

## **FINANCE COMMITTEE REPORT**

Dear Resident of Sudbury,

This report will assist you in understanding Sudbury's fiscal year 2011 ("FY11") (July 1, 2010 – June 30, 2011) budget and the related financial articles that will be presented to you at Town Meeting beginning on April 5. We believe, above all, the participation of an informed voter is essential for Sudbury's democratic process and continued fiscal health.

The Finance Committee's (FinCom) role in Town government is to examine financial issues on behalf of Sudbury's residents, oversee the budget process, and make recommendations to you regarding the overall budget and all financial articles within the framework of the Town's needs and revenues. It is comprised of individuals with financial expertise and varying demographics.

This report is the culmination of a six-month budget process. In September, FinCom issued budget guidelines to the heads of the three key cost centers (Town of Sudbury, Sudbury Public Schools and Lincoln-Sudbury Regional School District). We asked each one to prepare two budget scenarios for FY11:

- A Non-Override Budget. The allowable growth in the non-override budget was set at 0% on January 29, 2010 based upon the release of the Governor's budget and expectations regarding reductions in State aid and local receipts as of that date.
- A 4.5% growth budget, which would limit the growth in operating expenses net of direct offsets to 4.5% over the prior year.

In addition, we asked for an update on how each cost center's actual costs were tracking against the FY10 appropriated budget. From October through March, we conduct budget liaison meetings between FinCom members and representatives of each of the cost centers. At these meetings, and through phone calls and emails, the liaisons and representatives of the Town departments and schools had in-depth discussions on budget matters. This process thoroughly familiarizes FinCom with the budget proposals so that we may guide residents through the numbers and respond to questions that are asked during the five weeks of public hearings and during the subsequent period leading up to Town Meeting.

### What does the "4.5% budget" mean and where did it come from?

In early 2008, the Finance Committee concluded that the recent 6.5% per annum growth in the cost of operating the schools and the town was not sustainable and would likely lead to a series of no override votes that could have significant adverse consequences for the quality of our schools and other town services. The question was how to slow down the rate of growth in our costs? Operating the town and schools is a labor-intensive service business, and the principal driver of budget growth has been growth in the cost of employee compensation (i.e. wages and benefits). However, the Town's decision making process - an annual vote for a budget that typically meant either an override or layoffs - seemed incapable of providing any braking other than a hard stop. The reason: collective bargaining agreements (CBA's), which are typically negotiated every three years, were finalized prior to taxpayers being asked what they thought of the budgetary impact. Taxpayer approval of the labor contracts was sought when budgets were presented at the next Town Meeting, and which included new and higher labor costs that were baked into previously signed agreements. As a result, taxpayers were left either with the choice to fully fund the impact

of the contracts in an override or accept that a no override budget would result in layoffs and service level reductions.

In the fall of 2008, prior to the onset of the international financial and fiscal crisis, and in anticipation of the negotiation and renewal of all of the major Town and School labor contracts in 2009, the FinCom voted to recommend a spending growth limit of 4.5% per annum. This growth limit was meant to be a guideline for budget growth; a maximum, not a minimum. The Finance Committee publicly stated that it would vote against any operating budget proposal that represented growth of more than 4.5% above the previous year. This was not to say the FinCom would support a de facto 4.5% increase each year, but rather that the amount (up to 4.5%) to be supported in any given year would depend upon expectations for other revenues (State aid, local receipts, etc), the impact of any major changes in circumstances, and the overall impact on the property tax to the taxpayers of Sudbury. The objective of this budget growth guideline was to move the onus for determining spending growth levels from the taxpayer over to cost center management and the labor unions. At a minimum, any new contracts should fit within the announced spending growth limit, and hopefully come in below that threshold. Consequently, some of the burden of determining the level of layoffs was to be shifted from the taxpayer to management and the labor unions. While there might still be layoffs if the budget finally approved by taxpayers was less than 4.5%, the impact would be lessened if the contracts at least fit within that 4.5% framework.

To understand the impact of potential budget levels on both taxes and services this year, the Finance Committee asked for the preparation of two budgets that would “bracket” the range of possibilities: a no override budget and a budget assuming the spending growth limit of 4.5%. The “4.5% budget” provided the Selectmen and the FinCom with the information necessary to understand the cost of preserving services that might be lost in a no override budget and to assess the service value and tax trade-offs.

### Recommended Budget

For FY11, we are recommending a Non-Override Budget of approximately \$79 million, which will mean a tax increase of 2.24% (\$235) for the average homeowner and a total increase in taxes of \$1,919,607 including new growth and commercial property taxes. We are recommending an override in the amount of \$1,753,625 for a total Override Budget of approximately \$81 million, which will mean a 4.92% (\$515) tax increase for the average homeowner and a total increase in taxes of \$3,673,232 including new growth and commercial property taxes. This will make up for the loss in revenues of \$1,909,240 and provide for an increase in operating budgets of 2.75% after two years of approximately 1.6% per year.

