



**Budget Update and Town-Wide Financial Plan  
2024 Annual Town Meeting  
Submitted by the Select Board**

February 28, 2024

Dear Town Meeting Members:

As required by the Wellesley Town Bylaws (Section 19.16), the Select Board (“the Board”), the Executive Director and the finance team have prepared this Budget Update and Town-Wide Financial Plan (TWFP) for review by Annual Town Meeting (ATM). This document sets out the status of the budget for the current year (FY 2024), the proposed budget for the coming year (FY 2025), and for several years beyond (FY 2026 through 2028). Throughout the document, Town Meeting Members will also find information on the underlying policies and processes that the Board and staff rely on to build the TWFP including Town goals and objectives, budget guidelines, Capital Financing Policy, Reserves Policy, Five-Year Capital Plan, Major Capital Projects, and the Town’s ongoing investment into its primary asset: Town personnel.

This Budget Update and Town-Wide Financial Plan outline the Town’s current financial picture and the Board’s primary considerations for FY 2025, which include:

- Operating budget capacity made available by the Stormwater Enterprise Fund,
- Compensation for union and non-union personnel,
- Funding and operationalizing capital projects, and
- Strategic creation of new positions.

**Operating Budget Capacity Made Available by the Stormwater Enterprise Fund**

The Stormwater Enterprise Fund was created in FY 2024, following approval at the 2023 Annual Town Meeting. The fund was established using \$967,709 from the General Fund and \$21,523 from the Merit Pay Plan. Union settlement costs were also transferred into the new fund. The proposed FY 2025 budget for the [Department of Public Works](#) has been reduced by \$782,011 to reflect the establishment of the fund. In the FY 2025 Omnibus Budget, the Board is proposing to use this additional budget capacity, along with the broader tax increase and new growth, to meet union contract settlements (\$881,577) and invest in several necessary and strategic staff positions (\$527,070). Without the additional capacity created by the Stormwater Enterprise Fund, the Town would not be able to make these critical investments in core services. It should be noted that in FY 2024, \$985,000 of the Town’s stormwater capital costs were paid with funds provided by the American Rescue Plan Act (ARPA) and were not part of the FY 2024 Omnibus Budget.

**Compensation for Union and Non-Union Personnel**

A primary financial focus for the FY 2025 budget and TWFP is compensation for both union and non-union personnel. Negotiations with Town unions began in 2023, and careful analysis by Town staff showed that compensation for Wellesley’s non-school unions had fallen behind relative to other communities. (Compensation for school union employees has remained in the top quartile relative to other districts.) Consequently, the Board set a strategy of bringing Wellesley’s union staff compensation to the median of the Town’s peer communities. The resulting union contract

settlements were approved at the 2023 Fall Special Town Meeting and will be reflected in annual budgets through FY 2026. For FY 2025, the union settlement costs are estimated to be approximately \$881,577, which has been factored into the relevant departmental budgets.

In FY 2024 and FY 2025, the Board has also sought to address lagging compensation for non-union Town employees by working with the Human Resources Board to recommend cost of living adjustments (COLA) for the 40 series and 50/60 series employees, and a pool for merit increases for the 50/60 series employees. The Town had not awarded a COLA for 20 years, limiting annual increases for the 50/60 series employees to merit increases only and limiting 40 series employees to step increases. Aligning with the strategy applied to compensation for union employees, the Human Resources Board voted a 4% COLA for 40 series employees, a 2.5% COLA for the 50/60 series, and an increase in funding for merit pay to \$300,000.

In evaluating compensation for both union and non-union employees, the Board has sought to ensure fair compensation, to retain our highly qualified and high-performing employees, and to be competitive in recruiting new staff. The Board understood that the resulting actions would affect the operating budget and determined that this investment was necessary in order to maintain the Town's high level of service.

As previously reported to Town Meeting, the Town was fortunate to secure two Community Compact grants from the Commonwealth:

- \$20,000 for a full analysis of the Town's Human Resources structure and function (now underway by the UMass Boston Collins Center with a final report expected to be distributed before Fall 2024 Special Town Meeting),
- \$50,000 for a review of the Town's compensation and classification system (RFP issued and awaiting bids).

The Board anticipates that these studies may have financial implications in FY 2026 and beyond, with the need for classification, compensation, and standing in range adjustments for non-union personnel.

### **Funding and Operationalizing Capital Projects**

Capital projects are one-time costs of more than \$10,000 that are generally associated with buildings, equipment, supplies, or studies. The FY 2025 budget proposes using Free Cash to fund the following one-time projects:

- Paying down of Town Hall Interior Project to avoid borrowing (Article 18),
- RDF Administration Building Design (Article 19),
- Fire Headquarters Roof (Article 20),
- Team Rooms Supplemental Funding (Article 21),
- Wellesley Square Streetscape Design (Article 22), and
- Playground Reconstruction (Article 25).

When planning capital projects, boards and departments calculate any ongoing operating costs that will be incurred once a project is complete, and those costs are factored in to subsequent budgets. The FY 2025 budget reflects the operating costs associated with several projects that will be completed this fiscal year.

The [Facilities Management Department's](#) (FMD) operating budget and the Town's Risk Management budget reflect the operationalizing of new elementary schools and outbuildings. The

new Hunnewell and Hardy elementary schools will be 30,000 square feet larger than the previous Hunnewell, Hardy, and Upham schools combined, necessitating a new custodian at a cost of \$52,055 per year plus \$20,000 in benefits. A second new custodian position is also required in order to maintain new and planned small buildings at the RDF, Hunnewell Field, and Sprague Field. The new position will eliminate the need for overtime (estimated at 50% of the cost of the position) and create a full-time position at a cost of \$52,055 per year plus \$20,000 in benefits. Additional increases in operating costs include regular building checks at the shuttered Upham School (\$11,876), utility expenses for the new schools (\$116,877 for Hunnewell, \$97,479 for Hardy), utility expenses for Town Hall (\$136,500), and \$90,650 in insurance increases for the new structures and their contents.

### **Strategic Creation of New Positions**

The Board is proposing three new full-time positions: two new firefighter positions and a new Transportation and Mobility Manager.

**Two new firefighter positions:** Over the past several years, the Board has been incrementally addressing a staffing deficit in the [Fire Department](#). As Town Meeting Members will recall, the 2023 Fall Special Town Meeting approved a supplemental appropriation (\$360,000) for FY 2024 that included funding for a new firefighter position to ensure that each of the four firefighter groups comprised a minimum of 13 personnel. The FY 2024 supplemental budget funding also worked to correct ongoing overtime and night-shift differentials with an injection of \$181,000. The Board has determined that returning to historical staffing levels of 14 personnel per group would reduce the constant need for overtime shifts and therefore diminish costs once all vacancies are filled. To reach this staffing level, the Board proposes adding two new positions in the FY 2025 budget, and two new positions in the FY 2026 budget. The cost of the two positions proposed for FY 2025 plus the cost of the position created at the 2023 Special Town Meeting is \$277,332, including benefits.

**Transportation and Mobility Manager:** The Board is proposing the addition of a Transportation and Mobility Manager as recommended by the Town's 2022 Sustainable Mobility Plan. The Transportation and Mobility Manager will serve as primary staff to the Mobility Committee and Traffic and Parking Committee and will be responsible for assisting the Town with traffic concerns, increasing public transportation options, and meeting the Town's transportation-related goals for pollution reduction. The manager will also represent the Town in the numerous local, state, and regional transportation organizations, including the MBTA Advisory Board, Metrowest Regional Transit Authority, Metrowest Regional Collaborative, and the Metropolitan Area Planning Organization. Much of this critical transportation work is currently conducted by elected officials and needs to be incorporated as a staff function to ensure continuity and professional oversight. The Transportation and Mobility Manager will work closely with multiple departments, including Select Board, Department of Public Works, Police, Municipal Light Plant, Natural Resources Commission, Council on Aging, Climate Action Committee, Housing Authority, and the School Department. The estimated cost of the new position is \$105,628, including benefits.

### **FY 2025 Budget Highlights**

#### **Budget status and guidelines**

- The total budget for FY 2025 is \$221,707,652. This reflects a proposed year-over-year increase of 9.82%, inclusive of budgeted capital requests for FY 2025 totaling \$12,721,965 (6.8% of recurring operating revenues), \$10,986,538 of Free Cash funded capital projects, including \$8.3 million to avoid borrowing for the previously approved Town Hall project,

and an increase of \$1,709,900 in excluded debt. Without the \$8.3 million for Town Hall, the year-over-year increase is 5.72%.

- Total FY 2024 supplemental requests at the Annual Town Meeting are \$400,000 for Snow and Ice payments from Free Cash.
- For the first time, the Board set individualized departmental budget guidelines this year for operating and expense budgets to reflect specified departmental needs.
- The Town's proposed operating budget includes a COLA for all non-union employees of 2.5% for 50/60 series and 4% for 40 series. A separate merit pay fund of \$300,000 is also proposed to fund additional merit increases for 50/60 series non-union employees.

### Revenue

- The Town experienced significant local revenue growth of 44% at the close of FY 2023 as compared to FY 2022, specifically due to over-performance of investment income, with continued growth in Licenses and Permits, Motor Vehicle Excise, and Meals/Hotel/Motel Tax.
- The local revenue projections for FY 2025 reflect an estimated local revenue increase of 13.12% as compared with the FY 2024 budget.
- Earnings on interest exceeded budget by \$5.7 million for FY 2023. This unanticipated one-time result was due to interest rates changing from a fraction of a percent to almost 5% at a time when the Town had significant cash on hand for capital projects, including the Hardy and Hunnewell Schools. The return for FY 2024 is also anticipated to be approximately \$5 million, but cash on hand will decrease significantly as these projects are completed, and investment earnings will drop.

### Expenses

- There is an annual increase of 6.33% in Group Insurance costs ([Exhibit B](#)), with West Suburban Health Group increasing Blue Cross Blue Shield rates 8.5% and Harvard Pilgrim/Tufts (merging into Point 32) rates increasing by 12.3% for FY 2025.
- All Town union contracts are settled and actual costs are reflected in the FY 2025 budgets.
- The School Department met the Board's budget guideline of 3.7%. Greater detail on new positions and union settlements is in this document. Please refer to the School Department's detailed budget for additional information: <https://online.flippingbook.com/view/882981456/>

### Capital

- The Five-Year Capital Plan ([Exhibit C](#)) outlines cash capital and debt-funded capital projects, including both inside-the-levy and debt exclusion projects.
- The Five-Year Capital Plan continues to work to reduce inside-the-levy borrowing this year in order to increase capacity in subsequent years for inside-the-levy projects identified in the [Major Capital Project Financing Plan](#).

### Reserves

- The Town's reserves continued to stay strong due to multiple factors, including an unanticipated substantial return on investment income, ARPA revenue replacement funds (FY 2023 was the final year), continued turnback from staff vacancies positions, and a corresponding favorable health insurance position.
- The proposed FY 2025 budget would result in estimated reserves of 12.21% as of June 30, 2024, just above the upper level of the reserves policy (8 to 12% of operating revenue).

- The Board proposes the following uses of Free Cash:
  - \$400,000 for FY 2024 Snow and Ice
  - \$2,250,000 to balance the FY 2025 budget
  - \$10,895,7811 for FY 2025 expenses to avoid borrowing:
    - Town Hall Interior to (\$8,260,681)
    - RDF Admin Building Design (\$635,100)
    - Fire Headquarter Roof (\$750,000)
    - Playgrounds (\$475,000) towards \$2,000,000 total project costs
    - Team Rooms (\$175,000)
    - Wellesley Square Streetscape Design (\$600,000)
  - \$90,757 for FY 2025 distribution to stabilization and reserve funds, including Injured on Duty (\$29,245), Special Education (\$50,000), Baler Fund (\$11,512).

The following pages provide a detailed picture of the Town's financial status and the strategic allocations and initiatives proposed in the FY 2025 budget and TWFP. A table of contents has been added to make it easier to navigate the document.

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## 1. Background

The Wellesley Town Bylaws (Section 19.16) require the Select Board (“the Board”) to coordinate the annual preparation and execution of the Town-Wide Financial Plan (TWFP). The TWFP is constructed using the information submitted by each board pursuant to the provisions of Sections 6.15 and 11.11 of the Town Bylaws. The TWFP also includes estimates and financial assumptions approved by the Board for out-year projections.

In preparing the TWFP, the Board takes into account the following factors:

- The Town’s ability to generate the anticipated real estate property taxes and to fund any deficit balance;
- Projections of other revenues from the Commonwealth and local revenue;
- The level of need for all proposed expenditures inclusive of union contracts, capital projects, strategic initiatives, and state and federal mandates; and
- Alternatives to any of the various sources and uses of funds in the TWFP, including Community Preservation Committee (CPC) funds, borrowing, grants, and gifts.

The TWFP begins annually with the Board establishing budget guidelines, cognizant of reserve implications. The Board, working with all Town boards, committees, and commissions, works to meet the guidelines, exclusive of new positions, standing in range adjustments and adjustments to job classifications, to achieve a balanced budget for presentation to Town Meeting. Using modest growth estimates, projections are developed for subsequent years so that the Board may determine whether there will be sufficient revenue to meet expected needs, multi-year requests for new initiatives, or if there is a need to consider an override. The Board includes the Town’s “Sources and Uses” ([Exhibit B](#)) of funds for the upcoming FY 2025 (i.e., the proposed budget) and projections for the two following fiscal years.

The TWFP includes projected capital needs for the next five years for the various departments and information regarding the proposed financing for these items. The Five-Year Capital Plan can be found in [Exhibit C](#).

## 2. Budget Process and Financial Planning

The Town has long valued its fiscal strength, stability, and financial leadership, as evidenced by its continually maintained Aaa bond rating, multi-year financial awards, formal reserve and investment policies, and commitment to funding its past service liabilities (Pension, Other Post Employment Benefits). The Board is charged with bringing forth a balanced annual town-wide budget, in addition to articulating a longer-term plan, the TWFP, that maintains this fiscal strength.

### A. Underlying Financial Principles: The Five Ps

Each year, the TWFP is updated with input from all Town departments, boards, and committees. As part of this process, the Board follows five basic principles developed over the years to maintain financial stability:

- Pay the full cost of the Town’s current operations;
- Proactively address emerging issues;
- Protect the Town against material risks;
- Preserve the Town’s assets; and
- Plan for the long-term.

