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PHYLLIS L. MARSHALL

February 13, 2017
Revised: February 14, 2017

To the Honorable Board of Selectman, Warrant Committee
and the residents and taxpayers of Belmont:

Overview

I herewith submit for your consideration the Proposed FY18 Operating Budget for the Town of Belmont. The total Proposed Budget of \$110,043,190 represents an increase of \$3,669,041, or 3.5%, over the FY17 adjusted budget. This transmittal letter has been revised to reflect an additional decrease of \$167,250 in the FY18 School Department Budget for Special Education Tuitions.

The Proposed Budget reflects the additional resources provided as a result of the successful Proposition 2 ½ Override approved by the voters in April 2015. The FY18 School Budget reflects the addition of five teaching positions (FTEs) to support increased enrollment as reflected in the Financial Task Force Plan. In addition, funds have been provided to cover the cost of an additional bus to transport students, which is required due to the continued increase in enrollment. Also, increased funds have been provided in the FY18 School Budget to adequately cover the costs in Special Education Services.

The FY18 Budget continues the additional capital funds provided in FY16 to support sidewalk repairs (\$210,000) and additional funds for the Pavement Management Program (\$300,000). The Proposed Town Budget provides funding to support priorities, such as the addition of support positions in the Recreation Division to support the implementation of the Recreation Strategic Plan, an in-house HVAC Technician to mitigate HVAC contracted

service costs, public safety equipment, technology replacement, and the creation of a pilot program to allow the Community Development Department to better enforce special permit conditions, while continuing to maintain level services.

A net increase in State Aid of \$576,204 contained in the Governor's Proposed Budget for distribution to Belmont has been included in the Proposed FY18 Budget, which has been used to reduce the amount initially estimated from the General Stabilization Fund. However, this additional State Aid amount is not final and is subject to revision when Legislative Budget Proposals are submitted as part of the State Budget Process. It is anticipated that any additional state aid funds will be used to further reduce the amount used to fund the FY18 Budget from the General Stabilization Fund.

Belmont is not unlike other municipalities, which budget revenue at the Proposition 2½ Property Tax Levy Limit and derive a majority of their property tax revenue from residential properties to balance revenues and expenditures on an annual basis. Absent significant and consistent increases in property tax revenues from new growth, state aid, non-property tax revenues or the use of cash reserves, the annual budget process will continue to be an ongoing challenge. However, because of the increased property taxes as a result of increased new growth over the expected increase due to the Uplands development, increased state aid, the override of 2015 and the planned use of the General Stabilization Fund, the FY18 Budget allows Town and School Budgets to be maintained and to accommodate increases as a result of increased student enrollment.

Budget Process

The Budget Process began in December 2016 with the development of estimated revenues to fund the upcoming Budget, as well as an estimate of "Fixed Costs." Fixed Cost budget items include State Charges and Assessments, Debt Service, Pension, Minuteman Vocational School Assessment, Reserve for Property Tax Abatements (Overlay) and an allocation for Capital Road and Sidewalk Improvements. Fixed Cost items are funded independently from Town and School allocations. This estimate is done in collaboration with the Board of Selectman, Town Officials and the Warrant Committee and was consistent with the Financial Model developed by the Financial Task Force.

Town and School officials used these targets to develop a balanced Proposed Budget. However, it was understood that changes to these preliminary estimates would be made to available revenues and "Fixed Costs" based on additional information being received prior to the February 13, 2017 budget submission date. The "Fixed Costs" are mandated by statutory and financial regulations. This is not unusual and is part of the budget development process since initial estimates are generally conservative so as not to result in a significant reduction in initial allocation amounts to Town and School Budgets.

