



**Town-Wide Financial Plan for 2019 Annual Town Meeting
Submitted by the Board of Selectmen**

March 1, 2019

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 (FY19), the proposed budget for FY20, and projected financial information for the years FY21-23.

Overview

The Board of Selectmen (the Board), working with other Town officials, is proposing a balanced budget for the fiscal year FY20 (the year beginning July 1, 2019). This proposal assumes modest levels of revenue and spending growth. Overall spending growth is in line with prior year TWFP projections. Most departments' budgets are within the guidelines issued by the Board last fall although Schools, Police, Selectmen's office, and Board of Health exceeded guidelines in their requests. Also of note is a new Town-wide initiative under the Board of Health to address mental health and social service needs across multiple departments. Select other departments exceed guideline because of unfunded changes in staff salary group or classifications approved by the Human Resources Board during the year.

Health insurance spending was significantly favorable to the projections in last year's TWFP; resulting in improvement to reserve levels and allowing the use of free cash to reduce borrowing on some capital projects proposed for FY20.

The amount of reserves used to balance the budget (\$2.5 million) is consistent 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.

In FY19 the Board implemented a debt policy that established an annual spending limit on cash capital and "inside the levy" debt projects to a range of 6.2% - 6.8% of recurring annual revenues. The policy ensures an affordable and predictable amount of spending and that dollars available for operating budgets are not adversely affected by increased capital spending. The budgeted requests for FY20 are \$10.2 million, or at 6.5% of annual recurring revenues. With capital spending increases at manageable levels, continued moderation of health insurance increases and departmental operating budgets forecasted to grow at an average of 3.0% per year, the Town is in a strong position to avoid Proposition 2 ½ overrides. Cash capital and debt service contribute most heavily to projected deficits in future years and the Board will endeavor to smooth out these expenditures and remain within the range of the approved debt policy. This planning is critical as the Town has mapped out the timing and impact of major capital projects that will require debt exclusions in each of the next four years. The projects in this timeframe include the replacement of Hunnewell School, the construction of a Town Hall Annex and the renovation of the interior of

Town Hall, and the MSBA-funded project to replace the Ernest F. Upham School with a new school either at that location or Hardy School.

Implementation of new health plans and a three-year agreement with our unions went into effect on July 1, 2018. That agreement replaced 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 cost increases, and continue to provide an excellent choice of health care plans for employees. Projections for FY19 (the current fiscal year) indicate that the Town will save \$1.0 million in health care expenditures and the health group rates are set at a 7% increase for FY20.

The assumptions regarding future operating budgets are comparable to those utilized in the last several years, although the Town guideline has been increased 0.5% to coincide with the school guideline and allow the Town to address critical needs that cannot be met under the restrictive 2.5 % limit of recent years. With most union contracts settled through June 30, 2020, a debt policy in place, and a decline in school enrollment, there is no indication of a need for higher guidelines. It must be noted that the teacher’s contract is in the process of being 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. Any successor strategic plan should include the projected cost for each individual initiative proposed. By doing so, the Advisory Committee, the Board of Selectmen, and the School Committee can explore collaboratively each year which initiatives should move forward and whether there might be a beneficial financial impact to adjustments within the strategic plan. Moreover, initiatives from the town-wide Unified Plan and the Housing Production Plan, and others, will require careful evaluation as to Town priorities in a given year. We expect strategic plan expenses for the School Department can be offset to some degree by declining enrollments or school employee turnover. The Board continues 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 requiring appropriation. The most significant of these projects is the replacement of the Middle School steam pipes. All the debt-funded projects proposed in fiscal 2020 are to be paid for with inside-the-levy borrowing. 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 39 of the warrant. This budget also proposes using some free cash and transfers from other sources to eliminate some of the borrowing needs.

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, replacement, and/or consolidation of the Hardy, Hunnewell and Upham elementary schools (also referred to as “HHU”), under the direction of the School Building Committee (SBC). Both projects are in the feasibility stage, but under different structures.

- Hunnewell School
 - At a Special Town Meeting held in June 2018, the Town authorized \$1.0 million to conduct a feasibility study for Hunnewell School. The SBC is currently working to develop a concept for either a completely new building or a “reno/add-on” building that incorporates the 1938 wing.

The Committee is also studying swing space options that would enable the project to begin first, instead of waiting for the construction of a replacement for the Upham School. Should a workable swing space option be identified, the "early" Hunnewell project contemplates a request for \$5.0 million in design funds at a Special Town Meeting in the fall of 2019, followed by a debt exclusion in FY21 for construction funds of approximately \$55.0 million.

Hardy/Upham Schools

The Town met the requirements to be invited into the Massachusetts School Building Authority (MSBA) program for the consolidation and replacement of the Upham and Hardy schools. The MSBA program provides for a reimbursement of approximately 30% of "eligible" costs (mostly limited to construction costs and not offsite expenses) through a detailed and highly-structured documentation process.

