

TOWN OF SUDBURY  
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Article 4: FY12 Budget (Finance Committee Chair, Jim Rao)

Hello, my name is Jim Rao, Chair of the Sudbury Finance Committee. Before getting into the main budget related items, I'd like to briefly remind Town Meeting of the role of the Finance Committee.

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 as we have 5 committee members with children in the school system, both the K8 and high school, and other committee members whose children have already gone through our school system. We have retirees, seniors, and business professionals. We also have a blend of experienced and new, as three members have been on the committee for less than 3 years.

Hopefully that varied background helps us to stimulate debate, maintain an open mind and in the end reach a consensus that incorporates all viewpoints. Now on to the budget.

## Changes since publication of the Warrant....

- House view of State Aid published on April 14<sup>th</sup>
  - Increase of \$148,911 for Sudbury (SPS + Town)
  - Increase of \$138,445 for Lincoln-Sudbury
    - Sudbury portion of L-S ~ \$117K

RECEIPTS	FY11	FY12 Non Override Budget		FY12 ATM Non Override Budget vs.	
	Appropriated	Warrant	ATM	FY11	FY12 Warrant
State Aid (Cherry Sheet)	\$ 5,537,686	\$ 5,260,802	\$ 5,409,713	\$ (127,973)	\$ 148,911
School Debt Reimbursement	\$ 1,702,597	\$ 1,702,597	\$ 1,702,597	\$ -	\$ -
Local Receipts	\$ 3,652,860	\$ 3,657,581	\$ 3,657,581	\$ 4,721	\$ -
Enterprise Funds	\$ 1,012,397	\$ 1,156,844	\$ 1,156,844	\$ 144,447	\$ -
Sub-Total	\$ 11,905,540	\$ 11,777,824	\$ 11,926,735	\$ 21,195	\$ 148,911
Tax Levy	\$ 67,418,506	\$ 69,018,845	\$ 69,018,845	\$ 1,600,339	\$ -
<b>TOTAL REVENUE</b>	<b>\$ 79,324,046</b>	<b>\$ 80,796,669</b>	<b>\$ 80,945,580</b>	<b>\$ 1,621,534</b>	<b>\$ 148,911</b>

...improved revenue estimates.

First, I'd like to review changes in our budget assumptions as compared to what was published in the Warrant and that are contained in the handout you received this evening. As you'll recall, a year ago we voted to push back the start of Town Meeting in order to allow for more time to obtain better estimates of futures revenue, in particular the likely level of state aid.

At the time the data in the Warrant was finalized back in March, our consensus expectation was for a 5 percent reduction in state aid heading into fiscal 2012. Fortunately, that expectation improved on April 14th when the House published their budget estimates which results in only a 2 percent reduction in state aid. As you can see, the House proposal results in an approximately \$149,000 dollars of additional revenue for SPS and the Town and \$138,000 dollars of additional revenue for the High School (of which, ~ \$117K flows through to Sudbury based on the % split with Lincoln).

Given that the House tends to present the most conservative budget proposal, and based on input from our legislators, we have incorporated these increases into the Non Override budget. The table on this slide shows the change in projected Receipts as compared to the Warrant.

## Changes since publication of the Warrant.....

	FY11	FY12 Non Override Budget			
	Appropriated	Warrant	% Incr.	ATM	% Incr.
SPS Operating Budget	\$ 34,654,472	\$ 35,302,510	1.87%	\$ 35,407,571	2.17%
Town Operating Budget	\$ 18,229,983	\$ 18,570,884	1.87%	\$ 18,626,221	2.17%
Other/Transfers, Net	\$ 429,089	\$ 466,447		\$ 587,592	
Total Town	\$ 18,659,072	\$ 19,037,331		\$ 19,213,813	
LSRHS Operating Budget	\$ 23,966,007	\$ 24,414,171	1.87%	\$ 24,552,616	2.45%
LS Operating Assessment, Net	\$ 17,577,379	\$ 18,079,955		\$ 18,079,955	
LS Debt Assessment	\$ 2,237,147	\$ 2,193,072		\$ 2,193,072	
LS Assessments, Net	\$ 19,814,526	\$ 20,273,027		\$ 20,273,027	
Minuteman Assessment	\$ 228,794	\$ 321,590		\$ 321,590	
Town Debt Service	\$ 4,180,354	\$ 3,883,860		\$ 3,883,860	
TOTALS	\$ 77,537,218	\$ 78,818,318	1.65%	\$ 79,099,861	2.02%

