Financial Condition Analysis

Presented at Financial Summit
October 26, 2017

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

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Financial Condition Indicators

Introduction to the Financial Condition Analysis

Defining "Financial Condition"

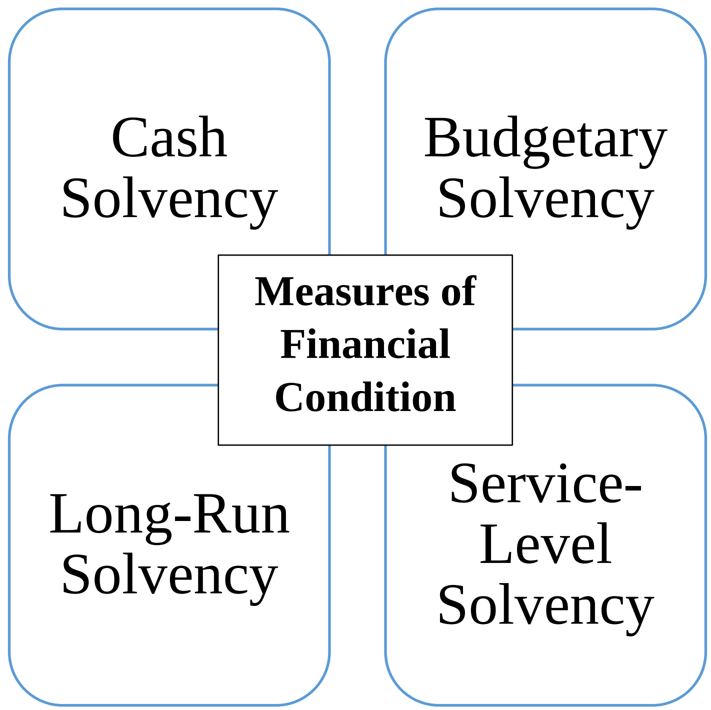
The Town of Danvers provides a variety of services (i.e. Public Safety, Education, Public Works, Library) at levels required to meet the needs of the Town's residents and to comply with State and Federal law.

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 challenges 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 clear 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, allowing Town officials to track 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 2017 to look back on the 2008 housing market crash and determine what the lasting impacts were on the Town of Danvers.

The Town must continue to monitor potential challenges, 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 2017 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

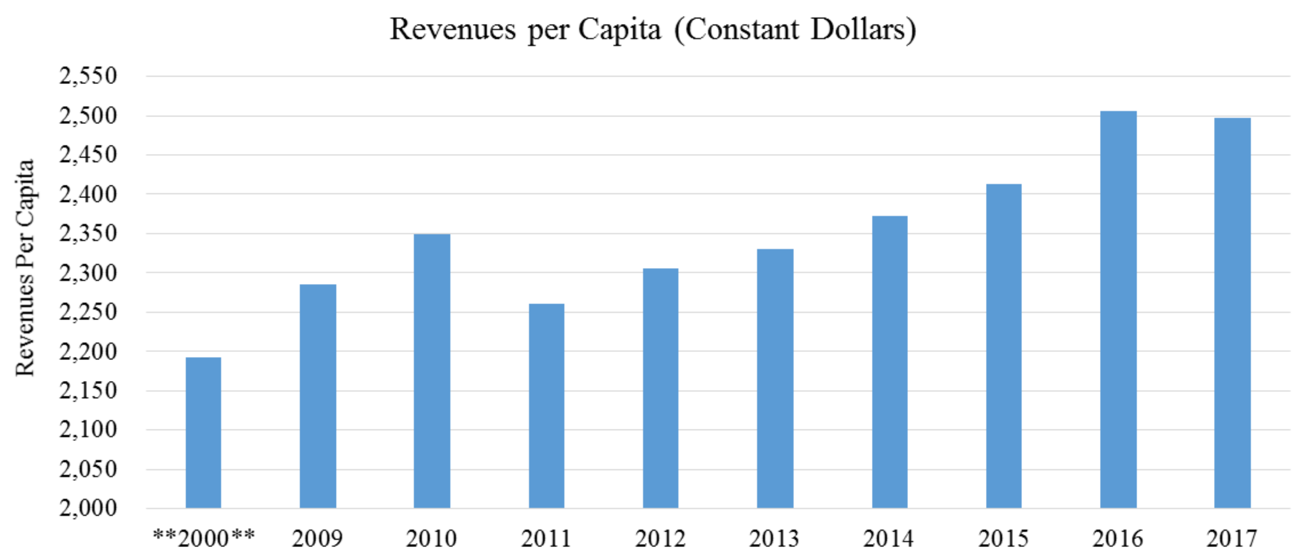
Year	**1982-84 base index**	**Calculation**	**Result (2000-based index)**
2000	183.6	Set equal to 100	**100.00**
2001	192.1	$\frac{100 \times 192.1}{183.6}$	**104.63**
2002	195.7	$\frac{104.63 \times 195.7}{192.1}$	**106.59**
2003	203.0	$\frac{106.59 \times 203.0}{195.7}$	**110.57**
2004	208.9	$\frac{110.57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

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

Trend/Analysis: The significant drop from 2010 to 2011 was a direct result of the market crash of 2008. The consistent decline in State Aid from FY09 to FY12 is detailed in Indicator 3. With a relatively stable market environment in the past five (5) years, revenue increases have been greater than inflation, mostly due to consistent increases in motor vehicle excise tax and room tax (hotel/motel) which are found in “local receipts.” The drop from FY16 to FY17 is due mainly to a drop in the use of “All Other” which, in this case, is related to the use of reserves to offset debt service.

