

# JOINT PRE-BUDGET MEETING

Michael C. Wood, Town of Burrillville

# Introduction

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- ❖ Town Council
- ❖ School Committee
- ❖ Budget Board

# Town Finances

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It's not clear whether the State's financial problems are behind them.

The State's problems traditionally have become a local problem!

# State Deficit(s)

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- ❖ The most recent revenue estimates project a \$149 million dollar deficit for FY2015 State revenue, and

\$215 Million	FY2016
\$325 Million	FY2017
\$410 Million	FY2018

# FY2014 – Governor's Budget

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## Five-Year Forecast

January 13, 2014

# FY2014 – Governor's Budget

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## FY 2014 – FY 2018 Overview

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### *Summary*

The Five-Year Financial Projection is prepared at the time of the Governor's recommended budget submission pursuant to Section 35-3-1 of the Rhode Island General Laws, which requires that, the Budget Officer:

(6) Prepare a five-year financial projection of anticipated general revenue receipts and expenditures, including detail of principal revenue sources and expenditures by major program areas, which projection shall be included in the budget submitted to the general assembly pursuant to subsection 35-3-7.

The five-year financial projection presented in the following pages has been updated from the one prepared in January 2013 based on the final enacted budget for FY 2014. The projection includes tables that present

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From the FY 2014 budget base, expenditures will exceed revenues in each of the out-years projected through FY 2018. The projected operating deficits by fiscal year are as follows: \$149.2 million in FY 2015, \$215.3 million in FY 2016, \$325.0 million in FY 2017, and \$410.4 million in FY 2018. In percentage terms, the deficits are projected to range from 4.3 percent of spending in FY 2015 to 10.4 percent of spending in FY 2018. The expenditure-side of the budget is estimated to increase at an average annual rate 4.0 percent from the FY 2014 base to FY 2018. Inflation, however, as measured by the United States consumer price index for all urban consumers (CPI-U), is expected to grow at an average annual rate of 2.3 percent over this same period.

The Governor is constitutionally obligated to submit and the General Assembly to create a balanced budget.

