

FY05 Town Manager's Budget Summary

Each year the Board of Selectmen is presented with a summary "State of Fiscal Affairs" of the community prior to the commencement of the budgetary process. This presentation helps the Board put its goals in a fiscal perspective. It also enables the Board to have an opportunity to speak to any specific items it may wish to include in the upcoming budget as it is being assembled on their behalf by the Town Manager.

The Town's general financial condition is quite good. Despite a somewhat prolonged economic downturn and a State budget still beset by a significant revenue shortfall, the Town's financial position continues to be positive. During the past decade, and particularly during the past five budget cycles, the Town of Chatham has developed and implemented fiscal policies which have achieved quite remarkable results. Those policies will be enumerated in the pages that follow as they relate to our FY05 budget planning. In summary it should be stated that implementation of these policies has allowed a fully funded annual budget in the past 5 years without increasing our tax levy by the State allowed 2-1/2%. The result of the Town's efforts has been a very low property tax rate. When our tri-annual revaluation was completed this fall and our tax bills were mailed out, the new tax rate was \$4.50/\$1,000. This tax rate is amongst the lowest on the Cape and throughout the Commonwealth.

Past fiscal efforts can be quantified relative to other sister communities on the Cape and across the State. The purchase of a home may be the single largest investment made during an individual's lifetime. If I chose to invest \$400,000 in a house in Chatham, at a tax rate of \$4.50, I will pay \$1,800 in property tax for all of my municipal services. I will be able to send my children to a great public school for all 12 grades without busing them out of Town. I'll have high quality Fire, EMS, Police, and Highway services. And, for the past 5-10 years, my investment will have grown from 8-14% each year. If, on the other hand, I were to chose to live in some other community elsewhere on the Cape or off-Cape and invest in a \$400,000 house, then I would probably pay a tax rate of anywhere between \$7 and \$15/\$1,000. My annual tax bill would be between \$2,800/year and \$6,000/year compared to my \$1,800 annual payment in Chatham. I would not receive better municipal services for that premium, and my investment in my home would have appreciated in the past decade at a lower percentage than the 8-14% appreciation here in Chatham. Our community has significant challenges on the horizon, but we have positioned ourselves well to face them. In addition, our municipal service delivery favorably compares with our neighbors in the Commonwealth and at a much lower cost. This is simply an example of how relatively strong the Town's fiscal position has become in the past decade.

Our goal, of course, is to continue our strong local financial state of affairs. This requires continued diligence in implementing our fiscal policies. At a very low tax rate, our base services are adequately funded. Even if we consider expanding our municipal services above a base level, then we should do so fully aware of the financial implications of our decisions.

Fiscal Policy Summary

In order to exercise stronger control over its expenditures the Town segregates its budget considerations into three areas: 1) Operating Budget, 2) 5 Year Capital Plan and, 3) its Capital Facility Replacement Plan.

A) Operating Budget

The Operating Budget is kept as level as possible since the primary source of funding for increases would need to come from tax increases. With a municipal budget of our size, certain costs increase beyond our control. Health insurance costs are an example of these habitual increases. Each year cost savings measures are pursued in an effort to offset such inevitable increases. Energy cost savings resulting from the Town's participation in the Cape Light Compact is an example of such a cost savings measure. Any new program costs are offset, whenever possible, with increased fee generation. This general policy implemented in the past 5 years has enabled the Town to expand its service levels with users of the service, not the general taxpayer, bearing the burden. For example, increase shellfish fees paid for increased Shellfish Department staffing costs in FY04.

B) 5 Year Capital Plan

The 5 Year Capital Plan consists of expenditures generally ranging in cost from \$5,000-\$150,000. Most expenditures in the plan are non-recurring so they are separated from an Operating Budget. Over the years, certain Highway Department expenditures which are re-occurring have been funded within the plan. This has been allowed to continue in order to enable the Town to reduce these specific program expenditures if the need arises. Most capital plan items are single year project costs, or costs of a limited duration. The 5 Year Capital Plan is funded entirely by the available level of Free Cash. If Free Cash is unavailable on any given year, the Operating Budget needn't suffer, rather this plan is reduced. This policy, therefore, provides a 1-2 year cushion against economic decline. This cushion allows base services to continue without the need for a frenzy of cost-cutting or overrides.

