



TOWN OF SUDBURY
WWW.SUDBURY.MA.US

Good evening. My name is Chuck Woodard and I am the Chairman of the Sudbury Finance Committee.

The Committee's role is to examine financial issues on your behalf, oversee the budget process, and make recommendations regarding the budget and other financial articles. The committee is comprised of individuals with financial expertise and varying demographics including both members with children in our schools and senior citizens.

Let me begin by noting that after two postponements and two months of delay the operating budgets of the Town and the two schools are essentially unchanged. Getting there was not so simple. We went through five iterations of a proposed budget from the governor and both sides of the legislature, and then factored in federal stimulus dollars available to the two school systems which reduced the impact of projected lower state aid. The result: an expected \$274,000 reduction in revenues, which was offset by elimination of the proposed contribution to the stabilization fund this year and some modest changes in other budget items as a result of newer information. You can see the detail on Figure 2 of the handout you received tonight.

Finance Committee Recommendation for FY 2010

- No override
- Substantial reduction in the year-over-year growth in total employee compensation (including benefits)
- Not a reduction in compensation
- Minimal layoffs if both of the above happen

For FY10, we are recommending only a non-override budget, which is the amount of the proposed limit in the motion I just read. We are not recommending an override this year because: One, we are in the middle of the worst economic crisis since the 30's. The unemployment rate continues to rise, salaries for many of you are being frozen or cut, and personal retirement plans that depend on 401Ks and IRAs (rather than defined benefit pension plans), the case for the large majority of us today, are down substantially. The average tax increase of 3.4% under the Non-Override Budget is less than the recent rate of growth in taxes but nevertheless substantial in the current climate.

And Two, 95% of the increase in the budget over the past three years has been used to pay for increases in employee compensation, including benefits. We believe that substantially lowering the growth in employee compensation this year can eliminate almost all of the layoffs projected by the cost centers in budgets that assume closer to normal levels of compensation growth. For instance- and only by way of example- if there were a salary freeze much like what the private sector is experiencing, total layoffs town wide including both schools would be less than 4, or one half of one percent. It is important to note, however, that changes in compensation of employees covered by collective bargaining are subject to negotiation.

The Non-Override Budget represents an increase in operating expenses net of direct offsets of 2.1% for each cost center over the FY09 budget.

Although expenses are going up 2.1%, taxes will go up 3.4% to make up for an expected 10% decline in state aid (net of federal stimulus dollars) and a 7.5% decline in local receipts.

The Cost Structure Challenge

- *“Perhaps it is a deficiency of our democratic structure; our country does not seem to move into action to create real permanent change until we are on the brink of disaster. My strong belief is that our way of government and our financial institutions bend but do not break. This is a moment in time, a tipping point, when change must occur. No choice. We know the past is dead and we need to write our future. The time is now.”* (from the CEO of a Boston investment management firm)

I have included this quote because I think it is very relevant to Sudbury today.

As we have discussed at past Town Meetings, the town has operated in normal years with a structural deficit caused by operating expense growth of 4.5%-7% per annum as compared to proposition 2 ½ funding closer to 3-3.5% per annum. Even though 2009 is not a normal year, we should not lose sight of the underlying mismatch between expense growth and revenue growth. In fact, because 2009 is not a normal year, perhaps the time is ripe to do something about it.

The Cost Structure Challenge: This is a Service Business and 79% of Our Costs are for People

- 60%: Wages have been growing 5.7% per annum per employee
- 15%: Benefits have been growing 10.5% per annum per employee
- 3.5%: Payments on behalf of retirees for pensions and retiree healthcare have grown 18.6% per annum

Wages account for 60% of the operating budget. Cost of living increases in salaries, combined with increases based upon years of service (so-called “step” increases) increased salaries an average of 5.7% per annum per employee over the last three years.

Benefits and insurance, which comprise another 15%, have increased 10.5% per annum per employee, a sizeable increase experienced in both the public and private sectors.

And finally, payments on behalf of retirees for pensions and retiree healthcare, which comprise 3.5% of the operating budget, have grown over 18% per annum over the last three years.

If 78.5% of our operating expenses are growing at rates far above 3-3.5%, it is arithmetically impossible to keep expenses within the limit of Proposition 2 ½ with our current cost structure. All other things being equal, an override will generally be an annual need absent unusual circumstances such as a marked increase in state aid, which does not seem likely for the foreseeable future.

Are the costs of running the schools and the town excessive? We don't think so, and that is confirmed by a wealth of third party data. A Babson College survey of State high schools ranked LS second in Academic Performance and tenth in cost efficiency out of 140 schools.

The Sudbury Public Schools system has the lowest cost per student when compared to K-8 systems in Concord, Lincoln, Southborough, Northborough, and Carlisle. Expenditures per capita for Town services including police, fire, and DPW are lower than many Metro West communities including Concord, Lincoln, Carlisle and Wayland.

We have two alternatives to an override or to at least reduce the size of overrides:

Reduce staff and, therefore, services under the current organization and cost structure.

Change the current organization and cost structure to enable us to deliver substantially (but perhaps not completely) the same level of services at lower cost.

Budget Review Task Force

- Consolidate the administrative functions of the K-8 and high school systems.
- Consider regionalization of some town services with neighboring towns.
- Substantial changes to the Town and Schools' healthcare plans, which are high cost and high growth in costs. This is subject to negotiation with and approval by our labor unions.
- Install a sewer line to service Route 20 and enable increased commercial development.

