

Town Manager's FY08 Fiscal Summary

The Town of Chatham's financial condition continues to be excellent. The FY08 budget proposal once again falls within the spending limits of Proposition 2 ½, yet aggressively responds to the goals of the Board of Selectmen.

The cost of the Town's annual operation is funded in three distinct areas, each consisting of one or more Warrant Articles. Those three areas are operating budgets, capital authorizations and surtax expenditures. Each distinct component of the Town's financial plan has been assigned an equally distinct funding or revenue source. Budget expenditures do not exceed revenues available. Revenue, as well as expenditures, are planned, in some cases, years in advance. This financial planning has for the better part of the past decade enabled our community to expand required municipal services, replace capital facilities and maintain a stable tax rate.

I. Operating Budgets

General

Inflationary costs associated with certain significant annual expenditures in our operating budget posed a very real challenge in our FY08 planning. Health insurance costs continued to climb, pension costs increased significantly and fuel and other utility costs skyrocketed. The Town's property tax funds approximately 70% of our total operating budget. By State law, a community can raise its property tax levy by no more than 2 ½% each year without an operating override. The allowed 2 ½% levy growth planned for FY08 will generate somewhat less than \$500,000 of new revenue growth next year. Since our local economy continues to prosper, new property being taxed for the first time, or "new growth", accounts for \$250,000 of additional available revenue to fund the upcoming year's operating budget. Each year, if the Town's proposed budget exceeds these two available funding sources, then either funding for other budget components such as our capital budget is diminished, or an override becomes necessary.

The FY08 budget was able to absorb the inflationary costs described in the previous paragraph (health, pension and utilities). The FY08 budget proposed allows an increase in our School's budget, another budgetary sub-category which is particularly difficult to control since it consists primarily of salary and utility costs which grow with inflation. Therefore, the FY08 budget proposed intentionally limits new programs or positions. Increased service demands will be accommodated through reassignment of duties or reorganization of existing resources. Four new positions were added to the FY08 budget and funding for these additional costs were garnered by either existing or new funding sources or through budgetary efficiencies in our existing budget.

Each year the Board of Selectmen establishes its goals for the upcoming year. The Town thereafter assembles its resources in order to effectively and efficiently accomplish those goals. One major planning component used to address additional service needs is a five year staffing plan. In FY08 four new positions envisioned in the staffing plan were added to the operating budget. One position was added to the Police Department, one to the Conservation Division, one to the Information Technology Department and one to the Building and Grounds Department. In addition, part-time positions were added to the Recreation and Community Development Departments.

The Police Department position has been added to enhance community policing in the Town of Chatham and to fortify our shift coverage and to help lower the amount of overtime use. An Assistant Conservation Agent will be added to help address the increasing workload of permit applications, project oversight and to begin to assist in the planning for conservation land management. The Building and Grounds position will add an additional janitorial position in order to fully staff the new Community Center and the Information Technology Department will add a second staff member to its Channel 18 division. The part-time Recreation Department position will complete the staffing required for the Community Center and the Community Development part-time position will provide increased secretarial services for the HBDC.

The FY08 budget summary appears below:

OPERATING BUDGET

| Description | 06 Actual | 07 Approp | 08Dept Req | Proposed Budget FY08 | % |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------------------|--------------|
| Expenses | | | | | |
| Operating Budgets | | | | | |
| General Government | \$1,861,900 | \$1,905,032 | \$1,910,474 | \$1,887,198 | -0.94% |
| Public Safety | 4,081,510 | 4,504,822 | 4,648,185 | 4,606,885 | 2.27% |
| Community Development | 652,944 | 754,727 | 808,833 | 787,833 | 4.39% |
| Health & Environment | 745,923 | 783,675 | 834,662 | 834,662 | 6.51% |
| Public Works & Facilities | 3,305,490 | 3,571,316 | 3,851,820 | 3,687,287 | 3.25% |
| Community & Social Services | 828,843 | 877,756 | 944,789 | 918,139 | 4.60% |
| Education | 6,950,697 | 7,008,553 | 8,839,256 | 8,789,256 | 25.41% |
| Employee Benefits | 4,002,557 | 4,441,649 | 3,215,964 | 3,215,964 | -27.60% |
| Undistributed Ins. & Reserve Fund | 394,555 | 399,623 | 348,560 | 348,560 | -12.78% |
| Debt Service | 4,255,034 | 4,866,778 | 5,118,384 | 5,118,384 | 5.17% |
| Operating Budget Total | \$27,079,453 | \$29,113,931 | \$30,520,927 | \$30,194,168 | 3.71% |

The significant increase in the School Department's budget represents a shift in School costs from the Town's budget to the School's. Otherwise, the actual increase in the FY08 School budget is less than 4%. This cost shifting was necessitated by a new cost sharing formula which allocates new revenue growth to the Town and School budgets in accordance with respective budget size.

