

## ADMINISTRATIVE BUDGET SESSION

MARCH 1, 2010

At an ADMINISTRATIVE BUDGET SESSION of the Town Council of the Town of South Kingstown, County of Washington, in the State of Rhode Island, convened at the Town Hall, in and for said Town on the 1<sup>st</sup> day of March 2010 at 6:45 PM.

PRESENT: Kathleen A. Fogarty, President  
Mary S. Eddy, Vice President  
Carol Hagan McEntee  
James W. O'Neill  
Ella M. Whaley

Also present: Stephen A. Alfred, Town Manager, Alan R. Lord, Finance Director, Vincent Murray, Director of Planning, Jean Paul Bouchard, Tax Assessor, Jeff O'Hara, Building Official, Andrew Nota, Director of Administrative Services, Vincent Vespia, Chief of Police, Jackie Corea, Police Administrative Assistant, Barry Ennis, Harbor Master, Sandee Sullivan, Personnel Administrator, Keith Richards, EMS Director, Brian Ballou, Communications Superintendent, Carol Baker, GIS Administrator, and Terry Murphy, Director of Leisure Services.

The Town Manager discusses the municipal budget development including State budget projections, the impacts of the American Recovery and Reinvestment Act (ARRA) funding, the State FY 2010 Supplemental budget inclusive of pension reform, school aid reductions and the motor vehicle reimbursement, the State FY 2011 Budget implications, loss of general revenue sharing and motor vehicles reimbursement, the impact of revaluation, the recommended education aid formula and local revenue concerns.

The budget that has been prepared and presented by the Governor suggests that they would be able to end the FY 2010-2011 with a \$1,600,000 surplus. Based on the out year expenditures to available revenue estimates that are provided by the budget office, they are forecasting that they would have expenditures of \$362,200,000 more than available revenues in the FY 2011-2012 some of which is associated with the ARRA funding that will not be available in 2012. The situation is compounded in FY 2012-2013 with a forecast of expenditures in the amount of \$416,200,000 over available revenues, in FY 2013-2014 the forecast is expenditures of \$457,800,000 over available revenues and in FY 2014-2015 expenditures in the amount of \$535,700,000 over available revenues. The summary of out year expenditures to available revenues is a clear indication that reinstatement of local aid to cities and towns, either school or municipal government, is not going to occur anytime soon.

Questions have been asked in regard to what impact the American Recovery and Reinvestment Act (ARRA) has on the state budget. In FY 2009-2010 \$251,931,698 of ARRA funds were included in the state budget. ARRA funds will decline to \$217,323,368 in the FY 2010-2011 state budget. After 2011 those funds will no longer be available. Most of the ARRA funds are associated with the Federal Medicare

## ADMINISTRATIVE BUDGET SESSION

MARCH 1, 2010

Assistance programs. There will have to be a reinstatement of state generated revenues to replace the ARRA funds in 2012.

Discussion ensues relative to FY 2010 supplemental revisions in local aid. The Governor is recommending that \$125,000,000 of the \$220,000,000 state budget revenue shortfall come from local associated revenue aid take backs in the form of motor vehicle excise reimbursements in the amount of \$65,000,000, a three percent reduction across in education aid and pension reform by removing COLA benefits for teachers that were not able to retire as of September 30, 2009.

The concern is if they were forecasting a \$220,000,000 revenue shortfall in December and they lost \$33,000,000 with the third quarter motor vehicle reimbursement payment and if the COLA as proposed by the Governor receives the same rejection as it received in June, 2009. There is further shortfall of \$59,000,000 between the motor vehicle reimbursement payment and the COLA proposal. Another concern is the one time revenue for land sales in the amount of \$21,000,000; delay in repayment of FY 2009 deficit in the amount of \$20,000,000; State share of teacher retirement reform cuts an additional \$12.3 million from pension contributions.

Discussion ensues relative to the Governor's proposed FY 2010-2011. It is projected that there will be a \$427,400,000 revenue shortfall. It is proposed that reductions in municipal aid be made in the amount of \$26,900,000 in aid to education; \$32,200,000 in the 2<sup>nd</sup> year of saving on the pension reform and \$135,300,000 in the motor vehicle excise tax reimbursement. The Governor also expects an additional \$95,300,000 in ARRA funding which is subject to congressional approval.

