



**Budget Update and Town-Wide Financial Plan  
2025 Annual Town Meeting  
Submitted by the Select Board**

March 11, 2025

Dear Town Meeting Members:

The Select Board (“the Board”), Executive Director Meghan Jop, and our finance team have prepared this Budget Update and Town-Wide Financial Plan (TWFP) for review by Annual Town Meeting (ATM), in compliance with the Town Bylaw Article 19.16.

This cover letter summarizes key considerations as you prepare for Town Meeting. The document itself sets out the status of the budget for the current fiscal year (FY 2025), the proposed budget for the coming fiscal year (FY 2026), and budget projections for several fiscal years beyond (FY 2027 through 2029). Included in the document, you will find information on the underlying policies and processes on which the Board and staff rely to build the TWFP. These policies and processes include Town goals and objectives, Budget Guidelines, Capital Financing Policy, Reserves Policy, Five-Year Capital Plan, and Projected Future Major Capital Projects.

**Emerging Challenge for Town Meeting to Consider**

A key take-away from the TWFP is the emerging challenge created by the many significant capital projects proposed by Town boards and departments. Many of these projects will also add significant operating costs. The projects vary in stages of development from conceptual to design and construction. It is critical for Town Meeting Members to assess each project as part of a holistic longer-term picture and to consider the capacity and willingness of Wellesley taxpayers to fund them all as currently proposed. In Wellesley’s form of government, the Select Board is responsible for ensuring that Town Meeting is fully informed of the financial implications of capital projects. It is up to Town Meeting to consider the relative merits of each project and to prioritize them.

The Board continues to pursue strategies to help address funding needs:

- Seeking alternative funding sources and supporting applications for competitive grants for capital projects and initiatives;
- Evaluating major cost drivers for potential efficiencies and reductions; and
- Applying reserves to advance capital projects without adding to the tax burden.

However, this approach will not address all the proposed capital projects and additional operating costs on the horizon. Debt exclusions and operating overrides will likely be necessary.

The proposed projects can be broken down as follows:

- **Major construction/renovation of service buildings:**
  - Department of Public Works (DPW) Administration Building at the Recycling and Disposal Facility
  - DPW master plan for the DPW campus, including the Park and Highway Building
  - DPW Baler Building

- **Updating existing building systems and roofs:**
  - HVAC system replacements at Warren Building (houses Health and Recreation), Sprague Elementary School, and the Main Library
  - Roof replacements at the Main Library, Middle School, Sprague Elementary, and Bates Elementary Schools
- **Major construction of new recreation facilities at Morses Pond**
- **Accelerated programmatic change to add air conditioning at Bates Elementary, Schofield Elementary, Fiske Elementary, and the Middle School** (including significant additional operating costs)
- **Major construction of a new preschool** (including potential program expansion and additional operating costs).

There are two other potential major capital investments that relate to public safety and health that should also be taken into consideration:

- **Evaluation of fire station facilities:** The Fire Department and Select Board are commissioning a study of the current fire stations (Worcester Street Headquarters built in 1987 and Central Street Station built in 1929) to determine whether renovations and/or new construction will be required to maintain appropriate coverage town-wide.
- **PFAS remediation:** The current estimate for remediation at the Town's three wells is estimated at \$10 million per well. Remediation may also include an increase in the amount of water purchased from the Massachusetts Water Resource Authority (MWRA). All costs will be borne by ratepayers, most of whom are also Wellesley taxpayers.

### **Primary Budget Considerations for FY 2026**

This Budget Update and Town-Wide Financial Plan outline the Town's current financial picture and the Board's primary considerations for FY 2026, which include:

- Proposed capital projects and associated increase in operating costs;
- Achieving and maintaining competitive compensation for union and non-union personnel and establishing internal pay equity; and
- Strategic additions to Town staff.

### **Proposed Capital Projects and Associated Operating Costs**

Capital projects are one-time costs of more than \$10,000 that are generally associated with buildings, equipment, supplies, or studies. The FY 2026 budget proposes using Free Cash to fund the following one-time projects:

- New Fire Engine (Article 17 – Select Board),
- School Air Conditioning Feasibility Study (Article 18 – School Committee)
- Playground Reconstruction at Fiske School, Ouellette Field, and Upham School (Article 22 – Board of Public Works)
- Hunnewell Tennis and Pickleball Court Improvements (Article 24 – Board of Public Works)

Two FY 2026 projects delayed until the fall Special Town Meeting that propose using Free Cash are:

- WHS/Hunnewell Field Irrigation Improvements (Board of Public Works)
- Team Rooms Construction (School Committee)

When planning capital projects, boards and departments calculate ongoing operating costs that will be incurred once a project is complete, and those costs are factored in to subsequent budgets. The FY 2026 budget reflects the operating costs associated with the completion of the Warren HVAC project, anticipated in November 2025. Potential operating costs associated with other projected major capital projects like School Air Conditioning or expansion of preschool are not known at this time.

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

The FY 2026 budget and TWFP includes as a major focus the Town's ongoing investment in its primary asset: the Town staff, including all union and non-union personnel. All Town and school unions will begin bargaining this summer and fall, as current contracts expire June 30, 2026. During the last round of bargaining in 2023, careful analysis by Town staff showed that compensation for Wellesley's non-school unions had fallen behind relative to peer communities. (Compensation for school union employees has remained at the top of the top quartile relative to other districts.) A major goal of the bargaining at that time was to bring Wellesley's non-school 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, are reflected in annual budgets through FY 2026, and are included as [Appendix E](#).

In partnership with the Human Resources Board, the Select Board has addressed lagging compensation for non-union Town employees in the FY 2024 and FY 2025 budgets. Prior to FY 2023, the Town had not awarded a Cost of Living Adjustment (COLA) for 20 years, leading to an erosion in the Town's competitive position relative to other communities, especially affecting long-serving employees. COLA adjustments for the 40 series and 50/60 series employees were reinstated, and the Town increased the pool for merit-based increases for the 50/60 series employees. The Human Resources Board voted the following increases to be included in the FY 2026 budget: a 3% COLA for 40 series employees, a 2% COLA for the 50/60 series, and a merit pay pool of \$275,000. These increases align with the strategy applied to the settled non-school union contracts.

### **Classification and Compensation Study**

Through a \$50,000 Community Compact Grant, the Town recently completed a Classification and Compensation Study to modify the existing Hay Classification System to a standard points-based system. The primary goals of the study were to enhance the Town's ability to compete in a tight job market, to create greater equity among current Town staff, and to improve retention of valued employees. Working with MGT Consulting (formerly GOV HR), the Town evaluated the roles and responsibilities of non-union 40/50/60 series employees. The evaluation included the following:

- A comprehensive review of each role focusing on nine key factors: Education, Work Experience, Decision Making and Independent Judgment, Responsibility for Policy Development, Planning of Work, Contact with Others, Supervision Exercised, Working Conditions, and Use of Technology/Specialized Equipment;
- A comparative market survey of salaries for comparable roles in peer communities;
- The development of a proposed compensation framework with 15 pay grades (a reduction from 30 pay grades), recommendations for implementation, and ongoing management to maintain competitiveness and equity.

Based on the results of the study, the Human Resources Board is proposing a new classification plan under Articles 4 and 5 on the warrant, which would include targeting compensation levels at the 75<sup>th</sup> percentile of comparable communities. During the course of the study, 13 staff members

were found to be compensated at below market rates and a salary adjustment was determined by the Human Resources department. The Human Resources FY 2025 budget included \$300,000 for salary adjustments and can accommodate these under market adjustments. Article 8, the Omnibus Budget, includes \$200,000 for the implementation of the Classification and Compensation plan and will be applied toward a one-time service adjustment to non-school non-union staff to address the previous lack of COLA increases resulting in a more pronounced effect the longer the tenure of the staff member.

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

The FY 2026 budget is proposing four new full-time non-school positions: two new firefighters, a new Creative Content Coordinator in the Select Board office, and a new Librarian for the Library's Technology Department. The School Department budget reflects strategic initiatives and other critical needs including enhancement of reading intervention specialists, and additional instructional hours in Consumer Sciences and Music.

**Two new firefighter positions:** The Fire Department is entering its final year of a three-year phased plan to restore five positions: four positions that were frozen in the early 2000s, and one position that was eliminated in 2016 when a position was created for Lieutenant of Fire Prevention. In FY 2023, the Fire Department and Executive Director conducted an operational audit, and the Board determined that returning to previous staffing levels of 14 personnel per group would reduce the constant demand for overtime shifts, correcting a long-time structural budget deficit, and therefore decrease costs once all vacancies were filled. The Board has taken a phased approach to achieving this staffing level, adding one position at the 2023 Special Town Meeting and two new positions in the FY 2025 budget. The Board is now requesting approval for the final two new positions in the FY 2026 budget, with a total cost of \$199,040 (including benefits).

**Creative Content Coordinator:** During FY 2025, the Select Board made a strategic decision to eliminate a Clerk position in order to create capacity for the creation of a permanent position for a Creative Content Coordinator to enhance communications with the public about the activities of the Board and town government in general. The proposed position will have a starting salary of \$62,722; associated benefits have not been added to the budget since this position replaces a position that was eliminated. The proposed Creative Content Coordinator will assist the Public Information Officer with the Town's communication strategy, including overseeing the Town's social media content. The Creative Content Coordinator will also work to achieve and maintain compliance with website accessibility requirements mandated by the April 2024 Department of Justice Americans with Disabilities Act (ADA).

**Librarian:** The Board of Library Trustees is requesting a new full-time librarian position to be added to the Library's Technology Department. This new staff member will produce, manage, and monitor content on all Library social media channels and the Library website, in addition to performing the professional duties of a librarian. The position will be a union, benefited position with an anticipated salary of \$58,848, and \$20,000 in benefits.

### **FY 2026 Budget Highlights**

#### Budget status and guidelines

- The total budget for FY 2026 is \$224,493,903, resulting in a year-over-year increase of 1.13%. This includes cash capital requests totaling \$8,150,857 and inside-the-levy debt service of \$3,568,406 (together 6.0% just slightly below the Capital Spending Range of

6.2-6.8% of recurring operating revenues per the Capital Financing Policy); capital projects and reserves funded with Free Cash totaling \$5,449,525; and a decrease of \$929,593 (-5.59%) in excluded debt as the Town will hit the peak in the Hardy and Hunnewell debt exclusion funding in FY 2025.

- Total FY 2025 supplemental requests at the Annual Town Meeting are \$2,021,735, including \$700,000 for Snow and Ice payments; \$110,000 for compensated absences; \$1,000,000 for health insurance; and \$211,735 for overages and settlement of the Police Station Parking Lot construction, all funded from Free Cash.
- For the second year, the Board set individualized departmental budget guidelines for operating and expense budgets to reflect specified departmental needs as identified at the All-Board Meeting held on September 17, 2024. The guidelines can be found in Appendix D.
- The Town's proposed operating budget includes a COLA for all non-union employees of 2% for 50/60 series and 3% for 40 series. The separate merit pay pool for merit increases for 50/60 series non-union employees has been set at \$275,000 (down from \$300,000 in FY 2025).
- The Town's proposed operating budget (Article 8) includes \$200,000 to fund a service adjustment. The implementation costs of a new Classification and Compensation plan to be detailed by the Human Resources Board under Articles 4 and 5 can be met with remaining FY 2025 funds for salary adjustments.

