

Report of the Finance Committee

Observations of the Chair

I'd like to 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. The Town Moderator has done an exemplary job in creating a committee of diverse opinion and demographics to represent the interests of the citizens and tax-payers. It is an honor for me, as Chair, to serve with the women and men of the 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 FY19 Budget Process

As is typically the case, the FY19 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. Beginning in January the Finance Committee met weekly, or semi-weekly, with senior town officials and employees to review the proposed FY19 budget.

As is required by the Town's By-Laws the Finance Committee presented in February our initial thoughts on the FY19 Budget to the Board of Selectmen. Generally, the Committee was pleased with the proposed budget, which presents a spending increase of 0.88% over the FY18 spend, not including educational assessments. More granular reactions to the budget, some of which are discussed in more detail below, included (i) concerns about the scope and prospective cost of the proposed Council on Aging project, (ii) the absence of any measure, or target, of sustainable aggregated capital spending (e.g. including all capital spending, whether embedded in the budget or in standalone warrant articles), (iii) continued concern over the amount of capital spending going forward and (iv) the lack of a formal policy regarding the use of "windfall" funds, such as those received (and to be received) by the Town as a result of the agreement with Harwich to treat some of their wastewater (although the Committee is aware that the Town Manager is conducting a review of the Town's financial policies which will incorporate such a provision, if adopted by the Board of Selectmen).

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 FY18 Observations to the Town Manager and Board of Selectmen

In reviewing our observations from last year on the FY18 budget, as well as our formal report to last year's Warrant, the Finance Committee would like to applaud both the Town Manager and the Board of Selectmen for their earnest engagement with certain of our recommendations or observations. Specifically, we note the increase in budgeted local receipts (taxes on meals, lodging and the like), which serves to lower anticipated end-of-year "free cash" and, by extension, our tax rate. It also appears that free cash this year (once it is certified by the State) will be lower as a percentage of the operating budget than in years' past. As we noted last year:

"While not formally codified, the Town's informal free cash goal is to target between 2.5% to 5% of the operating budget, or between ~\$750,000 and ~\$1,500,000 for FY18. The Town has run free cash balances well more than the targeted range in recent years—closer to 10% of the operating budget."

We also applaud the restraint evidenced in the slowing of the growth in the town workforce. An increase in headcount is more than simply the salary, of course. Benefits can add 20% or more to a new employee's salary during the first year of employment, and there are post-employment costs the Town is required to bear as well. The proposed FY19 budget includes growth in the town workforce of 2 full time-equivalent positions, including the addition of a school resource officer for the elementary and middle schools.

Lastly, the Committee (though not unanimously) applauds the efforts of the Board of Selectmen in seeking to address funding the Town's \$16.7mm other post-employment benefits ("OPEB") liability.

Summary of the FY19 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 FY19 budget does each of these things.

Operating Budget

The proposed FY19 operating budget (the ongoing cost of running the Town, not including any costs for education) is \$30,520,768, an increase of only 0.88% over the Town Meeting-approved FY18 budget. Including the proposed educational assessments, the proposed operating budget is \$39,875,777, an increase of 0.92% over FY18 as voted. We commend the constraint evident in such a modest increase in spending during a time of moderately rising costs. The proposed FY19 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 FY18, Education (1st), Debt Service (2nd), Public Safety (3rd), Employee Benefits (4th) and Public Works (5th) are the top five budget categories, making up 83% of the proposed FY18 budget (\$33,132,559 of \$39,874,777, as proposed).

The Finance Committee voted 6-0 to adopt the proposed FY19 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 FY19 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.

The Town has a financial policy which calls for in-budget capital spending (as opposed to Warrant-based spending) to be between 3% and 7% of the total Operating Budget. The proposed FY19 budget contains \$2,038,195 in capital spending, or 6.7% of the Operating Budget. Interestingly, (and as a point of some concern to members of the Committee, given its size), the Town Manager received \$10,812,740 in capital spending requests during the FY19 budget process. We applaud the work of the Town Manager, and that of the Finance Director, in getting that figure down to within policy guidelines.

