

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 2021 Review

Town Revenues

Town revenues totaling \$32,178,429 in FY21 is a -0.51% decrease from FY20, with property taxes mainly funding the town’s operations at just over 90% of the total. This percentage increased from 87% in FY20.

Local receipts decreased by just over 10% for FY21 which accounted for a loss of \$187,000. The Covid-19 pandemic continues to impact our revenues and we hope to see that start to turn around in FY23. It is worth noting that \$675,835 of Savings and Other Funds was used to balance the budget, which is significantly lower than the amount needed for FY20 - \$1,503,500. Table 1 shows a comparison of revenue sources for FY20 and FY21.

Table 1: Revenue Sources

	FY20	FY20 % of Total	FY21	FY21 % of Total	\$ Change FY21-FY20	% Change FY20-FY21
Property Tax	\$ 27,991,820	86.99%	\$ 28,924,173	87.43%	\$ 932,353	3.33%
Local Receipts	\$ 1,832,000	5.69%	\$ 1,645,000	5.72%	\$ (187,000)	-10.21%
State Aid	\$ 503,433	1.56%	\$ 509,755	1.57%	\$ 6,322	1.26%
Savings and Other Funds	\$ 1,503,500	4.67%	\$ 675,835	4.70%	\$ (827,665)	-55.05%
Override	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%
Transfers from Other Funds	\$ 347,676	1.08%	\$ 260,427	1.09%	\$ (87,249)	-25.09%
Total	\$ 32,178,429		\$ 32,015,190		\$ (163,239)	-0.51%

Town Expenditures

Total town expenditures decreased by \$656,021 (-2.01%) in FY21 driven by a \$1,178,975 (-64%) decrease in capital spending.

Table 2: Town Expenditures

	FY20 Voted	FY20 % of Total	FY21 Voted	FY21 % of Total	\$ Change FY21 - FY20	% Change FY21 - FY20
Municipal Govt						
General	\$1,607,900	4.92%	\$ 1,777,801	5.55%	\$169,901	10.57%
Public Safety	\$2,503,617	7.66%	\$ 2,562,983	8.01%	\$59,366	2.37%
Public Works	\$1,106,319	3.39%	\$ 1,142,690	3.57%	\$36,371	3.29%
Human Services	\$374,431	1.15%	\$ 386,849	1.21%	\$12,418	3.32%
Culture/Rec	\$359,081	1.10%	\$ 374,563	1.17%	\$15,482	4.31%
Town Wide Expense	\$1,106,008	3.39%	\$ 1,141,154	3.56%	\$35,146	3.18%
Total Municipal Govt	\$7,057,356	21.60%	\$ 7,386,040	23.07%	\$328,684	4.66%
Education						
Nashoba	\$17,889,278	54.76%	\$ 18,135,162	56.65%	\$245,884	1.37%
Minuteman	\$881,595	2.70%	\$ 1,286,083	4.02%	\$404,488	45.88%
Total Education	\$18,770,873	57.45%	\$ 19,421,245	60.66%	\$650,372	3.46%
Other						
Debt Service	\$2,627,933	8.04%	\$ 2,090,560	6.53%	-\$537,373	-20.45%
Special Articles	\$1,025,969	3.14%	\$ 1,066,101	3.33%	\$40,132	3.91%
Capital Spending	\$1,839,810	5.63%	\$ 660,835	2.06%	-\$1,178,975	-64.08%
Recap Items	\$1,349,269	4.13%	\$ 1,390,408	4.34%	\$41,139	3.05%
Total Other	\$6,842,981	20.94%	\$ 5,207,904	16.27%	-\$1,635,077	-23.89%
GRAND TOTAL	\$32,671,210		\$ 32,015,189		\$ (656,021)	-2.01%
Source: Town Administrator FY22 & FY23 Budget Request Worksheets & Financial Summary Report						

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 a revenue in the FY21 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.

