

FY 2007

Town-Wide Financial Plan



Planning issues

- Increasing School enrollment
- Health insurance costs
- Post-retirement medical (OPEB) funding
- High School renovation needs
- Elementary School renovation needs
- School building maintenance
- Financial reserves

Planning process

- Preliminary FY07 plan reviewed with Town Meeting (March 2005)
- Working groups established by Board of Selectmen (Summer, Fall 2005)
- FY07 budget guidelines published by Advisory (October)
- Capital requests submitted (October)
- Operating budget requests submitted (January)
- Inter-Board work to reduce budget and structure override (January – March)

Key definitions

- Personal services
- Cash capital
- Debt capital
- “Inside the levy”
- Other Post-Employment Benefits (OPEB)
- Employee benefits
- Free cash

Advisory's FY07 budget guidelines

Increase in Personal Services

- Schools 5%
- Other Depts. 2.5%

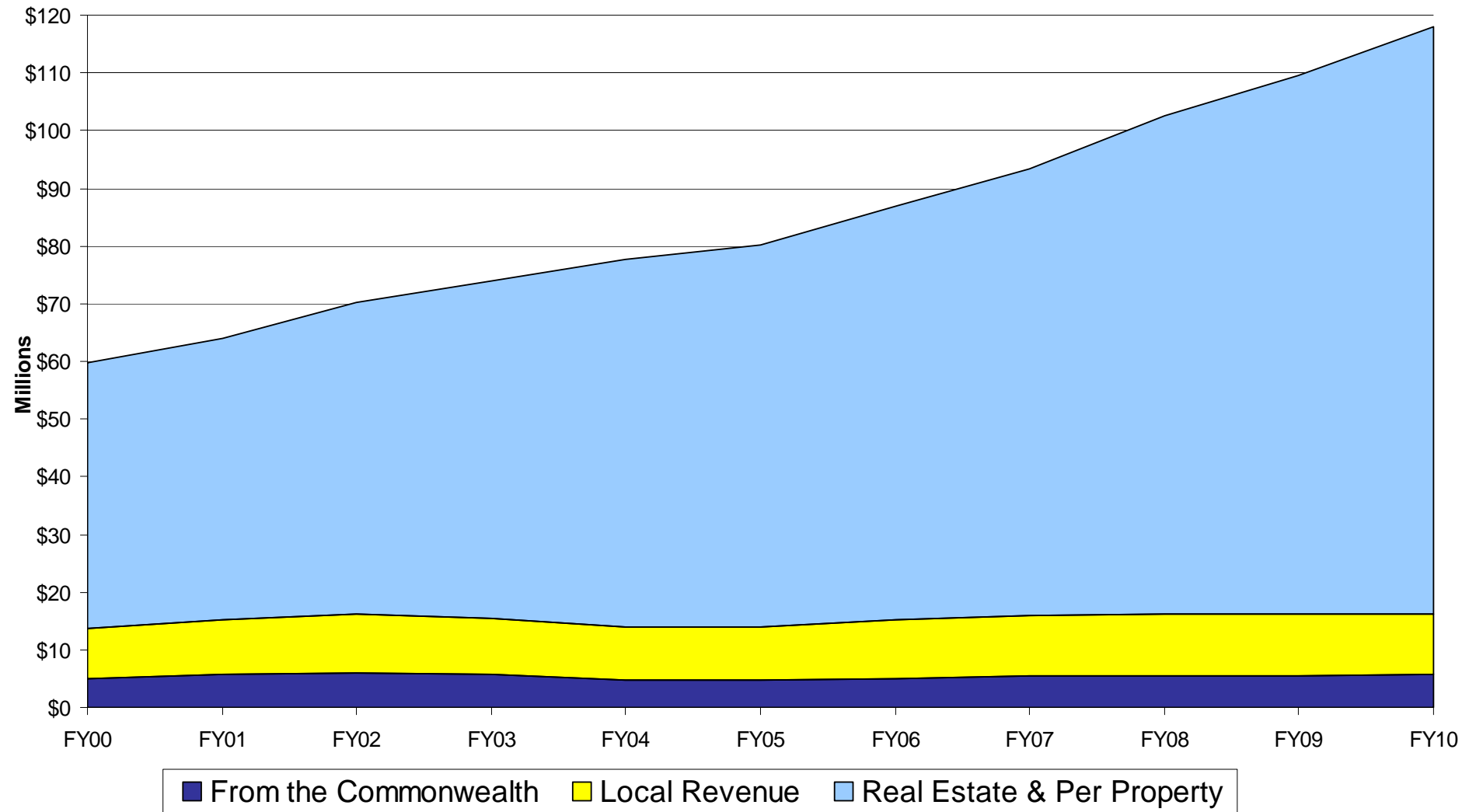
Increase in Expenses

- Schools 3%
- Other Depts. 2.5%

Local revenue assumptions

- \$450,000 increase in local aid
 - Lottery and Chapter 70 (Schools)
- No Water & Sewer payment
- \$50,000 additional RDF recycling revenue
- \$500K more interest earnings
- \$200K less motor vehicle excise

