

CFAC Report: Operating Budget FY19

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[The Comprehensive Financial Advisory Committee (CFAC) provides financial advice to the Town Council on the yearly operating and capital budgets for all town agencies, including the school department budget as adopted by the School Committee. The advisory responsibilities of CFAC are found in The Administrative Code of the Town of Barnstable, Chapter 241, Section 18 and in Section III, Paragraphs A-C.]

INTRODUCTION

In accordance with the Town of Barnstable Charter, Part VI, Section 6-2 and Chapter 241-18 of the Administrative Code, the Comprehensive Financial Advisory Committee (CFAC) submits its review, comments, and recommendations for the proposed FY19 Operating Budget to the Town Manager and Town Council.

METHODOLOGY

The review was conducted by CFAC. The Barnstable Police Department met with the full CFAC committee and discussed priorities for its 2019 budget requests. Various CFAC members met with the Deputy Finance Director of the School Department, the Director of DPW, the Manager and Assistant Manager of the Airport, and had discussion with the Town Finance Director.

Town Finance Director Mark Milne and his staff provided CFAC with updates of revenue projections, scheduled reorganization in operations and staffing, as well as background information and material about potential economic growth in critical areas.

As in its past reviews of the Town Operating Budget, CFAC submits this report to provide the Council and Administration with an independent assessment and recommendations. The subcommittee's report was reviewed by the full CFAC committee and approved for transmittal to the Town Manager and Town Council.

OVERVIEW

Quality of Life

The FY19 budget reflects the Town Council's priority of enhancing the Quality of Life Initiatives. In particular, the budget includes additional spending in the following areas:

- Increased police presence and public safety
- Decreased time and effort for citizens to comply with Town regulations
- Increased protection of environment and natural resources
- Increased programs to protect water quality
- Continuing efforts to provide quality education
- Enhanced youth programs
- Promotion of economic development

Fiscally sound

The Town of Barnstable maintains its long tradition of fiscal accountability and operating within its means. There are no property tax overrides included in the F19 operating budget. By maintaining a balanced budget, the Town provides more certainty for continuity of services at the same time that it meets the expanding needs of the town.

The Town budgets and appropriated funds underscore the Town's ability to fund its operations within its ability to finance them through annual revenue. The total proposed FY 2019 operating and capital

budgets for the Town of Barnstable are \$222 million. The operating budgets for the General Fund and the town's nine Enterprise Funds are \$203 million, and the capital program budget is \$19 million. Reserves used to balance the operating and capital budgets total \$6.2 million.

The proposed operating budget for 2019 of \$203 million represents an increase of \$6,256,531 or 3.18%. However, the Hyannis Fire District is covering 100% of the three new civilian dispatch positions in the police department. The \$174,000 underwritten cost results in a municipal budget increase of \$1.262 million or 3.3% rather than \$1.435 million or 3.82%.

The proposed budget for FY18 was \$196,333.556.

Restructuring and reorganization

Beginning with FY19 the Town's organizational structure will be changed. This restructuring of departments represents a major initiative to increase efficiency, effectiveness, and accountability in the operations of Town government functions and responsibilities. It focuses on streamlining operations, consolidation of duplicate functions and responsibilities, realigning departments to include related functions, and simplifying citizen interaction with town agencies.

After a thorough assessment of government operations and a comprehensive evaluation of changing economic conditions and needs, the Town restructured departments and their scopes of responsibility. The reorganization has an important impact on the budget. It immediately benefits from budget savings by eliminating duplicate functions and inefficiencies. Through systematic management of physical assets, there will be centralized information about maintenance, repair, and improvements/additions to existing structures owned by the Town. This information will be invaluable in determining priorities for both capital improvement and operating budgets.

The reorganization results in a reallocation of both staff and resources for more efficient operations and easier access by the public. Most importantly, the reorganization maintains fiscal stability as demands for services increase, allowing the Town to grow and operate with balanced budgets and continuity of services. In the long-term, budget savings from the reorganization will allow Town government to do more with its revenue.

