



## **Town-Wide Financial Plan for 2018 Annual Town Meeting Submitted by the Board of Selectmen**

March 1, 2018

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 (FY18), the proposed budget for FY19, and projected financial information for the years FY20-22.

### **Overview**

The Board of Selectmen, working with other Town officials, is proposing a balanced-budget for the fiscal year (FY19, or the year beginning July 1, 2018). This proposal assumes modest levels of revenue and spending growth. Spending growth is in line with prior year TWFP projections and the budget guidelines issued last fall.

The amount of reserves used to balance the budget (\$2.5 million) is less than the \$4 million used in FY18, and in line with the Town's history of allocating this amount annually. Deployment of free cash at this level will keep the reserve levels within the reserve policy guidelines, primarily due to local receipts continuing to exceed projections.

There are two significant milestones that are in process this year which will have a major impact on the town's finances in the next three fiscal years (FY20-22) and beyond. The first is the Selectmen's implementation of debt and cash capital policies for the Town. Through the years the Town established policies on reserves, set annual guidelines for operating budgets and proactively funded its pension and OPEB obligations, all of which have contributed to its strong financial position. Debt and capital spending were areas that had grown significantly over the years and prompted the conclusion in past TWFPs that within the next several years, the voters would need to approve overrides to finance the Town's operations. The debt policy establishes a limit on spending for cash capital and "inside the levy" debt-funded projects to a range of 6.2% - 6.8% each year as a percentage of recurring annual revenues. This will result in an affordable and predictable amount of spending on such items, as well as ensure that dollars available for operating budgets are not adversely affected by increased capital spending. This policy will work in conjunction with a policy on capital spending (which is being drafted for the FY20 budget cycle) that will objectively prioritize the Town's capital projects.

The second major development is the implementation of new health plans and a three-year agreement with our unions effective July 1, 2018. This new agreement will replace the "Rate Saver Plans" purchased through the West Suburban Health Group with two "deductible" plans that are more cost effective for the Town. The change will moderate cost, and continue to provide an excellent choice of health care and plans for employees. It will encourage employees to become better consumers of their coverage, which in turn will help moderate cost growth over the

life of the agreement. Finally, the majority of newly-hired employees will pay a greater percentage of their insurance premiums.

Regarding the operating budgets, the assumptions are similar to those utilized in the last several years. With most union contracts settled through June 30, 2020 and a decline in school enrollment, there appears to be no necessity for higher guidelines for operating budgets. This, coupled with affordable growth in capital expenditures, will go a long way towards avoiding deficits in the upcoming years. It must be noted that the teacher's contract will need to be re-negotiated for the FY20 budget, and the School Committee is in the process of developing a successor strategic plan that may propose additional costs. Whether these can be moderated by declining enrollments or school employee turnover is unclear. Nevertheless, we continue to work with all Town departments and the Schools to improve long-range financial forecasts and look for saving opportunities that do not adversely impact services to our residents.

There are several debt-funded projects included in the warrant for Town Meeting that require appropriation. The most significant of these projects are exterior renovations to Town Hall, reconstruction of Grove Street, and design for the future replacement of the Middle School steam pipes. All of the debt-funded projects proposed in fiscal 2019 are to be paid for with inside-the-levy borrowing. Because of the Town's conservative approach to amortizing debt, inside-the-levy debt service costs will remain level with those of FY18. The Town continues to proactively manage its debt by containing costs on construction projects and 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 38 of the warrant.

More critically, we continue to plan for significant capital projects that we anticipate bringing to the voters for approval in the next 3 -8 years as debt exclusions. The projects include:

