

CFAC Report: Operating Budget FY18

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 FY18 Operating Budget to the Town Manager and Town council.

Methodology

The review was conducted by a four-member CFAC subcommittee composed of Allen Fullerton, Joseph Mladinich, John Schoenherr, and Lillian Woo. Agency heads and the school superintendent met with the full CFAC committee and discussed priorities for their respective 2018 budget requests. Town Finance Director Mark Milne and his staff provided CFAC with updates of revenue projections, scheduled changes 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

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Overview

Quality of Life

The FY18 budget reflects the Town Council's priority of enhancing the *Quality of Life Initiatives*. In particular, this budget includes additional spending in the following areas:

- ✓ Increased police presence
- ✓ Increased conservation and water quality initiatives
- ✓ Increased shellfish programs
- ✓ Increased youth programs
- ✓ New academic programs
- ✓ State-of-the-art learning center at the high school

Fiscally Sound

The Town of Barnstable has a long tradition of operating within its means. Despite the ever-increasing expenditures for post-employment benefits (OPEB), acquisitions of new equipment, and needed facility maintenance, the FY18 budget transfers only a judicious and prudent amount from the reserve fund.

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 proposed operating budget for 2018 is \$184,552,416. This is a \$6,252,374, a 3.51% increase over 2017.

Open Budget

CFAC commends the successful launch of the Open Budget last year. Citizens now have easy access to the budget through the Town's website, which has increased transparency of the cost of the Town's operations, capital expenditures, and other commitments. CFAC believes that Town departments also make use of the site for their own updates. To further increase public and Town use of the open budget, the FY18 budget includes a new guide to more easily read and navigate the budget



Caution: Additional Financial Issues Ahead

Numerous financial issues are ahead. Among them are:

- ❖ Cape Cod Regional Technical High School – replacement of existing building
- ❖ Clean water
- ❖ Storm Water Discharge System – meeting the federal requirements

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Financial Forecasts

CFAC has traditionally commented about the value of financial forecasts in determining a fiscally sound and balanced budget. We applaud the Town Manager and his staff for developing a comprehensive forecast that considers thoughtfully the Town's finances, revenue and expenditures. The forecasts have been ten year projections, and the latest one covers FY18 through FY27.

CFAC recommended in prior years that the forecast be limited to a five-year horizon, due to its large dependency on local, regional, and national economic data. Given the sensitivity of the forecast to this data, the shorter horizon will be more reliable.

CFAC is pleased to learn that the Town Council has found merit in this recommendation and has taken steps, including changing the Town Charter, toward switching over to a five year forecast,

General Fund

The proposed FY18 General Fund budget of \$160,184,435 is an increase of 4.33% over the FY17 GF budget. This is a larger increase than the 0.10% of the FY17 GF budget over FY16 budget. The FY18 increases are the result of percentage increases in dollars of the school budget (2.79%), municipal operations (3.08%), other expenditures (5.82%), and transfers (28.09%).

The school budget as a percentage of the General Fund decreased from 43% to 42%; municipal operations decreased from 25% to 24%; other expenditures increased from 29% to 30%; and transfers increased from 3% to 4%.

The largest changes in expenditures for FY18 are an increase of 7.46% for employee benefits (an increase of 14.6% to 15% of the GF) and an increase of 8.64% for property and casualty insurance.

One of the new initiatives for FY18 is the establishment of a new Enterprise Fund: Public, Educational, and Governmental (PEG) television access programming.

Town revenue remains robust despite a decrease in state aid. Property tax is forecast to increase 3.71%, and excise tax is predicted to increase 6.53%. There is also a \$1 million transfer from the GF to reserves to the Capital Trust Fund.

Overall, the proposed General Fund for FY18 reflects the rigor, accuracy, and fiscal restraint of the Town Manager, Finance Director and staff, and Town departments in establishing budget priorities. CFAC once again commends the Town for its responsible stewardship of taxpayer dollars.

