

REPORT OF THE FINANCE COMMITTEE

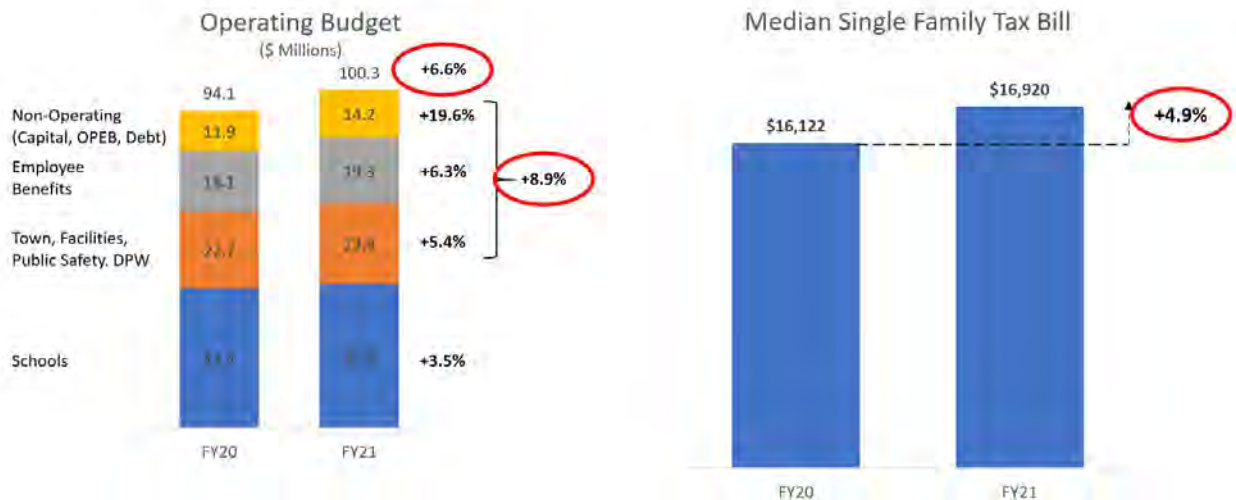
The Finance Committee is composed of nine Weston residents appointed by the Town Moderator to advise the Select Board and the Town on financial matters and other questions coming before the Town or affecting the interests of the Town. In turn, we make recommendations to the voters regarding such matters. During the course of the year, we engage in the following activities:

- Participate in financial meetings with the Select Board, Town Manager, School Committee and School Administration.
- Meet with individual town departments as budgets are developed.
- Form small, ad hoc, working groups within the Committee to discuss current financial trends and topics affecting the Town and make recommendations.
- Provide recommendations, where appropriate, to residents on Town Warrant Articles.
- Monitor debt levels and the long-term fiscal health outlook for the Town.
- Hold regular public meetings to discuss findings of detailed budget reviews and other significant issues affecting the Town.

Recommendation

At this time, March 26, 2020, a time of great economic disruption and uncertainty, we do not support increasing the Fiscal Year 2021 operating and cash capital budgets as presented in the Warrant, and as further discussed by the Select Board. We do not oppose the school budget increase of 3.5%, which is 1.7% after adjusting for accounting changes and legally mandated special education expenses. Rather, we are concerned by the remaining proposed municipal budget in this unprecedented environment. We recommend deferring all significant discretionary spending and all proposed budget increases which are not absolutely necessary until after the current crisis has subsided. At that point, we may be able to restore discretionary expenses and investments on which there is already broad agreement and debate other increases as may be prudent at that time.

Budget and property taxes are up significantly



There has been ongoing discussion about the levels of Weston’s spending, taxes, and debt and unfunded liabilities. The recommended budget is up 6.6% over the previous year – 3.5% for the schools, where enrollment continues to decline at about 2% per year, and 8.9% for the balance of town services – in a much lower inflation environment. Weston currently has the highest average single-family tax bill in Massachusetts, at \$20,922, or \$5,313 (+34%) higher than the \$15,609 average of comparable affluent

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Boston-area communities. Our debt and unfunded liabilities of \$214 million translates to \$57,120 per household. Weston's per-household total is well above that of comparable affluent towns.

The School Committee has taken important cost saving steps this year to recognize the ongoing decline in enrollment and high relative per pupil expenditures and these efforts need to continue. Our per-pupil expenditure of \$25,367 is 27% higher than comparable towns, despite performance metrics which are not materially different. This translates to an \$11.4 million excess we spend on our schools annually (of \$61 million total) relative to other wealthy Boston-area towns, or \$3,121 per household per year in higher taxes. Since employee benefits are a significant portion of this difference, we recommend that the Town insist on a significant reduction to town employee health benefit costs, to bring them more in line with those of other affluent towns, during union negotiations in the coming year.

The current environment requires bold action and ultimately will encourage all of us in Weston to step back and reconsider the level and trajectory of Weston taxes and spending, across the board. For example, this year we recommend taking a hiatus in the Department of Public Works program to upgrade our roads, and recommend spending a more steady-state \$1.2 million on roadway maintenance rather than \$2 million as proposed. We also recommend reducing by up to half this year's annual OPEB contribution of \$2.2 million, since those funds will not be required for decades. We would also defer the \$100,000 school campus feasibility study related to the Recreation Master Plan while enrollment trends are studied further. While sustainability must become a high priority for all Town departments, for this year we recommend exploring energy-related grants and cost savings by using a low-cost consultant or contractor, rather than adding a full-time Sustainability Coordinator at \$104,000 per year. Further, we recommend that the Town Manager and the Select Board pursue additional reductions where possible without jeopardizing public safety. Even with all of these recommended example reductions and an additional \$500,000 in further savings, the overall budget would still increase by 3.8% (versus 6.6%), still above the expected levels of new growth and inflation over the coming year.

