



The Town of Barnstable

Comprehensive Financial Advisory Committee (CFAC)

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CFAC Committee:

Chair:

Lillian Woo

Members:

Vice Chair, Ralph Krau
Clerk, Hector Guenther
John Schoenherr
Melanie Powers
Tracey Brochu

Staff Liaison:

Mark Milne
Nathan Empey

Councilor Liaison:

Paula Schnepf

MEETING MINUTES

08.10.20

6:00 PM

Zoom Meeting : <https://zoom.us/j/92865492223>

Meeting ID: 928 6549 2223

Roll Call:

Lillian W. called the CFAC Zoom meeting to order at 6:00 PM. Hector G. called the roll call.

- CFAC Members Present: Lillian Woo , Ralph Krau , Hector Guenther, John Schoenherr, Melanie Powers , and Tracey Brochu
- CFAC Members Absent: None
- Councilors Present: Paula Schenpp
- Staff Present: Mark Milne, Finance Director;
- Other Present: Wendy Solomon

Act on Minutes:

The following minutes were approved by unanimous vote:

07.27.2020

Public Comments:

None

Correspondence:

None

Staff Report:

None

Old Business:

Lillian W. noted she thinks the financial policy review hits all of the major points Town Council will be discussing at their strategy session in September, and that CFAC is very happy to be asked for comments and questions on this topic.

First question is should the Town proceed with the FY 2022 budget with the assumptions that the tax base levy will continue to increase 2 ½ percent with a factor for new growth? Hector G. responded that the predictability of revenue is an important factor when putting together the budget. Given the importance of having a steady revenue as well as not provoking the tax payers by not given them surprise spikes in the tax levy, he recommends keeping the current policy. Mark M. noted since the implementation of State proposition 2 ½ law the town has never left taxing capacity on the table in subsequent year. Mark M. noted we have always set the tax levy based on the allowable amount each year. Lillian W. noted the committee agrees to keep the tax levy as steady as possible.

- Committee voted unanimously on a steady annual increase in the tax levy rather than potential for spikes.

Second question is does the committee want Town Council to consider changing the Residential Exemption policy? Hector G. noted that given the economic uncertainty with the pandemic, if the town wanted to give year round residents a tax break that this would be the time do it by shifting the residential rate more towards seasonal homeowners. Ralph K. disagreed and that this policy has been the same for over fifteen years. Tracey B. also disagreed and said that keeping the residential exemption tax level coincides with CFAC's tax levy statement. Melanie P. agreed with Hector G. and that it is a relatively safe area if a change is needed. John S. noted he is not in favor of increasing the residential exemption. Mark M. noted he is raising the residential exemption policy question as part of a more overall taxing policy strategy, and didn't want to wait until November when setting the tax rate. Mark M. noted he raised this policy question so that it could be considered in conjunction with other potential taxing policies that the Council may want to consider, especially when funding the Comprehensive Wastewater Management Plan (CWMP). If the voters were to approve an additional taxing authority for the CWMP, one strategy would be to mitigate the taxes through a residential exemption shift. Mark M. noted he suggested reviewing this policy so that we can have a real comprehensive overview of all the strategies that can be taken. Lillian W. summarized that Town Council's decision on a residential exemption percentage should be made after all of the other tax policy decisions have been taken into consideration. Tracey B. asked is it possible that the residential exemption percentage rate can go down? Mark M. stated that it can go down all the way to zero. This tax policy does not change the amount of taxes collected by the town; it merely shifts the taxes between primary and secondary homeowners, but yes, we could go anywhere from zero to thirty-five percent a year. Lillian W. noted the committee would leave this tax policy up to Town Council to decide.

Third question is General Fund resource allocation between operating versus capital. Should the amount allocated to the capital program be increased at the cost of the operating side? Mark M. noted we struggle to provide funding for both sides, and that we have tried to increase funding to the capital program every year. We have gone from \$1.9 million to

\$11 million annually dedicated to capital. Mark M. ask do we want to increase resources to the capital program faster at the cost of the operating budget? Mark M. noted it's just a matter of priorities. Lillian W. asked if the operating cost for insurance and retirement increasing at a particular percentage every year? Mark M. noted it changes from year to year, health insurance has exceeded ten percentage in some years, but averages six to eight percent. Mark M. noted that the retirement assessment is mainly dependent on the return on investments, and the assessment can fluctuate considerably year-over-year depending upon ROI. Mark M. noted we've had a policy for the past few years by taking a portion of the new revenue growth from new development in town that exceeds a million dollars and add that to the capital program as well. Mark M. noted we're trying to put policies like that in place without sacrificing services. Ralph K. noted we have an opportunity in the next couple of years with major developments, and that he is still in favor of adding more resources to the capital program. Lillian W. asked is it possible to squeeze a little bit more to add to the capital trust fund? Mark M. responded we've been trying to split the new growth as well as using excess General Fund reserves to augment the capital program. Hector G. recognized the capital pressures are great and would be in favor of putting more into the capital trust fund for a couple of years. Tracey B. noted she would also be in favor and that this provides growth. John S. agrees any opportunities to add to the capital fund is an investment in the town's future, but it's going to be a constant tension between the capital and operating.

- Committee voted unanimously that we should increase resources to the capital trust fund without infringing on the operational cost.

