



## **Town-Wide Financial Plan for 2017 Annual Town Meeting Submitted by the Board of Selectmen**

March 7, 2017

Dear Town Meeting Members:

We are pleased to submit this report on the Town-Wide Financial Plan (TWFP). This report provides summary financial information for the current fiscal year (FY17), the proposed budget for FY18, and projected financial information for the years FY19-21.

### **Overview**

The Board of Selectmen, working with other Town officials, has developed a balanced-budget proposal for the next fiscal year (FY18, or the year beginning July 1, 2017). This proposal assumes modest levels of revenue and spending growth. Spending growth is at least in line with prior TWFP projections and the budget guidelines issued last fall.

The amount of reserves used to balance the budget (\$4.4 million) is higher than in previous years and reflects a one-time addition of Free Cash to address some specific cash capital needs. Despite this usage, the reserve levels will remain within the reserve policy guidelines, primarily because of additional savings arising from the Town's health insurance initiatives.

At the time of this writing, negotiations are on-going with all of the Town's unions (excluding schools). The results from these negotiations may further impact the proposed FY18 budget and we will provide an update on this matter at Town Meeting.

Looking forward, we are projecting deficits of \$2.7-\$5 million in each of the next three fiscal years (FY19-21), depending on the growth in the school budget and increases in health insurance costs. We continue to work with the Schools to improve long-range financial forecasts and look for saving opportunities associated with enrollment decline. The current health insurance plans for all Town employees expire on 6/30/18 and will need to be collectively bargained. The potential long-term impact of health insurance costs is of concern, and unclear at this time. We are investigating opportunities to smooth fluctuations in cash capital spending between years, and our process for setting budget guidelines needs to better plan for cash capital spending, at least for those departments that have high, recurring levels of such spending.

Town Meeting will also be asked to appropriate funds for several debt-funded projects. The most significant of these projects are the School Security Project and the Reconstruction of Cliff Road. All of the debt-funded projects are to be funded with inside-the-levy borrowing. Because of the Town's conservative approach to amortizing debt, debt service costs will remain level compared with FY17. The Town has proactively managed its debt by containing costs on construction projects and applying savings to other projects so as to reduce future borrowing costs. A good example of this is the Tolles Parsons Center.

Longer-term, we are continuing to monitor the scope, cost and timing of the work related to the renovation and/or replacement of the Hardy, Hunnewell and Upham elementary schools (also

referred to as “HHU”). This project will be subject to a debt exclusion, and our preliminary projections suggest the peak median tax bill impact of this work could approach \$1,228 per year. No significant appropriation request related to HHU is planned for the upcoming Town Meeting. It is likely that this project(s) will materially impact tax bills in FY21, if a debt exclusion for construction is approved in FY20. It is also important to note that the impact of HHU debt service on property tax bills will be offset by ongoing declines in the level of debt service related to prior projects.

Also on the horizon are two projects related to the maintenance and renovation of the historic Town Hall. The capital plan recognizes \$8.0 million in FY19 for exterior renovations and the design of interior work. At this time the interior renovation is not included in the capital plan and an estimate of cost has not been developed.

Even if the assumptions that were used to achieve a balanced budget in FY18 are maintained, it is likely that a Proposition 2½ override will be required in FY19 of approximately \$2.7 million. Growth in the School budget, health insurance costs and cash capital remain the biggest drivers of cost growth. The School budget is nearly twice the size of all of the other departmental budgets combined, and school officials project it to continue to grow at a higher annual rate than we have included in this projection. School officials have indicated that the rate of growth that they believe is necessary is 4.0%, and they’ve also asked us to model a 4.5% increase in expenses. Further analysis of these details are included in the Looking Ahead to FY19 – 21 section of this report.

### **Key Financial Planning Issues**

Each year, the Selectmen and their staff update the TWFP with input from all of the Town’s departments, Boards and Committees. As part of this process, the Selectmen are particularly mindful of the need to:

- Pay the full cost of the Town’s current operations;
- Proactively address emerging issues;
- Protect the Town against material risks;
- Preserve the Town’s assets; and
- Plan for the long-term.

As in prior years, the key issues impacting the Town’s financial planning include:

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

A short discussion of each of these items follows.

### **Growth in personnel costs**

The largest recurring item in the year-over-year growth of the Town budget is the cost of wage increases for existing employees. The vast majority of Town employees are unionized, and their annual wage increases are the subject of collective bargaining. At the time of this writing, Town officials are negotiating successor collective bargaining agreements with a number of the Town's unions. The following table summarizes the status of the Town's largest union contracts:

| Union               | Employees | Settled Through | FY18 Increase              |
|---------------------|-----------|-----------------|----------------------------|
| Teachers            | 519       | 6/30/2019       | 1.5% with 2.0% on top step |
| DPW Production      | 67        | 6/30/2017       | In Negotiations            |
| School Secretaries  | 41        | 6/30/2019       | Unit A 2%/Unit B 1.5%      |
| School Custodians   | 46        | 6/30/2017       | In Negotiations            |
| MLP Production      | 16        | 6/30/2017       | In Negotiations            |
| DPW/MLP Supervisors | 8         | 6/30/2017       | In Negotiations            |
| Library Association | 49        | 6/30/2017       | In Negotiations            |
| Firefighters        | 53        | 6/30/2017       | In Negotiations            |
| Police Patrolmen    | 30        | 6/30/2017       | In Negotiations            |
| Superior Officers   | 9         | 6/30/2017       | In Negotiations            |
| Dispatchers         | 10        | 6/30/2017       | In Negotiations            |

In addition to the general wage increases noted above, the union contracts also provide for "step" increases for teachers and other employees who have not yet reached the top step, and "lane" increases for teachers as they achieve additional academic degrees. The Teachers' contract provides for 16 steps and the value of each step increase is approximately 4.2%. The DPW Production, Police Patrolmen and Firefighters contracts provide for 4-6 steps, and an average step increase of 5.3-5.6%. Thus, it is not unusual for employees who have not reached the top step to receive total annual wage increases in the range of 7-8%.

Each year the cost of step increases is partially offset by savings resulting from the retirement or termination of employees who are replaced by new employees at a lower step level. Thus, in departments with steps, the changing composition of the work force has an effect on the budget over time. In the case of the School Department, the average experience level of teachers has increased incrementally over the past ten years. Currently approximately 50% of the teachers are at top step, and the balance are still moving on steps. These factors have contributed to the greater growth of the School budget along with increases in special education costs, in comparison to other departments' budgets.

The conclusion of bargaining with respect to the open union contracts may necessitate further budget adjustments. A provision for the potential cost of the Town union settlements has been included in the current balanced budget proposal, as these settlements will require Town Meeting approval.

