

2021 ANNUAL TOWN MEETING

REPORT OF THE FINANCE COMMITTEE

The Finance Committee is composed of nine Weston residents appointed by the Town Moderator to advise the Select Board and the Town on financial matters and other questions coming before the Town or affecting the interests of the Town. In turn, we make recommendations to the voters regarding such matters. During the course of the year, we engage in the following activities:

- Participate in financial meetings with the Select Board, Town Manager, School Committee and School Administration.
- Meet with individual town departments as budgets are developed.
- Form small, ad hoc, working groups within the Committee to discuss current financial trends and topics affecting the Town and make recommendations.
- Provide recommendations, where appropriate, to residents on Town Warrant Articles.
- Monitor debt levels and the long-term fiscal health outlook for the Town.
- Hold regular public meetings to discuss findings of detailed budget reviews and other significant issues affecting the Town.

The Finance Committee encourages you to attend Town Meeting to vote on the budget and other warrant articles.

Bottom Line

The total FY22 budget totals \$100.8 million, which is an increase of \$3.9 million or 4.0% over FY21. The FY22 tax rate will increase by 3.8% from \$12.98 in FY21 to \$13.47 in FY22 per \$1,000 assessed valuation. This means that a Weston household will see a real estate tax bill increase of 3.8% in addition to the year-over-year increase in their home's assessed value. For the median home value of \$1,251,000 assuming an assessed value increase of 1.5% from FY21 to FY22, the increase amounts to 5.3% or \$866, from \$16,238 in FY21 to \$17,104 in FY22. For comparison, the Boston-area inflation rate is in the 1% range.

Recommendations

The Finance Committee is concerned about the long-term trajectory of the FY22 operating and cash capital budgets. By every measure, Weston spends more for town services than other comparable affluent communities. We cautiously support this year's budget while imploring the Town to address structural issues and approaches to spending. Specifically, over the next year we believe the Town should:

1. Establish baseline/benchmarking measures of success for all Town departments
 2. Continue developing and implementing a long-range financial planning model
 3. Provide budget guidelines to departments heads based on top down guidance
 4. Develop a School plan for a smaller student body while still providing a quality education
 5. Tightly manage union negotiations with reduced benefit levels
 6. Require projects to provide separate bids and Town Meeting votes on "needs" vs. "wants"
1. Baseline/Benchmarking measures: Establishing baseline measures especially for the Schools, Police and Fire Departments, and the Department of Public Works will allow us to easily track service performance and costs over time, compared to those of neighboring comparable towns and other objective measurable standards. We have embarked on assembling metrics for some of our Town departments. We are participating in the UMass Performance Measures Study for the Fire Department, which is the first of these studies planned.
 2. Long-range financial planning model: This will allow us to better analyze the financial implications and tradeoffs associated with various policies, commitments, and large special projects over time. The Town has engaged a nationally experienced firm with a broadly used model which we expect to be up and running with Weston's data very soon.
 3. Budget Guidelines: Typically, department heads are told to budget for "level service," which too often means level staffing plus additional requests. This naturally results in budget increases beyond negotiated salary and benefits, resulting in increases well beyond inflation, which will not be sustainable over time. The Finance Committee plans to develop top down guidance to provide in advance of budgets being submitted.
 4. Fiscally Responsible School plan for a smaller student body: Student enrollment has declined and is projected to continue to decline, yet we need a plan to continue to provide an excellent education. This might involve major

2021 ANNUAL TOWN MEETING

restructuring of class schedules, teaching schedules, course offerings, transportation, and building uses, beyond the necessary reductions in teaching staff driven by having fewer class sections. As we enter union negotiations in the fall, it is important to work on this restructuring.

5. Union Negotiations and Health Care: While we negotiated savings on employee benefits this year, we need to be careful not to negotiate higher salaries because of this. We still pay a much higher percentage of health insurance premiums for our employees than other towns do, which needs to be considered when negotiating salary increases. This higher percentage of healthcare premiums both increases current costs and exacerbates the unfunded OPEB liability problem. While we recognize the need to get back to funding OPEB as the Covid crisis subsides, we should extend the end-date to fully fund our unfunded liability as was done this year by Middlesex Retirement for our pension plan.
6. Town projects: Requiring Town projects to provide separate bids and Town Meeting votes on “needs” vs. “wants” allows taxpayers to have the option to solve a problem without paying for a lot of extras and adding to our debt. The current approach of providing a single plan without offering different options to the Town tends to lead to the most expensive plan with bells and whistles being the only one proposed and put up at Town Meeting.