## B. Goals and Objectives

When establishing budget guidelines, the Board considers the goals and objectives established by the Unified Plan and Town Meeting resolutions, including the Resolution to Address the Impact of Climate Change (October 2020 Special Town Meeting) and the Anti-Racism and Anti-Bias Resolution (April 2023 Annual Town Meeting). Key goals and objectives:

- Provide a broad array of services to residents and other users of town services;
- Maintain a strong customer service orientation that strives for excellence in every aspect of service delivery;
- Support best-in-class public education, library, recreational and senior services;
- Enhance the health and wellness of residents through public health initiatives, educational, social, and recreational opportunities;
- Provide safe, accessible, and efficient transportation choices including public transportation, pedestrian, and bicycle pathways;
- Make resource-efficient choices to conserve energy, water, and materials;
- Improve water and air quality, and reduce carbon emissions;
- Proactively consider actions to reduce greenhouse gas emissions associated with Town supported projects and programs;
- Maintain, protect, preserve, and enhance the Town's physical assets including facilities, infrastructure, parks, open space, and natural resources;
- Support existing and new businesses in commercial areas that complement and enhance our community;
- Establish best practices and priority-based resource allocation systems to support town services, infrastructure, and capital investments in a fiscally-prudent manner;
- Conduct long-range fiscal/financial planning that includes appropriate metrics for evaluating progress and adjustment to changing financial conditions;
- Avoid operating overrides unless absolutely necessary;
- Facilitate public access to information, making it easy to understand how town government works, how decisions are made, and how to get involved; and
- Commit to working with our constituents, institutions, organizations, businesses, employees, and stakeholders to create a more welcoming and more inclusive Town of Wellesley.

## C. Guidelines

**How the Board determines the annual budget guidelines:** Guidelines are an important method of allocating the resources available after providing for long-term financial responsibilities. The current method of allocating available resources begins with the Board's review and analysis of current revenues and revenue enhancement opportunities presented by the Finance Director. After factoring in fixed costs, such as issued debt and past service liabilities, the Board develops budget guidelines to help allocate remaining available funds to all departments based on town-wide goals and objectives. Each board, committee, or commission is expected to develop a budget within guidelines. New initiatives and costs beyond guidelines are discussed and further evaluated by the Advisory Committee and the Board during the budget cycle. Other funding mechanisms (such as an override or debt exclusion) may ultimately be proposed if a critical initiative cannot be funded within the current year's resources.

Under the Town bylaws, the Board is responsible for:

- Coordinating the annual budget submissions for all boards, committees, and commissions;
- 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 Plan.

Under the direction of the Board and Executive Director, the Finance Department has developed standard formats for departmental requests. These submissions are used to accurately create the “Sources and Uses” format required by Article 19.16.1, the TWFP, and the Five-Year Capital Plan. The format includes a departmental narrative outlining departmental responsibilities and current objectives with emphasis on current year needs to meet goals and objectives of the Unified Plan, Climate Action Plan, Sustainable Mobility Plan, Hazard Mitigation Plan, and departmental strategic plans, along with a revenue summary, and detailed operating budget requests showing a four-year history.

The Town budget cycle begins in July with the Board having initial discussions with the larger departments, including the School Department, Facilities Management Department (FMD), and the Department of Public Works (DPW). In the early stages of preparing the budget guidelines, the Board reviews an analysis of current revenues and revenue enhancement opportunities. After factoring in fixed costs, such as union contracts, employee benefits, issued debt, and past service liabilities, the Board develops budget guidelines to help allocate remaining available funds among the departments. The Board holds at least one all-board meeting to share the initial budget outlook and guidelines, and to hear potential budget concerns from other elected and appointed bodies.

**Budget guidelines for FY 2025:** The Board held two all-board meetings (October 2, 2023, and October 4, 2023) before voting on guidelines on October 17, 2023. This year, the Board took a new approach by setting individual departmental guidelines rather than setting the same guideline for all departments. The Board adopted this approach after a considerable compensation analysis was conducted for union contract settlements (as outlined in the [Fiscal Year 2024 Budget Update for Fall 2023 Special Town Meeting](#)). During FY 2023, the School Committee settled its contracts for Fiscal Years 2023-2026 (4-year contract) at the top quartile of compensation among peers. The Town contracts for 2024-2026 were settled in early 2024, and the Town 2024 budgets were adjusted at the Fall 2023 Special Town Meeting. The Board took considerable effort to bring Town union salaries to the median of Wellesley’s peer communities after they were found to be in the lowest quartile of peer communities with significant pay disparity. Given the significant variability in contract terms among the bargaining groups, a single, uniform budget guideline did not seem appropriate for FY 2025. The Board therefore took an individualized approach to account for approved contractual obligations (but not proposed new positions or adjustments to existing positions), and known, anticipated expense increases in specific departments. The budget guidelines for FY 2025 vary by department as a result. The School Department guideline was further complicated by the closure of one elementary school, consolidation of personnel, retention of adjustment counsellor positions previously funded by grants, and overall declining enrollment.

In reviewing the Town guidelines, the Board further evaluated the salary gaps for non-union personnel and, for the second year, worked with the Human Resources Board to institute both a cost of living adjustment (COLA) and a pool of funds for performance increases. For FY 2025, the Select Board and Human Resources Board set a 4% COLA increase for 40 series non-union employees, and a 2.5% COLA increase for 50/60 series non-union employees, with a \$300,000 appropriation to fund merit increases.

The Town guideline for personal services is 3% for all departments, except for Fire (5.5%), Police (5%), FMD (4%), DPW (4%), and Library (3.5%). The guideline did not include new positions or adjustments to existing positions.

The Town guideline for expenses is 3% for all departments, except IT (8%), Town Clerk (5%), and Library (4%).

The School Department guideline for all operating costs (personal services and expenses combined) is 3.7%.

The budget process is detailed with specific anticipated decision points. This year's budget process followed the Budget Submission Timeline detailed in [Appendix A](#), with some modification in dates for the School Department budget vote by the School Committee. [For a full review of the Town Budget Preparation Manual, please see link](#) or review the online budget book at [www.wellesleyma.gov/2024budgetbook](http://www.wellesleyma.gov/2024budgetbook).

#### **D. Key Financial Planning Policies**

Each year, the Board discusses the two key financial policies that were instituted to balance prudent operational and capital spending and establish and maintain an appropriate level of reserves. The Board recently appointed a Policy Subcommittee to re-evaluate some of its financial policies that have been in place during the last decade, particularly in response to the planned retirement of the Town's longtime Chief Financial Officer.

- The **Capital Financing Policy** is used to manage the portion of the Town's annual budget dedicated to financing capital projects. The policy was established in FY 2019 as the Debt Policy and was updated in FY 2024 and re-named the "Capital Financing Policy." The updated policy has been enhanced to include various methods of acquiring capital items, including cash purchases, grants and gifts, and borrowing both inside and outside the levy. The policy sets an annual spending limit on capital-funded projects proposed through the annual process of re-evaluating and re-prioritizing the Five-Year Capital Plan. The policy sets the Capital Spending Range at 6.2 to 6.8% of the current period's Budgeted Operating Revenue. The revised policy is attached in [Appendix B](#).
- The **Financial Reserves Policy** was established in FY 2013 and updated in FY 2024 and requires reserves to be maintained within a range of 8 to 12% of Budgeted Operating Revenues. The updated policy clarifies that the Special Purpose Stabilization Funds are not to be included in the Reserves calculation since the Special Purpose Funds are not intended for general purpose use. The General Purpose Stabilization Fund continues to be included in the reserve calculation for the purpose of the policy. The revised policy outlines appropriate uses of Free Cash and outlines the Board's conservative approach to using Free Cash to balance the operating budget. The revised policy is attached in [Appendix C](#).

This policy-based approach is designed for the following purposes:

- To ensure an affordable and predictable level of spending to adequately maintain Town assets, and ensure that funds available for operating budgets are not adversely affected by increased capital spending;
- To maintain the Town's top tier Moody's Aaa bond rating;
- To ensure short-term cash availability when revenue is unavailable, or when there are unanticipated expenditures or emergency cash needs;
- To provide for stable tax rates; and

- To enable planning for contingencies and long-term needs.

### **E. Hierarchy of Use of Available Free Cash**

Free Cash is derived from revenues in excess of budget projections, budget turnback (amounts budgeted but not spent), and other timing differences. It typically includes actual receipts in excess of revenue estimates and unspent amounts in departmental budget line items for the year just ending, plus unexpended Free Cash from the previous year.

Every year the Town makes decisions about whether to spend available Free Cash on operating budget capacity and specific capital requests. The overriding principle regarding such capacity is that one-time funding capacity should be applied to one-time needs. Free Cash may be utilized for one-off or nonrecurring expenses, including but not limited to:

- Funding requests driven by unforeseen disasters or emergencies;
- Supplemental departmental requests;
- Establishing or bolstering special reserve funds;
- Selected smoothing of cash capital needs (including avoiding borrowing);
- Project, study, or associated costs;
- Land takings and associated costs;
- Capital construction and related costs;
- Contract settlements in excess of the budgeted provision; and
- Subsidizing funds that are intended to be self-supporting.

## **3. Key Budget Drivers**

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

- A. Revenue projections
- B. Personnel costs
- C. Employee benefit costs
- D. Strategic initiatives

### **A. Revenue Projections**

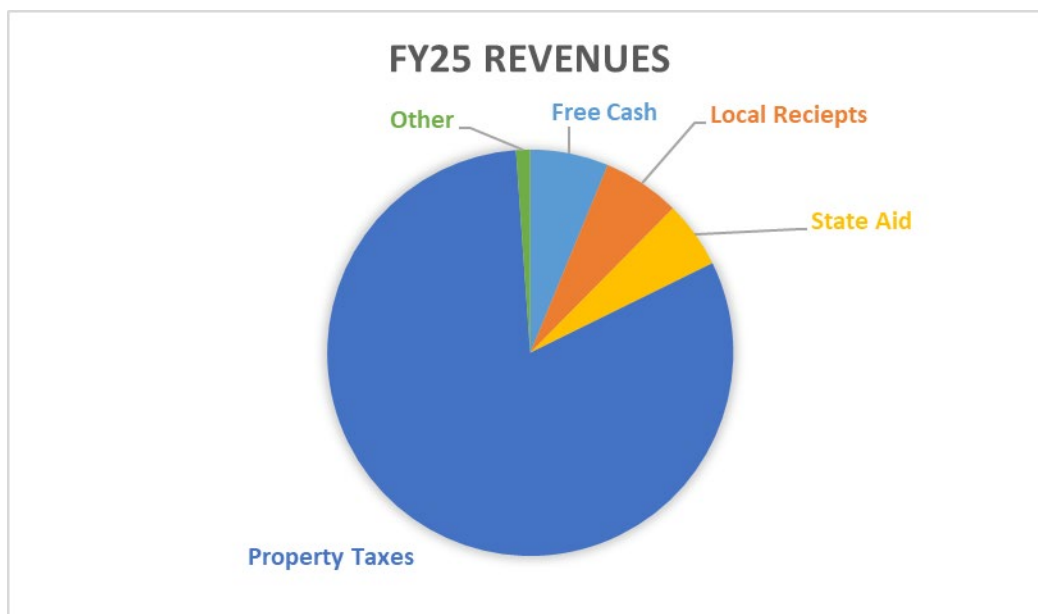
The revenues for the FY 2025 General Fund Budget total \$221,707,652 or a 9.82% increase compared to the FY 2024 approved budget. The year-over-year increase includes a substantial increase in the proposed application of Free Cash for one-time cash capital projects, including \$8.3 million to avoid borrowing for the previously approved Town Hall project, and a \$630,000 increase in projected interest earnings based on FY 2023 and FY 2024 performance.

The Board continues to make conservative assumptions on local revenue growth taking into account historic trends, the gradual return of traffic and parking revenue, higher supply chain costs, higher interest rates, and inflation.

Key revenue assumptions:

- **Real estate and personal property taxes** are assumed to increase by \$5,635,045 or 3.58% based upon the provisions of Proposition 2 ½ and added new growth assumed at \$1.7 million.

- **New growth** projection has been maintained at a conservative level of \$1.7 million for FY 2025. The FY 2023 and FY 2024 new growth was significantly higher than projected, at \$2.9 million and \$2.8 million respectively due to several one-time commercial projects. New growth in FY 2025 is also likely to be higher than projected.
- **Local receipts** (revenue from Motor Vehicle Excise Tax, Investment Income, Meals/Hotel/Motel Tax, and building fees) are expected to increase by \$1,582,309 or 13.12%. Revenue from parking meters and commuter lots has been slowly rebounding over the past four years after a significant drop at the outset of the COVID-19 pandemic. In FY 2025, the Board is proposing to reduce the subsidy for the Traffic and Parking Fund from \$400,000 to \$200,000 to maintain operations. This previously self-sustaining fund is now generating income to cover approximately 80% of anticipated expenses, compared to 60% in FY 2024.



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

Wellesley's primary source of revenue is real estate taxes. In the FY 2025 budget, taxes represent 80.79% of the estimated revenues, of which 88.69% are from residential assessments. The budget assumes a 2½% increase in property taxes and projected new growth of \$1.7 million.

#### ***New Growth History***

| <u>2017</u>  | <u>2018</u>  | <u>2019</u>  | <u>2020</u>  | <u>2021</u>  | <u>2022</u>  | <u>2023</u>  | <u>2024</u>  |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| \$ 2,249,593 | \$ 2,168,677 | \$ 2,100,119 | \$ 1,802,829 | \$ 1,753,221 | \$ 1,839,752 | \$ 2,907,105 | \$ 2,828,945 |

#### ***State Aid***

In FY 2025, the Town is receiving approximately 5.27% of its revenue in the form of State Aid, of which 85.86% is for educational purposes (Chapter 70) and 14.14% is for Unrestricted General Government Aid (UGGA). Current projections forecast only a modest increase in FY 2025, and it should be noted it will be months before the state budget is complete. The Governor's budget proposal reflects a 1.6% year-over-year increase in FY 2025, with a 3.4% increase in

Assessments. Assessments are revenue reductions and are, therefore, reflected in the budget as expenses, as in the table below. Assessments include automatic payment deductions from State Aid for such things as MBTA and Regional Transit services, Metropolitan Planning Council, County Tax, RMV Non-Renewal Surcharge, Air Pollution Districts, and School Choice Sending Tuition.