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Enterprise Funds

One of the advantages of an Enterprise Fund is that it clearly identifies the total cost of a service. Each Fund is accounted for separately; showing both the revenue and expenses for the services provided. From this type of accounting it is then possible to study each Fund in a number of different ways. One of the ways CFAC found interesting was to look at the level of Subsidy required to deliver the service. The Town of Barnstable in FY18 has nine funds, and it is expected that six of the Funds will not require a subsidy, but three will (Golf, HYCC, and Marinas). The table below shows the amount of subsidy projected for FY18.

Enterprise Fund	FY18 Budget	Subsidy	
		Dollars	% of Budget
Water	\$ 6,789,486		
Airport	\$ 6,508,537		
Sewer	\$ 4,601,261		
Golf	\$ 3,554,772	\$ 175,217	5%
Solid Waste	\$ 3,428,020		
HYCC	\$ 3,379,599	\$ 2,141,599	63%
Sandy Neck	\$ 1,018,462		
Marinas	\$ 839,067	\$ 58,831	7%
PEG	\$ 811,627		
Total	\$ 30,930,831	\$ 2,375,647	

The Golf Fund is considering a capital improvement to the Hyannis course. The improvement is expected to increase usage, but it is not certain the extra revenue will offset the additional expenses. The improvement could potentially increase the amount of subsidy required by the Town.

HYCC will continue to require a large portion of its funding from the Town.

Police

The FY18 budget shows an increase of \$427,955 or 3.19%. CFAC continues to recognize the increase needed to sustain the level of service to the community that the police provide to cover the Town's growing areas of *Quality of Life* concerns and safety needs. This budget includes \$189,667 to hire nine (9) full-time equivalent employees (FTEs) to support the police dispatch center. This funding will provide the money necessary to cover the additional staff for six months, from January 2018 through June 2018. The FY19 budget will include a full year of expenses needed for this initiative. The capital outlay includes \$270,000 for six new patrol cars and \$79,500 for computer hardware and software. Tax support will increase by \$533,795 in FY18 and provide most of the funding for the department.

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School Department

Note: The school budget discussed here includes the public schools within the Town of Barnstable, and 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.

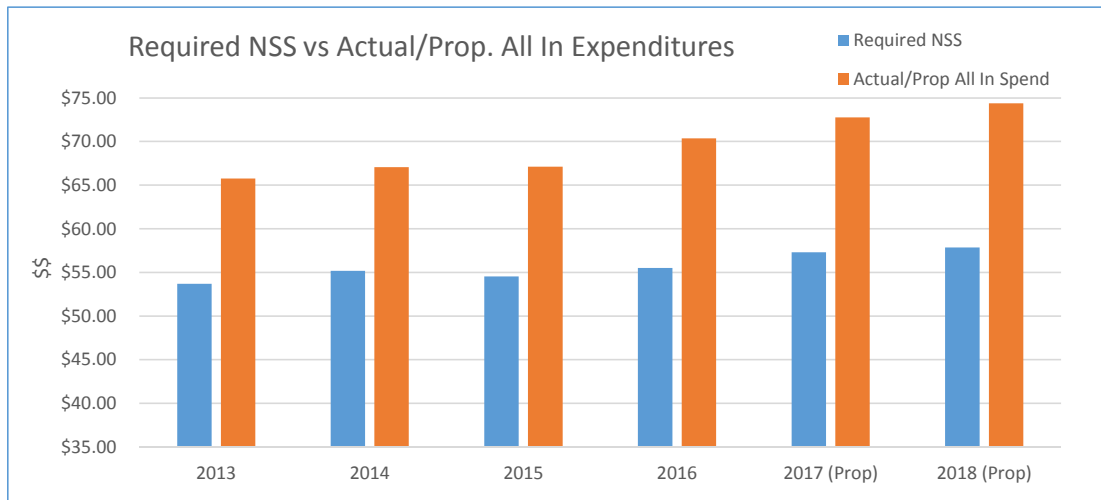
The FY18 school budget shows that since FY13, the number of students in the Barnstable school system was substantially unchanged and had only increased by 1.4% (5,227 versus 5,298 FY18). The FY18 budget indicates an increase of 60 students over FY17 projected student enrollment. CFAC notes that the number of students in FY02 was 7,049.

