



June 1, 2020

The Honorable Select Board and Members of the Advisory Committee  
Town of Brookline  
Brookline, Massachusetts 02445

Dear Members of the Board and Advisory Committee:

This Supplemental Budget Message addresses proposed modifications to the Fiscal Year (FY) 2021 Budget in response to a projected decline in revenue since the initial Budget was submitted on February 15.

**INTRODUCTION:** Several weeks after the initial FY 2021 Budget was submitted on February 15, the COVID-19 pandemic struck the United States and caused a rapid and comprehensive economic breakdown. At this time, we project that these economic conditions will have the effect of reducing the Town's FY 2021 revenue by \$12,159,415. This revenue loss is 3.7% lower than the initial FY 2021 Budget submission. To meet this reduction in revenue, less money is allocated to the School department and Municipal department's budgets. We have proposed deeper reductions in the operating funding normally dedicated to the Capital budget to mitigate the undesirable impact of reducing staffing and services, especially during the pandemic. At this time, I am not recommending the use of one-time revenue from the Town's reserves to fill the remaining FY 2021 budget hole. I am concerned that the budgetary impacts from the COVID-19 crisis will carry over into Fiscal Year 2022 and possibly longer. If the Town uses its savings account or reduces its payments on long-term obligations to meet operational expenses in FY 2021, those options will not be available in FY 2022 when the Town's Budget may need it more. Until we know more about the economic recovery, we cannot exhaust our options in Year 1. More information about the Town's reserves and long-term obligations are included later in this Supplemental Budget Message.

The challenges created by this sudden economic crisis require more time to plan and to generate publicly acceptable solutions. A detailed projection of FY 2021 revenue loss, and the possibility that federal aid may be available to replace it, are uncertain at this time. This revised Budget meets the requirement for a balanced budget in time for the Annual Town Meeting and commencement of the new fiscal year on July 1, 2020. However, it is my strong recommendation that the Town consider this an interim budget and plan to adopt a final, more comprehensive budget at the Special Town Meeting in November of 2020. While modifying a budget after the fiscal year has begun is a challenge, there will be much more data and

information available to the Advisory Committee over the summer and into the fall to conduct its review and to provide the Town with the necessary space for public policy debate about balancing the Town's priorities and values.

The following table breaks down the proposed FY 2021 Budget of \$317,669,708, including comparisons to the prior fiscal year and the initial FY 2021 Budget submission.

Table 1 Comparison to FY2020 Budget

<u>REVENUE SOURCE</u>	FY2020	FY2021	<u>BUDGET INCREASE</u>	
	<u>BUDGET</u>	<u>BUDGET</u>	<u>\$\$</u>	<u>%</u>
Property Taxes	238,487,745	254,898,615	16,410,870	6.9%
Local Receipts	31,120,219	27,051,609	(4,068,610)	-13.1%
State Aid	22,386,947	19,455,995	(2,930,952)	-13.1%
Free Cash	9,081,257	11,791,952	2,710,695	29.8%
Other Available Funds	3,349,771	4,471,538	1,121,767	33.5%
<b>General Fund Revenues</b>	<b>304,425,937</b>	<b>317,669,708</b>	<b>13,243,771</b>	<b>4.4%</b>
<u>EXPENDITURE CATEGORY</u>		<u>Recommended</u>		
Town Departments	78,990,815	78,338,691	(652,124)	-0.8%
Schools	117,385,105	118,998,990	1,613,885	1.4%
Benefits	66,438,626	68,648,264	2,209,638	3.3%
Non-Departmental	4,108,594	7,283,960	3,175,366	77.3%
Debt Service	18,828,262	25,204,624	6,376,362	33.9%
Special Appropriations (CIP)	9,949,094	10,458,250	509,156	5.1%
Non-Appropriated	8,725,441	8,736,930	11,489	0.1%
<b>Total expenditures</b>	<b>304,425,937</b>	<b>317,669,708</b>	<b>13,243,771</b>	<b>4.4%</b>