- The renovation and/or replacement of the Hardy, Hunnewell and Upham elementary schools (also referred to as "HHU"). This past December, the Town received notification that it would be invited into the State's Massachusetts School Building Authority (MSBA) program for the consolidation and replacement of the Upham and Hardy schools. This is welcomed news in that it provides for a reimbursement of about 30% of the Town's costs, albeit through a very detailed and time consuming process. The Town will embark on this soon, and separately will need to decide how and when to pursue the replacement of the Hunnewell School. Both projects will be subject to a debt exclusion, and our preliminary projections suggest the peak median tax bill impact of this work could approach \$767 per year.
- Interior renovation of the historic Town Hall. The capital plan recognizes \$6.6 million in FY19 for exterior renovations in article 22 on the warrant. We have recently embarked upon an interior space utilization and visioning study of the building and plan to bring an article to the 2019 Town Meeting for design funds to proceed with the plan that is developed. It is important to note that Town Hall does not meet the requirements of the disabled persons' accessibility laws. Working with the project architect on the exterior phase of the project, we have requested and received approval from the Massachusetts Architectural Access Board (MAAB) for several permanent variances from the law, as well as other time variances for interior items that are required to be addressed. Those time variances are for three years with the possibility of a 2-year extension if the Town is making progress towards resolving these matters. For this reason, this project will need to begin within the near future.
- Middle School Projects – the Town undertook a number of important projects to the Middle School in 2006 – 2008, but due to budget constraints deferred a number of items as well. The purpose of Article 16 on the warrant is to conduct a feasibility study of the projects

that were deferred and determine how best to complete this now critical structural, mechanical, and interior work. A very rough estimate for these projects is \$15.5 million.

The combination of carrying forward the assumptions that were used to achieve a balanced budget in FY19 and implementing the debt policy means that the possibility that the Town will need to ask the voters to consider a Proposition 2½ override in the next three years has been reduced. We believe that these steps, as well as a capital policy that prioritizes projects and requests in an objective manner, necessary to manage the annual operating costs of the Town. In doing so, the impact to taxpayers will have been moderated as much as possible, while still maintaining the high level of services that our customers have come to expect. Debt exclusions will be necessary for the projects outlined above when they are brought forward. Areas that we must continue to monitor closely include the School budget and health insurance costs. The School budget is nearly twice the size of the other departmental budgets combined, and school officials project it may continue to grow at a higher annual rate than we have included in this projection. Further analysis of these details are included in the Looking Ahead to FY20 – 22 section of this report.

### **Key Financial Planning Issues**

Each year, the Selectmen and their staff update the TWFP with input from 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 majority of Town employees are unionized, and their annual wage increases are a subject of collective bargaining. This year, all of the union contracts are settled. There are eleven unions representing 1,129 employees the largest of which is the teacher's association. That contract expires on June 30, 2019, and the other contracts all expire a year later on June 30, 2020.

In addition to the general wage increases noted above, the union contracts also provide for annual "step" increases 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 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% as step increases are added to the COLA.

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. Thus, in departments with steps, the changing composition of the work force affects 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 the top step, and the others are still moving on steps. These factors, along with increases in special education costs, have contributed to the greater growth of the School budget in comparison to other departments' budgets. Conversely, in the Fire Department five employees have retired this year, and we expect more to follow in FY19. Due to fewer steps, these retirements have created an opportunity to realign costs, as new employees begin at a lower step and there is a shorter path to the top step.

### **Employee benefit costs**

Employee benefit costs total nearly \$30 million in FY19 (17.8% 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 - \$18.9 million
- Pension plan contribution - \$7.1 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.

In 2015, the Selectmen negotiated an agreement with all 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 would receive 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 Selectmen have reached an agreement for a successor contract for another three-year period beginning in July. For the first time, the Town will introduce two different deductible plans for employees, both of which are less expensive than the previous offerings. The unions have further agreed to shift all employees to paying a greater percentage of their premium costs in the second and third years of the agreement. In return the Town has offered various incentives to employees to lower their costs, and will make a significant effort to educate employees about the high deductible plan. We believe that the combination of employee turnover in this three-year period and education about the benefits of the high deductible plan will result in cost containment over the next few years. 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 benefit 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 2017 totaled \$3.7 million. These contributions are in addition to the Town's contribution, which is expected to be \$7.1 million in FY19. Approximately 66% of the contribution by the Town this year will be allocated to accrued liabilities from prior years.

