

Dear Town Meeting Members,

The enclosed budget book includes the Finance Committee's current budget recommendations for fiscal year (FY) 2015 which commences July 1, 2014. Our recommendations closely follow the Town Manager's FY15 budget that was submitted to the Finance Committee on February 15th, 2014, and reflects information as of April 20, 2014.

Budget Recommendations

Budget Highlights

The Finance Committee's FY15 Budget Framework is similar to the Town Manager's in many respects. We are committed to following the Board of Selectmen's Operating Reserve Policy which calls for a balanced budget in which recurring revenues fund recurring expenditures, and maintains an operating reserve balance between 6 and 10% of revenues. We believe that that the Town is providing the appropriate services and recommend no staff reductions at this time; however, we also believe the Town should pay for its current level of services before considering adding positions or services. The Finance Committee considers level services funding to include funding benefits (Pensions, OPEB, Unemployment, Medicare Tax, Workers' Compensation). Our level services assumption differs from the Town Manager's FY15 budget which (for the third consecutive year) provided \$0 funding for the OPEB liability. While OPEB is a large liability and has been the subject of many discussions over the past year, the Finance Committee advocates for strong fiscal management and oversight of ALL of the Town's liabilities including pensions and debt. The Finance Committee reiterates its request that the Town Manager and Board of Selectmen develop a policy that would annually fund retiree healthcare benefits (the ARC).

The Finance Committee's FY15 budget provides Level Services for nearly all departments, with some specific changes which are highlighted below and in Table 1.

There are many moving parts and competing priorities in this budget, and as of the finalization of this budget the majority of municipal union contracts remain unsettled. This budget includes funding in FY15 for anticipated wage increases for those contracts that remain unsettled. There are no additional funds in FY15, outside of Free Cash to pay wage increases above what is in the wage reserve.

Factoring in the settled Winchester Educational Association Teacher, Teacher Assistant and Clerical Units contracts, savings associated with anticipated staff retirements, and annual steps and column wage increases, the School's budget will grow by 4.3% over FY14. It is possible that an operating override will be proposed next year or the year after in order to fund ongoing wage increases and escalating Special Education costs for in district and out of district students. We are encouraged by the School Committee's intent to form a committee to evaluate teacher compensation and other compensation including coaches' salaries, given that the impact of wage increases will be the primary driver in determining the magnitude of additional funding the Town will likely need to obtain in any operating override.

With the large Winchester High School project currently in the Design Phase, any decisions made by Town Meeting that adversely impact the Town's bond rating would be quite costly. An estimate provided by First Southwest is that for each downgrade, the interest rate would be increased by 25 basis points, causing increased interest cost to the Town of \$2.2M over 20 years.

Other capital spending continues at a low level, despite the Town's considerable backlog of capital projects. The Building Stabilization Fund is committed to paying debt service on previously bonded projects until FY18, but the Capital Stabilization Fund has begun to recover, and has \$721,000 available for FY15 projects, vs. \$0 in FY14. The Finance Committee recommends using a small amount of Free Cash (\$103,000) to fund current capital projects.

As with the FY14 Budget, the FY15 Budget matches recurring expenses to recurring revenues, and free cash use for the next year's recurring expenses is replenished by current year reversions. We support the Town Manager's goal of moving away from the reliance on free cash to balance the budget, and would agree that reversions are a good source for capital and other one-time expenditures.

Revenues:

- The Governor's and House Ways and Means Budgets provide a modest \$.15M increase in State Aid to Winchester vs. FY14, a lower increase than is typical.
- Local receipts are forecasted to show a healthy 6.3% growth in FY15.

Expenses:

- Favorable changes include:
 - Again, as in last year, the most significant positive impact is seen in Winchester's health insurance costs. Modest premium increases, premium contribution level changes for retirees, and a slowed rate of new member participation in the Town's health plan has yielded significant savings in health care expenses of \$740K or 7.3% vs. FY14.
 - Elementary School enrollment is expected to remain stable, Middle School enrollment is projected to decrease by 8 students and the High School is projected to increase by 69 students in FY15 – the impact of which means fewer new staff are needed in the school system,
 - The Town continues to convert facilities from oil to natural gas systems, reducing energy usage and costs.
 - Increased recycling has resulted in savings in the DPW budget as our cost for solid waste disposal has declined by \$42,000 YTD.
- Challenges include:
 - Creating a long term Other Post-Employment Benefits (OPEB) funding plan.
 - Funding contractual wage increases. The current steps and columns in Winchester Teachers' wage schedule combined with modest annual wage adjustments deliver increases that are not sustainable within Proposition 2 ½.
 - Funds set aside to pay for anticipated Annual Wage Adjustments (AWAs) assume that unsettled contracts will not significantly exceed what has been budgeted.
 - Funding education at a level that is acceptable to the School Committee and Administration.

Please **note** the following accounting adjustments when viewing this document: Bank service fees are now included in the Treasurer/Collector budget instead of in Undistributed. Accounting treatment for Tax Abatements and Cherry Sheet offsets was modified since FY14 budgeting and submittal of the FY15 Town Manager's Book to properly categorize these amounts as contra revenues instead of expenses. FY13, FY14 and FY15 per Town Manager have been restated accordingly. Free cash appropriations made at Spring Town Meeting will come from the current year's budget and not the next year's.

