

# **FY14-18 Long Range Financial Forecast**

Fall Special Town Meeting  
October 16, 2012

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# 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

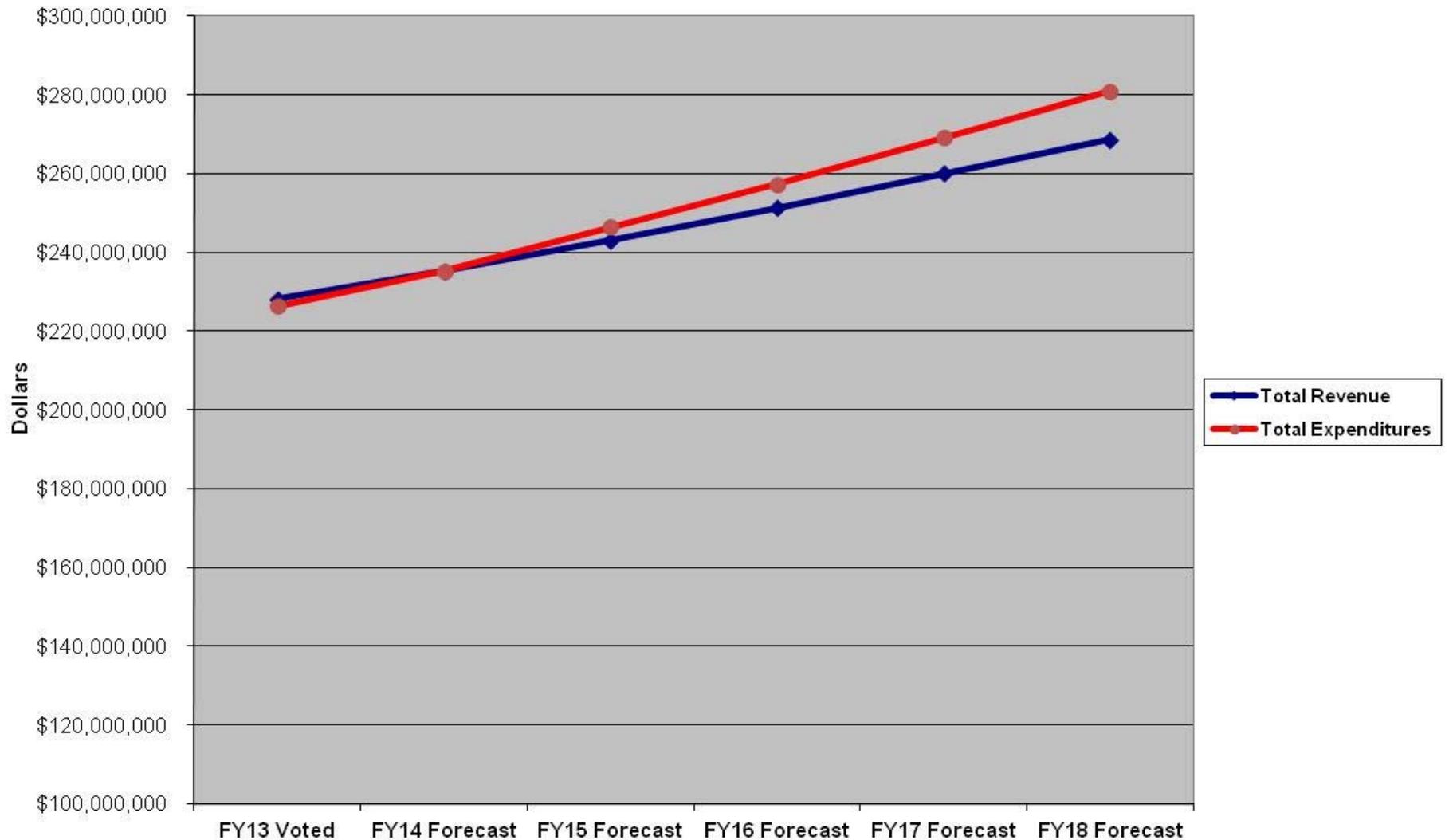
## FY2014 - FY2018 Projected Budget Expenditures and Revenues

