

2022 ANNUAL TOWN MEETING

REPORT OF THE FINANCE COMMITTEE

The Finance Committee is composed of nine Weston residents appointed by the Town Moderator to advise the Select Board and the Town on financial matters and other questions coming before the Town or affecting the interests of the Town. In turn, we make recommendations to the voters regarding such matters. During the course of the year, we engage in the following activities:

- Participate in financial meetings with the Select Board, Town Manager, School Committee and School Administration.
- Meet with individual town departments as budgets are developed.
- Form small, ad hoc, working groups within the Committee to discuss current financial trends and topics affecting the Town and make recommendations.
- Provide recommendations to residents on Town Warrant Articles.
- Monitor debt levels and the long-term fiscal health outlook for the Town.
- Hold regular public meetings to discuss findings of detailed budget reviews and other significant issues affecting the Town.

The Finance Committee encourages you to attend Town Meeting to vote on the budget and other warrant articles.

Bottom Line

- The total FY23 budget is \$102.7 million, which is an increase of \$2.4 million or 2.4% over FY22. This is an increase of \$14.8 million (16.8%, or 4.0% annualized) over FY19 actual spending.
- The projected FY23 tax rate will increase by 4.2% from \$12.81 in FY22 to \$13.35 in FY23 per \$1,000 assessed valuation, assuming no increase in assessed valuation.
- For the median home value of \$1,326,700, assuming no increase in assessed value from FY22 to FY23, the total increase amounts to \$711; from \$16,995 in FY22 to \$17,706 in FY23.
- The FY23 budget is being developed in an uncertain climate. There may be issues related to supply-chains, hiring and fuel/energy costs. We encourage the Town to use the existing Budget framework to work around any such issues that may arise.

Recommendations

The Finance Committee is concerned about the long-term trajectory of the operating and cash capital budgets. By every measure, Weston spends more for town services than other comparable affluent communities. We cautiously support this year's budget while imploring the Town and Schools to address structural issues and approaches to spending. We recommend that:

1. The Finance Committee provides budget guidelines to the Town and Schools based on top down guidance
 2. The Town implements a long-range financial planning model
 3. The Schools develop a plan for a smaller student body while still providing a quality education
 4. The Town establishes baseline benchmarking measures of success for Town departments
 5. The Town continues to focus on reducing health care contributions which will also reduce our OPEB (retiree health) liability
 6. The Town prioritizes "needs" vs. "wants" when considering new projects, being cognizant of future projects
1. Establish a Budget Guidelines Process: For fiscal year 2024, the Finance Committee would like to establish a Budget Guidelines Process, so that the Committee could provide a recommendation early in the budget process on aggregate spending levels for the Town and School. With information about major funding requests and key budget drivers gathered in early Fall, the Committee would present a recommended amount that the budgets of Town and School could increase. After the completion of the 2022 Annual Town Meeting, the Guidelines Process Subcommittee (derived from members of the Finance Committee) will work with the Town Manager and School Superintendent to identify the information needed and outline a proposed schedule.
 2. Long-range financial planning model: The Town has engaged a nationally experienced firm to create a long-term financial planning model. The Finance Committee would like the Town Departments to create multi-year plans for spending (similar to the 10-year plan the IT Department has done for the Town and Schools). The Town should use these plans in the model to forecast funding needs for future years. This will allow us to better analyze the financial

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implications and tradeoffs associated with various policies, commitments, and large special projects over time.

3. Fiscally Responsible School plan for a smaller student body: Student enrollment has declined and is projected to continue to decline, yet we need a plan to continue to provide an excellent education. This might involve major restructuring of class schedules, teaching schedules, course offerings, transportation, and building uses, beyond the necessary reductions in teaching staff driven by having fewer class sections. We appreciate that the schools are beginning a process to review the High School academic schedule structure.

We also recognize that it is not possible to manage our budgets to achieve a Per Pupil Expense equal to that of much larger comparable districts, particularly as expenses in the calculation of PPE are calculated differently by different towns. Also, PPE includes expenses paid by state aid and grants as well as town budgets, so it is not a good measure of expenses paid from tax revenues. We encourage the Schools to come up with measures to compare Weston's spending on Schools compared to other Towns.

