

Town of Belmont Financial Task Force II

Proposition 2½ Operating Override Recommendation to the Select Board Executive Summary Report

July 2020

Purpose of the Financial Task Force

The Financial Task Force II was convened in January 2019 in order to develop a five-year financial forecast for the Town of Belmont (including the consideration of Proposition 2½ overrides), review and revise the Town's Financial Policies, and make recommendations regarding actions the Town could take to address structural deficit issues. In the time since this group's formation, we have seen the emergence of the Covid-19 pandemic which has created significant additional financial concerns for the Task Force to consider.

Since its inception the Task Force has met frequently to analyze and make recommendations regarding the fiscal challenges facing the Belmont community. With the sudden arrival of Covid-19, the Task Force collaborated with Town and School administrators, the Select Board, and the School Committee to balance the FY21 Operating Budget without necessitating an operating override. The Town and Task Force met its first challenge, and the FY21 budget was balanced, with all departments contributing by either reducing expenses or delivering Town and School services differently.

The Task Force has now reached a critical stage in its process and is recommending a Proposition 2½ operating override of \$12.5 million be placed on the November 2020 election ballot for consideration by the voters of Belmont.

This executive summary provides Belmont financial stakeholders and community members with background for this recommendation. The work of the Financial Task Force II will continue in the months to come as the Task Force works with Town and School administration to communicate the financial situation to the Belmont community, integrate the financial modeling efforts into the FY22 budgeting process, and provide a final report outlining further recommendations regarding opportunities to grow revenues, reduce costs, and further manage the challenges of Belmont's lingering structural deficit.

Membership of the Task Force

The Financial Task Force II is comprised of Town and School officials, elected officials, representatives from various Town committees, and Belmont residents. Some members were select by the Select Board and other representatives were appointed by the chairs of their respective Boards or Committees.

The members of the FTF II are:

- Catherine Bowen – School Committee representative
- Tom Caputo – Select Board representative
- Floyd Carman – Town Treasurer
- Dan Dargon – Assessing Administrator
- Anthony DiCologero – School Finance Director
- Patrice Garvin – Town Administrator
- Geoffrey Lubien – Warrant Committee representative
- Mark Paolillo – Resident; Financial Task Force (2015) Chair, Former SB member
- John Phelan – Superintendent of Schools
- Rebecca Vose – Capital Budget Committee representative

Staff support: Glen Castro

Brief Summary of Financial Situation

In 2015 the voters of Belmont approved a \$4.5 million operating override that was intended to provide financial stability to the Town for three years. We achieved the goals of that override and managed to stretch the override funding for three additional years (FY19 to FY21). We have exhausted the funding from that override and from other non-recurring funding sources.

Belmont is constrained by Massachusetts Proposition 2½, which restricts our ability to raise our tax levy beyond 2.5% per year (with exceptions for new real estate growth). This limitation means that Belmont has a budget structure wherein our recurring costs structurally outpace our recurring revenue. The result is that we face a structural budget deficit for FY22 and beyond.

The Covid-19 pandemic and associated economic impact compounds the issue and has made our challenging budget situation far worse. While Town budget plans clearly anticipated the structural budget challenges Belmont would face as the 2015 override dollars were fully utilized, we obviously did not anticipate the compounding factors created by the pandemic.

The bottom line is that the Town of Belmont must either consider a Proposition 2½ override for FY22 or make substantial reductions in Town and School services in the years ahead.

Current Status

The major factors to consider in looking at Belmont's current budget situation are: (1) the 2015 override, (2) Proposition 2 ½ constraints, (3) our structural budget deficit, and (4) the impact of Covid-19.

2015 Override

In April 2015 Belmont residents supported a Proposition 2½ operating override of \$4.5 million to fund schools, town services, roads, sidewalks, and capital projects. The 2015 override achieved its objectives of providing financial stability for the Town for several years. Through thoughtful planning, fiscal prudence, and with the benefit of a healthy economy, we stretched

those funds to support the Town through six years rather than the originally envisioned three years. We are now at a point where we have exhausted those funds, as was anticipated by the original 2015 Financial Task Force planning.

