

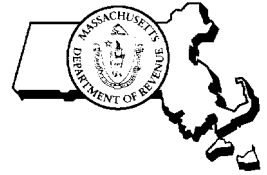


Town of Westport

Financial Analysis

Division of Local Services / Technical Assistance Section

October 2014



October 20, 2014

Board of Selectmen
Town of Westport
816 Main Road
Westport, MA 02790

Dear Board Members:

It is with pleasure that I transmit to you the enclosed Financial Analysis completed by the Division of Local Services for the Town of Westport. It is our hope that the information presented in this report will assist the town in improving its financial management practices, addressing areas of concern and meeting its long-term planning needs.

As a routine practice, we will post the completed report on the DLS website, www.mass.gov/dls, and forward a copy of the report to the town's state senator and representative.

If you have any questions or comments regarding our findings and recommendations, please feel free to contact Rick Kingsley, Bureau Chief of the DLS Municipal Data Management and Technical Assistance Bureau at 617-626-2376 or at kingsleyf@dor.state.ma.us.

Sincerely,

A handwritten signature in black ink that reads "Robert G. Nunes". The signature is written in a cursive, flowing style.

Robert G. Nunes
Deputy Commissioner &
Director of Municipal Affairs

cc: Senator Michael J. Rodrigues
Representative Paul A. Schmid, III
Mr. Timothy King, Town Administrator

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Introduction

At the request of the board of selectmen, the Division of Local Services (DLS) completed a financial analysis of the Town of Westport. The board initiated the request because the town's past practice of using non-recurring revenues to support ongoing operating expenses is not fiscally sustainable. As a result, Westport has had significant structural deficits. While the community has taken steps to improve its financial management policies and procedures, its fiscal situation remains challenged.

This is the third time we have provided assistance to Westport, and the second time within the last five years. In March 2011, we assisted officials with their evaluation of the town's financial management operations. At that time, we focused on: the town government structure in the context of the duties and responsibilities of financial officers; the degree of coordination and communication that exists between and among boards, officials and staff involved in the financial management function; and the performance of financial operations in such a way as to maximize resources and minimize costs. That report offered 23 recommendations.

In the report that follows, we provide an overview of the town's past practices when developing budgets, using non-recurring revenues for recurring costs and seeking overrides and debt exclusions for spending needs without success. We identify the town's four major revenue sources and discuss the estimated increases and potential growth. We examine the current operating appropriations, historical supplemental appropriations, and highlight potential additional needs. We offer officials recommendations to manage their budget planning going forward in hopes of meeting their operational and capital improvement goals.

Overview

Since the passage of Proposition 2½, Massachusetts communities have been advised to conduct revenue based budgeting in which revenue projections are developed at the beginning of the budget process to determine what funds are reasonably available. Revenue estimates should be conservative, based on an analysis of a community's past and current collections, and updated as the budget process unfolds for any known or proposed changes (e.g., state aid, debt exclusion amounts, and local fees/charges). It is further recommended that operating/recurring expenditures should be supported with recurring revenue sources. While a community may draw from its reserves to support operating expenses in an emergency or to help maintain services during economic downturns, it is not advisable to rely on free cash or general stabilization funds over the long term. These are non-recurring revenue sources and there is no guarantee how much will be available from year-to-year.

Westport's historical reliance on reserves to balance the operating budget contributed to extremely difficult years during the recent recession. At that time, the town struggled to maintain service levels

and keep pace with increasing fixed costs. Growing health insurance and retirement costs coupled with a \$147,553 mid-year state aid cut, declining local receipts, and a negative free cash certification contributed to the problem. While available reserves were used to stabilize the budget during this period, many departments had to scale back services, reduce staff hours, or cut positions. In an attempt to restore services, address a growing list of capital improvements, and improve the overall fiscal position of the town, local officials have proposed seven Proposition 2½ override and five debt exclusion questions to the voters since April 2010. Unfortunately, all but a school roof and window replacement debt exclusion question failed.

Westport's reliance on reserves to fund recurring expenses has been commented on by the Division of Local Services (DLS), the town's private auditor, and its outside credit rating agency. In our 2011 Financial Management Review, we recommended that the town develop and implement policies which discourage the use of one-time revenues for recurring expenditures and establish a practice of making annual contributions into reserves for future needs. In FY2010 and FY2011, the town's outside auditor cautioned the community that the continued use of reserves put them at risk in the event of an emergency, placed reserve balances below the desired level rating agencies prefer, and created a structural budget deficit. Even the outside credit rating agency, Moody's Investment Services, issued a negative outlook for the town in October 2010, citing Westport's reduced financial flexibility due to its historical use of reserves for operating purposes, its decline in state aid and local receipts, and the failed override attempts.

In an effort to address these concerns, selectmen hired the former town administrator, who among other things oversaw the transition from an independent, elected highway surveyor to a department now reporting to the selectmen. He developed a lower cost plan to comply with a Department of Environment Protection consent order regarding the town's water system and drafted financial and operating policies that the selectmen adopted. The board also hired a town business manager. During his one year tenure, he developed a five-year revenue forecast, worked with the capital improvement planning committee on its multi-year capital plan, and implemented a purchase order system to further control town spending. Town meeting also authorized borrowings to replace aging IT hardware, acquire new financial software applications and training, and replace some equipment and vehicles. The town even adopted the FY2015 budget with minimal use of reserves.

