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James A. Smith, Town Administrator

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

May 12, 2014

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 2015 in the amount of \$28,492,982. The FY2015 budget is \$540,783 or 1.9% over FY 2014 final budget. The Governor's budget level funds unrestricted general government aid (UGGA) also known as lottery aid. The governor did give a small increase of \$37,000 in chapter 70 aid. I have included the \$37,000 increase in chapter 70 aid to the School Department budget. I am keeping the lottery aid level funded at this point in time. If we get any additional lottery aid it will be presented at the fall town meeting.

While there remains a question on state aid, the rest of the budget is looking good. The biggest uncertainties in this budget are healthcare, debt service and the Blackstone Valley Vocational school. You may recall that last year Fiscal Year 14 we worked in partnership with the insurance advisory committee to redesign our health plan at a significant savings to the town. In addition, our health insurance carrier Massachusetts Interlocal Insurance Association (MIIA) guaranteed our rate for two years with the second year maximum increase of 3%. In addition to the 3% increase we had a number of new employees join the health plan. We are also anticipating a few retirees continuing to receive healthcare. We budgeted \$138,000 to deal with these anticipated costs.

The second significant impact on the budget is debt service. For FY 15 we will see a reduction in debt service costs to the town. The peak of the Middle School/High School debt was in FY14. In FY 15 the total debt service will decrease by \$129,000. Most of that was debt exclusion debt, so the tax rate correspondingly decreased as well.

Finally, Blackstone Valley Vocational Technical School appropriation is decreasing by \$46,000 due to a decrease in student enrollment from 92 students to 86 students. One issue I would like to bring to the attention of the town is a request from Dr. Fitzpatrick to allow Blackstone Valley vocational regional school to borrow \$2.9 million to expand their program. This is a 20 year borrowing with the initial payment of \$19,225 and the average Sutton debt over the 20 year term of \$15,500. This expansion will provide 200 new seats for three additional programs. There are

13 communities in the Blackstone district, so that is an average of 15 new students attending Blackstone Valley. That potentially could be a serious budget issue in the future.

The School Department's preliminary budget will receive an additional \$301,000. This budget includes no layoffs in personnel from the School Department. This is the first year out of the past three years that we can say no layoffs within the School Department. The School Department budget is spending the \$600,000 from school choice to balance this budget. The School Department will probably receive only \$300,000. Once again School Department is building a structural gap with this proposed budget.

The FY2015 budget raises \$19,835,783 in local property taxes or 70% of all revenues. This number reflects a budgeted 2 1/2% increase plus new growth (\$125,000) over FY14 which, in total, amounts to \$433,000. The remaining decrease in the tax levy is due to the net decrease in debt exclusion debt due impart to the new Middle School/High School project.

State aid to Sutton makes up just under 21% of Sutton's revenue. This is down from 25% in FY2009. This reflects level funding of chapter 70 and lottery aid. The town's lottery aid is down approximately 30% or \$300,000 from the funding level in FY 09. Chapter 70 aid is down 5.3% or \$240,000 from the FY 09 level. 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. 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); and we continue to budget revenue from solar renewable energy credits (SRECs).

This fiscal year we installed solar panels at three separate municipal facilities, the sewer treatment plant, the senior center, and the Manchaug fire station. The sewer treatment plant and the senior center will use all of the electricity at their respective sites. The Manchaug fire station will produce excess energy from their solar panels. We are doing a net metering program with the excess electricity generated from Manchaug fire station. We are planning on allocating 75% to the senior center and 25% to Town Hall. A number of facilities electrical bills will go down in FY 15. We will also generate additional revenue from the sale of 80 SRECs that we generate in FY 15.

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. We are not taking any money from the stabilization fund to support this budget. Free Cash is accumulated as a result of unexpended appropriations and excess revenues from the prior fiscal year. The Fiscal Year 2015 Budget funds the use of free cash at \$228,500, down \$20,000 from FY 2014. Our goal continues to be zero reliance on free cash as a funding source for the budget. We continue to make progress towards this goal. 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 continued to put less stress on this budget due to the negotiated changes to the town's health plan. As I mentioned earlier in this message, we are funding a \$138,000 increase in healthcare which is significantly below what we normally fund. In addition, we created a health reimbursement account or HRA. The HRA will help offset some of the employees deductibles for outpatient surgery and inpatient hospital care.

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 has gone down to roughly \$1 million dollars in FY 12. In FY 13 the number is even lower at roughly \$800,000. In FY 14 the number is \$840,000. The chapter 70 formula is designed in such a way that puts more 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 \$56,000 for the data processing salaries and funding the capital program at \$160,000. The town will be increasing their appropriation by \$301,000 to the schools in this budget.

Last fiscal year I wrote that the new middle school was halfway complete, what a difference a year makes. That is still true today. The Board of Selectmen terminated TLT in October 2013. We also put a claim on Western surety for a breach of contract by TLT. Western surety presented Brait builders as the completion contractor. The Board of Selectmen unanimously agreed with Western surety's recommendation. The entire project should be complete for the fall of 2015. The debt exclusion debt service for this project peaked in FY2014 and will start to decrease over subsequent fiscal years.

This is the second year we are funding the other post-employment benefits trust fund (OPEB) out of the general fund. OPEB for the town of Sutton is retiree's healthcare. As of January 2014 the balance in our OPEB trust account is \$367,000. That is a significant number but we still have a lot of work to do. In fiscal year 13 we made significant changes to our active employees health care plan as well as our retirees health plan and we should see a significant reduction in our OPEB liability which will be assessed by an actuarial company in July 2014.

In 2010 our unfunded liability anticipated for 2012 was \$25 million. We made some changes and partially funded the OPEB trust, our actuarial liability, in 2012 was \$8 million less than anticipated or \$17 million dollars. Ideally, we would make an annual contribution to OPEB trust while we make plan changes for active employees and retirees that reduce our overall liability.

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 as well as salary changes.

The trash transfer station has retained earnings a little over \$4000 for fiscal year 2013. The current transfer station operator David Arsenault does a great job overseeing the transfer station. With David's efforts the town has seen an increase in revenue from a number of different areas. Hopefully at the end of fiscal year 2014 we will see retained earnings increase to make it possible to upgrade/repair some of the compactors at the transfer station.

This year's capital plan is funded in the amount of \$623,500. The school department will receive \$160,000 of the allocated capital funds. The remaining funds are allocated between the Police Department (\$91,500), Fire Department (\$230,000), Highway (\$82,000), the Planning Department (\$50,000), and the Town (\$10,000).

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. The town has done a good job on decreasing our utilization of one-time revenues so there's less chance of a structural deficit. The Board of Selectmen's goal is to make the town of Sutton a sustainable community and that begins with a sustainable 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 Board of Selectmen. In addition I want to thank Tim Harrison and the financial team 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