

Finance Committee Annual Report 2018

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 ability of residents 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 FY2018, 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 School and Town

Budget Guideline Recommendation: The Finance Committee requested a maximum FY 2019 Operating Budget increase of 3.5%. As part of its budget preparation, the Committee reviewed projected increases in employee salary expense, Health Insurance and Retirement. Combined these three increases exceeded 2.5% of the FY2018 budget. As part of the budget guideline process, the also Committee reviewed non-personnel expenses and considered maintaining the Town's Fund Balance at 20% of expenditures, ensuring the Tax levy covers all recurring annual expenses, taking efforts to avoid future operating overrides and moderating tax rate increases.

In April, the Finance Committee recommended and Annual Town Meeting (ATM) approved a General Fund Budget of \$79.9MM. The FY 2019 budget which includes a \$1.8MM increase in payroll and 16 new full time equivalent Town and School resources. This represented a year-over increase of 5.56% in the combined Town/ Unclassified expenses and a 3.49% increase in School expenses for an overall increase of 3.64% or .14% greater than the 3.5% budget guideline.

Total revenue from property taxes, local receipts, and state aid for FY 2019 were estimated to be \$77.9MM. The Committee recommended funding the \$1.94MM operating deficit with \$0.635MM in ambulance receipts, \$0.080MM in prior year bond premiums and \$1.27MM in transfers from other funds. Free Cash was not used to offset Omnibus Budget deficits as recommended by the Town's Financial Advisor.

Capital Budget: Capital projects totaling nearly \$46MM were submitted for consideration. After a careful review, the Finance Committee recommended and ATM approved 22 capital projects totaling \$5.2MM that provide for maintenance, replacements and improvements to existing buildings, infrastructure and equipment. The capital budget recommendation included consideration of the Finance Committee's policy to maintain General Fund debt service under 10% of the Operating Budget. The debt service for FY19 is expected to be 9.01%. To fund FY 2019 capital projects, the Finance Committee recommended \$2.3MM in new borrowing. The

funding sources for the \$2.8MM balance included capital surplus, cash capital, ambulance receipts, CPC funds, water surplus and \$1.1MM of Free Cash.

The Finance Committee also supported and Annual Town Meeting approved an article to fund \$1.7MM for the Transfer Station Access Road and for six (6) capital appropriations totaling \$0.5MM recommended by the Community Preservation Committee (CPC) for a total FY 2019 capital expenditure of \$7.3MM.

An additional six (6) capital project requests totaling approximately \$40MM were considered through the article process. Prior to ATM, the Finance Committee recommended these projects be funded through debt exclusion. Two projects totaling \$3.3MM passed, three totalling \$7.5MM were passed over. The \$28.9MM Library project did not pass.

Five Year Plan: The updated five year plan for capital items through FY 2023 printed in the Annual Town Meeting Warrant were not formally presented by departments or approved by the Finance Committee. They were included in the 5-Year Capital Plan for planning purposes only. Significant capital projects listed on the five-year plan include Town Building renovations, a new Council on Aging/Community Center, updating the High School Athletic Campus, the Municipal Parcel, construction of new fields, Library renovations and replacing the Middle School HVAC system. These proposed projects, if approved by Town Meeting will significantly impact future debt service, increase operating expenses and impact tax rates.

Outlook: The FY 2019 budget represented an increase of 3.64%. At the current growth rate, the Finance Committee projects an operating override will be contemplated within 10 years. It is important that annual growth of General Fund expenses and associated personnel costs are controlled so spending does not accelerate or cause overrides and unsustainable real estate tax increases. In addition, the Finance Committee cautions that as General Fund expenses grow, to maintain a minimum 20% fund balance, the fund balance must grow correspondingly.

The ongoing costs of maintaining the town's existing assets, roads and increasing role of Information Technology continue to grow. The Finance Committee believes there may be risks associated with not providing an appropriate level of support for these capital initiatives and infrastructure maintenance projects will most likely reduce the amount of funds available for new capital programs. To offset this impact, the Finance Committee intends to discuss recommending the establishment of a capital stabilization fund.

The Town's excess levy capacity is approximately \$5MM. To manage and preserve the levy, the Finance Committee recommends all future capital projects, exceeding \$1MM be funded through debt exclusion.

Summary: The Town of Wayland remained financially strong during FY18 and in February, Moody's reiterated their Aaa with negative outlook rating. To preserve its Aaa bond rating and maintain continue financial strength, the Town should include five criteria as a guide to their decision-making:

- Continue to use Free Cash only to fund one time expenses

- Maintain fund balance at a minimum of 20% of General Fund budget
- Manage unused levy capacity to provide additional revenue flexibility
- Moderate future non-exempt annual borrowing to 3 million annually
- Fund capital projects in excess of \$1MM with exempt debt

WAYLAND FINANCE COMMITTEE (as of June 30, 2018)

Dave Watkins (Chair)

Carol Martin (Vice Chair)

Steve Correia

Jen Gorke

Klaus Shigley

Bill Steinberg

George Uveges