




2020 FINANCIAL CONDITION OF THE TOWN

Presented January 12, 2021
Sudbury Select Board and Finance Committee



Town Charter

- Town Charter Part IV Town Manager Section 10. Financial management responsibilities
 - *To prepare, annually, a financial forecast of the town revenue, expenditures and the general financial condition of the Town.*
- The Charter also states that the Town Manager shall be responsible for all the financial management functions of the Town including:
 - *Preparing and submitting an operating and capital budget*

Financial Condition of Sudbury

- S&P Global Rating has assigned the Town of Sudbury, MA its AAA/Stable rating as of 1/5/2021.
- S & P stated that the rating reflects the Town's
 - *Very strong economy*
 - *Strong management, with good financial policies and practices*
 - *Strong budgetary performance*
 - *Very strong budgetary flexibility*
 - *Very strong liquidity*
 - *Very strong debt and contingent liability position*

Financial Condition

- OPEB Trust: \$8.6 million
- Stabilization Fund: \$5.0 million
- Melone Stabilization Fund: \$1.1 million
- Capital Stabilization Fund: \$250 thousand (\$250 thousand added in FY21)
- Free cash: Not certified as of the date of this meeting.
- The Town received the Excellence in Financial Reporting Award for the FY2019 Audit Report (FY2020 audit currently in process).
- The Town received the Distinguished Budget Presentation Award for the FY2020 Budget (expected to receive award for the FY2021 Budget).

Financial Condition (Continued)

CORONAVIRUS (COVID-19)

COVID-19 is a respiratory disease caused by a novel coronavirus that has not previously been seen in humans. The virus and the resulting actions by national, state and local governments is altering the behavior of businesses and people in a manner that will have negative impacts on global and local economies. The Town saw reductions in some revenue sources, particularly room occupancy tax, during fiscal 2020. The negative effect on the economy may result in reduced collections of property taxes and other revenues, including local meals tax revenue, motor vehicle excise taxes and other fees and charges collected by the Town. The Town may also be affected by any reductions in state aid resulting from reduced revenues at the State level.

Additional costs related to COVID-19 have been mitigated by various State and Federal Grants in fiscal years 2020 and 2021. The Town has modified revenue projections for FY22 through FY24 in relation to the uncertainty of the impact of COVID-19. Despite the projected revenue reductions, the Town expects to continue to maintain all current essential functions and services.

As a result, herein is a conservative forecast that centers heavily on the most predictable revenue streams in the given periods. Any estimates beyond the three year point in this environment would be unstable at best and would likely inspire unsustainable thoughts towards the out years.

Projected Financial Forecast

A forecast of projected revenues and expenditures is a useful management tool that enables a municipality to evaluate the financial condition and make smart policy choices.

A forecast can serve as an early warning system to detect future gaps between revenues and expenditures.

It does not insulate a community from potential surprises or emergencies, but it does allow the administration to plan for, consider and correct potential issues.

Why Forecast?

- Good practice: management tool to aid in budget process
- Bond Rating Agencies look favorably
- Required by charter

Financial Summary (Projected)

	FY20	FY21	FY22	FY23	FY24
EXPENDITURES	Actual	Budgeted	Projected	Projected	Projected
Education - SPS	38,352,357	39,608,834	40,630,742	41,679,015	42,754,334
Education - LS	25,808,881	26,712,280	27,530,492	28,373,765	29,242,869
Education - Vocational	651,762	550,000	565,400	581,231	597,506
Town Departments	19,595,553	21,124,878	21,279,866	21,693,060	21,915,564
Debt Service (Town and SPS)	3,090,425	3,476,446	2,367,403	2,249,288	3,670,316
Employee Benefits (Town and SPS)	12,532,658	13,672,255	14,206,151	15,058,519	15,962,031
OPEB Trust Contribution (Town and SPS)	610,249	468,382	625,000	650,000	675,000
Capital Operating Budget	697,245	722,076	850,000	900,000	950,000
TOTAL:	101,339,130	106,335,151	108,055,054	111,184,878	115,767,620
	FY20	FY21	FY22	FY23	FY24
REVENUES	Actual	Budgeted	Projected	Projected	Projected
Real Estate and Personal Property	88,545,951	91,936,403	95,508,861	98,678,685	103,211,427
State Aid	6,367,520	6,346,193	6,346,193	6,346,193	6,346,193
MSBA School Construction Reimbursement	1,605,766	1,605,767	-	-	-
FEMA Grant	429,755	-	-	-	-
SAFER Grant	180,917	180,000	90,000	-	-
Local Receipts	5,916,971	4,216,330	4,600,000	4,600,000	4,600,000
Ambulance Receipts and Other Transfers	762,174	660,000	660,000	660,000	660,000
Free Cash	-	1,390,458	850,000	900,000	950,000
TOTAL:	103,809,054	106,335,151	108,055,054	111,184,878	115,767,620

