

**Town Manager's  
FY '09 Fiscal Summary  
(July 1, 2008-June 30, 2009)**

When Standard & Poor's recently awarded the Town of Chatham an improved bond rating, their independent fiscal analysis pointed to sound financial planning and strong management practices as the key elements in their decision to do so. For more than a decade our community has been able to limit the tax impact on its citizens within the restraints of Proposition 2½. What an independent bond rating agency, neighboring communities, and anyone else observing objectively, may have found remarkable about this community's achievement is that while maintaining a low property tax rate Chatham has improved municipal services and made significant progress towards replacing its aging municipal infrastructure.

As we planned our FY '09 budgets, the Town continued to enhance its fiscal planning. Conservative fiscal policies incorporated into our planning for some time now are being increasingly relied upon due to the recent economic downturn. Pre-payment of debt and stockpiling of reserves will enable our community to continue to provide excellent municipal service levels and to continue to replace and expand our capital facilities. In addition, the Town of Chatham continues to move forward in an attempt to resolve its single greatest environmental challenge by expanding its sewer system. It is doing so in a fiscally conservative manner considering foremost the taxpayers who can least afford any additional tax burden.

Perhaps the keystone to Chatham's financial planning has been the method of dividing fiscal needs into segregated, prioritized budgetary plans, each with its own, unique revenue source. Our efforts this year have been to even further define cost or budget centers. Further demarcation of budget centers is expected in the future, but for the upcoming fiscal year the following budget centers have been defined:

1. Annual Operating Budgets
2. Five Year Capital Plan
3. Capital Facility Plan
4. Mid-Range Capital Plan
5. Surtax Expenditures
6. Stabilization Reserves
7. Conceptually Planned, Unreserved

The definition of each budget center and the fiscal policies which govern their respective expenditures will be summarized in this report followed by an explanation regarding the specific plan elements which will be proposed for funding in FY '09.

The FY '09 overall budgets proposed for the May 2008 Annual Town Meeting will once again fall within the legal restraints of Proposition 2½. Although a stabilized economy and our conservative fiscal policies do not allow any major new initiatives for the upcoming year, the same full level of excellent municipal services to which we have become accustomed will continue to be fully funded.

I. Annual Operating Budgets

This cost center provides for the annual expenditures, including salaries and expenses of all Town departments, including our School Department. The annual operating budget includes the funding for the debt service for capital projects. Excluding debt service costs, the annual operating budget consists largely of municipal salaries and personnel related expenses (health insurance, pension). This cost center, therefore, provides the greatest challenge for Chatham in regard to the restraints of Proposition 2½. In order to remain competitive in the marketplace and in order to retain qualified employees, salary increases are granted annually at least at the level of cost of living increases. These costs alone often exceed the 2½% growth allowed, without an override, by state law. Employee benefit costs, on the other hand, have increased dramatically for the past decade, in many fiscal years in excess of 10%, thereby compounding the challenge of staying within the restraints of Proposition 2½. The operating budget is funded partially by the property tax levy (about 70%) and otherwise by other receipts, commonly referred to as “estimated receipts.”

Approximately 50% of all of the Town’s annual estimated receipts are generated by fees for municipal services, i.e. beach fees, permit fees and transfer station fees. Eight years ago, Chatham adopted a fiscal policy whereby fees would be set by the cost of the service. Therefore, a user of a fee generating service would bear, as nearly as possible, 100% of the cost of that service. This policy assured thereby that a fee generating service would not draw upon the limited property tax levy and that a non-user of said services would not be taxed for that service cost. The additional result of this policy was the opportunity to expand services without an increase in the property tax levy. This practice has also been employed by the school department in its utilization of its, segregated “estimate receipt,” school choice funding. As a result the school department budget has been allowed to grow in excess of 2½% each year without burdening the tax levy or forcing the shift of revenue from other municipal departments.

This summer and fall the Town and the Schools have developed a revenue sharing formula. In the past sharing of new, available revenue had been dictated by a formula devised by the state. Chatham is one of the few communities for which the State spending formula with its new amendments is skewed and unusable. As a result, a new local formula was calculated which simply allocated new growth funds each year according to relative budget size. All School costs, including benefit costs, determine the percentage of the school’s revenue share. Both the Town and School face equally the challenge of keeping funding requests within the restraints of Proposition 2½.

The chart below illustrates how daunting that challenge is each year and why most communities need to exceed Proposition 2½ limits on a regular basis.