The total available revenue amount contained in this proposal is \$110,043,190 for the FY18 Budget, which is an increase of \$3,699,041 or 3.5% over FY17. Estimated "Fixed Costs" total \$17,213,808, which is an increase of \$601,298, or 3.6% from FY17, leaving \$92,829,382 in available funding for Town, School and Capital Budgets. This resulted in a \$52,969,485 FY18 School Budget, which is a \$2,842,902 increase or 5.7%, \$38,541,897 FY18 Town Budget, an increase of \$1,568,184 or 4.2% and \$1,318,000 FY18 Capital Budget, which is a decrease of \$1,313,343, or 49.9% due to the elimination of one-time funds contained in the FY17 Budget related to the fire station settlement, capital budget balance turn-backs and the reallocation of the sidewalk repair budget to the Fixed Cost category.

During the budget process, meetings and discussions between local and state elected officials, Town and School officials, Warrant and Capital Budget Committees were held to share information as Town and School Budgets were being developed and changes to revenue and estimated fixed cost

increases were identified. This process allowed information to be shared between the various stakeholders to ensure that accurate and complete information was provided prior to submission of Town and School Budgets.

In developing a “present level of service” Budget, Town Department Heads were asked to review their budgets to ensure that any one-time items were identified for reduction or reallocation. Additional guidelines included that any non-salary operating items with contractual or known increases must be budgeted appropriately. Energy budgets were budgeted to reflect cost increase, if required.

Salary and Benefit budgets were allowed to increase to reflect negotiated salary increases, increments, health insurance and Medicare increases or changes. Vacancies were reviewed during the process.

Department Heads submitted their FY18 Budget requests to the Town Administrator in early January 2017. Department Heads met with the Town Administrator, Assistant Town Administrator, Town Treasurer, Town Accountant and the Human Resources Director to review budget requests. Changes to departmental budget requests were made during this process.

The following is a summary of the major revenue sources used to fund the FY18 Budget.

Revenues

FY18 revenue estimates were developed in collaboration with the Board of Selectman and Warrant Committee. Non-Property Tax Revenues have been increased based on prior year actual receipts and current year estimates.

Real Estate and Personal Property Taxes

The property tax is the Town’s largest and most stable source of revenue growth. The FY18 Budget estimates that \$88,548,446 will be derived from this revenue source, which is 80.3% of total revenues. This amount includes an estimated \$900,000 from property taxes due to new construction (new growth). New growth is the only way that a municipality at the Proposition 2 1/2 levy limit can generate additional property tax revenue. The Board of Assessors reviewed calendar 2016 information and increased the initial \$720,000 new growth estimate to \$900,000 during the process. This total amount includes a new growth estimate of \$400,000 for the Uplands Development. In addition, the Board of Assessors are reviewing information to establish an additional FY18 new growth amount related to the recently completed Belmont Light substation associated with Eversource Utility components of the building. Additional new growth taxes may be used to further reduce the amount used from the General Stabilization Fund in FY18.

The total property tax levy includes property taxes used to finance debt exclusions based on the debt schedule for the approved projects.

State Aid

Total State Aid (Local Aid) is estimated at \$9,952,380, or 9.0% of total revenues used to fund the FY18 Budget and reflects a net increase of \$576,204, which reflects the amount included in the Governor’s FY18 Proposed Budget. The two major categories of State Aid (Chapter 70 Education (School Aid and Unrestricted General Government Aid (UGGA)) totals \$9,894,729. It should be noted that in addition to the Local Aid distributed to the Town, there are assessed charges from the State to pay for services (MBTA, etc.) totaling an estimated \$1,791,237, which brings the net State Aid revenue amount to \$8,161,143.

Other Taxes

In addition to the Property Tax (Real Estate and Personal Property), other taxes including Motor Vehicle Excise (\$3,335,000), Meals Excise (\$215,000), Penalties and Delinquency Interest Payments (\$230,000) and Payment In-Lieu-of Taxes (\$36,000), are a major source of revenue to the Town. These tax revenues total \$3,816,000, which reflects an increase of \$185,000, or 5.1% in the FY18 Budget and represents 3.5% of total revenues.

Local Receipts

Local Receipts, including Other Taxes, have been increased in the FY18 Budget by a total of \$385,509 to \$7,608,000 or 6.9% of total revenues. Changes in FY18 Local Receipts include increases to Ambulance receipts (\$21,000), Recreation (\$221, 276), and Building Permits (\$21,000).