# FY2014 – Governor's Budget

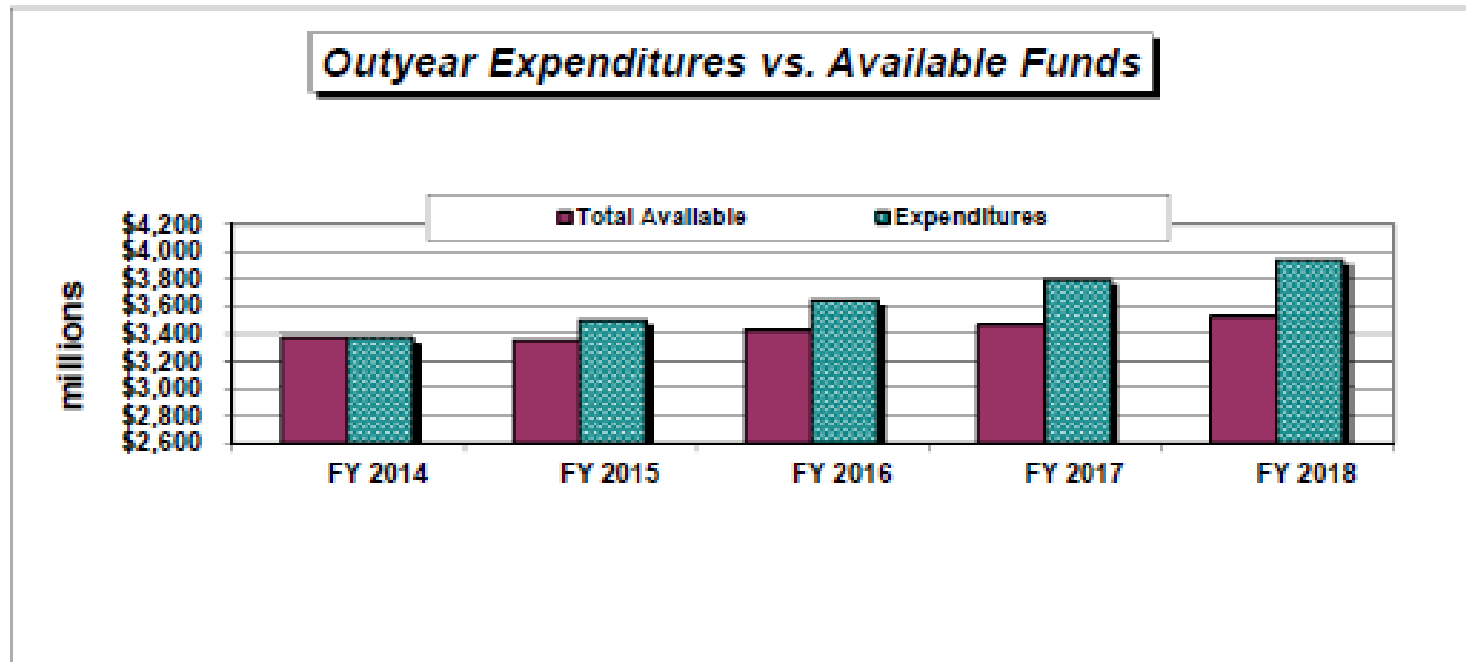
7

## General Revenue Outyear Estimates FY 2014 - FY 2018

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Opening Surplus <sup>(1)</sup>	\$93.4	\$0.0	\$0.0	\$0.0	\$0.0
Plus:					
Taxes and Departmentals	2,971.7	3,037.5	3,157.7	3,248.3	3,327.6
Other Sources	409.3	418.2	375.0	325.6	308.5
Budget Stabilization Fund	(104.2)	(103.7)	(106.0)	(107.2)	(109.1)
Total Available	3,370.2	3,352.1	3,426.7	3,466.7	3,527.1
Minus Expenditures <sup>(2)</sup>	3,369.8	3,501.2	3,642.1	3,791.7	3,937.5
Equals Ending Balance	\$0.4	(\$149.2)	(\$215.3)	(\$325.0)	(\$410.4)
<i>Operating Surplus or Deficit</i>	<i>(\$93.0)</i>	<i>(\$149.2)</i>	<i>(\$215.3)</i>	<i>(\$325.0)</i>	<i>(\$410.4)</i>
Budget & Cash Stabilization Balance	\$173.7	\$172.8	\$176.6	\$178.7	\$181.8
RI Capital Fund Balance	\$29.3	\$5.0	(\$3.5)	\$16.5	\$41.1
Rhode Island Capital Fund					
<i>Capital Projects Disbursements</i>	<i>\$167.5</i>	<i>\$128.9</i>	<i>\$110.6</i>	<i>\$88.6</i>	<i>\$81.4</i>

# FY2014 – Governor's Budget

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<sup>(1)</sup> Under the Rhode Island Constitution, the budget must be balanced each year, thus deficits in any given fiscal year cannot be carried forward to the ensuing fiscal year.

<sup>(2)</sup> FY 2014 expenditures include a transfer of \$10.0 million to an Accelerated Depreciation Fund.



# GOLOCAL *Prov* News

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## RI to Face \$307M Budget Hole from Lost Lottery Revenue

Monday, January 21, 2013

Paul J. Spetrini, GoLocalProv News Editor



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Despite a November ballot measure which approved the implementation of table games at Lincoln's Twin River Casino, the state of Rhode Island is projecting a loss of \$307.6 million in lottery revenue over the next four years as gambling facilities come online across the border in Massachusetts.

The findings, estimated in Governor Lincoln Chafee's budget proposal for the 2014 fiscal year, are based in part on a study the state commissioned last year that analyzed the financial impact the addition of table games would have on the facility ahead of last November's statewide referendum.

Ultimately, over 70 percent of the voters approved the ballot measure and though the move is expected to create approximately 350 jobs on site and upwards of 300 jobs in the surrounding community, it won't be enough to stave off a substantial loss in revenue when the Bay State begins opening its gaming parlors in either 2015 or 2016.

### Location, Location, Location

According the Chafee's budget, the state is estimating a loss of revenue from the lottery department of \$53.7 million dollars in the 2016 fiscal year, \$113.4 million in the 2017 fiscal year and a loss of \$140.5 million in the 2018 fiscal year.

