

## **FY21 Amended Budget Overview**

When the initial submission of the FY21 budget was made the extent of the pandemic and the economic, social and environmental impact were barely felt. The state and the economy was going to open up in less than a week. Several federal aid packages had been passed but only the enhanced unemployment program had been implemented. At the state level several laws had been changed to allow for increased financial flexibility. This included the extension of certified free cash past the usual June 30<sup>th</sup> expiration date and the ability to apply for deficit spending for unbudgeted pandemic expenditures. Federal and state disaster declarations had been declared to allow for federal reimbursement of up to 75% of allowable pandemic expenditures.

As this pandemic has unfolded over the last two and a half months, it has changed from a one year “trough” the city needed to withstand to a two or perhaps three-year budget plan that needs to be carefully managed. We have changed the budget for that longer term view. There are still unknowns regarding state aid, additional federal aid specifically for education and the remaining distribution of municipal CARES Act funding by the state.

On Thursday, May 14<sup>th</sup>, the state issued the first of the federal CARES Act funds for cities and towns. Framingham’s allocation, based on a per capital distribution, is \$6.447 million. The funds have restricted uses, primarily for pandemic expenses not covered by FEMA, for the 25% uncovered FEMA share and for expenses and programs not covered by other federal and state aid funding sources. It cannot be used for revenue loss and it cannot supplant regularly budget expenditures. It will provide financial resources, for pandemic expenditures in FY21, which this amended budget recommendation does not.

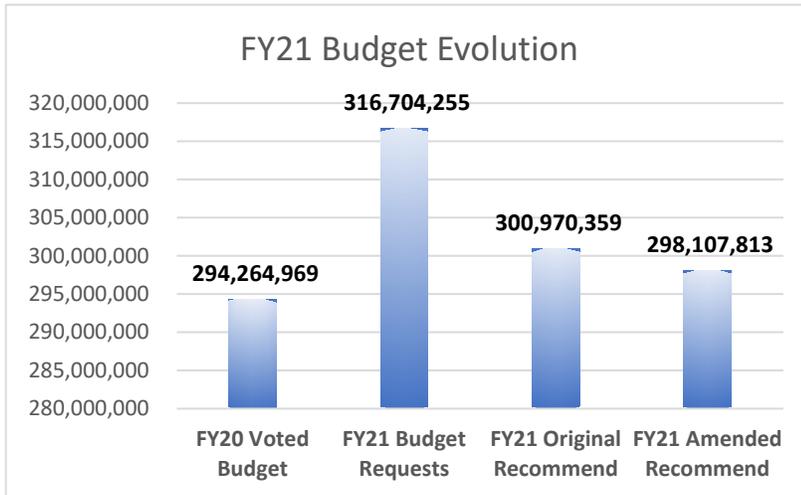
## **Changes in Revenue Assumptions**

### Local City Revenues – Reduced \$2.8 million

- Reduced local receipts by another \$500,000 in room, meals and excise tax, user fees and Loring Arena revenue. Total local receipts estimated at \$24.7 million, a 6.5% total reduction from the original FY21 estimate and an 18% or \$4.4 million from FY19 actuals. Excise, meals and room tax reduced 10% from original FY21 revenue estimate and 25% from FY19 actuals.
- Reduced FY21 allocation/use of Free Cash by \$2.3 million from \$8.1 million in the original FY21 recommended budget to \$5.8 million in the today’s amended FY21 recommended budget.

### External revenue resources

- State Aid; no changes to assumptions made in the original budget submission – level funded Unrestricted General Government Aid and \$2.8 million increase in Chapter 70 aid which represents an increase in enrollment only, Student Opportunity Act funds were already removed from the original revenue assumption
- FEMA federal reimbursement for pandemic expenditures – available for eligible expenditures made through December 2020
- CARES Act funding distributed via the state for pandemic expenditures, telecommuting expenditures, public health programs and residential aid programs and business aid programs (cannot supplant). Funds were determined by a per capital formula – Framingham will receive \$6.447 million to cover FY20 and FY21 pandemic expenditures
- CDBG/HUD funds for residential aid and small business aid programming - \$319,000
- ESSR federal funds direct to School Department - \$1.8 million
- The state is still holding onto 75% of the CARES act funding awaiting legislation at the federal level that would allow funds to be used to replace lost revenue.



As part of original budget reductions Division Head and Department Head salaries were frozen at FY20 levels; operating expenses were lowered in office supplies by 50% and decreased most professional development by 50%. The recommended budget for the School Department assumed the elimination of the Student Opportunity Act funding and requirements. The original General Fund budget recommendation filed on April 30<sup>th</sup> increased \$6.7 million or 2.3%.

