



April 29, 2020

Select Board  
Finance Committee  
Capital Planning Committee  
Town of Hadley  
100 Middle Street  
Hadley, MA 01035

**Re: Letter of Transmittal of Proposed Budget Fiscal Year 2021: Amended for COVID-19.**

To the Members of the Select Board, Finance Committee, and Capital Planning Committee:

Please accept this document as a Letter of Transmittal of the Fiscal Year 2021 Budget as amended to account for the novel coronavirus.

#### Fiscal Balance

The Fiscal Year 2021 budget represents a balanced budget. The budget is balanced based on the amended projected revenues, transfers, and recommended expenditures.

#### Introduction

On February 1, 2020, the departments submitted their budgets for FY 2021 based on goals and guidance provided by the Select Board. The initial budget showed a shortfall of \$450,000, which the Town Administrator addressed in a balanced budget submitted on February 19, 2020.

On March 4, 2020, it became increasingly clear that the novel coronavirus posed a significant threat to the people of the Commonwealth. In response Governor Baker issued a number of orders to control the spread of the virus, which included shutting down large sectors of the Massachusetts economy. On April 13, 2020, the Town Administrator, in consultation with the Financial Management Team, the Finance Committee, and the Select Board revised projected revenues downward by \$828,000. The combined shortfall between the expenses submitted on February 1 and the revised revenues on April 13 is \$1,278,000.

The Town Administrator revised the budget and achieved a balanced budget on April 27, 2020. The contours of the new budget are presented below:

Assumptions

The following assumptions guide the new budget:

1. The local economy will continue to be very weak in the 1<sup>st</sup> and 2<sup>nd</sup> quarters of FY 2021.
2. There will be two surges in COVID-19 cases (July/August and November/December), each lasting 60 days. The surges are likely because of the patchwork approach to re-opening the economy nationally, regionally, and within the Commonwealth.
3. Recovery will be gradual, extending into FY 2022.

Goals

Original Goals: The Select Board established principles by which to develop the FY 2021 budget. These goals are based on the need to grow the Town’s ability to provide services to residents, businesses, and visitor.

The effect of the coronavirus requires that the Town change those goals from enhancing services to protecting those services we currently provide.

Here are the original goals, and how they are amended:

<b>General Goals</b>	<b>Disposition</b>
There shall be no Proposition 2½ Override.	On target for FY 2021
The budget shall provide for level services wherever possible.	On target for FY 2021
There shall be a planner or planning function for economic development.	Provided after January 1, 2021.
The Select Board shall follow a rotating schedule for funding priorities by function:  FY 2020 = General Government FY 2021 = Public Works FY 2022 = Education FY 2023 = Public Safety FY 2024 = Human Services and Culture and Recreation	FY 2021 priority placed on hold one year. All subsequent functions deferred one year. The new schedule is:  FY 2020 = General Government FY 2021 = Hold FY2022 = Public Works FY 2023 = Education FY 2024 = Public Safety FY 2025 = Human Services and Culture and Recreation
In all areas of our control, government shall be set on a sustainable course.	Adjusted to meet changing circumstances in FY 2021. Sustainability is important in guiding all future decisions.
Non-union employees receive a 2% COLA	On target for FY 2021.
<b>Specific Goals</b>	<b>Disposition</b>

