

Town Manager's Budget Recommendation
Summary for FY12

Summary

The Board of Selectmen's goal for the FY12 municipal budget was quite simple: to minimize spending. No goals were set to provide new or enhanced programs or services for the community. The sole goal established was to keep spending within the limits of Proposition 2 ½, and if practical, not increase spending at all. The following report describes in detail how that goal was achieved. It provides a clear depiction of how municipal service is effected by the attainment of the level funding goal.

The not unexpected secondary goal which results from a level funded budget (excluding schools and debt) is a smaller municipal government. The FY12 budget herein proposed continues to provide the full range of municipal services for the third consecutive year during this fiscal downturn, and minimizes fiscal impact on the taxpayers of our community.

Since previous budgets have become leaner, the only mechanism available to pay for the inevitable increased costs of certain Town services without increased spending was to reduce staff. If the FY12 budget is adopted as proposed, municipal staff levels in the past four fiscal years will have been reduced by fifteen percent reverting to staff levels of ten years ago. School spending and increased cost of debt in FY12 will increase Chatham's tax levy, but within the limits of Proposition 2 ½.

Description	10 Actual	11 Approp	12 Dept Req	Proposed Budget FY12	%
Expenses					
Operating Budgets					
General Government	\$ 1,866,528	\$ 1,873,652	\$ 1,794,783	\$ 1,794,783	-4.21%
Public Safety	5,009,385	5,088,607	5,163,331	5,091,899	0.06%
Community Development	761,860	736,856	661,100	661,100	-10.28%
Health & Environment	816,048	823,654	785,301	785,301	-4.66%
Public Works & Facilities	3,923,974	3,900,646	3,913,396	3,913,246	0.32%
Community & Social Services	938,932	942,861	987,798	940,957	-0.20%
Education	9,777,592	9,989,469	10,205,141	10,205,141	2.16%
Employee Benefits	3,412,026	3,869,383	4,037,303	3,840,390	-0.75%
Undistributed Ins. & Reserve Fund	300,017	351,097	351,097	351,097	0.00%
Debt Service	<u>4,972,217</u>	<u>5,020,196</u>	<u>5,272,691</u>	<u>5,272,691</u>	5.03%
Operating Budget Total	<u>\$ 31,778,579</u>	<u>\$ 32,596,421</u>	<u>\$ 33,171,941</u>	<u>\$32,856,605</u>	0.80%

Proposition 2 ½ Allowable Growth

Each year communities in Massachusetts are limited as to how much their respective budget growth may be to 2 ½% above their existing levy unless an exemption is granted. Not only is this limitation onerous in respect to maintaining existing service cost increases, but it is further a challenge inasmuch as the tax levy only covers a percentage of the overall municipal costs each year. The balance of municipal financing is derived from miscellaneous “estimated receipts”. The percentage split of levy to estimated receipts in Chatham is 70/30. Reliance upon estimated receipt levels is a boon in times of economic growth, but a compounding challenge during economic decline. Chatham’s estimated receipts continue to decline and are now at precarious levels in terms of provision of adequate funding for the Town’s base budget and Five Year Capital Plan.

The following funding is available to the Town in FY12 given the restrictions of Proposition 2 ½ (as shown in detail in addendum #2 to this report).

2 ½ Allowable Growth	\$550,000
New Growth	<u>239,410</u>
Total	\$789,410
School Share (adjusted)	\$263,531
Town Share	\$494,078

Necessity and Magnitude of Budget Reductions

Each year it is a challenge to keep municipal spending within the limits of Proposition 2 ½. Certain “budget busters” exist in any municipal budget and quickly consume any additional available funds. In August of last year these areas of potential budget concern were identified (see Page 7 addendum #3). The challenge of FY12 was not simply to contain spending within the limits of 2 ½ available additional revenue, but to level fund the municipal side of the budget and to not use any of this available tax levy capacity. Therefore, the municipal government budget (minus the schools and debt) needed to be reduced by an amount corresponding to the sum of the “budget busters” growth. The necessary growth areas in the municipal budget are listed below.

Sewer Department	\$105,000
Fire Department	100,000
Steps	<u>65,000</u>
Total	\$270,000

The municipal budget therefore needed to be cut by \$270,000 below last year’s level in order to achieve the Board of Selectmen’s FY12 goal.

How the Reductions Were Achieved

The past several municipal budgets have not only relied upon staff reductions, but also upon economies in most available expenses. No further expense reductions are available. Therefore, in order to meet the Board of Selectmen's goal of a level funded budget, reductions needed to be sought in either further staff reductions or reductions in marginally essential programs. Below is a list of the major areas of FY12 budget reductions followed by explanations of their respective impact.

