



Town of
Longmeadow, Massachusetts

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Town Manager Stephen J. Crane

Select Board

TO: Chairperson Angelides and Members of the Select Board

FROM: Stephen Crane, Town Manager
Paul Pasterczyk, Finance Director

DATE: March 1, 2017

RE: FY 2018 Town Manager Budget Message

I am pleased to present the Fiscal Year (FY) 2018 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 second consecutive year. 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 2018 budget began in October 2016 with a joint meeting of the Select Board, School Committee and Finance Committee. Contents of the meeting included an update on the FY 2017 budget process, inclusive of an update to the Town's current financial position. Updated FY 2017 budgetary numbers became the basis for the FY 2018 budget projection. On the Sources side, 1) the full property tax capacity would be utilized, 2) both state and local revenues would remain at current levels, and 3) there would be no use of Town reserves for operational expenses. On the Uses side, 1) collective bargaining agreements would be funded at the current staff levels, 2) employee / retiree benefits were expected to increase at various levels, 3) debt service would be funded at the actual amounts due, and 4) the funding levels for the Select Board's policies concerning capital and OPEB would be funded at the FY 2017 levels. It should be noted that the FY 2017 levels for the capital and OPEB polices were funded

with \$250,100 worth of supplemental appropriations utilizing Town reserves at the fall 2016 Special Town Meeting.

The use of reserves to balance the FY 2017 Town Budget created a structural deficit in the FY 2018 Budget. In order to maintain level services without the continued use of reserves, the FY 2018 Budget began with a \$900,000 projected deficit. As a way to eliminate the deficit in an equitable way, a “revenue sharing” concept was introduced by the Town Manager and the Finance Director; under this concept, any increased revenues would first be used to meet the FY 2018 non-discretionary budgetary needs (employee/retiree benefits and debt service) and any remaining funds would be apportioned to the school and non-school departments within the general fund with the FY 2017 budgetary percentages as the base. Accordingly, the revenue sharing formula yielded a \$206,765 / 0.62% increase to the school general fund budget and a \$76,721 / 0.62% increase to the remaining portion of the budget.

Budget Directive

The Town Manager’s FY 2018 Town Budget that is being submitted to the Select Board uses a 2.5% factor for increasing the tax levy. As in past years, Departments were asked to fund their current level of FTE’s utilizing the current ratified collective bargaining agreements. Departments were also asked to prepare a base-level line item budget to fund all recurring operational expenditures to maintain the current level of services. Given the projected deficit, it was strongly recommended that cost reductions for general fund activities be identified by each Department as opposed to leaving it to the discretion of the Town Manager and/or Select Board. Any increases in either personnel or expense lines have been requested in an itemized supplemental budget request (see below) and have been at least partially offset by proposed reductions in other budget line items. The base-level budget and supplemental requests were completed and submitted to the Town Manager by close of business on December 9.

Budget Process: Revenue Summary

The Town’s General Fund, which excludes enterprise funds (Water, Sewer and Solid Waste / Recycling), has four major categories: Property Taxes, State Aid, Local Receipts, and Reserves. As the budget process evolved, the estimates made in October 2016, 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 2018.

Revenues: Property Taxes

Property taxes are the largest revenue source of the Town comprising 82.53% of the FY 2018 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. Formerly, on a triennial basis, the Town was mandated to revalue its property to fair market value based upon sales data. Under the Governor’s Municipal Modernization Act the mandate was changed to every five years. The next scheduled revaluation of this type is scheduled for FY 2019. On an annual basis between five year revaluations, interim adjustments are performed and finally, every 9 years the Town is required to complete “measure and list” valuation which requires a physical inspection of each taxable property in town. The triennial and 9 year “measure and list” revaluations were completed in FY 2015 bringing our taxable valuations up to date.

The amount of property taxes the Town can raise is regulated under Proposition 2 ½. In the aggregate the Town may not raise more than 2 ½% 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 ½% more than the previous year’s “Levy Limit” plus the additional taxes from any new growth. 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 2018 are expected to rise by \$1,336,855 to \$50,615,907. The increase includes all of the allowable 2 ½% plus an estimated \$200,000 in new growth, \$75,000 of which is attributable to the increased value from the “shops” expansion. The FY 2018 taxes resulting from previously voted debt exclusions will decrease \$250 to \$3,794,647.

	FY2017 Actual	FY2018 Estimated	% Change
Prior Year Levy Limit	\$44,199,453	\$45,484,185	
Add 2 ½%	\$1,104,986	\$1,137,105	
Add New Growth	\$179,716	\$200,000 (est)	
Add Operating Overrides	0	0	
Levy Limit	\$45,484,185	\$46,821,129	
Add Net Debt Exclusion	\$3,794,897	\$3,794,647	(\$250)
Add Capital Exclusion	0	0	
Maximum Allowable Limit	\$49,279,052	\$50,615,907	\$1,336,855 or 2.64%
Actual Levy	\$49,273,335	\$50,615,907	
Unused Levy*	\$5,717	\$0	
Levy Ceiling	\$52,240,601	\$52,452,645	
Remaining Taxing Capacity	\$6,756,416	\$5,631,456	

*The unused levy was simply a result of rounding off to two decimal points and dropping any fraction of pennies thereafter.

