



TOWN OF WINTHROP

OFFICE OF THE TOWN MANAGER

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Town Manager

May 1, 2006

President Reilly and Town Council
1 Metcalf Square
Winthrop, MA 02152

Dear President Reilly and Council Members:

Submitted herewith is the Town of Winthrop's Requested Budget for fiscal year 2007. The requested budget includes funds for the general operation and maintenance of the municipal government including schools. There is a listing of some of the Town's capital needs, but considerable effort needs to be made to develop a plan that accurately identifies a five-year projection of capital improvements in time for the FY 2008 budget process.

The requested budget includes expenditures of \$41,639,765 balanced by non-tax levy revenues totaling \$23,120,065 and an estimated tax levy of \$18,519,700. \$ 960,405 of the \$18,519,700 million dollar tax levy funds a debt exclusion for the two elementary schools passed by referendum in 1999. It is shown within the budget as dedicated revenue that offsets expenditures shown in the debt service budget. Excluding the proposed free cash allocation, non-tax levy revenue is increasing by 5% from the FY2006 appropriation. The Enterprise Funds (Water, and Sewer) and Harbor fund will increase by 19%. Unfortunately, the FY 2006 budget was balanced with a \$2.2 million dollar allocation of free cash. This budget proposes to allocate \$450,000 in free cash for FY 2007, an 81% or \$1,750,000 reduction in revenue available to fund Town programs. The tax levy will increase by \$535,593 or 3.25%. \$110,000 of the increase in the tax levy is attributed to new growth \$17,578,921 or 42% of all revenue used to fund town services is raised via property tax. 94.13% of this comes from the residential tax base.

The tax rate for FY2007 is estimated to be \$8.92 per \$1,000 of assessed valuation for residential and \$9.67 per \$1000 of assessed valuation for commercial property. The average property tax bill will increase from \$3,197 in FY 2006 to \$3,301 in FY 2007, a \$104 or 3.25% increase. The estimate over and above 2 ½ % is attributable to the school building debt exclusion.

Revenue from sources other than the real estate tax can be identified in four broad categories: enterprise (including the harbor fund), state aid, local receipts and available funds. Enterprise fund revenues directly offset enterprise expenditures. State aid, local receipts and available funds are pooled together with revenue generated from the real estate tax to fund most municipal appropriations.

BUDGET GOALS

This budget is submitted consistent with several major goals. They are as follows:

- 1.) To submit a budget that complies with the statutory limitations of Proposition 2 ½;
- 2.) To properly fund salary adjustments as per labor contracts and town compensation policies;
- 3.) To reestablish the reserve fund in order to properly fund anticipated unforeseen and unexpected expenses during the FY 2007 budget year;
- 4.) To maintain last year's level of investment in the town's cash capital program;
- 5.) To develop a process to begin to make a clear, concise and comprehensive presentation of all proposed expenditures;
- 6.) To identify emerging operational, capital and financial planning issues for future years;
- 7.) To eliminate the Town's dependence of free cash as a recurring revenue stream so as to bring some long term stability, predictability and credibility to Winthrop's budget process.
- 8.) To provide enough resources to school programs so that the commitments made and the performance improvements that have been made during the last few years do not unravel as a result of under funding.
- 9.) To make prudent and surgical reductions to the municipal budget that push the departments to provide more with less, but allow the Council and professional staff to evaluate the on going effectiveness of these reductions so that adjustments can be made if necessary in future years.

Winthrop's past budget performance has been somewhat spotty. The lack of formal policies on the use of non recurring revenues, such as free cash and Massport and MWRA mitigation funds, development of standards for operational performance and investment in the Town's capital infrastructure has resulted in some unpredictable budget

processes. Well intentioned professionals and governing boards did everything they could to preserve programs and meet citizen demand during some very difficult years when resources were not forthcoming and the need for funding far outstripped the community's available recurring revenue. The pressure to fund the Town's operations must have been overwhelming. But, unfortunately succumbing to this pressure compromised Winthrop's citizen's perceptions of its local government's credibility. Loss of credibility encourages cynicism and cynicism results in disenfranchisement. Recovery will not be easy and will require a level of discipline that at times may be painful. This budget is the Town's first step towards building credibility. The remaining steps require the development of a close working partnership between the professional staff, the Town Council and the School community. There are a number of policy initiatives needing attention by the professional staff and the Town Council during the course of fiscal year 2007. These policy areas primarily revolve around free cash or cash reserves, local receipt estimates and capital investment.

