



The Town of Barnstable

Comprehensive Financial Advisory Committee (CFAC)

367 Main Street, Village of Hyannis, MA
02601

v. 508.862.4654 • f. 508.862.4717

www.town.barnstable.ma.us

Email: cfac@town.barnstable.ma.us

CFAC Committee:

Chair:

Laura Cronin

Members:

Robert Ciolek
Cynthia Crossman
Ralph Krau
Joseph Mladrich
Gregory Plunkett
John Schoenherr
Lillian Woo
Open Position

Staff Liaison:

Mark Milne

Councilor Liaison:

John Norman

June 3, 2016

The Honorable Councilor Jessica Rapp Grassetti

Town Council President

Town of Barnstable

367 Main Street

Hyannis, MA, 02601

RE: CFAC Review of Proposed FY17 Operating Budget

Dear Council President Rapp Grassetti:

The Comprehensive Financial Advisory Committee (CFAC) met with the Finance Director to review and discuss the proposed FY17 Town of Barnstable Operating and School Department Budget. As always, CFAC wishes to express its appreciation and cooperation of Mark Milne, Finance Director, and his staff, and acknowledge their efforts in proposing a balanced budget. The budget continues to fund important Town services and this year's budget responds to the safety and increased educational demands facing our Town today, and with net increase of 11.4 Full Time Equivalent (FTE) in the headcount to cover the changing needs of the Town. The introduction of the new Open Budget web-based site now makes it possible for everyone to see how their tax dollars are spent, both Operating and Capital. The continuing positive opinion of the rating agencies with respect to the soundness of the Town's finances is due, in large part, to Mark Milne's efforts and professionalism and those of his budget team.

CFAC also wishes to acknowledge the work of the Town Council and Town Administration in considering past CFAC budget recommendations, and for getting the FY17 Operating Budget to our sub-committee as early as possible.

CFAC's annual efforts to review the Town's Operating Budget and the Capital Budget are intended to provide the Council and Administration with an independent viewpoint or recommendations on various aspects of the Town's budget cornerstones.

This year's Town Budget continues to focus on the Town manager's Quality of Life Initiatives and A Strong Financial Foundation, as noted through the various department's goals and objectives.

With this budget review, CFAC has a number of comments, suggestions, and continued questions relating to the proposed FY17 Operating Budget for the Town of Barnstable as well as long term financial implications inherent in the budget document. These are:

1. Revenue Forecasts

One important element of the Town Operating Budget is its revenue forecast. It may, in fact, be the most important factor in determining a fiscally sound and balanced budget. While the Town's budget expenditures and appropriations can be, barring extreme and unforeseen situations and events, established with a strong level of certainty based on continuing operations and growth, its revenue is less predictable and often beyond the control of Town government. In past years CFAC has recommended that the Town develop revenue forecasts, based on past linear revenue data and projected growth. These forecasts would provide valuable assistance to Town government each year as it considers the proposed balance budget for the upcoming year.

The Town Manager and the Finance Director and his staff have developed and formulated a comprehensive revenue forecast document which takes into account the status of the Town's finances, revenue and expenditure trends, and major economic factors of the Town's past finances, revenue and expenditures. That most recent forecast document, the "Town 10 Year Financial Forecast for FY2017-2026", is statistically accurate in its projections for FY17, and CFAC is confident that its projections for subsequent years will provide strong baseline figures during the budget consideration process by Town government. The accuracy of the forecast figures will, undoubtedly, become less reliable during the successive years of the decade because of uncertain local and national economic factors, but CFAC believes that the forecasts, which it has been advocating for many years, will be invaluable to Town government in its planning and public policy deliberations. Using past revenue and expenditure data and conservatively extrapolating those figures for the next decade, the current 10 Year Financial Forecast 2017-2026 provides Town government with realistic revenue estimates on which it can rely upon for strategic planning and budgeting purposes.

However, CFAC continues to feel and recommend that the financial forecast focus on a five year rather than a ten year period so that the figures will be based on relatively current economic and financial data and therefore be more reliable as a planning and budgeting guide.

