

Office of Town Manager

Town of Burrillville, Rhode Island

Memorandum

To: Town Council

CC: Budget Board
John Mainville, Finance Director
Louise Phaneuf, Town Clerk

From: Michael C. Wood, Town Manager

Date: May 4, 2004

Re: **FY2005 Budget**

GENERAL BUDGET SUMMARY

The (FY2005) Budget as presented totals \$41,643,711. This is \$30,525 lower (gross) than last year (\$41,674,236). The expenditure side breakdown is as follows:

	<u>FY2005</u>	<u>FY2004</u>	<u>Difference</u>	<u>Percent</u>
School	\$ 24,333,601**	\$ 23,477,717	\$ 855,884	3.65%
Municipal	\$ 8,009,068	\$ 7,599,350	\$ 409,718	5.39%
Debt	\$ 5,416,974	\$ 5,493,543	\$ (76,569)	(1.39%)
CIP	\$ 1,845,197	\$ 3,472,658	\$ (1,627,461)	(46.86%)
Overlay	\$ 700,000	\$ 702,000	\$ 2,000	(.28%)
Transfers -				
Major Capital	\$ 1,338,871	\$ 928,968	\$ 409,903	44.12%
Total	\$ 41,643,711	\$ 41,674,236	\$ (30,525)	(.07%)

** (Appropriation \$24,180,067 and School Fund Balance \$153,534.)

5.5% SPENDING CAP

My goal for the operating budget was to stay within the 5.5% net spending cap while trying to maintain the fundamental progress of the municipal and school programs. As presented, this budget is on the margin of being within the 5.5% cap and projects a \$1.09 increase per thousand dollars of valuation to the FY2005 tax rate (using last years valuation data). Note: The actual tax rate will be proportionally lower after we implement the new assessment data. This budget can be brought in within the cap unless the state aid numbers change for the worse.

MUNICIPAL BUDGET

The municipal budget I am recommending is \$8,009,068 (+5.39%).

SCHOOL BUDGET

The school budget I am recommending is \$24,333,601 (+3.65%).

DEBT SERVICE

The total debt service has decreased \$76,569 (-1.39%) from last year's budget.

MAJOR CAPITAL EXPENDITURES

If you look at the General Budget Summary located in the first section of this report, you will note that the overall budget is \$30,525 lower than the current (FY2004) fiscal year. The majority of the capital expenditures are paid from reserve fund money and PILOT revenue received from Ocean State Power. Because of this policy, there is no impact on the annual real estate tax rate.

Major Capital expenditures are part of the overall budget and have to be shown. When we have a major change in year to year capital spending such as we had between FY2004 and FY2005 it does have a material impact on the gross budget, but operating budgets that are paid primarily from real estate taxes and state aid do show an overall increase (as things currently stand).

EXPLANATION OF MAJOR BUDGET IMPACTS (FY2005)

One of the largest factors contributing to the projected tax increase is the projected loss of state aid (revenue), specifically school aid. By comparison to past fiscal years, discretionary spending is down despite the never-ending increases to fixed costs such as insurances and pensions.

General Revenue

We have seen general revenues trending lower over the last few years as investment interest rates continue to be at record lows and our back tax collection programs have brought in a considerable amount of the outstanding (or delinquent) taxes. School Construction Aid and general state aid is projected to be substantially lower using the Governor's budget as the information source.

The major components of the impact (revenue losses) are as follows:

\$ 271,624	School Construction State Aid
\$ 16,500	Interest Earnings
<u>\$ 163,415</u>	School Operating State Aid
\$ 451,539	Total

RIGL §45-13-13

This and prior budgets have been impacted significantly by a strange set of circumstances that resulted in an additional projected gross state revenue reduction for school construction aid to Burrillville. Four (4) years ago a piece of legislation was passed - RIGL §45-13-13. The modification to this law was done without notification to the Town, nor (to the best of my

knowledge) our legislative delegation. There was neither a fiscal note (as required by the state's rules) nor notification to the Town of the new law's financial impact on our Town. Burrillville is the only municipality in the state affected by this law, as it is currently constituted.

The change in this law impacts the method of incorporating payment in lieu of tax revenue (PILOT revenue) into the state's financial aid distribution formulas. Ocean State Power's PILOT payments to the Town had not been factored into these state aid distribution formulas prior to the change. Despite our insistence that many other communities have PILOT or similar non-tax revenue programs, the state has not corrected the inequity and Burrillville continues as the only community affected financially.

This current fiscal year (FY2004) the legislature added a flat revenue stipend of \$225,000 for the Town as a stopgap measure to mitigate part of the financial impact but was unable to solve the larger problem legislatively. This special appropriation was certainly appreciated, but the underlying inequity still exists.

