

OFFICE OF THE
EXECUTIVE ASSISTANT



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Town of Hudson

MASSACHUSETTS 01749-2134

December 18, 2023

Mr. Scott Duplisea, Chairman Select Board
Mr. Sam Calandra, Chairman Finance Committee

FY2025 Budget Message – Fiscal Projection #1

Dear Mr. Duplisea and Mr. Calandra:

Pursuant to Section 6-2 of the Charter of the Town of Hudson, enclosed herewith is my recommended budget for the Fiscal Year beginning on July 1, 2024 and concluding on June 30, 2025. Compared to the FY2024 budget approved at the Annual Town Meeting, general fund expenditures for the Town are projected to increase in FY2025 by 2.95% or \$2,770,226.

Introduction

The economy in 2023 was largely sustained by a strong labor market and sustained consumer spending, in spite of soaring prices and interest rates. U.S. employers added 336,000 jobs in September 2023 which is about twice as many as forecasters were expecting.¹ And, while inflation has moderated since the highs of 2022, pent up demand from the COVID lockdowns is continuing to influence consumer spending. During the pandemic, consumers accumulated \$2.1 trillion in excess savings; as of June 2023, consumers spent \$1.9 trillion of it, according to recent data from the San Francisco Federal Reserve.² The national trend in consumer spending has played out at the local level with sustained strong meals excise tax revenue in recent years. It remains to be seen, however, how long this trend in consumer spending can continue, especially in light of the increased debt that Americans have taken on in the past couple of years.

In the housing sector, there continues to be strong demand in Hudson and in the region but with limited supply. The certified FY2024 new growth figure of \$843,077 is largely derived by \$21,502,000 in new residential assessed value that was captured last year. There are projects

¹ <https://www.bls.gov/news.release/pdf/empsit.pdf>

² <https://www.frbsf.org/our-district/about/sf-fed-blog/excess-no-more-dwindling-pandemic-savings/>

in the pipeline as well. A 22-lot single family subdivision on Old County Road and a 14-lot single family subdivision on River Road East are both currently under construction. Housing costs, however, are the highest in 40 years. It now takes nearly 41% of the median household monthly income to afford the payments on a median-priced home, according to research from Intercontinental Exchange (ICE).³ The median home price over the past two years has ranged from roughly 5½ to 6 times the median income - \$445,567 as of October 2023. The average single-family house value in Hudson increased this year by over 11% to \$555,573. In Massachusetts, the rising cost of living, limited supply of housing, and an influx of migrant families are all contributing factors to the state's housing crisis. (The ongoing statewide migrant / homeless families issue and its impact in Hudson will be addressed later in this budget message).

This FY2025 budget filing presents a balanced spending plan which is conservative in its revenue assumptions. It aims to identify resources to maintain level services in municipal departments. I have asked department heads to prepare budget requests for FY2025 which reflect the necessary increases to maintain level services and which anticipate the expected increases in costs for these services. On the personnel side, I am recommending a 2% general wage adjustment for the non-union employee group. There are no new municipal positions being recommended for FY2025. FY2025 represents the final fiscal year for collective bargaining agreements currently in place with most unions. With the Firefighters agreement set to expire on June 30, 2024, negotiations for a successor agreement commenced in October with anticipation of reaching agreement in time for funding at the Annual Town Meeting next May.

I note that, subject to approval by the Board of Assessors, I am recommending the use of approximately \$261,000 in Overlay Surplus, to balance the FY2025 budget (or potentially a combination of Overlay Surplus and Free Cash). With the establishment of the enterprise funds in FY2024, it is now clear that water and sewer revenue has been subsidizing the general fund. The "cushion" that these revenue sources provided in the general fund is now gone and the reduction in local receipts revenue is putting considerable pressure on other revenue sources, primarily the levy, to fund municipal operations. In the coming months as the budget picture becomes clearer, I will be looking to close this deficit, if only partly, by adjusting other revenue categories.

Before beginning an analysis of the proposed FY2025 budget, I would like to highlight some of the investments currently underway in critical municipal infrastructure. I first note that the federal American Recovery Plan Act (ARPA) dollars are continuing to support the projects initially approved by the Select Board in 2022. Hudson's direct ARPA allocation was \$5,937,485. As of November 2023, \$1,877,698, or 32%, has been spent. Per federal legislation, these funds must be obligated by December 31, 2024 and fully expended by December 31, 2026. I also note

³ <https://ir.theice.com/press/news-details/2023/ICE-Mortgage-Monitor-Affordability-and-Demand-Continue-to-Suffer-As-Rates-Hit-23-Year-High-Lendable-Equity-Nearing-Record-Levels-Yet-Borrower-Retention-Worst-in-17-Years/default.aspx>

that any unspent dollars from completed projects will be reprogrammed at a future date by vote of the Select Board.

Below is a summary of some of the important projects currently in Hudson:

- Upgrade to Municipal Finance Platform – At the Special Town Meeting in November, voters authorized a transfer of \$1,210,000 from the Stabilization Fund to begin the process of replacing the current outdated, fragmented, and inefficient municipal finance platform with MUNIS, a New-England based company backed by a large national firm, Tyler Technologies. This is a long-standing request that will benefit all municipal departments including the school department. I will be recommending that the Stabilization Fund be replenished in May with Free Cash funds.
- Additional IT Upgrades – In May of 2023, Town Meeting authorized a capital project of \$154,562 to fund improved IT capacity and a server replacement at the Police Station. Also approved in May were funds to update the uninterruptable power supply (UPS) that supports the Town Hall server, a project intended to improve automated backup electric power during an outage. The upgrades reflect a renewed effort in recent years to properly maintain the Town’s IT infrastructure. Additional upgrades will be requested in May.
- Brigham Street Culvert Restoration – In FY2023, the Select Board approved reprogramming \$246,000 in surplus ARPA funds left over from the Main and Houghton Streets culvert replacement project so that a feasibility study could be performed on the Brigham Street culvert and design funds allocated. And in November, Town Meeting authorized a \$1.2M borrowing to fund the full reconstruction of this critical culvert. The debt service for this project will be paid via Stormwater Enterprise Fund receipts. Below are pictures of the current culvert and the closed section of Brigham Street:



- New DPW Operations Facility – In May, Town Meeting authorized and then the voters approved, a debt exclusion to borrow \$23,975,884 to fund the design, permitting, and construction of a new DPW operations facility at 1 Municipal Drive. This new facility will replace several existing structures built in the 1960s which have long surpassed their useful life and no longer properly support the department’s operations. In 2023, the Select Board authorized two important contracts related to this project: a contract with Construction Monitoring Services for Owners Project Management (OPM) services, and a contract with Helene Karl Architects for full design services. Bidding is expected to occur during the winter with construction to commence in the spring. Below is a rendering of the new facility:



