

OFFICE OF THE
EXECUTIVE ASSISTANT



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Town of Hudson MASSACHUSETTS 01749-2134

December 19, 2022

Mr. Scott Duplisea, Chairman Select Board
Mr. Robert Clark, Chairman Finance Committee

Dear Mr. Duplisea and Mr. Clark:

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, 2023 and concluding on June 30, 2024. Compared to Fiscal Year 2023, total municipal expenditures for the Town are projected to increase 4.95% or \$4,845,072.

Introduction

As 2022 draws to a close, hopes for an improving economy are diminished as inflation in the country, initially considered transitory, has reached levels not seen in 40 years as the Consumer Price Index remains stubbornly high in November at 7.0% year-over-year.¹ In spite of a series of aggressive rate hikes by the Federal Reserve to try to calm demand, prices have continued to soar in virtually all categories from food to housing to energy. Boston area households paid an average of 28.8 cents per kilowatt hour (kWh) of electricity in August 2022, up from 22.8 cents per kWh in August 2021. The average cost of natural gas, at \$1.692 per therm in August, was up from \$1.286 per therm a year earlier.² Extreme heat and drought during the summer months in addition to geopolitical instability with the war in Ukraine have also negatively influenced global economic markets. Regrettably, the economic picture today remains as uncertain as it did a year ago.

In spite of all of this bad news, the underlying economy appears to remain strong. While there will likely be future waves of COVID outbreaks, there is hope that the corresponding economic disruption will be less impactful than in prior years. Supply chain pressures, triggered by COVID shutdowns, eased in August continuing a pattern observed over the prior four months,

¹ CPI Boston-Cambridge-Newton – November 2022 https://www.bls.gov/regions/new-england/news-release/consumerpriceindex_boston.htm

² https://www.bls.gov/regions/new-england/news-release/averageenergyprices_boston.htm

according to the Federal Reserve Bank of New York.³ There has been some price moderation, especially with gasoline, that has been sustained throughout much of the year. The unemployment rate has remained low during a resilient labor market at 3.7% in October, having reached February 2020 pre-COVID levels. Employers continue to hire, having added 261,000 jobs in October. While this figure is less than the 315,000 jobs added in September, it is appreciably higher than the average of 183,000 jobs added per month in the decade before the pandemic.⁴ And, U.S. gross domestic product – the broadest measure of economic activity – increased at a 2.6% annualized pace in the third quarter, the first quarter of positive growth for 2022.⁵

Because of the uncertainty that lies ahead for FY2024, the balanced spending plan presented in the enclosed budget is conservative in its assumptions. It aims to identify resources to maintain level services in municipal departments. I have instructed department heads to request budgets for FY2024 which reflect the necessary and appropriate 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. Successor collective bargaining agreements have been signed with all six of the Town's bargaining units. In November, Town Meeting funded the first-year contractual obligations for the Police Superior Officers, Department of Public Works (DPW) employees, and the Clerical employees, retroactive to July 1, 2022. And, I am hopeful that efforts currently underway with the Insurance Advisory Committee (IAC) may lead to a more sustainable health insurance program beginning on July 1, 2023.

Before beginning an analysis of the proposed FY2024 budget, I would like to highlight some of the initiatives that are underway in the current fiscal year that will have an impact in FY2024 and beyond. In 2022, significant investments in the Town's public works infrastructure were initiated, funded largely by once-in-a-generation federal American Rescue Plan Act (ARPA) dollars administered by the U.S. Treasury. Hudson's direct ARPA allocation is \$5,937,485. These funds must be obligated by December 31, 2024 and fully expended by December 31, 2026. After public listening sessions were conducted in late 2021 and early 2022, the Select Board voted on April 8, 2022 to program the majority of ARPA funds in ways that will benefit the residents of Hudson for many years. This section of the budget narrative will detail how ARPA and other funds are being implemented to make lasting infrastructure improvements throughout Hudson. For reference, below is a chart showing how the Select Board voted to allocate the Town's share of these federal funds. I note that any unspent dollars from completed projects will be reprogrammed by vote of the Select Board.

³ <https://www.newyorkfed.org/research/policy/gscpi#/interactive>

⁴ <https://www.cnn.com/2022/11/04/economy/october-jobs-report-us/index.html>

⁵ <https://www.bea.gov/data/gdp/gross-domestic-product>

Final Select Board Authorized List of ARPA Projects - April 2022		
Department	Amount	Purpose
Board of Health	\$639,230	Public Health Services
Building Department	\$278,975	E-Permitting Software Acquisition
Council on Aging	\$25,000	Mental Health Counseling
Fire Department	\$750,000	Fire Pumper
Fire Department	\$62,011	Fire Command Vehicle
Library	\$308,158	Library Capital & Technology Improvements
Police Department	\$15,190	AEDs and First Responder Kits
Public Works	\$1,345,000	Culvert Replacement – Main and Houghton
Public Works	\$1,000,000	Wastewater Treatment Plant Ph. 2 Upgrades
Public Works	\$110,000	Stormwater Improvements – Green and Florence
Public Works	\$150,000	Culvert Replacement – Chestnut and Main
Recreation	\$325,000	Parks and Playground Improvements
School Department	\$645,000	HVAC Upgrades – Mulready & Forest Ave Schools
	\$283,921	unencumbered / administrative costs
TOTAL HUDSON ALLOCATION	\$5,937,485	

The new \$5.6M permanent PFAS filtration system at the Chestnut Street Water Treatment Plant became operational during the summer of 2022. The project was financed through a borrowing via the state's revolving fund (SRF) with a 0% interest rate and \$1,121,692 in partial principal forgiveness structured over the 20-year term. These loan forgiveness funds were provided by the Commonwealth's allocation of ARPA funds. The project also received additional principal forgiveness of \$370,158 directly from the SRF program. Other significant water system investments include a newly re-authorized \$2.5M borrowing to purchase and install new residential water meters and related software and collection equipment, as well as a \$300,000 borrowing authorization, with 100% principal forgiveness via the Massachusetts Clean Water Trust, so that the Town can perform lead water service line inventories and develop a plan for replacing these service lines to achieve compliance with the October 16, 2024 deadline per state regulations. Town Meeting authorized these borrowings in November.

With respect to sewer operations, the Select Board approved a \$1M allocation of APRA dollars to help cover the significant projected cost increases associated with the Wastewater Treatment Plant Phase 2 Upgrades. This project initially went out to bid in early 2022 and the cost was significantly higher than budgeted, with only one (1) general contractor submitting a bid. After receiving approval from the Massachusetts Department of Environmental Protection (MADEP) to re-bid the project, revisions were made to the scope and cost estimates and the project was re-bid in October in a much more favorable bidding environment. Six (6) bids were opened in October in time for Town Meeting to approve an additional borrowing authorization of \$6,900,000, which represents the delta between the original \$14.7M authorization in June 2020 and the recently opened low bid. A 10% contingency is also included in the total project budget. This project is also being financed through the SRF program via a 2% interest rate loan.

Stormwater infrastructure at various locations throughout town also received much needed investments, with additional projects in the queue. Deteriorating culverts were replaced at Cox Street, Temi Road, and Chestnut Street. Drainage repairs were made in the Green and Florence Street neighborhood correcting a persistent flooding issue over the years at this location. And, perhaps the most visible stormwater project involves the culvert and bridge rehabilitation over the Danforth Brook at Main and Houghton Streets which is nearing completion. The Massachusetts Department of Transportation (DOT) had deemed this bridge “structurally deficient” several years ago but the Town had not been able to identify funds to move forward. ARPA funds have been programmed to cover all construction costs for this project. Below is a picture of the culvert and bridge replacement at Chestnut Street which was completed this fall by a group of skilled DPW employees.



The federal Environmental Protection Agency (EPA) regulates stormwater activities in most eastern and central Massachusetts communities via the Municipal Separate Storm Sewer System (“MS4”) Permit. The permit is a mandate and Hudson’s participation is required. To comply with the permit in the coming years, Hudson will need to allocate considerably more resources to preserving and improving its stormwater assets which have an estimated value of \$88M, according to the Town’s consultant, Woodard & Curran (see chart below).

