MAYOR'S BUDGET MESSAGE

I hope this message finds you and your family in good health and spirits.

This is a budget message I never imagined having to submit. We are navigating in uncharted territory right now, living through an unequaled period of disruption and uncertainty as a result of the COVID-19 pandemic. We are likely months away from knowing the full fiscal impact of COVID-19 and, in turn, we do not yet have all of the answers. We can expect this FY21 budget to change, probably more than once, between July 1, 2020 and June 30, 2021. How it will change is yet to be seen.

Much of our economy, both nationally and locally, has been on hold for over a month now. The fiscal impact is starting to be realized on what were already easing town revenues. We continue to track revenue and expenses on a weekly basis and have made (safe) revenue collection efforts a top priority to ensure our decisions are based on the most up-to-date information.

Early on we took several steps to help mitigate cash flow and revenue issues.

Those steps included a freeze on all hiring and discretionary spending over $1,000. We are not filling personnel vacancies and are restricting spending on already authorized purchase orders. In addition, we asked departments to preserve resources when possible and noted that the use of town resources should reflect no more than that required by the diminished demand for town services during the COVID-19 crisis.

In (online) meetings with state officials we heard from economic experts on the fiscal implications of the COVID-19 pandemic on the Commonwealth. The predictions were dire and substantiated our decisions to begin mitigating expected losses in revenue.

The state could see a fiscal 2020 tax collections shortfall of between $500 million and $1 billion, with at least another $100 million in revenue shortfalls from key non-tax revenue sources. For FY21, it was projected that state tax collections will drop by $4.4 billion, or 14.1% below the benchmark on which Governor Baker based his FY21 budget. For perspective, during the recession year of 2009, state tax collections experienced a 12.4% decrease over the previous fiscal year.

The nation and state have already seen sudden and massive layoffs. Over the past five weeks, more than 26 million Americans have filed unemployment insurance claims. The unemployment rate in Massachusetts has already surpassed 17%, with around 650,000 jobs lost since March 14th. For reference, the Massachusetts unemployment rate in February was 2.8%.

We need to expect a decline in our local revenue as well. While it is too early to know the full impact of the recession on Weymouth, which some experts suggest could last into FY22, we are using our weekly revenue tracking and revenue history to help us forecast potential shortfalls.

The fiscal picture outlined above points to eventual cuts in state aid. When we look at the last recession (2009) and the subsequent significant downturn in state revenues, Weymouth experienced a 10% decrease in state aid revenue over the course of three fiscal years. Today, that would amount to a $3.9 million loss in town revenue. For perspective, the average annual increase to our operating budget revenue the last three fiscal years has been $6.3 million total (a healthy 3.9% annual average). For our initial FY21 budget plan, we will anticipate no increase in state aid over FY20. The House Ways and Means budget proposal would have been released in Mid-April; however, the Legislators responsible for releasing the state budget have delayed the budget process for the time being.

There also will be a negative impact on both our tax levy revenue (personal property and real estate) and local receipts (fees, fines, excise, and permit revenue). That was the case in 2009 when the growth in tax levy revenue dropped from 4.7% to 2.8% and total excise tax revenue experienced a decline of 12.3% over two years. This resulted in operating budget decreases of 2.4% over two years. Today, that percentage would equate to a $4.1 million decrease in our operating budget from FY20 levels.

Through April 18th, our revenue tracking is showing our FY20 year-to-date (YTD) revenues running 0.4% below FY19 levels. That compares to a YTD growth rate of 3.4% in FY19 and 4.3% in FY18.

The FY21 budget process was not the traditional exercise of finding ways to fund new needs. The FY21 budget that I am submitting is an exercise in fiscal necessity to hopefully put us in a position to get through this recession with as much of what we have proudly built remaining intact. That fiscal necessity was not without pain. There were difficult decisions made in every department.

The FY21 budget reflects a salary freeze for all non-union employees. That means those FY21 salaries will be unchanged from FY20 – there will be no cost of living or step increases for those employees. If an employee qualified for a longevity payment, that was included. Collective bargaining agreements and contracts will be honored. If the fiscal situation worsens, those too may need to be addressed (through the appropriate bargaining process). Operating expenses were carefully reviewed and reduced to balance needs with fiscal circumstances.

Another challenge was the increase to many fixed costs in FY21, such as health insurance, debt service, pensions/retirements, and building and liability insurance. In total, fixed costs are scheduled to increase by $3.8 million. That, by itself, is a 2.2% increase over the FY20 budget.

To offset these rising fixed costs and get to a more fiscally responsible budget, we had to reduce other department budgets and line-items by more than $1.7 million.

In total, I am submitting an FY21 operating budget of $177,573,130, a 1.8% increase over FY20.

The Water Enterprise Budget is staying flat at $9,897,182 and the Sewer Enterprise Budget increased by 1.5%, for a total of $17,698,305. The FY21 Community Preservation Budget is $918,000, a 3.1% increase.

There are a couple areas of hope to report. Thanks to our sound fiscal and budget management over the last several years, we have been able to grow the town's reserves. Our stabilization fund is now over $8.2 million, from just $1.1 million when we first came to office. Fortunately, the state is in a similar situation with a healthy stabilization fund. This will help mitigate some of the negative impacts to state and local budgets. We are also looking at utilizing most of the town's remaining free cash to create a $1.5 million "COVID" reserve fund for FY21. We also expect to see some level of government relief, although we do not know when, how much, or what strings will be attached. We have also discussed short-term borrowing with our bond counsel as an option to address cash flow needs.

It is critically important to emphasize that the use of any of these one-time reserve and stabilization measures would only serve to temporarily fill some of the expected revenue gaps in hopes of keeping our head above water in the short-term. These measures would only help in the long-term if the economy starts to rebound sooner than later (in FY21) <u>and</u> our recurring revenues grow to a point of being able to permanently fill the budget shortfalls.

Please know that while circumstances may overcome any degree of planning, we are working hard every day to find ways that will help mitigate the fiscal impact of the COVID-19 crisis. It starts with fiscal responsibility, restraint and, unfortunately, pain.

A special thanks to our department heads and staff for the great work and production through these trying times. We're very proud and thankful for their role in keeping the Town of Weymouth open for business for our constituents. It's a true testament to teamwork and accountability.

To our healthcare workers, first responders, and all the essential employees and volunteers sacrificing to keep residents healthy, safe and provided with life's necessities, THANK YOU!

The tremendous response to action as we got hit by COVID-19 is why I have no doubt that we'll get through this together.

Mayor Robert Hedlund