

Financial Update  
Finance & Warrant Commission Meeting  
February 9, 2016

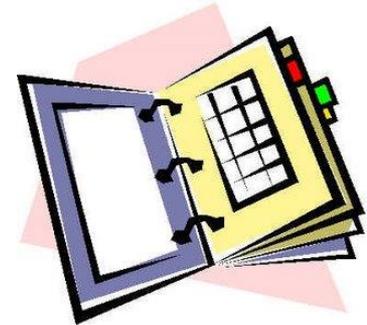
Pam Dukeman  
Finance Director

# Overview of Current FY17 Budget Status

---

## Background Overview:

- Addressing all needs.
- Financial Policies – targets.
- Credit rating.
- Capital funding.
- Stabilization.
- OPEB.
- Debt levels.
- Free cash.
- Operating budget review.
- FY17 preliminary budget plan:
  - Revenue.
  - Expenditures.
- University Station tax revenue.
- Allocation of University Station revenue:
  - Operating budgets.
  - Debt.
  - Tax relief.
- FY17 capital budget status.
- FY17 municipal budget status
- Next steps



# Background Overview

---

# Town's Finances – Must Address Multiple Areas

---

- 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  <b>D.4. OPEB</b> – Town will strive to move towards fully funding ARC.	\$100,000 appropriation to stabilization reserve at 2015 Annual Town Meeting, funded by free cash. Continued in FY17 budget plan.  \$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.	✓  ✓	Target has been met consistently  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

---

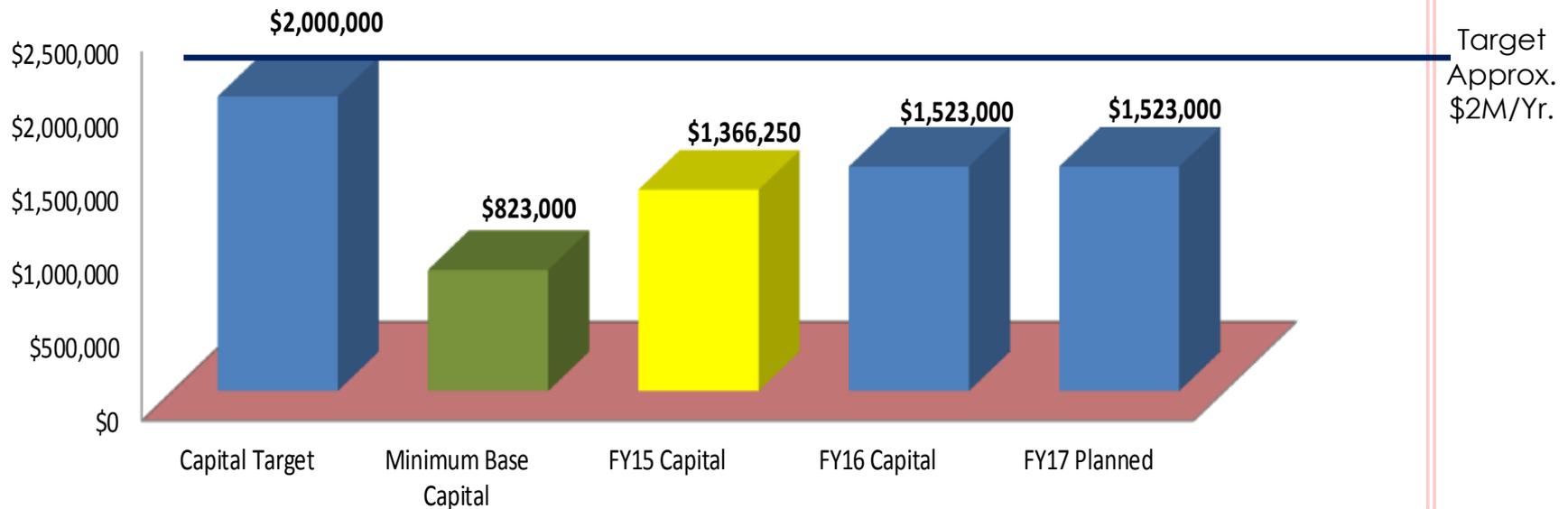
\*\*\*\*\*AAA Rating Reaffirmed\*\*\*\*\*

- 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 image shows the letters 'AAA' in a stylized, bold font. The letters are primarily grey with a red outline and a red shadow effect, giving them a three-dimensional appearance. They are centered on the page.

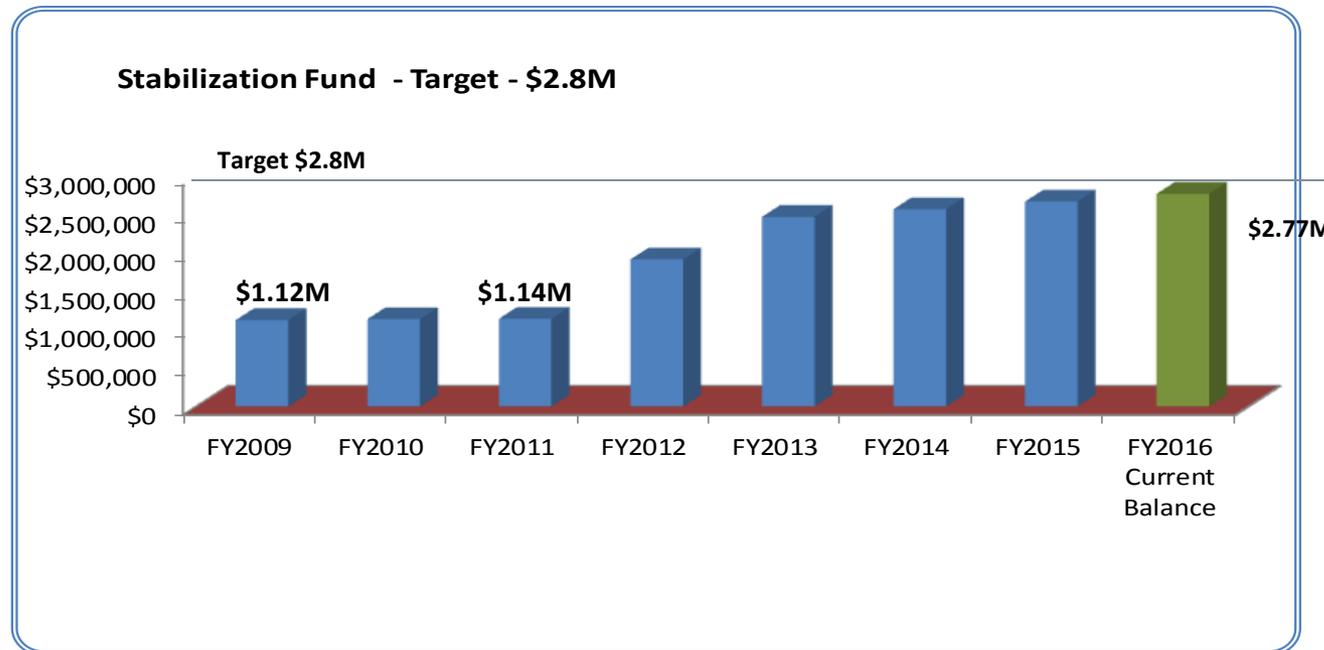
# Capital – Continued Improvement in Capital Funding

