

# TOWN OF SHREWSBURY

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## FINANCIAL OBJECTIVES 2022

December 8, 2020

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## INTRODUCTION

Annually at the outset of the budget planning process, the Board of Selectmen provides specific direction to the Town Manager by setting Financial Objectives for the upcoming budget year. These objectives clarify and enhance other policies of the Board providing the Town Manager with timely guidance on high priority matters that are to be incorporated into the development of the budget. These objectives are set in concert with the Financial Policies of the Town, and often are much more narrowly focused and provide a greater level of detail on the interests of the Board of Selectmen.

## GENERAL STATEMENT ON THE IMPACT OF COVID-19 ON TOWN FINANCES

The global coronavirus pandemic has brought many challenges to the Town of Shrewsbury, and it is important to note the impact of this pandemic on the Town's finances. Like many other challenges related to the virus, its long-term impact on the finances is uncertain. Through the fourth quarter of FY20 and first quarter of FY21 there is a notable reduction in general revenue and a significant increase in expenses. To date most of the increase in expenses have been covered through Federal Emergency Management and Coronavirus Relief funding. The Coronavirus Relief Funding will end on December 30, 2020 and the applicability of Emergency Management funds is significantly diminishing. This comes at a time when we are experiencing the so-called second wave of the virus which appears have a greater infection rate than the first wave.

This challenges our ability to plan for both FY22 and the years that follow. Without additional Federal support, the impact on Town operations and potentially the financial position of the Town will be catastrophic. Every effort must be made to separate COVID-19 response and relief efforts and on-going operations in order to make solid decisions for FY22 and in order to limit challenges in future years. This guidance must overarch every objective set in this document.

If you have any questions, please contact Town Manager Kevin J. Mizikar at 508-841-8508 or [kmizikar@shrewsburyma.gov](mailto:kmizikar@shrewsburyma.gov).

## A – RETIREMENT & OTHER POST EMPLOYMENT BENEFITS FUNDING

### **Background:**

The Town of Shrewsbury has prudently enacted a multi-year plan to fund its retiree pension obligations. The dedication to this plan, coupled with recent gains on investments, has placed the Town in a position to fully fund its obligation within the next three to five years. An actuarial analysis of the Shrewsbury Retirement System as of January 1, 2020 shows the system is 93.4% funded with a remaining obligation of \$9,654,852.

Based upon a recommendation by the Retirement System's actuary, which was supported by the Retirement System Board, the mortality tables used by the Town to calculate future costs have been updated. This table was used in generating the January 1, 2020 report summarized above. Despite the extended timeline to achieve full funding, the Town remains in a much more advantageous position in comparison to most other public sector entities.

The Town has made \$4,244,916 in contributions to Other Post Employment Benefit (OPEB) liabilities. The most recent actuarial analysis as of June 30, 2018 calculates the Town's unfunded liability at \$52,650,000. We are undertaking a new analysis as of June 30, 2020. The Board of Selectmen committed to enhancing funding for OPEB liabilities once its pension obligations are fulfilled.

### A.1 – Objective: Retirement System Funding: FY22 Budget

The Town is currently facing unprecedented financial challenges related to the coronavirus pandemic. In order to preserve core operations of the municipality the funding model for the retirement system has been revised to spread the remaining unfunded liability over the next three fiscal years. This approach satisfies the Board of Selectmen's FY20 Objective A.2, which required the system to be fully funded by FY24 should the revised mortality tables be adopted.

Therefore, fund the pension system at a \$3,300,000 and fund Other Post Employment Benefit trust at \$452,000.

### A.2 – Objective: Retirement System & OPEB Funds Planning

Plan for the redistribution of funds currently dedicated to funding the retirement system anticipated for FY25. The vast majority of these funds should be dedicated to strategically funding the Town's OPEB obligations.