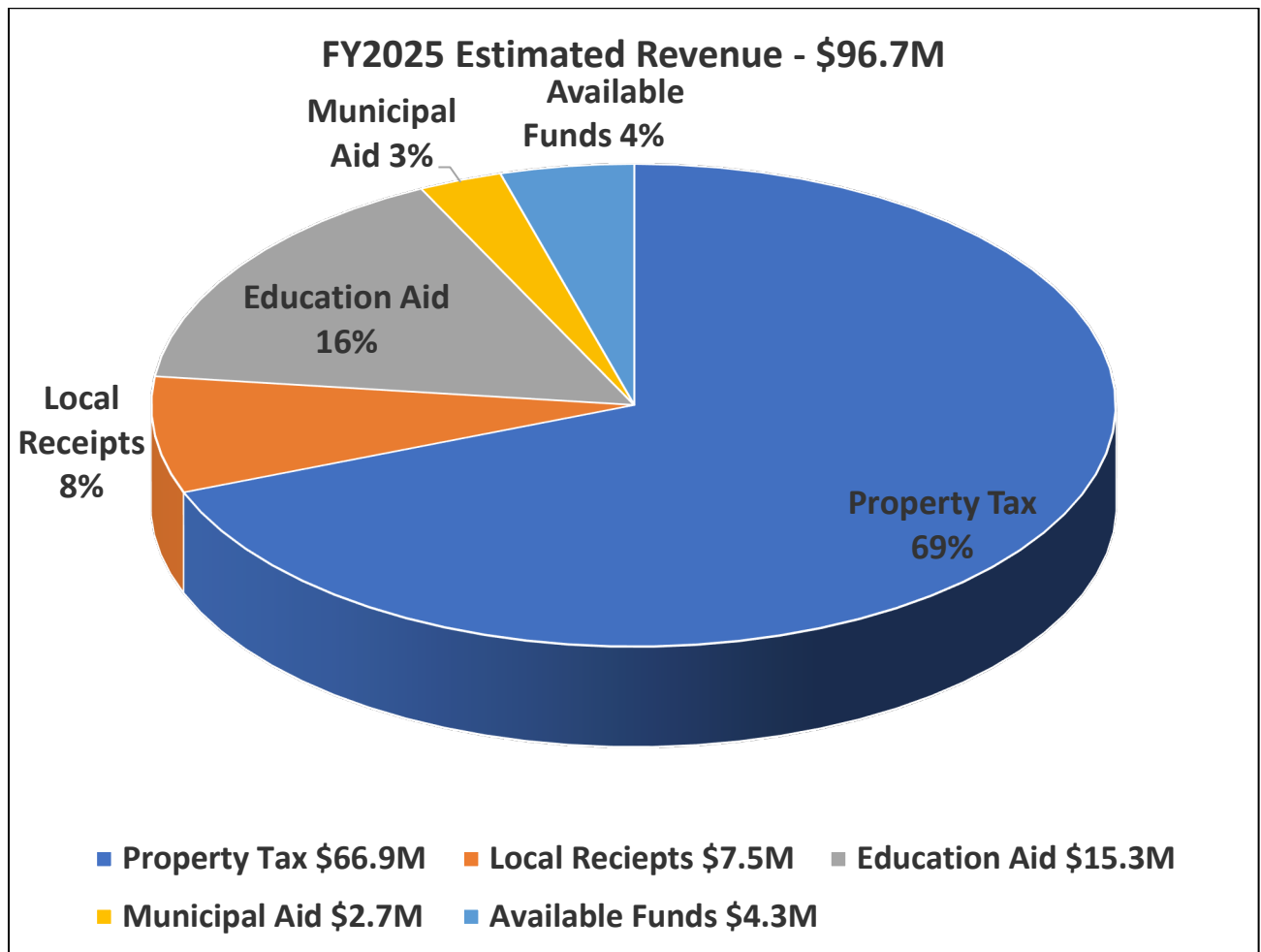
- Fire Headquarters Renovations – In November of 2022, Town Meeting authorized a \$1.12M borrowing to fund building renovations to Fire Headquarters. The planned renovations include new overhead doors to the apparatus bay, a new composite roof, and new rooftop air handling units. In 2023, the Select Board awarded a contract for full design services to Context Architecture. In October of 2023, the overhead door replacement component was separated out of the project and bid separately to address ongoing mechanical problems with the current overhead doors. The other components of the project will go out to bid next spring.

- Library Feasibility Study – The Hudson Public Library is applying for a Massachusetts Public Library Construction Program grant offered through the Massachusetts Board of Library Commissioners. Eligibility for this grant requires the completion of pre-planning

and design phases including the submission of a Library Building Program. To accomplish these activities, in October 2023, the Select Board authorized a \$29,950 contract to the library consulting firm Re-Thinking Libraries. The Select Board also authorized a design services contract for \$29,900 to Sorensen Architects & Planners for the purpose of completing a conditions assessment of the existing library which would generate a Library Building Program. These contracts were funded using ARPA dollars allocated to the Library. Additional design funds have been requested to serve as the Town's match in the grant application process.

General Fund Revenue Overview

General Fund revenue to the Town consists of four (4) distinct categories: property tax, state aid, local receipts, and available funds. A detailed analysis of each of these revenue categories is provided in this section. The chart below shows total projected General Fund revenue for FY2025:



State Aid (Cherry Sheet)

Revenue that communities receive each year from the Commonwealth is documented on what is called the Cherry Sheet. This is the name of the official notification from the Commissioner of Revenue which informs cities and towns of the estimated receipts from the Commonwealth for categories such as Unrestricted General Government Aid (UGGA), Education Aid (Chapter 70), and other state-determined revenue categories. In addition to documenting estimated receipts, the Cherry Sheet also documents estimated charges which informs cities and towns of anticipated intergovernmental charges, such as charges for regional transit and charter school tuition assessments.

Additionally, there are offset items on the Cherry Sheet which constitute categorical aid, i.e., funding that must be spent for specific municipal or educational purposes. Hudson’s Cherry Sheet contains two (2) offset items, school choice receiving tuition and public libraries. Because these dollars are reserved for direct expenditure by the specific departments, they cannot be classified as general available revenue. As a result, the amounts for these offsets included within the state aid estimate are shown both in the revenue section and in the non-appropriated expense section of the Town’s annual operating budget for the upcoming fiscal year.

Cherry Sheet revenue for FY2025 is projected to represent approximately 19% of General Fund revenue. The table below shows final Cherry Sheet receipts and charges for the Town for the period from FY2020 to FY2024:

FINAL ESTIMATED RECEIPTS AND CHARGES

	FY2020	FY2021	FY2022	FY2023	FY2024
EDUCATION					
Distributions and Reimbursements					
Chapter 70	\$12,020,446	\$12,020,446	\$12,095,806	\$12,241,726	\$12,997,947
Charter Tuition Reimbursement	\$246,626	\$971,354	\$819,317	\$1,382,548	\$963,720
Offset Items - Reserve for Direct Expenditure:					
School Choice Receiving Tuition	\$653,930	\$777,925	\$805,237	\$1,091,923	\$1,157,741
Sub-Total, All Education Items:	\$12,921,002	\$13,769,725	\$13,720,360	\$14,716,197	\$15,119,408
GENERAL GOVERNMENT					
Distributions and Reimbursements					
Unrestricted General Government Aid (UGGA)	\$2,117,490	\$2,117,490	\$2,191,602	\$2,309,948	\$2,383,867
Veterans Benefits	\$41,818	\$56,038	\$52,057	\$65,440	\$56,272
Exemptions: VBS and Elderly	\$87,493	\$84,114	\$68,422	\$61,433	\$61,433
State Owned Land	\$52,650	\$54,021	\$63,088	\$80,982	\$91,933
Offset Items - Reserve for Direct Expenditure					
Public Libraries	\$30,482	\$36,210	\$38,064	\$43,821	\$48,912

Sub-Total, All General Government:	\$2,329,933	\$2,347,873	\$2,413,233	\$2,561,624	\$2,642,417
TOTAL ESTIMATED RECEIPTS	\$15,250,935	\$16,117,598	\$16,133,593	\$17,277,821	\$17,761,825
FINAL ESTIMATED CHARGES					
STATE ASSESSMENTS AND CHARGES:					
Retired Teachers Health Insurance	\$1,473,735	\$1,391,872	\$1,426,658	\$1,532,321	\$1,539,597
Mosquito Control Projects	\$44,421	\$44,584	\$46,222	\$47,391	\$47,136
Air Pollution Districts	\$6,040	\$6,153	\$6,326	\$6,454	\$6,565
Metropolitan Planning Council	\$10,637	\$10,714	\$10,943	\$11,222	\$11,469
RMV Non-Renewal Surcharge	\$27,400	\$22,980	\$22,980	\$28,100	\$21,500
Sub-Total, State Assessments:	\$1,562,233	\$1,476,303	\$1,513,129	\$1,625,488	\$1,626,267
TRANSPORTATION AUTHORITIES:					
Regional Transit (MWRTA)	\$53,204	\$55,458	\$1,641	\$52,370	\$60,675
Sub-Total, Transportation Assessments:	\$53,204	\$55,458	\$1,641	\$52,370	\$60,675
ANNUAL CHARGES AGAINST RECEIPTS:					
Special Education	\$17,349	\$18,482	\$17,663	\$30,447	\$21,575
Sub-Total Annual Charges Against Receipts:	\$17,349	\$18,482	\$17,663	\$30,447	\$21,575
TUITION ASSESSMENTS:					
School Choice Sending Tuition	\$148,881	\$146,570	\$168,663	\$156,668	\$183,598
Charter School Sending Tuition	\$2,160,213	\$2,974,160	\$3,468,218	\$3,994,682	\$4,158,893
Sub-Total, Tuition Assessments:	\$2,309,094	\$3,120,730	\$3,636,881	\$4,151,350	\$4,342,491
TOTAL ESTIMATED CHARGES	\$3,941,880	\$4,670,973	\$5,169,314	\$5,859,655	\$6,051,008

The \$56B state budget signed by the Governor on August 9, 2023 increased unrestricted general government aid by 3.2% over FY2023 and increased Chapter 70 education aid by \$603M. Unrestricted general government aid for Hudson increased by \$73,919, and more significantly, Chapter 70 funding for Hudson increased by \$756,221 over the prior year, representing the largest increase to the Town in many years. The Chapter 70 increase allowed the school department's appropriation to increase by 4.19% over the FY2023 appropriation, representing the largest year-over-year percentage increase in at least the last decade. The FY2024 state budget also commits to fund the Student Opportunity Act⁴ according to the originally intended schedule, and creates a spending plan for the \$1B in anticipated revenue from the voter-approved surtax on annual incomes over \$1M.

