



## **Town-Wide Financial Plan Fiscal Year 2022 Annual Town Meeting Submitted by the Select Board**

March 29, 2021

Dear Town Meeting Members:

Please find the Fiscal Year 2022 Town-Wide Financial Plan (TWFP) for the 2021 Annual Town Meeting ("ATM"). This document contains the following sections:

- Overview
- COVID-19 Update
- Financial Plan Components
- Revenues
- Status of Reserves
- FY22 Budget Cycle
- Key Budget Drivers
- Future Projected Capital Projects and Borrowing Needs
- FY22 Operating and Capital Budget Requests
- Conclusion

### **Overview**

The Town of Wellesley Town Bylaws (Section 19.16) require the Select Board (the Board) to annually coordinate the preparation and maintenance of the Town-Wide Financial Plan (TWFP). In preparing the TWFP, the Board must take into account the Town's ability to generate the real estate property taxes assumed in the TWFP and to fund any deficit balance in the TWFP; the Board must evaluate relative need for, and level of the various expenditures proposed to be made by the Town; and must take into account alternatives to any of the various sources and uses of funds in the TWFP. The TWFP is constructed by using the information submitted by each board pursuant to the provisions of Sections 6.15 and 11.11 of the Town Bylaws and estimates and makes financial assumptions acceptable to the Board for all other line items for out-year projections.

Working with departmental staff and other Town officials, the Board is proposing a balanced budget of \$182,196,368 for the fiscal year 2022 (FY22 is the year beginning July 1, 2021). This budget assumes the use of \$3,781,347 from reserves/free cash.

#### **Highlights:**

- Modest levels of revenue growth over FY21 of 2.39%, with anticipated decline in local revenue, including significant decrease in parking revenues
- Moderate increase of 3.4% in health insurance rates
- Select Board operating budget guideline was set at 2.5%, and Debt Policy guideline was set at 6.2% of recurring operating revenues (policy range is 6.2% to 6.8%)

- Proposed operational increase for FY22 is 2.54% and budgeted capital requests for FY22 are \$10.16 million, or 6.13% of annual recurring revenues
- Proposed application of \$3,781,347 from Free Cash to balance the budget
- TWFP assumes School Department returns to pre-COVID staffing levels in fall 2021 with elimination of the Remote Learning School
- Projects related to strategic plans, Unified Plan, and critical needs have been deferred
- Five Year Capital Plan outlines cash capital, and debt funded capital projects, including both inside-the-levy and debt exclusion projects
- The American Rescue Plan Act of 2021 will provide relief to Municipalities and may offer opportunities to add programs and/or address costs related to COVID-19 in FY23. More specific and detailed guidance on how funds may be spent and what restrictions will be in place is pending at this time

## **Revenues**

The revenues for the FY22 General Fund Budget total \$182,196,368 or a 2.39% increase compared to FY21 approved budget. The Board made conservative assumptions on local revenue growth taking into account historic trends and the impact of COVID-19 on specific sectors. Property taxes are assumed to increase by \$5,275,061 or 3.79% based upon the provisions of Proposition 2 ½ and added New Growth assumed at \$1.8M. Local Receipts, which include revenue from Motor Vehicle Excise Tax (\$200,000 lower than pre-COVID-19 level), Investment Income (\$350,000 lower than previously reduced FY21 projections), and Meals/Hotel/Motel Tax (\$100,000 lower than previously reduced FY21 projections), and building fees are expected to decrease by \$411,995 or 3.74%. Parking revenue for both meter and commuter lots has plummeted. The Traffic and Parking Budget, generally a self-sustaining fund, requires significant investment of \$894,685 in Free Cash for FY22 to maintain operations, and the fund will likely require evaluation for several years to determine the full impact COVID-19 has had on commuting behaviors. Commuter parking typically generates the vast majority of annual traffic and parking revenue.

## **Health Insurance**

Health insurance spending was favorable and within the projections identified in the FY21 Town Wide Financial Plan (TWFP), resulting in an increase in the Town's reserve levels. The West Suburban Health Group injected reserves to stabilize rates for FY22, resulting in a relatively modest 3.4% increase in health insurance rates across all town offerings. Variability in health care costs in coming years is a concern, as the impact of deferred diagnoses and treatment from COVID-19 become clearer.

The Town's Memorandum of Agreement with the unions for health insurance was set to expire on June 30, 2021. The Town and unions negotiated a one (1) year extension on the agreement and will renegotiate a longer-term agreement for FY23-FY25.

## **Debt and Operating Policy Guidelines**

The Board has several financial policies that were established to maintain prudent operational and capital spending. The Debt Policy was established in FY19 and sets an annual spending limit on capital spending (referred to as "cash capital") and inside-the-levy debt projects to a range of 6.2% to 6.8% of recurring operating revenues. The policy ensures an affordable and predictable level of spending and ensures that funds available for operating budgets are not adversely affected by increased capital spending.

The reduction in revenue assumptions and the ongoing COVID-19 pandemic called for a conservative budget guideline and the Board issued a 2.5% operating budget guideline for both Town and School departments and a 6.2% Debt Policy threshold.

The reduction in anticipated spending has limited the ability of Town and School departments to address strategic plans, Unified Plan goals, and critical needs this year. Departments have had to prioritize operational and capital spending and defer some projects. As federal relief packages roll out, there may be an opportunity to add programs in FY23, but specific information and spending requirements have yet to be issued from the recent American Rescue Plan Act as we prepare this Town-Wide Financial Plan.

The year-over-year operational increase for FY22 is just above target at 2.54%. The budgeted capital requests for FY22 are \$10.16 million, or 6.13% of annual recurring revenues.

### Application of Free Cash to Balance the Budget

With the onset of COVID-19, action was taken at the end of FY20 to immediately reduce spending and bolster reserves. These reductions resulted in a reserve fund balance of 15% of budgeted operating revenues at the beginning of FY21. The Board's Financial Reserve Policy requires maintaining reserves in the 8% to 12% range.

Reserves Projection July 1, 2021

<b><i>Reserves as of 6/30/2020</i></b>	<b><u>Amount</u></b>
Free Cash estimated	\$ 18,319,871
General Purpose Stabilization fund	3,555,097
Other Stabilization Funds	2,229,495
	<b>\$ 24,104,463</b>
<b>FY21 Revenue</b>	<b>\$ 160,705,760</b>
% of Revenue	15%
% of Revenue Without Special purpose Stabilization Funds	13.61%

The Board proposes to balance the FY22 budget through the allocation of \$3,781,347 from Free Cash. This amount is higher than the Town's typical allocation of approximately \$2.5 million from reserves. The increase is largely due to the loss of anticipated parking revenue from the impacts of COVID-19 requiring appropriation of \$894,685 to fund the Traffic and Parking operations. In evaluating the use of reserves, the Board has considered the potential need for reserves over the next three years. Deployment of Free Cash to assist in balancing the budget is anticipated to revert to the Board's use of \$2.5 million annually to keep the reserve levels within the Financial Reserve Policy. The need to apply reserves will be monitored closely as we continue to see the impact of COVID-19 and how it affects local receipt projections.

### Looking Forward

As a result of the economic disruption from COVID-19 and the unknown recovery timeline, the Board anticipates a 2.5% budget guideline in coming years (FY23 through FY25). School union contracts for FY23 will be negotiated through FY22 along with a three-year health care agreement with all unions for FY23.

The School Committee was developing a new strategic plan that proposed additional operating and capital costs beginning in FY22. However, these strategic plan initiatives have been largely deferred due to COVID-19. The impact of delayed initiatives is unknown at this time as the School Committee will need to re-evaluate after the 2020-2021 academic year. The School Administration's response to COVID-19 has been all consuming and ever changing as they have worked to meet health, safety, educational (state and local), and contractual needs. State and federal COVID relief assistance has made it possible to complete FY21 without supplemental appropriations. The Town and School Administrative teams have been working closely to evaluate continuous financial modifications as COVID-19 programs and funding emerges.

In FY23 and beyond, careful consideration is needed to coordinate initiatives from all departmental strategic plans, the town-wide Unified Plan, Housing Production Plan, and the developing Climate Action Plan and Sustainable Mobility Plan to balance priorities and financial resources.

The Town will be in a strong position to continue to avoid Proposition 2 ½ operating overrides by holding inside-the-levy and cash capital spending to 6.2% (low end of Debt Policy range), and by holding Town and School operating budgets to a 2.5% increase through FY25. Increases in health insurance rates are expected to be variable over the next several years and will be monitored closely by the West Suburban Health Group. 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. Due to FY21 and FY22 capital reductions and deferment, evaluation of longer-term strategies to prioritize and catch up on projects will need to be considered. Over the next several years, departments adherence to guidelines will avoid an operating override, while allowing the Board to consider the use of reserves to offset deferred projects. This planning is critical as the Town has mapped out the timing and impact of major capital projects in the Major Project Financing Schedule (see page 24) that will require significant debt exclusions in FY22 and FY23, in addition to the debt exclusion for the Wellesley Middle School building systems that was approved in December 2020.