Westport's FY2015 general fund operating budget is \$33,782,774. It comprises the omnibus budget (Article 4), two recurring articles for mosquito control (Article 6) and environmental services relating to Buzzards' Bay (Article 7), and the Cherry Sheet offsets, state & county charges and overlay that are raised on the tax recapitulation sheet.

The general fund operating budget is supported primarily through raise and appropriate, which is a combination of property tax levy, state aid and general local receipts. Although the projected FY2015 increase in these recurring revenue sources is over \$1.1 million, it is not sufficient to offset last year's

use of more than \$1.2 million in reserves. Consequently, some departmental budget requests were cut to balance the budget with estimated revenues as well as accommodate certain fixed cost and other increases such as retirement, employee benefits, and school funding requirements.

General Fund Operating Budget ¹						
	FY12 Budget	FY13 Budget	FY14 Budget	FY15 Budget	FY14-FY15 \$ change	FY14-FY15 % change
Raise and Appropriate	31,018,005	31,553,584	32,655,997	33,771,228	1,115,231	3.4%
Free Cash	164,571	235,069	1,131,449	1,546	(1,129,903)	-99.9%
Overlay surplus	48,986	0	100,000	0	(100,000)	-100.0%
Other reserves	300,912	195,912	0	10,000	10,000	
Revenues	31,532,474	31,984,565	33,887,446	33,782,774	(104,672)	-0.3%
General Govt.	1,550,596	1,610,563	1,827,082	1,737,915	(89,167)	-4.9%
Reserve Fund	50,000	50,000	50,000	24,868	(25,132)	-50.3%
Public Safety	4,589,477	4,614,831	5,160,169	5,048,625	(111,544)	-2.2%
Westport Schools	15,110,085	15,180,085	15,875,785	16,013,898	138,113	0.9%
Diman RVTHS	1,161,388	1,166,950	1,308,403	1,481,875	173,472	13.3%
Bristol Agricultural HS	67,914	72,765	74,382	72,114	(2,268)	-3.0%
Public Works ²	1,175,781	1,285,781	1,424,356	1,246,358	(177,998)	-12.5%
Human Services	658,722	699,913	748,614	670,257	(78,357)	-10.5%
Culture and Recreation	209,775	175,385	219,212	221,964	2,752	1.3%
Debt	930,594	911,963	937,328	925,152	(12,176)	-1.3%
Retirement	1,817,084	1,886,086	1,858,783	1,933,971	75,188	4.0%
Employee Benefits	3,313,000	3,408,000	3,375,197	3,401,000	25,803	0.8%
SPREDD	2,300	2,500	2,700	2,700	0	0.0%
Other amounts to be raised:						
Cherry Sheet Offsets	38,599	23,575	22,932	27,005	4,073	17.8%
State & County Charges	546,363	533,582	624,278	605,072	(19,206)	-3.1%
Overlay	310,796	362,586	378,225	370,000	(8,225)	-2.2%
Expenditures	31,532,474	31,984,565	33,887,446	33,782,774	(104,672)	-0.3%

¹These include annual and special town meeting appropriations as well as the annual cherry sheet offsets, state and county charges and overlay raised on the recap sheet.

²Public Works includes the annual Mosquito Control and Environmental Services appropriations that are not part of the budget article but made in special articles.

Source: Town meeting minutes.

Today, the FY2015 general fund operating budget is balanced and there are no plans to hold a special town meeting for supplemental spending authorizations. Town officials acknowledge that if additional funding is required, available reserves would potentially have to be tapped, thereby continuing the historical practice of supporting recurring expenditures with non-recurring revenues. They requested that the Department of Revenue's Division of Local Services prepare a financial analysis of the town's general fund operating budget with a focus on its structural balance and provide recommendations that would help the community move forward on its financial goals.

Revenues

Westport's general fund operating budget is funded with four revenue sources: property tax levy, state aid, general local receipts, and other available funds.

Property Tax Levy

Proposition 2½ limits the annual growth in a community's levy limit. It is a calculation in which each year's levy limit becomes the base when calculating the subsequent year's figure. To the base, an annual 2.5 percent increase is added plus any additional new growth. A fiscal year's new growth is based on construction for the prior calendar year as of January 1. Together, these figures represent the new levy limit.

Westport Levy Limit				
	Actual FY2012	Actual FY2013	Actual FY2014	Estimated FY2015
Prior Levy Limit	19,685,212	20,353,984	21,118,044	21,920,620
2.50%	492,130	508,850	527,951	548,016
New Growth	176,642	255,210	274,625	175,000
Override	0	0	0	0
Levy Limit	20,353,984	21,118,044	21,920,620	22,643,636
Debt Exclusions:				
School Repair	129,738	117,138	0	0
Fire Station	579,944	481,400	474,900	468,400
Land Conservation	3,063	55,513	54,288	53,063
School Green Project		3,344	126,939	129,000
	712,745	657,395	656,127	650,463
Maximum Allowable Levy Limit	21,066,729	21,775,439	22,576,747	23,294,099
Actual Property Tax Levy	21,060,251	21,762,585	22,556,707	
Excess Levy Capacity	6,478	12,854	20,040	
Source: Massachusetts Department of Revenue, Division of Local Services Data Bank Reports and town budget reports.				

Westport's new growth over the last three years has increased slightly, averaging \$235,492. Predominantly, this growth has been derived from residential development in the town (see table on following page). For FY2015, new growth is projected to be \$175,000. Despite being lower than the three-year average, it reflects the assessors' conservative estimate that factors in building permit activity, changes in the housing market and property values, and the stability of local businesses. Annually, the assessors inspect properties, prepare analyses, and submit values and other documentation to DOR, who, after a thorough review, will certify Westport's property values and its new tax levy growth. If the final growth figure is higher than estimated, it would be available for appropriation. Conversely, if it is lower, the town would adjust its overlay to absorb any reduction or, if it is significantly less, return to town meeting to reduce appropriations.