<u>Available Additional Funds (FY '09)</u>		<u>Known Additional Costs (FY '09)</u>	
Prop. 2½	\$500k	Schools	\$330k
New Growth	250	Sal, steps	400
Est. Receipts	-	5 Yr Staff	-
Local Aid	-	Health Ins.	200
	<u>\$750k</u>	Pension	100
		Utilities, Other	<u>100</u>
			\$1,130k

As can be easily seen, each year what we anticipate will be available for additional growth funds do not nearly cover even the most basic of municipal cost increases. Health, pension and utility costs continue to increase dramatically. The fiscal policies whereby new positions need to be funded by increased estimated receipts come dramatically into play this year. With an economic decline no new estimated receipts are anticipated, so new staff needs, identified each year in the Town's 5 Year Staffing Plan, will need to be foregone. In addition, no new additional local aid is realistically expected this year, other than a small amount specifically earmarked for the schools. The FY '09 budget needed to be brought into balance by finding and implementing economies within the existing budgetary expenditure level. This fiscal review process takes place each year, but was particularly necessary this year. The goal of the process is to reduce costs without dramatically reducing services. Standard practices for cost reductions such as insurance contract negotiations, utilities economies, salary attrition, staff reorganization have been employed. The savings available through these annual efforts have and will continue to diminish. Inevitably, new non-property tax revenue sources must be found in the future or salary freezes and staff reductions will result.

The overall operating budget is the single most dramatic policy initiative undertaken each year. The Board of Selectmen, tasked by our charter to review and act upon a budget assembled by the Town Manager, give direction to the budget construction through its annual goal setting process. This year due to the necessity of financial constraints the new initiatives contained within the budget initiated by the goal setting process were dramatically less than in previous years and were limited to three proposals:

1. Increased Community Center staffing (\$55k)
2. Institution of an emergency notification system (\$20k)
3. Funding for a Maritime Festival (\$10k)

All other proposals, particularly those anticipated for funding in the 5 Year Staffing Plan have been deferred.

The annual operating budget is funded by Town Meeting through several warrant articles, the chief of which is detailed below.

## GENERAL OPERATING BUDGET

Description	07 Actual	08 Approp	09 Dept Req	Proposed Budget FY09	Percentage Change
<b>Article # 5</b>					
<b>Operating Budgets</b>					
General Government	\$ 1,874,445	\$ 1,922,814	\$ 1,933,649	\$ 1,907,124	-0.82%
Public Safety	4,858,962	4,704,460	4,807,335	4,772,053	1.44%
Community Development	682,739	750,588	865,631	799,661	6.54%
Health & Environment	768,959	851,047	862,176	861,276	1.20%
Public Works & Facilities	3,436,408	3,770,849	3,897,273	3,812,208	1.10%
Community & Social Services	856,956	920,423	989,051	957,801	4.06%
Education	6,934,447	8,789,256	9,126,983	9,126,983	3.84%
Employee Benefits	4,320,743	3,215,964	3,492,885	3,492,885	8.61%
Undistributed Ins. & Reserve Fund	397,074	348,560	333,902	333,902	-4.21%
Debt Service	<u>4,847,474</u>	<u>5,118,384</u>	<u>5,374,619</u>	<u>5,374,619</u>	5.01%
Operating Budget Total	\$28,978,207	\$30,392,345	\$31,683,504	\$ 31,418,512	3.38%

The Water Department operating budget and capital plan are funded entirely by water receipts. The FY '09 Water Department budget appears below. This budget continues to operate with a small surplus and will require no rate increase. The surplus will be used for capital expenditures in the Water Department. In FY '09 capital projects proposed are the cleaning and painting of the standpipe and the design of the South Chatham wells chemical feed building.

### WATER OPERATING BUDGET

					Proposed
					Water Budget
Art # 7	Description	07 Actual	08 Approp	09 Dept Req	FY 09
	WATER FUND				
	Water Costs				
	Operating				
	Salaries	144,235	151,291	189,343	189,343
	Expenses	955,085	964,770	1,000,592	1,000,592
	Sub-total Operating	1,099,320	1,116,061	1,189,935	1,189,935
	Debt				
	Principal	861,429	819,644	854,701	854,701
	Interest - Long-term	330,832	298,925	268,886	268,886
	Interest - Short-term	0	50,000	150,000	150,000
	Subtotal Debt	1,192,261	1,168,569	1,223,587	1,223,587
	Total Water Direct Costs	2,291,581	2,284,630	2,463,522	2,463,522