1.1 Human Resources.	Maintain function in FY 2021 using temporary assistance during Mr. O'Connor's deployment.
2.1 Economic Development Planner.	Modified to provide funding starting 1/1/21.
3.1 Supporting services for departments.	Modification to support public safety.
3.2 Increase Treasurer's hours.	Defer until another year.
3.3 Senior Tax Work Off Program and Internship Program.	On target for FY 2021.
4.1 Sustain current services in Public Safety.	On target for FY 2021.
5.1 Conduct hearings to address rate issues.	On target for FY 2021. Hearing in June would affect rates November 1.
5.2 Laborer support for cemeteries, building maintenance, custodial, and water.	Defer until another year.
5.3 Plan to add an employee to the Water Division.	On target for FY 2021.
6.1 Consolidate building operational expenses into one account (190).	On target for FY 2021.
6.2 Increase building maintenance account (490) to support a net increase of 2 new buildings.	On target for FY 2021.
7.1 Increase annual OPEB contribution by 5%.	Do not fund OPEB for one year. Restart OPEB funding schedule with 5% annual increases in FY 2022.
7.2 Restart the Free Cash spending policy.	Defer for one year. Free Cash will be an important resource to fund future budgets. See 7.3 below.
7.3 Transfer excess Free Cash into the Stabilization Fund to replenish prior years' drawdowns.	Modify to place approximately \$183,000 of Free Cash in Stabilization as a reserve for FY 2022. Defer replenishment of prior years' drawdown to another year.
7.4 Start funding the unfunded liability in the pension system.	Defer to another year.
7.5 Amend the administrative charges to the enterprise fund.	On target for FY 2021.
7.6 Use \$100,000 of Free Cash to pay down principal for debt borrowed within the levy in order to provide capacity to fund partially the capital plan.	On target for FY 2021.
7.7 Realign the sequence of town meetings to appropriate operating budgets in the Annual Town Meeting and capital budgets in the fall Special Town Meeting.	Defer to another year. Uncertain and ever-changing economic and financial times require that the Town use town meetings to place the Town of Hadley in the most advantageous position possible.
<b>NEW:</b> Maintain FY 2021 tax rate at FY 2020 level.	The FY 2020 tax rate is \$12.78. Keeping the same or lower rate will require a town meeting after the Assessors set the valuations in the Fall.

## Defense in Depth

(Def.) Defense in depth is an approach to cybersecurity in which a series of defensive mechanisms are layered in order to protect valuable data and information. If one mechanism fails, another mechanism steps up immediately to thwart an attack.

The revised budget contemplates a larger strategy to protect the Town of Hadley for an extended and difficult economic time. In the same way as defense in depth is used in cybersecurity, the budget contains many layers of protection to address shifting and progressively more difficult economic circumstances. The funding plan anticipates that, while the Town can expect a certain amount of recovery with the next 9 to 18 months, that picture can change quickly. The budget strategy can be easily adapted to accommodate various downturns.

Here is a sequence of town meetings that illustrate how the Town of Hadley may engage a progressively worsening situation.

### FY 2021 Annual Town Meeting:

1. Use Free Cash to balance the budget leaving at least \$180,000 of Free Cash to be placed in Stabilization for future use.
2. Do not use Stabilization to balance the budget.
3. Paydown \$100,000 of principal debt service to add future capacity to fund the capital plan without impacting taxes.
4. Utilize Community Preservation Funds to support the capital plan consistent with the CPA enabling act (MGL Chapter 44B).
5. Preserve enterprise fund reserves as much as possible. Visit rates annually.

### FY 2021 Fall Special Town Meeting:

1. Certify Free Cash early – September 15 at the latest.
2. Use Free Cash only if necessary (say, if the Commonwealth cuts state aid).
3. Transfer any excess Free Cash into Stabilization. Estimated amount = \$300,000.
4. Transfer proceeds of foreclosed property sales into the Stabilization Fund. Estimated amount = \$100,000.
5. Transfer proceeds from the sale of North Hadley Village Hall to the Stabilization Fund. Estimated amount = \$100,000.
6. Keep New Growth level and transfer any excess to Stabilization. Estimated to be \$20,000.
7. Borrow funds from the Community Preservation Act fund to pay for capital projects without impacting the tax rate. The Town may leverage over \$300,000 for this purpose.
8. Preserve enterprise fund reserves as much as possible. Visit rates annually.

### FY 2022 Annual Town Meeting:

1. Save any new revenue stream (e.g., tax on recreational marijuana). Place in Stabilization.

2. Use ATM and STM deposits in Stabilization amounting to \$700,000 to balance the FY 2022 budget.
3. No use of original amount of Stabilization to balance the budget.
4. Paydown \$100,000 of principal debt service to add future capacity to fund the capital plan without impacting taxes.
5. Utilize Community Preservation Funds to support the capital plan consistent with the CPA enabling act (MGL Chapter 44B).
6. Preserve enterprise fund reserves as much as possible. Visit rates annually. Diversify revenues for Hadley Media.