The Board continues to work with all Town departments and the School Department to improve long-range financial forecasts and continue the excellent level of services provided to our residents.

### **Debt Funded Capital Projects**

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 FY22 include funding for the Town Hall Interior Schematic Design through bidding, Grove Street construction funds, and the Police Dispatch Communication Center Overhaul. All the debt funded projects proposed in FY22 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 by 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 32 of the warrant.

### **Plans for Debt Exclusions**

The Board continues to plan for significant capital projects under the Major Project Financing Schedule (see page 24) that we anticipate bringing to the voters for approval in the next 1 - 5 years as debt exclusions. The projects include the replacement through new construction of the Hunnewell and Hardy elementary schools under the direction of the School Building Committee (SBC), and the interior renovation of Town Hall. The Select Board has eliminated a previously proposed Town Hall Annex in favor of an interior renovation of Town Hall and leased office space

for the Facilities Management Department and the Land Use Divisions (Building, Planning, NRC and Wetlands, and ZBA).

Preliminary projections based upon construction schedules currently being evaluated suggest the peak median tax bill impact of constructing two schools could approach \$693 in 2025. This estimate will continue to be updated as new information becomes available. See page 25 for a table of projected tax impacts.

### **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. The project is currently in both Wetlands and Site Plan permitting. Funding for the construction of the project is slated to come to an October 2021 Special Town Meeting for approval. If funding is approved by Town Meeting, the Select Board would call for a debt exclusion vote on December 7, 2021, for \$55.8 million, inclusive of swing space.

### **Hardy/Upham Schools**

The Town was invited into the Massachusetts School Building Authority (MSBA) program for the consolidation of the Upham and Hardy Schools and replacement of the Upham School on either the Upham or Hardy site. The MSBA program provides for reimbursement of approximately 30% of eligible costs (mostly limited to construction costs and not offsite expenses) through detailed and highly structured documentation and review. In an exhaustive and inclusive process, the SBC evaluated both the Upham and Hardy sites, and selected the Hardy School site for a new consolidated school. 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 4 out of 8 of the MSBA process, with an anticipated completion of Schematic Design for the Hardy School in July 2021. Funding for the construction of the project is slated to come to an October 2021 Special Town Meeting for approval. If funding is approved by Town Meeting, the Select Board would call for a debt exclusion vote on December 7, 2021, for \$72.3 million.

### **Interior renovation of the 1883 Town Hall**

An interior space utilization and visioning study of the building was completed in 2018 and identified several serious deficiencies, including 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, and a lack of clear wayfinding. 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. The feasibility study recommended the construction of a Town Hall Annex and a feasibility study for the Annex was completed in 2019. Due to COVID-19, the Board eliminated the Town Hall Annex plans prior to the 2020 Annual Town Meeting. Through Facilities Management Department capital funds, the Town Hall interior feasibility study was refreshed in an effort to reduce project costs, and the supplemental study was completed in November 2020.

- **Goals:** The goals of the Town Hall interior renovation are to work within the historic spaces of the building to meet the current and future needs of the Town, to improve and expand program spaces, make the building more accessible to all residents, and to enhance departmental functions and meeting spaces. The proposed project

will complete the efforts begun with the Exterior Envelope Project funded in 2016 and completed in February 2020 and will secure a long and useful life of the landmark historical structure.

- **Funding plan:** Schematic design funds for the Town Hall Interior project will be sought at the 2021 Annual Town Meeting in the amount of \$1.8 million. If approved, the Town Hall Interior project will seek a debt exclusion of \$15.5 million for construction funds at a fall 2022 Special Town Meeting, followed by a town-wide vote in December of 2022.
- **Compliance with accessibility requirements:** 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 February 2020, with the possibility of a two-year extension if the Town is making progress towards resolving these matters.

### **New Major Capital Projects**

Projects new to the Facilities Master Plan (see page 24) include the DPW Park and Highway Building and the DPW Recycling and Disposal Facility Administration Building. These projects are in the feasibility stage and the funding for inside-the-levy borrowing will be evaluated as they progress.

#### **DPW Park and Highway Building**

An FY19 study evaluated key staff support spaces consisting of men's locker rooms, the kitchen, and the lunch/break/training rooms and found the spaces have not been updated since the building was constructed in 1947. These facilities are inadequate from a perspective of age, functionality, circulation, adjacencies, and layout. The women's locker room was updated within the past 10 years but is undersized. The study also assessed the building including the brick masonry walls, windows, concrete floor slabs (elevated and slab-on-grade) and the Wash Bay, all of which are original, 70-year-old construction. There are numerous age-related and structural deficiencies. The study included an existing conditions phase, programming phase, and development of new layout options that better support DPW operations and staff. A proposal for design funds will come before the 2022 Annual Town Meeting in the amount of \$1.1 million, and if passed, construction funds would be sought with the DPW Administration Building at a fall 2023 Special Town Meeting. At present, construction funds are estimated at \$6.4 million.

#### **DPW New Administration Building at the RDF**

The last major renovation at the RDF was in 1997. A study was recently completed which focused on the Administration Building, the Baler Building, and the Incinerator Building. This study assessed a number of issues with building envelopes, including roofing, walls, windows, foundation waterproofing, and doors. The study also evaluated the current operations and adequacy of the Administration Building. It was determined that this building was not large enough for the current functions and that the 22-year old building systems were largely past their service lives. Construction of a new, larger Administration Building was recommended within the footprint of the existing building (requiring swing space included in the budget). Design funds would be sought at the 2022 Annual Town

Meeting in the amount of \$500,000 and construction funds would be sought at fall 2023 Special Town Meeting. The construction funds are estimated at \$2,750,000.

The Board's approach to departmental capital requests is to assess and prioritize projects 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 residents have come to expect. Areas that the Board must continue to monitor closely include the School budget, deferred capital projects from FY20 and FY21, 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. Further analysis of these details is included in the section "Future Projected Capital Projects and Borrowing Needs" on page 20.

## **COVID-19 Update**

Due to the extended closures of town facilities and unknown timeframe for reopening, the Board modified the FY21 Budget in June 2020 to reflect anticipated revenue shortfalls. These anticipated revenue reductions were balanced through reductions to Town capital budgets for FY21 budgets and that continues for the FY22 budgets. At Annual Town Meeting in June 2020, the Board committed to monitoring the FY21 financial impacts of COVID-19 on the Town during the initial months of FY21 and to work with the other boards and departments to identify any necessary modifications to the FY21 budget at the October 2020 Special Town Meeting. The Board provided a COVID-19 update to Town Meeting in October 2020 in preparation for the fall STM.

## **School Department**

Remote learning began in March 2020. In June 2020, responding to ongoing needs to fully engage in remote learning, the School Department purchased laptops and iPads at a cost of \$200,873 using CARES Act funds. For the 2020-2021 school year, the School Department was required to establish a totally remote educational process (the Remote Learning School or RLS). With the state required RLS and contractual obligations to the Teacher's Union, the School Department determined that they required significant equipment and technology purchases; the addition of 33.57 full-time employees; tent rentals to maximize outdoor space for mask/lunch/snack breaks; and the establishment of a viral testing program for students, faculty, and staff, in order to safely begin operations. Remote learning programs began during the summer, and the School Department expended their total educational CARES Act allocation of \$1,321,746. The Board authorized the use of municipal CARES Act funds on September 21, 2020, in the amount of \$1,116,098 to offset the RLS personnel costs through December 30, 2020, for additional staff and other COVID-19 expenses, including FFCRA coverage and PPE.

## **Recent Relief Funding for COVID-19 Expenses**

In December 2020, the Federal Consolidated Appropriations Act, 2021 was passed as a coronavirus relief package. The Act allowed for Coronavirus Aid, Relief, and Economic Security (the "CARES Act") funds (detailed below) to be extended from December 30, 2020, to December 31, 2021, while also providing modest resources for schools. With the ability to use CARES funds through the end of 2021, the Town can cover the cost of salaries for the RLS through June 30, 2021. The additional funds necessary to cover RLS costs through June 30, 2021, are estimated at approximately \$700,000.

On January 21, 2021, by Presidential Order, FEMA reimbursement was increased from 75% to 100% and eligible costs were expanded to include vaccine distribution costs, PPE, cleaning and

sanitization costs, and school reopening costs. FEMA continues to issue revised guidance on implementation.