Proposition 2½ Constraints

The budget challenges we face are exacerbated by Massachusetts Proposition 2½. According to this law enacted in 1980, Massachusetts cities and towns cannot increase the total property tax levy by more than 2.5% over the prior year, unless the increase is approved by voters. The law does permit additional increases as a result of “new growth” in real estate property in Town. For towns like Belmont that rely mostly on residential property tax revenue, recurring revenue generally is unable to fully fund recurring expenses. This puts municipalities like Belmont in an untenable situation where periodic operating overrides are required to maintain a “level services” budget. Put differently, Belmont requires periodic overrides in order to simply maintain the same Town and School services that residents currently receive.

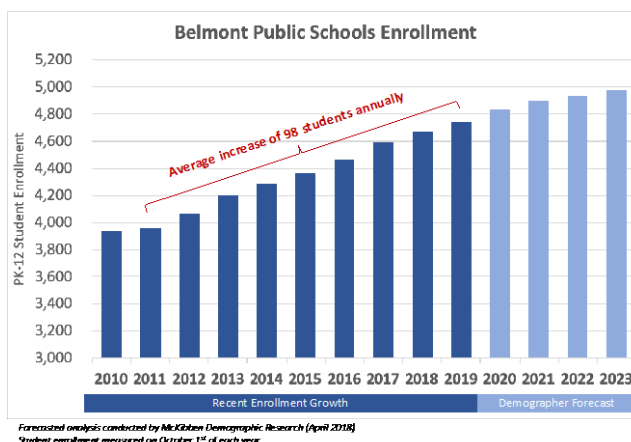
Belmont has passed only one Proposition 2½ operating override in the last 17 years (between 2003 and 2020), and only four overrides, totaling only \$12 million, in the last 33 years (between 1987 and 2020). Appendix A provides a complete list of the successful and failed Proposition 2½ operating override and debt exclusion votes in Belmont. When Proposition 2½ was initially put into place by ballot measure, it was explicitly acknowledged that towns and cities would, from time to time, pass overrides. Overrides were not envisioned as a sign of mismanagement or overspending, but rather as tools to ensure transparency and allow voters the opportunity to participate in tax levy decisions.

Structural Budget Deficit

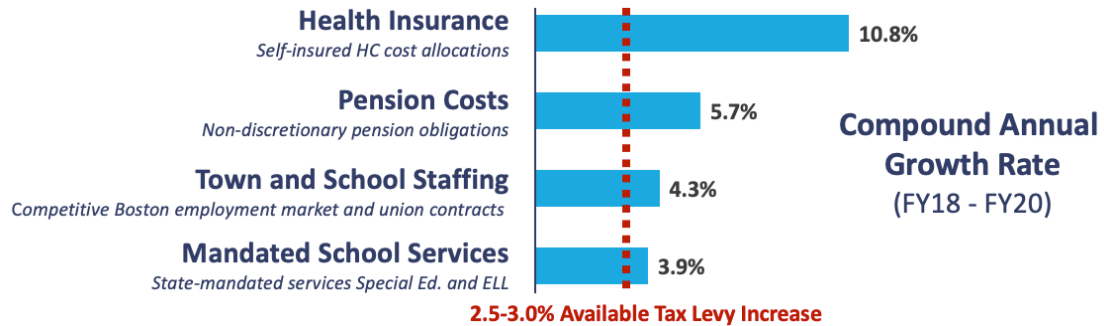
A structural budget deficit is created when recurring expenses exceed recurring revenues on an on-going basis. Given the constraints on revenue due to Proposition 2½, if key cost drivers increase more than 2.5%-3.0% annually, towns will face these structural budgets.

Belmont has faced and continues to face many of these unavoidable cost drivers, such as:

- **School enrollment** – Enrollment has increased by an average of 98 students per year for the last eight years, requiring budget increases just to deliver the same education to Belmont students each 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** – Some significant Town and School expenses outpace the annual levy increase.



