

## Report of the Finance Committee

### Observations of the Chair

I'd like to again begin our report this year by thanking the members of the Finance Committee for their hard work on behalf of, and dedication to, the citizens and tax-payers of the Town of Chatham. This diverse group of talented and thoughtful women and men continue to work diligently on your behalf, and on behalf of the Town of Chatham. It is an honor for me, as Chair, to serve with the members of this Committee.

As previously noted, the Town Moderator appoints the nine-member Finance Committee for three-year terms. As provided for by the Town Charter and By-Laws, the Finance Committee is to (i) consider the detailed expenditures for each Town Department and agency, (ii) make budget recommendations to the Board of Selectmen and (iii) to report to Town Meeting its recommendations on each article in the Warrant, regardless of whether the article is related to the budget. Under authority granted by Massachusetts General Laws, the Finance Committee also "shall consider any or all municipal questions for the purpose of making reports or recommendations to the town...." The Finance Committee is dedicated to serving in the interest of the Chatham voter and tax-payer.

### Overview of the FY20 Budget Process

As is typically the case, the FY20 budget season officially began in October with the Town Manager's Budget Summit—a joint meeting of the Board of Selectmen, Monomoy Regional School District leadership and the Finance Committee. The Budget Summit is a helpful planning tool, as it allows the participants to express their programmatic and budgetary priorities and/or concerns. Beginning in January the Finance Committee met weekly, and often semi-weekly, with senior town officials and employees to review the proposed FY20 budget.

As is required by the Town's By-Laws the Finance Committee presented in February our initial thoughts on the FY20 Budget to the Board of Selectmen. Generally, the Committee was pleased with the proposed budget, which presents a spending increase of 1.77% over the FY19 spend, not including educational assessments, and which includes no increase in Town staffing levels.

We note with pleasure that the FY20 budget marks the first use of the Town's recently developed Capital Improvement Plan ("CIP"), a blueprint for building and maintaining Chatham's publicly funded infrastructure. The Finance Committee has previously expressed concern over the lack of such a system for objectively assessing and scoring potential capital spending projects, and we applaud the Town Manager and Finance Director for their work with UMass Boston's Collins Center in developing and commencing implementation of the CIP. More to come within this Report on this topic.

As one might expect from a committee dedicated to the engagement and defense of the taxpayer's perspective, we do have some observations regarding elements of the budget that cause us some degree of concern. These matters include (i) ongoing concern about the scope and prospective cost of the proposed Council on Aging building project, (ii) the lack of inclusion

of Warrant-based spending in the Capital Improvement Plan, (iii) a significant change in the Town's capital spending policy that seems to have been adopted without evident engagement by the Board of Selectmen, and (iv) a seemingly recurring and not insignificant challenge to the Town's free cash policy which has the effect of increasing the tax rate on taxpayers.

A copy of our February report to the Board of Selectmen is available on the Finance Committee's webpage at <https://www.chatham-ma.gov/finance-committee>.

### Checking in On Our FY19 Observations to the Town Manager and Board of Selectmen

Before delving into the proposed FY20 budget in detail we'd like to take a moment to look at some outcomes following our observations in last year's Warrant Report. Steps taken by Town Meeting with respect to the funding of Other Post-Employment Benefits ("OPEB") represent a clear success, especially now that the Governor has signed our home-rule petition allowing us to use one-half of the expiring Land Bank assessment to fund our OPEB liability (now \$17.248m). While this action will not, by itself, close the yawning funding gap, it does bring us closer to our goal. We anticipate the action will generate \$5.8mm over ten years once implemented by the Town. In order to finalize this funding action, Town Meeting is being asked to vote to support Article 46 in this year's Warrant. Clearly, more action will be required before the Town can claim victory on the OPEB matter.

The Finance Committee is also cheered by the lack of growth in the Town workforce—a topic that has concerned us for several years. We appreciate the actions of the Town Manager in that respect, noting the zero-workforce growth in this year's proposed budget.