#### State Revenue Trend

|                     | Final<br>2019        | Final<br>2020        | Final<br>2021        | Final<br>2022        | Final<br>2023       | Final<br>2024        | Governor's<br>Budget<br>2025 |
|---------------------|----------------------|----------------------|----------------------|----------------------|---------------------|----------------------|------------------------------|
| <b>State Aid</b>    |                      |                      |                      |                      |                     |                      |                              |
| Chapter 70          | \$ 8,955,295         | \$ 9,273,504         | \$ 9,273,504         | \$ 9,407,484         | \$ 9,665,964        | \$ 9,916,764         | \$ 10,040,304                |
|                     | \$ 8,955,295         | \$ 9,273,504         | \$ 9,273,504         | \$ 9,407,484         | 9,665,964           | 9,916,764            | 10,040,304                   |
| Other school        | \$ -                 | \$ -                 |                      | 5,633                | 11,369              | 765                  |                              |
|                     | \$ 8,955,295         | \$ 9,273,504         | \$ 9,273,504         | \$ 9,413,117         | 9,677,333           | 9,917,529            | 10,040,304                   |
| Unrestricted (UGGA) | \$ 1,339,443         | \$ 1,375,608         | \$ 1,375,608         | \$ 1,423,754         | \$ 1,500,637        | \$ 1,548,657         | \$ 1,595,117                 |
| All other           | \$ 53,236            | \$ 65,462            | \$ 51,094            | \$ 45,401            | 49,149              | 48,761               | 59,026                       |
| <b>Total</b>        | <b>\$ 10,347,974</b> | <b>\$ 10,714,574</b> | <b>\$ 10,700,206</b> | <b>\$ 10,882,272</b> | <b>11,227,119</b>   | <b>11,514,947</b>    | <b>11,694,447</b>            |
| Assessments         | \$ 1,260,154         | \$ 1,262,442         | \$ 1,308,172         | \$ 1,309,563         | \$ 1,328,612        | \$ 1,395,057         | \$ 1,443,004                 |
| <b>Net</b>          | <b>\$ 9,087,820</b>  | <b>\$ 9,452,132</b>  | <b>\$ 9,392,034</b>  | <b>\$ 9,572,709</b>  | <b>\$ 9,898,507</b> | <b>\$ 10,119,890</b> | <b>\$ 10,251,443</b>         |

#### Local Receipts

The Town continues to see positive growth in local receipts with a projected increase of 13.12% as building permits continue to exceed projections and the growth in local restaurants has significantly increased tax collection from meals, hotels, and motels. Local receipts represent 5.7% of the Town's revenue. Excluding the Municipal Light Plant (MLP) contribution, most local receipts (76.3%) are from motor vehicle excise, permits and licensing, and interest earnings.

In FY 2023 and FY 2024, the Town has experienced extraordinary interest income as a result of cash on hand that was borrowed for construction of the two new elementary schools. As a result of the confluence of substantial cash on hand and unanticipated rapid increase in interest rates from a fraction of a percent to almost 5%, the Town earned \$5.7 million in interest earnings in FY 2023 and is anticipated to earn \$5 million in FY 2024 – both significantly in excess of budgeted amounts. The FY 2024 interest earnings projections were established in February 2023, just prior to the time interest rates began to climb in March and May 2023. These cash balances are declining as the Town nears completion of the two schools. Consequently, the interest earnings for FY 2025 have been conservatively estimated at \$1 million.

As noted above, in FY 2025 the Board anticipates a continued revenue shortfall in the Traffic and Parking Fund of approximately \$200,000 and is proposing to subsidize the fund within the general operating budget. For reference, the Board subsidized the entire traffic and parking budget (just under \$900,000) in FY 2022, and budgeted subsidies of \$500,000, \$400,000, and \$200,000 in FY 2023, FY 2024, and FY 2025 respectively. Revenue from on-street and commuter rail lot parking has been slow to return to pre-COVID levels, however FY 2025 will likely be the last year that a subsidy is required.

## Local Receipts Trend- Not inc MLP

|                          | Actual<br>FY20       | Actual<br>FY21       | Actual<br>FY22       | Actual<br>FY23       | Budget<br>FY24       | Budget<br>FY25       |
|--------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Local Receipts</b>    |                      |                      |                      |                      |                      |                      |
| Motor Vehicle Excise     | \$ 5,463,429         | \$ 5,547,986         | \$ 5,699,888         | \$ 5,648,284         | \$ 5,500,000         | \$ 5,650,000         |
| Investment Income        | 1,761,606            | 353,917              | 134,811              | 5,865,281            | 370,000              | 1,000,000            |
| Licenses and permits     | 2,043,985            | 2,700,054            | 3,448,034            | 4,545,715            | 2,500,000            | 3,000,000            |
| One time 40R Permit      | -                    | 1,140,730            | -                    | -                    | -                    | -                    |
| RDF                      | 663,669              | 741,786              | 930,738              | 757,386              | 725,000              | 725,000              |
| Pilot payments           | 76,442               | 76,465               | 76,000               | 76,428               | 76,400               | 76,000               |
| Parking Fines & Forfeits | 452,093              | 302,411              | 396,146              | 402,075              | 400,000              | 400,000              |
| Meals tax, hotel/motel   | 682,286              | 505,715              | 692,178              | 863,673              | 550,000              | 750,000              |
| Recreation transfer      | -                    | 38,227               | 108,014              | -                    | -                    | -                    |
| Penalties, Interest on T | 253,628              | 629,987              | 447,074              | 476,978              | 250,000              | 250,000              |
| Rentals                  | 198,929              | 212,586              | 166,633              | 207,762              | 180,000              | 180,000              |
| Fees                     | 109,851              | 108,155              | 91,865               | 93,889               | 93,889               | 100,000              |
| Departmental             | 133,786              | 100,259              | 100,479              | 94,273               | 94,270               | 78,000               |
| Medicaid                 | 328,079              | 308,553              | 318,348              | 104,333              | -                    | -                    |
| Miscellaneous Recurring  | -                    | -                    | -                    | -                    | 270,302              | 290,000              |
| FEMA                     | -                    | -                    | 872,493              | 229,266              | -                    | -                    |
| All other                | -                    | -                    | 91,815               | 208,642              | 51,441               | 144,611              |
| <b>Total</b>             | <b>\$ 12,167,783</b> | <b>\$ 12,766,831</b> | <b>\$ 13,574,516</b> | <b>\$ 19,573,985</b> | <b>\$ 11,061,302</b> | <b>\$ 12,643,611</b> |

## Additional Revenue

Additional revenue includes an annual contribution of \$1 million to the Town from the Wellesley MLP, along with \$190,000 from the MLP for Information Technology and centralized services (a \$20,000 increase from FY 2024) and \$170,302 from Stormwater, Water, and Sewer enterprise funds for the portion of centralized services associated with those activities.

## Free Cash for the Operating Budget

Free Cash is made up of revenues in excess of budget projections, budget turnback (amounts budgeted but not spent), and other timing differences. Free Cash is generally deployed for one-time costs including capital investments and new initiatives. A hierarchy of expenditure has been determined based on the historical use of Free Cash that has been detailed above and is set out in the Capital Financing Policy.

Every year since FY 2013 the Board has proposed using approximately \$2.5 million of Free Cash to balance the budget, and, after lengthy budget discussions, has sometimes opted to close any remaining deficits with additional Free Cash. This year, Other Post Employment Benefits (OPEB) funding (discussed below) has been reduced by \$250,000 as recommended by the actuarial study. In recognizing the increased operating budget capacity created by the reduction in required OPEB funding, the Board reduced the application of Free Cash to balance the budget by the same amount. For the FY 2025 budget, the proposed use of \$2,250,000 in Free Cash to balance the budget represents 1.01% of the estimated revenues.

| <b>Free Cash</b>           | <b>FY20</b>  | <b>FY21</b>  | <b>FY22</b>  | <b>FY23</b>  | <b>FY24</b>  | <b>FY25</b>  |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Balance Fiscal Year Budget | \$ 2,340,000 | \$ 2,639,066 | \$ 3,781,347 | \$ 2,652,036 | \$ 2,500,000 | \$ 2,250,000 |

## Significant Grants

**American Rescue Plan Act (ARPA)** – On March 11, 2021, the President signed the American Rescue Plan Act (ARPA) into law. The law provided for financial assistance to municipalities and

schools through direct local funds and through allocated county funds. Wellesley was eligible for and has expended the following funds:

- Approximately \$3 million in local funds (50% received in FY 2022, 50% received in FY 2023),
- Approximately \$5.4 million available through an application process administered by the Norfolk County Commissioners,
- \$1.5 million was expended in FY 2022 on interim PFAS mitigation,
- \$2.55 million was expended in FY 2023 on stormwater improvements and reconstruction of Walnut Street,
- Remaining \$1.35 million to be expended on stormwater capital costs, with \$985,000 appropriated in FY 2024 and \$365,000 remaining to be expended.

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.

### **Post-ARPA Grant Opportunities**

COVID-19 financial support is wrapping up. State and federal assistance has come in several waves and will continue to provide some relief and competitive grant opportunities. The Town worked with our state legislators to find earmarks and grants to help fund projects outside of Town spending. The state and federal government are likely to continue to roll out competitive grants through FY 2025, and the Town is expecting opportunities for competitive programs through federal initiatives under the Inflation Reduction Act (IRA). The IRA will invest \$369 billion in programs related to energy security and climate change over the next ten years. The Bipartisan Infrastructure Law will provide Federal Highway Administration programs and activities through September 30, 2026.

### **B. Personnel Costs**

The largest recurring item in the year-over-year growth of the Town budget is the COLA adjustments for existing employees.

#### ***Non-Union Employees***

Each year the Human Resources Board evaluates increases in the compensation range tables for non-union municipal personnel. As salaries have become more competitive across the Commonwealth, additional pressure has been placed on salary reviews within the classification system. The classification and compensation study that is soon to be underway will analyze the Town's entire classification system, address where Wellesley stands as compared to peer communities, and establish a plan to address compensation moving forward. This year, the Town has budgeted a 4% COLA for 40 series (clerical) employees and a 2.5% COLA for all 50/60

(management) series employees. The Board, working with the Human Resources Board, recommends funding of \$300,000 in the Merit Pay Plan to account for merit increases for 50/60 series employees, in addition to the COLA. For the past 20 years, the Town's Merit Pay Plan has provided the only salary adjustments for 50/60 series employees, resulting in salaries below the median in comparison to our peer communities that have been awarding both COLA and merit increases over the same period.

### ***Union Employees***

Most Town employees are unionized and their annual wage increases are a subject of collective bargaining. There are 14 unions representing 1,152 employees, the largest of which is the Massachusetts Teachers Association (845 members). All union contracts have been settled through FY 2026. The Town also has an active collective bargaining agreement regarding health insurance with all unions that is valid through June 30, 2025.

In addition to setting COLA increases, the union contracts 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 currently provides for 16 steps and the value of each step increase is approximately 4.2%. In recent years, steps for longevity have been added to school contracts. Employees who have not reached the top step generally receive total annual wage increases in the range of 6 to 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 and as credits towards post-graduate degrees are acquired, additional compensation is added. In FY 2024, approximately 60.48% of the teachers are at the top step, with the remainder still moving on steps. Top step school employees receive a 3% longevity payment in addition to COLA payments and potential lane payments for educational attainment.

### ***School Contract Settlements***

The School Committee and the five educational unions reached a contract settlement in May 2023 totaling \$11.57 million over four years (FY 2023 – FY 2026). The settlement includes the following:

#### **Cost of Living Adjustments (COLA)**

| <b>Union</b>                                    | <b>FY23</b> | <b>FY24</b> | <b>FY25</b> | <b>FY26</b> | <b>Total</b> |
|-------------------------------------------------|-------------|-------------|-------------|-------------|--------------|
| Unit A<br>(Teachers/Nurses)                     | 2.75%       | 2.5%        | 2.75%       | 3%          | 11%          |
| Unit B (Administrators)                         | 2.75%       | 2.5%        | 2.75%       | 3%          | 11%          |
| Unit C (Instructional<br>Support Professionals) | 5.25%       | 4%          | 2.75%       | 3%          | 15%          |
| Unit D/E (Administrative<br>Professionals)      | 4%          | 4%          | 2.75%       | 3%          | 13.75%       |

#### **Longevity Increases**

| <b>Union</b> | <b>FY23</b> | <b>FY24</b> | <b>FY25</b> | <b>FY26</b> | <b>Total</b> |
|--------------|-------------|-------------|-------------|-------------|--------------|
| Unit A       | 5%          | 5%          | 5%          | 2%          | 17%          |
| Unit B       | 5%          | 5%          | 5%          | 2%          | 17%          |
| Unit C       | 5.25%       | 4%          | 2.75%       | 3%          | 15%          |
| Unit D/E     | 4%          | 4%          | 2.75%       | 3%          | 13.75%       |

### Retention Payments

| <b>Union</b> | <b>FY23</b> | <b>FY24</b> | <b>FY25</b> | <b>FY26</b> | <b>Total</b> |
|--------------|-------------|-------------|-------------|-------------|--------------|
| Unit C       | \$4K/3K     | \$3K/2K     | \$2K/1K     | \$1K/\$0    | \$1.59M      |
| Unit D/E     | \$4K/3K     | \$3K/2K     | \$2K/1K     | \$1K/\$0    | \$170K       |

### Longevity payment for FY 2023 (following which, payment increased by the table above)

- Unit A – Adjustments based on 20 years of service equal \$3,284 or 3% of Base Pay (increased based on table above)
- Unit B – Adjustments based on 13 years of service receive \$1,639 or 1% of Base Pay, 20 years of service same as Unit A (increased based on table above)
- Unit C – 7 Years - \$750; 10 Years - \$1,000; 20 Years - \$2,000; 30 Years - \$3,000
- Unit D (1,820 hours) – 15-19 Years - \$1,580; 20-24 Years - \$1,710; 25+ Years - \$1,840
- Unit D (1,695 hours) – 15-19 Years - \$1,461; 20-24 Years - \$1,584; 25+ Years - \$1,698

Retention Payments (following payments are decreased over the duration of the contract) are payments to individuals who work through the end of the school year (% paid is based on total hours worked). Employees must work through the last day of the school year to be eligible for a retention payment.

### ***Town Union Settlements***

The nine Town union contracts expired on June 30, 2023. The Town brought the FMD Custodian Contract to the 2023 Annual Town Meeting for approval. Of the remaining eight union contracts, all were settled and approved at the November 2023 Special Town Meeting. Based on Town Bylaws, pay schedules for Town staff must be approved by Town Meeting to adjust personal service appropriations. (School Department union contracts do not require Town Meeting action due to the School Committee's ability to transfer funds between personal services and expenses.) The table below provides a summary of recent COLA adjustments in settled union contracts approved by Town Meeting.

