



2023 REPORT OF THE APPROPRIATIONS COMMITTEE

Sections 4-8 and 4-10 of the South Hadley Town bylaws state, in part, that the “appointed committee on appropriations shall consider all articles involving the expenditure, appropriation, raising or borrowing of money in any warrant, for any town meeting, and make their recommendations to the meeting held to consider such articles.” Proposition 2½ was enacted forty-three years ago. Since then, the Appropriations Committee’s objective has been to recommend to Town Meeting how to address the demands for services and programs while keeping within the fiscal constraints of Proposition 2½.

This, our 98th annual report, presents to Town Meeting a budget that attempts to continue to meet the needs of the citizens of South Hadley, despite increased costs. It is based on the state aid amounts proposed by the Governor. It is possible that final state aid amounts will change. The effects of these changes will most likely need to be addressed at a Special Town Meeting.

The following paragraphs explain the budgetary issues facing the Town of South Hadley and present our recommendations.

Fiscal Year 2023 Special Town Meeting

In some years, a Special Town Meeting is held immediately prior to the annual Town Meeting. Financial articles are presented which request funding for short falls in fiscal year 2023 budgets and other one-time non-recurring costs. No spring Special Town Meeting will be held this year. The largest deficit is in the snow and ice removal budget. Fortunately, this year’s short fall is approximately \$95,000. This deficit and other smaller budget amounts will be funded by end of the year transfers from department budgets with surpluses. Transfers to stabilization funds and capital expenditures will be addressed during the annual Town Meeting.

State Aid

The state budget process is ongoing. The current proposal by the Governor, which is being used in this budget, increases Chapter 70 state aid (Schools) by \$1,001,365 and Unrestricted General Government and other aid by \$11,676 for a total of \$1,013,041. This is offset by an increase in assessments of \$328,481 resulting in a net increase of \$684,560. Assessments consist principally of School Choice and Charter School charges. This is the second year of higher state aid (fiscal years 2023 \$1,097,333; 2022 \$47,000; 2021 \$11,425) It permits the Town to provide increased funding to the Schools, as is detailed later, and to General Government as we deal with increased costs of personnel, materials and supplies and services. The limitation on increased real estate taxes under Proposition 2 ½ makes it difficult to meet increased costs of funding our town and school budgets that have been impacted by increasing inflation. Final state aid amounts will not be available until our budget process is complete.

Free Cash

Free cash is a revenue source which results from the calculation as of July 1 of the Town's remaining unrestricted funds from operations of the previous fiscal year. A summary of free cash activity in recent years is as follows:

	FY18	FY19	FY20	FY21	FY22	FY23 As Proposed
Certified Free-Cash						
Beginning Balance	\$ 2,720,828	\$ 2,659,656	\$ 2,500,051	\$ 4,309,770	\$ 3,585,557	\$ 3,958,362
Expenditures:						\$ -
Golf Course-Next Year	\$ 391,460	\$ 340,758	\$ 374,763	\$ 373,563	\$ 332,463	\$ 331,463
Current & Prior Year Budgets	\$ 1,233,050	\$ 1,511,233	\$ 71,000	\$ -	\$ -	\$ -
OPEB Trust Fund	\$ 300,000	\$ 300,000	\$ -	\$ 200,000	\$ 200,000	\$ 200,000
Next Year budgets	\$ 292,000	\$ -	\$ -	\$ 2,495,700	\$ 1,600,500	\$ 1,661,700
Free Cash at Year End	\$ 504,318	\$ 507,665	\$ 2,054,288	\$ 1,240,507	\$ 1,452,594	\$ 1,765,199
Increase at year end closing	\$ 2,155,338	\$ 1,992,386	\$ 2,255,482	\$ 2,345,050	\$ 2,505,768	
Certified Free Cash for Next Year	\$ 2,659,656	\$ 2,500,051	\$ 4,309,770	\$ 3,585,557	\$ 3,958,362	

Certified free cash for fiscal year 2023 was \$3,958,362. Actual fiscal year 2022 revenues exceeded budgeted amounts by approximately \$1,360,000, budget turn-backs totaled \$1,179,000 and state adjustments net of overlay closeouts were \$134,000. The largest sources of additional revenue were excise and meal taxes and licenses and fees and the most significant expense close backs were group health insurance and the police budget.

No articles at the Fall Special Town Meeting required the use of free cash so to date no fiscal year 2023 free cash has been spent. Proposed uses of free cash at the Annual Town Meeting are:

Fund Golf Course debt	\$ 331,463
Transfers to OPEB Trust	200,000
Capital purchases (details below)	1,561,700
Compensation Fund	<u>100,000</u>
Total	<u>\$2,193,163</u>

The Appropriations Committee supports these uses of free cash. Proposed expenditures will result in unspent free cash of \$1,765,199. Except for COVID affected fiscal year 2020, this is the highest level of unspent free cash the Town has carried over at the end of a fiscal year. Uncertainties concerning future revenue amounts and potential future capital needs support a conservative approach. For these reasons, the Appropriations Committee does not recommend spending additional free cash at this time.

School Budget

One of the most significant challenges facing our Town is to fully fund our schools so that our students can be provided a physically and emotionally safe environment while rebuilding staffing and programming in support of a revitalized post-COVID educational experience.

The proposed School Department budget is \$24,526,460, an increase of \$900,000 or 3.81% over fiscal year 2023. In addition to funding provided from Town resources, the School Department relies on other funding sources including School Choice revenue, Circuit Breaker revenue to partially offset special education costs, and state and federal grants.

