



November 4, 2020

Town of Natick Select Board
13 East Central Street
Natick, MA 01760

Dear Select Board Members:

Preface

Where have we been? What are the current unknowns? How are we going to move forward?

The Select Board is the Chief Executive Officer of the Town of Natick. As such, the Board outlines the priorities of the entire community with advice based upon professionals retained who manage the day-to-day, interpret economic conditions and realities, and provide forecasts and scenarios for review and consideration. Unvarnished truth and available options to best serve the entire community is what Town Administration remains committed to providing.

- In June 2018, based upon prior analysis there was broad agreement that the Town of Natick had a structural deficit.
- Town Administration began working to determine how to fund two signature capital projects, Kennedy Middle School (which had passed as debt exclusion in March 2018) and the West Natick Fire Station (WNFS). It was only after the WNFS' building plans were finalized and the cost determined that the question of funding was resolved. A debt exclusion ballot question was then placed on the November, 2018 budget and it passed.
- Extensive public discussions were had regarding the use of capital stabilization funds to potentially fund a portion or all of WNFS, and whether there was sufficient levy capacity to fund the project from tax revenues. In that instance, the Town was in reactive situation. We were trying to determine how to fund a project that was determined by the Board to be needed for essential Town services and had already been designed with a corresponding price certain cost.
- Following the November debt exclusion question, Town Administration structured a bond transaction in December, 2018 that provided the funding for both projects and then utilized the bond proceeds to create investment income for FY 2020 (approximately 1.5 million).
- In December of 2018 the Board's funding priority and issue it desired to address were increased legacy costs and road improvements. Town Administration ensured that the proposed budget spoke to those issues and at the same time, listened to Department Heads and employees as we worked to develop a strategy for our community's future. Town Administration listened to what we heard was the inequity in funding and sharing of limited resourcing among departments. I am pleased we were able to come

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to conclusion on a number of outstanding CBAs that expired on June 30, 2018, and have a Drug and Alcohol policy for all our of public safety departments.

- At the end of calendar year 2019, following a year of listening to what has occurred in the past by the Town's employees and residents, we embarked upon a plan to build together having every Town department participate and assure we addressed all of Natick's residents' needs. One Natick (formally announced with the January 2, 2020 preliminary budget) recognizes the contribution of all Town departments and the need for multi-year budget planning to address issues for the community and departmental equity.
- The attached Town Meeting messages from FATM 2018 through FATM 2020 note the decisions that will be required within our community as we continue to build One Natick.
- Recognizing and learning from the past is required to succeed, and rather than be in a reactive position as we were for funding of WNFS we need to affirmatively decide how we are going to fund our Town services for FY 22 and FY 23.
- The following memo outlines possible options taking into account the most recent actions from the Special Town Meeting that concluded less than a week ago on October 29, 2020.

Executive Summary

Covid-19

As you can read from the prior Town Meeting messages, the pandemic further exacerbated existing strains and significantly reduced our forecasted revenue. (Please see Attachment A for prior Town Administrator's Town Meeting messages.) Beginning on March 24, 2020 (less than 2 weeks from when closures began in the Commonwealth), Town Administration began providing multiple points of analysis noting the likely long duration of this public health and fiscal crisis. (Please see Attachment B.) It was an unpopular position to be taking so early on given this very novel situation. However, a conglomeration of data and experts' opinions informed our estimations. At this time, we still do not know the exact magnitude of the public health and fiscal crisis. Now as anticipated, we appear on the verge of another surge with positive test rates escalating throughout the nation and within the Commonwealth exponentially. Individual, family, and business routines are altered and everything from school to retail establishments have changed. Our Town departments have also seen shifts and more acute needs emerge.

- We know that we must invest in some departments for services and critical functions to help those in need in our community. For example, we know there are likely increases in behavioral health needs for many residents linked to the on-going isolation caused by Covid-19, and we know many families are experiencing financial uncertainty.
- We have seen more individuals taking advantage of our public spaces and correspondence increase in litter and other required maintenance.
- There have been less cars on the road, but at the same time in the last year there have been serious pedestrian safety issues and increased reports of speeding in our community we have had one fatality and another serious accident within the last 10 months.
- Further, while we have less overall restaurants open we nevertheless have increased demands for our public health department services and resources.
- Ambulance revenues continue a downward trend compared to most recent years, even during the pandemic.
- We have had 7 consecutive years of declining enrollment for K-4th grade, and a decrease of 190 students this academic year (2020-2021).