4. Baseline/Benchmarking measures: Establishing baseline measures especially for the Schools, Police and Fire Departments, and the Department of Public Works will allow us to easily track service performance and costs over time, compared to those of neighboring comparable towns and other objective measurable standards. We have embarked on assembling metrics for some of our Town departments.
5. Union Negotiations and Health Care: While we negotiated savings on employee benefits recently, we need to be careful not to negotiate higher salaries because of this reduction. We will still be paying more than 80% of our employees' health care premiums in FY23, while other towns typically pay around 70% or sometimes less, causing us to pay 15-20% more in health insurance premiums for the same plan offered by a different town. This higher percentage of healthcare premiums both increases current costs and exacerbates the unfunded retiree health liability problem. While we recognize the need to fund OPEB, we should extend the end-date to fully fund our unfunded liability as was done by Middlesex Retirement for our pension plan.
6. Town projects: We have large projects coming in future years, including a renovation of the fire station and replacing all of our water tanks, so it is important that we prioritize necessary projects over other "nice to have" projects. Requiring Town projects to provide separate bids and Town Meeting votes on "needs" vs. "wants" allows taxpayers to have the option to solve a problem without paying for a lot of extras and adding to our debt. The current approach of providing a single plan without offering different options to the Town tends to lead to the most expensive plan with bells and whistles being the only one proposed and put up at Town Meeting.

Perspective

This budget reflects a mostly post-Covid situation. The school budget increase of 2.5% includes a reduction in headcount to address enrollment decreases. One substitute teacher per school is still being provided via a Covid grant for the next year as it has been difficult to hire day to day substitutes as Covid continues. There is an additional firefighter included in FY23 in the municipal budget to equalize the number of firefighters on all shifts.

The town was able to negotiate reduced benefit spending with our 12 unions beginning in FY22. We still pay a much higher percentage of health insurance premiums for our employees than other towns do, resulting in a health insurance cost of 15-20% more than comparable towns, which also increases our OPEB liability. As the Covid health and economic crisis subsides, we need to make sure that the benefits we offer to our Town and School employees stay close to the level that other towns offer their employees.

We continue to have long term concerns about Weston's level of taxes and spending. Over the last 10 years tax collections for the town of Weston have increased 38%, or an annualized growth rate of 3.3%, which is in excess of inflation.

By every measure, Weston spends more for town services than other comparable, affluent communities do. In particular:

- Weston currently has the highest average single-family tax bill in Massachusetts, at \$22,766 in FY22, or \$6,558 (40%) higher than the \$16,208 average of eight comparable communities. Median single-family tax bills are 25% higher (\$17,978 vs. \$14,374).
- School expenses are roughly 62% of our budget. While we are a much smaller district than the average of our comparable towns, we spend 29.7% more per pupil (\$27,039 vs. an average of \$20,851), funded by taxes and grants (FY20). The School budget has grown in recent years despite continued and projected future declining enrollment.

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The vast majority of the town's operating budget and unfunded liabilities relate to the direct and indirect cost of Weston's approximately 641 benefit-eligible employees, including 476 schoolteachers and staff. Our spending, taxes, and debt and unfunded liabilities are much higher per household than other towns because we have more employees per household, we pay them more on average, and we pay a much higher percentage of healthcare premiums than any other comparable neighboring town.

