



Town of
Longmeadow, Massachusetts

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Town Manager Stephen J. Crane

Select Board

TO: Chairperson Gold and Members of the Select Board

FROM: Stephen Crane, Town Manager
Paul Pasterczyk, Asst. Town Manager/Finance Director

DATE: March 4, 2019

RE: FY 2020 Town Manager Budget Message

I am pleased to present the Fiscal Year (FY) 2020 Budget for the Town of Longmeadow. In its final form, this budget will continue the budgeting best practices that recently earned the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA) for the last years and awaiting a final decision on the Town's third year, FY 2019, submittal. The four principles of the GFOA budget process are:

Principle I – Establish Broad Goals to Guide Government Decision Making. A government should have broad goals that provide overall direction for the government and serve as a basis for decision making.

Principle II – Develop Approaches to Achieve Goals. A government should have specific policies, plans, programs, and management strategies to define how it will achieve its long-term goals.

Principle III – Develop a Budget with Approaches to Achieve Goals. A financial plan and budget that moves toward achievement of goals, within the constraints of available resources, should be prepared and adopted.

Principle IV – Evaluate Performance and Make Adjustments. Program and financial performance should be continually evaluated, and adjustments made, to encourage progress toward achieving goals.

Budget Process: Initial Forecast:

The preparation for the FY 2020 budget began in October 2018 with a joint meeting of the Select Board, School Committee and Finance Committee. Contents of the meeting included an update on the FY 2019 budget, including an update to the Town's current financial position. Updated FY 2019 budget numbers became the basis for the FY 2020 budget projection. Projections at that time indicated a budget shortfall of \$653,433. On the sources side, this projection included using only 2.00% of the Proposition 2 ½ allowable 2.50% tax levy increase, modest increases in both state aid and local receipts, and no use of reserve funds.

On the expenditure side, wages were anticipated to increase 3.00% covering both cost-of-living-allowances and step increases; expense line items were allotted 0.50% increase to cover inflation; employee benefits were expected to increase at various levels; debt service was to be funded at the

actual amounts due, and capital at 3.25% of anticipated net general fund revenue in accordance with Select Board policy---an increase of 0.25% from the FY 19 Town Budget. Similarly, the annual contribution to the OPEB trust fund was to be funded in accordance with Select Board policy at 1.25% of the Property Tax revenues---an increase of 0.25% from the FY 2019 Town Budget.

Budget Directive

The Town Manager's initial FY 2020 Town Budget directive to Town Departments stated that 2.0% of the allowable 2.50% tax levy increase would be used in the budget submitted to the Select Board. As a result, the level of increase in funding for the Select Board's Capital policy had to remain at the 3.0% of net general fund revenue. However, the Town Manager's FY 2020 recommended capital plan was fully funded with residual funds from the Capital Stabilization Fund. The capital plan was further enhanced by the receipt of an additional \$94,667 from the Commonwealth's Chapter 90 program.

Budget Process: Revenue Summary

The Town's General Fund, which excludes enterprise funds (Water, Sewer, Solid Waste/Recycling, and Stormwater), has four major categories: Property Taxes, State Aid, Local Receipts, and Reserves. As the budget process evolved, the estimates made in October 2018, with the exception of reserves, were able to be increased based on current information and played a major role in being able to present a balanced budget for FY 2020.

Revenues: Property Taxes

Property taxes are the largest revenue source of the Town comprising 81.35% of the FY 2020 General Fund revenue budget. Property taxes are levied on real property (land and buildings) and personal property (equipment) used by business firms. The Board of Assessors main responsibility is to determine the value of all real and personal property. The Department of Revenue (DOR) required five-year (formerly every three years) revaluation was completed in FY 2019. Property values increased 4.68% in FY 2019, decreased 0.24% in FY 2018 and increased 6.32% in FY 2017. On an annual basis between the five year revaluations, interim adjustments are performed and, finally, every 9 years the Town is required to complete "measure and list" valuation that requires a physical inspection of each taxable property in town. The next "measure and list" valuation needs to be completed by FY 2024 and is currently under way with an anticipated 20% of the properties being inspected annually. The cost of this "measure and list" revaluation is now built into the operating budget.

The amount of property taxes the Town can raise is regulated under Proposition 2½. In the aggregate the Town may not raise more than 2.50% of the Town's taxable "full and fair cash" valuation. This is known as the levy ceiling. Additionally, the annual levy increase may not exceed 2.50% more than the previous year's Levy Limit plus the additional taxes from any new growth and, if voted by the electorate, amounts approved for operating overrides. Any Proposition 2 ½ operating override or exclusions for debt or capital would be added to the levy limit. Overrides require a majority vote at a Town election.