This may also be a good time for the town to reconsider the 3% tax surcharge now in place to fund the Community Preservation Committee activities. With the funding of several of the originally contemplated CPC projects (Case Estates, Old Library, and Josiah Smith Tavern), and the reduction over time in the state match from 50% to now 26% in FY20 – not to mention the current economic disruption and uncertainty – it may be appropriate to dial back the surcharge to the level required to cover the debt service on outstanding CPC-related bonds (approximately 1%) and consider future open space, historic preservation, and affordable housing projects independently. Any broadly supported projects could still be as easily approved at Town Meeting regardless of the current CPC surtax.

Over the next few years, we recommend that the Town explore new and significant opportunities to enhance long term fiscal prudence and financial flexibility by seeking new measures of relative cost and municipal service performance, and by developing new analytic tools for evaluating various projects and spending plans. Specifically, we believe the Town should:

- Establish baseline measures of success for all Town departments, especially for the Schools, Police and Fire Departments, and the Department of Public Works, so that Townspeople can easily track service performance and costs over time, compared to the same metrics in neighboring comparable towns and other objective measurable standards.
- Develop and implement a long-range financial planning model, so that we are all better able to analyze the financial implications and tradeoffs associated with various policies, commitments and large special projects over time.

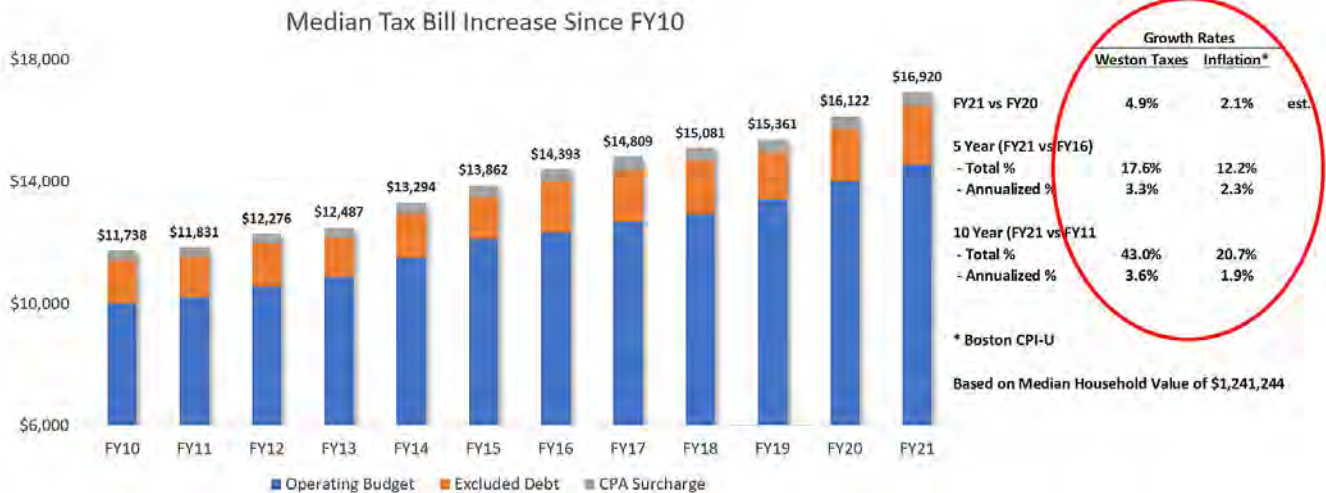
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Estimated Taxes

The total Fiscal Year 2021 budget, including operating expenses, cash capital, Other Post-Employment Benefits (OPEB), and debt service totals \$100.3 million, which is an increase of \$6.1 million or 6.6% over the FY20 grand total budget. The school budget is up 3.5% and the total budget for all other recommended town appropriations is up 8.9%, compared with new growth of about 1% and Boston-area inflation running in the 2% range. When debt service (that Weston voters have specifically exempted from the limits of Proposition 2½) is excluded, the total operating, cash capital and OPEB budgets are \$90.1 million, an increase of \$5.6 million or 6.6% over the FY20 sub-total. 84% of the revenues required to fund this budget and excluded debt service will be raised through the property tax levy. New growth in the tax levy (the increase from new construction) for FY20 was \$1.0 million and is estimated at \$0.6 million for FY21. This means the median assessed home value of \$1,241,244 is projected to see a real estate tax bill increase of \$798 from \$16,122 in FY20 to \$16,920 in FY21, or 4.9%.