The Town approved \$2.5 million at a Special Town Meeting in the fall of 2018 for a feasibility study and is currently in Module 2 of the MSBA's process. The Owner's Project Manager has been selected and the next step is for the Town to work with the MSBA to select the Designer. Future steps include a report from the School Building Committee to Town Meeting about the selected preferred design from the feasibility study and then a debt exclusion vote of \$55.0 million in the spring of 2021 for the construction costs. Our preliminary projections suggest the peak median tax bill impact of constructing two schools could approach \$694 in 2026, based upon construction schedules currently being evaluated. This estimate will continue to be updated as new information becomes available.

- Interior renovation of the 1883 Town Hall. The capital plan recognizes \$27.0 million in FY21-23 for construction of a Town Hall Annex followed by interior renovations to Town Hall. The recently completed interior space utilization and visioning study of the building identified several serious deficiencies, including lack of clear wayfinding, insufficient meeting, office, and storage space, lack of secure storage for vital records, lack of security for financial transactions, insufficient parking, air quality issues, moisture infiltration and handicap accessibility deficiencies. Moreover, the major building systems (boiler, HVAC) are at the end of their useful life and need to be replaced.
 - The study recommends that a Town Hall Annex be constructed first to be utilized as swing space while the interior of Town Hall is under construction, and then as office space for the Land Use and Facilities Management Departments when Town Hall can again be occupied. A FY20 cash capital project in Article 8 provides for a feasibility study to locate the Annex at Municipal Way in the location of the former MLP/DPW building. Should that prove possible, design funds would be sought in FY21 for the design of both the Annex and Town Hall interior, followed by a request for construction funds for the Annex in FY22, and the interior of Town Hall in FY23.
 - Town Hall does not currently meet the requirements of federal or state 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 run for three years following substantial completion of the exterior renovations of the building this fall, with the possibility of a 2-year extension if the Town is making progress towards resolving

these matters. To meet this state regulatory deadline, the interior project will need to begin within the next year.

➤ Middle School Building Systems. the Town completed several important projects at the Middle School in 2006 – 2008, but due to budget constraints deferred specific other items. Article 20 on the warrant requests \$1,300,200 to design replacement of significant portions of the HVAC secondary distribution system, replacement of classroom and corridor doors and certain classroom cabinetry, façade repairs including repointing and re-caulking portions of the brick masonry, and replacement of aged kitchen equipment.. The recently completed feasibility study developed an estimate for these projects of \$12.8 million, which is contemplated for a debt exclusion in FY21.

The Board's approach to capital requests 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 be moderated as much as possible, while still maintaining the high level of services that our residents have come to expect. 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, despite declining enrollment expected to continue through FY27. Further analysis of these details is included in the Looking Ahead to FY21 – 23 section of this report.

Over the past year the Town has received several applications for affordable housing developments governed by Massachusetts General Law (M.G.L.) c.40B. The Town developed a Housing Production Plan that was approved by the Commonwealth in September 2018. The Town must reach a threshold where 10% of its housing units are deed-restricted as affordable, and as of January 2019 we were at 6.77% of this goal, with 294 additional units needed. A major project currently in the proposal stage is the construction of 350 rental units within the Wellesley Office Park on Williams Street. While 25% of the units will meet affordability restrictions, all units would count towards the 10% threshold because the units will be rented. The Board intends to bring a proposal to a Special Town Meeting this spring to approve a zoning change to enable this project to move forward. The owner of the property, John Hancock, has agreed to make infrastructure improvements to support the development, with the Town sharing in a portion of those costs, which will be paid from a grant from the Commonwealth under M.G.L. c.40R transit-oriented development program. A fiscal impact analysis performed for this project indicates that new tax revenue as a result of this project will be \$1.5 million per year, which would mitigate the cost for any additional school or town personnel who may be needed.

Key Financial Planning Issues

Each year, the Selectmen and their staff update the TWFP with input from the Town's departments, Boards and Committees, guided also by the conservative financial policies they have adopted over the last decade

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

- Growth in personnel costs;
- Employee benefit costs; 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 ("Cost of Living Adjustments" or COLA) for existing employees. A majority of Town employees are unionized, and their annual wage increases are a subject of collective bargaining. This year, all union contracts are settled with the exception of the teacher's contract which expires on June 30, 2019. There are eleven unions representing 1,129 employees, the largest of which is the Teacher's Association.

In addition to the COLA noted above, the union contracts also provide for an additional annual "step" increase for teachers and other employees who have not yet reached the top step, and "lane" increases for teachers as they attain additional academic degrees. The Teachers' contract 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, employees who have not reached the top step generally 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 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. However, in the case of the School Department, the average experience level of teachers has increased over the past ten years. Currently, approximately 50% of the teachers are at the top step, and the others are still moving on steps. Along with increases in special education costs, the School budget has grown at a faster rate than other departments' budgets. By comparison, in the Fire Department, five employees have retired in recent years, and we expect more to follow in FY20. 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 will total nearly \$31.1million in FY20 (18.2% 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 - \$17.2 million
- Pension plan contributions - \$7.5 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 Town has successfully bargained with its employee groups and implemented a number of plan changes in recent years, which have helped control rising costs.