Residential Development New Growth Property Valuation and Tax Levy Increase			
	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>
Residential Parcels (Form LA-4):			
Single Family	5,689	5,724	5,761
Condos	153	157	162
Multi-family	389	396	405
	6,231	6,277	6,328
Increase/(decrease)		46	51
New Growth (Form LA-13)	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>
Property Valuation	\$24,581,700	\$31,330,334	\$32,152,244
Tax Levy Increase	\$164,943	\$220,879	\$237,605
Source: Massachusetts Department of Revenue, Division of Local Services Data Bank Reports.			

A Proposition 2½ override approved by ballot permanently increases the amount of taxes the community may levy. Since 1989, Westport has proposed sixteen overrides of which only two were approved. These were \$60,000 for fire and ambulance service in FY1994 and \$100,000 for dispatch services in FY1995. In recent years, the selectmen presented override questions to the voters for FY2013 and FY2015. FY2013 overrides were for town (\$1,047,000) and school (\$462,000) operations, which were rejected by a 56 to 44 percent margin and a 53 to 47 percent margin, respectively. A half million dollar capital stabilization fund override also failed by a wide margin. Selectmen resubmitted the capital stabilization fund override to the voters in April 2014, but it was defeated again, along with a general operating override totaling \$949,465 that was for town (\$391,526) and school (\$557,939) operations.

The community also can increase its levy limit temporarily with the passage of a debt or capital exclusion. Debt exclusions allow a community to levy above its limit for the life of the debt authorization, whereas capital exclusions are tied to the specified dollar amount acquisition. Since 1989, Westport has proposed 20 capital exclusions and 22 debt exclusions, of which 11 were approved by voters. Currently, the town has three debt exclusions for the new south end fire station, the acquisition of conservation land, and a green school project.

As a policy, Westport annually uses its maximum allowable levy to fund its annual budget. Raising the town's property tax rate any further would result in violations of statutory taxing limits. In FY2015, the town has over \$737,000 in additional property tax levy capacity over the FY2014 levy raised. For FY2016, the automatic levy increase would be about \$566,100. With new growth of \$175,000, the town's increased levy limit capacity (without debt exclusions) would be about \$741,100.

State Aid

State aid represents a combination of direct assistance, reimbursement programs, and offsets that are itemized on the annual Cherry Sheet notification to communities. Direct assistance is allocated based

on distribution formulas that incorporate equity factors such as property wealth and income, while reimbursement programs use formulas that provide full or partial funding for program expenditures or foregone revenues. These revenues are further divided into educational aid that is earmarked for school-related expenditures and general-purpose revenue available to fund non-school budgets. The funding level for each program and offset item is subject to each year's enacted state budget. Offset items are funds that must be spent for specific municipal or school programs, and they are not appropriated at town meeting but raised on the tax recap sheet.

In FY2015, Westport is expected to receive \$6,566,404 in combined state aid, which is an increase of almost \$122,000 or just under two percent from last year. Chapter 70 aid, which is restricted to educational purposes, is Westport's single largest state aid revenue source at over \$4.3 million. The vast majority of the remaining state aid is general-purpose revenue.

Because state aid is subject to the state budget process, town officials closely monitor the state budget

from the Governor's proposal in January until the final enactment, making revisions to the town budget figures as necessary. Generally, Westport takes a conservative approach to forecasting this revenue source. The town projects one percent annual increases in net state aid, which is gross state aid less offsets and state & county charges. The current FY2015 net state aid is \$5,934,327, and a one percent increase for FY2016 would be about \$59,340.

Local Receipts

Local receipts are a combination of general, enterprise, and community preservation revenues. According to the local officials, general fund and enterprise receipts are reviewed annually during the budget process, ensuring that amounts charged follow the law and recover the cost of providing the associated town service to the extent possible.

Westport Estimated State Aid				
	FY2012 <u>Estimated</u>	FY2013 <u>Estimated</u>	FY2014 <u>Estimated</u>	FY2015 <u>Estimated</u>
Chapter 70	\$4,154,597	\$4,221,997	\$4,262,947	\$4,303,047
Charter Tuition Assessment Reimb.	33,496	18,333	22,797	25,561
Education Aid	4,188,093	4,240,330	4,285,744	4,328,608
School Lunch	12,093	12,018	11,447	11,437
School Choice Receiving Tuition	15,000	0	0	0
Education Offset	27,093	12,018	11,447	11,437
Unrestricted General Government Aid	954,650	1,029,055	1,053,380	1,082,592
Police Career Incentive	0	0	0	0
Veterans Benefits	87,326	153,562	185,173	188,805
Exemption Reimb.	85,957	89,350	86,548	90,436
State Owned Land	794,657	794,913	810,632	848,958
General Govt Aid	1,922,590	2,066,880	2,135,733	2,210,791
Public Libraries	11,506	11,557	11,485	15,568
General Govt Offset	11,506	11,557	11,485	15,568
Total State Aid	\$6,149,282	\$6,330,785	\$6,444,409	\$6,566,404
Increase/(decrease)		181,503	113,624	121,995
-Education Aid		52,237	45,414	42,864
-General Aid		144,290	68,853	75,058
-Offsets		(15,024)	(643)	4,073

Source: Massachusetts Department of Revenue, Division of Local Services Data Bank Reports.