Throughout the contract negotiations, the Select Board and staff made a particular effort to compare Wellesley's compensation and benefits to the appropriate comparable peer communities. Compensation of many of the Town's union personnel was found to be considerably below the median. The resulting settlements all reflect an effort to bring the unions to the median (or closer to median) of appropriate comparable communities over the three-year contract duration.

**Cost of Living Adjustments (COLA)**

| <b>Union</b>                   | <b>FY24</b>   | <b>FY25</b> | <b>FY26</b>                        | <b>Total</b> |
|--------------------------------|---------------|-------------|------------------------------------|--------------|
| Superior Officers (Police)     | 6%            | 3%          | 3%                                 | 12%          |
| Patrol Officers                | 6%            | 3%+1% EMT   | 3%                                 | 13%          |
| Dispatch                       | 4%+ 1%<br>EMD | 3%+ 1% EMD  | 2%                                 | 11%          |
| Firefighters                   | 4% +1% EMT    | 3%+1% EMT   | 3%+1% EMT                          | 13%          |
| DPW Supervisors                | 5%            | 3%          | 1% + New Step<br>(4%) for 10 Years | 13%          |
| DPW Production                 | 5%            | 2%          | 2%+ New Step<br>(4%) for 10 Years  | 13%          |
| Library (Supervisor and Staff) | 4%            | 3%          | 3%                                 | 10%          |
| FMD Custodians                 | 4%            | 3%          | 2%                                 | 9%           |

\*Emergency Medical Technician (EMT) and Emergency Medical Dispatch (EMD) are stipends

**C. Employee Benefit Costs**

Benefit costs, including health insurance, pension plan contributions, and the liability for other post-employment benefits (OPEB) for certain retirees and their dependents, are key considerations in the TWFP. During the past ten years, benefit costs have been the fastest growing component of the overall Town budget.

New municipal accounting rules took effect at the beginning of FY 2018 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.

The principal components of employee benefits cost are detailed below (in millions):

**Employee Benefit Costs Over Time (in millions)**

|                       | <b>FY18</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21</b> | <b>FY22</b> | <b>FY23</b> | <b>FY24</b> | <b>FY25</b> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Health Insurance      | \$17.6      | \$18.9      | \$19.6      | \$20.5      | \$20.5      | \$21.0      | \$21.4      | \$22.7      |
| Pension Contributions | \$6.6       | \$7.1       | \$7.5       | \$8.0       | \$8.2       | \$8.6       | \$8.8       | \$9         |
| OPEB Funding          | \$3.4       | \$3.4       | \$3.4       | \$3.4       | \$3.4       | \$3.45      | \$3.45      | \$3.2       |
| Workers Comp.         | \$0.52      | \$0.29      | \$0.28      | \$0.24      | \$0.24      | \$0.24      | \$0.70      | \$0.74      |
| Unemployment          | \$0.15      | \$0.15      | \$0.1       | \$0.1       | \$0.1       | \$0.1       | \$0.1       | \$0.1       |
| Compensated Absences  | \$0.12      | \$0.12      | \$0.12      | \$0.12      | \$0.12      | \$0.12      | \$0.12      | \$0.12      |
| Total (million)       | \$28.4      | \$30        | \$31        | \$32.4      | \$32.6      | \$33.5      | \$34.6      | \$35.9      |
| % of Budget           | 17.20%      | 17.9%       | 17.5%       | 18.2%       | 17.8%       | 16.8%       | 17.1%       | 16.2%       |

***Health Insurance***

The projected increase in health insurance costs to the Town in FY 2025 is 6.33% over FY 2024, with total employee benefits increase of 3.86%. This projected increase factors in the cost of the health insurance plans and programs, as well as the number of employees opting to take the benefit.

**Background:** The Town procures health insurance for active employees and retirees through the West Suburban Health Group (WSHG), a consortium of nine towns and two educational entities. Health insurance is a mandatory subject of collective bargaining, so the Town cannot unilaterally make changes to the plan design. In recent years, the Town has negotiated with its employee groups and implemented a number of plan changes that have helped control rising costs, including:

- Providing a higher Town contribution to the most affordable plans and increasing the employee contribution for more expensive plans;
- Creating high deductible plan incentives;
- Establishing opt-out incentives for employees currently employed and on health insurance for two years who take spousal/partner health insurance offerings;
- Offering limited network plans to reduce costs; and
- Offering extensive wellness incentives.

The current contract began on July 1, 2022, and continues to offer high deductible and benchmark plans for employees. In FY 2023, the Town extended the Memorandum of Agreement with the unions for health insurance through June 30, 2025. That agreement defines the Town's contribution rates towards health care plans, along with other benefit costs (dental, life insurance, accident, and indemnity plans).

Under the existing Health Care Agreement, the Town pays:

- 78% of the cost of the Blue Cross Blue Shield plan,
- 60% of the cost of the Harvard Pilgrim and Tufts plans, and
- 50% of the cost of the Harvard Pilgrim PPO plan.

Health insurance spending was favorable in FY 2023. Enrollments were lower than budgeted due to continued vacancies, resulting in an increase of \$1.7 million in the Town's reserve levels. Blue Cross Blue Shield became the Town's lowest priced carrier in the WSHG at the start of FY 2023 and that will continue through FY 2025.

Harvard Pilgrim and Tufts will merge into "Point 32" a new health care company at the start of FY 2025. As a result of this merger, starting July 1, 2024, WSHG will consolidate from three plan options to two plan options as follows:

- Blue Cross Blue Shield – where the Town pays 78% of the cost of the plan,
- Point 32 – where the Town pays 60% of the cost of the plan.

Blue Cross Blue Shield will remain the most affordable plan option.

In the FY 2025 budget, the proposed increase for health insurance is 6.33%. This reflects:

- an 8.5% increase in all Blue Cross Blue Shield health plans and
- a 12.3% increase in Point 32 (Harvard Pilgrim and Tufts Plans).

The proposed budget for health insurance reflects an in-depth analysis of actual enrollments and conservative projections of up to 34 additional benchmark family plans in FY 2025. Given the increased costs of Point 32 and the limited number of Town employees with Harvard Pilgrim and Tufts plans, projections reflect anticipated transition to the more economical Blue Cross Blue Shield plan.

The WSHG continues to analyze the claims data and recommended increases for all health care plans annually. As stated above, the FY 2025 increase is 8.5% for Blue Cross Blue Shield, which continues to perform exceptionally well on claims. For Point 32, the increase is 12.3%, which

reflects a recognition that in FY 2024 Harvard Pilgrim claims are surpassing the projected funding and are being subsidized by Blue Cross Blue Shield's performance. As stated above, the projected increase in health insurance costs to the Town in FY 2025 is 6.33% over FY 2024, with an increase in total employee benefits of 3.86%.

The Town continues to employ conservative assumptions based on current vacancy rates and employees' ability to opt out of the Town's insurance offerings or to select less expensive individual or high deductible plans.

### ***Pension Plan Contributions***

The Retirement Plan contribution for FY 2025 is \$9,039,104 based on the actuarial payment schedule.

Municipal employees in Massachusetts are not eligible for Social Security. In lieu of a Social Security benefit, the Town maintains a defined benefit pension plan for retired employees other than teachers, 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. The Town makes an annual contribution to the Wellesley Contributory Retirement System, a defined benefit pension plan administered by the Wellesley Contributory Retirement Board. However, unlike a defined benefit pension plan in the private sector, municipal employees are required, as a condition of employment, to make significant contributions 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.

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 most recent [pension actuarial valuation](#) was performed as of January 1, 2023. Over time, the actuarial valuation of the pension plan has called for a reduction of the investment return assumption to a more conservative rate of 6%. Despite more conservative rate assumptions, the Town's unfunded pension liability continues to decline, consistent with the funding schedule. The actuarial study reflects unfunded pension liability being reduced from \$30.7 million in 2024 to \$25.9 million in 2025. The current funding schedule shows an expected reduction in the annual contribution starting in FY 2029 as the retirement system is projected to finish paying for accrued liabilities from prior years. The Retirement Board is exploring a phased reduction in appropriations while factoring in conservative approaches to managing market corrections, future COLA base improvements, the need to appropriate ongoing net normal costs, and potential de-risking of the investment portfolio. The Retirement Board recommends the Town continue to fund the pension system to about 110 to 115% to guard against significant future budget increases attributable to significant, downside market volatility. That said, it would not be unreasonable to assume that pension contributions will start coming down after 2030, possibly by \$1 million or \$2 million per year (or even more if the funded status exceeds 110 to 115% of plan liabilities).

At 2023 Annual Town Meeting, Article 22 authorized an increase in the COLA base for benefit recipients of \$1,000 a year, for three consecutive years, effective July 1 of each year. The annual COLA adjustment to benefit payments is based on increases in the Consumer Price Index (CPI), as published by the Social Security Administration each October, up to a maximum of 3% per annum. The COLA adjustment applies only to a limited portion of the retiree's pension. This limited portion is called the COLA base. The base will be increased to \$20,000 in FY 2025 and \$21,000 in FY2026. The previous increase in the COLA base was for FY 2018 through FY 2020.

Employee contributions to the Town of Wellesley pension plan during *calendar year* 2023 totaled \$4.4 million and are estimated to total \$4.5 million in calendar 2024. The Town made a contribution of \$8.8 million in FY 2024, which represents 4.4% of the Town's FY 2024 operating budget. The actuarial funding schedule for the pension plan calls for a \$192,739 increase in pension funding in FY 2025 (exclusive of enterprise funds). The enterprise funds (Water, Sewer, Stormwater and Electric) also contribute the employer portion for their employees. Approximately 62% of the contribution by the Town this year will be allocated to accrued liabilities from prior years.

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

In the FY 2025 budget, the Board is proposing an appropriation of \$3,200,000 or 1.4% of the annual budget to fund other post-employment benefits (OPEB).

OPEB are benefits that the Town is obligated to provide as a subsidy for health insurance premiums for all retirees. Annual increases in health insurance offerings also affect the Town's OPEB liability. Over the last ten years, the Town has taken proactive steps to reduce costs, as detailed in the Health Insurance section above. In addition, 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.

Unlike many other communities, Wellesley is fully funding the Annual Required Contribution (ARC), 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. Similar to the pension, the OPEB investment assumption has been reduced to 6% over time. The expected investment return was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce a long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Historically, the funding schedule was designed to fully fund OPEB liability by 2037; however, the Town is currently tracking to be fully funded as of FY 2032, with no funding requirements beginning FY 2033 even with the reduction in the assumed rate of return.

OPEB is on a two-year valuation cycle with the most recent [actuarial valuation](#) performed as of December 31, 2022. The Town has made great strides in funding OPEB obligations over the last eighteen years. The Town is currently tracking to fully fund OPEB in 2032, even with the reduction in the rate of assumed investment returns. The funding schedule now supports tapering OPEB contributions gradually from \$3.2 million in FY 2025 to \$3 million in FY 2027, with further reductions likely in FY 2028 and later years, assuming no significant market corrections. Once full funding is achieved for OPEB, all premium costs for retirees will be borne by the OPEB Trust Fund and any supplemental appropriations towards OPEB may be reduced or possibly even eliminated.

### ***Actuarial Valuations, Assumptions, and Funding Summary***

#### **Pension Plan**

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

| Measurement Date          | 1/1/2015       | 1/1/2017       | 1/1/2019       | 1/1/2021       | 1/1/2023       |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| Accrued liability         | \$ 207,928,237 | \$ 224,137,166 | \$ 248,553,692 | \$ 286,078,693 | \$ 306,514,302 |
| Actuarial value of Assets | \$ 152,955,923 | \$ 169,089,812 | \$ 193,017,080 | \$ 243,973,730 | \$ 256,604,732 |
| Unfunded liability        | \$ 54,972,314  | \$ 55,047,354  | \$ 55,536,612  | \$ 43,104,963  | \$ 29,818,617  |
| Funded ratio              | 73.56%         | 73.33%         | 77.66%         | 84.93%         | 90%            |
| Est full funding year     | 2030           | 2030           | 2030           | 2030           | 2029           |
| Assumed rate of return    | 6.75%          | 6.625%         | 6.625%         | 6%             | 6%             |

The following excerpt from the Town's audited [Annual Comprehensive Financial Report](#) presents the net pension liability, calculated using the discount rate of 6% as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5%) or one percentage point higher (7%) than the current rate:

|                                                                     | 1% Decrease<br>(5.00%) | Current<br>Discount<br>(6.00%) | 1% Increase<br>(7.00%) |
|---------------------------------------------------------------------|------------------------|--------------------------------|------------------------|
| The Town's proportionate share of the<br>net pension liability..... | \$ 81,675,074          | \$ 44,940,515                  | \$ 14,244,362          |
| Total System's net pension liability.....                           | \$ 82,358,228          | \$ 45,316,411                  | \$ 14,363,506          |

## OPEB

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

| Measurement Date          | 6/30/2014      | 6/30/2016      | 6/30/2018      | 12/31/2020     | 12/31/2022    |
|---------------------------|----------------|----------------|----------------|----------------|---------------|
| Accrued liability         | \$ 111,075,197 | \$ 120,156,976 | \$ 117,449,860 | \$ 132,313,690 | \$141,187,864 |
| Actuarial value of Assets | \$ 32,806,387  | \$ 44,229,773  | \$ 62,623,693  | \$ 75,024,303  | \$102,432,745 |
| Unfunded liability        | \$ 78,268,810  | \$ 75,927,203  | \$ 51,444,900  | \$ 57,289,387  | \$ 38,755,119 |
| Funded ratio              | 29.54%         | 36.81%         | 54.90%         | 56.70%         | 72.60%        |
| Est full funding year     | 2037           | 2037           | 2032           | 2032           | 2033          |
| Assumed rate of return    | 7%             | 6.75%          | 6.625%         | 6%             | 6%            |

\*Town pays approximately 84%, Enterprise funds pay approximately 16%

The following excerpt from the Town's audited [Annual Comprehensive Financial Report](#) presents the net OPEB liability and service cost, calculated using the discount rate of 6%, as well as what the net OPEB liability and service cost would be if it were calculated using a discount rate that is one percentage point lower (5%) or one percentage point higher (7%) than the current rate:

|                                      | 1% Decrease<br>(5.00%) | Current<br>Discount Rate<br>(6.00%) | 1% Increase<br>(7.00%) |
|--------------------------------------|------------------------|-------------------------------------|------------------------|
| Net OPEB liability/(asset), net..... | \$ 54,624,737          | \$ 34,704,440                       | \$ 18,290,089          |

## D. Strategic Initiatives

In recent years, the Town has developed a number of strategic plans that provide guidance and inform budget decisions. In FY 2025 and beyond, careful consideration is needed to coordinate the resulting initiatives, balance priorities, identify synergies, and determine available financial resources to support the Town's many ambitious goals.

