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# EXAMINING FINANCIAL OPTIONS FOR FY22 AND BEYOND

JANUARY 7, 2021

More information at [www.belmont-ma.gov/fy22-budget-information](http://www.belmont-ma.gov/fy22-budget-information)

# AGENDA

Thursday, January 7

- What is a “town like Belmont”?
- How much money do we have?
- How can we increase revenue?
- Where do we spend our money?
- How will we make decisions?

Thursday, January 20

- What is in the financial model?
- Why is it changing? How does a budget differ from a forecast?
- What do we need to know about the budget? When will the budget be final?
- When will an override amount be decided?

# WHAT IS A “TOWN LIKE BELMONT”?

	2018 Population	Area in Sq. Miles	Housing Units per Sq. Mile	% Taxes Residential (\$000)	% Taxes Com'l / Ind (\$000)	FY21B Total Tax Levy (\$000)	FY20 Actual New Growth (\$000)	FY21B Local Receipts (\$000)	FY21B Net State Aid (\$000)	FY21B PILOTs* (\$000)	FY20 Total Budget (\$000)
Arlington	45,624	5.5	3,878	94.6%	5.4%	\$138,200	\$817	\$7,906	\$19,070	\$18	\$177,237
Belmont	26,330	4.7	2,190	95.1%	4.9%	\$109,493	\$1,109	\$7,340	\$10,169	\$36	\$131,384
Lexington	33,792	16.4	732	79.5%	20.5%	\$207,042	\$3,609	\$12,054	\$15,375	\$683	\$246,567
Waltham	62,962	12.8	1,958	41.5%	58.5%	\$195,870	\$7,204	\$20,000	\$23,368	\$72	\$249,303
Watertown	35,737	4.0	3,906	61.7%	38.3%	\$123,336	\$4,919	\$12,043	\$10,551	\$1,025	\$147,825
Winchester	22,851	3.8	1,324	95.8%	4.2%	\$106,478	\$822	\$7,900	\$10,528	\$50	\$131,801

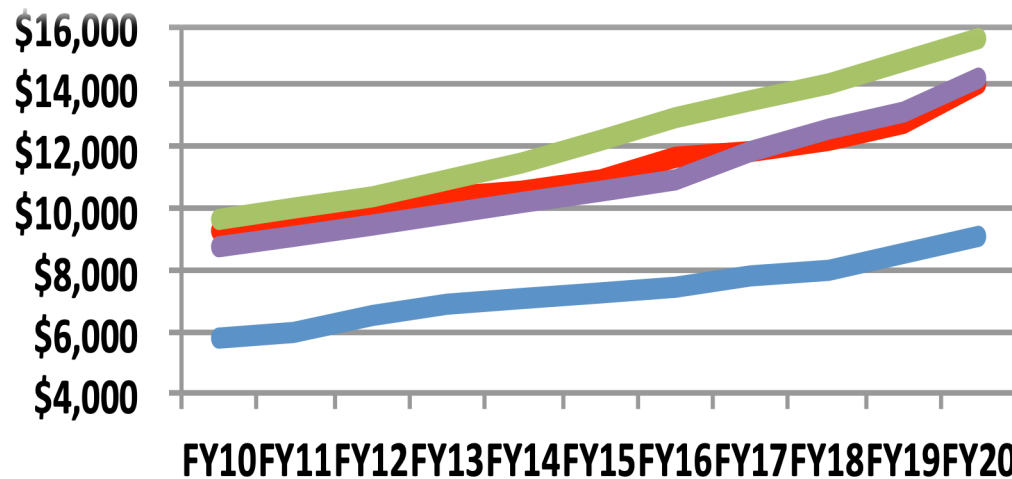
1. Belmont – a “town of homes” – is primarily residential and has limited land for development, placing the financial burden on residential taxpayers, similar to Arlington and Winchester.
2. Towns like Lexington, Watertown and Waltham have significant commercial and industrial development. In addition to taxes, commercial and industrial businesses generate higher local receipts, such as meals taxes, building permits and fees.
3. \*PILOTs are voluntary payments in lieu of taxes, usually by tax-exempt entities.
4. Total budget excludes water and sewer enterprise funds and CPA

Source: MA Department of Revenue (DOR) Local Services data reports.

# HOW DO OUR TAXES COMPARE WITH OUR NEIGHBORS?

Belmont's average single family tax bill has increased in line with neighboring communities, and average single family home value has outpaced Arlington, Lexington and Winchester.

## Average Single Family Tax Bill\*



— Arlington — Belmont — Lexington — Winchester

10-Yr CAGR

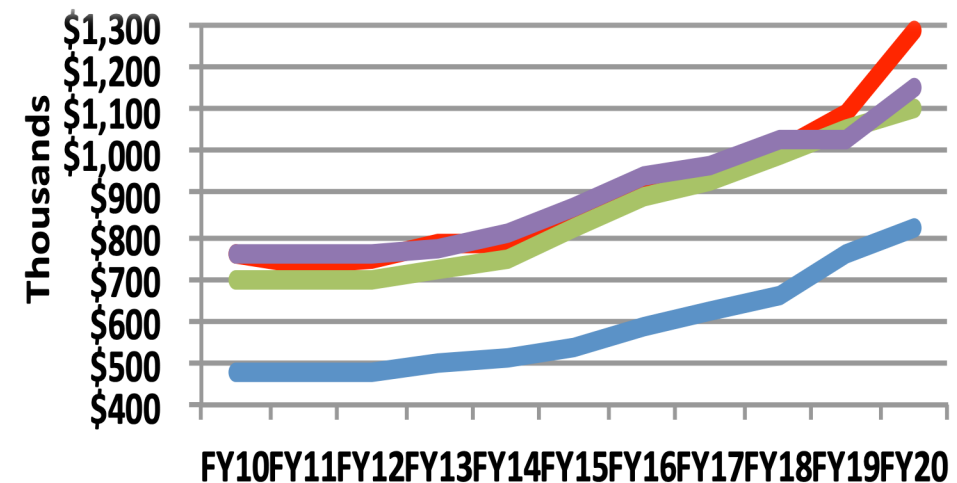
4.7%

4.4%

5.0%

5.0%

## Average Single Family Home Value



— Arlington — Belmont — Lexington — Winchester

5.6%

5.4%

4.8%

4.2%

\* Belmont includes first tranche of borrowing for BMHS.

Source: MA Department of Revenue (DOR) Local Services data. Data for Watertown and Waltham not available.

## CONTEXT ► “A TOWN LIKE BELMONT”

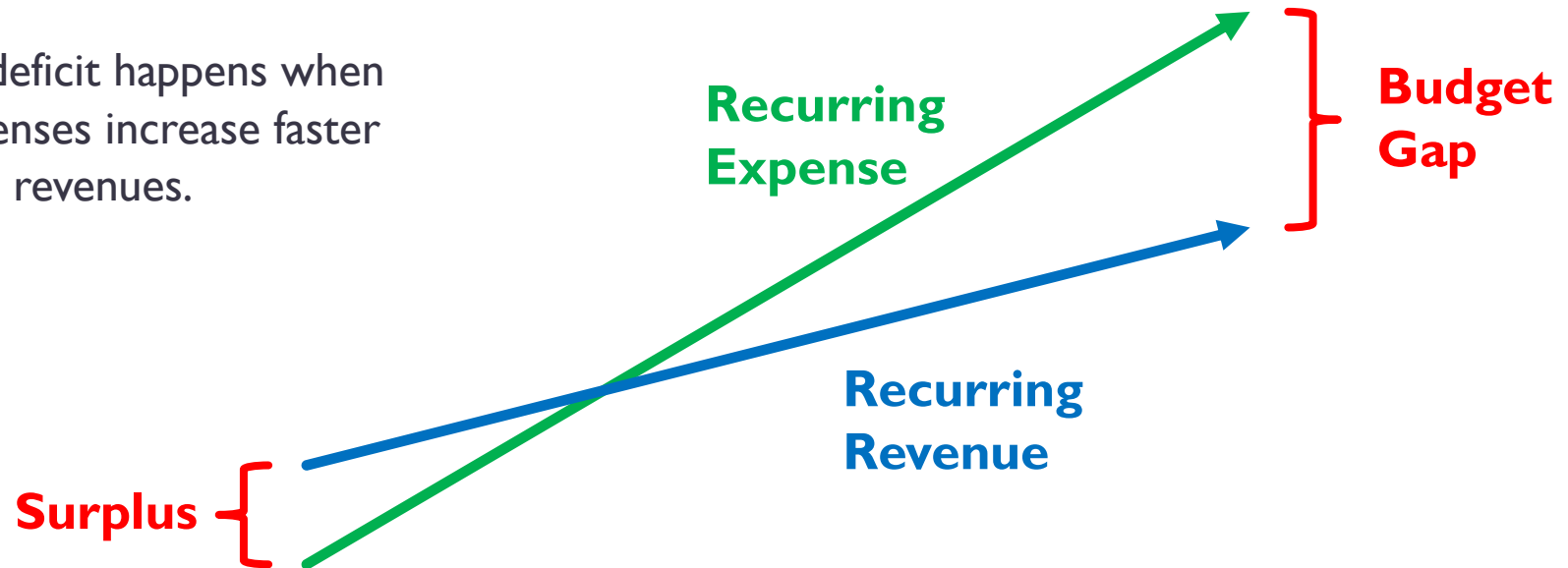
### *THE BOTTOM LINE*

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- Belmont is a “town of homes” and most of our revenue comes from residential property taxes.
- Belmont is only 5% commercial. Unlike some of our neighbors (with 20-60%), we do not have a large base of businesses to supplement residential property taxes.
- The growth in Belmont’s average single-family tax bills is in line with our neighboring communities.

