

Long Range Financial Planning Committee Meeting
January 11, 2017 8:00am
Selectmen's Meeting Room

| Attending: | |
|---------------------------------------|--|
| Nancy Hyde, Board of Selectmen | Josepha Jowdy, School Committee |
| John Antonucci, School Superintendent | Bruce Montgomery, At Large Member |
| Maureen Bleday, Board of Assessors | Mike O'Hara, Fincom |
| Barbara Delisle, Fincom | Heath Petracca, Schools Director of Business and Finance |
| Pam Dukeman, Finance Director | Al Wisialko, Town Collector |
| James Gavin, Town Treasurer | Mike Walsh, Selectman |
| Mike Jaillet, Town Administrator | |

Review of Capital Budget Requests:

Pam presented an update on the FY18 Capital Budget requests. There has been success in recent budget years increasing the funding level, with the FY17 capital budget at a level more than double that of the FY14 budget. The FY18 budget will continue to be funded at this higher level. The total amount budgeted for the capital article will be \$867,000 each for school and municipal. There are additional, smaller requests that will be funded through other sources such as ambulance funds, a small line item on the municipal budget, and the sewer department enterprise fund.

Specific one time capital items reviewed at the December Long Range financial planning meeting, including the renovation of the Senior Center, the upgrade to the School Department's IT network, and the high school tennis court would be funded separately in an "other capital" article as has been done for the last two years. There are follow up questions on all these projects that will be researched and reported back on before a recommendation is made on how to proceed with the requests.

The group discussed what the town's annual capital levels should be. There is a limited pool of money to cover both capital and municipal budgets was reviewed, i.e., if funding for capital were to increase, that would mean a reduction somewhere else in the overall budget.

Street maintenance is a key capital issue, and historically has been covered primarily by Chapter 90 funds. The amount the town receives under this state funding program is not sufficient to completely fund the required cost of maintenance. It was also noted that the DPW would like to have funds to design changes to the Winter Street & Clapboardtree Street intersection, as well as complete streets projects. The group asked that Todd Korchin join the next meeting to discuss this further.

Other items that were discussed included should funds be requested to cover the design of an addition to the Senior Center along with the request to fund critical renovations; does the office building that is for sale on High Street contain available office space to possibly house town offices, and a brief update on the needs of the Islington Community Center was given. Also, the recurring nature of some of the capital items was discussed, and how these should be budgeted for. For more details see the presentation attached.

Operating Budget

The FY18 budget process is underway. The largest component of the town's budget each year is the school budget, followed by municipal, benefits and debt service. The normal level of revenue would allow for a 2.5% annual increase to the operating budget each year, to fund beyond this requires additional revenue, such as new commercial growth, additional state aid, or lower than normal fixed costs. University Station revenue has been used to significantly supplement the operating budgets in the last two years. For more details see the presentation attached.

Meals Tax Revenue Update

The local meals tax was adopted at the 2014 Town Fall Meeting. This became effective January 1, 2015. These funds are in a restricted account, with spending to be voted by Town Meeting. With the most recent distribution for the fourth quarter of 2016, the current balance in the account is \$521,145. It is expected that these distributions will increase in the future with the opening of the new hotel and another restaurant at University Station.

As the balance in this account grows, the town will need to decide how best to use the funds. When this tax program was started, other surrounding towns were surveyed to see how they are using the funds. Most were found to be using the meals tax revenue for capital or other reserve funds, and should not be used for the operating budget.

The group agreed to keep monitoring this balance over time before bringing a plan to Annual Town Meeting for how to use these funds. Some areas discussed include the Aid to the Elderly account, the capital stabilization fund and any increase in direct expenses caused by University Station, such as food inspectors or public safety needs.

Debt Service:

Pam reviewed the recent credit rating and bond sale for the town. Westwood's AAA rating was reaffirmed in August, at the time of the latest bond sale of \$16.64M for construction of the police headquarters and other smaller projects. It is not recommended at this time to take on any more

significant debt, as bonds have been sold each of the last three years. Currently, debt totals \$49.3M, with approximately \$4M each year being paid toward the principal. The police portion of the bond was taken at a 30 year timeline due to favorable interest rates. A portion of new University Station revenue was also used toward this project, and borrowing at the 30 year timeframe allowed for less of that money to be used. The next major drop off in the debt will occur in 2023, when the high school is paid off.

For borrowing outside Proposition 2 ½, there will be a small decline in the balances over time, approximately \$100K less per year. When the high school debt rolls off, that will drive a \$400k annual decrease. The high school debt was refinanced in 2012, which saved approximately \$2M in interest over the remaining life. It was also noted that the current debt level is well below the limit of 8% of net general fund revenue set by the town's financial policies.

Free Cash:

Pam reviewed the recent (October 17, 2016) certification of our free cash. Westwood's current balance is \$5.3 M. The free cash is stabilized and strong, with good FY16 budget to actual results. This is partially driven by strong motor vehicle excise revenue. There has been a disciplined approach to the use of prior years' balances. These amounts are not applied to operating budgets, and are in line with town policy that the full allowance is not be used. Higher free cash balances have allowed us to significantly increase our capital budget.

Currently, the unallocated free cash target is approximately \$2.9M. If the approximate amount of \$2.4M in the FY18 budget was used, we would be at target, with \$100K going to the Stabilization Account, \$1.5M toward capital and \$500K toward miscellaneous articles/tax bills. The unallocated balance provides protection for the town.

The cyclical nature of the excise revenue was discussed, since we may have less if there was an economic downturn. It is recommended that the budget not be increased by the full amount of the actual motor vehicle collections, in order to protect against that. If more of the motor vehicle revenue is not incorporated into the budget, we may anticipate push back from the state in the future.

It is important to note that as we increase the local receipts budget, this will lead to a reduction in free cash balances going forward.

Current Financial Policies:

Pam reviewed the town's compliance with current financial policies, noting that all policies are being followed. The Town has made excellent progress on financial targets over the last few years, with the capital budget remaining as one of the areas that is still not at target. OPEB is due

to be reviewed in Fall of this year, but is in good standing currently. Pam suggested that a full review of whether or not these policies are still relevant should be overtaken in the summer by the finance department.

Future Meetings date:

The next meeting will be held on Wednesday, February 8 at 8:00am in the Selectmen's Meeting Room.

Attachments:

Presentation materials from the meeting