General fund local receipts include motor vehicle excise, licenses and permits, room, meal and other excise, penalties and interest, solid waste fees, and other departmental revenue. These receipts are not earmarked for any particular service and may be used to fund legal appropriations. Generally, town officials conservatively estimate these receipts, taking the prior year's actual collections into consideration. In FY2015, town officials reasonably estimate general fund local receipts at \$3.925 million, an increase of \$255,000 or 6.9 percent. However going forward, the town is hesitant to increase these receipts more than 2.5 percent annually because it could impact the subsequent year's free cash certification. Consequently, a 2.5 percent increase over the FY2015 general fund local receipts would be about \$98,125.

Westport has three enterprise funds (GL c. 41, §53F½) for its harbor, beach, and waterline operations. Enterprise accounting gives a community the flexibility to account separately for all financial activities associated with a particular service. Revenues and expenses of the service are segregated into a fund separate from all other governmental activities, enabling the enterprise to retain its operating surplus and any investment income. An enterprise fund does not grant additional powers to the department, as the service is still subject to ordinary municipal finance procedures.

Historically, each of the town's enterprise funds is self-sufficient, covering its direct, indirect, debt, employee benefit, and capital costs. Recently, the waterline enterprise costs increased due to the detection of high trihalomethane (THM) levels within the water the town receives from Fall River. Servicing roughly 150 homes along Route 6, the Department of Environmental Protection (DEP) has ordered that the town treat the high THM levels. The town was faced with possibly constructing a water treatment plant, but Westport received approval for a plan to flush stagnant water from the system and drain it into wetlands to reduce levels. The cost of the flushing plan has contributed to an increase in operating costs of more than \$88,000 and is projected to nearly double user rates. Given the small number of users paying for the service, town officials are concerned about whether the enterprise will continue to be self-supporting.

	Local Receipts					
	FY12 Recap	FY13 Recap	FY14 Recap	FY15 Recap	FY14-FY15 \$ change	FY14-FY15 % change
General Fund	3,818,472	3,636,200	3,670,000	3,925,000	255,000	6.9%
Enterprise Funds	255,000	307,889	361,974	486,629	124,655	34.4%
Community Preservation	388,263	1,608,501	622,344	1,041,054	418,710	67.3%
	4,461,735	5,552,590	4,654,318	5,452,683	798,365	17.2%

Source: Massachusetts Department of Revenue, Division of Local Services Data Bank Reports and town budget reports.

In 2003, Westport adopted the Community Preservation Act (GL c. 44B), enabling the town to raise a two percent surcharge beyond the annual tax levy for purposes that include providing community affordable housing, protecting open space, preserving historic resources, and developing outdoor recreational opportunities. The revenue is deposited into a special revenue fund along with an annual distribution of matching funds from a state trust derived from a surcharge on Registry of Deed recordings. Fortunately, the funds have helped Westport address structural issues with its historic buildings, improve handicapped accessibility to town facilities, and improve playgrounds and athletic fields.

Other Available Funds

Other available funds include free cash, overlay surplus, stabilization funds, and one-time funding sources. Some may be appropriated for any lawful purpose, while others are restricted.

Unrestricted funds include free cash, overlay surplus, and general stabilization funds. Free cash is the remaining, unrestricted funds from operations of the previous fiscal year, resulting from unexpended free cash, actual receipts in excess of revenue estimates, and unspent budgetary amounts less unpaid property taxes and certain deficits. Free cash must be certified by the DOR prior to appropriation. Overlay surplus is the balance in the overlay account of a given year in excess of the amount remaining to be collected and abated, or subject Appellate Tax Board and/or other litigation. A general stabilization fund (GL c. 40, §5B) is intended for a community to accumulate amounts for capital and other future spending purposes. All three funding sources may be appropriated by town meeting for any lawful purpose. However, as unrestricted funds are non-recurring revenue sources, they are best used for one-time or capital-related expenditures and not to support ongoing operations.

In recent years, Westport has used free cash and overlay surplus to fund its annual operating budget, ranging in amounts between \$213,557 (FY12) and over \$1,231,449 (FY14). The community recognizes that the use of non-recurring revenue for ongoing operations is not fiscally responsible and may place the continuation of town services at risk. In an effort to reverse this practice and ensure that operating budgets are supported with recurring revenues, the town adopted a one-time revenue policy that recommends these resources be used for non-recurring items, such as capital acquisitions and stabilization fund contributions. In the FY2015 budget, \$1,546 was appropriated from free cash to fund the moderator's stipend (\$775) and two recurring special article appropriations relating to mosquito control work (\$1) and Buzzards Bay environmental services (\$700).

Reserve Balances	
	<u>06/30/2014</u>
Free Cash	n/a
Stabilization Fund (SF)	878,462
Capital Improvement SF ¹	1
Landfill Closure Receipts Reserved ¹	29,098
Municipal Waterways ¹	166,598
OPEB Liability Trust Fund ¹	1,492,203
Perpetual Care Fund ¹	632,903
Sale of Lots Account ¹	99,075
¹ Restricted use.	
Source: Westport Town Accountant's Office.	

Other funds have certain restrictions that are dictated by statute. From time to time, limited amounts are appropriated from a fund for a particular use. While these funds are generally used to fund non-recurring expenditures, Westport has used some restricted reserves to support the operating budget.