Also, on the positive-side of the ledger, we are encouraged by the adoption, by the Board of Selectmen, of revised financial policies for the Town which now include guidance on what to do with receipt of one-time revenue, such as the payment received from Harwich under the wastewater treatment agreement.

Other issues of concern we highlighted last year continue to be works in progress, as we shall note below.

### Summary of the FY20 Budget

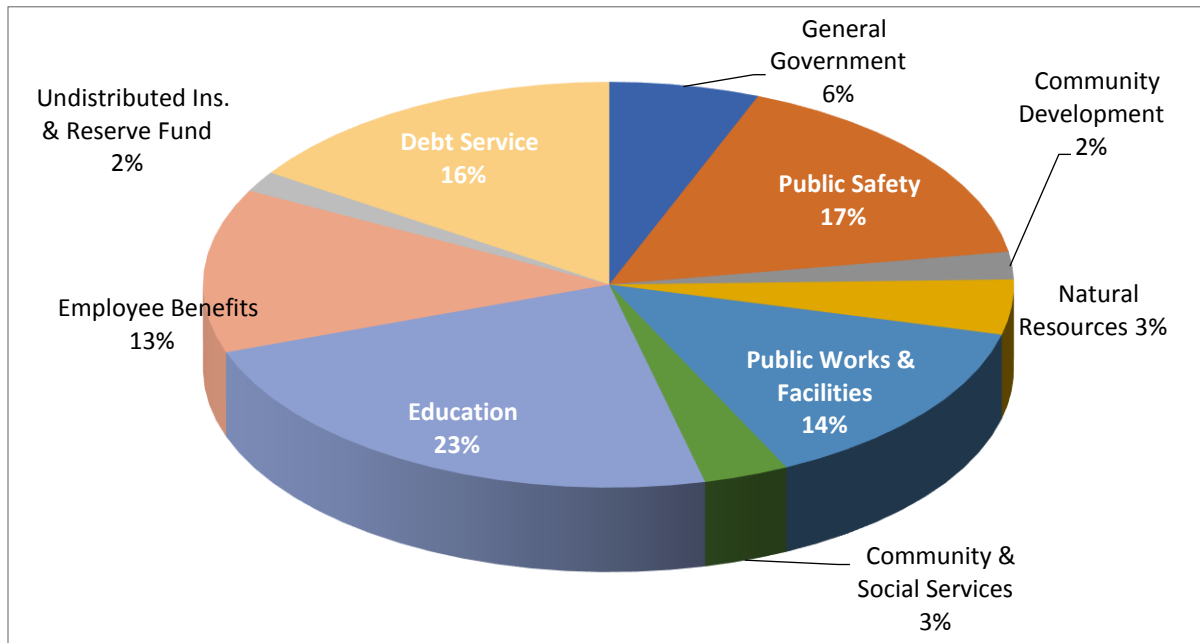
As we emphasized last year, any budget is an expression of priorities. A good budget informs stakeholders of the priorities being pursued, and why. A good budget is transparent in terms of proposed revenues and expenditures; such transparency being the basis, from year-to-year, of accountability. A good budget incorporates a narrative guide to what is being proposed, and why. The proposed FY20 budget does each of these things.

### Operating Budget

The proposed FY20 operating budget (the ongoing cost of running the Town, not including any costs for education or large capital expenditures) is \$30,882,921, an increase of only 1.34% over the Town Meeting-approved FY19 budget. Including the proposed educational assessments, the proposed operating budget is \$40,300,176, an increase of 1.18% over FY19 as voted. We

commend the constraint evident in such a modest increase while noting the overall low rate of price and wage growth nationally. The proposed FY20 budget is a level-service budget, which seeks to maintain the prior year level of service within the limits established by Proposition 2½. The budget is, by design, deliberately conservative, with the prospect of revenue generation understated in certain circumstances.