C) Capital Facility Plan

The Town saw fit not to address its aging infrastructure for decades. In an effort to plan for the replacement or renovations of its buildings without forcing spikes of tax increases, the Town formulated this Capital Facility Replacement Plan. The theory behind the plan's implementation was eminently simple: New debt for new facilities will be paid for by savings from retiring, old debt. If the Capital Facility Replacement Plan is adhered to strictly, then the net tax levy growth will be zero. If projects exceed the Capital Facility

Replacement Plan's budgeted amount, then any tax levy increase would be easily quantified for the public and more modest than if unplanned. A key component of the Capital Facility Replacement Plan is the buildup of the Stabilization Fund balance. In the first years of this plan's implementation, funds available which would otherwise have been placed in the Stabilization account were used to pre-pay debt, thereby resulting in huge interest savings. The continued manipulation of the

Stabilization Fund balance to fund project design results in additional savings in bond costs. The Stabilization Fund balance will be maintained by "banking" debt drop-off savings until project completion requires payment of debt service costs.

FY05

How, then, do these fiscal policies affect our planning for the budget year ahead? Let's review the two easy policy components first.

A) 5 Year Capital Plan

This plan funds new projects and some recurring Highway Department components. Our goal each year is to have available in the neighborhood of \$1.5M of Free Cash or other available funds for this budget. It's essential that this plan's funding not come from a new property tax levy, but from Free Cash. Free Cash comes from three primary sources: Revenue generated from fees, permits, etc. in excess of our conservative estimates, turn back from non-expended budget funds, and balances left over from completed projects. The Free Cash recently certified available for next year is \$1.7M. That fact, coupled with the availability of CPA funds for hitherto more discretionary capital projects, leaves us in great shape for FY05.

B) Capital Facility Plan

This plan is funded by the reduction in the payments of previous debt service. Pay debt off and use only that savings amount to pay new debt. The result is no new taxes. The debt drop-off amount is "banked" in our Stabilization Fund until project completion, at which time we begin to pay off the new debt. Infrastructure improvements get paid for in this rotating manner for decades. Towns, States, and the Feds get in trouble keeping up with their infrastructure maintenance when they allow raids for other purposes on this revolving source of revenue.

Town Meeting approved the design of two Capital Facility Plan projects last year. We'll be seeking capital construction funds for both projects at the next Annual Town Meeting. We will have designed both a DPW and Community Center, sought construction bids and will have firm project costs by May. The DPW project will come in within our Capital Facility Plan budget of \$3M. Since we have allowed our municipal building inventory to deteriorate

so universally, we need to be aggressive in our long overdue replacement schedule. Otherwise, our buildings will be in such an advanced state of disrepair that they will all have to be replaced at the same time and our tax rate will spike. The Community Center has some degree of controversy attached to its funding, so the DPW was pushed along to assure some progress on our facility plan implementation even if the Main Street School renovation hits another snag. The Community Center was budgeted in the plan as a \$6M project. Modifications in the project components, primarily the addition of a pool, have caused our project estimates to be \$10M. If alternative funding for this project comes from CPA funds in the amount of \$2M, which may be fiscally prudent since the taxpayers are already being assessed that amount, then this project non-budgeted shortfall is \$2M. This is why we put the Capital Facility Plan in place. If we replace our buildings within budgeted limits, then no tax increases are necessary. But, if we choose to spend more money for a project such as this because it is felt to enhance our local quality of life, we know exactly how much additional money will have to come out of our pockets as taxpayers and we still have assurance that all other necessary projects will be approved without tax increases. In this case, the \$2M project in excess of the budget would cost the average taxpayer an additional \$6/year in the year 2012. Is our personal and local economic state of affairs in good enough shape to afford this additional expenditure? That, of course, will be the subject of debate between now and Town Meeting, to be resolved ultimately at Town Meeting.