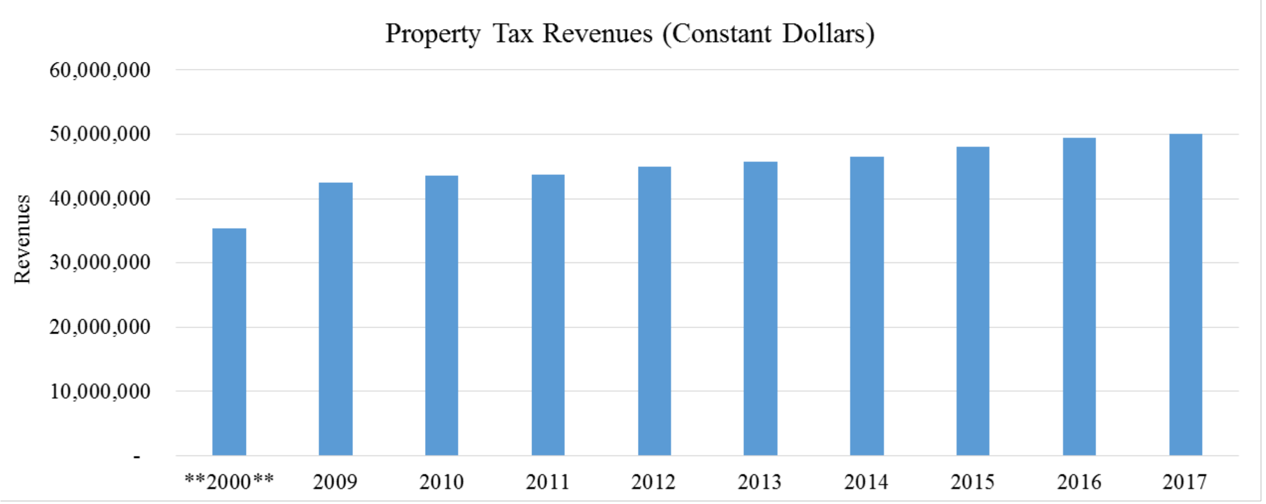
fiscal year	****2000****	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Tax Levy	35,328,631	53,984,593	56,031,976	58,243,194	60,347,100	62,526,780	64,756,756	67,349,955	70,286,547	72,654,228
State Aid (including MSBA)	8,072,483	9,549,849	8,182,276	7,755,124	7,587,770	9,305,380	9,707,273	10,013,551	10,220,626	10,587,904
Less MSBA	(187,134)	(708,449)	(708,449)	(694,026)	(694,026)	(694,026)	(694,024)	(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	12,648,685	12,840,623
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	1,807,455
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	3,291,228
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**	**98,662,592**	**100,487,414**
CPI-U, 2000 Base Year	100.00	126.92	128.61	133.04	134.16	136.75	139.05	139.98	142.05	145.11
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%	68.9%
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**	**69,457,254**	**69,247,301**
Population (DLS)	25,212	27,232	26,493	26,880	27,020	27,483	27,483	27,483	27,724	27,724
Revenues (constant dollars) per Capita	**2,192**	**2,286**	**2,349**	**2,260**	**2,306**	**2,330**	**2,372**	**2,413**	**2,505**	**2,498**

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

Source Data: DLS Databank

Financial Indicator 2 – Property Tax Revenues

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



Trend Analysis	
X	favorable
	marginal
	unfavorable
	uncertain

Background: The property tax levy is the revenue category that directly impacts home and business owners in Town and is therefore shown with its own indicator.

Trend/Analysis: The ability of Danvers to provide services without the use of a Proposition 2 ½ override or debt exclusion has meant that property tax revenues have stayed only slightly above inflation when factoring in New Growth.

New Growth has declined in the past three (3) fiscal years, but is expected to bounce back to the $900,000 range in FY18. New Growth is highlighted in Indicator 4, Economic Growth.

fiscal year	****2000****	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Actual Tax Levy	35,337,374	53,984,593	56,031,976	58,243,194	60,347,100	62,529,780	64,756,756	67,349,955	70,286,547	72,654,228
CPI-U, 2000 Base Year	100.0	126.9	128.6	133.0	134.2	136.7	139.1	140.0	142.0	145.1
CPI-U, 2000 Base, adj. constant dollars	100.0%	78.6%	77.7%	75.1%	74.5%	73.1%	71.6%	70.9%	70.3%	68.8%
Property Tax Revenues (constant dollars)	**35,337,374**	**42,535,646**	**43,566,610**	**43,779,684**	**44,979,935**	**45,726,709**	**46,570,806**	**48,114,785**	**49,480,867**	**50,067,058**

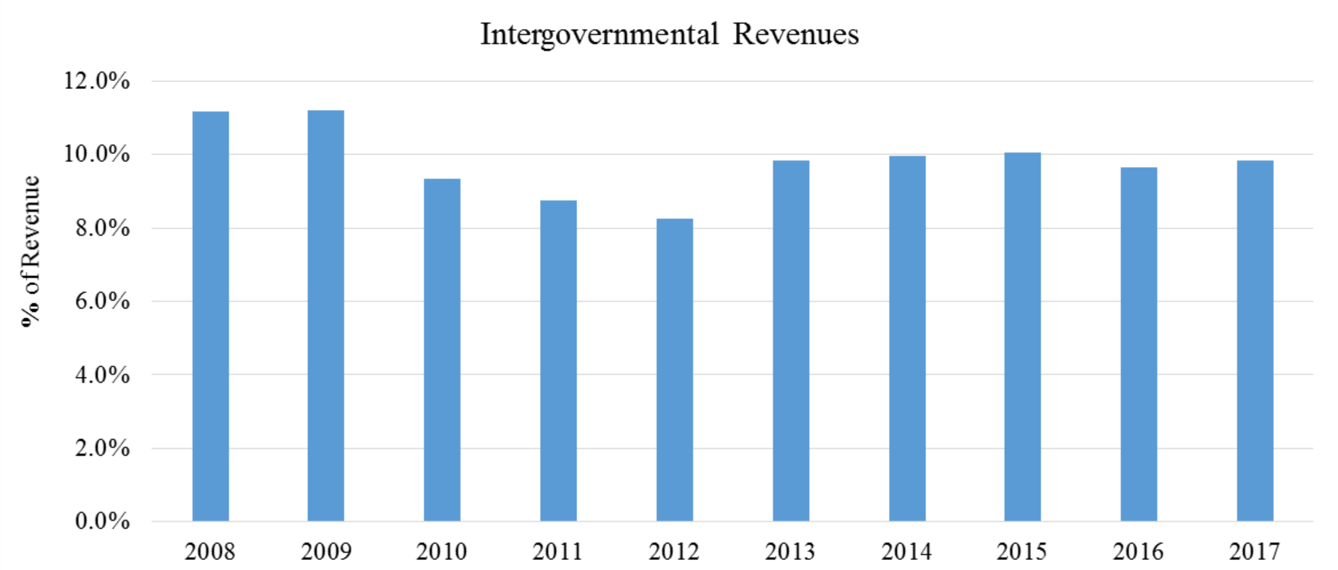
Prior Year Levy Limit	34,891,631	51,438,031	54,116,618	56,077,728	58,288,759	60,355,458	62,546,370	65,016,430	67,839,074	70,394,408
2.5% (Proposition 2 1/2)	872,291	1,285,951	1,352,915	1,401,943	1,457,219	1,508,886	1,563,659	1,625,411	1,695,977	1,759,860
New Growth	712,796	1,392,636	608,195	809,088	609,480	682,026	906,401	1,197,233	859,357	629,466
Property Tax Levy Limit	**36,476,718**	**54,116,618**	**56,077,728**	**58,288,759**	**60,355,458**	**62,546,370**	**65,016,430**	**67,839,074**	**70,394,408**	**72,783,734**

formula: property tax levy (constant $)

Source Data: DLS Databank

Financial Indicator 3 – State Aid

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



Trend Analysis	
	favorable
	marginal
	unfavorable
	uncertain

Background: Bond rating agencies view state revenue as volatile, and that concern appears to be valid based on the State's budget concerns over the past two (2) budget cycles. From a municipal perspective, the Baker Administration has (so far) kept its promise to stabilize State Aid through the State's budget process.

