



Town-Wide Financial Plan Fiscal Year 2023 Annual Town Meeting Submitted by the Select Board

February 28, 2022

Dear Town Meeting Members:

Please find the Fiscal Year 2023 Town-Wide Financial Plan (TWFP) for the 2022 Annual Town Meeting ("ATM"). This document contains the following sections:

- Overview
- COVID-19 Update
- Financial Plan Components
- Revenues
- Status of Reserves
- FY23 Budget Cycle
- Key Budget Drivers
- Future Projected Capital Projects and Borrowing Needs
- FY23 Operating and Capital Budget Requests
- Conclusion

Overview

The Wellesley Town Bylaws (Section 19.16) require the Select Board (the Board) to coordinate the annual preparation and execution of the Town-Wide Financial Plan (TWFP). The TWFP is constructed using the information submitted by each board pursuant to the provisions of Sections 6.15 and 11.11 of the Town Bylaws. The TWFP also includes estimates and financial assumptions approved by the Board for all other line items for out-year projections.

In preparing the TWFP, the Board takes into account the following factors:

- The Town's ability to generate the anticipated real estate property taxes and to fund any deficit balance;
- The level of need for all proposed expenditures;
- Alternatives to any of the various sources and uses of funds in the TWFP, including Community Preservation Committee (CPC) funds, borrowing, grants, and gifts.

Working with departmental staff and other Town officials, the Board is proposing a balanced budget of \$199,137,988 for fiscal year 2023 (FY23, the year beginning July 1, 2022). This budget assumes the use of \$2,652,036 from reserves/Free Cash to balance the budget.

Highlights:

- Significant local revenue growth of 14.04% over FY22, with rebounds in Licenses and Permits, Motor Vehicle Excise, and Meals/Hotel/Motel Tax.
- The Town's reserves have risen to \$32,503,359 (19.61% of revenue) due to multiple factors, including a rebound in revenue, turn back from the previous year departmental budgets as a result of decreased departmental spending during the pandemic, favorable health insurance position, and the Board's decision to bolster reserves in FY21 and FY22 in light of financial uncertainties.
- Moderate increase of 2.73% in health insurance benefits, with various health insurance carrier rates growing 3.5 to 9.2%.
- Select Board operating budget guideline was set at 2.75%, and Debt Policy guideline was set at 6.8% of recurring operating revenues, the high end of the allowed range (for reference, the range allowed under the Debt Policy is 6.2 to 6.8% of operating budget).
- Actual proposed increase in the operating budget for FY23 is 2.86% and budgeted capital requests for FY23 total \$11.7 million (6.8% of recurring operating revenues).
- Proposed application of \$2,652,036 from Free Cash to balance the budget.
- Proposed funding of \$3,638,985 in Free Cash for several previously deferred projects and initiatives.
- The proposed transition of the Land Use Departments (Building, Natural Resources, Planning, and Zoning Board of Appeals) to leased office space will create a new line item that is being funded with \$397,100 in Free Cash.
- New benefit eligible positions related to strategic plans and the Unified Plan are once again incorporated into the budget, after a two-year hiatus due to financial uncertainties arising from the pandemic.
- The Five-Year Capital Plan outlines cash capital and debt funded capital projects, including both inside-the-levy and debt exclusion projects.
- The American Rescue Plan Act of 2021 (ARPA) has provided meaningful relief to municipalities and has replaced \$1.5 million in lost revenue to the Town for FY22 and will replace \$1.5 million in lost revenue in FY23.
- The Town applied and received \$1.5 million in Norfolk County ARPA funds for the interim PFAS mitigation in FY22; the Board is considering the use of additional ARPA funding through Norfolk County to fund \$2.45 million in FY23 for the Walnut Street reconstruction.
- Part-time employment has been challenging for recruiting and retention of critical job functions. Three departments (Climate Action Committee, Planning Department, and Natural Resources) are each proposing to upgrade one part-time position to a full-time position with the impact of associated benefit costs included in the budget.
- The Town was able to borrow for the Hardy and Hunnewell Elementary School debt at a 2.2% interest rate, which is significantly lower than the 4% that was previously projected.

Revenues

The revenues for the FY23 General Fund Budget total \$199,137,988 or a 8.92% increase compared to the FY22 approved budget. The 9.07% increase reflects the addition of \$6.2 million in exempt debt added to the tax rolls for the Hardy and Hunnewell Elementary Schools. The year-over-year standard revenue growth is only 5.5%. As a result of the borrowing for the school projects, both the revenue and the corresponding expenses will increase significantly from FY22.

The Board made conservative assumptions on local revenue growth taking into account historic trends and the continued impact of COVID-19 on specific sectors. Property taxes are assumed to increase by \$5,310,470 or 3.68% based upon the provisions of Proposition 2 ½ and added New Growth assumed at \$1.7 million. Local Receipts, which include revenue from Motor Vehicle Excise Tax, Investment Income, Meals/Hotel/Motel Tax, and building fees are expected to increase by \$1,465,677 or 14.04%.

Parking revenue for both parking meters and commuter lots has been slowly rebounding but has not yet returned to the previous level of self-sustainment. Metered parking is nearing past revenue trends, but revenue from commuter parking lots continues to lag substantially compared to previous years. The Traffic and Parking Budget, generally a self-sustaining fund, requires a subsidy of \$505,291 for FY23 to maintain operations, which reflects approximately 56% of anticipated expenses. It is likely that the traffic and parking operations will require evaluation for several more years as we continue to see the impact of COVID-19 on commuting behaviors.

Health Insurance

Health insurance spending was favorable in FY21. Enrollments were lower than budgeted, resulting in an increase of \$2.2 million in the Town's reserve levels. In years past, Wellesley's health insurance collective bargaining agreement has focused on Fallon as the lowest cost carrier option. In FY22, Fallon Health Care announced their departure from the Health Insurance Market. As a result of Fallon's departure, Blue Cross Blue Shield will now be the lowest priced carrier in the West Suburban Health Group model, effective July 1, 2023. In an effort to mitigate the impacts of Fallon's departure from the market, the West Suburban Health Group injected \$4.8 million in reserves to model a recast of rates for FY22 without Fallon, resulting in increases from 3.5 to 9.2% in health insurance rates across all town insurance offerings. The anticipated FY23 increase takes into account reduced premium splits for Harvard Pilgrim and Tufts and the realignment of Fallon subscribers to a modified Blue Cross Blue Shield premium.

The Town's Memorandum of Agreement with the unions for health insurance was extended in FY22 for one year and is set to expire on June 30, 2022. The Town and unions commenced bargaining in September and have recently negotiated a three year extension on the agreement through FY25. Total settlement costs are within the budgeted 2.7% increase in Employee Benefits.

Key Financial Policies

The Board has two key financial policies that were instituted to balance prudent operational and capital spending and establish and maintain an appropriate level of reserves. The Debt Policy was established in FY19 and sets an annual spending limit on capital funded with cash (referred to as "cash capital") and capital funded with inside-the-levy debt projects within a range of 6.2 to 6.8% of recurring operating revenues. The Financial Reserves Policy, established in FY13, requires reserves to be maintained within a range of 8 to 12% of the currently budgeted operating revenues. This policy-based approach is designed for the following purposes:

- To ensure an affordable and predictable level of spending to adequately maintain town assets, and that funds available for operating budgets are not adversely affected by increased capital spending,
- To maintain the Town's top tier bond rating,

- To ensure short term cash availability where revenue is unavailable, in case of emergency or unanticipated needs,
- To provide for investment income,
- To provide for stable tax rates, and
- To enable planning for contingencies and long-term needs.

Operating Budget Guidelines

The modest rebound in revenue assumptions allowed for a slight increase over the previous budget guideline, and the Board issued a 2.75% operating budget guideline for both Town and School departments. The year-over-year operational increase proposed for FY23 is just above target at 2.86%.

In efforts to catch up on some capital spending deferred by the global pandemic, the Board agreed to target the high end (6.8%) of the Debt Policy threshold. To increase the 6.8% band on the Debt Policy, the Board pulled several large projects out of cash capital to fund through separate Annual Town Meeting articles with Free Cash, funding an additional \$3,638,985 in projects and bringing the total cost of Cash Capital Projects in FY23 to \$10,657,572. The Board further agreed to fund the first year of operating and capital expenses for the proposed Land Use Department relocation project with Free Cash in the amount of \$397,100. In future years, the Land Use Departments Lease costs will be part of the operating budgets and a line item in Article 8.

Status of Reserves

As reported in the Interim Budget Update in October 2021 to Special Town Meeting, reserves remain high because of increased departmental turnback, and FY21 and FY22 decisions to bolster reserves to allow flexibility in responding to the global pandemic. In July 2021, with continued COVID-19 restrictions and modified operations throughout the fiscal year, departmental operating turnback was \$8.5 million: Town departments turned back \$3.2 million, the School Department turned back \$3.2 million, and health insurance turnback was \$2.2 million, bringing the Town's reserves to \$32,503,359 or 19.61% of revenue.

