

FINANCE COMMITTEE WARRANT SUPPLEMENT  
Spring 2019 Town Meeting

Dear Resident of Sudbury,

This report is intended to assist you in understanding Sudbury’s fiscal year 2020 (“FY20”) budget, from July 1, 2019 - June 30, 2020, and the related financial articles that will be presented to you at Town Meeting. We believe, above all, that the participation of an informed voter is essential for the success of Sudbury’s democratic process and continued fiscal health.

This document explains the role of the committee and explains our positions on several articles.

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## Role of the Committee

The Finance Committee is responsible for reviewing budgets for the town and schools and making recommendations to the Board of Selectmen and to the taxpayers at Town Meeting. In this role, we have no authority to make funding recommendation as that is the responsibility of our various elected bodies. Rather, our role is to examine monied articles in the town warrant on your behalf and make independent and informed recommendations regarding the budget and other financial issues. We do so by gathering data and asking questions prior to forming a recommendation. The Finance Committee is completely independent of the Board of Selectmen, other various committees in town that are appointed by the Board of Selectmen, and school committees. Our members are appointed by the Town Moderator whom you elect for a three-year term at the town election.

## Article Summary

#	Article	Amount	Source and Cost	Vote
1	Hear Reports			N/A
2	Budget Adjustments			IP
3	<a href="#">FY20 Budget</a>	\$101,703,034	Levy (\$13,683 + \$328)	4-2
4	<a href="#">FY20 Capital Budget</a>	\$ 545,000	Levy (above)	6-2

5	<a href="#">Transfer Station Enterprise Fund</a>		N/A	6-0
6	<a href="#">Pool Enterprise Fund</a>		N/A	5-0-1
7	<a href="#">Recreation Field Maintenance</a>		N/A	4-0-2
8	<a href="#">Snow and Ice Transfer</a>	\$270,000	Cash (\$49)	7-0
9	Unpaid Bills		N/A	IP
10	Chapt 90 High. Fund		N/A	6-0
11	LS E&D LS Academy		N/A	IP
12	<a href="#">Stabilization Fund</a>	\$194,894	Cash (\$32)	6-0
13	<a href="#">Repurpose Rolling Stock Stabilization Fund</a>	\$250,000	Cash (\$40)	3-4-1
14	<a href="#">Surplus Vehicle Revolving Fund</a>		N/A	5-0-1
15	<a href="#">Board of Health Revolving Fund</a>		N/A	6-0
16	<a href="#">Zoning Board Revolving Fund</a>		N/A	6-0
17	<a href="#">Revolving Fund Spending Limits</a>		N/A	7-0
18	<a href="#">Eversource Litigation</a>	\$75,000	Cash (\$12)	6-0
19	<a href="#">One Ton Dump truck</a>	\$130,000	Levy (\$21)	2-6
20	<a href="#">Concord Road Culvert</a>	\$125,000	Levy (\$20)	4-4
21	<a href="#">Purchase of Fire Engine</a>	\$570,000	Free Cash (\$100)	8-0
22	SPS Playground	\$335,000		
23	<a href="#">Wastewater Report</a>	\$500,000	Levy (+\$8)	8-0
24	Fairbanks Design and Construction			
25	<a href="#">Camp Sewataro Acquisition</a>		Debt Exclusion (+\$130 x 20 years)	2-5
26	Amend Article 25 - Capital Planning		N/A	6-0

27	Raymond Road Conveyance to Water District		N/A	N/A
28	Amend Zoning - Melone Smart Growth		N/A	6-0
29	<a href="#">SPS Modernization - Nixon Playgrounds</a>	\$235,000	CPC (\$40)	5-0-1
30	<a href="#">Featherland</a>	\$220,000	CPC (\$40)	0-5-1
31	<a href="#">RHSO</a>	\$30,000	CPC (\$5)	6-0
32	<a href="#">Coolidge</a>	\$320,000	CPC (\$60)	6-0
33	<a href="#">Sudbury Newspaper Digitization</a>	\$25,000	CPC (\$5)	6-0
34	<a href="#">Smoke and Fire - Loring Parsonage</a>	\$63,000	CPC (\$9)	6-0
35	<a href="#">CPC General Appropriation</a>	\$85,000	CPC (\$12)	6-0

