



Financial Review Select Board

October 28, 2019

Financial Review Meeting Agenda

- October 28 Meeting
 - Review FY19 Year End
 - Review of Key Financial Items
 - Preview of FY21 Budget
- November 18 Meeting
 - Tax Classification Hearing
 - Approve tax shift commercial/residential
 - Review residential bill
 - Update University Station revenue
 - Capital Requests Review
 - Departments to present
- December Meeting
 - Continue update to revenue and expense projections
 - Continue review of Capital Budget requests
 - FY21 and larger future items
 - Review of municipal operating budget
- January Meeting
 - Continued Overall Budget Updates
 - Review and preparation of FY21 proposed budget (Feb 1)

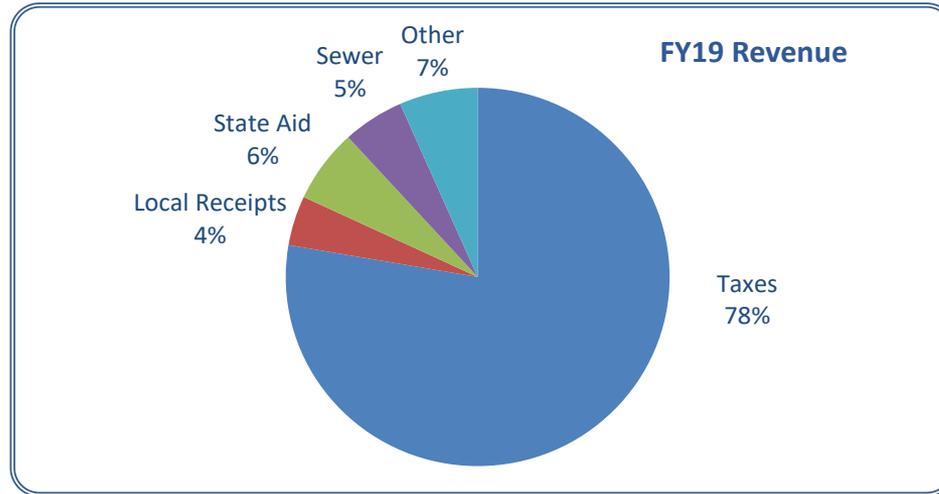




FY19 Year End Review

Final FY19 Revenue – Continued Positive Results

Final FY19 Budget Revenue - \$99M



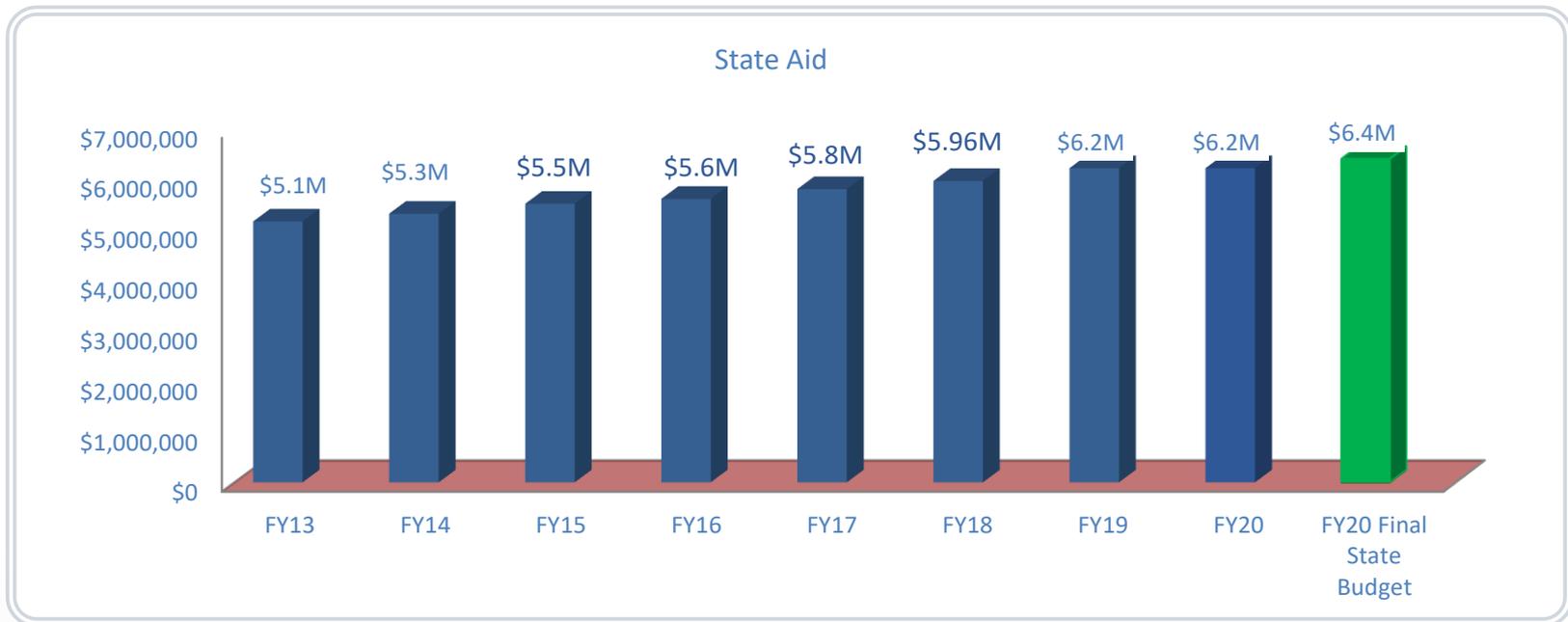
Taxes

- Taxes - \$77M – on target.
 - Real estate collections remain strong, consistent year to year results.
 - 99% collected on time.
 - As taxes are approximately 80% of revenue, most important component to our financial stability.
- As of June 30, 2019:
 - Tax deferral \$455K – cumulative all years (FY18 \$475K, FY17 \$495K)
 - Tax title \$606K – cumulative all years (FY18 \$505K, FY17 \$654K)

Final FY19 Revenue – Steady State Aid

State Aid - \$6.2M FY19

- State now pays monthly.
 - Increased slightly in FY19 (\$5.9M in FY18).
 - State aid steady– no mid year cuts or disruptions for several years.



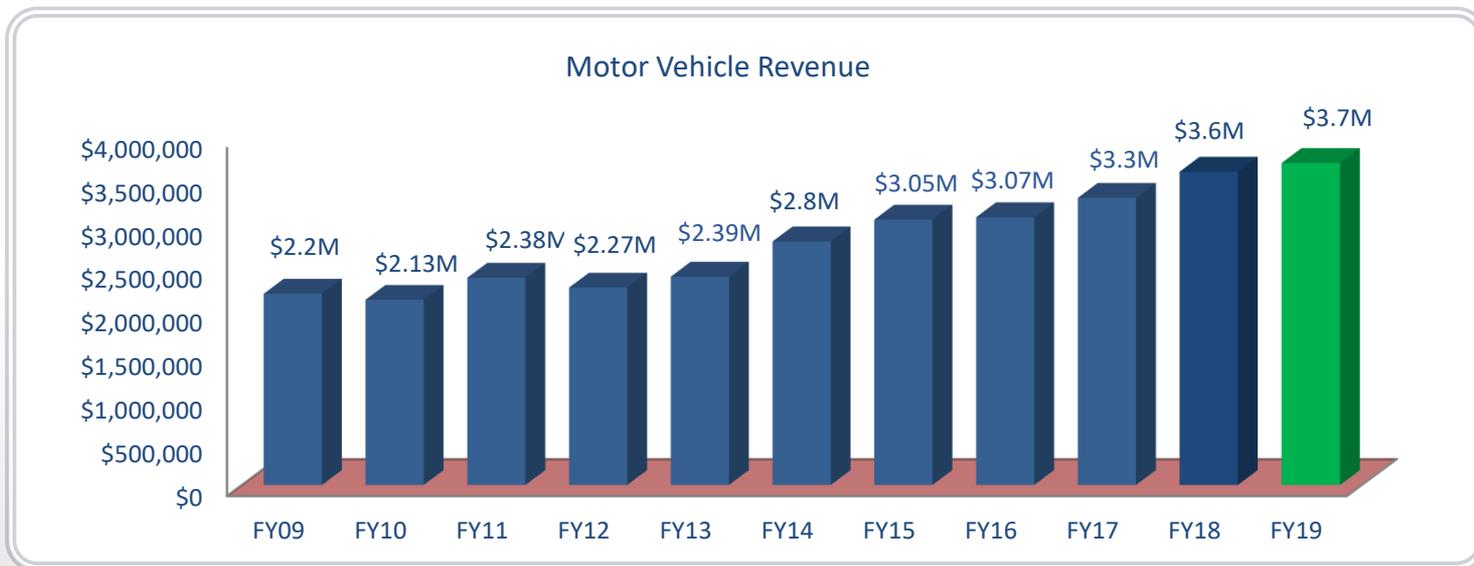
FY20

- FY20 Final State Budget: Minor increase of \$180K over Annual Town Meeting Estimate
 - Additional Aid over Prior Year
 - Chapter 70 - \$160K increase
 - Municipal Aid - \$20K increase

Final FY19 Revenue – Local Receipts Strong Collections

Local Receipts

- Strong collections of \$5.9M, (prior year \$6.1M)
 - Exceeded budget by \$1.9M, (prior year \$2.1M)
- Largest categories:
 - Motor Vehicle Excise
 - Motor vehicle - \$3.7M collections – increase from \$3.6M in prior year.
 - Building Permits continue strong – based on construction activity in Town.
 - FY19 \$782K
 - FY18 \$682K
 - FY17 \$782K
- Conservative budgeting provides cushion for economic downturn