⁴ The Student Opportunity Act (Ch. 132 of the Acts of 2019) was enacted to try to close gaps in student experiences and outcomes. It also updates the foundation budget which specifies for each district the minimum level of education spending required to adequately educate a district's students.

It is still very early to predict how the Governor and legislature will approach state aid for FY2025. Data released in November by the Department of Revenue showed that the Commonwealth collected \$2.55B in tax revenue in October, which was \$196M, or 8.3%, more than was collected in October 2022. But that was still \$186M, or 6.8%, below the monthly revenue benchmark.⁵ Year-to-date state tax collections for FY2024 as of November 3rd totaled approximately \$11.84B, which is 2.9% less than the year-to-date benchmark. Nevertheless, the Massachusetts economy still continues to perform well in comparison to the national economy. Massachusetts' real gross domestic product increased at a 4% annualized rate in the second quarter of 2023 compared with 2.4% for the United States GDP.⁶

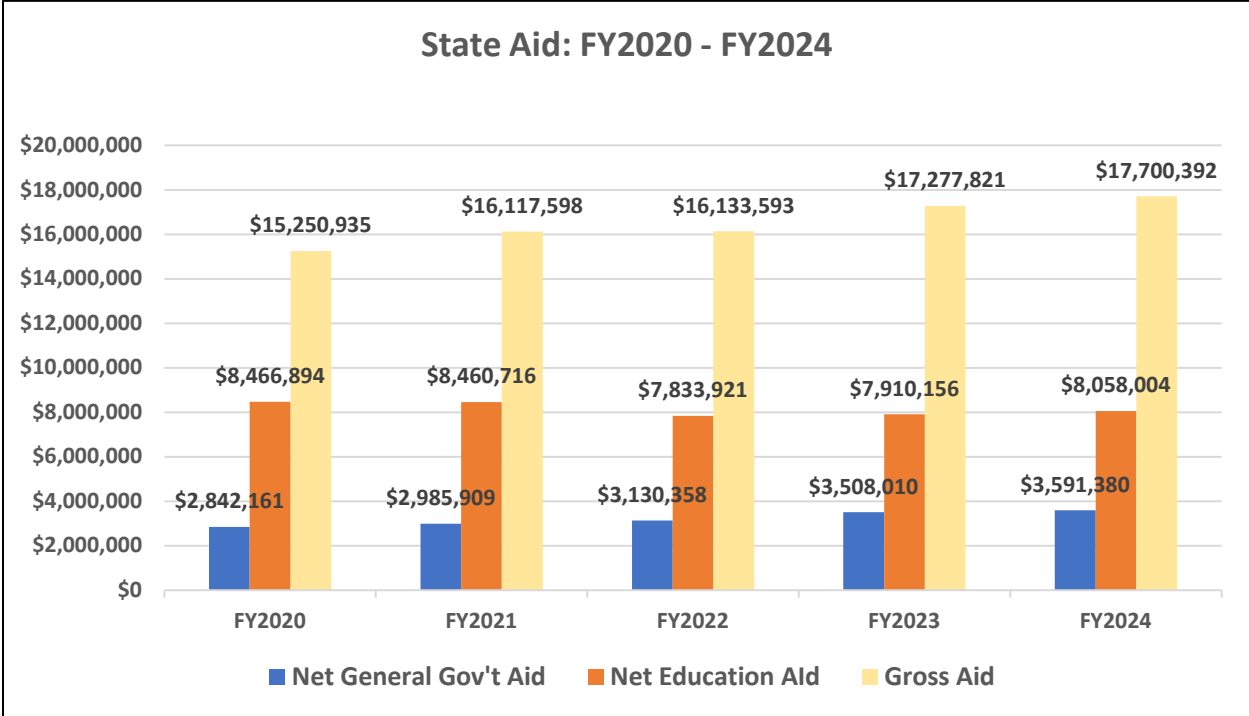
As previously documented in prior year budget messages, the charter school enrollment trend continues to have a significant impact on the Town's finances, and this trend is again anticipated in the FY2025 budget. The Town receives charter school tuition reimbursement each year and the Cherry Sheet estimates are derived from projecting upcoming school year enrollment and tuition rates from data collected in March of the current fiscal year. The Town is also assessed each year for the tuition costs for students attending charter schools. There was some good news with respect to the final FY2024 charter school tuition assessment which increased by a modest 4.1% compared to increases of 16.% in FY2022 and 15.2% in FY2023.

Another significant charge on the Cherry Sheet is health insurance premiums for retired teachers. In FY2024, this figure was \$1,539,597. It represents the amount the Town is assessed each year by the state's Group Insurance Commission (GIC) which pays the health and life insurance premiums on behalf of retired Hudson teachers. The state pays 85% of these premiums and the GIC then assesses the Town for the employer's share of the premium. The annual increase in these premiums is determined exclusively by the GIC. Hudson is one of only five (5) communities in the Commonwealth whose retired teachers are enrolled in the GIC. This charge also represents a significant share of the annual cost associated with the provision Other Post-Employment Benefits (OPEB) to municipal retirees. The Town's unfunded OPEB liability and funding strategy will be presented later in this budget message.

Because the Cherry Sheet documents revenue as well as charges and assessments to municipalities, it is important to look at the net impact to the Town. The chart below shows that while gross aid to the Town in recent years generally increases at a modest rate, the impact of charges and assessments results in declining amounts for net education aid and only marginal increases to net general government aid during the past five (5) years. Even with the increase in Chapter 70 aid in FY2024, net education aid in FY2024 was \$408,890 less than it was in FY2020. The longer-term impact of this trend means more pressure applied to the property tax as a revenue source to keep pace with the annual increase in the costs to provide municipal services. And, as noted elsewhere, municipal operating costs will continue to increase in the near term as long as the current inflationary environment persists.

⁵ <https://www.mass.gov/news/october-revenue-collections-total-2558-billion>

⁶ <https://www.bea.gov/data/gdp/gross-domestic-product>



Local Receipts

Local receipts, also called estimated receipts, represent locally generated General Fund revenue in various categories, the largest of which in Hudson, prior to the adoption of enterprise funds, were charges for services, namely, water and sewer user fees and related revenue. Other receipts include motor vehicle excise taxes, licenses and permits, and other receipts such as the room occupancy excise, interest income on investments, and cell tower lease revenue. With the adoption of enterprise funds for the water and sewer utilities in November 2022, total estimated receipts for FY2025 will be significantly less than those years prior to the adoption as the water and sewer receipts (and expenses) have been transferred out of the General Fund and accounted for in the budgets of the respective enterprise fund. Enterprise funds will be discussed in more detail later in this narrative. Local receipts revenue for FY2025 is projected to represent approximately 8% of General Fund revenue.

Estimating local receipts for the upcoming fiscal year is accomplished by analyzing trends in current year collections and comparing those to the prior year’s numbers. This revenue source is largely associated with the health of the local economy, and with few exceptions the Town has little control over year-to-year fluctuations. It is the most elastic of the Town’s revenue sources. For instance, during an economic downturn new vehicle purchases are often deferred which impacts motor vehicle excise revenue as older cars remain on the road longer. Likewise, continued supply chain issues and high demand have combined to push vehicles prices, especially new vehicle prices, to record highs forcing older vehicles to remain in operation

longer. Motor vehicle excise revenue from the prior three (3) years appears to support this analysis. While it is too early to tell whether this trend will continue to play out in FY2025, I am level funding motor vehicle excise to be conservative.

