



Natick Financial Planning Committee

Pursuant to Chapter 40, Section 3 of the Town of Natick By-Laws, I attest that the attached copy is the approved copy of the minutes for the following meeting:

Natick Financial Planning Committee
Meeting Date: August 11, 2015

The minutes were approved through the following action:

Motion: Approval as amended
Made by: Ms. White
Seconded by: Mr. Ostroff
Vote: 5-0-0
Date: October 5, 2015

Respectfully submitted,

Jonathan Freedman
Secretary
Natick Financial Planning Committee

Natick Financial Planning Committee
Meeting Minutes

Tuesday, August 11, 2015
Dlott Meeting Room, Natick Town Hall

This meeting has been properly posted as required by law.

MEMBERS PRESENT:

Jonathan Freedman (Finance Committee)	Amy Mistrot (School Committee)
Paul Griesmer (Finance Committee)	Josh Ostroff (Board of Selectmen)
Charlie Hughes (Board of Selectmen)	Peter Sanchioni (Superintendent)
Paul Laurent (School Committee)	Martha White (Town Administrator)

MEMBERS ABSENT:

None.

OTHERS PRESENT:

Jimmy Brown (Finance Committee)	Tony Lista (Finance Committee)
Bill Chenard (Deputy Town Administrator)	Firkins Reed (School Committee)
Cathi Collins (Finance Committee)	Jeff Towne (Deputy Town Administrator)
Catherine Coughlan (Finance Committee)	

ATTACHMENTS:

- A. Meeting Agenda
- B. Draft Report of the Financial Planning Committee (August 11, 2015)

The meeting was called to order at 5:32 p.m. in the Dlott Meeting Room by Mr. Hughes, Chair. Mr. Hughes reviewed the meeting agenda (Attachment A). Mr. Hughes informed the committee that he had agreed to Mr. Ostroff's request to participate remotely. Mr. Hughes distributed the draft "Report of the Financial Planning Committee" (Attachment B) and noted that this draft had the benefit of staff input; some of the information will move to an Appendix; and that the final format was at the Chair's discretion. Mr. Hughes also requested that further feedback be provided to either himself or Mr. Ostroff.

Mr. Hughes informed the committee and public that his intention was to continue meeting every two weeks.

Discussion of Short, Medium, and Long Term Financial Planning Ideas

Mr. Hughes led committee members through the draft report. Comments by committee members were noted on the following:

<u>Page</u>	<u>Topic</u>	<u>Comment</u>
2	School Enrollment	The NPS enrollment report is updated through June 30, 2015. School budget scenarios should also be noted.
2-3	Health & Benefits	There are projected increases for health insurance and benefits; better numbers will be available for the 8/25 meeting. Must include the context of collective bargaining; administrative staff will determine what can be considered public information and included in the committee's report. Can work to include projections of additional staff increases.
3	Collective Bargaining	Cannot include any numbers in this section due to confidentiality requirements.
4	IT Consolidation	Administrative staff must evaluate this language.
5	Insourcing/ Outsourcing	Examples would be helpful; Mr. Chenard is working on this.
5	Capital	Language regarding debt service must be validated. Updated five-year capital plan should be attached as an Appendix.
5	Master Plan	Administrative staff is working on a dollar amount for the Master Plan cost proposal; the funding source will likely be Free Cash.
6	Snow & Ice Deficit	Administrative staff to review and validate the language.
6	1:1 Program	NPS to validate language and dollar amount.
7	Reserve Funds	Committee members discussed whether there is any interest in adding the committee's position regarding the use of reserves; to date the committee has not taken an official position on this.
7	Chapter 40S	There are no revenues anticipated for FY 2016; FY 2017 is possible; need to understand the possible dollar range.
8	Community Preservation Act ("CPA")	Committee members discussed whether there is any interest in adding the committee's position regarding the CPA; to date the committee has not taken an official position on this.
8	Split Tax Rate	Language is for the report only – the decision-making rests solely with the Board of Selectmen. Consider adding language to the

effect that this would be a better opportunity if the Town's residential/commercial split were closer to 50/50? Consider adding a table to illustrate this. Natick's actual split is closer to 77/23, not 75/25.