The Town has taken a major step to keep up with both the needs of its citizens and the technological advances of the 21st century. CFAC applauds the Town for its forward approach toward governance.

Council Reserve Fund

Beginning in FY19 the Town will establish a Council Reserve Fund. This fund will enable the Town to respond with immediate funds when critical situations arise. This will allow quick responses to crises and replaces the regular appropriations process that may take as long as 60-75 days. CFAC believes that this new fund is a prudent solution to unforeseen emergencies. CFAC also believes that it is equally prudent to annually allocate a specific amount to the reserve fund to be used as needed but returned to cash reserves at the end of the year if there are any monies remaining in the fund. This method allows the Council to determine the size of the fund each year.

Open Budget

CFAC commends the continued transparency provided by the Town's Open Budget. The website provides easy access to current financial information about the Town's operations, capital expenditures, and other commitments. The Open Budget has been visited and used extensively by both the public and Town departments.

REVENUE

Projected Revenue

The proposed FY19 Operating Budget presumes an increase in revenue of 3.9 percent to meet the proposed expenditure budget for Town departments and services. The total General Fund (GF) Budget is:

<u>General Fund Budget</u>	<u>Amount</u>	<u>Change from Previous Year</u>
Actual FY17 GF Revenue	\$159,667,718	
Budget FY18 GF Revenue	\$165,402,725	3.6%
Proposed FY19 GF Revenue	\$171,855,810	3.9%

While revenue increase is necessary to achieve a balanced budget, the original FY18 Operating Budget, adopted by the Town Council was \$160,934,914. During the year, the Council amended the budget to the higher amount. Compared to the original budget the increase would have been 6.8 percent. The change in revenue was the result of a restatement of the budget to account for the transfer from the Capital Trust Fund (\$5,132,981) to the General Fund. In the FY18 budget document, this was netted against the FY18 transfer out of the General Fund to the Capital Trust Fund. According to the Finance Director, for FY19 and going forward, it was decided it would be more informative to show these two transactions at the gross level as opposed to net. See bottom of p. 347 in FY18 book and p.383 in FY19 book. The Finance Director also informed CFAC that the remaining difference of \$85,309 is a 'true-up' of two revenue items: the local aid cherry sheet and excess taxing capacity that is created during the tax rate setting process in order to get the rate to an exact penny.

Revenue Forecasting

Revenue forecasting is an important element of the Town Operating Budget. It may be the most important element of any credible budget because it allows expenditures to be reasonably managed even though the Town revenue is subject to forces largely outside of the control of Town government. Developing realistic revenue estimates is important, if there is to be a reasonable expectation that the proposed budget will be balanced for the upcoming year. In its review of the Town's Operating Budget, CFAC believes Council should consider spending sufficient time reviewing revenue projections.

One way of determining the ability of budget staff to better estimate revenue projections is to look at the predictions made to Town revenue within the FY19 "Ten Year Financial Forecast" published January 17, 2013. See page 3.

The revenue projections calculated five years ago are an indication of 1) the accuracy of data available at that time and 2) the conservative assumptions made by the financial staff based on that data. The following chart compares predicted revenue with amounts set forth in the proposed budget:

	Revenue Estimate FY19 Proposed Budget	Forecasted Revenue from 10-Year Estimate	% Change
Property Taxes	\$122,664,000	\$117,842,000	4.09%
Other Taxes	\$9,223,000	\$7,699,000	19.9%
State Aid	\$19,614,000	\$13,724,000	42.90%
Other Resources ¹	<u>\$8,257,000</u>	<u>\$8,790,000</u>	<u>(6.1%)</u>
TOTAL	\$159,758,000	\$148,055,000	7.90%

(amounts rounded)

According to the Finance Director, the FY19 budget document now includes additional items (circuit breaker amount of \$1,801,692 and school choice reimbursements of \$750,000) in state aid, which were not included in the 10-year forecast, thus skewing the comparison. CFAC notes that reducing those amounts will thus reduce the percentage change from 42.9% to 25.8%. The expenditures funded from these two receipts are not subject to Town Council appropriation but are included in the budget document.

