

Town of Hopkinton
 Fiscal Year 2022 Budget
 Initial Discussion Paper
 September 25, 2020

This paper provides background to initiate a discussion supporting the launch of the fiscal year (FY) 2022 budget process for the Town of Hopkinton. There is a level of uncertainty at the beginning of every budget process, but the ongoing COVID-19 public health crisis exacerbates that uncertainty this year. While Town practice is to complete bottom-up, zero-based budget reviews of the cost and value of services delivered each year, the following table shows the relative scale of current services spending across standard budget categories, reflecting the FY 2021 spending plan as approved by Town Meeting on September 12, 2020:

	FY21 Budget	% of Budget	FY21 Education	% Budget
General Government	\$4,775,461	5.07%		
Public Safety	\$6,975,145	7.41%		
Education	\$51,883,315	55.10%		
<i>Hopkinton Public Schools</i>			\$51,206,402	54.38%
<i>Regional Schools</i>			\$676,913	0.72%
Public Works	\$5,997,212	6.37%		
Human Services	\$1,092,214	1.16%		
Culture & Recreation	\$780,612	0.83%		
Employee Benefits & Ins	\$12,618,470	13.40%		
Operating Budget	\$84,122,429	89.34%		
Capital Articles	\$0	0.00%		
Contribution to Stabilization	\$0	0.00%		
Other Post Employment Benefits	\$400,000	0.42%		
General Fund Debt Service	\$8,991,366	9.55%		
Parks & Recreation Subsidy	\$0	0.00%		
State/Reg Program Charges	\$581,354	0.62%		
Snow & Ice Contingency	\$0	0.00%		
State Aid to Libraries	\$18,900	0.02%		
Tax Lien Admin	\$50,000	0.05%		
Total General Fund Budget	\$94,164,049	100.00%		

The following table summarizes current estimates of new recurring sources of funding that are expected to be available for FY 2022:

<u>New FY 2022 Resources</u>	
Forecast 2.5% Tax Levy Increase	\$1,768,617
Forecast New Growth in Tax Base	\$1,672,000
Reduction in Long Term Debt *	\$368,159
	\$3,808,776
As a % of FY21 Operating Budget	4.53%
* Reduction is net of expiring MSBA funding and expiring excluded debt, but does not consider the cost of any new debt to be approved for FY22.	

Several other factors will impact the amount of new recurring resources available to meet critical needs, with variation from current estimates arising from the as yet unknown tempo and vigor of the economic recovery:

- New Growth could be higher or lower than the amounts projected above.
- Revenue from Commonwealth of Massachusetts Local Aid could improve under some economic recovery scenarios.
- Revenue from motor vehicle excise tax could likewise improve under some scenarios.

As these important variable factors are closely linked to the tempo and vigor of the eventual economic recovery, the following information is offered to provide some context and sensitivity to thinking about the recovery:

- In April, 2020, Town staff participated in a State Department of Revenue workshop in which a panel of three external policy analysis groups predicted that Commonwealth tax revenue would plummet by \$4B - \$6B due to the pandemic. The Boston Globe has consistently reported on this crisis since then, reporting that State revenues were “plummeting” (4/14/2020), “crumbling” (5/28/2020), “cratering” (6/3/2020), and “\$3B short” (7/24/2020). However, one of the participants in the April workshop, the Center for State Policy Analysis at Tufts University, has refined its estimate and now projects that State revenue for FY 2021 will be down by only \$1.6B, based on an analysis of Gross Domestic Product as a highly correlated factor for state revenue. (<https://www.masslive.com/politics/2020/09/massachusetts-tax-revenue-loss-may-not-be-as-dire-as-first-predicted-tufts-center-model-shows.html>) If correct, this analysis bodes well for Town revenues in terms of the State’s ability to sustain local aid going forward, and in terms of new growth in the tax base, and revenues from excise taxes.

