

SUMMER RESIDENTS ADVISORY COMMITTEE
549 Main Street
Chatham, MA 02633

August 31, 2010

The Honorable Len M. Sussman, Chairman
The Board of Selectmen
549 Main Street
Chatham, MA 02633

Dear Mr. Chairman:

Over the course of the summer, the Summer Residents Advisory Committee (“Committee”) has spent considerable time in researching and discussing the budget challenges which continue to confront the Town of Chatham.

During the last 30 years, Chatham has enjoyed one of, if not the highest growth rates in real estate values of any of Cape Cod’s 15 municipalities. The resulting significant increase in revenues have funded expanded services, an increase in personnel and provided attractive compensation and benefit packages for Chatham’s employees.

While Chatham’s resident population has increased about 10% during that 30 year time period, general fund expense has grown nearly 350%, almost twice the rate of inflation. A rate the Committee believes is unsustainable.

The Town faces three financial challenges starting in FY 12 in addition to the operating budget: first, the five year capital plan needs increased funding; second, the stabilization fund needs to be maintained at \$2 million to maintain the Town’s triple A bond rating; and third, implementation of the Wastewater Plan will increase required debt service above exiting levels.

The 2011 budget was constructed within Proposition 2 ½ limits through attrition in personnel and other cost saving measures, a reduction in the five year capital plan and borrowing from the stabilization fund, but did not significantly challenge or change the way Chatham does business. In the past a number of “zero based budgeting” techniques have been utilized without achieving significant cost reductions. As a result, the Committee suggests a different approach: one based on establishing, as a matter of policy, a ceiling on general fund expenses, obligating the Town Manager, with the support and assistance of the Selectmen, the Finance Committee and the School Committee, to develop an overall budget consistent with the policy maximum. The Committee recommends that policy maximum for the next three fiscal years be equal to the non-debt service portion of the FY 2011 operating budget.

In its attached position paper the Committee outlines the problem in more detail and provides a series of suggestions for the implementation of its recommendation. In keeping with its recommendation, the Committee requests that its own budget allocation be reduced for FY2012 to \$2200 from \$2800.

As always, the Committee is grateful to the Board for the opportunity to share its views with it.

Sincerely,

Jill N. MacDonald, Chairman

cc: Mr. David R. Whitcomb
Mr. Sean Summers
Mrs. Florence Seldin
Mr. Tim Roper
Mr. William Hinchey
Mr. Coleman Yeaw
Mr. Jeffrey S. Dykens

**SUMMER RESIDENTS ADVISORY COMMITTEE
POSITION PAPER- BUDGETARY ISSUES
AUGUST 2010**

The Summer Residents Advisory Committee respectfully submits this Position Paper for consideration by the Board of Selectmen, the Finance Committee, the School Committee, and Town Management in developing the Budget for FY 2012 and planning for the future.

At the 2009 Summer Town meeting, and in its annual report to the Selectmen, the Committee recommended that the Town in developing its FY 2011 budget avoid the need for a 2 1/2 override. The Committee is pleased that the 2011 budget achieved this objective. However, as both the Town Manager's Budget Summary for FY11 and the Finance Committee Report contained in the Warrant for the May 2010 Town Meeting make clear, it is anticipated that "it will be very difficult to build a budget for fiscal year 2012 within the limits of Proposition 2 1/2."

The Committee continues to believe that it is exceedingly important for the Town to manage spending in FY12 and beyond within 2 1/2 limits, while funding the five year capital plan and maintaining the stabilization fund at the stated \$2,000,000 goal. The reasons for this belief and suggestions for how it may be accomplished are set forth below.

