

REVIEW OF TOWN FINANCES

We are pleased to be returning to the Medfield High School gymnasium for the 2022 Annual Town Meeting, after two years of outdoor Annual Town Meetings. We would like to thank our residents for their patience over the last two years as we have navigated a global pandemic while keeping our democratic and legislative processes in place.

As we transition into this new normal we would like to once again thank the members of the Board of Health, our first responders, and all of our employees and residents who have worked to keep our Town safe. In the wake of the pandemic, we would also like to recognize the patience, creativity, and dedication of our businesses and their employees, shouldering unprecedented burdens while serving the residents of Medfield and the broader community.

Budget Overview

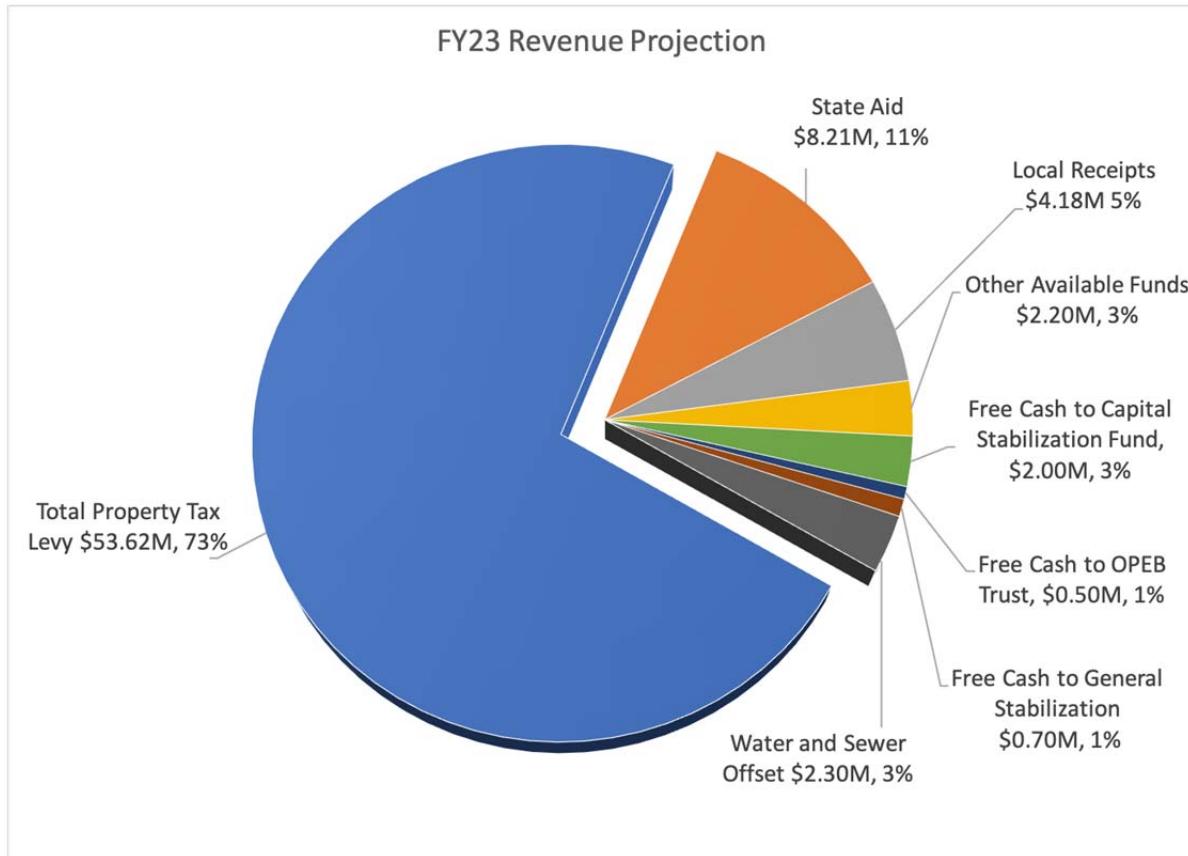
For Fiscal Years 2021 and 2022, the Town and Schools worked together to invest in Town services and high-quality education while navigating the fiscal and operational restraints posed by the impact of COVID-19 on the economy, and on the reliability and timely availability of revenue projections. Thanks to strong support from the federal government through the CARES Act, we were able to fund many COVID-related expenses with federal dollars.

