



TOWN OF WAYLAND CONSIDERATIONS FOR FY 18 BUDGET PLANNING

PRESENTED BY
TOWN ADMINISTRATOR AND FINANCE DIRECTOR

WITH FINANCE TEAM: TREASURER, DIRECTOR OF ASSESSING, HUMAN
RESOURCES DIRECTOR / ASSISTANT TOWN ADMINISTRATOR, SCHOOL
BUSINESS MANAGER AND FINANCIAL ANALYST, FINANCE DIRECTOR AND
TOWN ADMINISTRATOR

AUGUST 29, 2016

11/18/2016

1

ESTABLISHING A BUDGET GUIDELINE FOR FY 18

- The Town Administrator works with the Finance Committee and Finance Director to establish the annual Budget Guideline and long term financial strategies. The Town Administrator recommends all department budgets to the Board of Selectmen and monitors the town's financial performance.
- The purpose of the annual Budget Guideline is to provide a tool for the Finance Committee to recommend a budget to Town Meeting that funds high quality municipal and school services considering affordability to taxpayers and based on a sustainable multi-year financial plan.
- See Town Code Chapters 19 (Finance) and 60 (Town Administrator) at: <http://www.ecode360.com/WA1635>

11/18/2016

2

WHAT WAS THE FY 17 BUDGET GUIDELINE?

The purpose of this presentation is to provide a framework for consideration of a Budget Guideline for a FY 18 Revenue and Expense Budget. The framework is based on an increase of 2.5% of operating budget to provide a starting point for discussion.

- In FY 17 the Finance Committee established a budget guideline with the goal that the FY 17 General Fund operating budget be increased up to 2.5%. The guideline did not address the funding of capital projects which is covered by the Debt Policy. *(Note – the 2.5% guideline is unrelated to prop. 2.5)*
- The recommended FY 17 General Fund operating budget increased to \$74,651,474 or a 2.77% increase (\$2.269 million) over FY 16.
- To understand the effect of achieving the 2.5% budget guideline into future years, the Finance Director developed five year projections and historical schedules which are provided to the Finance Committee and accompany this presentation as reference and for discussion.

11/18/2016

3

REVENUE CONSIDERATIONS: PROPERTY TAXES

- Property taxes comprised 83% of general fund budget revenue in FY 16 and are the source of funding over which the Town exerts the most control.
- The property tax revenue needed to balance the budget is calculated by deducting from the planned general fund expenditure budget non-property tax revenue from:
 - 1) local receipts – such as motor vehicle excise, permit fees and interest,
 - 2) state aid
 - 3) transfers from other funds —such as indirect costs from revolving and enterprise funds, and
 - 4) any free cash used to balance the budget.
- For FY 17, the unused property tax levy capacity is estimated at \$7.8 million. For reference, \$7.8 million is 12.4% of the the tax revenue budgeted in FY 17.

11/18/2016

4

REVENUE:

FY 18 VARIABLES – PROPERTY TAX

- **Negative:**
 - Acquisition by the Carroll School of a Waltham Road property will result in a net decrease of \$150,000 in FY 17 and future years. (Based on FY 16, this equates to \$.03 on the tax rate.)
- **Positive:**
 - Aggressive tax title collection of \$2,000,000 in outstanding property tax revenue could positively affect free cash and future year collections.
 - New growth in FY 18 property tax is estimated at \$600,000 from increases attributable to new construction. The Town is experiencing stable growth increases.

11/18/2016

5

PROPERTY TAX:

AVERAGE SINGLE FAMILY TAX BILL

The Town of Wayland ranks sixth among eight neighboring towns comprising the real estate market.

- Wayland's average single family home 2016 tax bill was \$11,730. The median tax bill is \$1,000 lower.
- Average tax bills in 8 neighbor towns ranged from \$6,000 in Framingham to over \$18,000 in Weston.
- The average single family home assessed value in 2016 was \$676,477.
- Wayland's average 2016 single family home tax bill is ranked 11th statewide.

11/18/2016

6

PROPERTY TAX: LEVY LIMIT

Wayland has significant tax levy capacity:

- The levy limit is the most that the Town can tax, up to a tax rate of \$25.00 without requiring an override vote under Proposition 2.5.
- The estimated unused taxing capacity in FY 18 is \$8.1 million.

