

Financial Task Force II Recommendations

Background

The Financial Task Force II was convened in January 2019 in order to develop a five-year financial forecast for the Town of Belmont, to review and revise the Town's Financial Policies, and to make recommendations regarding actions the Town could take (including the consideration of a Proposition 2½ override) to address the Town's structural deficit challenges and ensure long-term financial stability. 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.

All meetings of the Financial Task Force have been public and meetings since January 2020 have been broadcast on Belmont Media. Recordings of the meetings can be found on the Belmont Media Center [Financial Task Force page](#), and meeting minutes can be found on the [FTF2 minutes page](#) on the Town's web site.

Since its inception the Task Force met frequently to analyze and make recommendations regarding the fiscal challenges facing the Belmont community. After two years of exploration of the Belmont's financial situation and extensive financial modeling and scenario planning, the FTF2 recommends that the Town and Schools take a number of steps to address near-term and long-term financial goals.

The Belmont FTF2 makes the recommendations below for consideration by the Select Board, School Committee, Town and School Administrations, Warrant Committee, and other financial stakeholders. In addition, it is the hope that these recommendations will be reviewed and considered by the Belmont community at large, and that they provide additional visibility into the financial planning process.

FY22 Financial Deficit and Override Recommendations *(January 2021 Recommendations)*

- 1. Placement of \$6.4 M Proposition 2½ Override on the April 2021 Town Election Ballot –**
After two years of financial analysis and modeling the FTF2 recommended a multi-year plan for Belmont's financial stability that relied upon a \$6.4 M override being approved by the voters to address the Town's structural operating deficit. This override, combined with a thoughtful utilization of Free Cash reserves was designed to support a current "Level Services" budget and to provide financial stability to the Town for at least the next three years. The Select Board voted to place the \$6.4 M override on the April 2021 ballot. However, the Belmont voters declined to increase the Town's tax levy. A summary of the FTF2 model and recommendation is available [here](#).

2. **Utilization of Free Cash Reserves to Reduce Override Size** – The Town of Belmont’s Certified Free Cash reserves were \$11.2 M as of July 1, 2020 (as [certified in November 2020](#)). The higher than normal level of Free Cash reflected the Town’s conservative budgeting practices and efforts to proactively manage the financial impacts of COVID-19, such as controlling spending, freezing hiring and maximizing available Federal and State reimbursements. This level of Free Cash provided the Town with greater flexibility to reduce an operating override request and that was taken into account in the \$6.4M proposed override recommendation. The Financial Task Force recommended that Free Cash reserves be relied upon over the next three fiscal years, in conjunction with the override increase to the tax levy, to provide a multi-year plan for financial stability. The recommendation adhered to the reserve balance policy minimum of maintaining reserves of 10% of the operating expenses and the Free Cash guideline minimum of retaining Free Cash at 3-5% of the operating budget.

Long Range Strategic Planning Recommendations

1. **Creation of a Finance Director Position** – The FTF2 appreciates the complexities of municipal finance and the time-consuming nature of effective long-range planning. The FTF2 recommends the hiring of a Finance Director who can provide strategic financial leadership for Belmont in close collaboration with the Town and Schools finance teams. It is the FTF2’s hope that this role can be created through efficient reorganization of staff as opposed to the creation of an entirely new position.
2. **On-going Five-Year Financial Modeling** – The [financial model](#) and financial scenario planning tools developed through the FTF2 planning process should continue to serve Belmont’s financial planning needs for years to come. The model was initially developed in early 2019 through a collaboration with the Collins Center for Public Management at UMass Boston and leverages their expertise and best practices in municipal government planning. The initial model has now been customized to fit Belmont’s financial situation and is well suited to continuous update and iteration. The FTF2 recommends that the model be adopted by the Town’s Budget Director and that financial leaders from the Town, Schools, and Warrant Committee work to refresh the model assumptions and evaluate various future scenarios to guide long range financial planning as part of each budget cycle. Updates on the model should be given to the Select Board, School Committee, Capital Budget Committee, and Warrant Committee annually.
3. **Incorporation of the Financial Task Force planning work into annual Warrant Committee and Town Budget process** – Belmont created financial task force ad hoc committees in 2015 and 2018 to explore emerging financial challenges, develop multi-year financial models, and to make recommendations to the community regarding mitigation steps and potential overrides. While these task forces have been effective in their roles, this planning should occur on a continuous basis and should be incorporated

into the annual Town and School budgeting process, and executed on an on-going basis in close partnership with the Warrant Committee.