Asset	Total
Catch Basins	3,436
Drain Manholes	1,493
Outfalls	224
Culverts	107
Drain Pipe	370,702 linear feet
Estimated \$88M Asset Value	

In November, Town Meeting authorized a stormwater enterprise fund with an effective date of July 1, 2023. Once the Town’s General Bylaws are amended to include a new stormwater utility bylaw, the Select Board will be able to promulgate stormwater regulations, establish a fee structure for residential and commercial properties, and dedicate fee revenue to stormwater-specific activities to achieve minimum effective compliance with the permit. Woodard & Curran estimates stormwater-related costs to average over \$1M in FY2024 through FY2026 (see chart below).

Estimated Stormwater Future Needs and Costs				
Program Category	FY2023	FY2024	FY2025	FY2026
1. Stormwater Program Administration	\$0	\$146,500	\$154,000	\$156,600
2. Regulatory Compliance and Enforcement	\$146,000	\$150,000	\$125,000	\$125,000
3. Stormwater Operations and Maintenance	\$161,000	\$251,000	\$251,000	\$251,000
4. Drainage Engineering and Stormwater Management Planning	\$0	\$145,000	\$125,000	\$160,000
5. Stormwater Capital Improvement Projects and Equipment	\$227,905	\$250,000	\$350,000	\$450,000
Total	\$534,905	\$942,500	\$1,005,000	\$1,142,600
	Avg:			\$1,030,033

It is important to understand how the proposed stormwater utility will operate, once approved. A stormwater utility treats stormwater management as a public service that is provided like electricity, heating, and water. The utility will operate as a dedicated enterprise fund and will be supported by property assessments based on the amount of impervious surface on a site, a common methodology used in many Massachusetts communities. Fees are directly related to stormwater impacts. A dedicated stormwater revenue source not only relieves the General Fund of permit compliance obligations, but it also provides the Town the opportunity to meet potential grant and bond requirements.

It was anticipated in November that Town Meeting would amend the General Bylaws to include a stormwater utility bylaw. Since this did not occur, renewed efforts will be made in the coming months to communicate to the public, via public forums and other outreach, the importance of establishing this bylaw. Simply stated, the Town cannot afford to continue to fund mandated stormwater-related infrastructure projects with limited General Fund dollars and expect to maintain compliance with the MS4 permit.

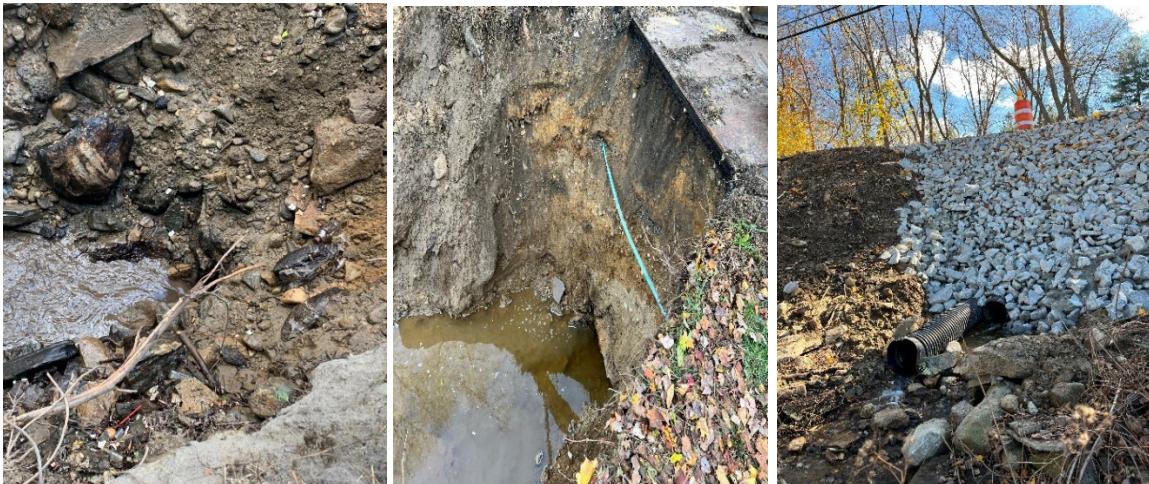
Aging or absent stormwater infrastructure issues are extensive. Below are a few examples:

Lewis Street Drainage



The current poor condition of Lewis Street, with extensive spalling, has been caused by the absence of a stormwater collection system. The road has been damaged by routine flooding.

Brigham Street Culvert



The 100-year old culvert at Brigham Street has collapsed. Temporary pipes have been installed to allow water to flow at about 40%. A fully-designed and constructed replacement is needed to replace this culvert.

Shay Road Culvert

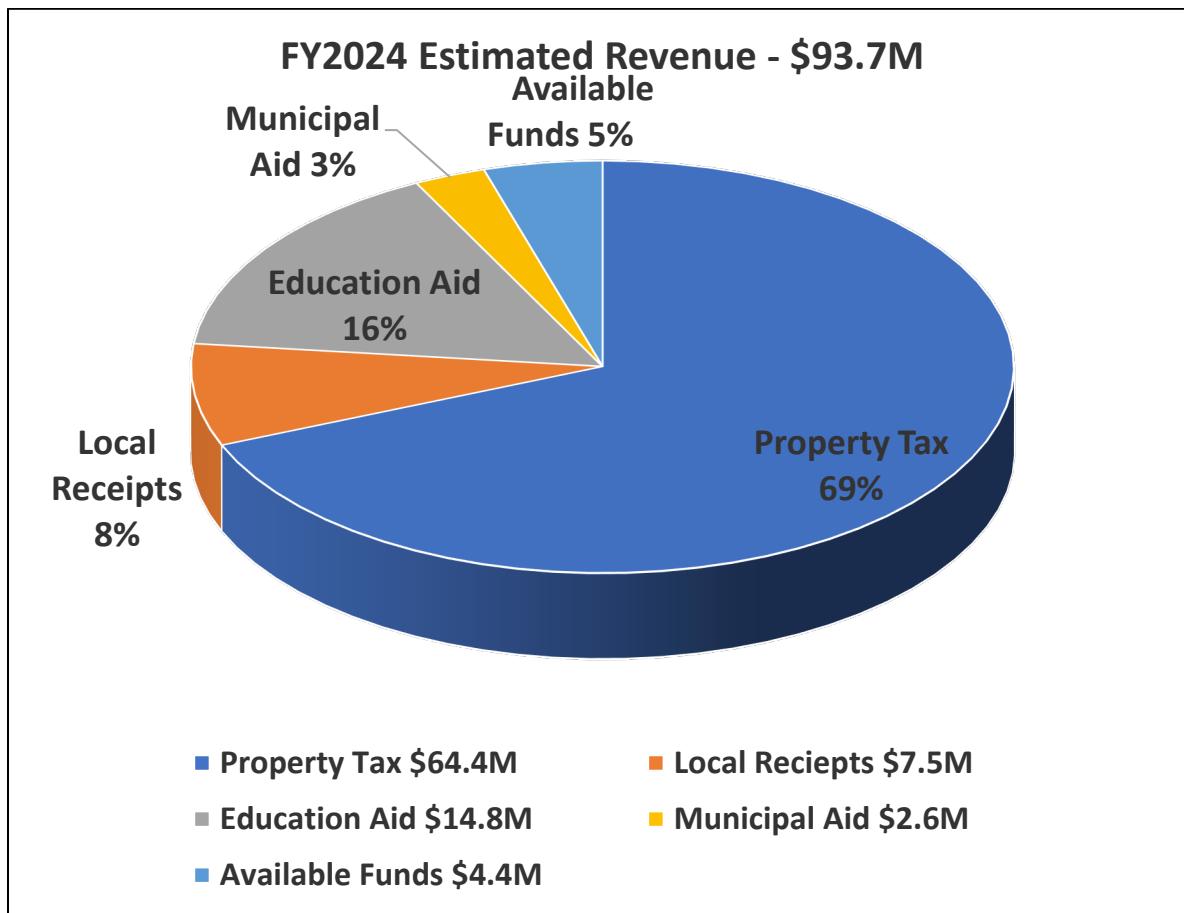


The culvert and bridge at Shay Road have significant deficiencies and are in need of full replacement in the not-too-distant future.

