



Hubbardston
Massachusetts

FINANCIAL OBLIGATIONS ASSESSMENT

ADDRESSING HUBBARDSTON'S FINANCIAL CHALLENGES

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Hubbardston Town Administrator

August , 2023

August 3, 2023

Honorable Hubbardston Select Board
7 Main Street #3
Hubbardston, MA 01452

Subject: **Financial Obligations: Addressing Hubbardston's Financial Challenges**

Dear Hubbardston Select Board:

This report will review history and highlight the urgency and importance of addressing the town's financial challenges. Hubbardston has been facing a structural deficit for several years, which has only worsened in recent years.

The structural deficit is a long-term problem that will take work to solve. However, we must consider taking action now to address the deficit. If we do not, the consequences for the town could be severe. I am providing you with information to aid in the creation of a proactive approach to solving the town's financial issues. This approach includes:

- Being transparent and communicative with residents.
- Engaging the community in the decision-making process.
- Developing a fair plan to address the deficit while protecting the essential services that residents rely on.
- Avoiding using language that is alarmist

We can address the structural deficit and build a stronger future for Hubbardston. We have a dedicated and talented team of staff and officials who are committed to addressing the deficit. We also have a solid and engaged community willing to work together to solve this problem. Over time, we can address the structural deficit and build a stronger future for Hubbardston. I urge you to join me in working to solve this problem.

HUBBARDSTON'S STRUCTURAL DEFICIT AND FISCAL CLIFF

A structural deficit is a long-term financial problem a town or municipality faces. It happens when recurring expenses increase faster than recurring revenues. Several factors, such as rising costs, declining revenues, and poor financial conditions, can cause this.

In Hubbardston, Massachusetts, the structural deficit has been a problem for many years. The town's expenses have increased faster than its revenues, leading to a growing budget gap. This gap is now so large that it threatens to disrupt town finances.

A fiscal cliff is when a structural deficit threatens to disrupt town finances by requiring deep cuts and a tax increase. Hubbardston is now facing a fiscal cliff. The town's current budget is unsustainable, and the only way to avoid a fiscal crisis is to take action to address the structural deficit. The Town of Hubbardston FY 24-28 Fiscal Forecast outlined significant financial challenges that demand immediate attention. Given the current circumstances, we must consider addressing needs in the school budget, public safety, road improvements, staff retention, and service levels. Should action not be accepted, we must consider cuts to services and personnel in the coming years. The last few fiscal years have heavily relied on using free cash and other one-time funding, such as expiring debt, to balance the municipal budget.

One way to address the structural deficit is to pass an override of Proposition 2½ or Debt Exclusion. This would allow the town to raise property taxes by more than 2½%. Taking these measures would be difficult, but it may be the only way to save Hubbardston from a fiscal crisis. Ultimately, determining whether or not to do so is up to the voters. Elected leaders and voters must weigh the pros and cons carefully before deciding. On the one hand, an override or exclusion would allow the town to raise more revenue, which could help to close the budget gap. On the other hand, it would mean higher taxes for residents.

Another way to address the structural deficit is to reduce spending. This could mean cutting services, laying off employees, or finding other ways to reduce costs. Reducing expenditures could lead to a decline in the quality of service for residents, as some services may have to be cut, which may be essential to getting Hubbardston's finances on track for the long term.

THE IMPACT OF THE STRUCTURAL DEFICIT ON HUBBARDSTON'S SERVICES AND RESIDENTS

The structural deficit in Hubbardston is having a significant impact on the town's services and residents. The deficit forces the town to cut essential services, such as public safety and building maintenance. It has tremendously impacted retention, creating a significant turnover in key positions due to not being able to compensate competitively.

The structural deficit also harms the infrastructure, forcing delays in repairs to roads and bridges.

IMPROVING FINANCIAL MANAGEMENT AND THE FUTURE OF HUBBARDSTON'S FINANCES

In addition to addressing the structural deficit, the town must adhere strictly to its financial management practices. This will require detailed financial planning, setting realistic, conservative budgets, and monitoring spending closely. Implementing these policies and procedures was both a best practice and a necessity.

I look forward to reviewing them with you to ensure they are aligned with the board's goals and objectives in a post-COVID Hubbardston.

The future of Hubbardston's finances will depend on several factors, including the town's ability to address these challenges. The town will need to make difficult decisions in the coming years, but finding a way to get its finances back on track is essential.