- | | | |
|---|--------------------------------|---|
| 8 | Business Improvement Districts | The committee has not had an in-depth discussion on this topic; retain or remove? |
| 9 | Alternative Scenarios | Committee members discussed whether this was a helpful construct. Budget gaps discussed in this section were based on the NPS "Recover" budget. Both the municipal and NPS administrations must come up with the services that would be impacted with no override and no use of reserves. Must also develop a mechanism to allocate the budget gap; the 'split' may be a good starting point. |

Information relating to health insurance will be discussed at the 8/17 joint meeting with the BOS and School Committee.

Mr. Griesmer noted that he had gone through a similar exercise throughout 2006, 2007, and 2008 when the Town faced a similar budget issue. He said that the strategies used in 2002-2008 need to be explored at this point in time, noting as examples a capital holiday, and the use of reserves. With respect to reserves, Mr. Griesmer reminded committee members that Town Meeting decides on the use of reserves. Mr. Griesmer also said that the Finance Committee has a responsibility to provide an opinion on the Town's operating budget as well as any possible override vote, and that all questions that could arise must be accounted for or else it will be brutal. Mr. Griesmer further stated that he feels the committee should evaluate more scenarios such as budgets with and without overrides, and also to do more benchmarking against other communities.

Ms. White noted that community benchmarking was difficult to perform due to the lack of standardized data collection and the fact that services differ from town to town. She also asked when this should occur, i.e., before or after the BOS decided to call the question of an override. Mr. Griesmer said that previously, all applicable committees held meetings and forwarded their information to a centralized group. Ms. White noted that this had been done as part of a budget process, and that the current situation was different because it is occurring before the budget process. For this reason, she said that there is no automatic role for the Finance Committee, and that one would have to be defined.

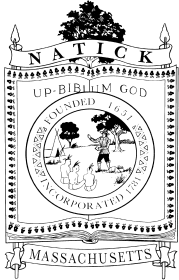
Mr. Hughes informed the committee that the BOS would not be taking a vote for an override at the August 17th meeting, and he reminded committee members and members of the public that a majority vote of the BOS is an absolute requirement to put an override question on the ballot.

Public Comments

Florina Uyar – asked if the information she had requested about Shrewsbury was available. It was noted that Mr. Hurley had compiled information and that a report was available.

Adjourn

The meeting was adjourned at 6:26 pm on a motion by Ms. White, seconded by Mr. Griesmer, and voted unanimously.



TOWN OF NATICK **Meeting Notice**

POSTED IN ACCORDANCE WITH THE PROVISIONS OF M.G.L. CHAPTER 30A, §§ 18-25

Financial Planning Committee

PLACE OF MEETING

Dlott Meeting Room
2nd Floor Town Hall, 13 East Central Street

DAY, DATE AND TIME

Tuesday August 11, 2015
5:30 p.m.

AGENDA

1. Meeting Minutes
2. Long Term Financial Planning, including identification of alternatives to present health insurance programs.
3. Discussion of short, medium and long term financial planning ideas
4. Set future meeting dates
5. Public comment

SUBMITTED BY
Charles Hughes, Chair

**TOWN OF NATICK
REPORT OF THE FINANCIAL PLANNING COMMITTEE
August 11, 2015**

Summary

This report will summarize the findings and recommendations of the Financial Planning Committee based on its work between April and August of 2015. The Financial Planning Committee (the "Committee") was established in March of 2006 to enable the Town to effectively plan for budget challenges while encouraging collaboration between the Board of Selectmen, the School Committee and the Finance Committee. During the FY 2016 budget process in early 2015, the Committee was further charged with the identifying the scope of the Town's budgetary imbalance for upcoming years, and with providing alternatives for consideration by the Board of Selectmen and other Town leaders.

The Committee firmly agrees that the Town's finances are well managed. Most cost increases are funded by recurring revenues, primarily property taxes, state aid and local receipts. The Town nevertheless faces a structural budget imbalance that is primarily the result of three cost drivers:

- A) Continued rising school enrollment averaging over of up to 100 students per year, which is the result of demographic changes in Natick's neighborhoods of single family homes and the ripple effects of continued housing development and turnover throughout the community
- B) Increased health insurance costs
- C) Significant and ongoing growth in Natick's mandated appropriations to the Contributory Retirement System as determined by the Public Employee Retirement Administration Commission (PERAC) in order to fully fund this obligation as required under state law.

