



Town of Winchester

Douglas Marmon, Chairman
Jennifer N. S. Wilson, Vice Chairman
James A. Johnson, III
Forrest N. Fontana
Lance Grenzeback

Board of Selectmen
71 Mt. Vernon Street
Winchester, MA 01890
Phone: 781-721-7133
Fax: 781-756-0505
townmanager@winchester.us

To: Town Meeting Members
From: Board of Selectmen
Date: October 29, 2013
Subject: Town's Financial Outlook

Winchester voters will soon be asked to approve a large debt-exclusion override to fund the rebuilding of the Winchester High School. As we approach Town Meeting and the December 10 vote on the override, we want to provide to you our view of the Town's financial outlook and a summary of the guidance that we are giving to town staff and boards for the coming budget years.

OPERATING BUDGET

Maintain the level and quality of Town services for the next 2-3 years without asking the voters for a general override.

We have been able to maintain the level and quality of schools and municipal government over the last several years and to do so within the Proposition 2½ cap. With inflation remaining low, we expect to be able to maintain our existing services, grant reasonable pay increases to our employees and add modestly our school budget to handle increased enrollment. Our operating budgets will be tight, but adequate. We intend to continue on this path: no major initiatives, but no general override. We believe this is feasible because of the budget projections from the Town Manager and discussions we have had with the leadership of the School Committee and the Finance Committee.

CAPITAL PROGRAM

Pay down existing debt, cover the most urgent problems. Major projects require voter approval via override.

Over the last ten years, we have drawn heavily on the Building and Capital Stabilization Funds to recover from the prior twenty years of deferred maintenance. However, from all sources, we will have only \$1.25 million available for new capital projects in each of the next couple years, then more as debts are retired. This is not enough money to meet all our building and equipment needs, but it is enough to cover the most urgent problems.

Assuming the High School project is approved, and with the exception of the Skilling culvert project (to be explained at the Town Meeting), we do not intend to ask for other overrides for the next 2-3 years. We believe, barring unforeseen emergencies or opportunities, we can live within our means for the near future without harming our capital assets.

Approval to rebuild the High School will provide a major boost to the capital plan by funding a list of problems that will be more expensive if tackled individually.

RESERVE FUND

Maintain a prudent level of reserve funds.

We have set a policy of maintaining a reserve fund (general stabilization and "free cash" fund) amounting to 6-10% of the operating budget. Currently, the amount of money in the reserve fund is equivalent to 8% of the operating budget and has been at this level for the past several years. The amount of money in the reserve fund is expected to grow, but not as quickly as inflation. This will slowly reduce reserves as a percentage of the budget, but the percentage is not projected to fall out of range.

It is prudent to keep up our level of reserves both because it provides a cushion in case of emergencies and also because it is a factor used by bond rating agencies in awarding our AAA rating. Our high rating allows us to borrow at the lowest interest rates. We intend to protect these reserves and to use them sparingly.

The good news is that because we have budgeted conservatively and managed expenses closely, we have had money left over each of the last few fiscal years. For example, reversions from operations totaled about \$1 million in FY2013. We anticipate applying these and future reversions to our reserves or to critical capital projects.

OTHER FINANCIAL ISSUES

Wright-Locke Farm.

The Town owes \$12m from its purchase of the Wright-Locke Farm. The Selectmen expect that the Town will be able to sell portions not leased to the Wright-Locke Farm Conservancy for a healthy portion of the purchase price. For the purposes of this forecast, we have conservatively estimated that the remaining liability will be \$4m. We assume that the debt service on \$4m will be added to the tax levy in 2017.

Unfunded Healthcare Liability.

Our OPEB liability (the projected future costs of providing health insurance for retired Town employees) has been reduced from \$90m in 2011 to \$60m today due to policy changes undertaken by the Selectmen. We have more work to do here, but we have made a good start.

SUMMARY

We believe that the Town's finances are in a good position and are stable enough to handle our routine expenses without seeking additional tax revenue. We have sufficient reserves to protect us in an emergency. Our ability to invest in routine capital projects, which is limited today, will increase in 5-7 years as we pay off the debts of past projects.

We have an opportunity with the Massachusetts School Building Authority funding to rebuild our deteriorating High School. It will be a costly project, but the costs of failing to rebuild the school — to our on-going capital budget, to the market value of our homes, and to the quality of our educational program — will be higher. This is a good time to tackle the rebuilding of the High School.