#### Revenue

- The Town experienced significant local revenue growth at the close of FY 2024 as compared to FY 2023, specifically due to over-performance of investment income, Motor Vehicle Excise, Meals/Hotel/Motel Tax, and Tax Title and Real Estate Tax Deferral payoffs.
- The local revenue projections for FY 2026 reflect an estimated local revenue increase of 13.18% as compared with the FY 2025 budget due to an increase in building permit fees and new construction square footage pricing that will become effective April 1, 2025.
- Earnings on interest exceeded budget by \$6.8 million for FY 2024. This is the second-year investment income return has been high as a result of interest rates changing from a fraction of a percent in 2023 to almost 5% at a time when the Town had significant cash on hand for capital projects, including the Hardy and Hunnewell Schools. The cash on hand has decreased significantly as these projects are complete, and investment earnings will drop. The FY 2026 interest income revenue assumption is \$925,000.

#### Expenses

- There is an annual increase of 12.57% reflected in the Sources and Uses for Group Insurance costs (Exhibit B), with West Suburban Health Group increasing Blue Cross Blue Shield rates by 3.33%, Harvard Pilgrim Benchmark Plan rates increasing by 3.87%, and Harvard Pilgrim High Deductible Plans increasing by 6.98% for FY 2026. A \$1,000,000 FY 2025 supplemental is being requested for Group Insurance.
- All Town union contracts are settled, and actual costs are reflected in the FY 2026 budget. (All contracts will expire June 30, 2026, and bargaining on new contracts is just beginning.)
- The School Department met the Board's budget guideline of 3.25%. Further details on new positions and union settlements are in this document. Please refer to the School Department's comprehensive annual budget for additional information: <https://online.flippingbook.com/view/651093121/>

### 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 is part of the Town's ongoing strategy to reduce inside-the-levy borrowing in the current fiscal 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 continue to be strong due to multiple factors, including the continued substantial return on investment income, continued departmental turnback, and Tax Title and Real Estate Deferral payoffs.
- The proposed FY 2026 budget would result in estimated reserves of 13.25% as of June 30, 2025, above the upper level of the reserves policy (8 to 12% of operating revenue). Reserves were projected to have been just slightly over the 12% policy level prior to the deferral of the WHS/Hunnewell Field Irrigation improvement project and the WHS Team Rooms Construction project to the fall Special Town Meeting.
- The Board proposes the following uses of Free Cash:
  - \$700,000 for FY 2025 Snow and Ice
  - \$2,246,401 to balance the FY 2026 budget
  - \$4,437,000 for FY 2026 expenses to avoid borrowing:
    - Fire Truck (\$1,055,000)
    - School Air Conditioning Feasibility (\$182,000)
    - Hunnewell Tennis and Pickleball Courts (\$1,200,000)
    - Playground Reconstruction (\$2,000,000)
  - \$112,525 for FY 2026 distribution to stabilization and reserve funds, including Injured on Duty (\$26,013), Special Education (\$75,000), Baler Fund (\$11,512)
  - \$500,000 for the establishment of a Compensated Absences Reserve Fund
  - \$400,000 to the Recreation Department to fund the carryover needed for the FY 2026 summer programs following the dissolution of the current 53D account.

The following pages provide a detailed picture of the Town's financial status, and the strategic allocations and initiatives proposed in the FY 2026 budget and TWFP. A table of contents is included to make it easier to navigate the document.

## Table of Contents

1. [Background/Summary](#)
2. [Budget Process and Financial Planning](#)
  - A. Underlying Financial Principles: The Five Ps
  - B. Goals and Objectives
  - C. Guidelines and Budget Process
  - D. Key Financial Planning Policies
  - E. Hierarchy of Use of Available Free Cash
3. [Key Budget Drivers](#)
  - A. Revenue Projections
  - B. Personnel Costs
  - C. Employee Benefit Costs
  - D. Strategic Initiatives
4. [Capital Projects](#)
  - A. Capital Budget Approach, Policy, and Process
  - B. Status of Current Major Capital Projects
  - C. Projected Future Major Capital Projects and Borrowing Needs
  - D. Capital Budget Requests and Future Planning
  - E. Major Project Five-Year Financing Plan
5. [Median Tax Bill Projections](#)
6. [Reserves](#)
  - A. Definitions and Policy
  - B. Free Cash
  - C. Strategic Approach to Reserve Management
7. [Looking Ahead](#)
8. [Debt and Future Funding Strategies](#)
9. [Conclusion](#)

## Exhibits

[Exhibit I – FY 2026 Sources and Uses](#)  
[Exhibit B – FY 2026 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](#)  
[Appendix D – Individual Guidelines](#)  
[Appendix E – Contract Settlements](#)

## 1. Background/Summary

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, committee, commission, and department pursuant to the provisions of Sections 6.15 and 11.11 of the Town Bylaws. The TWFP also includes estimates and financial assumptions previously approved by the Board for out-year projections.

In preparing the TWFP, the Board considers 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.

Preparation of the TWFP begins in the fall with the Board establishing budget guidelines based on all requests and considering the implications for the Town’s reserves. Guidelines for Town departments (except for the School Department) do not include funding for new positions, standing in range adjustments, and adjustments to job classifications, which are evaluated independently. The Board works with the finance team (Executive Director, Chief Financial Officer, and Finance Department) and with all Town departments, to formulate a balanced budget for presentation to Town Meeting.

Using conservative growth estimates, the finance team develops projections for subsequent years to determine whether there will be sufficient revenue for all requests (including multi-year, new initiatives), or if an override should be considered. The TWFP includes the Town’s “Sources and Uses” ([Exhibit B](#)) of funds for the upcoming FY 2026 (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 all departments and information regarding the proposed financing for these items. The Five-Year Capital Plan can be found in [Exhibit C](#).

A more detailed account of the budget process is outlined in the following sections.

## **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 and Other Post-Employment Benefits). The Town Bylaw charges the Select Board with creating a balanced annual town-wide budget, and with articulating the longer-term Town-Wide Financial Plan that outlines a strategy for maintaining 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 major planning documents including: the Unified Plan (2019); the Climate Action Plan (2022); the Sustainable Mobility Plan (2022); the Hazard Mitigation Plan (2023); the Open Space Plan (2022); and the Strategic Housing Plan (forthcoming), 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 high quality 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 greenhouse gas emissions town-wide;
- 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.
- 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 and Budget Process

**How the Board determines the annual budget guidelines:** Guidelines are an important method of allocating the resources that are available after providing for long-term financial responsibilities. The Town budget cycle begins in July with Board representatives 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 the financial performance of the just-completed fiscal year and conducts an analysis of current revenues and revenue enhancement opportunities. The Board consults with the Human Resources Board on anticipated Cost of Living Adjustments (COLA) and Merit Pay expectations. After factoring in fixed costs, such as union contracts, employee benefits, issued debt, and past service liabilities, the Board develops budget guidelines to allocate remaining available funds. The Board holds at least one all-board meeting to share the initial budget outlook and guidelines, and to discuss budget requests and potential challenges with other elected and appointed bodies.

Each board, committee, or commission is expected to develop a budget within guidelines. New positions, standing in range adjustments, and adjustments to job classifications are not included in the guidelines and are evaluated by the Human Resources Board and the Advisory Committee. New initiatives, and costs beyond guidelines are discussed and further evaluated by the Advisory Committee and the Select 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.

**Budget guidelines for FY 2026:** The Board held one in-person all-board meeting (September 17, 2024) and three budget discussions at its regular Board meetings (September 10, October 1, and October 8, 2024) before voting on guidelines on October 8, 2024. The Board took a similar approach to that taken in FY 2025, setting individual departmental guidelines rather than setting the same guideline for all departments. In setting guidelines, the Board accounted for union contract settlements (not new positions or adjustments to existing positions), proposed known expense increases, and COLA as voted by the Human Resources Board.

In setting the Town guidelines, the Board further evaluated salaries for non-school, non-union personnel and, for the third year, worked with the Human Resources Board to apply a COLA adjustment and to set aside a pool of funds for merit increases. For FY 2026, the Select Board and Human Resources Board set a 3% COLA increase for 40 series non-union employees, and a 2% COLA increase for 50/60 series non-union employees, with a \$275,000 appropriation to fund merit increases.

The Human Resources Board hired a consultant, MGT (formerly HR Gov), to conduct a classification and compensation study for non-school, non-union staff to establish internal equity among employees across departments, and to ensure external equity/competitiveness by comparing compensation for Town employees with market data. During the course of the study, 13 staff members were found to be compensated at below market rates and a salary adjustment was determined by the Human Resources department. The Human Resources FY 2025 budget

included \$300,000 for salary adjustments and can accommodate these under market adjustments. Remaining adjustments will be captured under the FY 2026 \$275,000 budget. Article 8 includes \$200,000 for the implementation of the Classification and Compensation plan and will be applied toward a one-time service adjustment to non-school non-union staff to address the previous lack of COLA increases resulting in a more pronounced effect the longer the tenure of the staff member. The proposed FY 2026 budget includes \$200,000 to implement salary adjustments for existing employees identified in the recently completed compensation study. Town Meeting will review the classification and compensation modifications under Article 4, Article 5, and Article 8.

The individual guidelines for Town departments can be found in [Appendix D](#). The School Department guideline was based on level service programming and the continued decline in enrollment. Ultimately, the guideline was also sufficient to accommodate strategic initiatives and other critical needs.

**The Budget Process:** 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, Open Space and Recreation Plan, and departmental strategic plans, along with a revenue summary, and detailed operating budget requests showing a four-year history.

The Board and staff issue a timeline outlining anticipated decision points. This year's Budget Submission Timeline is included in [Appendix A](#) (some modification was necessary 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/2025budgetbook](http://www.wellesleyma.gov/2025budgetbook).

#### **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 to establish and maintain an appropriate level of reserves. In June 2023, the Board appointed a Policy Subcommittee to periodically re-evaluate all policies beginning with a comprehensive review and update of key financial policies.

- 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 policy is attached in [Appendix B](#).

- The **Financial Reserves Policy** was established in FY 2013, updated in FY 2024, and requires reserves to be maintained within a range of 8 to 12% of Budgeted Operating Revenues. The General-Purpose Stabilization Fund continues to be included in the reserve calculation for the purpose of the policy. 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 policy outlines appropriate uses of Free Cash and outlines the Board's conservative approach to using Free Cash to balance the operating budget. The 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, unspent amounts in departmental budget line items for the year just ending, plus unexpended Free Cash from the previous year.