Trend/Analysis: This indicator proves that the bond rating agencies are right to have concern about a community's reliance on State Aid. As the market crash of 2008 was hitting Danvers and all other municipalities, state aid was decreased substantially (see table below for years 2009-2012).

In the past five (5) years, the Town has treaded water in terms of State Aid as a percent of total revenues (between 9.8% and 10.0%). In a volatile revenue category, this is a marginally positive trend.

fiscal year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
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	98,662,592	100,487,414
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	10,587,904
Less: School building reimbursements	(714,037)	(708,449)	(708,449)	(694,026)	(694,026)	(694,026)	(694,024)	(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**	**9,893,880**
State Aid as percentage of operating revenues	**11.2%**	**11.2%**	**9.3%**	**8.7%**	**8.2%**	**9.8%**	**9.9%**	**10.0%**	**9.7%**	**9.8%**

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

Source Data: DLS Databank

Financial Indicator 4 – Economic Growth

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

Trend Analysis	
	favorable
	marginal
	unfavorable
	uncertain

Background: ICMA and GFOA consider (1) Building Permit Fees, (2) Motor Vehicle Excise, and (3) New Growth as being indicative of economic growth. By comparing these revenues with total operating revenues this indicator can be favorable even if the ratio remains flat.

Trend/Analysis: There is not a direct correlation between building permits and New Growth, however, when there is a significant jump in New Growth, we'll generally see higher building permits in the year prior. Many building permits do not generate New Growth (examples: roofs, siding, flooring, etc.). The negative trend in New Growth from FY15 to FY17 supports the Town's budget strategy of assuming $600,000 per year in New Growth. The trend will be reversed in FY18 with New Growth above $900,000.

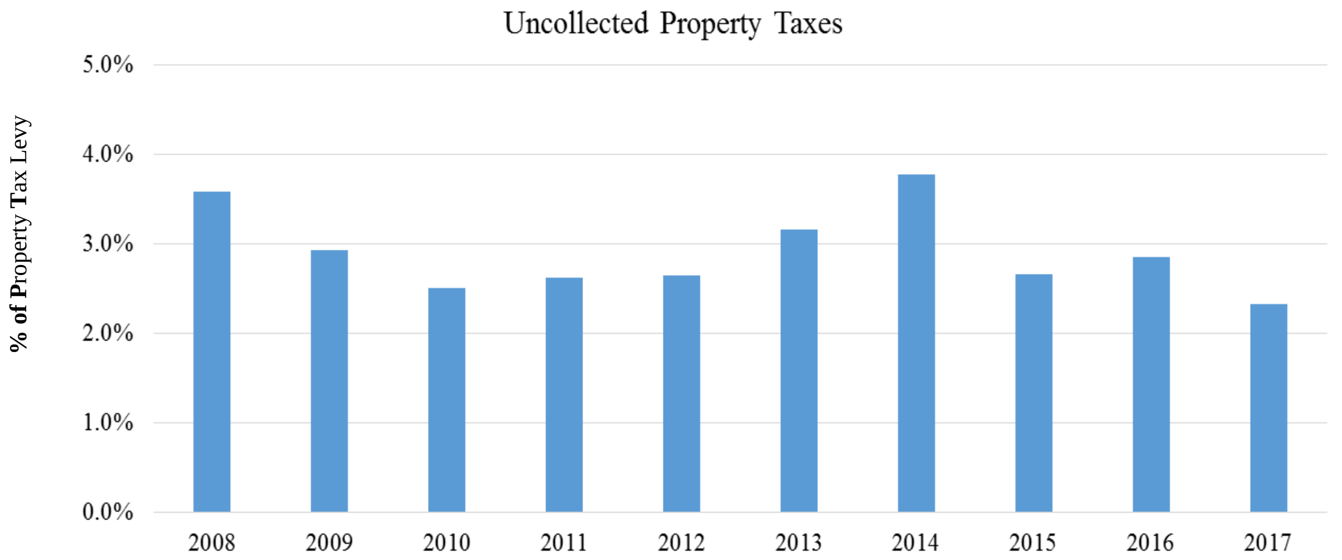
fiscal year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Operating Revenues	75,770,355	78,999,960	80,053,676	80,826,122	83,588,786	87,555,311	90,632,273	92,811,995	98,662,592	100,487,414
Building Permit Fees	977,048	280,328	152,001	306,480	430,775	471,338	494,546	663,871	712,980	768,629
Motor Vehicle 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	4,713,955	4,801,649
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	629,466
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**	**6,286,292**	**6,199,744**
Economic Growth rev. as a % of operating revenues	**6.7%**	**6.5%**	**5.1%**	**5.6%**	**5.4%**	**5.6%**	**6.1%**	**6.7%**	**6.4%**	**6.2%**

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

Source Data: DLS Databank; Accounting Department

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	
X	favorable
	marginal
	unfavorable
	uncertain

Background: Uncollected property taxes signify a potential problem where tax payers may be experiencing an inability to pay their taxes, which is why it is considered a 'wealth indicator' by bond rating agencies.

Trend/Analysis: The decrease in uncollected taxes following 2008 is an indication that the Town's taxpayers do not fall into a risk category for bond rating agencies. The steady increase from FY11 to FY14 was addressed by the Treasurer/Collector and Town Counsel working collaboratively with delinquent tax payers and the trend from FY15 to FY17 has reestablished the Town in a favorable position for this indicator.