### **Employee benefit costs**

Employee benefit costs total \$28.4 million in FY18 (17.26% of the Town's total budget) and during the past 10 years this has 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 employees - \$15.6 million
- Pension plan contribution - \$6.6 million
- Other Post-Employment Benefits (OPEB) funding - \$3.4 million

The Town procures health insurance for active employees and retirees through the West Suburban Health Group (WSHG), a consortium of 8 towns and 2 educational entities. Health insurance is a mandatory subject of collective bargaining, so the Town cannot unilaterally make plan design changes.

The Municipal Health Insurance Reform legislation passed by the State in 2011 established a process by which municipalities could transition active employees and retirees to the Group Insurance Commission (GIC), without the need for traditional collective bargaining. By transitioning to the GIC, municipalities can take advantage of that entity's market leverage, greater flexibility (the GIC can make plan design changes without the burden of collective bargaining) and lower premium rates. The town of Sherborn and the Keefe Tech Educational District elected to make a transition from the district effective July 1, 2016. The district initially included towns s who have since either transitioned to the GIC or contracted directly with other carriers. These Towns include: Ashland, Lexington, Weston, Sudbury, and Westwood.

Prior to the 2015 Annual Town Meeting, the Selectmen negotiated an agreement with all of the Town's unions, under the terms of which the Town's percentage contribution toward the cost of the plans offered by Fallon Health was increased to 80% and the Town's contribution toward the more expensive plans offered by Blue Cross Blue Shield, Harvard Pilgrim and Tufts was reduced to 71%. In addition, the Town introduced an "opt-out" option for employees, whereby an employee receives a cash payment in exchange for withdrawing from the Town's health insurance plans (some employees have the flexibility to enroll in their spouse's health insurance plan). In exchange for these plan changes, the Town agreed not to transition to the GIC for the 3-year term of the agreement, i.e., through June 30, 2018.

As a result of the 2015 agreement, the Town initially recognized \$2 million of health insurance budget savings in the FY16 budget. The high number of employees who have either migrated to the Fallon plans, or opted-out of the Town's health insurance plans in the following years has helped mitigate the increasing cost of health insurance. As these plans will sunset on June 30, 2018, new plans must be negotiated with all of the Town's unions in the coming year, the result of which will impact the FY19 budget.

The Board will continue to monitor health insurance cost trends and work with the other members of the WSHG to control health insurance costs, while meeting our obligations to our employees and retirees.

The Town maintains a defined benefit pension plan for retired employees other than teachers (teachers participate in a similar plan operated by the State). The benefits provided by the plan are identical to those offered by other cities and towns in Massachusetts. Municipal employees in Massachusetts are not eligible for Social Security as a result of their employment with a municipality. Thus, the pension benefit is provided in lieu of a retirement allowance under Social Security. 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 pay plus 2% of pay over \$30,000. Employee contributions to the Town of Wellesley's pension plan during calendar 2016 totaled \$3.5 million. These contributions are in addition to the Town's contribution, which is expected to be \$6.6 million in FY18. Approximately 65% of the contribution by the Town this year is for accrued liabilities from prior years.

The Town is also obligated to subsidize a portion of the health insurance premiums for retirees. 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. This obligation is the basis for the Town's Other Post-Employment Benefits (OPEB) liability.

The following table summarizes the Town's unfunded liabilities related to pension and OPEB, based on employee service to-date:

|                           | <u>Pension</u>       | <u>OPEB</u>          |
|---------------------------|----------------------|----------------------|
| <i>Valuation Date</i>     | <i>1/1/2015</i>      | <i>6/30/2016</i>     |
| Accrued Liability         | \$ 207,928,237       | \$ 120,156,976       |
| Actuarial Value of Assets | 152,955,923          | 44,229,773           |
| Unfunded Liability        | <u>\$ 54,972,314</u> | <u>\$ 75,927,203</u> |
| MV of Assets at 12/31/16  | \$ 164,284,101       | \$ 49,405,716        |

The actuarial funding schedule for the pension plan, which is intended to fully fund the plan by 2030, calls for a \$.2 million increase in pension funding in FY18 (exclusive of enterprise funds). The latest actuarial valuation of the pension plan performed as of January 1, 2015 reflected an investment return assumption of 6.75%, which is more conservative than the 7% assumption used in the previous valuation. Despite this more conservative assumption, the Town's unfunded pension liability continues to decline, consistent with the funding schedule.

The latest actuarial valuation of the OPEB liability was performed as of July 1, 2016. The interest rate was adjusted to 6.75% and certain mortality assumptions were updated. The new actuarial funding schedule for the OPEB liability, which is intended to fully fund this liability by 2037, requires the Town to contribute a flat \$3.42 million each year, in addition to the increasing pay-as-you-go costs (i.e., the premium subsidies for current retirees). The \$3.42 million contribution is funded by inside-the-levy funds. With the Proposition 2½ funding exclusion expiring on June 30, 2017, the Town intends to budget this amount inside the levy through full funding in 2037. A historical table outlining the funding over the past three years and FY18 may be seen in the following table:

|                 | <u>OPEB Funding</u> |                     |                     |                     |
|-----------------|---------------------|---------------------|---------------------|---------------------|
|                 | <u>FY15</u>         | <u>FY16</u>         | <u>FY17</u>         | <u>FY18</u>         |
| Inside the levy | \$ 1,200,000        | \$ 1,800,000        | \$ 2,400,000        | \$ 3,432,000        |
| Exclusion       | 1,800,000           | 1,200,000           | 600,000             | -                   |
|                 | <u>\$ 3,000,000</u> | <u>\$ 3,000,000</u> | <u>\$ 3,000,000</u> | <u>\$ 3,432,000</u> |

While this funding transition has put pressure on the Town budget, the new scheduled inside-the-levy contribution has been leveled to avoid affecting balancing the annual budget

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 is allowed to 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. As new accounting rules applicable to municipalities take effect, which will require municipalities to report pension and OPEB liabilities on their balance sheet, Wellesley's proactive funding approach will favorably distinguish our community.

### **Facilities and other capital needs**

At the upcoming 2017 Annual Town Meeting, appropriations will be requested for the following capital projects:

- Conversion of Street Lights to LED – Transfer from MLP and other Sources (Article 15)
- Town Hall Envelope Restoration Project - Design - \$895,505 (Article 17)
- School Security Project Construction - \$2,553,469 – (Article 18)
- Fire Station Floor – Transfer of outside funds to Facilities Budget (Article 19)
- Reconstruction of Cliff Road - \$2,470,000 (Article 20)
- Hunnewell Field Maintenance/Restroom Facility Project - \$300,000 (Article 21)

The cost amounts shown for the above projects are detailed estimates. Bids for the construction projects are currently being solicited and the final appropriation amounts will be presented at Town Meeting. The Town Hall envelope project is an estimate for the design phase mutually developed between the Permanent Building Committee and Facilities Maintenance Department.