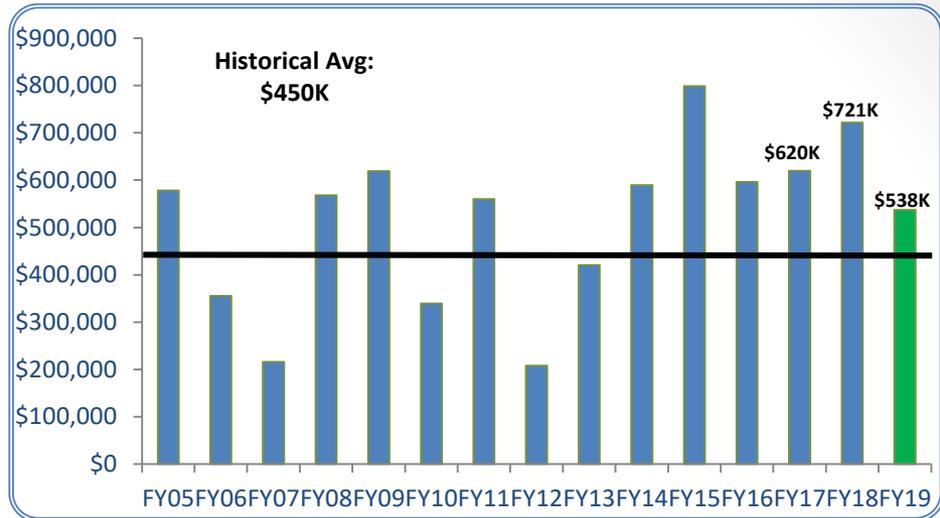


FY19 Snow and Ice Update

- Total FY19 expenditures approximately \$538K.

Funding FY19

\$538,000	Total Spent
\$450,000	Annual Budget
<u>\$100,000</u>	ATM Supplement from Reserve Fund
\$12,440	Balance



Budget Recently Increased

- FY19 increased budget to \$450K
 - FY19 and FY20 \$450K
 - FY18 \$300K
 - FY09-FY17 \$250K
 - FY08 and prior \$141,200
- State has streamlined the process for deficit spending for Snow and Ice
 - Town Administrator now approves deficit spending

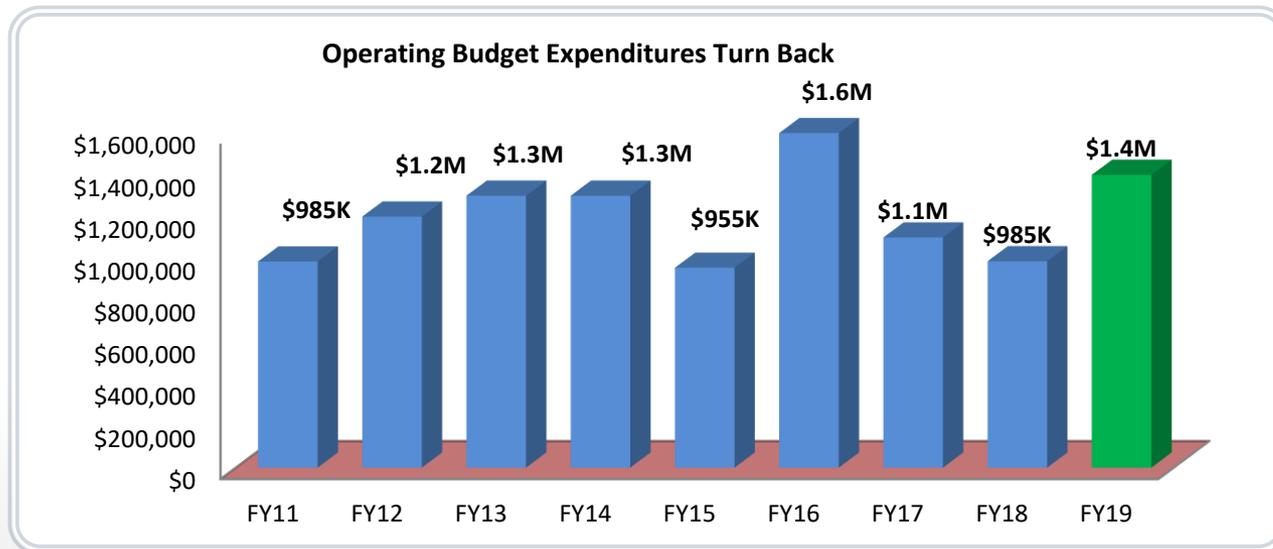
Final FY19 Expenditures – In Line With Budget

FY19 Final General Fund Operating Budget - \$86.4M

- Overall expenditures turn back - \$1.4M approximately 1.6%
 - Comparison turn back
 - FY18 \$985K or 1.2%
 - FY17 \$1.1M or 1.3%

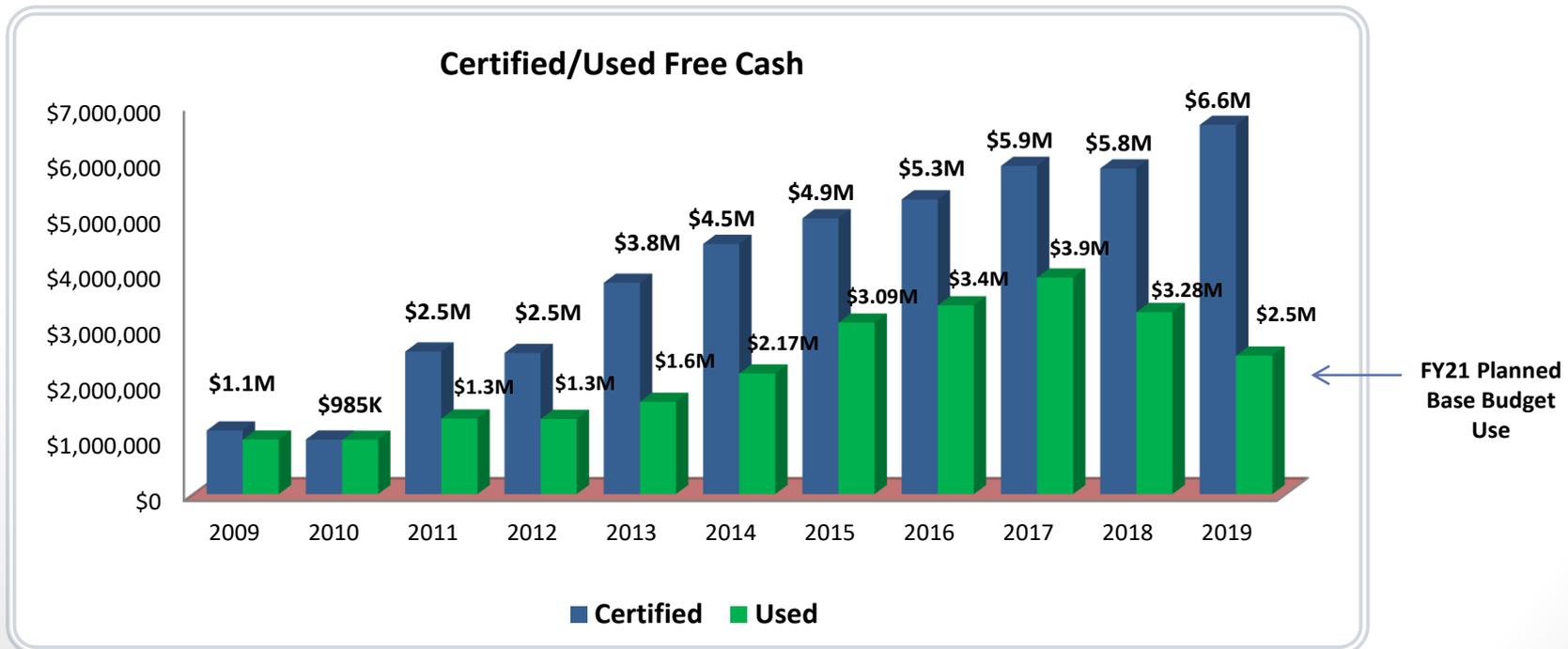
- Turnback detail
 - Primary Benefits/Fixed Costs
 - Approximate margin is 5%
 - Reserves – Less usage for Snow & Ice

Turn Back	FY19	FY18
Municipal	\$229K	\$220K
School	\$3K	\$0
Benefits	\$850K	\$645K
Reserves	<u>\$333K</u>	<u>\$121K</u>
	\$1.4M	\$985K



