

# Review of Dedham's Financial Health



June 6 2017

J Kern and M Butler Present to School Committee

# Topics

- Principles and Considerations
- Environmental Scan
- Town Financial Condition:
  - Property Taxes
  - Infrastructure Investment
  - Long Term Liabilities
- Comments & Discussion

# Principles & Considerations

## Prudent Allocation of Taxpayer Dollars Among Critical Services

- Public Safety
- Education
- Investment in Roads, Sewers and Buildings

## Commitment to Intergenerational Equity

- Avoid shifting costs to future generations
- Fulfill pension and health care obligations to employees and retirees.

## A Need for Sustainable and Resilient Government

Competitive compensation package to attract employees

Recognition of residents' concerns and taxpayers' ability to pay

Abiding by our financial policies

Go beyond sustainability to a system that is adaptable and regenerative – in a word: resilient

# Principles & Considerations

- ☛ You get what you pay for...
  - Provide competitive compensation to staff
  - The town uses standard municipal procurement procedures to assure fair value when purchasing services and supplies
  - Don't cut corners; it costs more in the long run
  
- ☛ You pay for what you get...
  - Every day the town ensures public safety, educates its children and provides many other services; the full cost of this is reflected in the town budget.
  - The town's infrastructure needs regular maintenance and this is fully reflected in the budget, too
  - The town's buildings need significant updating and/or replacement and we have made excellent progress. This is nearly fully reflected in the town budget
  - Pay today's costs as they are incurred. Don't postpone payment.

# Principles and Considerations

- “The property tax is the “price” for consuming local services, with all the consumers paying the costs that their consumption imposes on the government. In that case, discussing the incidence of the tax separate from the provision of public services doesn’t make sense, because the tax simply reflects the demand for services.”
  - Ronald Fisher 2007. *State and Local Public Finance*, 3<sup>rd</sup> ed. Mason Ohio. Thompson South-Western

# Environmental Scan

- Economy has grown steadily for several years
  - Unemployment is below 3%
  - Town revenues, such as automobile excise tax and building permits, have risen through the recovery
- Inflation has been low
  - Most town expenses have risen slowly
- Continued investments in buildings, roads and sewers, to recover/catch up from a prolonged period of under-investment
- Town Meeting appropriations have improved and maintained the Town's financial health and credit rating as affirmed with a AAA credit rating, each year since 2013
- Average residential tax bills have increased moderately



# PROPERTY TAXES

# Town Meeting, the Annual Budget, Tax Levy

- Each spring Town Meeting votes on the annual budget
- Money from the budget comes from a variety of sources:
  - Property taxes pay for ~ 75% of the budget
  - Motor vehicle taxes, meals taxes, fees from permits, state aid, etc provide the rest
- The Tax Levy is the amount of money a town raises from property taxes
- State Law, Prop 2½, defines the formula for calculating the levy



# Process for Setting the Tax Rate

- The tax rate setting process occurs in November/December each year
- It has three major inputs:
  - the budget approved by Town Meeting in May
  - the property valuations recommended by the Town Assessor and approved by the Board of Assessors
  - final estimates of local receipts from the Director of Finance/Town Manager
- Selectmen then take two votes:
  - Whether to continue with a “split rate” i.e. one rate for residential, another for commercial, industrial
  - What the “shift” should be. Recent votes have adopted a 175% shift
- This results in the tax rates