	FY13 Voted	FY14 Forecast	FY15 Forecast	FY16 Forecast	FY17 Forecast	FY18 Forecast
<b>Revenue</b>						
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
<b>Total Revenue</b>	<b>\$228,133,676</b>	<b>\$235,372,312</b>	<b>\$243,147,831</b>	<b>\$251,348,378</b>	<b>\$260,152,409</b>	<b>\$268,603,565</b>
<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>
<b>Expenditures</b>						
Municipal Departments	\$51,169,305	\$51,923,215	\$54,743,026	\$56,558,021	\$58,407,590	\$60,088,712
School Departments	\$105,031,098	\$108,683,737	\$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	\$12,118,428	\$12,107,010	\$12,730,342	\$13,383,261	\$14,066,722
Debt Service	\$10,444,271	\$12,119,076	\$14,897,230	\$15,064,209	\$16,123,645	\$17,062,620
Stabilization/Reserves	\$3,314,656	\$1,519,630	\$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
<b>Total Expenditures</b>	<b>\$226,400,742</b>	<b>\$235,372,312</b>	<b>\$246,558,006</b>	<b>\$257,256,566</b>	<b>\$269,175,740</b>	<b>\$280,976,070</b>
<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>
<b>Projected Balance</b>	<b>1,732,934</b>	<b>(0)</b>	<b>(3,410,175)</b>	<b>(5,908,210)</b>	<b>(9,023,331)</b>	<b>(12,372,505)</b>



