Montague Town Administrator's

FY21 Revenue Estimate and Budget Outlook

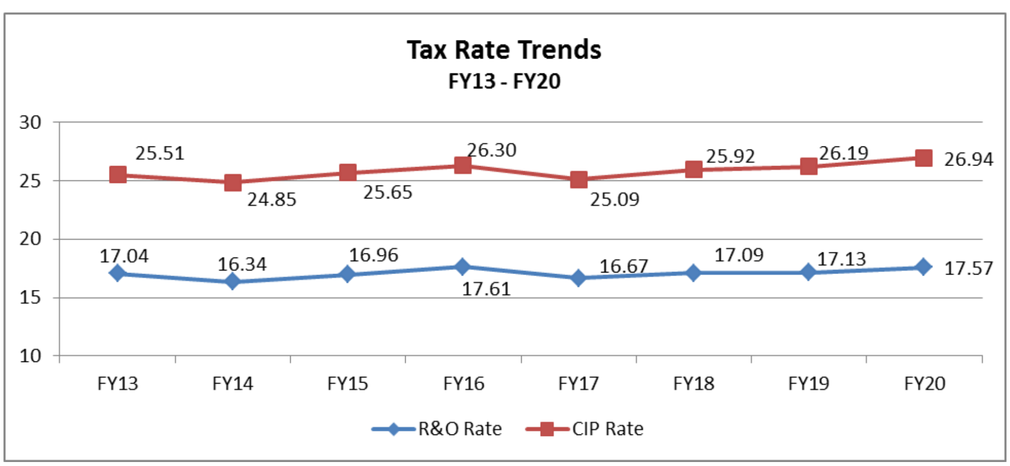
December 4, 2019

This document is intended to provide the Montague Selectboard, Finance Committee, and general public with an early statement of FY21 revenue estimates and departmental budget guidance, as well as to highlight some of the challenges and opportunities that should be considered as the FY21 budget is developed, and as subsequent budgets and obligations are contemplated.

## Notes on the FY20 Budget

Before discussing the FY21 budget it is important to acknowledge some major developments associated with the FY20 budget that have altered our budget landscape.

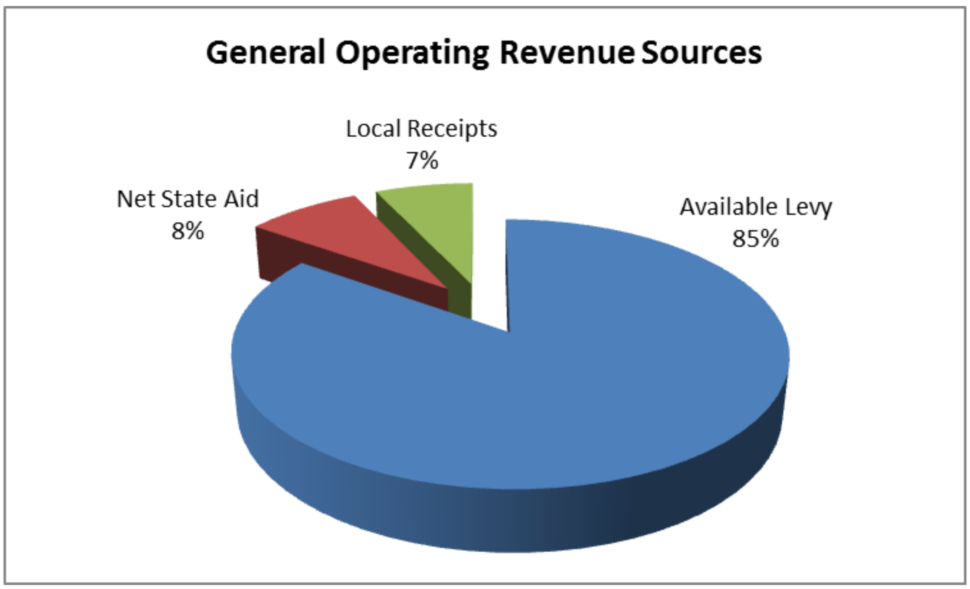
- For the first time in recent memory, Montague elected not to tax to the Levy Limit in FY20, reserving some $300,000 in Excess Capacity, although taxes still increased.
- The Town's settlement with FirstLight Power led to a reduction in the Assessors' FY20 overlay account requirements from $450,000 to $134,000. This enabled the Excess Capacity to be carried without an adjustment to the overall spending plan.
- Maintaining the $300,000 in Excess Capacity allowed the Town to blunt a more substantial increase in FY20 tax rates and this is intended to be carried into FY21.
- The Town undertook the first of three rounds of borrowing for the new DPW Facility, assuming $2.5M of what is ultimately expected to be a $10M +/- in excluded debt. The addition of new excluded debt will impact the total Tax Levy again in FY 21 and FY22.
- Tax rates increased substantially in FY20 despite hold Excess Levy Capacity, in part due to the assumption of new excluded debt (the first 2.5M in DPW borrowing).
- The Town's total valuation—the basis for revenue—grew only modestly, by 1.9%. This was impacted by the FirstLight settlement, without which growth would have been 3%.