The Schools are also receiving resources provided by the CARES Act through the Elementary and Secondary Education Relief Fund (ESSER). Funding runs through September 2024 and totals approximately \$2.45 million. The School Department is using these moneys to meet increased costs due to COVID. However, it is also proposed to fund new positions with ESSER money. Some of these positions are temporary, but to the extent they are permanent positions, the cost will need to be funded by local resources when grant funds are not available. The Selectboard has agreed to assist in the transition by committing \$898,000 of ARPA funds over the next three fiscal years.

The South Hadley school system, like many surrounding towns, has been challenged by pre-2023 lack of state funding. In the eight years prior to fiscal year 2023, the total Chapter 70 state aid received by South Hadley was \$958,770. The result of these limited resources and the impact of COVID is a decline in the performance of South Hadley students, a decrease in the amount of School Choice revenue and increase in School Choice and Charter School assessments.

Fortunately, the Massachusetts legislature passed and Governor Baker signed the Student Opportunity Act which provides additional Chapter 70 aid to Massachusetts towns for fiscal year 2023 and four subsequent years. Fiscal year 2023 Chapter 70 aid for South Hadley increased to \$1,090,917 (more than the previous eight years combined), and fiscal year 2024 is projected to be \$1,001,365. The additional funding along with the use of ESSER funds (and the support of the Town) has allowed the School Department to develop a plan to address the challenges faced by the schools. The Appropriations Committee appreciates their efforts, and we agree with this budget.

Fiscal Year 2024 Non-School Expenditures

The General Fund budgets have increased by 5.88% in fiscal year 2024. The largest increases are in unclassified accounts where health insurance (\$253,378) and retirement (\$324,182) are higher than in 2023. Several new positions have been funded, including a working foreperson position in the Highway Department and a Facilities Director who will serve both the town and schools to oversee the maintenance, repair, and renovation of all municipal facilities plus any capital projects. The Shared Veterans District arrangement with Easthampton has been terminated and a fulltime Veteran's agent to serve South Hadley has been funded. Other increases include negotiated salary increases for the Police and DPW, property insurance, Senior Center funding, utility costs, and maintenance costs. The Appropriations Committee agrees with these budgets.

Ledges Golf Club

Effective in 2019 the Town entered into a five-year agreement with IGM to operate and maintain the Ledges Golf Club. The Town receives all revenue generated from the golf course and pays a fee to IGM. In recent years, revenues have exceeded costs resulting in a surplus which adds to the enterprise fund retained earnings. This balance can be used to fund repairs and capital improvements for the course as discussed below. The Town continues to pay the principal and interest on golf course debt. The amount for fiscal year 2024 is \$331,463, and this is funded from free cash.

Capital Expenditures

The Capital Planning Committee met regularly during the budget process, including visiting town facilities, in order to identify and prioritize the current year and future capital needs of the Town. The Committee has issued a detailed report which summarizes its recommendations. We suggest that this report be read in preparation for Town Meeting. Article 10 proposes spending \$846,700 of free cash for 18 items as listed in the warrant. Articles 11, 12, and 13 propose capital expenditures from enterprise fund retained earnings: WWTP

\$310,000; Ledges \$198,500, and Landfill \$14,000. Article 14 requests \$715,000 be authorized from free cash for improvements to Buttery Brook Park. The Town will be applying for a PARC grant which, if approved, would reimburse 70% of the cost up to a maximum of \$500,000. In order to qualify for this grant, the Town must fully fund the cost of the project prior to grant approval. This is the purpose of Article 14. If the grant is not approved, these funds will not be spent.

The Capital Planning Committee has voted to support these articles, and we agree.

Stabilization and Compensation Funds

Included in Article 9 is a proposed transfer of \$200,000 to the Mosier Stabilization Fund. Article 15 requests \$100,000 be transferred from free cash to the Compensation Fund. The Appropriations Committee supports these articles

OPEB Trust

One of the most significant financial challenges facing towns is unfunded post-employment benefits. The most recent actuarial projection of South Hadley's unfunded liability is \$42 million. This amount can fluctuate due to numerous factors. The current balance in our OPEB trust account is approximately \$2,848,000. The fiscal year 2024 budget proposes funding in the amount of \$500,000, \$300,000 from 2024 revenues and \$200,000 from free cash. We agree with this article and its inclusion as a regular line item in our operating budget with additional funding provided from free cash, if available.

American Rescue Plan Act (ARPA)

ARPA was signed into law on March 11, 2021, and one provision provided direct financial assistance to cities and towns to address the negative economic impacts caused by COVID and invest in water, sewer and broadband infrastructure. South Hadley's allocation was \$5,268,233. The expenditure of these funds is at the discretion of the Selectboard and not subject to Town Meeting approval. To date, \$4,582,460 has been approved and earmarked, leaving a balance of \$685,773 for future projects.

Summary

At its meeting on April 25, 2023, the Appropriations Committee unanimously voted to support all financial articles to be presented at the May 10, 2023 Town Meeting.

We would like to express our gratitude and thanks to Town Administrator Lisa Wong, Town Accountant Bill Sutton, Assistant Town Accountant Lynn Hogan, Interim School Superintendent Mark McLaughlin, Assistant Superintendent for Finance and Business Operations Jennifer Voyik, department heads and other assistants for their extraordinary support in providing us with the information needed so that we can fulfill our obligation to make recommendations to Town Meeting members.

Respectfully submitted,

TOWN OF SOUTH HADLEY
APPROPRIATIONS COMMITTEE

Thomas Terry, Chairperson
Richard Constant
Jessica DeFlumer
James Everett
Leonard Finkowski
Julie Gentile
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