Free Cash

Free Cash is the amount of funds remaining from the operations of the previous fiscal year, which are certified by the State Department of Revenue (DOR) Director of Accounts as available for appropriation. Essentially, this means actual revenues collected were in excess of budget estimates and expenditures were below budget. The Town's certified Free Cash figure is \$7,135,275 as of July 1, 2016, which is a decrease from \$7,604,052 primarily due to the purchase of six modular classrooms in FY16 from this source for the Chenery Middle School to accommodate enrollment growth.

With an increase in the use of local receipts as noted above, a corresponding reduction in the amount of Free Cash used in FY18, from \$1,705,000 in FY17 to \$1,320,000 in FY18 has been made. Free Cash represents 1.2% of total FY18 revenues.

However, the ability to consistently use Free Cash annually to fund the Budget will depend upon our ability to substantially replenish the amount used each year. Failure to do so will result in a reduction in the total available balance.

General Stabilization Fund

In 2015, Town Meeting approved the appropriation of \$1.7 million to the General Stabilization Fund from property taxes as a result of the successful operating override. The amount was supplemented by an additional \$1.3 million with Town Meeting approval of a transfer of \$1.1 million from Free Cash and \$0.2 million from available property taxes. The seeding of the General Stabilization Fund is intended to allow the \$4.5 million operating override approved in 2015 to be leveraged in future years to postpone the need for another override for along as possible. The General Stabilization Fund balance is approximately \$3.0 million. Initial estimates at the beginning of the FY18 Budget Process indicated that \$2.2 million would be required from the General Stabilization Fund to balance the FY18 Budget. As a result of additional state aid, higher new property tax growth and a reduction in original expenditure estimates such as Special Education Tuitions, the amount required in this Proposed Budget was initially reduced to \$1.3 million and further reduced to \$1.2 million based on the reduction in the percentage increase in Special Education Tuitions from 3.5% to 0% contained in the Proposed FY18 School Budget. It is anticipated that additional revenues from state aid, new growth and changes to expenditure increase estimates that will be known during the budget process will allow the use of General Fund Stabilization revenues to be reduced further and therefore leaving an increased fund balance for FY19 and possibly beyond.

Expenditures

The following is a listing of highlights contained in the FY18 Budget:

Capital Budget

The FY18 Budget contains \$1,318,000 to support capital projects, recommended by the Capital Budget Committee.

Capital Budget-Roads and Sidewalks

The FY18 Budget contains \$1,852,000 to support the on-going Pavement Management Program to support improvements to Belmont Streets. This amount is in addition to approximately \$535,000, which is received annually by the town from State Chapter 90 Highway Funds to support our Pavement Management Program. The FY18 Budget contains \$210,000 to support sidewalk repair. This funding was made available as a result of the successful operating override approved by the voters in 2015.

Debt Service

The FY18 budget for Debt Service has decreased by a net amount of \$175,769 to a total of \$4,514,763 to reflect a drop-off in debt service interest for bonded projects.

Pension, Health and Other Insurance

Pension costs are projected to increase by \$387,623 or 5.57% based on the latest funding schedule approved by the Belmont Retirement Board and the Public Employee Retirement Administration Commission (PERAC). Estimated cost increase for health insurance is projected to be 9.0% based on current year claims experience and estimated costs increases. Property and Liability Insurance and Worker's Compensation premium costs are estimated to increase by combined \$12,315.

Charges and Assessments

State Charges and Assessments are estimated to increase by \$45,491 or 2.6% to \$1,791,237. The largest assessment is for the MBTA, which is estimated at \$1,657,878 for FY18. These State Assessments may change based on FY18 Legislative Budget proposals. The FY18 Minuteman Vocational High School assessment is estimated at \$910,185, which reflects an \$114,531 increase or 14.4%.

