

Date: November 3, 2007
Subject: Sudbury Budget Review Task Force Minutes from October 29, 2007
From: T. Dufault
To: Bob Jacobson, Co Chairman
Marty Ragonas, Co Chairman

List:

Members in Attendance (marked by √)	Guests in Attendance
√ Robert N. Jacobson, Co-Chair	Maureen Valente, Sud. Town Mgr.
√ Martha M. Ragonas, Co Chair	Andrea Terkelsen, Sud. Dir. Of Fin
√ William E. Kneeland, Jr., FinCom	Jamie Gossels, FinCom
√ Ralph F. Verni, FinCom	James Jacobson, FinCom, arrived 8:25 pm
√ Miner A. Crary, Citizen	
√ Daniel C. Difelice, Citizen	
√ Tammie Dufault, Citizen	
√ Paul Fuhrman, Citizen, arrived 8:35 pm	
A Paul C. Gannon, Citizen	
√ Robert C. Haarde, Citizen	
√ Karen Massey, Citizen	
√ Sabino (Sam) Merra, Citizen	
√ Lawrence W. O'Brien, Selectmen	
√ Paul E. Pakos, Citizen	
√ Jeffrey Beeler, Member SSC	
A Bill Braun, Member SSC	
A Jack Ryan, LSRHS	

“Committee in these meeting minutes refers to Sudbury Budget Review Task Force”

Minutes:

- 1) Meeting was called to session by M. Ragonas 7:40 p.m. All committee members present, with exception of those noted above as **A** (Absent). Guests for this meeting noted above. All participants introduced themselves.
- 2) Distribution of documents to all attending:
 - a. Agenda for today’s meeting (attachment A),
 - b. Minutes of October 22, 2007 presented (attachment B). BRTF member requests information previously requested on absenteeism from Fire and Police. (ACTION ITEM: M. Valente) T. Dufault requests due to significant amount of fact / statistical information in minutes that M. Valente confirms the information and final acceptance of minutes are postponed until confirmed. M. Valente agrees to this request. M. Ragonas motions this request; S. Merra seconds motion.
 - c. From M. Valente (attachments C):
 - i. M. Valente: C-1: Standard & Poor’s Public Finance Summary: Sudbury, MA
 - ii. M. Valente: C-2: Moody’s Approach to Analyzing L-T Debt
 - iii. M. Valente: C-3: Graphs
 - iv. M. Valente: C-4: DOR Debt Reporting
 - v. M. Valente: C-5: Reading Material Recommendations (see Agenda)

vi. R. Jacobson: C-6: Structural Deficit

- 3) M. Ragonas requests disclosure advised of T. Dufault. T. Dufault advises of domain personally owned that in the interest of ensuring transparency, she opines in best interest of disclosure (www.sudburyma.org). Requests of committee members to review this site and its content are discussed at next BRTF meeting in decision of any conflicts BRTF members may believe exist. M. Ragonas expresses appreciation to T. Dufault for disclosure and requests BRTF members review the site. (NOTE TO MINUTES: this site was later voluntarily moved to “under construction” at the decision of T. Dufault despite neither belief it contained no controversial nor conflict of interest to committee (see email noted as attachment to these minutes).
- 4) M. Ragonas opened the meeting and turned discussion to M. Valente to present agenda items (8 pm).
- 5) M. Valente thanks team for ongoing training efforts and introduces evening’s agenda topics. Opens discussion with attention to Graphs provided (attachment C-3)
 - a. Debt servicing information presented by A. Terkelsen. She provides information and advises it is per information also contained in Town Warrant.
 - b. A. Terkelsen advises Sudbury does from time to time refinance debt to take advantage of lower interest rates. In the case of recent refinance, does not change debt term, yet notes this is a potential if the rate would provide benefit to the town.
 - c. M. Valente advises Town issuance of Debt is extensive process and includes formal “bid” process. Town does not vote on Debt Term (period in which debt is financed for). Typical finance terms include:
 - i. Schools: 20 years
 - ii. Smaller Capital Projects: 5 years
 - iii. Fire Dept / Library: 10 years
 - iv. Majority of investments are 15-year financing.
 - d. Clarification on Graphs that includes indebtedness does not include Lincoln-Sudbury Regional High School.
 - e. A. Terkelsen continues on Debt, defines inside and outside limits, inside / outside prop 2 ½.
 - i. State establishes calculation (see attachment C-4), limit notes \$187M for Sudbury. A. Terkelsen advises Sudbury is currently within its limits.
 - ii. State reimbursement of “matching” has recently changed. Historically, matching would take place over period, now funding is at time of expenditure.
 - iii. Bond issuance process is extremely expensive and time consuming.
 - iv. Short-Term Borrowing is available yet Sudbury does not really utilize.
 - f. M. Valente presents information on Sudbury Credit Rating (see attachment C-1 and C2). Information presented:
 - i. Previous review of credit rating methodology determined Standard & Poor’s presentation of rating methodology.
 1. In 1999- 2000: Sudbury’s credit rating was AA+
 2. 2002, Sudbury Credit rating: AAA.
 - g. Sudbury focuses on avoid short-term solutions to finance town services. Credit rating was upgraded just before K-8 building. M. Valente refers to slide 21 in presentation presented by M. Valente to Town Council.
 - h. BRTF member inquires if Sudbury considers Lease vs. Buy on big expenditures (with exception of school).
 - i. M. Valente advises in some cases there are those that believe this is not possible, yet it is something we could look at.
- 6) A. Terkelsen presents CPA Debt. A. Terkelsen advises on CPA funding including which building and funding eligibility.
 - a. L. O’Brien advises these projects are part of the maintenance of historical aspects of Sudbury and Sudbury’s open space plan.
 - b. In response to BRTF member inquiring if “gutting” a historical building owned by the town was eligible for CPA funding, A. Terkelsen confirms yet it was and could be coordinated with Historical Preservation Committee.

- c. Town has asked for CPA funding for sidewalk project.
 - d. In response to BRTF Committee member inquiry on CPA matching funds and an article referencing these may not be matched in future, M. Valente advises currently these are matched and expected through FY09, yet legislators are currently reviewing this program. The discussion returns to Agenda items, in interest of time limits.
- 7) Joint Venture: Wayland / Septic
- a. Wayland Septic does not have treasurer: M. Valente advises current discussions explore renovation of facility, potential bonding of financing. Notes if they do, Wayland will also fund it.
- 8) M. Valente notes the Town of Sudbury is “over the hump”, pending significant bonding, we should see reduction of debt servicing. Advises some towns have not had significant investments Sudbury has embarked upon in recent years. These towns are now struggling to get approval due to economic challenges. Although it may have been difficult for Sudbury taxpayers, M. Valente believes the past investment decisions are good for community and will contribute to long-term development of Sudbury.
- 9) M. Valente references page 44-45 of Budget Document, Revenue Source Breakdown. See Reading Material references.
- a. Since 01/02, State has level funded education costs. Town has been required to bridge the gap. M. Valente reminds committee school funds are unrestricted. The school is free to move funding from one cost center to another without approval of anyone.
 - b. Lottery Aid: M. Valente advises this is formula based and opines that if casinos are approved, she is hesitant to believe it will be good for Massachusetts given recent revenue trending of MASS Lottery.
 - c. State Aid is subject to receipts and can (and has been) changed mid-year, resulting in town finding ways to fund items that were committed during budgets.
 - d. Sudbury receives ~400k per year for additional assistance, this is a long-term plan funding, detailed calculation is not clear.
 - e. Quinn Bill: Advance degrees for Police obliges town to increase compensation. This is split 50/50 Town and State.

NOTES: Mass Municipal Association promotes town funding for town has 40% consistency.

Time: 8:50 pm

- f. PILOTS, concept and highlights of those with agreements (Wayside, US Fishery, Crime Lab)
- g. Rentals:
 - i. Cell Towers: Sudbury has increased sites for rental to cell companies (majority of rental source).
 - ii. Property: Sudbury serves as landlord to a few items.
- h. In response to BRTF member inquiring how much of revenue stream is sensitive to economic swings, M. Valente advises not much due to significance of property tax and timely payments of property tax. In short, only 7% of total operating revenue is revenue sourced.
 - i. M. Valente: Property Tax Assessment, Town is required to reflect as though 100% collected then reserve within “abatement”, an amount to what is expected to be offset what is expected to be abated.
- i. Ambulance Funds: funds set aside to purchase new ambulance every 4 years.
- j. Land Agreements used to reduce tax assessment of land used for agricultural purposes (i.e. Mahoney Farms). If / When land sells, town has first right of refusal or can also opt to “roll back” of taxes (Town receives taxes (including back taxes) for property.)
- k. L. O’Brien discusses Commercial growth and restrictions for Sudbury are largely influenced by Sewage limitations.
 - i. Although various options exists:
 1. Submit MWRA application for getting into the MWRA, yet where we want this is on the Framingham line.
 2. If we build the sewage infrastructure, will the businesses come to offset the costs?
 3. Advises the approach Concord utilized, where sewage main was established, citizens could then connect in and would have a surcharge on sewage for X years to offset the expense of connecting.

- 10) R. Jacobson (9:25 pm) requests review of the Structural Deficit Document (primarily the last page). Attachment C-6:
 - a. Salary presented as increase of prior year salaries, there is no balance left for cost increase or inflation influence, this is in essence the structural deficit defined.
- 11) M. Ragonas expresses appreciation to M. Valente and A. Terkelsen for their time tonight and efforts throughout the education phase of the BRTF and the series would continue with the meeting of November 5, 2007, featuring SPS (Sudbury Public School).
- 12) M. Ragonas motions to adjourn; B. Kneeland seconds motion.
- 13) Meeting Adjourned 9:45 pm
- 14) Next Sudbury Budget Review Task Force meeting, Monday, November 5, 7:30 EST Flynn Building, 2nd Floor.

**Budget Review Task Force
Monday – October 29, 2007
Flynn Building – Second Floor - 7:30 PM**

AGENDA

- 7:30 PM Item 1: Approve meeting minutes
- 7:40 PM Item 2: Town of Sudbury
Debt/Revenue, Structural Deficit,
Prop 2 ½ Override Discussion
(Maureen Valente, Town Mgr
Bob Jacobson, BRTF)
- 9:15 PM Item 3: Other Business
- 9:30 PM Item 4: Adjourn

Maureen’s suggested reading materials in preparation of Monday’s meeting (see following pages for details).

1. Revenues and Proposition 2 1/2. From the *Suggested Reading List, Part A, General Reading on Massachusetts Town Finances*,
 - Item 1, The Finance Committee Handbook, chapters on Proposition 2 ½, User Fees and Enterprise Funds
 - Item 2, Department of Revenue, Levy Limits: A Primer on Proposition 2 ½
 - Item 3, Metropolitan Planning Commission report “Local Communities at Risk,”, 96 pages
2. Revenues. From the *Suggested Reading List, Part B, Sudbury Finances and Financial Management*,
 - Item 1, Town Manager’s FY08 Budget, Section III, page 49: Revenues and Fund Accounting
3. Debt From the *Suggested Reading List, Part B, Sudbury Finances and Financial Management*,

SBRTF, October 29, 2007 Meeting Agenda and Materials.

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6

PROPOSITION 2¹/₂

Introduction

Enacted by Massachusetts voters in 1980, Proposition 2¹/₂ fundamentally changed the municipal fiscal landscape, revolutionizing the budget process in the Commonwealth's cities and towns.

Expenditure budgets in most communities prior to the implementation of Proposition 2¹/₂ were adopted in the spring with little, if any, analysis of projected revenues for the next year. Such analyses had been considered unnecessary, because the budget could always be balanced by raising property taxes when the assessors set the tax rate in the fall. Proposition 2¹/₂ dramatically changed this process by limiting the property tax revenues cities and towns could legally assess each year to support their budgets.

What is Proposition 2¹/₂?

Proposition 2¹/₂ (Chapter 59 s 21 CM.G.L.) establishes two types of restrictions on the annual property tax levy. First, communities are prohibited from levying more than 2¹/₂ percent of the total full and fair cash value of all taxable real and personal property in the community. This limit is called the levy ceiling. Second, and more importantly, a community's levy is constrained in the amount it may increase from one year to the next. The maximum amount a community can levy in any given year is called the levy limit. The levy limit is always below, or at most, equal to the levy ceiling. It may not exceed the levy ceiling.

Under Proposition 2¹/₂, a community's levy limit increases automatically each year by two factors:

- *an increment of 2.5 percent of the prior year's levy limit, and*
- *a dollar amount derived from the value of new construction and other growth in the local tax base since the previous year that is not the*

result of property revaluation. This "new growth" increase, which varies from year to year, recognizes that new development often results in additional municipal costs, such as, for example, where the construction of a new residential subdivision causes an increase in school enrollment or public safety expenses.

Proposition 2¹/₂ does provide communities with flexibility to levy more than their levy limits. With two exceptions, all such additional taxes must be approved by the voters at an election by a majority vote. The law establishes two types of tax increases: overrides and exclusions, and also details the referendum procedure a community must follow to pass overrides and most exclusions.

A levy limit override is used to obtain additional funds for annual operating budgets and fixed costs. An override increases the community's levy limit for the fiscal year voted and becomes part of the base for calculating future years' levy limits. The result is a permanent increase in the amount of property taxes a community may levy. If the override is to fund a stabilization fund, however, two-thirds of the selectmen must vote to allocate the additional levy capacity from the override to the same purpose in each future year for it to be included in the levy limit for that year. The override may be for any amount, so long as the new levy limit, including the override, does not exceed the overall levy ceiling of 2.5 percent of the full and fair cash value of the tax base. An override question is placed on the ballot by a majority vote of the selectmen and must follow the language specified in the law.

The second option, an exclusion, may be used to raise additional taxes to fund capital projects only. This includes public building and public works projects, as well as land and equipment purchases. A debt exclusion is used to raise additional taxes

for the annual debt service costs of projects funded by borrowing. A capital outlay expenditure exclusion is used when the project is funded by an appropriation. Unlike overrides, exclusions do not become part of the levy limit and therefore, they do not result in permanent increases in the amount of property taxes a community can levy.

Exclusions are temporary property tax increases. The additional amount is added to the levy limit only during the life of the debt in the case of a debt exclusion, or for the year in which the project is budgeted in the case of a capital outlay expenditure exclusion. Also, unlike overrides, the amount of an exclusion is not limited. Exclusions may increase the tax levy above the levy ceiling. The language to be used for both exclusion questions is also found in Proposition 2^{1/2}. Both exclusions require a two-thirds vote of the selectmen to be placed on the ballot.

Two types of exclusions do not require voter approval. The first is a special debt exclusion that allows a community to raise its debt service costs for water or sewer projects outside of the levy limit or ceiling if water or sewer rates are reduced by the same amount. The second is a special debt, or capital outlay expenditure, exclusion for communities with programs to assist homeowners to repair or replace faulty septic systems, remove underground fuel storage tanks or remove dangerous levels of lead paint in order to meet public health and safety code requirements. Under the programs, local boards of health contract for the work and homeowners repay all project costs by having a portion added to their property tax bills, with interest, for up to 20 years. The amounts appropriated to fund the programs, or the debt service costs on any borrowings, are automatically raised outside the levy limit or ceiling.

Proposition 2^{1/2} also allows a community to reduce its levy limit by passing an override. When an override passes, the levy limit for the year decreases by the amount voted. This reduces the base for calculating future years' levy limits, which results in a permanent decrease in the amount of property taxes the community may levy. An override question requires a majority vote of the selectmen to be

placed on the ballot. It may also be placed on the ballot by the people using a local initiative procedure, if one is provided by law. Overrides are approved by majority vote of the electorate.

How Proposition 2^{1/2} Affects Budgets

Proposition 2^{1/2} does not limit appropriations, only property taxes, and no other statute requires that the local appropriating body adopt an annual expenditure within a specified revenue figure. Since neither the levy limit, nor local receipts, state aid nor other revenues that support the budget, are definitely fixed at the time the budget is adopted, compliance with Proposition 2^{1/2} cannot be determined until the tax rate is set several months into the new fiscal year. At that time the budget must be balanced within the levy limit.

In an effort to be prudent, however, communities attempt to adopt expenditure budgets in the spring within reasonable estimates of property tax and other revenues likely to be available for the year. Nevertheless, budgets with a higher level of appropriations than supported by estimated revenues could be in place at the beginning of the fiscal year. Appropriations are valid spending authority in such cases until they are rescinded by the local appropriating body. Departments may continue to spend at appropriated levels even though spending cuts will probably be needed to bring the budget into balance. Alternatively, additional revenue may be sought by placing an override or exclusion before the voters. Approval of the referendum will bring the budget into balance and allow a tax rate to be set. However, defeat of such a referendum does not, of its own force, rescind the budget as a whole or any particular appropriations made for the purposes described in the question. Difficulties can occur in resolving any differences in the spending decisions made by the appropriating body and taxing decisions made by the voters. This can create uncertainty in the delivery of municipal services and delays in setting the tax rate.

Contingent Appropriations

Towns can use another budgeting option that elim-

inates the need for town meeting to take further action on the annual budget or special purpose appropriations after a referendum. When voting specific appropriations, town meeting can decide that they will take effect only if additional property tax revenues to support them are approved by the voters, i.e., the appropriations are contingent upon later approval of a Proposition 2^{1/2} referendum question. Voter action on the referendum then determines whether those appropriations are effective grants of spending authority for the year. (See timing restrictions in following section)

This option recognizes the special difficulties towns encounter in adopting a balanced budget and revisiting the budget after a referendum decision. Town meeting action on the budget, which is usually submitted by the finance committee, is not confined to the recommended amounts. Because of the broad scope of action afforded under warrant articles and the advisory status of the finance committee's budget recommendations, town meeting almost always has the power to vote appropriations exceeding the recommended amounts and estimated available revenues. School Committee of the Town of Hanson v. Moderator of the Town of Hanson, Plymouth Superior Court C.A. 90-0922A and 90-0923B (1991)(Moderator cannot limit town meeting action on budget recommendations by requiring motions increasing an item to include an offsetting decrease in another item or a provision making increased appropriation contingent on Proposition 2^{1/2} override). Moreover, a special town meeting must be called whenever budget cuts or supplemental appropriations are needed or desired. This can result in added expenses, as well as delays in finalizing the budget and setting the tax rate.

Statutory Requirements

The use of contingent appropriations is governed by Chapter 59 s21 C(m) M.G.L. The basic requirements are as follows:

- All or any portion of an appropriation from the tax levy, available funds or borrowing may be voted contingent on the subsequent approval of a Proposition 2^{1/2} override or

exclusion question.

- The purpose stated in the question must be substantially the same as the purpose stated in the appropriation vote;
- The appropriation is not effective until the question is approved, i.e., the funds cannot be spent before approval;
- The deadline for obtaining voter approval of override or exclusion questions for contingent appropriations made at an annual town meeting is September 15. More than one election may be held, but the appropriation is null and void if the related question is not approved by September 15;
- The deadline for obtaining voter approval of override or exclusion questions for contingent appropriations made at any other town meeting is 90 days after the close of the town meeting at which the appropriation vote was taken. More than one election may be held, but the appropriation is null and void if the related question is not approved by the end of the 90 day period, and;
- If the contingent appropriation was made from the tax levy, the tax rate cannot be submitted to the Commissioner of Revenue for approval until the question has been voted upon, or the deadline for holding an election has passed, whichever comes first.

Language Needed

Any language indicating that the appropriation is being made subject to the approval of a Proposition 2^{1/2} referendum question is sufficient to bring it within the provisions of Chapter 59 s21C(m) M.G.L. For example, "subject to approval of a referendum question under Chapter 59 s21C M.G.L. " or "contingent upon passage of a Proposition 2^{1/2} ballot question" would both clearly express town meeting's intent to condition the spending authority on subsequent voter action.

Avoid including the specific type of referendum question or an election date in the appropriation vote if possible. The validity of the appropriation

could be questioned if the wrong type of referendum question is cited or the election is not held on the date specified.

Action Under Warrant Article

Town meeting may make any appropriation vote contingent upon approval of a referendum question whether or not the warrant article under which that vote is being taken includes “contingency” language. Moreover, inclusion of contingency language in an article does not preclude town meeting from voting an appropriation without the contingency.

This is because of the broad scope of action afforded a town under a town meeting warrant article. The purpose of a warrant article is simply to give townspeople notice of the “subjects to be acted upon” at the meeting. Chapter 39 §10 M.G.L. . An article does not need to contain details or forecast the precise action or actions the town may or will take on the subject. Even if it includes those details, the town may usually act in a different manner so long as that action is incidental to or connected with the subject of the article.

In a budget or appropriation article, this broad scope of permissible action enables a town to fund an appropriation by any lawful method, whether specified in the article or not. Since raising the funds for an appropriation from a Proposition 2^{1/2} referendum question is a funding method, town meeting is free to use that particular method under any appropriation article.

Timing of Election

As explained earlier, there are statutory deadlines for obtaining voter approval of a referendum question to fund a contingent appropriation. For appropriations made at annual town meeting, the deadline is September 15. For appropriations made at other town meetings, the deadline is 90 days after the close of the meeting. This deadline should be taken into consideration when voting contingent appropriations at a fall special town meeting. Contingent appropriations voted at that time could delay tax billing since the tax rate cannot be set if

the town can still hold an election.

Effect of Contingency

A contingent appropriation vote simply conditions the effectiveness of the appropriation on the approval of a referendum question within a certain time period. It does not place a question on the ballot. The power to place Proposition 2^{1/2} questions on the ballot rests solely with the selectmen in towns. They may choose not to place a question on the ballot for any or all contingent appropriations voted by town meeting. They can also decide to place a question on the ballot for an amount less than the contingent appropriation. In that case, approval of the question would make the appropriation effective only to the extent of the amount stated in the question.

Referendum Approach

A separate referendum question is not required for each contingent appropriation. The selectmen may include several appropriations within one question. Alternatively, they can use the so-called “menu” or “pyramid” approaches if the appropriations are for operating or other non-capital purposes.

The only limitation is that the purpose of each contingent appropriation that a referendum question is intended to fund must be described in the question in substantially the same manner as the appropriation vote. The question does not have to track the appropriation vote word for word, but it should describe the purpose in a substantially similar manner. In the case of operating appropriations, this limitation may mean that the selectmen will not have as much flexibility in describing the specific positions, programs or services the question is intended to fund as would otherwise be the case.