The most recent three-year successor contract began on July 1, 2018, in which the Town introduced 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. In the first year of the plan 25% of eligible employees, a far greater percentage than was anticipated, chose the high deductible plan, resulting in savings for FY19 of approximately \$1.0 million. 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 in FY20 and FY21. 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.

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

Employee contributions to the Town of Wellesley's pension plan during calendar 2018 totaled \$3.9 million and are estimated to total \$4 million in calendar 2019. In addition, the Town makes an annual contribution, expected to be \$7.5 million in FY20. The Enterprise funds (Water, Sewer and Electric) also contribute the employer portion for their employees. Approximately 66% of the contribution by the Town this year will be allocated to accrued liabilities from prior years.

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

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

LAST FUNDING VALUATION	Pension	OPEB
Measurement Date	1/1/2017	6/30/2018
Accrued Liability	\$ 224,137,166	\$ 114,068,593
Actuarial Value of Assets	\$ 169,089,812	\$ 62,623,693
Unfunded Liability	\$ 55,047,354	\$ 51,444,900
MV of Assets at 12/31/18	\$ 187,848,687	63,739,610

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 FY20 (exclusive of enterprise funds). The latest actuarial valuation of the pension plan performed as of January 1, 2017, resulted in a reduction of the investment return assumption from 6.75% to a more realistic experience rate of 6.625. The next actuarial valuation of the pension plan will be dated 1/01/2019 and will be available in the Spring.

The latest actuarial valuation of the OPEB liability was performed as of June 30, 2016, and the June 30, 2018 valuation will be completed within the month. The interest rate was adjusted to 6.75% and certain mortality assumptions were updated. The funding schedule, which is intended to fully fund this liability by 2037, currently requires the Town to contribute a flat \$3.4 million each year, in addition to the increasing premium subsidies for current retirees ("pay-as-you-go costs"). The \$3.4 million contribution is funded by inside-the-levy funds.

OPEB Funding				
	FY17	FY18	FY19	FY20
Inside the levy	\$ 2,400,000	\$ 3,432,000	\$ 3,432,000	\$ 3,432,000
Exclusion	600,000	-	-	-
	\$ 3,000,000	\$ 3,432,000	\$ 3,432,000	\$ 3,432,000

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

Facilities and other capital needs

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

- Town Hall Exterior Additional Funding - \$575,842 (Article 17)
- Library Interior Renovation – \$268,376 (Article 18)
- Middle School Steam Pipes Replacement (construction) - \$4,200,000 (Article 19)
- Middle School Building Systems (Design) - \$1,300,200 (Article 20)
- Softball Field Construction - \$1 million (Article 21)
- Sprague Turf Field Replacement - \$1 million (Article 22)
- Walnut Street Design – \$150,000 (Article 23)
- Fire Engine Replacement - \$735,000 (Article 24)

The cost amounts shown for the above projects are estimates. Bids for the construction projects are currently being solicited and the final appropriation requests will be presented at Town Meeting.

The Softball Field, Sprague Turf Field Replacement and Walnut Street design will be managed by DPW; the Town Hall Exterior Additional Funding, Middle School Steam Pipes construction and Middle School Building System design will be addressed together by PBC and FMD; and FMD will manage the Middle School Feasibility project. PBC will manage the Library Interior renovation design. All of these projects will be funded with inside-the-levy borrowing or transfers from existing sources of funds.