2. General Fund

The fact that the proposed FY17 General Fund of \$153,516,536 is 0.10% - \$156,395 more than the FY16 budget (though more than \$2,537,000 over projected actual expenditures for the current fiscal year, representing a possible 1.7% increase) underscores the rigor, accuracy, and precision of the Town Manager, Finance Director and staff, and Town departments in establishing budget priorities and controlling budget growth. Similarly, the FY17 All Budget Funds is projected to be -0.07% (\$125,157) less than that of FY16. This is a remarkable accomplishment for a budget of \$181,364,196. CFAC commends the Town for its stewardship of taxpayer dollars.

The Town Administration and Council have done a good job over the past several years in developing and approving a balanced budget, but the stress of maintaining desired levels of service in view of current revenue realities is significant. CFAC further believes that an across the board review of its budget goals and priorities will also assist the Councilors in better understanding the various policies and the underlying reasons for their adoption. With respect to its review, the Council and Administration may wish to consider the following specific items:

(a). The reserve requirement of 4%, as well as other reserves, should be periodically reviewed in light of standards established by the rating agencies for healthy reserves versus the need to free up funds, particularly for needed capital projects. It is more likely than not, when the Town addresses its revenue needs associated with meeting its nitrogen reduction goals under the Section 208 Cape-wide Wastewater Plan, the Town will be hard pressed to maintain its current conservative reserves;

(b). A thorough review of the future appropriateness of the current 60/40 arrangement with the school department and ensure that all sources of non-earmarked revenue are included on the revenue side of the equation and that both the town and the school system equally share the risk associated with any revenue reductions and increases due to contract obligations.

3. Program Performance Measurements

The traditional review of an operating budget includes an examination of the proposed appropriation and other revenue sources for each department for the upcoming year. Just as it did for the FY 2016 proposed Budget, each department includes a summary of its 2016 achievements along with its request for FY17 Budget appropriations.

CFAC has recommended for several years that the inclusion of meaningful performance measures for each department, along with its proposed budget, will provide substantive information and data to evaluate the effectiveness of program performance and outcomes. The programs and operations of each department are mandated by the Town budget allocation, and the annual performance outcomes and goals for the year should reflect both that mandate as well as the prudent use of taxpayer and resident dollars

In the FY17 proposed budget each department includes a list of its achievements during the previous year. These performance measures and workload indicators represent a greater transparency of operations and achievements. They also strengthen CFAC's, as well as the Town governments, ability to evaluate the effectiveness of their operations.

In reviewing the proposed FY17 proposed budget, CFAC recommends that each department provide an update and outcome of the specific goals they listed specifically

for FY16. In many cases the achievements listed in the FY17 budget did not match the goals set in the FY16 budget. CFAC feels that operations should have flexibility, but there should also be accountability and a progress report of the goals set the previous year. This kind of report will indicate the focus and goals of the department and the progress made.

CFAC continues to enthusiastically support the performance and efficiency audits conducted by the University of Massachusetts, Boston Collins Center's Municipal Performance Management Program and its development of performance measures for Department of Public Works and the Police Department. The benefit of this program was indicated by the inclusion in the FY16 proposed budget funds to continue to work with MPMP.

However, it was disappointing to find that neither the Department Public Works nor the Police Department referenced its work with MPMP or progress updates of programs that may have been initiated as a result of the MPMP recommendations. CFAC hopes that there will a more detailed report about MPMP's impact on these departments in next year's list of achievements. These achievements and measurements will help the Town Administration and Town Council better assess program outcomes and allocate appropriations accordingly. CFAC cannot help but wonder whether this initiative is succeeding as originally envisioned. The Town Council may wish to enquire as to the status and success of the program.

CFAC continues to encourage the Town Administration to mandate that each department include in its list of achievements and performance measures those specific goals set in the previous year in addition to achievements that were the result of opportunities and circumstances that occurred during that year.

These performance measures increase accountability and provide taxpayers with a better sense of the use of their tax dollars and the efficacy of government programs and policies.

4. Budget Format with Inclusion of Health Care Benefits.

The proposed FY17 budget format continues to include health insurance costs in departmental and other budgets. CFAC strongly supports this, and recommends this as an ongoing practice; for removing these expenditures significantly distorts the ability to follow expenditure trends over time and distorts actual departmental expenditures.