Restricted Reserves Used to Fund the Operating Budget				
	Budget <u>FY2012</u>	Budget <u>FY2013</u>	Budget <u>FY2014</u>	Budget <u>FY2015</u>
Perpetual Care Fund	10,000			10,000
Sale of Lots Account	45,000			
Landfill Closure Receipts Reserved	50,000			
SBAB Reserve	195,912	195,912		
	300,912	195,912	-	10,000
Source: Westport Town Accountant's Office and town meeting minutes.				

Projected FY2016 Recurring Revenue Increase

In total, Westport has a projected increase of \$898,565 in recurring revenue sources for FY2016.

Projected FY2016 Recurring Revenue Increase	
Levy Growth	\$ 741,100
State Aid	59,340
General Local Receipts	<u>98,125</u>
	\$ 898,565

Expenditures

For FY2015, Westport adopted a balanced general operating budget with minimal use of non-recurring revenue sources. While we commend the town's effort to wean itself from the use of reserves to fund its operating expenditures, we believe there may be additional needs that will require supplemental appropriations this fiscal year.

Educational Spending

The town has its own K-12 school department, is a member of the Diman Regional Vocational Technical High School, and has students attending the Bristol County Agricultural High School. Since 1994, the Department of Elementary and Secondary Education (DESE) annually determines the net school spending requirement for the local school district and the minimum contributions for the agricultural and vocational districts that Westport must meet to comply with the Education Reform Act of 1993 (as amended).

For the vocational and agricultural districts, Westport has fully funded the assessment amounts certified by each district annually. District assessments can fluctuate from year-to-year depending on enrollment numbers. For instance, in FY2015 Diman's assessment increased by \$173,472 or 13.3 percent over last year to \$1,481,875, while Bristol Aggie's assessment decreased by \$2,268 or three percent to \$72,114.

Annually, town meeting appropriates funds directly to the local school department. This funding is supplemented with other appropriations that support the school department such as health insurance, employee benefits, some tuition, and administrative costs. Spending from these appropriations is submitted to DESE on the annual end of year (EOY) report and DESE determines which expenditures qualify towards net school spending. Westport spent \$17,067,027 in FY2012, \$16,972,211 in FY2013 and \$17,772,238 in FY2014, which were 103.6, 100.7 and 103.3 percent, respectively, of the required net school spending amounts.

Due to budgetary constraints, Westport appropriated \$16,013,898 to the FY2015 local school department, which is \$138,113 or only about a one percent increase over last year. The school's original budget request was higher, but because of a nearly \$558,000 failed override for the school department, budget cuts were implemented. Town meeting subsequently approved an additional \$815,145 in funding contingent upon another Proposition 2½ override, which did not occur within the timeframe set by law. Based on the FY2014 EOY report to DESE, Westport's combined FY2015 education spending is \$18,113,445 on a budgetary basis, which exceeds the FY2015 net school spending requirement of \$17,231,165 by \$882,280.

While the district's FY2016 funding requirements will not be available until January, Westport may need to provide some additional funding for education spending. Both the agricultural and vocational

districts have multiple members so once the budget is approved by the requisite 2/3 majority, the town must honor the assessments certified by the district. The agricultural district assessments had had small, fluctuating changes in recent years. Unless there is a significant shift in the students attending, a change in the assessment would not be material. The vocational district, on the other hand, could have an impact on the FY2016 budget. Westport is one of four members and has the smallest number of students attending. The town's assessment increased \$5,562 in FY2013, \$141,453 in FY2014 and \$173,472 in FY2015. We would not want to speculate on how much the town's assessment may change but caution the community to monitor the district's and the state's budget processes so that the assessment is adequately funded in the town's budget plan.

As for the local school district, the town has attempted two Proposition 2½ overrides to increase the school department's FY2015 budget without success and yet it is in excess of the net school spending requirement. As of this writing, the American Federation of State, County and Municipal Employees (AFSCME) Local 2667 extended its contract with the school committee through June 2017, while the Westport teachers' contract expired August 31, 2014. According to officials, there are no resources currently set aside in the event a settlement is reached with the teachers' union.

For illustrative purposes, we have calculated a one percent increase for FY2015 and a second one percent increase for FY2016. In FY2014, the schools spent over \$8.6 million on professional instructional salaries. A one percent FY2015 salary increase would be about \$86,700 and a second one percent increase based on the higher FY2015 salary base would be about \$87,500 in FY2016. Therefore to maintain the current level of services and provide for one percent salary increases over the two years, it would require an additional \$86,700 for the school department in FY2015, which would have to be funded with reserves, and \$174,200 in FY2016. If settled and approved by town meeting in FY2016, then the town would have to raise a total of \$260,900.

Snow & Ice Budget

As in many communities, Westport budgets the same amount (or slightly higher) for its snow and ice expenditures annually. Although this falls well below the town's historical need, in the event that qualifying expenditures exceed the budget then the town may deficit spend its appropriation with the approval of the selectmen and finance committee. Any remaining year-end deficits may be funded at town meeting or raised on the subsequent year's tax recap sheet (GL c. 44, §31D). While this practice may help the town when developing a balanced budget, the fact remains that it requires the community to use unexpended balances or non-recurring reserves to cover any shortfall, or raise the deficit with the subsequent year's available resources.

Snow and Ice Budget				
	Budget FY2012	Budget FY2013	Budget FY2014	Budget FY2015
ATM appropriation	69,635	69,635	70,000	70,000
Supplemental appropriations	59,933	160,000	148,247	
	129,568	229,635	218,247	70,000
Increase/(decrease)		100,067	(11,388)	(148,247)
Source: Westport Accountant's Office.				