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After a review and discussion among the Committee, with input from the public and staff, the Committee recognizes that, although some portion of the significant cost drivers may be characterized as technically discretionary, they are the result of service level priorities valued by a significant portion of the community and endorsed by the relevant policy-making boards and committees. Examples of these types of cost drivers encompass both the municipal and public education sectors.

As a result, the Committee agrees that the continuing increase in recurring operational expenses must be met by strategies to mitigate, where possible and fiscally prudent, the rate of increase of such expenses as well as strategies for growing incremental recurring revenue. Consequently, the recommendation of the Committee is to present to the Board of Selectmen a variety of Proposition 2 ½ override scenarios ranging from no operational override to an override of Proposition 2½ that would fund Town operations for at least two years [the committee should discuss the timeframe of this recommendation]. Other recommendations of the Committee include some measures to

mitigate the rate of increase of certain expenses, which are outlined in Section 1 of this report, and to increase revenues, outlined in Section 2.

Should an override be presented to the voters, the Committee recommends doing so early enough that FY 2017 budgets can be considered based on the results of a Town election.

The Committee acknowledges the contribution of staff and the public who attended and participated in its work.

1. Expenses

A) School Enrollment

The initial pro forma for expenses and revenues utilized a 4.5% annual operating increase placeholder for the school budget, subject to review and recommendation. Following several meetings of the School Committee, the Natick Public Schools has updated its school enrollment projections, and from a range of scenarios has recommended a "Recovery Budget" for FY 2017 and FY 2018, that would add teachers and services [please verify] to keep pace with school enrollment and mandates. [attachment A: school budget scenarios]

While the Town has experienced an increase in multifamily housing in recent years, rising school enrollment is primarily a function of turnover of single-family homes in Town neighborhoods, which, in turn, generally stems from both normal single-family housing turnover as well as turnover resulting from the ripple effects associated with multi-family housing development within the Town. [attachment B: school enrollment from multifamily developments]

B) Contributory Retirement System

The most current actuarial study of the Town's retirement plan puts the Town's unfunded liability at ~~\$65.6~~ 77.3 million (as of January 1, ~~2013~~ 2015). The current funding schedule calls for ~~87%~~ annual increases through FY ~~2019~~ 2024, followed by annual increases in the range of ~~4.2%~~ through 2030. For FY 2017, the projected ~~87%~~ increase totals approximately ~~\$8.3~~ 8.17 million and rises to ~~\$9.0M~~ 8.74M in FY 2018. (Still awaiting final report but this is the preliminary estimations)

~~The Contributory Retirement System has recently discussed reducing the annual increase from the maximum 8% to a slightly lower 7.5%, which would result in a required appropriation in FY 2017 of \$ _____, or \$ _____ lower than the currently projected 8% increase. A decision by the Natick Retirement Board is expected in the near future [attachment C: CRB summary]~~

C) Health and Benefits

The Town is actively considering alternative strategies to its insurance models and providers in order to minimize the anticipated increase in FY 2017 and beyond. These include consideration of joining the Group Insurance Commission as well as alternatives to slow the growth of health insurance costs while providing high quality insurance choices to employees and retirees.

In addition, the Committee is aware that the West Suburban Health Group (“WSHG”), from which Natick obtains its health insurance, is also evaluating alternatives to its current plan offerings with the objective of providing more cost-effective options to its members. At the same time, the Committee is aware that other member towns of the WSHG are also evaluating options to contain health insurance costs; should any of them adopt an alternative outside of the WSHG it is likely that WSHG rates will increase.

At the time of this report, it is not known what the avoided costs will be from the Town’s efforts. The Committee is proposing a x% cost increase be budgeted for FY2017. That amount will vary based on the ultimate solution determined in the Fall of 2015, as well as the number of insured. [attachment?]

D) Collective Bargaining

The amount of COLA and other increases is subject to a collective bargaining process that is underway as this report is drafted. For budgeting purposes the Administration is proposing a x% increase across the board for FY 2017. That does not take into account other contractual factors that may affect the salaries line items for departmental budgets. General Government is negotiating one-year contracts for FY16 to align the contracts with the Natick Public Schools.

E) Service evaluation

The Committee did not undertake a comprehensive evaluation on the cost and benefit of various Town services, as the level of services provided to residents and businesses is more appropriately within the purview of the policy-making boards under which the services are developed, authorized, and delivered. Based on the likely scenario of a multi-million dollar budgetary imbalance, a prioritizing of services must be one of the alternatives developed by Town staff with input from governing bodies in the coming months.

