
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 populace on financial matters and other questions coming before the Town or affecting the interests of the Town. In turn, the Committee makes 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
- Providing recommendations, where appropriate, to residents on Town Warrant Articles
- 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 2016 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 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 \$74.8 million, which is an increase of \$2.7 million or 3.8% over the FY15 operating budget. When debt service (that Weston voters have specifically exempted from the limits of Proposition 2½) is included, the grand total is \$82.7 million, an increase of \$3.4 million, or 4.3% over the FY15 grand total.

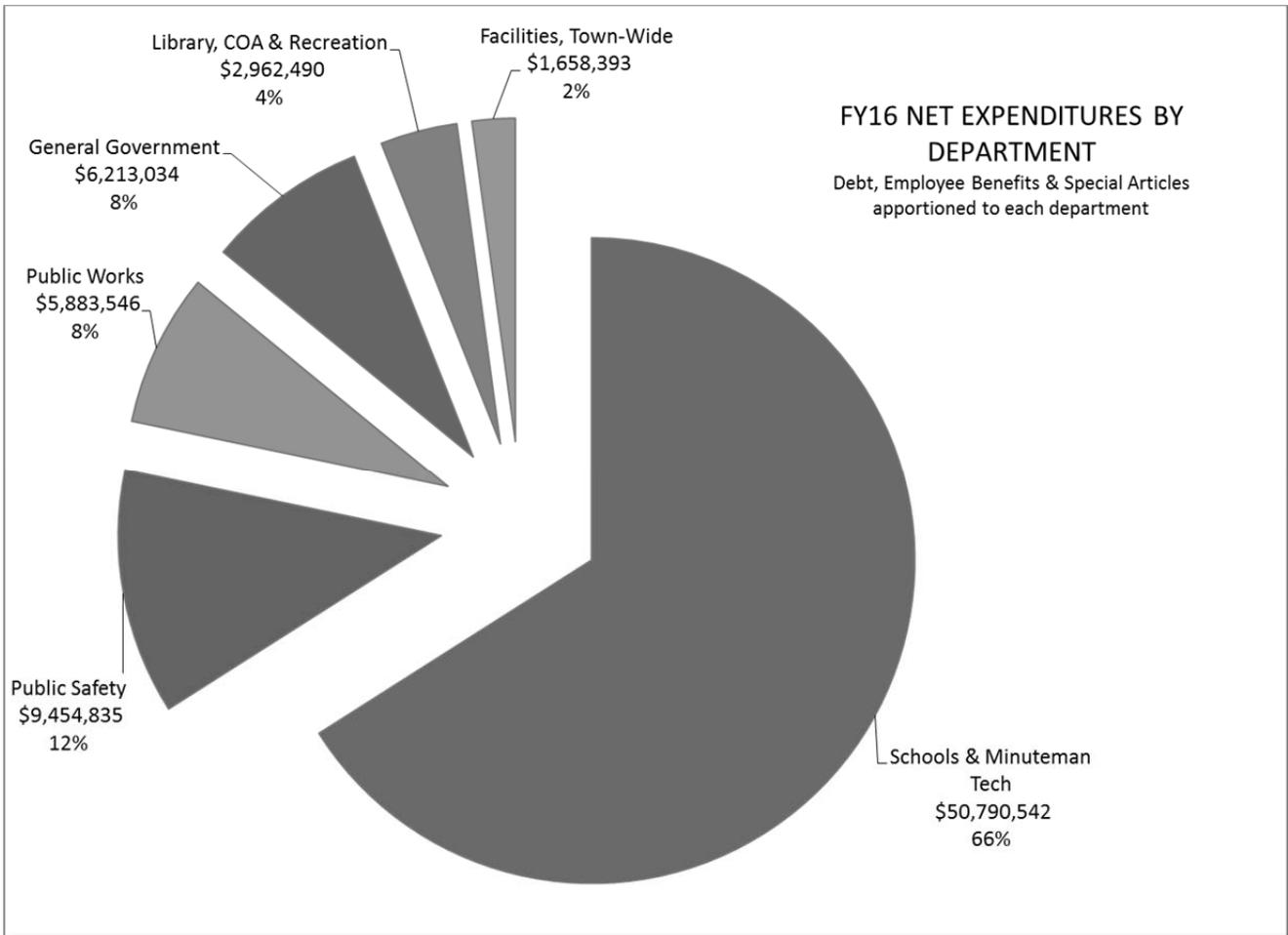
Revenues and Expenses

Eighty-five 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 FY15 was just under \$1.2 million and is estimated at \$0.6 million for FY16. This means the median home value of \$1,098,800 is projected to see a tax increase of \$318 from \$13,493 in FY15 to \$13,811 in FY16, or 2.36%.

Weston is expected to receive a slight increase in State Aid in FY16 (primarily Chapter 70 education aid), which is projected to comprise 5.5% of the revenue for FY16. Local receipts make up another 6.3%.

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 9.8% from \$7.2 million to \$7.9 million, and comprises 9.6% of the overall budget.

2015 ANNUAL TOWN MEETING



The \$2.7 million budget increase has the following major components:

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| School Department | \$ 1,598,720 |
| Group Health Insurance | 662,106 |
| Municipal Increases Above Level Service | 428,711 |
| Middlesex Retirement System | 131,087 |
| Salaries (Municipal) | 196,625 |
| Facilities Improvement –Town Wide | (336,905) |
| All other Changes – Net | <u>29,950</u> |
| Total increase FY15 to FY16 | \$ 2,710,294 |

Schools

Weston has a longstanding tradition of supporting excellence in public education. The quality of our schools is one of the key attributes in the attractiveness of our town. However, we are concerned by the high rate of growth of the School budget in recent years. In FY16, this budget is rising by just under \$1.6 million or 4.4%, despite a projected decline in enrollment. Therefore we continue to recommend that the School Committee evaluate areas of cost control and reduction, and 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. We appreciate the time and effort spent by the School Committee and Administration sharing information and answering questions.