The Non-Override Budget is in compliance with Proposition 2½, which was approved by Massachusetts voters in 1980 and first implemented in fiscal year 1982 (M.G.L. Ch. 59, sec. 21c). It limits the amount of revenue a city or town may raise, or levy, from local property taxes each year to fund municipal operations without the approval of taxpayers. Proposition 2 ½ is not meant to be a “fiscally responsible spending benchmark”. Exceeding this level should not necessarily be construed with negative implications towards a town’s or a schools’ financial management. It is meant to reflect a “check and balance” point at the local level: town officials cannot raise taxes more than allowed under that Proposition without an affirmative vote of the taxpayers. To spend more money, town officials have to “make their case” to the taxpayers who can apply their own test of reasonableness by their votes at Town Meeting and the polls.

The Non-Override Budget represents an increase in the operating budget of 0.42% for each cost center compared to the FY10 budget whereas the average property tax will increase 2.24%. The Override Budget provides for an increase in those operating budgets of 2.75% whereas the average property tax will increase 4.92%. The disparity between tax increases and funding the operations of the town and schools is the result of a significant decline in projected non-property tax revenues, as follows:

- Reduction in Town and SPS State aid (projected at 7.5% below FY10 levels): \$ 426,002
- Reduction in local receipts (including excise taxes): \$ 717,146
- Reduction in State aid (at 7.5% below FY10) and free cash at LSRHS \$ 766,092
- Total revenue loss: \$1,909,240

**Essentially, all of the taxes collected under a non-override budget will be used to replace the loss of the other revenues detailed above with very little remaining to cover increases in town and school operating costs.**

The Override Budget represents a tax increase over last year of \$3,673,232 including new growth and commercial property taxes, which is comprised of three components:

- 1) \$1,909,240 to ameliorate the loss of other revenue sources so that we are at least back to FY10 levels.
- 2) \$1,705,492 to fund a 2.75% increase in the operating budget. While slightly higher than the operating budget increases of 1.6% in each of the last two years, it is substantially down from the 6.8% and 6.1% levels of FY07 and FY08.
- 3) \$58,500 to fund a modest contribution to the Town and LSRHS stabilization funds. If the experience of the last 18 months has taught us nothing else, it has shown the importance of having a cushion for unexpected setbacks. Equally important, the maintenance of our AAA credit rating requires that we have adequate cash reserves. Sudbury today operates with one of the lowest levels of reserves of AAA rated communities in Massachusetts, generally 2-3% of the operating budget as compared to the Board of Selectman's target of 5% and the 5-10% recommended by our auditors.

Within the 2.75% increase in operating budgets we are recommending the same percentage increase for each cost center. This is a very important refinement of the spending growth limit concept, which says that absent major changes in circumstances, such as a significant change in student population, new service mandates imposed on the Town, etc, all cost center budgets should be growing at roughly the same rate. This is logical given that all three are labor-intensive services with 70-80% of their costs in labor. Limiting each cost center to the same percentage increase:

- Discourages overly generous labor contracts because the cost center with the larger contract settlement will have less money to spend on new hires (or reducing layoffs), technology, classroom materials, etc.
- Encourages each cost center to find ways to operate more efficiently by moving the budget away from a "cost plus" approach. Savings found within a cost center can be applied to better uses within that cost center as long as spending stays within the growth limit applied to all.

- Avoids the otherwise unfortunate result that one cost center might receive a bigger piece of the pie, over time, without any change in their relative contribution to town services.

### Where are we today?

Over the past several years, the Town's fiscal situation has been severely constrained by increases in the cost of wages and benefits, which have risen much faster than the rate of inflation. As a result of having one of the highest levels of households with school age children in the State, we have a much higher demand for education services relative to other communities. On a comparative basis, Sudbury spends the 6<sup>th</sup> highest per capita amount on education and has the 4<sup>th</sup> highest level of education spending, as a percentage of its budget, in the entire State. That said, our spending on schools and services as measured on a per student basis is in line with, or lower than, our peers.

However, our cost structure is constrained by the fact that our revenue structure is heavily dependent on property taxes with only 7% of Sudbury's total revenues coming from commercial property taxes and 70% coming from residential taxes. As a result, residents bear the brunt of any tax increases.

In the short-term, it is unlikely that our non-residential tax revenues will see any meaningful increases given the current economic climate and the potential continued decreases in local receipts and State aid. For the past two years, these non-residential tax revenues have decreased substantially. As a result, the Finance Committee believes the Town will increasingly be confronted with three alternatives:

- Additional overrides to fund our ongoing level of services given current organizations and cost structures;
- Reductions to staff, and therefore services, within our current organizations and cost structures in order to fit within the constraints of Proposition 2 ½ and avoid overrides; or
- Changes to our current organizations and cost structures that enable our Town to deliver substantially (but perhaps not completely) the same level of services at a lower overall cost.