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



# Stabilization Fund Update – Excellent Progress

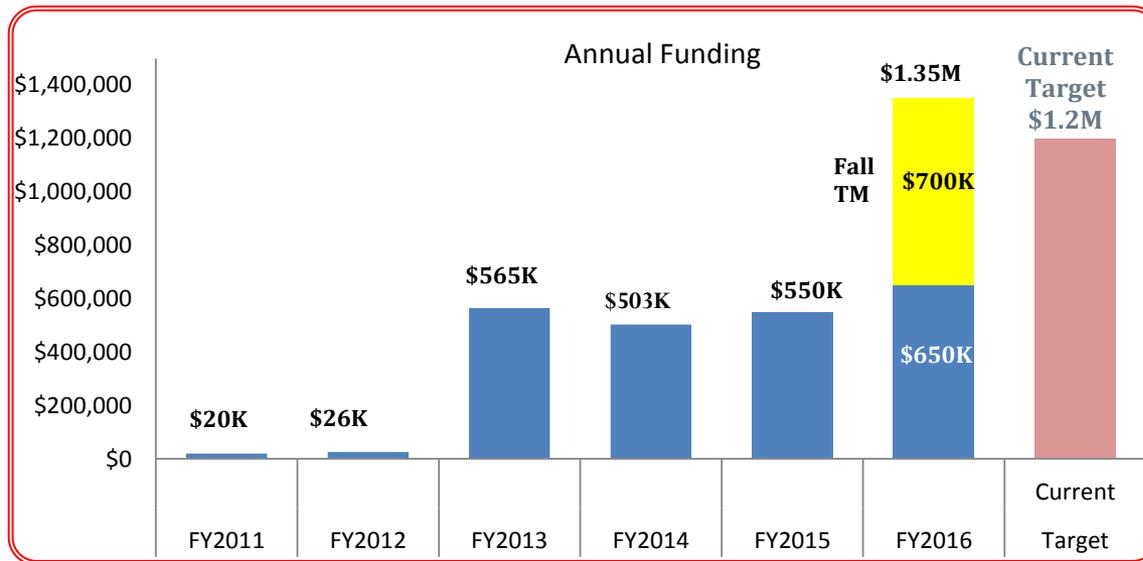
- Main savings account.
- Important component of credit rating.
- Target approximately 4% of revenue.
- \$100K annual appropriation as part of budget.



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

# OPEB – Update on FY16 Health Budget/OPEB

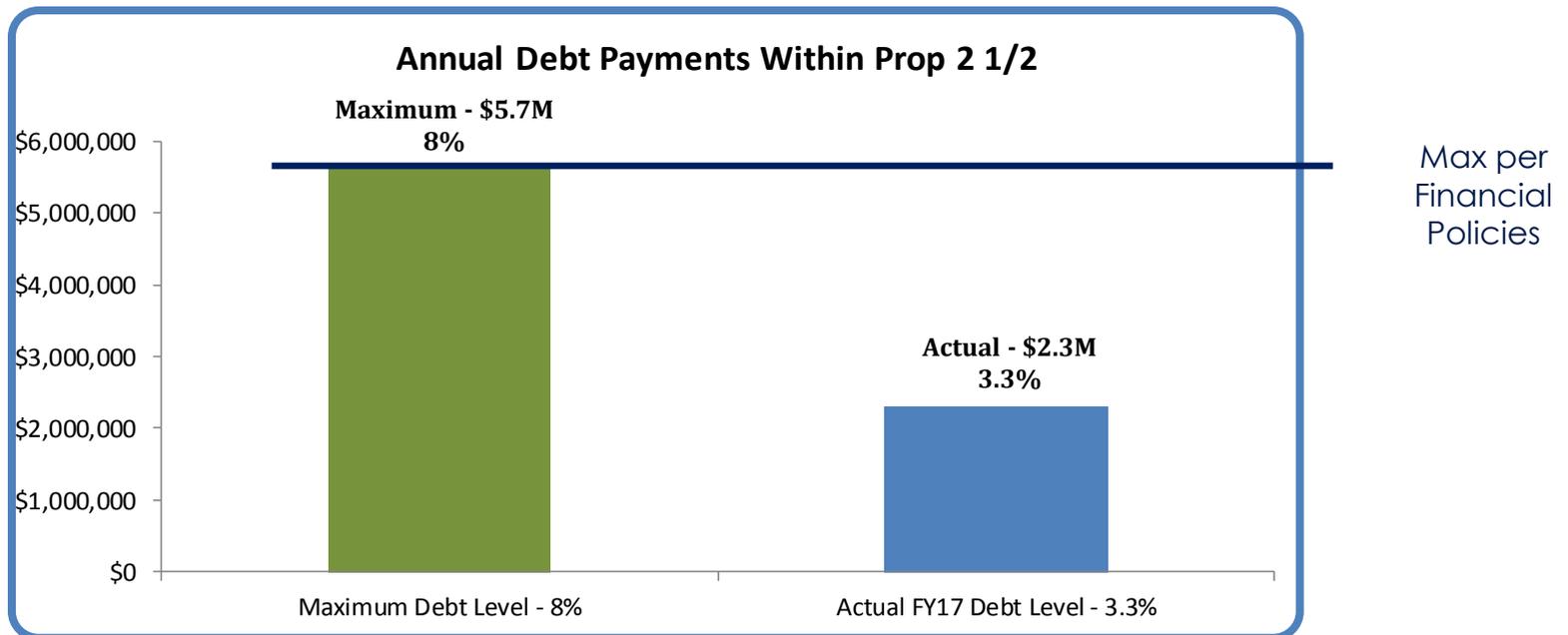
- Total FY16 OPEB total appropriation - \$1,350,000



