

Mr. Chairman, members of the Board of Selectman, fellow citizens. It is my honor to present in accordance with Article 6-4 of the Millbury Home Rule Charter, the Town Manager's annual budget message and financial plan for Fiscal Year 2015. The financial plan I am presenting is currently balanced based on proposed revenues and expenditures. It includes all expenditures and revenues, describes important features of the budget, indicates major variations from the current year financial plan, and summarizes the Town's debt position. There is several revenue and expenditure amounts listed herein that are still developing and estimates may change during the months ahead. I believe final revenue and expenses will allow for some positive changes to this plan.

Not everything is negative. Through the efforts of your town financial team we have seen our bond rating go up for the second time in three years. Borrowing costs should be reduced as a result. Health insurance is being rebid and should result in better health insurance costs. We are looking at many different approaches to change how we do business as well.

Millbury's financial condition continues to be challenging and I believe it will continue to be so for the foreseeable future. The past few years have been difficult not only for Town of Millbury but on citizens who have struggled in these economic times. Back when the financial problems started the Finance Director and I predicted FY15 would be the worst year. We based this on our belief that while the economy would be getting better, increased costs and reduced state aid would take its toll. The economy continues to sputter, however, state revenues are expected to increase by almost five per cent. Gov. Patrick chose to fund our combined state aid at an increase of only 1.55%. This is unacceptable.

(slide-aid)

In fact, as this chart shows, state aid is almost \$800k less than in FY09. This puts considerable pressure on the Town's ability to provide the level of services routinely requested by the citizens of Millbury. The percentage of the overall budget covered by state aid continues to fall. In FY09 state aid amounted to 28.8% of the total budget. In the FY15 proposal it is down to 23.4%. This puts great pressure local taxes. I call on the legislature to right this wrong.

Your financial team and the school's team have spent many hours analyzing revenues and expenditures to come up with a spending plan that we believe is sustainable. I am very proud of the great efforts by our employees to do more with less and their professionalism, dedication and commitment to the service of the Town's citizens. They have continued to maintain service levels despite decreases in resources. In addition, we continue to look at new ways to provide these services. Regionalization, for instance has help provide some services and have combined the duties of staff members to help reduce costs. But regionalism is not a cure all. Also, our senior work off program provides valuable assistance to department heads to help fill the gaps.

The long harsh winter has had a tough effect on Snow and Ice and heating costs. Increases in health and general insurance costs and retirement are putting pressure on the expense budget. Worker's compensation insurance has skyrocketed.

(slide-general)

As I said, Millbury's financial position is challenging. So far, we have weathered the storm due to the realistic decisions made by Town

Meeting and the Board of Selectmen and School Committee together with the efficient day-to-day management of Town operations. However, higher costs and lower state aid is beginning to take its toll. While building permits are showing some signs of life and there has been some improvement in the economy, growth is still very slow. The financial team has worked diligently to take steps to mitigate the negative impacts of things we have limited control over such as; health insurance, retirement, state aid, new growth and we have had some successes. For instance we have made changes to our health plan and continue to get competitive bids which keep our health insurer's pencil sharp. We are looking at ways to reduce our retirement burden. We plan to start a discussion on retiree health costs. We continue to look at regional opportunities.

Free cash is slightly higher but is trending considerably below historical levels. I believe this will continue. Our free cash policy requires us to reduce its use to fund the operations and maintenance budget. We will not be able to meet that goal this year. We continue to use \$100,000 of free cash as a supplement to our Chapter 90 funds for road repairs and the remaining free cash to provide for capital items and one-time expenses.

State law requires that we pass a balanced budget and we will continue to work diligently to do so throughout the budget process. As the economy continues to be a drag on revenues, we must continue to analyze town operations and make necessary adjustments.

State aid as proposed in the governor's budget is slightly higher than last year. However, he is predicting an increase of almost 5% in state revenues, yet he level funded general state aid and Chapter 70 is up less than 2% and total state up is only up 1.55%. This is completely unacceptable and the governor has decided to balance his budget on

the backs of the Town and Cities. I am hopeful the legislature we provide additional funds. We will continue to monitor this situation as changes to state aid figures can have a big effect.

Most of the increase in this year's budget is due to increasing personnel, insurance, BVT and debt service costs. Worker's Comp insurance and retirement costs are going up rapidly. In addition, we are providing employees with a modest cost of living increase. Included in this budget is the cost of borrowing for the for the school's technology from FY14 town meeting. We have additional students going to BVT plus another student attending Norfolk Agricultural resulting in an increase of more than 10% in vocational education.

The initial proposal by our health insurance carrier was for a 9.65% rate increase. Through the efforts of your financial team this should be reduced and we hope the final number is around 4%. This is still higher than anticipated. Retirement costs continue to rise as the system makes up for the shortfall caused by market losses in previous years. We are evaluating ways to help mitigate this problem.