Discussion ensues relative to the loss of local state aid. Over a three year period the municipal government has lost over \$3,000,000 in state revenue. This is not state money but money that the state has collected in income and sales tax from residents that will no longer be forthcoming and will be used for state purposes. The projected loss for FY 2011 is about \$1,859,595 or 15% of the municipal budget net of what we pay for education transfers.

Discussion ensues relative to FY 2011 Revaluation Impact. The preliminary numbers provided by the revaluation company indicate that real estate values in South Kingstown will be reduced by 16.2% for FY 2011. Residential real estate will be reduced by 17.69%, commercial real estate by 6.92%, and Industrial by 9.13%, utilities by 1.01%. The net effect will be a loss of taxable property of about \$845,763,017 out of a roll that had been \$5,220,091,796. The land values are down about 22% and the building values are down about 11%. It is anticipated that the revaluation notices will be in the mail by the second week in March.

Discussion ensues relative to the Property Tax Impact Associated with Revaluation and Motor Vehicle Revisions. The Tax Levy would be \$63,560,682 without revaluation in FY

## ADMINISTRATIVE BUDGET SESSION

MARCH 1, 2010

2010-2011 and we would have approximately a \$0.12 tax rate increase or \$12.20 to be able to raise the \$955,000 in additional tax levy. With the revaluation, if there were no changes with the motor vehicles so we still had the \$6,000 exemption on each of the motor vehicles valued over \$6,000, in order to generate the \$63,560,682 we would have to have a tax rate of \$14.56 and the average house would be paying approximately \$42.34 less than if revaluation had not occurred. The third scenario depicts revaluation and a motor vehicle change: we would have to add the money back onto the roll that has been exempted since 1998 when that program began. Essentially we would be raising \$4,276,791 in motor vehicle taxes rather than the \$1,938,776 that we would raise if the exemption were in place. We would be raising \$2,338,015 more from motor vehicles than in the prior year. The homeowner would pay approximately \$228.20 less on the real estate bill than they had in the current year. The bad news is they would pay \$113 in new taxes per motor vehicle. The question is whether or not the entire levy would have to be used on motor vehicles or whether it would come out of the real estate. These are some of the questions that can't be answered until the statutory changes on Supplemental FY 2010 and the adoption of a FY 2011 budget are acted on by the General Assembly.

Discussion ensues relative to the implications of the recommended education aid formula. The proposal shows that the education formula would provide \$8,295 per student as a core instructional funding amount. It also would provide for students that are eligible for free and reduced lunch an additional 40% of the \$8,295 or \$3,318. The third component is a ratio that looks at the community's ability to generate tax dollars. This provides what a municipal's share should be. The fourth component is the categorical funding which is different components that would be funded outside of the education aid formula. The proposal opens several topics for discussion such as why has transportation been removed from the core instructional amounts. The estimates that have been provided by the State Education Commissioner suggest that South Kingstown would lose approximately \$3,800,000 over an eight year period or approximately \$500,000 per year. It is important to note that the proposal has not been put forward as statutory language.

Discussion ensues relative to the FY 2010-2011 budget message. A total General Fund Program in the amount of \$72,783,253 is proposed for the FY 2010-2011 representing a \$666,953 or 0.91% reduction. It is \$134,000 less than we expect to spend in the current year and \$760,000 less than we actually spent in the FY 2008-2009. The General Fund is the program that funds municipal services and is responsible for generating property tax levy requirements.

The proposed program was accomplished by reductions in program, personnel, capital programming, and debt service. The operating program is down \$109,373 or 0.56%. The municipal debt service is down \$112,856 or 8.38% due to refinancing in November 2009. The Capital Budget is down \$185,000 or 13.16% compared with the prior year. The recommendation for the Transfer to Schools is level funding the same as in the FY

## ADMINISTRATIVE BUDGET SESSION

MARCH 1, 2010

2008-2009 and the FY 2009-2010 budgets. Overall the Municipal Program is down 1.84% and the School Program is down 0.51%.

The revenue sources show a current year tax levy increase of \$1,016,567 and a reduction of state revenue sources in the amount of \$1,948,388. If the budget were adopted as presented and we did not have a revaluation, and there were no changes to the motor vehicle reimbursements we would be looking at a tax rate requirement of \$12.21 or \$0.12 over the current year.

