

# Office of Town Manager

Town of Burrillville, Rhode Island

## Memorandum

**To:** Town Council

**CC:** Budget Board  
John Mainville, Finance Director  
Louise Phaneuf, Town Clerk  
Steven Welford, Superintendent of Schools  
Timothy F. Kane, Town Solicitor

**From:** Michael C. Wood, Town Manager

**Date:** May 5, 2008

**Re:** FY2009 Budget

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### General Budget Summary

The recommended budget for next year [FY2009] as presented totals \$46,863,589. This is \$1,211,589 lower (gross) than the current fiscal year (\$48,075,178). The expenditure side breakdown is as follows:

	<b>FY2008</b>	<b>FY2009</b>	<b>Difference</b>	<b>Percent</b>
School	\$27,024,999	\$ 27,600,000	\$575,001	2.13%
Municipal	\$9,396,268	\$9,739,764	\$343,496	3.66%
Debt	\$6,524,625	\$6,333,111	(\$191,514)	(2.94%)
CIP	\$4,379,286	\$2,460,714	(\$1,918,572)	(43.81%)
Overlay	\$750,000	\$730,000	(\$20,000)	(2.67%)
<b>Total</b>	<b>\$48,075,178</b>	<b>\$46,863,589</b>	<b>(\$1,211,589)</b>	<b>(2.52%)</b>

### 5.00% Levy Cap

This budget is within the State's 5.00% levy cap.

### Municipal Budget

The municipal operating budget I am recommending is \$9,739,764 (3.66% or \$343,496 increase over the current year). The majority of this increase [\$191,152] represents the inclusion of the Jessie M. Smith Library into the Town's operating budget. The budget includes operating expense increases associated with the new library facility and state (OLIS) requirements.

## School Budget

The school budget I am recommending is \$27,600,000 (\$575,001 or 2.13% increase).

## Debt Service

The total annual debt service obligation has decreased from \$6,524,625 to \$6,333,111, (2.94% decrease or \$191,514), which incorporates \$150,000 toward our longstanding debt reduction/structural deficit program.

## Major Capital Expenditures (CIP)

Please review the General Budget Summary located in the first section of this report. You will note that the overall budget proposed is \$1,211,589 lower than the current fiscal year. This is due to a combination of the approved CIP budget and the accounting practice of carrying over prior year capital projects to the current Fiscal Year (2008), both of which will vary from year to year.

The majority of the capital expenditures are paid from PILOT (non tax) revenue received from Ocean State Power or pre-existing capital accounts. Because of this practice there is no impact on the annual real estate tax levy (rate), but it is a little misleading when we incorporate these numbers into a snap-shot summary of the entire budget (General Budget Summary) which includes the proposed operating budgets and the other components of the total budget.

## Revenue

### General Revenue

The State has reduced the Town's State Aid for General Revenue Sharing, PILOT, Telephone Tax, and Distressed Community by \$61,845 from the current year's budget estimates. Additionally there is a projected reduction of \$50,000 in Medicaid revenue.

Total projected revenue is \$25,570,052 which represents a \$2,056,529 decrease from last year's estimates [approximately \$2 million relates to capital improvement funding]. In order to balance this budget, I have recommended that \$150,000 be applied from the debt reduction fund and \$78,750 from the undesignated, unreserved fund balance. The majority of the money, \$150,000, is money received as a result of interest earnings from the Callahan School Bond proceeds.

This year's projected state aid total could be impacted by legislative decisions that usually occur at the end of the State's budget process. The potential impact could result in a reduction or modification of the corresponding state aid categories [such as Distressed Community] and depending on the Council's final budget, could impact the final tax levy and/or rate which may have to be adjusted to compensate for the difference.

## **RIGL §45-13-13**

There may be future changes in state aid as the impact of this particular change in law is applied to other state aid distribution formulas affecting the town/school.