5. Other Personnel Employee Benefits (OPEB).

In virtually all instances, the Town is adequately meeting current and future financial obligations, either through annual appropriations or through legally binding commitments to appropriate future monies to meet those obligations, excepting OPEB. The Town continues to appropriate funds to meet the unfunded obligation for health insurance costs for retirees, though at a pace less than the accumulating deficit for this

obligation. Notwithstanding this observation, the practice of appropriating some money for this sizeable obligation places Barnstable in the forefront of most other Massachusetts cities and towns. The Town has earmarked \$400,000 in the proposed FY17 budget to support that effort.

The Town should continue with its plan to annually contribute to reduce the unfunded liability and, when the Town's financial situation warrants, add to its annual contribution. At some point, either through legislation or a consensus among municipal financial professionals, precise guidance on dealing with the matter will emerge. For the time being it is important to be aware of the problem and continue to make annual contributions.

6. PILOT Program.

This continues to be a low proposed revenue (approximately \$130,000) from payments-in-lieu-of-taxes (PILOT) program, CFAC believes that the Council should again review its methodology and, more importantly, its approach to the implementation of a PILOT Program. This issue was studied in 2005 with some recommendations made to the then sitting Council. This concern was also raised in recent CFAC reviews and there still does not appear to be any growth in this category of revenue.

While there may not be a great deal of new revenue, some PILOT agreements could offer non-cash services to town government which might offset certain current costs. One example of this suggested approach is in the area of Senior Services: The Administration could attempt to identify opportunities for partnering with specialized, non-profit organizations which may be able to provide elderly program services thus defraying Town personnel costs in this area. A second specific example might be to subsume the current town effort in providing vaccination services with the health care operations of Cape Cod Hospital. Another possibility may be the use of Cape Cod Community College students through an "Intern" or "Co-Op" program to provide cost effective support in such areas as Information Technology, Accounting, Criminal Justice and Environmental Technology.

7. Independent Districts.

CFAC understands the pressure on town officials to adequately fund Town services, and Proposition 2½ does have one major benefit which is to force cities and towns to order their priorities and live within their means. The independent fire districts are not so constrained, and continue to spend without restrictions. CFAC feels it is important to keep this issue in the forefront in the Operating Review process because, as this Town grows and ultimately evolves into City-like demands for municipal services, the Town needs to be aware of the pressures placed on the fire districts to support those municipal demands.

The following chart shows the comparative growth in the tax levy for the Town of Barnstable and for the independent Fire Districts, from FY07 to FY16 (*Note: the district's levy amount is net of ambulance fund revenues*).

TAX LEVY GROWTH COMPARISON, FY07 TO FY16

	<u>FY07</u>	<u>FY16</u>	<u>% CHANGE</u>
Town of Barnstable	\$83,218,734	\$110,547,068	32.8%
Independent Districts	\$20,243,932	\$ 28,051,690	37.9%

CFAC recognizes it will require a sustained effort on the part of Town tax payers to change what was legislated long ago. However, the Town should either encourage and facilitate discussions on possible savings resulting from the consolidation of fire and EMT services across districts, or remove itself from the tax process all together. The average taxpayer does not distinguish between the various governmental organizations, particularly when reading a Town real estate tax bill containing the tax obligations for both town government services and the services of the independent districts which represents about 20.0% of their total real estate tax bill.

CFAC continues to strongly recommend the Town do what it can do to separate itself from the district's taxing process and end the practice of combining the fire district's real estate tax assessment with the Town's tax bills. The independent districts could combine their collection efforts, and develop their own billing and collection processes. That step would reduce the expense of the Town to administer tax bills for independent districts and provide tax payers in all districts a clear view of taxes being charged by whom, and for what governmental services.

8. Enterprise Funds.

The purposes for isolating each Enterprise Fund is to have discrete financial information and utilization statistics in order to closely monitor activities and determine how successful they are to becoming self-sufficient. Not all Funds have the sufficient recurring revenue to reach the goal of self-sufficiency for varying reasons.

