

# The Town of Barnstable

## Comprehensive Financial Advisory Committee (CFAC)

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## CFAC Report: Operating Budget FY 2021

Prepared by:  
CFAC Operating Subcommittee

Lillian Woo, Chair  
John Schoenherr  
Melanie Powers

Approved: June 23, 2020

## INTRODUCTION

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In accordance with the Town of Barnstable Charter, Part VI, Section 6-2 and Chapter 241-18 of the Administrative Code, the Comprehensive Financial Advisory Committee (CFAC) submits its review, comments, and recommendations for the proposed FY21 Operating Budget to the Town Manager and Town Council.

## METHODOLOGY

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The usual CFAC process of meeting with different Town departments to discuss priorities for their FY21 budget requests was halted in early March 2020 by the stay- in- place advisory caused by a nationwide outbreak of the COVID-19 virus. CFAC was able to meet with the Police Department before the lockdown but was unable to meet with the School Department and the Department of Public Works.

In order to meet the scheduled deadline for the submission of the FY21 Operating Budget, Town Manager Mark Ells, Town Finance Director Mark Milne, other Town administrators, and Town Council leadership met to determine the potential financial impact of the economic shutdown on Barnstable, to make budget adjustments to both revenue and expenditures in order to fund essential needs and services, and to ensure that the FY21 budget would be balanced. The Town Manager, Finance Director, and Council leadership decided to change the CFAC review of the FY21 budget. Instead of CFAC review and submission of its report before it is presented to the Town Manager and Town Council, it was decided to submit the FY21 budget to Town Council by the May 12 deadline and have CFAC review the FY21 budget afterward.

CFAC received the FY21 budget on May 26 for discussion and review.

Town Finance Director Mark Milne and his staff provided CFAC with updates of adjusted revenue projections and the process used to adjust and balance the FY21 budget.

As in its past reviews of the Town Operating Budget, CFAC submits this report to provide the Council and Administration with an independent assessment and recommendations. CFAC's report was reviewed by the full CFAC committee and approved for transmittal to the Town Manager and Town Council.

## OVERVIEW

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### **Quality of Life Strategic Plan**

For FY21 the Town Council's longstanding Quality of Life Strategic Plan remains focused on the Town's priorities such as financial integrity and balanced budget, public health and safety, and education. COVID-19's impact on the economy required major adjustments to the Town of Barnstable budget to address those essential needs. Both the Town of Barnstable and CFAC are optimistic that other areas of Town Council's Quality of Life Initiatives will receive funding when the general economy and Town revenue stabilize.

## **Fiscally sound**

The Town of Barnstable maintains its long-standing tradition of fiscal accountability and operating within its means. There is no property tax overrides included in the FY21 Operating Budget.

The Town budgets and appropriated funds reflect the Town's ability to fund its operations within its ability to finance them through annual revenue. The total proposed FY21 Operating Budgets for the General Fund and the Town's nine Enterprise Funds are \$211.27 million, and the Capital Improvement Projects budget is \$12.22 million. The Operating Budget of \$211.27 million represents a decrease of \$428,715 or (0.20%). \$4.70 million from the reserve will be used to balance the budgets. To replenish the reserves used in the FY21 budget, there is an anticipated \$392,015 addition to the reserve fund at the close of the FY20.

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## **OPEN BUDGET**

CFAC commends the transparency provided by the Town's Open Budget. The website provides easy access to current financial information about the Town's operations, capital expenditures, and other commitments. The Open Budget provides a good tool for the public to become acquainted with Town departments and their operations.

FY 2021 Operating Budget Book

[https://www.townofbarnstable.us/Departments/Finance/Budget\\_Information/21Budget/2021-Budget.asp](https://www.townofbarnstable.us/Departments/Finance/Budget_Information/21Budget/2021-Budget.asp)

Open Budget Website

<https://barnstable.budget.socrata.com/#!/year/default>

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## **REVENUE**

### **Revenue Projection**

Revenue projection is an important component of the Town Operating Budget. Developing realistic revenue estimates is critical, if there is to be a reasonable expectation that the proposed budget will be balanced for the upcoming year. It allows expenditures to be reasonably managed despite economic and other circumstances that are beyond the control of Town government.

It is important to ensure that the Town's ability to forecast and project revenue is both conservative and reasonably accurate. It needs to be conservative to ensure that the Town lives within its means and to assure investors and municipal credit rating agencies that the Town is committed to fiscal prudence. However, the revenue projections should be accurate enough to enable the Town Manager and Town Council to have the funds needed for critical services and programs.