"The impacts of that are very dependent on where those casinos are located," said Paul J. Spetrini, Chief of the state office of Revenue Analysis. "No matter what, we're going to lose some customers to those casinos in Massachusetts and that could be a significant decline in revenue, on the order of 10 percent in total over those three years."



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# State Infrastructure

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Burrillville has approximately 140 miles of roads. Forty (40) of those miles are State owned. There are many deteriorating State owned bridges, culverts and other structures.

# State Infrastructure

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- ❖ The State does not have sufficient funds to correct its infrastructure deficiencies.
- ❖ State borrowing capacity is maxed-out and is not the correct way to fund this type of work.

# Debt Service

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## Rhode Island State Debt Among Highest in US

Saturday, January 11, 2014

Zeke Wright, GoLocalProv Contributor



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Rhode Island's total state debt is at \$18.86 billion according to a new report out this week. Equivalent to a per capita number of \$17,960 for each resident, the amount is comparatively not so bad when contrasted to many other states.

The amount of outstanding debt in the state — a reflection of bonds, leases, and other government-issued debts not inclusive of unfunded public pension and other post employment benefit liabilities — totals \$2.89 billion and places the state 16th in the nation on a per capita basis according to the national public policy group [State Budget Solutions](#).

The figures don't include municipal or federal debt.

### Varying concerns about the future of Rhode Island debt

"You look at those numbers, everything (appears relatively) fine," said Leonard Lardaro, an economics professor at the University of Rhode Island. "My problem is that's the past."

Framing the burden of debt against Rhode Island's gross state product and predictable future growth, "We're going to have a tough time ... bringing the debt down," Lardaro said, pointing to a foreseeable "train wreck" in the form of legalized gambling in Massachusetts.

"That will be a major, major hit to our state tax revenues," Lardaro contends. "We're going to have a hole to fill and that's going to be difficult."



January 13, 2014

# Job Growth

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## Mass + RI Among Bottom States for Job Growth in 2014

Saturday, January 11, 2014

Zake Wright, GoLocalWorcester Contributor



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Predictions for job growth in 2014 place Rhode Island and Massachusetts at the bottom of the nation.

That sour assessment comes out of a positive national outlook from Moody's Analytics for the new year.

The economic forecasting company is predicting an increasing level of job creation nationally in 2014 based around the health care, energy, and high-tech sectors.

Regionally? "It's going to be more slow growth," according to Leonard Lardaro, an economics professor at the University of Rhode Island.

For any given year, with "incredible regularity," Lardaro said the state's economic growth ranking could be expected to match its alphabetical order: 39<sup>th</sup>.



### Good national forecast

Writing on [Economy.com](#), Moody's chief economist Mark Zandi says preconditions are in place for much stronger economic growth this year.

Moody's Analytics U.S. Macro Forecast predicts accelerating job growth, leading toward "full employment" in three years, meaning a high labor force participation and a jobless rate under 6 percent.

Other 2014 forecasts are somewhat more restrained: Economists at Standard & Poor's are forecasting 1.7 percent national job growth in 2014. The National Association for Business Economics presents a panel of forecasters who see unemployment falling to an average 7 percent.

But Moody's sees the U.S. economy generating about 2.6 million jobs this year.

Unfortunately, the Northeast is expected to trail the pack led by big gains in states to the West, including North Dakota, Arizona, Texas, and Colorado.

January 13, 2014

# **FINANCE/BUDGET PROJECTIONS**

January 13, 2014

# Maximum Tax Levy – FYE2015

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❖ FYE2015 Tax Cap Percentage 4.00%

**Maximum Tax Levy Increase  
allowed by law**

**\$1,153,611**

❖ School Share  
(based on FYE2014 distribution) 686,629

❖ Town Share 466,982



# Maximum Levy Projections

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	Budget	Actual	Maximum Tax Levy Increase	School	Municipal
2013	\$27,832,191	\$27,830,582			
2014	28,850,890	28,840,267	1,009,685	600,965	408,721
2015		29,993,878	1,153,611	686,629	466,982
2016		31,193,633	1,199,755	714,094	485,661
2017		32,441,378	1,247,745	742,658	505,087
2018		33,739,034	1,297,655	772,364	525,291
2019		35,088,595	1,349,561	803,259	546,302

If the Council does not levy the maximum tax levy allowed each year, these numbers will be lower, i.e. a tax rate increase less than 4%. Technically the Council cannot levy a tax equal to the maximum because it is not possible to have a tax rate that will generate exactly what the maximum levy allowed.

