



***Town of Lancaster***  
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**March 3, 2023**

Dear Residents, Business Personnel and Other Interested Parties of Lancaster,

I humbly present to you the Town of Lancaster's proposed budget for FY24. This document's format is new this year and seeks to educate readers relative to the Town's financial and legal obligations. Additionally, Town staff have worked hard to develop department-specific budget sheets which outline each cost centers' purpose, accomplishments in FY23, proposed goals for FY24 and, where applicable, further planning efforts relative to capital projects, staffing or program expansion or consolidation efforts.

The members of the Select Board and Finance Committee have met both jointly and separately since July to discuss the Town's fiscal needs in general and the specifics of this year's proposal. On Monday, February 27<sup>th</sup>, both boards held a joint meeting to discuss the final draft version of the budget and unanimously voted to approve a total General Fund Budget appropriation equaling \$27,220,824. The full details, and the members' discussions relative to the budget, may be viewed online through Sterling-Lancaster Community Television or by clicking this link: <https://townhallstreams.com/towns/lancasterma>.

This following information serves to supplement the larger budget document and seeks to consolidate the data points and pertinent information surrounding Lancaster's financial status. This supplement also aggregates many of the budget and cost drivers which both Boards reviewed and voted to accept. This document is best used in concert with the budget book as the following pages are non-exhaustive and contain merely highlights.

I look forward to continuing Town-wide dialogues as we prepare for Annual Town Meeting. As we move forward in the budget process, Town staff and I are committed to learning from members of the community and remain available to answer questions in the spirit of collaboration and shared purpose. We all want what is best for Lancaster, on that we can agree. While the notion of an override is never something to take lightly nor is it a best practice, I truly hope that your review of this document and the 130+ pages contained in the complete FY24 Budget Book will help you, as residents and voters, to determine what is best for you, your family and your home. I know I speak for all Town staff when I say that we are committed to ensuring the continuity of services and safeguarding the quality of life for those who live, work, and recreate in Lancaster. Please be on the lookout for upcoming information regarding various public forum dates where we can explore the budget and Town operations together.

Yours in Partnership,

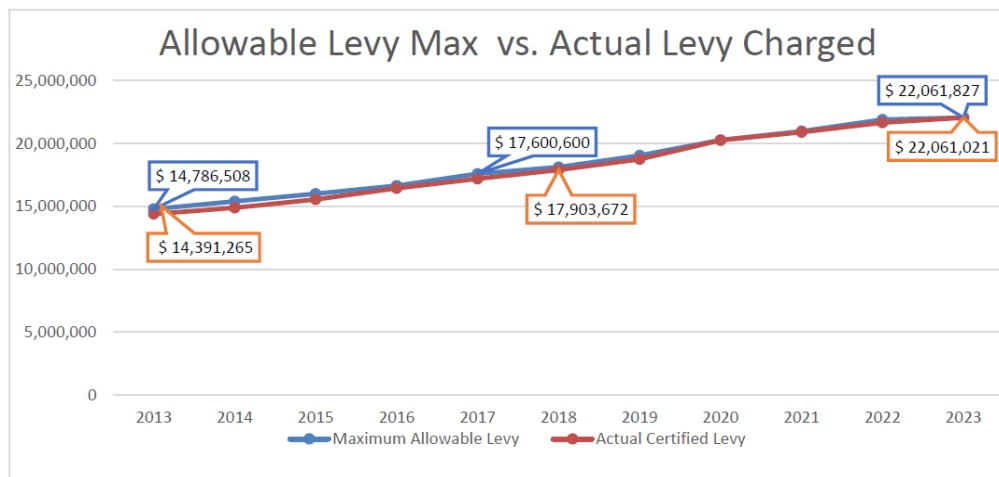
Kate Hodges, Town Administrator

## **BACKGROUND**

The budget book is split into four separate and distinct sections. Part I contains information relative to Lancaster's governmental structure and individual Departmental operations. Part II is comprised of Capital planning items including the Town's major asset inventory and depreciation schedule and the outline and scope of capital investments for FY24. Part III encompasses each Department/Division's budget requests and subsequent recommendations. The last section, Part IV, serves as an Appendix which includes state and local tax rate information, financial analysis relative to the proposed override, and certain school-related budget documents from Nashoba and Minuteman.

