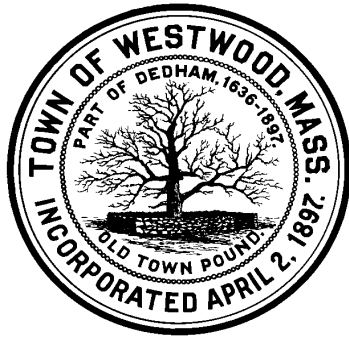


WESTWOOD FINANCE COMMISSION 2006 ANNUAL REPORT



**FINANCIAL INFORMATION
SUMMARY OF FY07 BUDGET, REVENUE, TAXES,
FORECAST, DEBT, FINANCIAL POLICIES**

**TOWN MEETING – MAY 1, 2006 – 7:30 P.M.
THURSTON MIDDLE SCHOOL GYMNASIUM
850 HIGH STREET**

Town of Westwood
Summary of Budget - FY07
Budget that can be Funded within the Limits of Proposition 2 1/2

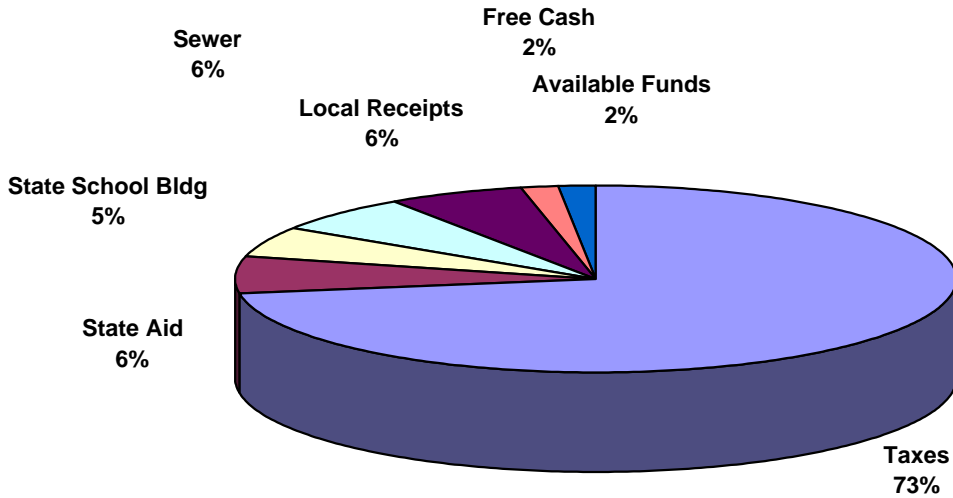
	FY2005 Approved Per recap	FY2006 Approved Per recap	FY2007 Current Proposed
BUDGET CATEGORIES			
Appropriations Made by Town Meeting:			
Operations Budget	\$55,083,669	\$55,478,712	\$57,566,185
Capital - Municipal	\$490,000	\$417,000	\$417,000
Capital Schools	\$406,000	\$406,000	\$406,000
Capital - Sewer	\$133,000	\$0	\$355,000
Stabilization Account Appropriation	\$25,000	\$25,000	\$25,000
Other Financial Warrant Articles	\$39,000	\$190,000	\$450,000
Prior yr Adjustments voted at Town Meeting	\$14,160	\$256,621	\$159,433
Library/rd improvement ATM 2005	\$0	\$224,000	
Total Appropriations -Town Meeting	\$56,190,829	\$56,997,333	\$59,378,618
Other Amounts to be Raised (not Voted at Town Meeting)			
State Aid Offsets (Funds which must be restricted)	\$188,436	\$217,988	\$217,246
State and County Charges	\$514,888	\$486,312	\$500,526
Overlay (Reserve for real estate abatements/exemptions)/other	<u>\$816,644</u>	<u>\$745,750</u>	<u>\$322,741</u>
Total Other Amounts	\$1,519,968	\$1,450,050	\$1,040,513
Total Expenditures	\$57,710,797	\$58,447,383	\$60,419,131
Financial Resources			
State Revenue:			
State Aid	\$3,154,138	\$3,425,166	\$3,777,148
State School Building Assistance Funding	\$1,544,068	\$3,600,190	\$3,193,029
		\$0	\$0
Local Revenue:			
Total Property Taxes	\$43,092,347	\$42,197,019	\$43,808,218
Local Receipts	\$3,520,759	\$3,573,959	\$3,662,483
Enterprise (Sewer) Funding (for all - capital , articles, etc)	\$3,950,252	\$4,025,935	\$3,889,149
Available Funds/ - for misc articles	\$46,000	\$451,000	\$509,433
Available Funds	\$951,963	\$288,765	\$529,671
Free Cash (for all - incl article 2)	<u>\$1,451,270</u>	<u>\$885,349</u>	<u>\$1,050,000</u>
Total Revenues	\$57,710,797	\$58,447,383	\$60,419,131
Total revenue less expenditures	\$0	(\$0)	\$0
Authorization to borrow (Projects approved at Town Meeting -funds are borrowed and debt service included in future budgets) :			
Approved at 2004 Annual Town Meeting	Purchase Street Lights	(\$225,000)	
Approved at 2004 Annual Town Meeting	University Ave Landscaping	(\$325,000)	
Approved at 2004 Annual Town Meeting	Sewer Eng and Construction	\$750,000	
Approved at 2004 Annual Town Meeting	Purchase Islington Church	\$600,000	
Approved at 2005 ATM	High Street Road Improvement		\$1,000,000
Proposed for 2006 ATM	High School Construction		\$1,950,000
Proposed for 2006 ATM	High Street Lights		\$195,000

**FY2007 - Budget within the Limits of Proposition 2 1/2
FY2007 Overall Budget Detail**

	FY2006	Total Revenue FY2007	\$ Change	%Change
Taxes	\$42,197,019	\$43,808,218	\$1,611,199	3.8%
State Aid	\$3,425,166	\$3,777,148	\$351,982	10.3%
State School Building Assistance	\$3,600,190	\$3,193,029	(\$407,161)	-11.3%
Sewer Enterprise	\$4,025,935	\$3,889,149	(\$136,786)	-3.4%
Local Receipts	\$3,573,959	\$3,662,483	\$88,524	2.5%
Available Funds	\$739,765	\$1,039,104	\$299,339	40.5%
Free Cash	\$885,349	\$1,050,000	\$164,651	18.6%
Total Revenue	\$58,447,383	\$60,419,131	\$1,971,748	3.4%
		Total Expenditures		
Operations Budget Summary				
Municipal Departments	\$12,688,282	\$13,253,967	\$565,685	4.5%
School Budgets				
Westwood School Budget	\$26,060,095	\$27,094,126	\$1,034,031	4.0%
Blue Hills Regional School Assessment	\$115,653	\$136,932	\$21,279	18.4%
Traffic Supervisors	\$92,556	\$95,034	\$2,478	2.7%
Total School Budgets	\$26,268,304	\$27,326,092	\$1,057,788	4.0%
Sewer Enterprise	\$3,806,314	\$3,534,149	(\$272,165)	-7.2%
Reserves/Benefits/Insurance	\$6,413,450	\$7,287,385	\$873,935	13.6%
Debt Service	\$6,302,362	\$6,164,592	(\$137,770)	-2.2%
Total Operations Budget	\$55,478,712	\$57,566,185	\$2,087,473	3.8%
Capital Budget - Sewer	\$0	\$355,000	\$355,000	0.0%
Capital Budget - Municipal/ School	\$823,000	\$823,000	\$0	0.0%
Total Capital Budget	\$823,000	\$1,178,000	\$355,000	43.1%
Overlay	\$350,205	\$322,741	(\$27,464)	-7.8%
State Charges/offset/other	\$1,099,845	\$717,772	(\$382,073)	-34.7%
Stabilization Account Appropriation	\$25,000	\$25,000	\$0	0.0%
Misc Warrant Articles/Prior year	\$670,621	\$609,433	(\$61,188)	-9.1%
Total Other Amounts	\$2,145,671	\$1,674,946	(\$470,725)	-21.9%
Total Overall Expense Budget	\$58,447,383	\$60,419,131	\$1,971,748	3.4%

This shows the budgets that can be funded within the limits of Proposition 2 1/2.

FY2007 Projected Budget Revenue



FY2007 Projected Budget Revenue

	FY2006 Budget	FY2007 Proj	\$ Increase	% Increase
Taxes	\$42,197,019	\$43,808,218	\$1,611,199	3.8%
State Aid	\$3,425,166	\$3,777,148	\$351,982	10.3%
State School Bldg Reimbursement	\$3,600,190	\$3,193,029	(\$407,161)	-11.3%
Sewer Enterprise	\$4,025,935	\$3,889,149	(\$136,786)	-3.4%
Local Receipts	\$3,573,959	\$3,662,483	\$88,524	2.5%
Available Funds	\$739,765	\$1,039,104	\$299,339	40.5%
Free Cash	\$885,349	\$1,050,000	\$164,651	18.6%
Total Revenue	\$58,447,383	\$60,419,131	\$1,971,748	3.4%

- * Tax revenue to increase by changes per Proposition 2 1/2 and estimated new growth.
- * State aid assumes funding per the Governor's 1/06 state budget proposal.