- New revenue estimates result in allowable, Non Override growth of 2.45% for L-S and 2.17% for SPS and the Town, respectively.
- Improved Circuit Breaker funding, from 40% to 65%, provides cost relief of \$250K for SPS and \$278K for L-S

...improved revenue estimates.

3

If we take a slightly different view of the budget, we can see how the improved revenue picture translates into the Operating Budgets for each cost center. As highlighted on this slide, the allowable Non Override budget growth for each cost center has increased from the 1.87% growth assumed in the Warrant. These new revenue estimates result in growth of 2.4% for LS and 2.2% for SPS and the Town, respectively.

In addition, expectations for Circuit Breaker funding, which is a form of cost reimbursement from the state for mandated special education programs, have also improved. The higher Circuit Breaker estimates collectively free up more than half a million dollars of Non Override budget spending for our schools.

So with that background let's move onto the Non Override budget....

## Non Override Budget....

Article 4

- Total Non Override Budget of \$80.9 million
  - Operating Budget (Article 4) of ~ \$79.1M
  - Capital Budget (Article 5) of ~ \$0.5M
  - Enterprise Funds of ~ \$1.2M
- Results in a total tax increase of 2.37% (\$254) on the average assessed home value of \$628,000
- Total tax increase of \$1,600,339 including new growth and commercial property taxes

.....estimated tax impact

4

The Finance Committee is required by law to recommend a Non Override budget. For FY12, we are recommending a Non Override budget of approximately \$80.9 million, which includes the \$79.1 million for the main budget on the previous slides as well as funding for capital and other items.

As the changes I mentioned earlier have to do with improved estimates from the state, the Non Override tax impact discussed in the Warrant remains unchanged. Namely, that the Non Override budget represents a tax increase of approximately 2.37%, or \$254, on the average assessed home value of \$628,000. Including new growth and commercial property taxes, the Non Override budget results in a total tax increase of approximately \$1.6 million dollars.

With that backdrop, and knowing that each of the cost centers will discuss what the impact of these and other changes mean for their budgets, I want to give you a brief overview of what some of these broader changes mean as compared to what you've previously seen presented in the Warrant.

## Non Override Budget....

Article 4

- SPS
  - Warrant → \$370K to fund gap from Level Services and critical needs
  - ATM → no incremental funds needed/requested
  
- Town
  - Warrant → \$80K
  - ATM → no incremental funds needed/requested
  
- Positive outcome the result of:
  - improved revenue outlook;
  - additional cost savings measures; and
  - ongoing benefits from collective bargaining agreements (CBAs) agreed to several years ago, principally from lower growth in healthcare expenditures.

5

....no detrimental impact to SPS or Town

In your Warrant, there was discussion of a potential Override of \$370,000 dollars for SPS and \$80,000 dollars to the Town operating budget, in addition to \$500,000 dollars to L-S. These additional funds were sought out to cover the gap in shortfalls from their Level Service budgets, shortfalls that in the case of LS and SPS, would result in headcount reductions. There was also a total of \$50,000 for the Town that was contemplated as an addition to the capital budget.

For SPS, through a combination of improved state aid revenues, circuit breaker and other initiatives that they will discuss further, they can fund their requested needs within the constraints of a Non Override budget. The same is true for the Town.

