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# Longer-term structural financial problem in Wayland

By Alan Reiss

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WAYLAND - It appears as if Wayland will have an override every other year with cash transfers to make up the difference in between.

On Feb. 2, the Finance Committee held a public hearing on the financial state of Wayland, its budget and its decision to recommend a \$1.1 million transfer from free cash.

All Massachusetts municipalities must balance their budgets by law.

To fully understand where we are with this cash transfer decision we should go back to April 2008 and the \$1.9 million override. That override was projected to be even larger by \$400,000, which would have put it at \$2.3 million and over the \$2 million benchmark. That level could have dissuaded enough voters to push the thin margin back and ultimately failed the override for the first time in Wayland in 20 years. The School Committee saw declining enrollments and made a decision to reconfigure one of its three elementary school to kindergarten only.

The estimated savings from such a maneuver allowed the FinCom to estimate the required override would be \$1.9 million. The elementary school reconfiguration plus a need to keep the override under \$2 million dovetailed together and the reconfiguration proceeded. The school selection process and the events surrounding that event are a topic for another conversation.

It's important to state the obvious - nobody has a crystal ball and nobody can absolutely predict a financial

outcome precisely. The \$1.9 million override request was a projection, which was based on assumed state aid, assumed labor costs, assumed services receipts and a litany of other contributing factors.

As of December 2008, the updated projected shortfall into 2009 was then believed to be \$2 million and it also "baked in" the \$400,000 reconfiguration savings. As of Feb. 2, 2009, the FinCom believes the reconfiguration savings back to the town was \$400,000, and in the 90-day period from December 2008 to now, the Finance Committee identified \$600,000 in cuts and savings so the updated shortfall on Feb. 2, 2009 was \$1.4 million. This figure did not include the ambulance receipts, which are \$300,000, hence the town has a new updated shortfall for fiscal 2010 of \$1.1 million.

### **The irony of the prediction**

During the same period of time our free cash increased from about 8.5 percent of our total budget to about 10 percent of our total budget, and this 1.5 percent is very approximately equal to \$1 million. With the forward-looking prediction that led to \$1.9 million for that override plus unexpected increases in state aid plus unexpected decreases in operational costs, the town was able to tuck away that extra million dollars into free cash.

This means (now with 20/20 hindsight) one of two things can be considered to be true: The April 2008 override was \$1 million too large and it could have been \$900,000, or the April 2008 override of \$1.9 million was an override for two years – 2008 and 2009 (call that "override spillover").

Either way, it's not the fault of the Finance Committee because forward looking predictions will always contain some inaccuracies (especially those that are based on such a complex set of variables) and the FinCom has a duty to be conservative and err on the side of not having too large of a shortfall.

### **How does Moody's fit into this?**

This is the part that is near and dear to my heart. In April 2008 I stood at the "pro" microphone to plead to move \$400,000 from free cash to the general fund for the purpose of keeping Loker School open one more year to better reevaluate a reconfiguration process that many believed was flawed. The stressful, neighborhood and community price turned out to be much larger than \$400,000.

I was rejoined in this plea with comments from members of the FinCom and former members of the School Committee that moving this money from free cash was "bad business" and that we would place our Moody's rating in peril by doing this. I had good reason to believe then, as I believe now, that this predicted Moody's devaluation in both its probability of occurring and its magnitude was well overplayed.

Moving \$1.1 million from our 10 percent free cash to make an 8.5 percent free cash fund had no effect on our Moody's rating which is still at Aaa. I contend that moving \$1.1 million plus \$400,000 (equals \$1.5 million) to make an 8-plus percent free cash fund would still not have changed our Aaa rating. Moody's told me in March 2008 that they would like to see no less than 5 percent free cash before they would take any bond rating actions based on just that parameter and if they did, it would be incremental (i.e. not Aaa to

Aa, but rather Aaa to Aa1 or 5 to 10 basis points).

### **How else could this be handled?**

The movement of \$1.1 million of free cash to balance the operational budget does not affect Moody's. It is justified based on the 2008 "override spillover" effect (as previously described) and it is admittedly a valid solution to balance the fiscal operating budget.

However another alternative should be discussed here because it fits into a larger picture. Given the dire straits of our economic outlook, it makes sense to try to do things which might ratchet back the size of our government.

Some union bargaining lawyers suggest that asking labor unions, while contracts are still in place, to modify the terms of those contracts in terms of elimination of raises or even pay cuts is a valid approach to take. Especially in times like this. The town could have taken the position to keep its war chest strong at 10 percent and refused to transfer the \$1.1 million from free cash.

This would have created a crisis. A \$1.1 million override would have been needed in April or reductions of force would have been required. What's the probability of getting an override in April 2009? Not good. The labor unions could then be given a choice to risk a reduction in force or take pay freezes or cuts.

The beginning of the ratchet down process might have commenced in this maneuver.

By moving the \$1.1 million from free cash we solved a fiscal balancing problem but did nothing to change a longer-term structural problem. A problem that has produced five overrides in seven years and never failed one in 20. At least no other town in Massachusetts has those bragging rights.

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