

Financial Update  
Board of Selectmen Meeting  
January 4, 2016

Pam Dukeman  
Finance Director

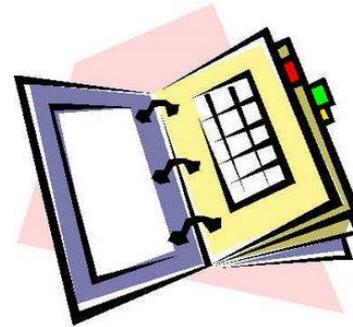
# Items to Review

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- Overall budget areas
- Meals tax update

## Review:

- FY17 preliminary budget plan:
  - Revenue
  - Expenditures
- University Station tax revenue
- Updates to preliminary budget plan
- Next steps



# Town's Finances – Must Address Multiple Areas

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- Financial action must address multiple needs to provide for quality services and financial strength.



Board of Selectmen has worked hard to address all areas.

# Financial Policies Update

## Financial Policies Status Update – October 7, 2015

	Target	Actual	Comments	Target Status	Comparison to Previous Year
<b>B. 2. Operating Reserve Fund</b> – shall be .5% of total general fund operating budget, net of debt service. Per new policy.	\$345,902 .5%	FY16 Budget \$400,000	Above target. This target was recently revised. \$400,000 is comfortable budget.	✓	Continued to Meet Target
<b>B. 3. Free Cash</b> – shall maintain at 4% of general fund operating budget, net of debt service.	\$2,767,223 4%	Est. \$4,961,737 7%	Actual is at goal. Full amount <u>before</u> use of any free cash. This allows us to utilize standard free cash amount for FY17 budget and still meet target.	✓	Continued Improvement
<b>D. 3. Reserve accounts</b> – shall maintain at 8% of general fund operating revenues, net of debt service. Total reserve goals should be maintained at 4% in general fund and 4% in stabilization account.	Stabilization Target 4% \$2,861,800  Total 8% or \$5,723,600	Stabilization \$2,775,960 3.9%  Total 10% or \$7,737,697	Stabilization approximately \$85K short of target.  Total is over target. This would be <u>before</u> use of free cash. Allow standard use of free cash, and then remain at target.	✓	Continued Improvement On Track With Target
<b>D.4 Annual OPEB appropriation</b> – the Town will appropriate no less than \$550,000 per year to the OPEB Liability Trust Fund.	\$550,000	FY16 budget \$1,350,000	FY16 budget includes \$650,000 May appropriation and \$700,000 Fall Town Meeting. Above target.	✓	Significant Improvement Target to be Revised
<b>E. 4. General fund nonexempt debt service</b> should not exceed 8% of net general fund revenues.	Not exceed 8% Or \$5,723,600	\$2,345,003 3.3%	(Debt shown is FY17 w/full new debt) Target is met. Non exempt debt service is very low. Can take on more debt within Proposition 2 ½ with new revenue.	✓	Continued Below Target
<b>E. 4. Total General fund exempt and nonexempt debt</b> should not exceed 10-12% of net general fund revenues.	Not exceed 12% Or \$8,585,400	\$5,421,478 7.6%	(Debt shown is FY17 w/full new debt) Target is met.	✓	Continue to Meet Target
<b>F. 5. Investment in capital stock</b> – will maintain 3% of general fund operating budget, net of debt, on ongoing capital maintenance and replacement.	\$2,075,417 3%	\$1,523,000 2.1%	Actual is approximately \$550K short of target. Actual at 74% of target. Base capital has been increased from \$823K to \$1,523,000.	Not Met	Much Improved
<b>G. 5. Maintain sewer retained earnings</b> – will maintain 10% of sewer fund revenues.	\$442,395 10%	\$1,239,165 25%	Actual is above target. Funds to be used for capital.	✓	Well Above Target

