
REPORT OF THE FINANCE COMMITTEE

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

- Participating in financial summit meetings with the Selectmen, Town Manager, School Committee and School Administration to discuss current and future financial issues
- Assigning Committee members to conduct detailed budget reviews of each Town department
- Attending and actively participating in all School Budget review meetings
- Informing residents about the budget process through public meetings and this report
- Providing recommendations, where appropriate, to residents on Town Warrant Articles
- Working on specific long-term financial policy issues related to the Town
- Monitoring debt levels and the long-term fiscal health outlook for the Town
- Holding regular open committee meetings to discuss findings of detailed budget reviews and other significant issues affecting the Town

Recommendation

The Finance Committee unanimously recommends the fiscal year 2015 operating and cash capital budgets as presented in the Warrant and further recommended in the Report of the Board of Selectmen. This recommendation is based on the following:

- The budgets are substantially consistent with the following budget principles and objectives: (i) to generally maintain current levels of services to the townspeople while addressing increased demand for services in certain areas, (ii) to provide sufficient funds for building and other infrastructure maintenance to ensure that capital facilities and equipment are properly maintained, and (iii) to provide adequate reserves and contingency funds for certain future expenses and unforeseen circumstances.
- The budgets have been developed responsibly and with due attention to efficiency and cost savings.
- The budgets can be reasonably supported by the Town's tax base and other revenue sources, without jeopardizing the Town's credit ratings and ability to service its debt in coming years.

The operating and cash capital budget totals \$71.4 million, which is an increase of \$0.9 million or 1.2% over the FY14 operating budget. When debt service (exempt from the limits of Proposition 2½) is included, the grand total is \$78.6 million, an increase of \$0.4 million, or 0.5% over the FY14 grand total. Assuming the budget is adopted, the unused tax levy capacity will be over \$4.5 million (5.7% of the proposed budget).

Revenues and Expenses

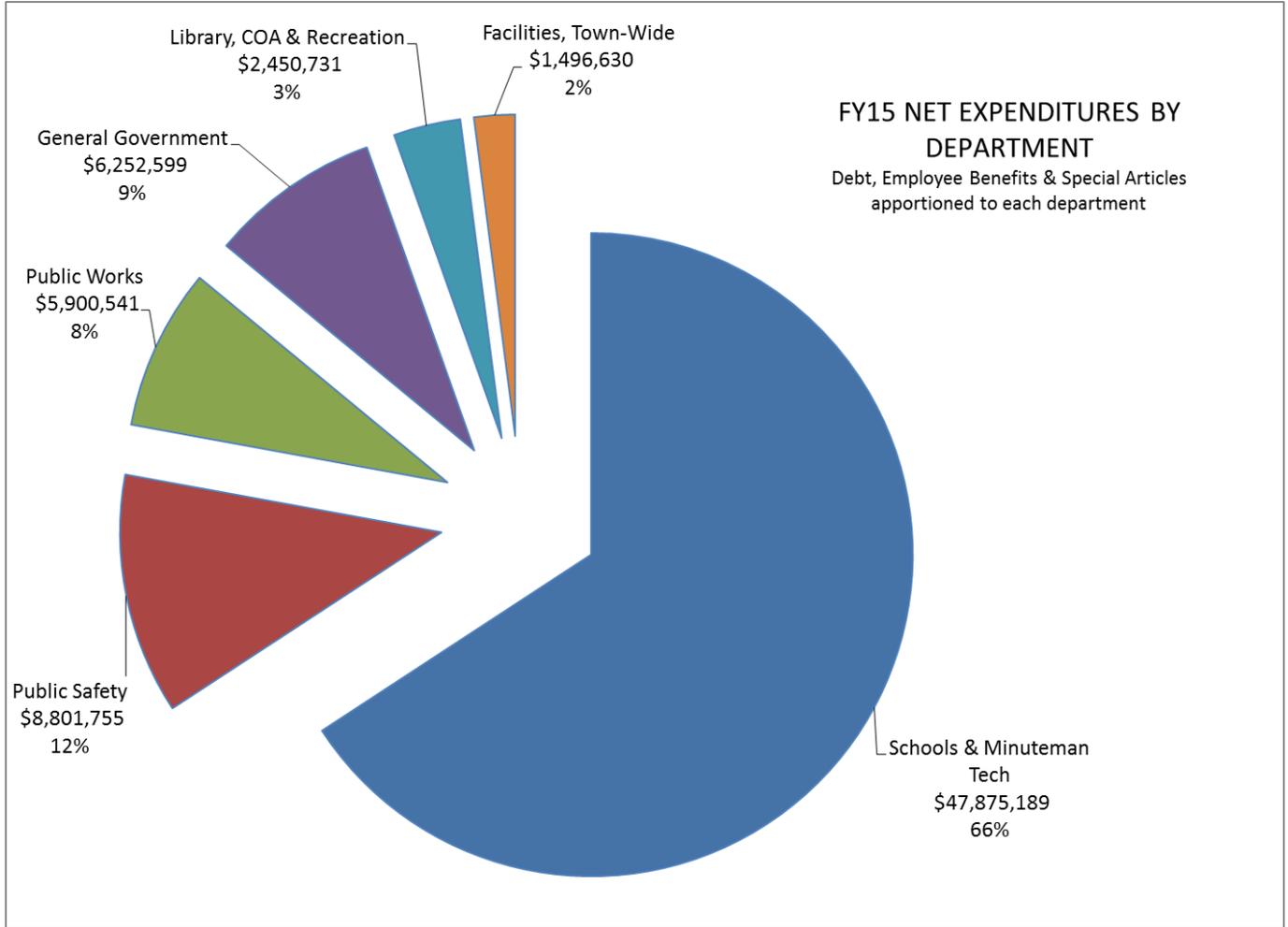
Eighty-five percent of the revenues required to fund this budget will be raised through the property tax levy, similar to the recent past of 85% in both FY14 and FY13. New growth in the tax levy (the increase from new construction) for FY14 was just over \$1 million and is estimated at \$0.6 million for FY15. This means the median home value of \$1,016,800 is projected to see a slight tax decrease of \$51 from \$12,944 in FY14 to \$12,893 in FY15, or 0.4%.

