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James A. Smith, Town Manager

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

February 15, 2022

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 2023 in the amount of \$35,874,505. The Fiscal Year (FY) 2023 budget is \$827,450 over FY2022 final budget or 2.30%. The budget is balanced, but we still have some unknowns mainly BVT and Health Insurance.

Governor Baker released his House One Budget on Wednesday January 26th. While the Governor has committed \$37,080 to Chapter 70 and \$23,164 to Unrestricted General Government Aid (UGGA) our cherry sheet receipts in total increased \$926. Our school choice receiving tuition decreased by \$61,550. The Charges are on the second page of the cherry sheet and our charges increase by a \$30,000. So while we look forward to the cherry sheet, this year we have to look to make up a \$30,000 reduction in revenue. We will continue to put pressure on the House and Senate leaders to increase the Chapter 70 and UGGA appropriation to the town.

Last year we worked with the unions through the insurance advisory committee or IAC, we made the decision to switch from Fallon to MIIA and further decided on Health Savings Accounts for all qualified employees. With the decision to go to HSA's, the average employee is saving 6.1% on healthcare versus last year. MIIA has offered us a three-year deal with year one being a -6.1% decrease, year two would be the MIIA Trust average and year three the worst we could do is the high end of the trust average.

The School Department's preliminary budget will receive an additional \$500,000 from the town and \$37,080 in Chapter 70 from the State. 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.

One significant issue facing the School Department are special education costs. These costs have nearly doubled in the last 3 fiscal years, going from \$1 million in FY 20 to a projected \$1.93 million in FY 23. The next two fiscal years will be about the same and the projection in FY 25 is they drop to 1.4 million. Our plan is to use free cash over the next two years to offset this spike in special education out of district costs to make a smoother transition from FY 23 to FY 25. At the same time circuit breaker will kick in, along with some retirements that should help the situation. In addition, the development of Blackstone logistics in South Sutton and Unified in Wilkinsonville will help with the overall financial situation in the town.

The town has fewer additional students attending Blackstone Valley Vocational Technical School in FY 23. The budget for Blackstone is based upon the student enrollment as of October 1, 2021. We put a placeholder in the budget of \$69,000. Blackstone Valley Vocational Technical School will vote on their final budget in the first week of March. The town will be budgeting \$2,023,000 for 118 students. The state aid formula penalizes "wealthier" communities and we pay more per student than our surrounding neighbors.

Currently there are no new applications for Norfolk Agricultural School, and we have four students graduating. Right now we are budgeting for one student at \$25,000. We still have to wait to see if any students do apply to attend.

The FY2023 budget raises \$26,762,762 in local property taxes or 73% of all revenues. This number reflects a budgeted 2 1/2% increase plus new growth (\$200,000) over FY22 which equals \$766,406.

State aid to Sutton makes up 18% of Sutton's revenue. This year we are receiving \$6,446,435. The Governor committed \$37,080 to Chapter 70 aid and \$23,164 for UGGA monies. This reflects the existing funding of Chapter 70 and Unrestricted General Government aid (UGGA) formally lottery aid. This is the first year that we actually get a negative cherry sheet. All totaled with the receipts and the charges we owe \$30,000 to the state.

Chapter 70 aid has just barely exceeded the amount that was budgeted in the FY 2009 budget, 14 years later. The town contributes an additional \$400,000-500,000 annually to the school budget. Where the State contributes an additional \$30,000-\$40,000 per year. The State continues to put increasing reliance on the property tax by their failure to appropriately fund state aid.

Local receipts serve as the third major source of revenue for the town. This year we are appropriating \$2,293,591. 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.

In FY 23 we will be receiving solar renewable energy credits (SRECs) from 4 separate municipal facilities, the sewer treatment plant, the senior center, the Middle School/High School and the Manchaug fire station. The solar on the Early Learning Center has reached its 10-year mark and we will no longer be receiving SRECs from that system. Ostrow recently completed the solar on

the new police station carport and we're getting good production from that system. The town owns these respective solar arrays outright and therefore the SRECs are revenues available for appropriation. One thing to keep in mind is that the SREC program is a 10-year program. So after 10 years we no longer receive the SREC 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 town eliminated the use of free cash from our revenues. This year with the special education out of district costs ballooning we will have a separate article to fund special education costs. Because we believe this is a short-term issue we will be using free cash for the next two years. In the third year, special education out of district costs decrease by \$500,000 and with state circuit breaker money and retirements we should be able to handle this cost.

