

FINANCIAL REPORTS

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 and, in some towns, is referred to as the Advisory Committee. 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 and 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 10, 2012 there were five voting members and two associate members on the committee.

Overview of Town Finances and the Fiscal Year 2012 Budget

The Town balanced the budget for the fiscal year 2012, covering the period July 1, 2011 through June 30, 2012, (“FY12”) without an override. Though no overrides have been required in the past six budgets, the Center School construction project (“Center School Project”) will increase expenditures by an estimated 5% to 7% by fiscal year 2014, depending on the prevailing interest rates when future bonding occurs.

The Finance Committee remains concerned about some long term trends, as well as more recent cyclical conditions. New construction, which increases our tax base, has been flat, after a precipitous decline during the recession; local receipt growth—heavily dependent on the motor vehicle excise tax—decreased significantly during the recession, though it has come back a little over the last few years. State aid, tied very closely to variable and cyclical state tax revenue, declined slightly in FY12. State aid (both municipal and educational aid) may take several years (if ever) to recover back to fiscal year 2009 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 one of the lowest amounts of state aid per capita in Massachusetts.

However, some of those very 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.

FY12 has been a great year for savings for the town, with a significant increase in Free Cash. Combined with amounts held in Stow’s stabilization fund, town savings has almost reached 9%. Further, Stow has a large amount of unused levy capacity. In other words, the asset side of Stow’s balance sheet is solid.

Stow continues to benefit from a 2009 bond rating upgrade which has contributed to favorable interest rates obtained for the ongoing Center School 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 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 rating will certainly be tested as we add the debt service associated with the Center School Project and other potential large capital projects.

The costs associated with the Center School Project have begun to be noticed by taxpayers in FY12. However, that cost to the taxpayer has been mitigated slightly with both the lower-than-expected project costs due to lower-than-expected bids, along with favorable interest rates. The overall savings to the town should approximate \$2.5 million, resulting in a final project cost to the town of approximately \$16-17 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. A little more than half of Stow's costs of the project have been bonded and the debt service in FY12 reflects these costs.

As evidenced by the three capital projects in which study money was appropriated at the last Special Town Meeting, there may be a backlog of large capital projects to follow the Center School Project, including the recent resurrection of a possible large capital project associated with the athletic fields at the Nashoba Regional High School.

Despite our belief that Stow is in good fiscal shape, the Finance Committee remains concerned that the Center School Project, as well as the other possible capital projects, may greatly hamper the tax base's ability to absorb additional spending increases, whether they are operating expense increases or additional capital projects.

Town Meetings

Stow held two town meetings in 2011, 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 totaling about \$560,000.

The special town meeting this past November approved pre-design funds of approximately \$200,000 for three separate projects. These three projects all involve possible much larger

capital projects that may involve any combination of improvements, additions and even possible new construction of the soon-to-be-vacant Pompositicut School, the Fire Department and the Library. The results of these studies will be preliminary designs of possible projects, along with cost estimates.

Town Revenues

Town Revenue increased 10% in FY12, after decreasing the prior year. Table 1 shows a comparison of revenue sources for FY11 and FY12. The largest source of town revenue, property taxes, accounted for the bulk of the increase. After showing a large decrease in FY11, local receipts, which include the excise tax receipts, rebounded slightly in FY12. State aid, not including state aid to the school districts, decreased slightly. 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 FY12. Nevertheless, as Community Preservation Projects are funded by pass-through funds, there is no direct effect on taxation for Community Preservation Projects.

	FY11	FY11 % of Total	FY12	FY12 % of Total	\$ Change FY11-FY12	% Change FY11-FY12
Property Tax	\$19,411,078	89.2%	\$21,475,098	89.9%	\$2,064,020	10.6%
Local Receipts	\$1,181,000	5.4%	\$1,247,245	5.2%	\$66,245	5.6%
State Aid	\$922,904	4.2%	\$896,287	3.8%	(\$26,617)	-2.9%
Savings and Other Funds	\$249,500	1.1%	\$250,000	1.0%	\$500	0.2%
Override	\$0	0.0%	\$0	0.0%	\$0	0.0%
Other (CPF)	\$6,509	0.0%	\$8,343	0.0%	\$1,834	28.2%
Total	\$21,770,991	100.0%	\$23,876,973	100.0%	\$2,105,982	9.7%