Admittedly, one year does not constitute a trend for any Town department. At the same time, we must be willing to confront how we are going to fund future needs spanning multiple departments in times with vastly changing behaviors some of which appear to be permanent. Multi-year budgeting is a partial solution, allowing

for all departments to organically grow in the community's routine budgeting plan and building trust that the future will provide greater opportunities. It also comes with full transparency of what was spent in prior years, and why perhaps those expenses should not be forwarded to the present or why additional expenses are needed for a particular department.

With all these new demands and shifts, there are many outstanding fiscal variables that present challenges and stresses on our revenue, like soften commercial real estate values to our tax levy, increased dependence on residential properties, and substantial decreases in local receipts. This is the reality of where we and many other municipalities sit, particularly communities like Natick that have been the beneficiary of commercial growth assisting in temporary residential tax rates reduced.

While some families are struggling, we also know that there have been considerable investments in residential properties this past year within our community (evidenced by extraordinarily high new growth and home sales). We do not know how long this current residential real estate boom will last. At the same time, we recognize that appreciation in value does not provide direct cash to homeowners to pay their rent or buy groceries. It is heartbreaking for all those who have lost loved ones to COVID-19, and likewise heartbreaking to see our local businesses and neighbors struggle. The reality is that the uncertainty is here and will be here for a bit longer. While this is all happening, there remains a high demand and need for particular expertise of municipal government functions that perform critical functions. We must invest in ourselves to remain competitive among our peers.

Additionally, we continue to monitor the credit markets, and our infrastructure needs to continue to grow. We have deferred a fair amount of projects and maintenance, and those investments will require a permanent borrowing within the coming year. On Monday, November 2, 2020, Town Administration had a lengthy discussion with our Financial Advisor, Hilltop Securities. Underscored to us was that rating agencies are now looking to see how municipalities are planning for the 2 years, and stressing the importance of maintaining reserves during this fiscal crisis. Specifically, while rating agencies recognize that it is "raining" there is consensus that the public health and fiscal crisis will be extend for a few years and issuers must think strategically about the entire crisis, not just the current fiscal year. Given the assessed volatility of the market and what has been shared by rating agencies, it is anticipated that the rating agency will downgrade municipalities for utilizing significant portions of their reserves. Addressing items like structural deficits (through reduction of services or new streams of revenue), showing fidelity to management principles and discipline will be closely scrutinized when the permanent borrowing is made by the Town. In addition, we were put on notice that rating agencies, such as Fitch may downgrade a municipality before an issuance is even requested if the rating agency deems spend of reserves for operations is occurring at a significant rate without a reduction in expenses. Please see Attachment C that notes the most recent list of AAA and AA+ municipalities in the Commonwealth. Natick is one of 67 municipalities out of 351 that have a AAA bond rating.

At this time, Town Administration is interested in learning of the Board's policy preference by way of budget contours for FY 22 and FY 23. We note two fiscal years given the revenue forecasts, and the reality that we have limited stabilizations funds that will not last through 2 fiscal years. Consequently, to the extent that the Select Board advises to use stabilization funds to close budget gaps that is only possible at this rate of spend for one more fiscal year. It is imperative to note that preparation for an override takes months (under normal circumstances) and we will have additional hurdles given unknowns from the Commonwealth and Federal Government and financial strains. Moreover, we know many in our community are facing financial circumstances at this time.

Select Board Policy Decisions FY 22 and FY 23 Budgets

Specifically, we are interested in gaining the Board's insights on the following policy positions:

- I. whether services should be reduced, and what areas of services are acceptable for reduction (i.e. given the fiscal compass, which services do you believe we can do without and which services are essential for our Town. Please see Attachment D, financial compass.);
- II. whether and when the Select Board will seek an override for FY 23; or
- III. whether the Board prefers to maintain its cash position for FY 22-23, with lean years for all departments to provide residents through FY 24 to recovery from the public health and financial downturn.

I. Reduction & Re-organization of Services

As we start designing the FY 22 budget, it is necessary to discuss and to identify the Board's priorities and what is considered acceptable to maintain and/or to reduce by way of Town services. Please reference the fiscal compass, Attachment D, to this memo previously shared and discussed. Decreases in revenue and structural deficits may be mitigated by reducing operating expenses. Given the composition of the Town budget, particularly the fixed costs, differences in the size of municipal departments, the size of the deficit may require substantial reductions to the School, Public Safety, and DPW Departments. What is the Board's tolerance to reduce Departments expenses to delay seeking an operational override vote from the residents?

