

Andover's Unsustainable Path

Growing deficits, difficult decisions ahead

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Andover Selectman
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ANDOVER'S UNSUSTAINABLE PATH

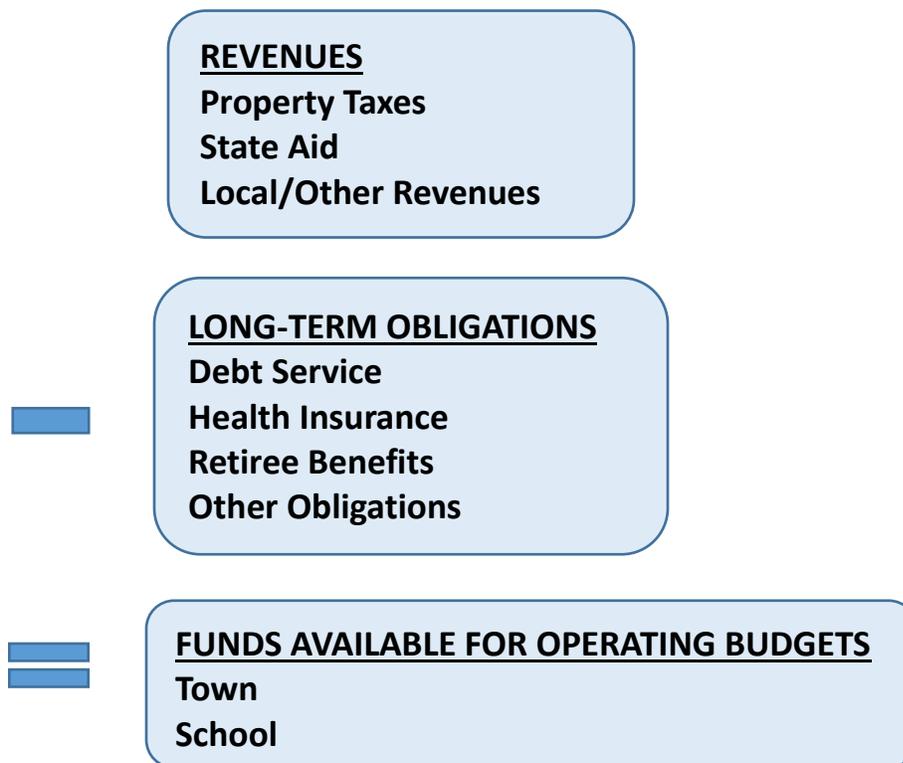
Andover's current fiscal path is unsustainable!

Andover's major expenses are growing faster than property taxes, our primary source of revenue. If current revenue and spending trends continue, Andover faces cumulative budget deficits exceeding \$15 million over the next 5 years.

Report Summary

In this report, I use Andover's budget model diagram to give a high-level illustration of the fiscal challenges we face.

On the following pages, you will find more detail on the major components of our town's revenues and how those revenues must first satisfy our "long-term obligations" with the remaining balance divided between the Town and School operating budgets. All figures are from the upcoming Fiscal Year 2018 budget:



Note: This reports excludes Water & Sewer revenues and expenses which fall under a separate enterprise fund.