Impact of Covid-19

The Covid-19 health crisis and associated financial impact makes our current situation significantly worse by substantially decreasing projected revenue in FY21 and beyond. The Covid-19 impact on Town revenue will show up in several ways:

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 slowdown in real estate development, resulting in reduced “new growth” revenue	\$0.5 M impact

Covid-19 will also impact the expense side of our budget. The Town has already experienced over \$1 M in unanticipated costs driven by the pandemic and significant additional costs are anticipated as school reopens in fall 2020 and the pandemic continues to disrupt civic life. Specific costs are still coming into focus but will likely include new teaching protocols, busing changes, the need to retrofit offices as well as schools and the library, and new cleaning protocols. The Town is receiving some specific cost reimbursements from state and federal relief programs, but the uncertainty inherent in the Covid-19 impact creates additional challenges in budgeting. Even once the acute cost issues have been addressed, we expect a lingering economic impact as the nation and Belmont work to return to pre-pandemic levels of economic health, likely constraining revenue growth for years to come.

FY21 “Belt-Tightening” Budget

With the arrival of Covid-19, the standard FY21 Town budgeting process was interrupted, and the Town and School worked together to revise budgets and account for the anticipated adjustments to FY21 revenues. Town Meeting approved this revised budget for FY21 at the June virtual Town Meeting. The original FY21 budget was heavily dependent on one-time funds (e.g. Free Cash) and the revenue reductions forced very challenging trade-offs.

The FY21 approved budget does not represent a level services budget. Town residents will feel the loss of services in the following areas, as the budget:

- Eliminates the majority of road and sidewalk work
- Postpones critical capital purchases and facilities maintenance
- Increases class size, despite an increased school budget
- Reduces library hours
- Closes the Underwood Pool and other recreation programs for summer 2020
- Significantly reduces employee overtime, which impacts cardboard recycling events, DPW support for town events such as Town Day, Beech Street after-hours events, etc.
- Impacts a variety of other Town and School services

To achieve a balanced budget in FY21 we had to rely on:

- Significant use of one-time, non-recurring sources of income (e.g. Free Cash)
- Unsustainable reductions in capital expenditures, OPEB contributions, etc.
- Substantial reductions in “rainy day” fund reserves (e.g. stabilization funds, out-of-district tuition reserves, etc.)

While the Town did impose a hiring freeze in FY20 Q4 and some part-time Library staff were furloughed, Belmont has largely avoided staff layoffs resulting from the Covid-19 health crisis in an attempt to preserve critical Town and School services and departments that are already stretched thin.

FY22 Budget

The approach utilized to balance the FY21 budget is not sustainable. It substantially reduces critical town services, delays or cuts critical capital expenditures (e.g. roads, facilities upkeep, etc.), and relies too heavily on one-time funding sources. As we look to FY22, the Belmont community must directly address our structural budget deficit.

Simplifying returning to a “minimum level services” budget in FY22 that accounts for the structural deficit and the impact of Covid-19 on revenue and costs results in a budget with a deficit of approximately \$12 million as outlined below:

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

It is important to note that while the Covid-19 impact will likely lessen in years ahead, the structural deficit will continue to grow as we move past FY22 into future years as growth in recurring costs continues to outpace growth in recurring revenue.

Five-year Financial Modeling

Even prior to our current financial situation, there was widespread acknowledgement that some of Belmont’s Town and School departments and capital accounts are underfunded and would benefit from an increase in funding. In particular, our School Department has been held

up as a district whose funding has struggled to maintain “minimal level services” year over year, as our per pupil expenditure trails the state average and that of our peer communities. The Financial Task Force II considered whether we should address this issue as part of a holistic look at Belmont’s financial needs and situation.