As is typically the case with municipal budgets in Massachusetts, a handful of departments or line items make up the bulk of proposed operating budget spending. As was the case in FY19, Education (1<sup>st</sup>), Public Safety (2<sup>nd</sup>), Debt Service (3<sup>rd</sup>), Public Works (4<sup>th</sup>) and Employee Benefits (5<sup>th</sup>) are the top five budget categories, making up 82.43% of the proposed FY20 budget (\$33,257,337 of \$40,300,176, as proposed).



*The Finance Committee voted to support the proposed FY20 Operating Budget.*

### Capital Budget

On the capital spending side (funds used to acquire or upgrade physical assets such as property or equipment), the budget presents its proposals in two ways—those embedded in the proposed FY20 Operating Budget, and those proposed as stand-alone Articles in the Warrant. Capital spending proposals of less than \$250,000 are embedded in the budget, while those above \$250,000 are presented as stand-alone Articles.

Historically, the Town’s financial policy allows for in-budget capital spending (as opposed to Warrant-based spending) to fall between 3% and 7% of the total Operating Budget. The proposed FY20 budget, however, proposes \$2,805,745 in capital spending, or 9.09% of the Operating Budget. We understand this increase from a range of 3%-7% to 9% is intentional,

though we question whether this significant policy change has been debated and adopted by the Board of Selectmen—something we believe should be a predicate for any such action. Interestingly, (and as a point of some concern to members of the Committee, given its size), the Town Manager received \$12,760,745 in capital spending requests during the FY20 budget process.

*The Finance Committee voted to support the proposed FY20 Capital Budget.*

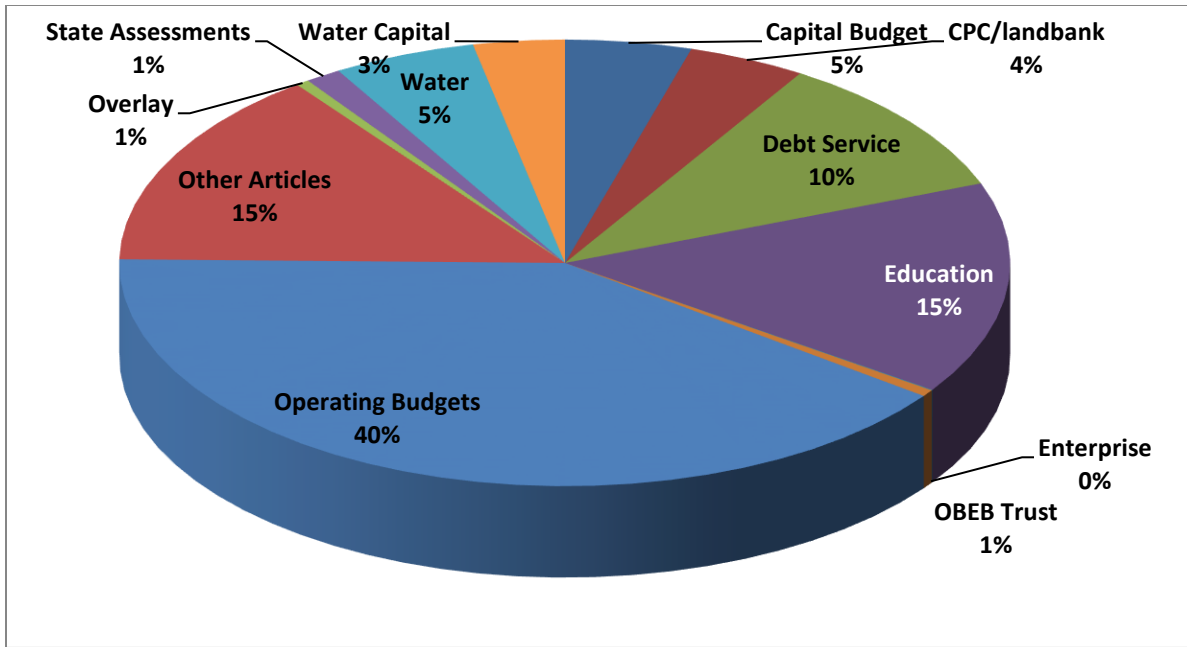
The Warrant includes another \$9,315,887 in proposed capital spending which is embedded in various Articles. This figure does not include Articles related to Community Preservation Act spending (which often can be characterized as capital spending in their own right—spending used to acquire or upgrade physical assets). Included in this \$9.3+m figure is \$7,150,000 for wastewater expansion, \$575,000 for beach nourishment and dredging, \$1,275,000 for a land acquisition funded by the Land Bank fund, and a proposed spend of \$250,000 for the Transfer Station design & engineering.

