscal year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016***
Unassigned Fund Balance (Audit)	6,078,856	4,930,845	3,073,418	2,271,697	3,572,172	5,511,075	7,965,218	8,982,083	
Net Operating Expenditures	69,189,616	71,456,848	72,838,360	75,569,937	77,249,677	81,889,668	83,319,362	87,413,363	
UFB as a % of net operating expenditures	**8.8%**	**6.9%**	**4.2%**	**3.0%**	**4.6%**	**6.7%**	**9.6%**	**10.3%**	**.0%**

**unavailable as of 10/18/16*

Background: Unassigned Fund Balance is calculated by independent auditors on an annual basis - Free Cash is a more conservative component of Unassigned Fund Balance. Unassigned Fund Balance includes the General Stabilization Fund balance, but not the School Construction Stabilization Fund, which is included in the "committed" fund balance.

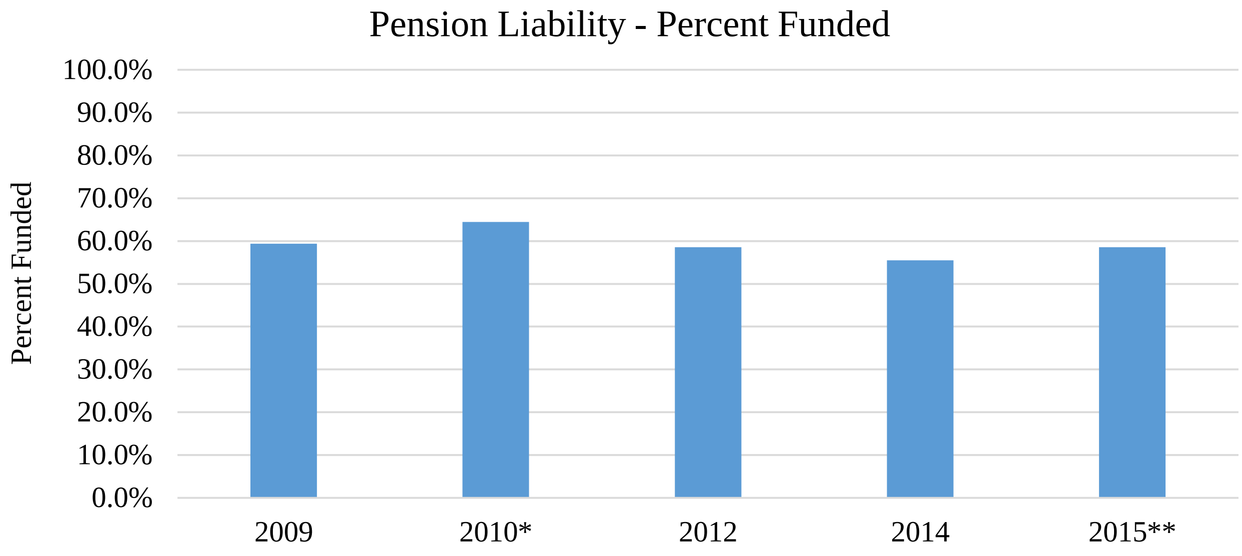
Trend/Analysis: Following the 2008 market disruption, the Town's Unassigned Fund Balance began to decline as Free Cash and the General Stabilization Fund were needed to cover capital costs. The Town has returned to having UFB at 10% of Net Operating Revenues, a positive indicator for bond rating agencies.

Forecast/Projection: The Town will aim to maintain UFB at its current levels, but also plans to continue to move money from Unassigned Fund Balance (through the appropriation of Free Cash) to the School Construction Stabilization Fund (committed fund balance) as the Town prepares for the Smith School Project.

Source Data: CAFR

Financial Indicator 11 – Pension Liability

An increase in unfunded pension liability is considered warning indicator



Trend Analysis	
	favorable
	marginal
X	unfavorable
	uncertain

formula: $\frac{\text{pension assets}}{\text{pension liability}}$

calendar year	**2009**	**2010***	**2012**	**2014**	**2015****
Pension assets	75,217,536	84,017,923	83,875,130	89,955,182	99,689,253
Pension liability	126,644,696	130,372,380	143,155,432	162,199,777	170,186,175
Percent funded	**59.4%**	**64.4%**	**58.6%**	**55.5%**	**58.6%**