As part of this inquiry we worked closely with Town and School officials and other financial stakeholders to develop several different five-year budgeting scenarios. The Town Administrator and the various Town department heads conducted a detailed analysis of needs and opportunities, as did the School administration. These departmental assessments provided transparency into current challenges and identified significant unmet needs within the Town and the school system. These proposals were reviewed by the Financial Task Force and were utilized in the development of various five-year financial modeling scenarios. The specific scenarios considered were:

- Minimum Level Services Scenario
- Fully-funded Schools Scenario
- Fully-funded DPW & Facilities Scenario
- Fully-funded Schools, DPW & Facilities Scenario
- Fully-funded Town & Schools Scenario

The analysis of alternative scenarios was an effective exercise in understanding more deeply the long-term needs of town departments and schools. But because even our most basic budget, the “Minimum Level Services” scenario, already represents a \$12.5 million deficit, the Financial Task Force II focused our efforts on vetting and refining this “Minimal Level Services” scenario.

A summary of the assumptions and the 5-year financial model associated with the Minimum Level Services Scenario is provided in Appendix C.

Minimum Level Services Scenario

The “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. The summary for the first three years of this scenario are shown below.

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)

Assumptions and additional years provided in Appendix C.

At this point, Belmont has two options:

1. Make over \$12 million in cuts to Town and School services in FY22 and beyond, or
2. Approve a Proposition 2½ operating override in the coming months to provide tax revenue to close part or all of the FY22 deficit

It is important to note that Belmont does have certain non-negotiable expenditures that must be made each year: statutory obligations, provision of essential services, and debt payments. If the Town chooses to make the approximately \$12 million in cuts required in FY22 to balance the budget, it will be challenging to make cuts that will both balance our budget and still allow us to meet our statutory obligations, provide essential town and school functions, and make fixed debt payments. Examples of such non-discretionary costs incurred by the Town each year, include:

- Federal and state statutory and regulatory obligations in areas related to health inspections, building inspections, conservation restrictions, election management, vital records, and public records
- Public education, including required hours of education by grade level, services for special education students and English Language learners, and vocational education
- Essential functions required to operate the Town (e.g. snow plowing, trash collection, maintaining parks, building maintenance and custodial services, road repair, tax collection, IT infrastructure, HR benefits, labor negotiations, etc.)
- Pension liabilities
- Fixed debt servicing payments, including payments for debt that we have already raised

If we choose to pursue the path of making substantial reductions to Belmont's budget, we will face some very difficult choices. We are not yet at the point of making decisions on where to place cuts, but it is important to acknowledge that there is no one cut that will be significant enough to create a balanced budget under this scenario. Instead we will have to look at making at least several significant cuts to many town and school departments. Potential cuts will be massively disruptive to the town and school services upon which community members have come to rely.

Financial Task Force II Recommendation

At this time, the Financial Task Force II is making the following recommendations to the Belmont 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 (with ultimate ratification by Town Meeting through the annual budget approval process) 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 for the following reasons:

- Voter turnout for presidential elections in Belmont is consistently higher than at other elections and will therefore allow the greatest number of voters to express their will regarding a tax override
- A November vote provides sufficient time for Town and School leaders to finalize and implement a detailed \$12 million budget reduction or to contemplate alternatives, in the event of a failed override vote
- 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 is acutely aware that this is a challenging time in which to ask Belmont residents to approve a tax increase. We believe, however, that the potential impact to services is so significant that we must give voters the opportunity to decide and make their voices heard. The potential impact to the taxpayer at different operating override levels is outlined in Appendix B.

Steps to Further Address Structural Deficits

Belmont must work to address the long-term structural issues related to our budget. This work alone will not solve our current budget situation, but may alleviate it to a certain degree and is necessary nonetheless. The FTF2 will continue its work by advocating for and partner with Town and School administrative, elected and appointed groups (as noted in the recommendation above) to investigate:

1. Incremental revenue opportunities such as:
 - a. “New growth” development
 - b. Review of PILOT payments
2. Cost mitigation opportunities such as:
 - a. Upcoming union contract negotiations (e.g. compensation, GIC)
 - b. New ways of delivering Town and School services
 - c. Collaborations with other communities (e.g. LABBB Collaborative School, regionalized 911 dispatch, shared assets, group purchasing, etc.)
 - d. Changes to Civil Service requirements for the Police and Fire Departments
3. Long-term Capital Planning Committee
4. Long-term need for alignment on smaller but more frequent overrides

We will seek to be creative and thoughtful, and to challenge the status quo where appropriate.