11/18/2016

7

PROPERTY TAX: FY 17 LEVY LIMIT AND UNUSED CAPACITY

2016 levy limit	\$ 64,104,000
2.5% increase	1,603,000
New growth est.	600,000
Levy limit	66,306,000
Debt exclusion	4,325,000
Maximum levy limit	70,631,000
Actual tax Levy	(62,821,000)
<u>FY 17 unused levy</u>	<u>7,810,000</u>
<u>FY 18 projected unused levy</u>	<u>\$ 8,147,000</u>

* Based on growth assumption in supporting documents.

11/18/2016

8

REVENUE:**NON PROPERTY TAX SOURCES OF GENERAL FUND SUPPORT**

The Town has little control over non-property tax revenue.

- Categories of non- property tax general fund revenue and key sources include:
 - State Aid: Chapter 70 School Aid and Unrestricted Local Aid
 - Local Receipts: Motor Vehicle Excise, Fees, Licenses, Interest
 - Transfer from Other Funds: Indirect costs such as employee health insurance paid from revolving and enterprise funds to general fund
 - Free Cash

11/18/2016

9

REVENUE:**FY 18 OUTLOOK FOR NON-TAX REVENUE SOURCES**

Significant increases in state aid and local receipts are not expected or easily predictable.

- State Aid (\$5 m gross state aid) is budgeted to increase \$300,000 in FY 17. State aid is subject to positive and negative fluctuation. State Aid is offset by Cherry Sheet expenses carried in the operating budget.
- Projected Local Receipts (\$4.4 m FY 17 budget / \$4.65 FY 16 actual) are budgeted to increase in FY 17 due to growth in motor vehicle excise and meals tax and licenses and permits. Additional revenue can be made available after a stable pattern of increased collection is established.

11/18/2016

10

FY 18: USE OF FREE CASH

- Over the past five years, the Town used varying amounts of free cash to cover operating budget deficits in amounts ranging from \$1,000,000 in FY 15 to \$4.8 M in FY 13 and a range of \$2.7 to \$6.1 m for all purposes including capital, articles and OPEB.
- The varying use of free cash in support of the operating budget has resulted in a fluctuating tax rate and declining reserves.
- Moody's Credit rating service advises the Town to build cash reserves and avoid budget deficits by using Wayland's unused levy capacity over the next few years.
- In Moody's 2016 Credit Opinion, the Town was informed:
"A continued trend in reducing reserves could lead to downward rating pressure."

11/18/2016

11

REVENUE:

USE OF FREE CASH: FY 13 – FY 17 BUDGETS

USE	FY 13	FY 14	FY 15	FY 16	FY 17
Current Year Transfer	29,585	165,000	451,348	523,193	NA
Operating Budget	4,800,000	2,500,000	1,000,000	4,350,000	1,500,000
Capital Budget	945,000	180,000	415,000	300,000	410,000
Articles	300,000	100	0	519,903	538,619
OPEB	0	0	249,094	209,114	215,285
Total	6,074,585	2,845,100	2,115,442	5,901,810	2,663,904

11/18/2016

12

FREE CASH CERTIFICATION FY 13 – FY 18

	FY 13	FY 14	FY 15	FY 16	FY 17 (EST.)	FY 18 (EST.)
FREE CASH BALANCE 1/1	10,304,704	6,023,697	4,091,958	6,384,312	4,786,000	5,185,000
% GF BUDGET	8.07	8.86	5.49	5.92	6.61	6.06

Certified free cash is on low side of the acceptable range under town policy and the Moody's benchmark:

- *The Board of Selectmen / Finance Committee's Free Cash Policy is to maintain Certified Free Cash at an amount between 5% and 10% of the next year's general fund budget.*
- *The Moody's benchmark is to maintain the general fund balance at 20% of revenues. The year end FY 15 statement shows 23%. (See Moody's Credit Opinion dated 1/25/16 notes downward trend)*
- *Note: The Finance Director's 2.5% FY 18 budget projection assumes use of free cash as follows: \$1.5 M to support operating budget, \$215,000 in OPEB funding, and \$200,000 in capital project funding. The Finance Committee will recommend how much free cash to use which will affect the tax rate.*

11/18/2016

13

FY 18: KNOWN OPERATING EXPENSE CHANGES

The following expense changes are expected in FY 18, but are as yet unquantified:

Potential Savings:

1. **Energy:** Energy and natural gas supply costs will remain flat or decline, distribution costs will increase resulting in modest increases. Vehicle fuel costs will decline.
2. **Health Insurance:** Discussions to find savings in employee health insurance are ongoing.