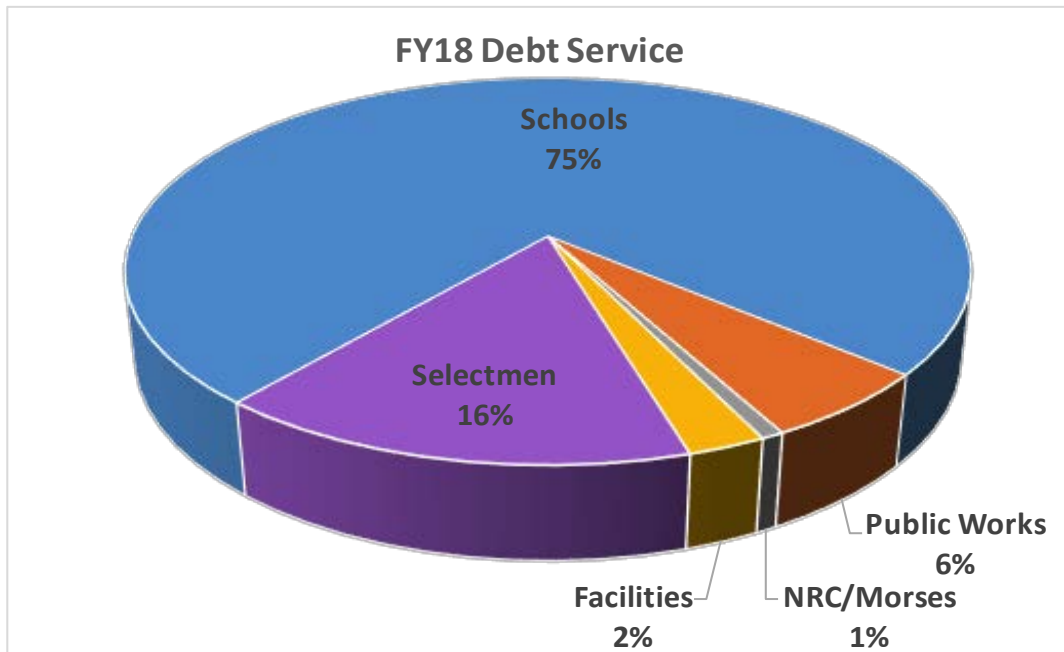
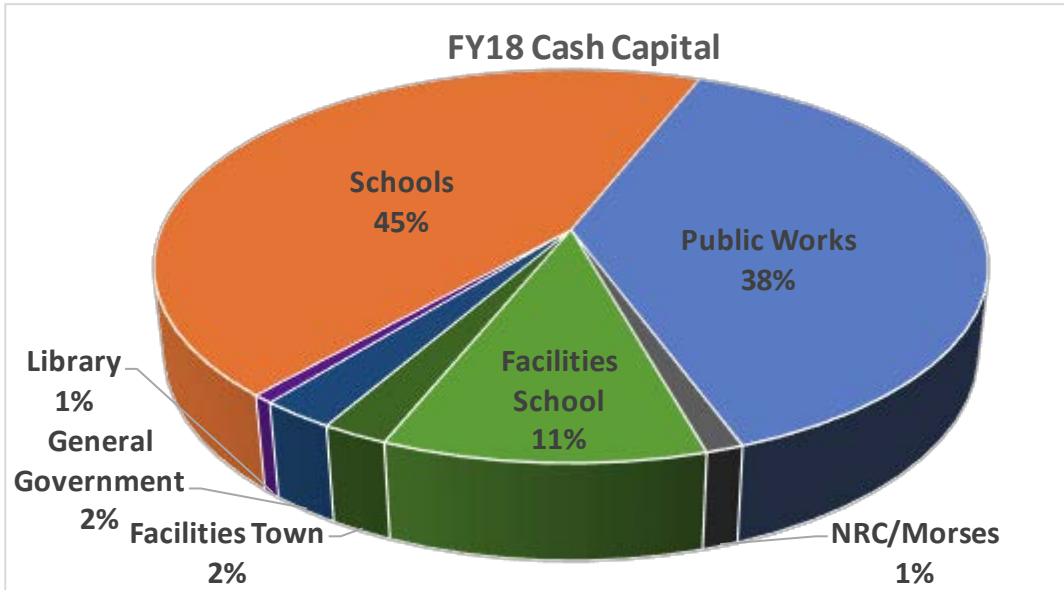
The Street Light project will be managed by the MLP; the Town Hall and school security project will be addressed together by PBC and FMD; FMD will manage the Fire Station Floor; and the Hunnewell Field Maintenance/Restrooms projects will be managed by the DPW. All of the other projects will be funded with inside-the-levy borrowing or transfers from existing sources of funds.

The situation with respect to other facilities needs is summarized as follows:

- Renovation/replacement of Hardy, Hunnewell and Upham elementary schools - Multiple Statements of Interest (SOIs) have been filed with the Massachusetts School Building Authority (MSBA) with respect to these schools, but to date, the Town has not received a favorable response. At some future date, Town officials may elect to begin addressing the needs of these schools without MSBA support. For purposes of the TWFP, we are projecting the total cost of this work to be \$2 million in FY19 for a feasibility study, followed by approximately \$104 million, to be incurred during the period FY20-24 for construction.
- Middle School Infrastructure (\$6.1 million) - A 2014 study of the Middle School identified the need to replace significant portions of the HVAC secondary distribution system. In addition, a number of classroom doors and certain cabinetry need to be replaced, and portions of the brick masonry need to be re-pointed.
- Town Hall Renovations – The capital plan envisions a project in FY19 to construct the renovations to the exterior of Town Hall including some associated Massachusetts

Architectural Access Board (MAAB) handicap accessible improvements of \$6.0 million. Following that, a design of interior renovations would be proposed at an anticipated cost of \$2.0 million. The basis of the interior renovations design will be a feasibility study included in the FMD's FY18 cash capital budget. At a future date, the interior of Town Hall will need to be addressed to bring it fully into compliance with all ADA requirements, and to address workspace shortages and the efficiency of the space for each office in the building.

Further details regarding these and other capital projects are detailed in the Five-Year Capital Budget Program attached as Exhibit C.