1.) **Cash Reserve Policy**

It would be wise for the Town Council to formally adopt policies around the accumulation of free cash or cash reserves. A community like Winthrop must insure that it can respond to any natural disaster that comes its way. Winthrop's location, surrounded by water, makes it more vulnerable to the challenges of a natural disaster than a community located more inland. The restrictions inherent with Proposition 2 ½ make a rapid appropriation response to a natural disaster difficult if not impossible. The Town's A2 bond rating is low for a community with Winthrop's demographics. The Town should set a long-term goal of achieving AA bond status. The higher the Town's bond rating, the lower the interest rate when it issues debt. One of the town's strengths is its unused debt capacity. It will need to tap that unused capacity in the future to meet some of its infrastructure reinvestment challenges. The lower the interest rate, the lower the costs of borrowing. The Town's infrastructure, its sea walls, roads, sidewalks and buildings are in need of investment. Winthrop needs to get its fiscal house in order before it looks seriously at developing a long-term capital investment strategy. Many solidly rated communities have cash reserve policies in place and have built up substantial reserves. Accumulating healthy cash reserves also helps during down cycles when local receipts fall or State aid is either level funded or decreased. Having cash reserves strengthens a community's management capabilities, helps create stable budgets and reliable and predictable processes and builds credibility. Most communities begin their policy discussions considering accumulating 5% of the tax levy as a cash reserve goal.

A model schedule for Winthrop could be as follows:

Proposed 5 Year Cash Reserve Accumulation Plan

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Prior Year Balance		0	390,000	1,000,000	1,400,000	1,400,000
Add		840,000	610,000	400,000	450,000	550,000
Balance After Appropriation	0	390,000	1,000,000	1,400,000	1,850,000	1,950,000
Real estate tax base increase of 4.5%						
Free Cash Balance		1.0	3.0	4.0	4.25	4.54

\$450,000 in free cash will be used to balance the FY2007 budget. Again, this is a substantial decrease in the use of free cash from the \$2.2 million utilized in FY2006.

Currently there is approximately \$300,000 each in the Stabilization and sale of land accounts. These funds can only be used to fund capital costs. These balances need to be increased substantially and planned in concert with the Town's cash reserve policy. Fund from these accounts can be leveraged with a sound debt policy so that the community's infrastructure can be properly maintained.

2.) Local Receipt Estimates

Aggressive revenue estimates will severely impact our ability to generate free cash revenue in the future. This year local receipt estimates are 95% of what was actually collected in FY 2005 (the last full year of accounting) plus any new revenue from fee increase proposals. Most well managed communities have developed revenue estimate policies that provide guidelines for budgeting. This is a prudent guideline I hope the Council will embrace as policy.

3.) Cash Capital Policies

a.) Large Capital Projects

During the course of Fiscal Year 2007 I hope to lead the staff in developing a series of capital investment strategies. There does not appear to be any clear pattern in the Town's appropriation history

regarding investment in its infrastructure. In fact, the Town's history of dealing with a restrictive revenue base has caused much of the capital forecasting and planning to atrophy. This year the budget includes a meager amount of investment. This is not the result of lack of need. Much work has been done by hard working staff and committees. This information needs to be pulled together, updated, standardized and integrated into the annual budget process. It is unfortunately the lack of reliable information available to construct a comprehensive plan so that priorities can be established. It is clear that much more work needs to be done to further define and justify the capital proposals identified in the out years of the five year capital plan. This summer the staff will inventory all capital assets from boilers to roofs to streets to seawalls. The inventory will identify the asset, the year of purchase or construction, life expectancy, replacement cost and expected date for renewal. A capital plan will emerge from this inventory. Developing a process to vet these proposals, defining performance expectations for the staff in producing background for these requests and developing strategies for funding these projects will take some effort beyond the normal appropriation process. The Town is not without options in financing large capital projects. It has a successful track record in securing funding from the public outside of proposition 2 ½, it has accumulated (and should continue to accumulate more) \$ 302,485 in a stabilization fund and it has only \$20,465,000 million dollars in indebtedness with statutory limits for the community being 96,501,374 million dollars. There is no more prudent investment than maintaining your capital infrastructure. Fortunately Winthrop has a few options available. Unfortunately much work and analysis remains to be done in order to thoughtfully plan for these future capital investments.

