

Finance Committee Report
Annual Town Meeting
May 7, 2012

The Finance Committee has reviewed the proposed Town of Stow (“Town” or “Stow”) budget for the upcoming fiscal year, which runs from July 1, 2012 through June 30, 2013 (“FY 2013”). The Town can continue to maintain a mostly level services budget without requiring a Proposition 2½ override or draining our reserves.

The Town’s ability to balance the budget has not been without its challenges over the last several years. The deep recession of 2008 and 2009 saw a subsequent steep drop off in both new growth and excise taxes. Further, the state aid was slashed both for the Town and the schools. To combat this loss in revenue over the last several years budgets for both the Town and the schools have reflected largely level service budgets with little to no cost of living increases for employees. For the Town, the steep percentage cut in state aid had a muted effect on overall income, as the Town’s reliance on state aid is very low compared to other communities in the state. Though the schools have a greater reliance on state aid, many of these cuts over the last several years have been off-set by one-time Federal stimulus funds.

Though the last year has seen about a 5% increase in property taxes for residents, this came on the heels of the average property taxpayer seeing a slight decrease in their property tax bill. Both the current fiscal year’s budget and the FY 2013 budget show plenty of levy capacity remaining. Further, the Town’s reserves have been built up significantly over the last several years and are now approaching 9% of our annual budget. Despite the recent increase in property taxes, Stow’s tax rate remains competitive with neighboring towns.

Nevertheless, there are some significant additional capital expenses on the horizon, whether we are talking about the additional debt service on the Center School Project or the backlog of significant capital projects that are currently either being examined (Pompositticut School re-use, Fire Station renovation or Randall Library renovations) or under consideration by the Town, particularly the Nashoba Regional School District (“NRSD”) track and field improvements. Also, Minuteman Career and Technical High School (“Minuteman”) may have a significant renovation planned for the coming years. It is important to note that, though the Center School Project estimate currently stands at approximately \$33 Million, only about \$17 Million will be paid by the Town, with the remainder paid by the state.

Even though the Town’s and school’s budgets are largely considered level services, the FY 2013 budget does include almost \$700 Thousand in additional expenses from FY 2012. This translates into a 3% increase in expenditures in FY 2013. The composition of this increase will be broken down below, but many of the cost drivers causing this increase were either foreseen (Center School Project) or expected (cost of living increases and rising health and benefit costs).

Income

Stow's sources of income largely include property taxes (overwhelmingly residential), local receipts, state aid, and free cash, which are unrestricted funds remaining from the previous year.

State aid of \$896,287 includes \$542,576 of school building assistance associated with the Hale School, which is directly offset by the debt service associated with the Hale construction many years ago. Excluding this building assistance, state aid is only approximately \$350,000, which is on par with the previous year. This \$350,000 translates into less than 1.5% of the proposed FY 2013 budget.

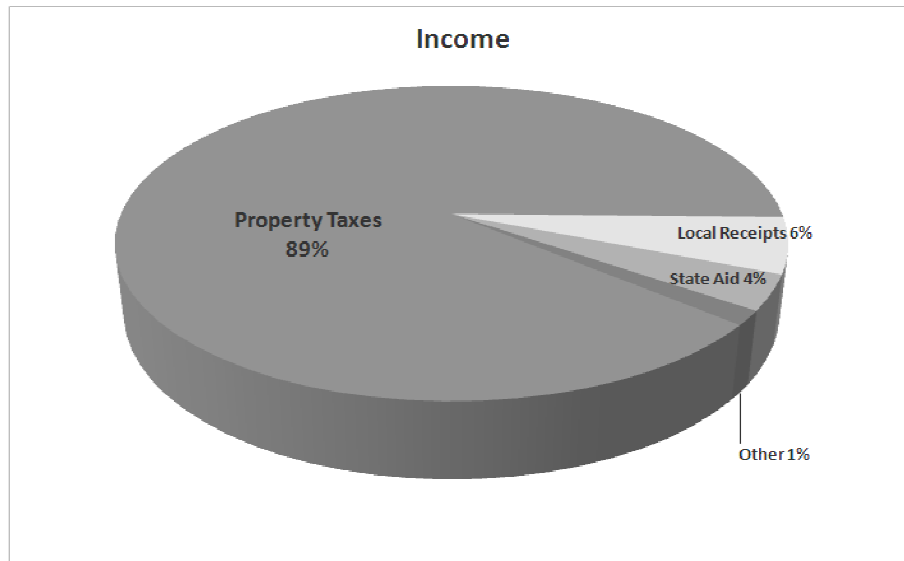
Local receipts, which make up approximately 6% of the budget, have been making a comeback from the recession lows and are expected to continue a significant increase in FY 2013. Automobile excise taxes, which are heavily influenced by new car purchases, make up a majority of the local receipt income. In fact, to date in FY 2012 we are tracking on par with our forecasted FY 2013 receipts.