The Town is also obligated to subsidize a portion of the health insurance premiums for all 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>
Valuation Date	1/1/2017	6/30/2016
Accrued Liability	\$ 224,137,166	\$ 120,156,976
Actuarial Value of Assets	169,089,812	44,229,773
Unfunded Liability	<u>\$ 55,047,354</u>	<u>\$ 75,927,203</u>
 MV of Assets at 12/31/17	 \$ 192,136,792	 \$ 61,715,694

The actuarial funding schedule for the pension plan, which is intended to fully fund the plan by 2030, calls for a \$.4 million increase in pension funding in FY19 (exclusive of enterprise funds). The latest actuarial valuation of the pension plan performed as of January 1, 2017 reflected an investment return assumption of 6.625%, which is more conservative than the 6.75% assumption used in the previous valuation. 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. A historical table outlining the funding over the past three years and FY19 may be seen in the following table:

<u>OPEB Funding</u>				
	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>
Inside the levy	\$ 1,800,000	\$ 2,400,000	\$ 3,432,000	\$ 3,432,000
Exclusion	1,200,000	600,000	-	-
	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 3,432,000</u>	<u>\$ 3,432,000</u>

While this funding transition when implemented added pressure on the Town budget, now that it is in place and level, it does not create an impediment to 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 2018 Annual Town Meeting, appropriations will be requested for the following capital projects:

- Middle School Feasibility Study - \$125,000 (Article 16)
- High School Track & Field Improvements - \$525,000 (Article 17)
- Reconstruction of Grove Street - \$2 million (Article 18)
- Library Interior Renovation – (Article 19)
- Library Materials Handler - \$350,000 (Article 20)
- Middle School Steam Pipes Replacement (design) - \$391,575 (Article 21)
- Town Hall Exterior Renovation – \$6.6 million (Article 22)

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 Middle School Steam Pipes forecast is an estimate for the design phase developed by the Permanent Building Committee and Facilities Management Department.

The High School Track and Field Improvements and Reconstruction of Grove Street will be managed by DPW; the Town Hall Exterior Renovation, and Middle School Steam Pipes design projects will be addressed together by PBC and FMD; and FMD will manage the Middle School Feasibility project. At the time this report was completed, there is not support by the Board of Selectmen or Advisory Committee to fund the Library Interior Renovation design phase (at this

time), as it was not included on past years' capital budget schedule. The Library Materials Handler would be managed by Library Trustees and FMD. All of the other projects will be funded with inside-the-levy borrowing or transfers from existing sources of funds.

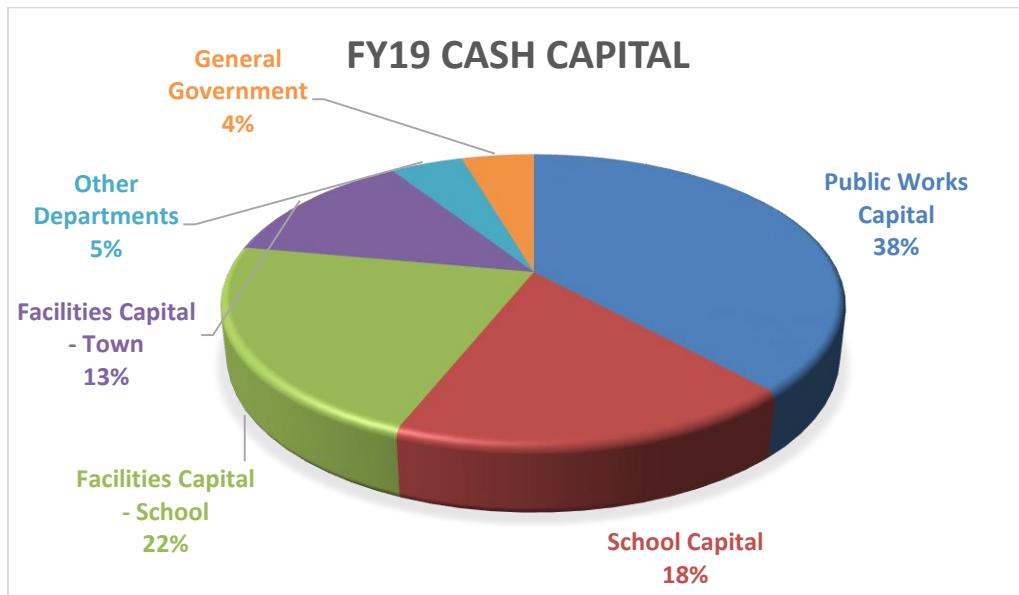
The situation with respect to other facilities needs is summarized as follows:

- Renovation/replacement of Hardy, Hunnewell and Upham elementary schools – The Town was successful this year with its Statement of Interest (SOI) application to the Massachusetts School Building Authority (MSBA). The MSBA selected the Upham School that was prioritized by the Town with the understanding that the feasibility phase of the project would also consider the Hardy School site, thus no determination about the site can be made at this time. The Town will need to continue on its own with regard to the Hunnewell School site which was not chosen by the MSBA. The Selectmen and School Committee agree that a special town meeting should be called this spring to seek approval for funding to begin both of these projects, albeit under different circumstances. For purposes of the TWFP, we are projecting the total cost of this work to be \$3.5 million in FY19 for both a feasibility/schematic design study for the MSBA project and feasibility study only for Hunnewell School. Following that construction for two schools is estimated to cost \$116 million, to be incurred during the period FY20-24 for construction.
- Middle School Infrastructure (\$15.5 million) - A 2014 study of the Middle School identified the need to address several projects at the school that had been eliminated from the 2006-2008 project. We are modeling several projects to address most of those and two other more recent areas of concern. In total the project includes replacement of significant portions of the HVAC secondary distribution system, replacement of classroom and corridor doors, certain classroom cabinetry, façade repairs including repointing and re-caulking portions of the brick masonry, replacement of aged kitchen equipment and repaving of the driveway and parking lots. The rough estimate noted above would include the steam pipe replacement project if a decision was made to include this as part of a debt exclusion, as currently it is planned as "inside the levy" debt.
- Town Hall Renovations (\$15.0 million) – The capital plan includes a project in FY19 to construct the renovations to the exterior of Town Hall (including some associated Massachusetts Architectural Access Board (MAAB) disabled patrons' accessibility improvements) of \$6.6 million. Following that, a design of interior renovations would be proposed at an anticipated cost of \$2.0 million for FY20. The feasibility study that begins this month will form the basis for the interior renovations design and is included within FMD's FY18 cash capital budget. Within a 3 – 5-year period the Town will be required to bring the building fully into compliance with the federal ADA law. This time period is as a result of our successful request to the MAAB for a time variance to enable the Town to plan the renovations and financing of the project. The renovation is also intended 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.

## Implementation of the Unified Plan

Department Heads, Unified Plan (UP) Steering Committee members, and others met in February to provide input on criteria and the matrix to be used to prioritize capital projects requests. Up until this time, the formation of the Five-year Capital Budget Program has been more informal. The Finance Director, Executive and Assistant Executive Director and Selectmen will review and analyze the input from the Department Heads and UP Steering Committee and finalize the process and criteria that will be used for building the Town budget beginning in FY20.

