

COMPREHENSIVE FINANCIAL ADVISORY COMMITTEE (CFAC)

CFAC Report: Operating Budget

FY20

Subcommittee members

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CFAC provides financial advice to the Town Council on the yearly operating and capital budgets for all town agencies, including the school department budget 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 Section III, Paragraphs A-C.

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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 FY20 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 FY20 budget requests. CFAC met with the Finance Director of the School Department, the Assistant Director of DPW, the Director of the Airport, Police Chief and Director of Finance and Support Services for the Police Department, and had discussions 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. 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

The FY20 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
- Increased funding for the Capital Program

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 FY20 Operating Budget to fund municipal or local school operations. By maintaining a balanced budget, the Town is able to

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maintain a consistent and reliable level of services., There is a debt exclusion override included in the budget to cover the assessment from the Cape Cod Technical High School for the new school construction as approved by the voters in 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 FY20 Operating and Capital Budgets for the Town of Barnstable are \$244 million. The Operating Budgets for the General Fund and the Town's nine Enterprise Funds are \$210 million, and the Capital Improvement Projects budget is \$34 million. Reserves used to balance the Operating and Capital Budgets total \$5.3 million. The Operating Budget of \$210 million represents an increase of \$7.8 million or 3.8%. The Operating Budget for FY19 is \$191,259,753.

Restructuring and Reorganization

Beginning with FY19 the Town initiated a restructuring of departments to increase efficiency, effectiveness, and accountability in the operations of Town government functions and responsibilities. It focused on streamlining operations, consolidation of duplicate functions and responsibilities, realigning departments to include related functions, and simplifying citizen interaction with town agencies. The reorganization had an important impact on the budget. There were realized budget savings by eliminating duplicate functions and inefficiencies. Through systematic management of physical assets, there was established centralized information about maintenance, repair, and improvements to existing structures owned by the Town. This information helps determine priorities for both capital improvement and operating budgets.

The reorganization resulted in a reallocation of both staff and resources for more efficient operations and easier access by the public. As demands for town services increase, the reorganization has been able to maintain fiscal stability that allows the Town to grow and operate with balanced budgets and continuity of services. In the long run, budget savings from the reorganization will allow Town government to do more with its revenue.

As a follow up to the major reorganization of several town departments in the FY19 budget and a change in the Town's Charter, the position of Town Collector will be eliminated in November 2019. The offices of Treasurer and Collector will be consolidated and established within the Finance Department. There have been completed both a new organizational structure and job descriptions. Staff resources will provide additional staff in the Collections Office in order to reduce the backlog of work currently in that area. No additional positions will be added to the Finance Department. Instead, a reorganization of existing staff resources has been conducted.

The Town continues 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 good governance.

Council Reserve Fund

Beginning in FY19 the Town established a Council Reserve Fund. This fund enables the Town to respond with immediate funds when some critical situations arise. It replaces the regular appropriation process which normally takes some time. The Director of Finance reviews the

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request for funds to ensure that the expenditure is appropriate, and the Town Council is required to approve it prior to the expenditure. While CFAC understands the purpose of the fund and the occasional need to act quickly, care should be given to ensure that the amount of money dedicated to the fund remains small and that the internal controls created to insure accountability are strictly followed. The annual budget allocates a specific amount to the Reserve Fund to be used as needed. Money unused is returned to cash reserves at the end of the 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 provides a good tool for the public to become acquainted with Town departments and their operations.

REVENUE

Projected Revenue

The proposed FY20 Operating Budget forecasts an increase in revenue of 3.8% to meet the proposed expenditure budget for Town departments and services.

Revenue Forecasting

Revenue forecasting is an important element of the Town Operating Budget. 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. 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 revenue is both conservative and accurate. It needs to be conservative to ensure that the Town lives within its means, as well as to reassure both the investors of our municipal bonds and our credit rating agencies that the Town is committed to fiscal prudence. In addition, the revenue projections need to be accurate to enable the Town Manager and Town Council to have adequate funds provided for critical services and programs.

CFAC recommends that Town Council carefully evaluate revenue projections.