APPENDICES

We have attached one page and four tables with supporting information:

- **Operating Reserves Policy**
- **Table 1. Operating Budget Projections.** It is too early to propose actual budgets for the out years, but these budgets give the outline of where we are headed. Additional work must be done to bring the out years into balance, but we anticipate this will be accomplished without service cuts.
- **Table 2. Reserve Forecast.** It is the voted policy of the Selectmen that we will maintain reserves equal to at least 6% of revenues. The amount of reserves is expected to rise, but not as quickly as inflation. This will put downward pressure on our reserves percentage in the out years.
- **Table 3. Available Capital Funding.** The amount of funds available from all sources currently totals about \$1.25 million each year. That amount will grow as the debts in the Building and Capital Stabilization Funds are retired.
- **Table 4. Tax Rate Forecast.** This table shows the projected tax rates in future years with and without the High School and other projects. These amounts are preliminary estimates only, with assumptions made as to duration and type of borrowing. The actual interest rate on the bonds for each project will be determined by the market at time of sale.



Town of Winchester

Operating Reserves Policy

Adopted by Board of Selectmen on November 1, 2010

It is the Board of Selectmen's Policy:

- 1) To target Operating Reserves to be **10%** of estimated General Fund Revenues, with a minimum target of **6%**.
- 2) Fund balances in the Building and Capital Stabilization Accounts shall not be used in satisfying the Town's Operating Reserves targets, since these funds are restricted.
- 3) In preparing the Town budget, it shall be the goal of the Board of Selectmen to limit the amount of Free Cash used to balance the operating budget to nonrecurring expenditures (for example, capital and tax-supported debt service).
- 4) It shall be the Board's long-term objective to have a budget that establishes Recurring Expenses equal to Recurring Revenue.
- 5) It shall be the Board's goal to annually transfer funds from Free Cash to the General Stabilization Fund in order to reach the **10%** Operating Reserve policy target.

GLOSSARY OF TERMS

Operating Reserves - Reserves generated from general fund operations that are unrestricted and available for appropriation. Operating Reserves is the sum of Undesignated General Fund Balance and the General Stabilization Fund.

General Stabilization Fund - Reserves transferred to the Town's General Stabilization Fund are available for appropriation for any municipal purpose. Building Stabilization and Capital Stabilization Funds are restricted for their respective purposes.

Undesignated GENERAL Fund Balance - A generally accepted accounting principle (GAAP) term that represents expendable available financial resources that can be used to meet contingencies and working capital requirements.

Free Cash - A Massachusetts statutory accounting term, roughly equivalent to Undesignated General Fund Balance. Under Massachusetts law an amount known as "free cash" is certified as of the beginning of each fiscal year by the State Bureau of Accounts and this, together with certain subsequent tax receipts, is used as the basis for subsequent appropriations from available funds, which are not required to be included in the annual tax levy. Subject to certain adjustments, free cash is surplus revenue less uncollected and overdue property taxes from prior years.

Non-recurring Expenses - Expenses, such as capital, that, unlike salaries, may be one-time expenses or may be deferred if necessary.

Non-recurring Revenues - Revenues such as proceeds from the sale of real estate, surpluses derived from revenues in excess of budget and unexpended appropriations, and any other extraordinary revenue.

Recurring Expenses - Expenses, such as salaries, utilities, contractual obligations and other predictable on-going operating expenses.

Recurring Revenues - Revenues such as tax receipts, State and Federal aid, and local receipts.

