



TOWN OF
DEDHAM
MASSACHUSETTS



Front entrance to Town Hall

TOWN MANAGER'S BUDGET MESSAGE

FY2025

Presented to the Select Board
February 29, 2024
Updated March 6, 2024

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FY25 Operating and Capital Budgets

Town Manager's Message

February 29, 2024

Honorable Select Board and Finance and Warrant Committee,

I hereby transmit to you the recommended FY2025 operating and capital budgets. The total FY2025 General Fund Budget including all sources and uses of funds is \$145,543,579, an increase of \$9,090,463 or 6.7% over the total FY2024 budget. Of this amount, the operating portion represents \$137,922,723 an increase of \$8,064,814 or 6.2% over the FY2024 operating budget. Major budget drivers are identified below and will be detailed in the budget presentation.

While it appears that the United States avoided a post-pandemic recession and has largely reined in the historically high inflation that we've dealt with for the past several years, the outlook for FY25 remains somewhat shaky and the impact on our local economy remains unknown. Realizing that the Town of Dedham cannot control the global, national, or even state economy, we are using best practices and budget tools available to local governments to help us successfully navigate the uncertain times we find ourselves in.

To that end, over the past year Dedham's financial team completed a benchmarking study and a Long-Range Financial Forecast ("LRFF") to better position the town to create a sustainable budget. By sustainable, we mean a budget where current revenues match or exceed current expenditures, and where extraordinary or one-time revenues are used for extraordinary or one-time expenses, while still meeting the Town's goals and priorities. Key takeaways from the benchmarking study show that we should explore opportunities to expand revenue from local receipts, review the use of free cash, and create a strategic plan to meet the Town's debt service obligations. Similarly, the LRFF is a tool that enables us to use historical financial data to project where we expect the budget to be in the next five years.



While Dedham remains financially strong, the LRFF shows that Dedham's budget requires structural adjustments in the near term to avoid significant reductions in services that will be otherwise necessary. These structural adjustments include the following:

- Funding the Town's Solid Waste costs with a pay as you throw model. Currently, the Solid Waste budget is fully funded out of the general fund (e.g. supported by all taxpayers), but a pay as you throw model would remove this cost that has been increasing at a dramatic rate and will also incentivize sustainable trash and recycling behavior.
- Reviewing and restructuring Town departmental fees to properly support service provision.
- Seeking a debt exclusion for recently completed capital projects. Annual debt service for the Early Childhood Education Center, Town Hall/Senior Center, and Public Safety Building is anticipated to cost \$5,715,698 in FY25. Excluding this cost from the tax levy will allow the Town to avoid a general budget override and/or significant reductions in services.
- Exploring options to mitigate market-driven increases to specific costs, such as employee health insurance and School Department transportation.

Capital Budget

Over the past several years, Dedham has made significant investments in its capital assets. We recently completed the new Town Hall/Senior Center, Early Childhood Education Center (ECEC), and Public Safety Building. The next major building project on the horizon is a replacement for the 120-year-old Oakdale Elementary School, which is currently in the feasibility phase of a multi-year process. As we move forward, it will be increasingly important for the Town to identify significant capital needs that will arise over the next five to ten years and to create a plan to fund the same without further stressing our general fund budget or overburdening our taxpayers.

The Town's newly adopted Financial Policy calls for the allocation of 5% to 7.5% of the operating budget to annual capital debt service. This is exclusive of free cash and dedicated funding sources, such as stabilization funds (i.e., Robin Reyes), enterprise funds, grants, and proposition 2 ½ debt exclusion projects. Our FY24 debt to policy ratio is

7.23% and using the proposed FY25 operating budget, the debt to policy ratio is 7.04%.

In FY25, the total budgeted debt service will be \$13,746,884, which represents a 2.17% increase from last year's budgeted debt service of \$13,455,371. This year, we are using the tools at our disposal to reduce future debt service, and the Town's overall debt obligations. Consistent with our financial policies, we are also proposing to use free cash to fund items from this year's capital requests to ensure the Town maintains a responsible amount of total debt service.

