



November 18, 2020

To: Select Board Members:

What is the difference between Option 1 and Option No. 3 in the memo?

The options are not entirely mutually exclusive, but depending upon the Board's decisions some options may be exclusive. For example, if the policy decision is made *not* to reduce expenses in a significant manner for FY 22 then implicitly this means an override will be required for FY 23 (option 2), and will remove FY 24 from the target date of a possible operational override (option 3). However, if the policy decision is to reduce expenses and preserve the Town's cash position, it is possible to still seek an override for FY 23 or in FY 24 (options 2 or 3).

Therefore, it is conceivable to select options 1 and 2, or options 1 and 3. However, given the fiscal years noted in options 2 and 3, marrying those two options together would be problematic. The most significant difference between options 1 and 3 is the expressed plan for an operational override for FY 24. Regarding option 1, it could be independent or in combination with other options, meaning reductions could be made in Town Departments while simultaneously Town Administration planned for the operational override. However, option 1 in and of itself does not expressly contemplate an override ballot question with any date certain.

In the next 2 fiscal years, the Board could also seek to pair the operational override with a smaller debt exclusion project for FY 24 to ensure remodeling of existing Town space for growing departmental needs, such as Parks and Recreation. While the debt exclusion would be a separate ballot question, pairing an operational override with a visual capital community expansion could assist in garnering community support for the Town's needs. Please note a space study will be commencing shortly and will provide analysis of buildings, including but not limited to 5 Auburn and 90 Oak Street.

It is Town Administration's professional opinion that the Covid-19 recovery for Natick is likely to take 3-5 years. This means our local commercial sector properties rebounding closer to pre-Covid 19 values and as a percentage of our tax levy (6-8%), and the return of local options taxes and increases in excise taxes.

It is not all doom and gloom, as the disruption in the retail space will spark innovation and it will happen just like modifications have made to other retail crafts like tailored suits but on a different scale for domestic retail companies. However, it will mean things will be different as compared to pre-Covid 19 experiences. Please see the attached article from NYT regarding Savile Road and note the changes that some retail businesses selected to pursue and the multitude of factors related to commercial real estate values and rents.

The Town's pursuit of the REMAP initiative will be key to ushering in modifications that allow for smart growth in key corridors that are responsive to community values and allowing for changes with the residential and commercial markets. Further, as we have noted in the past year, we do anticipate a shift in tax liability from commercial landowners to residential homeowners to occur in calendar year 2022, due to increases in residential home values and decreases in commercial properties' values. We have previously shared what that magnitude could be by way of percentage of decline in aggregate commercial values.

Town Administration is hopeful that additional federal government support will materialize and appreciates the Commonwealth's assistance, but realistically we recognize that there are more needs than dollars available. There are other communities and social services agencies working to address extraordinarily dire circumstances of many vulnerable individuals. Further, we understand that many public higher education institutions are in need of funding and that will exist contemporaneously with the needs of communities. We will all need to recognize the symbiotic nature within our communities and beyond our artificial community borders.

Additionally, we recognize the great news regarding possible vaccinations and the speed at which it may be deployed to frontline health and public safety personnel. However, some analysts have noted that federal funds for economic relief may now be diverted to ensure funding for vaccinations. While Covid-19 was unexpected, Natick was also wise enough to know that the booming market would not last forever. The Town is fortunate that it had the opportunity over the course of the last decade to set aside some funds into stabilization accounts to help in a financial crisis. Taking into account the guidance from our Financial Advisors (Hilltop Securities), however, we must advise spending of a substantial portion of stabilization funds in a year or two, will likely result in a bond rating downgrade from at least one of the two rating agencies.

How can the Board decide next steps for FY 23 when we have not even left FY 21?

Given the circumstances that are before us, Town Administration seeks policy guidance for FY 22 and 23 from the Board for purposes of budget planning and strategy. Of note, the Town's Financial Advisor and the rating agencies also recommending taking these years together for purposes of its budgeting and strategic planning.

Attached is the corresponding timeline that notes the basic budget preparation timeline for FY 22 and creation of FY 23 budget (anticipates to start in Sept/October 2021) and how this would fit with a November 2021 operational override ballot question. Of note, absent from the attached timeline are the following possible factors:

- (1) planned public outreach for an operational override and enhancements to budget transparency;
- (2) possible delays with FY 22 and 23 budgets as the Commonwealth awaits further clarification from the federal government regarding additional stimulus monies; and
- (3) any delay or additional time the future Town leadership may need to get up to speed with the Town's fiscal matters. (NB: Please see my comments previously regarding the funding of the WNFS.)

Yes, we are operating in FY 21, but we are charged and responsible even during a crisis to ensure that we are providing core services to our residents. The coming two fiscal years are certainly dynamic and challenging, but they will soon be immediately upon us. We have been discussing options and now we must select a specific policy to endorse.

Why it is imperative that the Board provide direction to Town Administration?

Town Administration and Town Department leaders must have time to either thoughtfully dial-back departmental services or to determine what more maybe needed to continue to provide residents' expected services. Further, given the stabilization balances and possible 6-7 million dollars use of one-time funds for operational purposes in FY 22, this creates serious fiscal strain for FY 23. Stated another way, failure to adopt policies that reduce spending, commit to an override for FY 23 now and begin to plan will almost assure either dramatic cuts in FY 23.

By way of preparation for a successful operational override Town Administration anticipates questions about comparisons to our peer communities or cohorts will be raised. Similarly, Town Administration will likely be asked what is happening just standing still (without an override) with the tax values for calendar year 22 for the residential and commercial sectors. For example, consider the Expense Reduction Task Force and analysis completed by the Finance Committee prior to the last operational override. Zoom meetings have worked to expand those participating in local government and taking notice of what is happening. We would anticipate many in the business community will also continue to closely track estimates and policy decisions and voice their thoughts and needs.

Moreover, earlier this year the Select Board endorsed the goal to standardize the School Department's chart of accounts as part of the Town Administrator's goals. Given the size and impact of the School Department budget, having the ability to delineate line items will be helpful in responding to questions from the public and justifying costs. Likewise, with lead time Town Administration can investigate options like augmenting the Transparency Center (to be launched before the end of November, 2020) and turning on more features within Cleargov which could allow residents to see more specifics of spend so they understand the true cost of services provided. Stated another way, Town Administration needs to prepare the FY 22 budget based upon the Board's policy decisions and plan out how additional information will be disseminated along with other statutory requirements if any override is planned for FY23.

cc: John Townsend, Deputy Town Administrator
James Errickson, Deputy Town Administrator
Dorothy Blondiet, Director of Human Resources
Karis North, Town Counsel
Abdul Rauf, Special Assistant to the Finance Director