Strategic Approach to Reserves Management

Reserves are now substantially above the 8 to 12% policy range. Operating budgets through the pandemic were not cut in FY21 or FY22, but capital was deferred. As local receipt projections rebound, the reserves are a mechanism to catch up on deferred capital.

In determining a strategic approach to reserve management in the FY23 budget, the Board considered the following:

- Application of Free Cash to larger capital projects that were previously under consideration for cash capital funding. In doing so, more opportunity was created for smaller capital projects across several departments;
- Supporting catching up on deferred capital projects by setting the Debt Policy guideline at the upper level of 6.8% in the FY23 budget;
- The finite capacity of town departments to absorb capital increases and the associated workload by recalibrating the timing of some projects over the next few years;
- Deployment of Free Cash for costs associated with the proposed Land Use Department relocation;
- Deployment of Free Cash to assist in balancing the budget;

- Managing reserves to help fund future major capital projects while also maintaining strong reserves to support continued excellence in bond ratings and thereby lowering funding costs.

The above strategic approach resulted in funding capital projects totaling \$3,638,985 from Free Cash and a total of \$10,657,572 in capital projects overall in FY23.

Deployment of Free Cash to assist in balancing the budget is anticipated to revert to the Board's typical use of approximately \$2.5 million annually to keep the reserve levels within the Financial Reserve Policy. In review of reserve levels this year, the Board aims to bring reserves back within the 8 to 12% range, and may ultimately propose using reserves to reduce the overall tax impact of the Town Hall Interior Renovation.

Looking Forward

Due to the economic disruption from COVID-19 and the unknown recovery timeline, the Board anticipated a 2.5% budget guideline in its Fiscal Year 2022 Town Wide Financial Report projections for FY23 through FY25. As the FY23 budget was being prepared, it was evident that the Town is rebounding, and the Board was able to increase the budget guideline to 2.75%. For out-years (FY24 through FY26), assumptions have been raised slightly and reflect an average 3% increase. The Town's long-term response to the global pandemic is still evolving and operational aspects of government are under review. The out-year projections will be evaluated annually to monitor ongoing inflation and supply chain concerns, and the Town's financial ability to attract and retain qualified employees. With so many unknowns at this time, the Board is modeling a consistent spending increase that is affordable within our revenue expectations, and sufficient to allow progress toward individual board objectives. Maintaining slightly higher reserves will allow us to fund the capital plan in a thoughtful manner after considering available funding and personnel resources.

School union contracts expire on June 30, 2022, and will be negotiated for FY23-FY25 along with a three-year health care agreement with all unions for FY23-FY25. Increases in health insurance rates are expected to be variable over the next several years and will be monitored closely by the West Suburban Health Group.

In FY23 and beyond, careful consideration is needed to coordinate initiatives from all departmental strategic plans, the town-wide Unified Plan, Housing Production Plan, Climate Action Plan, and Sustainable Mobility Plan to balance priorities, identify synergies, and determine available financial resources to support the Town's many ambitious goals.

The Town will be in a strong position to continue to avoid Proposition 2 ½ operating overrides by holding inside-the-levy and cash capital spending within the Debt Policy range of 6.2 to 6.8%, and by holding Town and School operating budgets to forecasted increases over the next three years. Current cash capital and debt service requests will lead to projected deficits in future years, and the Board will endeavor to smooth out these expenditures and remain within the range of the Debt Policy. The FY23 budget catches up significantly on capital items with a total capital expenditure of nearly \$15 million inclusive of Cash Capital (\$6.7 million), Free Cash capital expenditures (\$3.9 million), and inside the levy borrowing (\$5 million).

By adhering to budget guidelines for the next several years, the Town should be able to avoid an operating override and use additional reserves to fund major capital projects such as the Town Hall Interior Renovation.

Debt Funded and Free Cash Funded Capital Projects

The Walnut Street reconstruction is the only General Fund debt funded project included on the warrant for the 2022 Annual Town Meeting. The Select Board is also considering using funds from the American Rescue Plan Act (ARPA) for all or part of the Walnut Street project to further reduce this year's inside-the-levy borrowing.

The Board proposes to fund four long-planned projects with Free Cash: the relocation of the Land Use Departments to leased space, a Police Radio Antenna, the Middle School paving project, and the installation of LED lighting at the High School. The Town continues to proactively manage its debt by containing costs on construction projects, and by applying savings to other projects to reduce future borrowing costs. A list of such debt rescissions or transfers of debt borrowed but not spent are included in Article 46 on the warrant.

Plans for Debt Exclusions

The Board continues to plan for significant capital projects that we anticipate bringing to the voters for approval as debt exclusions in the next one to five years. The Major Project Financing Schedule currently includes one potential debt exclusion for the Town Hall Interior Renovation in December 2022, several large inside the levy projects which are detailed in the Attachment C – The Five-Year Capital Plan, and one potential debt exclusion for Preschool at Wellesley Schools (PAWS) in December 2027.

Interior renovation of the 1883 Town Hall

Over the past six years, Town Hall has undergone study, design, and completion of the exterior envelope restoration. Multiple phases of both the exterior and interior proposals have been brought forward to Town Meeting for appropriation. A critical factor that must be recognized is that the proportion of building work and the cost of the exterior project has triggered compliance with the American with Disabilities Act (ADA). The Town has received several extensions that expire in February 2025, by which time the Town must have completed necessary renovations to comply with the ADA laws. The necessary work to meet ADA, coupled with the aging building systems, led the Select Board to a determination that the renovation of the Town Hall interior must be completed. The Board has evaluated the costs to either fully renovate the interior or simply complete the necessary work to comply with ADA, and has found that the complete interior renovation is the correct choice for the long-term use of the building at a lower total cost than incrementally improving the building.

The Town Hall Interior Renovation has followed the typical three step Town Meeting process. An interior space utilization and visioning study of the building was completed in 2018 (Phase 1 of the Permanent Building Committee process) and identified serious deficiencies, including insufficient space for meetings, offices, and storage; lack of secure storage for vital records; lack of security for financial transactions; insufficient parking; air quality issues; moisture infiltration; handicap accessibility deficiencies; and a lack of clear wayfinding. Moreover, the major building systems (boiler, HVAC) are at the end of their useful life and need to be replaced. The Select Board is cognizant that the

central Town offices do not meet the requirements of federal or state disabled persons' accessibility laws and do not provide universal access for residents, visitors, and employees. The feasibility study initially recommended the construction of a Town Hall Annex and a feasibility study for the Annex was completed in 2019. Due to COVID-19, the Select Board eliminated the Town Hall Annex plans prior to the 2020 Annual Town Meeting. Through Facilities Management Department capital funds, the Town Hall interior feasibility study was refreshed in an effort to reduce project costs, and the supplemental study was completed in November 2020.

The 2021 Annual Town Meeting approved \$1.8 million for schematic design through bidding (Phase 2 of the PBC process). The Town Hall Interior project is currently entering Design Development. The Town Hall Interior project will seek a debt exclusion of approximately \$19 million for construction funds (Phase 3 of the PBC process) at Special Town Meeting in Fall 2022, followed by a town-wide vote in December 2022. It is likely the Select Board will propose the use of Free Cash to reduce the overall debt exclusion.

New Major Capital Projects

Projects added in FY22 to the Facilities Master Plan as outlined in Attachment C - The Five-Year Capital Plan include the Department of Public Works (DPW) Park and Highway Building and the DPW Recycling and Disposal Facility Administration Building. These projects are in the feasibility stage and the funding for inside-the-levy borrowing will be evaluated as they progress.

Morses Pond Beach and Bath House Improvements

The Recreation Commission began working with Weston and Sampson to conduct a Final Master Plan of the Morses Pond Beach and Bath House in 2019. Following the initial study, it was determined the work to the Bath House would trigger review by the Permanent Building Committee and a \$175,000 Feasibility and Design Study was conducted in partnership with the Recreation Commission and Facilities Management Department. The proposed scope of the project will be to provide ADA access, reposition the bathhouse, improve walking trails, and expand the use of the Morses Pond facility to three seasons. The Community Preservation Committee (CPC) has been supportive of the project, and has identified funds to assist with the design and construction. It is anticipated that CPC would fund \$800,000 at the 2023 Annual Town Meeting for schematic design through permitting followed by a \$4.6 million CPC appropriation at the Fall 2024 Special Town Meeting.

