

TO: Chester Board of Finance and BOS
FROM: Jon Joslow
SUBJECT: Managing the Covid-19 Financial Risks within the 2020/21
DATE: 5/27/20

At the last Finance Committee, I offered to think through a way to assess and manage the financial risks associated with the Covid-19 virus. As Lauren remarked at the hearing, the budget does not address the financial implications of the pandemic but was created as "bare bones" as possible given the uncertainties.

The decision was made to address the risks during the budget year and in response to personal and business hardships causing a delay or inability to remit property tax payments this coming fiscal year.

The alternative is to operate as planned for the year, business as usual, create a deficit and address it by either increasing taxes next year or pulling money out of our surplus or General Fund Balance after the year is over. This does not address any incremental expenses associated with the pandemic that remains to be forecasted.

A suggested way to manage this risk proactively is to estimate the planned budgeted revenues and expenditures in the month they are anticipated to occur. That way, if collections fall off, we will know it during the year and in time to address it. Our monthly collection rates over the past two years forms the basis from which to forecast expected tax collections sans C-19. For example, if we find in September 2020 that we typically collected 50% and only 42% is received, we will analyze the shortfall, determine if we have a problem, and can address it.

To that end, there are two ways that come to mind relating to addressing this if it comes to pass that taxpayers are delinquent, for example, by 6%.

OPTIONS:

Since 86% of our budgeted revenue comes from the current year property taxes, a delinquency rate of 6% would create a current year deficit of (\$747,000), necessitating a corresponding 6% increase in taxes to cover it either as a supplemental tax or rolled into the following year (2021/22). Here are some other options to consider:

1. Decrease expenditures

In this example, decreasing expenditures by 6% or \$ 747,000, will make up for the difference and balance the budget. The challenge is that Education (Region 4 and Chester Elementary School) comprises 69% of our budget, which is a fixed expense. Therefore, a 6% reduction in collections would need to come from Town Operations and other expenditures where it would necessitate a 17% reduction of those expenditures.

2. Increase revenues

Take from the General Fund (town financial reserves)

The way to increase cash is to take it from the General Fund's Unassigned Fund balance, which is the net accumulated annual surplus of Revenues over Expenses. Transferring \$747,000 from our anticipated Unassigned Fund balance of \$2,973,629 would cause the reserve to drop from 20% to 15% of our annual budget. The auditors over the years have expressed different views as to the number of month's cash we should have in reserve. Based upon the budget and anticipated Unassigned Fund Balance at the beginning of the next fiscal year (7/1/20), the 20% equates to 2.5 months of reserve. Dropping the Unassigned Fund Balance to 15% to address a 6% deficit in this example, would lower the reserve to 1.8 months, possibly

within the lower acceptable limits. We would need to check with the auditors to ensure that this is an acceptable level.

Of course, the Town would not be able to afford back to back years of taxpayer delinquencies used in this example, but it indicates a way of looking and addressing the situation.

If the potential decline in tax revenue continues into Year 2, that would put additional pressure on the Town to figure out which costs are truly fixed versus those that are variable.

No matter what decisions we make in response to C-19, it is this writer's view that the interests of the Town would be best served by having a monthly budget that details the expenses and revenues by account so we can manage and spot trends in time to take appropriate action.

The attached analysis contains the basis for the above view. I hope this perspective is helpful to those charged with keeping us on an even keel.

Potential Impact of Reduction in Property Tax Collection 2020/21

Cash Shortfall/Impact at various levels of delinquencies	Financial Shortfall Scenarios			
	-2%	-4%	-6%	-10%
% Delinquent				
Financial Impact in 2020/2021	\$ (249,150)	\$ (498,300)	\$ (747,450)	\$ (1,245,750)
All non-education expenditures	\$ 4,479,482	\$ 4,479,482	\$ 4,479,482	\$ 4,479,482
% Reduction required	-6%	-11%	-17%	-28%