# Tax Levy Increases

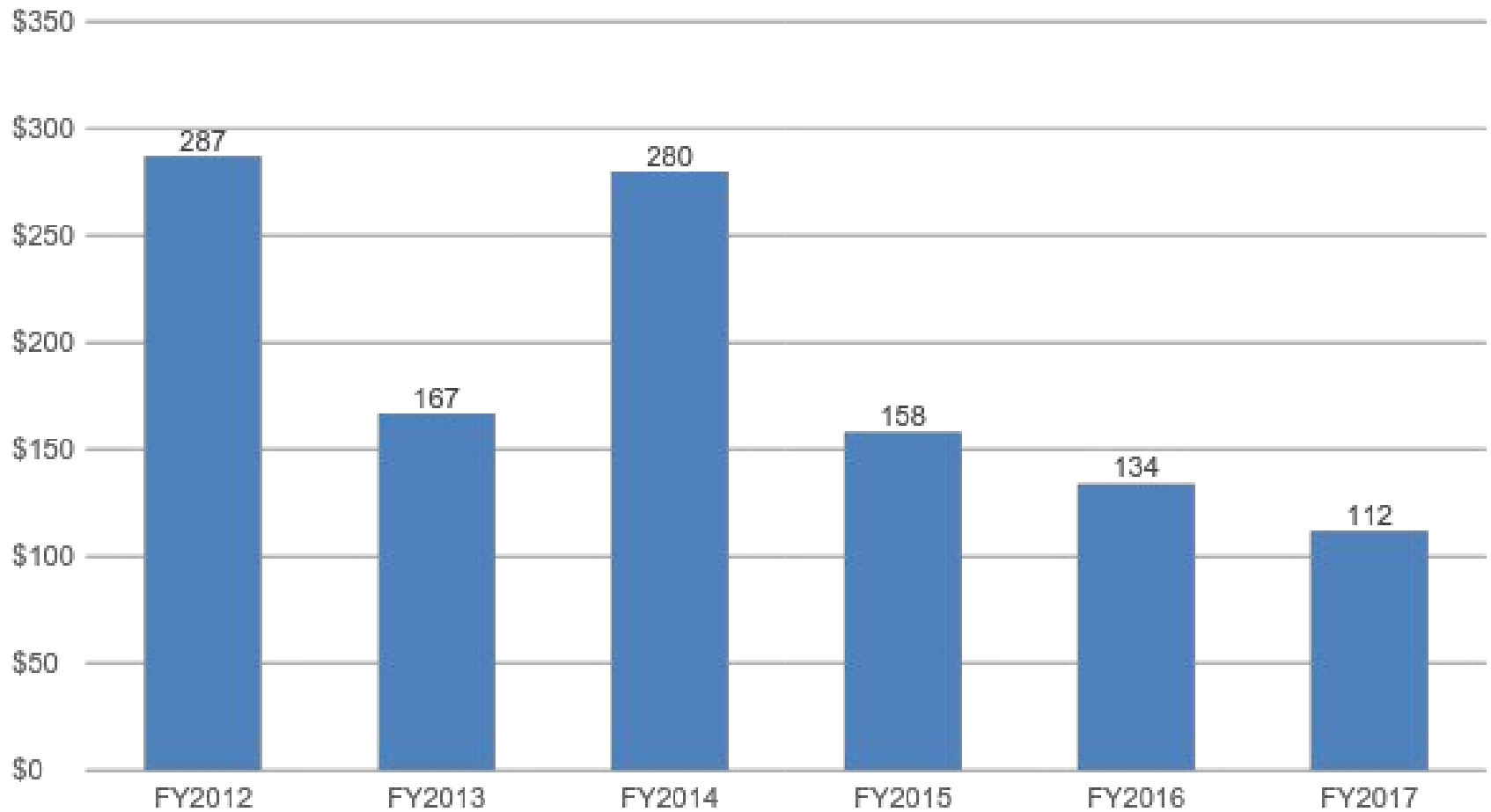
Fiscal Year:	Levy Increase:
FY11	7.97%
FY12	4.40%
FY13	4.22%
<u>FY14</u>	<u>2.88%</u> <u>Avg: 4.87%</u>
FY15	0.50%
FY16	1.55%
FY17	0.73%
<u>FY18 as voted at Town Mtg.</u>	<u>2.94%</u> <u>Avg: 1.43%</u>