DPW Park and Highway Building

An FY19 study evaluated key staff support spaces consisting of men's locker rooms, the kitchen, and the lunch/break/training rooms and found the spaces have not been updated since the building was constructed in 1947. These facilities are inadequate from a perspective of age, functionality, circulation, adjacencies, and layout. The women's locker room was updated within the past 10 years but is undersized. The study also assessed the building, including the brick masonry walls, windows, concrete floor slabs (elevated and slab-on-grade) and the wash bay, all of which are original, 70-year-old construction. There are numerous age-related and structural deficiencies. The study included an existing conditions phase, programming phase, and development of new layout options that better support DPW operations and staff. A proposal for design funds will come before the 2023 Annual Town Meeting in the amount of \$1.1 million, and if

passed, construction funds would be sought with the DPW Administration Building at a fall 2024 Special Town Meeting. At present, construction funds are estimated at \$6.4 million.

DPW New Administration Building at the Recycling and Disposal Facility (RDF)

The last major renovation at the RDF was in 1997. A study was recently completed which focused on the Administration Building, the Baler Building, and the Incinerator Building. This study assessed a number of issues with building envelopes, including roofing, walls, windows, foundation waterproofing, and doors. The study also evaluated the current operations and adequacy of the Administration Building. It was determined that this building was not large enough for the current functions and that the 22-year old building systems were largely past their service lives. Construction of a new, larger Administration Building was recommended within the footprint of the existing building (requiring swing space included in the budget). Design funds would be sought at the 2023 Annual Town Meeting in the amount of \$500,000 and construction funds would be sought at fall 2024 Special Town Meeting. The construction funds are estimated at \$2,800,000.

The Board's approach to departmental capital requests is to assess and prioritize projects to manage the annual operating costs of the Town. In doing so, the impact to taxpayers will be moderated as much as possible, while still maintaining the high level of services that residents have come to expect.

Town-Wide Financial Plan

Overview of Relief Funding for COVID-19 Expenses

There has been little change regarding COVID-19 relief funding since the Board's October 2021 update to Town Meeting. The Town continues to emerge from the financial impacts of the COVID-19 pandemic which impacted FY20, FY21, and FY22. State and federal assistance has come in several waves and will continue to provide relief.

Federal Consolidated Appropriations Act

In December 2020, Congress passed the Federal Consolidated Appropriations Act (Act), providing \$900 billion in stimulus relief in response to the COVID-19 pandemic. The Act allowed for Coronavirus Aid, Relief, and Economic Security (CARES) funds to be extended from December 30, 2020, to December 31, 2021, while also providing additional modest resources for schools. With the ability to expend CARES funds through the end of 2021, the Town was able to cover the anticipated COVID-19 costs associated with operations, including the significant salary costs of the Remote Learning School through June 30, 2021. The Town received \$2,616,201 in CARES funds and has expended all funds as of October 2021.

Federal Emergency Management Agency (FEMA) Reimbursement

On January 21, 2021, by Presidential Order, FEMA reimbursement was increased from 75% to 100% and eligible costs were expanded to include vaccine distribution costs, personal protective equipment (PPE), cleaning and sanitization costs, and school reopening costs. FEMA continues to issue revised guidance on implementation, and the Town is currently awaiting approval of submitted reimbursements of \$391,397.49 in Town expenses. Thus far, the Town

has received \$365,638.00 in reimbursements submitted by the School Department for the school COVID-19 testing program. Additional reimbursements from FEMA will be added to Free Cash.

American Rescue Plan Act (ARPA)

On March 11, 2021, the President signed the American Rescue Plan Act (ARPA) into law. The law provides for financial assistance to municipalities and schools through direct local funds and through allocated county funds. Wellesley is eligible for the following:

- Approximately \$3 million in local funds (half of which was received in FY22)
- Approximately \$5.4 million available through an application process administered by the Norfolk County Commissioners
 - \$1.5 million was expended in FY22 on Interim PFAS Mitigation
 - Select Board considering application of these funds towards the Walnut Street Reconstruction Project
- Competitive grants from the Commonwealth which are still being developed. (The Commonwealth received \$2.8 billion in ARPA funds.)

The eligible uses for ARPA funds fall into these broad categories:

- Response to the public health emergency
- Premium pay to employees providing essential work
- Revenue replacement to support government services impacted by COVID-19
- Investments in sewer, water, or broadband infrastructure

ARPA funds are prohibited from being used for the following:

- To offset a reduction in taxes
- To offset or reduce pension obligations
- To service debt for infrastructure investments (qualifying infrastructure projects must be pay-as-you-go investments)
- To increase reserves or stabilization funds.

The Town has included \$1.5 million in ARPA funds, used as lost revenue and flowing through Free Cash, to offset costs in the FY23 budget. As noted above, the Town has also received \$1.5 million in Norfolk County ARPA funds to pay for the interim PFAS mitigation approved at the Special Town Meeting in October 2021. ARPA funds must be obligated by December 31, 2024, and must be expended by December 31, 2026.

Total COVID Funding Assistance Available and Application of Funds:

	<u>Federal and State Assistance</u>		<u>3/2020 - 9/2021</u>
Municipal CARES Allocated	\$	2,616,201.00	
Schools CARES Allocated		\$1,097,100.00	
School ESSR Grant		\$123,519.00	
School CARES Remote Learning		\$101,127.00	
Schools through 6/30/21			\$ (3,065,799.69)
Health Dept.			(24,230.00)
Election			(81,058.00)
Morses Pond Summer Operations FY20,FY21,FY22			(143,832.00)
Personnel Backfill (Non-School)			(90,939.00)
Cleaning/Disinfection			(298,456.00)
Technology (Non-School)			(50,614.00)
Legal			(68,355.00)
Food Programs			(72,499.31)
Library			(42,164.00)
Subtotal CARES/Grants	\$	3,937,947.00	\$ (3,937,947.00)
CARES Available			\$ -
Potential FEMA Reimbursement	\$	757,035.00	
ARPA - Local Funds	\$	3,000,847.00	
Revenue Replacement FY21			\$ (1,500,000.00)
ARPA - County Funds (less 3% county admin. fee)	\$	5,401,746.67	
Interim PFAS Mitigation			\$ (1,500,000.00)
ARPA - Available	\$	8,402,593.67	\$ 5,402,593.67

FEMA funds are reimbursements of qualifying expenditures, and when the reimbursements are received the funds become operational turnback and flow to Free Cash. It should be noted the Town has received all but approximately \$391,000 in FEMA Reimbursement to date.

Financial Plan Components

The Board is responsible for preparing the TWFP which includes a forecast of the Town's sources and uses of funds for the current year (annual budget) and for the two following years (the "out years"). The Board establishes current year budget guidelines, cognizant of reserve implications, and works with the various Town boards to achieve a balanced budget. Projections are developed for subsequent years so that the Board may determine whether there will be sufficient revenue to meet needs or any requests for new initiatives. The TWFP also includes projected capital needs for the next five years for the various departments and information regarding the proposed financing for these items.

Reserves

The Town intentionally increased its financial reserves during the last 14 years and, on December 10, 2012, the Board adopted a formal Financial Reserve Policy which informed the recommendations in this annual TWFP. Reserves are comprised of the Town's certified Free Cash and Stabilization Funds. Free Cash is the sum of funds appropriated and raised by the Town, but not expended in the years for which the funds were appropriated, plus anticipated revenues, minus uncollected taxes of prior years. Stabilization Funds are special accounts created to provide reserves (savings) for different types of variable expenditures. These Stabilization Funds help to smooth out the impact of capital projects or provide insurance against unexpected expenditures.

Pensions, Other Post-Employment Benefits(OPEB) and Health Insurance Costs

The Town makes an annual contribution to the Wellesley Contributory Retirement System, a defined benefit pension plan administered by the Wellesley Contributory Retirement Board. The

proposed contribution for FY23 represents 4.27% of the Town's annual budget. Current employees contribute up to 11% of their salaries to the system, depending upon date of hire. An independent actuary engaged by the Retirement Board biannually calculates the annual contribution the Town must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees. The funded status, using the market value of assets, was 77.66% as reflected in the actuarial valuation performed as of January 1, 2021, with full funding expected by 2030. The Retirement Board decreased the investment assumption in 2021 from 6.625 to 6.0% as an assumed actuarial rate of return on investment. Management continues to factor updated valuations into TWFP projections.

Similarly, health insurance costs and the liability for postemployment health care benefits for certain retirees and their dependents (OPEB) are key considerations in the TWFP. The Town has undertaken a number of proactive steps over the last ten years to reduce current costs and amortize the unfunded OPEB liability. With the current actuarial valuation, completed as of December 31, 2020, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 74 and 75, the funding status has improved to 56.7%. The Town currently appropriates 0.52% of its annual budget to OPEB, and current estimates indicate that this obligation will be fully satisfied by 2030. Like the Pension, the OPEB investment assumption has been reduced from 6.625 to 6.0%.

Balanced Budget

Once balanced, the annual budget is presented by the Board to the Annual Town Meeting, together with comments and recommendations of the Advisory Committee. Town Meeting votes on the budget and thereby establishes the level of budgetary control, defining the level at which expenditures may not exceed appropriations. This level is typically tracked at the individual department salary and expense level. The state-of-the-art financial system has a number of built-in controls, and department managers have ready access to their updated budgets.

