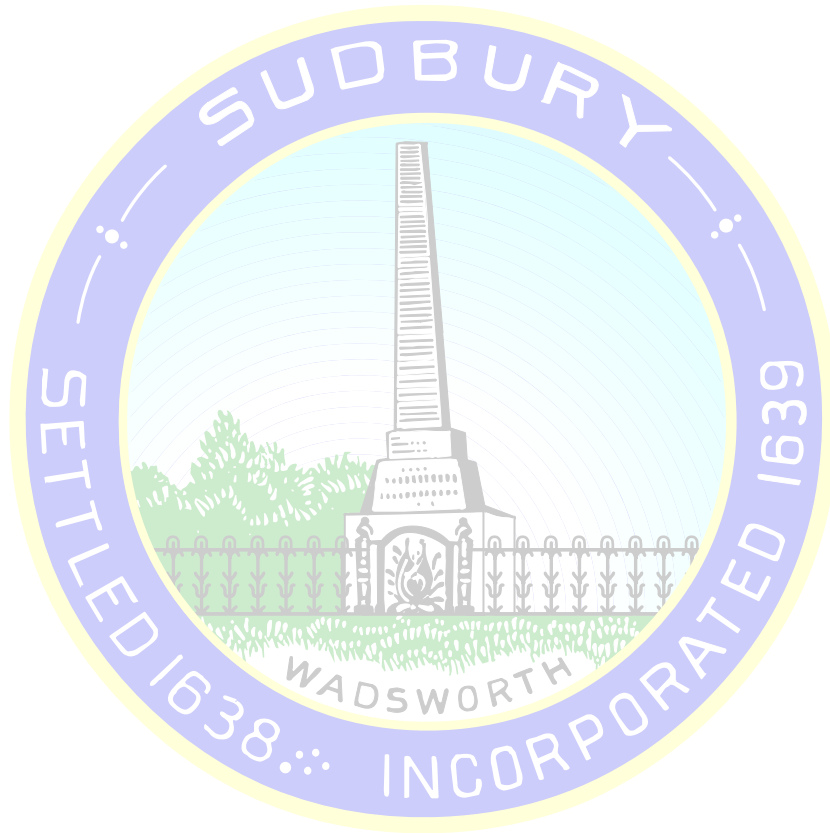


Section Three

FY08 BUDGET OVERVIEW



A Reader's Guide to the Budget

In this section of the budget document, tables, charts, and narratives are provided that provide context for the important budget deliberations and decisions that are ahead of the Town. The budget of a municipality has many parts to it. Different cost centers operate under different state laws. They have their own leadership and management structure. Each has revenue sources that are dedicated to specific programs and are not transferable to other parts of the budget. Each has mandated activities and services that can not be discontinued. Each has employees working under collective bargaining agreements, and the provisions and requirements for each group differ from others. And in two cases – the Lincoln-Sudbury Regional High School and the Minuteman Vocational Technical High School – other towns have a role and a say in the budget requests and spending priorities of the cost center. Readers hoping for a budget that is similar to that of a private company will be disappointed. It takes a great deal of effort to gain an understanding of the milieu in which the Town of Sudbury's budget and financing plan is put together.

A municipal budget document can be a challenge to read and understand, especially for those who don't deal with them often. This is true for a number of reasons: first, they involve numbers, often in lengthy tables. Second, a municipal government is responsible for a large and diverse set of operations and services, many of them complex in nature, so even at a summary level there is still a great deal of detail to digest. And lastly, budget documents must serve a number of purposes.

- A Planning Tool. A budget should be a blueprint for the services that the Town will offer in the fiscal year, consistent with the values and goals that have been set by the Board of Selectmen.
- A Communication Tool. Within the budget pages, the reader should be able to find out how the resources of the Town have been allocated. And, if performance data is included, they are a report of how the Town has been using the resources to achieve the mission and goals of the organization.
- Link to Town Meeting Warrant. A budget's layout should be consistent with the Town Warrant, which is organized according to the Town's organizational chart and chain of command. So, for example, funds appropriated within the Town's Public Safety cluster can only be expended for a public safety purpose with the approval of the Town Manager.
- Link to Different Funds. Governmental accounting is fund accounting, unlike private sector accounting, where there is usually only one fund for all the financial transactions of the entity. In the Town of Sudbury, there is the General Fund and two enterprise funds that support the annual budget. The Community Preservation Fund does not support the General Fund, but rather eligible one-time projects that meet State determined criteria.

To help the reader navigate this budget document, below is an explanation of different parts of the budget document that may be helpful in interpreting and understanding the actual budget requests.

- Appendix One in the back is a ***Glossary of Budget Terms and Definitions***. For the first time reader especially, it may be helpful to be able to check on the meaning of unfamiliar terms that are contained in this document.
- The second section of this document, ***Budget Calendars, Procedures and Policies*** describes how the budget is developed according to various instructions and stages of development.
 - o FY08 Budget Instructions from the Finance Committee
 - o Overview of Phases of Budget Development

- FY08 Budget Calendar
 - Board of Selectmen's Budget and Financial Management Policies
 - Budget Appropriation and Amendment Procedures
- The third section of this document, titled **FY08 Budget Overview** contains the FY08 Budget Request Summary Table. Table 1 shows two levels of budget growth for each of the four major cost centers: one that requires only 3% more funding for non benefit costs than the FY07 enacted budget; the other the budget request that has been voted /recommended by each cost center. This summary shows that if each of the four major cost centers budgets were funded at the amounts they were voted/recommended the Town would be facing a \$3.5 million gap between available resources and these requests. If the "3%" budget requested by the Finance Committee were funded instead, the total of these budgets would still exceed available resources but the gap is about \$866,000. Table 2 shows the same bottom line, but reorganizes the format so that the four cost center budgets are grouped together to show the total increase in these operating accounts separate from the enterprise, debt and charges accounts. The amounts for these latter accounts stay the same across all budget presentations, and any changes to them do not affect the bottom line of balancing the budget within the levy.
- The third section of this document also presents **Backdrop for FY08 Budget Discussions**. This is context information for readers who want to understand better the critical factors that affect the Town's financial condition and the development of the FY08 Budget.
- Expenditure Pressures FY08. This focuses on the major factors that are impacting on the cost of providing services.
 - Revenue Situation Annually, the Town updates an analysis of its financial condition through use of indicators that have been trended over time, following the analysis model developed by the International City/County Management Association.¹ Here, we incorporate those indicators that focus on the revenues the Town relies on.
 - Revenue Projections for FY08. This is a quick summary of the projected revenues supporting the FY08 Recommended Budget.
 - Revenues and Fund Accounting This section contains detailed background information about the revenue sources the Town relies on. Each revenue type is defined, the projection for FY08 is given, and the assumptions that support that projection are given.
- Detailed operational budget requests for FY08 are found in sections 4 through 7. Here can be found the explanation of what services are being provided, the level of staffing involved, and other such information related to each budget request. Readers may use this information to dig deeper into the specific budget requests. Note that the three school systems develop separate detailed budget documents that are not included in this budget. Only summary level information is presented here for these school systems.
- Section 8 has the **FY08 Operating Capital Budget**, the long range capital plans, and the **FY08 Debt Budget**.
- Section 9 contains a number of appendices to this budget document. These appendices are intended to be supplemental reference materials as they did not specifically affect the development of the FY08 budget, but provide more historical and longer term information for the interested reader.
- One: Budget Terms and Definitions
 - Two: History of Proposition 2 ½ Overrides in Sudbury
 - Three: Residential Tax Rate History, 1990 - 2007
 - Four: Population History of Sudbury, 1790 - 2006
 - Five: The Town's Energy Management Program
 - Six: C.A.R.E. Program (Cost Avoidance and Revenue Enhancement)

¹ Groves and Valente **Evaluating Financial Condition**, International City/County Management Association, Washington D.C., 1994

- Seven: FY06 Audit, Management's Discussion & Analysis (not completed as of December 29, 2006 printing of this document).
- Eight: Background information on the Middlesex Retirement System

FY08 Budget Request Summary

This section contains an overall picture of the FY08 budget requests in one summary table so that the reader can see on one page the total presentation of these requests. There are two versions of the standard summary table of annual budget requests. Table 1 shows two levels of budget for each of the four major cost centers: one that requires only 3% more funding than the FY07 enacted budget, and the budget request that is voted/recommended by each cost center. This summary shows that if each of the four major cost centers budgets were funded as voted, the Town would be facing a \$3.6 million gap between available resources and these requests. If the "3%" budgets submitted by the Town, SPS and L-S were funded at that level, the total would still exceed available resources but the gap is about \$925,215. Table 2 shows the same bottom line, but reorganizes the format so that the four cost center budgets are grouped together to show the total increase in these operating accounts separate from the enterprise, debt and charges accounts. The amounts for these accounts stay the same across all budget presentations, and any changes to them do not affect the bottom line of balancing the budget within the levy.

For each of the school systems, plus the Town, the 3% budget scenario would mean a reduction in staffing from FY07 levels. Information on the specific impacts on Sudbury Public Schools and Lincoln-Sudbury Regional High School should be sought in their budget documents. For the Town, the individual departmental budgets show a 3% increase budget so the reader can get a better idea of how the reductions would affect the specific departments. However, the total of the cuts do not reduce the Town to 3%, but rather to 3.4%. If necessary, these further reductions can be taken later, but showing them now would require identifying positions to be reduced. Benefits for each cost center are increasing by 12 to 15%, so when those costs are added in, the overall budget increase under the **FinCom Requested 3% Budget** is 5.33% or \$3.4 million dollars over the FY07 appropriated levels for these cost centers.

