



Town of Chatham
Office of the Select Board
Town Manager
549 Main Street
Chatham, MA 02633



Jill R. Goldsmith
TOWN MANAGER
jgoldsmith@chatham-ma.gov

M E M O R A N D U M

Tel: (508) 945-5105
Fax: (508) 945-3550
www.chatham-ma.gov

TO: Honorable Select Board
Honorable Finance Committee
Honorable Monomoy Regional School District Committee

FROM: Jill R. Goldsmith, Town Manager
Alix Heilala, Finance Director

DATE: October 13, 2023 (for the Budget Summit of October 17, 2023)

SUBJECT: 12th Annual Budget Summit – FY2025 (July 1, 2024-June 30, 2025); An All-Encompassing Budget to Chart Chatham’s Future

The Budget Summit scheduled for October 17, 2023 begins the Fiscal Year 2025 formal budget review process. As noted, this is the twelfth year of our Budget Summits in partnership with Department Heads, Select Board, Finance Committee, and Monomoy Regional School District Committee. The outcomes we hope to achieve were first presented in 2012:

- Better understanding of the Town’s financial condition
- Identify emerging problems/challenges before they reach serious proportions
- Identify existing problems requiring correction
- Discuss service and funding priorities and present a comprehensive picture of our strengths and weaknesses
- Discuss long-range considerations with the annual budget review process

This year, we look forward to the future by incorporating the above outcomes into a successful and sustainable budgeting model, such as the nationally recognized Government Finance Officers Association (GFOA) Financial Foundations Framework. The five “pillars” for budgeting are:

1. Establish a Long-term Vision – give people a reason to cooperate.
2. Build Trust and Open Communication – create conditions for cooperation.
3. Use Collective Decision Making – develop forums for participation.
4. Create Clear Rules – reinforce constructive behavior.
5. Treat Everyone Fairly – promote and protect mutual trust and respect.

An All-Encompassing Budget to Chart Chatham's Future

As noted at the Budget Summit last year, we highlighted the lessons learned from the pandemic which incorporated principles of resiliency and sustainability for the future; for this budget summit we look back to pre-pandemic FY2020 for comparison and look forward in our approach as we continue to include these principles and seek town-wide input for the FY2025 (and future) budgets.

The FY2020 budget increased by 0.88% over the previous budget year as the directive was to level fund without jeopardizing programs and services.

The FY2021 Budget (Budgeting in the Unknown) was the start of the Town's COVID-19 Financial Plan. As you recall, the FY2021 budget pivoted from a 'growth' level service + budget as presented on January 13, 2020, with a 5.96% increase over FY2020 (favorable recommendations by the Select Board and Finance Committee) to a COVID-19 'core-services' budget with a 2.85% increase over FY2020 also with favorable recommendations on May 7, 2020, approved by Town Meeting on June 22, 2020.

The FY2022 budget (COVID Core Services Budget) was a continuation of the Town COVID Financial Plan, as with a modest increase of 2.59% over the FY2021 Core Services Budget. The themes of preserving and building our social infrastructure and resiliency were incorporated in the FY2022 Budget.

As the Town of Chatham reacted to and then recovered from the COVID-19 pandemic, we incorporated lessons learned and prepared a budget for FY2023 based on principles of recovery, resilience, and sustainability for the future. The FY2023 Budget (Budgeting for a Resilient and Sustainable Future) was forward thinking, adhered to the fiscal policies, was crafted to meet the needs of the townspeople, and incorporated financial sustainability and resiliency.

The FY2024 Budget, Budgeting for a Stable Future, was a continuation of the FY2023 Budget and crafted with a look to the future, often challenging given that our financial world is still somewhat uncertain - inflation, lingering supply chain impacts, workforce staffing (retaining/attracting), etc.

The FY2025 Budget, An All-Encompassing Budget to Chart Chatham's Future, is one that is inclusive of all of Chatham as we look to represent all areas of Town and townspeople. The FY2025 Budget builds on past budget themes of resiliency, sustainability, stability and introduces the Financial Foundations Framework as a process to achieve community collaboration and support. The goal of the FY2025 budget, and every budget, should be to build a better community.

The Finance Team just completed review of our first budget quarter for FY2024 (ending September 30, 2023) and are pleased to report that revenue and expenditures are tracking to

our budget projections. Further discussion on the revenue is noted below. Per our Financial Policies we monitor revenue and expenses monthly, and provide monthly expenditure reports to Dept Heads, and quarterly revenue reports to the Select Board.

At this Summit, we will report on how the most recent fiscal year (FY2023) closed on June 30, 2023. The purpose of the look back on revenue is to guide our revenue forecast, as we moved from 'uncertain' estimates to the conservative estimates of 85% of prior year actuals that provides flexibility should revenues greatly differ from our estimate. We focus on revenue because the Operating Budget (expenses) must be based on the amount of available revenue. We will also look forward three years to FY2027, as part of the five-year budget plan. The Town of Chatham adopted Fiscal Policies in 2012; and conducted a comprehensive update in 2018 providing for new Town Budget and Financial Management policies. With the updated policies, we committed to an annual review to ensure they meet the standards of a Town with an AAA Bond rating. For FY2020, we recommended, and the Board approved, an amendment to the policies to provide for the Capital Budget at 9% of the Operating Budget. Last year, we recommended the Free Cash policy be amended to a minimum of 3-5% (vs. at 3-5%) of the operating budget. This did not receive endorsement from the Finance Committee, and with the removal of the IMA funds (to a separate Stabilization Fund) we suggest revisiting this section of the policies next year.