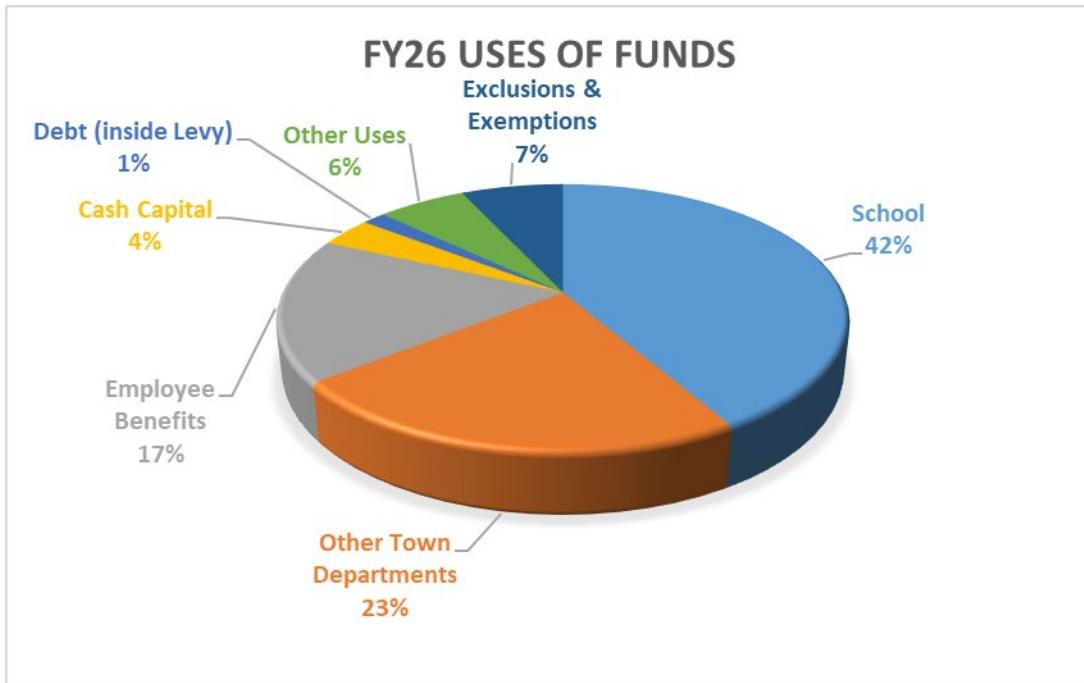
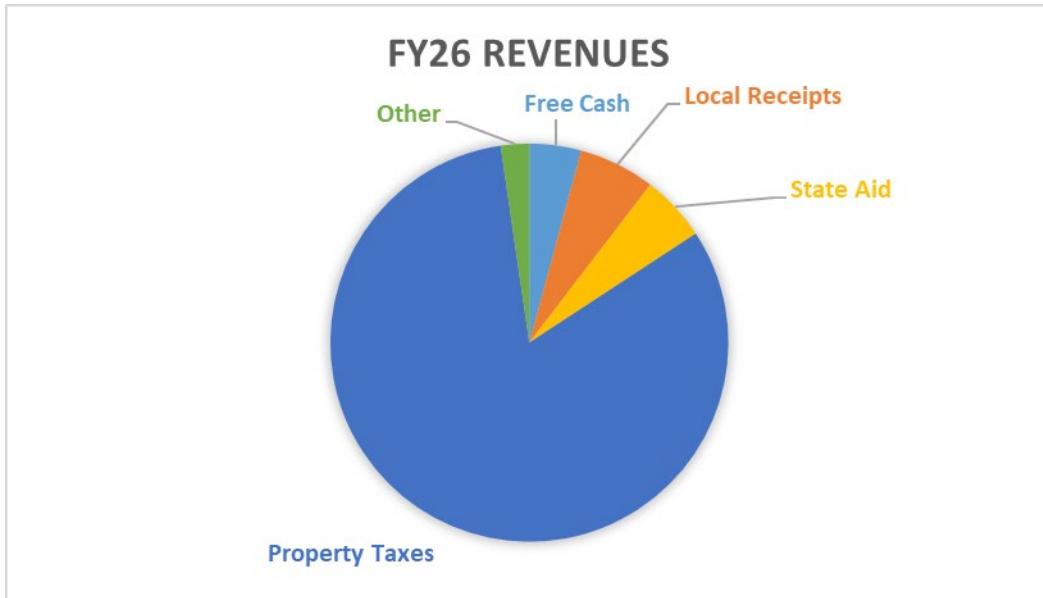
Every year, the Town makes decisions about allocation of available Free Cash on operating budget capacity and to fund specific capital requests. The overriding principle regarding such capacity is that one-time funding capacity should be applied to one-time needs. Free Cash may be utilized for one-off 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 2026 General Fund Budget total \$224,493,903 or a 1.13% increase compared to the FY 2025 approved budget. The year-over-year increase includes a continued use of Free Cash for one-time capital projects (\$5.4 million), and \$2.2 million of Free Cash to balance the budget.

The Board continues to make conservative assumptions on local revenue growth, considering historic trends, traffic and parking revenue reaching a plateau, continued increase in supply chain costs, a moderated decline in interest rates, and inflation returning to a more normalized rate.

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

Wellesley's primary source of revenue is real estate taxes, representing 82.46% of the estimated revenues in the FY 2026 budget, of which 89.42% is from residential assessments.

Real estate and personal property taxes are assumed to increase by \$5,804,042 or 3.54% based upon the provisions of Proposition 2½. New growth projection has been maintained at a conservative level of \$1.7 million for FY 2026. The FY 2024 and FY 2025 new growth was significantly higher than projected, at \$2.8 million and \$2.6 million respectively, due to several one-time commercial projects. New growth in FY 2026 is likely to be higher than projected, but unpredictable external forces can significantly impact growth, and therefore the Town maintains a conservative approach.

<i>New Growth History</i>								
<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	
\$ 2,168,677	\$ 2,100,119	\$ 1,802,829	\$ 1,753,221	\$ 1,839,752	\$ 2,907,105	\$ 2,828,945	\$ 2,655,734	

### ***State Aid***

In FY 2026, the Town is anticipated to receive approximately 5.4% of its revenue in the form of State Aid, of which 86.4% is for educational purposes (Chapter 70) and 13.6% is for Unrestricted General Government Aid (UGGA). At this time, potential federal funding is uncertain and there may be reductions that impact the Commonwealth's budget. Current projections forecast only a modest increase in state funding for FY 2026, and it will be months before the state budget is complete. The Governor's budget proposal reflects a 2.7% year-over-year increase in FY 2026. This budget also projects a 2.3% increase in Assessments, which are revenue reductions and, therefore, reflected in the budget as expenses. Assessments include automatic payment deductions from State Aid for MBTA and Regional Transit services, Metropolitan Area Planning Council, County Tax, RMV Non-Renewal Surcharge, Air Pollution Districts, and School Choice Sending Tuition.

## State Revenue Trend

	Final <u>2021</u>	Final <u>2022</u>	Final <u>2023</u>	Final <u>2024</u>	Final <u>2025</u>	Governor's <u>Budget 2026</u>
<b>State Aid</b>						
Chapter 70	9,273,504	9,407,484	9,665,964	9,916,764	10,345,036	10,643,686
	9,273,504	9,407,484	9,665,964	9,916,764	10,345,036	10,643,686
Other school		5,633	11,369	765	27,548	17,007
	9,273,504	9,413,117	9,677,333	9,917,529	10,372,584	10,660,693
Unrestricted (UGGA)	1,375,608	1,423,754	1,500,637	1,548,657	1,595,117	1,630,210
All other	51,094	45,401	49,149	48,761	53,524	59,962
<b>Total</b>	<b>10,700,206</b>	<b>10,882,272</b>	<b>11,227,119</b>	<b>11,514,947</b>	<b>12,021,225</b>	<b>12,350,865</b>
Assessments	1,308,172	1,309,563	1,328,612	1,395,057	1,476,252	1,510,473
<b>Net</b>	<b>9,392,034</b>	<b>9,572,709</b>	<b>9,898,507</b>	<b>10,119,890</b>	<b>10,544,973</b>	<b>10,840,392</b>

## Local Receipts

Local receipts represent 6.24% of the Town's revenue and are expected to increase by \$1,631,416 or 13.18%. Excluding the Municipal Light Plant (MLP) contribution, most local receipts (78.6%) are from motor vehicle excise, permits and licensing, and interest earnings.

The Town continues to see positive growth in local receipts. Some building permit fees have been increased slightly and building activity continues to exceed projections. The growth in local restaurants has significantly increased tax collection from meals.

## Interest Income

In FY 2023 and FY 2024, the Town experienced extraordinary interest income as a result of substantial cash on hand that was borrowed for construction of the two new elementary schools. Due to the unanticipated and rapid increase in interest rates from a fraction of a percent to almost 5%, the Town earned \$5.8 million in interest earnings in FY 2023 and \$7.2 million in FY 2024 – both significantly in excess of budgeted amounts. The Town largely completed the two school building projects by deploying the cash on hand, and interest rates were expected to fall as inflation returned to more normalized rates. Consequently, the interest earnings for FY 2025 were conservatively estimated at \$975,000, but interest rates have been higher than expected, and the Town has earned \$3.9 million in interest through January 2025. FY 2026 interest earnings estimates are conservatively projected at \$925,000 given lower cash balances and uncertainty around interest rates.

## Traffic and Parking

The Town's Traffic and Parking fund collects revenues from commuter lots and parking meters and covers expenses including the salaries of parking meter attendants, parking meter and lot maintenance, violation processing, and the Town's on-call traffic professionals. The fund was intended to be self-sustaining and, prior to the COVID-19 pandemic, revenue was sufficient to cover ongoing operational costs. During the pandemic, the use of the Town commuter lots

decreased sharply, driving revenue down. The Board subsidized the Traffic and Parking budget by approximately \$900,000 in FY 2022; \$500,000 in FY 2023; \$400,000 in FY2024; and \$200,000 in FY 2025. The Board expected that FY 2025 would be the last year that a subsidy would be required. However, parking lot revenue has stalled and a fund deficit of \$300,000 was projected for FY 2026.

The Board has voted to eliminate the subsidy to the Traffic and Parking fund. Instead, approximately \$300,000 will be absorbed into the general fund within the budgets for the Police Department, Treasurer, and Department of Public Works, where the staff costs for traffic operations, regular maintenance and landscaping costs are actually incurred. This modification will avoid the need for increases in parking fees or the deployment of additional Free Cash. The Traffic and Parking budget will continue to fund snow removal, paving, parking meter attendants, parking lot lighting, and pedestrian safety improvements.

