



Town-Wide Financial Plan for 2020 Annual Town Meeting Submitted by the Board of Selectmen

March 9, 2020

Dear Town Meeting Members:

Executive Summary

The Board of Selectmen (the Board), working with departmental staff and other Town officials, is proposing a balanced budget for the fiscal year 2021 (FY21 the year beginning July 1, 2020). This proposal assumes modest levels of revenue and spending growth. Overall sources of revenue are slightly higher than the prior year Town-Wide Financial Plan (TWFP) projections due to unexpected growth in FY19 from increases in Motor Vehicle Excise Tax (\$0.8 million), Investment Income (\$1.2 million), and Building Permits (\$1.4 million). With higher than projected revenue this year, the Board saw an opportunity to fund strategic and Unified Plan initiatives for municipal departments through an increased budget guideline of 3.5%. Most departments' budgets are within the guidelines issued by the Board on September 24, 2019, although Schools, Sustainable Energy, and Town Clerk exceed guidelines in their requests.

Health insurance spending was favorable and within 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 FY21.

The amount of reserves used to balance the FY21 budget (\$2,639,066 million) is consistent with the Town's past allocation range of approximately \$2.5 million from reserves. Deployment of Free Cash at this level will keep the reserve levels within the Financial Reserve Policy (See Financial Policies, Appendix A of the Budget Book at www.wellesleyma.gov/2020budgetbook), primarily due to local receipts continuing to exceed projections.

Over the past 10 years, the Board has established several financial policies to maintain the Town's operational and capital spending. (See Financial Policies, Appendix A of the Budget Book at www.wellesleyma.gov/2020budgetbook). The most recent policy related to capital spending is the debt policy, which was established in FY19, that set 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 ensures that dollars available for operating budgets are not adversely affected by increased capital spending. The budgeted capital requests for FY21 are \$11.0 million, or 6.76% of annual recurring revenues.

With capital spending held to 6.8% of revenue, continued moderation of health insurance increases, departmental operating budgets held to a 2.5% increase for Town budgets, and a 3% increase for School budgets in each of the years following FY21, the Town will be in a strong position to continue to avoid Proposition 2 ½ overrides. Current cash capital and debt service requests contribute 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. It is imperative that departments adhere to these guidelines to avoid the need for an operating override. This planning is critical as the Town has mapped out the timing and impact of major

capital projects in the Facility Master Plan that will require significant debt exclusions in FY21, FY22, and FY24.

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 agreement will expire June 30, 2021. A subsequent agreement will need to be negotiated with the unions for FY22. Projections for FY20 (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 6.6% increase for FY21.

As a result of favorable revenues, the Town and School guidelines increased this year (fiscal 2021 budget only) to 3.5% each, to allow the non-school municipal departments to address strategic plan, Unified Plan, or critical needs that could not be met under the restrictive 2.5% limit used in recent years. In addition to guideline, the School required a one-time increase (\$664,000 or an additional 0.87%) beyond its 3.5% guideline to address a special education budget deficit from unanticipated costs.

The forecast for municipal departments in upcoming years (FY22-FY24) will continue to reflect a 2.5% increase. With all town union contracts open this year, a competitive job market, and health care bargaining to commence within FY21, the Board will have to continue to evaluate forecasts closely.

The teacher’s contract is settled through FY22. School personnel costs alone in the FY21 budget reflect a 3.48% increase. The FY22 contract provisions anticipate additional modest growth in personnel costs moving forward, and staffing levels will need to be considered carefully to achieve the 3% guideline necessary to avoid operating overrides. Avoiding operating overrides is particularly important given the proposed debt exclusions for school facilities in the coming years.

The School Committee is developing a new strategic plan that may propose additional operating or capital costs beginning in FY22. Once specific new initiatives have been identified, they need to be fully costed and added to the five year plan. Given continued declining enrollment, a thorough examination of existing programming will be necessary so that any new initiatives can be achieved within existing resources.

Careful consideration is needed to coordinate initiatives from all departmental strategic plans, the town-wide Unified Plan, Housing Production Plan, and future Climate Action Plan to balance priorities and financial resources. The Board continues to work with all Town departments and the Schools to improve long-range financial forecasts and continue the excellent level of services provided to our residents.

There are several debt-funded projects included in the warrant for Town Meeting requiring appropriation. This year reflects a decrease from past years in the number of special projects before Town Meeting. Special projects for FY21 include funding for the Town Hall Annex

Schematic Design through bidding, Great Plain Avenue construction funds, and additional funds to complete the Lee/Hunnewell Fields project approved at the 2019 Annual Town Meeting. All the debt-funded projects proposed in fiscal 2021 are to be paid for with inside-the-levy borrowing or Free Cash. 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

47 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, the Board continues to plan for significant capital projects under the Town's Facilities Master Plan that we anticipate bringing to the voters for approval in the next 1 - 5 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).

Hunnewell School

- At a Special Town Meeting held December 1, 2019, the Town authorized \$4,680,000 for schematic design, permitting, and bidding for construction of a new Hunnewell School. To facilitate construction, internal swing space was found to be the only feasible option to allow the construction of Hunnewell School to begin prior to replacement of the Upham or Hardy Schools. Funding for the construction of the project is slated to come before the 2021 Annual Town Meeting for approval and then to a debt exclusion vote by Town residents for \$52.9 million.

Hardy/Upham Schools

The Town was 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 3 out of 8 of the MSBA's process having just completed the Preliminary Design Proposal. The SBC has begun the process of evaluating both the Upham and Hardy sites, with the intent of making a site selection by the end of April 2020. The SBC's goal is to provide a formal update to the 2020 Annual Town Meeting in April on the site selection and schematic design process for the selected site. Similar to the Hunnewell School project, the selected project will seek authorization to borrow \$59.5 million and will then proceed to a town-wide debt exclusion vote for construction costs. Preliminary projections suggest the peak median tax bill impact of constructing two schools could approach \$649 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 a total of \$32.0 million in FY21-24 for construction of a Town Hall Annex followed by interior renovations to Town Hall. An interior space utilization and visioning study of the building was completed in 2018 and identified several serious deficiencies, including lack of clear wayfinding; insufficient space for meetings, offices, and storage; lack of secure storage for vital records; lack of security for financial transactions; insufficient parking; air quality issues; moisture infiltration; and handicap accessibility deficiencies. Moreover, the major building systems (boiler, HVAC) are at the end of their useful life and need to be replaced and Town Hall does not currently meet the requirements of federal or state disabled persons' accessibility laws.

- Town meeting approved funds in FY20 to complete a feasibility study for a Town Hall Annex. The feasibility study recommended construction of a net zero office building in the location of the former MLP/DPW building at Municipal Way to house the land use departments (Building, Planning, ZBA, NRC, Wetlands), the Facilities Management Department, Human Resources and Retirement, Sustainable Energy staff, and a satellite IT office. The Annex will also function as swing space while the interior of Town Hall is under construction. Following the completion of the Town Hall Annex Feasibility Study, a FY21 cash capital project in Article 8 provides for a review of the Town Hall Interior project to lay out public meeting spaces and Town Hall operations. At this year's Annual Town Meeting, the Board of Selectmen will request \$1.3 million for schematic design funds through bidding.
- Schematic design funds for the Town Hall Interior project will be sought at the 2021 Annual Town Meeting and are currently anticipated to be \$2 million. The Town Hall Annex project will seek a debt exclusion of \$10.6 million for construction funds at a fall 2021 Special Town Meeting, while the debt exclusion for \$18.1 million for construction funds for the Town Hall Interior project would come before Town Meeting at the 2023 Annual Town Meeting.
- Working with the project architect on the exterior phase of the project, the Town has 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 variances run for three years following substantial completion of the exterior renovations of the building which occurred in January, with the possibility of an addition 2-year extension if the Town is making progress towards resolving these matters.
- Middle School Building Systems. The Town completed several important projects at the Middle School in 2006 – 2008, but due to budget constraints deferred some important items. Article 20 of the 2019 Annual Town Meeting requested \$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 current estimate for these projects is \$14.3 million and is contemplated for a debt exclusion vote at a Special Town Meeting in October 2021.

The Board's approach to capital requests prioritizes projects and requests objectively in order 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 has been included in this projection, despite declining enrollment expected to continue through FY30. Further analysis of these details is included in the section "Looking Ahead to FY22 – 24" in this report.