A Look at Taxes

Tax Levy Calculation	FY2003	FY2004	FY2005	FY2006	Projected FY2007
Prior Year Levy Limit	\$32,012,390	\$35,065,082	\$36,916,575	\$38,726,265	\$40,281,755
Plus 2.5% Increase	\$800,310	\$876,627	\$922,914	\$968,157	\$1,007,044
Plus New Growth**	\$637,179	\$974,866	\$886,775	\$587,334	\$300,000
General Overrides	\$1,615,203	\$0	\$0	\$0	\$0
Tax Levy Limit	\$35,065,082	\$36,916,575	\$38,726,265	\$40,281,755	\$41,588,799
Exempt Debt*	\$2,257,706	\$6,265,148	\$4,367,789	\$1,948,546	\$2,219,419
Levy Capacity	\$37,322,788	\$43,181,723	\$43,094,054	\$42,230,301	\$43,808,218
Actual Levy Assessed	\$37,288,628	\$43,112,383	\$43,092,347	\$42,197,019	\$43,808,218

FY07 Tax Change	
2.5/new growth/excess levy	\$1,340,326
Change in exempt debt	\$270,873
Total Taxes	\$1,611,199

*Exempt debt – This is the principal and interest payment required each year for borrowing projects approved outside Proposition 2 ½.

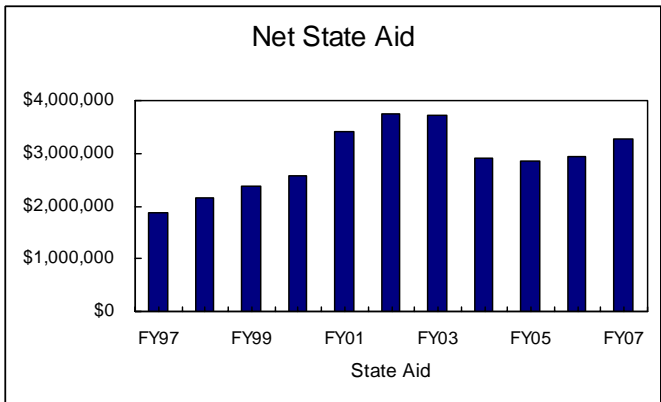
**New Growth – This represents taxes from new residential and commercial development.

	FY02	FY03	FY04	FY05	FY06	Projected FY07
Average Tax Bill Increase	3.74%	15.57%	13.2%	0.67%	(-3.84%)	3.11%
Savings to Average Tax Bill Resulting from Split Tax Rate	\$502.6	\$651.2	\$767	\$663	\$673	
Average Residential Tax Bill Home Value	\$334,339	\$468,075	\$468,075	\$510,202	\$566,324	
*Average Tax Bill	\$4,637	\$5,359	\$6,065	\$6,107	\$5,873	\$6,055

- Largest component of tax increase has been increase in exempt debt due to construction projects – Martha Jones, Downey, High School.
- FY05 increase less than 2 ½% due to receipt of state building funds.
- FY06 was a decrease in taxes due to completion of 1994 road improvement bond and receipt of state building funds for the High School project.

FY07 State Aid

Cherry Sheet Receipts					
	FY2003	FY2004	FY2005	FY2006	Projected FY2007
Chapter 70 - Education	\$2,635,628	\$2,108,502	\$2,108,502	\$2,250,702	\$2,460,703
School Building Assistance	\$330,466	\$327,161	\$226,025	*\$0	*\$0
Lottery	\$747,149	\$635,077	\$635,077	\$721,560	\$857,639
Other	\$362,908	\$197,069	\$222,123	\$234,916	\$241,560
Offsets (Restricted to Metco, Library, School Lunch) Prior Year Adjustment	\$185,679	\$166,850	\$188,436	\$217,988	\$217,246
Total Receipts	\$4,261,830	\$3,434,659	\$3,380,163	\$3,425,166	\$3,777,148
Charges					
County Tax	\$155,619	\$153,089	\$156,916	\$154,381	\$158,240
MBTA Assessment	\$314,096	\$297,187	\$280,407	\$263,622	\$271,824
Other	\$55,012	\$64,704	\$77,565	\$68,309	\$70,462
Prior Year Adjustment	\$19,254	\$0	\$0	\$0	\$0
Total Charges	\$543,981	\$514,980	\$514,888	\$486,312	\$500,526
Net State Aid	\$3,717,849	\$2,919,679	\$2,865,275	\$2,938,854	\$3,276,622



- Final FY04 state aid was a 20% reduction. FY05 was level funded.
- Current indications are the state aid for FY07 will change to include increases in Chapter 70 and lottery receipts. The current budget includes the estimates as included in House One, the Governor's budget. We will need to monitor and update this number as the state budget process continues.

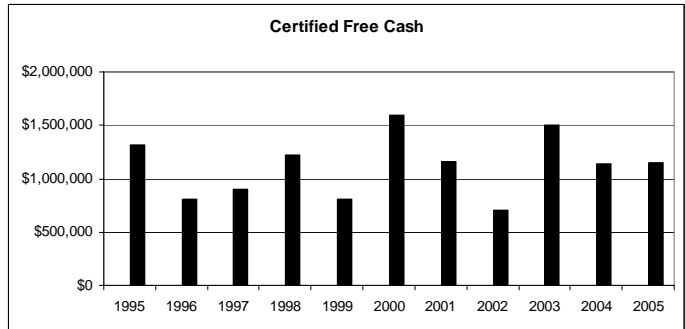
The Town is currently receiving State School Building reimbursement on 4 school construction projects.

Project	Total State Reimbursement (59% of Project)	State Payments Remaining	
		Annual Payment	Duration
1997 Middle School	\$2,396,493	\$248,732/yr.	FY06 – FY2010
1999 Downey School	\$5,006,352	\$625,794/yr.	FY06 – FY2012
2000 Martha Jones School	\$5,537,952	\$692,249/yr.	FY06 – FY2012
High School	\$34,729,335	\$1,626,254	FY06 – FY2023

Total State Reimbursement	
FY05	\$1,544,068
FY06	\$3,600,190
FY07	\$3,193,029

A Look at Free Cash

- Certified Free Cash as of July 1, 2005 is \$1,154,408 which is approximately 2% of the FY05 budget.
- The 5-year average Free Cash has been \$1.2 million.
- The July 1, 2003 Free Cash was higher than normal due to higher than average tax title collections and an increase in investment income revenue.
- The FY05 budget utilized \$725,000 of free cash to fund the operating budget as an unusual, one-time budget gap closure resource.

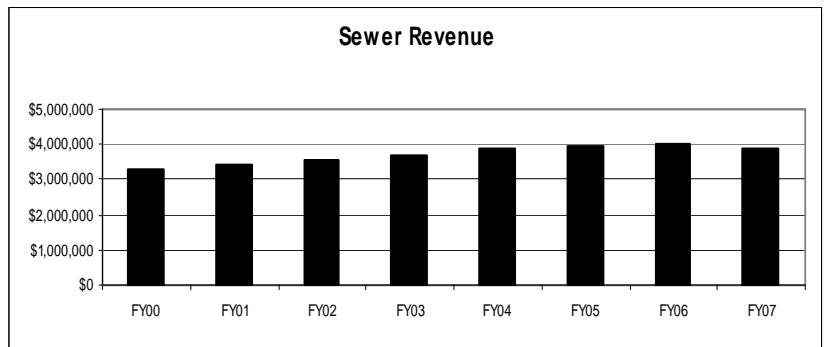


	July 2005	July 2004	July 2003	July 2002	July 2001	July 2000	July 1999
Certified	\$1,154,408	\$1,138,014	\$1,498,110	\$700,938	\$1,158,195	\$1,591,553	\$803,436
Used to Fund Subsequent Budget	Proposed: Capital \$700,000 Articles \$100,000 Operating \$225,000 Stabilization \$25,000	Capital \$737,899 Budgets \$122,450 Stabilization \$25,000	Capital \$696,000 Budgets \$725,270 Article \$5,000 Stabilization \$25,000	Capital \$600,000 Articles \$100,000	Capital/ Budgets \$896,912 Articles \$235,000	Capital \$1,265,000 Articles \$320,500	Budgets \$745,000 Stabilization \$50,000
Certified Free Cash As % of Total Budget	2%	2%	3%	2%	3.7%	3%	2.5%

Sewer

Assumptions in FY07:

- Revenue is set to fully recover sewer operating and capital budget.
- Current revenue funds operating budget of \$3,433,381 and sewer capital of \$355,000.