Benefits:

- o This is independent of taxpayers assenting to an operational override, and may need to be done for FY 23 if an operational override fails in either November, 2021 or March, 2022.
- o This delays placing the operational override before the residents until we have a more defined sense of the Town and community members' financial situation, and other current variables confirmed.

Negative consequences:

- o Many municipal departments have seen modest/minimal growth and are at full operational capacity. So further reductions of municipal departments will be difficult to absorb. (By way of numbers, the largest departments would have the most significant reductions, as scaling back on other smaller departments would not result in the monetary savings needed to address a large deficit.)
- o There are a number of key positions within municipal government that require expertise and lack of qualified candidates for a number of positions. Our inability to compete in the market for talent will reduce the number of qualified individuals willing to serve the community.

II. Whether and when the Select Board will seek an override for FY 23

At this time, we have limited fiscal quarters to analyze exactly how Covid-19 has impacted the local economy but much is still unfolding, and we do anticipate a significant decrease in commercial real estate values and local receipts. We also have limited solid information regarding State Aid for FY 22, and a number of unknowns regarding any future federal assistance. We know that positive cases are increasing and it appears more likely than not that will have some type of closure in the upcoming month. Town Administration continues to advise given all the unknowns that maintenance of a strong cash position for multiple years is preferable given the unknown duration of this public health and fiscal crisis. The amount of uncertainty across the global and country warrants us proceeding cautiously with spend of our cash positions.

Our most recent scenario that includes Town Meeting appropriations and NPS allocation of \$71.5 million produces an estimated FY 22 deficit of approximately 7 million dollars. Please see Attachment E. This scenario also only reduces revenue sources such as State Aid by 10%, and it very well could be more. Attachment F notes the amount of operational and stabilization accounts by category, 11,432,007 (as of the close of the Special Town Meeting 2020). The more stabilization funds that are spent now means a decrease in available fund for FY 23.

Our analysis suggests the largest cost drivers for the Town include the School Department, Public Safety, and DPW. Establishing the perimeters for increases to these departments along with policy initiatives the Board seeks to accomplish is critical. Given the variables and just simple compounding, this means we can manage through FY 22 but at the current spend levels we will have minimal stabilization funds available for FY 23. In light of the budget planning process, this mean an operational override is likely to be required for FY 23 or a significant and immediate reduction in expenses. In light of efforts to ensure that this is successful, this means that we must begin planning now as there are other items that will be “at play” at this same time, namely likely reductions in the commercial real estate for calendar year 2021. And as you may recall, those January 1, 2021 values will be used in November of 2021 to determine the tax rates.

November 2021 Ballot Operational Override Question

Positive considerations

- Whether the override passes will inform the preliminary budget that is presented on January 2, 2022 for Fiscal Year 2023. This could alleviate the need to design two different budget scenarios.
- Getting a jump-start for strategic planning will provide residents and businesses the ability to plan and anticipate, and understand the Board’s perspective. This option provides for the soonest practical amount of certainty for how FY 23 may be funded.
- The Town will begin to move from a reactive position to purposeful planning positions, albeit the conclusion is unknown.
- With multi-year budget planning we could begin to address the inequities that have plagued the community and been subject of much consternation across Town departments.
- November 2021 ballot question means that there is still time between November – January to modify the FY 23 budget if the operational override does not gain community support.

Possible negative consequences:

- There are many unknowns about the Commonwealth’s budget still for FY 21 and more unknown regarding FY 22.
- It is possible given the exigent fiscal conditions that an override does not pass as it will be deemed unaffordable and/or premature without further transparency of all departmental budgets.
- There have been significant changes to retail shopping and we anticipate modifications will be sought for commercial property values.
- If Town Administration builds the FY 22 budget with expectation that an override will pass and it does not in November, there will be significant reductions immediately required and more than half of available stabilization funds will have already been utilized.
- The magnitude of budget reductions could only be made up from largest departments – School, Public Safety, and DPW as other departments are already so lean, unless the decision was made to drastically reduce services in Community Services, Recreation, Libraries, Public Health, and Community and Economic Development the math does not work.
- Issues of affordability and diversity become harder to foster and to support within the community due to increased housing prices.
- Increased burden on residents as their own financial situations are reduced and negatively impacted due to Covid-19.