## RECAP ► WHAT IS A STRUCTURAL DEFICIT?

A **structural** deficit happens when recurring expenses increase faster than recurring revenues.



**Conceptual Diagram of a Structural Deficit**

# WHAT TOOLS DO WE HAVE TO MANAGE THE STRUCTURAL DEFICIT?

## Use Reserves

How much money do we have? What is the best way to use our reserves? What are the constraints?

## Cut Expense

How can we reduce the main drivers of the structural deficit? What are the limitations?

- Compensation, pensions, health care

How could we cut services to reduce the budget gap?

## Grow Revenue

Why are we limited in revenue growth?

- Our “town of homes” is 95% residential, and available land is scarce
- COVID-19 and economic uncertainties are impacting meals taxes, permits, etc.

## Override

How does Proposition 2½ enable us to reset the property tax baseline?

# HOW MUCH MONEY DO WE HAVE IN RESERVES?

Reserves are used to help fund:

- Operating budget
- OPEB liability
- One-time capital expenses.

Reserves also protect the town from unexpected adverse events, like COVID-19.

Healthy reserves are viewed by the financial markets as a sign of a well-managed town.

	FY17	FY18	FY19	FY20
<b>Certified Free Cash by DOR on July 1</b>	\$7.1M	\$5.6M	\$8.4M	\$8.1M
Appropriations by Town Meeting				
Use for Operating Budget	\$(2.3)M	\$(1.6)M	\$(2.3)M	\$(3.8)M
Move to General Stabilization Fund	\$(1.0)M	-	-	\$(1.5)M
Move to OPEB Fund (formula)	\$(0.3)M	\$(0.4)M	\$(0.5)M	\$(0.1)M
Fire Station - one-time capital appropriation	-	\$(0.6)M	-	-
Fire Pumper - one-time capital appropriation	-	-	-	\$(0.3)M
Chenery MS Modular Classrooms	\$(1.5)M	-	-	-
<b>Net after Appropriations</b>	<b>\$2.0M</b>	<b>\$3.0M</b>	<b>\$5.6M</b>	<b>\$2.4M</b>
Net Turnbacks, Surpluses, Adjustments	\$3.6M	\$5.4M	\$2.5M	\$8.8M*
<b>Free Cash Certified by DOR on June 30</b>	<b>\$5.6M</b>	<b>\$8.4M</b>	<b>\$8.1M</b>	<b>\$11.2M</b>
<b>General Stabilization Fund</b>				
Additions	\$1.00M			\$1.5M
Usage for Operating Budget		(\$1.3M)	(\$2.4M)	
<b>General Stabilization Fund Balance</b>	<b>\$4.0M</b>	<b>\$2.7M</b>	<b>\$0.4M</b>	<b>\$1.9M</b>
<b>Total Undesignated Reserves</b>	<b>\$9.6M</b>	<b>\$10.7M</b>	<b>\$8.5M</b>	<b>\$13.1M</b>



# WHY ARE RESERVES HIGHER THAN NORMAL?

When the pandemic hit last March, immediate measures were put in place to mitigate an unknown, potentially-disastrous impact. This proactive response, combined with efforts to maximize federal grant reimbursements, resulted in a significantly higher reduction of expenses than the negative impact of the pandemic on revenue. Some notable sources include:

- Turn-backs of \$6,388,000 from an immediate hiring and spending freeze, as well as savings from the shutdown (reduced overtime, utilities, crossing guards, etc.).
- Reimbursement of about \$1,000,000 from March to June from federal COVID-19 grants for pandemic-related expenses.
- One-time investment income of about \$1,400,000.
- Net impact of accounting adjustments of about \$900,000.
- For more information about the unreserved fund balance, see the Free Cash Presentation at [www.belmont-ma.gov/fy22-budget-information](http://www.belmont-ma.gov/fy22-budget-information)

## Breakdown of FY20 Department Turn-backs

<u>DEPARTMENT</u>		<u>FY20</u>
Police		\$ 667,000
Fire		\$ 276,000
Facilities		\$ 681,000
Library		\$ 248,000
Public Works		\$ 333,000
Recreation		\$ 231,000
Schools		\$ 817,000
Insurance & Benefits		\$ 535,000
Other*		\$ 2,600,000
<b>Total</b>		<b>\$ 6,388,000</b>

\* Abatement & Exemptions; Other Town Departments; Warrant Committee Reserve

# HOW MUCH OF RESERVES CAN WE USE?

## What are the constraints?

Our “Free Cash” guideline recommends keeping a balance of 3-5% of budget in free cash. The “Total Reserves” policy requires a balance of 10% of budget in total reserves.

## How much is available?

The maximum reserves we currently have that is available to use for FY22 (after constraints) is \$10.2M.

## How could we use it?

We typically use about \$2M from reserves for the operating budget.

Based on our current level of reserves, we could safely use an additional \$2.7M per year for the next three budget years to keep the amount of an override as low as possible.

However, we must be careful – there are negative consequences of balancing the budget with too much of our reserves.

## Why is the bond rating important?

Belmont has the highest possible bond rating – AAA – from both Moody’s and Standard & Poors. We are one of only 12 communities in the state to have a double AAA rating.

The ratings agencies rigorously assess the management and finances of the town before assigning a bond rating. Our AAA bond rating depends, in part, on using reserves prudently – and not overusing reserves in a single year.

The AAA rating creates significant savings every time we borrow for a project or purchase.

For example: In our recent borrowing, multiple investors bid for our AAA bonds – 7 bidders in 2019 and 10 in 2020 – and we saved approximately \$6M in 2019 and another \$6M in 2020. We also benefit from lower borrowing rates.

If we lose our AAA rating, it will be nearly impossible to get it back, costing millions in future borrowing.

# HOW DO RESERVES IMPACT A BUDGET GAP?

Using extra reserves fills the budget gap created by a structural deficit – but it's only temporary. The underlying drivers of the structural deficit have not changed.

In the next year, the “fiscal cliff” will be even larger and more difficult to fill.

