

# Budget Message FY 15

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Good evening. Tonight I introduce my budget for fiscal year 2015. Let me talk to you about some highlights in the budget and then turn to a power point of what I call the budget drivers, the factors that have most influenced the budget

This budget is a far cry from the budgets that the city faced just few short years ago when we spoke about closing fire stations, shutting off street lights and even spoke at one point about closing the public library, all in an effort to avoid what a former State representative from a neighboring community thought was almost inevitable, that the city would sink into receivership. Today, our bond rating is up to AA, the highest rating in our history, instead of cutting vital services we are adding to them, instead of drawing money from reserves to keep our city afloat we are adding to reserves to build for the future and instead of taking every dollar we can from our constituents, we are taking only what we need and returning the rest to you.

None of this happened by accident. It happened because we have carefully held the line on spending, cut our workforce by over 20%, held our cost of living increases to reasonable numbers, negotiated health care changes with our unions, increased our tax base, and, with the help of Rep. Dempsey, gained more State aid. Keeping this progress going requires that we continue to hold the line on spending, without doing that, we run the risk of falling right back to where we were just a few short years ago.

This budget holds the line on spending, and for only the second time in thirteen years, taxes below the limit allowed by proposition 2 and half.

## **Broad overview**

Let me start with the broad overview.

This year's budget is \$166.8 million a 2 percent increase over last year. To get to this budget, I started by ordering all department heads to limit their requests to a 1.5% budget increase. Not everyone complied, but from the requests I got, I then cut an additional \$3.2 million from the requests made by department heads. Every single request that I received, without exception, was a good one, and it was difficult to cut good requests, but if we are going to keep our city fiscally stable, that is what we need to do.

The budget holds the line on spending generally, but does provide for increases primarily in two critical areas—public education and public safety.

By holding the line on spending, this year, for only the second year since we inherited the Hale debt, we are taxing below the limits allowed by proposition 2 and half. We are committed to spending only what we need to spend and nothing more than that.

### **Public Education**

The largest increase dollar wise in the budget is for public education. This year's city contribution for public schools is up by nearly \$1.3 million, an increase of 2.1%. This represents the largest amount that the city has ever spent on public education.

A year ago in public education, we made a number of improvements. We added with the help of a one-time grant all-day kindergarten, cut class size, added an additional person to the maintenance department, buy new text books and improve technology. This year's education budget, which is \$1.2 million over the minimum we are required to spend, allows those programs to remain intact with the devastating cuts that you are reading some of our neighboring cities are required to make.

### **Police**

Our biggest percentage increase in the budget is for police, which is up 4.14%, an increase of over \$400,000. That amount allows us to add three additional police officers on top of the five we added last year, to bring us to the highest number of police we have had in many years. It allows us to improve technology in the police department and to update our fleet of police cruisers. No budget gives anyone everything they want, but this budget provides a major increase in spending for public safety.

But just adding police officers is not enough. We also have to speed up the hiring process. The five new police officers we added last year do not hit the street until late June of this year, a year after we budgeted them. In this year's budget I have added something that the police did not request, money to hire a reserve force. Having a reserve force will allow us to quickly move someone from reserves to the active force, and, if we can negotiate it with the police unions, will allow officers to fill in when no one else is available. This change will make us safer and cut our budget.

### **Making government more efficient**

In the years since I took office, we have reorganized city government, cut our work force by over 20%, supplemented our regular highway forces with outsourced street sweeping, road patching and tree removal, and outsourced a portion of our finance department. Last year's budget outsourced technology, payroll processing and city hall maintenance, well ahead of other cities that are just considering it now.

In the past, we have worked with our school department to consolidate some services—we have a common maintenance department, our human resources department handles the

worker's compensation and benefits for the schools and our purchasing department does all their purchasing. We have a way to go to consolidate services but we have made some progress.

This year, I propose something new—the sharing of equipment across departments. It never made sense to me that we have a bucket truck for the fire department, a separate bucket truck for the schools to repair their lights and clean their gutters. This year, we are sharing a new bucket truck, a practice that I hope continues.

## Capital

For the third year in a row, the budget puts money aside for capital projects. This year we are putting aside \$500,000 for small capital improvement projects, and we will, as always, bond for larger projects that need to be done. I propose holding \$100,000 of that money in reserve in case it is needed for maintenance. We have done a much better job in recent years with maintenance, and that improvement needs to continue.

We were not able to spend all the money that we appropriated for capital projects last year, and by carrying over the unused money from last year, we will actually have more money to spend on capital this year than last year.

Let me talk for just a moment about two capital projects that really excite me, both of which are in our capital plan and in last year's capital budget. They are the projects to improve the gateways to our city, the water street greenway project and the route 97 improvement project.

What I call the Water Street Greenway project is our project to cut back the trees on Water St and open up the view of the river. In the grand scheme of things, this is a very low cost operation and thus far we have spent about \$10,000 on this project a little under one one hundredth of one percent of the budget. We have done this without any State assistance of any type. But if we really want Water Street to be a magnificent gateway to our city, we need to make this a state project and get it on the transportation improvement project list. That would allow us to put in flowers, redo the street trees, and put in picnic benches, bike racks and walkways to the Buttonwoods trail so that Water Street would be a beautiful place to ride a bike or walk and stop along the river for a picnic. A very small amount of money will make this possible.