FY 2022 Special Town Meeting:

1. Use Stabilization Fund to balance the budget if conditions worsen. Approximately \$1.5 million is available.
2. Borrow funds from the Community Preservation Act fund to pay for capital projects without impacting the tax rate. The Town may leverage over \$300,000 for this purpose.
3. Preserve enterprise fund reserves as much as possible. Visit rates annually.

Budget Summary

Here is a brief summary of the budget. The budget is balanced based on amended revenue projections and recommended expenditures.

<b>TOWN OF HADLEY</b>	
<b>FY 2021 REVENUE AND EXPENDITURE SUMMARY</b>	
4/27/2020	
General Fund	
Revenues	\$ 19,158,761
Expenses	\$ 19,914,142
Revenues - Expenses	\$ (755,381)
Transfers from Other Funds	
Transfer from Stabilization for OPEB	\$ -
Free Cash for One-Time Expenses	\$ 194,001
Free Cash to Balance Omnibus Budget	\$ 558,008
MSBA Debt Fund Reserve	\$ 2,444
November 2014 Premium Balance	\$ 928
<b>BALANCE:</b>	<b>\$ 0</b>
Enterprise Funds	
Revenues	\$ 2,130,194
Expenses	\$ 2,155,019
Revenues - Expenses	\$ (24,825)
Transfers from Other Funds	
Water Reserves	\$ 10,000
Sewer Reserves	\$ 10,000
Cable TV Reserves	\$ 4,825
<b>BALANCE:</b>	<b>\$ -</b>

### OPEB

In FY 2017, the Town amended its strategy for funding its Other Post-Employment Benefits (OPEB). Whereas formerly, the Town pursued an aggressive funding approach, increasing its annual appropriation by \$80,000 each year, a figure arrived at by increasing the town's annual contributions to achieve full funding of the Annual Required Contribution (ARC) of about \$800,000 in 10 years.

As the Town passed the \$240,000 annual contribution mark in FY 2016, an analysis revealed that the community had passed the "stop the bleeding" point of \$213,000 annual contribution and was slowly paying off its unfunded liability. It was time to rethink Hadley's aggressive strategy and develop an approach that was sustainable over the long term.

- The level of annual appropriation at \$240,000 was deemed insufficient to address its OPEB funding within an acceptable timeframe.

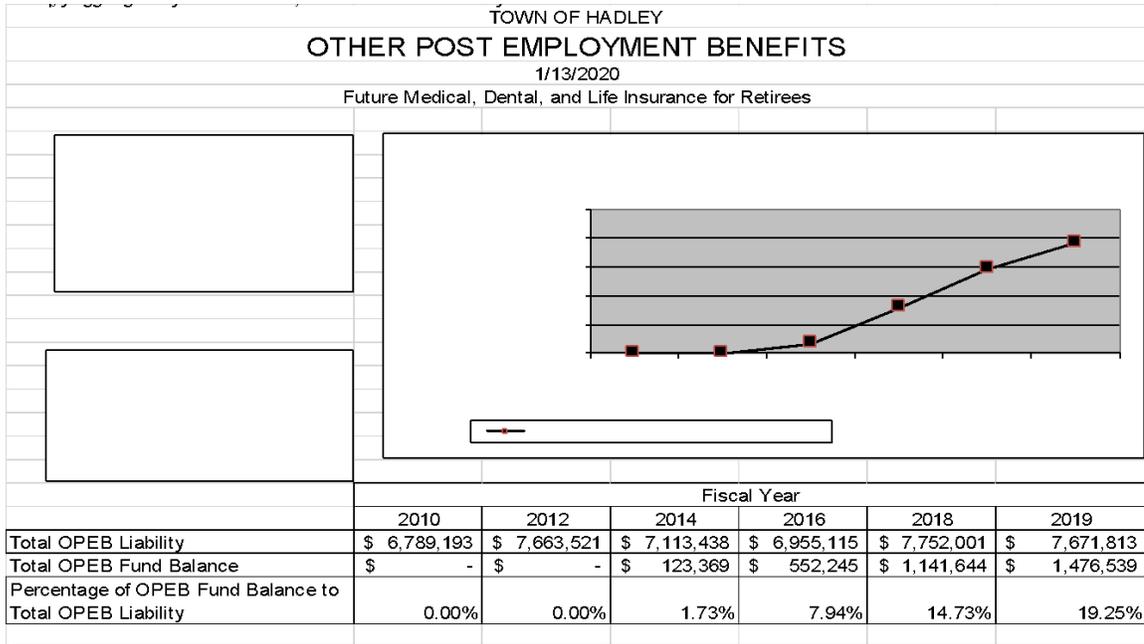
- Annual funding targets could be achieved by increasing the annual contribution by 2.5% -- in line with general revenue growth. The table below shows the revised incremental funding plan that is now pursued. FY 2021 shows no contribution. The 5% increases restart in FY 2022.