Free Cash – Strong Position

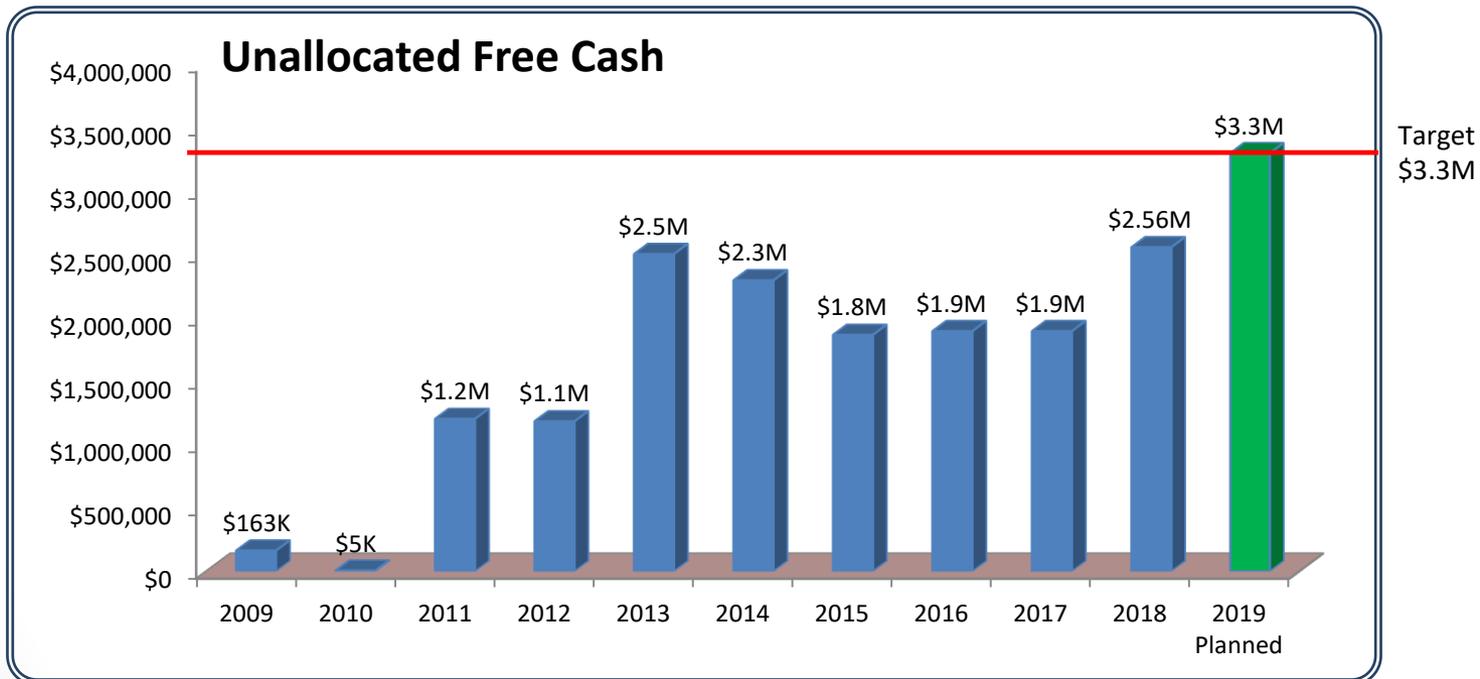
- Free cash certification as of 6/30/2019 – \$6,637,200
 - Free cash stabilized and strong.
 - Good FY19 budget to actual results.
 - Continued strong motor vehicle revenue.
- Disciplined use of prior year balance.
 - Not applied to operating budgets.
 - In line with policy.
 - Not using full allowance.
 - Applying additional amounts to capital needs and other one time uses.



- Financial policy target approximately \$3.3M unallocated

Unallocated Free Cash – Can Meet Financial Goal

- Unallocated free cash target – approximately \$3.3M, provides for \$3.3M to use.
- Base use: \$125K Stabilization, \$2.339M capital.
- Additional amounts of \$873K can be used toward capital, snow and ice.
- Unallocated balance provides protection for the Town.



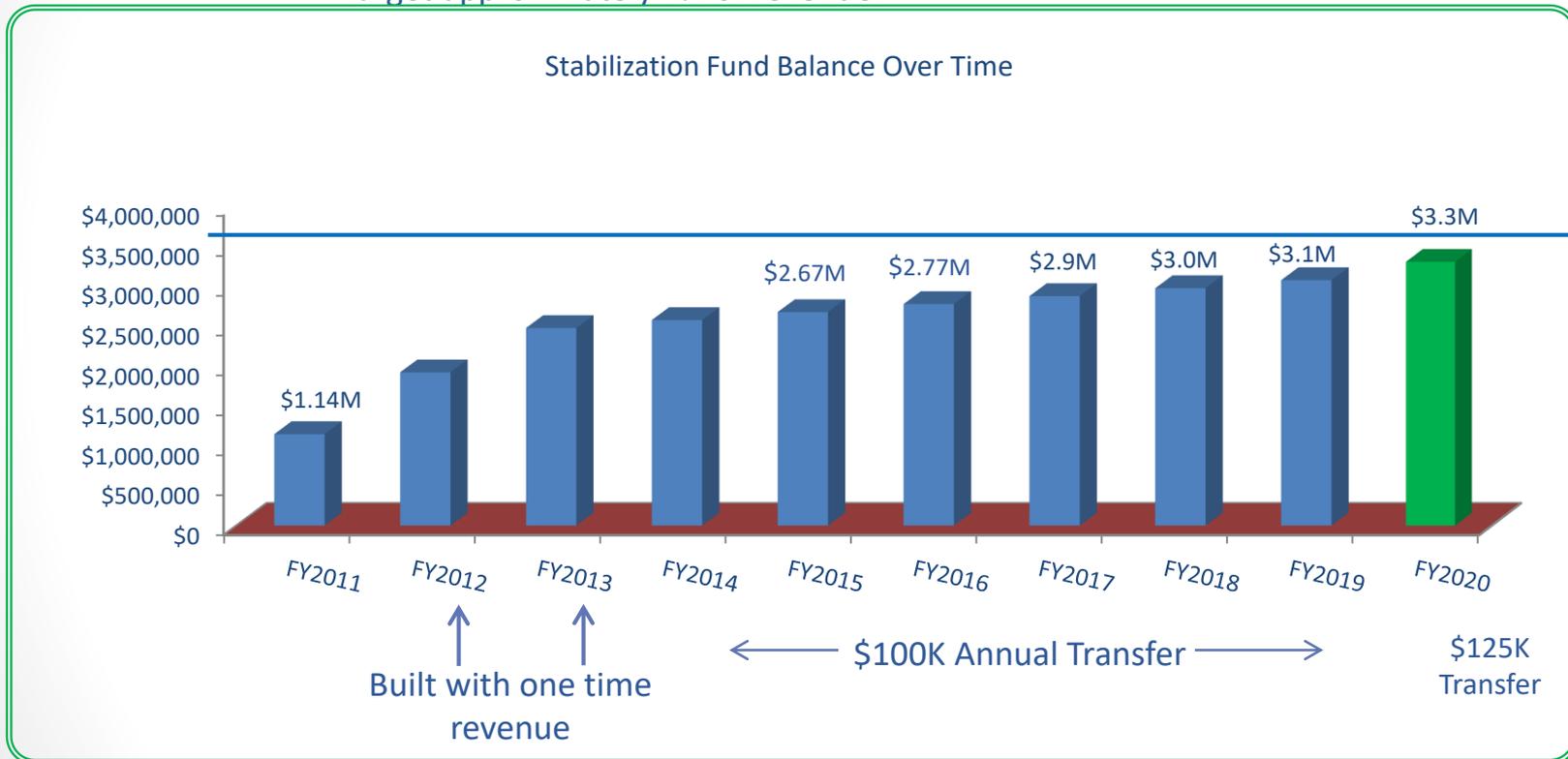
- Additional free cash beyond target has been used for: additional school and municipal capital.



Key Financial Items Update

Stabilization Fund Update – Maintain Target Level

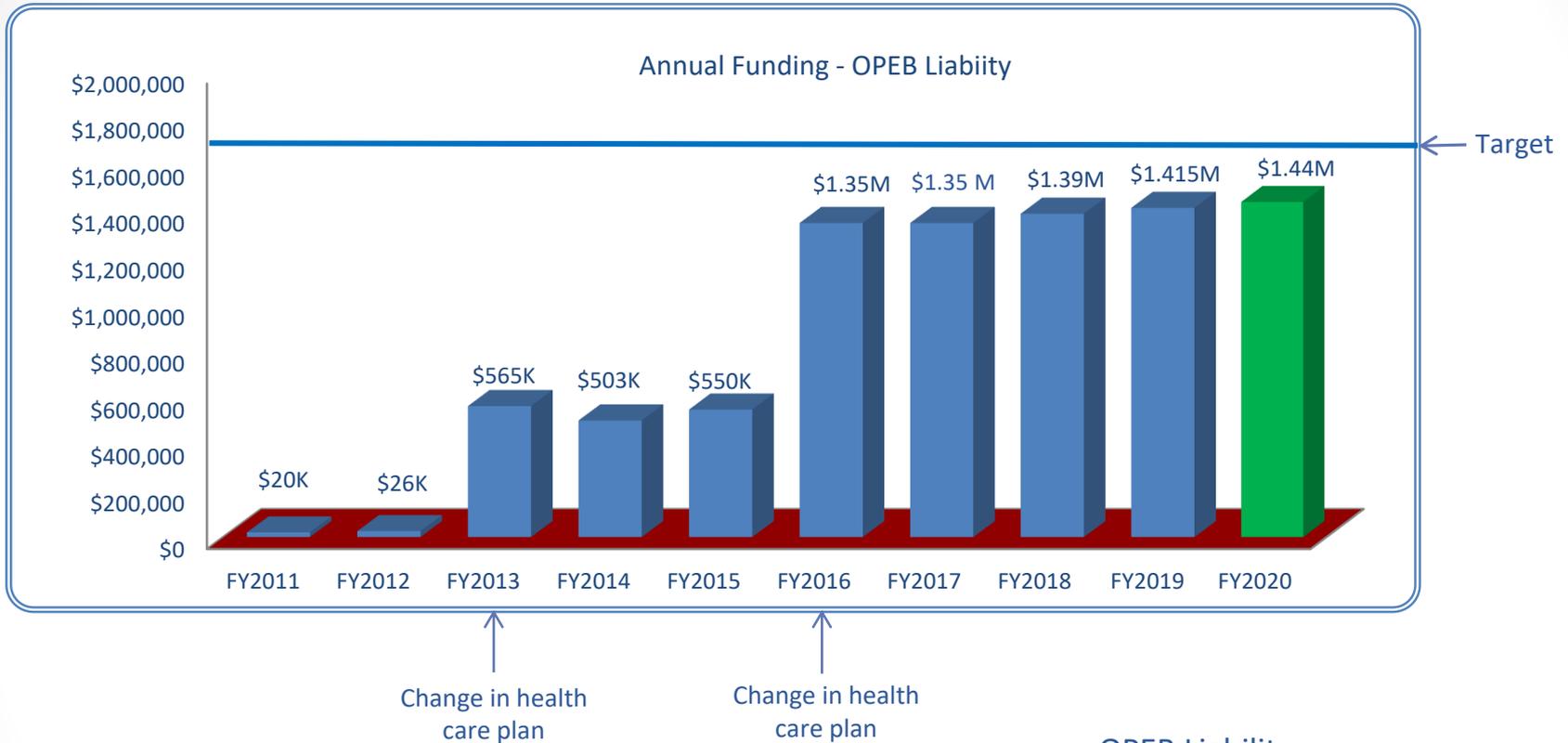
- Main savings account.
- Important component of credit rating.
- Target approximately 4% of revenue.