Revenues

Real Estate and Personal Property Taxes

Wellesley's primary source of revenue is real estate taxes. In the FY23 budget, taxes represent 83.2% of the estimated revenues, of which 87.38% are from residential assessments.

State Aid

In FY23, the Town is receiving approximately 5.5% of its revenue in the form of State Aid, of which 86.5% is for educational purposes, and 13.4% is state revenue assessments to other government agencies. State revenue assessments are not available to fund the Town's budget. Current projections show only a modest increase of 1.97% in FY23.

State Revenue Trend

	<u>Final 2018</u>	<u>Final 2019</u>	<u>Final 2020</u>	<u>Final 2021</u>	<u>Final* 2022</u>	<u>Budget 2023</u>	<u>Governor 2023</u>
State Aid							
Chapter 70	\$ 8,399,961	\$ 8,955,295	\$ 9,273,504	\$ 9,273,504	\$ 9,407,484	\$ 9,601,379	9,536,724
	\$ 8,399,961	\$ 8,955,295	\$ 9,273,504	\$ 9,273,504	\$ 9,407,484	\$ 9,601,379	9,536,724
Other school	\$ -	\$ -	\$ -	\$ -	\$ 5,633	\$ 5,633	7,027
	\$ 8,399,961	\$ 8,955,295	\$ 9,273,504	\$ 9,273,504	\$ 9,413,117	\$ 9,607,012	9,543,751
Unrestricted (UGGA)	\$ 1,294,148	\$ 1,339,443	\$ 1,375,608	\$ 1,375,608	\$ 1,423,754	\$ 1,449,596	1,462,195
All other	\$ 65,540	\$ 53,236	\$ 65,462	\$ 51,094	\$ 45,401	\$ 45,401	49,149
Total	\$ 9,759,649	\$ 10,347,974	\$ 10,714,574	\$ 10,700,206	\$ 10,882,272	\$ 11,102,009	11,055,095
Assessments	\$ 1,239,371	\$ 1,260,154	\$ 1,262,442	\$ 1,308,172	\$ 1,309,563	\$ 1,309,563	1,356,345
Net	\$ 8,520,278	\$ 9,087,820	\$ 9,452,132	\$ 9,392,034	\$ 9,572,709	\$ 9,792,446	\$ 9,698,750

Local Receipts

Over the past two years, the most significant financial impact of COVID-19 has been the anticipated negative impact on local revenue and parking receipts. The good news is that the Town is seeing a turnaround, and based upon FY21 and FY22 performance so far, the TWFP projects a significant increase of 14.04% in local receipts in FY23. Local receipts represent 6% of the Town's revenue. Most local receipts (72%) have been from motor vehicle excise and permits and licensing.

Local Receipts Trend

	<u>Actual FY18</u>	<u>Actual FY19</u>	<u>Actual FY20</u>	<u>Actual FY21</u>	<u>Budget FY22</u>	<u>Budget FY23</u>
Local Receipts						
Motor Vehicle Excise	\$ 5,749,176	\$ 5,814,076	\$ 5,463,429	\$ 5,547,986	\$ 5,200,000	\$ 5,550,000
Investment Income	760,311	1,644,747	1,761,606	353,917	190,688	350,000
Licenses and permits	4,049,311	3,617,016	2,043,985	2,700,054	2,366,000	2,700,000
One time 40R Permit	-	-	-	1,140,730	-	-
RDF	817,862	594,114	663,669	741,786	650,000	650,000
Pilot payments	76,490	76,443	76,442	76,465	76,000	76,000
Parking Fines & Forfeits	466,684	577,555	452,093	302,411	200,000	300,000
Meals tax, hotel/motel	752,908	771,564	682,286	505,715	200,000	550,000
Recreation transfer	79,227	13,682	-	38,227	-	-
Penalties, Interest on Taxes	248,217	425,077	253,628	629,987	250,000	250,000
Rentals	169,038	180,728	198,929	212,586	100,000	180,000
Fees	116,737	109,180	109,851	108,155	90,000	100,000
Departmental	164,646	87,406	133,786	100,259	60,000	100,000
All other	54,884	14,324	328,079	308,553	58,435	100,800
Total	\$ 13,505,491	\$ 13,925,912	\$12,167,783	\$ 12,766,831	\$ 9,441,123	\$10,906,800

The drop in revenue from the Town's traffic and parking operations has been an ongoing concern since 2020. The Traffic and Parking operations have historically been self-funding, but as remote work opportunities have expanded, the use of commuter lots has declined. The Select Board is encouraged by a recent slow and steady return of commuters to public transportation. The Massachusetts Bay Transportation Authority (MBTA) has increased train

service as part of its “Regional Rail” service initiative. Service to Wellesley is no longer limited to clusters of trains during traditional morning and evening commuting hours, as the MBTA is now offering “Clock Face Scheduling” on weekdays with trains throughout the day. Further, the Board has authorized a pilot program to allow overnight parking at the Tailby lot between January 1, 2022, and June 30, 2022, to support downtown residents and their guests while providing additional revenue.

At the close of FY21, traffic and parking revenue had risen from 2% of the FY20 total (as of October 2020) to 26% of the FY20 total, and 20% of the FY19 total. In FY22, the Board subsidized the entire budget for traffic and parking with just under \$900,000 from Free Cash. In FY23, the Board is anticipating a revenue shortfall of approximately \$500,000 and is proposing to subsidize the Traffic and Parking Fund for one more year while continuing to evaluate the rebounding revenues. The subsidy this year is within the general operating budget and does not require additional Free Cash.

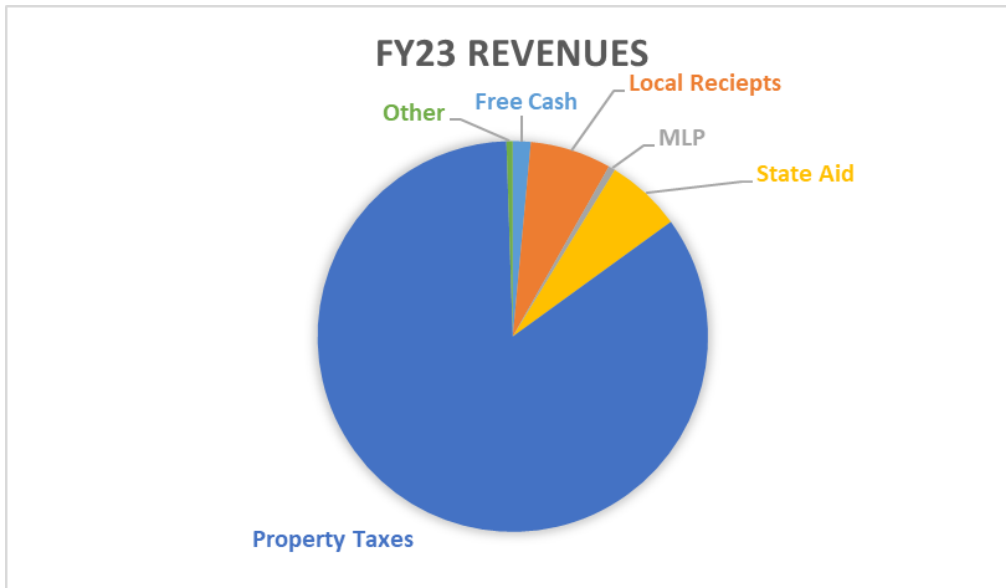
Additional revenue includes an annual contribution of \$1 million to the Town from the Wellesley Municipal Light Plant.

Free Cash

Free Cash is made up of revenues in excess of budget projections, budget turn-back (amounts budgeted but not spent), and other timing differences.

<i>Free Cash</i>	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>	<u>FY21</u>	<u>FY22</u>
<i>Beginning of year</i>	\$ 12,109,416	\$ 14,615,285	\$ 16,171,779	\$ 18,175,871	\$ 25,830,840
<i>Uses</i>	(4,093,089)	(5,040,670)	(6,408,475)	(4,495,134)	(10,828,076)
<i>Net Free Cash generated</i>	6,598,958	6,597,164	8,412,567	12,150,103	5,300,000
<i>End of year</i>	<u>\$ 14,615,285</u>	<u>\$ 16,171,779</u>	<u>\$ 18,175,871</u>	<u>\$ 25,830,840</u>	<u>\$ 20,302,764</u>

For the FY23 budget, the proposed use of \$2,652,036 in Free Cash to balance the budget represents 1.4% of the estimated revenues. Free Cash is generally deployed for one-time costs including capital investments and the commencement of new initiatives such as the relocation of the Land Use Departments in this year’s proposed budget. The Select Board has typically used \$2.5 million of Free Cash to balance the budget, and often after lengthy budget discussions may opt to close any remaining deficits with additional Free Cash. This budget would add \$152,036 in Free Cash to close out the FY23 Budget.