Table 2 Comparison to Initial FY 2021 Budget

<u>REVENUE SOURCE</u>	FY2021	FY2021	<u>FY21 Feb vs</u>	
	<u>FEBRUARY</u>	<u>REVISED</u>	<u>FY21 Revised</u>	
	<u>BUDGET</u>	<u>BUDGET</u>		
Property Taxes	254,898,615	254,898,615	0	0.0%
Local Receipts	35,874,799	27,051,609	(8,823,190)	-24.6%
State Aid	22,792,220	19,455,995	(3,336,225)	-14.6%
Free Cash	11,791,952	11,791,952	0	0.0%
Other Available Funds	4,471,538	4,471,538	0	0.0%
<b>General Fund Revenues</b>	<b>329,829,123</b>	<b>317,669,708</b>	<b>(12,159,415)</b>	<b>-3.7%</b>
<u>EXPENDITURE CATEGORY</u>		<u>Recommended</u>	<u>Reduction</u>	
Town Departments	81,681,032	78,338,691	(3,342,341)	-4.1%
Schools	123,361,137	118,998,990	(4,362,148)	-3.5%
Benefits	68,898,264	68,648,264	(250,000)	-0.4%
Non-Departmental	7,430,475	7,283,960	(146,515)	-2.0%
Debt Service	25,763,034	25,204,624	(558,410)	-2.2%
Special Appropriations (CIP)	13,958,250	10,458,250	(3,500,000)	-25.1%
Non-Appropriated	8,736,930	8,736,930	0	0.0%
<b>Total expenditures</b>	<b>329,829,123</b>	<b>317,669,708</b>	<b>(12,159,415)</b>	<b>-3.7%</b>

**REVENUES:** In some ways the Town of Brookline is insulated from major swings of revenue due to economic cycles. Over 70% of the Town's revenues are made up from property taxes. Property taxes are a stable source of revenue whose growth is limited, but fixed, at 2.5% per year (Proposition 2½). Its collection is highly reliable given a municipality's ability to place liens on property and the large percentage of taxes paid automatically through mortgage companies. The revenue loss for FY 2021 created by the COVID-19 crisis are felt in the State Aid and Local Receipts categories.

It is projected that general aid to the Town from the Commonwealth of Massachusetts will decrease in FY 2021 as a result of COVID-19 impacts to the state economy and revenues. Compared to the amounts projected in the initial FY 2021 Budget, we project that State Aid will be \$3,336,225 less, representing a loss of nearly 15%. The Town's Local Receipts are directly impacted by economic performance, including excise taxes levied upon motor vehicles, hotel stays, food and drink, and cannabis sales. Altogether, it is projected that revenue from Local Receipts will be reduced by \$8,823,190, or 25% less than the initial FY 2021 Budget.

*Table 3 Local Receipts Compared to Initial FY 21 Budget*

REVENUE SOURCE	FY2020	FY2021	FY2021		% NOTE
	BUDGET	BUDGET	REVISED	VARIANCE	
Motor Vehicle Excise	6,142,644	6,265,497	5,952,222	(313,275)	-5%
Local Option Taxes	3,460,310	5,243,495	2,871,748	(2,371,748)	-45% Hotel, Meals, Marijuana sales
Licenses and Permits	1,170,775	1,180,775	952,259	(228,516)	-19% Alcohol, Common Vic, Fire Prevention
Parking and Court Fines	3,300,000	3,300,000	1,650,000	(1,650,000)	-50%
General Government	4,564,268	5,317,930	5,052,033	(265,896)	-5% Building permits, HCA found here
Interest Income	974,977	999,351	749,513	(249,838)	-25%
In Lieu of Tax Payments	1,010,509	1,530,719	1,377,647	(153,072)	-10%
Refuse Fees	2,850,000	3,598,654	3,224,327	(374,327)	-10% Assumes mid-year implementation
Departmental and Other	7,646,736	8,438,378	5,221,860	(3,216,518)	-38% Parking meters and other fees
Total	31,120,219	35,874,799	27,051,609	(8,823,190)	-25%

The initial FY 2021 Budget proposed an increase in \$2 million in non-property tax revenue in accordance with a 3-Year Override plan adopted in FY 2019. This commitment was realized through increases in parking meter rates, solid waste fees and enhanced cannabis sales. The economic impacts of COVID-19 have prompted a policy review of these fee increases, especially given the loss of jobs and other financial hardships being experienced by residents and businesses in Brookline. Based on recent policy discussions of the Select Board, I have included a \$.25 increase in the parking meter rate and a modified trash fee increase to occur in January of 2021 in the projection of Local Receipts. The circumstances and timing of these fee increases will generate less revenue than initially proposed back in February, as will revenue from the sale of cannabis.