Note: If the Council does not use the maximum levy year to year, these numbers will be lower!



# Short-term Summary FYE2015

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		FYE2015	
Projected change in net municipal non-tax revenue	(357,340)	(2.09%)	
Projected municipal budget increase, less CIP	151,545	1.16%	
Projected school budget increase, less CIP	928,447	3.17%	
Net increase in tax levy required (if alternate revenue and/or reductions are not found)	1,437,332	4.98%	
Property Tax Cap Levy (4%)	1,153,611		
Net shortfall if maximum tax is levied. (Shortfall requires State approval)	(283,721)		

Note: These projections are based on budget submissions for FY2015, not actual budgets approved by the Town Council.

# Short-term Summary FYE2015

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Scenario	Overall Budget Reduction Required		FYE2015
1	No tax levy increase over current Year (2014)		1,437,332
2	Tax Levy Increase Minus Revenue Appropriations	357,340	1,079,992
3	Tax levy increase = tax cap (4%)	1,153,611	283,721
4	Max Tax levy increase (cap + revenue adjustment)	1,510,951	(73,619)*
Scenario	School Budget Only Overall Budget Reduction Required		FYE2015
1	No tax levy increase over current Year (2014)		928,447
2	Tax levy increase = State revenue increase	4,936	923,511
3	Tax levy increase = tax cap (4%)	686,629	241,818
4	Maximum tax levy increase (cap + revenue gain)	691,565	236,882

Note: These projections are based on budget submissions for FY2015, not actual budgets approved by the Town Council.

\*If State approved

# Five (5) Year Forecast – Summary 2015 - 2019

19	FYE2015	FYE2016	FYE2017	FYE2018	FYE2019
Net municipal non-tax revenue	(357,340)	(236,366)	(460,303)	(22,631)	(24,200)
Net projected municipal budget less CIP	151,545	(460,080)	(278,972)	186,409	398,204
Net school budget	928,447	1,403,029	1,442,286	975,272	1,187,259
Net increase in tax levy required (if alternate revenue and/or reductions are not found)	1,437,332	1,179,315	1,623,617	1,184,312	1,609,662
Property Tax Levy Cap 4%	1,153,611	1,199,755	1,247,745	1,297,655	1,349,561
Net shortfall if maximum tax is levied. (Shortfall requires State approval)	(283,721)	20,440	(375,872)	(113,343)	260,101
Note Impact of CIP is not factored in.					
Note: Projections are based on budget submissions not actual budgets approved by the Town Council.					

# Motor Vehicle Exemptions

## (Currently \$1,500)

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- ❖ The Council has the option to determine how any levy increase is distributed (motor vehicle and/or real estate) as long as the total does not exceed the maximum levy of \$1,153,611 for FY2015.
- ❖ Council has discretion to set the exception as low as \$500
- ❖ Tax allocation or policy is solely the Council's decision.

# 2014 State Funding Formula

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<u>Total Foundation</u>	<u>State Share Ratio</u>	<u>State Funding</u>	
\$24,664,434.00	28.08%	\$13,069,090.37	Total Foundation x State Share Ratio = State Funding
	0.529875948711875	\$12,965,501.00	FY2013 State Aid
		\$103,589.37	
		\$20,717.87	Divided by 5 years (based on the number of years remaining in funding formula implementation)
		\$13,048,372.49	FY14 State aid after reduction for funding formula implementation
		\$82,871.49	FY14 State Aid over FY13 State Aid
		\$5,376.01	Per Student Aid
		\$13,048,372.49	FY14 State Aid
		\$11,796.00	High Cost Special Education
		\$9,060.00	Transportation
		\$13,069,228.49	FY14 State Aid-Projected

January 13, 2014

# School Surplus

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## School Surplus:

As of the close of FY2013, the audit shows an unreserved balance of \$543,369 for potential use by the School Committee

**Note:** It is my strong recommendation that this money not be used for fixed or reoccurring expenses of the school operating budget

# FACTORS POTENTIALLY IMPACTING FY2015 AND BEYOND

January 13, 2014

# Affordable Care Act (ObamaCare)

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- ❖ Potential impacts on cost of healthcare and related budgets
- ❖ Potential impact on our part-time workforce and associated services



# Pension Reform

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- ❖ Impacts of prospective decision-making on the existing pension reform law could be very consequential.
- ❖ Burrillville's projected budget impact(s) attributable to existing pension reform are significant.

