

FINANCIAL REPORTS

FINANCE COMMITTEE

Introduction to the Finance Committee

Every town in Massachusetts with a property valuation of over \$1 million is required by state law, MGL Ch. 19, Sect. 16, to have a Finance Committee that shall “consider any or all municipal questions for the purpose of making reports or recommendations to the town.” The Finance Committee’s primary responsibility is advisory. It examines the budget and all other warrant articles and makes recommendations to the voters on each article. It also administers the reserve fund to provide for urgent or unforeseen expenditures that might arise between town meetings. Further, the Finance Committee Annual Report should give the people of the town a clear picture of the town’s financial 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. As of February 14, 2011 there were five voting members and four associate members on the committee.

Overview of Town Finances and the Fiscal Year 2011 Budget

The Town balanced the budget for the fiscal year 2011, covering the period July 1, 2010 through June 30, 2011, (“FY11”) without an override. Though no overrides have been required in the past five budgets, the Center School addition and renovation will increase expenditures by an estimated 7% to 10% by fiscal year 2014, depending on the prevailing interest rates when future bonding occurs.

The Finance Committee remains concerned about long-term trends, as well as more recent cyclical conditions. New construction, which increases our tax base, continued to slow; local receipt growth—heavily dependent on the motor vehicle excise tax—decreased significantly and could remain flat in the coming years. State aid, tied very closely to variable and cyclical state tax revenue, saw another decrease in 2011. This decrease in state aid (both municipal and educational aid) may take several years (if ever) to recover back to fiscal year 2009 (“FY09”) levels. The long-term constraints on our finances remain unchanged from prior years. Stow has an undiversified tax base, forcing the town to rely heavily on residential taxation. Beyond that, Stow has large amounts of land exempted or abated from taxes and relatively low amounts of state aid, one of the lowest amounts of state aid per capita in Massachusetts. However, long-term constraints serve to ameliorate the effect of the current economic downturn. The town’s property tax revenue is more stable than income and sales tax revenue, which are the largest determinants of state aid, and residential property taxes are more stable than commercial and industrial real and personal property taxes.

Stow continued to benefit from a 2009 bond rating upgrade, which contributed to favorable interest rates obtained for the ongoing Center School construction project. Bond ratings, which function as the town’s credit rating and are the fundamental basis of our borrowing costs, are determined based on a number of factors; including the overall economy of the town and its residents, the ability of the town to balance budgets and control spending, the debt structure of

the town, the balance of the town's reserve funds and the overall strength and performance of town management, among others. The factors that most likely played a predominant role in the 2009 upgrade were no doubt the town's ability to balance the budget over the previous four years without an override, as well as the solid management of the town by the Town Administrator and various town departments. It cannot be emphasized enough how important the bond rating is to a town, as an upgrade has the potential to save the town millions of dollars in future debt service costs, especially during periods of economic uncertainty when there is a greater value placed on higher quality bonds. Fortunately, despite the additional debt burden of some of the Center School project and the recent economic downturn, Stow was able to maintain that credit rating at the most recent review.

The costs associated with the Center School project will begin to be felt in the coming fiscal year. However, that cost to the taxpayer has been mitigated slightly with the lower-than-expected project costs due to lower-than-expected bids. The overall savings to the town should approximate \$2.5 million, resulting in a final project cost to the town of approximately \$17 million. The remaining cost of the project will be borne by the Commonwealth through the Massachusetts School Building Authority, which has agreed to contribute approximately 51% of the project funding.

One variable that will have a large effect on the overall cost of the Center School Project is the bond rate. Municipal bond rates have been trending upward and many economists predict that this trend will continue. Despite the town Treasurer's proactive monitoring and securing of favorable long-term bond rates on the amounts expended thus far, we are only part way through the project. In other words, the ultimate cost of the project will remain unknown until the project is completed and the project costs are fully bonded.

At the same time, the Finance Committee remains concerned that the Center School project may greatly hamper the tax base's ability to absorb additional spending increases, and may produce a divergence in the budget, which will eventually require additional overrides. Aligning expenditures with potentially declining as well as somewhat unstable and uncertain revenue streams could be challenging for the town over the next few years.

Town Meetings

Stow held two town meetings in 2010, the Annual Town Meeting in May and a Special Town Meeting in November.

The Annual Town Meeting approved the annual budget (largely level services) and various capital items, none over \$80,000. These included repairs to the Randall Library and Highway Department roofs, a new ball field at Hale School to replace the one to be removed at Center School, and repairs to the Town Building.

The Special Town Meeting this past November approved an emergency measure in response to state legislation, which authorized low-interest loans to residents of Harvard Acres. These low-interest loans are for costs associated with installing private wells in response to the imminent bankruptcy of the Assabet Water Company. The loans are funded by the state and administered by the town of Stow.