C) Annual Operating Budget

This budget is the biggest challenge each year towards maintaining our continued fiscal health as a community. Municipal operating budgets provide wonderful services each year for our residents, but at a significant cost. Simply maintaining the current level of service within budget is a challenge. In the past 5 years, we've actually improved service provisions without increasing at all our tax levy by shifting the cost to non-tax revenues such as fees and hotel/motel receipts, for example, and away from the tax rate. We've also enhanced these non-tax revenues wherever possible and thereby shifted program costs to users as opposed to the general taxpayers. The figures below demonstrate clearly our annual challenge in keeping our tax burden as low as possible.

<u>Level Service Increases Anticipated</u>		<u>Revenues Available</u>	
School minimum assessment	\$100K *	New growth	\$300K
Health insurance inc.	\$200K	2-1/2% allowed	<u>\$400K</u>
Cost of living inc.	\$200K	Total:	\$700K
Pension cost inc.	\$ 50K		
Other insurance cost inc.	\$ 50K		
Other misc. employee and utilities inc.	\$150K		
Additional loss in State aid	<u>\$ 50K</u>		
Total:	\$800K		

* Minimum school spending formula had not been determined at this time.

As this simple analysis clearly points out it is routinely a challenge to pay for even a level services budget each year. If new services are sought, then alternative sources of revenues must be found. For example, we are building new restrooms each year and must pay an increased cost of maintenance in order to keep them clean. Materials and staff time must be allocated for this purpose. Since much of this service is provided for our beach users, then beach revenue can be used to offset these new program costs, not tax receipts.

Summary

The Town's fiscal position has never been stronger. Our continued adherence to sound financial policies is necessary to continue that financial position. Increased emphasis on non-tax revenue in the past 5 years has enabled the Town to not only improve its municipal service, but do so with no increase in our tax levy. Most neighboring communities, during this same time frame, have not only used their State allowed 2-1/2% tax levy increase, but exceeded said limit or reduced services when overrides failed. Chatham is now shifting its attention to the implementation of its long overdue Capital Facility Replacement Plan. One component of that plan is paying for the cost of new debt with the savings from retiring debt, either prepaid or paid on schedule. Debt drop-off must be set aside for this purpose and will no longer be available to offset budget increases. Fees have been increased to market levels so that users are paying for services used. Last year, our zero tax levy growth was impeded by the significant loss of local aid. As we plan for FY05 and beyond, our battle will continue to minimize tax levy increases to below the State allowed 2-1/2%. Our property values increase at record rates, yet we must continue to closely steward our tax levy to help preserve that appreciation and to keep our community affordable for those who can least afford it.

FY05 Budget Proposal

The Town of Chatham actually funds its annual budget in seven budget Articles grouped together in the Warrant. The Articles are listed below:

Article #3	Fix Salaries of Elected Officials
Article #4	Consolidated Revolving Funds
Article #5	Town Operating Budget
Article #6	Capital Budget
Article #7	Water Department Operating Budget
Article #8	Cost of Living Adjustment (COLA)
Article #9	Stabilization fund

When all of the Articles above are viewed as a "package", the Town's complete annual operating budget becomes clear. In the pages that follow, an explanation of each Article has been separately written.

Once the Articles which represent the Town's FY05 operating budget have been reviewed and acted upon, the Warrant immediately introduces Articles, if any, seeking funding for major spending proposals recommended by the Town's capital facility replacement plan. This year, two such Articles are being proposed. Article #10 will seek construction funds for a Community Center. Article #11 will seek construction funds for a replacement DPW building.

Article #3 - Fix Salaries of Elected Officials

In accordance with Massachusetts General Laws, Chapter 41, Section 108, salaries and compensation of elected officials must be fixed annually by vote of the Town at an Annual Town Meeting. This Article fixes, but does not appropriate, these salaries. Actual appropriation of funds for these salaries occurs under Article 5 - Town Operating Budget.