For our annual review in 2023, there are no recommendations to update the fiscal policies.

https://www.chatham-ma.gov/sites/g/files/vyhlf2926/f/uploads/chatham_budget_and_financial_mgmt_policies_updated_october_2019.pdf

Such provide the parameters with which we look back at previous budgets and forward to build the FY2025 budget foundation and set the framework for future budgets as well.

I. State of the Town

Overview of FY2024 Budget (Current Year) – The FY2024 budget presented in January 2023 and adopted at the May 6, 2023 Annual Town Meeting provides for continuity of services, as did the FY2023 budget as the Town resumed confident budgeting for the future, which was paused during the COVID-19 Budget Pivot in 2020. The final budget included additional staff; 8.5 full-time equivalent (FTE) positions, endorsed by the Select Board and Finance Committee to provide services that our citizens deserve and expect. The FY2024 budget included an increase of 6.85% over FY2023, including the educational assessments and funding under the new formula for Chatham Elementary School. It also includes the allocation for salaries under Article 15 for Collective Bargaining Agreements, all with no impact to the Tax Levy due to available revenues.

Other Items Funded as Separate Article at the 2023 Annual Town Meeting

For FY2024, there were separate warrant articles that were funded through the tax levy for a total of \$1,601,045 for Collective Bargaining Agreement (noted above), Eldredge Public Library HVAC, Surf-capable Rescue Boat grant match, Childcare Network Voucher, and Pre-K Support

Program totaling \$675,000. The Capital Budget was approved at \$3,674,000; funded through Free Cash and transfer from Special Revenue Funds with no impact on the tax levy. The Capital Budget, other Capital Articles and Water Capital are discussed in further detail later in this report. Other items approved at Town Meeting were funded by available funds, such as Community Preservation Act (CPA) funds and Water Special Revenue Fund (both used for specific purposes per MA General Law (MGL).

As a comparison, the approved budgets for FY2023 and FY2024¹ are:

Description	Town Meeting Approved FY2023 Budget	Town Meeting Approved FY2024 Budget	% Change FY2024 to FY2023
Operating Budgets (Expenses)			
General Government	2,846,898	3,148,255	10.59%
Public Safety	7,581,863	7,894,887	4.13%
Community Development	974,092	1,056,642	8.47%
Natural Resources	2,020,313	2,168,514	7.34%
Public Works & Facilities	6,115,358	7,078,563	15.75%
Community & Social Services	2,482,840	2,730,217	9.96%
Educational Assessments	9,868,822	10,078,235	2.12%
Insurance & FinCom Reserve Fund	778,338	950,228	3.79%
Employee Benefits	5,596,900	5,809,098	22.08%
Debt Service	6,716,654	7,148,305	6.43%
Operating Budget Total	\$44,982,078	\$48,062,944	6.85%

The explanation for the percentage changes was presented in budget review meetings throughout the year and included in the 2023 Annual Town Meeting Warrant.

Prior Year - FY2023 (July 1, 2022-June 30, 2023) Budget to Actual; Revenue & Expenditures

The FY2023 budget was balanced on the reliance on the local receipts (“revenues”) versus the tax rate as the local economy continued to rebound to pre-pandemic levels. Expense budgets were increased over the FY2022 budget to deliver the same level of services to the community.

FY2023 Revenue – The local estimated revenue returned to the practice of budgeting 85% of the prior year actuals. With the expansion of the Hotel/Motel tax to include short term rentals² beginning in FY2020, the Town expected an increase however did not have historical data on which to base estimates. The short-term rental tax brought in \$1,769,561 in FY2023 (vs. \$1,671,432 in FY2022.³ This continues to be monitored for trends, positive or negative.

The Chart below shows the estimates for Local Receipts; as we recovered from the pandemic the Town increased those estimates.

¹ With allocations under ATM Art 15

² Effective July 1, 2019

³ FY2021 STR receipts = \$1,339,321.

<u>Local Receipts:</u>	<u>FY2021</u> Estimate	<u>FY2022</u> Estimate	<u>FY2023</u> Estimate	<u>FY2024</u> Estimate
Motor Vehicle Excise	925,000	1,000,000	1,200,000	1,400,000
Hotel/Motel Excise	450,000	1,350,000	2,350,000	3,325,000
Local Meals Tax	200,000	425,000	350,000	475,000
Penalties & Interest	53,000	55,000	85,000	120,000
P.I.L.O.T.S.	25,000	25,000	30,000	35,000
Charges for service-sewer	500,000	525,000	550,000	575,000
Charges for service-trash	950,000	975,000	975,000	1,100,000
Other Revenue	600,000	600,000	600,000	625,000
Fees	60,000	65,000	70,000	80,000
Rentals	84,478	85,000	90,000	125,000
Park & Rec Charges	325,000	450,000	525,000	575,000
Other Dept. Revenue	7,500	6,000	3,250	5,000
Licenses & Permits	600,000	650,000	700,000	720,000
Special Assessments	33,000	35,000	15,000	20,000
Fines & Forfeits	40,000	18,000	35,000	29,000
Investment Income	50,000	45,000	15,000	55,000
Miscellaneous Revenue	98,849	89,624	33,648	31,204
Total	\$5,001,827	\$6,398,624	\$7,626,898	\$9,295,204

This chart demonstrates the increase in estimates to lessen the burden on the tax levy.

