



TOWN OF SUDBURY
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Article 4: FY14 Budget (Finance Committee Chair, Jim Rao)

Good evening everyone, my name is Jim Rao, Chair of the Sudbury Finance Committee. I'll be discussing the main budget article, article 4, but before I do so, I wanted to spend a minute talking about the Finance Committee as I often get asked, what is the Finance Committee and what does it do?

Finance Committee

Article 4

- Comprised of 9 legal voters of the town (volunteers), appointed by the Moderator:
 - advisory function; responsible for reviewing operating budgets and other financial articles
 - makes recommendations to the Board of Selectmen and to the taxpayers at Town Meeting
 - no authority to make spending decisions (that responsibility resides with our various elected bodies)
- Current committee:
 - 250+ years of practical work experience
 - CPA / MBA / CFA / CFO / CMA / etc.
 - cross-section (retirees; children in schools, etc.)
- Volunteer opportunities:
 - volunteer applications are available on the town's website
 - e-mail: FinCom@sudbury.ma.us

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As per our town bylaws, we are a committee comprised of 9 legal voters of the town. We are volunteers appointed to serve on the committee by the Town Moderator.

Our role is an advisory one. We are responsible for reviewing budgets for the town and schools and making recommendations to the Board of Selectmen and to the taxpayers at Town Meeting. In this role, we have no authority to make spending decisions as that is the responsibility of our various elected bodies.

Rather, our role is to examine those budgets on your behalf and make independent and informed recommendations regarding the budget and other financial issues. We are residents, taxpayers, and volunteers.

Our backgrounds are varied. We have committee members with children currently in the school system, both the K8 and high school, and other committee members whose children have already gone through our school system. And for some of us, we have young children that have yet to reach school age. We have retirees, seniors, and business professionals.

We will have a few openings after town meeting and I'd encourage interested volunteers to complete a volunteer application (which can be found on the

town's website) and submit them to the FinCom e-mail address listed.

Presentation Agenda

Article 4

- Recent changes since the publication of the Warrant
- Recap of FY14 budgets as per the Warrant

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From an agenda perspective, first I'd like to take you through a recent change that impacts what we will vote on here tonight relative to Article 4.

Then, I'd like to recap some of the key assumptions for FY14 and that are outlined in the Warrant.

Article 4: Summary of Changes

Article 4

Changes	FY14		Change
	Warrant	ATM	
L-S Operating Assessment	\$ 19,540,532	\$ 19,791,903	\$ 251,371

- Increase in operating budget assessment for Lincoln-Sudbury Regional High School
 - Article 4: Warrant = \$83,468,546
 - Article 4: Town Meeting = \$83,719,917
- No change to L-S operating budget vs. Warrant

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In terms of what changed, there is only one number that has changed which is the operating budget assessment to Sudbury from the high school. This has increased by approximately \$251K and I'll get to why that has increased in a minute.

That change aside, there have been no other changes vs. the data that is presented in the warrant. You can see the change in the amount for Article 4 from the warrant to tonight.

Moreover, there has actually been no change to the L-S budget as compared to what is in the Warrant as that number is still approximately \$26.6 million. It's important to remember that the assessment is not the budget. Rather the assessment, is the mechanism in which the budget is funded by our two towns, Lincoln and Sudbury. And while the cost of the budget is the principal factor in determining what the assessment will be, the reality is that there are other estimates, most notably state aid estimates, which can influence what the calculation of the assessment.

Decline in State Aid forecast assumption...

