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## 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. 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 Selectmen, Town Manager, School Committee and School Administration.
- 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**

Although we unanimously recommend the fiscal year 2017 operating and cash capital budgets as presented in the Warrant and further recommended in the Report of the Board of Selectmen, we are very concerned about the continuing increases in the school budget in light of decreasing enrollment.

Our 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 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 \$76.3 million, which is an increase of \$1.36 million or 1.8% over the FY16 operating budget. When debt service (that Weston voters have specifically exempted from the limits of Proposition 2½) is included, the grand total is \$84.5 million, an increase of \$1.6 million, or 2.0% over the FY16 grand total.

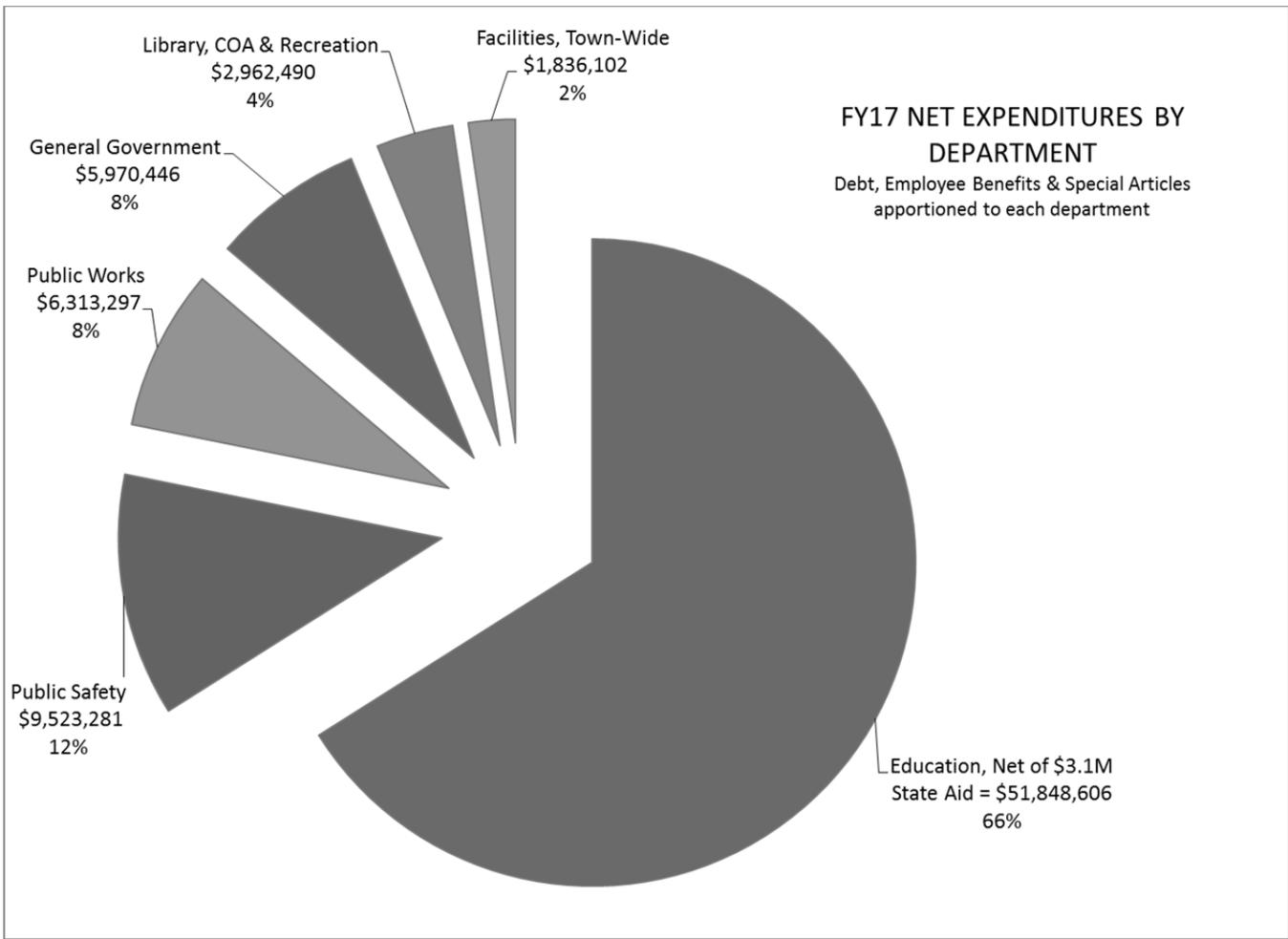
### **Revenues and Expenses**

Eighty-six percent of the revenues required to fund this budget will be raised through the property tax levy. New growth in the tax levy (the increase from new construction) for FY16 was just over \$900 thousand and is estimated at \$600 thousand for FY17. This means the median home value of \$1,152,000 is projected to see a real estate tax increase of \$415 from \$14,008 in FY16 to \$14,423 in FY17, or 2.96%.

Weston is expected to receive a slight increase in State Aid in FY17 (primarily Chapter 70 education aid), which is projected to comprise 5.5% of the revenue for FY17. Local receipts make up another 6.6%.

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 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 increasing by 3.4% from \$7.9 million to \$8.2 million, and comprises 9.9% of the overall budget.