With regard to the second alternative, the Selectmen established a Budget Review Task Force in 2007 to examine our structural deficit. The Task Force was comprised of town committee members and other Sudbury residents with financial expertise and given a mandate to focus on both revenue enhancements and cost structure changes. Preliminary reports were delivered in September and December 2008 and are available on the Town web site. They should be reviewed by any of you concerned with the rate of growth in taxes and spending.

Among the major recommendations:

Consolidate the administrative functions of the two school systems.

Regionalize some town services in cooperation with neighboring towns.

Implement substantial changes to our healthcare plans, which are high cost and high growth.

Further support for longstanding recommendations to install a sewer line to service Route 20 and enable increased commercial development, with resulting increases in our commercial tax base.

The Revenue Reality: Residential Property Taxes Pay for 70% of the Cost of the Town

- Property Taxes- Residential 70%
- Property Taxes- Commercial 7%
- State Aid 14%
- Local Receipts 5%
- All Other 4%

Because 70% of our revenues come from residential property taxes while only 7% come from commercial property taxes, the burden of cost increases will continue to fall mainly on the homeowner until we build a larger commercial base.

The Cost Growth Challenge: Where Do Budget Increases Go?

- Increases in Employee Compensation 84%
- Increases in Payments on behalf
of Retirees 11%
- All Other 5%

The proposals of the Budget Review Task Force will take time to be studied and in the meantime we have to deal with our current cost and revenue structure. 95% of the increases in the operating budget over the last three years have gone to increases in the cost of employee compensation, both active and retired. As a town we have struggled over how to balance the quality of town and school services with their increasing cost when there was no obvious place to cut. This choice has usually manifested itself in contentious overrides, with taxpayers given the choice of a large tax increase or a major cut in staff, which in turn means services. Until there is meaningful structural change of the kind recommended by the Task Force, this scenario will likely continue.

Spending Growth Limit

- Operating budgets grew 6.6% per annum from FY2006 to FY2008.
- Recommended growth limit of 2.1% in FY 10 (the Non-Override Budget).
- Recommended growth limit – maximum of 4.5% per annum increase in costs in FY11 and FY12. This may or may not require an override depending on revenues/aid in those years.
- FinCom will not recommend overrides to support spending growth in excess of the limit absent major changes in circumstances or major increases in uncontrollable costs.

The cost of operating the town rose 6.6% per annum between FY06 and FY08. From FY08 to FY09 expenses are essentially flat because of the override failure last year. We do not believe that a 6.6% rate of growth is sustainable over the long term.

We believe the only way to slow down the rate of growth in spending near term is to recommend a limit on that growth. There is no other likely “brake” available which would change the pattern of large overrides, or significant service cuts if the overrides are rejected.

Over the past year the Finance Committee initiated a Spending Growth Limit to provide the Town with a suggested cap on the rate of growth in expenses.

Rather than wait until budgets were produced under collective bargaining agreements that were finalized, by which time our costs for the next three years would be “in the pipeline”, the FinCom voted in September 2008 to recommend a spending growth limit of 4 ½ % per annum for the three fiscal years ending June 2010, 2011, and 2012 respectively.

We believe that a limit supported by taxpayers should enable cost centers to manage their missions by providing a predictable level of maximum expense growth in lieu of the current model of one year at a time budgeting and override decisions.

It likewise provides taxpayers with a three year view of the budget which is appropriate since many of the costs to maintain service levels can be estimated upfront as a result of new labor contracts that go into effect July 1.

We believe the 4.5% number is at the intersection of a reasonable growth in spending, a reasonable growth in taxes, and a reasonable growth in employee compensation and other costs. The maximum growth in spending and taxes would be higher than some would like, and the increase in compensation (including health benefits) probably lower than some would like. In announcing this limit we were informing the schools and the town departments in advance that we would not recommend overrides to support spending growth in excess of that limit during those years in the absence of major changes in circumstances or major increases in uncontrollable costs.

I need to emphasize that the 4.5% number is a maximum, not a minimum. We will still analyze budgets each year and will consider recommending a lower amount than the limit if warranted.

As a result of the current economic and fiscal crisis, our no override recommendation is below the limit for the coming fiscal year. For reasons already noted, in February 2009 we reaffirmed the 4 ½% limit for the fiscal years ending June 2011 and 2012, subject to further review as the shape of labor contracts becomes clearer and the outlook for state revenues a little more certain to determine if the limit could be lowered in either of those years.

Conclusion

- Tax increases have been slightly below average compared to similar towns.
- 6.6% per annum growth in spending is not sustainable.
- Short term recommendation: Spending Growth Limits.
- Long term recommendation: Implement changes to revenue and cost structure suggested by the Budget Review Task Force.

In the six years from 2000 through 2008, Sudbury's average residential tax bill increased 6.3% per annum. While certainly significant, the average residential tax bill for eleven other Boston suburban towns with similar demographics increased an average 6.8% per annum over that same period.

While the rate of growth in taxes is less than the average of our peers, and our spending on schools and services is in line with or lower than our peers, the absolute dollar amount of taxes and its rate of growth continue to be of great concern. The level of taxes is heavily driven by the large number of school age children in Town. The rate of growth in those taxes, on the other hand, is driven by our cost structure. We hope that the combination of a non-override budget again this year, a spending growth limit for the following two years, and the potential implementation of meaningful change to our cost structure and our revenue profile will provide some relief.

Thank you.