



Town of Lexington

Town Manager's Office / School Department

James J. Malloy, Town Manager

Dr. Julie Hackett, Superintendent of Schools

May 29, 2020

**TO: Select Board
 School Committee
 Appropriation Committee
 Capital Expenditures Committee
 Town Meeting Members**

On February 21, 2020, Town staff released the FY2021 Recommended Budget and Financing Plan, which incorporates the Town and School departments' operating budgets, enterprise funds, and capital improvements. This budget was approved by the Select Board on February 10, 2020, in anticipation of the beginning Annual Town Meeting in March 2020. As you are all aware, since that time, the COVID-19 pandemic significantly impacted Town operations and delayed our Town Meeting. Our schools, library, community center, and other public buildings remain closed. Many of our services have moved online and, in some cases, have been scaled back. We have delayed some capital improvement projects, we are conducting public meetings remotely, and next Monday, June 1, we are planning to begin an unprecedented, fully remote Annual Town Meeting.

As the State and Federal governments continue to make legislative changes, update health guidelines, release reopening guidelines, and provide financial assistance, be assured that the municipal and school departments continue to monitor and adjust our operations daily. However, as we approach Town Meeting, there is still little clarity on when in-person municipal and school services will resume, to what extent, how they will need to be modified to adhere to safety protocols, and what resources will be available to us. What is clear is that in addition to operational changes, one of the most considerable challenges the Town will face in the coming months will be a loss in revenue. These obstacles include a decline in local receipts, such as hotel/motel and meal excise taxes, state aid, and departmental revenues.

Though we are aware of the fiscal challenges, we cannot currently quantify the revenue loss, as it is highly dependent on the State's not-yet-approved annual budget and business resuming for the Town of Lexington. We recommend moving forward with the FY2021 Recommended Budget and Financing Plan as presented, with only two exceptions. The attached memorandum outlines the Town's current, conservative projections for revenue shortfalls, two reserve fund appropriations that we recommend postponing indefinitely, and a further list of options and actions the Town can implement to balance the FY2021 budget should it become necessary.

While we recommend moving forward with this FY2021 budget, we fully expect that adjustments will be needed as the impact of the pandemic comes into focus. In the meantime, both the Town Manager and Superintendent of Schools have curtailed non-essential spending, will delay program improvements, additions to staff, and capital purchases and improvements as appropriate.

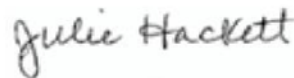
In the next few months, we anticipate a final approved State budget, further guidance on financial assistance from the State and Federal governments, and our Town's reopening plan, which will advise us of the extent of lost revenue and new expenses. We are prepared to collaborate on adjustments and are confident that we can present a revised, rebalanced budget for approval at a Fall Special Town Meeting.

As we continue to move forward with an incredibly innovative and meticulously planned Annual Town Meeting, we again want to acknowledge the many boards and committees, staff, and citizens who have participated in it. The diversity of opinion, commitment to problem-solving, and focus on community priorities continue to define our Town government. Lexington is well-served by the many elected officials who contributed to this process, and we truly appreciate the leadership, vision, and flexibility that has been exemplified by all.

Sincerely,



James J. Malloy
Town Manager



Dr. Julie Hackett
Superintendent of Schools



~ Memorandum ~

To: Select Board

From: Jim Malloy, Carolyn Kosnoff and Jennifer Hewitt

Date: May 29, 2020

Re: Second Update on Fiscal Impact from COVID-19 Shutdown

The purpose of this memo is to provide the Select Board with several updates to the response to the pandemic that will have a budget impact in FY2020 or FY2021.

The State recently announced that they will be distributing \$502 million of the \$2.67 billion received in CARES Act funding to municipal governments. Lexington's share is \$2,979,363. As passed, the funding can only be used for COVID-related expenses. A Congressional amendment is pending to allow the funds to be used for revenue replacement; it has passed the House, but is awaiting action in the Senate. Additional pockets of funding from the CARES Act are becoming available, including \$149,000 for COVID-related expenses at the school department, including Personal Protective Equipment (PPE), and/or technology, and smaller grants from the Health and Human Services portion of the CARES Act and from The Mass Health Officers Association.

Secondly, Governor Baker has released an initial reopening plan, which begins to lay out a timeframe for opening in phases. Extrapolating from that timeframe, we can begin to solidify revenue and budget impacts to further inform projections. However, since a revised FY2021 state budget has not been issued yet, it will be difficult to accurately forecast the Local Aid impact. The Massachusetts Taxpayers Foundation (MTF) is now forecasting a \$6B (19%) shortfall in state revenues, compared to \$4B last month; in the absence of a final budget, we continue to use conservative reductions in Chapter 70 of 15% and unrestricted general government aid of 35%.