The Town’s taxable valuation in FY 2017 was \$ **2,089,624,047**, an increase of 6.32% over FY 2016. With the estimated \$200,000 in FY 2018 New Growth the Town’s taxable valuation is estimated to be **\$2,098,105,807**.

Revenues: State Aid

State Aid is the second largest revenue source of the Town comprising approximately 9.71% of the FY 2018 General Fund revenue budget. The Town is using the FY 2018 net Local Aid amounts proposed in the Governor’s budget or \$5,945,100. 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 can be generally determined confidently. The amounts utilized in the FY 2018 budget are felt to be secure given the legislature’s history on State Aid.

Revenues: Local Receipts

Local Receipts comprise approximately 7.76% 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 and associated benefits.

The estimated amount of the FY 2017 Local Receipts was \$4,593,837. This is expected to moderately increase in FY 2018 by \$158,000 to \$4,751,837 mostly as a result of increases in Ambulance receipts (\$90,000) and increased contribution from the Greenwood Children's Center (\$27,000) to the general fund. Both of these increases are direct service fees and are needed to offset the increased budgetary costs associated with the increasing demand for providing the services.

Other adjustments, both positively and negatively have been made to other Local Receipts categories. The adjustments primarily are a result of FY 2017 year-to-date activity along with known outside impacts on the categories.

Revenues: Reserves

The last category of General Fund funding sources are 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 end 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 February 1, 2017 is just over \$2.94 million.

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, 2016 (FY 2017) the General Reserves were 6.49% of the General Fund operating revenues. It is expected that as of July 1, 2017 the General Reserves will drop to below 6.00% of the operating revenues for FY 2018. The Town's Operational Stabilization Fund is annually increasing slowly 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 and an FY 2018 projected amount of only \$600,000. Another 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. The Town transferred \$135,716 to the Operational Stabilization Fund during the May, 2016 Annual Town Meeting and another \$55,000 during the October, 2016 Special Town Meeting. At this time, the Town is hoping to transfer an additional \$80,000 to the Operational Stabilization Fund at the May, 2017 Annual Town Meeting. This \$80,000 is not included in the numbers cited in the previous paragraphs.

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 2018 recommended Town budget.

Budget Recommendations by the Town Manager:

The following is a summary of the FY 2018 Town Manager's recommended budget. It follows the guidelines of the Town Charter in the sense that it is balanced without the use of reserves and it meets the Select Board policies for the capital and OPEB funding. This first implementation of the Revenue Sharing concept provided guidance and compromise. 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 2018 budget for General Government is \$1,522,774, an increase of \$6,027 or 0.40%. The increase is predominately attributable to a new line item in the Select Board / Town Manager’s budget of a \$7,500 stipend for an Assistant Town Manager. As a number of important projects are expected to confront Longmeadow over the next several years (DPW Facility, Senior / Community Center, Middle School(s) project, Dwight Rd. / Maple St. District Improvement, Financing, Storm Water Enterprise Fund, Converse Street reconstruction, Regional Dispatch) certain responsibilities, especially improved service to the Select Board, will be delegated to another Town employee capable of assisting or assuming certain additional duties. Funding of wage increases are offset by reduction in certain line items, mainly a \$25,000 reduction in Town Meeting / Election costs. FY 2017 dealt with a State primary and a Presidential election, neither of which will happen in FY 2018.

Public Safety – The Town Manager’s recommended FY 2018 budget for Public Safety is \$5,107,478, an increase of \$151,169 or 3.05%. The major change driving the budget increase is a revised organizational chart in the Fire Department. Changes, accomplished at different intervals within the fiscal year, include exchanging one Captain position for a Deputy Fire Chief (January 1, 2018) and adding two Firefighter / EMTs (September 1, 2017 and April 1, 2018) to the Department. The majority of the funding for the additional cost will come from ambulance revenue (\$90,000) where the demand for services continues to increase as the town’s population ages. The additional staff will allow the Fire Department to further increase its utilization of its second ambulance and also have a substantial impact in reducing overtime costs (\$20,000 estimated). The Deputy Chief will be a non-union position and will help the Chief manage department operations and personnel. The Police Department has level staffing and will fund its recent collective bargaining obligations that now include a Police Dispatchers union.

Planning and Community Development - The Town Manager’s recommended FY 2018 budget for Planning and Community Development is \$184,707, a decrease of \$3,976 or 2.11%. The reduction is mainly attributable to a reduction in temporary part-time services required in previous years. Additionally the FY 2018 fiscal year has one less paid work day than FY 2017 and the impact shows when the departmental personnel are at the top of their pay grades.

Schools – The Town Manager’s recommended FY 2018 General Fund budget for the Schools is \$33,669,978, an increase of \$516,349 or 1.56%. The additional General Fund amount absorbs an anticipated loss of \$241,286 in Special Revenue funding. The Town Manager’s recommended budget fully funds the requested amount of the School Committee and it is worth noting that the amount is near equal to the revised amount under the “Revenue Sharing” concept discussed previously.