With respect to the proposed FY19 Capital Budget the Finance Committee voted 7-0 to support it.

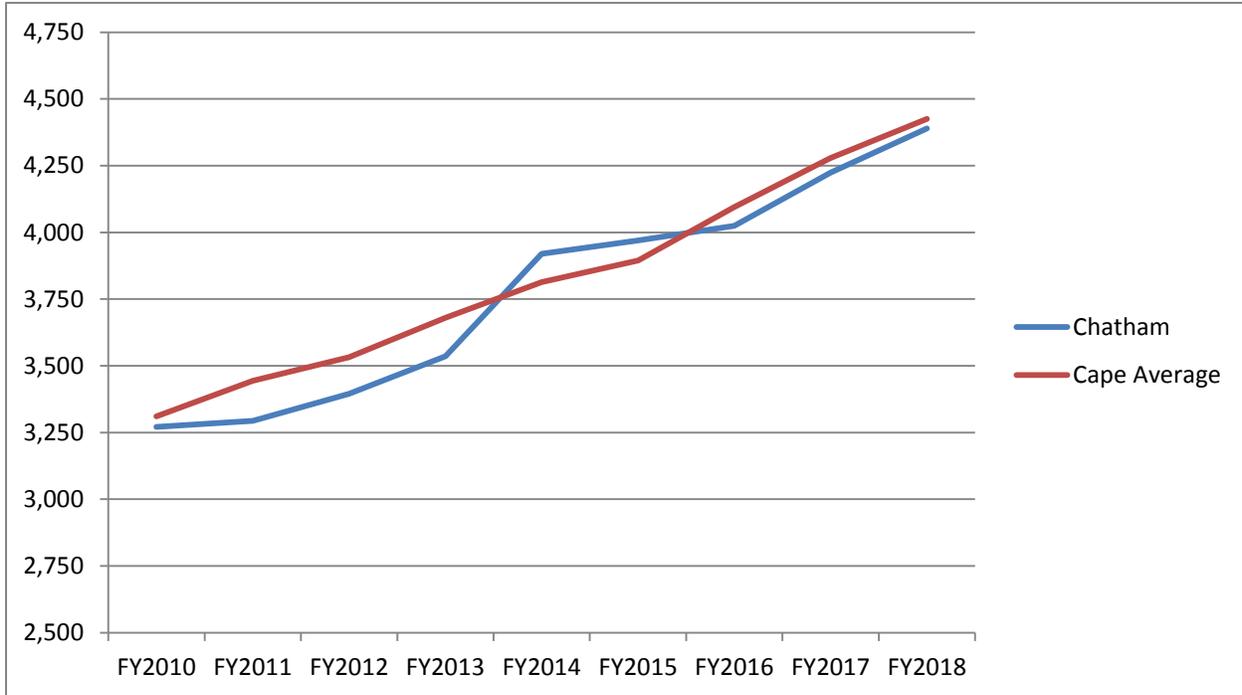
The Warrant includes another \$3,257,218 in proposed capital spending not including capital spending embedded in Community Preservation Act spending. Included in this figure is \$1,915,000 of water and sewer capital projects, \$450,000 for Nantucket Sound beach nourishment, and a proposed spend of \$483,000 for site planning and improvements for the Eldredge Public Library. The Finance Committee voted 7-0 to support these investments.

The proposed budget for the Monomoy schools was adopted by a vote of 7-0, while the proposed Cape Cod Regional Technical High School budget vote was 7-0. The financial impact of the taxpayer-approved new technical high school building will not be felt, in all likelihood, for at least another year. In any event, Chatham's share of the construction costs will be limited due to the small number of Chatham students attending the technical high school (7 in this year, down from 21 five years ago). The Finance Committee is a big supporter of Cape Cod Regional Technical High School.

Based upon the proposed budget, including educational assessments and the passage of all proposed warrant articles, it is estimated that the tax rate for FY19 will be \$5.04 per \$1,000 in valuation, a 3.5 percent increase over the approved FY18 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 35%.