### WATER CAPITAL BUDGET

Article # 10	Description	FY 08	FY 09	FY 09	FY 10	FY 11	FY 12	FY 13
		Actual	Request	Proposed	Program	Program	Program	Program
	Water Department							
	Clean & Paint 1.25 MG Standpipe		460,000	460,000				
	Replace S Chatham Well Chemical Feed Bldg		100,000	100,000	675,000			
	Water Mains & Water Service Replacements					1,000,000		
	Water Mains & Water Service Replacements						1,000,000	
	Pump Test, Report, Screen, Casing, Design, Construct New Well						500,000	1,500,000
	Total Water Capital		560,000	560,000	675,000	1,000,000	1,500,000	1,500,000

### II. Five Year Capital Plan

At one time, the Five Year Capital Plan, required by the charter, was an amalgam of projects. Every project conceived of as needed was listed. No differentiation was made amongst a small maintenance request, a major capital facility replacement, a needed major maintenance project long deferred, or a new project which could not truly be priority driven. The plan was more a “wish” list of requests. Funding sources for projects in the plan were also varied and not planned.

The end result was an unclear picture of our community's needs, how they should be funded, and what the overall tax rate impact would be on our tax payers. The plan needed to be managed in order to be more easily understood and to avoid non-priority projects from being politically driven to the detriment of more essential projects. It was essential to see the magnitude of the total need. Only thereafter could the more orderly plan be systematically implemented.

The first step taken was to remove all major capital facility replacement projects from the plan. This was accomplished by establishing a separate Capital Facility Plan. Next, lighter priority new projects were set aside into a Mid-Range Capital Plan which would only be implemented if discretionary funding was available. Thereafter, departments were required to re-evaluate their 5 year plan submittals in order to assure that all needs had been planned for and prioritized according to the urgency of need. After these three steps a more true depiction of the overall need was made clear. Finally, projects that were eligible for surtax or grant funding were removed from the plan.

A funding source was determined. Available free cash or project turn back funds were determined to be the primary source of plan funding. As free cash was available projects were funded. To the extent free cash was unavailable, projects were deferred. In times of economic downturn, this plan was to be the primary hedge against operating budget cuts and service loss. Free cash, a not necessarily recurring revenue source, was earmarked strictly as capital budget funding source, not ever to be considered as a funding source for the annually recurring funding necessary in operating budget.

The end result of this fiscal management is a Five Year Capital Plan which identifies, prioritizes and quantifies overall municipal needs which are included in only one of three categories: maintenance, equipment and new projects in the 5-250k range. The funding source, excess estimated receipts or free cash, can be driven and controlled, at least to some degree, by fees charged for services. To the extent the economy dictates free cash levels (hotel/motel tax revenue and motor vehicle tax receipts, for example) this plan's implementation can rise or fall, but not effect the base operating budget.

Our planning for FY '09 continued to be refined. For the first time a percentage of free cash was shared with the Schools according to their relative budget size. The Schools maintenance needs have been minimal since their buildings were rehabbed, but must now be planned and funded. In addition, items of maintenance from the Town's operating budget were placed in the plan and more approximately funded than in years past. Line items in the plan, if not entirely expended, remain available for future year's needs. Thereby three goals may be accomplished: 1) maintenance can be adequately funded 2) the operating budget can be reduced and 3) unexpended balances can further hedge against a slow economy without causing service reductions. In addition, reserves of any kind are favorably viewed by bond rating agencies as an indication of prudent fiscal management.

The FY '09 Five Year Capital Plan proposed seeks funding for fewer new, smaller projects than in years past. Projects from previous years are backlogged. New capital projects have consumed much more time than anticipated of the limited staff available to supervise project implementation. Surtax projects are also increasing significantly, leaving a stable municipal work force less time to implement and oversee other projects which are driven in priority by Selectmen's and operational budget goals. Surtax funding to assist in project oversight will be sought this fiscal year to obviate this limitation.

The FY '09 Five Year Capital Plan consists of 47.1% maintenance items, 27.4% equipment, and 25.5% new projects, excluding school capital requests. In summary the plan is listed below. The detailed plan is available for review as an appendix to this report.