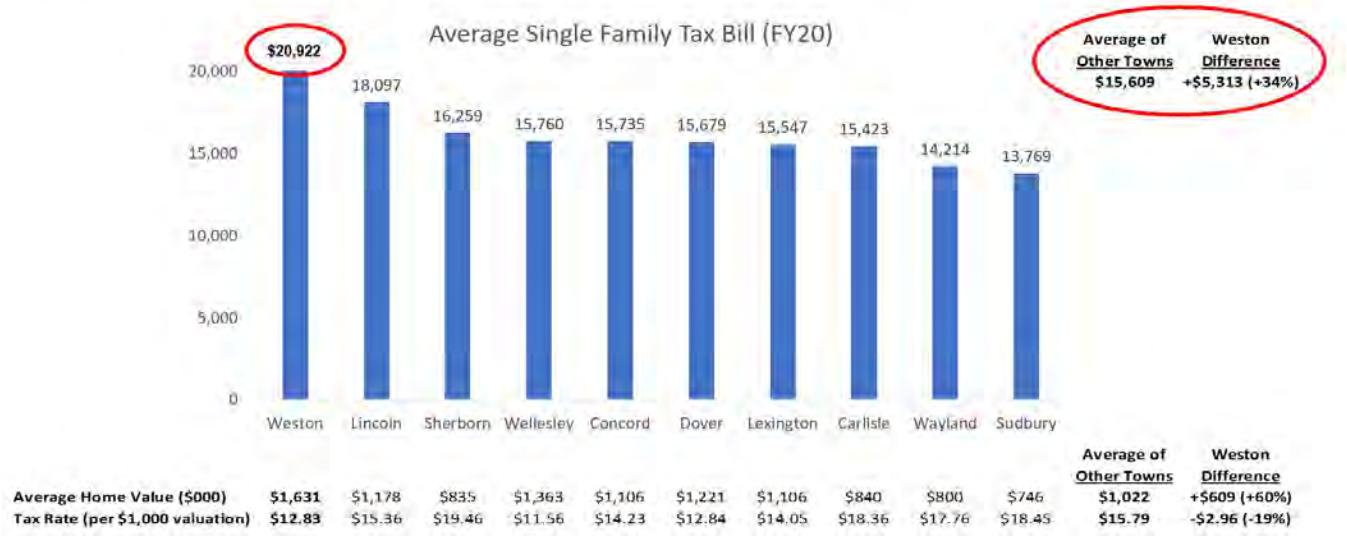
This 4.9% increase projected for Fiscal Year 2021 well exceeds the rate of inflation expected over the next few years (according to bond market indicators and economists' projections). It is also nearly two percentage points higher than the trends in Weston taxes over the last 5 and 10 years. While an annual tax growth of 1-2% above the rate of inflation is not overwhelming in any one year, these repeated annual increases compound into a significant difference over time.

Our taxes have increased faster than inflation



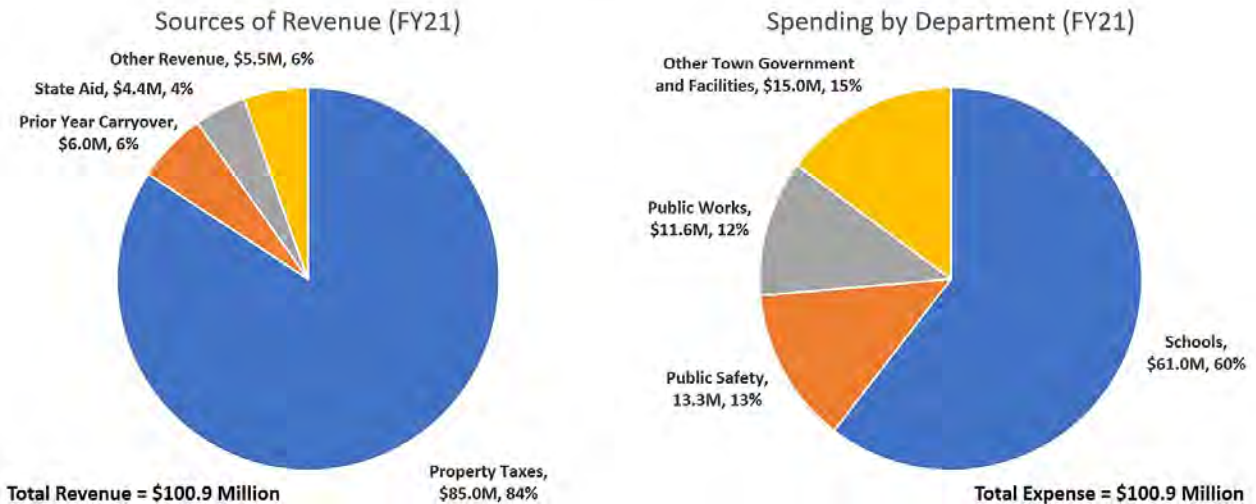
Weston has the highest taxes in Massachusetts. Weston's average single family tax bill in FY20 of \$20,922 is \$5,313 (34%) higher than the \$15,609 average of our comparable communities (which are the next nine highest tax towns in the state). While all towns are different in some ways and the costs of some municipal services reflect these differences, many of the largest costs - such as the cost of paving a mile of road, providing police or fire protection for a certain number of homes, or educating a child to a high standard - should be roughly the same across similar affluent towns. In general, the municipal services required by a particular home in Weston, which is worth more than the identical home might be worth in another town, should be very similar, not higher just because the value of the home is higher.

Property taxes far higher than similar towns



Revenue and Expense Summary

Budget mostly property taxes, mostly schools



Weston derives essentially all its revenue from the property taxes on our single-family homes, as there is negligible commercial and industrial real estate in town. In FY21 Weston may still receive State Aid, although the amount is uncertain given this economic environment, and state aid revenues may decline significantly. Other revenue includes local receipts and make up another 6% (Motor Vehicle Excise being the largest local receipt at \$2.9 million).

On the expense side, nearly two thirds of spending is for Schools, including the cost of employee benefits and debt service on capital projects. Essential services (Public Safety and Department of Public Works)

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which also include the cost of employee benefits and debt service on capital projects, make up another 25%. The remainder of expenses represents Town government and services that are important to the quality of life of residents, such as the Public Library and Council on Aging. Exempt debt service is increasing from \$8.7 million two years ago to \$9.6 million last year to \$10.2 million (+17% versus FY19) and now comprises 10.3% of the overall budget.

Operating Budget Summary

The overall operating budget – excluding cash capital spending (up 2,600%), funding of long term OPEB liabilities and debt service – is projected to increase by \$3.8 million (4.7%).