FY18 Total “All In” school expenditures (which includes benefit allocations such as county retirement, health insurance, life insurance, and Medicare) have increased by 13.1% since FY13 (\$65.78 million vs. \$74.39 million). On a per student basis, total school spending has increased by 11.6%. In FY17, we will be spending about \$13,891 per student per year.

The FY18 budget of \$14,041 per student spending is 28.6% above the state-required amount (\$74.39 million proposed vs. \$57.86 million Net School Spending (NSS)).

	Fiscal Year	Enrollment	Staffing - FTE's	(1) ACTUAL / Approved Budget Millions \$	Actual/Prop Expenditures per student	Required Net School Spending Millions \$	% over (under) Required NSS	Total All in School Expenditures Millions \$	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	5,204	834.15	\$64.25	\$12,346	\$55.52	15.7%	\$70.37	\$13,522	26.7%
	2017 (Prop)	5,238	840.40	\$66.05	\$12,610	\$57.30	15.3%	\$72.76	\$13,891	27.0%
	2018 (Prop)	5,298	841.70	\$67.88	\$12,812	\$57.86	17.3%	\$74.39	\$14,041	28.6%
6 yr trend	FY13/FY18	1.4%	3.2%				7.7%	13.1%	11.6%	
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.										

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The table below is a comparison of Required Net School Spending (actual % over required spending) for several surrounding school districts. The Barnstable school district is at the lower end of the percentage range. For example, in FY16 Barnstable was 27.2% above required spending while Sandwich was 34.8% and Falmouth was 45%.

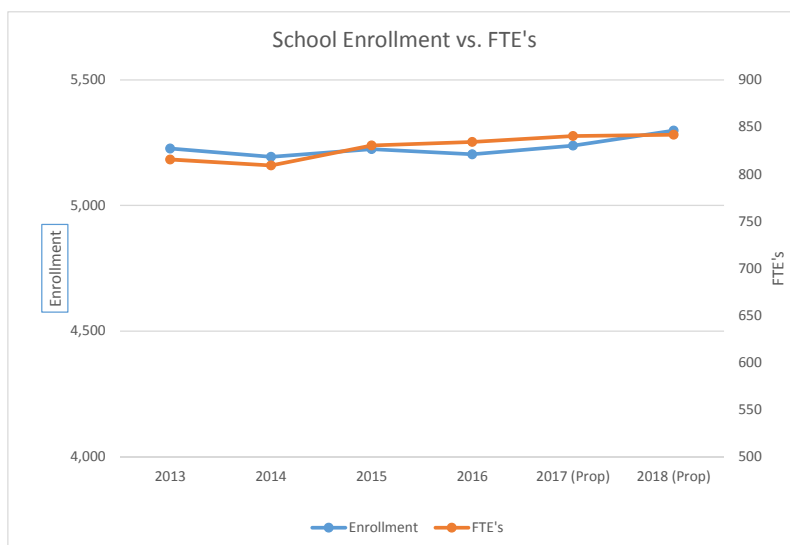
NET SCHOOL SPENDING COMPARISON (ACTUAL PERCENTAGE OVER REQUIRED)

FY	Barnstable	Falmouth	Sandwich	DY Regional	Mashpee	Plymouth	Arlington	Needham
2007	10.1	16.4	8.5	12.6	24.0	15.8	25.5	35.0
2008	12.7	22.7	15.0	16.6	24.3	18.6	29.6	35.6
2009	17.4	28.4	20.0	20.6	26.6	19.6	26.7	38.3
2010	10.9	30.3	17.5	17.3	24.0	17.1	29.2	44.7
2011	12.6	34.9	19.6	21.4	24.1	16.6	22.1	41.9
2012	16.1	36.7	20.1	20.9	28.9	18.4	32.2	39.8
2013	15.2	35.4	18.7	25.0	26.5	18.4	27.3	41.1
2014	18.3	29.7	22.6	25.2	29.4	18.8	24.5	42.8
2015	24.3	41.4	30.2	30.7	32.8	22.7	28.2	50.1
2016	27.2	45.0	34.8	34.7	41.8	28.5	31.9	55.3

The Town Administration, Town Council, and the School Committee should review other school districts budgets and identify any significant variations from the Barnstable’s 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% to school operations and 40% to municipal operations.

