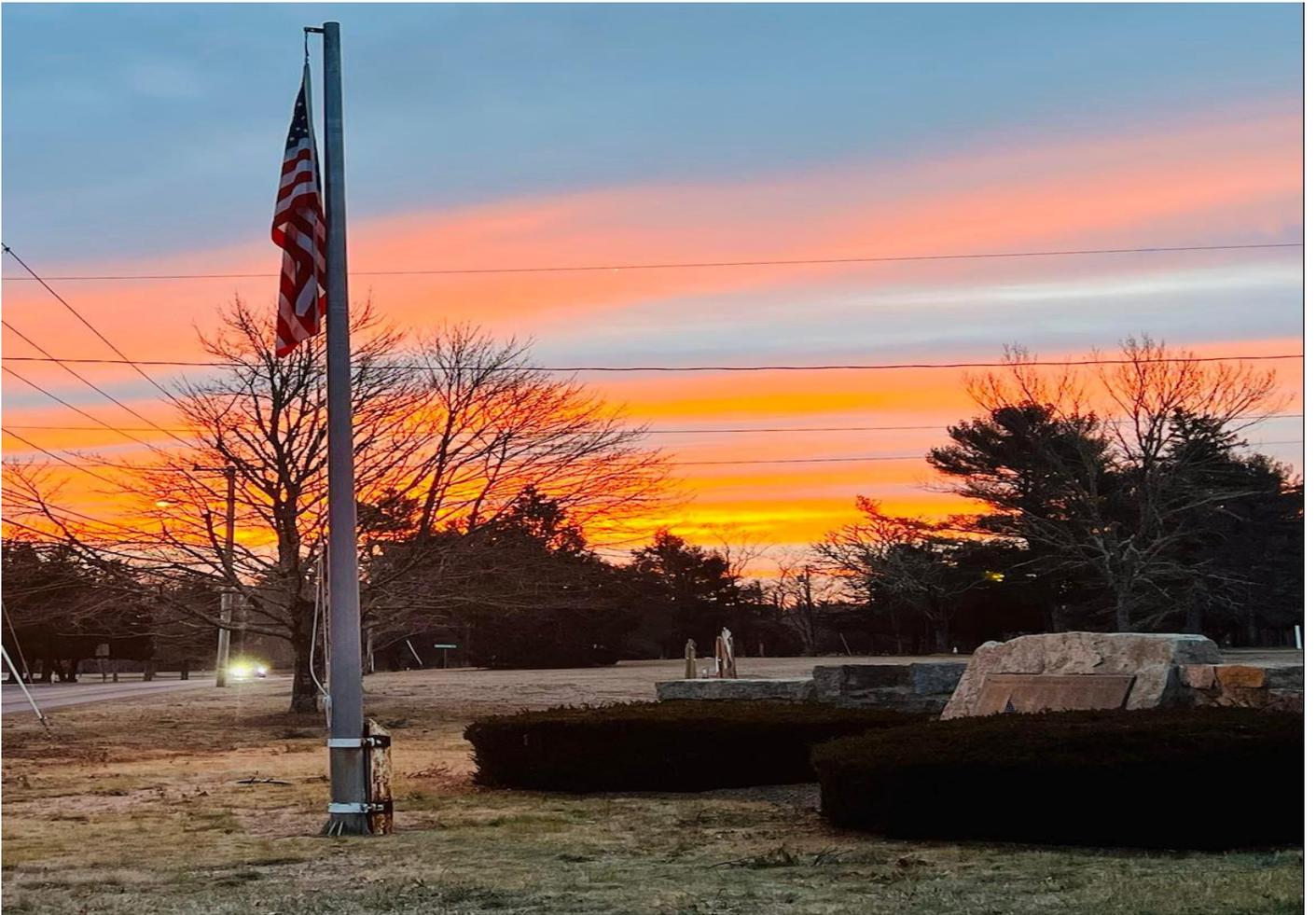


Town of Rochester Massachusetts Proposed Budget Fiscal Year 2023



Prepared by:
Rochester Finance Committee

A Citizen's Guide to the Budget

Budget Message for 2023

The following is an overview of the budget process for the FY 2023 for the Town of Rochester. We have prepared a budget for 2023 which maintains level service funding and provides funds for Capital expenses through the use of Free Cash and Special Stabilization Funds. There are no new or unusual expenses in this year's budget and we have maintained significant reserve funds for any unexpected contingencies for this budget year.