REVENUE HISTORY

Property taxes are Hubbardston's largest source of revenue, accounting for about 80% of the town's total revenue. Property taxes are based on the assessed value of properties in the town. The Assessing Department calculates the estimated value of properties, and the town collects property taxes based on those values.

Local receipts are another important source of revenue for Hubbardston. Local receipts include things like fees for permits, licenses, and services. Local receipts are also used to fund specific projects or programs.

State aid is another important source of revenue for Hubbardston. State aid is money that the state of Massachusetts gives to towns to help them fund essential services. State aid is based on many factors, including the town's population and tax base.

There are also several other sources of revenue for Hubbardston, including Watershed and Solar PILOTs. In recent years, the town has been working to diversify its revenue sources. This is because property taxes are a relatively volatile source of revenue. Property values will decline if the housing market declines and the town will collect less in property taxes. By diversifying its revenue sources, the town can reduce its reliance on property taxes and stabilize its budget.

The town is also working to increase its revenue by attracting new businesses and opportunities. New companies will bring new jobs to the town, which will increase the town's tax base. New businesses will also generate local receipts, increasing the town's revenue.

Overall, the town is working to increase its revenue in a number of ways. This will help ensure the town has a stable financial future, but that does not happen overnight.

EXPENDITURE HISTORY



Education is the primary driver of expenditure growth in Hubbardston. In fiscal year FY2024, education will account for 60% of the town's projected budget. This is due to several factors, including the increasing cost of salaries and benefits for teachers and staff, the need to maintain and update school buildings, increases in student enrollment, and the rising cost of special education.

The town has limited expenditure growth, such as level-funded budgets and growth control measures. However, there needs to be more room in the budget to continue to cut without dramatically reducing services. Regionalization and grant efforts have helped to create efficiencies. However, despite these changes, expenditures will continue to grow due to fixed costs, such as salaries and benefits.

WHAT IS A PROPOSITION 2 1/2 OVERRIDE?

Proposition 2 1/2 is a law that limits how much property tax a community in Massachusetts can collect. A Proposition 2 1/2 override is a permanent increase in a community's levy limit, the maximum amount of property tax the community can collect. This means a community with an override can collect more property tax than one without an override. Overrides are typically used to fund recurring expenses, such as higher assessments from a regional school district, increased staffing demands, or additional services.

Here is how Proposition 2 1/2 works:

1. A community can only raise property tax by up to 2.5% of the previous year's levy limit, plus new growth, override, or debt exclusion amounts.
2. A community cannot raise more in taxes than an amount greater than 2.5% of the total community value. This is known as the levy ceiling.

This means that a community is bound by two "2.5's" - 2.5% of last year's levy limit, or, if a community is nearing its levy ceiling, an amount no greater than 2.5% of the total community value.

In summary, a Proposition 2 1/2 override is a permanent increase in a community's levy limit that allows the community to collect more property tax than it would be able to without the override. Overrides are typically used to fund recurring expenses.

WHAT IS A DEBT EXCLUSION?

A debt exclusion is a temporary increase in property taxes used to fund specific capital projects. The additional taxes are not subject to the limits of Proposition 2½, a state law limiting the amount of property tax revenue that a municipality can collect.

Debt exclusions are typically used to fund large projects that would be too expensive to fund with the municipality's existing budget.

Voters typically approve debt exclusions in a referendum. If the referendum passes, the additional property taxes will be collected for a specific period. Once the debt is paid off, the debt exclusion ends, and property taxes return to normal.

It is important to note that debt exclusions should only be used to fund projects that are essential and likely to benefit the community. Debt exclusions can significantly impact property taxes, and they should only be used when there is no other way to fund a necessary project.



Please see the Division of Local Services website for their publication "Levy Limits: A Primer on Proposition 2 1/2" at <http://www.dls.state.ma.us/>

Types of Ballot Questions

Questions and Town Meeting Warrant through the Select Board are placed on the ballot. Overrides require a majority vote, while exclusions need a 2/3 vote to pass at the Annual or Special Town Meeting. If certified, these questions can appear on regular or special municipal election ballots or the state biennial election ballot. Municipal clerks provide written notice of the question at least 35 days before the election. Three types of ballot questions can be used to increase or decrease property tax revenue:

How to Vote on Ballot Questions

Residents vote on ballot questions at the annual town meeting or a special election. The ballot question will specify the amount of the increase or decrease in property tax revenue, as well as the purpose of the increase or decrease.