Not included in this revised FY 2021 Budget is any revenue from the federal government. The Commonwealth of Massachusetts has allocated \$500 million of its federal CARES Act grant to cities and towns to meet direct, unbudgeted expenses related to COVID-19 for FY 2020 and FY 2021. For Brookline, this two-year allocation is \$5.2 million. At this time, these funds may not be used for general revenue replacement. As a result, neither this revenue nor the Town's direct

COVID-19 related expenses are being accounted for within the general budget. The Town's annual receipt of \$1.35 million in federal Community Development Block Grant (CDBG) funds is also excluded from this budget. The Town also received a supplemental allocation of \$807,337 in CDBG funds in April. The Select Board has allocated CDBG funds to the Brookline Safety Net Fund, the Brookline Food Pantry, to Family Aid Boston and to support a grant program for eligible small to medium sized businesses. In order to continue to remain eligible for future federal FEMA and/or CARES funding, it is recommended that the Town not budget for direct COVID-19 expenses.

**EXPENDITURES:** The loss of \$12 million in revenue requires a corresponding reduction in expenses in order to meet a state mandated balanced budget. State law requires Town Meeting to appropriate the total amount of the School department's budget, but leaves to the elected school committee the discretion to expend these funds. As a result, my proposed FY 2021 Budget provides a "bottom line" allocation to the School department through a formula facilitated by the Town School Partnership Committee. This formula has come under criticism recently, including in the Brookline Financial Advisory Committee (BFAC) recent report, as being overly complicated and inaccurately portraying a 50/50 revenue splitting of revenues between the School department and Municipal departments. The initial budget allocation proposed back on February 15, 2020 using the Town School Partnership formula resulted in a 37% allocation of net revenue to the School department and 25% to municipal departments. These same relative percentages have been used to allocate reduced revenue for this revised budget allocation.

The bottom line budget allocation to the School department is \$118,998,990, representing a 3.5% reduction in the initial budget allocation from February. Municipal departments are proposed to be funded at \$78,338,691, or 4.1% less than the prior allocation. As previously noted, my Budget submission includes specific recommendations on municipal departmental expenditures but only a bottom line amount for the School department. The following explains the specific reductions in municipal department budgets compared to the funding levels proposed back in February.

We had limited time and ability to evaluate the need for \$3.3 million in reductions to municipal departments given the focus on the public response to the COVID-19 pandemic. In order to create multiple options, we asked each department head to complete an exercise that identified and prioritized up to a 10% cut in their budget. My stated philosophy and goal for this interim budget is to reduce as much as possible the cut in permanent staffing levels and the loss of direct programs and services. The COVID-19 world requires local government to give more focused attention and creativity to solutions. This requires staffing and funding for direct services. In addition, I am committed to reducing staff by avoiding layoffs of incumbent personnel as much as possible. As a result, I used the following strategies when recommending budget reductions;

- Take advantage of budget savings for programs and facilities temporarily curtailed during the COVID-19 emergency
- Eliminate program and service enhancements added to the initial FY 2021 Budget
- Eliminate/defer funding for vacant positions
- Reduce office supplies, equipment replacement and other low impact accounts.