The majority of State aid is made available to the town under two headings. The first is state aid for local government purposes known as "**Unrestricted General Government Aid**" to the town. The second major source of funding is known as "**Chapter 70**" funding for the schools. In rough numbers the amount for Unrestricted General Government Aid is approximately \$479,000 to the town and approximately \$2,384,000 is distributed as Chapter 70 money for the schools.

As this "Budget Message" is being prepared in May 2022, we are using the Governor's budget proposal for planning purposes. The practice in this state is to have both the Governor's budget proposal followed by the legislature's budget proposal. Traditionally the Governor's proposal would be the conservative approach and the legislature would submit their budget proposal. In any event we need to have some guidance as to the state aid for our budget preparation and we have decided to work with the Governor's proposed budget for this fiscal year. We think the Governor's revenue estimates are realistic and conservative.

After making adjustments to state aid, the finance committee had to review the revenues that the town of Rochester receives from "Property Taxes" "Fund Transfers" and "Local Receipts". Because the town's tax base is mostly derived from residential property, those taxes are expected to remain the same from last year. We do not anticipate any loss of revenue from local receipts which are primarily "payment in lieu of taxes" (most notably SeMass/Covanta), and motor vehicle excise taxes.

As we have mentioned in previous guides the Town of Rochester has been prudent during the "good years" and has set aside money in several "Stabilization Funds" to cover spikes in special education costs, increased student enrollments, road improvement, public safety capital, capital improvement and most importantly the Town Stabilization Fund which would be used as the Town's main financial reserve in the event of an emergency or extraordinary need. The goal for the funding of Town Stabilization Fund is between 10% and 15% of annual General Fund operating balance of \$24,174,626. Currently, the balance in the Town Stabilization Fund is \$2,247,000. We will be adding additional money to those funds to bring them as close to their established goal as the budget permits.

The Annual Budget document is more than just numbers; it is a reflection of our community's values, priorities and goals. The Budget document serves as a policy document, a financial guide and a communications device to the Town residents. To this end it is designed to be as user friendly as possible. This guide was created to help orient townspeople by providing a brief overview of the budget process, as well as an explanation of the organization of the budget document itself. We hope that you will find this guide a useful tool as you make decisions at the Annual Town meeting.

The Budget Process

The Town of Rochester operates under State statutes and the Home Rule Charter as amended to establish the Select Board-Town Administrator form of government. The legislative body of Rochester is an Open Town Meeting comprised of all registered voters. Town Meeting has the sole authority to appropriate funds for the operating budget and capital projects except for specific instances where statutes or regulations do not require appropriation. Any amendments to appropriations require Town Meeting vote at either a regular or Special Town Meeting.

The final budget voted by Town Meeting constitutes the legal budget authority that ultimately governs the manner and amount of local funding expended during the fiscal year.

Budget Calendar

December

- * Town Administrator sends budget request forms and budget guidance to all departments

January

- * Town Administrator receives and reviews requests
Finance Committee begins its review process

February/March/April

- * Town Administrator & Finance Committee review
Capital plan with Capital Planning Committee
- * Finance Committee holds public budget meetings
with departments as needed to review their budgets
in detail

April/May

- * Select Board and Finance Committee hold public
meeting to review and make recommendations
on all budget requests and all money articles that
will be presented at the Annual Town Meeting

Town of Rochester Community Profile

Incorporated: June 4, 1686

Land Area (including ponds): 39 Square Miles

Public Roads: 74 miles

County: Plymouth

Population: 5,717

Form of Government:

Town Administrator

Three Member Select Board

Open Town Meeting

FY 2022 Tax rate per thousand:

\$12.74 down from previous year (2021 / \$13.37)

2022 Average Single-Family Home Value:

\$471,053 up from previous year (2021 / \$431,870)

2022 Average Single-Family Tax Bill:

\$6,001 up from previous year (2021 / \$5,774)

FY 2022 Town Operating Budget

Budget: \$24,174,226 up from previous year (2021 / \$22,887,488)

FY 2022 Stabilization Fund Balance

\$2,247,071 up from previous year (2021 / \$1,645,000)

Town Hall Offices

1 Constitution Way
Rochester, MA 02770
Phone 508-763-3871

Town Hall Annex

37 Marion Road
Rochester, MA 02770
508-763-5421

Budget Message

Goals and Objectives of the FY 2023 Budget:

1. To protect and improve the Town's overall Financial Condition, which is broadly defined as our ability to maintain existing service levels; withstand local and regional economic disruptions; and meet the demands of natural growth, decline and change.