#### Local Receipts Trend- Not inc MLP

	Actual FY21	Actual FY22	Actual FY23	Actual FY24	Budget FY25	Budget FY26
<b>Local Receipts</b>						
Motor Vehicle Excise	\$ 5,547,986	\$ 5,699,888	\$ 5,648,284	\$ 7,000,110	\$ 5,400,000	\$ 5,900,000
Investment Income	353,917	134,811	5,865,281	7,263,184	975,000	925,000
Licenses and permits	2,700,054	3,448,034	4,545,715	3,928,120	2,330,000	3,400,000
One time 40R Permit	1,140,730	-	-	-	-	-
RDF	741,786	930,738	757,386	945,694	725,000	750,000
Pilot payments	76,465	76,000	76,428	76,298	75,000	75,000
Parking Fines & Forfeits	302,411	396,146	402,075	324,865	300,000	320,000
Meals tax, hotel/motel	505,715	692,178	863,673	973,459	750,000	750,000
Recreation transfer	38,227	108,014	-	-	-	-
Penalties, Interest on Taxes	629,987	447,074	476,978	646,594	250,000	250,000
Rentals	212,586	166,633	207,762	214,822	180,000	185,000
Fees	108,155	91,865	93,889	144,255	125,000	164,000
Departmental	100,259	100,479	94,273	80,767	80,667	93,083
Medicaid	308,553	318,348	104,333	212,250	-	-
Miscellaneous Recurring	-	-	-	-	190,000	200,000
FEMA	-	872,493	229,266	-	-	-
All other	-	91,815	208,642	581,525	-	-
<b>Total</b>	<b>\$ 12,766,831</b>	<b>\$ 13,574,516</b>	<b>\$ 19,573,985</b>	<b>\$ 22,391,942</b>	<b>\$ 11,380,667</b>	<b>\$ 13,012,083</b>

#### Additional Revenue

Additional revenue includes an annual contribution of \$1 million to the Town from the Wellesley Municipal Light Plant (MLP), along with \$200,000 from the MLP for Information Technology and centralized services (a \$10,000 increase from FY 2025). Additional revenue also includes \$170,302 from Stormwater and 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, and is generally deployed for one-time costs such as 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 consideration, has sometimes covered any remaining deficits with additional Free Cash. Last year, the Board was able to reduce the application of Free

Cash by \$250,000 due to a decrease in required OPEB funding. For the FY 2026 budget, the Board was compelled to use \$2,246,401 in Free Cash to balance the budget, given increased operating needs. This application of Free Cash represents 1.0% of the estimated revenues. As OPEB funding is further reduced, the Board intends to reduce the use of Free Cash used to balance the operating budget.

<b>Free Cash</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26</b>
Balance Fiscal Year Budget	\$ 3,781,347	\$ 2,652,036	\$ 2,500,000	\$ 2,250,000	\$ 2,246,401

## **B. Personnel Costs**

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

### ***Non-School, Non-Union Employees***

Each year, the Human Resources Board evaluates the compensation ranges in the Town's job classification system for non-school, non-union municipal personnel. Last year, the Town undertook the first comprehensive analysis of the classification and compensation system (Hay system) in more than 20 years. Using a Community Compact Grant, the Town commissioned consulting group MGT to conduct a study intended to help the Town compete in a tight job market, create greater equity among current Town staff, and improve retention of valued employees. Working closely with the Human Resources Department, MGT analyzed the Town's entire classification system, reviewed and updated internal job descriptions, compared Wellesley to peer communities, and established a clear plan to evaluate compensation annually going forward. Following completion of the study, the Human Resources Board is proposing a completely revised classification plan and compensation tables under Article 4 and Article 5 on the warrant. The Human Resources FY 2025 budget included \$300,000 for salary adjustments and can accommodate under market adjustments. The FY 2026 budget includes \$200,000 to fund any necessary compensation adjustments including a one-time service adjustment to non-school non-union staff to address the previous lack of COLA increases resulting in a more pronounced effect the longer the tenure of the staff member.

For annual salary adjustments, the Town has budgeted a 3% COLA for the 40 series (clerical) employees and a 2% COLA for 50/60 (management) series employees. Working with the Human Resources Board, the Select Board recommends allocating \$275,000 for the Merit Pay Plan to account for merit increases for 50/60 series employees, in addition to the COLA. This is the third fiscal year in which 50/60 series employees have received both COLA and Merit Pay increases. For the previous 20 years, the Town's 50/60 series employees only received salary increases through the Merit Pay Plan, resulting in salaries below the median in comparison to peer communities.

### ***Union Employees***

Most of the Town's employees are union members and their annual wage increases are established through collective bargaining. A total of 1,215 Town employees are represented by 14 unions, the largest of which is the Massachusetts Teachers Association (916 members). All union contracts have been settled through FY 2026. The Town is currently negotiating a successor health insurance agreement, as the current agreement will expire June 30, 2025.

In addition to setting wage 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. School 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 most departments with steps, the changing composition of the workforce creates a balancing effect in the departmental budget over time. However, in the School Department, the average experience level of teachers has increased over the past ten years and as more teachers acquire credits towards post-graduate degrees, their compensation increases, putting additional pressure on the budget. In FY 2026, approximately 49% of the teachers are eligible for a step increase. School employees at the top step receive a 3% longevity payment in addition to a 3% COLA payment and potential lane payments for educational attainment.

### ***School staff changes***

The 3.24% increase in the School Department budget includes the base budget, contractual step and union settlement increases, and modest strategic initiatives and critical needs. The School Department took a close look at their personal services and expenses and worked hard to meet the Town's 3.25% budget guideline. The budget reflects the reduction of 18.85 FTE as a result of elimination of vacant positions and enrollment decreases. The School Department proposes the following staff changes:

- - 8.10 FTE – due to enrollment calibration
- -10.75 FTE – due to unfilled positions in FY 2025
- Repurpose 3 FTE – upgrade Reading Intervention Paraprofessionals
- +1.3 FTE – Multilingual Language Learner Teacher and TA
- +1 FTE – Pre-K – age 22 Out-of-District Team Chair
- Additional instruction hours for:
  - Family and Consumer Science
  - Music Teacher

**Note:** Please refer to the School Department's detailed budget for additional information: <https://online.flippingbook.com/view/651093121/>

### ***New Town staff positions***

Four new Town positions are proposed in the FY 2026 budget:

- **Two new firefighter positions** to bring staffing to adequate levels of 14 firefighters per group to reduce a long-standing overtime structural deficit. This is the last step of a multi-year initiative.
- **A new Creative Content Coordinator** in the Select Board office to work across multiple departments on social media, website, digital media, and ADA compliance, and to assist the Public Information Officer with improving communications. The Select Board eliminated a clerk position in the FY 2026 budget to create capacity for this coordinator.
- **A new librarian** in the Library's Technology Department to produce, manage, and monitor content on all Library social media channels and website, in addition to performing the duties of a librarian.

## **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, and these costs will continue to go up with the escalating annual cost of health insurance.

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)**

	<u>FY19</u>	<u>FY20</u>	<u>FY21</u>	<u>FY22</u>	<u>FY23</u>	<u>FY24</u>	<u>FY25</u>	<u>FY26</u>
Health Insurance	\$18.9	\$19.6	\$20.5	\$20.5	\$21.0	\$21.4	\$22.7	\$25.6
Pension Contributions	\$7.1	\$7.5	\$8.0	\$8.2	\$8.6	\$8.8	\$9.0	\$9.3
OPEB Funding	\$3.4	\$3.4	\$3.4	\$3.4	\$3.45	\$3.45	\$3.2	\$3.1
Workers Comp.	\$0.29	\$0.28	\$0.24	\$0.24	\$0.24	\$0.70	\$0.74	\$0.74
Unemployment	\$0.15	\$0.1	\$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	\$0.13
Total (million)	\$30	\$31	\$32.4	\$32.6	\$33.5	\$34.6	\$35.9	\$38.9
% of Budget	17.9%	17.5%	18.2%	17.8%	16.8%	17.1%	16.2%	17.5%

#### ***Health Insurance***

The projected increase in health insurance costs to the Town in FY 2026 is 12.57% over FY 2025, with total employee benefits increasing by 8.46%. These costs include health insurance plans and programs and factors in the number of employees opting to take the benefit. The FY 2026 budget includes a one-time cost to correct a miscalculation in the Town's budgeted contribution amount in FY 2024 and FY 2025, necessitating a FY 2025 supplemental funding request of \$1 million under Article 7.

**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:** Health benefits are currently covered under a contract that began on July 1, 2022, and includes high deductible and benchmark plans for employees. In FY 2023, the Town signed a Memorandum of Agreement with the unions to extend the health insurance contract

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). A new Memorandum of Agreement is currently being negotiated, and anticipated to be completed prior to Town Meeting.

At the beginning of FY 2025, Harvard Pilgrim and Tufts merged, creating a new health care company called Point 32. As a result of this merger, WSHG consolidated from three plan options to two plan options and the Town's costs are as follows:

- Blue Cross Blue Shield – the Town pays 78% of the cost of the plan,
- Harvard Pilgrim – the Town pays 60% of the cost of the plan or 50% of the cost of the Harvard Pilgrim PPO plan.

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

**Miscalculation in the Town's budgeted contributions:** At the close of FY 2024, health insurance turnback was \$300,000, which is a smaller return than in prior years. The Town investigated the reduced turnback and identified a manual spreadsheet formula error in the Town's budgeted contribution calculation for the accrual of the 60% cost of the Harvard Pilgrim plans in FY 2024 and FY 2025. (The Town paid the correct contribution amounts.) To address the unanticipated budget shortfall in FY 2025, a supplemental appropriation of \$1 million is requested under Article 7, Motion 4. For FY 2026, the health insurance budget is based on a conservative projection and the Executive Director and Finance Department have instituted a secondary review of the contribution calculation to reduce the possibility of future errors.

**One-time adjustments to WSHG participants and reserve policy:**

Over the past year, the WSHG conducted an operational audit to seek ways to improve services and identify cost-effective strategies to stabilize the growth of health insurance rates for its members. For FY 2026, the Town of Holliston has opted to leave the WSHG which will significantly reduce the negative claims history for the group and dramatically lower the initial projected rate increase from 10% to 6.75%. The WSHG also recently received stop loss reimbursements, prescription drug reimbursements, and increased investment income, as well as a portion of Holliston's trust balance upon their departure. These events raised the WSHG Trust balance above the target range of 8 to 12%. Adopting a multi-year approach, the WSHG has chosen to draw down the Trust balance to 11% to reduce the health insurance rates for FY 2026, while maintaining a relatively high balance so that funds will be available to help stabilize rates in FY 2027. WSHG further evaluated the rate structure between Harvard Pilgrim and Blue Cross Blue Shield, finding that Blue Cross Blue Shield has been subsidizing Harvard Pilgrim. The rate structure, in particular for the Harvard Pilgrim High Deductible Plan, reflects an increased annual premium to balance the claims experience with the plan costs.