# Financial Policies Update

## Other Policies – October 7, 2015

Other Policies	Comments	Target Status	Comparison to Previous Year
<b>B.1. General Fund</b> – Annual budget should be prepared covering operating expenditures with current operating revenue, not non-recurring revenue sources.	No Free Cash used for operating budget.	✓	Target has been met consistently
<b>D.3. Reserves</b> – Town will strive to make annual appropriation to the Stabilization Fund	\$100,000 appropriation to stabilization reserve at 2015 Annual Town Meeting, funded by free cash. Continued in FY17 budget plan.	✓	Target has been met consistently
<b>D.4. OPEB</b> – Town will strive to move towards fully funding ARC.	\$650,000 appropriated to OPEB reserve at 2015 Annual Town Meeting, within budget funds. Additional \$700K from health care savings to be added to annual appropriation at Fall Town Meeting. Revised FY16 appropriation of \$1.35M.	✓	Greatly Improved On Target with ARC from Current Valuation
<b>F.2. Capital Planning</b> – Town will develop a multi-year plan for capital improvements.	Produced 5-year Capital Improvement Plan document; will continue to improve document and produce on an annual basis.	✓	Same

# Credit Rating – AAA Rating Reaffirmed August 2015

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\*\*\*\*\*AAA Rating Reaffirmed\*\*\*\*\*

- As part of bond sale, Town underwent updated credit review with Standard & Pools.
  - Rigorous review of finances and financial practices.
    - Reserve balances.
    - OPEB efforts.
    - Ability to sustain financial practices.
    - Conservative, sustainable budgets.
    - Increased commercial activity.

The logo consists of the letters 'AAA' in a stylized, bold, serif font. The letters are filled with a red-to-white gradient, giving them a three-dimensional appearance. The 'A's are slightly larger than the middle 'A'. The logo is centered on the page.

# Meals Tax Update

- Adopted by Town at 2014 Fall Town Meeting. Became effective January 1, 2015.

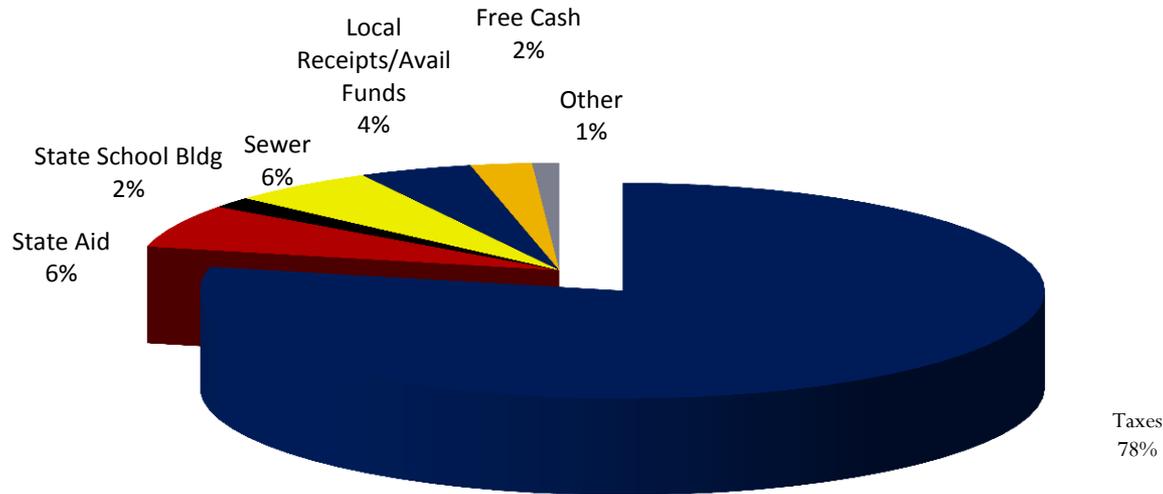
<u>Quarterly Distribution</u>	<u>Period</u>	<u>Amount</u>	<u>Cumulative Total</u>
March 31, 2015	December, January, February	\$12,948	\$12,948
June 30, 2015	March, April, May	\$43,202	\$56,150
September 30, 2015	June, July, August	\$67,267	\$123,417
December 31, 2015	September, October, November	\$67,881	\$191,298



# FY17 Review

- At prior meetings, the Board of Selectmen reviewed FY15 results:
  - Revenue.
  - Expenditures.
- Reviewed University Station activity.
- Reviewed final FY16 budgets.
- Discussed FY17 budget considerations.
- Established the FY17 base budget plan.
  - Based on projected changes to FY16 revenue and expenditures.