Description	FY 08	FY 09	FY 09	FY 10	FY 11	FY 12	FY 13
	Actual	Request	Proposed	Program	Program	Program	Program
<b>CAPITAL PROGRAM &amp; BUDGET</b>							
<b>Article # 9</b>							
General Government	90,000	253,000	253,000	150,000	140,000	150,000	140,000
Public Safety	114,000	223,000	190,500	88,500	80,000	56,000	50,000
Community Development	0	140,500	10,000	125,000	0	0	0
Health & Environment	141,400	359,000	288,000	197,500	361,500	411,500	301,500
Public Works (without Water)	558,000	520,000	428,000	605,000	607,000	668,000	698,000
Equipment	666,000	403,000	353,000	1,459,000	886,000	340,000	333,000
Schools	0	0	239,468	257,312	256,302	246,285	262,735
Total Town Funded Capital Budget	1,569,400	1,898,500	1,761,968	2,882,312	2,330,802	1,871,785	1,785,235

### III. Capital Facility Plan

A decade ago the Town completed the total rehabilitation of its two school buildings. This major investment in the Town's infrastructure made the substandard condition of the balance of our municipal buildings even more apparent. Most of our capital facilities had long since out lived their effective use. For the first time an inventory of need, a prioritization of implementation and site determinations were completed and compiled into a very simple Capital Facilities Plan. Perhaps the most important component of the Capital Facilities Plan was the earmarking of a revenue source; a revenue source that, if used expeditiously, could fund the plan's implementation without increasing the Town's tax rate.

The debt incurred by the Town in the School reconstruction was borne by the tax rate. As that debt and other municipal debt, primarily that incurred by the much needed purchase, improvement, and expansion of the Town's water system was paid down, then additional debt capacity was created without the need for increasing the tax rate. This funding capacity has been referred to as "debt drop-off" and was and is the funding source for the Capital Facility Plan. When the School project's reimbursement was received for the first time, other funds became available to either to pre-pay existing debt or be placed into a stabilization, or savings fund. The result was a debt drop-off capacity which could pay for the entire Capital Facility Plan without increasing the tax rate. This fiscal plan, though quite simple, was unprecedented.

The establishment of debt drop-off as a segregated funding source had two very significant additional advantages. First, the determination to stabilize the tax rate resulted in funds being available for projects without the need for borrowing. This allowed smaller capital projects to be completed without the need for borrowing and the inherent interest costs by the use of capital exemptions. Secondly, maintaining a level tax rate allowed funds to be placed in a reserve, or stabilization fund. The goal of \$2 million in this fund was rapidly achieved and was considered by Standard & Poor's a significant reason that the Town was granted an improved bond rating. This improved rating will result in significant interest cost savings for the community as the balance of the Capital Facilities Plan is completed. This reserve will continue to be available for the Town as an internal "bank" upon which to draw for smaller projects, interest free.

The implementation of the Capital Facilities Plan has proceeded very expeditiously since its inception. More than half of the buildings in the original plan have been completed or funded. Two of these six buildings were reconstructed without the need for borrowing. Two additional buildings have been constructed with funds borrowed at a very low interest rate. Delays have occurred in the plan's implementation due to the not unexpected political consensus building and recently due to a design planning process that did not adequately allow public input. The establishment of a public design review committee should effectively address this shortcoming. The plan's delay, however, has allowed the actual costs of construction to significantly exceed the original estimates. The result has been a serious challenge to the goal for the completion of the plan without increasing the community's property tax rate. The scope of the Wastewater Facility/Collection System expansion from a very small scale to town-wide sewerage has rendered the goal of not increasing the tax rate largely impractical. The goal can still be achieved, but not without the need to charge homeowners non-tax-deductible betterments, a determination that would seem dubious. The capital facility expansion cost of the Wastewater Facility will remain in the plan. The expansion of the Wastewater Collection System expected to take between 20-30 years will be segregated from this plan into a separate Wastewater Capital Plan for emphasis and clarification after FY '10.

No new projects from the Capital Facilities Plan are being proposed for funding in FY '09. However, two new facilities are being added in the out years of the plan. The existing transfer station is proposed to be renovated and expanded at an anticipated cost of \$1million. This project has been removed from the 5 year capital plan due to its cost and need for bonding, and removed from the mid-range plan since it is needed infrastructure replacement, not optional. In addition, the planning continues for an adult day care center. The cost of this project, as well as its location and feasibility has not been determined at this time.