Perspective

This budget reflects a balance between moving to the regular investments prior to the FY21 “Covid” budget and staying in a cautious Covid scenario. The school budget increase of 2.1% has some built-in expenses for Covid cleaning (buses and classrooms) while also reducing some headcount to address enrollment decreases. Also, many people were hired last year to deal with Covid and will not be returning in FY22. One substitute teacher per school is being provided via a Covid grant for the next year to minimize the number of new teachers entering buildings while we enter the nascent post-Covid phase. There is no additional hiring in FY22 in the municipal budget.

As part of last year’s budget, due to Covid concerns about declining revenue, our OPEB contribution was reduced from the regular funding level. About \$1.2 million or almost a third of this year’s budget increase is due to returning to the scheduled funding level of OPEB.

The town was able to negotiate reduced benefit spending with our 12 unions, as we pay a much higher percentage of health insurance premiums for our employees than other towns do. This is expected to generate \$800K in savings on health insurance premiums cumulatively over the next three years and will also help reduce our OPEB liability. We will need to continue to negotiate further decreases in the future to bring us more in line. If we were able to pay 70% of premium instead of 84% for our employees, which is closer to what other towns pay, we would be saving over \$1.5 million per year just in reduced premiums. As the Covid health and economic crisis subsides, we need to make sure that the benefits we offer to our Town and School employees stay close to the level that other towns offer their employees.

We continue to have long term concerns about Weston’s level of taxes and spending. Over the last 10 years tax collections for the town of Weston have increased 30%, or an average annual growth rate of 2.7%.

By every measure, Weston spends more for town services than other comparable, affluent communities do. In particular:

- Weston currently has the highest average single-family tax bill in Massachusetts, at \$20,922 in FY20, or \$5,313 (34%) higher than the \$15,609 average of the next nine communities. Median single-family and per capita measures also confirm this basic point.
- School expenses are roughly 63% of our budget and we spend 26% more per pupil than these comparable towns (\$25,846 in FY19 vs. an average of \$20,540), most of which is funded by taxes. The School budget has grown in recent years despite continued and projected future declining enrollment.

The vast majority of the town’s operating budget and unfunded liabilities relate to the direct and indirect cost of Weston’s approximately 668 benefit-eligible employees, including 496 school teachers and staff. Our spending, taxes, and debt and unfunded liabilities are much higher per household than other towns because we have more employees per household, we pay them more on average, and we pay a much higher percentage of healthcare premiums than any other comparable neighboring town.

Estimated Taxes

Property taxes will provide 86% of the revenues required to fund this budget and excluded debt service. New growth in the tax levy (the increase from new construction) is estimated at \$0.8 million for FY22 (was \$1.0 million for FY21). The

