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James A. Smith, Town Manager

**Town of Sutton
Office of the Town Manager**

February 21, 2023

Sutton Select Board
Sutton Town Hall
4 Uxbridge Rd.
Sutton, MA 01590

Dear Members of the Select Board:

It is with great respect that I submit to you the Town of Sutton's preliminary annual operating budget for Fiscal Year 2024 in the amount of \$37,489,691. The Fiscal Year (FY) 2024 budget is \$1,310,453 over FY2023 final budget or 3.62%. We are proposing to raise the tax levy by \$1,241,799 which is 2.5%, plus new growth of \$200,000 and the rolled forward new growth of \$490,000. In the past we had the luxury of utilizing excess new growth for capital purchases. We no longer have that benefit. We currently have a deficit of at least \$390,000, and the School Department still has a \$300,000 gap. The total shortfall could be as high as \$700,000.

Newly elected, Governor Healey has until the beginning of March to release the House One Budget. We are anticipating at least \$50,000 in State Aid in FY 24. Inflation is affecting our budget just as it is affecting all of the Town's taxpayers. We are seeing increases in fuel and diesel, paper, bus contracts, heating oil, among others. The largest impact in our budget this year is a 18% increase in Worcester Regional Retirement system and Special Education out of district costs.

The Worcester Regional retirement system anticipates a 9.95% increase regardless of any changes in demographics. After the 9.95% they look at the individual community demographics. In Sutton's case, our liabilities grew greater than the average participant. For retirees, the average benefit increased almost 12% (likely due to the new retirees with high salaries and larger benefits). Sutton had an increase in both the number of retirees and active members since the 2020 valuation. So instead of the normal \$130,000 increase this year our rate went up \$283,000 or 18%.

The other major issue facing the School Department is out of district special education costs. These costs have more than doubled in the last 3 fiscal years, going from \$1 million in FY 20 to just under \$2.3 million in FY 23. In FY 24 that number is projected to be \$2.5 million. We

budgeted \$700,000 in free cash in the FY 23 budget to help offset this cost and had anticipated utilizing the same amount in the FY 24 budget. In FY 25 that number was supposed to drop to \$1.4 million. That doesn't appear to be the case at this point in time so we need to find a way to address the situation. The State Department of Elementary and Secondary Education (DESE) approved a 14% increase in special education out of district costs. The brunt of this increase falls on local municipalities. We have communicated with our state delegation asking for their assistance in funding this cost.

The School Department's preliminary budget will receive an additional \$1,000,000 from the town. In addition, we will provide the school \$700,000 for special education costs. As a result of declining enrollment, the early learning center and elementary school average about 19-23 children per class. The middle school will average approximately 21 to 24 children per class. In the high school the average class size will be approximately 18 students depending upon course selection.

We are entering the third year with Massachusetts Interlocal Insurance Agency (MIIA) after spending the previous four with Fallon. MIIA has offered us a three-year deal with year one being a -6.1% decrease, year two would be the MIIA Trust average which was 3.7% and year three the worst we could do is the high end of the trust average. Our health experience has been about average this year so we are hoping for an average increase.

The town has fewer additional students attending Blackstone Valley Vocational Technical School in FY 24. The budget for Blackstone is based upon the student enrollment as of October 1, 2022. We put a placeholder in the budget of a \$0 increase and Blackstone Valley Vocational Technical School will vote on their final budget in the first week of March. The state aid formula penalizes "wealthier" communities and we pay more per student than our surrounding neighbors.

There are 3 new applications for Norfolk Agricultural School, for a total of 12 students. Currently the cost to attend Norfolk Aggie is \$26,000 per student. We still have to wait to see if any students do apply to attend.

The FY2024 budget raises \$28,193,211 in local property taxes or over 75% of all revenues. This number reflects a budgeted 2 1/2% increase plus new growth (\$690,000) over FY23 which equals \$1,241,211.

