



TOWN OF WAYLAND SPECIAL TOWN MEETING

November 17, 2011

Supplemental Mailing

FINANCE COMMITTEE COMMENTS (ARTICLES 3 AND 4)

Summary: Articles 3 and 4 for the Special Town Meeting (STM) both propose to use free cash to fund a portion of the current budget. There are a lot of numbers and financial variables to consider. However, basically the difference between the articles comes down to a philosophical difference in how much - and when - free cash should be used by the Town. A second important difference concerns the size of future tax increases that residents will be asked to support in order to maintain level services.

The petitioners' Article 3 gives immediate tax relief for FY2012 and then assumes tax increases of about 5% and 10% in the next two years in order to maintain level services. In each of those years, Town Meeting will need to either support the tax increase, cut services significantly, drive free cash balances to about 2% after two years or use some combination thereof.

The Board of Selectmen's (BoS) Article 4 gives immediate, but smaller, tax relief for FY2012 and then assumes smaller tax increases of about 3% and 6% in the next two years in order to maintain level services. Similarly, residents will need to support the FY2014 tax increase or face reduced services or lower cash balances.

How Could Taxes Go Up That Much Without An Override?

The projected tax increases in FYs 2013 and 2014 could occur without an override vote because of how the levy limit and the tax levy are defined. The levy limit is the total amount of tax that a community *can* assess. The levy limit increases from year to year by the automatic 2.5% increase plus new growth. This new number becomes the basis for the next year's levy limit calculation. The tax levy is the revenue a community can raise through taxes. According to the DOR, once a community establishes its levy limit for the year, it can then decide what the levy (or amount actually assessed through tax) will be. Nothing considered in either Article 3 or 4 affects the levy limit. Further, as stated in the DOR's publication "Levy Limits: A Primer on Proposition 2 ½"

It is important to note that as long as a community levies no more than its levy limit, there is no restriction on the dollar increase or percentage increase in its levy from year to year. Proposition 2 ½ restricts increases in the levy limit, not the levy. A community is permitted to tax up to its levy limit, even if it must raise its levy by a large percentage over the previous year's levy.

Using free cash to reduce the FY2012 tax rate frees up room in the levy limit – or creates unused levy capacity. This is why both Articles 3 and 4 can contain estimated tax increases above 2.5% in future years without requiring an operational override.

Comparison of proposals: The following is a summary chart of the tax rates and free cash balances under three scenarios: 1) if STM takes no action, 2) if STM votes \$4 million from free cash and 3) if STM votes \$1 million from free cash.

	Estimated FY2014 <u>Free Cash Balance</u>	Estimated FY2014 <u>Tax Rate</u>
No STM action	8.0%	\$21.17
Article 3 passes	7.5%	\$20.80
Article 4 passes	7.9%	\$20.78

While the ending tax rates are similar, this is not a permanent savings as we explain below in Other Considerations. The tax savings from petitioners' model (Article 3) over three years is estimated at \$1030 more than Article 4 per average assessed house of \$592,285 or an estimated \$1.74 per \$1000 of assessed value.

Petitioners' Article 3 funds the FY2012 budget by using more free cash and less real estate tax than anticipated last April, thereby reducing the tax paid by Town residents for FY2012. By the text of their request, petitioners do not propose to discuss or change the individual departmental line items within the FY2012 operating budget. Neither Article 3 nor Article 4 affects the total levy capacity for the Town of Wayland.

Petitioners have stated that their motion will request at least \$4 million be transferred from free cash; however, their comments submitted for the Warrant also state \$4.25 million. This financial analysis assumes \$4 million usage of free cash in Article 3 based upon information available to us at the time.

These comments will address both Article 3 and Article 4 since the purpose of both articles is the same – to give taxpayers immediate tax relief using free cash. To compare the two proposals, the Finance Committee looked at a number of factors. We first considered the assumptions supporting both proposals. Petitioners, the BoS and the Finance Committee shared many assumptions, but some of the assumptions were different, as we explain below.