Property taxes in FY 2020 are expected to rise by \$1,192,751 to \$53,759,287. The increase includes 2.00% of the allowable 2.50% plus an estimated \$250,000 in new growth. Approximately \$90,000 of the new growth is attributable to the District Improvement Financing (DIF) arrangement and will be used to pay off the debt service on infrastructure improvements within the DIF arrangement. The FY 2020 taxes resulting from previously voted debt exclusions will decrease \$126,112 to \$4,253,573; however, should financing for the construction of the new Adult Center take place in FY 2020, these amounts will change to address the FY 2020 impact of the financing. It is currently estimated that the first year's debt service on the Adult Center will be approximately \$625,000.

	FY2019 Actual	FY2020 Estimated	% Change
Prior Year Levy Limit	\$46,851,176	\$48,289,342	
Add 2.50%	\$1,171,279	\$1,207,234	
Add New Growth	\$266,887	\$250,000	
Add Operating Overrides	0	0	
Levy Limit	\$48,289,342	\$49,746,576	
Add Net Debt Exclusion	\$4,379,685	\$4,253,573	-\$126,112
Add Capital Exclusion	0	0	
Maximum Allowable Limit	\$52,669,027	\$54,000,149	\$1,331,122
Actual Levy	\$52,566,536	\$53,759,287	\$1,192,751 (2.27%)
Unused Levy*	\$102,491	\$240,862	
Levy Ceiling	\$54,552,237	\$54,811,681	
Remaining Taxing Capacity	\$6,262,895	\$5,065,105	

*The FY 2020 unused levy of \$240,862 or 2.00% of the allowable Proposition 2½'s 2.50% increase was a goal of the Select Board, Town Manager and Finance Committee. Only 2.00% of the allowable 2.50% was used in FY 2020 therefore the goal was met. The FY 2019 goal was to only utilize 2.25%

The Town's taxable valuation in FY 2019 was \$ **2,182,089,505**, an increase of 4.68% over FY 2018. The FY 2019 tax rate was \$24.09. With the estimated \$250,000 in FY 2020 new growth and 0.0% change in market value, the Town's taxable valuation is estimated to be **\$2,192,467,255**. If the levy amount recommended in this budget is approved, the FY2020 tax rate will be \$24.52 utilizing the FY 2020 estimated valuation.

Revenues: State Aid

State Aid is the second largest revenue source of the Town comprising approximately 10.52% of the FY 2020 General Fund revenue budget. The Town is using the FY 2020 net State Aid amounts proposed in the Governor's FY 2020 state budget or \$6,967,760, an increase of \$405,955 or 6.19% This increase is the second largest increase in net State Aid received in many years, only trailing the final FY 2019 increase of \$588,081 or 9.85%. The increase was not part of the original budget assumptions made in October of 2018. The increase was very much welcomed and assisted in eliminating the original projected deficit. The Governor's proposed State Aid amounts will need to go through the State's House of Representatives and Senate (the Legislature) and then back to the Governor for final approval. It usually takes until early summer before the amounts are finalized. The amount utilized in the FY 2020 budget is felt to be secure given the legislature's history of adding to the Governor's proposed State Aid.

Revenues: Local Receipts

Local Receipts comprise approximately 8.12% of the General Fund revenue budget with Motor Vehicle Excise Taxes (MVET) being the largest category of Local Receipts. Other significant General Fund Local Receipts include Ambulance Fees, Penalties and Interest on late payments, Rentals (mainly attributable from our cell tower leases), Other Departmental Revenue, Licenses and Permits and Reimbursements from the Parks and Recreation Department for funding of full time Day Care Salaries.

In general, the overall increase expected in each category is approximately 2.0 % with the major exception being a projected increase in Ambulance revenues of 21.60%. This increase is driven by the added staff in FY 2019. The added staff now is able to run two ambulances simultaneously far more often than in the past. Increased rates, justified through regional rate studies also plays a role.

The estimated amount of the FY 2019 Local Receipts was \$5,126,955. This is expected to increase in FY 2020 by \$259,514 or 5.07% to \$5,386,469. FY 2019 was the first year of receiving annual mitigation funds from MGM Springfield. The FY 2019 amount was \$275,000 and this is expected to increase 2.50% annually.

