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James A. Smith, Town Administrator

**Town Of Sutton
Office of the Town Administrator**

May 9, 2011

Dear Residents of the Town of Sutton:

It is with great respect that I submit to you the Town of Sutton's annual operating budget for fiscal year 2012 in the amount of \$26,016,498. The FY2012 budget is \$1,275,054 or 5.15% higher than the FY2011 final budget of \$24,741,444. Excluding debt exclusion debt for the new school project our budget is decreasing 1.8%. This budget is based upon the House budget which reduces our state Lottery Aid by an additional 7.2% while increasing Chapter 70 aid to schools by .2% and eliminating the Police Career Incentive reimbursement.

The past three year's have been difficult not only for the Town of Sutton but for all families who have struggled during these difficult economic times. As a Town, our revenues have been reduced significantly since FY2009, however we are still effectively weathering the downturn. To cope during the economic downturn, the Town has reduced departmental expenses, left positions vacant and looked to develop new revenue sources all the while limiting our use of one-time revenues. With this budget we make every effort to maintain services at existing levels while dealing with state aid cuts, the loss of federal stimulus money to the schools and significant increases in employee benefit costs. The non-debt service, non benefit increase in the FY2012 budget amounts to \$141,000 or .56% over FY2011.

The FY2012 budget raises \$17,069,608 in local property taxes or 66% of all revenues. This number reflects a budgeted 2 1/2% increase plus new growth over FY11 which, in total, amounts to \$457,000. The remaining increase in the tax levy is due to the net increase in debt exclusion debt due to the new Middle School/High School project. The new school debt service is funded at slightly over \$1.6 million, however due to existing debt exclusion articles being paid off, the net impact is approximately \$600,000. A bit later in this message, I will discuss the debt plan for the new school and the anticipated tax impacts on the Sutton homeowner. Other than some small increases in local receipts, the increase in the tax levy by 2 1/2% increase plus new growth is once again the only increase in revenues to the Town.

State aid to Sutton makes up approximately 22% of Sutton's revenue. This is down from 25% in FY2009. The House budget reduces total state aid to Sutton by approximately \$27,000. This reflects a \$47,740 or 7.2% cut in lottery aid, a ½ % or \$27,246 increase in Chapter 70 school aid and elimination of the Police Career Incentive aid of \$6,182. Since 2009, Lottery aid to Sutton has been cut \$360,000 or 37%, Chapter 70 school aid has been reduced \$394,000 or around 7%, and Police Career Incentive aid has been reduced by \$66,131 or 100% for a total of \$816,000 over three years. It is my hope that this is the last year of significant state cuts and that state aid may rebound with the recovering state economy.

Local receipts serve as the third major source of revenue for the town. The largest source of local receipts is the motor vehicle excise taxes. While some of the revenues like vehicle excise taxes and investment income are off their highs, overall local receipts have held steady in part due to efforts to try to generate revenue from additional sources. We have added small amounts of revenue with the leasing of the Manchaug Library (\$12,000/year); the regionalization of health services (\$5,000-\$10,000); the planned but not yet budgeted cell tower at Town Farm Rd (\$40,000); and for the first time we are budgeting revenue from solar renewable energy credits (SRECs). SRECs are credits that the Town receives for generating solar electric power from the recently completed 200,000 watt/year system on the roof of the Simonian Early Learning Center. We will have approximately 200 SRECs to sell on the SREC market with a market floor of \$300/SREC and a ceiling of \$600/SREC. This will generate between \$60,000 and \$120,000/year. We have conservatively budgeted \$60,000 for the upcoming year.

One-time revenues serve as the final significant source of revenue for the Town budget. These one-time revenues include interest from the Stabilization Fund and Free Cash. Free Cash is accumulated as a result of unexpended appropriations and excess revenues from the prior fiscal year. The Fiscal Year 2012 budget will be the first time in four years that we have not budgeted less than the prior year with the goal of reducing our reliance on this non-recurring revenue. The Fiscal Year 2012 budget level funds the use of free cash at \$500,000. In addition, we are reducing the amount of interest from the Stabilization Fund from \$60,000 to \$30,000 to support the budget. If we continue to budget the FY2011 amount of \$60,000 and with interest rates at all time lows we will begin to deplete the Fund. 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.