Assumptions: Representatives of petitioners, the Finance Committee, and the BoS prepared a financial model that looks at the projected use of free cash through fiscal 2014 and evaluates the impact on future operating budgets and tax rates (see enclosed chart). The assumptions used by Petitioners, the Finance Committee, and the BoS are incorporated in the accompanying chart, the format of which has been agreed upon by all three parties. We explain differing assumptions in the text below. It is important to understand that FYs 2013 and 2014 are projections and all aspects of both would have to be considered by Town Meeting.

Common Assumptions: Both Articles 3 and 4 share the following common assumptions:

1. Propose adjusting FY2012 revenues by \$1 million. This will be done on the Tax Recapitulation sheet submitted to the MA Department of Revenue this fall and does not require Town Meeting action.
2. Agree that free cash levels should return to the Finance Committee guideline amounts of 5-10% of operating budget.
3. Use the same budgeted operating expenditure amounts and suppose the same continued level of services, assuming the calculated future tax increases pass at Town Meeting.
4. Assume for calculation purposes that housing values and State aid remain constant at FY2011 levels.
5. Use free cash as the only source of additional funds and do not incorporate other Town or School accounts.
6. Meet required pension and Other Post Employment Benefits (OPEB) obligations.

Differing Approaches: Articles 3 and 4 differ in the following assumptions: 1. timing and amount of free cash usage, 2. local receipt estimates, 3. amount of expense give backs at the end of the budget year, 4. level of future capital expenditures, 5. prepayment of outstanding \$36 million pension obligation, and 6. differing level of annual proposed tax increases for residents.

1. Free cash (lines 6 and 9 in chart): Article 4 proposes the use of about \$4 million of free cash over three years to support the operating budget (FY2012 \$1 million, \$1,925,000 in FY2013 and \$1,000,000 in FY2014). Article 4 also assumes using free cash for pension prepayment and capital investment totaling \$3,500,000 over the same period. Article 3 proposes free cash usage of about \$9.3 million over the same period for the operating budget (\$4,000,000 in FY2012, \$3,825,000 in FY2013 and \$1,000,000 in FY2014) and capital (\$500,000 in FY2013). The timing and amount of free cash usage drives the future tax increases needed to maintain services.

2. Local Receipts (line 3 on chart): The Finance Committee looks at actual local receipts, which includes motor

vehicle excise tax, building permit fees, and interest income, and overall economic conditions, taking into account known one-time variances, when setting estimates for yearly budgets. The 5-year trend in local receipts follows the economic trend

FY2007	\$4,406,867
FY2008	\$4,559,530
FY2009	\$4,514,700
FY2010	\$4,051,087
FY2011	\$4,445,283

The petitioners assume that local revenues will grow almost 10% for next year; the Finance Committee recommends holding the local receipts estimate flat for one year until the economy shows more signs of improving and then growing the local receipts estimate at about 2.5% per year. The BoS's proposal in Article 4 uses this Finance Committee estimate.

3. Give backs (line 17 on chart): The Finance Committee looks at historic give backs to establish the estimate of 2% of budget or \$1.5 million being turned back on average, taking into account known one-time variances. The 5-year average is \$1.4 million and actual give backs are

FY2007	\$689,905	1.1%
FY2008	\$959,711	1.5%
FY2009	\$1,018,032	1.4%
FY2010	\$2,075,355	3.1%
FY2011	\$2,527,596	3.6%

Article 4 uses this 2% of budget estimate, or \$1,500,000, and Article 3 assumes turn backs of approximately 3%, or \$2 million in each year.

4. Capital investment (line 13 in chart): The Finance Committee recommends paying for capital improvements of \$1.5 million in FY2013 and of \$1 million in FY2014 with cash. Article 4 assumes this level of investment; Article 3 suggests funding \$500,000 of capital with cash in FY2013, but does not include funding other capital investments with free cash.