To be clear, the Town's financial situation did not happen overnight. The rate of spending in Town has consistently been at this level for years. The need for an override is not because of mismanagement, rogue hiring, or negligent spending. The need has risen to a critical level for FY24 because for at least the past five fiscal years, Lancaster has offset its budget by transferring funds from other revenue sources, including Free Cash and Stabilization Funds, to ensure its balance.

## **LEVY HISTORY**

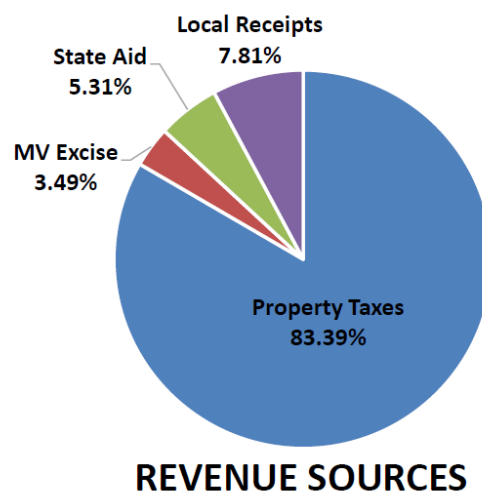


In the first section of the Budget Book, the historical levy amounts over the past ten (10) years are outlined. As seen in the graph to the left, the total budgetary increase during that time equates to \$7.76 Million, or a little under 35%. That amount equates to an approximate increase of 3.5% annually including all General

Fund, School, Capital and Debt appropriations. For context, \$1.00 in the year 2003 is now valued at a total of \$1.63 – that is a cumulative inflation rate of 61.3% over 10 years – Lancaster is about half that. In addition, while the rate of inflation in 2023 was projected to be 2.28%, economic impacts relative to the Pandemic changed that trajectory. The current rate estimated for FY24 is approximately 6.45%.

## **REVENUES**

In terms of revenues, it is important to note that in 2022, 86.825% of taxes collected were for residential properties. 6.8% were from commercial entities. Lancaster's tax rate was recently adjusted *down* due to a Town-wide revaluation. While this did not impact a large number of residents' pockets, the timing of this decrease helps both the affordability and practicality of an override. \$1.3 Million at today's tax rate, \$17.19 per \$1,000 is markedly lower than the previous tax rate of nearly \$20 per \$1,000.



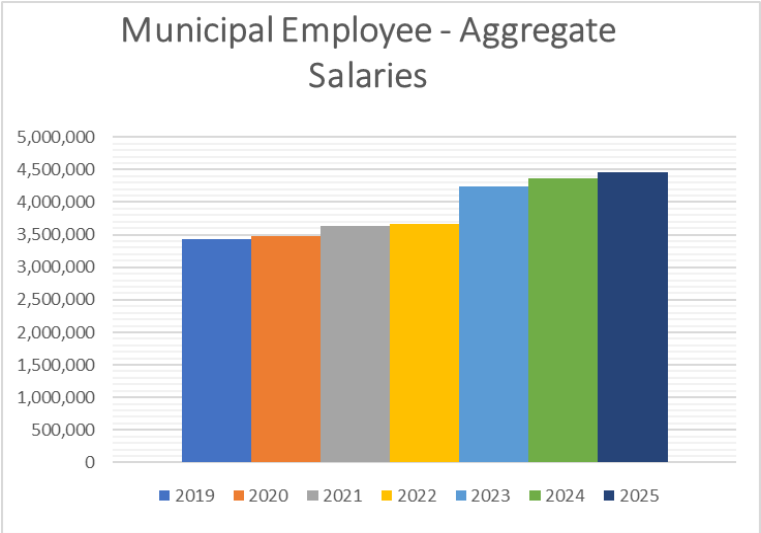
**STAFFING**



The size of Lancaster’s local government staff has remained relatively stagnant for the past several years. In 2018, Lancaster had seventy-six (76) total FTE’s (Full Time Equivalents). That amount increased slightly from 2019 to 2023 (by 3 FTE’s). Yet, in contrast, the FY24 budget proposal calls for an overall *decrease* in the number of FTE’s with the amount shifting to 78.5, a decrease of 1.5 employees.