TOWN OF HADLEY			
REVISED OPEB FUNDING PLAN			
4/29/2020			
Fiscal Year	Annual OPEB Contribution	2.5% Increase	TOTAL
2016	\$ 245,000		
2017	\$ 245,000	\$ 6,125	\$ 251,125
2018	\$ 251,125	\$ 6,278	\$ 257,403
2019	\$ 257,403	\$ 6,435	\$ 263,838
2020	\$ 263,838	\$ 6,596	\$ 270,434
2021	\$ -	\$ -	\$ -
2022	\$ 270,434	\$ 6,761	\$ 277,195
2023	\$ 277,195	\$ 6,930	\$ 284,125
2024	\$ 284,125	\$ 7,103	\$ 291,228
2025	\$ 291,228	\$ 7,281	\$ 298,509
2026	\$ 298,509	\$ 7,463	\$ 305,971
2027	\$ 305,971	\$ 7,649	\$ 313,621
2028	\$ 313,621	\$ 7,841	\$ 321,461
2029	\$ 321,461	\$ 8,037	\$ 329,498
2030	\$ 329,498	\$ 8,237	\$ 337,735
2031	\$ 337,735	\$ 8,443	\$ 346,179

In Hadley, the most recent reported unfunded liability is \$7,671,813, a decrease of \$80,188 over the previous actuarial report.

