

**League of Women Voters
Forum on Long-term
Financial Issues Facing
Brookline
March 30, 2011**

Panelists:

Harry Bohrs, Chair, Advisory Committee

Betsy DeWitt, Chair, Board of Selectmen

Sean Cronin, Deputy Town Administrator

INTRODUCTION

- Well used community:
 - Our streets are traversed (and not simply by our residents)
 - Our parks and fields tend to oversubscribed
 - Our libraries are among the most heavily used in the state
- School system is envied by many – attractiveness has led to a booming school enrollment *requiring more teachers and more class space*
- **Meeting our demands and expectations is not cheap**
- So how do we do it?
 - Short answer: take in revenue/spend the money (\$226M)
 - Long answer: community discussions
accurate accounting and forecasting
disciplined/flexible management
consider things just over horizon

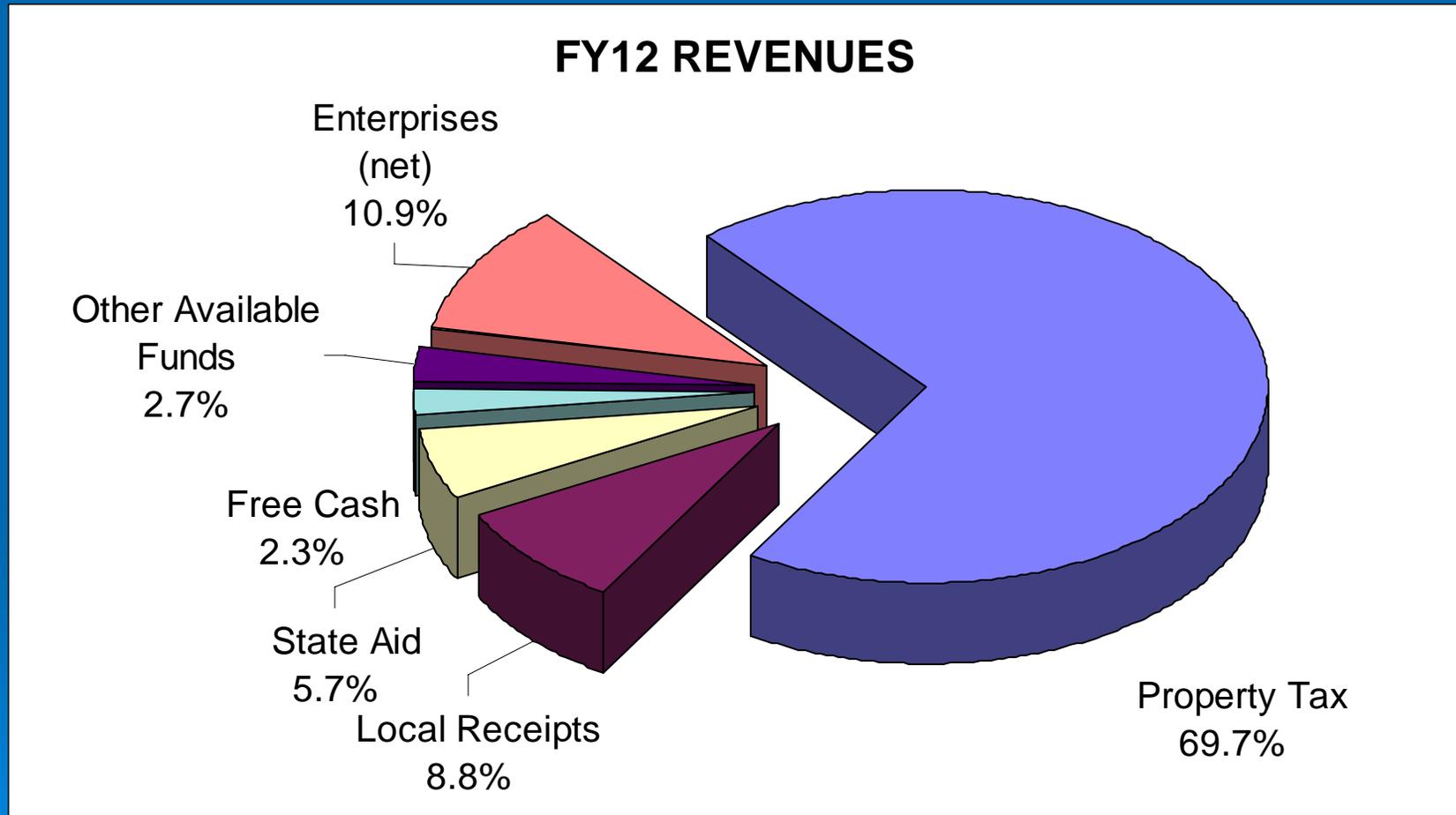
FINANCIAL SUMMARY

	<u>FY 2011</u>	<u>FY 2012</u>	<u>\$\$\$ CHANGE</u>	<u>% CHANGE</u>
REVENUES				
Property Tax	157,878,286	163,159,994	5,281,708	3.3%
Local Receipts	19,718,475	20,525,792	807,317	4.1%
State Aid	13,796,542	13,302,525	(494,017)	-3.6%
Free Cash	4,590,079	5,380,264	790,185	17.2%
Other Available Funds	5,059,259	6,218,966	1,159,708	22.9%
Enterprises (net)	24,995,838	25,618,474	622,636	2.5%
TOTAL REVENUES	226,038,478	234,206,016	8,167,538	3.6%
EXPENDITURES				
Municipal Departments	61,886,857	63,203,477	1,316,620	2.1%
School Department	72,043,133	74,740,587	2,697,454	3.7%
Non- Departmental	52,532,109	56,128,482	3,596,372	6.8%
Special Appropriations	7,102,000	6,979,000	(123,000)	-1.7%
Enterprises (net)	24,995,838	25,618,474	622,636	2.5%
Non-Appropriated	7,478,540	7,535,997	57,457	0.8%
TOTAL EXPENDITURES	226,038,478	234,206,016	8,167,538	3.6%

