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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.
- Meet with individual town departments as budgets are developed.
- 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**

We unanimously recommend the fiscal year 2018 operating and cash capital budgets as presented in the Warrant and further recommended in the Report of the Board of Selectmen. However, we remain concerned about 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) maintain current levels of services to the townspeople while addressing increased demand for services in certain areas, (ii) provide sufficient funds for building and other infrastructure maintenance to ensure that capital facilities and equipment are properly maintained, and (iii) ensure adequate reserves and contingency funds for certain future expenses and unforeseen circumstances.
- The budgets can be 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 \$78.4 million, which is an increase of \$2.05 million or 2.7% over the FY17 operating budget. When debt service (that Weston voters have specifically exempted from the limits of Proposition 2½) is included, the grand total is \$87.4 million, an increase of \$1.98 million, or 2.3% over the FY17 grand total.

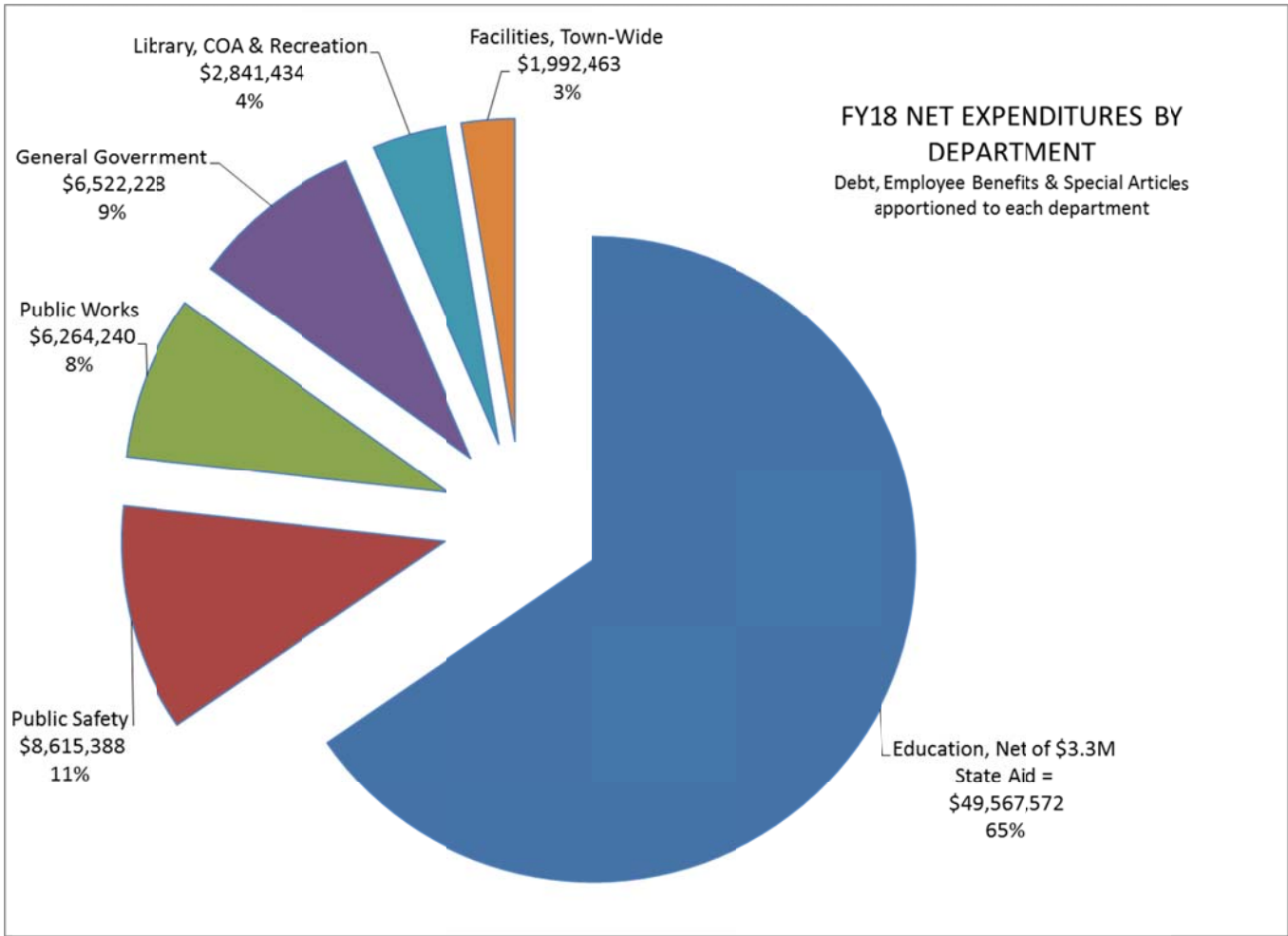
### **Revenues and Expenses**

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 FY17 was just over \$1.1 million and is estimated at \$600,000 for FY18. This means the median home value of \$1,162,400 is projected to see a real estate tax increase of \$430 from \$14,809 in FY17 to \$15,239 in FY18, or 2.90%.

Weston is expected to receive a level amount of State Aid in FY18 which is projected to comprise 4.8% of the revenue for FY18. Local receipts make up another 6.5% (Motor Vehicle Excise being the largest local receipt at \$2.5 million).