Town Revenues

Town Revenue decreased 3% in FY11. Table 1 shows a comparison of revenue sources for FY10 and FY11. The largest source of town revenue, property taxes, increased by only 0.3% in FY11. State aid, not including state aid to the school districts, decreased by 1.6%. Local receipts decreased significantly when compared to FY10. Local receipts include excise tax, investment income, and fines collected by various town departments. The large decrease in the “Other” line item pertains to pass-through related funds for Community Preservation Fund projects, which, despite the anticipation of a large project surrounding the expansion of the Plantation and Pilot Grove developments, saw no activity in 2011. However, as these are pass-through funds, there is a corresponding decrease in Community Preservation Fund expenses (part of the Special Articles).

	FY10	FY10 % of Total	FY11	FY11 % of Total	\$ Change FY10-FY11	% Change FY10-FY11
Property Tax	\$19,357,731	86.25%	\$19,411,078	89.16%	\$53,347	0.28%
State Aid	937,640	4.18%	\$922,904	4.24%	(\$14,736)	-1.57%
Local Receipts	1,523,500	6.79%	\$1,181,000	5.42%	(\$342,500)	-22.48%
Savings and Other Funds	388,701	1.73%	\$256,009	1.18%	(\$132,692)	-34.14%
Override					\$0	
Other (CPF)	236,750	1.05%		0.00%	(\$236,750)	-100.00%
Total	\$22,444,322	100.00%	\$21,770,991	100.00%	(\$673,331)	-3.00%

Source: Town Administrator, Budget Report, Annual Town Meeting

Town Expenditures

Total Stow expenditures decreased 1.8% in FY11. These expenditures can be divided into three large groups: Education, which decreased 1.2%, Municipal Government, which increased 2.8% and other/special items, which decreased 11.4%. Table 2 shows a comparison of total Stow expenditures for FY10 and FY11.

The Municipal Government showed a marginal increase that was largely related to higher benefit costs along with a slight living wage increase (reduced from the prior year’s increase). Debt Service increased slightly in fiscal year 2011, but may almost double by the time the debt associated with the Center School project takes full effect in 2013 and 2014.

Most of the significant decrease in special article expenditures pertains to decreases in the Community Preservation Fund project expenditures. As indicated in the Revenue section above, these expenses are pass-through in nature and do not affect the tax rate directly. They are funded by Community Preservation Fund balances. These fund balances in turn are funded by 3% of the town’s property tax collections and a partial match of state aid. Use of these funds is voted on in special articles at Town Meeting.

Table 2: Town Expenditures						
	FY10 Voted	FY10 % of Total	FY11 Voted	FY11 % of Total	\$ Change FY10-FY11	% Change FY10-FY11
Municipal Govt						
General	\$948,792.00	4.30%	\$966,711.00	4.44%	\$17,919	1.89%
Public Safety	\$1,944,727.00	8.90%	\$1,999,464.00	9.18%	\$54,737	2.81%
Public Works	\$945,632.00	4.30%	\$949,753.00	4.36%	\$4,121	0.44%
Human Services	\$250,483.00	1.10%	\$258,883.00	1.19%	\$8,400	3.35%
Culture/Rec	\$271,254.00	1.20%	\$276,974.00	1.27%	\$5,720	2.11%
Town Wide Expense	\$733,200.00	3.30%	\$783,620.00	3.60%	\$50,420	6.88%
Total Municipal Govt	\$5,094,088.00	23.20%	\$5,235,405.00	24.05%	\$141,317	2.77%
Education						
Nashoba	\$13,043,439.00	59.50%	\$13,014,640.00	59.78%	-\$28,799	-0.22%
Minuteman	\$750,000.00	3.40%	\$609,427.00	2.80%	-\$140,573	-18.74%
Total Education	\$13,793,439.00	62.90%	\$13,624,067.00	62.58%	-\$169,372	-1.23%
Other						
Debt Service	\$1,275,591.00	5.80%	\$1,297,693.00	5.96%	\$22,102	1.73%
Special Articles	\$775,392.00	3.50%	\$380,312.00	1.75%	-\$395,080	-50.95%
Capital Spending	\$446,000.00	2.00%	\$376,000.00	1.73%	-\$70,000	-15.70%
Recap Items	\$789,993.00	3.60%	\$857,514.00	3.94%	\$67,521	8.55%
Total Other	\$3,286,976.00	15.00%	\$2,911,519.00	13.37%	-\$375,457	-11.42%
Grand Total	\$22,174,503.00		\$21,770,991.00		-\$403,512	-1.82%

Source: Town Administrator, Budget Report, Annual Town Meeting
 --- Departmental operating budgets include wages and expenses.