- On September 24, 2020, Federal Reserve Chair Jerome Powell provided this more sobering testimony on the broader economy to a joint Senate/House Select Subcommittee on the Coronavirus Crisis: *“Economic activity has picked up from its depressed second-quarter level, when much of the economy was shut down to stem the spread of the virus. Many economic indicators show marked improvement. Household spending looks to have recovered about three-fourths of its earlier decline, likely owing in part to federal stimulus payments and expanded unemployment benefits. The housing sector has rebounded, and business fixed investment shows signs of improvement. In the labor market, roughly half of the 22 million payroll jobs that were lost in March and April have been regained as people return to work. Both employment and overall economic activity, however, remain well below their pre-pandemic levels, and the path ahead continues to be highly uncertain. The downturn has not fallen equally on all Americans; those least able to bear the burden have been the most affected. The rise in joblessness has been especially severe for lower-wage workers, for women, and for African-Americans and Hispanics. This reversal of economic fortune has upended many lives and created great uncertainty about the future. A full recovery is likely to come only when people are confident that it is safe to re-engage in a broad range of activities. The path forward will depend on keeping the virus under control, and on policy actions taken at all levels of government.”*
- Locally, evidence available from the Assessors and Building Department suggests that construction activity is resuming to near a pre-Covid-19 tempo. Property tax collections are tracking at very high pre-COVID-19 levels. The Town’s industrial sector appears to be coping with the economic downturn, and the launch of Lykan Biosciences is a positive indicator on that front. All commercial businesses are reporting negative impacts from the economic downturn and some well-established local businesses have closed.

The Town also has several non-recurring resources available to meet emergent or critical one-time funding needs. As of June 30, 2020, the Town had the following stabilization balances: General Fund Operating Stabilization Fund \$3,750,586; General Fund Capital Stabilization Fund \$325,145; School Stabilization fund \$2,078,250, with an additional \$1,953,053 receivable under a Host Community Agreement by December 31, 2021. The combined total is \$8.1 million available now or within the next sixteen months. Additionally, the FY 2021 budget used only a portion of available certified free cash, leaving a further \$1.1 million in certified funds in the Treasury as a potential one-time source of funds for FY 2022 capital or other priorities.

As another factor, the Town currently has access to just over \$1 million in unobligated federal relief funding under the CARES Act and an additional \$685,000 in unobligated direct CARES Act funding to the Hopkinton Public Schools, available for certain COVID-19 related costs. While this funding is currently set to expire on December 30, 2020, there is a prospect that it or additional funding could be available to the Town for certain COVID-19 related expenses for a longer period of time.

Although these factors do not provide a certain top-line funding level for the FY 2022 budget, they can help frame the discussion with some fidelity. With that as background, the Select

Board might consider the following topics as projected elements of the FY22 Budget Policy Statement:

1. Given today's estimates and with an understanding of the uncertainty of the local, state, and national economic outlook, does it seem reasonable to enter the FY 2022 budget process with a funding projection based on the 2.5% tax increase and corresponding tax impact allowed by proposition 2 ½, allowing for about \$3.8M in spending growth?
2. Service levels drive budgets. In FY 2021, in the depth of the recession, the Town committed to maintaining service levels at FY 2020 levels, with additional targeted increases in student-centric spending at the Hopkinton Public Schools to specifically address enrollment increases. Does the Town wish to extend FY 2021 service levels into FY 2022; or is there a specific desire to adjust service levels upward in some areas and/or downward in others?
3. Staff recommends normal planning for resumption of capital spending in the FY 2022 budget. Is there consensus that Hopkinton should initially plan for a capital improvement program for the FY 2022 budget?
4. Community members have expressed an interest in ensuring that the Town's local budgeting continues to promote community objectives, including social equity and inclusion, as described in the preamble to our charter; especially during this period of fiscal stress and as COVID-19 has impacted residents' livelihoods. Is there consensus that further support to improve social equity and inclusion should be considered in the FY 2022 budget, because of the economic stress on taxpayer families?
5. Can the group endorse the proposed budget timeline?