# FY16 Revenue Summary



FY16 Budget Revenue	
	FY2016 Per Recap
Taxes	\$67,637,558
State Aid	\$5,606,183
State School Building Reimbursement	\$1,401,276
Sewer Enterprise	\$4,823,953
Local Receipts	\$3,312,000
Available Funds - Ongoing	\$429,275
Available Funds – Prior Year/Other Articles	\$891,000
Free Cash	\$2,024,509
<b>Total Revenue</b>	<b>\$86,125,754</b>

# FY17 Preliminary Look – Base Revenue

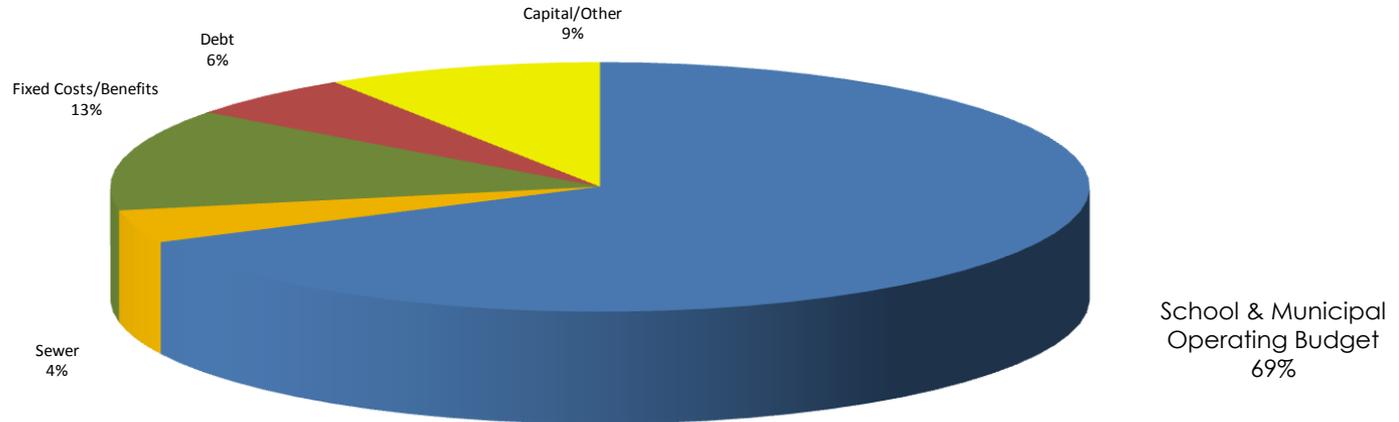
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- Real estate taxes – increase per Proposition 2 ½.
  - Total FY17 taxes increase approximately \$2.45M which includes:
    - \$1.6M – 2 ½% growth.
    - \$450K estimate FY17 new normal growth.
    - \$400K unused tax levy from FY16.
- State aid – level fund FY17.
  - Final FY16 state aid \$5.6M.
  - Have had limited increases for last few years.
- Local receipts – level fund FY17.
  - FY16 local receipts \$3.3M budget.
  - While actual motor vehicle exceeded budget, it is better to level fund the budget at this point
- Free cash balance \$4.9M – should use carefully.
  - Utilize \$1.523M for capital.
  - Apply \$100K for stabilization.
  - Use \$306K for debt service budget.
  - Should limit additional use to have unallocated balance of approximately \$2.67M per policies.

Available \$2.45M  
(Without more University Station)



# FY16 Expenditure Summary



FY16 Expenditures	
	FY2016 Per Recap
Operating Budget – School	\$40,155,808
Operating Budget – Municipal	\$18,128,541
Benefits/Reserves/Comprehensive Insurance	\$11,397,104
Sewer – Operating	\$3,682,975
Debt Service	\$4,894,498
Capital	\$1,523,000
Capital – Sewer	\$850,000
Appropriations:	
• Stabilization	\$100,000
• Capital Stabilization	\$1,650,000
• OPEB	\$1,350,000
• Prior Year	\$967,509
State Charges/Offsets/Overlay/Snow	\$1,426,319
<b>Total Expenditures</b>	<b>\$86,125,754</b>



# FY17 Initial Budget Plan

Fixed Costs – increase to total fixed costs budget (\$11.3M) - \$905K – approximately 8% including:

- Pension Assessment increase of 12% - \$430K.
- Health Insurance increase of 7% - Estimate only. Approx \$359K.
- Other fixed cost increases (insurance, Medicare tax) 10% - Approx \$116K.