The Finance Committee believes that achieving the latter of these three alternatives is imperative if we are to minimize the former alternatives. We supported the Board of Selectmen as they established the Budget Review Task Force in 2007 to examine the Town's structural deficit. This task force examined both revenues and expenses and produced recommendations that may have the potential to improve the Town's long-term financial position. A copy of their final report is available via a link on the Town's website home page. Below we have highlighted four of their recommendations that we suggest should continue to be evaluated carefully to determine if changes in these areas could improve the Town's fiscal position.

- Pursue a more efficient economic model, which will support long-term excellence in schools and town services by considering regionalization, collaboration and consolidation to reduce costs by utilizing shared resources where appropriate.

- Reduce our healthcare expenses either by joining the Massachusetts Group Insurance Commission (the “GIC”) or implementing a plan which has a sustainable cost structure equal to, or better than, the GIC.
- Enhance Sudbury’s commercial district with a wastewater treatment plan and zoning/planning which would result in tasteful development to complement the character of Sudbury and increase our commercial tax base.
- Invest in renewable energy sources, which will provide long-term revenue and cost-reduction opportunities for Sudbury.

The Selectmen and School Committees have already begun the process of implementing several initiatives including reductions in the rate of growth in wages, reductions in the cost of employee health insurance, enhancing cooperation among school administrations, and sharing staff with neighboring communities. We are starting to reap the benefits of many of these initiatives, as evidenced by an approximately \$2.2 million reduction in future cost increases expected over the three fiscal years ending in 2012 resulting from the new health insurance plan design agreed to by the Sudbury Public School Committee and its various collective bargaining units.

#### Why should we seriously consider an override?

*Our costs are comparable to similar communities.* We believe that the costs of running the schools and the town are in line with our peer communities and this is confirmed by a wealth of comparative data on the cost of our services compared to those peers. The Per Pupil cost of LS is roughly equal to the average of MetroWest regional high schools. Of the area school systems with separate regional high schools, and therefore separate data on the cost of K-8 education, the Sudbury Public Schools system has the lowest cost per student when compared to K-8 systems in Concord, Lincoln, Southborough, Northborough, and Carlisle. Furthermore, expenditures per capita for Town services including police, fire, and DPW are lower than many MetroWest communities including Bedford, Weston, Wayland, Wellesley, Carlisle, Lincoln, and Concord.

*Labor is over 77% of the budget so reducing headcount is the primary means to balance a tight budget.* Of the other 23% at the schools, only 5-7% is discretionary because the rest includes such things as special education, transportation, and utilities. This “discretionary” piece includes technology, classroom supplies, etc where the impact of the reduced spending of the last several years is starting to become very apparent. The annual growth in the operating budget was held to 1.6% in each of the last two years and is proposed to be only 2.75% this year, all well below the long-term trend in the cost of municipal employee compensation. The town and schools have managed and are managing to do this through a combination of significant layoffs, which have curtailed town services and increased school class sizes, and reductions in the growth of salaries and healthcare benefits. Over the last two years layoffs have amounted to:

Lincoln-Sudbury Regional High School:	13.5 FTE
Sudbury Public Schools:	22.1 FTE
Town Departments:	10.1 FTE

*Our employees have made significant concessions and are sharing the burden of these tight budgets.* Sudbury Public Schools believes their deficit in a Non-Override Budget is \$1.1 million, and they would have to lay off 12-15 FTEs and take other steps to balance such a budget.

*Without concessions on the growth in salaries and the cost of healthcare benefits in the labor contract negotiated in 2009 for the three fiscal years ending in 2012, the budget deficit would have been \$2.4 million in FY11. Lincoln-Sudbury Regional High School also negotiated concessions in their new labor contract, but will still have to lay off 10 FTEs to balance a non-override budget gap of \$800,000. The contract with the Police Officers union was settled as this letter was completed; the firefighters' contract is still in negotiation.*

*We cannot continue to balance budgets by significant headcount reductions without impacting the quality of our schools and town. While even this year's proposed Override Budget will require a modest number of layoffs, we hope that for the sake of our community we can limit this third year of layoffs and cutbacks to just that, "modest".*

We strongly urge you to be informed on the budgets being presented for your consideration. You have several avenues to increase your understanding of how each budget will affect the level of services, schooling and quality of life in Sudbury. Please review the Finance Committee Report section of the Town Warrant; attend budget forums; watch the Finance Committee budget hearings, which will be rebroadcast on Channels 8 (Comcast) and 31 (Verizon) during March; and review the vast array of budget materials available on the town and school websites. Do not hesitate to ask questions of your elected officials and committee members.

Whether or not you agree with our findings and recommendations, please make sure that when you cast your vote, it is an *informed* one.

Respectfully yours,  
Sudbury Finance Committee

Charles Woodard, Chairman  
Joan Carlton  
Jamie Gossels  
Robert Jacobson  
William Kneeland, Jr.

James Rao  
Martha Ragonas  
Robert Stein  
Sheila Stewart