

FY14-18 Long Range Financial Forecast

Fall Special Town Meeting
October 16, 2012

Robert J. Halpin, Town Manager
Mary Ellen Kelley, CFO

Overview

”The goal of forecasting is not to predict the future but to tell what you need to know to take meaningful action in the present.” (Paul Saffo, Harvard Business Review)

- **Forecast Summary**
 - Revenue Growth projection
 - Expenditure Growth projection
- **Budget Busters**
- **Stabilization Fund**
- **Unfunded Liabilities**
 - Pensions
 - Other Post Employment Benefits (OPEB)

Overview

- Successes/Milestones

- Balanced budgets through unprecedented economic downturn
- On the verge of attaining Stabilization Fund Goal
- No retreat on Pension Fund Schedule

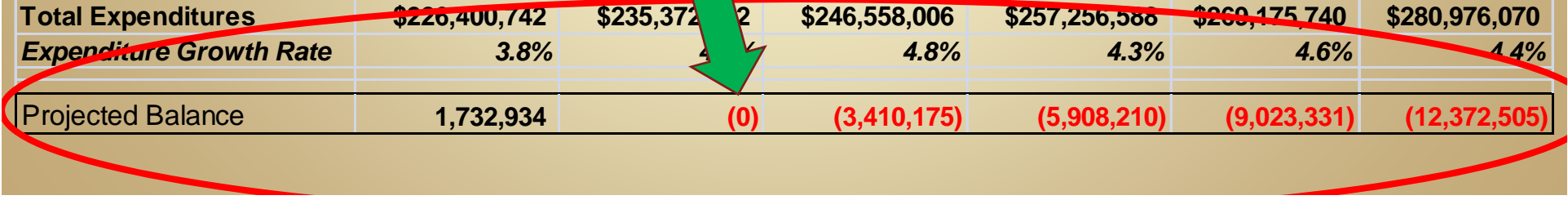
- Road Ahead

- Maintain what we have achieved, but live within our means
- Implement a funding source for OPEB liability
- Make strategic decisions on Town-wide needs
 - Including investment in education, public safety and infrastructure

Forecast Summary

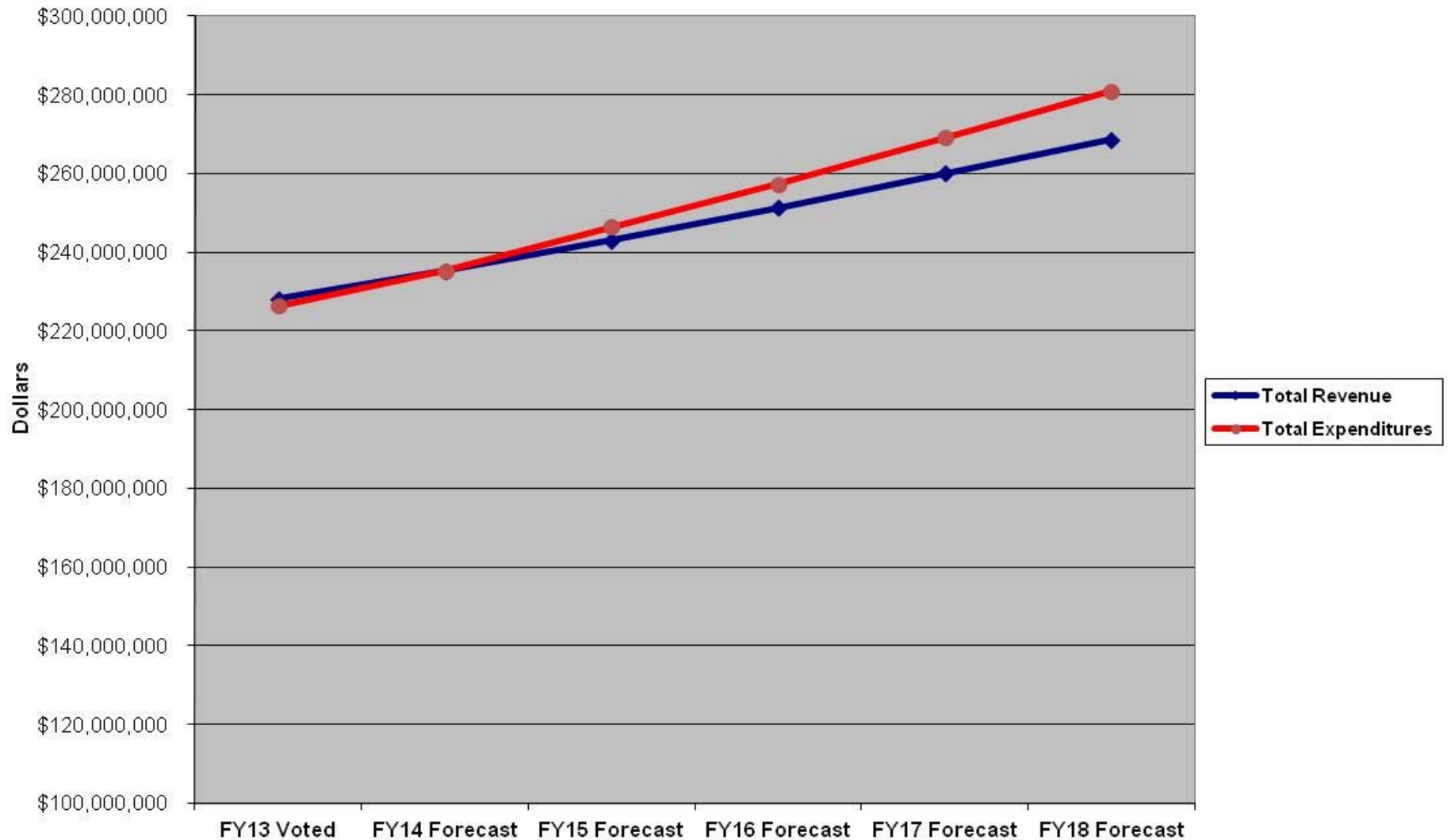
FY2014 - FY2018 Projected Budget Expenditures and Revenues