Though the jump in local receipts have helped reduce the reliance on property taxes by 1%, at 89% of FY 2013 budgeted income, property taxes are still high in comparison to the FY 2009 percentage of 85% of budgeted income.

For FY 2013 the Town is transferring about \$110,000 in one time income from the overlay surplus funds. This represents the bulk of the increase from the "Other" category shown below. These funds largely represent reserves for possible property tax abatements and are periodically drawn down. Though the transfer for FY 2013 is higher than normal, there should remain adequate reserves for possible abatements.

The FY 2013 shows an allowable 3.3% increase in property taxes (approximately \$700 Thousand). It is important to note that this is merely reflective of Stow's levy capacity without requiring an override. The actual amount in property taxes to be raised in FY 2013 will be set in the fall when the Town must balance its revenue and expenditures in setting the tax rate. Only the actual amount appropriated for expenditure by Town Meeting will be raised in taxes. Therefore, when factoring in the projected surplus of about \$1.3 Million in the FY 2013 budget, there would be no increase in property taxes.

The approximately \$700,000 allowable increase in property taxes can be attributed to the allowable Proposition 2½ increase of about \$500,000 and a small amount of projected new growth of \$200,000.



			Change FY12 - 13	Percent total
Income	FY12	FY13		
Property Tax	21,475,098	22,177,291	3.3%	89.2%
Local Receipts	1,247,245	1,421,500	14.0%	5.7%
State Aid	896,287	896,287	0.0%	3.6%
Other	258,343	365,461	41.5%	1.5%
TOTAL INCOME	23,876,973	24,860,539	4.1%	100.0%

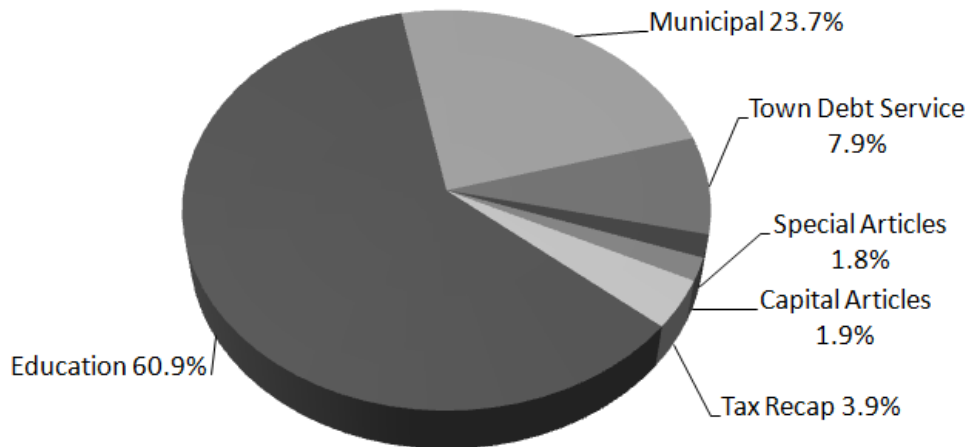
Expenses

Education accounts for the majority of the Town budget. Together, the NRSD assessment of \$13,726,429 and the Minuteman assessment of \$622,982 make up 61% of Town expenditures.

Municipal, which includes all of the town provided services, makes up 24% or \$5.6 Million of the budget. The largest departments within municipal are Police, Highway and Fire.