### Capital Facilities Plan Summary

	FY 09		FY 10		FY 11		FY 12		FY 13
<b>Consolidated Town Buildings &amp; Facilities Plan</b>									
Police Station/Annex - Design/Construction	15,500,000	1							
Fire Station - Design/Construction					8,000,000*	1			
Transfer Station Renovation							1,000,000	1	
Adult Day Care Center									**
<b>Wastewater</b>									
Comprehensive WWMP - Construction			42,000,000	2					
<b>Capital Facilities Plan Totals</b>	<b>15,500,000</b>		<b>42,000,000</b>		<b>8,000,000</b>		<b>1,000,000</b>		

1. Capital Facility Plan recommended funding through Proposition 2½ exempt bond issue.

2. Capital Facility Plan recommended funding through the MWPAT (2% Loans).

\*cost includes headquarter only, may be modified to include a second station expansion and/or a training facility.

\*\* this project cost has not been estimated at this time

### IV. 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 Plan. For years, projects of mid-range cost, between \$250,000 and \$2 million 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 are being proposed.

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 is needed to pay for the principal and interest on bond repayment. The impact, therefore, on the average taxpayer is \$9/year, declining for every \$1.0 million of project cost.

In FY '09 the planning for the Mid-Range Capital continues to be refined. The purpose of this plan was to establish a priority for more discretionary projects, unlike the required small, mainly maintenance projects contained within the Five Year Capital Plan or the required large facility replacement projects in the Capital Facility Plan. As a result, some capital facility projects have been removed from the FY '08 version of the Mid-Range Capital Plan and added to the Capital Facility Plan. The balance of the projects in the Mid-Range Capital Plan are now primarily new projects which are more discretionary. Charted below you will find the revised Mid-Range Capital Plan "budget."

**FY '10**

OMBY Improvements	\$ 500,000	(125,000 match)*
Battlefield Landing Improvements	\$ 200,000	
Restrooms**		
Ridgevale Beach	\$ 150,000	
Volunteer Park	\$ 100,000	
S. Chatham Cemetery Expansion	\$ 300,000	
TOTAL:	\$ 1,250,000	
Town Funding:	\$ (875,000)	Tax Impact: \$.01/\$1,000
* Seaport Grant Funding		
** Composting		

**FY '11**

OMBY Improvements	\$ 500,000	(125,000 match)*
Restrooms**		
Schoolhouse Pond	\$ 50,000	
Lighthouse Beach	\$ 150,000	
Community Center Studio	\$ 200,000	
TOTAL:	\$ 900,000	
Town Funding:	\$ (525,000)	Tax Impact: \$.005/\$1,000
* Seaport Grant Funding		
** Composting		

**FY '12**

Ryder's Cove Bulkhead	\$ 500,000	(125,000 match)*
Restrooms**		
Harding's Beach **	\$ 50,000	
Cockle Cove Beach **	\$ 50,000	
Forest Beach **	\$ 50,000	
Ryder's Cove	\$ 250,000	
TOTAL:	\$ 900,000	
Town Funding:	\$ (525,000)	Tax Impact: \$.005/\$1,000
* Seaport Grant Funding		
** Composting		

**FY '13**

Crow's Pond Landing	\$	150,000	
Restrooms*			
Lighthouse/Rte. 137	\$	300,000	
Volunteer Park/Jackknife Cove	\$	300,000	
TOTAL:	\$	750,000	Tax Impact: \$.01/\$1,000

*\*Permanent Facility/Transferred Composting Facility*

**FY '14**

Roads/Sidewalks/Intersections	\$	3,400,000	
	-	\$ 2,000,000	Chapt. 90 Funds
TOTAL:	\$	1,400,000	Tax Impact: \$.02/\$1,000

Restrooms and landing improvement now compromise the bulk of the mid-range projects. Many of the restrooms proposed in the first years of the plan are composting facilities. As the Town adds sewer capacity, then permanent facilities are proposed at the Lighthouse Overlook and Volunteer Park, with the portable, composting facilities being shifted to areas with more infrequent use. Three large landing improvement projects are proposed for funding in this plan. Grant funding is being sought for each project. If grants are not received, then a scaled down maintenance project for each site will need to be funded either in the 5 Year Capital Plan or the Capital Facilities Plan. The next roads bond issue may be reduced or obviated entirely since roads are resurfaced after each sewer installation.