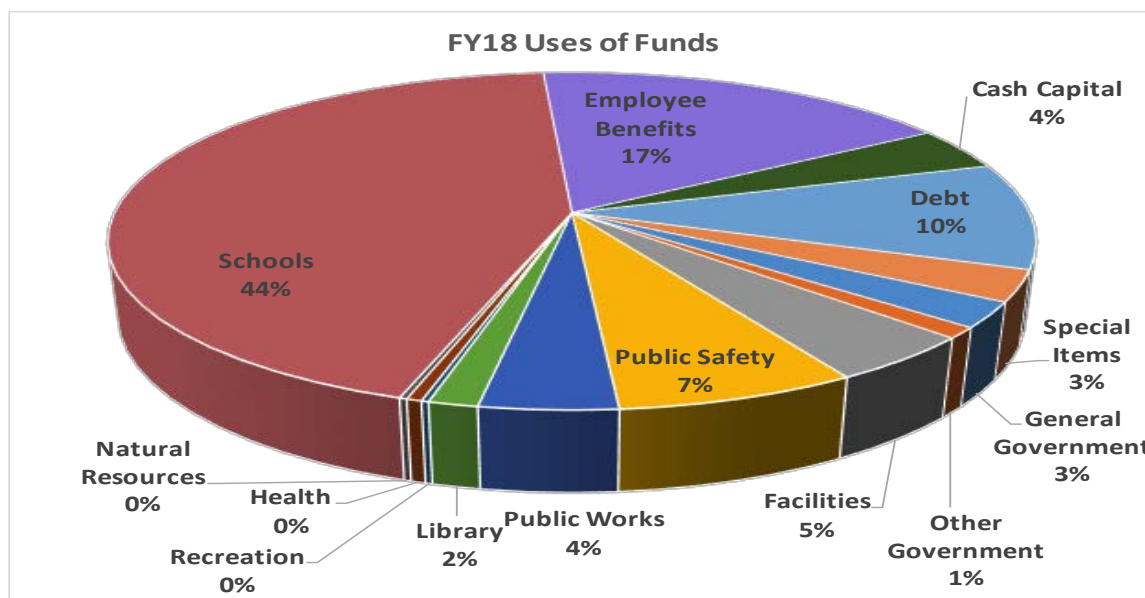
## **FY18 Budget**

The proposed FY18 budget request is summarized in the following table (more complete versions of the FY18 Sources & Uses are presented in Exhibit I and Appendix B, which appear later in this book):

|                                 | <b><u>FY17</u></b>    | <b><u>FY18</u></b>    | <b><u>\$</u></b>        | <b><u>%</u></b>         |
|---------------------------------|-----------------------|-----------------------|-------------------------|-------------------------|
|                                 | <b><u>Budget</u></b>  | <b><u>Request</u></b> | <b><u>Inc/(Dec)</u></b> | <b><u>Inc/(Dec)</u></b> |
| <b><i>Sources of Funds</i></b>  |                       |                       |                         |                         |
| Taxes                           | \$ 118,580,284        | \$ 123,394,791        | \$ 4,814,507            | 4.1%                    |
| State Aid                       | 9,513,302             | 9,707,668             | 194,366                 | 2.0%                    |
| Local Revenue                   | 10,382,296            | 11,778,000            | 1,395,704               | 13.4%                   |
| Free Cash                       | 2,667,450             | 4,375,826             | 1,708,376               | 64.0%                   |
| Other Sources                   | 1,656,874             | 1,720,573             | 63,699                  | 3.8%                    |
| CPA Funds                       | 1,475,400             | 854,275               | (621,125)               | -42.1%                  |
| CPA to offset debt              | 548,944               | 553,244               | 4,300                   | 0.8%                    |
| Exempt Debt                     | 12,324,555            | 12,187,364            | (137,191)               | -1.1%                   |
| <b>Total Sources</b>            | <b>\$ 157,149,105</b> | <b>\$ 164,571,741</b> | <b>\$ 7,422,636</b>     | <b>4.7%</b>             |
| <b><i>Uses of Funds</i></b>     |                       |                       |                         |                         |
| School                          | \$ 69,524,633         | \$ 71,950,648         | \$ 2,426,015            | 3.5%                    |
| Other Town Departments          | 35,424,959            | 36,164,427            | 739,468                 | 2.1%                    |
| Employee Benefits               | 26,304,938            | 28,406,725            | 2,101,787               | 8.0%                    |
| Cash Capital                    | 5,152,079             | 6,703,374             | 1,551,295               | 30.1%                   |
| Debt Service (inside Levy)      | 3,649,455             | 4,000,000             | 350,545                 | 9.6%                    |
| Other Uses                      | 4,219,543             | 4,605,959             | 386,416                 | 9.2%                    |
| Exempt Debt                     | 12,873,498            | 12,740,608            | (132,890)               | -1.0%                   |
| <b>Total Uses</b>               | <b>\$ 157,149,105</b> | <b>\$ 164,571,741</b> | <b>\$ 7,422,636</b>     | <b>4.7%</b>             |
| <b><i>Surplus/(Deficit)</i></b> | <b><u>\$ -</u></b>    | <b><u>\$ (0)</u></b>  |                         |                         |

**Sources of Funds:** The 4.1% increase in Taxes reflects the allowed growth in the levy limit (2.5%) and \$1.85 million of new growth. The 2% increase in State Aid reflects the budget proposed by Governor Baker, that takes into account the revenue assumptions jointly agreed to by the Governor and the legislature. In future years, the increases remain modest so as to assume slow but steady growth in the State's fiscal situation. The 13.4% increase in Local Revenue is a reflection of conservative numbers in fiscal 2017. The decrease in excluded debt service arises from the Town's practice of amortizing most debt on a "level principal" basis, enabling the Town to manage its year-to-year budget increases in a more predictable manner.





**Uses of Funds:** The 3.49% increase in the School budget reflects the cost of contractual step, lane and cost-of-living increases and higher special education costs. The 2.1% increase in Other Town Departments is consistent with the wage increase levels recommended by the Human Resources Board. The 30.1% increase in cash capital is largely attributable to an increase of over \$1.2 million in school capital to address some of the reductions made in FY17 to balance the budget. There is also an increase of \$64,500 or 83.77% in NRC Capital for several items, the most significant of which is comprehensive pond improvements.

The Town is also anticipating appropriation requests to fund the following items using Free Cash that are non-recurring in nature:

#### Supplemental FY17 and FY18 appropriations

- \$200,000 for current year snow and ice removal costs
- \$12,089 for unpaid bills
- \$112,000 for Injured on Duty transfers
- \$140,500 for land takings
- \$27,500 salary for .5 Planner (Dependent on passage of ATM Article 41 to support the Historical Commission to manage the Demolition Delay Bylaw)

#### Reserves

Mindful of the need to maintain sufficient financial reserves to support the Town's favorable AAA bond rating, we continue to carefully monitor the level of revenues and expenses versus budget, and the resulting impact on reserve levels.