	FY14		Warrant vs. House	
	Warrant	House	(%)	(\$)
TOWN - SUDBURY				
<i>Education</i>	\$ 4,436,697	\$ 4,414,432	-0.5%	\$ (22,265)
<i>General Government</i>	\$ 5,642,775	\$ 5,648,329	0.1%	\$ 5,554
REGIONAL - LSRHS				
<i>Education</i>	\$ 3,196,175	\$ 2,902,280	-9.2%	\$ (293,895)
TOTAL	\$ 13,275,647	\$ 12,965,041		

- Current House budget submission for state aid a reduction from the assumptions used by the Governor
 - Disproportionate share of decrease impacting L-S
- Despite state aid reduction from House, comfortable with overall tax revenue forecast used for the Warrant
 - Conservative with local receipts; have stabilized and begun to gradually pick up from pre-FY11 depressed levels

...HWM a reduction from Governor's budget

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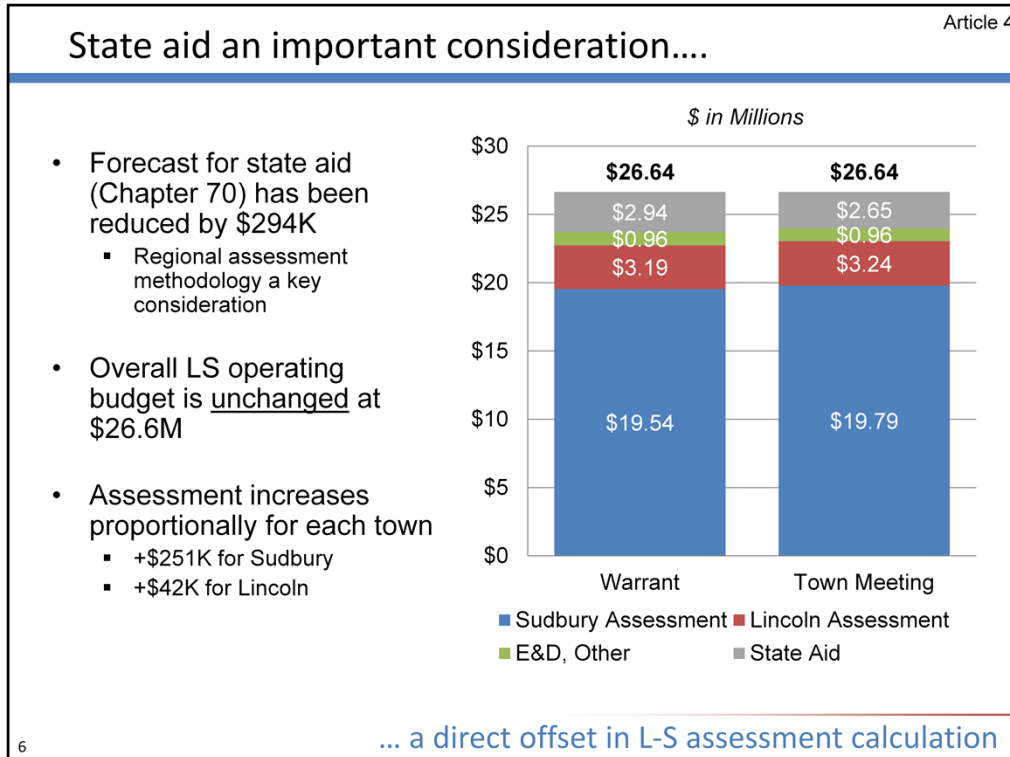
So let's get into the details of why the L-S assessment has changed as compared to what's in the warrant. Namely, it's changed because of changes in the current forecast we are assuming for state aid.

The latest state aid estimates from the House are listed above. As you can see, there have been relatively minor changes to state aid that comes directly to Sudbury, less than \$17K. For the high school however, the change is more dramatic with a reduction of nearly \$300K.

Despite the change in state aid, we remain comfortable with our overall tax revenue forecast. In aggregate, we took a very conservative view of local receipts knowing that the state aid estimates were likely to change and in reality, we will not know what the final state aid forecast is for FY14 until late June. So despite the latest figures from the House, we remain comfortable with the overall tax revenue forecast levels used for the Non Override budget submission because of conservatism with local receipts.