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

Adoption of the Unified Plan

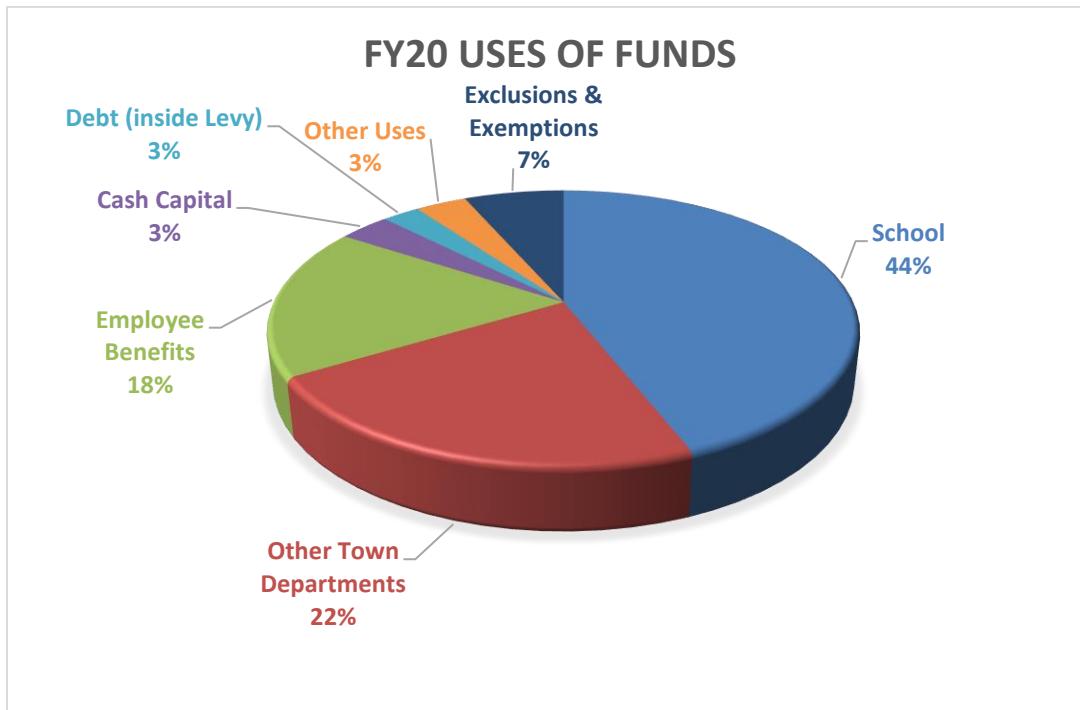
Following nearly three years of work, it is anticipated that early this spring the Board will adopt the Unified Plan (UP) and the Planning Board will adopt appropriate sections of the UP as its new Comprehensive Plan. Final edits are pending from the consultant and approvals will proceed as soon as possible once received. The Finance Director, Executive Director and Board will review and analyze the data and recommendations from the UP and consult with Department Heads to evaluate capital and non-capital priorities that may be incorporated into the Town budget beginning in FY21.

FY20 Budget

The proposed FY20 budget request is summarized in the following table (more complete versions of the FY20 Sources & Uses are presented in Exhibit I and Appendix B, which appear later in this book):

	<u>FY19</u>	<u>FY20</u>	\$	%
	<u>Budget</u>	<u>Request</u>	<u>Inc/(Dec)</u>	<u>Inc/(Dec)</u>
<i>Sources of Funds</i>				
Taxes	\$ 128,943,120	\$ 133,966,698	\$ 5,023,578	3.9%
State Aid	10,347,974	10,682,235	334,261	3.2%
Local Revenue	11,031,434	11,428,143	396,709	3.6%
Free Cash to balance	2,646,079	2,500,000	(146,079)	-5.5%
Other free cash items	-	1,985,670	1,985,670	0.0%
Other Sources	1,615,088	1,476,945	(138,143)	-8.6%
CPA Funds	918,000	887,500	(30,500)	-3.3%
CPA to offset debt	550,244	552,044	1,800	0.3%
Exempt Debt	12,001,845	10,888,408	(1,113,437)	-9.3%
Total Sources	\$ 168,053,784	\$ 174,367,643	\$ 6,313,859	3.8%
<i>Uses of Funds</i>				
School	\$ 74,428,918	\$ 76,783,930	\$ 2,355,012	3.2%
Other Town Departments	37,700,743	38,974,935	1,274,192	3.4%
Employee Benefits	30,049,712	31,092,999	1,043,287	3.5%
Cash Capital	5,305,108	5,913,417	608,309	11.5%
Debt Service (inside Levy)	4,002,083	4,300,000	297,917	7.4%
Other Uses	4,015,131	5,861,910	1,846,779	46.0%
Exempt Debt	12,552,089	11,440,452	(1,111,637)	-8.9%
Total Uses	\$ 168,053,784	\$ 174,367,643	\$ 6,313,859	3.8%
<i>Surplus/(Deficit)</i>	\$ (0)	\$ -		

Sources of Funds: The 3.9% 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 3.2% increase according to Governor Baker's proposed budget, which provides an increase of unrestricted governmental aid of 2.7%, and a Chapter 70 increase of 3.2%, and we are sufficiently confident in that number. We have projected level State aid for future years. The 5.1% increase in Local Revenue reflects growth in interest earnings of \$300,000 or 66.6%.



Uses of Funds: The 3.715% increase in the School budget reflects the cost of contractual step, lane and cost-of-living increases, special education costs, and initiatives identified in their strategic plan. The 3.0% 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. There are three new positions proposed on the Town side, including a new multi-departmental solution to Mental Health and Social service needs. Although debt and cash capital are up 9.74%, costs remain within the debt policy adopted by the Board and are affordable, while continuing to address critical town-wide needs.

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

Supplemental FY19 appropriations:

- \$300,000 for current year snow and ice removal costs

Because of the favorable health insurance experience for FY19, the Board also anticipates using free cash on a one-time basis to both set aside funds towards SPED stabilization and other future expenses and reduce borrowing needs for several capital projects.