Approval of Referendum

Approval of a referendum question for the same purpose as a contingent appropriation, within the statutory deadline, determines whether that particular appropriation is effective. However, the validity of a referendum question is not dependent on

the effectiveness of any particular appropriation made for the same purpose.

In other words, an override or exclusion approved by the voters always grants additional taxing authority to a community. That authority is exercised by including appropriations in the budget for the purpose stated in the question. It is fully exercised any time all appropriations for the stated purposes, whether made subject to a referendum question or not, equal or exceed the amount in the question. Subsequent changes, including reductions, in those appropriations will not affect the amount of the override or exclusion unless the amended appropriations are below the amount of the question.

Annual Budget

In most towns, the annual operating budget is presented under an omnibus budget article. Typically, the finance committee's recommendations for each line item and purpose are moved as the main motion under the article. If the finance committee proposes any contingent operating appropriations, the report should show the recommended amount for each line item and in a separate column, the additional amount recommended for that purpose contingent upon approval of a referendum question. The amounts shown in both columns can then be amended by town meeting. This is a practical format that lets town meeting members consider and discuss the effect of the proposals (both "non-override" and "override") on a particular department's operations for the year. More importantly, it clearly identifies the appropriations that are subject to any contingencies, which avoids disputes about a department's spending authority if the referendum question is defeated.

Some towns vote the entire operating budget contingent upon approval of a referendum question for a portion of that budget. Typically, that portion is the total amount by which the adopted budget exceeds the recommendations of the finance committee. The vote does not, however, include any allocation of the contingent amount to specific line items or purposes. This approach is not recom-

mended because the entire budget is probably not effective if the question is defeated. Arguably, town meeting intended only to make the amount any line item exceeded the finance committee's recommendation subject to the contingency. However, there are often discrepancies between the total contingent amount and the amount of increases in the individual line items. Such discrepancies make it impossible for the town clerk to certify the appropriations available for each department's use if the referendum question fails.

Capital Expenditures

Special purpose appropriations for capital expenditures, such as construction of new schools or acquisition of conservation land, are often made contingent on passage of a Proposition 2^{1/2} referendum. Capital projects are typically funded by borrowing, which means the debt authorization could be contingent on passage of a debt exclusion. Projects funded from the levy or available funds could be subject to a capital expenditure exclusion. However, contingent appropriations for projects for which the town cannot legally borrow, such as painting town hall or filling potholes, can only be funded with an override. Chapter 59 §21C(il/2) M.G.L.

Regional School Assessments

The regional school budget procedure is set forth in Chapter 71 § I 6B M.G.L. After the regional school committee adopts the annual budget, each member community is notified of its assessed share of the budget and must act to approve or disapprove it. A member may approve the budget by a vote expressly doing so, or by the more usual practice of simply appropriating its entire assessment ("a vote or votes by a local appropriating authority to appropriate the municipality's apportioned share of the regional school budget shall constitute approval of the annual regional school district budget.") Since appropriation of the full amount assessed is required to approve the budget, it follows that in the absence of a specific vote to approve the budget, an appropriation of less than the full assessment results in disapproval or

rejection of the budget. Once the required number of members approves the budget (both communities in a two-member district and two-thirds of the communities in a three or more member district), all members become legally obligated to fund their assessments whether or not they approved the budget. If the original budget is not approved, an amended budget must be adopted by the regional school committee and submitted to the members for their consideration in much the same manner as the original budget. In either case, members can only approve or disapprove the budget before them. They cannot approve or disapprove any particular portion of it.

If a town uses contingent appropriations during this process, there are two approaches it may take. The most practical is to appropriate a portion of the assessment for the budget being considered (original or amended) without any contingency and then appropriate the balance with one. In that case, the portion with the contingency will become an effective appropriation if a levy limit override question passes within the statutory time period. The town will then have fully funded its assessment and approved the budget. If the override fails, the town will have disapproved the budget. Because the amount appropriated without the contingency is still a valid appropriation, the town will have set aside some funds to pay for its regional school assessment. Then, if the budget under consideration is disapproved and the requested funding level under an amended budget is within the amount already appropriated, the town will not have to call a special town meeting or take any other action in order to approve that budget.

Alternatively, the town can make the entire appropriation for the assessment contingent on approval of an override for all or a portion of that assessment. Approval of the override makes the entire appropriation effective and results in approval of the budget. The disadvantage of this approach is that the town has no appropriation for regional school purposes if the override is defeated so it will have to hold a special town meeting to appropriate the required funds before it can set its tax rate.

A town may make an appropriation for its

assessed share of capital expenditures not funded by borrowing contingent on passage of a referendum question, whether the assessment is for a part of the annual budget or a separate, supplemental capital budget. However, the question presented to the voters can only be an override. A capital expenditure exclusion cannot be used because all payments made by a member to a regional school district are assessments, whether allocated for operating or capital purposes, and assessments cannot be funded by borrowing. Chapter 59 §21C M.G.L.

A regional school committee may treat a contingent appropriation for all or part of the town's assessed share of a certified budget as a rejection of the budget. It does not have to wait for the election on the referendum.

Regional School Debt

Proposition 2^{1/2} expressly provides that a member of a regional governmental unit may exclude its assessed share of debt service on district borrowings. Chapter 59 s21C(k) M.G.L. Member towns often wish, therefore, to approve a regional school debt issue contingent upon passage of a debt exclusion. This poses a difficult problem because no appropriation is being made and, under Chapter 59 s21C(m) M.G.L. , a town is permitted only to make an appropriation contingent upon passage of a referendum. More importantly, a regional school district may incur debt unless one of its members disapproves the issue within 60 days of the date the regional school committee authorizes the debt. Chapter 71 s16(d)M.G.L. Thus, town meeting does not actually have to approve the proposed issue. The only town meeting action that has any legal effect is a vote expressing disapproval of the debt. A contingent town meeting vote to approve the debt, coupled with an unsuccessful debt exclusion, may not constitute such a disapproval under the statute. As a practical matter, most regional school committees treat such actions as disapproval. In the absence of assurances that will be the case, however, the town should probably schedule the referendum first, and in sufficient time to give town meeting an opportunity to expressly disapprove the debt issue within the 60-day period should

the referendum fail.

This chapter was prepared and updated by Kathleen Colleary, Esq. and represents the opinions of its author and not necessarily those of the Department of Revenue.

Budgeting Excluded Debt

An approved debt exclusion covers the annual debt service on debt issued for the project or projects identified in the question. Under Department of Revenue (DOR) guidelines, however, the exclusion is limited to debt service on the amount of borrowing authorized or contemplated at the time of referendum. Debt service on any additional borrowing that may be authorized because of an increase in project cost is not automatically covered. The guidelines require the additional debt service to be budgeted within the levy limit unless it is a fairly small increase related to inflation or minor project changes or a supplemental debt exclusion is approved by the voters. (See Bureau of Accountants Informational Guideline Release No. 02-101. *Proposition 2 1/2 Debt Exclusions* March 2002.)

The amount excluded each fiscal year over the life of the borrowing is also limited to the total principal and interest due that year net of any reimbursement received from the state or federal government for the project. Local revenues, such as user charges or betterments being used to fund the debt service, may be netted as well at the community's option, but if they are not and the debt service is funded from a special revenue or enterprise fund, the tax subsidy must be budgeted to that fund. Under certain conditions, the DOR will approve adjustments in the annual exclusion schedule in order to moderate the impact on taxpayers.

Any premiums received on debt issued for an excluded project, minus the cost of issuance, must be offset against the stated interest cost when calculating the debt exclusion so that it reflects the true interest cost incurred to finance the project. M.G.L. Ch 44:S 20.

The Division of Local Services (DLS) in the Department of Revenue has produced a concise and readable primer on Proposition 2^{1/2}: *Levy Limits: A Primer on Proposition 2^{1/2}* and a booklet about the referendum procedure: *Proposition 2^{1/2} Ballot Questions: Requirements and Procedures*.

**SAMPLE CONTINGENT APPROPRIATION MOTIONS
APPROACHES UNDER OMNIBUS BUDGET ARTICLES**

METHOD 1: SINGLE MOTION FOR CONTINGENT AND NON-CONTINGENT AMOUNTS

ARTICLE _: TO ACT ON THE REPORT OF THE FINANCE COMMITTEE ON THE FISCAL YEAR _ BUDGET AND TO RAISE AND APPROPRIATE OR TRANSFER FROM AVAILABLE FUNDS MONEY FOR THE OPERATION OF THE TOWN'S DEPARTMENTS AND THE PAYMENT OF DEBT SERVICE AND ALL OTHER NECESSARY AND PROPER EXPENSES FOR THE YEAR, OR TAKE ANY OTHER ACTION RELATIVE THERETO.

MOTION: I move that the town vote to raise and appropriate or transfer from available funds the amounts recommended by the Finance Committee for departmental operating purposes, debt service and other town expenses in fiscal year _, with each item to be considered a separate appropriation and the amounts shown in the column captioned "Contingent Appropriations" to be appropriated contingent upon passage of a Proposition 2½ referendum question under General Laws Chapter 5 9 §21 C.

PROPOSED FISCAL YEAR _ BUDGET

THE FINANCE COMMITTEE RECOMMENDS THAT THE AMOUNTS SHOWN IN THE COLUMN CAPTIONED "NON-CONTINGENT APPROPRIATIONS" BE APPROPRIATED FROM THE TAX LEVY, UNLESS OTHERWISE SPECIFIED, FOR FY _ DEPARTMENTAL OPERATING PURPOSES, DEBT SERVICE AND OTHER TOWN EXPENSES, AND THAT THE AMOUNTS SHOWN IN THE COLUMN CAPTIONED "CONTINGENT APPROPRIATIONS" BE APPROPRIATED FROM THE TAX LEVY CONTINGENT UPON THE PASSAGE OF A PROPOSITION 2½ REFERENDUM QUESTION UNDER GENERAL LAWS CHAPTER 59 §21C.

<u>Purpose</u>	NON-CONTINGENT APPROPRIATIONS	CONTINGENT APPROPRIATIONS
Selectmen's Office		
Salaries	\$ 45,000	6,000
Expenses	18,000	4,000
School Department	2,800,000	300,000
Town Planner		
Salary	0	35,000
Expenses	0	12,000
Cemetary Commission		
Salaries	8,000	
Expenses	10,000	
	(Includes \$8,000 transfer from Sale of Lots Fund)	
TOTAL	\$8,000,000	\$890,000

METHOD 2: SEPARATE MOTIONS FOR CONTINGENT AND NON-CONTINGENT AMOUNTS

MOTION: I move that the town vote to raise and appropriate or transfer from available funds the amounts recommended by the Finance Committee for departmental operating purposes, debt service and other town expenses in fiscal year __, with each item to be considered a separate appropriation.

PROPOSED FISCAL YEAR __ BUDGET

THE FINANCE COMMITTEE RECOMMENDS THAT THE FOLLOWING AMOUNTS BE APPROPRIATED FROM THE TAX LEVY, UNLESS OTHERWISE SPECIFIED, FOR FISCAL YEAR __ DEPARTMENTAL OPERATING PURPOSES, DEBT SERVICE AND OTHER TOWN EXPENSES:

Purpose Recommended

Selectmen's Office

Salaries	\$45,000
Expenses	\$18,000

School Department

\$2,800,000

Town Planner

Salary	0
Expenses	0

Cemetery Commission

Salaries	\$8,000
Expenses	\$10,000

(Includes \$8,000 transfer from Sale of Lots Fund)

TOTAL

\$8,000,000

MOTION: I move that the town vote to raise and appropriate any additional amounts recommended by the Finance Committee for the departmental operating purposes and other town expenses in fiscal year __ contingent upon passage of a Proposition 2^{1/2} referendum question under General Laws Chapter 59 § 21 C.

PROPOSED FISCAL YEAR _ CONTINGENT BUDGET

THE FINANCE COMMITTEE RECOMMENDS THAT THE FOLLOWING AMOUNTS BE APPROPRIATED FROM THE TAX LEVY FOR FISCAL YEAR __ DEPARTMENTAL OPERATING PURPOSES AND OTHER TOWN EXPENSES CONTINGENT UPON PASSAGE OF A PROPOSITION 2½ REFERENDUM QUESTION UNDER GENERAL LAWS CHAPTER 59 §21C.

PurposeRecommended

Selectmen’s Office

Salaries	\$6,000
Expenses	\$4,000

School Department \$300,000

Town Planner

Salary	\$35,000
Expenses	\$12,000

TOTAL CONTINGENT APPROPRIATIONS \$890,000

BALLOT QUESTIONS

Under either approach, the town has the choice whether to bundle all the contingent appropriations for operating expenditures or the fiscal year into a single override question for the \$890,000 in this example, or to put separate questions on the ballot f for different departments or groups of departments: for instance, one question for \$300,000 for school department operating expenses and another question for \$590,000 for fiscal operating expenses of all other town departments. The choice of how to structure the ballot questions is within the discretion of the selectmen. If the selectmen do decide to include more than one contingent appropriation in a question, the purpose of each appropriation the question is intended to fund would have to be stated in the question.

**SAMPLE CONTINGENT APPROPRIATION MOTIONS
UNDER OTHER APPROPRIATION ARTICLES**

REGIONAL SCHOOL BUDGET ARTICLE

ARTICLE : TO SEE IF THE TOWN WILL APPROVE THE _____ REGIONAL SCHOOL DISTRICT BUDGET FOR FISCAL YEAR _ AND RAISE AND APPROPRIATE OR TRANSFER FROM AVAILABLE FUNDS \$(FULL ASSESSMENT) TO PAY ITS ASSESSED SHARE OF THAT BUDGET, OR TO TAKE ANY OTHER ACTION RELATIVE THERETO.

MOTION: I move that the town raise and appropriate \$(non-contingent portion) to pay its assessed share of the _____ Regional School District Budget for fiscal year _ and that it raise and appropriate the additional \$(contingent portion) required to fully fund the assessment and thereby approve the district's budget for the year, provided that this additional appropriation be contingent on the approval of a levy limit override question under General Laws Chapter 59 §21 C(g).

SEPARATE DEPARTMENTAL "CONTINGENT BUDGET" ARTICLE

ARTICLE_: TO SEE IF THE TOWN WILL RAISE AND APPROPRIATE OR TRANSFER FROM AVAILABLE FUNDS A SUM TO SUPPLEMENT THE FIRE DEPARTMENT'S OPERATING BUDGET FOR FISCAL YEAR _ CONTINGENT UPON THE PASSAGE OF A PROPOSITION 2 1/2 LEVY LIMIT OVERRIDE REFERENDUM, OR TAKE ANY OTHER ACTION RELATIVE THERETO.

MOTION: I move that the town raise and appropriate an additional \$_____ for the Fire Department's fiscal year _ operating budget to be allocated as follows:
\$_____ for salaries and \$_____ for expenses, provided that such additional appropriations be contingent on the passage of a Proposition 21/2 levy limit override question.

BORROWING ARTICLE

ARTICLE_: TO SEE IF THE TOWN WILL APPROPRIATE A SUM OF MONEY BY BORROWING TO DESIGN AND CONSTRUCT AN ADDITION TO THE WASHINGTON ELEMENTARY SCHOOL AND TO AUTHORIZE THE TREASURER, WITH THE APPROVAL OF THE SELECTMEN, TO ISSUE ANY BONDS OR NOTES THAT MAY BE NECESSARY FOR THAT PURPOSE, OR TAKE ANY OTHER ACTION RELATIVE THERETO.

MOTION: I move that the town appropriate and borrow \$5,000,000 for the design and construction of an addition to the Washington Elementary School and authorize the treasurer with the approval of the selectmen, to issue any bonds or notes that may be necessary for that purpose, as authorized by General Laws Chapter 44 §7(3a), or any other general or special law, for a period not to exceed 10 years, provided, however, that this appropriation and debt authorization be contingent upon passage of a Proposition 21/2 debt exclusion referendum under General Laws Chapter 59 §21 C(k)

9

USER FEES AND ENTERPRISE FUNDS

Introduction

The federal court system has defined a tax as “an enforced contribution to provide the support of government.” United States v. Tax Commission of Miss., 421 U.S. 599 (1975).

In Massachusetts, property tax revenues derive from a tax rate and property values, with little or no link to specific government services. In contrast, user fees and charges support the provision of a specific municipal service, with the users having the option to decline the service and avoid the fee.

Historically, user fees have been a viable but largely underutilized source of revenue. With the constraints on property tax increases imposed by Proposition 2^{1/2}, towns have increasingly turned to user fees to support services once financed by property taxes.

User Fees Defined

The Massachusetts Department of Revenue’s Division of Local Services defines User Charges/Fees as: “A municipal funding source where payment is collected from the user of a service to help defray the cost of providing the service.” The reader may wish to review the state’s IGR no.88-207 for additional guidance on this subject.

A user fee is simply a charge to the user of a specific government service. The underlying philosophy is that those who use or benefit from a program or service should pay for it. The direct and indirect costs of various services are analyzed, fee mechanisms studied, and fees and rates established to recover the full cost of service delivery.

User fees consist of two broad types of charges, and it is essential to distinguish between them.

User charges are based on the goods and services used by an individual, group or business, for example sewer and water user charges. Other fees, such as licenses and permits, might reflect the costs of the government’s review and regulatory processes.

User Charges

Such charges introduce a business-like relationship between the user/customer and the governmental unit imposing the charges. The customer has the option to avoid both the service and the charges, and the governmental entity provides only the level and quality of service for which users are willing to pay.

Individuals, groups, businesses, and organizations pay these charges for goods or services received. The revenues from these charges are intended to help defray the costs of services, not to regulate the activities. Examples of this type of charges may include the use of public buildings or recreational facilities, library access, copying, notary services, etc.

User Fees

This second category comprises fees assessed on individuals, groups, businesses and organizations for the opportunity to participate in a government-regulated activity. Examples of these regulation-oriented charges include fees for permits to build or modify structures, court and legal expenses, and permits to conduct garage sales. These user fees might be considered “mandatory,” since an individual or business may not proceed with a covered activity without regulatory review and the payment of the associated license or permit fee.

Legal Test of User Charges

Just as the federal courts have defined taxes, the Massachusetts court system has established a

three-point test to determine whether a user fee may be classified as such. Emerson College v. Boston, 391 Mass. 415 (1984).

In the Emerson case the court reached the conclusion that the charges imposed by the city produced revenue to defray the cost of public benefit rather than a fee paid for a benefit limited to the owners of the property.

This landmark case resulted in the identification of three common traits that are used to distinguish fees from taxes in Massachusetts. They are:

- *the service must provide a direct benefit to a party in exchange for payment in a way not shared by other members of society;*
- *the service must be optional, with the party having the choice to refuse the service; and*
- *the charge must compensate the specific governmental unit for the cost of delivering that service only. (The governmental unit may not collect user fees to simply raise general revenue.)*

There have also been Massachusetts court cases where imposed charges have been upheld as valid fees. In Southview Co-Operative Housing Corp. v. Rent Control Board of Cambridge, 396 Mass. 395 (1985) the court concluded that charges levied against landlords in filing petitions for individual rent adjustments were valid fees. In another case known as Commonwealth v. Caldwell, 25 Mass. App. Ct. (1987) the court also found that a mooring and slip fee assessed to vessel owners by a Harbormaster acting under a municipal ordinance was a valid fee and not a tax.

In both of the above cases the court determined that the revenues raised directly compensated the government unit for the cost of providing the service. On the flip side, municipalities may be imposing fees that exceed the cost of the services being provided. Communities should take care to verify that local fees are based upon reasonable costs. User fees should not be used to generate revenue in excess of the cost of providing the particular service. The burden for proving the legality of a user fee rests with the party challenging it.

User Charges: Promoting Equity and Efficiency

Apart from the role user charges play in a town's fiscal plan, proponents of user fees and charges argue that they offer substantial additional benefits to communities. These benefits include:

- *promotes of equity* by passing the cost of providing a service directly to the end user, rather than burdening those who neither need nor want these services. Moreover, user fees release general revenue to sustain services that benefit the broader community;
- *improves allocation of public resources*, predicated on a free market. When the consumer determines both the value of the service and the level of demand, government is encouraged to provide only the amount of service needed. Public administrators can adjust fee schedules or eliminate services based on citizen demand;
- *establishes of a revenue source that may vary with the demand* for specific services. As demand for a service increases, so does the revenue stream; as demand declines, revenues do the same; and
- *enables pricing flexibility* created by economies of scale. As demand rises for certain services, delivery costs may be reduced, reflecting the lower costs of more efficient operations.
- *allows linkages to other governmental efforts.* User charges can be established to benefit the local quality of life. The use of increasing block rates in water and sewer utilities is an example of fee structures that are deemed to protect the environment because they promote water conservation.

Challenges to User Fees

While user fees offer advantages for funding public services, detractors of the practice also abound. The most common argument against user fees is their potential regressivity, implying that user fees place a greater burden on low income residents than on middle or upper-income residents. The

argument is that those who may most need a service may be least able to pay for it.

The issue that user fees may be regressive is not the major argument here in Massachusetts, it is that user fees represent a way of circumventing the limits of Proposition 2 1/2.

Thus, some interpret user fees as back door taxes, used to fund municipal services formerly funded by general revenues. Subscribers to this point of view consider such user fees an unfair burden on the specific users, who once paid for these services through property taxes or other general revenues.

Unlike local income, property and other taxes, user fees are not deductible for federal income tax purposes. In some communities, town meeting members each year move to shift some fees for services to the tax levy, reasoning that the tax deductions for higher property taxes would reduce out-of-pocket costs after taxes. This argument is generally not valid with respect to itemized charges for services to a specific property which are added to the property tax bill. The federal personal income tax code allows deductions for property taxes only when the taxes are based solely on the value of the property.

Enterprise Funds

An enterprise fund accounts for the income, expense, assets and liabilities of financing specific services to the public, where the governing body intends to recover the costs of providing the services through user charges. Governmental units operate and finance these service activities in a manner similar to a private business or enterprise. Rates and user charges are established, either as part of the budget process or as a separate, formal rate-setting procedure, to cover direct and indirect costs, including depreciation of assets, expenses, replacement or improvement of assets, and efforts to retain earnings for future capital investments.

While sound business practice and long-term financial planning might dictate creation of an enterprise fund, municipalities may also do so to achieve some broader public policy objectives.