Of particular concern are the balances in the Town's Stabilization Fund (a separate reserve fund) and the balance of Free Cash. Under Massachusetts Department of Revenue (DOR) rules, these are the reserve balances 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 total of Stabilization Fund balances as of June 30, 2016 was \$3.5 million and we do not anticipate any requests for appropriations from this fund. The level of Free Cash, as certified by the DOR, was \$11.8 million as of July 1, 2016.

The following chart summarizes the changes in Free Cash for the years FY12-16:

| <b>Free Cash</b>               | <b>FY12</b>  | <b>FY13</b>  | <b>FY14</b>  | <b>FY15</b>  | <b>FY16</b>  |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| <i>Beginning of year</i>       | \$ 8,439,070 | \$10,499,623 | \$10,950,782 | \$10,336,925 | \$ 8,831,500 |
| <i>Uses</i>                    | (3,112,757)  | (3,630,881)  | (3,987,715)  | (4,867,591)  | (3,601,830)  |
| <i>Net Free Cash generated</i> | 5,173,310    | 4,082,040    | 3,373,858    | 3,362,166    | 6,628,512    |
| <i>End of year</i>             | \$10,499,623 | \$10,950,782 | \$10,336,925 | \$ 8,831,500 | \$11,858,182 |

Free Cash is “generated” by revenues in excess of budget, budget “turn-back” (amounts budgeted but not spent), and other timing differences. The Town’s ability to generate Free Cash has enabled the rebuilding of the Town’s financial reserves, and funded a number of operating and capital investments, as reflected in the “Uses” quantified above. The potential for generating additional Free Cash in FY17 is an important factor in our evaluation of the proposed use of these reserves to help balance the FY18 budget.

The following chart summarizes an initial projection of the Town’s reserve balances at June 30, 2016:

|  | <b><u>Amount</u></b>  |
|--|-----------------------|
| <b><i>Reserves as of 6/30/2016</i></b>               |                       |
| Free Cash  | \$ 11,858,182         |
| Stabilization fund                                   | 3,271,285             |
| Injured-on-duty Stabilization Fund                   | 387,888               |
|  | <b>\$ 15,517,355</b>  |
| <b><i>Sources and (Uses) of Reserves in FY17</i></b> |                       |
| Supplemental FY17 appropriations (Article 7)         |                       |
| - Snow & ice removal                                 | (200,000)             |
| - 3 unpaid bills                                     | (12,089)              |
| -Owner unknown Parcels (article                      | (140,500)             |
| - PT Planner for Demolition delay                    | (27,500)              |
| - Fund IOD from free cash - catch up                 | (112,000)             |
| - Add back to reserve                                | 112,000               |
| -stabilization interest                              | 50,000                |
| Balance FY18 budget (Article 8)                      | (2,583,737)           |
| One time smoothing of cash capital                   | (1,500,000)           |
| Estimated FY17 reserve change from operations        | 2,200,000             |
| <b><i>Estimated Reserves as of 6/30/17</i></b>       | <b>\$ 13,303,529</b>  |
| <b>FY18 Revenue</b>                                  | <b>\$ 144,868,459</b> |
| <b>% of Revenue</b>                                  | <b>9.18%</b>          |

(Note: Amounts appropriated from Free Cash serve to reduce the Free Cash balance during the year of appropriation vs. the year of the related expenditure.)

The Town's Financial Reserves Policy calls for the sum of the balances in the Stabilization Fund and Free Cash to be maintained in the range of 8-12% of budgeted operating revenues. Reserves in excess of 8% but less than 12% may be used to stabilize tax rates, meet anticipated capital needs, and to avoid or defer an override.

Based on the above projection, Wellesley's reserves at June 30, 2017 would remain slightly above 9%. The estimated FY17 reserve growth is largely attributable to the Town's conservative budgeting and greater than anticipated savings from recent health insurance initiatives. It is also important to note that the Town's financial position is reinforced by the Town's proactive approach to funding the pension and OPEB liabilities.

### **Looking Ahead to FY19-21**

For purposes of projecting the Town's Sources and Uses of funds for the years FY19-21, we have used a range of assumptions in order to aid in the decision making process about whether or not the Town needs to plan for an override. The base assumption mirrors the budget guidelines established for the FY 18 budget and are as follows:

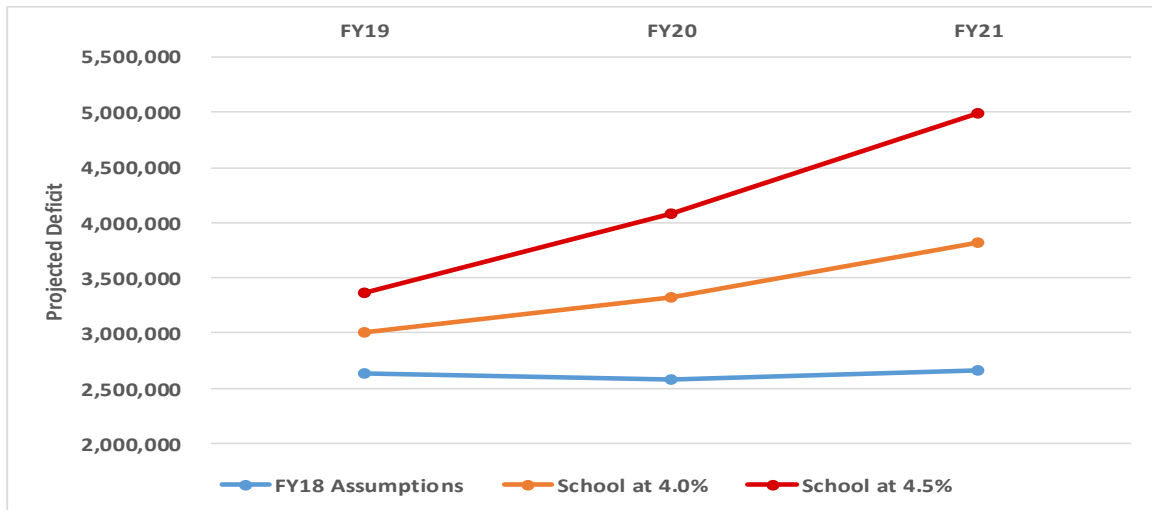
- Levy growth 2.5% plus \$1.6 million of new growth
- State aid & local revenue 2%
- Use of Free Cash \$2.5 million/year
- School budget 3.5%
- Other Town departments. 2.5%
- Pension Per approved funding schedule
- Health insurance 7%
- Other employee benefits 2.5%