- 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

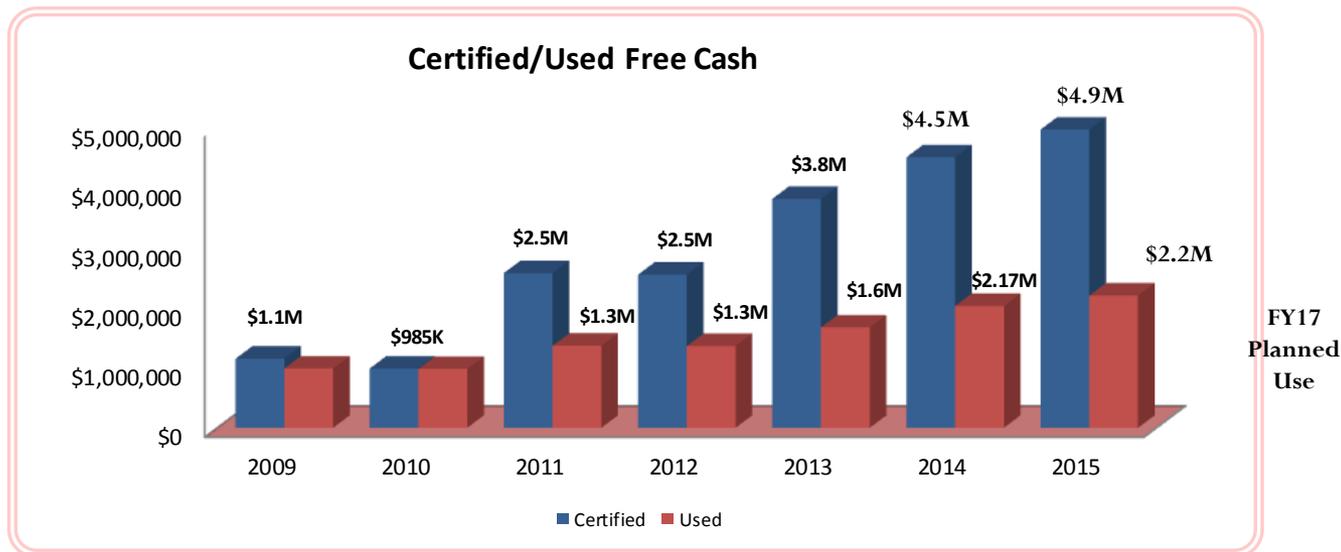
- Westwood has a low amount of debt.
  - Financial Policies – annual debt should not exceed 8% of net general fund revenue.



- 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.

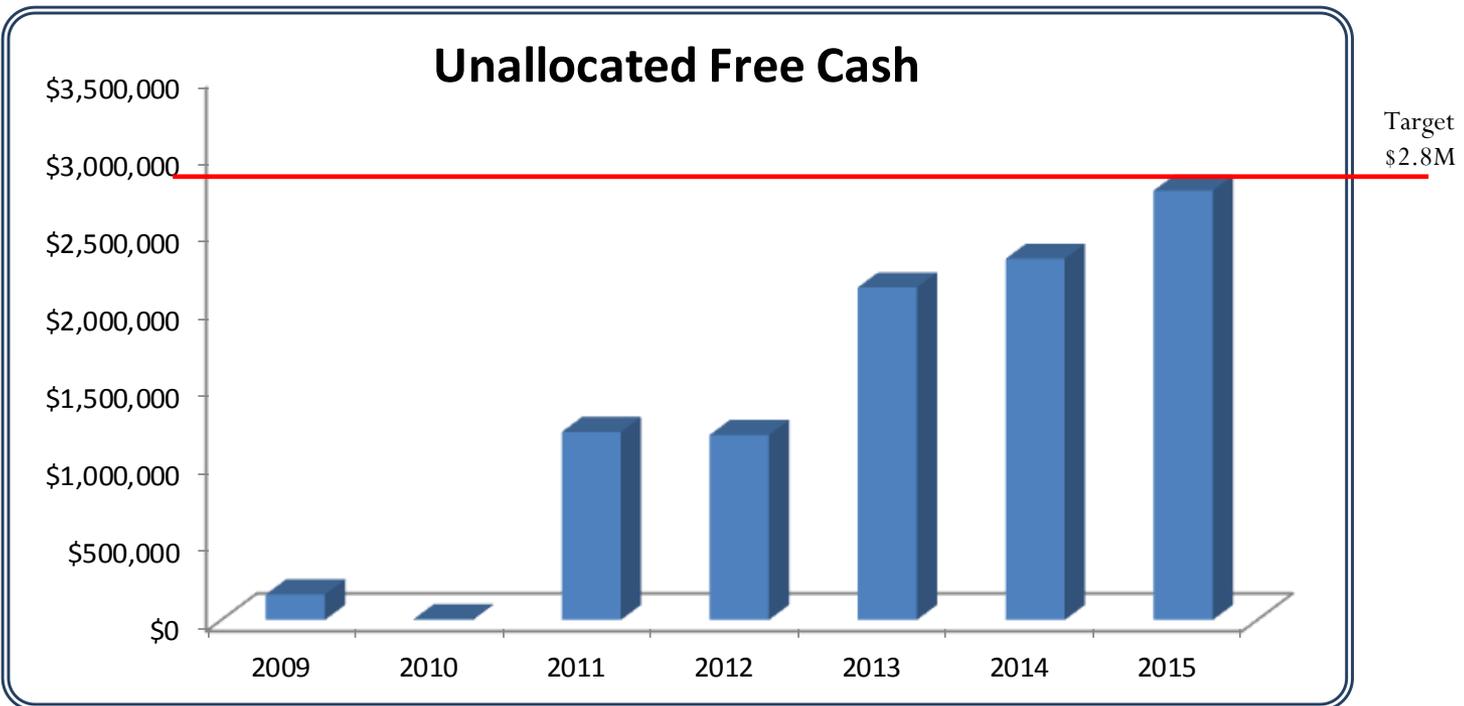
# Free Cash – Strong Position

- Free cash certification as of 6/30/2015 – \$4.9M.
  - Free cash stabilized and strong.
  - Good FY15 budget to actual results.
  - Continued strong motor vehicle revenue.
  - Includes \$306K of debt turn back to be used for FY17 debt budget.
- Disciplined use of prior year balance.
  - Not applied to operating budgets.
  - Not using full allowance.
  - In line with policy.
  - Applying higher amounts to capital needs.



