



Finance Commission

A Look at Town Finances
and FY09 Projections

December 17, 2007
Pam Dukeman
Finance Director



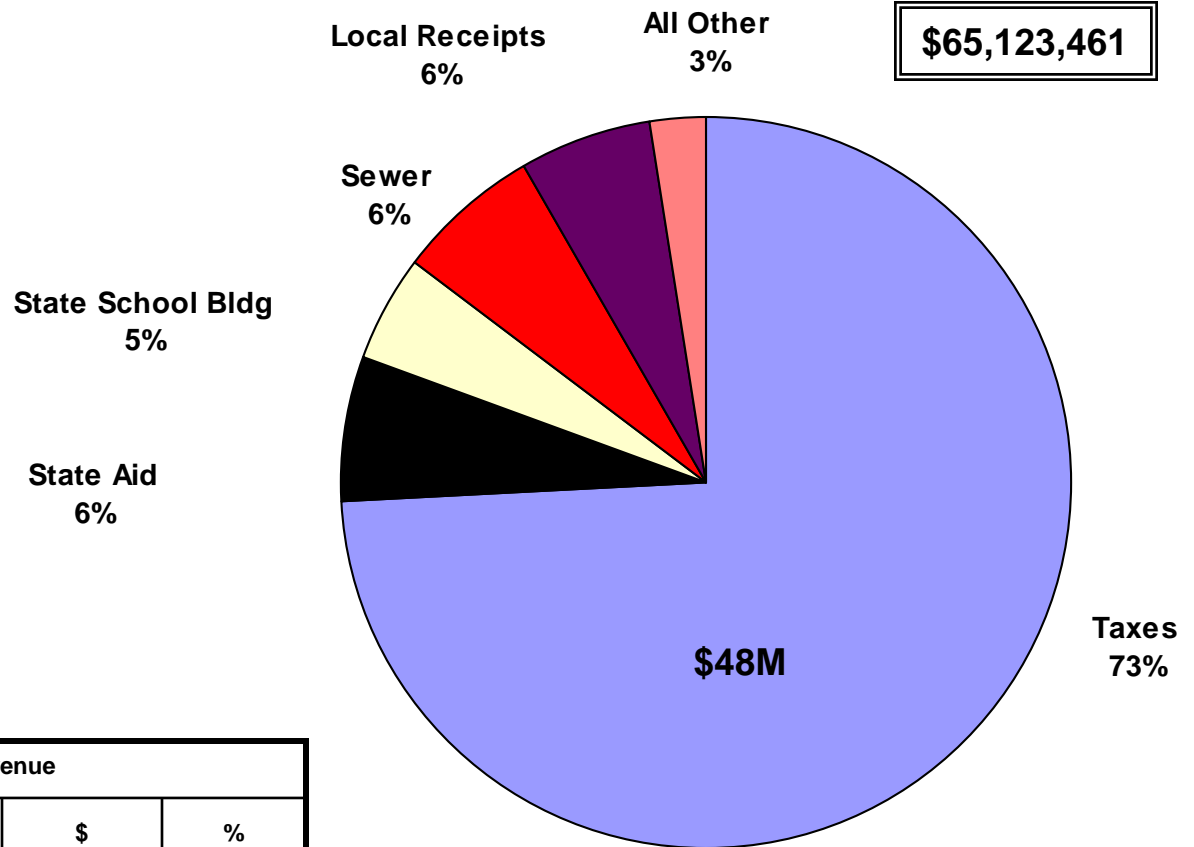
Agenda

- Overview of Revenue:
 - Total Revenue
 - State Aid
 - Taxes
 - Local Receipts/Available Funds
 - Free Cash

- Overview of Expenditures
 - Operating Budgets
 - Fixed Costs
 - Debt

- Reserves and Capital
- Forecast FY09
- FY09 Budget/Next Steps

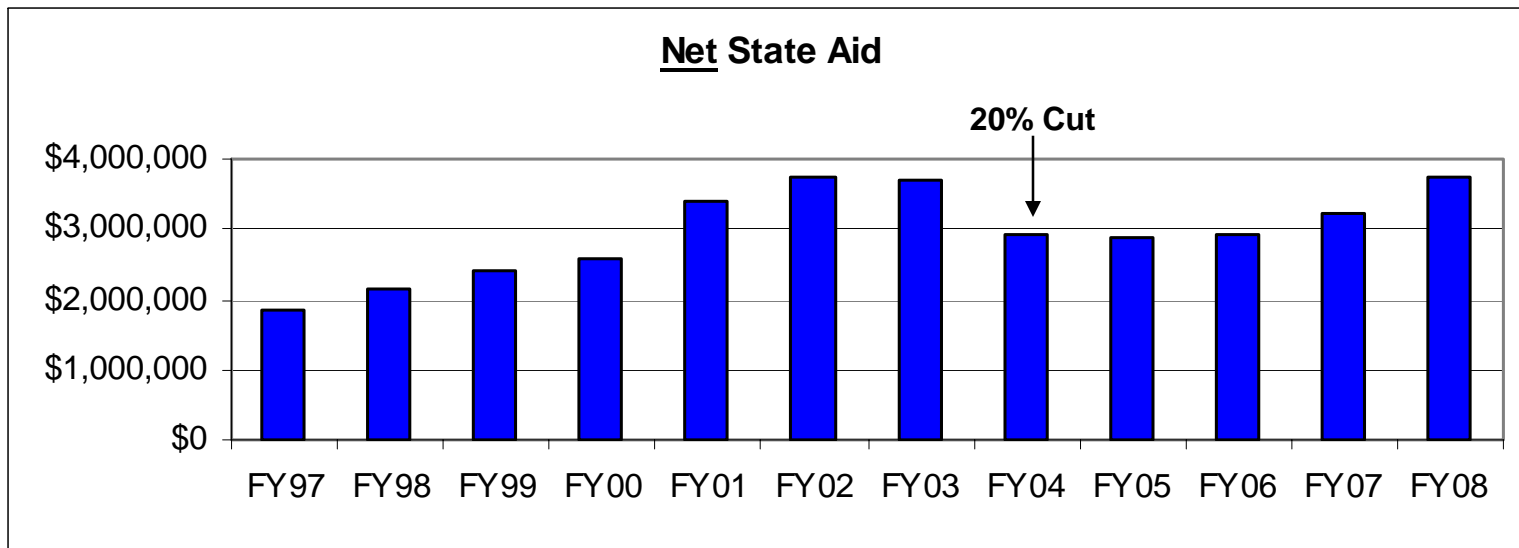
FY08 Budget Revenue – Where Does the Money Come From?



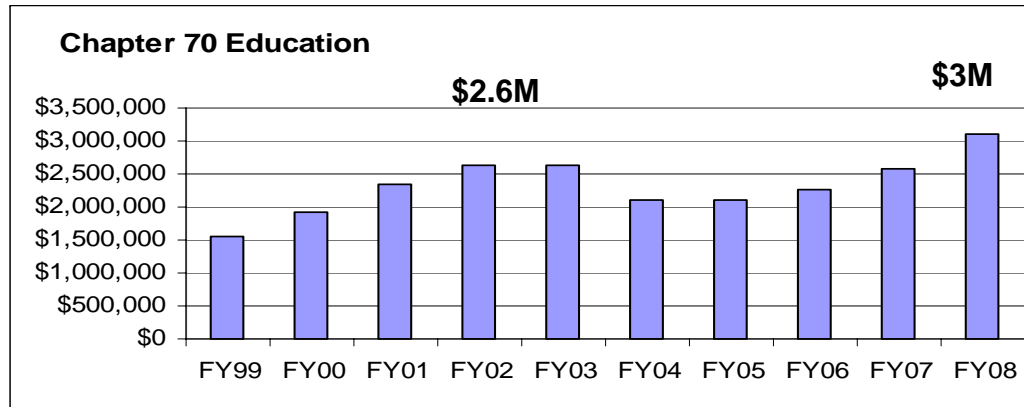
FY2008 Projected Budget Revenue				
	FY2007 Budget	FY2008 Projected	\$ Increase	% Increase
Taxes	\$43,967,446	\$48,264,289	\$4,296,843	9.8%
State Aid	\$3,717,104	\$4,257,310	\$540,206	14.5%
State School Bldg Reimbursement	\$3,193,029	\$3,089,590	(\$103,439)	-3.2%
All Other	\$9,640,736	\$9,512,272	(\$128,464)	-1.3%
Total Revenue	\$60,518,315	\$65,123,461	\$4,605,146	7.6%

FY08 State Aid

- State aid as a budget item – Difficult to predict in a timely manner.
 - Timing
 - Not final until after May Town Meeting.
 - Initial Governor's budget late January.
 - Not stable/consistent.
 - State budget problems affect state aid distribution.