## Conceptual Diagram of Using Reserves

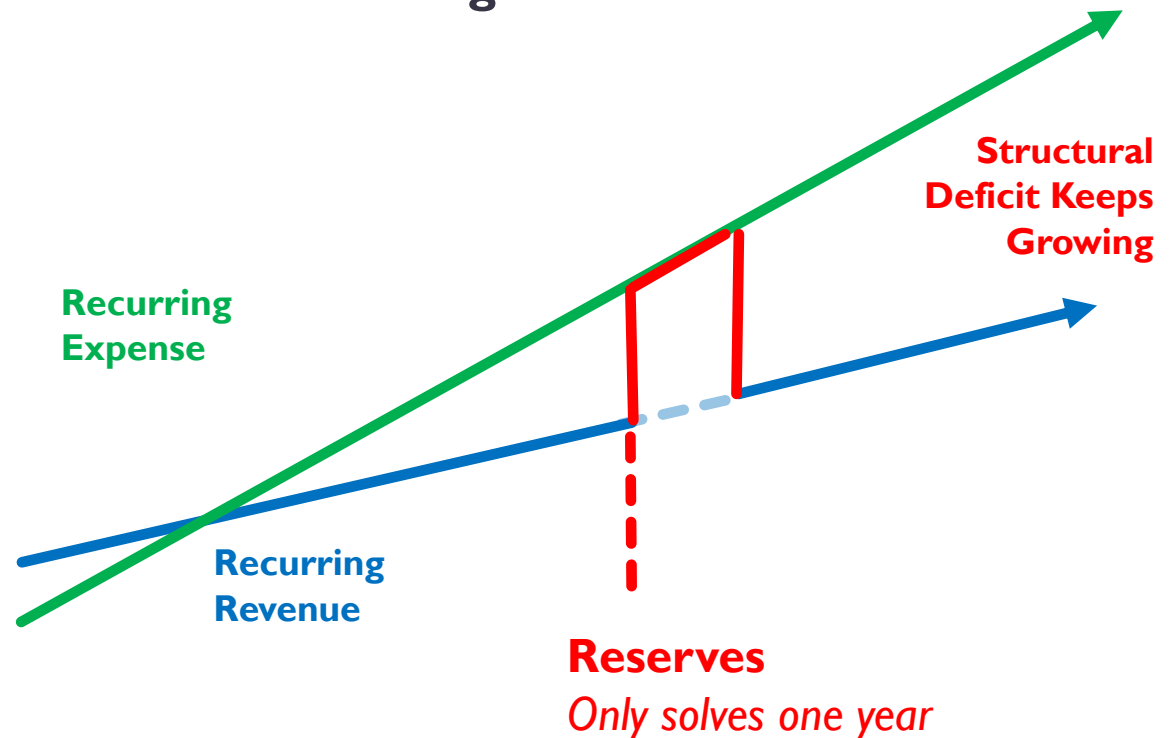


Diagram is not to scale

## *THE BOTTOM LINE*

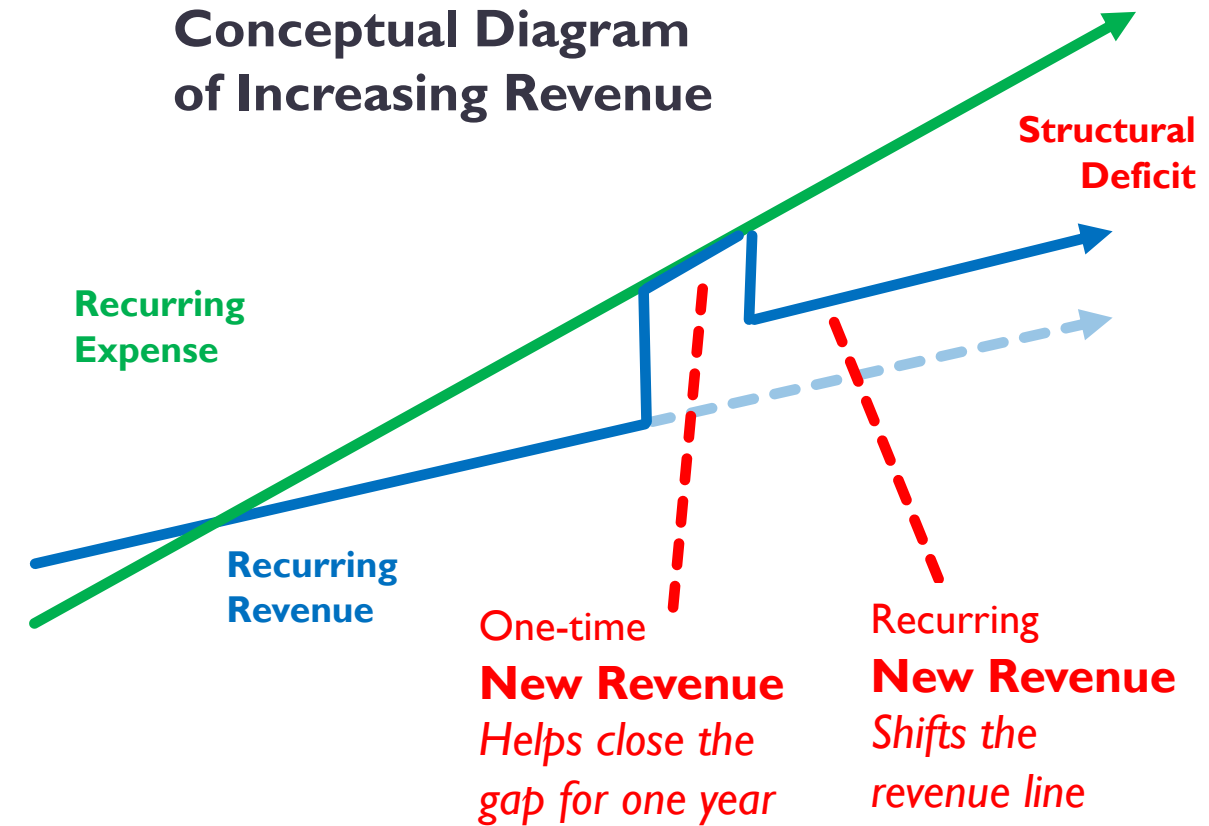
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- Because of our conservative response to the COVID uncertainty, FY20 resulted in a larger than anticipated balance in reserves.
- Constraints on the use of reserves limit how much should be used.
- We can use the “excess” reserves over multiple years to help address the structural deficit.

# HOW DOES REVENUE IMPACT A BUDGET GAP?

Increasing revenue impacts the structural deficit in different ways depending on the nature of the increase.

- One-time revenue – like the building permits from a large development – help fill the gap for only one year.
- Recurring revenue – like marijuana fees – shifts the line closer to the expense line, but the structural deficit continues to grow.
- New construction is added to the property tax levy, which shifts the line closer to the expense line, but it only increases by 2½%.
- It is possible for a new source of revenue to grow faster than 2½%, but it is rare.



# WHAT'S BEEN DONE ... TO INCREASE REVENUE?

In the past three years, many initiatives to generate new revenue – beyond residential property tax – have been successfully implemented.

*\* New growth also incurs new expense.*

	Category	Impact Date(s)	Amount
NSTAR Transfer Station	New Growth	FY18+	\$1,105,500 recurring
Cushing Square Development*	New Growth	FY18-20+	\$454,373 recurring
Acorn Park Development*	New Growth	FY20-21+	\$1,184,861 recurring
Marijuana Retail Dispensaries	Local Receipts	FY22-24+	\$1,250,000 recurring
McLean/Northland Development	Local Receipts & Building Permits	FY22-23	\$1,066,000 one-time
McLean/Northland Development*	New Growth	FY24+	TBD
New Grants for financial modeling, technology, ADA, trees, stoplight, school security, etc.	Grants	FY18-21	Over \$600,000 one-time
Federal COVID reimbursement grants	Grants	FY20-21	Over \$3.5 million: \$2.7 million for School and \$800,000 for Town Depts
Facility rentals, parking, trash overflow bags, etc.	Fees	FY16+	Estimated \$400,000 recurring
Update sewer and water transfers for direct and indirect costs	Transfer from retained earnings	FY21	\$500,000 recurring

## *THE BOTTOM LINE*

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- Belmont does not have the commercial tax base of a Waltham or Watertown – we don't have the land – but we continue to increase revenue where possible.
- We've made significant progress, but it is not enough to solve the structural deficit for our “town of homes.”

# WHAT'S BEEN DONE ... TO REDUCE EXPENSE?

Since the 2015 override, many initiatives to reduce expenses have been successfully implemented.

Action	Impact	Savings/Benefits
Extended timeline (twice) for payment of pension liability (by Retirement Board)	Extended payment schedule to 2031 to reduce annual payments	2022 savings of \$187K; reduced rate of increase from 6.8% to 4.5%.
Reconfigured health plan	Aligned with state's GIC plan, largest public health insurance plan in MA	FY21 net impact of \$524K. Lowered basis for and reduced future increases from 8% to 3-6%
Restructured facilities department	Consolidated school and town facilities departments. Greater purchasing power for utilities and supplies and coordinated management of facility maintenance.	Savings on purchasing contracts is unmeasurable
Restructured recreation department	Moving Recreation to self-supporting enterprise. Combined Assistant TA and Recreation Director.	Savings of \$90-100K per year salary Increased revenue from recreation assets
Designed new school for zero net energy (ZNE) – geothermal wells, solar panels, efficient systems, etc.	Contains energy costs, increases efficiency, and reduces climate footprint even though it is a much larger building.	TBD
Purchased hybrid police vehicles	Reduced fuel and idling costs for vehicles	Expected to reduce fuel consumption per vehicle by 25-50%. Limited data shows significantly lower cost per mile.
Smart meters and monthly billing	More accurate and timely billing	\$350K recurring in enterprise fund



