



TOWN OF WALPOLE
COMMONWEALTH OF MASSACHUSETTS

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Town Administrator

Michael E.

MEMORANDUM

To: Board of Selectmen
Finance Committee
Capital Budget Committee
School Committee

From: Michael E. Boynton,
Town Administrator

Date: February 1, 2009

Re: Fiscal Year 2011 Budget Proposal & Message

Very quickly, this budget message is going to sound repetitive. You will begin to ask if you have heard most of the report before. While I wish such was not the case, unfortunately it is indeed more of the same. Revenues not keeping pace with costs. Reductions in personnel and expenses. And a continued fear that the bottom of the financial free-fall has yet to truly arrive. These are recurring themes that have again found their way into a Town of Walpole budget message. Yet there are other repeated themes here as well, themes in the form of messages intended to be positive in nature. Messages that the time is at hand to consider creative operational solutions, such as regional approaches to service delivery. Messages that the time is at hand for meaningful municipal reforms, including increased control over employee health insurance. And messages that the time is at hand to take a positive, critical step forward in resolving long term facility needs. Municipal and school departments in Walpole have demonstrated time and again over the last several years a commitment to persevere and excel in difficult times. As Fiscal Year 2011 approaches, we will again put that commitment into action.

Similar to years past, the budget before you is balanced utilizing known and projected revenue sources as of today. It is balanced by reductions in positions, primarily in the School Department, and sweeping reductions in department expense lines. However, the term "balanced" is obviously very changeable in nature. This is especially true at this time, as this budget is in fact "balanced" using an assumption that state local aid will in fact be level funded. Clear direction from our state government has, to date, been absent. Rumors of significant reductions in local aid have been countered by commentary from our own delegation that a final state budget is desired without need of local aid cuts. And within the past week figures released by Governor Patrick show the possibility of slightly increased Chapter 70 funds for Walpole next year. These differences of opinions most certainly create a challenge for local leaders in terms of revenue projection, and in turn require a secondary level of budget planning. What does this mean for Walpole? At this time, the recommended course is to plan for level funding, but prepare for reductions. This preparation will allow us to proceed in a more diligent and informed

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manner, rather than the so-called “worst-case” scenarios coming out of the gate. There are still many variables that may and in fact will change between now and the time this budget is finalized in May, thus prudence, caution, and strategic planning will be the directions moving forward.

The budget presented before you totals \$65,421,860, an increase of just over \$2.5 million dollars or 3.99% from the current year. Of that increase, the largest spike is in our debt budget where we see an increase due in large part to the addition of library construction debt onto the rolls. If we subtract that debt increase, the actual budget increase from Fiscal '10 falls to 2.8%. Drilling deeper, if we remove the projected increases in our assessments & fringe benefits lines, the actual budget increase for FY'2011 would fall to 2%. The largest municipal percentage increases in this budget can be found in public safety lines, particularly in the Police & Fire departments. In the case of the Police department, the spike is attributed to a return to full funding of the so-called Quinn Bill option, an issue that we are set to revisit this spring at a time when it is hoped that legal action on the topic elsewhere has been resolved. In the Fire department, the growth comes from the full-year funding of four firefighter/paramedic positions restored last fall. Given the experiences in both departments over the past year and lessons learned, this budget has avoided further personnel cuts in those agencies, and the recommendation is to maintain staffing to the greatest extent possible.

Other than those departments listed above, increases on the municipal side generally reflect cost of living adjustments and step increases for both union and non-union staff. The common cola this year has been set at 3%, with a slightly lower average found within the school budgets. Municipal colas and steps will have a roughly \$390,000 impact on next year's budget. Of that, approximately \$128,000 is slated for non-union professional and hourly staff. It has been suggested that this sum be examined as a possible budget savings. Such a concept brings with it inherent dangers, but here I will simply offer that such a move was done in the 1990s, and its aftermath is as fresh today for those involved as it was then. It is not a recipe for organizational or operational long-term success. Rather, I offer again this year that the solution is to focus on the organization as a whole, and what is done for one is done for all.