	FY20 Budget	Recommended FY21 Budget	\$ Change	% Change
Operating Budget:				
Schools	\$41,441,391	\$42,906,809	\$1,465,418	3.5%
Town Government, Facilities, Public Safety and Public Works	22,664,107	23,885,767	1,221,660	5.4%
Employee Benefits & Other Fixed Costs	<u>18,123,585</u>	<u>19,273,708</u>	<u>1,150,123</u>	<u>6.3%</u>
Total Operating Budget	\$82,229,083	\$86,066,284	\$3,837,201	4.7%
Non Operating Budget:				
Cash Capital	\$65,000	\$1,755,375	\$1,690,375	2600.6%
Pre-Funding Long Term OPEB Liability	2,214,656	2,249,798	35,142	1.6%
Gross Debt Service Exempt from Proposition 2 1/2	<u>9,624,481</u>	<u>10,233,342</u>	<u>608,861</u>	<u>6.3%</u>
Total Non Operating Budget	\$11,904,137	\$14,238,515	\$2,334,378	19.6%
Grand Total Budget	\$94,133,220	\$100,304,799	\$6,171,579	6.6%

Newly recommended increases that contribute to the 5.4% increase for General Government includes the supplemental roadway construction voted by the Select Board as part of their multi-year plan to restore all of Weston roads to a basic 70% quality rating, along with additional firefighters and equipment and a Sustainability Coordinator:

School/Town networking equipment (cash capital)	\$953,000
Fire - Ambulance (cash capital)	350,000
DPW - Construction of Public Ways	250,000
Fire - Equipment Replacement (cash capital)	200,000
Fire - 2 Full Time Firefighters (incl. benefits)	191,388
Sustainability Coordinator (incl. benefits)	104,000
High School/Middle School Campus Plan (cash capital)	100,000
Info Systems - Hardware/Software Support	76,186
Fire- Shift Commander Vehicle (cash capital)	70,000
DPW - Equipment	41,200
Historical Commission - Preservation (cash capital)	40,375
Recreation - Vehicle (Cash Capital)	32,000
Town Planner - Asst. Town Planner to Full Time	27,780

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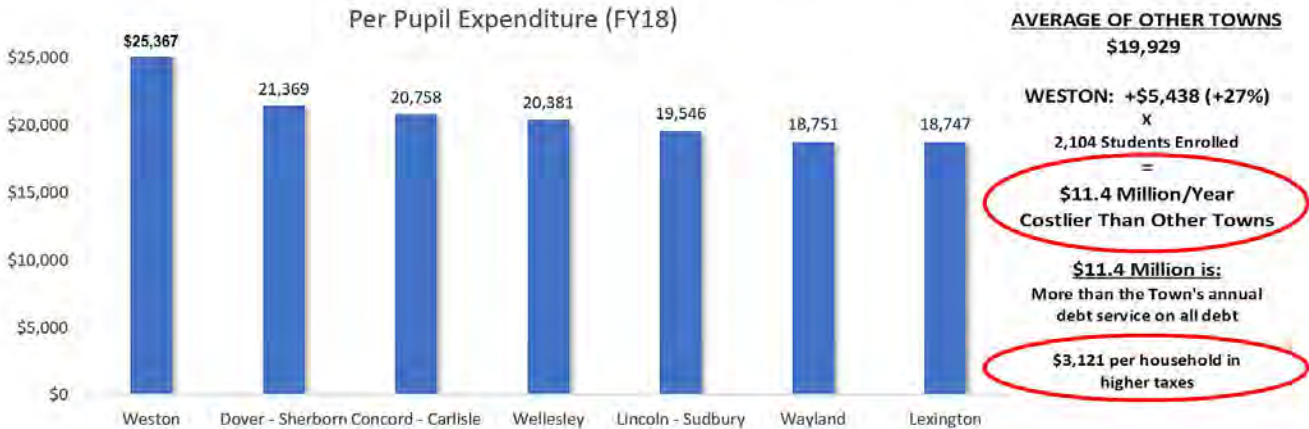
DPW - Traffic & Sidewalk	25,000
Conservation	24,000
COA Program Coordinator	11,732
Conservation - Wetlands Bylaw (cash capital)	10,000