Revenue Forecasting

- Revenue projections identify the funds available for the budget
- Annually, as we begin our budget process, we review the revenues from the prior years searching for trends and anomalies.
- Please recognize that the numbers we discuss are estimates.

Revenues

- The Town of Sudbury has four major categories of revenues:
 - *Real Estate & Personal Property Taxes*
 - *Intergovernmental Aid*
 - *Local Receipts*
 - *Other Available Funds*

Real Estate & Personal Property Taxes

- Accounts for 87% of all revenues received annually
- Largest portion of revenues
- The tax levy is the amount a community raises through property tax. The levy can be any amount up to the levy limit.
 - *Raises 2.5% annually as per the limitations of Prop 2 ½*
- Can rise more through three mechanisms
 - *Debt/Capital Exclusions (Temporary increase to tax levy limit)*
 - *Override (Permanent increase to tax levy limit)*
 - *New Growth (Taxes attributed to the value of new construction and added permanently to the tax levy limit)*

Intergovernmental Aid

- Comprises 8% of all revenues received (will decrease to approximately 6% in FY22 due to MSBA payments ending)
- Comprised of 3 main components
 - *Chapter 70*
 - *MSBA payments (FY21 will be final year of payments)*
 - *Unrestricted General Government Aid*
- Varies from year to year