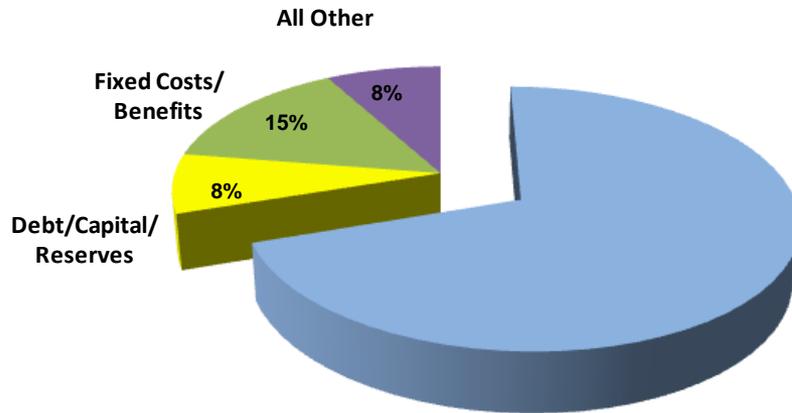
# Unallocated Free Cash – Can Meet Financial Goal

- Unallocated free cash target - \$2.8M.
- Will use \$306K for FY17 debt service.
- If use approximate amount in FY17 budget (\$2.2M), we would be at target.
- Unallocated balance provides protection for the Town.



# FY16 Operating Budget – Continued Growth

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



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

\$58M  
School & Municipal  
Operating Budget

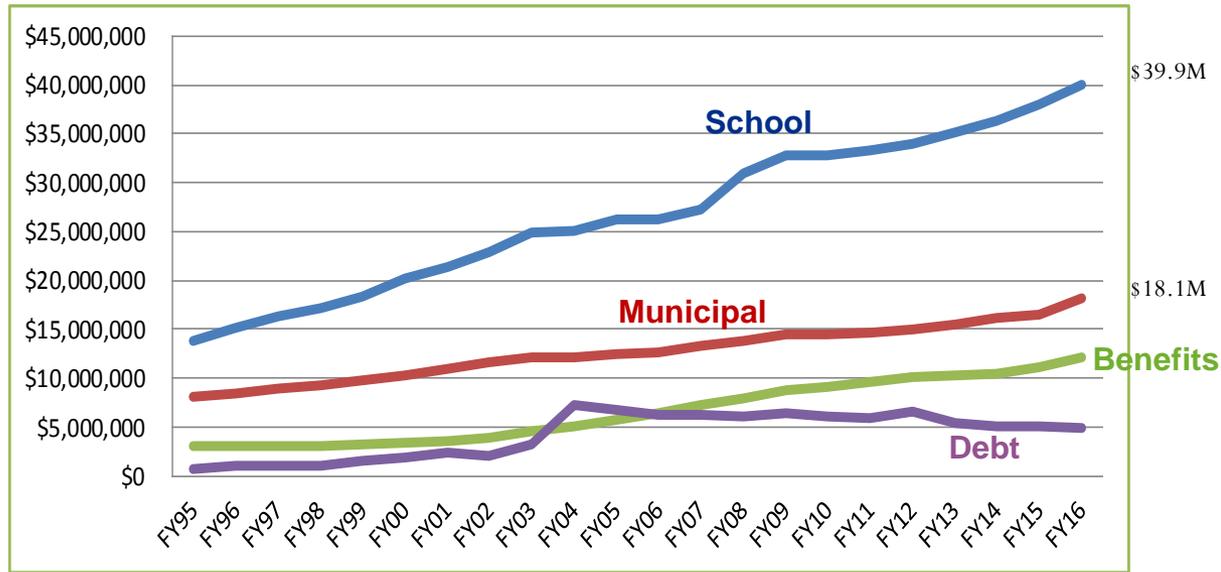
Operating budget – direct services to community