By engaging with the Town's boards and committees in regular discussions that involve budget needs and policy decisions in order to avoid financial problems or emergencies. To that end regular department head meetings are conducted during the year to discuss staffing issues, capital improvements and financial trends.

By continuously monitoring cash flows from various enterprises to see if the underlying assumptions require modification based upon changing conditions or data.

2. To develop a budget that is in conformance with guidance from the finance committee and does not rely on one-time gimmicks or unattainable practices.

By ensuring that current revenues are sufficient to support current operating expenditures. Use of one-time Free Cash in the FY 2023 Annual budget will be capped at \$500,000 this year. That is a decrease from last year by \$50,000. The guidance for the use of Free Cash is to stay within a range of 2-3% of the total operating budget.

By ensuring that debt is not used to fund operating expenditures and is only issued for capital improvements greater than \$25,000 with a useful life of five or more years. In practice, the finance committee endeavors to pay cash for vehicle and equipment purchases under \$100,000 and only issue debt for major facility or infrastructure improvements.

By maintaining adequate financial reserves in the Stabilization Fund of between 10% and 15% of the operating budget to deal with significant unexpected natural or economic disruptions. In addition to the Stabilization Fund, the FY 2023 budget will hold \$70,000 in a Reserve Fund for smaller unforeseen expenses. This is the same amount as last year's Reserve Fund.

3. To maintain Rochester as an affordable place to live and operate a business

By developing a FY 2023 Budget that is within the confines of Proposition 2 1/2 and includes reasonable tax increases necessary to maintain current service levels.

By encouraging economic development through maintenance of a single tax rate without artificial surcharges on businesses.

By negotiating sustainable collective bargaining agreements with the Town's unions.

4. To protect the Town's long run solvency beyond the immediate budget cycle by developing clear policies regarding issues such as debt, pension obligations, OPEB liabilities and capital investment:

By passing the Green Community Act in 2019 the Town of Rochester has joined 240 cities and towns in Massachusetts with access to grants that have paid over \$44,000,000 for energy related projects. In FY22, the Town of Rochester completed the second phase of energy conservation measures for use in municipal facilities and received grant funding in the amount of \$162,776. The third phase of improvements will begin in FY23 and we anticipate further grant funding based on additional energy related projects for the town.

By continuing to fund OPEB in order to address the Town's OPEB liability.

By annually reviewing the Town's five-year Capital plan with the Capital Planning Committee in conjunction with debt service levels and Free Cash positions.

Recent Developments

During the month of March significant budgetary items have been finalized, including Health Insurance and new growth estimates.

Health Insurance – The FY 2023 Employee Group insurance cost of \$1,131,602 represents a total increase of \$56,051 or 5.21% increase from the amount budgeted last year. The town employees currently split insurance costs on a 50% employee contribution and a 50% town contribution.

**Employee Group Insurance
Budget Changes**

FY 2014	+1.62%
FY 2015	+0.94%
FY 2016	+5.38%
FY 2017	+16.95%
FY 2018	+7.00%
FY 2019	+5.86%
FY 2020	+2.65%
FY 2021	-2.23%
FY 2022	+4.73%
FY 2023	+5.21%

Debt Service – The proposed FY 2023 debt service budget provides for the payment of principal and interest costs for long- and short-term bonds issued by the Town for General Fund purposes. For FY 2023, the Debt Service budget for the General Fund is broken into 2 parts; **Exempt** (meaning the debt service is not subject to proposition 2 ½ limitations) and **Non-Exempt** (meaning it is subject to proposition 2 ½ limitations). FY 2023 **Exempt Debt service** is \$927,543 which is a **decrease** from prior year of \$80,275. FY 2023 **Non-Exempt debt service** is \$179,128 which is a **decrease** of \$66,536 from prior year.

Of note is the Town’s strong bond rating by Standard & Poor’s which is AA+. The high rating is based on the following:

**Very strong economy* as the town is in the Boston-Cambridge-Newton metropolitan statistical area (MSA)

**Strong management* conditions based on financial policies and practices

**Very strong budgetary flexibility* based on strong available fund balance

**Strong budgetary performance* with a history of positive general fund results

**Very strong liquidity* providing very strong cash levels to cover both debt service and expenditures.

**Strong Management* – Standard & Poor’s considers Rochester’s financial management practices “good” under its FMA methodology, indicating practices exist in most areas, although not all may be formalized or regularly monitored by governance officials.