## Articles that Increase the Tax Levy and Subject to Proposition 2.5

The property tax levy is the revenue a community can raise through real and personal property taxes. It is the largest source of revenue for most cities and towns. Proposition 2½ puts constraints on the amount of the levy raised by the city and how much it can be increased each year. The law sets out two types of levy limits:

- The first of the two states that a community cannot levy more than 2.5 percent of the total full and fair cash value of all taxable real and personal property. The full and fair cash value limit is known as the levy ceiling.
- The second type states that the levy can only increase a certain amount from year to year. This is known as the levy limit. The levy limit must always be below or equal to the levy ceiling.

The town may increase the levy limit by up to 2.5% each year without an override. No-override budget must fit within this levy limit of 2.5%. The levy limit does not include new construction. So in years of major developments, more money will be available for the budgets.

While the levy limit may go up the entire 2.5%, the actual amount of your taxes may not increase that amount. Why? From the time the budget is passed at town meeting, to the time the assessor's office sets the tax rate to raise the actual money required to run the town, additional sources of revenue or other changes to the cash situation of the cost centers may occur resulting in a lower increase to the actual taxes raised.

For FY20 the levy limit is projected to increase the full 2.5%. The town's budgets are projected to increase 3.23%, in part due to the availability of other sources of revenue such as new construction.

Cost Center	Budget Increase
Town	3.29%
SPS	2.87% (not including benefits)
LS	3.23% (assessment 87.9%, up from 87.05%)
Vocation Education	-7%

### Article 3 - Operating Budgets - (4-2)

The finance committee voted 4-2 to recommend approval of article 3. The mixed vote by the finance committee reflects increasing unease by some members at the manner in which the towns (all cost centers) budgets are created and how money is spent.

### *Operating Budget Realities*

There are specific operating budget realities that limit the towns ability to manage costs in the operating budgets. There are:

1. Cost of wages are driven by public employee union contracts. There are multiple public employee unions in town who negotiate with the various cost centers generally on a three-year cycle. With 80% of our budget driven by employee costs, these three-year collective bargaining agreements drive much of the spending increases in the town. If you negotiate a 3% cost of living increase, for example, for all employees each year, revenues from your taxes have to rise cover that. When you add mandatory step and lane changes for experience, the bill gets higher. Some members of the Finance Committee would like more explanation of and data to support the need for employee union contract settlements that are on the high end of COLAs negotiated in order to gain their support for the budget increases requested.
2. Health care benefits – The town is subject to increases in health care costs just like private industry. We made major progress as a town in cutting these costs when the state GIC plan was adopted several years back for Town employees and SPS employees as part of collective bargaining. LS is not in the GIC (group insurance commission). In the past, LS cost increases were less than the GIC. However current LS cost increases are greater than the increases for the town and SPS employees..
3. OPEB – The town ideally should be covering the retirement costs of health care for their current employees. We continue to make progress to cover our current employee OPEB liability.
4. Special Education Spending - While enrollment in our schools has decreased, special education costs have increased. Special education spending can be highly variable and impact budgets from year to year.
5. New revenue sources – while the town’s commercial tax base is small, significant additions to our retail sector would be required to impact the total tax bill. One of the larger retail plazas in town for example, pays only several hundred thousand dollars in taxes. All of Raytheon, when it was in operation, paid only \$600,000 in taxes. These are not small numbers, but when compared against an approximately \$101M budget, to make a dent in the percentage of the budget supported by commercial taxes would require significant commercial expansion. A commercial expansion would reduce the tax burden on residents temporarily but would do nothing to curb the rate of increase in costs for the town.
6. Another primary issue is the high % of households with school-age children. It is one of the highest in the state. An example of this is can be seen by comparing Sudbury and Concord. The population of Sudbury is 18,954 (Census data released 12/1/17) and the population of Concord is 19,432 (same census data) but Sudbury had 2850 students enrolled in grades K thru 8 in 2015-6 while Concord had 2114 in the same school year

(both from MA DOE enrollment data). The average cost for a Sudbury K-8 student is \$15,258 per year. So you can see that supporting a school system with a higher than average % of households with children can be very expensive for the town.