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General Fund

General Fund Budget	Amount	Change from Prior Year
Actual FY18 GF Revenue	\$162,797,465	3.6%
Budget FY19 GF Revenue	\$172,264,895	5.8%
Budget FY20 GF Revenue	\$177,418,316	3.0%

The total General Fund budget for FY20 is increasing \$5.2 million over the FY19 budget, which represents a 3 % increase. This is a smaller increase than the increase from FY18 to FY19. The General Fund will use \$2.4 million of reserves to cover the projected snow and ice removal deficit of \$500,000, \$610,000 for employee benefits, \$250,000 for the Town Council Reserve Fund, and \$1,082,900 for one-time costs included in the school and municipal operating budgets. The General Fund is projected to have a \$2 million surplus at the end of 2019 thereby replenishing most of the money used to balance FY 20.

Total resources used to balance the budget are increasing \$6.5 million, which results in a decrease of \$1.3 million in reserves. Taxes provide 77% of the funding for the General Fund budget. This includes property taxes, motor vehicle excise and rooms excise tax. Most of the revenue growth in FY20 is in property taxes since a debt exclusion for the Cape Cod Regional Technical High School was added to the tax levy in FY20. Intergovernmental aid is the second largest funding source and provides 11% of the total funding for the General Fund budget. This category of revenue is \$1.3 million less in FY20 as state funding for local school construction projects is expiring. All other sources, including reserves, comprise 12% of the total funding sources used to balance the budget.

FY20 General fund expenditure increases over FY 19 include:

• Total school assessments	\$2,945,500
• Employee benefits	\$1,431,385
• Fixed costs (This includes school debt that has expired)	-\$3,368,873
• Transfers (This includes a contribution to the Capital Trust Fund)	\$670,770
• School operations	\$1,597,000
• Total municipal operations	\$1,878,640

Total net increase to the General Fund Operating Budget	<hr/> \$5,154,422 (or 3%)
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The proposed General Fund budget for FY20 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.

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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 FY20 school budget is \$72.2 million, an increase of \$1.6 million (2.3%) over the FY19 approved budget. The FY20 budget represents 41 % of the overall General Fund budget.

The FY20 school budget shows that compared to FY15 the number of students in the Barnstable school system has decreased by 2.5%, from 5,224 in FY15 to 5,093 FY20 projected enrollment. The FY20 budget indicates a decrease of 31 students over FY19 projected student enrollment. Thus, when compared to FY19 budget, the FY20 school budget increased by 2.3% while projected student enrollment has been substantially unchanged during this period.

The FY20 total “All In” school expenditures have increased by 19.6% since FY15 (\$67.12 million vs \$80.27 million). On a per student basis, total school spending increased by 22.7% during this period. The FY20 budget of \$ 15,761 per student spending is 27.6% above the state-required amount (\$80.27 million proposed vs \$62.93 million Net School Spending (NSS)).

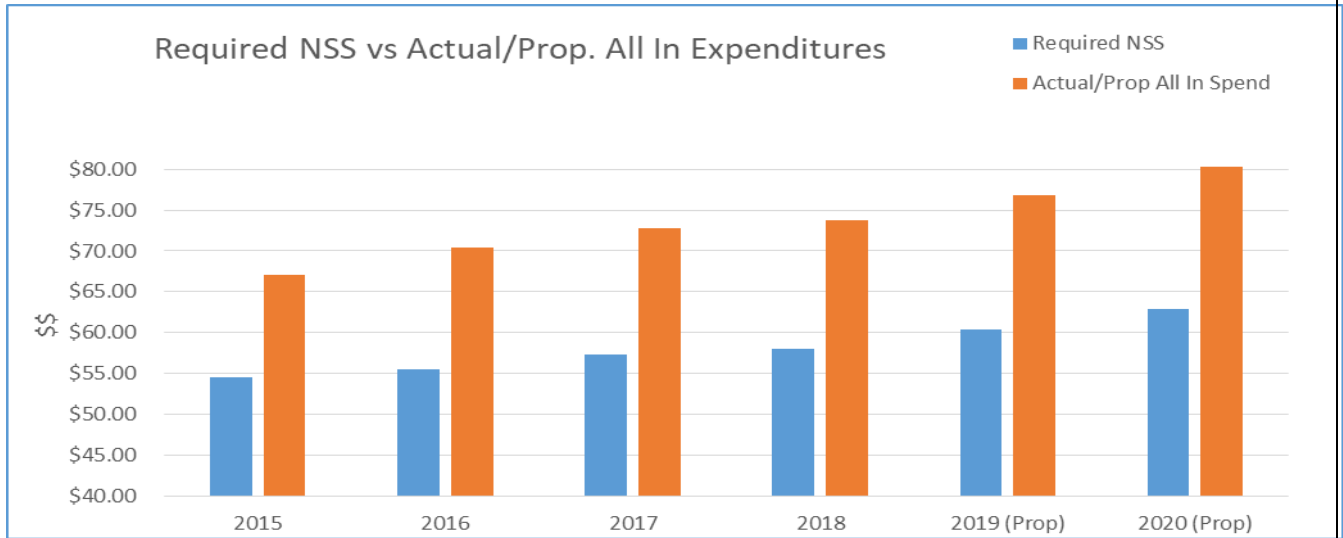
Note: For comparison to NSS, we used “All In” expenditures, which include benefit allocations.