REVENUE

- Several streams contribute to our revenue pool:
 - *Investments* – interest rates are negligible; pension investments performed well
 - *Fees* – parking meters, building permits, auto excise, recreation fees, W/S
 - *Grants* – State and Federal
 - *State Aid* – declining; down \$500K this year alone
 - *Local Option Tax* – meals, hotel occupancy
 - *Property tax* – \$158M, 70% of budget
 - **Prop 2 1/2**
 - Residential -- most significant vulnerability point
 - Few options to increase commercial tax base
 - Focused planning and development (economic/quality of life)
 - Over-rides

REVENUE COMPOSITION



EXPENSES

- Capital (“one-time”) / Operational (“ongoing”)
- Recurring expenses:
 - Roads/sidewalks
 - Parks/playgrounds
 - Water/sewer
- Capital Expenses
 - Formulaic financial guidelines
 - 5.5% net revenue
 - 7.5% in aggregate (incl. Free Cash)
 - Debt-Exclusion Over-Rides
 - Rare and focuses
 - Lincoln School / BHS

DEBT SERVICE

- Operational costs driven by borrowing
- Relatively low per capita borrowing
- Short terms to reduce costs

OPERATIONAL EXPENSES

- Towns are “service organizations”
- 75% of budget is personnel related
 - Wages
 - Benefits
- Exploit opportunities and efficiencies
- Town has decreased FTE’s while maintaining services

SCHOOL FTE'S

- Increasing enrollment
- SPED mandates
- Increase in teachers and staff
- Schools are making structural modifications
- Enrollment pressure persists

BENEFITS

➤ Pension

- Separate Pension Board
- Returns declined precipitously a few years ago; recovered more recently
- Full funding of pensions in 2028
- Annual Town pension contribution (\$14.6M in this year's Operating Budget)
- After 2028 funds can be directed towards OPEB's

➤ Healthcare

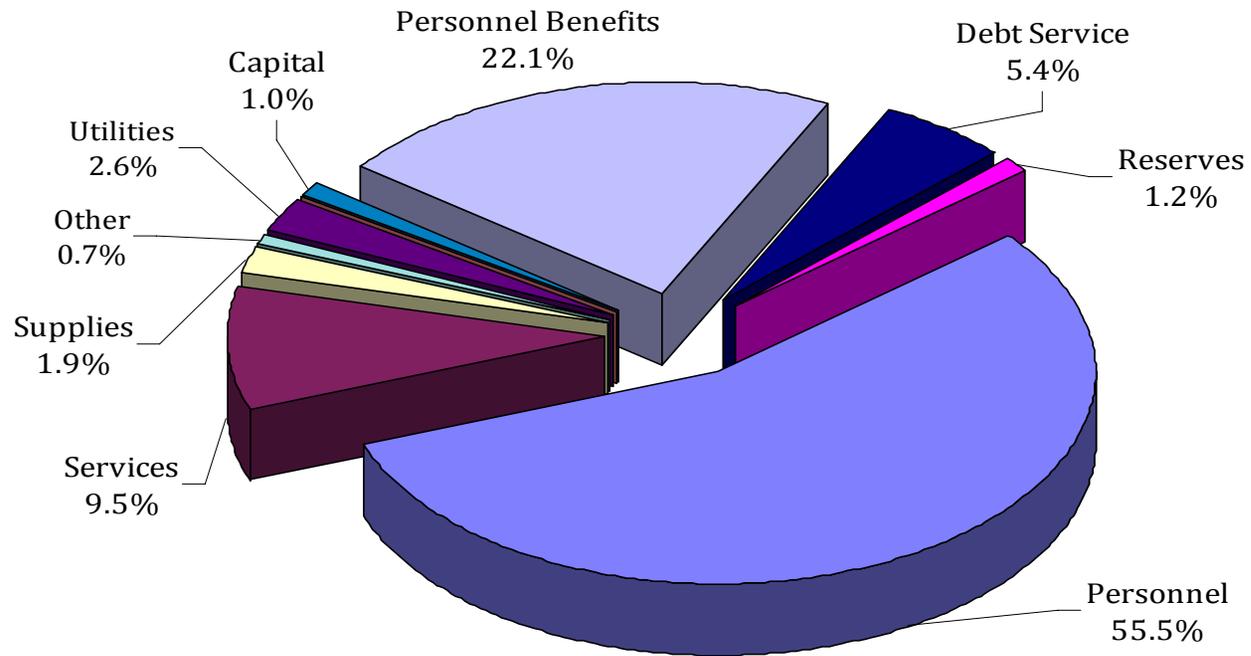
- Double-digit healthcare premium increases
- Joined GIC last year (one of only 2 communities)
- Significant savings for both Town and employees (active and retired)