Over the past two years, the Town has received eight applications for affordable housing developments governed by Massachusetts General Law (M.G.L.) c.40B primarily because the

Town had not reached the required 10% threshold of its housing units that are deed-restricted affordable. The Town developed a Housing Production Plan that was approved by the Commonwealth in September 2018. As of January 2020, the Town attained 10% with the approval of the 40R project at the Wellesley Office Park that was rezoned at Special Town Meeting in May 2019. A fiscal impact analysis performed for this project indicated 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. The Town anticipates a significant building permit of approximately \$1.6 million in June or July 2020 that will assist with FY21 finances.

Town of Wellesley Profile

The Town of Wellesley was incorporated in 1881 and is located in Norfolk County. Wellesley is a primarily residential community located approximately 15 miles west of Boston and is bordered by Natick on the west, Weston and Newton on the north, Needham on the east and southeast, and Dover on the south. It is approximately 10.51 square miles in area and, according to the 2010 U.S. Census records, has a population of 27,982 persons.

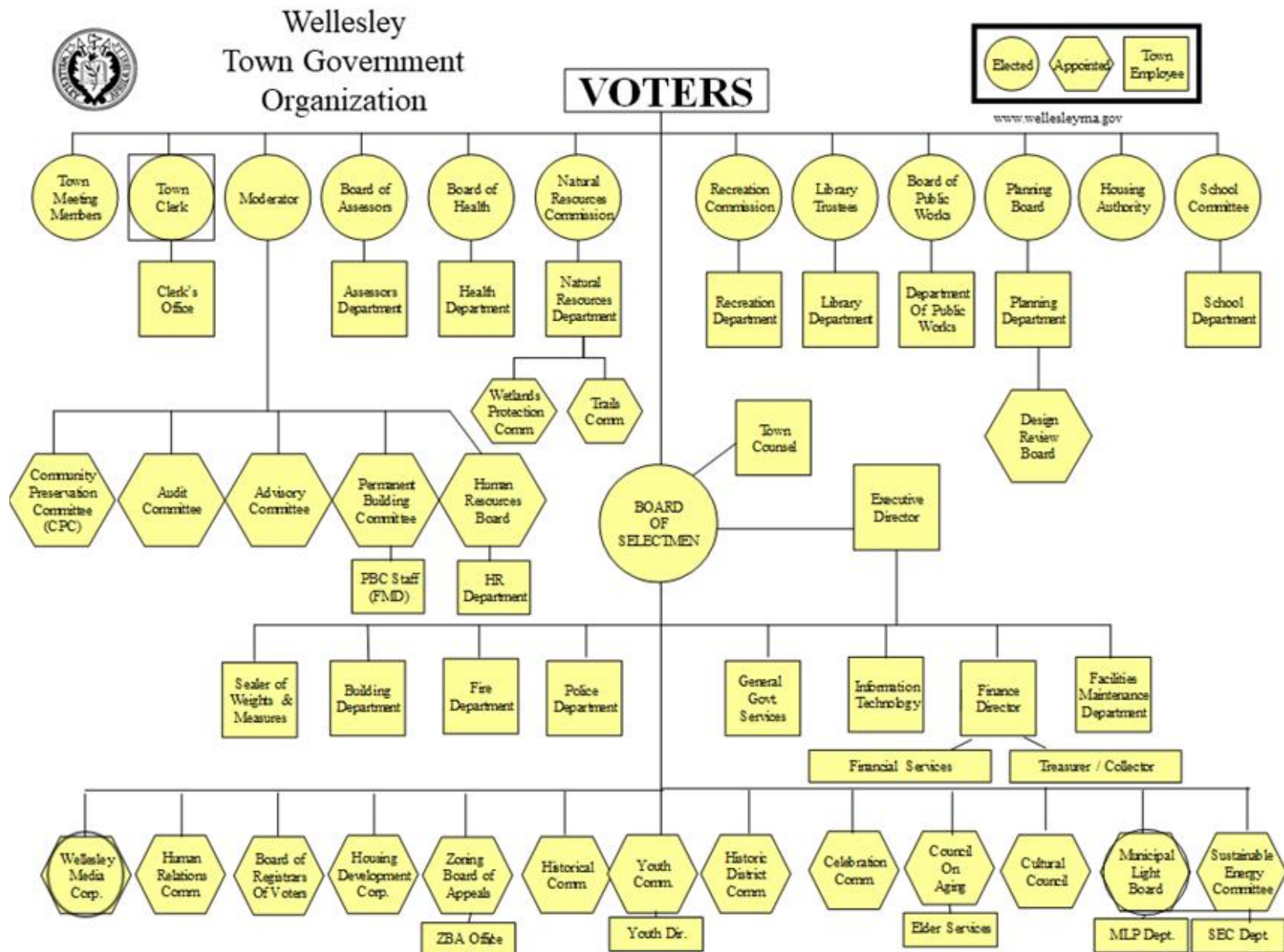
The main highways serving the Town are State Routes 9, 16, 135, 128 and the Massachusetts Turnpike. The Massachusetts Bay Transportation Authority (MBTA) provides railroad services to Boston and Framingham.

The Town operates under the Representative Town Meeting form of government with public officers serving as ex-officio members of the Town Meeting. The legislative body consists of 240 members elected by precincts. Administrative affairs of general government are managed by a five-member Board of Selectmen and an Executive Director.

Local school affairs are administered by a five-member School Committee; public works are administered by a three-member Board of Public Works; the Municipal Light Plant is administered by a five-member Municipal Light Board that is comprised of the three-member Board of Public Works and two members appointed by the Board of Selectmen; and library affairs are administered by a six-member Board of Library Trustees.

General governmental services are provided within the town's boundaries, including public education in grades kindergarten through twelve, police and fire protection, collection and treatment of sewage, water distribution, electric services, public works, streets, parks and recreation, veteran's services, health and sanitation, and libraries. The water and sewer enterprise funds are self-supporting. The Town maintains a solid waste recycling and disposal facility.

The Town owns and operates a self-supporting municipal light plant. The Municipal Light Board carries out the responsibilities of the Municipal Electric Commissioners as outlined in Massachusetts General Laws, Chapter 164.



Local Economy

The Town continues to reflect stronger economic conditions than many other communities - both within the Commonwealth and nationally. Massachusetts unemployment continues to be less than the national average, and Wellesley's rate of 2.7% compares favorably with the state's average of 3.1%.

Because of its proximity to Boston and the quality of services provided, Wellesley remains attractive to urban professionals whose wealth levels are among the highest in the Commonwealth. While the per capita household income in Massachusetts is higher than national levels, Wellesley's (\$182,353) is third highest in the Commonwealth and more than four times the State average. The relative wealth is also seen in the owner-occupied median housing value, which, at \$1,158,000 is more than twice that of the state and four times that of the nation. The town is densely populated, and land is increasingly valuable. Tear downs and residential improvements continue to contribute to increased permit fee revenue and taxable new growth. Although the Town is 87% residential, commercial activity is diversified and the presence of Wellesley College, Babson College, and Massachusetts Bay Community College contribute to a lower unemployment rate and greater economic stability.

The Town continues to manage its financial affairs in a prudent manner. It has maintained its "excellent" bond rating of Aaa by incorporating long range planning tools such as a Town-wide Financial Plan; maintaining reserve levels; investing in technology; maintaining facilities to avoid costly emergency repairs; continuing an aggressive pay-as-you-go financing strategy for capital improvements, and utilizing the dedicated revenue streams from debt that is exempt from the constraints of Proposition 2 ½ to finance some of its larger projects.

The Town has also enhanced its revenue flexibility by establishing enterprise funds. This has allowed the Town to shift one hundred percent of the operating cost and capital improvements to the users of electric, water, and sewer services so that no tax support goes towards providing these services. All related debt is funded through user fees. By doing so the Town is able to provide the maximum tax dollars to fund all other services.

Financial Planning

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

The Town has intentionally increased its financial reserves during the last fourteen years and the Town's Management has adopted a formal reserve policy to inform its recommendations in this annual TWFP. Fund balance (the total of the committed, assigned, and unassigned components of fund balance including Free Cash, General Stabilization Fund and other stabilization funds) in the general fund at 2019 fiscal year end equaled 17.0% of the total general fund revenues. This is an improvement over the prior 2018 fiscal year percentage of 16.5% (These percentages are

taken from the external financial statements. Internal statements are prepared on a budgetary basis and yield different reserve measurements).

The annual pension contribution to the Wellesley Contributory Retirement System, a defined benefit pension plan administered by the Wellesley Contributory Retirement Board, represents 4.5% of the Town's annual budget. Current employees contribute up to 11% of their salaries to the system, depending upon date of hire. An independent actuary engaged by the Retirement Board biannually calculates the annual contribution the Town must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees. The funded status, using the market value of assets, was 75.62% as reflected in the actuarial valuation performed as of January 1, 2019, with full funding expected by 2030. The Retirement Board uses a 6.625% assumed actuarial rate of return on investment. Management continues to factor updated valuations into its TWFP projections.

