

The Town of Barnstable

Comprehensive Financial Advisory Committee (CFAC)

367 Main Street, Village of Hyannis, MA 02601

v. 508.862.4660 • f. 508.862.4717

www.town.barnstable.ma.us

Chair:

Lillian Woo

Members:

Tracey Brochu
Ronald Fone
Hector Guenther
Charles McKenzie
Melanie Powers
John Schoenherr
Wendy Solomon

Staff Liaison:

Mark Milne
Nathan Empey

Councilor Liaison:

Paula Schnepf

CFAC Report: Operating Budget FY 2023

Prepared by:
CFAC Operating Subcommittee

Lillian Woo, Co-Chair
Wendy Solomon, Co-Chair
Charles McKenzie
Ronald Fone

Approved: April 25, 2022

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 FY 2023 Operating Budget to the Town Manager and Town Council.

METHODOLOGY

The CFAC process of meeting with different Town departments to discuss priorities for their annual budget requests was reinstated in early April 2021, after it was halted in 2020 by the stay-in-place advisory caused by a nation-wide outbreak of the Covid-19 virus. CFAC met with the School Department, Department of Public Works, and the Police Department.

CFAC received the proposed FY 2023 budget for discussion and review. Town Finance Director Mark Milne and his staff provided CFAC with updates of adjusted revenue projections and the process used to adjust and balance the FY 2023 budget. As in its past reviews of the Town Operating Budget, CFAC submits this report to provide the Town Council and Town Administration with an independent assessment and recommendations. CFAC's report was reviewed by the full CFAC committee and approved for transmittal to the Town Manager and Town Council.

OVERVIEW

Quality of Life Strategic Plan

For FY 2023 the Town Council's longstanding Quality of Life Strategic Plan remains focused on the Town's priorities, including financial integrity and a balanced budget, public health and safety, education, environmental and natural resources, economic development, infrastructure, and communication.

Fiscally Sound

The Town of Barnstable maintains its long tradition of fiscal accountability and operating within its means. Annual proposed revenue estimates have tended to be conservative to avoid revenue deficits.

CFAC commends the Town for its prompt and prudent budgetary response to the economic uncertainties caused by the pandemic. Its careful and conservative budgets provided strong financial stability and maintained continued operations of town services during those fiscally challenging years.

Examples from FY 2020 and FY 2021 underscore the Town's experienced and responsible management of the budget. The hiring and spending freeze in all departments in FY 2020 resulted in unexpended appropriations of \$4.6MM that were added to and increased the General Fund reserves (Free Cash). The General Fund revenue exceeded budget estimates by \$2.4MM, which also increased General Fund reserves. In FY 2021 General Fund, revenue exceeded budget estimates by \$7.5MM and unexpended General Fund appropriations of \$3.2MM. Both the added revenue and unexpended appropriations helped increase the General Fund reserve.

The Town budgets and appropriated funds reflect the Town's ability to fund its operations through annual revenue. The total proposed FY 2023 Operating Budgets for the General Fund and the Town's nine Enterprise Funds are \$231,500,851, and the Capital Improvement Projects budget is \$54,152,286.

The General Fund Operating Budget is increasing \$10,214,934 or 5.6%.

The General Fund is projected to generate \$2MM in surplus in FY 2022 and \$1.05MM will be used to balance the FY 2023 General Fund operating budget. The surplus will be used to cover an \$800,000 snow and ice removal deficit from FY 2022 and \$250,000 for the Town Council Reserve Fund. This is \$1,177,122 less surplus than was used to balance the FY 2022 General Fund operating budget.

OPEN BUDGET

The Town's Open Budget website provides easy access to current financial information about the Town's operations, capital expenditures, and other commitments. The Open Budget website provides a good tool for the public to become acquainted with Town departments and their operations.

FY 2022 Operating Budget Book

https://www.townofbarnstable.us/Departments/Finance/Budget_Information/22Budget/2022-Budget.asp

Open Budget Website

<https://barnstable.budget.socrata.com/#!/year/default>

REVENUE

Revenue Projection

Revenue projection is an important component of the Town Operating Budget. Developing realistic revenue estimates is critical if there is to be an expectation that the proposed budget will be balanced for the upcoming year. It allows expenditures to be reasonably managed despite economic and other circumstances that are beyond the control of Town government.

It is important to ensure that the Town's ability to forecast and project 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 and municipal credit rating agencies that the Town is committed to fiscal prudence. However, revenue projections should be accurate enough to enable the Town Manager and Town Council to have the funds needed for critical services and programs.