To inform the Finance Committee and Board of Selectmen of staffing changes, Administration has stated a commitment to provide quarterly staffing updates, including salary and benefit impacts.

F) Workers Compensation

~~Workers compensation expenses is projected to increase in the coming years as a result of increased staffing levels, primarily within the NPS system.~~

~~Need text for this section including discussion of various factors that inform projections.~~

Workers compensation expense is projected to increase in the coming years as a result of increased staffing levels, primarily within the NPS system and our workers compensation experience. The following chart highlights historical costs and future projections.



Town of Natick

Workers Compensation

Historical Costs

<u>Fiscal Year</u>	<u>Cost</u>	<u>% Chg</u>
2016	\$498,234.00	5.64%
2015	\$471,639.79	14.58%
2014	\$411,639.10	-1.48%
2013	\$417,834.83	-5.96%
2012	\$444,314.29	-2.72%
2011	\$456,740.88	8.66%
2010	\$420,333.72	

Future Estimates

<u>Fiscal Year</u>	<u>Cost</u>	<u>% Chg</u>
2017	\$555,620.00	11.52%
2018	\$614,341.00	10.57%

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G) IT Consolidation

The consensus of Town and School Administration is that consolidation of school and General Government Information Technology represents an opportunity to improve services internally, but is not an area of cost saving given the current level of resources allocated to technology support. The recently concluded IT Network Assessment completed by CSY Technologies [indicate by and for whom this was performed] identified areas for substantially increased investment. From a management perspective, the consensus of the Committee is to improve on the consolidation of facilities maintenance under its new departmental leadership before embarking on a new consolidation, particularly if there are no significant savings to be realized.

H) Insourcing and Outsourcing

Both Schools and General Government regularly evaluate service delivery models, such as outsourcing (contracting out), insourcing (bringing services in-house), and hybrid models.

The School Department has evaluated the possibility of outsourcing certain types of positions such as the paraprofessional staff used to support special education requirements. At the present time, the School Department is not recommending additional outsourcing to achieve savings based on state standards (including certification requirements) balanced against the need for private companies to make a profit. As reported by the Superintendent, there are companies that will reassess a district's portfolio of services, but these reviews have not produced savings; typically, such assessments are most beneficial to districts unlike Natick – i.e., those that do not already have a robust and sophisticated Special Needs infrastructure.

Conversely, the schools have realized savings through in-sourcing by more cost-effectively providing services formerly contracted out. This is particularly true in Special Education.

On the General Government side, the Town uses a mix of employees and contracted services, depending on the value to taxpayers. For example, a recent study of ambulance models recommended retaining the in-house model; another example is the recent analysis and subsequent decision to bring the recycling services back in-house. A wide array of services are contracted, and these generally meet one or both of the following criteria:

- A) Specialized services that are seldom required and not available in-house
- B) Services that are more inexpensively procured by contracting and for which management control is not critical

The Town Administration's view is that quality and accountability are priorities, and in-house services provide greater control and oversight, provided that effective management and evaluative controls are in place.

[include examples of town outsourcing and insourcing with budget impacts]

I) Capital

Administration is providing an updated capital plan that will incorporate all known municipal and school projects, as well as those that can be reasonably anticipated. The updated capital plan is anticipated to have minimal impact on our short-term budgets. Capital is primarily funded from local option taxes, with the exception of major projects that are suitable for debt exclusions subject to voter approval, such as the anticipated Kennedy Middle School project.

J) Master Plan

A cost proposal for a Comprehensive Master Plan, subject to Town Meeting Appropriation, will be in the range of \$xxx-xxx for a likely two year project to commence during FY 2016. The timing, scope, funding sources and other elements of the plan will

be determined at Town Meeting. Funding sources for this appropriation may include [indicate whether this may be funded through a stabilization fund] A potential “pilot study” that would demonstrate the value of a comprehensive planning approach may be partially funded by a stage agency, but would not change the scope or cost of the town-wide plan.