Comparison of FY2023 Q1 Revenues to Current Year FY2024 Q1 Revenues (July 1-September 30)–

In planning the FY2025 budget we review the fiscal year-to-date revenues compared to the same period last year. The impact of the Short-term Rental (STR) tax continues to be reviewed, as this new source of revenue is tracked for trend analysis. As you can see from the chart below, the rooms tax for traditional lodging, the first quarter is similar in comparison and the short-term rental tax increases over the previous fiscal year. The comparison for each revenue category through September 30th is listed below:

ESTIMATED RECEIPTS BUDGET TO ACTUAL 9/30/2023							
Account	Actual to Date FY 23	Budget FY 23	FY 2023 % of Budget	Actual to Date FY 24	Budget FY 24	FY 2024 % of Budget	Difference
Motor Vehicle Excise-0415	176,292	1,200,000	14.69%	104,983	1,400,000	7.50%	(71,309)
Boat Excise-0416	228	-			-		(228)
P&I on taxes & excises-0417	35,717	85,000	42.02%	33,293	120,000	27.74%	(2,424)
Payments in lieu of taxes-0418	-	30,000	0.00%	-	35,000	0.00%	-
Hotel/Motel-0419	967,122	1,175,000	82.31%	966,942	1,662,500	58.16%	(180)
Traditional Lodging							
Short-Term Rentals	862,234	1,175,000	73.38%	891,942	1,662,500	53.65%	29,708
Meals Tax-0419	262,292	350,000	74.94%	267,664	475,000	56.35%	5,372
Departmental revenue-recreation-0424	362,932	525,000	69.13%	335,051	575,000	58.27%	(27,881)
Charges for Services-sewerage-0426	195,334	550,000	35.52%	189,231	575,000	32.91%	(6,103)
Charges for Services-solid waste disposal-0427	413,811	975,000	42.44%	391,867	1,100,000	35.62%	(21,944)
Other charges for services-0428	202,709	600,000	33.78%	225,524	625,000	36.08%	22,815
Fees-0432	40,861	70,000	58.37%	22,936	80,000	28.67%	(17,926)
Rentals-0436	23,147	90,000	25.72%	833	125,000	0.67%	(22,314)
Other departmental revenue-0437	1,900	3,250	58.47%	1,677	5,000	33.54%	(223)
Licenses and Permits-0440	92,974	225,000	41.32%	26,367	320,000	8.24%	(66,607)
Building Permits	82,682	475,000		87,308	400,000	21.83%	4,626
Fines and forfeits-0470	20,895	35,000	59.70%	44,675	29,000	154.05%	23,780
Special assessments*-0475	-	15,000	0.00%	-	20,000	0.00%	-
Miscellaneous recurring-0480	402	725	55.47%	752	1,725	43.59%	350
Miscellaneous non-recurring-0480	222,660	32,923	676.31%	249,270	29,479	845.58%	26,610
Investment interest income-0482	28,964	15,000	193.09%	173,202	55,000	314.91%	144,238
Total Receipts	3,993,157.32	7,626,898	52.36%	4,013,517.41	9,295,204	43.18%	20,360
Charges for Services-water-0420	946,062	3,457,002	27.37%	1,012,980	3,513,572	28.83%	66,918

Comparison FY2019 through FY2023 Actuals - Expenses – Last year we moved our comparison year to FY2018, our benchmark “difficult” year comparison has been FY2010. Now we review a five year look back to FY2019 with FY2021 data point as a difficult budget year due to COVID-19. The directive since 2015 was to budget at a ‘level fund’ or ‘level service’, which is reflected in the minimal growth.

The chart below shows the actual expenses from FY2019 to FY2023. The Chart below shows a small increase (1.92%) in actual expenditures from FY2020 to FY2021; the FY2022 budget included two additional firefighter/EMT positions and the FY2023 budget provided for 7.5 FTEs.

Expenses	19 Actual	20 Actual	21 Actual	22 Actual	23 Actual	%
Operating Budgets						
General Government	\$2,350,367	\$2,364,360	\$2,610,472	\$2,591,793	\$2,674,591	3.19%
Public Safety	6,251,204	6,358,605	6,497,857	6,893,548	7,370,423	6.92%
Community Development	793,557	846,215	878,664	813,072	907,822	11.65%
Natural Resources	1,513,058	1,698,433	1,627,365	1,735,723	2,194,067	26.41%
Public Works & Facilities	5,400,975	5,624,652	5,782,746	6,856,596	6,548,080	-4.50%
Community & Social Services	1,261,647	1,305,323	1,288,768	1,400,758	2,220,260	58.50%
Education	9,355,009	9,415,498	9,198,814	8,968,969	9,837,826	9.69%
Employee Benefits	4,871,533	4,970,828	4,910,147	5,021,065	5,357,113	6.69%

Undistributed Ins. & Reserve Fund	533,820	572,107	684,438	755,890	821,240	8.65%
Debt Service	6,697,531	6,116,978	6,544,057	6,566,652	6,335,496	-3.52%
Operating Budget Total	\$39,028,701	\$39,272,999	\$40,023,328	\$41,604,066	\$44,266,918	6.40%

Note: Realignment of Recreation & Beaches/ Lighthouse from DPW to Community Services in FY2023.