FREE CASH AND STABILIZATION FUND

Table 3 Town Savings

(Beginning of Fiscal Year)

Fiscal Year	Free Cash	% of Budget	Stabilization Fund	% of Budget	Total	% of Budget
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%
2012	\$ 1,283,016	5.61%	\$ 713,310	3.12%	\$ 1,932,969	8.45%
2011	\$ 778,703	3.58%	\$ 649,953	2.99%	\$ 1,365,701	6.27%

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. The town's tax rate decreased by 3.06% over FY20.

Table 4: Property Tax Rates and Valuations Trends (based on MA Class 101 Properties)

	FY 17	FY 18	FY 19	FY 20	FY21
Tax Rate (per \$1,000)	\$ 20.59	\$ 20.98	\$ 20.13	\$ 20.61	\$ 19.98
YOY % Change	3.05%	1.89%	-4.05%	2.38%	-3.06%
Avg Single Family Valuation	\$ 449,301	\$ 460,309	\$ 483,500	\$ 495,763	\$ 531,500
YOY % Change	1.58%	2.45%	5.04%	2.54%	7.21%
Avg Single Family Tax Bill	\$ 9,251	\$ 9,657	\$ 9,733	\$ 10,201	\$ 10,619
YOY % Change	4.68%	4.39%	0.79%	0.79%	4.10%

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
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	

Fiscal Year 2023 Proposed Budget Analysis

Looking forward to the 2023 requested budget and comparing to the 2022 voter-approved budget, key highlights are as follows:

- Total income is expected to rise from \$34,672,540 to \$35,823,112, an increase of 3.3%. As a percentage of overall expenditures, property tax is expected to be on or slightly less than FY22.
- **Salaries DID NOT increase by huge percentages** – the education incentive, that was previously voted under a separate article, has been included in the base wages now, per a vote from the 2021 Annual Town Meeting. These amounts have been paid to employees all along, just hidden in an article. Now, the Town Administrator has included it in the budget line items to increase transparency on true salary costs.
- FY2023 expenditures are dominated, as is typical, by the Nashoba school assessment at 53% of expenditures, followed by the municipal budget, debt service, and Minuteman assessment. 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 6.41%. While the Nashoba assessment remains the largest line item, from FY2022 to FY2023 the assessment increased by 2.64%. The budget requests include a 2.89 % increase in the municipal budget, a 2.71% decrease in capital expenses, a 35.7% increase in the Minuteman assessment, and a 35.28% decrease in special article expenditures.
- The net increase for the FY23 budget is 5.42% over the FY22.

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 custodian (5.15% of municipal budget increase)
- Addition of 2 part-time front-desk employees at Pompositticut Community Center (4.62% of municipal budget increase)
- Increase of hours for the police part-time administrative assistant to a full-time position (0% of municipal budget increase – as other cuts were made in the police budget to absorb this cost)
- Election Workers – In FY23, there are three elections, which need to be fully staffed (4.69% of municipal budget increase)

Fiscal Year 2023 Special Articles – Raise & Appropriate

Special articles decreased from \$732,500 to \$474,100, a decrease of 35.28%. Major contributors were:

- A 'salary reserve' which was used to compensate employees as the Education Incentive Program, was phased out is no longer needed. This was a one-time cost in FY22, which allowed the Town Administrator to implement a more fair and equitable pay scale as well as greater transparency in overall wages.
- The Education Incentive Program no longer needs to be included as a special article request, since those funds are now included in the general operating budget.

The majority of the capital allocation year over year increase, approximately 65.8%, 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. 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 30% of the police cruiser fleet is no longer safe to operate and must be replaced.

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 FY23, the non-CPC capital, non-ARPA requests total \$823,500, which would be paid for with certified Free Cash:

- Feasibility study for a new Highway Garage (12% of the request)
- Lake Boon Dam repairs (37% of the request)
- 6-Wheel Dump Truck (37% of the request)

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 \$2.3M 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).