Estimated Receipt Reductions	(\$200,000)
Staff	
Early Retirement	\$184,000
Attrition	126,000
Lay Offs	52,000
Programs	
Lighthouse Beach	70,000
Salary Reductions	
Town Manager	<u>38,000</u>
Total	\$270,000

- Estimated Receipts have and are projected to decline so dramatically that FY12 projections must be reduced by \$200,000 in order to be at an acceptable level satisfactory to the Department of Revenue.
- Early Retirement – Town Meeting has authorized an early retirement incentive program. The timetable for these prospective retirements is attached as addendum #5. Retirements in this program will be effective prior to the commencement of FY12. Seven employees are expected to take advantage of this program. Since some of the employees will remain in the organization and serve part-time, the total F.T.E. reduction is three (as detailed in addendum #6). The early retirement incentive program and other staff reductions in FY12, combined with the use of reserves have effectively offset the need for a health insurance line item increase which was projected in the Town's August budget planning session.
- Attrition – Three additional positions have been vacated in FY11 and were not filled in FY12. These are also shown in addendum #6.
- Layoffs – the DPW Administrative Assistant position has been deleted from the FY12 budget. The responsibilities of this position will be assumed by the two other clerical positions within the DPW and by the new lower graded administrator position which replaced the Water Superintendent retirement vacancy. The individual serving in the position deleted in FY12 is eligible for the early retirement program.

- Programs – The Park and Recreation Department has proposed that the boat assigned to this program in FY11 be deleted. It is the unanimous opinion of all effected public safety and other personnel responsible for the planning and oversight of this program (Fire Chief Ambriscoe, Police Chief Pawlina, Harbormaster Smith, Park and Recreation Director Tobin, Health and Environment Director Dr. Duncanson and Finance Director Heilala) that implementing the program without the essential water rescue component would be unsafe. In addition, the program provides a non-essential service with no revenue potential. In the relative consideration of staff reductions elsewhere in the organization, this program has been deleted from the FY12 budget.
- Town Manager Salary – The Town Manager’s duties during the past year have been significantly reduced and assumed by the Board of Selectmen or committees. It is highly unlikely that the position which will be vacant by July 1st will attract or be filled by an individual with thirty years of municipal management experience. Therefore, a salary survey was conducted (attached as addendum #7) and it was determined that the average salary of Cape managers is approximately \$125,000. These managers average more than twenty years of management experience. This salary has been adjusted accordingly.

It should be noted that no cuts are planned in the areas of Park and Recreation, Assessors or Fire Department since those studies being conducted by or at the direction of the Board of Selectmen are incomplete as this summary is written.

Finally, for the Town’s consideration, please note the two charts attached as addendum #8. These charts illustrate that if the budget proposed for FY12 passes unamended, then municipal staffing or F.T.E. levels will be the same as they were ten years ago in 2002. This has been accomplished despite adding six new firefighter positions and additional staffing for both the Community Center and janitorial staff for new buildings. Any contention of municipal staffing overall as bloated is either uninformed or intentionally misleading. The fiscal policy long in place which allows staff expansion as the economy prospers and new services are demanded and correspondingly shrinks staff as the economy declines and which re-positions limited resources to address shifting municipal needs, has been successful in meeting the service needs of our community. Since the Schools currently employ approximately 130 F.T.E.’s as well, the total municipal staffing level is approximately 260 F.T.E.’s, a figure common to a full service community of comparable size.

Fiscal Perspective

The budget goal of the Board of Selectmen was to level fund municipal spending in FY12, if the cuts necessary to do so were not deemed too egregious to municipal services. Some additional fiscal background information is necessary in order to make the determination.

First, one should refer back to the budget summary included as addendum #2. The debt line item must be looked at separately. The total debt line items consist of exempt and non-exempt debt. CPA and Land Bank purchases are paid for exclusively by CPA and Land Bank funds, not the property tax levy. Exempt debt is paid for by the property tax levy without any Proposition 2 ½

restrictions. When the cost of exempt debt rises, the levy automatically increases correspondingly. This increase in the levy is separate from the allowable 2 ½% levy growth each year. The debt line item has risen approximately \$250,000 in FY12. However, non-exempt (CPA) debt has fallen by nearly \$304,000. Therefore, the non-exempt debt increase by FY12 is actually \$554,000. Since during the past two fiscal years the Board of Selectmen has chosen to use debt drop off or debt declination in order to offset any operational budget caused levy increases and as a result subsidize the tax rate payers, none of these funds are available to offset new exempt debt costs in FY12. Although nearly 70% of all tax bills were lower in each of the past two fiscal years due to this subsidy, the debt drop off fiscal policy has been superceded. The planned payment of the Town’s capital plan without increasing the tax rate has been sacrificed. The result is the need to increase the levy to pay for the previous years’ subsidy and the new debt costs. Addendum #10 illustrates the approximate tax impact of one cent on the tax rate for each \$58,000 raised in the levy. Therefore, the FY12 debt budget will push the tax levy up by approximately 9.5 cents.

Next, the School increase tax impact should be considered. If you return to the budget summary, then you will see that the school budget increases by the \$263,000 “allowable” in the school formula (see page 2 of this report). However, the tax impact of this increase cannot simply be considered using the \$58K=1¢ on the formula. Refer once again to page 2 of this report to see the new revenue available for FY12. New growth is revenue generated by new property being taxed for the first time. If levied, new growth does not increase the tax rate. Therefore, with the exception of debt costs, the Town has reduced its budget in FY12 sufficiently to offset any budgetary increases. All of this new growth revenue is available to offset the School’s budget increase.