No Mid-Range Capital Plan projects are being proposed for FY '09. Since the projects slated for funding in this plan are now primarily discretionary, skipping a year of funding will not provide any diminution of service or a need not being addressed. The reasons for this plan delay are several fold. The re-design of the PD/Annex at the behest of Town Meeting has taxed available staff infrastructure. Planning is now moving forward on two major capital plans coincidentally, the PD/Annex and the wastewater treatment facility. Municipal staffing levels needed to provide adequate design or construction oversight, if exceeded, could result in project overruns or failures. We should not, in becoming overly project aggressive, overextend professional management of the project. In addition, professional staffing in departments in a community as small as ours is set at levels sufficient to properly oversee day to day department operations and their planning. When staff is lost for any particular reason as is currently the case in the Highway Department, other staff steps in to provide interim oversight, but can not effectively discharge planning and operational oversight as well as capital facility project oversight. Last year Town Meeting approved its first Mid-Range Capital Plan bond issue. Due to the temporary absence of the department director primarily responsible for the implementation of these projects, not as much progress has been made on them as we had planned. If we continue to fund mid-range plans aggressively this next year, the projects may become backlogged, tax payers may become rightfully chagrined with the delay in project timetables. Staff could then tend to rush projects with insufficient oversight causing inefficiencies. Finally, the indicators continue to be somewhat onerous regarding the Cape's immediate economic future. Although we should proceed with needed projects and will, we should bear in mind that mid-range projects add to the tax burden. We have positioned ourselves as a community to afford these projects, but we should continue to exercise fiscal caution.

## V. Surtax Expenditures

The next 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 are 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. 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 FY '09 two general comments should be added to this element of the Town's overall fiscal plan. Land Bank funds have very nearly been exhausted due to very aggressive open space purchases. Staff will now turn its attention to managing existing purchases. Continued purchases of open space may be made a priority for our community in an effort to preserve our character. The funding source for future purchases will either be pushed toward Community Preservation Act funds or the tax rate. Expenditures proposed through Community Preservation Act funds have been thoughtful and aggressive. The funded projects' implementation has taxed professional staff charged dually with Community Preservation Act project oversight and the oversight of projects from the Town's three capital plans. Community Preservation Act funds will be earmarked for the first time in FY '09 to expand this project oversight, thereby enabling limited, existing staff time to provide oversight to projects driven by the Board of Selectmen's goals incorporated into the Town's capital plans.

## VI. Stabilization Reserves

The stabilization account is, in essence, the Town's savings account. Several years ago Chatham set \$2 million as a goal for this reserve account. Bond rating agencies emphasize that reserve accounts are a demonstrable indicator of a municipality's fiscal health. In FY '09 the advent of additional maintenance accounts funded in the 5 Year Capital Plan will enhance the Town's reserves. The Town's Water Revolving Account is also demonstrating a strong reserve capacity. Standard & Poor's cited Chatham's strong reserves as a primary reason for a dramatic bond rating increase. This rating improvement will save considerable tax dollars in bond interest reductions in the future.

The stabilization account is invested and generates income which increases its balance. The fund also is used as a reserve for future expenditures. Standard stabilization fund uses are for settlement of litigation and emergency expenditures. The availability of a stabilization account balance obviates the need for one time spikes in the Town's property tax rate. In Chatham we have become even more creative in the use of this reserve balance. We have used this fund as an internal bank upon which we borrow from ourselves for capital projects. This prevents borrowing costs and further saves tax revenue. This borrowing policy would not be possible unless a dedicated revenue source had been identified for this account. The Overlay Reserve, a

fund balance remaining after the payment of property tax abatements, has been earmarked as the dedicated funding source. The Overlay Reserve either adds to or replenishes the stabilization fund balance. Overlay Reserve is not used as it is in many communities, as operating budget revenue or as an available fund for capital projects. The \$2 million goal for the stabilization fund balance is appropriate for a community of Chatham's size; to the extent that our financial condition improves, the goal can be increased in order to allow even greater flexibility for internal banking of capital projects.

Perhaps the most unique Chatham need for a reserve, or stabilization fund is for the Town's difficult to predict dredging needs. The Board of Selectmen have established as an important goal sufficient funding for dredging contingencies. A healthy stabilization Fund balance with an assured replenishing revenue source will help the Town achieve that goal. In FY '09 the fund's banking component and dredging needs are both evident. Funds (\$150k) set aside for pier removal were appropriated from the stabilization fund. Those funds have proven to be unnecessary due to the use of private funds. As a result the \$150k which was earmarked as a borrowing to be reimbursed will now return to the stabilization fund balance.