Budget Specifics

Below, we provide more specific information about the FY15 budget

Respectfully submitted by The Finance Committee:

Michelle Prior, Chairman	Jay Melkonian, Vice Chairman
Edward Bopp	Alan Briggs
David Carlson	Patty Clewley
John Fallon	Mariano Goluboff
Roger Michelson	Doug Pagan
Peter Scapicchio	Barbara Shegog
Paul Spelman	Patricia Toro
Brian Vernaglia	

Acknowledgments

The Finance Committee would like to thank the elected and appointed officials, town employees, and concerned citizens who have provided their time and expertise to us over the past year. Our budget has been shaped by the inputs, analyses, concerns and feedback we have received from everyone who took the time to contact us or to attend a meeting. We would like to acknowledge the hours of assistance we received from the Town Manager's office, especially Town Manager Richard Howard, Assistant Town Manager Mark Twogood, Jenn Cafarella and Cheryl Murphy. We are also grateful for the cooperation of the Comptroller Stacie Ward, who has run numerous reports for us, and been particularly responsive and helpful during this budget season and throughout this year. We would like to thank the members of the Board of Selectmen, including previous member and chair Doug Marmon for fostering an atmosphere of respect and cooperation, and for continuing a series of budget summits which took place throughout the winter. We would also like to thank the School Committee, Capital Planning Committee and other boards and committees with whom we interact. While each Committee, Department, Board or other Town organization advocates for funding for its specific needs, we appreciate their acceptance of the difficult and inevitable tradeoffs that result in every budget year. Finally, we thank Vicki Drougas, our recording secretary, for her outstanding service to the Finance Committee.

This year we bid farewell to two colleagues with whom our Committee has worked for many years. Thank you to former Town Moderator John Sullivan for his years of service to the town and for helping our Committee prepare for each and every Town Meeting. We also wish to thank outgoing School Superintendent Bill McAlduff for his stewardship of our school system.

Bill has been a tireless advocate for the Town's schools, a leader who championed the needs of school staff and a respected contributor to our budget process over many years. We wish John and Bill well as they move on from their service to Winchester.

FY15 BUDGET:

Changes to the Town Manager’s Budget

The Finance Committee has made a number of changes to the Town Manger’s budget received February 15th. The list of individual changes is shown below, and a more detailed summary is provided in Appendix 1.

Table 1: Changes from the Initial Town Manager FY15 Expense Budget

Description	Change	Comment
Town Manager	\$ (15,000)	Removed add for matching grant fund
Planning & Community Dev.	\$ 3,921	Engineering staff addition
Planning Board	\$ 20,000	Consultant
Town Clerk	\$ 2,500	Document management expense
Legal	\$ (15,000)	Funded at FY14 level
Data Processing	\$ (51,919)	Unfilled position, adjust website contract cost
General Services	\$ (14,500)	Postage
Historical Commission	\$ 1,500	New Recording Secretary
Library	\$ (6,000)	Books and Periodicals
Veterans	\$ (773)	Fewer Veterans
Municipal Sum	\$ (75,271)	
Schools	\$ (37,319)	Retirement and expense savings
Vocational School	\$ (33,215)	Decreased enrollment
Education Sum	\$ (70,534)	
Energy	\$ (35,300)	Accelerated Lease payment
Workers Compensation	\$ 25,000	Under budgeted
Health Insurance	\$ (623,965)	Retiree premium contribution changes, premium rates, declining plan members
Medicare Tax	\$ 47,760	Under budgeted
Retiree Health Care Trust - OPEB	\$ 800,000	Annual Required Contribution
Undistributed Sum	\$ 213,795	
Interest on Funded Debt	\$ 9,889	Under budgeted
Capital	\$ 213	Rounding – Stabilization Fund appropriations
Capital Sum	\$ 10,102	
Sum-Recurring	\$ 78,092	
Article 27 – Free Cash to Capital	\$ 721,000	Capital Stabilization Fund Direct Articles
Capital-Cemetery	\$ 55,000	Truck
Total Expenditure Changes	\$854,092	Operating + Capital Projects

*Excludes \$400K FY15 Free cash placeholder

FY15 Revenue Projections

Below please find a schedule of projected FY15 Revenue vs. FY14 Budget. State Aid is budgeted in accordance with the House Ways and Means Budget.

Table 2: FY15 Projected Revenues

REVENUE	FY2014 Budget	FY2015 Budget	% Change
General tax levy	65,018,148	67,262,829	3.5%
Water & Sewer debt service (Chapter 110)	4,063,480	4,232,288	4.2%
General Fund Exempt debt service (Overrides)	2,221,133	2,289,927	3.1%
Total Property Taxes	71,302,761	73,785,044	3.5%
State Aid	9,497,693	9,647,458	1.6%
Local Receipts	7,451,000	7,923,000	6.3%
Sub-total Taxes, Aid and Receipts	88,251,454	91,355,502	3.5%
STM Budget Free Cash Usage ("Revenue")	919,551	892,124	-3.0%
Other Free Cash Usage ("Revenue")	836,563	400,000	-52.2%
Other (exempt debt, indirect costs, fund transfers)	5,387,705	5,776,707	7.2%
Total Revenue	95,395,273	98,424,332	3.2%
Subtotal Base revenue (excludes free cash)	93,639,159	97,132,209	3.7%

Changes from the Town Manager's Budget include:

Table 3: FY15 Changes vs. Town Manager Revenue Projections

Category	Change	Comment
Exempt and Building Stabilization Debt	\$ 10,137	Updated schedule- WHS
State Aid (net)	\$ 35,831	Ways and Means Budget updated Governor's
Local Receipts	(\$ 60,000)	Decreased based on March YTD results
Capital Stabilization Appropriation	\$ 721,000	FY15 Direct Appropriation
Cemetery Trust Fund	\$ 55,000	FY15 Appropriation
Total Revenue Changes	\$ 761,968	Excluding free cash