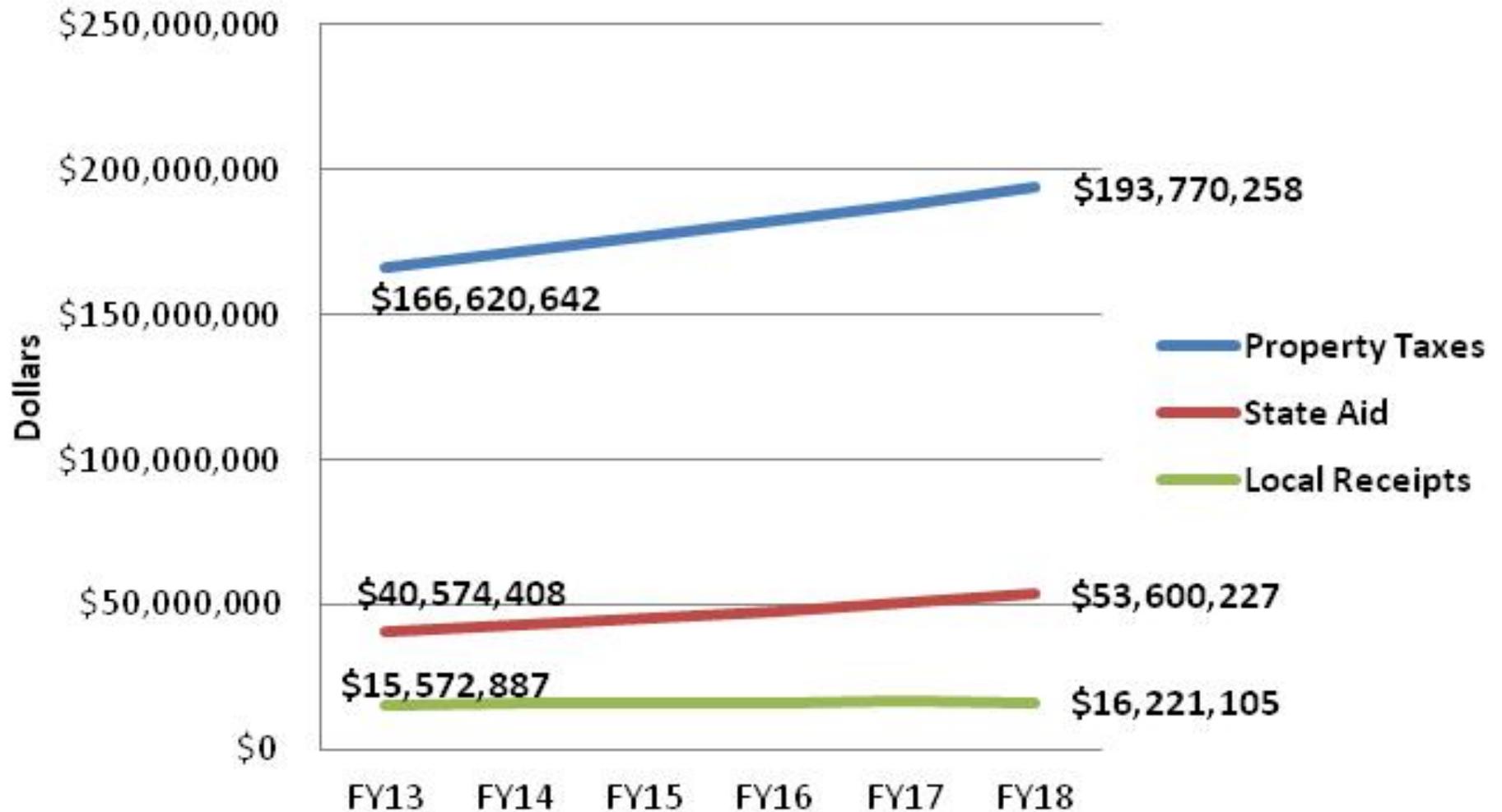
# Forecast Summary

## Spending and Revenue Trends FY13 to FY18



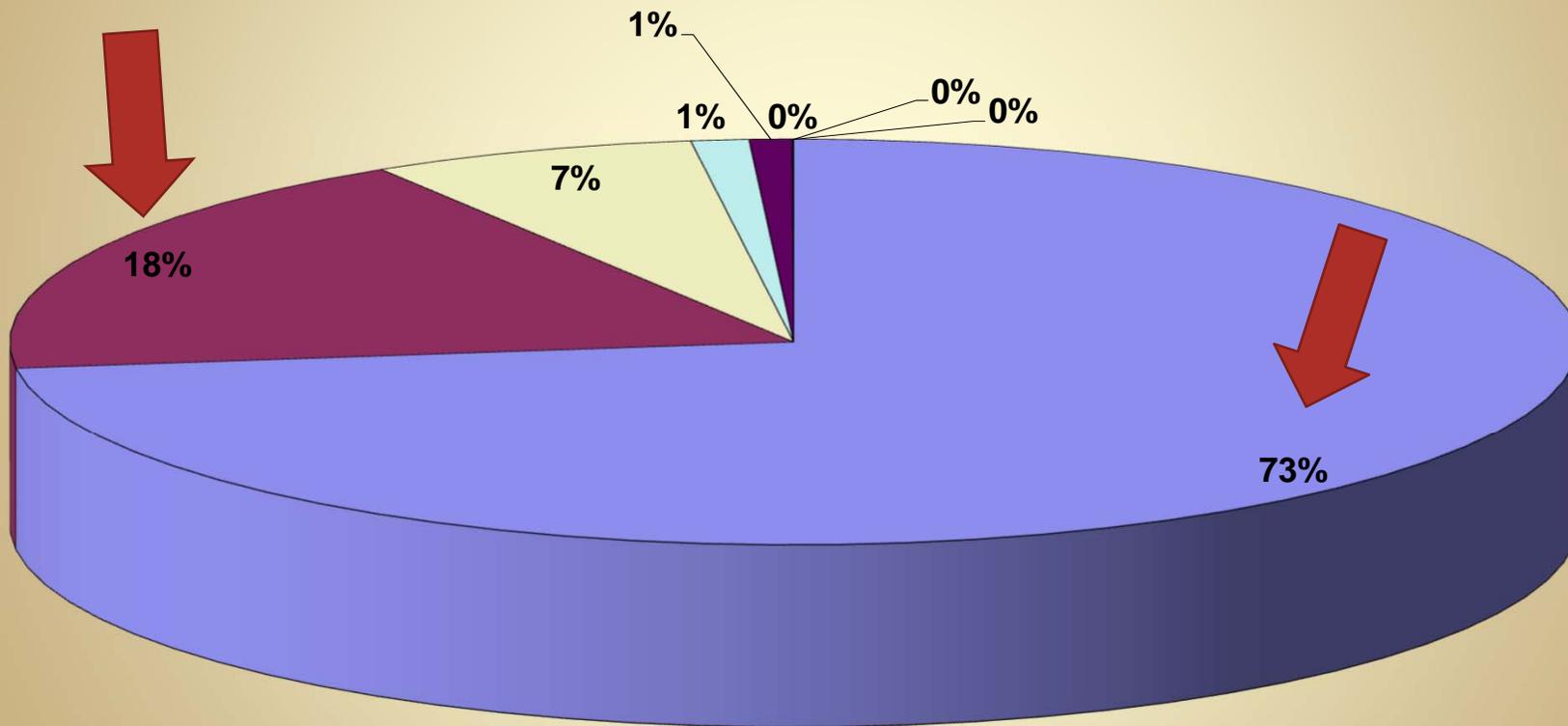
# Revenue Growth

## 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