Free cash funding for FY20 projects includes:

- \$841,400 for Middle School Systems design
- \$220,598 for additional Town Hall Envelope Construction
- \$150,000 for Walnut Street Design

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.

Under Massachusetts Department of Revenue (DOR) rules, the Free cash balance and the General Purpose Stabilization Fund are reserves specifically available for appropriation by Town Meeting for any lawful purpose. Appropriations from the Stabilization Fund require a two-thirds vote by Town Meeting, whereas appropriations from Free Cash require a majority vote. The balance of the General Purpose Stabilization Fund as of June 30, 2018, was \$3.3 million and we do not anticipate any requests for appropriations from this fund.

The Municipal Modernization Act of 2016 created an additional stabilization fund opportunity for special education funding and the Town created a SPED stabilization fund at ATM 2017. Revenues from Medicaid receipts related to special education were deposited into the fund at that time with the plan to continue to build the fund in this manner. Article 11 on this year's warrant will appropriate \$160,000 in revenues from Medicaid receipts. In order to reduce the variability and uncertainty of Special Education costs, and in light of the current strong reserve position of the Town, an additional \$500,000 will be proposed to be added to the fund. These deposits will ensure that a more appropriate level of reserves are available should either the State be unable to meet its circuit breaker obligations, or the Schools experience unanticipated out-of-district placements or other extraordinary expenses. The SPED (and other special purpose) Stabilization fund(s) is an additional reserve for external financial statement purposes.

The fiscal 2020 budget continues the past practice of contributing free cash to the injured on duty stabilization fund (\$48,672), and the RDF Baler fund (\$50,000).

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 several capital investments, as reflected in the "Uses" category above. The potential for generating additional Free Cash in FY19 factors heavily in our evaluation of the proposed use of these reserves to help balance the FY20 budget. The level of Free Cash, as certified by the DOR, was \$14.6 million as of July 1, 2018.

The following chart summarizes the changes in Free Cash for the years FY14-18:

Free Cash	FY14	FY15	FY16	FY17	FY18
<i>Beginning of year</i>	\$10,950,782	\$10,336,925	\$ 8,831,500	\$11,858,182	\$12,109,416
<i>Uses</i>	(3,987,715)	(4,867,591)	(3,601,830)	(4,895,826)	(4,093,089)
<i>Net Free Cash generated</i>	3,373,858	3,362,166	6,628,512	5,147,060	6,598,958
<i>End of year</i>	\$10,336,925	\$ 8,831,500	\$11,858,182	\$12,109,416	\$14,615,285

The following chart summarizes an initial projection of the Town's reserve balances at June 30, 2019:

Reserves Projection

	<u>Amount</u>
<i>Reserves as of 6/30/2018</i>	
Free Cash Estimate	\$ 14,615,285
General Purpose Stabilization fund	3,289,225
Other Stabilization Funds	<u>1,350,142</u>
	\$ 19,254,652
<i>Sources and (Uses) of Reserves in FY18</i>	
- Snow & ice removal - estimated	(300,000)
MS Systems Feasibility	(841,400)
Additional Town Hall exterior construction	(220,598)
Walnut street design	(150,000)
Electronic voting	(15,000)
Add to SPED stabilization	(500,000)
Add to SPED stabilization - Medicaid	(160,000)
Add to IOD stabilization	(48,672)
Add to Baler Stabilization	(50,000)
Additions to various Stabilization (no	758,672
Balance FY20 budget (Article 8)	(2,500,000)
Net operating change - estimated	<u>1,500,000</u>
<i>Estimated Reserves as of 6/30/19</i>	<u>\$ 16,727,654</u>
<i>FY20 Revenue</i>	\$ 156,244,240
<i>% of Revenue</i>	10.71%

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

The Town's Financial Reserves Policy calls for the sum of the balances in the Stabilization Funds 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, 2019, would increase to 10.7%. The estimated FY19 reserve growth is largely attributable to the Town's conservative budgeting and favorable health insurance results. It is also important to note that the Town's financial position is reinforced by the proactive approach to funding the pension and OPEB liabilities.

Looking Ahead to FY21-23

For purposes of projecting the Town's Sources and Uses of funds for the years FY21-23, we have used a range of assumptions in order to aid in the decision-making process about whether the Town needs to plan for an override. The placeholders established for the FY21 budget are as follows:

Revenues

- Levy growth 2.5% plus \$1.8 million of new growth
- State Aid Level
- Local revenue 2%
- Use of Free Cash \$2.5 million/year

Expenses

- Operating budgets average 3.0%
- Pension Per approved funding schedule
- Health insurance 7%
- Other employee benefits 2.5%

These expenditure assumptions do not include changing or new priorities, or initiatives identified in the Unified Plan, Housing Production Plan or in the Human Services areas. Furthermore, given the relative size of the School budget, the assumption regarding the growth in School spending has the greatest impact.