Total New Recommended Increases (Town) \$ 2,506,661

Schools

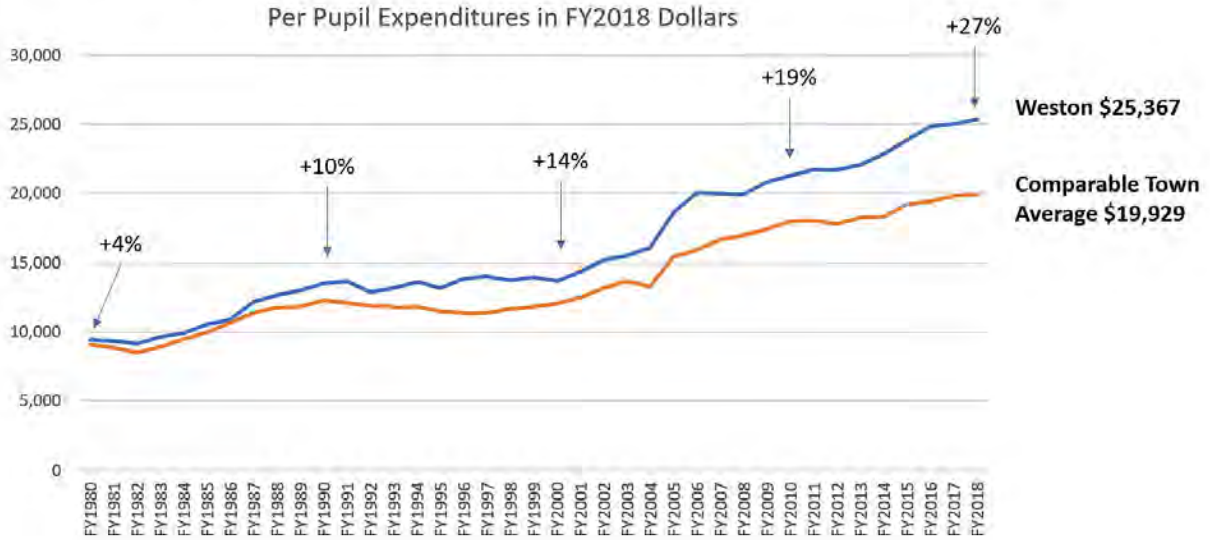
Weston has a longstanding tradition of supporting excellence in public education, and our schools are among the most highly rated in the Boston area, consistent with other affluent communities. However, we are concerned by the rate of growth of the School budget in recent years despite continued and projected future declining enrollment. In FY21, this budget is rising by \$1,465,418 or 3.5%, though only 1.7% after the legally mandated increase of \$600,000 in special education outplacement expenses and a \$163,000 accounting change in the recognition of solar energy credits. Enrollment is projected to decline by 1.7% in FY21, with an 8.3% decline at the High School over the last two years and a projected cumulative additional enrollment decline of 7% over the next five years. We have much higher per pupil expenditures than those of neighboring comparable school districts, despite performance metrics which are not materially different from other comparable towns. We recognize that the School Committee and Administration are working on initiatives to align costs with enrollment and we support and encourage those continued efforts.

School spending well above similar districts



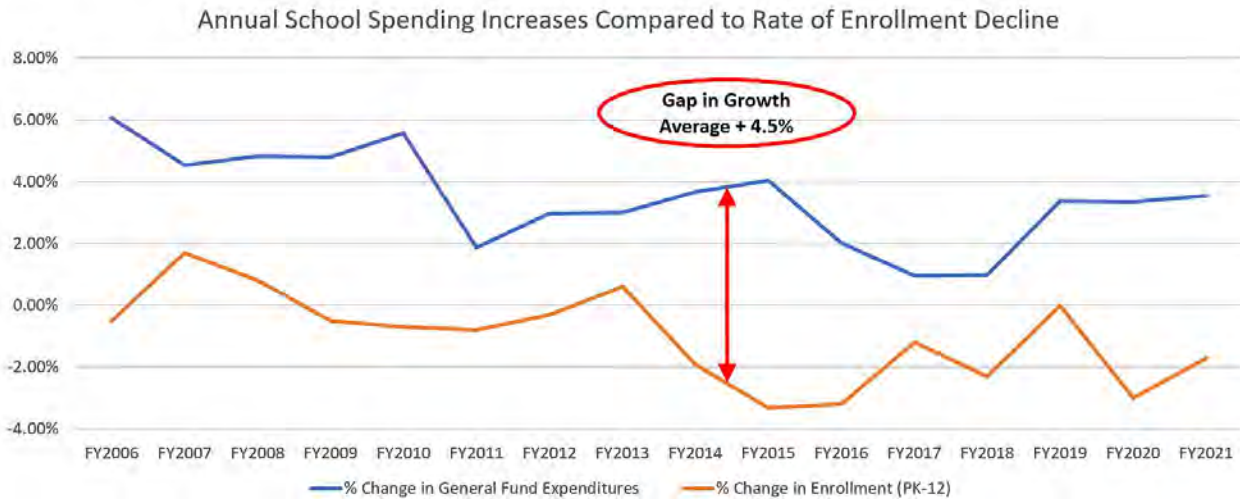
Weston's per pupil expenditures of \$25,367 are now 27% higher than comparable affluent districts, or \$5,438 per student. This extra spending per pupil translates to an \$11.4 million excess we spend on our schools annually (of about \$61 million total) relative to other wealthy Boston-area towns, or \$3,121 per household per year in higher taxes. The factors contributing to this much higher per pupil spending include more generous teacher salaries and benefits, teachers teaching fewer classes, and a large number of classes run below class size policy.

Spending excess has built up over many years



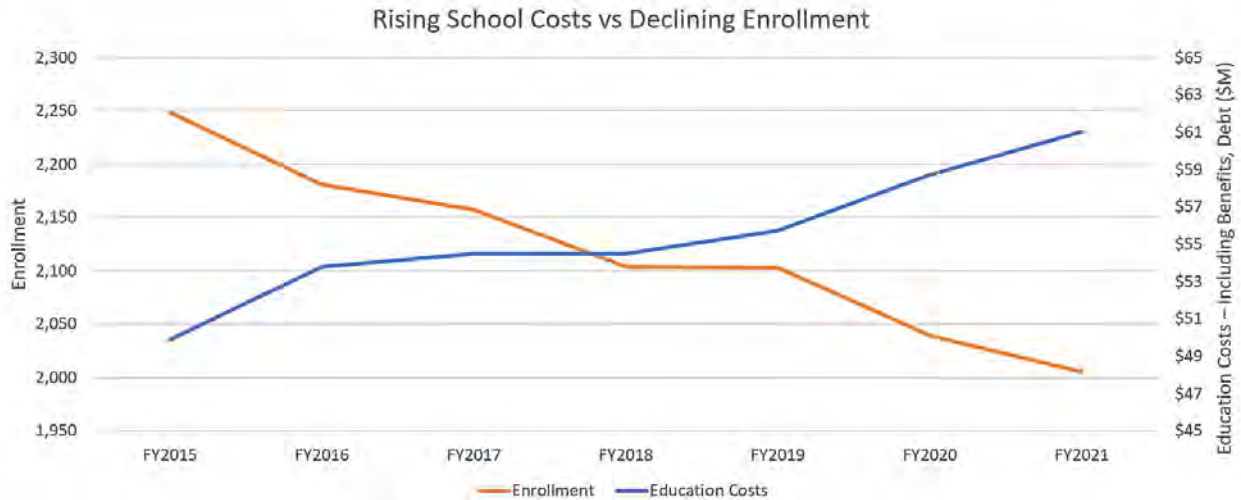
This cost excess relative to neighboring affluent communities did not emerge only recently, or in a few large jumps that might be traced to certain discrete actions or decisions, but rather grew slowly over time as 1-2% increments each year, over many years, compounded over time.