Table 4 Recommended Municipal Departments Reductions

	FY-21 BUDGET*	REDUCTION	% CUT OF BUDGET
* utilities not included			
<b>DEPARTMENTAL EXPENDITURES</b>			
1. Select Board	829,576	37,514	4.5%
2. Human Resources Department	638,785	44,300	6.9%
3. Information Technology	2,124,234	43,975	2.1%
4. Diversity, Inclusion, and Cmty Relations	284,825	23,750	8.3%
5. Finance Department	3,472,971	188,160	6.1%
6. Legal Services	1,163,412	106,140	9.1%
7. Advisory Committee	28,520		0.0%
8. Town Clerk	759,724	9,450	1.2%
9. Planning & Community Development	1,250,449	125,423	10.0%
10. Police	17,714,676	506,412	2.8%
11. Fire	16,040,399	424,894	2.6%
12. Building	6,278,280	261,980	5.6%
13. Public Works	15,637,441	676,647	4.3%
14. Library	4,085,311	388,535	9.5%
15. Health	1,549,218	30,000	1.9%
16. Veterans	346,687	34,600	10.0%
17. Council on Aging	940,374	94,037	10.0%
18. Recreation	976,207	110,934	11.4%
<u>DEPARTMENT-WIDE</u>			
Leased Computer Savings		20,000	
Utility Savings (recent gasoline/diesel bids)		86,175	
Group Health Reduced enrollment (vacant position reductions)		129,415	
<b>TOWN TOTAL</b>		<b>\$3,342,341</b>	

The reductions and resulting impacts of operating budget cuts would have been greater if not for my recommendation to substantially reduce capital expenditures in FY 2021. I propose a reduction in \$3.5 million of capital expenditures from general fund revenue. While the remaining allocation of \$12,735,013 from general fund revenue does not meet the Town's financial policy requiring general revenue to fund at least 6% of prior year net revenue for capital expenditures, the total amount of capital funding (including Free Cash) meets the target 7.5% of net revenue policy.

The decision to reduce capital expenditures was not taken lightly. The Town is in the midst of a classroom space deficiency that has required significant allocation of capital dollars to expand permanent space and to lease temporary private space in hopes of avoiding more permanent building expansion down the road. The Town has also taken on an aggressive plan of renovating all of its parks and open spaces to become more inclusive and to reduce costly maintenance expenses. Unfortunately, I have proposed substantial reductions or deferrals in both programs for FY 2021. I recommend the continued funding of capital repair and replacement of the

Town's basic infrastructure; roads and sidewalks, traffic calming and bicycle/pedestrian safety, trees, roofs and other critical building systems. I also recommend continued investment into energy management or sustainable energy projects that will create a positive return on investment through reduced energy costs. Finally, I have recommended funding of any project that will enhance the public health and safety of Brookline.

Table 5 Recommended CIP Reductions

Description	Revenue or Bond Financed	Amount	Reduction	Note
Garage Floor Sealants	R	\$ 215,000	\$ (215,000)	
Town Rehab/Upgrades	R	\$ 60,000	\$ -	
Fire Station Alerting System	R	\$ 450,000	\$ -	
Radio Infrastructure	R	\$ 900,000	\$ -	5 year lease finance agreement has been executed
Traffic Calming	R	\$ 81,500	\$ 81,500	<b>Alternate funding source- Parking Meter Fund</b>
Bicycle Access Improvements	R	\$ 125,000		
Parking Meter Upgrade	R	\$ 322,000	\$ (106,080)	Provides operating relief
Street Rehab	R	\$ 2,649,916	\$ (370,420)	<b>Alternate funding source - Prior year CIP accts</b>
Sidewalk Repair	R	\$ 336,000		
Larz Anderson Park	B	\$ 2,200,000		
Robinson Playground	B	\$ 1,150,000	\$ (1,150,000)	defer to November
Schick Park	R	\$ 160,000	\$ (160,000)	
Parks and Playgrounds	R	\$ 310,000		
Town/School Grounds Rehab	R	\$ 165,000	\$ (10,000)	
Tree Removal and Replacement	R	\$ 235,000		
School Furniture	R	\$ 70,000	\$ (70,000)	
HVAC Equipmant	R	\$ 150,000	\$ (50,000)	
Oil Tank Removal	R	\$ 100,000	\$ (100,000)	
Town/School Building ADA reno	R	\$ 80,000		
Town/School Elevator Reno	R	\$ 200,000		
Town/School Building Energy Cons.	R	\$ 190,000		
Town/School Building Energy Mgmt	R	\$ 125,000		
Town/School Building Roof Repair	B	\$ 3,100,000		
Fire Alarm Upgrades	R	\$ 300,000		
Town/School Building Security Sys.	R	\$ 160,000		
Classroom Capacity	R	\$ 6,573,751	\$ (2,500,000)	
<b>Revenue Financed reductions</b>			<b>\$ (3,500,000)</b>	
Projects highlighted in blue are in line with the AC Capital Subcommittee recommendation				