Fiscal Year	Enrollment	Staffing - FTE's	(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
FY15	5,224	830.4	\$62.07	\$11,882	\$54.55	13.8%	\$67.12	\$12,849	23.0%
FY16	5,204	834.2	\$64.25	\$12,346	\$55.52	15.7%	\$70.37	\$13,522	26.7%
FY17	5,238	840.4	\$65.47	\$12,499	\$57.30	14.3%	\$72.76	\$13,891	27.0%
FY18	5,177	841.7	\$67.83	\$13,102	\$58.06	16.8%	\$73.77	\$14,250	27.1%
FY19	5,081	848.9	\$70.64	\$13,902	\$60.39	17.0%	\$76.80	\$15,115	27.2%
FY20 (est)	5,093	848.9	\$72.23	\$14,182	\$62.93	14.8%	\$80.27	\$15,761	27.6%
Trend	-2.5%	2.2%	16.4%	19.4%	15.4%	7.2%	19.6%	22.7%	19.6%

Note:

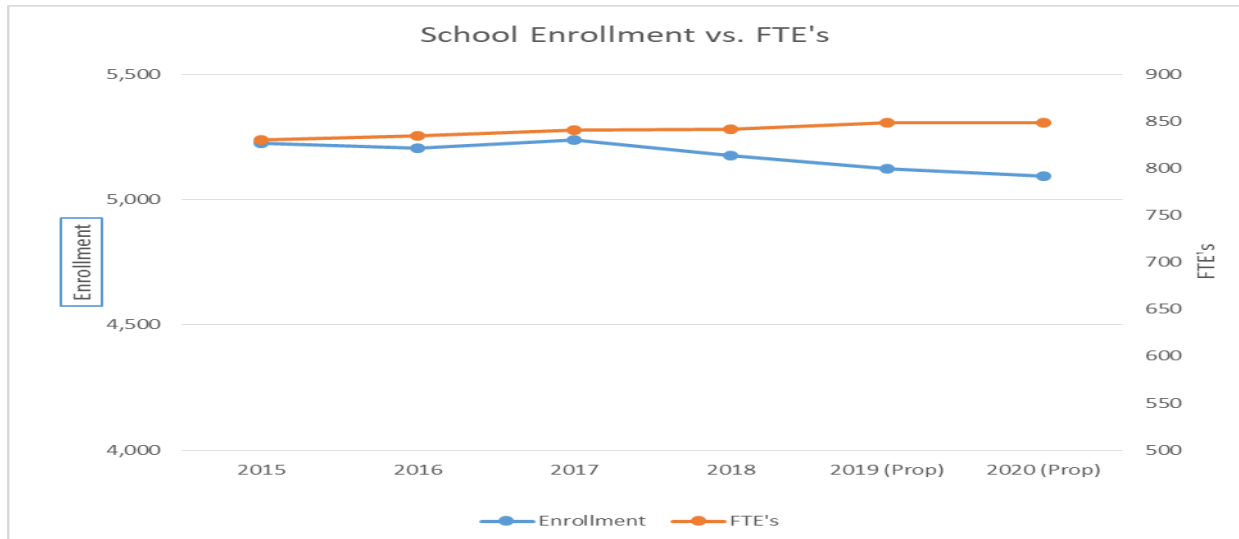
(1) Starting in FY13, the administration has removed health insurance expenses from all departments. Thus, approximately \$6M to \$8M in school expenses are now located in the line item for insurance for the Town.