In FY 2025, the Town anticipates the need for several new positions related to strategic plans and initiatives, and the proposed budget includes positions to assist with implementation of the Sustainable Mobility Plan, enhance public safety operations, and operationalize new buildings and structures constructed under the [Major Capital Project Financing Plan](#). Several cash capital projects and plans strive to meet objectives identified in the Open Space and Recreation Plan, Climate Action Plan, and the Wellesley Public Schools Strategic Plan.

**Key town-wide strategic plans include:**

**[Unified Plan](#):** In 2019, the Town adopted the Unified Plan (UP) to be the strategic umbrella under which additional plans and initiatives would be generated given Wellesley's decentralized form of government. The UP identifies policies related to land-use planning, economic development, housing, transportation, education, Town government operations, and finance. At the 2024 Annual Town Meeting, the Town continues to work towards the goals and policies outlined in the Unified Plan through proposed zoning amendments that expand housing opportunities under Article 40 (MBTA Communities) and Article 42 (the addition of the RIO District at 194-196 Worcester Street/150 Cedar Street). It is important to note that, with the exception of the Facilities Master plan, funding to advance the initiatives identified in the UP has been absorbed incrementally through various departmental initiatives.

**[Housing Production Plan](#):** The Town's 2018 Housing Production Plan (HHP) established a roadmap for the Town to reach its required 10% affordable housing goal, and the Town achieved that goal in 2022. With the expiration of the HHP in September 2023, the Planning Board and Housing Task Force proposed the creation of a new Strategic Housing Plan. The 2023 Fall Special Town Meeting authorized funding for the plan by the Community Preservation Committee, and the Wellesley Housing Development Corporation provided funding as well. In February 2024, the Planning Department released a request for proposals to design the plan and work will commence later this year.

**[Climate Action Plan and Climate Resolution](#):** The Climate Action Plan (CAP) was developed by the Climate Action Committee in 2022 to guide the Town's efforts to reach goals for greenhouse gas emission reductions approved by 2021 Annual Town Meeting. In 2020, Annual Town Meeting approved the Resolution to Address the Impact of Climate Change proposed by the Select Board. These documents guide purchasing and reporting by all departments to support reductions in greenhouse gas emissions. Other related actions include: changing the reporting structure for the Sustainability Director to the Executive Director (2022 Annual Town Meeting); adoption of the Municipal Opt-In Specialized Building Code (2023 Annual Town Meeting); creation of a web-based dashboard to track CAP progress (2024); launching of a community education program to support CAP implementation (2023); development of a cross departmental Hazard Mitigation Plan (2023); transition of lighting in Town and school buildings to LED (2013 – 2024); development of a Zero Emission Fuel Policy (underway).

**[Sustainable Mobility Plan](#):** The Sustainable Mobility Plan (SMP) was adopted in 2021 by the Town's Mobility Committee, a diverse group of town employees, elected officials, and engaged residents established by Executive Director Meghan Jop. The SMP is a plan to reduce single vehicle occupancy, enhance the use of sustainable modes of transportation including walking, biking, and transit, and enhance regional and state connections. The SMP also serves as the transportation component to the CAP. In the FY 2025 budget, the Select Board is proposing a new Transportation and Mobility Manager to lead the policy and projects detailed in the SMP and to continue successful advocacy at regional and state levels for transportation improvements in Wellesley.

**[Open Space and Recreation Plan](#):** The Open Space and Recreation Plan (OSRP) was adopted by the Natural Resources Commission for the period 2022-2029, as required by the state Executive Office of Energy and Environmental Affairs. The plan builds on the successes of the three previous open space plans and reflects issues and challenges that have emerged in the development of the new OSRP, and in the development of the Unified Plan, Municipal Vulnerability Preparedness program, and Climate Action Plan.

**[Hazard Mitigation Plan](#)** The Hazard Mitigation Plan (HMP) was adopted by the Select Board in January 2024 and approved by the Federal Emergency Management Agency (FEMA). The HMP is a recommendation of the CAP, and having a FEMA-approved plan makes the Town eligible for additional federal and state funding to assist with the impacts of climate change.

## 4. Capital Projects

### A. Capital Budget Approach, Policy, and Process

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 on taxpayers will be moderated as much as possible, while still maintaining the high level of services that residents have come to expect.

As described in the [Financial Planning](#) section, the Board has adopted a Capital Financing Policy that limits combined capital and inside-the-levy debt service expenditures to 6.2 to 6.8% of the current period's Budgeted Operating Revenues. The purpose of the policy is to provide sufficient funds to maintain Town assets, while avoiding operating overrides or compromising operating budgets.

Each year, boards, committees, and commissions submit a detailed five-year capital plan for items greater than \$10,000 in value, 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 finalized five-year capital requests submitted. 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 must be quantified. Because financial resources are limited, all boards, committees, and commissions are asked to internally prioritize capital needs based upon specific criteria identified in the [Budget Preparation Manual](#) and departments are advised to fully research the cost of each item to better inform the discussion of which projects should be funded in a given year. A thorough analysis of capital needs helps avoid sudden unanticipated requests in the current budget cycle, and greatly aids the financial planning process.

It should be noted that with any significant rise in the inside-the-levy borrowing, available funding for cash capital projects is reduced. Conversely, the application of Free Cash to cash capital projects builds capacity for inside-the-levy borrowing. Capital requests added in a given budget year without prior notice are generally deferred unless required by a federal or state mandate.

The [Budget Preparation Manual](#) details a hierarchy that requires boards and departments to itemize all capital requests as follows:

1. Federal or State Mandate

2. Impact on Service to the Public
  - a. Service addresses an immediate public health, safety, accreditation, or maintenance need
  - b. Service is improved and addresses a public health, safety, accreditation, or maintenance need
  - c. Service is greatly improved
3. Urgency of Maintenance/Replacement Need
  - a. Whether service or replacement is currently interrupted
  - b. Whether project/expense/replacement requested will result in full restoration of service
  - c. Whether project/expense/replacement is the most cost-effective method of providing or maintaining service
  - d. Where service is not currently interrupted, the likelihood that it will be in the next five years if the project/expense/replacement is not funded
  - e. Will costs increase (beyond inflation) if the project/purchase/replacement is delayed
  - f. Project/expense/replacement is being requested to meet existing replacement schedule
4. Proportion of project/expense funded previously
  - a. Request will complete project
  - b. Request will move project to feasibility phase
  - c. Request will move project to schematic design phase
  - d. Request will move project to construction phase
5. Proposed capital expenditure meets a goal or initiative of the Unified Plan
6. Proposed capital expenditure a goal or initiative of the Municipal Vulnerability Study
7. Proposed capital expenditure a goal or initiative of the department, board, or committee

## **B. Status of Current Major Capital Projects**

The Permanent Building Committee and the Facilities Management staff continue to work to implement the design and construction projects approved at Town Meeting. Status of ongoing major facilities projects can be summarized as follows:

- **Hunnewell School** - The project was turned over to the Town on January 26, 2024. Students moved into the school on February 26, 2024. The new 76,500 square foot Hunnewell Elementary School serves 365 students. The 18-classroom building includes a gymnasium, a warming kitchen, a cafetorium, administrative offices, and purpose-built spaces for the district-wide Therapeutic Learning Center (TLC) program.
- **Hardy School** - The project is currently under construction and is slated for substantial completion in summer of 2024 with occupancy to begin September 2024. The new 80,039 square foot Hardy Elementary School will serve 365 students. The 18-classroom building will include gymnasium, a warming kitchen, a cafetorium, administrative offices, and purpose-built space for the district-wide skills program.
- **Town Hall Interior Renovation** - The project is currently under construction and the Town Hall departments have been relocated to temporary space at 888 Worcester Street. The project initially anticipated construction to be substantially complete by September 2024, but that has been extended to November 2024 as a result of additional interior structural support work. Upon the reopening of Town Hall, the Land Use Departments (Planning, Zoning Board of Appeals, Building Department, and Natural Resources Commission) will remain at 888 Worcester Street, along with the Facilities Management Department that has been located at the 888 Worcester Street for 8 years.

### C. Projected Future Major Capital Projects and Borrowing Needs

Projects on the Facilities Master Plan as outlined in the Five-Year Capital Plan ([Exhibit C](#)) include the Morses Pond Beach and Bath House Improvements, Department of Public Works (DPW) Park and Highway Building, and the DPW Recycling and Disposal Facility (RDF) Administration Building, and the Warren HVAC Renovation. These projects have completed the feasibility stage and funding will be requested for design or supplemental evaluation at the 2024 Annual Town Meeting (Morses Pond buildings, DPW RDF Administration Building) or at the anticipated 2024 Fall Special Town Meeting (DPW Park and Highway Building, Warren HVAC Project). The funding for inside-the-levy borrowing will be evaluated as the projects progress.

- **Morses Pond Beach and Bath House Improvements** - Under Article 17 on the warrant for 2024 Annual Town Meeting, the Community Preservation Committee (CPC) is proposing to fund schematic design through bidding for improvements to the Morses Pond beach and bath house, at a cost of \$925,000. The project has been discussed since 2019, when the Recreation Commission began working with Weston and Sampson to conduct a Final Master Plan for the facilities. Following that initial study, it was determined that the work to the Bath House was extensive enough to trigger review by the Permanent Building Committee and a \$175,000 feasibility and design study was conducted in partnership with the Recreation Commission and Facilities Management Department. If CPC funding is approved at the 2024 Annual Town Meeting, CPC anticipates requesting an estimated \$5 million appropriation at the 2025 Fall Special Town Meeting towards the estimated total project cost of \$8.2 million as established by the feasibility study. Costs for the project will be refined in schematic design through bidding. The Major Project Financing Schedule currently includes \$3.2 million for the project. The Select Board will continue to evaluate funding mechanisms as the project nears construction funding.
- **DPW New Administration Building at the Recycling and Disposal Facility (RDF)** - Under Article 19 on the warrant for 2024 Annual Town Meeting, the DPW is proposing an appropriation of \$635,100 for the design of a new Administration Building at the RDF. The last major renovation at the RDF was in 1997. A study was completed in 2020 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 23-year-old building systems were largely past their service lives. Construction of a new, somewhat larger administration building was recommended within the footprint of the existing building (requiring swing space included in the budget). If design funds are approved at the 2024 Annual Town Meeting, the DPW anticipates proposing an appropriation of approximately \$4.9 million for construction at 2025 Fall Special Town Meeting.
- **DPW Park and Highway Building** – The DPW had planned to request design funds for renovations to the Park and Highway Building at the 2024 Annual Town Meeting. However, the DPW has determined that a supplemental study is needed, which will be funded through cash capital. An FY 2019 study evaluated key staff support spaces, including the men's locker rooms, the kitchen, and the lunch/break/training rooms, which have not been updated since the building was constructed in 1947. These facilities were determined to be inadequate given their 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 itself, 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. Numerous age-related and structural deficiencies were

found. The DPW now anticipates requesting approximately \$1.3 million for project design at the 2025 Annual Town Meeting. Construction funds would then be sought at 2026 Fall Special Town Meeting and are currently estimated at \$10.6 million.

- Warren HVAC Project** – Funding was approved at the 2023 Annual Town Meeting for schematic design to replace the HVAC systems in the Warren Building. The design is underway, and the Facilities Management Department anticipates proposing an appropriation for construction at the 2024 Fall Special Town Meeting, estimated at \$5.7 million, however compliance with aspects of the Americans with Disabilities Act (ADA) may have an impact on projected costs. The project was originally evaluated as part of a study in FY 2022. The building has had ongoing HVAC problems since the 2004 renovation with temperature fluctuations, equipment failure, inadequate ventilation, and falling ice hazard from boiler condensation. The Warren Building houses the Recreation Department and the Health Department, and both departments will be relocated to the Upham School for the duration of construction, should the project receive Town Meeting approval.

#### D. Capital Budget Request and Future Planning

MIIA, the Town's insurance company, currently values Wellesley's assets at \$438,302,287 inclusive of buildings and contents. It should be noted that the Town Hall and new Hardy School are currently under Builder Insurance Policies and not included in the current asset calculation. It is the Town's responsibility to maintain all its assets or replace them as they reach the end of their useful life, making capital project needs and costs a major factor in planning for subsequent years. 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 allowed for the use of the higher end of the Capital Spending Range of 6.8% given the status of reserves, revenues generated from new growth, and, particularly, interest earnings.

The combined inside-the-levy (cash capital and debt service) financing budget for FY 2025 is \$12,721,965 or 6.8% of revenue. Of the \$12.7 million, \$4.9 million is for inside-the-levy debt service, with a maximum of \$7.8 million available for all cash capital projects. In FY 2026 through FY 2028, based upon projected inside-the-levy borrowing, the finance team currently projects between \$4 million and \$6.7 million will be available for cash capital expenses if the Board maintains an upper limit of the Capital Spending Range of 6.8%. However, total requests on the Five-Year Capital Plan exceed the 6.2 to 6.8% Capital Spending Range and is hovering around 8.3% or higher for FY 2026 through FY 2028.

|                              | <u>2025</u>           | <u>2026</u>           | <u>2027</u>           | <u>2028</u>           | <u>2029</u>           | <u>2030</u>           |
|------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Recurring Revenues</b>    |                       |                       |                       |                       |                       |                       |
| Taxes (2.5%) + New Growth    | \$ 163,036,828        | \$ 168,812,748        | \$ 174,733,067        | \$ 180,801,394        | \$ 187,021,428        | \$ 193,396,964        |
| State Aid                    | \$ 11,694,447         | \$ 11,928,336         | \$ 12,166,903         | \$ 12,410,241         | \$ 12,658,446         | \$ 12,911,614         |
| Local Revenue                | \$ 12,353,611         | \$ 12,600,683         | \$ 12,852,697         | \$ 13,109,751         | \$ 13,371,946         | \$ 13,639,385         |
|                              | <b>\$ 187,084,886</b> | <b>\$ 193,341,767</b> | <b>\$ 199,752,667</b> | <b>\$ 206,321,385</b> | <b>\$ 213,051,820</b> | <b>\$ 219,947,963</b> |
| <b>Capital Financing</b>     |                       |                       |                       |                       |                       |                       |
| Cash Capital Requests        | 7,759,465             | 10,271,247            | 7,398,008             | 8,173,500             | 9,000,000             | 9,500,000             |
| Inside the Levy Debt Payment | 4,962,500             | 6,400,000             | 9,200,000             | 9,535,000             | 11,247,720            | 12,000,000            |
|                              | <b>\$ 12,721,965</b>  | <b>\$ 16,671,247</b>  | <b>\$ 16,598,008</b>  | <b>\$ 17,708,500</b>  | <b>\$ 20,247,720</b>  | <b>\$ 21,500,000</b>  |
| Capital Financing Requests*  | <b>6.80%</b>          | <b>8.62%</b>          | <b>8.31%</b>          | <b>8.58%</b>          | <b>9.50%</b>          | <b>9.78%</b>          |

\* Capital Financing Policy Range is 6.2 - 6.8%

During the budget process, departments may be asked to reduce their capital requests in order to bring overall requests into alignment with the Capital Spending Range outlined in the Capital Financing Policy. Staying within the range requires close coordination and communication between the Finance Department and all department heads. For capital dependent departments, setting a maximum limit for cash capital spending has assisted with budget goals. For example, over the past several years, the Facilities Management Department has focused on maintaining a cash capital budget of \$2 million or less per year. This year, discussions continue on setting a cash capital threshold for the Department of Public Works as annual requests have grown substantially over time.