Officer	Appropriation FY04	Request FY05
Moderator	\$ 300	\$ 300
Selectmen-Each	\$1,000	\$1,000
Chairman-Extra	\$ 250	\$ 250

Article #4 - Consolidated Revolving Funds

The purpose of these revolving funds is to segregate the revenues generated by each of these operations and to restrict the use of those revenues to the purpose for which they are collected.

- A) Airport Revolving Fund
- B) Home Composting Bin Revolving Fund
- C) Bassett House Revolving Fund
- D) Inspectional Services Revolving Fund

Article #5 - Town Operating Budget

Budget Overview

Description	03 Actual	04 Actual	05 Dept Reg	Proposed Budget FY05
Expenses				
Operating Budgets				
Gen. Government	\$ 1,468,763	\$ 1,670,893	\$ 1,698,944	\$ 1,690,699
Public Safety	3,265,201	3,447,235	3,554,282	3,554,532
Comm.Development	513,356	645,182	650,929	633,929
Coastal Resources	569,708	669,766	700,498	700,098
Health&Environment	381,168	457,495	466,450	466,450
PublicWks&Facilities	3,137,841	3,066,640	3,227,232	3,227,233

Comm&Social Svrs.	657,164	743,460	776,674	776,674
Education	6,460,628	6,674,410	6,654,748	6,654,748
Employee Benefits	2,885,153	3,365,033	3,789,198	3,789,198
Undist.Ins.&Res.Fund	242,369	414,178	414,623	414,623
Debt Service	<u>4,572,064</u>	<u>4,457,453</u>	<u>4,228,253</u>	<u>4,228,253</u>
Operating Budget				
Total	<u>\$24,153,415</u>	<u>\$ 25,611,745</u>	<u>\$26,161,831</u>	<u>\$26,136,437</u>

Explanation:

The FY05 operating budget is a significant program to be considered by the Annual Town Meeting. The budget proposed has been completed by the Town Manager after consultation with department managers and submitted to the Board of Selectmen for its review and ratification. Thereafter, the budget has been reviewed by the Finance Committee for its recommendation.

This municipal operating budget is one of three major funding components for the fiscal year ahead. The second is our annual five year capital budget for relatively smaller projects. The five year capital budget is funded entirely by Free Cash and other non-property tax revenue. The third component of our fiscal plan for FY05 are the second and third major projects in our capital facility plan. Those two projects which appear in subsequent Warrant Articles seek funding for a replacement building for our old Highway Barn and for a Community Center.

The FY05 operating budget seeks continued funding for existing services: schools, police, fire, highway, et al. The increased costs associated with these programs are proposed to be funded with a combination of an increased tax levy and increased level of other non-property tax receipts. The section of this report which follows entitled "New Initiatives" will demonstrate that the few new programs proposed in the budget will be paid for with fee revenue generated by that particular program.

The operating budget must be taken in context with several Articles on the Warrant which follow it. The five year capital plan funding pays for the programs recommended to be completed in the year ahead. The funding for a cost of living increase for municipal employees is contained in a separate Article in the Warrant and, importantly, the continued funding of the Town's stabilization fund, or savings account, is proposed in an Article following the budget recommendation. This year, despite a tight budget, the Town proposes to supplement its stabilization fund by \$800,000, bringing its total to approximately \$1,500,000. This continued stabilization funding represents a pivotal element of our efforts in the past several years to improve our community's overall financial status.

In the two sections of the report which follow, you will find details on the areas of the FY05 budget which have increased due to inflation and areas of the budget that represent new initiatives.

FY05 Budgetary Challenges

Each year certain costs associated with the maintenance of the existing municipal programs increase. This year the sum of these increased costs were quite significant. The following list of increases were projected for FY05:

Level Service Increases Anticipated

School minimum assessment	\$100K *
Health insurance increase	\$200K
Cost of living increase	\$200K
Pension cost increase	\$ 50K
Other insurance cost increase	\$ 50K
Other miscellaneous employee and utilities increase	\$150K
Additional loss in State aid	<u>\$ 50K</u>
Total:	\$800K

* Minimum school spending formula had not been determined at this time.