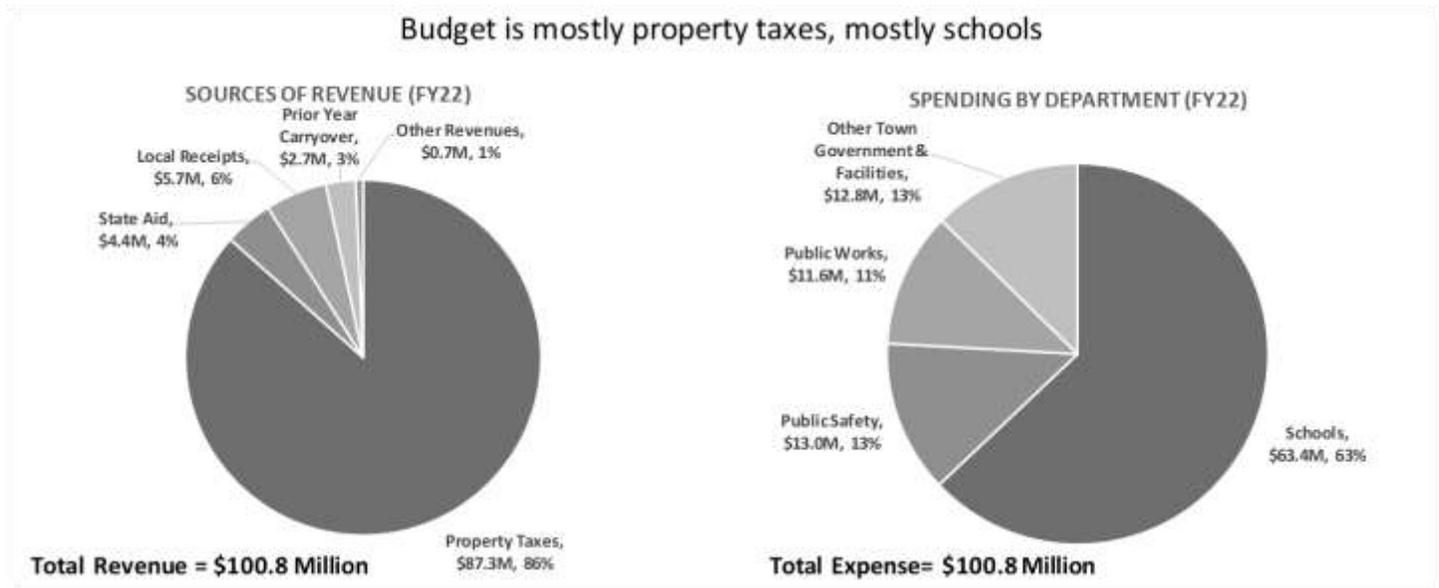
2021 ANNUAL TOWN MEETING

FY22 tax rate will increase by 3.8% to \$13.47 per \$1,000 assessed valuation, from \$12.98 in FY21. This means that a Weston household will see a real estate tax bill increase of 3.8% in addition to the year-over-year increase from their home's assessed value. So, if a home's assessed value increased by 1.5% from FY21 to FY22, the tax bill would increase by 5.3%.

Weston has the highest taxes in Massachusetts. While all towns are different in some ways and the costs of some municipal services reflect these differences, many of the largest costs - such as the cost of paving a mile of road, providing police or fire protection for a certain number of homes, or educating a child to a high standard - should be roughly the same across similar affluent towns. In general, the municipal services required by a particular home in Weston, which is worth more than the identical home might be worth in another town, should be very similar, not higher just because the value of the home is higher.

Revenue and Expense Summary

Weston derives essentially all its revenue from the property taxes on our single-family homes, as there is negligible commercial and industrial real estate in town. In FY22, we expect State Aid to increase by 1.5% over FY21 despite the Covid-19 economic pressures at the state level. However, other revenue includes local receipts which make up another 6% (Motor Vehicle Excise being the largest local receipt at \$2.7 million) are expected to drop this year due to Covid, resulting in taxes making up the difference.



On the expense side, about 63% of spending is for Schools, including the cost of employee benefits and debt service on capital projects. Essential services (Public Safety and Department of Public Works which also include the cost of employee benefits and debt service on capital projects, make up another 24%. The remainder of expenses represents Town government and services, such as the Public Library and Council on Aging. Exempt debt service is decreasing from \$10.2 million last year to \$9.9 million (-3% versus FY21) and now comprises 9.9% of the overall budget.

2021 ANNUAL TOWN MEETING

Operating Budget Summary

	FY21 Budget	Recommended FY22 Budget	\$ Change	% Change
Operating Budget:				
Schools	42,906,809	43,817,917	\$911,108	2.1%
Town Government, Facilities, Public Safety and Public Works	23,545,913	24,148,407	602,494	2.6%
Employee Benefits & Other Fixed Costs	<u>19,240,708</u>	<u>20,061,187</u>	<u>820,479</u>	<u>4.3%</u>
Total Operating Budget	\$85,693,430	\$88,027,511	\$2,334,081	2.7%
Non Operating Budget:				
Cash Capital	-	\$634,000	\$634,000	0.0%
Pre-Funding Long Term OPEB Liability	1,023,254	2,225,491	1,202,237	117.5%
Gross Debt Service Exempt from Proposition 2 1/2	<u>10,233,342</u>	<u>9,951,617</u>	<u>-281,725</u>	<u>-2.8%</u>
Total Non Operating Budget	\$11,256,596	\$12,811,108	\$1,554,512	13.8%
Grand Total Budget	\$96,950,026	\$100,838,619	\$3,888,593	4.0%

The overall operating budget – excluding cash capital spending, funding of long term OPEB liabilities and debt service – is projected to increase by \$2.3 million (2.7%).