In order to fully support the operations of the various enterprise funds, monies may at times require transfers from existing reserves (prior surpluses, Capital Trust Fund, Special Revenue Funds, etc.).

Currently, HYCC receives significant support through the Capital Trust Fund to cover a debt service of over approximately \$1.2M per year which will be true through 2027 as HYCC does not, and likely will never, generate enough revenue to cover costs. In FY17 it will receive \$719,936 from General Fund, and \$69,139 from reserves. As stated by other reviews, the HYCC provides incremental benefits to the Town's overall

economy through hosting national and regional events and whereby participants go to local restaurants, shop, stay at local hotels and thus bringing additional revenue to the area.

The Marina Enterprise Fund is budgeted to use surplus revenue of \$46,172; the Capital Trust Fund is planned to contribute \$60,031 and the Special Revenue Fund closes the gap \$30,000 toward operating support.

The General Fund subsidy for the Golf Enterprise fund is scheduled in the budget to offset projected revenue from estimated receipts of the current year \$149,140, and \$96,296 will be used from reserves to balance the budget.

Sandy Neck Park Enterprise Fund is scheduled to receive a transfer from surplus of \$50,000 for a projected sand nourishment expense. A capital outlay is proposed of \$93,831, an increase of \$22,000, to cover a needed vehicle replacement, gatehouse upgrades, and trail improvements.

All of the above enterprise fund operations provide core services to the people and visitors of the Town and contribute to the Quality of Life to Barnstable and deserve continuing support. However, CFAC recommends that the Town aggressively review its fee structures for these services so as to recover program expenses from those individuals using the programs, thus minimizing the use of reserves or other monies to, in essence, subsidize what is intended to be a self-supporting activity.

The major financial driver in the Airport's budget, an Enterprise Fund, is the volume of jet fuel sales. This became apparent in FY16 when a Hyannis-based airline, Island Air, filed for bankruptcy. The resulting revenue loss from a drop in the sale of jet fuel is the single most important factor affecting the airport's FY17 operating budget. Island Air had been purchasing 250,000 gallons of fuel per year over the last several years. The financial setback from the loss of the business has not yet been fully realized, and as a result the Airport Commission states that it has been conservative in preparing its budget for next year.

Several carriers are showing interest in picking up some of the shuttle service to the islands, but it is too early to determine how much of the lost revenue will be regained. Even if other carriers pick up some of the island business, it is important to consider that the number of passengers may continue to decline as they switch to using the ever-improving and less expensive high speed ferries. Because the cannibalization within the shuttle market is expected to continue, the opinion of CFAC is that growth in passenger traffic to the Islands will be slow, at best, though the Airport may realize an increase in passenger flights (and jet fuel and other revenue) due to increasing flights to cities in the Northeast and through an increase in private air charters. The Airport Commission asserts that it has developed sales and marketing initiatives to further exploit these markets.

One of the Performance Measures for the airport is to ‘Increase parking revenue per enplanement’. The Gross Parking Revenue per Enplanement has been dropping over the last three years, and in FY17 it is expected to drop again. Revenue from parking contributes about 10% to total revenue. The Commission states that it is looking at ways to reverse this trend. CFAC suggests that the Town, as part of its Parking Study initiative, monitor and possibly assist the Airport Commission’s efforts.

A second Performance Measure to note is the “Increase of Renewable Energy Revenue over Guaranteed Annual Output (GAO)”. The good news is that the revenue from the Solar/PV project is projected to be 29.5% above GAO in FY16 and 20% above in FY17. The increased revenue is beneficial, and it certainly needs to be tracked.

Consistent with last year’s report to the Town Council, CFAC once again strongly urges Town Council and the Airport Commission continue to look closely at ways to leverage the value of the Cape Town Plaza (K-Mart) that has been locked away in a long term lease. The lease is scheduled to expire in 2024. The property and all revenue have, to date, benefited the airport. As stewards of public resources and as the principal economic development planner, it is in the best interest of the town to develop a comprehensive plan for how best to maximize its value to both the Town and the Airport after the expiration of the lease. There are many questions to consider, including: 1) the cost of buying out the lease early, 2) determining the current value of the property, if sold, 3) determining the potential value of the property, if leased, 4) regulatory or other legal restrictions with respect to future usage of the property, and 5) if permissible, considering other higher use purposes for the property. The Growth and Development Committee should be part of the planning process. It is a large tract of land in a strategic location, and the sooner the planning begins, the more prepared the town will be to realize its full potential.