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

OPEB Liability – Progress Made on Liability

- Significant progress on both the revenue and expense reduction sides



- Funding plan – increase appropriation for FY21 by \$25K/Yr
- Next study, as of 6/30/2019, to be completed Feb. 2020.
 - Review funding plan for FY22 budget.
- Current balance in trust fund is \$10.3M.

OPEB Liability

	6/30/13	6/30/15	6/30/17
Discount Rate		7.75%	7.25%
Unfunded Actuarial Liability	\$55.9M	\$35.6M	\$39.1M
Funded Ratio		4.6%	11.4%

Town Debt – Appropriate Balances and Favorable Borrowing Climate

Favorable Borrowing Climate

- Very strong credit ratings.
 - Standard & Poor’s AAA.
 - Moody’s AA1
- Excellent interest rate environment.

Portion of recent bond sales replaced debt dropping off

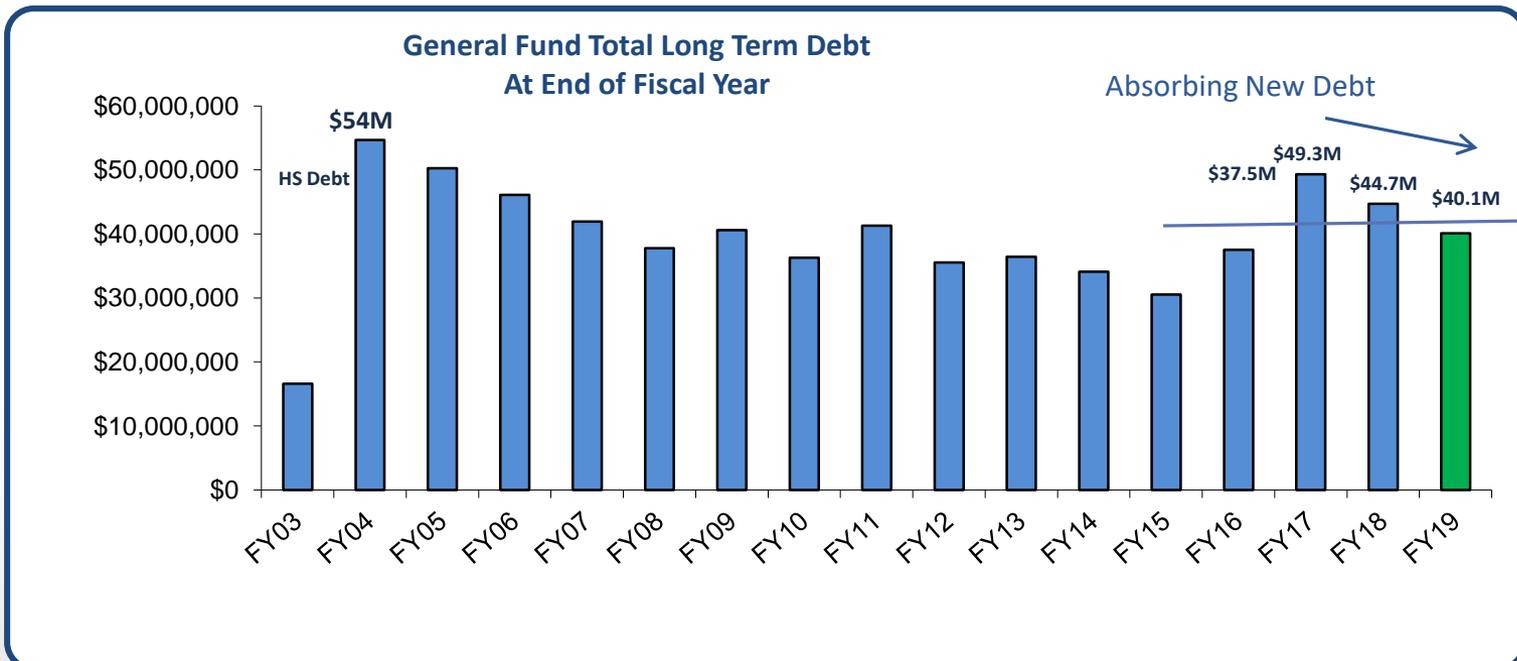
- Next debt drop off 2023.

Recent Bond Sales

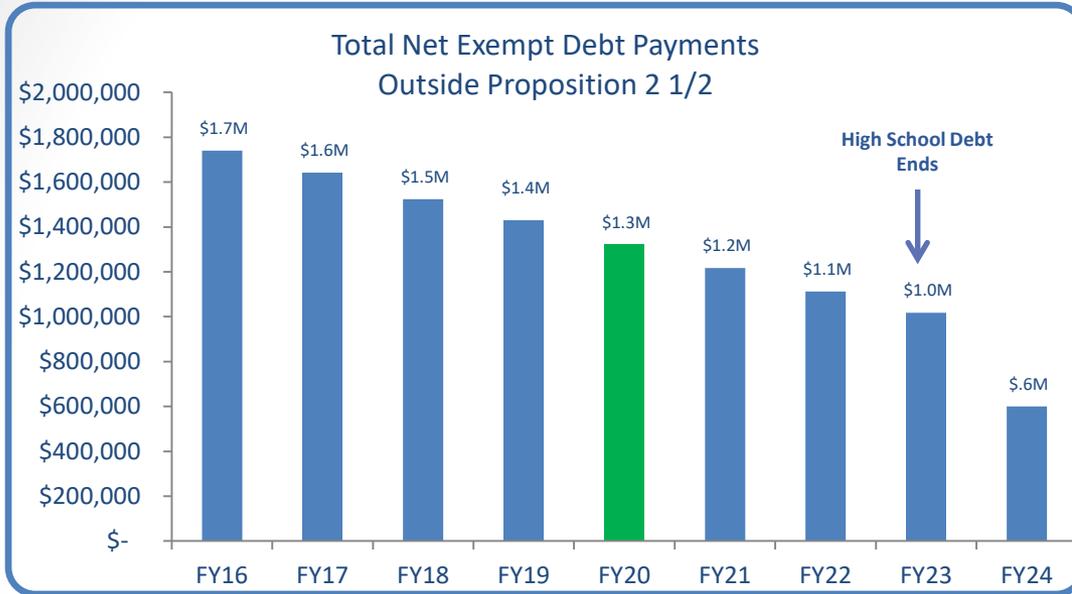
- Bond sold August, 2016:
 - \$16.64M, 10-30 year term, 2.4%.
- Bond sold August, 2015:
 - \$10.45M, 5-20 year term, 2.6%.

Debt authorized, not yet issued:

▪ School MSBA <u>Initial</u> Phase	ATM 2018	\$1,750,000
▪ Redev. Islington/Wentworth Lib.	ATM 2018	\$3,500,000
▪ Sidewalk Improvements Rt 109	ATM 2019	<u>\$900,000</u>
		\$6,150,000

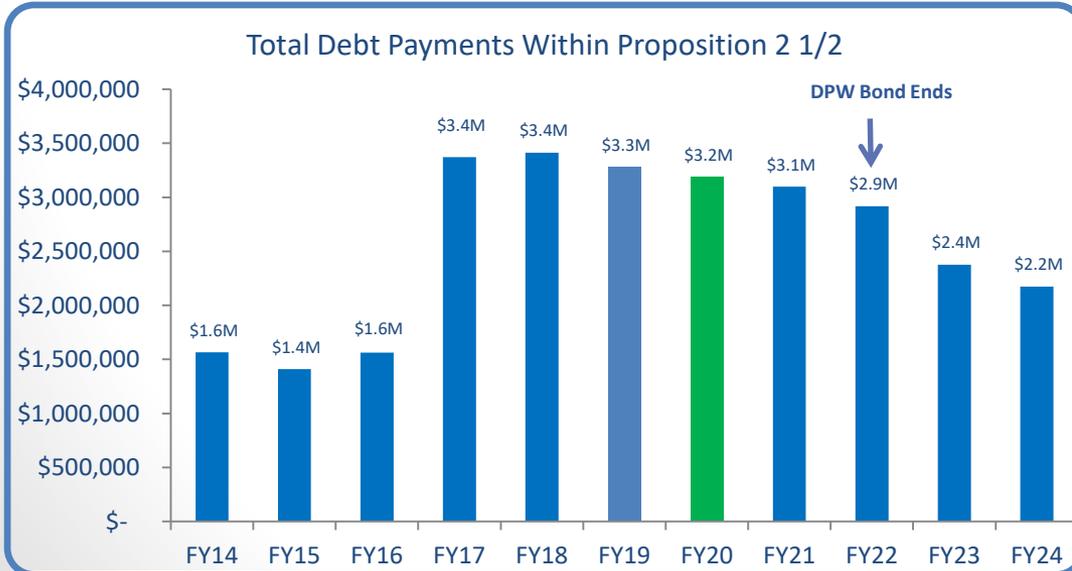


Utilize Rollover of Debt to Fund Future Projects



Debt Outside Proposition 2 ½

- High School and Library Bonds
- High School bond ends FY2023.
 - Debt rollover will help with Elementary School Project



Debt Within Proposition 2 ½

- \$4M DPW Bond ends FY2022:
 - Provides space to issue new road bond within Proposition 2 ½

Meals and Hotels Tax Revenue

In 2009 the State allowed municipalities to adopt by local vote a local revenue component of the State Meals and Hotel tax. The Department of Revenue collects the fee and sends the Town's portion on a quarterly basis.

