

FY03 TOWN MANAGER'S BUDGET SUMMARY

Background

Before the attacks on our country on September 11th, our national economy had been showing measurable indications of leveling off. As a precaution against economic decline, the Town, for the past several years, has realigned its spending policies and practices. The Town's operating budget has been strictly contained and our annual capital improvement expenditures have been restrained to the amount of "Free Cash" that was annually generated. The savings that resulted were used to consolidate and prepay the Town's debt. This spending policy has enabled the Town of Chatham to keep its property tax levy flat for three consecutive years. For three fiscal years, the Town has not raised its tax levy by the 2-1/2% that State law allows. As a result, our tax rate continues to be held under \$7.00 per thousand dollars of valuation, a rate which is lower than most communities in the Commonwealth.

Summary

It is once again my great pleasure to present, for your consideration, a budget for FY03 that will allow the tax levy and the tax rate to remain level. In addition, the funding level in the operating budget will allow for several major new initiatives including an "increased capacity" to deliver, in a more timely manner, the high level of municipal services to which we have become accustomed to here in Chatham. Our five year capital plan will be fully funded, enabling the Town to maintain and enhance our project delivery. Finally, the Town will be able to continue to put funds aside in our Stabilization Fund, or savings reserves, as a hedge against a declining economy or unforeseen emergencies. As will be explained in the following pages, **this may be done without increasing our tax levy and our enviable tax rate.**

Introduction

For the past several years, the Board of Selectmen, after the Annual Town Meeting, has kicked off the new fiscal year by meeting to determine its goals for the year ahead. These goals are used by the Town Manager to align our municipal staff in the most effective way to produce the results dictated by the Board of Selectmen. Each year, this goals list is intentionally ambitious. It is prioritized to best enable the limited staff of a small municipality to make progress towards achieving the most important goals. What commonly results is a backlog of goals, projects and initiatives which, despite our best efforts, are not acted upon as quickly as many in our community would like. Each year our operating budget and, particularly, our capital plan add dozens of new projects or goals to our list in keeping with the increased service demand of our citizens. This year, the Board of Selectmen have decided to accelerate the timetable for implementation of its goals by directing me to "increase capacity" of my service delivery. We have begun to do so in this budget.

The following is a list of the top 25 goals which the Selectmen have adopted for this year:

Subject

- 1) Implement emergency nitrogen reduction measures
- 2) Resolve issue relating to commercial shellfishing on Monomoy
- 3) Housing
- 4) Main Street School property
- 5) Bike Path
- 6) Protective Bylaw revision
- 7) Economic Policy
- 8) Chathamport MCI property
- 9) Comprehensive Capital Facilities Plan
- 10) Comprehensive Plan
- 11) Town Landing improvements
- 12) Moorings for commercial fishermen
- 13) Landing/dock purchase
- 14) Land acquisition/conservation
- 15) Committee/Commission/Board of Selectmen communication
- 16) Downtown traffic/parking
- 17) Oversight, management of Town properties
- 18) I-Net
- 19) Community Preservation Act
- 20) Fireworks
- 21) Public restrooms
- 22) Permanent Building Committee
- 23) MCI/South Chatham
- 24) Review number of Committees
- 25) Main Street reconstruction

Paraphrasing a recent memo written to the Board of Selectmen by an appointed Committee, it was stated that "the progress towards achieving our municipal goals seems, to the community, to be proceeding at a snail's pace." It is difficult to disagree with that perception.

One component of my responsibility as Town Manager is to assure the efficient delivery of municipal services. Therefore, I must put in place and administer an organization that produces a product, but at a cost which the taxpayers can afford to pay. During the past three years, I've put in motion a multi-step plan to assure myself and the community that I can maximize the productivity from the staff of employees that I have been given to steward. We have undertaken to enhance clear delineation of responsibilities; we have increased the inter-departmental and inter-committee lines of communication and we have reclassified employee salaries to be sufficiently competitive in the market to attract and retain highly qualified, professional staff. This year, a comprehensive reorganization will be completed in order to better align existing staff and to enable staff to function even more productively. Having completed these steps, combined with strong supervision, we have begun to understand our maximum productivity limits. Only now should we "increase our capacity" to better achieve our goals and do so mindful our fiscal restraints.

FY03 Fiscal Challenges

At the beginning of our budget planning for each year, we identify areas of the operating budget which will cost us more money, despite our best efforts to economize, in order to provide our current level of service. This year, we readily identified the following budget areas of concern:

1) **Health Insurance**

The Town is contractually required to pay health insurance to our employees each year. These costs are affected directly by the spiraling costs of the national health care industry. We aggressively attempt to control these costs by encouraging employee use of more economic health care plans such as preferred provider organizations (PPO's), but our costs increase nevertheless. Estimated FY03 Increase: \$250,000

2) **Property and Liability Insurance**

Coverage costs of our buildings, vehicles, and risk continues to escalate, particularly given the impact of September 11th. Estimated FY03 Increase: \$35,000

3) **Maintenance and Utility Costs**

Our municipal infrastructure continues to age and cost more to maintain each year. Utility costs, unfortunately, also continue to rise. Estimated FY03 Increase: \$100,000

Other costs associated with a municipal budget routinely increase each year as well.