Spending increasing faster than enrollment



The change in school spending and the change in enrollment often move in the same direction. However, the resulting large gap – averaging 4.5 percentage points annually – between the two explains the problem with our school costs. Weston school enrollment has been declining for many years, yet our spending increases every year. This large consistent gap causes our per pupil expense to greatly increase over time and causes the long-term incremental growth relative to other nearby affluent towns.

Costs rising as enrollment decline continues



The absolute level of total education cost including related debt and benefits has been rising despite a significant drop in enrollment and projected further declines in enrollment.

The School Committee has taken important cost saving steps this year to recognize the ongoing decline in enrollment and high relative per pupil expenditures and these efforts need to continue. In the coming year, the Finance Committee will continue working in collaboration with the School Committee to analyze in detail these higher costs versus peer districts, and together explore additional areas of cost control, efficiencies, and savings that would not sacrifice excellence.

Town Government

This part of the budget includes Public Safety, Public Works, the Library, Council on Aging, and Town Hall departments as well as the health insurance costs for all employees including the School Department and the retirement costs for all employees except teachers. The Town budget is increasing by \$2,371,783 or 5.8%. The largest contributors to the increase are people, at \$1.7 million – Health Insurance (\$691,000), Municipal Salaries (\$628,000), and Retirement (\$380,000), along with Road Maintenance (\$250,000).

Healthcare Costs

All Town and School employees belong to health insurance plans provided by the Massachusetts Group Insurance Commission (GIC). Last year’s health insurance cost increased by 2.6% and FY21 is increasing by 6.5%. Weston’s employee benefits are significantly more costly than those in neighboring communities as we pay a higher percentage of the cost of health premiums than they typically do. This is an issue requiring some further research and serious reconsideration as we approach the mid-2021 renewal date of the current healthcare insurance contract.

Pension and Retiree Healthcare Costs

Like all municipalities, Weston has significant pension and retiree health insurance liabilities. (The latter are called Other Post Employment Benefits, or “OPEB.”)

As of June 30, 2019, the Town’s pension liability was underfunded by \$62.7 million. Massachusetts law recently extended the timeframe by which municipal pension plans must be fully funded. The Middlesex

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Retirement System, of which the Town is a part, has adopted a funding schedule that will provide for full amortization of the unfunded liability by 2035. The Town must pay annual assessments to Middlesex Retirement System to fulfill this obligation. The FY21 assessment is \$5.7 million.

With respect to OPEB, the Town currently pays for employee and retiree healthcare costs each year through the operating budget as they come due. The Town also prefunds future health care costs for current employees, as well as partially prefunding health care costs for current and prior employees (that had not been reserved for in the past) in the OPEB trust fund. As of June 30, 2019, the unfunded OPEB liability was \$50.1 million. Unlike the pension liability, no law requires funding the OPEB liability. Nevertheless, the Select Board and Finance Committee believe it is prudent and responsible to fund this liability over time, rather than leaving it solely as a burden to future taxpayers. As of January 31, 2020, the OPEB reserve balance was approximately \$23.2 million.

Capital Spending, Debt Levels, and Credit Rating

Since 1997 the Town has authorized a number of large capital projects totaling nearly \$213 million. This includes major renovations of the schools, construction of the new Field School, Community Center, DPW and Police Station, an addition to the Town Hall, Case Campus Improvements, Case Estates Land acquisition, Case House Rehabilitation, Old Library (WAIC), Josiah Smith Tavern, and Town Center Master Plan and Burying of Utilities. Outstanding excluded debt against these projects (as well as a number of smaller projects), will total approximately \$89 million in General Fund Dept (see the chart on the next page) and \$101 million in debt when CPA projects are included. Note that this debt is more than Weston's annual town operating budget. However, most of the major projects approved in the past five years are non-school related and partially if not entirely discretionary. Aside from the Field School (2012) and the High School science labs (2011), other school building related improvements were completed two decades ago. At some point, we will undoubtedly need to again refurbish or perhaps even replace some of our school buildings.

We are concerned about the large number, size, and frequency of these various projects. In particular, we are extremely concerned by the potential future cost of executing the new Recreation Master Plan, which while involving some necessary fixes to current fields/facilities, also includes many "nice to have" items. In general, projects are encouraged by our practice of forming ad hoc long-term committees, which become committed to seeing them happen without regard to bigger picture trade-offs or costs. There is a tendency to analyze projects in isolation, and to focus on debt service when presenting projects to the Town (e.g. only \$200 per taxpayer per year for the next 20 years) rather than considering that the debt service costs of all of these various projects add up to a significant amount for years to come. The ongoing maintenance costs resulting from an individual project must also be weighed, as these may require the addition of permanent personnel and/or equipment. In addition to the annual tax impact, this debt can ultimately also affect real estate values. When a property is eventually sold, a buyer will be looking at the overall tax bill, which is by far the highest in the state, rather than a small amount per year associated with any one project.