The primary funding mechanism for the Capital Facilities Plan was the use of debt drop-off. This funding level assured future capital projects did not increase the tax rate as new borrowing costs replaced dollar for dollar amortized costs of previous projects. This fiscal policy had the dual benefit of allowing smaller capital projects to be funded without borrowing and without increasing the tax rate. This debt drop-off was also used as the primary source of building the balance of the Town's stabilization fund. This fiscal policy will have an even more immediate, stabilization effect on the Town's tax rate in FY '09.

Debt drop-off is projected to be available for at least the next two fiscal years in the amount of \$500-600k. Delay in the implementation, and as a result the borrowing, for capital projects allows these funds to be available. In FY '09, two projects, the Mill Creek dredge (\$125k) and the Town's share of the Airport Runway Improvement (\$180k) will be funded by a capital exemption, the technical fiscal tool used to allow for the expenditure of debt drop-off. The approximate \$200k debt drop-off balance will not be used for an additional capital project, but rather will be available as a classical tax rate stabilization vehicle for a truly unforeseen circumstance. A recent State audit conducted on the ten year old school building projects has determined that a reduction of in excess of \$2 million will be forthcoming from State project reimbursement. Debt drop-off will be used to offset this lower annual level of State reimbursement without the necessity of an increase in the Town's tax rate. This audit and the practice of using debt drop-off will challenge the goal of completing the Town's Capital Facility Plan within the existing tax levy limit.

The stabilization fund balance available for FY '10 emergencies, dredging and litigation costs will continue to exceed the Town's \$2 million goal.

## VII. Conceptually Planned/Unreserved

The implementation of the Town's Capital Facility Plan has been delayed, quite rightly, by the unanswered questions regarding the cost to the tax payer of its largest improvement, the Waste-water Treatment/Collection System. Most of those questions have been answered as completely

as possible, yet will be fully clarified as the system design is completed. The question itself begged the addition of this seventh component of Chatham's fiscal plan. The tax payer should be

able to make project/budget funding decisions based upon all possible future municipal expenditures. Below you will find a list of projects which have been discussed in the past and which may compete for Town Meeting funding at some time in the future. Each project shows its possible tax rate impact and any other funding source that could be used, if implemented.

#### 1. Underground Utilities (Main Street and other Village Centers)

Cost: \$4,000,000 (est.) / \$.04/\$1000

Some costs for a project such as this could be charged back as a betterment, or depending upon legislative relief, charged to the user rate.

#### 2. Village Center Improvements

Cost: \$1,000,000 (est.) / \$.01/\$1000

No clear concept has been discussed in this regard. In West Chatham, costs associated with intersection design and bike path expansion were funded through the Mid-Range Capital Plan. Each Village Center could contain costs associated with similar improvements or even land acquisition and development costs.

#### 3. Main Street Road/Sidewalk Improvements

Cost: \$1,000,000 (est.) / \$.01/\$1000

State funds have been earmarked in the Transportation Improvement Plan (TIP) for the sidewalk enhancement component of this project. The reconstruction of the street itself must be completed in conjunction with sidewalk enhancement in order to address issues of accessibility in storefronts. Full depth road reconstruction should be completed in conjunction with sewer installation and burying of utilities. Any cost not covered by the State grant and sewer repavement could be borne by a possible revenue source provided by a fee for parking plan.

#### 4. Cemetery Land Acquisition

Cost: \$2,000,000 (est.) / \$.02/\$1000

A small land acquisition may be proposed in an upcoming Mid-Range Capital Plan bond issue. This small acquisition could assure access to additional lots. However, the Town's long term need for additional cemetery lots should be addressed within the next decade.

#### 5. MCI Site Development

Cost: \$2,000,000 (est.) / \$.02/\$1000

At one time the Board of Selectmen indicated that in order for the buildings on this site to be developed, all site improvement costs would be borne by the lessors. The preliminary bid responses for the redevelopment appear to only cover building renovation. Site development costs will need to be funded by either Community Preservation Act funds or tax rate funds, or some other undetermined source, if this project is to proceed.

#### 6. Upwelling Location

Cost: \$1,000,000 (est.) / \$.01/\$1000

The existing upwelling site is less than optimum due to its adjacency to a fuel pumping facility. Alternate sites have been explored and could include land acquisition costs. Some portion of these costs, if incurred, could be offset by shellfish permit fees.