Similarly, health insurance costs and the liability for postemployment health care benefits for certain retirees and their dependents (OPEB) are key considerations in the TWFP. The Town has undertaken a number of proactive steps over the last ten years to reduce current costs and amortize the unfunded OPEB liability. As of the current actuarial valuation, completed as of December 31, 2018 in accordance with GASB Statement No. 74, the funding status has improved to 57.89%. The Town currently appropriates 1.95% of its annual budget to OPEB, and current estimates indicate that this obligation will be fully satisfied by 2032.

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

Unified Plan

The Town of Wellesley strives to provide excellent and innovative services to its citizens through its numerous elected and volunteer Boards and its professional department managers. Within individual long-term strategic plans, each board/department has a mission statement and work plan which forms the basis for its annual operating and five-year capital requests. In addition, the Town recently completed a town-wide planning process which yielded the Unified Plan (UP), the Town's Comprehensive Master Plan and Strategic Plan. The FY21 budget guidelines are the first year where the UP is being incorporated into budget submittals, although departments have been working for the past 18 months to implement UP action items. Budget guidelines from the Board recommended 3.5% increases this year so departments could specially identify project funding requested to meet UP goals and objectives. Budget requests for UP identified priority projects which are interdepartmental or which create cross-departmental synergies are favorably considered.

The ***Vision and Values*** of the UP serves as the "constitution" of the Wellesley Unified Plan, intended to guide the Town as it makes decisions about activities, operations, programs, and capital investments in the future. Specific ways to achieve the Vision and implement the Values appear in the goals and strategies of the Unified Plan and those that are identified for implementation in fiscal year 2021 are outlined in the departmental narratives detailing budget requests.

The Vision of the Unified Plan:

In 2040... Wellesley is a town recognized for its welcoming community culture and exemplary town services; commitment to education and life-long learning; a quality of life that enhances the health and social well-being of its residents; respect for the environment and support for sustainability, conservation, and protection of physical and historical assets; and for its dynamic and thriving business community. Wellesley is recognized for its fiscally sound, well-managed, innovative, and accessible town government that has strong citizen participation and a highly-motivated, collaborative and talented professional staff.



Diversity: Establish, implement and support ongoing initiatives to maintain Wellesley as a community that welcomes a diversity of people and households.



Sense of Community: Foster a sense of community and community-building through support for inclusive services and facilities, town-wide events, multi-generational activities, and community gathering places.



Town Character: Establish policies, practices and criteria for the preservation of the character of the town's residential neighborhoods, commercial centers, and open spaces.



Excellence in Service Delivery: Provide a broad array of services to residents and other users of town services; maintain a strong customer service orientation that strives for excellence in every aspect of service delivery.



Education: Support best-in-class public education, library, recreational and senior services.



Healthy Lifestyles: Enhance the health and wellness of residents through public health initiatives, educational, social and recreational opportunities; create the conditions for healthy lifestyles through easy access to healthful food, medical and psychological care, support systems, non-motorized transportation options, and town facilities.



Connectivity of People and Places: Provide safe, accessible, and efficient transportation choices including public transportation, pedestrian and bicycle pathways, to connect people to town destinations and the region.



Conservation and Sustainability: Make resource-efficient choices to conserve energy, water, and materials; improve water and air quality and reduce carbon emissions; develop and implement sustainable practices to adjust to changing environmental conditions.



Town Asset Management: Maintain, protect, preserve, and enhance the Town's physical assets including facilities, infrastructure, parks, open space, and natural resources.



Business-Friendly: Support existing and new businesses in commercial areas that complement and enhance our community, while protecting quality of life and environmental resources.



Collaboration: Leverage resources and expertise of local private businesses and institutions, as well as neighboring towns and regional agencies, to achieve mutual goals.



Best-Practice Implementation: Establish best practices and priority-based resource allocation systems to support town services, infrastructure and capital investments in a fiscally-prudent manner; conduct long-range fiscal/financial planning that includes appropriate metrics for evaluating progress and adjustment to changing financial conditions.



Democratic Government and Citizen Participation: Promote participation and engagement in town governance and decision-making.



Transparency: Facilitate public access to information, making it easy to understand how town government works, how decisions are made and how to get involved; encourage input from and effectively communicate with residents and other stakeholders.

(THE SEQUENCE IN WHICH THE VALUES APPEAR DOES NOT REFLECT A RANKING OF THEIR IMPORTANCE)

Unified Plan Action Items accomplished or underway between FY19- FY20:

- Prepare Housing Production Plan (completed 10/2018)
- Established a Housing Task Force to implement the HPP (10/2019)
- Completed rezoning of NRC Properties from Single Residence to Conservation and Parks
- Feasibility Study to upgrade Moses Pond bathhouse and amenities (underway)
- Municipal Vulnerability Preparedness Grant and Study
- Pedestrian Study to link Cochituate Aqueduct across Route 9 (underway)
- Issue RFP for Mixed-Income Properties on the Tailby Lot (Negotiation underway with Trinity Financial)
- Upzone Office Parks – Rezoned Wellesley Office Park to 40R District (5/2019)
- Enhance School, Health Department, and Police Department Mental Health Programs (5/2019)
- Prepared Feasibility Studies for School Sites (HHU)
- Adopted a Complete Streets Policy, currently working on a prioritization plan.
- Implement Wellesley Square Wayfinding and Branding Program (Installed)
- Create a Mobility Committee (Established 10/2019)
- Establish Sustainable Building Guidelines (underway)
- Renovate Town Hall (Feasibility Study complete, exterior renovation complete)
- Town Hall Annex Feasibility Study complete
- Town Hall Interior Feasibility Study complete
- Installed an automated materials handler in the Library
- Design and renovate the Main Library (Feasibility complete – Funding fall STM 2020)
- Established EV Charging Stations in the Waban Lot
- Continue Integrated Pest Management on all Town Properties
- Update Design Review Bylaw and 1989 Design Review Handbook (underway)
- FY21 Budget submittals requested boards and commissions refer to the UP in their capital and operating budget requests
- Establishment of FY21 Budget Book to identify departmental long-term goals and fiscal year objectives

Proposed FY21 Unified Plan funding requests:

- Climate Action Plan - \$50,000
- Town Hall Interior Revised Study – FMD Cash Capital \$100,000
- Town Hall Annex Schematic Design Through Bidding - \$1.3 million
- Reconstruction Great Plain Avenue – Meets Complete Street Design Guidelines
- Establishment of Moses Pond and Bathhouse Stabilization Fund to assist costs of redevelopment
- Expenditure of Uber/Lyft Funds to facilitate Mobility Study - \$24,800
- Modification to Drainage Bylaw to incorporate Best Practices and comply with MS4 Permit
- North 40 Remediation (\$240,000)
- Field Maintenance and Improvement – Lee Softball Field/Hunnewell Field - \$500,000

Revenues

Real Estate and Personal Property Taxes

Wellesley's primary source of revenue is real estate taxes. In 2021, taxes represent 84.7% of the estimated revenues, of which 87% are from residential assessments. The Town traditionally assesses a single tax rate because of the greater proportion of residential properties to commercial properties. Chapter 59, §21C of the General Laws of the Commonwealth, also known as Prop 2 ½, imposes two separate limits on the annual tax levy of the Town: (1) Taxes cannot exceed 2 ½ percent of the full and fair cash value of property within the Town, and (2) The tax levy cannot exceed the maximum levy limit for the preceding year by more than 2 ½ %. New growth represents a permanent addition to allowable taxation.

The Town can vote to permanently increase the levy limits via an operating override approved by a voter referendum. It can also temporarily increase the levy by a voter referendum to exclude the debt service (principal and interest) on borrowing for a capital project for the life of that loan. Another option is a capital exclusion to procure a capital item, which ends with that purchase. Since 2000, Wellesley has had seven successful permanent operating overrides (between 2001-2007, and 2015) totaling \$17 million; an \$18 million capital exclusion to facilitate considerable OPEB savings (assessed from 2008 through 2017); and has since moved toward temporary debt exclusions approving 10 projects totaling \$240 million (2005, 2008 through 2016). Future capital plans include as much as \$200 million in additional debt exclusions in the next 5-6 years.