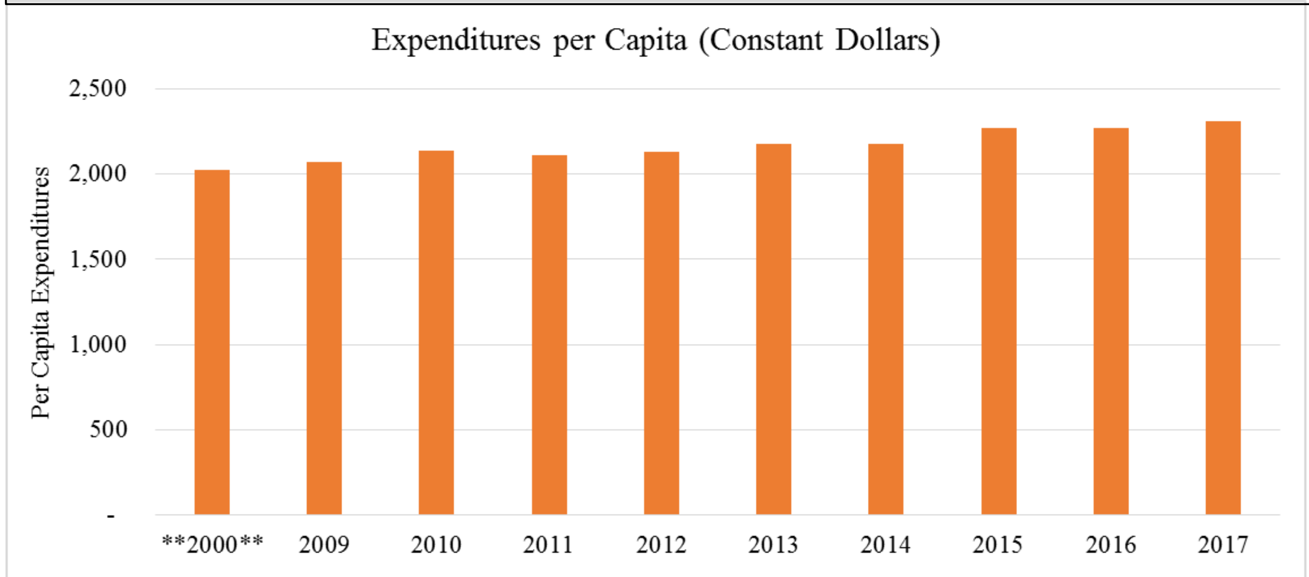
fiscal year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Property Tax Levy	51,331,368	53,984,592	56,031,976	58,243,194	60,347,100	62,526,780	64,756,757	67,349,955	70,286,547	72,654,228
Overlay Reserve for Abatements and Exemptions	(744,375)	(883,940)	(695,985)	(704,514)	(690,940)	(676,495)	(761,632)	(865,802)	(850,555)	(792,715)
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	71,861,513
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**	**1,669,714**
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%**	**2.3%**

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

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

Financial Indicator 6 – Expenditures per Capita

Increasing net operating expenditures per capita, in constant dollars, may be considered a warning indicator



Trend Analysis	
	favorable
	marginal
	unfavorable
	uncertain

Background: Increasing per capita expenditures (constant dollars) can indicate that the cost of providing services is increasing more rapidly than the Town's ability to pay.

Trend/Analysis: The largest dollar increases are generally found in the school budget, but categories that outpace Prop. 2 ½ have generally been the Retirement Contribution and Insurance & Benefits. These expenditures are further reviewed in Indicators 8, 11 and 12.

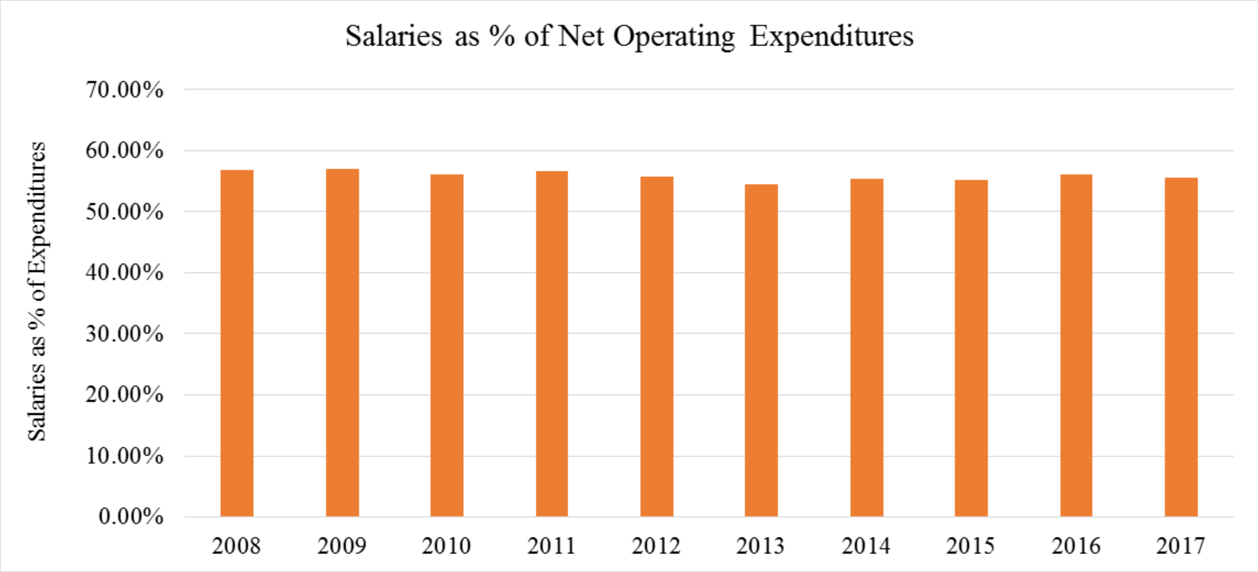
formula: $\frac{\text{net expenditures (constant \$)}}{\text{population}}$

fiscal year	****2000****	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
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	3,337,272
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	40,459,335
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	11,264,696
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	11,052,933
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	1,666,642
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	1,282,971
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	5,354,574
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	5,568,456
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	12,150,525
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**	**92,137,404**
CPI-U, 2000 Base Year	100.00	126.92	128.61	133.04	134.16	136.75	139.05	139.98	142.05	145.11
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%	68.9%
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**	**63,493,191**
Population (DLS)	25,212	27,232	26,493	26,880	27,020	27,483	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**	**2,310**

Source Data: DLS Databank; Accounting Department

Financial Indicator 7 – Salaries & Wages

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



Trend Analysis	
X	favorable
	marginal
	unfavorable
	uncertain

Background: Increasing salaries and wages as a percent of operating expenditures may indicate two unfavorable trends: (1) It may point to increasing pension and OPEB costs as these are related to headcount and compensation levels; and (2) If the increase is due to the Town reducing its expenditures on maintenance and capital outlay, it may be an indicator of deferred maintenance of the Town's assets.

Trend/Analysis: The Town's most recent collective bargaining agreements ran from FY15 thru FY17. The most recently approved CBA's (for FY18 thru FY20) are not projected to negatively impact this indicator, but next year's Financial Summit will be a perfect opportunity to confirm this projection.