7. To a lesser extent, the organization and structure of our school systems also drive higher costs. First, there is a growing discussion in the state that the agreements used to fund regional high schools is adversely impacting the budgets of the towns like Sudbury. The Sudbury Finance committee continues to watch this issue as it develops.
8. Second, Sudbury operates two school systems - a pre-K to 8 system and we are assessed for almost 88% of the budget for the regional high school we share with Lincoln. Many believe that operating two school systems causes duplication in a variety of functions and inefficiencies in ongoing operations.

### *Positive Budget Issues*

- The Town of Sudbury (capital T - Town Manager Cost Center) was able to negotiate the COLA adjustments with their unions that have allowed the Town to fund both current services, add a policeman, and plan for the future increases in their budget to support the addition of four fireman.
- The Town Manager's budget includes an increase from a little over \$419K to \$800K in the levy for capital.
- The Town of Sudbury and Sudbury Public Schools both had a benefit increase of only about 3.12%. These two cost centers participate in the States Group Insurance Commission plan.
- Both SPS and LS are taking proactive steps to create in house programs for special needs students thereby working to reduce the extremely expensive out of district placements which can drive significant variations in the town's budgets from year to year.
- All cost centers continue to make progress to pay off OPEB.

### *Budget Concerns*

- The town's budget process with all the cost centers starts with an implied revenue increase coming from both new construction in town, but also an implied increase in the tax levy of 2.5%. There is mixed opinion on the Finance Committee about this approach since it basically guarantees that taxes will go up each year by approximately the amount allowed by proposition 2.5.
- LS benefit costs - while the Town and the SPS benefits only increased by about 3.12%, LS benefit costs increased by almost 7.5%. Several years ago, the Town and SPS adopted the state GIC insurance program. LS has remained on a different insurance provider. Changing this for LS requires a change to the LS teacher union contract.
- Town Department Head salaries are being increased at the same COLA amount given to non-union employees. The Finance Committee will be asking for data next year to confirm that these increases are aligned with market rate salaries.
- LS has the highest COLA increase of 3%, with SPS at 2.5% and the Town at 1.5%. The widespread of COLA amounts makes negotiating more difficult for cost centers such as the Town, that are working to hold down salary increases.
- Once again, we are seeing the Sudbury percentage of the LS budget assessment increase as the percentage of Lincoln students at LS continues to drop. Our assessment is driven

by the state mandated foundation budget and the regional agreement. There have been discussions by the Board of Selectmen to push state lawmakers to revise the regional funding formula. We hope these discussions will continue as Sudbury is not the only town impacted negatively by these issues.

- While there continues to be more cooperation between LS and SPS, a call by the Sudbury Board of Selectmen to Lincoln to discuss additional structural changes with SPS and LS was deferred to the LS School Committee by the Lincoln Board of Selectmen. The LS School Committee has not taken action.
- Last minute adjustments to the LS Budget and inconsistency in the budget has lowered some members confidence in the LS budgeting process. Specifically, a decrease in transportation funding is being used to cover a portion of a budget shortfall. This decrease is being funded through an increase in the use of the transportation revolving fund, an increase that is not necessarily sustainable

#### **Article 4 - Town Manager Capital Budget (6-2)**

The town manager's capital budget allows the town manager to purchase capital items costing up to \$100K in one year or up to \$200K over multiple years. This year's town manager capital budget is \$545K, an increase of almost \$126K over the amount from the levy in the prior year. In addition, two capital articles totaling \$255K are being proposed with the levy as the spending source. The hope is that this levy increase (to \$800K for capital) will continue to be used to fund this higher level of capital investment.