On March 11, 2021, the American Rescue Plan was signed into law. The law provides for financial assistance to municipalities and schools but specific information and spending requirements have yet to be issued. Funds are anticipated to provide assistance to programs and projects directly impacted by COVID-19, school reopening assistance (PPE, ventilation, COVID-19 testing, vaccinations, class size, etc.), and some county level aid.

The Town is carefully tracking each departmental budget and has used CARES and FEMA funds to cover expenses for operations related to COVID-19 throughout FY21. The School Department and Health Department have experienced particularly significant impacts. With the extension of the deadline for the use of funds, the Town will not require any supplemental appropriations relating to School and Town operations for FY21. The Town will be monitoring unemployment costs for teachers who were hired for this school year for the RLS. As Federal assistance continues to be expanded, the Town may be able to absorb those costs without supplemental budget request. If not, the Town will submit supplemental budget requests at the anticipated fall 2021 Special Town Meeting.

#### **Total COVID Funding Assistance Available and Application of Funds:**

	<b>Federal and State Assistance</b>		<b>FY20-FY21</b>
<b>Municipal CARES Allocated</b>	<b>\$</b>	<b>2,616,201.00</b>	
<b>Schools CARES Allocated</b>		<b>\$1,097,100.00</b>	
<b>School ESSR Grant</b>		<b>\$123,519.00</b>	
<b>School CARES Remote Learning</b>		<b>\$101,127.00</b>	
Schools 12/30/2020	\$		(2,157,845.00)
Schools ( est thru 6/30/2021)	\$		(700,000.00)
Health Dept.			(16,820.00)
Election			(81,058.00)
Morses Pond Summer Operations			(73,954.00)
Personnel Backfill			(108,347.00)
Cleaning/Disinfection			(272,080.00)
Technology (Non-School)			(12,387.00)
Legal			(68,355.00)
Food Programs			(72,499.31)
Library			(37,069.00)
<b>Subtotal CARES/Grants</b>	<b>\$</b>	<b>3,937,947.00</b>	<b>\$ (3,600,414.31)</b>
<b>CARES Available</b>			<b>\$ 337,532.69</b>
<b>Potential FEMA Reimbursement</b>		<b>391,000.00</b>	

### **Financial Plan Components**

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 "out years"). The Board establishes current year budget guidelines, cognizant of reserve implications, and works with the various Town boards to achieve a balanced budget. Projections are developed for subsequent years so that the Board may determine whether there will be sufficient revenue 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 proposed financing for these items.

## **Reserves**

The Town intentionally increased its financial reserves during the last 14 years and, on December 10, 2012, the Board adopted a formal reserve policy which informed the recommendations in this annual TWFP. Reserves are comprised of the Town's certified Free Cash and Stabilization Funds. Free Cash is the sum of funds appropriated and raised by the Town, but not expended in the years for which the funds were appropriated, plus anticipated revenues, minus uncollected taxes of prior years. Stabilization Funds are special accounts created to provide reserves (savings) for different types of variable expenditures. These Stabilization Funds help to smooth out the impact of capital projects or provide insurance against unexpected expenditures.

## **Pensions OPEB and Health Insurance Costs**

The Town makes an annual contribution to the Wellesley Contributory Retirement System, a defined benefit pension plan administered by the Wellesley Contributory Retirement Board. The proposed contribution for FY22 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. With the current actuarial valuation, completed as of December 31, 2020, in accordance with GASB Statement No. 74, the funding status has improved to 59.40%. The Town currently appropriates 1.89% of its annual budget to OPEB, and current estimates indicate that this obligation will be fully satisfied by 2032.

## **Balanced Budget**

Once balanced, the annual budget is presented by the Board 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.

## **Revenues**

### **Real Estate and Personal Property Taxes**

Wellesley's primary source of revenue is real estate taxes. In the revised FY22 budget, taxes represent 85.7% of the estimated revenues, of which 87.6% are from residential assessments.

### **State Aid**

The Town generally receives approximately 6.15% of its revenue in the form of State Aid, of which 86.4% 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. Current

projections show only a modest FY22 increase, as a result, State Aid now represents 6.57% of the FY22 revenues.

	<u>Final 2018</u>	<u>Final 2019</u>	<u>Final 2020</u>	<u>RECAP 2021</u>	<u>Governor 2022</u>
<b>State Aid</b>					
Chapter 70	\$ 8,399,961	\$ 8,955,295	\$ 9,273,504	\$ 9,273,504	\$ 9,407,484
	\$ 8,399,961	\$ 8,955,295	\$ 9,273,504	\$ 9,273,504	\$ 9,407,484
other school	\$ -	\$ -	\$ -		\$ 9,286
	\$ 8,399,961	\$ 8,955,295	\$ 9,273,504	\$ 9,273,504	\$ 9,416,770
Unrestricted (UGGA)	\$ 1,294,148	\$ 1,339,443	\$ 1,375,608	\$ 1,375,608	\$ 1,423,754
All other	\$ 65,540	\$ 53,236	\$ 65,462	\$ 51,094	\$ 45,401
<b>Total</b>	<b>\$ 9,759,649</b>	<b>\$ 10,347,974</b>	<b>\$ 10,714,574</b>	<b>\$ 10,700,206</b>	<b>\$ 10,885,925</b>
Assessments	\$ 1,239,371	\$ 1,260,154	\$ 1,262,442	\$ 1,308,172	\$ 1,317,219
<b>Net</b>	<b>\$ 8,520,278</b>	<b>\$ 9,087,820</b>	<b>\$ 9,452,132</b>	<b>\$ 9,392,034</b>	<b>\$ 9,568,706</b>

### Local Receipts

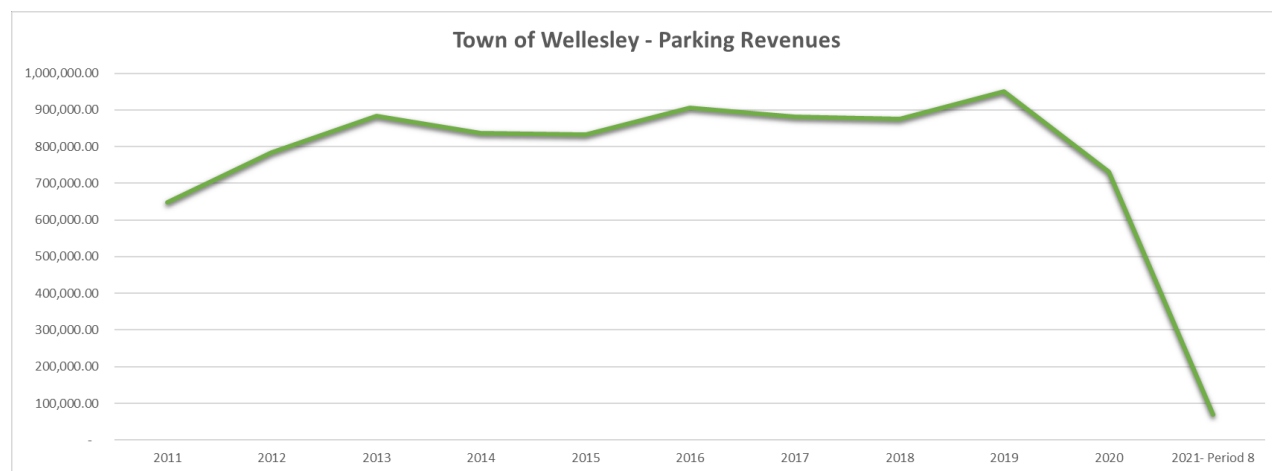
The most significant financial impact of COVID-19 on the FY22 budget is the anticipated negative impact on local revenue and parking receipts. Local receipts typically represent 7.35% of the Town's revenue. Most local receipts (72%) are from motor vehicle excise, permits and licensing, and interest earnings. With COVID-19 occupancy allowances increasing, there is potential for increases in meals, hotel, and motel tax, but it is too early to forecast the trajectory of the rebound. The Town has taken a conservative approach in reducing anticipated revenues by approximately \$400,000, bringing local receipt projections to 5.8% of revenues.