Estimated Taxes

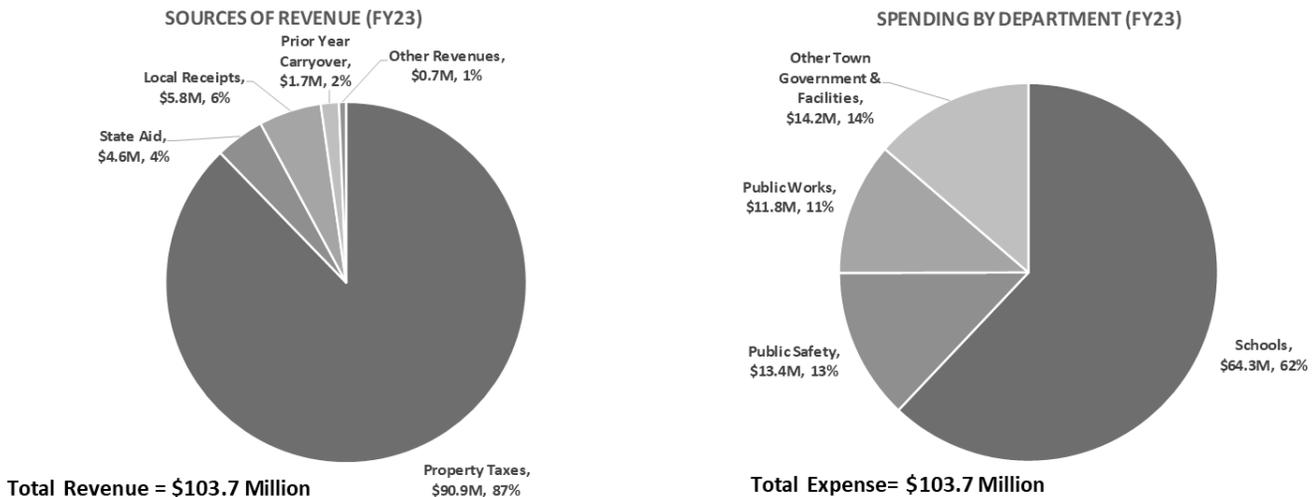
Property taxes will provide 88.2% of the revenues required to fund this budget and excluded debt service. New growth in the tax levy (the increase from new construction) is estimated at \$1 million for FY23 (actual \$1.2 million for FY22). The FY23 tax rate will increase by 4.2% to \$13.35 per \$1,000 assessed valuation, from \$12.81 in FY22, assuming no change in assessed value.

Weston has the highest taxes in Massachusetts. While all towns are different in some ways and the costs of some municipal services reflect these differences, many of the largest costs - such as the cost of paving a mile of road, providing police or fire protection for a certain number of homes, or educating a child to a high standard, should be roughly the same across similar affluent towns. In general, the municipal services required by a particular home in Weston, which is worth more than the identical home might be worth in another town, should be very similar, not higher just because the value of the home is higher.

Revenue and Expense Summary

Weston derives essentially all its revenue from the property taxes on our single-family homes, as there is negligible commercial and industrial real estate in town. In FY23, we expect State Aid to increase 2.7% and Local Receipts to increase 2.5% with Prior year carryover decreasing significantly by 42%, resulting in taxes making up the difference.

Budget is mostly property taxes, mostly schools



On the expense side, about 62% of spending is for Schools, including the cost of employee benefits and debt service on capital projects. Essential services (Public Safety and Department of Public Works which also include the cost of employee benefits and debt service on capital projects, make up another 24%. The remainder of expenses represents Town government and services, such as the Public Library and Council on Aging. Exempt debt service is decreasing from \$9.95 million in FY22 to \$9.72 million (-2.3% versus FY22) and now comprises 9.5% of the overall budget.

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Operating Budget Summary

	FY22 Budget	Recommended FY23 Budget	\$ Change	% Change
Operating Budget:				
Schools	43,817,917	44,911,436	1,093,519	2.5%
Town Government, Facilities, Public Safety and Public Works	24,228,407	25,151,094	922,687	3.8%
Employee Benefits & Other Fixed Costs	20,061,187	20,538,370	477,183	2.4%
Total Operating Budget	88,107,511	90,600,900	2,493,389	2.8%
Non Operating Budget/Separate Articles:				
Capital/Separate Articles	-	205,000	205,000	
PreFunding Long Term OPEB Liability	2,225,491	2,167,262	(58,229)	-2.6%
Gross Debt Service Exempt from Proposition 2 1/2	9,951,617	9,725,684	(225,933)	-2.3%
Total Non Operating Budget	12,177,108	12,097,946	(79,162)	-0.7%
Grand Total Budget	\$100,284,619	\$102,698,846	2,414,227	2.4%

The overall operating budget – excluding funding of long term OPEB liabilities and debt service – is projected to increase by \$2.5 million (2.8%).