The Excess Levy Capacity is a potential revenue source; the amount that the Town can legally raise without an override and an indicator of good financial health. The Excess is a result of the Town not taxing up to the levy limit. Over the past several years, excess capacity has funded several Capital Projects or initiatives presented as separate warrant articles. For FY2024, \$1,061,045 of the tax levy was used to fund separate warrant articles which is noted in the warrant as an impact to the tax rate. The chart below shows the amount of Excess Levy Capacity available each year:

Fiscal Year	"Excess Levy Capacity"
2024	3,335,023
2023	3,986,163
2022	2,670,171
2021	2,176,409
2020	1,848,609
2019	1,878,036
2018	2,150,077
2017	1,954,444
2016	1,985,896
2015	1,128,401
2014	947,967
2013	1,086,693
2012	433,619
2011	73,683
2010	7,752

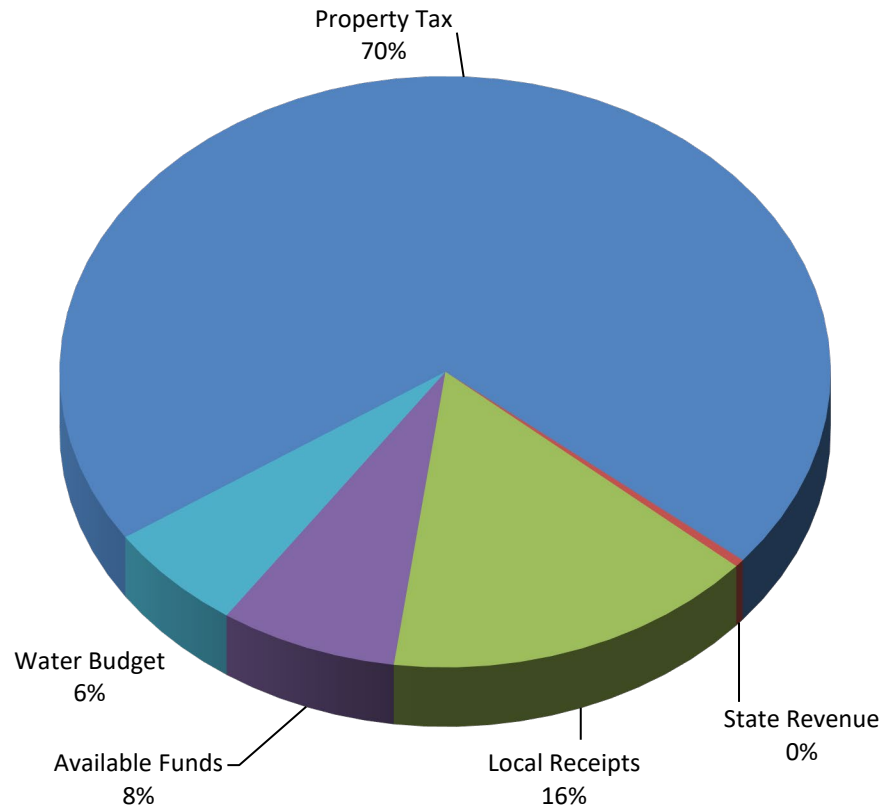
II. Set the Stage for FY2025 Budget Decisions and Beyond

A. Overview/Assumptions

FY2025 Revenue Projections - The budget process considers the amount of revenue that is available to fund the budget. We consider the following sources of revenue - the tax levy (the largest single source of revenue), local receipts (fees, motor vehicle excise, hotel/motel, local meals tax, charges for services) and state aid. When reviewing departmental budgets, we consider how much of the expense is covered by dedicated revenue (fees). The budget worksheets submitted by each department categorize the revenue they receive, and fee

structure is reviewed each year. Any potential change/increase/expansion of revenue would likely not take effect until after the FY2025 budget process is completed.

The largest percentage of Revenue for the Town is from the tax levy and contributes between 64-70% of all revenue. As we move through the budget process the percentages for each category are likely to change, however the tax levy continues to be the largest source of revenue.



Local Receipts - This accounts for revenue items such as the Hotel/Motel tax, Motor Vehicle Excise, Permits & Licenses, Fees (that we also reference as “economic growth revenues) and other Departmental revenues. As noted above, the Town changed the way we estimated local receipts in FY2021 in response to COVID-19 and reduced our estimate to 55% of prior year actuals with the uncertainty of our local economy. This strategy continued for the FY2022 budget as we were still ‘budgeting in the unknown’. The FY2023 budget we returned to the practice of estimating 85% or the prior year actual receipts to lessen the burden on the tax levy; and continued this for FY2024, again increasing local estimated receipts. The amount raised through local receipts is a reduction in the amount raised through the tax levy. Receipts in excess of estimates close to the undesignated fund balance may result in an increase in certified “Free Cash”; conversely an increase in estimates will result in a decrease in Free Cash. The Town uses Free Cash as a source of funding for its Capital Plan or other one-time items (such as a land purchase). The estimate for local receipts is used to forecast the funding source for the FY2026 Capital Plan.

Available Funds – Includes transfers from Special Revenue, Receipts Reserved for Appropriation, and Trust funds as well as Free Cash and Overlay Surplus. Other available funds reduce the amount of revenue raised through the tax levy; for FY2024 the Town authorized \$1,121,274 to offset the tax levy. Free Cash funded the bulk of the Capital Budget and other articles, using \$7,534,994 of the \$7,541,864 certified amount.

The balance sheet, required for the certification of Free Cash, has just been submitted to the Department of Revenue (DOR). We expect a decrease in the amount of Free Cash from last year, due to the transfer of \$2,265,000 to the Wastewater Capital Stabilization Fund, but still an amount that will be sufficient to fund the Capital budget and other articles. Free Cash may be used for any legal purpose as voted by a special or annual Town Meeting. For FY2025 we will return to the practice of retaining a balance in Free Cash to carry forward to the next fiscal year, to provide a foundation for the next certification, which has proven to be sound financial planning especially in the event of economic uncertainty.