## D. Major Project Five-year Financing Plan

| Project                             | Phase        | Estimated Cost   | Spring 2024     | Fall 2024      | Spring 2025    | Fall 2025       | Spring 2026  | Fall 2026       | Spring 2027     | Fall 2027      | Spring 2028    | Fall 2028       | Spring 2029 | Fall 2029       |
|-------------------------------------|--------------|------------------|-----------------|----------------|----------------|-----------------|--------------|-----------------|-----------------|----------------|----------------|-----------------|-------------|-----------------|
| <i>MOPO Renovation</i>              | Design       | \$ 925           | CPC             |                |                |                 |              |                 |                 |                |                |                 |             |                 |
|                                     | Construction | \$ 8,200         |                 |                |                | CPC/X           |              |                 |                 |                |                |                 |             |                 |
| <i>Warren HVAC Renovation</i>       | Design       |                  |                 |                |                |                 |              |                 |                 |                |                |                 |             |                 |
|                                     | Construction | \$ 5,700         |                 | X              |                |                 |              |                 |                 |                |                |                 |             |                 |
| <i>DPW New RDF Admin. Bldg</i>      | Design       | \$ 635           | X               |                |                |                 |              |                 |                 |                |                |                 |             |                 |
|                                     | Construction | \$ 4,910         |                 |                |                | X               |              |                 |                 |                |                |                 |             |                 |
| <i>DPW Reno: Park &amp; Hwy</i>     | Design       | \$ 1,320         |                 |                | X              |                 |              |                 |                 |                |                |                 |             |                 |
|                                     | Construction | \$ 10,600        |                 |                |                |                 |              | X               |                 |                |                |                 |             |                 |
| <i>Sprague HVAC Renovation</i>      | Design       | \$ 425           |                 |                |                |                 | X            |                 |                 |                |                |                 |             |                 |
|                                     | Construction | \$ 2,100         |                 |                |                |                 |              |                 |                 | X              |                |                 |             |                 |
| <i>Library HVAC Renovation</i>      | Design       | \$ 525           |                 |                |                |                 |              |                 | X               |                |                |                 |             |                 |
|                                     | Construction | \$ 2,750         |                 |                |                |                 |              |                 |                 |                |                | X               |             |                 |
| <i>Middle School Roof Replace</i>   | Design       | \$ 550           |                 |                |                |                 |              |                 | X               |                |                |                 |             |                 |
|                                     | Construction | \$ 7,600         |                 |                |                |                 |              |                 |                 |                |                | X               |             |                 |
| <i>Sprague School Roof Replace</i>  | Design       | \$ 210           |                 |                |                |                 |              |                 | X               |                |                |                 |             |                 |
|                                     | Construction | \$ 1,950         |                 |                |                |                 |              |                 |                 |                |                | X               |             |                 |
| <i>Bates School Roof Replace</i>    | Design       | \$ 300           |                 |                |                |                 |              |                 | X               |                |                |                 |             |                 |
|                                     | Construction | \$ 3,200         |                 |                |                |                 |              |                 |                 |                |                | X               |             |                 |
| <i>DPW Reno: RDF Baler Bldg</i>     | Design       | \$ 410           |                 |                |                |                 |              |                 |                 |                | X              |                 |             |                 |
|                                     | Construction | \$ 2,400         |                 |                |                |                 |              |                 |                 |                |                |                 |             | X               |
| <i>New Preschool</i>                | Design       | \$ 2,650         |                 |                |                |                 |              |                 |                 |                | DE             |                 |             |                 |
|                                     | Construction | \$ 24,000        |                 |                |                |                 |              |                 |                 |                |                |                 |             | DE              |
| <i>AC: Bates, Schof., Fiske, MS</i> | Design       | \$ 1,900         |                 |                |                |                 |              |                 |                 |                | DE             |                 |             |                 |
|                                     | Construction | \$ 15,700        |                 |                |                |                 |              |                 |                 |                |                |                 |             | DE              |
| <b>TOTALS (Millions) =</b>          |              | <b>\$ 98,960</b> | <b>\$ 1,560</b> | <b>\$5,700</b> | <b>\$1,320</b> | <b>\$ 8,200</b> | <b>\$425</b> | <b>\$10,600</b> | <b>\$ 1,585</b> | <b>\$2,100</b> | <b>\$4,960</b> | <b>\$15,500</b> | <b>\$0</b>  | <b>\$42,100</b> |

DE = Debt Exclusion

ITL = Inside The Levy

CPC = Community Preservation Committee

## 5. Median Tax Bill Projections

The following table is a projection of the median tax bill (i.e., the tax bill for a home valued at \$1,544,000 for the period FY 2024 through FY 2031). The Board continues to be mindful of the significant impact on taxpayers of the approved and prospective debt exclusions. Efforts will continue 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

|                          | FY24 |        | FY25 |        | FY26 |        | FY27 |        | FY28 |        | FY29 |        | FY30 |        | FY31 |        |
|--------------------------|------|--------|------|--------|------|--------|------|--------|------|--------|------|--------|------|--------|------|--------|
| Levy Prior               | \$   | 14,123 | \$   | 14,735 | \$   | 15,244 | \$   | 15,765 | \$   | 16,300 | \$   | 16,848 | \$   | 17,409 | \$   | 17,985 |
| Levy growth              | \$   | 612    | \$   | 509    | \$   | 521    | \$   | 534    | \$   | 548    | \$   | 562    | \$   | 576    | \$   | 590    |
| Existing Debt Exclusions | \$   | 825    | \$   | 803    | \$   | 731    | \$   | 668    | \$   | 647    | \$   | 612    | \$   | 548    | \$   | 532    |
| HHU                      | \$   | 519    | \$   | 701    | \$   | 713    | \$   | 694    | \$   | 674    | \$   | 655    | \$   | 636    | \$   | 617    |
| Median tax bill          | \$   | 16,080 | \$   | 16,748 | \$   | 17,209 | \$   | 17,661 | \$   | 18,169 | \$   | 18,677 | \$   | 19,170 | \$   | 19,724 |

## 6. Operating and Capital Requests

### Budget Status and Guidelines

Highlights of the FY 2025 operating requests are as follows:

- **Total operating budget:** The total operating budget for FY 2025 is \$221,707,652. This reflects a proposed year-over-year increase of 9.82%, inclusive of budgeted capital requests for FY 2025 totaling \$12,721,965 (6.8% of Budgeted Recurring Operating Revenues), \$10,986,538 in Free Cash capital expenditures including \$8.3 million to avoid borrowing for the previously approved Town Hall project (which skews the year-over-year budget), and \$2,250,000 in Free Cash to balance the budget.
- **Guidelines:** As detailed in section [2.C](#) above, the Board set individualized operating budget guidelines for personal services for Fire (5.5%), Police (5%), FMD (4%), DPW (4%), Library (4%), and expense guidelines for IT (8%), Town Clerk (5%), and Library (4%). All other Town departments have a 3% personal services, and 3% expense guideline. The School Department has a guideline inclusive of personal services and expenses of 3.7%. The Capital Financing Policy guideline was set at 6.8% of Budgeted Recurring Operating Revenues (at the high end of the allowed Capital Spending Range).
- **Increase over FY 2024:** Fall projections estimated that the Town's operating budget had a growth capacity of approximately 5% largely due to the establishment of the stormwater utility enterprise fund which would free up operating capacity of \$967,709 in FY 2025. The actual proposed increase in the Town operating budget is 9.82% due to multiple factors but largely reflects the injection of \$11.4 million in Free Cash items (cash capital, Town Hall financing, and FY 2024 Snow and Ice Supplemental). Without the Free Cash items, the year-over-year increase is 4.2% and includes additions to personnel, increased utility and operating costs, cybersecurity upgrades, recommended wage increases, and an increase in exempt debt with the last tranche of borrowing in FY 2025 for the Hardy elementary school.
- **School budget increase:** The proposed increase in the School Department budget is at the guideline of 3.7%.
- **COLA and merit pay pool:** The Town's proposed operating budget includes a cost of living adjustment (COLA) for all non-union employees: 40 series at 4%, and 50/60 series at 2.5%. These increases are incorporated into departmental budgets. A separate merit pay fund of \$300,000 is proposed to fund merit increases for 50/60 series non-union employees, based upon performance reviews. This amount allows for a merit increase of up to 2.5% (beyond the 2.5% COLA) for the non-union 50/60 series professionals.

### Expenses

- **Increase in health insurance cost:** There was a moderate annual increase of 6.33% in Group Insurance costs, with West Suburban Health Group increasing insurance carrier rates up 8.5% for Blue Cross Blue Shield and 12.3% up for Point 32 (formerly Harvard Pilgrim and Tufts) for FY 2025. With \$1.7 million in turnback in FY 2023 from Group Insurance costs, the Town has closely analyzed actual enrollments and conservatively projects up to 34 additional benchmark family plans in FY 2025. The Town continues to employ conservative assumptions based on current vacancy rates and employees' ability to opt out of insurance or to select less expensive individual or high deductible plans.

- **Union contract settlements:** All Town union contracts are settled and as previously noted, individual union settlements are factored into specific guidelines for the departments largely staffed by unions, including Fire, Police, FMD, DPW, and Library.
- **New positions:** Five new Town positions are proposed in the FY 2025 budget:
  - Two new firefighter positions to bring staffing to adequate levels to reduce an identified overtime structural deficit. It is anticipated two additional firefighter positions will be required in FY 2026.
  - Two new custodial positions address additional square footage in Hardy/Hunnewell schools and to respond to the changing portfolio of outbuildings including public restrooms.
  - A Transportation and Mobility manager in the Select Board Office to work across multiple departments on transportation demand management, capital project planning, addressing constituent traffic and safety concerns, feasibility studies, grant writing, bicycle and pedestrian planning, sustainable mobility, transit and ride share, and emerging technologies.
- **School staff changes:** The School Department proposes the following staff changes:
  - +5.40 FTEs - School Adjustment Counselors that previously were funded through grants
  - -10.00 FTE - due to declining enrollment
  - +1.00 FTE - Elementary Assistant Principal/Team Chair
  - +1.00 FTE - Middle School/Elementary Team Chair
  - +1.00 FTE - Crisis Interventionist
  - +1.00 FTE - Therapeutic Learning Center Teacher
  - +1.00 FTE - Student Support Center
  - -11.4 FTE - Instructional Support Professionals due to Change Student Needs
- **Reduction in school bus fees:** Schools will reduce bus fees by \$100.

**Note:** Please refer to the School Department's detailed budget for additional information: <https://online.flippingbook.com/view/251549219/>

## Capital

The Five-Year Capital Plan ([Exhibit C](#)) outlines cash capital and debt-funded capital projects, including both inside-the-levy and debt exclusion projects.

The finance team continues to work to reduce inside-the-levy borrowing this year, in order to increase capacity in subsequent years for projects on the [Major Capital Project Financing Schedule](#).

The Town is proposing to expend \$10,986,538 in Free Cash to reduce previously authorized borrowing for the Town Hall project (\$8.3 million) and \$2.7 million for additional capital projects detailed below.

The proposed FY 2025 budget request is summarized in the following table. Additional details on the FY 2025 Sources and Uses are presented in [Exhibit I](#) and [Exhibit B](#).

|                                 | <b>FY24</b>           | <b>FY25</b>           | <b>\$</b>               | <b>%</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                           | \$ 157,401,783        | \$ 163,036,827        | \$ 5,635,045            | 3.6%                    |
| State Aid                       | 11,514,819            | 11,694,447            | 179,628                 | 1.6%                    |
| Local Revenue                   | 12,061,302            | 13,643,611            | 1,582,309               | 13.1%                   |
| Free Cash to balance            | 2,500,000             | 2,250,000             | (250,000)               | -10.0%                  |
| Other free cash items           | 1,984,787             | 11,386,538            | 9,401,751               | 0.0%                    |
| Other Sources                   | 770,302               | 1,005,013             | 234,711                 | 30.5%                   |
| CPA Funds                       | 740,000               | 2,065,000             | 1,325,000               | 179.1%                  |
| CPA to offset debt              | 550,644               | 550,644               | -                       | 0.0%                    |
| Exempt Debt                     | 14,365,672            | 16,075,572            | 1,709,900               | 11.9%                   |
| <b>Total Sources</b>            | <b>\$ 201,889,309</b> | <b>\$ 221,707,652</b> | <b>\$ 19,818,344</b>    | <b>9.8%</b>             |
| <b><i>Uses of Funds</i></b>     |                       |                       |                         |                         |
| School                          | \$ 87,832,188         | \$ 91,081,978         | \$ 3,249,790            | 3.7%                    |
| Other Town Departments          | 46,764,054            | 48,659,660            | 1,895,606               | 4.1%                    |
| Employee Benefits               | 34,602,400            | 35,938,580            | 1,336,180               | 3.9%                    |
| Cash Capital                    | 7,865,185             | 7,759,465             | (105,720)               | -1.3%                   |
| Debt Service (inside Levy)      | 4,400,000             | 4,962,500             | 562,500                 | 12.8%                   |
| Other Uses                      | 5,509,166             | 16,679,253            | 11,170,087              | 202.8%                  |
| Exempt Debt                     | 14,916,316            | 16,626,216            | 1,709,900               | 11.5%                   |
| <b>Total Uses</b>               | <b>\$ 201,889,309</b> | <b>\$ 221,707,652</b> | <b>\$ 19,818,343</b>    | <b>9.8%</b>             |
| <b><i>Surplus/(Deficit)</i></b> | <b>\$ 0</b>           | <b>\$ 0</b>           |                         |                         |

