

**SUMMER RESIDENTS ADVISORY COMMITTEE**  
**POSITION PAPER – BUDGETARY ISSUES**  
**August 24, 2012**

The Summer Residents Advisory Committee respectfully submits this Position Paper for consideration by the Board of Selectmen, the Finance Committee and the Town Manager in developing the General Fund Budget for FY 14 and in planning for FY 15 and FY 16.

**SUMMARY**

- The 2014, 2015 and 2016 budgets should be “level funded”, meaning that the total tax levy in each of those years should not exceed the levy in 2013 of approximately \$29.5 million, plus any increased amount attributable to new growth.
- Additional revenues should be raised through an increase in the Hotel/Motel tax, mooring permits, and other permits where appropriate.
- Operating costs should be reduced through department consolidation, additional regionalization, review of service levels, and, where possible and appropriate, outsourcing.

**BACKGROUND**

At the 2011 Summer Town Meeting and in its August 2011 Budget Position Paper, the Committee recommended that the Board of Selectmen, as a matter of policy, direct the Town Manager to prepare a General Fund Budget for 2013 with expenses not to exceed the \$27.6 million of expenses in the 2012 budget, excluding debt service. The Committee is pleased that this goal was accomplished. However, it was largely achieved because of a 1.8 million reduction in education expenses which more than offset the increase in debt service. Excluding education and debt service, the 2013 operating budget increased 4.5% over 2012. The Committee believes that increases of this magnitude are not sustainable, and are inconsistent with the long term health of the Town.

The Committee understands that in formulating the 2014 budget, the Selectmen, Finance Committee and Town manager will also be considering and planning for the Town’s needs in FY15 and FY16, as well. The Committee commends the Town for taking this important initiative.

The Town faces several significant challenges during FY14-FY16, including the capital costs and resulting debt service obligations for a new firehouse and implementation of the

wastewater plan. Both of these imperatives will require voter action and in order to maximize the chances of approval, it is important to avoid any additional tax increases during the three year period. In addition, unless the Town holds the levy at the 2013 level, it will become even less affordable than at present, for residents and non-residents alike.

This will require a critical review of the way the Town does business, and a willingness to make hard choices and tough decisions to contain those costs which are within the control of the Selectmen and Town Manager.

Outlined below are some of the budgetary challenges and opportunities facing the Town during the three year period.

### CHALLENGES

The following challenges will place upward pressure on the budget:

**Debt Service.** Debt service in FY13 is rising to \$7.5 million, a 30% increase over FY12, and constitutes 15% of General Fund revenue. With the new firehouse and wastewater plan implementation, this debt service obligation will increase, both in amount and as a percentage of revenue. The Committee strongly believes that both of these capital expenditures are essential. Although the firehouse should cost significantly less than the \$9.5 million rejected by the voters, there is no doubt that the existing facility must be replaced. To date the initial phases of the wastewater project have been completed on or ahead of schedule and under budget, and the next phases should be completed as promptly as possible.

**Education.** Although the Town will continue to realize savings from consolidation with Harwich, assuming voters approve the \$65 million new high school, education costs will increase in FY14-FY16, by an estimated \$1 million over FY13, due to an \$800,000 annual assessment for Chatham's share of the School District's debt service obligation, plus an assumed normal increase in the District's budget.

**Five Year Capital Plan.** Funding for the Five year Capital Plan has been declining, as the Town has been dealing with other budgetary challenges:

2009	\$1,761,968
2010	\$1,519,894
2011	\$1,160,183
2012	\$ 887,600
2013	\$1,074,300

The 2013 capital program also included \$200,000 for the new "quint". It appears that the capital needs of the Town are being deferred and that a plan needs to be developed to assure

that these needs are being funded at appropriate levels on a current basis. The Committee estimates that funding in the range of \$1.5 to \$2.0 million annually will be required over the long term. A long term capital needs study should be prepared or updated, and a generally level funding plan developed to avoid large upward or downward spikes in annual funding. To the extent that free cash is not sufficient, any excess should be funded out of the tax levy.

**Other Post-Employment Benefits.** Chatham provides retired employees with health and life insurance benefits. The Town's obligation is unfunded. The amount of the annual payments has been increasing from \$472,000 in 2006 to \$783,000 in 2011. The actuarial accrued liability as of June 30, 2010 has been estimated at \$43.7 million, although this amount may be subject to downward adjustment since the liability for current Monomoy School District employees is being assumed by the School District.

The committee anticipates that the amount of these benefits will continue to increase in the years ahead, and steps should be taken to minimize the annual impact on future budgets. At the May 2013 Town meeting, the voters authorized the creation of an Other Post Employment Health Insurance Liability Trust Fund for the purpose of funding future obligations for these benefits. Funding of the Trust should commence during the three year planning period, although the Committee recognizes that the initial funding amounts are likely to be modest.

**Stabilization Fund.** This fund has served the Town well and has helped in maintaining the Town's AAA bond rating. The Selectmen should reestablish, as a matter of policy, the former \$2,000,000 goal and a plan should be developed to reach this funding level by the end of the three year period.

## **OPPORTUNITIES**

The following opportunities should be considered to increase revenues and decrease expenses.

**Capital Plan Funding.** Assuming the 2014 five year capital plan is funded with free cash, as in the past, the 2014 tax levy will be relieved of the need to fund this plan, resulting in a benefit of to \$1.3 million annually (including the quint) compared with 2013, throughout the planning period.

**Increased Revenue.** The Committee believes that there are opportunities to increase revenues apart from raising the tax levy: They include:

**Hotel/Motel Tax.** The state currently imposes a 5.7% tax and the Town 4%. The Town is authorized to increase that tax an additional 2% which will raise an estimated \$600,000

annually. Other cape towns with the town's portion of the tax at 6% include: Barnstable, Bourne, Brewster, Provincetown, and Yarmouth. The Committee does not believe that this additional tax will have any negative impact on either tourism revenue or the owners of hotels or motels.