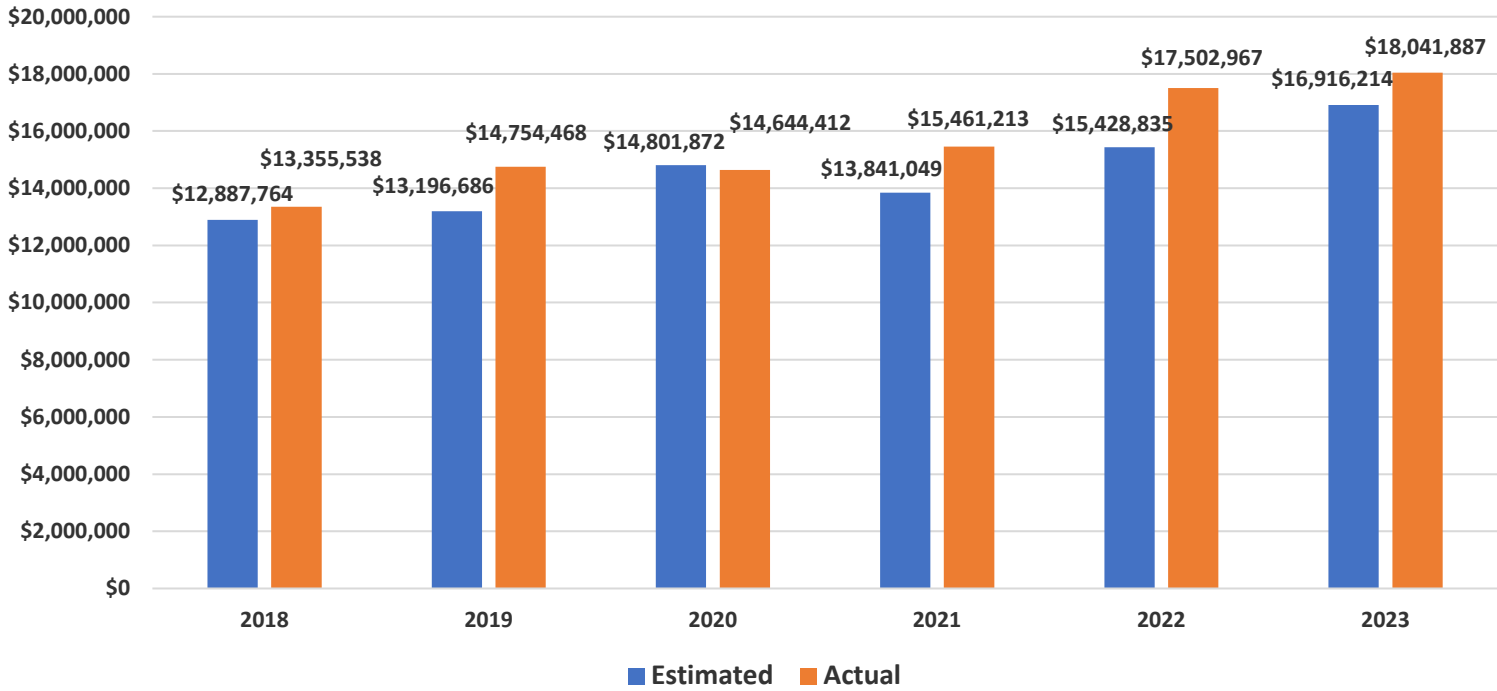
The early budget cycle in Hudson also presents its own challenges in estimating local receipts for the upcoming fiscal year, as estimates are prepared many months before the start of the new fiscal year. Also noteworthy is the characteristic lag effect in local revenue trends as municipal governments typically experience the financial impact of an economic trend, either positive or negative, well after the trend has started.

Local receipts revenue as of June 30, 2023 documented good evidence for a local economy continuing to perform well. Excise tax revenue on meals continued to trend favorably, as did fee revenue for licenses and permits. The local adult-use commercial marijuana market remains strong, although it should be noted that new legislation which went into effect on November 11, 2022 now grants the Cannabis Control Commission more oversight of host community agreements and imposes new limits on how municipalities can calculate marijuana impact fees. This will have financial implications with agreements currently in place with marijuana establishments in Hudson. Another important development that occurred last year was the decision by CHAPS to establish a benefits program for their employees. For many years, CHAPS employees had been receiving municipal benefits and the Town was reimbursed for the employer share of these benefits. On October 1, 2022, this decades-old arrangement between the Town and CHAPS ended.

In response to the statewide migrant / homeless families crisis, in 2023 the Commonwealth began contracting with local hotels and motels once the state's shelter system reached capacity. Because Massachusetts is a "right-to-shelter" state, families who meet certain eligibility requirements are guaranteed emergency shelter. The crisis, apart from the strain experienced by families with children in shelter, is also having a financial impact on the Town. When homeless families are placed in hotels and motels, the Commonwealth pays all local occupancy taxes for room rentals less than 90 days. Longer-duration stays do not generate hotel excise tax revenue. And, it remains to be seen how long this crisis will continue in Massachusetts.

Below is a chart showing a comparison of budgeted and actual local receipts for the period FY2018 through FY2023 with budgeted amounts documented on the tax rate recapitulation sheet submitted to the DOR each December. The actual figures are as of June 30th for each fiscal year.

Local Receipts - Estimated vs. Actual - FY2018 - FY2023



Tax Levy

The tax levy represents the largest revenue source to the Town of Hudson.⁷ Property taxes are levied on real property (i.e., land and buildings) as well as on personal property (i.e., tangible property other than real estate such as machinery, pipelines, wires, poles, etc.) To calculate the tax levy, Proposition 2½ legislation allows the prior year’s levy limit to increase automatically by 2½ percent. Added next is the estimate for new growth which represents the additional tax revenue generated by new construction and physical additions to real property whose assessed value was captured during the prior fiscal year. It does not include market-driven value increases. New growth is calculated by multiplying the assessed value associated with new construction and physical additions by the prior year’s tax rate. The additional tax revenue is then incorporated into the calculation for the next year’s levy limit. New growth is always the last revenue budget figure to be finalized, as it is certified in the fall after the budget for that fiscal year has already been authorized at the Annual Town Meeting in May. The final figure in the tax calculation is the value of the tax revenue generated to fund the upcoming year’s debt service costs for capital projects that were excluded from the levy limit via Debt Exclusion votes.

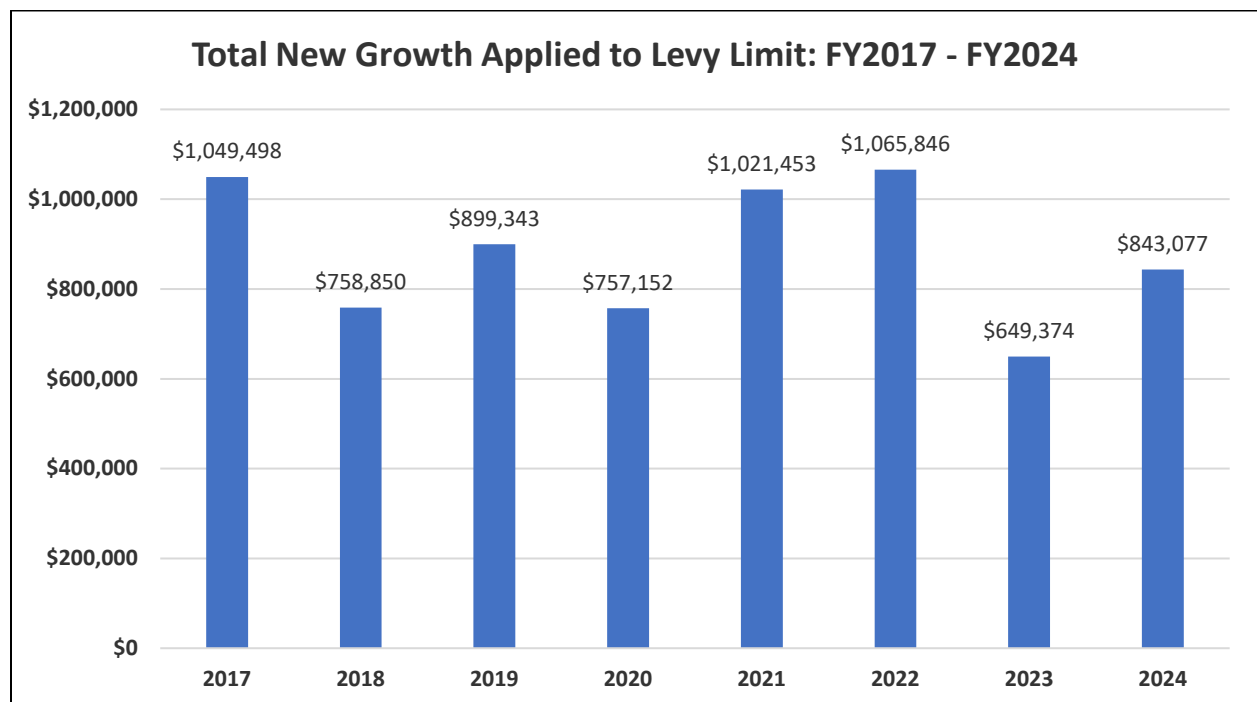
⁷ For FY2022, the tax levy represented 64.5% of budgeted revenue for all communities in the Commonwealth.

The Commonwealth mandates that communities update their property values at least every five (5) years and obtain certification that such values represent the full and fair cash value. In the interim, the property values are adjusted according to the housing market trends and certified by the DOR every December. Hudson’s last formal revaluation was conducted in FY2021.