- 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>

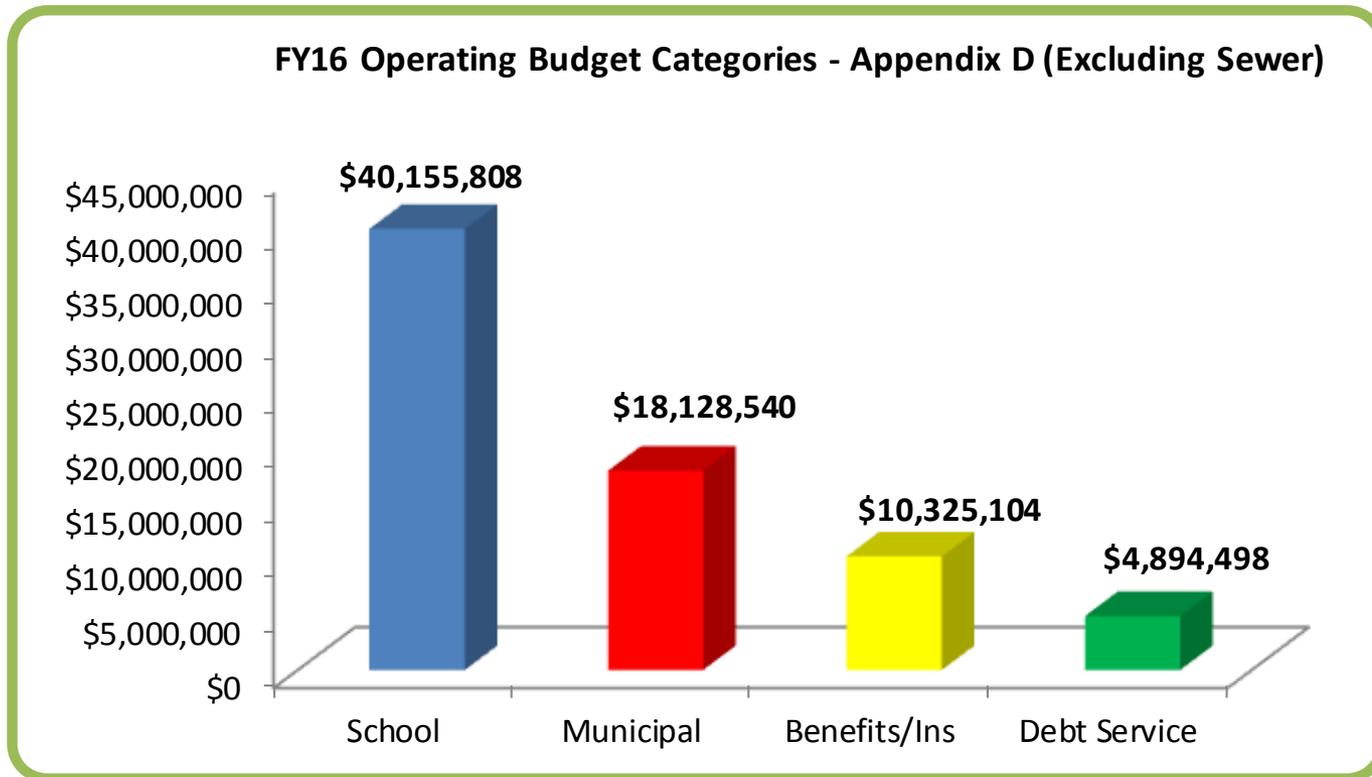
# A Look at the Budget History



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%

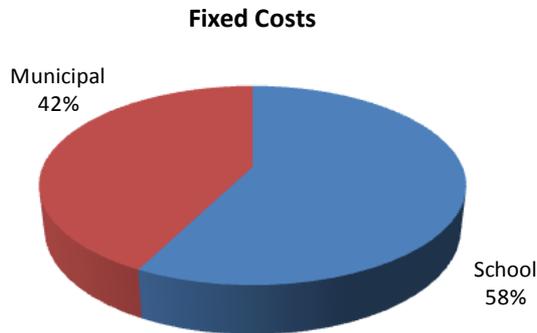
# A Look at the Operating Budget Categories

FY16 Operating Budget (without Sewer) - \$73,503,950



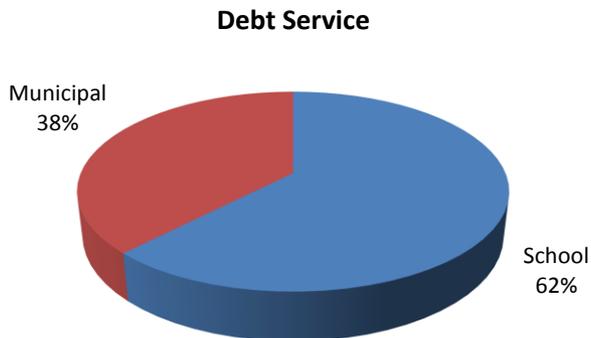
# A Look at Fixed Costs

## Fixed Costs – Health Insurance, Payroll Taxes, Other Benefits



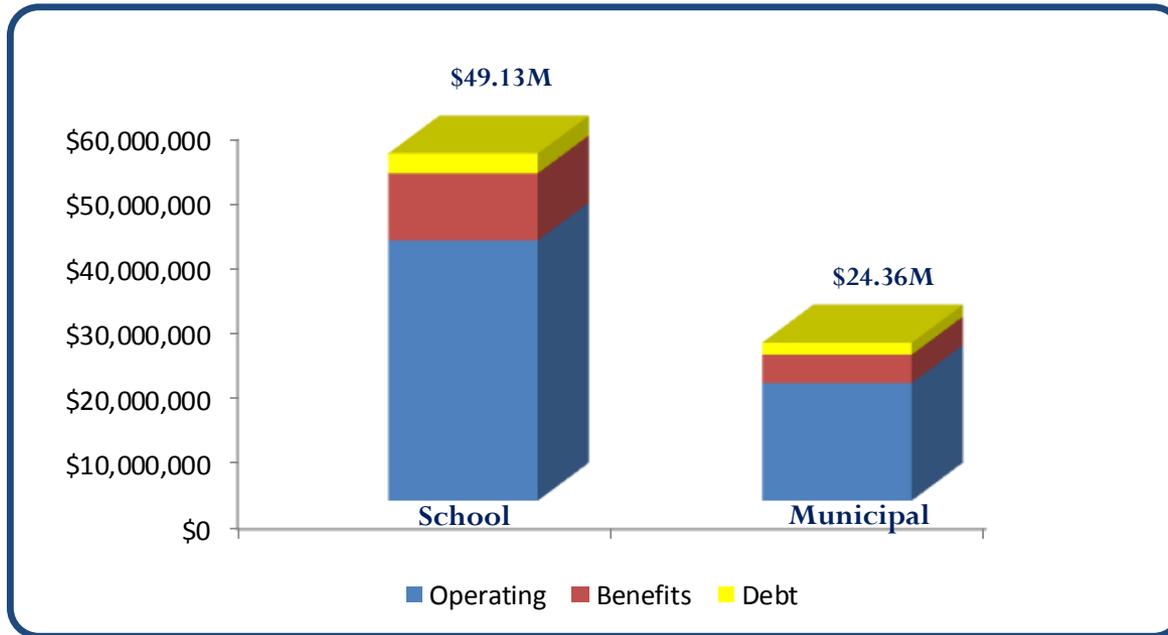
	School	Municipal	Total
Fixed Costs	\$5,937,082	\$4,388,022	\$10,325,104

