

The Town of Barnstable

Comprehensive Financial Advisory Committee (CFAC)

367 Main Street, Village of Hyannis, MA 02601

v. 508.862.4660 • f. 508.862.4770

www.town.barnstable.ma.us

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Lillian Woo

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Vice Chair, Ralph Krau

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John Schoenherr

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Wendy Solomon

Chuck McKenzie

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Nathan Empey

Councilor Liaison:

Paula Schnepf

CFAC Report: Operating Budget FY 2022

Prepared by:

CFAC Operating Subcommittee

Lillian Woo, Chair

Melanie Powers

Chuck McKenzie

Adam Carter

Approved: May 24, 2021

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 2022 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 nationwide 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 2022 budget on May 7, 2021, 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 2022 budget. 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 Strategic Plan

For FY 2022 the Town Council's longstanding Quality of Life Strategic Plan remains focused on the Town's priorities that include financial integrity and balanced budget, public health and safety, education, environmental and natural resources, economic development, infrastructure, and communication. COVID-19's impact on the economy required major adjustments to the Town of Barnstable budget to address those essential needs. Both the Town of Barnstable and CFAC are optimistic that other areas of Town Council's Quality of Life Initiatives will receive funding when the general economy and Town revenue stabilize.

Fiscally sound

The Town of Barnstable maintains its long tradition of fiscal accountability and operating within its means. There is no property tax overrides included in the FY 2022 Operating Budget.

The Town budgets and appropriated funds reflect the Town's ability to fund its operations through annual revenue. The total proposed FY 2022 Operating Budgets for the General Fund and the Town's nine Enterprise Funds are \$213 million, and the Capital Improvement Projects budget is \$53 million. The General Fund Operating Budget is increasing \$2.75 million or 1.5%. General Fund surplus of \$2.2 million will be used to balance the budget. This is \$644,000 less than was used to balance the FY 2021 budget.

OPEN BUDGET

CFAC commends the 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.

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 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 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 of our municipal bonds 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.

Projected Revenue for FY 2022

The proposed FY 2022 operating budget, which includes the General Fund (\$182,529,832) and Enterprise Fund (\$30,489,747) revenues and expenditures, projects \$213,019,578 for all appropriated funds. This is an increase from the approved FY 2021 budget of \$3,719,801, a 1.78 % increase. A projected \$11.3 million surplus at the end of FY 2021 will be used to offset the \$7.9 million needed to balance the FY 2022 budget for all appropriated funds.

The budget priorities remain focused on health and safety, education, and a balanced budget. FY 2022 discretionary spending and additional staffing will be closely managed, and some capital projects will be deferred.

GENERAL FUND

Introduction

The Town of Barnstable's General Fund is the source of assets to fund general governmental services not required to be accounted for separately. In accordance with Proposition 2-1/2, the Town typically views the General Fund through 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 for the last 4 fiscal years:

General Fund Budget	Amount	Change From Previous Year
FY 2019 Actual Revenue	\$ 169,488,201	4.45%
FY 2020 Actual Revenue	\$ 175,136,676	3.33%
FY 2021 Approved Revenue	\$ 176,907,276	1.01%
FY 2022 Budget Revenue	\$ 180,302,707	1.92%

Total FY 2022 General Fund revenue is projected to be \$180.3 million, an increase of 1.92% over the FY 2021 approved budget of \$176.9 million.

In FY 2022, taxes will provide almost 80% of the General Fund's funding sources. This includes property and excise taxes. Excise taxes include boat, motor vehicle, and motel/hotel.

Property taxes will provide 74% of funding for the General Fund. It is estimated to provide \$136 million in revenue. FY 2022 property tax revenue is projected to increase by \$4.0 million, or 3.05%. Most of FY22's growth in property taxes is from the allowable increase under Proposition 2 ½. Property tax growth from new development and construction is conservatively projected at \$750,000 mainly due to the public health emergency and its uncertain impact on new development. A decrease in tax levy set aside for abatement and exemptions in the amount of \$538,000 results in an increase of \$4.6 million to fund the operating budget.

Vineyard Wind is expected to make a significant contribution to new growth (tax) revenues in the near future; perhaps as early as FY 2023. Annual property taxes could range \$500,000 to \$1 million. A Host Community Agreement was entered into with Vineyard Wind that calls for an annual payment of \$1.5 million to the Town in a combination of property taxes and a host community payment. If property taxes total \$500,000 the host community payment will be \$1 million.