Tax levy revenue for FY2025 is projected to represent 69% of General Fund revenue. The table below summarizes the projected tax levy calculation for FY2025:

PRIOR YEAR (FY2024) LEVY LIMIT	\$61,018,787
2.5 PERCENT	\$1,525,470
NEW GROWTH ESTIMATE	\$675,000
CURRENT YEAR LEVY LIMIT	\$63,219,257
DEBT EXCLUSION TAX YIELD	\$3,747,253
MAXIMUM ALLOWABLE LEVY	\$66,966,510
TAX	\$66,866,510
EXCESS LEVY CAPACITY	\$100,000

Since 2017, certified new growth has ranged from a low of \$649,374 in FY2023 to a high of \$1,065,846 in FY2022. The chart below tracks this figure. The new growth estimate recommended in the FY2025 budget is \$675,000 which represents a slight increase over the \$650,000 estimate used in the FY2024 budget.



Because the levy cap in Massachusetts is limited to 2.5% plus new growth, the significance of new development to a municipality's ability to build budget capacity cannot be overstated. After two years of new growth over \$1M in FY2021 and in FY2022, the new growth figure dropped significantly in FY2023 to \$649,374. There are several possible reasons for the decline. The decline may be attributed to a combination of the sunset of federal stimulus funds, rising interest rates, and persistent inflation. The timing of various construction projects also plays a factor. The FY2024 new growth figure of \$843,077 was more in line with pre-pandemic levels.

A useful metric to compare the tax burden from one community to another is the average single-family tax bill. Using data compiled by the Division of Local Services (DLS), the chart below shows the average single-family tax bill in FY2023 for twenty-seven (27) communities along the Interstate-495 corridor. The data compares single-family houses and does not include condominiums, multi-family houses, or apartments. Of the communities sampled, Hudson's average single-family tax bill remains sixth-lowest, and it is very close to the average statewide single-family tax bill of \$6,822. It should also be noted that Hudson is one of eleven communities in this sampling that maintains a split tax rate (i.e., a rate for residential properties and a separate rate for commercial, industrial, and personal property) which is a contributing factor to keeping residential tax bills comparatively low in this analysis. The communities shown with an asterisk maintain a split tax rate.

Municipality	Single-Family Values	Single Family Parcels	Avg Single Family Value	Avg Single Family Tax Bill	Single Family Tax Bill as % of Value	DOR Income Per Capita	Avg Tax Bill as a % of Income	Statewide Rank
Sherborn	\$1,316,591,200	1,329	\$990,663	\$17,842	1.80	\$214,974.00	8.30	5
Wayland	\$3,910,535,200	4,080	\$958,465	\$15,958	1.67	\$143,103.00	11.15	11
Acton	\$3,891,018,800	5,010	\$776,650	\$13,638	1.76	\$72,152.00	18.90	19
Medfield	\$2,971,089,900	3,538	\$839,765	\$12,958	1.54	\$99,600.00	13.01	21
Bolton	\$1,241,316,900	1,743	\$712,173	\$12,463	1.75	\$79,953.00	15.59	24
Boxborough	\$929,864,800	1,216	\$764,691	\$11,868	1.55	\$66,227.00	17.92	27
Stow	\$1,355,848,600	2,116	\$640,760	\$11,617	1.81	\$76,710.00	15.14	34
Westborough	\$2,578,353,728	3,926	\$656,738	\$11,059	1.68	\$58,864.00	18.79	36
Norfolk	\$1,973,565,342	3,152	\$626,131	\$10,275	1.64	\$61,775.00	16.63	46
Littleton*	\$1,842,800,600	3,102	\$594,069	\$9,654	1.63	\$58,520.00	16.50	53
Natick	\$6,491,586,500	8,550	\$759,250	\$9,597	1.26	\$62,985.00	15.24	55
Holliston	\$2,738,211,900	4,533	\$604,062	\$9,303	1.54	\$86,398.00	10.77	56
Millis	\$1,146,361,887	2,244	\$510,856	\$8,935	1.75	\$47,365.00	18.86	62
Maynard*	\$1,253,563,400	2,695	\$465,144	\$8,824	1.90	\$42,854.00	20.59	65
Medway	\$2,010,359,400	3,714	\$541,292	\$8,628	1.59	\$56,186.00	15.36	66
Northborough	\$2,363,259,900	4,076	\$579,799	\$8,575	1.48	\$64,510.00	13.29	70
Foxborough*	\$2,424,280,420	4,387	\$552,606	\$7,853	1.42	\$53,348.00	14.72	86
Shrewsbury	\$5,588,987,200	9,405	\$594,257	\$7,797	1.31	\$59,686.00	13.06	89
Berlin*	\$467,981,380	838	\$558,450	\$7,729	1.38	\$59,308.00	13.03	91
Wrentham*	\$2,189,616,000	3,646	\$600,553	\$7,579	1.26	\$60,602.00	12.51	99

Franklin	\$4,609,680,600	7,763	\$593,801	\$7,470	1.26	\$54,471.00	13.71	102
Hudson*	\$2,224,947,600	4,466	\$498,197	\$7,274	1.46	\$41,482.00	17.54	109
Hopedale*	\$661,946,100	1,477	\$448,169	\$7,238	1.62	\$46,613.00	15.53	112
Framingham*	\$7,353,300,500	13,533	\$543,361	\$7,113	1.31	\$38,375.00	18.54	117
Milford*	\$2,494,387,100	5,912	\$421,919	\$6,097	1.45	\$34,058.00	17.90	166
Marlborough*	\$3,586,832,800	7,068	\$507,475	\$5,856	1.15	\$36,482.00	16.05	178
Bellingham*	\$1,927,632,540	4,813	\$400,505	\$5,227	1.31	\$38,417.00	13.61	226

The FY2024 average single-family value in Hudson increased by 11.52% to \$555,573 based on values submitted to the DOR and approved in December with an effective date of January 1, 2023. This increase reflects the significant increase in home prices that occurred during 2022. This value reflects the Select Board’s vote on December 4, 2023 to maintain a split tax rate using the minimum residential factor - \$14.00 for residential and \$27.50 for commercial, industrial, and personal property. The Town has maintained a split tax rate for many years.

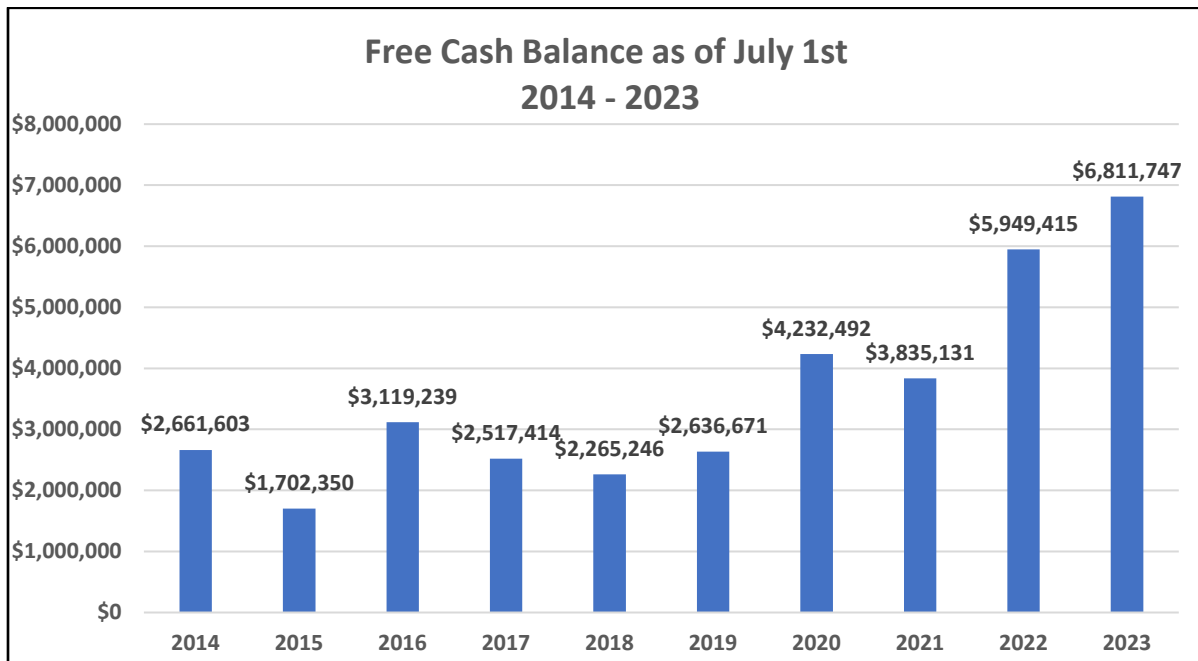
Available Funds

The final revenue category are available funds, the largest component being Free Cash which is a reserve used to fund the annual capital plan and other warrant articles brought forward for appropriation at Town Meeting. The annual contribution from Light and Power is included in this category as is the revenue from the PEG Cable Access Fund (Cable Receipts). Indirect cost reimbursements from the water, sewer, and stormwater enterprises are also shown as available funds. These costs represent general fund expenses, including employee benefit expenses and department-specific assistance, provided in support of the various enterprise funds.