OPERATING BUDGET PROJECTIONS

| | Actuals FY13 | Base Case FY14 | Growth Rate | Forecasts FY15 | FY16 | FY17 |
|---|-------------------|-------------------|----------------|-------------------|--------------------|--------------------|
| EXPENSES | | | | | | |
| Operating Expenses | | | | | | |
| General Government | 3,429,167 | 3,755,944 | 2.00% | 3,831,063 | 3,907,684 | 3,985,838 |
| Library/Archives | 1,626,664 | 1,738,214 | 2.00% | 1,772,978 | 1,808,438 | 1,844,607 |
| Health/Social Services | 501,525 | 535,212 | 2.00% | 545,916 | 556,835 | 567,971 |
| Public Safety | 8,061,895 | 8,240,831 | 2.00% | 8,405,648 | 8,573,761 | 8,745,236 |
| Public Works | 5,639,296 | 5,935,593 | 2.00% | 6,054,305 | 6,175,391 | 6,298,899 |
| Education | 37,720,259 | 39,133,466 | 4.00% | 40,698,805 | 42,326,757 | 44,019,827 |
| Energy | 2,310,610 | 2,338,954 | 2.00% | 2,385,733 | 2,433,448 | 2,482,117 |
| Personnel Benefits | 14,784,757 | 15,029,367 | 5.00% | 15,780,835 | 16,569,877 | 17,398,371 |
| Undistributed | 392,740 | 818,000 | 2.00% | 834,360 | 851,047 | 868,068 |
| Non-Appropriated (c/s & overlay) | 500,413 | 902,787 | 2.00% | 920,843 | 939,260 | 958,045 |
| Personnel Article (pay raises) | - | 725,250 | 2.00% | 739,755 | 754,550 | 769,641 |
| Recreation Enterprise subsidy | 20,182 | 149,324 | | 150,000 | 150,000 | 150,000 |
| Water & Sewer Enterprise (chap 110) | 3,916,666 | 4,002,074 | debt | 3,838,795 | 3,776,168 | 3,415,258 |
| Capital Expenses & Debt Service | | | | | | |
| Debt Service | | | | | | |
| Excluded | 3,151,141 | 3,012,927 | debt | 2,947,184 | 2,710,561 | 2,627,874 |
| BSF | 654,456 | 2,874,887 | debt | 3,041,267 | 2,978,464 | 2,886,647 |
| CSF | 2,955,875 | 800,411 | debt | 697,556 | 555,906 | 544,931 |
| General Fd | 823,833 | 545,125 | debt | 516,889 | 326,120 | 309,096 |
| variance to debt budget | (13,069) | (12,168) | | | | |
| Capital | | | | | | |
| Capital (raise & approp) | 210,000 | 220,000 | | 210,000 | 210,000 | 210,000 |
| Capital (free cash) | 140,000 | 723,000 | | | | |
| Capital (Capital Stabilization) | 392,650 | | | | | |
| Capital (Cemetery) | 20,000 | 20,000 | | 20,000 | 20,000 | 20,000 |
| Capital (Reserve Fund) | 160,000 | | | | | |
| Transfers | | | | | | |
| Transfers to Cap & Bldg Stab Fds (tax levy) | 3,392,236 | 3,477,041 | debt | 3,563,967 | 3,653,066 | 3,744,393 |
| Retiring debt / energy rebate | 386,000 | 496,000 | | 516,524 | 706,399 | 722,502 |
| Additional transfer to BLDG Stabilization | 117,489 | | | | | |
| OPEB | 250,000 | 100,000 | | 100,000 | 100,000 | 100,000 |
| General Stabilization | 3,035,304 | - | | | | |
| TOTAL EXPENSES | 94,580,089 | 95,562,239 | | 97,572,423 | 100,083,731 | 102,669,319 |