(Slide-general 2)

The Fiscal Year 2015 proposed budget is \$38,708,403. The General fund budget is \$36,947,544 which is an increase of \$1,004,570 or 2.79%. Currently there is no proposed prop 2 ½ override. We need to keep our options open though. It was necessary to cut more than \$1.4 mil from initial department budgets to present a balanced plan.

During this process, my staff and I took into account several major issues:

- sustainability
- increase personnel costs
- limited revenues
- the overall municipal operation and providing the town with best services possible

There are staff reductions anticipated on both the municipal and schools sides. We hope that additional state aid and lower health insurance costs may help mitigate the situation. On the next slide I will discuss the assumptions used to develop the Fiscal Year 2015 budget.

(slide-financial)

When we develop revenue and spending projections, there are many moving parts. We have to make some assumptions. Those assumptions that were used to formulate our plan include:

1. The budget reflects Millbury's priorities in a time of economic instability.
2. The budget is as presented is balanced. It reflects the School Committee's budget and the initial town department budget requests. There are two key assumptions here:
 - a. There are no further changes in projected revenues
 - b. Snow and Ice doesn't get much worse.
3. In the governor's budget state aid is up. With Millbury receiving more than \$132k in new aid. If the final state aid numbers go up we would have the opportunity to make

additional adjustments to the expense side to keep a balanced budget.

4. Local receipts are very similar to last year with only a small increase. We found an error in the way our host tonnage fee from Wheelabrator is calculated resulting in higher amount due to the Town. Receipts for FY14 are currently meeting expectations and must continue to do so. We believe this is trending positively.

(slide-revenue)

Next I would like to address the revenues used to develop our budget plan. If we continue to keep the same service level or increase it we need to increase revenue to pay for it. Since costs such as insurance, retirement, wages and utilities continue to rise; our revenues must also rise to cover these new costs.

As I have previously stated the town has basically five sources of revenue. The first is the property tax levy. The tax levy is constrained by prop 2 ½ and we expect an increase of approximately \$769k. Which includes an estimate of \$263,000 in new growth.

The second source is Local estimated receipts of \$5.164 million which is slightly higher than last year. This is due mainly to an increase in Wheelabrator host fee and higher excise taxes. FY14 local receipts are on target to hit or slightly exceed targets.

The third source is State Aid. In the Governor's budget he has raised Chapter 70 and level funded Unrestricted Gen Gov't Aid. It is our belief that the legislature will fund this at a higher level. If state aid comes in higher we would have to revisit this plan. State aid for Fiscal Year 2015 is proposed to be \$8,655,776 an increase of \$132,365.

The fourth source of revenue is free cash. The finance director and I have been predicting lower free cash would be the norm going forward and our projections are spot on. We predicted that going forward free cash would settle into a range of between \$600-\$800k per year. Last year's free cash was more than \$626k. Free cash this year is only \$731,063. We continue to strive to reduce the amount of free cash used in the operating budget with the goal of eliminating this use entirely. Going forward free cash would be used for only Capital and one-time expenses. This is in accordance with the Board of Selectmen's free cash policy.

The fifth and final source of revenue is borrowing. We anticipate borrowing to cover some capital articles for the Fire Department and DPW. This is necessary due to the limited free cash.

(slide-expenses)

Now I will address the overall expenses for the next year. There are nine categories that comprise our general fund which include general government, Public Safety, Education, Public Works, Public Health and Human Services, Culture and Recreation, Debt Service, Employee benefits and General Insurances. We also have a sewer enterprise fund. Of these six are being increased and four decreased.

General government which includes financial operations, town clerk, Town Manager/Board of Selectmen and planning type operations will decrease \$2,402 or 0.16%. A clerk's position is being eliminated. There is an increase in elections with more elections scheduled.

Public Safety increases by \$28,649 or 0.92%. Included in this are wage adjustments and truck repair costs in the fire department. The fire hydrant budget is up which is the result of new hydrants from road accepted at last town meeting.

(slide-expenses ed)

Public Education numbers are only preliminary. The Millbury School Committee's budget as voted at the public hearing is an increase of 4%. This is mainly due to increased personnel costs. I have recommended a \$617K cut in this departmental budget to help balance the overall budget. This would lower the increase to 0.71%.

We also don't have a final BV Tech budget but based on my conversation with the BV superintendent their budget request is up a 7.6%. This is mainly due to additional students attending BV. However, the overall vocational budget is up 10.18% due to an increase by one student that is attending an out of district agricultural vocation school at a cost of \$23,000. We are required to pay this as BV does not offer the program. Therefore, my proposed education budget is up 1.08%.

Public Works has decreased by \$7,209 or -0.42%. This includes funding state mandated landfill testing which has previously been a separate article. Gas and diesel is decreased by \$8k due stable fuel prices. Additionally a clerk position in the cemetery budget was eliminated. Also a .5 FTE was eliminated from the DPW budget. Some individual budgets went up due to cost of living increases.

(slide-health)

Public Health & Human Services which includes BOH, COA and veteran's services decreases by \$18,579 or - 4.42%. This is due mainly to elimination of a part time clerk.