During our budget planning in the past several months, it became apparent that many of our estimates needed to be adjusted as new information became available. The Town's State funding formula for our schools actually resulted in a decreased property tax allocation from FY04 funding levels. After last Town Meeting when the State finally resolved its budget, the Cherry Sheet provided a net of \$200,000 less funding for our schools. The Town funded this deficit and will recoup these funds by a somewhat reduced property tax assessment in FY05. Fortunately, the Chatham school choice fund balance is in surplus and can be used to balance the school's budget this year and in subsequent years.

The Town's health insurance premium and pension assessment budgeted for FY05 rose well beyond our early projections, however. The total amount of increase in these two cost centers was \$400,000. To put the magnitude of this increase in perspective, the total amount of new funding allowed by Proposition 2-1/2 in FY05 is approximately \$400,000.

The remainder of our cost projections for FY05 were more accurate. Other employee benefit costs and utility costs were held to our estimates. Other insurance costs were relatively stable after several years of increases and employees cost of living adjustments will be funded at 2% in FY05.

Budgetary savings such as those resulting from the County's Cape Light Compact and those achieved in the Town's street light account help offset these increased costs somewhat. Beyond these economies, the Town looks first to other non-property tax levy funding sources to pay for these increased costs. Each year, the Town looks to standard sources of such funding. For example, new

growth or property assessed for taxes for the first time is projected to produce nearly \$300,000 next year. Debt has dropped off due to the Town's efforts to prepay and refinance. The result has been a considerable debt drop off which was available for balancing our budgetary increase. Beginning this year, however, this debt drop off must be "banked" to the stabilization fund in order to be available to pay for borrowing for the Town's capital facility program. In addition, the Town generates considerable non-tax revenue each year from program fees, hotel/motel taxes, and excise taxes. This surplus may be used to offset budgetary increases. However, our use of estimated receipts must be somewhat conservative inasmuch as Free Cash necessary to pay for our five year capital plan is generated by estimated receipts surplus each year.

This year, the gap between available funds and increased budget costs will be filled by a small increase in our property tax levy. The levy will increase by approximately 2.0% as opposed to the 2.5% increase allowed by law and taken by most communities in the Commonwealth. This balancing of our budget for FY05 is depicted below:

Increased budget costs	\$550,000
Cost of living increase	\$200,000 *
Debt drop off	<u>\$230,000 **</u>
	\$980,000

- * Funded in a separate Warrant Article
- ** Appropriated to the stabilization fund

<u>Offsetting Revenue</u>	
New growth	\$300,000
Increased non-tax receipts	\$350,000
Tax levy	<u>\$330,000</u>
	\$980,000

Since the tax levy has been kept at a 2% growth level, there will continue to be a \$75,000-80,000 "cushion" which will allow for some additional loss of State aid. If local aid comes in lower than last years' level, then this difference can be offset by appropriating the full 2-1/2% allowed by State law.

Since the Town has become accustomed to either no tax increase, or an increase less than the allowed 2-1/2%, this budget has been conservative in its new initiatives. All have been offset by non-tax receipts, or user fees.

New Initiatives

Since the maintenance of existing programs will have the result of a minor increase in our tax levy and since the Town had initiated several new programs in FY02, FY03 and FY04, new initiatives in FY05 were kept to a minimum. In all cases, as detailed below, new programs were offset by new fee revenue rather than tax revenue. Thereby, the policy of a user paying for a service rather than the general taxpayer has been maintained in this budget. The following new programs or staff have been added to the FY05 budget.

* Assistant Shellfish Constable - Increased Hours

The hours of this position have been increased from 3/4 time to full time. Additional seasonal hours have been added as well; both for the purpose of adequate regulation enforcement and propagation. The \$15,000 cost of these additional hours will be offset by shellfish fee revenue.