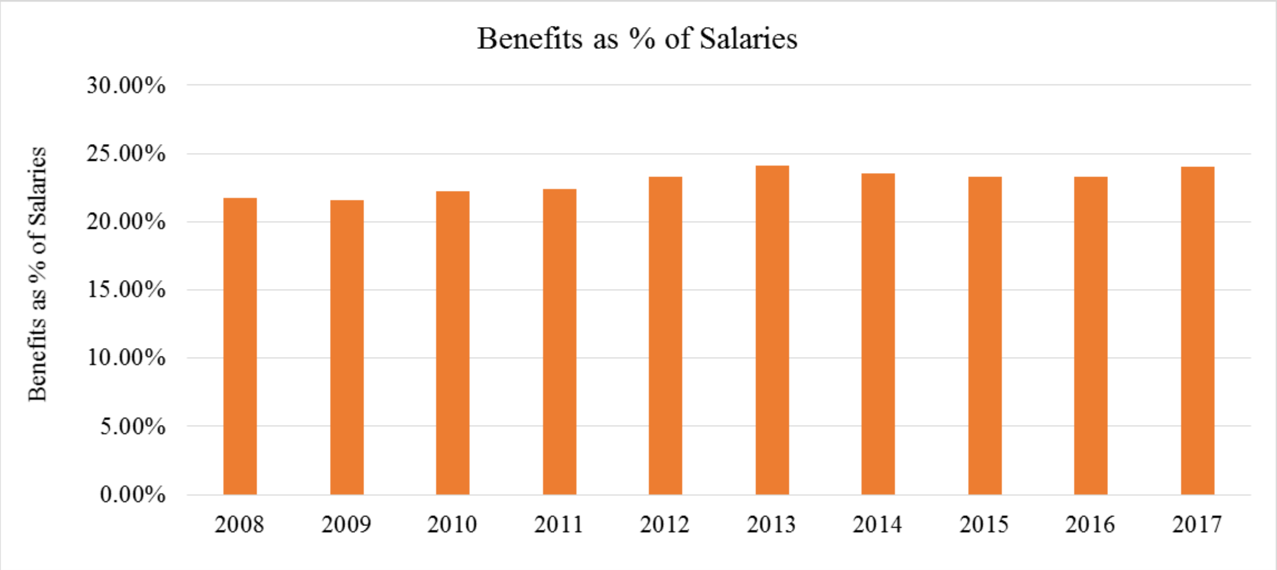
fiscal year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Net Operating Expenditures	69,189,616	71,456,848	72,838,360	75,569,937	77,249,677	81,889,668	83,319,362	87,413,363	88,517,867	92,137,404
School Salaries (less grants)	22,997,057	24,018,441	24,088,475	25,323,962	25,658,613	26,675,051	28,013,432	29,328,550	30,651,608	31,452,264
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	19,789,218
Salaries & Wages as % of Exp.	**56.8%**	**57.0%**	**56.0%**	**56.7%**	**55.7%**	**54.5%**	**55.3%**	**55.2%**	**56.1%**	**55.6%**

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

Source Data: DLS Databank; School Department

Financial Indicator 8 – Benefits

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



Trend Analysis	
	favorable
X	marginal
	unfavorable
	uncertain

Background: Heath care benefits represent a significant share of the Town's operating costs, and this analysis understates the true cost because it doesn't include the OPEB Liability (see Indicator 12).

Trend/Analysis: The cost of premiums was very favorable for the Town following the switch to Tufts in 2012 (as compared with the market and the GIC). However, in the plan renewal process for FY18 the proposal from Tufts was 16.7% (roughly $1.7 million cost increase) and the Town responded by making significant plan changes to drive down the premium increase, including higher co-pays for employees. The end result was a premium increase of 4.3% for FY18. The Town will put out an RFP for the health plan prior to the FY19 renewal to determine if Tufts is still the most cost effective option.

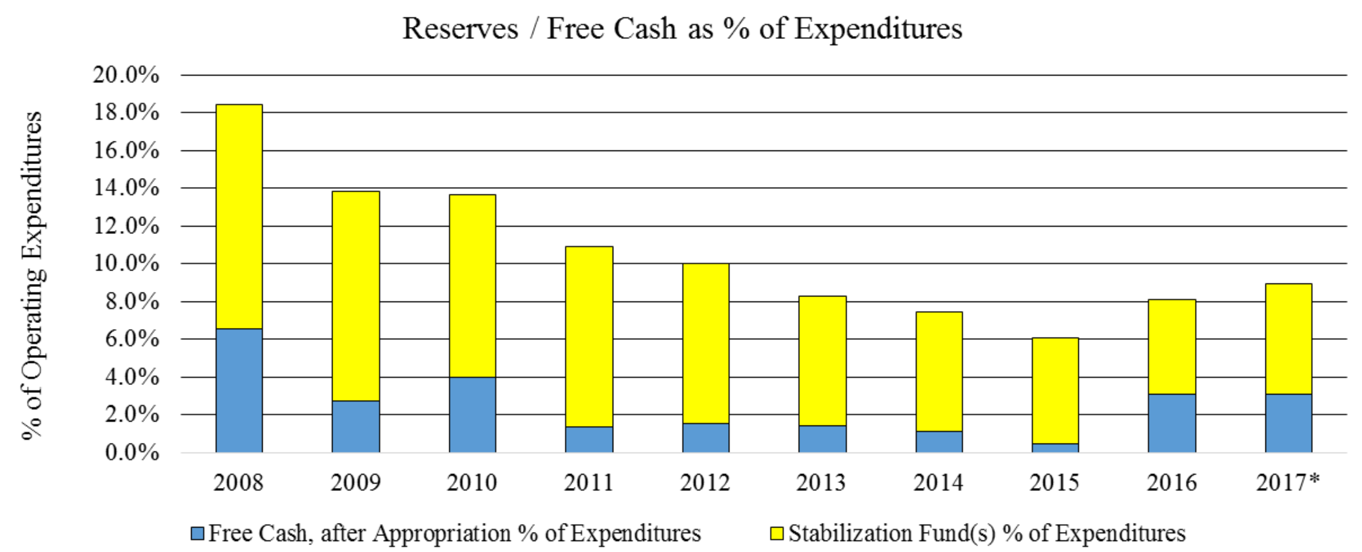
fiscal year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Insurance & Benefits	8,559,842	8,808,292	9,069,493	9,603,384	10,029,973	10,753,164	10,863,017	11,258,516	11,577,433	12,150,525
less: Casualty/Liability Insurance	(212,911)	(192,500)	(197,898)	(182,266)	(93,246)	(108,573)	(216,403)	(229,832)	(236,231)	(243,694)
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**	**11,906,830**
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	31,452,264
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	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**	**50,495,143**
Benefits as % of Salaries & Wages	**21.8%**	**21.6%**	**22.2%**	**22.4%**	**23.3%**	**24.1%**	**23.6%**	**23.3%**	**23.3%**	**24.1%**

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

Source Data: Accounting Department; School Department

Financial Indicator 9 – Reserves & Free Cash, after Appropriation

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



Trend Analysis	
X	favorable
	marginal
	unfavorable
	uncertain

Background: Free Cash is generated as a result of favorable revenue/expenditures to budget outcomes. The Town uses Free Cash to fund its capital improvement program and add to its reserves for future costs. Reserves are "actively managed" with the most active reserve being the School Building Stabilization Fund which allows the Town to set aside money for future debt service costs, helping the Town accomplish significant capital projects without debt exclusions.

