

TOWN OF HINGHAM

OFFICE OF THE SELECTMEN

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FY21 FINANCIAL MANAGEMENT PLAN May 11, 2020

SECTION 1. BACKGROUND AND COVID-19 CRISIS

The Hingham Board of Selectmen, Hingham School Committee, and Hingham Advisory Committee concluded the Town's FY21 budget process on March 10, 2020. The Advisory Committee voted to recommend to Town Meeting a balanced FY21 budget of \$126,940,526. In order to approve the budget, the Advisory Committee identified sources of and made assumptions about anticipated revenue in amounts that would match approved expenditures.

Within two weeks of concluding Hingham's budget process, national, state, and local States of Emergency were declared in response to the COVID-19 pandemic. Given the resulting economic crisis, the Town must revise FY21 revenue assumptions downward to account for the contraction of the global economy. We have revised revenue assumptions based on data available as of May 9, 2020 from the Massachusetts Municipal Association (MMA) and Massachusetts Taxpayers Foundation (MTF), consultation with state officials, historical trends of municipal revenue collection (particularly those trends experienced by the Town during the Great Recession years of FY09 and FY10), and guidance from the Town's financial advisors, Capital Markets Advisors.

The revised FY21 revenue assumptions do not support the full expenditures identified in the FY21 budget approved by the Advisory Committee. If approved without alteration by Town Meeting, such a budget would likely produce an impermissible budget deficit of approximately \$3.3 million.

The FY21 Financial Management Plan presented herein proposes to use Unassigned Fund Balance coupled with prudent financial management controls to close the anticipated budget gap and offset any incremental revenue shortfalls that may arise in FY21. The goal of the Plan is to produce a balanced FY21 budget that also 1) minimizes disruption to Municipal and School operations and services, 2) takes account of COVID-related expenditures, and 3) preserves the Town's longstanding practice of sound fiscal stewardship as measured in part by the Town's AAA credit rating. Successfully implementing the FY21 Financial Management Plan and managing to a balanced budget requires the commitment and collective effort of the Board of Selectmen, School Committee, and Advisory Committee.

For purposes of this plan, “Municipal Departments” shall apply to all departments and budgets in General Government, Public Safety, Public Works, Human Resources, and Culture and Recreation; “School Department” or “Schools” shall refer to the Hingham Public School District and education budget; and the “Town” will refer to the Town of Hingham government operation as a whole and, where relevant, will include both the Municipal and School Departments.

SECTION 2. PROJECTED REVENUE DEFICITS

Due to the COVID-19 crisis and the resulting economic downturn, the Town is projecting potential shortfalls in revenue in both FY20 and FY21. As of May 9, 2020, we estimate those potential shortfalls as follows:

FY20 Projected Revenue Deficits (deficits represent the difference between FY20 forecasted revenue and anticipated revenue as of May 9, 2020)

1. \$129,000 reduction in Meals Tax revenue - assumes no revenue for FY20 Q4 (April/May/June 2020)
2. \$21,800 reduction in Penalties & Interest collected on property tax as a result of tax due date extension to June 1st
3. \$12,000 reduction in Investment Income as a result of property tax due date extension to June 1st
4. \$212,492 reduction in possible revenue shortfall in South Shore Country Club Enterprise Fund assuming SSCC operations are limited through May 2020

FY20 Other Revenue Sources

1. \$220,287 increase in new growth
2. \$30,000 increase in U.S. Department of Health and Human Services federal stimulus grant (ambulances)

FY20 Projected Revenue Surplus/(Deficit): (\$125,005)

FY21 Projected Revenue Deficits

1. \$805,708 (0.9%) reduction in Property Tax collection (based on the average reduction in collections experienced during the Great Recession years of FY09 and FY10)
2. \$1,944,003 (19.2%) reduction in State Aid not including MSBA funding for High School (based on MMA and MTF state revenue projections as of May 8, 2020)
3. \$50,000 (1.1%) reduction in Motor Vehicle Excise Tax (assumes receipts remain flat from FY20)
4. \$221,000 reduction in Meals Tax - assumes no revenue for FY21 Q1 (July/Aug/Sept 2020)
5. \$76,920 (19.2%) reduction in Charges for Services (assumes same percentage decrease as State Aid)
6. \$192,300 (19.2%) reduction in Licenses & Permits (assumes same percentage decrease as State Aid)
7. \$200,000 (33.3%) reduction in Investment Income (based on current cash balance in bank and dropping interest rates)