# WHAT'S BEEN DONE ... TO REDUCE EXPENSE?

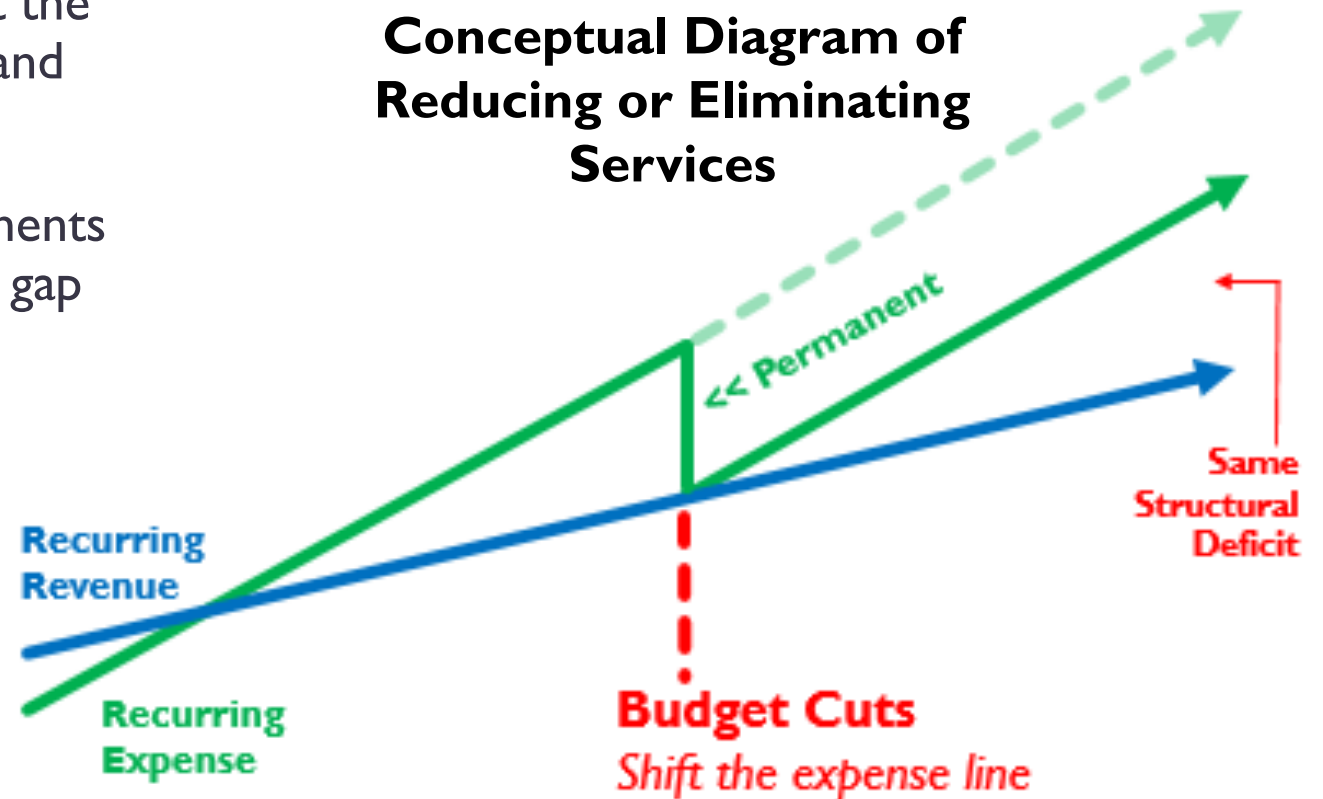
These collaborations with other towns are ongoing steps that the town and schools have taken to create cost savings and efficiencies in the budget each year.

Department	Collaborative Effort	Impact
Health Department	Shared Nurse with Lexington	Provides needed coverage and flexibility for Health Dept.
Community Development	Shared inspector with Watertown	Provides service needed on PT basis
DPW	Partner with other towns to lower costs through large purchases of commodities (heating oil, salt, sand, etc.)	Town receives discount benefits accrued to large purchases
School Department	Share Special Education costs with Lexington, Arlington, Bedford, and Burlington	Ongoing collaborative provides high quality services at a lower cost than third party
Police Department	Member, NEMLAC	Coverage and specialty services provided by member towns
Fire Department	Mutual Aid with 36 towns through Mass Metro Fire	Coverage and aid provided by member towns
DPW	Hazardous waste disposal consortium with Lexington and other towns	Provides service at minimal cost

# HOW DO CUTS TO SERVICES IMPACT A BUDGET GAP?

Reducing or eliminating services without changing the overall growth rate will shift the expense line to meet the revenue line – and eliminate the gap in the short term.

However, because the underlying components of the structural deficit do not go away, a gap will return.

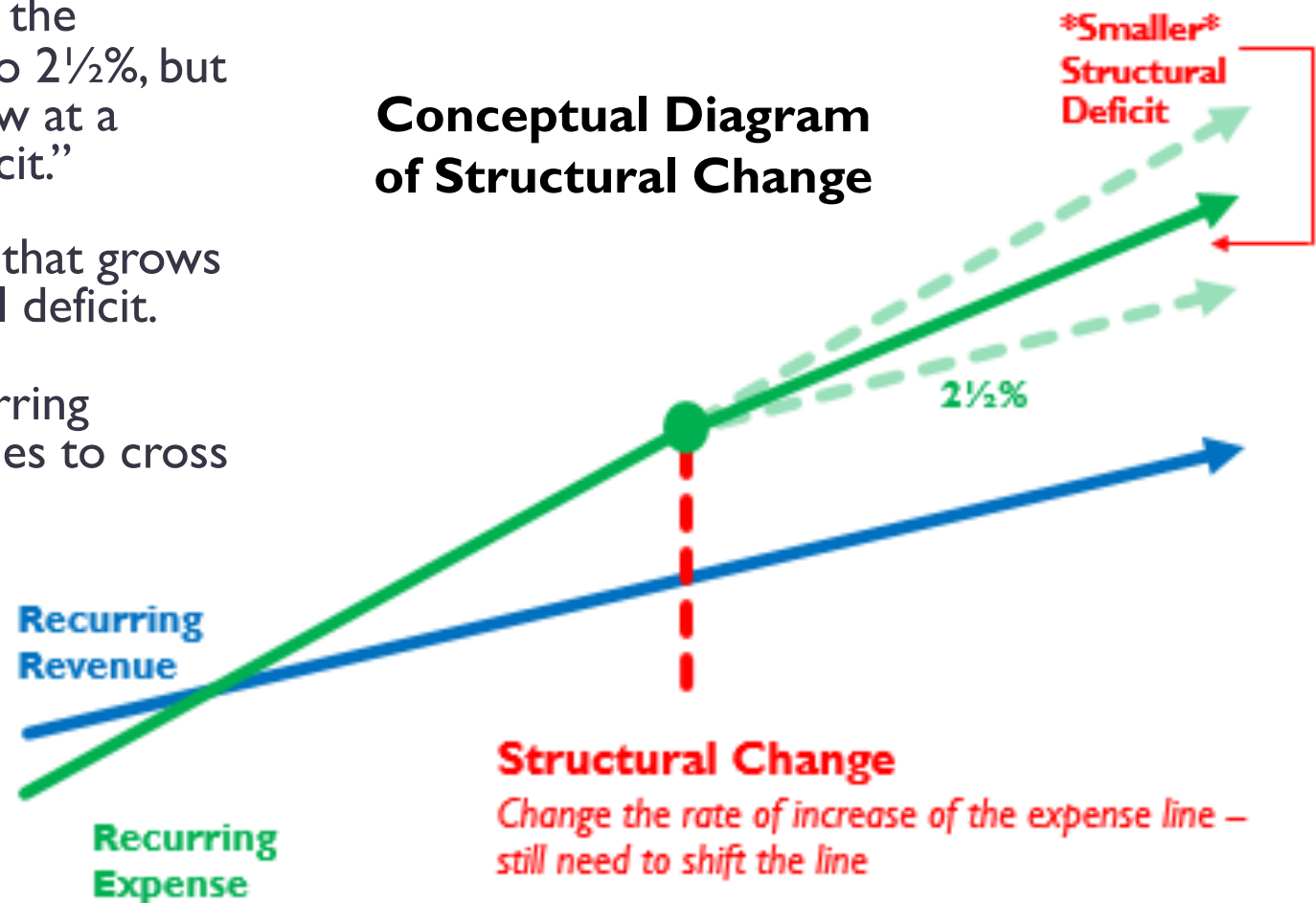


# HOW DO “STRUCTURAL” EXPENSES IMPACT A BUDGET GAP?

Massachusetts law Proposition 2½ limits the \*automatic\* increase of property taxes to 2½%, but several expenses – like health care – grow at a faster rate. This creates a “structural deficit.”

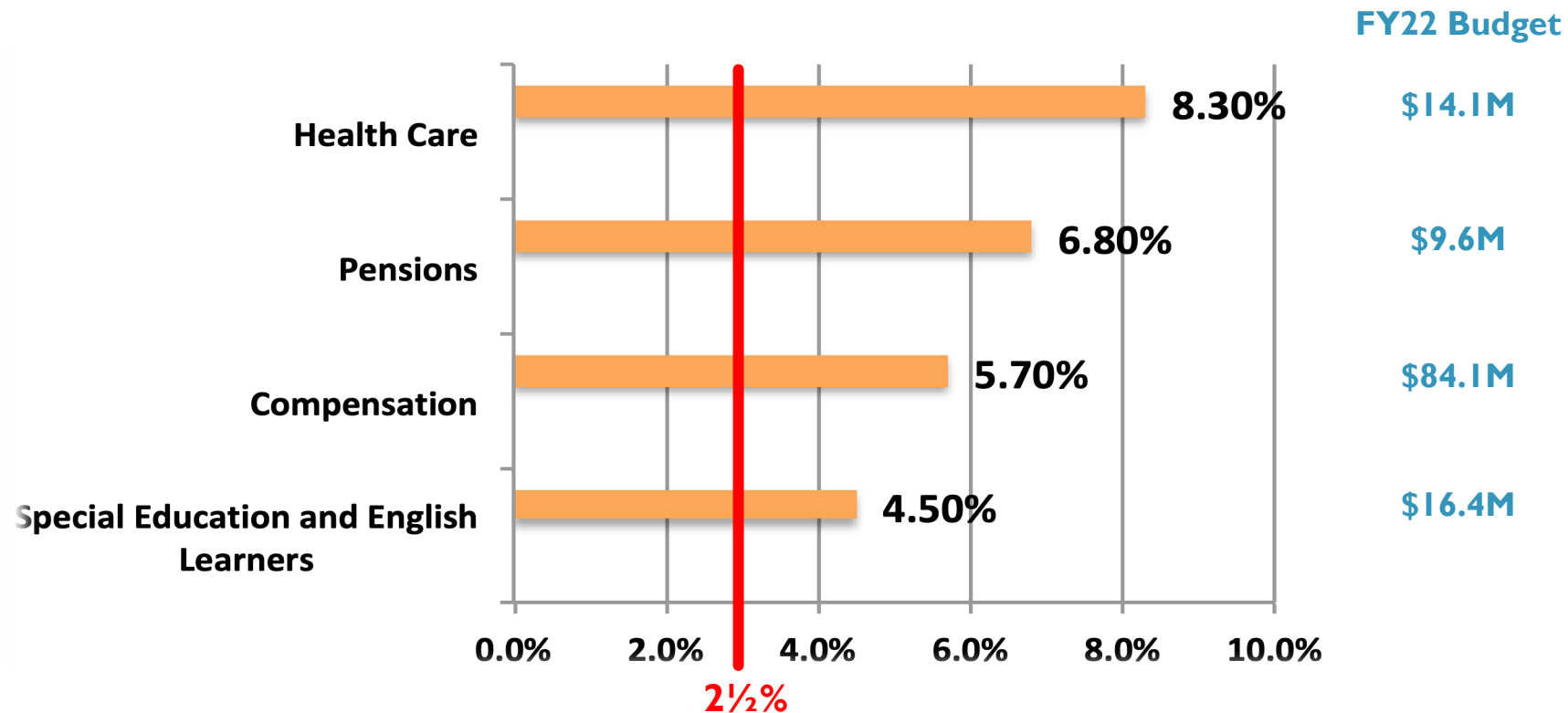
Reducing the growth rate of an expense that grows faster than 2½% helps shrink a structural deficit.