2015 ANNUAL TOWN MEETING

Town Government

This part of the budget includes Public Safety, Public Works, the Library, Council on Aging, and Town Hall departments. After two years of declining budgets, the Town budget is increasing by \$1,153,161 or 3.4%. A new Deputy Fire Chief, a Fields Coordinator, and an additional Police Sergeant are necessary in order to accommodate increased demand for services. In addition, we have increased our budget for road maintenance 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: 3.5% in FY12, 1.6% in FY13, 4.4% in FY14 and only 1% in FY15. In FY16 the increase is \$662,106 or 6.7%, because overall, premium rates have not been at a high enough level to fund claims.

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, 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 FY16 assessment is \$4.27 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 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. This year the the Committee recommends an additional contribution of \$1.6 million. As of December 31, 2014 the OPEB reserve balance was \$9.2 million.

Capital Spending, Debt Levels, and Credit Rating

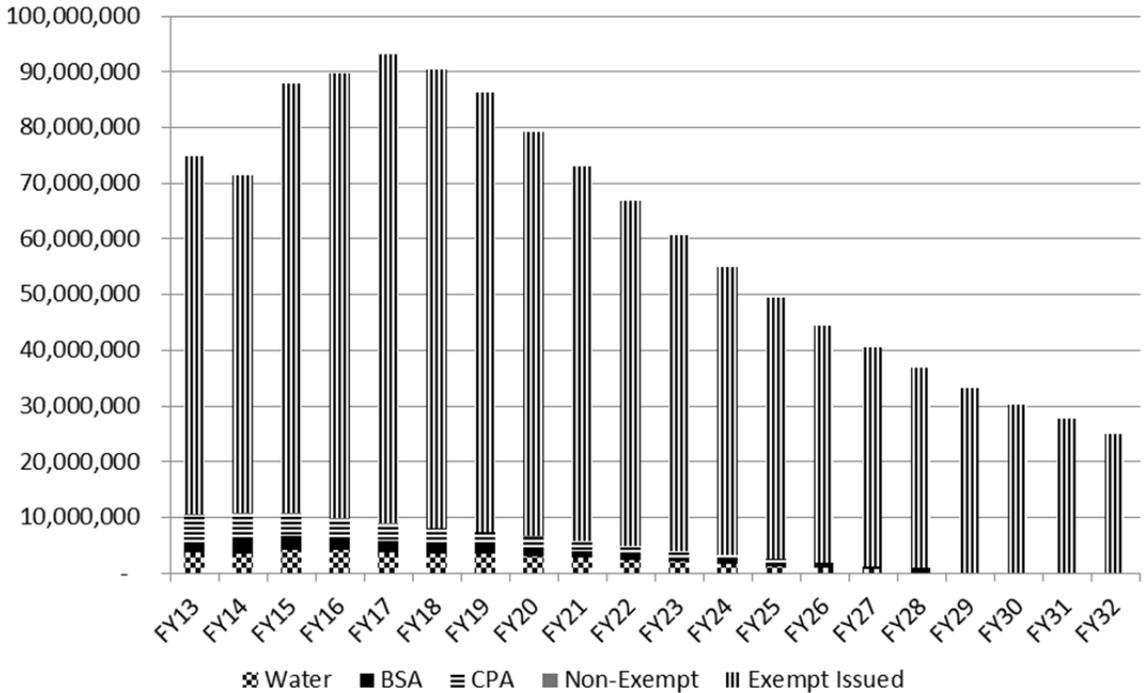
Since 1992 the Town has undertaken, or is in the process of undertaking, a number of capital projects totaling nearly \$170 million. This includes major renovations of all the schools, a new High School Science Wing, construction of the new Field School, Library, Community Center, DPW, and an addition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

It is expected that total debt service for FY16 will be \$9.4 million, with over \$7.3 million being principal payments, which represents an increase of 10% from FY15. The Town also opportunistically refinances the interest rate it pays on debt when appropriate and allowed by law. Recent refunding of one bond achieved \$130,000 in savings. The Town benefits from very low interest rates, because of its Aaa bond rating and the current borrowing climate. For FY16, anticipated additional borrowing will be \$9 million which consists of \$1.5 million for the new Field School, \$2.9 million for the Police Station Construction, \$1.7 million for the Case Campus Master Plan and the remainder would be Traffic, Drainage and Water projects. The Town's total outstanding debt as of June 30, 2014 was \$71.4 million, and is estimated to be \$88 million on June 30, 2015.

Actual and Projected Total Debt – FY13 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, Brook School Apartments) and Community Preservation.

While we have issued an additional \$20 million of debt to fund the new Field School and future Police Station project in FY2015, 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 2017, 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 1.45% of the Town’s total assessed valuation in FY15, well below the 10% considered a warning indicator by credit rating organizations. And total outstanding debt as a percent of per household income was 3.6%, 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.

Reserves

Over the past 10 years, total reserves have grown from \$0.6 million in FY05 to \$5.5 million as of FY15. In addition to that, \$9 million has been set aside to address our OPEB liability. The Finance Committee

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

2015 ANNUAL TOWN MEETING

is currently reviewing the Town's Reserve Policy in order to ensure that prudent levels of reserves are being maintained.

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. Additionally, debt service increases related to the new Field School and Police Station, will cause the Town's debt service to peak in FY17.

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 2.4% per year over the next five years.

The Finance Committee 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 2016 budget. In particular 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

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| 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 | |