Potential Expense

1. **Building Maintenance and Public Works Infrastructure:** More comprehensive capital plans are requested to identify and quantify deferred maintenance.
2. **Technology:** IT upgrades begun last year will continue.
3. **Personnel:** Requests for new Town and School personnel and school initiatives are expected.
4. **School Transportation:** Costs will be bid for FY 18 and will likely increase.
5. **Rivers Edge:** There may be additional costs in the School budget and DPW budget associated with moving school buses and providing a laydown area for DPW as these functions move to make way for the Rivers Edge project which may be a source of new property tax revenue in future years.
6. **Labor contracts:** All town school and town collective bargaining agreements expire 6/30/17. The timing of settlement with the unions is unknown but will affect budgets in the FY 18 – 21 period.

11/18/2016

14

FY 17 BUDGET STRUCTURE

The distribution of appropriations to Town, School and Unclassified Expenses in FY 17 is typical for Wayland and may be used as a guideline for how new resources could be appropriated:

– Town Departments	22%	\$ 16,159,000
– School Department	50 %	37,722 ,000
– Unclassified Expense		
• Debt	10%	7,507,000
• Retirement	6%	4,235,000
• Health Insurance	10%	7,165,000
• Other	2%	<u>1,863,000</u>
 TOTAL		 \$ 74,651,000

11/18/2016

15

EXPENDITURES: RATE OF INCREASE – OPERATING BUDGET

Development of a budget plan meeting the 2.5% goal requires an understanding of expected increases in health insurance and school costs.

- **Average Rate of Increase in Operating Budget:** The rate of increase for the General Fund operating budget averaged 2% over the 5 year period beginning FY 13 and 3.27% over the 3 year period beginning FY 15. Each budget year presents unique challenges.
- **Cost of Health Insurance is Major Uncertainty:** Unclassified expenses, driven by health insurance, are variable. To determine actual funds available in FY 18, unclassified expenses driven by health insurance costs must be determined. The cost of insurance is 10% of the operating budget, or \$7.1 M, in FY 17.
- **A 2.5% Operating Budget increase means Town and School Operating Budgets increase less than 2.5% due to unclassified expenses.** Based on the typical distribution of appropriations from prior years, a 2.5% operating budget increase would provide \$1,800,000 in new funding and a 1.37% (\$222,000) operating budget increase for the Town and a 1.69% (\$615 ,000) operating budget increase for the schools.

11/18/2016

16

FY 17 EXPENDITURES: CAPITAL BUDGET

In Wayland, the Budget Guideline addresses the general fund operating budget. The Finance Committee also prepares an annual and five year capital budget and plan which has a significant impact on cash reserves, new debt, future year operating budgets and property taxes.

- The recommended FY 17 Capital Budget was \$8.974 million including \$595,000 from free cash and cash capital, \$4.5 million in new general fund debt and \$3.879 from other funds and fund borrowing.
- The costs of the \$4.5 million in General Fund debt authorized by the 2016 Town Meeting will be included in the operating budget beginning in FY 18. The cost of the \$2 million in recommended FY 16 General Fund debt is included beginning in FY 17.
- In FY 16, the Finance Committee reviewed total capital requests of \$17.6 million. In FY 17, total capital requests were \$9 million.

11/18/2016

17

DEBT POLICY

- Capital purchases must be at least \$25,000 to issue debt for no longer than the useful life of the asset. *(Note – Adopted policy states \$10,000)*
- Debt should be within 5-10% of operating expenditures annually.
- The debt policy specifies categories of capital acquisition subject to debt exclusion.
- Police cruisers are funded in the operating budget. Other passenger vehicles and small equipment are funded with cash capital and not financed through debt.
- The Debt Policy should be updated.