State Aid

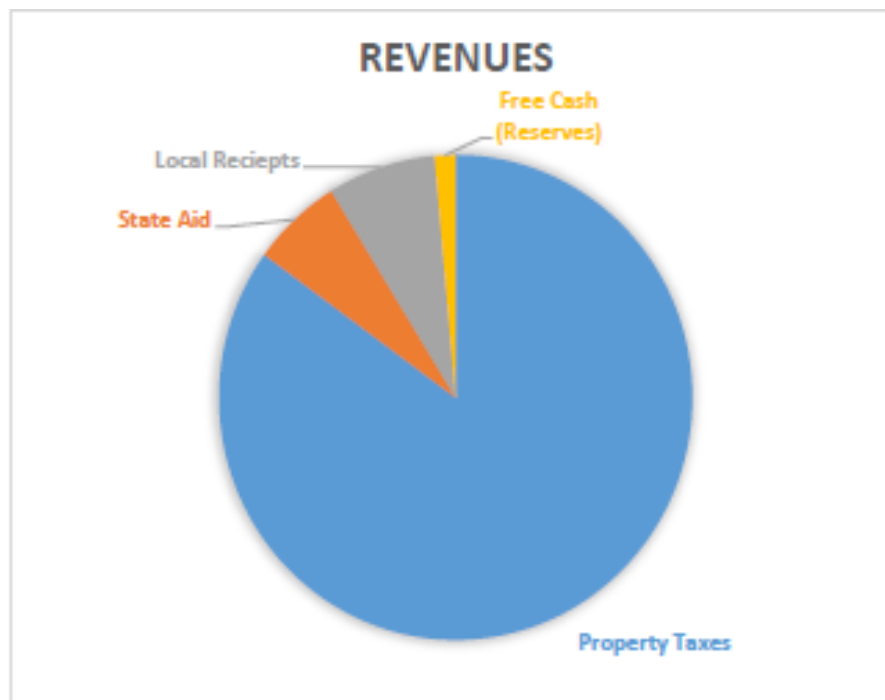
The Town receives approximately 6.15% of its revenue in the form of State Aid, of which 86.5% is for educational purposes, and 12% is State revenue assessments to other government agencies. State revenue assessments are not available to fund the Town's budget.

Local Receipts

Local receipts represent 7.35% of the Town's revenue. The majority of local receipts (72%) are from motor vehicle excise, permits and licensing, and interest earnings. Annually the Wellesley Municipal Light Plant contributes \$1 million (7.7%) to the Town.

Free Cash (Reserves)

Free Cash is "generated" by revenues in excess of budget, budget "turn-back" (amounts budgeted but not spent), and other timing differences. For the FY21 budget, the use of \$2.6 million in Free Cash represents 1.4% of the estimated revenues.



Reserves

Mindful of the need to maintain financial reserves to support the Town's favorable Aaa bond rating, the Board continues to carefully monitor the level of revenues and expenses against budget projections, 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, 2019, was \$3.37 million and the Board does not anticipate any requests for appropriations from this fund.

The Municipal Modernization Act of 2016 created an additional reserve fund opportunity for special education funding and the Town created a Special Education Reserve 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 \$112,000 in revenues from Medicaid receipts. In order to reduce the variability and uncertainty of special education costs which increased \$1.3 million this year (FY20), and in light of the need to spend a significant portion of the \$500,000 in Special Education funds deposited last year, the Board will propose the addition of \$500,000 to the Special Education Reserve Fund. These deposits will ensure that a continuous level of reserves are available should either the State be unable to meet its circuit breaker obligations, or the Schools continue to experience unanticipated out-of-district placements or other extraordinary expenses. The Special Education (and other special purpose) reserve fund(s) is an additional reserve for external financial statement purposes.

The fiscal 2021 budget continues the past practice of contributing Free Cash to the injured on duty stabilization fund (\$49,419), and the RDF Baler fund (\$50,000).

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 found on page 38. The potential for generating additional Free Cash in FY20 factors heavily in our evaluation of the proposed use of these reserves to help balance the FY21 budget. The level of Free Cash, as certified by the DOR, was \$16.17 million as of July 1, 2019.

The following chart summarizes the changes in Free Cash for the years FY16-20:

| <i>Free Cash</i> | <u>FY15</u> | <u>FY16</u> | <u>FY17</u> | <u>FY18</u> | <u>FY19</u> |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <i>Beginning of year</i> | \$ 10,336,925 | \$ 8,831,500 | \$ 11,858,182 | \$ 12,109,416 | \$ 14,615,285 |
| <i>Uses</i> | (4,867,591) | (3,601,830) | (4,895,826) | (4,093,089) | (5,040,670) |
| <i>Net Free Cash generated</i> | 3,362,166 | 6,628,512 | 5,147,060 | 6,598,958 | 6,597,164 |
| <i>End of year</i> | \$ 8,831,500 | \$ 11,858,182 | \$ 12,109,416 | \$ 14,615,285 | \$ 16,171,779 |

The following chart summarizes an initial projection of the Town's reserve balances at June 30, 2020:

Reserves Projection

| | <u>Amount</u> |
|------------------------------------------------------|-----------------------------|
| <i>Reserves as of 6/30/2019</i> | |
| Free Cash Actual | \$ 16,171,779 |
| General Purpose Stabilization fund | 3,371,774 |
| Other Stabilization Funds | 2,131,623 |
| | \$ 21,675,176 |
| <i>Sources and (Uses) of Reserves in FY20</i> | |
| Snow & ice removal | (300,000) |
| Hunnewell Design | (2,000,000) |
| Annex design | (1,338,144) |
| North 40 remediation | (144,000) |
| Add to SPED stabilization 2021 | (500,000) |
| Add to SPED stabilization - Medicaid | (112,000) |
| Add to IOD stabilization | (49,419) |
| Add to Baler Stabilization | (50,000) |
| Add to new Recreation Pond Fund | (13,682) |
| Additions to various Stabilization (no impact) | 725,101 |
| Stabilization interest | 100,000 |
| removed from SPED stabilization in 2020 | (412,000) |
| Balance FY21 budget (Article 8) | (2,639,066) |
| Net operating change - estimated | 2,000,000 |
| <i>Estimated Reserves as of 6/30/20</i> | <u>\$ 16,941,966</u> |
| FY21 Revenue | \$ 163,033,712 |
| <i>% of Revenue</i> | 10.39% |

(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 (See Financial Policies, Appendix A of the Budget Book at www.wellesleyma.gov/2020budgetbook 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, 2020, would decrease to 10.39%, which is comfortably within the Board's policy. The estimated FY20 decrease is largely attributable to the Town's strategic use of free cash to reduce borrowing needs. 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.

Key Financial Planning Issues

Each year, the Board and their staff update the TWFP with input from the Town's departments, Boards, and Committees, guided also by the conservative financial policies adopted over the last decade. As in prior years, the key issues impacting the Town's financial planning include:

- Growth in personnel costs;
- Employee benefit costs; 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. There are eleven unions representing 1,129 employees, the largest of which is the Teacher's Association. This year, all union Town contracts (8), except the teacher's contract which expires on June 30, 2022, are being negotiated.

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 ("turnover savings"). Thus, in departments with steps, the changing composition of the work force affects the budget over time. However, in the case of the School Department, the average experience level of teachers has increased over the past ten years. Currently (FY21), approximately 59.5% of the teachers are at the top step, and the others are still moving on steps. Along with increases in special education costs, the School 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 FY21. This year, FY20 has also seen several departures from Police (2) and Fire (2) personnel to more urban environments, higher salary positions, or moves back to "hometown" departments. We anticipate one retirement from Fire in FY21. Due to fewer steps, these retirements and vacancies 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 \$32.6 million in FY21 (18.4% 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 (non-medicare eligible) employees - \$20.7million
- Pension plan contributions - \$7.9 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 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 and FY20 of approximately \$1.0 million. FY21 will be the last year of the contract and negotiations on health care will begin in fall 2020 for Annual Town Meeting 2021. The Board will continue to monitor health insurance cost trends and work with the other members of the WSHG to control 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 2019 totaled \$3.9 million and are estimated to total \$4 million in calendar 2020. In addition, the Town makes an annual contribution of \$7.9 million in FY21. 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). Medicare-eligible retirees are required to enroll in Medicare and the Town pays 50% of the cost of a Medicare supplement plan and 50% of the Medicare Part B premium.