(Above comments from Standard & Poor’s credit profile dated May 21, 2014)

State Aid – Current budget models assume that State Aid is unknown. Over the coming months, the House and Senate will release their respective budget proposals and reconcile the differences through a joint committee. Historically the Town does not receive its final State Aid figures until well after Town Meeting. For budget planning purposes for 2023 it is estimated that an increase in unrestricted state aid and Chapter 70 (school aid) will be approximately \$324,906.

New Growth – In accordance with Proposition 2 ½, a Town is allowed to increase the levy limit each year by an amount based on the value of new development and other growth in the tax base. The purpose of this provision is to recognize that new development results in additional Town costs. Taxes from new growth for FY 2023 are estimated at \$400,000 based on an analysis of building permits and ongoing construction projects.

Budget in Brief

Similar to prior budgets, the FY 2023 Proposed Budget relies on projections regarding available revenue, thereby accepting the limits of the Town's financial resources. The budget is built upon an established ceiling of revenue derived from local property taxes in accordance with Proposition 2 ½. Added to these revenues are State Aid, Departmental Receipts such as fees, permits, interest earned and available funds such as Free Cash and Special Revenues.

The proposed 2023 budgets for the key departments will **increase/decrease** as follows:

- Rochester Memorial School budget will **increase \$194,144** or 3% to \$6,671,152
- Bristol Agricultural High School assessment will **decrease \$31,569** or -9.83% to \$289,698
- Old Rochester Regional High School assessment will **increase \$177,871** or 3.57% to \$5,165,848
- Old Colony Vocational High School will **increase \$253,859** or 20.56% to \$1,488,292
- Town Hall Building will **increase \$74,992** or 18.4% to \$482,385
- Fire Department will **increase \$29,982** or 8.6% to \$377,089
- Police Department will **increase \$202,852** or 14% to \$1,632,454
- Employee Group Insurance will **increase \$56,051** or 5.21% to \$1,131,602
- Highway Department will **increase \$44,009** or 7.56% to \$626,023
- Plymouth County Retirement **increase \$74,844** or 8% to \$1,013,747

General Government Budget

The total FY 2023 General Government Budget (non-school) is \$10,455,707 which is an increase of \$588,944 or 5.97%. It is important to note that fluctuations in several key elements of the budget are the health care costs which can increase between 2-10% annually, town retirement costs and changes in student enrollment in the Regional and Vocational High Schools.

Financial Condition and Outlook

Based on prior trends the town can anticipate new growth revenue to range between \$100,000 to \$200,000 annually. This year we are expecting new growth of \$400,000. Another recurring revenue number is the property tax levy limit which increase is based on proposition 2 ½. This year the levy limit allows for \$347,677 in additional revenue. Added to that base are “one time” revenue additions which consist of “Free Cash” (funds remaining from the operations of the previous fiscal year) and other funds such as FEMA reimbursements for natural disasters i.e. snow removal, hurricane damage etc. This Year’s new revenue of \$751,169 based on levy limit increase and new growth is equal to a 3.1% of total town budget.

A long-standing concern is the unfunded pension liability and Other Post-Employment Benefits (OPEB) obligations which are potential emerging problems for the Town. In addition to those concerns are the uncertainties surrounding the level of State Aid and future increases in health insurance premiums. Moving forward it will be important for the Town to continue to refine the funding plans for its Other Post-Employment Benefits (OPEB) liability. Other Post-Employment Benefits (OPEB) are the benefits, other than retiree pensions, offered to retirees and their dependents. These benefits mainly consist of medical insurance. OPEB liability is the present value of benefits for retired and vested employees. An unfunded liability reflects an incurred obligation, payable in the future, for which no reserves have been set aside. Based on the latest actuarial study the Town’s liability is \$16,132,401 as of June 30, 2021. To put that “liability” number in perspective, the town is estimated to pay \$251,994 for all retiree benefits in FY 22. This study is conducted every two years. Due to new reporting requirements under GASB 75, 100% of the liability is booked versus only 30 years as required under GASB 45. Cities, Towns and States are all having to deal with the issue of OPEB. It must be remembered that it is based on an “actuarial projection” of the costs of benefits for employees and their spouses who have retired and continue to receive benefits for an uncertain amount of time into the future based on their life expectancy. The town has set aside some money for this contingency but there is no fixed formula and it is in the discretion of the town to determine how much to fund OPEB for the future. The funding amount has to be balanced with the town’s needs to fund other town operations and obligations. Historically we are meeting those post-employment benefits on a “pay as you go” basis. The current balance held in our OPEB Fund is \$174,839.