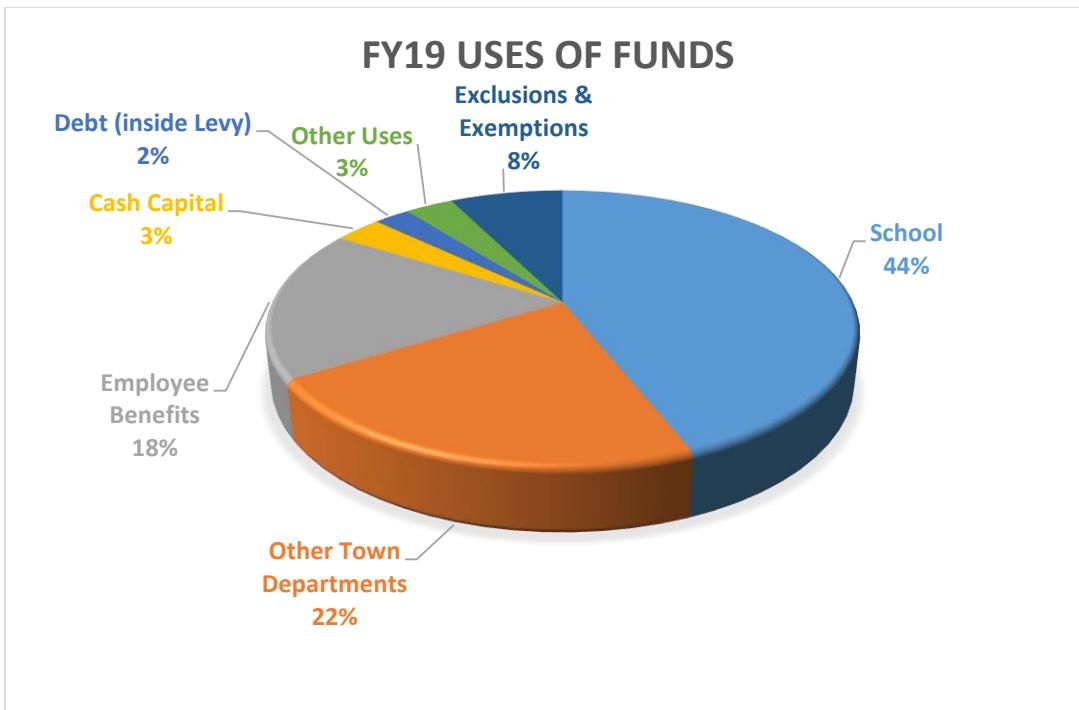


## FY19 Budget

The proposed FY19 budget request is summarized in the following table (more complete versions of the FY19 Sources & Uses are presented in Exhibit I and Appendix B, which appear later in this book):

	<b>FY18 Budget</b>		<b>FY19 Request</b>	<b>\$ Inc/(Dec)</b>	<b>% Inc/(Dec)</b>
<b><i>Sources of Funds</i></b>					
Taxes	\$ 123,758,516	\$	128,652,479	\$ 4,893,963	4.0%
State Aid	9,759,649	\$	9,869,649	110,000	1.1%
Local Revenue	11,631,728		12,087,586	455,858	3.9%
Free Cash to balance	4,083,737		2,500,000	(1,583,737)	-38.8%
Other free cash items	241,010		-	(241,010)	-100.0%
Other Sources	1,720,573		1,210,169	(510,404)	-29.7%
CPA Funds	460,900		918,000	457,100	99.2%
CPA to offset debt	553,244		550,244	(3,000)	-0.5%
Exempt Debt	12,203,082		12,001,855	(201,227)	-1.6%
Total Sources	<b>\$ 164,412,439</b>	<b>\$</b>	<b>167,789,982</b>	<b>\$ 3,377,543</b>	<b>2.1%</b>
<b><i>Uses of Funds</i></b>					
School	\$ 71,950,648	\$	74,428,918	\$ 2,478,270	3.4%
Other Town Departments	36,538,645		37,574,663	1,036,018	2.8%
Employee Benefits	28,406,725		30,029,712	1,622,987	5.7%
Cash Capital	6,703,374		5,305,108	(1,398,266)	-20.9%
Debt Service (inside Levy)	3,984,283		4,002,083	17,800	0.4%
Other Uses	4,072,439		3,897,409	(175,030)	-4.3%
Exempt Debt	12,756,325		12,552,089	(204,236)	-1.6%
Total Uses	<b>\$ 164,412,439</b>	<b>\$</b>	<b>167,789,982</b>	<b>\$ 3,377,544</b>	<b>2.1%</b>
<b><i>Surplus/(Deficit)</i></b>	<b><u>\$</u></b>	<b><u>0</u></b>	<b><u>(\$0)</u></b>		

**Sources of Funds:** The 4.0% increase in Taxes reflects the allowed growth in the levy limit (2.5%) and \$1.8 million of new growth. At this point State Aid is projected at a modest 1% increase, although the budget proposed by Governor Baker includes an increase of unrestricted governmental aid of 3.5%. Generally, as Wellesley's annual town meeting is completed prior to the State budget process, we have not fully budgeted the revenue assumed early in the State process. In future years, the increases remain modest to assume slow but steady growth in the State's fiscal situation. The 3.9% increase in Local Revenue is a reflection of conservative numbers in FY18.



**Uses of Funds:** The 3.4% increase in the School budget reflects the cost of contractual step, lane and cost-of-living increases and higher special education costs. The 2.8% increase in Other Town Departments is consistent with the wage increase levels recommended by the Human Resources Board and various adjustments in other expenses for all departments. The 20.9% reduction in cash capital is largely attributable to a guideline set this year to smooth out expenditures in this area and ensure that capital expenditures remain affordable over time.

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

Supplemental FY18 appropriations:

- \$776,000 for school special education costs
- \$500,000 for current year snow and ice removal costs
- \$ 53,010 for settlement of the police union contracts
- \$ 30,000 for compensated absences

### 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 is the balance 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 balance of the General Purpose Stabilization Fund as of June 30, 2017 was \$3.3 million and we do not anticipate any requests for appropriations from this fund. The level of Free Cash, as certified by the DOR, was \$12.1 million as of July 1, 2017.