K) Snow and Ice Deficit

Staff recommendation is to fully fund the FY 2015 snow and ice deficit at Fall Town Meeting following Free Cash Certification, since next winter’s deficit cannot be accurately predicted. Staff is also evaluating a more appropriate annual funding level for snow and ice removal, taking into account the unique budgetary characteristics allowed under state law for this purpose, and is likely to recommend an increase to the current annual appropriation of \$150,000. The Committee concurs with this recommendation, as it will enable a more realistic projection and utilization of the Town’s resources.

L) Other Post Employment Benefits (OPEB)

Our liability and funding plan is still under consideration, as there is pending legislation and no current obligation or schedule to fund this liability. Conceptually, the Town is considering a schedule to fund OPEB after our pension system is fully funded. While potentially significant, this prospect does not have an impact on the Committee’s recommendations.

M) Indirect Costs

Town Meeting can (and has) assign certain costs for enterprise funds from General Government to an enterprise, such as Water/Sewer and Golf Course. The Town periodically assesses its indirect cost allocations and is prudent in its methodology. As such, there is marginal potential benefit to the General Fund from a shift in the current allocations.

N) Schools 1:1 Program

The Natick Public Schools have a laptop replacement program factored in to their budget request, phasing in significantly less expensive devices for most users over the next few years. The anticipated annual appropriation for device replacement is in the range of \$xxx and is funded through the xxx budget.

O) Review pending state and federal mandates

- A stormwater fee/utility may be considered in the coming years but is not a short-term option to shift capital costs.
- Sustainable Water Management Act regulations are still subject to review and appeal.

2. Revenues

A) Reserve Funds

The Town's reserves are adequate for its short-term needs based on our Financial Management Principles, and have contributed to our [AAa-AAA](#) Bond Rating and resulting low interest rates on borrowing. The [Town's Financial Management Principles and the](#) Committee [does](#) not recommend regular use of reserves to fund recurring expenses except as provided for by the principles voted by the Board of Selectmen.[\[note: this would require a vote of the committee if we are to cite any recommendation.\]](#)

B) Chapter 40S

The Town is eligible for reimbursement for per-pupil expenses that exceed property tax revenue on qualifying housing projects under Chapter 40R, which currently include Natick Modera (at the former Paperboard site; this 40R zoning district was approved by Town Meeting in 2006). This revenue would be provided as a reimbursement in the subsequent Fiscal Year to that in which expenses and revenue are realized. The reimbursement is subject to legislative appropriation; the state has appropriated sufficient revenues in recent years to fund the need. The Town will not have information on reimbursement eligibility, if any, until mid-2016 at the earliest. Other 40R districts have been discussed, but not approved by Town Meeting; if approved, these would be subject to the same 40S legislation and reimbursement.

C) Fees

General Government has some latitude to increase fees. Most fees are consistent with comparable communities and this approach is anticipated to yield a relatively minor increase in revenue though it is not expected to dampen participation in the comparable program or activity giving rise to the applicable fee. The Board of Selectmen may consider fees as part of the actions taken subject to the work of the Financial Planning Committee.

In conjunction with the FY 2016 budget planning process, the School Committee and School Administration conducted an evaluation of discretionary fees charged by the Natick Public Schools, and approved [_____](#) and [_____](#) fee increases. These increases were necessary to balance the FY 2016 budget and maintain services in the judgment of the School Committee and School Administration.

D) Development and New Growth

Revenues associated with commercial and housing development are predicated on long term averages rather than specific year-to-year prospects, because a major project can easily shift forwards or back. Accordingly, there is no plan to budget for exceptional New Growth in FY 2017.

The Town's efforts to promote new growth are central to its ability to keep up with increased expenses. Commercial development in particular will enable the Town to increase revenues without the risk of increased school expenses, although development frequently has other impacts that may affect town services and budgets.

E) Community Preservation Act

The Community Preservation Act ("CPA") allows communities to create a local Community Preservation Fund for open space protection, historic preservation, affordable housing and outdoor recreation. Community preservation monies are raised locally through the imposition of a surcharge of not more than 3% of the tax levy against real property, and municipalities must adopt CPA by ballot referendum. Acceptance of the CPA would provide the Town with a limited source of funds, predicated on the amount of money the Town would raise by through the imposition of the surcharge.

The current state CPA match is under 20%, down from its initial level of 100%, although there are efforts to increase this rate. In the absence of any change in the level of state match funding, it is expected that an increase in the participation rate of communities will be accompanied by a decrease in the state match rate due to the need to allocate the funds across a greater pool of communities.