GIC

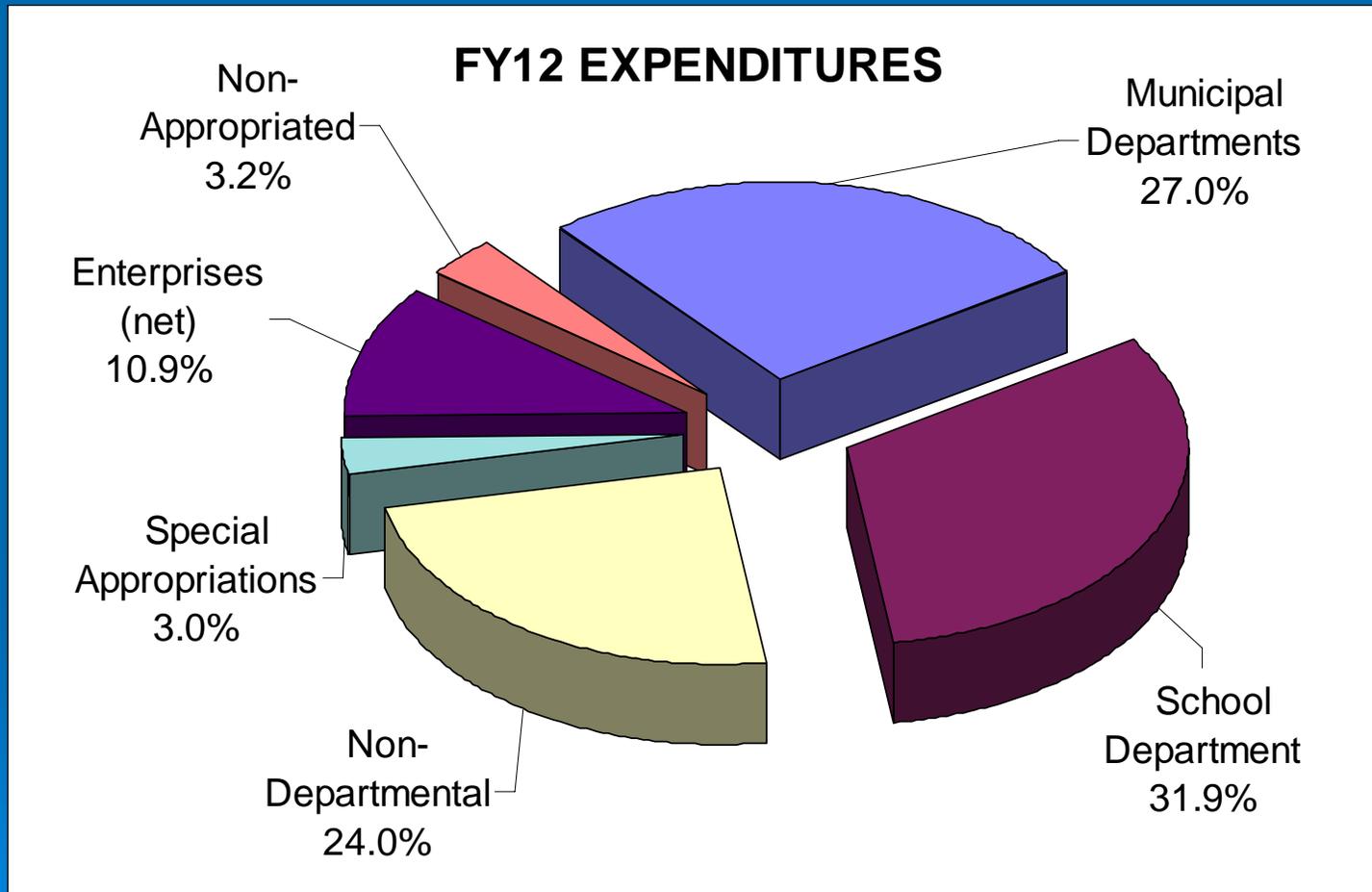
- Western Massachusetts weighting
- Communities inside 128 will likely increase costs
- Will continue to save but diminishing returns over time
- Symptoms vs. underlying problems
- Still, hugely beneficial
- The favorable financial impact equivalent to an over-ride

EXPENSE COMPOSITION I

FY12 OPERATING BUDGET BY CLASS OF EXPENDITURE



EXPENSE COMPOSITION II



GENERAL TRENDS

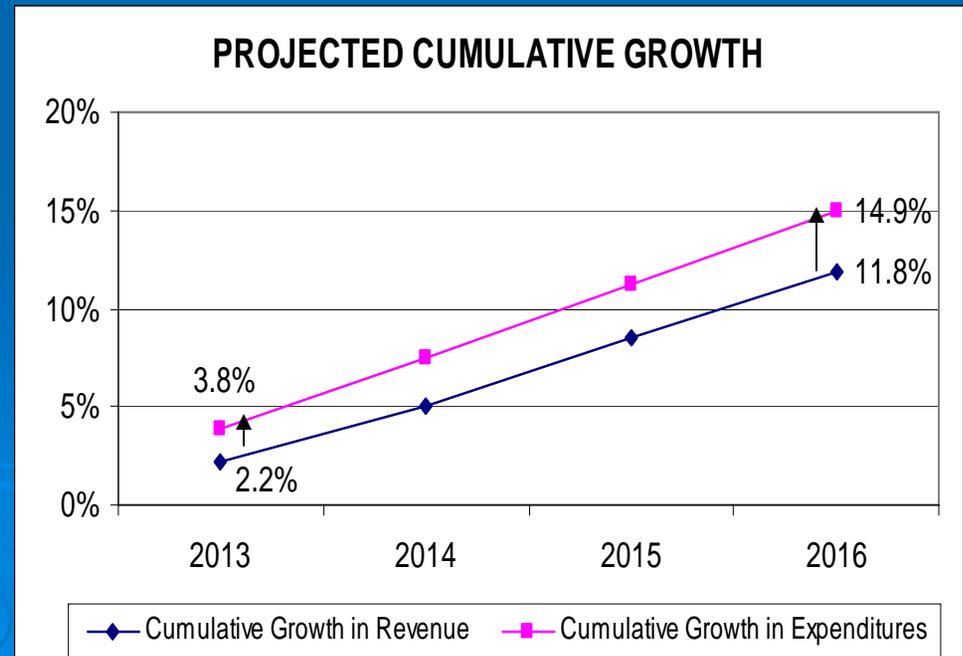
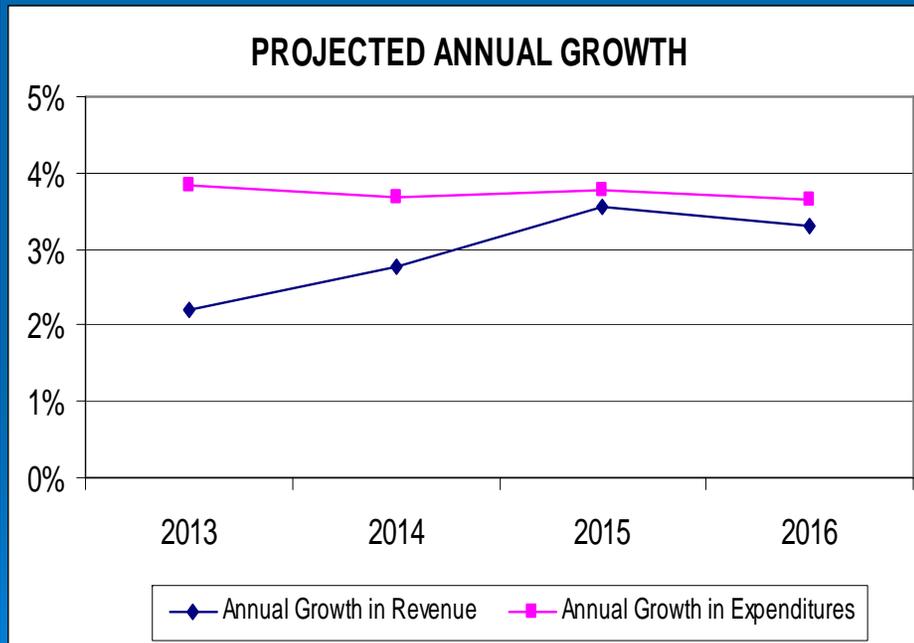
- Revenue increases ~3.5% annually (aggregate)
 - Taxes
 - Fees
 - Aid
- Costs increase at greater rate
 - Healthcare (even with GIC)
 - Building costs
 - Energy