	<u>Actual FY18</u>	<u>Actual FY19</u>	<u>Actual FY20</u>	<u>Recap Budget FY21</u>	<u>Budget FY22</u>
<b>Local Receipts</b>					
Motor Vehicle Excise	\$ 5,749,176	\$ 5,814,076	\$ 5,463,429	\$ 5,200,000	\$ 5,200,000
Investment Income	760,311	1,644,747	1,761,606	750,000	397,693
Licenses and permits	4,049,311	3,617,016	2,043,985	2,300,000	2,300,000
RDF	817,862	594,114	663,669	502,797	650,000
Pilot payments	76,490	76,443	76,442	76,000	76,000
Parking Fines & Forfeits	466,684	577,555	452,093	250,000	200,000
Meals tax, hotel/motel	752,908	771,564	682,286	300,000	200,000
Recreation transfer	79,227	13,682	-	-	-
Penalties, Interest on Taxes	248,217	425,077	253,628	250,000	250,000
Rentals	169,038	180,728	198,929	100,000	100,000
Fees	116,737	109,180	109,851	100,000	100,000
Departmental	164,646	87,406	133,786	60,000	60,000
Medicare part D					
Medicaid			57,003		
All other	54,884	14324	271,076	104,101	58,995
<b>Total</b>	<b>\$ 13,505,491</b>	<b>\$ 13,925,912</b>	<b>\$ 12,167,783</b>	<b>\$ 9,992,898</b>	<b>\$ 9,592,688</b>

The drop in revenue from the Town's traffic and parking operations is a significant concern, given that these operations have historically been self-funding. COVID-19 resulted in a dramatic decrease in the use of public transportation and an increase in remote work, which has left the Town's commuter lots largely empty. To assist local businesses and merchants, two-hour parking

meters were free from June 1, 2020, through February 28, 2021. The Town had to refund yearly parking passes for the last half of 2020 and there have been few purchases for 2021. The Town is currently generating 8% of the normal traffic and parking revenues and is currently predicting a revenue shortfall of \$894,685 for FY21 which is being supplemented with Free Cash. The traffic and parking fund has a reserve of \$353,620 that will be incorporated into the FY22 budget. The traffic and parking division funds traffic consulting services for the Town; management and maintenance of the parking lots and parking meters; traffic calming; traffic signs; street line painting; and salaries for the Parking Clerk, meter attendants, and half of the salary of the Police Lieutenant who oversees the division.

Between 2013 and 2020, Parking Revenue has averaged approximately \$860,000. In 2020 the Town was on par with 2019 to collect approximately \$950,000 when COVID-19 emerged in March 2020, significantly impacting the last quarter of FY20. For FY21, Parking Revenue for the eight-month period from July 1, 2020 – February 28, 2021 was \$69,523.62. Commuter traffic is expected to rebound as more people are vaccinated and return to offices, but the Traffic and Parking operations will be monitored closely over the next two fiscal years. If commuter traffic does not rebound as quickly as projected, the Traffic and Parking fund may need to be supplemented by additional Town funding, or the programs administered by the Traffic and Parking fund may need to be absorbed into the Police and DPW budgets.



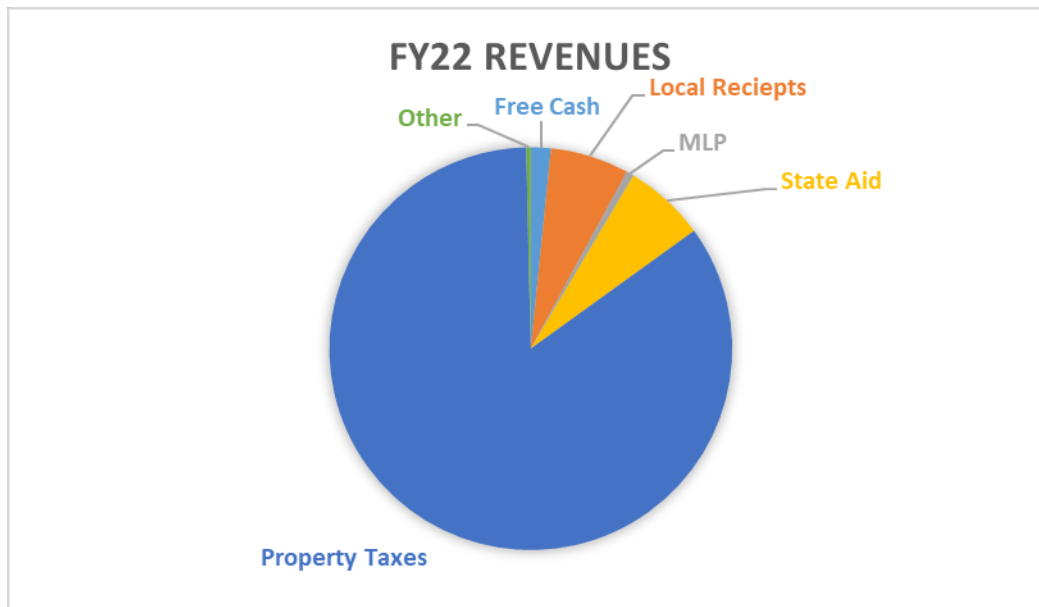
Additional revenue includes an annual contribution of \$1 million to the Town from the Wellesley Municipal Light Plant.

### Free Cash

Free Cash is made up of revenues in excess of budget projections, budget “turn-back” (amounts budgeted but not spent), and other timing differences.

<b><i>Free Cash</i></b>	<b><u>FY17</u></b>	<b><u>FY18</u></b>	<b><u>FY19</u></b>	<b><u>FY20</u></b>	<b><u>Est. FY21</u></b>
<b><i>Beginning of year</i></b>	\$ 11,858,182	\$ 12,109,416	\$ 14,615,285	\$ 16,171,779	\$ 18,319,871
<b><i>Uses</i></b>	(4,895,826)	(4,093,089)	(5,040,670)	(6,264,475)	(4,495,134)
<b><i>Net Free Cash generated</i></b>	5,147,060	6,598,958	6,597,164	8,412,567	1,000,000
<b><i>End of year</i></b>	\$ 12,109,416	\$ 14,615,285	\$ 16,171,779	\$ 18,319,871	\$ 14,824,737

For the FY22 budget, the proposed use of \$3,781,347 in Free Cash represents 2% of the estimated revenues.



## **Status of Reserves**

At the end of FY20 and throughout FY21, the Board evaluated the use of Free Cash and the resulting impact on reserves as the Town prepared for the long-term financial impacts of COVID-19. The Board has been deliberate in its efforts to limit the immediate application of Free Cash in order to maintain the reserves at the upper level of the Town's Policy, given that anticipated shortfalls in revenues and tight operating budgets will limit the generation of Free Cash (through reduced turnback) and may require the application of additional Free Cash to balance budgets over the next several fiscal years. The Board is also mindful of the need to maintain financial reserves to support the Town's favorable AAA bond rating.

The Town's Financial Policies stipulate that reserves should range from 8% to 12% of budgeted operating revenues. The Town's diligence in limiting hires, reducing spending, and mobilizing effectively for COVID-19 ended FY20 with a Free Cash Certification balance of \$18,319,871. The Free Cash and General Stabilization Fund reflects 13.61% of budgeted operating revenues, and with the addition of the Town's other Stabilization Funds (Special Education, Injured-on-Duty, Baler Fund) the total reserves rise to 15% of revenues. The FY22 proposed budget continues the established practice of maintaining funding levels for the stabilization funds and other reserves as well as Other Post-Employment Benefits (OPEB) and Pension contributions.

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, 2020, was \$3.56 million.

The Municipal Modernization Act of 2016 created an additional reserve fund opportunity for special education funding and the Town responded by creating 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 subsequent years. Article 11 on this year's warrant recommends appropriation of \$57,000 in revenues from Medicaid receipts. Over the past two years, deposits of \$500,000 have been made to the Special Education Reserve Fund to further protect the School budget from unforeseen special education outplacement costs. Funds deposited in a Stabilization Fund can be redirected for another purpose with Town Meeting authorization. The Board will continue to support the funding of the

Special Education Reserve Fund to ensure that a reliable level of reserves is 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. However, due to financial constraints in FY21, the Board is not recommending a further Free Cash deposit for FY22.

The updated FY22 budget continues the past practice of contributing Free Cash to the Injured-on-Duty stabilization fund (\$45,275), and the RDF Baler Fund (\$11,512). The Baler Fund deposit proposal represents a reduction from the anticipated deposit of \$50,000 due to the ongoing COVID-19 impact to the DPW budget. The following chart summarizes revised projections reflecting the anticipated use of Free Cash towards the FY22 Budget to the Town's reserve balances on June 30, 2021:

***Reserves Projection***

<b><i>Reserves as of 6/30/2020</i></b>		<b><u>Amount</u></b>
Free Cash estimated	\$	18,319,871
General Purpose Stabilization fund		3,555,097
Other Stabilization Funds		2,229,495
	\$	<b>24,104,463</b>
<b>FY21 Revenue</b>	\$	<b>160,705,760</b>
 <b><i>Sources and (Uses) of Reserves in FY21</i></b>		
Snow and Ice Removal		(600,000)
Customary Amount to balance FY2022		(2,500,000)
Balance FY22 Budget		(1,281,347)
Add to IOD Stabilization		(45,275)
Add to Baler Stabilization		(11,512)
Add to SPED Stabilization - Medicaid		(57,000)
Net Operating Change - estimated		1,000,000
<b><i>Estimated Reserves as of 6/30/21</i></b>	\$	<b>20,609,329</b>
<b>FY22 Revenue</b>	\$	<b>165,456,097</b>
<b>% of Revenue</b>		<b>12.46%</b>
<b>% of Revenue Without Special purpose Stabilization Funds</b>		<b>11.11%</b>

## **FY22 Budget Cycle**

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 employee benefits, 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 are discussed and 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 with the current resources.