# Assessed Values

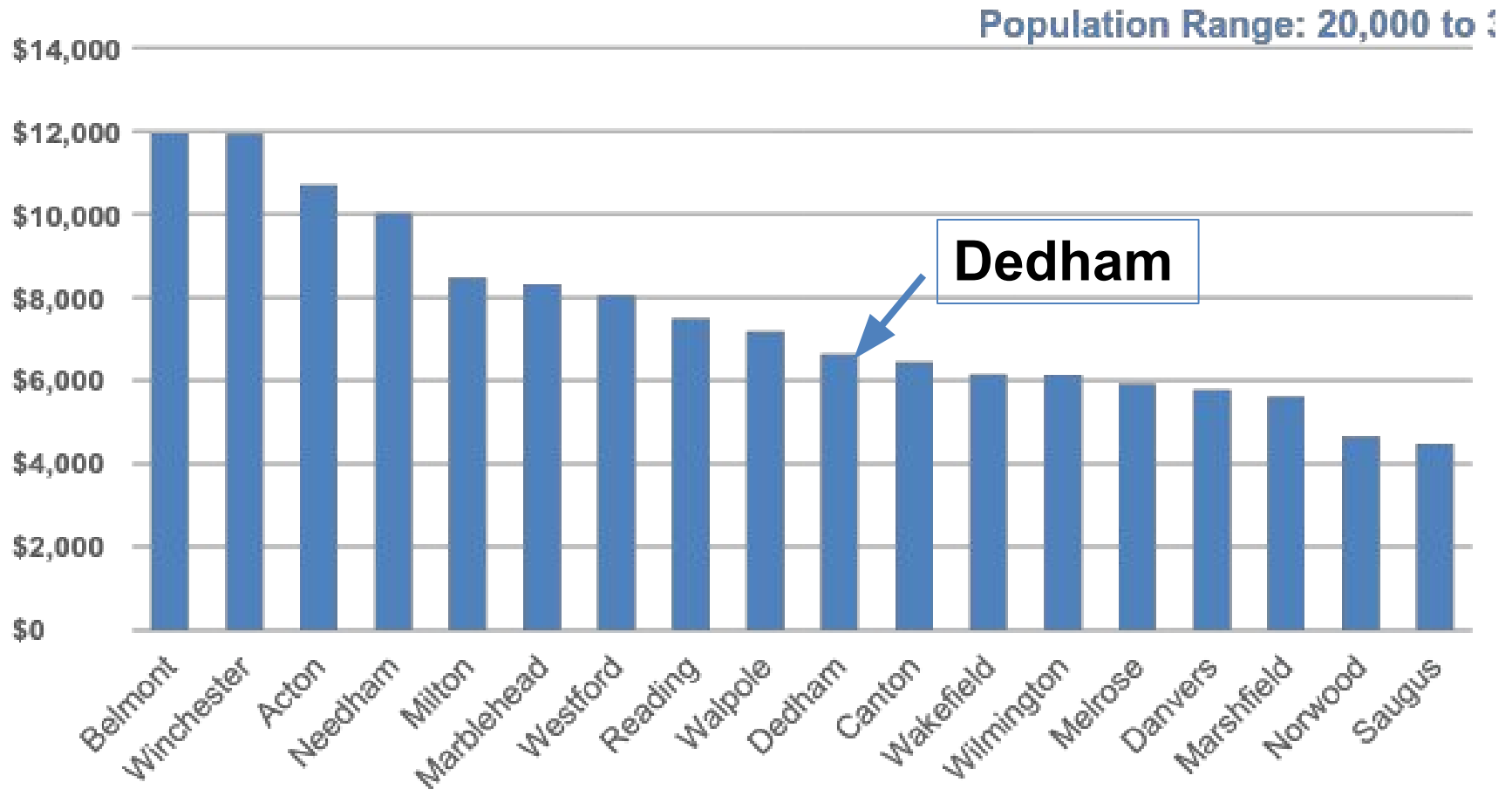
*A tax bill is based on the Tax Levy*

Fiscal Year	Average Tax Bill Residential (\$)	Rate per \$M Value	Average Assessed Value (\$)
2011	5483	14.37	381,557
2012	5770	15.43	373,963
2013	5937	15.79	375,995
2014	6217	16.08	386,627
2015	6375	15.87	401,728
2016	6509	15.49	420,416
2017	6621	14.76	448,603