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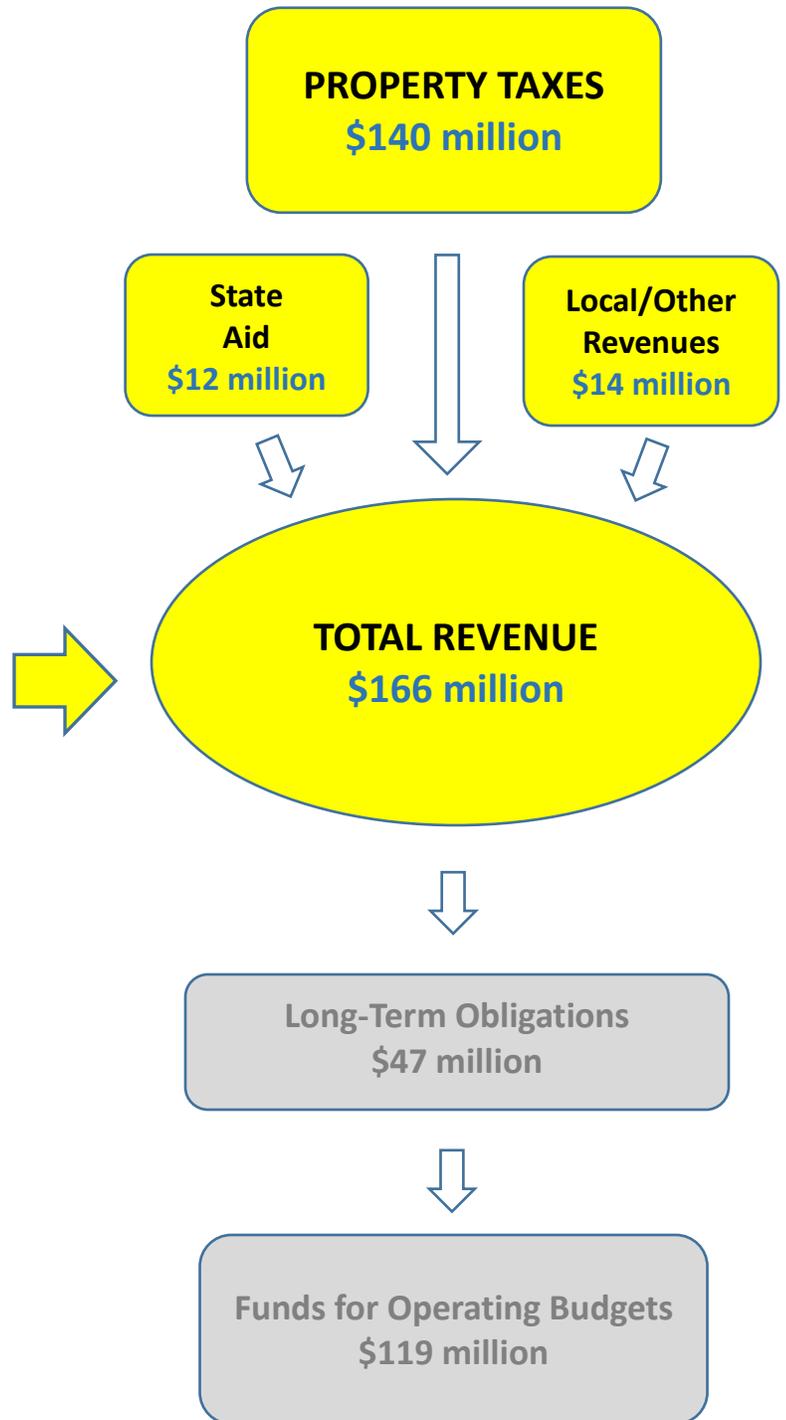
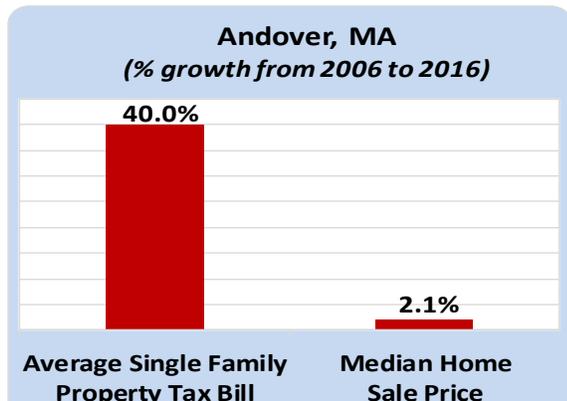
Revenues

Property taxes are Andover's largest source of revenue. We also receive some State Aid and local revenues like permit fees, excise taxes, etc.

Assuming we tax to the maximum allowable levy limit under Proposition 2 ½ plus new growth, our revenues will increase by about 4% per year.

This is the continuation of an unsustainable trend. Andover's residential property tax bills increased 40% over the last 10 years while median household income in Massachusetts increased just 1.8% (Source: Census ACS data).