Under the Town 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 Select Board 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 Town budget cycle usually begins in July with the Board’s initial discussion with the larger departments including School Department, the Facilities Management Department (FMD), and Department of Public Works (DPW). COVID-19 required a delay in the FY21 Annual Town Meeting with resolution at the end of June 2020. All summer, the Town continued to work on generating and implementing COVID-19 protocols and the School Department worked to design three scenarios for fall reopening plans. Consistent with the delays in the Commonwealth budget, the Town budget process was also delayed, and the Board reported the delays to the Special Town Meeting in October. Guidelines for FY22 were finalized November 2, 2020. The delay in the budget cycle required a four-week delay in the start of the 2021 ATM. This year’s budget process followed the timeline detailed below. For a full review of the Town Budget Preparation Manual, please see Appendix A attached.

## **Budget Submission Timeline**

- 
- June 22, 2020 Annual Town Meeting (Delayed due to COVID-19)
  - July 1, 2020 Fiscal Year begins
  - August 26 -- Finance Director and BOS Chairs to Advisory with FY2019 update
  - August 31 -- Finance Director updates BOS on FY2020 results
  - October 5 – BOS Begins FY 2022 Budget guideline discussions
  - October 14 – BOS continues guideline discussions
  - October 26 - BOS continues guideline discussions
  - October 29 – Inter-Board Meeting (evening)
  - October 30 – Inter-Board Meeting (morning)
  - November 2 – FY 2022 Operating Budget guideline finalized/ Capital planning discussion
  - November 2 – Town-wide FMD Capital update
  - November 5 – Operating budget manual & forms distributed; capital forms distributed
  - November 12 – HR provides guidelines for 40/50/60 series
  - November 16 – Open Annual Town Meeting Warrant
  - December 2 – Capital budget requests submitted to Finance from all departments
  - December 7 – Operating budgets due from Selectmen’s departments. Finance begins budget compilation
  - December 7 – Tax Classification Hearing
  - December 14 – Select Board’s Budget Workshop (Day)
  - December 14 – BOS Budget Roll Up to SB for Review
  - December 14 – Operating budgets due to Finance from non-school departments (early submissions encouraged)
  - December 23– Warrant Closes for Annual Town Meeting
  - January 12 – Superintendent’s operating budget due
  - January 19– Determine budget gap & begin closing process
  - February 23– School Committee votes School Department operating budget
  - Annual Town Meeting to begin April 26, April 27
  - Annual Town Meeting to continue May 3, May 4, May 10, May 11

## **Key Budget Drivers**

Each year at ATM, the Board and staff update the Town-Wide Financial Plan with input from the Town departments, boards, and committees, guided by the conservative financial policies adopted over the last decade. Due to COVID-19, an extensive analysis was performed following ATM and many COVID-19 impacts seem likely to linger for a significant period. As in prior years, the key issues impacting the Town’s financial planning include:

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

## **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. Each year the Human Resources Board evaluates increases for non-union municipal personnel and compares salary ranges to maintain competitive compensation ranges. Most Town employees are unionized, and their annual wage increases are a subject of collective bargaining. There are 12 unions representing 1,129 employees, the largest of which is the Teachers Association. (The teachers union contract expires June 30, 2022.) Last year eight of the Town’s union contracts were negotiated and approved by Town Meeting through June 30, 2023. There is currently one outstanding contract with the FMD Custodians that expired on June 30, 2020. The Town is hopeful we will reach settlement with the FMD Custodians but remain in negotiations. The Town has completed a one-year extension on health care benefits and will begin negotiations summer of 2021 with all unions on a new multi-year contract for health care benefits for FY23 and beyond.

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%. Most Town union contracts provide for 4-8 steps, and an average step increase of 5.3-5.6%. In recent years, longevity has been added in step form to a number of contracts for employees. 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 (FY22), 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.

This year, the Town hired 8 new firefighters to fill vacant positions that were left open from FY20 retirements due to COVID delays and replacing two FY21 retirements and one transfer. These new hires will have an impact over the next 4-5 years on the Fire Department budget as the new employees work their way through the steps.

## **Employee Benefit Costs**

Employee benefit costs will total nearly \$32.6 million in FY22 (17.8% of the Town’s total budget) and during the past 10 years this has been the fastest growing component of the overall Town budget. The principal components of this cost are:

- Health insurance premium costs for active and retired (non-Medicare eligible) employees and other associated benefit costs - \$20.9 million
- Pension plan contributions - \$8.2 million
- Other Post-Employment Benefits (OPEB) funding - \$3.4 million

### Health Insurance

The Town procures health insurance for active employees and retirees through the West Suburban Health Group (WSHG), a consortium of eight towns and two 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 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 offered various incentives to employees to lower their costs. Over the life of the three-year agreement more than 25% of eligible employees have maintained less expensive plans. The Town was able to extend the three-year agreement for an additional year through FY22. 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.

#### Pension Plan Contributions

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. However, unlike a defined-benefit pension plan in the private sector, municipal employees contribute toward the cost of their pension. Any municipal employee hired after 1996 is required to contribute 9% of annual pay plus 2% of pay over \$30,000.

Employee contributions to the Town of Wellesley pension plan during calendar 2020 totaled \$4 million and are estimated to total \$4.1 million in calendar 2021. In addition, the Town makes an annual contribution of \$8.2 million in FY22. 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.

#### Other Post-Employment Benefits (OPEB)

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 latest actuarial valuation of the Pension liability was performed as of January 1, 2019. The actuarial valuation is on a two-year cycle and a new valuation was performed January 1, 2021, although it will not be available until May of 2021. The following table summarizes the Town's unfunded liabilities related to pension and OPEB, based on employee service to date:

<b>Last Funding Valuation</b>	<b>Pension</b>	<b>OPEB</b>
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 \$239,036 increase in pension funding in FY22 (exclusive of enterprise funds). The 2017 and 2019 actuarial valuation of the

pension plan called for a reduction of the investment return assumption from 6.75% to a more conservative rate of 6.625%. A new actuarial valuation of the pension plan was performed on January 1, 2021; however, the Town will not receive the report until May 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 new valuation performed on January 1, 2021. (The Town also anticipates receipt of the new actuarial study in May 2021.) The interest rate was maintained at 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.

	<b>OPEB FUNDING</b>			
	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>
Inside the Levy	\$3,420,000	\$3,420,000	\$3,420,000	\$3,420,000
	<u>\$3,420,000</u>	<u>\$3,420,000</u>	<u>\$3,420,000</u>	<u>\$3,420,000</u>

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**

### **Capital Budget Requests**

Each year, boards submit a detailed five-year capital plan, and it is critical to include all anticipated capital needs for that five-year period, including cash capital and projects financed by debt or any other source. This year’s Budget Book details the original five-year capital requests submitted in December 2020, included in the [Capital Plan Forms](#). The final Five-Year Capital Plan reflects the most up-to-date project costs. Capital requests are intended to support the department’s strategic direction, and the financial and operational impact of each requested capital purchase should be quantified. Because financial resources are limited, boards are asked to internally prioritize capital needs and should fully research the cost of each item to better inform the discussion of which projects should be funded in a given year. Doing a thorough job of analyzing capital needs can help avoid sudden unanticipated requests in the current budget cycle, and greatly aids the financial planning process. With a rise in the inside-the-levy borrowing, available funding for cash capital projects is restricted.

As previously described, the Select Board has adopted a Debt Policy allocating between 6.2% to 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. In review of past five-year capital plans the total cost is rising far in excess of the 6.2% to 6.8% debt policy range and is hovering around the 9.3% range for

FY23 and FY24. With this gap, departments may feel their capital requests are being “cut,” but the reality is that the Town is working to bring capital requests into alignment with the adopted policy range of 6.2% to 6.8%. The five-year capital plan should strive to be close to the upper threshold of the debt policy range to reduce the optics of deferment or cuts. The threshold for cash capital items is \$10,000.

The combined inside-the-levy (cash capital and debt service) financing budget for FY22 is \$10,160,119 of this there is a maximum of \$4.2 million available for all cash capital projects. In FY23, there is currently a projected \$4.2 million available. In FY24, there is a current projection of \$3.9 million available for cash capital projects.