Local Receipts

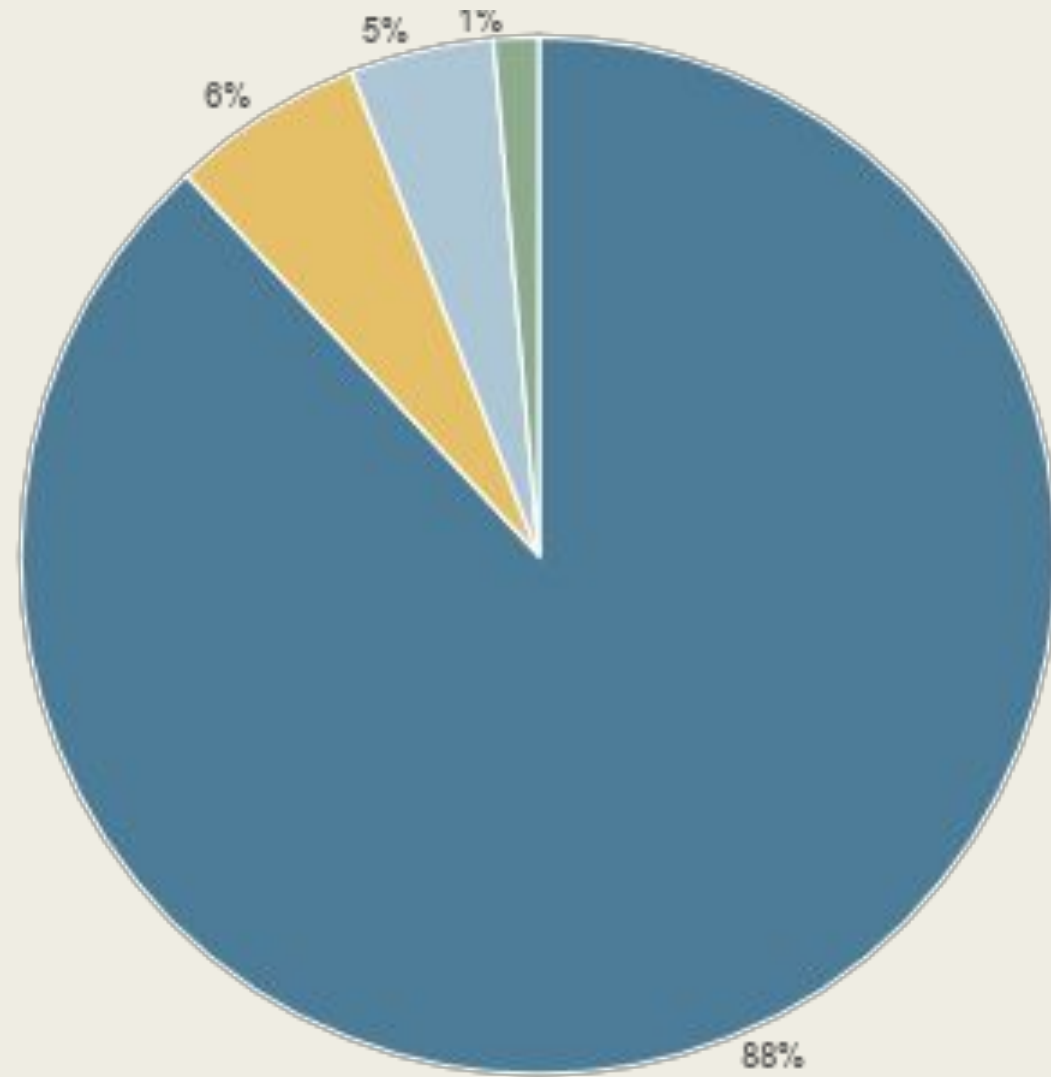
- Accounts for 5% of all revenues received annually
- Based on local fees, fines, permits and other charges
 - *Including, but not limited to*
 - Motor vehicle
 - Other taxes, like meals and lodging
 - Payments in Lieu of Taxes (PILOT)
 - Penalties
 - Licenses and permits
 - Investment income
- Always budgeted conservatively to account for changes

Other Available Funds

- Accounts for 1% of revenues received annually
- Comprised of actual revenues already received (Examples include: ambulance receipts and free cash)
- Can vary greatly from year to year

Revenues

- Real Estate & Personal Property Taxes
- Intergovernmental Aid
- Local Receipts
- Other Available Funds



Revenue Projection

	FY20	FY21	FY22	FY23	FY24
REVENUES	Actual	Budgeted	Projected	Projected	Projected
Real Estate and Personal Property	88,545,951	91,936,403	95,508,861	98,678,685	103,211,427
State Aid	6,367,520	6,346,193	6,346,193	6,346,193	6,346,193
MSBA School Construction Reimbursement	1,605,766	1,605,767	-	-	-
FEMA Grant	429,755	-	-	-	-
SAFER Grant	180,917	180,000	90,000	-	-
Local Receipts	5,916,971	4,216,330	4,600,000	4,600,000	4,600,000
Ambulance Receipts and Other Transfers	762,174	660,000	660,000	660,000	660,000
Free Cash	-	1,390,458	850,000	900,000	950,000
TOTAL:	103,809,054	106,335,151	108,055,054	111,184,878	115,767,620

Please be cautioned that these are projections for management and should not be relied upon by any resident, committee or commission.

Forecasting Potential Expenses

- Expenses include:
 - *Education*
 - *General Government*
 - *Public Safety*
 - *Public Works*
 - *Human Services*
 - *Culture and Recreation*
 - *Employee Benefits*
 - *Other and transfers*
 - *OPEB*
 - *Debt Service*
 - *Capital*

What drives budgetary increases?

- Fixed costs
 - *Insurance*
- Personnel
 - *Step increases*
 - *Collective Bargaining Agreements (CBA)*
- Contracts for services
- Need for increased services or changes to services due to changes in population, demographics, priorities, state/federal mandates and by-law changes.
- While services remain relatively stable, population, commercial base and expectations increase and change. We strive to maintain conservative budget increases while balancing providing top notch services to our community.