Newly recommended increases that contribute to the 2.4% increase for the Total Operating Budget and Capital include:

DPW - Town Center Expenses	\$ 199,500
Fire - Additional Firefighter	\$ 98,000
Fire - Breathing Air Compressor	\$ 40,000
Information Systems - Software Services	\$ 44,600

Schools

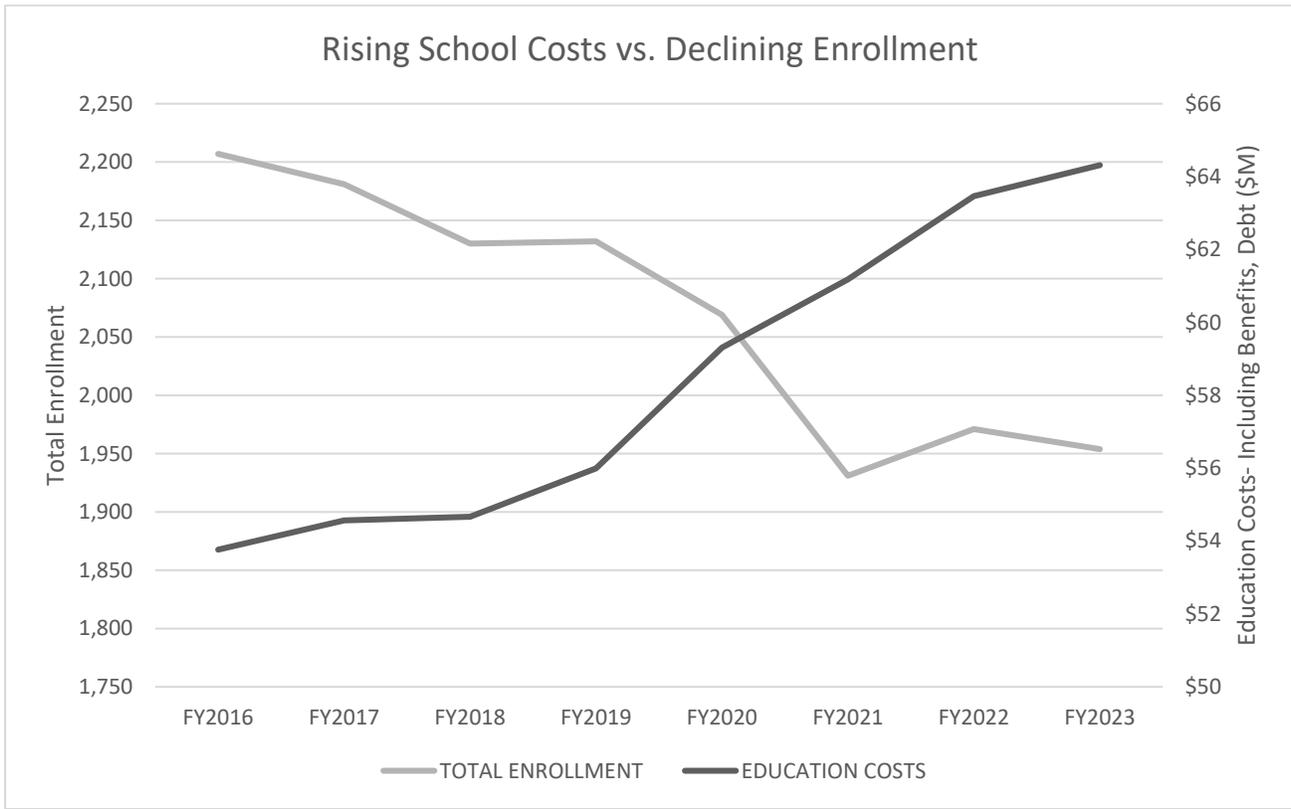
Weston has a longstanding tradition of supporting excellence in public education, and our schools are among the most highly rated in the Boston area, consistent with other affluent communities. However, we are concerned by the rate of growth of the School budget in recent years despite continued and projected future declining enrollment. In FY23, this budget is rising by \$1,093,519 or 2.5% despite enrollment being projected to decline by 1.1%, with a projected decline of 14.9% at the High School over the next five years. We recognize that the School Committee and Administration are working on initiatives to align costs with enrollment, and we support and encourage those continued efforts. In particular, we support the effort to restructure the high school, to maintain a robust program with far fewer students as this is an immediate priority.

Weston's Per Pupil Expenditure (PPE) of \$27,039 is now 29.7% higher than the average of six comparable affluent districts, or \$6,188 per student (FY20), although the number of pupils in Weston (2073) is less than half of the average of those six districts (4463). Also, PPE includes expenses paid by state aid and grants including WEEFC as well as town budgets, so it is not a good measure of expenses paid from tax revenues. Some of the expenses paid for by taxes are not in the school budget, but are allocated from the municipal budget, and different districts may allocate differently between municipal/school expenses, further complicating the ability to compare. Having fewer students means that we are spreading fixed costs over a smaller number. Finally, Covid hit during March of that school year, which may have affected the comparisons as well.