With the additional Center School Project related bond payments in FY 2013, debt service increases from about 7% to just under 8% of the total FY 2013 budget.

FY 2013 Budget



Expenditures	FY 2012	FY 2013	Change FY '12 - FY '13	Percent Total
Education, Total	13,941,147	14,349,411	2.9%	60.9%
Nashoba Regional	13,194,166	13,726,429	4.0%	58.2%
Minuteman Regional	746,981	622,982	-16.6%	2.6%
Municipal, Total	5,412,545	5,576,681	3.0%	23.7%
Police & Dispatch	1,287,621	1,301,784	1.1%	5.5%
Highway Department	800,918	830,509	3.7%	3.5%
Fire & EMS	647,714	672,618	3.8%	2.9%
Group Insurance	732,855	705,600	-3.7%	3.0%
Randall Library	203,602	213,229	4.7%	0.9%
Other Municipal	1,739,835	1,852,941	6.5%	7.9%
Town Debt Service	1,657,146	1,854,395	11.9%	7.9%
Special Articles	393,560	433,777	10.2%	1.8%
Capital Articles	562,834	437,180	-22.3%	1.9%
Tax Recapitulation	919,792	926,778	0.8%	3.9%
County Retirement	558,433	584,911	4.7%	2.5%
Other Tax Recap	361,359	341,867	-5.4%	1.4%
Total Expenditures	22,887,024	23,578,222	3.0%	100.0%

Increases in the proposed FY 2013 budget amount to \$691,198, or 3.0%. The major drivers of this increase include the NRSD assessment (about \$530,000, or 77% of the increase) and debt service (about \$200,000, or 29% of the increase). These are partially off-set by the decrease in the Minuteman assessment of about \$124,000 and a decrease in capital articles of \$126,000, among others.

Breakdown of the budget increase:

Nashoba Regional	\$532,263
Town Debt Service	\$197,249
Capital Articles	\$(125,654)
Minuteman Regional	\$(123,999)
Group Insurance	\$(27,255)
<u>Other</u>	<u>\$238,594</u>
FY 2013 Budget Increase	\$691,198

The increase in debt service of about \$200,000 can be attributed to the additional expenses and associated debt service from the Center School Project. The Center School Project debt service will actually be almost \$860,000 in FY 2013, meaning it will account for about 3.6% of our overall budget.

Though Stow's Treasurer has been aggressively taking advantage of a favorable interest rate environment, there are still additional costs to be bonded and the Town will see an additional increase of about \$300,000 in FY 2014, bringing the annual debt service cost for the Center School Project to around \$1.17 Million per year. This is below the low end of the range we had originally estimated (between \$1.2 Million and \$1.5 Million). Still, as the project is not yet complete, these costs could certainly be higher if some of the initial savings have to be clawed back or rates jump significantly prior to the final bonding of the costs.

The NRSD assessment, by far the largest line item in our budget, increased 4% or about \$530,000 in FY 2013. It should be noted that, though Stow's assessment increases 4% in FY 2013, the overall budget increase for Nashoba was about 3.5% and about 3.1% when including the increase in grant off-sets. That additional percentage point is merely due to enrollment changes within the district.

Most of the increase (about 63%) can be attributable to a 3.4% increase in salaries, by far the biggest line item in the NRSD budget. The increase in the salary line item includes a 1.5% cost

of living increase in FY 2013. About 19% of the increase is due a 4.6% increase in insurance and benefit costs and about 8% of the increase is due to a 14% increase in facilities costs. As with the previous two years, NRSD will be relying on more Excess and Deficiency funds than they have relied on in past years (approximately \$1 Million).

The Minuteman assessment will see a significant decrease in FY 2013 (17% or about \$124,000). This decrease is not a result of lower expenses at Minuteman, as Minuteman's overall budget has about a 5% increase in FY 2013.

The significant decrease is really the result of a drop in enrollment at Minuteman from Stow. The 5% increase in the overall Minuteman budget largely reflects a level services budget for Minuteman. It also should be noted that Minuteman had a significant budget decrease in FY 2011, reducing expenses by about 7% and only increased expenses by about 1% in FY 2012.