We expect that total excluded debt service for FY21 will be \$10.2 million, with \$7.0 million representing principal payments. The Town opportunistically refinances the interest rate it pays on debt when appropriate and allowed by law. We also note that the Town benefits from very low interest rates, because of its Aaa bond rating and the current low interest rate borrowing climate.

If all FY21 projects pass at Town Meeting, the Town's total outstanding excluded debt is estimated to be \$93 million as of June 30, 2020. For FY21, we anticipate an additional borrowing of \$3 million consisting of:

- \$2.6 million for south side drainage improvements
- \$0.4 million for routine annual drainage improvements

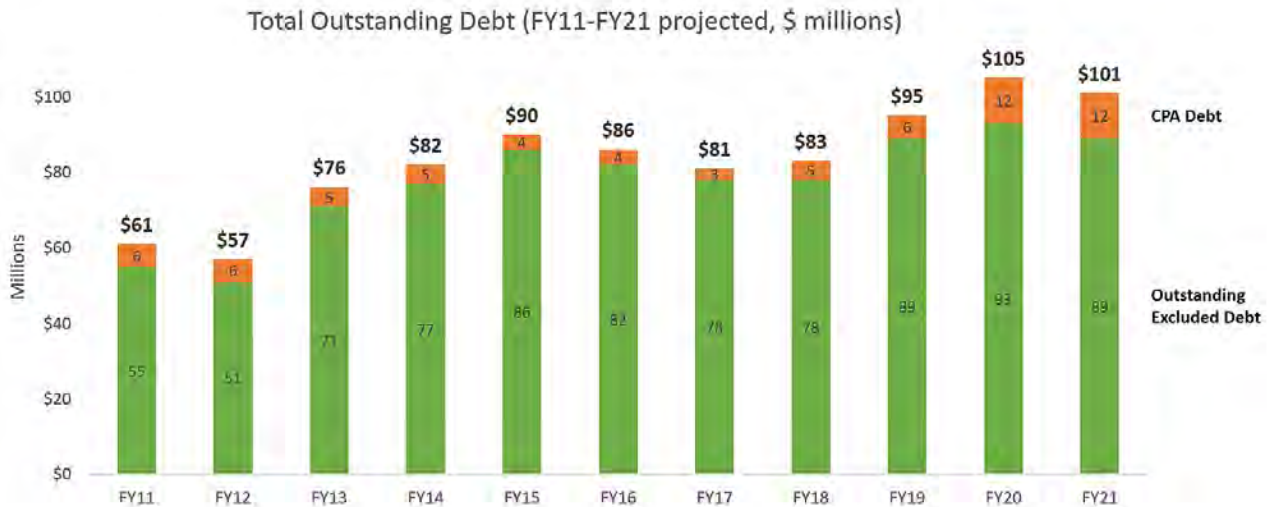
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Actual and Projected Excluded Outstanding Debt – FY11 through FY21

Assumptions:

- Outstanding principal is paid down as scheduled
- Includes FY21 Capital Projects being brought to May 2020 Annual Town Meeting (Drainage Improvements - \$3.0 million)
- Includes FY22 Capital Projects in 5 Year Capital Improvement Plan expected to be brought to May 2021 Annual Town Meeting (Drainage Improvements - \$0.5 million, Culvert Repairs - \$1.4 million, Fire Truck \$0.7 million, Town/School Network Updates - \$0.3 million)
- Includes FY23 Capital Projects in 5 Year Capital Improvement Plan expected to be brought to May 2022 Annual Town Meeting (Drainage Improvements - \$0.5 million, Fire Supply Vehicle - \$0.3 million, Town/School Network Updates - \$0.4 million)
- Includes all outstanding CPA debt funded by CPA surcharge
- Does not include any possible or unforeseen future capital projects not in 5-year Capital Improvement Plan, such as those envisioned by the Recreation Master Plan

Weston’s debt has grown significantly

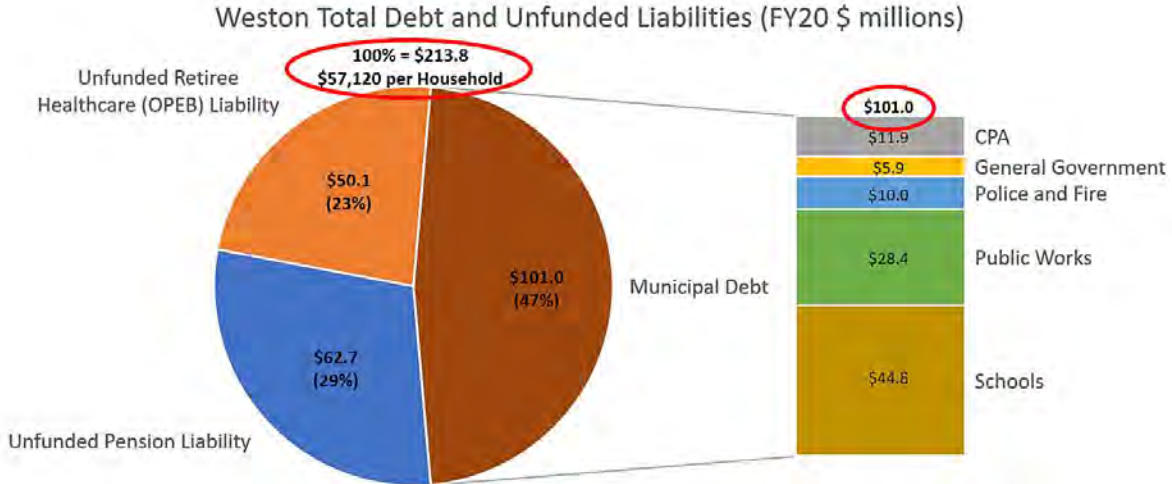


Projected Outstanding General and CPA Debt by Department – FY21

Assumptions:

- Includes all assumptions in previous chart
- Includes Josiah Smith Tavern passed at December 2019 Special Town Meeting

Debt is less than half of financial obligations



In FY2021, the Town’s ratio of debt service to operating revenue will be approximately 11.5% which is approaching the 15% threshold that is a guideline for a Aaa-rated municipality.