Over the last ten years, Westport's snow and ice related costs have averaged \$222,578, or more than three times the current base budget amount. Based on the ten year average spending, Westport may need to supplement this account by more than \$150,000.

Veteran Services

The number of veterans in Westport who are eligible for financial, medical, and burial benefits has increased. The community is responsible for providing these services locally and then applies for 75 percent reimbursement from the state. Over the last couple of years, the original budget approved by town meeting for veterans' benefit-related expenses has required supplemental appropriations as actual costs incurred grew. The current FY2015 appropriation is based on the initial FY2014 budget. Based on the recent history, the town may need to supplement this by at least an additional \$20,000.

Veterans Benefits				
	Budget FY2012	Budget FY2013	Budget FY2014	Budget FY2015
ATM appropriation	101,015	101,015	246,224	245,000
Supplemental appropriations	106,000	160,000	19,000	
	207,015	261,015	265,224	245,000
Increase/(decrease)		54,000	4,209	(20,224)
Source: Westport Accountant's Office.				

Retirement

Westport is a member of the Bristol County Retirement System. The system's last actuarial valuation, which is used to determine the funding schedule and allocated portion to each of the members, was completed in January 2012. The retirement assessment for FY2015 is \$1,933,971, or an increase of \$75,188 or four percent over last year. However, due to incentives to pay the entire assessment by July, the town saved \$37,206 this year. While the FY2016 assessments have not been determined yet, another four percent increase would be about \$77,360 for Westport.

Employee Benefits

Employee benefits are a combination of the health and life insurance, Medicare expense, unemployment insurance, and workers' compensation.

Westport is a member of the Southeastern Mass Health Group (SMHG), a joint purchasing arrangement comprised of twelve communities and an educational collaborative. Annually, health insurance rates increase and the town has provided health and life insurance budget amounts that would cover participants in the plan and a cushion for potential member changes in coverage and unanticipated contingencies. While the FY2015 rates have increased about six percent, SMHG voted to use some of its reserves, thereby reducing the

Employee Benefits				
	FY12 Budget	FY13 Budget	FY14 Budget	FY15 Budget
Health Insurance	2,715,000	2,765,000	2,750,000	2,810,000
Life Insurance	5,000	5,000	5,000	5,000
Medicare	248,000	258,000	280,197	290,000
Unemployment	174,000	180,000	180,000	160,000
Workers Compensation	171,000	200,000	160,000	136,000
	3,313,000	3,408,000	3,375,197	3,401,000
Increase/(decrease)		95,000	(32,803)	25,803
Source: Westport Town Accountant's Office and town meeting minutes.				

increase passed onto group members to three percent. For FY2015, the health insurance budget is \$2.81 million, or an increase of \$60,000 or about 2.2 percent over last year. The life insurance budget on the other hand is level-funded at \$5,000 and adequately covers the town's expense.

The Medicare budget increases annually to keep pace with the employees' salaries and wages. For FY2015, the budget is \$290,000, an increase of about \$9,800 or 3.5 percent. The current appropriation covers existing personal service costs for school and town departments. In the event that a labor contract is approved, this line-item would have to be reviewed and adjusted accordingly.

The unemployment insurance budget for FY2015 is \$160,000. Based on expenditures in each of the last two years of less than \$120,000, town officials were comfortable lowering this budget by \$20,000 to help balance the overall operating budget. Even with the reported layoffs in the school department, the town believes there is sufficient funding at this time.

The workers' compensation budget for FY2015 is \$136,000. This is a decrease of \$24,000 over last year. This decrease reflects overall declining costs over the last two years, and electing to increase its policy coverage for public safety officers injured in the line of duty.

While any increases in health insurance and other employee benefits are not known yet, Westport may need to increase its health insurance line-items in FY2016. If the SMHG rates increase five percent, which is less than the full increase in FY2015, this would be an additional \$140,500 over the current budget.

Not included in the workers' compensation line-item budget is a special article appropriation of \$456,000. In March 2014, a firefighter was seriously injured in the line of duty and Westport did not have adequate insurance coverage. The town increased its insurance coverage going forward, but is responsible for the long-term recovery costs for the injured firefighter. To offset these expenses, the town appropriated \$456,000 at a special town meeting from free cash to cover the accumulating bills, engaged a consultant to negotiate charges incurred, and submitted two special acts to the legislature. Chapter 164 of the Acts of 2014 enables Westport to temporarily levy up to \$500,000 in additional property taxes annually until 2018 provided that the voters approve a special override to pay medical expenses incurred relating to the injured firefighter. Chapter 342 of the Acts of 2014 enables the town to borrow, if necessary, to pay the firefighter's medical expenses. As of this writing, the town has expended about \$102,000 of the appropriation and is monitoring the situation closely. To date, there are no plans to present the special override to the town voters on this matter.

Debt Service

As previously noted in our 2011 Financial Management Review, Westport is very conservative about issuing debt. In FY2013, the town's debt service costs were almost \$880,000, or 2.5 percent of the total budget.

Westport's capital improvement planning committee (CIPC) receives, reviews, and prioritizes departmental requests and prepares a five-year capital plan. The committee presents its annual capital budget request to town meeting, but generally it is passed over. While the need to replace vehicles and other equipment and perform smaller facility improvements may exist, the available funding does not. Because of the recent practice of using available reserves to balance the operating budget, capital needs have taken a back seat. As noted earlier, selectmen proposed several debt exclusions for capital items in recent years and looked to establish a capital stabilization fund through an override, but voters did not support the measures.