FUNDAMENTAL PROBLEM

- Challenge: reduce gap
- Increase revenue / decrease cost / combination
- Yearly budget exercise to do just that
- Have used a number of creative tools in the past
- Will need to seek new tools in the future
- Community choices

STRUCTURAL DEFICIT

- Town is in a structural deficit situation when on-going expenditures for existing services exceed annual revenue increases.



POLICY / STRATEGIC PLANNING

- Proposition 2-1/2 – Passed 1980, impact in FY82
- Financial Planning Advisory Committee Report – 1994
 - Resulted in the adoption of the Financial Improvement Program, which included formalizing policies for reserve funds, use of Free Cash, and Capital Improvements.
 - In the Spring of 1995, achieved the Aaa bond rating.
- First Override for Operating Budget – 2.96 million for FY94
 - Included funding for the School budget, building maintenance, equipment for DPW, Police, and Fire, and reducing the Refuse Fee
 - Continue to maintain the commitment to these areas of expenditures
- Town/School Partnership Agreement formalized in 1995
 - Agreement calls for new revenue to be split 50% / 50%, offset by share of fixed costs (e.g., benefits, utilities)
 - Critical component of budget policies
- Fiscal Policy Review Committee Report – 2004
 - Assessed existing policies and made recommendations in regard to funding of reserves, use of Free Cash, and funding of capital improvements

POLICY / STRATEGIC PLANNING

- Override Study Committee Report – 2008
 - Committee established to evaluate whether additional revenue capacity was necessary in order to maintain desired level of services
 - Recommended placing a 2 question ballot before the electorate
 - Also recommended cost controls in the area of “total compensation”, seeking efficiencies, optimize existing revenues, and seek additional revenues
- Second Override for Operating Budget – \$6.2 million for FY08
 - Included funding for the Town and School operating budgets, maintenance of buildings and parks, and streets/sidewalks
 - Continue to maintain the commitment to these areas of expenditures
- Efficiency Initiative Committee Report – 2009
 - Recommended numerous cost saving opportunities
 - To date, implemented recommendation have saved more than \$1.3 million annually
- Joined State’s Group Health Insurance Commission (GIC) – FY11
 - Instead of realizing a \$1.7 million increase, realized a \$3.85 million decrease, for an overall savings of \$5.6 million
 - Continues to help budget: in FY12, aggregate rate increase of 4.4%

KEY FACTORS

- Prudent allocation of one-time funds
- Diversification of revenues (Hotel and Meals taxes)
- Negotiation of PILOTs
- Investment in energy efficiency and technology
- Procurement of long-term energy contracts
- Selectively contracted for programs and services
- Consolidation and reorganization
- Efficiencies in operations
- 5% Reduction in Town FTE's without layoffs, made possible by implementation of hiring freezes
- Cost recovery strategies

RECENT INITIATIVES

- Outsourced all School Grounds Maintenance (FY08)
- Consolidation of Town/School Payroll functions (FY09)
- Reduced Haul & Disposal Rates (FY09)
- Re-Organized Sanitation / Leaf Collection Operations (FY09)
- Consolidation of Health and Human Service administration (FY10)
- Consolidation of Arborist / Conservation functions (FY10)
- Civilianization of one firefighter assigned to Fire Prevention (FY10)
- Civilianization of Parking Meter Collections (FY10)
- Merger of Fire and DPW Wires / Signals Divisions (FY10)
- New meter system and additional Parking Control Officers (FY11)
- Consolidation of DPW / ITD position (FY11)
- Outsourced custodial services at Municipal Service Center (FY11)
- Invested in IT (VoIP, parking tax handhelds, RFID, Fire) (multiple FY's)
- Recreation Cost Recovery (multiple FY's)

TAX BILLS

- Growth in tax bills has been below Comparable communities

MUNICIPALITY	DATA	2000	2011	FY11 vs FY00
BELMONT	AVG SF TAX BILL	5,356	9,676	80.7%
	AVG RESI TAX BILL	4,795	8,182	70.6%
BROOKLINE	AVG SF TAX BILL	7,921	12,439	57.0%
	AVG RESI TAX BILL	5,116	7,573	48.0%
CONCORD	AVG SF TAX BILL	5,655	11,074	95.8%
	AVG RESI TAX BILL	5,534	10,916	97.2%
LEXINGTON	AVG SF TAX BILL	4,689	10,032	113.9%
	AVG RESI TAX BILL	4,671	9,933	112.7%
WAYLAND	AVG SF TAX BILL	5,917	11,471	93.9%
	AVG RESI TAX BILL	6,094	11,448	87.9%
WELLESLEY	AVG SF TAX BILL	5,084	11,281	121.9%
	AVG RESI TAX BILL	5,125	11,192	118.4%
WESTON	AVG SF TAX BILL	8,064	15,835	96.4%
	AVG RESI TAX BILL	8,323	15,840	90.3%
WINCHESTER	AVG SF TAX BILL	5,175	9,167	77.1%
	AVG RESI TAX BILL	4,928	8,427	71.0%
AVG GROWTH OF GROUP'S AVG SF TAX BILL				84.8%
AVG GROWTH OF GROUP'S AVG RESI TAX BILL				81.8%
BROOKLINE VS AVG GROWTH OF GROUP'S AVG SF TAX BILL				67.2%
BROOKLINE VS AVG GROWTH OF GROUP'S AVG RESI TAX BILL				58.7%

