

## Budgeting for the Long Term

By Joseph A. Curtatone

In my January 28<sup>th</sup> opinion piece (“Budget Situation: Tough but Survivable”), I reported that I’d received some criticism for being too optimistic about the City’s fiscal situation. I’m guilty as charged, especially when it comes to our short-term budgeting. Let me add a note of caution, however, by being more specific: FY2009 – current budget year that ends June 30<sup>th</sup> – is going to be tight, but I am confident we can cope without major structural adjustments. On the other hand, FY2010 will require some very tough choices and a willingness to embrace creative solutions, both one-time and permanent. Our goal will continue to be avoiding cuts in core services. Over the past five years, we’ve made real progress in improving service quality and delivery, and it would be a shame to undercut that those achievements by rolling back programs and personnel, especially in public safety, education, public works or parks.

But, between now and June 30<sup>th</sup>, we have to absorb nearly \$3 million in state aid cuts while coping with the added costs of a heavier-than-average winter storm season and escalating health insurance costs. But the steps we have already put in place – leaving some positions vacant; freezing salaries; saving money where we can on energy and materials; delaying or deferring some capital projects – will allow use to close the gap. I want make special note of the fact that we have been working closely with the School Committee and Superintendent Pierantozzi to put together a similar austerity program for the School budget. I also want to thank the Board of Aldermen for taking a proactive and collaborative approach to revising this year’s budget: they’ve paid close attention to the details and helped make possible a year without layoffs, furloughs or other major disruptions.

**FY2010 – the fiscal year that starts on July 1<sup>st</sup> – will require structural change in the City’s budget.**

In fact, if we were facing just one bad year, we’d be fine, which is more than you can say for many other communities in Massachusetts. Some cities and towns have already begun to lay off personnel and close facilities. If it seems as if Somerville has been slower to take similarly harsh action, it’s because we really don’t have to in *this* fiscal year. One big reason is that we’re careful to use conservative fiscal assumptions. So far in FY2009, our revenues have been running two percent higher than projected; and we have underspent our budget to date by two percent. That gives us a little more room to maneuver than is available to many cities and towns.

But as we start the planning process for the new budget that will go into place on July 1, 2009, we are facing a much more challenging situation. In addition to more local aid cuts, the state budget will see reductions in other areas of spending that directly support cities and towns, including library aid, police career incentive salary supports, and more. To help compensate for the added strain that all these changes will put on municipal

budgets, Governor Patrick has proposed local-option hotel and meal taxes, as well as the closure of the 1913 telecommunications property tax loophole. The state estimates that these changes could bring Somerville another \$3.4 million per year – but these proposals have not yet been approved by the legislature and, even if they become law, they will take time to implement. Cities and towns will not see the added revenue until well after the new fiscal year is underway.

And then there is the problem of escalating health care costs. We are working hard to control our health care expenditures, but restrictive state rules require us to negotiate changes in plan design and co-pays with our collective bargaining units. If current trends remain unchanged, the result will be that, in FY2010, our projected increase in health care costs (\$3.1 million) will – for the first time in our history – exceed the total projected increase of our property tax revenues as allowed by Proposition 2½ (\$2.3 million).

Even with added local option revenues from the state, it's likely that we'll have to come up with over \$8.5 million in combined cuts and new revenues for FY2010. That's equivalent to over seven percent of the city's non-School budget. \$8.5 million is more than half the combined personnel budgets for our police and firefighters: it's too much of a hit to be absorbed by cuts alone.

Of course, budget cuts will be part of the solution, but a gap of that size means that everything else is on the table. We'll need both to cut costs and enhance revenues if we want to maintain our core services.

On the cost-cutting side, we have to be ready to look at layoffs, wage freezes, furloughs, hiring and overtime restrictions, added health care contributions from union workers (non-union workers already pay 20 percent). It will also mean reducing consumption of energy and materials, and any additional savings we can wring out of pooled or restricted purchasing policies. And it will require us to look at our work practices to become ever more efficient and cost-effective.

On the revenue side, it means looking at every fee and fine in our books to see if there's a better way to enforce and collect the charges we impose – and whether or not any of them need to be increased.

The budget discussion this year will be very public and very open, and we will be seeking input not only from our Board of Aldermen, but from residents and fiscal experts alike. Over the next few weeks, I will be bringing a budget presentation to local ResiStat meetings, and we will be setting up an online budget form to take comments and suggestions from the public.

Can we get through FY2010 without major cuts to core services? I continue to believe that the answer is “yes,” – but we'll need the help of the legislature, the cooperation of our unions, at least some stabilization of the regional economy – and a disciplined, unified approach to managing our finances. And – as my critics will tell you – I'm an optimist. So stay tuned.