11/18/2016

18

**DEBT:
MANAGING CAPITAL PROJECTS
WITHIN THE DEBT POLICY**

Debt can be managed to remain under the 10% Debt Policy:

- Assuming the Town's operating budget increases 2.5% annually through 2025 and the Town borrowed an average of \$5 million annually, it is estimated an average of \$500,000 in new debt service would be added annually and debt could remain under the 10% of operating budget debt policy.
- For FY 17, principal and interest payments were \$7.5 million or about 10% of the Town's \$74,651,000 operating budget.

11/18/2016

19

DEBT: BORROWING HISTORY

Over the last 5 years the town has incurred the following General Fund Debt:

1. 2012	\$ 2,010,000
2. 2013	2,555,000
3. 2014	12,858,000
4. 2015	5,917,000
5. <u>2016</u>	<u>2,401,000</u>
AVERAGE:	\$ 5,183,200

11/18/2016

20

RECOMMENDED FY 18 BUDGET GUIDELINE

The Finance Committee, Town Departments and School Committee will work collaboratively to develop an FY 18 budget that:

1. Funds high quality municipal and educational services.
2. Maintains Wayland's competitive ranking within the area real estate market.
3. Maintains the Town's favorable credit rating by limiting the use of free cash and building cash reserves, aggressively funding OPEB and maintaining debt below 10% of operating budget.

Strategies to fulfill this guideline include:

1. Maintain the goal of a 2.5% maximum increase in the total General Fund operating budget. Aim to stay close to the 2.5% goal annually and remain under the goal on average over 5 years.
2. Provide an alternative, comprehensive FY 18 budget projection showing full picture of all general fund revenues and operating and capital expenses.
3. Continue to review and improve the process for capital planning and funding to insure prudent debt management through a comprehensive, credible, consistent and continuous forward plan.
4. Limit the use of free cash for all purposes to an amount that will increase cash reserves to an amount in excess of the Moody's benchmark.
5. Maintain debt service under 10% of the operating budget and adhere to the debt policy.

11/18/2016

21

FY 18 BUDGET PROCESS: ADMINISTRATIVE ROLE

- 1) Request that town department operating budgets be based on what is required to maintain services at current levels.
- 2) Identify and plan for any fixed new expenses in the Town departmental and unclassified budgets.
- 3) Identify and plan for any discretionary new personnel and programs that will improve town departmental services.
- 4) Identify and incorporate new or increased sources of revenue, efficiencies and cuts in expenditures through the budget process.
- 5) Continue to review and improve the process for capital planning and funding to insure prudent debt management through a comprehensive, credible, consistent and continuous forward plan.
- 6) Maintain communication with the School Superintendent and Finance Committee about budget challenges and opportunities for the FY 18 school budget. An initial discussion is planned with School Superintendent, School Committee representatives, Town Administrator and Finance Committee liaison on September 7th.
- 7) Manage a process with department heads to make budget cuts if required.

11/18/2016

22

GOING FORWARD, WORKING TOGETHER

- ✓ The Town Administrator and Finance Director's recommended FY 18 Budget Guideline and fiscal management strategies are offered to the Finance Committee for consideration in establishing town fiscal policy for FY 18 and future years.
- ✓ The Finance Committee is asked to advise the Town Administrator and School Superintendent of its final adopted FY 18 Operating Budget Guideline.
- ✓ The Finance Director will provide ongoing staff support and financial analysis to the Finance Committee and act as the Committee's liaison to the Town Administrator and Department Heads.
- ✓ The Town Administrator and Financial Analyst will work together to manage the departmental process to develop recommended operating and capital budgets for the Finance Committee's review.
- ✓ The Finance Team will continue to work altogether with the Town Administrator to respond to the Finance Committee's information requests to develop the FY 18 Budget.

MANY THANKS TO BRIAN KEVENY, JOHN SENCHYSHYN, ELLEN BRIDEAU, ZOE PIERCE, ELIZABETH DOUCETTE AND SUSAN BOTTAN FOR THE EXCELLENT WORK THIS SUMMER IN ANALYZING THE TOWN'S FINANCIAL POSITION AND PLANNING THE FY 18 BUDGET PROCESS!