The stabilization fund is at \$2.65 million, and in keeping with the Select Board's Stabilization Fund policy, we may budget the interest from the stabilization fund as an additional recurring revenue. The danger of using free cash is that it is one-time revenue, it is not recurring. To avoid a structural deficit, we have to continue to reduce our reliance on these revenues and avoid the temptation of using one-time revenue for items other than one-time costs.

On the expenditure side, employee benefits, mainly health insurance, is one of the biggest budget items. We currently budget a total of \$3,176,000 million in health insurance costs. The health insurance budget number is \$2,733,000, but we also have a health savings account (HSA) match, health reimbursement account, and an opt out provision which make up the difference between \$3.17 million and \$2.733 million. We have worked hard to control our healthcare costs and currently all active employees are enrolled in an HSA. This year we are anticipating a 3.75% increase in healthcare. At the same time we will be addressing the few employees that never contributed to Medicare. These employees were hired prior to the Medicare law going into effect in 1986. The town will enroll these employees in Medicare and pay for the Medicare penalties accrued. We will save money by enrolling these individuals in Medicare and paying the penalty.

One other thought on healthcare, we left Fallon health because we had a very small pool of employees. We stood alone as the town of Sutton with a total of 300+ employees. Any one bad experience could increase the rate beyond what we could afford. By moving to MIIA, we are in a larger pool of over 400 cities, towns and municipal agencies. The larger pool means our experience is shared among all members of this group which mitigates peaks in health insurance costs.

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 \$3.7 million in FY 22. 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 \$435,000. We have appropriated money to repave the Early Learning Center and Elementary School parking lots for \$300,000. We are also buying a small bus for the athletics program, and paying for some technology upgrades and computers for the graphic arts program. The town will be increasing their appropriation by \$537,080 in this preliminary budget. This amount includes the \$500,000 Town appropriation as well as the \$37,080 in Chapter 70 aid. We will request from our local state delegation additional help with state aid.

This is the last year we will be utilizing our consultant Doreen DeFazio, with the Green Communities program. Over the last 10 years, the town of Sutton has received more than \$1 million in Green Community funds. We are consistently over 30% energy reduction since our base year and other than LED light replacement at the schools, we don't have any future projects in our pipeline. I will use the money allocated to the contract to give Pam Nichols a bump for grant writing and Jen Hager to continue green communities quarterly and annual reports. It has been a pleasure working with Doreen over the past seven years. The position originally started as a shared position between Millbury and Sutton. Doreen has done everything we have asked her to do and more. The town would like to thank Doreen for her service.

The town of Sutton is a tree city USA. One of the beautiful aspects of Sutton are the tree-lined streets. Some of these trees are dead or dying and present a threat to the residents of Sutton. This year we have increased our tree budget from \$30,000 to \$50,000. We need to invest in this area to avoid incidents such as the tragic accident a few years ago of a fatality with a tree striking a motorist.

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 fees at the transfer station will remain the same as they were last year. The transfer station offers a low-cost option for trash and recycling.

This year's capital plan is funded in the amount of \$1,259,000. The majority of this capital plan will be funded through free cash and new growth. The School Department will receive \$435,000 of the allocated capital funds. The remaining funds are allocated between the Fire Department (\$125,000), Police Department (\$136,000), Highway (\$313,000), Town (\$150,000), Senior Center (\$40,000) and the Planning Dept (\$60,000).

The last two years our patience has been tried and we are coming out stronger and more resilient. We are now looking at significant developments with the Blackstone Logistics project and the Unified² project which will bring in significant revenue to the town in a couple of years. But we're not there yet. We do have a lot of needs, but first and foremost, we need a responsible budget.

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