



**Town-Wide Financial Plan Fiscal Year 2022 Special Town Meeting
Interim Budget Update
Submitted by the Select Board**

October 5, 2021

Dear Town Meeting Members:

Please find an interim Fiscal Year 2022 (FY22 is the year beginning July 1, 2021) budget update to the Town-Wide Financial Plan (TWFP) for the 2021 Special Town Meeting (STM).

The October 2021 Special Town Meeting will consider two significant debt exclusions for the Hunnewell and Hardy Elementary School projects. In preparation for that discussion, the Select Board has produced this interim report to provide Town Meeting Members with an update on the Town's financial picture and some preliminary considerations for FY23.

Highlights:

- State and federal relief funds have helped the town weather the financial impact of the pandemic, and the Town is now eligible for additional funds from the American Rescue Plan Act (ARPA).
- FY21 revenues outperformed the Town's conservative assumptions by \$3.8 million at year end.
- The Town's reserves were at \$25,830,840 at the end of FY21, allowing the Board to consider addressing deferred capital needs in FY23.
- Additional considerations for the FY23 budget include the need for a new union contract for School Department employees, and a new multi-year contract for health care benefits to be negotiated with all unions.
- The Board is planning for the proposed debt exclusions for the two school projects and estimates the peak impact to the median tax bill will be \$760 in 2025.
- The Board is contemplating capital spending at the high end of the debt policy range (6.8% of recurring operating revenues).
- Favorable reserves and additional federal relief funds are likely to allow for some greater flexibility as the Town seeks to catch up on capital needs.

Background:

The Select Board prepares the [Town-Wide Financial Plan](#) as required by the Town of Wellesley Town Bylaws (Section 19.16) and the Board submits the report to Town Meeting each year. The Select Board presented the FY22 Financial Plan in March 2021. The FY22 Budget Book and Town Wide Financial Plan are the basis for this report and can be found at wellesleyma.gov/2021budgetbook. The TWFP is constructed using information submitted by Town boards pursuant to the provisions of Sections 6.15 and 11.11 of the Town Bylaws. Financial projections for upcoming years are calculated according to board policies and other assumptions approved by the Board.

In April 2021, Town Meeting approved a balanced budget of \$182,196,368 for the Fiscal Year 2022. At the request of the Select Board, Town Meeting authorized the use of \$3,781,347 from reserves ("Free Cash") to balance the budget.

Overview of Recent Relief Funding for COVID-19 Expenses

The Town continues to emerge from the financial impacts of the COVID-19 pandemic which impacted FY20, FY21, and FY22. State and federal assistance has come in several waves and will continue to provide some relief.

Federal Consolidated Appropriations Act

In December 2020, Congress passed the Federal Consolidated Appropriations Act (Act), providing \$900 billion in stimulus relief in response to the COVID-19 pandemic. The Act allowed for Coronavirus Aid, Relief, and Economic Security (CARES) funds to be extended from December 30, 2020, to December 31, 2021, while also providing additional modest resources for schools. With the ability to expend CARES funds through the end of 2021, the Town was able to cover the anticipated COVID-19 costs associated with operations, including the significant salary costs of the Remote Learning School through June 30, 2021. The Town received \$2,616,201 in CARES funds and has expended all funds as of this report.

Federal Emergency Management Agency (FEMA) Reimbursement

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, personal protective equipment (PPE), cleaning and sanitization costs, and school reopening costs. FEMA continues to issue revised guidance on implementation, and the Town is currently awaiting approval of submitted reimbursements of \$391,397.49 in Town expenses. Thus far, the Town has received \$365,638.00 in reimbursements submitted by the School Department for the school COVID-19 testing program. Additional reimbursements from FEMA will be added to Free Cash.

American Rescue Plan Act (ARPA)

On March 11, 2021, the President signed the American Rescue Plan Act (ARPA) into law. The law provides for financial assistance to municipalities and schools through direct local funds and through allocated county funds. Wellesley is eligible for the following:

- Approximately \$3 million in local funds (half of which was received in FY21)
- Approximately \$5.4 million available through an application process administered by the Norfolk County Commissioners
- Competitive grants from the Commonwealth which are still being developed. (The Commonwealth received \$2.8 billion in ARPA funds.)

The eligible uses for ARPA funds fall into these broad categories:

- Response to the public health emergency
- Premium pay to employees providing essential work
- Revenue replacement to support government services impacted by COVID-19
- Investments in sewer, water, or broadband infrastructure

ARPA funds are prohibited from being used for the following:

- To offset a reduction in taxes
- To offset or reduce pension obligations
- To Service debt for infrastructure investments (qualifying infrastructure projects must be pay-as-you-go investments)
- To increase reserves or stabilization funds.