Implications to Cash Reserves

General Fund Balance (Est.6/30/20)	\$ 2,973,629	\$ 2,973,629	\$ 2,973,629	\$ 2,973,629	\$ 2,973,629
Potential Property Tax Shortfall	\$ (249,150)	\$ (498,300)	\$ (747,450)	\$ (1,245,750)	
General Fund Balance Potential Bal	\$ 2,973,629	\$ 2,724,479	\$ 2,475,329	\$ 2,226,179	\$ 1,727,879
Annual Budgetted Expenditures	\$ 14,552,018	\$ 14,552,018	\$ 14,552,018	\$ 14,552,018	\$ 14,552,018
% General Fund Balance (projected 6/30/20)	20%	19%	17%	15%	12%
# Months of Cash Reserves	2.5	2.2	2.0	1.8	1.4

Supporting Data:

	BUDGET					
	This Year		Proposed Next Year		Proposed Increase / (Decrease)	
	2019/20	2020/21	\$	%	\$	%
REVENUE						
Property Taxes: Current Year	\$ 12,365,602	\$ 12,457,503	\$ 91,901	0.7%		
All other revenue	\$ 2,014,118	\$ 2,094,515	\$ 80,397	4.0%		
Total Revenue	\$ 14,379,720	\$ 14,552,018	\$ 172,298	1.2%		
% Property Taxes: Current Year	86%	86%				
EXPENDITURES						
Education:						
R4	\$ 4,857,584	\$ 5,108,090	\$ 250,506	5.2%		
CES	\$ 4,868,977	\$ 4,964,446	\$ 95,469	2.0%		
Total Education	\$ 9,726,561	\$ 10,072,536	\$ 345,975	3.6%		
All non-education expenditures**	\$ 4,653,159	\$ 4,479,482	\$ (173,677)	-3.7%		
Total Expenditures	\$ 14,379,720	\$ 14,552,018	\$ 172,298	1.2%		
% Education	68%	69%				

** All non-education expenditures include material financial obligations

Source: 4/23/20 Budget Worksheet Revenues and Expenditures

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Source: 4/23/20 Budget Worksheet Revenues and Expenditures				

REVENUE ANALYSIS areas with SIGNIFICANT RISK

Line items over \$16,500

Final Budget prepared for May 6, 2020	Potential Reductions			
	2%	4%	7%	10%

Assigned Fund Balance \$ 225,000
(not included in Actuals Grand Total if not used)

Education Cost Sharing	\$ 768,291	\$ 15,366	\$ 30,732	\$ 53,780	\$ 76,829	?
Telecommunications	\$ 9,500	\$ 190	\$ 380	\$ 665	\$ 950	?
Locip	\$ 44,434	Bonding has taken place for this year and next As requested				
Dui grants	\$ 15,000	grants/revenue and expense offset each other and net out				
Grant for Muni Projects	\$ 89,264	\$ 1,785	\$ 3,571	\$ 6,248	\$ 8,926	June
Town Aid Roads	\$ 192,080	\$ 3,842	\$ 7,683	\$ 13,446	\$ 19,208	Split
Other lines combined	\$ 25,546	\$ 511	\$ 1,022	\$ 1,788	\$ 2,555	all yr
Sub-total	\$ 375,824	\$ 6,328	\$ 12,656	\$ 22,147	\$ 31,639	

Grand List Current Yr	\$ 12,457,503	\$ 249,150	\$ 498,300	\$ 872,025	\$ 1,245,750	July/June
RE Property with escrow	\$ 5,492,636					
RE Property without escrow	\$ 5,492,636					
Personal Property	\$ 624,163					
Motor Vehicle Tax	\$ 873,828					

Delayed taxes

Prior Years' Taxes	\$ 100,000	\$ 2,000	\$ 4,000	\$ 7,000	\$ 10,000	all yr
Interest and Fees	\$ 50,000	\$ 1,000	\$ 2,000	\$ 3,500	\$ 5,000	all yr
Sub-total	\$ 12,607,503	\$ 252,150	\$ 504,300	\$ 882,525	\$ 1,260,750	