4. **Procurement and Utilization of Financial Planning Software Tools** – The five-year financial modeling done by the FTF2 was developed and executed using Excel. The use of Excel for this purpose creates complexities related to version control, scenario planning, presentation, visualization, and collaboration. Specialized financial planning tools exist in the market and are utilized by municipalities around the country for budget planning, budget trend analysis, and public communication. Belmont should investigate software options and select a financial planning tool that can better support this critical work, ensuring efficiency and compatibility across Town and School departments.
5. **Support for Long-Term Capital Planning** – The FTF recommended to the Select Board in the fall of 2020 the creation of a long-term capital planning group with a focus on developing a capital asset inventory and a multi-decade capital funding plan. In September 2020, the Select Board established this committee, and the group has begun the work of developing an inventory of capital assets and forthcoming capital needs, including on-going capital maintenance. The FTF2 recommends continued support for the Long-Term Capital Planning Committee’s work either within that committee structure or by explicit incorporation into the Capital Budget Committee charter and process. The FTF2 also recommends active engagement by the Capital Budget Committee, Select Board, School Committee, Warrant Committee, Town and School Administration and other relevant boards and committees in the long-term capital planning process. It is the FTF2’s hope that this multi-decade capital planning process will be continuous, as opposed to episodic, and that a rolling Capital Maintenance and Improvement Plan will be developed from the asset inventory, such that the Town of Belmont will continuously plan decades into the future regarding capital needs. This recommendation builds on the recommendation of the 2015 Financial Task Force Operations and Maintenance report for Capital Planning.

Structural Change Recommendations

6. **Support for the Structural Change Impact Group (SCIG) Process and Work** – The FTF2 recommended to the Select Board in September 2020 the creation of a group of community members and Town and School leaders to investigate and recommend key structural changes regarding Town financial operations and service delivery. The Select Board embraced the recommendation and created the [Structural Change Impact Group](#) with the goal of gathering extensive community input and identifying mechanisms to increase revenue, mitigate costs, and deliver Town and School services more efficiently. The committee was established, and its idea generation and community engagement work has begun. An [initial report](#) was submitted to the Select Board in February 2021 which shows a number of promising opportunities that the SCIG will be vetting. The FTF2 requests and recommends continued support for the SCIG’s work from the

Belmont community through participation in its community engagement process and from the Town and School Administration and key Town committees to help vet ideas, implement recommendations, and advocate for any necessary legislative changes.

7. **Focus on Healthcare Cost Mitigation** – The FTF2 recognizes that healthcare costs represent one of the biggest expense areas in the budget and a perennial “budget buster,” as healthcare costs are hard to directly manage and historically increase well beyond the town’s 2.5-3.0% annual budget increases. To that end, the FTF2 recommends that the Select Board and Town and School Administrations consider a handful of potential options to better track and mitigate costs:
 - **Consider bringing the Town and Schools into the Massachusetts Group Insurance Commission (GIC) Health Insurance program** – The FTF2 recommends that the Select Board work with the Town and School Administration and various Belmont unions to consider the potential benefits associated with the GIC.
 - **Alignment of Health Insurance “Split Ratios” across Town and School Employees** – Employees across Belmont’s various departments and unions have different healthcare insurance cost allocations between the portion of the health insurance cost covered by the Town and by employees. More recent contracts for new employees set that split at 75/25. The FTF2 recommends that the Town and School Administration, Select Board, and School Committee pursue a consistent 75/25 split in future union and non-union contract negotiations to provide equity across employees and help constrain rising health insurance costs.
 - **Aggregation of Health Insurance across Town and Schools** – Health insurance budgeting, tracking, and forecasting are challenging. The FTF2 sees benefits in aggregating health insurance spending into a single budget line item outside of the Town and School budgets for presentation and trend analysis purposes.
8. **Consideration of Small, Periodic Overrides to Address Structural Deficits** – With an unsuccessful override vote in April 2021, the Town’s significant structural deficit challenges remain. These challenges will likely necessitate a more substantial override in the coming years, but the Town should consider small, periodic override in the future. In the absence of new revenue sources (e.g. new business/commercial developments, increased state or federal aid, etc.) and recognizing that key cost drivers such as healthcare expenses, pensions, compensation regularly increase at rates above the 2.5-3.0% annual increase in the tax levy under Proposition 2½, the FTF2 recommends incorporating periodic and predictable overrides into the Town’s long-term financial planning process.