The decrease in head-count was achieved by the consolidation of certain Divisions and/or roles which helped to save funds, reduce redundancy and increase cross-departmental training efforts.

Compensation is also a major factor in attracting and retaining high-quality personnel. Overall, wages for Town staff have increased conservatively since 2018; however, these increases have predominately been limited to the minimum industry-standards surrounding cost of living adjustments and modifications for inflation. While salary increases have averaged between 2%-3.5% since 2018, there were many years where increases were not allocated and, in large part, that has contributed to Lancaster’s wages falling short of our peer communities. It is likely this matter will need to be addressed in future years by conducting a comprehensive salary study or compensation analysis.



**GENERAL FUND REQUESTS**

In terms of General Fund requests, the Budget Book separated the data into seven separate Departments which contain those cost-center’s corresponding divisions. These include:

General Government	Select Board, Town Administrator, Town Council Town Meeting, Town Reports & Budgets, Property & Asset Insurance, Retiree Benefits & Pensions and Health Insurance.
Finance & Budget	Finance Administration, Town Accountant, Town Clerk, Assessors, Treasurer/Collector and Transfers (Debt).
Planning & Development	Planning & Land Management, Conservation Commission, Board of Appeals and Building & Inspections.
Public Safety:	Police, Fire/EMS, Public-Safety Dispatch (Regional) and Animal Control.
Public Works & Facilities	Town Buildings & Facilities, Highway, Cemetery & Tree, Streetlights, Highway Safety, Recycling and Regional Waste.

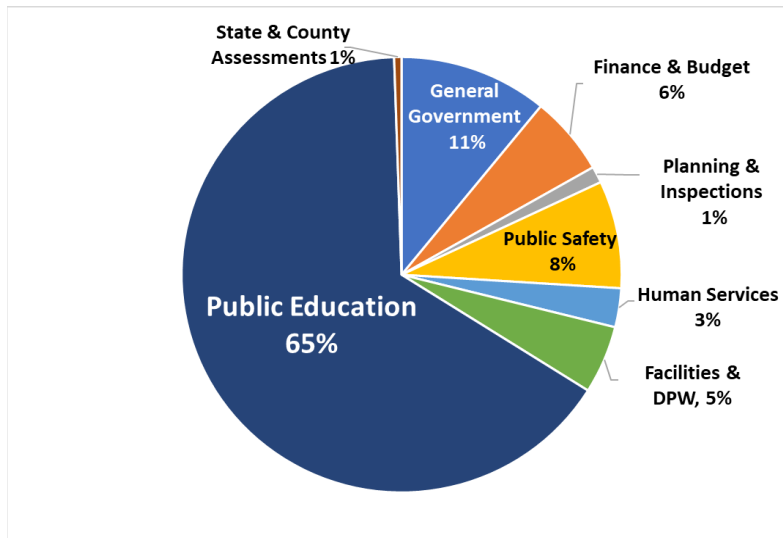
Health & Human Services

Social Services, Council on Aging, Board of Health, Recreation, Veteran's Affairs, Human Services and Community Center Administration.

Public Education

Nashoba Regional School District, Minuteman Regional Technical High School, and any other regional school assessments.

## **FREE CASH**



Free cash is defined as the portion of the Town's Undesignated Fund Balance which remains available for appropriation at years' end. It is not cash *per se*, but rather an approximation of the Town's receivables less its current liabilities (monies due, unpaid taxes, abatements, etc.) and earmarked reserves. The State must certify every Town's Free Cash total after the June 30<sup>th</sup> year-end close-outs. The auditors account and deduct all outstanding debts and payments owed and then certify the final number – the Town is generally notified of its certified Free Cash amount in late August of each year. Because the

amount is a moving target until certified at the State level, the Town has to guesstimate what percentage of bills may remain unpaid at fiscal-year-end. Therefore, the amount budgeted in the Free Cash line item each year may not always match what the State certifies, although it is generally within 5%-8%.

That said, Lancaster's municipal Town operations are well-balanced in terms of General Fund appropriations. The FY24 totals are designed to sustain the FY23 levels of service. There are no General Fund allocations to/for capital projects, improvements, or acquisitions; this has been the case in Lancaster for many years. For FY24, the Town anticipates collecting \$26.1M in taxes, fees and State Aid and will expend \$6.57M on municipal expenses and \$17.75 on school-related costs.