Westport's multi-year capital plan does not include any major construction/renovation projects. The town has constructed a new fire station, made repairs to and cleaned up its public works building and yard, and began the first phase of a mold remediation of its police station. The town hall slate roof has been replaced with the aid of community preservation funds. Despite over \$3 million spent on the polychlorinated biphenyls (PCBs) remediation at the Westport Middle School, there are still measurable quantities in the building. With declining school enrollment over the years, the school committee is considering realigning its students among the high, elementary and primary buildings and abandoning the middle school. According to officials, if this building reverts to town property, it could be used as town offices because the PCB levels that are safe for adults are far higher than those for children. This would open the opportunity to combine the town hall and annex offices into one structure and eventually reuse the town hall for a new police station. These plans would be predicated on funding for renovations to the structures and relocation costs of the effected departments. Under the anticipated revenue stream, this would be difficult without a debt exclusion.

	Debt Service			
	Budget FY2012	Budget FY2013	Budget FY2014	Budget FY2015
School repairs	325,650	313,050	0	
Fire Station	579,944	481,400	474,900	468,400
Land Conservation	3,063	55,513	54,288	53,063
School green project		3,344	132,000	129,000
Total debt excludable ¹	908,657	853,307	661,188	650,463
School PCBs			236,140	222,089
Capital BAN ²				20,600
Total non-debt excludable			236,140	242,689
Short-term interest	21,937	58,656	40,000	32,000
Total Debt budget	930,594	911,963	937,328	925,152

¹These figures may be reduced by state reimbursable amounts at the time the property tax rate is set.

²The capital bond anticipation note (BAN) includes funding for a fire engine (\$400,000), information technology improvements (\$316,000), highway equipment (\$177,000), school vehicles (\$50,000), and the first phase of the police station mold remediation (\$26,000).

Source: Westport Accountant's Office and Treasurer's Office debt schedules.

The FY2015 debt service budget provides for three debt excluded and two non-excluded issues. The excluded issues total \$650,463 and are funded with additional property tax levy. The non-excluded issues are the middle school PCB remediation bond and a capital bond anticipation note (BAN), totaling \$242,689, which do not have a dedicated revenue source and are funded with the town's general available resources. The middle school PCB bond annual payments are about the same as FY2015 with slight fluctuations over the next 18 years. The capital BAN, on the other hand, came due in August 2014 at a cost of \$4,732 and renewed for another year.

In FY2016, the capital BAN will come due in August 2015 at a cost of \$5,330. At that time, the tentative plans are to roll the note and make a \$169,000 paydown of the principal. Combined with the school PCB debt payment of \$217,889, Westport's non-excluded debt costs would total \$392,218, or \$149,529 more than the FY2015 budget for non-debt-excluded issues that the town would have to budget.

Labor Contracts

Westport has four town employee unions whose labor contracts expired on June 30, 2014. The most recent town contract was finalized through a Joint Labor Management Committee decision and was funded with \$451,510 from free cash in November 2013. According to officials, there are no resources currently set aside to fund labor contracts in the event settlements are reached.

Again for illustrative purposes, we have calculated a one percent increase for FY2015 and FY2016. In the FY2015 general fund operating budget, the gross, non-school appropriations for personal services totals over \$7 million. A one percent FY2015 wage increase for general fund operating budgets would be about \$70,100 and a second one percent FY2016 increase would be about \$70,700, totaling \$140,800 in additional funding to maintain the current level of services in FY2016. As noted earlier in the Educational Spending section, any increased FY2015 costs resulting from contract settlements would have to be funded with reserves.

Reserve Fund

Annually, the town sets aside an amount within the budget for extraordinary or unforeseen expenditures. Known as the reserve fund, the town's finance committee disburses these funds through authorized transfers. Historically, Westport budgets \$50,000 for the reserve fund and uses most of it over the course of the fiscal year. As a result of its policy to structure the operating budget without use of its non-recurring revenue sources, the finance committee's reserve fund was reduced to \$24,868. While the amount is reportedly sufficient for FY2015, the reserve fund is an essential fiscal management tool for emergencies that if liquidated would require the community to call a special town meeting to fund an unanticipated expenditure.

Projected FY2016 Increases to Operating Budgets

In summary, Westport could be facing increases in the FY2016 general fund operating budgets of about \$852,389. Comparing this figure to the projected increase of \$898,565 in recurring revenue sources for FY2016, the town will only have a little more than \$46,000 in recurring revenues left.

Projected FY2016 Increases to Operating Budgets	
Education Labor Contract ¹	\$ 174,200
Snow & Ice	150,000
Veterans' Services	20,000
Retirement	77,360
Health Insurance	140,500
Debt	149,529
Town Labor Contracts ¹	140,800
	<u>\$ 852,389</u>
¹ Labor contract increases attributable to FY2016 are included for illustrative purposes.	

Conclusion

After many years of using non-recurring revenues for general fund operating purposes, Westport adopted a balanced FY2015 budget that is primarily funded with recurring revenues. While the town may have potential shortfalls in snow and ice and veterans' services budgets and if it settles town and school labor contracts, it has taken a strong strong step forward to reform past financial practices. Departments have already begun signalling that they will need additional funding in FY2015, but town leaders should stay the course and hold departments accountable for managing within their budgets. The selectmen have stated that opening up that door could lead to a flood of requests that the community can not afford.