	FY13 Voted	FY14 Forecast	FY15 Forecast	FY16 Forecast	FY17 Forecast	FY18 Forecast
Revenue						
Property Taxes	\$166,620,642	\$171,670,158	\$176,881,272	\$182,305,406	\$187,935,291	\$193,770,258
State Aid	\$40,574,408	\$42,913,327	\$45,146,679	\$47,555,841	\$50,480,637	\$53,600,227
Local Receipts	\$15,572,887	\$15,839,468	\$16,166,391	\$16,526,985	\$16,767,082	\$16,221,105
Enterprise Indirect Trnsfr	\$2,722,679	\$2,804,360	\$2,888,490	\$2,975,145	\$3,064,399	\$3,186,975
Free Cash	\$2,588,060	\$2,080,000	\$2,000,000	\$1,920,000	\$1,840,000	\$1,760,000
Parking Tickets	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Miscellaneous	\$5,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Total Revenue	\$228,133,676	\$235,372,312	\$243,147,831	\$251,348,378	\$260,152,409	\$268,603,565
<i>Revenue Growth Rate</i>	<i>4.6%</i>	<i>3.2%</i>	<i>3.3%</i>	<i>3.4%</i>	<i>3.5%</i>	<i>3.2%</i>
Expenditures						
Municipal Departments	\$51,169,305	\$54,923,215	\$54,743,026	\$56,558,021	\$58,407,590	\$60,088,712
School Departments	\$105,031,098	\$110,683,737	\$114,616,044	\$119,562,247	\$124,683,631	\$130,082,900
Insurances	\$37,162,622	\$38,113,069	\$41,846,934	\$44,675,439	\$47,636,606	\$50,455,017
Retirement(Inc. OPEB)	\$12,279,651	\$11,848,428	\$12,107,010	\$12,730,342	\$13,383,261	\$14,066,722
Debt Service	\$10,444,271	\$12,390,076	\$14,897,230	\$15,064,209	\$16,123,645	\$17,062,620
Stabilization/Reserves	\$3,314,656	\$1,599,630	\$795,630	\$845,630	\$895,630	\$945,630
Miscellaneous	\$0	\$0	\$0	\$0	\$0	\$0
Non Appropriations	\$6,999,139	\$7,299,557	\$7,552,133	\$7,820,700	\$8,045,377	\$8,274,469
Total Expenditures	\$226,400,742	\$235,372,312	\$246,558,006	\$257,256,588	\$269,175,740	\$280,976,070
<i>Expenditure Growth Rate</i>	<i>3.8%</i>	<i>4.4%</i>	<i>4.8%</i>	<i>4.3%</i>	<i>4.6%</i>	<i>4.4%</i>
Projected Balance	1,732,934	(0)	(3,410,175)	(5,908,210)	(9,023,331)	(12,372,505)