To pass, a ballot question must receive a majority vote of the voters who cast ballots. If the ballot question does not pass, the municipality cannot increase or decrease its property tax revenue.

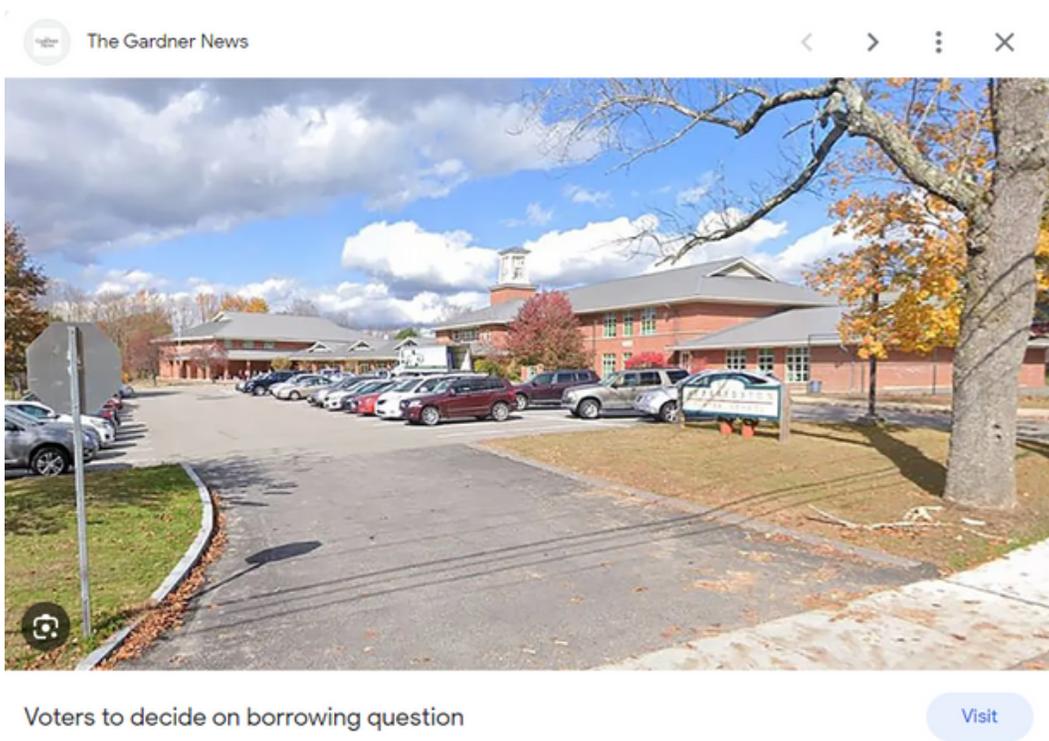
Examples of Ballot Questions

Here are some examples of ballot questions that have been used in Massachusetts:

Override: Shall the town of Hubbardston raise its property tax rate by 2.5% to fund the operating budget for the upcoming fiscal year?

Exclusion: Shall the town of Hubbardston raise its property tax rate by 1% for five years to fund the construction of a new elementary school?