The level of budget support in the Voted/Requested Budget represents the level of funding the Sudbury Public Schools, Lincoln-Sudbury Regional High School, the Town of Sudbury and the Capital Improvement Planning Committee have submitted as what is appropriate and sufficient to provide the level and quality of services they believe best, given the Town's financial condition. Including the cost of benefits, the overall budget increase under the **Voted/Requested Budget** is 9.6% or \$6.0 million dollars over the FY07 appropriated levels for these cost centers.

The budget requests for the costs of benefits, such as medical insurance, pension contributions, Medicare, unemployment insurance, etc. are budgeted at actual projected costs for all budget scenarios. Town and school officials have found that even when there is reason to believe that positions might be reduced, any anticipated savings in health insurance are offset by the cost of unemployment claims the Town and school would incur. If there are a large number of layoffs, those unemployment claims can exceed the savings from health insurance, and each cost center needs to carefully plan for its own unemployment costs if that becomes necessary.

The Finance Committee did not require any other budget requests be prepared for FY08 consideration, but the Town has developed a "Level Services" Budget request found in Section Four of this document, and the schools have also provided some information about alternative funding level impacts. Readers should consult the document submitted by those two entities.

Table 1: Summary of FY08 Budget Requests (Standard Format)

STANDARD FORMAT							
EXPENDITURES	Appropriated FY06	Appropriated FY07	3% Budget FY08	% V. FY07	Voted/ Requested FY08	Dollars V. FY07	% V. FY07
LS Gross Assessment	17,188,211	18,479,238	19,229,814		20,127,121		
LS Operating Offsets	(2,596,198)	(3,378,145)	(3,234,779)		(3,234,779)		
LSRHS NET (Operating Assessment)	14,592,013	15,101,093	15,995,035	5.92%	16,892,342	1,791,249	11.86%
SPS less offsets	24,058,431	25,392,734	26,154,479		27,496,526		
SPS Employee Benefits	5,107,457	5,651,772	6,353,855		6,353,855		
SPS NET	29,165,888	31,044,506	32,508,334	4.72%	33,850,381	2,805,875	9.04%
Minuteman Regional Assessment	304,640	312,280	324,771		324,771		
Other Regional School Assessments	-	63,854	66,408		66,408		
Total: Schools	44,062,541	46,521,733	48,894,548	5.10%	51,133,902	4,612,169	9.91%
General Government	2,011,226	2,091,735	2,152,403		2,281,312		
Public Safety	5,733,642	6,091,379	6,206,229		6,286,907		
Public Works	2,883,083	3,068,845	3,283,009		3,391,953		
Human Services	537,382	558,369	575,240		596,513		
Culture & Recreation	994,242	1,027,672	1,058,647		1,167,321		
Unclassified & Transfer Accounts	313,345	421,819	451,274		452,274		
subtotal, town services	12,472,920	13,259,819	13,726,802		14,176,280		
Town Employee Benefits	3,124,307	3,557,700	4,011,678		4,011,678		
Total: Town Departments	15,597,227	16,817,519	17,738,480	5.48%	18,187,958	1,370,439	8.15%
Town Debt Service	5,601,022	5,502,208	4,481,929		4,481,929		
LSRHS (Debt Assessment)	2,461,086	2,935,689	2,647,937		2,647,937		
Total: Operating Budget	67,721,876	71,777,149	73,762,894	2.77%	76,451,727	4,674,577	6.51%
Transfer Station Enterprise	399,843	267,803	271,574		271,574		
Pool Enterprise	426,212	436,713	457,842		457,842		
Capital Planning Committee	273,000	285,095	384,148		384,148		
Capital Exclusion-Fire Truck			(405,000)		(405,000)		
Capital Articles-Fire Truck	150,000	-	405,000		405,000		
Articles in operating	-	-	-		-		
Stabilization Fund	-	-	-		-		
Total: Other	1,249,055	989,611	1,113,564	12.53%	1,113,564	123,953	12.53%
Charges	1,181,308	1,100,200	777,420		777,420		
Total: To Be Raised	70,152,239	73,866,960	75,653,879	2.42%	78,342,711	4,475,751	6.06%
	-	-	-		-		
RECEIPTS							
State Aid	5,456,696	5,863,671	5,624,783		5,624,783		
Local Receipts	3,955,092	4,671,559	4,842,552		4,842,552		
Grants	-	30,000	23,266		23,266		
Free Cash	800,000	1,475,243	1,900,000		1,900,000		
Retirement Trust Fund	25,000	25,000	25,000		25,000		
Abatement Surplus	543,450	511,119	450,000		450,000		
Prior Year Articles	23,000	-	-		-		
Ambulance Fund	210,189	230,342	230,342		230,342		
Enterprise Funds	844,848	728,516	760,328		760,328		
Total: Receipts	11,858,275	13,535,450	13,856,271	2.37%	13,856,271	320,821	2.37%
REQUIRED TAX LEVY	58,293,964	60,331,510	61,797,608		64,486,440		
Previous Year Levy + 2 1/2%	46,313,461	51,354,490	53,202,102		53,202,102		
New Growth	738,480	550,000	550,000		550,000		
Prop 2 1/2 Override (Operating)	3,050,000	-	-		-		
LEVY LIMIT	50,101,941	51,904,490	53,752,102		53,752,102	1,847,612	3.56%
Unused Levy Capacity	-	-	-		-		
Prop 2 1/2 Debt Exemptions	5,234,224	5,610,948	4,304,085		4,304,085	(1,306,863)	-23.29%
Prop 2 1/2 Capital Exclusions	150,000	-	-		-		
APPLICABLE LEVY LIMIT	55,486,165	57,515,438	58,056,187		58,056,187		
Cherry Sheet Grants for School Debt	2,816,206	2,816,206	2,816,206		2,816,206		
TOTAL: REVENUE	70,160,646	73,867,094	74,728,664	1.17%	74,728,664	861,570	1.17%
UNDER/ (OVER) LEVY LIMIT	8,407	134	(925,215)		(3,614,047)	(3,614,181)	

Table 2: Summary of FY08 Budget Requests (Restated Format)

RESTATED FORMAT							
EXPENDITURES	Appropriated FY06	Appropriated FY07	3% Budget FY08	% V. FY07	Voted/ Requested FY08	Dollars V. FY07	% V. FY07
LS Gross Assessment	17,188,211	18,479,238	19,229,814		20,127,121		
LS Operating Offsets	(2,596,198)	(3,378,145)	(3,234,779)		(3,234,779)		
LSRHS NET (Operating Assessment)	14,592,013	15,101,093	15,995,035	5.92%	16,892,342	1,791,249	11.86%
SPS less offsets	24,058,431	25,392,734	26,154,479		27,496,526		
SPS Employee Benefits	5,107,457	5,651,772	6,353,855		6,353,855		
SPS NET	29,165,888	31,044,506	32,508,334	4.72%	33,850,381	2,805,875	9.04%
Minuteman Regional Assessment	304,640	312,280	324,771		324,771		
Other Regional School Assessments	-	63,854	66,408		66,408		
Total: Schools	44,062,541	46,521,733	48,894,548	5.10%	51,133,902	4,612,169	9.91%
General Government	2,011,226	2,091,735	2,152,403		2,281,312		
Public Safety	5,733,642	6,091,379	6,206,229		6,286,907		
Public Works	2,883,083	3,068,845	3,283,009		3,391,953		
Human Services	537,382	558,369	575,240		596,513		
Culture & Recreation	994,242	1,027,672	1,058,647		1,167,321		
Unclassified & Transfer Accounts	313,345	421,819	451,274		452,274		
subtotal, town services	12,472,920	13,259,819	13,726,802		14,176,280		
Town Employee Benefits	3,124,307	3,557,700	4,011,678		4,011,678		
Total: Town Departments	15,597,227	16,817,519	17,738,480	5.48%	18,187,958	1,370,439	8.15%
Capital Planning Committee	273,000	285,095	384,148		384,148		
Capital Exclusion-Fire Truck			(405,000)		(405,000)		
Capital Articles-Fire Truck	150,000	-	405,000		405,000		
Total: Capital Budget	423,000	285,095	384,148	34.74%	384,148	99,053	34.74%
Subtotal: Operating Budget	60,082,768	63,624,347	67,017,176	5.33%	69,706,008	6,081,661	9.56%
Town Debt Service	5,601,022	5,502,208	4,481,929		4,481,929		
LSRHS (Debt Assessment)	2,461,086	2,935,689	2,647,937		2,647,937		
Total: Debt Budget	8,062,108	8,437,897	7,129,866	-15.50%	7,129,866	(1,308,031)	-15.50%
Transfer Station Enterprise	399,843	267,803	271,574		271,574		
Pool Enterprise	426,212	436,713	457,842		457,842		
Articles in operating	-	-	-		-		
Stabilization Fund	-	-	-		-		
Total: Other	826,055	704,516	729,416	3.53%	729,416	24,900	3.53%
Charges	1,181,308	1,100,200	777,420		777,420		
Total: To Be Raised	70,152,239	73,866,960	75,653,879	2.42%	78,342,711	4,475,751	6.06%
	-	-	-		-		
RECEIPTS							
State Aid	5,456,696	5,863,671	5,624,783		5,624,783		
Local Receipts	3,955,092	4,671,559	4,842,552		4,842,552		
Grants	-	30,000	23,266		23,266		
Free Cash	800,000	1,475,243	1,900,000		1,900,000		
Retirement Trust Fund	25,000	25,000	25,000		25,000		
Abatement Surplus	543,450	511,119	450,000		450,000		
Prior Year Articles	23,000	-	-		-		
Ambulance Fund	210,189	230,342	230,342		230,342		
Enterprise Funds	844,848	728,516	760,328		760,328		
Total: Receipts	11,858,275	13,535,450	13,856,271	2.37%	13,856,271	320,821	2.37%
REQUIRED TAX LEVY	58,293,964	60,331,510	61,797,608		64,486,440		
Previous Year Levy + 2 1/2%	46,313,461	51,354,490	53,202,102		53,202,102		
New Growth	738,480	550,000	550,000		550,000		
Prop 2 1/2 Override (Operating)	3,050,000	-	-		-		
LEVY LIMIT	50,101,941	51,904,490	53,752,102		53,752,102	1,847,612	3.56%
Unused Levy Capacity	-	-	-		-		
Prop 2 1/2 Debt Exemptions	5,234,224	5,610,948	4,304,085		4,304,085	(1,306,863)	-23.29%
Prop 2 1/2 Capital Exclusions	150,000	-	-		-		
APPLICABLE LEVY LIMIT	55,486,165	57,515,438	58,056,187		58,056,187		
Cherry Sheet Grants for School Debt	2,816,206	2,816,206	2,816,206		2,816,206		
TOTAL: REVENUE	70,160,646	73,867,094	74,728,664	1.17%	74,728,664	861,570	1.17%
UNDER/ (OVER) LEVY LIMIT	8,407	134	(925,215)		(3,614,047)	(3,614,181)	

Backdrop for FY08 Budget Discussions

Expenditure Pressures

There are six primary “budget busters” that have been driving high rates of spending growth: health insurance, pension costs, wages & salaries for employees, debt service, energy costs and a rapid growth in population, particularly of school age children.