## FY21 Revenue and Budget Outlook

The Town's FY21 revenue outlook is generally positive and resources appear sufficient to support a level service budget, plus a quantity of capital investments and financial articles in line with recent budgets. Accordingly, department heads have been asked to submit level services budgets, while still having the opportunity to propose innovative budget requests. The goal is to contain costs while still encouraging thoughtful innovation that may benefit the Town and ensures responsiveness to its evolving needs and opportunities.

When considering the revenue side of the budget-making equation, it is important to understand where the money comes from. Based on FY20 data, 85% of the Town's general operating budget is funded by local property tax revenue, with the remaining 15% split almost evenly between state (8%) and local (7%) receipts. Accordingly, the Tax Levy is the single greatest determinant of revenue each year. Note that these figures "net out" portions of the Tax Levy and State Aid that are not available for spending.




### The Tax Levy

- The Town's FY21 Tax Levy Limit is projected to grow by 4.9% in FY21 to $19.5M, some $18.3M of which is available for general operating expenses. Removing additional excluded debt that is expected to be incurred for the DPW facility, net Levy growth projects to 3.1%. From a practical standpoint, this is the growth we have to support the FY21 budget.
- Although New Growth exceeded $500,000 in each of the three past years, the FY21 budget includes an estimate of $120,000. We are not aware of planned or in-progress high-value utility, solar or commercial projects, which have driven growth the past three years. New Growth estimate will likely increase over the course of the budget season. The estimate is finalized for budget purposes on March 1 each year.

- The budget anticipates that the Town will continue to carry $300,000 in Excess Capacity in FY21. This would again serve to blunt any tax increase that may be required in FY21. From a financial perspective, our ability to maintain Excess Capacity without cuts to the operating budget is a positive development.
- Resolution of ongoing tax disputes with FirstLight enabled the Assessors to reduce overlay accumulation. This year's allowance for Abatements and Exemptions (A&E), in excess of $400,000 in recent years, is reduced to $135,000.

**State Aid**

- Our state aid projection of $1,865,277 is relatively flat. The largest component of state aid is Unrestricted Aid, which we presently forecast to increase by 1.7% to $1,547,703.
- The consensus state revenue growth estimate, which is the basis for Unrestricted Aid growth exceed 1.7%, but even an increase from 1.7% to 3.0%, would not substantially change our budget picture, as it would net the Town an additional $20,000+/-.
- It is notable that while Chapter 70 Aid is distributed directly to regional school districts and therefore does not pass through Montague's budget process, the GMRSD expects to benefit from changes to the Chapter 70 formula and rural district funding.

**Local Receipts**

- Local receipts available to the general operating budget are estimated at $1,510,669. The Town takes a conservative approach to estimation, allowing time for new revenue streams to be proven before being added to the estimated budget.
- Meals Tax revenues increased substantially, from $30,000 to $55,000. This reflects actual revenues achieved in the first full year of this local tax option's adoption (FY19).
- Local receipts do not presently account for revenues associated with recreational cannabis, though they will be realized. 253 Farmacy opened for recreational sales in September 2019, but the Town does not yet have any basis for estimating receipts.

  _Additional Notes Relative to Cannabis Revenues_

  The Town will see two distinct revenue streams from Cannabis sales. The first is a 3% retail sales tax collected and disbursed by the MA DOR. The second is an impact fee on retail sales (3%) and wholesale sales (a graduated fee with tax thresholds ranging from 1% to 3%) that 253 Farmacy may realize once it begins full-scale cultivation.