At the other end of town, but still on Route 97, the Route 97 Broadway Improvement project which you funded in the last capital budget is moving forward. To get State funding, you need to first get what is called a project number. We do not have this for Water St, but we do for Broadway. Once we get a project number, we have to fight to get it on the TIP (transportation improvement project list.) We design the project and pay for design, and if it goes on the list, the State pays for the project. We are working to get this on the list for Federal fiscal year 2017,

which is calendar year 2018. If that project is approved, it will add new sidewalks and street trees all the way up Broadway almost to Liberty Street.

### Reserves

We have made it a point to add to reserves over the years. We started a decade ago with no reserves of any type, no stabilization, no free cash, and no reserves of any type. This budget adds \$400,000 to stabilization, bringing our stabilization up to nearly \$3 million, the highest number we have had in years. We also have added to the school department reserves, we want to avoid what happened last year, when the schools went \$1.2million over budget and we had to bail them out. It is critical that they have reserves.

But the reserve that I am the most proud of is what I call a levy reserve, or taxing beneath the levy limit. This year, we are taxing \$300,000 below what proposition 2 and half allows us to tax. We want to send a message that we will only spend, and tax, what is needed and not any more.

## Power Point

Let me turn now to our power point presentation.

## Revenues

Let me start with this slide showing where our revenue comes from. As you can see, the local property tax payers pay 55% of our budget, the State pays a little over 30%, and all of our fees pay for the rest, about 10%. Thank you taxpayers!

## Revenue increases

### Property taxes

Our biggest increase in revenues was property taxes and State aid. Property taxes are up \$2.4 million, as I mentioned slightly less than allowed by proposition 2 and half. This includes about \$700,000 in new growth, still well below the pre-recession numbers.

### State aid

State aid is also up, as are all of our smaller revenue sources as we come out of the recession.

We are also fortunate to have another increase in State aid, which was cut by necessity during the recession. School aid, called chapter 70, is up by nearly a million dollars, and the general aid that we get as a city, which is called unrestricted local aid, is up \$235,984.

Finally and most significantly, once again this year we received \$2.4 million in Hale hospital debt relief money. We are extremely fortunate in this community to have Representative Brian Dempsey in our corner, and year after year he has secured this money for us. Many of the service increases in this budget would not be possible without this Hale debt relief money.

## Alternative recurring revenue sources

A few years ago, the city council asked me to find alternative recurring revenue sources.

Power point—we added about \$1 million in sources that do not hit the residential taxpayers—show on chart. This has been a significant factor in allowing us to improve services without a proposition 2 and half increase.

## Expenditures

First chart shows where your money goes.

As you can see, the largest item in the budget by far and away is for schools, 43% of our operating budget. By contrast public safety is 13%, employment benefits are 24% and the total of our general operating expenses, everything it takes to run a city is 2%.

## Expenditure drivers

Here are some of the significant expenditure drivers:

### Snow and Ice

Snow and ice—our snow and ice deficit is \$900,000; we had a significantly bad winter. This deficit, by the way, is well below what some of our area cities have and there is a reason for that—we carefully watch and monitor snow removal to keep the costs under control.

### Regional Schools

Our budget for regional schools is up by \$450,000 a 45% increase, which is clearly unsustainable, for Essex Aggie. The department of revenue has ruled that this is chargeable to the school department, but this would devastate our schools so we have not done that but, frankly it was difficult absorbing that amount of an increase for a relatively small number of school children.

### Pensions

Our pension budget is up by over \$500,000, 4%, despite our taking the fiscally prudent course holding the line on the COLA base increase.

### Health Care

Health care is always a problem in any city budget. This year, we are spending over \$22.7 million on municipal health care. The large and unsustainable increases we saw just a few years ago in health care are gone, thanks to the new law adopted by the legislature and thanks to our unions working with us.

But there are two health care items that concern me. The amount that is required to pay in mitigation is \$648,000. It is important to understand that the mitigation is not on what we actually save; it is on the projected savings under what the increase would have been had we not switched plans.

In addition, perhaps because people are getting sicker, or perhaps because people are using their health care before they go into a new plan, we are spending our health care dollars at a rapidly increasing rate. Our health care consultant is concerned that we could run short in our health care trust fund before we close it out and go into the new health care plan. We are setting aside \$400,000 in reserve to make certain we have enough.

### Reserves

Stabilization \$400,000

Schools \$200,000

Small salary reserve account

Taxing below levy limit \$300,000

### **Concerns**

There are still significant concerns that require us to hold the line on spending.

### **OPEB**

The first and most important is OPEB liability. We have about \$300 million unfunded liability, mostly for health care benefits for future retirees. This is a very, very significant issue, and you will be hearing a lot about it in future years.

### **CSO and Storm Water**

This could be a \$30 million liability or higher. This will come out of the water and waste water budget, or it could be a separate fee, that is for the council and the Mayor to decide together. We are negotiating on this.

### **Landfill**

We have partially funded the landfill in this budget, but there is more to do.

### **Hunking School**

There is no way to fund a new Hunking School in this budget, it is simply impossible, so we leave that to the voters.

### **Conclusion**

The city has come a long, long way in the past decade but we are not out of the woods yet and there are still concerns. It is absolutely critical that we continue to hold the line on spending and continue to plan for tomorrow.

Thank you.