Newly recommended increases that contribute to the 3.5% increase for the Total Operating Budget and Cash Capital include:

Schools- Middle School RTU-3 Replacement	\$ 350,000
DPW- Construction of Public Ways	318,000
DPW- Departmental Equipment	163,000
DPW-Cherry Brook Culverts	124,000
DPW- Sherburn Circle Culvert Design	80,000
Fire- Shift Commander Vehicle	80,000
Information Systems-Software Maintenance	24,378
Information Systems- Additional Staff Hours	20,000
Conservation- Case Estate/Legacy Trail Mgt	6,000
Finance- Amazon Business Prime	1,299
Total New Recommended Increases (School/Town)	\$ 1,166,677

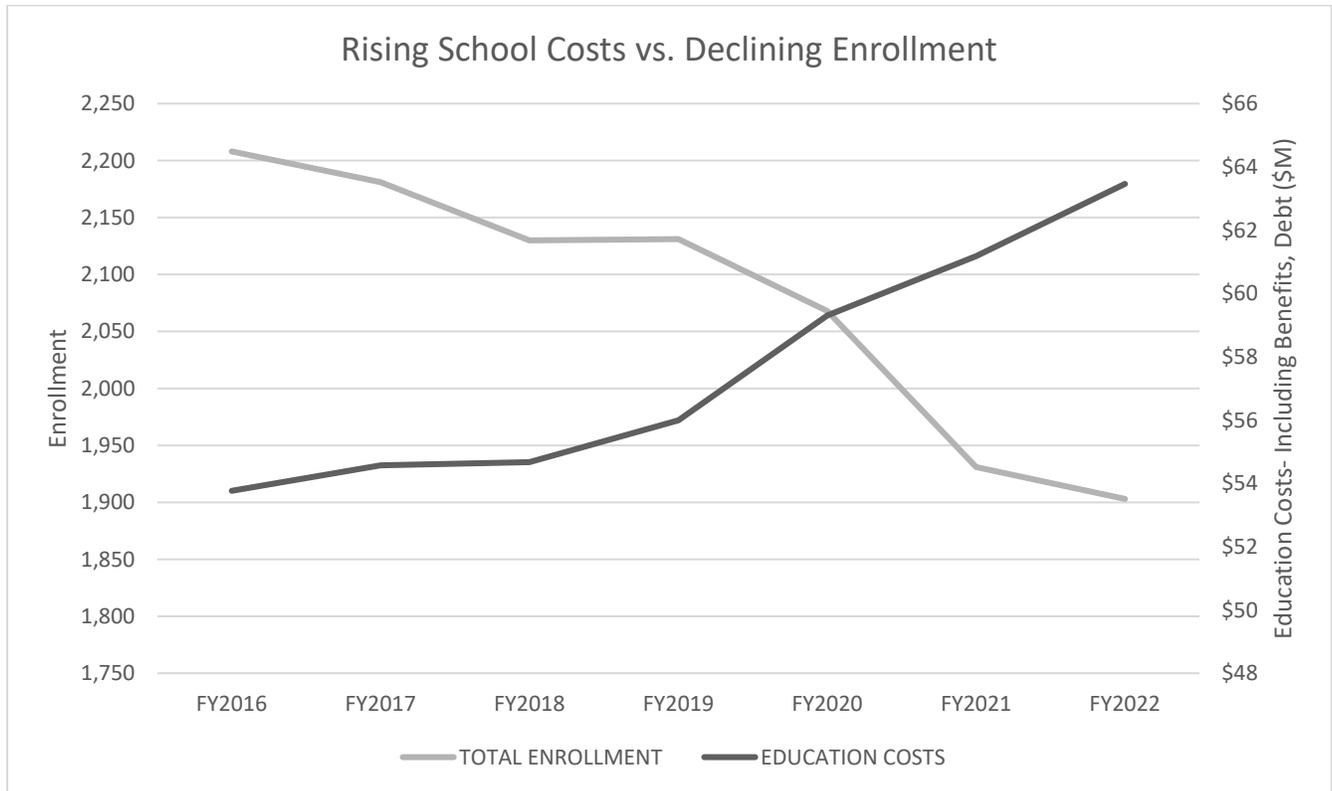
Schools

Weston has a longstanding tradition of supporting excellence in public education, and our schools are among the most highly rated in the Boston area, consistent with other affluent communities. However, we are concerned by the rate of growth of the School budget in recent years despite continued and projected future declining enrollment. In FY22, this budget is rising by \$911,108 or 2.1% despite enrollment being projected to decline by 1.7%, with a projected decline of 14.3% at the High School over the next five years. We have much higher per pupil expenditures than those of neighboring comparable school districts, despite standardized test results which are materially similar to comparable towns. We recognize that the School Committee and Administration are working on initiatives to align costs with enrollment and we support and encourage those continued efforts, particularly as they begin contract negotiations next fall for implementation in FY23.

2021 ANNUAL TOWN MEETING

Weston's per pupil expenditures of \$25,846 are now 26% higher than comparable affluent districts, or \$5,306 per student (FY19). These expenditures are paid for by taxes as well as state aid and grants, including WEEFC. We have fewer students than comparable towns, and thus are spreading fixed costs over a smaller number. While we cannot manage the budget to Per Pupil Expenditure, it is still a useful indicator as it helps us understand where we may be spending more than other towns and look for ways to be more efficient. Factors contributing to this much higher per pupil spending include more generous teacher salaries and benefits, teachers teaching fewer classes, and historically a large number of classes running below class size policy.