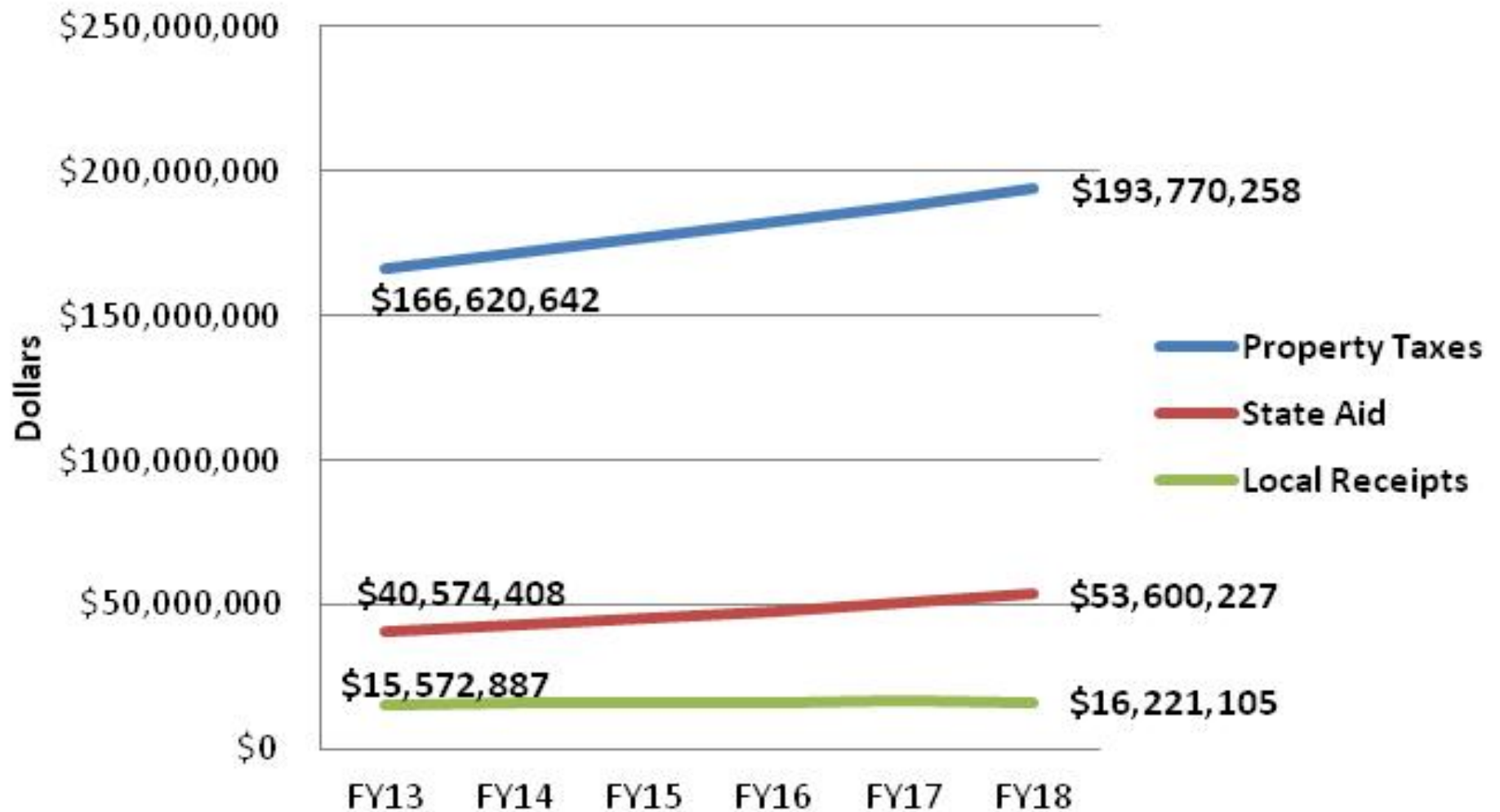
Forecast Summary

Spending and Revenue Trends FY13 to FY18



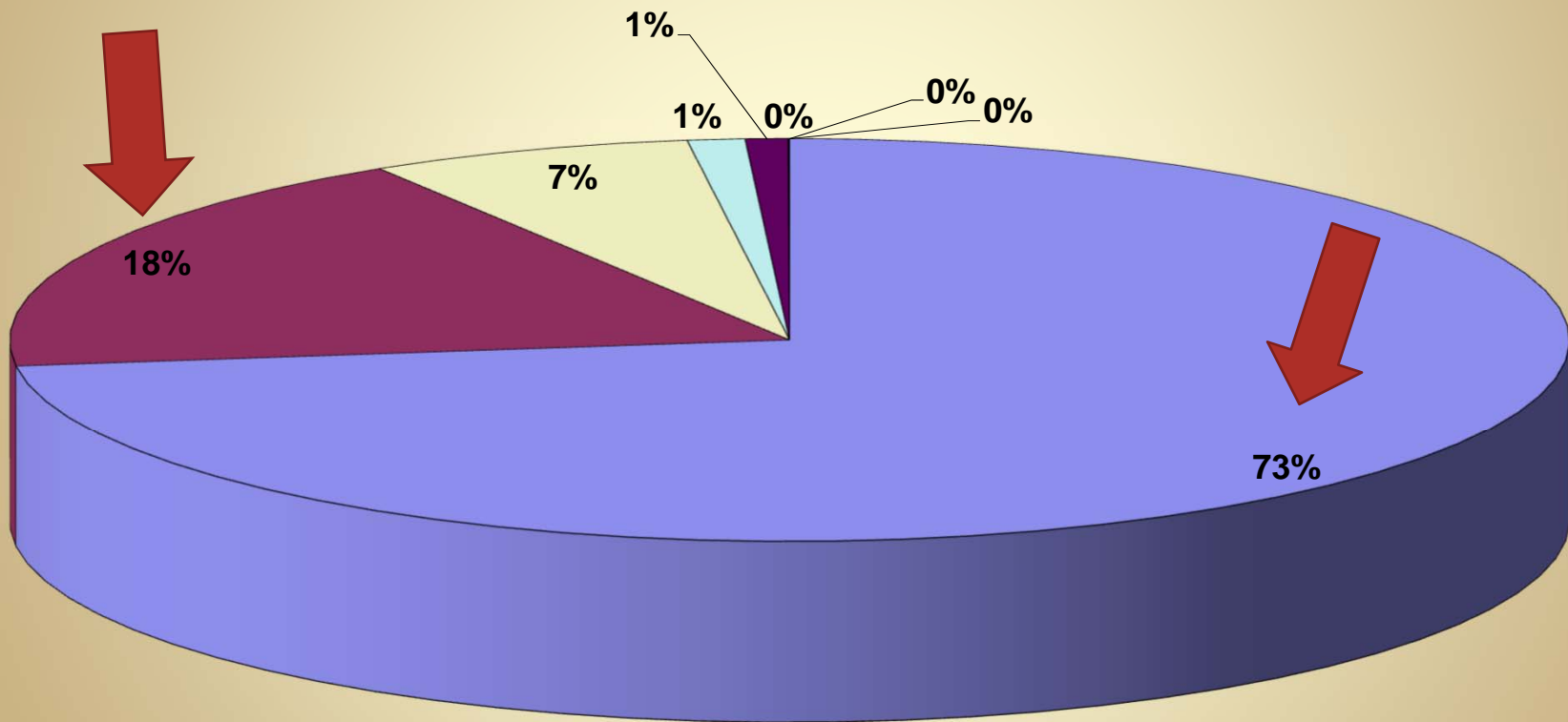
Revenue Growth

Trend of Major Revenue Sources FY13 - FY18



Revenue Growth

FY14 Revenue by Type



■ Property Taxes ■ State Aid □ Local Receipts □ Enterprise ■ Free Cash ■ Parking Tickets ■ Stabilization □ Miscellaneous