It is important to ensure that the Town’s ability to forecast revenue is both conservative and reasonably accurate. It needs to be conservative to ensure that the Town lives within its means and to assure investors of our municipal bonds and municipal credit rating agencies that the Town is committed to fiscal prudence. However, the revenue projections should be reasonably close to the mark in order to enable the Town Manager and Town Council to have the funds needed for critical services and programs. From the above informal measurement, it appears as if the Town’s finance staff is producing credible “bottom-line” future revenue estimates.

However, projections for “Interest and Other” next year revenue amounts appear to be excessively conservative. Actual FY17 revenue from interest and other earnings was \$1,535,041 but is projected to be only \$1,193,500 for the upcoming fiscal year. According to the Finance Director, the FY17 number included \$183,000 in special assessments to business property for the non-filing of income and expense reports, which will not be repeated in FY19. For the current fiscal year, the Town has already realized \$1,390,000 through mid-April 2018, compared to a budgeted amount of \$1.7 million.

Notwithstanding the one-time FY17 revenue, the projected interest and other revenue appears somewhat conservative.

¹ Other Resources defined as the total of Charges for Services, Fines and Penalties, Licenses and Permits, and Interest and Other. In terms of Other Resources, differences in formatting make comparisons difficult.

GENERAL FUND

The proposed FY 2019 General Fund budget of \$171,855,810 is an increase of 3.9 percent over the FY 2018 General Fund budget. This is a smaller increase than the 4.33 percent increase from FY 2017 to FY 2018.

Very significant is that the Police Department budget includes three new positions that will be paid for by the Hyannis Fire Department. Excluding these positions, the municipal operations area of the budget would be increasing to \$1,262,482 or 3.3 percent. The cooperation between the police and fire departments is very noteworthy.

The FY 2019 General Fund budget is increasing by \$6.4 million dollars. The municipal budget is increasing by \$1.4 million or 3.8 percent over FY 2018.

Significant changes to the municipal operations budget are listed below:

- Contractual salary obligations \$943,740
- New positions—planning/development \$198,134
- Police Department—3 new civilian dispatchers to cover Hyannis FD \$173,582
- Public Works—increase in snow/ice removal budget \$125,000

Key decreases:

- Personnel—elimination of Director of Regulatory Services \$99,979
- Personnel—administrative staff reductions \$98,368
- Operating Expenses—multiple departments \$81,856
- Operating Capital Reduction \$73,060

Once again, the proposed General Fund budget for 2019 reflects the rigor, accuracy, and fiscal restraint of the Town Manager, the Finance Director, and the town departments in establishing budget priorities. CFAC continues to commend the town for the responsible stewardship of taxpayers’ dollars.

SCHOOL DEPARTMENT

Note: The school budget discussed here includes the public schools within the Town of Barnstable. It excludes Cape Cod Regional Technical High School, Commonwealth Charter Schools, and School Choice Program.

CFAC has been tracking long-term financial, staffing and pupil data for several years. See multi-year table below.

The FY19 school budget is \$70.6 million, an increase of \$2.8 million (4.05 %) over the FY18 approved budget. The FY19 budget represents 41% of the overall General Fund budget.

The FY19 school budget shows that compared to FY14 a number of students in the Barnstable school system have been substantially unchanged, or 0.1 % increase. The FY19 budget indicates an increase of 23 students over FY18 projected student enrollment.