The Town has not yet expended any ARPA funds and will be reviewing eligible projects as part of the FY23 budget process. ARPA funds must be obligated by December 31, 2024, and must be expended by December 31, 2026.

Total COVID Funding Assistance Available and Application of Funds:

	Federal and State Assistance	3/2020 - 9/2021
Municipal CARES Allocated	\$ 2,616,201.00	
Schools CARES Allocated	\$1,097,100.00	
School ESSR Grant	\$123,519.00	
School CARES Remote Learning	\$101,127.00	
Schools through 6/30/21	\$ (3,065,799.69)	
Health Dept.		(24,230.00)
Election		(81,058.00)
Morses Pond Summer Operations FY20,FY21,FY22		(143,832.00)
Personnel Backfill (Non-School)		(90,939.00)
Cleaning/Disinfection		(298,456.00)
Technology (Non-School)		(50,614.00)
Legal		(68,355.00)
Food Programs		(72,499.31)
Library		(42,164.00)
Subtotal CARES/Grants	\$ 3,937,947.00	\$ (3,937,947.00)
CARES Available		\$ -
Potential FEMA Reimbursement	\$ 757,035.00	
ARPA - Local Funds	\$ 3,000,847.00	
ARPA - County Funds (less 3% county admin. fee)	\$ 5,401,746.67	
ARPA - Available		\$ 9,159,628.67

Revenues

Performance of past revenue assumptions

In FY21, the Board applied a set of conservative assumptions to account for the potential impact of COVID-19 on revenue from New Growth, Motor Vehicle Excise Tax, Investment Income, Meals/Hotel/Motel Tax, and building fees. In FY21, parking revenue from meters and commuter lots plummeted.

The Board is pleased to report that the FY21 revenues outperformed the conservative assumptions by \$3.8 million due to several factors:

- The Town received a one-time building permit fee of \$1.14 million for the 350-unit multi-family housing structure at Williams Street, in the Wellesley Office Park.
- The Town experienced partial rebounds, including permits (+\$400,000), Motor Vehicle Excise Tax (+\$348,000), RDF Revenues (+\$238,000), and Meals/Hotel/Motel Tax (+\$205,000).

- The Treasurer was able to recoup \$1.17 million in one-time tax title properties including deferral and interest payoffs from the sale of long-term (20+ year) delinquencies.

Traffic and Parking Operations

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.

Current data shows the Town's traffic and parking revenues continue to be significantly lower than previous years, particularly in the commuter parking lots. COVID-19 resulted in a dramatic decrease in the use of public transportation and an increase in remote work, which continues to leave the Town's commuter lots largely empty. The Massachusetts Bay Transportation Authority (MBTA) has increased train service as part of its "Regional Rail" service initiative. Service to Wellesley is no longer limited to clusters of trains during traditional morning and evening commuting hours, as the MBTA is now offering "Clock Face Scheduling" on weekdays with trains throughout the day. The Select Board is encouraged by the slow but steady return of commuters to public transportation.

At the close of FY21, traffic and parking had risen from 2% (as of October 2020) to 26% of the FY20 totals and 20% of the FY19 totals. The FY22 operating budget subsidized the Traffic and Parking Budget, typically a self-sustaining fund, with just under \$900,000. The Board is anticipating a revenue shortfall of approximately \$500,000 in FY23 and is planning to subsidize the Traffic and Parking Fund, as was done in FY22.

Other Trends

Collections of property tax and excise tax reflect past year percentages and the Town has not seen a drop in valuation. [The current FY22 Budget has an increase of 2.39% compared to the FY21 approved Budget.](#)

Status of Reserves

Throughout the FY21 and FY22 budget process, the Select Board evaluated the use of Free Cash and the resulting impact on reserves as the Town prepared for the financial impacts of COVID-19. The Town's Financial Policies stipulate reserves should range from 8% to 12% of budgeted operating revenue. The FY21 budget approved by Town Meeting maintained funding levels for the stabilization funds and other reserves as well as Other Post-Employment Benefits (OPEB) and Pension contributions.

In June 2020, anticipated reserve balances for FY20 were 11.54% of revenue. In July 2021, with continued COVID-19 restrictions and modified operations throughout the fiscal year, departmental operating turnback was high at \$8.5 million. Town departments turned back \$3.2 million, the School Department turned back \$3.2 million, and the Health Insurance turn back was \$2.2 million, bringing the Town's reserves to \$25,830,840 or 19.64% of revenue.

The increased reserve balance and federal aid in the form of ARPA funds will allow the Board more flexibility in evaluating deferred capital needs resulting from necessary cuts in FY20 and FY21, however the Board is anticipating it may take several budgetary cycles to catch up on capital spending.