The 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 | 1/1/2019 | 6/30/2018 |
| Accrued Liability | \$ 248,553,692 | \$ 120,899,268 |
| Actuarial Value of Assets | \$ 193,017,080 | \$ 69,983,462 |
| Unfunded Liability | \$ 55,536,612 | \$ 50,915,806 |
| MV of Assets at 12/31/19 | \$ 187,948,599 | \$ 69,983,462 |

The actuarial funding schedule for the pension plan, calls for a \$478,000 increase in pension funding in FY21 (exclusive of enterprise funds). The 2017 and 2019 actuarial valuation of the pension plan 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 January 1, 2021.

The latest actuarial valuation of the OPEB liability was performed as of June 30, 2018. The actuarial valuation is on a two-year cycle with the next valuation to be performed June 30, 2020. The interest rate was adjusted to 6.625% and certain mortality assumptions were updated. The funding schedule was historically designed to fully fund liability by 2037; however, the Town is currently tracking to be fully funded as of 2032. The funding plan 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 | | | | |
|---------------------|--------------|--------------|--------------|--------------|
| | FY18 | FY19 | FY20 | FY21 |
| Inside the levy | \$ 3,432,000 | \$ 3,432,000 | \$ 3,432,000 | \$ 3,432,000 |
| | \$ 3,432,000 | \$ 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 municipal accounting rules took effect at the beginning of FY18 which required municipalities to report pension and OPEB liabilities on their balance sheets. Wellesley's proactive funding approach favorably distinguishes our community, as the Town is further along in meeting its obligations than many other towns, whose balance sheets now show much larger unfunded liabilities.

Future Projected Capital Projects and Borrowing needs

For purposes of projecting the Town's Sources and Uses of funds for the years FY22-24, a range of assumptions have been used in order to aid in the decision-making process in considering overrides. The placeholders established for the FY22 budget are as follows:

Revenues

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

Expenses

- Town operating budgets average 2.5% increase
- School operating budgets average 3.0% increase
- Pension Per approved funding schedule
- Health insurance 5% increase
- Other employee benefits 2.5% increase

The conservative expenditure assumptions allow the Town (with capital expenditure reductions) to project balanced budgets in the out-years. Increases in estimates indicate operational overrides will be required. As is the practice every year, the fiscal year-end review informs the Board as to whether there is additional funding capacity if revenue assumptions are exceeded. The Board takes additional funding capacity into consideration when issuing the Budget Guidelines in September of each year. These expenditure assumptions also do not include changing or new priorities, or initiatives identified in the Unified Plan, Housing Production Plan, the Human Services areas, or the anticipated new School Department strategic plan. It is also worth noting that, given the relative size of the School budget, deviation from the assumption regarding the growth in School spending has the greatest impact.

Exhibit II

| | FY20 Budget | FY21 Request | \$ Inc/(Dec) | % Inc/(Dec) | FY22 Projection | FY23 Projection | FY24 Projection |
|----------------------------|------------------------|-------------------------|-------------------------|------------------------|----------------------------|----------------------------|----------------------------|
| Sources of Funds | | | | | | | |
| Taxes | \$ 134,008,497 | \$ 139,158,709 | \$ 5,150,212 | 3.8% | \$ 144,437,677 | \$ 149,848,619 | \$ 155,394,835 |
| State Aid | 10,714,574 | 10,885,003 | 170,429 | 1.6% | 10,885,003 | 10,885,003 | 10,885,003 |
| Local Revenue | 11,352,726 | 12,990,000 | 1,637,274 | 14.4% | 13,249,800 | 13,514,796 | 13,785,092 |
| Free Cash to balance | 2,515,000 | 2,639,066 | 124,066 | 4.9% | 2,500,000 | 2,500,000 | 2,500,000 |
| FY18 Free Cash items | 3,985,670 | 2,507,245 | (1,478,425) | n/a | - | - | - |
| Other Sources | 2,364,445 | 2,207,851 | (156,594) | -6.6% | 2,982,100 | 2,987,100 | 2,992,100 |
| CPA for North 40 | 552,044 | 553,444 | 1,400 | 0.3% | 553,244 | 550,244 | 552,044 |
| Exclusions & Exemptions | 10,888,408 | 10,638,135 | (250,273) | -2.3% | 12,117,045 | 12,597,008 | 13,813,935 |
| Total Sources | \$ 176,381,364 | \$ 181,579,453 | \$ 5,198,089 | 2.9% | \$ 186,724,869 | \$ 192,882,770 | \$ 199,923,008 |
| Uses of Funds | | | | | | | |
| School | \$ 76,783,930 | \$ 80,379,651 | \$ 3,595,721 | 4.7% | \$ 82,791,041 | \$ 85,274,772 | \$ 87,833,015 |
| Other Town Departments | 39,069,488 | 40,339,811 | 1,270,323 | 3.3% | 41,348,306 | 42,382,014 | 43,441,564 |
| Employee Benefits | 31,033,447 | 32,598,243 | 1,564,796 | 5.0% | 33,786,225 | 35,004,269 | 36,292,839 |
| Cash Capital | 5,893,417 | 6,027,237 | 133,820 | 2.3% | 7,877,499 | 8,458,996 | 8,555,411 |
| Debt (inside Levy) | 4,300,000 | 5,000,000 | 700,000 | 16.3% | 6,551,667 | 7,520,651 | 7,737,416 |
| Other Uses | 7,860,630 | 6,042,932 | (1,817,698) | -23.1% | 4,504,187 | 4,520,437 | 4,537,093 |
| Exclusions & Exemptions | 11,440,452 | 11,191,579 | (248,873) | -2.2% | 12,670,289 | 13,147,252 | 14,365,979 |
| Total Uses | \$ 176,381,364 | \$ 181,579,453 | \$ 5,198,089 | 2.9% | \$ 189,529,213 | \$ 196,308,391 | \$ 202,763,317 |
| Surplus/(Deficit-Override) | \$ 0 | \$ 0 | | | \$ (2,804,344) | \$ (3,425,621) | \$ (2,840,309) |

Based on the above assumptions and with no operating overrides, projected deficits are in the range of \$2.8 to \$3.4 million over the years FY22-24. 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 could outstrip resources available inside the levy. 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 Town Hall Annex and 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