BACKGROUND

During the last 30 years, Chatham has enjoyed one of, if not the highest growth rates in real estate values of any of Cape Cod's 15 municipalities. The resulting significant increase in revenues have funded expanded services, an increase in personnel and provided attractive compensation and benefit packages for its employees. A comparison of the thirty year period 1980-2009 is instructive:

	<u>1980</u>	<u>2009</u>	<u>Change</u>
Population	6,071	6,701	10%
Assessed Value Real Estate	\$273,822,000	\$6,364,049,000	2224%
Real Estate Taxes	\$4,045,000	\$24,191,000	498%
Tax Rate	\$15.80	\$3.74	-76%

Average Tax Bill	\$775	\$3,293	325%
General Fund Expenses	\$7,535,000	\$33,428,000	344%
Debt	\$2,815,000	\$47,721,000	1595%
CPI*	78.9	215.7	173%

* 1982-84=100

As noted above, the value of Chatham real estate, including appreciation and new construction, has increased an astounding 22 fold in thirty years. Although the tax rate has been reduced to a quarter of the 1980 level, total real estate tax collections have increased five fold, and the average single family tax bill has grown from about \$775 to nearly \$3300. General Fund expenses are now nearly 350 per cent larger than they were 30 years ago, while total debt is nearly 16 times higher than in 1980. All of this has occurred while the population has been relatively stable, growing only 10% in 30 years, and the cost of living index has grown 173 per cent , substantially less than the growth of expense. These changes, of course, are not unique to Chatham, but Chatham, with per capita annual general fund expenses of \$4,989, has the fourth highest annual per capita expenses of the 15 Cape Cod Towns.

Chatham's growth in expenses during the last thirty years has been roughly double the growth rate in the cost of living. This has caused a significant increase in the costs of occupancy thereby exacerbating the affordable housing issue.

Three unique factors have made a major contribution to Chatham's financial performance over the last 30 years:

- The skyrocketing increase in real estate values. During the last 10 years, the percentage increase in Chatham's assessed values has been the highest of any Cape Town.
- The high percentage of summer residents who consume few services but contribute an estimated 60% of real estate tax revenues.
- The relatively low number of school students. In 2009 Education expenses were about 28% of total General Fund expense, compared with the Cape wide average of 41%.

The Town faces three financial challenges starting in FY 12 in addition and unrelated to the operating budget:

First, the five year capital plan needs increased funding. The practice of funding these capital requirements with non-tax revenues in excess of budget estimates, and budget turnbacks, is not providing adequate resources. Additional sources of funding are needed in order to maintain equipment and facilities, and to avoid unacceptable levels of deferred maintenance .

Second, the stabilization fund, which totaled \$1.7 million at the end of FY09, is short of the \$2 million goal. Increasing this fund to the target level is important in maintaining the AAA bond rating, which in turn is essential for keeping financing costs at low levels.

Third, implementation of the Wastewater Plan will increase required debt service above existing levels.

These circumstances mandate that the Town now take bold steps to aggressively manage and reduce its operating expenses in order to fund the five year capital plan, increase the stabilization fund, and meet increased debt service requirements, all without the need for a 2 1/2 override.

POLICY

The 2011 budget was constructed within 2 1/2 limits through attrition in personnel and other cost saving measures, a \$500,000 reduction in the five year capital plan and borrowing \$135,000 from the stabilization fund, but did not significantly challenge or change the way Chatham does business. In the past a number of "zero based budgeting" techniques have been utilized without achieving significant cost reductions. As a result, the Summer Residents Advisory Committee, suggests a different approach: one based on establishing, as a matter of policy, a ceiling on general fund expenses, obligating the Town Manager, with the support and assistance of the Finance Committee, the School Committee and the Selectmen, to develop an overall budget consistent with the policy maximum.

Using the 2011 \$32,596,421 Operating Budget as a base, it appears that total expenditures, excluding debt service, currently are about \$27,576,000. Since debt service is a contractual obligation of the Town, there are no opportunities to reduce these expenses. Accordingly, the Committee recommends that the non-debt service portion of the annual operating budget be capped at \$27,576,000 for the next three years.

The Town Manager has recently estimated that about \$550,000 of new funding will be available in FY12 within the Proposition 2 1/2 limit. By holding non-debt service expenses at the FY11 level, these additional funds will be available either for the five year capital plan or the stabilization fund or both. And in FY13, at least \$1 million in excess of the \$27.6 million cap should be available for these purposes plus wastewater debt service. More funds will be available in FY14 within the 2 1/2 limit for these purposes, assuming non-debt service operating funding is maintained at FY11 levels.