Weston is expected to receive an increase in State Aid in FY15 (primarily Chapter 70 education aid), which is projected to comprise 4.8% of the revenue for FY15 vs. 4.2% for FY14. Local receipts make up another 6.3%, the same proportion as in FY14.

On the expense side, about 66% of spending is for Schools, including the cost of employee benefits and debt service on capital projects for that department. Essential services (Public Safety, Department

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of Public Works and Facilities) make up another 22%. The remainder of expenses are to operate our Town government and for services that are important to the quality of life of residents, such as the Public Library and Council on Aging. Exempt debt service is decreasing by 6% from \$7.7 million to \$7.2 million, and comprises 9% of the overall budget (more on debt service later). It is important to note that the Water Division, Brook School Apartments, and Recreation Department are operated as “enterprise funds,” which means they attempt to self-fund all, or substantially all, of their operating and capital needs through the fees they charge. In recent years, the Water Division and Brook School Apartments have consistently been self-funding with their operations, while our Recreation Department requires approximately 30% of annual funding from our general fund.



The \$0.9 million budget increase has the following major components:

School Department	\$ 967,969
Middlesex Retirement System	261,849
Salaries (Municipal)	137,247
Reduction in Cash Capital Projects	(535,000)
All other Changes – Net	<u>(16,181)</u>
Total increase fiscal year 2014 to fiscal year 2015	\$ 867,749

New requests for additional or expanded services to accommodate increased demands represent a net increase of \$61,000 in the FY15 budget. Also included in the operating budget is a \$325,000 cash capital request for Fire Department equipment and an improved pedestrian crossing signal on School Street at the Library. The Town is making a concerted effort to reduce borrowing for capital

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expenditures, and instead immediately pay for these using available cash or including them in the operating budget, particularly those that recur annually like roadway improvements, or that have a limited lifecycle and tend to be replaced regularly like police cruisers, DPW vehicles and school buses.

Schools

Weston has a longstanding tradition of supporting excellence in public education. Not only is this a worthwhile investment in our children, but the quality of our schools is a key attribute in the attractiveness of our town.

Maintaining a high quality school system is expensive, and the School budget is rising in FY15 by \$967,969 or 2.7%, despite a projected 2% decline in enrollment. The main components of the increase are rising salaries of \$761,620 and Special Education of \$247,559, offset by reductions of \$41,210 in other areas. Salary increases are driven by existing collective bargaining agreements which include for FY15 a 2% cost of living increase for teachers, in addition to longevity and education step increases.

The student to teacher ratio in Weston is lower than in peer school districts, yet the average class size is higher, and Weston residents pay the highest per pupil cost in Massachusetts, according to certain published figures. Also, it is difficult to understand increases greater than inflation, especially in light of declining enrollment. We continue to encourage the School Committee to evaluate areas of cost reduction in staffing levels, pupil services and operations and maintenance, and to explore published figures with regard to per pupil expenditures and class sizes in more detail to gain a better understanding of comparative performance and potential cost savings. The challenge remains maintaining the high quality of the school system demanded by Town residents at a cost that is comparable to peer districts and that residents are willing to support.