FY25 capital project requests totaled \$10,319,300 and following a review by the Capital Expenditures Committee I am recommending funding \$9,609,000 through the following sources:

Bonding: \$5,204,000 – This figure represents the debt principal which will be issued next spring and will impact the FY2026 budget.

Enterprise Bonding: \$2,000,000 – The Town annually bonds for sewer infrastructure projects through the Sewer Enterprise Fund. The annual debt service is paid directly from the Enterprise Fund and does not affect the Tax Levy.

Operating Capital: \$1,130,000 – We use operating budgets to pay for certain capital expenses to benefit the taxpayer. We avoid the additional costs of bonding, primarily interest payments, by raising and appropriating this funding through the operating budget. Furthermore, the inclusion of operating capital is consistent with our financial management policy and Town bylaws.

Free Cash: \$1,275,000 – The Town uses free cash for one-time expenses, such as capital projects. We are leveraging free cash for FY25 capital requests to reduce the amount of bonding necessary, and therefore reduce the Town's debt obligations and costs to the taxpayers.

Education Budgets

Based on the recommendation of Superintendent Murphy and the School Committee, I am recommending an appropriation of \$53,051,523 for the Dedham School Department. This represents an increase of \$3,487,367 or 7% over the FY2024 appropriation. Major budget drivers include transportation, special education, and increased enrollment. For more information, please see the Superintendent's FY2025 Budget Presentation.

Blue Hills Regional Technical School and Norfolk County Agricultural School funding is projected to increase \$49,688 to \$2,236,344.

FY25 Budget Drivers

- Salary Reserve (Town) – 414.3%* or \$725,000 increase
- Town Facilities – 20.2% or \$517,839 increase
- Rubbish and Recycling – 11.8% or \$313,116 increase
- Employee Benefits – 7% or \$1,386,107 increase

*Salary reserve increase due to ongoing contract negotiations with eight contracts set to expire on June 30, 2024.

Proposed Personnel Changes

As part of the budget process each year, all requests for additional personnel are carefully reviewed and only those deemed essential are recommended for addition. Due to budgetary pressures in FY25, we are not adding any positions in Town departments, while on the School side the recommended budget will result in a reduction of School Department personnel. Although there are no added positions in the Town Manager's recommended budget, there were several requests that should be considered in the future. Namely, those positions would include:

- Three (3) additional police officers;
- One (1) new crime analyst position in the Police Department;
- Four (4) additional firefighters; and
- One (1) landscaping position in the Facilities Department.

Other Budget Items of Note

- This budget fully funds the Dedham Retirement Board's required annual contribution while also allocating \$750,000 toward Other Post-Employment Benefits (OPEB). This addresses the Town's financial policies which direct us to fully fund the agreed payment schedules for the Town's pension and OPEB obligations.
- The FY2025 budget reflects a 10% increase in the Town Clerk's Office to fund operations for the 2024 election.

Revenues

As of the FY2025 Governor's Local Aid Proposal, state aid is projected to increase 23.13%, due to an increase in both Chapter 70 Education Aid and Unrestricted General Government Aid. We are projecting a slight increase in local receipts as we review and amend Town departmental fees. The changes are not reflected in the initial budget presentation as this effort is still ongoing. Revenues from the Robin Reyes Capital Stabilization Fund will remain stable for FY2025 and will offset 32% of the debt service attributable to major construction projects.

Property Tax Levy/Unused Levy Capacity

The FY2025 property tax levy represents approximately 80% of all general fund revenues. The FY2025 property tax levy is \$116,498,445, an increase of \$6,850,116 or 6.25% over the FY2024 tax levy. This compares to the \$7,935,665 or 7.80% FY2024 increase over the FY2023 levy. Keeping with recent trends, the FY2025 budget assumes new growth revenue of approximately \$1,100,000.

The tax levy limit is calculated by increasing the FY2024 levy limit, exclusive of debt exclusions, by 2.5% and then adding a component for new growth. New growth is a function of the additional value generated by construction during the preceding year. The additional tax dollar amount for new growth is determined by the value on the January 1 assessment date and is then multiplied by the applicable FY2024 tax rate. The difference between the projected FY2025 property tax levy and the tax levy limit, otherwise known as levy capacity, in FY2025 is \$1,503,096.