LONG RANGE FORECAST

- A key component of our financial planning is the Long Range Forecast
- The Plan incorporates planning for both capital and operating purposes
- It follows the Financial Policies previously discussed by Selectwoman DeWitt (reserves, capital, use of Free Cash)
- The Plan is based upon many assumptions, most of which tend to be conservative in nature
- Deficits beginning in FY 2013 ranging from \$3.3 million to \$7.1 million in FY 2016, representing a structural gap between revenue growth of 3.0% and expenditure growth of 3.75%

BUDGET PRESSURES – Revenue

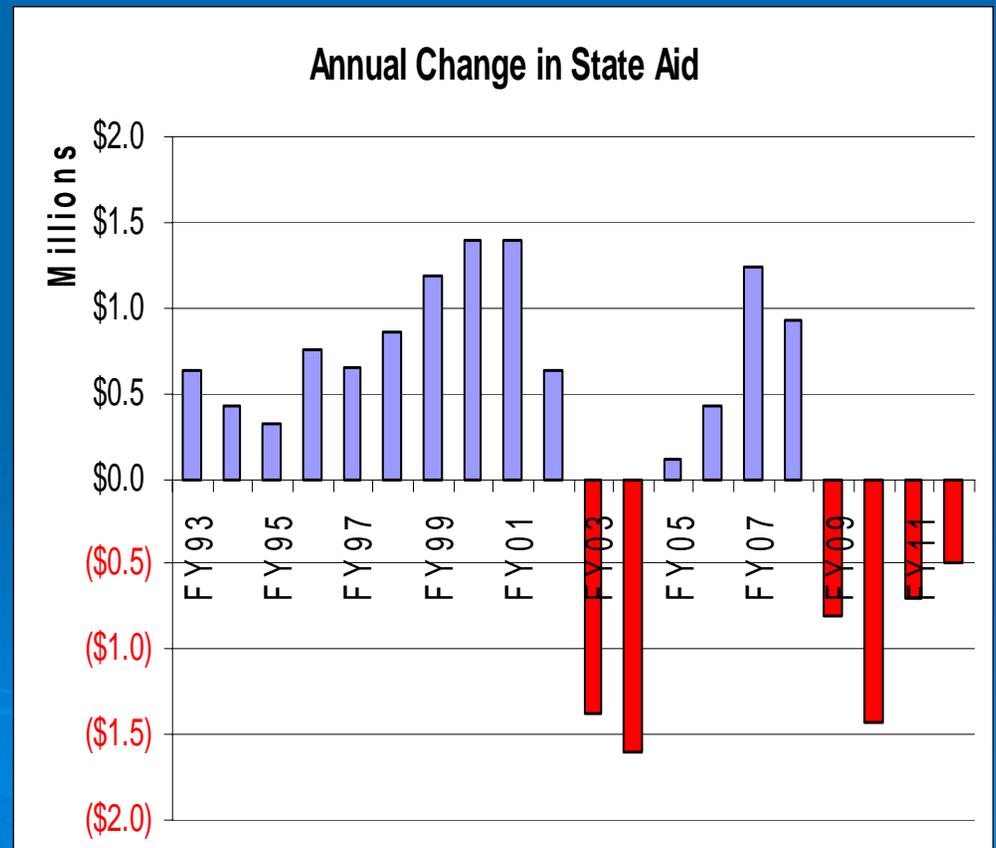
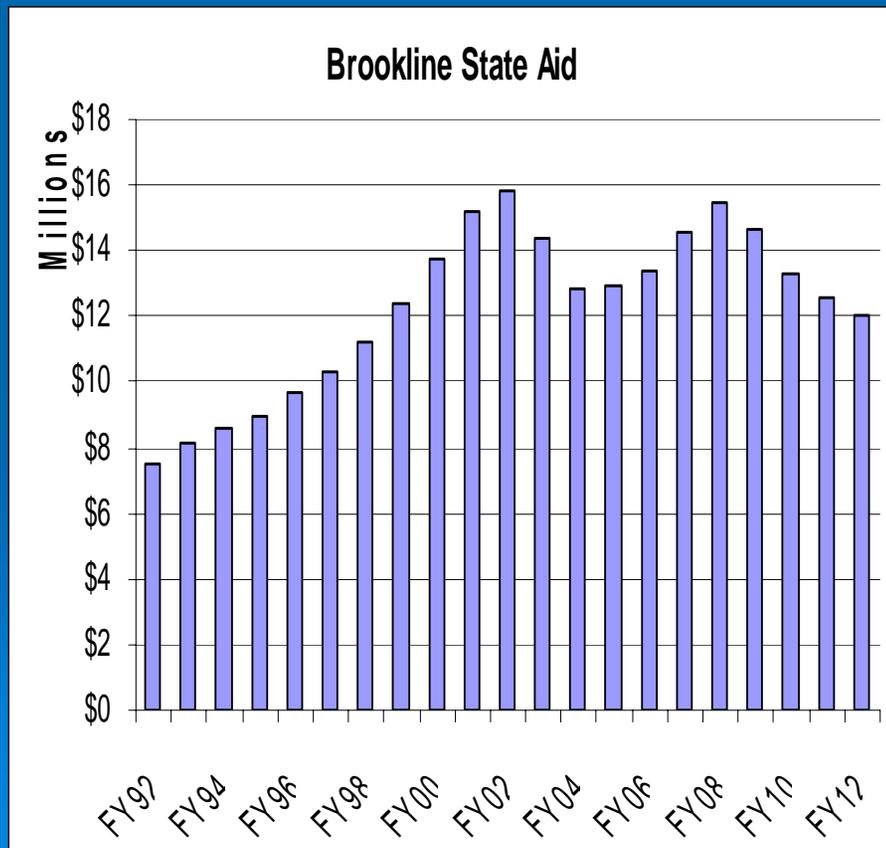
➤ Downward pressure on “New Growth”