The Town *can* opt to supplement the FY24 Budget using free cash, a method that has been used for many years in Lancaster to balance the budget. However, the risks of depleting the Town's free cash balance far outweigh the temporary benefits of utilizing these funds again. Overuse of free cash or stabilization balances lower the Town's credit rating (worthiness) and result in higher interest charges when funding public projects or debt exclusions. The notion of how to balance budgets, including increases, while adhering to sound financial principles is a burden many local leaders face as we struggle to craft municipal spending plans in tough economic times. As Town Administrator, I am acutely aware that cutting services and/or raising taxes is a regretful and uneasy *political* move, but dipping into savings, or free cash, to cover operational and/or day-to-day expenses is far more destructive to Lancaster's overall financial health which, ultimately, costs you as taxpayers more. This is particularly notable as we, in conjunction with the Towns of Bolton and Stow, move forward in exploring bonding and financing options relative to the proposed Nashoba Regional High School building project.

Independent credit-rating firms like Moody's Investors Service, Fitch Ratings, and Standard & Poor's look unfavorably upon communities that transfer hefty sums from their 'savings' accounts to their operating budgets, particularly when they don't have the means to replenish those accounts the following year. Lancaster has done this for the past several Fiscal Years and simply cannot afford to employ this method again for FY24.

## CUTS

*“What can we cut,”* is a question which had been asked at the staff, committee, and board levels for many months. The original budget requests, first discussed in August of 2022 with the Select Board and then again at the joint Select Board - Finance Committee Meeting in November of 2022, totaled \$ 27,414,401. That amount was based upon an assumption that the Nashoba School District’s request would include a +/- 5.2% increase, and Minuteman would consider a +/- 4.6% increase. This left the school deficit projected to be between \$840,000 and \$1,000,000; the Town’s shortfall was estimated to between \$350,000 to \$400,000.

General Fund budget needs have also been reassessed and, as appropriate, further cut. Earlier this week, final assessment numbers were received from both Nashoba and Minuteman school districts. As of today’s publication, Minuteman’s assessment amount constitutes a 4.22% increase and totals \$2,382,024. Nashoba’s assessment is an increase of 5.93% with a total due of \$15,285,485. This has a final educational-only-shortfall of \$993,955. The Town, in secondary cuts, removed additional staff hours, decreased the amount of funding for OPEB, removed several requests for equipment, supplies and programming materials and eliminated a vehicle replacement from the Building Inspector’s division. Personnel increases were level-set with a cost-of-living increase set at 2%.<sup>1</sup> In total, what you see in the FY24 budget proposal is the result of approximately \$155,890 in further cuts to the Town’s General Fund appropriations.

The remaining funds necessary to operate the Town are seen in the budget proposal and include many non-discretionary obligations. In short, even if some or all of the Lancaster’s municipal operations were to cease, there are a number of statutory and regulated legal costs association with Town operations. These include, but or not limited to:

State Assessments	Veterans’ Benefits	Audit Charges
Energy & Fuel	Streetlight Charges	E-911 Dispatch Fees
Gasoline	Property & Liability Insurances	Unemployment Costs
Election Costs	Town Meeting	Debt Service Payments
Lease Payments	Legal Notices	Compensation Reserve
Various Tax & Utility Bill Mailings		

Barring the passage of an override, the Town needs to then consider that specifically can be controlled in terms of funding. In this case, we need to consider the following items which we have control over:

Town Council	IT Infrastructure	Police
Fire/EMS	Highway/Road Maintenance	Retirement & Pension
School Assessments	Recreation Opportunities	Park Maintenance
Community Center Ops	Town Beach	Town Building Maintenance
Board of Health & Other Contractual Services		

While we have some control over the items listed above, consider that further cuts to these important cost-centers will certainly decrease property values and the quality of life for Lancaster residents and businesses. Additionally, lack of funding relative for Town infrastructure is a risk to Town assets (such as

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<sup>1</sup> It is worth noting that all four Labor Unions are currently negotiating successor agreements and while we endeavor to propose staggering expiration dates of the new contracts to allow clearer financial forecasting relative to personnel forward, more than the-thirds of our workforce has not yet reached tentative agreement on contract language and compensation packages. Carrying 2% is a gamble, as nothing is set in stone, but the negotiating teams and I are committed to keeping this cost at or below 2% for FY24



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buildings and historical artifacts) and results in higher insurance premiums as vacant buildings carry the highest per-square-foot-cost relative to property insurance coverages.