**Mooring Permits.** Chatham's mooring permit fees are the lowest on the Cape, less than half the average of other Cape towns. For the average 23 foot boat moored in Chatham, a mooring now costs \$57.50. In Falmouth, it is \$91, in Barnstable \$70, in Yarmouth \$175, in Harwich \$125, in Orleans \$75, in Dennis \$150, in Wellfleet \$212, and in Provincetown \$80. Current fees total about \$200,000 annually and are not sufficient to cover the costs of the Harbor Master Department. They should be raised to levels competitive with other cape towns, which should generate between \$200,000 and \$300,000 annually.

**Other Fees.** All other fees for town services should be reviewed to make sure they are competitive and cover the costs of the services involved.

**Decreased Expenses.** The Committee believes there are opportunities to decrease expenses. They include:

**Overtime.** Fire Department overtime in 2011 totaled over \$500,000 as it has in the last few years. Incurring overtime in these amounts is unacceptable. Central dispatch which becomes effective in January 2013 hopefully will reduce the need for overtime. In all events the Town Manager should begin to plan now for how to substantially reduce, if not entirely eliminate fire department overtime in FY 14 – FY 16.

**Additional Regionalization.** Consideration should be given to regionalizing additional services during the planning period. Potential candidates include the Tax Assessors Office. This important function is conducted throughout the Commonwealth under a common set of laws, regulations and standards. There is no reason to perform the function differently in Chatham than in any other cape town. A study should be initiated to determine if saving could be realized by performing this function for all cape towns at the county level.

**Department Consolidation.** Are there opportunities to reduce costs, improve service and realize efficiencies by consolidating existing departments? For example, the Fire and Police Departments now perform complementary functions and serve a common customer base. Would consolidation of both into a "Department of Public Safety" promote efficiency, improve service and/or reduce costs?

**Review Service Levels.** How are service levels determined? For an example, do we have a plan spelling out which streets should be swept and how often? If the Town reduced street sweeping 50% would there be an adverse impact on health, safety or appearance of the

Town? What would be the impact on fuel, equipment maintenance, life of the equipment, and personnel costs? Harwich appears to have an identical piece of equipment. Could we share one sweeper and both towns realize savings. The Committee obviously does not have the experience or ability to sort out and come to conclusions about these types of questions. But they are questions which the town management should raise and answer for all departments, over the three year planning period.

**Outsourcing.** The Committee recognizes that opportunities for outsourcing may be limited given constraints imposed under collective bargaining agreements and state law. However, when and if opportunities arise to provide services through alternate means, such as outsourcing, they should be carefully considered and implemented, where appropriate.

**Staff Reductions.** Retirements and resignations should be considered as an opportunity to promote efficiency and productivity, improve service, and reduce costs, through combining functions, reassignments and departmental consolidation or reorganization, as a part of a continuing process to consider and change, as circumstances make appropriate, the way the Town does business. This is exactly the process that takes place on a daily basis in the business world and, in large measure accounts for the remarkable improvement in productivity experienced throughout the country. No staff vacancy should be filled unless justified by a study demonstrating need to the same standard as if a new position was being considered.

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Attached is an Appendix which illustrates the budgetary impacts of the Committee's recommendations over the three year planning period, FY 14, FY 15, and FY 16.

As the Appendix illustrates, with:

- No increase in the tax levy, other than increases attributable to new growth;
- About \$800,000 in new revenue from increases in the Hotel/Motel tax and mooring permits;
- Increased debt service attributable to the new fire station and wastewater implementation; and
- Increased funding for the five year capital plan, the stabilization fund, and the OPEB trust

Funds available for general fund expenses, other than education and debt service, will decrease, on average, about 2.5% each year. The Committee recognizes that the same type of non-discretionary "budget busters" impacting the 2013 budget are likely to also affect FY -14, FY 15, and FY 16. Accordingly, it is probable that these expense reductions are likely to require modest headcount reductions, largely achieved through attrition.

Although implementation of these recommendations will require time and effort, the Committee believes that the long term fiscal health of the Town requires that expenses be reduced in order to continue funding of needed capital programs, and to prevent the Town from becoming even more expensive than at present.

The Summer Residents Advisory Committee very much appreciates the opportunity to express its views and hopes that its suggestions will be useful as the Town considers the 2014 budget and plans for FY 15 and FY 16.

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Information Sources Include: 2011 Annual Report; Annual Town Meeting Warrants, 2009-2013; June 14, 2012 Official Statement \$22.9 million General Obligation Bonds

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**APPENDIX**  
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This Appendix illustrates the impact of the SRAC recommendations for FY14-FY16

**ASSUMPTIONS**

1. Real estate tax levy held constant at 2013 level for FY 14-FY16, plus tax attributable to new growth of \$20 million annually.
2. State receipts continue at 2013 budgeted level.
3. Local receipts continue at 2013 budgeted level.
4. Hotel/Motel Tax increased 2% beginning 2014
5. Mooring fees increased to market rates beginning 2014
6. Free cash will be a minimum of \$1 million in each of FY 14, FY 15, and FY 16.
7. Both Chatham and Harwich will authorize new High School for MRSD
8. Chatham will build new Fire Station in 2014 at cost of \$6 million
9. Town will spend \$10 million on wastewater plan in each of FY 14, FY 15, and FY 16
10. Town will fund 5 year capital plan at \$1,750,000 annually in FY 14 - FY 16
11. Town will add \$100,000 to Stabilization Fund annually to \$2 million level
12. Town will fund OPEB Trust \$50,000 annually