FY2007 Local Receipts and Available Funds

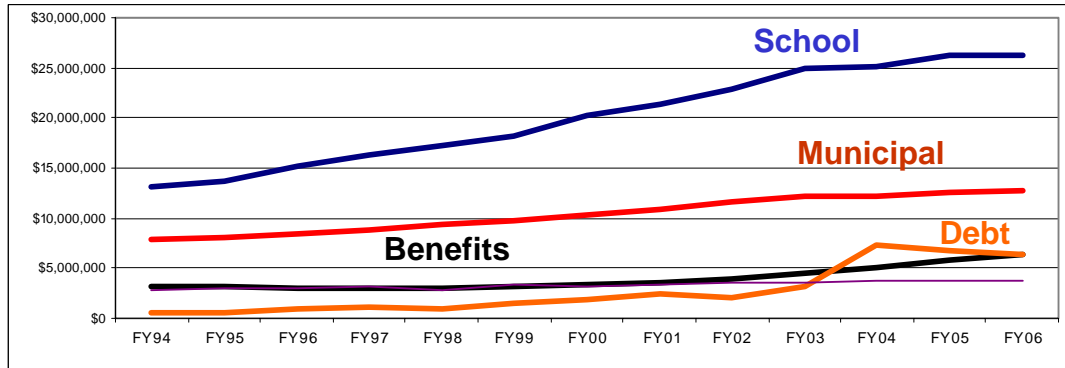
	FY04	FY05	FY05	FY06	FY07
	Actual	Budget	Actual	Budget	Budget
Motor Vehicle Excise Tax	\$2,273,693	\$2,250,000	\$2,309,888	\$2,250,000	\$2,250,000
Penalties and Interest	\$109,523	\$80,000	\$80,853	\$80,000	\$80,000
License/Permits	\$390,896	\$325,000	\$488,923	\$325,000	\$325,000
Departmental Receipts	\$201,193	\$173,659	\$202,443	\$253,659	\$257,041
Special Assessments	\$2,279	\$2,100	\$2,196	\$300	\$300
Investment Income	\$494,065	\$275,000	\$402,355	\$250,000	\$250,000
Sewer Indirect	\$212,000	\$212,000	\$212,000	\$212,000	\$290,978
Recreation	\$150,000	\$145,000	\$145,000	\$145,000	\$151,164
Other	\$87,768	\$58,000	\$67,083	\$58,000	\$58,000
Total Local Receipts	\$3,921,417	\$3,520,759	\$3,910,741	\$3,573,959	\$3,662,483

- FY07 primarily level funded. As prudent financial policy, the Town has not budgeted and spent higher than average local receipts on operating funds. These funds have closed to free cash and have been spent on one-time needs (such as \$400,000 capital in FY02). Actual investment income is significantly declining as the construction projects are completed (was \$731,000 in FY03).
- FY06 and FY07 departmental receipts include rental income from the Islington Community Center.

Available Funds Allocated	FY04	FY05	FY06	FY07
	Budget	Budget	Budget	Budget
Conservation Receipts	\$7,000	\$7,000	\$17,000	\$17,000
Cemetery Trust	\$10,000	\$10,000	\$10,000	\$10,000
Cemetery Lot Sales-Cemetery Debt	\$0	\$0	\$0	\$0
Overlay Surplus	\$0	\$0	\$0	\$450,000
Ambulance Receipts	\$350,463	\$223,463	\$223,463	\$383,283
Extra Circuit Breaker \$	\$0	\$200,000	\$0	\$0
Pension Reserves	\$350,000	\$350,000	\$0	\$0
High School Bond Premium	\$0	\$42,966	\$38,302	\$36,821
Sale of Land/Bond Premium	\$472,970	\$118,534	\$0	\$0
Prior Year/Miscellaneous Articles	\$0	\$46,000	\$271,000	\$0
Library-land purchase			\$180,000	\$0
FY06 Ch70 not used				\$142,000
	\$1,190,433	\$997,963	\$739,765	\$1,039,104

- Pension funds funding source was fully depleted in FY05.
- FY04 used bond premium from FY02 sale towards debt.
- High School bond premium requires annual apportionment to debt.

A Look at the Budget History.....



Budget	\$ Budget				
	FY02	FY03	FY04	FY05	FY06
School Budgets	\$22,918,285	\$24,956,196	\$25,062,489	\$26,237,002	\$26,268,304
Municipal Budgets	\$11,580,897	\$12,127,081	\$12,127,081	\$12,540,894	\$12,688,282
Benefits/Insurance/ Reserves	\$3,896,837	\$4,497,240	\$5,045,017	\$5,767,904	\$6,413,450
Debt Service	\$2,091,415	\$3,157,965	\$7,286,431	\$6,722,777	\$6,302,362

Budget	% Change in Budget				
	FY02	FY03	FY04	FY05	FY06
School Budgets	6.6%	8.2%	0.4%	4.7%	.1%
Municipal Budgets	5.6%	4.5%	0.0%	3.4%	1.2%
Benefits/Insurance/ Reserves	9.7%	13.4%	10.9%	14.3%	11.2%
Debt Service	-16.7%	33.8%	56.7%	-7.7%	-6.3%



A Look at Recent Budget Years.....

Limited revenue available for operating budgets

- Fixed costs increases taking all new revenue available within Proposition 2 ½.
- Insufficient revenue available for school and municipal operating budgets to remain at current services.
- Services continue to be reduced, as limited funds are directed to increases in fixed costs.

FY04 Budget Impact

- FY04 - \$0, 0% operating budget increase
 - School – 0%
 - Municipal – 0%
 - Reduced capital budget

FY05 Budget Impact

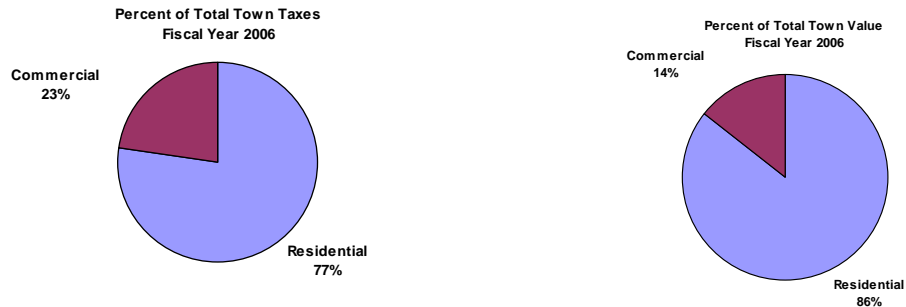
- FY05 – small operating increases
 - School – 4.4%
 - Municipal – 3.4%
- Capital maintained at reduced level
- Used significant one-time revenue to balance budget (\$1.4M)

FY06 Budget Impact

- No additional revenue – school and municipal budgets.
 - School – 0%
 - Municipal –1.2%-funded by reducing capital.
- Capital remained at reduced level.
- Significant service reductions made to school and municipal operations.

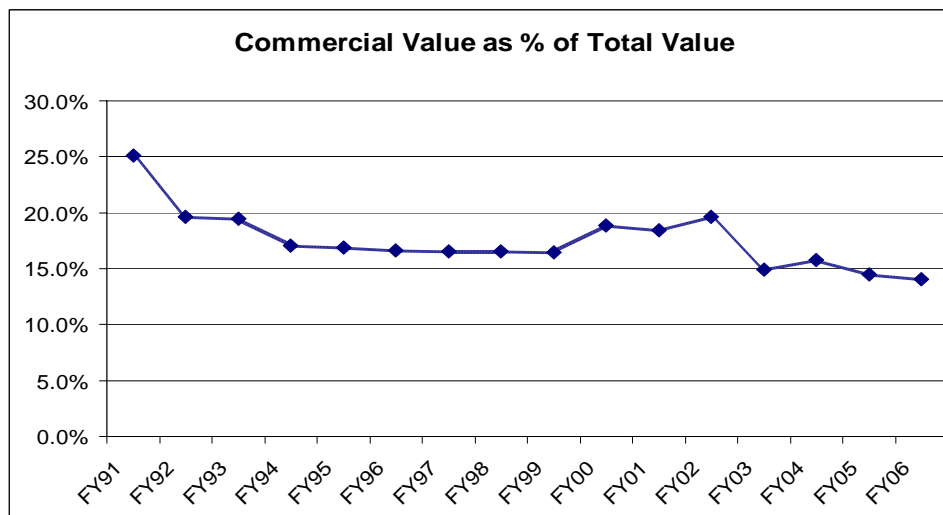
Some Information on Taxes.....

The Town's commercial property is an important component of the Town's overall tax base. Westwood taxes its commercial property at a higher rate than residential (\$18.85 vs. \$10.37).



- Annual savings of \$673 from split tax rate in FY06.
- In FY06 commercial represented 14.1% of value; however, they paid 22.9% of total taxes.

The Importance of Commercial Property....



- Commercial value important factor to tax revenue.
- Commercial value cannot keep pace with significant residential growth.
- Strong commercial value minimizes tax impact on residents.

School Building Reimbursement.....

The Massachusetts School Building Assistance program underwent a major change in 2004. One of the results of this change was the effort made by the state to move communities from the “waiting” list by starting payments on completed and approved school building projects.

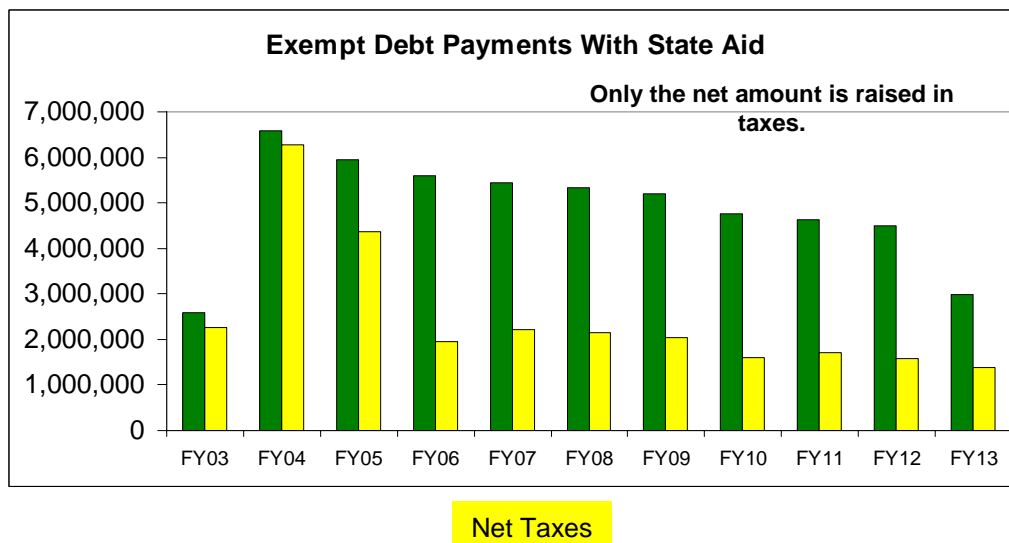
Westwood was very aggressive in pursuing all of our funding and as a result have now secured funding for all pending projects, including the Martha Jones, Downey and High School projects.