Aircraft Registration	\$ 12,500	\$ 250	\$ 500	\$ 875	\$ 1,250	
Building Permits	\$ 45,000	\$ 900	\$ 1,800	\$ 3,150	\$ 4,500	all yr
Other lines combined	\$ 8,000	\$ 160	\$ 320	\$ 560	\$ 800	all yr
Sub-total	\$ 65,500	\$ 1,310	\$ 2,620	\$ 4,585	\$ 6,550	

Ambulance	\$ 222,400	\$ 4,448	\$ 8,896	\$ 15,568	\$ 22,240	all yr
Interest	\$ 30,000	\$ 600	\$ 1,200	\$ 2,100	\$ 3,000	all yr
Park & Rec Transfer in	\$ 32,800	grants/revenue and expense offset each other and net out				
Police: Private Duty	\$ 17,000	grants/revenue and expense offset each other and net out				
Conveyance Tax	\$ 55,000	\$ 1,100	\$ 2,200	\$ 3,850	\$ 5,500	all yr
Park Passes	\$ 14,000	grants/revenue and expense offset each other and net out				
Town Clerk Fees	\$ 29,000	\$ 580	\$ 1,160	\$ 2,030	\$ 2,900	all yr
Rental 203 Middlesex Ave	\$ 67,600	Most likely no change				
Rental 20 Water St	\$ 7,500	Most likely no change				
Region 4 Surplus		unknown at this time				
Supervision District Surplus		unknown at this time				
CES Surplus		unknown at this time				
WPCA Assessment	\$ 15,500	\$ 310	\$ 620	\$ 1,085	\$ 1,550	
Other lines combined	\$ 19,100	\$ 382	\$ 764	\$ 1,337	\$ 1,910	all yr
Sub-total	\$ 509,900	\$ 7,420	\$ 14,840	\$ 25,970	\$ 37,100	

GRAND TOTAL	\$ 14,552,018	\$ 282,574	\$ 565,147	\$ 989,008	\$ 1,412,868	
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Check	14552018					2%
Variance	\$ -					4%
						7%

REVENUE ANALYSIS areas wi

Line items over \$16,500

Timing of Receipt of Full Budgeted Dollars

1st Quarter July, Aug, Sept	2nd Quarter Oct,Nov,Dec	3rd Quarter Jan, Feb, Mar	4th Quarter Apr,May,Jun
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Assigned Fund Balance
(not included in Actuals Gran

Education Cost Sharing	\$ 384,146		\$ 384,146	
Telecommunications	\$ 2,375	\$ 2,375	\$ 2,375	\$ 2,375
Locip				
Dui grants				
Grant for Muni Projects				\$89,000
Town Aid Roads	\$95,000			\$95,000
Other lines combined	\$6,387	\$6,387	\$6,387	\$6,387
Sub-total	\$ 103,762	\$ 8,762	\$ 8,762	\$ 192,762

Grand List Current Yr				\$0
RE Property with escrow	\$2,746,318		\$2,746,318	
RE Property without escrow		\$2,746,318	\$2,746,318	
Personal Property	\$ 624,163			
Motor Vehicle Tax	\$ 436,914	\$ 436,914		
<i>Delayed taxes</i>				
Prior Years' Taxes	\$25,000	\$25,000	\$25,000	\$25,000
Interest and Fees	\$12,500	\$12,500	\$12,500	\$12,500
Sub-total	\$ 3,844,896	\$3,220,732	\$ 5,530,136	\$ 37,500

Aircraft Registration		\$12,500		
Building Permits	\$11,250	\$11,250	\$11,250	\$11,250
Other lines combined	\$2,000	\$2,000	\$2,000	\$2,000
Sub-total	\$ 13,250	\$ 25,750	\$ 13,250	\$ 13,250