4) **COLA**

Each year the cost of living increases for all of us. The Town, as an employer, attempts to increase the salaries of its employees in order to not have wages slide backwards on the market scale. This initiative, along with the recently completed market reclassification, allow our organization to attract and retain quality employees. Estimated FY03 Increase: \$170,000

5) **Schools**

Each year our school budgets increase, primarily due to personnel costs. In the past several years, School Choice Funds have been maximized, reducing this increase. Estimated FY03 Increase: \$310,000

During the budget preparation this year, it became apparent that in order to maintain the level of service with our Libraries, a greater level of Town subsidy would be necessary.

6) **Library**

The cost of our Library is reduced each year by donations and use of interest generated by an endowment fund. This year, despite an even more successful and aggressive fund raising campaign, endowment funding was reduced due to a declining value of its portfolio. Estimated FY03 Increase: \$62,000

The increased costs associated with the services above are not entirely unusual for any municipal budget. What makes these costs particularly significant is our goal to absorb these increases without increasing our tax rate.

Budget Perspectives

Most municipalities in Massachusetts increase their tax levy each year, at least by the 2-1/2% allowed by State law. As a result, their tax rate goes up. We, in Chatham, have set our minds not to increase our tax rate unless we are forced to fund a specific request. In my opinion, it is important to try to maintain our levy limit for this upcoming year again if at all possible. This is particularly important in order to minimize the small increase in our tax rate if Town Meeting and the Electorate chooses to adopt the property tax surtax called the **Community Preservation Act**.

The Proposition 2-1/2% allowable increase, which we are not taking advantage of, would amount to \$375,000 next year. By not using this revenue source, the Town's primary new revenue sources are two: a) new growth, and b) estimated receipts. New growth is new tax revenue provided by new property taxed for the first time or enhanced property. This annual increase in property tax will net over \$300,000 in FY03. Estimated receipts consist of income derived from motor vehicle excise tax, the hotel/motel tax and interest income, for example. These revenue sources increase each year and may be counted upon, in a modest manner, to cover the costs of routine budget growth. However, these revenue sources are insufficient this year to cover our increased costs. Therefore, we have looked at offsetting these costs through economies.

Fiscal Economies

This report has thus far described the FY03 budget through incremental increases. The revenue sources enumerated above only partially offset these increases. The Town has continued its diligent efforts to economize in its operation in order to offset some inevitable budget increases. With few exceptions, all departmental expense budgets were level funded. Each department was charged with offsetting, as much as possible, expense increases with department specific economies. Economies continue to be achieved through the cooperative effort with the County's Cape Light Compact. Though not yet appearing as a savings in the FY03 budget, the County continues to arrange, on our behalf, the opportunity to purchase our streetlights from NSTAR and to arrange a maintenance agreement once the streetlights are privately owned. The possibility exists to save several tens of thousands of dollars annually on the Town's behalf once this opportunity actualizes. In addition, the County's effort to economize generally has resulted in excess funds which the Town of Chatham will use to help reduce our annual dredging costs and bikepath related expenses.

Each year, we economize through our inclusion in State grant programs. Negotiations continue on receipt of State enhancement funds which will be used for the eventual reconstruction of Main Street; State and Federal funds are being pursued to offset our borrowing costs associated with our ultimate wastewater expansion, and grant funds are being sought to offset capital items requested by our Coastal Resources Department.

Efforts are made annually to achieve savings in our legal and employee benefit costs and, as mentioned previously in this report, our health insurance and property and liability insurance costs. Nevertheless, the most significant savings during the past several years has been achieved due to our efforts in debt reduction.

The Town has placed special emphasis on addressing its debt position. Though independent auditors have expressed no cause for alarm at the Town's level of debt, we have been determined to aggressively reduce our annual debt carrying costs with an eye toward the future. Since it seems apparent that improvements to our municipal infrastructure are long overdue, including the expansion of our wastewater treatment facility, debt reduction will allow new debt to be engaged without a dramatic increase in our tax rate. Doubling up on debt payments and prepayment of debt have saved, literally, millions of dollars over the life of the loans for taxpayers. However, it was with an extraordinary sense of accomplishment that it was announced this past summer, that due to our efforts at appropriate fiscal management, the Town's bond rating was significantly upgraded. As a result, all remaining, eligible Town debt was consolidated and refinanced at dramatically lower rates. This cost savings will allow continued flexibility of our spending opportunities in the years ahead, including this year in the continued effort to stabilize our tax rate in the face of growing operating costs.