We are looking at \$995,283 in additional tax levy or a 1.54% increase for FY 2010-2011. We have statutory authority to raise the levy by 4.5% under 3050 legislation. We are \$1,907,405 below the statutory tax cap.

If we consider all municipal debt inclusive of schools debt as well as the municipal program, \$0.25 of every dollar goes to the municipal portion and \$0.75 goes to transfer to the schools.

In the FY 2009-2010 we had a motor vehicle assessment roll of \$99,000,000. If the \$6,000 exemption is removed and we are required to put that back on the roll, the motor vehicle assessment roll will increase to \$228,000,000.

Discussion ensues relative to prior year taxes and interest penalty collection. Prior year taxes are generating more than had been anticipated: we have increased that by \$115,000. Payment in Lieu of Taxes will have relatively no changes. We will be seeing an increase of approximately \$33,000 from Recreation Fair Share Fees. We are taking more out of the fair share fees to pay down debt associated with recreation projects. The same with the Open Space Fund: we are taking dollars that are held in reserve to pay down the debt.

Discussion ensues relative to the State Revenue Program. In the FY 2008-2009 the Governor deleted the General Revenue Sharing Program to Local Governments, our loss was \$500,000. For the FY 2009-2010 the proposal with the Supplemental was to take the third and fourth quarter payment for the motor vehicle reimbursements. We were successful in getting the third quarter payment; the net loss to the communities at this point is \$500,000. We have a \$20,475,033 Municipal Budget proposed for FY 2011 and the cumulative loss in state aid over the last three years is \$3,026,823 or 14.8%. This is why the restructuring of the municipal program is necessary in addition to freezing the transfer to the education program.

It is anticipated that the state aid reimbursement program for Library Construction Aid and for non-taxable property for South County Hospital will continue. We anticipate receiving about \$330,000 as general aid this year for these. There are other state revenues known as pass through aid programs including Public Service Corporation Tax, Hotel Tax and Meal Tax. We are projecting \$271,518 from the Public Service

## ADMINISTRATIVE BUDGET SESSION

MARCH 1, 2010

Corporation Tax, \$108,000 from the Hotel Tax and \$515,000 from the Meal Tax. In addition, we are anticipating about \$948,806 in state school construction reimbursement from school construction aid.

Discussion ensues relative to Local Program-Generated Revenues. The major loss is in investment income: a loss of \$175,000 is anticipated. We are also anticipating losses of \$35,000 from building inspection fees, \$19,000 from Library System Income and \$53,610 from Police Department Revenues. We anticipate a \$105,000 increase in non-business licenses and fees from recording fees, probate fees, and dog licenses. We anticipate that real estate conveyance tax will increase by \$9385. The rental from town property is anticipated to increase by \$170,000 with the bulk of the increase coming from the cell tower rentals. EMS Reimbursement Income is anticipated to increase by \$75,000 and Recreation Program Revenues by \$23,997.

Discussion ensues relative to the undesignated fund balance. As of June 30, 2009 the undesignated fund balance was \$9,335,780; it is 12.71% of the FY 2009-2010 General Fund Budget. We are forecasting a \$593,795 operating surplus for FY 2009-2010. It is proposed to use \$1,200,000 from the undesignated fund balance to finance the FY 2010-2011 budget which will leave a fund balance of \$8,729,575 or 11.99% of the proposed FY 2010-2011 General Fund.

Discussion ensues relative to the Expenditure Statement. The General Fund Operating Program is proposed for FY 2010-2011 in the amount of \$19,254,033 which is \$109,372 or 0.56% less than the current year's adopted program. The Town's Operating Program in FY 2010-2011 will be \$1,859,596 less than budgeted in the current year due to loss in State revenue transfers. To accomplish this reduction the municipal workforce was reduced by 4.2 full time positions, part-time hours were eliminated in many departments, and contracted services and materials were reduced.

All four labor contracts expired June 30, 2009. New contracts have been negotiated with three of the four labor unions. These unions have agreed to no salary increase in the FY 2009-2010; 2.25% increase in the FY 2010-2011 and increases in employees co-shares for healthcare. The Town has not negotiated a contract with the Rhode Island chapter of the National Education Association representing the unionized Town Hall workers and the civilian police department workers.