Capital Budget

In FY 2020, we established a Capital Planning Committee to advise the Finance Committee, Select Board and the Town as to the capital needs of the town and which should be funded this fiscal year. This year's budget incorporates their advice and it is the result of a thoughtful and long-term approach to meeting the capital needs of the town. Funding of the various requests depends on the availability of revenue such as Free Cash (one-time revenue) which would result in no additional tax impact. If a capital item is determined to be an immediate need i.e. ambulance, police vehicle, fire equipment other essential piece of expensive equipment we can borrow within the levy limit or ask for an override. The prioritization of the requests and the availability of a funding source determines the timing of the purchase of any capital request. We recognize that in any fiscal year there will not be enough money to accommodate all of the capital requests. It is the mission of the Capital Planning Committee to review all of the requests for capital funding and provide justification for any funding requests that they determine should be in the current budget. For FY 2023, the following capital needs have been put forth by the Capital Planning Committee:

- a) Fire – Eighty-Two Thousand Dollars (\$82,000) for a Fresh Air Breathing Compressor
- b) Highway – Twenty-Six Thousand Dollars (\$26,000) for a Grass Vacuum
- c) Police – Eighteen Thousand Five Hundred Dollars (\$18,500) for Kevlar Vests
- d) Police – Four Thousand Five Hundred Dollars (\$4,500) for a Key System upgrade
- e) Rochester Memorial School – Fifty-One Thousand Dollars (\$51,000) for a Facilities Tractor
- f) Council On Aging – Ten Thousand Dollars (\$10,000) for Security Cameras

Major Upcoming Issues or Projects

Looking forward to FY 2023, the Town will undertake a significant review of its existing Master plan which was developed in 2009. The Town is eligible for funding from the state agency known as “Community One Stop for Growth”. Future town economic needs and projects will benefit from this study.

Conclusion

The Proposed Budget is balanced and meets the previously determined budget goals. The proposed FY 2023 budget is within the budgetary increase allowable under Proposition 2 ½.

I would like to take this opportunity to thank the members of the Finance Committee Peter Armanetti, David Arancio, Jim Austin, Tony Ruocco and Assistant Town Administrator/Accountant Suzanne Szyndlar for their continued service and valuable contribution to this report. I am looking forward to working closely with the new Town Administrator, Glenn Cannon.

Kristian J. Stoltenberg,
Chairman, Rochester Finance Committee

Glossary of Terms used in Municipal Finance

Appropriation: An amount of money that has been authorized by vote of Town Meeting to be spent for a designated purpose.

Capital Expenditures: Each community should develop a separate five-year capital plan that indicates specific capital requests for the coming fiscal year. This section of the budget presents the purchases proposed to replace or augment the town's fleet of vehicles and equipment expenditures to replace, upgrade or expand the town's infrastructure.

Debt Authorization: Formal approval by a two-thirds vote of town meeting to incur debt, in accordance with procedures stated in M.G.L. Ch. 44 s 1,2,3,4a, 6-15.

Bond: A means to raise money through the issuance of debt. A bond issuer/borrower promises in writing to repay a specified sum of money, alternately referred to as face value par value or bond principal, to the buy of the bond on a specified future date (maturity date), together with periodic interest at a specified rate. The term of a bond is always greater than one year.

Debt Exclusion: An action taken by a community through a referendum vote to raise the funds necessary to pay debt service costs for a particular project from the property tax levy, but outside the limits under Proposition 2 ½. The additional property taxes are not permanent, but are removed from the levy when the term of the bond ends.

Debt Service: The repayment cost, usually stated in annual terms and based on an amortization schedule, of the principal and interest on any particular bond issue.