The Town has traditionally been conservative in its revenue estimates, resulting in surpluses that can be used to balance the budget. Using this conservative approach, the Town has levied taxes at only 32% of its taxing capacity resulting in an increased override capacity.

Projected Revenue for FY 2023

The proposed FY 2023 operating budget of \$231,500,851 includes the General Fund (\$193,470,438), the Comprehensive Wastewater Management Plan's operating budget (\$3,945,523) and the nine Enterprise Funds (\$34,084,490). This is a 7.7% increase over the approved FY 2022 budget of \$214,948,190. A projected \$2MM of surplus is expected to be generated at the end of FY 2022, which will be used to offset the \$1.05MM needed to balance the FY 2023 General Fund operating budget.

The budget priorities remain focused on the Town's Quality of Life Strategic Plan and a balanced budget. FY 2023 discretionary spending and additional staffing will be closely managed.

GENERAL FUND

Introduction

The Town of Barnstable’s General Fund is the source of assets used to fund general governmental services not required to be accounted for separately. In accordance with Proposition 2½, the Town typically views the General Fund through a revenue – rather than an expense – lens. As a result, this report compares annual fiscal year changes in revenues and proposed uses of those revenues.

Revenue

Following is a summary of the Town’s General Fund revenue budget over the last 5 fiscal years:

General Fund Budget	Amount	Change From Previous Year
FY 2019 Actual Revenue	\$168,734,541	3.65%
FY 2020 Actual Revenue	\$169,694,711	0.57%
FY 2021 Actual Revenue	\$173,534,806	2.26%
FY 2022 Approved Revenue	\$183,255,504	5.60%
FY 2023 Budget Revenue	\$193,470,439	5.57%

Total FY 2023 General Fund revenue is projected to be \$193.5MM, an increase of a little over \$10.2MM (5.6%) over the FY 2022 approved budget of \$183.3MM. This is the highest increase in the last 5 fiscal years and is driven by increases in property tax revenues (\$4.2MM) and state aid (almost \$7MM, due largely to Chapter 70 state aid).

In FY 2023, taxes will provide around 77% of the General Fund’s funding sources (property taxes and excise taxes including boat, motor vehicle, and motel/hotel taxes). Property taxes will provide 72% of funding for the General Fund (more than \$193MM in revenue). FY 2023 property tax revenue is projected to increase by almost \$4.2MM, or 3.1%. Most of FY 2023’s growth in property taxes is from the allowable increase under Proposition 2½. Property tax growth from new development and construction is conservatively projected at \$750,000, mainly due to lack of buildable land and the subdued level of new development since the initial Covid outbreak. A reserve for abatement and exemptions in the amount of \$1.6MM has been set aside for FY 2023.

Vineyard Wind is expected to make a significant contribution to new growth (tax) revenues starting in FY 2023; a Host Community Agreement was entered into with Vineyard Wind that calls for an annual payment of \$1.5MM to the Town in a combination of property taxes and a host community payment (the latter represents the annual difference between property taxes paid and \$1.5MM). The renovation of the K Mart Plaza next to the airport and across from the Cape Cod Mall is expected to generate additional revenues. In addition, increases in motor vehicle taxes and rooms tax (driven by post-Covid increases in sales and tourist activity) contribute more than \$500,000 to the overall revenue increase.

Intergovernmental revenue (\$26.2MM) is the second largest General Fund funding source, providing 13.6% of the total budget in FY 2023. Funding is driven largely by Chapter 70 Aid, Circuit Breaker Funding, and School Choice Payments, all for education funding. FY 2023 revenue is projected to increase almost \$6.8MM (34.3%) from FY 2022, a significant one-time increase driven by a change in the foundation budget formula that favored Cape Cod in general and Barnstable in particular. Barnstable qualified for “foundation aid” for the first time, which accounted for \$5.5MM of the increase.

All other sources, including reserves, comprise the remaining 10% of the General Fund and are projected to be \$19.5MM (a decrease of 3% over FY 2022). Increases in vacation/beach-related revenues (as tourism continues its upward trend), real estate tax interest and penalties, alcohol license revenues and building permit increases drove “other” revenues.

Expenditures

The General Fund budget is allocated to Fixed Costs, Municipal Costs, and Education. The budget process begins with the establishment of Fixed Cost levels for a fiscal year, which account for almost 36% of total General Fund expenditures in FY 2023. The remaining 64% of the General Fund balance is allocated between Municipal Operations (23%) and Local Education (41%) costs.