#### 7. Mitchell River Bridge Replacement

Cost: \$10,000,000/ \$.10/\$1000

After the State reconstruction of this drawbridge, the Town assumed the ownership of and responsibility for its operation and routine maintenance. Significant funds have been expended in recent years on maintenance as the bridge's condition deteriorates. Full replacement is the obligation of the Commonwealth and is scheduled in 2012. The State has not always been a reliable partner in road/bridge infrastructure repair, however.

#### 8. Southside Unloading Facility (Commercial)

Cost: Undetermined

Discussions have occurred regarding a southside commercial off-loading facility for Chatham's fishing industry. Recent \$1million upgrades to the Town Fish Pier was entirely subsidized by the tax rate. If shoaling causes the Fish Pier to become unviable, another off-loading site, perhaps on the southside may be necessary. Since income from the Fish Pier use does not nearly offset its operating costs, further taxpayer subsidy may be necessary if grant funding can not be found and capital subsidy continues to be a policy objective of the Town.

#### 9. Land Acquisition

Cost: Undetermined

The Land Bank funding available for land acquisition is nearly exhausted. Community Preservation Act funds continue to be available, but also have other competing uses. Future land acquisition costs may need to be borne by a tax levy, if no other revenue source is determined.

#### 10. Dredging

Cost: Undetermined

The stabilization fund balance is available for this purpose; although a higher amount of annual funding may burden free cash demands depending upon need. A property tax increase is an alternative and/or State/Federal funding.

#### 11. Shellfish Litigation

Cost: Undetermined

Litigation costs for the Town's efforts to assure commercial shellfishing rights on Monomoy have to date been funded by shellfish permit fees and stabilization funds.

#### 12. Wind Turbine at Wastewater Treatment Facility

Cost: \$1-2 million/ \$.01-.02/\$1000

Currently State funds are available for this capital cost; revenue from electricity sale could also be used to offset some, if not all of any costs incurred, if it becomes necessary.

#### 13. Airport Terminal

Cost: \$1,000,000/ \$.01/\$1000

The replacement of the existing terminal building at the municipal airport is to be funded, at least partly, by Federal funds. The Town will be obliged to contribute a share of these costs as a requisite of receipt of grant funding. At such time as the project's implementation date becomes more defined, this cost will move to the Capital Facility Plan, to be borne either by debt drop-off or an additional property tax levy.

#### 14. Eastside Shore Protection

Cost: Undetermined

It may become necessary, depending upon the impact of the new breach, for the Town to incur significant costs associated with elevating roadways, landing protection and/or seawall construction.

#### 15. Bridge Street Landing Purchase

Cost: Undetermined

The Town currently leases the land from a private party for its landing on Bridge Street. If the property becomes available for sale, the Town may consider its purchase at an amount determined by the fair market, in order to assure the continued use of this landing. Property tax funds would be used for this purpose, as could a portion of waterways improvement account funds.

### Summary

The Town will submit a budget for consideration for FY '09 within the limits of Proposition 2½. The fiscal planning and the conservative fiscal policies enumerated in this report put in place by the Town enable the Town to do so.

Very few new initiatives are proposed for the upcoming year. This seems prudent due to the leveling off of our local economy. In the past decade service delivery was expanded due to the availability of increasing, non-property tax revenues. The Town must be cautious not to race ahead of this revenue source and propose programs which would not be sustainable. Three relatively inexpensive new initiatives are proposed in FY '09:

1. Increased staffing for the Community Center
2. An emergency notification system
3. Funding for an annual Maritime Festival

No new major capital projects are proposed in FY '09 and no funding is proposed for the more discretionary Mid-Range Capital Plan. This decision has been made out of deference to the economic condition and to avoid an implementation backlog of previously funded projects.

The Town should continue to be pleased with its fiscal condition. Our community has not only been able to maintain a stable, and relatively low tax levy, but at the same time enhance essential Town services and also aggressively replace its aging infrastructure. This positive fiscal position can not be attributed to Chatham's increasing property values alone. Independent bond rating agencies attribute the Town's sound fiscal position to good, old-fashioned hard work and planning. Frankly, more such planning needs to be done in the immediate future. The Town has been cautious not to outstrip its revenues in a manner that is unsustainable. Candid discussions and co-operative fiscal planning must continue to occur in the immediate future amongst the Board of Selectmen, School Committee, and Finance Committee in order to successfully address the challenge of an ever changing global and local economy.