Revenue trend



Personal services and expenses

<i>(\$000's)</i>	<u>FY06</u>	<u>FY07</u>	<u>Increase</u>	<u>%</u>
Selectmen	\$ 12,110	\$ 12,506	\$ 397	3.3%
DPW	5,489	5,769	280	5.1%
Library	2,000	2,057	57	2.8%
Recreation	388	399	11	2.7%
Schools	42,721	47,033	4,311	10.1%
Employee Benefits	10,966	12,997	2,031	18.5%
Other	1,992	2,224	233	11.7%
Total Tax Impact	<u>\$ 75,666</u>	<u>\$ 82,984</u>	<u>\$ 7,319</u>	<u>9.7%</u>

Cash capital

	<u>FY06</u>	<u>FY07</u>	<u>Inc/Dec</u>
DPW	\$ 1,124,000	\$ 1,107,500	\$ (16,500)
Schools	935,699	1,165,319	229,620
Other Boards	180,750	126,372	(54,378)
	<u>\$ 2,240,449</u>	<u>\$ 2,399,191</u>	<u>\$ 158,742</u>

Debt capital requests

	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>
Modular Classrooms	\$ 2,232,000				
High School Schematic Design	1,582,950				
Schools Infrastructure		2,714,098	1,668,637	2,407,414	1,181,500
Park/Hwy Electrical System Repair	1,150,000				
DPW Garage/Office	2,617,041	390,000	420,000	900,000	260,000
Weston Rd Parking Lot			200,000		
Sprague Field Rehabilitation		1,000,000			
Hunnewell Field Improvements		92,500	150,000	150,000	1,520,000
Surface Drainage Master Plan	333,000	300,000	331,000	375,000	661,000
Grove Street					1,250,000
Cliff Road				1,250,000	
Cedar & Hastings Intersection					336,000
Overbrook Dr Area Improvements		80,300	77,200		
Engine #1			375,000		
Washington St Cold Planning		385,000			
Morses Pond Management Plan	223,000	265,000	585,000		
Morses Pond Dock	115,000				
Morses Pond Bathhouse				200,000	
Fuller Brook Park Restoration		572,000			
Town Pond Management Plan				100,000	
Total	\$ 8,252,991	\$ 5,798,898	\$ 3,806,837	\$ 5,382,414	\$ 5,208,500

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Resulting FY07 deficit

	FY2006	FY2007
*** SOURCES OF FUNDS ***	<u>Tax Rate</u>	<u>Projected</u>
<i>Taxes & Current Revenue</i>	\$ 83,423,821	\$ 87,117,830
<i>Property Tax (Outside Levy)</i>	2,416,689	5,158,545
<i>Available Funds</i>	2,277,858	2,203,981
<i>MLP/Water/Sewer Contribution</i>	1,125,000	1,000,000
	89,243,368	95,480,356
*** USES OF FUNDS ***		
<i>Personal Services & Expenses</i>		
- Schools	42,721,441	47,032,871
- Non-School	23,041,744	24,084,615
<i>Capital & Debt (Inside Levy)</i>	5,806,003	6,131,953
<i>Debt Service (Outside Levy)</i>	3,018,802	5,780,880
<i>Employee Benefits</i>	10,965,985	12,996,795
<i>Special Items</i>	3,679,693	2,414,960
	89,233,668	98,442,074
OVERRIDE	\$ (9,700)	\$ 2,961,718

Reasons for the deficit

	FY07 <u>Impact</u>
Spending variances vs. Advisory guideline	
- Personal services	\$ 1,103,273
- Expenses	1,425,954
- Employee Benefits	249,483
Cash capital greater than prior year	284,594
Debt service greater than prior year	167,208
OPEB funding	600,000
Snow and ice deficit	(370,020)
Increase in local aid	(450,000)
Other items, net	(48,774)
	<hr/>
	\$ 2,961,718
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Debt exclusion details

	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>Total</u>
Schools building infrastructure	\$ -	\$ 2,714,098	\$ 1,668,637	\$ 4,382,735
DPW Garage/Office	2,617,041			2,617,041
Park/Hwy electrical system repair	1,150,000			1,150,000
Storm water drainage work		300,000	331,000	631,000
Morses Pond	223,000	265,000	585,000	1,073,000
Morses Pond beach dock	115,000			115,000
<i>Total Exclusion</i>	<u>\$ 4,105,041</u>	<u>\$ 3,279,098</u>	<u>\$ 2,584,637</u>	<u>\$ 9,968,776</u>
<i>Debt Service Implications</i>	\$ 548,904	\$ 1,024,461	\$ 1,414,177	
<i>Median Tax Bill Impact</i>	\$ 51	\$ 95	\$ 131	

Debt exclusion ground rules

- No further debt capital for FY07-09, with following exceptions:
 - High School
 - Public safety or emergency needs
 - Street acceptances