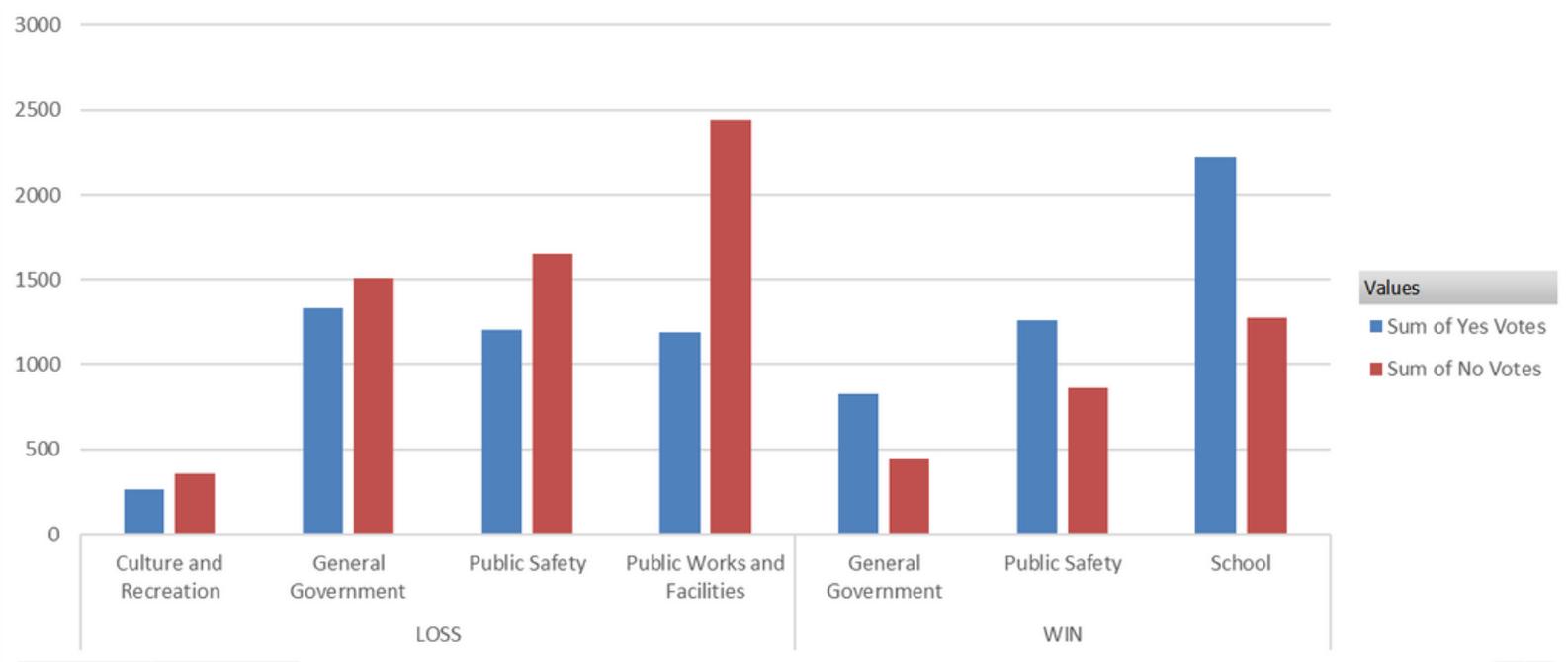
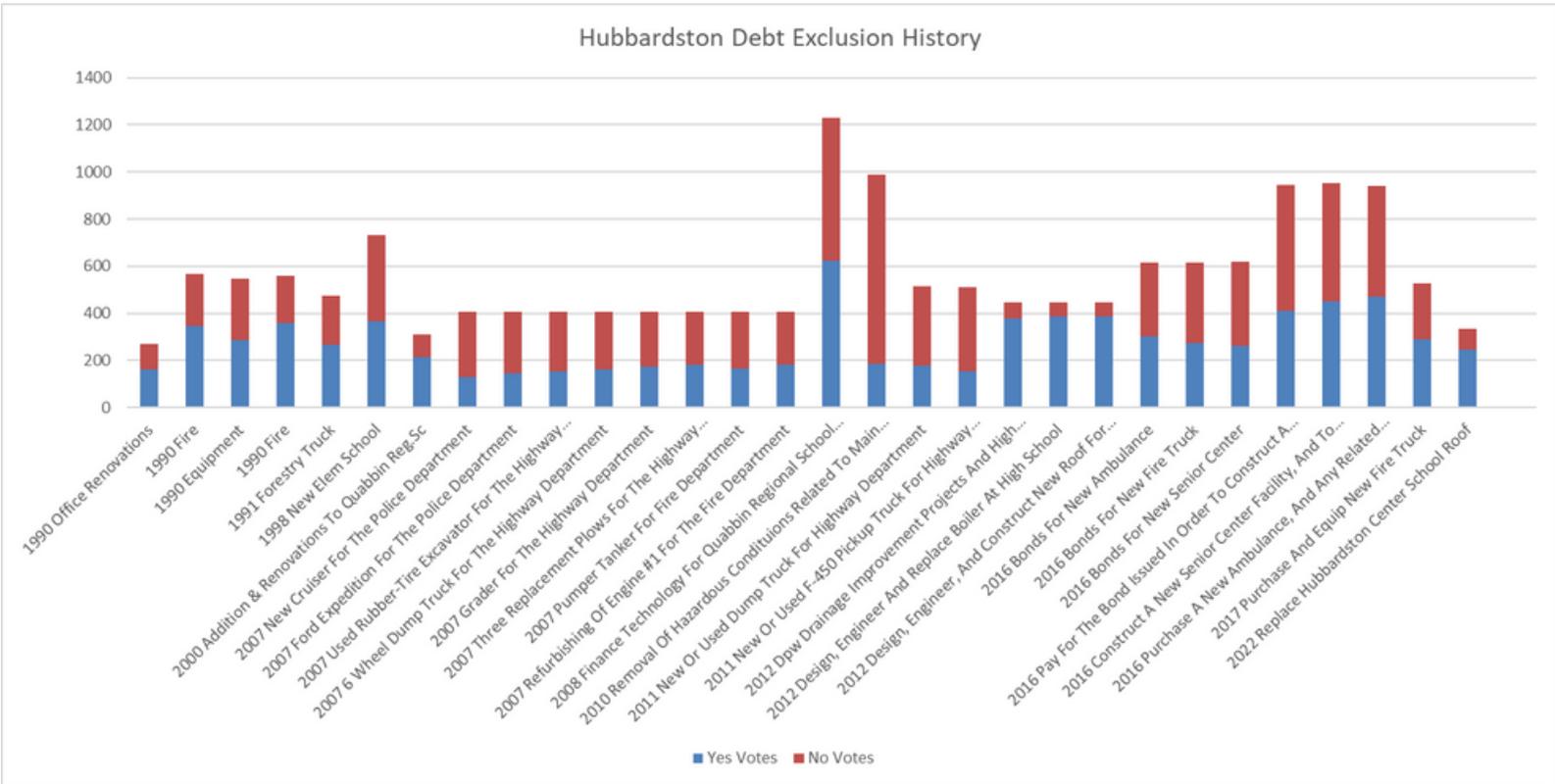
Underride: Shall the town of Hubbardston reduce its property tax rate by 0.5% to lower the tax burden on residents?