Source: Town Administrator, Budget Report, Annual Town Meeting

Town Expenditures

Total Stow expenditures increased 5.1% in FY12 after a 1.8% decrease in FY11. These expenditures can be divided into three large groups: Education, which increased 1.2% (not including debt service on Hale or Center), Municipal Government, which increased 3.4% and other/special items, which increased 21.4%, of which the Center School Project debt service accounts for almost all of this increase and about half of the increase in the overall budget. In other words, without the additional Center School Project debt service in FY12 of approximately \$530,000, the budget increase would have been about 2.7%. Table 2 shows a comparison of total Stow expenditures for FY11 and FY12.

The Municipal Government portion of the budget showed a 3.4% increase that was largely related to higher benefit costs along with a slight living wage increase (1%). As indicated previously, debt service increased substantially with \$9.2M of the Center School Project bonded.

After showing a significant decrease in FY11, capital spending made a comeback in FY12 with almost a 50% increase. The more expensive items in FY12 included an opportunistic land purchase for the town cemetery for \$200,000 and \$100,000 in repairs and improvements to the library. Beyond that, there was \$77,000 in trucks and equipment for the Highway Department, \$50,000 for a diesel exhaust system for the Fire Department, \$43,334 for developing plans for the Lower Village, \$33,000 for a new police cruiser, \$29,000 for a water system upgrade for the Town Building and other smaller amounts.

Recap items saw a 7.3% increase in FY12. The recap items largest line item is Stow’s portion of county retirement, or the retirement cost of town employees. Similar to health insurance, this expense line item has shown a propensity for significant increases over the last few years and shows no sign of letting up.

Table 2: Town Expenditures						
	FY11 Voted	FY11 % of Total	FY12 Voted	FY12 % of Total	\$ Change FY11-FY12	% Change FY11-FY12
<i>Municipal Govt</i>						
General	\$ 966,711	4.4%	\$ 1,000,363	4.6%	\$ 33,652	3.5%
Public Safety	\$ 1,999,464	9.2%	\$ 2,039,135	9.4%	\$ 39,671	2.0%
Public Works	\$ 949,753	4.4%	\$ 958,058	4.4%	\$ 8,305	0.9%
Human Services	\$ 258,883	1.2%	\$ 257,708	1.2%	\$ (1,175)	-0.5%
Culture/Rec	\$ 276,974	1.3%	\$ 280,501	1.3%	\$ 3,527	1.3%
TownWide Expense	\$ 783,620	3.6%	\$ 876,780	4.0%	\$ 93,160	11.9%
Total Municipal Govt	\$ 5,235,405	24.0%	\$ 5,412,545	24.9%	\$ 177,140	3.4%
<i>Education</i>						
Nashoba	\$ 13,014,640	59.8%	\$ 13,194,166	60.6%	\$ 179,526	1.4%
Minuteman	\$ 609,427	2.8%	\$ 746,981	3.4%	\$ 137,554	22.6%
Total Education	\$13,624,067	62.6%	\$13,941,147	64.0%	\$ 317,080	2.3%
<i>Other</i>						
Debt Service	\$ 1,297,693	6.0%	\$ 1,657,146	7.6%	\$ 359,453	27.7%
Special Articles	\$ 380,312	1.7%	\$ 393,560	1.8%	\$ 13,248	3.5%
Capital Spending	\$ 376,000	1.7%	\$ 562,834	2.6%	\$ 186,834	49.7%
Recap Items	\$ 857,514	3.9%	\$ 919,792	4.2%	\$ 62,278	7.3%
Total Other	\$ 2,911,519	13.4%	\$ 3,533,332	16.2%	\$ 621,813	21.4%
GRAND TOTAL	\$ 21,770,991		\$ 22,887,024		\$1,116,033	5.1%

Source: Town Administrator, Budget Report, Annual Town Meeting – Departmental operating budgets including 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 of \$13,194,166, which includes debt service paid by the district, and NRSD-related debt paid by the town of \$852,037, for a total of \$14,046,203, or 61% of total town spending in FY12.