## Debt Service Budget

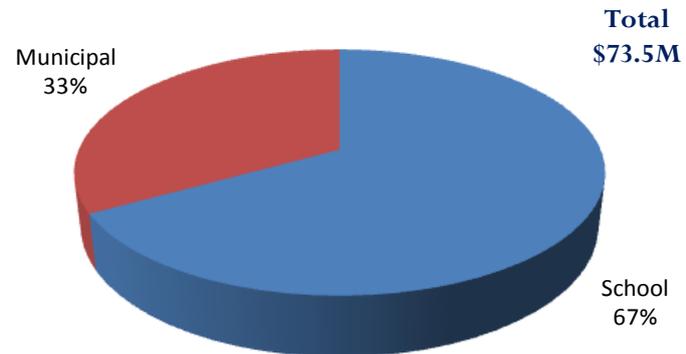


	School	Municipal	Total
Debt Service	\$3,043,560	\$1,850,938	\$4,894,498

# A Look at the Operating Budget Categories With Fixed Costs/Debt



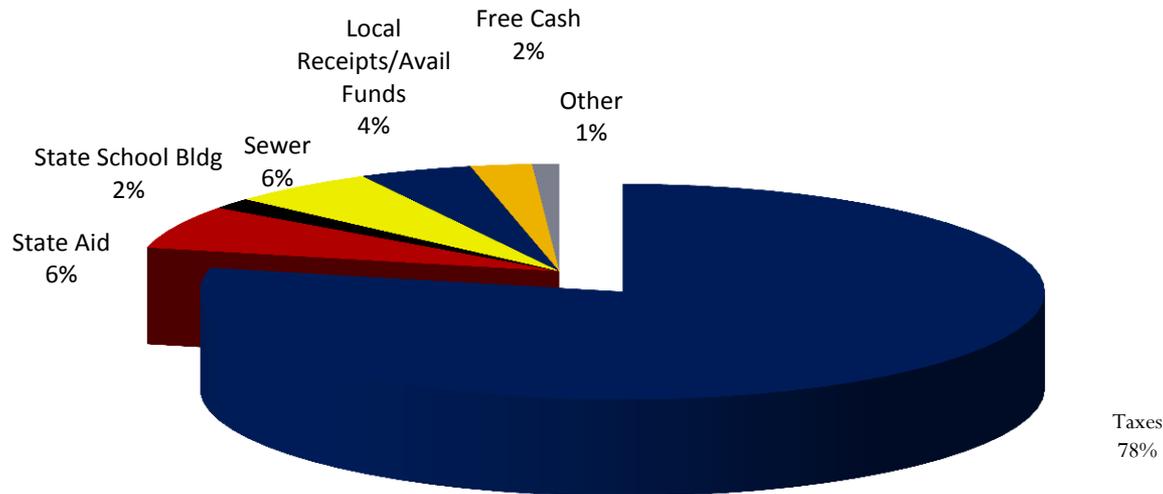
	School	Municipal
Operating	\$40,155,808	\$18,128,540
Benefits	\$5,937,082	\$4,388,022
<u>Debt</u>	<u>\$3,043,560</u>	<u>\$1,850,938</u>
<b>Total</b>	<b>\$49,136,450</b>	<b>\$24,367,500</b>



# FY17 Preliminary Budget Plan

---

# 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>

# Tax Levy Budget FY17

Tax Levy Calculation	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	Budget FY2017
Prior Year Levy Limit	\$50,167,618	\$51,960,889	\$53,713,887	\$55,765,994	\$57,773,665	\$60,753,121	\$66,434,213
Plus 2.5% Increase	\$1,254,190	\$1,299,022	\$1,342,847	\$1,394,150	\$1,444,342	\$1,518,828	\$1,660,855
Plus New Growth**	\$539,081	\$453,976	\$709,259	\$613,522	\$970,114	\$919,957	\$450,000
New Tax Levy - University Station	\$0	\$0	\$0	\$0	\$565,000	\$3,242,307	\$1,000,000
General Overrides	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Tax Levy Limit</b>	<b>\$51,960,889</b>	<b>\$53,713,887</b>	<b>\$55,765,994</b>	<b>\$57,773,665</b>	<b>\$60,753,121</b>	<b>\$66,434,213</b>	<b>\$69,545,068</b>
<b>Exempt Debt*</b>	<b>\$1,838,094</b>	<b>\$2,497,391</b>	<b>\$2,073,234</b>	<b>\$1,965,112</b>	<b>\$1,850,048</b>	<b>\$1,740,624</b>	<b>\$1,642,706</b>
<b>Levy Capacity</b>	<b>\$53,798,983</b>	<b>\$56,211,278</b>	<b>\$57,839,228</b>	<b>\$59,738,777</b>	<b>\$62,603,169</b>	<b>\$68,174,837</b>	<b>\$71,187,774</b>
Actual Levy Assessed	\$53,571,227	\$56,060,374	\$57,671,932	\$59,453,776	\$61,991,050	\$67,637,558	\$71,187,774
Excess Levy(Taxes not raised )	\$227,756	\$150,904	\$167,296	\$285,001	\$612,119	\$537,279	\$0
Increase in Actual Levy (including new growth)	3.4%	4.6%	2.9%	3.1%	4.3%	9.1%	5.2%
<b>Increase in Levy without new growth</b>	<b>2.31%</b>	<b>3.80%</b>	<b>1.61%</b>	<b>2.03%</b>	<b>1.69%</b>	<b>2.39%</b>	<b>3.11%</b>

- Most we can tax.
- What we actually taxed.

# FY17 State Aid

<b>Category</b>	<b>Final FY16</b>	<b>FY17</b>	<b>\$ Change</b>	<b>% Change</b>
		<b>Governor's Proposal</b>	<b>FY17 vs. FY16</b>	<b>FY17 vs. FY16</b>
Chapter 70	\$4,803,413	\$4,864,673	\$61,260	1.3%
Municipal Aid	\$672,554	\$701,474	\$28,920	4.3%
<b>Total</b>	<b>\$5,475,967</b>	<b>\$5,566,147</b>	<b>\$90,180</b>	<b>1.65%</b>

- January 22 - Governor's initial budget released at MMA meeting.
- January 27 – official budget released.