The current payments we are receiving are as follows:

Project	Total State Reimbursement (59% of Project)	State Payments Remaining	
		Annual Payment	Duration
1997 Middle School	\$2,396,493	\$248,732/yr	FY06 – FY2010
Downey School	\$5,006,352	\$625,794/yr	FY06 – FY2012
Martha Jones School	\$5,537,952	\$692,249/yr	FY06 – FY2012
High School-Annual Payments	\$29,254,572	\$1,625,254/yr	FY06 – FY2023

In addition to these annual payments, the Town also received a one-time lump sum payment of \$5,474,763 on 9/1/05 for the High School project.

These payments have a significant positive impact on our taxes, as shown in the chart below, as residents pay only the net amount of the debt.



Looking Ahead.....Five Year Forecast

With 5% Increase to School/Municipal Operating Budgets

	FY2006	FY2007 Projected	FY2008 Projected	FY2009 Projected	FY2010 Projected	FY2011 Projected
Total Expenditures	\$53,996,780	\$55,984,928	\$58,756,078	\$61,735,348	\$64,534,153	\$68,011,769
Total Revenues	\$53,996,780	\$54,522,216	\$55,515,013	\$56,757,251	\$57,718,384	\$59,018,499
Total Revenues Less Expenditures	-0-	(\$1,462,712)	(\$3,241,065)	(\$4,978,097)	(\$6,815,769)	(\$8,993,270)

- The forecast shows projected revenue. Expenditures increased for fixed costs only, and operating budgets at a 5% increase.
- There would be insufficient revenue in each of the years to fund necessary increases in the school and municipal operating budgets.

Assumptions:

- Tax revenue calculated per levy limit. New growth assumption of \$300,000 per year.
- State aid level funded.
- Debt – per current schedules – no new debt issued.
- High School state reimbursement received in FY06.
- Health insurance increase – 15%.
- Operating budget increase for all school and municipal budgets FY07-FY11 – 5%.

Debt Management

Prudent use of debt financing is an important part of the Town's overall fiscal planning. The primary objective of any debt management approach is to borrow at the least cost over the term of repayment of the debt. Attainment of this objective requires clear positions regarding for what purposes to borrow, when to schedule debt-financed projects and how long to extend the repayment (generally, debt issued for longer periods bears a higher interest rate).

The Town Treasurer and Selectmen support a rapid repayment schedule of ten years or less. This ensures cost savings to the community and seeks to avoid strapping future generations with large debt loads. The High School was bonded for 20 years to mitigate the effect of the annual tax burden.

All debt is issued as general obligation debt. This means that the full faith and credit of the Town is pledged to the bondholder. Debt issued on behalf of the Town's enterprise operation (sewer) is, however, supported by sewer user revenues when authorized by vote of Town Meeting.

A significant portion of the overall debt is paid by State School Building Assistance funds.

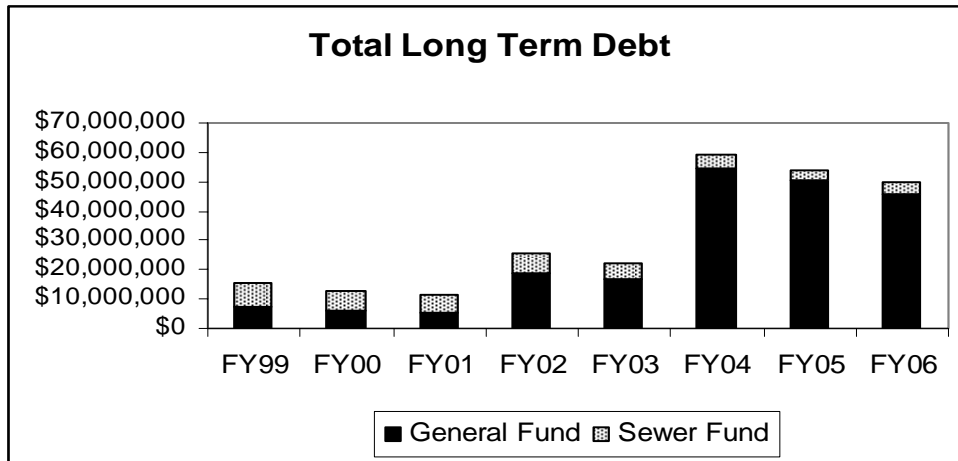
As with a personal credit rating, the Town's credit rating is a statement of its overall fiscal health as a government and as a community. The benefit of a strong credit rating is realized in lower interest costs on the Town's long-term debt issues.

During the summer of 2003, the Town underwent a major credit review in preparation for the sale of the High School bond. Moody's Investor Service reaffirmed the Town's credit rating of Aa1. In addition, Standard & Poor's issued the Town an Aa+ rating. These excellent ratings place Westwood in the top 5% of Massachusetts communities.

In August, 2003, the Town issued a \$42,103,000 bond at an interest rate of 4.25%. The majority of the bond, \$39.2 million, is for the High School project.

Other debt information:

- Total Legal Debt Limit - approx. \$170 Million.
- The Town's general fund debt service is approximately 11.3 % of the operating budget for FY06.
- The Town currently has \$1.2 million in authorized debt remaining to be issued.



Total Long Term Debt Issued and Outstanding	FY06	FY05	FY04	FY03	FY02	FY01	FY00	FY99
General Fund	46,090,000	50,255,000	54,670,000	16,595,000	18,955,000	5,145,000	\$6,035,000	\$7,335,700
Sewer Fund	3,440,498	3,854,664	4,823,582	5,872,408	6,786,885	6,114,567	\$7,068,972	\$7,853,339
Total	49,530,498	54,109,664	59,493,582	22,467,408	25,741,885	11,259,567	\$13,103,972	\$15,189,039

Long Term General Fund Debt Outstanding as of June 30, 2006

Description	Rate of Interest	Date Issued	Maturity Date	Amount Issued	Total Outstanding 30-Jun-06
General Fund					
Roads	4.40 - 5.70	04/95	04/2005	\$2,200,000	\$0
Land Acquisition	4.40 - 5.70	04/95	04/2005	\$300,000	\$0
Middle School/Gym	3.79	12/98	12/2008	\$2,923,000	\$870,000
Land Acquisition	3.79	12/98	12/2008	\$400,000	\$120,000
Senior Center	3.79	12/98	12/2008	\$239,000	\$72,000
School Fields	3.79	12/98	12/2008	\$189,000	\$57,000
Middle School/Gym Completion	3.79	12/98	12/2008	\$225,000	\$66,000
Martha Jones Construction	4.04	3/21/02	3/21/2012	\$7,200,000	\$4,320,000
Downey Construction	4.04	3/21/02	3/21/2012	\$6,300,000	\$3,780,000
Land Acquisition	4.04	3/21/02	3/21/2012	\$1,300,000	\$780,000
Land Acquisition	4.04	3/21/02	3/21/2012	\$300,000	\$180,000
High School Project	4.25	8/01/03	06/01/2023	\$39,262,300	\$33,575,000
Municipal DPW Building	4.25	8/01/03	06/81/2014	\$2,600,000	\$2,080,000
Public Building	4.25	8/01/03	06/08/2014	\$240,700	\$190,000
Total General Fund					\$46,090,000

Scheduled Principal & Interest Repayment of Current Long Term General Fund Debt Issued

		FY10	\$5,293,056
FY06	\$6,302,362	FY11	\$5,140,370
FY07	\$6,144,052	FY12	\$4,985,795
FY08	\$6,000,447	FY13	\$3,291,731
FY09	\$5,858,056	Fy14-24	\$24,925,212

Total repayment of Long Term Debt Currently Issued \$67,941,081

General Fund Debt authorized - Not Yet Issued Long Term

High Street Construction	ATM 5/05	\$1,000,000
Eminent Domain Land Purchase	ATM 5/01	\$275,000
Total		\$1,275,000

Stabilization Fund

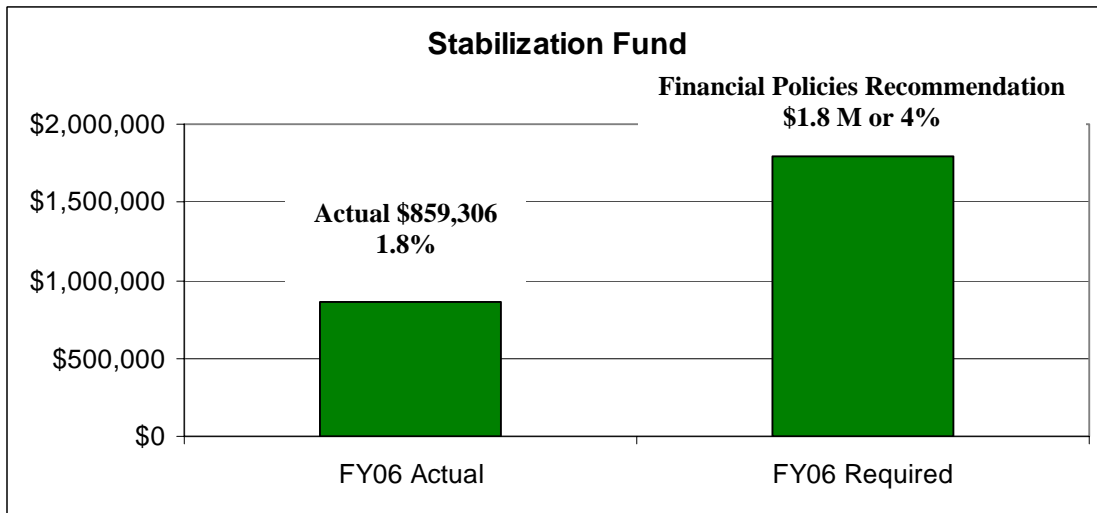
The Stabilization Fund is a reserve account authorized by MA General Laws Chapter 40, Section 5B. Appropriations into the Stabilization Fund require a majority vote of Town Meeting. A 2/3 vote of Town meeting is required to use Stabilization funds. The Stabilization account may be used for any purpose approved by Town Meeting. As with all Town monies, the cash in the Stabilization Fund is overseen and invested by the Town Treasurer.