The FY08 operating budget will continue to allow the full breadth of municipal services to which we have become accustomed.

Water Operating Budget

The Water Department's operating budget for FY08 is unremarkable. The budget allows for the full service operation of the department through contract services overseen by a small administrative component. The costs of this operating budget is entirely offset by revenue generated through water rates assessed to users and other departmental charges and income. An annual surplus is projected by this budget to be used for future, planned capital improvements to the water distribution system.

WATER OPERATING BUDGET

| | | | | | Proposed |
|--|-----------------------------------------|------------------|------------------|--------------------|---------------------|
| | | | | | Water Budget |
| | Description | 06Actual | 07Approp | 08 Dept Req | FY 08 |
| | WATER FUND | | | | |
| | | | | | |
| | | | | | |
| | Water Costs | | | | |
| | Operating | | | | |
| | Salaries | 119,634 | 146,869 | 147,992 | 147,992 |
| | Expenses | 930,779 | 952,400 | 964,770 | 964,770 |
| | Sub-total Operating | 1,050,413 | 1,099,269 | 1,112,762 | 1,112,762 |
| | | | | | |
| | Debt | | | | |
| | Principal | 688,686 | 861,429 | 819,644 | 819,644 |
| | Interest - Long-term | 312,471 | 330,832 | 298,925 | 298,925 |
| | Interest - Short-term | 110,000 | 30,000 | 50,000 | 50,000 |
| | Subtotal Debt | 1,111,157 | 1,222,261 | 1,168,569 | 1,168,569 |
| | | | | | |
| | Total Water Direct Costs | 2,161,570 | 2,321,530 | 2,281,331 | 2,281,331 |
| | | | | | |
| | Overhead - Indirect Costs | 134,839 | 139,806 | 149,037 | 149,037 |
| | Overhead - GF Loan Repayment | 64,150 | 64,150 | 64,150 | 64,150 |
| | Overhead - Rate payback for Bett | 169,133 | 157,101 | 151,025 | 151,025 |
| | Overhead - Deficit payback | 44,204 | | | |
| | Subtotal Overhead | 412,326 | 361,057 | 364,212 | 364,212 |
| | | | | | |
| | Water Operating Budget | 2,573,896 | 2,682,587 | 2,645,543 | 2,645,543 |

Operating Budget Warrant Articles

Three additional Warrant Articles must be acted upon by Town Meeting in order to completely authorize the Town's annual operating budget. Salaries are fixed for our Town Officials (and funded in our operating budget) and certain revolving accounts are annually authorized for the Airport, Building Department contract services and the Bassett House major maintenance and flu clinics. Pay raises for non-school municipal employees are funded in a separate Warrant Article. The cost of living increase proposed for FY08 is once again 3%. The total costs of the COLA Article is \$225,000.

II. Capital Authorizations

The Town of Chatham has divided its capital planning into four different groupings, each with its own funding source. The four plans vary in purpose and project dollar value. The four plans are the Five Year Capital Plan, the Mid-Range Capital Plan, the Water Department Capital Plan and the Capital Facilities Replacement Plan.

A. Five Year Capital Plan

This plan is prepared each year in order to propose maintenance, equipment and small project funding in the range of cost of \$5-\$250,000. This plan most directly supports our annual operating budget and is funded either by Free Cash or project turn-back funds. Spending for the Five Year Capital Plan is limited to available funds which, in turn, is determined by excess estimated receipts, such as hotel/motel tax or motor vehicle excise tax and unexpended funds from the previous year's operating budget. As our municipal budgeting has become tighter each year, turn-backs have declined. As our economy stabilized, estimated receipts have lessened as well. The result is a Free Cash level somewhat less than in previous years: approximately \$1.5M. The recurring Free Cash amount which should ideally be available for this recurring plan would be closer to \$2.0M. Therefore, estimated receipts used in previous years as a revenue source to fund operating growth will be stewarded for the next two budget years to be used to fund this plan alone. This action should allow estimated receipts to rebound to previous years' levels.