# Increase in Residential Tax Bill vs. Prior Year

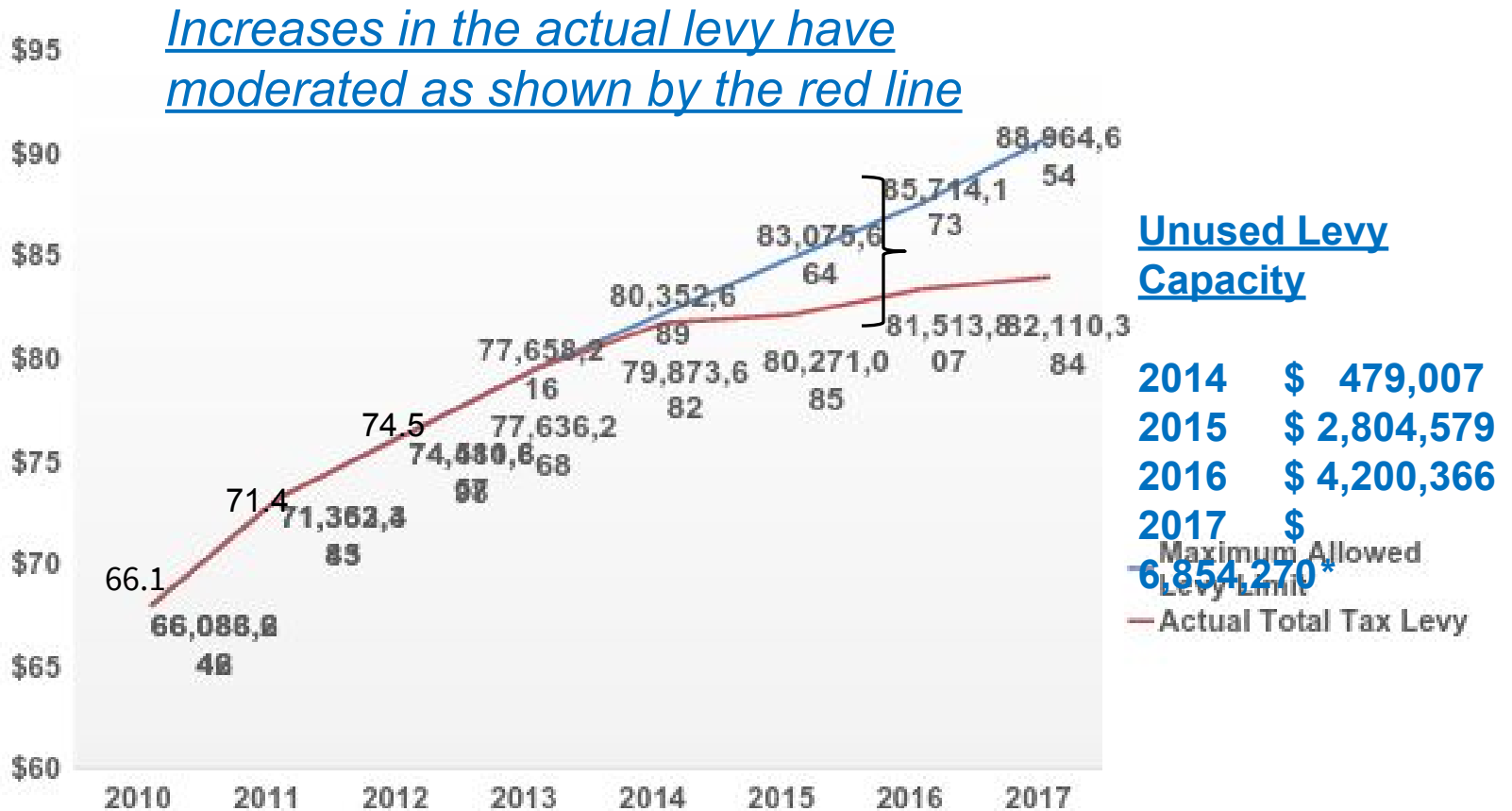


# Populations Similar to Dedham Norfolk, Essex, Middlesex.



# Levy vs. Actual Tax Levy

*Since 2014 the Town has raised taxes less*



\* Only 18 communities have a larger unused capacity

# INFRASTRUCTURE, PENSION, OPEB,

# Infrastructure

## *Has returned its infrastructure*

Category	Current Annual Investment/Debt Service	Future Annual Investment
Roads	\$2.2 MM, of which \$700K is state aid.	\$1.5MM
Sewers	\$1.3MM, which is paid from sewer bills.	\$1.3MM
Sidewalks	\$500K	\$400K
Storm Drains	\$300K	\$300K
Buildings	<p>\$3.8 MM consisting of:</p> <ul style="list-style-type: none"> <li>\$1.9MM debt exclusion for Middle and Avery Schools</li> <li>\$1.9MM from Robin Reyes fund for Ames acquisition and renovation</li> </ul> <p>We expect to incrementally increase our investment in buildings.</p>	<p>\$4.7MM</p> <p><i>As funding for roads is reduced it is recommended that these funds be allocated to buildings</i></p>
Total	~ \$8.1MM	~ \$8.2MM