The following chart summarizes the changes in Free Cash for the years FY13-17:

<b>Free Cash</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>
<i>Beginning of year</i>	\$10,499,623	\$10,950,782	\$10,336,925	\$ 8,831,500	\$11,858,182
<i>Uses</i>	(3,630,881)	(3,987,715)	(4,867,591)	(3,601,830)	(4,875,826)
<i>Net Free Cash generated</i>	4,082,040	3,373,858	3,362,166	6,628,512	5,147,060
<i>End of year</i>	\$10,950,782	\$10,336,925	\$ 8,831,500	\$11,858,182	\$12,129,416

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 FY18 is an important factor in our evaluation of the proposed use of these reserves to help balance the FY19 budget.

The following chart summarizes an initial projection of the Town’s reserve balances at June 30, 2018:

### ***Reserves Projection***

	<u>Amount</u>
<b><i>Reserves as of 6/30/2017</i></b>	
Free Cash Estimate	\$ 12,129,416
Stabilization fund	3,274,957
Injured-on-duty Stabilization Fund	500,332
	<b><u>\$ 15,904,705</u></b>
<b><i>Sources and (Uses) of Reserves in FY18</i></b>	
Supplemental FY18 appropriations (Article 7-Police contracts) estimate	(53,010)
Compensated absences	(30,000)
- Snow & ice removal - estimated	(500,000)
School FY 2018 SPED shortfall estimate	(776,000)
Balance FY19 budget (Article 8)	(2,500,000)
Net operating change estimate	1,000,000
	<b><u>\$ 13,045,695</u></b>
<b><i>FY18 Revenue</i></b>	<b><i>\$ 144,856,184</i></b>
<b><i>% of Revenue</i></b>	<b><i>9.01%</i></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, 2018 would remain slightly above 9%. The estimated FY18 reserve growth is largely attributable to the Town's conservative budgeting. 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 FY20-22**

For purposes of projecting the Town's Sources and Uses of funds for the years FY20-22, 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 placeholders established for the FY19 budget are as follows:

• Levy growth	2.5% plus \$1.8 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 Proposed FY 19 budget:

- Local receipts increased 3.9% from FY18 to FY19, but increasing 2% thereafter
- New growth is \$1,800,000 in FY19 and flat thereafter

It is important to note that these assumptions do not take into account priorities and initiatives that may result from the Unified Plan. Furthermore, 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 within this guideline may be challenged due to special education costs, negotiating a successor teacher's union contract that begins in FY20, and the desire to implement aspects of their strategic plan. It is unclear whether employee turnover and anticipated enrollment decline in the elementary grades will moderate this. Evaluating the changes in cost related and unrelated to special education may provide a method of analyzing true increases in service delivery.