Does not show PAWS debt excluision in FY2026

2/26/2020

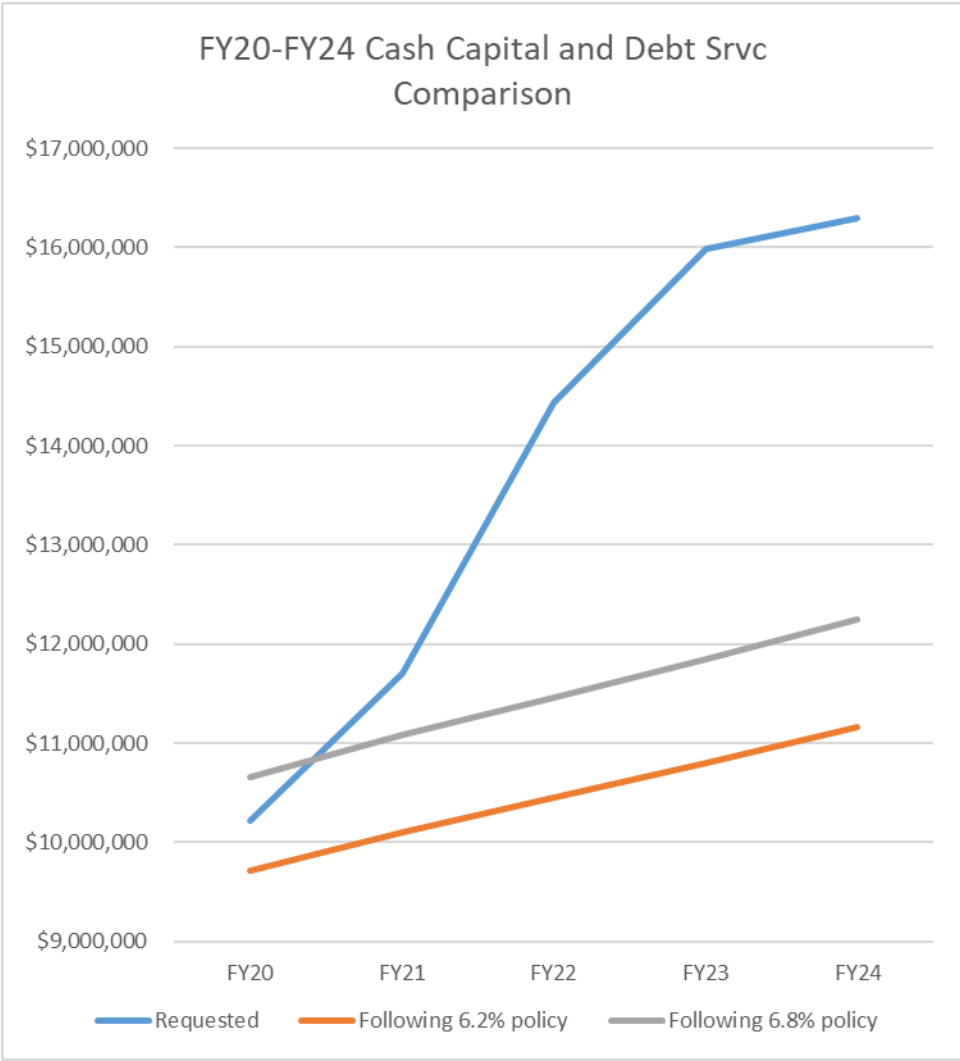
| | | | Fiscal 2020 | Fiscal 2021 | | Fiscal 2022 | | Fiscal 2023 | | Fiscal 2024 | | Fiscal 2025 | |
|----------------------------|---------------------|----------------|-------------|-------------|-----------|-------------|-----------|-------------|-----------|-------------|-----------|-------------|-----------|
| Project | | Estimated Cost | Fall 2019 | ATM 2020 | Fall 2020 | ATM 2021 | Fall 2021 | ATM 2022 | Fall 2022 | ATM 2023 | Fall 2023 | ATM 2024 | Fall 2024 |
| Middle School Bldg Systems | Construction | \$14.3M | | | DE | | | | | | | | |
| Middle School Paving | Paving | \$2.0M | | | | | | Inside | | | | | |
| "Early" Hunnewell School | Design | \$4.7M | Inside | | | | | | | | | | |
| | Construction | \$52.9M | | | | DE | | | | | | | |
| MSBA Project | Design/Construction | \$60M | | | | DE | | | | | | | |
| Town Hall Annex | Design | \$1.3M | | Inside | | | | | | | | | |
| | Construction | \$10.55M | | | | | DE | | | | | | |
| Town Hall Interior | Design | \$2.0M | | | | Inside | | | | | | | |
| | Construction | \$18.1M | | | | | | | | DE | | | |
| Library Renovation* | Construction | \$4.1M | | | Inside | | | | | | | | |
| DPW Renovation RDF | Design | \$426K | | | | | | Inside | | | | | |
| | Construction | \$4.8M | | | | | | | | DE | | | |
| DPW Renovation Park/Hwy | Design | \$640K | | | | | | Inside | | | | | |
| | Construction | \$7.1M | | | | | | | | DE | | | |
| PAWS | Design | \$2.0M | | | | | | | | | | Inside | |
| TOTALS | | | \$4.7M | \$1.3M | \$18.4M | \$114.9M | \$10.55M | \$3.1M | | \$33.4M | \$0.00 | \$2.0M | |

For informational purposes only, a model of the impact on debt and deficits utilizing the top of the debt policy range at 6.8% of operating revenues (rather than figures previously identified or requested) has been created. This chart shows that the deficits would be significantly reduced over the three-year period.

Impact on Deficit of Debt/Capital Policy

| | <u>2022</u> | <u>2023</u> | <u>2024</u> |
|---------------------|----------------|----------------|----------------|
| Projected (deficit) | \$ (2,804,344) | \$ (3,425,621) | \$ (2,840,309) |
| Debt/Capital | \$ 14,429,166 | \$ 15,979,647 | \$ 16,292,827 |
| Percent requested | 8.56% | 9.16% | 9.02% |
| If reduced to 6.8% | \$ 11,429,166 | \$ 11,829,647 | \$ 12,242,827 |
| Revised deficit | \$ 195,656 | \$ 724,379 | \$ 1,209,691 |

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 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 FY21 budget will be at 6.77% of gross annual revenues or the high end on the range, and in FY22 – FY24 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 (p.29, above). We will continue to refine these projections over the next few weeks and provide an update at Town Meeting. Knowing that the requests for numerous 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 by expending free cash to reduce the borrowing. 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 \$1,158,000 for the period FY20 – FY26:

Median Tax Bill

| | FY20 | FY21 | FY 22 | FY23 | FY24 | FY25 | FY26 | FY27 |
|--------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Levy Prior | \$ 12,094 | \$ 12,415 | \$ 12,739 | \$ 13,071 | \$ 13,411 | \$ 13,762 | \$ 14,120 | \$ 14,489 |
| Levy growth | \$ 475 | \$ 477 | \$ 483 | \$ 490 | \$ 496 | \$ 503 | \$ 511 | \$ 518 |
| Existing Debt Exclusions | \$ 1,021 | \$ 986 | \$ 861 | \$ 832 | \$ 721 | \$ 697 | \$ 626 | \$ 566 |
| HHU | \$ - | \$ - | \$ 73 | \$ 71 | \$ 355 | \$ 344 | \$ 649 | \$ 630 |
| Middle School | \$ - | \$ - | \$ 33 | \$ 141 | \$ 137 | \$ 135 | \$ 129 | \$ 126 |
| Town Hall Interior | \$ - | \$ - | \$ - | \$ - | \$ 21 | \$ 128 | \$ 124 | \$ 120 |
| Annex | \$ - | \$ - | \$ - | \$ 76 | \$ 74 | \$ 71 | \$ 69 | \$ 67 |
| Median tax bill | \$ 13,590 | \$ 13,877 | \$ 14,190 | \$ 14,680 | \$ 15,216 | \$ 15,641 | \$ 16,229 | \$ 16,517 |

Budget Guidelines and Development

The following section is an excerpt from the Town's Budget Preparation Manual. The entire manual can be found in Appendix B to the Budget Book at www.wellesleyma.gov/2020budgetbook.

A Town cannot fully innovate or deliver superior services without a firm financial foundation. Wellesley has long valued its fiscal strength, stability, and financial leadership, as evidenced by its continually maintained Aaa bond rating, multi-year financial awards, formal reserve and investment policies, and commitment to funding its past service liabilities (pension, OPEB). The Board is charged with articulating a long-term Town-Wide Financial Plan (TWFP) that maintains this financial strength, and with bringing forth a balanced annual town-wide budget. Guidelines are an important method of allocating resources among individual departments after providing for the Town's long-term financial obligations.

The current method of allocating available resources begins with the Board's review and analysis of current revenues and revenue enhancement opportunities. After factoring in fixed costs, such as issued debt and past service liabilities, the Board develops budget guidelines to help allocate remaining available funds among the departments. Each Board is expected to develop a budget falling within guideline. New initiatives and costs beyond guideline will be discussed and further evaluated by the Board and the Advisory Committee during the budget cycle. Other funding mechanisms (such as an override or debt exclusion) may ultimately be proposed if a critical initiative cannot be funded within the current year's resources.

Under the Town's bylaws, the Board is responsible for coordinating the annual budget submissions for all boards; coordinating the timing of capital requests and determining methods for financing capital needs; estimating available revenues; and developing the Town-Wide Financial Plan and Five-Year Capital Budget Program. In order to accurately create (1) the "Sources and Uses" format required by Article 19.16.1, (2) the Town-Wide Financial Plan, and (3) the Five-Year Capital Budget Program, the Finance Department, under the direction of the Board of Selectmen and Executive Director, has developed standard formats for receiving departmental requests. The format includes a departmental narrative outlining departmental responsibilities and current objectives with emphasis on current year needs, a revenue summary, and detailed operating budget requests showing a four-year history. The Finance Director, under Article 19.42(c) of the bylaws assists "in the development of budgets and reviewing all budgets for format, completeness, and accuracy before submission to the Advisory Committee".

Budget Submission Timeline

- 
- July 1, 2019 Fiscal Year begins
 - July –Preliminary smaller group discussions between BOS Chair, Vice Chair, largest departments, Advisory, and Finance on 2021 budget needs. BOS and School Committee Chairs and Vice Chairs begin bi-weekly meetings
 - August 13th - Finance Director updates BOS on FY2019 results
 - August 28th -- Finance Director and BOS Chairs to Advisory with FY2019 update
 - September 9th – BOS Begins FY 2021 Budget guideline discussions
 - September 16th – BOS continues guideline discussions
 - September 19th -- Inter-board Meeting- Operating guidelines and capital planning discussions
 - September 24th – FY2021 Operating Budget guideline finalized
 - September 27th – Operating budget manual & forms distributed; capital forms distributed
 - October 10th – HR provides guidelines for 40/50/60 series
 - October 18th – Capital budget requests submitted to Finance from all departments
 - November 4th – Town-wide FMD Capital update
 - November 15th – Operating budgets due from Selectmen’s departments. Finance begins budget compilation
 - November 18th – Open Annual Town Meeting Warrant
 - December 2nd - Tax classification hearing
 - December 3rd - Selectmen’s budget workshop
 - December 2nd – Operating budgets due to Finance from non-school departments (early submissions encouraged)
 - December 13th – Superintendent’s operating budget due
 - December 16th – Determine budget gap & begin closing process
 - December 27th – Warrant Closes
 - January – School Committee votes School Department operating budget

Budget Policy Objectives and Strategic Goals

Operating budget guidelines are established by the Board in early Fall for the upcoming fiscal year. The Board makes this determination after evaluating the Town's financial position as presented by the Finance Director beginning in August, and with input from other boards at the close of the prior fiscal year and committees regarding their anticipated priorities. Guidelines are also provided for operating expenses and may or may not be the same as for personal services.