To that end, in the coming weeks I will reach out to municipal union leaders to discuss the impacts that this proposed budget will have on our operations, as well as our continued concerns over the possibility of local aid reductions. These conversations are already taking place on the School side of the ledger. This is in no way meant to suggest that the wages earned by Town employees have caused the financial hardships we face today. In fact, our collective staffs have been called upon and responded every day to do more with less, with that “less” being fewer employees. We have identified the dilemma to have been indeed caused by the economic downturn and loss of revenues, primarily the loss of state aid. However, there must be a realization by all that we must look to our staffs to be part of the solution through reductions and changes to our compensation systems, sooner or later. Ideally the preference would be sooner. As an organization we can not continue to cut positions and expect to deliver uninterrupted services. Employees too must realize the added burden placed upon the shoulders of those that remain to carry-out the duties of the day. It is a mixture that will not result in a sweet taste. Thus, with the reality that new revenues are not on the horizon, the options are limited, yet obvious. And, it is important to note that the concept of concessions is

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not foreign to Town staff. Just in the past year we have seen the Firefighters and Clerical unions work with us to help improve operations and save on costs, and I thank them for their efforts.

Once again, I offer that the greatest option for reform and savings is in the arena of health insurance. This budget is based upon an expected rate increase of ten percent for FY'11. In terms of budget-to-budget increase, however, that figure is closer to 4.5% due to staff reductions from the current year. Those cuts have resulted in a projected surplus in health insurance lines for FY'10. Yet despite the projections, imagine the jobs and program cuts that could be avoided by restoring up to \$1.7 million dollars to town budgets. Such a possibility exists with the placement of all town staff at a 30% premium contribution level and offering of only "rate-saver" products. Make no mistake about this point, the savings are real, and the jobs can be saved. However this "sell" has been a difficult one, as was the unsuccessful attempt to enter the State's GIC program last fall. Still, we must continue the dialog, with not only staff but our representatives on Beacon Hill as well.

Highlighting the need for change is the projected School funding for Fiscal Year 2011, with a targeted budget figure at this time of \$30,876,100. School leaders and the School Committee are facing a whole host of challenges, again fed primarily through reductions in key education and reimbursement accounts. Between cuts to the state circuit breaker program and Medicaid reimbursement changes alone, the Walpole Schools are projecting losses of \$850,000 for FY'11. Add to that a roughly \$750,000 gap between the School's 66% share of available revenue growth (\$855,000) and the amount needed to carry forward collective bargaining obligations (\$1.5 million), the Walpole Public Schools face a deficit of roughly \$1.6 million at the time of this writing. Given this shortfall, and the expectation that no additional external revenues are likely, substantial position cuts seem inevitable. And, should the Commonwealth pursue additional local aid cuts, this situation could double in severity. Also on the radar in terms of education concerns is the annual Tri-County assessment. This budget shows a rise of just over \$67,000. This represents a major increase, nearly 8.4%, and will require further dialogue with state and district officials regarding the funding of regional transportation and equity issues with local districts such as Walpole.

The municipal budget reflects the loss of two positions in the next year, one in Engineering and the other in the Library. However, these positions were in fact slated to be eliminated in the current budget but were retained through other financing efforts. In the case of the part-time inspector position, the year-long deployment of our Highway & Parks superintendent to Iraq freed a small level of funding to preserve the Engineering job for project assistance in Bob's absence. In the Library, the mid-year retirement of the Director allowed Trustees to retain a professional position. Unfortunately, those scenarios do not occur again in 2011. Several departments requested the restoration of lost jobs from the current year, but as you can see, the fiscal capacity is not there to support those requests. Further, as mentioned previously, we must prepare for a second round of reductions should local aid be cut yet again. A list of possible reductions is being prepared, but it is safe to say that should such a reduction be necessary, the level of cuts for FY'11 will exceed the current fiscal year.

I will call your attention to three areas of concern in terms of expenses for next year. The first relates to Building Maintenance. Expenses there have been reduced by over \$18,000 from the current year. It may not seem substantial, but it is problematic. The age of our facilities is growing, and so too are the repair and maintenance needs. With this cut, we will be required to prioritize the payment of utilities first, and repairs & projects follow at a distant second and third.

This pattern for more than two years, with FY'11 being the second year, is not healthy and not sustainable. The second area of concern is snow & ice, again. Even with the addition of \$250,000 to the bottom line this year, we are still facing a likely deficit, and February has just begun. The ability to raise the snow & ice budget for FY'11 is non-existent, thus it will be essential to maintain a safe level of reserves to address any potential deficits. Thirdly, we must monitor activity within the Veterans' Services line to prepare for increased demands. The budgeted amount factors in increases from the current year, but nothing else. Given these uncertainties, as well as the reality that all expenses have been reduced yet again, the utilization of the reserve fund during FY'11 may see an increase over current use.