#### **Article 19 Dump Truck (2-6)**

The finance committee does not recommend article 19. Passing article 19 increases taxes needed to be raised within the levy limit, which is not necessary. The majority of the Finance Committee would be in favor of the dump truck being purchased out of available free cash. See free cash articles below.

#### **Article 20 Culvert Replacement (4-4)**

The finance committee is split on article 20. Those in favor of this article agree with the need for the culvert replacement program and are in favor of using money within the levy limit for this purchase. Those opposed believe this could be financed from free cash and there is no need for increasing taxes within the levy limit for this purchase. See free cash articles below.

#### **Article 23 Town Wide Wastewater Plan(8-0)**

The committee supports long term planning. The source of funding for this initiative will be a low interest loan available to the town. The town will make the loan payments from the operating budget.

## Free Cash Funded Articles- Articles 8, 12, 13, 18, 21

Free cash can be thought of as money remaining in the towns checking account at the end of a fiscal year. Free Cash from the previous year is certified by the State around October 1. Free Cash may be due to expenses being less than expected for particular budget items, or revenue coming in higher than expected. Free cash is normal and healthy in a properly run budget. One of the recommended uses of free cash is for one-time purchases or expenses. Free cash is also used to maintain the town's Stabilization Fund at 5% of the total projected general fund operating revenues for the past fiscal year. The town's current free cash balance is \$1,362,070 after the October Town meeting.

Free cash does not impact your current or future tax bill. The challenge with using free cash as a source for capital purchases is that it is not always available, and the amount of free cash available may not be enough to cover required capital purchases in a given year.

The vote at the October Town Meeting to use \$650K for the Bruce Freeman Rail Trail, now impacts the amount of money available for items at Spring Town Meeting.

FY19 Free Cash			
Project	Requested	Balance	Notes
Starting Balance	N/A	\$2,012,070	Certified as of 7/1/18
Bruce Freeman Rail Trail Design	\$650,000	\$1,362,070	October TM Article 7
Snow & Ice Deficit	\$270,000	\$1,092,070	May TM Article 8
Stabilization transfer	\$194,894	\$897,176	May TM Article 12
Capital Stabilization Fund	\$250,000	\$647,176	May TM Article 13
Eversource	\$75,000	\$572,176	May TM Article 18
Fire Engine	\$570,000	\$2,176	May TM Article 21
.5 % of budget	\$492,583	(\$490,407)	Finance Committee Guidance
Total	\$ 2,502,477	(\$490,407)	

### **Article 8 - Snow and Ice**

#### *Snow and Ice Explanation (Town of Kingston)*

Deficit spending is authorized for only those expenses directly related to the removal of snow and ice that are variable from year to year depending on the severity of the winter. The statute recognizes that certain snow and ice removal costs are unpredictable and difficult to accurately budget for given variable weather conditions. Its purpose is to ensure that communities, for reasons of public safety, will be able to conduct essential snow and ice removal activities without delay when appropriations for such expenses have been exhausted. Typically, the types

of expenses that vary unpredictably with the weather are overtime costs for Town's plowing crews, the cost of extra sand and chemicals to be spread on the roads, the cost of hiring plows and drivers during storms and the costs associated with removing debris, cutting/chipping trees and other expenses required to clear the roadways.

In order to deficit spend, however, the town must appropriate at least the amount appropriated the prior year for those expenditures.

#### *FINCOM Vote*

We are replenishing from free cash a deficit spending amount in the snow and ice account from last year. The Finance Committee supports the article.

### **Article 12 - Stabilization Fund (6-0)**

A stabilization fund is a mechanism for setting aside money either for unforeseen needs or for capital projects, according to the Division of Local Services. Such a fund is intended to equalize the effect of capital expenditures over time and to provide a "rainy day" fund. The stabilization fund was dipped into to pay various expenses during FY19. This article puts money back into the stabilization fund to the prescribed level.