OPERATING BUDGET PROJECTIONS

| | Actuals FY13 | Base Case FY14 | Growth Rate | Forecasts FY15 | FY16 | FY17 |
|---|-------------------|-------------------|----------------|-------------------|-------------------|--------------------|
| REVENUES | | | | | | |
| Recurring Revenues | | | | | | |
| Property Tax Revenue | 58,834,026 | 61,297,285 | 2.50% | 63,393,467 | 65,542,053 | 67,744,355 |
| Property tax to Cap & Bldg Stab Fds | 3,392,236 | 3,477,041 | 2.50% | 3,563,967 | 3,653,066 | 3,744,393 |
| New Growth Revenue | 550,000 | 550,000 | | 550,000 | 550,000 | 550,000 |
| State Aid ^{1/1} | 8,535,619 | 8,868,540 | +\$300k | 9,168,540 | 9,468,540 | 9,768,540 |
| School Building Assistance | 672,082 | 672,082 | | 672,082 | 672,082 | 672,082 |
| Local Receipts | 8,183,150 | 7,642,700 | 3.00% | 8,093,431 | 8,336,234 | 8,586,321 |
| Water & Sewer | 3,916,666 | 4,002,074 | | 3,838,795 | 3,776,168 | 3,415,258 |
| Debt Exclusion Override Revenues | | | | | | |
| McCall | 585,453 | 545,453 | debt | 501,053 | 459,491 | 410,298 |
| Lincoln | 362,682 | 352,760 | debt | 341,838 | 328,304 | 318,334 |
| Immediate Repairs | 97,014 | 93,684 | debt | 90,412 | 86,685 | 82,360 |
| Hamilton/Wright-Locke Farm | 50,109 | 143,327 | debt | 140,000 | - | - |
| Vinson-Owen | 1,199,835 | 1,189,600 | debt | 1,176,800 | 1,164,000 | 1,144,800 |
| Stabilization Fund Revenues | | | | | | |
| Building Stabilization | 3,073,364 | 2,874,887 | | 3,041,267 | 2,978,464 | 2,886,647 |
| Capital Stabilization | 1,216,483 | 800,411 | | 697,556 | 555,906 | 544,931 |
| Other | | | | | | |
| Parking Meter Fund | 77,000 | 77,000 | | 77,000 | 77,000 | 77,000 |
| Cemetery Perpetual Care | 90,000 | 90,000 | | 70,000 | 70,000 | 70,000 |
| Indirects | 1,461,852 | 1,394,135 | 3.00% | 1,435,959 | 1,479,038 | 1,523,409 |
| Other | 2,107 | - | | - | - | - |
| Free Cash & Overlay | | | | | | |
| to Operating budget | 1,161,940 | 919,551 | | 700,000 | 700,000 | 700,000 |
| to Capital projects | 3,035,304 | 723,000 | | - | - | - |
| to General Stabilization | - | - | | - | - | - |
| Overlay to operating | - | 75,000 | | - | - | - |
| TOTAL REVENUES | 96,496,923 | 95,788,531 | | 97,552,166 | 99,897,030 | 102,238,727 |
| SURPLUS OR (DEFICIT) | 1,916,834 | 226,292 | | (20,257) | (186,701) | (430,592) |

RESERVES FORECAST

| | FY13 | FY14 | FY15 | FY16 | FY17 |
|---|------------------|------------------|------------------|------------------|------------------|
| Beginning Certified Free Cash | 3,443,677 | 3,403,279 | 3,369,716 | 3,419,716 | 3,469,716 |
| Surplus/Turnbacks | 1,913,329 | 750,000 | 750,000 | 750,000 | 750,000 |
| DOR adjustments/deficits/other | (137,780) | (83,563) | | | |
| Use of Free Cash for current year projects/initiatives | (168,396) | - | - | - | - |
| Use of Free Cash for subsequent years operating budget | (919,551) | (700,000) | (700,000) | (700,000) | (700,000) |
| Use of Free Cash for subsequent years capital budget | (653,000) | - | - | - | - |
| Use of Overlay for subsequent years operating budget | (75,000) | - | - | - | - |
| Ending Certified Free Cash | 3,403,279 | 3,369,716 | 3,419,716 | 3,469,716 | 3,519,716 |
| Total General Stabilization Balance for Operating Reserve | 4,204,847 | 4,204,847 | 4,204,847 | 4,204,847 | 4,204,847 |
| Total Operating Reserves | 7,608,126 | 7,574,563 | 7,624,563 | 7,674,563 | 7,724,563 |

Reserve Percentage

| | | | | | |
|--|------------|------------|------------|-------------|-------------|
| Total General Fund Revenues & Transfers In | 92,299,679 | 95,788,531 | 97,552,166 | 99,897,030 | 102,238,727 |
| Operating Reserves as a % of Total Revenues & Transfers In | 8.24% | 7.91% | 7.82% | 7.68% | 7.56% |
| Revenues including high school override | 92,299,679 | 95,788,531 | 97,552,166 | 101,637,030 | 106,153,727 |
| Operating Reserves as a % of Total Revenues with override | 8.24% | 7.91% | 7.82% | 7.55% | 7.28% |