	2.5% Growth	New Growth	New Growth as % of 2.5% Growth
FY02	\$2.46	\$1.91	78%
FY03	\$2.57	\$2.49	97%
FY04	\$2.69	\$2.49	92%
FY05	\$2.82	\$2.39	84%
FY06	\$2.95	\$2.23	76%
FY07	\$3.08	\$1.99	65%
FY08	\$3.21	\$2.58	80%
FY09	\$3.36	\$1.83	54%
FY10	\$3.64	\$1.76	48%
FY11	\$3.78	\$1.83	48%
FY12 (est.)	\$3.92	\$1.50	38%
TOTAL	\$39.10	\$26.47	68%



BUDGET PRESSURES – Revenue

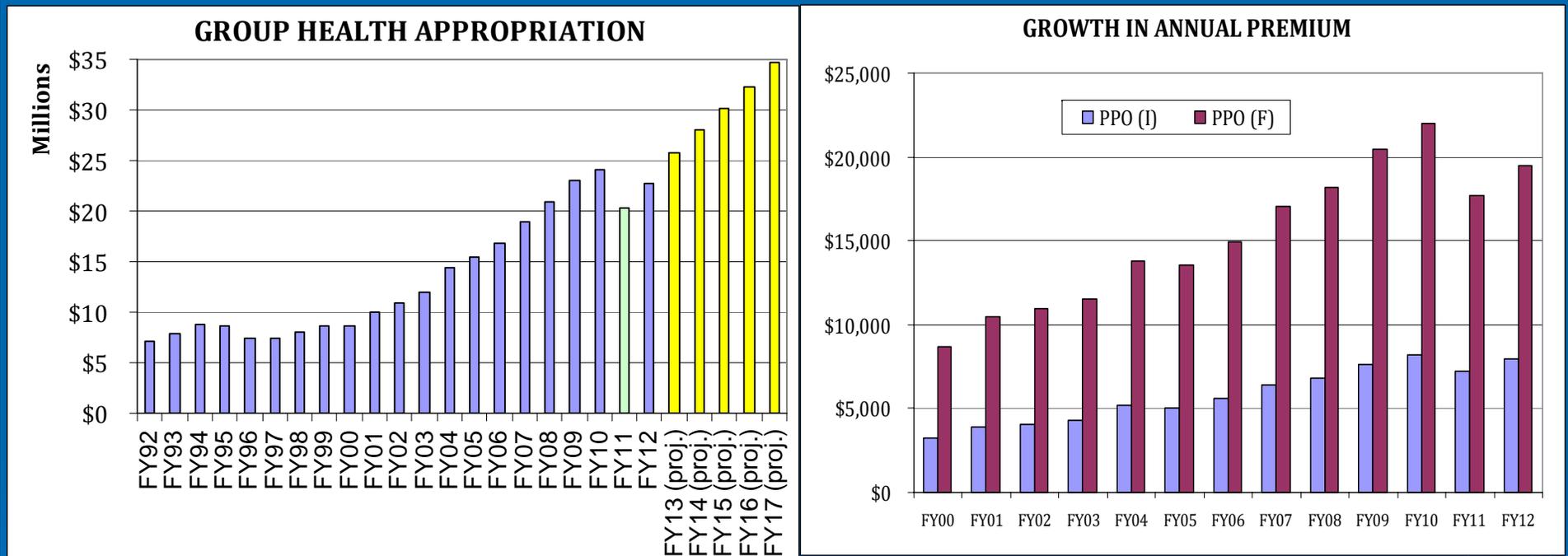
➤ Instability of State Aid



BUDGET PRESSURES – Expenses

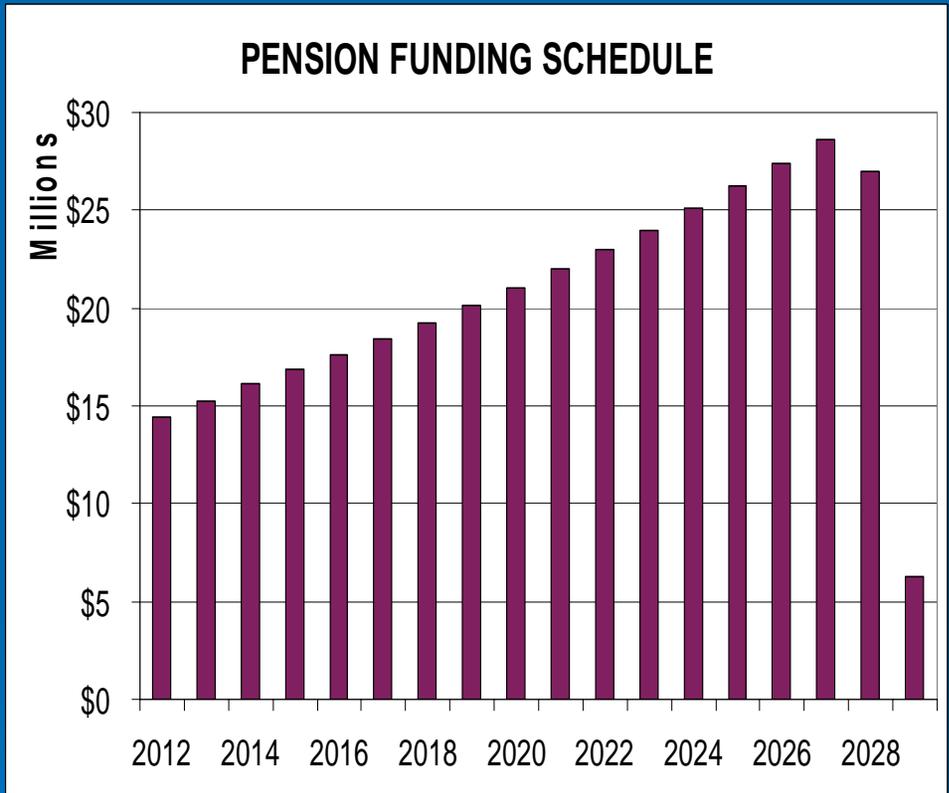
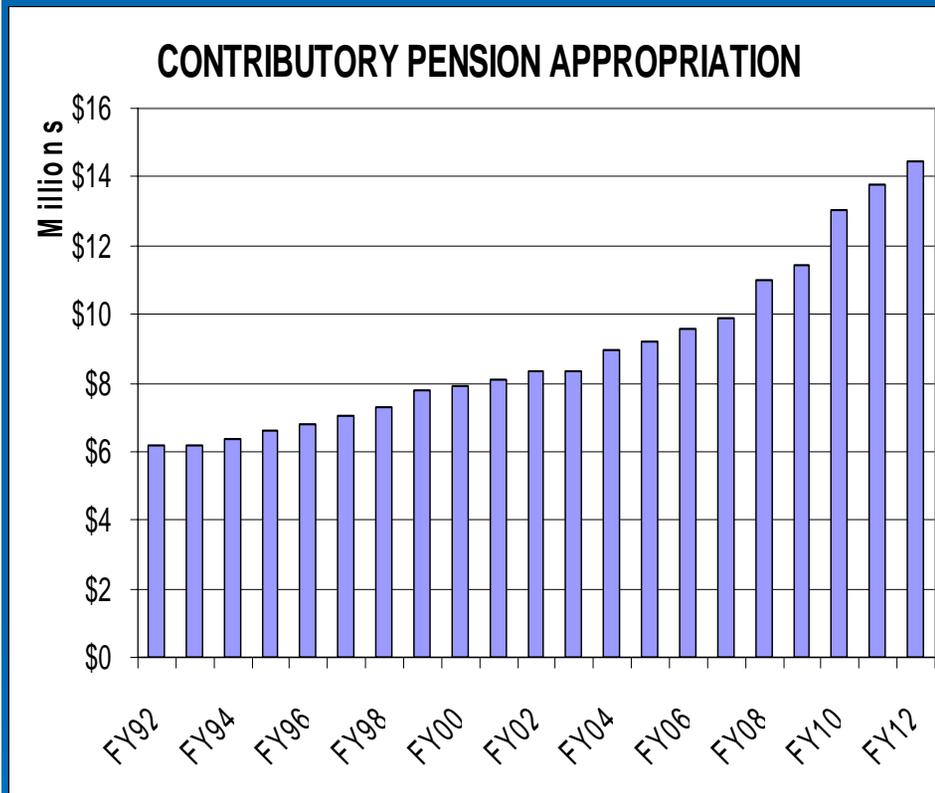
- Wages and Personnel Benefits comprise approx. 75% of the budget
- Largest components of Benefits are health insurance and pensions
- Both have grown significantly over the past few years