### **Article 13 - Capital Stabilization Fund (3-4-1)**

Creating a capital stabilization fund as a place to put excess free cash so we can build up money for capital purchases makes sense to the Finance Committee. If we did this, we could push extra free cash into the fund each year and shield it from other uses.

There are several challenges members of the committee are having with this article:

1. There is not a set policy by the Board of Selectmen on the usage of this fund, or the commitment to fund it
2. If we use free cash for this fund, we don't have free cash available to fund immediate capital needs in articles 19 and 21. In fact, we are increasing the need to raise taxes within the levy limit to pay for the culvert and the dump truck. Said another way, we are increasing the tax rate to pay for an expense, that only exists next year, when we could just defer funding the stabilization fund, and keep taxes lower.
3. There is over \$400,000 from the sale of the police station property that is available for capital needs, but we have not received an opinion from the Department of Revenue as to whether this money could be moved to this stabilization fund. We should be exhausting all funding sources before we ask taxpayers for permanent tax increases.

### **Article 18 - Eversource Litigation (6-0)**

The town has spent about \$835,000 to date litigating Eversource.

### **Article 21 - Firetruck (8-0)**

The truck has been on the towns list of capital assets required to be replaced.

## **Capital Exclusions**

In addition to using free cash to pay for capital items, town meeting may also vote to use a capital exclusion to raise taxes for one year, above the proposition 2.5 limit, to purchase a major capital item. For example, if the town wanted to buy a major piece of equipment that cost \$1M, a capital exclusion could be put before town meeting for the entire \$1M. Taxes would be raised for one year only to collect this incremental \$1M to purchase the equipment.

There are no proposed articles using capital exclusions at this town meeting.

## **Debt Exclusions**

In addition to using a capital outlay expenditure exclusion, the town, for larger projects like buildings, will sell bonds to fund construction. Town meeting votes to raise money via a bond. This is called a debt exclusion. In a debt exclusion, the impact on a resident's taxes carries forward for the number of years the bond takes to mature, usually, 20 or 30 years.

### **Article 25 - Camp Sewataro(2-5)**

Options	Range Confidence	Approx. Tax Impact	Debt	Remarks
Option A - Buy and Open Space	High	\$132 (average)	Yes	Provides future use for the town that we can't see today. Buildings, outdoor pool, athletic fields.
Option B - Buy it and Lease It	Low	\$75 to \$125	Yes	Sames as option A.
Option C - Develop	Med	-\$8 to \$65	No	The committee is divided as to whether the incremental operating costs will impact taxes. But will need to be paid for out of increased taxes or decreased services. The costs are permanent, however. The land is gone forever. Tax impact assumptions are based on the town manager chart for \$1.15M to \$1.4M and 1.25 to 2 students per household.

## CPA Spending

In 2002 the Sudbury citizens voted to adopt the Community Preservation Act allowing a three percent surcharge on resident's tax bills to be allocated for CPA approved projects. Because a vote by the Community Preservation Committee is required to recommend use of these funds, CPA articles may not be amended at town meeting. The CPA gets additional funding from a state match grant. For FY20, the state match is the same as FY 19 - 11%. CPA funds must be allocated to be spent as follows: 10% on affordable housing, 10% on historic preservation, 10% on recreation, and 10% on open space. With the state grant falling below the combined 20% required to be spent on affordable housing and historic preservation, the dollars for these allocation are no longer being supported completely by the state match; a portion is coming from the surcharge. Hence the CPA is now directing how a portion of our local tax revenue is being used.

CPA funds can be used for a variety of purposes. To spend the money, the CPA can simply spend available cash it has on hand or it can raise debt. The amount of debt the CPA can raise is limited by cash flow coming into the fund each year from the town once current annual debt obligations are paid off. With inflows of \$1.9M, and the requirement to allocate 20% on affordable housing and historic preservation, that leaves approximately \$1.52M to spend less \$1.14 debt service, leaving \$380K in incremental debt service.