Use of Free Cash

- Moody's review of June 2012 cited that the continued use of free cash as a recurring revenue source for the annual operating budget is a weakness
- The completion of the Stabilization Fund 5% goal makes the room and meal tax revenue available to replace free cash as a recurring revenue source
 - Adding \$687,000 to the Stabilization fund in this fall Special Town Meeting means no room and meals tax is required to maintain the 5% goal until FY2018.
 - We would be replacing a non-recurring revenue source with a recurring revenue source

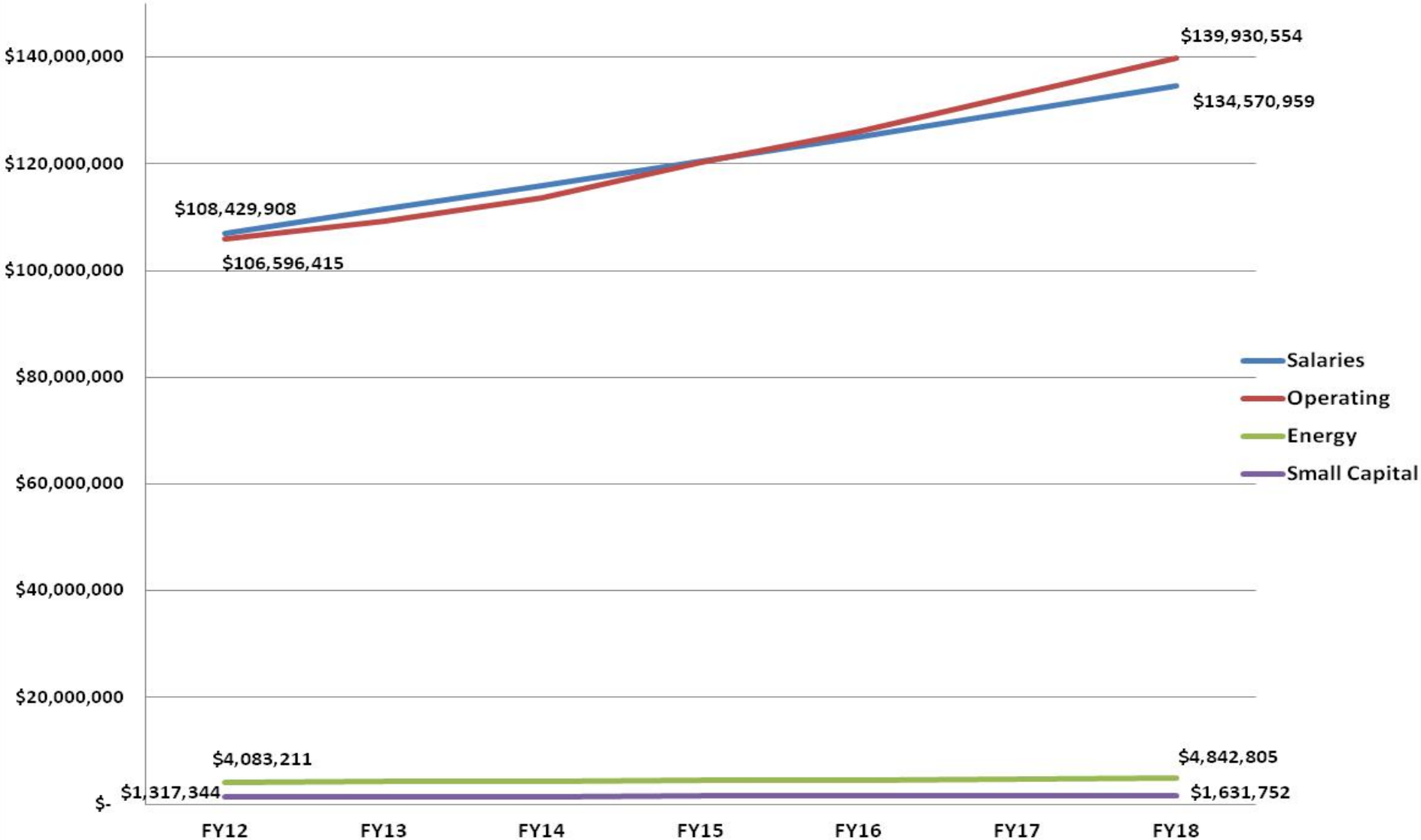
Use of Free Cash

- This forecast phases out the use of free cash in \$200,000 increments
 - This pattern would continue until FY21
 - This provides more funding for capital and OPEB