Contributing to the Town’s expense increases are:

- approximately \$700,000 increase in employee benefit costs,
- higher debt service costs,
- increases in insurance costs, and
- charter school assessments.

To balance the FY 2023 General Fund operating budget, \$1.05MM will be used from General Fund surplus, a year-over-year decrease of \$1.17MM. However, the Town expects to generate surplus in FY 2022 of \$2MM. This surplus will more than offset the reserves used to balance the FY 2023 operating budget.

Summary

Over the years, the Town of Barnstable's General Fund budgets have been models of public finance restraint. The measured, informed expansion of programs and fiscal prudence have resulted in the Town's ability to accumulate a healthy reserve fund and have contributed to the Town’s consistently excellent AAA credit rating.

The global Covid-19 pandemic and its impact on individuals and businesses battered individual incomes and, as a result, economic growth, and had a profound impact on the FY 2021 and FY 2022 budgets. As we continue to slowly emerge from the effects of the pandemic (which is arguably evolving from a pandemic to an endemic), the FY 2023 budget reflects the continued variability and uncertainty associated with the rate of economic recovery.

The proposed FY 2023 budget continues to reflect prudent decisions to closely manage hiring and manage discretionary spending to fund the most essential services and programs and maintain financial stability. CFAC continues to support the use of priority ranking of expenditures by the Town and the engaged, informed, spirited debate of potential projects and commends the Town for its continued responsible stewardship of taxpayer dollars.

SCHOOL DEPARTMENT

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 programs.

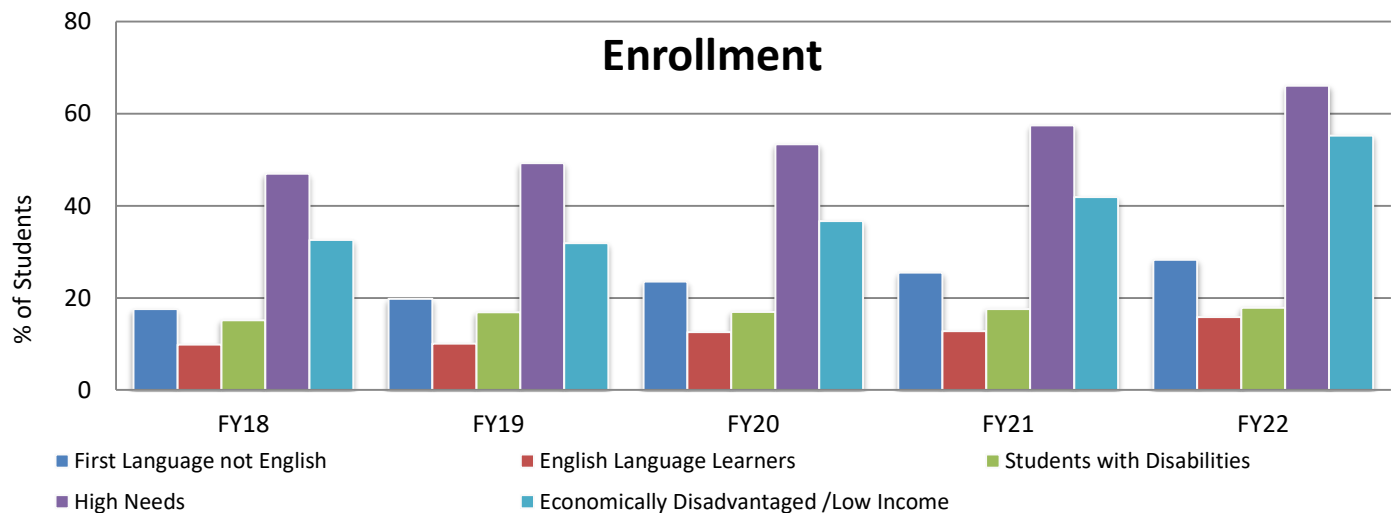
The proposed FY 2023 total school budget is \$76.7MM, an increase of \$3.3MM (4.5%) over the revised FY 2022 budget. There are many factors that underlie the increase in budgetary needs. The most significant one is staffing. While the enrollment numbers continue to decline, the need for specific areas of learning has grown dramatically. The budgeted staff related costs in FY 2022 were \$58.1MM, while the budget for FY 2023 is \$62.3MM, a 7.2% increase.