* DPW Seasonal Staff

Two additional seasonal employees were added to the DPW budget in FY05. These two employees will provide additional seasonal roadside trimming and Bikepath maintenance as well as coverage for the recycling program. The \$20,000 necessary to fund these positions will be borne entirely by existing surplus DPW fees generated at the Landfill.

* Parks & Recreation Seasonal

A salary adjustment for beach staff is proposed in the FY05 budget in order to keep the Town market competitive. In addition, an additional seasonal staff person is proposed in order to provide maintenance and supervision at the Skateboard Park. The entire \$17,000 cost of these initiatives will be offset by increased beach fee revenue.

The only other significant cost increases in the FY05 budget other than those mentioned previously in this report will be offset entirely by fee revenue. Those costs will be:

* Fire Department costs associated with insurance collection and overtime:	\$50,000
* Transfer station tipping fees:	\$80,000

Summary

The FY05 budget proposed reflects a conservative budget approach to maintain the level of municipal service to which we have become accustomed. The significant increases to the budget due to the relatively fixed program costs of health insurance, pension costs, utilities, and salaries are

projected to be paid for using our annual new growth and a small amount of our property tax levy. The few new initiatives within the proposed budget are offset by non-tax revenue or fee income. The net result is a budget which will assure an increased level of municipal service at a property tax levy increase of less than 2.5% allowed by State law.

Article #6 - Capital Budget

Capital Budget Detail

Description	FY04 Actual	FY05 Request	FY05 Proposed
Capital Program & Budget Summary	Capital Budget		Capital Budget
General Government	\$ 125,000	\$ 145,000	\$ 145,000
Public Safety	46,800	106,500	106,500
Community Development	197,000	135,000	135,000
Coastal Resources & Lab	186,300	136,500	136,500
Public Works (w/o Water)	493,000	912,000	692,000
Community & Social Services	6,500	4,000	4,000
Education	0	0	0
Equipment	<u>524,873</u>	<u>604,038</u>	<u>474,038</u>
Subtotal Capital - General Fund (w/o Water)	1,579,473	2,043,038	1,693,038
Water	30,000	0	0
Total Town Funded Capital Budget (Column F)	1,609,473	2,043,038	1,693,038

Explanation:

The 5 year Capital Budget is the second major component of the Town's annual fiscal plan. A Capital Budget earmarks funds for equipment, annual maintenance expenses and new projects. Expenditures in the Capital Budget are generally in the \$5,000-150,000 range and are funded by available funds, generally Free Cash. Free Cash is generated each year by revenue from non-property tax receipts such as motor vehicle excise taxes or beach fees, which exceed the Town's estimates. Larger capital projects which normally require borrowing are not funded in this 5 year Capital Plan, but rather are recommended in the Town's Capital Facility Replacement Plan and funded in separate Articles.

A more detailed breakdown of this 5 year Capital Budget is included in this booklet as Appendix C. Each individual project is therein listed separately for your information.

A significant goal in the Town's annual financial planning is to limit the expenditure for its 5 year capital budget to the available Free Cash fund balance. This practice enables the Town to keep its tax rate stable. This year, the 5 year Capital Budget was limited to approximately \$1.6 million, thereby allowing a small amount of Free Cash to be added to our Stabilization Fund.

The three categories of expenditures in this budget accounted for the following percentages of the Town's total capital expenditures:

Equipment:	44%
Annual maintenance:	37%
New projects:	19%

Equipment expenditures this year were a somewhat higher percentage of the total due to the large amount set aside to equip the proposed new DPW facility. The balance of the expense in this capital category was for scheduled replacement of fire equipment, departmental vehicles, and business equipment.

The bulk of the Town's annual maintenance accounts are funded in this Capital Plan. Annual maintenance and improvements in our cemeteries, Airport, and at the former MCI property is funded in this budget, as is our dredging, highway, drainage and waterways improvement programs. The maintenance of the Town's GIS and MIS programs are also funded in this budget and for the first time, a small amount of money is being set aside for forestry management. One highway program, sidewalk expansion and improvement, has been increased to a \$50,000 annual expenditure.