Approximately 50% of the Five Year Capital Plan is for recurring costs of maintenance operations, i.e., highway repaving, building maintenance, dredging and information technology. 42% of this capital authorization is earmarked for vehicle and equipment replacement. The remaining 7% of this authorization will be used for small new projects.

FIVE YEAR CAPITAL PLAN

| Description | FY 08 | FY 08 | FY 09 | FY 10 | FY 11 | FY 12 |
|----------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | Request | Proposed | Program | Program | Program | Program |
| CAPITAL PROGRAM & BUDGET | | | | | | |
| | | CAPITAL | | | | |
| | | BUDGET | | | | |
| CAPITAL PROGRAM & BUDGET SUMMARY: | | | | | | |
| General Government | 245,000 | 90,000 | 245,000 | 100,000 | 120,000 | 100,000 |
| Public Safety | 190,000 | 114,000 | 81,000 | 200,000 | 78,000 | 112,000 |
| Community Development | 25,000 | 0 | 25,000 | 100,000 | 100,000 | 100,000 |
| Health & Environment | 199,400 | 159,400 | 230,000 | 155,000 | 115,000 | 140,000 |
| Public Works (without Water) | 778,000 | 558,000 | 1,111,000 | 927,000 | 866,000 | 1,068,000 |
| Equipment | 750,000 | 666,000 | 1,316,000 | 1,044,000 | 322,000 | 282,000 |
| | | | | | | |
| Total Town Funded Capital Budget (Column F) | 2,187,400 | 1,587,400 | 3,008,000 | 2,526,000 | 1,601,000 | 1,802,000 |

B. Mid-Range Capital Plan

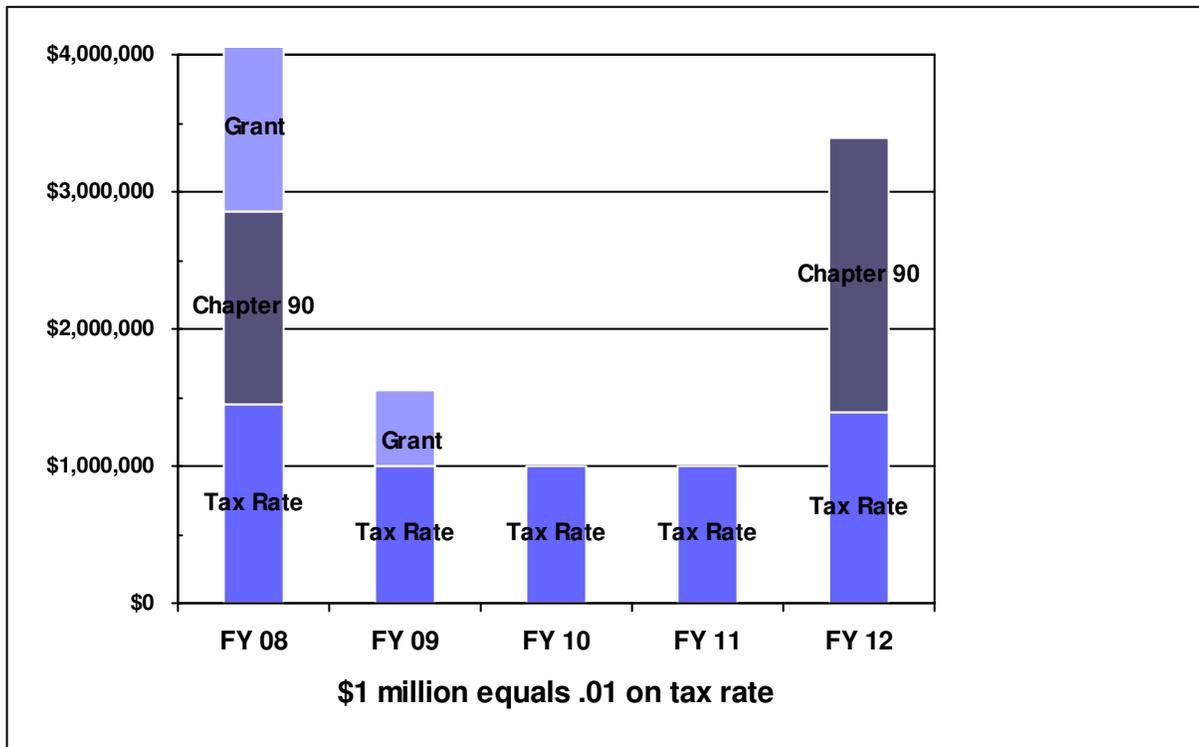
The Mid-Range Capital Plan was established, in a de facto manner, approximately seven years ago when the Town first developed its Capital Facilities Replacement Plan. For years, projects of mid-range cost, between \$250,000 and \$2M languished in the Five Year Capital Plan unfunded. It seemed unwise to fund these mid-range projects when needs of greater magnitude such as a new Police or Fire station were not acted upon. Gradually, as progress has been made in funding and implementing the large capital needs of the community and a funding mechanism has been created for this plan, the more discretionary mid-cost projects in this plan will be proposed for funding beginning this year.