Major Categories of State Aid – Chapter 70

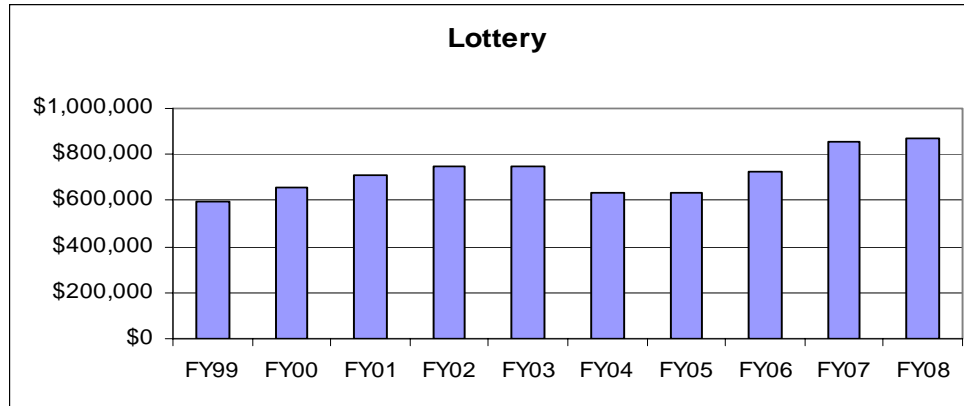


Chapter 70	
FY99	\$1,539,577
FY00	\$1,908,727
FY01	\$2,345,177
FY02	\$2,635,628
FY03	\$2,635,628
FY04	\$2,108,502
FY05	\$2,108,502
FY06	\$2,250,702
FY07	\$2,588,559
FY08	\$3,096,779
FY09	?

FY09 Budget Implications:

- FY08 change in formula benefited Westwood.
- FY09 – will state have \$?
- Additional \$356,720 from FY08 will be applied in FY09.

Major Categories of State Aid and Lottery



Lottery	
FY99	\$596,949
FY00	\$658,858
FY01	\$711,529
FY02	\$747,149
FY03	\$747,149
FY04	\$635,077
FY05	\$635,077
FY06	\$721,560
FY07	\$857,639
FY08	\$871,741
FY09	?

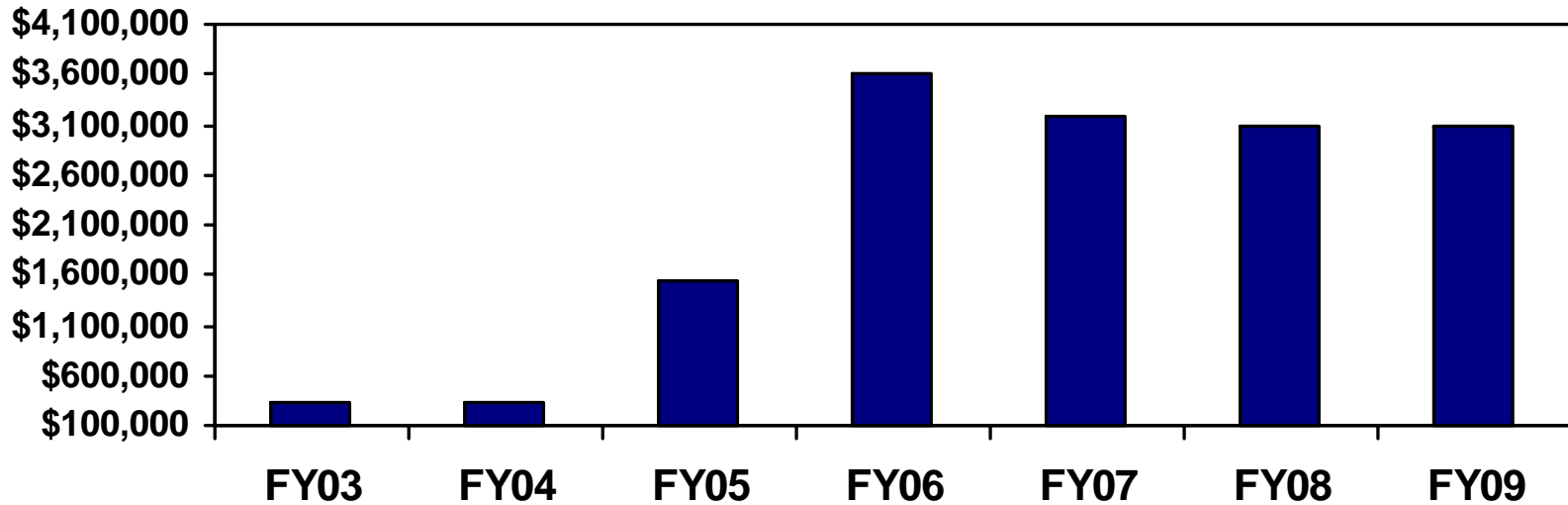
FY09 Budget Implications:

- State wide lottery \$ decline.

State School Building Reimbursement – Directly Pays the Debt Cost

School Building Annual Payments

FY09 Budget Implication:
 ■ Stable going forward.



FY03	FY04	FY05	FY06	FY07	FY08	FY09
\$330,466	\$327,161	\$1,544,068	\$3,600,190	\$3,193,029	\$3,089,590	\$3,083,964

- We are now receiving payments for all of our projects:
 - Middle School
 - Martha Jones
 - Downey
 - High School
- All audits are completed.

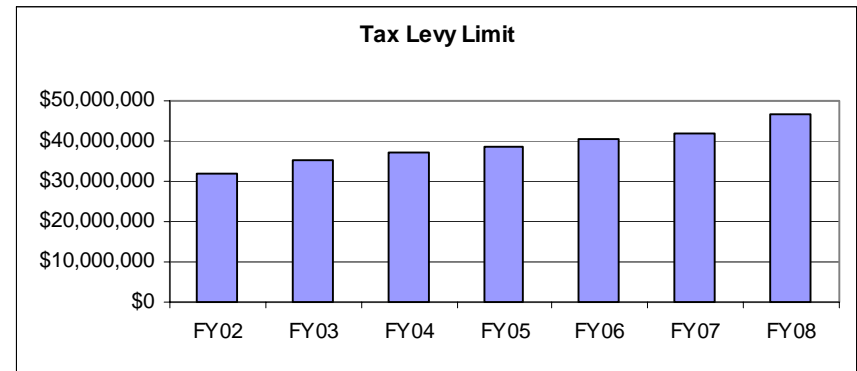
Major Revenue Source - Taxes

- Property tax levy:
 - Revenue a community can raise through property taxes.
 - Proposition 2 ½ places constraints on the amount of the levy raised by a community and on how much the levy can be increased from year to year.

- There are 2 categories of taxes:

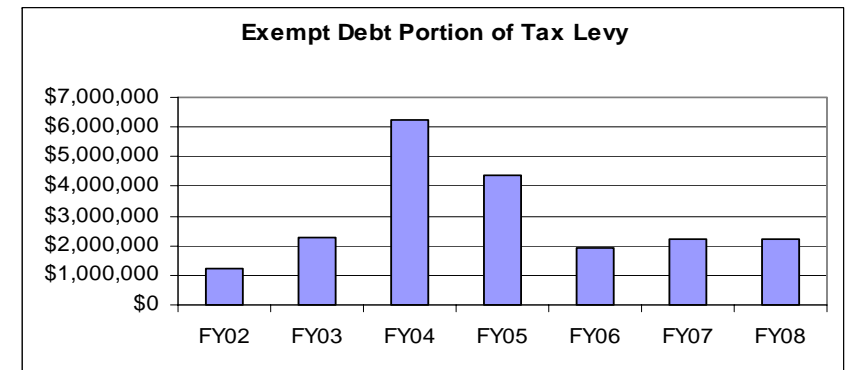
1. General Taxes:

- Can increase by 2.5% each year.
- Also can include taxes from new construction.
- Can increase more than 2.5% with a voter approved override.



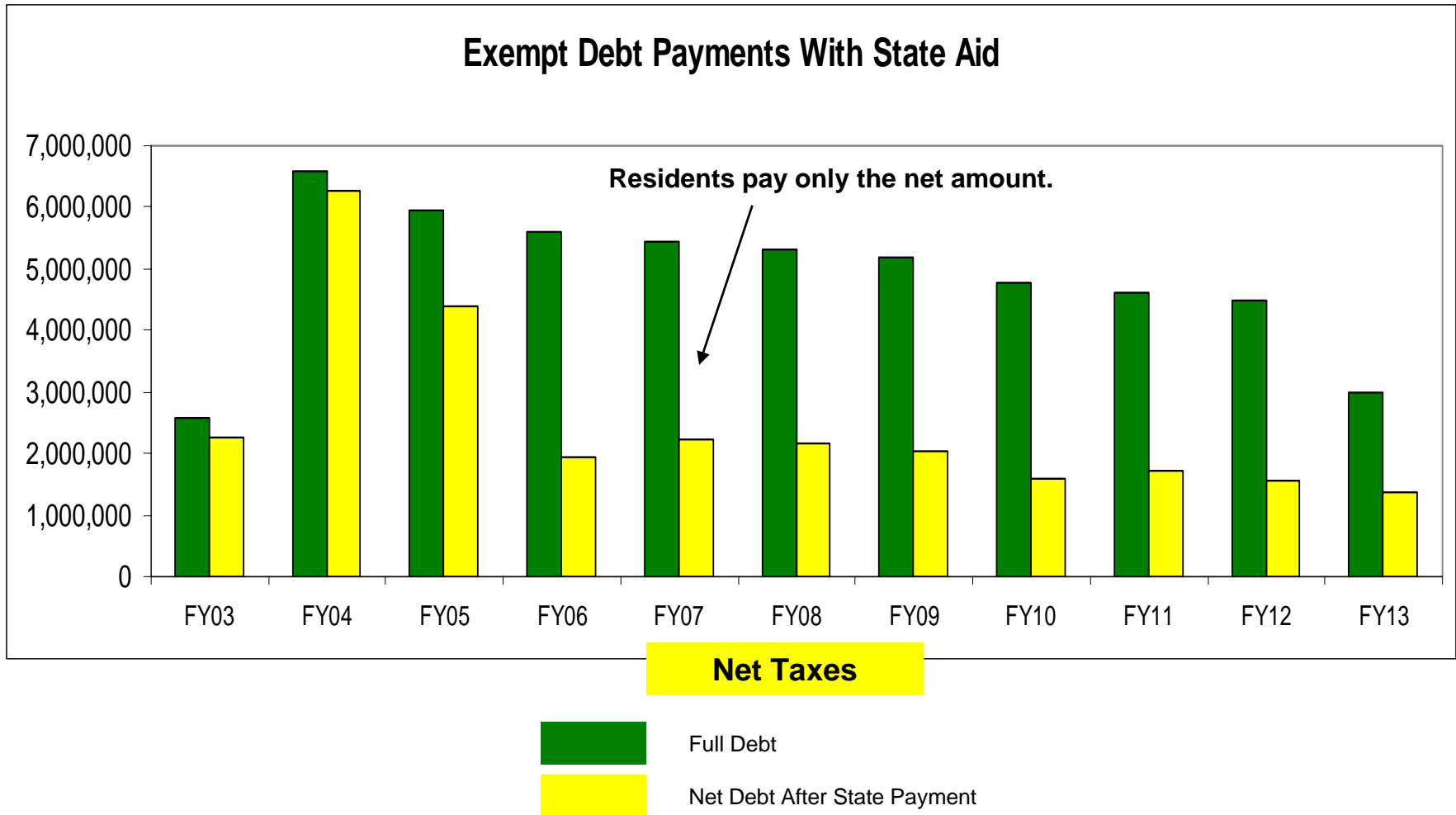
2. Exempt Debt:

- Principal & interest for bonds for projects voted outside of Proposition 2 ½.
- Exact amount of debt cost is taxed.
- Not limited to 2.5% increase – It is what it is.



Proposition 2 ½ governs total taxes raised by the Town,
not an individual home's bill.

School Building Reimbursement – Impact on Taxes



State payments directly reduce debt portion of residents' property taxes.

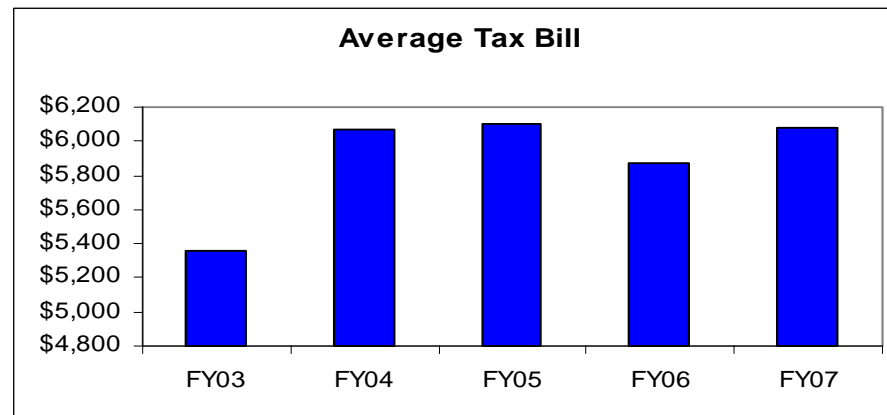
Taxes – A Look at History

	FY03*	FY04	FY05	FY06	FY07
Average Residential Home Value	\$468,075	\$468,075	\$510,202	\$566,324	\$566,324
Tax Bill	\$5,359	\$6,066	\$6,107	\$5,873	\$6,076
Average Tax Bill Increase	15.57%	13.2%	.67%	(-3.8%)	3.5%

State Average Tax Bill Hi-Lo Ranking Town of Westwood	
Fiscal Year	State Ranking
FY07	26
FY06	25
FY05	19
FY04	14
FY03	21
FY02	31

- Tax increase has been high due to debt for construction projects, general override in FY03, and commercial/residential shift.
- Tax increases have been mitigated due to receipt of state MSBA funds.

*Year of general override.

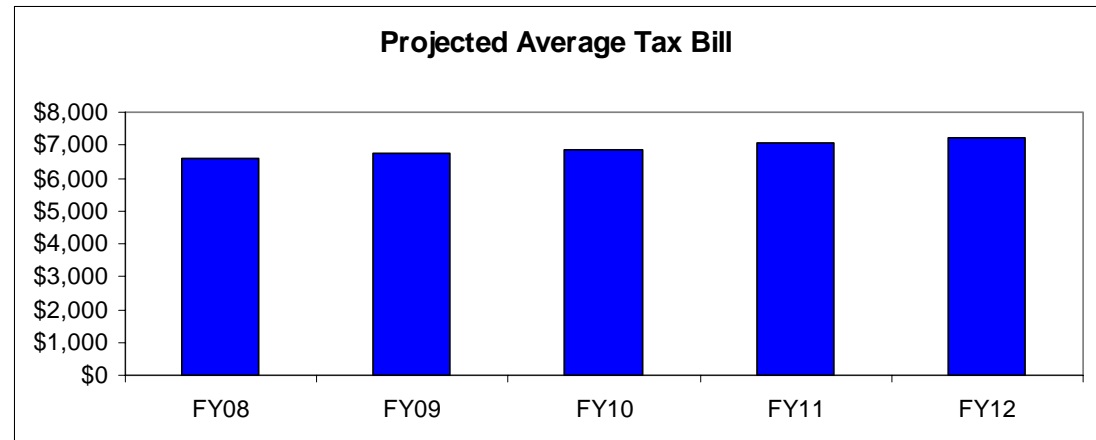


Taxes – Projections Going Forward

	Projected FY08*	Projected FY09	Projected FY10	Projected FY11	Projected FY12
Average Residential Home Value					
Tax Bill	\$6,623	\$6,765	\$6,867	\$7,048	\$7,200
Average Tax Bill Increase	9%	2.15%	1.52%	2.65%	2.16%

- Assumes no new overrides.
- Tax increase will be less than 2.5% because of natural decline in exempt debt interest payments.
- Projections are based on total taxes only; do not include impact of any revaluation or commercial tax shift.

*Year of general override.



Analysis of Average Tax Bill Increase.....

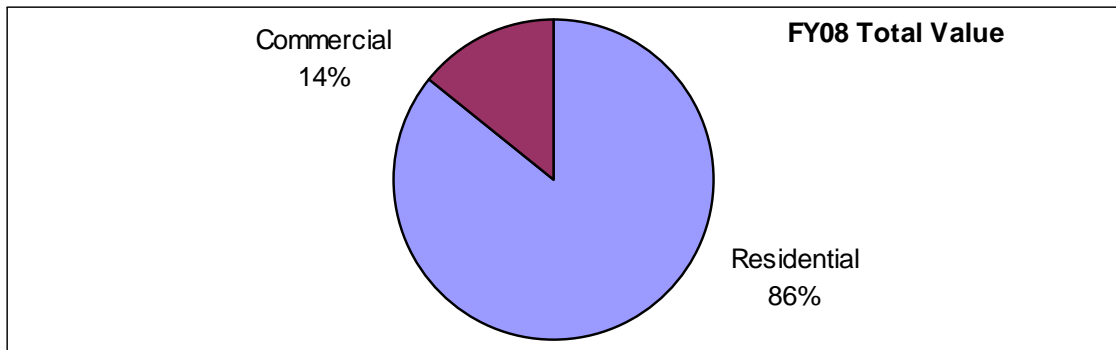
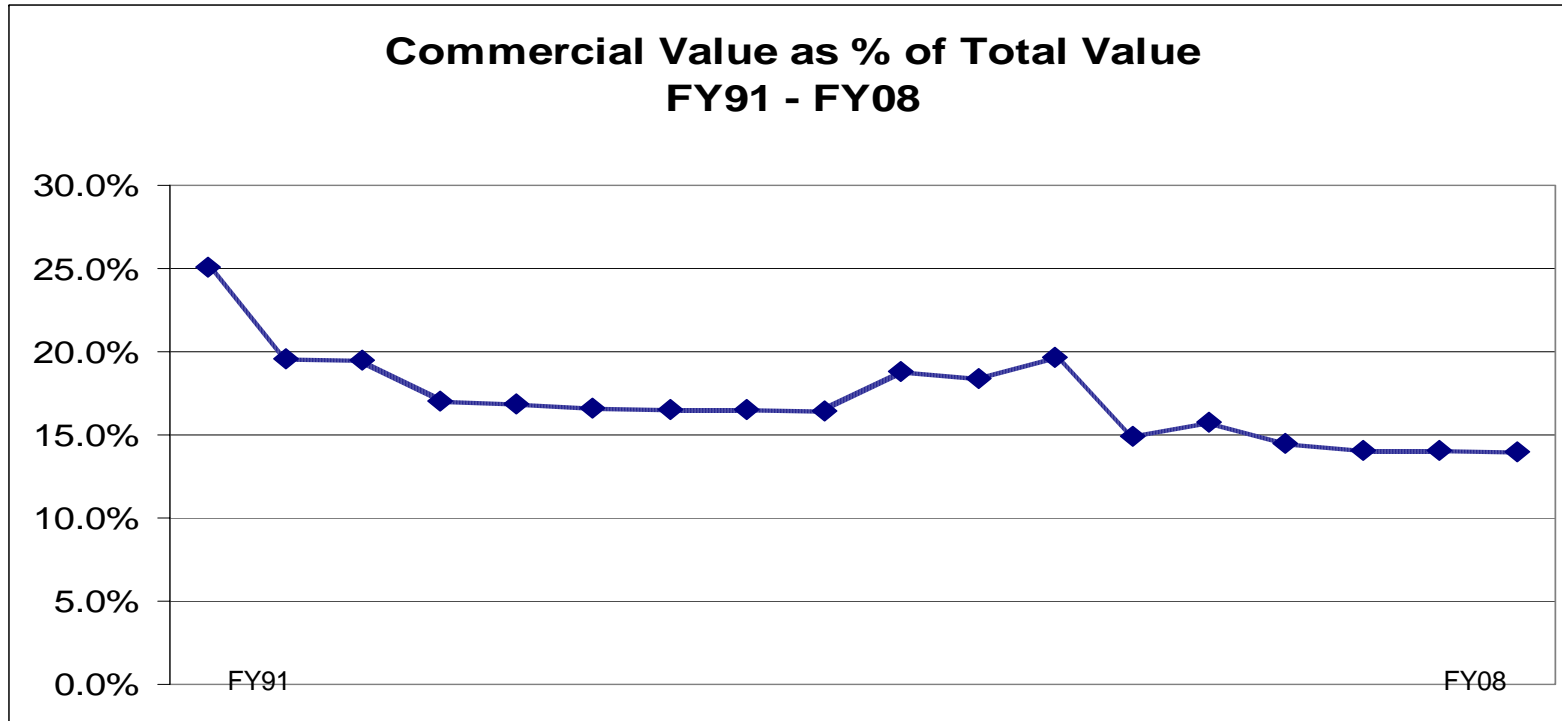
The change in taxes each year is driven by multiple factors. These include:

- Proposition 2 ½ increases – Taxes general increase by 2.5% each year as allowed by Proposition 2 ½.
- General Overrides – Taxes increase if a general override is approved by the voters. The amount of the override determines the tax increase.
- Change in Exempt Debt – As the principal and interest on exempt debt changes each year, the impact on taxes may change. In general, when new exempt debt is brought on, taxes increase; as debt is paid off or when state reimbursement is received, the tax impact decreases.
- Value Shift – There can be a tax impact if there is significant change in total value among the commercial and residential property sectors.

The following chart shows the approximate impact of each item on the tax bill for the last several years.

	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Proposition 2 ½ Increase	2.8%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
General Overrides	--	5%	--	--	--	--	6.5%
Change in Exempt Debt	(-1.16%)	3.07%	10.50%	(-4.53%)	(-5.94%)	.6%	
Effect of Value Shift	2.1%	5%	.2%	2.7%	(-.4%)	.39	.4%
Total Tax Increase	3.74%	15.57%	13.2%	.67%	(-3.84%)	3.5%	9.4%

Commercial as % of Total Town Value – Has Been Declining



- FY08 – Commercial pay 23% of taxes.
- Split rate saves average home \$789 in FY08.



Tax Levy – FY09 Projections

- **Baseline**

- Proposition 2 ½ increase – Approximately \$1.1M.
- Budget \$300,000 new growth.

- **What Will Westwood Station Bring?**

- Timing is significant issue.
- Potential new tax growth?
- Potential change in residential/commercial split of taxes?

Revenue - Local Receipts

	FY05	FY06	FY07	FY07	FY08
	Actual	Actual	Budget	Actual	Budget
Motor Vehicle Excise Tax	\$2,309,888	\$2,298,851	\$2,250,000	\$2,135,755	\$2,150,000
Penalties and Interest	\$80,853	\$55,045	\$50,000	\$67,238	\$50,000
License/Permits	\$488,923	\$566,317	\$338,000	\$438,495	\$360,000
Departmental Receipts	\$202,443	\$281,089	\$257,041	\$301,570	\$260,000
Special Assessments	\$2,196	\$227	\$200	\$219	\$0
Investment Income	\$402,355	\$688,030	\$280,100	\$707,268	\$504,505
Sewer Indirect	\$212,000	\$212,000	\$290,978	\$290,978	\$290,978
Recreation	\$145,000	\$145,000	\$151,164	\$151,164	\$152,000
Other	\$67,083	\$49,686	\$45,000	\$195,757	\$45,000
Total Local Receipts	\$3,910,741	\$4,296,245	\$3,662,483	\$4,288,444	\$3,812,483

- 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 fluctuations due to the construction projects. (was \$731,000 in FY03).
- FY06 departmental receipts started to include anticipated rental income from the Islington Community Center.
- Westwood Station building permit fees will be categorized here (\$1.65M in FY08).

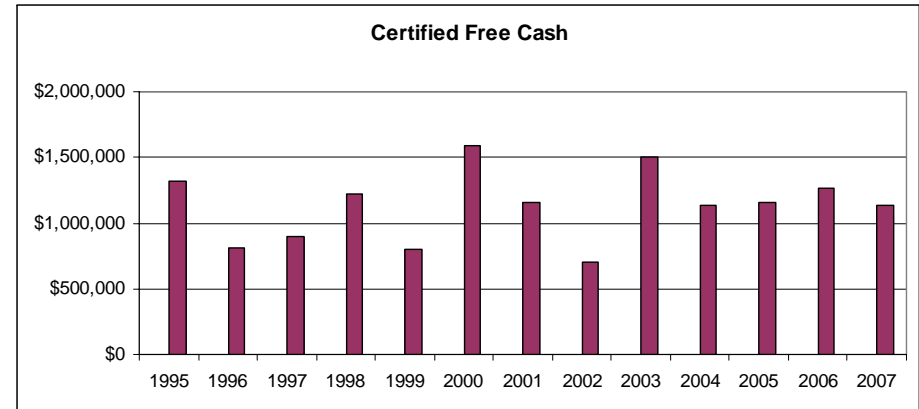
Revenue - Available Funds

Available Funds Allocated	FY04	FY05	FY06	FY07	FY08
	Budget	Budget	Budget	Budget	Budget
Conservation Receipts	\$7,000	\$7,000	\$17,000	\$17,000	\$17,000
Cemetery Trust	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Ambulance Receipts	\$350,463	\$223,463	\$223,463	\$323,850	\$366,200
Extra Circuit Breaker \$	\$0	\$200,000	\$0	\$0	\$0
Pension Reserves	\$350,000	\$350,000	\$0	\$0	\$0
High School Bond Premium	\$0	\$42,966	\$38,302	\$36,821	\$35,340
Sale of Land/Bond Premium	\$472,970	\$118,534	\$0	\$0	\$0
Prior Year/Miscellaneous Articles	\$0	\$46,000	\$271,000	\$509,433	\$21,000
Library funds-land purchase			\$180,000	\$0	
Prior year Ch70 not used				\$142,000	\$118,000
	\$1,190,433	\$997,963	\$739,765	\$1,039,104	\$567,540

- Pension funds funding source was fully depleted in FY05.
- High School bond premium required annual apportionment to debt.

A Look at Free Cash

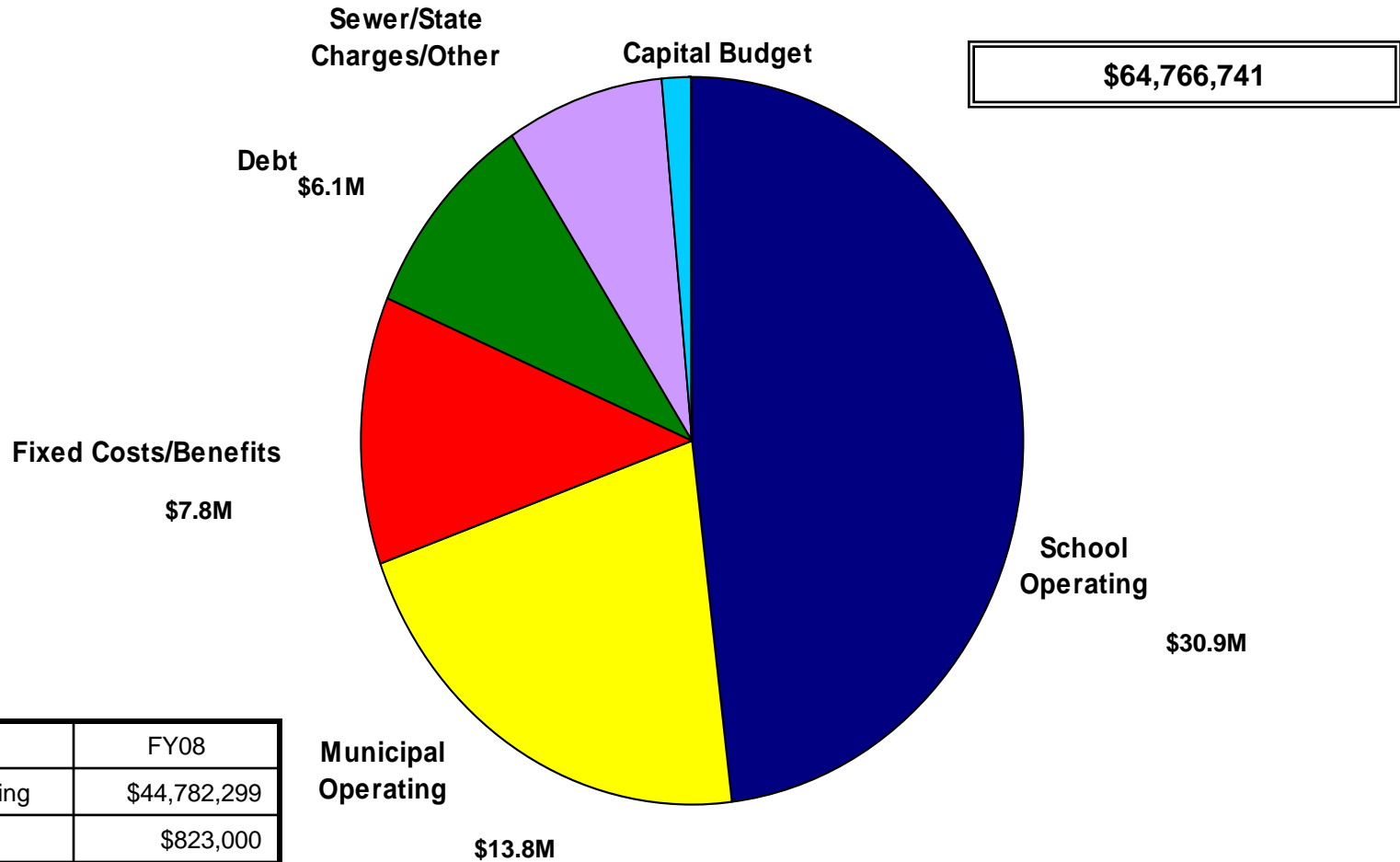
- Certified Free Cash as of July 1, 2007 is \$1,142,342 which is approximately 2% of the FY07 budget.
- The 5-year average Free Cash has been \$1.2 million.