The proposed Fiscal Year 2023 Balanced Budget, presented in the Warrant Report, reflects the first budget prepared in two years that does not reflect COVID-related considerations in our revenue projections. It is also the first budget in recent history that does not utilize free cash to balance the operating budget and that is also fully compliant with the Town's Financial Policy.

When developing the budget, the Town's Financial Team initially reviews its revenue projections to establish an anticipated level of available funds. While our FY2023 revenue estimates are based on pre COVID levels of economic activity, they still remain conservative to ensure we are not overestimating the FY2023 projected revenues that are available for appropriation at Town Meeting.

Revenue Outlook

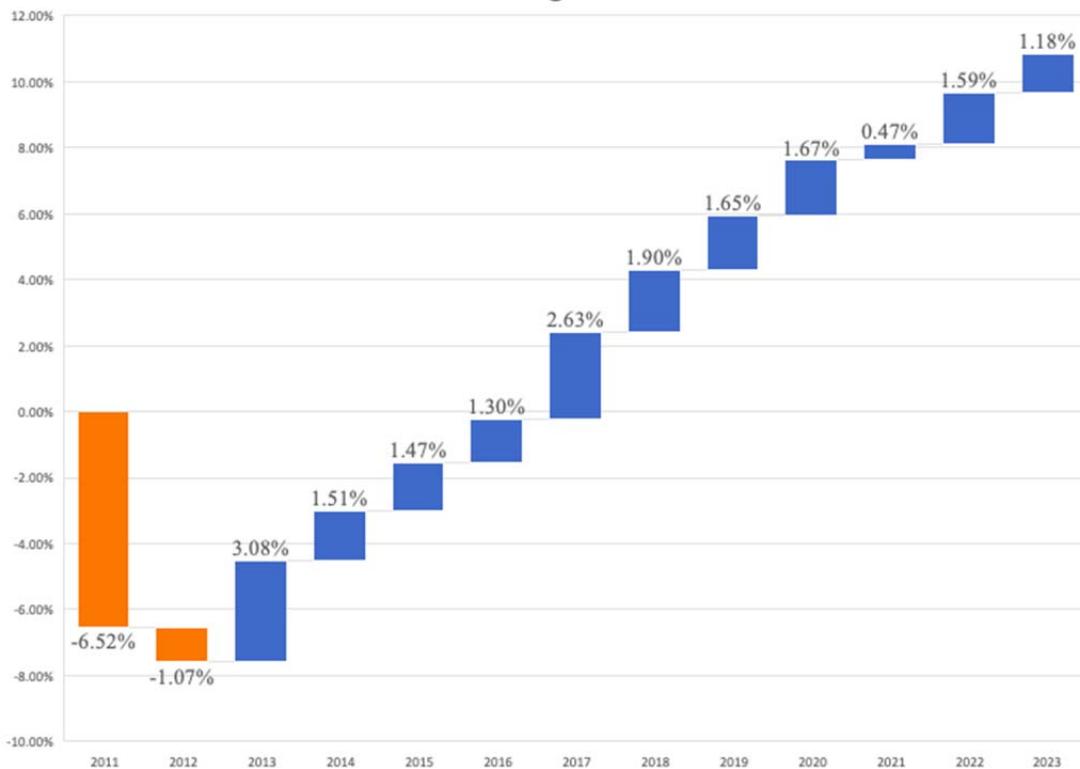
Medfield's revenue is driven primarily by property tax collections, which provides 73% of the total anticipated revenue for the general fund operating budget.