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The FTE Table below shows there has been an upward trend in FTE headcount; up 3.2% since FY13 (vs 1.4% increase in enrollment of 5,227 since FY13). The FTE increase trend is in line with the upturn in enrollment. This is an improvement over FY17 data that showed a FTE upward trend and a downtrend 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.



Caution: Financial Issues Ahead

There are a number of projects looming on the horizon, and three of them deserve special notice:

- ❖ Cape Cod Regional Technical High School – replacement of existing building
 - Estimated cost to Town of Barnstable is \$1.8M per year for 30 years
- ❖ Clean water
- ❖ Storm Water Discharge System – meeting the federal requirements

These issues are expensive and outside of the normal budget. CFAC feels that it would be prudent to begin considering methods to fund these projects. Among the possibilities are:

- Increasing / Decreasing the allocation of funds between Capital and Operating Budgets
- Overriding Proposition 2 ½ for specific projects
- Improvements to the existing Storm Water Discharge System could also be realized by other means, such as additional street cleaning and utilizing porous paving/natural systems for storm water runoff

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CFAC notes that within the last 28 years, 13 referendums for an override to Proposition 2 ½ or Debt Exclusion have been on the ballot and four have passed, as the table below shows:

Date	Ballot Question	Type	Amount	Yes	No	% Yes	Win/Loss
01-Oct-89	Building and Road Repair	Capital Outlay Exclusion	\$ 3,000,000	2,307	4,320	34.8%	Loss
01-May-90	School Operations	Prop 2-1/2 Override	\$ 1,700,000	3,570	3,448	50.9%	WIN
12-Apr-92	New Middle School	Debt Exclusion	**	3,386	2,780	54.9%	WIN
02-Nov-93	New Senior Center	Debt Exclusion	**	3,546	6,311	36.0%	Loss
07-Nov-95	Sanitary Landfill Closure	Debt Exclusion	**	2,844	2,864	49.8%	Loss
16-Jan-96	High School Renovation	Debt Exclusion	**	3,463	2,274	60.4%	WIN
16-Jan-96	Hyannis Middle School Renovatoin	Debt Exclusion	**	3,349	2,381	58.4%	WIN
03-Nov-98	One Fire District Study	Prop 2-1/2 Override	\$ 20,000	3,375	14,884	18.5%	Loss
25-May-99	Municipal and School Budget	Prop 2-1/2 Override	\$ 3,800,000	3,315	6,055	35.4%	Loss
15-May-01	School Operations	Prop 2-1/2 Override	\$ 6,744,695	4,983	6,134	44.8%	Loss
04-Nov-03	Municipal and School Budget	Prop 2-1/2 Override	\$ 7,200,000	5,903	9,461	38.4%	Loss
02-Nov-10	Funding Private Ways	Stabilization Fund Override	\$ 3,000,000	3,469	15,612	18.2%	Loss
02-Nov-10	Sewer Stabilization Fund	Stabilization Fund Override	\$ 75,000	5,235	13,862	27.4%	Loss
**	Dollar amounts not required for Debt Exclusion						

In the March, 2017 Capital Improvement Plan (CIP) report, CFAC made the following observations about the Capital Trust Fund:

Capital Trust Fund. (CTF). Limited by Proposition 2 ½, the Town annually transfers a sum of money from the General Fund to the CTF. Currently, the CTF is approximately \$11 million of which \$8.64 million comes from the tax levy. Requests for capital improvement projects traditionally exceed the CTF's ability to fund them. To increase the available funds for capital projects, CFAC recommends that the Administration consider increasing contributions to CTF through a designated percentage of income generated by the Town's solar projects, free cash, beach sticker increased fees, and transfer station increased fees, among others. CFAC also recommends that the balance in the overlay accounts be placed into the CTF.