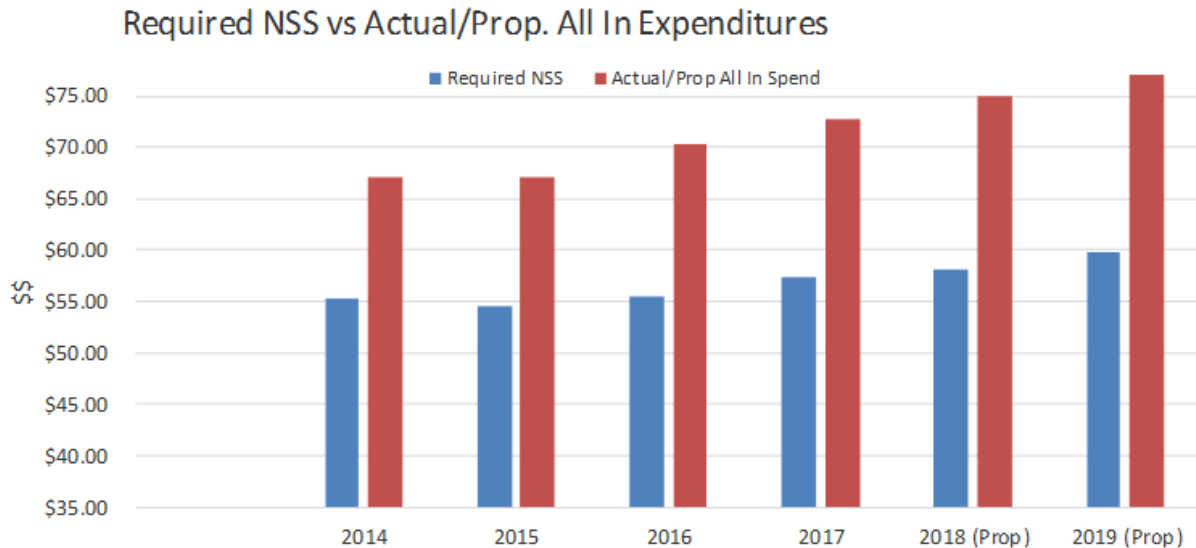
The FY19 total “All In” school expenditures have increased by 16.5% since FY14 (\$67.09 million vs. \$78.16 million). On a per student basis, total school spending increased by 16.4% during this period. The FY19 budget of \$15,031 per student spending is 30.8% above the state-required amount (\$78.16 million proposed vs \$59.77 million Net School Spending (NSS)).

Note: for comparison to NSS, we used “ALL In” expenditures, which include benefit allocations.

Fiscal Year	Enrollment	Staffing - FTE's	(ACTUAL / Approved Budget Millions \$	Actual/Prop Expenditures per student	Required Net School Spending Millions \$	% over (under) Required NSS	Total All in School Expenditures Millions \$ (1)	Total (all in) Expenditures per Student	% over (under) Required NSS
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	5,204	834.15	\$64.25	\$12,346	\$55.52	15.7%	\$70.37	\$13,522	26.7%
2017	5,238	840.40	\$65.47	\$12,499	\$57.30	14.3%	\$72.76	\$13,891	27.0%
2018 (Prop)	5,177	841.70	\$67.84	\$13,104	\$58.06	16.9%	\$75.00	\$14,487	29.2%
2019 (Prop)	5,200	848.90	\$70.64	\$13,584	\$59.77	18.2%	\$78.16	\$15,031	30.8%
FY14/FY19	0.1%	4.9%	16.2%	16.1%	8.3%	79.1%	16.5%	16.4%	42.8%