As with any business, it is important for the Town to have a reserve account to provide for unforeseen emergencies or future expenditures. As like most communities, Westwood was not able in the late '80's and early '90's to continue the practice of appropriating funds in to the Stabilization account.

The Town must now address this account, as prudent use of a reserve fund is vital to good financial management, protection for the Town against unforeseen emergencies, and maintenance of a top bond rating.

In FY2000, the Town began to rebuild the Stabilization Fund. A major addition was added in FY2002 with the appropriation of \$450,000 of NStar funds. While the FY03 budget did not include an appropriation, \$25,000 was transferred from available funds at the May 2002 Annual Town Meeting. An additional \$25,000 was transferred from free cash into the account at the May 2004 and May 2005 Annual Town Meetings, and \$25,000 is proposed for May 2006.

In January, 2004 the Selectmen adopted revised financial policies; those policies include a statement that the Town shall strive to maintain 4% of general fund operating revenues in the stabilization account. Accordingly, Westwood should have a balance of \$1.8 million. The current balance, at 1.8% of revenue, is inadequate. Recognizing the importance of this account, the Town shall strive to make an annual appropriation to the stabilization fund.



	FY2006	FY2005	FY2004	FY2003	FY2002	FY2001	FY2000	FY99
Town Meeting Appropriated Into Fund	\$25,000	\$25,000		\$25,000	\$450,000	\$50,000	\$200,000	0
Balance	\$859,306	\$812,191	\$773,283	\$760,200	\$735,200	\$270,000	\$211,441	\$4,003

*FY2007 Budget Summary**

The FY07 budget presents another challenging year. It continues to be difficult to prepare a balanced budget for the community within the constraints of Proposition 2 ½. Westwood's budget experience is similar to that of municipalities across the state. The limited revenue increases available under Proposition 2 ½ are consumed by increases in fixed costs, particularly health insurance and pension assessment costs. This leaves little or no revenue available for increases to the operating budgets for school and municipal services. As a result, level services cannot be maintained within Proposition 2 ½ and a structural budget deficit is created. Thus, it is difficult each year to maintain the quality services that Westwood residents desire and deserve.

Westwood's situation is similar to that of other communities across the state. A study was conducted in 2005 that looked at municipal finances in Massachusetts.

The study, entitled "**Communities at Risk: Revisiting the Fiscal Partnership between the Commonwealth and Cities and Towns**" was developed by a Municipal Task Force chaired by John Hamill, Chairman of the Sovereign Bank New England. This report documented that property taxes have been rising steeply and that unless state aid significantly increases, deterioration in services or even higher property taxes were in the future. The Task Force concluded that municipalities have generally done a good job of controlling costs, but reductions in support from the state are forcing local officials to rely more on the property tax, a levy that is particularly burdensome for homeowners on fixed incomes and the elderly. The report concludes that revenue sharing from the state should be increased, back to the level it was at in 1988 on a percentage basis; that local officials should be given flexibility in having other revenue sources available to them; and that local officials should be given more flexibility to control costs by reducing many of the constraints of state law. A copy of this report may be found at the MA Municipal Association web site: www.ma.org, Local Finance News.

Thus the difficulties of balancing services with increases in property taxes continue for the FY07 budget. We will again be challenged to provide quality services within the current revenue parameters. The FY07 budget discussion will be centered on the following issues:

Limited New Revenue

The Town continues to experience limited growth in revenue. The Town's major revenue source, property taxes, is limited by the constraints of Proposition 2 ½. The only significant growth in the tax base comes from new commercial development, which has been limited in the recent struggling economy. Recent efforts to attract new commercial development should bring critical new commercial tax dollars to future budgets, but will not impact FY07.

State aid is expected to increase in FY07, with increases in Chapter 70 education and lottery receipts. While the increasing of state aid is welcomed after several years of uncertainty and decline, the state aid Westwood will receive in FY07 is still well below levels received in prior years.

*Extracted from FY07 Town Budget Summary document. Further financial information available on the Town's web site: www.townhall.westwood.ma.us.

Increases in Fixed Costs

Coupled with this limited revenue growth is the continued growth in the fixed cost budgets, particularly employee costs, such as health insurance, pension assessments, and payroll taxes. The health insurance budget continues to grow at a significant rate. This growth is caused not only from rate increases, but by the continuing growth in the number of employees and retirees on the health plans. The growth in number of enrollees will continue in the next several years. This growth is particularly fueled by the turnover generated by the state's early retirement program for teachers. As teachers retire and new employees are hired to replace them, the total enrollment increases. The health insurance budget burden is significantly offset by the 40% employee contribution rate, which is much higher than other municipalities.

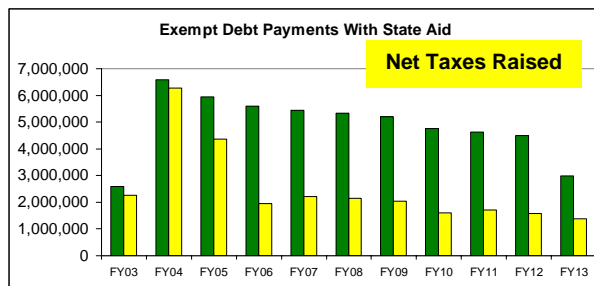
As with other issues, controlling health insurance costs is problematic not just for Westwood, but for all Massachusetts municipalities. A study was performed in 2005 which identified the extent of the problem and the underlying causes. That study, “**A Mounting Crisis for Local Budgets: The Crippling Effects of Soaring Municipal Health Costs**”, can be seen at the MA Municipal Association web site: www.ma.org, Local Finance News.

Continued Service Impact

The FY07 budget is particularly difficult to balance as it represents the fourth year of significant budget constraints. In FY04, due to budget constraints, the municipal and school budgets were level funded, which resulted in streamlining of budgets. In FY05, the budget constraints resulted in very limited increases to the municipal and school budgets, all of which were funded by one time revenue sources. In FY06, the budgets were again level funded, due to the defeat of the general override requests. There have been continued reductions to the municipal and school service operations.

State School Construction

A significant, welcomed change occurred in the past year with the State School Building Assistance Program. Immediately upon the change in the Program, the Town was very aggressive in its efforts to secure our funding. After waiting many years for the state



share for three school projects, Westwood received payments for all projects in FY05 and FY06. These significant payments, totaling \$3.6 million in FY06, flow directly to offset debt payments raised in taxes. Therefore, the state payments directly reduce the tax burden for our residents for the construction

projects. These annual state payments will continue each year until the debt payments retire.

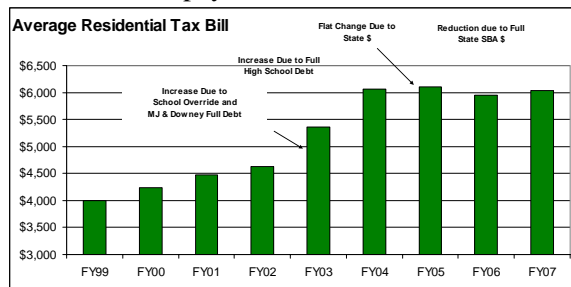
Impact on Tax Bill

The budget requests each year must be balanced against the tax bill impact for our residents. Proposition 2 ½ limits the base tax growth each year and in times of increases in fixed costs, has resulted in a significant structural imbalance in simply maintaining services. However, the override options available to supplement the budget must be balanced against the resultant tax impact.

The average residential tax bill in Westwood experienced significant increases of 15% in FY03 and 13% in FY04. The majority of these increases related to the debt payments associated with the Martha Jones, Downey, and High School construction projects. These major capital projects appreciably updated the capital assets of the Town and will serve the residents for years to come.

As mentioned above, receipt of state funding for the construction projects has dramatically impacted the tax bills.

In FY05 Westwood received \$1.3 million in first year funding for the Martha Jones and Downey School projects. This funding went directly to the tax bill, resulting in a relatively low .67% increase to the average bill. In FY06, the state funded the first \$1.6 million annual payment, as well as a one-time \$5.4 million payment for the High School project.



This money went directly to offset the tax bill, resulting in a -3.8% decrease to the average bill. With the state payments continuing now on an annual basis, the dramatic impact on the taxes from construction projects has ended.

Potential Commercial Development

Commercial property is an important component of the overall financial health of the Town. Commercial property is taxed at a higher rate than residential. In FY06, commercial property will pay 23% of the overall tax levy, while representing 14.1% of total value.

Significant new commercial tax dollars is really the only method to bring relief to our budget structure imbalance and to ease the tax burden on residents.

At this time, a significant new commercial development, Westwood Station, is on the horizon. While discussion and plans for the project have begun, new tax dollars will not be generated for several years. Town leaders are working hard to ensure this project brings positive financial relief to the community while mitigating any other impact. It is important that any significant new tax revenue generated from this project be identified to properly fund the Town's reserve accounts and capital plans.

