

Belmont Financial Task Force II Update

July 20, 2020

The Bottom Line

2015 OVERRIDE

We have stretched funding from the 2015 override and non-recurring funding sources as far as possible

PROPOSITION 2 ½ CONSTRAINTS

Revenue constraints imposed by Massachusetts Proposition 2½ result in recurring costs structurally outpacing recurring revenue

STRUCTURAL DEFICIT

The result is that we face a structural budget deficit for FY22 and beyond

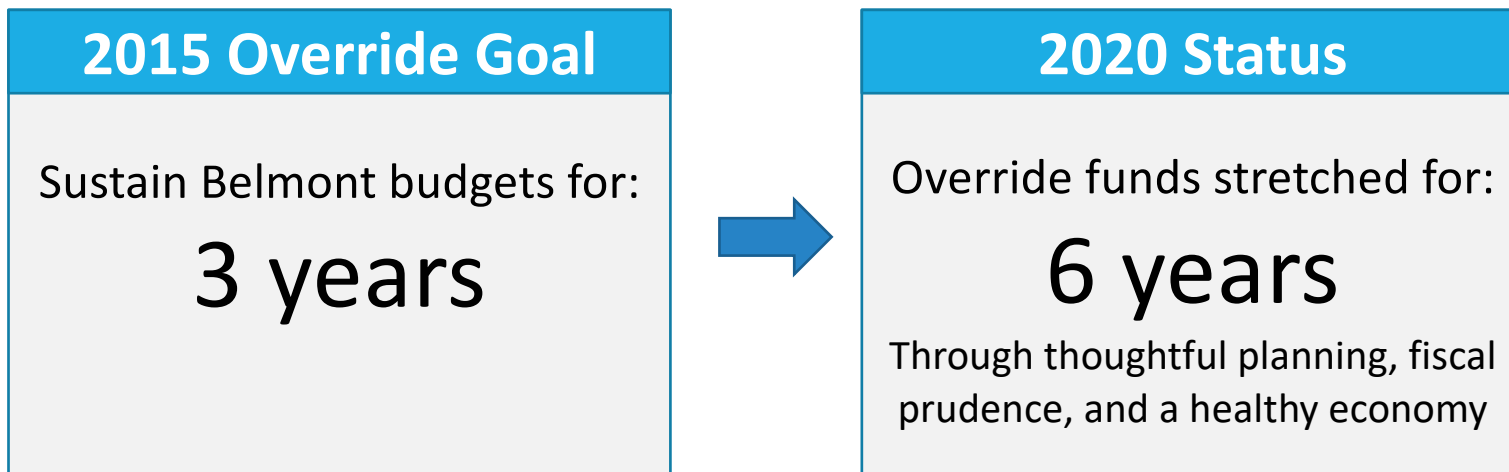
COVID-19 SHOCKWAVE

The COVID-19 pandemic and economic impact compounds the issue and makes our challenging budget far worse

BOTTOM LINE: We must consider a Proposition 2½ override for FY22 or make substantial reductions in town services

2015 Override Achieved its Objectives

- In April 2015, Belmont residents supported a Proposition 2½ override of \$4.5 M to fund schools, town services, roads, sidewalks, and capital projects

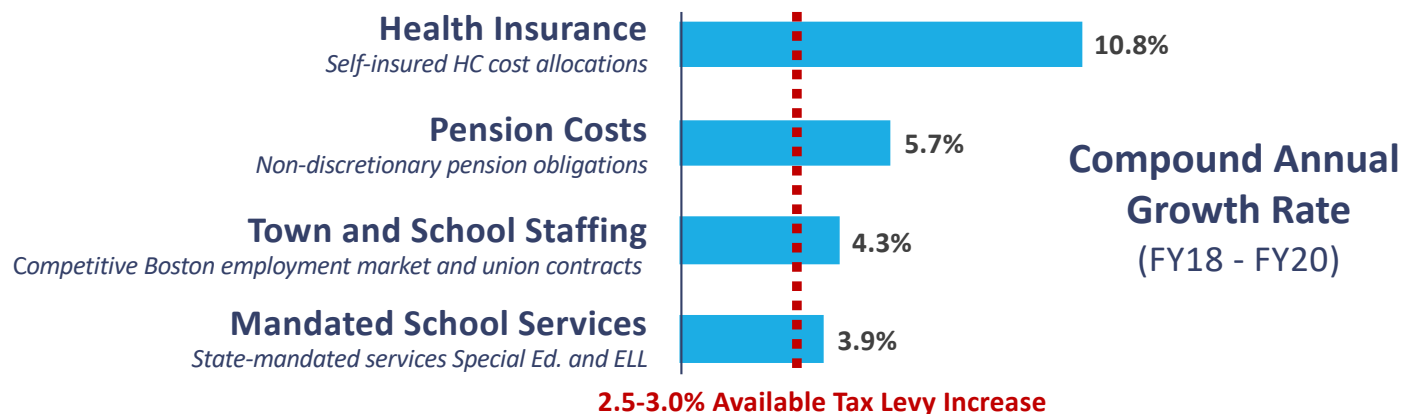


Massachusetts Proposition 2½ Constrains Revenue Growth

- By Massachusetts law, cities and towns cannot increase the total property tax levy more than 2.5% over the prior year, *unless approved by voters*
- For towns that rely mostly on residential property tax revenue (i.e. without large corporations and business districts), recurring revenue cannot fully fund recurring expenses
- This puts municipalities like Belmont in an untenable situation where periodic overrides are required to maintain a “level services” budget
- Note: Belmont has passed only one Proposition 2½ operating override in the last 17 years (2003 – 2020)