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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 chart below shows that there has been an upward trend in FTE headcount. It has increased 2.2 percent since FY15. However, student enrollment has decreased 2.5 percent during this period.



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The FY20 budget included a table relating to the Massachusetts Comprehensive Assessment System (MCAS) Tests for 2018. 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 362 of the FY20 Operating Budget). In reviewing the table, CFAC noted that the district did not meet or exceed expectations when compared to state in 11 of the 14 grade and subject categories. The MCAS Tests for 2017 (FY19 Operating Budget) also indicated that the district did not meet or exceed expectations when compared to state in most of the grade and subject categories.

Plans are in place to improve performance across all grade levels, however CFAC recommends that these plans be summarized in the school operating budget proposal.

POLICE DEPARTMENT

The proposed FY20 budget is \$15,342,667, an increase of \$636,129 from the approved FY19 budget. This is a 4.3% increase. Most of the increase will pay for contractual labor costs, training, replacement of older vehicles, and technology upgrades. CFAC supports the increase and sees it as necessary to maintain the level of service.

FY20 personnel costs will increase by \$418,158. Operating costs will increase by \$22,171. Capital Outlay for FY20 is \$555,800. Capital outlay includes \$500,000 for vehicle replacements, \$20,800 for replacement of radios & related equipment at the dispatch center, and \$35,000 for Taser replacements. Tax support will increase by \$352,613 to fund part of the increased budget.

Based on its success in prior years, the department will continue its Community Service Officer (CSO) program. The CSOs patrol downtown Hyannis and provide a visible presence. The CSOs also serve as police liaisons. 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 a successful recruiting tool for the department. A number of CSOs have been trained and become sworn officers.

ENTERPRISE FUNDS

The proposal calls for an increase of \$2.6M over last year's total for all Enterprise Funds of \$30.7M. This represents an increase of 8.6% , which is more than five times the U.S. inflation rate over the same period. Over \$1.9M (or 73%) of the \$2.6M increase is in the Airport Enterprise Fund. General Fund expenditures, by comparison, are slated to increase only 3% in FY20.

Three Department of Public Works funds – Solid Waste, Water Pollution Control, and Water Supply – total \$15.2M, or 45% of FY20 Enterprise Fund spending. Three Community Services-managed funds – Golf, Hyannis Youth & Community Center (HYCC), and Public Television (PEG) – amount to \$8.2M, or 24% of the total. The Airport Enterprise Fund budget of \$8.0M

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equals 24% of the total and is the largest of the nine funds. Two Marine & Environmental Affairs funds – Marinas and Sandy Neck – account for the balance of \$2.0M or 6% of planned Enterprise Funds expenditures.

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. Both the costs and revenues of an enterprise fund are segregated from other finances of a municipality. This practice enables a municipality to recover total costs of a given service through user fees, if it so chooses.

In the interests of fiscal discipline and accountability, CFAC recommends that Enterprise Fund user fees be maintained at current levels or increased as appropriate, and at the same time consider carefully ways to manage expenses.

CFAC urges that attention be paid to the continuing depletion of Enterprise Fund reserves. The FY20 budget calls for \$2.9M of reserves to be used for operations of the nine Enterprise Funds. This will bring aggregate Enterprise Fund reserves to \$19.3 million, the second lowest level in the last eight years. CFAC would not want this level to decline any further.

CFAC remains concerned about the Airport Enterprise Fund. 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. Town Council has approved the Airport Commission to enter into a 49 year lease (which has not been approved yet) which will bring much needed revenues to the airport. Nonetheless, Airport Fund performance, particularly expense management, will require continued close monitoring by the Town Council.

CFAC also would like to see an expeditious rebuilding of Airport Enterprise Fund reserves over the next several years.