Health Insurance Costs The Town/SPS provides health insurance for both active employees and retirees, as does LSRHS. State statute and case law provide strict guidelines for public employers in Massachusetts as to what benefits must be offered and how changes in such plans can be achieved. Changes in health insurance plans for the Town/SPS are subject to collective bargaining between the unions and the Town/School Committee and generally must be agreed to by all bargaining units before any changes can be implemented. Rates are voted on annually by the Board of Selectmen following recommendations from the Town Manager and Assistant Town Manager. As the Town/SPS is self-insured for health insurance, it is a complicated and time-consuming process each year to determine the amount that will need to be appropriated to both cover all claims and contribute the required employer match to the employees’ contribution. The Assistant Town Manager is responsible for this program, and he works closely with a specialized consulting firm, with representatives of our group health insurance plan providers and with the Employee Insurance Advisory Committee (representing all employee groups) each year to review the trends in medical costs, level of claims activities by our employees and retirees, and amounts of catastrophic reinsurance the Town should purchase. To confirm that the health insurance programs offered by the Town are still the most cost effective approach, the Assistant Town Manager also receives data on the cost of offering our health insurance on a premium basis. And he tracks the costs experienced by other towns and regional purchasing group, such as the one that LSRHS belongs to. The Town has saved significant dollars by continuing to offer our health insurance on a stand alone, self-insured basis.

Budgeted Health Insurance Costs	2003	2004	2005	2006	2007	2008	Pct Change, FY03-FY08
Town	1,323,840	1,472,500	1,601,209	1,793,350	2,008,552	2,249,578	70%
SPS	2,813,160	3,282,900	3,563,980	3,991,650	4,470,648	5,007,126	78%
L-S (total for LS, not prorated)	1,532,437	1,716,532	1,879,908	2,040,545	2,383,402	see note	
Total	5,669,437	6,471,932	7,045,097	7,825,545	8,862,602		
Percent change		14.15%	8.86%	11.08%	13.25%		

NOTE: L-S budget detail not received in time to complete chart with FY08 numbers

As shown in the table above, the rate of increase in the costs of providing health insurance for employees and retirees of the Town, SPS and LSRHS continues to increase at a double digit rate and consumes ever growing percentage of new revenues each year. This is true for all three cost centers, even though the contribution rates for Town/SPS employees is lower for the HMO health insurance plan (90% employer/10% employee split) offered by the Town than the similar product offered by L-S, which has a contribution rate of 75/25. The escalation in health insurance costs is due to forces in the Massachusetts and national economy and is beyond the Town of Sudbury’s power to control. (Note: The Town and L-S PPO product both have a contribution split of 75/25. Also, the Town/SPS have a 50/50 split for the cost of retirees’ health insurance products; L-S has a 75/25 split for retirees).

Pension Costs The Town of Sudbury, the Sudbury Public Schools and L-S are required to contribute to the Middlesex Retirement System (MRS) on behalf of all Town and school employees who work at least 20 hours per week EXCEPT for teachers. (Teachers are covered by and contribute to the Massachusetts Teachers Retirement System, but the state pays the employer portion of their current and future pension liability). These costs too have risen at a rapid rate.

Budgeted Pension Costs	2004	2005	2006	2007	2008	Pct Change, FY04-FY08
Town	1,095,891	1,103,241	1,151,911	1,345,545	1,539,276	40%
SPS	584,916	676,945	706,110	775,392	865,843	48%
L-S (total for LS, not prorated)	331,030	367,299	393,274	447,450	see note	
Total	2,011,837	2,147,485	2,251,295	2,568,387		
Percent change	21.45%	6.74%	4.83%	14.08%		

NOTE: L-S budget detail not received in time to complete chart with FY08 numbers

There are two particularly noteworthy aspects regarding the membership of the Town and L-S (as well as the Sudbury Water District and the Sudbury Housing Authority) in this regional retirement system.

The Troubled Middlesex Retirement System Assessments assigned by the MRS have increased significantly in recent years. In the fall of 2002 the MRS notified Sudbury and other member entities of a planned significant assessment hike for FY04. For Sudbury the increase was 59%, but for some it was even higher. After an outcry from the Boards of Selectmen and Town Managers of member communities, the percentage rate for assessment growth for member towns and districts was reduced by half. Since then a number of actions and investigations have been launched into the actions and performance of the MRS, and why assessments were growing so quickly. Appendix Eight to this budget document includes several items about the management irregularities alleged to have occurred at the MRS, which have been examined by the state's pension oversight board, PERAC, and the State Inspector General's office. In November 2006, the Middlesex Retirement System Board voted to shift control of it's nearly \$700 million of assets to the Massachusetts Pension Reserve Investment Management (PRIM) Board.

Local Retirement Systems versus State Administration The uncovering of the management practices at the MRS led to questioning by many of the efficacy of locally administered retirement systems, such as the MRS. A recent White Paper by the Pioneer Institute, titled "**Leaving Money on the Table: The 106 Pension Systems of Massachusetts**"² analyzed the loss of income statewide due to underperforming local retirement systems and attempted to calculate the amount of money local taxpayers would have to pay to make up for the investment income foregone by not having all pensions dollars invested by the state as part of the Pension Reserve Investment Trust (PRIT), run by PRIM – the Pension Reserve Investment Management Board. The author of this paper concluded that the cost of such local pensions systems was significant. Only six local systems outperformed PRIT's investment record, at a total estimate cost of \$1.6 billion since 1995 – a difference that local taxpayers are required to make up. According to the Pioneer Institute, Middlesex Retirement System, one of the state's 10 worst-performing pension systems, would have had \$158 million more over the last decade by putting its money in the state's top-performing pension system.

All local retirement systems have the option of voluntarily asking PRIT to invest their pension assets. The author notes that PRIT has been very successful at investing the billions of dollars that it manages, earning a compound annual return of 11.19% from 1985 to 2004, outperforming the S & P 500 and the NYSE Composite for the same time period. The author of this paper recommends that all local systems, except those that have outperformed PRIT, place their assets under PRIT management and that the state should expand PERAC's ability to perform more timely audits.

² *Leaving Money on the Table: The 106 Pension Systems of Massachusetts* by Ken Ardon, May 2006. See www.pioneerinstitute.org for a copy of the white paper

NOTE: While it has been the employers such as the Town of Sudbury that have been asked to offset the decreases in investment earnings in the last few years, employees have always been required to make hefty contributions to their own future retirement. The pension system is a defined benefit plan, with set contributions rates from employees depending on their date of hire: Before Jan 1, 1975: 5% of compensation: Jan 1975 - Dec 1983: 7%: Jan 1984 - June 30, 1996: 8%: After July 1, 1996: 9%. Additionally, all employees who earn over \$30,000 annually are required to pay a 2% surcharge on the amount over that threshold. Thus, some employees are paying 11% on earnings.

Salaries and wages Salaries and wages are the largest component of the operating budgets for all three major cost centers. Since the majority of the employees are organized for collective bargaining purposes, multi-year wage packages are the norm. The table below shows a much small increases in wage costs in FY04 and FY05, but a significant increase in FY06. This increase probably had as much to do with adding employees with the successful override as increases in wage levels.

Budgeted Salary & Wages	2003	2004	2005	2006	2007	Pct Change FY03-FY07
Town	8,102,989	8,280,749	8,437,198	8,801,919	9,116,673	13%
SPS	17,204,114	17,137,047	17,980,472	19,342,996	19,911,333	16%
L-S (total for LS, not prorated)	11,608,407	11,622,720	11,741,237	13,242,727	13,867,111	19%
Total	36,915,510	37,040,516	38,158,907	41,387,642	42,895,117	16%
Percent change		0.34%	3.02%	8.46%	3.64%	

Debt Service Costs The Town has issued debt, pursuant to bond authorization votes of Town Meeting and voters' approval to exclude all such debt from the limits of Proposition 2 1/2. Debt service costs for Town and SPS projects has declined from FY03 to FY08 as the Town faced two debt "peaks". In FY02, the total net exempt debt was \$7.2 million, and then declined for FY03, FY04 and FY05, until the debt service costs for the debt issued for the LS project reached its highest point in FY07.

If approved by Town Meeting and voters, the Town is planning to issue debt for a new police station, which would bring the debt service costs back to the FY07 levels in FY09 before steadily decreasing.