On October 26, 2020, Town Meeting approved a Climate Action Resolution proposed by the Select Board in accordance with the Unified Plan. The resolution requires the Town to proactively consider the impacts of Town funded projects and programs by including in any capital request a rationale for how the project or programs may influence greenhouse gas emissions and the Town’s climate resiliency overall.

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

### **Budget Assumptions**

The Town currently holds approximately \$415,517,637 in assets inclusive of buildings and contents. Capital project needs and costs continue to be a major factor in out-year deficits. It is the Town’s responsibility to maintain assets or replace assets as they reach their useful life. The Board works to prioritize and balance needs with inside-the-levy borrowing, cash capital, and major project funding through debt exclusions. The Board considers funding capacity when issuing the Budget Guidelines and this year required a cap on the debt policy of 6.2% given the anticipated reduction in revenues and debt exclusion vote for the elementary schools in the fall of 2021. Several assumptions have been made for purposes of projecting the Town’s Sources and Uses of funds for the years FY23-25 and evaluating potential overrides.

The budget assumptions established are as follows:

#### **Revenues**

- Levy growth 2.5% plus \$1.7 million of new growth in FY23 and \$1.5 million in FY24 and FY25
- State Aid 2% increase for FY23-25
- Local revenue \$400,000 decrease for FY22, 2% increase for FY23-FY25
- Use of Free Cash \$2.5 million/year

#### **Expenses**

- Town operating budgets average 2.5% increase
- School operating budgets average 2.5% increase
- Pension per approved funding schedule
- Health insurance 6% increase
- Other employee benefits 0% increase

Combined with significant capital expenditure reductions, these budget assumptions allow the Town to strive to reach balanced budgets in the out-years. Any increases in estimates may require operational overrides or reductions in departmental operations.

## Exhibit II

	FY21 Budget	FY22 Request	\$ Inc/(Dec)	% Inc/(Dec)	FY23 Projection	FY24 Projection	FY25 Projection
<b>Sources of Funds</b>							
Taxes	\$ 139,002,423	\$ 144,277,484	\$ 5,275,061	3.8%	\$ 149,584,421	\$ 154,824,031	\$ 160,194,632
State Aid	10,700,206	10,885,925	185,719	1.7%	11,103,644	11,325,716	11,552,231
Local Revenue	11,004,683	10,592,688	(411,995)	-3.7%	10,784,542	10,980,233	11,179,837
Free Cash to balance	2,639,066	3,781,347	1,142,281	43.3%	2,500,000	2,500,000	2,500,000
Other Free Cash items	1,225,409	113,787	(1,111,622)	n/a	-	-	-
Other Sources	2,407,851	1,016,045	(1,391,806)	-57.8%	370,716	377,265	383,946
CPA for North 40	553,444	549,444	(4,000)	-0.7%	550,244	550,644	550,644
Exclusions & Exemptions	10,409,960	10,979,648	569,688	5.5%	10,456,890	9,625,313	9,436,026
Total Sources	\$ 177,943,042	\$ 182,196,368	\$ 4,253,326	2.4%	\$ 185,350,456	\$ 190,183,202	\$ 195,797,315
<b>Uses of Funds</b>							
School	\$ 80,379,651	\$ 82,540,254	\$ 2,160,603	2.7%	\$ 84,603,760	\$ 86,718,854	\$ 88,886,826
Other Town Departments	40,903,585	41,822,558	918,973	2.2%	42,868,122	43,939,825	45,038,321
Employee Benefits	32,398,243	32,593,654	195,411	0.6%	33,924,080	35,341,260	36,835,629
Cash Capital	3,881,232	4,260,119	378,887	9.8%	10,381,894	7,762,033	8,749,126
Debt (inside Levy)	5,000,000	5,900,000	900,000	18.0%	6,496,759	7,142,036	6,708,829
Other Uses	4,416,928	3,550,691	(866,237)	-19.6%	2,500,149	2,333,903	2,058,456
Exclusions & Exemptions	10,963,404	11,529,092	565,688	5.2%	11,007,134	10,175,957	9,986,670
Total Uses	\$ 177,943,042	\$ 182,196,368	\$ 4,253,326	2.4%	\$ 191,781,899	\$ 193,413,869	\$ 198,263,856
Surplus/(Deficit-Override)	\$ (0)	\$ (0)			\$ (6,431,443)	\$ (3,230,666)	\$ (2,466,541)

Based on the budget assumptions outlined above, the current projected deficit for FY23 is \$6,431,443 with no modifications to the cash capital budget or application of additional Free Cash. This is approximately \$870,000 more than projected in June 2020, as a result of FY22 cash capital projects being deferred to FY23. The FY24 and FY25 out-year projections have deficits in the range of \$3.2 to \$2.5 million; these deficit projections are based on modest revenue assumptions and reflect the currently evolving economic situation.

Strict adherence to the inside-the-levy debt policy (expenses within a range of 6.2% to 6.8% of recurring operating revenues) 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.

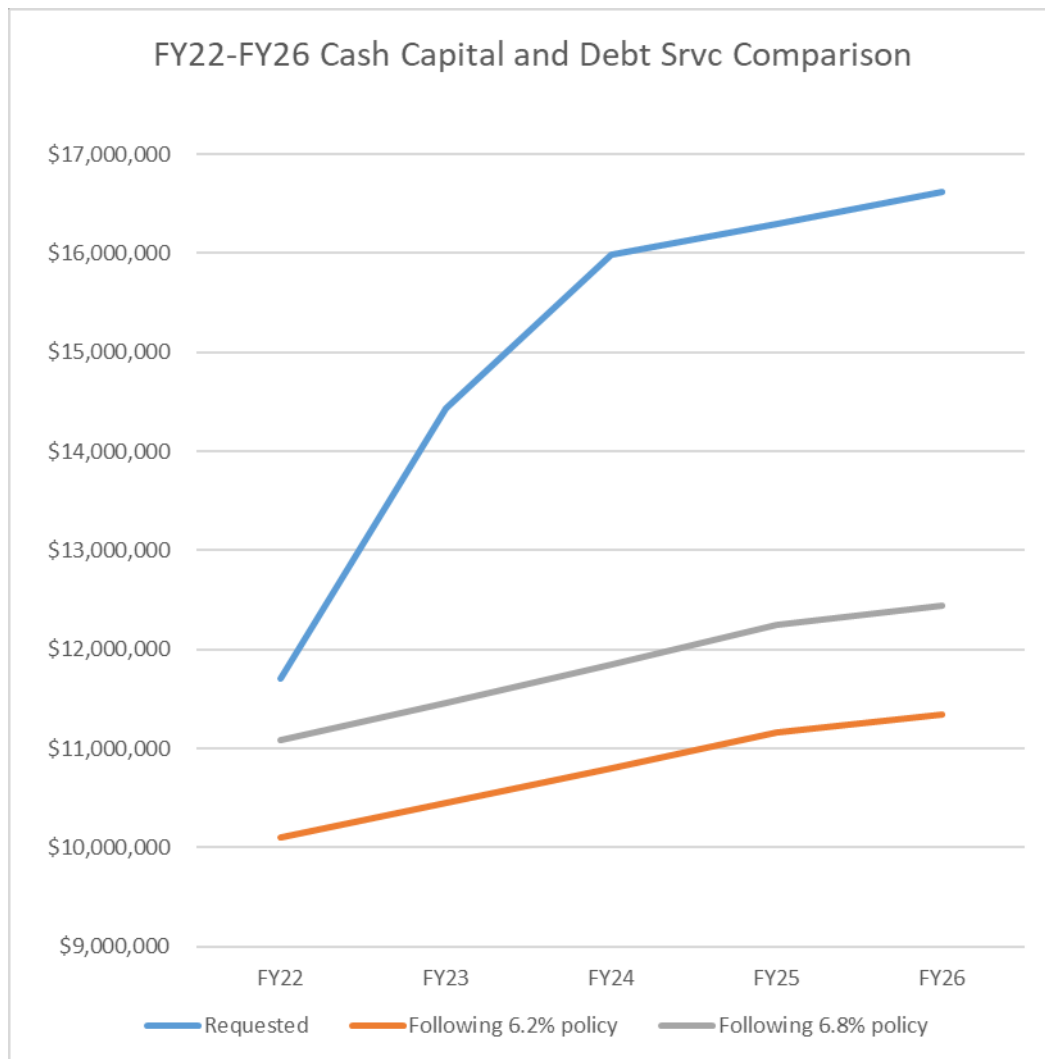
Impact on Deficit of Debt/Capital Policy				
	2023	2024	2025	
revenue	\$ 171,472,607	\$ 177,129,981	\$ 182,926,700	
Projected deficit	\$ (6,431,443)	\$ (3,230,666)	\$ (2,466,541)	
Debt/Capital	\$ 16,878,653	\$ 14,904,069	\$ 15,457,955	
Percent requested	9.84%	8.41%	8.45%	
If reduced to 6.2%	\$ 10,631,302	\$ 10,982,059	\$ 11,341,455	
Revised deficit	\$ (184,092)	\$ 691,344	\$ 1,649,959	

For **informational purposes only**, a model has been created to show the impact on debt and deficits utilizing the **bottom** of the debt policy range at 6.2% of operating revenues, rather than the higher figures previously identified or requested. The chart above shows that the deficits would be significantly reduced over the three-year period; however, since debt service is largely determined from the Major Project Schedule, except for three new inside-the-levy borrowings (Town Hall Interior, Grove Street, Dispatch Communications Overhaul, future cash capital allocations would require limitations of

- \$4,181,694 in FY23 (a decrease of \$6.2M);

- \$3,862, 033 in FY24 (a decrease of \$3.9M); and
- \$4,649,126 in FY25 (a decrease of \$4.1M).