** In 2010, valuations switched to even calendar years; Stone Consulting was hired for 3 valuations*

*** As of 1/1/15 a separate valuation was done, between valuation years, to satisfy GASB Statements No. 67 and 68*

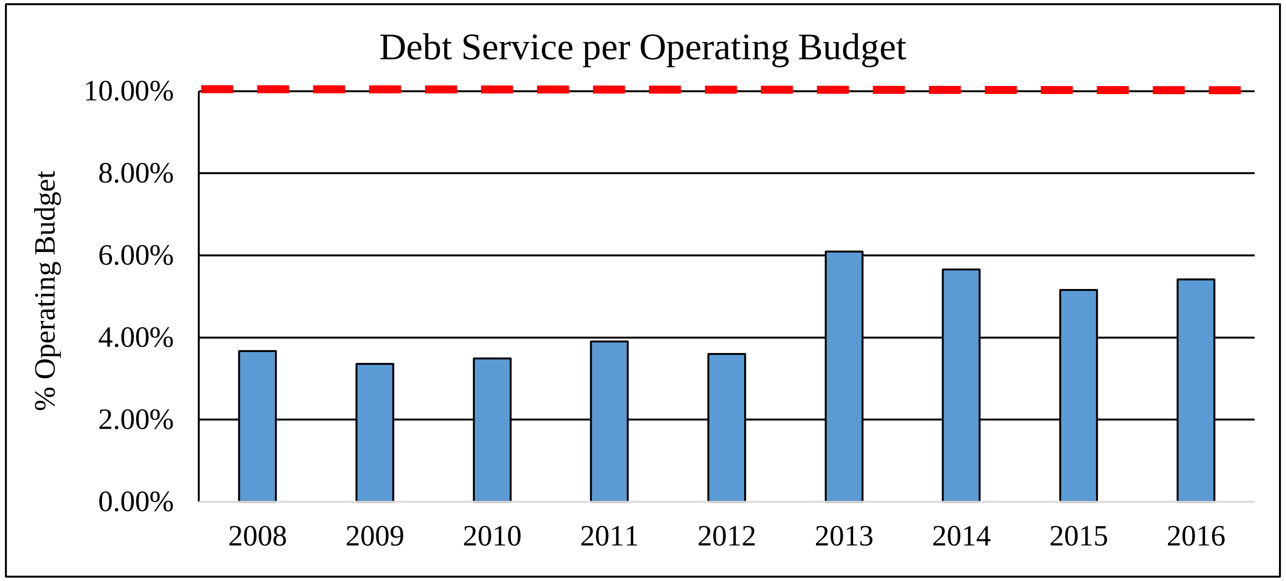
Background: Retirement benefits are administered by the Danvers Retirement Board (DRB) and a dedicated staff of 1.5 employees. The Town is legally obligated to: (1) have an actuarial study done every two years to determine the Town's pension liability, and (2) create a schedule for annual contributions that will pay down the liability by 2040. Danvers is currently using a schedule that will have the liability met by 2036. Pension Boards are overseen by PERAC, a quasi-state agency. The most common way to measure a Town's pension liability is called the "funded ratio" which is simply pension assets, divided by pension liability.

Trend/Analysis: The Town has remained in the 55% to 65% funded range. PERAC considers 60% funded to be a warning indicator. For systems that are under 60%, PERAC will track performance against the State's system (PRIT) and potentially force underperforming systems to invest through PRIT.

Forecast/Projection: The system's performance has followed the overall market in the past few years. The performance in 2012 (10.93%) and 2013 (19.63%) was positive following the market crash of 2008, whereas weak performance in 2014 (2.65%) and 2015 (-1.49%) has stopped the system from reaching 60% funded in the next actuarial study.

Financial Indicator 13 – Debt Service

Debt service exceeding 10% of the operating budget is considered a warning indicator by the credit rating agencies



Trend Analysis	
	favorable
	marginal
	unfavorable
	uncertain

formula: $\frac{\text{debt service}}{\text{operating budget}}$

fiscal year	2008	2009	2010	2011	2012	2013	2014	2015	2016
Exempt Debt Service	-	-	-	-	-	-	-	-	-
Non Exempt Debt Service	3,218,396	3,116,874	3,278,358	3,630,587	3,482,751	5,611,158	5,367,344	5,139,541	5,527,313
Less: MSBA Reimbursements	(714,037)	(708,449)	(708,449)	(694,026)	(694,026)	(694,026)	(694,024)	(694,024)	(694,024)
Total Debt Service	**2,504,359**	**2,408,425**	**2,569,909**	**2,936,561**	**2,788,725**	**4,917,132**	**4,673,320**	**4,445,517**	**4,833,289**
Operating Budget (w/o Warrant Articles)	**68,172,340**	**71,728,738**	**73,591,512**	**75,182,441**	**77,512,263**	**80,661,017**	**82,653,016**	**86,190,316**	**89,268,380**
Debt Service as % of Op. Budget	**3.7%**	**3.4%**	**3.5%**	**3.9%**	**3.6%**	**6.1%**	**5.7%**	**5.2%**	**5.4%**