Revenue Type	FY13	FY14	%	FY15	%	FY16	%	FY17	%	FY18	%
Certified Free Cash	\$3,313,433	\$2,600,000	-22%	\$2,600,000	0%	\$2,600,000	0.0%	\$2,600,000	0.0%	\$2,600,000	0%
Operating	\$1,500,000	\$1,300,000	-13%	\$1,100,000	-15%	\$900,000	-18%	\$700,000	-22%	500,000	-29%
Capital	\$362,687	\$260,000	-28%	\$300,000	15%	\$340,000	13%	\$380,000	12%	\$420,000	11%
Stabilization	\$725,373	\$390,000	-46%	\$375,000	-4%	\$425,000	13%	\$475,000	12%	\$525,000	11%
OPEB Trust Fund	\$0	\$130,000	100%	\$225,000	73%	\$255,000	13%	\$285,000	12%	\$315,000	11%
Total Used in Budget	\$2,588,060	\$2,080,000	-20%	\$2,000,000	-4%	\$1,920,000	-4%	\$1,840,000	-4%	\$1,760,000	-4%

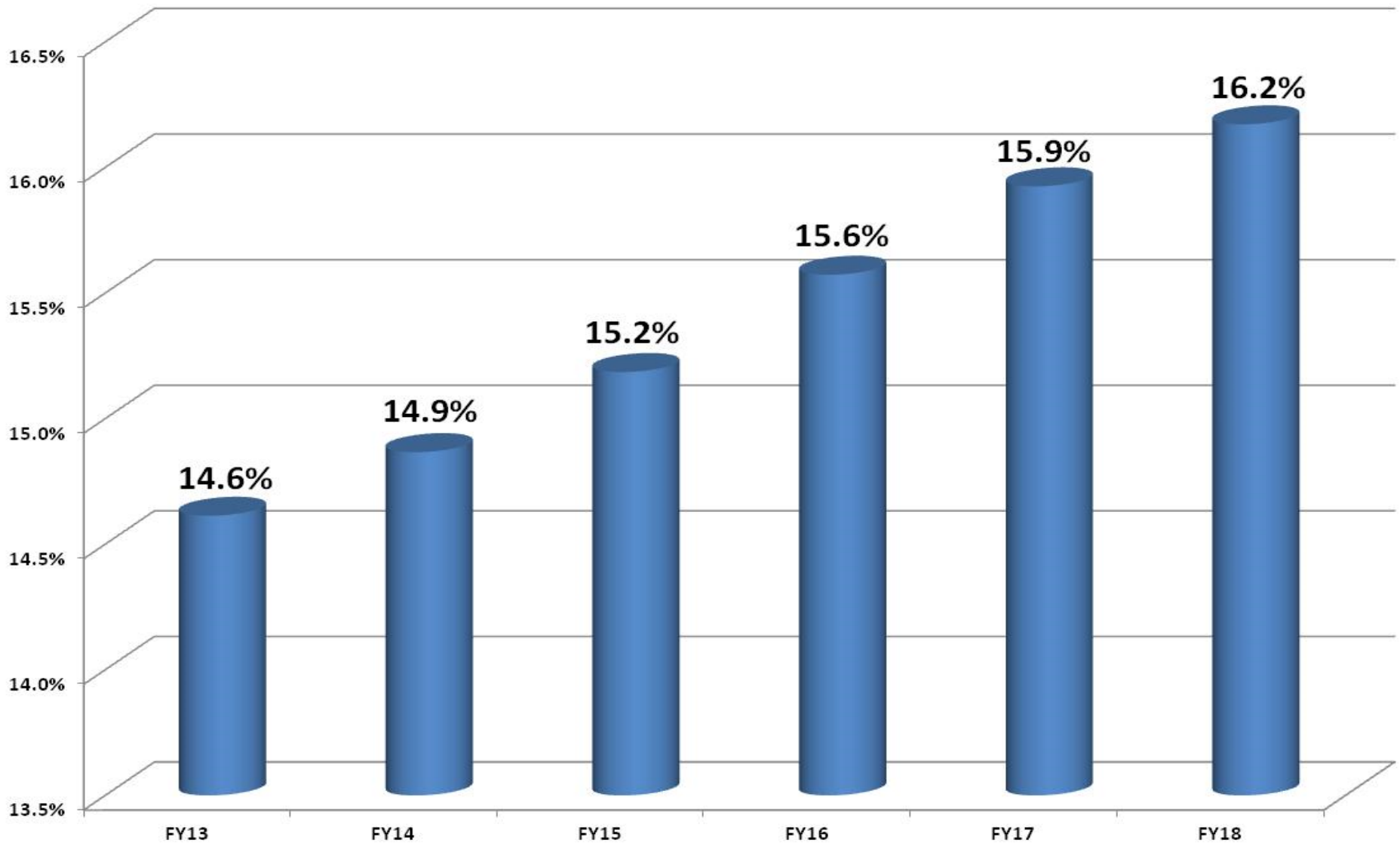
Expenditure Growth

Growth in Spending by Category



Budget “Busters”

Health Insurance as a % of Total Spending



Stabilization Fund

- Stabilization Fund policy states it should be 5% of annual budget
 - FY13 allocation is 4.1%; **we are almost there**
 - FY14 allocation would be \$750,000, comprised of \$400,000 of free cash and \$350,000 of room and meals taxes
 - If Town Meeting adds an additional \$687,000 in FY13 the Fund will have exceeded the 5% goal (5.2%)
 - However, that means that room and meal tax is no longer needed for the next 5 years
 - If only a portion is added to reach the 5% goal in FY13 additional room and meals tax revenues are needed from FY15 onward

Stabilization Fund

Option 1	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Voted/Projected Budget	\$219,331,566	\$227,310,902	\$235,372,312	\$246,558,006	\$257,256,588	\$269,175,740	\$280,976,070
5% Target	\$10,966,578	\$11,365,545	\$11,768,616	\$12,327,900	\$12,862,829	\$13,458,787	\$14,048,803
Free Cash + Room & Meals Tax FY12/13 Free Cash only FY14-18	\$1,461,086	\$2,236,727	\$375,000	\$375,000	\$425,000	\$475,000	\$525,000
Additional Revenue Fall STM		\$687,827					
New Balance	\$8,920,903	\$11,845,457	\$12,220,457	\$12,595,457	\$13,020,457	\$13,495,457	\$14,020,457
Excess/shortfall	(\$2,045,676)	\$479,912	\$451,841	\$267,557	\$157,627	\$36,670	(\$28,347)