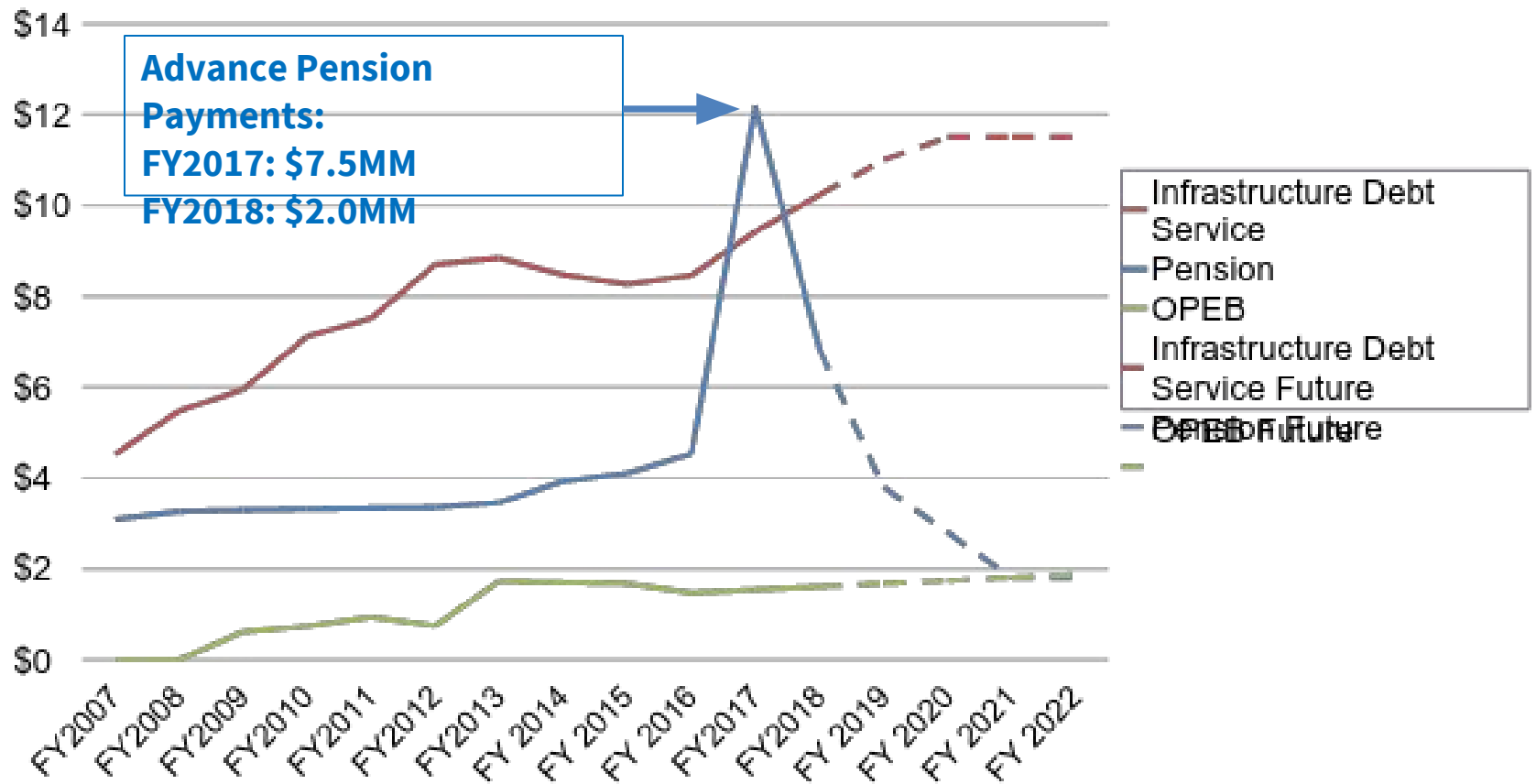
# Liabilities

## *Key to achieving its AAA credit*

Category	Current Annual Cost	Future Annual Cost
Pension Funding	\$4.7MM <i>Currently 92% funded</i>	Declining to \$1.7MM during next 3 years. Will likely achieve 100% in early 2020's
OPEB (Health Insurance for Retirees)	\$1.5MM	Amortizing over next 26 years. Increasing at 4%/year, although health care cost trends and liabilities are very difficult to predict.
Total	\$6.2MM	\$3.2MM