Next Steps

If the Select Board agrees to put an override on the November ballot, it must be approved by July 27, 2020. Assuming that this happens, the Task Force will support Town and School administration efforts in August and September to develop budget impact scenarios to present

to the public in the early fall. Early fall will also be the time to engage in significant community outreach efforts in order to educate the public about the choices before us. Following the outcome of that vote, the FTF2 will complete its report and long-term recommendations.

Appendix A: Overrides and Debt Exclusions from 1987 to 2019

Belmont Ballot Questions - Overrides and Debt Exclusions From 1987 to 2019

<u>Date of Election</u>	<u>Question Posed to Voters</u>	<u>Yes</u>	<u>No</u>	<u>Result</u>
November 6, 2018	Debt Exclusion – Belmont High School 7-12	9574	2971	Passed
April 7, 2015	Override – Education, Roads, Capital	4733	3837	Passed
April 1, 2014	Debt Exclusion - Underwood Pool	3377	2093	Passed
June 14, 2010	Override	3044	3431	Failed
June 8, 2009	Debt Exclusion - Wellington School	3849	2022	Passed
June 9, 2008	Override - Roads	2269	2602	Failed
April 3, 2006	Override - Roads	1581	3661	Failed
November 14, 2005	Debt Exclusion - Senior Center	2189	1557	Passed
April 5, 2004	Debt Exclusion - Two Fire Stations	2636	2094	Passed
June 3, 2002	Override	2938	2728	Passed
April 1, 2002	Debt Exclusion - Town Hall Complex	4337	3167	Passed
May 22, 2001	Override	3084	1965	Passed
May 22, 2001	Debt Exclusion - High School Track, Field	2753	2247	Passed
November 8, 1994	Debt Exclusion – Chenery Middle School	7357	4649	Passed
April 4, 1994	Debt Exclusion – Joint Public Safety Communications System, Replacement of Ambulance and Provide Disability Access Improvements to Main Library	2213	2241	Failed
December 6, 1993	Override	1758	3918	Failed
December 6, 1993	Debt Exclusion – Public Safety Equipment and Public Works Equipment, Facility Maintenance and Improvements	2290	3382	Failed
April 5, 1993	Debt Exclusion - Public Safety Equipment and Public Works Equipment, Joint Public Safety Communications System, Streets and Sidewalk Major Maintenance, Buildings and Facilities Major Maintenance, Real Property Acquisition and Construction of New Chenery Middle School	2835	3925	Failed
April 28, 1990	Override – Solid Waste Collection & Disposal	3027	2558	Passed
April 6, 1987	Debt Exclusion – Burbank and Winn Brook Schools Additions, Remodeling, Reconstruction	2976	1330	Passed

Source: Belmont Town Clerk website (https://www.belmont-ma.gov/sites/g/files/vyhlf2801/f/uploads/results_-_overrides_and_debt_exclusion_votes_in_belmont_0.pdf)

Appendix B: Estimated Impact on Taxpayer

Estimated Real Estate Property Tax impact on property with average assessed value of \$1,285,000

Override or Debt Exclusion	Size	Tax Bill Impact Date	Tax Bill Impact	Tax Bill Timing
Belmont Middle / High School Debt Exclusion (Phase 1)	\$100 M	7/1/20	\$741	Included in FY 2020 tax rate / bill
Belmont Middle / High School Debt Exclusion (Phase 2)	\$100 M	7/1/21	\$767	New for FY2021 tax rate / bill
\$10,000,000 Operating Override (under consideration)	\$10 M	7/1/21	\$1,395	Under consideration for FY2021 tax rate / bill
\$12,000,000 Operating Override (under consideration)	\$12 M	7/1/21	\$1,674	Under consideration for FY2021 tax rate / bill
\$14,000,000 Operating Override (under consideration)	\$14 M	7/1/21	\$1,953	Under consideration for FY2021 tax rate / bill