Average Tax Bill



Overview of the Sources and Uses of the Proposed FY2019 Budget

	TABLE 1 – Spending			
	2017	2018	2019	2019 vs. 2018
Article # Description	Actual	Budget	Budget	Higher/(Lower)
Article 8 - Town Operating (ex.debt)	21,364,960	22,516,987	23,481,912	964,925
Debt Service	<u>7,801,268</u>	<u>7,492,785</u>	<u>7,038,856</u>	<u>(453,929)</u>
	29,166,228	30,009,772	30,520,768	510,996
Article 9 & 10 - School Operating Budget	8,870,661	9,145,285	9,355,019	209,734
(incl. Cape Cod Tech)				
Article 11 – Water Operating Budget	2,737,808	2,966,917	2,769,192	(197,725)
Article 12- Capital Plan Authorization	2,018,250	2,026,500	2,038,195	11,695
Articles 25-29 – Water Cap Bud. (note B)	375,000	1,380,000	1,915,000	535,000
Articles (CPA/Land Bank)	1,064,685	670,000	1,341,075	671,075
Article - COA, Beach Nour., EPL, Airport	1,500,000	650,000	1,342,218	692,218
State/Cty chgs/misc. items (note A)	<u>2,570,583</u>	<u>2,100,722</u>	<u>1,285,656</u>	<u>(815,066)</u>

Total	\$48,303,215	\$48,949,196	\$50,567,123	\$1,617,927
		TABLE 2 – Funding		
	2017	2018	2019	<u>2019 vs. 2018</u>
<u>Funding Sources for Items above</u>	<u>Actual</u>	<u>Budget</u>	<u>Budget</u>	<u>Higher/(Lower)</u>
Property Tax Levy	32,386,089	32,955,917	34,112,939	1,157,022
Water Dep't (Rev/Bond) (note B)	3,512,719	2,566,917	4,284,192	1,717,275
Local Receipts/Fees (note C)	7,930,328	6,400,879	6,527,242	126,363
Free Cash/Available Funds	5,488,171	5,870,806	4,916,803	(954,003)
State Support/Other	<u>1,143,771</u>	<u>1,154,677</u>	<u>725,947</u>	<u>(428,730)</u>
Total	\$50,461,078	\$48,949,196	\$50,567,123	\$1,617,927
	\$2,157,863	\$	\$	\$
<u>Notes to the items in the Tables above:</u>				
A) Includes routine articles, state and county charges, overlay abatements, misc. items. For 2019, includes \$150,000 in funding for post-retirement healthcare benefits.				
B) Water Department Revenues billed to town property owners are essentially flat from 2017 to 2018. The Water Capital articles are all funded from water surplus with no borrowing authorizations for FY2019.				
C) Local receipts revenues include hotel, motel, and meals tax; excise taxes; user fees for town services.				

As the Committee noted in our Report last year—

Chatham taxpayers fund public services to achieve specific goals. The Finance Committee would like to encourage the Town Manager and the Board of Selectmen to increase the use of performance measures to assess how well, or efficiently, the Town produces what the investment of public funds intends. While there are few perfect measures of gauging performance, the absence of the perfect should not be the enemy of the good. It is possible to expand the use of performance metrics, and to refine them with experience. The Boston-based Pioneer Institute, in its Guide to Sound Fiscal Management for Municipalities, has compiled extensive metrics on a department-by-department basis. Respectfully, we encourage their review by the Town's policy makers.

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 Warrant Article

- There is a heightened and unanimous concern regarding the scope and scale of the proposed new CoA project. As noted in our remarks to the Selectmen on the proposed FY19 budget, the Committee does not support the 14 November decision by the Board of Selectmen to “accept the space needs analysis as presented”.

Among our concerns at the time were (i) designing a project without prior knowledge of where the building will be located, (ii) space needs driven by a seemingly aggressive demand scenario, and (iii) a lack of incorporation of under-used existing Town facilities into a potential project solution. Additionally, we are aware that recent improvements to the existing CoA structure have resulted in an extension of the useful life of the building, potentially allowing for additional time for consideration of replacement alternatives.