Local Receipts: Each town determines the extent to which programs and services will be supported by fees and charges. Such local receipts include but not limited to the following:

Motor Vehicle Excise	Penalties and interest
Payment in Lieu of Taxes (PILOT)	Charges for services
Departmental revenue	Licenses and permits
Fines and forfeits	Investment income

Other Available Funds: This category includes a variety of funds that are available for appropriation to balance the budget. The following are the major categories of other funds available:

Free Cash: *Surplus revenue* – revenue collected in excess of estimated revenues
Budget turn backs – unexpended appropriations
Prior year's free cash – the fund balance from last June 30 that had not been appropriated
Outstanding property taxes – taxes collected from prior year

A town's Free Cash is the amount of funds that are unrestricted and available for appropriation. Town meeting may appropriate from Free Cash during a given fiscal year.

Overlay Surplus: This is the amount of overlay no longer required for potential abatements, exemptions, or pending Appellate Tax Board cases. This amount must be declared surplus by the Board of Assessors.

Stabilization Fund: Some communities maintain a more formal "rainy day" fund called the Stabilization Fund. A Stabilization Fund can be used for any legitimate municipal purpose. While a simple majority of town meeting is needed to appropriate to the Stabilization Fund, a two-thirds majority is necessary to appropriate from this fund. Legislation passed in 2003 (Chapter 40 s 5B M.G.L.) allows the creation of Stabilization Funds for a specific purpose.

Reserve Fund: The law Chapter 40 s 6 M.G.L. allows the town to appropriate money either at annual or special town meeting into a Reserve Fund “to provide for extraordinary or unforeseen expenditures”.

Miscellaneous Revenue and Other Funds: These include federal and state grants, gifts, funds from the sale of assets, insurance proceeds in excess of \$20,000, transfers from other town accounts and other reserve accounts permitted by state law.

Gifts and Grants: Gifts and grants given to a town may be expended directly i.e. without appropriation Chapter 44 s 53 and 53A M.G.L. In most cases gifts or grants may be earmarked for a specific governmental unit or project.

Property Taxes: Taxing the value of real estate (land and structures) and personal property (equipment owned by commercial entities) accounts for approximately 50 percent of all local revenue. The amount of property tax that a town can raise is governed by a law known as Proposition 2 ½ (Chapter 59 s 21C M.G.L.) In general, Proposition 2 ½ limits the amount of property taxes raised in any year to 2 ½ percent of a community’s assessed valuation and limits the total increase in property taxes levied from one year to the next to 2 ½ percent.

Revolving Funds: A Revolving Fund receives its income from selling goods and services to users or participants in a program, and expends monies to cover the costs of such goods or the expenses of providing the particular program or service. Spending limits for Revolving Funds must be reauthorized by town meeting each fiscal year.

State Aid: State aid accounts for 10-15 percent of local revenue, and projecting state aid is often an imprecise process. Each year the Department of Revenue issues a document to every city and town and regional school district known as the Cherry Sheet. This two-page document lists the various categories and amounts of state aid provided, as well as offsets and charges from the state, county, and special district assessments that the town owes to other levels of government. Thus, the Cherry Sheet reflects state aid for the coming year minus the deductions for these inter-governmental charges.

School Budgeting:

Foundation Budget: An adequate level of school spending is defined in the law as the “foundation budget”. The foundation budget calculations allocate fixed spending target amounts per pupil for teacher’s salaries and benefits, utilities, maintenance costs and books and equipment, among other things. These calculations are adjusted annually for inflation and also take into account the school district’s pupil characteristics and the regional labor market.

Net School Spending: The total education reform school spending is called “net school spending”. This is the combination of the minimum required contribution from local revenues plus state Chapter 70 education aid. Net school spending does not include school transportation costs or school construction costs. Net school spending can be met through a combination of direct appropriation to the school department budget and indirect costs appearing in other municipal budgets. For example, school health and property insurance may appear in the municipal budget, yet they should be included in the calculations to meet net school spending. For those municipalities that fail to meet at least 95 percent of their net school spending requirement, state school aid may be reduced in the following year. If spending is above 95 percent of net school spending, but below 100 percent, the shortfall must be carried forward and spent in addition to subsequent year’s required net school spending. In many cases, actual spending is above required net school spending so above penalty provisions affect relatively few municipalities

Special Education Circuit Breaker: The circuit breaker (Chapter 71B s 5A M.G.L.) is intended to provide reimbursement to school districts for the cost of individual special education students in excess of four times the state average per pupil foundation budget. The reimbursement formula provides for a 75 percent reimbursement of the amount in excess of four times the state average per pupil foundation budget.