

Office of Town Manager

Town of Burrillville, Rhode Island

Memorandum

To: Town Council

Cc: Louise Phaneuf, Town Clerk
Budget Board
John Mainville, Finance Director
Dr. Frank Pallotta, Superintendent of Schools
Timothy F. Kane, Esq., Town Solicitor

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

Date: May 1, 2013

Re: FY2014 Budget

Total Budget Summary

The recommended budget for next year [FY2014] as presented totals \$45,918,988. This is \$970,832 (2.16%) higher (gross) than the current fiscal year. The expenditure side breakdown is as follows:

	FY2013	FY2014	Difference	% of Difference
School	\$28,733,604	\$29,275,000	\$541,396	1.88%
Municipal	\$8,961,081	\$8,981,079	\$19,998	0.22%
JMS Library	\$574,963	\$599,463	\$24,500	4.26%
Debt	\$3,601,508	\$3,476,272	(\$125,236)	(3.48%)
CIP	\$2,347,000	\$2,787,174	\$440,174	18.75%
Overlay	\$730,000	\$800,000	\$70,000	9.59%
Total	\$44,948,156	\$45,918,988	\$970,832	2.16%

4.00% Levy Cap

This budget does not exceed the State's 4.00% levy cap.

General Summary

This budget incorporates the recently completed town-wide revaluation. A full list and measure revaluation is a State mandate and is done every nine (9) years. On average, property values in Burrillville have decreased approximately 13%. Note: This will vary on an individual basis depending on the actual change made to each parcel. When overall values go down, the tax rate (not actual taxes) goes up to equalize the impact.

Please do not equate an increase in the tax rate with an increase in local property taxes. Revenues and spending still drive the total tax levy and actual property taxes to be assessed and paid.

The capital budget is incorporated into the total budget and tax levy.

Stand-alone, self-supporting budgets such as Spring Lake Beach, Burrillville Extended Care and Levy Rink are not factored into the tax levy, but will be incorporated into the final budget resolution.

The proposed Sewer Commission budget will be distributed with the budget package but is not part of your deliberations.

Municipal Budget

The municipal operating budget recommended is \$9,575,542, a \$44,498 (.47%) increase over the current year.

School Budget

The School budget recommended is \$29,275,000, a \$541,396 (1.88%) increase. This budget represents a \$437,669 (2.82%) increase over the current maintenance of effort requirement, subject to final State Aid numbers.

Debt Service

The total annual debt service obligation has decreased \$125,236 (3.48%).

Major Capital Expenditures (CIP)

The total capital budget proposed is \$2,787,174, which is \$440,174 higher than the current fiscal year. This partially incorporates the impact of the revised values for the TransCanada/OSP facilities.

Revenue

Summary

This budget projects a net reduction of non-property tax revenue of \$16,734 (0.07%).

Please note: The projected reduction is subject to the receipt of school aid as projected and new incentive aid for pensions as proposed in the Governor's budget. These revenue sources are subject to change by the General Assembly.

The key components:

an increase in intergovernmental receipts \$163,972

a decrease in transfers \$172,706

Details are as follows:

Motor Vehicle Revenue

It looks like the revenue subsidy (\$500 exemption per motor vehicle) we receive from the State for the motor vehicle phase out program will be maintained. However, if the subsidy is modified or eliminated, the Town will lose up to \$210,552 from projected state aid revenue. This would be material.

Intergovernmental Receipts

Key components:

School operating aid increase \$103,727

School and Library construction aid decrease \$86,256

Proposed new incentive aid for pensions \$151,287

Changes by the General Assembly may require an adjustment (budget reduction, increase tax levy or offsetting transfer) to be made.

Local Receipts

Total local receipts are projected to be approximately \$180,706 lower than last year's budget. Of this total, \$172,706 are transfers, \$8,000 is lower interest earnings.

State Education Funding Formula (School Operating Aid)

Total school aid is projected to increase by \$103,727 based upon calculations from the School Administration.

Projected School Construction Aid

School Construction Aid is projected to be approximately \$78,958 lower than last year's budget. This is (primarily) the result of the Town's *declining* debt service obligations for eligible projects.

As noted in prior years, the State unilaterally decided to spread our Levy Rink construction reimbursement over a ten (10) year period rather than pay it out in one lump sum payment. This year's reimbursement is projected to be \$183,278.

Looking to future budgets, the reimbursement rate from the State for the matching School construction grant (aid) program could impact those budgets. The School construction aid program reimburses a portion (percentage) of the total dollars spent for School construction projects. Completed projects that qualified were the Senior High School, Callahan School and Levy Rink renovation projects. If Burrillville's reimbursement rate drops when these reimbursements become payable in future years, the actual State construction reimbursement (dollars) will drop proportionally. Under normal circumstances, this reimbursement rate can change year to year.