  The Town must consider carefully the extent to which it uses cannabis revenue to support its operating budget. As an emerging and highly competitive industry that shows momentum toward being legalized by other states, these revenues may or may not persist. We don't want today's windfall to become tomorrow's structural deficit.

  Finally, the Town will have to consider how best to target revenues resulting from impact fees. It will need to comply with guidance that has not yet been clearly articulated relative to the purposes for which these funds are used.

## Challenges and Opportunities

As the financial health of the Town is considered, it is important to reflect on some of the major financial challenges and opportunities that may present themselves in the coming year(s). Following are several issues and opportunities for Town Officials to consider.

### Challenges

- OPEB: As is the case in many communities, long term savings to fund retirees' other post-employment benefits are substantially under-funded. The Town directs nearly $1M each year to fund its pension system, which is well-positioned (76% funded). OPEB liability is in the vicinity of $16M dollars and is 3% funded. Annual appropriations to the Town's OPEB trust fund have been $50,000, which is not sufficient to advance our level of funding.

- FCTS Enrollment: Montague student enrollment in the Franklin County Technical School has increased sharply, resulting in an 11% increase in cost to the town in FY20 and a projected 28% ($301,872) increase for FY21. The school's success in attracting Montague students speaks to its strength and is to be celebrated, but also presents new financial requirements that the Town is obligated to meet.

- GMRSD Enrollment: The Affordable Assessment maintains the proportionality of this aspect of the Town's education spending and recent changes to the state education funding formula (CH 70) have become more favorable. However, operating costs continue to rise and declining high school enrollment currently presents a sustainability concern. The Town has joined in a school regionalization study to consider options that may enhance education quality and efficiency, which may shift this issue into the opportunity category in the future.

- Recycling Costs: The old paradigm in which recycling returned a dividend to communities has shifted following changes in the global recycling market. Our expiring recycling processing contract provides Montague $6/ton in revenue in FY21. In FY21 we projected to have to pay $93.50/ton, or about $51,000 for processing.

- Capital Needs: The Town has made great strides dealing with some of its most glaring capital building needs over the past three years, but a range of concerns exist relative to public facilities, sewer collection and treatment facilities, and town owned bridges.

**Opportunities**

- Improved Bond Rating: The Town should celebrate the fact that its bond rating was improved to AA by S&P Global in early 2019. It speaks to the progress the Town has made financially. It should also facilitate more cost-efficient borrowing at a time when the Town is building a new DPW facility.
- FirstLight Settlement: The Town's agreement to settle outstanding tax valuation cases with FirstLight Power for FYs 14-19, which likely would have continued in FY20 and 21, eliminates substantial financial exposure were the state ATB to have found in the company's favor. While the Town sacrificed value for FYs 17-21, it not only mitigated risk associated with litigation but may provide a hedge against any future decline in valuation if factors in the energy market or FERC relicensing process reduce the value of the company's assets.
- Burn Dump Capping: The Town is under DEP order to cap its Burn Dump with a projected cost of $2M. Fortunately, following review of new SMART Program incentives, a private developer plans to proceed to cap the dump in exchange for installation of a solar field on the property, which we expect to be realized in the coming calendar year.
- Realization of Cannabis Revenues: 253 Farmacy opened its doors for recreational marijuana sales in September 2019 and is expected to accelerate both its sales and profitability in spring 2020 as it harvests its own product for retail sale in Montague (and possibly elsewhere). While the value and reliability of the revenue stream remains to be seen, it would appear to be a substantial new revenue source for the Town.
- Revitalization of the Southworth Mill: The former Southworth Mill is expected to come under new private ownership in December 2019 under the leadership of an experienced developer. The sale of the property will include payment of town and district liens, including over $300,000 in sewer user fees and over $100,000 in Town real estate taxes. It also greatly enhances the likelihood of productive re-use of the property.
- Redevelopment of 38 Avenue A: The Town received a proposal for the construction of an $11M four-story mixed use building at the former site of Cumberland Farms in Turners Falls. The building would reflect the historical character of the village and the Grand Trunk Hotel, which was demolished in the 1960s.
- Enhanced Profile/Visibility: While difficult to measure objectively, Montague and its village centers are increasingly capturing the attention and imagination of state and other officials, finding its voice and ability to self-advocate enhanced.