



Warrant Committee Town of Belmont Mid-Year Update

February 2016

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At the mid-point of FY2016, Belmont finds itself in a strong fiscal position, albeit with a handful of near-term issues that will require Town Meeting attention and with ongoing long-term financial challenges to address. This brief update will offer a summary of where we ended FY2015, including Free Cash, describe the current state of FY2016 and FY2017 budgets, identify a handful of immediately pressing issues facing the town, and remind everyone of the long-term trends that we are managing.

FY2015 Results

As we typically observe, Belmont ended the 2015 fiscal year on June 30, 2015 with revenues in excess of forecast and expenses below forecast. Revenue came in at \$97.7 MM vs. a forecast of \$95.3 MM, a positive variance of \$2.4 MM, with the Motor Vehicle Excise taxes and Building Licenses & Permits as the primary drivers. Because Belmont is required to deliver a balanced budget each year, it is common that Belmont takes a conservative view to forecasting the next year's revenue (as falling short is highly disruptive to our operating activities). We had forecast revenue growth of 2.7%; the actual revenue growth was 4.4%.

On the expense side, it is also common to experience job vacancies within a fiscal year from unexpected retirements or employees moving or taking other jobs. Because these roles cannot typically be filled immediately, expense turnbacks result, particularly on the Municipal side. The consequence is \$1.4 MM in expense savings in FY2015.

Overall, this means that Belmont had a positive variance of \$3.8 MM in the FY2015 budget, with these funds dropping to the Undesignated Funds Balance, also known as Free Cash. This amount is a bit higher, but in range, of the \$2.9 MM that Belmont has added to Free Cash on average over the past six years.

Free Cash Update

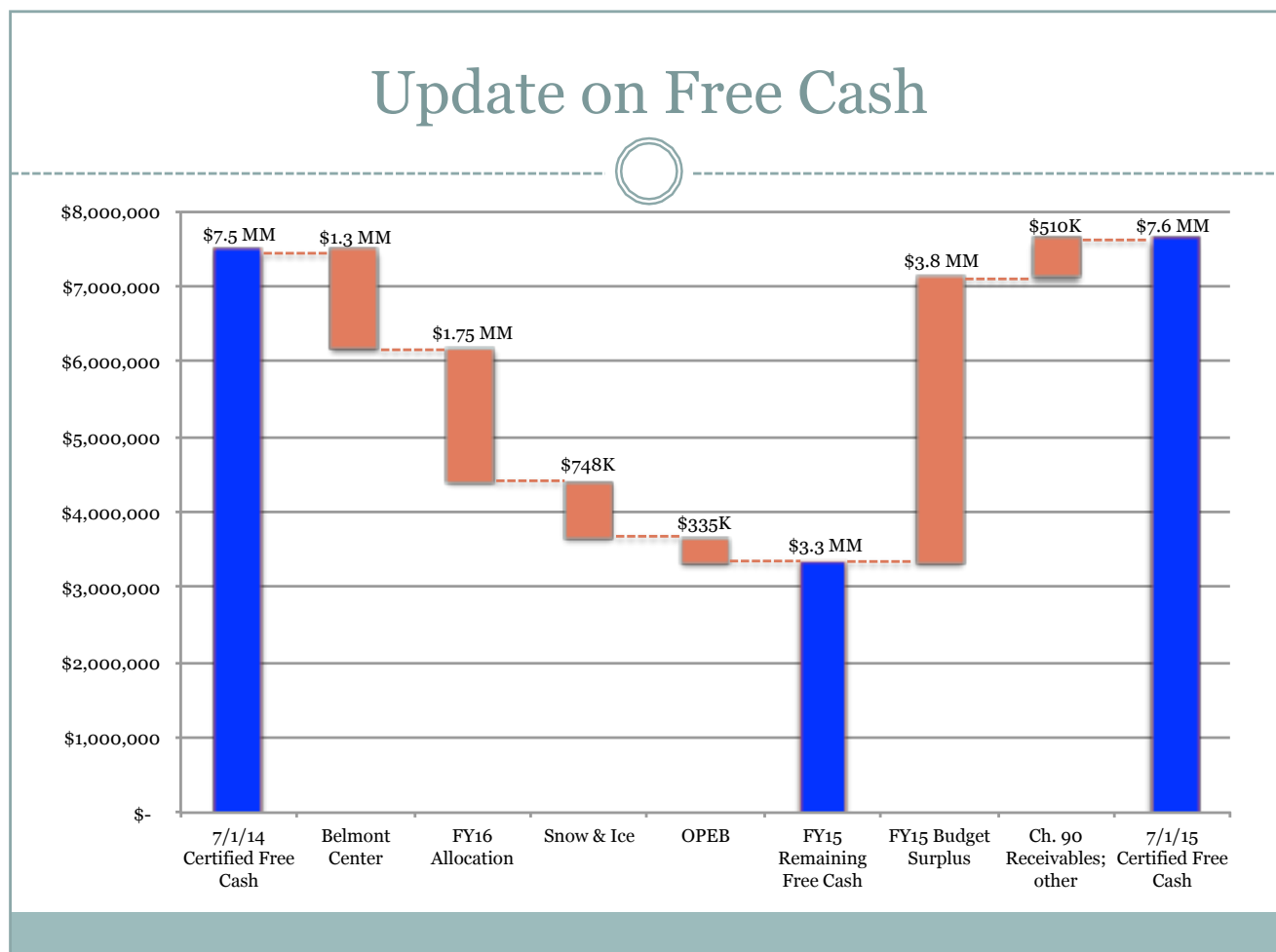
By law, the MA Department of Revenue certifies each city or town's free cash as of July 1 of a given year. Belmont has just received that certification for July 1, 2015 and our Free Cash is \$7,604,052.