Going forward, town officials will have to work together. The town administrator and the financial officials should prepare a multi-year revenue and expenditure forecast and quarterly fiscal briefings. These should be presented at joint meetings of the selectmen, finance committee and school committee, insuring consistent communication that keeps the policymakers aware of Westport's fiscal condition. Town officials should demonstrate a strong commitment to fiscal discipline, prepare general fund operating budgets that are structurally balanced with recurring revenues, maintain conservative revenue estimates, and resist pressure to increase or supplement spending. The community should build into the budget funding for annual capital acquisitions and improvements. Westport also should begin making annual contributions to its stabilization funds and its other post-employment benefits (OPEB) fund. Eventually through consistent adherence to a fiscal plan and clear communication of that plan to residents, citizens will develop confidence in the town's ability to manage its budget and Westport may be able to win support in its efforts to address its major building improvement plans.

Recommendations

1. Prepare and Maintain a Revenue and Expenditure Forecast

We recommend that the town administrator expand the multi-year revenue forecast to include projected expenditures. The administrator, with input from financial officials, should prepare a complete multi-year forecast that includes revenue and expenditure projections and update it routinely as new information becomes available. Multi-year forecasting is a financial planning tool that can be useful in revealing budget problems early in the process and formulating long-range plans.

2. Resist Supplementing Departmental Budgets after Annual Town Meeting

We recommend that the town refrain from supplementing departmental budgets during the course of the fiscal year. The practice of supplementing, often through the appropriation of reserves or year-end transfers, creates an expectation among department heads that they do not have to live within their budget as adopted by annual town meeting. Realistic budgets that are supported with recurring revenues and provide for operations over the entire fiscal year should be developed and adopted at annual town meeting. Department heads should be advised firmly that the annual town meeting is where their budgets will be set and not to expect any additional funding during the year.

3. Maintain Conservative Revenue Projection Practices

We recommend that the town maintain its conservative revenue projection practices. As the community decreases its reliance on reserves to support general fund operating expenses, it may be tempted to increase general fund estimated receipts to make up some of the difference. Westport officials should avoid this tactic and continue practices that take current and past collections into account. Maintaining conservative revenue estimates will contribute to favorable year end results and positive free cash certifications in turn.

4. Prepare and Present Quarterly Fiscal Briefings

We recommend that the town administrator and financial officers prepare quarterly financial analyses and present them to joint meetings of the selectmen, finance committee and school committee members. Led by the new town administrator, these briefings would provide snapshots of the town's fiscal picture throughout the year to policymakers and ensure that all are aware of positive and negative influences through consistent communication. The financial officers will be present to aid the town administrator in responding to questions. For any inquiries that require research and follow-up, the financial officers will work together to gather the supplemental information and present it to the town's policymakers at the later meeting.

5. Commit to Regular Investment in the Capital Budget

We recommend that town officials commit to a regular annual investment amount for the capital budget. Otherwise, the town's identified capital replacement schedule as well as long-term plans to combine the town hall and annex departments into one building and repurpose the town hall to a police station may not be possible given the town's revenue stream. Having a set dollar amount or percentage of budget allocated to capital improvements and acquisitions will allow Westport to begin addressing its current and future needs.

6. Commit to Regular Contributions to Reserves

We recommend that Westport make regular contributions to the general and capital stabilization funds as its fiscal situation improves. Reserves should be retained for capital or unforeseen purposes. DLS recommends that communities seek to set aside combined free cash and stabilization fund balances of seven to ten percent of total budget. With healthy reserve balances, a community will have adequate resources during times of fiscal stress, enhancing the town's long-term financial stability and flexibility.

Once the community has improved its financial position, we also recommend that the town consider making additional contributions to its OPEB Liability Trust Fund. The community has made a good initial contribution but not making regular contributions is effectively putting off costs incurred today into future years. While some officials believe that the community should be making annual contributions now, there are other pressing matters that must be resolved before making a commitment to the fund. Once funds are appropriated into the OPEB Liability Trust Fund, they may not be re-appropriated to other purposes. For additional information regarding OPEB, see resources available on the Division of Local Services' (www.mass.gov/dls) and the Government Finance Officers Association's (www.gfoa.org) websites.

Because the current balance of the trust is nearly \$1.5 million, we recommend that Westport seek approval from the Health Care Security Trust (HCST) Board to participate in the State Retiree Benefits Trust Fund (SRBTF). The SRBTF is invested in the Pension Reserves Investment Trust (PRIT) Fund's General Allocation Account (GAA), also known as the PRIT Core Fund. This fund is the vehicle for investing state and many local pension fund assets. The fund is professionally managed and is one of the best performing state pension funds in the country. Fund rates of return have averaged nearly nine percent over the last ten years and are over ten percent on average since the fund's inception in 1983.

Acknowledgements

This report was prepared by the Department of Revenue, Division of Local Services:

Robert G. Nunes, Deputy Commissioner & Director of Municipal Affairs

Frederick E. Kingsley, Bureau Chief,
Municipal Data Management and Technical Assistance Bureau

Zack Blake, Director, Technical Assistance Section

Melinda Ordway, Senior Financial Management Analyst, Technical Assistance Section

Diane Dziura, Field Representative, Bureau of Accounts

In preparing this review, DLS interviewed the following individuals:

Antone Vieira, Selectman

Timothy King, Town Administrator

John Healey, Town Administrator (former)

Stephen Lombard, Business Manager (former)

Theresa Provencal, Accountant

Christine Sylvia, Acting Treasurer

Marlene Samson, Town Clerk

Charles Baron, Finance Committee

John Miller, Finance Committee

Hugh Morton, Finance Committee