With respect to Community Preservation Act spending, 18 Articles tallying to \$1.4m are presented in this year's Warrant. The CPA enables Chatham to raise funds from a local surcharge, plus an annual matching component from the State, to create a local dedicated fund for open space preservation, preservation of historic resources, development of [affordable housing](#), and the acquisition and development of outdoor recreational facilities.

*The Finance Committee voted to support the CPA-related spending Articles.*

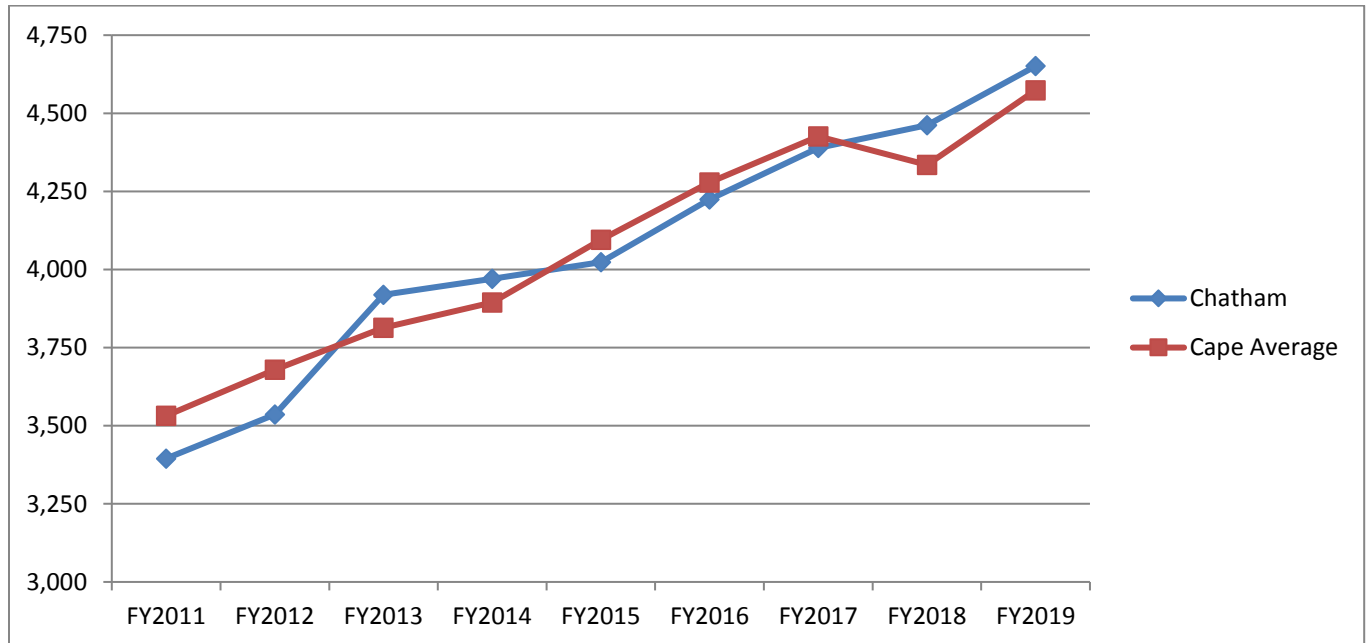
The proposed budget for the Monomoy schools is \$9,138,886, still below the \$10,261,778 Chatham spent on its schools in the final year before regionalization. This figure is something of a good news/bad news story, as one of the drivers of today's lower cost figure is declining enrollment of Chatham students in our regional district as a percentage of total enrollment. As enrollment trends weigh increasingly heavier on Harwich, so too do budget pressures increase on our neighbor to the west. Chatham's allocation of costs associated with Cape Cod Regional Technical High School (the "Tech") budget is \$278,370, including the financial impact of the taxpayer-approved new technical high school building. Enrollment of Chatham students at the Tech is now 8.