Maintenance of Reserve Funds

It is particularly important as the Town in recent years has taken on significant debt to maintain appropriate reserve funds in the stabilization account. These funds are vital in protecting the Town against unforeseen risks, as well as being a major component in securing a good credit rating and resulting low borrowing costs. The Town has an excellent credit rating, with an AA1 from Moody's Investor Services and an Aa+ from Standard and Poor's. This excellent rating helps lower the Town's cost of borrowing.

The current stabilization fund balance is far short of the level required by the Town's financial policies. Therefore, efforts must continue to build up this account, and these funds should not be used as one-time options to balance the budget.

Importance of Capital Budget Program

Efforts must continue to increase the Town's capital budget spending. The Long Range Financial Planning Subcommittee has created a comprehensive capital document that incorporates all school and municipal capital requests. At the 2005 Annual Town Meeting, the Town took the next step and approved the creation of a capital stabilization fund, currently at \$0 balance. It remains a goal to eventually use this account to provide a source of ongoing funding for capital needs.

The Town's assets, including school and municipal buildings, roadways and sewer, vehicles and equipment are valued at over \$125 million. We must properly maintain these assets and not defer maintenance which delays problems for future generations. The capital plan must ensure appropriate maintenance of the Town's assets and provide the necessary equipment for departments to perform their services safely and efficiently.

Increases in Utility Costs

A major problem in the FY07 budget is the dramatic increase in utility costs, including gas, electricity, and heating fuel. Rapidly rising energy costs are outpacing the increases available under Proposition 2 ½, thereby putting further pressure on the operating budgets. In order to fund these costs, cuts to other services may be necessary. The Town must review all energy programs to ensure that we take advantage of the most efficient consumption practices, facility improvement opportunities, and best procurement practices of energy supplies.

While confronting all the issues and challenges, we must continue our commitment to keep Westwood a wonderful community.

Westwood will continue its attempts to provide quality programs and services to residents even in difficult economic times. The Board of Selectmen is committed to all the needs of the Town, including quality schools; the public safety needs of the community, including police, fire, inspection, and ambulance services; as well as providing quality recreational facilities, solid waste removal and safe roadways. In addition, significant funds must be provided for the capital budget to ensure proper maintenance of the Town's assets. Westwood is known for its impressive quality of life and we must work to maintain that position. In August, 2005 *Money Magazine* ranked Westwood 13th on its list of America's 100 "Best Places to Live."



The Tax Levy

Proposition 2 ½

Proposition 2 ½, passed in November 1980, places a limit on the property taxes a community can levy each year. The taxing capacity of the Town is limited to a 2.5 percent increase of the prior year's levy limit. In addition, the total levy may increase by taxes attributable to new growth. Therefore, without any overrides, the total levy limit is increased by 2.5 percent and a new growth amount certified by the Department of Revenue.

Overrides

What is a General Override?

A general override can be passed to obtain additional funds for any municipal purpose. A general override permanently increases the Town's levy limit. An override question may be placed on the ballot by a majority vote of the Board of Selectmen and must be passed by a majority of voters.

What is a Debt Exclusion?

What is a Capital Outlay Expenditure Exclusion?

Proposition 2 ½ allows communities to raise funds for certain purposes above the amount of their levy limits or levy ceilings. Subject to voter approval, a community can assess taxes in excess of its levy limit or levy ceiling for the payment of certain

capital projects and for the payment of specified debt service costs. An exclusion for the purpose of raising funds for debt service costs is referred to as a *debt exclusion* and an exclusion for the purpose of raising funds for capital projects costs is referred to as a *capital outlay expenditure exclusion*.

The additional amount for the payment of debt service is added to the levy limit or levy ceiling *for the life of the debt only*. The additional amount for the payment of the capital project cost is added to the levy limit or levy ceiling *only for the year in which the project is being undertaken*. Unlike overrides, exclusions *do not* become part of the base upon which the levy limit is calculated in future years.

The history of Westwood's total tax levy is presented on the following chart. In addition, the history of Westwood's override questions is presented.

Proposition 2 1/2 Overrides

General Overrides Approved

Project Date of Vote	Amount	Type of Override	Year Cost Impact to be Completed
School Override 1995 Annual Town Election	\$560,413	General Override	Permanent change to the allowable taxation levy limits
School Override 1999 Special Town Election	\$999,164	General Override	Permanent change to the allowable taxation levy limits.
School Override 2002 Special Town Election	\$1,615,203	General Override	Permanent change to the allowable Taxation levy limits.

Debt/Capital Exemption Overrides Approved

Vote to Exempt Sewer Construction Bonds 1982 Annual Town Election	\$4,000,000	Debt Exemption	Completed - FY93
Capital Equipment 1989 Annual Town Election	\$298,000	Capital Exemption	Completed - FY90
Road Improvement Program 1990 Special Town Election	\$1,703,000	Debt Exemption	Completed - FY2001
Reconstruction of Middle School 1990 Special Town Election	\$2,282,000	Debt Exemption*	Completed - FY2002
Road Improvement Program 1994 Annual Town Election	\$2,200,000	Debt Exemption	Completed - FY2005
Middle School/Fields 1997 Annual Town Election	\$2,373,430	Debt Exemption*	Will be completed in FY2009
Middle School/Gymnasium 1997 Annual Town Election	\$550,000	Debt Exemption*	Will be completed in FY2009
Downey School Expansion 1999 Annual Town Election	\$6,500,000	Debt Exemption*	Will be completed in FY012. Net cost to average home \$480 total or \$48/yr. for ten years.
Martha Jones School Expansion 2000 Special Town Election	\$7,200,000	Debt Exemption*	Will be completed in FY012. Net cost to average home \$547 total or \$54/yr. for ten years.
High School - New Construction 2000 Special Town Election	\$35,962,000	Debt Exemption*	\$39,262,300 bond issued. Will be completed 2023. Net cost to average home \$4,693 or \$233/yr. for 20 years.
High School – Additional Appropriation for New High School 2002 Special Town Election	\$8,333,640	Debt Exemption*	

*Amount of taxation is directly reduced by state reimbursement (59% of total project).

For debt exemption overrides - debt payment each year is raised outside of Proposition 2 1/2.

Overrides Not Approved

1984 Annual Town Election		Debt Exempt	Exempt Sewer Bond for Sewer Work
1988 Annual Town Election		Debt Exempt	Exempt Road/Sewer Bond
1989 Special Town Election	\$1,500,000	General	General Override for Budget
1991 Special Town Election	\$394,435	Capital Excl	Specific Capital Items
1991 Special Town Election	\$1,282,000	Debt Exempt	Bond for Road Improvement Work
1991 Special Town Election	\$250,000	Debt Exempt	Bond for Purchase of Conservation Land
1993 Annual Town Election	\$500,000	General	General Override to fund teaching positions/curbside recycling
1999 Annual Town Election	\$1,285,320	General	General Override for School Budget
2005 Annual Town Election	\$525,616	General	General Override for Municipal Budget
2005 Annual Town Election	\$2,394,199	General	General Override for School Budget
2005 Annual Town Election	\$1,500,000	General	General Override to fund Capital Stabilization Fund

**Town of Westwood
History of Tax Levy**

Tax Levy Calculation	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	Projected FY2007
Prior Year Levy Limit	\$28,765,850	\$29,980,013	\$32,012,390	\$35,065,082	\$36,916,575	\$38,726,265	\$40,281,755
Plus 2.5% Increase	\$719,146	\$749,500	\$800,310	\$876,627	\$922,914	\$968,157	\$1,007,044
Plus New Growth**	\$495,017	\$1,282,877	\$637,179	\$974,866	\$886,775	\$587,334	\$300,000
General Overrides	\$0	\$0	\$1,615,203	\$0	\$0	\$0	\$0
Tax Levy Limit	\$29,980,013	\$32,012,390	\$35,065,082	\$36,916,575	\$38,726,265	\$40,281,755	\$41,588,799
Exempt Debt*	\$1,579,756	\$1,199,655	\$2,257,706	\$6,265,148	\$4,367,789	\$1,948,546	\$2,219,419
Levy Capacity	\$31,559,769	\$33,212,045	\$37,322,788	\$43,181,723	\$43,094,054	\$42,230,301	\$43,808,218
Actual Levy Assessed	\$31,339,145	\$33,132,948	\$37,288,628	\$43,112,383	\$43,092,347	\$42,197,019	\$43,808,218
Excess Levy(Taxes not raised)	\$220,624	\$79,097	\$34,160	\$69,340	\$1,707	\$33,282	\$0
Increase in Actual Levy (including new growth)	5.9%	5.7%	12.5%	15.6%	0.0%	-2.1%	3.8%
Increase in Levy without new growth	4.2%	1.63%	10.62%	13.00%	-2.10%	-3.44%	3.11%