	July 2007	July 2006	July 2005	July 2004
Certified	\$1,142,342	\$1,266,415	\$1,154,408	\$1,138,014
Used to Fund Subsequent Budget	Capital \$700,000 Stabilization \$25,000	Energy Reserve \$225,000 Capital \$700,000 Stabilization \$25,000 Articles \$11,175 Budget \$170,473	Energy Reserve \$225,000 Capital \$700,000 Articles \$100,000 Stabilization \$25,000	Capital \$737,899 Budgets \$122,450 Stabilization \$25,000
Certified Free Cash as % of Total Budget	2%	2%	2%	2%

- Financial policy not to use free cash for operating budget.
- FY08 used \$170,473 of free cash for operating budget.
- FY09 projections use \$700,000 for capital and \$25,000 for stabilization fund.

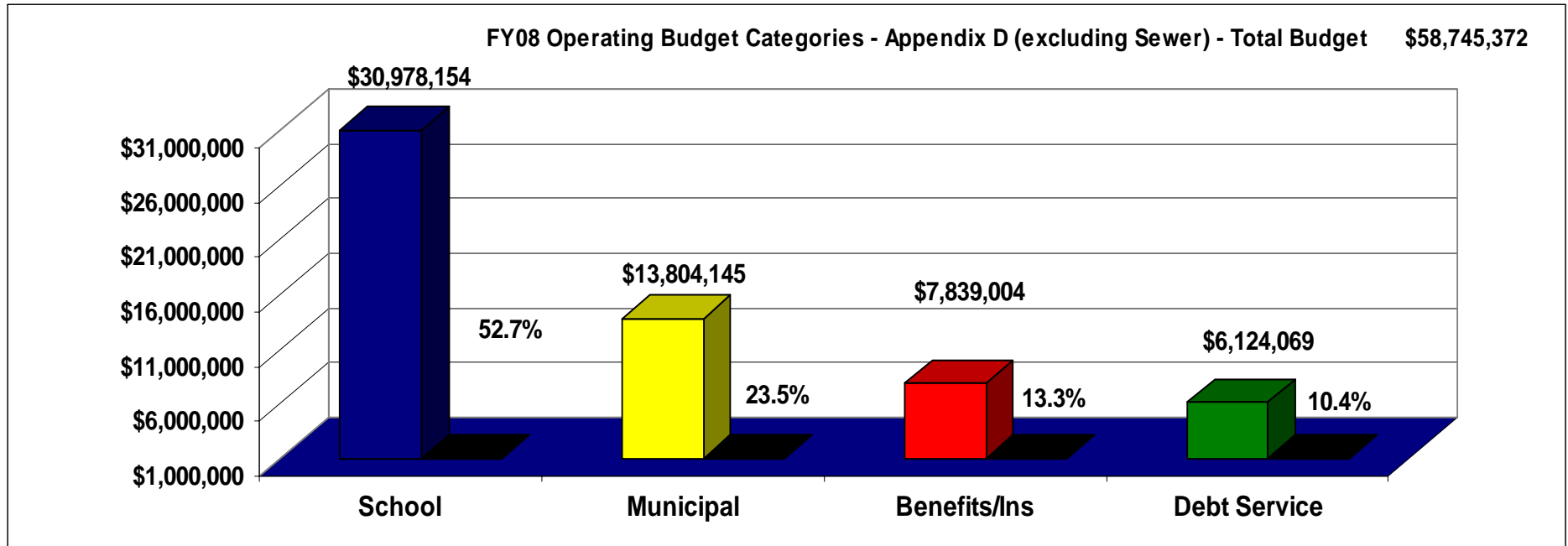
The FY08 Budget Categories – How is the Money Spent?



	FY08
School & Municipal Operating	\$44,782,299
Capital - Annual	\$823,000
Debt	\$6,124,069
Fixed Costs/Benefits	\$7,839,004
Sewer/State Charges/Other	\$5,198,369
	\$64,766,741

70% Spent on Direct Operating Costs

A Look at The FY08 Operating Budget Categories.....



Note: Debt and Benefit budgets not allocated in School or Municipal budgets shown above.

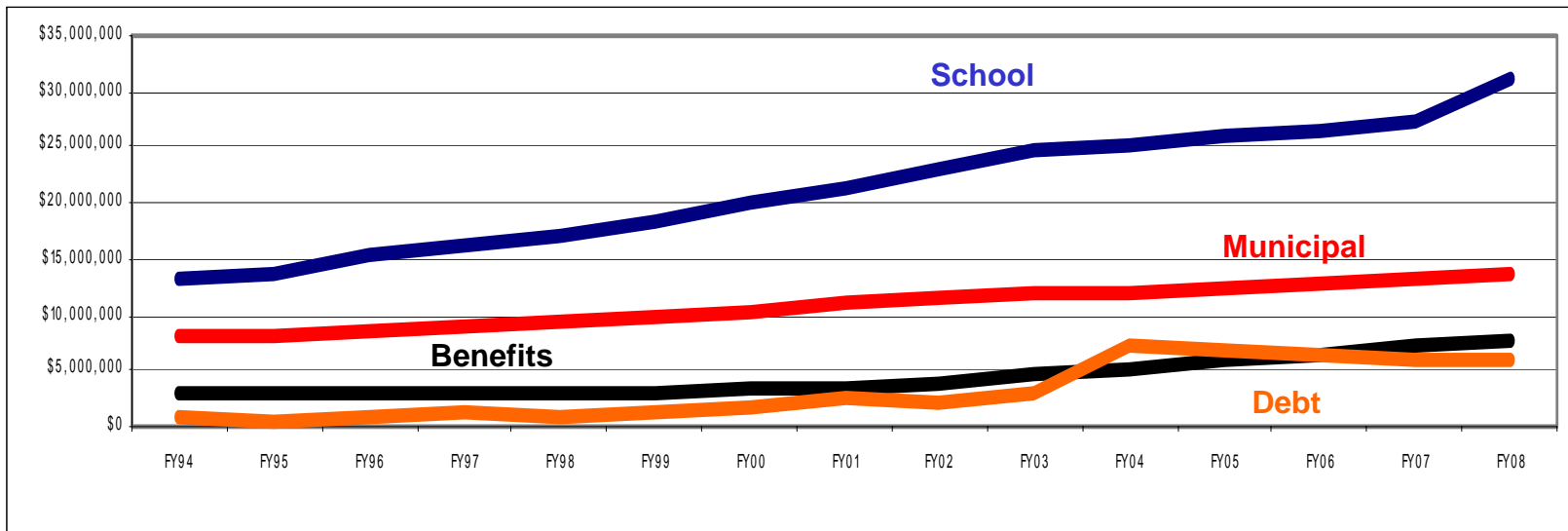
Benefits, Insurance, and Debt Service are fixed, restricted accounts.

School Benefits	\$4,124,558
Municipal Benefits	\$2,682,636
Insurance/Reserves	\$1,031,810
Total	\$7,839,004

A Look at the Budget History.....