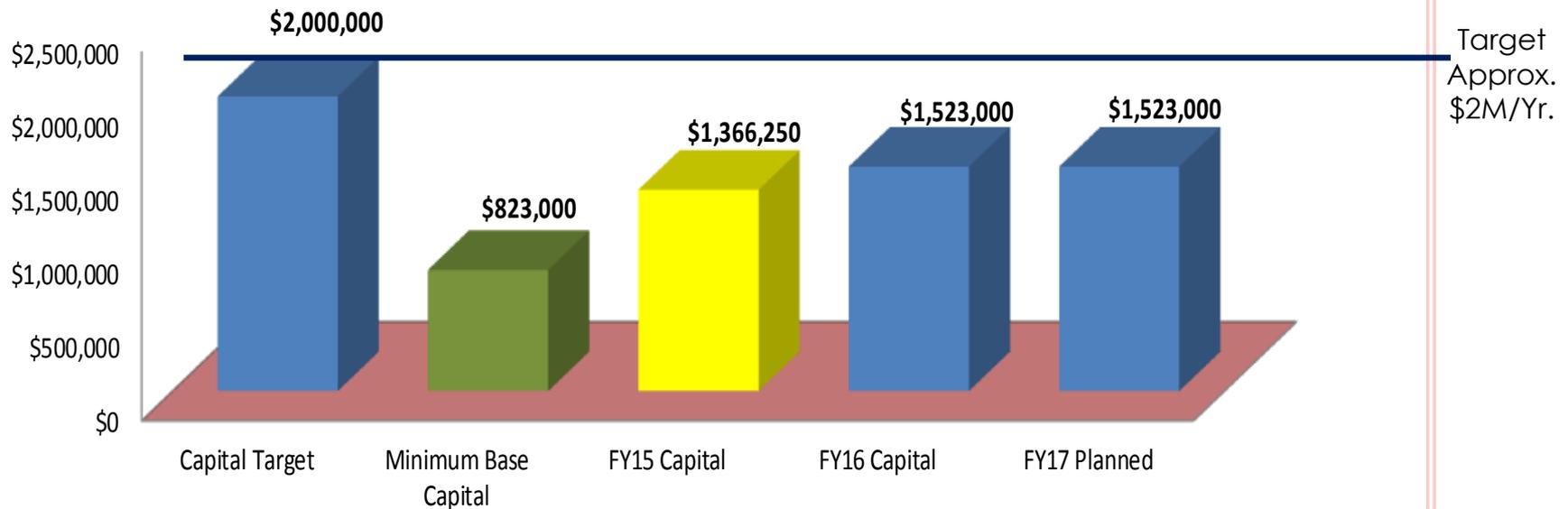
## Debt Budget

- FY17 debt service includes new debt issued summer 2015 of \$10.45M within Proposition 2 ½.
- Apply unused FY15 and FY16 debt service to “smooth” FY17 bump in debt.
- Increase FY17 budget approximately \$70K.



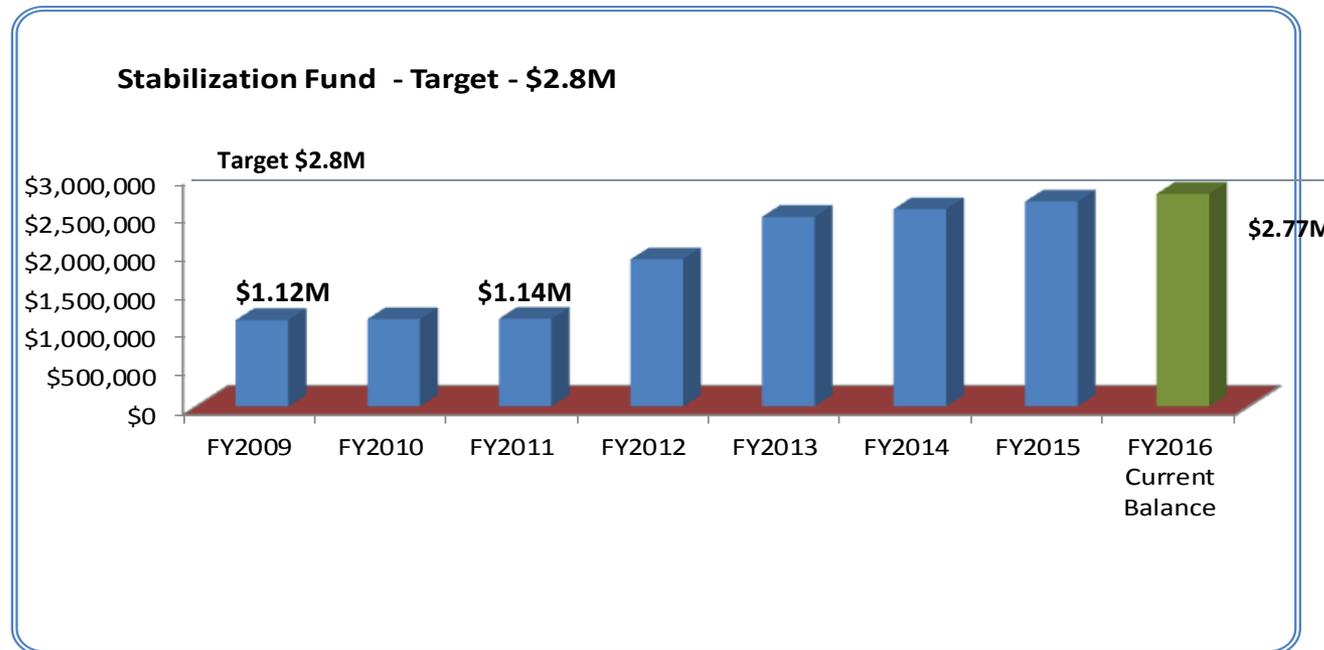
# Capital – Continued Improvement in Capital Funding