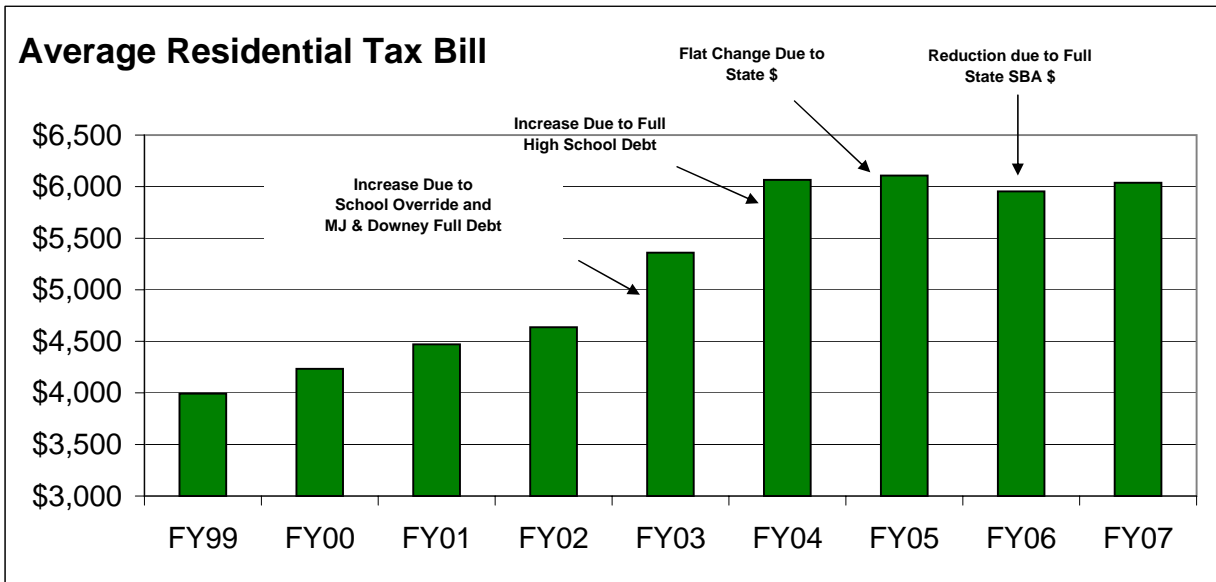
* Exempt debt - This is the principal and interest payment required each year for borrowing projects approved outside Proposition 2 1/2.

**New Growth - This represents taxes from new residential and commercial development.

FY07 Tax Change	
2.5/new growth/excess levy	\$1,340,326
change in exempt debt	<u>\$270,873</u>
Total Taxes	\$1,611,199

Tax Rate/Tax Bill History

Tax Rate per Thousand	FY00	FY01	FY02	FY03	FY04	FY05	FY06	Projected FY07
Residential	\$12.66	\$13.37	\$13.87	\$11.45	\$12.96	\$11.97	\$10.37	
Commercial	\$21.09	\$21.99	\$21.52	\$20.80	\$23.36	\$20.97	\$18.85	
% of Total Town Value								
Residential Property	81.1%	81.6%	80.4%	85.1%	84.2%	85.5%	85.9%	
Commercial Property	18.9%	18.4%	19.6%	14.9%	15.8%	14.5%	14.1%	
Tax Shift Factor	1.48	1.47	1.40	1.62	1.60	1.58	1.63	
% of Total Town Taxes								
Residential Properties	72.1%	72.9%	72.5%	75.9%	74.7%	77.1%	77.1%	
Commercial Properties	27.9%	27.1%	27.5%	24.1%	25.3%	22.9%	22.9%	
Average Residential Tax Bill								
Home Value	\$334,339	\$334,339	\$334,339	\$468,075	\$468,075	\$510,202	\$566,324	\$566,324
Tax Bill	\$4,233	\$4,470	\$4,637	\$5,359	\$6,066	\$6,107	\$5,873	\$6,055
Average Tax Bill Increase	6.00%	5.61%	3.74%	15.57%	13.2%	0.67%	-3.84%	3.11%
Single Tax Rate	\$14.25	\$14.96	\$15.37	\$12.84	\$14.60	\$13.27	\$11.56	
Savings to Average Tax Bill from Having Split Tax Rate								
	\$531.3	\$530.4	\$502.6	\$651.2	\$767.0	\$663.0	\$673.7	



Town of Westwood

Financial Management Policies and Objectives

It is the policy of the Town of Westwood that financial management is conducted with the objectives of safeguarding public funds, protecting the Town's assets, and complying with financial standards and regulations.

To help ensure the Town's financial stewardship, an established program of managing the Town's finances becomes essential. To this end, the Board of Selectmen seeks policies and procedures that are financially prudent and in the Town's best economic interests.

In adherence to this policy, the Town shall pursue the following objectives:

- To provide effective financial management within the Town that conforms to generally accepted accounting principles;
- To provide public confidence in public financial management;
- To protect and enhance the Town's credit rating and prevent default on any municipal debts;
- To provide quality, essential public safety and education services at the most efficient cost.
- To provide safeguards to ensure the quality and integrity of the financial systems;
- To minimize the Town's financial risk due to unforeseen emergencies;
- To protect and maintain the Town's capital assets.

In order to achieve the above objectives, the Board of Selectmen adopts the following financial policies. The Board of Selectmen will review these financial policies on an annual basis. As part of that review, the Finance Director will report on the status of the goals, particularly how the current reserve balances compare to stated goals.

Further, it is the intention of the Board of Selectmen that these financial policies will serve as the Town's guiding financial principles. The Selectmen will not diverge from the policies without a clear, public statement and analysis of the change(s); (i.e., schedule of long term borrowing).

A. Accounting, Auditing and Financial Planning

1. The Town will produce annual financial reports in accordance with Generally Accepted Accounting Principles (GAAP) as outlined by the Government Accounting Standards Board.
2. An annual audit will be performed by an independent public accounting firm.
3. The Town will maintain strong financial controls to ensure compliance with Town Meeting appropriations and state regulations.
4. The Town will strive to produce quality financial reporting including clear financial statements, high quality, user friendly annual budget documents, and an annual Comprehensive Annual Finance Report (CAFR).
5. The Town shall strive to attain an extremely favorable credit rating. The Town's credit rating is a statement of its overall fiscal health as a government and as a community. The benefit of a strong credit rating is realized in lower interest rate costs on the Town's long term debt issues. The Town will strive to maintain an extremely favorable credit rating by practicing prudent financial management, strong budget control, good cash management and timely billing and collection.

B. General Fund

1. The annual budget should be prepared such that all current operating expenditures will be paid for with current operating revenue. The Town should not fund ongoing operating expenditures with non-recurring revenue sources, such as free cash or borrowing. Operating expenses shall be supported by ongoing recurring revenue sources, including taxes, state aid, local receipts and fees.
2. The annual operating budget shall include an appropriation to an operating reserve fund. This account shall be used to fund any unforeseen and extraordinary expenses that occur during the fiscal year. Funds are transferred to individual departments during the year only upon recommendation of the Finance Commission. The annual appropriation to this account shall be 1% of the total general fund operating budget, net of debt service. The reserve account may also be used by Town Meeting to meet unexpected, small increases in service delivery costs. This funding will only occur by a transfer article voted at Town Meeting.
3. The Town will maintain adequate working capital in the General Fund by seeking to refrain from using available fund balance equivalent to 4% of the annual general fund operating budget. Specifically, the Town shall strive to maintain free cash at 4% of general fund operating budget, net of debt service. This balance of free cash will provide sufficient cash flow to meet payroll and expenditures without having to borrow in anticipation of tax receipts and will serve as liquid funds that can be used in case of emergency.
4. Free Cash in excess of the goal reserve shall not be used to fund ongoing operating expenditures or budget shortfalls. Free cash in excess of goal amount should be used to:
 - Fund non-recurring, unforeseen expenditures, such as unusually high snow and ice costs;
 - Provide funding for additional capital projects;
 - Build stabilization reserves to goal targets.

C. Revenue

1. The Town will follow an aggressive and equitable policy of collecting revenues.
2. The Town will utilize all available tools to collect revenues including tax title process, title liens, and motor vehicle flagging procedures.
3. The Town will consider the use of service charges as a means of financing services not equitably supported through the existing tax structure.
4. The Town will strive to maintain a healthy commercial tax base to supplement residential tax revenues.
5. The Town will set the annual tax classification factor with the goal to provide residential relief while encouraging appropriate business development. The annual classification factor will be determined utilizing the separate, written document, "Tax Rate Shift Policy".
6. The Town will thoroughly analyze any unexpected and unusual one-time revenue sources before appropriation. One-time revenue sources include items such as unusually high receipts, unanticipated state funds, legal settlements, or other one-time revenues. These funds shall first be considered for use toward meeting reserve level goals and capital needs before being utilized for funding general fund operating budget needs.
7. The Town will thoroughly analyze any new, recurring revenue sources before appropriation. New, recurring revenue sources include significant new commercial development, or other permanent
8. revenue sources. These funds shall first be considered, particularly in the first year, toward meeting reserve level goals and capital needs before being utilized for funding general fund operating budget needs.

D. Reserves

1. The Town will maintain adequate reserve funds to protect the Town from unforeseen, extraordinary needs of an emergency nature. Prudent stewardship of the Town requires such planning and protection for the Town's financial health.
2. Reserve funds will be maintained as part of long term goals to reduce borrowing costs. The Town's reserves are a major factor in the Town's bond rating. Sudden decline in reserve amounts could result in a decline in bond rating and potential increases in costs of borrowing.
3. The Town shall strive to maintain reserve accounts at a minimum of 8% of general fund operating revenues, net of debt service. The total reserve goal should be maintained at 4% in the general fund and 4% in the stabilization account.
4. Stabilization reserve funds shall be used to provide for temporary financing for unanticipated or unforeseen extraordinary needs of an emergency nature; for example, costs related to a natural disaster or calamity, an unexpected liability created by Federal or State legislation, immediate public safety or health needs, opportunities to achieve long-term cost savings, or planned capital investments and related debt service. Reserves will not be used to fund recurring budget items.
5. The Town shall strive to make an annual appropriation to the stabilization fund. Even if a nominal amount, this annual appropriation will demonstrate the commitment to reserves and keep the account in focus.
6. Funds shall be allocated from reserves only after an analysis and utilization plan has been prepared by the Finance Director and presented to the Board of Selectmen. The analysis shall provide sufficient evidence to establish that the remaining balance is adequate to offset potential downturns in revenue sources and provide a sufficient cash balance for daily financial needs; and that conditions exist in future years that will allow for replenishment of reserve funds.
7. Funds shall be allocated each year in the budget process to replace any use of reserve funds during the preceding fiscal year to maintain the balance of the reserves at 8%.