On two other key measures relevant to our credit rating, our ratios are more favorable. Total outstanding debt represented only 1.60% of the Town’s total assessed valuation in FY20, well below the 5% General Debt Statutory Limit and the 10% considered a warning indicator by credit rating organizations. However, total outstanding debt as a percent of per capita income was 9.3%, also below the 15% threshold considered a warning indicator by credit rating organizations.

Reserves

Over the past 13 years, total reserves have grown from \$0.6 million in FY05 (when the reserve policy was created) to \$12.2 million as of 12/31/2019. We believe the Town is more than adequately reserved.

As previously discussed, the Town, along with most others in the country, has a significant unfunded OPEB liability. The majority of these costs are far in the future and will be significantly impacted by healthcare inflation, investment returns and possible changes in national healthcare policy. Although not required, starting in 2010, the Town began accumulating funds in a special trust that will allow us to achieve better returns on these investments. The OPEB Trust now stands at \$23.2 million against an actuarial funding requirement of \$70.4 million (29% funded) and we expect to continue to make significant future contributions, until this future liability is fully funded by 2047.

The Town continues to enjoy the highest credit rating on its debt (Aaa), consistent with other affluent Boston-area towns. We will continue to monitor the Town’s Reserve policy with an objective of maintaining the triple-A rating, so as to minimize the Town’s borrowing costs.

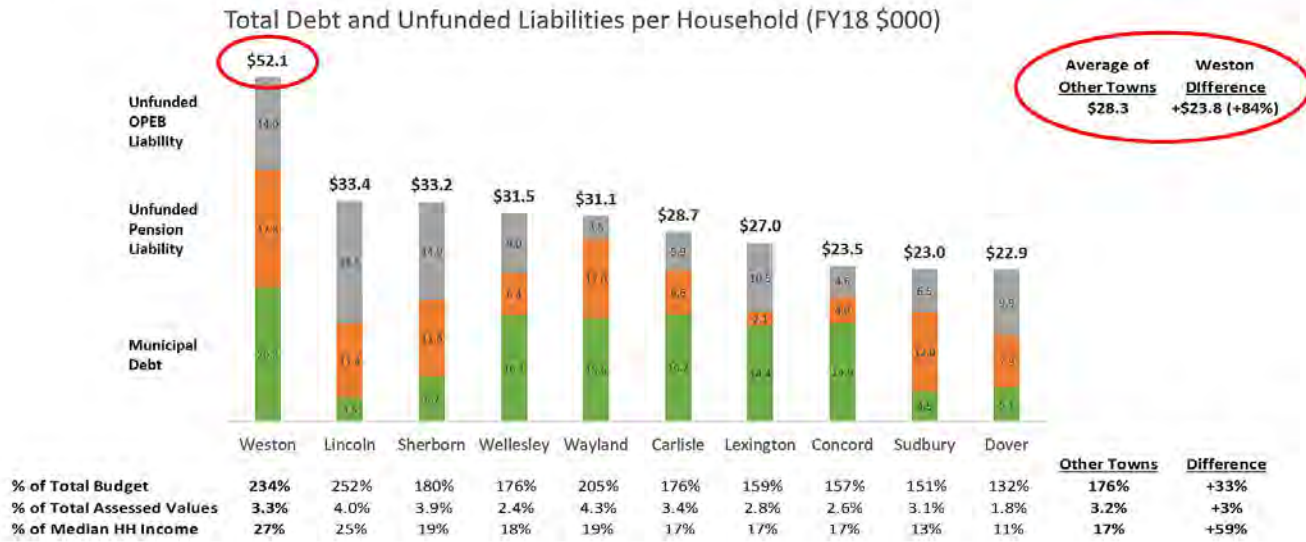
Longer Term View

More than 80% of the Town’s budget is related to personnel costs (School and Municipal), so controlling the growth of these costs directly results in controlling the growth of the budget. Long-term liabilities for pension and retiree healthcare continue to be significant. Outstanding debt is increasing as more large projects are added.

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Weston’s total level of debt and unfunded pension and retiree healthcare liabilities, now approaching a quarter of a billion dollars, is far higher than in comparable neighboring affluent towns on a per household basis. In FY20, Weston’s total debt and unfunded liabilities totaled approximately \$57,120 per household, up from \$52,100 in FY18, itself close to twice the comparable average of about \$28,300 per household (+\$23,800 or +84%). Further, Weston’s debt and unfunded liabilities are 234% our total annual operating budget, compared with neighboring comparable towns averaging debt and unfunded liabilities at 176% of their operating budgets.

These obligations far higher than other towns



We would like to acknowledge the efforts of the various Town Boards and Committees as well as the Department Managers for their work on the fiscal year 2021 budget. We appreciate the time and effort spent by the School Committee and Administration sharing information and answering questions. Lastly, we would like to thank the Town Manager and Finance Department for their tremendous level of support, invaluable insights and passion for town government.

WESTON FINANCE COMMITTEE

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|------------------------|----------------------|
| Gerard J. Jansen | James A. Jarrett |
| John F. McDonald | Karen L. Meslin |
| James D. Philipkosky | Ellen B. Richstone |
| John M. Sallay | Bharath Venkataraman |
| Lisa V. Reitano, Chair | |