Public works infrastructure projects such as culvert and bridge replacements are expensive undertakings for municipalities. Large projects, such as the Brigham Street culvert replacement, require full design and engineering services. Projects that cannot be accomplished in-house by DPW crews must be put out to bid. State statute requires that contracted employees be paid prevailing wage rates, and bonding and insurance requirements add to projects costs. Furthermore, until inflation is brought under control, the bidding environment will continue to reflect ever-increasing prices for supplies and services.

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 FY2024:



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 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 appropriate departments, they cannot be classified as general available revenue. As a result, the amount 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 FY2024 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 FY2019 to FY2023:

FINAL CHERRY SHEET RECEIPTS AND CHARGES

RECEIPTS	FY2019	FY2020	FY2021	FY2022	FY2023
EDUCATION					
Distributions and Reimbursements					
Chapter 70	\$11,940,707	\$12,020,446	\$12,020,446	\$12,095,806	\$12,241,726
Charter School Reimbursement	\$408,073	\$246,626	\$971,354	\$819,317	\$1,382,548
Offset Items - Reserve for Direct Expenditure					
School Choice Receiving Tuition	\$760,562	\$653,930	\$777,925	\$805,237	\$1,091,923
Sub-Total, All Education Items	\$13,109,342	\$12,921,002	\$13,769,725	\$13,720,360	\$14,716,197
GENERAL GOVERNMENT					
Distributions and Reimbursements					
Unrestricted General Government Aid (UGGA)	\$2,061,821	\$2,117,490	\$2,117,490	\$2,191,602	\$2,309,948
Veterans Benefits	\$43,591	\$41,818	\$56,038	\$52,057	\$65,440
Exemptions: VBS and Elderly	\$84,422	\$87,493	\$84,114	\$68,422	\$61,433
State Owned Land	\$46,033	\$52,650	\$54,021	\$63,088	\$80,982
Offset Items - Reserve for Direct Expenditure					
Public Libraries	\$29,263	\$30,482	\$36,210	\$38,064	\$43,821
Sub-Total, All General Government	\$2,265,130	\$2,329,933	\$2,347,873	\$2,413,233	\$2,561,624
TOTAL ESTIMATED RECEIPTS	\$15,374,472	\$15,250,935	\$16,117,598	\$16,133,593	\$17,277,821
CHARGES					
STATE ASSESSMENTS AND CHARGES					
Retired Teachers Health Insurance	\$1,206,320	\$1,473,735	\$1,391,872	\$1,426,658	\$1,532,321
Mosquito Control Projects	\$41,053	\$44,421	\$44,584	\$46,222	\$47,391
Air Pollution Districts	\$5,919	\$6,040	\$6,153	\$6,326	\$6,454
Metropolitan Planning Council	\$10,349	\$10,637	\$10,714	\$10,943	\$11,222
RMV Non-Renewal Surcharge	\$21,620	\$27,400	\$22,980	\$22,980	\$28,100
Sub-Total, State Assessments	\$1,285,261	\$1,562,233	\$1,476,303	\$1,513,129	\$1,625,488
TRANSPORTATION AUTHORITIES					
Regional Transit (MWRTA)	\$0	\$53,204	\$55,458	\$1,641	\$52,370
Sub-Total, Transportation Assessments	\$0	\$53,204	\$55,458	\$1,641	\$52,370
ANNUAL CHARGES AGAINST RECEIPTS					
Special Education	\$6,729	\$17,349	\$18,482	\$17,663	\$30,447
Sub-Total Annual Charges Against Receipts	\$6,729	\$17,349	\$18,482	\$17,663	\$30,447

TUITION ASSESSMENTS

School Choice Sending Tuition	\$133,457	\$148,881	\$146,570	\$168,663	\$156,668
Charter School Sending Tuition	\$2,230,153	\$2,160,213	\$2,974,160	\$3,468,218	\$3,994,682
Sub-Total, Tuition Assessments	\$2,363,610	\$2,309,094	\$3,120,730	\$3,636,881	\$4,151,350
TOTAL ESTIMATED CHARGES	\$3,655,600	\$3,941,880	\$4,670,973	\$5,169,314	\$5,859,655

The \$52.7B state budget signed by the Governor on July 28, 2022 was favorable to cities and towns. Unrestricted general government aid increased by 5.4% over FY2022 which represented, for Hudson, an increase of \$118,346. The state budget also increased Chapter 70 Education Aid by \$495M. For the 135 “minimum aid” communities like Hudson, the increase was based on a rate of \$60 per student which doubled the \$30 per student increase in FY2022. Combined, the FY2022 and FY2023 increases to UGGA and Chapter 70 establish a trend that starts to mitigate the impact of the minimal increase in state aid received in FY2021 which was primarily a result of COVID-influenced revenue loss. The state budget also commits to begin funding the Student Opportunity Act⁶ according to the originally intended schedule, and forecasts a \$1.5B deposit into the state’s stabilization fund which would bring the total balance to an all-time high of \$8.4B.

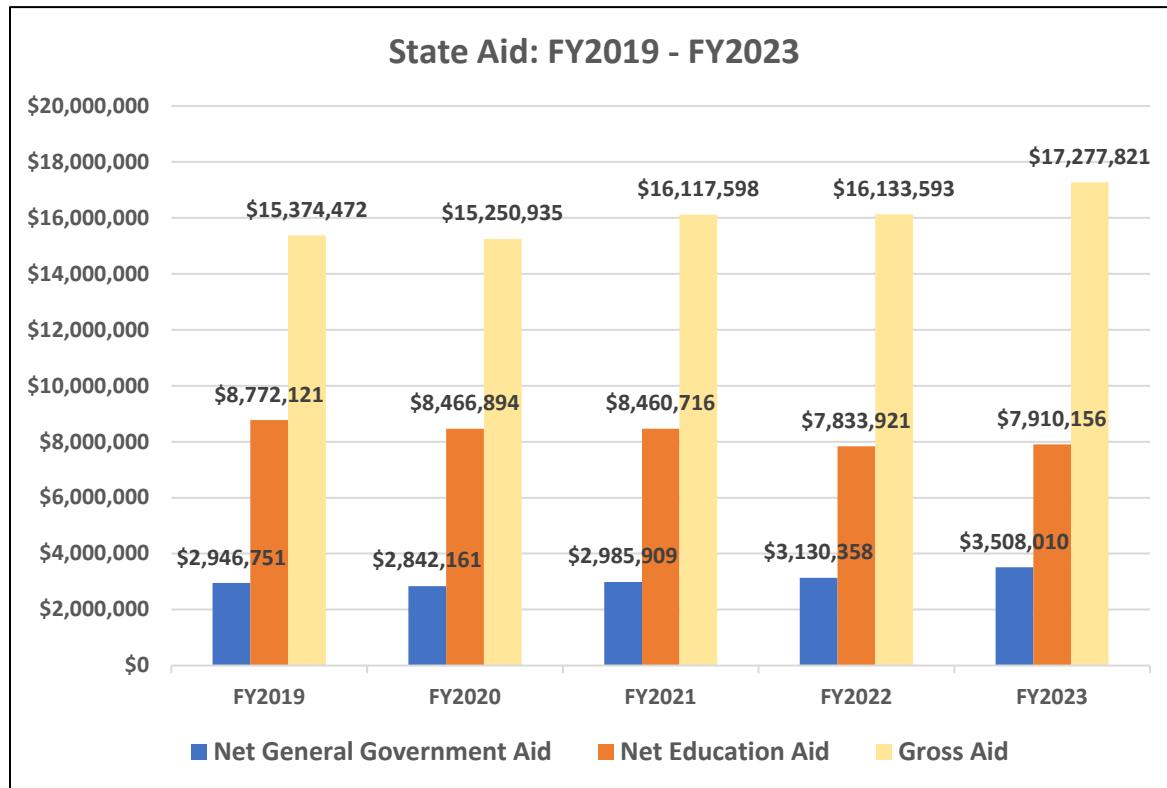
Looking ahead to FY2024, if the Commonwealth continues to experience strong revenue collections throughout the remainder of FY2023 and the economy stabilizes without tipping into a recession, there is hope that unrestricted aid will be increased again in a meaningful way. It is worth noting that in FY2022 the Commonwealth exceeded its annual tax revenue cap set per General Laws, Chapter 62F, and collected \$2.94B more than allowed. This somewhat obscure law requires that refunds be issued to taxpayers if total revenues exceed the annual cap which is tied to wage and salary growth in the Commonwealth. The Massachusetts Department of Revenue (DOR) starting issuing these refunds in November.