5. Pension obligations (line 14 in chart): The Town has about \$36 million in outstanding pension obligation that must be paid in full by 2040. Payments are about \$3.1 million per year. Since these obligations have been accrued on past and current employees, the Finance Committee recommended, and Town Meeting supported, using some of our excess cash to prepay \$300,000 of this obligation in FY2012. Article 4 assumes including another prepayment of \$1,000,000 next year; Article 3 does not propose any pension prepayment.

6. Tax increases (line 21 in chart): The Finance Committee has recommended budgets with operating expense increases of 2.5% since the FY2010 budget. Both scenarios presented in Articles 3 and 4 require higher percentage tax increases to support level services but do not require overrides. Article 3 requires future increases of about 5% and 10%; Article 4 requires increases of about 3% and 6%.

Other considerations: The analyses also differ in their understanding of free cash at the end of April 2011 ATM. Petitioners look only to the balance at the close of town meeting (\$6.7 million), and the Finance Committee considers all transactions through June 30, 2011 (the end of the fiscal year and an \$8.5 million projected balance). The Finance Committee's analysis is shown in the Special Town Meeting Warrant.

In Article 4, the future benefit of free cash used toward pension prepayment and capital investment as outlined in items 4 and 5 above will result in savings in anticipated pension payments and debt service costs after the modeled timeframe.

ARGUMENTS IN FAVOR (PETITIONERS' ARTICLE 3): The petitioners' approach is largely consistent with Article 4; however, it provides for more aggressive and immediate tax relief while differing on the assumptions of how free cash will be generated in the future.

The petitioners' model looks for relief now with an assumption that large tax increases will be approved in the future and will be dealt with then. They have said publicly that the Town should deal with FY2012 now and worry about the future in the future.

Petitioners are targeting the level of free cash to 7.5% of operating budget, which is within Finance Committee guidelines, or at least the same balance as calculated by petitioners at the close of our annual town meeting (\$6.7 million). Petitioners believe the \$6.7 million in free cash (shown in the Warrant) was the basis and expectation of voters when the budget and funding decisions were made.

The petitioners assume that free cash will continue to be replenished with excess revenue and unused appropriations beyond what the Finance Committee has projected and also assume other sources of free cash from overlay and reserve accounts will be available for general use.

Petitioners suggest that it should not be assumed large amounts of free cash will be used to fund capital and/or pension payments in this analysis as these decisions should be reserved for Town Meeting voters. If voters choose to approve those capital projects, they can determine if they should be funded from free cash, other designated reserves and/or additional tax levy.

ARGUMENTS OPPOSED (PETITIONERS' ARTICLE 3): Petitioners have not settled on the precise amount of free cash to be considered in their motion on the floor of Town Meeting prior to the Warrant going to print. It is not sound financial planning to make financial decisions on the floor of Town Meeting without full information and consideration of the impact on future years' budgets and services. Some may argue they are unprepared or that petitioners' proposal is not well considered if petitioners have not yet decided on an amount of free cash to use.

The larger the amount of free cash used to reduce the FY2012 tax rate, the greater the tax increase that will be needed within 18 months to maintain the same level of services we have now. The petitioners assume two tax increases: 5% in April 2012 and 10% in April 2013. This would be the largest one time tax increase ever considered in Wayland and would occur without an override vote because Prop 2 ½ allows rolling over unused levy capacity from prior years. This is a pay-later scenario and not sound financial planning.

The Finance Committee is concerned that residents may not support a future tax increase of about 10% and that the result may be a cut in services with decisions made on Town Meeting floor rather than in the budgeting process.

By the petitioners' calculations, implementing Article 3 drops free cash to about \$4.6 million or 6.4% of budget (column B, lines 18 and 19 in chart) and eliminates the proposed tax increase for FY2012. This is lower than the stated goal of 7.5% cash (in Petitioners Comments in the STM Warrant) and reduces the Town's financial flexibility. If the petitioners' model is correct, free cash levels return to about 7.5% free cash levels in FY2013.