Should the Town consider and accept the CPA, this would not affect current revenues and expenditures, since both the surcharge and the state's matching funds could only be used for the purposes allowed under the CPA. [Note: the Committee may want to consider a recommendation, but there is an independent group that has been meeting to discuss the CPA and the Committee may want to afford an opportunity for them to present if it is to make a recommendation.]

F) Split Tax Rate

Splitting the tax rate – such that commercial property owners pay a different rate than residential property owners – does not change the amount of revenue, but rather merely shifts the tax burden. This is subject to an annual vote of the Board of Selectmen, which historically has never split the rate for a number of reasons. Significantly, because of the 75/25 residential/commercial split in Natick, every \$1 savings to residential taxpayers adds \$3 to the commercial tax bills, thus depressing commercial valuations and imposing an ever-increasing disproportionate tax burden on commercial property owners. [The committee may want to offer an opinion about a split vs. a single rate.]

G) Consider Business Improvement Districts or similar means to channel revenues and expenses

This may be considered as a long term option to fund investment in Natick Center. The State Legislature is also considering a bill filed by Rep. David Linsky in the current session to allow a municipality to create a Parking Benefit District. It is not a short term solution for the budgetary imbalance but is considered a possible option to encourage long-term economic growth

3. Financial Management Principles

Summarize recent recommendations and actions taken

A number of suggested changes to the Financial Management Principles have been made by staff. Those changes include:

- A. Defined "reserve funds" in accordance with M.G.L. C40 §6 and the limitations regarding the amount and use.
- B. Added the two most recently authorized Stabilization Funds: Inflow & Infiltration and the One-to-One Technology Stabilization Fund.
- C. Stabilization Funds in general – added when they were originally adopted for reference.
- D. Under Capital Planning and Budgeting – included two new bullet points defining what should be included in the capital plan and a reference to credit rating agency guidelines on debt service burden ratio.
- E. Under Debt Issuance and Maintenance – included a number of new bullet points outlining when a debt exclusion should be considered, that the Town should strive to only issue level principal debt, that annually the Town will see if there are opportunities to refinance debt at a lower interest cost and that any excess balances in capital funds will be reviewed annually and closed appropriately.
- F. A section on Retirement System Funding was added
- G. A section on Other Post-Employment Benefits (OPEB) Funding was added.

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4. Alternative Scenarios

The consensus of the Financial Planning Committee is that to balance the budget for FY 2017, and provide sufficient tax levy to fund Town operations at present levels for FY

2018 and beyond, will require an operating override of between \$xxx and \$xxx. Alternatively, the Town will face significant curtailment of services.

While the primary cause of this imbalance is rising school enrollment, rising health insurance costs and the Town's unfunded pension liability play significant roles in this structural gap between the Town's revenues and projected expenses. The impact of a budget shortfall across schools and General Government departments is subject to the budget process, which includes Departmental requests, Finance Committee hearings and ultimately Town Meeting action.

At a high level, three scenarios present themselves:

Scenario A (no override)

- Anticipated budget gap of between \$4.2mm - \$8.8mm, based on the range of scenarios presented to the Committee by the NPS representatives; in addition to any shortfalls in General Government departments and line items.
- No incremental tax impact beyond normal increase
- Reduction of services to be determined and expected to impact both NPS general education and municipal services

Scenario B (fund anticipated FY 2017 shortfall)

- Anticipated to fund increased school enrollment and additional growth items, including pensions and health insurance
- No assurance of funding increased costs beyond FY 2017, raising the possibility of reductions to both the school and municipal service levels beginning in FY 2018
- Approximate tax impact of \$xxx to a residential household with an assessed value of \$500,000

Scenario C (fund anticipated FY 2017- 2018 shortfall)

- Anticipated to fund increased school enrollment and additional growth items, including pensions and health insurance, for a minimum of FY 2017 and FY 2018
- No assurance of funding increased costs beyond FY 2018, raising the possibility of reductions to both the school and municipal service levels beginning in FY 2019
- Unbudgeted revenues raised in FY 2017 would be subject to appropriation to the Operational Stabilization Fund for future appropriation; it is unknown whether there would be any unbudgeted revenues will be available post-FY 2018
- Approximate tax impact of \$xxx to a residential household with an assessed value of \$500,000

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