- Important to maintain Town assets – buildings, infrastructure, equipment.



# Stabilization Fund Update – Excellent Progress

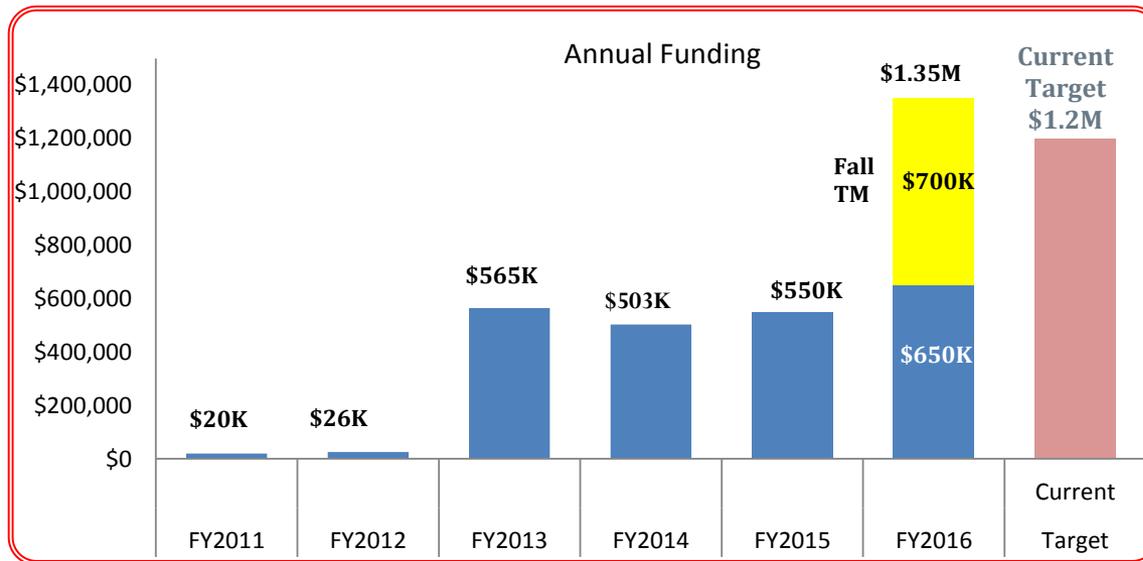
- Main savings account.
- Important component of credit rating.
- Target approximately 4% of revenue.
- \$100K annual appropriation as part of budget.



- Have been able to build funding through:
  - One time large supplements.
  - Ongoing annual small appropriations.