While we cannot manage the budget to Per Pupil Expenditure, it is still a useful indicator as it helps us understand where we may be spending more than other towns and look for ways to be more efficient. Factors contributing to this much higher per pupil spending include more generous teacher salaries and benefits, teachers teaching fewer classes, and historically a large number of classes running below class size policy.

This excess cost relative to neighboring affluent communities did not emerge only recently, or in a few large jumps that might be traced to certain discrete actions or decisions, but rather grew slowly over time as 1-2% increments each year, over many years, compounded over time.

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The absolute level of total education cost including related debt and benefits has been rising despite a significant drop in enrollment and projected further declines in enrollment.

The School Committee has taken important cost saving steps this year to recognize the ongoing decline in enrollment and high relative per pupil expenditures and these efforts need to continue. In the coming year, the Finance Committee will continue working in collaboration with the School Committee to analyze in detail these higher costs versus peer districts, and together explore additional areas of cost control, efficiencies, and savings that would not sacrifice excellence.

Town Government

This part of the budget includes Public Safety, Public Works, the Library, Council on Aging, and Town Hall departments. The Town budget is increasing by \$922,687 or 3.8%. Most of this increase relates to people – Municipal Salaries (\$510,342).

Healthcare Costs

All Town and School employees belong to health insurance plans provided by the Massachusetts Group Insurance Commission (GIC). Our group health insurance costs are increasing by 1.3% and account for over 10% of our budget. Weston's employee benefits are significantly more costly than those in neighboring communities as we pay a higher percentage of the cost of health premiums than they typically do. The town was able to negotiate reduced benefit spending with our 12 unions, beginning in FY22. This is expected to generate \$700K in savings on health insurance premiums cumulatively over the next two years and will also help reduce our retiree health liability. This is a good start, but we still pay a much higher proportion than other towns and will need to continue to negotiate further decreases in the future to bring us more in line. If we were able to pay 70% of premium for our employees, which is closer to what other towns pay, instead of over 80%, we would be saving over \$1.5 million per year just in reduced premiums.

Pension and Retiree Healthcare Costs

Like all municipalities, Weston has significant pension and retiree health insurance liabilities (the latter are called Other

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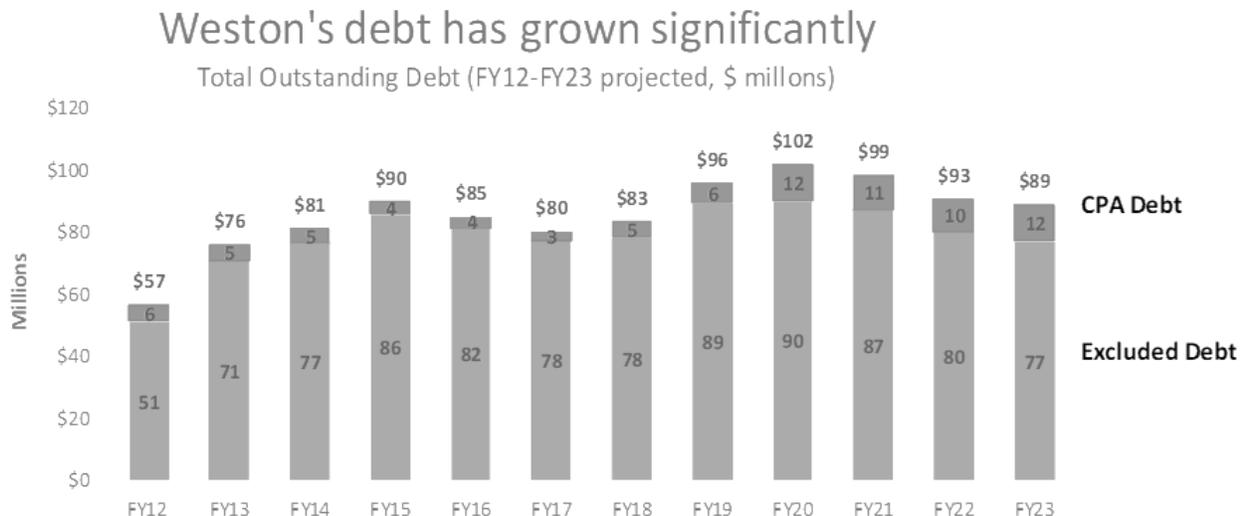
Post-Employment Benefits, or OPEB). As of June 30, 2021, the Town's pension liability was underfunded by \$69.0 million. The Middlesex Retirement System, of which the Town is a part, extended their funding schedule last year by two years to provide for full amortization of the unfunded liability by 2037. The Town must pay annual assessments to Middlesex Retirement System to fulfill this obligation. The FY23 assessment is \$6.3 million.