*The Finance Committee voted to support the two school-related budgets.*



Based upon the proposed budget, including educational assessments and the passage of all proposed warrant articles, it is estimated that the tax rate for FY20 will be \$4.99 per \$1,000 in valuation, a 3.0 percent increase over the approved FY19 tax rate. Please see the following chart for insight into the growth of the average Chatham tax bill over the last 9 years. Over that time period the average Chatham tax bill increased by 37%.

**Average Tax Bill**



**Overview of the Sources and Uses of the Proposed FY2020 Budget**

<b>TABLE 1 – Spending</b>					
<b>Article #</b>	<b>Description</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2020 vs. 2019</b>
		<b>Actual</b>	<b>Budget</b>	<b>Budget</b>	<b>Higher/(Lower)</b>
Article 8 - Town Operating (ex.debt)		22,417,556	23,436,866	24,555,665	1,118,799
Debt Service		<u>7,264,740</u>	<u>7,038,856</u>	<u>6,327,256</u>	<u>(711,600)</u>
		29,682,296	30,475,722	30,882,921	407,199
Article 9 & 10 - School Operating Budget (incl. Cape Cod Tech)		9,135,207	9,355,019	9,456,395	101,376
Article 11 – Water Operating Budget		2,559,099	2,510,188	3,171,449	661,261
Article 12- Capital Plan Authorization		2,026,500	2,038,195	2,805,745	767,550
Articles 25-29 – Water Cap Bud. (note B)		1,380,000	1,915,000	2,035,000	120,000
Articles (CPA/Land Bank)		690,000	1,341,075	2,586,062	1,244,987
Article - COA, Beach Nour., Trans. Sta.		1,533,180	1,342,522	840,000	(502,522)
State/Cty chgs/misc. items (note A)		<u>1,049,301</u>	<u>1,041,796</u>	<u>1,854,499</u>	<u>812,703</u>
<b>Total</b>		<b>\$ 48,055,583</b>	<b>\$ 50,019,517</b>	<b>\$ 53,632,071</b>	<b>\$ 3,612,554</b>

<b>TABLE 2 – Funding</b>				
<b>Funding Sources for Items above</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2020 vs. 2019</b>
	<b>Actual</b>	<b>Budget</b>	<b>Budget</b>	<b>Higher/(Lower)</b>
Property Tax Levy	32,955,917	34,323,400	35,273,473	950,073
Water Dep't (Rev/Bond) (note B)	2,566,917	2,369,192	4,805,154	2,435,962
Local Receipts/Fees (note C)	10,087,897	6,509,242	6,440,500	(68,742)
Free Cash/Available Funds	5,002,633	6,091,632	6,898,691	807,059
State Support/Other	<u>1,150,746</u>	<u>726,051</u>	<u>214,253</u>	<u>(511,798)</u>
<b>Total</b>	<b>\$ 51,764,110</b>	<b>\$ 50,019,517</b>	<b>\$ 53,632,071</b>	<b>\$ 3,612,554</b>

\$ 3,708,527      \$ -      \$ -      \$ -

Notes to the items in the Tables above:

A) Includes routine articles, state and county charges, overlay abatements, misc. items. For 2020, includes \$300,000 in funding for post-retirement healthcare benefits.