There are two differences in the assumptions for these years from the FY 18 budget:

- An additional \$1.5 million from Free Cash was used to address various capital needs that is not factored in these future years
- The projection for growth in health insurance numbers has been increased from 5.0% to 7.0% based upon our experience over the past several years with medical and prescription drug trends

Given the relative size of the School budget, the assumption regarding the growth in School spending has the greatest impact. The schools have indicated to us that their ability to provide the level of services expected is difficult within this guideline, and they have predicted that a more reasonable level of growth would be at a minimum 4.0%, and ideally, 4.5%. It remains to be seen how changes in enrollment may impact these predictions. Therefore, the following chart shows:

| <b><u>Description</u></b> | <b><u>FY19</u></b> | <b><u>FY20</u></b> | <b><u>FY21</u></b> |
|---------------------------|--------------------|--------------------|--------------------|
| FY18 Assumptions          | 2,640,914          | 2,580,200          | 2,655,499          |
| School at 4.0%            | 3,000,667          | 3,326,688          | 3,817,224          |
| School at 4.5%            | 3,360,420          | 4,076,773          | 4,990,172          |



Based on these assumptions and no overrides, we are projecting deficits in the range of \$2.7-5.0 million over the years' FY19-21, depending on the growth of the school budget. This is in addition to the debt exclusion that will be placed on the ballot over the next few years which will have the effect of increasing taxes to fund the construction of the HHU schools. Further details regarding these projections are provided in Exhibit II. We will continue to refine these projections over the next few weeks and provide an update at Town Meeting. The projected deficits underscore the need for further planning to better balance service expectations against taxpayers' willingness to pay. Reducing or eliminating these deficits without an override would require some combination of lower rates of spending growth, renegotiation of the health plans that reduces those costs, a targeted use of Free Cash if available, and/or further growth in revenues.

The following table is a roll-forward projection of the median tax bill (i.e., the tax bill for a home valued at \$1,032,000) for the period FY17 – FY21:

### **Median Tax Bill**

|                              | <u>FY17</u> |        | <u>FY18</u> |        | <u>FY19</u> |        | <u>FY20</u> |        | <u>FY21</u> |        |
|------------------------------|-------------|--------|-------------|--------|-------------|--------|-------------|--------|-------------|--------|
| Prior year median tax bill   | \$          | 12,167 | \$          | 12,328 | \$          | 12,574 | \$          | 13,183 | \$          | 13,625 |
| Levy growth                  |             | 304    |             | 308    |             | 314    |             | 330    |             | 341    |
| Override                     |             | -      |             | -      |             | 250    |             | -      |             | -      |
| Hardy/Hunnewell/Upham        |             | -      |             | -      |             | 135    |             | 136    |             | 180    |
| Middle School Infrastructure |             | -      |             | -      |             | 58     |             | (1)    |             | (1)    |
| Other debt exclusions        |             | (88)   |             | (7)    |             | (149)  |             | (22)   |             | (130)  |
| OPEB funding exclusion       |             | (56)   |             | (56)   |             | -      |             | -      |             | -      |
| Current year median tax bill | \$          | 12,328 | \$          | 12,574 | \$          | 13,183 | \$          | 13,625 | \$          | 14,014 |
| % Increase                   |             | 1.3%   |             | 2.0%   |             | 4.8%   |             | 3.4%   |             | 2.9%   |

For discussion purposes, we have included a \$2.7 million Proposition 2½ override in FY19 to help reduce the projected deficits. No decisions have been made regarding such an override, and further planning work and discussions need to be held in the coming months on this issue.

This Town-Wide Financial Plan is a continual work-in-progress and we will provide further updates on these matters at Town Meeting.

We would like to express our sincere appreciation to all of the Town boards and their respective staffs for their cooperation in working with us to create a plan that will ensure the continued financial health of our community.

Sincerely yours,



Marjorie R. Freiman, Chair  
Ellen F. Gibbs, Vice Chair  
David Murphy, Secretary  
Jack Morgan  
Barbara D. Searle

Exhibits:

I - FY18 Summary Sources & Uses of Funds, page 23

II - Projected Sources & Uses of Funds, page 24

Appendices appearing later in this book:

B – FY18 Detail Sources & Uses of Funds, page 197

C – Five Year Capital Budget Program, page 202

## Exhibit I – FY18 Summary Sources & Uses of Funds

|  | FY2017<br>Tax Rate | FY2018<br>Projected | FY2019<br>Projected | FY2020<br>Projected | FY2021<br>Projected |
|--|--------------------|---------------------|---------------------|---------------------|---------------------|
| <b>*** SOURCES OF FUNDS ***</b>            |                    |                     |                     |                     |                     |
| Tax & Other Current Revenues               |                    |                     |                     |                     |                     |
| Within Levy Limits                         |                    |                     |                     |                     |                     |
| Real Estate & Per. Prop. Tax               | \$ 118,580,284     | \$ 123,394,791      | \$ 128,079,661      | \$ 132,881,652      | \$ 137,803,694      |
| PY override impact N/A                     |                    |                     | -                   | -                   | -                   |
| From the Commonwealth                      |                    |                     |                     |                     |                     |
| Local Aid                                  | 9,513,302          | 9,707,668           | 9,901,821           | 10,099,858          | 10,301,855          |
| Local Revenue                              | 10,382,296         | 11,778,000          | 11,954,670          | 12,133,990          | 12,316,000          |
| <b>Sub-Total (Tax &amp; Cur. Rev.)</b>     | <b>138,475,882</b> | <b>144,880,459</b>  | <b>149,936,152</b>  | <b>155,115,500</b>  | <b>160,421,549</b>  |
| Outside Levy Limits                        |                    |                     |                     |                     |                     |
| OPEB                                       | 600,000            | -                   | -                   | -                   | -                   |
| Real Estate & Pers. Prop. Tax              | 12,324,555         | 12,187,364          | 12,117,045          | 12,597,008          | 13,813,935          |
| <b>Sub-Total (Outside Levy Limits)</b>     | <b>12,924,555</b>  | <b>12,187,364</b>   | <b>12,117,045</b>   | <b>12,597,008</b>   | <b>13,813,935</b>   |
| Available Funds                            |                    |                     |                     |                     |                     |
| Parking Meter Receipts                     | 908,874            | 1,593,009           | 908,417             | 908,417             | 908,417             |
| Appropriated/Reserved CPA Surcharge        | 1,475,400          | 854,275             | -                   | -                   | -                   |
| Appropriated Free Cash                     | 2,667,450          | 4,083,737           | 2,500,000           | 2,500,000           | 2,500,000           |
| CPA Debt                                   | 548,944            | 553,244             | 553,244             | 550,244             | 552,044             |
| Other                                      |                    | 292,089             |                     |                     |                     |
| Unencumbered Funds/Gifts                   | 150,000            | 127,564             | -                   | -                   | -                   |
| <b>Sub-Total (Available Funds)</b>         | <b>5,748,668</b>   | <b>7,503,918</b>    | <b>3,961,661</b>    | <b>3,958,661</b>    | <b>3,960,461</b>    |
| <b>TOTAL SOURCES OF FUNDS</b>              | <b>157,149,105</b> | <b>164,571,741</b>  | <b>166,014,858</b>  | <b>171,671,169</b>  | <b>178,195,945</b>  |
| <b>*** USES OF FUNDS ***</b>               |                    |                     |                     |                     |                     |
| Personal Services (Non-School)             | 25,303,875         | 26,009,235          | 26,659,466          | 27,325,953          | 28,009,101          |
| Expenses (Non-School)                      | 10,121,084         | 10,155,192          | 10,409,072          | 10,669,299          | 10,936,031          |
| Subtotal (Non-School)                      | 35,424,959         | 36,164,427          | 37,068,538          | 37,995,251          | 38,945,132          |
| Personal Services (School)                 | 61,371,111         | 64,226,913          | 66,474,855          | 68,801,475          | 71,209,526          |
| Expenses (School)                          | 8,153,522          | 7,723,735           | 7,994,066           | 8,273,858           | 8,563,443           |
| Subtotal (School)                          | 69,524,633         | 71,950,648          | 74,468,921          | 77,075,333          | 79,772,970          |
| <b>Sub-Total (Pers. Svcs. &amp; Exp)</b>   | <b>104,949,592</b> | <b>108,115,075</b>  | <b>111,537,458</b>  | <b>115,070,584</b>  | <b>118,718,102</b>  |
| Capital & Debt:                            |                    |                     |                     |                     |                     |
| Within Levy Limits                         |                    |                     |                     |                     |                     |
| Capital/Extraord./Spec. Items*             | 5,152,079          | 6,703,374           | 6,790,824           | 6,815,894           | 6,913,321           |
| Debt Service - Issued                      | 3,649,455          | 4,000,000           | 4,000,000           | 4,000,000           | 4,000,000           |
| Debt Service - New Auth/Unissued - In      | -                  | -                   | -                   | -                   | -                   |
| <b>Sub-Total (Within Levy Limits)</b>      | <b>8,801,534</b>   | <b>10,703,374</b>   | <b>10,790,824</b>   | <b>10,815,894</b>   | <b>10,913,321</b>   |
| Outside Levy Limits                        |                    |                     |                     |                     |                     |
| Debt Service Issued                        | 12,873,498         | 12,740,608          | 12,667,289          | 13,149,052          | 14,367,379          |
| Employee Benefits (formerly Shared Costs): |                    |                     |                     |                     |                     |
| Ins./Grp Ins./Pensions, etc.               | 16,914,824         | 18,352,862          | 19,859,466          | 21,118,630          | 22,463,614          |
| Retirement Contribution                    | 6,390,114          | 6,621,863           | 6,861,373           | 7,108,887           | 7,350,522           |
| OPEB Liability Fund                        | 3,000,000          | 3,432,000           | 3,432,000           | 3,432,000           | 3,432,000           |
| <b>Sub-Total (Shared Costs)</b>            | <b>26,304,938</b>  | <b>28,406,725</b>   | <b>30,152,839</b>   | <b>31,659,517</b>   | <b>33,246,136</b>   |
| <b>SUB-TOTAL (OPERATIONS)</b>              | <b>152,929,562</b> | <b>159,965,782</b>  | <b>165,148,410</b>  | <b>170,695,047</b>  | <b>177,244,938</b>  |
| Special Items:                             |                    |                     |                     |                     |                     |
| Traffic & Parking Management               | 862,924            | 1,548,950           | 1,548,950           | 1,548,950           | 1,548,950           |
| Appropriated/Reserved CPC                  | 1,475,400          | 854,275             | -                   | -                   | -                   |
| State & County Assessments                 | 1,226,318          | 1,239,372           | 1,270,356           | 1,302,115           | 1,334,668           |
| Prior or Current Period Exp.               |                    |                     |                     |                     |                     |
| Property Tax Abatements                    | 654,901            | 671,274             | 688,055             | 705,257             | 722,888             |
| Other                                      | -                  |                     |                     |                     |                     |
| Free cash items                            | -                  | 292,089             |                     |                     | -                   |
| <b>Sub-Total (Special Items)</b>           | <b>4,219,543</b>   | <b>4,605,959</b>    | <b>3,507,362</b>    | <b>3,556,322</b>    | <b>3,606,506</b>    |
| <b>TOTAL USE OF FUNDS</b>                  | <b>157,149,105</b> | <b>164,571,741</b>  | <b>168,655,772</b>  | <b>174,251,369</b>  | <b>180,851,444</b>  |
| <b>TOTAL SOURCE OF FUNDS</b>               | <b>157,149,105</b> | <b>164,571,741</b>  | <b>166,014,858</b>  | <b>171,671,169</b>  | <b>178,195,945</b>  |
| <b>SURPLUS/&lt;DEFICIT&gt;</b>             | <b>-</b>           | <b>(0)</b>          | <b>(2,640,914)</b>  | <b>(2,580,200)</b>  | <b>(2,655,499)</b>  |