**FY 2026 budget for health insurance:** The Board is proposing an increase in the health insurance budget of 12.57%. This increase reflects the following:

- The application of \$1.2 million from the WSHG Trust resulting in
  - 3.3% increase in rates for all Blue Cross Blue Shield health plans,
  - 3.86% increase in rates for Harvard Pilgrim Benchmark Plans,
  - 6.97% increase in rates for Harvard Pilgrim High Deductible Plans,
- 5% increase in rates for Medicare Supplement Plans,
- Conservative increase of new plan subscribers, and
- One-time cost of \$1 million to correct the FY 2025 budgeted contributions.

The proposed budget for health insurance reflects an in-depth analysis of actual enrollments and plan modifications, conservative projections for incentive payments to employees who opt out of coverage, and up to 38 additional benchmark family and individual plans in FY 2026. Given the increased costs of Harvard Pilgrim and the limited number of Town employees with Harvard Pilgrim (fewer than 70), projections reflect an anticipated transition by employees 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. As stated above, the FY 2025 increase is 3.3% for Blue Cross Blue Shield, which continues to perform exceptionally well on claims. For Harvard Pilgrim, the increase is 3.86% for benchmark plans and 6.97% for high deductible plans, which reflects a recognition that in FY 2024, and in FY 2025 through January 2025, Harvard Pilgrim claims are surpassing the projected funding and are being subsidized by Blue Cross Blue Shield's performance.

In summary, the Town continues to employ conservative assumptions based on current job 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 2026 is \$9,310,462 based on the actuarial payment schedule.

Municipal employees in Massachusetts do not pay into or accrue Social Security benefits as part of their employment. Instead, 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. 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. The updated pension actuarial valuation for January 1, 2025, is currently underway. 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%. Nevertheless, the Town's unfunded pension liability continues to decline, from \$25.9 million in 2025 to \$20.5 million in 2026. The current funding schedule shows an expected reduction in the annual contribution starting in FY 2029 as the retirement system reaches full payment for accrued liabilities from prior years.

The Retirement Board is exploring a phased reduction in appropriations while factoring in conservative approaches to 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 downside market volatility. It would be reasonable to assume that pension contributions will begin to decline 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. COLA base refers to a defined portion of a retiree's pension benefit that is eligible for a COLA. 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 year. The COLA adjustment applies only to the COLA base. The base was increased to \$20,000 in FY 2025 and will be increased to \$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* 2024 totaled \$4.9 million and are estimated to reach \$5.1 million in calendar 2025. The Town contributed \$9 million in FY 2025, which represents 4.07% of the total FY 2025 operating budget. The actuarial funding schedule for the pension plan calls for a \$271,358 increase in pension funding in FY 2026 (exclusive of enterprise funds). The enterprise funds (Water, Sewer, Stormwater, and Electric) also contribute the employer portion for their employees. Approximately 62% (\$5.7 million) of the Town's contribution this year will be allocated to accrued liabilities from prior years.

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

In the FY 2026 budget, the Board is proposing an appropriation of \$3,100,000 or 1.4% of the annual budget to fund OPEB, which 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 directives 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.

OPEB is on a two-year valuation cycle with the most recent [actuarial valuation](#) performed as of December 31, 2022. The updated December 31, 2024, actuarial valuation is currently underway. The funding schedule was originally designed to fully fund the OPEB liability by 2037; however, the Town is currently anticipated 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. The funding schedule now supports tapering OPEB contributions gradually from \$3.1 million in FY 2026 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 to 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:

<b>Measurement Date</b>	<b>1/1/2015</b>	<b>1/1/2017</b>	<b>1/1/2019</b>	<b>1/1/2021</b>	<b>1/1/2023</b>
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	\$ 242,973,730	\$ 256,604,732
Unfunded liability	\$ 54,972,314	\$ 55,047,354	\$ 55,536,612	\$ 43,104,963	\$ 49,909,570
Funded ratio	73.56%	73.33%	77.66%	84.93%	83.72%
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](#) (ACFR) presents the net pension liability, calculated using the discount rate of 6% and the net pension liability 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:

	Current		
	1% Decrease	Discount	1% Increase
	(5.00%)	(6.00%)	(7.00%)
The Town's proportionate share of the net pension liability.....	\$ 71,547,944	\$ 33,232,041	\$ 1,245,727
Total System's net pension liability.....	\$ 72,173,830	\$ 33,522,748	\$ 1,256,624

### **OPEB**

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

<b>Measurement Date</b>	<b>6/30/2014</b>	<b>6/30/2016</b>	<b>6/30/2018</b>	<b>12/31/2020</b>	<b>12/31/2022</b>
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 <u>(5.00%)</u>	Current <u>Discount Rate</u> <u>(6.00%)</u>	1% Increase <u>(7.00%)</u>
Net OPEB liability/(asset), net.....	\$ <u>57,781,884</u>	\$ <u>35,728,972</u>	\$ <u>17,580,184</u>

## D. Strategic Initiatives

In recent years, Town departments have developed a number of strategic plans that provide guidance and inform budget decisions. In FY 2026 and beyond, the Town must carefully coordinate the resulting initiatives, balance priorities, identify synergies, and determine available financial resources to support the many ambitious goals.

### Key town-wide strategic plans include:

- **Unified Plan**: In 2019, the Town adopted the Unified Plan as the strategic umbrella under which additional plans and initiatives would be generated under Wellesley's decentralized system. The Unified Plan identifies policies related to land-use planning, economic development, housing, transportation, education, Town government operations, and finance. With the exception of the Facilities Master Plan, funding to advance the initiatives identified in the Unified Plan has been absorbed incrementally through various departmental initiatives.
- **Strategic Housing Plan**: The Town's 2018 Housing Production Plan (HPP) established a five-year roadmap for the Town to reach its required 10% affordable housing goal, and the Town achieved that goal in 2022. 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. Work on the plan commenced in April 2024 and focus groups, public forums, and dialogues sessions were held from June through November. A town-wide survey was conducted in October, and the results were published in January 2025. The final plan is expected to be released in April 2025.
  - **Under Article 34**, the Wellesley Housing Development Corporation (WHDC), Select Board, and Planning Board propose to establish a Wellesley Affordable Housing Trust (WAHT), following a recommendation made in the Housing Production Plan and in the forthcoming Strategic Housing Plan. The WHDC was created by home rule in 1998 and is now obsolete and ineffective; a new state statute for Affordable Housing Trusts was passed in 2005, and 147 municipalities have adopted the new form. Following adoption by Town Meeting, the WHDC will be dissolved, and the WHDC members will be appointed to the board of the Affordable Housing Trust. The Community Preservation Committee and Wellesley Housing Authority also voted in support of the creation of the WAHT.
- **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 in reaching 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 commitments guide purchasing and reporting by all departments. 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); launching of a

community education program to support CAP implementation (2023); development of a cross departmental Hazard Mitigation Plan (2023); creation of a web-based dashboard to track CAP progress (2024); transition of lighting in Town and school buildings to LED (2013 – 2024); development of a Zero Emission Fuel Policy (2024); development of a Municipal Decarbonization Roadmap and application to the state Climate Leaders Communities program (2024); and establishment of an Energy Transition and Climate Resilience Working Group by the Select Board, Municipal Light Plant, and Climate Action Committee (currently underway).

- **Under Article 35**, the Climate Action Committee, Select Board, and Board of Health propose a new Town Bylaw to establish reduce waste by establishing an opt-in requirement for single-use service ware and single servicing packaged condiments.
- **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 Climate Action Plan.
  - The FY 2025 budget established a new Transportation and Mobility Manager to lead the policy and projects detailed in the SMP.
  - The Town filled this position in November 2024 and is currently completing a Safe Routes for All plan that focuses on safe walking and pedestrian routes in Wellesley. A public hearing on the plan was conducted in October 2024.
  - In a major victory for increasing accessibility to public transportation, the Town worked with state and federal elected representatives and the MBTA to fund and install a mini-high platform at the Wellesley Square Commuter Rail station in January 2025 that now provides accessibility under the American with Disabilities Act (ADA) for all passengers.
- **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. The Five-Year Capital Plan currently projects an allocation of \$200,000 in FY 2029 for the NRC to implement the Land Conservation Plan currently under development. That plan is intended to proactively target specific parcels for conservation and map out strategies for protecting them. The NRC held a public charette on November 21, 2024, to gather stakeholder input as part of the development of the plan.
  - **Under Article 16**, the Community Preservation Committee is seeking approval to fund two projects aimed at enhancing the Town's active and passive recreational facilities: a supplemental study of the Morses Pond Beach and Bath House Project. and an assessment to evaluate the feasibility of accepting Wight Pond as open space.
  - **Under Article 22**, the Board of Public Works proposes to renovate the playground facilities at Fiske School, Ouellet Field, and Upham School, consistent with the objectives of the OSRP.
  - **Under Article 24**, the Board of Public Works proposes to renovate the Hunnewell Tennis Courts and to convert one court for pickleball, also in keeping with the OSRP.
- **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. As previously mentioned, the Select Board, Municipal Light Plant, and Climate Action Committee are currently working to establish an Energy Transition and Climate Resilience Working Group to examine potential next steps to transitioning off fossil fuels and to increasing resilience to the effects of global warming.

- **Diversity, Equity, and Inclusion Equity Audit** The DEI Equity Audit was funded by 2023 Annual Town Meeting in coordination with the adoption of the Anti-Racism and Anti-Bias Resolution. The DEI Audit's purpose is to evaluate and assess all aspects of equity in Wellesley including race, ethnicity, gender, national origin, color, disability, age, sexual orientation, gender identity, religion, socioeconomic status, and any other socio-culturally significant factors.
  - The completed Equity Audit identifies policy recommendations and strategic actions to attract and retain diverse employment talent, enhance belonging for all residents and stakeholders, and measure and monitor equity for vendors and contractors in order to improve equal employment opportunities, equal procurement opportunities, and equal volunteer opportunities.

## 4. Capital Projects

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

MIIA, the Town's insurance company, currently values Wellesley's municipal assets at \$481,349,281 inclusive of buildings and contents. It is the Town's responsibility to maintain all its assets or to replace them as they reach the end of their useful life, making capital needs and costs a major factor in fiscal planning. The Select Board works to prioritize and balance these capital needs by projecting inside-the-levy borrowing, cash capital funding, and major project funding through debt exclusions.

The Board assesses and prioritizes departmental capital requests in order to manage and limit the impact on the Town's annual operating costs. A primary goal of the Board's approach is to moderate the impact on taxpayers as much as possible, while still maintaining the high quality facilities and 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 anticipated over that time period, and it is critical to include all anticipated capital needs, 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 estimated project costs based on the level of study and review completed. Out-year numbers (2030) include built-in escalation in project costs. For major building capital projects, the Permanent Building Committee (PBC) takes a three-step approach (feasibility study, schematic design through bidding, construction) to refine cost estimates. The projected cost of projects on the Five-Year Capital Plan are updated annually

based on the estimated escalation in construction costs. For projects that have not advanced for three or more years, additional study may be needed to analyze modified building codes, ADA requirements, bylaw requirements, or significant cost variability.

