



## Memorandum

To: Select Board  
From: M.Malone, Town Administrator  
CC: J.Townsend, S.O'Brien, B.Chenard, D.Blondiet  
Date: May 2, 2020  
Re: Financial Modeling Recommendations

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Over the past few months the COVID-19 pandemic has touched all of our lives in numerous and profound ways. What was once considered normal – shaking someone’s hand, eating at a restaurant etc. – is no longer possible and it is unclear when, and if we will return to “normal,” or what the “new normal” will look like. Within this unprecedented situation, we must still chart the course for Natick’s future, and unfortunately the health and economic impacts of COVID-19 make this particularly challenging.

The global death toll of COVID-19 is approaching 240,000, with the Commonwealth’s fatalities total at 3,716 as of May 1, 2020. This is tragic in so many ways. While many around the world are working toward finding a vaccination or antibody solution, much about this virus remains unknown. Estimates of when a vaccination may be available are fluid and appear 9 -18 months away. Other countries have seen resurgence even after they thought that they had contained COVID-19. Numerous epidemiologists anticipate a second “wave” of COVID-19 to occur later this year in the United States and elsewhere.

Along with the scientific facts mentioned during our discussions, below are some updated macro-level data points related to the COVID-19 crisis, historical comparisons, and financial quantification:

- Models should guide - to help inform general direction based upon facts and data points known at one particular time. Models are not budgets but instead contours that provide boundaries.
- At this time, the Commonwealth’s unemployment rate stands at 24% and is climbing. It is anticipated that additional contraction of the labor market will occur in the months ahead. At this time, the Commonwealth’s unemployment rate is 2x the 2009 levels.
- Yesterday, a Commonwealth Business Group, Massachusetts High Technology Council, suggested that it is going to take considerable time to get back to normal. They estimate that masks, social distancing, and expansion of testing alone could cost 720 million a year.
- The American Enterprise Institute report of March 28, 2020 similarly noted that re-opening will take considerable time, that a phased approach was needed, and underscored the import of additional testing.
- US Gross GDP (goods and services output) fell 4.8% the first quarter of this calendar year, and the second quarter of this calendar year (4<sup>th</sup> Quarter of FY 20) GDP is estimated to decrease 30% or more.
- To place some of the financial impacts of COVID-19 into perspective, it is important to note that the first tranche of relief passed by Congress (2.2 trillion) is more than what the US spent in its 50 years of conflict in Iraq, Afghanistan, Vietnam, Korea, and World War II (corrected for inflation) according to the Congressional Research Service estimates.
- There is no guarantee that additional federal relief will be forthcoming, must less any significant allocation distributed to the Commonwealth.

## Recommendations

While there is not one consensus statement amongst all public health and reputable fiscal institutions or experts, there is a shared belief that the magnitude of the public health and fiscal crisis will be far reaching and of a significant duration. Based upon that belief, the unknowns of state aid, local receipts dependent upon consumer spend, habits, and the likely inability to have conventional gatherings the following are recommendations from Town Administration. The policy decisions before you are difficult and caused by a global pandemic that is still unfolding. None of the options makes anyone feel “good.” There will inevitably be impacts on our incredibly dedicated Town employees and the services that we can provide for our community. We will work tirelessly and creatively to minimize those impacts. We created the scenarios because of our responsibility to plan and to lead for our community.

### 1. Stabilization Funds

**Town Administration recommends adopting a policy utilizing approximately 25% (2.3 million) of general and/or operational stabilization for fiscal year 21.** This percentage aligns with the potential duration of the crisis, and provides us with us with options for adjustment if needed in the fall.

### 2. Revenue model

The Town of Natick is dependent on state aid, local receipts, and tax levy to ensure services and programming for its residents and businesses. **Town Administration recommends adopting a policy revenue model of approximately 158,415,213 million (17% reduction in state aid & 30% reduction in local receipts) as we plan the FY 2021 budget.** This would be a reduction in revenue of approximately 8.2 million as compared to our current year, fiscal 2020 budget.

### 3. Capital projects

In light of the severity of the fiscal crisis and many of the unknowns that exist at this time, **Town Administration recommends a temporary deferral on capital projects that have not been borrowed for already, and are not immediately needed for life, health, and safety of our employees or the community.** This pause will preserve liquidity and allow the Town greater flexibility for planning, and will be brought back in the fall when we should have further information on the depth of this financial crisis.