Trend/Analysis: The School Construction Stabilization Fund was built up prior to FY08 to help fund the High School Renovation Project. Starting in the FY17 budget process, an effort was made to stop drawing down the fund, and begin building it up for the next school project (Smith School).

fiscal year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017***
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	92,137,404
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	6,147,819
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)	(3,291,228)
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**	**2,856,591**
General Stabilization Fund	1,084,253	898,416	466,863	1,118,592	1,141,970	718,192	729,791	720,097	728,724	1,034,221
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	4,264,587
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**	**5,298,808**
Total as a % of net operating expenditures	**18.4%**	**13.8%**	**13.7%**	**10.9%**	**10.0%**	**8.2%**	**7.4%**	**6.1%**	**8.1%**	**8.9%**

**The stabilization fund balances for FY2017 are unaudited as of October 26, 2017*

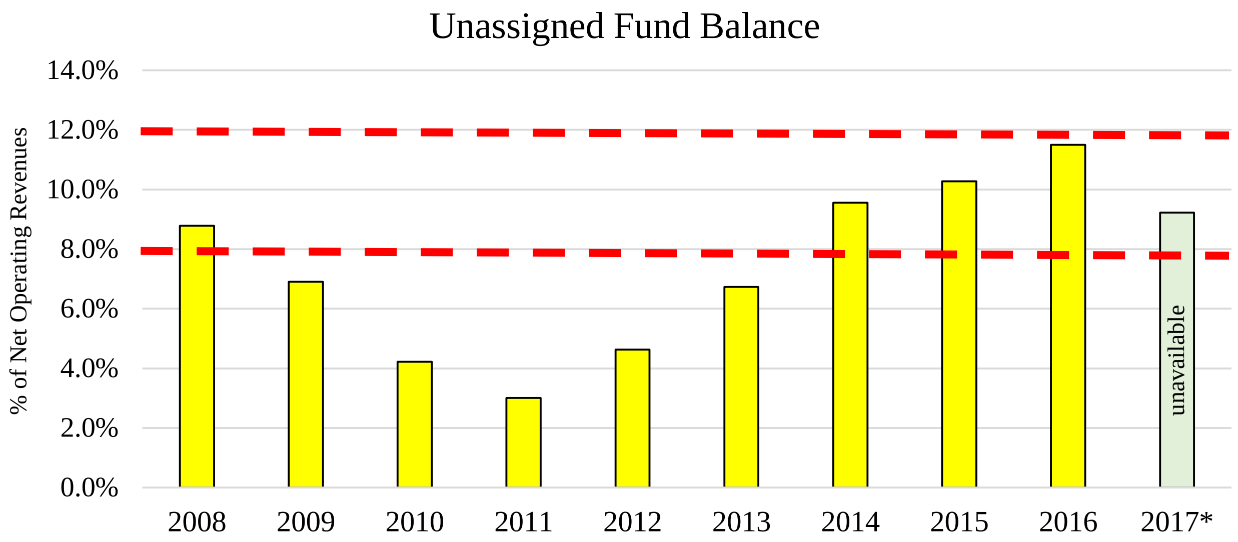
***Due to timing of when Free Cash is certified, Free Cash certified as of 7/1/15 was used to appropriate for FY2017. The Free Cash available for FY18 budget was $6.575M*

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

Source Data: DLS Databank; Accounting Department

Financial Indicator 10 – Unassigned Fund Balance

Danvers has a goal to maintain UFB between 8-12% of Net Operating Expenditures; under 5% is a warning indicator



Trend Analysis	
X	favorable
	marginal
	unfavorable
	uncertain

Background: UFB is calculated by independent auditors on an annual basis – Free Cash is a more conservative component of UFB, calculated by MassDOR. UFB includes the General Stabilization Fund, 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 UFB began to decline as Free Cash and the General Stabilization Fund were needed to cover capital costs. The Town has returned to having a UFB at 10% of Net Operating Revenues, a positive indicator for bond rating agencies.
The Town's financial policy, adopted in FY2017, is to keep UFB between 8-12% of net operating revenue.

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	10,182,856
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
UFB as a % of net operating expenditures	**8.8%**	**6.9%**	**4.2%**	**3.0%**	**4.6%**	**6.7%**	**9.6%**	**10.3%**	**11.5%**

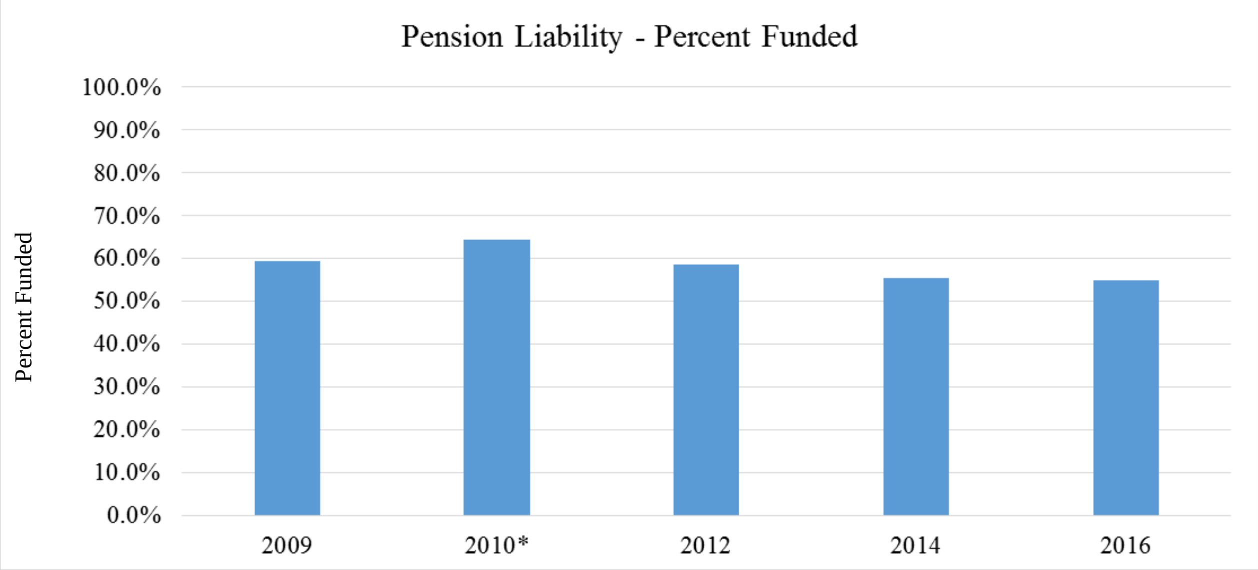
FY2017 is unavailable as of 10/26/17, but the FY2017 UFB is projected to decrease as money was moved from the unassigned fund balance to the assigned fund balance (School Construction Stabilization)