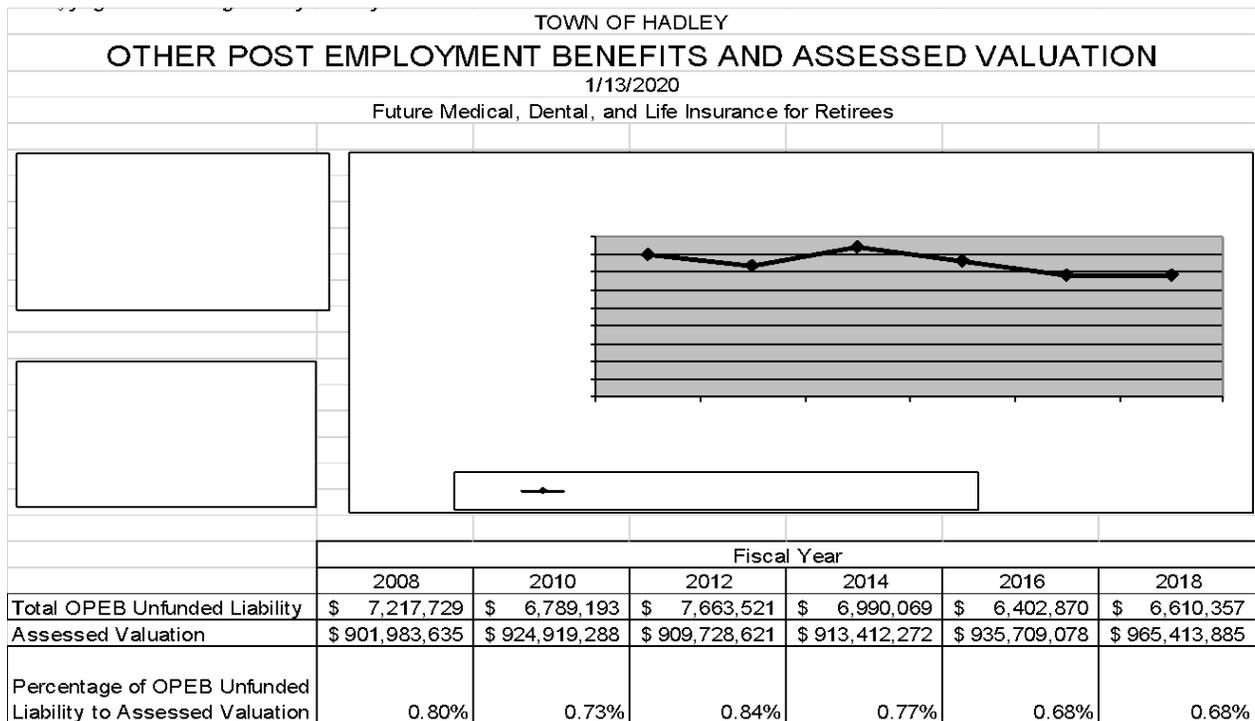
One way to measure the Town's effort to address OPEB obligations is to present the OPEB trust fund balance as a percentage of the total OPEB liability (such a comparison is meaningful under GASB 45, GASB 74, and GASB 75 actuarial rules).

The Town's effort is presented below and shows a positive and healthy trend.



Another way to measure the Town's effort to address OPEB obligations is to present the unfunded OPEB liability as a percentage of the Town's assessed valuation to examine how well can the Town's tax base sustain a long-term commitment toward funding its OPEB obligation.

The Town's performance is presented below and shows a stable and sustainable funding trend.



Free Cash.

Free Cash will be an important part of the Town's long-term strategy to deal with the economic slow-down. The Select Board's policy of reducing reliance on Free Cash to balance the budget is not practical.

For FY 2021 and beyond, the Select Board is advised to place any surplus Free Cash into the Stabilization account for future use.

Here is the revised Free Cash spending plan for FY 2021:

TOWN OF HADLEY			
FREE CASH SPENDING PLAN FY 2021			
4/27/2020			
Description	Description	FY 2021 Estimate	FY 2021 COVID-19 Admin. Rec'd.
<b>A. Free Cash (Estimated Certified 2/14/20)</b>		\$ 975,992	\$ 975,992
<b>B. Free Cash for One-Time Expenses within the Omnibus Budget</b>			
	Transfer to OPEB Trust	\$ 277,195	\$ -
	Reserve Fund (MGL Chapter 40, Section 6)	\$ 50,000	\$ 75,000
	Principal Short-Term Notes (750-5925)	\$ 100,000	\$ 100,000
	ERI Unfunded Liability within Pension Assessment	\$ 19,001	\$ 19,001
	Transfer to Stabilization	\$ -	\$ -
	<b>SUBTOTAL</b>	<b>\$ 446,196</b>	<b>\$ 194,001</b>
<b>C. Free Cash for Recurring Expenses within the Omnibus Budget</b>			
	Recurring Expenses	\$ 140,000	\$ 558,008
	<b>SUBTOTAL</b>	<b>\$ 140,000</b>	<b>\$ 558,008</b>
<b>D. Free Cash Reserved for Future Use</b>		\$ 389,796	\$ 223,983

Stabilization Fund

Any surpluses of Free Cash or other funds should be placed within the Stabilization Fund for future use. Expenditures from Stabilization should be discouraged, except as a last resort.