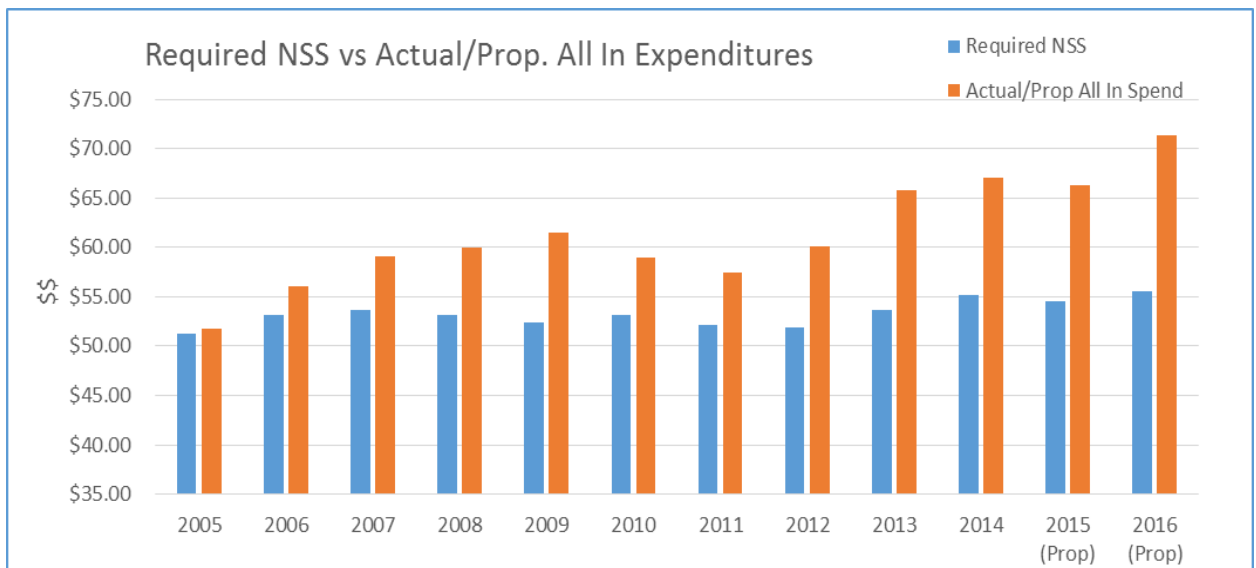
9. School Department.

CFAC has been tracking long term financial, staffing and pupil data for several years.