Benefits of debt exclusion

- Addresses several infrastructure issues
- Reduces FY07 override
- Avoids further permanent increase in levy
- Reduces potential overrides in FY08 and 09
- Provides certainty regarding how money is spent
- Firms up the plan through FY09
- Enables Boards to more efficiently phase, bid and coordinate projects

Proposed ballot questions

1. General override \$2,961,718
2. Debt exclusion (*ballot will not specify \$*)
3. RDF Sunday hours \$45,043
4. Branch libraries \$75,603

Looking forward – growth in Personal Services

	FY07 Advisory <u>Guideline</u>	FY07 <u>Proposed</u>	FY08-FY11 <u>Assumed</u>
Schools	5%	7.5%	7%
Selectmen	2.5%	3.2%	2.5%
DPW	2.5%	3.4%	3.0%
Library	2.5%	2.5%	2.5%
Health	2.5%	8.0%	2.5%
Recreation - Tax Impact	2.5%	13.4%	2.5%

High School Option 4A

No SBA, Level Payment

Debt Service

<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>
319,014	1,132,857	2,265,714	7,929,997	8,881,597	7,553,122	7,553,122

Median Tax Bill Impact

<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>
30	105	210	734	823	699	699

Projected sources & uses

	FY2006	FY2007	FY2008	FY2009	FY2010
*** SOURCES OF FUNDS ***	<u>Tax Rate</u>	<u>Projected</u>	<u>Projected</u>	<u>Projected</u>	<u>Projected</u>
<i>Taxes & Current Revenue</i>	\$ 83,423,821	\$ 87,117,830	\$ 93,031,119	\$ 98,808,035	\$ 104,857,298
<i>Property Tax (Outside Levy)</i>	2,416,689	5,171,282	5,886,841	6,849,439	8,216,082
<i>Available Funds</i>	2,277,858	2,203,981	2,463,130	2,463,130	2,463,130
<i>MLP/Water/Sewer Contribution</i>	1,125,000	1,000,000	1,000,000	1,000,000	1,000,000
TOTAL SOURCES OF FUNDS	89,243,368	95,493,093	102,381,090	109,120,604	116,536,510

*** USES OF FUNDS ***

<i>Personal Services & Expenses</i>					
- Schools	42,721,441	47,032,871	50,325,172	53,847,934	57,617,289
- Non-School	23,041,744	24,084,615	24,770,624	25,476,300	26,202,211
<i>Capital & Debt (Inside Levy)</i>	5,806,003	6,131,953	5,910,179	5,687,572	6,421,766
<i>Debt Service (Outside Levy)</i>	3,018,802	5,793,617	6,509,176	7,471,774	8,838,417
<i>Employee Benefits</i>	10,965,985	12,996,795	14,488,286	16,344,025	18,322,024
<i>Special Items</i>	3,679,693	2,414,960	3,063,927	3,105,905	3,146,002
TOTAL USE OF FUNDS	89,233,668	98,454,811	105,067,364	111,933,511	120,547,709

OVERRIDE	\$ (9,700)	\$ 2,961,718	\$ 2,686,274	\$ 2,812,906	\$ 4,011,200
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Structural deficit