### Lay Offs

Lay off s are not recommended for the following reasons:

1. The departments have consistently advised the Select Board that they lack bench strength. Laying off workers means that work does not get done.
2. There is little financial advantage to the Town in laying off workers because of the impact on unemployment costs. A laid off worker may collect 39 weeks of wages at a 50% discount. The Federal government has augmented unemployment benefits by adding \$600/week of which the Town of Hadley is responsible for half of the augmented benefit. The Federal program is due to expire on June 30, 2020, but there is a likelihood that the deadline will be extended.

It is possible that a laid off worker can collect more in unemployment than that worker earned in wages.

3. Workers drawing unemployment benefits are less likely to add to the local economy.
4. Adding misery to the community will have a corrosive effect on the general health of the population, making infection more likely.

### Tax Rate

The Select Board has stated that the FY 2021 tax rate should be the same as for FY 2020. The FY 2020 tax rate is \$12.78/\$1,000. Careful planning over the next two town meetings is required to (a) meet that goal and (b) avoid unintended consequences of greatly increasing the tax rate in FY 2022.

The Town of Hadley's tax rate remains among the lowest in the Valley. Similarly, the average family tax bill remains lower than the state average and lower even than that of many of the surrounding communities. In FY 2013, Hadley's average family tax bill was \$3,214, which is 16% lower than the average family tax bill in Hampshire County and 30% lower than the average state-wide<sup>1</sup>. Despite the low taxes, the quality of services remains high and is consistently provided year after year.

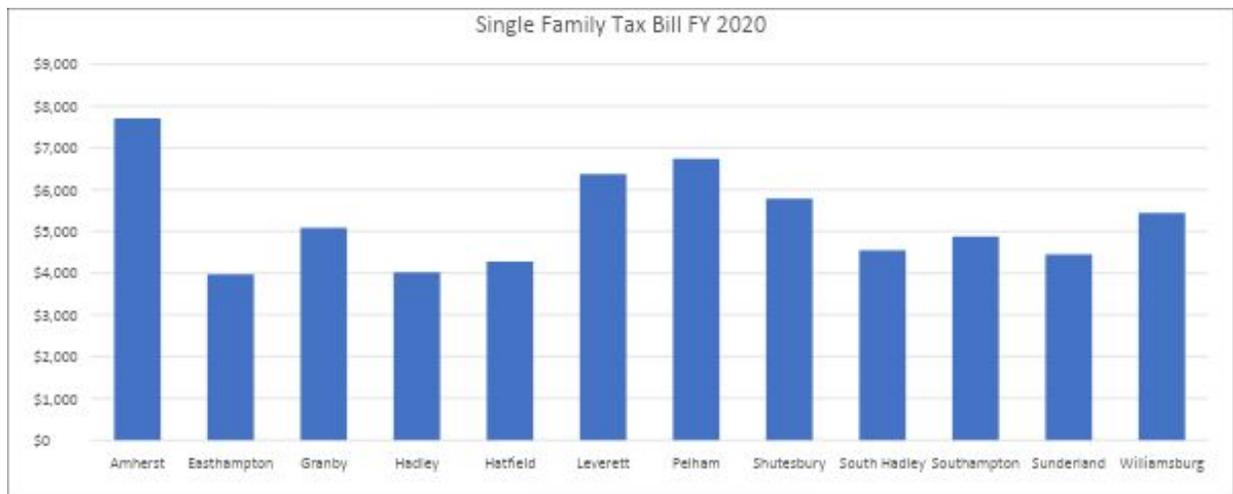
Here is how Hadley's average single-family tax bill compares to neighboring communities:

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<sup>1</sup> Department of Revenue. 2013, Town of Hadley Financial Management Review.