B) Water Department Revenues billed to town property owners are essentially flat from 2018 to 2019. The Water Capital articles are all funded from water surplus with no borrowing authorizations for FY2020.

C) Local receipts revenues include hotel, motel, and meals tax; excise taxes; user fees for town services.

## Topics of Note

During our review and deliberations there were a number of issues which were the focus of significant discussion and/or concern.

### Council on Aging Project

While the Committee will not have taken its formal vote on the Council on Aging project by the time this report will have gone to the printer, there remains significant concern on the Committee about the size of the proposed building, and about its potential cost. Additionally, the majority of the Committee would have preferred a more central location for such a facility, and one which made an effort to utilize current Town assets.

### Prioritize Warrant-based Spending

The Finance Committee applauds the work the Town Manager and Finance Director have undertaken with the Collins Center for Public Management to develop and implement a capital improvement plan for the Town and are pleased to see its roll-out in this year's budget.

To reiterate, however, from last year's observation: *We encourage the Town Manager and the Board of Selectmen to extend the use of the capital improvement plan to capital spending plans embedded in Warrant articles, including those which have been approved by previous Town Meetings (including, for example, the \$11.3mm spending on waterfront projects approved in 2017). The Finance Committee continues to strongly believe that thoughtful decisions around the prioritization of multiple and large capital projects need to be made by Town leadership.*

### Capital Spending Policy

Tangential to the prior observation, the Finance Committee strongly encourages the Board of Selectmen to give consideration to the significant policy change embedded in this year's budget—that the target of non-Warrant-based capital spending be increased from the current 3% to 7% of the proposed operating budget to 9% of the proposed operating budget. Assuming a \$30mm operating budget, this policy change will result in proposed non-Warrant capital spending increasing from a range of \$900,000 - \$2,100,000 to \$2,700,000. While we take no view of the appropriateness of this new policy, we do note with concern its prospective impact on spending levels and the tax rate, as well as the seeming lack of debate on the matter.

### FY19 Free Cash Policy Target Miss

In our review of the proposed FY18 budget, presented in February of 2017, this Committee expressed concern about what we view as the over-funding of free cash, and its inflationary effect on the local tax rate, noting that in recent years free cash had reached close to 10% of the operating budget, contrary to the stipulated policy range of 3% to 5%. While we are cognizant that the Town's bond rating agency and financial advisors are in favor of more free cash than less, we believe adherence to written policy is important; our allegiance is to the tax-payer.

FY19 free cash, net of funds received from the Harwich under the terms of our inter-municipal agreement, was certified by the state at \$3.45mm—11.7% of the operating budget. While we recognize that estimating free cash is an inexact science, we believe that recurring misses against

policy of such magnitude require a re-evaluation of how we estimate free cash. As previously noted—over-funding of free cash is tantamount to a tax-increase on the Chatham taxpayer. It may be a quietly convenient way to generate funds to finance capital spending, but there is little transparency in the practice. If there is a belief amongst the policy makers of this town that a formal policy range of 3% to 5% of the operating budget is insufficient, we encourage them to re-consider the underlying policy.

The Finance Committee recognizes that enormous effort goes into the development of the Town’s annual budget. We thank Town Manager Jill Goldsmith and Finance Director Alix Heilala for their stewardship of that process, and for their overall excellent handling of the Town’s finances. We also extend our thanks to the Town’s department heads and staff for all of their hard work on behalf of the Town and its residents.

We are also grateful for the efforts and support of Ann Ryan, our superb recording secretary, for the periodic assistance provided the Chairman by Shanna Nealy, and for the support of Ryan Darmon and Mark Van Bork of Channel 18.

Respectfully submitted,

Stephen S. Daniel, Chairman

Norma Avellar

Tommy Doane

Barbara Matteson

John Pappalardo

Florence Seldin

Jo Ann Sprague

John Whelan

Andy Young