With respect to OPEB, the Town currently pays for employee and retiree healthcare costs each year through the operating budget as they come due. The Town also pre-funds future health care costs for current employees, as well as partially funding health care costs for current and prior employees (that had not been reserved for in the past) in the OPEB trust fund. As of June 30, 2021, the unfunded OPEB liability was \$53.8 million. Unlike the pension liability, no law requires funding the OPEB liability. Nevertheless, the Select Board and Finance Committee believe it is prudent and responsible to fund this liability over time, rather than leaving it solely as a burden to future taxpayers. As of June 30, 2021, the OPEB reserve balance was approximately \$29.6 million. The FY23 contribution level is \$2,167,262.

Middlesex Retirement costs are planned to increase 6.5% per year through FY28, and we cannot influence those. We have some leeway in how we determine our OPEB contribution and could reduce it by extending the full-funding date a few years. We could also decide to contribute more after our Middlesex obligations are fully paid up in 2037. We also need to review our investment policy to make sure that we are earning appropriate returns while investing prudently.

Capital Spending, Debt Levels, and Credit Rating

Since 2002, the Town has authorized numerous large capital projects totaling nearly \$174 million. This includes major renovations of the schools, construction of the new Field School, Community Center, DPW and Police Station, Case Campus Improvements, Case Estates Land acquisition, Case House Rehabilitation, Old Library (WAIC), Josiah Smith Tavern, and Town Center Master Plan and Burying of Utilities. Outstanding excluded debt against these projects (as well as a number of smaller projects), will total approximately \$83 million in General Fund Dept and \$93 million in debt when CPA projects are included. Most of the major projects approved in the past five years are non-school related and partially if not entirely discretionary. Aside from the Field School (2012) and the High School science labs (2011), other school building related improvements were completed two decades ago. At some point, we will undoubtedly need to again refurbish or perhaps even replace some of our school buildings.



While we appreciate that debt is starting to drop, we remain concerned about the large number, size, and frequency of these various projects. In general, projects are encouraged by our practice of forming ad hoc long-term committees, which become committed to seeing them happen without regard to bigger picture trade-offs or costs. There is a tendency to analyze projects in isolation, and to focus on debt service when presenting projects to the Town (e.g. only \$200 per taxpayer per year for the next 20 years) rather than considering that the debt service costs of all of these various projects add up to a significant amount for years to come. The ongoing maintenance costs resulting from an individual

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project must also be weighed, as these may require the addition of permanent personnel and/or equipment. We recommend that projects be bid and voted as separate “needed” and “wanted” items when coming before the Town and include information on ongoing maintenance costs.

We expect that total excluded debt service for FY23 will be \$9.6 million, with \$6.7 million representing principal payments. The Town opportunistically refinances the interest rate it pays on debt when appropriate and allowed by law. We also note that the Town benefits from very low interest rates because of its Aaa bond rating and the current low interest rate borrowing climate.