**RESERVES AND LONG-TERM OBLIGATIONS:** In addition to being a local government, the Town is a corporation with over \$300 million in operating expenses and \$450 million in capital assets and liabilities. The Town frequently accesses the capital bond markets to issue tax-exempt debt necessary to finance major school projects and other long term assets. In this highly regulated environment, the Town of Brookline must have financial reserves in amounts that are acceptable to bond rating agencies and investors. The Town currently maintains the Aaa (triple A) bond rating, securing the lowest possible interest rate on borrowing and creating indirect competitive advantages in its contracting, employment and other business arrangements. The recent BFAC report highlighted the importance of this bond rating, and cautioned that the Town was at risk of losing it unless it shored up its reserves. Specifically, it recommended that \$2 million of the Town's prior year fund balance should be earmarked to the Stabilization Fund (the Town's savings account) to supplement the current \$6.7 million balance in the Fund.

I urge caution in allocating one-time savings to meet ongoing operational expenses. I am particularly worried that FY 2022 may be worse for the Town's budget than the current shortfall we face. At a minimum, I recommend that decisions to allocate funds from the Town's general reserves be deferred until the fall, when more information on the Town's revenues and possible federal funding will be available. At that time, the use of reserves to fund operating expenses can be more effectively evaluated and balanced with the impacts of expense reductions. With respect to BFAC's recommendation to allocate \$2 million in fund balance to the Stabilization Fund, I recommend that only \$1 million of this amount be appropriated to the Fund. The remaining \$1 million should be allocated to the annual Reserve Fund that covers emergency or unforeseen expenses that the regular budget cannot support. I understand that future removal of funds from the Stabilization Fund requires a two-thirds majority of vote by Town Meeting. If there is another legal mechanism to protect the funds while making them available for future Town Meeting appropriation in the fall, I would be supportive of that alternative.

The other side of the coin is the Town's unfunded liabilities. State and local governments in Massachusetts are not part of the federal social security system. The government employer and its employees must fund the costs of a defined pension benefit for retirees and their survivors. For decades, state and local governments funded their long term retiree obligations on a "pay as you go" basis. With national and state efforts to enact public pension reform in place, all municipalities are now required to identify the long term actuarial obligation of their pension system and fund an annual plan to retire said obligation. Currently, the Town's funding plan requires an average annual increase of about 7.85% in order to meet its unfunded liability by 2030. Similarly, the Town has an unfunded liability to provide health insurance coverage for its retirees and their survivors. Referred to as Other Post-Employment Benefits (OPEB), the Town does not have the same legal responsibility for funding this obligation at this time as it does with the pension liability. Nonetheless, with an unfunded OPEB liability of \$247.5 million, the Town has established and funded an OPEB Trust Fund to begin allocating the funds necessary to meet this obligation. In FY 2020, the OPEB funding plan received \$4,781,980 in Town funding. Current Town policy calls for a minimum increase of \$250,000 in operating revenue annually into the OPEB Trust Fund. I consider the Town's long term obligations of Pensions and OPEB like a family's credit card debt. By not paying down the required balance over time, the overall costs will increase and the funds "saved" and spent on monthly operating expenses cannot be sustained. Under the circumstances I recommend deferring the annual \$250,000 OPEB contribution that is otherwise required under the Town's financial policies.

**CONCLUSION:** This interim FY 2021 Budget provides a balanced budget for Annual Town Meeting's consideration on June 9, to become effective on July 1, 2020. This revised plan represents an overall reduction of 3.7% from the initial budget submitted in February. It reduces the School Department's budget and Municipal departmental budgets by 3.5% and 4.1% respectively.

I understand the negative impacts that such a dramatic and sudden reduction in Town's revenues creates and the uncertainty in what the future holds. The special town meeting scheduled for November of 2020 can serve as a final opportunity to adjust the FY 2021 Budget depending on new revenue assumptions, innovative or cooperative solutions with the Town's unions or to meet competing Town priorities. I look forward to working with the Select Board, Advisory Committee, School Committee and others in meeting this challenge.

Sincerely,

A handwritten signature in cursive script, appearing to read "Melvin A. Kleckner".

Melvin A. Kleckner  
Town Administrator