BUDGET PRESSURES – Expenses: Health Insurance



- Prior to moving to the GIC, 55 cents of every new tax dollar generated by the annual 2.5% growth in the property tax levy went to fund increases in health insurance
- Challenge is to control the growth curve

BUDGET PRESSURES – Expenses: Pensions



- Current funding schedule calls for annual increases of 4.5% (avg of \$950K / yr)
- Key variables in funding schedule include annual investment returns, wage growth, and retirement patterns²⁷

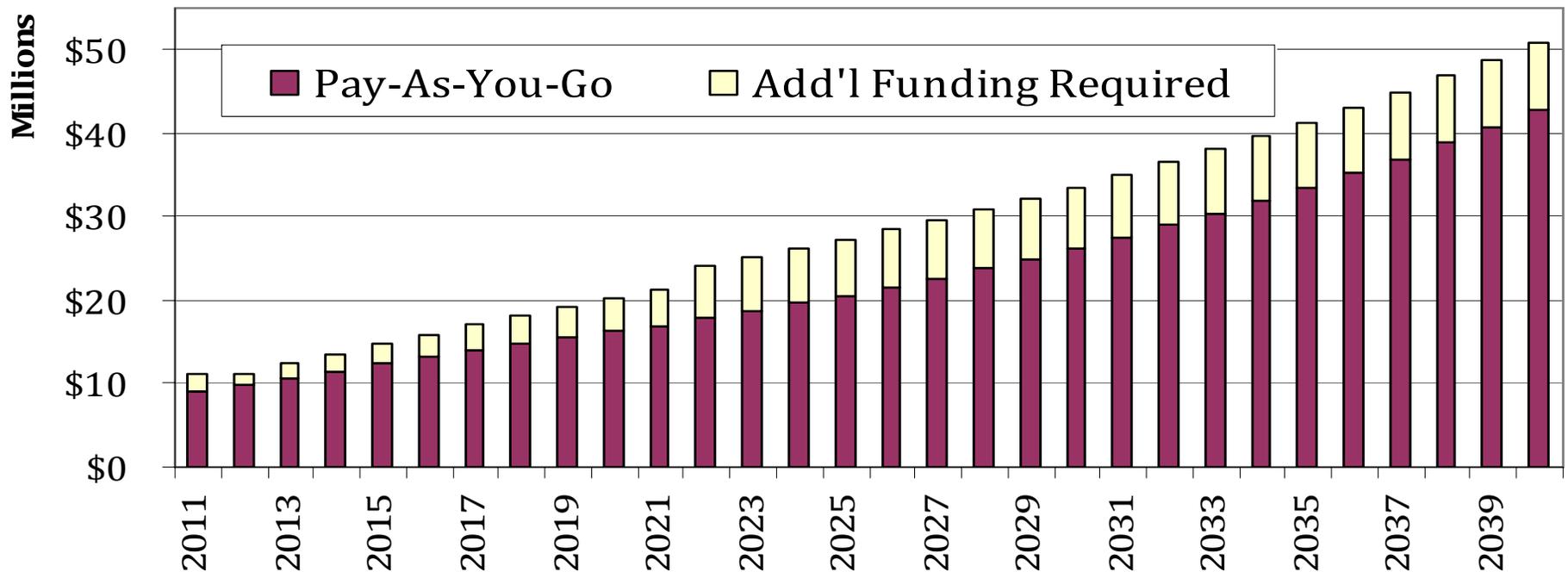
BUDGET PRESSURES – Expenses: OPEB's

- Other Post-Employment Benefits (OPEB's) consist mostly of health insurance for retirees.
- In order to fully fund the liability, would need to appropriate an additional \$4.8 million

