

Finance Committee Report

Overview on the Budget Process for FY 2015

As was the case in last years' report to town meeting, The Finance Committee continues to receive an appropriate level of information as to the financial picture for the town. The budget process for FY 2015 saw continued improvement from previous years.

This is the second year that the committee was able to have discussions at the departmental level on not just the operating expenses, but also on the revenues that correlate to the individual departments. While it is not appropriate to evaluate Public Safety departments (e.g. Fire/EMS and Police) in this manner, all other departments and their services need to be evaluated on more of a "user pays" basis, as not all citizens use those services equally. These discussions provide input as to where fee increases could be justified. One of the recommendations to the Board of Selectmen was the need to evaluate and analyze the economic impact of Local Receipts revenues (hotel/motel/meals tax), as well as user fees. The Finance Committee will meet to discuss these issues with the Economic Development Committee in the coming months.

This is also the second year where the town has completed a three-year budget, which provides a look at longer-term implications for decisions made in the current fiscal year. At a minimum, it reduces the potential for surprises in future years budgets. The three-year budget process still needs some refinement to ensure all items are captured on a timely basis. As an example, the Board of Selectmen (BOS) have endorsed a goal as to the total amount that should be spent on capital items for the next fiscal year. While this has helped in setting a limit for total spend, the process for prioritizing individual department items still needs refinement.

Lastly, the Finance Committee continues to be looking for town staff to pursue more efficient ways to provide town services and ensure they are fixated on what is in the best interest of the taxpayer. It is already recognized that Chatham provides an excellent set of services to residents and visitors alike, but Chatham should also be the leader in providing services in the most efficient way possible. Increasing efficiencies will also mitigate some of the financial pressures that continue to be seen in certain "uncontrollable" budget items (e.g. healthcare benefits, debt service for approved infrastructure projects); while the overall budget picture for 2015 is positive, the Committee wants Town Meeting to recognize there is a need to be diligent and confront our challenges going forward.

Summary on the FY 2014 Budget numbers

The budget endorsed by the BOS results in a less than 1% property tax increase (same as 2014).

Expenses in the Town operating budget are projected to increase 1% or \$434,511 for 2015 while the items in the capital plan (article 12) is essentially flat to 2014. While the Water Departments' operating budget and capital items are managed separately from the towns' operating budget, it should be noted that Town Meeting will be presented with a \$6.5 million project for an Iron and Manganese Water Treatment Facility (article 13). The article as proposed would be funded with \$5.5million in future borrowings and using \$1 million in surplus funds currently available in the Water Department. Lastly, the allocation from the Monomoy Regional School District (MRSD) will be higher in 2015 by approximately \$178,000, all of which is due to an under allocation to Chatham from the prior year.

On the revenue side, there are modest increases for local receipts revenues (hotel, motel and meals taxes). In addition, free cash is available and will be used to fund the capital budget amounts. The Finance Committee voted positive recommendations on the Towns' operating and capital budgets, the water operating and capital budget, as well as the MRSD.

The following highlights the major items where there have been significant discussions:

- 1) Debt service – the total debt service for the 2015 budget is down slightly from 2014,. However, please note that debt levels will continue to increase in future years. This is a result of the already approved new fire station (\$10 million), as well as the next phases of the sewer project; \$10 million approved last year and a further \$17.5 million ask for approval this year (article 14).

It is also noted that certain debt obligations do not hit the debt service line. One item will be the towns' share of the new regional high school (\$10 million with full impact seen in 2016). In addition, if article 13 is approved, there will be \$5.5 million in debt for the new water treatment facility, which will be paid from future water revenues collected. Lastly, there is the "OPEB" liability related to town employees' healthcare retiree benefits (approximate liability of \$20 million). The town budget for 2015 has \$150,000 allocated to begin funding this liability.

The Town Manager and Finance Director have done an excellent job in ensuring that Chatham maintains its "AAA" bond rating. While the town has secured debt at low interest rate levels in recent years, the increasing debt obligations are significant with the expectation that debt service levels will be high for the foreseeable future.

- 2) Community Preservation Act (CPA) - there are 12 articles in the warrant seeking \$950,000 in funding for 2014. The CPA has a separate funding mechanism, through an incremental allocation of 3% on each property owners' tax bill.

There continues to be a very spirited debate on many of the CPA articles at the Finance committee. While all but one of the articles was endorsed by the committee and all technically fall within the guidelines for CPA projects, there is a concern that many projects appear to be maintenance items (versus community preservation). One positive item this past year was the state more than doubling its contribution for its support of CPA activities (first time this has happened in many years).

Some Finance Committee members believe the Town should revisit whether the incremental property tax of 3% for CPA funding (plus another 3% for the Land Bank) are still necessary in their current form. Given the significant projects and obligations the town has committed to in recent years and will have to pay for going forward, there may be better ways to allocate almost \$1 million in CPA funds each year (e.g. preservation of, and improved waterways access).

As was the case last year, there are no land bank articles being brought forward this year. While each property owner is also assessed a 3% incremental charge on the property tax bill for the land bank, there is no surplus available since projects approved in previous years by town meeting were in excess of the total dollars available. This resulted in borrowing obligations that must be satisfied with the land bank funds that will be collected in future years.

- 3) Fire Department operating budget – in recent years there has been a vigorous debate as to how to address excessive overtime in the fire department (in excess of \$400,000 per year). In the past year, there has been a nominal decrease in overtime with an offsetting increase for one new firefighter/EMS worker.