Operational Override Ballot Question March 2022 for fiscal year 2023

Positive Considerations:

- This provides residents with a two calendar year buffer between inception of the public health and fiscal crisis (March 2020) and possible rehabilitation of their financial condition.
- This provide departments with the longest amount of time to plan for an override (if one is determined for FY 23), and opportunity to hone their data points.
- We will have greater data points that track changes in residents' ability to pay and school enrollment so that we can determine where and how we grow.

Possible negative consequences:

- This requires building of 2 independent budgets for FY 23, one that includes the additional spend if the override passes and one that significantly reduces departments to ensure a balanced budget is ready for Town Meeting.
- Failing to take an affirmative position until March 2022 places the Town in most reactive situation.
- There are a significant number of unknown fiscal data points, and the most recent information depicts challenging fiscal years ahead for retails and for a number of large employers who have been able to successfully have their employees work from home.
- If the ballot question fails, we likely would have spent *all* of general and operational stabilization in two fiscal years and it took approximately one decade to acquire those resources.
- There is no current additional revenue that we anticipate providing us with the opportunity to significantly replenish stabilization.
- Reductions are difficult to do during the best of circumstances, and during a pandemic and depending upon the coming months when some departments may have increased demand for services, this is going to be challenging for all involved.

III. Preservation of Cash Position and reduction of operational expenses for Fy 22 and 23

This policy decision would provide the most amount of time between now and when an operational override is presented as a ballot question for residents' consideration. This would expressly require all Town Departments to limit new initiatives and contain expenses. Tentatively, this would mean an override would be needed for FY 2024, with an operational override question placed on the November 2023 or March 2024 ballot.

Positive considerations

- Given all the uncertainty of the times, this preserves the Town's cash position if expenses are also reduced.
- This provides for the longest timeframe between the present and future operational override, so it would provide residents and business the most time to plan. We do anticipate increases in valuations for residential home values to hold steady for the next year and shoulder the burden as values of commercial properties decrease in the coming years.
- Attachment G demonstrates what an average single family home would pay with a 10 million dollar operational override and what a shift between commercial properties to residential would look like in additional dollars annually. It is unclear how much Natick residents (as a community) are able and willing to underwrite given personal financing limitations.
- This provides future commercial values (which we anticipate to be lower than calendar year 2020) time to rebound, and for the Town to consider options like splitting a tax rate to alleviate some pressure on residential homeowners.

Possible negative consequences

- Concentrated strain and likely exodus of talented needed Town employees who possess the expertise to perform critical functions.
- FY 22 and 23 budgets would require level funding for most departments, and at most modest increases to departments with smaller budgets. This would be challenging for many departments, and notably municipal departments that have been doing more with less for a number of years.
- Possible that the Town would have depleted most of its stabilization funds in FY 22 and 23 if expenses are not contained.
- Possible mismatch between residents' expectations and services offered.
- Given the size of departmental budgets, the needed reductions to keep expenses low for FY 22 and 23 will require financial constraints to be placed on the School, Public Safety, and DPW departments in particular.

Conclusion

It sounds trite to just state that these are challenging times, or to stress our “new normal” and “getting comfortable with being uncomfortable.” I previously spoke about Covid-19 fatigue and how this would be our marathon, and how we are all grieving and depending upon where you are on the continuum will color one’s perception. (Please see Attachment H). I believe that we have all lost something during this time from the significant to the minor and that it all matters. But we all must work our way through the continuum to planning and acceptance, and be truthful about where we have been (past spending) and where we want our community to go next, with Covid-19 still part of our collective reality.

I can state with certainty from June 2018 through the present Town Administration provided the highest quality of financial analysis and forecast that I have seen across many states and municipalities. We shared a voluminous amount of data points and trending information. Contrary to what some have claimed, we are not doom and gloom but are professionals forthright with facts, accepting of reality, and providing creative solutions to complex problems.

Town Administration will have the Transparency Center placed on the Town’s website in the coming 2 weeks. This will contain PDFs for download or immediate viewing of all the presentations and public memos shared with the Select Board, Finance Committee, and Town Meeting since June 2018. The purpose in providing this information on one place on the Town’s website is to ensure, along with Cleargov, that critical information remains available to the public as the dialogue continues. Finally, it is our hope that by expanding Cleargov to include all Town departments’ line items and keeping the Transparency Center updated that information will be readily available to all as dialogue continues and we move forward together. *Viva One Natick!*