A Structural Budget Deficit is the Result

- A structural budget deficit is created when key cost drivers increase more than 2½ percent. Belmont faces many of these unavoidable cost drivers:
 - **School Enrollment** – Enrollment has increased an average of 98 students per year for the last eight years requiring budget increases just to deliver the same education every year
 - **Capital Needs** – Significant capital needs are a result of years of under-investment (e.g. deferred maintenance on facilities, roads, and sidewalks; asset lifecycle replacements, etc.)
 - **Key Cost Drivers** – Outpacing annual levy increase



COVID-19 Pandemic Makes Matters Worse

- The COVID-19 health crisis and associated financial impact makes things worse by substantially reducing projected revenue in FY21 and beyond
 - Projected cuts of 15-25% to state funding for municipalities **\$2.5 - 3.5 M impact**
 - Reduced local revenues (e.g. meals tax, excise tax, building permits, parking fees, etc.) **\$0.5 – 1.0 M impact**
 - Likely slow down in real estate development, resulting in reduced “new growth” revenue **\$0.5 M impact**
- There are also potential unanticipated costs driven by pandemic (e.g. new teaching models, busing changes, retrofitting offices / library / schools, cleaning protocols, etc.)
- Uncertainty creates further challenges in budgeting

Projected FY22 Budget

- FY22 Budget Deficit:

Structural Deficit	\$8-9 M
<u>COVID-19 Rev/Cost Impact</u>	<u>\$3-4 M</u>
Total FY22 Deficit	~\$12 M

- A Proposition 2½ override will be necessary in the next 12 months to avoid substantial cuts to town and school services in FY22 (e.g. layoffs, discontinued programs, closures)
- Structural deficit continues to grow beyond FY22

Gathered feedback from community and stakeholders

- June 25th Initial discussion with the SB, WC, SC, and CBC
- June 30th FTF2 discussion with Select Board
- July 1st FTF2 discussion with Warrant Committee
- July 9th FTF2 discussion with School Committee
- July 10th FTF2 discussion with Capital Budget Committee
- July 10th FTF2 meeting to review feedback and evolve recommendation
- July 13th Select Board meeting (FTF2 and override on the agenda)
- July 16th School Committee meeting (FTF2 and override on the agenda)
- July 17th FTF2 meeting (formal recommendation from FTF2 to SB)
- July 20th Select Board meeting focused on FTF2 and override
- July 27th Select Board deadline for vote to include override in November Election

3-Year Financial Projection Summary

Financial Projection Summary - Minimal Level Services							
	FY21		FY22		FY23	FY24	
Revenues	\$	150,511,528	\$	150,696,896	\$	156,460,659	\$ 160,208,907
% Year-over-year				0.12%		3.82%	2.40%
Expenditures	\$	150,511,527	\$	163,132,120	\$	170,385,285	\$ 176,813,880
% Year-over-year				8.39%		4.45%	3.77%
Annual Surplus/Deficit	\$	0	\$	(12,435,224)	\$	(13,924,626)	\$ (16,604,973)
Year-over-year Surplus/Deficit					\$	(1,489,402)	\$ (2,680,347)

"Minimum Level Services" scenario provides a 5-year financial projection that strives to maintain service levels provide by the Town and Schools similar to FY20 levels. The scenario addresses the need for more school staff as the enrollment numbers continue to grow, keeps headcount nearly flat on the Town side, restores capital expenditures for roads, and slightly increases discretionary capital and ongoing capital needs to address new facilities coming online.

- Needs beyond the Minimal Level Services scenario were modeled in five other scenarios that fully funded school needs, facilities needs, DPW, and other Town needs

FTF2 Recommendations to the Select Board

- The Select Board vote to present a Proposition 2½ operating override for \$12.5 million to Belmont voters in advance of the FY22 budget process
- If successful, the Select Board and School Committee use the increase in the tax levy in such a way as to provide at least three years of financial stability to the Town and Schools
- The override vote occurs in November in conjunction with the presidential election
- Following this override vote, the FTF2 believes that Belmont must adjust to a pattern of more frequent and smaller overrides to match the structural imbalance that exists between growth in revenue and growth in costs
- The Select Board promote and facilitate the work of the recently formed Long-term Capital Budget Planning Committee
- The Select Board establish, in collaboration with the FTF2, a new town committee to examine opportunities to maximize revenue and streamline costs, including ideas to deliver Town and School services differently

The FTF2 and Select Board are aware that this is a challenging time to ask Belmont residents for a tax increase, but we believe that the scope of service impact requires that we give voters the opportunity to decide.

Financial Task Force II

Going forward...

FTF2 Working with Town and Schools to Address Long-term Structural Challenges

- Incremental revenue opportunities
 - Incremental “new growth” development
 - Review of PILOT payments
- Cost mitigation opportunities
 - Upcoming union contract negotiations (e.g. compensation, GIC)
 - New ways of delivering Town and School services
 - Collaborations with other communities (e.g. LABBB Collaborative School, regionalized 911 dispatch, shared assets, group purchasing, etc.)
 - Changes to Civil Service requirements for Police and Fire
- Working group regarding revenue, costs, and options to delivery Town and School services differently
- Long-term Capital Planning Committee
- Long-term need for alignment on “smaller, but more frequent” override strategy to provide predictable financial plan for Belmont

Q&A