Public Works - The Town Manager’s recommended FY 2018 General Fund budget for the Department of Public Works is \$3,460,842, a decrease of \$14,447 or 0.42%. The budget fully funds the collective bargaining obligations while maintaining level services. Reduced budgets in certain electricity line items result from efficiencies and continued participation in Net Metering Credit contracts with solar energy providers. The Forestry line for Trimming and Removal was reduced as DPW staff are doing certain pruning and stump grinding in-house. The Forestry line for Planting was increased as a result of some of those savings. A dedicated team of DPW employees has been assigned full-time to the Sewer Jett Truck, which lowers the General Fund contribution to the wages (a commensurate increase in wages is now carried in the Sewer enterprise fund).

Community Services – The Town Manager’s recommended FY 2018 budget for Community Services is \$1,639,825, an increase of \$55,216 or 3.48%. The increase is attributable to three departments. First, the Veterans’ Benefits account in the Veterans’ Services Department is up \$29,000 as a result of increased benefits payments generated by the expanded outreach by the Director of Veterans Services. Veterans’ benefits are reimbursed by the State at 75% but lag about 15 months before the revenue is actually received. Second, the Parks & Recreation line item for Day Care Salaries is up \$10,000. It is being driven by increased enrollment in day care and after school services. Fees collected for the services are reimbursed to offset the expenses incurred by the General Fund. These expenses include the wages and associated benefits paid to full time employees working within the Day Care program. The third major increase is in the Library where the non-salary expense climbed \$9,514 distributed in various line items with the majority of the increase attributable to the Town’s contribution toward the regional library’s system of book location and distribution \$5,764.

Debt Service – The Town Manager’s recommended FY 2018 budget for Debt Service is \$4,086,211 a decrease of \$1,396 or 0.03%. The majority of the Town’s long term debt is structured with level debt service as opposed to level principal. All debt authorizations financed with short term debt is projected to be amortized completely within 5 years of the original issuance of the short term debt.

Employee / Retiree Benefits, Liability and Property Insurance – the Town Manager’s recommended FY 2018 budget for Employee / Retiree Benefits, Liability and Property Insurance is \$8,936,700, an increase of 454,769 or 5.36%. Numerous accounts are driving this increase, including, but not limited to Employee Health insurance, up an estimated \$153,000 or 5.00%, Retirement assessment up \$185,000 or 6.50%, Liability Insurance up \$30,000 or 6.12% (driven by recent unfavorable Workers Compensation claims experience). The OPEB funding is at 2.50% of the FY 2018 estimated property tax revenues, per the Select Board policy. The FY 2018 2.50% is level from the FY 2017 percentage.

Capital – the FY 2018 allocation for the Town’s capital program is \$1,675,000 or approximately 2.75% of the General Fund operating revenues. The FY 2018 percentage is level from the FY 2017 percentage. The 2.75% is in compliance with the Select Board’s policy involving the financing of capital projects. An additional \$127,500 was appropriated to the Capital Stabilization Fund at the October 2016 Special Town Meeting to cover the shortfall in funding the FY 2017 allocation. These funds may also be used in the FY 2018 capital plan.

Enterprise Funds- Water, Sewer and Solid Waste / Recycling - The Town Manager’s recommended FY 2018 enterprise fund budgets are: Water \$2,327,373, a decrease of \$28,702 or 1.22%; Sewer \$1,925,114, an increase of \$9,153 or 0.48% and Solid Waste / Recycling \$1,141,710, an increase of \$85,781 or 8.12%. The Water budget benefitted from an \$110,000 reduction in the anticipated costs in its purchasing costs from the Springfield Water and Sewer Commission. Water rates for FY 2018 have been established and the rate will remain at \$3.08 per 100 cubic feet. The Sewer budget absorbed an increase in its anticipated costs from the Springfield Water and Sewer Commission (\$22,000) and the reassignment of a departmental worker to operate the Town’s Sewer Jett on a regular basis (per the Department of Public Works collective bargaining agreement). A reduction in Sewer debt service offset the increases. Sewer rates for FY 2018 have been established and the rate will decrease by \$0.02 to \$2.50 per 100 cubic feet. The increase in the Solid Waste Recycling Enterprise fund is being driven by anticipated increases in trash disposal costs, increases in the costs of yard waste from the Recycling Center and the contractual increase in curbside pickup of trash and recyclables.

Available Balances as of February 28, 2017:

Free Cash	\$587,406
Operational Stabilization Fund	\$2,944,987
Capital Stabilization Fund	\$129,126
Water Retained earnings	\$592,560
Sewer Retained Earnings	\$633,722
Solid Waste Recycling Retained Earnings	\$30,973
Ambulance Reserve	\$33,638

Conclusion

The FY 2018 General Fund operating budget is a 2.03% increase over the FY 2017 General Fund operating budget. The all funds operating budget represents a 1.96% increase over the FY 2017's operating budget. A more detailed report will be prepared for presentation to Town Meeting, once the final budget is adopted by the Select Board.

Sincerely,

Stephen Crane
Town Manager