So if we are comfortable with the overall forecast, why change the L-S assessment. The reason for that is in the details of how the assessment is calculated because had these numbers been reversed, and the large reduction been on the Sudbury side we would have been more

comfortable not making any changes.



These bar graphs illustrate why the change in state aid to L-S is such an important consideration.

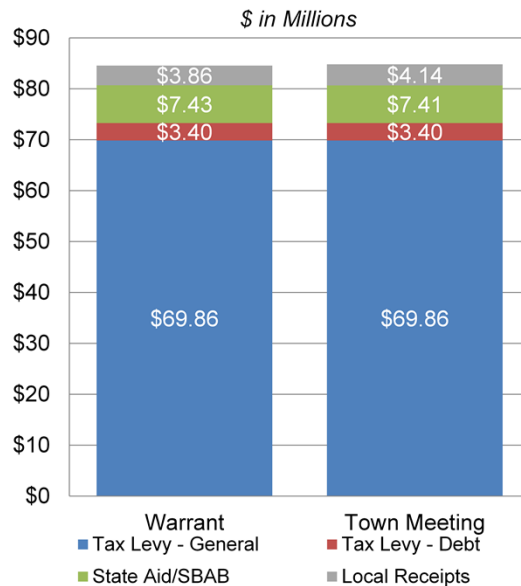
The assessment starts with the budget for the high school and then applies direct offsets against this budget, namely Chapter 70 state aid and any other revenues, such as fees and free cash, that can be applied to help fund the budget. In this case, the warrant assumed that there were roughly \$3.7M of offsets, with the biggest offset being nearly \$3M of state aid. This left about \$22.7M to be funded by our two towns, Lincoln and Sudbury, through the assessment process.

The estimates provided by the House a few weeks ago, reduce that amount of state aid to L-S by about \$300K.

Tonight, we'll approve an assessment to the high school based on the implicit assumptions for state aid that our outlined above. We could do nothing and roll the dice assuming that the final state aid figures come in as we assumed in the Warrant. However, if they do not, and final state aid figures come in as projected by the House Ways and Means Committee, then the high school would have a funding shortfall of approximately \$300K and would have to implement cuts. Wanting to avoid such an outcome, we felt it prudent to update the L-S assessment accordingly.

Mix has changed, but total tax revenues same....

- Lower state aid offset by favorable local receipts
 - Used conservative assumptions for local receipts in the Warrant
 - Positive trends past 3 fiscal years (FY11-FY13)
- Tax burden is unchanged for Sudbury taxpayers



... results in no impact to Sudbury taxpayers

So given that increase in the assessment, why hasn't that resulted in an increase in our taxes. That gets to the overall forecast for tax revenues that I mentioned earlier.

As you can see, we've raised our expectations for local receipts to offset the decline in state aid as compared to what we assumed in the Warrant. While we do not vote on revenues, per se, but rather on budgeted expenditures, I felt it important to outline the revenue side of the equation so you can all see the relative puts and takes.

Summary of Changes

Article 4

EXPENDITURES	FY14		
	Warrant	ATM	Change
Major Cost Center Growth --->	2.70%	2.70%	0.00%
LSRHS Operating Assessment	\$ 19,540,532	\$ 19,791,903	\$ 251,371
SPS	37,581,756	37,581,756	-
Town Departments	20,048,664	20,048,664	-
Capital	284,062	284,062	-
Major Cost Centers	<u>\$ 77,455,014</u>	<u>\$ 77,706,385</u>	<u>\$ 251,371</u>
Minuteman Regional Assessment	\$ 444,837	\$ 444,837	\$ -
Other Charges to be Raised	867,449	867,618	169
Town Debt Service	3,143,019	3,143,019	-
LSRHS Debt Assessment	1,946,994	1,946,994	-
Capital Exclusion	700,000	700,000	-
Fixed/Shared Costs	<u>\$ 7,102,298</u>	<u>\$ 7,102,467</u>	<u>\$ 169</u>
TOTAL GENERAL FUND OPERATING	<u>\$ 84,557,312</u>	<u>\$ 84,808,852</u>	<u>\$ 251,540</u>