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 reflects total capital (both cash capital and inside-the-levy) as requested during this five-year period. Financial Services works with departments to try and smooth the curve of capital projects as five-year capital requests are submitted. 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% to 6.8%). As a point of context, the FY22 budget is at 6.13% of recurring operating revenues or the lower end on the range, and in FY23 – FY25 the graph shows the requested projects exceeding the top of the range and dropping down with requests. 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.

In addition to the projects financed inside the levy, debt exclusions to be placed on the ballot over the next few years will increase taxes. Debt exclusions include:

- Construction of the Hunnewell School - (December 2021)
- Construction of the MSBA School (Hardy) – (December 2021)
- Renovations to the interior of Town Hall – (November/December 2022)

## Proposed Major Project Financing Schedule

### Debt Exclusions

Project	Estimated Cost	Fiscal 2022		Fiscal 2023		Fiscal 2024		Fiscal 2025		Fiscal 2026		Fiscal 2027		Fiscal 2028	
		ATM 2021	Fall 2021	ATM 2022	Fall 2022	ATM 2023	Fall 2023	ATM 2024	Fall 2024	ATM 2025	Fall 2025	ATM 2026	Fall 2026	ATM 2027	Fall 2027
Hunnewell School	Construction/swing space	52.4/3.45w			DE										
MSBA Project	Design/Construction	\$72.3M			DE										
Town Hall Interior	Design	\$1.85M	Inside												
	Construction	\$15.5M				DE									
PAWS	Design	\$2.0M													
	Construction	\$18.0M									Inside				
TOTALS		\$165.45	\$1.85M	\$128.1	\$4.1M	\$15.5M	\$	\$9.15M	\$	\$-	\$	\$-	\$2.0M	\$-	\$
															DE \$18.0M

The remaining major projected projects and a potential timetable can be found in Appendix A.

The following table is a roll-forward projection of the median tax bill (i.e., the tax bill for a home valued at \$1,171,000 for the period FY21 – FY27). The Board continues to be mindful that the requests for numerous debt exclusions in the upcoming three years will have a significant impact on our taxpayers, particularly as revenues are rebounding from COVID-19 throughout FY21 and into FY22. 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.

### Median Tax Bill

	FY21	FY 22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Levy Prior	\$ 12,801	\$ 12,648	\$ 12,986	\$ 13,344	\$ 13,692	\$ 14,048	\$ 14,413	\$ 14,785	\$ 15,166	\$ 15,555
Levy growth	\$ -	\$ 480	\$ 478	\$ 467	\$ 475	\$ 483	\$ 491	\$ 499	\$ 508	\$ 516
Existing Debt Exclusions	\$ 959	\$ 1,017	\$ 986	\$ 803	\$ 776	\$ 701	\$ 637	\$ 613	\$ 577	\$ 514
HHU	\$ -	\$ -	\$ 564	\$ 636	\$ 693	\$ 673	\$ 616	\$ 600	\$ 582	\$ 564
Town Hall Interior	\$ -	\$ -	\$ -	\$ 47	\$ 124	\$ 120	\$ 118	\$ 114	\$ 111	\$ 107
Median tax bill	\$ 13,759	\$ 14,145	\$ 15,014	\$ 15,297	\$ 15,760	\$ 16,025	\$ 16,274	\$ 16,612	\$ 16,943	\$ 17,257



## **FY22 Operating and Capital Budget Requests**

The proposed FY22 budget request is summarized in the following table (more complete versions of the FY22 Sources & Uses are presented in [Exhibit I](#) and [Exhibit B](#)).

	<b><u>FY21</u></b>	<b><u>FY22</u></b>	<b><u>\$</u></b>	<b><u>%</u></b>
	<b><u>Budget</u></b>	<b><u>Request</u></b>	<b><u>Inc/(Dec)</u></b>	<b><u>Inc/(Dec)</u></b>
<b><i>Sources of Funds</i></b>				
Taxes	\$ 139,002,423	\$ 144,277,484	\$ 5,275,061	3.8%
State Aid	10,700,206	10,885,925	185,719	1.7%
Local Revenue	11,004,683	10,592,688	(411,995)	-3.7%
Free Cash to balance	2,639,066	3,781,347	1,142,281	43.3%
Other free cash items	1,225,409	113,787	(1,111,622)	0.0%
Other Sources	1,858,351	441,045	(1,417,306)	-76.3%
CPA Funds	549,500	575,000	25,500	4.6%
CPA to offset debt	553,444	549,444	(4,000)	-0.7%
Exempt Debt	10,409,960	10,979,648	569,688	5.5%
<b>Total Sources</b>	<b>\$ 177,943,042</b>	<b>\$ 182,196,368</b>	<b>\$ 4,253,326</b>	<b>2.4%</b>
<b><i>Uses of Funds</i></b>				
School	\$ 80,379,651	\$ 82,540,254	\$ 2,160,603	2.7%
Other Town Departments	40,903,585	41,822,558	918,973	2.2%
Employee Benefits	32,398,243	32,593,654	195,411	0.6%
Cash Capital	3,881,232	4,260,119	378,887	9.8%
Debt Service (inside Levy)	5,000,000	5,900,000	900,000	18.0%
Other Uses	4,416,928	3,550,691	(866,237)	-19.6%
Exempt Debt	10,963,404	11,529,092	565,688	5.2%
<b>Total Uses</b>	<b>\$ 177,943,042</b>	<b>\$ 182,196,368</b>	<b>\$ 4,253,326</b>	<b>2.4%</b>
<b><i>Surplus/(Deficit)</i></b>	<b><u>\$ (0)</u></b>	<b><u>\$ (0)</u></b>		

**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 \$185,719. The 3.7% decrease in Local Revenue reflects the assumptions on reductions of motor vehicle excise tax, investment income, and meals and hotel/motel tax previously identified. The significant reduction of -76.3% in Other Sources is reflecting the \$1,264,100 lost in Parking Meter Receipts for from FY21.

**Uses of Funds:** The 2.7% increase in the School budget reflects the cost of contractual step and cost-of-living increases only. The Schools took a close look at their personal services and expenses and worked hard to meet the Town's 2.5% budget guideline directive. The 2.3% increase in Other Town Departments is consistent with the budget guideline of 2.5%, wage increase levels recommended by the Human Resources Board (2.0%) and various adjustments in other expenses for all departments. The Town request includes a provision to provide funding for open town union contracts for FY21 for the FMD Custodians should the Town settle. There are no new positions proposed on the Town side, although the Sustainable Energy Committee (SEC) is proposing to increase the hours of the director. Although debt is up 18% and cash capital is up 9.8%, those increases reflect borrowing approved at the fall STM (Library Roof, Library Interior, and Sprague Chiller) and the proposed borrowing for Town Hall Interior Schematic Design, Grove Street Reconstruction, and the Dispatch Communication Overhaul. The cash



capital for FY21 was reduced to 5.3% so the increase appears substantial, while in actuality cash capital was held to the lower threshold of the Debt Policy.