These economies, coupled with the increases in revenue from new growth and other estimated receipts, will enable the Town to fund its operating budget for FY03 without the need for an increase in its tax levy.

New Initiatives

The ability to expand our capacity to improve service delivery and, at the same time, live within our existing tax levy is further compounded by the method by which communities fund their respective school budgets. Each year, a community calculates, in compliance with a State formula, a "minimum local contribution". This limit assures that a community raises its tax levy by 2-1/2% each year and, thereby, grants the school a percentage (approximately 50%) of said increase. Since Chatham has not taxed its allowable 2-1/2% for several years, yet has allowed its school budget to increase by that amount required by formula, the Town must generate those revenues from some other source. This year, the School Committee was encouraged not to use its full \$300,000 minimum spending limit amount in an effort to share the burden of the Town's attempt not to raise its tax levy. However, the school budget funds, for the first time, new costs associated with its technology improvement program and therefore could not be reduced.

The following new initiatives have been funded in the FY03 budget proposed or will be funded in separate Warrant Articles at this Annual Town Meeting.

- 1) A Youth Outreach Service Program
A youth outreach worker (20 hours) and a youth volunteer coordinator (15 hours) are recommended to be funded for the first time in FY03. In light of the recent suicides in Chatham, a large group of citizens and staff have met for the past several months to develop a plan to help mitigate the issue. A complete and detailed proposal is available for review. This proposal has been coordinated by our own Human Services Committee with the assistance of Pat Perris, our Human Resources Director.
- 2) Funds for Miscellaneous Project Management Services
In past budget years, a total of \$40,000 has been set aside for consulting and engineering services within our budget. This amount has been increased to \$100,000 in FY03. The additional funds will be used for project management services and consulting services for the Board of Health in their deliberations of interim measures for wastewater protection. Project management service will enable more adequate project management as exemplified this current year in the implementation of our Bikepath project, without the necessity of the addition of a full time staff person. These services will be expended under the direction of our Permanent Building Committee which currently consists of professional staff.
- 3) Additional Part-time, Seasonal Help on the Waterways and Landings
Commercial and recreational boating use continues to grow. Additional seasonal staffing on the water and landings is necessary to properly address the myriad of issues related to this increased use. Appropriately, funding for these additional costs will be entirely offset by increased mooring revenue.
- 4) A New Position of Geographic Information System Coordinator
This past year, using grant funding, a temporary Geographic Information System (GIS) technician has been brought on board. FY03 funding is proposed for a full-time position in order to continue the work on land use mapping through the Govern software. Given the introduction of the local I-Net, the GIS technician will continue to oversee and, in some cases, implement the inter-departmental coordination of all aspects of land use such as health, conservation, and assessing. This position will be entirely offset by increased revenue for permit fees.
- 5) Chatham Area Transit Funding
The Chatham Area Transit operated a successful pilot program this past summer. The pilot will be extended to a full summer's use, but using one, not two, routes. This program will be funded 25% by the Town and 75% by the Regional Transit Authority. It continues to be the program goal to ease traffic congestion and parking congestion downtown by providing a convenient alternative to driving downtown and other sites heavily used during our peak season. If RTA funding is reduced due to State funding cutbacks, then this 10-week program may be reduced to a fewer number of weeks of service.

6) Increased Funding to the Chamber of Commerce

The Chamber of Commerce continues to expand its programs to help bolster the local economy. The CAT program this past year was an example of this expanded service. In FY03, greater outreach to the commercial fishing industry is an example of the type of expanded programs that are being planned by the Chamber. An increase in funding for the annual contract with the Chamber will be entirely offset by increased revenue generated by our hotel/motel tax.

7) Two New Firefighters

Two new firefighters are planned to be added in FY03. Two additional firefighters are proposed to be added the following year. The result would be one additional firefighter available on each shift. Simply, the additional personnel is required in order to fulfill the increased demand for ambulance service on a year round basis. Currently, the available manpower on duty cannot keep up with the demand for service without all too frequent call back of staff off-duty. The costs associated with this increased manpower allocation in FY03 will be entirely offset by increased assessment of insurance charges for ambulance services.

In addition, there will be costs associated with a Town-wide reorganization of its staff. (This is explained in detail in a separate Warrant Article). Finally, two janitorial positions will be added to the Building Maintenance Department; however, these costs will be nearly offset entirely by a reduction in the service contract which is currently funded in order to clean the Town's buildings and restrooms.