Minuteman is in the process of doing a feasibility study (voted on in the 2010 Town Meeting) on a possible (and significant) building renovation. In connection with that project, Minuteman is also re-examining the existing Minuteman Regional Agreement amongst the 16 member towns.

Minuteman was also hit with about \$500,000 in unanticipated costs in FY 2012 associated with the need to rebuild their trades hall. The reason was that the Lexington Fire Department did not feel the previous one was up to code, even though it had been in place for decades. Stow's portion of this expense will be a little more than \$30,000 and an updated FY 2012 assessment will be voted on at this Town Meeting.

Capital Requests

As of early April, capital articles total approximately \$437,000, a 22% decrease over FY 2012. \$145,000 of this is for air conditioning for the Hale Middle School. Replacement and new equipment accounts for about \$155,000 of the capital requests, including \$60,000 for a brush chipper for the Highway Department, \$40,000 for a new $\frac{3}{4}$ ton pick-up truck for the Highway Department and \$40,000 for a new cruiser for the Police Department.

Building repairs and improvements, not including the Hale Middle School air conditioning noted above, account for \$62,000 of the capital articles and include \$50,000 for repairs and improvements to the Stow Town Hall and \$12,000 for hand rails for the Hale Middle School auditorium.

There are information technology related costs of about \$36,000, which includes a computer network upgrade for the Fire Department and a printer/scanner/copier for the planning board. There is also about \$30,000 to replace the main radio tower used by the Fire and Police Departments. The previous tower was damaged beyond repair in a storm in 2011 and most, if not all, of the cost of the new tower will be covered by an insurance claim.

These capital expenditures are proposed to be paid for through a combination of free cash (\$200,000) and tax levy income, in order to avoid borrowing.

Community Preservation

For FY 2013 there is a special article in the amount of \$100,000 for the preservation of historic documents that will be funded by the Community Preservation Fund. These expenditures are directly offset by an allocation of revenue previously raised through the CPC excise tax, plus available state matching funds. Therefore, they generally have no direct effect on the budget.

Stored Assets

As usual, the Finance Committee proposes the Town vote to move \$50,000 from Free Cash to the Stabilization Fund this year. This is part of the Town's attempt to rebuild its financial reserves over time. Free Cash and the Stabilization Fund are considered the Town's stored assets. These reserves are not only important to have on hand for "rainy day" purposes, but are also a significant factor in determining our cost of borrowing, or the interest rate on Town debt.

At the end of the 2011 calendar year, Free Cash was certified at approximately \$1.3 Million and the Town's Stabilization Fund balance is approximately \$700,000. The combined \$2 Million is a significant jump from the prior year and stands at about 8.4% of the FY 2013 budget. The Town's savings are certainly one of the many bright spots for the Town's finances. The increase in savings is also very timely as the Town bonds the costs associated with the Center School expansion.

BOTTOM LINE

Though Stow is in good fiscal shape, which is reflected in the FY 2013 budget, there remain a number of concerns outside of the FY 2013 budget, many of which are difficult or impossible to change.

Stow's tax base remains overwhelmingly residential. Though this lack of diversification has actually benefited the Town slightly in these tough economic times, it is during economic "boom" years when this hurts Stow vs. the tax rate of some neighboring towns. NRSD, which accounts for almost 60% of the budget, has seen an increasing reliance over the last few budget cycles on Excess and Deficiency funds. Though the use is expected during recessionary periods, it is not a sustainable revenue source by any measure and would need to be made up by either lowering expenses, through an increase in state aid or through an increase in the assessment (i.e. property taxes).

Health care and pension costs seem to increase at a much more substantial rate than other costs, though there has been some relief here, at least on the municipal side, in the FY 2013 budget. Also, there is a substantial backlog of possible capital projects.

Nevertheless, despite a growing population, the Town departments have for the most part submitted practical budgets and have been able to get by without any additional resources. The past three assessments from NRSD have been held to an average increase of about 2%. Though Minuteman's assessment is decreasing substantially this year, the reason is Stow's enrollment, not Minuteman's budget. Nevertheless, with their substantial cost decrease two years ago, Minuteman's overall expenses seem to be held in check. The costs associated with the Center School Project have thus far been a pleasant surprise, both in the actual project costs and in the interest rate charged to the Town for the bonding of these costs.