Revenue growth

2.5% Levy Growth	\$	1,734,396
New Growth		1,000,000
		<hr/> 2,734,396

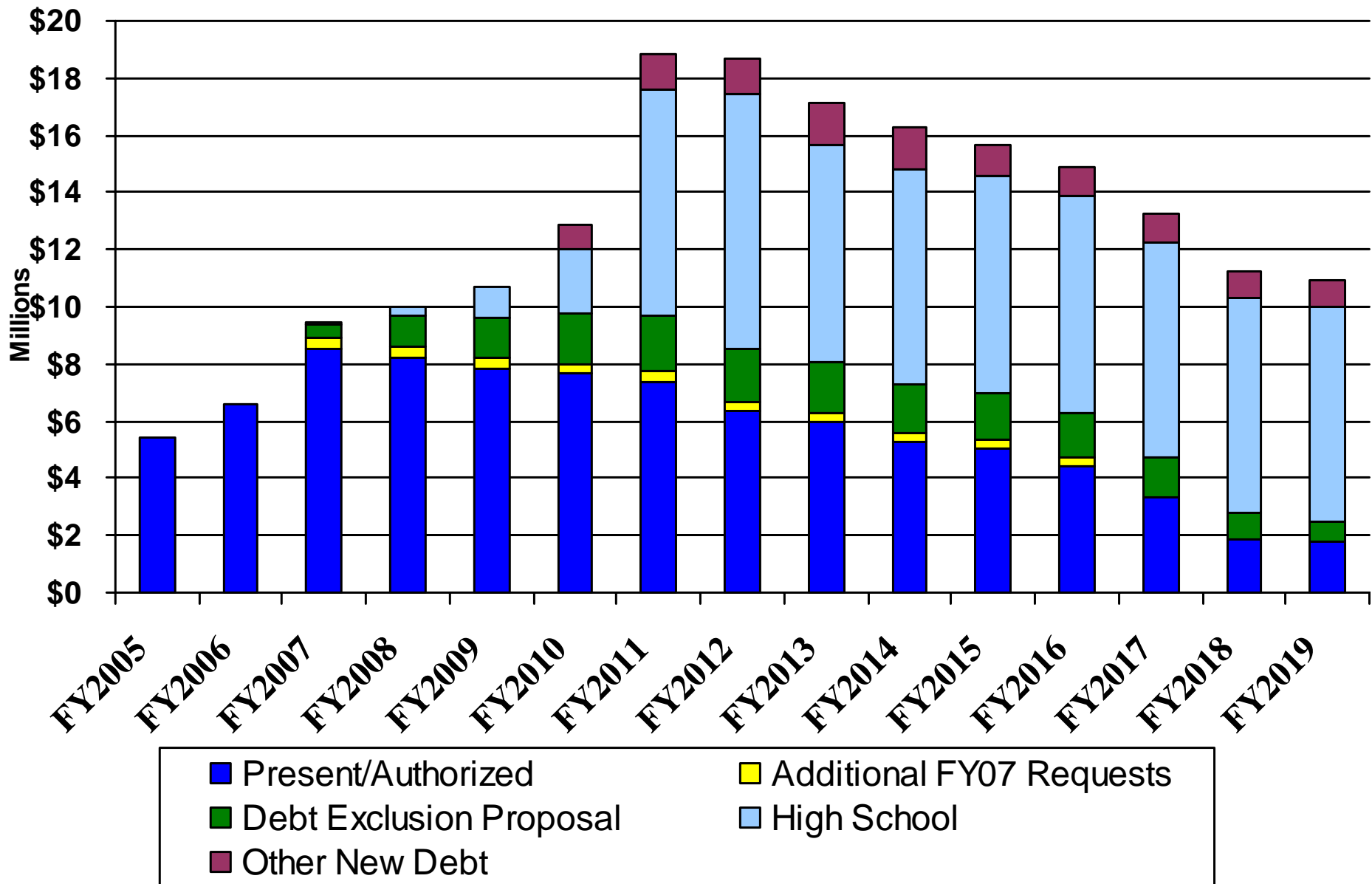
Spending growth

Schools	7%	2,990,501
Other Departments	2.5%	576,044
Health Insurance	12%	1,253,880
		<hr/> 4,820,425

Structural deficit

<hr/> <hr/> \$ 2,086,029

Projected debt service



Median tax bill

	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>
<i>Median Tax Bill - prior year (before Exclusions)</i>	\$ 6,425	\$ 6,866	\$ 7,295	\$ 7,750
<i>2.5% Annual Levy Increase</i>	167	180	194	207
<i>Projected Override</i>	274	249	260	371
Median Tax Bill - current year (before Exclusions)	6,866	7,295	7,750	8,329
Annual % Increase	6.4%	5.9%	5.9%	7.0%
<i>Existing Debt Exclusions</i>				
<i>Sprague School</i>	138	132	126	120
<i>Bates School</i>	60	59	58	56
<i>Middle School</i>	230	225	219	215
<i>Proposed 3 Year Debt Exclusion</i>	50	129	230	369
<i>High School Option 4A</i>	-	30	105	210
Total Median Tax Bill	\$ 7,343	\$ 7,870	\$ 8,487	\$ 9,299
Annual % Increase	10.5%	7.2%	7.8%	9.6%

Change initiatives

- Cost reduction
 - Healthcare
 - OPEB funding
 - Benchmarking
 - Traffic and parking rationalization
- Transparency / citizen responsiveness
 - Virtual Town Hall
 - Issues tracking
- Asset protection
 - Building maintenance
- Systems and processes
 - MUNIS 2005 / 2005.01 / Payroll
 - MS Exchange (replacing Novell)

Why is health insurance an issue?

- Costs increasing rapidly
 - 12.5% of Town budget vs. 4.3% in FY89
- Plus, we still need to fund the OPEB liability

******Anything we do to control health insurance costs will also reduce OPEB liability******

Group health costs

	<u>Subscribers</u>	<u>Annual Town Cost</u>	<u>Average Cost</u>
Active plans	1,158	\$ 8,799,567	\$ 7,599
Medicare supplement plans	483	1,160,389	2,402
	<hr/> 1,641	<hr/> \$ 9,959,956	<hr/> \$ 6,069 <hr/>

Key observations

- Increasing % of subscribers are retirees
- Cost to Town of Medicare supplement plans significantly lower than HMO's
 - But no requirement for eligible retirees to enroll in Medicare
- Changes in plan design or cost sharing are mandatory subjects of collective bargaining

Health insurance options

- Wellness initiatives
- Mandate Medicare for eligible retirees
 - Section 18 election (Article 29)
- Change cost sharing for retirees and/or actives
- Benefit plan design changes
- Control enrollment growth
- Educate Boards on impact of hiring practices on health insurance costs