The initial funding request for the Mid-Range Capital Plan will be a road/sidewalk/bike path bond issue. The bond authorization will include funding for road resurfacing, new sidewalks in West Chatham and Chatham, a bike spur connecting Volunteer Park and design costs for road and intersection improvements for the West Chatham Village area. The details of this appropriation are added to this report as are the details for the funding proposed for years 2-5 of the balance of the Mid-Range plan.

The proposed cost of the projects included in this bond issue is in excess of \$3M. However, the bulk of those costs will be offset from State Chapter 90 funding or paid directly by the State for Route 28 improvements. The property tax component of the bond payment will be approximately 1.3M. The projects authorized in this bond issue are projected to take 5-6 years to be completed.

It is very important to note that unlike projects which have been authorized in the past and which are projected to be authorized in the future from the Capital Facility Plan, which are paid from debt drop-off and don't increase the tax rate, Mid-Range Capital Plan bond issues are projected to increase the tax rate. The annual impact on the tax rate for this bond issue is one cent. A one cent increase on our tax rate is needed to pay for the principal and interest on bond repayment. The impact, therefore, on the average taxpayer is \$7/year, declining.

Five Year Mid-Range Capital Plan



FY08 – Roads, Intersections, Sidewalks, Bike Paths

FY09 – Landings, Coastal Improvements

FY10 – Building Construction

FY11 – Building Construction, Facility Expansion

FY12 – Roads, Intersections, Sidewalks

C. Water Department Capital Plan

There are no projects scheduled in FY08 from the Water Department Capital Plan.

D. Capital Facilities Replacement Plan

In FY08, the Town will propose to continue the implementation of its Capital Facilities Replacement Plan by proposing to fund the reconstruction of the Police Department and the Annex at the existing Annex site. The Capital Facilities Replacement Plan was established several years ago with the intention of renovating or replacing the Town’s major municipal buildings in a manner which did not dramatically increase the property tax rate. Although the project estimate for the Police Department/Annex is not available at this time, the total project cost, as have been all Capital Facility projects, will be funded within debt drop-off limits and will not increase the tax rate.

CAPITAL FACILITIES PLAN SUMMARY

| | FY07 | | FY08 | | FY09 | | FY10 | | FY11 | |
|-----------------------------------------------------------------------------------------------------|-----------|---|------------|---|------------|---|-----------|---|-----------|---|
| Consolidated Town Buildings & Facilities Plan | | | | | | | | | | |
| Police Station/Annex - Design/Construction | | | 15,000,000 | 2 | | | | | | |
| Fire Station - Design/Construction | | | | | | | 600,000 | 1 | 6,000,000 | 2 |
| S. Chatham Fire Station – Design/Construction | | | | | 200,000 | 1 | 2,000,000 | 2 | | |
| | | | | | | | | | | |
| Wastewater | | | | | | | | | | |
| Comprehensive WWMP - Complete; | 1,100,000 | 2 | | | 40,000,000 | 3 | | | | |
| WWTF Design/Construct | | | | | | | | | | |
| Sewage Collection System Expansion | | | | | | | | | | |
| CAPITAL FACILITIES PLAN TOTALS | 1,100,000 | | 15,000,000 | | 40,200,000 | | 2,600,000 | | 6,000,000 | |
| 1 Capital Facility Plan recommended funding from R&A, or use of stabilization fund in lieu of debt. | | | | | | | | | | |
| 2 Capital Facility Plan recommended funding through Proposition 2 1/2 exempt bond issue. | | | | | | | | | | |
| 3 Capital Facility Plan recommended funding through the MWPAT (2% Loans) | | | | | | | | | | |