Meals Tax

- Municipalities are allowed to add a .75% charge to the State 6.25% excise tax on restaurant meals.
- Westwood adopted the additional meals tax at the 2014 Fall Town Meeting and it became effective January 1, 2015.

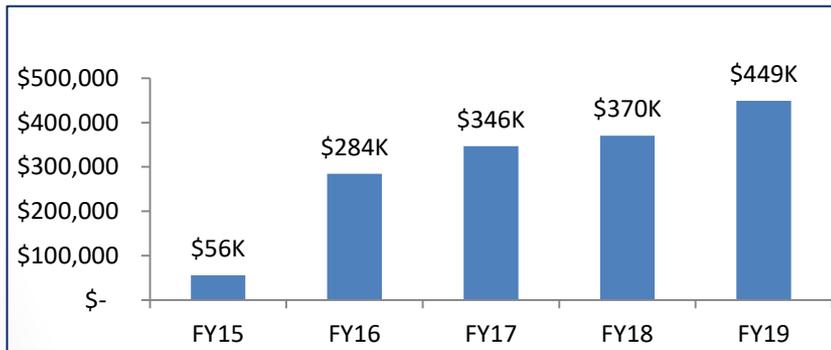
Hotel Tax

- Municipalities are allowed to charge a local hotel tax up to 6%.
- Westwood adopted the 6% charge at the 2016 Annual Town Meeting.

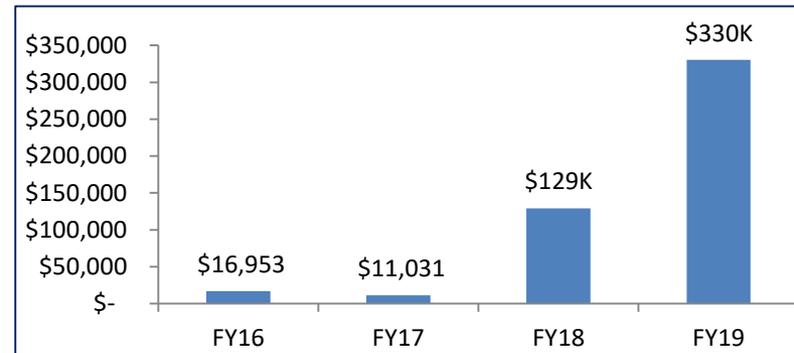
Restricted Funding

- At the November 2017 Town Meeting, the residents approved establishing a special purpose fund to hold all Hotel and Meals Tax revenue until appropriated by future Town Meetings. All use of funding requires a 2/3 vote by Town Meeting.

Annual Meals Tax Revenue



Annual Hotels Tax Revenue



* New Hotel came online October of 2018

Most Recent Quarterly Receipts

	Meals	Hotels
9/30/19	\$114,521	\$94,310
6/30/19	\$107,392	\$72,978

Meals and Hotels Tax Revenue

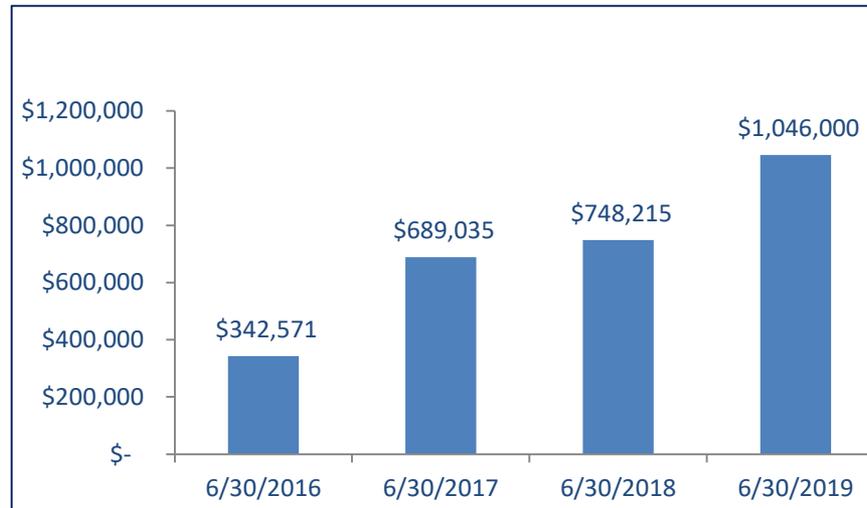
Use of Funds

Any use of funds must be appropriated by Town Meeting. All use requires a 2/3 vote by Town Meeting.

- Funds have been used for capital projects.
- May 2019 Town Meeting \$515K:
 - Design of Recreation Field Lighting
 - Thurston Middle School HVAC project
 - Council on Aging HVAC project
- May 2018 Town Meeting \$432K:
 - Lighting of the High School tennis courts
 - HVAC project at the High School pool

These facilities receive extensive use by residents of all ages.

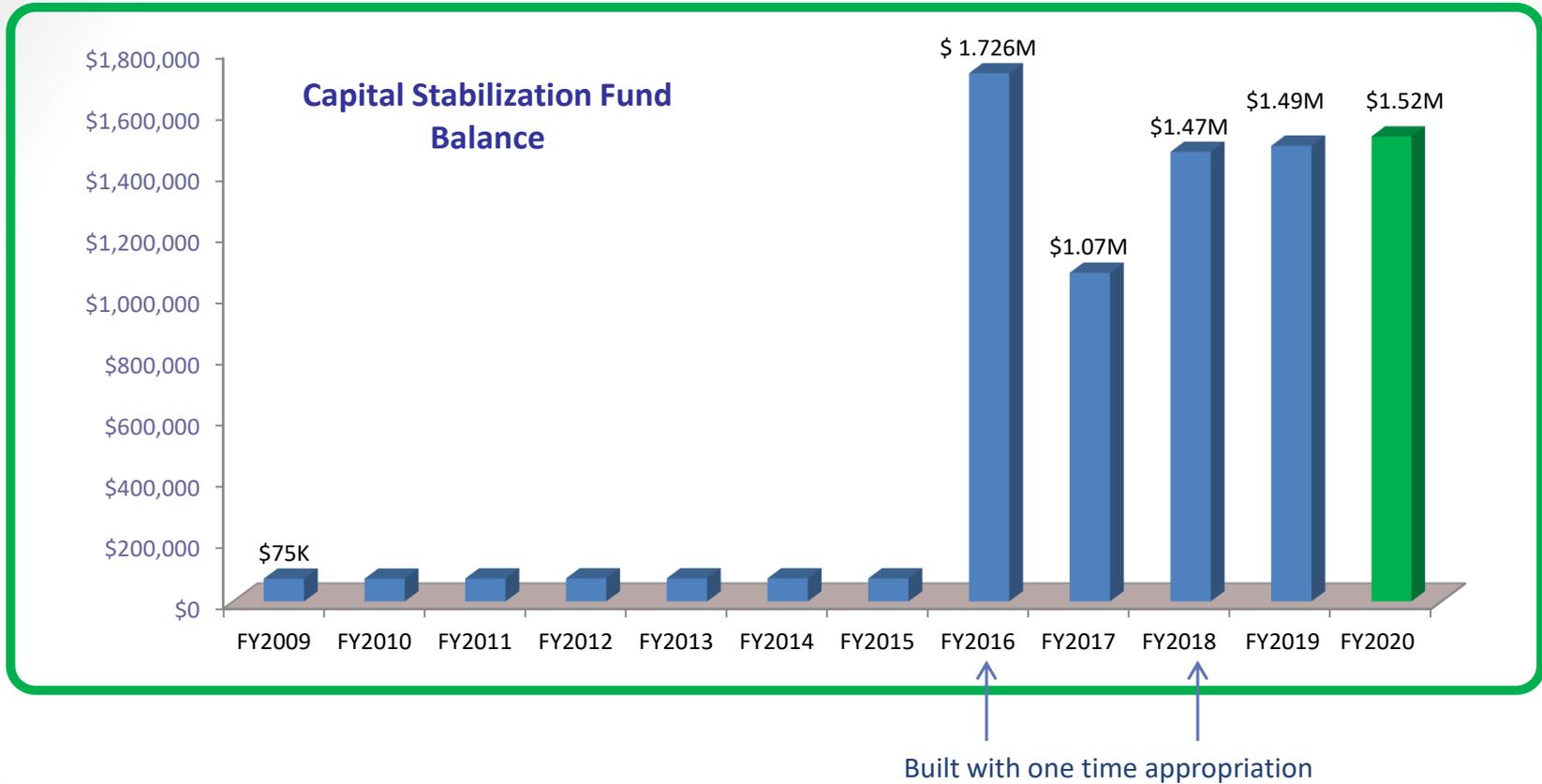
History of Meals/Hotels Tax Account Balance



Balance in the Account

- The balance in the account as of September 30, 2019 is \$1.2M.

Capital Fund – To Save For and Pay For Large Capital



- 2016 Annual Town Meeting voted to use \$650K for high school turf field and track.