REVENUES	FY14		
	Warrant	ATM	Change
State Aid (Cherry Sheet)	\$ 5,752,053	\$ 5,725,842	\$ (26,211)
SBAB School Reimbursement	1,681,224	1,681,224	-
Local Receipts	3,859,034	4,136,785	277,751
Taxy Levy - General	69,860,090	69,860,090	-
Taxy Levy - Debt Exclusion	3,404,911	3,404,911	-
TOTAL GENERAL FUND REVENUE	<u>\$ 84,557,312</u>	<u>\$ 84,808,852</u>	<u>\$ 251,540</u>

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Lastly, the table listed on the view graph is similar to the table that appears on page FC-19 of your warrant and as you can see, the only material change is in the L-S assessment.

I want to stress again, there have been no changes to the L-S budget, or to any other cost center budget for that matter, as compared to the Warrant.

However, given the recent state aid estimates published by the House, we felt it prudent to take a more conservative view of state aid revenues so that we do not create any unintended budget issues at the high school.

FY14 Budget Recap

A lot of information to digest given that only one number changed from the Warrant but important to walk through that change in detail.

With that done, I want to shift gears and focus on the proposed FY14 budgets that appear in your warrants.

Original budget guidance to cost centers...

Article 4

- Level Services (or roll-up) budget that maintains the same service levels in FY14 as funded through FY13 budgets
 - for any cost centers yet to enter into a new contract:
 - no cost of living increase (i.e. COLAs) when forecasting compensation costs for FY14
 - normal salary steps given their current employee demographic and expiring contracts
 - best estimates of expected health and benefit costs increases
 - best estimates of utilities and, where applicable, transportation and special education cost increases or decreases
- Non-Override Budget that allows for annual growth of up to 2.7% for each cost center
 - based upon expectations regarding tax revenues (state aid and local receipts)

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... November 2012

First, let's start with the guidance that we gave to each of the cost centers heading into this process. As we've done in prior years, we asked each cost center to submit a No Override budget as well as a Level Services budget.

As some of labor contracts for our three principal cost centers had already been settled, compensation costs, the largest line items in our budget, were a known. However, there were still several town departments as well as the high school, that had not completed contract negotiations when we provided our budget guidance in early November 2012. For these cases, the Finance Committee believed it was important that a level of consistency exist in all FY14 budget submissions. As a result, we agreed on the assumptions listed above, the most important of which was to assume No Cost of Living increase for FY14 planning purposes.

By contrast, the No Override budget request was constrained by our initial revenue projections. These projections allowed for spending growth of 2.7% YoY. We take a fairly conservative view of the overall revenue forecast early on so that we hopefully limit downside changes later in the process. Given our earlier discussion regarding the LS assessment, this is an approach that I believe has benefited us.

Healthcare changes...

Article 4

- SPS and Town joined the GIC in FY13
 - Drove significant savings in FY13
 - Premium rates in the GIC growing only 3.5% in FY14
- LS made GIC-like changes to local plans offered by their current purchasing coalition in FY13
 - Premium rates being held flat (0% growth) in FY14
 - Comparison: healthcare costs up 12%+ in FY12

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... continue to drive savings

Next, I want to touch upon a couple of topics that are consistent from last years town meeting. First is healthcare.

For SPS and the Town, the decision was made to move to the GIC a year ago and became effective this past fiscal year in FY13. This decision drove significant savings in FY13 as compared to prior periods. Those savings continue into FY14 as the GIC published their FY14 rates in March and as you can see, premium rates are only going up by 3.5% year over year, an increase that is below both state and national averages.

In terms of LS, they chose to negotiate GIC-like changes with their employees a year ago for FY13 and stayed with their current purchasing coalition, Minuteman Nashoba Health Group. Heading into FY14, Minuteman announced that premium rates would actually be held flat vs. FY13 levels. By comparison, healthcare costs increased by more than 12 percent in FY12 so this is clearly a positive development for the high school.