Finally, residents and commercial property owners have been taking advantage of the delayed deadline for property tax bills, as well as the deferred interest for motor vehicle excise bills. There is a notable delay in receipts, and staff will be closely monitoring revenues throughout the month of June 2020. It will be difficult to accurately forecast final FY2020 revenues given the revised deadlines. If there is a larger revenue shortfall in FY2020 than anticipated, it will reduce the amount of Free Cash available to support the FY2021 budget, and fund ongoing capital programs in FY2022.

Appendix A - Updated Fiscal Background

Two months of experience have confirmed the initial expectations that the biggest impact on Town finances will be from revenue shortfalls, not additional spending items. The following steps have been taken to provide flexibility:

1. Both municipal and school staff have been encouraged to forego spending in FY2020 if unneeded due to the shutdown of town buildings. This will increase FY2020 Free Cash, for use in FY2021 or FY2022. Lexington Public Schools anticipate turning back at least \$3 million in FY2020.
2. A Town (municipal/schools) hiring freeze has been implemented for non-essential staff.
3. Annual Town Meeting (ATM) will be asked to approve the FY2021 budget as proposed, with the exception of eliminating the additional transfer into the Capital Stabilization Fund (\$1.77 million), and reducing the transfer into the OPEB Stabilization Fund (\$1.18 million). Both of these items are funded from Free Cash, and will allow \$2.95 million in funding to offset anticipated revenue shortfalls in FY2021, reducing the need to draw from other sources, or take other actions.
4. Town Assessor staff have been working to complete review of recently completed Building Permits to ensure that valuations are accurate for FY2021, and the full amount of available New Growth is captured. Any new growth above the \$2,750,000 projected in the FY2021 budget will offset revenue losses.
5. Supplemental Bills were issued on February 1st and May 1st, and a final set are being prepared for June 30th. These are already generating revenue in FY2020, with some carrying forward into FY2021.
6. Staff have begun planning for managing available COVID-19 funding sources, including CARES Act funding and FEMA reimbursements.

In addition, the following options may be considered as the situation evolves -

- Reduce or remove Program Improvement Requests
- Furlough staff who will not be fully utilized due to reduced operations.
- Adjust municipal and school budgets to reflect changes due to prior bullets, as well as additional program adjustments.
- Draw from Stabilization Funds - Lexington has funds available in various locations that could be used to offset revenue shortfalls. These include the General Stabilization Fund (\$9.86 million), the Capital Stabilization Fund (\$25.16 million), and the Special Education Stabilization Fund (\$1.15 million).

Primary Impact = Revenue

Staff project that Town finances will primarily be impacted from reduced revenue. A summary for both FY2020 and FY2021 is below.

General Fund Revenue Summary - FY2020	FY2018 Actual	FY2019 Actual	FY2020 Budgeted	FY2020 YTD	FY2020 Remaining	FY2020 Revised	FY2020 Variance	FY2021 Projected	FY2021 Revised	FY2021 Variance	
Property Tax Levy (Table 1)	\$177,624,815	\$186,201,054	\$195,949,768	\$189,077,769	\$ 4,912,501	\$193,990,270	\$(1,959,498)	\$205,299,443	\$203,246,449	\$(2,052,994)	(1.0)%
State Aid (Table 2)	\$ 15,737,052	\$ 16,013,450	\$ 16,283,199	\$ 13,492,671	\$ 2,012,857	\$ 15,505,528	\$ (777,671)	\$ 16,517,703	\$ 13,723,323	\$(2,794,380)	(16.9)%
Local Receipts (Table 3)	\$ 16,738,860	\$ 16,968,556	\$ 14,082,119	\$ 14,993,652	\$ 561,402	\$ 15,555,054	\$ 1,472,935	\$ 14,280,713	\$ 11,837,413	\$(2,443,299)	(17.1)%
Available Funds (Table 4)	\$ 14,834,463	\$ 14,485,806	\$ 14,314,142	\$ —	\$ 14,314,142	\$ 14,314,142	\$ —	\$ 14,942,168	\$ 14,942,168	\$ —	—%
Other Available Funds - Use of Capital Stabilization Fund (Table 4a)	\$ 324,500	\$ 573,500	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	—%
Revenue Offsets (Table 5)	\$ (2,027,038)	\$ (2,073,590)	\$ (1,860,652)	\$ —	\$ (1,860,652)	\$ (1,860,652)	\$ —	\$ (2,181,086)	\$ (1,781,086)	\$ 400,000	(18.3)%
Enterprise Receipts (Table 6)	\$ 1,674,111	\$ 1,646,939	\$ 1,696,348	\$ —	\$ 1,696,348	\$ 1,696,348	\$ —	\$ 1,749,435	\$ 1,749,435	\$ —	—%
Total General Fund Operating Revenues	\$224,906,763	\$233,815,715	\$240,464,923	\$217,564,092	\$ 21,636,598	\$239,200,690	\$(1,264,234)	\$250,608,376	\$243,717,702	\$(6,890,673)	(2.7)%
Less - Revenues Set-Aside for Designated Purposes	\$ 16,879,390	\$ 13,651,982	\$ 12,495,310	\$ —	\$ 12,495,310	\$ 12,495,310	\$ —	\$ 12,089,683	\$ 9,136,900	\$(2,952,783)	(24.4)%
Net General Fund Revenues	\$208,027,373	\$220,163,733	\$227,969,613	\$217,564,092	\$ 9,141,287	\$226,705,380	\$(1,264,234)	\$238,518,692	\$234,580,802	\$(3,937,890)	(1.7)%