Some capital projects are large and unique, needed only once in a long time. Such projects need to be financed over several or many years. Some might argue that the most prudent policy would be to accumulate money (in years of plentiful free cash, for example) in a stabilization fund for such large, infrequent investments. Winthrop has had success on a small scale, putting funding into a stabilization fund. It needs to build upon that balance as mentioned earlier. However, for major investments such as new or renovated buildings, debt financing clearly has a role. Bonding spreads the cost of a large asset over the useful life of the asset. In one sense, debt financing also serves a purpose of maintaining a presence for capital in the budget, since unlike a new cash project it is not a discretionary item. Any policy of "buy now, pay later" must be carefully planned to be certain that future obligations can

be met. Whether debt is within the levy or excluded, the impact on the taxpayer is the same, and ultimately is part of their decision on the appropriate size of the Town's budget.

b.) Strategically Set-Aside Cash Capital

A cash capital appropriation is best defined as a tax levy appropriation for equipment of substantial infrastructure repair. A cash capital policy is necessary so that a synchronized and structured strategy is set in place to coincide with the large capital projects policy so that the Town can eventually earmark a percentage of the town's general fund revenues to fund large and cash capital projects. Delaying capital investment only makes the eventual cost for the project more expensive. Time and opportunity costs, plus additional wear and tear can only make capital investment more expensive. Having a policy in place will encourage the staff to identify needs and at a minimum even if these needs are left un-funded, inform the community of the consequences realized as a result of a lack of investment.

OTHER FISCAL POLICIES –ENTERPRISE FUND

Water, and Sewer Enterprise Funds were created during 1998. This budget proposes that the Town Council vote to establish a Recreation enterprise fund by accepting MGL chapter 44 section 53F 1/2. In addition the Harbor fund operates similar to an enterprise fund. These three services, four with the inclusion of recreation operations, operate on a fee-for-service basis. It is unclear if there are any fiscal policies as it relates to the water/sewer enterprise or harbor funds. The indirect charges to the water and sewer funds have been increase in the FY 2007 budget submission. Water and sewer operations cannot function properly without purchasing support and services from other Town operations. Adjustments have been made to better reflect the support costs incurred throughout the organization to operate the water and sewer functions. The average water and sewer bill is anticipated to increase by 19 % or \$127 per year. The water and sewer rates will increase because of MWRA rate increases, changes in consumption (the lower the consumption than what was anticipated the less revenue collected) and changes in indirect accounting.

BUDGET FORMAT

This year in two short weeks we have developed the beginnings of a program/performance budget document. This is a first, very modest attempt at developing Winthrop's first professional budget document. We will build on this and add to it incrementally over the next several years. The staff and I will continuously identify the unique information requirements of the community and try to address those needs through this budget document. The Government Finance Officers Association (GFOA) has spent years developing guidelines for budget documents. Perhaps Winthrop is too small to adopt every recommendation. Nonetheless, the budget is the Town Council's most significant policy responsibility. As such, it should be our goal to continuously upgrade its content so that it clearly articulates important policy matters needing the Councils' attention.

BUDGET ASSUMPTIONS

The following budget assumptions have been made:

- \$110,000 in new construction revenue.
- 2 ½% real estate tax revenue increases generating \$425,000.
- A net increase of \$422,719 in state aid over the FY2006 appropriation.
- \$ 533,646 increase in local receipts over the FY2006 appropriation all of which represents 95% of what was actually collected in FY 2005 as well as proposed fee increases in cemetery, fire false alarms, building, gas and electric permits, harbor fees, parking fines and the creation of an occupancy permit fee for rental property.
- \$ 450,000 allocation of Free Cash to the operating budget.
- Funding of all direct and some indirect water and sewer appropriations and all direct recreation costs through user fees.
- \$314,946 transfer in overlay surplus
- A \$750,000 increase local school budget and a \$81,173 increase in the regional vocational school budget
- Major reductions in most municipal operations expense budgets
- The elimination of 8 full-time and 3 part-time municipal operation positions

There are several issues within the budget that are worthy of mention. They are:

1. **Wages** – A 4% wage adjustment increase has been budgeted for most municipal employees either in the departmental budget or the Town Manager’s budget under salary reserve. The Town needs to develop a comprehensive compensation policy. Most employees within the organization are paid at below market rates.
2. **Health Insurance** – The 2007 recommendation for Town benefits and other insurance is estimated at \$3,610,000 a \$ 170,000 increase over what was appropriated for 2006. Original projections anticipated an even greater increase, (\$410,305). It is anticipated that the health insurance for grant fund positions will be funded by grants rather than the tax levy and that all new employees hired as of July 1, 2006 will wait 30 days or a month for coverage.
3. **Cash Capital** – Little investment is proposed for Fiscal Year 2007. A responsible prioritization can not be made until there is a comprehensive inventory and evaluation of capital needs.
4. **Health to Insurance Costs** in Winthrop have increased substantially since 2000 due to increased enrollments, claims, escalating administrative and reinsurance costs compounded by medical cost inflation. Claim trends are slowing while enrollment continues to abate. We should expect to see substantial increases in health care for the foreseeable future. Current health plan co pays are very low and minor changes could produce considerable savings for the Town.
5. **DPW Reorganization-** A reorganization plan will be filed as part of this budget to integrate the cemetery and building operations with the rest of the Public Works Department. Consequently, this consolidation allows the Town to experience savings by sharing resources, changing work procedures and consolidating operations. A clerical, heavy equipment operator, 2 public works maintenance workers, and 2 part time building custodian positions will be eliminated as a result of this consolidation.
6. **Other Reductions in Staff and Overtime-** an assistant in the Treasurer/Collectors Office, a part time position in the Town Clerks Office, 2 police officers and \$45,000 in fire overtime will be eliminated. In addition all parking ticket processing will be outsourced resulting in the elimination of a clerk position in the Municipal Hearing budget. The duties of the positions in the Treasurer/Collector’s and Town Clerk’s Offices will need to be absorbed by the remaining staff, doing more with less. The Police Chief will need to adjust his staffing paradigm in order to absorb the losses of two officers and the safety issues associated with staffing a response to a fire alarm will require the Chief to remove a piece of apparatus from service from time to time in order to effectively manage his overtime budget. A high priority for the coming year is the creation of a central police/fire dispatch center. The Town operates two

separate dispatch centers. A patrol sergeant staffs police dispatch operations, a firefighter acts as dispatcher at the main headquarters. Neither arrangement is ideal. The patrol sergeant staffing arrangement makes little sense.

7. **Recreation-** Tremendous opportunities exist to enhance recreational opportunities to the community without burdening the tax levy. The fees generated by the department will offset the cost for recreation offerings. The Recreation Director would like to add a community center to the Town's current leisure services offerings. Unfortunately, the numbers do not work to make the Dalrymple School an option. Further complicating this issue is the uncertainty of the skating rink. The rink is in serious need of repair and rehabilitation. The chillers and other systems critical to making ice need replacement. There is some hope the combination of state aid and local fund raising may address this critical immediate need, but the Town needs to be ready to step in an emergency if funding falls through or this asset will not be available next fall.
8. **Information Technology** – A cornerstone to quality customer service is developing reliable and consistent communication systems. The Town has developed a computer network that is connected with standard applications. The budget includes funds to properly maintain a pc network and to replace some equipment. Finding a way to install fiber optic cable in Town buildings could help reduce network and computer costs.

CONCLUSION

I believe that this budget rights Winthrop's fiscal ship. Some of the recommendations within it are difficult but necessary steps to create structure and financial discipline. It takes care of the basics and offers the promise of doing no permanent harm. Its revenue estimates are sound, prudent and defensible. Operating expenditures are built on recurring revenues. It promises, all things being equal, that there will be modest growth in revenues next year and in future years. This is how solid financial foundations are built. Achieving a solid financial foundation will allow the staff to refocus their attention from survival to being creative and solving operational problems. A solid financial foundation also lends itself to predictability. Predictability encourages credibility and credibility results in a willingness of our citizens to invest more of their precious few resources in what we do. Developing and maintaining strong policies and practices regarding free cash or cash reserves, local receipt estimates and capital investment will only enhance our financial stability.

APPRECIATION

This budget and associated participation process is a job well done by the staff. It has not an easy process and was completed in a very short time. The staff were active participants in this process and they deserve our thanks and gratitude. I would like to extend my personal and professional thanks and appreciation to Michael Bertino, Town Accountant and to Michele Karas, MIS Director. Both Michael and Michele worked tirelessly to make this process work.

Sincerely,

Richard J. White
Town Manager