Town's commitment to retirees

- Pension
 - Average annual pension - \$18,600
 - Maximum annual COLA - \$360
 - No Social Security as result of municipal service
 - Significant portion of cost funded by employee contributions
- Health insurance (OPEB)
 - Town subsidizes 50% of cost of Medicare Part B and Medicare supplement plan premiums

Retirement liabilities

<i>(\$ million)</i>	Pension <u>(1/1/05)</u>	OPEB <u>(1/1/06)*</u>
Accrued liability	\$ 119.6	\$ 100.9
Assets	120.8	-
Unfunded liability	<u>\$ -</u>	<u>\$ 100.9</u>

Note: OPEB includes Teachers whereas Pension does not

Projected OPEB funding - assuming adoption of Section 18

<u>Year</u>	<u>Required Funding</u>	<u>Projected PAYGO Costs</u>	<u>Proposed Additional Funding</u>	<u>Funding Shortfall</u>
2007	\$7,245,273	\$4,916,870	\$ 600,000	\$1,728,403
2008	7,554,078	5,422,015	1,200,000	932,063
2009	7,876,186	5,921,119	1,800,000	155,067
2010	8,212,175	6,372,648	2,400,000	(560,473)
2011	8,562,650	6,697,974	3,000,000	(1,135,324)

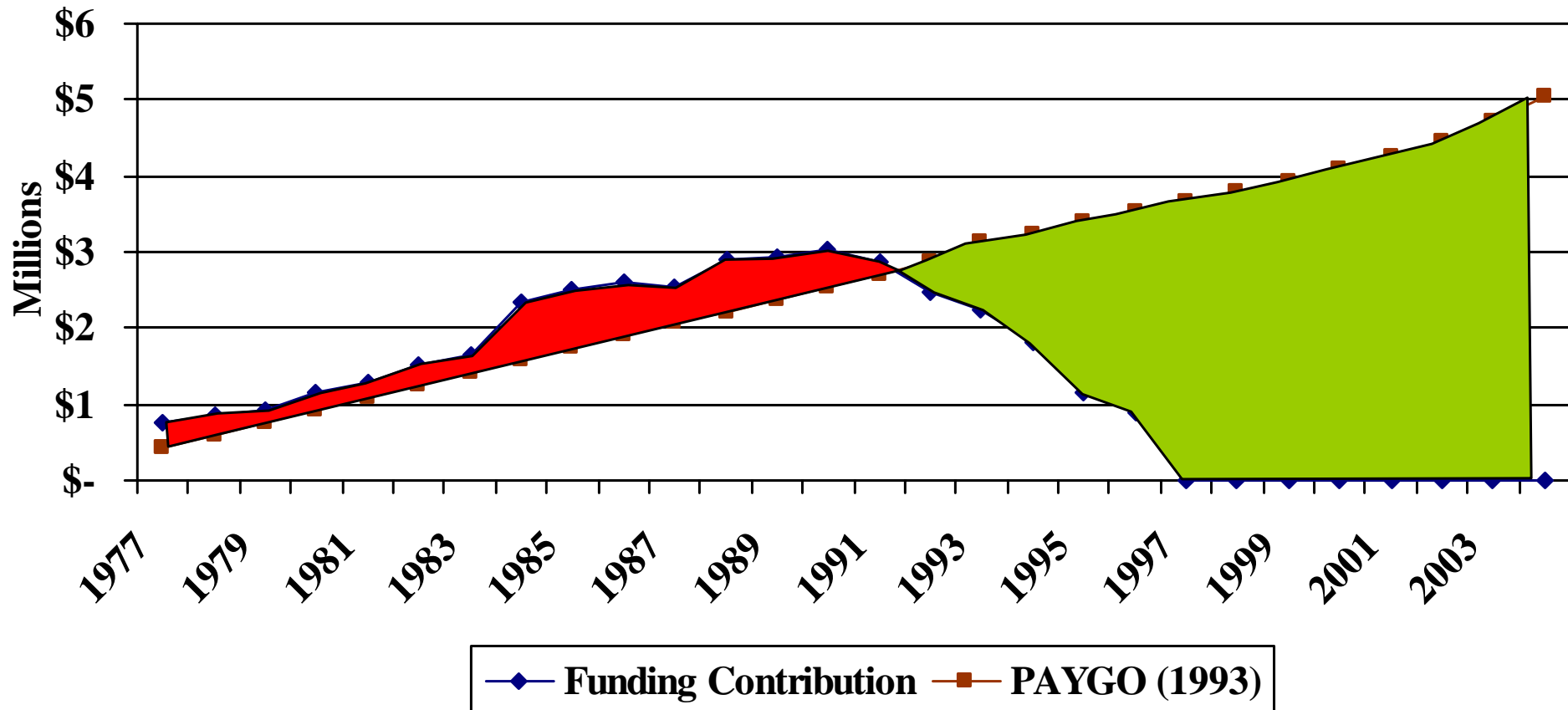
Why fund OPEB now?