Future Revenue - In FY2018 the Town received the first “one-time” revenue payment of \$2,265,000 (Harwich IMA funds); the second milestone payment of \$1,500,000 was received in January 2023 along with Harwich’s share of the Interconnection Project (\$2,371,000). There are two more payments of \$1,500,000 due Chatham; the next payment by 6/19/24 (FY2024) and the final payment by 6/18/2026 (FY2026). With the approval of Article 38 in May 2023, this revenue will be deposited into the Wastewater Capital Stabilization Fund (vs. the general fund). This fund can be used to fund Wastewater Capital, as was recently approved by STM 9/18/2023 for the Belt Filter Press.

Opportunities for Revenue Generation – In the past we have identified opportunities for enhanced revenue – namely local options allowed by MA law (by vote of Town Meeting) and examined how our fees compared to other Cape municipalities (our market rate review). Annual Town Meeting 2022 authorized the increase of the local share of the Room Occupancy tax⁴ to 6%, from 4%; and dedicating the increase to special purpose funds (1% for Attainable Housing and 1% to support the Chatham Elementary School). The first payment was received on September 30 with \$464,685 being deposited into each fund. Departmental fees are reviewed as a part of the annual budget process with the Department Heads; we look at market rates and the amount of revenue fees recover versus the expenditures.

Revenue Challenges – Every year we review our revenue projections for areas where there may be challenges. At this point in time we don’t foresee any challenges, however, continue to track FY2024 revenues for downward trends. The FY2025 budget continues the practice of estimating 85% of the prior year’s actual local receipts, which will increase the estimates for FY2025. We still recommend a conservative forecast for local revenues, especially at the beginning of the budget process.

⁴ Traditional Lodging and Short-term Rentals

B. Community Priorities (Social Infrastructure)

- a) Chatham 365 recommendations and other Community Initiatives – discussed in more detail later in this report.
- b) Housing Initiatives – Funded by Community Preservation Funds, Affordable Housing Trust Fund, Free Cash, and 1% of the local share of the Room Occupancy tax dedicated to Attainable Housing (pending Legislature approval).
- c) Coastal Resiliency/Climate Change - The Energy and Climate Action Committee Roadmap to Addressing Climate Change presentation on November 15, 2022
- d) Staffing – consideration of staffing capacity/work stress to meet the day-to-day operational needs, SB priorities, work of Boards/Commissions, Committees, as well as any additional demands requiring attention.
- e) Education Projections and Assessments- Once approved by the Legislature 1% of the additional 2% local share of the Room Occupancy Tax will be dedicated to support the Chatham Elementary School (CES) as noted above, the other 1% is dedicated to housing. This funding source may be used for operating and/or capital projects at CES, and we will program this into the budget forecast.

C. Inclusionary Municipal Budgeting

- Align department appropriations to produce equitable outcomes
- Allocate resources to mitigate barriers to accessing critical services and opportunities
- Invest in equitable capital priorities
- Use data to better inform decision-making and resource allocation
- Formalizing equity budgeting policies, processes, procedures, and guidelines

D. Select Board Goals & Objectives and Community Value Statements Review – Value statements attached; goal setting discussion scheduled for October 31, 2023.

III. FY2025 Budget and the Three-year Operating Budget Forecast

A. Budget Forecasts - As part of the annual budget summit we update the 5-year Budget Forecast which shows the actual figures for the most recently closed fiscal years, the current fiscal year and three fiscal years in the future. Budget forecasts include assumptions based on past performance, and as such are subject to change.

We begin planning the FY2025 budget looking at requests from all departments, prior year trends, current year adjustments and future mandates within the context of the impact on operations and the taxpayer.

B. FY2025 Critical Factors- reviewed annually as part of the budget process.

1. Priorities/Policy Issues/Directives

a) Funding/Service Priorities – Short-term and Long-term Funding Enhancements/Restrictions –

2. Educational Assessments

a) Monomoy Regional School District Projections and Assessments; Chatham Elementary School

b) Cape Cod Regional Technical High School

3. Other Funding/Priorities – American Rescue Plan Act (ARPA and Opioid Recovery and Redemption Fund)

IV. FY2025- 2029 Capital Improvement Plan/Program/Projects & Investment Strategy

A Capital Improvement Plan that reflects a community's needs, is reviewed and updated annually, and fits within a financing plan that reflects the community's ability to pay. As part of this review, certain items were moved from the Capital Budget into the Operating Budget beginning in FY2020. These items did not meet the definition for a Capital item; useful life of 5 years and/or over \$10,000 cost⁵. Items that are included in the Capital Budget are \$10,000 to \$250,000; and for which borrowing may be incurred. We continue to review the Capital Improvement Plan to ensure it works efficiently for the Town of Chatham.

The Town received a Community Compact Grant and worked with the Collins Center on the Capital Improvement Plan for the first phase of implementation in FY2021. The outcomes of the project included: inventory of potential/planned items and projects, administration of CIP Request Forms, prioritization of CIP Projects, development of an Investment Budget and ultimately a Five-Year CIP. For FY2025-FY2029 we continue to use and further implement this

⁵ Also defined as an item for which borrowing may be incurred.

plan for prioritization of the Capital items and for projects presented for the Board’s consideration. Each Capital request is assessed on its own merit and categorized according to that assessment, taking into consideration our standard best practices as well as evaluated to see how it would influence a series of key policy areas, such as:

- Aesthetics / Historic Preservation
- Cultural and Recreational Opportunities
- Utilization by Community
- Contextually Appropriate Economic Opportunity (“Chatham Factor”)
- Youth and Families
- Environmental Sustainability
- Public Health
- Public Safety

These categories are weighted based on the Town’s values, policies, and priorities, infrastructure replacement criteria, or financial considerations.