Gov. Healey has until March to submit the House One budget. This year we are anticipating receiving \$6,533,468 or a \$50,000 increase over FY 23. State Aid to Sutton makes up 17% of Sutton's revenue. We are in discussions with our state delegation regarding the need for additional funding for the town of Sutton. The biggest need is out of district special education costs. As I mentioned earlier in this message, that number has ballooned from \$1 million in FY 20 to over \$2.5 million in FY 24. This along with the state approving a 14% increase in special education out of district costs, has put a financial burden on every municipality. In addition, the Massachusetts Municipal Association has asked for a \$100 per student in chapter 70 aid, we normally receive \$30 per student.

The town of Sutton continues to pick up a bigger financial burden relative to the State. In FY 2010 the taxpayers of Sutton picked up 59% of the budget and the state picked up 26%. FY 13 the town picked up 69% of the budget and the state picked up 21%. In the upcoming FY 24 budget the town will pick up 75% and the state is scheduled to pick up 17%. Our budget is increasing over \$1.3 million and we are anticipating \$50,000 - \$60,000 from the state. With the cost of basic services continuing to increase, and with little help from the state in recurring revenue, we will be forced to face the inevitable of cutting services or looking for the taxpayers to pay more.

Local receipts serve as the third major source of revenue for the town. This year we are appropriating \$2,402,920. The largest source of local receipts is the motor vehicle excise taxes. Sutton averages about \$1,500,000 in motor vehicle excise taxes. With the development on Gilmore Drive with Primetals and IBA as well as the Blackstone Logistics project and Unified² development, we are expecting additional motor vehicle excise taxes, property taxes and room and meals tax revenue from restaurants. It appears that we will be increasing our local receipts to address the budget gap that we are currently seeing. Once we more aggressively budget our local receipts than there is no other place to go for additional revenue.

The final source of significant revenues is one-time revenues. The most significant one-time revenues the town has are from the stabilization fund and free cash. The stabilization fund is at \$2.58 million. The town eliminated the use of free cash from our revenues until last year. Last year with the special education out of district costs ballooning we had a separate article to fund special education costs. The previous school administration presented a three-year forecast on special education costs with year one receiving \$700,000 in free cash for a total of \$1.9 million and year two an additional \$700,000 in free cash for \$1.9 million and in year three that number was going to decrease by \$500,000. Seven months into the Fiscal Year we are seeing the costs continue to increase. In addition, the school administration utilized revolving funds to bridge that gap including school choice.

School Choice was always there as a failsafe in financially challenging times. We spent down school choice during the great recession in 2010 through 2013. The number in 2015 was \$224,000. We have slowly built that number up to \$1.25 million in 2021. In FY22 that number was \$798,000. In FY23 the projected year-end balance is \$541,000. In FY 24 the school spends that account down to zero.

Last year as we were putting together the FY 23 budget, we had just finished the Unified TIF agreement based on 2,400,000 ft.² of development and significant personal property and commercial tax base. The development of this parcel, the last significant industrial parcel in town, was supposed to generate significant revenue to help offset the budget issues. The 360,000 ft.² Building 3 is under construction and scheduled to be completed in the fall of 2023. The 650,000 ft.² building 2 is right behind construction of building 3. Building 1 is the largest facility in this development with over 1,000,000 ft.². A year ago we were expecting construction on Building 1 to begin shortly. Unified is still looking for a tenant for building 1. Without a tenant for building 1, and the corresponding tax revenue, we are closer to needing additional revenue to support town services.

There are other commercial developments taking place in town like the Blackstone logistics project and the Blackstone logistics project 2, but neither of these developments will be enough new growth to support the town budget.

On the expenditure side, employee benefits, typically health insurance, is one of the biggest budget items. This year is the third year we have been with MIIA and we have an 8% percent increase as a placeholder. In addition, our Worcester Regional Retirement system (WRRS) is going up \$283,000. We have no control over the WRRS cost increases. We do have some control over our health plan. We currently budget a total of \$3,395,000 million in health insurance costs. The preliminary health insurance budget number is \$2,952,000, but we also have a health savings account (HSA) match, health reimbursement account, and an opt out provision which make up the difference between \$3.39 million and \$2.95 million. We have worked hard to control our healthcare costs and currently all active employees are enrolled in an HSA. This year we have a placeholder of 8% increase in healthcare. We hope this number comes down a bit due to our experience.