	Approved FY 2022	Proposed FY 2023	Change	Percentage Change
Salary/Wages	\$58,153,606	\$62,338,484	\$4,184,878	7.20%
Operating/Contracted Services	15,367,293	14,443,128	(924,166)	(6.01%)
Total Appropriation	\$73,520,899	\$76,781,611	\$3,260,712	4.44%

This is a result of the increased need for full time employees (FTE). A request for 6 FTE to accommodate English Language Learners, 4 FTE for Special Education, 5 FTE for Personal Care Assistants and 5 FTE for alternative learning was made in the proposed budget. An offset to that was a decrease in operational costs, which declined 6%. Some economies of scale were realized in departments such as systems administration.

Enrollment and Student Body Support

The enrollment estimates for FY 2023 are a point in time rather than a specific trend. Enrollment in FY 2022 increased by 38 students as schools reopened for in-person learning. Minor enrollment fluctuations are predicted in the next 1-5 years with +/-1% predicted. The predicted enrollment numbers for FY 2023 are 4,716 based on these past trends. There continues (as stated above) to be an increase in enrollment of economically disadvantaged (ED), English learners (EL) and high needs (HN). This change in enrollment dynamics will need to be observed going forward in order to properly support the student body.



All selected population categories increased in FY 2022 and four of the five categories exceed State averages. The district continues to adapt to educating English Language Learners with an enhanced resource commitment in FY 2023.

FY 2022 Selected Populations	% of District	% of State
First Language not English	28.3	23.9
English Language Learner	15.9	11.0
Students With Disabilities	17.9	18.9
High Needs	66.1	55.6
Low-Income	55.3	43.8

Continued effects of the Pandemic

As a result of the continued Covid-19 pandemic, the upward trend of students transferring to private schools continues. There continues to be an influx of disadvantaged and homeless students, which results in the need for more staff and services to be provided to the total population. Two examples are the increased cost of busing students out of district as well as the cost of modular classrooms to conduct more specialized classes in Portuguese, Spanish and English as a second Language.

We are struck by the school system's efforts to provide improved services. The budget proposal is a larger increase than the prior fiscal year as important challenges are continually being identified and addressed.

CFAC recommendations:

- Monitor the ongoing cost and staffing implications caused by changing student demographics.
- Continue a high-level of transparency and community involvement as school operations evolve.
- Continue to review costs in all areas of overhead, such as busing out of district.

- Continue to provide curriculum for the advance student population to ensure the district is competitive in comparison to other school districts.

DEPARTMENT OF PUBLIC WORKS

The DPW’s primary responsibilities are to maintain and improve the Town's infrastructure and related assets, to provide environmentally sound and economical safe drinking water, and to dispose of solid waste. In FY 2023 DWP will assume custodial and seasonal responsibilities for the Town’s bathhouse facilities. This additional cost will be offset by a reduction of \$50,000 from Community Services, which has previously managed bathhouse facilities.

The proposed FY 2023 Department of Public Works (DPW) budget is \$10.9MM. This is an increase of \$389,023 from FY 2022, or a 3.7% increase. The budget increases are the result of increased utility and fuel costs, additional water quality testing of the Town’s lakes and ponds, added field maintenance, new responsibility for hazardous waste disposal, and replacement of vehicles and equipment.

Public Works Dept.	Approved FY 2022	Proposed FY 2023	Change FY22 - 23	Percent Change
Personnel	\$6,299,934	\$6,459,463	\$159,529	2.53%
Operating Expenses	3,520,100	3,749,600	229,500	6.52%
Capital Outlay	650,000	650,000	-	0.00%
Total Appropriation	\$10,470,034	\$10,859,063	\$389,029	3.72%

DPW also has the enormous and challenging responsibility of managing the Comprehensive Wastewater Management Plan (CWMP) that will span decades and have a lasting positive impact on the Town's bodies of water. CWMP projects represent not only the biggest expenditure in Barnstable's history but also a critical component for the quality of life and economic vitality of our Town. To date, \$60+MM has been appropriated for 16 active projects and has been funded by the dedicated resources of the meals tax, rooms tax, Cape & Islands Water Protection Fund.

Beginning with FY 2022, CWMP had its own designated operations budget and this will continue in FY 2023. That proposed budget appears below in a separate section.

CFAC supports revenue for these projects through the FY 2021 approved sewer assessment and the debt exclusion override (CFAC report dated January 25, 2021). Through its long involvement with Water Resources Advisory Committee (WRAC) and CWMP financing, CFAC remains ready to review and assess other CWMP recommendations, when invited to do so by Town Council and/or Town Manager.

After meeting with its department section managers, CFAC notes that DPW has four major challenges for FY 2023: staffing, materials (products and construction materials), utility costs, and the construction bidding environment. All these factors will impact the budget and DPW’s ability to finance and manage its projects and operations.