Status of Reserves

The Town's reserves rose to \$32,503,359 (19.61% of revenue) due to multiple factors, including a rebound in revenue, decreased departmental spending during the pandemic, favorable health insurance position, and the Board's decision to bolster reserves in FY21 and FY22 in light of financial uncertainties.

The Town's Financial Reserve Policy stipulates reserves should range from 8 to 12% of budgeted operating revenue. The Government Finance Officers' Association recommends maintaining balances of reserves in the amount of 5 to 15% of Budgeted Operating Revenues. In July 2021, with continued COVID-19 restrictions and modified operations throughout the fiscal year, departmental operating turnback was high at \$8.5 million. Town departments turned back \$3.2 million, the School Department turned back \$3.2 million, and the Health Insurance turn back was \$2.2 million, bringing the Town's reserves to \$25,830,840 or 19.64% of revenue.

The Special Town Meeting in October 2021 appropriated \$3,264,838 in Free Cash to supplemental budget appropriations for FY21 and FY22 (\$300,000), Hunnewell School Swing Space (\$2.8 million), and the Facilities Management Department Union Contract Settlements (\$164,838).

Current reserves are at 17.72% prior to any appropriation at the 2022 Annual Town Meeting, with School FEMA Reimbursements totaling \$529,945, Town FEMA Reimbursements anticipated to be \$391,000, and the release of \$306,144 from the Permanent Building Committee of Middle School Building System funds.

Reserves Projection

<i>Reserves as of 6/30/2021</i>	<u>Amount</u>
Free Cash	\$ 25,830,840
General Purpose Stabilization fund	3,692,805
Other Stabilization Funds	2,979,714
	\$ 32,503,359
FY22 Revenue	\$ 165,733,774
Sources and (Uses) of Reserves in FY22	
Appropriations at STM 10/2021	
FMD Contracts	(164,838)
Increase 2022 Legal Budget	(150,000)
Swing Space	(2,800,000)
School FEMA (reimbursed 2022)	365,638
School FEMA (reimbursed 2022)	164,307
PBC MS Piping	306,144
FEMA	391,000
Estimated Reserves as of 6/30/22	\$ 30,615,611
FY23 Revenue	\$ 172,731,661
% of Revenue	17.72%
% of Revenue Without Special purpose Stabilization Funds	16.00%

Under Massachusetts Department of Revenue (DOR) rules, the Free Cash balance and the General Purpose Stabilization Fund are reserves specifically available for appropriation by Town Meeting for any lawful purpose. Appropriations from the Stabilization Fund require a two-thirds vote by Town Meeting, whereas appropriations from Free Cash require a majority vote. The balance of the General Purpose Stabilization Fund as of June 30, 2021, was \$3.69 million.

The Municipal Modernization Act of 2016 created an additional reserve fund opportunity for special education funding and the Town responded by creating a Special Education Reserve Fund at ATM in 2017. Revenues from Medicaid receipts related to special education were deposited into the fund at that time, with the plan to continue to build the fund in subsequent years. Article 11 on this year's warrant recommends appropriation of \$275,000 in revenues from Medicaid receipts. Over the past three years, deposits of \$750,000 have been made to the Special Education Reserve Fund to further protect the School budget from unforeseen special education outplacement costs. Funds deposited in a Stabilization Fund can be redirected for another purpose with Town Meeting authorization. The Special Education Reserve Fund's maximum balance is 2% of Wellesley's actual net school spending. Following this year's appropriation of Medicaid the funds, the stabilization fund will be nearing maximum contribution levels. This year the Board will continue to support the funding of the Special Education Reserve Fund to ensure that a reliable level of reserves is available should either the State be unable to meet its circuit breaker obligations, or the School Department experiences unanticipated out-of-district placements or other extraordinary expenses.

The FY23 budget continues the past practice of contributing Free Cash equal to turnback amounts for the Injured-on-Duty stabilization fund under Article 10 (\$38,605), and the RDF Baler Fund under Article 12 (\$11,512). The following chart summarizes revised projections reflecting the anticipated use of Free Cash towards the FY23 Budget and the impact to the Town's anticipated reserve balances on June 30, 2022:

<i>Reserves as of 6/30/2021</i>	<u>Amount</u>
Free Cash	\$ 25,830,840
General Purpose Stabilization fund	3,692,805
Other Stabilization Funds	2,979,714
	\$ 32,503,359
FY22 Revenue	\$ 165,733,774
Sources and (Uses) of Reserves in FY22	
Appropriations at STM 10/2021	
FMD Contracts	(164,838)
Increase 2022 Legal Budget	(150,000)
Swing Space	(2,800,000)
Appropriations at ATM 2022	
Balance 2023 Budget	(2,652,036)
Snow & Ice	(400,000)
Add to IOD Stabilization	(38,605)
Add to Baler Stabilization	(11,512)
Add to SPED Stabilization - Medicaid	(275,000)
Potential funds available for capital	
ATM22 MS Paving	(2,193,856)
ATM22 HS ECM	(1,250,000)
ATM 22 Land use (Operation and Capital)	(397,100)
Police Antenna	(195,129)
School FEMA (reimbursed 2022)	365,638
School FEMA (reimbursed 2022)	164,307
PBC MS Piping	306,144
FEMA	391,000
Estimated Turnback	4,000,000
Estimated Reserves as of 6/30/22	\$ 27,202,372
FY23 Revenue	\$ 172,731,661
% of Revenue	15.75%
<i>% of Revenue Without Special purpose Stabilization Funds</i>	14.02%

FY23 Budget Cycle

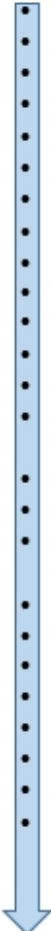
The Town budget cycle usually begins in July with the Board having initial discussions with the larger departments, including the School Department, the Facilities Management Department (FMD), and the Department of Public Works (DPW). This year's budget process followed the Budget Submission Timeline detailed below. (For a full review of the Town Budget Preparation Manual, please see Appendix A)

In the early stages of the budget preparation, the Board reviews an analysis of current revenues and revenue enhancement opportunities. After factoring in fixed costs, such as employee benefits, issued debt, and past service liabilities, the Board develops budget guidelines to help allocate remaining available funds among the departments. Guidelines for FY23 were finalized October 12, 2021. After guidelines are set, each board is expected to develop a budget falling

within guideline. New initiatives and costs beyond guideline are discussed and evaluated by the Board and the Advisory Committee during the budget cycle. Other funding mechanisms (such as an override or debt exclusion) may be proposed if a critical initiative cannot be funded with the current resources.

Under the Town bylaws, the Select Board is responsible for coordinating the annual budget submissions for all boards; coordinating the timing of capital requests and determining methods for financing capital needs; estimating available revenues; and developing the Town-Wide Financial Plan and Five-Year Capital Plan. Under the direction of the Select Board and Executive Director, the Finance Department has developed standard formats for departmental requests, these submissions are used to accurately create (1) the “Sources and Uses” format required by Article 19.16.1; (2) the Town-Wide Financial Plan; and (3) the Five-Year Capital Plan. The format includes a departmental narrative outlining departmental responsibilities and current objectives with emphasis on current year needs, a revenue summary, and detailed operating budget requests showing a four-year history.

Budget Submission Timeline

- July 1, 2021 Fiscal Year begins
 - August 11 -- Finance Director presents Financial Orientation to Advisory Committee
 - August 18 -- Finance Director updates BOS on FY2021 results
 - September 13 – SB Begins FY 2023 Budget guideline discussions
 - September 20 – SB continues guideline discussions
 - September 27 - SB continues guideline discussions
 - September 29-October 7 – Inter-Board Meeting
 - October 12 – FY 2023 Operating and Capital Budget guideline finalized
 - October 18 –Operating budget manual & operating and capital forms distributed
 - October 21– HR provides guidelines for 40/50/60 series
 - November 15 – Town-wide FMD Capital update
 - November 15 – Open Annual Town Meeting Warrant
 - December 2 – Capital budget requests submitted to Finance from all departments
 - December 2 – Operating budgets due from Select Board departments. Finance begins budget compilation
 - December 6 – Tax Classification Hearing
 - December 13 - Select Board’s Budget Workshop (Day)
 - December 20– Operating budgets due to Finance from non-school departments (early submissions encouraged)
 - December 22– Warrant Closes for Annual Town Meeting
 - January 3 – SB Budget Roll Up to SB for Review
 - January 7 – Select Board’s Budget Workshop #2 (Day)
 - January 11 – Superintendent’s operating budget presented to School Committee
 - January 17– Determine budget gap & begin closing process
 - February 8– School Committee votes School Department operating budget
 - Annual Town Election – March 1, 2022
 - Annual Town Meeting to begin March 29, 2022
- 

Key Budget Drivers

Each year at ATM, the Board and staff update the Town-Wide Financial Plan with input from the Town departments, boards, and committees, guided by the conservative financial policies adopted over the last decade. As in prior years, the key issues impacting the Town's financial planning include:

- Growth in personnel costs
- Employee benefit costs
- Facilities and other capital needs

Growth in Personnel Costs

The largest recurring item in the year-over-year growth of the Town budget is the cost of wage increases ("Cost of Living Adjustments" or COLA) for existing employees. Each year the Human Resources Board evaluates increases for non-union municipal personnel and compares salary ranges to maintain competitive. Most Town employees are unionized, and their annual wage increases are a subject of collective bargaining. There are 14 unions representing 1,129 employees, the largest of which is the Teachers Association. As stated above, the teachers union contract expires June 30, 2022. At the Fall 2021 Special Town Meeting, the last of the Town's contracts was approved through June 30, 2023. In February, the Town has completed a three-year extension on health care benefits for FY23 to FY25.

