

The mission of the Wayland Finance Committee is to ensure a Town operating budget and a capital spending plan that balances the demand and need for services and infrastructure with the impact on taxpayers across a broad financial spectrum to afford these services. To fulfill this mission, the Finance Committee recommends a financial strategy for the Town, a fiscally responsible operating budget and capital plan and provides objective information to residents so they can make informed decisions at Town Meeting. For FY 2020, the Finance Committee set the following goals:

- Manage operating budget increases to 2.5%
- Manage debt service to 10% of total spending and trend downward.
- Manage additional capital spending and resulting borrowing to not exceed \$3 million.
- Manage additional headcount within budget guidelines.
- Maintain Aaa rating
- Develop 5 year operating and capital budget financial forecast for the School and Town.

### **Budget Process and Guideline Recommendation**

The development of the budget started in September with a Financial Summit at which the Town presented their committed costs and expected budget drivers. They forecasted a \$2.9M year-over-year operating budget increase. The Finance Committee along with the Town Administrator and Finance Director reviewed the presentation and took in public comments into developing the FY20 Budget Guideline. It allowed for the maximum year-over-year operating budget increase of \$2.6M. In addition, it was estimated \$300K would be needed to fund Employee Health Mitigation obligations.

During the guideline discussions, the Finance Committee expressed concern that operating budgets in recent years had trended higher and efforts needed to be made to develop budgets with year-over-year increases that are closer to 3.1%.

Throughout the fall the department heads met with the Town Administrator, Finance Director and Finance Committee liaisons to analyze and understand the budget details to ensure these goals. The final FY20 operating budgets were submitted in December from the Town and School departments and were within the guideline range. No budget cuts were requested. In January, to ensure adequate funding, the Town increased the Employee Mitigation budget from \$300,000 to \$340,000. In February, the Finance Committee voted to recommend an operating budget increase of \$2,757,000 or 3.45%.

In April, the Finance Committee recommended and Annual Town Meeting (ATM) approved an Operating Budget of \$82.7M, a Water Enterprise Budget of \$4.0M and a Wastewater Budget of \$0.8M. Also approved was an additional \$0.6M to fund cash capital, \$0.5M for post-employment benefits, \$0.3M for overlay, and \$.02M for state assessments. Total requirement approved was \$89.0M which is a 3.13% increase over FY19. The Town and School operating budgets alone represented a 3.45% increase over prior year.

Major budget drivers in FY20 were the following:

- Wage and salary pressure
- Escalating health, pension and other Post Employment benefits costs
- Complying with new federal Stormwater regulations
- Legal and regulatory compliance surrounding public documents
- Increasing cost to maintain the Town's infrastructure
- Increasing operating cost including snow and ice removal
- Maintaining unrestricted Fund Balance and debt service levels to maintain Moody's Aaa bond rating.

Total revenue from property taxes, local receipts, and state aid for FY 2020 were estimated to be \$83.4M. The Committee also recommended additional operating expense funding of \$4.8M to come from the Water and Wastewater Enterprise Fund. Capital funding of \$3.2M was approved and funded by using \$580,000 of cash capital, \$1.5M from free cash, \$620,000 from borrowing, \$284,000 from surplus bond proceeds from close outs, \$140,000 from ambulance receipts and \$50,000 from water retained earnings.

### **Capital Budget**

Capital projects totaling nearly \$25.7M were submitted for consideration. \$11.5M of this total represented the High School Athletic Renovations and Loker Field projects which were considered via Town Meeting articles. Of the \$14.2M balance, projects totaling \$9.0M were deferred to FY21 and FY22. The balance of the capital requests were reviewed by the Finance Committee. After a careful consideration, the Committee recommended and ATM approved 21 capital projects totaling \$3.2M that provide for maintenance, replacements and improvements to existing buildings, infrastructure and equipment.