In light of the changing fiscal environment, the administration went back to review the budget and **reduced the bottom line by \$2.8 million**, primarily in salaries in municipal budgets which were cut by \$1.2 million or 2.4% of personnel costs. The General fund budget is increasing \$3.84 million or 1.3%. The actions taken are not done lightly. The City has built an excellent workforce that provides excellent service. Reduction at this level will not allow the same level of service, but employees will strive to do the best they can with limited colleagues and limited resources. The City must make it through this crisis with at least the core services intact: public safety departments must be staffed to respond to emergency calls from residents and businesses; trash and recycle must be picked up and removed to contracted landfills and recycle centers; and the public health must be maintained. In that light budget cuts were made across almost all departments, except the Public Health Department, both in staffing and operating costs.

Additional budget reductions from the April 30<sup>th</sup> budget submission are listed below:

- Eliminate the \$400,000 salary reserve – was built for FY21 collective bargaining negotiations
- Further reduce \$500,000 from School budget – we know now that summer school will be remote learning which reduces costs for transportation and hiring many paraprofessionals to conduct summer school in person; the new recommended budget for the School Department is \$141,781,934 – *an increase of \$3.3 million or 2.38%*
- \$45,000 from the Traffic Commission, reduced, but did not eliminate funding for traffic studies
- \$40,000 from the property/liability insurance self-insurance pool based on current year claims levels
- \$100,000 from health insurance based on reductions in force
- \$50,000 in Medicare tax due to reductions in force
- Reduced General Fund Elections operating budget by \$50,000; use \$50,000 of state elections funding reserved from prior years
- Cut \$1.56 million from municipal department budgets. **Combined, municipal budgets are \$131,770 LESS than the budgeted amount for FY20**
  - Eliminated ten funded but currently vacant positions in Library, Park and Recreation, DPW Highway and the Mayor’s Office.
  - Deferred hiring of two firefighter positions for four months
  - Delayed hiring Assistant Fire Chief for two months
  - Eliminated two part-time seasonal positions in DPW

- There are still three vacant, funded positions in the Library, two in Planning and Community Development, two in the Public Health Department and three in the Fire Department and two in the Police Department. Savings from delayed hiring and not funding vacancies is \$699,000
- Deferred hiring two police officer positions for 11 months
- Lay off 13 employees across multiple departments saves \$420,000 plus \$79,000 in benefit costs.
- Furlough an additional five employees for four months in FY2.
- Further reduced operating expense budgets by \$226,168 from the original recommended budget.
- Eliminated the deposit to the Stabilization Fund (Rainy Day Fund), leaving \$305,000 in the balance of free cash instead

### Existing City Resources Not Used in FY21-FY22

Current Balance of Certified free cash: \$15.7 million: use \$5.8 million in this FY21 budget and \$4 million to offset revenue loss in the Utility Enterprise Fund which totals \$9.8 million. That leaves a balance for Certified Free Cash of \$5.8 million. The State has changed the law regarding free cash so that it does not expire on June 30<sup>th</sup>; making it available for appropriation over the summer if circumstances change significantly. We expect to turn back \$2.5 million of municipal budgeted funds from FY20, assuming FEMA reimbursement. The School Department will likely have a \$3 million surplus at the end of FY20. FY20 revenues are tracking slightly less than expected for some revenue types, but are favorable for our largest revenue sources. We are not seeing major drop in FY20 revenue at this time except in water and sewer revenue as discussed on page four.

Current balances of formal reserve funds:

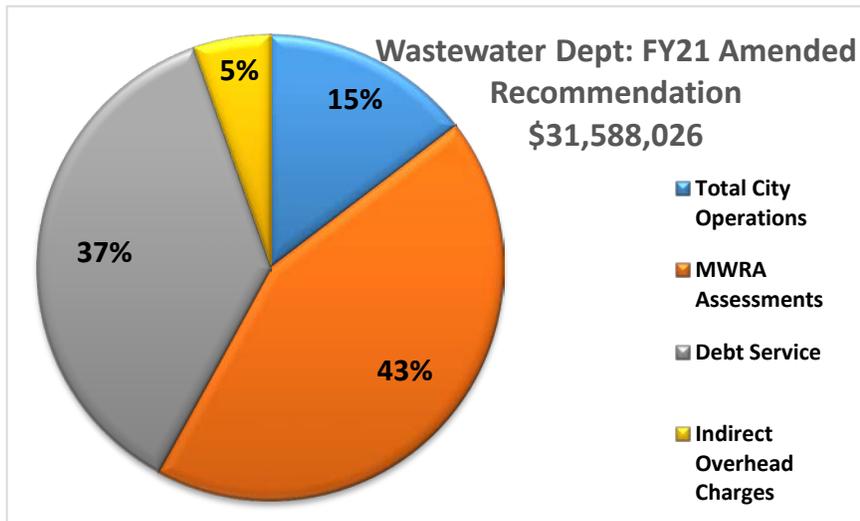
**City of Framingham Stabilization Funds**