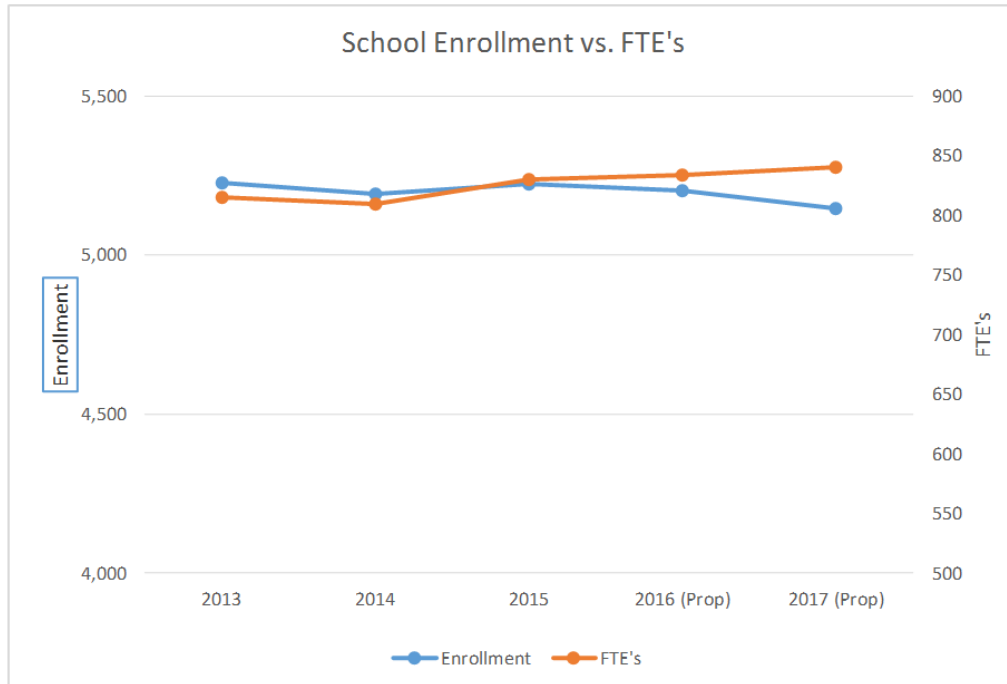
The current school budget shows that since FY13, the number of students in the Barnstable school system was substantially unchanged and has only decreased by 1.5% (5,227 vs. 5,146 FY17). For perspective, it should be noted that the number of students in FY02 was 7,049. However, total school expenditures has increased by 10.6% since FY13 (\$65.78 vs \$72.46). On a per student basis total school spending has increased by 12.4%. In FY16 we will be spending about \$13,522 per student per year. The FY17 budget of \$14,139 per student spending is 27% above the state-required amount (\$72.76 vs. \$57.30 million Net School Spending (NSS)). The school administration should identify the causes that drive the variances between total education expenditures and NSS.

Note: for comparison purpose to NSS, we used All In expenditures, which includes benefit allocations)

	Fiscal Year	Enrollment	Staffing - FTE's	(1) ACTUAL / Approved Budget	Actual/Prop Expenditures per student	Required Net School Spending	% over (under) Required NSS	Total All in School Expenditures	Total (all in) Expenditures per Student	% over (under) Required NSS
	2013	5,227	815.53	\$58.89	\$11,266	\$53.70	9.7%	\$65.78	\$12,584	22.5%
	2014	5,194	809.23	\$60.80	\$11,705	\$55.19	10.2%	\$67.09	\$12,916	21.5%
	2015	5,224	830.35	\$62.07	\$11,882	\$54.55	13.8%	\$67.12	\$12,849	23.0%
	2016 (Prop)	5,204	834.15	\$64.25	\$12,346	\$55.52	15.7%	\$70.37	\$13,522	26.7%
	2017 (Prop)	5,146	840.4	\$66.05	\$12,835	\$57.30	15.3%	\$72.76	\$14,139	27.0%
5 yr trend	FY13/FY17	-1.5%	3.0%			6.7%		10.6%	12.4%	
NOTES TO CHART:										
(1) Starting in FY13, the Administration has removed health insurance expenses from all departments. Thus, approximately \$6 to \$7 million in school expenses are now located in the line item for Town-wide health insurance.										



The FTE Table below, shows there have been an upward trend in FTE headcount; up 3% since 2013 (vs 1.5% decrease in enrollment of 5,227 since 2013). However, the FTE increased trend is not in line with the down turn in enrollment.



CFAC notes that the Superintendent and the School Committee have continued to launch initiatives to better market the strengths of the Barnstable School system.

There is not much the Town can do to either alter demographics, or greatly influence the Commonwealth in terms of its education spending mandates or CH70 aid. However, the Town Manager and Council, in conjunction with the School Committee, could begin a thoughtful process of strategizing how they will handle the programs caused by these virtually uncontrollable demographic trends, and funding the increasing contract obligations. If nothing is done the decline in enrollment and the inescapable pressure to maintain robust education funding will erode support for the public school system. Taxpayers without children in the school system may be supportive of public education, but not at any cost or where private education options, such as Sturgis, become cost competitive and educationally attractive. Perhaps any long range business and marketing strategy should go hand in hand with the politically long and demanding process of discussing regionalizing the Barnstable school system with one or more adjoining Cape Cod communities.