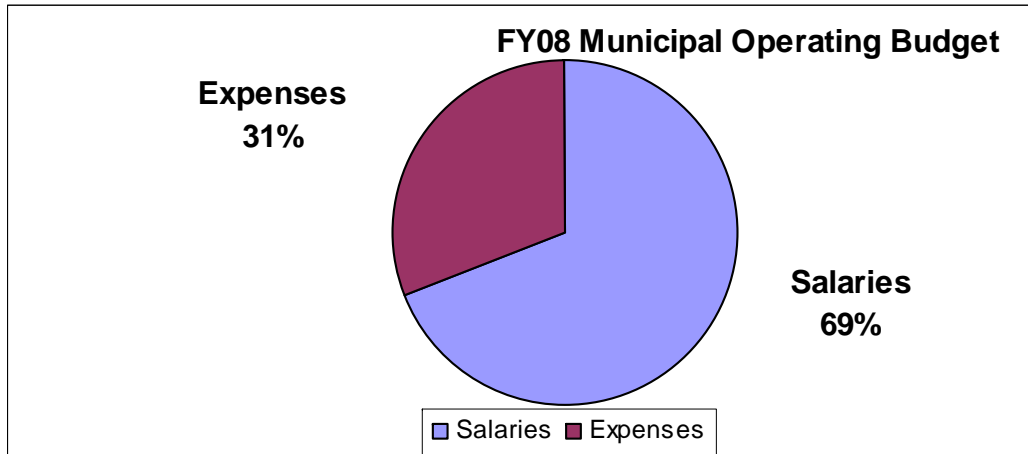
FY04 – FY07
 School and Municipal averaged
 2% increase/year.

Budget	% Change in Budget					
	FY03	FY04	FY05	FY06	FY07	FY08
School Budgets	8.2%	0.4%	4.7%	.1%	4%	12.9%
Municipal Budgets	4.5%	0.0%	3.4%	1.2%	4.5%	3.7%
Benefits/Insurance/ Reserves	13.4%	10.9%	14.3%	11.2%	13.6%	7.6%
Debt Service	33.8%	56.7%	-7.7%	-6.3%	-2.2%	-0.7%

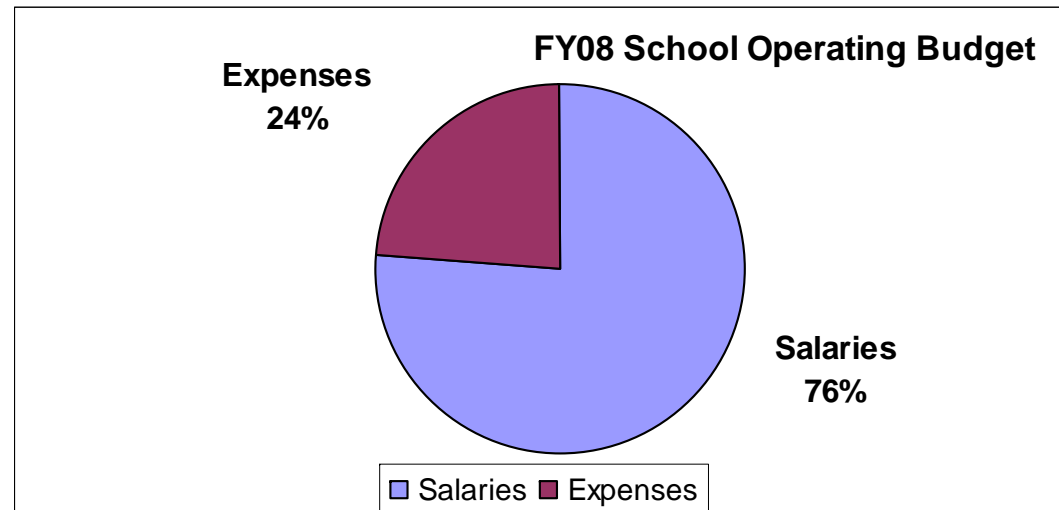


Budget	\$ Budget					
	FY03	FY04	FY05	FY06	FY07	FY08
School Budgets	\$24,956,196	\$25,062,489	\$26,237,002	\$26,268,304	\$27,444,091	\$30,978,154
Municipal Budgets	\$12,127,081	\$12,127,081	\$12,540,894	\$12,688,282	\$13,311,360	\$13,804,145
Benefits/Insurance Reserves	\$4,497,240	\$5,045,017	\$5,767,904	\$6,413,450	\$7,287,385	\$7,839,004
Debt Service	\$3,157,965	\$7,286,431	\$6,722,777	\$6,302,362	\$6,164,592	\$6,124,069

Salaries as Component of Budgets

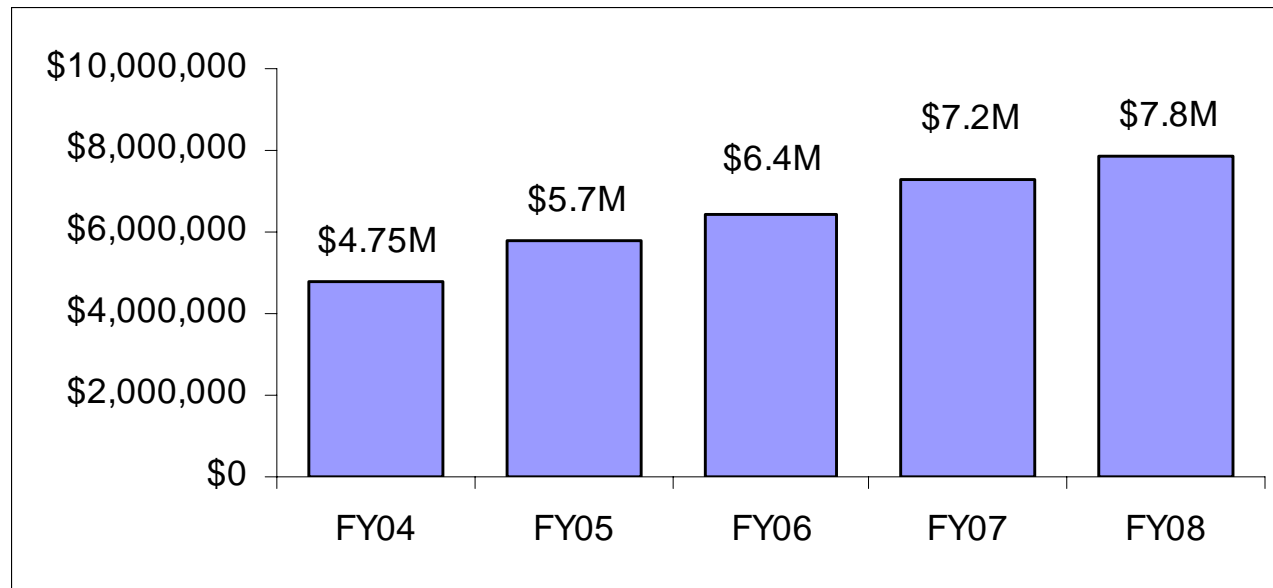


- Salary driven organization.
- Salary increase typically the largest component of school/municipal growth each year.



Fixed Costs – Fastest Growing Component of Overall Budget

Fixed costs increases take most of new revenue available within Proposition 2 ½. Limited revenue is available for school and municipal operating budgets. Similar issues are being experienced by many municipalities.

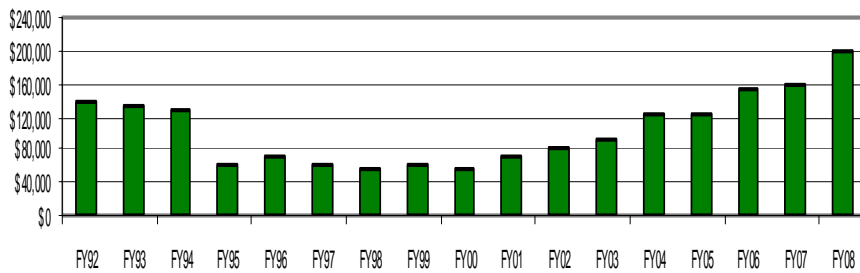


Fixed costs increases:

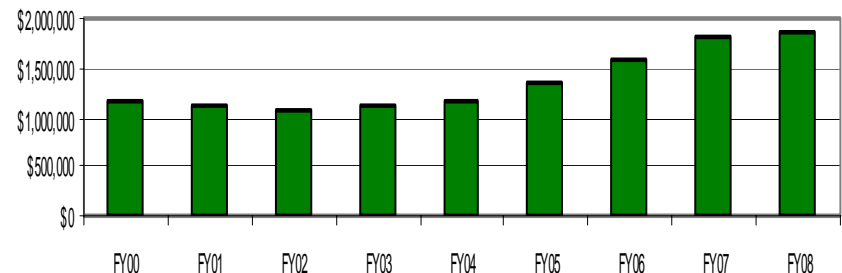
- Health insurance.
- Pension costs.
- Payroll taxes.
- Comprehensive insurance.