In using the Budget Book this year, the Town has tried to describe the budgeting process in detail, and has identified what the reader of the Budget Book can find on a departmental level in the departmental budgets (p.49) All departments must create budgets that meet the stated guidelines after all factors (contracts, steps, longevity, merit pay, etc.) are taken into consideration. For FY21 the Board set the operating budget guideline at a 3.5% for both Schools and all other Town budgets. Departmental initiatives that cause requests to exceed guideline are quantified and vetted during the budget cycle discussions. The Board may or may not support initiatives that cannot fit within the guidelines. Departments are asked to create a narrative and to submit personal services and expense requests.

Personal Services

There are five types of employees considered when calculating wage increases for the upcoming year.

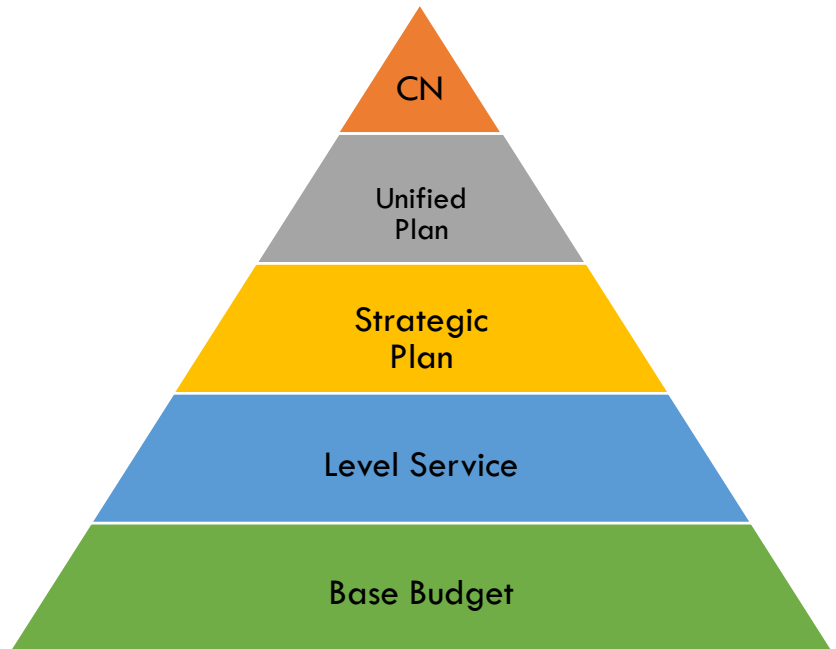
- **40-series employees** who typically receive a set percentage increase, recommended by the HR Board, which is based upon analysis of market conditions. This year's recommended increase is 2.5%.
- **50/60 series employees** who are compensated through a merit pay plan which is administered and appropriated by the Human Resources Department. This year's recommended increase is 2.5%
- **Unionized employees** – there are 13 town and school unions which have agreements that specify the percentage of Cost of Living Adjustment (COLA) received by these groups each year. The School Department's unions settled last year for 3 years with COLA increases of 2% each of the three years to existing steps and lanes. **All remaining union contracts are currently being negotiated.**
- **Contract employees** – Executive level positions whose compensation is set by their respective Board. Town contract positions include: Executive Director, Finance Director, Chief of Police, Deputy Chief of Police, Fire Chief, and Assistant Fire Chief.
- **Non-union unclassified positions** – positions are generally part-time, temporary, and/or seasonal positions. Wage increases for these positions are developed through a request made by a department head to the Human Resources to set a wage schedule for the ensuing fiscal year.

Departmental Narratives

In Departmental narratives, departments describe factors that make up their personal service budget (contract employees, union agreements, mid-year steps, etc.) and provide detail on any new staffing requirements. The expense budget section describes initiatives that are driving costs and detail expense items (conferences, mileage, new expense items, etc.). For budgets not meeting the budget guidelines, narratives explain cost drivers for exceeding guidelines.

This year, budget requests break the budget into several components so that Town Budgets are in a format similar to the Schools:

- **Base Budget** is the budget for existing staff, including contractual increases, and existing expenses with expected escalation.
- **Level Service (LS) Budget** includes any services associated with a new law or mandate.
- **Strategic Plan (SP) Budget** are new costs to help achieve initiatives detailed in a departmental strategic plan. Not all departments have strategic plans.
- **Unified Plan (UP) Budget** are new operating costs to implement programs that have been prioritized in the Unified Plan as a multi-departmental joint effort.
- **Critical Needs (CN) Budget** costs encompass new operating costs that benefit the departmental operation and do not fall in other categories but are deemed by the department to be essential for operation.



Capital Budget Requests

Boards submit a detailed five-year capital plan annually, and include all anticipated capital needs for that timeframe, including cash capital and projects financed by debt or any other source. Capital requests are intended to support the department's strategic direction, and the financial and operational impact of each requested capital purchase is quantified. Because financial resources are limited, boards are asked to internally prioritize capital needs and fully research the cost of each item to better inform the discussion of which projects should be funded in a given year.

As identified in the Executive Summary, the Board adopted a debt policy (See Appendix A to the Budget Book at www.wellesley.ma.gov/2020budgetbook) allocating between 6.2% - 6.8% of budgeted (inside the levy) revenues for combined capital and debt service expenditures as the appropriate level for maintaining assets, while avoiding operating overrides or compromising operating budgets. The major departments considered different methods to prioritize or rank capital projects two years ago; however, it was found the tried and true method of negotiation with the Executive Director and Finance Director continues to be the most effective method. This method allows for a discussion on the timing of specific projects and reduction or deferral of projects on an as needed basis.

The threshold for cash capital items is \$10,000. In a budget year such as FY21 where operating guidelines are more favorable, the Finance office will support the effort to move small items and appropriate larger recurring costs into the operating budgets and will work with individual departments to aid in this transition.

Departments that include vehicle purchases in capital requests follow the Town's [Fuel Efficient Vehicle Policy \(FEVP\)](#). For "non-exempt" vehicles, as defined in the FEVP such as all departments/divisions shall purchase only fuel-efficient vehicles for municipal use whenever such vehicles are commercially available and practicable.

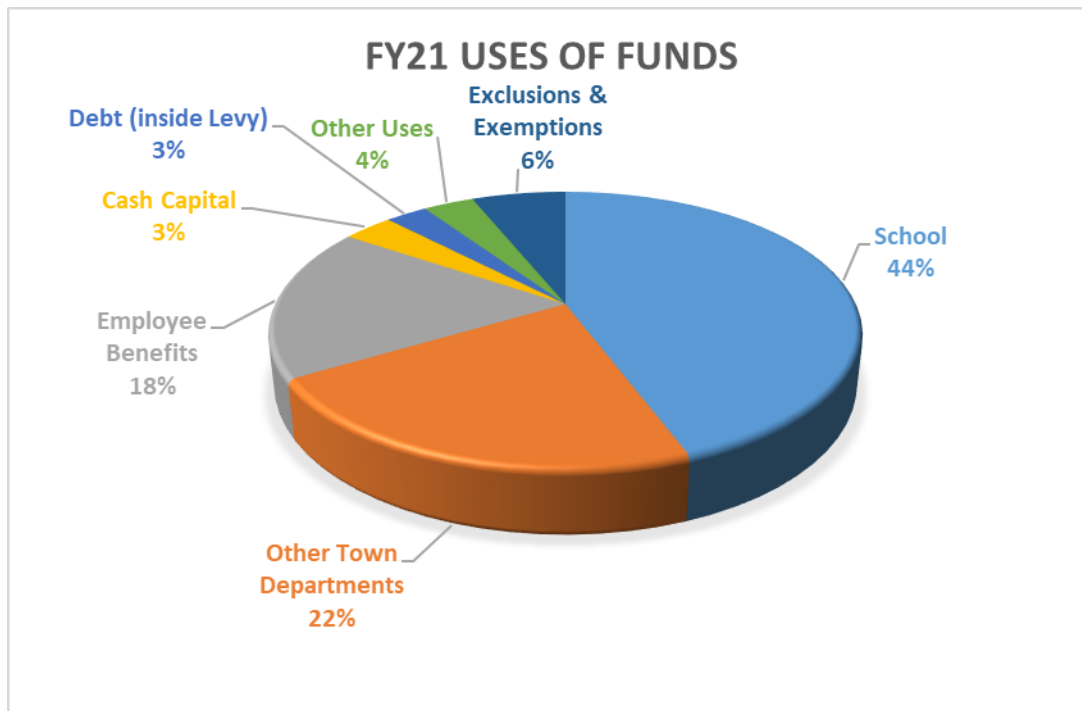
In this year's Budget Book the original five-year capital requests submitted in October 2019 are detailed and included in the [Capital Plan Forms](#) which can be found in the Budget Book www.wellesleyma.gov/2020budgetbook . The final Five-Year Capital Plan reflects the most up to date project costs.