Debt Service Costs	2003	2004	2005	2006	2007	2008
Town Buildings	493,660	1,640,335	989,986	1,128,124	1,005,330	713,774
Land Acquisition	971,545	945,240	919,715	996,747	1,005,065	752,244
SPS Net of SBA	4,989,031	2,193,720	1,276,047	780,842	664,864	190,130
L-S Net of SBA, Sudbury portion	576,388	1,089,609	1,597,382	2,461,086	2,935,689	2,647,937
Net Exempt Debt Budget	7,030,624	5,868,904	4,783,130	5,366,799	5,610,948	4,304,085
Annual percent change		-16.52%	-18.50%	12.20%	4.55%	-23.29%

Energy Costs (Town Budget Only – Analysis does not include SPS or L-S) Energy costs are another item that is growing faster than other parts of the Budget. For FY08 we are projecting

that for Town Buildings only, the costs of paying for electricity, natural gas and heating oil will rise by 9.23%. This follows budgeted increases of 23.4% in FY07.

Budgeted Utility Costs for Town Buildings			
	2006	2007	2008
Building Department	266,790	356,195	394,955
Library	66,080	71,600	71,600
Fire Department	36,665	42,880	52,770
Atkinson Pool	84,000	89,000	92,000
Total	453,535	559,675	611,325
Annual percent change		23.40%	9.23%

Gasoline and diesel fuel costs are also increasing rapidly. For FY08, we project a 23.37% increase in the costs of these fuels. We are also anticipating that we will need reserve fund transfers in FY07 in each of the three departments where these fuels are budgeted, based on the costs we have experienced thus far in FY07, and that in FY06 we needed several reserve fund transfers to augment the \$141,000 that we originally budgeted.

Gasoline/Diesel for Vehicles	2006	2007	2008
DPW/All other town vehicles*	191,160	114,104	140,000
Police Department	0	62,140	75,961
Fire Department	0	18,756	24,609
Total	191,160	195,000	240,570
Annual percent change		2.01%	23.37%

*actual after several reserve fund transfers

Impacts of Population Growth and School Age Children Finally, we must acknowledge the impact of rapid population growth on our budget in recent years. Overall, Town population has risen from 15,510 in 1995 to 17,066 in 2005.³ Such growth brings demands for more Town services, most acutely felt on our public safety, library, recreation, and human services departments. In most towns, such growth would normally bring about increases in staffing in these areas to keep pace with the population growth. But in Sudbury, that has not occurred, due to the dramatic and challenging growth in the number of children enrolled in the Town's two school systems.

The table which follows uses Department of Education figures for FY05 to illustrate the impact of such growth on Sudbury, especially relative to other communities. FY05 is used as it is the latest year such data is consistently available for each of the towns included. We calculated a blended spending per pupil figure for Sudbury by using spending data for both the Sudbury Public Schools and Sudbury's approximate share for the Lincoln-Sudbury Regional High School. The table shows not only the total number of Sudbury students enrolled in either the Sudbury Public Schools or the Lincoln-Sudbury Regional High School, but also those enrolled in the public schools of a number of other communities, including five of our neighboring towns (Wayland, Hudson, Framingham, Lincoln and Concord), five school systems that are considered to be as high performing as Sudbury's (Lexington, Needham, Wellesley, Weston and Winchester), as well as two Towns smaller than Sudbury (Bedford and Hopkinton) and one much larger than Sudbury (Arlington).

³ Department of Revenue Population Estimates.

Particular points to note in looking at these data:

1. Sudbury has more students than Wellesley, a town of nearly 10,000 more residents, and nearly as many as Arlington, which has a population that is more than double Sudbury's.
2. If you increased each of these towns' number of school children so that it is 26% of their population, you would see the results presented on the right side of this table. For example, Wayland would have 424 more students and based on Wayland's reported spending per pupil of \$11,599 in FY05, Wayland would need to spend \$5.4 million more dollars to educate these students. Lexington would have had 1,778 more students, and would need to have spent \$21.2 million more in FY05 to educate these additional students. Framingham and Arlington would have spent more than twice what they actually did spend in FY05.
3. Sudbury's blended spending per pupil is the fourth lowest of this group. If Sudbury's spending per pupil was as high as many of the other towns, then Sudbury would have spent significantly more to educate Sudbury students. For example, if the per pupil spending in Sudbury was the same as Bedford's, an additional \$10 million would have been spent by the Sudbury schools in FY05.

School Age Children as a Percent of Overall Population

	Population DOR Data for 7/1/05	N of Students, DOE Data	School Children as % of Population	Spending Per Pupil, DOE Data*	FY05 Total Educational Spending DOE Data	If N of Students was 26.61% of population	Then Town would have this many more students	And Town would spend this much more on education at own ppe
Sudbury*	17,066	4,542	26.61%	\$ 10,243	\$ 46,523,948			
Hopkinton	14,112	3,435	24.34%	\$ 9,497	\$ 32,621,955	3,756	321	\$ 3,045,678
Wayland	13,002	2,987	22.97%	\$ 11,599	\$ 34,642,051	3,460	474	\$ 5,494,419
Weston	11,581	2,372	20.48%	\$ 14,414	\$ 34,185,304	3,082	710	\$ 10,239,778
Lexington	30,266	6,277	20.74%	\$ 11,929	\$ 74,877,767	8,055	1,778	\$ 21,212,416
Bedford	12,462	2,365	18.97%	\$ 12,662	\$ 29,939,157	3,317	952	\$ 12,055,156
Lincoln*	7,931	1,477	18.62%	\$ 15,442	\$ 22,800,426	2,111	634	\$ 9,792,973
Concord*	16,833	2,987	17.75%	\$ 13,323	\$ 39,800,229	4,480	1,493	\$ 19,885,372
Winchester	21,181	3,752	17.71%	\$ 9,884	\$ 37,082,202	5,637	1,885	\$ 18,636,107
Needham	28,418	4,939	17.38%	\$ 10,788	\$ 53,278,293	7,563	2,624	\$ 28,309,437
Wellesley	26,978	4,446	16.48%	\$ 11,243	\$ 49,980,414	7,180	2,734	\$ 30,739,687
Hudson	18,943	2,771	14.63%	\$ 10,356	\$ 28,698,426	5,041	2,270	\$ 23,511,986
Framingham	65,060	7,965	12.24%	\$ 13,681	\$ 108,967,478	17,315	9,350	\$ 127,915,095
Arlington	41,224	4,615	11.20%	\$ 10,095	\$ 46,591,511	10,971	6,356	\$ 64,167,301

* for Sudbury, Lincoln and Concord, this is a blend of K-8 and High School per pupil spending
Source: FY05 Expenditures per Pupil, All funds, Summary by Function, DOE

The Revenue Situation

Sudbury officials are faced with a great deal of uncertainty about the level of state aid we should count on as we prepare the FY08 budget. Governor Deval Patrick has pledged to increase state aid and end the over reliance on the property tax that has resulted from nearly six years of reductions or modest increases in state aid. Significant studies conducted during 2005 documented the reductions in aid and the devastating affect this has had on communities. The first, entitled "**Communities at Risk: Revisiting the Fiscal Partnership between the Commonwealth and Cities and Towns**" was developed by a Municipal Task Force chaired by John Hamill, Chairman of the



Sovereign Bank New England. This report documented that property taxes have been rising steeply and that unless the state stepped in with more state aid, deterioration in services or even higher property taxes were in the future. The Task Force concluded that local leaders have generally done a good job of controlling costs and it is not wasteful spending but reductions in support from the state that are forcing local officials to rely more on the property tax, a levy that is particularly burdensome for homeowners on fixed incomes. The report concludes that revenue sharing from the state should be increased, back to the level it was at in 1988 on a percentage basis, that local officials should be given flexibility in having other revenue sources available to us, and that we should be given more flexibility to control costs by reducing many of the constraints of state law. A copy of this report is on the Town's web site.

The second report continues this same theme. Entitled “**Revenue Sharing and the Future of our Massachusetts Economy**”, it also documents the decline

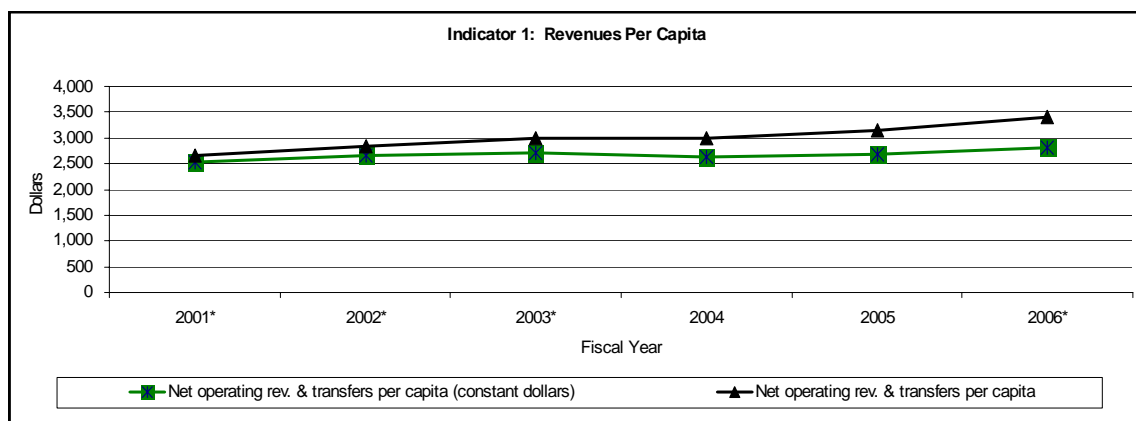


in spending on municipal services, particularly public works, as state aid for all but educational purposes has declined. This leaves municipalities, such as Sudbury, with few alternatives to increasing property taxes rather than allow town and educational services to decline in quality and quantity. This report also focuses on the long term implication of the continuation of the trend of high property taxes and declining services on the State's economy, concluding that the State needs