The Town has annually exceeded Net School Spending Required (NSS) since Education Reform was enacted in 1993 and it has exceeded NSS by well over a million dollars per year since FY2005, but it had gone down below \$1 million during the recession. Since the recession, net school spending required has steadily gone up to over \$3.6 million in FY 23. The Chapter 70 formula is designed in such a way that puts more of the burden to fund the school system on the local tax payers if the town has a relatively high per capita income. We receive a lower Chapter 70 amount than the surrounding towns.

To assist the School Department, the town is sharing the tech directors and picking up \$75,000 for the data processing salaries and funding the capital program at \$453,000. The town will be increasing their appropriation by \$1,000,000 in this preliminary budget. As I mentioned repeatedly throughout this budget message, we are looking for additional State aid in Chapter 70, Circuit Breaker, and Special Education out of district costs.

The town of Sutton received \$2.8 million in American Rescue Plan Act over the last two fiscal years. We are in the process of utilizing these funds for significant improvements. The first project is repair and rehabilitation of the membrane batch reactor at the school department. We spent just under \$284,000 to extend the life of the wastewater treatment plant for another 15-20 years. Our plans are to repair and relocate the septic system at town hall and move it to 16 Uxbridge where we will create a septic field. This total project should cost about \$750,000. Lastly, we hired Tighe and Bond to design a new sewer system in the Wilkinsonville neighborhood. The current system serves 1300 households and it is antiquated. The system currently goes cross-country and under railroad tracks. The new system on 122A will follow the roadway from a pump station all the way to the Millbury pump station. The total project cost of this improvement is \$5.6 million. We have received a one-stop grant from the state of Massachusetts for \$3.6 million, the town meeting voted an appropriation from the sewer department of \$500,000 and the remaining funds will be paid out of ARPA.

The town is continuing to fund Lake Singletary and Manchaug Pond in the town's budget. Both Lake Singletary Association and Manchaug Pond foundation do a fantastic job in maintaining

two of the town's greatest treasures. We are committing \$5,000 to Lake Singletary Association and \$2,500 to the Manchaug Pond foundation to assist them in their efforts to keep these lakes clean for the entire town. This will be an annual appropriation to the respective agencies.

The Town of Sutton also has two enterprise funds that are independent of the general fund appropriation. The transfer station and the sewer department are both responsible for raising enough revenue through their operations to support the expenses of their respective departments. The sewer budget has small increases due to the charges from the town of Millbury, a small amount to the OPEB allocation and some minor salary changes.

The trash transfer station operator David Arsenault does a great job at the transfer station. The sticker fees at the transfer station will remain the same as they were last year. We are discussing raising the bag fee by .25-.50/bag. The transfer station offers a low-cost option for trash and recycling.

This year's capital plan is funded in the amount of \$1,298,500. The majority of this capital plan will be funded through free cash and the capital stabilization fund. The School Department will receive \$453,000 of the allocated capital funds. The remaining funds are allocated between the Fire Department (\$113,000), Police Department (\$182,000), Highway (\$385,000), Town (\$130,000), Senior Center (\$30,000) and the Town Clerk (\$5,500).

FY24 will be a financially challenging year. We have utilized most of our one-time funds particularly at the school department. We have large cost increases, the most significant of which is special education out of district costs which has grown from \$1 million in FY 20 to \$2.5 million in FY 24. We will be pushing our local receipts to fund this budget and in FY 25 there will be fewer places to turn to. In the past we have talked about FY 25 as being the so-called cliff year where we run out of options, it is currently appearing more like a reality.

Once again I want to thank all of the dedicated and hard working department heads and town employees that serve our Town. I especially want to thank my Executive Secretary Deb Jacques, for her outstanding service to the Town, and the Select Board. In addition, I want to thank the Finance Director, Tim Harrison for his assistance in putting this budget together.

Lastly, I want to thank the Select Board and members of the Finance and Warrant committee for their ongoing partnership in helping to make Sutton not only a great community but one that is financially well run.

Sincerely,

James A. Smith
Town Manager