A. 2024 Annual Town Meeting Articles

1. Capital Projects and Debt_ Water Supply/Wastewater Infrastructure
2. Community Preservation Act Projects – including Affordable Housing Trust
3. Attainable Housing
4. Other Town Funding Priorities/Projects

2017 Waterfront Infrastructure Bond

The Waterfront Infrastructure Bond, authorized in 2017, listed projects and estimated funding for various projects listed in the chart below that were projected at the time. The Fish Pier Observation Deck and Trap Dock Replacement Project, Phase I, and Phase II of the Trap Dock Project, construction of a shelter building, have been completed. The Fish Pier South Jog Bulkhead Replacement/Wharfing Building Stair Project is approximately at 95% completion. Multiple projects are currently in various stages of design and/or permitting including: 90 Bridge Street Project, Little Mill Pond Pier Replacement and Ryder’s Cove Landing reconstruction. The Chart below shows the total 2017 authorization and estimated costs for each project at that time. Adjustments will be necessary for all projects based on final designs, permitting conditions and cost escalation. Other sources of funding, such as Seaport Economic Council Grants, CZM Grants, MVP Grants may supplement or offset project expenses. The Town has received engineering and/or construction Grants for the Fish Pier Bulkhead, 90 Bridge Street and Trap Dock projects, totaling almost \$1,850,000 to date, which are not reflected in the chart below. Several projects may qualify for funding from the Community Preservation Act (Recreation/Historic Preservation).

The Waterway User Fee (WUF) Revolving fund is another source to supplement/offset Bond expenditures.

Action	Fish Pier	Fish Pier SJ Floats	Fish Pier CG Float	Ryder's Cove	90 Bridge St.	Bridge St. Ldg	Trap Dock & Trap Dock		Little Mill Pond Pier	Barn Hill Ramp Walkway	Crows Pond Ramp	Total
							Shed	OMBY				
2019	2,400,000			100,000	90,000	TBD						2,590,000
2020	1,075,000	200,000		600,000			2,000,000		75,000			3,950,000
2021	1,000,000			100,000	2,000,000			85,000				3,185,000
2022	400,000		80,000					150,000		25,000		655,000
2023	400,000							75,000			500,000	975,000
												-
Estimated	5,275,000	200,000	80,000	800,000	2,090,000	-	2,000,000	310,000	75,000	25,000	500,000	
Adjusts	(1,153,663)						1,153,663					
												\$11,355,000
Expended/ Contracted	5,114,019	85,608		36,000	268,766		3,303,663					
Grants	1,400,000				645,000		150,000					
Balance	407,318	114,392	80,000	764,000	2,466,234	-	(0)	310,000	75,000	25,000	500,000	4,741,944

An update was provided to the Select Board at their meeting on May 16, 2023. As noted in the Agenda Report Seaport Economic Council grants totaling \$1,845,000 have been awarded for various Waterfront projects, and Community Preservation Act funds for the USCG historic boathouse (90 Bridge Street project).

Additional information can be found on the Town's Project page - <https://www.chatham-ma.gov/267/Town-Projects>.

Capital Budget, Capital Articles - The FY2024 Capital Budget was approved at the Annual Town Meeting in May at \$3,674,000 or 9% of the operating budget in adherence with the Financial Policies. It is important to note that the Capital Budget was funded through available funds and had no impact on the tax rate. Stand-alone Capital Articles funded by Free Cash were the Eldredge Public Library HVAC (\$1,000,000), and the Surf Capable Boat potential Grant Match (\$250,000) if awarded. Three additional articles funded by Free Cash were \$100,000 for an Inflation Protection Article, \$74,532 to segregate the Opioid Settlement Funds, \$61,200 for matching funds for the Chatham Airport, a petition article for \$200,000 for the flight path at the Chatham Airport Flight, and \$95,000 transfer to the Expendable Retirement Trust Fund. The Town's Financial Policies, as amended in 2019, recommend funding the Capital Budget (annual article) at 9% of the operating budget.

Water Capital Articles - Water capital articles are presented as separate articles as they have a dedicated funding source, the Water Fund (revenues or surplus). In FY2024 there were two water capital articles, Water Main Replacement program for \$500,000 and Water Study at South Chatham Wells (\$50,000), both funded by Water Surplus/Revenue. The Water & Sewer Advisory Committee is working with DPW Director Faley on a comprehensive capital plan.

All of the categories of items above will be considered in our updated Plan and will include an investment strategy.

V. Debt Service

The Select Board proposed a ‘debt moratorium’ as one of their goals in 2015 after consideration of the burden on taxpayers, and the overall debt of the Town. Any new project, or the continuation of the Sewer project, will be programmed to take advantage of ‘debt drop off’. This is shown in the long-term debt amortization schedule, as well as an overview of the Town infrastructure needs going forward. The most recent bond authorizations were for Wastewater (Belt Filter Press), Transfer Station (Phase I & Phase II) and Water Infrastructure (Treatment Plant at Wells 5 & 8). The Town continues to take advantage of the Clean Water Trust zero percent interest loans for wastewater, projects which qualify for subsidies from the Cape Cod & Islands Water Protection Fund (CCIWPF). In FY2022 the Town received its first subsidy of \$615,160 on pre-existing wastewater debt; there are now eight payments remaining.