Recurring expenses may not match recurring revenue, but it will take longer for the lines to cross and a new budget gap to form.



# HOW CAN WE REDUCE EXPENSES THAT CONTRIBUTE TO THE STRUCTURAL DEFICIT?

These cost drivers grow faster than the automatic 2.5% property tax increase from Prop 2½. Reducing the growth in these categories would reduce the “structural” deficit.



*5-Year Compound Average Growth Rate FY17-22 for Town and Schools only, excludes Enterprise Funds.*

*SPED and EL represents Special Education and English language learner expenditures, which are mandated by the State.*

*Source: FY16-21 Town and School budgets, FY22 Draft Budget Proposal*

# CAN WE REDUCE THE PENSION EXPENSE?

All Massachusetts cities and towns are legally required to fund their pension liability by 2040. (Previously, pensions were “pay as you go.”)

The funding timetable and outstanding balance determine how the liability impacts the operating budget. Belmont’s funding timetable has been extended twice in the last few years to manage the growth of annual payments to the fund.

In 2020, actuaries advised the Retirement Board that investment assumptions should be lowered to 7.14%, resulting in the inflation of the FY22 unfunded liability to \$79.1M.

In response, the board extended the deadline to 2031, which reduced the growth of annual payments to 4.45% annually – down from 6.8% annually. This change will have a positive impact on the structural deficit.

Pension decisions are made by the independent Belmont Retirement Board – decisions are not under the purview of the Select Board or Town Meeting.

1. Unfunded pension liability includes Town and School,, Belmont Light, Water/Sewer Enterprise Funds, and Housing Authority. Does not include teachers, who are covered by a state plan. Town share is amount funded in Town general fund budget.
2. PERAC amount approved; Belmont's share estimated based upon the CY 2018 Actuary Analysis Percentage split based upon 2018 numbers: Town = 88.55%; Housing Authority = 1.19%; and Light Plant = 10.26%
3. Source: PERAC

	Belmont Unfunded Liability	PERAC Total Funding Schedule	Town Share	% Change from Prior Year
FY18	\$76,129.6	\$9,147.1	\$7,345.6	
FY19	\$74,178.9	\$9,643.0	\$7,857.6	7.0%
FY20*	\$71,480.4	\$10,197.7	\$8,821.9	12.3%
FY21*	\$82,281.4	\$10,784.0	\$9,332.7	5.8%
FY22*	\$79,183.3	\$11,263.9	\$9,662.1	3.5%
FY23*	\$75,437.5	\$11,765.2	\$10,092.0	4.4%
FY24*	\$70,977.8	\$12,288.7	\$10,541.1	4.5%
FY25*	\$65,732.3	\$12,835.6	\$11,010.2	4.5%
FY26*	\$59,623.1	\$13,406.8	\$11,500.1	4.4%
FY27*	\$52,566.1	\$14,003.3	\$12,011.9	4.5%
FY28*	\$44,468.4	\$14,626.5	\$12,546.4	4.4%
FY29*	\$35,232.1	\$15,277.4	\$13,104.8	4.5%
FY30*	\$24,749.5	\$15,957.2	\$13,687.9	4.4%
FY31*	\$12,904.1	\$16,258.9	\$13,946.7	1.9%

## HOW DO WE COMPARE?

Belmont's funding of the pension liability is in line with our neighboring communities.

Watertown is a notable exception, where a boom in development and significant commercial base make it possible for an accelerated payment schedule.

None of these towns have deadlines beyond 2035 – extending the deadline too close to 2040 puts a town at risk if changes in financial markets reduce investment returns.

Like some other communities, Belmont's Retirement Board manages its own pension fund. Many other communities use the state's fund (PRIT) to manage their assets, leveraging economies of scale to achieve higher investment returns and lower administrative costs.

Town	% Funded	Assumed Full Funding Date	Unfunded Liability as of FY21
Arlington	51.5%	2035	\$144.5M
Belmont	57.6%	2031	\$82.2M
Lexington	79.9%	2028	\$44.6M
Waltham	56.8%	2032	\$189.2M
Watertown	91.5%	2023	\$19.9M
Winchester	79.4%	2029	\$30.4M

*Source: MA DOR Local Resources data services*

## THE BOTTOM LINE

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- All Massachusetts cities and towns are required to pay down their pension liability by 2040.
- Belmont's payment schedule was just extended to fully fund the pension fund by 2031, which reduced the growth of annual payments to 4.45% annually.
- We cannot extend the payment schedule too close to 2040 without putting the town at risk if investment returns go down.
- All pension decisions, including the investment of fund assets, are controlled by a fully-independent Belmont Retirement Board.

# CAN WE REDUCE THE HEALTH CARE EXPENSE?

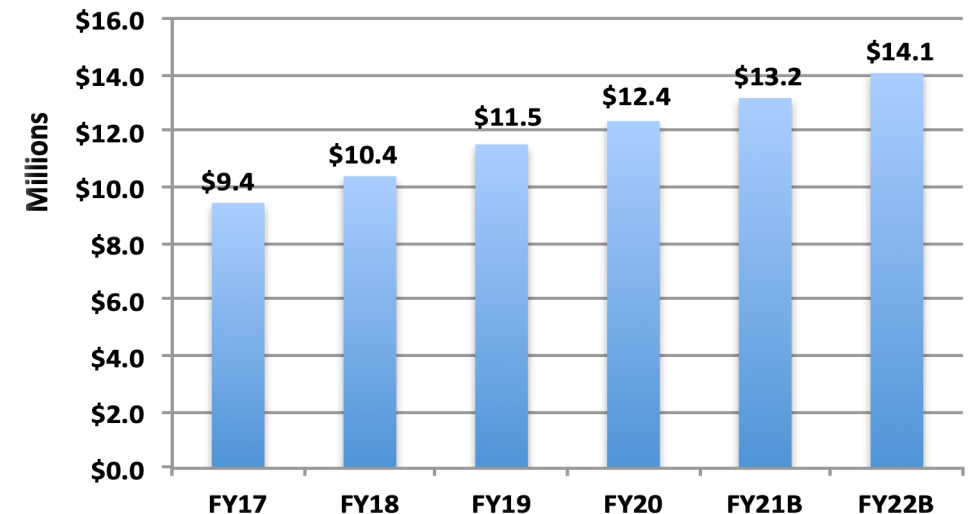
Belmont's health care plan design was changed in fall 2019 to match the state's health care plan (GIC).

- The plan design change resulted in an estimated \$523K net savings in FY21 and lowered the baseline for health care cost increases in future years.
- By making this change, we reduced the growth rate from 8% to 3-6%.
- This was Belmont's first plan design change in 9 years. Although our plan was originally intended to continue to match the GIC, the GIC had three plan design changes in the time when we didn't.

## Town and School Health Costs

*Health Care grows by 8.3% on average, compared to the 2.5% growth of Prop 2½*

*Health Care represents 12.4% of the FY22 School and Town Department Budgets.*





## *THE BOTTOM LINE*

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- Health care represents 12.4% of the Belmont operating budget and it has grown by 8.3% on average.
- These are market-driven costs, that are challenging for small, self-insured towns like Belmont.
- Belmont has recently modified the plan design to constrain the rate of expense growth.