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The \$1.36 million budget increase has the following major components:

School Department	\$ 601,212
Group Health Insurance & Medicare	361,476
Municipal Increases Above Level Service	354,948
Middlesex Retirement System	287,644
Salaries (Municipal)	168,491
Facilities Improvement –Town Wide	176,097
Post Employment Benefits Reserve	45,592
Fire Equipment	(210,000)
All other Changes – Net	<u>(421,584)</u>
<b>Total increase FY16 to FY17</b>	<b>\$ 1,363,876</b>

**Schools**

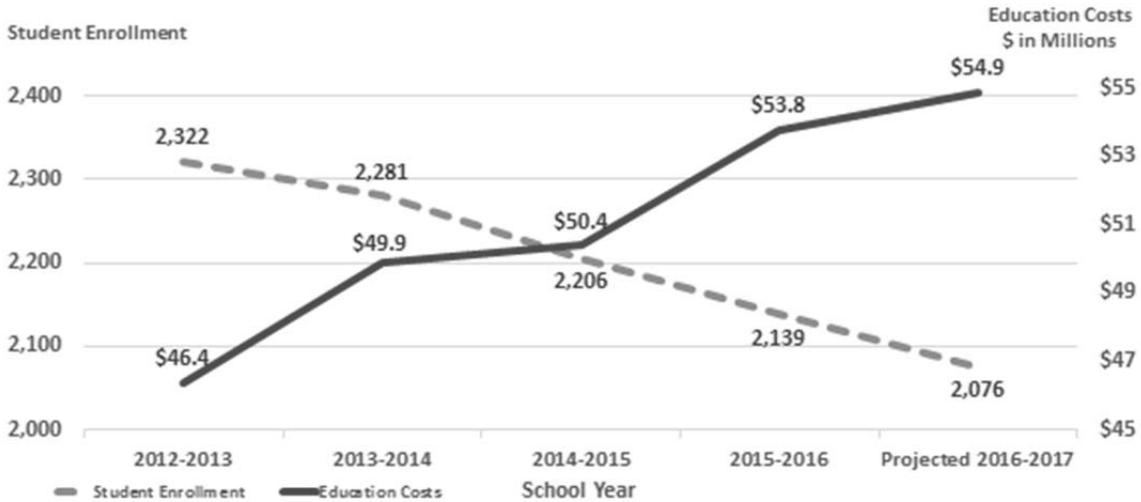
Weston has a longstanding tradition of supporting excellence in public education. However, we are troubled by the rate of growth of the School budget in recent years despite declining enrollment. In FY17, this budget is rising by over \$601,212 or 1.6% even though enrollment is projected to decline by 3%. We are concerned by the high level of administrative costs. Only 60% of the 412 school employees are in professional positions. The other 40% are classified as student support, administrators, other support, maintenance and drivers. We note that while we have a low student-teacher ratio it is not reflected in lower class sizes. In addition, the technology budget has increased 23% from FY14 to FY17 while enrollment dropped 9%. However, there is no plan to measure the benefit of this spending. As we have now for several years, we continue to recommend that the School Committee evaluate

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areas of cost control and reduction. They should explore published figures from peer districts 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 graph below illustrates how the total cost of Education including related debt and benefits are rising despite a significant drop in enrollment and projected further declines in enrollment.