AVAILABLE CAPITAL FUNDS

| | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| From Operating Budget/Energy Champ | 220,000 | 250,000 | 240,000 | 240,000 | 240,000 | 240,000 | 240,000 | 240,000 | 240,000 | 240,000 |
| Available from Cap Stab Fund | 0 | 648,000 | 1,010,000 | 1,237,000 | 1,292,000 | 1,382,000 | 1,538,000 | 1,588,000 | 1,679,000 | 1,679,000 |
| Available from Bldg Stab Fund | 0 | 0 | 0 | 0 | 0 | 318,000 | 405,000 | 544,000 | 703,000 | 703,000 |
| Closeouts of finished projects | | 355,000 | | | | | | | | |
| Available from unspent bond proceeds | 680,000 | | | | | | | | | |
| Usage of free cash | 653,000 | | | | | | | | | |
| Total for New Capital Expenditures | 1,553,000 | 1,253,000 | 1,477,000 | 1,532,000 | 1,940,000 | 2,183,000 | 2,372,000 | 2,622,000 | 2,622,000 | 2,622,000 |

TAX RATE FORECAST

| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| BASE CASE | | | | | | | | |
| Tax Levy | 64,774,326 | 66,957,434 | 69,195,120 | 71,488,748 | 73,839,717 | 76,249,460 | 78,719,446 | 81,251,182 |
| New Growth | 550,000 | 550,000 | 550,000 | 550,000 | 550,000 | 550,000 | 550,000 | 550,000 |
| Chap 110 | 3,954,754 | 3,781,328 | 3,546,838 | 3,344,867 | 3,297,541 | 3,270,318 | 3,243,031 | 2,995,620 |
| Excluded Debt | 2,370,225 | 2,303,602 | 2,066,085 | 1,982,477 | 1,906,407 | 1,826,247 | 1,731,987 | 1,581,187 |
| Total Real Estate Tax | 71,649,305 | 73,592,364 | 75,358,043 | 77,366,092 | 79,593,664 | 81,896,024 | 84,244,464 | 86,377,989 |
| Tax Rate | 13.09 | 13.34 | 13.56 | 13.83 | 14.13 | 14.44 | 14.75 | 15.03 |
| % increase in tax rate | | 1.94% | 1.65% | 1.93% | 2.17% | 2.20% | 2.20% | 1.88% |
| Tax on \$750k home | \$9,817 | \$10,008 | \$10,173 | \$10,370 | \$10,595 | \$10,828 | \$11,066 | \$11,274 |
| FOR THE HIGH SCHOOL (\$87m @5% over 25 years, level debt service payments) | | | | | | | | |
| Tax due on High School override | - | - | 1,740,000 | 3,915,000 | 6,095,250 | 6,098,375 | 6,096,750 | 6,095,250 |
| Increase in Tax Rate | - | - | 0.32 | 0.71 | 1.10 | 1.10 | 1.10 | 1.10 |
| Increase in Tax on \$750k home | - | - | \$237 | \$530 | \$823 | \$823 | \$824 | \$824 |
| FOR THE CULVERT (\$6m @5% over 25 years, level principal payments) | | | | | | | | |
| Tax due on Culvert override | - | - | - | 541,000 | 528,000 | 516,000 | 504,000 | 492,000 |
| Increase in Tax Rate | - | - | - | 0.10 | 0.10 | 0.09 | 0.09 | 0.09 |
| Increase in Tax on \$750k home | - | - | - | \$73 | \$71 | \$70 | \$68 | \$67 |
| FOR THE FARM (\$4m @5% over 15 yrs, level principal payments) | | | | | | | | |
| Tax due on Farm override | - | - | - | 467,000 | 453,000 | 440,000 | 427,000 | 413,000 |
| Increase in Tax Rate | - | - | - | 0.08 | 0.08 | 0.08 | 0.08 | 0.07 |
| Increase in Tax on \$750k home | - | - | - | \$63 | \$61 | \$59 | \$58 | \$56 |
| ALL TOGETHER | | | | | | | | |
| Total Real Estate Tax | 71,649,305 | 73,592,364 | 77,098,043 | 82,289,092 | 86,669,914 | 88,950,399 | 91,272,214 | 93,378,239 |
| Increase in Tax Rate | - | - | 0.32 | 0.89 | 1.27 | 1.27 | 1.27 | 1.26 |
| Percentage increase in Tax Rate | | 1.94% | 4.02% | 6.02% | 4.66% | 2.00% | 1.99% | 1.70% |
| Increase in Tax on \$750k home | - | - | \$237 | \$666 | \$955 | \$953 | \$950 | \$946 |