The School safety and roof capital projects the Council will be considering in the coming months do qualify for State School Construction Aid. The amount to be received is subject to a number of factors but it could be up to 50% of the outlay. The reimbursement will most likely be spread out over a number of years; probably ten (10).

Sewer Commission Revenue

The Sewer Commission reimburses the Town for general obligation bonds issued on their behalf in December 2006 (approximately \$220,000 total). The Town receives revenue from the Sewer Department for these betterment assessments and accordingly we have budgeted \$45,000 as betterment revenue. This is unchanged from last year's budget.

FY2014 Tax and Levy Impacts

This year's projected State aid total will be impacted by legislative decisions that usually occur at the end of the State's budget process. We are anticipating that the Legislature will continue to modify the State aid categories. It is strongly recommended that we wait until this information becomes available before making final budget adjustments.

As presented herein, the property tax rate is projected to be \$18.61. The recommended levy as presented is \$ 28,819,756, an increase of \$ 987,565. Motor vehicle exemptions are recommended to remain at \$1,500.

The tax rate has increased primarily to compensate for lower overall values – the Town just completed its town-wide revaluation project which has resulted in an average decrease in value of 13 percent. The projected increase in overall levy (\$987,565) also contributes to the increase

in the tax rate but is mostly attributable to increases in the valuation of commercial/industrial property.

Residential Taxpayer Impact

The net effect of these changes, despite the spending increases recommended, leaves residential real estate taxes essentially at FY2013 levels. On average, no real estate tax increase is anticipated except where individual properties were revalued higher than the town-wide average.

The average residential property value is \$201,806, down from \$232,204. After factoring out the new commercial/industrial revenue realized from revaluation, the residential property owner will see an increase of .87 cents (eighty seven cents) on their FY2014 property tax bill (based on the proposed budget); essentially no increase from FY2013.

Please note: Changes by the General Assembly to the Governor's proposal for pension incentive aid subsidies could have a material effect on the tax levy.

Municipal Line Item Summaries

Municipal and School Services

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

Factors incorporated into this budget and having an impact on municipal government operations are identified below. Note: These are summaries or highlights and is 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. **Town Council.** The Town Council's budget has increased by \$6,295. This represents the final year of transition to the new wage/benefit plan. There are no Council health insurance benefits supported in this budget – a corresponding reduction of \$18,120. The net change for Council wages/benefits is a reduction of \$11,825.
2. **Professional Services.** Excluding the TransCanada litigation, we have closed out a few of our outstanding lawsuits. This allows us to reduce the total projected expense, but we do have negotiations with Council 94 in FY2014, which will require a small increase. We had no monies budgeted in FY2013 for Collective Bargaining.
3. **Employee benefits** decreased by \$132,161 (6.27%) this year. The overall cost of health insurance benefits has decreased by \$201,941 net. Retirement costs have increased by approximately \$27,450 due to revised assumption(s) made by the State.

The financial impact of "ObamaCare" on future budgets is still unclear at this time. Many of the law's requirements are not effective until calendar year 2014. This law is a classic Federal government mandate imposed from the top down. The mandated cost impact(s) will be borne by individuals as they sort through their health insurance options and taxpayers, who will be mandated to pay for the impact on the school and town workforce.

4. **Unemployment Benefits.** We have one (1), possibly two (2) employees to potentially carry in FY2014; I added \$16,000 to this line item.
5. **Board of Canvassers.** The decrease is \$33,640 (41.3%) due primarily to a reduction in expenses in a non-election year. FY2015 (November of 2014) will be an election year so monies will need to be added to this line item in that fiscal year.
6. **The rubbish and recycling collection and disposal.** A net increase of \$8,000 is projected with implementation of the new single stream programming. The disposal costs (tipping fees) continue to decrease. We should have more reliable numbers next year when we have more data to evaluate.
7. **Police Department.** The budget recommendation is \$130,146 (6.37%) higher than last fiscal year due primarily to the net contractual cost of living wage increase (\$115,973).

This budget maintains our staffing compliment at 20 officers plus the Chief. The arbitration award two (2) years ago allows the Town to lower overall staffing to 18 officers, but it did not change the 3 man minimum staffing per shift.

I've increased overtime but at levels lower than the Budget Board recommended. Extraordinary staffing shortages over the past two (2) years and their impact on overtime are the driving factor. Over that period, seven (7) officers have left the department or retired. We have one (1) current vacancy which, when filled and deployed on the street, should positively impact overtime.