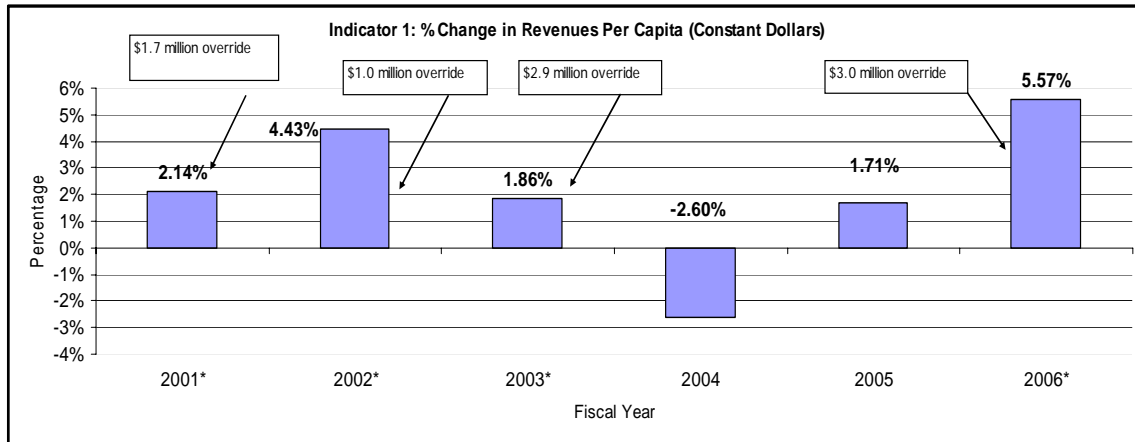
to provide more state aid, and give communities more flexibility in revenue options because this will help drive the overall economic engine of the Commonwealth.

Town staff has conducted our own analysis of our revenue patterns and how these trends send at the state level have played out in Sudbury, titled the “**Sudbury Financial Trends Monitoring Report**”. Recently the Town Manager, Finance Director and Board of Selectmen invited the Finance Committee, the Capital Improvement Planning Committee, the Sudbury Public School Committee and the Lincoln-Sudbury Regional School Committee to a Financial Summit where we presented our findings.

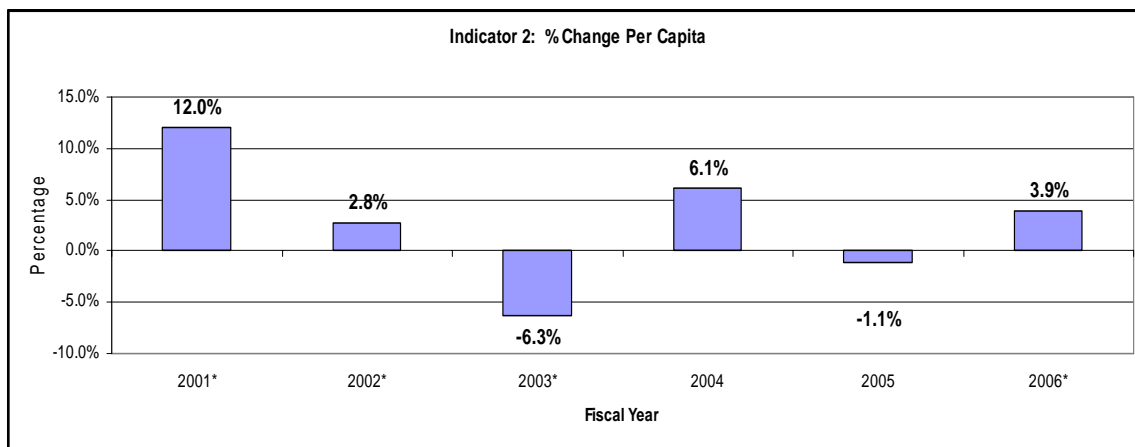
Indicator 1: Revenue Per Capita. There are two charts associated with this indicator. The first shows that while operating revenues have increased over the six years of this study by \$19 million, when the effects of inflation are factored in and adjusting for growth in population, revenues per capita in constant dollars were HIGHER in FY02 than in FY06. Overall, the annual growth in constant dollar revenues per capita average is less than 2%.



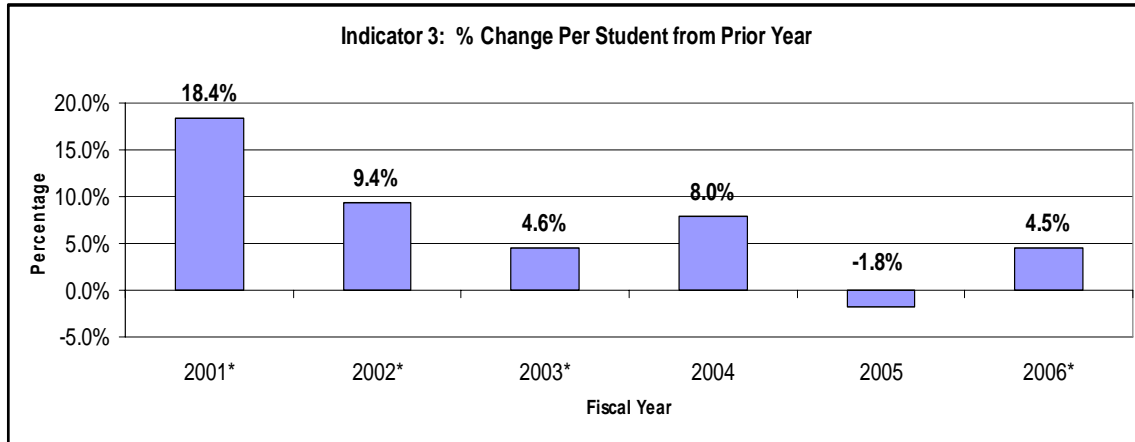
The second chart associated with this indicator shows the annual rate of change for revenues per capita from FY01 through FY06, and indicates in which years there were operating overrides and the amount of these overrides. This shows that in those years in which there is no override, there is very little growth in revenues to support budgets, which are impacted by the steady increases in pensions, health insurance, and energy costs.



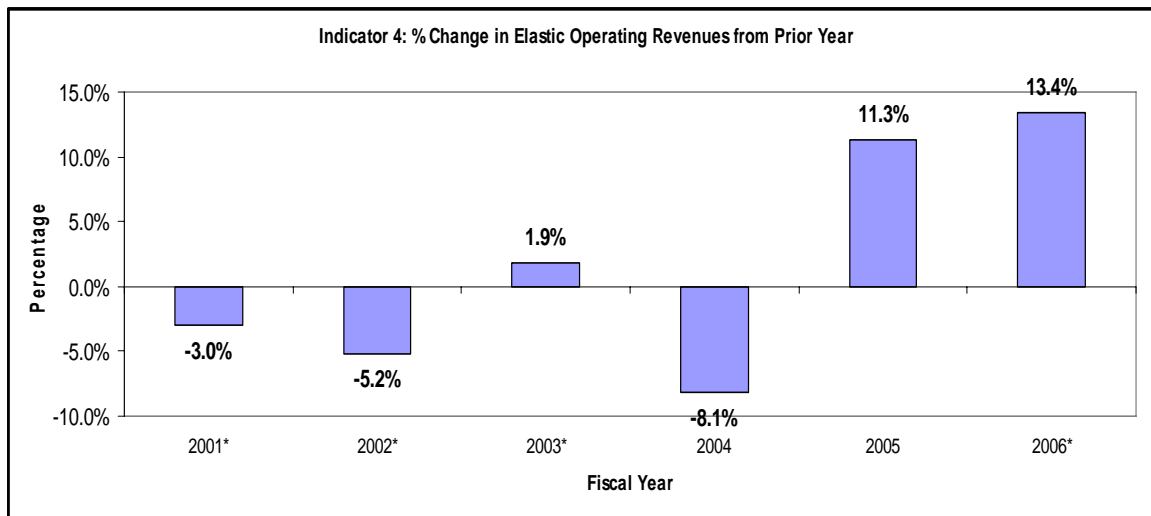
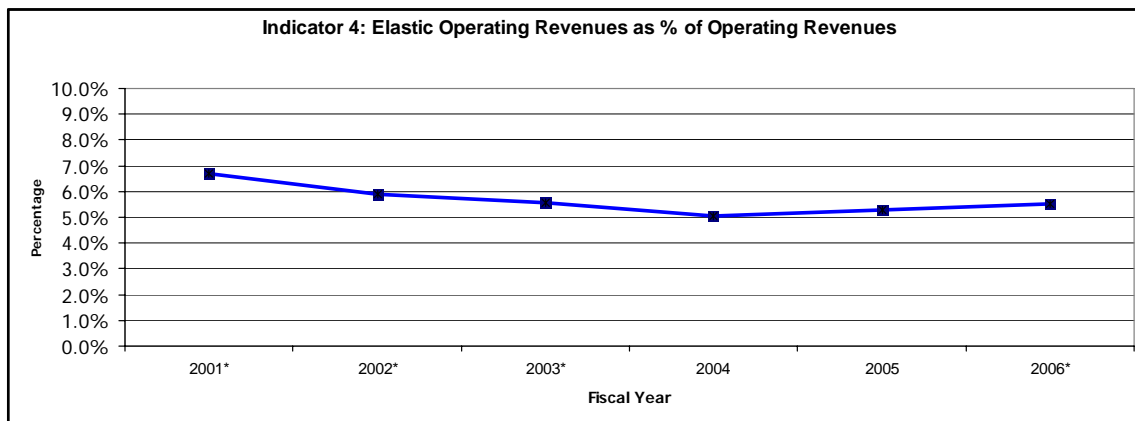
Indicator 2: State Aid Per Capita. This indicator shows that annual changes in state aid have been inconsistent since FY01, and even when there is an increase, it is not near the amounts seen in the late 90's through FY01. Actually, state aid has dropped from a high of 10.2% (it was 11% in FY99) of Sudbury's operating revenues to as little as 8.3% over the past six years. Overall, the state cutback of actual dollars allocated to Sudbury, as well as not keeping up with the annual increases that had been seen in the late 1990's, probably has meant a loss of \$1.5 million on an annual basis to Sudbury.