**Rising Cost of Education in Contrast to Declining Student Enrollment**



**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 \$1,042,072 or 3.0%. This includes \$250,000 in anticipated electricity savings from the generation of solar energy from the new solar installation at the Town’s closed landfill.

The three largest contributors to the increase were Health Insurance (\$351K), Retirement (\$288K) and Road Maintenance (\$250K). The increase for road maintenance is to recognize that the current level of funding is not sufficient. Between State funds and the Town budget, Weston is funding less than what is needed to keep the roads in reasonable condition. Future budget increases in this area may be recommended.

**Healthcare Costs**

All Town and School employees belong to health insurance plans provided by the Massachusetts Group Insurance Commission. Previously, plan rate increases had stabilized. Last year’s increase of 6.7% and the FY17 increase of \$351,476, or 3.6%, is higher than prior years. The GIC has raised premium rates in the most utilized plans in order to fund the higher level of claims.

**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 January 1, 2014, an actuarial study determined that the Town’s pension liability was underfunded by \$55.6 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 to Middlesex Retirement System to fulfill this obligation. The FY17 assessment is \$4.56 million.

With respect to OPEB, the Town currently pays for retiree healthcare costs each year as they come due. The town also prefunds future health care costs for current employees as well as partially prefunding amortized health care costs for current and prior employees that were not prefunded. With that said, the most recent actuarial study completed in Dec. 2015 estimated the Town’s future liability to be \$75 million as of July 1, 2014, if the Town continues to fund on a Partial Pre-Funding basis. If Fully Pre-Funded, the liability is reduced to an estimated \$60 million. Unlike the pension liability, at 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. In addition, a new GASB standard will change how we need to calculate this liability in 2018. This year we recommend an additional contribution of \$1.65 million. As of December 31, 2015 the OPEB reserve balance was \$11.1 million.

**Capital Spending, Debt Levels, and Credit Rating**

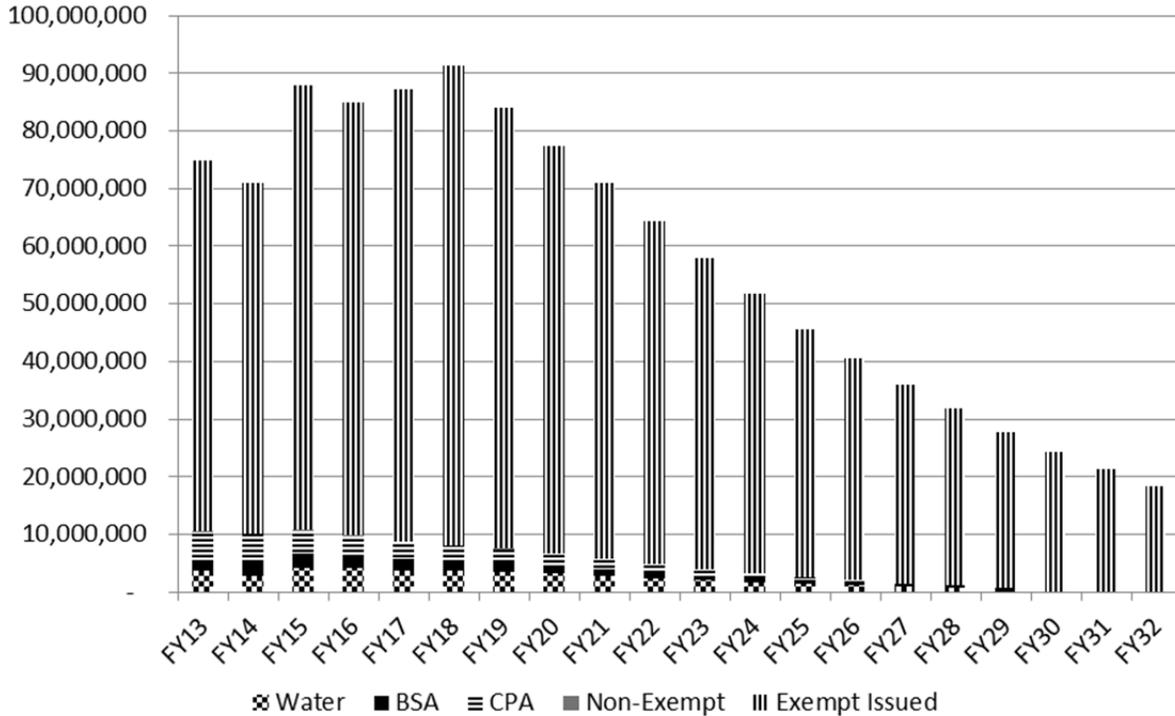
Since 1992 the Town has undertaken a number of capital projects totaling nearly \$170 million. This includes major renovations of the schools, construction of the new Field School, Library, Community Center, DPW, Police Station and an addition to the Town Hall. Outstanding debt against these projects (as well as a number of smaller projects), once fully bonded, which is estimated to be in FY18, will reach approximately \$91 million. See chart below.