There may be additional reductions in state aid as this law is applied to other state aid distribution formulas such as all day kindergarten aid. This, coupled with the state's current financial difficulties, affects our budget projections and complicates our ability to balance and project the impact to the FY2005 budget.

Projected School Construction Aid

Another potential problem looking forward could be the reimbursement from the state for the matching school construction grant (aid) program. School construction aid reimburses a municipality a portion of the total dollars spent for school construction projects such as the recent high school renovation project. 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 (percentage) can and does change year to year and since Burrillville has been trending lower this is a real possibility! If this does happen, we will need to modify future revenue estimates thereby affecting future budgets. Note: To illustrate this point, in FY2005, the Town is tentatively scheduled to receive a 42.25% reimbursement. The reimbursement rate as a percentage was 55% in FY2002.

Another potential impact is the fact that Ocean State Power's PILOT revenue increases year to year which, in turn, adversely affects the state aid formula as RIGL 45-13-13 is currently being constituted.

SUMMARY OF FY2005 BUDGET IMPACTS

When this budget was compiled, final state aid numbers were not known. We are hoping that the legislature restores some of the state aid projected to be cut by the Governor. This is not guaranteed and the State is not clear as to what we can expect. Therefore, we are using the worst-case scenario at this time. The Council should wait until this information becomes available before making your final budget adjustments.

There will be no effect on the motor vehicle excise tax rate under any scenario, which stays constant at \$40.00 per \$1000.

The projected property tax rate using last year's assessed values is \$20.89 (a \$1.09 net increase per \$1,000 of valuation). This translates to an average increase of \$169.50 per homeowner.

Note: The tax rate I am using herein (\$20.89), is only for the purpose of showing the impact resulting from the budget. As the Council knows, the Town just completed a full list and measure revaluation. The total assessed values have increased substantially which will ultimately result in a proportional reduction to the actual tax rate.

Expenditure Impacts

	DOLLAR INCREASE (DECREASE)	PERCENT INCREASE (DECREASE)	TAX RATE IMPACT *
MUNICIPAL	409,718	5.39%	\$0.49
SCHOOL	702,350	2.99%	\$0.84
DEBT	(76,569)	(1.39%)	\$(0.09)

* This information is based on using valuations for FY2004 (last year). New revaluation numbers are not finalized at this time. The tax rate impacts are net numbers and are related directly to changes in spending. They may be offset by assessment and revenue adjustments, (i.e. School Housing Aid, other local/state Aid, allocations between the split tax rates – motor vehicle & real estate).

Miscellaneous Impacts/Issues

If we can resolve the financial impact created by enactment of RIGL §45-13-13, additional funds can be appropriated or applied by the Council against the tax rate as you deem necessary prior to June 30, 2004.

The Council’s debt reduction program is maintained in this budget. The total debt obligation was \$35,983,530 as of June 30, 2003. Additional debt related to sewer has been obligated (\$6 million) but not expended. There is no financial impact on this budget but we will start paying for a portion of this bond in FY2006.

The tax rate will be affected in ten-cent (10¢) increments by raising or lowering spending by approximately \$84,000. Note: This is calculated by using the old valuation base adjusted with projected growth of 2.23% and may change when the new valuations are finalized.

As with each annual budget, this is not the final scenario, the state budget process will ultimately determine the Town’s final budget. I urge patience and prudence as things can change rather dramatically before this process is completed.

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 missions and objectives. I need to point out that if the Town does not succeed in our goal to find replacement revenue for the potential

Ocean State Power revenue loss, grow our commercial tax base, and find ways to eliminate government mandates, everyone in Town, especially the school system, will be adversely affected.

SPECIFIC CHANGES - MUNICIPAL

Factors incorporated into this budget and having a material 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 - \$163,450 (12.3% increase), comprised mainly by police pension (\$29,300) and health insurance (\$109,300).
- 2. The rubbish and recycling collection contract has increased by \$85,000 (9.7% increase).
- 3. The Library Budgets are recommended as follows:

		<u>Total</u>	<u>Percent</u>
Jessie Smith	(+) \$ 14,942	\$ 249,315	6.4 %
Pascoag	(+) \$ 2,500	\$ 46,000	5.7 %
- 4. Town Clerk – Increased \$17,521 due to contractual pay increases in FY2005.
- 5. Board of Canvassers – Increased \$13,090 due to two additional elections in FY2005.
- 6. Public Works - Increased by \$59,132 due to an increase in fuel prices & snow/ice controls. I have added two (2) new line items for: neighborhood construction projects (\$15,000) and townwide sign replacement (\$5,000).
- 7. Professional Services – These line items have been reduced by \$23,750.
- 8. Recreation – This department has not been materially affected by this budget.
- 9. Planning & Economic Development – This department has not been materially affected by this budget. (a 6.9% increase due to contractual pay increases)
- 10. Police - \$40,937 decrease (2.1%). Our vehicle replacement rotation allows us to eliminate one (1) cruiser replacement this year.