<b>FY20 REVENUE</b>	
Estimated FY20 Local Surcharge	\$1,900,000
Estimated State Match	\$209,000
Estimated Interest	\$10,000
<b>Est. TOTAL REVENUE</b>	<b>\$2,119,000</b>
<b>FY20 EXPENSES</b>	
FY20 Debt Service	\$1,140,210
FY20 Admin	\$85,000
<b>FIXED EXPENSES</b>	<b>\$1,225,210</b>
<b>Revenue Remaining for New Projects</b>	<b>\$893,790</b>
<b>Estimated Fund Balance 6/30/19</b>	<b>\$5,317,713</b>
<b>Total Estimated Available</b>	<b>\$6,211,503</b>
<b>Reserved for Housing</b>	<b>\$211,900</b>
<b>Reserved for Historic Preservation</b>	<b>\$191,060</b>
<b>Reserved for Open Space</b>	<b>\$0</b>
<b>Reserved for prior year appropriations</b>	<b>\$2,481,031</b>
<b>Unreserved</b>	<b>\$3,327,512</b>

### **Article 30 Featherland Tennis Courts (0-5-1)**

The 2017 Town Meeting approved \$220K to rebuild four tennis courts and to add the capability for two pickleball courts and two half-court basketball courts. For reasons not clear to the Finance Committee, when the project was bid the \$220K only allowed for the construction of 2 courts and that the actual cost of the project will be twice the original amount indicated in the 2017 article. The majority of the Finance Committee believes that, given these circumstances, the more fiscally responsible process would be for Park & Rec to come back to Town Meeting to request the additional amount needed before going ahead with any part of the project.

### **Article 32 Coolidge Affordable Housing (6-0)**

Finance Committee strongly supports this article. The town planner can probably explain the issue better than the Finance Committee, but it is important to know that due to timing issues around when permits are pulled and occupancy permits issued, the town needs to get Coolidge built and occupancy permits issued within 18 months otherwise we are out of compliance with 40B. Hence this article is important for passage.

## **Enterprise Funds - Articles 5,6,7**

### **Explanation**

An enterprise fund is a separate accounting and financial reporting mechanism for which revenues and expenditures are segregated into a fund with financial statements separate from all other governmental activities. An enterprise fund identifies the total direct and indirect costs to provide the service and the sources and amounts of revenues that support the service for which a fee is charged in exchange for service. Direct costs generally consist of personnel services, expenses and capital outlay, which are budgeted and accounted for in the enterprise fund. Indirect costs are expenditures budgeted and accounted for in the general fund on behalf of the enterprise fund, which are allocated to the enterprise fund for funding. Examples of indirect costs are central service department costs (accounting, treasury, collections, law and the like), insurances and fringe benefits that are not budgeted and accounted for in the enterprise fund.(Mass.gov enterprise fund best practices)

### **Positions**

The Finance Committee supports articles 5, 6, and 7. Article 6 for the pool now includes paying benefits for employees. In addition, the town has raised fees to continue to make the pool break even.

Article 7 for the fields includes money allocated by the town to the fields to support long term care. This is a step in the right direction to make the fields self sustaining.

## **Revolving Funds - Articles 14,15,16,17**

**Explanation**(<https://www.mass.gov/service-details/accounting-policy-and-procedures>)

Revolving funds allows a community to raise revenues from a specific service and use those revenues without appropriation to support the service. For departmental revolving funds, MGL Ch. 44 §53E½ stipulates that each fund must be established by bylaw or ordinance and that a limit on the total amount that may be spent from each fund for a fiscal year must be established by legislative body vote. Wages or salaries for full-time employees may be paid from the revolving fund only if the fund is also charged for all associated fringe benefits.

**Positions**

The Finance Committee supports all articles