FY23 Budget Considerations

The Town's FY23 budget process is underway for FY23. The Board began discussing budget guidelines in August informed by the positive FY21 financial results and more favorable revenue estimates for FY23. The Board is working to re-establish the typical budget timeline, with a return to the late March start of Annual Town Meeting in 2022. As conversations begin on capital funding, the Board has been modeling capital costs for the five-year capital plan according to the upper limit of the Board's debt policy (6.8% of recurring operating revenues).

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

- Growth in personnel costs
- Rising costs of employee benefits
- Facilities and other capital needs.

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. Most Town employees are unionized, and their annual wage increases are a subject of collective bargaining. There are 11 unions representing 1,129 employees, the largest of which is the Teacher's Association. As part of the 2021 Annual Town Meeting, the Town had one union settlement outstanding for the Facilities Management Department Custodians. Following the 2021 Annual Town Meeting, the Town was able to settle with the union and will be bringing the settlement agreement to the Special Town Meeting for approval. For FY23, the School Committee will need to negotiate a successor agreement to their union contracts and the Town will negotiate with all unions on a new multi-year contract for health care benefits for FY23 and beyond.

Facilities Management Department Custodian Union Settlement

This fall, the Select Board is pleased to be able to bring the Custodian Union contract to Special Town Meeting for appropriation. Negotiations on this contract began with the Custodian Union in March 2020 and were stalled due to COVID-19. The negotiations resumed in the summer of 2020, and a tentative agreement reached in September 2020 subsequently fell through. The Town restarted negotiations in March 2021 and was able to reach agreement in May 2021, just following 2021 Annual Town Meeting.

Key Terms of FMD Custodian Collective Bargaining Agreement:

Positions Under Custodian Contract

- 58 Positions
 - 50 Custodians
 - 8 Maintenance Staff

Financial Terms

- Three-year agreement (FY21-FY23)
- 2.5% COLA FY21
- 2% COLA FY22 and FY23
- Adds Juneteenth as paid holiday
- Increases longevity in FY22 and FY23 by \$175 for each threshold
- Increases shoe allowance by \$50

- Adds the purchase of lightweight jacket to uniform allowance
- Eliminates payment in lieu of vacations
- Eliminates wage differentials for Municipal Head Custodian in FY22

FY21 Cost of Settlement (Retroactive Payment)

Total cost is \$85,912.00

FY22 Cost of Settlement

Total cost is \$78,926.00 (COLA, Longevity, and Expenses)

Debt-Funded Capital Projects

There are several debt-funded projects on the warrant for Special Town Meeting requiring appropriation. The projects include debt-excluded and enterprise fund borrowing. At the April 2021 Annual Town Meeting, all the proposed debt-funded projects were paid 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.

Plans for Debt Exclusions

The Select Board continues to plan for significant debt-excluded capital projects using the Major Project Financing Schedule in the [Town Wide Financial Plan](#) which includes large projects that the Board anticipates will be brought to the voters for approval in the next one to five years. The Hunnewell and Hardy School Projects have been included in the Town-Wide Financial Plans since 2014 following a presentation by the School Committee to the December 2013 Special Town Meeting on the ten-year plan for the renovation of the Town's elementary schools and the Middle School. At the upcoming 2021 Special Town Meeting, Town Meeting Members will vote on whether to fund the construction of the two schools. If Special Town Meeting approves the funding, there will be a town-wide vote on the debt exclusion on December 7, 2021.

Based on current construction schedules, the Board estimates the peak impact to the median tax bill will be \$760 in 2025, if the school projects are approved. The tax impact would decline each year after 2025, over the course of the 25-year borrowing.

The Board is planning a Special Town Meeting in October 2022 for the approval of the renovation of the interior of Town Hall. The Town Hall Interior project completes the major financing of four debt exclusions in three years. The first of these projects was the Middle School Building Systems which was approved at the October 2020 Special Town Meeting and passed at the polls through a December 2020 debt exclusion of approximately \$12 million. Here is a brief description of the remaining three projects:

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 initially was found to be the only feasible option to allow the construction of Hunnewell School to begin prior to replacement of the Hardy School. The project has completed permitting and is awaiting bids. The current estimated costs associated with construction are \$55 million and the costs of internal swing space cost is estimated at \$3.7 million. The School Committee has just recently identified an option to redistrict the elementary schools earlier than anticipated and house the Hunnewell students at the Upham Elementary School. The option B Swing Space model is estimated to cost \$1.7 million. If funding is approved by Town Meeting at the Special

Town Meeting, the Select Board would call for a town-wide debt exclusion vote on December 7, 2021.