Reserves

Winchester's Reserves are in line with the goals identified in the Board of Selectmen's 11/10/2010 Operating Reserve Policy. At approximately 8% of Adjusted Revenue, the Town is within the 6%-10% range identified by policy #1 of that document. This budget matches recurring revenues to recurring expenditures in compliance with item #4. As was done last year, we have included Free Cash levels in addition to Undesignated Fund Balances, as free cash can be predicted from budget forecasts, and it can be expended. Please note that the Winchester High School Project will require that approximately \$8M per year of debt service be added to the Town's Revenue, which will dictate that additional reserves be available in order to remain within the Town's operating reserve guidelines. In projecting reserves, we have included \$400,000 for unanticipated, non-recurring, FY15 appropriations, vs. \$0 projected in the Town

Manager's budget. We expect to spend close to \$900,000 for such items in FY14. Please note that FY16 is a level service projection.

Table 4: Operating Reserves

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Ending General Stabilization Balance	4,204,847	4,213,867	4,222,295	4,230,739
Beginning Certified Free Cash	3,443,677	3,403,279	2,674,592	1,927,728
Surplus/Turnbacks	1,913,329	1,000,000	1,000,000	1,000,000
Free Cash for next year's operating budget	(919,551)	(892,124)	(1,346,864)	(1,738,901)
Free Cash for current year projects/ budgets	(168,396)	(650,000)	(400,000)	(400,000)
Free Cash for next year's capital budget	(653,000)	(203,000)		
Overlay for next year's operating budget	(75,000)			
DOR adjustments/deficits/other	(137,780)	(83,563)		
Ending Free Cash	3,403,279	2,674,592	1,927,728	788,827
Total Free Cash + Gen Stabilization Fund	7,608,126	6,888,459	6,150,023	5,019,567
Ending Undesignated Fund Balance	4,311,493	3,532,806	2,835,942	1,697,041
Total Operating Reserves (UFB + GSF)	8,516,340	7,796,673	7,058,237	5,927,781
Total General Fund Revenues & Transfers In	92,299,679	93,564,159	97,132,208	99,600,641
Free Cash + GSF % of Total Revenues	8.2%	7.4%	6.3%	5.0%

Expenditures

Over recent months the Finance Committee has met with the appropriate department heads to review and better understand each department's budget, raise issues and resolve questions. The heads of larger departments have come to our meetings to make presentations and answer questions. We have attended several meetings with the Board of Selectmen, Town Manager, School Committee and School Administration. In addition, we have heard from members of the interested public. We hope to continue these discussions after Town Meeting approves the FY15 Budget. Below is a summary of our findings:

Education Budgets

School Department:

Table 5: School Budget Summary (FY14 Budget updated to include Wage Adjustments that will be requested as part of Personnel Board Article 36)

	FY 14 Budget	FY 15 Request	FY 15 Budget FinCom	FY15 FINCOM vs. SC
Personal Services	\$34,439,946			(\$ 15,319)
Expenses	\$4,797,929			(\$ 22,000)
Equipment	\$194,706			
AWA Wage Reserve Transfer	\$472,084			
TOTAL	\$39,904,665	41,179,142	\$41,141,823	(\$37,319)

The Finance Committee has worked with the School Department and School Committee to fund a budget with 4.3% growth (+\$1,709,242) vs. FY14, inclusive of all wage adjustments for FY15. District-wide enrollment is projected to grow by 64 children, or 1.45%, in FY15 as the previous enrollment bulge moves through the system and reaches McCall Middle School and Winchester High School. The Middle School is expected to decline by 8 students and the High School is expected to add 69 students or approximately 6% in FY15. Elementary enrollment, which has been stable for three years, is projected to increase very slightly (4 students, 0.2%) in FY15.

Because of the structure of the School's wage Schedule, and the number and magnitude of its steps and columns, the Schools require approximately 3% increases (\$1.1M) annually in order to roll their existing employees forward. For the past several years, the Finance Committee has also added enrollment and mandated special education increases in base budget growth, this is true with the FY15 budget as well. When these costs are included, the level services budget for the schools is typically above 4%. For FY15, level services include funding contractual obligations, enrollment related increases at WHS and McCall (+2.1 FTE), mandated special education expenses, including additional special education Out of District Tuition, transportation costs and additional staff.

The budget presented by the Finance Committee allows for \$42,939 of additions vs. level services within the 4.3% year over year growth rate and inclusive of all FY15 wage adjustments as specified in the 3 settled WEA unit contracts. The Finance Committee adjusted the Schools level services budget to reflect anticipated savings in personnel costs due to retirements and savings on equipment purchases in the district. In so doing, we reduced the total budget by \$37,319 from the School Committee/Town Manager's request,

Below please find a summary of requests above level services.