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

Source Data: CAFR

Financial Indicator 11 – Pension Liability

An increase in unfunded pension liability is considered a warning indicator



calendar year	2009	2010*	2012	2014	2016
Pension assets	75,217,536	84,017,923	83,875,130	89,955,182	96,511,828
Pension liability	126,644,696	130,372,380	143,155,432	162,199,777	175,743,235
Percent funded	**59.4%**	**64.4%**	**58.6%**	**55.5%**	**54.9%**

** In 2010, valuations switched to even calendar years*

Trend Analysis	
	favorable
	marginal
X	unfavorable
	uncertain

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

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 pension assets, divided by pension liability.

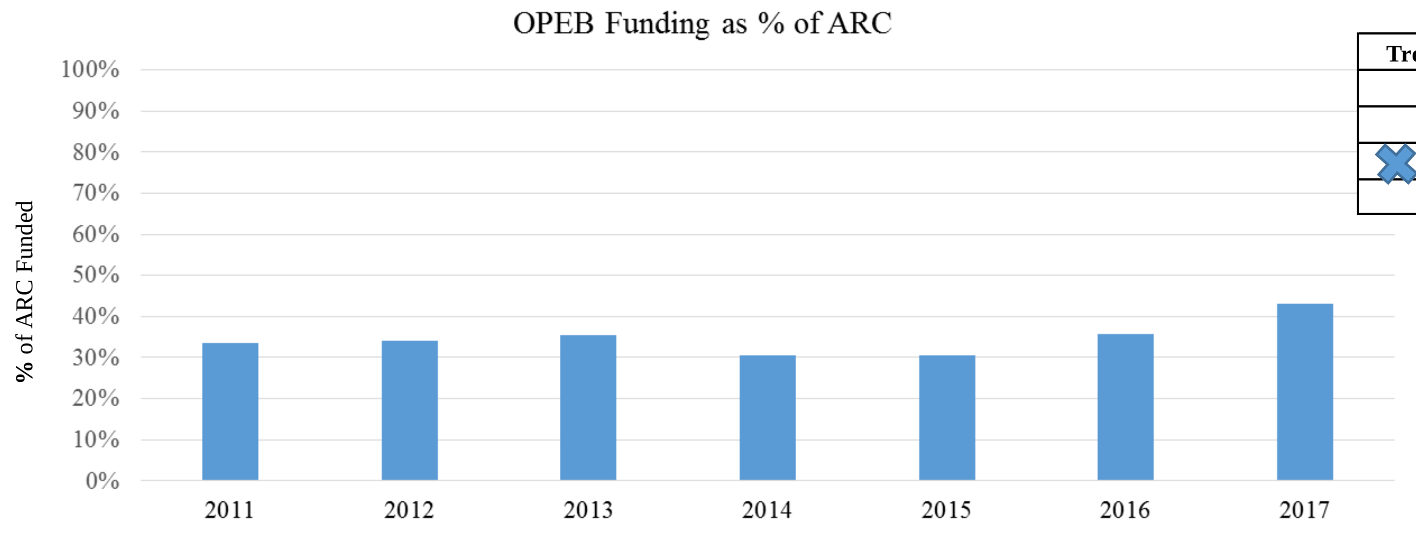
Trend/Analysis: The Town has remained in the 55% to 65% funded range in the past 10 years. PERAC considers 60% funded to be a warning indicator. For systems that are under 60% , PERAC will track performance against the State's system (PRIT) and potentially force underperforming systems to invest through PRIT.

Poor performance in CY2015, right before the last full actuarial study (dated 1/1/16), has reduced the funding ratio to 54.9% with only $96.5 million in assets as of 12/31/15. Excellent performance in CY2016 has set up the Town for an increase in funding ratio for the next actuarial study (assets as of 8/31/17: $113.0 million).

Source Data: Actuarial Studies

Financial Indicator 12 – OPEB Liability (Retiree Health Insurance)

An unfunded liability for post employment benefits or increase in unfunded liability is considered a warning indicator



Trend Analysis	
	favorable
	marginal
X	unfavorable
	uncertain

calendar year	2011	2012	2013	2014	2015	2016	2017
OPEB Reserve Balance	1,445,769	1,755,217	2,170,986	2,648,772	3,151,537	3,758,041	4,355,107
OPEB Reserve Increase	334,004	309,448	415,769	477,786	502,765	606,504	597,066
Pay As You Go - Total Contributions*	4,555,500	4,967,742	5,321,474	4,029,198	4,202,258	4,447,488	5,667,829
Annual Required Contribution (ARC)**	13,595,000	14,548,000	14,954,000	13,202,899	13,805,307	12,415,120	13,153,123
Percent of ARC Funded	**33.5%**	**34.1%**	**35.6%**	**30.5%**	**30.4%**	**35.8%**	**43.1%**

Background: The Other Post Employment Benefits (OPEB) liability can be considered “the other side of the coin” with the Town’s pension liability. Providing health care benefits to retirees has a long-term cost, which GASB requires to be accounted for similarly to pension liabilities. The Town has an independent actuarial study performed every two years to determine the liability and prepare a schedule for how to pay down the liability.

Trend/Analysis: Unlike the Town’s pension liability, there is no legal obligation of the Town to set aside funds for the OPEB liability. However, it has been considered best practice to do so.