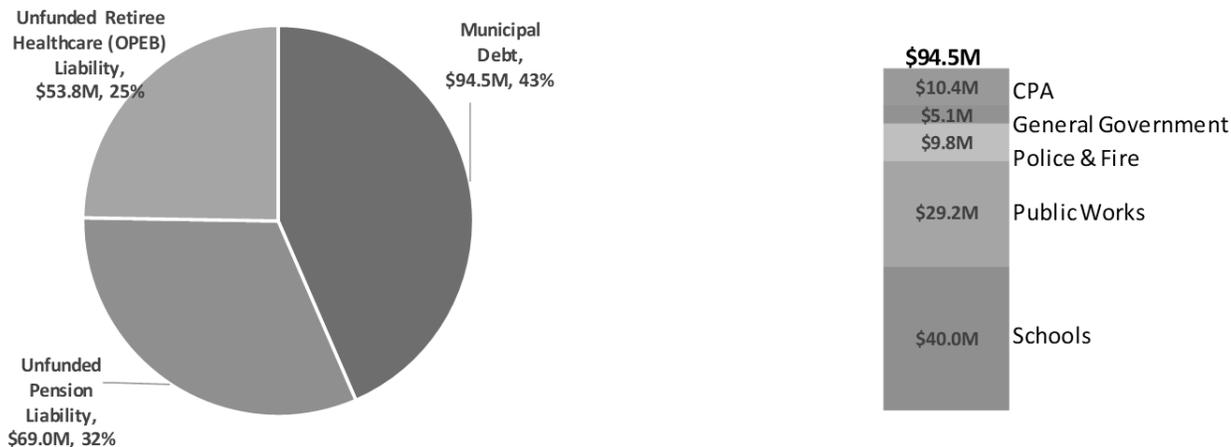
If all FY23 projects pass at Town Meeting, the Town’s total outstanding excluded debt and authorized/unissued debt is estimated to be \$84.1 million as of June 30, 2022. For FY23, we anticipate an additional borrowing of \$2.17 million consisting of:

- \$480,000 for Sherburn Circle/Bogle Brook Culvert
- \$450,000 for Drainage Improvements
- \$413,400 for Route 20/Highland Street Intersection Improvements
- \$387,400 for Phase II of Town/School Network Updates
- \$325,000 for Fire Air Supply Van
- \$115,000 for School Bus Snow Removal Equipment

The DPW is planning a \$4.6 million investment for the Paine’s Hill Water Tank replacement, which may increase water rates for Town residents.

Projected Outstanding General and CPA Debt by Department – FY22

Weston Total Debt and Unfunded Liabilities (FY22, \$ Millions)



In FY2023, the Town’s ratio of debt service to operating revenue will be approximately 9.4%; a 15% threshold is the guideline for a Aaa-rated municipality. However, total outstanding debt represented only 1.20% of the Town’s total assessed valuation in FY22, well below the 5% General Debt Statutory Limit and the 10% considered a warning indicator by credit rating organizations.

Reserves

Over the past 13 years, total reserves have grown from \$0.6 million in FY05 (when the reserve policy was created) to \$11.2 million as of 12/31/2021, which includes Certified Free Cash of \$2,732,825 and a Stabilization Reserve of \$3,279,012. We believe the Town is more than adequately reserved.

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As previously discussed, the Town, along with most others in the country, has a significant unfunded OPEB liability. These costs will be significantly impacted by healthcare inflation, investment returns and possible changes in national healthcare policy. Although funding is not required, we are legally obligated to report OPEB liability and rating agencies encourage funding. Starting in 2010, the Town began accumulating funds in a special trust that will allow us to achieve better returns on these investments. The OPEB Trust now stands at \$29.6 million against an actuarial funding requirement of \$83.4 million and we expect to continue to make significant future contributions, until this future liability is fully funded by 2045.

The Town continues to enjoy the highest credit rating on its debt (Aaa), consistent with other affluent Boston-area towns. We will continue to monitor the Town's Reserve policy with an objective of maintaining the triple-A rating, so as to minimize the Town's borrowing costs.

Longer Term View

More than 80% of the Town's budget is related to personnel costs (School and Municipal), so controlling the growth of these costs directly results in controlling the growth of the budget. Long-term liabilities for pension and retiree healthcare continue to be significant. Outstanding debt is a concern as more large projects have been added in recent years. We need to emphasize long term debt implications as we consider future projects and focus more on "needs" vs. "wants" when designing and determining which projects go forward.

We would like to acknowledge the efforts of the various Town Boards and Committees as well as the Department Managers for their work on the Fiscal Year 2023 budget. We appreciate the time and effort spent by the School Committee and Administration sharing information and answering questions. Lastly, we would like to thank the Town Manager and Finance Department for their tremendous level of support, invaluable insights and passion for town government.

FINANCE COMMITTEE MEMBERS

Lisa V. Reitano, Chair
Jonathan A. Harris
James A. Jarrett
John F. McDonald
Karen L. Meslin
James D. Philipkosky
John M. Sallay
Kamalatha Seshadri
Bharath Venkataraman