As I mentioned earlier, departmental budgets increase in total by approximately \$141,000. As for personnel, the Police Union is entering the final year of a contract and is due a 1% raise. We are currently in negotiations with the Teamsters union for a successor agreement starting July 1st. The town department heads received a 0% raise in FY2010 and an economic 1.5% in FY2011, and this budget provides for the same economic 1.5% increase for FY2012. We are still awaiting the final numbers from the State which could impact the budget but there are strong indications that the House and Senate will reconcile without any impact on our budget.

On the expenditure side, employee benefits by far make up the largest increase in this year's operating budget. Our health insurance increase of \$300,000 is 14.7% for FY2012. Other benefit increases in this year's budget include: pension contributions \$70,000 or 11%; and unemployment compensation up 200%, which is being taken up as a separate article.

On the school side, the teacher's contract is open and being negotiated by the School Committee. 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. The school department budget is increased \$27,246 or the amount of the Chapter 70 increase. Should the State increase the Chapter 70 appropriation to the Town, then we will look to increase the school appropriation by that amount. In addition, the school department will realize the energy savings, approximately \$25,000, from the Solar PV system at the Early Learning Center. Lastly, the Town will look to cover the significant unemployment costs (estimated at \$140,000) associated with the school department's budget which eliminates 7 positions for a net decrease of 5.5 FTE's.

After years of planning and design, the Town will be breaking ground this spring on the Sutton's new middle school/high school project. Phase 1 will involve the installation of portable classrooms and the demolition of the middle school at the end of the school year. While this project will take us through 2014, we have taken advantage of the historically low interest rates and have bonded \$25 million dollars at 4.03987%. We will borrow the remaining \$5 million or so towards the end of the project. The FY2012 debt service for the new school project is funded at slightly over \$1.6 million, however due to existing debt exclusion articles being paid off, the net impact is an increase of approximately \$600,000 in debt service. Over the next four fiscal years including FY12 we will be increasing the debt exclusion debt service to pay for the school project. We anticipate the debt exclusion debt service for this project to peak in FY2015 and then to decrease annually from that point.

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 as presented represents an increase of 6% over FY2011. This increase is due to contractual increases mainly with the Upper Blackstone Water Pollution Abatement District.

The trash transfer station had another productive year and we ended the year with revenues exceeding expenses. We intend to maintain the existing sticker and bag fees for the fifth consecutive year in FY2012. The transfer station continues to provide a very low cost, high recycling rate, alternative to curbside pickup. In 2010, the recycling rate for the Transfer Station was 50%.

This year's capital plan is funded in the amount of \$499,000. The school department, as the largest department in the Town, will receive \$194,000 of the allocated capital funds. The remaining funds are allocated between the Police Department (\$55,000), Fire Department (\$60,000), Council on Aging (\$60,000), Highway (\$85,000), Town Hall improvements (\$22,000) and a Town Master Plan (\$25,000).

In addition to the budget, two other items on this year's Town Meeting Warrant will be the proposed adoption of the Stretch Energy Code and the creation of a reserved for appropriation account for Other Post Employment Benefits (OPEB). In the fall of 2010, the Board of Selectmen established a goal of obtaining the Green Community designation under the State

Department of Energy Resources. By becoming a Green Community the Town not only commits to reduce its energy consumption, but by meeting the 5 required criteria, the Town will be able to access a grant pool of \$10 million/per year available to all Green Communities, to invest in renewable energy projects.

A Reserve for Appropriation account will be created in the fall of 2011 in anticipation of receiving Medicare Part D reimbursements from the Federal Medicare program which we intend to apply to the OPEB liability. The Medicare Part D reimbursement was created when the Federal government created Medicare Part D prescription coverage. If a community offers a prescription plan to its retirees that is equal or better than the Federal program, then the federal government reimburses the local government providing the plan. We began the paperwork for this program over a year ago and we anticipate approximately \$30,000 coming to Sutton sometime in fiscal year 2012. We intend to apply these reimbursements to partially fund the OPEB liability, which are the unfunded costs of retiree health care.

As I say every year our ongoing challenge continues to be to live within our means while growing at a rate supported by recurring revenues. We live in a very special town and we will work together to protect and ensure that Sutton emerges from these economic challenges with the same high quality of life that our residents have grown to expect.

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, whose title really should be assistant Town Administrator, for her outstanding service to the Town, the Board of Selectmen and myself. In addition I want to thank Tim Harrison and Catherine Van Dyne for their assistance in putting this budget together.

Lastly, I want to thank the Board of Selectmen 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 Administrator