

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 (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.

FINANCE COMMITTEE REPORT TO TOWN MEETING

FY 2022 Review

Town Revenues

Town revenues totaling \$33,596,101 in FY22 is a 4.94% increase from FY21, with property taxes mainly funding the town’s operations at just over 89% of the total. This percentage decreased slightly from 90.35% in FY19.

Local receipts decreased by 1.62% for FY22, a decrease of \$26,609. It is worth noting that \$1,281,419 of Savings and Other Funds was used to balance the budget, an increase of 89.61% in use of those funds from FY21. Table 1 shows a comparison of revenue sources for FY21 and FY22.

	FY21¹	FY21 % of Total	FY22²	FY22 % of Total	\$ Change FY22 - FY21	% Change FY22 - FY21
Property Tax	\$ 28,924,173	90.35%	\$ 29,945,429	89.13%	\$ 1,021,256	3.53%
Local Receipts	\$ 1,645,000	5.14%	\$ 1,618,391	4.82%	\$ (26,609)	-1.62%
State Aid	\$ 509,755	1.59%	\$ 495,556	1.48%	\$ (14,199)	-2.79%
Savings and Other Funds	\$ 675,835	2.11%	\$ 1,281,419	3.81%	\$ 605,584	89.61%
Override	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%
Transfers from Other Funds	\$ 260,427	0.81%	\$ 255,306	0.76%	\$ (5,122)	-1.97%
Total	\$ 32,015,190		\$ 33,596,101		\$ 1,580,911	4.94%

Table 1a: Income Used for Capital Outlays²

Free Cash for OPEB	\$ 235,000
Free Cash - for Capital Articles	\$ 846,419
Free Cash for Sabilization	\$ 200,000
Total Income Used for Capital Outlays	\$ 1,281,419

¹ - source: Town of Stow Finance Committee FY21 Annual Report

² - source: Town of Stow Budget Book 2023, pp. 10 - 32, "FY22 Voted Budget"

Town Expenditures

Total town expenditures increased by \$1,145,028 (3.58%) in FY22 driven by increased spending in a number of budget items:

- \$526,428 (10.11%) increase in Total Other spending;
- \$356,705 (33.46%) increase in Special Article funding;
- \$294,721 (22.92%) increased assessment for the Minuteman Regional Vocational Technical High School;
- \$185,584 (28.08%) increase in Capital Spending;

Table 2: Town Expenditures						
	FY21 Voted ¹	FY21% of Total	FY22 Voted ²	FY22% of Total	\$ Change FY22 - FY21	% Change FY22 - FY21
Municipal Govt						
General	\$ 1,777,801	5.55%	\$ 1,885,773	5.69%	\$107,972	6.07%
Public Safety	\$ 2,562,983	8.01%	\$ 2,681,561	8.09%	\$118,578	4.63%
Public Work & Facilities	\$ 1,142,690	3.57%	\$ 1,257,048	3.79%	\$114,358	10.01%
Human Services	\$ 386,849	1.21%	\$ 401,630	1.21%	\$14,781	3.82%
Culture & Recreation	\$ 374,563	1.17%	\$ 399,179	1.20%	\$24,616	6.57%
Town Wide Expense	\$ 1,141,154	3.56%	\$ 1,160,000	3.50%	\$18,846	1.65%
Total Municipal Govt	\$ 7,386,040	23.07%	\$ 7,785,191	23.48%	\$399,151	5.40%
Education						
Nashoba	\$ 18,135,162	56.65%	\$ 18,059,890	54.46%	-\$75,272	-0.42%
Minuteman	\$ 1,286,083	4.02%	\$ 1,580,804	4.77%	\$294,721	22.92%
Total Education	\$ 19,421,245	60.66%	\$ 19,640,694	59.23%	\$219,449	1.13%
Other						
Debt Service	\$ 2,090,560	6.53%	\$ 2,090,130	6.30%	-\$430	-0.02%
Special Articles	\$ 1,066,101	3.33%	\$ 1,422,806	4.29%	\$356,705	33.46%
Capital Spending	\$ 660,835	2.06%	\$ 846,419	2.55%	\$185,584	28.08%
Recap Items	\$ 1,390,408	4.34%	\$ 1,374,977	4.15%	-\$15,431	-1.11%
Total Other	\$ 5,207,904	16.27%	\$ 5,734,332	17.29%	\$526,428	10.11%
GRAND TOTAL	\$ 32,015,189		\$ 33,160,217		\$ 1,145,028	3.58%
Table 2a: Special Articles²						
Raise & Appropriate					\$ 732,500	
Appropriate & Transfer					\$ 690,306	
Total Special Articles					\$ 1,422,806	
¹ - source: Town of Stow Finance Committee FY21 Annual Report						
² - source: Town of Stow Budget Book 2023, pp. 10 - 32, "FY22 Voted Budget"						