On-going Financial Management Recommendations

9. **Development of an Annual Report on the Financial State of the Town** – The FTF2 recommends that the Town and School Administration work in collaboration with the Warrant Committee, Select Board, and School Committee to develop and present a

“Financial State of the Town” report to Town Meeting and the broader Belmont community. The goal of this report would be to succinctly summarize the financial situation of the Town and Schools, identify long-term financial trends, and outline future challenges and opportunities in a way that can be easily consumed by Belmont community members. Additionally, Belmont should develop a communication strategy to facilitate broad awareness and distribution of the annual report for Belmont residents, business owners, and taxpayers. Belmont can look to other similar Massachusetts communities with effective annual community reports and to best practices outlined by the Government Finance Officers Association (GFOA).

10. Establishment of Annual Wage and Classification Studies – Pay equity is of great importance to the Town, specifically in recruiting and maintaining capable productive employees. The last Pay and Classification Study in Belmont for non-Union employees was completed in 2014 and for union employees was completed over ten years ago. The Town should conduct a wage study for all non-union employees and should begin to negotiate with the unions regarding conducting similar wage and classification studies for union employees. The results of the study will also address community questions and concerns on how compensation is determined in the hiring process, identify comparable communities for benchmarking (based upon alignment with the Town’s Master Plan vision), and establish market-driven compensation.

11. Expanded Collaboration of Town Administration, School Administration, Select Board and School Committee in high-level union bargaining strategy and negotiations

- **High-level bargaining strategy collaboration** – Given the significant impact of compensation on the annual Town budget, the FTF2 recommends active collaboration across the Town and School administration and boards to develop a long-term, integrated financial compensation and benefits plan and high-level union and non-union bargaining strategy.
- **Town Administrator Involvement in School Collective Bargaining related to Finances** – There are a total of twelve collective bargaining units in the Town of Belmont with five in the schools. Alignment of collective bargaining efforts and broad consideration of the financial impact of bargained agreement is important. Under MGL Chapter 150E, the Town Administration can be involved in the School’s collective bargaining process, at the request of the School Committee Chair. The Town Administrator, along with the Select Board Chair, School Committee Chair and the School Superintendent have agreed to have Belmont’s Town Administrator sit in on School Committee Executive Sessions as it relates to bargaining, especially regarding topics of compensation and benefits. The FTF2 support this effort and would recommend that it continue.

12. Implementation of a Revised Set of Financial Policies – One of the earliest charges of the FTF2 was to review and revise a core set of financial policies for the Town of Belmont. These policies were revised with input from the Collins Center and now align with current budgeting and planning processes. The FTF2 support the ratification and

implementation of these policies by the Select Board and various financial stakeholder groups in town.

13. Future Review of the Free Cash and Reserve Ratio Policies and Guidelines – The FTF2 recommends that the Select Board and Warrant Committee review and potentially revise the current Free Cash and Reserve Ratio policies and guidelines to ensure they are aligned with the Town’s financial approach going forward.

14. Consideration of Future Engagements with Public Policy Programs or Consultants to Support Implementation of These Recommendations – Programs like the Collins Center for Public Management at UMass Boston provides expertise and consulting services to support the improvement of efficiency, effectiveness, governance, and accountability at all levels of government, with a particular focus on local government. The FTF2 received useful support and expertise in the early stage of our work, funded through a public grant. The Center’s insights, recommendations, cross-community benchmarking, and model development expertise were highly beneficial. The FTF2 recommends that the Town of Belmont consider future engagements with the Collins Center or similar programs or consultants to support implementation of these policies and future financial planning work. It is the FTF2’s hope that such efforts could, once again, be supported through grant programs.