<b>Sources of Funds</b>	<b>FY18 Budget</b>	<b>FY19 Request</b>	<b>\$ Inc/(Dec)</b>	<b>% Inc/(Dec)</b>	<b>FY20 Projection</b>	<b>FY21 Projection</b>	<b>FY22 Projection</b>
Taxes	\$ 123,758,516	\$ 128,652,479	\$ 4,893,963	4.0%	\$ 133,668,791	\$ 138,810,511	\$ 144,080,774
State Aid	9,759,649	9,869,649	110,000	1.1%	10,067,042	10,268,383	10,473,750
Local Revenue	11,631,728	12,087,586	455,858	3.9%	12,329,338	12,575,924	12,827,443
Free Cash to balance	4,083,737	2,500,000	(1,583,737)	-38.8%	2,500,000	2,500,000	2,500,000
FY18 Free Cash items	241,010	-	(241,010)	n/a	-	-	-
Other Sources	2,181,473	2,128,169	(53,304)	-2.4%	2,911,009	2,911,009	2,911,009
CPA for North 40	553,244	550,244	(3,000)	-0.5%	553,244	550,244	552,044
Exclusions & Exemptions	12,203,082	12,001,855	(201,227)	-1.6%	12,117,045	12,597,008	13,813,935
Total Sources	<u>\$ 164,412,439</u>	<u>\$ 167,789,982</u>	<u>\$ 3,377,543</u>	<u>2.1%</u>	<u>\$ 174,146,469</u>	<u>\$ 180,213,079</u>	<u>\$ 187,158,955</u>
<b>Uses of Funds</b>							
School	\$ 71,950,648	\$ 74,428,918	\$ 2,478,270	3.4%	\$ 77,033,931	\$ 79,730,118	\$ 82,520,672
Other Town Departments	36,538,645	37,574,663	1,036,018	2.8%	38,514,030	39,476,880	40,463,802
Employee Benefits	28,406,725	30,029,712	1,622,987	5.7%	31,658,654	33,342,762	35,026,127
Cash Capital	6,703,374	5,305,108	(1,398,266)	-20.9%	6,667,752	6,187,730	7,528,456
Debt (inside Levy)	3,984,283	4,002,083	17,800	0.4%	3,978,675	4,518,345	4,759,176
Other Uses	4,072,439	3,897,409	(175,030)	-4.3%	4,316,451	4,365,254	4,415,277
Exclusions & Exemptions	12,756,325	12,552,089	(204,236)	-1.6%	12,667,289	13,149,052	14,367,379
Total Uses	<u>\$ 164,412,439</u>	<u>\$ 167,789,982</u>	<u>\$ 3,377,544</u>	<u>2.1%</u>	<u>\$ 174,836,781</u>	<u>\$ 180,770,141</u>	<u>\$ 189,080,889</u>
Surplus/(Deficit-Override)	\$ 0	\$ (0)			\$ (690,313)	\$ (557,062)	\$ (1,921,934)

Based on these assumptions and no overrides, projected deficits are in the range of \$690,000 to \$1.9 million over the years' FY20-22. The new debt and capital policies will contribute significantly to reducing these deficits; conversely, allowing any growth in operating guidelines would have a detrimental impact. We anticipate debt exclusions to be placed on the ballot over the next few years will have the effect of increasing taxes to fund the construction of the HHU schools, Middle School repairs and the interior renovation of Town Hall.

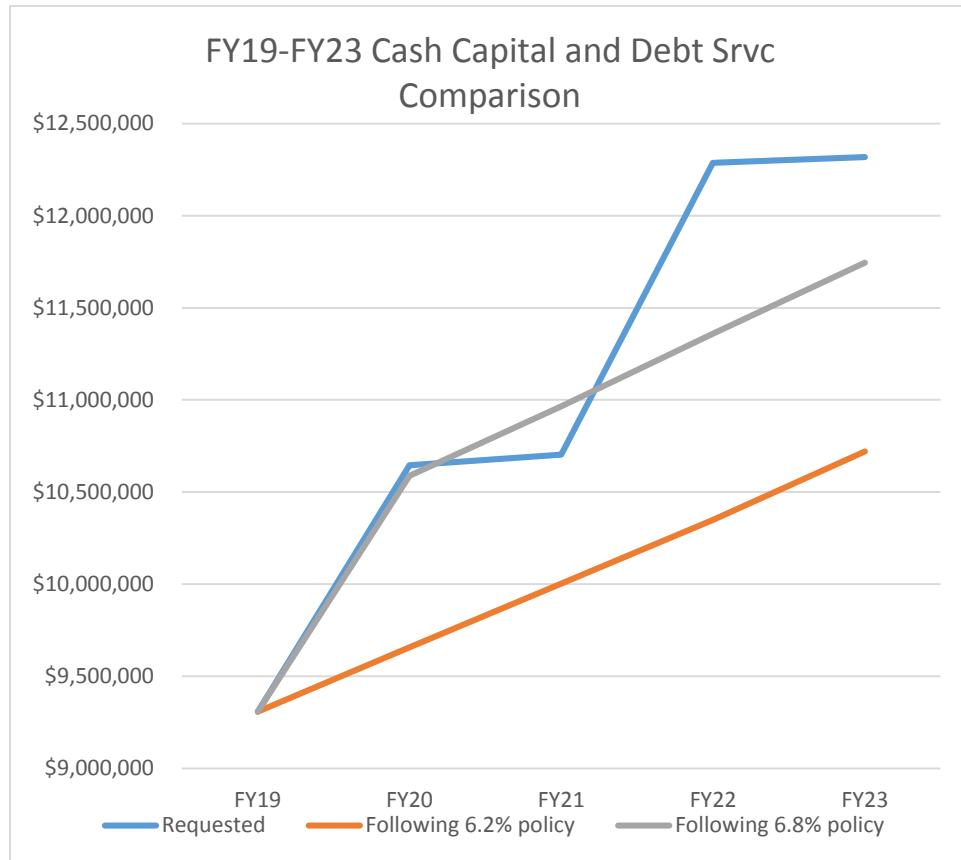
As mentioned in the preceding paragraph, implementation of the debt policy will contribute significantly to a reduction of deficits. For informational purposes only, we have modeled the impact on debt and deficits utilizing the middle of the debt policy range at 6.5% of operating revenues. This chart shows that the deficits are significantly reduced over the three-year period.