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). 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 FY22 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.

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	Budget
2022	\$ 2,049,610	6.18%	\$ 739,085	2.23%	\$ 2,788,695	8.41%	\$ 33,160,217
2021	\$ 2,385,510	7.45%	\$ 523,077	1.63%	\$ 2,908,587	9.09%	\$ 32,015,189
2020	\$ 2,897,441	8.87%	\$ 520,971	1.59%	\$ 3,418,412	10.46%	\$ 32,671,210
2019	\$ 2,735,392	9.00%	\$ 929,062	3.06%	\$ 3,630,835	11.94%	\$ 30,401,074
2018	\$ 2,787,417	9.40%	\$ 895,443	3.02%	\$ 3,666,392	12.37%	\$ 29,649,819
2017	\$ 2,266,676	8.09%	\$ 878,975	3.14%	\$ 3,132,207	11.18%	\$ 28,016,042
2016	\$ 1,890,072	7.03%	\$ 865,531	3.22%	\$ 2,742,691	10.20%	\$ 26,887,293
2015	\$ 1,832,298	6.96%	\$ 852,619	3.24%	\$ 2,672,631	10.16%	\$ 26,318,003
2014	\$ 1,696,289	6.83%	\$ 840,333	3.38%	\$ 2,476,145	9.97%	\$ 24,839,822
2013	\$ 1,395,874	5.94%	\$ 779,856	3.32%	\$ 2,109,184	8.98%	\$ 23,497,959
2012	\$ 1,283,016	5.61%	\$ 713,310	3.12%	\$ 1,932,969	8.45%	\$ 22,887,024
2011	\$ 778,703	3.58%	\$ 649,953	2.99%	\$ 1,365,701	6.27%	\$ 21,770,991

Source: FY23 Financial State of the Town, <https://www.stow-ma.gov/town-administrator/pages/financial-state-town-town-administrators-presentations>

Property Tax Rate and Property Valuations

The information presented in Table 4 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 17	FY 18	FY 19	FY 20	FY 21	FY 22⁴
Tax Rate (per \$1,000)	\$ 20.59	\$ 20.98	\$ 20.13	\$ 20.61	\$ 19.98	\$ 19.56
YOY % Change	3.05%	1.89%	-4.05%	2.38%	-3.06%	-2.10%
Avg Single Family Valuation	\$ 449,301	\$ 460,309	\$ 483,500	\$ 495,763	\$ 531,500	\$ 556,907
YOY % Change	1.58%	2.45%	5.04%	2.54%	7.21%	4.78%
Avg Single Family Tax Bill	\$ 9,251	\$ 9,657	\$ 9,733	\$ 10,201	\$ 10,619	\$ 10,893
YOY % Change	4.68%	4.39%	0.79%	4.81%	4.10%	2.58%

⁴ - Sources: <https://www.stow-ma.gov/board-assessors/pages/tax-rates>,

FY23 Financial State of the Town, <https://www.stow-ma.gov/town-administrator/pages/financial-state-town-town-administrators-pre>

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
FY22⁵	\$ 1,131,784	15.28%
FY21	\$ 822,807	11.11%
FY20	\$ 577,144	7.79%
FY19	\$ 329,296	4.44%
FY18	\$ 218,453	2.95%
FY17	\$ 160,028	2.16%
Current OPEB Liability	\$ 7,409,078	
⁵ - as of June 30, 2022		