As mentioned earlier, the debt budget will rise by just over \$729,000 next year. \$580,000 of that is expected to be allocated to the new Library Construction project. As such, the increase in cost is offset by the corresponding increase in revenue through the approved debt exclusion. Other debt increases next year relate to the Town Hall improvements, the roof project at the DPW Garage, and the addition of the second phase of our five year road rehabilitation project. Looking ahead to Town Meeting, RTMs will be asked to vote on phase 3 of the Road Rehab project, as well as a request for \$400,000 to repair the roof at the Bird Middle School. Both of these will be funded through borrowing within the levy and will appear beginning in FY'12. Other prior debt projects, primarily excluded debt, will continue to drop in FY'11 as they approach the end of their borrowed cycle.

Revenues for FY'2011 at the local level again reflect the ups and downs of the economy. On the positive side, we are able to project an increase of \$50,000 in motor vehicle excise revenue. This amount is intended to be conservative given the unlikely return of the federal cash for clunkers program. That program seems to have been the stimulus in new car sales this year which has in turn jump started our excise revenues. Yet, the good news may not be sustainable into the subsequent year. We will watch our collections here, and should revenues rebound we will suggest appropriate adjustments. One item of concern here remains interest income though. Despite a projected gain of \$5,000, we may need to revise this figure downward as we progress through this budget process. As of this date, we are generating a very robust .2% interest. This situation will only improve if the Fed addresses rate increases in the coming months. FY'2011 will mark the fifth of seven years that we will apply \$100,000 as revenue from the former health insurance trust reserve, and ambulance revenues applied to the general fund are again targeted at \$650,000. As you can see, the growth locally is modest at best, but compared to state aid, we are excelling.

In years past, this budget message also provided explanations of new programs, projects, and positions to be offered. From a financial perspective, this budget offers none of the above. However that is not preventing staff from utilizing skills to enhance existing services. We are working through our public works staff to save thousands of dollars in design & engineering expenses by performing much of that work in house on the federal road project slated for Washington Street. We are revisiting all property & casualty and workers compensation programs again this year to identify any possible cost savings, including savings through better claims experience. We have saved taxpayers thousands of dollars in direct excluded debt payments by taking advantage of extremely low interest rates and favorable refinancing opportunities. And, we are working with business and property owners throughout Town to identify, encourage and assist with new and redevelopment growth possibilities. In short, the

shortage of funding has not resulted in a shortage of creativity or dedication by department heads and staff.

The annual capital improvement program is also not immune from the budget cuts. What was roughly a \$1.8 million program two years ago, will now fall by another \$100,000 to a projected \$500,000 for FY'11. Of that, \$150,000 is slated for the third year of computer system leases in the School department. Other recommended projects and purchases at this time include facility boiler repairs, emergency lighting upgrades at the Bird Middle School, field renovations at the Fisher School, hazardous tree removal, and firefighter safety turnout gear. Several projects and purchases will be delayed, including the replacement of a heavy-duty dump truck, roadway improvements for Jason's Path, and dispatch center improvements. As with the funding for building maintenance projects, we must be vigilant to limit these reductions in capital spending to no more than two years, and work to increase revenues here in the coming years.

In much the same way that capital improvements are critical to our organization, so too are upgrades and replacements to the facilities of the Town. Residents recognized this fact with the approval of the library project last spring. Rather than continue to pour essential dollars into aging facilities that have outlived their intended or in some cases mis-intended purposes, we must make positive forward steps in addressing these growing needs. The police and fire stations, and our Senior Center, are immediate needs. They will soon be followed by school facility needs, including both middle schools as well as the Fisher and Old Post Road elementary schools. Certainly I do not expect that these will all be addressed within the next five to even ten years. But they are all likely in need of replacement or overhaul within a fifteen to twenty year cycle. Given the daunting total costs involved, coupled with the favorable borrowing market in existence today, it makes perfect financial sense that we address the police station construction and fire station design needs this spring. Putting any of these projects off simply escalates the costs, but does not solve the problem. I believe that there is a heightened sensitivity to the economic conditions effecting some of our residents today, and still some in town have suggested that we wait for a "better time". While I am certain that no one knows exactly when that time will come, I am equally certain that when it does arrive, so too does the "better time" for contractors & architects. Incomes may rise but so too will costs, not just with the police and fire stations, but with all the other succeeding projects as well.