In addition to the COLA noted above, the union contracts also provide for an additional annual "step" increase for teachers and other employees who have not yet reached the top step, and "lane" increases for teachers as they attain additional academic degrees. The teachers' contract currently provides for 16 steps and the value of each step increase is approximately 4.2%. Most Town union contracts provide for 4 to 8 steps, and an average step increase of 5.3 to 5.6%. In recent years, longevity has been added in step form to a number of contracts for employees. Thus, employees who have not reached the top step generally receive total annual wage increases in the range of 6 to 8%.

Each year, the cost of step increases is partially offset by savings resulting from the retirement or departure of employees who are replaced by new employees at a lower step level ("turnover savings"). Thus, in departments with steps, the changing composition of the work force affects the budget over time. However, in the case of the School Department, the average experience level of teachers has increased over the past ten years. Currently (FY23), approximately 59.5% of the teachers are at the top step, and the others are still moving on steps. Along with increases in special education costs, the School's personnel costs have grown at a faster rate than other departments' budgets.

Employee Benefit Costs

Employee benefit costs will total nearly \$33.5 million in (17.3% of the Town's total budget) and during the past ten years, benefit costs have been the fastest growing component of the overall Town budget. The principal components of this cost are:

- Health insurance premium costs for active and retired (non-Medicare eligible) employees and other associated benefit costs - \$21.4 million
- Pension plan contributions - \$8.5 million

- Other Post-Employment Benefits (OPEB) funding - \$3.45 million

Health Insurance

The Town procures health insurance for active employees and retirees through the West Suburban Health Group (WSHG), a consortium of nine towns and two educational entities. Health insurance is a mandatory subject of collective bargaining, so the Town cannot unilaterally make plan design changes. The Town has successfully bargained with its employee groups and implemented a number of plan changes in recent years, which have helped control rising costs.

The most recent adopted contract will begin on July 1, 2022, in which the Town will continue to offer high deductible or benchmark plans for employees. The WSHG was made aware in March 2021 that Fallon Health Care would be leaving the commercial health care market. Fallon's departure would leave WSHG with three health insurance carrier options for employees starting FY23: Blue Cross Blue Shield, Harvard Pilgrim, and Tufts, with Blue Cross Blue Shield being the least expensive plan option. BCBS as the low carrier option still increases costs in the range of 8.7 to 9.2% from the lower cost Fallon plans. The Town has agreed to maintain a 78% contribution rate to Blue Cross Blue Shield and has reduced the contribution rate to 60% for Harvard Pilgrim and Tufts and will maintain the 50% contribution rate for the Harvard Pilgrim PPO plan. The Town will continue to offer various incentives to employees to lower costs, including an opt-out provision and high deductible options.

Pension Plan Contributions

Municipal employees in Massachusetts are not eligible for Social Security. In lieu of a Social Security benefit, the Town maintains a defined-benefit pension plan for retired employees other than teachers, and the benefits are identical to those offered by other cities and towns in Massachusetts. Teachers participate in a similar plan operated by the Commonwealth. However, unlike a defined-benefit pension plan in the private sector, municipal employees contribute toward the cost of their pension. Any municipal employee hired after 1996 is required to contribute 9% of annual pay plus 2% of pay over \$30,000.

Employee contributions to the Town of Wellesley pension plan during calendar 2021 totaled \$4.1 million and are estimated to total \$4.2 million in calendar 2022. The Town will make an annual contribution of \$8.5 million in FY23. The Enterprise funds (Water, Sewer and Electric) also contribute the employer portion for their employees. Approximately 66% of the contribution by the Town this year will be allocated to accrued liabilities from prior years.

Other Post-Employment Benefits (OPEB)

The Town is also obligated to subsidize a portion of the health insurance premiums for all retirees (Other Post-Employment Benefits or OPEB). Medicare-eligible retirees are required to enroll in Medicare and the Town pays 50% of the cost of a Medicare supplement plan and 50% of the Medicare Part B premium.

The latest actuarial valuation of the Pension liability was performed as of January 1, 2021. The actuarial valuation is on a two-year cycle and the next valuation will be performed January 1, 2023, although it will not be available until May 2023. The following table summarizes the Town's unfunded liabilities related to Pension and OPEB, based on employee service to date:

Measurement Date	<u>Pension</u>		<u>OPEB</u>	
	1/1/2021		12/31/2020	
Accrued Liability	\$	242,973,730	\$	132,313,690
Actuarial Value of Assets	\$	242,973,730	\$	75,024,303
Unfunded Liability	\$	43,104,963	\$	57,289,387
Funded Ratio		84.93%		56.7%
Full Funding Year		2030		2030
Assumed Rate of Return		6.0%		6.0%

The actuarial funding schedule for the pension plan calls for a \$351,609 increase in pension funding in FY23 (exclusive of enterprise funds). The 2017 and 2019 actuarial valuation of the pension plan called for a reduction of the investment return assumption from 6.75% to a more conservative rate of 6.625%. The most recent actuarial valuation of the pension plan was performed on January 1, 2021, and reduced the rate of return further to 6.0%.

The OPEB actuarial valuation is on a two-year cycle with the new valuation performed on December 31, 2021. The interest rate was decreased to 6.0% and certain mortality assumptions were updated. The funding schedule was historically designed to fully fund liability by 2037; however, the Town is currently tracking to be fully funded as of 2030 even with the reduction in the rate of return. The funding plan currently requires the Town to contribute a flat \$3.4 million each year until 2023, in addition to the increasing premium subsidies for current retirees (“pay-as-you-go costs”). From 2023 until 2030 the remaining payment will be \$3,450,000.

	<u>OPEB Funding</u>				
	FY19	FY20	FY21	FY22	FY23
Inside the levy	\$ 3,432,000	\$ 3,432,000	\$ 3,432,000	\$ 3,432,000	\$ 3,450,000
	\$ 3,432,000	\$ 3,432,000	\$ 3,432,000	\$ 3,432,000	\$ 3,450,000

Unlike many other communities, Wellesley is fully funding the ARC (Annual Required Contribution), as defined in the Government Accounting Standards Board pronouncements related to OPEB. As a result, the Town can discount the unfunded OPEB liability using an assumed market rate of return, whereas communities that are not funding the ARC are required to use a risk-free rate of return. New municipal accounting rules took effect at the beginning of FY18 which required municipalities to report pension and OPEB liabilities on their balance sheets. Wellesley’s proactive funding approach favorably distinguishes our community, as the Town is further along in meeting its obligations than many other towns.

Future Projected Capital Projects and Borrowing Needs

Capital Budget Requests

Each year, boards submit a detailed five-year capital plan, and it is critical to include all anticipated capital needs for that five-year period, including cash capital and projects financed by debt or any other source. This year’s Budget Book details the finalized five-year capital requests submitted. The final Five-Year Capital Plan reflects the most up-to-date project costs. Capital requests are intended to support the department’s strategic direction, and the financial

and operational impact of each requested capital purchase should be quantified. Because financial resources are limited, boards are asked to internally prioritize capital needs and should fully research the cost of each item to better inform the discussion of which projects should be funded in a given year. Doing a thorough job of analyzing capital needs can help avoid sudden unanticipated requests in the current budget cycle, and greatly aids the financial planning process. It should be noted that with any significant rise in the inside-the-levy borrowing, available funding for cash capital projects is restricted. Capital requests added in a given budget year without prior notice are generally deferred unless required by a federal or state mandate.

As previously described, the Select Board has adopted a Debt Policy that limits combined capital and debt service expenditures to 6.2 to 6.8% of budgeted (inside-the-levy) revenues. The purpose of this policy is to provide sufficient funds to maintain Town assets, while avoiding operating overrides or compromising operating budgets. In review of the Five-Year Capital Plan requests, the total cost is rising in the out-years far in excess of the 6.2 to 6.8% debt policy range and is hovering around the 7% range for FY24 and FY25. During the budget process, departments are sometimes asked to reduce their capital requests in order to bring overall requests into alignment with the debt policy range. Staying within the range requires close coordination and communication between the Finance Department and all department heads.