On the expense side, about 65% of spending is for Schools, including the cost of employee benefits and debt service on capital projects. 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 2.1% from \$8.87 million to \$9.06 million, and comprises 10.4% of the overall budget.

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The \$2.05 million budget increase has the following major components:

	<u>Dollar Increase</u>	<u>% Increase</u>
Municipal Increases Above Level Service	\$ 560,044	0.7%
School Department	526,116	1.4%
Salaries (Municipal)	432,254	3.6%
Middlesex Retirement System	234,595	5.1%
Facilities Improvement –Town Wide	92,546	5.4%
Group Health Insurance & Medicare	87,471	0.8%
Post Employment Benefits Reserve	73,963	4.5%
All other Changes – Net	<u>44,155</u>	<u>0.1%</u>
<b>Total increase FY17 to FY18</b>	<b>\$ 2,051,144</b>	<b>2.7%</b>

**Schools**

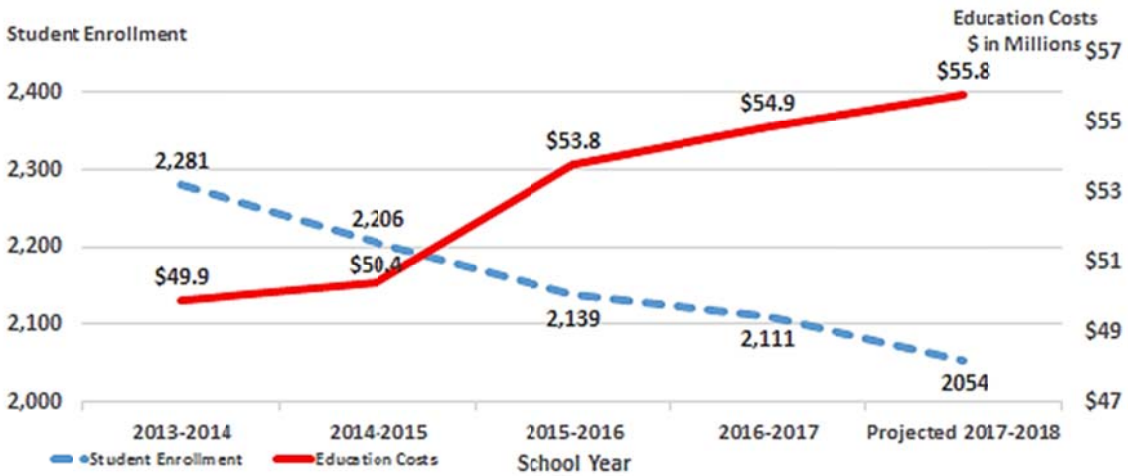
Weston has a longstanding tradition of supporting excellence in public education and the Finance Committee understands that priority. However, we are troubled by the rate of growth of the School budget in recent years despite declining enrollment. In FY18, this budget rises by \$526,116 or 1.36% even though enrollment is projected to decline by 3%. We are concerned by the high level of administrative costs, including a leadership structure that is much more expensive than our peer towns. 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 18% over four years (from FY14 to FY18) while enrollment is projected to decline by 10%. Although the School Committee has been considering how best to manage costs in the areas of Technology, there is no plan to measure the benefits. As