	FY19 Budget	FY20 Request	\$ Inc/(Dec)	% Inc/(Dec)	FY21 Projection	FY22 Projection	FY23 Projection
Sources of Funds							
Taxes	\$ 128,943,120	\$ 133,966,698	\$ 5,023,578	3.9%	\$ 139,115,865	\$ 144,393,762	\$ 149,803,606
State Aid	10,347,974	10,682,235	334,261	3.2%	10,682,235	10,682,235	10,682,235
Local Revenue	11,031,434	11,428,143	396,709	3.6%	11,656,706	11,889,840	12,127,637
Free Cash to balance	2,646,079	2,500,000	(146,079)	-5.5%	2,500,000	2,500,000	2,500,000
FY18 Free Cash items	-	1,985,670	1,985,670	n/a	-	-	-
Other Sources	2,533,088	2,364,445	(168,643)	-6.7%	3,211,009	3,216,009	3,221,009
CPA for North 40	550,244	552,044	1,800	0.3%	553,244	550,244	552,044
Exclusions & Exemptions	12,001,845	10,888,408	(1,113,437)	-9.3%	12,117,045	12,597,008	13,813,935
Total Sources	\$ 168,053,784	\$ 174,367,643	\$ 6,313,859	3.8%	\$ 179,836,104	\$ 185,829,098	\$ 192,700,466
Uses of Funds							
School	\$ 74,428,918	\$ 76,783,930	\$ 2,355,012	3.2%	\$ 79,087,448	\$ 81,460,071	\$ 83,903,873
Other Town Departments	37,700,743	38,974,935	1,274,192	3.4%	40,144,183	41,348,509	42,588,964
Employee Benefits	30,049,712	31,092,999	1,043,287	3.5%	32,698,977	34,240,653	35,865,341
Cash Capital	5,305,108	5,913,417	608,309	11.5%	6,646,684	7,577,444	7,445,003
Debt (inside Levy)	4,002,083	4,300,000	297,917	7.4%	5,062,000	6,262,000	6,921,000
Other Uses	4,015,131	5,861,910	1,846,779	46.0%	4,238,333	4,286,966	4,336,815
Exclusions & Exemptions	12,552,089	11,440,452	(1,111,637)	-8.9%	12,670,289	13,147,252	14,365,979
Total Uses	\$ 168,053,784	\$ 174,367,643	\$ 6,313,859	3.8%	\$ 180,547,914	\$ 188,322,895	\$ 195,426,975
Surplus/(Deficit-Override)	\$ (0)	\$ -	\$ -	\$ -	\$ (711,810)	\$ (2,493,797)	\$ (2,726,509)

Based on these assumptions and no overrides, projected deficits are in the range of \$711,810 to \$2.7 million over the years' FY21-23. Adherence to the debt policy will contribute significantly to reducing these deficits and the Board is committed to rigorous analysis of capital requests; conversely, allowing any growth in operating guidelines would have a detrimental impact. Debt exclusions to be placed on the ballot over the next few years will increase taxes to fund the construction of the HHU schools, Middle School repairs and the interior renovation of Town Hall. A chart showing the timing of these projects and others on the horizon is as follows:

Proposed Major Project Financing Schedule - as of 2/27/19

(Excludes PAWS, which is after 2023)

Project	Estimated Cost	Fiscal 2020		Fiscal 2021		Fiscal 2022		Fiscal 2023		Fiscal 2024		Fiscal 2025		
		ATM 2019	Fall 2019	ATM 2020	Fall 2020	ATM 2021	Fall 2021	ATM 2022	Fall 2022	ATM 2023	Fall 2023	ATM 2024	Fall 2024	
Middle School Steam Pipes	Construction	\$4.2M	Inside											
Middle School Bldg Systems	Design	\$1.3M	TRF/FC											
Middle School	Construction	\$12.8M			DE									
	Paving	\$1.7M						Inside						
"Early" Hunnewell School	Design	\$5.0M		Inside			DE							
	Swing Space	\$6.0M				DE								
	Construction	\$50.0M												
Cameron Lot	Design	\$1.0M		Inside			DE							
	Construction	\$9.00M												
"Late" Hunnewell School	Design	\$5.0M						Inside					DE	
	Construction w/esc	\$58.0M												
MSBA Project	Design/Construction	\$55.0M												
Town Hall Annex	Feasibility	\$110K	Cash Cap			DE								
	Design	\$1.5M		Inside			Inside							
	Construction	\$6.5M												
Town Hall Interior	Design	\$2.0M		Inside					DE					
	Construction	\$17.0M												
Library Renovation*	Design	\$270K		Inside			Inside							
	Construction	\$3.2M												
DPW Renovation	Design	\$300K						Inside			Inside			
	Construction	\$2.7M												
PAWS														
TOTALS			\$5.9M	\$6.0M	\$3.5M	\$71.0M	\$71.5M	\$0.00	\$19.0M	\$5.0M	\$2.7M	\$0.00	\$0.0M	\$58.0M