Source: Belmont Town Clerk's Office

Appendix C: 5-year Financial Modeling Scenario Summary

Revenue Assumptions

- Property Tax Levy
 - FY22 - 3.0% incremental Real Estate & Personal Property Taxes
 - Allowable 2 1/2% average incremental \$2.5M
 - New Growth - \$740K for FY22-FY24 up from \$500K in FY21
 - Debt Exclusion - \$13M for FY22-FY24
 - FY22-24 2.5% incremental
- State Aid
 - FY22 State Aid incremental over FY21 by 2.3% to \$9.2M
 - FY23 anticipated growth \$1.6M incremental back to FY20 levels of \$11M • FY24 and beyond 2.0% incremental per year
- Local Receipts
 - FY22 Local Receipts incremental over FY21 by 5.7% • FY23-FY24 incremental 3.45%
- Enterprise Funds
 - FY22-FY24 Total Enterprise (Water & Sewer) incremental 2.5% over FY21
- Other Available Funds
 - No use General Stabilization Fund
 - FY22-23 PILOT BMLD decrease to \$400K & FY24 decrease to \$200K
 - FY23-24 0% other incremental
- Free Cash
 - FY21 - \$3.8m
 - FY22-FY24 - \$2M
 - Use of one-time revenue to balance budget should be phased out over time • Continued OPEB funding

Minimum Level Services Scenario

Town Departments

- Roll forward all existing staff
- 2.0% increase in capital outlay, restore
 - Facilities equipment - \$25K, overtime \$12K
 - Fire Department turn-out gear & suppression equipment - \$88K, overtime \$25K
 - Library computer equipment - \$12K, part-time salary \$15K, utilities \$21K, other expenses \$30K
 - Police Department equipment & patrol cruisers - \$235K, overtime \$25K
 - DPW central fleet, cemetery equip, parks equipment - \$80K, overtime and water combined \$99K
 - Recreation Department - \$300K
 - Town Clerk – overtime \$31K
 - Community Development – overtime \$8K
 - Town Administrator – travel expense \$2K
- Restore Capital Road Spending - \$1.8M
- Restore Capital Discretionary Fund - \$525K
 - Additional \$500K Capital Discretionary Fund
- Restore OPEB funding to historical levels
- Adds:
 - DPW (Parks) Laborer (2) positions \$100K
 - Facilities – manager (including fringe benefits) \$100K, procurement/OPM (including fringe benefits) \$100K, contract services \$100K
 - Council on Aging/ Police Department – social worker (including fringe benefits) \$100K
- Index health insurance at 6.5%

School Department

- Roll forward all existing staff
- Add \$400K for new staff annually for new positions (approx. 5-6 FTEs/year) in response to trend of increasing student enrollment
- Index supplies, materials, equipment at 2.5%
- Replenish SPED tuition reduction from FY21 (FY22) approximately \$1.0M
- Index SPED tuitions, transportation, contract services at 7%
- Index health insurance at the rate set by the Town at 6.5%
- Add health insurance corresponding to the new positions

Financial Projection Summary - Minimal Level Services						
	FY21	FY22	FY23	FY24	FY25	FY26
Revenues	\$ 150,511,528	\$ 150,696,896	\$ 156,460,659	\$ 160,208,907	\$ 164,162,843	\$ 168,471,095
% Year-over-year		0.12%	3.82%	2.40%	2.47%	2.62%
Expenditures	\$ 150,511,527	\$ 163,132,120	\$ 170,385,285	\$ 176,813,880	\$ 182,536,296	\$ 189,607,743
% Year-over-year		8.39%	4.45%	3.77%	3.24%	3.87%
Annual Surplus/Deficit	\$ 0	\$ (12,435,224)	\$ (13,924,626)	\$ (16,604,973)	\$ (18,373,453)	\$ (21,136,648)
Year-over-year Surplus/Deficit			\$ (1,489,402)	\$ (2,680,347)	\$ (1,768,480)	\$ (2,763,195)