Fixed Costs – Employee Costs Non-Health

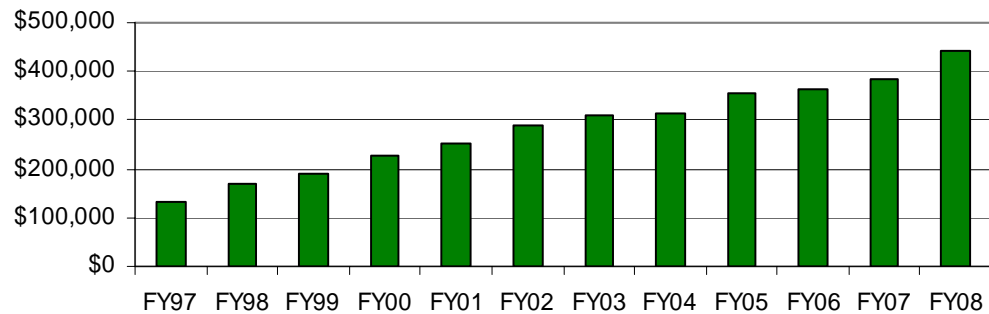
Workers Compensation Insurance



Retirement



Mandatory Medicare Payroll Tax



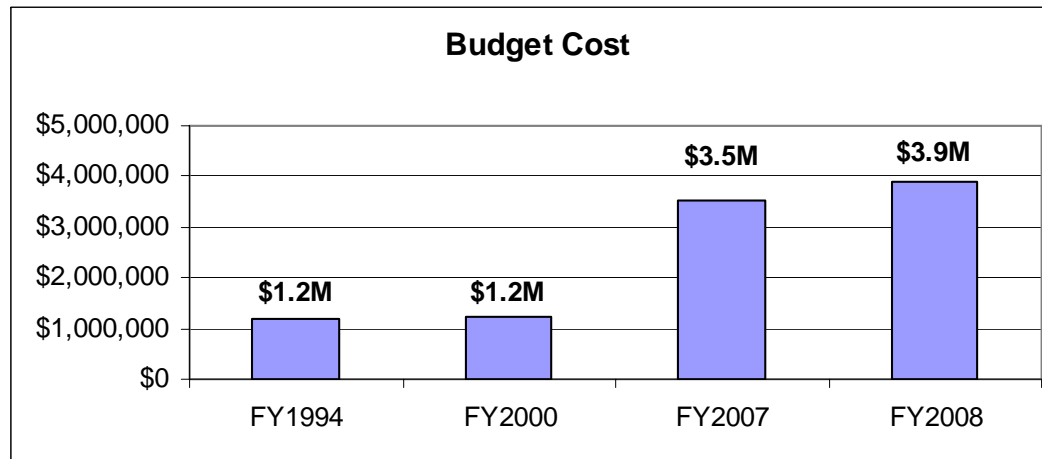
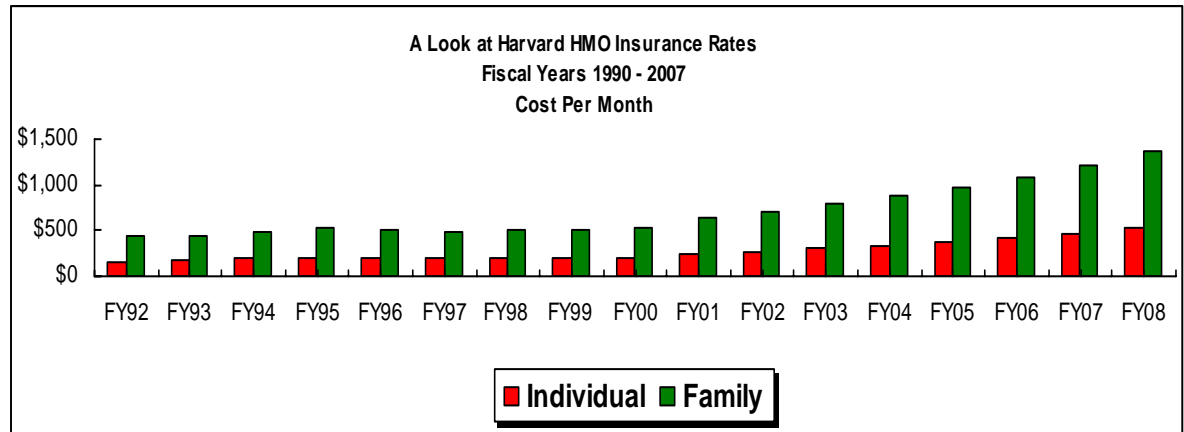
Health Insurance – For all School and Municipal Employees and Retirees

Health Insurance

- Rising rates.
- Increasing number of retirees covered.

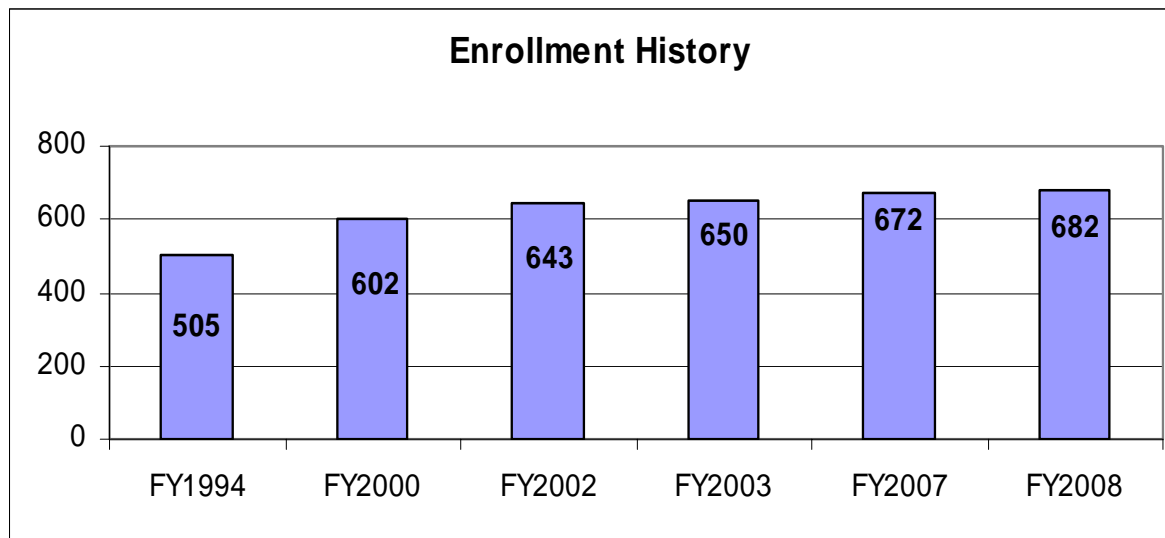
Steps Taken to Control Costs

- Employees contribute 40% of HMO/50% of PPO premium cost; and
- Town benefits from joint purchasing group.



Health Insurance – Enrollment Continues to Grow

- Total enrollment continues to grow.
 - Retirees covered as well as current employees.
 - FY08 added new teachers due to override.
- Increasing number of retirees covered.



Group Insurance Commission – Summary of New Law

Summary of New Law

State Group Insurance Commission (GIC)

Background

- On July 25, 2007 Governor Patrick signed new law (Chapter 67 of the Acts of 2007) which enables municipalities the option of joining the Group Insurance Commission's (GIC) health coverage for municipal employees and retirees.
- The GIC is currently governed by an 11-member Commission and provides health insurance and other benefits for more than 275,000 state employees and select other groups. The GIC position is that providing this new, local option to join the GIC has the potential to generate significant savings while offering employees and retirees high quality health insurance options.
- Opportunity may not be the best option for some cities and towns.
- Decision to join the GIC is made collectively between municipal leaders, public employee labor representatives and retiree representatives. Governing body plus 70% of weighted union membership must agree.
- Municipalities must join no later than the October 1 that precedes the July 1 upon which the transfer would be effective and must do so in three-year cycles.
- If a municipality elects to withdraw from the GIC, it can't rejoin for five years.
- Municipal employees who join GIC health coverage will no longer collectively bargain their health insurance benefits, which will be determined instead by the GIC.

Recommendation

- It is recommended that Westwood not join the GIC this October:
 - Law only passed at the end of July – insufficient time.
 - GIC is currently negotiating for new health plans which would not be finalized by October.
 - Current plans do not include Blue Cross/Blue Shield options, which would be a significant change for Westwood employees.
 - Westwood currently participates in *West Suburban Health Group*, a joint purchasing arrangement with other communities, from which Westwood greatly benefits in the way of controlled health insurance rates.
 - This is a new program during which its first year will experience issues to be resolved.
- Westwood should not join the GIC this October.
- Monitor the new program over the next year and continue to analyze whether this option is beneficial to the Town and its employees/retirees.

Other Details

- Municipality must give GIC all or none of its insureds.
- All negotiations and decisions about contribution ratios (between 50% and 99%) – i.e., what percentage of health insurance costs are borne by employees or retirees – will continue to be made at the local level. Municipalities will not be required to adopt state contribution ratios.
- Once this option is adopted locally through coalition bargaining, communities will accept the health insurance options and plan design set by the GIC.
- Municipalities will pay all costs associated with purchasing health insurance through the GIC, including payment of a small administrative fee to the Commission, which cannot exceed 1% of premiums.
- Proposal calls for municipal representatives to be added to the GIC...two seats automatically and another two after more than 45,000 municipal subscribers have been added through this new law. Both management and labor will be represented.
- Proposal only relates to health insurance and not to other benefits, such as life, dental, or vision insurance.

Selectmen established a GIC Review Committee to review the option for FY09:

- Report to them by April 1, 2008.
- Committee consists of representatives of Town and School management, unions, Personnel Board and Finance Commission.