DE = Debt Exclusion

Inside - Inside The Levy

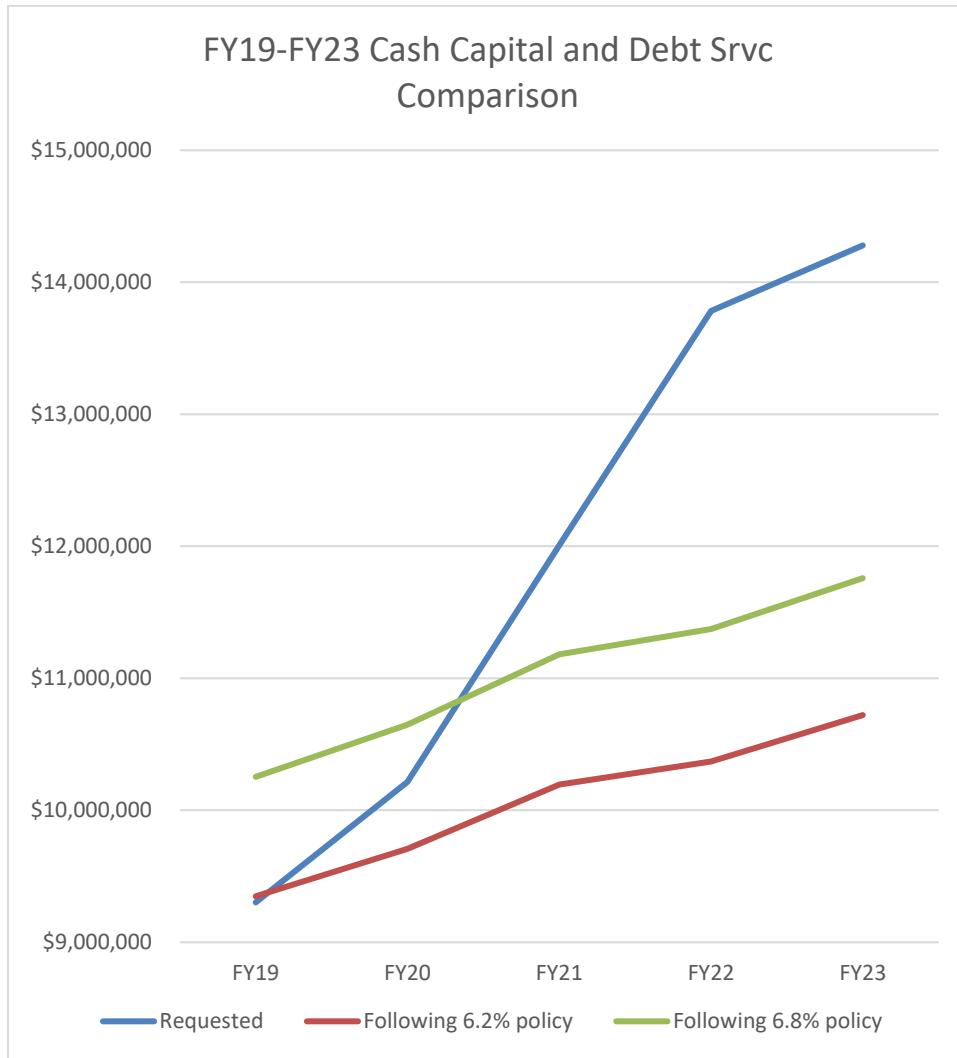
* - Confirm the amount of fundraising

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

	2021	2022	2023
Projected (deficit)	\$ (711,810)	\$ (2,493,797)	\$ (2,726,509)
Debt/Capital	\$ 11,708,684	\$ 13,839,444	\$ 14,366,003
Percent requested	7.24%	8.28%	8.31%
If reduced to 6.5%	\$ 10,505,645	\$ 10,864,084	\$ 11,231,407
Revised surplus	\$ 491,229	\$ 481,563	\$ 408,087

The line graph below 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 rate according to projected revenues and show the lower and upper end of the debt policy range set by the Board (6.2% - 6.8%). As a point of context, the FY20 budget will be at 6.5% of gross annual revenues or the midpoint on the range, and in FY21 – FY23 the graph shows the requested projects exceeding the top of the range. It will be necessary to develop a plan using an objective and rational process to prioritize projects that meet the needs of all constituencies in a fair and predictable manner in order to bring these costs in line with the debt policy.



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. 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 debt service. Work will continue as it does annually to reduce or eliminate deficits without an override, and to investigate opportunities and methods to lower rates of spending growth, and/or further grow the Town's revenues.