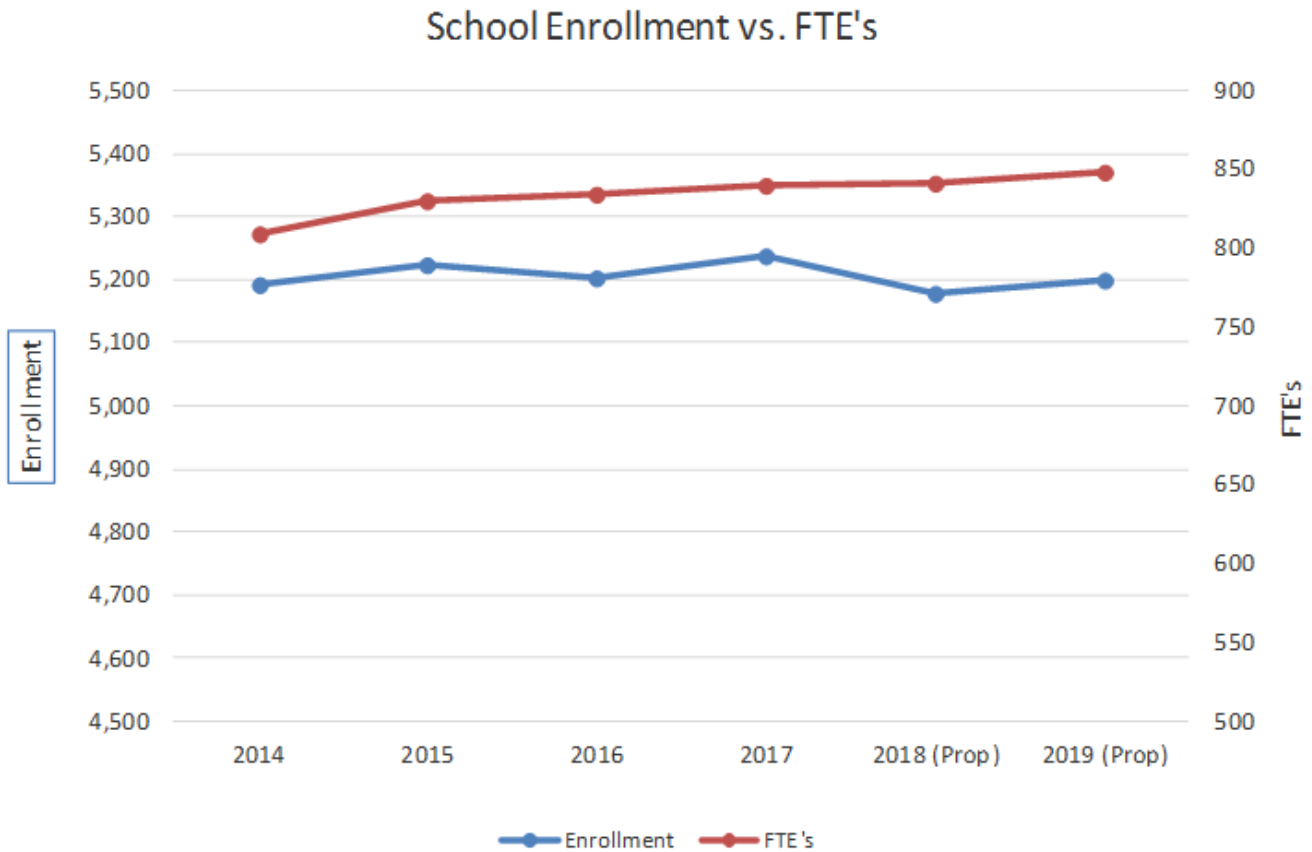
Notes to Chart:

(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 Town Administration, Town Council, and the School Committee should review other school districts' budgets and identify any significant variations from the Barnstable budget. The analysis could assist in evaluating the reasonableness of Barnstable's revenue sharing agreement. Presently the agreement takes the difference between revenue and fixed expenses and splits it 60 percent to school operations and 40 percent to municipal operations.

The FTE table below shows that there has been an upward trend in FTE headcount: up 4.9 percent since FY14. However, student enrollment has been substantially the same during this period. CFAC notes that the Superintendent and the School Committee have continued to launch initiatives to better market the strengths of the Barnstable School system.



The FY19 budget included a table relating to the Massachusetts Comprehensive Assessment System (MCAS) Tests for 2017. The table is broken down by percentage of student at each achievement level for Barnstable and the state (The full table with explanations is included on page 374 of the 2019 Operating Budget). Some Information in the table indicates:

	<u>Meeting or Exceeding Expectations</u>		
	District	State	Less Than State
Grades 03-08 English Language Arts	43%	49%	6%
Grades 03-08 Mathematics	43%	48%	5%

The Barnstable School District fell short of state levels by 6% on English Language Arts and 5% on Mathematics. CFAC recommends that the school administration target grade levels that are below state levels and identify and monitor factors that can meet and exceed state levels.