Long Term General Fund Debt

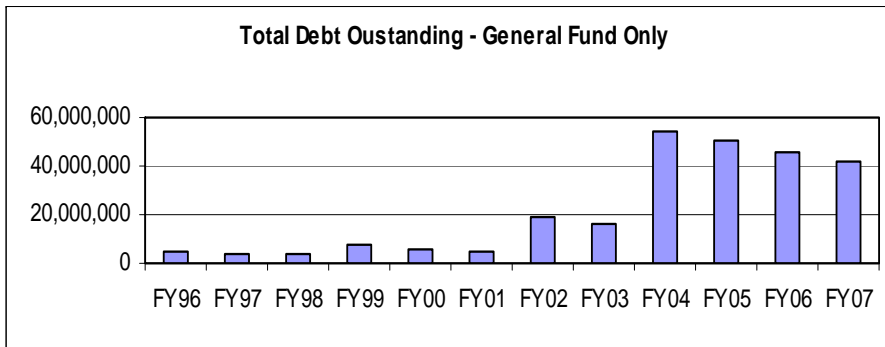
Description	Rate of Interest	Date Issued	Maturity Date	Amount Issued	Total Outstanding 30-Jun-07
General Fund					
Roads	4.40 - 5.70	04/95	04/2005	\$2,200,000	\$0
Land Acquisition	4.40 - 5.70	04/95	04/2005	\$300,000	\$0
Middle School/Gym	3.79	12/98	12/2008	\$2,923,000	\$580,000
Land Acquisition	3.79	12/98	12/2008	\$400,000	\$80,000
Senior Center	3.79	12/98	12/2008	\$239,000	\$48,000
School Fields	3.79	12/98	12/2008	\$189,000	\$38,000
Middle School/Gym Completion	3.79	12/98	12/2008	\$225,000	\$44,000
Martha Jones Construction	4.04	3/21/02	3/21/2012	\$7,200,000	\$3,600,000
Downey Construction	4.04	3/21/02	3/21/2012	\$6,300,000	\$3,150,000
Land Acquisition	4.04	3/21/02	3/21/2012	\$1,300,000	\$650,000
Land Acquisition	4.04	3/21/02	3/21/2012	\$300,000	\$150,000
High School Project	4.25	8/01/03	06/01/2023	\$39,262,300	\$31,600,000
Municipal DPW Building	4.25	8/01/03	06/81/2014	\$2,600,000	\$1,820,000
Public Building	4.25	8/01/03	06/08/2014	\$240,700	\$165,000
Total General Fund					\$41,925,000

General Fund Debt authorized - Not Yet Issued Long Term

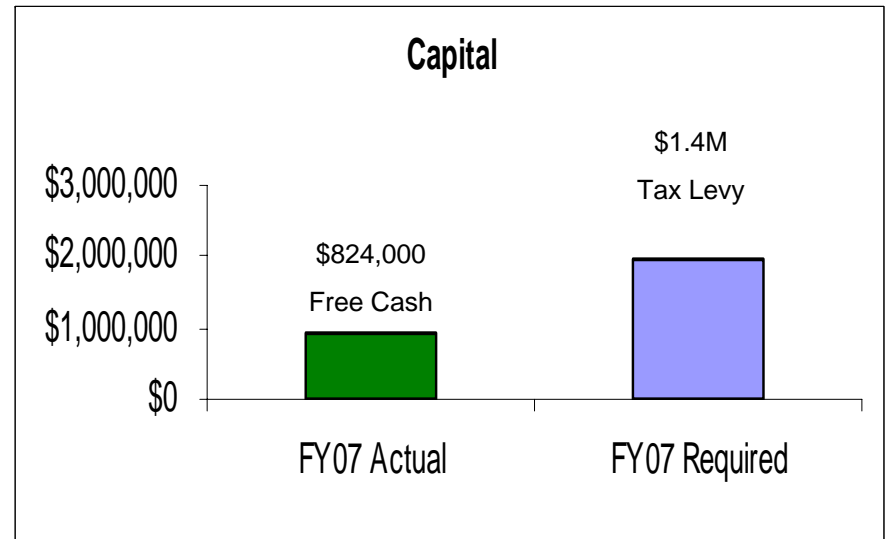
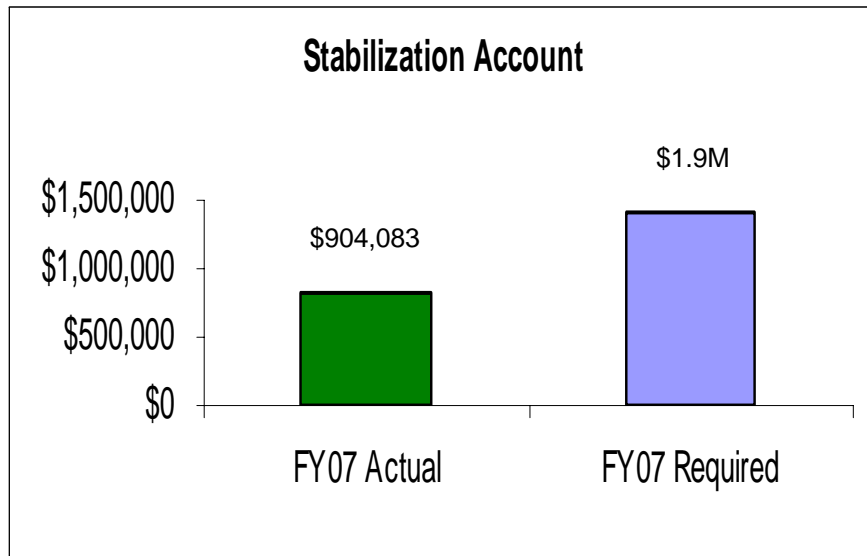
High Street Construction	ATM 5/05	\$1,000,000
High Street Lighting	ATM 5/06	\$195,000
High School Consturction	ATM 5/06	\$1,950,000
Eminent Domain Land Purchase	ATM 5/01	\$245,000
High School Fields	STM 6/07	<u>\$475,000</u>
Total		\$3,865,000

■ Currently Bans issued - \$3,390,000

- Must issue long term debt.
- FY09 budget to include new debt issued.



Areas to Address – Reserves and Capital – Not Meeting Targets



- ❑ Must improve or credit rating could be downgraded.
- ❑ Financial Policies target new tax revenue.



Town's Excellent Credit Rating – Reaffirmed in January, 2007

- Moody's – Aa1
- Standard & Poor's – Aa+

2nd Highest Ratings Obtainable

- Top 5% of Massachusetts communities.
- High credit rating reduces costs to borrow money.

“Narrow reserve levels expected to stabilize....Moody's expects the town's narrowed financial position to stabilize and notes that new revenue from the Westwood Station development have the potential to augment reserves beginning in fiscal 2009.”

“Future rating actions will incorporate on Westwood's ability to comply with its financial policies and maintain adequate reserves.”

Five Year Forecast - Baseline With 3% Increase to School/Municipal Operating Budgets

Assumptions:

- Tax revenue calculated per levy limit. New growth assumption of \$300,000 per year.
- State aid level funded at FY08 level.
- Debt – per current schedules – and new debt issued, payments start FY09.
- Capital level funded at FY08 level.
- Health insurance increase – 12%.
- Operating budget increase for all school and municipal budgets FY09-FY13 – 3%.
- FY08 budget problems addressed (free cash).

	FY2008	FY2009 Projected	FY2010 Projected	FY2011 Projected	FY2012 Projected	FY2013 Projected
Total Expenditures	\$60,766,140	\$63,108,312	\$64,841,236	\$67,129,541	\$69,571,648	\$70,643,904
Total Revenues	\$61,122,860	\$62,252,117	\$62,944,625	\$64,335,038	\$65,761,891	\$65,856,388
Total Revenues Less Expenditures	\$356,720	(\$856,195)	(\$1,896,611)	(\$2,794,503)	(\$3,809,756)	(\$4,787,516)

There would be insufficient revenue in each of the years to fund increases in the school and municipal operating budgets at this level.

Five Year Forecast - Baseline

With 6% Increase to School/Municipal Operating Budgets

Assumptions:

- Tax revenue calculated per levy limit. New growth assumption of \$300,000 per year.
- State aid level funded at FY08 level.
- Debt – per current schedules – and new debt issued, payments start FY09.
- Capital level funded at FY08 level.
- Health insurance increase – 12%.
- Operating budget increase for all school and municipal budgets FY09-FY13 – 6%.
- FY08 budget problems addressed (free cash).

	FY2008	FY2009 Projected	FY2010 Projected	FY2011 Projected	FY2012 Projected	FY2013 Projected
Total Expenditures	\$60,766,140	\$64,451,781	\$67,649,086	\$71,530,148	\$75,705,396	\$78,657,764
Total Revenues	\$61,122,860	\$62,252,117	\$62,944,625	\$64,335,038	\$65,761,891	\$65,856,388
Total Revenues Less Expenditures	\$356,720	(\$2,199,664)	(\$4,704,461)	(\$7,195,110)	(\$9,943,505)	(\$12,801,376)

There would be insufficient revenue in each of the years to fund increases in the school and municipal operating budgets at this level.



A Look at FY09.....And Forward.....

- **FY09 Budget:**

- Within Proposition 2 ½, will not be able to maintain current services or fund requests for school and municipal budgets.
- Timing of Westwood Station will be critical.
- Utilize baseline vs. Westwood Station budgets.
- If Westwood Station \$, earmark some for capital/reserves.

- **Next Budget Update:**

- Revenues updated for:
 - State aid – Governor’s budget.
 - Final FY08 tax levy.
 - Westwood Station?
- Expenditures updated for:
 - Fixed costs – health and Norfolk County.
 - Operating budget requests.
 - Debt to be issued.