Proposition 2½ Overrides in Hubbardston

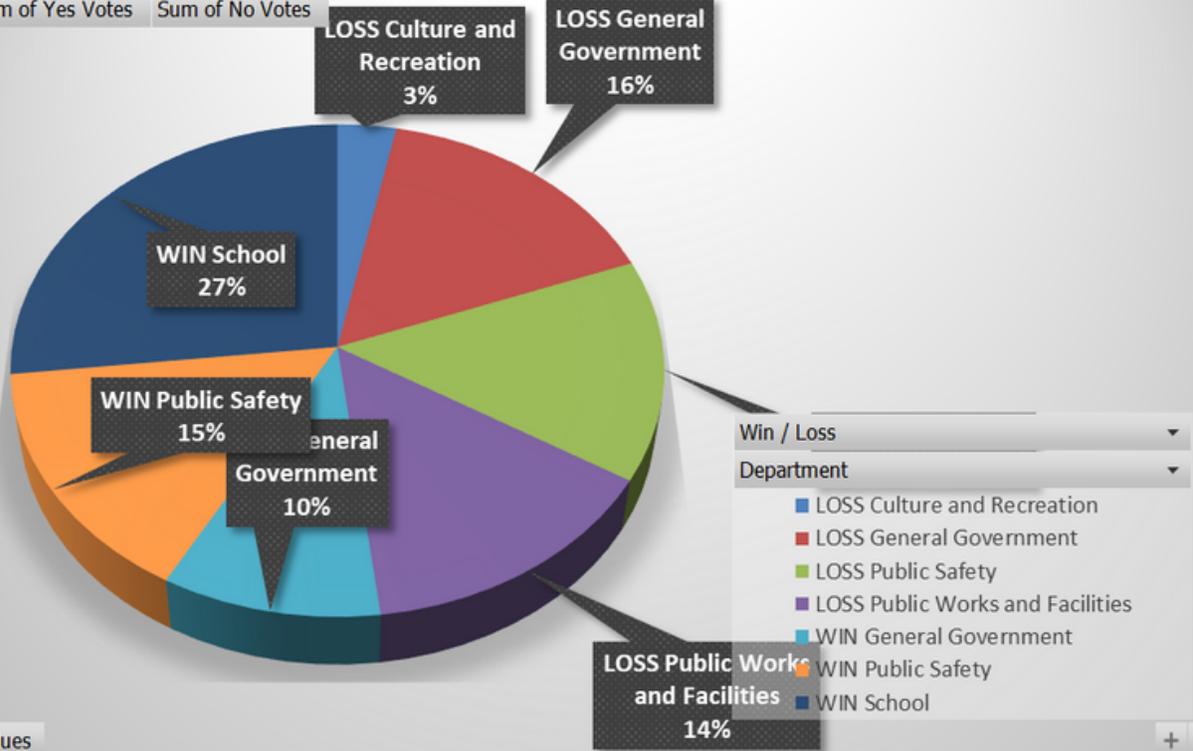
Since the 1980s, the Town of Hubbardston has attempted 54 general overrides and debt exclusions, but not a single 2 ½ override has passed. This is despite fiscal issues. There are several reasons why Hubbardston's overrides have not passed. One reason is that the town's tax base is relatively small, and any permanent increase in taxes was met with resistance from residents.

