



TOWN OF BRAINTREE
 ONE JFK MEMORIAL DRIVE
 BRAINTREE, MASSACHUSETTS 02184

**Office of the
 Town Auditor**

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To: Shannon L. Hume, President of the Council

CC: Susan Cimino, Clerk of the Council
 Dan Sullivan, Town Auditor

From: Shawn McGoldrick, Town Auditor

Date: January 14, 2020

Regarding: South Middle School Project

Dear President Hume,

Per your request, I am providing you with a list of the challenges that Dan Sullivan and I think the Town of Braintree ("Town") needs to address before it borrows \$50,000,000 for 30 years to fund the South Middle School Project without a debt exclusion. This borrowing will increase the Town's debt service budget on average by approximately \$2,500,000 per year for the next 30 years. We are concerned the annual debt service of the South Middle School Project will challenge to the Town's ability to stay within Proposition 2 ½ in the foreseeable future. The following is a list of the specific challenges we feel the Town that needs to address:

1. The latest 5 year annual projection from the Director or Municipal Finance (which includes the debt service for the South Middle School Project) that was provided in the fall/early winter shows projected operating deficits of \$137,070, \$291,579, \$1,532,912 and \$4,884,534 in fiscal years 2022, 2023, 2024 and 2025, respectively. These operating deficits would need to be resolved.
2. The latest 5 year annual projection from the Director or Municipal Finance (which includes the debt service for the South Middle School Project) that was provided in the fall/early winter will require the Town to increase trash fees, cut appropriations and use one-time funding sources to try and balance the Town's operating budgets for the next few years. The increase in trash fees, cuts in appropriations and use of one-time funding sources, arguably may not be feasible in reality.
 - a. Increase the annual trash free \$1,000,000. This will be an increase per household of approximately \$100.
 - b. Use \$1,000,000 of free cash each year for the fiscal years ending June 30, 2021, 2022 and 2023.
 - c. Use \$500,000 of the School trust each year for the fiscal years ending June 30, 2021, 2022, 2023 and 2024. This will essential deplete the trust fund.

- d. Make no contribution to the OPEB trust fund in fiscal year 2021 and essentially no OPEB contribution for fiscal years 2022 and 2023.
 - e. Possible 0.75% operating budget reductions in school, police, fire and DPW departments.
3. In order for the Town to stay within the confines of proposition 2 ½, for the foreseeable future, the Town will be required to estimate local receipts equal to actual. In the past the Town has been able to estimate local receipts below actual and therefore was able to pick up free cash each year because of it. For the foreseeable future, it is unlikely the Town will generate free cash from local receipts.
 4. In order for the Town to stay within the confines of proposition 2 ½, the Town most likely will need to tighten its operating budgets. Historically the Town would underspend approximately 1% of its total operating budget which would fall to free cash. It is reasonable to predict that for the foreseeable future, little free cash will be generated by unencumbered/unexpended appropriations.
 5. Because the Town will be using \$1,000,000 of free cash each year and generating little free cash, it is reasonable to predict that free cash will dwindle to an insignificant amount over the next few years. The Town has grown accustomed to using free cash each year to fund capital projects, overtime and snow and ice deficits. It is reasonable to predict that new sources of revenues will need to be found to fund these appropriations.
 6. As free cash depletes, so does the Town's general fund unassigned fund balance. The Town currently holds a bond rating from Standard & Poor's (S&P) of AA+/positive outlook. Decrease in the Town's unassigned fund balance may negatively impact the Town's bond rating.
 7. The Town will be using the Braintree School Building Authority Trust fund (BSBA) each year to ease the burden the that debt services for the East Middle School and South Middle School will have on the operating budget. The BSBA will be depleted in 5 years.
 8. The Town will be borrowing for the South Middle School in such a way that will allow it to defer principal payments significantly for the first few years of the bond helping out the first 5 years of the payback period. Debt service for the South Middle School will increase significantly in year 6 and continue for about 5 years after that. We only have a budget projection for 5 years, so we do not have a picture of how the increase in debt service will impact the Town's operating budget beyond 5 years.

Please contact me anytime if you have questions regarding this or any other matter.

Sincerely,

Shawn McGoldrick