The final 5 year Capital Budget category, new projects, received 19% of the Town's total capital expenditure. Highlights of our new projects this year include:

- * Continued public restroom construction
- * Irrigation for Volunteer Park
- * Continued renovation at the Town Hall
- * Continued funding of our wastewater study and estuaries project

Despite limiting our expenditures in this capital budget to existing levels of available funds (Free Cash), our equipment, maintenance and project needs will be fully addressed for the upcoming year. In some cases, projects have been delayed until a subsequent year on an urgency of need priority basis.

Article #7 - Water Operating Budget

A more complete explanation of the Water Department operating budget has been prepared as an Explanation for the Warrant; however, as this budget relates to the Town's overall financial picture for FY05, it should be noted:

- 1) The small increase in this budget from FY04 to FY05 is in anticipation of an increased cost associated with our operations service contract. The contract will have run for its 5 year duration. We have rebid for an additional five year period. The additional contract amount for FY05 will be adequately covered by an existing operations surplus.
- 2) The major capital program undertaken in FY04 will culminate in FY06. The funds borrowed for Phase 1 of this program will not become due until mid-FY05. Therefore, the anticipated rate increase may be delayed until FY06. The next rate increase will be sufficient to cover the payment of the full capital program as well as standard operating budget increases such as our operating service contract.

Article #8 - Cost of Living Adjustment - (COLA)

Explanation:

Three years ago, Town Meeting approved the first salary reclassification for Chatham in 17 years. In preparation for the May 2004 Annual Town Meeting, staff reviewed the Cape Cod and municipal marketplace and found that Chatham salaries remain attractive and competitive.

The Consumer Price Index (CPI) for the Northeast rose 2.2%. The Massachusetts Municipal Personnel Association survey reports that Cape municipalities are projecting 2-3% cost of living salary budgets for the coming year. Social Security has announced a 2% cost of living adjustment for 2004. Union contract salary adjustments are also showing lower amounts. This is demonstrated by the recently negotiated three year contract between the Town and Chatham Sergeants and Patrol Officers M.C.O.P. Local 194 that contains a 2% adjustment in contract years FY05 and FY06.

The Town therefore proposes a 2% COLA adjustment effective July 1, 2004 for all employees covered by the Personnel Policies and the Union contracts. This adjustment will maintain the Town's competitiveness and retain the integrity and fairness of its salary system across these employee groups while exercising fiscal prudence in this economic climate. The amount requested in this Article for FY05 is \$200,000.

Article #9 - Stabilization Fund

Explanation:

The Town's stabilization fund is a prudent financial planning reserve which may be drawn upon in an unforeseen circumstance. An unexpected legal expense is an example of such a circumstance. The goal has been to reach an account balance in the stabilization fund of \$1.5M. This goal, though somewhat arbitrary, is an amount which is normally sufficient for a community of our size.

In FY05, we recommend that the following amounts be placed into our stabilization:

1)	Raise and appropriate	\$529,000
2)	Transfer from overlay reserve	\$220,000
3)	Transfer from Free Cash	<u>\$ 66,978</u>
	Total:	\$815,978

These new funds will be added to our existing balance of \$627,000, thereby very nearly reaching our fiscal goal of \$1,500,000.

In future years, the overlay reserve will be available to either continue to supplement this account or be used as an available fund for non-ongoing project costs. Free Cash not earmarked for our 5 year capital projects can also be used to supplement this fund.

The amount raised and appropriated into this account this year represents the amount of debt drop off from previous major projects for which the Town borrowed funds. Each year as more principal on Town debt is paid off, future interest amounts due decrease. As the Town's debt obligation declines each year, the amount of that decline is raised from our tax levy and "banked" in our stabilization fund. By doing so, the Town enables itself to pay for the future borrowing costs of the projects in its capital facility plan without increasing its tax rate. The balance in the stabilization fund can be used to pay for not only emergency expenditures, but also design costs for capital facility plan projects. By paying "cash" for these design costs, future interest payments are avoided and spikes in the tax rate are avoided.