Financial Policies Status Update, September 2019

	Target	Actual	Comments	Target Status	Comparison to Previous Year
B. 2. Operating Reserve Fund – shall be .5% of total general fund operating budget, net of debt service. Per new policy.	\$419,180 .5%	FY20 Budget \$400,000	At approximate target. \$400,000 is a comfortable budget, but should increase to \$425K in FY21.	✓	Continue to Meet Target
B. 3. Free Cash – shall maintain at 4% of general fund operating budget, net of debt service.	\$3,353,447 4%	\$6,637,200 7.9%	Actual is at goal. Full amount <u>before</u> use of any free cash. This allows us to utilize standard free cash amount for FY21 budget and still meet target. FY19 unused was \$2.6M which is below target.	X	Continued Improvement
D. 3. Reserve accounts – 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% \$3,580,927 Total 8% or \$7,161,855	Stabilization 3.7% \$3,334,981 Total 11.1% or \$9,972,181	Stabilization approximately \$245K short of target. Total is over target. This would be <u>before</u> use of free cash. Allows for standard use of free cash, and then remain at target.	✓	Stable On Track With Target
D.4 Annual OPEB appropriation – the Town will appropriate no less than \$550,000 per year to the OPEB Liability Trust Fund.	Minimum \$550,000	\$1,440,000	FY20 budget includes \$1,440,000 appropriation. Above minimum target and on track with required funding.	✓	Significant Improvement Target Could be Increased
E. 4. General fund nonexempt debt service should not exceed 8% of net general fund revenues.	Not exceed 8% Or \$7,161,855	3.7% \$3,312,165	Target is met. Non exempt debt service is at approximately ½ of maximum target.	✓	Continue to Meet Target
E. 4. Total General fund exempt and nonexempt debt should not exceed 10-12% of net general fund revenues.	Not exceed 12% Or \$10,742,782	6.8% \$6,056,779	Target is met. Total debt is well below target. There is approved, but not yet issued debt of \$6.1M	✓	Continue to Meet Target
F. 5. Investment in capital stock – will maintain 3% of general fund operating budget, net of debt, on ongoing capital maintenance and replacement.	\$2,515,085 3%	\$2,339,000 2.8%	Actual is approximately \$176K short of target. Actual at 93% of target. Base capital has been increased incrementally from \$823K to \$2.33M. In each of the last 4 years, we have added an additional \$700-\$1.3M of capital <u>above</u> the base.	Close to Target	Continued Improvement and Additional Capital
G. 5. Maintain sewer retained earnings – will maintain 10% of sewer fund revenues.	\$579,017 10%	\$4,110,222 71%	Actual is well above target, due to new commercial connect fees to be used for capital maintenance of system and other reserve requirements.	✓	Well Above Target

Other Policies Status Update, September 2019

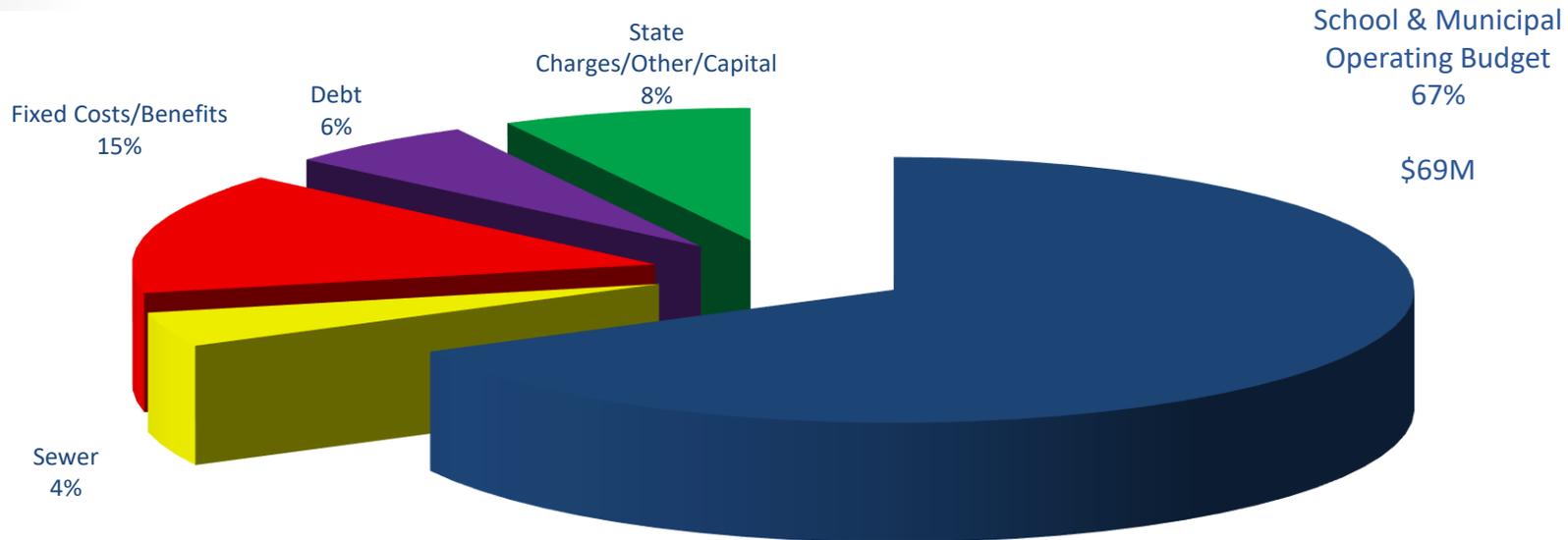
Other Policies	Comments	Target Status	Comparison to Previous Year
<p>B.1. General Fund – Annual budget should be prepared covering operating expenditures with current operating revenue, not non-recurring revenue sources.</p>	<p>No Free Cash used for operating budget.</p>	<p>✓</p>	<p>Target has been met consistently</p>
<p>D.3. Reserves – Town will strive to make annual appropriation to the Stabilization Fund</p> <p>D.4. OPEB – Town will strive to move towards fully funding ARC (Annual Required Contribution).</p>	<p>\$125,000 appropriation to stabilization reserve at 2019 Annual Town Meeting, funded by free cash. Will continue in FY21 budget plan.</p> <p>Current balance in stabilization account is \$3.3M</p> <p>\$1,440,000 appropriated to OPEB reserve at 2019 Annual Town Meeting, within budget funds. This is currently on target with required annual payment (ARC). OPEB trust account now has a balance of \$10.3M.</p>	<p>✓</p> <p>✓</p>	<p>Target has been met consistently</p> <p>Greatly Improved On Target with ARC from Current Valuation</p>
<p>F.2. Capital Planning – Town will develop a multi-year plan for capital improvements.</p>	<p>Produced 5-year Capital Improvement Plan document; will continue to improve document and produce on an annual basis.</p>	<p>✓</p>	<p>Same</p>



Current FY20 Budget Review

FY20 Total Expenditures

FY2020 Expenditure Summary - \$102.5M, 3.5% increase



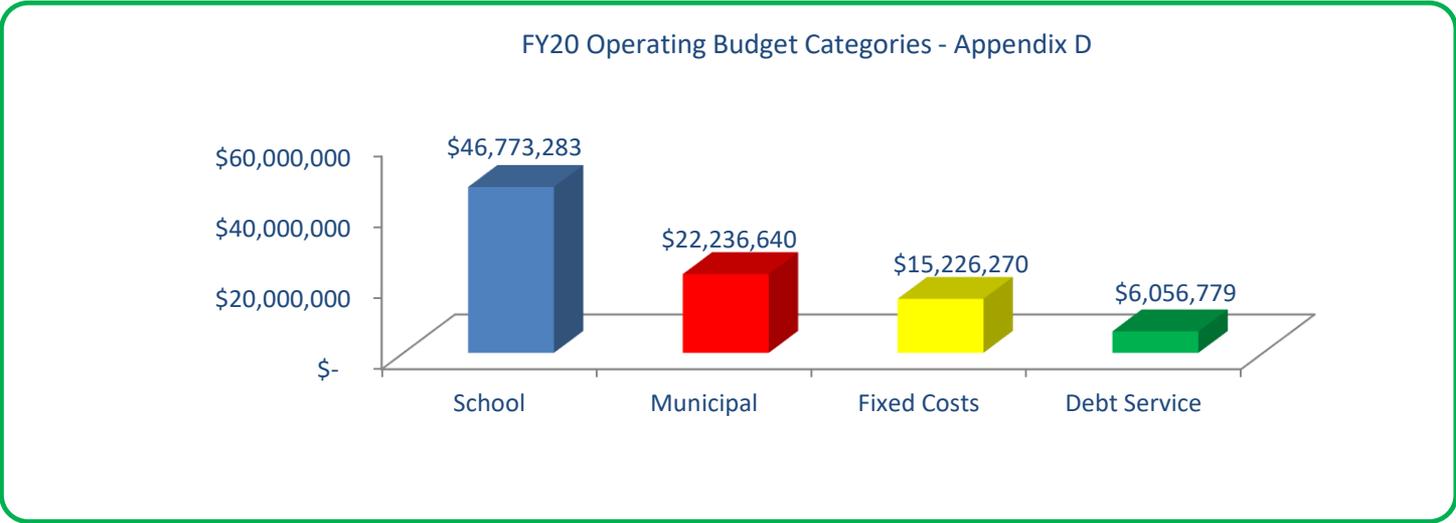
Operating Budgets

- Provide for core services to community
- Strive for operating budget stability for school and municipal budgets.
- Strive for sustainable budgets

FY20 Budget - Provide for Consistent, Sustainable Funding

FY20 Approved Operating Budget - \$94.6M, 3.8% increase

Operating budget provides daily services to the community.