As you may recall (and can see in the chart below), we started FY2015 (last year) with \$7.5 MM in Free Cash and Town Meeting appropriated \$4.2 MM for several purposes: \$1.3MM for the Belmont Center redesign, \$1.75 MM for the FY2016 operating budget, nearly \$750K for extraordinary snow & ice expenses, and \$335K for the OPEB Stabilization Fund. The Warrant Committee and Board of Selectmen also established a guideline of maintaining 3-5% of the prior year's total budget in Free Cash – and the remaining \$3.3 MM in Free Cash fell right within that range.

The FY2015 positive budget variance of \$3.8 MM then was added to the \$3.3 MM (plus an additional ~\$500K in FY15 Chapter 90 and grant receivables) to arrive at our current certified Free Cash of \$7.6 MM.

It is worth noting that since the June 30, 2015 date for Free Cash certification, Belmont has subsequently received payment for the sale of the Woodfall Road property, generating an additional \$1.75MM in surplus revenue that, while not technically “Free Cash”, is available for expenditure by Town Meeting in the current FY2016. Any portion of these funds that are not spent this year will drop to Free Cash as of July 1, 2016.

Figure 1: Free Cash Uses (and Sources) During the Past Fiscal Year (FY2015)



FY2016 Status and FY2017 Budgeting

Because of the operating override that Belmont passed in April 2015, the \$100.3 MM FY2016 budget was passed by Town Meeting in June 2015. That budget delivers at least level services across Municipal and School departments, invests in 10 new FTEs to address longstanding enrollment and special education cost growth, and allocates over \$1 MM in additional funds for capital projects, most particularly roads and sidewalks.

After nearly two quarters of FY2016, the revenue and expense results look to be largely on track, with the primary exception being continued pressure on the special education budget that is currently showing a negative variance due to additional Out of District placements. The School Committee and School Department are working to address this variance within their existing FY2016 budget allocation.

The initial allocations for Municipal and School budgets for FY2017 were developed in December of 2015 and each department is currently working diligently to generate their detailed budgets for FY2017 (budgets that Town Meeting will vote this June). The current expectation is that the FY2017 budgets will continue to fulfill the expectations for this year that were communicated in the Financial Task Force report and should deliver level services or better across departments.

Immediately Pressing Issues

Four issues are worth noting that Town Meeting will likely address this year: 1) the new Minuteman regional agreement, 2) a vote on whether to authorize the debt to build a new Minuteman high school at a total estimated cost to the district as a whole of \$145 MM (of which approximately 30% is eligible for reimbursement by the MSBA), 3) the potential investment in renovating or rebuilding the Belmont High School, and, 4) the expected need for investment in modular classrooms to address the growing student population.

A Special Town Meeting has been called for February 8, 2016 primarily to address the Minuteman regional agreement, which has a series of proposed amendments that seek to modify: a) individual towns' voting rights on the Minuteman School Committee, b) the way capital costs are allocated amongst member and non-member towns, and, c) the rights and process for towns to exit the agreement.

On a related note, the Minuteman has long been seeking to build a new high school, a question that is substantially complicated by the uncertain status of the regional agreement, the desire of at least seven of the sixteen towns to exit the district, and the plan to build a new school that is meaningfully larger than that required to educate the students from member towns. If the Minuteman School Committee votes to bond the new school, each of the sixteen towns will have to call a Town Meeting within 60 days to vote on the bond authorization (or it is deemed allowed). If a single town rejects the new debt, the Minuteman may then call a district-wide election (across all sixteen towns) where a majority of voters could authorize the debt.

Additionally, after nearly ten years of effort, Belmont has received word on January 27 that the Massachusetts School Building Authority (MSBA) has approved the Belmont High School project. This \$100+ MM project will require close coordination with the MSBA, a Town Meeting vote, and a town-wide Debt Exclusion vote before construction begins. The process will start with a vote at the February 8 Special Town Meeting to address the establishment of a Belmont High School Building Committee.

Finally, continued student enrollment growth has pushed our school buildings to the point that investment in modular classroom space is being actively investigated, most immediately at the Chenery Middle School. It is expected that Town Meeting will be asked to allocate funds, most likely in the spring, to purchase and deploy modular classrooms to accommodate the student overflow.

Long-term trends

As we have shared in the past, there are four major drivers on the expense side, in no particular order, that Belmont must continue to manage carefully: 1) increasing compensation costs, 2) enrollment growth and mandated school costs, 3) increasing capital investment / maintenance costs, and 4) our large pension and healthcare obligations.

We will not discuss these trends in detail in this mid-year update but will do so again in the June Warrant Committee Report. We'll make a few brief observations here.

With compensation representing 69.3% of the Belmont budget, our number one ongoing fiscal priority will be to maintain compensation growth that is in line with long-term revenue growth of 3-3.5%. Success in future salary negotiations will be critical if Belmont desires to push off future operating overrides or, alternatively, be forced to make cuts in services.

School enrollment growth and increases in mandated school costs (particularly Special Education and English Language Learning) is expected to continue, with new housing in Cushing Village and the Uplands adding to that trend.

On the capital side, in addition to our continued investment in roads, sidewalks, and preventative maintenance, there are four major capital projects on the horizon that total approximately \$200 MM: the Belmont High School, the Police Station, the Department of Public Works facility, and the Library.

Finally, following Town Meeting's request last spring, the Warrant Committee provided Town Meeting with a Pension Report in October 2015 (available [here](#)) and held a public hearing to discuss the Report. The Warrant Committee encourages all Town Meeting members to read this requested Report and will continue to monitor this important topic.

As always, the Warrant Committee welcomes any questions or comments at our email address: warrcommpublic@belmont-ma.gov