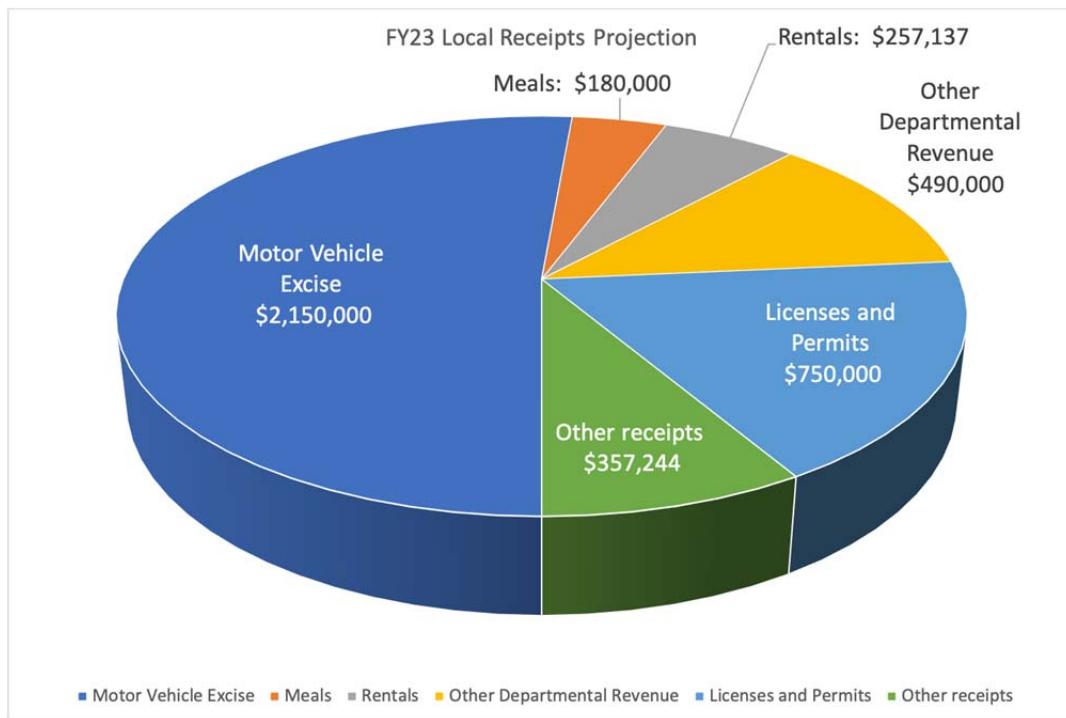
Of the Town's total property tax revenue, approximately 94% comes from residential property owners. Medfield has limited commercial and industrial properties which shifts nearly the entire property tax burden onto residential taxpayers.

The second largest source of revenue for the Town is state aid, which is distributed to the Town for various purposes, the two main ones being Chapter 70 education aid and unrestricted general government aid. Governor Charlie Baker's Fiscal Year 2023 Budget proposal would generate \$8.2 million in state aid to Medfield, an increase of just 1.18% over Fiscal Year 2022. State aid consistently lags behind the Town's budget growth, pushing more of the burden onto Medfield taxpayers. As the chart below indicates, state aid to Medfield was cut deeply in the Great Recession and since then state aid growth has stagnated, resulting in an overall decline in state aid as a percentage of Medfield's overall annual budget. This trend shows no signs of abating in the foreseeable future.