Departmental Budgets

Listed are major changes to departmental budgets, which include reallocations from existing resources: The Town Clerk's Budget for Elections and Registrations reflects a reduction of \$45,296 due a reduction in the number of elections required in FY18. The Assessors Budget includes an additional \$10,000 in revaluation services. \$30,000 has been included in the Information Technology Budget to cover the cost of replacing network switch gear equipment, which has reached its useful life. Reallocations within the Fire Budget have been made to cover the cost of providing IT support (\$10,000) during the transition period of the Assistant Chief and \$10,000 to purchase firefighter equipment for active shooter safety equipment. The Community Development Budget provides \$25,000 to fund a pilot program to allow for increased enforcement of special permit conditions to supplement the efforts of existing staff. The Recreation Division Budget within the Public Works Budget reflects the net addition of 1.2 FTE administrative assistant positions as part of a reorganization of responsibilities due to retirements within the division which will provide improved services and support the implementation of the Recreation Strategic Plan. In addition, funds have been added to support materials and supplies (\$30,357) and minimum wage

increases for recreation programs. An in-house HVAC Technician position (\$59,585) has been included to mitigate HVAC contracted service costs in the Facilities Budget. The Library Budget contains \$14,281 to provide funds to support the increased cost of providing new and replacement library materials.

Conclusion

I encourage readers to review each department's budget narrative in detail, which provides information on operations, accomplishments and performance measures. During FY17, many accomplishments have been achieved, which are described in individual department narratives. Some of the major accomplishments include:

- The Board of Selectmen (BOS) executed the sale of the Town's Cushing Square municipal parking lot with a private developer, Toll Bros. to allow a 115 luxury residential unit and 37,500 square foot retail development to move forward. This is a major private development intended to revitalize the Cushing Square area of Town. The Town received payments totaling \$1.3 million associated with the sale, as well as the retention of 50 municipal parking spaces once the project is completed.
- Affirmation of the Town's Triple A rating from Moody's Investors Services in conjunction with the April 2016 Bond sale, which allows the Town to receive the lowest interest rates on debt issued for capital projects.
- As a result of approval of the Town's Statement of Interest by the Massachusetts School Building Authority (MSBA) in January 2016, a Belmont High School Building Committee was formed. The composition of this 17 member committee includes: School and Town elected and appointed officials, Town committee representatives, members of the community with architecture, engineering and/or construction experience, and parents. The MSBA Building process is comprised of eight modules. The Eligibility Period (Module 1) has several components, which were required to be completed within 270 days or by November 7, 2016. The Committee successfully completed the required tasks. Based on the completion of all requirements of Module 1, the MSBA Board voted on November 9, 2016 to partner with the Town to conduct a Feasibility Study for Belmont High School. The Committee is in the process of forming the Project Team (Module 2), prior to the Feasibility Study.
- Completion of the \$14.5 million Trapelo Road Reconstruction Project. The project scope and work included full reconstruction of two and a half miles of Trapelo Road and Belmont Street extending from Mill Street to the Cambridge City Line. This project involves upgrading the catenary wire system that powers the MBTA buses, reconstruction of the existing street and sidewalks with upgraded storm drains, improved cycling accommodations for cyclists, new or upgraded traffic signals at 13 intersections and the planting of approximately 400 street trees.
- Completion of the \$2.75 million Belmont Center Reconstruction Project which features new pavement, sidewalks and ornamental street lighting. The project also includes curb extensions, new crosswalk systems, additional parking and bicycle lanes.
- Completion of the Belmont Municipal Light Blair Pond Substation located at 20 Flanders Road and execution of an agreement with Eversource to reimburse Belmont \$45.1 million. A significant portion of the proceeds, \$27.9 million will be used to pay off the Town's short term debt obligation

and the remaining balance of \$17.2 million will complete the remaining transmission line work and retirement of the three substations located at 450 Concord Ave, Hittinger Street and next to the Chenery Middle School over the next six years.