# CAN WE REDUCE THE COMPENSATION EXPENSE?

## HEADCOUNT

Town department FTEs have been flat for at least 10 years.

School department FTEs have grown to keep up with enrollment growth.

Enrollment is projected to peak in FY26. In the meantime, class-size pressure will follow the 6<sup>th</sup> and 7<sup>th</sup> grade wave through middle school and high school.

	FY15	FY16	FY17	FY18	FY19	FY20	5-YR GROWTH		FY21 Budget
Town FTEs	251	252	256	259	259	255	4		255*
School FTEs (all)	460	468	472	480	490	511	51		520
Teachers (subset)	249	260	269	273	280	285	36		
Enrollment	4,222	4,303	4,408	4,531	4,568	4,633	411		4,378**
Increase in School FTEs (all)		9	4	8	10	21			9
Increase in Teachers (subset)		11	9	4	7	5			
Increase in Enrollment		81	105	123	37	65			(225)

\* Town FTE 5-yr growth includes two School Resource Officers and consolidation of school and town facilities departments

\*\* FY21 enrollment declined, primarily at the elementary level, due to the pandemic.

Note: General Fund FTEs only. Excludes Enterprise Funds and grant funded school positions.

Source: Town of Belmont Budget presentations for Town FTEs, MA DESE Total Staffing data for School FTEs.

# CAN WE REDUCE THE COMPENSATION EXPENSE?

## AVERAGE SALARY

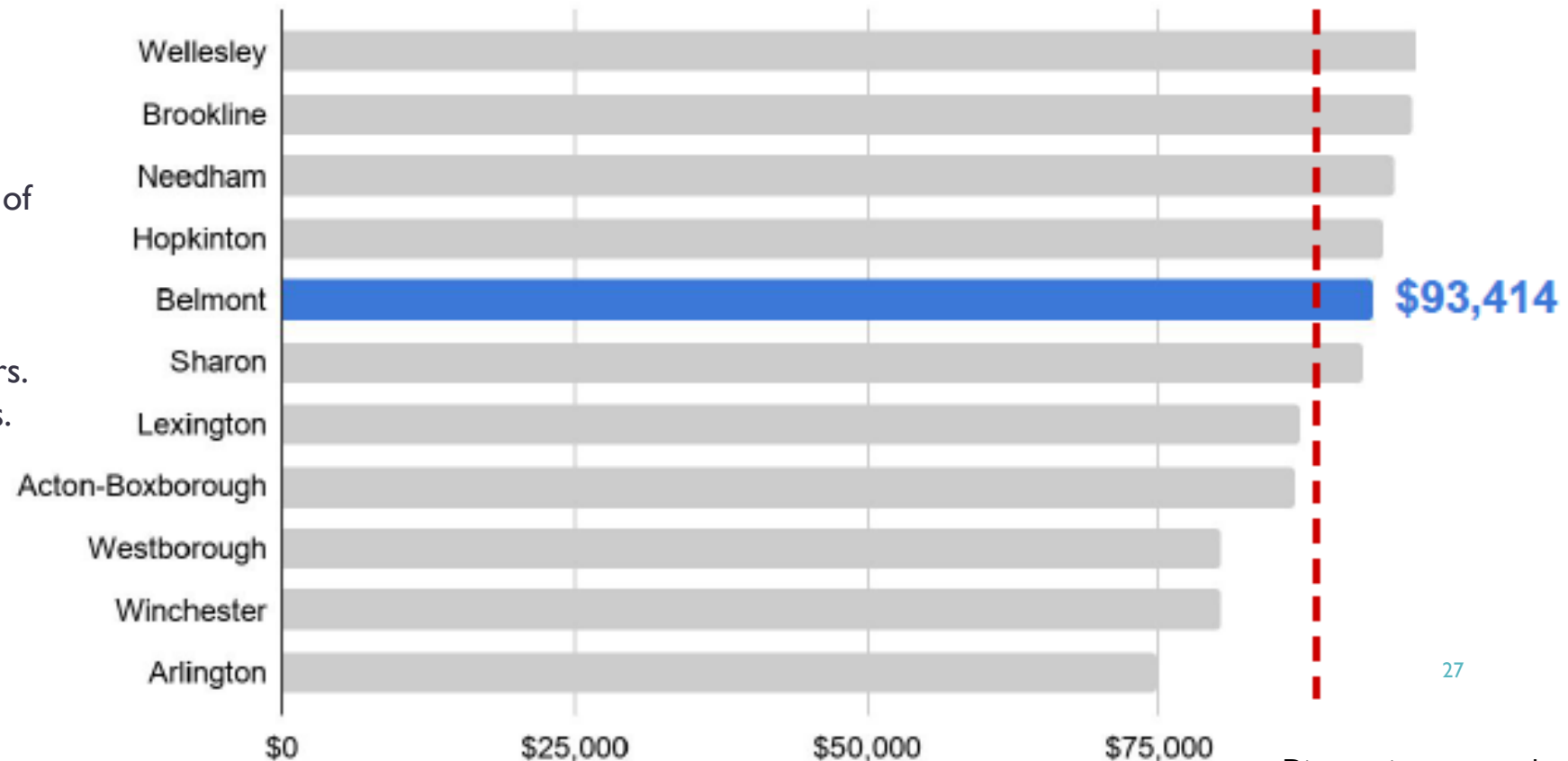
To benchmark salaries, we need to consider the composition of the school districts – K-12, enrollment, MCAS performance, demographics, etc.

Belmont's average salary is in the middle of similar school districts. Many years ago, Belmont made the decision to pay competitive salaries in order to recruit and retain an exceptional pool of teachers. This decision is embedded in our salaries.

Belmont also has a high percentage of highly-experienced teachers, which is reflected in the average salary. Teachers come to Belmont and stay, which has served our children well.

## Average Teacher Salary (2019)

Comparison group  
average: \$88,960



# CAN WE REDUCE THE COMPENSATION EXPENSE?

## CONTRACTS

Unlike the private sector, salaries and wages are not unilateral management decisions, and they do not expand and contract based on market forces.

Compensation is set by negotiated contracts with 12 unions.

Teacher compensation follows a national structure called “steps and lanes” – a system that rewards experience (steps) and education (lanes), in addition to a COLA (cost of living increase).

	Negotiated salary increases (COLA%)				Salary Steps and Lanes (Current Contracts as of FY18)			
BEA-Unit A Teachers	FY15	FY16	FY17	FY18	Lowest Step Bachelor's	Highest Step Bachelor's	Lowest Step Highest Lane	Highest Step Highest Lane
Acton-Boxborough	1% Steps 1-11, 2% step 12	1.5%	1.25% Day 1, 2.25% Day 90	1% Day 1, 1.5% Day 90	49,552	77,839	60,338	90,139
Arlington	1.0%	1.0%	1.0%	1.5%	47,777	77,296	55,349	91,378
Belmont	On day 121, 2.5% top step, 1% to all others	2.0%	1% on day 1, add 1% mid-yr	2.0%	50,017	88,107	59,950	108,257
Brookline	\$1600 all steps	2.0%	1%, and 2% on 92nd day	TBD	53,348	91,292	66,362	113,367
Hopkinton	2.0%	2.5%	1.3%	2.3%	45,805	78,398	65,856	100,304
Lexington	2.3%	2.0%	2.0%	2.3%	47,822	82,922	56,959	109,735
Needham	1.5%	2.0%	2.3%	N/A	50,089	74,714	61,870	105,704
Sharon	2.0%	2.0%	2.0%	2.0%	47,625	79,299	61,686	102,875
Wellesley	1.5% Step1-15; 2% Step 16	1.5% Step1-15; 2% Step 16	1.5% Step1-15; 2% Step 16	2.00% all steps	48,977	90,238	62,231	114,662
Westborough	3.4%	3.4%	3.4%	3.4%	51,215	77,544	64,452	97,587
Winchester	3.0%	2.0%	3.0%	2.0%	45,922	70,263	64,195	99,345

# CAN WE REDUCE THE COMPENSATION EXPENSE?

## CONTRACTS, more

The salary structure for each of 12 unions, and each job within those unions are quite unique.

Police and fire contracts include both COLA (cost of living adjustment) and steps (increases for experience).

Total compensation includes components other than base salary. For example:

- Overtime: Many police officers work private details for road construction, which is paid as salary but funded by the private contractor.
- Contractual stipends: ALS, EMT, HAZMAT, first responders, holiday pay, and night differential, etc.
- Training: Contracts specify that police officers and firefighters are paid for time at the academy, as well as stipends for training courses.