Some elected and appointed officials believe that those who benefit from a particular government program should pay for the program through user fees. These officials may conclude that an enterprise fund is the best mechanism for systematically accounting for all direct and indirect operational costs and revenues. Thus, an enterprise fund not only yields the financial data needed to periodically determine the required level of revenues, but also responds to public policy, management control, accountability and other objectives.

By accepting the provisions of Chapter 44 s 53 F 1/2 M.G.L., a town may establish an enterprise fund to segregate the accounting for a group or class of similar municipal services. Without accepting the special legislative provisions, all user fee receipts and related disbursements are comingled in the general fund.

If no special legislation is adopted, service expenses in excess of revenues must be raised through the property tax levy or from other general revenues. Revenue surpluses are rolled into the general fund balance and may not be applied to reduce future user fees or be appropriated to maintain assets used to deliver services.

The most significant difference between general governmental accounting practices and enterprise funds is the recognition of revenues when earned and expenses when incurred (the full accrual basis of accounting). Municipal accounting in Massachusetts is generally on a full cash or modified accrual basis.

Is An Enterprise Fund Appropriate?

The first decision a community must reach before determining which accounting system will be most appropriate is whether or not a town should fully recover the costs associated with certain municipal services. In reaching this decision, a town should pose the following questions:

- Who are the customers receiving the services?
- Are comparable services being provided by the private sector? By neighboring towns?

- Is there a statutory obligation to provide this service?
- What are the long-range plans for this service?
- Do the user fees being charged cover direct and indirect service costs?

While there are no “right” answers to these questions, towns generally create enterprise funds for services that meet the following profile:

- *the service is widely accepted by a broad base of customers;*
- *competition is limited, and the service enjoys competitive advantages: price, location, etc.;*
- *the governmental unit intends to continue providing the service, that is, to stay “in the business”;*
- *user fees either cover all costs or may be increased or restructured to do so;*
- *accountability for the service;*
- *response operation is clear.*

Finance committees may wish to assess fee for service programs in their budgets to determine whether or not an enterprise fund is appropriate. The enterprise fund approach can ensure that the infrastructure for critical services, such as water and sewer, can be properly maintained and upgraded. Many communities are finding that the demands for services funded by the tax levy leave few resources for timely capital investment.

User Fee “Best Practice”

Whether accounted for in the general fund or by an enterprise fund, user fees may be considered, adopted, and periodically evaluated through a five-step process:

1. define the services to be provided on a user fee basis;
2. estimate demand for the services;
3. calculate the full cost of the services using cost-accounting techniques;

4. determine the total cost of delivering a “unit” of service; and
5. establish a fee structure to recover service costs and preserve the asset base.

This process requires good business instincts and some competency in cost accounting. A thoughtfully appointed finance committee can be rich in these interests and skills. While many members may initially be unfamiliar with the idiosyncrasies of municipal accounting, most can easily relate to activities similar to those of a business in the private sector. If a business analysis suggests that there is a market for a particular municipal service and that customers will pay fees adequate to recover costs, then the committee’s efforts should focus on accounting for service costs.

The town’s accounting system may track all revenues and expenditures in the general fund, but which costs are related to a specific service? The direct costs of a service are generally obvious: wages and salaries, electricity and other utility costs, supplies, materials and some capital outlays. However, municipalities must also consider a service’s indirect costs, such as insurance, employee pension costs, operational overhead, municipal space, debt service, etc. These expenses usually appear in other areas of the town’s budget. The annual cost of capital investments in inventories, facilities, equipment and infrastructure must also be accounted for. The local government’s financial systems should properly track the addition, deletion and depreciation of their communities’ capital investments and inventories.

Considerable analysis may be required to identify and quantify indirect costs associated with a specific service. Typically, the town’s budget presents lump sum appropriations and the accounting system records gross expenses for costs such as worker’s compensation premiums, group health and medical insurance and principal and interest payments. Identifying and separating these indirect costs is essential to implementing an enterprise fund.

Enterprise funds account for their fixed assets and long term liabilities on their balance sheets and

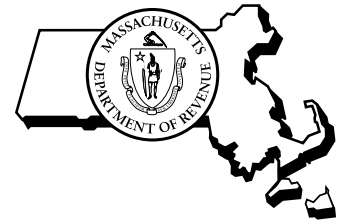
income statements. This method of accounting enables rate setters to properly provide for the annual depreciation expenses and capital outlay requirements of the enterprise.

This chapter was prepared by Donald Levitan, Sheryl McMahon, Mark Morse and Kevin Gookin and updated by Michael Daley.

Massachusetts Department of Revenue *Division of Local Services*

Alan LeBovidge, Commissioner

Gerard D. Perry, Deputy Commissioner



Levy Limits: A Primer on Proposition 2½

Introduction

The Division of Local Services has developed this primer to guide local officials through the mechanics of Proposition 2½. Proposition 2½ revolutionized property tax administration and is a fundamental feature of the Massachusetts municipal fiscal landscape. Yet there is still some confusion about its meaning for cities and towns, particularly because the law is complex and has undergone a number of changes since Proposition 2½ was enacted in 1980.

The purpose of this primer is to explain, as simply as possible, the basic provisions of Proposition 2½. We focus in particular on those aspects of the law that we have found to cause the most confusion, for example: the ways in which Proposition 2½ limits the property tax, how the levy limit is calculated, how an override differs from a debt exclusion or capital outlay expenditure exclusion, and how new growth works.

With the help of this primer, a local official should be able to understand the fundamentals of Proposition 2½. However, this primer is not intended as a substitute for legal guidance on a community's options and obligations under the law. If you have any questions, please refer to the Resources section included in this primer and contact the Division of Local Services for assistance and information.

We hope this primer will help you grasp the basic concepts of Proposition 2½ and act on behalf of your community with a better understanding of the law. We welcome questions and comments on this publication.

What is a Levy?

The property tax levy is the revenue a community can raise through real and personal property taxes. We will refer to the property tax levy simply as the **levy**. In Massachusetts, municipal revenues to support local spending for schools, public safety and other public services are raised through the property tax levy, state aid, local receipts and other sources. The property tax levy is the largest source of revenue for most cities and towns.

What is a Levy Ceiling? What is a Levy Limit?

Proposition 2½ places constraints on the amount of the levy raised by a city or town and on how much the levy can be increased from year to year.

A levy limit is a restriction on the amount of property taxes a community can levy. Proposition 2½ established two types of levy limits:

First, a community cannot levy more than 2.5 percent of the total full and fair cash value of all taxable real and personal property in the community. In this primer we will refer to the full and fair cash value limit as the **levy ceiling**.

Second, a community's levy is also constrained in that it can only increase by a certain amount from year to year. We will refer to the maximum amount a community can levy in a given year as the **levy limit**. The levy limit will always be below, or at most, equal to the levy ceiling. The levy limit may not exceed the levy ceiling.

Proposition 2½ does provide communities with some flexibility. It is possible for a community to levy above its levy limit or its levy ceiling on a temporary basis, as well as to increase its levy limit on a permanent basis. These options are discussed in more detail in other sections of this primer. The concepts of levy ceiling and levy limit are illustrated in *Figure 1*.

How is a Levy Ceiling Calculated?

The levy ceiling is determined by calculating 2.5 percent of the total full and fair cash value of taxable real and personal property in the community:

$$\text{Full and Fair Cash Value} \times 2.5\% = \text{LEVY CEILING}$$

$$\text{Full and Fair Cash Value} = \$100,000,000$$

$$\$100,000,000 \times 2.5\% = \$2,500,000$$

In this example, the levy ceiling is \$2,500,000.

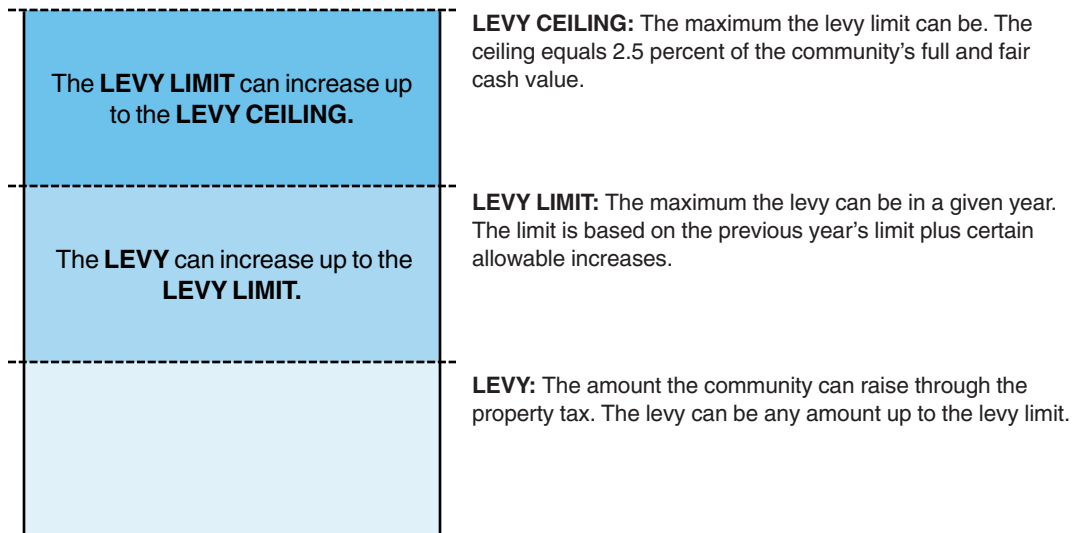


Figure 1

How is a Levy Ceiling Changed?

The total full and fair cash value of taxable real and personal property in a community usually changes each year as properties are added or removed from the tax roll and market values increase or decrease. This also changes the levy ceiling. See *Figure 2*.

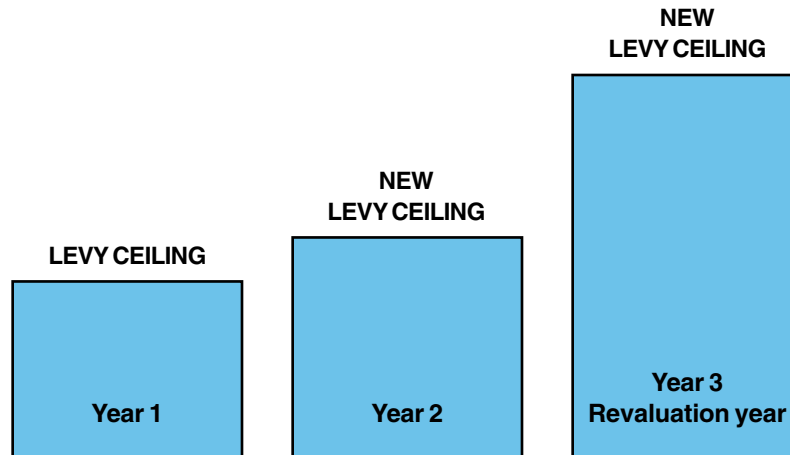


Figure 2

How is a Levy Limit Calculated?

A levy limit for each community is calculated annually by the Department of Revenue. It is important to note that a community's levy limit is based on the previous year's levy limit and not on the previous year's actual levy.

Each step in the example below is detailed in other sections of this primer. A levy limit is calculated by:

Taking the previous year's levy limit and increasing it by 2.5%:	
A. FY2000 Levy Limit	\$1,000,000
B. (A) x 2.5%	+ \$25,000
Adding to the levy limit amounts of certified new growth added to the community's property tax base:	
C. FY2001 New Growth	+ \$15,000
Adding to the levy limit amounts authorized by override votes:	
D. FY2001 Override	+ \$100,000
E. FY2001 Subtotal (A+B+C+D)	= \$1,140,000
Comparing the FY2001 levy limit to the FY2001 levy ceiling and applying the lesser number (compare E and F):	
F. FY2001 Levy Ceiling	\$2,500,000
	\$1,140,000
Applicable FY2001 Levy Limit (Lesser of E and F)	

This community's levy limit, the maximum amount in real and personal property taxes it can levy, is \$1,140,000 for FY2001. How much of this amount the community actually wants to use — that is, the amount of the levy — is up to the discretion of local officials. The community can levy up to or at any level below the entire levy limit amount, regardless of what its levy was in the previous year. Levy increases are discussed on page 13.

How is a Levy Limit Increased?

The levy limit is increased from year to year as long as it remains below the levy ceiling. Permanent increases in the levy limit result from the following:

Automatic 2.5 percent increase. Each year, a community's levy limit automatically increases by 2.5 percent over the previous year's levy limit. This does not require any action on the part of local officials; the Department of Revenue calculates this increase automatically.

New Growth. A community is able to increase its levy limit each year to reflect new growth in the tax base. Assessors are required to submit information on growth in the tax base for approval by the Department of Revenue as part of the tax rate setting process. New growth is discussed on page 8.

Overrides. A community can permanently increase its levy limit by successfully voting an override. The amount of the override becomes a permanent part of the levy limit base. Overrides are discussed on page 9.

Please note: Debt exclusions, capital outlay expenditure exclusions and overrides are all often referred to as "overrides" and enable a community either to permanently increase its levy limit or temporarily levy above its levy limit or levy ceiling. This primer makes a distinction between an override and a debt or capital outlay expenditure exclusion, because there is a significant difference in the impact of each on a community's levy limit. An override enables a community to permanently increase its levy limit, while an exclusion only allows for a temporary increase in taxes over a community's levy limit. Overrides, debt exclusions and capital outlay expenditure exclusions are discussed in greater detail in other sections of this primer.

In summary, the levy limit can increase from year to year in these ways: automatic 2.5 percent increase, new growth and overrides. Once the levy limit is increased in any of these ways, the increased levy limit amount becomes the base upon which levy limits are calculated for future years. See *Figure 3*.

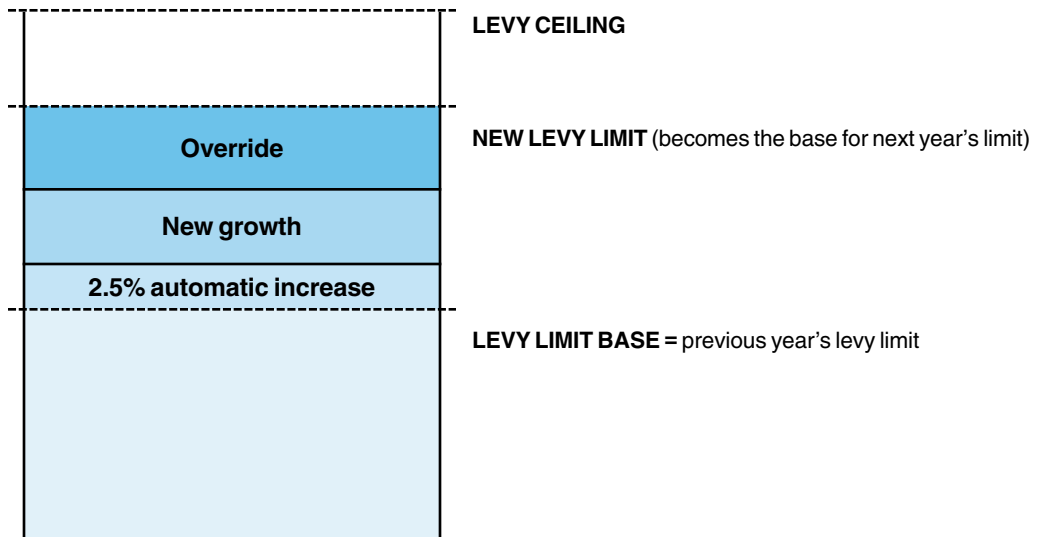


Figure 3

How Can a Community Levy Taxes in Excess of its Levy Limit or Levy Ceiling?

A community can assess taxes in excess of its levy limit or levy ceiling by successfully voting a debt exclusion or capital outlay expenditure exclusion. The amount of the exclusion does not become a permanent part of the levy limit base, but allows a community to assess taxes for a certain period of time in excess of its levy limit or levy ceiling for the payment of certain debt service costs or for the payment of certain capital outlay expenditures. See *Figures 4a and 4b*.

In *Figure 4a* the debt exclusion or capital outlay expenditure exclusion gives the community temporary additional taxing capacity over and above its levy limit, but below its levy ceiling.

In *Figure 4b* the debt exclusion or capital outlay expenditure exclusion gives the community temporary additional taxing capacity that is over and above not only its levy limit, but also its levy ceiling.

For more information on debt exclusions and capital outlay expenditure exclusions, see page 10.

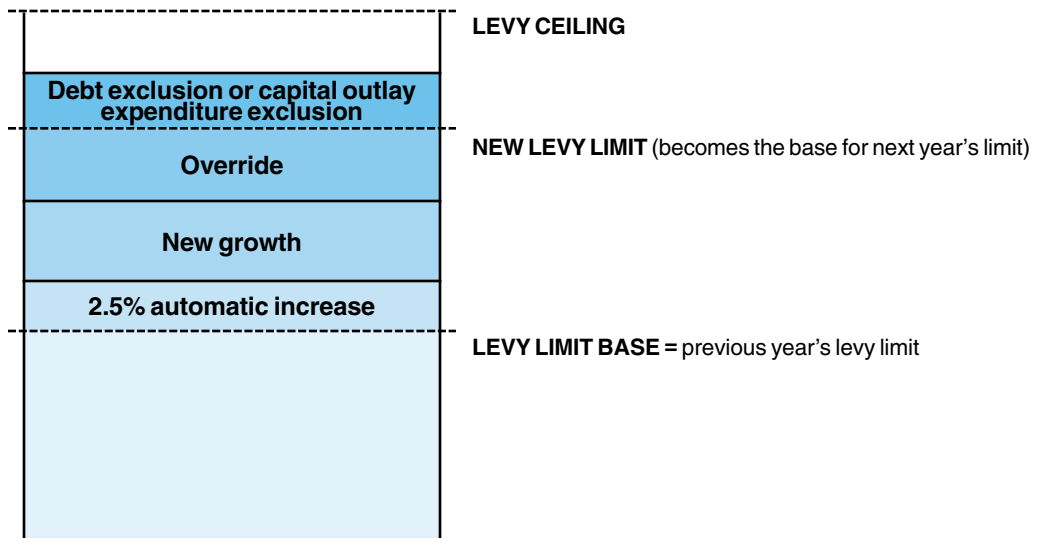


Figure 4a

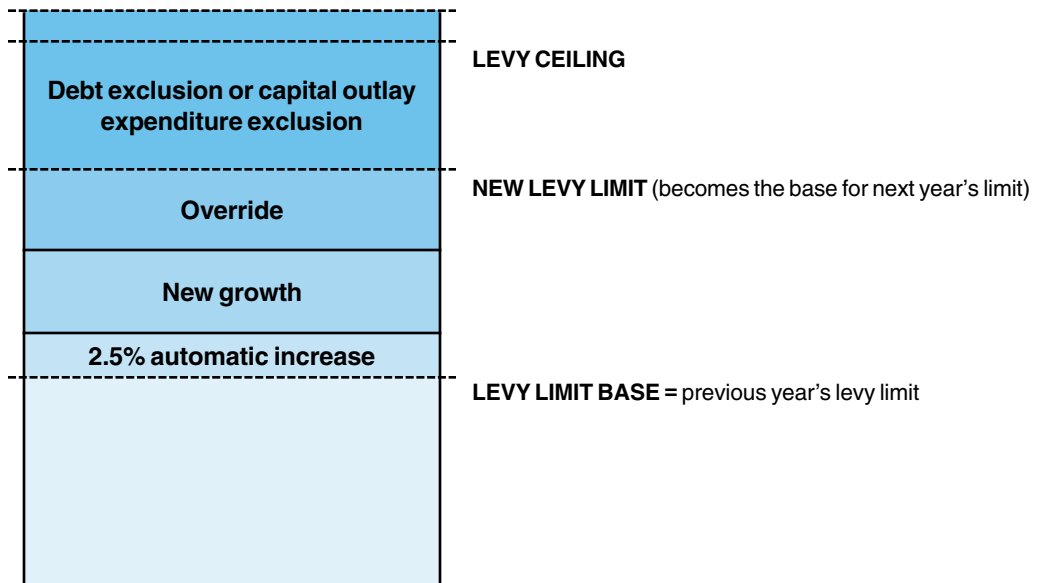


Figure 4b

What is New Growth?

Proposition 2½ allows a community to increase its levy limit annually by an amount based on the increased value of new development and other growth in the tax base that is **not** the result of revaluation. The purpose of this provision is to recognize that new development results in additional municipal costs; for instance, the construction of a new housing development may result in increased school enrollment, public safety costs, and so on. New growth under this provision includes:

- Properties that have increased in assessed valuation since the prior year because of development or other changes.
- Exempt real property returned to the tax roll and new personal property.
- New subdivision parcels and condominium conversions.

New growth is calculated by multiplying the increase in the assessed valuation of qualifying property by the prior year's tax rate for the appropriate class of property. **Any increase in property valuation due to revaluation is not included in the calculation.**

Below we highlight how new growth is calculated:

$$\begin{aligned} &\text{Increases in Assessed Valuation} \\ &\times \text{Prior Year's Tax Rate for Particular Class of Property} \\ &= \text{New Growth Addition to Levy Limit} \end{aligned}$$

For example, for a community that applies the same tax rate to all classes of property:

$$\begin{aligned} &\text{Increases in Assessed Valuation} = \$1,000,000 \\ &\text{Prior Year's Tax Rate} = \$15.00/1000 \\ &\$1,000,000 \times (\$15.00/1000) = \$15,000 \\ &\text{New Growth Addition to Levy Limit} = \$15,000 \end{aligned}$$

Below we highlight where the addition of new growth occurs in the calculation of the levy limit:

Taking the previous year's levy limit and increasing it by 2.5%:	
A. FY2000 Levy Limit	\$1,000,000
B. (A) x 2.5%	+ \$25,000
Adding to the levy limit amounts of certified new growth added to the community's property tax base:	
C. FY2001 New Growth	+ \$15,000
Adding to the levy limit amounts authorized by override votes:	
D. FY2001 Override	+ \$100,000
E. FY2001 Subtotal (A+B+C+D)	= \$1,140,000
Comparing the FY2001 levy limit to the FY2001 levy ceiling and applying the lesser number (compare E and F):	
F. FY2001 Levy Ceiling	\$2,500,000
\$1,140,000	
Applicable FY2001 Levy Limit	
(Lesser of E and F)	

New growth becomes part of the levy limit base, and thus increases at the rate of 2.5 percent each year as the levy limit increases. Reporting of new growth provides a community with an opportunity to increase its levy limit, which can provide for added budget flexibility in the future. Boards of Assessors are required to report new growth each year as a part of setting the tax rate.