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 anticipated in the FY2024 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. While the FY2023 charter school reimbursement amount represented a significant increase over the prior year, when combined with the charter school tuition assessment, the net result is still a deficit to the Town.

⁶ 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 the district’s students.

Another significant charge on the Cherry Sheet is health insurance premiums for retired teachers. In FY2023, this figure was \$1,532,321. 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 of this funding source 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. The longer-term impact of this trend will put more pressure on 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 are expected to increase in the near term as long as the current inflationary environment persists.



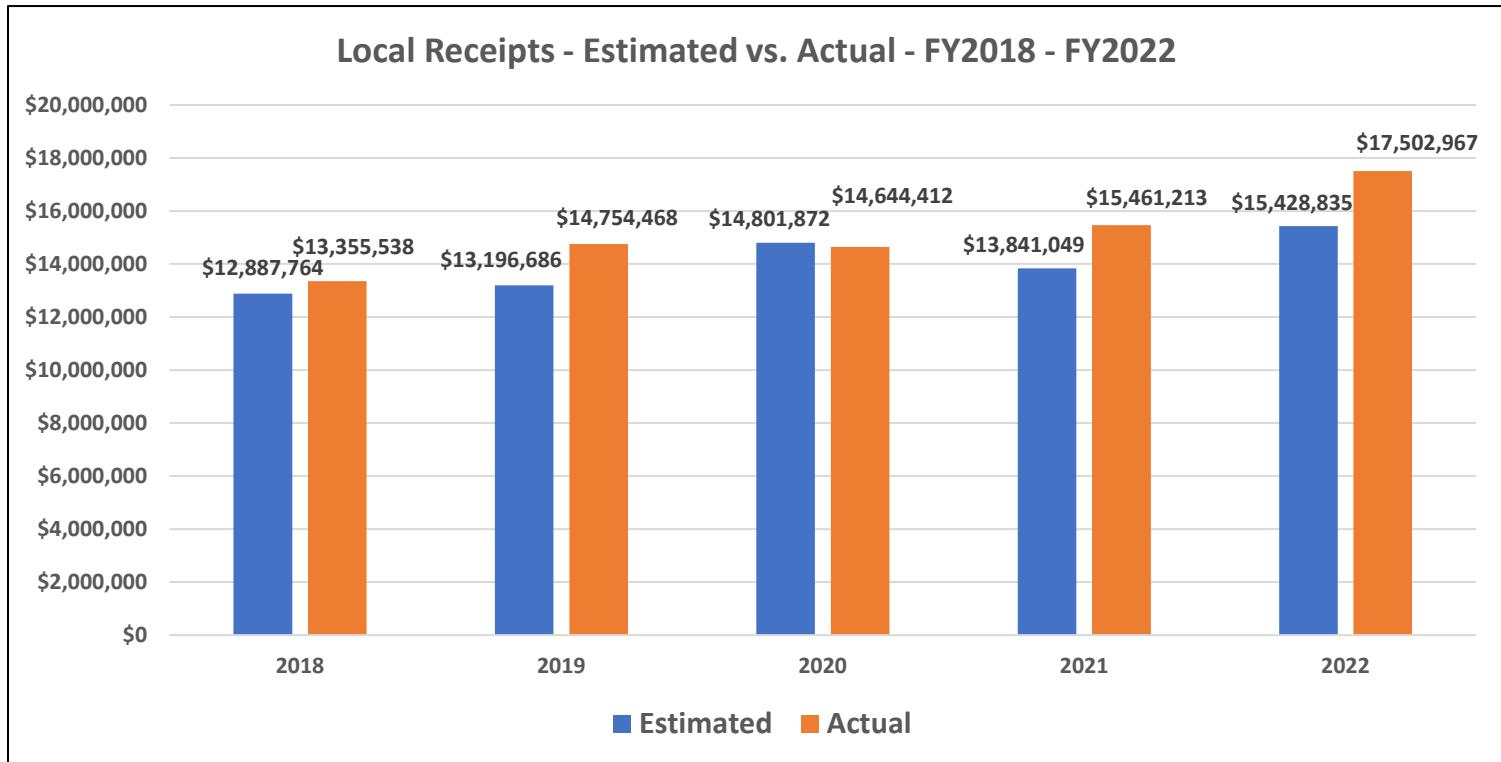
Local Receipts

Local receipts, also called estimated receipts, represent locally generated General Fund revenue in various categories, the largest of which in Hudson have traditionally been charges for services, namely, water and sewer user fees. 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 authorization of enterprise funds for the water and sewer utilities in November, total estimated receipts for FY2024 will be significantly less than in prior years as the water and sewer receipts (and expenses) will be transferred out of the General Fund and captured in the budgets of the respective enterprise fund. Enterprise funds will be discussed in more detail later in this narrative. Local receipts revenue for FY2024 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. 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. The relatively flat motor vehicle excise revenue from the prior two (2) years appears to support this analysis. It is too early to tell, however, whether this apparent trend will continue to play out in FY2024. 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, 2022 documented good evidence for a local economy continuing to perform well. Excise tax revenue on meals and retail marijuana purchases significantly surpassed estimates, 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 this 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.

Below is a chart showing a comparison of budgeted and actual local receipts for the period FY2018 through FY2022 with budgeted amounts documented on the tax rate recapitulation sheet submitted to the DOR each December. The actual figures are as of June 30th.



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 2 ½ 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 which came online 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.

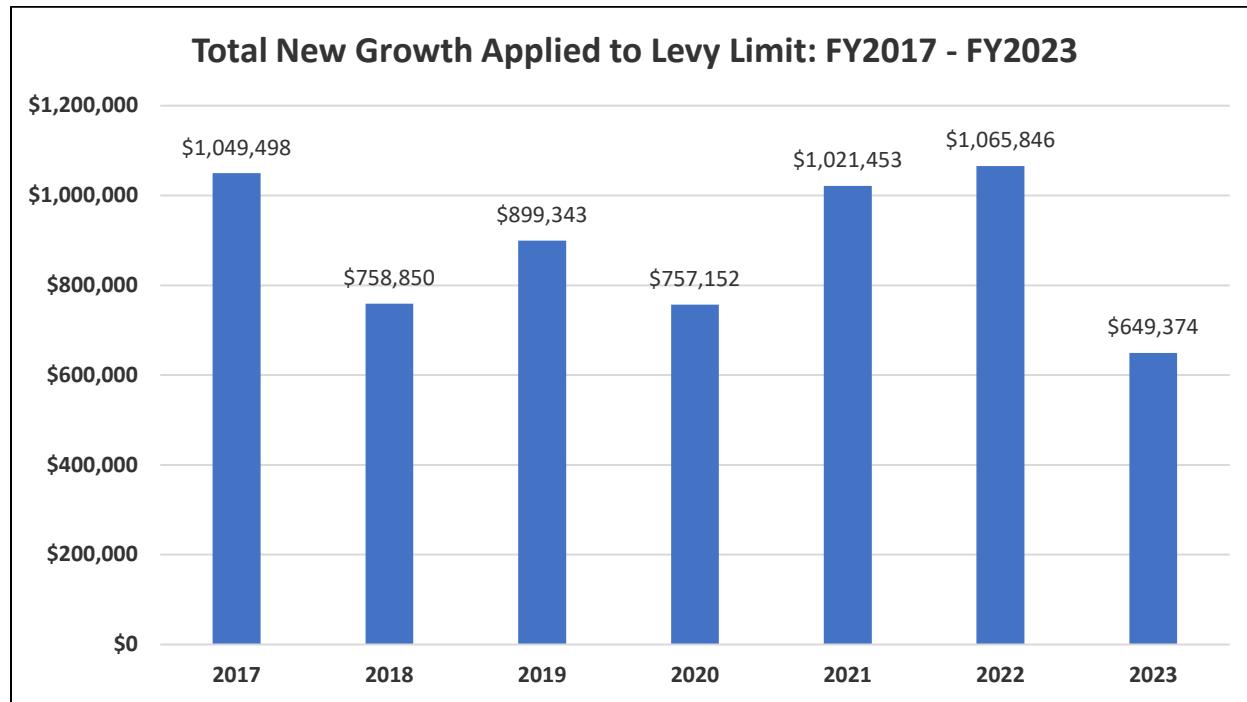
⁷ For FY2022, the tax ley represented 64.5% of budgeted revenue for all communities in the Commonwealth.