Table 6: School Budget Year over Year increases

	<u>FTE Increase</u>	<u>YoY Increase \$</u>
Adds for Level Services- Net, including Settled Contracts	2.1	\$ 1,223,243
Adds above level services	1.0	\$ 46,285
Increase per Town Manager Budget		\$ 1,269,528
Other Adds per School Committee Budget		
Guidance	0.5	\$ 26,721
Special Education-Additional Staff	2.0	\$ 82,251
Other Budget Items		
Supplies and Materials		\$ 22,000
Special Education – Tuition, Transportation, Testing		\$ 368,060
Other Requested Adds per School Committee Budget	5.6	\$ 477,032

The flow of Special Education Tuition funds is a complicated process, involving the receipt of State Circuit Breaker Funds within a Revolving Fund that is part of a budget, which is within a greater budget that feeds to a Schools’ Stabilization Fund. During Spring Town Meeting 2012, a Special Education Stabilization Fund was created in order to fund unanticipated Special Education expenses. An initial contribution of \$200,000 was made by the School Department to this fund in FY12, and an additional contribution of \$100,000 in FY14. No current year appropriation to this Special Education Stabilization fund is expected at the end of FY14. In fact, Article 20 has been put forth by the School Committee to transfer funds out of the Special Education Stabilization Fund to meet current year (FY14) expenses related to Out of District Tuition. The School Department experienced an increase in Out of District placements in FY2014 and the current year budget is not sufficient for tuitions due through 6/30/14. The Finance Committee expects that Schools will include a motion in the Fall 2015 Town Meeting to replenish whatever funds transferred out in the Spring with the source of funds to be identified by the School Department and School Committee. One potential source of funding is Circuit Breaker reimbursement. Winchester is likely to see an increase in Circuit Breaker reimbursement from 70% of allowable costs in FY14 to 75% expected in FY15. The Special Education Circuit Breaker Program (MGL Chapter 71B §5A) provides partial reimbursement to school districts for the cost of individual special education students. The reimbursement formula provides for a 75% (expected in FY15) reimbursement of the special education costs in excess of four times the state average per pupil foundation budget. The Finance Committee reiterates its request that the School Committee develop a set of guidelines directing the sources and uses of these funds.

The Finance Committee also requests that the School Committee prepare a Facilities Plan (the last plan was completed in 2007), and is concerned that the lack of such a plan is costly to the Town.

Vocational Education: This budget funds the cost of educating Winchester students at the Northeast Metropolitan Regional Vocational School District. The assessment of \$156,670 for Winchester (which is our budget recommendation) represents a decrease in enrollment from 14 students in FY14 to 11 students in FY13 and a \$33,215 decrease in total assessment vs. FY14.

Municipal Department Budgets:

Municipal Budgets are forecasted to increase by \$771K or 3.8% including funds placed in the Unallocated Wage reserve for unsettled contracts. Specific departments are funded as follows:

Police Department: The Finance Committee accepted the Town Manager's recommendation of \$4,139,531 for the Police Department budget for a total increase of \$18,737 (0.45%) over the FY14 budget (excluding AWA). This is composed of an increase of \$14,507 in personnel and \$4,230 in Other Expenses. The growth in Personnel is primarily due to an increase in sick leave buyback for police officers. The increase in Other Expenses is due to an increase for outfitting the new patrol cars. The Patrolmen's contract is settled; however, the Superiors' contract is not. While overtime costs are growing at a slower rate due to the hiring of new officers, the FY15 budget does not include costs of mandatory firing range training which may need to be funded with additional overtime pending the outcome of Town Meeting's vote on Article 27 – Motion #1 Police Firing Range.

Given the long term financial implications, the Committee requests that the Town Manager evaluate the following.

- The department's use of overtime (and its reporting of overtime vs. budget)
- The contractual “CD hours” that continue to decrease in each new contract, providing fewer hours of service to the community.

Fire Department: This is a level-service budget which increases by \$50,976 (~1.3%, excluding AWA) over FY15. The Fire Department does not have any settled contracts.

Department of Public Works: The Department of Public Works (DPW) FY14 Budget request is an increase of \$112,994 over the FY14 Budget (2% growth). DPW Custodians have agreed on a new contract that will provide them a 2% raise per year for FY14/FY15/FY16. The Snow and Ice budget remains level funded at \$400,000; however, during the winter of 2013/2014, Snow and Ice exceeded their budget by \$250,000. Town Meeting will vote on Article 37 to close this FY14 Snow and Ice budget deficit. The overtime line for the transfer station has been increased to account for extra personnel at the transfer station to run the SMART (recycling pilot) program and thus the line item for Professional Services has been increased to account for additional costs incurred to run the program - including the purchase of bags, rental of an additional recycling compactor, printing costs for materials, signage, stickers etc.

During the current Fiscal Year, DPW did experience a \$42,000 decrease in solid waste removal cost as a result of increased recycling.

Library: The Library budget is expected to increase by \$8K (.5%), excluding AWA. The Finance Committee reduced the Town Manager's recommendation for the Library by \$6,000 in the books and periodicals line item.

Town Manager: In FY15, the Human Resources function will be moved from the Town Manager's budget to its own department. The combination of these two budgets is funded at FY14 levels. This department's budget request was decreased by \$15,000, an amount that had been included to match grants that the town may pursue in the upcoming Fiscal Year. The Finance Committee believes that if the Town Manager's office or any other departments find

themselves in need of matching funds to pursue a specific grant opportunity, the Operating Reserve could be used as the source of match.

Data Processing: The Data Processing budget is expected to grow by 6.8% (\$29K) excluding AWA. The Finance Committee reduced the Data Processing request by \$51,919 in the areas of Permanent Salaries, Professional Services and Software Maintenance and Renewals. Currently, there is one part time open position which has not been filled, and our recommendation is to continue running the department as is currently staffed, and not hire an additional part time employee. This reduces the budget for Permanent staff by \$33,290 from the Town Manager request. The contract for the town's new website and website consultant were reduced by a total of \$16,134 in order to properly reflect the cost of the contract in FY15. We support the Town's continued effort to improve its data center infrastructure through virtualization and upgraded servers, implementing a disaster recovery strategy, improving the town and school internet access, and adding firewall and switches to allow for redundancy and future reduction of expenses.