Capital requests are intended to support a 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](#). Moreover, 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 facilitates the financial planning process.

Any significant rise in inside-the-levy borrowing reduces the available funding for cash capital projects. 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. Whether costs will 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 meets a goal or initiative of the Municipal Vulnerability Study
7. Proposed capital expenditure meets a goal or initiative of the department, board, or committee

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

The Permanent Building Committee (PBC) and the Facilities Management Department (FMD) staff implement the design and construction projects approved at Town Meeting. Status of ongoing major facilities projects is summarized as follows:

- **Hunnewell Elementary School** – The completed 76,500 square-foot school has the capacity to serve 365 students, and currently enrolls 294 students. The project is currently in the warranty phase and the PBC is working to resolve any outstanding operational issues.
- **Hardy Elementary School** – The completed 80,039 square-foot school has the capacity to serve 365 students, and currently enrolls 280 students. The project is currently in the warranty phase and the PBC is working to resolve any outstanding operational issues.
- **Town Hall Interior Renovation** – Town Hall reopened to the public on December 26, 2024. The project included extensive interior renovation to town offices and ADA and MAAB accessibility modifications. The renovation included complete system upgrades including conversion to an all-electric building. The main entrance to the building was redesigned to add ADA access with a new ramp, and EV charging was added to the parking lot. The following offices have moved back to Town Hall: Assessor's Office, Climate Action, Finance, Human Resources, IT and GIS, Retirement, Select Board, Town Clerk, Treasurer/Collector, and Veterans Services. For the next two years, the Land Use Departments (Planning, Zoning Board of Appeals, Building Department, and Natural Resources Commission) and Facilities Management Department will continue to rent space at 888 Worcester Street. These departments will likely need to relocate in 2027.

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

The Five-Year Capital Plan ([Exhibit C](#)) reflects the Town's Facilities Master Plan, which includes the Morses Pond Beach and Bath House Improvements, Department of Public Works (DPW) Park and Highway Building, DPW Recycling and Disposal Facility (RDF) Administration Building, School Air Conditioning Feasibility Study, and the Warren HVAC Renovation. Team Room construction is being administered by the School Committee in consultation with the Department of Public Works. These projects have completed the feasibility stage and funding will be requested for design or supplemental evaluation during FY 2026. The funding for inside-the-levy borrowing will be evaluated as the projects progress.

- **Morses Pond Beach and Bath House Improvements** – The Morses Pond Beach and Bath House was constructed in 1938 with the last major renovation in 1971. Flooring and HVAC improvements were completed in 2012. Replacement of the facilities has been under consideration since 2019, when the Recreation Commission began working with Weston and Sampson to conduct a Final Master Plan. The initial study showed 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. Subsequently, the Natural Resources Commission, as property owner, established a Beach Advisory Committee, which concluded that further analysis was needed to finalize project specifications and consider local wetland bylaw requirements and soil conditions. Under Article 16, Motion 2, the Community Preservation Committee (CPC) is proposing to fund a \$168,000 supplemental study by the Facilities Management Department at the direction of the Natural Resources Commission. Last spring, 2024 Annual Town Meeting approved \$925,000 for the schematic design phase before a supplemental study was deemed necessary. Costs for the project will be refined in schematic design through bidding; the current project estimate in the Capital Plan is \$9 million with \$5 million coming from the

CPC. Actual project costs are very likely to increase. 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) –** The RDF Administration Building was constructed in 1961, with the last major renovation in 1997. The condition of the Administration Building was studied in 2020, along with that of the Baler Building and Incinerator Building. A number of concerns were identified, including issues with the building envelope, roofing, walls, windows, foundation waterproofing, and doors. The study also determined that the Administration Building is not large enough for current operations and the 23-year-old systems are largely beyond the end of their expected years of service. At the 2024 Annual Town Meeting, an appropriation of \$635,100 was approved for the design of a new Administration Building. Design of an anticipated 4,000-square-foot building is being finalized, with an estimated construction cost of \$5 million. Construction funding will be sought at the 2025 Fall Town Meeting.
- **DPW Master Plan –** The DPW Park and Highway Building was constructed in 1950 and has undergone no major renovations. Given the condition of the building and likely future Town needs, the DPW decided to take a comprehensive look at the DPW campus, rather than focusing solely on building replacement. FMD is currently conducting this study, which was funded through cash capital in FY 2025. The result of the study will be a DPW Master Plan that accommodates future growth and additional space for the Land Use Departments (Planning, NRC, Zoning Board of Appeals, Building Department) and the Facilities Management Department, which are currently housed in rented space. The DPW Master Plan will recommend various options, from limiting the project to a stand-alone renovation of the DPW Park and Highway Building, to the complete reconstruction and expansion of the Park and Highway Building to accommodate all Land Use Departments. Cost estimates will depend on the ultimate scope of the project. Renovation of the garages is currently estimated at \$13 million, whereas a complete campus renovation is estimated to cost at least \$100 million.
- **School Air Conditioning Feasibility Study –** The Wellesley Public Schools Department currently has nine school buildings in use, five of which are fully air conditioned. Four buildings do not have air conditioning in most classrooms: Bates, Fiske, Schofield, and the Middle School. In 2020, the School Committee requested a feasibility study to consider adding air conditioning to these four schools. Consequently, placeholders were added to the out years between fiscal years 2027 and 2032 for design (\$4 million) and construction (\$29 million), pending further prioritization by the School Committee. The School Committee is now requesting accelerated funding under Article 18 to update the feasibility study to analyze three options: variable refrigerant flow (VRF) systems, through-wall air conditioners, and ductless units/heat pumps for each school, taking into consideration, among other factors, the stage of each building within its lifecycle. The goal of the study is to assess the appropriate option for each school, considering cost and timing, and to chart a path forward. The future capital requests for design and construction will depend on the option chosen for each building and the Five-Year Capital Plan will be updated accordingly. The original estimated capital cost from the 2020 Air-Conditioning Feasibility Study for fully air conditioning the four buildings has been conservatively escalated to \$33 million. That estimate will be refined as the proposed scope of work becomes more clearly defined. Once the systems are in place, there will be increased operating costs for use, utilities, and maintenance. Estimating these ongoing costs is part of the scope of work in the feasibility study. The annual operating costs were previously estimated to be approximately \$103,000, including electricity costs of about \$59,000 and an annual maintenance cost of about \$44,000.

- **Team Room Construction** – The 2024 Annual Town Meeting appropriated \$175,000 to the School Committee to fund architectural design and bidding documents for the team rooms at Hunnewell Track and Field. This project is known as Phase II-B and is the last component of the larger project that included Track and Field Bathrooms, lighting, and a sound system. The School Committee has decided not to move forward with the project at this Town Meeting and will return to Fall Town Meeting when bids are in hand.
- **Warren HVAC Project** – The Warren Building was renovated in 2004 with HVAC systems that were expected to reach the end of their useful life in 2024. The 2024 Fall Town Meeting approved \$6.2 million for installation of new HVAC systems. With the assistance of the Climate Action staff, the Town was awarded a \$500,000 Green Communities grant to offset a portion of the costs. The Warren Building houses the Recreation Department and the Health Department, and both departments will be relocated during the projected six months of construction. Offices will be rented at 888 Worcester Street and recreation programs will be relocated to the Upham School in June 2025.

### ***A longer view of the Major Project Financing Schedule***

There are several projects in preliminary discussions that may have significant financial implications in the future, including a new preschool and new fire station(s).

- **The Preschool at Wellesley Schools (P.A.W.S.)** – P.A.W.S. is an integrated, special education preschool, educating children between the ages of three and five. Over the past 10 years, the enrollment has averaged 100 students with class sizes of up to 15, generally including 7 students with special education needs, and 8 peers who do not have identified special education needs. The P.A.W.S. facility is located behind the Fiske School and accommodates six classes. The remaining classes are hosted at one or more elementary schools, depending on space availability. Working with the School Committee, FMD conducted a feasibility study five years ago to evaluate the need for a new building. FMD currently projects the need for \$2.65 million in design funds, which would be requested by the School Committee at the 2029 Annual Town Meeting. The Five-Year Capital Plan also includes a placeholder for construction funds of \$24 million, which would be requested at the 2030 Fall Special Town Meeting. Total project costs are likely to exceed these estimates given escalation in construction costs over time. The Superintendent has formed an advisory committee to develop and execute a long-term vision for preschool offerings, including the potential for universal preschool to be folded into the School Department operating budget. Before proceeding with plans for a new P.A.W.S. building, the School Department will first determine the scope of proposed preschool programming to ensure that the new facility would meet the district's needs. Given the passage of time since the original feasibility study and the potential modification to the scope of the project, a supplemental study will likely be needed prior to the design fund request at the 2029 Annual Town Meeting.
- **Fire Station Master Plan** – The Town currently has two fire stations, one in each of the Town's two fire districts: Station One (Central Street) and Station Two (Headquarters on Route 9). The Town has just released a Request for Qualifications to conduct a study to determine the future needs of the Fire Department. The study is funded with \$50,000 from cash capital, and \$100,000 from the Wellesley Office Park Development Agreement. Current and future development on the eastern part of town (near Route 128) will be a critical consideration in the study, which will evaluate the need for a third fire district and station. The study will also evaluate the need to replace Fire Station One, which is nearly 100 years old and is no longer able to accommodate basic fire operations. The building does not meet several National Fire Protection Association standards due its age, and the

small size of the building requires expensive, custom-built fire engines. Furthermore, the building cannot accommodate separate facilities for the Town's male and female firefighters who live in the station when on duty. Future costs for construction and/or renovation are unknown.

#### **D. Capital Budget Requests and Future Planning**

Each year, the Board considers funding capacity when issuing the departmental Budget Guidelines. This year, in a departure from recent practice, the Board authorized capital spending at the lower end of the Capital Spending Range of 6.2 to 6.8% to allow for greater operational budget funding. Given the current higher level of reserves, the Board is recommending one-time applications of Free Cash to fund larger cost capital items and avoid borrowing.

The combined inside-the-levy financing budget (cash capital and debt service) for FY 2026 is \$11,719,263 or 5.98% of revenue, which is slightly below the Capital Spending Range as a result of reduced borrowing and the movement of capital projects further out in the Five-Year Capital Plan. Of the roughly \$11.7 million, \$3.5 million is for inside-the-levy debt service, with a maximum of \$8.2 million available for all cash capital projects. In FY 2027 through FY 2029, based upon projected inside-the-levy borrowing, the finance team currently projects that \$3-\$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 are hovering between 6.84% and 8.92% for FY 2027 through FY 2029, significantly exceeding the Capital Spending Range of 6.2 to 6.8%.