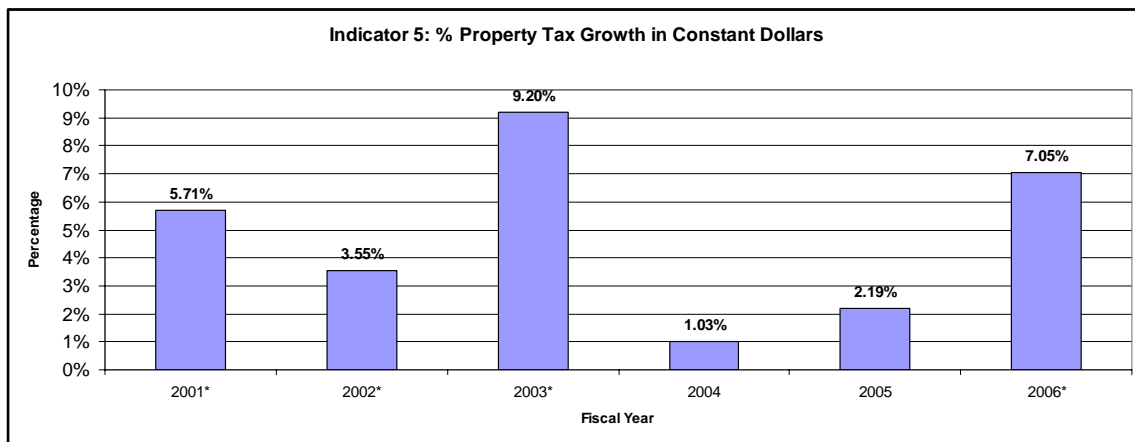
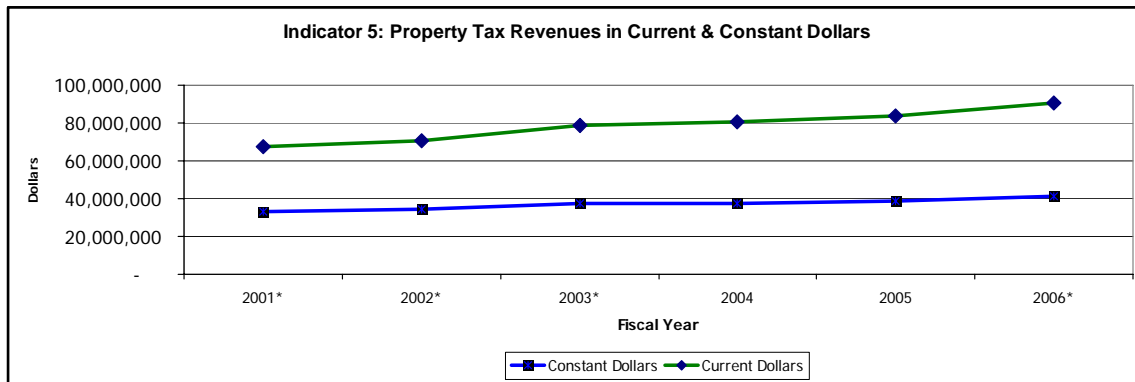
Indicator 3: Chapter 70 School Aid per student. This indicator focuses on the largest component of state aid for Sudbury: the Chapter 70 program. As can be seen, Sudbury received large annual increases in this aid up until FY2002 as our school population continued to grow. Then as the State began to experience financial difficulties, it began to slow down or even decrease this aid even as our enrollments were still very high, meaning the state shifted more of the cost of educating Sudbury students onto the local taxpayers.



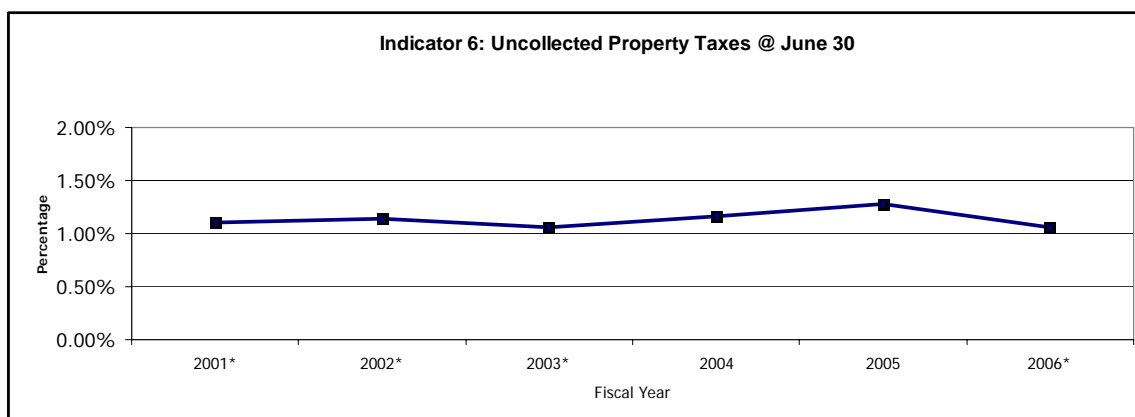
Indicator 4: Elastic Revenues. This indicator shows that Sudbury is only now starting to see growth in these revenues. The actual decrease in these revenues since FY01 compounded the difficulties that losses in state aid was already causing. Only in FY06 did we finally see these revenues exceed the FY01 level. If in FY06 elastic revenues were 7.4% of our total operating revenues as they were in FY01, they would totaled \$4.5 million instead of \$3.4 million. This loss, plus the loss in state aid, was made up by increases in the property tax.



Indicator 5: Property Taxes. This trend line shows that on a constant dollar basis Sudbury sees annual growth in this revenue source only when there is an operating override. Without overrides, the amount of revenue on a constant dollar basis generated by this revenue source is less than the 2 ½% annually that is commonly assumed with this property tax.

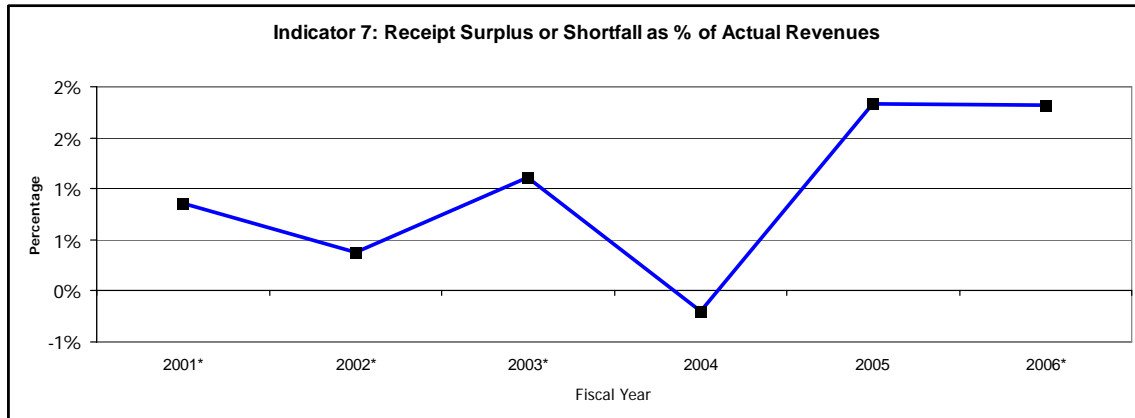


Indicator 6: Uncollected Property Taxes. This trend line shows that the Town has consistently collected nearly 99% of taxes owed by the end of the fiscal year, a very healthy trend.

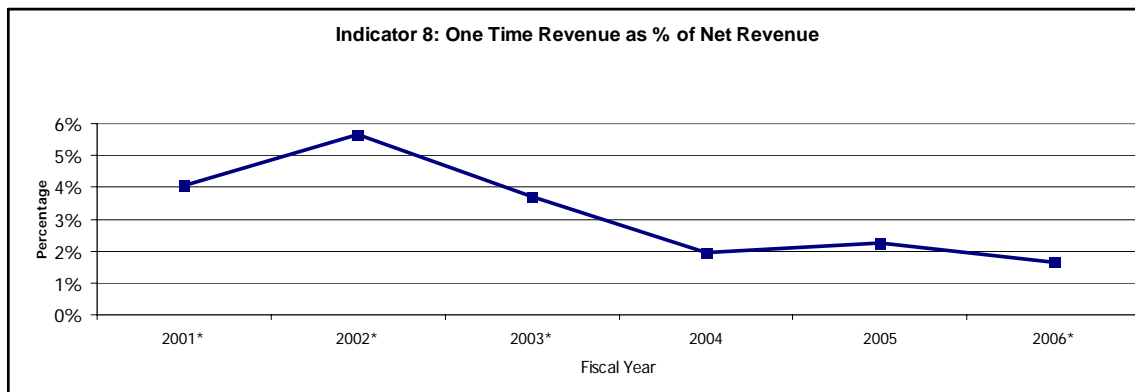


Indicator 7: Revenue Shortfalls. This trend line shows that the Town has been consistently conservative in making revenue forecasts, which helped the Town when revenues from state aid and elastic sources began to slow down and then decrease. In FY04 a revenue deficit was

narrowly avoided, and showed the wisdom of careful estimates in areas such as state aid, elastic revenues and one time revenues.