Also, the steady rise in property taxes has not translated into higher property values which are subject to the volatility of financial and housing markets.

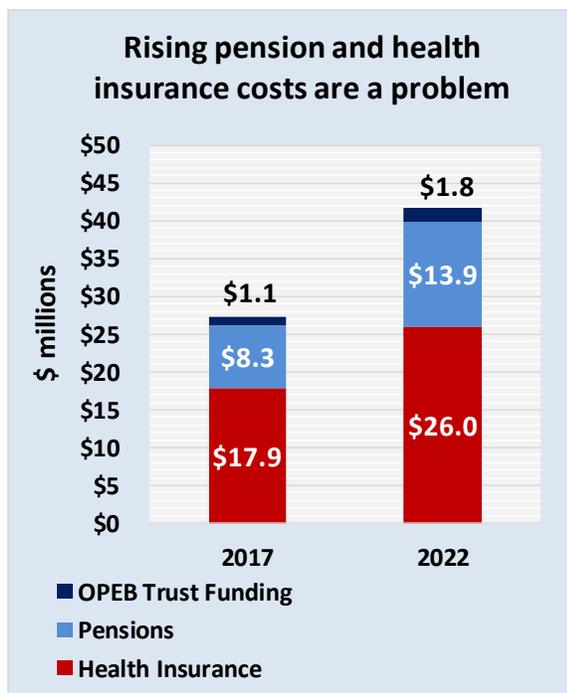


Figures above are for fiscal year 2018 budget

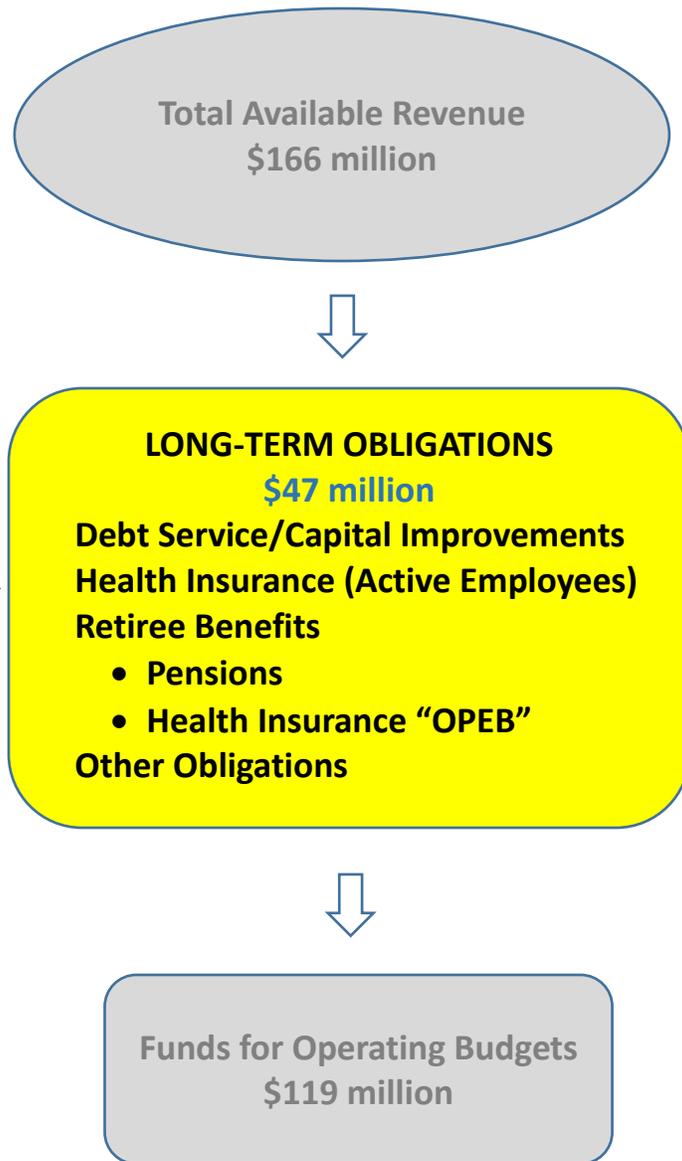
ANDOVER'S UNSUSTAINABLE PATH

Long-Term Obligations

While revenue will grow at 4% per year, our major “long-term obligations” including debt service, health insurance and retiree benefits are projected to grow at much higher rates. Of the \$47 million in long-term obligations in the FY18 budget, pension and health insurance costs are rising much faster than tax revenues:



Over the next 5 years, the fixed costs above will rise from 21% to 26% of the tax levy. This will crowd out funds available for capital projects and town and school operating budgets.