More importantly, the Fire Department and Town Manager have begun a process with the Collins Center (Umass) on performance management metrics. The Finance Committee was presented with statistics on critical areas of its operations, which was the first step in the process. This approach is an effort to understand the correlation between staff levels and overtime. While the committee did vote to approve the fire department budget for 2015, we look forward to future analysis and discussions on this important initiative to ensure an appropriate structure and staffing for the department.

- 4) Monomoy regional school district (MRSD) – as mentioned above, the 2015 budget allocation to Chatham of approximately \$7.8million is higher by approximately \$178,000 versus 2014.

There is an increase in operating expenses of only 1%, even though as mentioned already, Chatham's increase of 2.3% is solely due to a one-time adjustment as a result of an under allocation to Chatham last year.

The Monomoy Regional School District is still going through its transition. Aside from ongoing cost pressures to implement a superior educational experience for students, the new superintendent of the MRSD acknowledged that a major challenge is low student enrollment. With a combination of a declining student population in Chatham (and Harwich), and the many options associated with school choice, a determined effort will be needed to enable the MRSD to provide an effective and efficient delivery of education to both towns going forward.

- 5) Human Services Budget – this includes funding for Monomoy Community services (\$117,000), the Library (\$440,000) and 18 other non-for-profit groups across the Cape (total of \$95,000). While the total budget is only 3% of the operating budget, the majority of the committee believes an evaluation is needed to see if there is a better way to allocate the towns' resources across these organizations. The town must be responsive in order to keep young families here and not end up as a colony for retirees and part-time residents.
- 6) All other Warrant articles (outside of the budget). Per the town Charter, the Finance Committee provides input to Town Meeting on all articles in the Warrant, not just ones that have direct financial implications. The committee takes this role seriously and it is important to note that there were more articles this year to review. Many of these were citizens' petitions articles.

The articles that took the most time were ones that involved the new Flood maps that FEMA will be instituting in July 2014 (articles 35,44 and 47). There is no debate in the inherent flaws of these new flood maps but it is also clear that the town will need to accept them. However, there is a major question about whether the new flood maps will drive our rules and regulations with regards to planning, zoning and conservation. The Committee strongly recommends that all taxpayers take time to review the issues as well as watch the meetings of the Finance Committee and Board of Selectmen when these topics were discussed.

The table below reflects the entire spending and funding picture for Chatham.

TABLE 1 – Spending				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2014 vs. 2013</u>
<u>Article #</u> <u>Description</u>	<u>Actual</u>	<u>Budget</u>	<u>Budget</u>	<u>Higher/(Lower)</u>
Article 6 - Town Operating (ex.debt)	18,645,787	19,010,629	19,532,770	552,141
Debt Service	<u>7,418,609</u>	<u>7,905,583</u>	<u>7,658,244</u>	<u>(247,339)</u>
Total Operating Budget	26,064,396	26,916,212	27,191,014	274,802
Article 7-8 School Operating Budget (incl. Cape Cod Tech)	8,434,323	8,000,516	8,161,225	160,709
Article 10 – Water Operating Budget	2,237,640	2,630,357	2,624,936	(5,421)
Article 12- Capital Plan Authorization	1,074,300	1,905,942	1,914,000	8,058
Articles 13 – Water Cap Bud. (note B)	2,350,000	310,000	1,000,000	690,000
Articles 16-27 (CPA/Land Bank)	842,992	960,250	1,221,300	261,050
State/Cty chgs/misc. items (note A)	<u>1,485,075</u>	<u>1,471,975</u>	<u>1,646,688</u>	<u>(163,134)</u>
Total	<u>\$42,488,726</u>	<u>\$42,195,252</u>	<u>\$43,759,163</u>	<u>1,563,911</u>
TABLE 2 – Funding				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2014 vs. 2014</u>
<u>Funding Sources for Items above</u>	<u>Actual</u>	<u>Budget</u>	<u>Budget</u>	<u>Higher/(Lower)</u>
Property Tax Levy	29,314,675	29,324,795	29,482,940	158,145
Water Dep't (Rev/Bond) (note B)	4,699,746	2,540,357	3,224,936	684,579
Local Receipts/Fees (note C)	5,552,732	5,692,744	5,743,376	50,632
Free Cash/Available Funds	2,412,342	3,263,354	3,965,470	702,116
State Support/Other	<u>1,152,599</u>	<u>1,338,084</u>	<u>1,338,821</u>	<u>(31,561)</u>
Total	<u>43,132,094</u>	<u>42,195,252</u>	<u>43,759,163</u>	<u>1,563,911</u>

Notes to the items in the Tables above:

A) Includes routine articles, state and county charges, overlay abatements, misc. items. For 2015, includes \$150,000 in funding for post retirement healthcare benefits.

B) Water Department Revenues billed to town property owners are essentially flat from 2014 to 2015. The capital budget includes spending \$1,000,000 of surplus funds towards article 13 (if approved by Town Meeting). Article 13 also includes authority to borrow \$5,533,000, which will be paid from future years water revenues.

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

Finance Committee recommendations to the Board of Selectmen – at the February 18th meeting of the Board of Selectmen, an interim report on the 2015 town budget from the Finance committee was presented. While most of the recommendations and discussions at that time have been incorporated into this report, the full report from that meeting can be found on the town website.

The Finance Committee is appreciative for all the hard work and dedication from Finance Director Alix Heilala, Town Manager Jill Goldsmith and administrative liaison Amanda Monahan. (as well as the TV crew at Channel 18).

Respectfully submitted,

Kenneth Sommer, Chair	Dean Nicasastro, Vice-Chair	Robert Dow, Secretary
Norma Avellar	Roslyn Coleman	John Crea
Jo Ann Sprague	Steve West	John Whelan