The petitioners' assumption that "During this time frame free cash will continue to be replenished with excess revenue and unused appropriations as well as potential close out of overlay and reserves" may not be true. By tightening revenue projections as both parties agree, \$1 million in free cash generation should be eliminated beginning with FY2012. The petitioners more aggressive budgeting of local receipts increases the risk that the Town will over-budget this income source and may need to use free cash to make up future shortfalls. Similarly, the petitioners assume continued large expense give backs at the end of the budget year and rely on these to replenish free cash in their calculations. They have not acknowledged the one-time, non-recurring nature of some of the FY2012 give backs in their estimates.

Significant amounts of a one-time source of funds (free cash) should not be used to support ongoing operations. The petitioners use a lot now and replace it later with large tax increases and assumptions about growing revenues and give backs.

The petitioners state in their comments that the Town holds other accessible reserve accounts from which funds can be used for future budgets. A chart appears in Appendix B of the Warrant detailing the Town accounts. It shows that the vast majority of those accounts may not be used to fund the general budget as they have been set aside for specific purposes – all of which will be subject to Town Meeting vote before being appropriated.

Free cash balances oscillate over time based on various factors. A multi-year history is shown in Appendix C of the Warrant. The Finance Committee has already taken steps to reduce additions to free cash from conservative estimates of local receipts by agreeing to adjust the FY2012 revenues to better reflect actuals and has taken steps to more rigorously challenge departments to assess potential expense give backs.

ARGUMENTS IN FAVOR (SELECTMEN'S ARTICLE 4): The BoS proposal allows for a multi-faceted, multi-year approach to financial management: immediate, measured tax relief to residents, ongoing capital investment, prepayment of pension obligations, improved reporting and tighter forecasting, and judicious use of free cash in a sustainable manner. The Finance Committee's responsibility is to look out for the financial well being of the Town while taking into consideration residents' willingness and ability to pay. Taking a longer-term approach is in the best interest of the Town and residents.

In the recent past and in the current FY2012 budget, the Finance Committee has recommended judiciously using smaller amounts of cash for operations. For future years, the Finance Committee plans to avoid large swings in the tax rate in any particular year through measured and targeted use of free cash. Article 4 is consistent with that position.

It is important to understand how using free cash today impacts future budget decisions, estimated tax increases and the potential of resulting changes to services. One cannot escape the factual future consequences of actions taken today.

It is anticipated that discussion and Town Meeting action on Article 3 will result in resolution of any additional amount of free cash that will be used to fund the FY2012 budget. If so, Article 4 will be passed over.

ARGUMENTS OPPOSED (SELECTMEN'S ARTICLE 4): Some would argue that the BoS' proposal does not provide sufficient immediate tax relief or use enough of the unanticipated free cash.

Free cash should be managed in a tighter margin within the 5-10% guideline on an annual basis. Therefore, this plan is too conservative in its financial forecast.

Some would rather not use free cash to fund capital investments or to prepay pension expense and would not support the assumption to do so within Article 4.

Some residents believe Article 4 continues the pattern of budget assumptions that have been too conservative in the past.

RECOMMENDATION ON ARTICLE 3: The Finance Committee recommends against approval. Vote: 1-6. This vote was taken based on the petitioners' motion requesting \$4 million from free cash.

RECOMMENDATION ON ARTICLE 4: The Finance Committee recommends approval. Vote: 4-3.

QUANTUM OF VOTE: Majority.