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 and certified by the DOR. Hudson's last revaluation was conducted during FY2021.

Tax levy revenue for FY2024 is projected to represent 69% of General Fund revenue. The table below summarizes the projected tax levy calculation for FY2024:

PRIOR YEAR (FY2023) LEVY LIMIT	\$58,708,010
2.5 PERCENT	\$1,467,700
NEW GROWTH ESTIMATE	\$700,000
CURRENT YEAR LEVY LIMIT	\$60,875,710
DEBT EXCLUSION TAX YIELD	\$3,777,299
MAXIMUM ALLOWABLE LEVY	\$64,653,009
TAX	\$64,442,598
EXCESS LEVY CAPACITY	\$210,410

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 FY2024 budget is \$700,000 which has been revised downward from \$750,000 to reflect the lower new growth figure certified in FY2023.



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 FY2022 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 fifth-lowest, and it is very close to the average statewide single-family tax bill of \$6,724. It should also be noted that Hudson is one of eleven communities in this sampling that maintains a split tax rate (i.e., a residential rate 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	\$1,169,578,300	1,328	\$880,707	\$16,760	1.90	\$212,856	7.87	5
Wayland	\$3,421,042,700	4,080	\$838,491	\$15,386	1.84	\$150,253	10.24	12
Acton	\$3,325,605,600	4,995	\$665,787	\$12,950	1.94	\$70,004	18.50	19
Medfield	\$2,548,578,200	3,536	\$720,752	\$12,555	1.74	\$99,242	12.65	20
Bolton	\$1,029,662,700	1,737	\$592,782	\$11,779	1.99	\$82,548	14.27	24
Boxborough	\$793,227,500	1,210	\$655,560	\$11,420	1.74	\$61,952	18.43	28
Stow	\$1,173,959,500	2,108	\$556,907	\$10,893	1.96	\$71,446	15.25	34
Westborough	\$2,184,590,808	3,911	\$558,576	\$10,328	1.85	\$64,295	16.06	38
Norfolk	\$1,678,940,037	3,134	\$535,718	\$9,750	1.82	\$58,124	16.77	44
Littleton*	\$1,595,690,500	3,079	\$518,250	\$9,178	1.77	\$54,237	16.92	51
Natick	\$5,865,707,500	8,545	\$686,449	\$9,157	1.33	\$64,849	14.12	52
Holliston	\$2,352,238,700	4,498	\$522,952	\$9,089	1.74	\$60,935	14.92	56
Millis	\$1,031,639,200	2,230	\$462,618	\$8,734	1.89	\$46,451	18.80	60
Maynard*	\$1,113,614,800	2,689	\$414,137	\$8,498	2.05	\$40,982	20.74	63
Northborough	\$2,021,140,300	4,067	\$496,961	\$8,195	1.65	\$73,987	11.08	68
Medway	\$1,761,171,500	3,691	\$477,153	\$8,078	1.69	\$55,691	14.51	71
Foxborough*	\$2,247,523,320	4,376	\$513,602	\$7,458	1.45	\$53,382	13.97	90
Shrewsbury	\$4,912,463,542	9,389	\$523,215	\$7,383	1.41	\$60,082	12.29	94
Berlin*	\$380,989,180	827	\$460,688	\$7,201	1.56	\$52,419	13.74	98
Wrentham*	\$1,897,378,254	3,614	\$525,008	\$7,177	1.37	\$55,847	12.85	99
Franklin	\$3,930,834,400	7,756	\$506,812	\$7,121	1.41	\$51,461	13.84	102
Hopedale*	\$608,345,400	1,478	\$411,600	\$7,042	1.71	\$44,180	15.94	108
Hudson*	\$1,954,130,100	4,448	\$439,328	\$6,968	1.59	\$41,180	16.92	111
Framingham*	\$6,641,991,100	13,527	\$491,017	\$6,747	1.37	\$36,678	18.40	118
Milford*	\$2,227,993,300	5,909	\$377,051	\$5,803	1.54	\$34,602	16.77	169
Marlborough*	\$3,046,739,000	7,066	\$431,183	\$5,657	1.31	\$38,619	14.65	178
Bellingham*	\$1,722,725,915	4,781	\$360,328	\$5,073	1.41	\$36,840	13.77	217

The FY2023 average single-family value in Hudson increased 13% to \$498,197 based on values submitted to the DOR and approved in December with an effective date of January 1, 2022. This increase reflects the significant increase in home prices during 2021. The corresponding FY2023 average single-family tax bill increased 4% to \$7,274. This value reflects the Select Board's vote on December 5th to maintain a split tax rate using the minimum residential factor - \$14.60 for residential and \$28.88 for commercial, industrial, and personal property. The Town has maintained a split tax rate for many years.

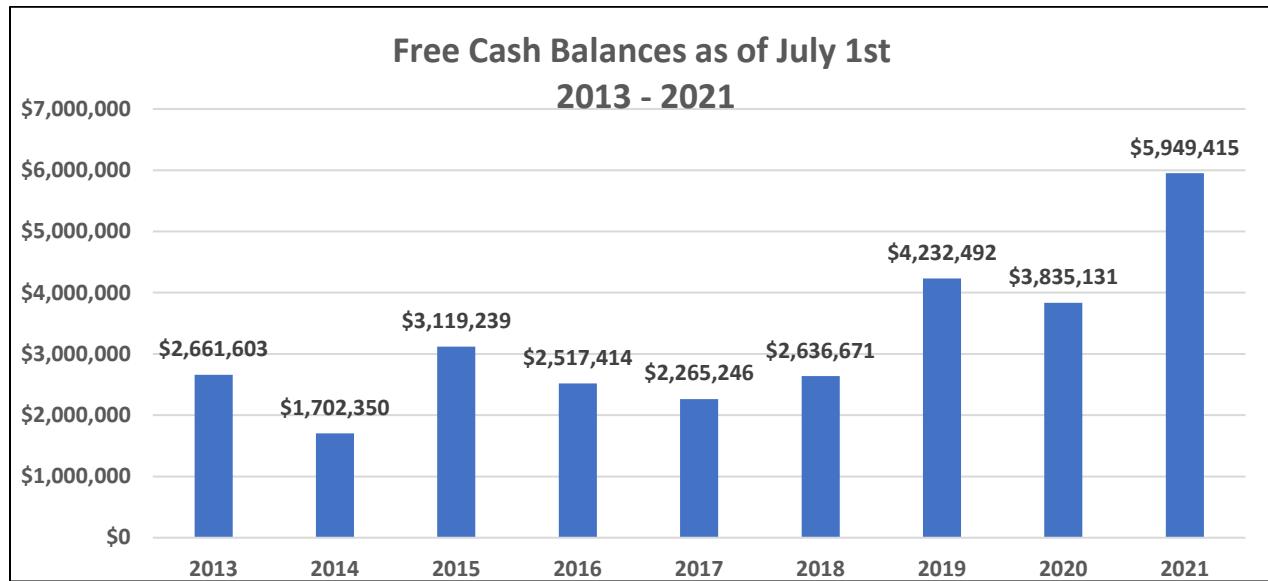
Available Funds

The final revenue category is 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.