Source: MUNIS Extract as of May 29, 2020.

Note: See Staff Recommendation #2 for description of FY2021 adjustment to Revenues Set-Aside for Designated Purposes.

Further descriptions of the revenue adjustments:

1. **Property Tax Levy** - The biggest revenue source to the Town is from Property Taxes, which are controlled by Proposition 2½. At this point, it is unclear how much of an impact the shutdown will have on the payment of property tax bills. Lexington has traditionally had a strong collection rate of 99.5% or more. The final tax payment for FY2020 is due on June 1st as approved by the Select Board, and payments for the first three quarters of the year have been strong. Updated projections reflect a 1% shortfall on FY2020 collections; with a 1% shortfall estimated to continue for the full year in FY2021. For comparison purposes, the Uncollected Property Tax rates in FY2009 to FY2011, the most recent fiscal downturn, were 0.4%, 0.8% and 0.1%, respectively.
2. **State Aid** - The area most likely to be impacted is State Aid. Per news reports, the state is projecting \$4 to \$6 billion in lost revenue from an overall \$43 billion budget (10-15%). State education aid (Ch. 70) is \$5 billion, or 12% of the overall state budget, and is unlikely to be spared in the final budget adjustment. In addition, Lottery sales have experienced a 35% decline due to the closure of bars and stores where many sales occur. This will have a direct impact on Unrestricted General Government Aid (UGGA). The tables above take a conservative approach to project that in FY2020, a portion of the final state aid payment for both Ch. 70 and UGGA will be withheld, and that in FY2021, there will be a 15% reduction in Chapter 70 and 35% in UGGA.
3. **Local Receipts** - This is a broad category that covers a variety of areas. The main impacted items are noted below. A summary is included in Appendix B.
 - Motor Vehicle Excise will likely receive slightly more FY2020 revenue than budgeted, but a small reduction is projected in FY2021 since residents may be unlikely to buy new or more expensive cars in a period of fiscal uncertainty.
 - Other Excise includes Meals and Hotel/Motel local option taxes. These are not being generated with hotels and restaurants shut down, so the final quarter in FY2020 is eliminated, and the FY2021 projections are cut by 75%.
 - Rentals - Staff recently reviewed the cell phone tower contracts and updated projections to a more realistic level.
 - Departmental-Schools is primarily derived from Medicaid reimbursements. However, the state has recently updated its guidelines to dramatically restrict the services eligible for reimbursement. LPS staff have been working to understand and respond to the updates, but that effort is on hold with the school closures. FY2020 has been adjusted to what has been awarded to-date, and FY2021 has been further reduced, both in response to the updated guidelines, and the fact that schools are closed so services are not being provided.
 - Departmental-Municipal captures a wide variety of activities, and is primarily impacted by a reduction in Ambulance Fees since less accidents are happening during the lockdown, along with a reduction in Lexpress fares, offset by slightly higher revenue from net metering.
 - Licenses and Permits is primarily from building permits which have already exceeded projections for FY2020, but no further revenues are projected. In FY2021, the already conservative projections are maintained, and will depend on how quickly and to what

extent development of both commercial and residential properties rebounds after the lockdown.