On the revenue side, though new growth is well below the highs from the years prior to the recession, local receipts have rebounded significantly from the recession lows experienced a few years ago.

Though the average tax bill increased by about 5% in FY 2012, it should be noted that this was largely related to the Center School Project and that it follows a decrease in FY 2011. Further, if the reasonable revenue estimates in this budget hold, even with the debt exclusion for the Center School Project, any increase in the FY 2013 tax bill will be substantially less than the FY 2012 increase. The result is that, even with a good portion of the Center School Project bonded, Stow's tax rate remains competitive with neighboring towns and with this budget has a good chance of further improvement compared to neighboring towns. With the possible capital projects on the horizon for the Fire Department, Library, Pompositticut School re-use and Minuteman, this budget and tax relief is very timely.

The Town of Stow has handled the difficult economic times rather well due to a number of factors, including sensible planning and management. Nevertheless, the economy has no doubt taken a toll on the Town's tax base, whose ability to absorb additional increases may have been severely curtailed by the recession. This budget attempts to balance what is the reality of our existing expenses with the reality of what the tax base may be able to absorb. That balance, of course, is ultimately determined at Town Meeting.

THE STOW FINANCE COMMITTEE

Ann Deluty, Chair

Peter McManus, Vice Chair

Christopher Sarno and Rick Rollins: Members

Bruce Walbridge and Dean Cavaretta: Associate Members

Appendix A: Reserve Fund Transfer Details

The Finance Committee is a standing committee of Town Meeting; and the committee's main role in Stow is to review town meeting warrant articles and make recommendations to the voters, with special emphasis on the financial aspects of each article.

The Finance Committee also administers Stow's Reserve Fund, which is used for unexpected or emergency expenses during the fiscal year. For the past several fiscal years, \$70,000 has been put into the Reserve Fund. Unexpended funds each year return to the Town's General Fund as Free Cash, for use in the following fiscal year.

The following table shows all Reserve Fund transfers since the 2009 annual warrant report. As the chart shows, there were unusually few reserve fund transfer requests so far this year.

Date	Description	Amount
FY 2009		
25-May-09	Building Inspector – close old permits	\$2,000
25-May-09	Building Inspector clerical wages	\$ 241
25-May-09	Building Department custodial wages	\$1,013
30-June-09	Old West School roof repairs	\$6,000
FY 2010		
15-Sep-09	Fire Department wages – Lake Boon coverage	\$10,000
12-Jan-10	Building Inspector Mileage	\$ 1,250
19-Mar-09	Municipal Water System maintenance	\$ 9,285
FY 2011		
21-Sep-10	Medical expenses for disabled, retired Stow Police Officer	\$ 1,000
11-Jan-11	Fire Department – Overtime Wages	\$10,000
22-Feb-11	Board of Health – Municipal Solid Waste Removal	\$ 286
19-Apr-11	Fire Department – Overtime Wages	\$ 5,000
07-Jun-11	Fire Department – Vehicle Repairs & Maintenance	\$ 5,000
07-Jun-11	Fire Department – Overtime Wages	\$ 5,000
07-Jun-11	Fire Department – Call Firefighter and EMT Wages	\$ 5,000
07-Jun-11	Highway Department – Gasoline and Diesel Fuel	\$ 4,000
07-Jun-11	Information Technology – License and Contract Renewal	\$ 700
28-Jun-11	Lake Boon Commission – Lake Boon Expenses	\$ 300
28-Jun-11	Group Insurance	\$ 6,232
FY 2012		
12-Jul-11	Board of Health – Municipal Solid Waste Removal	\$ 195
13-Sep-11	Information Technology – Email Services	\$ 2,183
13-Sep-11	Workmen's Compensation Insurance	\$ 3,500
28-Feb-12	Highway Department – Gasoline and Diesel Fuel	\$10,000
13-Mar-12	Highway Department – Gasoline and Diesel Fuel	\$ 5,000
27-Mar-12	Medical expenses for disabled, retired Stow Police Officer	\$ 400