8. **Public Works.** The recommended increase is \$47,433 (3.76%) due primarily to the contractual cost of living wage increases.

The Public Works Director requested a new position of Driver/Laborer/Operator. The Budget Board supported this request but I have not included it in my recommendation. I'd like to evaluate another year of the merger of services before considering additional staff. However, the Director does make a good case to add an employee and I will provide that information to you when I provide the Council with supplemental information; this is normally provided after the Public Hearings are concluded.

9. **Special Appropriations.** This budget is the fourth year in a multi-year phase out for the larger appropriations. Unlike prior years, appropriations for the following service agencies **are included in this proposed budget to be funded from the levy:**

Name	Amount
Historical Society	\$2,250
Downtown Pascoag Neighborhood Assoc.	\$2,000
Industrial Foundation	\$4,000
RSVP	\$2,000
Samaritans	\$500
Sr. Services	\$3,000
Sojourner House	\$1,000
Veteran Rep	\$1,200
Keegan Dinnegan Post *	\$0 *
Memorial Services *	\$0 *

* Keegan Dinnegan and Memorial Services apparently did not make a funding request for FY2014. I certainly have no issue with funding something if they need a small appropriation. There is no material impact on the budget if funding were added.

10. **Parks and Recreation Department.** With the reorganization of the Recreation Division, a permanent line has been added for programs – some are new and others were cost shared with Spring Lake Beach and Burrillville Extended Care. Eight thousand, four hundred dollars (\$8,400) has been added to this division budget.

Extended Care Program This program is maintained as a revolving side fund with independent revenue sources. I am recommending a funding level of \$424,000.

Spring Lake Beach Program This program is maintained as a revolving side fund with independent revenue sources. I am recommending a funding level of \$142,000.

11. **The Library Budgets** are recommended as follows:

Jessie Smith	\$599,463	\$24,500 (4.26% increase)
Pascoag	\$53,500	-0- (level funded)

This budget includes a \$24,500 increase in the Jesse M. Smith Library budget. The increase is primarily for COLA wage increases and benefits.

We anticipate receiving \$129,564 as proposed in the Governor's proposed budget for State Library aid in FY2014. That, of course, is subject to change by the General Assembly.

Future Library Aid (revenue) may be compromised if we fail to maintain appropriate budget levels for both libraries combined.

12. **Wages, Non-Union Supervisors.** A COLA is recommended in this budget for non-union, supervisory employees. I am recommending 2%, or \$1,350 per eligible employee, totaling \$17,550.

13. **Overlay.** Due to the full list and measure town-wide revaluation, I have increased the overlay by \$70,000 to compensate for disputed values that will not be resolved until well after the budget process is completed.

The overlay variance is an amount that represents the anticipated amount of current year tax levy that will not be collected in the current year coupled with abatements and other adjustments. This amount has not been adjusted since 2009. Given the increase in total levy over the last few years, this amount needs to increase to more accurately reflect our historical collection rate (approximately 97%).

Burrillville Schools

The School Committee's budget request is \$29,441,391; \$707,787 (2.46%) higher than last year's approved budget.

The amount recommended by the Town Manager is \$29,275,000, or \$541,396 (1.88%) higher than the amount the Council appropriated last year.

The projected expenses making up the bulk of the requested increase are:

1) Net Wages	\$258,939
2) Heating Oil	\$150,000
3) Tuition	\$70,000
4) Net benefits less unemployment	\$226,369

The School Committee added professional development and unemployment into their operating budget request totaling \$150,000. I did not support inclusion of these line item adjustments and reduced their request accordingly. These particular expenses have been funded by special appropriation over the last few years. Special appropriations of this nature are not incorporated into the tax levy, e.g. they don't impact local taxes year to year.

I do recommend appropriating money into a non-tax supported side fund to pay short-term unemployment claims for the school - \$50,000 is my recommendation.

School Employee (Union) Contracts

The Teacher's and non-certified Union and School Committee are under contract through July/August, 2014 and June 2015 respectively.

School Audited Fund Balance

The School's audit for FY2012 reported an unassigned fund balance of \$645,301 for use by the School Committee. This amount has not been appropriated nor incorporated as a source to

support the FY2014 School Budget.

Please note: The School Committee must vote to ask the Council to appropriate these funds prior to expenditure or commitment to spend these monies.

The Town must be very careful not to appropriate funds that will create a potential structural deficit in future years, or maintenance of effort obligations.

Town Council/Administration 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. Many of the financial issues and problems that have to be addressed locally have been 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 Rhode Island and the financial affairs of local governments.