Expenditure Forecasting

- The forecast reflects
 - Known contractual increases for services and personnel.
 - Examples include software licenses and other service contracts (i.e. Town Counsel).
 - Educated estimates for all other expenditures.

Expenditure Forecast (FY22)

	FY21	FY22	Percentage
EXPENDITURES	Budgeted	Projected	Increase
Education - SPS	39,608,834	40,630,742	2.58%
Education - LS	26,712,280	27,530,492	3.06%
Education - Vocational	550,000	565,400	2.80%
Town Departments	21,124,878	21,279,866	0.73%
Debt Service (Town and SPS)	3,476,446	2,367,403	-31.90%
Employee Benefits (Town and SPS)	13,672,255	14,206,151	3.90%
OPEB Trust Contribution (Town and SPS)	468,382	625,000	33.44%
Capital Operating Budget	722,076	850,000	17.72%
TOTAL:	106,335,151	108,055,054	1.62%

Please be cautioned that these are projections for management and should not be relied upon by any resident, committee or commission. The SPS and LS amounts represent the Town Manager's estimated increases, which is consistent with the guidance that was provided to each cost center.

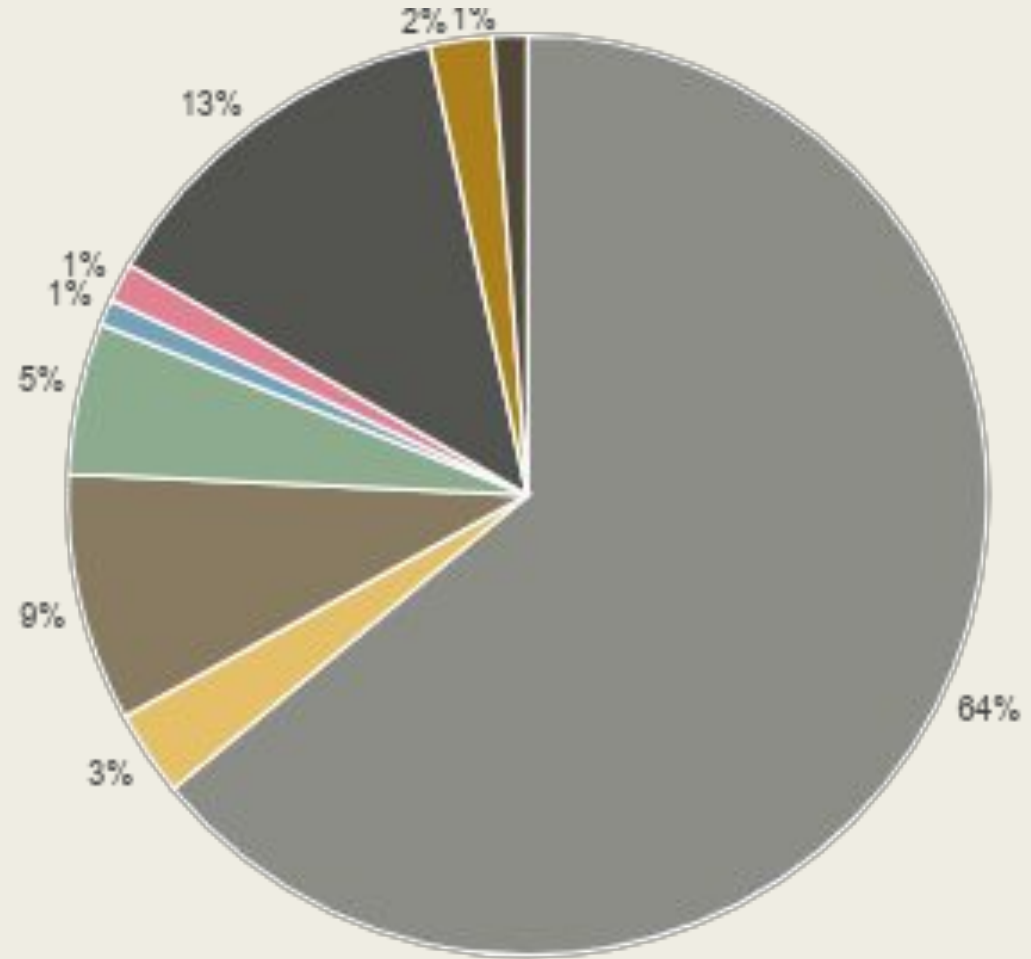
Expenditure Forecast (FY22-FY24)

