

FINANCE COMMITTEE REPORT TO TOWN MEETING

Every Town in Massachusetts with a property valuation of over \$1 million is required by state law, MGL Ch. 39, Sec. 16, to have a Finance Committee (Fincom) that shall “consider any or all municipal questions for the purpose of making reports or recommendations to the Town.”

According to the Department of Local Services (DLS), the Finance Committee is “the official fiscal watchdog for a Town. Because it is difficult for all taxpayers to be completely informed about every aspect of a Town’s finances, Fincoms were established so a representative group of taxpayers could conduct a thorough review of municipal finance questions on behalf of all citizens.”

With this in mind, the Fincom’s primary responsibility is advisory, to examine the budget and all other warrant articles and make recommendations to the voters on each article. It also administers the Reserve Fund (\$80,000) to provide for urgent and unforeseen expenditures that might arise between Town meetings. Lastly, although it is not required in our Charter, the Finance Committee Annual Report provides the Voters with an overview of the Town’s financial condition.

In Stow, the Moderator appoints five voting members and up to five associate members to the Finance Committee. Any voter registered in Stow is eligible to join. As of the publication date, there are five voting members and zero associate members on the committee.

FY 2023 Review

Town Revenues

Town revenues totaling \$34,834,451.96 in FY23 is a 9.96% increase from FY22, with property taxes mainly funding the town’s operations at just about 89.5% of the total. This percentage is comparable to FY22.

Local receipts decreased by 0.04% for FY23, a decrease of \$722 from FY22. It is worth noting that \$205,215 of Savings and Other Funds was used to balance the budget, a decrease of approximately 84% in use of those funds from FY22. Table 1 shows a comparison of revenue sources for FY23 and FY24.

Table 1

Table 1: Revenue Sources						
	FY22	FY22 % of Total	FY23	FY23 % of Total	\$ Change FY23 - FY22	% Change FY22 - FY21
Property Tax	\$ 29,945,429	89.13%	\$ 33,420,749	89.82%	\$ 3,475,320	11.61%
Local Receipts	\$ 1,618,391	4.82%	\$ 1,689,100	4.54%	\$ 70,709	4.37%
State Aid	\$ 495,556	1.48%	\$ 517,077	1.39%	\$ 21,521	4.34%
Savings and Other Funds	\$ 1,281,419	3.81%	\$ 1,378,500	3.70%	\$ 97,081	7.58%
Override	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%
Transfers from Other Funds	\$ 255,306	0.76%	\$ 205,215	0.55%	\$ (50,091)	-19.62%
Total	\$ 33,596,101		\$ 37,210,641		\$ 3,614,540	10.76%
Table 1a: Income Used for Capital Outlays						
Free Cash for OPEB					\$ 235,000	
Free Cash - for Capital Articles					\$ 868,500	
Free Cash for Sabilization					\$ 275,000	
Total Income Used for Capital Outlays					\$ 1,378,500	

Town Expenditures

Total town expenditures increased by \$1,674,234.96 (5.05%) in FY23 driven by increased spending in a number of budget items:

- \$233,491 (16.41%) decrease in Special Article funding;
- \$564,299 (35.7%) increased assessment for the Minuteman Regional Vocational Technical High School;
- \$22,919 (2.7%) decrease in Capital Spending;

	FY22 Voted	FY22% of Total	FY23 Voted	FY23% of Total	\$ Change FY23 - FY22	% Change FY23- FY22
Municipal Govt						
General	\$ 1,885,773	5.69%	\$ 2,155,784	6.18%	\$270,011	14.32%
Public Safety	\$ 2,681,561	8.09%	\$ 2,814,742	8.08%	\$133,181	4.97%
Public Work & Facilities	\$ 1,257,048	3.79%	\$ 1,367,751	3.92%	\$110,703	8.81%
Human Services	\$ 401,630	1.21%	\$ 482,120	1.38%	\$80,490	20.04%
Culture & Recreation	\$ 399,179	1.20%	\$ 488,142	1.40%	\$88,963	22.29%
Town Wide Expense	\$ 1,160,000	3.50%	\$ 1,255,000	3.60%	\$95,000	8.19%
Total Municipal Govt	\$ 7,785,191	23.48%	\$ 8,563,539	24.57%	\$778,348	10.00%
Education						
Nashoba	\$ 18,059,890	54.46%	\$ 18,535,962	53.18%	\$476,072	2.64%
Minuteman	\$ 1,580,804	4.77%	\$ 2,145,103	6.15%	\$564,299	35.70%
Total Education	\$ 19,640,694	59.23%	\$ 20,681,065	59.33%	\$1,040,371	5.30%
Other						
Debt Service	\$ 2,090,130	6.30%	\$ 2,164,020	6.21%	\$73,890	3.54%
Special Articles	\$ 1,422,806	4.29%	\$ 1,189,315	3.41%	-\$233,491	-16.41%
Capital Spending	\$ 846,419	2.55%	\$ 823,500	2.36%	-\$22,919	-2.71%
Recap Items	\$ 1,374,977	4.15%	\$ 1,435,845	4.12%	\$60,868	4.43%
Total Other	\$ 5,734,332	17.29%	\$ 5,612,680	16.10%	-\$121,652	-2.12%
GRAND TOTAL	\$ 33,160,217		\$ 34,857,284		\$ 1,697,067	5.12%

Town Savings

Town savings (Free Cash plus the Stabilization Fund) are “rainy day” accounts that are built up during good times and drawn down in bad times. Free Cash comes from receiving more-than-budget revenue (taxes, state aid, budget money left over from the prior year) and/or spending less than our voted budget. It is annually certified each year by the Department of Revenue (DOR).