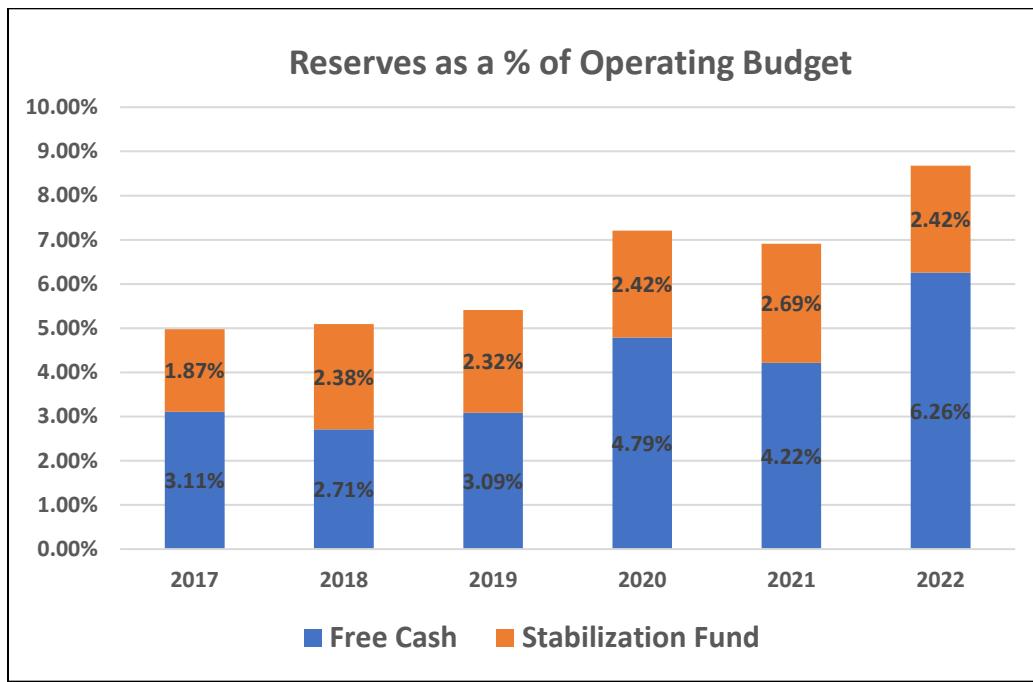
Reserves

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 primarily composed of 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, 2021 was \$5,949,415. 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, 2022 is not projected to be certified until early next year, it is anticipated to be north of \$4M which will support a municipal capital improvement program for the upcoming fiscal year and a potentially significant appropriation into the OPEB trust fund.

Below is a chart showing historical Free Cash balances as of July 1st for the prior fiscal year:

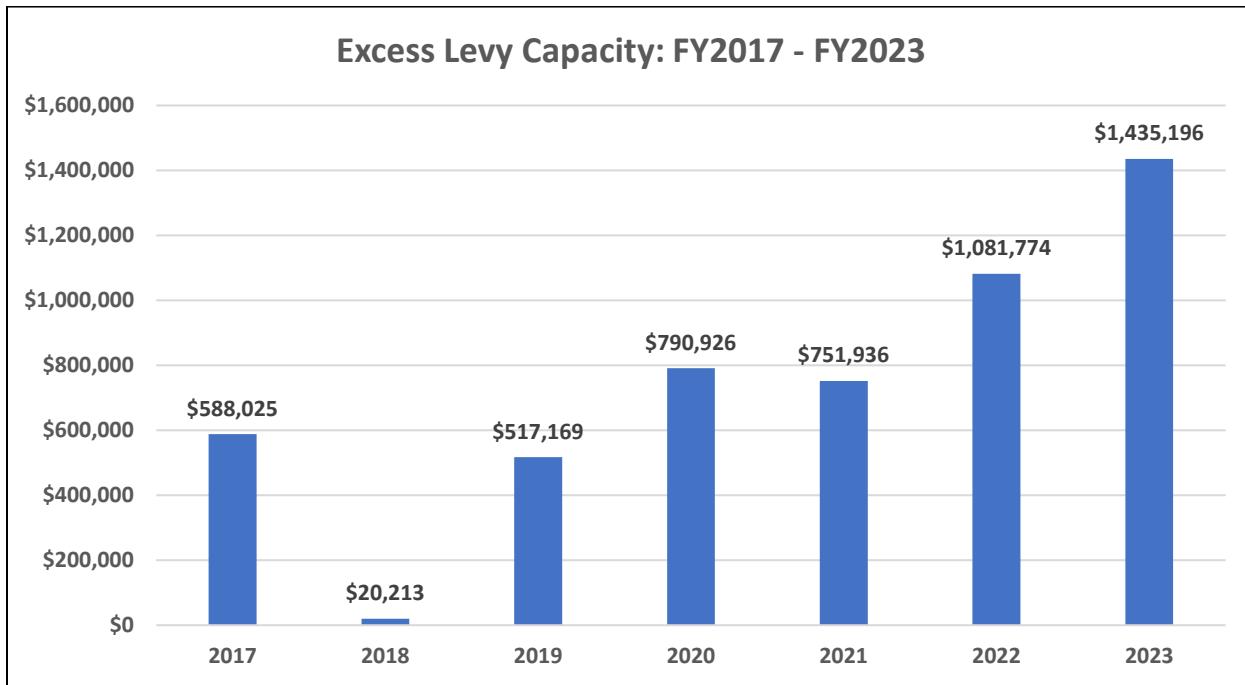


The Stabilization Fund is the second primary reserve. Unlike Free Cash, the Stabilization Fund does not reset at the end of the fiscal year nor does it need certification from the DOR. Town Meeting may, by a majority vote, transfer funds into this account and may, by a two-thirds vote, appropriate funds 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 six (6) fiscal years with one exception 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 FY2024.

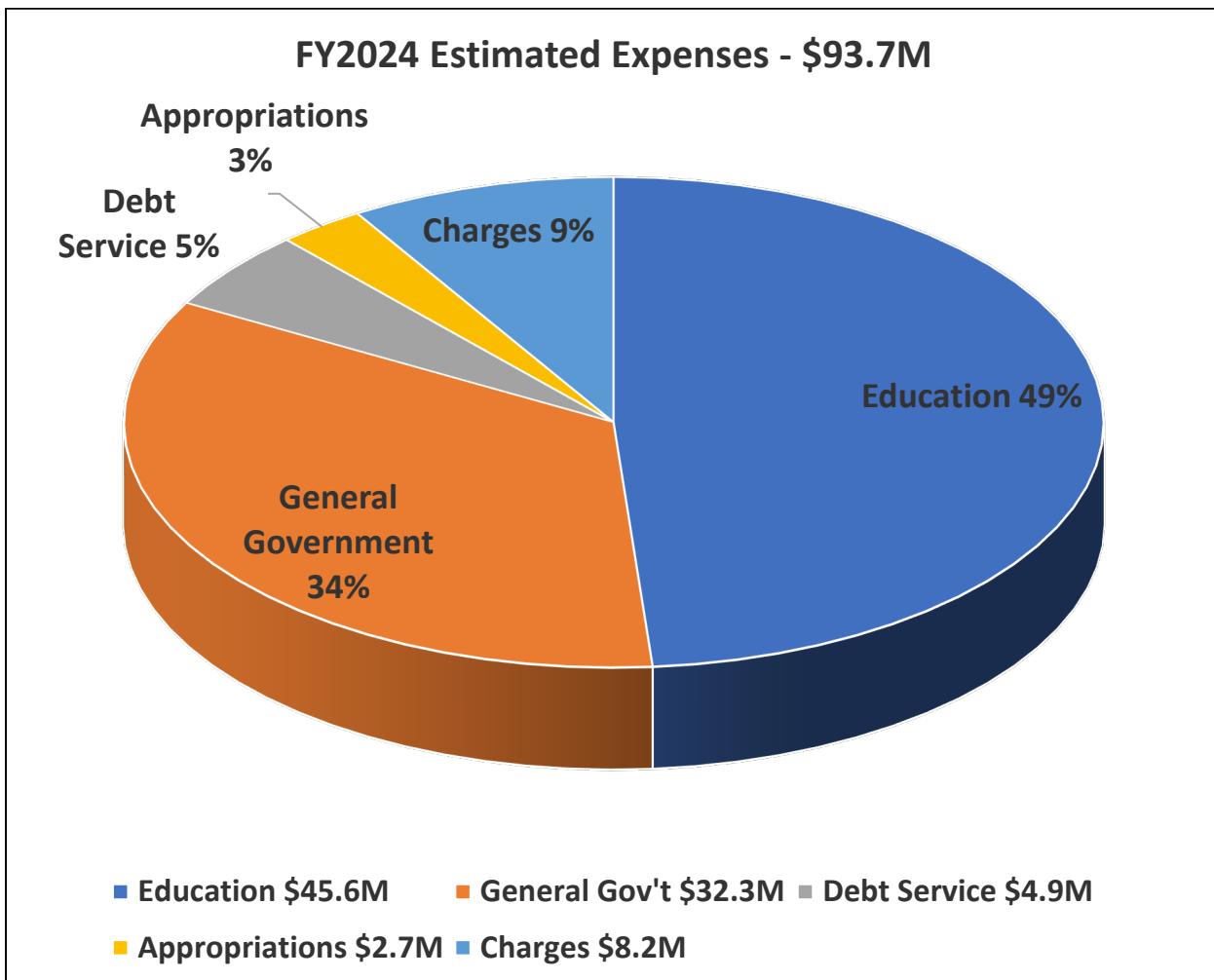
Excess tax levy capacity may also be viewed as a reserve for the Town. This number represents the difference between the Town's actual levy and the maximum allowable levy for a given year. Conservative budget decisions in recent years have yielded excess capacity in varying amounts which affords the 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 FY2024 General Fund expenses:



Department Requests

The recommended FY2024 operating budget builds on the steps taken in FY2023 to put in place a municipal operating framework that better addresses service needs. As noted in last year's budget message, the austerity measures adopted in the final FY2021 and FY2022 budgets, while prudent and defensible during an unprecedented pandemic, created significant pressure to fund a FY2023 budget that reflected the actual costs for delivering services. There were concerns about inflation a year ago, and those concerns are still at the forefront. Supply chain issues and delivery delays are also very real concerns. Prices have soared this year and it remains to be seen whether the trend will continue into FY2024. This increase in prices will undoubtedly also create pressure on wages in the coming years that will need to be addressed in a manner that fits within the Town's available revenue streams.

Successor collective bargaining agreements for all unions are in place for FY2024. And, in addition to the 2% general wage adjustment for the non-union personnel, I am recommending the following new positions to address the increased demand for municipal services:

- Custodians (2.0 FTE) – A new Facilities Maintenance Division within the Department of Public Works is being recommended for FY2024 with a proposal to add two (2) Custodians. The salary expense for these positions at \$83,200 is almost entirely offset by the elimination of the cleaning services contract that had been in place for many years. The current Facilities Manager job description will be updated with a more expansive skill set. The recommendation to establish this new DPW division is being made after strategic discussions with department heads over the course of many months. The primary goal is to better position the Town to respond to ongoing building maintenance issues rather than deferring these issues to the future. Additional positions within this new division will be recommended in subsequent years.
- Police Patrol Officer (1.0 FTE) and Firefighter (1.0 FTE) – The demands placed on the public safety departments have increased considerably as the Town has grown in recent years. The Peace Officer Standards and Training (POST) legislation enacted in 2020 has placed extensive new compliance burdens on the Police Department, and new commercial and residential development in the downtown and elsewhere in town have created additional demands on both public safety departments
- Business Manager for Utilities (1.0 FTE) – This new position is being recommended to support the financial operations of the water, sewer, and proposed stormwater enterprises and the funding for the position will be allocated across each of the enterprise funds. Under the direction of the Director of Public Works, this position will track and analyze the enterprise fund budgets, develop and manage internal control systems to ensure accuracy in financial reporting, and will assist with the setting of rates and preparing rate projections for out years.
- Stormwater Manager (1.0 FTE) – This new position, which will be funded via stormwater fee revenue, will administer the Stormwater Bylaw once approved, and will manage the Town's compliance obligations under the federal Municipal Separate Storm Sewer System ("MS4") permit. The position will manage the implementation of the stormwater enterprise fee and will support the development of Town regulations, design guidelines, and standard operating procedures to improve stormwater management.

Additionally, I am recommending that the current part-time Deputy Building Inspector be converted to a full-time position to enhance this department's ability to respond to the increase in permitting relative to new development that continues to occur in Hudson. In November, Town Meeting approved the conversion of the part-time Filing Clerk to a full-time Administrative Secretary in this department to help support the demand.

Finally, I am recommending funds be set aside in the budgets of the Department of Public Works, Police Department, and Fire Department to account for Base Line Plus Services as outlined in Article III of the Memorandum of Understanding (MOU) between the Town of Hudson and the Hudson Business Improvement District (BID). The Town owns ten (10)

properties within the BID. If the Town were not exempt, an annual BID fee of \$22,083 would be required.⁸ In the 2018 MOU the Town pledged in-kind assistance to the BID of up to \$20,000. Because no funds were appropriated in the Town's operating budget to account for this assistance, however, it has created an unfunded obligation on Town departments. I am recommending that \$25,000 be allocated for this purpose in the following manner: \$15,000 to the DPW; \$5,000 to the Police Department, and \$5,000 to the Fire Department.

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. The projected increases in water and sewer expenditures have been anticipated now for some time. On the water side, the \$5.6M permanent PFAS filtration system at the Chestnut Street facility is now online. And, while the terms of the SRF borrowing are very favorable, the rates were increased again last year to fund the debt service cost increases. Additionally, the water department is requesting funds for the replacement of the filtration media at both the Cranberry and Chestnut Street PFAS facilities. Some of this expense will be offset by funds obtained from the settlement with Precision Coating in the PFAS litigation. And, a \$2.5M water meter replacement project was re-authorized in November. On the sewer side, the Phase 2 Wastewater Treatment Plant Improvement project, also funded via the SRF with a 2% interest rate with \$1,119,263 in state APRP principal forgiveness, was put out to bid a second time in October and has a revised total project cost estimate of \$22.6M. Supplementing the borrowing authorization, \$1M in Hudson's ARPA funds have been allocated to address the significant cost increases to this project.

In November, Town Meeting authorized the establishment of enterprise funds for the water and sewer utilities. There are important benefits that will accrue to the rate-payers when these enterprise funds are implemented on July 1, 2023. 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 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. Second, segregating water and sewer finances outside of the general fund removes any possibility of circumventing Proposition 2 ½ restrictions (i.e., rate revenues improperly supporting General Fund expenses).

A preliminary analysis on next year's rates shows a projected 5% increase in water rates and a 14% increase in sewer rates. To arrive at these estimates, I used water and sewer revenue projections that were included in this year's tax rate recapitulation which was approved by the DOR earlier in December. A more refined rate analysis will take place in April. I anticipate two

⁸ This figure represents the value of an assessment calculated in 2018. The total assessed value Town properties within the BID in 2018 was \$6,309,300.

significant sewer rate increases in FY2024 and FY2025 to build capacity for the full debt service payments for the Waste Water Treatment Plant Phase 2 upgrades which will be payable in FY2025. Principal and interest payments will total \$1,167,438 in FY2025 and this debt service payment will remain level for the remainder of the 20-year term.