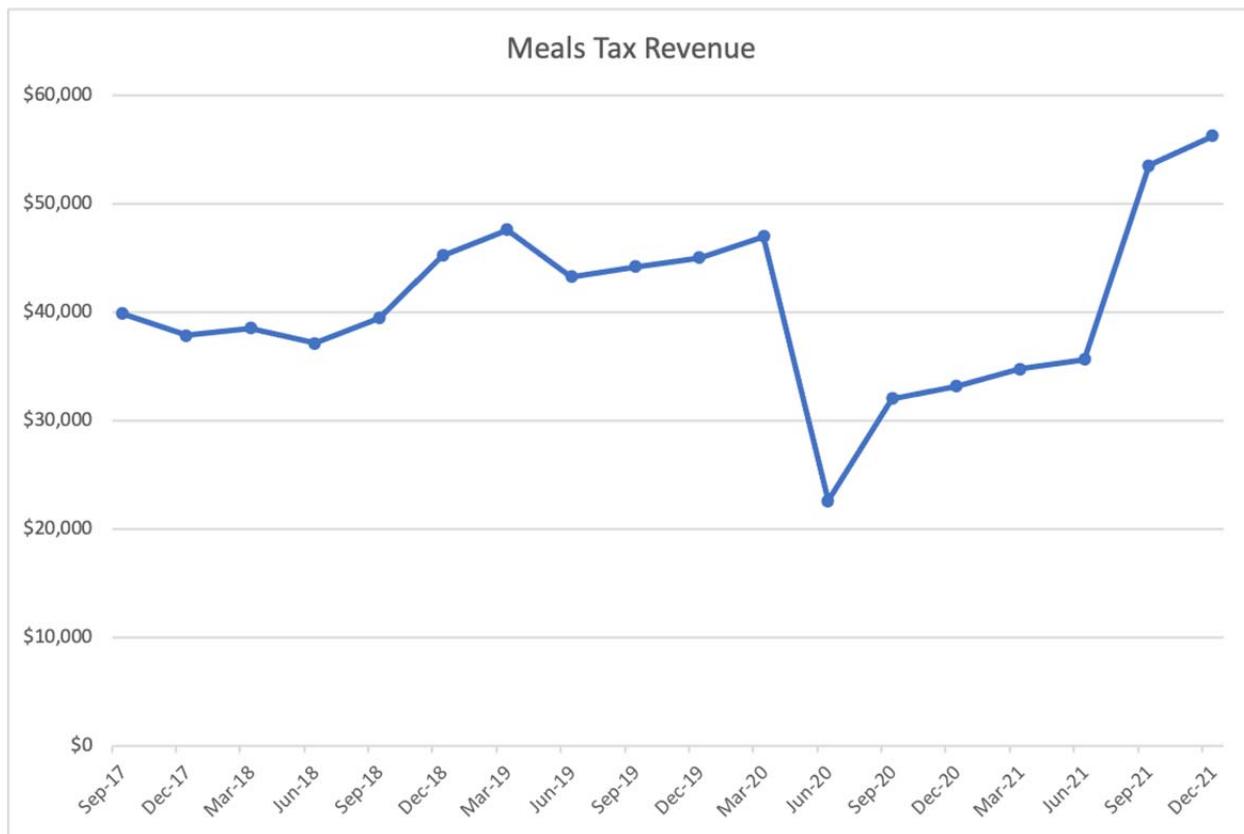
Medfield State Aid: Change from Prior Fiscal Year



The Town's other significant source of revenue is collectively called, "Local Receipts," and includes a variety of local tax, permit, and fee revenues. As the chart below shows, the largest share of local receipts comes from motor vehicle excise taxes, and license and permit fees.



One of the Town's Local Receipts is revenue from the local option meals tax, an additional 0.75% tax on meals purchased in Medfield. During the early stages of COVID-19, meals tax revenue fell sharply due to the impact on restaurants in Medfield. In the most recent quarters, the Town's revenue from the meals tax has returned to and exceeded prior year revenues. This is a great sign that Medfielders and others are again enjoying the opportunity to dine out and support our local small businesses. Thank you for continuing to buy and support local!



Expenditure Outlook

At the outset of the budget process, we anticipated several large increases in our fixed costs. Fixed costs for both Town and Schools include Health Insurance, Pension, Liability Insurance, Debt Service, and Other Post Employment Benefits (OPEB).

Health Insurance: Over the past two years, we have benefited from strong savings on health insurance premiums: in FY2021 due to a 50% savings on one month's premiums and in FY2022 a full month "premium holiday." In FY2023, the Town's health insurance premiums paid will rise by 3.5%.

Pension: Town and school employees (excluding teachers) are members of the Norfolk County Retirement System. Each year, the Town is assessed by the retirement system for

the cost of providing retirement benefits. The Town's assessment has increased an average of 7.5% over the past five years as the system moves toward being fully-funded in FY2029.