Intergovernmental revenue is the second largest funding source, providing around 10% of the total General Fund budget. Funding comes mainly from Chapter 70 Aid, Circuit Breaker Funding, and School Choice Payments, all for funding education. FY 2022 revenue is projected to decrease \$1.42 million (7%) from FY 2021 as funding from the Circuit Breaker and School Choice funds are used to balance the budget.

All other sources, including reserves, comprise the balance of the General Fund, approximately 11%. Other revenue resources for FY 2022 are projected to be \$38.9 million. This is \$1.99 million less than FY 2021, or a decrease of 4.87%.

It is not expected that either the Town or County Stimulus Payments from the federal government will impact the General Fund revenue. The stimulus programs require funds to be kept separate from the Town's General Fund and restrict their use to certain items such as infrastructure. Additionally, the County stimulus payment allocation methodology is unclear, and the Town does not yet know how much, if any, it will receive.

Expenditures

The General Fund budget is allocated for Fixed Costs, Municipal Costs and Education. The budget process begins with the establishment of Fixed Cost levels for a fiscal year. Fixed Costs account for 29% of the total General Fund. The remaining 71% of the General Fund balance is allocated between Municipal Operations (23%), Local Education (41%) costs, and Transfers (7%).

To balance the FY 2022 General Fund operating budget, \$2.2 million will be used from General Fund surplus, a decrease of \$644,000. However, the Town expects to generate surplus in FY 2021 of \$2.6 million. This surplus will more than offset the reserves used to balance the FY 2022 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 has resulted in the Town's ability to accumulate a healthy reserve fund and have contributed to the Town's excellent 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 budget. The FY 2022 budget reflects both an unknown rate of economic recovery and the beginnings of a cautious recovery.

The proposed FY 2022 budget continues to reflect prudent decisions to closely manage hiring, defer some capital projects, and manage discretionary spending in order to fund the most essential services and programs and maintain financial stability. CFAC continues to support the use of priority ranking of expenditures for FY 2022 (due to the aforementioned unpredictability of all aspects of pandemic recovery) and in perpetuity. CFAC commends the Town for the responsible stewardship of taxpayers' dollars.

SCHOOL DEPARTMENT

The proposed FY 2022 local school budget is \$75.7 million, an increase of \$1.05 million (1.4%) over the FY 2021 revised budget. CFAC has been tracking the long-term financial impacts of declining enrollment trends for some years. This year was aberrant in so many ways, and it is important to understand both the long and short term impacts of the Covid-19 pandemic on the school system's planning and response.