To be clear, the Finance Committee understands, appreciates and supports the need for a significant improvement in the Town’s CoA facility. We simply believe the project, and the space analysis upon which it is predicated, is far too expansive.

Notwithstanding our reservations about the project itself the Committee did vote 6-0 to support Article 14, which will provide \$100,000 for a feasibility study and design costs once the Board of Selectmen determines a site for the proposed project.

- Continued Concern over Level of Requested Capital Spending
 - The Finance Committee remains very concerned about the level of proposed capital spending, a topic we expressed concern over last year. Last year’s proposed budget included four-year capital requests for the years FY19 through FY22 totaling \$26,347,483. The requested number for the same four years in this year’s budget is \$44,475,373. This jump is likely due to the Town Manager’s request that every department make known all forthcoming requests (which we support), but it nevertheless is a remarkable figure—both the absolute total and the one-year increase in requests (covering the identical time period) of nearly 69%. Adding the final year of the five-year capital program requests (for FY23) yields requested spending of over \$52,000,000, compared to last year’s five-year figure of \$32,491,483. This figure does not include additional authorized capital borrowing and spending on the ongoing wastewater project, nor does it include projects many assume to be forthcoming, such as improvements to certain waterfront properties or the development of 365 Main Street.

The Finance Committee well understands the necessity of replacing aging assets and of investing in our municipal infrastructure. Nevertheless, we find the growth in spending requests to be striking and a cause for concern. In any case,

it will require concerted and focused effort by the Town Manager and the Board of Selectmen to prioritize these requests.

- Lack of Framework for Assessing All Capital Projects
 - Relative to our previous observation 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. We are eager for the deployment of this advance in planning, prioritization and capital allocation, and understand it's targeted for initiation in the FY20 capital budget.

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). As noted, we continue to strongly believe that thoughtful decisions around the prioritization of capital projects need to be made by Town leadership.

- Treatment of "Windfall" Funds
 - There is some debate within Town government over the prospective use of funds received from Harwich according to the terms of the recently executed inter-municipal agreement ("IMA") regarding treatment of a portion of their septic flow.

The Finance Committee unanimously endorses the position that funds received as a result of the IMA with Harwich should be applied to a reduction in outstanding debt of the Town of Chatham. While there are differing views among Committee members of whether such funds should be applied strictly to a reduction of debt related to the wastewater project, prudent financial practices suggest that any such funds be used to retire the highest-cost debt possible.

Further, the Finance Committee would endorse a formal policy extending this approach generally to receipt of other "windfall"-type funds.

- Other Post-Employment Benefits ("OPEB")
 - While there is consensus on the Finance Committee on the desirability of doing more to address the OPEB funding gap (currently \$818,774 in assets against a liability of \$16.8mm), there is not unanimity of opinion. Nevertheless, a majority of Committee members endorse the steps taken by the Board of Selectmen, as presented in the Warrant, to look for ways to increase annual funding of OPEB an effort to lessen the Town's ongoing liability over time.

- Infrastructure Resiliency
 - While not specific to the proposed budget or the Warrant articles, most members (though not all) of the Finance Committee believe it is important to highlight and support the work the Town is doing with regards to infrastructure resiliency in our coastal community. We applaud the recent completion of the 2018 Hazard Mitigation Plan which has been filed with the Federal Emergency Management Agency for approval, and the planning work the Town presently does in considering sea-level rise and resiliency in all the projects the Town is currently undertaking or will be undertaking.

Assembling a budget for the Town of Chatham is a challenging and time-consuming effort. The Finance Committee is grateful for the efforts of Town Manager Jill Goldsmith, Finance Director Alix Heilala, and the work of all the department heads and staff who contributed to this effort.

Additionally, The Committee would like to thank our recording secretary Kellee Caynon for her exceptional work on our behalf, as well as Ryan Darmon of Channel 18.

Respectfully submitted,

Stephen S. Daniel, Chairman

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Roslyn Coleman

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