What is an Override?

Proposition 2¹/₂ allows a community to assess taxes in excess of the automatic annual 2.5 percent increase and any increase due to new growth by passing an **override**. A community may take this action as long as it is below its levy ceiling, or 2.5 percent of full and fair cash value. An override cannot increase a community's levy limit above the level of the community's levy ceiling.

When an override is passed, the levy limit for the year is calculated by including the amount of the override. The override results in a permanent increase in the levy limit of a community, which as part of the levy limit base, increases at the rate of 2.5 percent each year.

A majority vote of a community's selectmen, or town or city council (with the mayor's approval if required by law) allows an override question to be placed on the ballot. Override questions must be presented in dollar terms and must specify the purpose of the override. Overrides require a majority vote of approval by the electorate.

Below we highlight where the amount of an override is added in the calculation of the levy limit:

Taking the previous year's levy limit and increasing it by 2.5%:		
A. FY2000 Levy Limit		\$1,000,000
B. (A) x 2.5%	+	\$25,000
Adding to the levy limit amounts of certified new growth added to the community's property tax base:		
C. FY2001 New Growth	+	\$15,000
Adding to the levy limit amounts authorized by override votes:		
D. FY2001 Override	+	\$100,000
E. FY2001 Subtotal (A+B+C+D)	=	\$1,140,000
Comparing the FY2001 levy limit to the FY2001 levy ceiling and applying the lesser number (compare E and F):		
F. FY2001 Levy Ceiling		\$2,500,000
		\$1,140,000
Applicable FY2001 Levy Limit (Lesser of E and F)		

The community can levy up to its levy limit of \$1,140,000 in FY2001.

What is a Debt Exclusion? What is a Capital Outlay Expenditure Exclusion?

Proposition 2½ allows a community to raise funds for certain purposes above the amount of its levy limit or levy ceiling. A community can assess taxes in excess of its levy limit or levy ceiling for the payment of certain capital projects and for the payment of specified debt service costs. An exclusion for the purpose of raising funds for debt service costs is referred to as a **debt exclusion**, and an exclusion for the purpose of raising funds for capital project costs is referred to as a **capital outlay expenditure exclusion**. Both exclusions require voter approval with very limited exceptions. These exceptions are explained on page 12.

The additional amount for the payment of debt service is added to the levy limit or levy ceiling for the life of the debt only. The additional amount for the payment of the capital project cost is added to the levy limit or levy ceiling only for the year in which the project is being undertaken. Unlike overrides, exclusions do not become part of the base upon which the levy limit is calculated for future years.

Reimbursements such as state reimbursements for school building construction are subtracted from the amount of the exclusion.

A capital outlay expenditure exclusion or debt exclusion is effective even in the rare case when the exclusion would bring the community's levy above its levy ceiling.

Both of these exclusions require a two-thirds vote of the community's selectmen, or town or city council (with the mayor's approval if required by law) in order to be presented to the voters. A majority vote of approval by the electorate is required for both types of exclusion.

Questions presented to exclude a debt obligation must state the purpose or purposes for which the monies from the debt issue will be used. Questions presented to exclude a capital outlay expenditure exclusion must state the amounts and purposes of the expenditures.

Below we highlight how exclusions are added to the levy limit:

Taking the previous year's levy limit and increasing it by 2.5%:

A. FY2000 Levy Limit	\$ 1,000,000
B. (A) x 2.5%	+ \$25,000

Adding to the levy limit amounts of certified new growth added to the community's property tax base:

C. FY2001 New Growth	+ \$15,000
-----------------------------	-------------------

Adding to the levy limit amounts authorized by override votes:

D. FY2001 Override	+ \$100,000
E. FY2001 Subtotal (A+B+C+D)	= \$1,140,000

Comparing the FY2001 levy limit to the FY2001 levy ceiling and applying the lesser number (compare E and F):

F. FY2001 Levy Ceiling	\$2,500,000
-------------------------------	--------------------

\$1,140,000
Applicable FY2001 Levy Limit
(Lesser of E and F)

Calculating FY2001 levy limit with debt exclusion or capital outlay expenditure exclusion:

H. FY2001 Levy Limit	\$ 1,140,000
I. Add FY2001 Debt Exclusion or Capital Outlay Expenditure Exclusion	+ \$50,000

\$1,190,000
**Applicable FY2001 Levy Limit with Debt Exclusion
or Capital Outlay Expenditure Exclusion**

In FY2001, this community can levy up to \$1,190,000, its applicable levy limit with this debt exclusion or capital outlay expenditure exclusion.

What is a Special Exclusion?

For a few limited capital purposes, a community may assess taxes above the amount of its levy limit or levy ceiling without voter approval. Otherwise, special debt and capital outlay expenditure exclusions are like voter approved exclusions. The amount of the special exclusion is only added to the levy limit or ceiling for a temporary period of time, and does not become part of the base upon which the levy limit is calculated for future years.

One special debt exclusion allows a community to add water and sewer project debt service costs to its levy limit or levy ceiling for the life of the debt, as long as it reduces water and sewer rates by the same amount. The water and sewer debt exclusion is adopted by a majority vote of the community’s selectmen, or town or city council (with the mayor’s approval if required by law) and may include all or part of existing and subsequently authorized water and sewer debt or just the residential share of that debt.

Another special debt or capital outlay expenditure exclusion applies if a community has a program to assist homeowners to repair or replace faulty septic systems, remove underground fuel storage tanks or remove dangerous levels of lead paint in order to meet public health and safety code requirements. Under the program, the board of health and the homeowner agree that the board may contract with third parties to perform the work, and the homeowner will repay the community for all project costs. Homeowners may make the repayment by having a portion of the repair costs, with interest, added to their property tax bills for up to 20 years. The community may automatically add to its levy limit or levy ceiling the amount appropriated, or the amount of the debt service costs on any borrowing for the program.

What is an Underride?

Proposition 2½ allows a community to reduce its levy limit by passing an **underride**. When an underride is passed, the levy limit for the year is calculated by subtracting the amount of the underride. The underride results in a permanent decrease in the levy limit of a community because it reduces the base upon which levy limits are calculated for future years.

A majority vote of a community’s selectmen, or town or city council (with the mayor’s approval if required by law) allows an underride question to be placed on the ballot. An underride question may also be placed on the ballot by the people using a local initiative procedure, if one is provided by law. Underride questions must state a dollar amount and require a majority vote of approval by the electorate.

Below we highlight where the amount of an underride is subtracted in the calculation of the levy limit:

Taking the previous year’s levy limit and increasing it by 2.5%:	
A. FY2000 Levy Limit	\$1,000,000
B. (A) x 2.5%	+ \$25,000
Adding to the levy limit amounts of certified new growth added to the community’s property tax base:	
C. FY2001 New Growth	+ \$15,000
Subtracting from the levy limit amounts authorized by underride votes:	
D. FY2001 Underride	– \$ 40,000
E. FY2001 Subtotal (A + B + C – D)	= \$1,000,000
\$1,000,000	
Applicable FY2001 Levy Limit	

The community can levy up to its levy limit of \$1,000,000 in FY2001.

Levy Increases

Once a community's levy limit is established for a particular year, the community can determine what its levy will be. The community may set its levy at any amount up to the levy limit. (Or, if it has voted a debt exclusion or capital outlay expenditure exclusion, it may levy up to the levy limit plus the additional temporary capacity resulting from the exclusion.)

It is important to note that as long as a community levies no more than its levy limit, there is no restriction on the dollar increase or percentage increase in its levy from year to year. Proposition 2½ restricts increases in the levy limit, not the levy. A community is permitted to tax up to its levy limit, even if it must raise its levy by a large percentage over the previous year's levy.

For example, a community could decide to increase its levy between FY2000 and FY2001 because the people of the community feel that the town should respond to some unmet local needs. Below we highlight the community's FY2000 and FY2001 levy limits and levies:

FY2000 Levy Limit = \$1,000,000
FY2000 Levy = \$900,000

FY2001 Levy Limit = \$1,025,000
FY2001 Levy = \$1,025,000

Percentage Change In Levy Limit = 2.5%
Percentage Change In Levy = 13.8%

From FY2000 to FY2001, the community's levy limit only increases by the allowed 2.5 percent. (In this example assume the community has no new growth and has not voted an override.) The community's levy increases from the FY2000 amount of \$900,000 up to its FY2001 levy limit of \$1,025,000. This is a total dollar increase in the actual levy of \$125,000 — and a percentage increase in the actual levy of 13.8 percent. From FY2000 to FY2001, the actual levy increases by 13.8 percent while the levy limit only increases by the allowed 2.5 percent.

It is important to note that the 13.8 percent increase described here is allowable under the provisions of Proposition 2½. As long as the levy limit only increases each year by the amount allowed under Proposition 2½, the actual levy can increase or decrease within the levy limit established each year, as decided by the community. The community may increase its levy up to its new levy limit regardless of the percentage increase in the levy. This concept is illustrated in *Figure 5*.

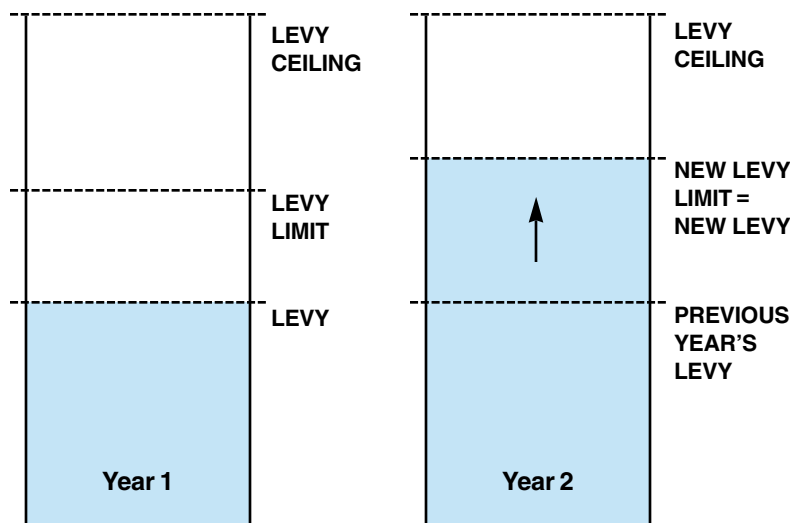


Figure 5

In Year 1, the community levies well below its levy limit.

In Year 2, the community's levy limit increases by the amount permitted under Proposition 2½. The community decides to levy all the way up to its new levy limit. The increase in the levy in Year 2 over Year 1 is indicated by the arrow. This increase is permissible under Proposition 2½.

Excess Levy Capacity

As discussed in the previous section, a community may choose to set its levy at any amount below or equal to its levy limit. When a community sets its levy below the limit, the difference between the levy and the levy limit is commonly referred to as **excess levy capacity**. This is an additional amount the community could, but chose not to, levy.

Levy Limit – Levy = Excess Levy Capacity

The concept of excess levy capacity is not a part of the Proposition 2½ law, as are the levy limit and levy ceiling. However, excess levy capacity is an important factor in municipal finance, and local officials should understand this concept.

There are two common misconceptions about excess levy capacity. The first misconception is that if a community has excess levy capacity in one year, then its ability to levy up to its levy limit in succeeding years is negatively affected. This misconception is based on the fact that Proposition 2½ limits the amount a community can increase its property taxes from year to year. Many think this means that a community cannot raise its levy all the way up to the levy limit to use all its excess capacity in just one year.

This is not true. As we have already seen, Proposition 2½ limits increases from year to year in the levy limit, not the levy. Before the tax rate is set, the full amount of the levy limit is always available to the community, **regardless** of how much of the limit the community has chosen to levy in previous years. It is within the law under Proposition 2½ for a community to have excess levy capacity in one year and, in the following year, to levy right up to the full amount of its new levy limit. This is true no matter what the percentage increase in the levy would be in order to achieve this result.

The second misconception about excess levy capacity is that a community is able to go back and “capture” excess levy capacity from a previous year. This is also not true. Once the community sets its tax rate for a given year, any revenues foregone because of excess levy capacity in that year are lost forever. This is only a one-time loss, however. In the following year, the community may levy up to its new levy limit, regardless of its levy in the previous year. See the example below:

FY2000 Levy Limit = \$1,000,000
FY2000 Levy = \$900,000
FY2000 Excess Levy Capacity = \$100,000

FY2001 Levy Limit = \$1,025,000
FY2001 Levy = \$1,025,000
FY2001 Excess Levy Capacity = \$0

Increase In Levy Limit = \$25,000
Increase In Levy = \$125,000

In FY2000, the town levies only \$900,000 of its levy limit of \$1,000,000, foregoing \$100,000 of tax revenue it could have collected. In FY2001, the town's levy limit increases by the automatic 2.5 percent allowed by Proposition 2½, or up by \$25,000 to \$1,025,000. The town decides to levy all the way up to its new levy limit, so it has no excess capacity in FY2001. Its FY2001 levy is \$125,000 higher than its FY2000 levy. The town cannot also levy an additional amount to capture the \$100,000 foregone in FY2000. In other words, it cannot levy up to \$1,125,000 for a total levy increase of \$225,000. The \$100,000 foregone in FY2000 is lost forever. This is a one-time loss, since the community can, in FY2001, levy all the way up to its new levy limit. This is highlighted in *Figure 6*.

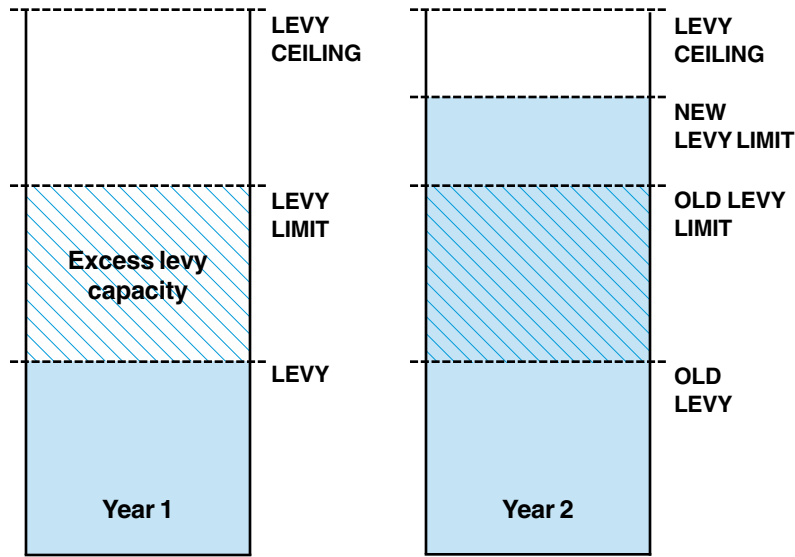


Figure 6

In Year 1, the community levies below its levy limit and as a result has excess levy capacity, represented by the area indicated.

In Year 2, the community may levy all the way up to its new levy limit. By levying up over its "old" levy limit (that is, its levy limit in Year 1), the community "uses" the excess capacity accrued in Year 1, shown by the area indicated. The community may increase its levy up to the new levy limit regardless of the percentage increase in the levy that is required to do so.

However, in Year 2 the community may not go back and recover the actual dollars of excess levy capacity foregone in Year 1 (the area indicated in the Year 1 diagram). That tax revenue is lost forever. It is only a one-time loss since the community can tax up to or above that level in Year 2.

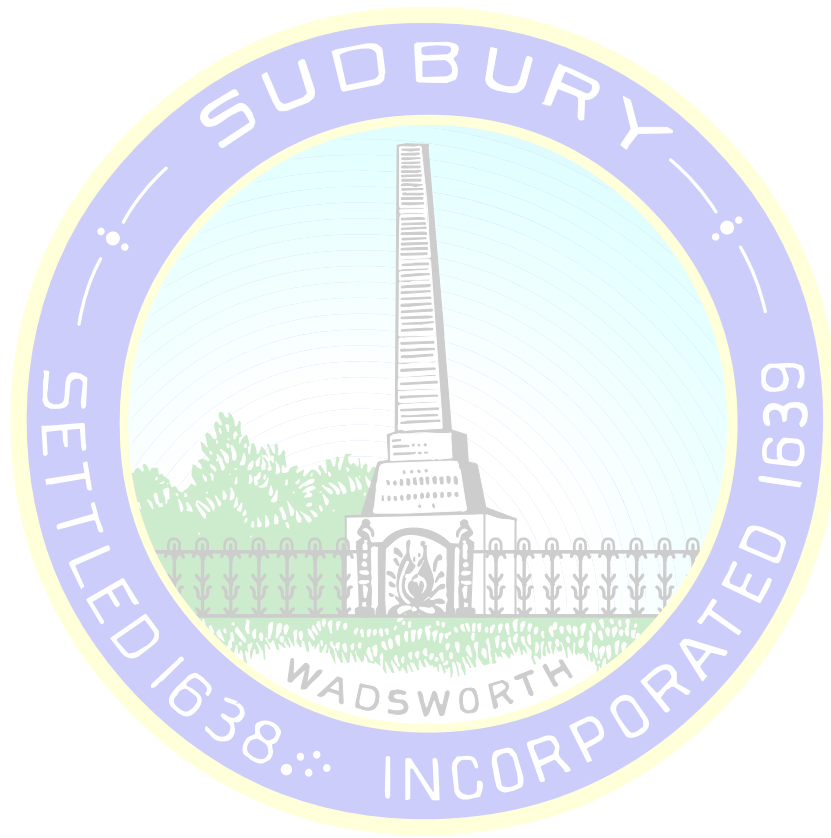
Resources

For information on levy limits, levy ceilings, new growth and ballot questions (overrides, debt exclusions and capital outlay expenditure exclusions), contact DOR's Division of Local Services at:

- (617) 626-2300 by phone;
- (617) 626-2330 by fax; or
- the DLS website at www.mass.gov/dls.

Section Three

FY08 BUDGET OVERVIEW



A Reader's Guide to the Budget

In this section of the budget document, tables, charts, and narratives are provided that provide context for the important budget deliberations and decisions that are ahead of the Town. The budget of a municipality has many parts to it. Different cost centers operate under different state laws. They have their own leadership and management structure. Each has revenue sources that are dedicated to specific programs and are not transferable to other parts of the budget. Each has mandated activities and services that can not be discontinued. Each has employees working under collective bargaining agreements, and the provisions and requirements for each group differ from others. And in two cases – the Lincoln-Sudbury Regional High School and the Minuteman Vocational Technical High School – other towns have a role and a say in the budget requests and spending priorities of the cost center. Readers hoping for a budget that is similar to that of a private company will be disappointed. It takes a great deal of effort to gain an understanding of the milieu in which the Town of Sudbury's budget and financing plan is put together.

A municipal budget document can be a challenge to read and understand, especially for those who don't deal with them often. This is true for a number of reasons: first, they involve numbers, often in lengthy tables. Second, a municipal government is responsible for a large and diverse set of operations and services, many of them complex in nature, so even at a summary level there is still a great deal of detail to digest. And lastly, budget documents must serve a number of purposes.

- A Planning Tool. A budget should be a blueprint for the services that the Town will offer in the fiscal year, consistent with the values and goals that have been set by the Board of Selectmen.
- A Communication Tool. Within the budget pages, the reader should be able to find out how the resources of the Town have been allocated. And, if performance data is included, they are a report of how the Town has been using the resources to achieve the mission and goals of the organization.
- Link to Town Meeting Warrant. A budget's layout should be consistent with the Town Warrant, which is organized according to the Town's organizational chart and chain of command. So, for example, funds appropriated within the Town's Public Safety cluster can only be expended for a public safety purpose with the approval of the Town Manager.
- Link to Different Funds. Governmental accounting is fund accounting, unlike private sector accounting, where there is usually only one fund for all the financial transactions of the entity. In the Town of Sudbury, there is the General Fund and two enterprise funds that support the annual budget. The Community Preservation Fund does not support the General Fund, but rather eligible one-time projects that meet State determined criteria.

To help the reader navigate this budget document, below is an explanation of different parts of the budget document that may be helpful in interpreting and understanding the actual budget requests.