TOWN OF HADLEY					
AVERAGE SINGLE FAMILY TAX BILL COMPARISON					
FY 2020					
Municipality	Year	Total Single Family Values	Single Family Parcels	Average Single Family Value	Average Single Family Tax Bill
Amherst	2020	\$1,540,313,100	4,116	\$374,772	\$7,990
Easthampton	2020	\$1,073,994,100	4,050	\$265,184	\$4,710
Granby	2020	\$540,213,925	2,043	\$264,422	\$5,228
Hadley	2020	\$546,462,000	1,662	\$328,798	\$4,202
Hatfield	2020	\$333,494,500	1,015	\$328,566	\$4,445
Leverett	2020	\$206,619,100	653	\$316,415	\$6,483
Pelham	2020	\$147,521,500	472	\$312,546	\$6,842
Shutesbury	2020	\$185,094,000	745	\$248,448	\$5,973
South Hadley	2020	\$1,156,872,100	4,369	\$264,791	\$4,655
Southampton	2020	\$694,860,055	2,143	\$324,246	\$5,130
Sunderland	2020	\$232,705,200	778	\$299,107	\$4,618
Williamsburg	2020	\$202,102,200	729	\$277,232	\$5,717

Here is the average single-family tax bill comparison in chart form:



Source: Massachusetts Department of Revenue.

Here is how Hadley's tax rate compares with surrounding communities<sup>2</sup>:

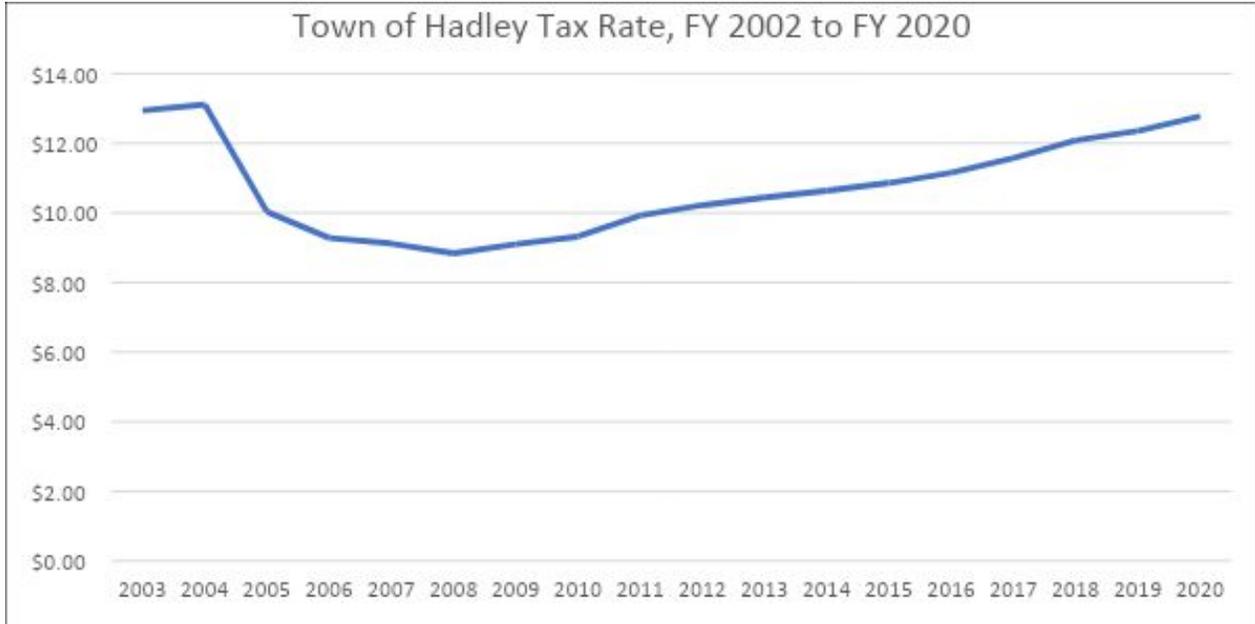
<b>Town or City</b>	<b>FY 2019</b>	<b>FY 2020</b>
Hadley	\$12.36	\$12.78
Amherst	\$21.80	\$21.32
Northampton	\$17.37	\$16.80
Hatfield	\$13.89	\$13.53
Easthampton	\$15.46	\$17.76
Granby	\$19.36	\$19.77
South Hadley	\$17.75	\$17.58
Pelham	\$21.59	\$21.89
Southampton	\$16.31	\$15.82
Sunderland	\$15.33	\$15.44
Williamsburg	\$19.80	\$20.62
Leverett	\$20.89	\$20.49
Shutesbury	\$23.26	\$24.04

Here is Hadley's tax rate history.