The combined inside-the-levy (cash capital and debt service) financing budget for FY23 is \$11,737,443 or 6.8% of revenue. Of the \$11.7 million, \$5 million is for inside-the-levy debt service, therefore there is a maximum of \$6.7 million available for all cash capital projects. In FY24-FY26, based upon projected inside-the-levy borrowing, there is currently projected between \$5 million and \$7 million available for cash capital.

Budget Assumptions

MIIA, the Town's insurance company currently values Wellesley's assets at \$427,026,953 inclusive of buildings and contents. It is the Town's responsibility to maintain those assets or replace them as they reach the end of their useful life, making capital project needs and costs a major factor in out-years. The Board works to prioritize and balance needs with inside-the-levy borrowing, cash capital, and major project funding through debt exclusions. The Board considers funding capacity when issuing the Budget Guidelines and this year allowed for the use of the higher end of the debt policy range of 6.8% given the rebound in revenues.

The budget assumptions established for FY24 through FY26 have taken into consideration various factors including:

- Sustainability of economic growth;
- Increased costs of goods and services;
- Rising costs of health insurance;
- Potential for increased costs to address both Town and School strategic initiatives such as implementation of the Climate Action Plan, Sustainable Mobility Plan, Diversity, Equity, and Inclusion efforts, and downtown revitalization, and
- Unknowns of ongoing impacts of COVID-19 including impacts to Traffic and Parking revenue.

The projections below are reflective of any projected union settlements, which will be evaluated and negotiated on an individual basis. The projected budget assumptions are as follows:

Revenues

- Levy growth 2.5% plus \$1.5 million of new growth in FY24-F26
- State Aid 2% increase for FY24-26
- Local revenue 2% increase for FY24-FY26
- Use of Free Cash \$2.5 million/year

Expenses

- Town Personal Services/Expenses average 3.0% FY24-FY26
- School Personal Services/Expenses average 3.0% FY24-FY26
- Pension per approved funding schedule
- Health Insurance 7%
- Other employee benefits 0%

Combined with significant capital expenditure reductions, these budget assumptions allow the Town to strive to reach balanced budgets in the out-years. Any increases in expense estimates may require operational overrides or reductions in departmental operations.

Exhibit II

	<u>FY22</u>	<u>FY23</u>	<u>\$</u>	<u>%</u>	<u>FY24</u>	<u>FY25</u>	<u>FY26</u>
	<u>Budget</u>	<u>Request</u>	<u>Inc/(Dec)</u>	<u>Inc/(Dec)</u>	<u>Projection</u>	<u>Projection</u>	<u>Projection</u>
Sources of Funds							
Taxes	\$ 144,418,814	\$ 149,729,284	\$ 5,310,470	3.7%	\$ 154,972,516	\$ 160,346,829	\$ 165,855,500
State Aid	10,882,272	11,096,377	214,105	2.0%	11,318,304	11,544,670	11,775,564
Local Revenue	10,441,123	11,906,800	1,465,677	14.0%	12,124,936	12,347,435	12,574,383
Free Cash to balance	3,781,347	2,652,036	(1,129,311)	-29.9%	2,500,000	2,500,000	2,500,000
Other Free Cash items	314,838	4,036,085	3,721,247	n/a	-	-	-
Other Sources	1,456,045	1,961,183	505,138	34.7%	1,780,547	1,787,293	1,794,173
CPA for North 40	549,444	550,244	800	0.1%	550,644	550,644	550,244
Exclusions & Exemptions	10,988,083	17,205,979	6,217,896	56.6%	17,365,672	17,263,172	16,596,472
Total Sources	\$ 182,831,966	\$ 199,137,988	\$ 16,306,022	8.9%	\$ 200,612,619	\$ 206,340,043	\$ 211,646,336
Uses of Funds							
School	\$ 82,540,253	\$ 84,802,266	\$ 2,262,013	2.7%	\$ 87,346,334	\$ 89,966,724	\$ 92,665,726
Other Town Departments	42,051,485	43,362,464	1,310,979	3.1%	44,663,338	46,003,238	47,383,335
Employee Benefits	32,593,654	33,521,962	928,308	2.8%	35,050,514	36,718,102	38,489,067
Cash Capital	4,260,119	6,737,443	2,477,324	58.2%	6,932,271	7,128,248	6,233,970
Debt (inside Levy)	5,900,000	5,000,000	(900,000)	-15.3%	5,200,000	5,400,000	6,700,000
Other Uses	3,948,928	7,957,630	4,008,702	101.5%	3,900,149	3,933,903	3,958,456
Exclusions & Exemptions	11,537,527	17,756,223	6,218,696	53.9%	17,916,316	17,813,816	17,146,716
Total Uses	\$ 182,831,966	\$ 199,137,988	\$ 16,306,022	8.9%	\$ 201,008,922	\$ 206,964,031	\$ 212,577,271
Surplus/(Deficit-Override)	\$ 0	\$ (0)			\$ (396,303)	\$ (623,988)	\$ (930,934)

Based on the budget assumptions outlined above, the current projected deficit for FY24 is \$396,303 with no modifications to the cash capital budget or application of additional Free Cash. This deficit is approximately \$6.1 million less than projected in March 2021, as a result of overperformance in revenue and ongoing compliance with the Debt Policy. The FY25 and FY26 out-year projections have deficits in the range of \$623,988 to \$930,934; these deficit projections assume modest revenue increases and a straight 3% increase in school and town operational costs.

Strict adherence to the inside-the-levy Debt Policy can help reduce these deficits and the Board is committed to rigorous analysis of all capital requests. Conversely, allowing any growth in operating guidelines could outstrip resources available inside the levy.

Impact on Deficit of Debt/Capital Policy

	<u>2024</u>	<u>2025</u>	<u>2026</u>
Revenue	\$ 200,612,619	\$ 206,340,043	\$ 211,646,336
Projected Deficit	\$ (396,303)	\$ (623,988)	\$ (930,934)
Debt/Capital	\$ 15,119,314	\$ 13,566,046	\$ 14,877,121
Percent Requested	7.54%	6.57%	7.03%
If reduced to 6.2%	\$ 11,061,777	\$ 11,422,814	\$ 11,792,738
Revised Deficit	\$ (48,419)	\$ (287,402)	\$ 384,495

For **informational purposes only**, a model has been created to show the impact on debt and deficits utilizing the **bottom** of the Debt Policy range at 6.2% of operating revenues, rather than the higher figures previously identified or requested. The chart above shows that the deficits would be significantly reduced over the three-year period; however, since debt service is largely determined from the Major Project Schedule, except for one listed new inside-the-levy borrowing for Walnut Street, future cash capital allocations would require limitations of

- \$5,861,726 in FY24 (a decrease of \$4M);
- \$6,022,762 in FY25 (a decrease of \$2.1M); and
- \$5,092,685 in FY26 (a decrease of \$3M).

The Select Board is considering funding all or a portion of the Walnut Street Reconstruction with ARPA funds.

In addition to the projects financed inside the levy, three debt exclusions have been approved in the last 18 months including the Middle School Building Systems in December 2020, Hardy Elementary School in December 2021, and Hunnewell Elementary School in December 2021. In February 2022, the Town was able to borrow for the Hardy and Hunnewell Elementary School debt at a 2.2% interest rate, which is significantly lower than the 4% that was previously projected.

Over the next five years, two debt exclusions are planned:

- Town Hall Interior Renovation – (December 2022)
- Renovation/Reconstruction of PAWS Pre-School (November/December 2027)

Proposed Major Project Financing Schedule

Debt Exclusions

Project		Estimated Cost	Fiscal 2023		Fiscal 2024		Fiscal 2025		Fiscal 2026		Fiscal 2027		Fiscal 2028	
			ATM 2022	Fall 2022	ATM 2023	Fall 2023	ATM 2024	Fall 2024	ATM 2025	Fall 2025	ATM 2026	Fall 2026	ATM 2027	Fall 2027
Town Hall Interior	Design	\$1.85M	Inside											
	Construction	\$19.0M		DE										
PAWS	Design	\$2.0M							Inside					
	Construction	\$18.0M											DE	
TOTALS		\$40.85M	\$1.85M	\$19.0M					\$2.0M					\$18.0M

The remaining major projected projects and a potential timetable can be found in in Attachment C, Five-Year Capital Plan.

The following table is a roll-forward projection of the median tax bill (i.e., the tax bill for a home valued at \$1,223,000 for the period FY22 – FY30). The Board continues to be mindful of the significant impact on taxpayers of the approved and prospective debt exclusions. Efforts will continue to reduce or eliminate deficits without an override, and to investigate opportunities and methods to lower rates of spending growth, and/or further grow the Town’s revenues.