Town Expenditures: Education

The Nashoba Regional School District (“NRSD”) is Stow’s largest expense. The total NRSD expense can be divided into our assessment, \$13,014,640, and our portion of NRSD related debt \$361,419 for a total of \$13,376,059, or 61% of total town spending in FY11. When compared to FY 2010, NRSD related costs in FY 2011 were relatively flat. Nevertheless, with the cuts in state aid, to achieve a relatively flat assessment, NRSD’s budget included usage of about \$1 million in Excess and Deficiency (E&D) funds, which was a significant increase over the prior years. E&D funds can be considered part of the school’s reserves and are not necessarily a recurring revenue source. Though an increased use of these funds is expected during economically difficult periods, it should be noted that they are finite in nature and in future periods would need to be substituted by either spending cuts or additional revenue (e.g. state aid, property taxes). The \$361,419 in NRSD related debt only includes a small amount of interest on the Center School Project (about \$150,000) and will increase significantly over the next few years.

For Minuteman Career and Technical High School (“Minuteman”), the Town’s assessment for FY11 was \$609,000, a decrease of more than 19% over the prior fiscal year’s actual assessment of \$750,000. This significant decrease is due to both enrollment decreases for the current school year and a significant overall reduction (7%) in costs in the total Minuteman 2011 budget. The Minuteman assessment can vary significantly from year to year, as the enrollment can vary significantly. In fact, due to enrollment increases, we will probably take back most of the 2011 decrease in FY 2012.

The school budgets have a much heavier reliance on state aid than the municipal government budget and Stow’s assessments are net of the state aid provided to the districts. As mentioned above, FY11 saw noteworthy decreases in state aid to the school districts and, in the current economic climate, there remains a significant amount of uncertainty surrounding the amount of state aid going forward. These cuts in state aid to the districts have to be mitigated either through spending cuts, higher assessments to the towns, or some combination of both.

Table 3: Stow’s School Assessment Budgets						
	FY07	FY08	FY09	FY10	FY11	% Change
Nashoba (incl. debt)	\$11,522,329	\$12,097,908	\$12,970,229	\$13,384,438	\$13,376,059	-0.1%
Minuteman	\$971,371	\$954,573	\$963,952	\$750,000	\$609,427	-18.7%
TOTAL	\$12,493,700	\$13,052,481	\$13,934,181	\$14,134,438	\$14,409,067	1.9%

Town Savings

Town savings increased \$186,503 or 15% in FY11 to \$1,365,701, making it just over 6% of the annual budget. Town savings are “rainy day” accounts that are built up during good times and drawn down in bad times. As indicated previously, town savings is a key determinant of the town credit rating and the credit rating will affect the interest rate the town would pay should it decide to borrow money for some future use. There are two major accounts that reflect the town’s savings, or stored assets: Free Cash and Stabilization Fund. Table 4 shows the status of our stored assets.

Free Cash contains unrestricted funds from operations of the previous fiscal year. It is certified by the state before the calendar year end. These funds are a necessity, not a luxury. Although the fund is available for appropriation, its primary purpose is to provide for unforeseen expenditures. Still, at various times in the past four 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. The level of the Stabilization Fund is examined closely by the bond rating agencies when determining the Town’s bond rating. The last Town Meeting voted to increase the Stabilization Fund by \$50,000 by transferring funds from Free Cash.

The Finance Committee would recommend that town savings remain in the range of 5% to 10%. This would require an additional \$1 million in total savings amounts before we hit the top of the range.

Table 4: Town Savings						
	FY 08	FY 09	FY 10	FY 11*	\$ Change FY10- FY11	% Change FY10- FY11
Free Cash	\$410,218	\$434,769	\$604,198	\$778,703	\$174,505	28.9%
Stabilization Fund	354,047	\$436,124	\$575,000	\$586,998	\$11,998	2.1%
Total	\$764,265	\$870,893	\$1,179,198	\$1,365,701	\$186,503	15.8%
% of Budget	3.7%	4.0%	5.3%	6.3%	0.9%	

*Balances at start of FY11

Effect on Property Taxes

The average valuation of a single-family house in Stow is \$428,744. The effect of changes to the budget on your tax bill is shown in Table 5.

Table 5: Effect on Property Taxes						
	FY 07	FY 08	FY 09	FY 10	FY 11	% Change FY10- FY11
Tax Rate (per \$1,000 of Valuation)	\$13.82	\$14.73	\$15.28	\$16.58	\$17.05	2.8%
Avg Single Family Valuation	\$483,765	\$471,013	\$463,581	\$445,062	\$428,744	-3.7%
Avg Single Family Tax Bill	\$6,686	\$6,938	\$7,084	\$7,379	\$7,310	-0.9%

Conclusion

It is our opinion that this is a fair and accurate picture of the Town's financial state. Whether you are pleased or displeased, we remind you that Town Meeting directly controls the rate of growth of town expenses. We encourage your participation.

Respectfully submitted,

Gary Bernklow, Chair
Ann Deluty, Vice Chair
Christopher Sarno
Rick Connelly
Peter McManus

Patricia Heron, Associate
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