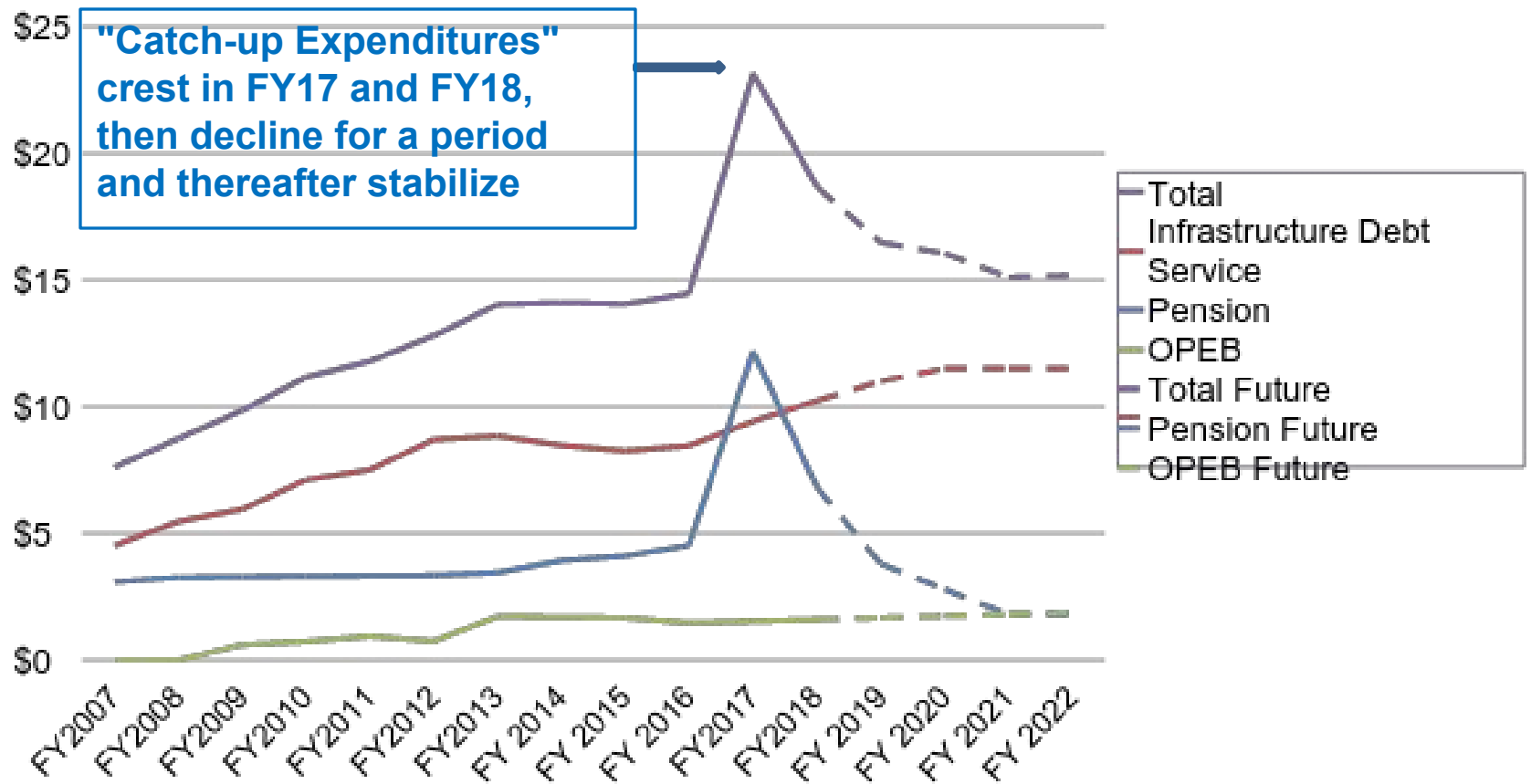
# OPEB Expenditures 2007-2022

*Cost pressures are expected to*



\*Other Post Employment Benefits

# DEBT SERVICE, PENSION and OPEB Expenditures 2007-2022



# Dedham's Financial Health

Category	Comments
Average Residential Tax Bill	73 <sup>rd</sup> highest in state – FY2016
Pension Funding	90% funded. Among the strongest 10 towns.
OPEB (Health Insurance for Retirees)	Among the strongest 20 towns
Credit Rating	AAA since 2013. One of about 50 communities in the Commonwealth with the highest rating. Affirmed May 26



# CLOSING SLIDES

# Here's what we think is great about Dedham

## ACCOMPLISHMENTS

- ✓ Middle and Avery Schools, ECEC
- ✓ High School Track/Field
- ✓ Town Hall, Senior Ctr.
- ✓ Free All Day Kindergarten
- ✓ Dedham Square Project
- ✓ AAA Credit rating
- ✓ Rebuilt Roads, Sewers
- ✓ Dolan Center & River Trail
- ✓ And many others

## Things we love about Dedham-

- ✓ Terrific Police Officers, Firefighter, Dispatchers who keep us safe
- ✓ Educators who are “all in” for our kids
- ✓ The many non-profit, neighborhood, artists and faith-based groups that bring us together
- ✓ Numerous programs for our youth
- ✓ The James Joyce Ramble, Bernie's Run, Pack the Pantry and the Four on the Fourth road races
- ✓ Charity walks and bike rides
- ✓ The neighborhoods
- ✓ Block parties
- ✓ And so much more, let's not forget...