# FY17 Preliminary Look – Base Revenue

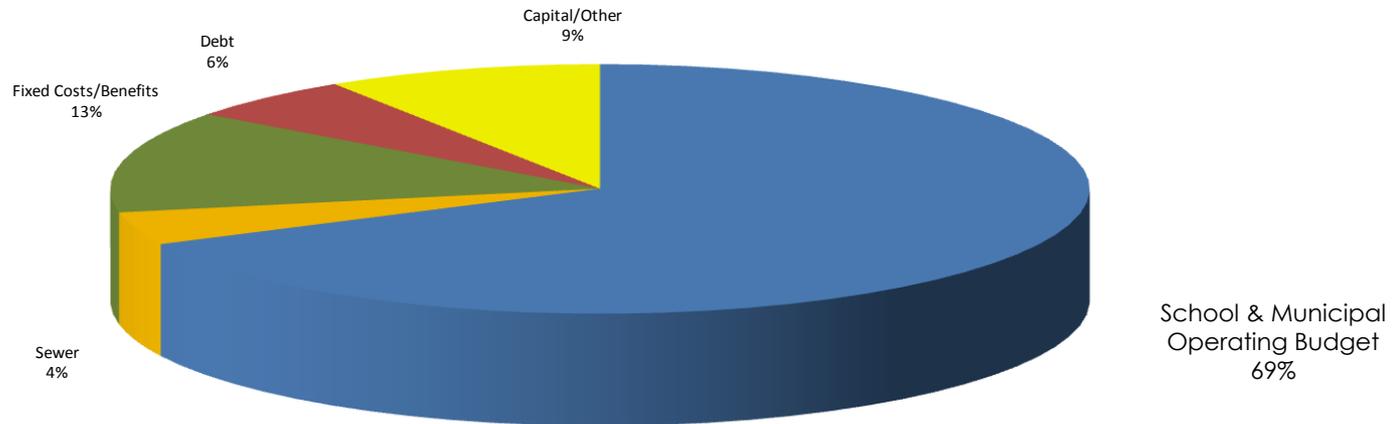
---

- 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.



# 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.

# University Station Tax Revenue

---

# 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

---

- 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 - \$565K:
  - 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.	

# Allocation of University Station Revenue

---

# University Station Revenue – FY17 - Updated

- Proposed Use:

<b>Available FY17</b>	<b>\$2,670,000</b>
Apply to operating budgets	
<ul style="list-style-type: none"> <li>• To increase usual base of 2.5% to 4% increase:             <ul style="list-style-type: none"> <li>○ School</li> <li>○ Municipal</li> </ul> </li> </ul>	\$598,000 <u>\$272,000</u> <b>\$870,000</b>
Maximum	
Allocate to debt service	\$800,000
Allocate to tax relief for all taxpayers	\$800,000
Tax relief – seniors – Aid to the Elderly – hold until Home Rule Petition article approved (FY18)	\$0
Save for future University Station direct costs for FY17	\$200,000
<b>Total</b>	<b>\$2,670,000</b>

Feedback from meetings:

- Favorable feedback on establishment of overall allocation.
- Tremendous demand for tax relief.
- Concern expressed in meetings re: operating budget growth.

# 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.

## Feedback from meetings with Fincom and Long Range Committee

- Continued concern with operating budget growth.
- Expressed concern that 4% increase to FY17 school and municipal operating budgets might be too high.
- Want to ensure sufficient revenue for other categories.

# Police Headquarters - Financing

As with other major facilities, the project will be financed through long-term borrowing.

		Annual Principal and Interest Debt Service Cost – at 3%/20 years	Annual Principal and Interest Debt Service Cost – at 3.5%/30 years
Estimated \$14M Cost	Average Yearly Payment	\$920,500	\$719,833

		Annual Principal and Interest Debt Service Cost – at 3%/20 years	Annual Principal and Interest Debt Service Cost – at 3.5%/30 years
Estimated \$15.89M Cost	Average Yearly Payment	\$1,044,768	\$817,011

# Tax Relief Discussion

---

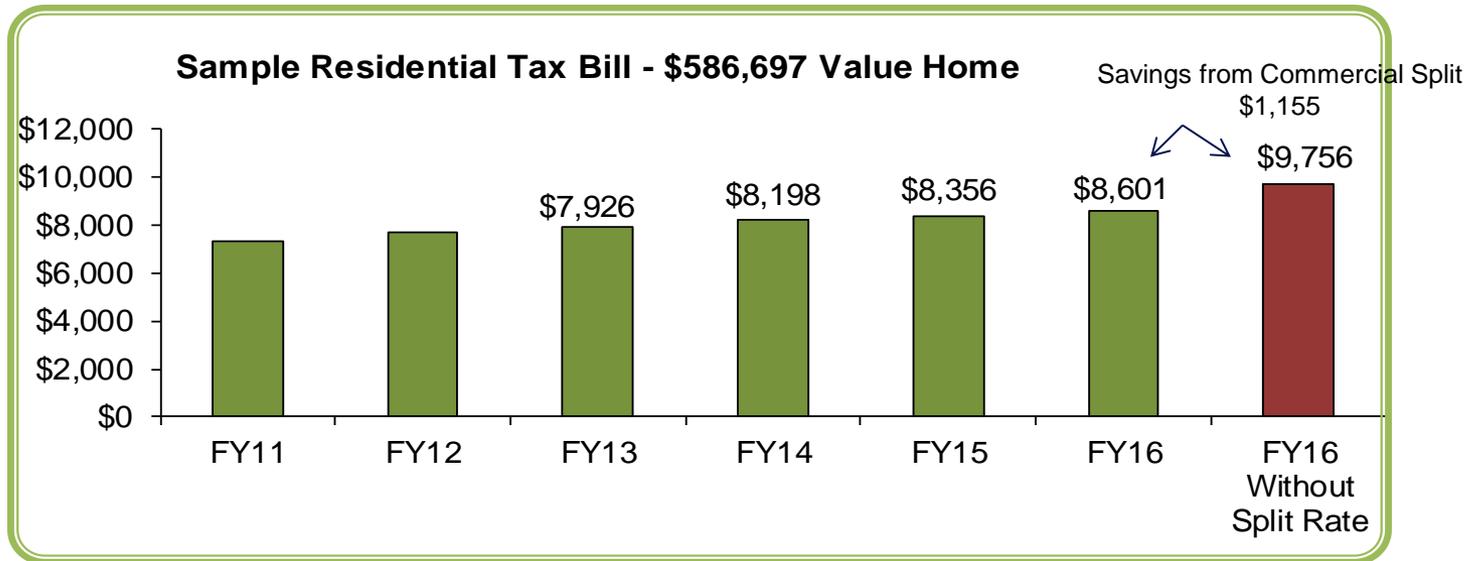
## Tools for tax relief

- General tax relief for all taxpayers:
  - Not use full levy limit.
  - Pay for debt within Proposition 2 ½ as debt exemption.
  - Commercial tax shift – higher commercial tax rate.
  - Apply free cash to tax rate – general appropriation to reduce overall tax levy.
    - Proposed Town Meeting article to appropriate \$500K to reduce overall tax levy.
    - Each \$100K appropriated provides approximately \$13 in annual tax savings to average home.
    - So \$500K appropriation provides approximately \$65 annual tax savings to average home.
    - Potential in future to replace free cash with meals tax/hotel tax received from University Station.
- Targeted tax relief for senior population:
  - Current tool through donations to the Aid to the Elderly and Disabled.
  - Proposed Town Meeting Home Rule Petition article to appropriate funds to the Aid to the Elderly and Disabled.

