

FINANCE COMMITTEE

Introduction to the Finance Committee

Every town in Massachusetts with a property valuation of \$1 million or more is required by state law to have a Finance Committee (sometimes called an advisory or appropriation committee) to “consider any or all municipal questions for the purpose of making reports or recommendations to the town.”¹ The Finance Committee’s primary responsibility is advisory. It closely examines all warrant articles, including the budget, that will be presented to Town Meeting and makes recommendations to the voters on the course of action that it believes the Town should follow. It also administers the reserve fund, set aside by Town Meeting to provide for urgent or unforeseen expenditures that might arise between town meetings. The Finance Committee also attempts to give the people of the town a clear picture of the financial condition of the town with some commentary about how we got in that condition.

In Stow, the Moderator appoints five voting and up to five associate members to the Finance Committee. Any voter registered in Stow is eligible to join. At the end of 2006 there were five voting members and five associate members on the committee.

Overview of Town Finances and the Fiscal Year 2007 budget

Creating a balanced budget for fiscal year 2007 (July 1, 2006 – June 30, 2007) was easier than in the past several years. Stow did not need an override to balance the FY07 budget, in contrast to the past 3 years. One significant one-time source of new revenue was an increase of approximately \$200,000 in state reimbursement for the Hale Middle School construction project, due to the state audit being completed. Without this revenue, an override would have been needed.

The constraints on our finances are unchanged from prior years: an undiversified tax base forcing the town to rely heavily on residential taxation, large amounts of land exempted or abated from taxes, and relatively low amounts of state aid. Future years may not enjoy the same freedom from overrides if revenue and spending patterns continue. In fact, if the budget continues to grow at its current rate, Stow will likely require an override to balance the budget most years. It is also important to remember that the spending approved at Town Meeting directly controls the rate of growth of town expenses.

Town Meetings

Stow held only one town meeting in 2006, the annual town meeting in May. This town meeting approved the annual budget and various capital items, including an \$80,000 backhoe for the Highway Department and \$58,175 for several items at the Hale Middle School. The School Building Task Force was funded \$117,255 from a combination of free cash and unused monies remaining in prior school-related Special Articles. \$100,000 was added to the Stabilization Fund. Stow did not need an override to balance the FY07 budget. It was an unusually short town meeting, finishing in just one night.

School Budgets

The Nashoba Regional School District continues to represent Stow’s largest budget category, 57.3% of total spending (including debt) in FY07 (\$11,522,329 / \$20,093,558). The School Committee requested a budget of \$37,083,659 for FY07, and this budget was approved by Town Meetings in all three district towns. Eliminating debt expense of \$1,138,922 (H.S. Building

¹ Massachusetts General Laws Chapter 39, Section 16

project and Deficit Bond) left an operations budget of \$35,944,737. This represented an increase of \$2,375,758, or 7.1%, over last fiscal year's operations budget of \$33,568,979.

The district used \$240,000 from its reserve account (generated largely by under-spending in previous fiscal years) as FY07 revenue, the same amount as was taken from this account in FY06. For the past several years, the NRSB has steadily been building reserves in their Excess & Deficiency account, an account similar to the town's Free Cash account.

In contrast to the past several years, the NRSB did not return state aid received in excess of budgeted revenue to the towns. In prior years, Stow's share of the increased state aid had been returned to the town in time to slightly reduce the year's tax rate. Due to uncertainties in the receipt of the money, the district opted to retain the increased aid, and incorporate it into the next budget cycle.

For Minuteman Tech, the Town's assessment for FY07 was \$971,371, a decrease of 1.6% over the prior fiscal year's assessment of \$987,068. This unusual decrease was caused primarily by Stow's student population at the school decreasing.

	FY04	FY05	FY06	FY07	% Change FY06-FY07
NRSB (incl. debt)	\$9,831,106	\$10,127,918	\$10,848,015	\$11,522,329	6.2%
Minuteman	839,901	920,276	987,068	971,371	(1.6)%
TOTAL	\$10,671,007	\$11,048,194	\$11,835,083	\$12,493,700	5.6%

Town Expenditures

Total Stow expenditures increased 7.4% in FY07. These expenditures can be divided into two large groups: Municipal Government, which increased 10.4% and Education, which increased 5.6%. Table 2 shows a comparison of total Stow expenditures for FY06 and FY07.

The growth in total Municipal Government was 10.4%. The largest line items, Public Safety and Debt Service grew by 6.3 and 25.2% respectively. Debt Service is an increasingly significant component of town expenses, up by \$326,622 in FY07 due to FY06 voted spending on a fire truck, modular classrooms for Pompo, and the Cushing property. (The Cushing money, though budgeted, has not actually been borrowed due to legal issues.) Although Debt Service will decrease slightly in FY08, it will remain a significant expense in the years to come.