# The Flag Day Parade! *Celebrating its 50<sup>th</sup>* *Anniversary on June 17*



Flag Day  
Photo  
Courtesy:

Kerry  
Hawkins

June 6 2017

J Kern M Butler Present To School  
Committee

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# END



# APPENDIX

 FY 2018 BUDGET

 FREE CASH



# FY 2018 BUDGET SLIDES

# FY 2018 Budget Comments

- Revenue Sources
  - Budget in Segments (Schools, Gen Govt., Debt Service, etc)
  - Capital Expenditures
  - Cash Surplus Options
  - Tax Levy/Rate Impact
- 
- For information about cities and towns in Massachusetts we recommend this website:
  - <http://www.mass.gov/dor/local-officials/municipal-databank-and-local-aid-unit/databank-reports-new.html>

# Revenue Sources

Revenue Category	Budgeted Amount	Change From Previous Year	Pct. Change
Property Taxes	\$84,516,081	\$2,405,697	+2.9%
New Growth	\$ 1,139,461	-\$ 100,395	- 9.0%
State Aid	\$ 8,154,617	+\$ 166,051	+2.0%
Local Receipts	\$ 7,568,000	-\$ 107,000*	-1.4%
Local Option Taxes	Removed from General Fund		
Free Cash/Overlay	\$ 5,491,168	- \$8,008,458	- 145%
Sewer Receipts	\$ 7,660,000	+\$ 549,000	+7.1%

# Summary of Large Budget Segments

Expense Category	Proposed Increase	% Change
Education	\$1,562,295	+3.9%
General Government	\$1,152,991	+3.9%
Health Insurance	\$1,331,000	+12.6%
Debt Service not covered by Robin Reyes Fund	\$1,051,151	+10.6%
OPEB/Pension	\$ 389,000	+8.6%



# SLIDES ABOUT FREE CASH

# *What is Free Cash?*

- When receipts exceed budget and when expenses are lower than budget there is a surplus
- Certified by state's Dept. of Revenue after every June 30<sup>th</sup>
- Free Cash may only be appropriated by vote of Town Meeting prior to the next June 30th

# Available Cash Surpluses

Description		\$ Amount
SOURCES	Certified Free Cash @ June 30 2016	\$ 8,900,000
	Certified Overlay Surplus	\$ 3,200,000
USES	Proposed in FY18 budget for capital	\$ 2,646,000
	Snow and Ice Deficit – this past winter	\$ 325,000
	Proposed to reduce FY 18 Property Tax Levy	\$ 3,720,000
REMAINING FREE CASH BALANCE		\$ 3,460,000



# Free Cash – Recent Surplus from Operating Budget

	FY 2014	FY 2015	FY 2016
Revenues > Budget (\$MM)	4.2	4.6	3.1
Expenses < Budget (\$MM)	2.9	1.9	3.2
Total Favorable Operating Variance (\$MM)	7.1	6.5	6.3

The Operating variances above equal about 6 – 7% of operating budget.  
MA Dept. of Revenue recommends budgeting for up to 5% free cash generation.

Revenue is up because of 1) effective efforts to collect delinquent taxes, and 2) increased motor vehicle excise taxes due to continuing strong new car sales

Each year we have adjusted our revenue and expense budgets to reflect the best information we have about the economy. Nonetheless results have come in better than forecast. This trend is seen across most every city and town in the state.

# Free Cash – Recent Surplus from Operating Budget

	Results from...	FY 2014	FY 2015	FY 2016
SOURCE S (\$MM)	Favorable Operating Variance	7.1	6.5	6.3
	One time Sources		3.6	0.6
	Meals + Hotel Tax Included as free cash (but is not)	1.4	1.7	0.3
	Appropriated in...	FY15/16	FY17	FY17/18
	Available Free Cash	8.1	16.3	9.0
USES (\$MM)	Capital	0.25	1.6	2.9
	Tax Relief	0	1.6	3.7
	Pension/OPEB/ Stabilization	2.0	10.3	2.0
	Snow/Ice Deficit	0.5	0	0.3
Free Cash Carried into Following Year		5.4	2.8	3.2

# Options for available cash surpluses

- Three possible options we considered
  - Pay down the remaining unfunded liability in the pension plan (\$5.6 million). Savings ~ \$3 million.
  - Pay down one or both excluded debt obligations of \$4.0 and \$2.1 million. Savings: \$678,000 and \$289,000 respectively.
  - Combination of one debt obligation and partial payment to pension with potential for re-calculating payment schedule.