If the override does not pass, budgets will undergo further cuts resulting in layoffs, reduced Police patrols and EMS services, and the closing of several Town Departments entirely (or almost entirely). In doing this, essential services will be lost and people who rely on, and appreciate, those services will suffer. Anecdotally, in 2003 Lancaster was faced with a similar conundrum. During the override exploration process, the Town investigated other options to cut costs including eliminating the Town's Police and Fire/EMT Departments. The notion was that the MA State Police *could* take over many of the responsibilities and Mutual Aid from Lancaster's surrounding communities would be used as a substitute for in-Town fire and EMS needs. As these notions were further explored, Town leaders learned that 'Mutual Aid' is *exactly that* – it is *supplemental* aid which is provided between communities who have a reciprocal relationship. It is not, and never will be, a replacement for full-time services. Additionally, Lancaster's inability to provide services to other communities within the mutual aid consortium would effectively remove the Town from the program. In short, Lancaster was told that it could not expect neighboring Towns, or the State, to provide services which the community was not willing to pay for. In 2003, Lancaster's former Police Chief was tasked with researching the State Police services provided for the neighboring Town of Devens, MA. He was advised that significant costs were associated with dedicated State Police services and, by offer of comparison, the Chief was invited to review the State Police budget for services in Devens. The total was more than Lancaster was paying for its own Police Department. In investigating the matter once again this year, we referenced the State Police operation in Devens this year. The total budget appropriated for FY23 in Devens is \$1,645,696 which they pay to the State annually. Lancaster Police's FY23 budget is \$1,155,871, or 29% less. The same was found, in terms of cost differentials, when exploring cutting or regionalizing Fire, EMS, Library, School and other essential services Town-wide, there was no cost-benefit and in many cases, there was an increase.

### **VERRIDE**

Proposition 2½, also known as the Massachusetts Local Property Tax Limitations Act, was passed by Massachusetts voters in 1980. This law limits the amount of money any municipality may raise through its property taxes. The amount of revenue which a community may, or can, raise through property taxes is known as a *levy*. Proposition 2½ bars communities from increasing the levy by more than 2.5% of the total value of all taxable property. This is known as the *levy ceiling*. The law also imposes a *levy limit* on how much any community can increase its levy from year to year. That limit is always below or equal to the community's levy ceiling. Generally speaking, a municipality's levy limit automatically increases every year by 2.5% (over that of the previous year's limit), and if the community's tax base increases, the levy may also increase to reflect that growth.

For FY24, the Town Administration, Select Board and Finance Committee unanimously recommended a Proposition 2½ override which, if accepted, provides Lancaster the ability to tax above the 2.5% growth ceiling. While the initial override amount was projected as \$1.5M, Town Administration and members of the Select Board and Finance Committee continued to review and revise budget figures throughout this week and have further cut areas within the Town's discretionary spending budgets. As a team, we recognize and appreciate the difficulty that any additional tax increases may pose for Senior Citizens, those on fixed incomes and families in transition. Following the joint meeting of the Select Board and Finance



Committee Monday, February 27<sup>th</sup>, Town Staff refined certain appropriation amounts once more and we are pleased to boast a further reduction of \$200,000 in FY24. This reduces the override need from \$1.5M to \$1.3M. The reduction is the result of additional refinement of educational costs, a deduction of \$168,500 from Nashoba Regional, and cuts equaling \$31,500 from the Town's General Fund accounts.

A Proposition 2½ override is a permanent increase to property taxes and must be approved by voters after the Select Board votes to place the matter on the ballot for the Annual Town Election. The 2022 Town Election is scheduled for Monday, May 8, 2023. The budget will also be the subject of a Warrant Article for discussion and vote during Annual Town Meeting scheduled to begin at 7:00 PM on May 3, 2023.