### **Projected School Construction Aid**

The Town received a total of \$292,431 from interest earnings on the Callahan School Bond. The net proceeds from these interest earnings [when the Callahan Project is closed out this year] will be transferred to the Debt Reduction Fund so that they can be applied to future debt service. \$150,000 was applied to this budget with the residual balance being available to use next year or in future years to pay down Callahan debt service or bond related expenses.

The state has decided to spread our projected Levy Rink reimbursement (\$1,879,705) over a ten (10) year period rather than pay it out in one lump sum payment. This is most likely a result of the state's financial crisis. The impact is that our debt reduction fund and, to the extent used, undesignated, unreserved fund, will not be reimbursed as we anticipated. This potentially impacts other large scale projects eligible to be funded from the debt reduction account.

A potential problem looking to future budgets could be the reimbursement rate from the state for the matching school construction grant (aid) program. The School construction aid program reimburses a portion (percentage) of the total dollars spent for school construction projects. Recent projects that qualified were the Callahan School and Levy Rink renovation projects. If Burrillville's reimbursement rate drops lower when these reimbursements become payable in future years, the state construction reimbursement (dollars) will drop proportionally. Under normal circumstances, this reimbursement rate can change year to year.

## **Municipal and School Services**

Municipal services and changes in our spending priorities and levels cannot be realistically compared to the schools. Simple comparisons on a percentage or a generic basis are a gross oversimplification and are not relevant given the different legal/administrative responsibilities, type of services rendered, missions, objectives and who is served.

## **Motor Vehicle Tax Rate**

As required by state law, there will be no change/effect on the motor vehicle excise tax rate, which stays constant at \$40.00 per \$1,000.

## Summary of FY2009 Budget Impacts

We are using the Governor’s state aid revenue projections which are slightly lower than our projections for FY2008. We are projecting that the legislature will again modify some of the state aid categories and as a result are using a more conservative approach at this time. It is strongly recommended that we wait until this information becomes available before making final budget adjustments.

The projected property tax rate is \$12.00 (a \$.40 net increase per \$1,000 of valuation over this year’s \$11.60 tax rate).

### Municipal Line Item Summaries

Factors incorporated into this budget and having an impact on municipal government operations are as follows: Note: These are summaries or highlights and are not a full listing of changes recommended. A detailed line item budget is available for those who may wish to review all the budget recommendations.

1. Employee Benefits – The overall cost of benefits has decreased by \$56,262 (2.96%). \$38,000 of this reduction is attributed to GHGRI. This is due to negotiation for changes in municipal employee’s health plans and joining the Governmental Health Group of Rhode Island (“GHGRI”) collaborative. While there have been moderate increases in the cost of non-certified retirement programs and payroll taxes, these increases have been offset by the net reduction in health care expenditures (\$38,000), police retirement, and worker compensation insurance coverage.
2. The rubbish and recycling collection contract is expected to increase by approximately \$26,000. Note: this does not factor in potential fuel adjustment costs.
3. The Library Budgets are recommended as follows:

	<u>Increase</u>	<u>Total</u>	<u>Percent</u>
Jessie Smith	(+) \$ 191,152	\$538,852	+54.98%
Pascoag	\$ -0-	\$ 53,500	-0- %
See supplemental comments.			
4. Town Clerk – There is no material change in the Town Clerk’s budget [-\$3,467] and the Board of Canvassers budget reflects the impact of a presidential election year (+\$8,192).
5. The Town Manager’s Department reflects a small decrease for part time clerical.
6. Public Works – The recommended increase is \$78,448. Although one of our goals was to increase the road/infrastructure line by a minimum of \$50,000 per year until the Ocean State Power Agreement terminates, I cannot recommend that we sustain the program (this year) given the tax cap limitations.