COMPREHENSIVE WASTEWATER MANAGEMENT PLAN

Beginning with FY 2023 CWMP will have a separate operations budget as it increases its preparations for and construction of public sewers that will service approximately 12,000 additional properties in the Town of Barnstable.

The FY 2023 CWMP operations budget is projected to be approximately \$3.9MM, with \$1.2MM for 16.85 FTE positions to design and manage current and future construction projects and \$2.7MM for equipment, hardware, debt service, and other professional services. The funding source for this budget is the Sewer Construction and Private Way Maintenance and Improvement Special Revenue Fund reserves. This fund is projected to generate \$2.7MM revenue in FY 2023.

The Town has created and dedicated over 50% of funding sources needed for the next five years. Those sources are included in the DPW section of this report. In addition, the Town Council approved \$10,000 sewer assessment per dwelling in 2021 will help to finance this capital-intensive 30-year project.

Estimated five-year projected costs will be for preliminary and final designs for Phase I of the sewer expansion collection system projects. The project management costs will include increased staffing at a projected level around \$2MM per year, which can be financed through the 3% growth of the rooms tax. Other sources of revenue, such as a 3% growth in meals tax, and new property tax growth will add to the program cash inflows. Toward the end of the five-year plan, sewer assessments will add revenue to fund these efforts.

While the dedicated revenue sources are sufficient to pay for planning, management, and engineering costs, they will be unable to fund construction costs when construction begins in FY 2024. The construction cost for FY 2024 is estimated at \$30.9MM. FY 2025 construction cost is projected to be \$69MM, \$29MM in FY 2026, and \$69MM in FY 2027 for a total of \$199MM. The construction costs of Water Pollution Control Facility sewer expansion upgrades in Phase I will be \$40MM in FY 2025 and \$44.7MM in FY 2027 for a total of \$84.7MM. The total estimated cost of sewer construction and expansion upgrades is \$284MM.

POLICE DEPARTMENT

The proposed FY 2023 budget for the Police Department is \$16.4MM, an increase of \$1.05MM over the approved FY 2022 budget. CFAC notes the overall increase in the Police Department budget, and sees it as necessary to maintain the level of service the Police Department provides to the Town's citizens and visitors.

The Police Department budget can be broken into 3 distinct expense categories (personnel, operating and capital outlay):

- FY 2023 personnel costs will increase by a little over \$1MM versus FY 2022, driven by overtime, training, and contractual expenses.
- FY 2023 operating costs will decrease by \$25,000, with gasoline price increases offset by some declines in IT and training expenses.

- Finally, the capital outlay for FY 2023 is comprised of \$500,000 for the vehicle replacement program (outdated patrol, unmarked and all-terrain vehicles) and almost \$80,000 for technology upgrades.

In aggregate, these changes result in a 6.8% increase in the Police Department budget for FY 2023.

The Police Department is not immune to the employment-related challenges most employers have faced over the past couple of years, but these challenges have been particularly profound in law enforcement, and impact both recruiting and retention. Over the past year, the Police Department had the fewest number of applicants relative to the number of open positions in its history (the local manifestation of a nationwide trend). Further, officers have been retiring earlier than they have historically, the combination of which has left with Department with an unfilled position rate of almost 14% as of the date of this report (16 vacancies out of 118 authorized positions). This reality – which the Department is working diligently to address – means the Police Department has to pay overtime to an increasing number of officers, which offsets ‘savings’ from open-and-unfilled positions.

In this challenging staffing context, CFAC recognizes the importance of the Police Department’s officer wellness program. Barnstable is one of only a few municipalities in the state with a formal, budgeted officer wellness program, which focuses on all aspects of mental health related to job stresses, including PTSD, substance abuse, and general mental health. The budget for this program including operating costs is a critical contribution to the overall quality of the services provided by police officers to the Town.

The Police Department budget also is impacted by increasing regulatory, recordkeeping and training requirements imposed by new laws and regulations. Training is rigorous and ongoing (which results in additional overtime costs), and police reform statute has increased documentation and reporting requirements, transitively requiring additional personnel to handle the new regulatory requirements.

As is true with most organizations these days, information technology (IT) is the “central nervous system” of the Police Department. In FY 2022, the Police Department retained an outside specialist to oversee the department’s IT function. Over the past year, the vendor has identified a number of aspects of the department’s IT infrastructure that need to be improved to ensure the central nervous system remains healthy and capable of supporting all of the Police Department’s needs. The budget for FY 2023 includes more than \$400,000 dedicated to the upgrade of both managed and IT services, and contemplates the retention of the outside specialist for the coming fiscal year (the cost of which includes 24-hour support - a critical feature for a ‘department that never rests’ - and two dedicated onsite professionals).