### **LOOKING FORWARD**

While the acceptance of a budgetary override should never be used as a first line of action, there are circumstances which often leave communities with little choice – Lancaster is there. The rising costs for energy, insurances and education contribute heavily to our community's tax allocations and without alternate sources of income and funds, few choices remain. Nevertheless, in November of 2022, the Town voted to accept the 40R District Overlay in North Lancaster and in January of this year, a Zoning amendment was accepted to allow commercial development in what was formerly zoned as a residential district. While those plans are still in their infancy and likely will remain a matter for the Planning Board for many years, the notion that the Town may begin to receive additional revenue, including permit and building fees, related to development in Town has the Town's financial future looking better than today.

It is with that in mind that the Select Board, Finance Committee and Town Administration propose a \$1.3M override for FY24. This amount maintains the Town's financial commitments through, at least, Fiscal Year 2028. As additional sources of revenues are realized and collected, Lancaster's financial picture shall certainly change. To that end, the Select Board, Finance Committee and Town Staff are committed to utilizing these additional funds to pay for Town and School-related needs and pledge that as additional sources of funds are received, they shall be allocated to balancing the budget and, pending approval of the Finance and Select Boards, proposing an underride<sup>2</sup> for Lancaster.

Until that time, we must focus on FY24. It is important to note what, specifically, a \$1.3M override may mean for individual households. Below you will find a table which outlines Lancaster's current and future estimated tax liabilities post-override based on FY23's home value assessments. After the 2022-2023 revaluation, assessed values for single family homes in Lancaster rose from approximately \$370,000 to \$456,209 – an increase of about 23.5%. Using those numbers, the table below shows the annual and monthly impacts projected for NEXT Fiscal Year, FY24, with a \$1.3M approved override.

	<b>Residential &amp; Open Space</b>	<b>Commercial, Industrial &amp; Personal Property</b>	<b>TOTAL</b>
<b>FY23 # of Parcels</b>	2,808	305	3,113
<b>FY23 Assessed Value</b>	\$1,114,280,987	\$169,082,633	\$1,283,363,620
<b>FY23 Tax Levy</b>	\$19,154,490	\$2,906,530	\$22,061,021
<b>FY23 Tax Rate</b>	\$17.19	\$17.19	

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<sup>2</sup> An underride (or a levy decrease) reduces the amount of property tax revenue a community may raise and, like an override, has a permanent impact on taxing authority, but in the opposite direction. For example, if a \$1.3M override adds \$454.50 to a home assessed at \$450,000, an underride spread over a two-year period, can reduce the tax amount by a corresponding \$200-\$250.

Assessed Home Value	Current Tax Liability	Estimated New Tax Liability	Impact Annually	Impact Monthly
\$ 250,000	\$ 4,297.50	\$ 4,550.00	\$ 252.50	\$ 21.04
\$ 350,000	\$ 6,016.50	\$ 6,370.00	\$ 353.50	\$ 29.46
\$ 450,000	\$ 7,732.50	\$ 8,190.00	\$ 454.50	\$ 37.87
\$ 550,000	\$ 9,454.50	\$ 10,010.00	\$ 555.50	\$ 46.29
\$ 650,000	\$ 11,173.50	\$ 11,830.00	\$ 656.50	\$ 54.71
\$ 750,000	\$ 12,892.50	\$ 13,650.00	\$ 757.50	\$ 63.12
\$ 850,000	\$ 14,611.50	\$ 15,470.00	\$ 858.50	\$ 71.54
\$ 950,000	\$ 16,330.50	\$ 17,290.00	\$ 959.50	\$ 79.96

In closing, the determination to ask the voters to approve an override, especially on the heels of a revaluation, was not arrived at lightly or without serious analysis or thought. Despite the unappealing nature of an override, a \$1.3M influx to the Town ensures we can meet our financial, educational, contractual and legal obligations. This method also helps to sustain Lancaster's current Aaa3 bond rating which is important as we approach a projected \$40M debt relative to a new High School. The staff and I are committed to financial transparency and responsible budgeting. Our sincere hope that after review of this document and the complete FY24 Budget Book, voters and townspeople will feel better informed regarding our financial position and the Town's operational needs in general.