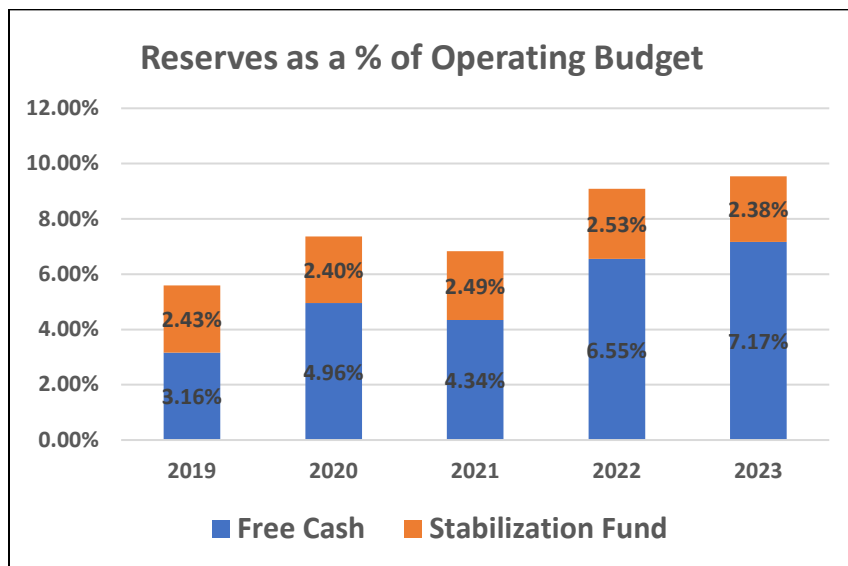
Reserves

The primary reserves in Hudson are Free Cash and the Stabilization Fund. Free Cash is a revenue source which results from the calculation as of July 1st of the Town’s remaining, unrestricted funds from operations of the previous fiscal year based on the balance sheet as of June 30th. It is generated by year-end departmental turnbacks and revenue received over budgeted estimates, less adjustments for property tax receivables and other deficits. The certified Free Cash number as of July 1, 2022 was \$6,811,747. Free Cash is the customary pay-as-you-go funding source for capital equipment purchases and infrastructure improvements for municipalities, and appropriations from Free Cash for these purposes are routinely made each year. While the Free Cash number as of July 1, 2023 is not projected to be certified until early next year, it is anticipated to be well north of \$5M, an amount which will support a municipal capital improvement program for the upcoming fiscal year and another potentially significant appropriation into the OPEB trust fund. Retained earnings of the water, sewer, and stormwater enterprise funds are the equivalent to Free Cash in the General Fund.

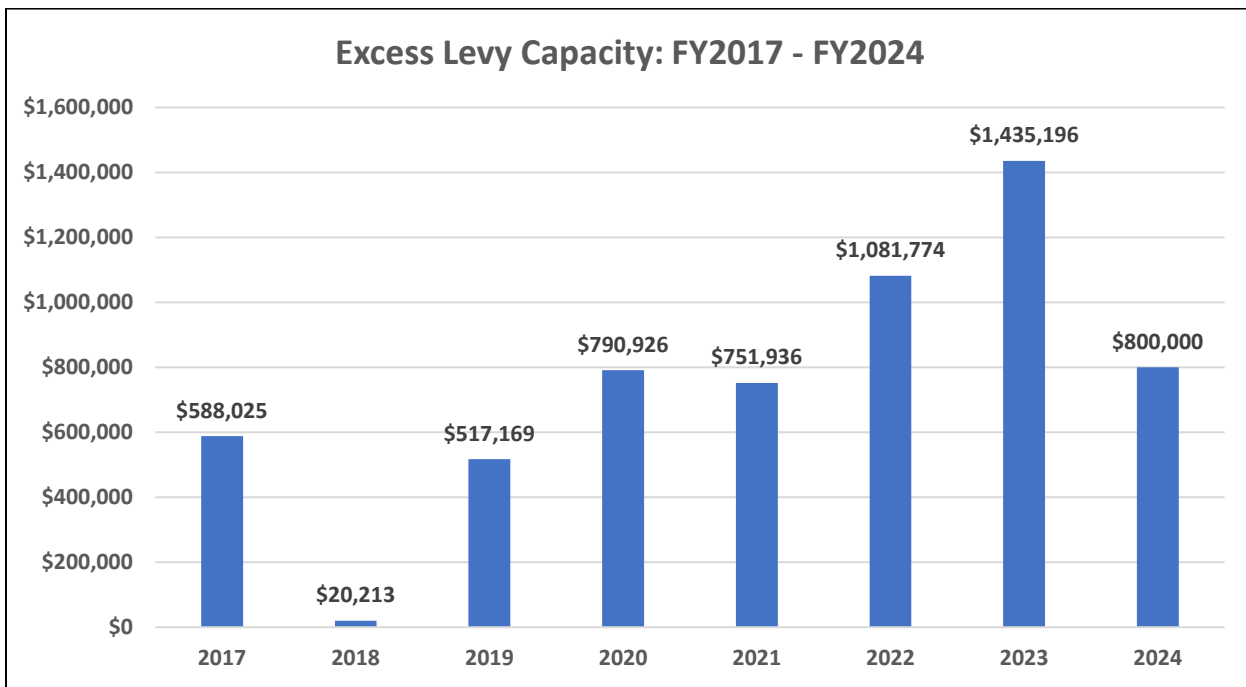
Below is a chart showing historical Free Cash balances as of July 1st:



The Stabilization Fund is the second primary reserve. Unlike Free Cash, the Stabilization Fund does not reset at the end of the fiscal year nor does it need certification from the DOR. Town Meeting may, by a majority vote, transfer funds into this account and may, by a two-thirds vote, appropriate funds out for any lawful purpose. As part of the Select Board’s overall financial management policies, the Town strives each year to maintain a combined Free Cash and Stabilization balance between 5% and 10% of the ensuing year’s operating budget. In addition to being a prudent fiscal strategy, maintaining a healthy balance in reserves is viewed favorably by bond rating agencies. In the past five (5) fiscal years the Town has been able to achieve this target. The following chart shows this trend:



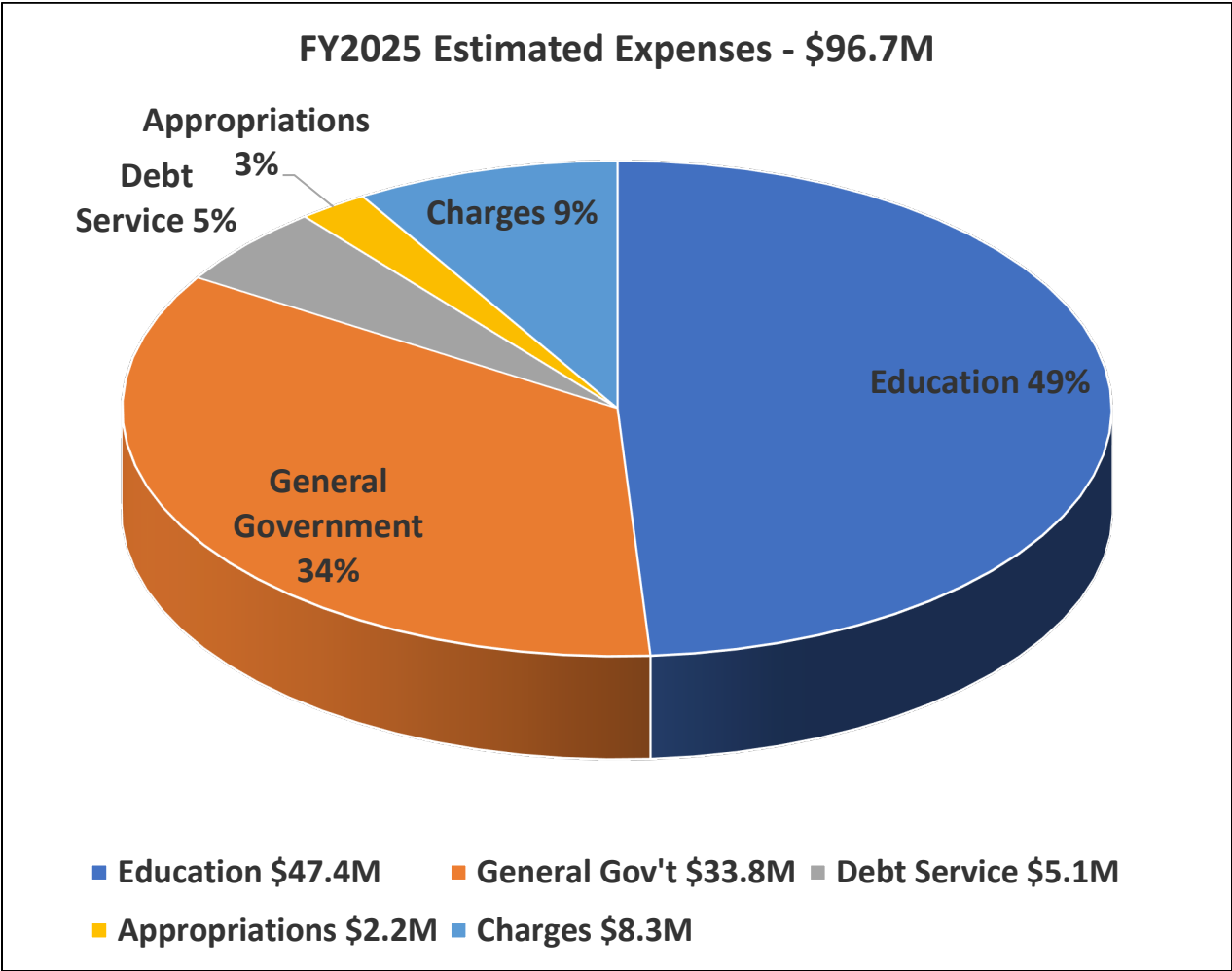
There are other reserves in addition to Free Cash and the Stabilization Fund. The Reserve Fund is maintained exclusively by the Finance Committee by statute to respond to extraordinary or unforeseen circumstances during the fiscal year. In recent years the Reserve Fund was raised and appropriated annually at \$100,000, and this is the amount recommended for FY2025. Excess tax levy capacity may also be viewed as a reserve for the Town. This number represents the difference between the Town’s actual levy and the maximum allowable levy for a given year. Conservative budgeting practices in recent years have yielded excess capacity in varying amounts which affords the Town a degree of budget flexibility. It should be noted, however, that the potential tax revenue from excess levy capacity exists only for that particular fiscal year. It represents an additional amount the Town could, but chooses not to, levy. The chart below tracks excess tax levy capacity for each of the past seven (7) fiscal years:



General Fund Expenses Overview

Expenses to the Town may be broken out into the following categories: education, which includes the appropriation to Hudson Public Schools and the Assabet Valley Regional Technical High School assessment; general government, which includes departmental requests as well as the appropriations for health insurance, Medicare, general insurance, and the pension assessment; debt service; Town Meeting appropriations for capital and other warrant articles; and, charges which include tax title expenses, and Cherry Sheet assessments.

The chart below breaks out projected FY2025 General Fund expenses:



Department Requests

As mentioned earlier in this budget message, I am recommending no new municipal positions in FY2025. I have also reduced some requested items in the operating expenses of a number of departments. Simply stated, there is insufficient revenue to expand where there are needs. Similarly, my recommended appropriation for the school department is lower than recent year increases. In the coming years, there will need to be appreciable increases in local receipts, state aid, and new growth to make any significant adjustments to operating budgets on both the municipal and school side.

I also note that I am anticipating increases next year in general insurance and workers compensation premiums of between 10 and 15%. At the time of this budget filing, I am soliciting quotes on both the property & casualty and workers compensation lines of insurance in hopes of realizing some savings.

Water and Sewer

Water and sewer rates are set each year to ensure that the full cost of operating both utilities, including day-to-day operations, debt service expenses, and administrative assistance provided by other Town departments (indirect costs), are supported by the users of the systems. I am anticipating a modest increase in water rates for FY2025 and an increase in sewer rates similar to the increase approved for FY2024. The projected sewer rate increase is primarily driven by the anticipation of the full principal and interest payments due in FY2025 on the Wastewater Treatment Plant Phase 2 Upgrades. In an effort to keep some pressure off the rates, I have level-funded the indirect costs for all three enterprise funds.

As a reminder, with the adoption of enterprise funds, there are important benefits that accrue to the rate-payers when the revenue and expenses of these utilities are segregated from the general fund. First, any year-end surplus (i.e., revenue received over budgeted estimates as well as departmental turnbacks) will remain within the enterprise fund in subsequent fiscal years and not close out to Free Cash in the general fund as in prior years. These surplus funds, called retained earnings, will be available potentially to moderate future year rate increases and to fund future capital investments. I expect that both the water and sewer utilities will yield some retained earnings at the close of the current fiscal year. Second, accounting for water and sewer finances outside of the general fund guarantees that water and sewer revenue cannot subsidize the general fund.

Health Insurance

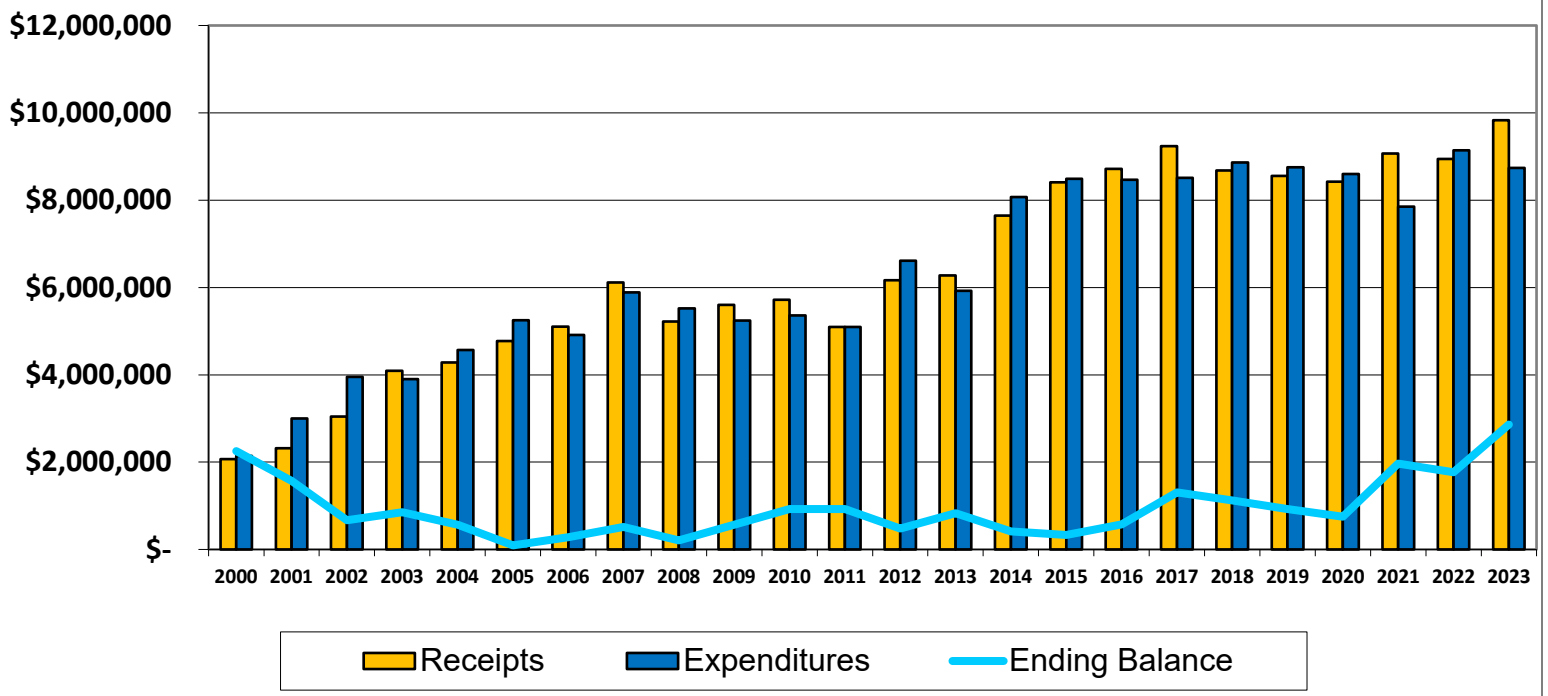
On July 1, 2023, the Town officially became a member of the Massachusetts Interlocal Insurance Association (MIIA) Health Benefits Trust. The Health Benefits Trust, formed over 30 years ago, provides health insurance coverage to the employees and retirees of cities, towns, and other governmental entities in Massachusetts that are members of the Massachusetts Municipal Association. This was a significant development for Hudson which, for decades, had been self-insured with respect to health insurance.

The migration to MIIA was made possible by the provisions of General Laws, Chapter 32B, Sections 21-22 which the Select Board adopted on February 27, 2023. It represented the culmination of successful negotiations between the Town and all labor unions over plan design changes. These changes were memorialized in a Memorandum of Agreement between the Town of Hudson and the Hudson Public Employee Committee. The negotiations primarily addressed a new plan design that would bring Hudson's plan in line with a typical municipal health insurance plan today including a \$300 individual deductible and \$900 family deductible. There was also agreement to phase the employer / employee premium contribution shift from 50% / 50% to 65% / 35% over a three-year period for the HMO and Medicare supplement products. The statute also provided for mitigation payments to be made to the employees for 25% of the total projected year-one savings associated with the plan design changes.