OPEB: The Town's net OPEB Liability, as of FY2021, is \$26.5 million, and has decreased from \$35.5 million since FY2019. The Town's Financial Policy requires an annual appropriation to the OPEB Trust Fund to continue progress towards reducing this liability. The proposed FY2023 Budget includes an appropriation to the OPEB Trust of \$500,000, financed from Free Cash.

Debt Service: The Town's annual debt service payments are currently declining as our debt funded projects are slowly paid off. FY2023 is the last year of debt service payments on the early 2000's school projects.

The Town's operating budget absorbed an actual cut in its FY2021 budget in the face of COVID-19 pressures and in FY2023 we have worked to restore those cuts where deemed necessary. The Town is restoring a part time position at the library, a part time position in the accounting department, and a full time position in the Public Works Department. The FY2023 Town budget also includes a proposed collective bargaining agreement with the Fire Union, a new part time position in the Town Clerk's office, and two part time staff at the Transfer Station.

The FY2023 School budget maintains current services, increases supplies, funds collective bargaining agreements with all bargaining units, and adds the equivalent of 2.2 full time positions.

Capital Budgets

There are two articles for consideration that fund capital projects. Article 9 appropriates funds for Town and School facilities projects from the Municipal Buildings Stabilization Fund. Article 11 appropriates funds for vehicles and equipment from the Capital Stabilization Fund.

These requests are consistent with our capital planning efforts to anticipate major projects and expenditures. In past years, we did not fund the capital budget at a level sufficient to maintain our capital assets and meet our anticipated replacement schedules. In order to address the Town's capital needs, we took two actions. First, in 2018, we created a Municipal Buildings Capital Stabilization Fund to set aside funds for town and school facilities projects. In June 2018, voters approved an override for an annual, dedicated source of funding for this Stabilization Fund. The level of requested expenditure from this for FY2023 is informed by the Town's long-term facilities capital plan that was completed in 2017. Article 9 would appropriate \$1,159,000 for projects, including an update to the facilities capital plan.

Second, we created a rolling five-year capital improvement planning process in 2019 to identify capital needs and better plan our capital spending. In FY2022, we established a Capital Stabilization Fund to address capital expenditure needs, not covered by the Municipal Buildings Stabilization Fund (e.g., replacement of police cruisers, IT upgrades, etc.) and appropriated approximately \$750,000 for capital projects from the fund. Article 10 proposes to move \$2,000,000 from Free Cash to the Capital Stabilization Fund. Article 11 proposes to authorize \$1,106,000 in capital spending funded by the Capital Stabilization Fund, including investments in School Information Technology, replacement of DPW equipment, a Police vehicle, and Fire Department radios.

Free Cash

In January, the Department of Revenue's Division of Local Services ("DLS") certified the Town of Medfield's Free Cash balance of \$4,954,299. Medfield's strong Free Cash balance at the close of Fiscal Year 2021 is driven by several factors: reduced use of Free Cash to subsidize the operating budget in prior fiscal years, higher than anticipated state aid, and stronger than anticipated revenue growth.

This is an opportunity that will allow the Town to further build our reserves, fund the Capital Stabilization Fund for two years, and meet our obligation to fund OPEB. This is the first time in recent years that the Town has not needed to utilize Free Cash to balance the operating budget.

Both the Board of Selectmen and the Warrant Committee unanimously support the following use of Free Cash in FY2023:

Capital Stabilization Fund	\$2,000,000
OPEB Funding	\$500,000
General Stabilization Fund	\$700,000
Open Space and Recreation Plan	\$25,000
Total Free Cash Appropriations	\$3,225,000
Remaining Free Cash	\$1,729,299

Financial Policy

The Financial Policy, first adopted in 2018, has been a guide for the Board of Selectmen and the Warrant Committee as annual operating budgets are prepared. The Financial Policy was revised and approved by the Board of Selectmen and Warrant Committee this past year. Adherence to

the financial policy ensures the Town prepares a responsible budget while focusing on the Town's long term financial stability. In accordance with the Financial Policy, we are funding our OPEB liability, we developed a five-year capital plan to provide a long-term outlook on capital expenditure requirements, and we reduced our reliance on Free Cash to balance the operating budget. The FY2023 Budget does not rely on any free cash to balance the operating budget.