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enrollment continues to decline, we believe that serious consideration should be given to aligning the schedules of both the Middle School and the High School to lower shared curriculum costs. As we have for several years, we again recommend that the School Committee evaluate areas of cost control and reduction. They should explore published figures from peer districts with regard to per pupil expenditures, number of classes taught by teachers, and class sizes. This will give the Town 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 \$300,000 in anticipated electricity savings from the generation of solar energy from the new solar installation at the Town’s closed landfill.

The largest contributors to the increase were Facilities & Field Maintenance (\$271K), Retirement (\$234K), Health Insurance (\$105K) and Road Maintenance (\$100K). 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 (GIC). Previously, plan rate increases had stabilized. Last year’s increase was 3.6% and the FY18 increase is \$105,438 or 1.0%.

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### **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, 2016, an actuarial study determined that the Town's pension liability was underfunded by \$60.4 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 FY18 assessment is \$4.79 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 December 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, 2016 the OPEB reserve balance was approximately \$13.1 million.

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

Since 1994 the Town has authorized a number of large capital projects totaling nearly \$175 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 and the Case Estates Land acquisition. Outstanding debt against these projects (as well as a number of smaller projects), once fully bonded, which is estimated to be in FY19, will reach approximately \$84 million. See chart below.

It is expected that total debt service for FY18 will be \$9 million, with over \$6.3 million representing principal payments. 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. Fortunately, all of the Town's debt is fixed, so current outstanding borrowings are not affected by rising interest rates.