Health Insurance

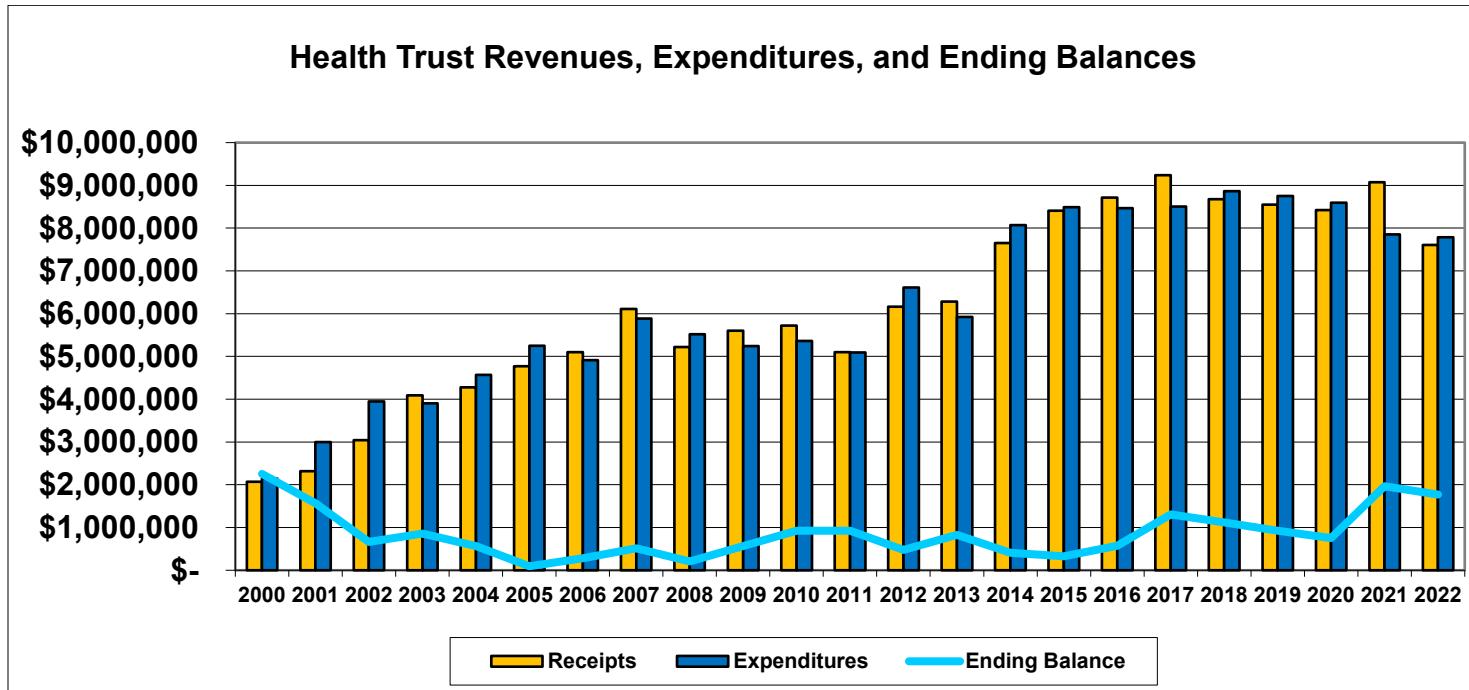
The Town is self-insured with respect to health insurance as claims and other related expenses are paid out of the Health Insurance Trust Fund. Hudson contributes 50% of the premium for both active plans and the Medicare supplement plan, and this is the lowest employer percentage authorized in state statute. There are only a few municipalities in Massachusetts currently contributing at this rate. The active plans are rich in benefits, however, and provide employees with health insurance coverage with very low out-of-pocket exposure and there are no deductibles. As a result, the premiums are expensive and these high costs are borne by both the Town and the employees. The plan design in its current form provides little incentive to reduce utilization.

While employees have grown accustomed to the breadth of coverage in these plans, the premium expense has created issues with hiring and retention. There are alternative health insurance options available that would likely substantially reduce health insurance costs to the Town and to subscribers. Many communities have enrolled in the Commonwealth's Group Insurance Commission (GIC), and municipal joint-purchase groups offer another option. MIIA, the Town's general insurance provider, also manages a municipal health insurance collaborative with participation from many communities in Massachusetts. Working with the IAC, an analysis is currently underway to study the various options available to reduce health insurance costs. While the Town's premium contribution rate is as low as it can be, the health insurance program in its current form is not financially sustainable for the Town.

The projected premium increase for the active plans in FY2024 is 9.5% and the Medicare supplement plan will renew on January 1, 2024 at 0% as the trend in claims for this product is expected to remain within the premium revenue projected to be received next year. The average increase in premiums for the active plans over the past seven (7) years has been 6.2%. See chart below showing premium increases since 2017:

Year	Premium Increase
FY2017	6.0%
FY2018	4.0%
FY2019	5.0%
FY2020	5.0%
FY2021	10.0%
FY2022	5.0%
FY2023	8.5%
FY2024 (est.)	9.5%

The chart below provides historical data on the Town's Health Insurance Trust Fund from FY2000 to FY2022:



Pension and Other Post-Employment Benefits (OPEB) Liabilities

Hudson belongs to the Middlesex County Retirement System, one of 104 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 FY2024 will be \$7,443,000 which represents a 9.6% increase over FY2023. 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. Per Chapter 32 of Massachusetts General Laws, all retirement systems are required to fund their entire liability no later than June 30, 2040. As of October 1, 2022, the Middlesex County Retirement System had a funding ratio of only 54.5%, ranking 93 out of the 104 retirement systems statewide. It is not projected to be fully funded until 2036.

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, 2021 was \$98,326,441. The OPEB liability for all municipalities including 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 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 to the fund. Hudson established an OPEB trust fund in November of 2016 and has made annual contributions in recent years, including a \$175,000 appropriation, the largest to date, at the Special Town Meeting in November of 2021.

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.

In relation to communities which compare closely to Hudson relative to population, income per capita, equalized value (i.e., tax base value) per capita, and operating budget, Hudson clearly falls short with respect to OPEB trust fund contributions (see chart below showing fund balances as of June 30, 2021). 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 to the extent that they have the financial capacity to do so.

Municipality	County	2019 Population	2021 DOR Income Per Capita	2020 EQV Per Capita	2021 Total Budget	2021 OPEB Trust Fund Balance
Hudson	MIDDLESEX	19,864	\$39,140	\$159,434	\$92,076,188	\$108,916
Ashland	MIDDLESEX	17,807	\$50,587	\$180,541	\$81,234,744	\$4,927,967
Easton	BRISTOL	25,105	\$48,846	\$162,976	\$92,469,993	\$184,621
Grafton	WORCESTER	18,883	\$49,768	\$151,129	\$75,279,376	\$188,181
Sandwich	BARNSTABLE	20,169	\$42,982	\$246,910	\$95,869,958	\$1,259,502
Sharon	NORFOLK	18,895	\$66,979	\$209,674	\$97,177,391	\$2,065,780
Stoneham	MIDDLESEX	24,126	\$44,234	\$193,824	\$83,361,499	\$312,439

Capital Program and Warrant Articles

I am reserving approximately \$1.7M in Free Cash to fund the pay-as-you-go portion of the annual capital program which will include the traditional \$300,000 supplement to Chapter 90 funding for road resurfacing, with the balance to fund specific department requests for FY2024. Free Cash is also being anticipated to fund a potentially significant appropriation into the Town's OPEB trust fund and possibly an appropriation into the Stabilization Fund. Below is a chart showing all of the FY2024 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 23, 2023. The update will include any potential borrowing authorizations to fund some of the larger capital requests.

FY2024 CAPITAL REQUESTS			
Department	Request	Dept Priority	Requested Amount
DPW	Roadway Resurfacing	1	\$300,000
	DPW Garage Environmental Analysis & Survey	2	\$60,000
	Ford T-150 Van AWD (Facilities Maintenance)	3	\$62,900
	Ford T-150 Van AWD (Facilities Maintenance)	3	\$62,900
	DPW Computer Equipment	4	\$44,000
	Ford F-150 (Stormwater)	5	\$53,000
	Ford Ranger 4x4 (Wastewater)	6	\$45,000
	Ford Ranger 4x4 (Water)	7	\$45,000
	Ford Ranger 4x4 (Water)	7	\$45,000
	Electric Vehicle Charging Infrastructure	8	\$30,000
	Ford F-150 Lighting (EV)	8	\$58,000
	Ford F-150 Lighting (EV)	8	\$58,000
	Sidewalk Tractor	9	\$188,000

FIRE	Utility Truck C-4 (Brush Truck)	1	\$165,000
	Pumper (Replace Engine #2)	2	\$850,000
	Station #1 Structural Analysis	3	\$7,500
	UTV & Trailer	4	\$50,000
IT	Police Storage & Server Replacement	1	\$154,562
	Town's Fiber Transfer - 18 Double Poles	2	\$16,490
	UPS - Town Hall Server Room	3	\$20,000
LIBRARY	Integrated Telecommunication	1	\$9,406
POLICE	Police Cruisers (3)	1	\$206,000
	Police Headquarters Computer	2	\$98,000
	Police Duty Pistols and Rifles	3	\$104,000
	Ford Mustang EV (SRO)	4	\$64,500
PUBLIC HEALTH	Ford Explorer (Hybrid)	1	\$54,525
SCHOOL DEPT	Farley - Replace Boilers	1	\$398,000
	Forest Avenue - Replace Boilers	2	\$352,000
	District Plumbing	3	\$80,000
TOWN BUILDINGS	Upgrade Town Hall HVAC System	1	\$300,000
TOTAL			\$3,981,783

The enclosed FY2024 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 would like to thank the department heads who worked carefully to assemble detailed budget and capital requests. A special thanks also to Patricia Fay 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