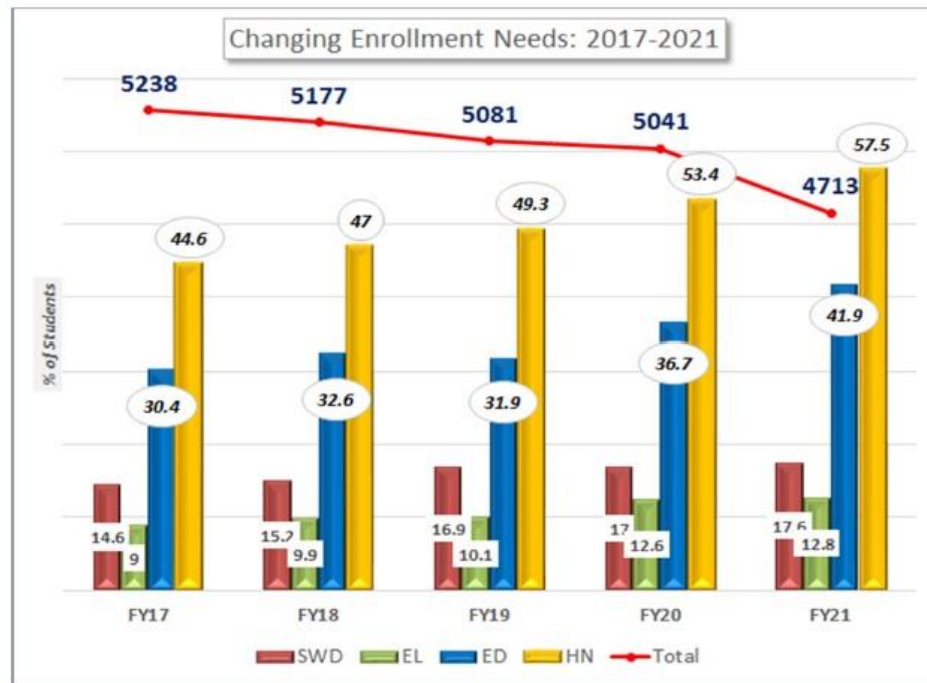
Enrollment

In this context one should view the enrollment estimates for FY 2022 as point-in-time information rather than evidence of a specific trend. However, some metrics bear considering because of their tenacity and/or exacerbation by the public health circumstance. Specifically, the overall enrollment, predicted to be a 1.5% decline, was actually a 6.5% decline in the Covid-19 year. There was an

enrollment increase in the following student categories; “economically disadvantaged” (ED), “English learners” (EL) and “high-needs” (HN). Enrollment was also impacted by the choice to home-school which grew from approximately 91 students/families to 224 (a 146% increase) and moves to private schools (96 students during the pandemic) with re-enrollment happening currently. This fluctuation will take some time to stabilize before we will understand the long term effects on enrollment of this year. We note that Barnstable continues to track ahead of the state percentages for each of these need communities HN, EL, and ED. Financial impacts will be realized over the next years.

Barnstable Public School Enrollment Trends

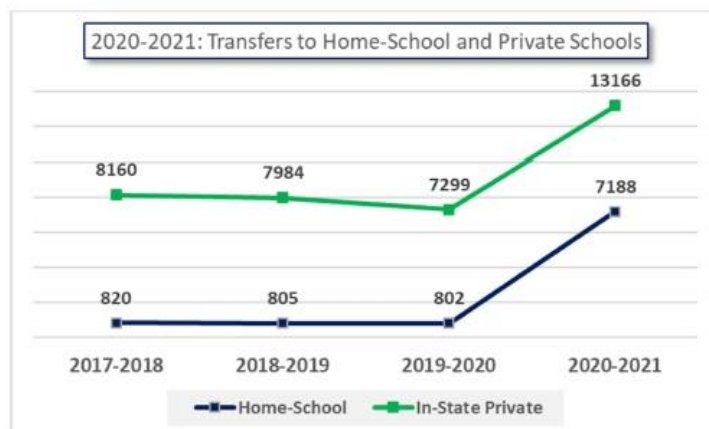
While overall enrollment decreases, students identified as economically disadvantaged (ED), English learner (EL) and high needs (HN) continue to increase.



Selected Populations (2020-21)

Title	# of District	% of District	% of State
First Language not English	1,200	25.5	23.4
English Language Learner	601	12.8	10.5
Students With Disabilities	839	17.6	18.7
High Needs	2,737	57.5	51.0
Economically Disadvantaged	1,976	41.9	36.6

This year, across the Commonwealth, more than 7,000 students have transferred to homeschooling, and the number of students transferring to a private school has almost doubled.



Impact of the Pandemic

The Barnstable school system faced unprecedented and urgent needs and opportunities for longer range planning and retooling during the pandemic. The staff and administrators of the Barnstable school systems responded to the pressing concerns of students, parents and teachers. For instance, administrators and teachers are working to remediate; not just the learning impacts of the shut-down and remote education required, but are addressing the social and emotional implications. Data indicates that some students have thrived in the remote environment while others have struggled. Knowing this, they are moving to incorporate what they have learned into future offerings. Some aspects of the remote study will be institutionalized. All aspects have the potential of fiscal consequences.

The quick turn to distanced learning revealed disparities in access to reliable and adequately powerful internet services across student communities. This technology disparity became one of the major issues to rapidly redress. Tablets were issued wherever needed and 400 hot spots were distributed to begin to resolve. The anecdotal evidence suggested that students of color had more difficulty during the strictly remote learning periods than white students, and this technology disparity is one factor in that observation. CFAC recognizes the school administrators and teachers for taking steps to resolve these disparities.

In last year’s report CFAC stated:

“The financial impact on the school budget could include what classrooms look like in the fall and future; fewer, shorter, and/or smaller sessions; logistical and transportation implications; wide-spread adoption of distance and remote learning measures and technologies; impacts of all of this on cost, equipment, staffing, equality of education and learning styles, to name a few.”

Finding our committee reporting on another full year of substantive impacts of the pandemic on schools and students, we are struck by how earnest and perseverant the school system’s efforts are to take advantage of whatever opportunities lie in this crisis for improving services. The budget proposal is a smaller increase than the prior fiscal year and important challenges are continually being identified and addressed.