8. \$44,806 (19.2%) reduction in Departmental revenue (assumes same percentage decrease as State Aid)

FY21 Other Revenue Sources

1. \$200,000 increase in additional Excess Overlay

FY21 Projected Revenue Surplus/(Deficit): (\$3,334,737)

SECTION 3. FY20 FINANCIAL OUTLOOK

Under Massachusetts General Law, except for snow and ice expenditures, municipalities cannot deficit spend – revenues must match or exceed expenditures in a given fiscal year. Given the projected revenue shortfalls described above, we have already instituted expenditures controls, including deferring non-essential hires, on both the Municipal and School side for the remainder of FY20 to offset the projected revenue deficits for this fiscal year. We are confident that we will be able to cover the projected FY20 revenue deficit of \$125,005 through interdepartmental transfers at year end. In addition, we are making every effort to provide budgetary reductions that will result in FY20 “turnbacks,” which will become part of the Town’s Unassigned Fund Balance once certified after June 30, 2020.

SECTION 4. FY21 FINANCIAL MANAGEMENT PLAN

We propose that the Advisory Committee recommend that Town Meeting authorize the use of up to \$3,334,737 from Unassigned Fund Balance to offset current projected revenue deficits in FY21 to meet the Town’s legal obligation to approve a balanced budget. The Town’s June 2018 Financial Policy recommends maintaining Unassigned Fund Balance at a level equal to 16-20% of Total Annual Expenditures. As of June 30, 2019 (the last formal certification of Fund Balance), Unassigned Fund Balance totaled \$30,515,193, of which \$7,558,058 was in excess of the recommended maximum of 20% of Total Annual Expenditures. Given the uncertainty regarding the depth and length of the economic recession that has resulted from COVID-19, we note that the Town should take a multi-year view when considering the use of Fund Balance to address budget deficits.

We further propose that the Board of Selectmen, School Committee, and Advisory Committee agree to adopt and adhere to an active and forward-thinking financial management plan with identified metrics and management actions in order to preserve our ability to meet changing and evolving fiscal challenges. While the proposed FY21 Financial Management Plan fully funds all FY21 budgets as previously approved by the Advisory Committee and supported by the Board of Selectmen and the School Committee, the plan requires immediate implementation of spending controls and cost reduction and/or deferral measures particularly at the start of the first quarter of FY21 to prepare for the possibility of greater than projected shortfalls. Should additional revenue shortfalls materialize at any point in FY21, the plan requires that the Municipal and School Departments manage their respective operations to deliver prescribed savings.

The proposed FY21 Financial Management Plan is data-driven and places fair and equitable controls on all aspects of Town operations. Oversight for compliance with the plan will be the responsibility of the Advisory Committee as informed by the Forecast Group, Board of Selectmen, and School Committee. The Forecast Group consists of the Chair and Vice Chair of the Advisory Committee, Chair of the Board of

Selectmen, Town Administrator, Assistant Town Administrator, Town Accountant, Chair and Vice Chair of the School Committee, School Superintendent, and School Business and Support Services Director.

It is important to note that the expenditure controls presented in this plan are based on revenue and resulting budget projections. If the Town is significantly restricted in its ability to provide any specific services due to COVID-19 in FY21 (i.e. Town facilities are forced to remain closed to the public), then the Town may take separate action to reduce spending regardless of revenue projections.

SECTION 5. FY21 REVENUE FORECASTING

As stated above, in order to calculate the May 9, 2020 estimated revenue shortfalls, we applied both internal and external metrics to the original FY21 revenue forecast. We recommend that the Municipal Finance Team and the Forecast Group monitor these metrics and apply any new information or updates to FY21 revenue projections as they become available.