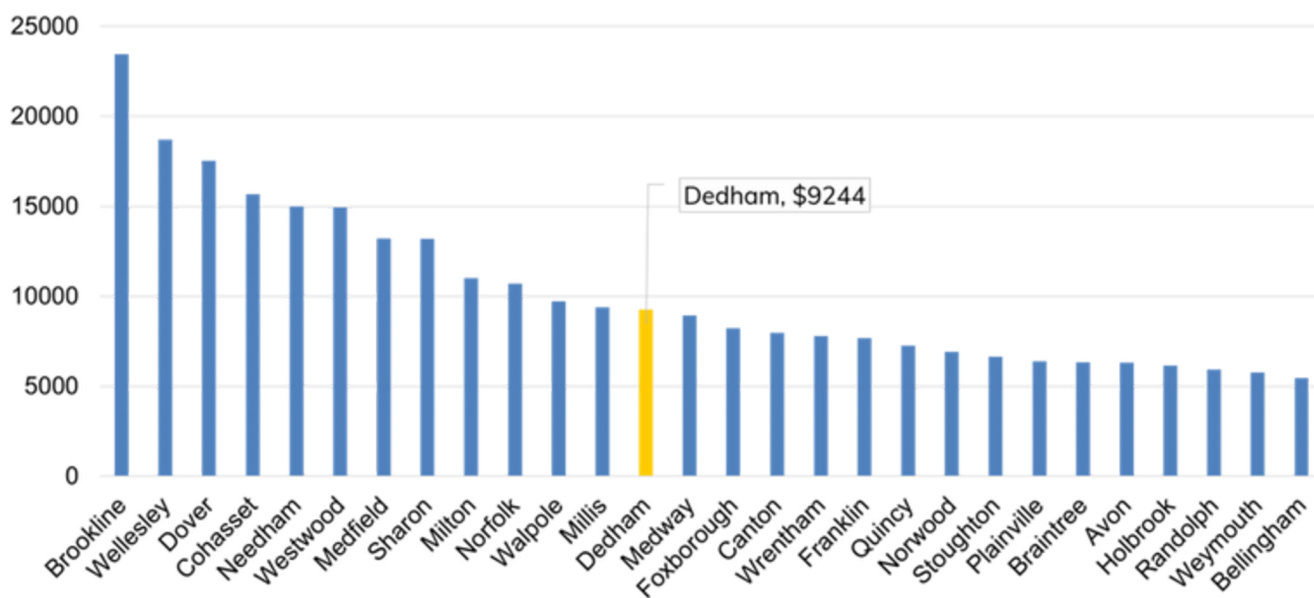
It is clear from the LRFF, benchmarking study, and the downward trend in unused levy capacity that the Town's budget is not sustainable in its current form. Unless actions are taken in the next year to make structural changes such as those identified above, the Town's excess levy capacity will be exhausted with next year's (FY26) budget and we will be required to reduce expenditures by at least \$1,500,000, thus reducing the level of service that our residents have come to expect.

Tax Levy History

| Tax Levy History | FY2021 | FY2022 | FY2023 | FY2024 | FY2025 |
|--------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| PROPERTY TAXES | | | | | |
| Prior Year Levy Limit | 96,531,276 | 100,171,350 | 104,010,191 | 107,928,689 | 112,366,347 |
| 2.5% Increase | 2,413,282 | 2,504,284 | 2,600,255 | 2,698,217 | 2,809,159 |
| New Growth | 1,226,792 | 1,334,557 | 1,318,243 | 1,739,441 | 1,100,000 |
| Subtotal | 100,171,350 | 104,010,191 | 107,928,689 | 112,366,347 | 116,275,506 |
| Debt Exclusion | 2,447,975 | 2,368,872 | 1,939,156 | 1,757,343 | 1,726,035 |
| Current Year Levy Limit | 102,619,325 | 106,379,063 | 109,867,845 | 114,123,690 | 118,001,541 |
| Levy Capacity (Unused) | (9,265,736) | (9,280,690) | (8,155,181) | (4,475,361) | (1,503,096) |
| PROPERTY TAX LEVY | 93,353,589 | 97,098,373 | 101,712,664 | 109,648,329 | 116,498,445 |
| Actual levy increase | 3,516,663 | 3,744,784 | 4,614,291 | 7,935,665 | 6,850,116 |