### A.3 – Objective: OPEB Funding through Landfill Ash Revenue

#### **Background:**

The Town receives revenue annually through a contract with Wheelabrator for the operation of the Shrewsbury Landfill. This revenue is derived from Wheelabrator depositing ash from its

waste-energy incinerators into the Shrewsbury Landfill. Payments are made based upon an agreed to amount per cubic yard of deposited material. In FY20 the total revenue from this contract was \$1,148,658.

The Town is free to use these revenues for any lawful municipal purpose. Currently these revenues are used to fund various aspects of the operating budget. The operations that this revenue source funds are anticipated to continue in perpetuity.

Unfortunately, there is a limited amount of space remaining at the Shrewsbury Landfill. Based upon a detailed review of the current agreement and meetings with Wheelabrator's operations manager, the Town can expect to receive approximately \$1,500,000 per year through FY28, which is a reduction of \$300,000 per year from previous estimates when the landfill will reach its current permitted capacity. Therefore, the Town must find a way to offset its reliance on this revenue source to prevent a structural budget deficit.

**Objective:**

Once a long-term reallocation plan for the pension funding is adopted, dedicate all forecasted revenues from the agreement with Wheelabrator to funding OPEB liabilities. The Wheelabrator revenue used to fund the operating budget will be replaced with revenues currently funding the Retirement System.

**A.4 – Objective: OPEB Funding through Marijuana Excise Tax**

**Background:**

The Town is in a relatively unique situation where it will benefit from the new revenue source of marijuana excise tax. As of November 10, 2020 two adult use retailers are operating in the Town of Shrewsbury. The Town will be in a better position to project revenue from this new source near the end of FY21.

**Objective:**

Consider the use of marijuana revenues for OPEB purposes once a funding philosophy is established.

**B – FUNDING REQUIREMENTS FOR THE NEW BEAL ELEMENTARY SCHOOL**

**Background:**

Construction has begun on the new Beal Elementary School at 214 Lake Street. The building is scheduled to open in the fall of 2021, in FY22. This school is being constructed in part to provide additional educational space to meet the growing school student population, reduce overcrowding in other school facilities and provide full day educational programs for Kindergarten through Grade 12. This will require additional educational professionals, educational support professionals and there will be an increase in related expenses.

**Objective:**

Working closely with the School Department, develop a comprehensive expense plan for the operation of this new facility and related changes across the Shrewsbury Public Schools.

## C – EXTRAORDINARY EXPENSES RELATED TO COVID-19

### **Background:**

As noted in the introduction section of this document the global coronavirus pandemic is a one-two punch on Town finances in that it reduces revenue and increases expenses. Federal funding programs, which have funded over 99% of the Town's increase in related expenses, are set to expire on December 30, 2020. By that date the Town will have used over \$2.6M from these programs to cover those extraordinary costs.

Further, the Town is current experiencing a second wave of cases among its residents and therefore the costs of conducting Town and School operations safely will continue to be much greater than under "normal" conditions. The Town's financial reserves are adequate from a financial planning perspective but prolonged extraordinary cost in FY21 and FY22, without additional Federal support, will deplete the reserves and require a significant reduction in services to residents.

### **Objective:**

Advocate for and utilize State and Federal Assistance programs to cover the extraordinary costs in responding to and operating during the pandemic.

### **Objective:**

Using data gathered from the outset of the pandemic provide a separate COVID-19 expense estimate for FY22 alongside the FY22 operating budget. Further, should no outside sources be available, identify sources of funding that may be utilized to cover these expenses and any impact that would have on the FY22 operating and capital budgets.

## D – Alignment of Budget and Goals

### **Background:**

The Board of Selectmen is focused on providing services and producing results that benefit the residents and business of the Town of Shrewsbury. Therefore, the Board adopted goals on August 11, 2020, which sets strategic organizational priorities.

### **Objective:**

The Town Manager shall recommend allocating funding to activities, services and programs in alignment with the Board of Selectmen's August 11, 2020 goals.



Adopted this 8th day of December 2020.

Board of Selectmen:

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