The school district is concerned about future year bus transportation contractual cost. The bus transportation company is the only provider in the region and the contract is expiring next year. Future cost estimates are projected to increase between 20 – 30 % over current transportation costs.

The Transportation Department's FY17 budget is \$4.2 million or 6.4% of the overall School Department budget. Other school services, which include bus transportation, are \$3.5 million or 99.8% of the Transportation Department budget.

The Superintendent and the School Committee should set up a committee to review all approaches to control bus transportation costs without sacrificing safety. Consideration be given to regionalizing bus transportation whereby other school districts could use the buses and share transportation costs.

CFAC also notes that until FY16 proposed Operating Budgets contained a useful chart showing long term historic data on school spending, enrollment and number of employees. The chart was dropped last year. CFAC recommends maintaining the informational chart in future budgets.

10. Police Department.

The FY16 budget shows an increase of, \$93,471, or 0.70%, CFAC recognizes this increase is needed to sustain the level of service to the community the police provide to cover the Town's growing areas of *Quality Of Life* concerns and safety needs. Included in this budget is \$48,960 for six new seasonal Community Officers, and an increase in overtime, \$32,000. The capital outlay includes funding for new patrol cars and computer hardware and software.

11. Miscellaneous. A few other budget recommendations follow:

A. All Funds Budget

CFAC has frequently commented on the quality of the Town of Barnstable Operating Budgets, and its many awards speak for themselves and please to see the inclusion of presenting an "All Funds" Operating Budget.

The "All Funds" budget within each department allows the reader to see **all** of the funds spent by the department to provide municipal services, whether they be general funds provided by the Town, federal and state funds provided by the respective governments and any other funds that might be controlled and spent by the department. Such a presentation illustrates the entirety of resources available to the department to address community issues and the provision of services.

B. Tax Incremental Financing (TIF):

CFAC understand the desire to provide tax incentives to encourage businesses to build or move here, as business development or expansion arguably provides overall benefits to the Town, such as potential increase in revenues and local employment. However, it is not clear if this process is transparent so the public is aware of how the Agreements are negotiated and the standards used to approve such as measure.

The TIF Guidelines listed under Growth Management website show them as:

A. Encourage qualifying businesses to expand.

- B. Attract new businesses that are compatible with the Barnstable Local Comprehensive Plan (LCP) and the goals of the Barnstable Economic Development Commission (BEDC).
- C. Stimulate capital investment and creation of jobs paying above the area median income for Barnstable. Provide substantive increases in employment with salaries higher than the area median income. Provide private capital investment resulting in a substantive increase in net taxable property value.
- D. Foster reconstruction and renovation of vacant or underutilized commercial properties.

However, it is not clear how the amount of the tax break is calculated or how much the business, over time, actually contributed to the Town in terms of increased revenue or employment, particularly Barnstable employment. CFAC would recommend these incentives be clearly identified and monitored to see if the qualifying businesses actually met it's agreed upon TIF expectations. From time to time the Town should also publish the results of its monitoring and fairly and publicly evaluate the impact of providing tax subsidies to businesses.

Finally, CFAC has previously noted its concern with respect to the brief window it has to thoroughly review the proposed Town operating budget and prepare a meaningful report. Indeed, the short window makes any significant interaction with Town departments challenging, department managers have always made themselves available to meet with us, which CFAC is truly grateful. Moreover, each year the report format improves so it is clearer and easier to read, making our task more efficient. We do want to acknowledge though, the Finance Director made a major effort to distribute copies of the proposed budget as soon as it could be made available and CFAC appreciates his efforts. Copies of the Summary budget were received on May 9th. This report will be sent to Council on or about June 2nd, still a very short time to conduct our review.

The Committee once again wishes to thank the Finance Director, Mark Milne, and his staff, for their assistance and willingness to address the issues contained in this letter and we look forward to continued discussions on ways to improve the Town's budgeting policy and practices.

Sincerely,

Laura Cronin
Chairman, CFAC

cc: Members of the Town Council
Members of CFAC
Tom Lynch, Town Manager
Mark Milne, Director of Finance