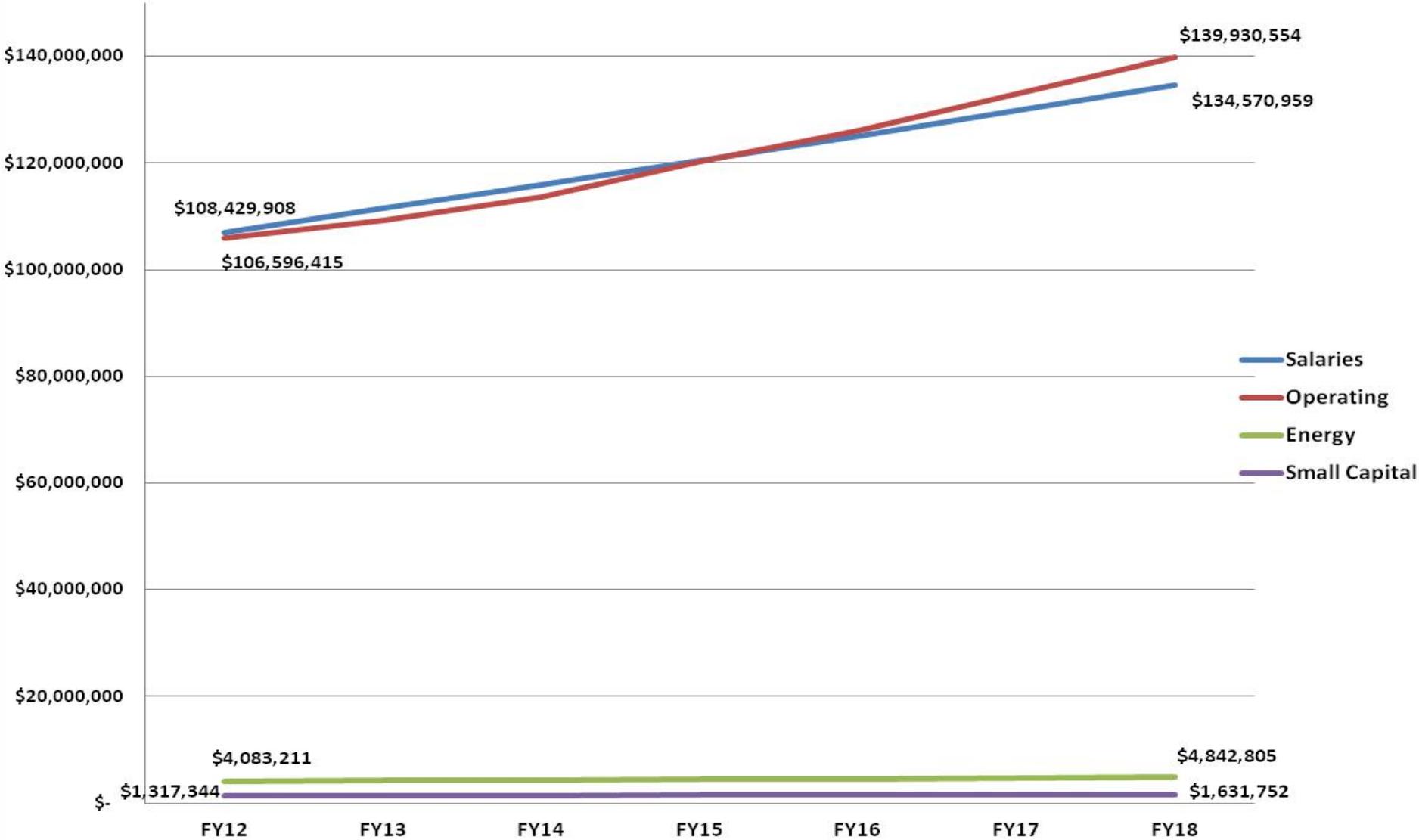
# Use of Free Cash

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

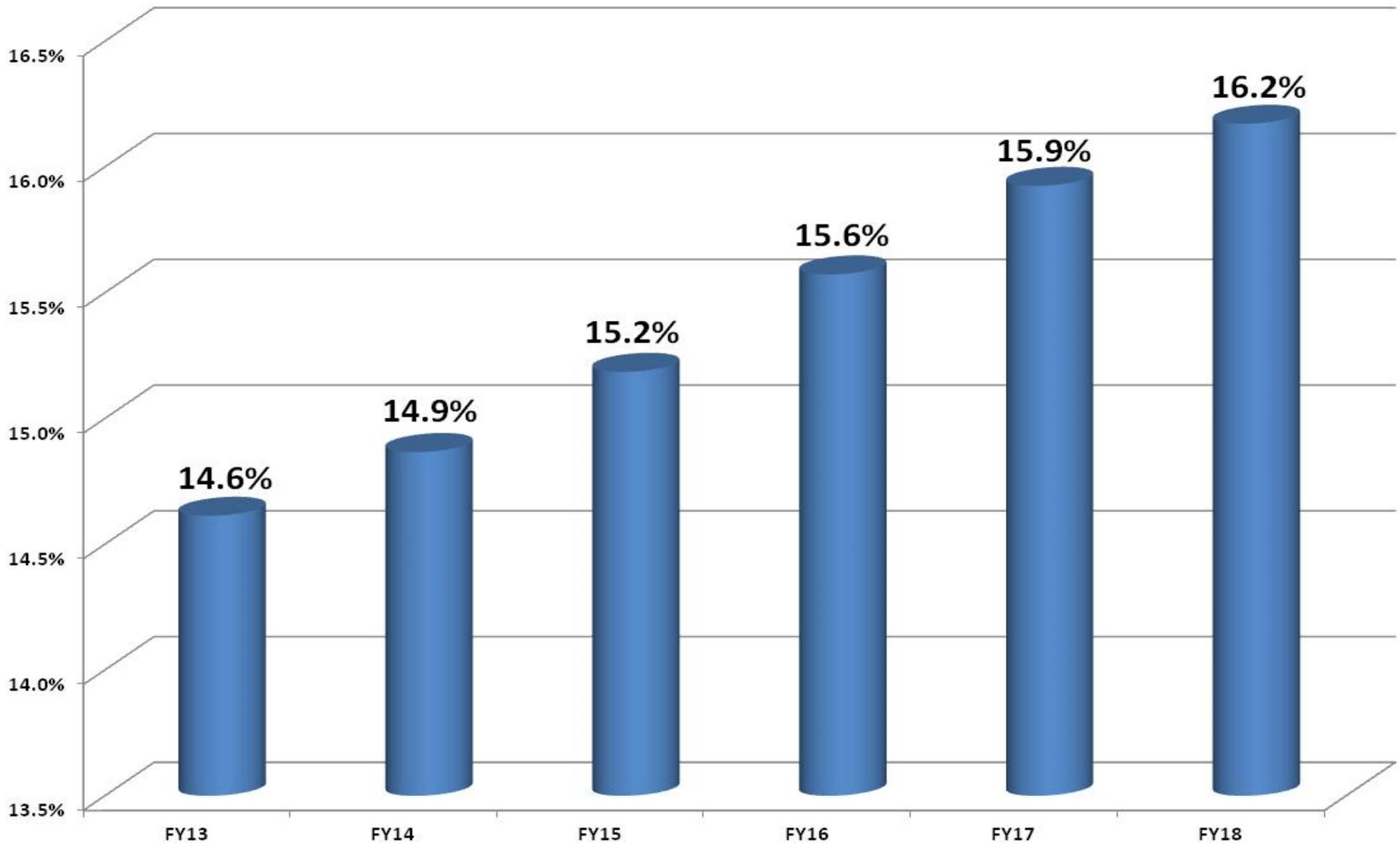
# Expenditure Growth

## 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)