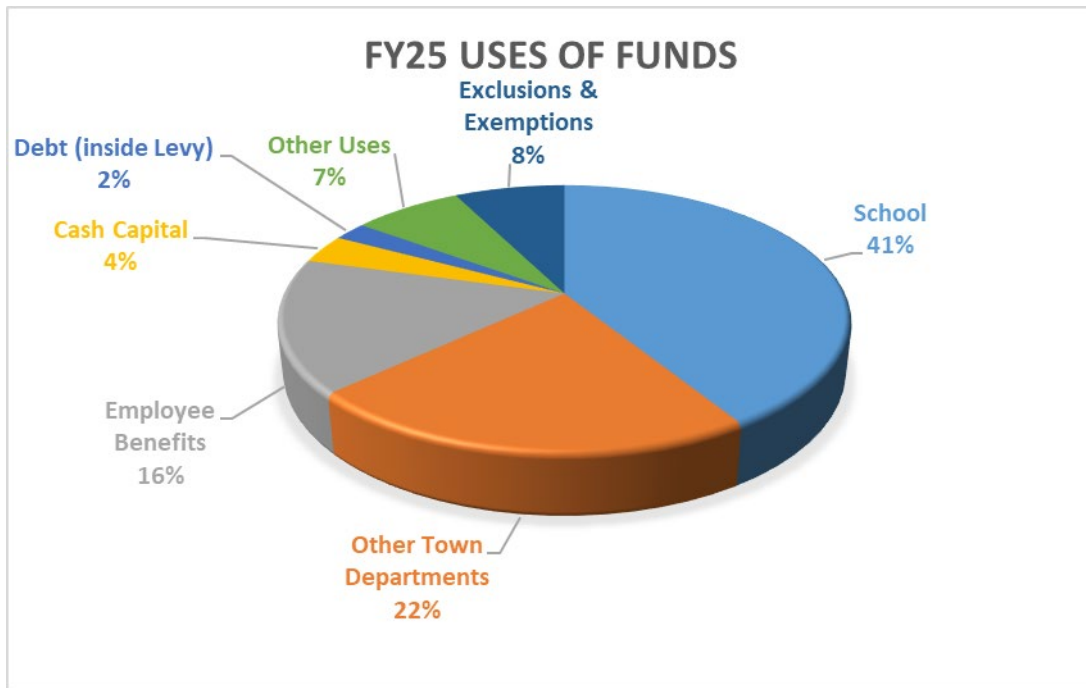
#### **Sources of Funds:**

- The 3.6% increase in taxes reflects the allowed growth in the levy limit (2.5%) and \$1.7 million of projected new growth.
- State Aid is projected to increase by \$179,628 or 1.6%, however, the state budget will not be finalized for many months.
- The 13.1% increase in Local Revenue reflects the continuing trend in motor vehicle excise tax, investment income, and meals and hotel/motel tax.
- The increase of 30.5% in Other Sources is reflecting a rebound of \$234,711 in parking meter receipts which were a complete loss in FY 2021 but have been rebounding in FY 2022 through FY 2024.

#### **Uses of Funds:**

- The 3.7% increase in the School Department budget reflects the base budget, including contractual step and union settlement increases, with several strategic initiatives. The School Department took a close look at their personal services and expenses and worked hard to meet the Town's 3.7% budget guideline. The School Department budget reflects closure of one school and declining enrollment and continues funding critical student support positions previously funded through grants.

- The 4.1% increase in Other Town Departments reflects the following necessary expenditures:
  - Addition of two new firefighter positions (plus benefits)
  - Addition of two new custodial positions (plus benefits)
  - Addition of a new Transportation and Mobility Manager (plus benefits)
  - Union contract COLA increases
  - Increased utility costs and vehicle expenses, including gas and maintenance
  - Recent reclassifications in the [Natural Resources Commission](#) Department budget
  - Ongoing cybersecurity updates
  - Ongoing alignment of Fire Department personal services and expenses
  - Wage increases recommended by the Human Resources Board (2.5% for 50/60 series employees and 4% for 40 series employees) and \$300,000 Merit Pay Plan
  - Various adjustments in other expenses for all departments which are detailed in the departmental budgets.
- Exempt Debt service is up 11.5% with the final anticipated borrowing for the Hardy School project.
- Cash capital is down 1.3% reflecting the balance of cash capital and inside-the-levy borrowing to meet the high end of the Capital Spending Range (6.8%).



### Use of Free Cash:

The Board has sought to take advantage of turnback, over-performance in revenues, and unprecedented investment income (more than \$5 million in FY 2023) to fund critical projects and to eliminate borrowing as outlined below.

FY 2024 supplemental appropriations from Free Cash:

- \$360,000 Fire Department Appropriation (2023 Fall STM)
- \$400,000 Snow and Ice (Article 7, Motion 1 2024 ATM)

FY 2025 appropriations from Free Cash (proposed for 2024 ATM):

- \$29,245 Injured-on-Duty (IOD) Indemnity Fund (Article 10)
- \$50,000 Special Education (SPED) Reserve Fund (Medicaid) (Article 11)
- \$11,512 Baler Stabilization Fund (Article 12)
- \$8,260,681 Town Hall Interior Balance to Eliminate Borrowing (Article 18)
- \$635,100 RDF Admin Building Design (Article 19)
- \$750,000 Fire Headquarters Roof (Article 20)
- \$175,000 Team Room Design (Article 21)
- \$600,000 Wellesley Square Streetscape Design (Article 23)
- \$475,000 Playground Reconstruction towards \$2,000,000 total project cost (Article 25)

## 7. Reserves

### A. Definitions and Policy

Reserves comprise the Town's certified Free Cash and stabilization funds. 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. The Board recently updated the 2012 Financial Reserve Policy, which informs the recommendations in this annual TWFP. The Town's Financial Reserve Policy stipulates reserves should range from 8 to 12% of the current period's Budgeted Operating Revenue. For definitions related to reserves, please see [Appendix B Capital Financing Policy](#).

The Town's reserves rose to \$30,849,762 (16.48% of FY 2025 anticipated revenue) at the close of FY 2023 due to multiple factors, including the following:

- Town departments turned back \$900,000 in payroll (from unfilled positions).
- The School Department turned back \$2.3 million (\$1.2 million in 2022 encumbrances, \$1.1 million FY 2023 turnback).
- Health insurance turned back \$1.7 million (largely due to vacant positions).
- Interest earnings generated \$5.7 million.
- Permit fees exceeded budget by \$2.6 million.
- Tax title and real estate deferral payoffs collected \$700,000.
- The final year of ARPA revenue replacement (\$1.5 million) was received for public safety.

The 2023 Fall Special Town Meeting appropriated \$360,000 in Free Cash for FY 2024 supplemental appropriations to the Fire Department.

### B. Free Cash

The Town's ability to generate Free Cash over time has resulted in strong financial reserves that can be applied to operating and capital investments. The table below shows an overview of Free Cash expenditures approved by Town Meeting over several years:

| <i>Free Cash</i> | <b>FY19</b>  | <b>FY20</b>  | <b>FY21</b>  | <b>FY22</b>   | <b>FY23</b>   | <b>FY24</b>   |
|------------------|--------------|--------------|--------------|---------------|---------------|---------------|
| Appropriations   | \$ 5,040,670 | \$ 6,408,475 | \$ 4,495,134 | \$ 10,328,076 | \$ 18,237,662 | \$ 14,396,538 |

The Town has adopted the practice of contributing Free Cash equal to turnback amounts for the Injured-on-Duty (IOD) Indemnity Fund and the RDF Baler Fund.

The Town has also used Free Cash to fund various Town initiatives and projects. The Board limits the use of Free Cash to one-time applications to avoid affecting future operating budgets. Examples of applications of Free Cash since FY 2006 include:

- Approximately \$2,500,000 annually to close the operating budget
- Supplemental snow and ice removal costs (annually)
- Special education costs (prior to establishment of the stabilization fund)
- Establishing or bolstering reserve funds (SPED, IOD, Baler)
- Selected smoothing of cash-capital needs
- Town-wide project study costs (e.g. FY 2014 Town Government Study Committee; FY 2016 Hardy, Hunnewell, Upham study; FY 2024 DEI Equity Audit)
- Land takings
- North 40 site remediation
- Union contract settlements, compensated absences, workers comp and risk management
- Swing space costs for Hunnewell construction
- Legal costs
- Subsidizing the Traffic and Parking fund (FY 2022 through FY 2024)
- New Fire Truck, supplemental for fire chief search (FY 2024)

The Town often uses Free Cash for construction related costs, as in the following examples:

- FY 2010 - Library branch capital maintenance and additional classrooms for Wellesley High School
- FY 2011 - Central Street Fire Station repair, design of DPW administration building, and Wellesley Middle School classroom space conversion
- FY 2013 - Facilities Maintenance capital and Park/Highway HVAC
- FY 2014 - Tolles Parsons Center design and portion of Hills Branch Library chimney repair
- FY 2016 - PAWS feasibility and school security design
- FY 2018 - Wellesley Middle School systems feasibility
- FY 2020 - Wellesley Middle School systems design, Town Hall envelope construction elements, Walnut Street reconstruction design, Hunnewell School design, and Town Hall Annex design
- FY 2022 - Middle School Paving, Police Station Antenna, ECM lights, and relocation of land use departments
- FY 2023 - Town Hall interior renovation

### **C. Strategic Approach to Reserves Management**

The Board evaluates reserves annually to meet the Reserves Policy ([Appendix C](#)), employ best practices to help fund future major capital projects, and consider capacity constraints. The Town must maintain strong reserves to preserve the Moody's Aaa bond rating. Slightly higher reserves allow the Town to fund the Five-Year Capital Plan in a thoughtful manner after the annual review of departmental requests and reprioritization. The Board's approach to reserve management in recent years can be summarized as follows:

- Set Capital Financing Policy at high end of the Capital Spending Range (6.8%) for FY 2023 through FY 2025 to catch up on capital projects deferred in the Town's response to the COVID-19 Pandemic from FY 2021 and FY 2022.
- Apply Free Cash to larger capital projects to allow for a greater diversity of smaller capital projects across departments and meet the Capital Financing Policy.
- Acknowledge the finite capacity of Town departments to absorb capital increases and the associated workload by recalibrating the timing of projects as needed.

- Continue to evaluate the annual deployment of Free Cash to assist in balancing the operating budget.
- Continue deployment of Free Cash to reduce borrowing (inside the levy and exempt debt) when possible.
- Manage reserves to help fund future major capital projects while maintaining strong reserves to support continued excellence in bond ratings and thereby lowering funding costs.

Since FY 2013, the Town has intentionally increased its financial reserves (see [Financial Planning](#) section of this TWFP) and adopted a Reserves Policy targeting a range from 8 to 12% of the current period's Budgeted Operating Revenue. During the 2020-2022 COVID-19 pandemic, the Town worked to bolster reserves given the unknown economic climate. In FY 2024, the Board reevaluated the Financial Reserves Policy and updated provisions for emergency reserve buildup during periods of global, national, or local crisis.

Over the past several years, the Board has worked to employ reserves to address deferred capital needs and to take advantage of over-performance of revenue using Free Cash to reduce inside-the-levy borrowing. The use of Free Cash opens inside-the-levy borrowing capacity for larger projects scheduled on the Major Capital Financing Plan.

At the close of FY 2024, the Board anticipates reserves of 19.49% of Budgeted Operating Revenue (above the 8 to 12% policy range) for the following reasons:

- The Town had significant cash on hand for capital projects (Hardy and Hunnewell Schools) when interest rates changed from a fraction of a percent to almost 5% in FY 2023. As a result, earnings exceeded the FY 2023 budget by \$5.7 million.
- Interest earnings are anticipated to generate \$5 million in one-time funds in FY 2024.
- Permit fees in FY 2023 and FY 2024 significantly outperformed the budget due to large commercial projects at Wellesley College.
- The estimated FY 2024 turnback and additional revenue is substantial at a conservative projection of \$6 million, including \$1 million in total turnback, and \$5 million in interest earnings.

The proposed FY 2025 budget would bring reserves down to an estimated 12.21% as of June 30, 2024, just below the upper range of the Reserves Policy (8 to 12% of budgeted operating revenue).

| <b>Free Cash</b>              | <b>FY19</b>       | <b>FY20</b>       | <b>FY21</b>       | <b>FY22</b>        | <b>FY23</b>        | <b>FY24</b>            |
|-------------------------------|-------------------|-------------------|-------------------|--------------------|--------------------|------------------------|
| Free Cash (Beginning of Year) | \$ 14,615,285.05  | \$ 16,171,779.05  | \$ 18,175,871.05  | \$ 25,830,840.05   | \$ 27,138,343.94   | \$ 27,250,545.94       |
| Appropriated Free Cash        | \$ (5,040,670.00) | \$ (6,408,475.00) | \$ (4,495,134.00) | \$ (10,328,076.11) | \$ (18,237,662.00) | \$ (14,396,538.00)     |
| Net Free Cash generated       | \$ 6,597,164.00   | \$ 8,412,567.00   | \$ 12,150,103.00  | \$ 11,635,580.00   | \$ 18,349,864.00   | \$ <b>6,000,000.00</b> |
| End of year                   | \$ 16,171,779.05  | \$ 18,175,871.05  | \$ 25,830,840.05  | \$ 27,138,343.94   | \$ 27,250,545.94   | \$ 19,323,108.00       |
| Budgeted Operating Revenues   | \$ 150,785,955    | \$ 156,733,428    | \$ 160,695,527    | \$ 165,733,774     | \$ 180,567,386     | \$ 187,216,182         |