School - Levy Rink Budget

This program is maintained as a revolving side fund with independent revenue sources. \$423,811 has been recommended.

Debt Service

Debt Service

The total debt obligation [principal and interest] was \$29,646,535 (\$24,346,229 principal) as of June 30, 2012. All existing voter approved debt service is fully integrated into this budget with the exception of \$500,000 for previously approved Open Space bond authority that remains open.

Supplemental Comments

Municipal Staffing

Municipal operating department staffing is maintained at last year's levels.

Collective Bargaining

The Council 94 Union contract expires on June 30, 2014.

Police - The existing contract will expire June 30, 2015. There is now more flexibility to staff the department should the Council wish to exercise that flexibility.

Please note: If additional police staff reductions are considered, overtime will need to be adjusted higher to compensate.

Tax Credit Program

The tax credit program for seniors, veterans and disabled persons has assisted these groups by relieving \$642,264, collectively (2.2%) from their real estate tax payments.

Tax Cap (Levy) Law

The law requires a reduction in the levy increase by a quarter percent each year until a maximum annual cap of four (4) percent is reached. This year, and going forward, the maximum levy increase is set at 4.00%.

Notwithstanding that the goals of the law are very worthwhile, until the problematic laws that promote (my opinion) an unfriendly local taxpayer climate are changed, the new tax cap law will be very difficult to implement without major conflict and/or economic impacts at the local level.

If future School budget increases are not properly managed and State aid, particularly education aid, is not predictable/reliable in future years, then balancing budgets without causing significant program reductions and/or local tax increases will be very difficult. The new education aid formula will continue to impact Burrillville's School revenues and local property taxes as it is statistically driven.

Legislative Relief

In my opinion, repealing longstanding State laws that prevent a city or town from controlling/managing local property taxes must be undertaken by the Governor and State Legislators.

Restricted Budget Fund

This is the fourth year that certain items are recommended to be funded out of a separate Town restricted budget fund.

One of the strategies to balancing the budget with the least impact on property taxes and our ability to provide acceptable services is to consider establishing separate funds, outside the main budget for use in targeted situations.

As in the past, amounts for unemployment, legal, energy contingencies, recreation programs being phased out and were funded by special appropriations. The total recommendation at this time is \$67,800, which includes \$50,000 for potential School unemployment claims, as noted earlier.

Energy/fuel contingency (gasoline and heating fuel) – zero. Higher amounts were incorporated into the departmental budgets. The history of usage and related costs are hard to pinpoint as

pricing continues to fluctuate.

Funding for recreation programs (which are being phased out) from surplus accounts (\$6,400). This is the final year.

My recommendation to the Council is to separate the special appropriation for Northwest Nursing and fund it separately (\$11,400)

Name	Amount
Northwest Nursing	\$11,400
RSVP	\$ in regular budget
Samaritans	\$ in regular budget
Senior Services	\$ in regular budget

Note: This will be the final payment to Northwest.

Retirement Costs

Retirement costs associated with regular and police employees have risen due to changes in the actuarial assumptions. While there has been much negative publicity about government retirement systems, the communities with critical pension problems either have private pension plans and/or have failed to make their annually required contribution. Burrillville is in the MERS System. Prior to the interest rate assumption being changed by the State last year, our non-certified plan had been overfunded every year for the past 17 plus years (average yearly funding 124.9%). The Police Pension (which now has fewer participants, making it more sensitive to the Plans assumptions) has always been around 100% fully funded. Sometimes overfunded, sometimes underfunded but always gravitating to 100% (average annual funding 100.4% over 17 plus years).

Conclusions

Rhode Island is starting to turn the corner economically but we are still lagging behind the other New England States.

Whether it's adding or eliminating staff, modifying existing programs, making decisions affecting wages or benefits, or decisions involving future financial commitments, those decisions must be made considering the short and long term impacts of those decisions.

The Town Council should not be put in an untenable position of supporting unrealistic budget positions and 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 collective bargaining agreements.

Capital projects, economic development and redevelopment projects are important and need continuing attention. The tax cap law makes this task (or goal) much more difficult because new

revenue realized from economic development and growth programs (residential and commercial) cannot be used to pay for the associated costs, dollar for dollar, which could impact a city or town's ability to maintain core municipal and school services.

Budget Review 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 23, 2013 - 7:00 p.m. Town Council Chambers
- 2) School Budget -May 30, 2013 - 7:00 p.m. Town Council Chambers

The budget is scheduled to be voted on by the Town Council on or before June 12, 2013. Note: Charter deadline date is June 15th.

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 or public hearing details.