	MERS	Police	School Teachers	School Noncertified
Current FY2014	\$231,744	\$189,647	\$2,099,752	\$218,726
FY2015	\$243,832	\$376,272	\$2,278,673	\$236,020
FY2016	\$251,203	\$387,605	\$2,802,125	\$282,356
FY2017	\$265,356	\$392,894	\$3,208,117	\$313,330

# *State...*

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## *passing the problems on to cities & towns*

- ❖ Most of the State Aid that cities and towns traditionally received, excluding distressed community aid, has been decimated over the last five (5) years, leaving school aid as the only pot potentially large enough for the State to make up for lost revenue of this magnitude.

# Unfunded Liabilities

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- ❖ While unfunded liabilities are not always obvious, year to year, they do have an impact on financial solvency and bond ratings, long term.

# Unfunded Liabilities

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Burrillville is not anywhere near as bad as most RI communities, but we do have exposure, particularly in the school system. Unfunded liabilities and OPEB for the town and schools project to be:

	School	Town	Wastewater	Library
Unfunded	\$992,378	\$167,342	Included with Town	Included with Town
OPEB	\$1,588,534	\$811,550	\$90,512	\$19,531

January 13, 2014

# Unfunded Liabilities

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- ❖ A good share of the unfunded liability obligation is directly attributable to Collective Bargaining Agreements.

# Local Revenue ~ Transmission Line

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- ❖ December 31, 2013 has just passed. The new National Grid transmission line project has not started in Burrillville, so FY2015 revenue will not be impacted.
- ❖ Going forward, however, revenue from the transmission line project will be significant. More than likely, the impact will be spread out between FY2016 and FY2017, determined by the actual construction schedule.

January 13, 2014

# Local Revenue ~ Daniele, Inc.

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- ❖ The Town will realize a moderate amount of revenue from the expansion of the food processing plant in Commerce Park. There will be a small impact in FY2015, but most of the revenue impact will be in FY2016.

# Local Revenue ~ TransCanada

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- ❖ The Town is in litigation with TransCanada over disputed assessed valuation and related taxes.
- ❖ If we end up in court, the town will most probably lose related revenue, simply because there is rarely a clear cut winner in this type of litigation and courts usually compromise judgments somewhere in the middle of the parties' positions. We have taken precautions to reserve funds to pay for a loss in court or a mediated settlement, if that becomes a factor.



# Debt Service

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- ❖ Debt service obligations will be declining over the life of the existing debt schedule.
- ❖ There is a proposal for sewer bonds (estimated at \$4.5 million) in the works, but we've been advised that sewer rates will cover the debt service in its entirety.

# Debt Service

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- ❖ A school bond will be needed as early as FY2017 (calendar 2016). Whereas the amount (estimated at \$2,132,741) is not insignificant, we should be able to incorporate the impact within the appropriation because of the declining debt schedule.

RIDE - School 5 Year Capital Infrastructure Funding Plan - \$3,116,928*						
Immediate Needs - per School Administration						
Feasibility Study			\$130,000			
High School Roofs A & B			\$1,395,350			
	A		\$785,620			
	B		\$609,730			
Total:			\$1,525,350			
Funding Sources						
	All Building		Total Capital			School
5 Year Plan	Projects	Roofs	Require-ments	Major Capital	School Annual CIP (\$400,000)	Surplus Account
2014	\$130,000		\$130,000	\$130,000		
2014	\$151,276	\$1,395,350	\$1,546,626	\$1,546,626		
2015	\$469,729	\$462,141	\$931,870	\$462,141	\$400,000	\$69,729
2016	\$266,651		\$266,651		\$266,651	
2017	\$56,521		\$1,301,837		\$56,521	
2018	\$185,260		\$1,072,685		\$185,260	
	\$1,259,437	\$1,857,491	\$3,116,928			
\$1,525,350 in 2014 includes immediate needs of \$130,000 (feasibility study) and \$1,395,000 (roofs A and B)						
Note: \$151,276 listed in 2014 appears to be CIP requests that go beyond the approved CIP budget for the schools (FY2014).						
*Amended by 11/13/13 vote of the Burrillville Town Council: Roofs for 2017 and 2018 deferred.						