Finally, based on its success in prior years, the department will continue its Community Service Officer (CSO) program. CSOs patrol downtown Hyannis to provide a visible presence, and they serve as police liaisons. The CSOs are not sworn officers and, therefore, do not carry weapons. CSOs are used only during the daylight hours. The CSO program has proven to be a successful recruiting tool for the department, as a number of CSOs have been trained and become sworn officers.

ENTERPRISE FUNDS

Barnstable's Enterprise Funds for FY 2023 total \$37.3MM, an increase of \$3.8MM or 11.3%.

FY 2023 Operating Budgets for Enterprise Funds:

Fund	Approved FY 2022	Proposed FY 2023	FY22-23 Change	% Change
Airport Enterprise	\$7,421,765	\$9,755,050	\$2,333,285	31.44%
Golf Enterprise	3,811,784	3,955,338	143,555	3.77%
HYCC Enterprise	3,229,834	3,724,953	495,119	15.33%
Marina Enterprise	800,120	861,581	61,461	7.68%
PEG Enterprise	881,103	953,168	72,065	8.18%
Sandy Neck Enterprise	1,093,381	1,095,273	1,892	0.17%
Solid Waste Enterprise	3,833,506	3,843,426	9,920	0.26%
Water Pollution Control Enterprise	4,860,434	5,042,568	182,134	3.75%
Water Supply Enterprise	7,594,706	8,091,162	496,456	6.54%
Total	\$33,526,633	\$37,322,519	\$3,795,886	11.32%

With the exception of HYCC, user fees support each Enterprise Fund's costs, which include all operations and capital costs. A General Fund subsidy is used when necessary.

The **Airport Enterprise** budget is increasing by \$2.3MM. Staffing costs are projected to increase by \$235,000 for contractual labor and a new project manager position. The \$18MM the Airport received in federal stimulus funds can be used for operating expenses. As a result, no Airport reserves will be used to balance FY 2023's operating budget.

Airport operations recovered better than expected after the pandemic. Air travel increased, and revenues from the car rental concessions have been very strong. On the other hand, the Airport operating expense is projected to increase by \$1.9MM. Although fuel sales are projected to increase, the cost of jet fuel has also increased, but the increased revenue from this source will be used to balance the Airport budget.

Golf operations were hardest hit by the pandemic but surprisingly rebounded from a deficit to a net surplus of \$1.5M at the end of FY 2021 and an increase in its reserves. Its budget for FY 2023 is increasing \$144,000, or 3.8%. Like the Airport, Golf's staffing contracts are increasing. The budget includes reimbursing the General Fund for support (\$34,000) and general building maintenance (\$35,000).

HYCC has not rebounded as quickly from the pandemic. The facility was closed for a significant period of time, resulting in revenues that fell short of expectation. However, expenditures were substantially decreased so that \$520,000 was returned to appropriations at the end of FY 2021. HYCC, in fact, generated a \$172,000 surplus in FY 2021.

The HYCC budget is increasing \$470,000 for FY 2023. Operating expenses are increasing \$426,000, personnel costs are increasing \$57,000, and energy costs are also increasing. Thus, the General Fund will continue to support HYCC with a transfer of the same amount allocated in the FY 2021 budget. However, revenues are expected to increase more than \$200,000 and will be able to offset more than

50% of the surplus used to balance the budget.

DPW supervises and helps determine the budgets for three Enterprise Funds: Solid Waste, Water Supply, and Water Pollution Control. Noteworthy budget changes for FY 2023 include:

Solid Waste budget is increasing \$10,000 or 0.3%, driven by increases in contractual salaries and disposal costs. It has proposed to increase transfer station stickers \$30 to \$300 to fund the cost of the solid waste operation. Even with this increase, \$71,000 from its surplus fund will be needed to balance its FY 2023 operating budgets.

The **Water Supply** budget is increasing \$496,000 or 6.5%. The management company contract is increasing \$398,000. On the other hand, there is a decrease in personnel costs for retirement assessment. A proposed 7% increase in water rates will cover the operations cost increases. No surplus funds will be used to balance the budget.

Water Pollution Control budget is increasing \$182,000 or 3.7%. Personnel cost increases will be \$154,000. New entry-level positions will be added for wastewater treatment plant operations, as the Town prepares for the expansion of the sewer system. A proposed 4% increase in sewer rates will cover the increased operations costs. No surplus funds will be needed to balance the budget.