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 FY19 – FY25:

Estimated Median Tax Bill											
		FY19	FY20	FY21	FY 22	FY23	FY24	FY25	FY26		
Levy Prior		\$ 11,431	\$ 11,759	\$ 12,068	\$ 12,383	\$ 12,707	\$ 13,038	\$ 13,379	\$ 13,729		
Levy growth		\$ 479	\$ 458	\$ 464	\$ 470	\$ 476	\$ 483	\$ 490	\$ 497		
Existing Debt Exclusions		\$ 1,118	\$ 993	\$ 958	\$ 838	\$ 809	\$ 701	\$ 678	\$ 609		
HHU & Feasibility		\$ -	\$ -	\$ -	\$ 146	\$ 140	\$ 414	\$ 400	\$ 694		
Middle School		\$ -	\$ -	\$ 29	\$ 89	\$ 85	\$ 82	\$ 79	\$ 78		
Town Hall Interior		\$ -	\$ -	\$ -	\$ -	\$ 28	\$ 157	\$ 152	\$ 146		
Median tax bill		\$ 13,028	\$ 13,211	\$ 13,519	\$ 13,925	\$ 14,245	\$ 14,875	\$ 15,178	\$ 15,753		

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,



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

Exhibits:

I – FY20 Summary Sources & Uses of Funds

Appendices appearing later in this book:

B – FY20 Detail Sources & Uses of Funds

C – Five Year Capital Budget Program

Exhibit I – FY20 Summary Sources & Uses of Funds

	<u>FY2019 Tax Rate</u>	<u>FY2020 Request</u>	<u>% Change</u>
*** SOURCES OF FUNDS ***			
Tax & Other Current Revenues			
Within Levy Limits			
Real Estate & Per. Prop. Tax	128,943,120	133,966,698	3.90%
From the Commonwealth	10,347,974	10,682,235	3.23%
Local Revenue	11,031,434	11,428,143	3.60%
Sub-Total (Tax & Cur. Rev.)	150,322,528	156,077,076	3.83%
Outside Levy Limits			
Real Estate & Pers. Prop. Tax	12,107,180	10,888,408	-10.07%
Available Funds			
Water and Sewer	299,584	307,072	2.50%
Parking Meter Receipts	1,097,219	1,015,728	-7.43%
Appropriated/Reserved CPA Surcharge	918,000	887,500	-3.32%
CPA Funds for North 40	550,244	552,044	0.33%
Free Cash- balance budget	2,646,079	2,500,000	-5.52%
Free Cash- Other items	-	1,985,670	100.00%
Unencumbered/Transfers from other funds	112,950	154,145	100.00%
Sub-Total (Available Funds)	17,731,256	18,290,567	3.15%
TOTAL SOURCES OF FUNDS	168,053,784	174,367,643	3.76%
*** USE OF FUNDS ***			
Personal Services (Non-School)	22,712,055	23,635,022	4.06%
Expenses (Non-School)	6,945,909	7,115,956	2.45%
Subtotal (Non-School)	29,657,964	30,750,978	3.69%
Personal Services (Facilities Maintenance)	4,585,030	4,716,227	2.86%
Expenses (Facilities Maintenance)	3,457,749	3,507,730	1.45%
Subtotal (Facilities Maintenance)	8,042,779	8,223,957	2.25%
Personal Services (School)	65,898,728	69,116,050	4.88%
Expenses (School)	8,530,190	7,667,880	-10.11%
Subtotal (School)	74,428,918	76,783,930	3.16%
Sub-Total (Pers. Svcs. & Exp.)	112,129,661	115,758,865	3.24%
Capital & Debt:			
Within Levy Limits			
Capital/Extraord./Special Items	5,305,108	5,913,417	11.47%
Debt Service	4,002,083	4,300,000	7.44%
Sub-Total (Within Levy Limits)	9,307,191	10,213,417	9.74%
Outside Levy Limits			
Debt Service	12,552,089	11,440,452	-8.86%
SUB-TOTAL (CAPITAL & DEBT)	21,859,280	21,653,869	-0.94%
Employee Benefits:			
Health Insurance & other	19,561,287	20,173,090	3.13%
Pension Contribution	7,056,425	7,487,909	6.11%
OPEB Liability Fund	3,432,000	3,432,000	0.00%
Sub-Total (Shared Costs)	30,049,712	31,092,999	3.47%
SUB-TOTAL (OPERATIONS)	164,038,653	168,505,733	2.72%
Special Items:			
Traffic & Parking Management	1,046,336	975,018	-6.82%
Appropriated/Reserved CPA Surcharge	918,000	887,500	-3.32%
State & County Assessments	1,260,154	1,263,722	0.28%
Property Tax Abatements	790,641	750,000	-5.14%
Free cash	-	1,985,670	100.00%
Sub-Total (Special Items)	4,015,131	5,861,910	46.00%
TOTAL USE OF FUNDS	168,053,784	174,367,643	3.76%
TOTAL SOURCE OF FUNDS	168,053,784	174,367,643	3.76%
SURPLUS (DEFICIT)	(0)	-	