7. Professional Services – There is an increase (\$23,000) recommended associated with actual expenditures, including the anticipated cost of court cases that we have been required to pursue and increased advertising costs.
8. Recreation – This department has decreased by \$274, which includes a lower projected expense to light Hauser Field. The costs associated with the Recreation Center have increased by \$3,050.
9. Planning & Economic Development – This department budget has decreased by \$15,408.
10. Police Department – The budget recommendation is \$34,223 (1.57%) higher than last fiscal year. This budget does not include “COLA” wage increases, except Council 94 personnel. There is funding for replacement of three (3) vehicles (\$78,750). The funding for these vehicles is recommended to come from prior year [undesignated, unreserved fund balance] receipts received for construction details (non-tax revenue). The department has one (1) officer on extended work related injury that is impacting staffing and related expenses.
11. Finance Department – This budget recommends the elimination of funding for a Financial Aide position (\$29,563) that was included in last year’s budget but was not filled.
12. Assessor – There is no material change this year, except contracted wage increases.
13. Information Services – The primary increase (\$6,485) is based upon contractual software increases.
14. General Administration - I have not included a COLA increase for non-union employees for FY2009. COLA increases and effective dates are the Council’s decision.
15. Special Appropriations - This is always a difficult issue. Please see supplemental comments.

## **Burrillville Schools**

The base **Education (School) Budget** recommended is \$27,600,000. This represents an increase of \$575,001 (2.13% increase) over last year.

### **School Teacher’s Contract**

The School Committee/Administration submitted a budget that includes speculative/projected cost of living increases for teachers. As of the date of this report, the Teacher’s Union and School Committee have not reached agreement on their contract that expired in August 2007.

The amount of discretionary salary money in the school budget submitted is upwards of \$450,000. This represents unresolved cost of living increases for both FY2008 and FY2009. In my opinion, these are discretionary funds that the Council can sustain, use to modify or reduce the budget as the Council deems best.

Please note: The recently published wage increases that the teachers are seeking are far greater than the aforementioned amount (\$450,000) and, in my opinion, totally unrealistic given the restrictions imposed by the State's Tax Cap Law.

### **Funding Sources for School Budget Increase**

The School's audit for FY2007, reported a fund balance of \$273,743 for use by the School Committee. This amount has not been incorporated as a revenue source to support the FY2009 School Budget. The School Committee must vote to ask the Council to appropriate these funds prior to expenditure or commitment to spend these monies.

We must be very careful not to appropriate funds that create a potential structural deficit in future years.

### **Restricted School Expenditures**

The state law requires that all "restricted" or "targeted" state aid programs for schools be set aside from the town's budget and accounted for separately. Technically, the Council will vote on a reduced (or net) school budget when you vote on the base school budget in June.

In order to fully disclose how much money the schools are actually spending on all their education programs, we must add additional (projected) restricted state aid (\$1,311,072) to the base school budget. This brings total (projected) education spending to \$28,911,072 for FY2009. NOTE: These numbers may be based upon level funding per the Governor's proposed budget and may change as the Legislature completes its decision-making on school aid (general and restricted).

### **Town Council Limitations**

The state laws (effectively) allow the schools to prioritize their own spending without any meaningful oversight or accountability by the Town Council. Because of these and other laws and/or regulations, the Town Council's job becomes more difficult. The irony here is that the Town Council is usually held responsible by local taxpayers for real estate tax increases even though many of the financial issues and problems that have to be addressed locally were actually created by combinations of the federal government, the state legislature, the governor's office, school committees and labor's influence on many of the laws governing our great state.

## **General Information**

### **Debt Service**

The Council's debt reduction program is maintained in this budget. The total debt obligation [principal and interest] was \$43,278,319 as of June 30, 2007. Additional debt for new sewer lines has been obligated but not yet fully drawn down (\$3.2 million). All existing voter approved debt service is fully integrated into this budget with the exception of \$500,000 of previously approved Open Space bond authority that remains open.

### **Tax Rate Increment**

The tax rate will be affected in five-cent (5¢) increments by raising or lowering spending or revenue projections by approximately \$90,000. (Subject to final assessed values.)