***\*FY 2024 Net Free Cash generated is estimated, and does not include General Purpose Stabilization Funds***

|                                                                                                                    |           |                      |
|--------------------------------------------------------------------------------------------------------------------|-----------|----------------------|
| <b>Reserves Projection After ATM 2024 Appropriations</b>                                                           |           |                      |
|                                                                                                                    |           | <b><u>Amount</u></b> |
| <b>FY24 Budgeted Operating Revenue</b>                                                                             | <b>\$</b> | <b>180,567,386</b>   |
| Free Cash certified                                                                                                | \$        | 27,250,546           |
| General Purpose Stabilization fund                                                                                 |           | 3,599,216            |
| <b>Reserves as of 6/30/2023</b>                                                                                    | <b>\$</b> | <b>30,849,762</b>    |
| <b>% of FY25 Revenue</b>                                                                                           |           | <b>16.48%</b>        |
| <b>Sources and (Uses) of Reserves in FY24</b>                                                                      |           |                      |
| <b>Appropriations at STM 11/2023</b>                                                                               |           |                      |
| Fire Department Supplemental                                                                                       |           | (360,000)            |
| <b>Appropriations at ATM 3/2024</b>                                                                                |           |                      |
| Snow and Ice Supplemental                                                                                          |           | (400,000)            |
| Balance Operating                                                                                                  |           | (2,250,000)          |
| Town Hall                                                                                                          |           | (8,260,681)          |
| Playgrounds                                                                                                        |           | (475,000)            |
| Team Rooms                                                                                                         |           | (175,000)            |
| Wellesley Square                                                                                                   |           | (600,000)            |
| Fire Roof                                                                                                          |           | (750,000)            |
| RDF Admin Design                                                                                                   |           | (635,100)            |
| SPED Stabilization Transfer                                                                                        |           | (50,000)             |
| IOD Stabilization Transfer                                                                                         |           | (29,245)             |
| Baler Stabilization Transfer                                                                                       |           | (11,512)             |
| Added to reserves*                                                                                                 |           | 6,000,000            |
| <b>Estimated Reserves as of 6/30/24</b>                                                                            | <b>\$</b> | <b>22,853,224</b>    |
| <b>FY25 Budgeted Operating Revenue</b>                                                                             | <b>\$</b> | <b>187,216,182</b>   |
| <b>% of FY25 Revenue</b>                                                                                           |           | <b>12.21%</b>        |
| * Anticipated returns from encumbrances not spent, over performance of revenue projections, and operating budgets. |           |                      |

## 8. Looking Ahead

The Board uses a range of assumptions to project potential sources and uses of funds in subsequent years and to consider whether the Town needs to plan for an override. Each year, the Board reevaluates assumptions for subsequent years based on local, state, and national economic trends. The budget assumptions established as part of recent financial planning for the subsequent years are as follows with FY 2026-2028 being current year projections:

| <b><u>REVENUES</u></b> | <b><u>FY26</u></b>            | <b><u>FY27</u></b> | <b><u>FY28</u></b> |
|------------------------|-------------------------------|--------------------|--------------------|
| <b>Levy Growth</b>     |                               |                    |                    |
| Proposition 2 1/2      | 2.50%                         | 2.50%              | 2.50%              |
| New Growth             | \$1.7M                        | \$1.7M             | \$1.7M             |
| <b>State Aid</b>       | 2%                            | 2%                 | 2%                 |
| <b>Local Revenue</b>   | 2%                            | 2%                 | 2%                 |
| <b>Free Cash</b>       | \$2.15M                       | \$2M               | \$2M               |
| <b><u>EXPENSES</u></b> |                               |                    |                    |
| Town Operating         | 3.0%                          | 3.0%               | 3.0%               |
| School Operating       | 3.0%                          | 3.0%               | 3.0%               |
| Pension                | Per Approved Funding Schedule |                    |                    |
| Health Insurance       | 7%                            | 7%                 | 7%                 |
| OPEB                   | 0%                            | 0%                 | 0%                 |

Expenditure assumptions do not include changing or new priorities, or initiatives identified in the Town's various strategic plans ([see "Strategic Initiatives," under section 3, Key Budget Drivers, on page 5](#)). Furthermore, the assumption regarding the growth in School spending has the greatest impact due to the relative size of the School Department budget.

### Achieving a Balanced Budget

Based on the budget assumptions outlined in the table below, the current projected deficit for FY 2026 is \$2 million with no modifications to the cash capital budget or application of additional Free Cash. The projections for FY 2027 and FY 2028 have deficits in the range of \$290,272 to \$3.7 million.

|                                   | <b><u>FY24</u></b>    | <b><u>FY25</u></b>    | <b><u>\$</u></b>        | <b><u>%</u></b>         | <b><u>FY26</u></b>       | <b><u>FY27</u></b>       | <b><u>FY28</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><u>Projection</u></b> | <b><u>Projection</u></b> | <b><u>Projection</u></b> |
| <b>Sources of Funds</b>           |                       |                       |                         |                         |                          |                          |                          |
| Taxes                             | \$ 157,401,783        | \$ 163,036,827        | \$ 5,635,045            | 3.6%                    | \$ 168,812,748           | \$ 174,733,067           | \$ 180,801,393           |
| State Aid                         | 11,514,819            | 11,694,447            | 179,628                 | 1.6%                    | 11,928,336               | 12,166,903               | 12,410,241               |
| Local Revenue                     | 12,061,302            | 13,643,611            | 1,582,309               | 13.1%                   | 13,896,483               | 14,154,413               | 14,417,501               |
| Free Cash to balance              | 2,500,000             | 2,250,000             | (250,000)               | -10.0%                  | 2,150,000                | 2,050,000                | 2,050,000                |
| Other Free Cash items             | 1,984,787             | 11,386,538            | 9,401,751               | n/a                     | -                        | -                        | -                        |
| Other Sources                     | 1,510,302             | 3,070,013             | 1,559,711               | 103.3%                  | 1,916,958                | 1,920,432                | 1,923,976                |
| CPA for North 40                  | 550,644               | 550,644               | -                       | 0.0%                    | 550,644                  | 550,244                  | 549,444                  |
| Exclusions & Exemptions           | 14,365,672            | 16,075,572            | 1,709,900               | 11.9%                   | 15,426,872               | 14,548,722               | 14,122,703               |
| <b>Total Sources</b>              | <b>\$ 201,889,309</b> | <b>\$ 221,707,652</b> | <b>\$ 19,818,344</b>    | <b>9.8%</b>             | <b>\$ 214,682,041</b>    | <b>\$ 220,123,780</b>    | <b>\$ 226,275,258</b>    |
| <b>Uses of Funds</b>              |                       |                       |                         |                         |                          |                          |                          |
| School                            | \$ 87,832,188         | \$ 91,081,978         | \$ 3,249,790            | 3.7%                    | \$ 93,814,437            | \$ 96,628,870            | \$ 99,527,737            |
| Other Town Departments            | 46,764,054            | 48,659,660            | 1,895,606               | 4.1%                    | 50,119,450               | 51,623,033               | 53,171,724               |
| Employee Benefits                 | 34,602,400            | 35,938,580            | 1,336,180               | 3.9%                    | 37,486,258               | 39,231,271               | 41,168,771               |
| Cash Capital                      | 7,865,185             | 7,759,465             | (105,720)               | -1.3%                   | 10,271,247               | 7,398,008                | 8,173,500                |
| Debt (inside Levy)                | 4,400,000             | 4,962,500             | 562,500                 | 12.8%                   | 5,000,000                | 6,400,000                | 9,200,000                |
| Other Uses                        | 5,509,166             | 16,679,253            | 11,170,087              | 202.8%                  | 4,000,149                | 4,033,903                | 4,058,456                |
| Exclusions & Exemptions           | 14,916,316            | 16,626,216            | 1,709,900               | 11.5%                   | 15,977,516               | 15,098,966               | 14,672,147               |
| <b>Total Uses</b>                 | <b>\$ 201,889,309</b> | <b>\$ 221,707,652</b> | <b>\$ 19,818,343</b>    | <b>9.8%</b>             | <b>\$ 216,669,058</b>    | <b>\$ 220,414,052</b>    | <b>\$ 229,972,335</b>    |
| <b>Surplus/(Deficit-Override)</b> | <b>\$ 0</b>           | <b>\$ 0</b>           |                         |                         | <b>\$ (1,987,016)</b>    | <b>\$ (290,272)</b>      | <b>\$ (3,697,077)</b>    |

Strict adherence to the Capital Financing Policy can help reduce these deficits and the Board is committed to rigorous analysis of all capital requests. Conversely, allowing any growth in operating guidelines could outstrip resources available inside the levy.

*For informational purposes only*, a model has been created to show the impact on debt and deficits utilizing the top of the Capital Spending Range at 6.8% of Budgeted Recurring Operating Revenues, rather than the total amount of capital requested. The table below reflects expected cash capital requests in FY 2026 through FY 2028 plus the rising inside-the-levy debt payments in FY 2026 of \$5 million; \$6.4 million in FY 2027; and \$9.2 million in FY 2028. To continue to maintain the upper limit of the Capital Spending Range of 6.8%, the cash capital component of future budgets must be reduced.

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

|                                     | <u><b>2026</b></u> | <u><b>2027</b></u> | <u><b>2028</b></u> |
|-------------------------------------|--------------------|--------------------|--------------------|
| <b>Revenue</b>                      | \$ 194,637,567     | \$ 201,054,382     | \$ 207,629,135     |
| <b>Projected Deficit</b>            | \$ (1,987,016)     | \$ (290,272)       | \$ (3,697,077)     |
| <b>Debt/Capital (5 Year Plan)</b>   | \$ 15,271,247      | \$ 13,798,008      | \$ 17,373,500      |
| <b>Percent Requested</b>            | 7.85%              | 6.86%              | 8.37%              |
| <b>If reduced to 6.8%</b>           | \$ (2,035,892)     | \$ (126,310)       | \$ (3,254,719)     |
| <b>Total Available at 6.8%</b>      | \$ 13,235,355      | \$ 13,671,698      | \$ 14,118,781      |
| <b>Inside the Levy Debt Payment</b> | \$ (5,000,000)     | \$ (6,400,000)     | \$ (9,000,000)     |
| <b>Cash Capital Available</b>       | \$ 8,235,355       | \$ 7,271,698       | \$ 4,918,781       |
| <b>Revised Deficit</b>              | \$ 48,876          | \$ (163,962)       | \$ (442,359)       |

The table above shows that with adherence to the Capital Financing Policy, the projected deficits would be significantly reduced over the three-year period. However, since debt service is largely determined from the Five-Year Capital Plan, future cash capital allocations would need to be limited to the following:

- \$8,235,355 in FY 2026 (a decrease of \$2 million)
- \$7,271,698 in FY 2027 (a decrease of \$128,000)
- \$4,918,781 in FY 2028 (a decrease of \$3.2 million)

## **9. Debt and Future Funding Strategies**

### **Funding Strategies**

The Town will be in a strong position to continue to avoid Proposition 2½ operating overrides by holding inside-the-levy and cash capital spending within the Capital Spending Range of 6.2 to 6.8%, and by holding Town and School Department operating budgets to forecasted increases over the next three years. In subsequent years, cash capital and debt service requests will lead to projected deficits, and the Board will endeavor to smooth out these expenditures and remain in accordance with the Capital Financing Policy.

Adherence to budget guidelines over the next several years will also help the Town avoid an operating override. The strategic management of reserves to fund major capital projects in the coming years is intended to avoid unplanned debt exclusions. Planned major capital projects include significant HVAC upgrades for the Warren Building, Main Library building, and Sprague School; rehabilitation of the DPW RDF Administration Building and Park and Highway Building; and rebuilding Moses Pond facilities.

The Board is mindful of the significant tax impact of the override approved by the voters for the two new elementary schools and is working to avoid additional tax burden on property owners. At the 2024 Annual Town Meeting, the Board is proposing to spend Free Cash to eliminate the need to borrow the remaining \$8.2 million in Town Hall interior renovation costs, making use of recent interest earnings. With rising projected costs of the two DPW projects over the next two years, the Board will continue to evaluate capacity to fund these projects with inside-the-levy borrowing. The Board will continue to evaluate the costs for the Morses Pond facilities as the project moves through schematic design and permitting.

Additional debt exclusions are planned for the renovation/reconstruction of PAWS Pre-School in November/December 2029 and the air conditioning of Bates, Schofield, Fiske, and Middle School in November/December 2029.

The Town continues to proactively manage its debt by containing costs on construction projects, and by applying savings to like projects to reduce future borrowing costs when funds are available.

## **10. Conclusion**

Significant private construction projects have had a positive impact on new growth and permits, enabling the Town to continue to raise revenues over and above the Proposition 2½ limit on the property tax levy. In FY 2024, the Town experienced tremendous growth in interest earnings, and has seen continued growth in vehicle excise and local receipts. The operating budget also gained some additional capacity with the creation of the Stormwater Enterprise Fund, which has assisted in implementing strategic initiatives.

The FY 2025 budget proposes the tactical use of reserves, bolstered by conservative assumptions, continued turnback, and interest earnings. Turnback in departmental personnel, expenses, and health insurance has been returning to more typical levels as positions are filled and the Town has focused on employee compensation and retention. In past years, the excess turnback has been used to fund prioritized capital projects with Free Cash. This year, over-performance in local revenues has been the main driver in revenue growth and the Town is able to continue to fund a substantial number of capital projects with Free Cash.

Other significant capital projects have been funded with inside-the-levy funds and by the Community Preservation Committee. The Board and other Town departments have been applying more aggressively for federal and state grants and have successfully worked to maximize outside funding opportunities to fund projects and strategic plan initiatives, and emerging needs (such as AED replacements, voting equipment, digitization, and merchant activities). This year, state grant funding secured in the state's annual FY 2024 budget for new voting equipment and merchant activities was reduced by 50% due to the unanticipated shortfall in state tax revenue.

Members of the Board would like to express our sincere appreciation to Executive Director Meghan Jop and the finance department staff for their exemplary work on the FY 2025 budget and Town-Wide Financial Plan. The Board would also like to expressly thank Finance Director Sheryl Strother, who retired January 30, 2024, after 18 years of outstanding service to the Town. Ms. Strother has played a key role in maintaining the Town's Moody's Aaa bond rating and excellent financial health. The Board further thanks all Town boards and their respective staffs, and union representatives, for their continued commitment to working together to settle 14 union contracts and set up our staff and departments for success in the coming years.

We look forward to continued partnerships, civil discourse, and evaluation of processes and procedures to improve services and operations during the upcoming fiscal year and beyond. We welcome this annual opportunity to engage in discussion on the strategy to optimize and improve the Town's existing high-quality services, infrastructure, financial stability, community health, and commercial enterprises.

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

Attachments:

[Exhibit I – FY 2025 Sources and Uses](#)  
[Exhibit B – FY 2025 Sources and Uses Detail](#)  
[Exhibit C – Five-Year Capital Plan](#)  
[Appendix A – Budget Submission Timeline](#)  
[Appendix B – Capital Financing Policy](#)  
[Appendix C – Financial Reserves Policy](#)