TOWN OF GRANBY
Granby Finance Committee
Granby, MA 01033
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Overview

Granby has a balanced budget for FY 2021.

But the story is much more complicated than that.

When a person or a Committee is charged with the responsibility of developing a Fiscal Year budget for a Town, perhaps the second worst situation to be in is having no information available. The worst situation? Having contradictory information.

That is where we are, and welcome to the pandemic.

First, the Conclusion

Granby has been told to prepare for a $1.3 million reduction in State Aid compared to the Governor's budget released last January. The budget proposed for Granby in this Town Meeting uses a combination of operational cuts, capital cuts, additional borrowing, and all of Granby's Free Cash to balance the recommended budget.

This has kept the proposed budgets for the Town Government and the Schools pretty close to what was drafted earlier in the year. In essence, this budget buys time for Granby. Not much time: a year. Granby is buying one year to determine if the future financial situation is going to be made clearer by then.

The potential financial consequences of the pandemic are too varied to be able to make any reliable projections. Granby is in an analogous position to a small business: it can make do for a short while but would require significant changes if the outside pressures persist.

The Background

As of the writing of this document, not only is there not a State budget to tell the Town how much State Aid we will receive in Fiscal Year 2021, there is not even a credible draft of a budget. A draft budget from the Governor did exist last January, but that has been disavowed since the declaration of the emergency caused by the coronavirus pandemic.

Here is a sample of items that are a part of the contradictions facing the Town. Granby has been told that the State income shortfall will be in the $3 billion to $6 billion range, and that Cities and Towns should expect at least a 20% reduction in State Aid. On the other hand, the Town has been told that the Legislature would like to protect the Chapter 70 Aid for education and protect the source of the Unrestricted General Government Aid. Additionally, there is a formula specified in State statutes for School Choice Aid, yet no one is talking about changing State statutes.

It is impossible for all of those parameters to hold true and still cut Granby's total expected State Aid by 20%: Granby's expected General Government State Aid is less than the expected $1.3 million cut.

And one other thing to worry about: the State could make Granby's financial situation even worse in Fiscal Year 2021. The State could make so-called "9C" cuts in State Aid later in the fiscal year, well after funds have been allocated and budgets passed. In times of an emergency when it looks like the State Revenue will be less than the revenue anticipated in the State budget, the Governor has emergency powers to cut the State budget in areas controlled by the Governor, and to recommend that the Legislature make cuts to other areas of the budget, including the State Aid to Cities and Towns.

This is real; this has happened in Fiscal Years 2010 and 2017; this can happen next year, the Cities and Towns have been told. If the State says cuts have to be made to the Aid to Cities and Towns, then Granby will probably also have to make budget cuts. When or where the cuts might happen for either the State or Granby? No idea yet.

Granby's Approach to the Situation

In a normal year, Granby would have a Spring Special Town Meeting to allocate some of its Free Cash to projects that were held back from the annual budget pending an analysis of the actual financial position of the Town. Some of the Free Cash might be put into Stabilization Funds for future use. Not this year. This year the recommended budget includes using the entire $1.5 million in Free Cash to fund some projects and small capital items, and to make up for the expected reduction in State Aid.

Working assumptions had to be made to create a budget, and these carry their own risks. Here is an example. Granby's total revenue budget as of this writing assumes a 20% reduction ($1,314,000) across all categories of State Aid itemized in the disavowed Governor's budget. This amount includes a $1,077,000 cut in aid for Schools.

The risks? As it happens, School Choice Aid is outside of the allocations made by the Town. If it is cut, the Schools will have less outside revenue for their budget. If it is not cut, and the State makes additional cuts in the General Government Aid, there will be an even smaller amount in Granby's General Government income to support the budget.

Incidentally: if, as we believe most likely, Chapter 70 aid and net school spending requirements are reduced, any amount appropriated for Granby's budget in excess of any new State

requirements for the Schools should not be construed as establishing a new benchmark for future budgets.

Appropriate Use of Funds

Granby's Stabilization Funds have a purpose. A Stabilization Fund can be used to provide money for unforeseen circumstance, to equalize the effects of Capital Expenditures, and for any lawful municipal purpose consistent with the purpose of the Fund. A good use of a Stabilization Fund is to provide money for a "rainy day" in a Town's budget. Another good use is to provide money to spread the repayment of a loan for a large Capital expenditure over a five-year period.

Of course, there must be actual Funds in a Stabilization Fund to accomplish that. Periodically, the Town votes to add money to a Stabilization Fund, or replenish money previously allocated from a Stabilization Fund. For Fiscal Year 2021, the plan had been to ask the Town to add over $700 K to the Stabilization Funds.

Instead of that plan, the financial environment of the State and the Country has skipped over any "rainy day" scenario and moved straight into hurricane season. Nothing will be added to Stabilization Funds in this budget. Instead, the entire $1.5 million in Free Cash will be used to fund and preserve services for another year, to buy time for one year. This is an extension of the Stabilization Fund "rainy day" principle, and it is warranted in these unusual circumstances.

The Near Future

The cut in Granby's State Aid has been projected to be more than $1.3 million. Described in harsh terms, this money is gone forever. The State will not "make it up" in the future. Our $1.5 million in Free Cash will not be used to shore up our Stabilization Funds. It is gone forever. It is being allocated to make up the projected deficit in State Aid and other income sources.

As of this writing, things are in such a state of flux that Granby's proposed budget can best be described as a "best guess" scenario. One of the more immediate consequences of these assumptions is that there is a probability that Granby will require another Town Meeting to clean up the budget depending on what happens in the State budget. This is the identical situation faced by every Town.

Another consequence that is very important for Granby residents to understand is this budget is by no means a template for future years. We have looked at credible outside sources for financial projections, and the best estimates are that financial anomalies will be with us until at least 2023 or 2024. It is highly unlikely that Granby will have the resources to maintain all its services through any extended period of reduced revenue.

The Schools may not be immune to the consequences. If Chapter 70 Aid is reduced for multiple years and Required Net School Spending is also reduced, there is unlikely to be any reasonable

way to continue supporting the Schools at the current level. Cutting Public Safety resources and raising property taxes seem quite unpalatable options.

Conclusion

Throughout the deliberations of the Finance Committee this Spring and Summer, the question that kept reappearing in our minds has turned out to be the most important question: should Granby heavily subsidize this budget, or should this be the year that budgets get cut and cash preserved?

We have concluded that a subsidy is an appropriate use of the Free Cash and other funds available to the Town. We expect this to give Granby time to prepare for the likelihood of some very difficult budget questions for the following Fiscal Year 2022, and the expectation of smaller revenue streams for a few years.

Respectfully submitted,

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