Town Government

This part of the budget includes Public Safety, Public Works, the Library, Council on Aging, and Town Hall departments. Despite continuing demand for services and information requests, the FY15 budget is decreasing. We consider this budget to be disciplined and well managed, and we would like to highlight the exceptional level of transparency with respect to our Town government. Whether you are looking for detailed budget information, agendas for meetings, histories of past projects or wish to remit payment for tax bills, the Town website (www.weston.org) offers all of these options. In addition, we are pleased to acknowledge that the Government Finance Officers Association of United States and Canada (GFOA) recently awarded its Distinguished Budget Presentation Award to the Town for its FY14 budget.

Healthcare Costs

All Town and School employees belong to health insurance plans provided by the Massachusetts Group Insurance Commission. After years of large increases, recent plan rate increases have stabilized: 3.5% in FY12, 1.6% in FY13, 4.4% in FY14 and only 1% in FY15.

Pension and Retiree Healthcare Costs

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

As of January 1, 2012, the Town's pension liability was underfunded by \$52.7 million. Massachusetts law recently extended the timeframe by which municipal pension plans must be fully funded. The Middlesex 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 from Middlesex Retirement System to fulfill this obligation. The FY15 assessment is \$4.1 million.

With respect to OPEB, the Town currently pays for retiree healthcare costs each year as they come due. With that said, the most recent actuarial study completed in the fall of 2013 estimated the Town's future liability to be \$79 million as of July 1, 2012, if the Town continues to fund on a pay-as-you-go basis. If pre-funded, the liability is reduced to an estimated \$47 million. Unlike the pension liability, at

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present no law requires funding the OPEB liability, but the Selectmen and Finance Committee believe the prudent and responsible course is to fund this liability over time, rather than leaving it solely as a burden to future taxpayers. On an ongoing basis, the Committee recommends providing funding in the range of \$1.5 to \$1.7 million annually, a level deemed prudent toward funding this liability. As of December 31, 2013 the OPEB reserve balance was \$6.9 million and the recommended FY15 appropriation is \$1.6 million.

Capital Spending, Debt Levels, and Credit Rating

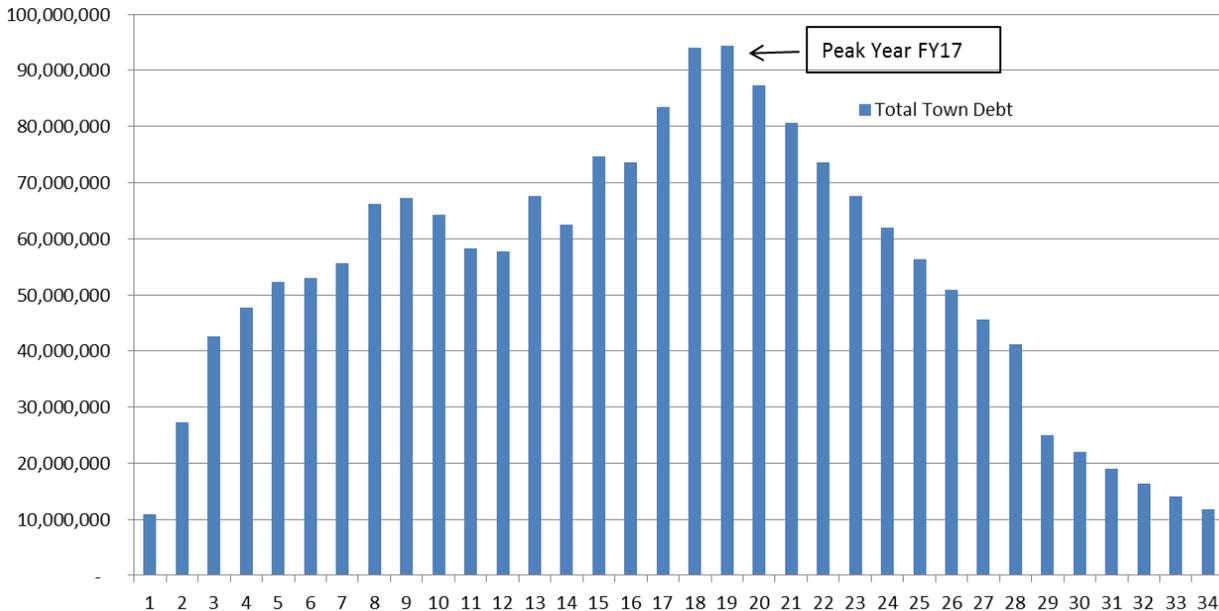
Since 1992 the Town has undertaken, or is in the process of undertaking, a number of capital projects totaling nearly \$170 million. This includes major renovations of all the schools, a new High School Science Wing, construction of the new Field School, Library, Community Center, DPW, and an addition to the Town Hall. Including the proposed new Police Station, outstanding debt against these projects (as well as a number of smaller projects), once fully bonded, will total approximately \$94 million.