Engineering: This department's budget was increased by \$3,921 in order to include the anticipated FY15 step increase for a newly created position.

Planning Board: The Finance Committee increased the Planning Board's budget by \$20,000 in Professional Services. The Planning Board intends to utilize the services of a consultant to help manage the relationship with the MBTA related to the redesign of the downtown train stop to ensure it is consistent with general goals for the downtown re-development. The train stop is expected to be a \$15-20M project. This consulting expense was partially incurred and funded by a Smart Growth Alliance grant last year, however the grant funds are nearly exhausted at this point and not available to fund the cost in FY15.

Legal: This department's budget is level funded from FY14. The FY15 budget was decreased by \$15,000 from the Town Manager's budget, with reductions to both Inside and Outside counsel. In FY14, it is projected that the Legal budget will require a Reserve Fund Transfer and/or Free Cash transfer of approximately \$180,000 to cover budget overruns (52% over budget). As of 4/18/14, a Reserve Fund Transfer of \$80,000 has been approved, leaving a balance of \$100,000 some or all of which may be part of a motion under Article 37 to close out FY14 deficits. The Finance Committee has requested more detailed accounting of legal expenses by specific project, but currently anticipates less demand on both Inside and Outside Counsel in FY15.

Town Clerk: The FY15 Town Clerk's budget reflects an increase of approximately \$23,000 for election-oriented items based on the expectation that the Town will hold one additional election in FY 2015 vs. the two elections planned for in FY 14. Traditionally each election costs the town approximately \$20,000 - \$28,000. In FY 15 the Town expects to hold a primary and general election for Governor, a primary for State Representative as well as a traditional spring town election. The Finance Committee also increased the expense line of this budget by \$2,500 to fund shredding services for sensitive documents used and maintained in various town offices (Comptroller, Treasurer, Human Resources, etc.).

General Services - Postage and Office Paper: The Finance Committee funded this budget at FY14 levels, and decreased the Town Manager's Budget by \$15,000. Historical and year-to-date spending on this account suggests level funding should be sufficient to cover FY15 expenses. Based on spending through the first eight months of FY14, and accounting for funds already

dedicated to known future expenditures, there could be an additional savings of \$2,000-10,000 vs. the budgeted \$131,000 in FY14.

Veteran's Department: This department's budget was decreased from the Town Manager's Budget by \$773 due to the fact that the number of veterans supported by the Town has declined.

Unallocated Wage Allocation: The Finance Committee has not added any funding to the Unallocated Wage reserve and funds for FY15 have been set aside in the Town Manager's budget for municipal contracts that have or will settle during the end of FY14.

The Finance Committee accepted the Town Manager's budgets for the following General Government departments without comment:

Human Resources

Assessors

Comptroller

Finance Committee

Collector/Treasurer

Audit

Sealer of Weights and Measures

Planning & Community Development (All Divisions with the exception of Engineering)

Undistributed Budgets

Undistributed Budgets are forecasted to increase by \$213,795 or 1.5%. Decreases in healthcare appropriations are offset by additions to the OPEB appropriation and other currently under-budgeted accounts that require more funds this fiscal year. Specific departments are funded as follows:

Health Insurance: Healthcare expense represents 9.5% of the town's budget and is budgeted to decrease by \$740,000 (7.3%) from FY14 to FY15 (however, when combined with the separate OPEB appropriation, spending is expected to be relatively flat at \$10.2M). On a YoY basis the town is expected to have fewer employees and retirees participating in Health Insurance plans (1,069 in FY15 vs. 1,114 in FY14).

1% of employees and 5% of non-Medicare retirees are on indemnity plans, (vs. HMOs) in contrast 98% of the Town's Medicare retirees are on indemnity plans. The disparity of plan selection choices between employees and retirees is driven by cost incentives for the plan member. Town offers two Medicare Supplement Plans: an Indemnity plan for \$370 and an HMO for \$240 (per person, per month). Currently, the Town contribution % for the much more costly indemnity plan is far greater than the contribution % for the less costly HMO, creating incentives for retirees to sign up for the more costly plan (\$37 vs. \$113 per month for pre-2004 retirees, but \$333 vs. \$127 for Town).

In the Finance Committee's health insurance budget, the Town's share of health insurance premiums assumes all retirees are transitioned to a 50/50 split (the last vote taken by the Board of Selectmen). The Finance Committee has included \$200,000 for retiree health insurance premium mitigation in its FY 2015 budget recommendation.

The draft mitigation plan provided by the BoS on March 24, 2014 would increase FY15 spending on retiree premiums by approximately \$600K, and incentives would still not be properly aligned for pre-2004 retirees. Additionally the mitigation plan leaves in place the incentive for each retiree to choose the costlier indemnity plan (\$111 vs \$120, leaving Town to pay \$259 vs. \$120). The Finance Committee is also concerned that the draft plan may not be allowable under the sections of Massachusetts General Law Chapter 32B adopted by Winchester (Winchester has not voted to accept Chapter 32B Section 9A which would allow contributions greater than 50% to retiree indemnity plans.)