POLICE DEPARTMENT

The proposed FY19 budget shows an increase of \$696,667 from the approved FY 2018 budget, which equates to a 5 percent increase in expenditures. CFAC supports the increase to maintain the required level of service and protection that the Barnstable community requires to sustain the Town's Quality of Life concerns and safety needs. The budget includes funds to support procuring eight new patrol cars with an approximate cost of \$45,000 per fully equipped vehicle. The average life of each vehicle is 2-3 years as they have very little down time except for when they are being serviced. The police fleet has 44 vehicles total consisting of marked, unmarked, and K-9 patrol cars.

The largest component of the budget is personnel costs, which represents approximately \$13M of the total budget for 117 sworn officers and departmental staff. The budget includes \$174,000 to add three civilian dispatchers who will service both the police and fire departments. The fire department will cover the expense of the three new dispatchers including salaries and benefits. The new dispatch model will provide a more efficient response system for both the police and fire departments and will be able to respond to all types of emergencies. The civilian dispatchers go through a rigorous training program and will receive all 911 cell phone calls made in the Town of Barnstable, which were formerly sent to the state police department. The addition of the civilian dispatchers will allow the sworn officers to have a greater presence in the community. The department anticipates 10 vacancies beginning next year, and the budget includes \$74K request in the budget to send 5 new recruits to the Police Academy during the summer of 2018. They anticipate sending an additional 5 new recruits to a subsequent Academy when the dates are known and will propose a supplemental budget to fund the second round of training.

Based on its success in prior years, the department will once again provide the Community Service Officer (CSO) program. The CSOs' bright colored jackets make them highly visible in the downtown Hyannis area, and they have been instrumental in being the eyes and ears of the police department. Their presence alone has often defused situations from escalating. The CSOs are not sworn officers and, therefore, do not carry weapons. They are used only during the daylight hours. The CSO program has proven to be successful recruiting tool for the department because many of the CSOs have moved on to become sworn officers.

ENTERPRISE FUNDS

Barnstable's nine Enterprise Funds total \$30.7M, or 15.2 percent of all budgeted funds for FY 2019. That percentage is the same as FY 2017 actual, but it is a slight decrease from the 15.8 percent level in the FY 2018 budget.

In FY 2019, three DPW-administered funds – Solid Waste, Water Pollution Control, and Water Supply – total \$14.7M, or 47.9 percent of all Enterprise Funds. Three Community Services-managed funds – Golf, Hyannis Youth & Community Center (HYCC), and Public Television (PEG) – amount to \$7.8M, or 25.5 percent of the Enterprise Funds. The Airport Enterprise Fund budget of \$7.1M equals 20 percent of the Enterprise Funds. Two Marine & Environmental Affairs Funds – Marinas and Sandy Neck – account for the balance, \$2.0M or 6.6 percent of budgeted Enterprise Funds.

Enterprise funds are designed to break out all direct and indirect costs of a public service, such as water supply, waste disposal, recreation, or transportation. This practice enables a municipality to identify the total cost, which could be recovered by user fees. In FY 2019, \$26.6M or 86.4 percent of total budgeted Enterprise Funds are covered through user fees. The balance, \$4.2M is proposed to be funded through subsidies, transfers from reserves, and other sources.

In the interest of fiscal discipline, CFAC recommends that Enterprise Fund user fees be maintained at current percentage levels or increased going forward.

CFAC also urges that attention continue to be paid to free cash or reserve funds depletion. This applies especially to the Airport Enterprise Fund. During the two-year period ending June 30, 2018, Airport Fund reserves will have fallen from \$2.8M to an estimated \$1.9M, or by 32 percent. In the last two ten-year financial forecasts published by the Town, it was noted that Airport operations “will be challenged” to make up for shortfalls in fuel sales and concession revenues. Airport Fund performance requires continued close monitoring by the Town Council. It is CFAC's view that consideration will need to be given to subsidizing Airport operations in the next several years if Airport Fund reserves continue to be depleted at current rates.