It is expected that total debt service for FY17 will be \$8.2 million, with over \$6.3 million being principal payments, which represents an increase of 3% from FY16. The Town also opportunistically refinances the interest rate it pays on debt when appropriate and allowed by law. The Town benefits from very low interest rates, because of its Aaa bond rating and the current borrowing climate. For FY17, anticipated additional borrowing will be \$6 million which consists of \$2.0 million for the new Field School, \$1.3 million for the Police Station Construction, \$0.5 million for the Case Campus Master Plan, \$0.4 million for the Case Estates and the remainder would be Traffic, Drainage and Water projects. The Town’s total outstanding debt is estimated to be \$85 million on June 30, 2016.

**Actual and Projected Total Debt – FY13 through FY32**

Assumptions:

- Includes fully bonded Field School, Police Station
- Includes Future Bonding of Case House and Proctor Field Construction in FY19
- Principal being paid down as scheduled



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

While we have issued an additional \$4.3 million of debt to fund a portion of the Field School, new Police Station, Case Campus Improvements and miscellaneous drainage and water projects in FY2016, 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 2019, the debt service ratio is estimated to reach 11.2%.

On two other key measures relevant to our credit rating, our ratios are extremely favorable. Total outstanding debt represented only 1.45% of the Town’s total assessed valuation in FY16, well below the 10% considered a warning indicator by credit rating organizations. And total outstanding debt as a percent of per capita income was 3.81%, also well below a 15% threshold considered a warning indicator by credit rating organizations.<sup>1</sup>

**Reserves**

Over the past 11 years, total reserves have grown from \$0.6 million in FY05 to \$5.6 million as of FY16. In addition to that, \$11.1 million has been set aside to address our OPEB liability. On an ongoing basis, we monitor the Town’s Reserve Policy in order to ensure that prudent levels of reserves are being maintained.

<sup>1</sup> The ratio of debt to household income is based upon the U.S. Census Bureau’s 2014 household income for Weston of \$192,563.

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**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. Debt service related to the new Field School and Police Station will cause the Town's debt service to peak in FY19.

Given projected budget increases and projected debt service increases our tax bill is projected to increase an average of 2.4% per year over the next five years.

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 2017 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 Director for their tremendous level of support, invaluable insights and passion for town government.

**WESTON FINANCE COMMITTEE**

Gabrielle Clemens	Gerard Jansen
James A. Jarrett	Keith D. Johnson
Sandra Metraux	James D. Philipkosky
Lisa V. Reitano	Ellen B. Richstone
John F. McDonald, Chair	