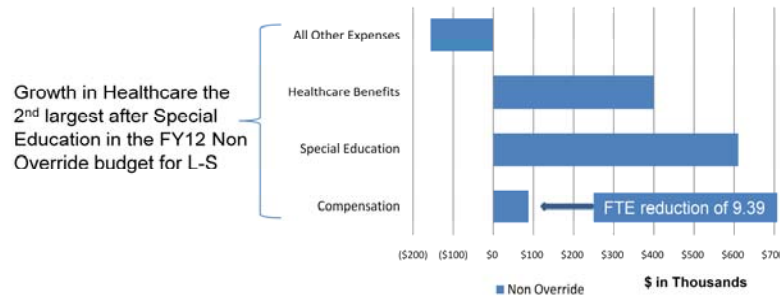
This positive outcome is the result of several factors beyond just the improved revenue outlook. First, in the case of SPS, they are benefiting from additional cost savings measures and other favorable changes realized since the Warrant was published.

Second, for both SPS and the Town, they are realizing the continued benefits of the collective bargaining agreements reached with employee associations two years ago. Benefits which are being realized in several ways the most material of which has come in the form of much lower annual growth in healthcare expenditures as compared to prior contracts.

To be sure, the concessions the unions serving SPS and the Town agreed to have had a meaningful impact. The most important is that we are able to keep K thru 8 teachers in the classroom, police on patrol and firefighters on call, all within the constraints of a Non Override budget.

## Non Override Budget, while improved....

- L-S
  - Warrant → \$1.2M gap from Level Services
  - ATM → gap from Level Services reduced to \$789K
- What about the potential Override scenario described in the Warrant?
  - Why conditional?
    - Share the burden; all constituents make concessions
  - Why focus on healthcare costs?
    - Cost of healthcare benefits rising by more than 14% in FY12
    - FY12 on top of nearly 19% increase from FY10 to FY11



....still requires headcount reductions at LS

In terms of the high school, while the favorable changes to state aid and Circuit Breaker funding have helped to reduce the gap by approximately \$400,000, a gap of approximately \$790,000 remains, as the original funding gap they started with was much larger.

In the Warrant, the Finance Committee presented certain parameters for an Override budget for the High School, parameters that included targeted savings that we believed could be realized by making changes to the current health insurance plans offered at LS.

### Why make the override conditional?

Despite what some have suggested, it was not proposed to divert attention from the issue of reduced services. Quite the contrary, it was an attempt to create meaningful, sustainable long term savings that could be reinvested in the classroom. Moreover, the burden of that investment was to be borne by both taxpayers and school employees, as both would share in the burden of helping to bridge the gap in fiscal 2012.

### Why focus on healthcare?

Unlike the Town and SPS, L-S has seen a significant rise in healthcare costs the past several years despite changes made to the collective bargaining agreements negotiated 2 years ago. Healthcare benefits in FY12 are expected to grow by more than 14 percent, or \$400,000, from \$2.8 million to \$3.2 million. This growth comes on top of a nearly 19 percent increase from FY10 to FY11. By contrast, healthcare costs at SPS are increasing by only 1.8 percent, or \$85,000, from FY11 to FY12. To be clear, other factors beyond their contracts helped to contribute to this favorable result for SPS in FY12, but the fact remains that the principal driver is still the changes agreed to nearly two years ago. So while we acknowledge that the current CBA is an improvement from the prior L-S contract, we believe there is still significant room for improvement.

And while we would have hoped some of those changes could have been implemented for FY12, the LS School Committee has communicated to us that there will be no changes to the current CBA forthcoming.

While we understand the context for this result, it is nevertheless still disappointing, especially in light of the fact that a Non Override budget will mean layoffs at the high school.