	FY06	FY06	FY07	FY07	\$ Change	% Change
	Voted	% of Total	Voted	% of Total	FY06-FY07	FY06-FY07
Municipal Govt						
General	\$725,190	3.9%	\$797,093	4.0%	\$71,903	9.9%
Public Safety	1,638,492	8.8%	1,742,086	8.7%	103,594	6.3%
Public Works	761,198	4.1%	776,249	3.9%	15,051	2.0%

Human Services	194,894	1.0%	211,033	1.1%	16,139	8.3%
Library & Recreation	231,097	1.2%	246,598	1.2%	15,501	6.7%
Town Wide Expense	587,530	3.1%	677,550	3.4%	90,020	15.3%
Special Articles	379,457	2.0%	565,287	2.8%	185,830	49.0%
Recap Items	503,673	2.7%	546,929	2.7%	43,256	8.6%
Capital Spending	565,862	3.0%	415,728	2.1%	(150,134)	(26.5)%
Debt Service	1,294,683	6.9%	1,621,305	8.1%	326,622	25.2%
Total Municipal Govt	\$6,882,076	36.8%	\$7,184,130	37.8%	\$717,782	10.4%
Education	\$11,835,083	63.2%	\$12,493,700	62.2%	\$658,617	5.6%
Grand Total	\$18,717,159		\$20,093,558		\$1,376,399	7.4%

Source: Town Administrator, Budget Report, Annual Town Meeting

--- Departmental operating budgets include wages and expenses.

Town Revenues

Town Revenue increased 5.5% in FY07. Table 3 shows a comparison of revenue sources for FY06 and FY07. Property Tax, the largest source of town revenue, increased 7% in FY07. State Aid increased 36% in FY07, primarily from increased state reimbursement for the Hale Middle School construction project. Local receipts increased 5% in FY07. Local receipts include excise tax, investment income, and fines collected by various departments.

Table 3: Revenue Sources						
	FY06 Voted	FY06 % of Total	FY07 Voted	FY07 % of Total	\$ Change FY06-FY07	% Change FY06-FY07
Property Tax	\$15,912,029	83.1%	\$17,033,240	84.3%	\$1,121,211	7.0%
State Aid	791,811	4.1%	1,076,984	5.3%	285,173	36.0%
Local Receipts	1,458,100	7.6%	1,531,005	7.6%	72,905	5.0%
Savings	233,262	1.3%	213,672	1.1%	(19,590)	(8.4)%
Override	350,000	1.8%	0	0.0%	(350,000)	(100.0)%
Other	405,838	2.1%	343,465	1.7%	(62,373)	(15.4)%
Total	\$19,151,040		\$20,198,366		\$1,047,326	5.5%

Source: Town Administrator, Budget Report, Annual Town Meeting

Town Savings

Town Savings increased only \$10,226 or 1.3% in FY07. Town Savings are “rainy day” accounts that are built up during good times and drawn down in bad times. Town Savings is a key determinant of the town credit rating and the credit rating will affect the rate the town would pay

should it decide to borrow money for some future use. There are two major Town Savings accounts: Free Cash and Stabilization Fund. Table 4 shows the status of our Stored Assets.

Free cash is unrestricted funds from operations of the previous fiscal year. It is certified by the state before calendar year end 12/31. These funds are not considered to be a “luxury” and while the fund is available for appropriation it should also be maintained as a balance to unforeseen expenditures. For the past 2 fiscal years, the town has used Free Cash to fund certain capital articles.

The Stabilization Fund is designed to accumulate amounts for capital and other future spending purposes. A two-thirds vote of town meeting is required to appropriate funds to deposit into the stabilization fund. In FY06 and 07, respectively, Stow moved \$50,000 and \$100,000 from Free Cash to the Stabilization Fund, in part to help protect the town’s current bond rating.

Town Savings is about 4% of Stow’s total budget (\$807,102 / \$20,093,558). The Finance Committee would recommend that Town Savings be in the range of 5 to 10%. This would require an increase of between \$200,000 and \$1.2 million in total savings amounts.

Table 4: Town Savings					\$ Change	% Change
	FY 04	FY 05	FY 06	FY 07	FY06- FY07	FY06- FY07
Free Cash	\$651,578	\$478,754	\$573,586	\$472,768	\$(100,818)	(17.6)%
Stabilization Fund	435,841	170,407	223,290	334,334	111,044	49.7%
Total	\$1,087,419	\$649,161	\$796,876	\$807,102	\$10,226	1.3%

*Balances at start of fiscal year (July 1)

Effect on Property Taxes

The average valuation of a single-family house in Stow is \$483,765. The effect of changes to the budget on your tax bill is shown in Table 5:

Table 5: Effect on Property Taxes						% Change
	FY 03	FY 04	FY 05	FY 06	FY 07	FY06- FY07
Tax Rate (per \$1,000 of Valuation)	\$14.48	\$14.64	\$14.36	\$14.04	\$13.82	(1.6)%
Average Single Family Valuation	\$365,842	\$388,311	\$423,000	\$457,435	\$483,765	5.8%
Average Single Family Tax Bill	\$5,297	\$5,685	\$6,074	\$6,422	\$6,686	4.1%

Respectfully submitted,

Jason Robart, Chairman (Jan to April)
Patti Heron, Acting Chair (May to Dec)
Pamela Glauner

Henry Hagopian
Charles Kern
David Walrath

Gary Bernklow, Associate
Joseph Hogan, Associate

William Nelson, Associate
Stephen Pottie, Associate
James Salvie, Associate

Elizabeth Tobey, Administrative Assistant