Culture and recreation which includes the Library, Parks commission, Waters Mansion and Historical commission decreases by less than 1%. We were granted a waiver for the library again this year to qualify for state grant money. The waiver is necessary due to the amount of increase in library spending was insufficient to continue to receive state grant aid. In the future we need to address this issue.

(slide-debt)

Debt service has increase by \$70,752 or 2.64% due mostly to debt service for the school's technology article from last year.

Employee Benefits are up \$699,616 or 11.07%. The biggest increases here are retirement costs that increased by 13.49% and health insurance line items which increased 10.84%. Health Insurance costs are still lower than they would have been had we not taken aggressive steps to curtail health costs. We continue to be aggressive and expect these costs to be much lower than current estimates by the time we finalize expenditures at town meeting. We are also seeing a trend of higher costs in worker's compensation insurance up more than 22% due to higher claims.

(slide-general)

General insurance is up \$25,000 or 7.14%. We have had some big claims and this is causing the rates to start going up. We are aggressively pursuing options with our agent.

Sewer Enterprise Fund budget is up by \$202,801. Due mainly to two items a 5.66% increase in our Upper Blackstone Assessment and \$298,000 to fund repairs that will be necessary due to the 146 bridge project over W. Main Street

(slide-warrant)

This year faced with a continued leveling of free cash we have less money available for capital and one-time cost items. Included in the special articles are:

- \$100k for road projects as required by the free cash policy

- \$20k for the senior work off program
- \$96k for Medicaid reimbursement to the schools
- \$60k for a third year technology at schools
- 50k for cruiser computers
- 10k for updating master plan
- 8k for a required OPEB update

These articles total \$344,036 and the rest of the free cash will help fund the operations budget.

(slide-summary)

In summary, the financial plan I have proposed includes spending of \$38,708,403 which includes a general fund budget of \$36,947,544 an increase of 2.79% and sewer enterprise fund budget of \$1,760,859. Revenues are trending up slightly with local receipts up 2.51% and an increase in the tax levy allowed under prop 2 ½. It also includes an increase in state aid of 1.55% which is based on the Governor's budget.

In Millbury we continue to face many challenges supplying the services the citizens of Millbury require and deserve. When the economy started crashing we predicted this would be a tough year and unfortunately we were right. It is impossible to meet every request and sometimes it may take a while to fill that pot hole or there might be a line at the Treasurer/Collectors office or higher class sizes but we have to live within our available means. This has an impact on the ability of our employees to provide the services the citizens

of Millbury have become accustomed to. While we have built this plan in a frugal manner, there are still some assumptions that may change. We expect to get some rate relief from the current health insurance renewal proposal because we are in the process of re-bidding it. Further, the increasing of state aid by the legislature is a distinct possibility. This will allow us to reduce staff reductions and other budget cuts that will have a negative effect on the delivery of services.

In my tenure as Town Manager, our financial operations have improved dramatically. Our financial team together with the cooperation of the School department management team has put forward spending plans that continue to provide the services the people of Millbury want and expect. Our financial operations are second to none as evidenced by our continued clean audits, our award for our financial statement and reports and we just received word that S&P has upgraded our bond rating for the second time in three years.

While I am proud of our accomplishments, we do not plan to stand still. We are analyzing every operation to see if we can do it less expensively. Sometimes this requires the help of our unionized workforce and they have stepped up to the plate. Many of the budgetary problems are not completely within our control, but we have aggressively worked to better our financial picture. We now have a financial management planning committee that is in the process of creating

financial estimates for the mid and long term which should help set priorities for budgeting and planning for the future.

I also want to address some misconceptions making the rounds. First of all, not filling the DPW operations manager's position will not result in monetary savings and will in fact hinder the operations at the DPW. This is because we would have to designate someone to run the day-to-day operation. This position with overtime would cost approximately the same as the operations manager and wouldn't have the same qualifications. In addition, we would lose an everyday worker.

Secondly, if we spend less than the amounts authorized to repair the Ramshorn and Brierly dams we cannot use the money elsewhere. The money is borrowed under debt exclusions and can only be used for that purpose.

Putting together a financial plan takes the efforts of a great team. I am truly thankful to lead a great one. I thank my department heads and their staffs for their professional efforts and service to our citizens. I especially would like to thank our talented financial team under the leadership of Finance Director, Brian Turbitt, our assistant assessor Sandy Genna, our Treasurer/Collector Denise Marlborough and our Asst. Accountant Katie Lavalley and their staffs.

In closing, I would like to express sincere gratitude to my Assistant Tish, without her support this presentation would not be possible. I want to thank the employees for their

cooperation and the Board of Selectmen for their input and counsel. I also want to express my thanks to Superintendent Susan Hitchcock and her team and the School Committee for their cooperation. While we must remain flexible as the process proceeds I look forward to working with each of you. Thank you all for attending and I now would be glad to answer any questions.