Revenues: Reserves

The last category of General Fund funding sources is Reserves. These unrestricted Reserves are mainly comprised of Free Cash and the Operational Stabilization Fund. Free Cash develops when actual receipts exceed estimates and expenditures are less than estimates (appropriations). These amounts are added to any unexpended prior year Free Cash. Free Cash is certified annually as of July 1st of the fiscal year by the State Department of Revenue and the amount is based on the previous fiscal year's ending operations and resulting financial statements. The Town's Operational Stabilization Fund was established through Article #15 of the Town Meeting held on November 18, 2003 in accordance with Massachusetts General Law Chapter 40 Section 5B. The balance in the Town's Operational Stabilization Fund as of January 31, 2019 is \$3,813,099, an increase of \$518,452 or 15.74% over the \$3,294,647 balance on January 31, 2018.

The Operational Stabilization Fund is considered the true "rainy day" fund of the Town. The combination of Free Cash and the Operational Stabilization Fund is known as our General Reserves. The policy of the Select Board calls for the total of both to be in the 5 - 10% range of General Fund operating revenues. General reserves within this level are an indicator that our financial health is favorable. At July 1, 2018 (FY 2019) the General Reserves were 6.67% of the General Fund operating revenues. It is expected that as of July 1, 2019 the General Reserves will increase slightly to 7.22% of the operating revenues for FY 2020. The Town's Operational Stabilization Fund is slowly increasing but tight budgeting margins have squeezed Free Cash expectations.

The recent history of certified Free Cash shows that it is somewhat volatile: FY 2015 \$1,696,857, FY 2016: \$1,041,374, FY 2017 \$980,932, FY 2018 \$1,794,722 of which \$755,800 was earmarked to cover road improvements along the Longmeadow Street / Converse Street corridor, and FY 2019 \$789,344. A policy of the Select Board is to transfer any Free Cash amount greater than \$500,000 after the fiscal year's budget is balanced to the Operational Stabilization Fund. Additionally, the town transfers its estimated remaining Free Cash at the Annual Town Meeting to the Operational Stabilization Fund. The Town transferred \$205,466 to the Operational Stabilization Fund during the May, 2018 Annual Town Meeting and another \$250,000 during the October, 2018 Special Town Meeting. At this time, the Town is planning to minimally transfer an additional \$235,000 to the Operational Stabilization Fund at the May, 2019 Annual Town Meeting. This \$235,000 is included in the percentages cited in the previous paragraph.

Free Cash is not a reliable recurring source of revenue and, therefore, it is the policy of both the Select Board and School Committee not to utilize anticipated reserves to fund predictably recurring expenses in the operational budget. No reserves are used to balance the FY 2020 recommended Town budget.

Budget Recommendations by the Town Manager:

The following is summary of the FY 2020 Town Manager's recommended budget. It follows the guidelines of the Town Charter by being balanced without the use of reserves and achieves the goal of

increasing taxes only 2.00% of the full 2.50% permitted under Proposition 2½. This is the third year of the implementation of a Revenue Sharing concept that provides guidance and compromise on what an appropriate allocation of resources is for each budget category. Both the school and non-school departments fell within the range of the projected allocations so additional cuts were not needed to balance the budget.

GENERAL FUND

General Government – The Town Manager’s recommended FY 2020 budget for General Government is \$1,620,161 an increase of \$9,971 or 0.62%. This is a level service budget. Salaries are up by nearly \$35,000 and are mainly attributable to step increases. No cost-of-living-allowances (COLAs) are budgeted for in the General Government function; a special article will be offered at the Annual Town Meeting to fund COLAs and new collective bargaining agreements. The Elections and Registration budget decreased by \$4,500. The FY 2019 budget included the State primary and general election. The FY 20 budget allots for a Presidential primary in March of 2020. The reorganization of the Assessor’s Office will be in its second years. The functions of the Principal Assessor are now “out-sourced” at a substantial savings.

Additionally, The Department of Revenues required 9-year “measure and list” revaluation (last completed in FY 2015 at a cost of \$140,000) is being incorporated in the operating budget on a 5 year prorated amount in order that it is fully completed by next due date of FY 2024. This “measure and list” revaluation requires a physical inspection of each taxable property in Town and will now be done in annual cycles as opposed to the previous 9 year intervals. The FY 20 budget request accomplishing all this is nearly \$13,000 less than it was 3 years ago and that does not include the savings of employee benefits. It is anticipated that additional small amounts of new growth will be discovered annually as opposed to at the end of the 9-year project cycle. The Reserve Fund was reduced from \$40,000 to \$20,000 as a result the historical usage of the fund. In the past two fiscal years, two total transfers have been made (\$10,000 and \$11,000) and none have been made in FY19.