Special Education costs....

Article 4

- Special education costs remain a key growth driver for the LS and SPS budgets
 - Cost growth down significantly from prior year (23% vs. 3%)
 - In district investments are starting to payoff

Special Education Costs ^(a)	Appropriated		Budget	% Incr.
	FY13		FY14	
SPS	\$	4,013,830	\$ 4,225,700	5%
LS	\$	5,304,509	\$ 5,343,716	1%
TOTAL	\$	9,318,339	\$ 9,569,416	3%

- Special Education is not the problem; the funding mandate is what's broken

Footnotes:

(a) Special education costs excluding instruction.

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... Out-of-District placements must remain a focus

The second item from a year ago is Special Education costs.

However, unlike last year, when we were talking about significant increases in out of district costs, we have a very different picture to share. A year ago, I presented budgets that showed special education costs growing at a collective rate of 23% when you look at the LS and SPS budgets. Today, that growth is projected at only 3%. Why is that?

Over the past several years both school districts have been making investments in training and programs to allow them to serve students in district, in Sudbury, at lower costs than serving them through more costly out of district placements. In particular, after coming off a challenging experience from FY12 to FY13, the high school was able to make investments that have already paid dividends for FY14.

Throughout the budget process, one thing all parties agreed on is that Special Education itself is not the problem. Rather, what is clearly broken is the funding mechanisms used to provide for these programs. This mandate, handed down from Federal and State government, represents yet another unfunded mandate that local districts are required to cover.

So despite this recent, positive momentum, the Finance Committee remains concerned that these costs will continue to put downward pressure on the remaining operating budgets of our two school systems. That's why this needs to remain an area of focus, and investment, moving forward.

FY14 Level Services budget requests....

Article 4

- Positive outcome the result of:
 - successful completion of collective bargaining by all major cost center groups;
 - continued benefits from healthcare changes;
 - moderate growth in SpEd costs;
 - stable tax revenue base;
 - use of one-time “free cash” by L-S (\$241K) to accommodate increase in students.

... accommodated with Non Override budget

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Tonight is the culmination of a budget process that started some 8 months ago. The good news is that we are able to satisfy the original level service budget requests for each cost center within a Non Override budget. I am sure each cost center could use additional funding, and that they would put that additional funding to good use. Nevertheless, I believe this budget is a good outcome for taxpayers and our municipal entities.

This positive outcome is the result of several factors. First is the successful completion of collective bargaining for all our main cost centers. Contracts that have allowed us to fit within the constraints of a Non Override budget. As we just discussed, the continued benefits of healthcare changes as well as lower special education cost growth have both been positive contributors.

A stable tax base and conservative revenue forecasts in which we base our expenditure plans have served us well.

And lastly, for the high school, we're able to use approximately \$240K of E&D funds to hire additional staff to accommodate a short term increase in students from FY13 to FY14. FY14 is forecasted to represent a peak in enrollment, after which the student population is expected to begin to decline

again.

One change since publication of the Warrant.....

	FY13		FY14 Non Override Budget			
	Appropriated		Warrant	% Incr.	ATM	% Incr.
LS Operating Budget	\$ 25,706,652		\$ 26,641,687	3.6%	\$ 26,641,687	3.6%
LS Debt Service Budget	\$ 2,514,433		\$ 2,272,668	-9.6%	\$ 2,272,668	-9.6%
Total LS Budget	\$ 28,221,085		\$ 28,914,355	2.5%	\$ 28,914,355	2.5%
LS Operating Assessment to Sudbury	\$ 18,694,852		\$ 19,540,532	4.5%	\$ 19,791,903	5.9%
LS Debt Assessment to Sudbury	\$ 2,139,028		\$ 1,946,994	-9.0%	\$ 1,946,994	-9.0%
Total LS Assessments to Sudbury	\$ 20,833,880		\$ 21,487,526	3.1%	\$ 21,738,897	4.3%
SPS Operating Budget	\$ 36,593,725		\$ 37,581,756	2.7%	\$ 37,581,756	2.7%
Town Operating Budget	\$ 19,521,581		\$ 20,048,664	2.7%	\$ 20,048,664	2.7%
Minuteman Assessment	\$ 274,416		\$ 444,837	62.1%	\$ 444,837	62.1%
Town Debt Service	\$ 3,798,521		\$ 3,143,019	-17.3%	\$ 3,143,019	-17.3%
TOTALS	\$ 81,022,123		\$ 82,705,801	2.1%	\$ 82,957,172	2.4%