- Fines and Forfeitures is experiencing a reduction since enforcement of parking, speeding and other offenses has greatly diminished during the lockdown.
 - Investment Income benefited from a healthy interest rate environment in the first 8 months of FY2020, which fell off dramatically in March 2020 due to Federal Reserve action. FY2021 has been updated to reflect continued minimal interest rates.
4. **Revenue Offsets** - are adjusted by \$400,000 in FY2021 in recognition of the mild winter in FY2020, which will not require carrying forward a deficit for snow removal costs.
 5. **Revenue Set-Asides** - are adjusted in FY2021 by removing two items - the \$1.77 million transfer to the Capital Stabilization Fund, and \$1.18 million of the contribution to the OPEB Stabilization Fund. The resulting \$2.95 million is recommended to be held in reserve to help offset potential reductions in State Aid and local receipts.

In addition to the items noted above that affect the General Fund, the following revolving or enterprise fund activities are being monitored:

- Recreation Enterprise - Spring programs have been cancelled, and staff have been working with families to issue refunds or credits for future programs. While the expenses of holding programs, primarily from paying the instructors and aides, will not be incurred, the enterprise fund does have fixed expenses which are offset by the revenue-generating programs. Thankfully, there is a small balance in the enterprise fund to offset a shortfall, but the General Fund may be asked to offset some of the losses once the final impact can be calculated.
- Water/Sewer Enterprise - Fall 2019 usage was slightly less than projected, but Spring 2020 usage has been on track; each fund is projecting a slight revenue shortfall in FY2020. Each fund does have a small balance that could be used as an offset. Staff will continue to monitor revenues over the coming month.
- Liberty Ride Revolving Fund - Through careful management, the Liberty Ride has been able to offset its operating expenses with ticket sales in past years. However, operations have ceased due to the lockdown, and no further revenue-generating activities are anticipated through June 30th. Expenses through March 31st exceed revenue by \$17,100, and some minor staff expenses are charged to the account each pay period. The fund ended FY2019 with a \$10,000 balance, which will somewhat offset the deficit. Town staff are reviewing the viability of the Liberty Ride during the 2020 season and whether this program should be eliminated this year.
- Visitors Center Revolving Fund - The re-opening of the Visitors Center was unavoidably delayed due to the lockdown. While the gift shop was temporarily housed in the Cary Memorial Building, it generated considerably less income than needed to support staff. The FY2020 budget anticipated this, and provided \$98,000 in General Fund support during the transition. As of March 31st, the updated fund balance was \$23,000. The cost of continuing to pay staff during the lockdown is projected to be \$25,000, generating a loss of \$2,000. This negative balance of \$2,000 is added to the FY2019 balance of (\$6,660), and will reduce General Fund free cash.

- Compost Revolving Fund - The Hartwell Avenue site is running with more limited hours. The Spring season typically generates revenue from compost sales and contractor permits, both of which will likely be impacted by the shutdown. Thankfully, the fund had a balance of \$740,000 at the end of FY2019, which is available to offset any shortfall in FY2020.

Additional Spending Impacts

Based on experience so far, the bulk of COVID-related spending is isolated at Health, Fire and Police, with some ancillary expenses at Information Technology, Facilities and the Town Manager's Office. Direct-response costs will likely be reimbursable from FEMA (75%), with remaining costs eligible under the CARES Act. These costs are described further below –

- Health – Costs include additional staff to assist with contact tracing and quarantine monitoring. Most of these costs in FY2020 will likely be offset by a state grant.
- Fire – As EMTs respond to COVID-19 cases, some are exposed and must be quarantined to prevent further spread. While they are out, other staff cover via overtime shifts, which are deemed reimbursable. Fire is already anticipating a transfer from the Salary Adjustment account due to a contract settlement that was not built into their original personal services budget. Further transfers from the Reserve Account may be needed to offset the additional overtime costs.
- Police – Similar to Fire, some overtime shifts may be needed to backfill for exposed officers who are quarantining, and a Salary Adjustment transfer will be needed for a contract settlement that was not built into the original Police personal services budget. However, the chief does not anticipate that any additional funds will be needed since he will realize a \$50,000 overtime savings from the cancelled Patriots Day events. We will continue to monitor the situation.

Finally, officers are providing additional security to the Aloft hotel as a 24/7 detail. The arrangement with MEMA is for the Town to apply for FEMA reimbursement first (75%), with MEMA providing the remaining 25%. Staff are working to understand how best to access the FEMA reimbursement process, with the intent to submit claims on a regular basis.