<b>Recurring Revenues</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>
Taxes (2.5%) + New Growth	\$ 169,965,722	\$ 175,914,865	\$ 182,012,737	\$ 188,263,055	\$ 194,669,631
State Aid	\$ 12,121,225	\$ 12,363,650	\$ 12,610,922	\$ 12,863,141	\$ 13,120,404
Local Revenue	\$ 14,012,083	\$ 14,292,325	\$ 14,578,171	\$ 14,869,735	\$ 15,167,129
	<b>\$ 196,099,030</b>	<b>\$ 202,570,839</b>	<b>\$ 209,201,830</b>	<b>\$ 215,995,931</b>	<b>\$ 222,957,164</b>
<b>Capital Financing</b>					
Cash Capital Requests	8,150,857	8,053,976	8,528,617	10,274,869	7,891,529
Inside the Levy Debt Payment	3,568,406	5,800,000	7,100,000	8,100,000	12,000,000
	<b>\$ 11,719,263</b>	<b>\$ 13,853,976</b>	<b>\$ 15,628,617</b>	<b>\$ 18,374,869</b>	<b>\$ 19,891,529</b>
Capital Financing Requests*	<b>5.98%</b>	<b>6.84%</b>	<b>7.47%</b>	<b>8.51%</b>	<b>8.92%</b>

\* Capital Financing Policy Range is 6.2 - 6.8%

During the budget process, departments may be asked to reduce or postpone 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 meeting 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.

## **E. Major Project Five-year Financing Plan**

### Major Project Financing Schedule: Six Year Look-Ahead

February 1, 2025			FY2026		FY2027		FY2028		FY2029		FY2030		FY2031		FY2032		
Project	Phase	Estimated Cost	Spring	Fall	Spring	Fall	Spring	Fall	Spring	Fall	Spring	Fall	Spring	Fall	Spring	Fall	
			2025	2025	2026	2026	2027	2027	2028	2028	2029	2029	2030	2030	2031	2031	
<i>MOPO Renovation</i>	Supplemental Study	\$170K	CPC														
	Construction	\$9M							CPC/X								
<i>DPW New RDF Admin. Bldg</i>	Construction	\$5.0M		X													
<i>DPW Reno: Park &amp; Hwy</i>	Design	\$1.56M					X				X						
	Construction	\$11.44M															
<i>Sprague HVAC Renovation</i>	Design	\$525k							X				X				
	Construction	\$2.75M															
<i>Library HVAC Renovation</i>	Design	\$550k							X				X				
	Construction	\$3.0M															
<i>Middle School Roof Replace</i>	Design	\$600K						X					X				
	Construction	\$8.0M															
<i>Sprague School Roof Replace</i>	Design	\$250K						X					X				
	Construction	\$2.1M															
<i>Bates School Roof Replace</i>	Design	\$375K							X				X				
	Construction	\$3.5M															
<i>DPW Reno: RDF Baler Bldg</i>	Design	\$500K											X			X	
	Construction	\$2.75M															
<i>New Preschool</i>	Design	\$2.65M									X - DE					X - DE	
	Construction	\$24M															
<i>AC: Bates, Schof, Fiske, MS</i>	Design	\$4.0M			X - DE												
	Construction	\$29M							X - DE								
<b>TOTALS (Millions) =</b>			<b>\$111.72</b>	<b>\$0.17</b>	<b>\$5.00</b>	<b>\$4.00</b>	<b>\$0.00</b>	<b>\$1.56</b>	<b>\$38.00</b>	<b>\$2.30</b>	<b>\$11.44</b>	<b>\$2.65</b>	<b>\$19.35</b>	<b>\$0.50</b>	<b>\$24.00</b>	<b>\$0.00</b>	<b>\$2.75</b>
<i>DE = Debt Exclusion</i>																	
<i>CPC = Community Preservation Committee</i>																	
<i>X = To Be Decided</i>																	

## 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 \$1,652,000 for the period FY 2025 through FY 2032). The projections contemplate an annual 2 ½ increase, \$1.7 million in new growth in FY 2027 through FY 2029, and \$1.5 million through FY 2032. 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

	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Levy Prior	\$ 16,987	\$ 17,572	\$ 18,172	\$ 18,786	\$ 19,416	\$ 20,043	\$ 20,685
Levy growth	\$ 585	\$ 599	\$ 614	\$ 630	\$ 627	\$ 642	\$ 658
Existing Debt Exclusions	\$ 736	\$ 672	\$ 652	\$ 616	\$ 552	\$ 535	\$ 344
HHU	\$ 718	\$ 699	\$ 679	\$ 660	\$ 641	\$ 622	\$ 604
Median tax bill	<b>\$ 19,026</b>	<b>\$ 19,542</b>	<b>\$ 20,117</b>	<b>\$ 20,692</b>	<b>\$ 21,235</b>	<b>\$ 21,842</b>	<b>\$ 22,292</b>

## 6. Reserves

### A. Definitions and Policy

Reserves include 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 Financial Reserve Policy 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 \$31,924,672 (16.93% of FY 2026 anticipated revenue, (exceeding the 8 to 12% policy range)) at the close of FY 2024 due to multiple factors, including:

- 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 and through FY 2024. As a result, earnings exceeded the FY 2024 budget by \$6.8 million.
- Town departments turned back \$1,000,000 in payroll (from unfilled positions).
- The School Department turned back \$900,000 (\$500,000 in 2023 encumbrances, \$400,000 FY 2024 turnback).
- Health insurance turned back \$300,000.
- Interest earnings generated \$7.2 million
- Permit and licensing fees exceeded budget by \$1.4 million.
- Tax title and real estate deferral payoffs collected \$1,000,000.

Interest earnings remain high and are anticipated to generate \$4 million in one-time funds in FY 2025. Moreover, the estimated FY 2025 turnback and additional revenue is a conservative projection of \$6 million, including \$2 million in total turnback, and \$4 million in interest earnings.

### 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:

Free Cash	FY21	FY22	FY23	FY24	FY25
Appropriations	\$ 4,495,134	\$ 10,328,076	\$ 18,237,662	\$ 14,396,538	\$ 13,771,934

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, and declining, to close the operating budget
- Supplemental snow and ice removal costs (annually, ranging from \$225,000 to \$1,025,000)
- Special education costs SPED (prior to establishment of the stabilization fund)
- Establishment or bolstering of reserve funds (SPED, Injured on Duty, RDF Baler)

- Contributions to Free Cash equal to turnback amounts for the IOD Indemnity Fund and the Baler Fund
- 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 Trucks, 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 - P.A.W.S. 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, Energy Conservation Measure (ECM) lights, and relocation of land use departments
- FY 2023 - Town Hall interior renovation
- FY 2024 - RDF Administration Building Design
- FY 2024 - Team Room Design

The 2024 Fall Special Town Meeting appropriated from Free Cash:

- \$92,972 - Fire Department Fair Labor Standards Act Settlement
- \$136,435 - Eminent Domain Taking at Weston Road/Linden Street Intersection
- \$2,000,000 - Fuel Depot Construction

### **Use of Free Cash Proposed for the 2025 Annual Town Meeting:**

FY 2025 supplemental appropriations from Free Cash:

- \$700,000 Snow and Ice (Article 7, Motion 1)
- \$110,000 Compensated Absences (Article 7, Motion 3)
- \$1,000,000 Health Insurance (Article 7, Motion 4)
- \$211,735 Construction costs associated with Police Station Parking Lot (Article 7, Motion 5)

FY 2026 appropriations from Free Cash proposed for 2025 Annual Town Meeting:

1. \$400,000 Recreation Revolving Fund Implementation Transfer (Article 9, Motion 1)
2. \$26,013 Injured-on-Duty (IOD) Indemnity Fund (Article 10, Motion 1)
3. \$75,000 Special Education (SPED) Reserve Fund (Medicaid) (Article 10, Motion 2)
4. \$11,512 Baler Stabilization Fund (Article 10, Motion 3)

5. \$500,000 Establish a Compensated Absence Fund (Article 11)
6. \$1,055,000 New Fire Engine (Article 17)
7. \$182,000 School Air Conditioning Feasibility Study (Article 18)
8. \$2,000,000 Playground Reconstruction (Article 22)
9. \$1,200,000 Hunnewell Tennis and Pickleball Court Improvements (Article 24)

### C. Strategic Approach to Reserves Management

Since FY 2013, the Town has intentionally increased its financial reserves (see [Financial Planning](#) section of this TWFP) under its 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.

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 in 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 comply with 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.

The proposed FY 2026 budget and use of free cash as enumerated above would bring reserves down to an estimated 13.25% as of June 30, 2025, above the upper range of the Reserves Policy (8 to 12% of budgeted operating revenue).

Reserves were projected to have been just slightly over the 12% policy level prior to the deferral of the WHS/Hunnewell Field Irrigation improvement project and the WHS Team Rooms Construction project to the fall Special Town Meeting.

<b>Free Cash</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>
Free Cash (Beginning of Year)	\$ 18,175,871.05	\$ 25,830,840.05	\$ 27,138,343.94	\$ 27,250,545.94	\$ 28,171,581.00
Appropriated Free Cash	\$ (4,495,134.00)	\$ (10,328,076.11)	\$ (18,237,662.00)	\$ (14,089,936.00)	\$ (11,947,068.00)
Net Free Cash generated	\$ 12,150,103.00	\$ 11,635,580.00	\$ 18,349,864.00	\$ 15,010,971.06	\$ <b>6,000,000.00</b>
End of year	\$ 25,830,840.05	\$ 27,138,343.94	\$ 27,250,545.94	\$ 28,171,581.00	\$ 22,224,513.00
Budgeted Operating Revenues	\$ 160,695,527	\$ 165,733,774	\$ 180,567,386	\$ 187,216,182	\$ 188,563,572.00

*FY 2025 Net Free Cash generated is estimated. This table does not include General Purpose Stabilization Funds*

***Reserves Projection After ATM 2025***

<b><i>Reserves as of 6/30/2024</i></b>	<b><u>Amount</u></b>
<b>FY25 Budgeted Operating Revenue</b>	<b>\$ 188,563,572.00</b>
Free Cash certified	\$ 28,171,581
General Purpose Stabilization fund	3,753,091
<b>Reserves as of 6/30/2024</b>	<b>\$ 31,924,672</b>
<b>% of FY26 Revenue</b>	<b>16.93%</b>
 <b><i>Sources and (Uses) of Reserves in FY25</i></b>	
<b>Appropriations at STM 10/2024</b>	
Fire Dept. FSLA Settlement	(92,972)
Eminent Domain Taking - Weston Rd	(136,435)
DPW - Fuel Depot	(2,000,000)
 <b>Appropriations ATM 4/2025</b>	
Snow and Ice Supplemental	(700,000)
Health Insurance	(1,000,000)
Compensated Absence Supplemental	(110,000)
Parking Lot - Police Station (estimate)	(211,735)
Balance Operating	(2,246,401)
Fire Engine	(1,055,000)
Playgrounds	(2,000,000)
Schools A/C	(182,000)
Tennis/Pickleball Courts	(1,200,000)
Compensated Absence Fund Start	(500,000)
SPED Stabilization	(75,000)
IOD Stabilization Transfer	(26,013)
Baler Stabilization Transfer	(11,512)
Recreation 53D Dissolution Transfer	(400,000)
Estimated Turnback*	6,000,000
<b>Estimated Reserves as of 6/30/25</b>	<b>\$ 25,977,604</b>
<b>FY26 Budgeted Operating Revenue</b>	<b>\$ 196,099,030</b>
<b>% of FY26 Revenue</b>	<b>13.25%</b>

*\* Anticipated returns from encumbrances not spent, over performance of revenue projections, and operating budgets.*

## 7. 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 2027-2029 as current year projections:

<b><u>REVENUES</u></b>	<b><u>FY27</u></b>	<b><u>FY28</u></b>	<b><u>FY29</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>	2.2M	\$2.1M	\$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	8%	8%	8%
OPEB	0%	0%	0%

Expenditure assumptions do not include changing priorities, new priorities, or initiatives identified in the Town's various strategic plans (see "Strategic Initiatives," under section 3, Key Budget Drivers). Furthermore, the assumption regarding the growth in School Department 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 2027 is approximately \$2.8 million with no modifications to the cash capital budget or application of additional Free Cash. The projections for FY 2028 and FY 2029 have deficits in the range of \$5.6 million to \$9.3 million.