Two additional projects will be proposed for funding at this upcoming Town Meeting in conjunction with the Capital Facility Plan. A small parcel of land, approximately one acre in size, located at the intersection of Routes 137 and 28 has been made available to the Town from NSTAR. The site is ideally located for a South Chatham Fire Substation. The South Chatham Station is not proposed for construction until FY10; however, this suitable site may not be available at that time. The site, if not chosen as a site for a Fire Department Substation, merits consideration for purchase given its location central to the “Gateway to South Chatham” concept espoused in a previous purchase of land directly across the street at the same intersection. The purchase price of less than \$270K will be recommended from two funding sources which have long been designated as components of the Capital Facility Plan: overlay and the stabilization fund.

The third article associated with the Capital Facilities Plan funding is a proposal to expand the municipal parking lot behind the Colonial Building. The result of this project will be an additional 35-40 parking spaces downtown, a reconstructed parking area already in need of major maintenance, improved wetland protection and water quality and an improved parking design flow. The project will be completed in conjunction with parking improvements to be made by an adjacent private property owner. The funding source for this project is a capital exemption funded by debt drop-off, and, as a result, will not increase the Town’s tax rate. Debt drop-off in the past has been used to increase the Town’s stabilization fund which has reached its goal of a \$2M balance.

Surtax Expenditures

The final component of the Town's fiscal plan is the annual allocation of the respective 3% surtaxes on the property tax rate for the Land Bank and Community Preservation Acts. The amounts generated annually through these surtaxes is approximately \$600,000 per fund. Community Preservation Act funding is currently matched by State funding, resulting in excess of \$1M of annual available revenue. Land Bank funds are proposed to be spent for open space and conservation purposes. In FY08 three very significant Land Bank purchases are being considered for open space in West Chatham, South Chatham and within downtown Chatham. Community Preservation Act funds must be utilized for either open space/conservation/recreation purposes or for affordable housing or historic preservation purposes. Committee recommendations on expenditures of these surtax funds are made to Town Meeting annually through separate Warrant Articles. Recommendations are made by the respective oversight committees based upon statutory guidelines and in consideration of the Town's overall goals as set forth in our community's Long Range Plan and the Board of Selectmen's annual goals.

In FY08 the Community Preservation Committee will consider funding requests including recreational improvements and preservation for the High School tennis courts and Veteran's Field, as well as the historical preservation of the structures at the North Chatham MCI site. In addition, planning funds for a site proposed to be purchased by non-CPA funds in West Chatham, will be sought for the purpose of developing said site in a manner which achieves the CPA goals of open space, historic preservation, recreation and affordable housing.

Summary

The fiscal planning undertaken by the Town of Chatham in the past has resulted in the continued funding of our municipal goals at a reasonable property tax rate. The property tax rate for the Town continues to be the lowest on Cape Cod and the services provided by our municipal government continue to meet the needs of our citizens. The Town of Chatham will continue to exercise diligent and innovative fiscal planning and budgetary restraint in order to provide the high quality of municipal service to which we have become accustomed. This fiscal planning will continue to have as its goal a stable tax rate bearing in mind the taxpayer who can least afford an increased property tax burden.

In FY08, for the first time in the past seven years expenditures will be presented to Town Meeting, which will, if passed, increase the Town's tax rate modestly. The sidewalk/road/bike path bond issue from the Mid-Range Capital Plan would result in a \$.01 tax increase. In addition, a land purchase pivotal to the "smart growth" development of West Chatham Village may be proposed. Innovative project proposals such as these could only be proposed once municipal fiscal credibility had been re-established. Due to the diligence of the Board of Selectmen, Finance Committee and Town Meeting, that goal has been accomplished, and the Town can responsibly consider new projects which may increase our tax rate.