Feasibility Study	\$130,000
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High School Roofs A & B	\$1,395,350
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A	\$785,620
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B	\$609,730
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Total:	\$1,525,350
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Funding Sources	
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Total Capital	School
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All Building	Require-	Major	School Annual	Surplus
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5 Year Plan	Projects	Roofs	ments	Capital	CIP (\$400,000)	Account
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2014	\$130,000	\$130,000	\$130,000
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2014	\$151,276	\$1,395,350	\$1,546,626	\$1,546,626
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2015	\$469,729	\$462,141	\$931,870	\$462,141	\$400,000	\$69,729
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2016	\$266,651	\$266,651	\$266,651
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2017	\$56,521	\$1,301,837	\$56,521
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2018	\$185,260	\$1,072,685	\$185,260
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	\$1,259,437	\$1,857,491	\$3,116,928
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\$1,525,350 in 2014 includes immediate needs of \$130,000 (feasibility study) and \$1,395,000

(roofs A and B)

Note: \$151,276 listed in 2014 appears to be CIP requests that go beyond the approved CIP budget

for the schools (FY2014).

\*Amended by 11/13/13 vote of the Burrillville Town Council: Roofs for 2017 and 2018 deferred.

General Obligation Bonds & Notes – Debt Schedule				
Year Ending	Principal	Interest	Total	Chg Prior Yr
2013	-	-	-	
2014	2,768,000	703,332	3,471,332	-
2015	2,618,000	598,056	3,216,056	255,276
2016	2,029,000	511,645	2,540,645	675,411
2017	1,590,000	449,632	2,039,632	501,013
2018	1,586,000	398,931	1,984,931	54,701
2019	1,512,229	350,389	1,637,389	347,542
2020	1,294,000	326,056	1,620,056	17,333
2021	1,301,000	263,637	1,564,637	55,418
2022	1,308,000	219,358	1,527,358	37,279
2023	1,315,000	174,639	1,489,639	37,719
2024	1,323,000	129,437	1,452,437	37,202
2025	1,326,000	85,717	1,411,717	40,721
2026	964,000	45,756	1,009,756	401,960
2027	445,000	12,014	457,014	552,743
2028	175,000	3,176	178,176	278,838
Total	21,554,229	4,271,775	25,600,775	

# Ancillary

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- ❖ Inflation, mandates and escalating fixed costs that have not been slowed by the economic downturn despite significant drops in revenue for cities and towns
- ❖ The State continues to add to the mandate burden affecting local taxpayers.

# FINAL THOUGHTS & COMMENTS

January 13, 2014

- ❖ The State's longstanding fiscal mismanagement, pension uncertainties and lack of proactive, long term solutions does not, in my assessment, bode well for the financial stability of Rhode Island.
- ❖ This must be a consideration in our own long term financial planning. We must move forward with caution and toward flexibility when addressing our so called fixed budget expenses/costs.

- ❖ New union contracts must give the Town Council and School Committee flexibility and address unfunded liability and OPEB.
- ❖ The final outcome of pension reform will play a key part in determining long term financial impacts and obligations.



- ❖ Be prepared to respond to a pension mediated settlement that undermines pension reform.
- ❖ Vigorously oppose any new labor laws disproportionately benefitting unions such as imposing binding arbitration and “evergreen” requirements on cities and towns.

What  
can  
we do?

# SOLUTIONS

## Be proactive

- Negotiate union contracts with flexibility
- Address OPEB and unfunded liabilities
- Be creative and look ahead

## Work at local solutions

- Expand regionalization opportunities
- Police manning flexibility
- Merge services when & where practical
- Communicate

## Pitfalls to Avoid

- Don't deplete fund balance(s)
- Don't deficit spend
- No structural deficits

## Monitor State law

- Oppose binding arbitration & evergreen legislation
- Respond to changes in pension reform
- Support helpful legislation