Table 3 Town Savings						
FREE CASH AND STABILIZATION FUND						
(Beginning of Fiscal Year)						
Fiscal Year	Free Cash	% of Budget	Stabilization Fund	% of Budget	Total	% of Budget
2023	\$ 1,876,404	5.38%	\$ 950,339	2.73%	\$ 2,826,743	8.11%
2022	\$ 2,049,610	6.18%	\$ 739,085	2.23%	\$ 2,788,695	8.41%
2021	\$ 2,385,510	7.45%	\$ 523,077	1.63%	\$ 2,908,587	9.09%
2020	\$ 2,897,441	8.87%	\$ 520,971	1.59%	\$ 3,418,412	10.46%
2019	\$ 2,735,392	9.00%	\$ 929,062	3.06%	\$ 3,630,835	11.94%
2018	\$ 2,787,417	9.40%	\$ 895,443	3.02%	\$ 3,666,392	12.37%
2017	\$ 2,266,676	8.09%	\$ 878,975	3.14%	\$ 3,132,207	11.18%
2016	\$ 1,890,072	7.03%	\$ 865,531	3.22%	\$ 2,742,691	10.20%
2015	\$ 1,832,298	6.96%	\$ 852,619	3.24%	\$ 2,672,631	10.16%
2014	\$ 1,696,289	6.83%	\$ 840,333	3.38%	\$ 2,476,145	9.97%
2013	\$ 1,395,874	5.94%	\$ 779,856	3.32%	\$ 2,109,184	8.98%

Once certified, Free Cash is available for appropriation throughout the fiscal year, to be spent for any lawful purpose. Every dollar of Free Cash appropriated as revenue in the FY23 budget is a dollar that does not need to be raised and appropriated through taxation.

These savings are a necessity, not a luxury, and accumulate to build a targeted balance or used to fund the next year's budget. In discussions with Standard and Poor's leading up to our AAA rating approval, the Town was encouraged to attempt to maintain a stored asset balance of between 5% and 10% of the overall budget.

Property Tax Rate and Property Valuations

The information presented in the table below shows the trends in the tax rate, average single family home valuation and average single family tax bill. While Stow's tax rate has continued to decrease, our average single family home valuation and tax bill continue to increase year-over-year. The town's FY2023 tax rate was certified at 18.13 or a 7.89% decrease from FY22.

Table 4: Property Tax Rates and Valuations Trends (based on MA Class 101 Properties)						
	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23
Tax Rate (per \$1,000)	\$ 20.98	\$ 20.13	\$ 20.61	\$ 19.98	\$ 19.56	\$ 18.13
YOY % Change	1.89%	-4.05%	2.38%	-3.06%	-2.10%	-7.31%
Avg Single Family Valuation	\$ 460,309	\$ 483,500	\$ 495,763	\$ 531,500	\$ 556,907	\$ 640,760
YOY % Change	2.45%	5.04%	2.54%	7.21%	4.78%	15.06%
Avg Single Family Tax Bill	\$ 9,657	\$ 9,733	\$ 10,201	\$ 10,619	\$ 10,893	\$ 11,617
YOY % Change	4.39%	0.79%	4.81%	4.10%	2.58%	6.65%

Other Post Employment Benefits (OPEB)

Other Post-Employment Benefits (or OPEB) are benefits (other than pensions) that U.S. state and local governments provide to their retired employees.

Table 5: OPEB		
	OPEB Savings	% of Liability
FY23	\$ 1,389,340	14.96%
FY22	\$ 1,081,675	11.65%
FY21	\$ 822,807	8.86%
FY20	\$ 577,144	6.21%
FY19	\$ 329,296	3.55%
FY18	\$ 218,453	2.35%
FY17	\$ 160,028	1.72%
Current OPEB Liability	\$ 9,287,198	

Fiscal Year 2025 Proposed Budget Analysis

Looking forward to the 2025 requested budget and comparing to the 2024 voter-approved budget, key highlights are as follows:

- Total revenue is estimated at \$41,072,538 including unused levy capacity. The primary contributor to the revenue estimates is property tax. Of the \$41M, \$36.6M+ is attributable to property tax, inclusive of the prop 2 ½ increase allowance. In addition, the Town Administrator is estimating the new growth revenue at \$350,000. This projected total FY25 levy limit revenue of \$33,200,847 represents a 3.59% increase over FY24.
- Based on the initial indications from the State regarding State Aide Revenue, we are only estimating a small increase of 2.5% (\$14k+). While the State's revenues continue to increase in record amounts, the contributions to cities and towns has remained low and with a minimal increase.
- The increase in local receipts (motor vehicle excise tax, permit fees, license fees, etc.) is projected to be 7.87%. This is primarily due to a rise in building permits and interest rates increasing on the town earnings.
- In FY2024, the Town settled an on-going lawsuit regarding Lower Village engineering for \$1M, which was included in the certified Free Cash Amount of \$3,276,056.
- The Town Administrator is proposing to use \$1,896,560 of Free Cash in FY25, which will be applied to the following:
 - Transfer \$200k into the Stabilization Fund;
 - Transfer \$100k into the Capital Stabilization Fund;
 - Contribute \$235k to the OBEP Trust Fund;
 - Use \$1,051,515 to fund the Capital Plan; and
 - Use \$310,045 to fund three non-capital articles.
- FY2025 expenditures are dominated, as is typical, by the Nashoba school assessment at 58.46% of expenditures, followed by the municipal budget, including insurance at 27.42%, the Minuteman assessment at 7.92%, and municipal debt service at 6.20%. As with all three

towns in the Nashoba regional district, Stow's educational expenses are a substantial portion of the total expenditures in any given year and so careful consideration of academic spending can have a dramatic impact on the town budget.

- Total expenditures are expected to increase by 5.03%. While the Nashoba assessment remains the largest line item, from FY2024 to FY2025 the school assessments increased by a combined 6.71%. The budget requests include an 2.5% increase in the municipal budget, a 75% increase in capital expenses, and an almost 30% decrease in special article expenditures.
- The net increase for the FY25 budget is 4.25% over the FY24.

The increase in the municipal budget is driven predominantly as a result of wages with relatively little increase in department expenses. In fact, many of the expense budgets decreased to offset the step increases and COLA of 2.5%.

- There are no new positions being proposed for the municipal budget.

Fiscal Year 2025 Special Articles – Raise & Appropriate

Special articles have decreased from \$763,733 to \$535,950, a decrease of almost 30%. Some highlights to the special articles are:

- The Lake Boon Commission's request for funds to treat water quality and weeds in Lake Boon has increased from \$14,033 in FY24 to \$32,000 for FY25.
- The Historical Commission is looking for \$10,000 to assist with getting the West School on the historical register.
- The amount for funding the Annual Financial Audit has increased by \$10,000.

In the past, the majority of the capital allocation year over year increase is driven by allocation of CPC funds. Omitting the CPC fund usage, significant contributors to the capital allocation is the town's need to replace aging vehicles and infrastructure. Stow tends to maintain vehicles for extended periods, with highway equipment having service lifetimes upwards of 30 years. Having deferred vehicle replacement, the town is now in a place where key pieces of highway equipment and a majority of other municipal vehicles (police cruiser, ambulance, municipal vehicles) are becoming unsafe to operate and must be replaced. Additionally, vehicles are experiencing a 1-2 year backorder. In order to ensure we have vehicles in place, when those aging vehicles can no longer function, we need to order now and get in the replacement queue.

In 2021, the town was allocated \$2.1M in funds from the American Rescue Plan Act (ARPA) and as the funds are winding down, in FY25, a number of regular capital expenditures have been proposed by the Town Administrator to fund through the ARPA funds, thereby removing the liability from the Stow taxpayer.

Given the higher than normal Free Cash balance, non-CPC capital, non-ARPA requests have increased. The Town Administrator is recommending a total of \$1,021,515, which will be paid for with certified Free Cash. These requests represent the largest to be paid for with cash:

- Replacement of the Highway Loader at \$241,000 (23.6% of the request)
- Replace the Mechanics Truck at \$110,000 (10.7% of the request)
- Phase 2 of the Replacement of the Interior Doors at Hale at \$100,000 (9.8% of the request)

In FY25, the Town Administrator is proposing we procure a requested Fire Truck through borrowing. This will allow us to sign a purchase order, but not hold up cash, while we wait one to two years for delivery. It will also allow us to repair aging infrastructure within the general fund budget, while budgeting for a principal and interest payment over a number of years and not all at once. The capital borrowing article will be \$990,000 to replace a 2000 fire engine with a 3,000 gallon fire tanker truck.

Conclusion

Coupled with the growth in housing prices, the Town-wide valuation has grown faster than our costs (i.e. budget expenditures growth), allowing the Town to fund approved projects and capital items for the last several years. Moreover, the Town enjoys more than enough stored assets, and could borrow at the lowest rates due to our AAA rating. Moreover, the Town Administrator is estimating a \$1.9M excess Tax Levy capacity. As previously mentioned, this allows the town to borrow money at a more favorable rate.

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

Respectfully submitted,

Brian Patuto (Chair), Kevin Gross (Member), Evgenia Petrova (Member), Daniel Petersen (Member)