	Arlington		Belmont		Lexington		Winchester	
	Base minimum	Base maximum	Base minimum	Base maximum	Base minimum	Base maximum	Base minimum	Base maximum
Police Patrol	54,639 (FY18)	60,094 (FY18)	50,569	63,377	49,760 / 53,442	66,322 / 71,230	50,663 / 52,379	59,698 / 61,414
Police Sergeant	72,319	75,935	70,565	79,573	74,449 / 78,916	82,313 / 87,253	63,694 / 70,382	74,437 / 82,254
Police Lieutenant	84,613	88,844	82,471	91,634	84,372	97,304	73,248 / 80,939	85,604 / 94,593
Police Captain	98,151	103,058	96,407	107,109	101,495	111,588	N/A	N/A
Firefighter	53,626	62,326	47,663	62,657	46,580	61,547	53,754	59,939
Fire Lieutenant	72,298	72,298	70,565	79,370	68,939	79,028	69,548	N/A
Fire Captain	83,143	83,143	87,847	94,451	75,054	86,037	80,157	N/A

*Lexington base pay is adjusted for day vs night*

*Winchester base pay is adjusted for EMT certification*

*Other towns use stipends to supplement base pay*

## *THE BOTTOM LINE*

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- Belmont must offer competitive compensation to attract and retain quality employees.
- Belmont's compensation is in line with our peer communities.
- With union contracts, any changes to compensation must be negotiated.

# WHERE DO WE SPEND OUR MONEY?

## What do our taxes pay for?

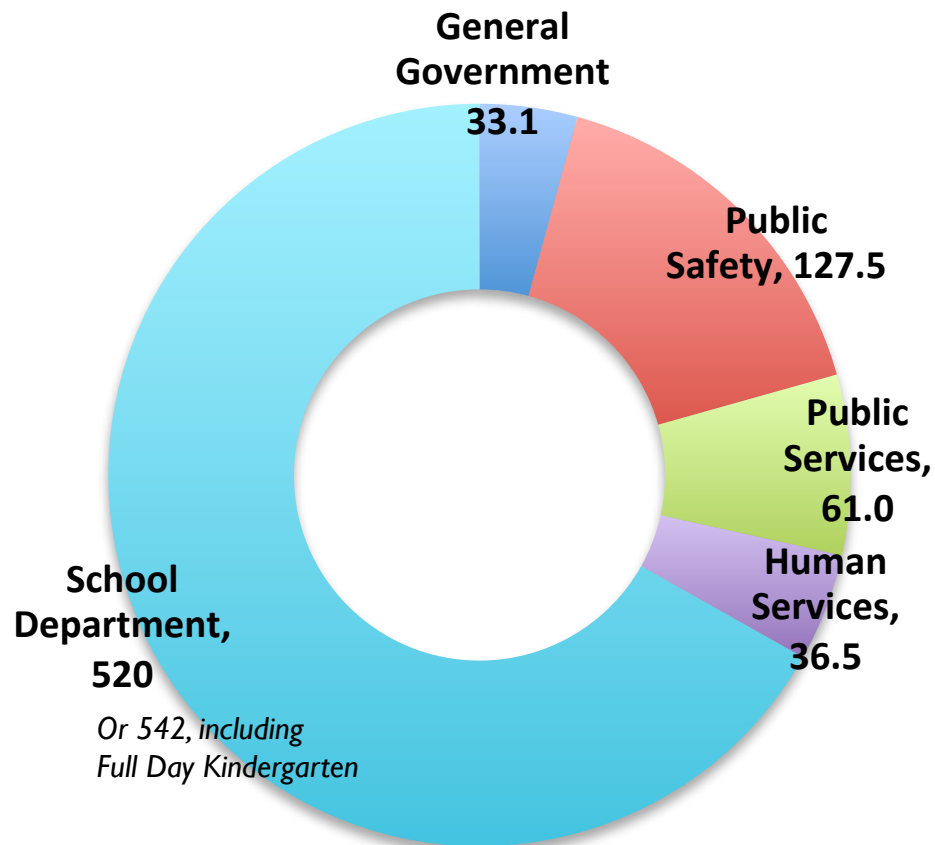
- Snow plowing, trash and recycling collection
- Education, including out-of-district and regional tuitions
- Programs through recreation, council on aging, library
- Inspections of restaurants and construction, property assessments
- Infrastructure – roads, sidewalks, sewers, water, electricity
- Facilities, including six school buildings, senior center, library, pools and rink, parks and cemetery
- Public safety – police & fire
- Elections, vital documents, revenue collection, bill payment, contract management, etc.
- Health and veteran services, etc.
- And more...





# HOW ARE THESE SERVICES DELIVERED?

## FY22 “Full-time Equivalent” (FTEs) by Function



Public Safety	Firefighters/EMT 50.0, Fire/Police Admin 8.5, Police Patrol 35.0, Community Service 5.0, 911/Communications 9.0, Detective/Investigation 6.0, Other 14.0 ( <i>crossing guards, parking, records, traffic</i> )
Public Services	Community Development 10.1, Facilities 9.0, Recreation 15.3, Parks & Cemetery 11.0, Street Maintenance 6.0, Other DPW 9.6
Human Services	Library 24.5, Council on Aging 6.6, Health 5.4
General Govt	Accounting 3.6, Assessment 4.0, HR 2.5, IT 5.0, Town Administration 6.0, Town Clerk 4.5, Treasury and Collection 7.5
Does not include:	Water & Sewer Enterprise Funds (self-funded) Belmont Light (independent)



### *THE BOTTOM LINE*

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- You can cut services, but if you haven't addressed the budget drivers, the structural deficit remains.
- Reducing services would impact residents directly, and in some cases, profoundly.
- Some services are legally mandated and cannot be cut.
- This topic will be a focus of the next forum.

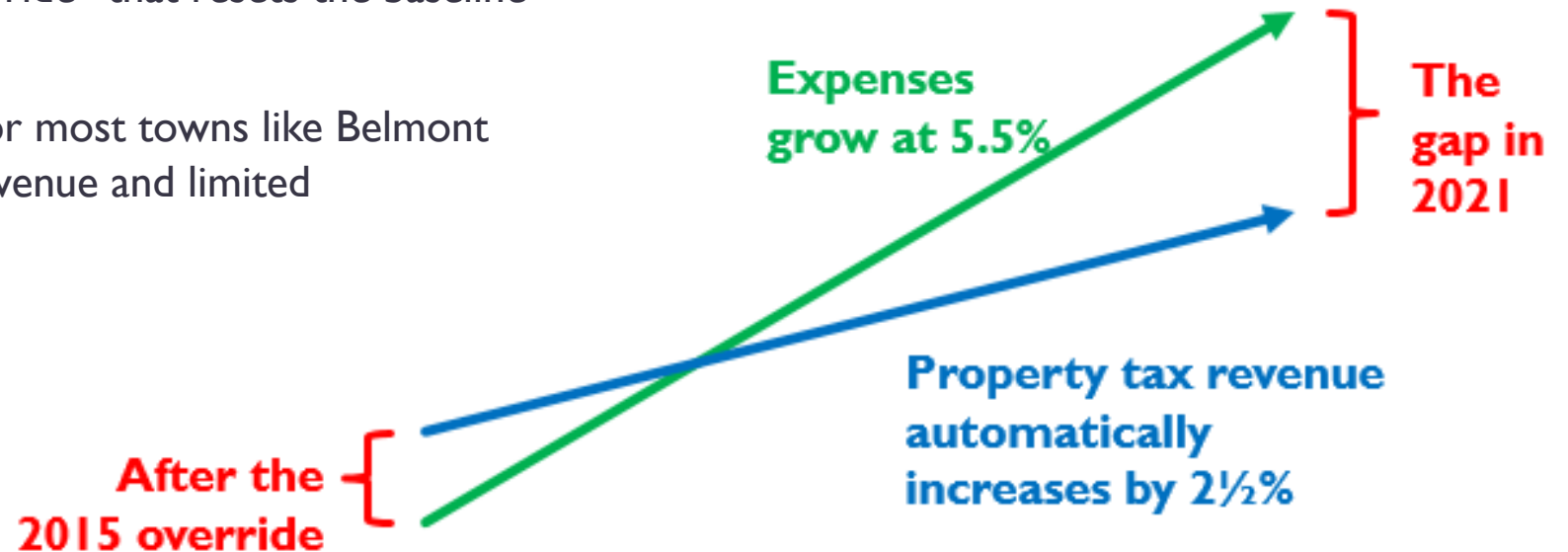
# WHAT IS AN OVERRIDE?

The Proposition 2½ state law allows for the automatic growth of property tax at 2½%. This revenue constraint creates a structural deficit when some expenses, like health care, grow faster than the 2½% growth in property tax revenue. These deficits are **structural**, which means they are expected to recur and increase each year.

However, voters can approve an “override” that resets the baseline property tax level.

Occasional overrides are necessary for most towns like Belmont that have limited non-property-tax revenue and limited development opportunities.