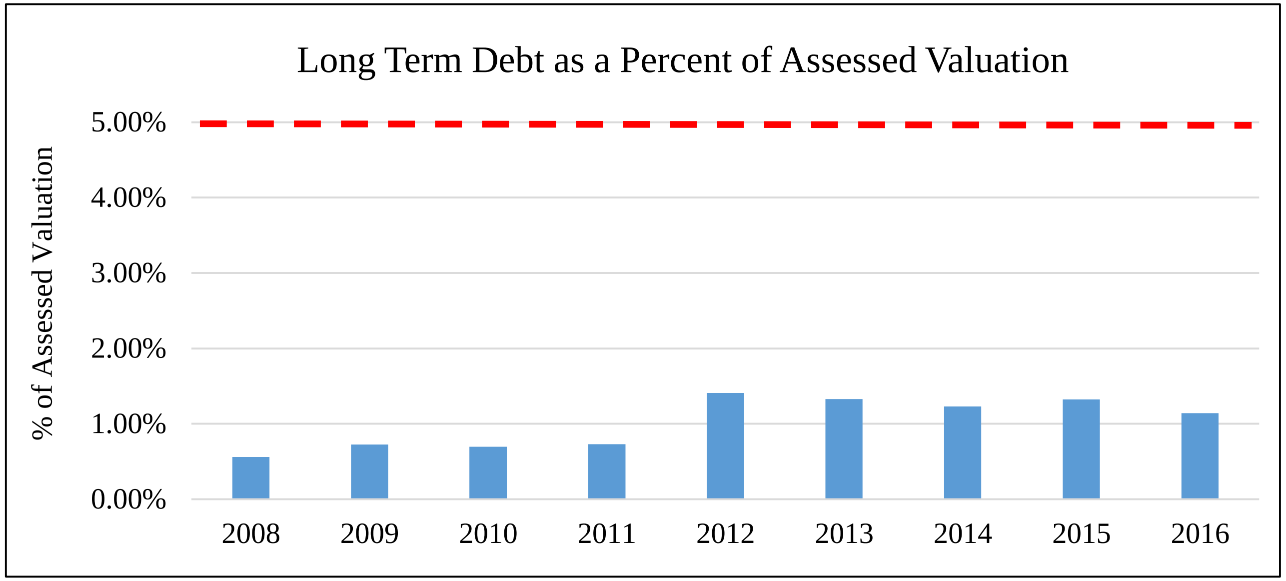
Background: Properly managed debt can enhance financial flexibility in current and future operating budgets, allowing the Town to acquire long-term assets that improve the quality of life for Danvers' residents without requiring overrides of Prop. 2 1/2. Conversely, debt establishes fixed obligations for future years which may impact the ability of the Town to address future needs through the operating budget.

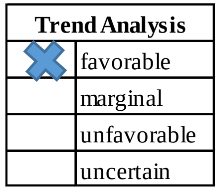
Trend/Analysis: The Town's debt policy establishes that the annual general fund debt service will not exceed 10% of the Town's annual net Operating Budget. The Town has not exceeded this threshold. The peak year for debt service as a percent of operating budget was 2013, the first year of payments after the long-term borrowing was finalized for the Danvers High School Renovation Project.

Forecast/Projection: The Town will be closely monitoring this financial indicator as the Smith School Project approaches. By making efforts to stay within Prop. 2 1/2 the Town runs little risk of bumping up against the 10% ceiling, however, minimizing the annual debt service payments will be critical for allowing the Town to maintain services while also completing large projects, such as the Smith School.

Financial Indicator 14 – Long Term Debt

Long Term Debt exceeding 5 percent of assessed valuation is not allowed under Mass. General Law





formula: $\frac{\text{long term debt}}{\text{assessed valuation}}$

fiscal year	2008	2009	2010	2011	2012	2013	2014	2015	2016
Outstanding Long Term Debt (General Fund)	24,420,045	31,255,506	28,573,470	28,654,570	55,258,870	51,804,670	48,403,070	53,686,027	50,071,000
Assessed Valuation	4,363,590,583	4,292,626,505	4,096,958,924	3,930,282,886	3,922,581,465	3,894,807,200	3,934,210,567	4,056,879,982	4,391,700,413
Long-Term Debt as a % of assessed valuation	**0.56%**	**0.73%**	**0.70%**	**0.73%**	**1.41%**	**1.33%**	**1.23%**	**1.32%**	**1.14%**

Background: The use of long-term debt is an effective way to finance major infrastructure and equipment needs, but long-term debt also establishes a fixed obligation for many years. The ability to pay back long-term debt is based entirely on the Town's ability to raise funds through taxation which is tied to the valuation of property within Town.

Trend Analysis: The Town's total assessed valuation dropped significantly and rapidly following the housing market crash of 2008. Despite the decrease in assessed valuation, the Town's long-term debt was maintained below 2% of total assessed valuation while adding a significant long-term borrowing to the books in 2012 with the completion of the Danvers High School Renovation Project.

Forecast/Projection: With the triennial revaluation in FY16, the Town's total assessed valuation has finally returned to pre-market crash levels (i.e. over $4 billion). Even with the potential Smith School Project going into design phase, the Town will not have any issues keeping this ratio below 5%.