Have been reviewing with Fincom and Long Range Committee the options available.

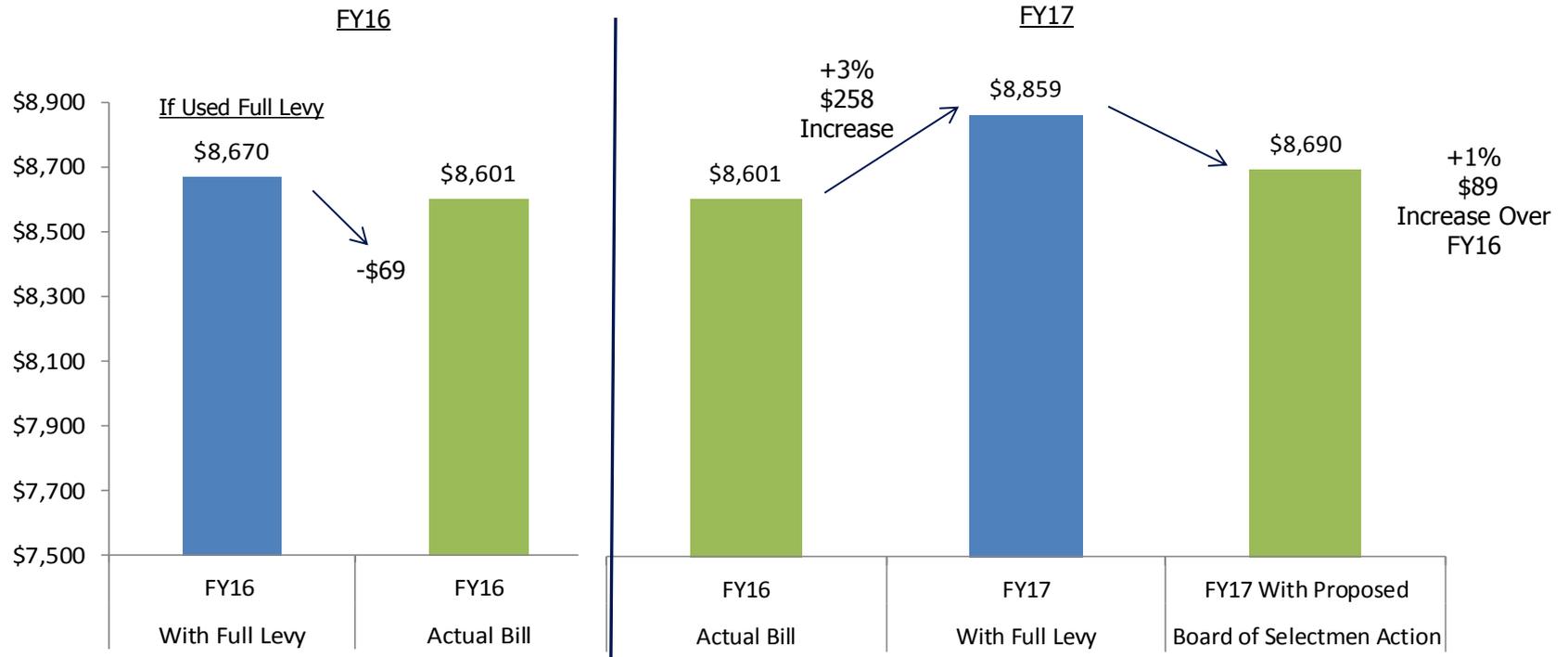
# Residential Tax Bill History

- Information included in:
  - Tax bill insert.
  - All budget books.
  - Town Meeting document.
  - Town web site.



- FY16:
  - Home had a 7% increase in value.
  - Tax bill increase of \$245, or 2.9%.
- Split tax rate: Residential - \$14.66, Commercial - \$28.27
  - Commercial property pays 24.5% of total taxes.
    - Increase from 21% in FY15.
  - Without split rate, this home would pay \$1,155, or 13% more.

# FY17 Potential Tax Bill



- FY16 we had excess levy of \$539K.
- If used, bill would have increased by \$69.

## FY17 Board of Selectmen Action – Impact on Tax Bill

- Debt within Proposition 2 ½ (+\$104).
- Maintain commercial/residential tax split (+\$1155).
- Appropriate \$500K free cash to tax relief (-\$65).
- Allocate \$800K University Station revenue to tax relief (-\$104).

# Budget Status

---

Capital Budget  
Municipal Budget

# Capital Budget Update

---

## Capital Budgets

- Similar to FY16, utilize free cash to increase capital above minimum level of \$823,000 by approximately \$700,000.
- Fund capital at FY16 level of \$1,523,000:
  - School - \$756,000
  - Municipal - \$767,000
- The Long Range Financial Planning Committee has been reviewing capital requests. Additional work to be done to consider project/financing for:
  - High School turf field.
  - Islington branch library.
  - Fire apparatus (2).

# Current FY17 Municipal Budget Request

- Initial FY17 request was \$1.1M increase or 6.5%.
- Current 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	\$13,292,230	\$13,696,553	\$404,323	3.0%
Expenses	\$4,871,311	\$5,139,247	\$267,936	5.5%
<b>Total</b>	<b>\$18,163,541</b>	<b>\$18,835,800</b>	<b>\$672,259</b>	<b>3.70%</b>

## Available funding:

- Allocation of 4% - \$725K.
- FY17 State budget - \$28K municipal aid.
  - Total available - \$753,000.
- Recommend to use difference (\$80K) on municipal capital budget as there are many needs.

# Next Steps

- Summary budget book produced and distributed – by 2/12/16.
- February 22 – Board of Selectmen to review budget updates.
- February 24 Long Range Committee meeting – continue capital recommendations.
- Fincom budget review.
- February 8 through March 28 – continue budget review updates until final public hearings.