Table 7: Health Insurance Detail

Category	2014 Budget	2015 Budget
Insurance Premiums - Active Employees	\$7,090,000	\$7,065,000
- New Enrollment Estimate	\$250,000	130,000
- Retirees	\$2,210,000	1,600,000
Subtotal-Premiums	\$9,550,000	8,795,000
Medicare Part B Reimbursement	235,000	270,000
Medicare Surcharge	35,000	35,000
Health Reimbursement Account	50,000	30,000
Life Insurance Premiums	30,000	30,000
Professional Services - Wellness Program	15,000	15,000
Mitigation (Employee in FY14, Retiree in FY15)	200,000	200,000
Total	\$10,115,000	\$9,375,000
OPEB Appropriation	\$100,000	\$800,000
Total Healthcare + OPEB	\$10,215,000	10,175,000
Subtotal: Retiree Healthcare	\$2,480,000	\$2,105,000
OPEB Appropriation	100,000	800,000
Total Retiree Healthcare Spending	\$2,580,000	\$2,905,000

Other Post-Employment Benefits (OPEB) Appropriation: The Finance Committee maintains that health insurance benefits for retirees should be funded in full for both current retirees and for town employees who have yet to retire. The \$800K appropriation included in the FY15 budget redirects premium savings from changes in the retiree contribution split to fully fund the Annual Required Contribution (ARC) according to the June 30, 2013 Actuarial Report. (This report reflects the impact of moving all current and future retirees to a 50/50 split as of July 1, 2014.) The Finance Committee remains committed to funding the Annual Required Contribution, and continues to request that the Board of Selectmen and Town Manger develop a policy with this stated goal. This represents an \$800K increase from the Town Manager’s Budget.

The Town’s June 30, 2013 Actuarial Report identified the Unfunded Liability at \$59.3M, \$33.1M if fully pre-funded. The Draft Mitigation Plan submitted by the BoS on March 24, 2014, would increase the ARC by \$200K and would increase the OPEB liability by \$5M (or \$3.6M if fully funded ARC).

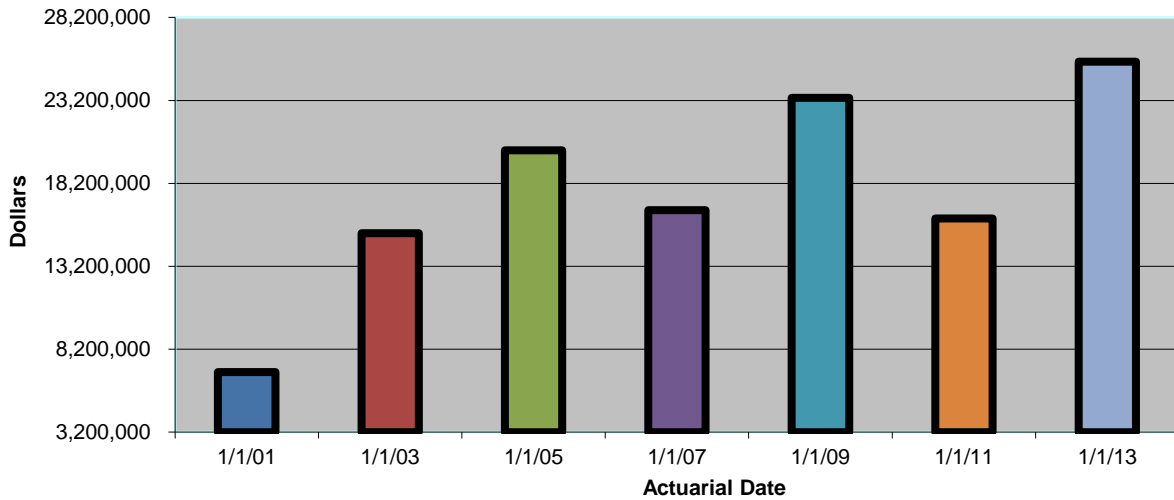
Energy: The Energy budget is expected to grow by .9% (+\$21K) vs. FY14 as energy usage continues to decrease due to continuing increases in efficiency brought on by Energy Management Committee projects. The Finance Committee decreased the Town Manager's budget by \$35,000, to remove funding for an accelerated payback of an anticipated LED streetlight conversion project. The Town is pursuing a grant that would offset a significant portion of the LED leasing and acquisition costs and we did not believe that additional funding was needed in FY15 to speed up the payback of the lease. The Committee also reclassified expenses associated with the lease to the capital category in accordance with proper accounting treatment.

Workers' Compensation: The Finance Committee recommends an increase of \$75,000 vs. the FY14 budget (an additional \$25,000 vs. the Town Manager's budget). This budget will require a Reserve Fund Transfer and additional Town Meeting appropriation in FY14. The Town self-insures 100% of its workers' compensation insurance expense, which is unusual for a town of this size. Severe workers' compensation injuries frequently run into the mid six figures, and a catastrophic injury can cost far more. In order to assess the financial viability of transferring its workers' compensation exposure to an insurer, the Finance Committee recommends that the Town solicit insurance quotes for fully insured and excess insurance programs.

Reserve Fund: The Finance Committee accepts the Town Manager's recommendation of funding \$400,000 for the Reserve Fund. These funds meet the additional, unexpected needs of individual departments, do not require a vote at Town Meeting, and are under the discretion of the Finance Committee. The complete list of Reserve Fund transfers for FY13 and FY14 through April 18, 2014 are attached to the end of the transmittal letter.

Contributory Retirement: The Finance Committee accepts the Town Manager's recommendation of funding \$3,889,699 for the FY15 contributory retirement program. Per a schedule provided by PERAC the Contributory Retirement System was 77% funded and as shown in the Comptrollers Report the town's Unfunded Pension Liability has grown since 2011 and now stands at \$25M (up from \$16M in 2011). The current Unfunded Pension Liability – as shared in the Comptroller's report - is included on the next page.

Unfunded Pension Liability



The Finance Committee would like to see the Town fund the contributory retirement program in accordance with the actuarially determined funding schedule, and for the Board of Selectmen and Town Manager to take a more active role in managing this large and growing liability.