At the outset, I spoke of this being a logical time for serious reforms, such as those suggested for health insurance. But, if we are looking for true long-term cost savings, the time has arrived for Walpole to engage in meaningful regional services discussions with our neighbors. While it is unlikely that regionalization will materialize in the next one to three months, the opportunities are indeed there to see changes within the next one to three years. Not every operation or department is a candidate here. However, some may present great options for Walpole. Health services, animal control, engineering, dispatching, and yes even library services should be explored as soon as possible to identify the pros and cons of joining with one or more neighboring communities. In the past, turf battles and control issues have derailed regional efforts in Massachusetts. Those parochial days truly need to fade away if communities are to survive and thrive in the face of continuously declining revenues. It can be done, and we will need the commitment from our Boards and Town Meeting to approach the topic in a most objective manner.

One year ago we were facing mid-year state aid cuts, local receipts shortfalls, and a massive snow & ice deficit. I am pleased to report that we are not projecting a similar repeat this year. FY'10 revenues are relatively stable, balanced by an increase in excise revenue that is offsetting an interest income shortage. In terms of state aid, the annual prison mitigation program was eliminated this fiscal year, yet as a financial precaution, I did not include it as projected revenue from the outset. Snow & ice spending, as noted earlier, is also facing a likely deficit at this time, however not to the same extent. That clearly could change with still two months left in the winter season, and will require monitoring. To that end, we have identified two possible sources of funding to cover snow & ice deficits, free cash and/or overlay surplus, depending on the magnitude of the shortfall. In terms of other budgets, the challenges in the School Department are well known at this time. As a means of closing that gap, additional position cuts appear to be likely in the next several weeks. These moves will likely require added funding be transferred to our unemployment budget, possibly from health insurance savings identified here. We will continue to watch other budget lines, such as Veterans Services, as the year progresses to identify concerns and take corrective action. In what has become a regular practice, all spending has been restricted to essential items only, and other costs, such as conference travel, has been suspended for all of FY'10. I credit the work of all department heads once again in managing their operations very well within appropriations.

Sewer & Water budgets will show modest increases next year, with Water at 1.64% and Sewer at 4.86%. On the sewer side, the increase stems from a roughly 5.5% spike in the annual MWRA sewer assessment. As for the water budget, the small increase budget-to-budget will not necessarily result in the same percentage increase in projected rates. Specifically, the budget reflects a \$251,808 increase in water debt for FY'11. This is offset by the reduction of \$270,000 in capital spending thus resulting in the small overall increase. The challenge financially is that capital spending has been achieved previously through the use of retained earnings. Thus, with the decrease in use of retained earnings next year of \$270,000, the jump in interest costs will need to be covered through a roughly 12% rate increase. Again this year the Commissioners will have the option of utilizing retained earnings to offset rate increases, however it will be important to ensure that any artificial reduction of rates in one year does not necessitate a large spike the following year. As for capital here, the major expense will again relate to the required upgrades and improvements at the Delaney Treatment Plant.

The budget process began a month earlier this year, and I thank all involved with the overall budget preparation. Yet even with the extra month of preparation and review, this budget still has a long way to go before finalization. There are estimates herein that we await further information on, such as health and property & casualty insurance, and state local aid and assessments. There is the possibility of working in added agreements with our unions to help avoid layoffs. There is the process of refining all local revenue estimates, including new growth, to see if our target is reasonable or needs adjustments. And there is also the very fundamental part of the process that this budget belongs to you, and between your Committees, and Town Meeting, changes are still a possibility. Over the next several months, all department heads and I, along with Superintendent Lynch, stand ready to assist your Boards in the review process. There are many who have assisted in assembling this document for your review, and it is my pleasure to recognize and thank them, including Mark Good, Arti Mehta, Dennis Flis, Jim Johnson, Pat Krusko, Val Donohue, Cindy Berube, Debbie McElhinney and Sue Abate. You have heard me refer to our staff in the past as being a great team, and this year is no different. I am privileged to be a part of this team, and I look forward to working with this team, and each of you, as we prepare for Fiscal Year 2011. Thank You for all that you do!