Although Hubbardston has not passed a single 2 ½ override, the town has passed 13 debt exclusions to enhance education, public safety, infrastructure, and road maintenance.



Sum of Yes Votes

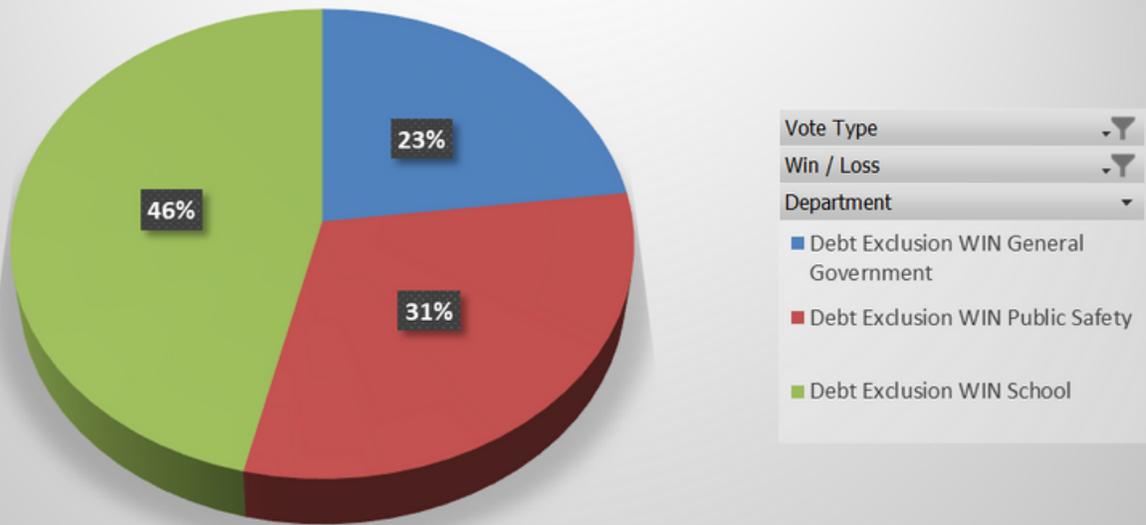
Sum of No Votes



Values

Sum of Fiscal Year

Debt Exclusion Win By Type



+ -

The Pros and Cons of Overrides

There are both pros and cons to approving overrides. On the one hand, overrides can help to ensure that the town can provide essential services and maintain its infrastructure. On the other hand, overrides can also lead to higher taxes for residents.

Ultimately, the decision of whether or not to approve an override is a difficult one. Voters must weigh the pros and cons carefully before making a decision.

Potential FY24 Timeframes

Within the mid to late portion of FY24, there are two possible timeframes to move forward with an override or debt exclusion proposal.

The first option is to hold the override vote during the presidential primary in March 2024. This would give the town limited time to educate voters and build support for the override, but it would also mean that the override would be voted on during a high-turnout election, which could increase the chances of it passing.

The second option is to hold the override vote during the annual town meeting in May of 2024. This would give the town almost ten months to educate voters and build support for the override. Still, it would also mean that the override would be voted on during a traditionally lower-turnout election, which could decrease the chances of it passing.

What could we do?

To understand the tax ramifications of a passed override, I have created a calculator that allows residents to put in their assessed home values and the amount of a proposed override. This tool can be found at <https://www.hubbardstonma.us/town-administrator/pages/draft-override-calculator>. Please note that any information provided within this document is for conservation purposes only.

Stabilization Override

A stabilization override is a type of override that is used to fund essential services and prevent cuts to programs and staff. It is typically a one-time property tax increase used to stabilize the town's finances. For example, a town might need to pass a stabilization override if it faces a budget shortfall due to a decline in property values or an increase in expenses. The override would help the town maintain its current level of services and avoid cutting programs and staff.