Ambulance	\$55,600	\$55,600	\$55,600	\$55,600
Interest	\$7,500	\$7,500	\$7,500	\$7,500
Park & Rec Transfer in				
Police: Private Duty				
Conveyance Tax	\$13,750	\$13,750	\$13,750	\$13,750
Park Passes	e			
Town Clerk Fees	\$7,250	\$7,250	\$7,250	\$7,250
Rental 203 Middlesex Ave	\$16,900	\$16,900	\$16,900	\$16,900
Rental 20 Water St				
Region 4 Surplus				
Supervision District Surplus				
CES Surplus				
WPCA Assessment				
Other lines combined	\$4,775	\$4,775	\$4,775	\$4,775
Sub-total	\$ 105,775	\$ 105,775	\$ 105,775	\$ 105,775

GRAND TOTAL	\$ 4,067,682	\$3,745,164	\$ 5,657,923	\$ 733,432	\$ 14,204,201
Check	\$ 81,354	\$ 74,903	\$ 113,158	\$ 14,669	\$ 284,084
Variance	\$ 162,707	\$ 149,807	\$ 226,317	\$ 29,337	\$ 568,168
	\$ 284,738	\$ 262,162	\$ 396,055	\$ 51,340	\$ 994,294

REVENUE ANALYSIS areas with
Line items over \$16,500

Actuals				Variance			
1st Quarter July, Aug, Sept	2nd Quarter Oct,Nov, Dec	3rd Quarter Jan, Feb, Mar	4th Quarter Apr,May, Jun	1st Quarter July, Aug, Sept	2nd Quarter Oct,Nov, Dec	3rd Quarter Jan, Feb, Mar	4th Quarter Apr,May, Jun

Assigned Fund Balance
(not included in Actuals Grant)

Education Cost Sharing

Telecommunications

Locip

Dui grants

Grant for Muni Projects

Town Aid Roads

Other lines combined

Sub-total

Grand List Current Yr

RE Property with escrow

RE Property without escrow

Personal Property

Motor Vehicle Tax

Delayed taxes

Prior Years' Taxes

Interest and Fees

Sub-total

Aircraft Registration

Building Permits

Other lines combined

Sub-total

Ambulance

Interest

Park & Rec Transfer in

Police: Private Duty

Conveyance Tax

Park Passes

Town Clerk Fees

Rental 203 Middlesex Ave

Rental 20 Water St

Region 4 Surplus

Supervision District Surplus

CES Surplus

WPCA Assessment

Other lines combined

Sub-total

GRAND TOTAL

Check

Monthly Tax Collection Analysis

2019/2020 History	Full Year Bdgt	July	Aug	Sept	Oct	Nov	Dec
RealEstate Tax	\$11,185,688	\$5,319,228	\$0	\$414,066	\$41,057	\$66,834	\$1,240,705
Personal Property	\$563,514	\$198,020	\$0	\$107,853	\$3,111	\$587	\$73,239
Motor Vehicle	\$883,623	\$697,326	\$0	\$99,805	\$14,529	\$10,678	\$10,677
Motor Vehicle Supplemental							\$49,589
Total	\$12,632,825	\$6,214,574		\$621,724	\$58,697	\$78,099	\$1,374,210

Interest, Refunds and other adjustments are neted in the monthly collections

2020/2021. Actuals as they come in

RealEstate Tax							
Personal Property							
Motor Vehicle							
Motor Vehicle Supplemental							
Total	\$0	\$0		\$0	\$0	\$0	\$0

Variance

RealEstate Tax							
Personal Property							
Motor Vehicle							
Motor Vehicle Supplemental							
Total	\$0	\$0		\$0	\$0	\$0	\$0

Questions:

- a) Is there a relationship between specific types of revenue and capital projects and/or operating expenditures?
e.g. Capital Roads and Town Road Aid State Revenue
- b) At what level of reduced Revenue is there an actionable event?
Total:
Tax Collection:
State Revenue:
Other :
- c) What actions are to be taken?
Reduce/freeze spending - of what items?
Utilize surplus - up to how much?
Borrow - short or long term?
Increase taxation - with a cap?
- d) Other