This cost excess relative to neighboring affluent communities did not emerge only recently, or in a few large jumps that might be traced to certain discrete actions or decisions, but rather grew slowly over time as 1-2% increments each year, over many years, compounded over time.



The absolute level of total education cost including related debt and benefits has been rising despite a significant drop in enrollment and projected further declines in enrollment.

The School Committee has taken important cost saving steps this year to recognize the ongoing decline in enrollment and high relative per pupil expenditures and these efforts need to continue. In the coming year, the Finance Committee will continue working in collaboration with the School Committee to analyze in detail these higher costs versus peer districts, and together explore additional areas of cost control, efficiencies, and savings that would not sacrifice excellence.

Town Government

This part of the budget includes Public Safety, Public Works, the Library, Council on Aging, and Town Hall departments. The Town budget is increasing by \$602,494 or 2.6%. Most of this increase relates to people - Municipal Salaries (\$591,235).

Healthcare Costs

All Town and School employees belong to health insurance plans provided by the Massachusetts Group Insurance Commission (GIC). Last year's health insurance cost increased by 5.9% and FY22 is increasing by 3.5%. Weston's employee benefits are significantly more costly than those in neighboring communities as we pay a higher percentage of

2021 ANNUAL TOWN MEETING

the cost of health premiums than they typically do. The town was able to negotiate reduced benefit spending with our 12 unions, beginning in FY22. This is expected to generate \$800K in savings on health insurance premiums cumulatively over the next three years and will also help reduce our retiree health liability. This is a good start, but we still pay a much higher proportion than other towns and will need to continue to negotiate further decreases in the future to bring us more in line. If we were able to pay 70% of premium instead of 84% for our employees, which is closer to what other towns pay, we would be saving over \$1.5 million per year just in reduced premiums.