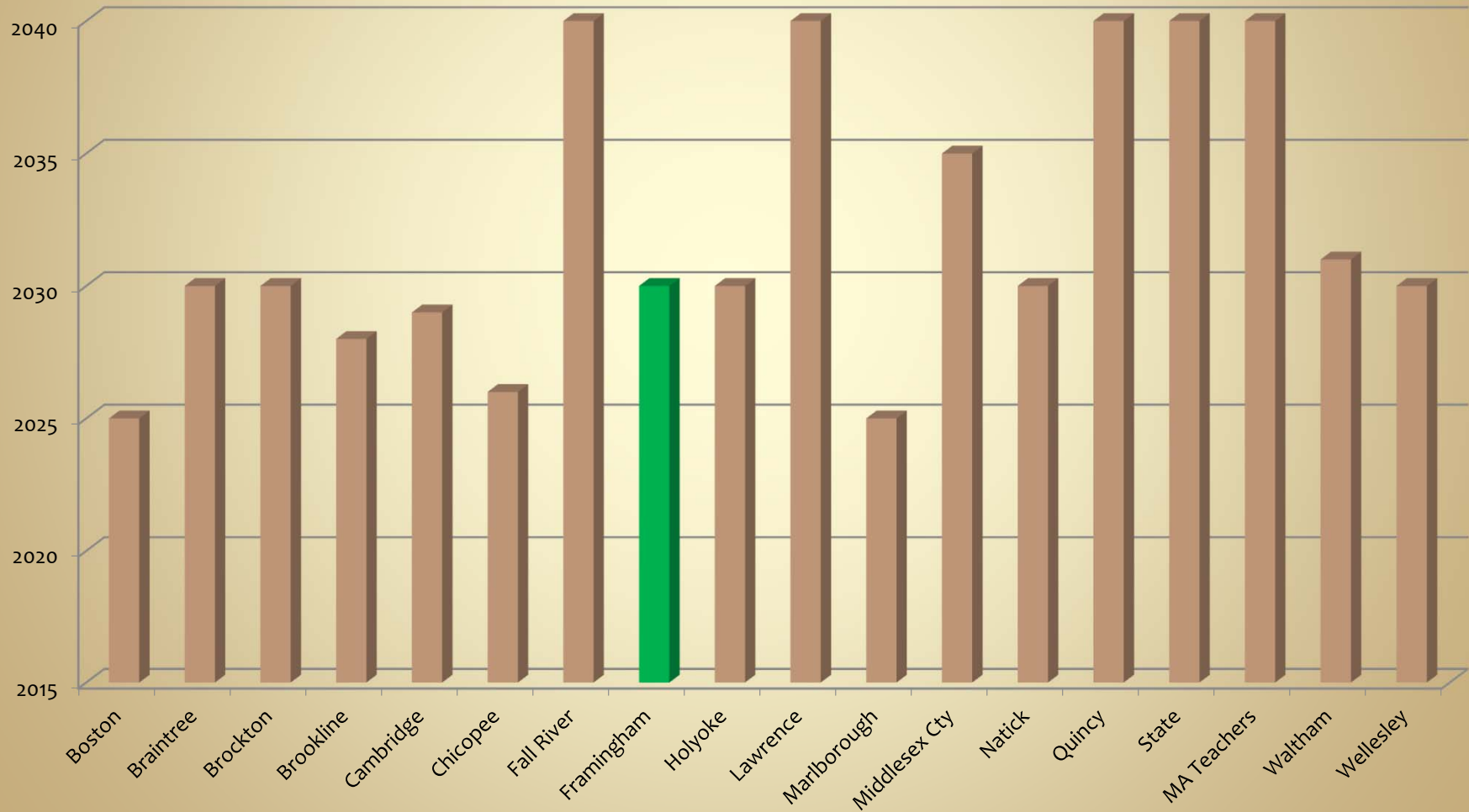
Option 2	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Voted/Projected Budget	\$219,331,566	\$227,311,902	\$235,372,312	\$246,558,006	\$257,256,588	\$269,175,740	\$280,976,070
5% Target	\$10,966,578	\$11,365,595	\$11,768,616	\$12,327,900	\$12,862,829	\$13,458,787	\$14,048,803
Free Cash + Room & Meals Tax FY12/13 Free Cash only FY14-18	\$1,461,086	\$2,236,727	\$390,000	\$375,000	\$425,000	\$475,000	\$525,000
Additional Revenue Fall STM		\$207,965					
Room and Meals Tax needed			\$13,021	\$184,284	\$109,929	\$120,957	\$65,016
New Balance	\$8,920,903	\$11,365,595	\$11,768,616	\$12,327,900	\$12,862,830	\$13,458,787	\$14,048,804
Excess/shortfall	(\$2,045,676)	(\$0)	\$0	\$0	\$0	\$0	\$0

Unfunded Liabilities: Pension

- Pension Fund recovering from Great Recession
 - Fund losses fared better than most
 - FRS dropped from 75.5% to 67.7% funded
 - Wellesley dropped from 102% to 86.7% funded
- 2012 Funding schedule kept commitment to fund the pension liability by 2030 versus extending the schedule
 - A number of comparable communities preferred to extend the time frame, costing millions
- This saves the Town \$4.6 million

Unfunded Liabilities: Pensions

Year Fully Funded



Unfunded Liabilities: OPEB

- Other Post Employment Benefits (OPEB) is health insurance for retirees
- Created an Irrevocable Trust at 2012 Annual Town Meeting
 - Allows the Town to record the higher discounted valuation
 - Record a liability of \$202 million vs \$371 million
- Added \$1.5 million to the Trust fund
 - Any funding allocated to Trust is counted as a plan asset and reduces the liability we have to record on the financial statements
 - Investment returns stay within the Trust and also reduce the overall liability we have to record in financial statements

Unfunded Liabilities: OPEB

OPEB Funding Schedules over Time