- Appendix One in the back is a ***Glossary of Budget Terms and Definitions***. For the first time reader especially, it may be helpful to be able to check on the meaning of unfamiliar terms that are contained in this document.
- The second section of this document, ***Budget Calendars, Procedures and Policies*** describes how the budget is developed according to various instructions and stages of development.
 - o FY08 Budget Instructions from the Finance Committee
 - o Overview of Phases of Budget Development

- FY08 Budget Calendar
 - Board of Selectmen's Budget and Financial Management Policies
 - Budget Appropriation and Amendment Procedures
- The third section of this document, titled **FY08 Budget Overview** contains the FY08 Budget Request Summary Table. Table 1 shows two levels of budget growth for each of the four major cost centers: one that requires only 3% more funding for non benefit costs than the FY07 enacted budget; the other the budget request that has been voted /recommended by each cost center. This summary shows that if each of the four major cost centers budgets were funded at the amounts they were voted/recommended the Town would be facing a \$3.5 million gap between available resources and these requests. If the "3%" budget requested by the Finance Committee were funded instead, the total of these budgets would still exceed available resources but the gap is about \$866,000. Table 2 shows the same bottom line, but reorganizes the format so that the four cost center budgets are grouped together to show the total increase in these operating accounts separate from the enterprise, debt and charges accounts. The amounts for these latter accounts stay the same across all budget presentations, and any changes to them do not affect the bottom line of balancing the budget within the levy.
- The third section of this document also presents **Backdrop for FY08 Budget Discussions**. This is context information for readers who want to understand better the critical factors that affect the Town's financial condition and the development of the FY08 Budget.
- Expenditure Pressures FY08. This focuses on the major factors that are impacting on the cost of providing services.
 - Revenue Situation. Annually, the Town updates an analysis of its financial condition through use of indicators that have been trended over time, following the analysis model developed by the International City/County Management Association.¹ Here, we incorporate those indicators that focus on the revenues the Town relies on.
 - Revenue Projections for FY08. This is a quick summary of the projected revenues supporting the FY08 Recommended Budget.
 - Revenues and Fund Accounting This section contains detailed background information about the revenue sources the Town relies on. Each revenue type is defined, the projection for FY08 is given, and the assumptions that support that projection are given.
- Detailed operational budget requests for FY08 are found in sections 4 through 7. Here can be found the explanation of what services are being provided, the level of staffing involved, and other such information related to each budget request. Readers may use this information to dig deeper into the specific budget requests. Note that the three school systems develop separate detailed budget documents that are not included in this budget. Only summary level information is presented here for these school systems.
- Section 8 has the **FY08 Operating Capital Budget**, the long range capital plans, and the **FY08 Debt Budget**.
- Section 9 contains a number of appendices to this budget document. These appendices are intended to be supplemental reference materials as they did not specifically affect the development of the FY08 budget, but provide more historical and longer term information for the interested reader.
- One: Budget Terms and Definitions
 - Two: History of Proposition 2 ½ Overrides in Sudbury
 - Three: Residential Tax Rate History, 1990 - 2007
 - Four: Population History of Sudbury, 1790 - 2006
 - Five: The Town's Energy Management Program
 - Six: C.A.R.E. Program (Cost Avoidance and Revenue Enhancement)

¹ Groves and Valente **Evaluating Financial Condition**, International City/County Management Association, Washington D.C., 1994

- Seven: FY06 Audit, Management's Discussion & Analysis (not completed as of December 29, 2006 printing of this document).
- Eight: Background information on the Middlesex Retirement System

FY08 Budget Request Summary

This section contains an overall picture of the FY08 budget requests in one summary table so that the reader can see on one page the total presentation of these requests. There are two versions of the standard summary table of annual budget requests. Table 1 shows two levels of budget for each of the four major cost centers: one that requires only 3% more funding than the FY07 enacted budget, and the budget request that is voted/recommended by each cost center. This summary shows that if each of the four major cost centers budgets were funded as voted, the Town would be facing a \$3.6 million gap between available resources and these requests. If the "3%" budgets submitted by the Town, SPS and L-S were funded at that level, the total would still exceed available resources but the gap is about \$925,215. Table 2 shows the same bottom line, but reorganizes the format so that the four cost center budgets are grouped together to show the total increase in these operating accounts separate from the enterprise, debt and charges accounts. The amounts for these accounts stay the same across all budget presentations, and any changes to them do not affect the bottom line of balancing the budget within the levy.

For each of the school systems, plus the Town, the 3% budget scenario would mean a reduction in staffing from FY07 levels. Information on the specific impacts on Sudbury Public Schools and Lincoln-Sudbury Regional High School should be sought in their budget documents. For the Town, the individual departmental budgets show a 3% increase budget so the reader can get a better idea of how the reductions would affect the specific departments. However, the total of the cuts do not reduce the Town to 3%, but rather to 3.4%. If necessary, these further reductions can be taken later, but showing them now would require identifying positions to be reduced. Benefits for each cost center are increasing by 12 to 15%, so when those costs are added in, the overall budget increase under the **FinCom Requested 3% Budget** is 5.33% or \$3.4 million dollars over the FY07 appropriated levels for these cost centers.

The level of budget support in the Voted/Requested Budget represents the level of funding the Sudbury Public Schools, Lincoln-Sudbury Regional High School, the Town of Sudbury and the Capital Improvement Planning Committee have submitted as what is appropriate and sufficient to provide the level and quality of services they believe best, given the Town's financial condition. Including the cost of benefits, the overall budget increase under the **Voted/Requested Budget** is 9.6% or \$6.0 million dollars over the FY07 appropriated levels for these cost centers.

The budget requests for the costs of benefits, such as medical insurance, pension contributions, Medicare, unemployment insurance, etc. are budgeted at actual projected costs for all budget scenarios. Town and school officials have found that even when there is reason to believe that positions might be reduced, any anticipated savings in health insurance are offset by the cost of unemployment claims the Town and school would incur. If there are a large number of layoffs, those unemployment claims can exceed the savings from health insurance, and each cost center needs to carefully plan for its own unemployment costs if that becomes necessary.

The Finance Committee did not require any other budget requests be prepared for FY08 consideration, but the Town has developed a "Level Services" Budget request found in Section Four of this document, and the schools have also provided some information about alternative funding level impacts. Readers should consult the document submitted by those two entities.

Table 1: Summary of FY08 Budget Requests (Standard Format)

<i>STANDARD FORMAT</i>							
EXPENDITURES	Appropriated FY06	Appropriated FY07	3% Budget FY08	% V. FY07	Voted/ Requested FY08	Dollars V. FY07	% V. FY07
LS Gross Assessment	17,188,211	18,479,238	19,229,814		20,127,121		
LS Operating Offsets	(2,596,198)	(3,378,145)	(3,234,779)		(3,234,779)		
LSRHS NET (Operating Assessment)	14,592,013	15,101,093	15,995,035	5.92%	16,892,342	1,791,249	11.86%
SPS less offsets	24,058,431	25,392,734	26,154,479		27,496,526		
SPS Employee Benefits	5,107,457	5,651,772	6,353,855		6,353,855		
SPS NET	29,165,888	31,044,506	32,508,334	4.72%	33,850,381	2,805,875	9.04%
Minuteman Regional Assessment	304,640	312,280	324,771		324,771		
Other Regional School Assessments	-	63,854	66,408		66,408		
Total: Schools	44,062,541	46,521,733	48,894,548	5.10%	51,133,902	4,612,169	9.91%
General Government	2,011,226	2,091,735	2,152,403		2,281,312		
Public Safety	5,733,642	6,091,379	6,206,229		6,286,907		
Public Works	2,883,083	3,068,845	3,283,009		3,391,953		
Human Services	537,382	558,369	575,240		596,513		
Culture & Recreation	994,242	1,027,672	1,058,647		1,167,321		
Unclassified & Transfer Accounts	313,345	421,819	451,274		452,274		
subtotal, town services	12,472,920	13,259,819	13,726,802		14,176,280		
Town Employee Benefits	3,124,307	3,557,700	4,011,678		4,011,678		
Total: Town Departments	15,597,227	16,817,519	17,738,480	5.48%	18,187,958	1,370,439	8.15%
Town Debt Service	5,601,022	5,502,208	4,481,929		4,481,929		
LSRHS (Debt Assessment)	2,461,086	2,935,689	2,647,937		2,647,937		
Total: Operating Budget	67,721,876	71,777,149	73,762,894	2.77%	76,451,727	4,674,577	6.51%
Transfer Station Enterprise	399,843	267,803	271,574		271,574		
Pool Enterprise	426,212	436,713	457,842		457,842		
Capital Planning Committee	273,000	285,095	384,148		384,148		
Capital Exclusion-Fire Truck			(405,000)		(405,000)		
Capital Articles-Fire Truck	150,000	-	405,000		405,000		
Articles in operating	-	-	-		-		
Stabilization Fund	-	-	-		-		
Total: Other	1,249,055	989,611	1,113,564	12.53%	1,113,564	123,953	12.53%
Charges	1,181,308	1,100,200	777,420		777,420		
Total: To Be Raised	70,152,239	73,866,960	75,653,879	2.42%	78,342,711	4,475,751	6.06%
	-	-	-		-		
RECEIPTS							
State Aid	5,456,696	5,863,671	5,624,783		5,624,783		
Local Receipts	3,955,092	4,671,559	4,842,552		4,842,552		
Grants	-	30,000	23,266		23,266		
Free Cash	800,000	1,475,243	1,900,000		1,900,000		
Retirement Trust Fund	25,000	25,000	25,000		25,000		
Abatement Surplus	543,450	511,119	450,000		450,000		
Prior Year Articles	23,000	-	-		-		
Ambulance Fund	210,189	230,342	230,342		230,342		
Enterprise Funds	844,848	728,516	760,328		760,328		
Total: Receipts	11,858,275	13,535,450	13,856,271	2.37%	13,856,271	320,821	2.37%
REQUIRED TAX LEVY	58,293,964	60,331,510	61,797,608		64,486,440		
Previous Year Levy + 2 1/2%	46,313,461	51,354,490	53,202,102		53,202,102		
New Growth	738,480	550,000	550,000		550,000		
Prop 2 1/2 Override (Operating)	3,050,000	-	-		-		
LEVY LIMIT	50,101,941	51,904,490	53,752,102		53,752,102	1,847,612	3.56%
Unused Levy Capacity	-	-	-		-		
Prop 2 1/2 Debt Exemptions	5,234,224	5,610,948	4,304,085		4,304,085	(1,306,863)	-23.29%
Prop 2 1/2 Capital Exclusions	150,000	-	-		-		
APPLICABLE LEVY LIMIT	55,486,165	57,515,438	58,056,187		58,056,187		
Cherry Sheet Grants for School Debt	2,816,206	2,816,206	2,816,206		2,816,206		
TOTAL: REVENUE	70,160,646	73,867,094	74,728,664	1.17%	74,728,664	861,570	1.17%
UNDER/ (OVER) LEVY LIMIT	8,407	134	(925,215)		(3,614,047)	(3,614,181)	

Table 2: Summary of FY08 Budget Requests (Restated Format)

<i>RESTATED FORMAT</i>							
EXPENDITURES	Appropriated FY06	Appropriated FY07	3% Budget FY08	% V. FY07	Voted/ Requested FY08	Dollars V. FY07	% V. FY07
LS Gross Assessment	17,188,211	18,479,238	19,229,814		20,127,121		
LS Operating Offsets	(2,596,198)	(3,378,145)	(3,234,779)		(3,234,779)		
LSRHS NET (Operating Assessment)	14,592,013	15,101,093	15,995,035	5.92%	16,892,342	1,791,249	11.86%
SPS less offsets	24,058,431	25,392,734	26,154,479		27,496,526		
SPS Employee Benefits	5,107,457	5,651,772	6,353,855		6,353,855		
SPS NET	29,165,888	31,044,506	32,508,334	4.72%	33,850,381	2,805,875	9.04%
Minuteman Regional Assessment	304,640	312,280	324,771		324,771		
Other Regional School Assessments	-	63,854	66,408		66,408		
Total: Schools	44,062,541	46,521,733	48,894,548	5.10%	51,133,902	4,612,169	9.91%
General Government	2,011,226	2,091,735	2,152,403		2,281,312		
Public Safety	5,733,642	6,091,379	6,206,229		6,286,907		
Public Works	2,883,083	3,068,845	3,283,009		3,391,953		
Human Services	537,382	558,369	575,240		596,513		
Culture & Recreation	994,242	1,027,672	1,058,647		1,167,321		
Unclassified & Transfer Accounts	313,345	421,819	451,274		452,274		
subtotal, town services	<u>12,472,920</u>	<u>13,259,819</u>	<u>13,726,802</u>		<u>14,176,280</u>		
Town Employee Benefits	3,124,307	3,557,700	4,011,678		4,011,678		
Total: Town Departments	15,597,227	16,817,519	17,738,480	5.48%	18,187,958	1,370,439	8.15%
Capital Planning Committee	273,000	285,095	384,148		384,148		
Capital Exclusion-Fire Truck			(405,000)		(405,000)		
Capital Articles-Fire Truck	150,000	-	405,000		405,000		
Total: Capital Budget	423,000	285,095	384,148	34.74%	384,148	99,053	34.74%
Subtotal: Operating Budget	60,082,768	63,624,347	67,017,176	5.33%	69,706,008	6,081,661	9.56%
Town Debt Service	5,601,022	5,502,208	4,481,929		4,481,929		
LSRHS (Debt Assessment)	2,461,086	2,935,689	2,647,937		2,647,937		
Total: Debt Budget	8,062,108	8,437,897	7,129,866	-15.50%	7,129,866	(1,308,031)	-15.50%
Transfer Station Enterprise	399,843	267,803	271,574		271,574		
Pool Enterprise	426,212	436,713	457,842		457,842		
Articles in operating	-	-	-		-		
Stabilization Fund	-	-	-		-		
Total: Other	826,055	704,516	729,416	3.53%	729,416	24,900	3.53%
Charges	1,181,308	1,100,200	777,420		777,420		
Total: To Be Raised	70,152,239	73,866,960	75,653,879	2.42%	78,342,711	4,475,751	6.06%
RECEIPTS							
State Aid	5,456,696	5,863,671	5,624,783		5,624,783		
Local Receipts	3,955,092	4,671,559	4,842,552		4,842,552		
Grants	-	30,000	23,266		23,266		
Free Cash	800,000	1,475,243	1,900,000		1,900,000		
Retirement Trust Fund	25,000	25,000	25,000		25,000		
Abatement Surplus	543,450	511,119	450,000		450,000		
Prior Year Articles	23,000	-	-		-		
Ambulance Fund	210,189	230,342	230,342		230,342		
Enterprise Funds	844,848	728,516	760,328		760,328		
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TOTAL: REVENUE	70,160,646	73,867,094	74,728,664	1.17%	74,728,664	861,570	1.17%
UNDER/ (OVER) LEVY LIMIT	8,407	134	(925,215)		(3,614,047)	(3,614,181)	

Backdrop for FY08 Budget Discussions

Expenditure Pressures

There are six primary “budget busters” that have been driving high rates of spending growth: health insurance, pension costs, wages & salaries for employees, debt service, energy costs and a rapid growth in population, particularly of school age children.

Health Insurance Costs The Town/SPS provides health insurance for both active employees and retirees, as does LSRHS. State statute and case law provide strict guidelines for public employers in Massachusetts as to what benefits must be offered and how changes in such plans can be achieved. Changes in health insurance plans for the Town/SPS are subject to collective bargaining between the unions and the Town/School Committee and generally must be agreed to by all bargaining units before any changes can be implemented. Rates are voted on annually by the Board of Selectmen following recommendations from the Town Manager and Assistant Town Manager. As the Town/SPS is self-insured for health insurance, it is a complicated and time-consuming process each year to determine the amount that will need to be appropriated to both cover all claims and contribute the required employer match to the employees’ contribution. The Assistant Town Manager is responsible for this program, and he works closely with a specialized consulting firm, with representatives of our group health insurance plan providers and with the Employee Insurance Advisory Committee (representing all employee groups) each year to review the trends in medical costs, level of claims activities by our employees and retirees, and amounts of catastrophic reinsurance the Town should purchase. To confirm that the health insurance programs offered by the Town are still the most cost effective approach, the Assistant Town Manager also receives data on the cost of offering our health insurance on a premium basis. And he tracks the costs experienced by other towns and regional purchasing group, such as the one that LSRHS belongs to. The Town has saved significant dollars by continuing to offer our health insurance on a stand alone, self-insured basis.

Budgeted Health Insurance Costs	2003	2004	2005	2006	2007	2008	Pct Change, FY03-FY08
Town	1,323,840	1,472,500	1,601,209	1,793,350	2,008,552	2,249,578	70%
SPS	2,813,160	3,282,900	3,563,980	3,991,650	4,470,648	5,007,126	78%
L-S (total for LS, not prorated)	1,532,437	1,716,532	1,879,908	2,040,545	2,383,402	see note	
Total	5,669,437	6,471,932	7,045,097	7,825,545	8,862,602		
Percent change		14.15%	8.86%	11.08%	13.25%		

NOTE: L-S budget detail not received in time to complete chart with FY08 numbers

As shown in the table above, the rate of increase in the costs of providing health insurance for employees and retirees of the Town, SPS and LSRHS continues to increase at a double digit rate and consumes ever growing percentage of new revenues each year. This is true for all three cost centers, even though the contribution rates for Town/SPS employees is lower for the HMO health insurance plan (90% employer/10% employee split) offered by the Town than the similar product offered by L-S, which has a contribution rate of 75/25. The escalation in health insurance costs is due to forces in the Massachusetts and national economy and is beyond the Town of Sudbury’s power to control. (Note: The Town and L-S PPO product both have a contribution split of 75/25. Also, the Town/SPS have a 50/50 split for the cost of retirees’ health insurance products; L-S has a 75/25 split for retirees).

Pension Costs The Town of Sudbury, the Sudbury Public Schools and L-S are required to contribute to the Middlesex Retirement System (MRS) on behalf of all Town and school employees who work at least 20 hours per week EXCEPT for teachers. (Teachers are covered by and contribute to the Massachusetts Teachers Retirement System, but the state pays the employer portion of their current and future pension liability). These costs too have risen at a rapid rate.

Budgeted Pension Costs	2004	2005	2006	2007	2008	Pct Change, FY04-FY08
Town	1,095,891	1,103,241	1,151,911	1,345,545	1,539,276	40%
SPS	584,916	676,945	706,110	775,392	865,843	48%
L-S (total for LS, not prorated)	331,030	367,299	393,274	447,450	see note	
Total	2,011,837	2,147,485	2,251,295	2,568,387		
Percent change	21.45%	6.74%	4.83%	14.08%		

NOTE: L-S budget detail not received in time to complete chart with FY08 numbers

There are two particularly noteworthy aspects regarding the membership of the Town and L-S (as well as the Sudbury Water District and the Sudbury Housing Authority) in this regional retirement system.

The Troubled Middlesex Retirement System Assessments assigned by the MRS have increased significantly in recent years. In the fall of 2002 the MRS notified Sudbury and other member entities of a planned significant assessment hike for FY04. For Sudbury the increase was 59%, but for some it was even higher. After an outcry from the Boards of Selectmen and Town Managers of member communities, the percentage rate for assessment growth for member towns and districts was reduced by half. Since then a number of actions and investigations have been launched into the actions and performance of the MRS, and why assessments were growing so quickly. Appendix Eight to this budget document includes several items about the management irregularities alleged to have occurred at the MRS, which have been examined by the state's pension oversight board, PERAC, and the State Inspector General's office. In November 2006, the Middlesex Retirement System Board voted to shift control of its nearly \$700 million of assets to the Massachusetts Pension Reserve Investment Management (PRIM) Board.

Local Retirement Systems versus State Administration The uncovering of the management practices at the MRS led to questioning by many of the efficacy of locally administered retirement systems, such as the MRS. A recent White Paper by the Pioneer Institute, titled "**Leaving Money on the Table: The 106 Pension Systems of Massachusetts**"² analyzed the loss of income statewide due to underperforming local retirement systems and attempted to calculate the amount of money local taxpayers would have to pay to make up for the investment income foregone by not having all pensions dollars invested by the state as part of the Pension Reserve Investment Trust (PRIT), run by PRIM – the Pension Reserve Investment Management Board. The author of this paper concluded that the cost of such local pensions systems was significant. Only six local systems outperformed PRIT's investment record, at a total estimate cost of \$1.6 billion since 1995 – a difference that local taxpayers are required to make up. According to the Pioneer Institute, Middlesex Retirement System, one of the state's 10 worst-performing pension systems, would have had \$158 million more over the last decade by putting its money in the state's top-performing pension system.

All local retirement systems have the option of voluntarily asking PRIT to invest their pension assets. The author notes that PRIT has been very successful at investing the billions of dollars that it manages, earning a compound annual return of 11.19% from 1985 to 2004, outperforming the S & P 500 and the NYSE Composite for the same time period. The author of this paper recommends that all local systems, except those that have outperformed PRIT, place their assets under PRIT management and that the state should expand PERAC's ability to perform more timely audits.

² *Leaving Money on the Table: The 106 Pension Systems of Massachusetts* by Ken Ardon, May 2006. See www.pioneerinstitute.org for a copy of the white paper

NOTE: While it has been the employers such as the Town of Sudbury that have been asked to offset the decreases in investment earnings in the last few years, employees have always been required to make hefty contributions to their own future retirement. The pension system is a defined benefit plan, with set contributions rates from employees depending on their date of hire: Before Jan 1, 1975: 5% of compensation: Jan 1975 - Dec 1983: 7%: Jan 1984 - June 30, 1996: 8%: After July 1, 1996: 9%. Additionally, all employees who earn over \$30,000 annually are required to pay a 2% surcharge on the amount over that threshold. Thus, some employees are paying 11% on earnings.

Salaries and wages Salaries and wages are the largest component of the operating budgets for all three major cost centers. Since the majority of the employees are organized for collective bargaining purposes, multi-year wage packages are the norm. The table below shows a much small increases in wage costs in FY04 and FY05, but a significant increase in FY06. This increase probably had as much to do with adding employees with the successful override as increases in wage levels.

Budgeted Salary & Wages	2003	2004	2005	2006	2007	Pct Change FY03-FY07
Town	8,102,989	8,280,749	8,437,198	8,801,919	9,116,673	13%
SPS	17,204,114	17,137,047	17,980,472	19,342,996	19,911,333	16%
L-S (total for LS, not prorated)	11,608,407	11,622,720	11,741,237	13,242,727	13,867,111	19%
Total	36,915,510	37,040,516	38,158,907	41,387,642	42,895,117	16%
Percent change		0.34%	3.02%	8.46%	3.64%	

Debt Service Costs The Town has issued debt, pursuant to bond authorization votes of Town Meeting and voters' approval to exclude all such debt from the limits of Proposition 2 1/2. Debt service costs for Town and SPS projects has declined from FY03 to FY08 as the Town faced two debt "peaks". In FY02, the total net exempt debt was \$7.2 million, and then declined for FY03, FY04 and FY05, until the debt service costs for the debt issued for the LS project reached its highest point in FY07.

If approved by Town Meeting and voters, the Town is planning to issue debt for a new police station, which would bring the debt service costs back to the FY07 levels in FY09 before steadily decreasing.

Debt Service Costs	2003	2004	2005	2006	2007	2008
Town Buildings	493,660	1,640,335	989,986	1,128,124	1,005,330	713,774
Land Acquisition	971,545	945,240	919,715	996,747	1,005,065	752,244
SPS Net of SBA	4,989,031	2,193,720	1,276,047	780,842	664,864	190,130
L-S Net of SBA, Sudbury portion	576,388	1,089,609	1,597,382	2,461,086	2,935,689	2,647,937
Net Exempt Debt Budget	7,030,624	5,868,904	4,783,130	5,366,799	5,610,948	4,304,085
Annual percent change		-16.52%	-18.50%	12.20%	4.55%	-23.29%

Energy Costs (Town Budget Only – Analysis does not include SPS or L-S) Energy costs are another item that is growing faster than other parts of the Budget. For FY08 we are projecting

that for Town Buildings only, the costs of paying for electricity, natural gas and heating oil will rise by 9.23%. This follows budgeted increases of 23.4% in FY07.