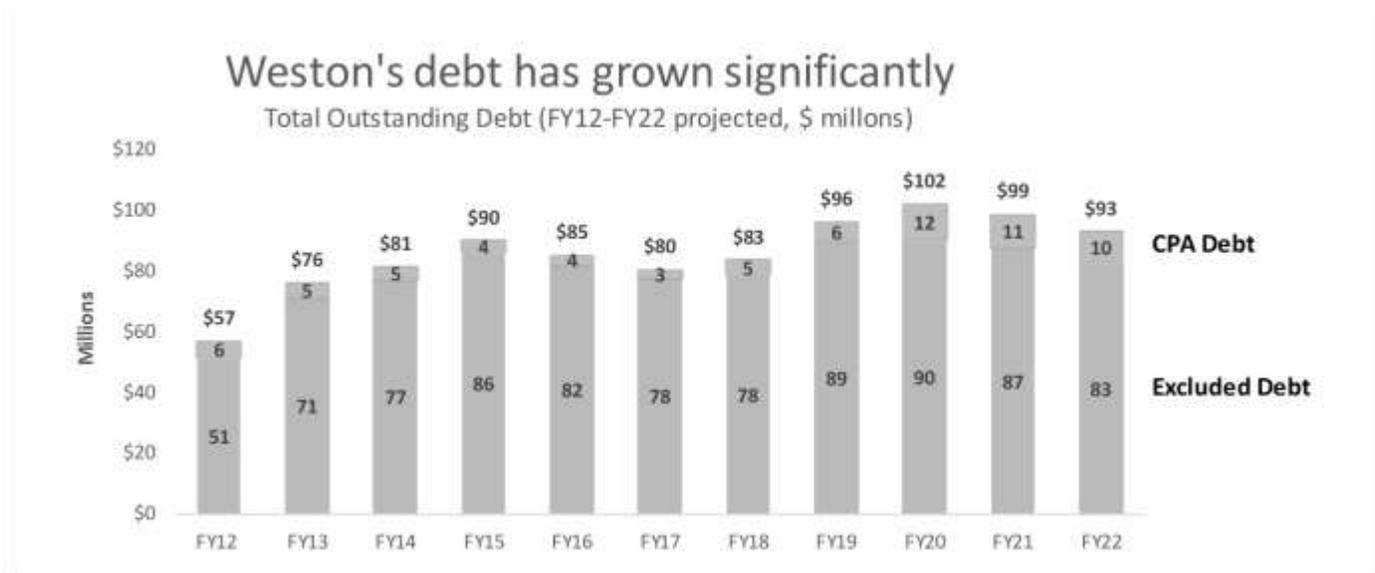
Pension and Retiree Healthcare Costs

Like all municipalities, Weston has significant pension and retiree health insurance liabilities. (The latter are called Other Post-Employment Benefits, or OPEB.) As of June 30, 2020, the Town's pension liability was underfunded by \$62.7 million. The Middlesex Retirement System, of which the Town is a part, extended their funding schedule this year by two years to provide for full amortization of the unfunded liability by 2037. The Town must pay annual assessments to Middlesex Retirement System to fulfill this obligation. The FY22 assessment is \$5.9 million.

With respect to OPEB, the Town currently pays for employee and retiree healthcare costs each year through the operating budget as they come due. The Town also prefunfs future health care costs for current employees, as well as partially prefunding health care costs for current and prior employees (that had not been reserved for in the past) in the OPEB trust fund. As of June 30, 2020, the unfunded OPEB liability was \$48.2 million. Unlike the pension liability, no law requires funding the OPEB liability. Nevertheless, the Select Board and Finance Committee believe it is prudent and responsible to fund this liability over time, rather than leaving it solely as a burden to future taxpayers. As of June 30, 2020, the OPEB reserve balance was approximately \$22.2 million. The OPEB contribution was roughly halved last year due to revenue concerns with Covid, but is being restored to its normal level for FY22. The FY22 contribution level is \$2,225,491.

Capital Spending, Debt Levels, and Credit Rating

Since 2002, the Town has authorized numerous large capital projects totaling nearly \$174 million. This includes major renovations of the schools, construction of the new Field School, Community Center, DPW and Police Station, Case Campus Improvements, Case Estates Land acquisition, Case House Rehabilitation, Old Library (WAIC), Josiah Smith Tavern, and Town Center Master Plan and Burying of Utilities. Outstanding excluded debt against these projects (as well as a number of smaller projects), will total approximately \$83 million in General Fund Dept and \$93 million in debt when CPA projects are included. Most of the major projects approved in the past five years are non-school related and partially if not entirely discretionary. Aside from the Field School (2012) and the High School science labs (2011), other school building related improvements were completed two decades ago. At some point, we will undoubtedly need to again refurbish or perhaps even replace some of our school buildings.