For FY2025 and future years we again look at the amount of additional debt that is acceptable to be programmed into future budgets. The Financial Policies state that the Town “will limit annual increases in any and all debt service to a level that will not materially jeopardize the Town’s credit rating.” The Town's debt level is within the Financial Polices and the Town has “a stable debt profile despite additional debt plans,” according to our latest credit review by Standard & Poor’s Rating Agency.

Debt Limits		
FY2022 EQV		\$ 8,768,778,800
5%		\$ 438,438,940
Long Term Debt		\$ 90,146,875
Short Term		\$ 40,398,703
Auth/Unissued		\$ <u>45,464,649</u>
Total Debt		\$ 176,010,227
Less: Debt Outside Debt Limit		\$ 12,591,045
Available		\$ 275,019,758

Previously approved Debt Service paid by the General Fund for the next fifteen years is:

Fiscal Year	Principal	Interest	Total
2024	5,533,485.49	1,614,820.09	7,148,305.58
2025	5,560,509.67	1,541,447.97	7,101,957.64
2026	5,467,851.01	1,415,892.55	6,883,743.56
2027	5,370,645.46	1,309,158.14	6,679,803.60
2028	5,068,803.00	1,203,696.49	6,272,499.49
2029	4,675,526.83	937,512.34	5,613,039.17
2030	4,616,849.48	857,388.20	5,474,237.68
2031	4,617,444.18	787,440.57	5,404,884.75
2032	4,426,757.88	718,553.94	5,145,311.82
2033	4,438,856.55	649,715.79	5,088,572.34
2034	3,868,468.08	579,426.66	4,447,894.74
2035	3,865,886.07	509,305.06	4,375,191.13
2036	3,672,617.94	437,888.39	4,110,506.33
2037	3,532,307.00	366,470.48	3,898,777.48
2038	3,223,210.08	342,413.82	3,565,623.90

VI. Recommendations and Reports Received

A. Finance Committee Supported Initiatives - The Finance Committee's report for the Annual Town Meeting considered the following 'challenges' that Chatham may face in the future. Items noted included:

1. Water Infrastructure – the importance of clean and abundant water for the Town. Evaluate the need for new wells, water treatment and water conservations. This is mentioned as a high priority for the town and critical for the future of the community.
2. Housing – development of a variety of housing options to allow Chatham to remain an economically, socially and demographically diverse year-round community.
3. The Unknown Unknowns – PFAS regulations, Coastal Resiliency, Dredging, Aging Infrastructure

B. SRAC Position Paper – The Summer Residents Advisory Committee will present their report to the Board on October 31, 2023. Items presented at the SRAC Summer Town Meeting were on the following initiatives:

- i. Affordable and Attainable Housing – SRAC proposal for cluster homes
- ii. Irrigation Issues
- iii. Capital Planning – SRAC supports the Wastewater Plan and recommends an update to the cost estimates for Phase I and Phase II.

C. Chatham 365 Recommendations Status - There were several recommendations from the Chatham 365 task force; some have been incorporated into previous budgets continuing forward, others placed on hold to be further discussed/implemented - <https://www.chatham-ma.gov/DocumentCenter/View/1962/Letter-to-Board-of-Selectmen-Chatham-365-Recommendations-PDF?bidId=> . Such will be reviewed during the Select Board’s annual goals and objectives at an upcoming meeting. The Childcare Voucher Program, to help support working families, was again funded at \$100,000 for FY2024, enhanced since its inception in 2010 originally funded at \$5,000 under the Human Services budget. The Town also replenished funds for the Dr. Florence Seldin Pre-School Family Support program for 3- & 4-year-olds, which supports families and prepares children for elementary school, bringing the amount back to \$425,000. In its first year, 27 students were enrolled, saving their families almost \$124,000 in tuition expenses. The Town approved dedicating 1% of the increase to the local rooms tax to support the Chatham Elementary School via creation of a Special Revenue fund⁶ dedicated to the elementary school.

D. S&P Bond Rating – The AAA Bond Rating was re-affirmed on May 22, 2023, and the rating specifically noted “*we think the town can maintain better credit characteristics than the nation in a stress scenario.*” <https://www.chatham-ma.gov/DocumentCenter/View/443/AAA-Bond-Rating-Re-Affirmed-PDF>

⁶ Receipts Reserved for Appropriation (RRFA) Account

The Town went out to bid in June for \$8,000,000 in General Obligation Bonds and received a low bid of 3.4197% ‘true interest cost (TIC)’ with a premium of \$653,768.25⁷. The proceeds were used to fund the Wastewater project (design & engineering), Stormwater, and Mill Pond Wells. The Town updated the Financial Policies in 2019 with annual review and are monitored annually to ensure they are in accordance with the bond rating agencies recommendations.

E. Annual Town Budget & Financial Management Policies Review – There are no recommendations for any changes to the Financial Policies this year. Previous items that were updated were 1) the percent at which the Capital Budget is funded, and 2) the amount at which a purchase order is required. A third item, the percentage range for Free Cash has been reviewed in prior years; however, with the transfer of the Harwich IMA funds of \$2.265m from Free Cash to the WW Capital Stabilization Fund the Board may wish to revisit at the 2024 Budget Summit. As a reminder below is the recommendation from last year.

- i. Free Cash is generated from the Town’s Undesignated Fund Balance, made up primarily of revenues received higher than estimates, budgetary turn-backs, and the prior year remainder of Free Cash carried forward. With a one-time receipt, such as the Harwich IMA funds beginning in 2018, along with strong revenues and turn-backs during the pandemic the Town exceeded the goal of 3%-5% of the operating budget. In FY2024, it was recommended that the goal state that this percentage be a *minimum* as that would provide greater flexibility without jeopardizing the Town’s AAA bond rating. Standard & Poor’s noted in the March “the rating reflects...strong budgetary performance, supporting growing available fund balance... and Very strong budgetary flexibility.” As one-time revenues such as the Harwich IMA funds were transferred/allocated to the special fund created in 2023, we will review the net impact on Free Cash.