The Finance Committee has a capital funding strategy that guides them in their capital recommendations. Two metrics have been adopted to measure debt levels

that help maintain the Town's current Moody's Aaa bond rating. The first is debt service as a percentage of general fund expenditures should generally be less than 10%. Debt service for FY 2020 is expected to be 8.25%. The second metric is total debt (all instruments that have a direct recourse to the General Fund) should generally be less than 100% of the annual general fund revenue. The recommended and approved capital budget represented 78.7%. In comparison, the actual metrics as of June 30, 2018 are 9.91% debt service as a percent of general fund expenditures and 72.1% debt level as a percent of FY18 general fund revenue. The metric variance between FY18 and FY20 reflects the timing of debt service funding from capital programs that have been authorized but not completed and funds not borrowed to date.

The Finance Committee also supported and Annual Town Meeting approved capital articles funded through debt exclusion to fund \$7.8M for the High School Field Project and additional \$0.5M for partial funding for construction of part 2 of the High School Master Athletic Plan, an additional \$1.3M for Automatic Water Meter Reading and three various CPA projects totaling \$462.5K. Finally, \$3.8M for the Loker Field Project was not approved at Town Meeting.

### **Five-Year Capital Plan**

The Finance Committee prepared and presented to Annual Town Meeting a five-year capital improvement plan for the Town. Town departments and the Schools were asked to update their capital plan and outline their anticipated capital needs. The Finance Committee was asked to consider for FY20-FY24 \$69M in new capital projects for the town and Schools and an additional \$7.0M of capital projects for the Water Department. While the town will likely choose not to do all these projects in the timeframe forecasted, it is important to understand the nature and size of potential capital projects and the impact these projects can have on the Town's tax rate and Moody's bond rating. Significant capital projects listed on the five-year plan include a new Council on Aging/Community Center, part two of the High School Athletic Campus, construction of new fields, new or renovated Library, Town Building renovations, town wide road reconstruction and stormwater system improvements, school HVAC systems and new roof on the Loker school. These proposed projects, if approved by Town Meeting will significantly impact future debt service, increase operating expenses and impact tax rates.

It was highlighted this year that major projects were being deferred due to a lack of resources to complete those projects that have been appropriated in the fiscal year of approval. Currently there are approximately \$9.5M of approved yet uncompleted capital projects. Thus, Town Administration and Finance are committed to develop a more detailed resource based five-year capital plan with projected funding sources.

### **Summary**

The FY 2020 budget represented an increase of 3.45% but was actually benefited from a \$386,000 decrease in debt service. Expenses other than debt service and Employee Mitigation are increasing by 3.8% or \$2.8M to \$75.5M. Budget drivers in FY20 and FY21 include increased costs for Personnel Health, Pension and Stormwater management. The FY21 budget may also have an increase in debt service for previously authorized but uncompleted projects.

Going forward the Finance Committee will want to consider changes in federal income tax deductions and those impacts on Wayland's residents. An additional consideration is the impact of higher taxes on an increasing portion of the Town's fixed income residents.

Also, due to project deferrals and debt pay down, FY20 debt service was reduced this fiscal year. However, if future projects listed in the 5-year capital plan are accelerated due to town needs, then debt service will increase.

The Finance Committee recommends capital that exceeds \$1million be financed with debt exclusion. Every project funded by debt exclusion is a surcharge added to tax bills for the life of that project. In addition to those projects approved at this year's ATM, currently there are potentially six FY21 capital requests that meet this criterion, two in FY22 and one in FY24.

The Town of Wayland remained financially strong during FY 2019 and in April, Moody's restated our Aaa positive outlook rating. To preserve its Aaa bond rating and maintain continue financial strength, the Town should continue:

- Manage the Omnibus Budget decisions strategically
- Prioritize and schedule capital expenditures based on resources and funding sources
- Rationalize the term of borrowings.
- Pursue productive hiring practices
- Seek out opportunities for raising revenue other than taxation

- Establish mechanism to maintain adequate Fund Balances.

**WAYLAND FINANCE COMMITTEE (as of June 30, 2019)**

Carol Martin (Chair)

Steve Correia (Vice Chair)

Jen Gorke

Kelly Lappin

Klaus Shigley

George Uveges

Dave Watkins