While we appreciate that debt is starting to drop, we remain concerned about the large number, size, and frequency of these various projects. In particular, we are very concerned by the potential future cost of executing the new Recreation

2021 ANNUAL TOWN MEETING

Master Plan, which while involving some necessary fixes to current fields/facilities, also includes many “nice to have” items. In general, projects are encouraged by our practice of forming ad hoc long-term committees, which become committed to seeing them happen without regard to bigger picture trade-offs or costs. There is a tendency to analyze projects in isolation, and to focus on debt service when presenting projects to the Town (e.g. only \$200 per taxpayer per year for the next 20 years) rather than considering that the debt service costs of all of these various projects add up to a significant amount for years to come. The ongoing maintenance costs resulting from an individual project must also be weighed, as these may require the addition of permanent personnel and/or equipment. We recommend that projects be bid and voted as separate “needed” and “wanted” items when coming before the Town and include information on ongoing maintenance costs.

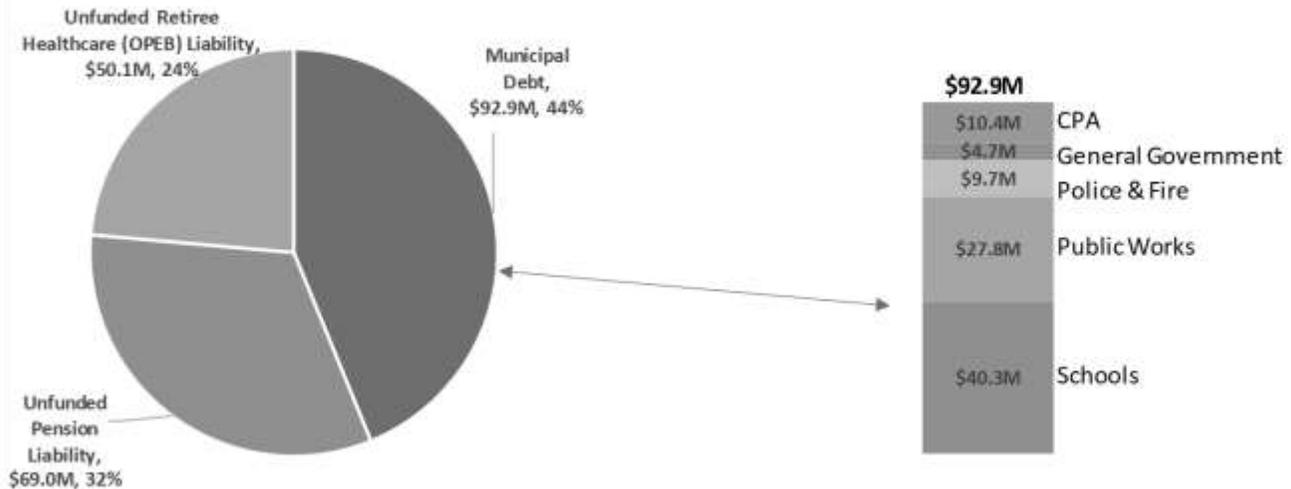
We expect that total excluded debt service for FY22 will be \$9.9 million, with \$6.9 million representing principal payments. The Town opportunistically refinances the interest rate it pays on debt when appropriate and allowed by law. We also note that the Town benefits from very low interest rates, because of its Aaa bond rating and the current low interest rate borrowing climate.

If all FY22 projects pass at Town Meeting, the Town’s total outstanding excluded debt is estimated to be \$83 million as of June 30, 2022. For FY22, we anticipate an additional borrowing of \$2.15 million consisting of:

- \$450,000 for drainage improvements
- \$951,000 for high school F-wing replacement
- \$750,000 for fire department engine pumper