Please note: I want to open a separate dialogue with the Council regarding staffing and organization of the detective division. There are important issues that should be considered.

- 11. Information Services - \$18,250 (13.2%) represents software and hardware purchases that are required in order to move contractual services in house.
- 12. General Administration:
 - a. Cost of living pay raises contractually bound are incorporated. I have included an increase for department/division heads comparable to the percentage received by Council 94 employees. The cost of living increase averages 2.6%. The police union and Town have not settled a new collective bargaining agreement as of this report. The proposed classification plan is attached for the Council’s review.

- b. All contracted unfunded liability and incentive programs have been moved to a separate stand- alone fund and recommended to be funded separately by the Council.
- c. Special Appropriations: Generally, these programs are important and provide goods and services to various people within town that the Town/School programs do not directly support. While these programs are important, I believe that core town and school services should take precedence over most of these independent and/or outside agencies when prioritizing spending. This is an area the Council may consider adjusting if you need funds.

BURRILLVILLE SCHOOLS

The base **Education (School) Budget** recommended is \$24,333,601. This represents an increase of \$855,884 (3.65%) over last year. This is, in my opinion, a realistic budget given the fixed cost obligations of the school committee and the financial problems of the federal and state governments. Additional school reductions will impact school programs. Enclosed please find a copy of Dr. Von Villas’ correspondence addressing the potential impact.

Funding Sources for School Budget Increase

The School’s audit for FY2003 (last fiscal year), reported a surplus of \$153,534 for use by the School Committee. Most of this money is made up of Medicare money received from the federal government over the amount we budgeted as anticipated revenue. This amount has been earmarked for the FY2005 budget by the School Committee.

Summarizing the proposed increase in school funding for FY2005:

\$ 702,350		Town Appropriation (Tax Dollars)
\$ 153,534		School Surplus
\$ 855,884		Total School Department Increase (Proposed)

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 (\$1,274,532) to the base school budget. This brings total (projected) education spending to \$25,608,133 for FY2005. NOTE: These numbers may change as the Legislature completes its decision-making on school aid (general and restricted).

School Performance

I believe the Council should consider meeting with the School Committee to open a dialog regarding the testing scores. It is time, in my opinion, to ask the School Committee to account for the apparent lack of progress (in some areas) and to see what their short and long term plans are to effect education improvement in the school system.

Town Council Limitations

The state laws (effectively) allow the schools to prioritize their own spending without any meaningful oversight or accountability. Because of these and other intangibles, the Town Council’s job becomes far more difficult. The irony here is that the Town Council is usually tagged with the responsibility (and blame) by local taxpayers for real estate tax increases even though the financial issues and problems that have to be addressed have actually been created by the legislature, the

governor's office, School Committees and labor's influence on many of the laws governing our great state.

SUMMARY AND CONCLUSION

Let me conclude by saying that this is not an ideal situation because the country is in a nearly four (4) year recession. Things are difficult for everyone financially. Although the economy appears to be improving nationally there is still a way to go before we see tangible, positive impacts locally. When the times are good, taxpayers at all levels tend to be more generous and can (usually) afford to spend more on some of the core local programs and projects and are more tolerant to try new things. This does not mean, however, that the taxpayer bank vault opens and future spending commitments become open ended.

Whether its adding staff, implementing new programs, giving 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 is that a commitment is made and there becomes an "expectation" that future money will be made available to pay for the obligation. I do want to make a point that many times there are good ideas and potentially beneficial programs that require serious consideration for appropriation of new financial resources. However, the Town Council should not be forced to fund these obligations and be expected to simply pass the cost onto the taxpayers. Local officials, employee unions and our legislators must keep this in mind when considering short and long term financial issues.

The Ocean State Power Tax Treaty effectively terminates in seven years leaving a potential revenue loss of four million dollars (higher as the treaty comes to term). Economic development and redevelopment projects need immediate and continuing attention. Even with a full commitment at this point in time there are no guarantees that this kind of revenue shortfall will be made up, especially if we want Burrillville to develop to the standards we set and to maintain the quality of life on our terms. And, we cannot simply bring in just enough new growth (business, industry and/or residential) to sustain town and school spending increases because that does not solve the problem in the big picture.

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 should be very cognizant of this, especially our disabled, elderly and those living on fixed incomes. School and municipal tax increases mean a far more substantive financial loss to those already in hardship. We should always be mindful of these people when trying to balance out budgets.