We don't take this number lightly, and the Finance Committee monitors the Town's debt levels on an ongoing basis. It is important to note that the Town's debt amortizes between a 5-30 year time period depending on the useful life of each project and legal limitations. It is expected that total debt service for FY15 will be \$8.7 million, with over \$6.8 million being principal payments, which represents a decrease of 4% from FY14. The Town also opportunistically refinances the interest rate it pays on debt when appropriate and allowed by law. Recent refunding of 4 bonds achieved \$1.9 million in savings. For FY15, additional borrowing will be \$15.2 million which consists mainly of \$12.2 million for the new Field School. The Town's total outstanding debt as of June 30, 2013 was \$74.7 million, and is estimated to be \$73.6 million on June 30, 2014.

Actual and Projected Total Debt – FY99 through FY32

Assumptions:

- Includes fully bonded Field School, Police Station
- Principal being paid down as scheduled



Note: Approximately \$10 million of outstanding debt serviced through enterprise funds (Water, BSA) and Community Preservation.

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While we will issue an additional \$24 million of debt to fund the new Field School and future Police Station project (if approved), the Town's ratio of debt service to operating revenue is not expected to exceed the 15% threshold that is desired for a Aaa-rated municipality. At its peak in fiscal year 2016, the debt service ratio is estimated to reach 13.4%.

In two other key measures relevant to our credit rating, our ratios are very favorable. Total outstanding debt represented 1.4% of the Town's total assessed valuation in FY13, well below the 10% considered a warning indicator by credit rating organizations. And total outstanding debt as a percent of per capita income was 6.7%, also well below a 15% threshold considered a warning indicator by credit rating organizations.¹

Our Aaa credit or bond rating is very important in minimizing borrowing costs and maintaining our financial flexibility; therefore, the Town will have to be prudent about the timing and size of future long-term capital projects, and make difficult decisions in prioritizing desired enhancements to the town.

Reserves

The Finance Committee believes developing reserves is important to the long-term fiscal health and stability of Town finances, and helpful in maintaining the Town's credit rating. In 9 years, total reserves have grown from \$.6 million in FY05 to \$4.9 million as of FY14. In addition to this is \$6.9 million dedicated to our OPEB liability.

Specific Warrant Recommendations

As previously mentioned, one of the Finance Committee's primary responsibilities is to advise residents with respect to financial matters. The Finance Committee discusses these issues over the course of the year and takes positions on various Town Meeting warrant articles, some of which require further explanation below.

Article 21 Intersection Improvements at Brown & Wellesley Streets

By a 5-4 vote, the majority believed less expensive options were possible, and some support the current use of a police detail. The minority defers to the Traffic Committee and believes this is the optimal solution.

Article 32 Reduce the CPA Surcharge from 3% to 1%

By a 7-2 vote, the majority supports the reduction for the following reasons: 1) concern over rising taxes driven in part by necessary debt overrides to fund Field School and the new police station 2) chronic large unutilized CPA fund balances 3) it will encourage the Town to prioritize critical projects and 4) the surcharge may be raised in the future should new projects be approved which often come with long lead times. The minority believes that this petition presents a quality of life question with an inherent funding mechanism, the costs and benefits of which should be weighed directly by residents without need for a recommendation from the Finance Committee.

Article 33 Reuse of Old Library

By unanimous vote, we believe any preferences could limit the Town's options and should be deferred until the Josiah Smith Tavern/Old Library Working Group has finished its deliberations.

Longer Term View

More than 79% 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. Although the Town's healthcare costs have stabilized, long-term liabilities for pension and retiree healthcare continue

¹ The 6.7% debt to per capita income is based upon the Internal Revenue Service's 2005 per capita income for Weston of \$96,475.

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to be significant. Additionally, debt service increases related to the new Field School and Police Station, will cause the Town's debt service to peak in FY16.

Although regular debt exclusion overrides to Proposition 2 ½ for capital projects have been approved by voters, there has been no override of Proposition 2 ½ required for the operating budget since FY07. In fact, as previously mentioned, the Town has excess levy capacity of more than \$3 million.

Given projected budget increases and projected debt service increases due to the new Field School and Police Station, our tax bill is projected to increase an average of 3% per year over the next five years.

The Finance Committee would like to acknowledge the efforts of the Board of Selectmen, the School Committee and Administration, the Town Administration and Department Managers and the other Town Boards for their work on the fiscal year 2015 budget. The development of the budget is a complicated endeavor, requiring the cooperation of numerous constituents. All parties involved have once again exhibited a high degree of cooperation and professionalism, resulting in prudent operating and cash capital budgets.

WESTON FINANCE COMMITTEE

Alexander R. Cobb	Christopher E. Houston
Gerard Jansen	Keith D. Johnson
Ellen B. Richstone	Lisa V. Reitano
Matthew Rosenthal	Valerie J. Shey
John F. McDonald, Chair	