- Information Technology – Additional equipment and subscriptions have been purchased to support remote working. Total value and ability to absorb within the available IT budget is still pending.
- Facilities – There were some additional expenses due to cleaning buildings, particularly schools, but those additional expenses are being offset by the savings from having the buildings closed. As the Town plans to reopen buildings, there will be some costs from and b theF department reconfiguring space to adhere to safety and distancing guidelines.
- Town Manager – A new subscription for Zoom and other services are being covered by the Town Manager's Office. There is sufficient funding in the current budget to cover these expenses.
- Select Board - There have been additional legal costs from establishing a virtual Town Meeting. There are sufficient funds to absorb these costs in the current budget.

Conclusion

Updated analysis anticipates a small revenue shortfall in FY2020, which may not be realized if state aid is not cut, and if property tax bills are paid by June 30th. The General Fund should not have material deficits in the FY2020 year-end fund balance; however, the reduction in revenues may result in a lower than anticipated free cash balance at the end of the year. This may be offset by a concerted effort from budget managers to forego unneeded spending due to town buildings being closed and some projects being delayed.

In regards to the FY2021 proposed budget, staff will continue to monitor financial indicators and state and federal guidance on projected revenue. While the magnitude of the situation is currently unknown, the Town has multiple options available for closing a revenue gap in the coming year.

Appendix B - Local Receipts Summary

Local Receipts Category	FY2019 Actual	FY2020 Budget	FY2020 YTD	FY2020 Remaining	FY2020 Revised	FY2020 Variance	FY2021 Projected	FY2021 Revised	FY2021 Variance
Motor Vehicle Excise Tax	\$ 5,649,362	\$ 5,281,392	\$ 5,217,491	\$ 182,509	\$ 5,400,000	\$ 118,608	\$ 5,465,000	\$ 5,365,000	\$ (100,000)
Other Excise	\$ 1,659,673	\$ 1,648,000	\$ 1,315,051	\$ 75,054	\$ 1,390,106	\$ (257,894)	\$ 1,648,000	\$ 412,000	\$(1,236,000)
Penalties & Interest	\$ 566,632	\$ 341,500	\$ 525,374	\$ —	\$ 525,374	\$ 183,874	\$ 341,500	\$ 341,500	\$ —
PILOT's	\$ 619,192	\$ 668,000	\$ 662,000	\$ 3,000	\$ 665,000	\$ (3,000)	\$ 683,000	\$ 683,000	\$ —
Rentals	\$ 459,765	\$ 478,694	\$ 370,742	\$ 56,668	\$ 427,409	\$ (51,285)	\$ 478,694	\$ 429,445	\$ (49,249)
Departmental-Schools	\$ 371,985	\$ 420,500	\$ 154,516	\$ 29,921	\$ 184,437	\$ (236,063)	\$ 420,500	\$ 88,500	\$ (332,000)
Departmental-Municipal	\$ 2,692,170	\$ 2,554,300	\$ 2,299,561	\$ 214,250	\$ 2,513,811	\$ (40,489)	\$ 2,554,300	\$ 2,396,000	\$ (158,300)
Licenses & Permits	\$ 2,725,133	\$ 1,972,850	\$ 2,679,153	\$ —	\$ 2,679,153	\$ 706,303	\$ 1,973,350	\$ 1,906,600	\$ (66,750)
Special Assessments	\$ 32,790	\$ 14,882	\$ 22,616	\$ —	\$ 22,616	\$ 7,734	\$ 14,368	\$ 14,368	\$ —
Fines & Forfeits	\$ 189,845	\$ 202,000	\$ 140,715	\$ —	\$ 140,715	\$ (61,285)	\$ 202,000	\$ 101,000	\$ (101,000)
Investment Income	\$ 1,781,573	\$ 500,000	\$ 1,183,638	\$ —	\$ 1,183,638	\$ 683,638	\$ 500,000	\$ 100,000	\$ (400,000)
Miscellaneous Non-Recurring	\$ 220,435	\$ —	\$ 422,796	\$ —	\$ 422,796	\$ 422,796	\$ —	\$ —	\$ —
Total Local Receipts	\$16,968,555	\$14,082,118	\$14,993,653	\$ 561,402	\$15,555,055	\$ 1,472,937	\$14,280,712	\$11,837,413	\$(2,443,299)

Source: MUNIS Extract as of May 29, 2020.