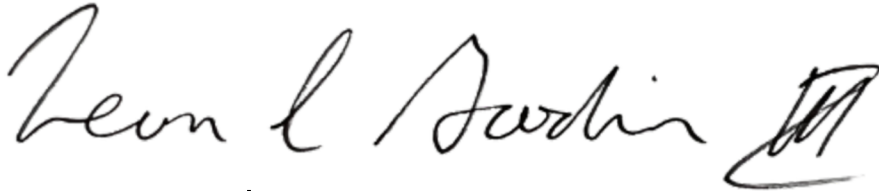
Average Single Family Home Tax Bill

The average single-family home (ASFH) property tax bill for FY2024 in the Town of Dedham was \$9,244. The ASFH tax bill for all communities in Norfolk County for FY2024 was \$10,195. Based on the most current data from the Department of Revenue, Dedham's ASFH property tax bill remains in the middle of communities in Norfolk County, ranked 13th highest out of 28 communities.



Thank you, and I look forward to working with the Select Board, Finance and Warrant Committee and Town Meeting Members this year and in the years to come to continue building a sustainable financial plan for the future of Dedham.

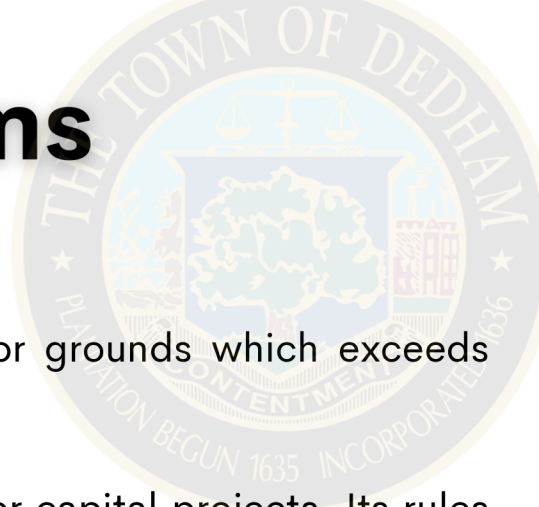
Sincerely,

A handwritten signature in black ink that reads "Leon I. Goodwin III" followed by a stylized flourish.

Leon I. Goodwin III
Town Manager

Commonly Used Terms

FY25 Budget Message



CAPITAL IMPROVEMENTS

Construction, renovation or improvement of buildings or grounds which exceeds \$50,000

CAPITAL OUTLAY EXPENDITURE EXCLUSION

A type of tax override that allows towns to raise funds for capital projects. Its rules are similar to those for debt exclusions, except the cost is only added to the levy for the year in which the project is undertaken.

CHAPTER 70

State aid funding to public elementary and secondary schools.

CHERRY SHEET

Named for the cherry colored paper on which the Massachusetts Department of Revenue traditionally has printed it, listing the amounts of state and county assessments, as well as the estimated state distribution (State Aid).

COLA

Cost of Living Adjustment

COLLECTIVE BARGAINING

A process in which employees, through their unions, negotiate contracts with employers to determine terms of employment (i.e., pay, hours, benefits, etc.)

DEBT EXCLUSION

A debt exclusion allows towns to raise funds to pay for debt incurred by the town. The amount of the payment is added to the levy for the life of the debt, and is not included in calculations of the new levy limit for future years. A debt exclusion requires a two-thirds majority vote to borrow at town meeting and requires a majority vote at a special town election.

ENTERPRISE FUND

A separate fund inclusive of the direct and indirect costs to provide a service and amounts of revenue to support the fund in exchange for the service (i.e., sewer enterprise fund).

EXCESS LEVY CAPACITY

The difference between the levy and its limit. The levy limit is not affected by excess capacity, however, meaning that in future years a town can tax up to that limit regardless of the previous levy. For example, a 1% levy increase one year allows the town to raise the levy by 4% the next year - the normal 2 ½ percent, plus the 1 ½ percent not taxed the year before.