## Exhibit II – Projected Sources & Uses of Funds

|  | FY2017<br>Tax Rate | FY2018<br>Projected | FY2019<br>Projected | FY2020<br>Projected | FY2021<br>Projected |
|--|--------------------|---------------------|---------------------|---------------------|---------------------|
| <b>*** SOURCES OF FUNDS ***</b>            |                    |                     |                     |                     |                     |
| Tax & Other Current Revenues               |                    |                     |                     |                     |                     |
| Within Levy Limits                         |                    |                     |                     |                     |                     |
| Real Estate & Per. Prop. Tax               | \$ 118,580,284     | \$ 123,394,791      | \$ 128,079,661      | \$ 132,881,652      | \$ 137,803,694      |
| PY override impact N/A                     |                    |                     | -                   | -                   | -                   |
| From the Commonwealth                      |                    |                     |                     |                     |                     |
| Local Aid                                  | 9,513,302          | 9,707,668           | 9,901,821           | 10,099,858          | 10,301,855          |
| Local Revenue                              | 10,382,296         | 11,778,000          | 11,954,670          | 12,133,990          | 12,316,000          |
| <b>Sub-Total (Tax &amp; Cur. Rev.)</b>     | <b>138,475,882</b> | <b>144,880,459</b>  | <b>149,936,152</b>  | <b>155,115,500</b>  | <b>160,421,549</b>  |
| Outside Levy Limits                        |                    |                     |                     |                     |                     |
| OPEB                                       | 600,000            | -                   | -                   | -                   | -                   |
| Real Estate & Pers. Prop. Tax              | 12,324,555         | 12,187,364          | 12,117,045          | 12,597,008          | 13,813,935          |
| <b>Sub-Total (Outside Levy Limits)</b>     | <b>12,924,555</b>  | <b>12,187,364</b>   | <b>12,117,045</b>   | <b>12,597,008</b>   | <b>13,813,935</b>   |
| Available Funds                            |                    |                     |                     |                     |                     |
| Parking Meter Receipts                     | 906,874            | 1,593,009           | 908,417             | 908,417             | 908,417             |
| Appropriated/Reserved CPA Surcharge        | 1,475,400          | 854,275             | -                   | -                   | -                   |
| Appropriated Free Cash                     | 2,667,450          | 4,083,737           | 2,500,000           | 2,500,000           | 2,500,000           |
| CPA Debt                                   | 548,944            | 553,244             | 553,244             | 550,244             | 552,044             |
| Other                                      |                    | 292,089             |                     |                     |                     |
| Unencumbered Funds/Gifts                   | 150,000            | 127,564             | -                   | -                   | -                   |
| <b>Sub-Total (Available Funds)</b>         | <b>5,748,668</b>   | <b>7,503,918</b>    | <b>3,961,661</b>    | <b>3,958,661</b>    | <b>3,960,461</b>    |
| <b>TOTAL SOURCES OF FUNDS</b>              | <b>157,149,105</b> | <b>164,571,741</b>  | <b>166,014,858</b>  | <b>171,671,169</b>  | <b>178,195,945</b>  |
| <b>*** USES OF FUNDS ***</b>               |                    |                     |                     |                     |                     |
| Personal Services (Non-School)             | 25,303,875         | 26,009,235          | 26,659,466          | 27,325,953          | 28,009,101          |
| Expenses (Non-School)                      | 10,121,084         | 10,155,192          | 10,409,072          | 10,669,299          | 10,936,031          |
| Subtotal (Non-School)                      | 35,424,959         | 36,164,427          | 37,068,538          | 37,995,251          | 38,945,132          |
| Personal Services (School)                 | 61,371,111         | 64,226,913          | 66,474,855          | 68,801,475          | 71,209,526          |
| Expenses (School)                          | 8,153,522          | 7,723,735           | 7,994,066           | 8,273,858           | 8,563,443           |
| Subtotal (School)                          | 69,524,633         | 71,950,648          | 74,468,921          | 77,075,333          | 79,772,970          |
| <b>Sub-Total (Pers. Svcs. &amp; Exp)</b>   | <b>104,949,592</b> | <b>108,115,075</b>  | <b>111,537,458</b>  | <b>115,070,584</b>  | <b>118,718,102</b>  |
| Capital & Debt:                            |                    |                     |                     |                     |                     |
| Within Levy Limits                         |                    |                     |                     |                     |                     |
| Capital/Extraord./Spec. Items*             | 5,152,079          | 6,703,374           | 6,790,824           | 6,815,894           | 6,913,321           |
| Debt Service - Issued                      | 3,649,455          | 4,000,000           | 4,000,000           | 4,000,000           | 4,000,000           |
| Debt Service - New Auth/Unissued - In      | -                  | -                   | -                   | -                   | -                   |
| <b>Sub-Total (Within Levy Limits)</b>      | <b>8,801,534</b>   | <b>10,703,374</b>   | <b>10,790,824</b>   | <b>10,815,894</b>   | <b>10,913,321</b>   |
| Outside Levy Limits                        |                    |                     |                     |                     |                     |
| Debt Service Issued                        | 12,873,498         | 12,740,608          | 12,667,289          | 13,149,052          | 14,367,379          |
| Employee Benefits (formerly Shared Costs): |                    |                     |                     |                     |                     |
| Ins./Grp Ins./Pensions, etc.               | 16,914,824         | 18,352,862          | 19,859,466          | 21,118,630          | 22,463,614          |
| Retirement Contribution                    | 6,390,114          | 6,621,863           | 6,861,373           | 7,108,887           | 7,350,522           |
| OPEB Liability Fund                        | 3,000,000          | 3,432,000           | 3,432,000           | 3,432,000           | 3,432,000           |
| <b>Sub-Total (Shared Costs)</b>            | <b>26,304,938</b>  | <b>28,406,725</b>   | <b>30,152,839</b>   | <b>31,659,517</b>   | <b>33,246,136</b>   |
| <b>SUB-TOTAL (OPERATIONS)</b>              | <b>152,929,562</b> | <b>159,965,782</b>  | <b>165,148,410</b>  | <b>170,695,047</b>  | <b>177,244,938</b>  |
| Special Items:                             |                    |                     |                     |                     |                     |
| Traffic & Parking Management               | 862,924            | 1,548,950           | 1,548,950           | 1,548,950           | 1,548,950           |
| Appropriated/Reserved CPC                  | 1,475,400          | 854,275             | -                   | -                   | -                   |
| State & County Assessments                 | 1,226,318          | 1,239,372           | 1,270,356           | 1,302,115           | 1,334,668           |
| Prior or Current Period Exp.               |                    |                     |                     |                     |                     |
| Property Tax Abatements                    | 654,901            | 671,274             | 688,055             | 705,257             | 722,888             |
| Other                                      | -                  |                     |                     |                     |                     |
| Free cash items                            | -                  | 292,089             |                     |                     | -                   |
| <b>Sub-Total (Special Items)</b>           | <b>4,219,543</b>   | <b>4,605,959</b>    | <b>3,507,362</b>    | <b>3,556,322</b>    | <b>3,606,506</b>    |
| <b>TOTAL USE OF FUNDS</b>                  | <b>157,149,105</b> | <b>164,571,741</b>  | <b>168,655,772</b>  | <b>174,251,369</b>  | <b>180,851,444</b>  |
| <b>TOTAL SOURCE OF FUNDS</b>               | <b>157,149,105</b> | <b>164,571,741</b>  | <b>166,014,858</b>  | <b>171,671,169</b>  | <b>178,195,945</b>  |
| <b>SURPLUS/&lt;DEFICIT&gt;</b>             | <b>-</b>           | <b>(0)</b>          | <b>(2,640,914)</b>  | <b>(2,580,200)</b>  | <b>(2,655,499)</b>  |