	Balance as of March 31, 2020	DOR Benchmark Range 5% - 10%**		GFOA* Benchmark	Notes:
Stabilization Fund	\$17,122,824	\$15,048,523	\$30,097,046	\$49,377,210	Fund is at bottom of DOR range, nowhere near GFOA benchmark
Capital Stabilization	\$8,358,544				\$2,000,000 transferred to Fuller School Project; \$8 million allocated from this fund
OPEB Trust	\$7,026,873				OPEB liability is \$387,578,272
Open Space Stabilization	\$151,154				Spent \$250,000 in FY16 to acquire woodlands adjacent to Wittenborg Woods
Special Education Reserve	\$1,081,954				Created in FY18 to keep extraordinary increases in Sped Tuitions from disrupting the School's annual operating budget
Total "formal" Reserves	\$33,741,350				

\* GFOA is the national Government Finance Officers Association; CFO and Asst CFO are members of MA Chapter

\*\* DOR has benchmarks for regular Stabilization Funds only.

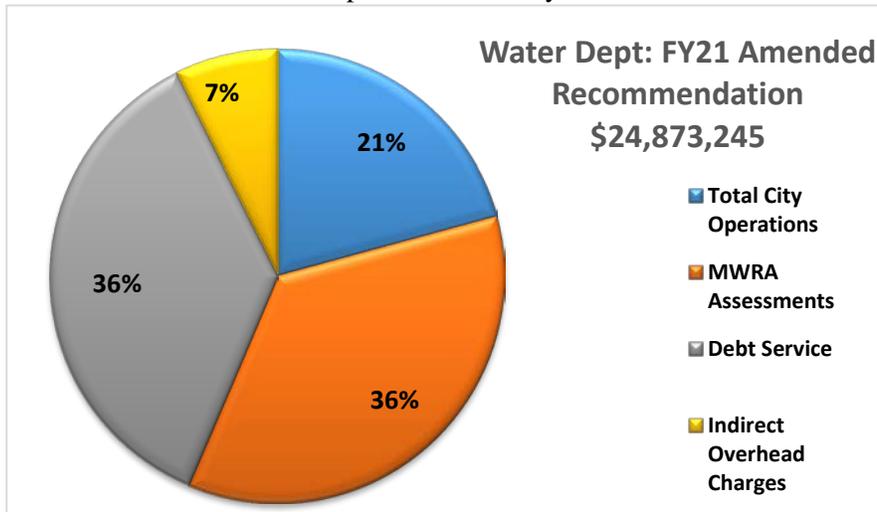
## Utility Enterprise Fund: Water and Sewer Revenues and Budgets



The shutdown of restaurants and other businesses has struck the water and sewer revenue the hardest. Restaurants especially are heavy users of water and sewer resources

We estimate a \$4.3 million shortfall in revenue and recommended use of \$4 million in free cash to offset the loss. There is limited ability to reduce costs in the short term since 36-43% of the budget is the MWRA assessment and 36-37% is legally obligated debt service. Operating costs for expenses and staff are

\$5.16 million for the Water Department and \$4.6 million for the Wastewater Department. Much of the staffing and operating resources perform water and sewer operations mandated by law, regulation and the states administrative consent order placed on the City in 2006. This amended budget further reduces the departmental



budgets, by more than 4%, including laying off three employees. The Water Department operations are funded at \$5,165,245 or \$248,502 less than FY20. The Wastewater Department is funded at \$4,604,923 or \$301,646 less than FY20.

This situation is NOT unique to Framingham. Other Cities and Towns, both members of the MWRA system and independent systems with any kind of

commercial customer base are experiencing facing the same revenue losses. Unlike the General Fund, the City has managed the Enterprise Fund more tightly, using modest year end balances to keep rate increases more reasonable. There is no substantial free cash balance to help this revenue situation. It is safe to assume there will be some type of financial relief at the state level. For FY20, the MWRA has already used the debt service relief funds to reduce the final FY20 payment of the MWRA assessment – a \$24,000 benefit to Framingham. In FY2010, federal ARRA funds were used for principle debt forgiveness and Framingham received more than \$12 million over the course of three years.

## Outlook for FY22 and FY23

The budget cuts made in this amended budget submission were made based on a two year view of the budget period. That was one reason why layoffs were required versus furloughs of employees. A furlough is a short term temporary fix. Most expect a furlough of a couple of weeks to a couple of months with an expectation of a

return to work. Looking forward to FY22 we could not make that assurance for employees; therefore the decision to lay off employees was made.

Forecasting from the lower revenue and expenditure levels proposed in this amended FY21 recommendation, allowing for modest growth in expenses (1.9% in municipal budgets and 3% in the School Department); the FY22 budget would require a 1.6% base levy increase using \$3.1 million in free cash. The Stabilization Funds would stay intact.