

Sudbury Budget Facts

The following is intended to help the Sudbury taxpayer understand the basic components of the budget and what is driving its growth.

What does the Finance Committee do?

The Finance Committee is responsible for reviewing the town and school budgets and making recommendations to the Board of Selectmen and to the taxpayers at Town Meeting. While we have no authority to make spending decisions, our role requires that we do a substantial amount of homework on town spending and the budget prior to forming a recommendation. As a result, our opinion as a “well informed taxpayer” generally carries some weight.

Why are real estate taxes at their current levels?

52% of the households in Sudbury are occupied by families with children, one of the highest percentages in the state. As a result, each household is consuming more school services than our peer towns, which in turn means that the cost of schools per household is higher. The total cost per household to operate Sudbury is therefore meaningfully higher than other towns. Note however that our costs per student are generally not higher and in many cases are lower than our peers.

Why are real estate taxes growing much faster than “2 ½”?

Operating the town and schools is a service business so people, and therefore employee compensation, is by far our largest cost. Wages account for 60% of the operating budget and benefits and insurance comprise another 19%, so that compensation totals 79% of the Sudbury operating budget.

The impact of employee compensation on the growth in expenses can be seen in the following statistics for the three fiscal years ending June 2009:

- The total annual salary increase per employee has averaged 5.7% per annum. Salary growth is the sum of cost of living increases (“COLAs”) and increases based upon years of service as a proxy for experience (so-called “step” increases). The step portion of the average increase is 2.5% per annum.
- The cost of healthcare benefits per employee grew 10.5% per annum.
- Total payments on behalf of retirees for pensions and/or retiree healthcare grew 18.6% per annum.

As a result, total operating expenses grew 4.8% per annum.

- 84% of that growth was for increases in employee compensation (salaries plus benefits).
- 11% of that growth was for increases in payments on behalf of retirees.
- 5% of that growth was for everything else.

How many people do we employ?

The following FTEs (“full time equivalents”) are budgeted for the fiscal year ended June 2009:

Town Departments:	179
SPS K-8	390
LSRHS	<u>219</u>
Total	788

In addition, we make payments for pensions and/or retiree healthcare on behalf of the following number of retirees:

Town Departments:	94
SPS K-8	175
LSRHS	<u>104</u>
Total	373

The Total retiree/active ratio is 47.3%, up from 42.1% three years ago.

Why can't we live within Proposition 2 ½?

It was never expected that we would. First and most importantly, Proposition 2 ½ is not a “fiscally responsible spending benchmark”, as we are often led to believe. Exceeding this level should not be construed as a negative reflection on the town’s or the schools’ financial management. It is simply a “check and balance” at the local level: town officials cannot raise taxes more than allowed under that Proposition without an affirmative vote of the taxpayers. To spend more money, town officials have to “make their case” to the taxpayers. As previously noted, 79% of costs and over 95% of the increase in costs are for people. It is unrealistic to think that compensation increases, which include healthcare spending, can be limited to 2 1/2% per year every year, especially when considering that Step increases alone, excluding COLA’s, amount to something in this range.

Why does this always seem to fall on the homeowner?

Because 77% of our revenues come from property taxes, and 91% of the property taxes are residential, simple arithmetic says that you should generally expect an override almost every year absent unusual circumstances in order to provide the same level of services if operating expenses grow more than 2 ½% per annum. The primary revenue sources available to Sudbury are:

- Property Taxes, which are 77% of the total and grew 4.5% per annum over the last three years.
- State Aid, which is 14% of the total and grew 4.9% per annum over the last three years.
- Local Receipts: 5% of the total, declining 7.6% per annum over the last three years.
- All Other: 4% of the total.

What is the Budget Review Task Force?

A committee comprised of taxpayers and town officials that was commissioned by the Board of Selectmen in June 2007 to find new ways to deal with continuing overrides. Their preliminary proposals for expense reductions and new sources of revenue were delivered in December 2008. These were thoroughly researched and thoughtfully prepared and are available for review on the Town web site.

What are Sudbury's major liabilities?

In accordance with good funding practices, Sudbury issues bonds to finance the cost of long term capital projects such as school and municipal buildings. In addition, Lincoln-Sudbury Regional High School, which is a separate legal entity 85% funded by the Town of Sudbury because 85% of its students are from Sudbury, issued bonds for the construction of the new high school building.

As of June 30, 2007 the amount of the outstanding debt was as follows:

Town of Sudbury (including the SPS K-8 system):	\$41,315,000
Lincoln-Sudbury High School:	\$21,656,000

In addition to its bonds, Sudbury also has long term obligations to make payments on behalf of its employees and former employees for pensions and retiree healthcare. In the private sector, the amount of these future payments is recorded as a liability just like the liability for debt, which is also an obligation to make future payments. While the amount of the retiree benefits may be more difficult to calculate than the face amount of a bond, the obligation is there nonetheless. Using professional actuaries the private sector estimates the amount of those future payments and calculates the "present value" of them (less the cash set aside specifically to cover them) as the liability to put on the balance sheet. A present value calculation basically says that an obligation to pay a dollar in ten years is worth less than the obligation to pay a dollar today.

Municipal accounting rules have recently changed and are moving toward the private sector standard for accounting for the cost of promises made to retirees. The first step has been the hiring of actuaries to compute the amount of the Sudbury and Lincoln-Sudbury obligations for retiree healthcare. This amount will be shown as a footnote in the next set of audited financial statements. The amount of those retiree healthcare obligations, calculated as the present value of the future payments Sudbury and LSRHS have promised to make (and assuming no change in the current "pay as you go" method) is estimated as follows:

Town of Sudbury (including the K-8 system):	\$27,874,000
Lincoln-Sudbury Regional High School:	\$30,330,000

Over half of these amounts represent the value of benefits earned by active employees and to be paid after they retire.

We all need to understand what drives our budget so that we can make informed decisions that are in our best interest. We encourage residents to either attend the Budget Hearings this month or watch replays of them on the Sudbury Cable Channel.

Chuck Woodard is Chairman of the Sudbury Finance Committee and can be reached at fincom@sudbury.ma.us