**Financial Comparisons of Articles 3 and 4
Wayland Special Town Meeting
November 17, 2011**

	Projections													
	A	B		C		D			E		F		G	
	FY 2012 ATM Warrant	Fiscal Year 2012 7/1/11 - 6/30/12		Fiscal Year 2013 7/1/12 - 6/30/13		Fiscal Year 2014 7/1/13 - 6/30/14			Article 3		Article 4			
1 Total Expenses	\$73,144,437	\$73,061,483	\$73,061,483	\$75,105,650	\$75,105,650	\$77,980,543	\$77,980,543							
2 Other Revenue	\$8,751,791	\$8,883,731	\$8,883,731	\$8,551,031	\$8,551,031	\$8,543,395	\$8,543,395							
3 Local Receipts	\$3,495,000	\$4,150,000	\$4,150,000	\$4,550,000	\$4,150,000	\$4,650,000	\$4,253,750							
4 Tax Revenue - Maximum Levy Plus Debt Exclusion	\$60,432,757	\$60,582,755	\$60,582,755	\$62,745,151	\$62,745,151	\$64,726,446	\$64,726,446							
5 Unused Levy Capacity	(\$35,111)	(\$5,055,003)	(\$2,055,003)	(\$4,565,532)	(\$2,465,532)	(\$939,298)	(\$993,048)							
6 Appropriated Free Cash	\$500,000	\$500,000	\$500,000	\$3,825,000	\$2,125,000	\$1,000,000	\$1,450,000							
7 Total Revenue	\$73,144,437	\$69,061,483	\$72,061,483	\$75,105,650	\$75,105,650	\$77,980,543	\$77,980,543							
8 Surplus/(Deficit)	\$0	(\$4,000,000)	(\$1,000,000)	\$0	\$0	\$0	\$0							
9 Proposed Additional Free Cash Used In Fiscal 2012		\$4,000,000	\$1,000,000											
		DOR Certified Free Cash												
10 Free Cash Balance Beginning Of Current Fiscal Year	\$8,536,596	\$10,304,704	\$10,304,704	\$4,579,704	\$6,779,704	\$5,579,704	\$5,829,704							
11 Proposed Additional Free Cash Used In Current Fiscal Year		(\$4,000,000)	(\$1,000,000)											
12 Proposed Appropriation For The Next Fiscal Year - Operating	(\$500,000)	(\$3,825,000)	(\$2,125,000)	(\$1,000,000)	(\$1,450,000)									
13 Proposed Appropriation For The Next Fiscal Year - Capital	(\$1,510,000)	(\$500,000)	(\$1,500,000)		(\$1,000,000)									
14 Proposed Discretionary Retirement Plan Contribution			(\$1,000,000)											
15 Estimated Current Year Transfers	(\$369,020)	(\$400,000)	(\$400,000)	(\$400,000)	(\$400,000)									
16 Estimated Revenue Surplus	\$1,619,532	\$1,000,000	\$1,000,000	\$400,000	\$400,000									
17 Estimated Expense Give Backs	\$2,527,596	\$2,000,000	\$1,500,000	\$2,000,000	\$1,500,000									
18 Estimated Free Cash Balance Beginning Of Next Fiscal Year	\$10,304,704	\$4,579,704	\$6,779,704	\$5,579,704	\$5,829,704									
19 As a Percent of Total Expenses less Water & Enterprise Funds	14.92%	6.4%	9.5%	7.5%	7.9%									
		Estimated												
20 Tax Rate - FY 2011 Tax Rate \$19.35	\$20.71	\$18.98	\$20.01	\$19.87	\$20.59	\$21.80	\$21.78							
21 Percent Change in Tax Rate	7.0%	-1.9%	3.4%	4.7%	2.9%	9.7%	5.8%							
22 Average Assessed Home in FY 2011	\$592,285													
23 Article 3: Estimated tax bill for average home	\$12,266	\$11,241		\$11,767		\$12,912						3 yr Total	\$35,921	
24 Article 4: Estimated tax bill for average home	\$12,266		\$11,854		\$12,196		\$12,901						\$36,951	

Notes

Boxed items highlight key differences between the 2 articles

Line 1 - Level Services, including contractual increases and estimated 5% growth in health care and pension expense

line 13 - Column A - Includes \$1,000,000 for Capital and \$510,000 for Water Main repair

Line 20 - Assumes no change in assessed valuation

Line 21 - Column A - the 7.0% increase includes 4.5% of approved High School debt and 2.5% of approved operating expense

Representatives of the Petitioners, Board of Selectmen, and Finance Committee met and agreed that this chart reasonably represents the impact that articles 3 & 4 have on free cash & tax rate