The bulk of the NRSD-related increase comes from the debt service related to the Center School Project, which will amount to approximately \$647,713. FY13 will see an additional increase for the Center School Project of approximately \$200,000. The Center School Project annual debt service payments will level out in FY14 and are estimated to be between \$1.1 Million and \$1.2 Million (using a conservative 5% interest rate on the remaining portion). Other than the Center School Project, the assessment for NRSD is largely reflective of a level services budget. Similar to the increases in the municipal budget, a large amount of this remaining increase can be attributed to the increasing employee benefit costs.

One possible additional capital project involving NRSD within the next few years will be an update to the high school track and athletic fields. At the same time, the debt service for the deficit bond issued several years ago will be expiring. This debt service accounts for about \$140,000 of the FY12 budget.

For Minuteman Career and Technical High School (“Minuteman”), the Town’s assessment for FY12 was \$746,981. Though this was a significant increase over the prior year, this increase was largely reflective of enrollment increases. The Minuteman assessment can vary significantly from year to year, as the enrollment can vary significantly. Minuteman’s overall budget in FY12 actually had an increase of only about 1.8%.

Looking forward, Minuteman has a significant capital project on the horizon and is currently in the process at examining the regional agreement that has the formula for determining the member towns’ assessments. Minuteman will be going through the Massachusetts School Building Authority and is hoping to have a significant portion of the project reimbursed by the state.

Over the last few years Minuteman has relied heavily on current year tuition as a revenue source for current year expenditures. Following a tuition hike for students from non-member towns in FY12, Minuteman will be able to lower this reliance significantly and rely more heavily on prior year tuition. A reliance on prior year over current year tuition not only helps ensure there are no surprises during the year, but allows better budget planning and can act as a reserve.

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. Decreases in education-related state aid largely came to a halt in FY12. Whether there are any increases in aid going forward remains to be seen.

	FY08	FY09	FY10	FY11	FY12	% Change
Nashoba (incl debt)	\$12,097,908	\$12,970,229	\$13,384,438	\$13,338,116	\$14,046,203	5.3%
Minuteman	\$ 954,573	\$ 963,952	\$ 750,000	\$ 609,427	\$ 746,981	22.6%
TOTAL	\$13,052,481	\$13,934,181	\$14,134,438	\$13,947,543	\$14,793,184	6.1%

Source: Town Administrator, Budget Report, Annual Town Meeting & Treasurer, Debt Service Schedule

Town Savings

A big bright spot for Stow in FY12 was that town savings increased significantly in FY12 to about \$2 Million, making it almost 9% 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, as it is not as easily spent as free cash. The last Annual 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 \$300,000 in total savings amounts before we hit the top of the range.

With the remaining amounts of the Center School Project to be bonded and other possible capital projects on the horizon, this additional savings is very timely, first and foremost to help ensure the funding for these projects gets bonded at a low rate. It also helps ensure we have adequate reserves for any unanticipated significant expenses or revenue decreases in the future.

	FY 09	FY 10	FY 11	FY 12*	\$ Change FY11-FY12	% Change FY11-FY12
Free Cash	\$ 434,769	\$ 604,198	\$ 778,703	\$1,283,016	\$ 504,313	64.8%
Stabilization Fund	\$ 436,124	\$ 575,000	\$ 586,998	\$ 700,367	\$ 113,369	16.2%
Total	\$ 870,893	\$1,179,198	\$1,365,701	\$1,983,383	\$ 617,682	31.1%
% of Budget	4.0%	5.3%	6.3%	8.7%	2.4%	

Source: Town Administrator (approximate balances at start of calendar year)

Effect on Property Taxes

Based on a calculation of the typical residential property (Massachusetts Class 101 properties), the average valuation of a single-family house in Stow is about \$429,000. The effect of changes to the budget on your tax bill is shown in Table 5.

The 5.1% increase corresponds to the overall budget increase in FY12, reflecting only small changes in other revenue sources, such as state aid and local receipts. Residents' tax bills may reflect an increase greater or less than 5.1% over FY11, which will largely correspond to how the value of their property changed with respect to the other properties in Stow.