School Budget Increase	\$263,000
New Growth Offset	<u>239,000</u>
	\$ 24,000

Therefore, the budgeted school increase would increase the tax rate by less than one half of one cent. I refer now to addendum #9, the two memos from the school administration. The first memo indicates that an additional \$410,000 will be necessary to fund the school budget in FY12. I have since heard from the school administration indicating that this deficit will be more minimal, although no final figure is currently available. The second memo suggests the possibility of using stabilization funds to offset any school budget deficit since with the advent of regionalization in FY13, this deficit will not be reoccurring. If the Town adopts a budget that does not require using its share of available 2 ½ revenue, then nearly \$470,000 would be available to fund the \$410,000 school deficit without the necessity of an operational override. However, funding the school deficit at the level projected on December 8th would result in a tax rate increase of approximately seven cents.

Technically the Town can increase its budget by \$494,000 using its share of Proposition 2 ½ available funds. Contingent upon the outcome of the final school deficit, however, as described above such an action would push the school deficit into the necessity of an override.

Water Operating Budget

The water operating budget for FY12 is unremarkable. The proposed budget total declines from FY11. This budget is entirely offset by water rate revenue and continues to operate with a healthy reserve.

Five Year Capital Plan

Funding available for the annual Five Year Capital Plan was substantially less than in previous years. The Plan funds vehicle, building and road maintenance, vehicle and equipment replacement as well as small projects. Maintenance accounts suffered the most from lack of funding for FY12, since most maintenance accounts have an accumulated, unencumbered balance. Sufficient funds exist to fund a replacement ambulance and a small maintenance project at the Old Mill Boatyard which will be 75% grant funded. The Plan summary below is most remarkable when one looks at the FY13 requests which illustrate the magnitude of Plan items deferred during the past two years. The reluctance to develop an alternative revenue source will be keenly felt in the future. Addendum #4 shows the decline in estimated receipts available for this budget.

Description	FY 11	FY 12	FY 12	FY 13	FY 14	FY 15	FY 16
	Actual	Request	Approved	Program	Program	Program	Program
CAPITAL PROGRAM & BUDGET SUMMARY:							
General Government	83,300	190,000	110,000	150,000	140,000	140,000	140,000
Public Safety	114,700	286,500	147,500	260,100	258,000	73,000	61,000
Community Development	7,000	60,000	-	30,000	30,000	-	-
Health & Environment	124,000	156,000	124,000	351,000	441,000	391,000	679,000
Public Works (without Water)	533,450	735,000	258,000	1,486,000	1,042,000	667,000	512,000
Equipment	163,000	547,188	355,000	1,778,640	666,000	325,000	1,161,000
Schools	134,733	184,733	-	262,735	-	-	-
Total Town Funded Capital Budget	1,160,183	2,159,421	994,500	4,318,475	2,577,000	1,596,000	2,553,000
Funding Sources:							
Free Cash			960,000				
Waterways Improvement Funds			25,400				
Cemetery Sale of Lots			1,000				
Shellfish Revolving			8,000				
Prior Articles			100				
Land Bank							
Total Funding Sources	-	-	994,500	-	-	-	-

Capital Facility Plan

The final project on the Town's Capital Facility Plan, the Fire Headquarters replacement is scheduled to be presented to Town Meeting this spring. The funding for this project has been projected in the Plan to be offset by future debt drop off or decline. Two other major capital projects not in the Capital Facility Plan may be brought forward to the Annual Town Meeting as well: an adult day care facility and the undergrounding of wires in the West Chatham Village Center. Funding mechanisms for these two relatively smaller capital projects would require tax rate increases or alternative revenue sources.

FY13 and Beyond

The economic recovery continues but slowly. Certain fiscal practices employed in the past two fiscal years are unsustainable in the short term future. As previously stated, the non-action on the creation of additional revenue sources specifically the meals and hotel/motel tax will result in even further decline in free cash and will result in untenable levels of deferrals of maintenance and vehicle replacement and small, necessary projects. Service reductions will result if further staff reductions are implemented and the uneven distribution of pay raises, the cost implications of which are illustrated in addendum #11, is unsustainable particularly if inflation begins to increase as predicted.

The considerable reduction of the school budget assessment that school regionalization does provide a remarkable opportunity to correct these unsustainable practices as well as to continue to fund capital projects, including the wastewater project, without increasing the tax rate. Planning for this fiscal opportunity should commence immediately.

Conclusion

This budget proposal meets the goals set forth by the Board of Selectmen. However, the Board will need to determine whether or not the reductions herein, or however modified an acceptable in terms of service provision. The recent Charter revisions require a consultation with the Finance Committee prior to the adoption of a budget for FY12. Copies of this budget document have been forwarded to the Finance Committee for review.