The negotiated plan design changes yielded significant premium savings for both the Town and the subscribers: an individual HMO subscriber’s annual savings in FY2024 was \$2,757 and a family HMO subscriber’s annual savings in FY2024 was \$7,090. Additionally, the new health insurance offerings in Hudson, which also now include a limited network plan with an even less expensive premium, were adopted with the intent to address problems the Town had been experiencing in recent years with respect to employee recruitment and retention. When communities join MIIA, they receive on their first renewal the average of the rate increase across all of the members of the Health Benefits Trust. In subsequent years, each community receives a rate increase that is tied to its specific experience. Because the FY2024 health insurance appropriation included \$478,551 in one-time mitigation funds, the FY2025 appropriation will increase only slightly to anticipate a conservative 8% increase next year. It is also anticipated that with more out-of-pocket exposure, utilization in the coming years will go down.

The chart below provides historical data on the Town’s Health Insurance Trust Fund from FY2000 to FY2023. After the run-out period has concluded on claims incurred prior to June 30, 2023, half of the remaining trust fund balance will be returned to the employees in the same manner that the mitigation payments were provided to them earlier in the year.

Health Trust Revenues, Expenditures, and Ending Balances



Pension and Other Post-Employment Benefits (OPEB) Liabilities

Hudson belongs to the Middlesex County Retirement System, one of 105 public retirement systems in the Commonwealth. The defined benefit pension in Massachusetts is funded both by employee contributions via payroll deductions, and by the employer via an annual assessment from the retirement system. This assessment for FY2025 will be \$7,920,764 which represents a 6.42% increase over FY2024. Recent year-over-year percentage increases in the assessment to Hudson have ranged from 2.8% to 9.6%. The assessment municipalities pay are considered the annual required contribution (ARC) which is mandated by law to adequately fund the pension plan. The plan is required to fund what is called the normal cost which is the cost of benefits accrued in the current year, as well as the cost to amortize, or pay off, the plan's unfunded liability for benefits which will accrue in the future. A pension plan is considered fully funded when it has sufficient funds to provide both current and future benefits to retirees. Chapter 32 of Massachusetts General Laws requires that all retirement systems fully fund their entire liability no later than June 30, 2040. As of October 1, 2023, the Middlesex County Retirement System had a funding ratio of only 54.5%, ranking 100 out of the 105 retirement systems statewide. It is not projected to be fully funded until 2036. Middlesex County Retirement System, like many public pension systems around the state and county, suffered from poor investment returns in 2022.

Other Post-Employment Benefits (OPEB) represent employer costs other than pension owed to retired municipal employees, primarily those costs associated with health insurance. These benefits, once earned, are owed to retired employees for their lifetime. As health care costs continue to rise and retired employees live longer, the liability to municipalities has grown considerably. The net OPEB liability for the Town of Hudson as of June 30, 2023 was \$89,580,383. The OPEB liability for all municipalities together with the Commonwealth is in the tens of billions of dollars. In contrast to the annual required contribution for pension funding, there is currently no law requiring municipalities to fully fund their OPEB liability and, as a result, most municipalities fund OPEB through a pay-as-you-go method which means these health insurance costs are paid out of the Town's operating budget each year as the benefits are consumed. Besides, most communities do not have the resources to fully fund this liability.

Some efforts to introduce OPEB reform have taken place in Massachusetts. A special commission filed its report with recommendations in 2013, but there has been little interest or political will from stakeholders to continue the discussion. In the meantime, to begin to address this liability most communities have established OPEB trust funds and strive to make annual contributions when funds are available. Hudson established an OPEB trust fund in November of 2016 and has made annual contributions in recent years, including a \$750,000 appropriation, the largest to date, at the Annual Town Meeting in May of 2023. The current OPEB trust fund balance is \$1,140,721.

At this time, the only practical way to fund this liability is to continue to make contributions, however small, out of reserves provided there is a surplus above the 5% to 10% reserves target.

Doing so also demonstrates to the bond rating agencies that Hudson takes seriously this obligation and its potential financial implications. Looking ahead, there may be an opportunity to begin to “catch up” on the OPEB liability in 2036 if, as projected, the Middlesex County Retirement System reaches 100% funding. In this scenario, the Town’s pension ARC would drop considerably as only the normal cost would require funding each year. The Town could then pivot and re-allocate the balance of the pension assessment to the OPEB trust in each subsequent year and there would be no impact to the operating budget.

Using the DOR’s most current data from 2022 (which does not reflect Hudson’s recent \$750,000 appropriation) the chart below shows how Hudson compares to communities comparable to Hudson relative to population, income per capita, equalized value (i.e., tax base value) per capita, and operating budget. It is interesting, also, to note the wide variance in OPEB trust fund balances among the communities sampled. Until a legislative mandate is introduced, communities will likely continue to make OPEB contributions each year only to the extent that they have the financial capacity to do so.

Municipality	County	2022 Population	2022 DOR Income Per Capita	2022 EQV Per Capita	2022 Total Budget	2022 OPEB Trust Fund Balance
Hudson	MIDDLESEX	19,864	\$41,180	\$159,434	\$90,763,754	\$332,926
Ashland	MIDDLESEX	17,807	\$54,874	\$180,541	\$68,131,306	\$5,008,398
Easton	BRISTOL	25,105	\$52,551	\$162,976	\$83,889,056	\$206,525
Grafton	WORCESTER	18,883	\$50,925	\$151,129	\$70,593,426	\$410,905
Sandwich	BARNSTABLE	20,169	\$44,941	\$246,910	\$88,762,272	\$1,219,832
Sharon	NORFOLK	18,895	\$67,811	\$209,674	\$91,659,067	\$2,296,482
Stoneham	MIDDLESEX	24,126	\$44,658	\$193,824	\$71,949,707	\$357,511

Capital Program and Warrant Articles

I am recommending approximately \$1.6M in Free Cash to fund the pay-as-you-go portion of the annual capital program which will include a recommendation to fund the annual \$300,000 supplement to Chapter 90 for road resurfacing, with the balance to fund specific department requests for FY2025. Free Cash is also being anticipated to fund a potentially significant appropriation into the Town’s OPEB trust fund. Below is a chart showing all of the FY2025 capital requests submitted by the departments. I will update this section in advance of the final recommended capital plan I will present to the Board on January 22, 2024. The update may include any potential borrowing authorizations to fund some of the larger capital requests.

FY2025 CAPITAL REQUESTS			
Department	Request	Dept Priority	Requested Amount
COMMUNITY DEV	Master Plan Update	1	\$125,000
DPW	Roadway Resurfacing	1	\$300,000
	Hydro Excavator Vac Truck (Water)	2	\$603,000
	Wheeled Excavator	3	\$253,000
	Computer Equipment	4	\$47,000
	ASV Compact Loader	5	\$78,500
	Traffic Study	6	\$18,500
	Ford F-550 Utility / Dump	7	\$97,000
FIRE	Turnout Gear	1	\$200,000
	Breathing Air Compressor	2	\$50,000
	Station Alerting System	3	\$190,000
	UTV & Trailer	4	\$63,000
	Station #1 Renovation	5	\$462,835
FINANCE	MUNIS (Replenish Stabilization Fund)	1	\$1,210,000
LIBRARY	Design Funds (MBLC Grant Requirement)	1	\$150,000
POLICE	Police Cruisers (3)	1	\$215,000
	Computer Equipment	2	\$168,000
RECREATION	Rimkus Clubhouse Roof Replacement	1	\$35,000
	Riverside Courts Resurfacing & Repairs	2	\$80,000
	Chamberlain Rink Facility Improvements	3	\$150,000
SCHOOL DEPT	Modular Classrooms	1	\$450,000
	Athletics / Gym Repairs	2	\$120,000
	Multi-function Activity Bus	3	\$80,000
	Pave Parking Lots	4	\$75,000
TOTAL			\$5,220,835

The enclosed FY2025 budget is balanced and ready for review by the Select Board and Finance Committee. This budget has been prepared using all available information known to me at this time. Conservative revenue estimates have been used and these estimates may be revised in the coming months as new information becomes available. I anticipate issuing a Fiscal Projection #2 in February which will show updated revenue figures. I would like to thank the

department heads who worked carefully to assemble detailed budget and capital requests. A special thanks also to Neil Vaidya, Erin Caton, and Fernanda Santos who provided their guidance and expertise in ensuring a smooth process was followed as this budget was developed.

Respectfully submitted,

Thomas Gregory
Executive Assistant