# OPEB – Update on FY16 Health Budget/OPEB

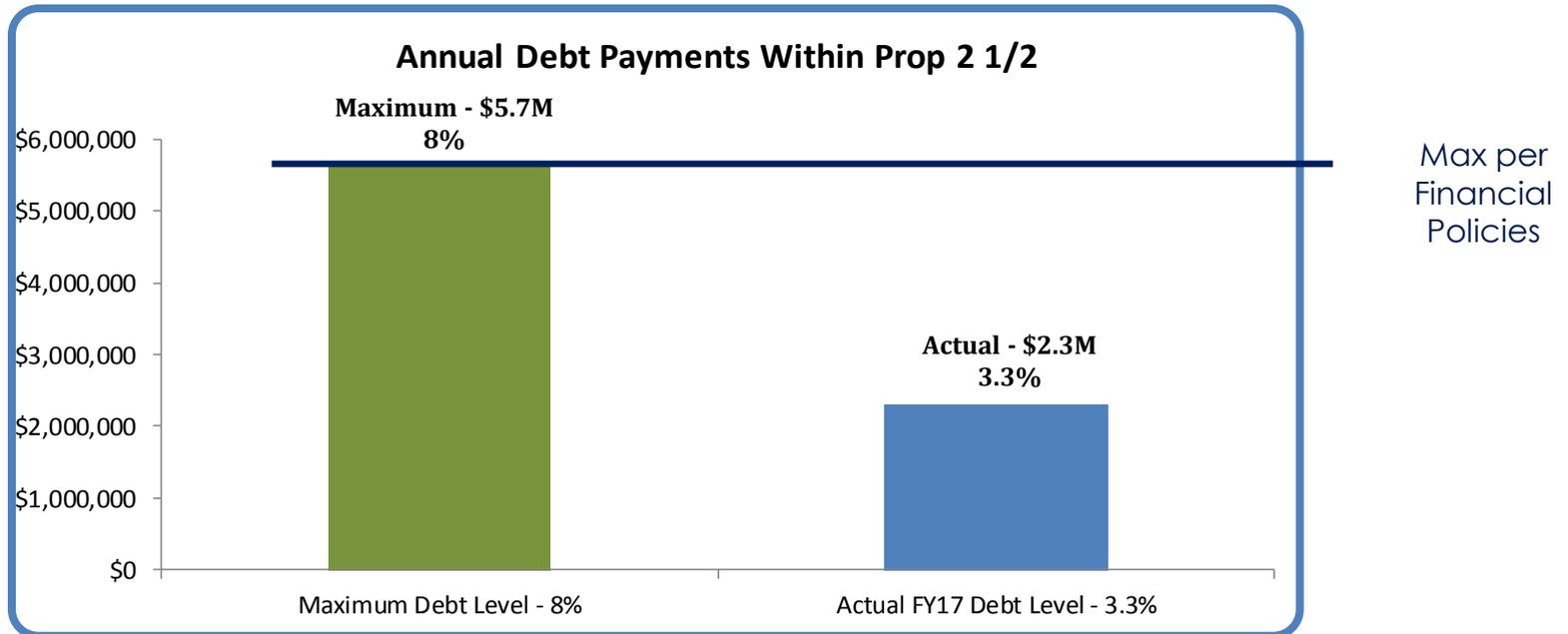
- Total FY16 OPEB total appropriation - \$1,350,000



- Town has built the annual OPEB appropriation through:
  - Ongoing small budget increases and
  - Large supplements with health costs savings from negotiated plan changes:
    - \$400K FY13.
    - \$700K FY16.

# Debt Level – Well Within Guidelines

- Westwood has a low amount of debt.
  - Financial Policies – annual debt should not exceed 8% of net general fund revenue.



- Includes \$10.45M bond issued August, 2015.
- Actual debt of \$2.3M is FY17 full payment.
- Should target a portion of new University Station revenue for debt capacity.

# Base Budget – Revenue Increase

<b>Revenue Increases</b>	<b>Increase FY16 – FY17</b>
Taxes (without new University Station)	\$2.45M
<b>Expenditure Increases</b>	
Fixed Costs/Other	\$1M
Stabilization – level fund @\$100K	\$0
OPEB – level fund at \$1.35M	\$0
Capital budget – level fund at \$1.5M	\$0
<b>Total non-operating budget expenditure increase</b>	<b>\$1M</b>
<b>Net available revenue for operating budget</b>	<b>\$1.45M</b>