## Proposed Override Budget....

Article 4

- Proposed Override Budget of \$81.5 million
  - Operating Budget (Article 4) of ~ \$79.7M (+\$553K)
  - Capital Budget (Article 5) ~ \$0.6M (+\$100K)
  - Enterprise Funds ~ \$1.2M
- Results in a total tax increase of 3.34% (\$358) on the average assessed home value of \$628,000
  - Incremental tax increase of \$103.59 vs. the Non Override budget
- Total tax increase of \$2,253,339 including new growth and commercial property taxes

.....estimated tax impact

7

After careful review, and in consultation with the Finance Committee, the Board of Selectmen has proposed an Operating Override of \$653,000. At the request of the L-S School Committee, the Override includes an incremental \$553,000 for L-S. An additional \$100,000 has been proposed as an increase to the Capital budget specifically for the Town.

The Override budget represents a tax increase of approximately 3.34%, or \$358, on the average assessed home value of \$628,000. This represents an incremental tax increase of approximately \$103.59 over the Non Override amount. Including new growth and commercial property taxes, the Override budget results in a total increase in taxes of approximately \$2.3 million dollars.

## Key Override Considerations....

Article 4

- Funds L-S at their requested \$553K Override amount
  - The Override for L-S represents an incremental tax increase of \$87.73 on the average assessed home value
  - Reduces shortfall vs. Level Services to a more manageable \$137K and allows L-S to maintain all staff
  - Without an Override, there will be layoffs and service level reductions (impact will be felt in the classroom)
  - L-S operating budget grows by approximately 5.17%, more than 2x the rate of growth for SPS or the Town

8

.....estimated impact to L-S

The incremental funding provided to L-S by the Override reduces the Level Services shortfall at the high school to a more manageable \$137,000. The Override for L-S represents an incremental tax increase of \$87.73 on the average assessed home value. Most importantly, with this funding, L-S will be able to maintain all of their current staffing.

Somewhat of concern to the Finance Committee is the disproportionate growth rate that results from the Override for L-S. In the past, we have insisted that each cost center get the same percentage budget increases absent major changes in circumstances. While the significant growth in Special Education costs would certainly qualify a major change, the reality is that there are other factors, namely healthcare, that are helping to drive the increased funding requirements in the L-S budget and we remain concerned about any unintended message this might provide for future collective bargaining efforts.

To be clear, changes must be made in the future, otherwise we will be back in this unsustainable budget position next year, and the year after that. Healthcare changes are not about reducing employee benefits, these changes are about freeing up spending to preserve valuable teaching positions.



## Key Override Considerations....

Article 4

- Increase in the Capital budget of \$100K for the Town
  - The Override for Town Capital represents an incremental tax increase of \$15.86 on the average assessed home value
  - Coming off of a difficult winter, allows the Town to lease 2 sidewalk snowplows
  - Originally \$50K (1 snowplow) was contemplated in the Warrant

.....estimated impact to Town

9

And briefly, for the Town, the incremental Capital budget of \$100,000 represents an incremental tax increase of \$15.86 on the average assessed home value. This additional funding would allow them to lease 2 sidewalk snowplows as opposed to the 1 snowplow originally contemplated in the Warrant.



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To conclude, the key Override question for Sudbury taxpayers is whether you are willing to provide the additional funds needed to maintain current staffing levels at L-S given the constraints of higher special education costs and healthcare related expenses.

For Article 4, the main operating budgets, the Finance Committee is recommending a Non Override budget of \$79,099,861 and is recommending an Override budget of \$79,652,861. While normally I would not get into the specifics of our vote, we thought it important to highlight to Town Meeting that this was a challenging decision for our committee as evidenced by the narrow margin in which the Override passed, by a vote of 5-4. In the end, those voting in the affirmative were concerned about the detrimental impact to our high school students that would result without the incremental funding from an Override. That said, the majority of those committee members in the dissenting opinion stated that they in fact would have been supportive of an Override had a lower amount been requested.

For Article 5, the Capital budget, the Finance Committee is recommending a Non Override budget of \$538,947 and an Override budget of \$638,947.

Thank you.