Revenue Category	Forecast v1.2A (05/09/20)	% of Total Projected FY21 Revenue	Metric	Forecast v1.2A (05/09/20) value
Total Tax Levy	\$88,717,446	78.5%	Property tax collections – average decline in property tax collection rate in FY09 and FY10	-0.9%
State Aid (except MSBA Assistance)	\$8,165,218	7.2%	MMA and MTF state revenue projections as of May 9, 2020	-19.2%
Motor Vehicle Excise Tax	\$4,700,000	4.2%	Motor Vehicle Excise Tax collections - held flat from FY20 collections	-1.1%
Meals Tax	\$579,000	0.5%	Meals tax collections	\$0 in Q1
Charges for Services	\$323,080	0.3%	Assumes same decrease as state aid	-19.2%
Licenses & Permits	\$807,700	0.7%	Assumes same decrease as state aid	-19.2%
Ambulance Fees	\$1,414,000	1.3%	# and type of ambulance runs	
Investment Income	\$400,000	0.4%	Interest rates and cash balances	-33.3%
Departmental	\$188,194	0.2%	Assumes same decrease as state aid	-19.2%
Other revenue*	\$4,071,980	3.6%	Monitored and forecasted monthly in accordance with established revenue forecasting processes	
Fund Balance**	\$3,619,237	3.2%	N/A	
Total***	\$112,985,855	100.0%		

*Includes MSBA Assistance (Hingham High School), other Local Receipts, Light Plant PILOT, Meals Tax Reserves/Stabilization, Excess Overlay, and Waterways Fund. The state does not project existing MSBA program funding will be affected in FY21.

** Fund Balance includes \$284,500 in FEMA reimbursements from the 2015 winter storms that will be used for targeted FY21 School, DPW, and Town Hall capital items.

*** Does not include South Shore Country Club, Weir River Water System, or Sewer since those are self-supporting enterprises.

SECTION 6. FY21 EXPENDITURE CONTROLS

The Town will track annualized revenue projections and implement a tiered expenditure control system with monthly and quarterly reviews as follows:

- Beginning on July 1, 2020, the first day of Q1, the Town will employ a Tier 1 control system which, absent significant improvement in the financial outlook, will likely remain in place for the entire fiscal year.
- After the end of Q1 (September 30, 2020) and at any point thereafter, if there are additional revenue deficits that exceed \$500,000 and expenditure controls have not produced sufficient savings to offset them, Tier 2 requirements with specific savings targets will be initiated by the Advisory Committee after consultation with the Forecast Group and Board of Selectmen.
- Once the Tier 2 budget controls have been implemented, the savings achieved by the Tier 2 measures must result in permanent savings in order for the Advisory Committee to consider returning to Tier 1 financial controls.

	Tier 1	Tier 2
When	July 1, 2020; will remain in place absent material changes in the revenue forecast as determined by the Advisory Committee.*	When FY21 projected annual budget deficit > \$500,000 or otherwise in the discretion of the Advisory Committee after consultation with the Forecast Group and the Board of Selectmen.
Management Actions	Essential hires and essential capital only. Town Administrator and School Superintendent to identify actions within their own departments to manage non-personnel operating expenses.	Additional operating and capital budget reductions to close deficit
Control Document	Tier 1 Action Plan	Tier 2 Action Plan
Cost Reductions Responsibility	40% Municipal 60% School	40% Municipal 60% School

*Expenditure controls similar to Tier 1 restrictions went into effect at the end of March 2020 and will remain in effect through the end of FY20.

Specific management actions to be taken are at the discretion of the Town Administrator and School Superintendent, so long as in total, they achieve the cost reduction targets to close the projected deficit by the end of the fiscal year. Cost reduction targets will be assigned to Municipal and School Departments based on the relative percentages of the FY21 Municipal and School operating budgets (\$29,503,285 and \$56,730,985, respectively): 40% to Municipal Departments and 60% to the School Department.