FICA/Medicare: The Finance Committee increased the Manager's allocation by \$47,760 which matches the additional funds required in FY15. The Town's legally required match of Federal Medicare premium (1.45%) is paid on behalf of town employees.

General Insurance: The Committee supports the Town manager's recommended budget of \$343,000. The year over year funding request for general insurance is flat. The Massachusetts Interlocal Insurance Association (MIIA) has been the Town's insurer for many years. The High School, Muraco Elementary School and the DPW buildings are all in high hazard flood zones. The Town will need to decide how much flood insurance to buy for the aforementioned locations and the premiums for the insurance could be substantial. The Finance Committee recommends that the Town assess its exposures, draft a set of insurance specifications, and solicit quotes for its general insurance.

Non-Contributory Retirement: The Finance Committee supports the Town manager's recommended budget of \$35,000. The non-contributory retirement program pays retirement allowances to former employees or their widows who were hired prior to July 1, 1939, the inception of the Town's contributory retirement system. As of March 2014 there are two retirees receiving benefits under this program.

Tax Abatement/Service Fees: These costs are now reflected as part the Collector/Treasurer budget.

Environmental Remediation: The Committee cautiously supports the Town manager's recommended budget of \$105,000 for known environmental issues in need of remediation as of this Budget. In September 2013, soil testing at Skillings Field identified oil and hazardous material levels above allowable regulatory levels, and the town is now required by the state Department of Environmental Protection (DEP) to develop a plan to address the environmental

issues associated with the site. Beginning in FY14 and continuing into early FY15, the Town will complete Phase 1 testing of Skillings Field (as required by the DEP). The results of that testing will determine the scope of potential remediation needs at Skillings Field and inform a plan to remedy those issues that will be developed pursuant to the completed Phase 1 study.

Capital Budgets

Debt Service: The expenditure has for Funded Debt – Interest has been increased by \$ 9,889 from the amount proposed by the Town Manager. The Debt and Interest budget represents payments for debt incurred or estimated to be incurred prior to the start of FY16.

Table 7: FY15 Debt Service

<u>Fund</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Prop 2½ Excluded General Fund			
McCall	\$ 975,000	\$ 198,135	\$ 1,173,135
Lincoln	\$ 280,568	\$ 61,270	\$ 341,837
Immediate Building Repairs	\$ 74,670	\$ 15,742	\$ 90,412
Wright-Locke Farm		\$ 144,937	\$ 144,937
Vinson Owen School	\$ 640,000	\$ 561,800	\$ 1,201,800
High School		\$ 9,889	\$ 9,889
Subtotal Prop 2½ Excluded	\$ 1,970,238	\$ 991,773	\$ 2,926,011
Building Stabilization Fund	\$ 1,916,500	\$ 851,867	\$ 2,768,367
Capital Stabilization Fund	\$ 515,000	\$ 182,556	\$ 697,556
General Fund (Non-excluded)	\$ 462,713	\$ 43,995	\$ 506,708
TOTAL	\$ 4,864,451	\$ 2,070,191	\$ 6,934,642

**Funded Interest figure revised on 4/14/14 to reflect updated information from the Treasurer

Retiring Debt to Capital: Prior to the creation of the Stabilization funds, the Town’s debt service was funded through the General Fund. The Finance Committee adopted a policy in 2010 that as these older (Non-Proposition 2 1/2 Excluded) bonds mature and debt service declines, amounts that were formerly committed to capital project debt service will be transferred each year to the Capital Stabilization Fund to support new capital projects. This practice supplements the annual \$3.5M appropriations to the Stabilization Funds and allows the Town to maintain a consistent ratio of spending on capital maintenance projects over time. The FY15 appropriation will be \$496,000.

The Finance Committee supports a change to the practice of directly appropriating retiring debt policy to the Capital Stabilization Fund, believing that it would be preferable to directly appropriate the retiring debt amount from the General Fund and then appropriate it out of the General Fund to the Stabilization Fund. An additional change we would support is to move the capital planning process back to the winter budget timeframe to more closely align with the timing of the preparation of the capital plan.

Energy Champion Rebate: The Committee supports transferring \$30,000 from the operating budget into the Building Stabilization Fund to account for the energy savings produced by the new boiler at The Muraco School. This program reimburses the Stabilization funds for the debt

service on incremental capital expenditures required in order to minimize the total life-cycle cost of a project.

Capital Expenditures

The Capital Planning Committee (CPC) identified several spring projects in their Report dated October, 2013. The Finance Committee supports the following FY14 recommendations from the CPC:

Table 8: Capital Projects Funded by Capital Stabilization Fund, General Fund Appropriations, Free Cash, Cemetery Fund

Project	CSF	Gen. Fund	Free Cash	Cemetery	Total
ADA Projects		\$ 125,000			\$ 125,000
DPW – Roads and Sidewalks	\$283,000				\$ 283,000
DPW- Vehicle	\$110,000	\$ 25,000			\$ 135,000
MIS-Town	\$ 93,000				\$ 93,000
Fire Department – Vehicle	\$ 33,000				\$ 33,000
Fire Department - Ambulance	\$112,000		\$103,000*		\$ 215,000
Town Clerk – Voting Machines	\$ 90,000				\$ 90,000
Schools – Safety Systems		\$ 70,000			\$ 70,000
Cemetery Dump Truck				\$ 55,000	\$ 55,000
Total	\$ 721,000	\$ 220,000	\$ 103,000	\$ 55,000	\$1,099,000

*Free Cash used to fund the purchase of the Fire Department Ambulance will come out of FY14 Free Cash not FY15

The Finance Committee made the following adjustments to the Capital Planning Committee’s recommendations:

- Decreased the funding for Town MIS projects from \$205,000 to \$93,000
- Deferred the \$150,000 Firing Range project.