	FY16	FY17	FY18	FY19	FY20
School	5.3%	4.9%	3.4%	3.4%	3.5%
Municipal	5.2%	3.7%	3.6%	3.1% *	3.5%

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Additional University Station Funding

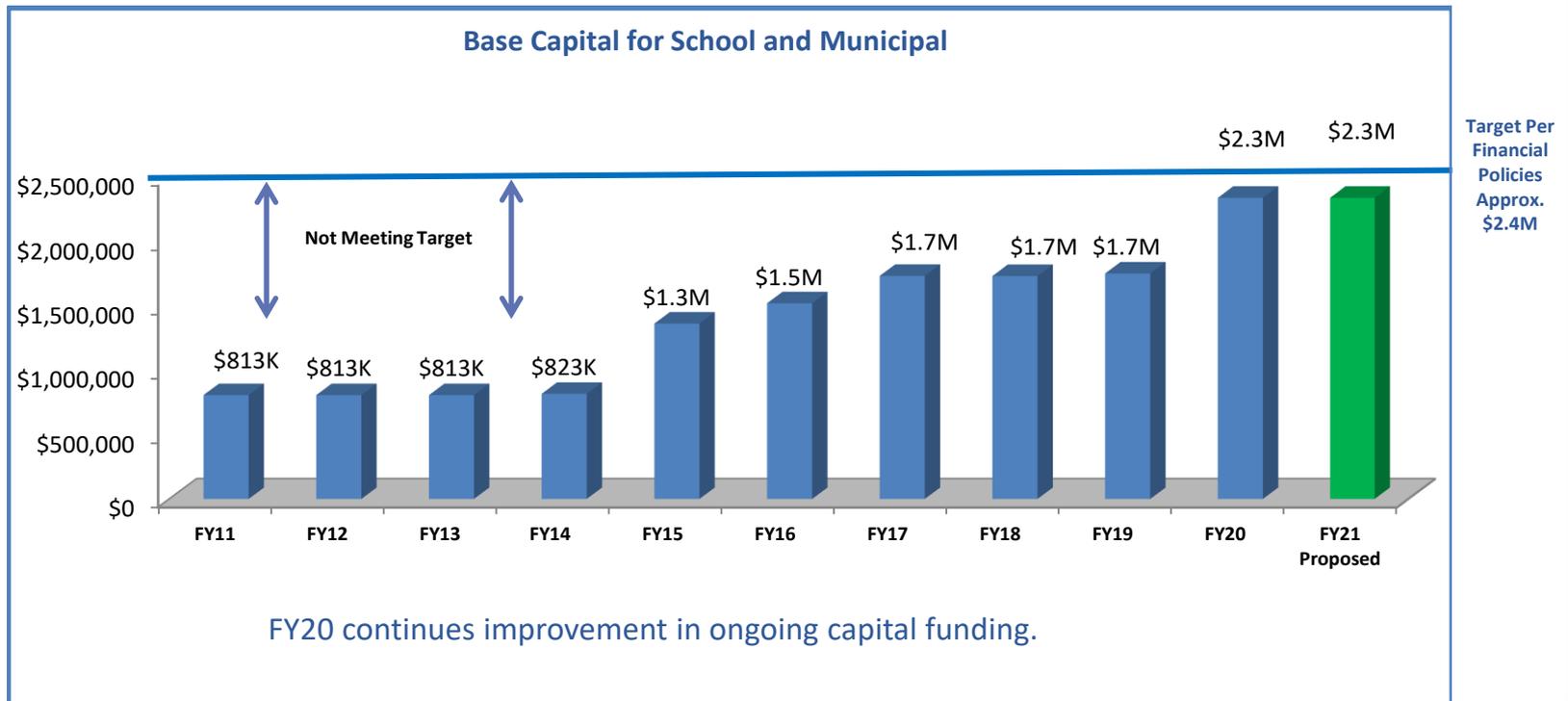
- Important that operating budget have moderate growth and are sustainable.

* With Snow & Ice Adjustment, FY19 was 3.8%

Capital Budget - Important reinvestment in buildings, equipment and assets

Base Capital Budget Articles – School and Municipal

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



- Could not meet policy target for many years during difficult economic budget cycles.
- The Town has made steady progress in increasing the ongoing capital budget.

Capital Budget – Additional Capital Article Beyond the Base

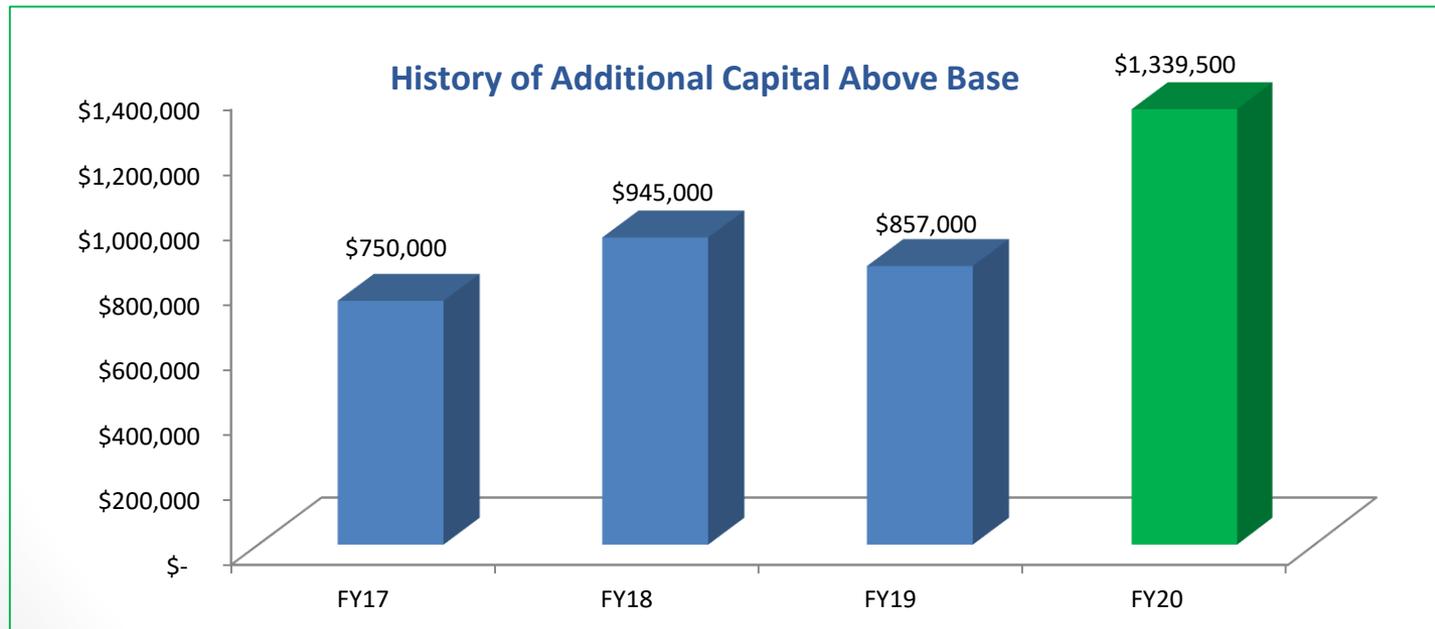
- Since FY17, the Town Meeting has approved an “additional” capital budget article beyond the main base articles.
- Effort to fund:
 - Capital that has been deferred by years of not meeting financial goal
 - Larger items that do not easily fit within base capital budget articles:

Prior Years

- School IT network
- High School Tennis Court Lighting
- Pool Renovations

FY20

- Thurston HVAC Project
- COA HVAC Project
- Field Design Projects



Addresses important capital needs with available funding, such as free cash and meals/hotels tax.

Current FY20 Budget - Next Steps

FY20

- Property Values – **October/November**
 - Finalize and get approval for all FY20 values, including final FY20 new tax growth.
- Tax Rate - **November**
 - Board of Selectmen hold classification hearing (11/18/19)
 - Set shift factor for residential/commercial split.
 - Get tax rate approved by Department of Revenue.
- Review of Tax Bill Impact - **November**
 - Values/tax rate/University Station new growth finalized
 - Review actual FY20 residential tax bills.

FY20 Capital Budget

- Additional follow up for items held from Spring 2019 for further review
 - Thurston Field Lighting
 - Fire Swap Body Truck
 - Road Bond



FY21 Budget Preview

FY21 Overall Budget Goals

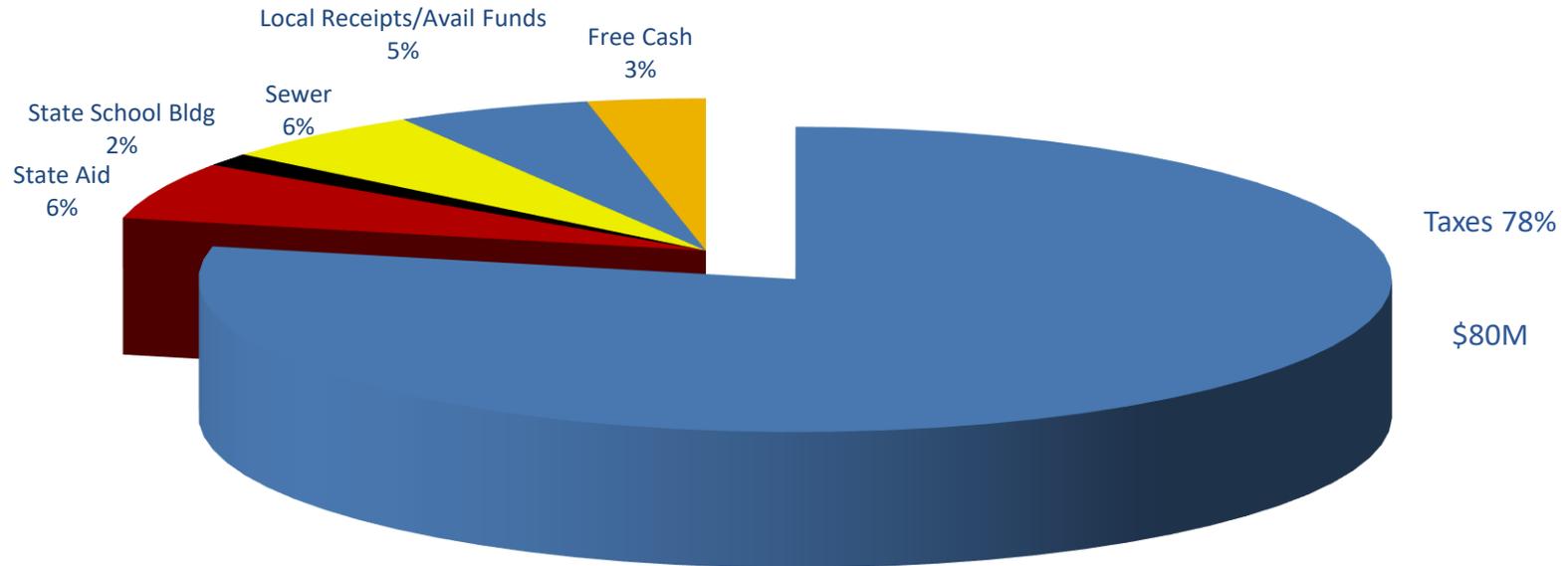
FY21 Overall Budget Seek to Provide For:

- Maintain high quality of Town and School services
 - Maintain moderate growth and sustainable operating budgets.
- Continue high level of Capital Investment
 - Important to maintain infrastructure and capital equipment
 - Base Capital \$2.3M
 - Continue efforts for additional funding beyond base
- Continue compliance with reserve and long term liabilities
 - Continue progress on OPEB liability (\$1.465M)
 - Continue small transfer to Stabilization (\$125K) to remain on track
- Begin discussion to incorporate future large capital items
 - School building project
 - Other large capital funding
- Continue efforts to limit tax bill growth:
 - Review Options:
 - Not utilize full levy
 - Apply free cash to the tax rate
 - Capital within Proposition 2 ½



What Revenue Funds the Budget?

FY2020 Projected Budget Revenue - \$102.5M, 3.5% increase



- Typical suburban community revenue chart
- Always a challenging financial model:
 - Main revenue source is restricted (Prop 2 ½)
 - Must balance tax bill impact

Tax Revenue Calculation per Prop 2 1/2

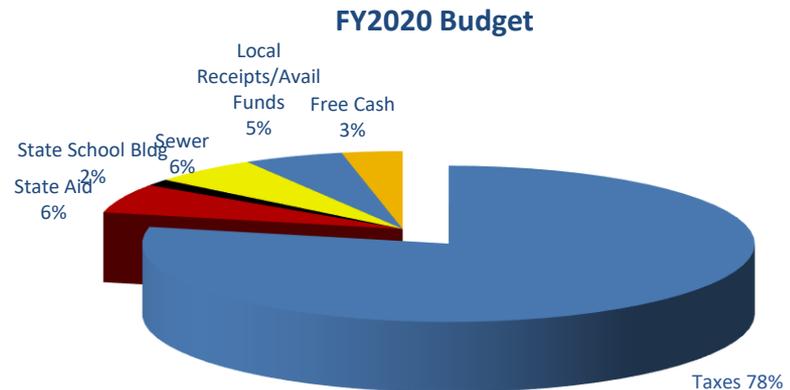
Tax Levy Calculation	FY2016	FY2017	FY2018	FY2019	Budget FY2020	
Prior Year Levy Limit	\$60,753,121	\$66,435,457	\$70,367,740	\$73,558,364	\$76,623,854	
Plus 2.5% Increase	\$1,518,828	\$1,660,886	\$1,759,194	\$1,838,959	\$1,915,596	Plus 2.5%
Plus New Growth**	\$921,201	\$1,099,667	\$1,252,430	\$950,531	\$450,000	New growth
New Tax Levy - University Station	\$3,242,307	\$1,171,730	\$179,000	\$276,000	\$125,000	Uni Station growth
General Overrides	\$0	\$0	\$0	\$0	\$0	General Override
Tax Levy Limit	\$66,435,457	\$70,367,740	\$73,558,364	\$76,623,854	\$79,114,450	
Exempt Debt*	\$1,740,624	\$1,642,706	\$1,523,690	\$1,429,505	\$1,320,986	Exempt Debt
Levy Capacity	\$68,176,081	\$72,010,446	\$75,082,054	\$78,053,359	\$80,435,436	What we could tax
Actual Levy Assessed	\$67,637,558	\$70,500,803	\$74,005,710	\$76,955,697	\$80,435,436	What we actually tax
Excess Levy(Taxes not raised)	\$538,523	\$1,509,643	\$1,076,344	\$1,097,662	\$0	Unused tax levy

- No general override since 2007
- Exempt debt declines each year, High School bond ends in 2023

FY21 Preliminary Look - Revenue

- Real estate taxes
 - Total FY21 levy increase:
 - \$2.5M - 2 ½% increase and estimate of FY21 new growth.
 - **To be updated for:**
 - **Final actual new growth FY20**
 - **Final University Station growth**

- State aid – FY21 Projection
 - Typically level fund until Governor’s Budget
 - Governor’s Budget due out January, 2020.
 - Changes to Chapter 70 for FY21?



- Local receipts – FY21 Project level fund.
- Free cash current balance \$6.6M – should use carefully – continue with current allocation.
 - Utilize \$2.4M for base capital, and \$125K for stabilization.
 - Utilize additional free cash for additional capital beyond base (\$870K).
- Meals/Hotels Tax – Utilize revenue for additional capital

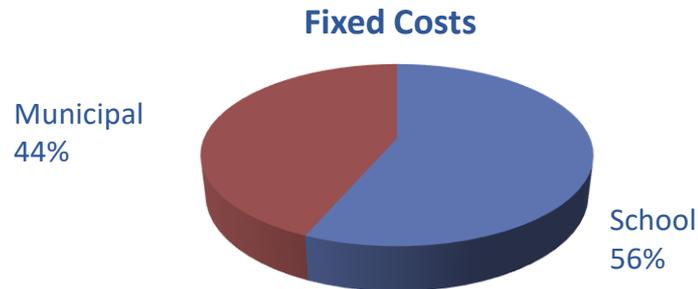
A Look at Fixed Costs – Current Year FY20

Fixed Costs – Employee Benefits Costs, Insurance/Reserve Accounts

- Fixed costs are approximately 16% of the Operating Budget

Budget Provides For	
Employee Benefits Costs	\$13,803,020
Insurance/Reserve Accounts	\$1,423,250
Total FY20	\$15,226,270

	School	Municipal	Total
Fixed Employee Related Costs	\$7,703,870	\$6,099,150	\$13,803,020



Fixed Costs – Projected Increases in FY21

Fixed Costs – increase to total fixed costs budget approx. 6.3%: \$920K

Includes:

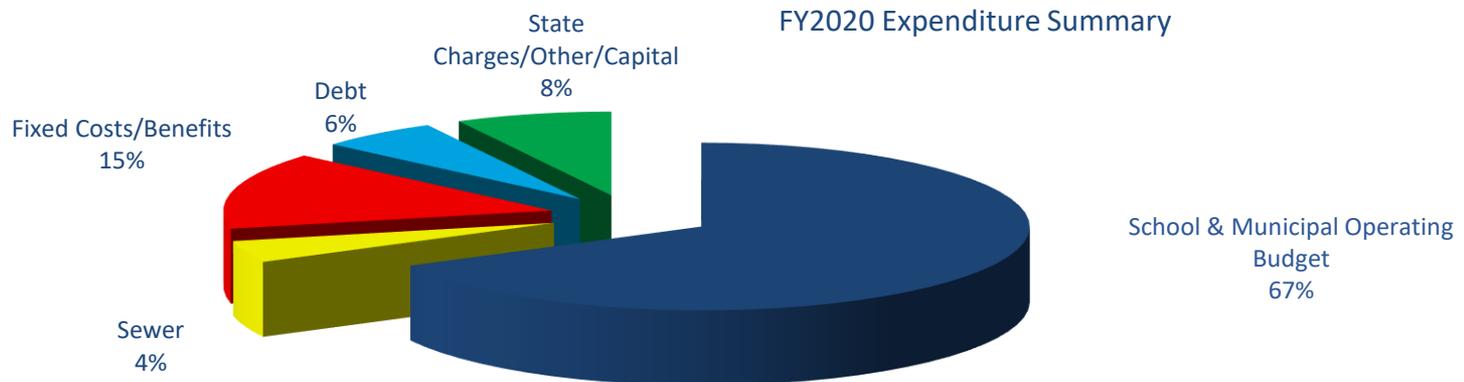
- Pension Assessment (\$5.7M) increase of 7% over prior year final - \$381K.
- Health Insurance (\$6.5M) increase of 5% - Estimate only. Approx \$310K.
- Other fixed cost (insurance, Payroll taxes) increase approx 10% - Approx \$200K.
- OPEB Appropriation amount increase per funding schedule \$25K.

- Health Insurance Update Timing
 - Group Insurance Commission (GIC) updates FY20 Information
 - Plan Design – February 2020 meeting
 - Final Rates – March 2020 meeting
 - Current health estimate is 5%

Largest Area of Spending is the Operating Budget

Operating Budgets

- Provide for core services to community
- Strive for operating budget stability for school and municipal budgets.
- Strive for sustainable budgets



- Each 1% increase for school and municipal budgets approximately \$687K:
 - School (Budget \$46.5M) - \$465K.
 - Municipal (Budget \$22.2M) - \$222K.
- | | |
|-----------------------|----------|
| ▪ 2.5% increase costs | \$1.72M. |
| ▪ 3% increase costs | \$2.06M |
| ▪ 4% increase costs | \$2.74M. |

FY21 Preliminary Overall Capital Summary

Capital Budget

- Maintain base capital budget at increased FY20 Level \$2.3M
- Supplement base capital with additional capital projects
 - Funded by Free Cash/Meals Tax