- Participation in the newly formed Major Projects Working Group, whose charge is to define a sound building and financing plan, which will lead to successful and timely completion of major project that includes the Police Station, DPW Facility, Library, and Incinerator Site.
- Development of a Recreation Strategic Plan to implement strategic goals, objectives and recommendations for the next 3 years. Completion and public presentation of the Strategic Plan took place in November 2016. Implementation of the recommendations is underway.
- The Belmont Water Department for the second year in a row received an award from the Massachusetts Department of Environmental Protection (MassDEP) for its outstanding performance as a public water system.
- With the support of the Belmont Light Board, approximately 245 solar rooftop units were installed by Belmont residents.
- Development of a Request for Proposal (RFP) for a feasibility study to allow the Community Path Implementation Committee to continue the process of identifying routes (from the Cambridge line through Belmont to the Waltham line) and funding options. The BOS selected PARE Consulting. A robust public process has begun involving Town official and residents.
- Worked collaboratively with Belmont Retirement Board to develop the biennial Pension Actuarial Study as of January 1, 2016, which resulted in a reduction of the assumed rate of investment return from 7.75% to 7.50%, adopted an updated generational mortality table and modified salary growth assumptions, extended the full funding schedule from 2027 to 2029, maintains the current appropriation levels for FY 18 and FY 19, which reduces the annual percentage increases thereafter from the current level of 6.97% to 4.45%.
- Collaborating with the Other Post-Employment Benefits (OPEB) Working Group to develop a Request for Proposal for Actuarial Services in order to update the Town's OPEB actuarial valuation as of July 1, 2016. The valuation will include compliance with new GASB 75 Requirements and a separate budget analysis of OPEB costs in addition to actuarial liabilities.
- Presentation and possible implementation of an Employer Group Waiver Plan to provide cost savings to retirees and the Town for Medicare Part D prescription drug coverage. BOS approval is anticipated prior to the end of FY17 with an implementation date of January 2018.
- On-going collaboration with town staff and a working group to collect data to be used for the issuance of the next Solid Waste Collection bid.
- Town Administration, including the Cable TV Advisory Committee, continued the license renewal process with Verizon, which included approval of a one-year extension while negotiations take place to execute a long-term renewal.
- Successfully operated the new Underwood Pool for its first full season, which saw a significant increase to almost a 1,000 family memberships.
- Worked collaboratively with Belmont Light to implement a new Utility (Electric, Water and Sewer) Billing, Collection and Accounting System.

Belmont is a vibrant Town, with engaged citizens who volunteer countless hours serving on Boards, Commissions and Committees. The issues facing the Town are numerous, but by working together we can find solutions to these issues which maintain our Town and School services while investing in our infrastructure.

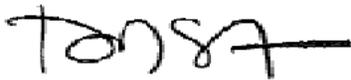
The Town Administrator's Office looks forward to working with the Board of Selectman, School Committee, Warrant Committee and Capital Budget Committee in the months ahead as we finalize the best possible Budget for Town Meeting approval in June. We welcome any suggestions, comments or feedback from Town Meeting members or citizens concerning the FY18 Budget. Individuals can e-mail comments to Selectmen@belmont-ma.gov or to dkale@belmont-ma.gov or pmarshall@belmont-ma.gov

Lastly, since this will be my last budget submission, I would like to thank all members of the Board of Selectmen (both past and present) for the wonderful opportunity to work for the Town of Belmont as its Town Administrator and for the support provided to me.

I will always be grateful for the many positive professional and personal experiences that I enjoyed during my tenure. This includes working with a talented, dedicated and hard working group of department heads and employees, elected officials and various committees to achieve many accomplishments, while working within a framework of limited resources.

I would also like to thank the Town Administrator's Office staff for their hard work, support and teamwork. They, with our department heads and employees, are an extraordinary group of individuals that I will miss interacting with on a daily basis. As I have noted many times, they are the Town's biggest and best asset.

Very truly yours,

A handwritten signature in black ink, appearing to read "DKale", written over a horizontal line.

David J. Kale
Town Administrator