The following positions have been reduced: two police officers, one equipment operator, one librarian and 0.2 Recreation Direct representing \$262,429. In the current year the positions of Recreation Director and Senior Services Director were combined as the Leisure Services Director.

Discussion ensues relative to the FY 2010-2011 general municipal employee longevity program in the amount of \$308,596, the employee retirement severance cost in the amount of \$135,174, employee health insurance costs in the amount of \$2,972,173,

## ADMINISTRATIVE BUDGET SESSION

MARCH 1, 2010

Other Post Employment Benefits (OPEB) in the amount of \$796,000 and the retirement system contribution in the amount of \$726,895.

Discussion ensues relative to the Capital Budget Program. A capital budget element of \$1,221,000 is proposed for FY 2010-2011 representing a \$185,000 reduction compared with the current year appropriation.

Discussion ensues relative to the Debt Service Payments. School related debt service in the amount of \$3,164,869 and municipal debt service in the amount of \$1,233,423 are proposed for the FY 2010-2011. Debt service is \$0.53 of the tax rate: the school's share is \$0.39 and the municipal is \$0.14.

Discussion ensues relative to the Transfer to School Fund. The School Committee has a \$58,647,873 School Fund Budget for the FY 2010-2011 representing a \$964,090 reduction compared with the current year's School Program. The School Department is forecasting a \$745,373 operating surplus for the FY 2009-2010. They estimate that there will be a \$1,366,701 under expenditure and that they will receive \$621,328 less in revenues.

The \$621,328 less in revenue is from the state reducing the aid to education in FY 2009-2010 by the teacher retirement pension reform. The General Assembly when they approved their budget in June 2009 took two actions as far as pension reform was concerned: one was to increase the age of retirement to a target age 62 and the second was income averaging for retirement based on the highest three years of earning of an employee; they changed that from a three year averaging to a five year averaging. The result on an actuarial basis in South Kingstown was that there would be \$619,000 less that would be transferred to the state retirement system on behalf of South Kingstown teachers. While the under expenditure of the \$619,000 is going to occur, the state reduced their aid by a commensurate \$621,000.

Other changes that are anticipated are outside tuition was down \$152,000 from what had been budgeted, less children went to the Charter Schools realizing a savings of \$192,000, savings from the state transportation system in the amount of \$140,000 and under expenditure on workers compensation and unemployment.

There are concerns with the FY 2009-2010 School Budget and the assumptions that have been made with the \$745,372 operating surplus. The reasons are the Governor's Supplemental Budget for 2010 where the School Department assumes that the COLA adjustment will be put into place, if it is not put into place with the 3% reduction, occurs mid year on state aid, the surplus would drop to \$471,380. If the Governor's budget were adopted as far as the 3% reduction, but the COLA was not introduced then they could potentially have a \$92,768 operating deficit. The Governor's budget also assumes another reduction in state aid of \$564,147 in the FY 2009-2010 and another \$589,534 in FY 2010-2011 from the COLA adjustments. There could be as much as a

**ADMINISTRATIVE BUDGET SESSION**

**MARCH 1, 2010**

\$458,000 additional reduction necessary in the school budget if the worse case scenario were to present itself. The budget message does not address the proposed education aid formula. If adopted it would mean another additional \$460,000 reduction necessary in the FY 2010-2011.

The following operating accounts are reviewed:

Town Council (0110)  
Budget Adoption Process (0120)  
Municipal Legal Services (0210)  
Probate Court (0220)  
Town Clerk (0310)  
Town Public Information (0350)  
Canvassing Authority (0410)  
Town Manager's Office (0510)  
Personnel Administration (0520)  
League of Cities and Towns (0530)  
Town Hall Operation (0540)  
Finance Department (0610)  
Tax Assessor's Office (0620)  
Assessment Board of Review (0630)  
Information Technology Division (0640)  
Geographic Information System (0645)  
Post Year Audit (0650)  
Planning Board (0710)  
Planning Department (0720)  
Zoning Board of Review (0730)  
Zoning/Building Inspection (0740)  
Police Department (0810)  
Animal Control Road (0820)  
Animal Control Shelter (0830)  
Communications Department (0840)  
Radio Services (0850)  
Harbor Patrol (0860)  
Fire Company Donation (0870)  
Emergency Medical Services (0880)

Adjourn at 9:15 PM.

ADJOURNED,

Dale S. Holberton  
Town Clerk