<b>Fiscal Year</b>	<b>Hadley's Tax Rate</b>
2020	\$12.78
2019	\$12.36
2018	\$12.09
2017	\$11.57
2016	\$11.15
2015	\$10.86
2014	\$10.64
2013	\$10.44
2012	\$10.22
2011	\$9.92
2010	\$9.32
2009	\$9.10
2008	\$8.84
2007	\$9.12
2006	\$9.28
2005	\$10.03
2004	\$13.11
2003	\$12.94
2002	\$12.35

<sup>2</sup> Department of Revenue, 2020, Tax Rate Approved Report.

Here is the tax rate history in chart form:



Town of Hadley Credit Rating

The Town of Hadley’s credit rating was recently upgraded to AAA, the highest rating possible. From FY 2005 to FY 2009, the Town earned a credit rating of A+ from Standard and Poor’s. In FY 2010, the Town was able to upgrade its credit rating to AA from Standard and Poor’s. In FY 2014, the Town was able to increase its credit rating again to AA+. In late FY 2019, the Town’s rating was upgraded to AAA. A high credit rating allows the Town to borrow at more favorable interest rates.

Fiscal Year	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13
Hadley’s Credit Rating (Standard and Poor’s)	A+	A+	A+	A+	AA	AA	AA	AA

Fiscal Year	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Hadley’s Credit Rating (Standard and Poor’s)	AA+	AA+	AA+	AA+	AA+	AAA	AAA

STANDARD AND POOR'S LONG-TERM CREDIT RATING SCALE		
	AAA	
	AA+	
	AA	
	AA-	
	A+	
	A	
	BBB	
	BB	
	B	
	CCC	
	CC	
	C	
	D	

Financial Policies

Although we live in unprecedented times, the Town should adhere to adopted financial policies wherever possible. A compendium of policies as printed in the Preliminary FY 2021 Budget starting on Page 98. A link to the budget may be found here:

[https://www.hadleyma.org/sites/hadleyma/files/uploads/fy2021\\_preliminary\\_budget\\_proposal\\_.pdf](https://www.hadleyma.org/sites/hadleyma/files/uploads/fy2021_preliminary_budget_proposal_.pdf)

Open Issues

Budgetary issues that still need to be addressed by Town leaders to finish the budget include:

- The Town Administrator has announced his retirement effective December 31, 2020. Funding for a new town administrator will be contingent on contract negotiations with a new person.
- The Economic Development Planner is shown as an employee, but this service might be contracted through the Pioneer Valley Planning Commission. I have proposed that the position start on January 1, 2021 in time for most economic development grant deadlines, which are due in spring.
- Water and Sewer Rates – As projects within the two enterprise funds are executed and debt is added to the rates, the Town will need to understand how well those rates match revenue requirements. Rate adjustments, in light of operating costs, infrastructure improvements and increased OPEB expenditure requirements, are likely.

The Town of Hadley is fortunate to have a strong foundation on which to meet its challenges. Our local economy is resilient, and recovery is assured. Our partnerships with strategic allies in state, regional, and local government, the educational system, and the business community remain strong and will deliver many opportunities in the future.

I sincerely thank department heads, elected officials, agents, committees, and commissions for their extraordinary efforts to maintain quality municipal services at an affordable price in unprecedented times. We are fortunate to have high quality, highly skilled and trained, hardworking government workforce and effective leadership to guide the community.

I look forward to discussing the budget with the town leaders. If you have any questions, please feel free to call me at (413) 586-0221.

Sincerely,

A handwritten signature in black ink that reads "David G. Nixon". The signature is written in a cursive, flowing style.

David G. Nixon  
Town Administrator