Budgeted Utility Costs for Town Buildings			
	2006	2007	2008
Building Department	266,790	356,195	394,955
Library	66,080	71,600	71,600
Fire Department	36,665	42,880	52,770
Atkinson Pool	84,000	89,000	92,000
Total	453,535	559,675	611,325
Annual percent change		23.40%	9.23%

Gasoline and diesel fuel costs are also increasing rapidly. For FY08, we project a 23.37% increase in the costs of these fuels. We are also anticipating that we will need reserve fund transfers in FY07 in each of the three departments where these fuels are budgeted, based on the costs we have experienced thus far in FY07, and that in FY06 we needed several reserve fund transfers to augment the \$141,000 that we originally budgeted.

Gasoline/Diesel for Vehicles			
	2006	2007	2008
DPW/All other town vehicles*	191,160	114,104	140,000
Police Department	0	62,140	75,961
Fire Department	0	18,756	24,609
Total	191,160	195,000	240,570
Annual percent change		2.01%	23.37%

*actual after several reserve fund transfers

Impacts of Population Growth and School Age Children Finally, we must acknowledge the impact of rapid population growth on our budget in recent years. Overall, Town population has risen from 15,510 in 1995 to 17,066 in 2005.³ Such growth brings demands for more Town services, most acutely felt on our public safety, library, recreation, and human services departments. In most towns, such growth would normally bring about increases in staffing in these areas to keep pace with the population growth. But in Sudbury, that has not occurred, due to the dramatic and challenging growth in the number of children enrolled in the Town's two school systems.

The table which follows uses Department of Education figures for FY05 to illustrate the impact of such growth on Sudbury, especially relative to other communities. FY05 is used as it is the latest year such data is consistently available for each of the towns included. We calculated a blended spending per pupil figure for Sudbury by using spending data for both the Sudbury Public Schools and Sudbury's approximate share for the Lincoln-Sudbury Regional High School. The table shows not only the total number of Sudbury students enrolled in either the Sudbury Public Schools or the Lincoln-Sudbury Regional High School, but also those enrolled in the public schools of a number of other communities, including five of our neighboring towns (Wayland, Hudson, Framingham, Lincoln and Concord), five school systems that are considered to be as high performing as Sudbury's (Lexington, Needham, Wellesley, Weston and Winchester), as well as two Towns smaller than Sudbury (Bedford and Hopkinton) and one much larger than Sudbury (Arlington).

³ Department of Revenue Population Estimates.

Particular points to note in looking at these data:

1. Sudbury has more students than Wellesley, a town of nearly 10,000 more residents, and nearly as many as Arlington, which has a population that is more than double Sudbury's.
2. If you increased each of these towns' number of school children so that it is 26% of their population, you would see the results presented on the right side of this table. For example, Wayland would have 424 more students and based on Wayland's reported spending per pupil of \$11,599 in FY05, Wayland would need to spend \$5.4 million more dollars to educate these students. Lexington would have had 1,778 more students, and would need to have spent \$21.2 million more in FY05 to educate these additional students. Framingham and Arlington would have spent more than twice what they actually did spend in FY05.
3. Sudbury's blended spending per pupil is the fourth lowest of this group. If Sudbury's spending per pupil was as high as many of the other towns, then Sudbury would have spent significantly more to educate Sudbury students. For example, if the per pupil spending in Sudbury was the same as Bedford's, an additional \$10 million would have been spent by the Sudbury schools in FY05.

School Age Children as a Percent of Overall Population

	Population DOR Data for 7/1/05	N of Students, DOE Data	School Children as % of Population	Spending Per Pupil, DOE Data*	FY05 Total Educational Spending DOE Data	If N of Students was 26.61% of population	Then Town would have this many more students	And Town would spend this much more on education at own ppe
Sudbury*	17,066	4,542	26.61%	\$ 10,243	\$ 46,523,948			
Hopkinton	14,112	3,435	24.34%	\$ 9,497	\$ 32,621,955	3,756	321	\$ 3,045,678
Wayland	13,002	2,987	22.97%	\$ 11,599	\$ 34,642,051	3,460	474	\$ 5,494,419
Weston	11,581	2,372	20.48%	\$ 14,414	\$ 34,185,304	3,082	710	\$ 10,239,778
Lexington	30,266	6,277	20.74%	\$ 11,929	\$ 74,877,767	8,055	1,778	\$ 21,212,416
Bedford	12,462	2,365	18.97%	\$ 12,662	\$ 29,939,157	3,317	952	\$ 12,055,156
Lincoln*	7,931	1,477	18.62%	\$ 15,442	\$ 22,800,426	2,111	634	\$ 9,792,973
Concord*	16,833	2,987	17.75%	\$ 13,323	\$ 39,800,229	4,480	1,493	\$ 19,885,372
Winchester	21,181	3,752	17.71%	\$ 9,884	\$ 37,082,202	5,637	1,885	\$ 18,636,107
Needham	28,418	4,939	17.38%	\$ 10,788	\$ 53,278,293	7,563	2,624	\$ 28,309,437
Wellesley	26,978	4,446	16.48%	\$ 11,243	\$ 49,980,414	7,180	2,734	\$ 30,739,687
Hudson	18,943	2,771	14.63%	\$ 10,356	\$ 28,698,426	5,041	2,270	\$ 23,511,986
Framingham	65,060	7,965	12.24%	\$ 13,681	\$ 108,967,478	17,315	9,350	\$ 127,915,095
Arlington	41,224	4,615	11.20%	\$ 10,095	\$ 46,591,511	10,971	6,356	\$ 64,167,301

* for Sudbury, Lincoln and Concord, this is a blend of K-8 and High School per pupil spending
Source: FY05 Expenditures per Pupil, All funds, Summary by Function, DOE

The Revenue Situation

Sudbury officials are faced with a great deal of uncertainty about the level of state aid we should count on as we prepare the FY08 budget. Governor Deval Patrick has pledged to increase state aid and end the over reliance on the property tax that has resulted from nearly six years of reductions or modest increases in state aid. Significant studies conducted during 2005 documented the reductions in aid and the devastating affect this has had on communities. The first, entitled "**Communities at Risk: Revisiting the Fiscal Partnership between the Commonwealth and Cities and Towns**" was developed by a Municipal Task Force chaired by John Hamill, Chairman of the



Sovereign Bank New England. This report documented that property taxes have been rising steeply and that unless the state stepped in with more state aid, deterioration in services or even higher property taxes were in the future. The Task Force concluded that local leaders have generally done a good job of controlling costs and it is not wasteful spending but reductions in support from the state that are forcing local officials to rely more on the property tax, a levy that is particularly burdensome for homeowners on fixed incomes. The report concludes that revenue sharing from the state should be increased, back to the level it was at in 1988 on a percentage basis, that local officials should be given flexibility in having other revenue sources available to us, and that we should be given more flexibility to control costs by reducing many of the constraints of state law. A copy of this report is on the Town's web site.

The second report continues this same theme. Entitled "**Revenue Sharing and the Future of our Massachusetts Economy**", it also documents the decline

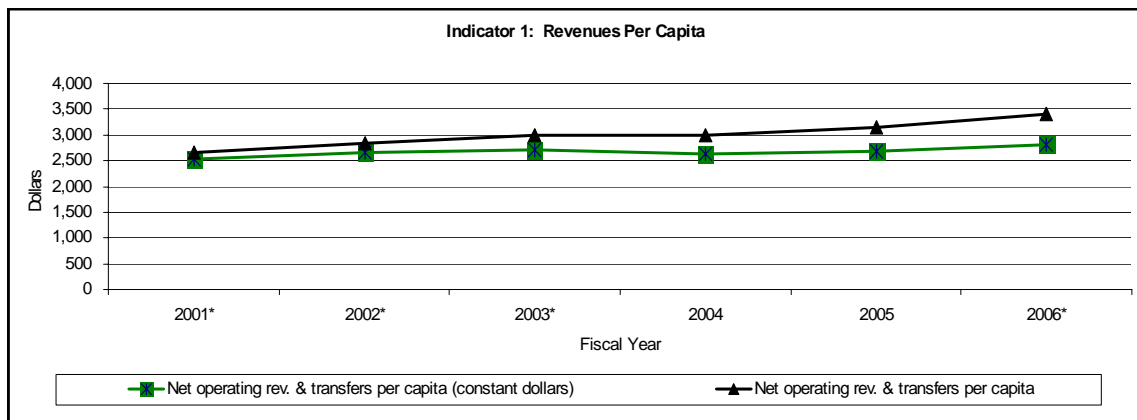


in spending on municipal services, particularly public works, as state aid for all but educational purposes has declined. This leaves municipalities, such as Sudbury, with few alternatives to increasing property taxes rather than allow town and educational services to decline in quality and quantity. This report also focuses on the long term implication of the continuation of the trend of high property taxes and declining services on the State's economy, concluding that the State needs

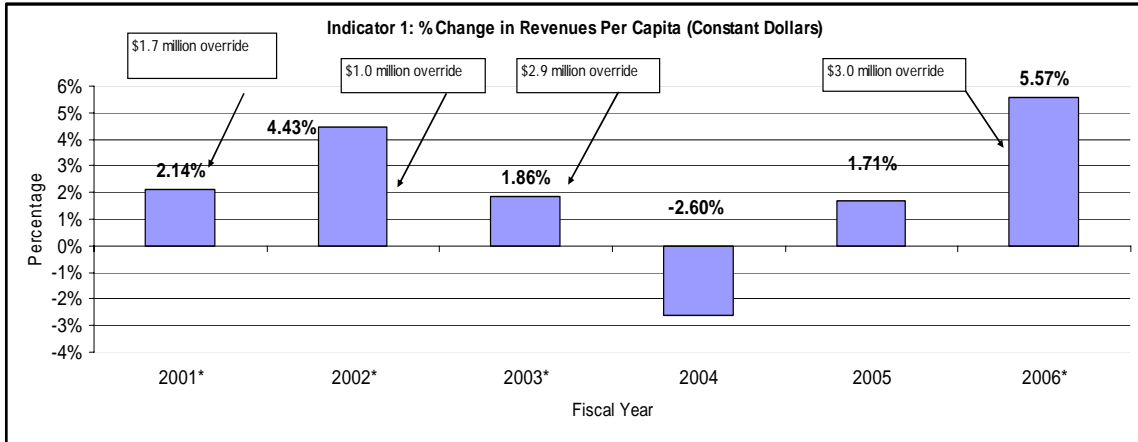
to provide more state aid, and give communities more flexibility in revenue options because this will help drive the overall economic engine of the Commonwealth.

Town staff has conducted our own analysis of our revenue patterns and how these trends send at the state level have played out in Sudbury, titled the "**Sudbury Financial Trends Monitoring Report**". Recently the Town Manager, Finance Director and Board of Selectmen invited the Finance Committee, the Capital Improvement Planning Committee, the Sudbury Public School Committee and the Lincoln-Sudbury Regional School Committee to a Financial Summit where we presented our findings.

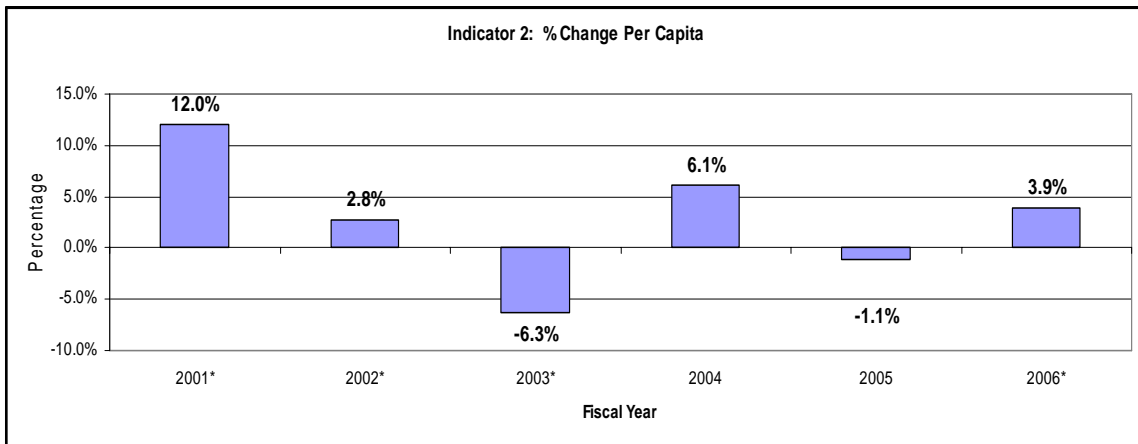
Indicator 1: Revenue Per Capita. There are two charts associated with this indicator. The first shows that while operating revenues have increased over the six years of this study by \$19 million, when the effects of inflation are factored in and adjusting for growth in population, revenues per capita in constant dollars were HIGHER in FY02 than in FY06. Overall, the annual growth in constant dollar revenues per capita average is less than 2%.



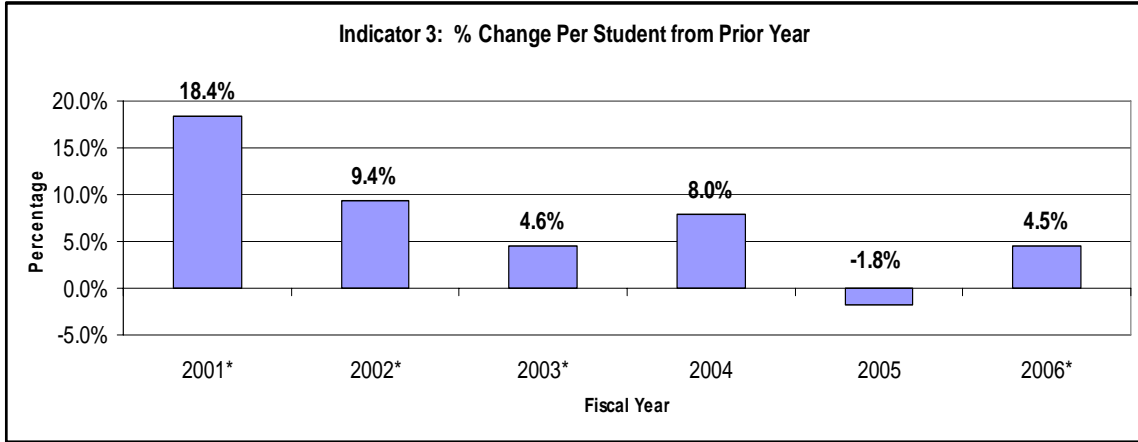
The second chart associated with this indicator shows the annual rate of change for revenues per capita from FY01 through FY06, and indicates in which years there were operating overrides and the amount of these overrides. This shows that in those years in which there is no override, there is very little growth in revenues to support budgets, which are impacted by the steady increases in pensions, health insurance, and energy costs.



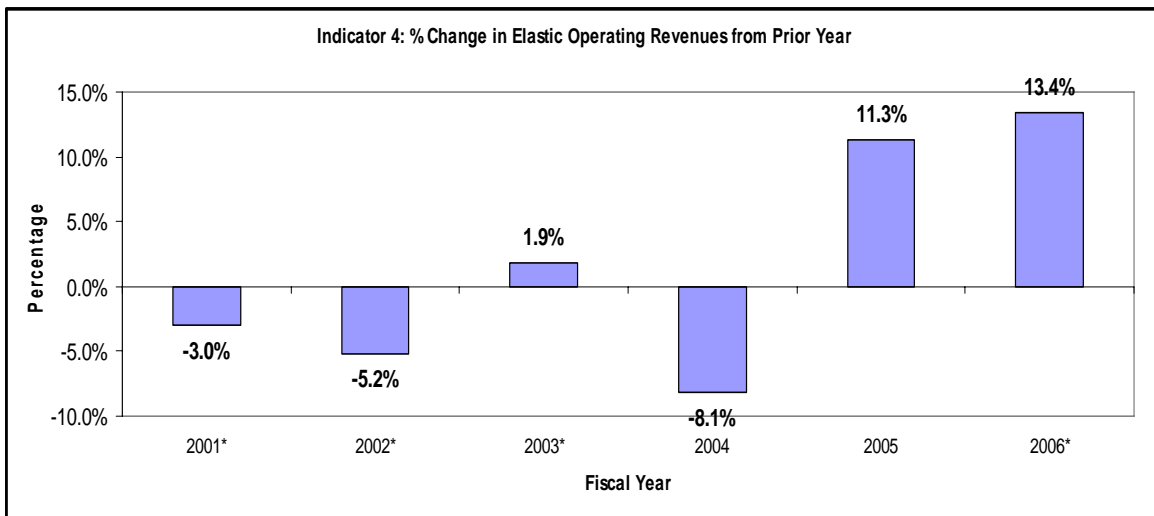
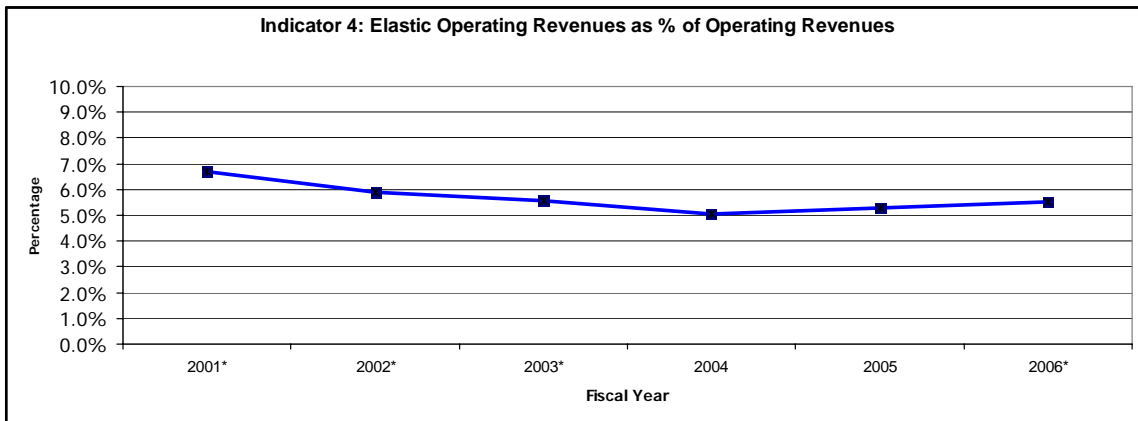
Indicator 2: State Aid Per Capita. This indicator shows that annual changes in state aid have been inconsistent since FY01, and even when there is an increase, it is not near the amounts seen in the late 90's through FY01. Actually, state aid has dropped from a high of 10.2% (it was 11% in FY99) of Sudbury's operating revenues to as little as 8.3% over the past six years. Overall, the state cutback of actual dollars allocated to Sudbury, as well as not keeping up with the annual increases that had been seen in the late 1990's, probably has meant a loss of \$1.5 million on an annual basis to Sudbury.



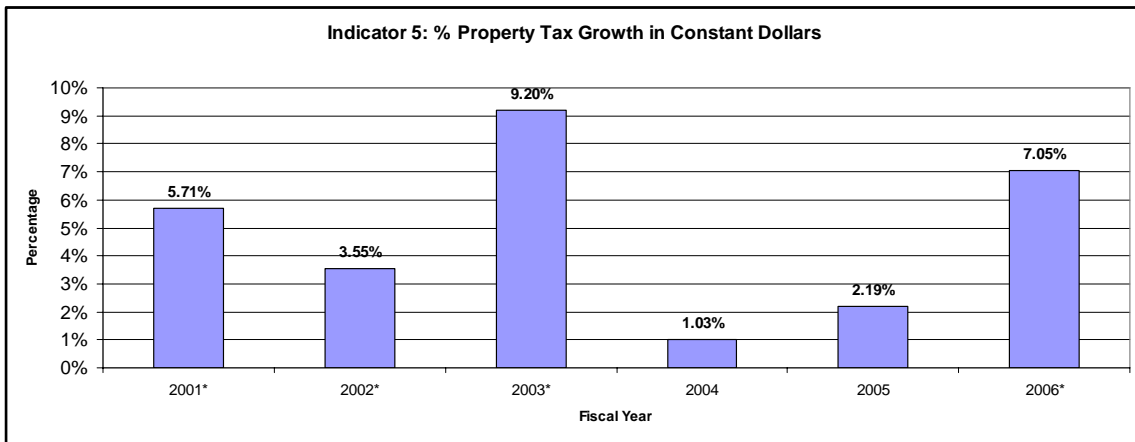
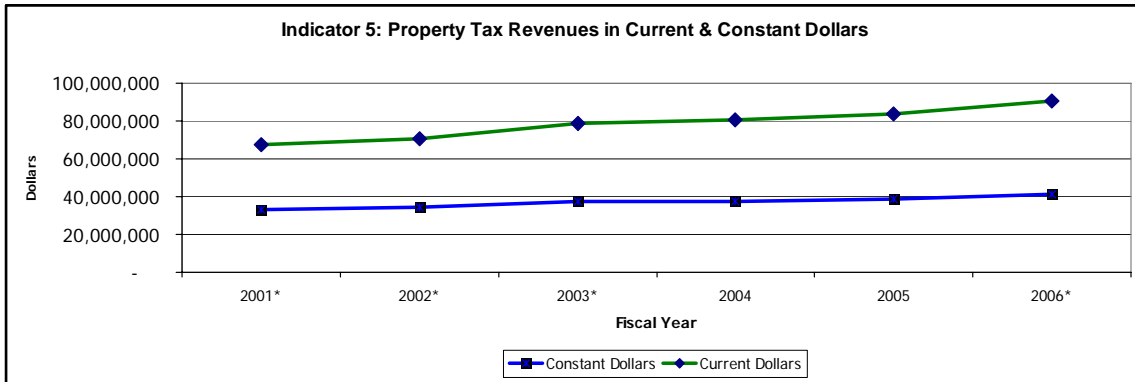
Indicator 3: Chapter 70 School Aid per student. This indicator focuses on the largest component of state aid for Sudbury: the Chapter 70 program. As can be seen, Sudbury received large annual increases in this aid up until FY2002 as our school population continued to grow. Then as the State began to experience financial difficulties, it began to slow down or even decrease this aid even as our enrollments were still very high, meaning the state shifted more of the cost of educating Sudbury students onto the local taxpayers.