(1)	(2)	(3)	(4)	(5)	(6)
FY	Proj Bene Pymts	Normal Cost w/Interest	Amoritzation of UAAL	Total Funding Requirement (3) + (4)	Add'l Funding (5) - (2)
2011	9,029,663	3,292,225	10,584,602	13,876,827	4,847,164

BUDGET PRESSURES – Expenses: OPEB's

- Town's funding plan is the increase the annual appropriation by approx. \$350K / yr
- This would get the Town to the "ARC" in 8-10 yrs

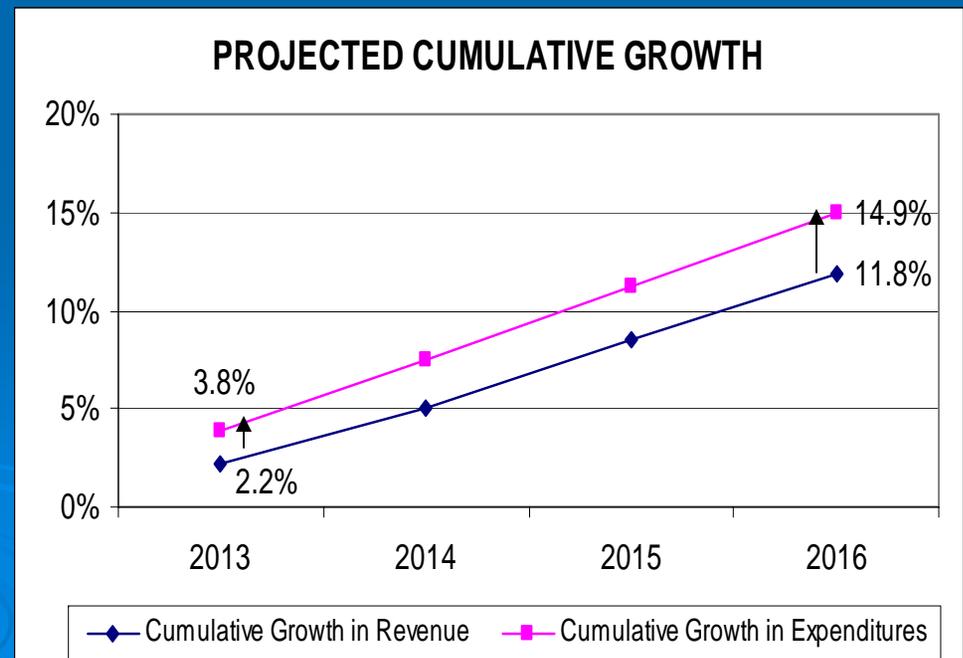
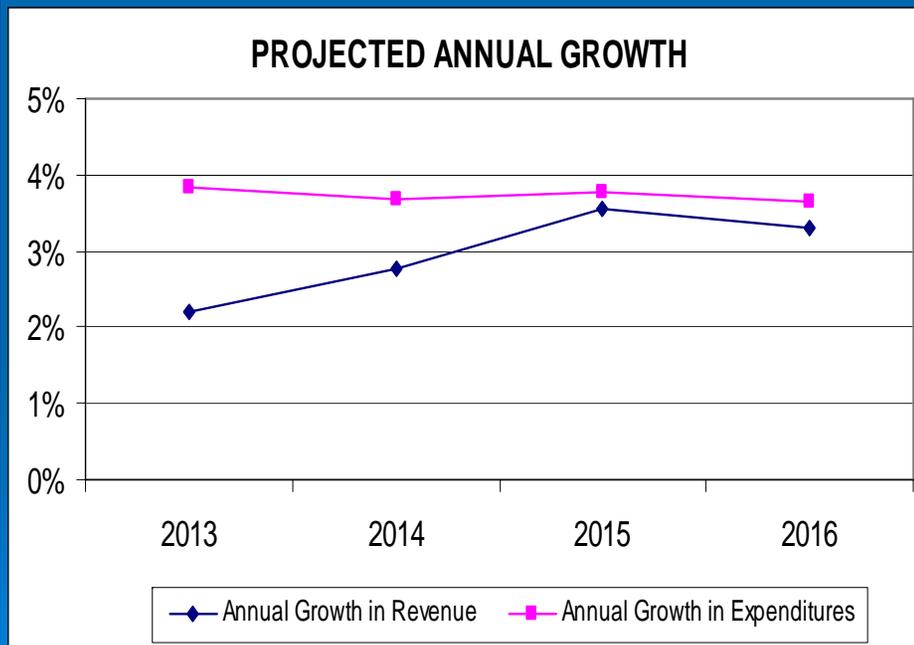


BUDGET PRESSURES – Expenses: School Budget

- The School budget is being driven mainly by 3 items:
 - Enrollment Increase
 - classes of 400-450 children being replaced by classes of 500-600 [total growth of 20% (766 students) since FY05]
 - puts pressure on operating budget (more teachers) and capital budget (more space needs)
 - Special Education
 - annual growth in expenses of approximately \$750,000
 - SPED now accounts for 26% of the School budget
 - Compensation
 - “step and lane” adjustments have an annual gross cost of approx. \$1.1M (partially offset by retirements)
 - new contract being negotiated (current one expires at the end of this school year)

STRUCTURAL DEFICIT

- Town is in a structural deficit situation when on-going expenditures for existing services exceed annual revenue increases



“SIMPLE MATH” OF LONG-TERM BUDGET OUTLOOK

- Average Annual Revenue Increases of \$6.5M

- Average Annual Expenditure Increases of \$6.5M before any annual raises (collective bargaining):
 - Benefits (\$3.6M)
 - SPED (\$750K)
 - School Steps – Net (\$600K)
 - CIP (\$400K)
 - Inflation / Service Contract increases (\$400K)
 - School enrollment (\$300K)
 - Town Steps – Net (\$250K)
 - State Assessments (\$180K)

- Each 1% of salary increases is \$1.1M