The Town stands committed not to increase its levy in order to illustrate its support of the passage of the Community Preservation Act. Therefore, the Town will fund its new initiatives through the adjustment of certain of its fee schedules. Fees, as a revenue source, are more equitable inasmuch as a property tax is used to appropriately fund universal services such as schools, police and highways. Some cost center services are enjoyed or used by only a small portion of the Electorate and may be more appropriately offset by user fees. Fees for moorings, building permits, ambulance services, sewer, and beaches were adjusted for the upcoming year. This will be the primary mechanism by which increased capacity will be funded, particularly in these specific cost centers. Debt reduction savings and other estimated receipts will fund the balance.

Stabilization

The Town has enabled itself to fund this proposed FY03 budget, including these new initiatives, without increasing its tax levy because it has acted according to a financial vision during the past several years. Two integral components of that vision were the prepayment of debt and the buildup of cash reserves. The Town has completed its program to prepay debt by consolidating its remaining debt balance with the benefit of a dramatically reduced interest rate as a result of the Town's improved bond rating. Our debt position has been improved so dramatically that the implementation of a realistic capital facilities replacement program can now be funded through future debt drop off. This will allow buildings and other infrastructure to be replaced and improved without dramatically increasing the Town's tax rate.

The FY03 budget proposed does not lose sight of the second fiscal policy goal that has been established for the Town by the Board of Selectmen, Finance Committee, and Town administration: increasing our financial reserves. The recent audit which resulted in our improved bond rating commended our plan to set additional funds aside for a "rainy day". **This budget proposal enables the Town to increase its Stabilization Fund by an additional one million dollars.**

The Town currently has a balance in excess of \$688,000 in its Stabilization Fund. This fund has been reduced in the past to pay for litigation costs. Our fiscal goal continues to be to gradually increase this fund to the recommended level of \$1.5 million. This objective could be reached this year. **The Town chooses rather to use this year's additional available funds to pay for the first year's costs of its capital facility plan.** Nevertheless, the overlay surplus, a recurring amount of between \$200,000-300,000 each year will be available to gradually rebuild our Stabilization Fund to the recommended level over a more gradual time frame.

Summary Comments

The Town of Chatham has lifted itself, in a few short years, to a position of financial strength and stability. It has done so by maintaining very simple financial principles: 1) control your operating budget; 2) fund your capital plan through only funds available; 3) reduce debt; and 4) increase reserves.

This FY03 budget continues to adhere to these principles and takes advantage of our previous good planning to increase our service capacity. This increased capacity will enable us to achieve more aggressively the ambitious goals which have appropriately been set forth for our community by the Board of Selectmen. This budget will also allow the Town to advance towards its goal of replacing its aging infrastructure without placing an undue burden upon its tax rates and, as a result, its citizens. This budget allows the Town to vote favorably upon the Community Preservation Act and its goals of affordable housing, land preservation, and historical preservation without the fear of an out-of-the-ordinary increase in its tax rate. Finally, this budget will allow the Town of Chatham to boldly move forward to serve our citizens in this nation-wide time of recovery and optimism.

The following is a list of the top 25 goals which the Selectmen have adopted for this year:

Subject

- 1) Implement emergency nitrogen reduction measures
- 2) Resolve issue relating to commercial shellfishing on Monomoy
- 3) Housing
- 4) Main Street School property
- 5) Bike Path
- 6) Protective Bylaw revision
- 7) Economic Policy
- 8) Chathamport MCI property
- 9) Comprehensive Capital Facilities Plan
- 10) Comprehensive Plan
- 11) Town Landing improvements
- 12) Moorings for commercial fishermen
- 13) Landing/dock purchase
- 14) Land acquisition/conservation
- 15) Committee/Commission/Board of Selectmen communication
- 16) Downtown traffic/parking
- 17) Oversight, management of Town properties
- 18) I-Net
- 19) Community Preservation Act
- 20) Fireworks
- 21) Public restrooms
- 22) Permanent Building Committee
- 23) MCI/South Chatham
- 24) Review number of Committees
- 25) Main Street reconstruction

Paraphrasing a recent memo written to the Board of Selectmen by an appointed Committee, it was stated that "the progress towards achieving our municipal goals seems, to the community, to be proceeding at a snail's pace." It is difficult to disagree with that perception.

One component of my responsibility as Town Manager is to assure the efficient delivery of municipal services. Therefore, I must put in place and administer an organization that produces a product, but at a cost which the taxpayers can afford to pay. During the past three years, I've put in motion a multi-step plan to assure myself and the community that I can maximize the productivity from the staff of employees that I have been given to steward. We have undertaken to enhance clear delineation of responsibilities; we have increased the inter-departmental and inter-committee lines of communication and we have reclassified employee salaries to be sufficiently competitive in the market to attract and retain highly qualified, professional staff. This year, a comprehensive reorganization will be completed in order to better align existing staff and to enable staff to function even more productively. Having completed these steps, combined with strong supervision, we have begun to understand our maximum productivity limits. Only now should we "increase our capacity" to better achieve our goals and do so mindful our fiscal restraints.