Override

An override is used to fund specific projects or programs. It is typically a more minor increase in property taxes than a stabilization override. The override would help the town with the structural deficit in the short term without increasing property taxes too much.

Comparison of Stabilization Override and Override

The main difference between a stabilization override and an override is the purpose of the increase in property taxes. A stabilization override is used to fund essential services and prevent cuts to programs and staff, while an override funds specific projects or programs.

Stabilization overrides are typically larger than overrides, designed to cover a broader range of expenses. Conversely, overrides are typically smaller, as they are only used to fund specific projects or programs.

1-Year Debt Exclusion

A 1-year debt exclusion is a type of ballot question that allows a town to increase its property tax revenue by a certain amount for one year. This increase is used to pay for specific projects or programs, such as constructing a new school or renovating a fire station.

At the end of the year, the town must either reduce its property tax rate or hold another ballot question to approve a new debt exclusion.

Multi-Year Debt Exclusion - Operating Budget

A multi-year debt exclusion is a type of ballot question that allows a town to increase its property tax revenue by a certain amount for years. This increase is usually used to pay for the town's operating budget, which includes the cost of essential services such as education, public safety, and infrastructure.

At the end of the period, the town must either reduce its property tax rate or hold another ballot question to approve a new debt exclusion.

Comparison of 1-Year Debt Exclusion and Multi-Year Debt Exclusion

The main difference between a 1-year debt exclusion and a multi-year debt exclusion is the length of time that the increase in property taxes is in effect. A 1-year debt exclusion is only in effect for one year, while a multi-year debt exclusion can be in effect for years.

1-year debt exclusions are typically used to fund specific projects or programs expected to be completed within a year. Multi-year debt exclusions are typically used to fund the town's operating budget, which includes the cost of essential services such as education, public safety, and infrastructure.

Action Plan and Timeline

The following action plan outlines the steps to propose and pass an override successfully.

ACTION PLAN AND TIME LINE

1

Begin public information campaign and community engagement efforts.

- Craft a clear and concise message explaining the need to address the deficit.
- Develop a comprehensive communication plan using various channels to inform and engage residents.

2

Begin public information campaign and community engagement efforts.

- Craft a clear and concise message explaining the need to make change and its benefits.
- Develop a comprehensive communication plan using various channels to inform and engage residents.

3

Analyze budgetary requirements and identify necessary adjustments.

- Assess the current financial situation of the town and identify areas where additional funding is needed.
- Evaluate potential adjustments to the budget to accommodate a proposal.

4

Finalize budget proposal.

- Prepare a detailed budget projection that clearly outlines how the funds will be utilized.
- Collaborate with relevant departments and stakeholders to ensure a comprehensive and well-structured proposal.

5

Present the proposal to the Select Board for review and approval.

- Present the finalized budget proposal to the Select Board for their review and feedback.
- Address any questions or concerns raised by the Select Board and make necessary revisions.

6

Place proposal on Town Meeting Warrant

- Submit the approved override proposal for placement on the Town Meeting Warrant

7

Continue public outreach and education efforts to inform residents about the proposal.

- Maintain ongoing communication with residents through public meetings, social media, and other platforms.
- Provide regular updates on the progress of the override proposal and address any questions or concerns.

8

Town-wide vote on the proposal.

9

Communicate the outcome of the vote to the community and initiate necessary actions based on the results.

Conclusion

I request the Select Board's acknowledgment of the Structural Deficit Working Group. This group will consist of the following members:

- **Town Administrator (Chair)**
- **Treasurer/Collector**
- **Accountant**
- **Town Clerk**
- **Executive Assistant**
- **Four members of the community at large, two of whom have municipal, finance, or public safety experience, one has marketing experience, and one has a child currently enrolled at the QRSD.**

The working group will meet regularly to develop recommendations for the structural deficit. The Town Administrator will keep the Select Board informed of its progress and will provide the Select Board with a copy of its recommendations when complete.

I believe that the Working Group is essential to ensuring that the town has a sound financial plan for the future. The group's diverse membership will provide a variety of perspectives and insights, which will be invaluable in developing a proposal that is in the town's best interests.

I respectfully request that the Select Board acknowledge the Override Working Group and approve me to work with the group to provide a structural deficit proposal at an upcoming meeting of the Hubbardston Select Board. Thank you for your time and consideration.

Sincerely,

Nathan R. Boudreau, MPA

Town Administrator