	FY20	FY21	FY22	FY23	FY24
EXPENDITURES	Actual	Budgeted	Projected	Projected	Projected
Education - SPS	38,352,357	39,608,834	40,630,742	41,679,015	42,754,334
Education - LS	25,808,881	26,712,280	27,530,492	28,373,765	29,242,869
Education - Vocational	651,762	550,000	565,400	581,231	597,506
General Government	3,191,479	3,177,614	3,247,810	3,323,554	3,372,380
Public Safety	8,686,874	9,199,461	9,374,059	9,555,186	9,620,767
Public Works	5,385,724	5,607,520	5,720,111	5,818,237	5,884,500
Human Services	850,625	937,995	962,799	981,174	992,864
Culture & Recreation	1,316,577	1,515,936	1,486,290	1,523,622	1,551,228
Town-Wide Operating and Transfers	164,274	686,352	488,797	491,287	493,825
Total Town Departments	84,408,553	87,995,992	90,006,500	92,327,071	94,510,273
Town Debt Service	3,090,425	3,476,446	2,367,403	2,249,288	3,670,316
Employee Benefits (Town and SPS)	12,532,658	13,672,255	14,206,151	15,058,519	15,962,031
OPEB Trust Contribution (Town and SPS)	610,249	468,382	625,000	650,000	675,000
Total Operating Budget	100,641,885	105,613,075	107,205,054	110,284,878	114,817,620
Capital Operating Budget	697,245	722,076	850,000	900,000	950,000
TOTAL:	101,339,130	106,335,151	108,055,054	111,184,878	115,767,620

Please be cautioned that these are projections for management and should not be relied upon by any resident, committee or commission. Additionally, SPS and LS projections are the Town Manager's estimates.

Expenditures

- Education (64%)
- General Government (3%)
- Public Safety (9%)
- Public Works (6%)
- Human Services (1%)
- Culture & Recreation (1%)
- Employee Benefits - Town & SPS (13%)
- Town Debt Service (2%)
- Other & Transfers, OPEB Normal Cost - Town & SPS, and
Town Manager's Capital Budget (1%)



Budget Process*

In accordance with the Town of Sudbury charter, along with corresponding by-laws, the Town Manager is responsible to annually prepare operating and capital budgets by January 31st for the Town as a whole. The following schedule has been established to comply with this requirement for the operating budget:

- The Town Manager, with the assistance of the Finance Director, will prepare a financial projection October 31st. The goal is to have 3 years, but will include one year at a minimum.
- The Finance Director will provide budget guidance and supporting documents to all Town Departments by November 15th.
- On or prior to December 1st all departments will provide budget requests to the Finance Director.
- The Town Manager and Finance Director will meet with Department Heads individually to discuss budget requests. All meetings will be scheduled on or prior to December 15th.
- The Town Manager, with the assistance of the Finance Director, will compile budget requests and prepare a comprehensive Town budget by December 31st.
- The Town Manager, with the assistance of the Finance Director, will prepare the preliminary budget book and provide the document to the Board of Selectmen and Finance committee by January 31st.

*Process was delayed in FY21 due to COVID-19 Pandemic

Budget Process (continued)

- The Town Manager and Town Departments will participate in Finance Committee hearings/ deliberations as scheduled by the Finance Committee, after submittal of the budget book.
- The Finance Committee shall, not later than March 31st, submit to the Selectmen their written report with their recommendations, including the amounts requested by those originating the above estimates (Town Manager's comprehensive budget). The Selectmen shall cause the Finance Committee's budget submittal including requested amounts, recommendations, and the Finance Committee's report of reasons for differences to be printed in the warrant for the Annual Town Meeting.
- Town Manager will present the final budget at the Annual Town Meeting (date to be determined) to request approval.