Free Cash as a percent of the Operating Budget has been:

FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
7.3%	8.9%	7.6%	5.0%	14.4%	12.8%	10.4%	20.6%	16.8%

At the date of this memo, we await State certification of Free Cash but estimate it will be in the range of 7% of the operating budget.

Sustainability –Financial Sustainability refers to the capacity to generate sufficient and reliable revenues to finance short-medium- and long-term financial obligations in response to the Community’s demand for services. Financial Sustainability⁸ includes the following:

⁷ Applied to reduce Principal borrowed and pay for closing costs.

⁸ http://www.westerncape.gov.za/other/2012/2/5.1.6_financial_viability_-final.pdf

- Strategic and Financial Planning (Good Leadership, Effective Management Team, Sound Political, Administrative and Labor Stability, Responsible Decision making)
- Prudent Financial Management (Good Governance, Accountability, Transparency, Policies & Procedures, Meaningful Reporting, Optimal Resource Allocation & Usage)
- Revenue Enhancement (Cost-recovery, New Sources of Revenue, Maximize Revenue)
- Improved Expenditure Management (Value for Money, Optimal Utilization of Resources, Improved Productivity)

Another component of sustainability as mentioned above is equity – economic and fiscal impact equity and the effect of proposed fee increases on all members of our community.

VII. FY2025 Budget Review Process/Directives/Calendar

For FY2025, we recommend a level services budget as we measure the impact of the most recent budgets not only on operations but on the community to ensure equitable service for the entire community. The FY2025 budget will set the stage for future budgets to ensure the long-range stability/resiliency/prosperity of the community with particular attention to the quieter parts of the Town.

Staffing – The FY2023 and FY2024 budgets included new positions, which we have diligently worked to fill with qualified staff and will continue those efforts, along with the recruitment efforts for any established positions that become vacant. In preparing the FY2025 budget, we are reviewing the impact of these newly created positions as well as routinely reviewing any operational gaps/workload challenges that remain. Though year-round housing and a competitive Cape employment market continue to create challenges for attracting and retaining qualified personnel, these challenges remain a priority for Management to continue to address in an ever-changing employment market and we look forward to identifying and implementing innovation solutions to attract, engage and retain employees.

Our agreed upon local economic formula for determining employee cost of living increases since 2013 provides a 3% increase to the compensation schedules for FY2025. That same formula provided for a 3% increase in FY2021, 0% increase for the FY2022 budget (steps still granted) and 3% in FY2023 and FY2024. Negotiations with all five collective bargaining units will begin in a few weeks which may have an impact on the FY2025 budget with contracts expiring on June 30, 2024.

For the FY2025 Budget, we plan for continued inflation and supply chain issues. There will be a need to budget for an increase in the cost of supplies/services as well as additional mandates that require funding and will have an impact on the budget; such include workplace safety, OSHA regulations, security/cybersecurity, coastal resiliency, and system upgrades.

As part of the budget review, we look at:

- two prior years for actual expenditures
- service and staffing levels
- revenues and grants generated
- opportunities for savings or enhancements (may = increase in budget)

FY2025 Budget Directive

For FY2025, a level-services budget will allow us to review the impact of additional staff and incorporate funding to have the flexibility to respond to unforeseen situations. An All-Encompassing Budget to Chart Chatham's Future is forward thinking to meet the goals & objectives of the Select Board and the expectations of the community. The FY2025 budget process includes input from the Select Board, Finance Committee, MRSD and the Department Heads. We review the priorities of the various stakeholders while maintaining services to the entire community. In this fashion we craft a budget that is all-encompassing and provides a path for Chatham's future. The next step after the Budget Summit is to craft the budget as we consider Community priorities with strategic appropriations in line with the Select Board's Goals & Objectives (October 31, 2023).

Conclusion

Tonight, begins the formal budget process for FY2025 with a goal of an active discussion on FY2025 priorities and future planning considerations. We will craft a budget that works to achieve Community goals and priorities through input from the Summit participants on the level of resources needed to provide core community services that result in a better community. It's important to develop budgets that reflect the entire organization and its impact on the community, not just for the fiscal year 2025, but for the long-term future of the Chatham Community.

"The pessimist complains about the wind; the optimist expects it to change; the realist adjusts the sails." – William Arthur Ward

As with any budget, Chatham's budget incorporates flexibility and sustainability to adjust for the changing needs of the Town. The FY2025 budget sets the framework for navigating the future of our community.

Thank you.

Definitions – Per MA Department of Revenue

Level Funded - A “level funded” budget appropriates the same amount of money to each municipal department and is tantamount to a budget cut (reduction) from the prior year appropriation. Even under level funding, however, increases in mandated costs and other fixed expenses must be covered, usually at the expense of the general government operating budget.⁹

Level Services – is also referred to as a “maintenance budget”. By “maintenance budget,” we mean projecting what it costs to maintain the current level of staffing and mix of services into the future. In this approach, it is also helpful to assume that all current laws and regulations remain in effect during the forecast period. Because of contractual obligations and the impact of inflation on expenses, a maintenance budget will usually be greater than the prior year appropriation.¹⁰

⁹ DOR Technical Services

¹⁰ DOR Technical Services