Indicator 8: One Time Revenues. This trend line shows that in FY2000 – FY2003 the Town relied on Free Cash to provide significant revenue for funding the budget. These funds were not as available in FY04 – FY06. The Town does establish a set amount of free cash that will be used to fund the budget, and hold the rest for as a rainy day fund for later appropriation.



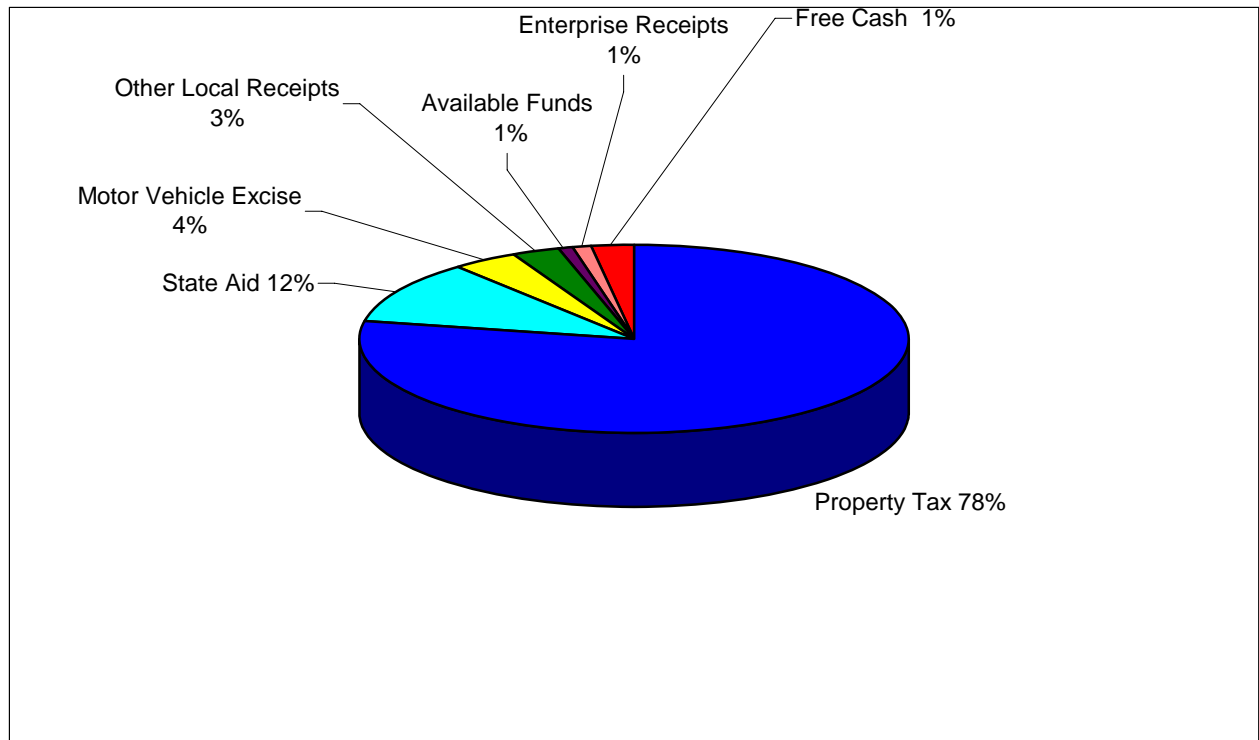
Overall, the indicator analysis of the Town's revenue bases shows on a constant dollar basis (adjusting for inflation) the growth in overall revenues has been steady, but only because of overrides in FY01, FY02, FY03 and FY06. Sudbury has become even more reliant on property taxes over the past six years, as state aid, elastic revenues and one time revenues became smaller portions of our revenue base. Residents showed a willingness to approve a large override for FY06, when both the Selectmen and the Finance Committee agreed that further deterioration in our service levels was not something that should occur without asking voters if they would raise approve an override of Proposition 2 ½ to provide the funds to prevent that from happening. And by all parties working together, an override was avoided in FY07.

The next section describes revenues projections for FY08.

Revenue Projections for FY08

In this final section of the **Budget Overview** we present a discussion of revenues and fund accounting, discussing both the projections for FY08, the updated projection for FY06 now that the tax rate has been set (revenue totals won't be finalized until the end of the current fiscal year, when we have a final tally of all revenues that have been collected). We offer here six tables showing details of each of the major revenue sources, and present a detailed discussion on each revenue source's authorization, limits and important variables.

FY08 Revenue Sources



Revenue Source	FY08
Within Levy Property Tax	53,752,102
State Aid	5,624,783
Motor Vehicle Excise	2,849,016
Other Local Receipts	1,993,536
Available Funds	728,608
Enterprise Receipts	760,328
Free Cash	1,900,000
Subtotal, within levy	67,608,373
Excluded Property Taxes	4,304,085
School Construction State Aid	2,816,206
Total Projected Revenues	74,728,664

Revenues and Fund Accounting

General Fund. Nearly all the revenues (99%) used to support the ***FY08 Proposed Annual Budget and Financing Plan*** are accounted for in the General Fund. General Fund budgeting and accounting is done on a modified accrual basis meaning that revenues are recognized when they become measurable or available (cash basis), while expenditures are accounted for in the accounting period incurred (accrual basis). General Fund Revenues are projected to be \$73,714,728 for FY08.

Enterprise Fund. Enterprise Funds are used for activities that are fully financed through user charges. Budgeting for enterprise funds is done on a GAAP (Generally Accepted Accounting Principles) basis. The Town runs two operations on an enterprise fund basis: The Solid Waste Transfer Station and the Atkinson Pool. All direct and indirect costs of the Transfer Station and all direct costs of the Atkinson have been built into the fees charged. Enterprise Fund Revenues are projected to be \$760,328 for FY08.

Special Revenue Funds. These are funds that have a specific purpose that is restricted by law. Town Meeting does not appropriate these funds.

Community Preservation Fund. Community preservation surcharges are levied annually and at a rate of 3% of residents' real estate tax bills with exemptions for the first \$100,000 of residential property and property owned by qualified persons with low income and seniors (60+) with low or moderate income as defined by Department of Revenue guidelines. These funds are limited to specific types of projects – open space preservation, historical preservation, affordable housing, and recreation – and cannot be used for operating or maintenance purposes. Funds are appropriated by Town Meeting through separate articles, not as part of the Annual Operating or Capital Budget.

Revenue Summary

	FY07 Projected	FY08 Projected	Dollar Change	Percent Change
Property Tax Levy (net of exclusions)	51,904,490	53,752,102	1,847,611	3.56%
State Aid-Cherry Sheet (net of SBA)	5,863,671	5,624,783	(238,888)	-4.07%
Local Receipts	4,671,559	4,842,552	170,993	3.66%
Free Cash	1,475,243	1,900,000	424,757	28.79%
Available Funds	796,461	728,608	(67,853)	-8.52%
Subtotal: General Operating Fund	64,711,424	66,848,045	2,136,620	3.30%
Enterprise Funds	728,516	760,328	31,812	4.37%
Total Available for Operating Purposes	65,439,940	67,608,373	2,168,432	3.31%
Property Tax Outside Levy (Debt Exclusions)	5,610,947	4,304,085	(1,306,862)	-23.29%
School Construction Reimbursement (SBAB)	2,816,206	2,816,206	-	0.00%
Total Revenue Projection	73,867,093	74,728,664	2,168,432	2.94%

Property Tax Growth

	FY06	FY07 Projected	FY08 Projected	Dollar Change	Percent Change
Previous Year Levy	45,183,865	50,101,942	51,904,489	1,802,548	3.60%
2.5% over prior levy	1,129,597	1,252,549	1,297,612	45,064	3.60%
New Growth	738,480	550,000	550,000	-	0.00%
Override	3,050,000	-	-	-	0.00%
Total Tax Levy (excluding debt exemptions)	50,101,942	51,904,490	53,752,102	1,847,611	3.56%

Assumptions:

Property Tax Levy. Projection: \$53,752,102. Sudbury's property tax levy is anticipated to increase by \$1,847,611 or 3.60 percent. This is exclusive of excluded debt service.

As provided under Proposition 2 ½, local governments are permitted to increase property taxes 2.5 percent over the previous years' tax levy limit. In addition, a community may increase its property tax levy by what is known as "new growth." New growth reflects an increase in the property tax levy resulting from new residential and commercial construction in the community.

The new growth estimate for FY08 is based on new residential and commercial construction that occurred during calendar year 2006. This estimate of \$550,000 is based on information provided by the Board of Assessors.

State Aid/Local Aid

	FY06 Actual	FY07 Projected	FY08 Projected	Dollar Change	Percent Change
Dist., reimb., offsets	1,256,200	1,105,193	866,305	(238,888)	-21.62%
Chapter 70 (school aid)	3,502,825	3,676,919	3,676,919	-	0.00%
Lottery Aid	895,816	1,081,559	1,081,559	-	0.00%
Subtotal: General Purpose State Aid	5,654,841	5,863,671	5,624,783	(238,888)	-4.07%
School Construction (SBAB)	2,816,206	2,816,206	2,816,206	-	0.00%
Total State Aid	8,471,047	8,679,877	8,440,989	(238,888)	-2.75%

Assumptions:

State Aid: State aid, which is also referred to as Cherry Sheet aid or local aid, is a function of the State budget. Our first indication of State aid for FY08 will come when Governor Patrick files his FY08 budget with the Legislature in January 2007. This budget, known as "House 2" will include his recommendations for school aid (Chapter 70) and lottery distributions. Governor Patrick has promised to increase State Aid by significant amounts statewide. In order to move

forward with the budgeting process for the Town, we will most likely use the state aid figures in the Governor's budget bill, but for now we are level funding these revenue estimates.