Figures above are for fiscal year 2018 budget.

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Funds Available for Operating Budgets

The balance that remains after funding our long-term obligations is divided between the Town and School operating budgets.

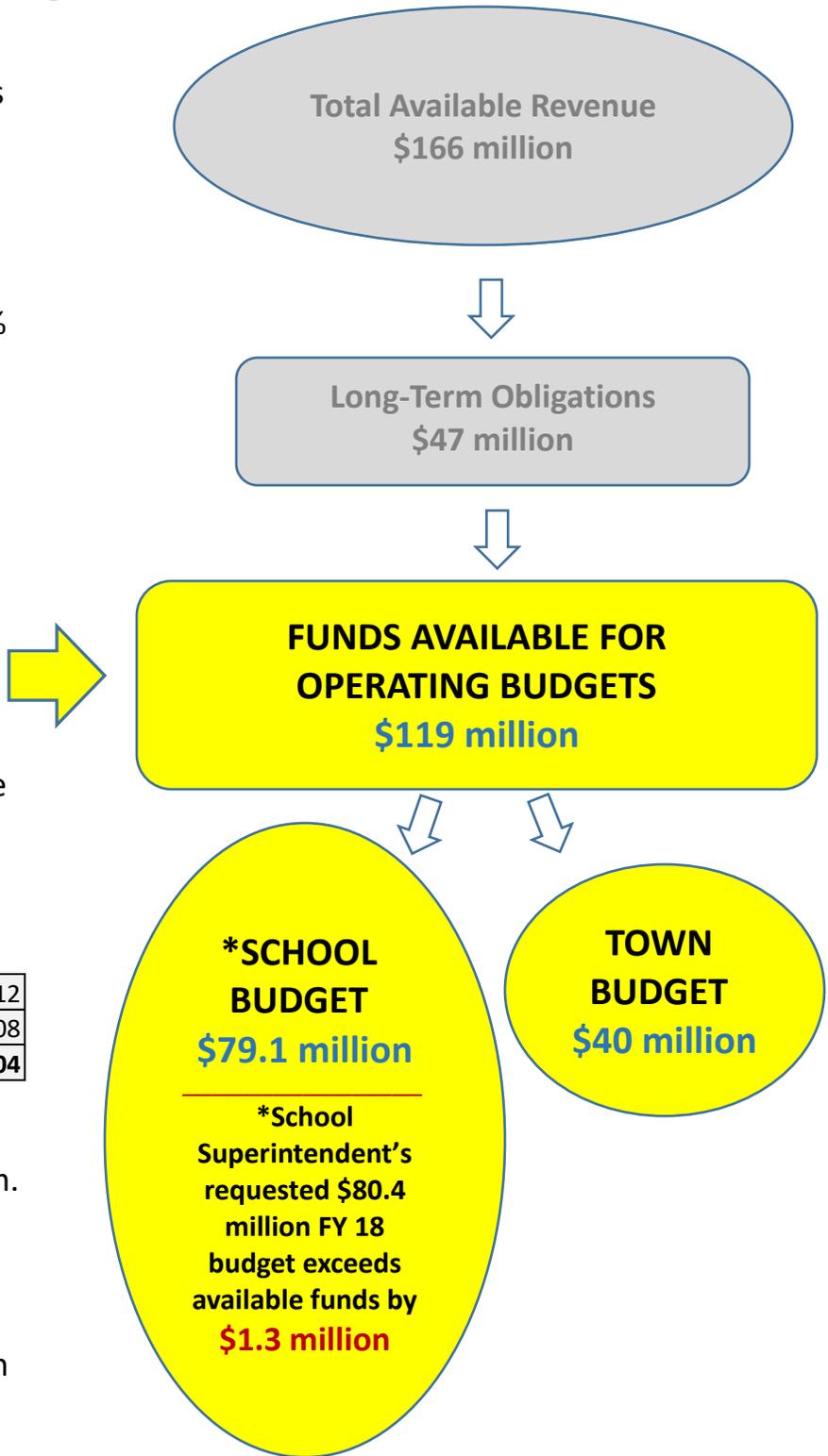
Compensation for town/school employees accounts for almost 80% of our operating budgets and is driven by a corrupt collective bargaining process designed by a state legislature more interested in protecting public employee unions, than taxpayers.