The Board has looked to take advantage of overages in personal services from open positions to fund needed projects, including the following:

Supplemental FY21 appropriation from Free Cash:

- \$600,000 for current year snow and ice removal costs

Supplemental FY21 appropriations from Personal Services:

- \$25,000 from Police Personal Services to Expenses for Training
- \$26,574 transfer from Health Dept. Mental Health to Police Mental Health Funds
- \$20,000 transfer from Health Dept. Personal Services to Health Capital for furniture
- \$50,000 transfer from Planning Personal Services to Planning Capital for digitization of records
- \$50,000 transfer from Executive Director Personal Services to Capital for IT cyber audit
- \$20,000 transfer from Executive Director Personal Services to Capital for IT GIS aerial flyover
- \$25,000 transfer from IT Personal Services to IT Expenses for purchase of Adobe Licenses

FY22 appropriations from Free Cash:

- \$57,000 Special Education Stabilization Fund (Medicaid)
- \$11,512 Baler stabilization Fund
- \$45,275 IOD Indemnity Fund

## **Conclusion**

The Town is continuing to manage the impact of COVID-19 as the Commonwealth institutes a phased reopening plan and increases the availability of vaccinations. The FY22 budget takes a comprehensive and conservative approach and does not assume further state or federal relief funds. The recently approved federal stimulus acts are anticipated to assist with ongoing COVID-19 school reopening and health and safety costs, while also providing financial assistance to offset impacts of COVID-19. As the two acts become operationalized, the Town will continue to evaluate deferred programming and capital needs. At this time, the Board believes it is prudent to be conservative in spending Free Cash and to safeguard reserves as the Town considers impacts to revenue, rebound of parking meter receipts, and major capital debt exclusions over the next three years.

Members of the Board would like to express our sincere appreciation to former Select Board member Marjorie Freiman who assisted with preparation of the FY22 Town-Wide Financial Plan before stepping off the Board on March 2, 2021; Executive Director Meghan Jop, Assistant Executive Director Amy Frigulietti, Finance Director Sheryl Strother, and their staff, as well as all Town boards and their respective staffs for their continued commitment to working with the Board to monitor and evaluate budgets and protect and preserve Town assets. We look forward to continued collaboration during the challenging budget cycles ahead to maintain the strength and health (public and economic) of our community.

Sincerely yours,  
Thomas H. Ulfelder, Chair  
Lise M. Olney, Vice Chair  
Elizabeth Sullivan Woods, Secretary  
Colette E. Aufranc  
Ann-Mara S. Lanza

## TOWN OF WELLESLEY- SOURCES AND USES OF FUNDS

Exhibit I

	<b>FY2021 Tax Rate</b>	<b>FY2022 Request</b>	<b>% Change</b>
<b>*** SOURCES OF FUNDS ***</b>			
Tax & Other Current Revenues			
Within Levy Limits			
Real Estate & Per. Prop. Tax	139,002,423	144,277,484	3.79%
From the Commonwealth	10,700,206	10,885,925	1.74%
Local Revenue	11,004,683	10,592,688	-3.74%
<b>Sub-Total (Tax &amp; Cur. Rev.)</b>	<b>160,707,312</b>	<b>165,756,097</b>	<b>3.14%</b>
Outside Levy Limits			
Real Estate & Pers.Prop.Tax	10,409,960	10,979,648	5.47%
Available Funds			
Water and Sewer	314,750	321,045	2.00%
Parking Meter Receipts	1,264,100	0	-100.00%
Appropriated/Reserved CPA Surcharge	549,500	575,000	4.64%
CPA Funds for North 40	553,444	549,444	-0.72%
Free Cash- balance budget	2,639,066	3,781,347	43.28%
Free Cash- Other items	1,225,409	113,787	100.00%
Unencumbered/Transfers from other funds	279,501	120,000	100.00%
<b>Sub-Total (Available Funds)</b>	<b>17,235,730</b>	<b>16,440,271</b>	<b>-4.62%</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>177,943,042</b>	<b>182,196,368</b>	<b>2.39%</b>
<b>*** USE OF FUNDS ***</b>			
	<b>FY2020 Request</b>	<b>FY2021 Request</b>	<b>% Change</b>
Personal Services (Non-School)	29,921,869	30,472,926	1.84%
Expenses (Non-School)	10,981,716	11,349,632	3.35%
Subtotal (Non-School)	40,903,585	41,822,558	2.25%
Personal Services (School)	70,862,362	73,590,176	3.85%
Expenses (School)	9,517,289	8,950,078	-5.96%
Subtotal (School)	80,379,651	82,540,254	2.69%
<b>Sub-Total (Pers. Svcs. &amp; Exp)</b>	<b>121,283,236</b>	<b>124,362,812</b>	<b>2.54%</b>
Capital & Debt:			
Within Levy Limits			
Capital/Extraord./Special Items	3,881,232	4,260,119	9.76%
Debt Service	5,000,000	5,900,000	18.00%
<b>Sub-Total (Within Levy Limits)</b>	<b>8,881,232</b>	<b>10,160,119</b>	<b>14.40%</b>
Outside Levy Limits			
Debt Service	10,963,404	11,529,092	5.16%
<b>SUB-TOTAL (CAPITAL &amp; DEBT)</b>	<b>19,844,636</b>	<b>21,689,211</b>	<b>9.30%</b>
Employee Benefits:			
Health Insurance & other	21,000,462	20,926,837	-0.35%
Pension Contribution	7,965,781	8,234,817	3.38%
OPEB Liability Fund	3,432,000	3,432,000	0.00%
<b>Sub-Total (Shared Costs)</b>	<b>32,398,243</b>	<b>32,593,654</b>	<b>0.60%</b>
<b>SUB-TOTAL (OPERATIONS)</b>	<b>173,526,114</b>	<b>178,645,677</b>	<b>2.95%</b>
Special Items:			
Traffic & Parking Management	1,228,015	894,685	-27.14%
Appropriated/Reserved CPA Surcharge	549,500	575,000	4.64%
State & County Assessments	1,308,172	1,317,219	0.69%
Property Tax Abatements	657,820	650,000	-1.19%
Free cash	673,421	113,787	100.00%
<b>Sub-Total (Special Items)</b>	<b>4,416,928</b>	<b>3,550,691</b>	<b>-19.61%</b>
<b>TOTAL USE OF FUNDS</b>	<b>177,943,042</b>	<b>182,196,368</b>	<b>2.39%</b>
<b>TOTAL SOURCE OF FUNDS</b>	<b>177,943,042</b>	<b>182,196,368</b>	<b>2.39%</b>
<b>SURPLUS (DEFICIT)</b>	<b>(0)</b>	<b>(0)</b>	

# EXHIBIT B

## TOWN OF WELLESLEY - TOWN MEETING APPROVED ALLOCATION OF FUNDS

SOURCES OF FUNDS	FY21 SOURCES OF FUNDS	FY22 SOURCES OF FUNDS	CHANGE - FY21 to FY22 \$ Change	% Change
<i>Real Estate &amp; Personal Property Tax</i>				
Within the Levy Limit	139,002,423	144,277,484	5,275,061	3.79%
Outside the Levy Limit	10,409,960	10,979,648	569,688	5.47%
Subtotal - Real Estate & Personal Property Tax	149,412,383	155,257,132	5,844,749	3.91%
<i>From the Commonwealth</i>				
Chapter 70 Aid	9,273,504	9,407,484	133,980	1.44%
Lottery Aid	1,375,608	1,423,754	48,146	3.50%
Other Aid	51,094	54,687	3,593	7.03%
Subtotal - From the Commonwealth	10,700,206	10,885,925	185,719	1.74%
<i>Local Revenue</i>				
Motor Vehicle Excise	5,200,000	5,200,000	0	0.00%
Licenses and Permits	2,300,000	2,300,000	0	0.00%
Interest Earnings	750,000	397,693	(352,307)	-46.97%
RDF Revenue	502,797	500,000	(2,797)	-0.56%
Fines & forfeits	250,000	250,000	0	0.00%
Town Clerk	10,233	0	(10,233)	-100.00%
Meals/Hotel/Motel Tax	300,000	300,000	0	0.00%
Pilot Payments	76,000	76,000	0	0.00%
MLP Payment In Lieu of Taxes	1,000,000	1,000,000	0	0.00%
Other Local Revenues	615,653	568,995	(46,658)	-7.58%
Subtotal - Local Revenue	11,004,683	10,592,688	(411,995)	-3.74%
<i>Other Sources</i>				
MLP/Water/Sewer reimbursements to IT	314,750	321,045	6,295	2.00%
Parking Meter Receipts	1,264,100	0	(1,264,100)	-100.00%
Free Cash to balance budget	2,639,066	3,781,347	1,142,281	43.28%
Free Cash items	1,225,409	113,787	(1,111,622)	-90.73%
Appropriated CPA Surcharge	549,500	575,000	25,500	4.64%
CPA Funds applied to North 40	553,444	549,444	(4,000)	-0.72%
Insurance Funds	158,700	0	(158,700)	-100.00%
Police detail	120,801	120,000	(801)	-0.66%
Subtotal - Other Sources	6,825,770	5,460,623	(1,365,147)	-20.00%
TOTAL SOURCES OF FUNDS	177,943,042	182,196,368	4,253,326	2.39%