Approving a budget that adheres to our financial policies is important for three key reasons:

- First, we want to build up our reserves and stabilization funds so that we can utilize those funds during economic downturns. While other towns turned to their stabilization funds in FY2021 to stave off budget cuts, we had to make cuts to balance the FY2021 budget.
- Second, as we prepare for the potential approval of a new elementary school project in the near future, we need to maintain our reserves to ensure that we secure advantageous interest rates. A higher interest rate on projects will increase the tax burden on our residents and businesses. The Town recently borrowed for the Water Treatment Plant Project and received a favorable review from Moody's, maintaining our Aa1 bond rating.
- Third, adherence to the policies recognizes that financial decisions we make today can impose costs on future generations. Our OPEB liability, for example, arises from the fact that, in the past, the Town made promises to its employees to fund health insurance premiums after their retirement, but did not set aside funds to pay those health insurance premiums when they came due. As much as possible, we should ensure that any such costs are properly identified and funded without leaving a bill for future residents of the Town.

Financial Policy Compliance

On January 18, 2022 the Board of Selectmen reviewed the Town's Financial Policies to ensure the FY2022 Budget satisfied the measures of compliance specified in the revised Financial Policies. The Board of Selectmen voted to certify that the FY2022 Budget met the Town's Financial Policies. The FY2023 Operating Budget proposed by the Warrant Committee, if adopted by Town Meeting, will again be in compliance with the Town's Financial Policies.

The Financial Policy sets a goal for the Town's Reserves to remain at a level between 9-12% of the Town's General Fund Expenditures (all expenditures minus enterprise funds and transfers to

stabilization funds) but not allow reserves fall below 7.5%. The policy also requires a minimum level of 2.5% of general fund expenditures be held in free cash.

*FY2022 and FY2023 Financial Policy Measure of Compliance**

	<u>FY2022 APPROVED</u>	<u>FY2023 ESTIMATED</u>
	1-Jul-21	1-Jul-22
General Fund Expenditures (per Financial Policy)	\$64,722,366	\$67,605,796
Total Reserves	\$5,015,273	\$5,992,836
Reserves as a % of General Fund Expenditures	7.7%	8.9%
 Total Reserves	 \$5,015,273	 \$5,992,836
Reserves required to meet 7.5%	\$4,854,177	\$5,070,435
Met 7.5% requirement	YES	YES
Excess or Shortfall in reserves to meet 7.5%	\$161,096	\$922,402
 Free Cash Balance	 \$1,654,232	 \$1,729,299
Free Cash as a % of General Fund Expenditures	2.56%	2.56%
Met 2.5% requirement	YES	YES
Free Cash Required by policy	\$1,618,059	\$1,690,145
Difference in Free Cash Balance vs. Required	\$36,173	\$39,154

* The Financial Policy describes how the Town shall measure compliance. For additional information on the Reserve Fund and Financial Policy analysis, please visit the Town website: <https://www.town.medfield.net/2033/Medfield-Financial-Policies-and-Information>

Looking Forward

The adoption and continued adherence to the financial policy are great first steps as we plan for our continued long-term financial stability. Balancing the budget and evaluating priorities with our financial resources is an annual exercise. There are several projects that we are still working towards resolution: the Medfield State Hospital and a new Elementary School Project. Planning for those projects are ongoing with a Special Town Meeting anticipated in June 2022 for the Medfield State Hospital. The Board of Selectmen and the School Committee will begin the

process of a new feasibility study with a new School Building Committee if both those articles are approved at Town Meeting.

The Town continues to work to identify additional sources of revenue and will begin reviewing the site of the former landfill for our next solar project. As part of the Town-Wide Master Planning Project the Town received a grant to review and identify potential for mixed uses opportunities along our Route 109 business corridor.

As always, we extend our appreciation to all our boards, committees and residents who help make our town government run and keep our community vibrant. We appreciate your participation and we look forward to seeing you at the Annual Town Meeting.

Board of Selectmen

Gustave H. Murby, Chair

Osler L. Peterson, Clerk

Eileen M. Murphy, Third Member