E. Debt Management

1. Long-term debt should be issued only for capital projects or assets that have a long useful life. It should be issued to pay for the cost of significant infrastructure and capital projects, such as school remodeling, road construction, building construction, and land purchases. Long term debt should not be issued for recurring, small capital purchases with a useful life of less than five years.
2. The Town should attempt rapid debt repayment schedules. The Town shall strive for a rapid repayment schedule of ten years or less. This ensures cost savings to the community and seeks to avoid strapping future generations with large debt obligations. This policy recognizes that capital needs continue and that new debt will continue to be identified and issued.
3. Long-term debt should not be incurred without a clear identification of its financing sources. Long-term debt is generally utilized to fund capital projects that have a long useful life and are relatively expensive. Because of the debt service costs and annual appropriations necessary to retire this debt, there should be clear knowledge and commitment of revenue sources available to pay these costs without competing with operating budgets for limited resources. Debt issued on behalf of the Sewer Enterprise is supported by sewer user fees.
4. General fund nonexempt debt service should not exceed 8% of general fund revenues. Non-dedicated tax revenue debt service should not exceed 8% of net general fund operating revenue so as to provide appropriate funding for other Town services. Total general fund debt, exempt and non-exempt,

should be maintained at no greater than 10-12% of net general fund operating revenues so as to balance total debt costs and tax implications with other services.

5. The Town will follow a policy of full disclosure on all bond offerings and financial prospectus.

F. Capital Planning

1. The Town will maintain its physical assets at a level adequate to protect the Town's capital investments and to minimize future maintenance and replacement costs. The Town's physical resources are a major component of the Town's overall financial assets and represent a significant investment of public funds. As such, the Town must adequately maintain and update its capital assets.
2. The Town will develop a multi-year plan for capital improvements to be known as the "Five-Year Capital Budget," which will be updated on an annual basis. This report will include all known capital needs for a five year period for all school and municipal operations.
3. Capital items shall be defined as follows:
 - Items requiring an expenditure of at least \$10,000 and having a useful life of more than five years.
 - Projects consisting of real property acquisitions, construction, capital asset improvements, long-life capital equipment, or major maintenance/repair of an existing capital item, as distinguished from a normal operating expenditure.
 - Items obtained under a long term lease.
 - Bulk purchases of similar items, such as technology and furniture purchases, shall be aggregated and the total considered a capital item.
4. The Town shall regularly invest in capital stock on an ongoing basis. Annual delays in reinvesting in the Town's capital assets and equipment can often lead to delaying major problems that result in larger investments of financial resources to correct. The Board of Selectmen will continue to stress the importance of capital reinvestment and will carefully balance the financing of capital with annual operating expenses. The Town will strive to maintain 3 - 5% of the general fund operating budget, net of debt, on capital maintenance and replacement.
5. The funding source for capital projects must be identified and analyzed before any long term bonded capital project is recommended. Funding sources for capital projects must be analyzed so as to balance the limited resources available within Proposition 2 ½.
6. Capital projects funding should also be reviewed in relation to impact on property tax limitation.
 - Projects funded with current tax revenues should identify impact on annual operating budget.
 - Projects funded with long-term debt and *not exempted* from Proposition 2 ½ should identify impact on annual operating budgets.
 - Projects funded with long-term debt and *exempted* from Proposition 2 ½ should identify impact on annual tax rate and/or tax bill (debt exclusion).
 - Projects funded with *capital exclusion* should identify impact on current annual tax rate and/or tax bill (capital expenditure exclusion).
7. The annual operating cost of a proposed capital project, as well as debt service costs, will be identified before any long-term bonded capital project is recommended.

Capital projects may increase future expenses, decrease future expenses or may be cost-neutral. The funding of capital projects may fall within available revenue (taxes or fees) or new revenue sources (debt or capital exclusions). It is important to project the impact that the proposed capital project has on the operating budget so that operating budget funding sources can also be identified or new

funding sources identified. Future operating and maintenance costs for all new capital facilities will be fully costed out.

G. Sewer Enterprise Fund

1. Rates and fees for sewer funds shall be established so as to produce revenue that does not exceed the amount of annual appropriation made for the enterprise, less any funds received for the enterprise from any other source without express authority from the Town Meeting.
2. Sewer funds are reviewed annually to project revenues and expenditures for the next fiscal year, estimates of the current year, and projections for future years. Estimates of capital projects and debt service should be included in order to project impact on sewer rates.
3. Betterments will be assessed for sewer extensions. Sewer projects that are extensions on the existing system will be assessed to the property owner according to the betterment formula for sewer projects. When specific benefits accrue to property owner(s), betterments will be assessed in accordance with state statutes and local policies. This funding source will contribute all or a portion of the costs associated with the capital projects.
4. Sewer main replacements should be scheduled so as to avoid major increases in sewer rates. The current sewer funds are established as self-supporting on a cash basis. Revenues are planned to cover operating budgets, indirect and overhead costs, and debt service payments. Sewer long-term debt schedules should be closely monitored to ensure that new sewer debt replaces completed debt instead of continually adding to total debt.
5. The sewer enterprise will maintain adequate working capital to finance operations. In the absence of retained earnings, operations would require the use of General Fund cash which would reduce General Fund cash available for investment, and consequently reduce General Fund Revenue. To avoid the use of General Fund cash as working capital for the sewer operations, and to accommodate fluctuations in revenue due to consumption variations, retained earnings shall be maintained at an appropriate level. The amount retained for this purpose shall be at least equal to 10% of sewer fund revenues.

H. Gifts, Grants, and Other Funds

1. All grants shall be managed to comply with the laws, regulations and guidance of the grantor.
2. All gifts and donations shall be managed and expended according to the wishes and instructions of the donor and shall be in compliance with applicable state laws and regulations.
3. All user fees and revolving funds shall be managed in compliance with applicable state laws and regulations. User fees will be set so as to generate only the revenue needed to recover the allowable costs of the programs.
4. All gifts, grants, and fees shall be evaluated for suitability and consistency with Town policies. They shall also be formally approved and accepted by the Board of Selectmen and/or School Committee.
5. Any gifts with conditions determined to be unsuitable for the Town will not be accepted.

I. Investment Policy

1. Disbursement, collection, and deposit of all funds will be managed to insure protection and safeguard of funds, and adequate cash flow to meet the Town's needs of operations.
2. The Town will strive to maximize the return on its portfolio, with the primary objectives of safety of principal, liquidity of funds and maximum yield.

3. The Town Treasurer will maintain a separate, written, detailed investment policy.

Adopted by the Board of Selectmen on January 12, 2004.

Financial Policies Status Update

Policy	Target	Actual	Comments	Target Status
B. 2. Operating Reserve Fund – shall be 1% of total general fund operating budget, net of debt service.	\$449,700 1%	FY06 Budget \$400,000	Close to target; 88% of target.	
B. 3. Free Cash – shall maintain at 4% of general fund operating budget, net of debt service.	\$1,798,800 4%	\$1,154,408 2.5%	Actual is at 64% of goal, approximately \$700,000 short of goal. This would be <u>before</u> use of any free cash	
D. 3. Reserve accounts – shall maintain at 8% of general fund operating revenues, net of debt service. Total reserve goals should be maintained at 4% in general fund and 4% in stabilization account.	Stabilization Target 4% \$1,872, 917 Total 8% or \$3,745,834	Stabilization Actual 1.8% \$852,000 Total 4% or \$2,006,408	Stabilization approximately \$1M short of target. Total is at 53% of target. This would be <u>before</u> use of free cash.	
E. 4. General fund nonexempt debt service should not exceed 8% of net general fund revenues.	Not exceed 8% Or \$3,745,834	Actual 1.5%	Target is met.	✓
E. 4. Total General fund exempt and nonexempt debt should not exceed 10-12% of net general fund revenues.	Not exceed 12% Or \$5,618,751	Actual 13.5% \$6,302,362	Actual exceeds target by 1.5%.	
F. 5. Investment in capital stock – will maintain 3% of general fund operating budget, net of debt, on ongoing capital maintenance and replacement.	\$1,349,101 3%	\$823,000 1.8%	Actual is approximately \$526,000 short of target. Actual at 61% of target.	
G. 5. Maintain sewer retained earnings – will maintain 10% of sewer fund revenues.	\$380,631 10%	\$217,691 5.7%	Actual is at approximately 60% of target.	



Financial Policies Status Update Cont'd....

Other Policies	Comments	Target Status
B.1. General Fund – Annual budget should be prepared covering operating expenditures with current operating revenue, not non-recurring revenue sources.	As part of FY06 budget solution, \$97,450 of Free Cash was used to support operating budget – insurance and reserve fund.	
D.5. Reserves – Town will strive to make annual appropriation to the Stabilization Fund	\$25,000 appropriated at 2005 Annual Town Meeting; will continue making appropriations going forward.	✓
F.2. Capital Planning – Town will develop a multi-year plan for capital improvements.	Produced 5-year Capital Improvement Plan document; will continue to improve document and produce on an annual basis.	✓