### **State Budget Process**

As with each annual budget submitted at this time of year, this is not the final scenario. The state budget process is not yet complete and will most likely impact the Town's final budget. I urge patience and prudence as things can change rather quickly and dramatically before the state's budget is complete. (by June 30, 2008)

## **Conclusion**

Although the economy appears to be weak nationally, Rhode Island appears to actually be in a mild recession. When the times are good, taxpayers at all levels tend to be more generous and are more tolerant to try new things. However, the opposite is also true when times are tough.

Whether its adding staff, implementing new programs, considering increases in wages or benefits or making decisions involving future financial commitments, those decisions must be made considering the short and long term impacts of those decisions.

What happens in government at all levels is that a commitment is made and there becomes an "expectation" that future money will be made available to pay for the obligation. There are good ideas and potentially beneficial programs that may warrant serious consideration; however, the Town Council should not be put in an untenable position of supporting these obligations and then be expected to simply pass the cost on to the taxpayers. Local officials, employee unions and our legislators (federal and state) must keep this in mind when considering short and long term legislation, programs or mandates.

The Ocean State Power Tax Treaty effectively terminates in four (4) years leaving a potential revenue loss of four million dollars (higher as the treaty comes to term). Economic development and redevelopment projects need continuing attention. We cannot simply bring in just enough new growth (business, industry and/or residential) to sustain annual town and school spending increases because that does not solve the problem in the long term. The new tax cap law will make this task (or goal) much more difficult as new revenue realized by economic development and growth programs cannot be used to make up for lost Ocean State Power revenue.

We try to balance out the many good programs and services we offer to our community with the ability of our residents to pay for those programs and services. When the economy is not performing as expected, many people who support schools and municipal services by paying local property taxes are themselves in hardship. We must be cognizant of this, especially our disabled, elderly, our young families and those living on fixed incomes. School and municipal tax increases can result in a far more substantive financial impact to those already in hardship. We must consider these people when trying to balance out budgets.

## **Budget Process**

The Town Council will now turn their attention to the budget. Currently there are two (2) public hearings scheduled by the Town Council. Those dates are as follows:

- 1) Municipal Budget – May 22, 2008 – 7:00 p.m. Burrillville High School Auditorium
- 2) School Budget – May 29, 2008 – 7:00 p.m. Burrillville High School Auditorium

The budget will be voted on by the Town Council on or before June 15, 2008 – charter deadline date.

Please check with the Town Clerk's office prior to any of these dates in the event of a change in any of the meeting details.

## **Supplemental Comments**

### **Debt Reduction Fund**

This budget incorporates the use of \$150,000 in Debt Reduction Funds to partially offset the tax impact of the Callahan School Renovation debt service.

The debt reduction fund balance will be reduced significantly because of the state's change in reimbursement practice for the Levy Rink rehabilitation. This may have an impact on the Town's short-term capital and debt reduction programs.

### **Employee Benefits**

The Town has reduced its health care costs as a result of a joint effort with the municipal unions and employees. We will jointly realize approximately \$573,180 in outright budget savings this year associated with the Town and Schools joining the GHGRI collaborative when you factor in projected increased costs for the upcoming year if we had not decided to join the pool. For the second year, this also stems the tide on exorbitant health care related increases.

If the School Committee can elicit similar changes in teacher's health care benefits as those agreed to by municipal employees, the schools could potentially save hundreds of thousands of additional dollars over the term of a prospective Collective Bargaining Agreement.

## Special Appropriations

The following service agencies are affected by the budget as proposed:

<b>Name</b>	<b>Amount</b>
Berard Desjarlais	\$ 500 addition
Northwest Nursing	\$3,000 reduction
Memorial Parade	\$1,500 reduction [parade eliminated at the request of the veterans]
RI Meals on Wheels	\$2,250 reduction [no funding request made]

NOTE: Blackstone Valley Tourism did not receive a 2008 appropriation; they did request \$1,000 for 2009 funding but were zero funded by the Budget Board.

These particular recommendations are usually controversial and may create public responses.