Public Safety – The Town Manager’s recommended FY 2020 budget for Public Safety is \$5,427,920 an increase of \$152,424 or 2.89%. Additional projected ambulance revenues in the amount of \$142,100 cover the majority of the increase. Overall, wages are up about \$2,000 but this is driven by the anticipated January 1, 2020 opening of the WESTCOMM Regional Dispatch Center which the Town of Longmeadow and the City of Chicopee will jointly participate in. One half of the projected salaries for dispatches has been budgeted for as the Town’s FY 2020 assessment to WESTCOMM. COLAs contained the Fire Collective Bargaining Agreement (CBA) are included in the FY 20 budget recommendation. There are no COLAs budgeted for the Police CBAs in the recommended budget. Additional clerical help is being allotted for in the Fire Department to assist in the handling of the additional Ambulance activity.

Planning and Community Development - The Town Manager’s recommended FY 2020 budget for Planning and Community Development is \$192,784 a decrease of \$1,293 or -0.67%. The decrease is mainly attributable to a reduction in Conservation Commission administrative costs.

Schools – The Town Manager’s recommended FY 2020 General Fund budget for the Schools is \$35,153,129, an increase of \$808,893 or 2.36%. The Town Manager’s recommended budget fully funds the requested amount of the School Committee and that the amount is slightly greater than the revised amount under the “Revenue Sharing” concept that was projected. \$184,742 of the FY 2020 General Fund increase is directly attributable to reductions of school revenues sources other than the General Fund, mostly Circuit Breaker (State Special Education tuition reimbursements) and School Choice (reimbursements for out of district students attending the Town’s schools). The remaining additional

costs are mainly for contractual increases in personnel services (\$848,948) with some offsets. There is a reduction in full time equivalents (FTEs) of 3.8 FTEs.

Public Works - The Town Manager's recommended FY 2020 General Fund budget for the Department of Public Works (DPW) is \$3,176,359, an increase of \$91,533 or 2.97%. Overall, through attrition in the workforce, the FY 2020 salary request is less than the FY 2019 budget's. Note that the Department of Public Works (DPW) collective bargaining agreement expires June 30, 2019 and COLAs are not budgeted for in the DPW requested budget. A promotion of one of the clerical staff to a managerial classified Office Manager is included in the budget request. Recommended increases are allotted for to cover rising electricity costs for our Street and Traffic Lights. The Forestry Trimming and Removal account is being recommended for a \$53,500 increase to address the backlog of needed care. Maintenance of School athletic fields is getting a boost to better reflect the historical actual costs. Maintenance at the High School is also being recommended for an increase.

Community Services – The Town Manager's recommended FY 2020 budget for Community Services is \$1,799,114 an increase of \$76,680 or 4.45%. More than two thirds of the increase (\$51,836) is directed to Storrs Library for additional hours of operation and additional books and periodicals. Building maintenance costs used to be part of the Library budget but transferred to the DPW budget as part of the Charter transition. For FY20, those costs, \$12,450, are being returned to the Library budget to better reflect costs in the MBLC Minimum Appropriation Requirement (MAR) formula. Even with the transfer, the Town will still need to request a waiver in FY20 from the MBLC. The Council on Aging will now have a full time Program Coordinator that will mainly be funded through grants. This is in anticipation of the new adult center opening sometime near the beginning of FY 2021 bringing along additional activities for not only the seniors but for all members of the community. The Parks & Recreations line item for Day Care salaries is recommended to increase \$34,643. This request is to meet the State's student to teacher ratio. All amounts spent out of the Day Care salaries budget are covered by the fees charged for day care and are reimbursed to the General Fund

Debt Service – The Town Manager's recommended FY 2020 budget for Debt Service is \$4,545,823 a decrease of \$323,465 or 6.64%. It is anticipated that financing for the new Adult Center will be secured in FY 2020 and would add approximately \$625,000 to this budget. Tax rate impact from the recent Proposition 2 ½ excluded debt from DPW and Adult Center borrowings are projected to increase until the year 2022. FY 2019 was the first year of receiving annual mitigation funds as part of the Surrounding Community Agreement with MGM. Those funds were used in FY 2019 to pay debt service on the replacement of Engine 2, which is the primary response vehicle for incidents on I-91. The FY 2020 usage of funds is dispersed in the Public Safety section of the operating budget and used to maintain the pavement preservation program within the capital budget.