Implications of Uncertain Circumstances

The budget provides resources and support necessary to address academic learning as well as social-emotional and mental health needs for pandemic emerging systems. The proposed budget makes these resources available through line item reallocations and keeping the net budget increase to a minimum. CFAC emphasizes that there are unknowns to watch to ensure adequate and managed resources.

CFAC notes the unanticipated and increased demand for substitute teachers, resulting in part from the unprecedented number of leaves and resignations. While reserves are adequate to respond to this one-time expense it is important to monitor and plan for continued changes in staffing and teacher pipelines until the full impact of the last years is known.

The following chart depicts a relatively stable Salaries and Wages line and a corresponding increase in supplies supporting a planned “full return to school” and “continued online opportunities”.

	Fiscal Year 2020-2021 Approved	Fiscal Year 2020-2021 Revised	Fiscal Year 2021-2022 Proposed	FY21-22 Change(\$)	FY21-22 Change(%)
Expense					
Salary & Wages	57,866,044	58,510,481	58,978,689	468,208	0.80%
Supplies	1,524,125	1,504,314	1,596,390	92,076	6.12%
Operating / Contracted Services	14,806,088	14,594,620	15,082,172	487,552	3.34%
Total Expense	74,196,256	74,609,415	75,657,251	1,047,836	1.40%

CFAC notes the increase to supplies supporting Environmental Science and Technology, Culinary Arts, Band and Biliteracy. New staffing includes credentialed technology teachers and Project-Based Learning Specialists (3.4 full-time equivalents with offset FTEs) and a focus on career exploration services, business, and entrepreneurship. There are also 3 new FTEs budgeted for personal care assistants as necessitated by the special population data previously discussed.

Recommendations

- Explicitly observe, understand, and communicate the permanent impacts to the budget of moving to a more mixed in-person and distance approach to learning.
- Monitor the ongoing cost and staffing implications of the above change on hiring and covering (with substitutes) highly credentialed and experienced teachers and staff.
- Continue a high-level of transparency and stakeholder involvement in these evolutionary changes to school operations.

DEPARTMENT OF PUBLIC WORKS

The proposed FY 2022 Department of Public Works (DPW) budget seeks a total of \$10,470,034. This is an increase of \$366,782 from FY 2021, or a 3.6% increase. This does not include the proposed budget for staffing the Comprehensive Wastewater Management Plan (CWMP). The biggest priority is implementation of the CWMP, which includes \$561,000 for staffing to oversee projects that have already been approved and those anticipated to be brought forward in FY 2022.

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. With the adoption of the CWMP, however, DPW has assumed an enormous and challenging responsibility that will span decades and have a lasting impact to and improvement of the Town's bodies of water. From CFAC's perspective DPW's management of CWMP projects will be its biggest and most challenging project in the coming decades. CWMP and the financing of those projects represent not only the biggest expenditure in Barnstable's history but also a critical component for the quality of life and economic growth of our town. CFAC supports revenue for these projects through a sewer assessment and a property tax override. Through its 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.

POLICE DEPARTMENT

The proposed FY 2022 budget for the Police Department is \$15.37 million, an increase of \$565,097, or 3.8%, from the approved FY 2021 budget. Most of the increase will fund new equipment (patrol vehicles, duty pistols and Tasers) and technology (outsourcing, upgrades and improvements). CFAC notes the overall increase in the Police Department budget, and sees it as both reasonable and necessary to maintain the level of service the Police Department provides to the Town's citizens and visitors.

The Police Department originally proposed 16 expenditures for FY 2022; after rank ordering these 16 proposals, the Police Department included 8 (totaling just over \$1 million) in the proposed budget.

These proposals can be broken into 3 distinct categories (personnel, operating and capital outlay):

- FY 2022 personnel costs will increase by \$184,003 from FY 2021 driven by overtime, training and contractual expenses (the Department has budgeted a net decrease of 1 position (a technology administrator).
- FY 2022 operating costs will increase by \$339,087, due primarily to technology and gasoline price increases. The Department has made the decision to adopt an outsourced information technology function for the coming fiscal year, leveraging a number of advantages of this model, including the continuity and quality of support provided by a full-time onsite presence and a help desk staffed by specialists available 24/7. This is an especially important capability for the Police Department, as functions such as dispatch and forensics are heavily technology-dependent, and public safety and service would be jeopardized in the event of a prolonged technology disruption.
- Finally, the Capital Outlay for FY 2022 has a budgeted net increase of \$42,007 over the FY 2021 approved amount, which includes:
 - \$500,000 for vehicle replacements (outdated patrol, unmarked and all-terrain vehicles),
 - \$33,180 for Tasers (the final payment on modern tasers purchased 2+ years ago), and

- \$43,542 for replacement of duty pistols (existing pistols are obsolete, have limited maintenance support, and are not optimally fitted to the diverse profile of today’s Police Department).