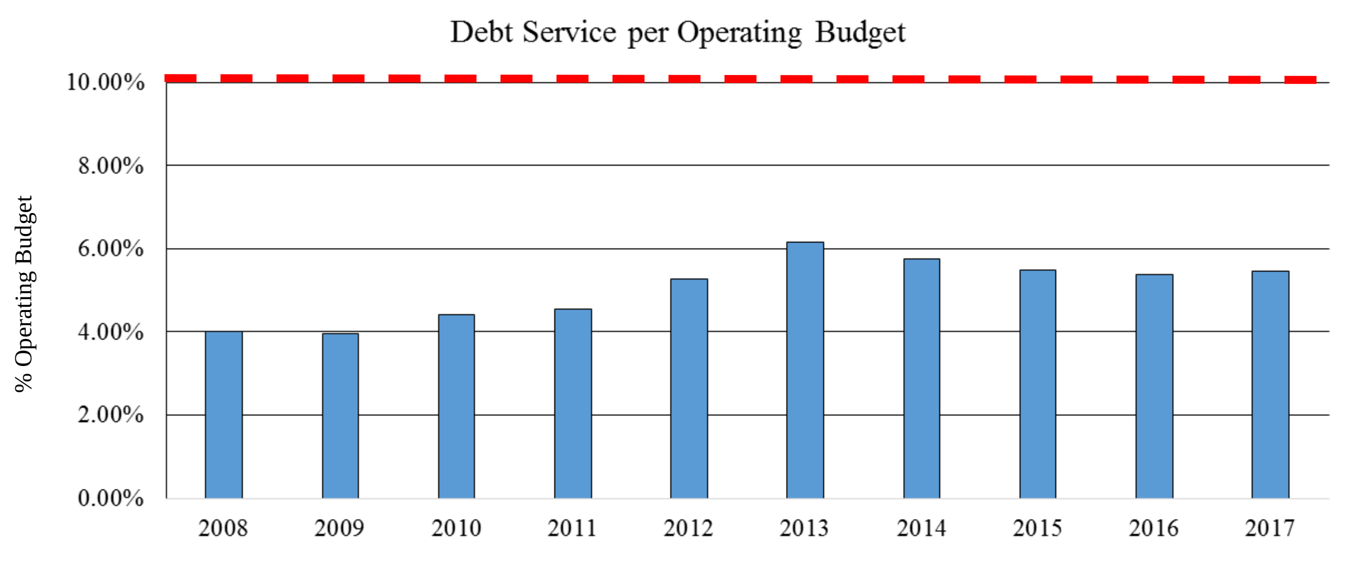
Due to GASB rules, funds set aside for the OPEB liability can only be considered OPEB assets if they are in a Trust Fund, so in 2016, Town Meeting voted to convert its OPEB Stabilization Fund (established in FY07) to a Trust Fund (the market value of the Trust Fund, as of 6/30/17, was $4.4 million). The OPEB Trust Fund is managed by Bartholomew.

formula: $\dfrac{\text{OPEB Balance + Pay-as-Go}}{\text{Annual Required Contribution}}$

Source Data: Actuarial Studies; Accounting Department

Financial Indicator 13 – Debt Service

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



Trend Analysis	
X	favorable
	marginal
	unfavorable
	uncertain

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 Proposition 2 ½. 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 chosen to monitor debt service against a lower threshold of 6% and uses the School Construction Stabilization Fund to try to keep this ratio below the 6% level.

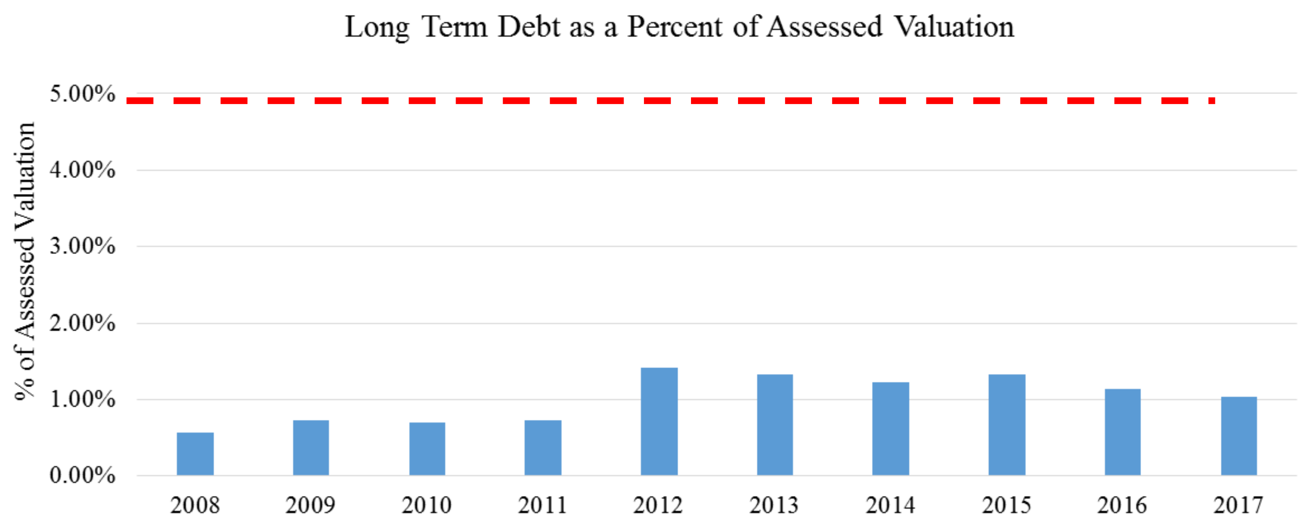
fiscal year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Exempt Debt Service	-	-	-	-	-	-	-	-	-	-
Non Exempt Debt Service	3,446,862	3,539,828	3,964,001	4,120,841	4,790,222	5,669,824	5,454,769	5,415,417	5,505,055	5,568,456
Less: MSBA Reimbursements	(714,037)	(708,449)	(708,449)	(694,026)	(694,026)	(694,026)	(694,024)	(694,024)	(694,024)	(694,023)
Total Debt Service	**2,732,825**	**2,831,379**	**3,255,552**	**3,426,815**	**4,096,196**	**4,975,798**	**4,760,745**	**4,721,393**	**4,811,031**	**4,874,433**
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**	**94,452,196**
Debt Service as % of Op. Budget	**4.0%**	**3.9%**	**4.4%**	**4.6%**	**5.3%**	**6.2%**	**5.8%**	**5.5%**	**5.4%**	**5.2%**

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

Source Data: DLS Databank; Accounting Department

Financial Indicator 14 – Long-Term Debt

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



Trend Analysis	
X	favorable
	marginal
	unfavorable
	uncertain

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 almost entirely on the Town's ability to raise funds through taxation which is tied to the valuation of property within Town.

Trend/Analysis: Adding a significant long-term borrowing can impact this indicator as it did in FY12 when the Town borrowed for the High School Construction Project (increases debt service in FY13; see Indicator 13).

fiscal year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
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	47,037,800
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	4,526,570,664
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%**	**1.04%**

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

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