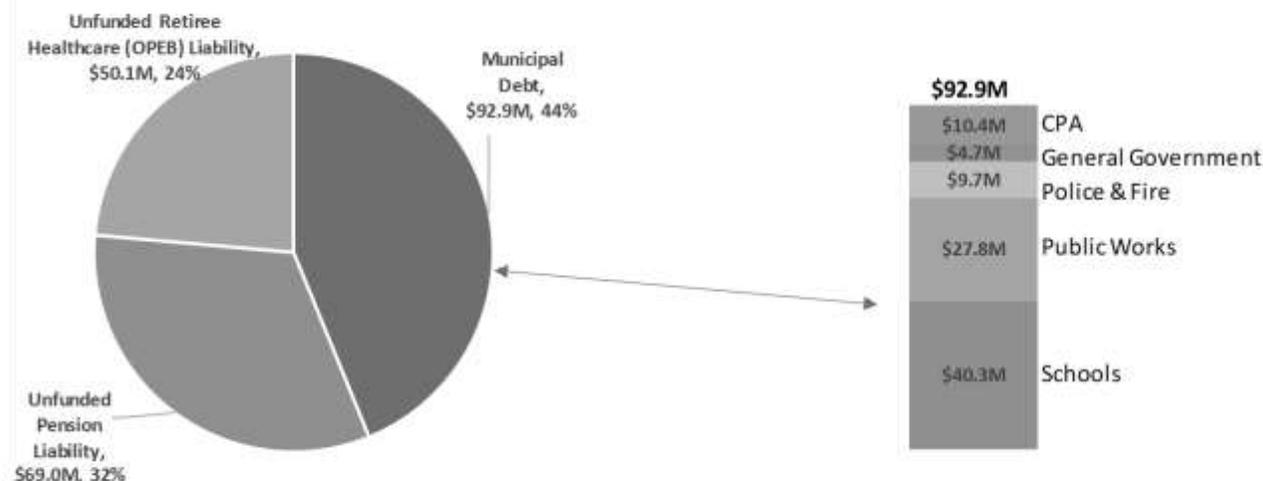
Projected Outstanding General and CPA Debt by Department – FY22

Weston Total Debt and Unfunded Liabilities (FY22, \$ Millions)



2021 ANNUAL TOWN MEETING

Weston Total Debt and Unfunded Liabilities (FY22, \$ Millions)



In FY2021, the Town's ratio of debt service to operating revenue will be approximately 10.8% which is close to the 15% threshold that is a guideline for a Aaa-rated municipality.

On two other key measures relevant to our credit rating, our ratios are more favorable. Total outstanding debt represented only 1.54% of the Town's total assessed valuation in FY21, well below the 5% General Debt Statutory Limit and the 10% considered a warning indicator by credit rating organizations. However, total outstanding debt as a percent of per capita income was 2.7%, also below the 15% threshold considered a warning indicator by credit rating organizations.

Reserves

Over the past 13 years, total reserves have grown from \$0.6 million in FY05 (when the reserve policy was created) to \$11.0 million as of 12/31/2020. We believe the Town is more than adequately reserved.

As previously discussed, the Town, along with most others in the country, has a significant unfunded OPEB liability. These costs will be significantly impacted by healthcare inflation, investment returns and possible changes in national healthcare policy. Although funding is not required, we are legally obligated to report OPEB liability and rating agencies encourage funding. Starting in 2010, the Town began accumulating funds in a special trust that will allow us to achieve better returns on these investments. The OPEB Trust now stands at \$27.6 million against an actuarial funding requirement of \$69.4 million and we expect to continue to make significant future contributions, until this future liability is fully funded by 2047.

The Town continues to enjoy the highest credit rating on its debt (Aaa), consistent with other affluent Boston-area towns. We will continue to monitor the Town's Reserve policy with an objective of maintaining the triple-A rating, so as to minimize the Town's borrowing costs.

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. Outstanding debt is a concern as more large projects have been added in recent years. We need to emphasize long term debt implications as we consider future projects and focus more on "needs" vs. "wants" when designing and determining which projects go forward.

We 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 2022 budget. We appreciate the time and effort spent by the School

2021 ANNUAL TOWN MEETING

Committee and Administration sharing information and answering questions. Lastly, we would like to thank the Town Manager and Finance Department for their tremendous level of support, invaluable insights and passion for town government.

FINANCE COMMITTEE MEMBERS

Lisa V. Reitano, Chair
James A. Jarrett
John F. McDonald
Karen L. Meslin
James D. Philipkosky
John M. Sallay
Lisa Schwallie
Bharath Venkataraman

2021 ANNUAL TOWN MEETING