FREE CASH

The amount of Town funds that are unrestricted and available for appropriation. Free Cash may be appropriated by vote of the Town Meeting.

GENERAL OVERRIDE

Residents can vote to increase tax levies beyond the levy limit, as long as the community is below the levy ceiling. The increase is included in the levy for that year and added to the base used to calculate future levy limits. An override requires a majority vote of the town at a special town election.

GENERAL STABILIZATION FUND

This fund serves as a general financial reserve for the Town. Money may be appropriated to the Fund up to ten percent of the preceding year's tax levy, but the Fund may not exceed ten percent of the total tax valuation of the Town. The Fund may be used for any legal purpose by a two-thirds vote of the Town Meeting. Interest earned remains in the Fund.

LEVEL FUNDING

Appropriates the same amount of money as the prior year to each department, and includes cost increases.

LEVEL SERVICES

No cuts are made and the budget is prepared to accommodate for changes that provide the same services and staffing levels as the previous year. These changes can include COLA increases, inflation, contractual obligations, etc.

LEVY CEILING

The maximum amount a community may levy under all conditions. A community's levy ceiling is 2 ½ percent of the aggregated valuation of all taxable properties.

LEVY LIMIT

The maximum amount a community may levy in a year. The levy limit can increase only by 2 ½ percent each year, plus adjustment for new growth and the addition of the debt service for previously voted tax overrides, such as debt exclusions.

MAJOR CAPITAL FACILITIES STABILIZATION

Also known as the Robin Reyes Fund, this is a special purpose reserve created by vote of Town Meeting. Expenditures may be made from the fund only on a two-thirds vote of Town Meeting. It is a management policy of the Town that this fund be used for major construction or renovation of buildings estimated to cost \$4 million or more.

MITIGATION STABILIZATION

Special purpose reserves created by vote of Town Meeting. Like the General Stabilization Fund, expenditures from these funds require a two-thirds vote of Town Meeting.

MWRA

The Massachusetts Water Resources Authority was established in 1985 to provide water supply services and sewer collection, treatment and disposal services to the region. The MWRA sets user rates and assesses each town in the area according to the metered flow of water through the sewers. Dedham funds its sewer assessment from billings based upon a metered water use rate set by the Select Board. The Town is not assessed water use charges.

NEW GROWTH

A community can increase its levy limit annually based on new development and other growth in the tax base. New growth is calculated using the following equation:

$$\text{Property value (based on assessment as of January 1)} \times \text{FY2022 tax rate} = \text{New Growth}$$

OTHER AVAILABLE FUNDS

Certain receipts, when received by the Town, must be set aside and reserved for particular appropriation. These include the Endicott Estate Receipts, Sale of Cemetery Lots and Graves, and Parking Meter Receipts. In addition, funds from the Overlay Surplus (the accumulated amount of the overlay for various years not used or required to be held in the overlay account) may be used by a town to offset budget requests for the next year. Also, all unused balances from prior years' Special Article Appropriations may be transferred to meet a new appropriation.

OVERLAY SURPLUS

The Overlay is the amount from the property tax levy in excess of appropriations and other charges. It is used to cover abatements and exemptions granted locally or on appeal. The Overlay Surplus is the unused portion of previous years' overlays.

PROPERTY TAX LEVY

The total revenue a community raises through property taxes. Often just called the "levy," it is the largest source of revenue for Dedham. This is different from the tax rate, which is the tax amount charged individual properties per \$1,000 of property valuation. The tax rate is set each year by the town.

RESERVE FUND

This fund is established by Town Meeting and may be composed of (a) an appropriation (not exceeding 5% of last year's levy), (b) money transferred from existing accounts or funds, or (c) both. The Reserve Fund amounts to an omnibus appropriation, to be transferred by vote of the Finance Committee for extraordinary or unforeseen expenditures where the Committee decides such expenditures would be approved by Town Meeting. "Extraordinary" covers items, which are not in the usual line, or are great or exceptional. "Unforeseen" includes items, which were unforeseen at the time of the Town Meeting, when appropriations were voted.