- \$100 million liability based on service to-date
 - *A cost of services previously provided*
 - The longer we wait, the more it will cost
- Funds will accumulate tax-free
- New accounting rules require us to account for the liability
- Opportunity to repeat Wellesley's success with pension
 - And avoid deferring even larger burden to future generations

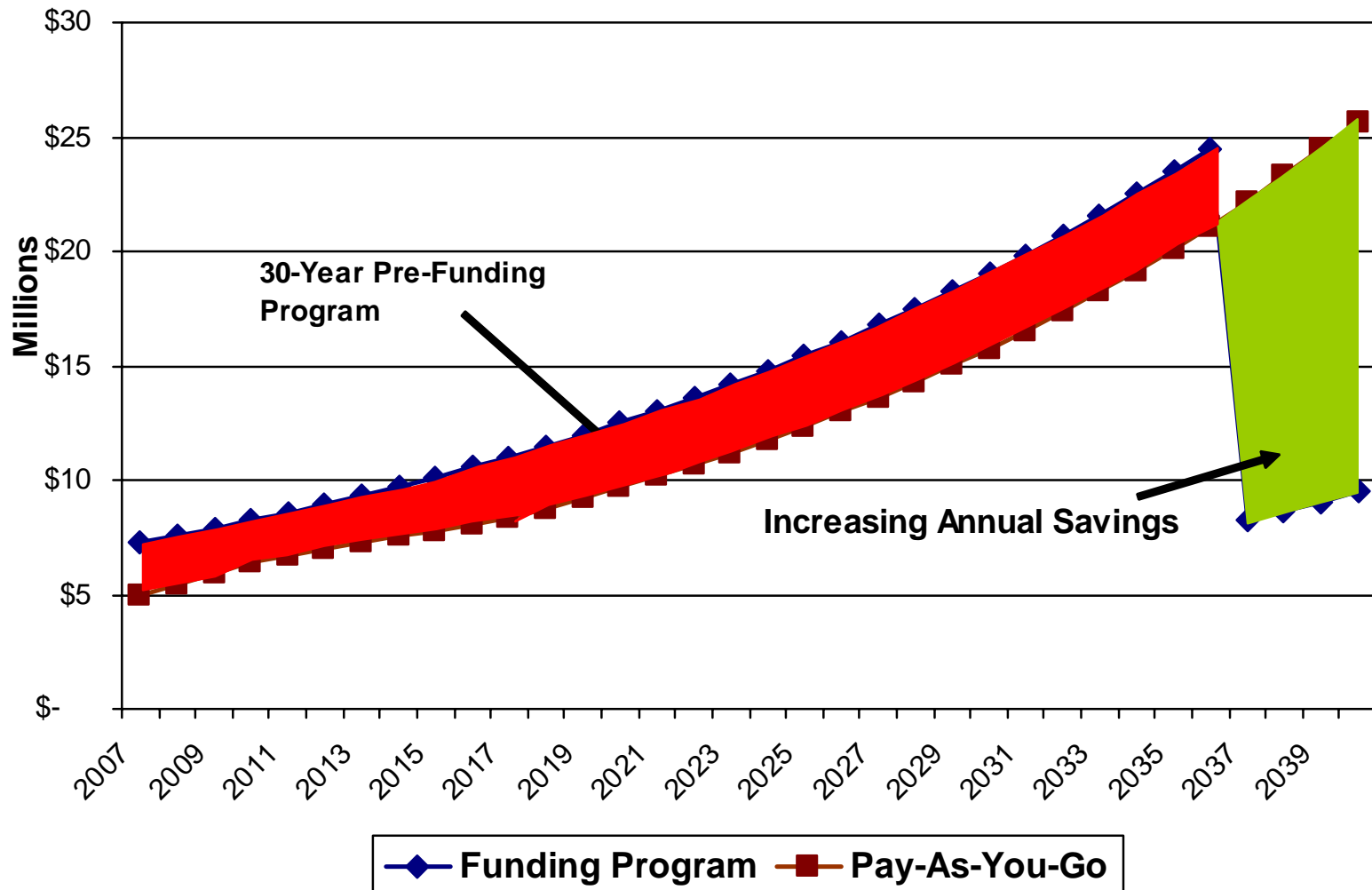
Wellesley Retirement Program

Actual Funding Contribution vs. Estimated Pay-As-You-Go

FY 1977 - FY 2004



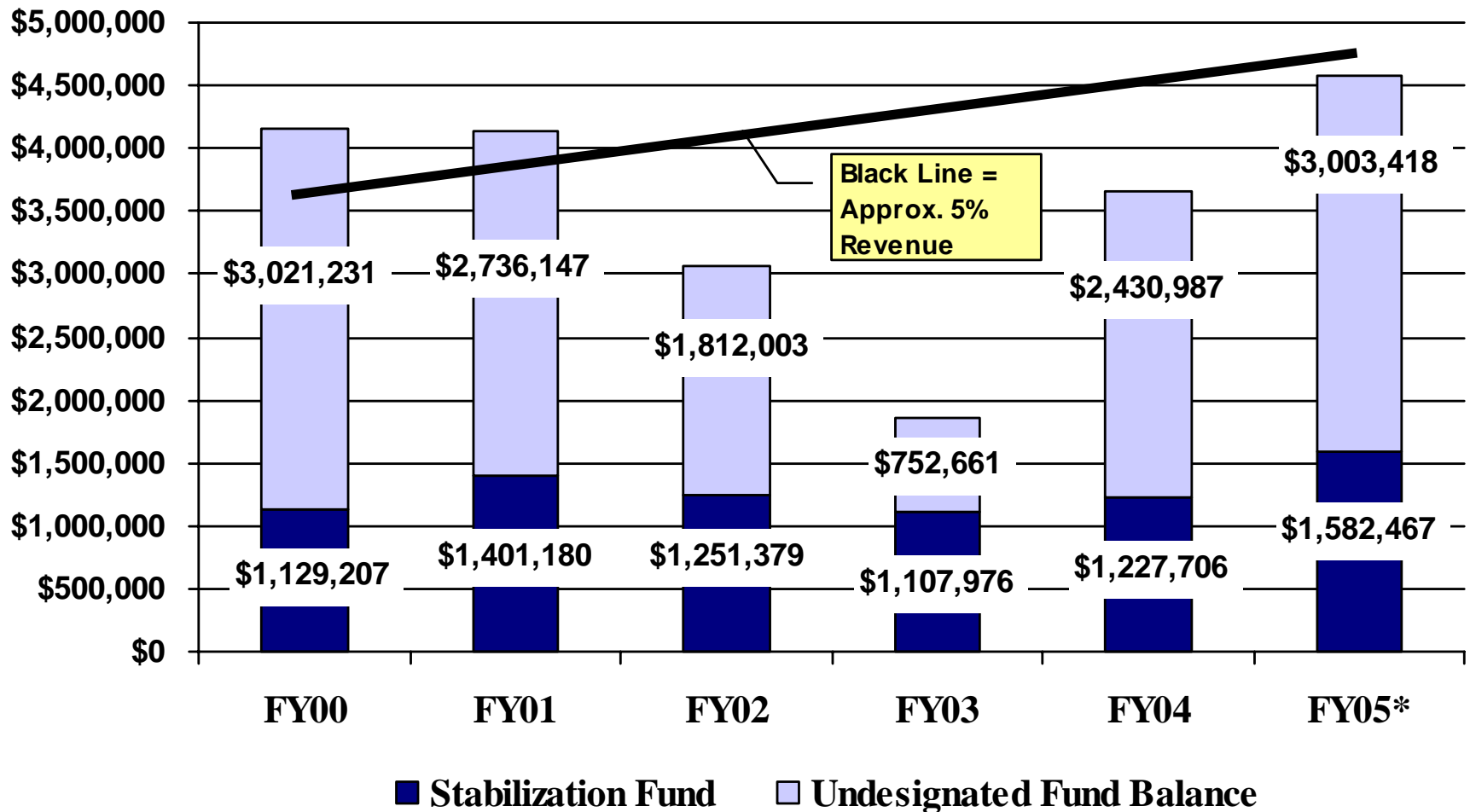
Pre-Funding vs. Pay-as-you-go



School building maintenance

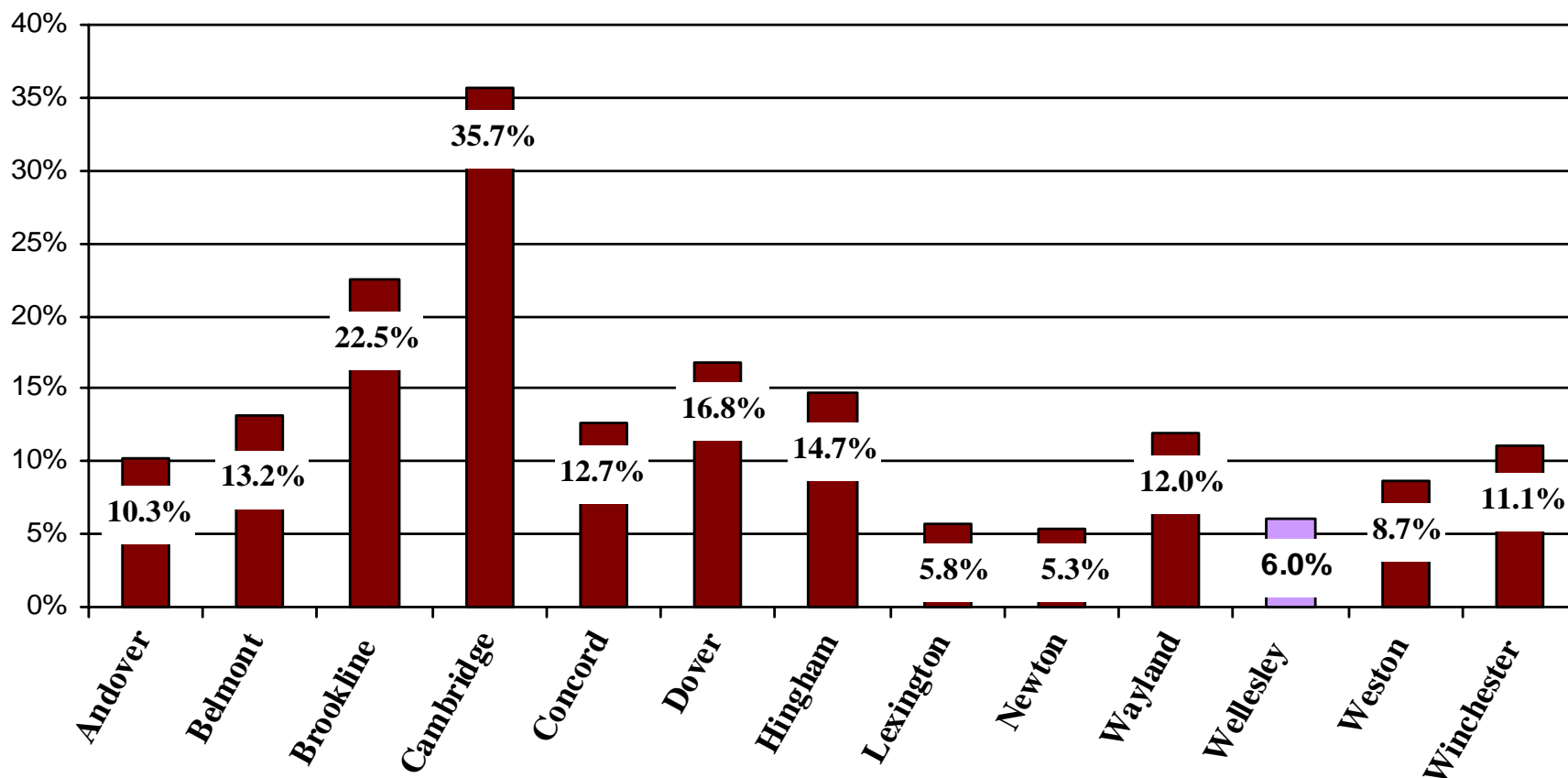
- Under-funded in recent years
 - Maintenance capital has averaged \$400,000/year
 - Benchmarks suggest it should be closer to \$2M
- Working group sees merit to centralizing maintenance across all Town buildings
- Continuing to work with School Committee to develop new organization model
- Meanwhile, 5 year Plan includes higher level of School building maintenance capital

Financial reserves



Massachusetts “AAA” Cities/Towns

Fund Balance as % of Revenues - A Key Ratings Component



As of June 30, 2004, except for Newton, which is as of June 30, 2005.

FY07 Planning progress

- Increasing School enrollment