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 approved reimbursement of approximately 34.9% of eligible costs (mostly limited to construction costs and not offsite costs). In an exhaustive and inclusive process, the School Building Committee (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 through schematic design. The Hardy School Schematic Design was approved by the MSBA on August 25, 2021. The Permanent Building Committee (PBC) has voted a total project cost of \$70,000,000. If funding is approved by Special Town Meeting, the Select Board would call for a debt exclusion vote on December 7, 2021.

Interior renovation of the 1883 Town Hall

An interior space utilization and visioning study of the building was completed in 2018 and identified a number of 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.

The utilization and visioning study recommended the construction of a Town Hall Annex as an addition to Town Hall was too challenging with the building design and parkland surrounding Town Hall. 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.

Using Facilities Management Department capital funds, a supplemental study of the feasibility of the interior renovation of Town Hall was conducted and a revised recommendation was submitted to the Board in November 2020. The recommendations for Town Hall included removing the Land Use Departments to leased space and redistributing Town Hall departments in Town Hall. The 2021 Annual Town Meeting approved \$1.8 million for schematic design of the interior renovation. Schematic design is currently underway with the PBC, and it is anticipated the Board 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 2022.

Five-Year Capital Plan

As the Board evaluates the current capital requests on the Five-Year Capital Plan, we will be taking a close look at the significant capital reductions that were required in recent years due to the uncertainty arising from COVID-19. In FY21, the Board chose to reduce cash capital spending, which dropped to 5.33% of recurring operating revenues (below the low end of the debt policy range of 6.2%). The Board cautiously increased cash capital spending to 6.12% in FY22. In its deliberations on the FY23 budget, the Board is considering a cash capital target towards the high end of the range at 6.8%.

The Board continues to apply an objective and rational prioritization process to determine what projects move forward. This year, the Board will have some additional flexibility with the potential application of one-time ARPA funds or one-time Free Cash appropriations to catch up with deferred capital needs, while also working to maintain the Town's current operational performance and staffing. The Board will continue to balance the needs of all constituencies in a fair and predictable manner in order to bring costs in line with the debt policy and to equitably apply ARPA funds to eligible projects.

The Board continues to be mindful of the significant impact to taxpayers resulting from debt exclusions, including the proposed Hunnewell and Hardy Elementary School projects this year, and the Town Hall Interior renovation next year. For FY21, the Board took the proactive step of expending \$2 million in Free Cash to reduce the borrowing for the schematic design phase of the Hunnewell project to \$2,680,000, and the Board is now evaluating whether Free Cash could be used to fund the swing space associated with the Hunnewell project.

Conclusion

The Town's FY21 assumptions proved to be conservative and have resulted in an overperformance of revenues with considerable turnback from both Town and School departments that will be available for the FY23 budget cycle. As a result of the positive outcomes, the Town currently has reserves of 20%, which is higher than the upper end of the Reserve Policy range of 8% to 12%. The Board will consider modest use of Free Cash over the coming budget cycles to fund the deferred capital from FY21 and FY22 and will continue to evaluate individual high priority projects for funding, including the potential use of Free Cash for swing space for the Schools.

We look forward to working collaboratively during the upcoming FY23 budget cycle to prioritize needs, projects, and funding (taxation, grants, and federal relief) to maximize the resources that are available to the Town, Schools, and community to maintain the high-quality services and health 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

	<u>FY2021</u>	<u>FY2022</u>	<u>% Change</u>
	<u>Tax Rate</u>	<u>Request</u>	
*** SOURCES OF FUNDS ***			
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%
Sub-Total (Tax & Cur. Rev.)	160,707,312	165,756,097	3.14%
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%
Sub-Total (Available Funds)	17,235,730	16,440,271	-4.62%
TOTAL SOURCES OF FUNDS	177,943,042	182,196,368	2.39%
 *** USE OF FUNDS ***			
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%
Sub-Total (Pers. Svcs.& Exp)	121,283,236	124,362,812	2.54%
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%
Sub-Total (Within Levy Limits)	8,881,232	10,160,119	14.40%
Outside Levy Limits			
Debt Service	10,963,404	11,529,092	5.16%
SUB-TOTAL (CAPITAL & DEBT)	19,844,636	21,689,211	9.30%
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%
Sub-Total (Shared Costs)	32,398,243	32,593,654	0.60%
SUB-TOTAL (OPERATIONS)	173,526,114	178,645,677	2.95%
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%
Sub-Total (Special Items)	4,416,928	3,550,691	-19.61%
TOTAL USE OF FUNDS	177,943,042	182,196,368	2.39%
TOTAL SOURCE OF FUNDS	177,943,042	182,196,368	2.39%
SURPLUS (DEFICIT)	(0)	(0)	

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