Compliance with the policy cap will require a comprehensive evaluation of the manner in which the Town provides services to the community, and, in many cases significant changes in the way the Town does its business.

IMPLEMENTATION

The Committee understands that it is the responsibility of the Town Manager and the Board of Selectmen to develop the details of the annual budget. The Committee also acknowledges that it lacks

the experience and expertise necessary to make definitive recommendations concerning budgetary matters as they relate to Chatham. That said, the Committee offers the following suggestions to be considered in developing the FY12 budget within the recommended budget cap. The Committee recognizes the value to Chatham of high quality cost effective municipal services and does not believe it will be necessary to make material reductions in such services. The Committee is, however, of the view that such services can be performed more efficiently and effectively through implementation of productivity improvements, and restructuring the manner in which such services are performed.

Outsourcing. A major problem with government (not unique to Chatham) is that it has no competitors. Competition promotes innovation and productivity improvement, which all too often is absent from government. The Town already has experience with outsourcing, with the contractual arrangements covering the operation of the water and sewer systems as well as the Seaside Links golf course. Outsourcing requires preparation of a detailed description of the required services, identification of potential providers and competitive bidding. Comparison of the bids (plus management and oversight costs) with current direct and indirect costs will help determine whether outsourcing is appropriate. Candidates for outsourcing include the following services:

- Landscaping. This is largely a seasonal activity and there are many landscape service providers in Chatham and nearby communities.
- Trash pick-up from Town waste bins; downtown sidewalk vacuuming
- Street sweeping and snow plowing
- Janitorial services
- Operation of the Transfer Station
- Assessors Office, tax billing and tax collection
- Maintenance of Town vehicles and equipment
- Ambulance Service

Inter-municipal Services. Are there services now performed by the Town which could be more efficiently provided by the County, State or jointly with other municipalities? One possible example is consolidated emergency dispatch in which several other Cape towns now participate.

Department Consolidation. The Town staff currently is organized in about 30 departments. Can efficiencies be achieved by consolidation, or eliminating or reducing management layers? Can job descriptions be broadened to facilitate cross department staffing, so that workers in one department can support other departments in periods of peak demand?

Staffing. A critical look at staffing levels is required. Can peak demand periods be staffed with part time workers?

Overtime. In 2009 the Town paid nearly \$1.2 million in overtime, about 3% of the total expenditures. Several years ago additional positions in the Fire department were authorized in order to eliminate overtime, but in 2009 the Town paid about \$500,000 for Fire Department overtime. The Town should ban any overtime, except in the case of safety and true emergencies.

Productivity. In the private sector, productivity over the long term has risen on average about 3% annually. Without continuing productivity improvement, Americans would not have the high standard of living that most of us enjoy today. What goals have Chatham established for department productivity improvement, and how does Chatham measure productivity? [Are there productivity gains to be made through better use of technology?](#)

Compensation and Benefits. How does Chatham's compensation and benefit programs compare, not with just other public sector jobs, but with those in the Cape Cod private sector as well. A market analysis should be made of all salary and benefits, taking into consideration, not just area municipal employees, but Cape Cod private sector workers as well.

Surplus Property. Does Chatham own properties for which it is providing maintenance and insurance and for which it has no current or foreseeable future use, such as the Water Department property on Old Harbor Road? If so should these properties be sold or otherwise disposed of?

Implementation of cost management alternatives will require time and considerable effort. The Committee recommends that this be undertaken over a three year period, with the cost reductions achieved in the first, second and third years needed to keep within the proposed \$27,576,000 cap (excluding debt service) offsetting any required increases in core services. With an objective, independent approach, and a willingness to consider all alternatives, the Committee believes that meaningful cost reductions can be achieved without significantly affecting service.

The Summer Residents Advisory Committee very much appreciates the opportunity ~~to~~ expressing its views on these subjects and hopes that its suggestions will be useful as the Town considers and develops the 2012 Budget.

Information sources include:

1980 Chatham Annual Report

2009 Chatham Annual Report

Warrant for May 10, 2010 Town Meeting

"At a Glance Reports" for 15 Cape towns published by the Mass Department of Revenue