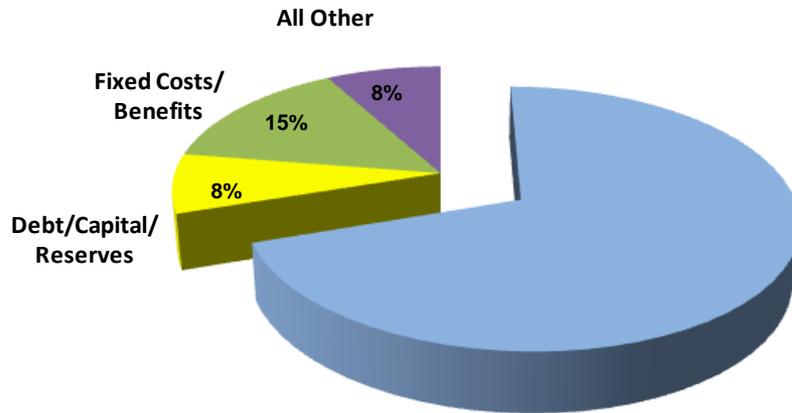
Provides for a 2.5% increase to operating budget (school and municipal).

This is our normal base budget per Proposition 2 ½ .

To do more than 2.5% requires some other revenue.

# FY16 Operating Budget – Continued Moderate Growth

- FY2016 total proposed expenditure budget - \$83M.



70% of total spending is for school and municipal operating budgets.

\$58M  
School & Municipal  
Operating Budget

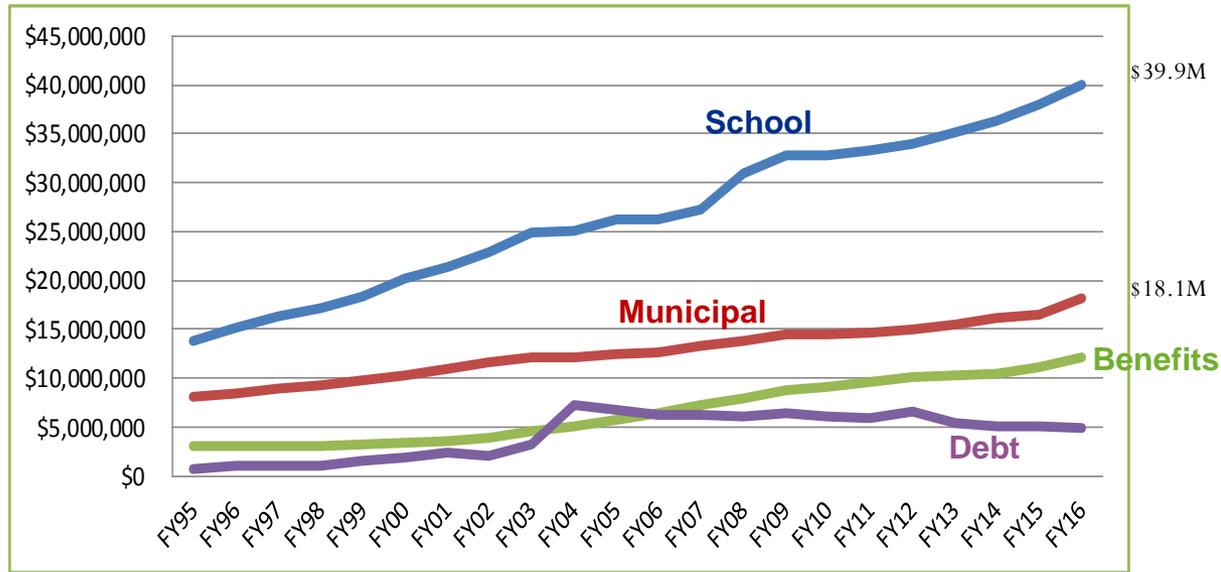
Operating budget – direct services to community

- FY10 and FY11 – 0%, FY12 – FY15 – approximately 2 -3 %.
- FY16 Budget plan provides for approximate 5.2% increases:
  - Budgets would have been 2.5% increases without new revenue.
  - Utilizing \$1.5M in new University Station tax revenue

Without added revenue, can only fund operating budget increases of 2.5%

FY16 Budget	
School	\$1,020,225
Municipal	\$461,578
Blue Hills/Other	\$93,197
	<b>\$1,575,000</b>

# A Look at the Budget History



Budget	% Change in Budget										
	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
School Budgets	.1%	4%	12.9%	5.8%	0%	1.7%	2%	3.3%	3.8%	4.2%	5.3%
Municipal Budgets	1.2%	4.5%	3.7%	5.4%	0%	.6%	2.3%	3%	3.2%	3.4%	5.2%
Benefits/ Insurance/ Reserves	11.2%	13.6%	7.6%	12.3%	3.7%	5.5%	5.6%	0.5%	2.5%	5.5%	3.1%
Debt Service	-6.3%	-2.2%	-0.7%	4.1%	-3.9%	-3.7%	11.1%	-18%	-4.7%	-2.3%	-2.3%

# Operating Budget

- Increases to the operating budget become part of the base budget.
- Therefore the increases compound each year, as opposed to increases in capital budget or debt service or a reserve account.
- It is important that the operating budget is sustainable and that growth doesn't outpace revenue.