Marina operations performed well in FY 2021. Its FY 2023 budget is increasing \$61,000. Personnel costs are increasing by \$34,000, and operating expenses are increasing \$32,000 and capital outlay is decreasing \$5,000. \$65,000 of reserves will be used to balance the FY 2023 operating budget. It should be noted that FY 2022 operations would generate a \$65,000+ surplus that can be used to replenish the amount needed to balance the FY 2023 budget.

Sandy Neck also performed well in FY 2021. Both Marina and Sandy Neck reflected the return to outside activities. Sandy Neck FY 2023 operations will increase \$1,900. Costs for new personnel, a replacement vehicle, and implementation of a new rescue vessel will be offset by a reduction in reimbursement to the General Fund. A total of \$107,000 in surplus funds will be used to balance the budget. It is anticipated that FY 2022 will generate revenue of this same amount so that the reserve fund will be replenished.

PEG operations will increase \$72,000 mostly for the purchase of broadcast equipment. No reserves will be used to balance the budget.

Conclusion

Every enterprise fund generated a surplus at the end of fiscal year 2021. With the exception of HYCC and water, most of the enterprise funds have reserves that are 25 to 50 percent of their operating budgets. These reserves provide a cushion, since the enterprise funds are dependent on user fee revenues.

The Enterprise Funds remain self-supporting through their user fees. In many operations, no surplus funds will be needed to balance their budgets. HYCC remains the exception, but its anticipated revenue will offset its deficit by more than 50%.

Personnel and seasonal staffing are the primary cost increases. The increase in labor costs and difficulty in recruiting qualified staff are challenges across the country. It is a challenge that faces the Town of

Barnstable.

FIXED COSTS

Fixed costs are always funded from total revenues before net resources are available for municipal and school budgets. The actual fixed cost percentage of the total budget has remained consistent through fiscal years because these costs are usually known during the budget process. They have remained constant at 29-30% of the General Fund budget for a number of fiscal years. However, it is anticipated to account for 36% of the FY 2023 General Fund budget.

The budget for fixed costs is mainly impacted by changes in debt service, employee benefits, availability of funds to transfer to the Capital Trust Fund and snow and ice removal deficits. Because employee benefits costs and expenses have historically trended higher, CFAC notes that fixed costs are projected to increase 5 to 10 percent annually for future years.

The sources of revenue to cover fixed costs come from taxes, intergovernmental aid, interest, special revenue funds, enterprise funds, trust funds, and General Fund reserves. Revenue sources include: taxes, transfers from other funds, intergovernmental, and General Fund reserves. Revenue also includes an annual contribution to the Capital Trust Fund, which is used to fund capital projects.

Revenue

Approved FY2022	Proposed FY2023	% change FY22 to23
\$65,661,074	\$69,682,838	6.13%

Fixed cost expenditures include the costs for debt service, employee benefits, premiums for liability and casualty insurance, celebrations, Lombard Trust lease payments, grants to the public libraries and for tourism, transfers, and state, county, and other regional agency and school assessments. Employee benefits include retirement assessments, health insurance for active employees, retiree health and sick benefits, workers' compensation and unemployment, and Medicare and life insurance, as well as Other Post-Employment Benefits (OPEB).

Employee benefits comprise 40% of fixed costs, transfers 19%, school assessments 18%, and debt service 10%. Employee benefits, school assessments, property and liability insurance and snow & ice removal deficits are the biggest contributors to the growth of the fixed costs budget for FY 2023.

Expenditures

	Approved FY 2022	Proposed FY 2023	\$ Change	% Change
School assessment	\$11,912,970	\$12,772,209	\$859,239	7.21%
Employee benefits	27,128,304	27,806,282	677,978	2.50%
Debt service	6,320,128	6,798,286	478,158	7.57%
State/county assessments	3,019,211	3,102,975	83,764	2.77%
Transfers to Enterprise Funds	1,421,458	1,421,458	-	0.00%
PCL insurance	2,150,000	2,500,000	350,000	16.28%
Library grants	1,948,000	2,035,660	87,660	4.50%

	Approved FY 2022	Proposed FY 2023	\$ Change	% Change
Snow/ice removal deficit	341,107	800,000	458,893	134.53%
Other miscellaneous costs	377,000	377,000	-	0.00%
Transfer to CTF	11,042,896	12,068,968	1,026,072	9.29%
Total Fixed Costs	\$65,661,074	\$69,682,838	\$4,021,764	6.13%

The FY 2023 2.5% increase in employee benefits is primarily due to an increase in retiree health insurance costs and the County pension assessment. Other employee benefit cost increases include OPEB contributions and Medicare and life insurance. Employee benefits in FY 2022 are 41.3% of fixed costs and are anticipated to be 39.9% of fixed costs in FY 2023. The 16.28% increase in insurance premiums is partly the result of inflation and partly the results of being a coastal community.