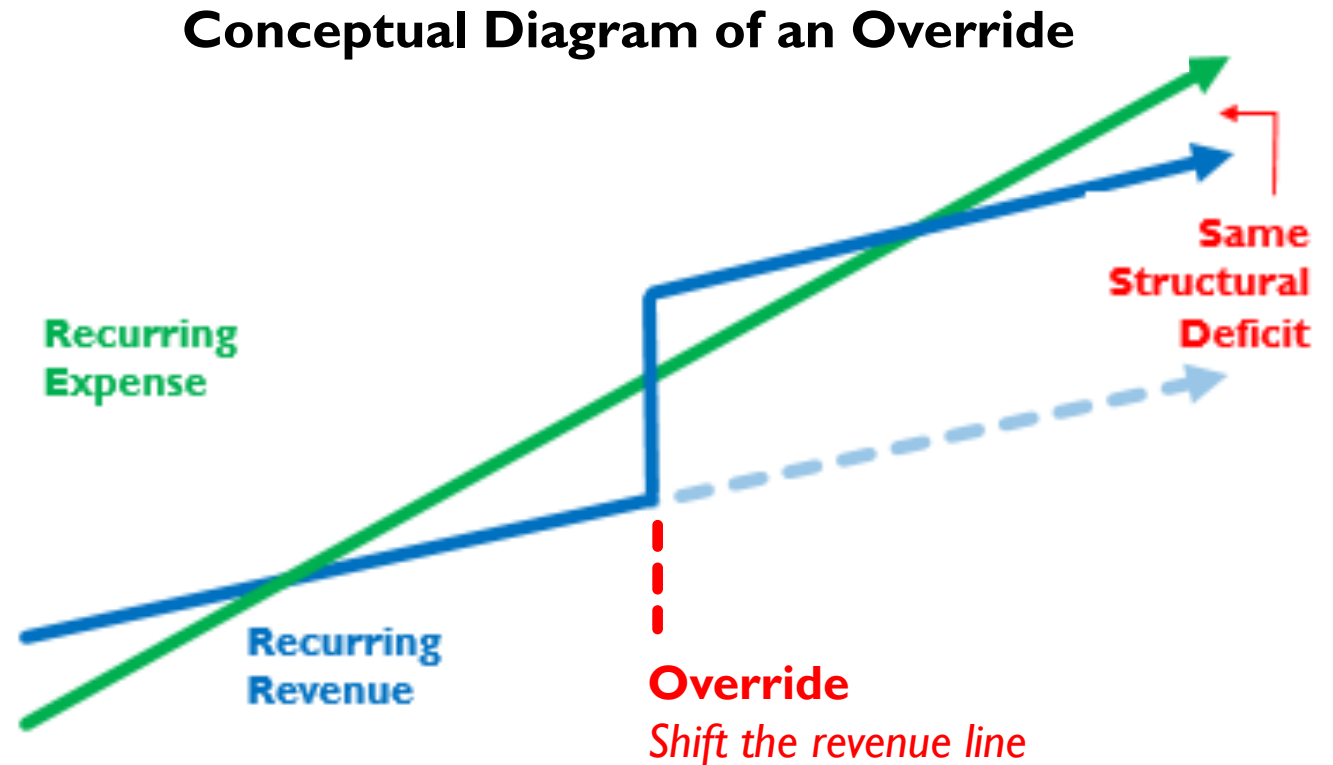
## Conceptual Diagram of a Structural Deficit



# HOW DOES AN OVERRIDE IMPACT A BUDGET GAP?

Overrides create additional property tax revenue, which shifts the revenue curve and addresses the gap for several years.

However, because the underlying components of the structural deficit do not go away, the gap will eventually return.



# WHAT IS OUR HISTORY OF OVERRIDES?

## Belmont Overrides

Proposition 2½ became law in 1980. Since then, Belmont has passed the following operating overrides.

- 1990 \$2,094,946 Trash Collection
- 2001 \$3,000,000 Roads \$1M, Schools \$1.2M  
Town Services \$800K
- 2002 \$2,400,000 Late Cut in State Aid
- 2015 \$4,500,000 Schools, Roads & Sidewalks,  
Debt Service for Capital

Belmont has also passed debt exclusions for BMHS, Chenery, Wellington, Burbank & Winn Brook Renovations, Town Hall Renovation, 2 Fire Stations, Senior Center, Underwood Pool, and the Harris Field complex.

## Benchmarks

In the 40 years of Proposition 2½, our neighboring towns have passed operating override(s) that total:

	Total \$	# Overrides
■ Arlington	\$20,510,000	4
<i>including almost \$18M in the last 15 years</i>		
■ Belmont	\$11,994,946	4
<i>only one \$4.5M override in last 17 years</i>		
■ Lexington	\$18,821,114	7
<i>none since 2007 due to commercial tax base</i>		
■ Waltham	\$0	0
<i>not needed due to commercial tax base</i>		
■ Watertown	\$0	0
<i>not needed due to commercial tax base</i>		
■ Winchester	\$15,897,000	3
<i>including a \$10M override in 2020</i>		

## *THE BOTTOM LINE*

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- An override is a tool included in the Proposition 2½ statute that resets the property tax baseline
- Overrides are especially important for towns that have a small commercial tax base
- An override provides financial stability for multiple years, but it does not “fix” a structural deficit.

# WHERE ARE WE NOW?

Financial Task Force II was created in January 2019 to make recommendations to the Select Board to:

- Develop a multi-year financial model and plan for Belmont to address structural deficit
- Recommend updates to Belmont's financial policies
- Assess the need for a potential future override, including timing and size

The task force has met regularly for two years to develop a 5-year financial model and override recommendation to the Select Board.

- Meetings are open to the public, broadcast on Belmont Media Center, and archived for on-demand viewing.

## Members of Financial Task Force II

Catherine Bowen	School Committee
Thomas Caputo	Chair, Select Board
Floyd Carman	Town Treasurer
Dan Dargon	Assessing Administrator
Anthony DiCologero	School Finance Director
Patrice Garvin	Town Administrator
Geoffrey Lubien	Warrant Committee
Mark Paolillo	Resident, FTF 1 (2015) Chair, Former Select Board
John Phelan	Superintendent of Schools
Rebecca Vose	Capital Budget Committee

# WHAT IS THE FINANCIAL MODEL?

The model is a powerful financial planning tool for on-going scenario analysis and iteration.

- The financial modelling project began with a grant-funded consulting project in Fall 2018 by the University of Massachusetts Collins Center to create a custom financial model for Belmont
- The model projects five years of revenue and expenses for Belmont town and school departments.
- It models the structural deficit, override scenarios, and options for use of reserves.

This is different from a one-year budgeting process; rather, it is a multi-year financial forecasting tool based on assumptions.

There is inherent uncertainty when looking three to five years out.

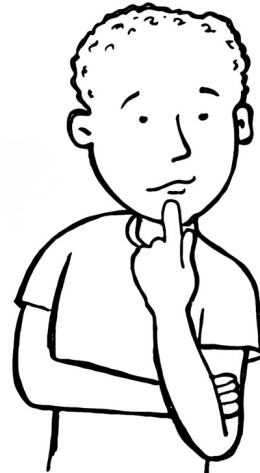
- The financial model reflects a point in time and includes the best information we have at that moment.
- We are still early in the budgeting process for FY22, which typically begins winding down in late February, but continues to change into June as we get new information. For example, the amount of revenue we get from state aid is not set until the Massachusetts budget is signed – often in June but this year, it was October.
- Assumptions will continue to change as we make budget decisions – that is normal.

The model incorporates feedback from community members and key committees (e.g. SB, SC, WC, CBC). We will discuss the model in detail at the next community forum.

# HOW TO WEIGH THE OPTIONS?

## Services & Stability with override in 2021

- Keeps up with school enrollment and adapts to the new school configuration and vision.
- Safeguards services – police, fire, library, senior center, parks, recycling, etc. – and helps catch up on much-needed capital investment.
- Provides three years of fiscal stability based on a careful financial plan.
- Uses reserves prudently and creates confidence in the financial markets we rely on for borrowing.
- Tackles the structural deficit, instead of “kicking the can down the road” and paying more later.
- Allows a smaller override in 2021, rather than a larger override in 2022 to address a fiscal cliff.



*If the override fails in April, we will continue down the path of loss of services that began with the COVID crisis.*

## Deep Cuts in Services & Risks without override by 2022

- Deep cuts in town and school services, unless there is a larger override in 2022.
- Substantially depletes reserves in the middle of a pandemic and period of economic uncertainty.
- Jeopardizes the AAA bond rating that reduces our cost of borrowing.
- Runs the risk of (again) deferring capital maintenance and investments – and paying more to solve the problems later.
- Leads to consequences that would take a long time to recover from.



# SUMMARY

## *THE BOTTOM LINE*

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- Despite the ongoing work done to increase revenues and reduce expenses, a structural deficit continues to impact town budgets.
- The Financial Task Force is discussing a recommendation to use a combination of reserves and override to address town and school needs and provide financial stability for the next three years.
- Belmont is at a fiscal cliff. We face deep cuts in services and financial risk if we do not take action.
- The longer we wait, the higher the costs and the greater the consequences.

## WHAT'S NEXT?

Tonight	Community Forum on “Examining Financial Options for FY22 and Beyond”
January 8 & 15	Financial Task Force 2 and Select Board joint meeting on modeling scenario refinement
January 20 (?)	Community Forum on “Making Difficult Budget and Override Choices”
Late January	FTF2 recommendation regarding override to the Select Board
Late January	Select Board decision regarding override timing and size
February	Dual FY22 budget scenarios
April 6	Annual Town Election
June	Town Meeting Vote on Budget