- Operating Budgets

- Provides for 2.5% increase to school and municipal operating budgets – provides budget stability:
  - School budget                      \$39.8M
  - Municipal budget                    \$18.1M            Each 1% increase approximately \$580K.
    - \$57.9M
  - 2.5% increase costs \$1.45M.

# University Station Revenue - Taxes

## Original Project Estimates:

- Initial annual tax estimate at full build out
  - Increased new tax revenue - \$5M
  - Associated direct costs - \$2M
  - Net new annual revenue - \$3M

# University Station Revenue – New Growth Revenue

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- FY15 new tax revenue - \$565K:
  - Applied to direct service costs (public safety).
  
- FY16 new tax revenue:
  - Finalized by Department of Revenue late November 2015 - \$3.24M;
  - Applied to FY16 operating budgets \$1,575,000.

■ School	\$1,020,225
■ Municipal	\$461,578
■ Blue Hills/Other	<u>\$93,197</u>
	\$1,575,000
  - Now built into base budget.
  
  - Applied to capital reserve account \$925,000
    - One time appropriation

# University Station Revenue – New Growth Revenue

- FY15 new tax revenue - \$565:
  - Applied to direct service costs (public safety).
  
- FY16 new tax revenue:
  - Finalized by Department of Revenue<sup>3</sup> late November, 2015.
  - Final - \$3.24M.
    - \$1,575,000 voted to operating budgets at May, 2015 Town Meeting.
    - Now part of base budget.
    - Balance available for appropriation - \$1.6M. ←
  
- FY17 new tax revenue:
  - To be finalized by Department of Revenue late November 2016.
  - Estimated range \$700 - \$1.1M. ←
  
- FY18 new tax revenue:
  - To be finalized by Department of Revenue late November 2017.
  - Estimated range approximately \$500 - \$600K.

FY16 Budget	
School	\$1,020,225
Municipal	\$461,578
Blue Hills/Other	\$93,197
	<b>\$1,575,000</b>

Items to Consider	
Debt service for police station.	Need to increase operating budget above 2 ½%.
Other debt service needs.	Cost of direct service needs/allocated to separate account.
Tax relief.	

# University Station Revenue – FY17

- Potential Use:

<b>Available FY17</b>	<b>\$2,670,000</b>
Apply to operating budgets	
• To increase usual base of 2.5% to 4% increase:	
○ School	\$598,000
○ Municipal	<u>\$272,000</u>
	<b>\$870,000</b>
Allocate to debt	\$800,000
Tax relief – seniors	\$200,000
Save for future direct costs	\$800,000
<b>Total</b>	<b>\$2,670,000</b>

- Any operating budget increase over 4% would require a Proposition 2 ½ override.

# Initial FY17 Municipal Budget Request

<b>Category</b>	<b>Current FY16 Budget</b>	<b>FY17 Municipal Budget Requested</b>	<b>\$ Change FY17 vs. FY16</b>	<b>% Change FY17 vs. FY16</b>
Salaries	\$13,233,859	\$13,925,128	\$691,269	5.2%
Expenses	\$4,894,682	\$5,383,957	\$489,275	10.0%
<b>Total</b>	<b>\$18,128,541</b>	<b>\$19,309,085</b>	<b>\$1,180,544</b>	<b>6.5%</b>

- The initial municipal budget increase includes:
  - Contractual salary increases.
  - Various expense increases.
  - Some new requests for new positions.
- Additional request for 6 firefighters (approx. \$380K) not included above.
- Selectmen to review municipal request prior to budget document publication.

# Next Steps

- Long Range Financial Planning Committee Meetings:
  - January 13, 2016
  - January 27, 2016
- Review capital budget items.
- Review University Station tax revenue usage.
- Budget Steering meeting – January 13, 2016.
- Municipal budgets to be reviewed by Selectmen
  - Decisions on municipal budget before January 20, 2016 meeting.