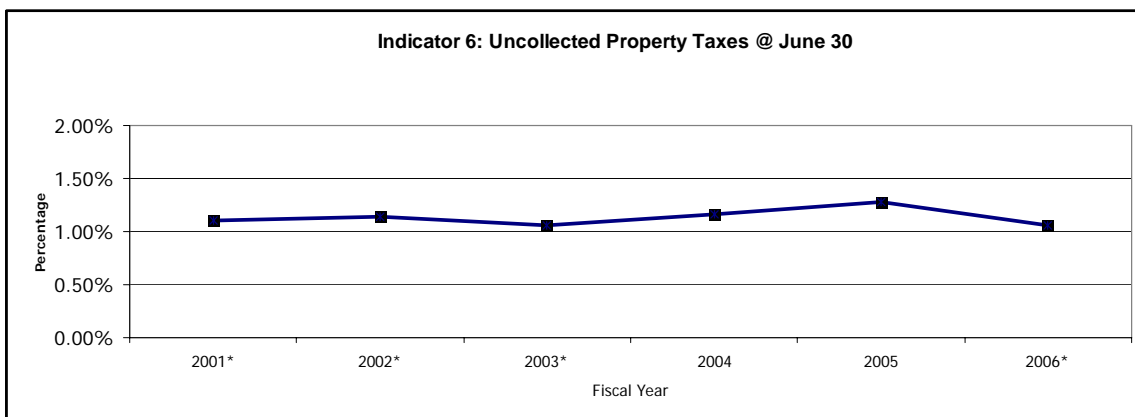
Indicator 4: Elastic Revenues. This indicator shows that Sudbury is only now starting to see growth in these revenues. The actual decrease in these revenues since FY01 compounded the difficulties that losses in state aid was already causing. Only in FY06 did we finally see these revenues exceed the FY01 level. If in FY06 elastic revenues were 7.4% of our total operating revenues as they were in FY01, they would totaled \$4.5 million instead of \$3.4 million. This loss, plus the loss in state aid, was made up by increases in the property tax.



Indicator 5: Property Taxes. This trend line shows that on a constant dollar basis Sudbury sees annual growth in this revenue source only when there is an operating override. Without overrides, the amount of revenue on a constant dollar basis generated by this revenue source is less than the 2 ½% annually that is commonly assumed with this property tax.

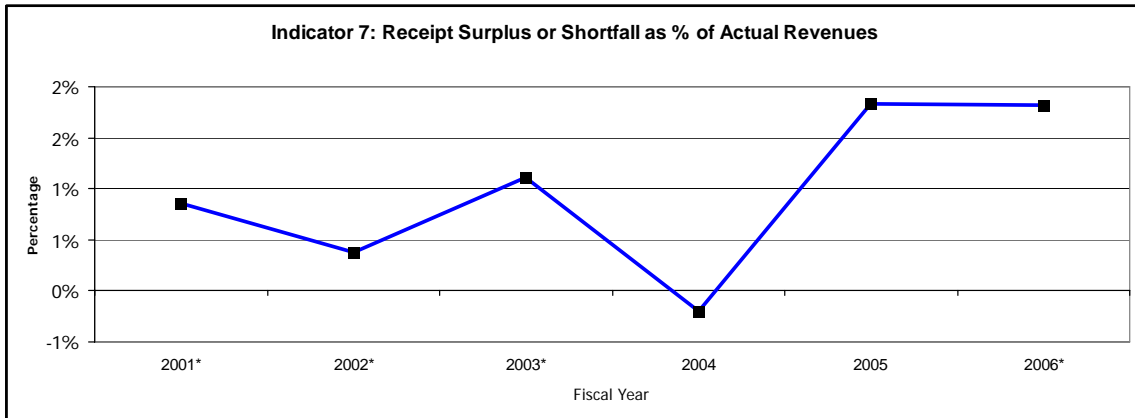


Indicator 6: Uncollected Property Taxes. This trend line shows that the Town has consistently collected nearly 99% of taxes owed by the end of the fiscal year, a very healthy trend.

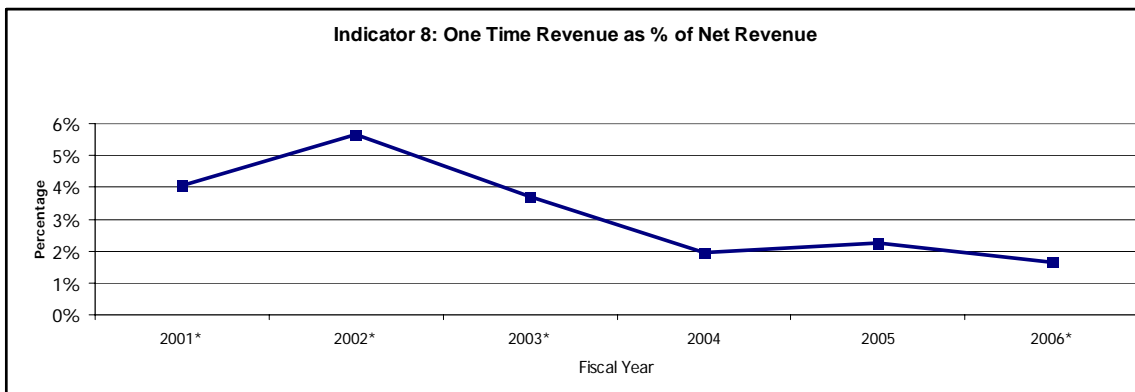


Indicator 7: Revenue Shortfalls. This trend line shows that the Town has been consistently conservative in making revenue forecasts, which helped the Town when revenues from state aid and elastic sources began to slow down and then decrease. In FY04 a revenue deficit was

narrowly avoided, and showed the wisdom of careful estimates in areas such as state aid, elastic revenues and one time revenues.



Indicator 8: One Time Revenues. This trend line shows that in FY2000 – FY2003 the Town relied on Free Cash to provide significant revenue for funding the budget. These funds were not as available in FY04 – FY06. The Town does establish a set amount of free cash that will be used to fund the budget, and hold the rest for as a rainy day fund for later appropriation.



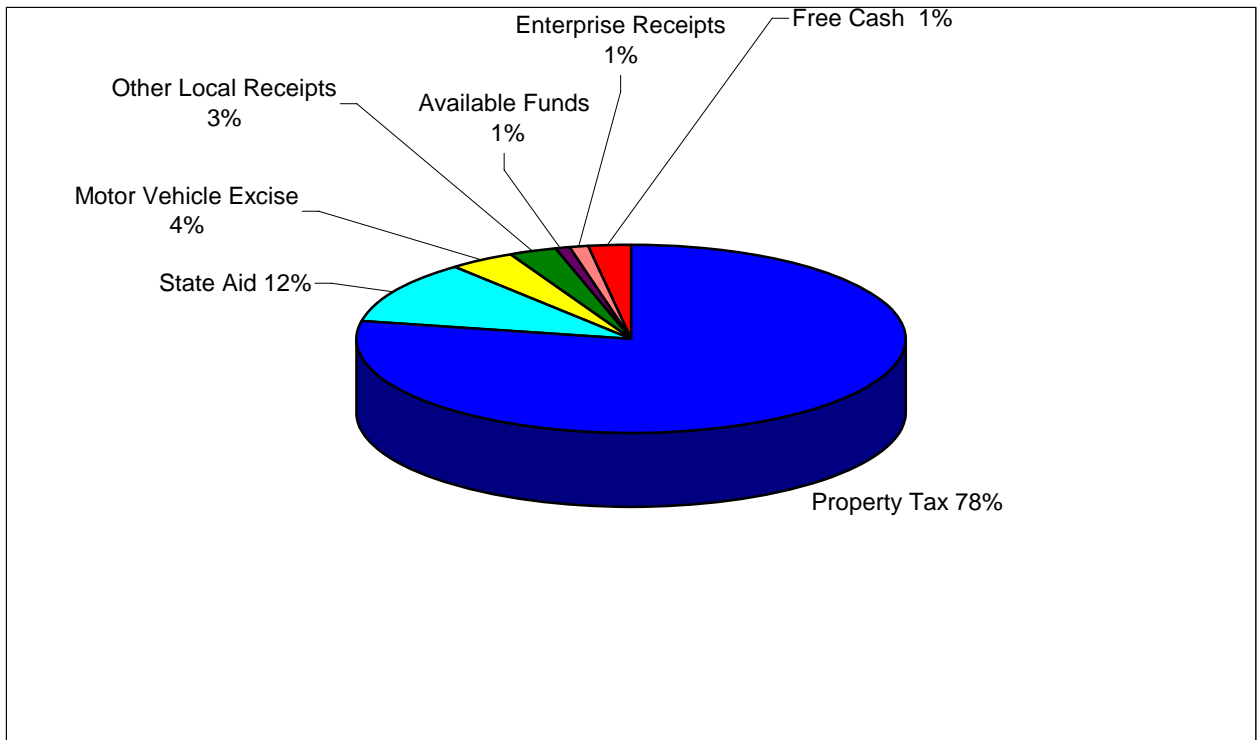
Overall, the indicator analysis of the Town's revenue bases shows on a constant dollar basis (adjusting for inflation) the growth in overall revenues has been steady, but only because of overrides in FY01, FY02, FY03 and FY06. Sudbury has become even more reliant on property taxes over the past six years, as state aid, elastic revenues and one time revenues became smaller portions of our revenue base. Residents showed a willingness to approve a large override for FY06, when both the Selectmen and the Finance Committee agreed that further deterioration in our service levels was not something that should occur without asking voters if they would raise approve an override of Proposition 2 ½ to provide the funds to prevent that from happening. And by all parties working together, an override was avoided in FY07.

The next section describes revenues projections for FY08.

Revenue Projections for FY08

In this final section of the **Budget Overview** we present a discussion of revenues and fund accounting, discussing both the projections for FY08, the updated projection for FY06 now that the tax rate has been set (revenue totals won't be finalized until the end of the current fiscal year, when we have a final tally of all revenues that have been collected). We offer here six tables showing details of each of the major revenue sources, and present a detailed discussion on each revenue source's authorization, limits and important variables.

FY08 Revenue Sources



Revenue Source	FY08
Within Levy Property Tax	53,752,102
State Aid	5,624,783
Motor Vehicle Excise	2,849,016
Other Local Receipts	1,993,536
Available Funds	728,608
Enterprise Receipts	760,328
Free Cash	1,900,000
Subtotal, within levy	67,608,373
Excluded Property Taxes	4,304,085
School Construction State Aid	2,816,206
Total Projected Revenues	74,728,664

Revenues and Fund Accounting

General Fund. Nearly all the revenues (99%) used to support the *FY08 Proposed Annual Budget and Financing Plan* are accounted for in the General Fund. General Fund budgeting and accounting is done on a modified accrual basis meaning that revenues are recognized when they become measurable or available (cash basis), while expenditures are accounted for in the accounting period incurred (accrual basis). General Fund Revenues are projected to be \$73,714,728 for FY08.

Enterprise Fund. Enterprise Funds are used for activities that are fully financed through user charges. Budgeting for enterprise funds is done on a GAAP (Generally Accepted Accounting Principles) basis. The Town runs two operations on an enterprise fund basis: The Solid Waste Transfer Station and the Atkinson Pool. All direct and indirect costs of the Transfer Station and all direct costs of the Atkinson have been built into the fees charged. Enterprise Fund Revenues are projected to be \$760,328 for FY08.

Special Revenue Funds. These are funds that have a specific purpose that is restricted by law. Town Meeting does not appropriate these funds.

Community Preservation Fund. Community preservation surcharges are levied annually and at a rate of 3% of residents' real estate tax bills with exemptions for the first \$100,000 of residential property and property owned by qualified persons with low income and seniors (60+) with low or moderate income as defined by Department of Revenue guidelines. These funds are limited to specific types of projects – open space preservation, historical preservation, affordable housing, and recreation – and cannot be used for operating or maintenance purposes. Funds are appropriated by Town Meeting through separate articles, not as part of the Annual Operating or Capital Budget.

Revenue Summary

	FY07 Projected	FY08 Projected	Dollar Change	Percent Change
Property Tax Levy (net of exclusions)	51,904,490	53,752,102	1,847,611	3.56%
State Aid-Cherry Sheet (net of SBA)	5,863,671	5,624,783	(238,888)	-4.07%
Local Receipts	4,671,559	4,842,552	170,993	3.66%
Free Cash	1,475,243	1,900,000	424,757	28.79%
Available Funds	796,461	728,608	(67,853)	-8.52%
Subtotal: General Operating Fund	64,711,424	66,848,045	2,136,620	3.30%
Enterprise Funds	728,516	760,328	31,812	4.37%
Total Available for Operating Purposes	65,439,940	67,608,373	2,168,432	3.31%
Property Tax Outside Levy (Debt Exclusions)	5,610,947	4,304,085	(1,306,862)	-23.29%
School Construction Reimbursement (SBAB)	2,816,206	2,816,206	-	0.00%
Total Revenue Projection	73,867,093	74,728,664	2,168,432	2.94%

Property Tax Growth

	FY06	FY07 Projected	FY08 Projected	Dollar Change	Percent Change
Previous Year Levy	45,183,865	50,101,942	51,904,489	1,802,548	3.60%
2.5% over prior levy	1,129,597	1,252,549	1,297,612	45,064	3.60%
New Growth	738,480	550,000	550,000	-	0.00%
Override	3,050,000	-	-	-	0.00%
Total Tax Levy (excluding debt exemptions)	50,101,942	51,904,490	53,752,102	1,847,611	3.56%

Assumptions:

Property Tax Levy. Projection: \$53,752,102. Sudbury's property tax levy is anticipated to increase by \$1,847,611 or 3.60 percent. This is exclusive of excluded debt service.

As provided under Proposition 2 ½, local governments are permitted to increase property taxes 2.5 percent over the previous years' tax levy limit. In addition, a community may increase its property tax levy by what is known as "new growth." New growth reflects an increase in the property tax levy resulting from new residential and commercial construction in the community.

The new growth estimate for FY08 is based on new residential and commercial construction that occurred during calendar year 2006. This estimate of \$550,000 is based on information provided by the Board of Assessors.

State Aid/Local Aid

	FY06 Actual	FY07 Projected	FY08 Projected	Dollar Change	Percent Change
Dist., reimb., offsets	1,256,200	1,105,193	866,305	(238,888)	-21.62%
Chapter 70 (school aid)	3,502,825	3,676,919	3,676,919	-	0.00%
Lottery Aid	895,816	1,081,559	1,081,559	-	0.00%
Subtotal: General Purpose State Aid	5,654,841	5,863,671	5,624,783	(238,888)	-4.07%
School Construction (SBAB)	2,816,206	2,816,206	2,816,206	-	0.00%
Total State Aid	8,471,047	8,679,877	8,440,989	(238,888)	-2.75%

Assumptions:

State Aid: State aid, which is also referred to as Cherry Sheet aid or local aid, is a function of the State budget. Our first indication of State aid for FY08 will come when Governor Patrick files his FY08 budget with the Legislature in January 2007. This budget, known as "House 2" will include his recommendations for school aid (Chapter 70) and lottery distributions. Governor Patrick has promised to increase State Aid by significant amounts statewide. In order to move

forward with the budgeting process for the Town, we will most likely use the state aid figures in the Governor's budget bill, but for now we are level funding these revenue estimates.

1. **Distributions, Reimbursements and Offsets. Projection: \$866,305.** This category includes various State aid programs such as School Transportation, Charter School Reimbursements, Additional Assistance and Police Career Incentive payments. This is a projected 21.62% loss compared to FY07 in this category. The reason for this drastic decrease however is largely due to the reclassification of the METCO grant for State Cherry Sheet reimbursement.
2. **Chapter 70 Aid. Projection: \$3,676,919.** Chapter 70 assistance is Sudbury's largest category of State aid. In previous years Chapter 70, also known as educational assistance, has been based on a formula which includes a variety of enrollment and community factors. Because Sudbury's educational spending exceeds the State's minimum requirements, Chapter 70 aid increases have been limited to per pupil minimum aid amounts in recent years. Discussion continues at the state level regarding creation of a new funding formula. This line item has been level-funded showing no increase over FY07.
3. **Lottery Aid. Projection: \$1,081,559.** This line item has been level-funded showing no increase over FY07.
4. **School Construction. Projection: \$2,816,206.** This aid is a function of reimbursements for the Sudbury Public School construction and renovation projects. The FY08 projection assumes 100% funding for 4 projects- Nixon #3564, Curtis #2778, Haynes #3779, and Loring #3800. These amounts, however, must be directly used to reduce the amount of the Proposition 2 ½ debt exclusion for these projects and, therefore, are not available for appropriation by Town Meeting.

Local Receipts

	FY06 Actual	FY07 Projected	FY08 Projected	Dollar Change	Percent Change
Motor Vehicle Excise	2,965,914	2,791,912	2,849,016	57,104	2.05%
Other Excise	52,051	66,000	52,051	(13,949)	-21.13%
Penalties & Interest	336,788	260,000	283,100	23,100	8.88%
PILOT	65,409	90,000	65,409	(24,591)	-27.32%
Fees	127,433	125,000	122,787	(2,213)	-1.77%
Rentals	137,604	170,000	137,604	(32,396)	-19.06%
Departmental Revenues	64,661	72,000	56,710	(15,290)	-21.24%
Licenses & Permits	651,619	590,869	609,235	18,366	3.11%
Fines & Forfeits	140,685	100,000	113,557	13,557	13.56%
Investment Income	468,676	200,000	303,084	103,084	51.54%
Chapter 203	58,141	60,000	60,000	-	0.00%
Melone Gravel Sales	100,000	100,000	100,000	-	0.00%
Miscellaneous	416,611	45,778	89,999	44,221	96.60%
Total Local Receipts	5,585,592	4,671,559	4,842,552	170,993	3.66%

Assumptions:

Local Receipts are those fees and charges which may be imposed by a municipality. Massachusetts General Law Chapter 40 Section 22(f) provides that *“any municipal board or officer empowered to issue a license, permit, certificate or to render a service to perform work for a person or class of persons may, from time to time, fix reasonable fees...”* This is a local acceptance statute which was approved at the 1992 Annual Town Meeting. Overall, local receipts have started a slow recovery over the past two years. Most of these revenues are very sensitive to the economy, and we hope we will continue to see a rebound as the year-to-date figures indicate for FY07. Until then, expectations for this revenue source remain cautiously optimistic and we are projecting receipts for FY08 to be equivalent to the actual receipts for FY05.

- 1. Motor vehicle excise. Projection: \$2,849,016.** The projection represents a 2.05% increase over the FY07 estimate. This assumption will be revisited when the first commitment of calendar year 2007 is received from the Registry of Motor Vehicles, which should be around March 1, 2007.
- 2. Other excise. Projection: \$52,051.** This revenue comes from hotel/motel taxes. This projection is based on actual receipts over the past 2 years and on year-to-date information for FY07.
- 3. Penalties and interest. Projection: \$283,100.** The projection represents an increase over the FY06 actual receipts and a slight increase substantial increase over the FY07 projection. More delinquent taxpayers have been able to begin to pay their overdue taxes and the interest and penalties that have accrued. This is represented in the increased receipts in this area that we have seen. As the economy improves and more people are able to pay their taxes on time before interest and penalties accrue, these receipts will likely level off.
- 4. Payment in lieu of taxes (PILOT). Projection: \$65,409.** This revenue is limited to the three accounts with which the Town has agreements for PILOT (Wayside Inn, US Fish and Wildlife Service, Sudbury Public Housing Authority). Based on the past 3 year's receipts, this is a realistic projection.

5. **Fees. Projection: \$122,787.** Fees include charges for application, tax administration, municipal lien certificates, tax redemptions, and administration fees for police detail. This projection reflects a slight decrease over the actual receipts in FY06. In FY07 we have not seen an increase over the same time last year.
6. **Rentals. Projection: \$170,000.** We have projected receipts in this area will be equivalent to FY06. The major fee in this category is for cell tower leases. Town staff has worked diligently to obtain lease agreements for cell towers on town owned land.
7. **Departmental Revenues. Projection: \$137,604.** These are small amounts taken in by departments for such things as photocopy charges, sale of voter lists, etc. The projection is based on FY06 collections continuing on target to date.
8. **Licenses and permits. Projection: \$609,235.** These include building permits, which represents the largest portion of this category and charges for licenses. This projection represents a 3.11% increase over projected revenues for FY07.
9. **Fines and forfeits. Projection: \$113,557.** Fines include charges for false alarms, parking tickets, court fees, and for over due library materials. We have used a larger projection from FY07 based on recent trends.
10. **Investment income. Projection \$303,084.** The projection represents a substantially large increase over projected receipts for FY07. Indications are that there will be a moderate decrease for our actual investment returns in FY06. Rates remain low, but average daily balances are growing due to increased collections.

Use of Reserves, Free Cash and Available Funds

	FY06 Actual	FY07 Projected	FY08 Projected	Dollar Change	Percent Change
Retirement Trust Fund	25,000	25,000	25,000	-	0.00%
Abatement/Overlay Surplus	543,450	511,119	450,000	(61,119)	-11.96%
Town Meeting Articles - Remaining Balances	23,000	-	-	-	0.00%
Cops Fast Grant	-	30,000	23,266	(6,734)	-22.45%
Ambulance Reserve	210,189	230,342	230,342	-	0.00%
Subtotal: Available Funds	801,639	796,461	728,608	(67,853)	-8.52%
Free Cash	800,000	1,475,243	1,900,000	424,757	28.79%
Total Free Cash & Available Funds	1,601,639	2,271,704	2,628,608	350,170	15.41%

Assumptions:

1. **Free Cash Projection: \$1,900,000.** Free Cash is certified by the Department of Revenue. Free Cash (undesignated fund balance) is largely a function of prior year revenue collections in excess of estimates and prior year expenditures less than appropriations.
2. **Abatement/ Overlay Surplus Projection: \$450,000.** A reserve for property tax abatements and exemptions is created each year in the Overlay account. Overlay Surplus becomes available when it is determined that all claims for abatements and exemptions of a specific fiscal year have been resolved. Per State statute, this amount must be formally voted by the Board of Assessors before it is available for appropriation.

3. **Ambulance Reserve for Appropriation Projection: \$230,342.** Fees are collected for use of the Town's ambulances. These fees are set aside in a separate account to offset future ambulance and related expenses. In FY08 this amount will be used to purchase ambulance supplies, equipment, and to fund EMT stipends.