- Revised revenue estimate (lower state aid, higher local receipts) requires update to the LS assessment:
 - No change to operating budget, just how the budget is funded
 - No impact on Sudbury taxpayers

... no change to Non Override budget growth

The table on the view graph is consistent with some of the numbers we show in the FinCom section of the warrant. Again, as you can see the only change from the Warrant is the increase in the operating assessment for L-S. And again, there is no change in the actual operating budget for the high school, which you can see above, just the assessment.

The FY14 Non-Override budget allows for cost center spending growth of 2.7% over fiscal 2013. The L-S budget grows by a slightly higher amount, by 3.6%, due to the aforementioned use of E&D funds.

Non Override Budget....

Article 4

- Total Non Override Budget of \$84.5 million
 - Operating Budget of ~ \$83.0M
 - Capital Budget of ~ \$0.3M
 - Enterprise Funds of ~ \$1.2M
- The FY14 Non Override budget results in a total tax increase of approximately 3.15%, or \$353, on the average assessed home value of \$622,862
- Total tax increase of \$2,238,951 including new growth and commercial property taxes

... estimated FY14 tax impact

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The Finance Committee is required by law to recommend a Non Override budget. For FY14, we are recommending a Non Override budget that consists of expenditures totaling approximately \$84.5 million, which includes the \$83 million for the main operating budget as presented on the previous slide as well as funding for capital and other items.

The Non Override tax impact discussed in the Warrant remains unchanged. Namely, that the Non Override budget represents a tax increase of approximately 3.15%, or \$353, on the average assessed home value of \$622,862. Including new growth and commercial property taxes, the Non Override budget results in a total tax increase of approximately \$2.2 million dollars.

Ongoing/Future Considerations

Article 4

- Maintaining adequate operating reserves
 - Stabilization Fund
 - Free Cash
 - Excess & Deficiency Fund (L-S)

- OPEB (Other Post Employment Benefits)
 - Town and SPS = \$34.3M*
 - L-S = \$46.1M*

- Long-term capital planning
 - Prudent use of debt and other sources

* Estimated actuarial accrued liability for active employees and retirees assuming a pay-as-you-go funding model.

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Before closing, I just wanted to touch upon some ongoing, future considerations for town meeting.

First, we are fortunate that we are in a much better position today, relative to our cash operating reserves, than we have been for several years. We need to continue to maintain that discipline.

Second, is our OPEB obligations. OPEB stands for “other post-employment benefits”, represents retiree benefits other than pensions which generally take the form of health benefits. While funds were often set aside to cover the cost of pension payments when they came due, generally no funds were set aside to cover the cost of promised healthcare benefits. The key takeaway here is that we are not alone in dealing with the problem, as it is not only an issue across MA but also across our country. That said, these amounts are significant and I point them out only to note that we need to push forward with a discussion and debate to determine an ongoing mechanism to begin funding our OPEB obligations on a sustainable basis.

And last, we’ve made good progress over the past several years to aggregate and assess our longer term capital needs. As we wind down the large debt obligation incurred for the construction of the high school, we need to be prudent and proactive in how we use debt, and other funding sources, so as not

to overly burden taxpayers in any one fiscal year.



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