FY2021 Operating and Capital Budget Requests

The proposed FY21 budget request is summarized in the following table (more complete versions of the FY21 Sources & Uses are presented in the Fiscal 2021 Sources and Uses section of the Budget Book.

| | FY20 Budget | FY21 Request | \$ Inc/(Dec) | % Inc/(Dec) |
|----------------------------|------------------------|-------------------------|-------------------------|------------------------|
| Sources of Funds | | | | |
| Taxes | \$ 134,008,497 | \$ 139,158,709 | \$ 5,150,212 | 3.8% |
| State Aid | 10,714,574 | 10,885,003 | 170,429 | 1.6% |
| Local Revenue | 11,352,726 | 12,990,000 | 1,637,274 | 14.4% |
| Free Cash to balance | 2,515,000 | 2,639,066 | 124,066 | 4.9% |
| Other free cash items | 3,985,670 | 2,507,245 | (1,478,425) | 0.0% |
| Other Sources | 1,476,945 | 1,858,351 | 381,406 | 25.8% |
| CPA Funds | 887,500 | 349,500 | (538,000) | -60.6% |
| CPA to offset debt | 552,044 | 553,444 | 1,400 | 0.3% |
| Exempt Debt | 10,888,408 | 10,638,135 | (250,273) | -2.3% |
| Total Sources | \$ 176,381,364 | \$ 181,579,453 | \$ 5,198,089 | 2.9% |
| Uses of Funds | | | | |
| School | \$ 76,783,930 | \$ 80,379,651 | \$ 3,595,721 | 4.7% |
| Other Town Departments | 39,069,488 | 40,339,811 | 1,270,323 | 3.3% |
| Employee Benefits | 31,033,447 | 32,598,243 | 1,564,796 | 5.0% |
| Cash Capital | 5,893,417 | 6,027,237 | 133,820 | 2.3% |
| Debt Service (inside Levy) | 4,300,000 | 5,000,000 | 700,000 | 16.3% |
| Other Uses | 7,860,630 | 6,042,932 | (1,817,698) | -23.1% |
| Exempt Debt | 11,440,452 | 11,191,579 | (248,873) | -2.2% |
| Total Uses | \$ 176,381,364 | \$ 181,579,453 | \$ 5,198,089 | 2.9% |
| Surplus/(Deficit) | \$ 0 | \$ 0 | | |

Sources of Funds: The 3.8% 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 showing an increase of \$170,429 The 14.4% increase in Local Revenue reflects significant growth (compared with the revised FY 20 budget) in a few areas; including motor vehicle excise tax (\$542,000), investment income (\$492,000), and licenses and permits earnings (\$400,000).



Uses of Funds: The 4.68 % increase in the School budget reflects the cost of contractual step, and cost-of-living increases, a one-time adjustment (\$664,000 or an additional .87%) for special education costs, and initiatives identified in the School Committee's strategic plan. The 3.2% increase in Other Town Departments is consistent with the budget guideline of 3.5%, wage increase levels recommended by the Human Resources Board (2.5%) and various adjustments in other expenses for all departments. The Town request includes a provision to provide funding for open town union contracts. There are no new positions proposed on the Town side; however, the Sustainable Energy Committee (SEC) is proposing to increase the hours of two staff members. Although debt is up 16.3% and cash capital is up 2.3%, costs remain within the debt policy adopted by the Board and are affordable, while the budget continues to address critical town-wide needs.

Because of the favorable revenues in building permit fees, motor vehicle excise tax, and investment returns for FY19, the Board also anticipates using Free Cash to fund several stabilization reserves, and avoid borrowing costs for several capital projects, including the following:

Supplemental FY20 appropriations:

- \$ 300,000 for current year snow and ice removal costs
- \$2,000,000 to fund a portion of the Hunnewell School Design (approved at 12/19 STM)
- \$ 144,000 North 40 Remediation (originally estimated at \$32 million. Can be resolved by December for \$264,000)

FY21 appropriations:

- \$1,338,144 Town Hall Annex Design
 - \$ 500,000 Special Education Stabilization Fund
 - \$ 112,000 Special Education Stabilization Fund (Medicaid)
 - \$ 50,000 Baler stabilization Fund
 - \$ 49,419 IOD Indemnity Fund
 - \$ 13,682 Recreation Pond Fund

The Town-Wide Financial Plan is a continual work in progress, as economic and environmental issues are always evolving. The Board will provide further updates on these matters at Town Meeting.

The Board 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, the first Budget Book for the Town of Wellesley, and all efforts that ensure the continued financial health of our community.

Sincerely yours,

Marjorie R. Freiman, Chair
Thomas H. Ulfelder, Vice Chair
Jack Morgan, Secretary
Elizabeth Sullivan Woods
Lise M. Olney

ARTICLE 1. To receive and act on the reports of Town officers, boards and committees, including the Annual Town Report, the Report to this Town Meeting of the Advisory Committee, and the Report of the Community Preservation Committee, and to discharge presently authorized special committees, or to take any other action in relation thereto.

(Board of Selectmen)

Advisory expects no motion under this Article.

ARTICLE 2. To receive the Reports of the Board of Selectmen on the Town-Wide Financial Plan and Five-Year Capital Budget Program in accordance with Sections 19.5.2 and 19.16 of the General Bylaws, or to take any other action in relation thereto.

(Board of Selectmen)

The Executive Director and the Board of Selectmen (BOS) produce two important financial planning reports each year—the Town-Wide Financial Plan (TWFP) and the Five Year Capital Budget Program, which is attached to and made a part of the TWFP. The TWFP and the Five Year Capital Budget Program can be found in this Report at page 12, and in the 2020 Budget Book, at www.wellesleyma.gov/2020budgetbook. The purpose of the TWFP is to anticipate and prepare for emerging issues, to protect the Town from risk and to plan for the long term. The Five Year Capital Budget Program has as its primary goals the preservation and enhancement of the Town’s physical assets and infrastructure and the ability to anticipate the financial impacts of major projects well in advance.

Under Article 2 and the accompanying Motion, Town Meeting is asked to acknowledge presentation of the TWFP and the Five Year Capital Budget Program for FY21, but not specifically to approve them.

Advisory appreciates the scope of the TWFP and the Five Year Capital Budget Program, as well as the efforts both documents reflect on the part of the BOS to provide detailed information about the Town’s financial status and course. The Advisory Chair’s letter, on page 2 and Advisory’s “Conclusions, Considerations and Recommendations” on Article 8, Motion 2, on page 85, contain some of Advisory’s reflections on the Town’s budget process and the TWFP.

Advisory recommends favorable action, 12 to 0.

ARTICLE 3. To see if the Town will vote to take action on certain articles set forth in this warrant by a single vote, pursuant to a consent agenda, or to take any other action in relation thereto.

(Board of Selectmen)

This Motion seeks Town Meeting approval of a consent agenda that includes motions under certain Warrant articles. A consent agenda allows the motions under the included articles to be acted on by a single vote without oral presentations on the individual articles. Information to Town Meeting Members (TMMs) is provided solely by the *Advisory Report*. As of the date this *Advisory Report* went to print, the articles proposed for inclusion on the consent agenda at this Annual Town Meeting (ATM), with their respective proponents listed in the parentheses after the titles of the articles, are:

- Article 4 Amend Job Classification Plan (Human Resources)
- Article 5 Amend Salary Plan – Pay Schedule (Human Resources)
- Article 6 Set Salary of Elected Official (Board of Selectmen)