These adjustments reduced the amount of free cash requested by \$262,000, from \$365,000 to \$103,000.

Finally, the Capital Planning Committee intends to spend \$25,000 out of the **Building Stabilization Fund** for a study of the Public Safety Building. The Finance Committee agrees with this use of the Building Stabilization Fund.

Enterprise Funds

Water & Sewer: The Water & Sewer Department operates as a division of the Department of Public Works and is funded on a formal enterprise basis. The Water & Sewer Enterprise has operated on a self-sustaining basis for seven years without a rate increase. The FY15 Budget is a level service budget with no change in head-count. It is the intent of the Finance Committee that the Water & Sewer Enterprise fund its OPEB costs.

Table 9: Water and Sewer Program

	FY14 Budget	FY15 Budget	Difference
Revenues			
Water and Sewer Receipts	\$5,007,893	\$5,035,461	\$27,568
Retained earnings	\$232,334	\$266,769	\$34,435
General Fund	\$0	\$0	\$0
Chapter 110 Tax Levy	\$4,002,074	\$4,232,288	\$230,214
Total Revenues	\$9,242,301	\$9,534,518	\$292,217
Expenditures			
Personal Services	\$1,133,670	\$1,149,474	\$ 15,804
Other Expenses	\$6,918,720	\$7,195,404	\$276,684
Equipment	\$62,000		(\$ 62,000)
Total Direct	\$8,114,390	\$8,344,878	\$230,488
Indirect Costs	\$1,127,911	\$1,189,640	\$61,729
Total Expenditures	\$9,242,301	\$9,534,518	\$292,217

Recreation Department: In FY13, the General Fund provided a \$129,182 subsidy for the Enterprise. In FY14, the subsidy grew to \$149,234 (with additional funding needed at Spring Town Meeting) and the FY15 subsidy is budgeted at \$175,000. Since the creation of the Recreation Enterprise Fund, the department has been working to bring its expenses in line with its income; however, FY14 revenue is insufficient to meet FY14 expenses and additional General Fund subsidies are needed. Article 22 contains two motions to increase the Recreation budget by \$45,000 in Personal Services and \$50,000 in expenses to fund current year budget deficits.

As an Enterprise, Recreation must then pay indirect costs back to the Town and these costs are budgeted at \$258,114 in FY15. It is the intent of the Finance Committee that the Recreation Enterprise also fund its OPEB costs.

The Finance Committee recommends that the Recreation Department complete a comprehensive review of its programs, rates and fees to determine if appropriate market rates are being charged for various programs. Our Committee would also be willing to work with Town Management to determine if an Enterprise Fund is the most appropriate fund type for this particular Department.

Table 10: Recreation Program

	FY14 Budget	FY15 Budget	Difference
Revenues			
User Charges and Other Revenue	\$1,585,000	\$1,595,000	\$ 10,000
General Fund Transfer In	\$ 149,324	\$ 170,000	\$ 20,676
General Fund Transfer In	\$0	\$0	\$0
Retained earnings	\$0	\$0	
Total Revenues	\$1,734,324	\$1,770,000	\$ 30,676
Expenditures			
Personal Services	\$901,000	\$ 929,750	\$ 28,756
Other Expenses	\$567,100	\$ 582,100	\$ 15,000
Equipment	\$0	\$0	\$0
Total Direct	\$1,468,100	\$1,511,850	\$ 43,756
Indirect Costs	\$266,224	\$ 258,144	(\$9,792)
Total Expenditures	\$1,734,324	\$1,770,000	\$ 33,964

Future Outlook:**3 YEAR PLAN**

Decisions made in support of annual budgets have significant implications for subsequent years. Therefore, it is important to analyze the projected revenues and expenses over a several year period. The 3-year plan shown here is not a multi-year approved budget, nor a policy statement. It is a projection designed to understand the implications of growth in revenues and expenses using key drivers, some of which are defined, such as the property-tax growth rates and contractually-fixed personal services rates, while others are assumptions. This planning tool provides a framework for the key stakeholders, town and school management, Selectmen, Town Meeting members, etc., to consider policy and financial decisions to balance providing services to the town and keeping its finances sound.

The forecasting methodology is a maintenance budget approach; that is, projected increases in cost needed to maintain the “current level of services” reflected in the adopted FY15 budget. As a general rule, it includes increases driven by current collective bargaining agreements, other existing purchase of service contracts, estimated inflationary pressures, or scheduled items, such as debt. Revenues are generally based on historical experience informed by specific outside knowledge, such as input on state aid. Importantly, no new cost savings initiatives or extraordinary revenue increases are factored in.

It is difficult to prepare the three year plan without completely settled labor contracts – municipal and the final WEA unit, the unknown costs of environmental remediation needed at Skillings Field, an updated school facilities plan (Parkhurst, Mystic, and Carriage House), and definitive capital funding plans. Additionally, State Aid can be a volatile revenue source, and can significantly alter the Town’s ability to fund services.

The financial model in Appendix 3 is a projection to aid the Town in decision making. It does not represent a commitment on the part of the Finance Committee or any of the departments in Town. This budget presents a level services view, and makes the following assumptions:

- Revenue grows in line with historical trends.

- Steps, Columns and AWAs are funded.
- School additions for enrollment and mandated costs are included.
- Together with the annual spending on retiree health care costs, OPEB is projected to fully fund the ARC in 2016 and beyond.