Consider the impact of the last 3-year teachers' contract which consumed the entire increase in the school budget in recent years. Here is the impact on our current 2016-2017 school year:

School Budget Increase (3.8%)	\$2,802,612
Less: Teacher pay increases	\$2,426,408
Balance remaining:	\$376,204

The collective bargaining process is broken and needs significant reform.

Public employee's "total compensation" including salary increases, medical benefits, pension costs and retiree health insurance benefits ("OPEB") have become unaffordable for taxpayers.

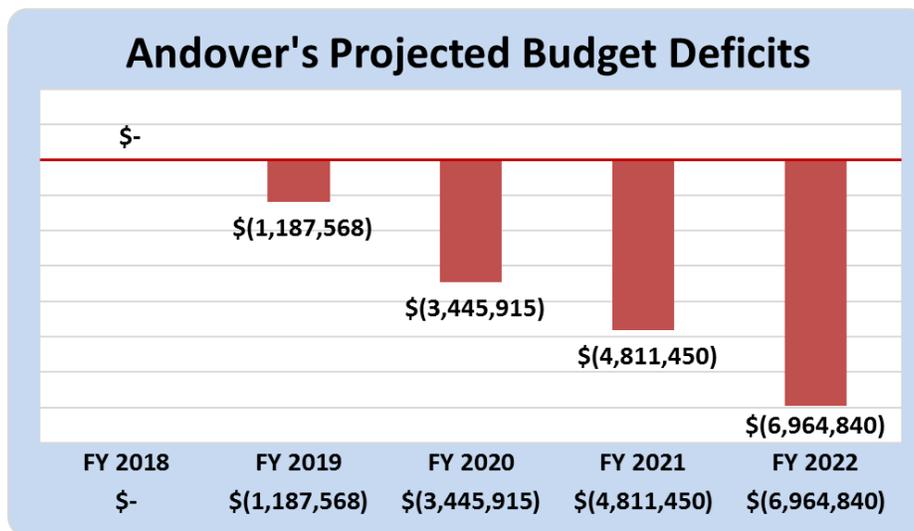


Figures above are for fiscal year 2018 budget.

Growing deficits, difficult decisions lie ahead

Andover is on an unsustainable long-term financial path. The cost of collective bargaining agreements, health insurance and retiree benefits are consuming our annual budgets. Andover residents are also saddled with over \$300 million in unfunded pension and retiree health insurance (OPEB) liabilities and a \$250 million backlog of town and school building projects. We face the daunting challenge of funding the future needs of our community while carrying the burden of these liabilities from the past.

The Town Manager's new Long-Range Projection Model shows cumulative budget deficits exceeding \$15 million over the next five years if we stay on our current path:



Unlike the federal government, Andover's annual budget must balance. As a result, these deficits will require layoffs, reductions in services and/or higher taxes through a Proposition 2 ½ override.

We are facing increasingly difficult decisions just to balance the budget every year. What's next? Cutting back on road repairs and building maintenance? Curtailing the library's hours of operation? Laying off teachers, police, or firefighters just to fund the growing cost of collective bargaining agreements and retiree benefits?

You can reach me at landry@townofandover.com if you have comments or questions.

Visit the "How You Can Help!" page on my website www.townofandover.com