#### Impact on Deficit of Debt/Capital Policy

	<u>2020</u>	<u>2021</u>	<u>2022</u>
Projected deficit	<u>\$ (690,313)</u>	<u>\$ (557,062)</u>	<u>\$ (1,921,934)</u>
Debt/Capital	\$ 10,646,427	\$ 10,706,075	\$ 12,287,632
Percent requested	6.83%	6.63%	7.35%
If reduced to 6.5%	\$ 10,136,280	\$ 10,499,448	\$ 10,871,550
Revised deficit	<u>\$ (180,166)</u>	<u>\$ (350,435)</u>	<u>\$ (505,852)</u>

The line graph shows the impact of imposing a spending range on the capital and debt-service components of the annual budget. The jagged increasing line shows total capital as has been requested during this five-year period. The parallel lines increase at a steady as revenues have been projected, and show the lower and upper end of the debt policy range set by the Board this

year (6.2% - 6.8%). As a point of context, the FY19 budget will be at 6.2% of gross annual revenues or the lowest point on the range, and in FY21 the graph shows the requested projects exceeding the top of the range. It is expected that the Capital Policy will result in an objective and rational process to prioritize projects within this financial range, so that a plan can be developed that meets the needs of all constituencies in a fair and predictable manner.



Further details regarding these projections without adjustments for the debt policy are provided in Exhibit II. We will continue to refine these projections over the next few weeks and provide an update at Town Meeting. Addressing the forecasted deficits in a responsible manner while balancing the service delivery expectations of our customers and taxpayer's willingness to pay underscored the need for the debt policy and more rigorous and objective criteria with which to evaluate future capital projects. Knowing that the requests for debt exclusions in the upcoming years are likely to have significant impact on our taxpayers, the Board took the proactive steps this year to moderate that growth with the debt policy. Certainly, work will continue as it does annually to reduce or eliminate these deficits without an override, and continue to investigate means to lower rates of spending growth, 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 \$1,051,000) for the period FY18 – FY25:

## Median Tax Bill

	FY18	FY19	FY20	FY21	FY 22	FY23	FY24	FY25
Levy Prior	\$ 11,283	\$ 11,580	\$ 11,884	\$ 12,194	\$ 12,513	\$ 12,839	\$ 13,176	
Levy growth	\$ 446	\$ 452	\$ 457	\$ 463	\$ 469	\$ 476	\$ 482	
Existing Debt Exclusions	\$ 1,049	\$ 980	\$ 946	\$ 827	\$ 798	\$ 692	\$ 669	
HHU & Feasibility	\$ -	\$ -	\$ -	\$ 144	\$ 139	\$ 408	\$ 395	
Middle School	\$ -	\$ -	\$ 28	\$ 87	\$ 84	\$ 81	\$ 78	
Town Hall Interior	\$ -	\$ -	\$ -	\$ -	\$ 28	\$ 155	\$ 150	
Median tax bill	\$ 12,599	\$ 12,778	\$ 13,012	\$ 13,315	\$ 13,716	\$ 14,031	\$ 14,651	\$ 14,950

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,

Ellen F. Gibbs, Chair  
 Jack Morgan, Vice Chair  
 Marjorie R. Freiman, Secretary  
 Elizabeth Sullivan Woods  
 Thomas H. Ulfelder

## Exhibits:

I - FY19 Summary Sources & Uses of Funds

Appendices appearing later in this book:

B – FY19 Detail Sources & Uses of Funds

C – Five Year Capital Budget Program