Employee / Retiree Benefits / Liability and Property Insurance – the Town Manager's recommended FY 2020 budget for Employee / Retiree Benefits / Liability and Property Insurance is \$10,438,728, an increase of \$727,528 or 7.49%. Numerous accounts are driving this increase including, but not limited to Employee / Retiree Health insurance, up an estimated \$358,928 or 7.50% in aggregate; retirement assessment up \$168,000 or 5.25%; liability insurance up \$30,000 or 4.92% (driven by recent unfavorable claims experience); the OPEB funding is at 1.125% of the FY 2020 estimated property tax levy limit (less amounts for excludable debt). The one-eighth percent increase from the FY 2019 funding level plus the increase in the estimated tax levy is responsible for the \$78,650, 16.35% increase to the OPEB Trust Fund now being invested / managed by the State Retiree Benefits Trust Fund.

Capital - the FY 2020 allocation for the Town's capital program is \$1,828,524, or 3.00% of the net General Fund operating revenues less the Town taxes excluded specifically on certain debt. The Town

Manager's FY 2020 capital plan is fully funded through the use of this allocation and funds left over from prior years' capital projects (\$87,546). In addition to the Town Manager's capital plan, the allotment for pavement preservation will be enhanced by \$94,667 in FY 2020 as a result of an additional FY 2019 Ch 90 distribution. As it has in the past, the Town can make up the added 0.25% / \$155,327 shortfall in the fall with funding coming from FY 20's Free Cash or other revenue sources.

Enterprise Funds- Water, Sewer, Solid Waste / Recycling and Stormwater- The Town Manager's recommended FY 2020 enterprise fund budgets are: Water \$2,701,667, an increase of \$110,282 or 4.20%; Sewer \$1,991,772, an increase of \$26,267 or 1.34%, Solid Waste / Recycling \$1,188,431, an increase of \$3,160 or 0.27% and the second year of the Stormwater budget, \$842,989, an increase of \$190,226 or 29.14%. The Water budget increase is mainly driven by a \$71,038 increase in the anticipated costs in its purchasing costs from the Springfield Water and Sewer Commission. The Sewer budget's anticipated costs from the Springfield Water and Sewer Commission are level funded. The biggest increase is driven by projected employee and retiree benefits cost escalations.

The increase in the Solid Waste Recycling Enterprise fund is again being driven by anticipated increases in trash disposal costs, increases in the costs of the disposal of yard waste from the Recycling Center and the contractual increase in curbside pickup of trash and recyclables. The Stormwater enterprise fund was established by Town Meeting vote at May 2017 Annual Town Meeting. In the absence of this new fund, the recommended line items would have been appropriated in Town's General Fund – DPW Highway and Debt Service. The purpose of the fund is to promote the health and safety of the public, to protect property from flooding and damage caused by stormwater runoff, and to protect and manage water quality by controlling the level of pollutants in stormwater runoff and the flow of water as conveyed by man-made and by natural stormwater management systems and facilities.

In FY 2019, the Stormwater utility fee was also established and was expected to cover \$200,000 or 31.0% of the total direct costs associated with the Stormwater Enterprise Fund. It is currently projected to cover \$292,000 or 35.0% of the total direct costs in FY 2020. The indirect costs (employee benefits and liability) associated with the Solid Waste / Recycling and Stormwater funds are budgeted in the General Fund in FY 2020 and remain as such until the revenues generated by the funds are ample to fully cover costs.

Available Balances as of February 1, 2019:

Free Cash	\$502,377
Operational Stabilization Fund	\$3,813,099
Capital Stabilization Fund	\$145,035
Water Retained earnings	\$518,108
Sewer Retained Earnings	\$890,697
Solid Waste Recycling Retained Earnings	\$22,241
Ambulance Reserve	\$132,707

Conclusion

The FY 2020 General Fund operating budget of \$62,354,018 is an increase of \$1,542,271 or a 2.54% increase over the FY 2019 General Fund operating budget. Nearly half of the increase is directly attributable to the increase in the Employee / Retiree / Liability Insurance sections of the budget. The all funds operating budget represents a 2.79% increase over the FY 2019's operating budget. Funding towards the Town's commitment to the OPEB liability met its goal of adding an additional 0.25% of its allocation to the line item. The Town's commitment to the capital budget was increased at a 3.00% level allotment. The Town Manager's recommended capital budget was fully funded with usage of unspent capital funds. Additional funds from FY 20's Free Cash could be added in the capital plan in the

fall to make up the 0.25 shortfall. The Budget is balanced without the use of reserves and balanced with the use of only 2.00% of the 2.50% allotted by Proposition 2 ½. The FY 2020 unused taxing capacity is approximately \$240,000 and equates to just 11 cents on the tax rate or a property tax savings of \$38.50 on a home valued at \$350,000.

Sincerely,

Stephen Crane,
Town Manager