1. **Distributions, Reimbursements and Offsets.** **Projection: \$866,305.** This category includes various State aid programs such as School Transportation, Charter School Reimbursements, Additional Assistance and Police Career Incentive payments. This is a projected 21.62% loss compared to FY07 in this category. The reason for this drastic decrease however is largely due to the reclassification of the METCO grant for State Cherry Sheet reimbursement.
2. **Chapter 70 Aid.** **Projection: \$3,676,919.** Chapter 70 assistance is Sudbury's largest category of State aid. In previous years Chapter 70, also known as educational assistance, has been based on a formula which includes a variety of enrollment and community factors. Because Sudbury's educational spending exceeds the State's minimum requirements, Chapter 70 aid increases have been limited to per pupil minimum aid amounts in recent years. Discussion continues at the state level regarding creation of a new funding formula. This line item has been level-funded showing no increase over FY07.
3. **Lottery Aid.** **Projection: \$1,081,559.** This line item has been level-funded showing no increase over FY07.
4. **School Construction.** **Projection: \$2,816,206.** This aid is a function of reimbursements for the Sudbury Public School construction and renovation projects. The FY08 projection assumes 100% funding for 4 projects- Nixon #3564, Curtis #2778, Haynes #3779, and Loring #3800. These amounts, however, must be directly used to reduce the amount of the Proposition 2 ½ debt exclusion for these projects and, therefore, are not available for appropriation by Town Meeting.

Local Receipts

	FY06 Actual	FY07 Projected	FY08 Projected	Dollar Change	Percent Change
Motor Vehicle Excise	2,965,914	2,791,912	2,849,016	57,104	2.05%
Other Excise	52,051	66,000	52,051	(13,949)	-21.13%
Penalties & Interest	336,788	260,000	283,100	23,100	8.88%
PILOT	65,409	90,000	65,409	(24,591)	-27.32%
Fees	127,433	125,000	122,787	(2,213)	-1.77%
Rentals	137,604	170,000	137,604	(32,396)	-19.06%
Departmental Revenues	64,661	72,000	56,710	(15,290)	-21.24%
Licenses & Permits	651,619	590,869	609,235	18,366	3.11%
Fines & Forfeits	140,685	100,000	113,557	13,557	13.56%
Investment Income	468,676	200,000	303,084	103,084	51.54%
Chapter 203	58,141	60,000	60,000	-	0.00%
Melone Gravel Sales	100,000	100,000	100,000	-	0.00%
Miscellaneous	416,611	45,778	89,999	44,221	96.60%
Total Local Receipts	5,585,592	4,671,559	4,842,552	170,993	3.66%

Assumptions:

Local Receipts are those fees and charges which may be imposed by a municipality. Massachusetts General Law Chapter 40 Section 22(f) provides that *“any municipal board or officer empowered to issue a license, permit, certificate or to render a service to perform work for a person or class of persons may, from time to time, fix reasonable fees...”* This is a local acceptance statute which was approved at the 1992 Annual Town Meeting. Overall, local receipts have started a slow recovery over the past two years. Most of these revenues are very sensitive to the economy, and we hope we will continue to see a rebound as the year-to-date figures indicate for FY07. Until then, expectations for this revenue source remain cautiously optimistic and we are projecting receipts for FY08 to be equivalent to the actual receipts for FY05.

- 1. Motor vehicle excise. Projection: \$2,849,016.** The projection represents a 2.05% increase over the FY07 estimate. This assumption will be revisited when the first commitment of calendar year 2007 is received from the Registry of Motor Vehicles, which should be around March 1, 2007.
- 2. Other excise. Projection: \$52,051.** This revenue comes from hotel/motel taxes. This projection is based on actual receipts over the past 2 years and on year-to-date information for FY07.
- 3. Penalties and interest. Projection: \$283,100.** The projection represents an increase over the FY06 actual receipts and a slight increase substantial increase over the FY07 projection. More delinquent taxpayers have been able to begin to pay their overdue taxes and the interest and penalties that have accrued. This is represented in the increased receipts in this area that we have seen. As the economy improves and more people are able to pay their taxes on time before interest and penalties accrue, these receipts will likely level off.
- 4. Payment in lieu of taxes (PILOT). Projection: \$65,409.** This revenue is limited to the three accounts with which the Town has agreements for PILOT (Wayside Inn, US Fish and Wildlife Service, Sudbury Public Housing Authority). Based on the past 3 year's receipts, this is a realistic projection.

5. **Fees. Projection: \$122,787.** Fees include charges for application, tax administration, municipal lien certificates, tax redemptions, and administration fees for police detail. This projection reflects a slight decrease over the actual receipts in FY06. In FY07 we have not seen an increase over the same time last year.
6. **Rentals. Projection: \$170,000.** We have projected receipts in this area will be equivalent to FY06. The major fee in this category is for cell tower leases. Town staff has worked diligently to obtain lease agreements for cell towers on town owned land.
7. **Departmental Revenues. Projection: \$137,604.** These are small amounts taken in by departments for such things as photocopy charges, sale of voter lists, etc. The projection is based on FY06 collections continuing on target to date.
8. **Licenses and permits. Projection: \$609,235.** These include building permits, which represents the largest portion of this category and charges for licenses. This projection represents a 3.11% increase over projected revenues for FY07.
9. **Fines and forfeits. Projection: \$113,557.** Fines include charges for false alarms, parking tickets, court fees, and for over due library materials. We have used a larger projection from FY07 based on recent trends.
10. **Investment income. Projection \$303,084.** The projection represents a substantially large increase over projected receipts for FY07. Indications are that there will be a moderate decrease for our actual investment returns in FY06. Rates remain low, but average daily balances are growing due to increased collections.

Use of Reserves, Free Cash and Available Funds

	FY06 Actual	FY07 Projected	FY08 Projected	Dollar Change	Percent Change
Retirement Trust Fund	25,000	25,000	25,000	-	0.00%
Abatement/Overlay Surplus	543,450	511,119	450,000	(61,119)	-11.96%
Town Meeting Articles - Remaining					
Balances	23,000	-	-	-	0.00%
Cops Fast Grant	-	30,000	23,266	(6,734)	-22.45%
Ambulance Reserve	210,189	230,342	230,342	-	0.00%
Subtotal: Available Funds	801,639	796,461	728,608	(67,853)	-8.52%
Free Cash	800,000	1,475,243	1,900,000	424,757	28.79%
Total Free Cash & Available Funds	1,601,639	2,271,704	2,628,608	350,170	15.41%

Assumptions:

1. **Free Cash Projection: \$1,900,000.** Free Cash is certified by the Department of Revenue. Free Cash (undesignated fund balance) is largely a function of prior year revenue collections in excess of estimates and prior year expenditures less than appropriations.
2. **Abatement/ Overlay Surplus Projection: \$450,000.** A reserve for property tax abatements and exemptions is created each year in the Overlay account. Overlay Surplus becomes available when it is determined that all claims for abatements and exemptions of a specific fiscal year have been resolved. Per State statute, this amount must be formally voted by the Board of Assessors before it is available for appropriation.

3. **Ambulance Reserve for Appropriation Projection: \$230,342.** Fees are collected for use of the Town's ambulances. These fees are set aside in a separate account to offset future ambulance and related expenses. In FY08 this amount will be used to purchase ambulance supplies, equipment, and to fund EMT stipends.

Enterprise Funds: Pool Enterprise

	FY07 Projected	FY08 Projected	Dollar Change	Percent Change
Pool Enterprise				
Revenue	430,000	440,000	10,000	2.3%
Retained Earnings used	6,713	17,842	11,129	165.8%
Subsidy-Taxation	48,615	62,198	13,583	27.9%
(Expenses)	(485,328)	(520,040)	(34,712)	7.2%
Total Pool Enterprise	-	-	-	

Revenue Projection: \$440,000. All receipts for pool rentals and programming go into the enterprise fund.

Retained Earnings used: Projection: \$17,842. Any revenue in excess of expenses from the prior year is recorded as retained earnings. Once certified, retained earnings are available to use to help fund the budget.

Subsidy-taxation: Projection: \$62,198. As has been the practice in recent years, the pool is expected to cover all of its direct costs, and the cost of the benefits for the employees is charged to the tax levy. The subsidy thus equals the costs of the benefits.

Enterprise Funds: Transfer Station Enterprise

	FY07 Projected	FY08 Projected	Dollar Change	Percent Change
Transfer Station				
Revenue	291,803	302,486	10,683	3.7%
Retained Earnings used	-	-	-	0.0%
Subsidy	-	-	-	0.0%
(Expenses)	(291,803)	(302,486)	(10,683)	3.7%
Total Transfer Station Enterprise	-	-	-	

Revenue Projection: \$302,486. All receipts for transfer station fees go into the enterprise fund. Receipts are projected to increase 3.7% increase.

Retained Earnings used Projection: \$0. Any revenue in excess of expenses from the prior year is recorded as retained earnings. Once certified, retained earnings are available to use to help fund the budget.

Subsidy Projection: \$0. None is needed.

Projected Changes in Fund Balance in the General Fund

The general fund balance is projected to be the same or grow slightly at the end of FY08. Conservative revenue projection combined with strict adherence to the appropriations of Town Meeting insures that the fund balance of the general fund does not unintentionally decrease from year to year. The fund balance of the Town's general fund increased FY06, per the Town's FY06 financial statements.

As stated earlier, the Community Preservation Fund is reserved for projects in four limited areas, and amounts collected in this fund are projected to continue to accumulate as the Town prepares to purchase sizeable parcels of land as they become available.

Audit Financials for FY06 to be inserted upon audit completion