In aggregate, these personnel, operating and capital outlay changes result in a 3.8% increase in the Police Department budget for FY 2022.

CFAC recognizes 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.

Finally, based on its success in prior years, the department will continue its Community Service Officer (“CSO”) program. The CSOs patrol downtown Hyannis provides 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 2022 total \$30.3 million, an increase of \$833,000, or 2.8%.

The COVID-19 pandemic impacted the Enterprise Funds throughout FY 2021. HYCC and Sandy Neck were most heavily impacted as gathering restrictions severely reduced revenue. The former suffered from pandemic related closures and the latter closed the ORV section of the beach due to social distancing requirements as well as extended closures due to nesting shore birds. Other Enterprise Funds met or exceeded revenue targets in FY 2021, performing favorably despite the uncertainty brought about by the pandemic.

FY 2022 Enterprise Fund budgets for direct operating expenses are as follows:

Fund	Amount
Airport Enterprise Fund	\$ 6,612,196
Golf Enterprise Fund	3,368,382
HYCC Enterprise Fund	2,891,546
Solid Waste Enterprise Fund	3,407,469
Water Pollution Control Enterprise Fund	4,299,130
Water Supply Enterprise Fund	7,385,062
Marina Enterprise Fund*	742,051
Sandy Neck Enterprise Fund*	984,812
Public Education Enterprise Fund	799,097
Total Direct Operating Expenses	\$ 30,489,745

**Includes a one-time reimbursement back to the General Fund*

FY 2022 budgets consider a return to normal operations. The Airport and Golf Enterprise funds look financially sound while HYCC and Sandy Neck funds still face revenue challenges. Fixed costs in essential areas such as Water Pollution and Solid Waste continue to increase and put upward pressure

on utility rates.

The Airport Enterprise remains the most stable of the funds as it continues to build its reserves from a \$17.9 million CARES Act grant. As travel restrictions are lifted, revenue is also projected to increase over FY 2021 levels. The Golf Enterprises experienced an unexpected surge in revenue in the latter parts of FY 2021, resulting in a revenue surplus. Anticipated increases in players during FY 2022 suggest that a transfer from the General Fund is not needed in FY 2022.

HYCC will likely continue to struggle with pandemic related restrictions and subsequent losses in revenue during the first half of FY 2022. Thus, the General Fund will continue to support HYCC with a transfer of the same amount allocated in the FY 2021 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 2022 include:

- Solid Waste budget reinstatement of line items totaling approximately \$123,000 which was eliminated in FY 2021 because of COVID-19. In addition, the increased cost of handling and disposal of solid waste will be offset by an increase in the transfer station fee to \$270.
- Decrease of \$852,000 in the Water Supply budget is the result of the elimination of water purchase from Yarmouth. In addition, there will be a 5% increase in water rates.
- Water Pollution Control will increase its sludge disposal line item by \$55,000 and \$50,000 for Stewart's Creek grinder pumps.

Recommendations

Vaccinations are being broadly distributed and pandemic related restrictions are being lifted. Governor Baker is anticipating a return to normal operations in the state of Massachusetts by August 1st. CFAC remains cautiously optimistic that this timeline holds true. However, it is difficult to predict the future, so it would be wise to consider alternative plans for the funds. Consider the following:

- As pandemic related restrictions are lifted, funds should examine their administrative structure and determine if continued cost-savings are available by permanently implementing a remote or hybrid administrative structure.
- Water Pollution and Water Supply Enterprises are essential to the health and well-being of our community. The Town must continue to maintain and protect its water resources, which will continually put stress on the budget as it attempts to hold rates within reason.
- In its October 13, 2020 Financial Policy Review for FY 2022, that was submitted to Town Council and the Town Manager, CFAC recommended that Public Works Enterprise Funds should be treated like other enterprise funds and receive subsidies when appropriate and when funds are available. CFAC also recommended that Town council review the criteria it uses to determine subsidies to enterprise funds.
- HYCC Enterprise has always required support from the General Fund Reserves, which is reasonable given the community it serves. It will continue to require support from the General Fund.
- Golf Enterprise competes with many other golf courses on the Cape for players. The courses are currently attractive to many, but to remain competitive they must continue to be maintained at a high level and hold their fees at market rates.
- Marinas and Sandy Neck Enterprises require maintenance to maintain their safety and attractiveness to the public.