It has been noted in the past by the Finance Committee that Stow's tax rate is one of the highest in the state. Stow's residential tax rate of \$17.90 per \$1,000 puts the town just inside of the top thirty highest rates in the state. For comparative purposes, the town's rate remains below Bolton (\$19.78), Acton (\$18.55), and Maynard (\$18.45) and about the same as Lancaster (\$17.94), Boxborough (\$17.87) and Sudbury (\$17.60). At \$16.24, Harvard had a rate below Stow's. Hudson and Marlborough, with a far greater reliance on business related taxes, have a rate significantly less than Stow's at \$15.51 and \$14.80, respectively.

	FY 09	FY 10	FY 11	FY 12	% Chnge FY11-FY12
Tax Rate (per \$1,000)	\$ 15.28	\$ 16.58	\$ 17.05	\$ 17.90	5.0%
Avg Single Family Valuation	\$463,581	\$445,062	\$428,744	\$429,172	0.1%
Avg Single Family Tax Bill	\$ 7,084	\$ 7,379	\$ 7,310	\$ 7,682	5.1%

Source: Calculation based on 2012 Board of Assessor assessed values and tax rate using Massachusetts Class 101 properties.

Conclusion

Between the significant build-up of the town savings, a large amount of unused levy capacity, the move by Minuteman in the coming fiscal year to rely more on prior year tuition, the retiring debt service at Nashoba and our current bond rating, there are a lot of factors that indicate the town is in good fiscal shape.

The timing could not be better. With the remaining portion of the Center School Project still to be bonded, a possibility of three significant capital projects in town, along with the additional possible capital projects at NRSD and Minuteman and the fact that NRSD will see larger increases in teacher salaries in the years of the recently negotiated union contract, Stow could see larger increases in property taxes in the coming fiscal years.

Further, though the town's fiscal health is good, a 5% (or more) increase in taxes can be a heavy burden for the average taxpayer during a tough economy. This can be an even heavier burden for Stow's senior population, which tends to rely on a fixed income and typically sees property taxes as one of their largest expense items.

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,

Richard Connelly
Ann Deluty, Chair
Peter McManus
Richard Rollins

Christopher Sarno
Dean Cavaretta, Associate
Bruce Walbridge, Associate

CAPITAL PLANNING COMMITTEE

The Capital Planning Committee is charged by the Town Bylaws to annually study capital outlays proposed for the ensuing five fiscal years that involve the acquisition of land and any expenditure of \$10,000 or more having a useful life of at least three years. The Committee and the Town Administrator together consider the relative need, timing, and cost of these outlays and the effect that each will have on the financial position of the Town.

Prior to Town Meeting in May, the Committee reviewed and recommended that the Town approve the following capital outlay requests:

- By the Building Department: \$29,000 for installation of a water treatment system for the Town Building,
- By the Cemetery Department: \$200,000 for purchase of a parcel of land adjacent to the Brookside Cemetery,
- By the Fire Department: \$50,000 to install a vehicle exhaust collection system in the Fire Station, \$9,500 for a thermal imaging camera, and \$6,000 to co-pay for a \$120,000 grant to replace Self Contained Breathing Apparatus units. The Committee thanks Fire Chief McLaughlin for his efforts to upgrade the Department's equipment through grant funding and thereby reduce the Town's capital expenditures in these difficult economic times,
- By the Board of Health: \$15,000 for improvements to the Dog Pound,
- By the Highway Department: \$40,000 to restore a one-ton dump truck and convert it to a multi-use vehicle, and \$37,000 to replace a fifty-three year old road grader that had been in service to the Town since 1975. The Committee continues to marvel at the efforts of Superintendent of Streets Michael Clayton and his crews' abilities to save the Town money by maximizing the life of the Department's equipment,
- By the Planning Board: \$43,334 for preliminary engineering plans for traffic and safety improvements to the Lower Village,
- By the Police Department: \$33,000 for a new police cruiser,
- By the Randall Library Trustees: \$100,000 to repair the Library's roof and improve water drainage away from the library building.

The voters approved all of the above-listed outlays at the Annual Town Meeting in May.