As part of the Tier 1 Action Plans, the Town Administrator and the School Superintendent shall compile detailed information about personnel, capital, and other operating expenditures and they will review such

plans with the Advisory Committee prior to the start of each fiscal quarter. The Tier 1 Action Plan for the first quarter of FY21 shall be reviewed with the Advisory Committee prior to Town Meeting and shall contain a compilation of the following information:

- A list of all open positions as of the end of FY20 (Note: open positions for FY20 will only be filled by essential hires);
- A list of all budgeted positions for FY21;
- Total capital dollars budgeted but unspent/uncommitted for FY20;
- Total savings from capital projects that were delivered under-budget for FY20; and
- A list of all budgeted capital projects for FY21.

The Town Administrator and School Superintendent shall assign a rating to each of the open positions and each of the capital projects indicating those expenditures that are absolutely necessary for the first quarter of FY21. Otherwise, such expenditures shall be deferred until reviewed as part of the Tier 1 Action Plan for the second quarter of FY21. This practice shall continue for the second, third, and fourth quarters of FY21. The standard used to justify an expenditure may be modified by the Advisory Committee depending on revenue projections for FY21. The quarterly deferral concept is meant to provide the Town with greater flexibility to address changes in the fiscal picture (positive and negative) with minimal disruption to departmental planning.

In addition, if the Advisory Committee determines after consultation with the Forecast Group and the Board of Selectmen that there are projected annual budget deficits, the Advisory Committee shall ask the Town Administrator and the School Superintendent to offset the amount of any such deficits through a range of specific management actions identified by the Town Administrator and the School Superintendent with a 40% savings to be generated by Municipal Departments and a 60% savings to be generated by the School Department as noted above. Projected budgetary savings measures must be confirmed by the Advisory Committee.

If projected annual budget deficits continue to increase at a rate that cannot be offset with anticipated savings in the Tier 1 Action Plans such that the projected deficit reaches or exceeds \$500,000, the Advisory Committee in consultation with the Forecast Group and the Board of Selectmen shall institute Tier 2 Action Plan requirements, which may result in freezing those items deferred as part of the Tier 1 Action Plans as well as requiring the Town Administrator and the School Superintendent to make further cuts to Municipal and School operations. Care should be taken by Municipal and School Departments to ensure that expenditures during the first quarter of FY21 do not unnecessarily accelerate a move to Tier 2.

Cost reductions achieved through reduction in personnel other than attrition shall be calculated net of unemployment costs. Permanent savings related to capital shall mean that the identified capital project(s) will not be undertaken in FY21 unless in the judgment of the Advisory Committee, revenue projections improve or alternate budget reductions are made.

The Town anticipates significant reimbursement of eligible COVID-19-related expenses under the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020, but it is not possible to project the

amount or the timing of those reimbursements at this time. As part of its monthly review process, the Forecast Group will review all COVID-19-related expenditures made in the prior month and planned for the following month and will determine which expenses are eligible for reimbursement. Reimbursable COVID-19-related expenses that have not yet been reimbursed will not be included in the calculation of the projected full-year FY21 budget deficit/surplus. As with past reimbursement programs, to the extent that COVID-19 reimbursements are not received by year end, the Town would use available reserves until the reimbursements are received.