Taken together, the nine Enterprise Funds expose the Town to a draw on its General Fund support. The Town has been able to manage its way through the financial issues to-date, but it appears as if the financial stress will continue, and quite possibly get worse in the years ahead.

FIXED COSTS

Fixed costs constitute a large expenditure category. The actual fixed cost percentage of the total budget has remained consistent through fiscal years because these costs are known during the budget process. Fixed costs have remained constant at 29-30% of the General Fund budget for a number of fiscal years. It is anticipated to account for 29% of the FY 2022 General Fund budget.

The budget for fixed costs are 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.

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 (78-79%), trust funds (10-11%), intergovernmental (5%), and about \$1.3 million from General Fund reserves.

Revenues

FY 19 Actual	FY 20 Actual	FY21 Approved	FY22 Budget	% change FY21 to22
\$59,711,575	\$62,634,178	\$64,906,021	\$64,950,401	0.07%

Source: Town Manager Proposed Operating Budget FY 2021 p 346.

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 42% of fixed costs, transfers 19%, school assessments 17%, and debt service 10%. Employee benefits, property and liability insurance and snow & ice removal deficits are the biggest contributors to the growth of the fixed costs budget for FY 2022.

Expenditures

	FY 21*	FY 22 Proposed	\$ Change	% Change
School Assessment	\$11,952,408	\$11,221,320	-\$731,088	-6.12%
Employee benefits	\$26,584,153	\$27,128,304	\$544,151	2.05%
Debt service	\$6,567,324	\$6,320,128	-\$247,196	-3.76%
Other	\$19,802,137	\$20,280,649	\$478,512	0.02%
Total	\$64,906,022	\$64,950,401	\$44,380	0.07%

**Source: Update on the financial condition of the Town January 21, 2021 p.*

The FY 2022 2.05% increases in employee benefits are primarily due to an increase in retiree health

insurance costs and the County pension assessment. Other employee benefit costs increasing are OPEB contributions and Medicare and life insurance. Employee benefits in FY 2021 were 40.95 % of fixed costs and are anticipated to be 41.76% of fixed costs in FY 2022.

The ability to fund fixed costs will depend on revenue growth in the General Fund. The projected FY 2022 General Fund revenue is \$180,302,707. This is an increase of \$3,395,431, a 1.92% increase. 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 plus new property tax growth over \$1 million.

However, 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.

CAUTION: Additional Financial Needs Ahead

The primary future financial issue is the funding of CWMP. It will be the biggest expenditure in the history of the Town of Barnstable with a total cost of \$1.1 billion 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. However, 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:

- Existing funds as 1/3 of traditional lodging tax and 100% of local meals tax allocated to CWMP. If the other 2/3 of the rooms tax were redirected from the General Fund, it would affect the operating budget.
- 100% of short term rental tax will be a source of funding
- 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.
- The General Fund could also contribute to CWMP.

CFAC suggests that Town Council and Town Administration discuss possible new sources of revenue:

MA GL c 40, 30M- Municipal Water Infrastructure Investment Fund- enacted in 2015, allows towns to establish a special fund for maintenance, improvements, and investments in municipal drinking, wastewater, and storm water assets. Towns may assess a property tax surcharge up to 3% on each parcel of taxable real estate in the community. The amounts generated by the surcharge are not subject

to Proposition 2 ½. Establishment of the surcharge requires approval of both Town Council and voters at a regular municipal election.

Barnstable could establish a new local tax on real estate transfers. Dukes and Nantucket have a 2% tax on a home sale price. The Dukes/Nantucket revenues from this source are used to acquire open spaces. With increased sales and prices of homes in Barnstable, a transfer tax has the potential to provide new revenue. Establishment of the new local tax would require legislative approval. In 2014 Town Council initiated legislative action and succeeded in the establishment of the Sewer Construction and Private Way Maintenance Improvement Fund.

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.