Median Tax Bill

	FY 22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Levy Prior	\$ 12,777	\$ 13,131	\$ 13,493	\$ 13,845	\$ 14,205	\$ 14,573	\$ 14,949	\$ 15,334	\$ 15,728
Levy growth	\$ 498	\$ 483	\$ 472	\$ 480	\$ 488	\$ 496	\$ 504	\$ 513	\$ 522
Existing Debt Exclusions	\$ 1,010	\$ 979	\$ 795	\$ 767	\$ 692	\$ 627	\$ 603	\$ 566	\$ 503
HHU	\$ -	\$ 585	\$ 689	\$ 666	\$ 671	\$ 648	\$ 625	\$ 602	\$ 580
Town Hall Interior	\$ -	\$ -	\$ 81	\$ 110	\$ 107	\$ 104	\$ 101	\$ 98	\$ 94
Median tax bill	\$ 14,285	\$ 15,178	\$ 15,530	\$ 15,867	\$ 16,163	\$ 16,448	\$ 16,782	\$ 17,113	\$ 17,428

FY23 Operating and Capital Budget Requests

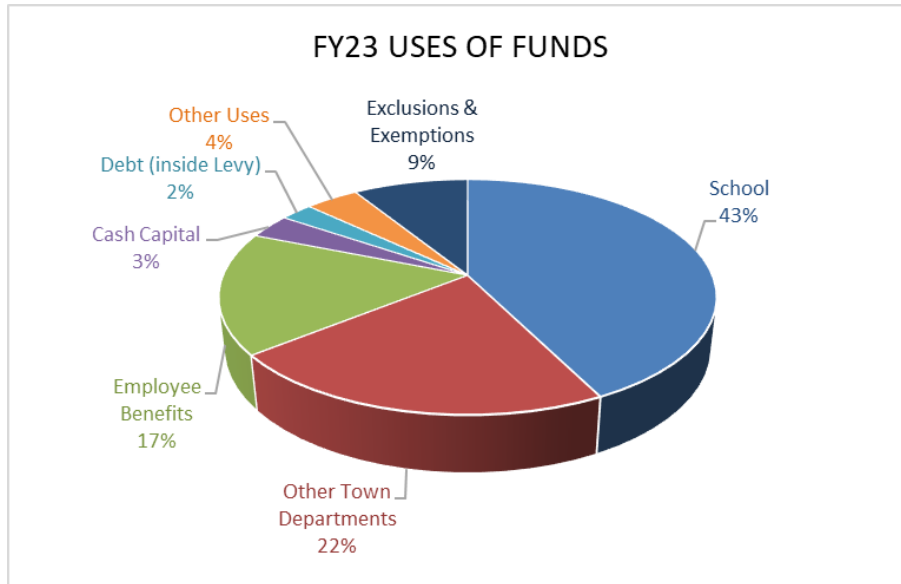
The proposed FY23 budget request is summarized in the following table (more complete versions of the FY23 Sources & Uses are presented in [Exhibit I](#) and [Exhibit B](#).)

	FY22	FY23	\$	%
	<u>Budget</u>	<u>Request</u>	<u>Inc/(Dec)</u>	<u>Inc/(Dec)</u>
<i>Sources of Funds</i>				
Taxes	\$ 144,418,814	\$ 149,729,284	\$ 5,310,470	3.7%
State Aid	10,882,272	11,096,377	214,105	2.0%
Local Revenue	10,441,123	11,906,800	1,465,677	14.0%
Free Cash to balance	3,781,347	2,652,036	(1,129,311)	-29.9%
Other free cash items	314,838	4,036,085	3,721,247	0.0%
Other Sources	441,045	930,683	489,638	111.0%
CPA Funds	1,015,000	1,030,500	15,500	1.5%
CPA to offset debt	549,444	550,244	800	0.1%
Exempt Debt	10,988,083	17,205,979	6,217,896	56.6%
Total Sources	\$ 182,831,966	\$ 199,137,988	\$ 16,306,022	8.9%
<i>Uses of Funds</i>				
School	\$ 82,540,253	\$ 84,802,266	\$ 2,262,013	2.7%
Other Town Departments	42,051,485	43,362,464	1,310,979	3.1%
Employee Benefits	32,593,654	33,521,962	928,308	2.8%
Cash Capital	4,260,119	6,737,443	2,477,324	58.2%
Debt Service (inside Levy)	5,900,000	5,000,000	(900,000)	-15.3%
Other Uses	3,948,928	7,957,630	4,008,702	101.5%
Exempt Debt	11,537,527	17,756,223	6,218,696	53.9%
Total Uses	\$ 182,831,966	\$ 199,137,988	\$ 16,306,022	8.9%
Surplus/(Deficit)	\$ 0	\$ (0)		

Sources of Funds: The 3.7% increase in taxes reflects the allowed growth in the levy limit (2.5%) and \$1.7 million of new growth. At this point, State Aid is showing an increase of \$214,105 or 2%. The 14.1% increase in Local Revenue reflects the rebounding FY21 performance on motor vehicle excise tax, investment income, and meals and hotel/motel tax previously identified. The significant increase of 111% in Other Sources is reflecting the modest rebound of \$400,000 Parking Meter Receipts in FY22 which were a complete loss in FY21.

Uses of Funds: The 2.7% increase in the School budget reflects the cost of contractual step and cost-of-living increases, the realignment of grant funds, and modest investment in strategic initiatives. The School Department took a close look at their personal services and expenses and worked hard to meet the Town's 2.75% budget guideline directive. The 3.1% increase in Other Town Departments is over guideline and reflects the proposed change of three part-time positions to full-time positions in smaller departments including Climate Action Committee, Natural Resources Commission, and Planning Department. The increase also reflects wage increase levels recommended by the Human Resources Board (2.5% for 50/60 series employees and 2.75% for 40 series employees) and various adjustments in other expenses for

all departments. Debt service is down 15.3% with the restructuring of some debt and the funding of anticipated borrowing of necessary PFAS mitigation with ARPA funds. Cash capital is up 58.2% reflecting the increase from last year's low end of the Debt Policy range (6.12%) to this year's high end of the range (6.8%).



Use of Free Cash: The Board has sought to take advantage of FY21 turnback and the overperformance in revenues to cover expenses and fund needed projects including the following:

FY21 Year End Transfer from Free Cash:

- \$150,000 Legal Fees

FY22 appropriations from Free Cash:

- FMD Contract Settlement (STM 10/2021)
- \$150,000 Supplemental appropriation for Legal Fees
- \$2,800,000 Operating Costs for Hunnewell School Swing Space

FY23 appropriations from Free Cash:

- \$275,000 Special Education Stabilization Fund (Medicaid)
- \$11,512 Baler stabilization Fund
- \$38,605 Injured on Duty Indemnity Fund
- \$397,100 for Land Use Department Relocation (Article 17)
- \$195,129 Police Department Antenna (Article 18)
- \$2,193,856 Repaving of Middle School Parking Lots (Article 20)
- \$1,250,000 LED Light Fixture Replacement at High School (Article 21)

Conclusion

The Town is continuing to recover from the significant financial impact of COVID-19 on revenue and capital projects in FY21 and FY22. The FY23 budget takes advantage of reserves, bolstered by conservative assumptions over the past two years, to fund needed capital projects with Free Cash. The Board has closely monitored federal and state grant opportunities and works to maximize outside funding opportunities to fund projects and strategic plan initiatives, and emerging issues such as PFAS mitigation, revitalization of commercial districts, Housing Authority repairs, summer transportation for low-income youth, climate action initiatives, and Diversity, Equity, and Inclusion work. At this time, the Board believes it is prudent to begin to draw from reserves to fund needed projects, maintain a portion of reserves for the Town Hall Interior Renovation, and bring reserves back into the Financial Reserves Policy range of 8 to 12% over the next year or so. Continued monitoring through FY23 includes review of the Traffic and Parking Fund as transportation patterns have changed and commuter traffic in particular has an impact on parking revenues. The Board must evaluate whether this typically self-supporting fund should become part of the General Fund operations.

Members of the Board would like to express our sincere appreciation to Executive Director Meghan Jop, Assistant Executive Director Amy Frigulietti, Finance Director Sheryl Strother, and their staff, as well as all Town boards and their respective staffs, and union health care representatives for their continued commitment to deliberative and civil dialogue, data driven analysis, and collaborative resolution of complex issues. We look forward to continued partnerships during the upcoming fiscal year, and beyond, to maintain the Town's high-quality services, financial stability, and community health.

Sincerely yours,

Thomas H. Ulfelder, Chair
Lise M. Olney, Vice Chair
Elizabeth Sullivan Woods, Secretary
Colette E. Aufranc
Ann-Mara S. Lanza

Exhibits:

I – FY23 Summary Sources & Uses of Funds

B – FY23 Detail Sources & Uses of Funds

C – FY23-FY27 Five Year Capital Budget Program

2022 Budget Book: www.wellesleyma.gov/2022budgetbook