Enterprise Funds: Pool Enterprise

	FY07	FY08	Dollar	Percent
Pool Enterprise	Projected	Projected	Change	Change
Revenue	430,000	440,000	10,000	2.3%
Retained Earnings used	6,713	17,842	11,129	165.8%
Subsidy-Taxation	48,615	62,198	13,583	27.9%
(Expenses)	(485,328)	(520,040)	(34,712)	7.2%
Total Pool Enterprise	-	-	-	

Revenue Projection: \$440,000. All receipts for pool rentals and programming go into the enterprise fund.

Retained Earnings used: Projection: \$17,842. Any revenue in excess of expenses from the prior year is recorded as retained earnings. Once certified, retained earnings are available to use to help fund the budget.

Subsidy-taxation: Projection: \$62,198. As has been the practice in recent years, the pool is expected to cover all of its direct costs, and the cost of the benefits for the employees is charged to the tax levy. The subsidy thus equals the costs of the benefits.

Enterprise Funds: Transfer Station Enterprise

	FY07	FY08	Dollar	Percent
Transfer Station	Projected	Projected	Change	Change
Revenue	291,803	302,486	10,683	3.7%
Retained Earnings used		-	-	0.0%
Subsidy	-	-	-	0.0%
(Expenses)	(291,803)	(302,486)	(10,683)	3.7%
Total Transfer Station Enterprise	-	-	-	

Revenue Projection: \$302,486. All receipts for transfer station fees go into the enterprise fund. Receipts are projected to increase 3.7% increase.

Retained Earnings used Projection: \$0. Any revenue in excess of expenses from the prior year is recorded as retained earnings. Once certified, retained earnings are available to use to help fund the budget.

Subsidy Projection: \$0. None is needed.

Projected Changes in Fund Balance in the General Fund

The general fund balance is projected to be the same or grow slightly at the end of FY08. Conservative revenue projection combined with strict adherence to the appropriations of Town Meeting insures that the fund balance of the general fund does not unintentionally decrease from year to year. The fund balance of the Town's general fund increased FY06, per the Town's FY06 financial statements.

As stated earlier, the Community Preservation Fund is reserved for projects in four limited areas, and amounts collected in this fund are projected to continue to accumulate as the Town prepares to purchase sizeable parcels of land as they become available.

Audit Financials for FY06 to be inserted upon audit completion

Planning for a new Police Station: Overall Capital and Debt Issuance Long Range Plans



October 23, 2006

Tonight's Presentation Goals

- Recap Town Facilities Planning for Past 7 Years
- Present Draft Financing Plan for Project
- Present Draft 5 Year Facility and Debt Plan

Start with Good News

Biggest projects already have been issued - \$117 million

- Low interest rates achieved
- Secured high SBA reimbursement grants from state
- Aggressive issuance schedules saved millions in interest costs for K-8 and LS projects
- All projects done within appropriations
- Outstanding cooperation given by all parties to get school needs met at the best possible cost to Town
- Only have to look at other communities to see the reality of alternatives that could have occurred

10.23.06

Town of Sudbury

3

Reality

- We have facilities still in bad shape, inadequate for mission, leaving the Town and the taxpayers facing more in debt costs for these projects

10.23.06

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4

Planning



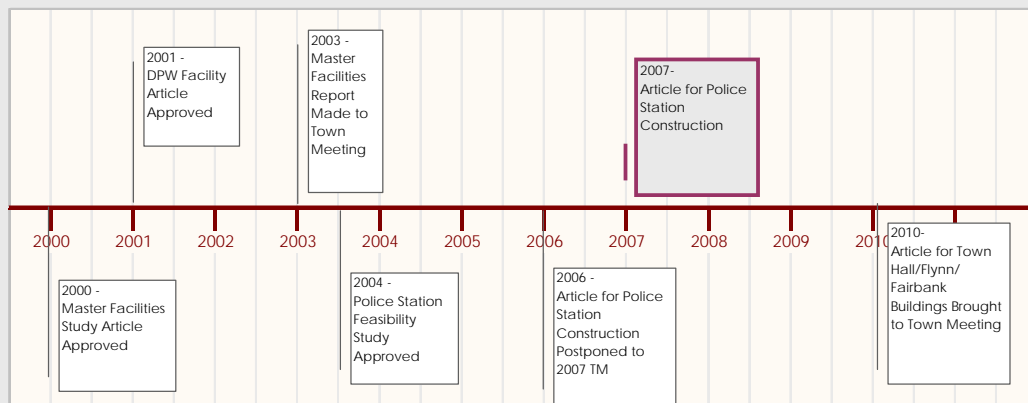
- We have been planning for these projects and are ready to bring them forward before a crisis occurs
- We have support for the Police Station project from the schools, whom we supported for their projects – a Town working together
- We can do the Police Station and the other major Town Project without seeing the amount of taxes paid for our capital projects going up beyond where they are today. \$1100 on average assessed \$661,000 house today – won't go any higher in our plans.

Part I

TOWN FACILITIES PLANNING



Facilities Planning Timeline



10.23.06

Town of Sudbury

7

Recap of Capital Planning Articles for Town Buildings From Town Meetings 2000 - 2007

- Article 12, 2000 - \$50,000 approved for Facilities Study
- Article 7, 2001 - \$4.9 million approved for DPW building; 2 ½ debt exemption approved at Town Election
- Article 23, 2002 – Report on results of Facilities Study
- Article 17, 2004 - \$25,000 approved for Police Station feasibility study
- Article 4, 2007 - \$8.2 million approved for Police Station design and construction by Town Meeting; 2 ½ debt exemption fails at ballot box

10.23.06

Town of Sudbury

8



Article 12, 2000 Town Meeting – Town-Wide Comprehensive Facility Study

Town-Wide Comprehensive Facility Study What Facilities Will Study Address?

- DPW Building
- Fairbank Community Center
- Police Station/E-911 Combined Dispatch Center/Police Station
- Flynn Building, Town Hall, Parsonage

Process

- Analysis of existing and future needs
- Analysis of risks of doing nothing
- Assessment of land and buildings to meet needs
- Evaluate underutilized resources
- Develop comprehensive plan
- Recommend implementation strategies

Can the Town Take On Anymore Large Projects?

- Difficult to think of asking the Town to take on any more project
- Also difficult to go on ignoring the problems
- Decided to reject past planning efforts that were ad hoc, single issue driven
- Determined to put together a plan that is systematic, coordinated, and manages the debt repayment levels

Article 7 - 2001 Annual Town Meeting Public Works Facility

Town Building History

- History of Town Projects
 - 1981 Police Station Renovation \$575,000
 - 1989 Senior Center - \$875,000
 - 1990 Fire Headquarters - \$1.2 Million
 - 1995 Goodnow Library Project - \$2.9 Million (Totally actually \$4.9 million)
 - 2001 DPW/Community Services Building
- Voters already approved Debt Exemption for DPW facility

Design Issues

- Builds on previous, economical design work, with revision for new offices
- Town already owns the site – won't have costs of acquiring land
- Centrally located site
- Deals with environmental issues
- Puts the right staff together at the site
- Won't impact neighborhood too much

10.23.06

Town of Sudbury

11

Article 23 - 2002 Annual Town Meeting, Report to Town Meeting on Municipal Facilities Study

Report Summary

Facilities addressed

Police Station, Fairbank Community Center, Town Hall, Flynn Building, Loring Parsonage

Listed problems noted for each

Made overall recommendations for addressing problems and needs

Police Station

Police problems too big for an addition or renovation

Town will have to study further to identify potential solutions

May have to relocate the department elsewhere in town

Recommendations

For Town Hall/Fairbank/Flynn

Option One – "Town Hall Scenario"

- Add on to Town Hall – put all Town Administrative Staff there
- Renovate Flynn – put K-8 Administrative Staff there
- Allow COA and Park & Recreation to expand to use all of Fairbank Community Center

Option Two – "Flynn Building Scenario"

- Add on to Flynn Building– put all Town Administrative Staff there
- Renovate Upstairs of Town Hall– put K-8 Administrative Staff there
- Allow COA and Park & Recreation to expand to use all of Fairbank Community Center

10.23.06

Town of Sudbury

12

Article 17 - 2004 Annual Town Meeting, Police Station Feasibility Study

Proposal

- Requesting \$25,000 for this study
- Mission: Address basic information needs
 - Evaluate locations identified by Town
 - Factor in need to have Combined Dispatch
 - Confirm Comprehensive Facilities study
 - Produce schematic designs
 - Provide project costs

Why Do This Study?

- Serious deficiencies in existing Building
- Septic and site considerations
- Need for combined Dispatch Center
- Keep with Commitment to Long Range Planning
 - Facilities
 - Financial
- Prevention and planning less costly than the alternative

Need for Joint Police/Fire Dispatch

- Report recommending this done 5 years ago
- More critical now
- Current police station is too small to accommodate
- Needs to be in a police station for manning implications

10.23.06

Town of Sudbury

13

Article 17 - 2004 Annual Town Meeting, Police Station Feasibility Study, Page 2

Municipal Facilities Timetable

- 1981 Police Station Retrofit - \$575,000
- 1989 Senior Center - \$875,000
- 1990 Fire Headquarters - \$1.2 Million
- 1995 Goodnow Library - \$4.9 Million
- 2001 DPW/Offices - \$4.9 Million
- 2007 Police Station - ?

Allows Continuity on Long Range Planning Efforts

- Spacing Town projects
- Pay off one project before starting the next
- Start this debt earliest in 2007

Concluding Thoughts

- Problems of current station won't go away
- Dodged bullets thus far for consequences from aged and inadequate facility
- Better planning will result in better choices and outcomes
- Hope this work will give us specific parameters for choices ahead

10.23.06

Town of Sudbury

14

Article 13 - 2004 Annual Town Meeting, Flynn Building Accessibility Project

Future of Flynn Building

- Comprehensive Facilities study was completed in 2002
- Report calls for continued use of the facility as an office building for Town use
- Planning to consolidate administrative staff from Loring Parsonage over to Flynn
- Longer term planning to be undertaken after Police Station situation addressed
- Urge support to finish this important and REQUIRED accessibility work on the Flynn Building

Scope of Project

- Add an elevator
- Create new accessible building entrance
- Bring bathrooms to ADA standards
- Total estimated cost: \$254,000
- Already appropriated \$224,000
- Asking for \$30,000 tonight, by a transfer of funds from an older article
- Finish project in summer 2004
- Allows Flynn Building to continue to be used while more critical projects addressed first
- Not the long term solution for Flynn Building use and adequacy – just addressed immediately handicapped accessibility issues

Multi-Year Planning

- We have documented the project planning process over the past six years, with the following goals:
 - Keeping tax impact level
 - Spacing of municipal projects
 - Fit school projects into the process
- Now is the Time for the Police Station Project to be Approved

Part II

COST OF POLICE STATION DEBT AND RECAP OF PREVIOUS DEBT PLANNING

10.23.06

Town of Sudbury

17

Projected Debt Service for Police Station Project

- Total Project Costs Estimated \$8.2 million
 - Issuance Costs Included
 - Project Management Costs Included
- Bonding Rate Assumed 4 – 5%
- 20 or 15 year bond most likely
- First year of debt repayment 2009

10.23.06

Town of Sudbury

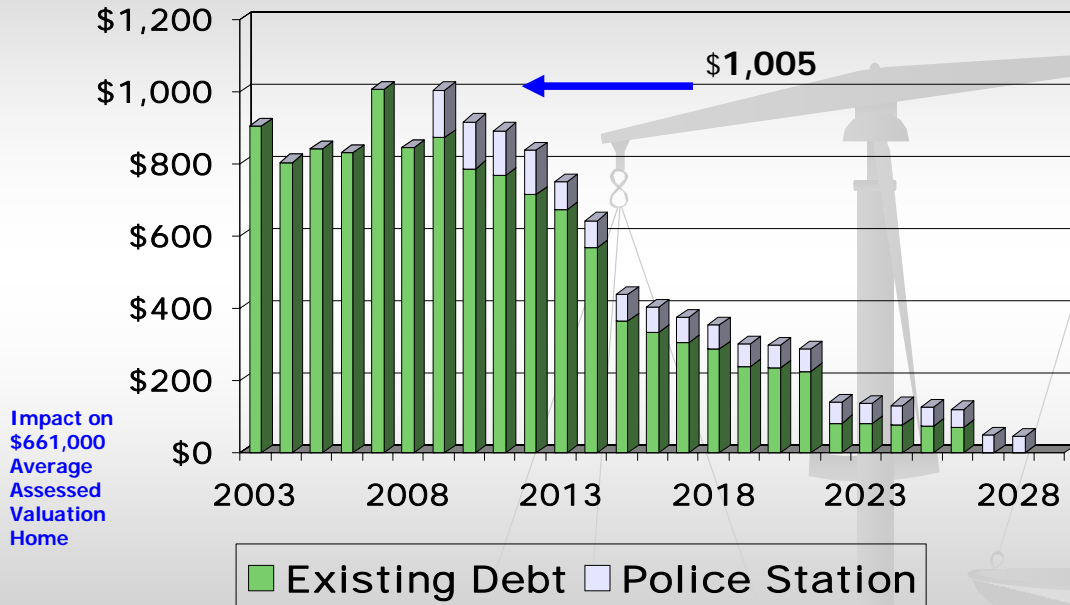
18

**Police Department Financing
20-Year Borrowing Strategy**

Year	Principal	Interest	Total Debt
			Service
2009	410,000	410,000	820,000
2010	410,000	389,500	799,500
2011	410,000	369,000	779,000
2012	410,000	348,500	758,500
2013	410,000	328,000	738,000
2014	410,000	307,500	717,500
2015	410,000	287,000	697,000
2016	410,000	266,500	676,500
2017	410,000	246,000	656,000
2018	410,000	225,500	635,500
2019	410,000	205,000	615,000
2020	410,000	184,500	594,500
2021	410,000	164,000	574,000
2022	410,000	143,500	553,500
2023	410,000	123,000	533,000
2024	410,000	102,500	512,500
2025	410,000	82,000	492,000
2026	410,000	61,500	471,500
2027	410,000	41,000	451,000
2028	410,000	20,500	430,500
Total \$	8,200,000	\$ 4,305,000	\$12,505,000

Year	Current Total Town	Estimated SBA Reimb	LS Sudbury 85.67%	Total Existing D/S	Police Station	Total Proposed D/S	
2003	1	9,028,501	(3,127,433)	234,947	6,136,016	-	6,136,016
2004	2	7,518,161	(3,127,433)	1,067,941	5,458,669	-	5,458,669
2005	3	5,750,949	(2,816,206)	2,773,824	5,708,567	-	5,708,567
2006	4	5,540,987	(2,816,206)	2,916,063	5,640,844	-	5,640,844
2007	5	5,309,598	(1,494,422)	3,016,152	6,831,327	-	6,831,327
2008	6	4,472,354	(1,494,422)	2,753,926	5,731,858	-	5,731,858
2009	7	4,347,060	(1,111,654)	2,682,285	5,917,691	820,000	6,737,691
2010	8	4,261,604	(1,111,654)	2,195,037	5,344,986	799,500	6,144,486
2011	9	4,180,354	(1,111,654)	2,136,567	5,205,267	779,000	5,984,267
2012	10	3,883,860	(1,111,654)	2,078,097	4,850,303	758,500	5,608,803
2013	11	3,659,506	(1,111,654)	2,018,428	4,566,280	738,000	5,304,280
2014	12	3,008,169	(1,111,654)	1,956,371	3,852,886	717,500	4,570,386
2015	13	2,900,050	(1,111,654)	689,579	2,477,975	697,000	3,174,975
2016	14	2,694,675	(1,111,654)	669,554	2,252,575	676,500	2,929,075
2017	15	2,527,650	(1,111,654)	651,296	2,067,292	656,000	2,723,292
2018	16	2,430,025	(1,111,654)	633,037	1,951,408	635,500	2,586,908
2019	17	2,106,675	(1,111,654)	614,190	1,609,210	615,000	2,224,210
2020	18	2,112,275	(1,111,654)	595,342	1,595,963	594,500	2,190,463
2021	19	2,069,800	(1,111,654)	576,495	1,534,641	574,000	2,108,641
2022	20	-	-	557,647	557,647	553,500	1,111,147
2023	21	-	-	538,800	538,800	533,000	1,071,800
2024	22	-	-	519,717	519,717	512,500	1,032,217
2025	23	-	-	500,339	500,339	492,000	992,339
2026	24	-	-	480,903	480,903	471,500	952,403
2027	25	-	-	-	-	451,000	451,000
2028	26	-	-	-	-	430,500	430,500
2029	27	-	-	-	-	-	-
		77,802,252	(29,327,627)	32,856,539	81,331,164	12,505,000	93,836,164

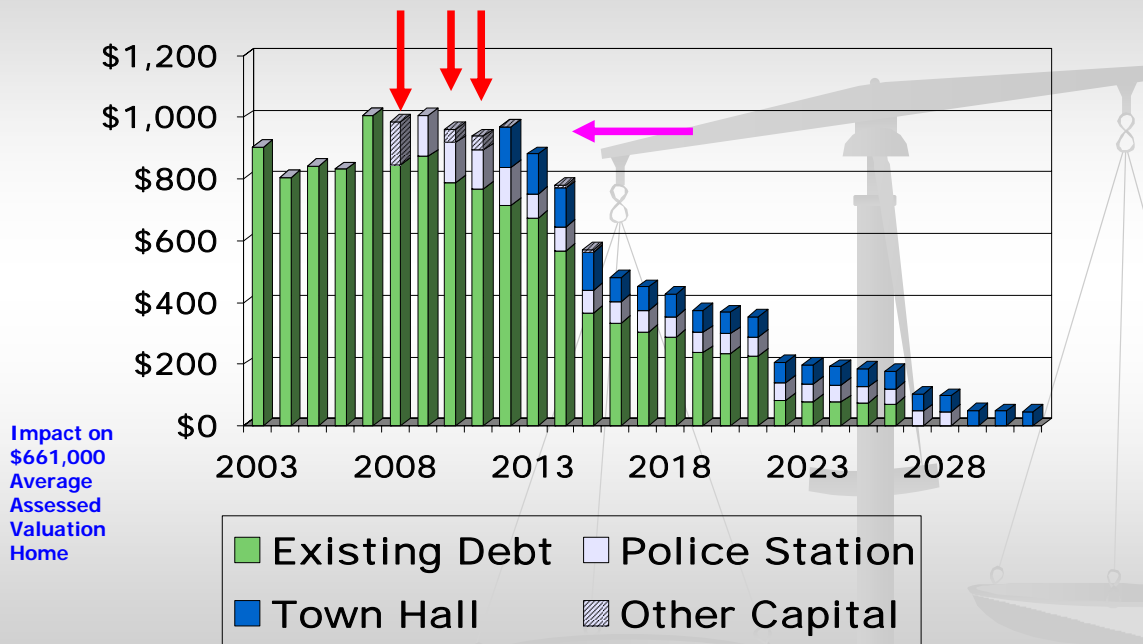
20 Year Bond Tax Impact



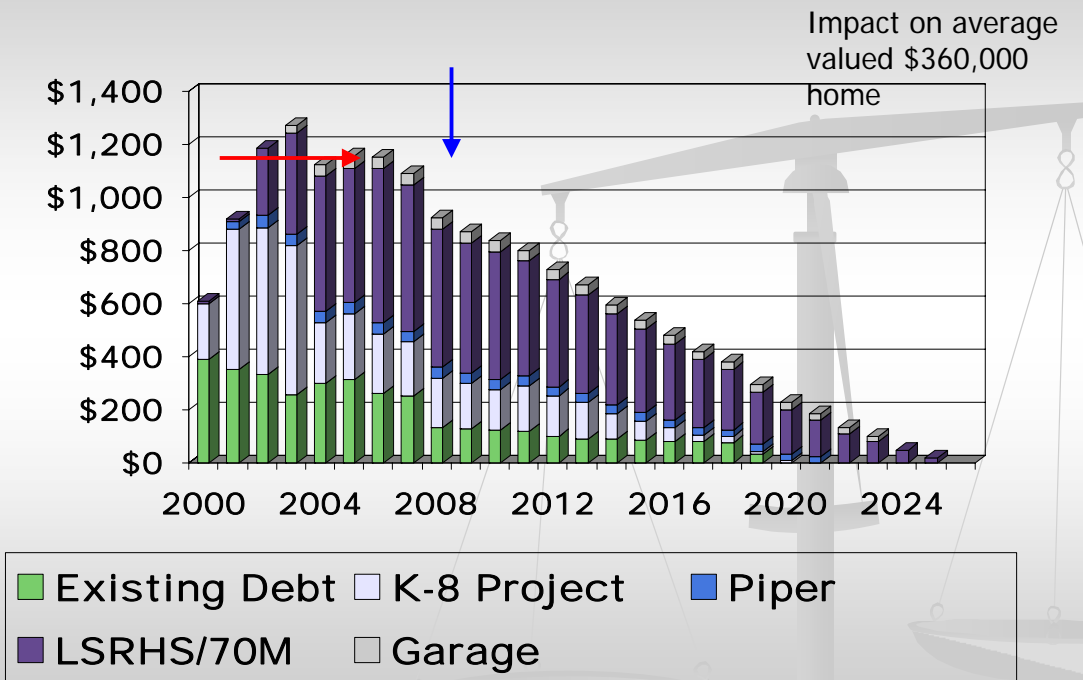
15 Year Bond Tax Impact



5 – 7 Year Capital/Debt Plan



Reminder: Cost of Planned Debt Program, as Presented to Town Meeting in 2001



Presentation Conclusion

- Police Station Project has been part of our planning for 7 years
- Other potential impacts on the project:
 - Will look at selling current police station – could bring in \$500,000 to \$1,000,000.
 - Will look at L.E.E.D. standards and payback of such investment
- Need to do the project now for many reasons including construction inflation – 10 to 15% on these kinds of projects

10.23.06

Town of Sudbury

25

- Planning Will Continue for Town Hall/Flynn/Fairbank Project
 - We will look at using Community Preservation Act funds for Town Hall and Flynn Building
- Continue our “Level Tax Impact” multi-year plan for dealing with aged facilities and other capital projects.

10.23.06

Town of Sudbury

26

Conclude with Positive News

- Finance Committee and CIPC have supported past projects and helped make them better projects
- We will provide more information on the Police Station project to help with your decision making over the next month
- Thank You!

10.23.06

Town of Sudbury

27

2007 Annual Town Meeting - ARTICLE 4 Construct Police Headquarters



2007 Annual Town Meeting

10.23.06

Town of Sudbury

28