## Extended Care Program

This program is now included in the annual budget process. It is maintained as a revolving side fund with independent revenue sources. We are recommending a funding level of \$ 431,800.

## Spring Lake Beach Program

This program is now included in the annual budget process. It is maintained as a revolving side fund with independent revenue sources. We are recommending a funding level of \$ 127,000.

## Public Works

I have not added \$50,000 to the road/infrastructure line item. One of the Council's goals is to build this line item to a reasonable level in anticipation of the loss of Ocean State Power (OSP) revenue. The new tax cap legislation has constrained our ability to continue with this program this year.

## Collective Bargaining

The Council 94 Union contract is set through the upcoming Fiscal Year. We are in the process of bargaining with the Police Union this Fiscal Year for a new agreement effective July 1, 2008.

## Fuel and Heating Line Items

The contingency and actual charges incorporated into the budget are best estimates. The actual usage and history of usage and related costs are all over the map. Mr. Mainville has evaluated the history of these accounts and as this year's numbers are better known, he may have more accurate recommendations for the Council's consideration prior to finalization of the budget process.

## **Wages, Non-Union Supervisors**

We are in the final year (of three) of the wage adjustments associated with the classification plan revision approved in 2006.

## **Planning and Economic Development**

We've eliminated \$15,000 for consulting services that represented shared services with the Redevelopment Agency.

## **Sewer Commission Revenue**

The Town should realize revenue from the sewer line betterment assessments in FY2009 and accordingly we have budgeted \$15,000 as betterment revenue. We need to encourage the Commission to implement the betterment assessments as soon as they can legally be levied.

## **Tax Credit Program**

The tax credit program for seniors, veterans and disabled has benefited these groups by relieving \$369,501 from their real estate tax obligations.

## **Senior/Disabled Tax Credit Change**

In 2008, the Town Council increased the annual tax credit for seniors and disabled households. This program is income based and adds between \$100 and \$200 per year to the applicable credits, depending on the eligible household's income.

## **Library Budgets**

Jesse M. Smith is now a town operation as of April 1, 2008. The Office of Library Information Services (OLIS) (state) has staffing and operations requirements that must (I believe) be implemented. The associated budget to meet these requirements is \$538,852, which is \$191,152 higher than last fiscal year. Pascoag Library has been level funded.

## **Assessed Values & Tax Rate**

The Assessor's values are estimated and will not be finalized until the process is complete. The new tax cap legislation calculates the levy allowances based on the final certified values. If our estimates need adjustment, it may impact the final budget and associated levy or rate increases. We have received tentative approval of our proposed budget by Municipal Affairs. This could change if the final (certified) values change.

## **Tax Cap (Levy) Law**

The tax cap legislation is now implemented. In my opinion, there are flaws and potential inequities in this law. Many of the underlying reasons for expenditures required of schools and municipal departments in most cities and towns have not yet been addressed by the federal and/or state legislatures.

The law requires a reduction in the levy by a quarter percent each year until a maximum annual cap of four (4) percent is reached.

Notwithstanding that the goals of the law are very worthwhile, until the spending culture or climate within the state changes and the problematic laws that promote and/or support this climate are changed, the new tax cap law will be very difficult to implement without major conflict or impacts.

This budget is within the limits of the cap primarily because of our work to reduce health insurance costs and the school's commitment to an increase within the cap limitations. As this budget is presented it is approximately \$100,000 under the cap limit.

If future school budget increases are not controlled and state education aid is not reliable in future years then balancing budgets without causing significant cutbacks or reductions will become very difficult.

Most of the discretionary programs that a school or town may want to consider in the future are very limited.

## **Budget Board**

I largely concur with the Budget Board's proposed operating budget and have made mostly small adjustments based on better or more current information. I have noted most reasonable departures from the Board's recommendations in this report.

The Budget Board does an excellent job which makes all of our jobs easier as the process unfolds. I thank the Budget Board for their time and effort on behalf of this administration and the residents of Burrillville.