 - Budget includes funds for 7 new Elementary modular classrooms and additional instructional staff
- Health insurance costs
 - Working group established
 - Initial recommendation - Section 18 election
- OPEB funding
 - \$600,000 included in FY07 budget
 - Town-Wide Plan incorporates increased funding amounts in future years
- High School
 - Awaiting School Committee recommendation

FY07 Planning progress, contd.

- Elementary Schools
 - Consultant's study completed
 - Five year infrastructure plan developed
- School Building Assistance (SBA)
 - Awaiting draft regulations
 - Plan assumes no further reimbursement
- School building maintenance
 - Addressed by 5 year infrastructure plan
- Financial reserves
 - Continuing to improve
 - No planned drawdown in FY07

Question #1

Shall the Town of Wellesley be allowed to assess an additional \$2,961,718 in real estate and personal property taxes for the purpose of funding its operating budget for public education and general government, for the fiscal year beginning July 1, 2006?

<u>Gap List</u>	
School Committee	\$ 2,694,862
Board of Public Works	118,000
Board of Health	27,323
Board of Selectmen	121,533
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	\$ 2,961,718

Question #2

Shall the Town of Wellesley be allowed to exempt from the provisions of proposition two and one-half, so called, the amounts required to pay for the bonds issued in order to fund the following projects to be initiated during the three year period from July 1, 2006 to June 30, 2009:

- School building roof maintenance and replacement; plumbing, heating and electrical system repairs; flooring replacement; ceiling and window replacement	\$ 4,382,735
- Park and Highway building electrical system repair	\$ 1,150,000
- Public Works garage and office construction	\$ 2,617,041
- Storm water drainage improvements	\$ 631,000
- Work associated with the protection and preservation preservation of Moses Pond	\$ 1,073,000
- Moses Pond beach dock	\$ 115,000

Question #3

Shall the Town of Wellesley be allowed to assess an additional \$45,043 in real estate and personal property taxes for the purpose of funding its operating budget for Sunday openings of the Town's Recycling and Disposal Facility, for the fiscal year beginning July 1, 2006?

Question #4

Shall the Town of Wellesley be allowed to assess an additional \$75,603 in real estate and personal property taxes for the purpose of funding its operating budget for the Hills Branch and Fells Branch of the Wellesley Free Library, for the fiscal year beginning July 1, 2006?