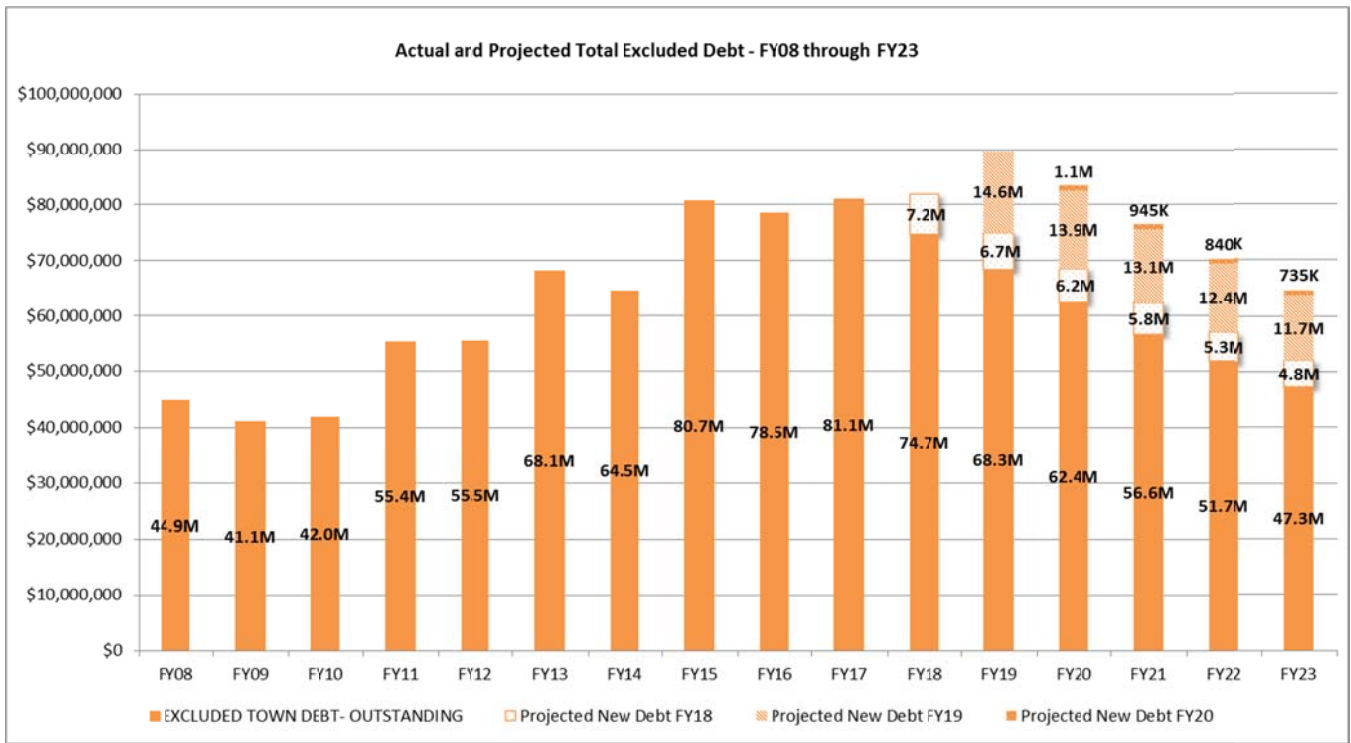
For FY18, we anticipate additional borrowing of \$7.8 million consisting of \$3.9 million for the Proctor Field, \$0.6 million for the High School Field #1, \$1.45 million for the Case Campus Master Plan, \$0.86 million for the Water Wireless Meter Reading project, along with various Traffic, Drainage and Water Main projects. The Town's total outstanding debt is estimated to be \$93 million on June 30, 2017.

**Actual and Projected Total Debt – FY08 through FY23**

Assumptions:

- Outstanding principal being paid down as scheduled
- Fully bonding Case Campus Master Plan, Proctor Field Construction, High School Track #1 Construction and Town Center Utility Burying-Design Fees in FY18
- Future bonding of Town Center Master Plan and Burying Utilities Construction and Case House Rehabilitation in FY19 (if design and construction costs for projects are approved)
- Future bonding of Drainage Improvements and Fire Equipment in FY20
- Does not include additional unforeseen debt projects

**Proposed New Projects Drive Debt to New Peak Levels**



While we have issued an additional \$6.4 million of debt to fund a portion of the Field School, new Police Station, Case Campus Improvements, Case Estates acquisition, Council on Aging design fees, intersection improvements and miscellaneous drainage and water projects in FY2017, the Town’s ratio of debt service to operating revenue is not expected to exceed the 15% threshold that is a guideline for a Aaa-rated municipality. At its peak in fiscal year 2019, the debt service ratio is estimated to reach 11.4%.

On two other key measures relevant to our credit rating, our ratios are extremely favorable. Total outstanding debt represented only 1.36% of the Town’s total assessed valuation in FY17, well below the 10% considered a warning indicator by credit rating organizations. And total outstanding debt as a percent of per capita income was 3.71%, also well below a 15% threshold considered a warning indicator by credit rating organizations.<sup>1</sup>

<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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**Reserves**

Over the past 12 years, total reserves have grown from \$0.6 million in FY05 to \$6.2 million as of FY17. We believe the Town is more than adequately reserved and that these reserves should be capped.

As previously discussed, the Town, along with most others in the country, has a significant 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 \$13.1M and we expect to continue to make significant future contributions.

The Town continues to enjoy the highest credit rating on its debt (Aaa), and we will continue to monitor the Town's Reserve policy with an eye toward maintaining it.

**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. If all projects are passed, debt service related to the Town Center Master Plan and burying of utilities, and Case House Rehabilitation 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 2018 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	