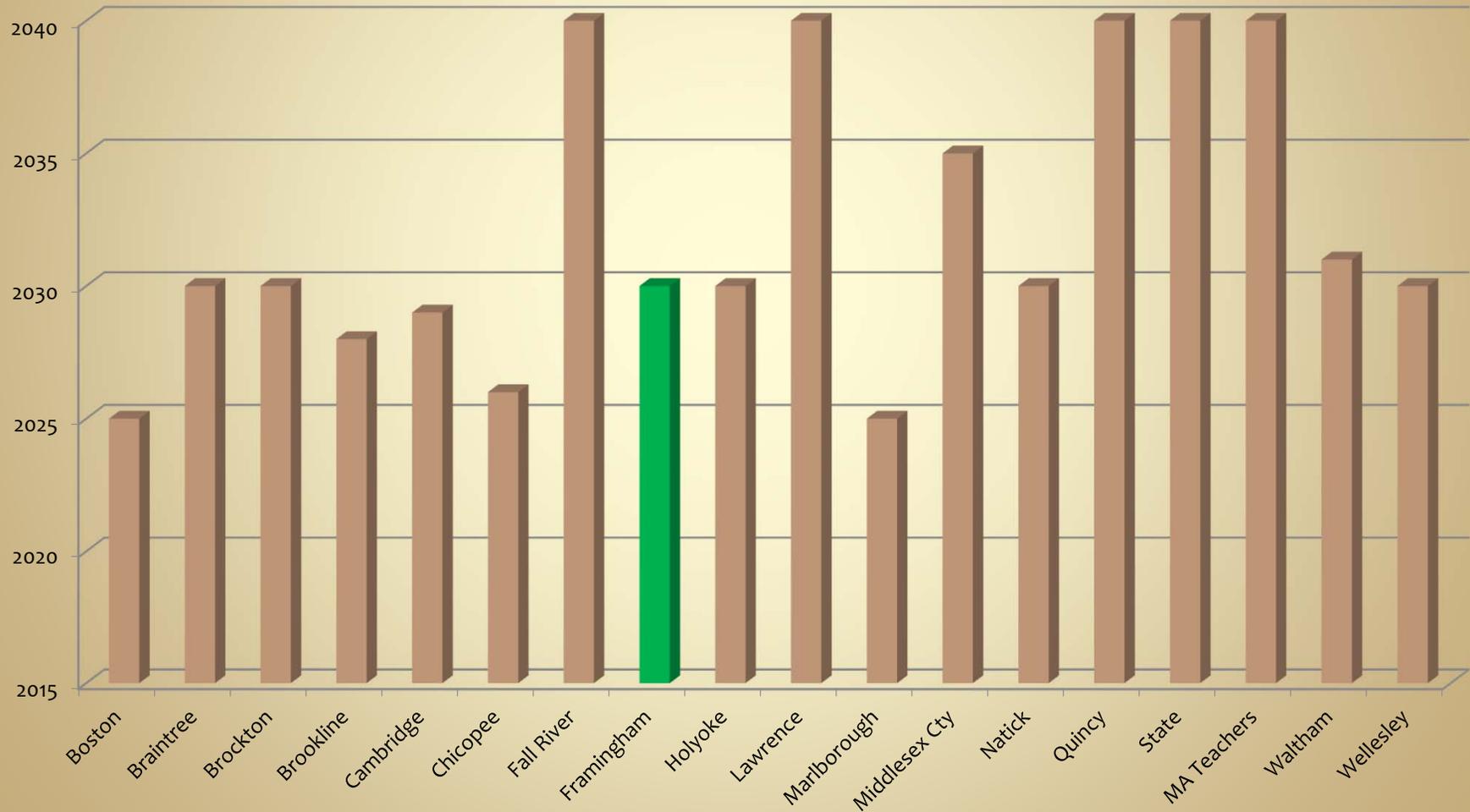
Option 2	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Voted/Projected Budget	\$219,331,566	\$227,311,902	\$235,372,312	\$246,558,006	\$257,256,588	\$269,175,740	\$280,976,070
5% Target	\$10,966,578	\$11,365,595	\$11,768,616	\$12,327,900	\$12,862,829	\$13,458,787	\$14,048,803
Free Cash + Room & Meals Tax FY12/13 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