The ability to fund fixed costs will depend on revenue growth in the General Fund. The projected FY 2023 General Fund revenue is \$193,470,439. This is an increase of 6.2%. In addition to the growth of General Fund revenue, the Town has established a formula to increase the Capital Trust Fund contribution which is used for the Town's capital program. The formula is to increase the base contribution by 2.5% per year. This amount will be added to the new property tax growth over \$1MM that also goes into the CTF.

Beginning with FY 2023, \$750,000 of new property tax growth from new development will go into the capital program annually for the next 5 years. Added to the standard 2.5% increase, this new \$750,000 will increase the Capital Trust Fund by \$1,026,072.

It should be noted that if there is an increase in employee and retiree health insurance rates and an increase in debt service through the issuance of notes and bonds for the CWMP, the total budget for fixed costs will be increased and require additional funding.

FUTURE FINANCIAL NEEDS

Comprehensive Wastewater Management Plan (CWMP) The Town's primary financial issue is the funding of CWMP. It will be the biggest expenditure in the history of the Town of Barnstable with a total estimated cost of \$1.1B over the course of 30 years. CWMP will span many local and national economic cycles, many Town leaders, and generations of property owners.

CFAC expressed its support for a sewer assessment and a property tax override in its CWMP Financial Management Plan Report (January 25, 2021) submitted to Town Council and the Town Manager. A sewer assessment of \$10,000 was approved by the Town Council in 2021. CFAC points out that a sewer assessment and a property tax override will defray only part of the cost of this project, so the current Town Administration and Town Council face the challenge of establishing the basic financial and public works foundation to ensure its stability and success.

Finance Director Mark Milne created a model of assumptions and funding sources for CWMP to ensure a positive fund balance throughout the program. The model has the capability to show the changes to total funding if changes in any funding source occur. CFAC believes that this is an invaluable model in projecting and adapting to any changes in funding sources.

Current CWMP revenue sources include:

- 33.3% of traditional lodging tax and 100% of local meals tax. If the other 66.7% of the rooms tax were redirected from the General Fund, it would affect the operating budget.
- 100% of short-term rental tax.
- The Cape Cod & Islands Water Protection Fund.
- Low interest loans through the state's Revolving Loan Fund program and Town bonds can be issued at reasonable interest rates, given the Town's AAA rating.
- General Fund.

CFAC had previously suggested Water Infrastructure Investment Fund (WIIF) and local tax on real estate transfers as sources of funding for CWMP. Estimates of potential WIIF revenue would be about \$3MM annually. The local tax on real estate would require legislative action, a long and time-consuming process. A property tax override, which requires a referendum, is an option.

Based on the financial update on CWMP presented on April 7, 2022 to Town Council, a property tax override referendum needs to take place by the Fall of 2023 (FY 2024) to enable better FY 2025 budget development planning. Before a referendum can take place, 1) Town Administration will recommend to Town Council to use the property tax override, 2) Town Council must approve the placement of a question of override on a ballot, and 3) Town officials will hold public meetings to explain the need for the property tax override and to answer questions.

Staffing All departments have been challenged by recruitment and hiring of staff. It is a nationwide problem and is not unique to the Town of Barnstable. The competition for staff with commercial companies has also made it more difficult to attract and retain municipal employees. While businesses often pass rising costs along to customers, governments do not have that option. The cost of housing also adds to the challenge of hiring entry and junior level staff. The current competitive labor market and sharp increases in wages will likely make it necessary for departments to adjust their salary levels to successfully recruit staff.

Inflation A cautionary final note: It has been 40 years since the nation experienced double digit inflation. If inflation continues at or near its present trend, it will have a significant, multi-faceted impact on the Town's finances. Town leaders would then need to carefully consider multiple factors, including the impacts of inflation, the significant role property taxes play in overall Town revenues along with Proposition 2½ limitations, other budgetary tools and constraints, and budget allocations in its role as steward of the Town's operations and finances.

Acknowledgment

CFAC would like to thank Town Finance Director Mark Milne and Budget Analyst Nathan Empey for their advice and assistance in the Operating Budget process.