SECTION 7. FY21 MANAGEMENT PROCESS

1. The Board of Selectmen, School Committee, and Advisory Committee shall each vote to approve and adhere to the FY21 Financial Management Plan as presented. The plan documents consist of the FY21 Financial Management Plan dated May 11, 2020, the FY21 Monthly Financial Analysis Spreadsheet and FY21 Revenue Scorecard dated May 11, 2020 (attached hereto as Exhibit A), and the Tier Action Plan template dated May 11, 2020 (attached hereto as Exhibit B).
2. The Town Administrator and School Superintendent shall each prepare Tier 1 Action Plans as described above, to be reviewed by the Advisory Committee prior to Town Meeting. The Town Administrator and School Superintendent will update such Action Plans throughout the course of the fiscal year.
3. The Finance team will prepare the FY21 Monthly Financial Analysis Spreadsheet and FY21 Revenue Scorecard to track the revenue and expenditure metrics the Forecast Group will use to evaluate the Town's financial position on a monthly basis throughout FY21. The most critical categories of revenue collection and anticipation in assessing the financial health of the Town are property tax collections, state aid, and local receipts.
4. The Forecast Group will meet monthly to review the FY21 Monthly Financial Analysis Spreadsheet and FY21 Revenue Scorecard. It is expected that the members of the Forecast Group will keep their constituent boards or committees informed about the deliberations and findings of the Group each month.
5. The Town Administrator and School Superintendent will provide budget and Action Plan updates to the Board of Selectmen, School Committee, and Advisory Committee on a quarterly basis on/around October 15, 2020, January 15, 2021, April 15, 2021, and July 15, 2021. These updates, which shall be provided to all three boards, shall include the following:
 - a. Personnel: new hires, salary adjustments, current vacancies, force reduction measures – actions taken in the prior quarter and actions planned for the current quarter.
 - b. Capital expenditures made in the prior quarter and planned for the current quarter.
 - c. Other expenses and expenditure controls, including an itemized list of all COVID-19-related expenditures made in the prior quarter and planned for the current quarter, identifying those that are anticipated to be eligible for reimbursement.

- d. Additional sources of revenue: state/federal grants, revolving funds, COVID-19 stimulus funding or reimbursements, etc.
6. As determined by the Advisory Committee after consultation with the Forecast Group and the Board of Selectmen, the Town Administrator and School Superintendent shall implement additional cost reduction actions identified in their respective Tier 2 Action Plans. Specific actions shall be at the discretion of the Town Administrator and School Superintendent, so long as in total, the Town Administrator and the School Superintendent achieve their proportional cost reduction targets.
7. In the event that the projected annual budget deficit approaches levels that would result in the potential for material cuts to statutorily-required services, the Advisory Committee in consultation with the Forecast Group and the Board of Selectmen may consider a range of alternative actions, including calling for a Special Town Meeting, to address these extraordinary deficits.
8. In the event that revenue collections and revenue projections exceed the reduced targets established for the revised FY21 budget, and are projected to remain above such estimates through the end of FY21, the Forecast Group may recommend changes to or removal of Tier 1 budget controls to be effective no earlier than January 1, 2021 to the Advisory Committee for its consideration and approval.

SECTION 8. PROPOSED VOTES

1. That the Board of Selectmen of the Town of Hingham hereby votes to approve and adhere to the FY21 Financial Management Plan dated May 11, 2020 attached hereto and authorizes the Chair of the Board of Selectmen to execute said plan and hereby votes to authorize the Town Administrator to manage the implementation of said plan on behalf of the Board of Selectmen in accordance with its terms.
2. That the School Committee of the Town of Hingham hereby votes to approve and adhere to the FY21 Financial Management Plan dated May 11, 2020 attached hereto and authorizes the Chair of the School Committee to execute said plan and hereby votes to authorize the School Superintendent to manage the implementation of said plan on behalf of the School Committee in accordance with its terms.
3. That the Advisory Committee of the Town of Hingham hereby votes to approve and adhere to the FY21 Financial Management Plan dated May 11, 2020 attached hereto and hereby votes to authorize the Chair of the Advisory Committee to execute said plan on behalf of the Advisory Committee.

SECTION 9. CONCLUSION

The FY21 Financial Management Plan outlined above puts a strong fiscal control framework in place to ensure that the Town will meet its goal of managing to a balanced FY21 budget. Rather than prematurely reducing operating budgets or imprudently relying on Fund Balance to close incremental revenue deficits, the balanced approach presented herein protects the Town's long-term financial position while minimizing disruptions to the delivery of services to Hingham citizens and allowing for responsible use of available reserves to mitigate the economic impact of COVID-19.

HINGHAM BOARD OF SELECTMEN

Karen A. Johnson, Chair

Date

Tom Mayo, Town Administrator

Date

HINGHAM SCHOOL COMMITTEE

Michelle Ayer, Chair

Date

Dr. Paul Austin, Superintendent

Date

HINGHAM ADVISORY COMMITTEE

Victor Baltera, Chair

Date