Fiscal Year 2024 Proposed Budget Analysis

Looking forward to the 2024 requested budget and comparing to the 2023 voter-approved budget, key highlights are as follows:

- Total revenue is estimated at \$38,303,571 including unused levy capacity. The primary contributor to the revenue estimates is property tax. Of the \$38M, \$31.7M 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 \$250,000. This projected total FY24 levy limit revenue of \$32,036,496 represents a 3.31% increase over FY23.
- Based on the initial indications from the State regarding State Aide Revenue, we are only estimating a small increase of 2% (\$12k). 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 4.5%.
- The Town Administrator is proposing to use \$1,103,298 of Free Cash in FY24, which will be applied to the following:
 - Transfer \$200k into the Stabilization Fund;
 - Transfer \$75k into the Capital Stabilization Fund;
 - Contribute \$235k to the OBEP Trust Fund;
 - Use \$10,000 toward the Opioids Epidemic; and
 - Use \$583,298 to fund the Capital Plan.
- FY2024 expenditures are dominated, as is typical, by the Nashoba school assessment at 52% of expenditures, followed by the municipal budget (31.38%), insurance and debt service (9.81%), and Minuteman assessment (7.04%). 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 5.42%. While the Nashoba assessment remains the largest line item, from FY2023 to FY2024 the school assessments increased by a combined 4.61%. The budget requests include an 8.64% increase in the municipal budget, a 29.17% decrease in capital expenses, and a 41.69% increase in special article expenditures.
- The net increase for the FY24 budget is 5.01% over the FY23.

The increase in municipal budget is driven predominantly through wage expenses with relatively little increase in department expenses. Further, the increase in wage expense is driven by the addition of new or amended positions far more than actual wage increases.

- Addition of a full-time patrol officer. The Police Chief reallocated his budget and was able to absorb the cost of the new officer, as well as other contractual changes, to within a 5% overall increase for the police department.
- Addition of 2 full-time firefighters (15.6% of the municipal budget increase)
- Addition of the Procurement/Grants Administrator into the budget. This position was funded through ARPA funds for the first year. The addition of this position constitutes an 8.34% of the municipal budget increase.
- The Select Board renegotiated the Town Administrator's contract; as a result of the market rate for the TA position, an increase has been budgeted for. While this increase may appear large, the Finance Committee has ascertained that we have been underpaying the TA. This increase will bring her up to the median salary, however, she will still be far below the median for total compensation in the region. The Finance Committee supports this pay adjustment to bring the Town Administrator closer to the median market value for her position. This increase represents 3.29% of the municipal increase.

Fiscal Year 2023 Special Articles – Raise & Appropriate

Special articles have increased from \$474,100 to \$671,733, an increase 41.69%. Major contributors to the increase are:

- The Planning Board has made several requests that require new funding:
 - A request for \$100,000 to obtain a consultant to assist with the Master/Comprehensive Plan;
 - A request for \$35,000 to develop access to the Kane Lane property; and
 - An increase in their funding for engineering assistance.
- 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 a number of regular capital expenditures were funded through the ARPA funds, thereby removing the liability from the Stow taxpayer.

Therefore, for FY24, the non-CPC capital, non-ARPA requests total \$583,298, which will be paid for with certified Free Cash. These requests represent the largest to be paid for with cash:

- Replacement of the interior doors at Hale School (17% of the request)
- Replace the Cemetery Truck (16% of the request)
- Replacement of a police cruiser with an all-electric pick-up truck (15% of the request)

For FY24, due to the large number of projects submitted for Capital, the Town Administrator is proposing we procure several capital items through borrowing. With larger vehicles on backorder, 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 items being proposed as borrowings are:

- Replacement of a Large 6-Wheel Dump Truck in the Highway Department (\$265,000)
- Replacement of Ambulance Rescue 16 in the Fire Department (\$436,800)
- Repairs and upgrades to the Town Building Water System (\$750,000)

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 \$1.8M 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,

Erica Benedick (Chair), Chris Buck (Member), Kevin Gross (Member), Brian Patuto (Member), Evgenia Petrova (Member).