Sources of Funds	FY25	FY26	\$	%	FY27	FY28	FY29
	Budget	Request	Inc/(Dec)	Inc/(Dec)	Projection	Projection	Projection
Taxes	\$ 164,161,680	\$ 169,965,722	\$ 5,804,042	3.5%	\$ 175,914,865	\$ 182,012,737	\$ 188,263,055
State Aid	12,021,225	12,121,225	100,000	0.8%	12,242,437	12,364,862	12,488,510
Local Revenue	12,380,667	14,012,083	1,631,416	13.2%	14,272,325	14,537,771	14,808,527
Free Cash to balance	2,250,000	2,246,401	(3,599)	-0.2%	2,200,000	2,100,000	2,000,000
Other Free Cash items	11,479,510	7,471,260	(4,008,250)	n/a	-	-	-
Other Sources	3,070,013	2,983,546	(86,467)	-2.8%	1,928,919	1,932,498	1,936,148
CPA for North 40	550,644	550,244	(400)	-0.1%	549,444	553,244	549,394
Exclusions & Exemptions	16,072,615	15,143,422	(929,193)	-5.8%	13,585,947	13,172,478	12,609,750
<b>Total Sources</b>	<b>\$ 221,986,354</b>	<b>\$ 224,493,903</b>	<b>\$ 2,507,549</b>	<b>1.1%</b>	<b>\$ 220,693,937</b>	<b>\$ 226,673,589</b>	<b>\$ 232,655,383</b>
<b>Uses of Funds</b>							
School	\$ 91,081,978	\$ 94,035,026	\$ 2,953,048	3.2%	\$ 96,856,077	\$ 99,761,759	\$ 102,754,612
Other Town Departments	48,752,633	51,369,353	2,616,720	5.4%	52,910,434	54,497,747	56,132,679
Employee Benefits	35,938,580	38,979,042	3,040,462	8.5%	41,810,843	44,427,057	47,230,460
Cash Capital	7,759,465	8,150,857	391,392	5.0%	7,858,976	8,538,617	10,289,869
Debt (inside Levy)	4,965,457	3,568,406	(1,397,051)	-28.1%	5,800,000	7,100,000	8,100,000
Other Uses	16,864,982	12,697,553	(4,167,429)	-24.7%	4,108,553	4,180,309	4,253,469
Exclusions & Exemptions	16,623,259	15,693,666	(929,593)	-5.6%	14,135,391	13,725,722	13,159,144
<b>Total Uses</b>	<b>\$ 221,986,354</b>	<b>\$ 224,493,903</b>	<b>\$ 2,507,549</b>	<b>1.1%</b>	<b>\$ 223,480,273</b>	<b>\$ 232,231,211</b>	<b>\$ 241,920,232</b>
<b>Surplus/(Deficit-Override)</b>	<b>\$ -</b>	<b>\$ -</b>			<b>\$ (2,786,336)</b>	<b>\$ (5,557,622)</b>	<b>\$ (9,264,849)</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. Even with adherence to the Capital Finance Policy, projected deficits are significant and will require a difficult evaluation of level service operations to identify efficiencies and reductions.

*For informational purposes only*, a model has been created to show the impact on debt and deficits setting the Capital Spending Range at the low of 6.2% of budgeted recurring operating revenues, rather than the total amount of capital requested. The table below reflects expected cash capital requests in FY 2027 through FY 2029 plus the rising inside-the-levy debt payments of \$5.8 million in FY 2027; \$7.1 million in FY 2028; and \$8.1 million in FY 2029. To continue to maintain the lower limit of the Capital Spending Range of 6.2%, the cash capital component of future budgets must be reduced.

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

	2027	2028	2029
<b>Recurring Operating Revenue</b>	\$ 202,429,627	\$ 208,915,369	\$ 215,560,092
<b>Projected Deficit</b>	\$ (2,786,336)	\$ (5,557,622)	\$ (9,264,849)
<b>Debt/Capital (5 Year Plan)</b>	\$ 13,853,976	\$ 15,628,617	\$ 18,374,869
<b>Percent Requested</b>	6.84%	7.48%	8.52%
<b>If reduced to 6.2%</b>	\$ (1,303,339)	\$ (2,675,864)	\$ (5,010,143)
<b>Total Available at 6.2%</b>	\$ 12,550,637	\$ 12,952,753	\$ 13,364,726
<b>Inside the Levy Debt Payment</b>	\$ 5,800,000	\$ 7,100,000	\$ 8,100,000
<b>Cash Capital Available</b>	\$ 6,750,637	\$ 5,852,753	\$ 5,264,726
<b>Revised Deficit</b>	\$ (1,482,997)	\$ (2,881,758)	\$ (4,254,706)

The table above shows that with adherence to the Capital Financing Policy, the projected deficits would be reduced over the three-year period but still leave significant deficits to be addressed.

Under this model, debt service is largely determined from the Five-Year Capital Plan, and future cash capital allocations would need to be limited to the following:

- \$6,750,637 in FY 2027 (a decrease of \$1.3 million)
- \$5,852,753 in FY 2028 (a decrease of \$2.6 million)
- \$5,264,726 in FY 2029 (a decrease of \$5 million)

## 8. Debt and Future Funding Strategies

### Funding Challenges

The Board is mindful of the significant tax impact of the debt exclusions approved by the voters for the two new elementary schools and is working to avoid increasing the tax burden on property owners. At the 2025 Annual Town Meeting, the Board is proposing to spend Free Cash on several large capital projects making use of ongoing interest earnings. Town Meeting will also consider proposed increases in tax relief for Veterans under adoption of the HERO Act under Articles 28 and 29, and a proposed increase in the Senior Tax Deferral income limits under Article 30.

Funding operating costs in the out years will be very challenging without either identifying new sources of revenue or identifying strategies to manage major cost drivers, including personnel costs and benefits. In FY 2025, the Board increased building permit fees and continues to evaluate health insurance cost management strategies. Without significant projected budget reductions, the Town faces the possibility of budget cuts or a Proposition 2 ½ override.

Funding capital costs in the out years will require both strategic management of reserves to enhance funding capacity within the levy, and careful planning of debt exclusions. Planned major capital projects include significant HVAC upgrades for the Main Library building and Sprague School, and significant roof replacements at the Middle School, Sprague School, and Bates School. It is possible that some of these planned projects will require a debt exclusion if they cannot all be financed within the levy. The Board will continue to evaluate the costs for the Morses Pond facilities with the completion of the proposed supplemental study and subsequent design and permitting. This project will likely also require a debt exclusion.

As outlined previously in this document, there are a number of other potential capital projects that are likely to require debt exclusions and may also result in significant increases in operating costs that may necessitate a Proposition 2 ½ override. These include air conditioning at Bates, Schofield, Fiske, and Middle Schools; renovation or reconstruction of the DPW Park and Highway Building (pending DPW Master Plan); new fire facilities (pending Fire Master Plan); and a new P.A.W.S. preschool.

With all union contracts scheduled to expire June 30, 2026, the Town will be bargaining with all unions for FY 2027 and beyond. Increases in employee salaries, compounded with anticipated rising health insurance costs, may require a future override. The Town may forestall an override by holding inside-the-levy and cash capital spending within the Capital Spending Range to the low end of the range at 6.2%, and by holding Town and School Department operating budgets to forecasted increases (or below) over the next three years. Health insurance estimates are projected at 8% year over year, which has a significant impact on the budgets. The Town will work to improve the out-year projections with the WSHG to decrease projected deficits.

With rising projected costs of many major capital projects, the Board will continue to evaluate capacity to fund these projects with inside-the-levy borrowing.

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.

## 9. Conclusion

Significant private construction projects have had a positive impact on new growth and permits, increasing revenues above the Proposition 2½ limit on the property tax levy. In FY 2024 and to date in FY 2025, the Town experienced tremendous growth in interest earnings and has seen continued growth in vehicle excise and local receipts.

The FY 2026 budget proposes the continued strategic use of reserves, bolstered by conservative assumptions, continued turnback, and interest earnings. Departmental turnback has been returning to more typical levels as positions are filled and the Town has focused on competitive 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 Community Preservation Committee funds. 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, strategic plan initiatives, and emerging needs (such as Fire Department Radio Equipment, Warren HVAC, records digitization, and small business support).

Members of the Board would like to express our sincere appreciation to Executive Director Meghan Jop, Assistant Executive Director Corey Testa, and the finance department staff for their exemplary work on the FY 2026 budget and Town-Wide Financial Plan. The Board further thanks all Town boards, committees, and commissions and their respective staffs, and union representatives, for their continued commitment to working together. ***We are one Town, with one budget, shaped by many voices.***

We value the opportunity to collaborate, foster constructive dialogue, and continuously evaluate processes to enhance services, operations, and communications in the coming fiscal year and beyond. Preparing for Annual Town Meeting and this Town-Wide Financial Plan reinforces our shared commitment to strengthening the Town's high-quality services, infrastructure, financial stability, community well-being, and commercial vitality for the benefit of all.

Colette E. Aufranc, Chair  
Marjorie R. Freiman, Vice Chair  
Thomas H. Ulfelder, Secretary  
Elizabeth Sullivan Woods  
Kenneth C. Largess III  
Lise M. Olney (Former Member)

Attachments:

- [Exhibit I – FY 2026 Sources and Uses](#)
- [Exhibit B – FY 2026 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](#)
- [Appendix D – Individualized Departmental Guidelines](#)
- [Appendix E – Union Contract Settlements](#)