Fourth question is should the town establish criteria to identify projects that should be funded through a property tax override? Deferred maintenance option? Mark M. noted almost yearly you look at the towns across Cape Cod that are putting projects on a ballot question to see if the voters would approve a debt or capital exclusion to fund it. Barnstable has seldom ever done this, we have always funded our capital program within proposition 2 ½, with the exception of a couple of large school projects in the 1990's and more recently the Cape Cod Technical High School project. Mark M. asked the committee, should a large capital project such as the Hyannis Youth and Community project be put on a ballot for a debt override vote in the future? Mark M. noted deferred maintenance projects are a catch up, could we create a stabilization fund through a project tax override, subject to an annual council approval to help the town catch up on our entire backlog of town building maintenance projects. Mark M. noted there is a couple hundred-million in backlog projects. Melanie P. asked if deferred maintenance is one of the options for a method for doing the criteria? Mark M. noted anything the committee thinks would be good criteria that would identify a project for an override consideration. Mark M. noted the problem with just general overrides are that the year of the override is approved you have to spend the additional taxing authority on what you raise it for, subsequent to that, you can spend the additional taxing authority can be shifted to any area of the budget. Mark M. noted that a stabilization fund requires Town Council every year to have to appropriate the monies first, and it provides the ability for the council to review outcomes of the program every year. Melanie P. noted this would be a good idea to establish a set of criteria for this type of override, and that it provides a level of transparency. Hector G. asked does proposition of 2 ½ protect the legality of a tax override? Mark M. responded yes, that overrides are included in the law, and the only way to go beyond prop 2 ½ is you have to get the voter approval for overrides. Hector G. noted he's in favor of the town living within its means, and that we should be using property tax overrides sparingly. John S. asked how many overrides have come before the town over the 25 years, and out of those, how many have passed? Mark M. noted over 25 years there has only be one debt exclusion override request for the Cape Tech project, and there has been two request for operating overrides for the Barnstable Public School budget and the other for sewer and private way maintenance and improvement, which they both failed. Tracey B. asked would the upcoming Comprehensive Wastewater Management project qualify for the property tax override? Mark M. and Ralph K. agreed a tax override could be used for those projects.

- Committee voted unanimously to support that a property tax override should be used for only necessary and critical needs, where there are no alternatives, and the criteria should be clear and well explained to the public.

Fifth question is fiscal 2022 General Fund operating budget be developed using the same revenue allocations approach or changed? Melanie P. noted that this is an area that could use some flexibility and that the 60/40 needs to be viewed

in the current year based on the circumstances. John S. noted he is very much in favor of the 60/40 split being flexible to changes such as student enrollment. Lillian W. noted the committee agrees we are looking for flexibility. John S. noted in the committee questions and comments sheet that we could use comment 4 as a committee motion.

- Committee voted unanimously to use the committees suggested comment number 4 regarding flexibility in the 60/40 split.

Sixth question is should the town continue to use General Fund reserves to balance the operating and capital budget as long as the amount used does not exceed the Town Council reserve. Mark M. noted he included this in the policy review, we have consistently maintained a healthy General Fund surplus above the Town Council fourpercent policy reserve. Mark M. noted we use a portion of fund balance annually to balance the operating budget, which provides us the opportunity to conservatively estimate revenues to be sure we don't end up with a revenue deficit by the end of the fiscal year. Mark M. noted we just wanted to make sure we still have support going forward to maintain this type of strategy to balance our operating and capital budgets, knowing that we have a good track record of generating surplus to replace what we use, but the danger is that we can run into using more surplus than what we can generate in surplus, and we'd run out of savings. Lillian W. asked where is the surplus coming from? Mark M. noted there are two ways to generate surplus, actual revenues above what were estimated and unspent operating budgets. Melanie P. asked is it indicative for under budgeting revenues? Mark M. noted it could be. John S. noted the current policy is well thought-out and would like to see it continued.

- Committee voted unanimously to continue with the current policy of using reserves to balance the operating and capital budget.

Lillian W. noted since the Comprehensive Wastewater Management Plan is comprehensive, we should table this discussion to the next meeting. Mark M. agreed.

Seventh question is should Public Works Enterprise Funds receive General Fund subsidies or be required to cover full cost? Mark M. noted he included this topic because of the Water Supply Fund has seen significant rate increases to pay for the large capital projects. Mark M. asked is there an ability to put that much of a burden on the ratepayers before we have to start considering a General Fund subsidy. Melanie P. noted there should be a provision to allow for General Fund subsidies, but there should be conditions. Lillian W. agreed and that this past year we subsidized HYCC and golf due to the quality of life, but water and sewer are essential services. Ralph K. noted the HYCC was never supposed to be self-supporting, and that when the Enterprise Funds were created, they were supposed to be self-supporting and for the most part, they have been. Ralph K. noted there should be criteria to be reviewed by Town Council for Enterprise Fund subsidies. John S. agreed with the suggestion, and looking at water and sewer, it's the year round residents who are going to be the heavier users versus second homeowners, and that puts all of that burden on a smaller population and support from the General Fund is warranted. Tracey B. commented would this be a onetime relief and not self-perpetuating, then I would agree with it? Mark M. noted many of the users of the local water system are the local business community. Lillian W. asked could the short-term rental tax be used to subsidize the Water Supply Enterprise Fund? Mark M. noted when the short-term rentals became applicable, the Town Council created a new stabilization fund specifically to be used for water and wastewater. Mark M. noted this year's FY 2021 budget, we used \$500,000 from that fund to subsidize the Water Enterprise Fund, which we have to continue each year or else we would have to increase the fees by this amount. Lillian W. noted one of the great unknowns is the short-term rental tax, in some years we may generate more to help subsidize and other years much less. John S. noted the public works enterprise funds should be treated the same as the other enterprise funds and receive subsidizes when appropriate when the funds are available.

- Committee unanimously approved that public works enterprise fund should be treated like the other enterprise funds and receive subsidizes when appropriate when the funds are available.

New Business:

None

Matters not reasonably anticipated by the chair:

None

Adjournment:

Meeting adjourned at 8:00 p.m.

List of documents handed out

1. 07.27.20 draft minutes
2. CFAC's questions and comments on Finance Director's Financial Policy Review