### **Projected Revenue for FY21**

The Town's revenue projections had to be adjusted downward because of the economic impacts of COVID-19. These unexpected circumstances required a revision of revenue projections and expense allocations for FY21. The estimated General Fund revenue before transfers was decreased from \$171.42 million to \$167.19 million, a 2.5% decrease. The revised expenditures decrease municipal operations by \$943,472. Expenditures for other requirements will decrease by \$724,192. The appropriation for all education increases by \$1.71 million, and there is a projected increase of fund transfers to support HYCC and the Golf Course Enterprise Funds.

The proposed FY21 operating budget, which includes the General Fund and Enterprise Fund revenues and expenditures, projects \$211.27 million for all appropriated funds. This is a decrease from the approved FY20 budget of \$428,715, a 0.20% decrease. Discretionary spending and additional staffing have been halted, and capital projects are deferred.

In addition, the Town was been awarded a total of \$23 million in grant funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES) as well as Federal Emergency Management Agency (FEMA) reimbursements for eligible costs and Elementary and Secondary School Emergency Fund. Of the \$23 million grants awarded, the airport received \$18 million to be used over the next four years. Furthermore, it should be noted that grant reimbursements are tentative to certain factors coming together over several years.

### GENERAL FUND

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General Fund Budget	Amount	Change from Previous Year
Budget FY 2019 GF Revenue	\$169,488,201	4.45%
Budget FY 2020 GF Revenue	\$177,662,155	4.82%
Budget FY 2021 GF Revenue	\$178,804,977	0.64%

**Revenue:** Total General Fund revenue from taxes and other sources is projected to be \$178.80 million, a 0.64% increase over FY 2020.

The estimated General Fund revenue, before transfers, for FY21 is \$167.19 million. This represents a \$2 million increase from FY20 revenue of \$165.19 million, or 1.2%. However, the revised revenue projections are \$4.22 million, or 2.5 %, less than the initial pre COVID-19 estimates.

Taxes provide 78% of the funding for the General Fund budget. This includes property and excise taxes. FY21's property tax revenue is projected to increase by \$3.10 million, a 2.3% increase, while other taxes and resources are estimated to decline by \$2.34 million. Intergovernmental aid is the second largest funding source and provides 10% of the total funding for the General Fund budget. This category of revenue is \$1.2 million less than in FY20, a 6.26% decrease, since state funding for local school construction projects has expired. All other sources, including reserves, are 12% of the total.

**Expenditures:** The total General Fund and Enterprise Fund budgets for all appropriated funds net of transfers in funding sources used to balance the budget in FY21 are decreasing \$1.47 million from the FY20 budget, which represents a 0.74% decrease.

FY21 General Fund expenditure changes over FY20 include:

<b>Operations</b>	<b>Budget Change</b>	<b>Percentage Change</b>
Municipal operations	(\$943,472)	(2.29%)
All education	\$1,718,645	2.05%
Other requirements	(\$724,192)	(1.77%)
Transfers	\$1,091,841	9.44%
<b>Total GF expenditures for FY21</b>	<b>\$1,142,822</b>	<b>0.64%</b>

To balance the FY21 General Fund budget \$2.87 million will be used from reserves. It is an increase of \$344,718 over FY20 budget. However, the Town expects a revised surplus in FY20 of \$3 million. This surplus can offset part of the reserves used to balance the FY21 budget.

### **RECOMMENDATION**

Over the years, the Town of Barnstable's General Fund budgets have been excellent models of public finance restraint. The careful expansion of programs and fiscal prudence have resulted in the Town's ability to accumulate a healthy reserve fund.

The surprise 2020 global pandemic and the lockdown of both people and businesses battered individual incomes and the economy.

The proposed General Fund budget for FY21 reflects the impact of COVID-19 on the economy and the Town of Barnstable's adjustments to its projected revenue. The proposed budget also represents difficult decisions to freeze hiring, defer capital projects, and halt discretionary spending in order to fund the most essential services and programs and maintain financial stability. The strategy for the FY21 operating budget is based on determining priorities for funding, ranking specific expenditures from “must have” vs. “nice to have”; the process currently used for capital improvement proposals. CFAC particularly supports the use of priority ranking of expenditures for FY22 because the length of time for public health and economic recovery remain unpredictable.

To ensure future financial security for the Town of Barnstable, CFAC believes that priority ranking for expenditure requests can benefit future operating budgets and recommends its permanent use.

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## **SCHOOLS**

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The proposed FY21 school budget of \$74.2 million, an increase of \$1.6 million (2.24%) over the FY20 approved budget.

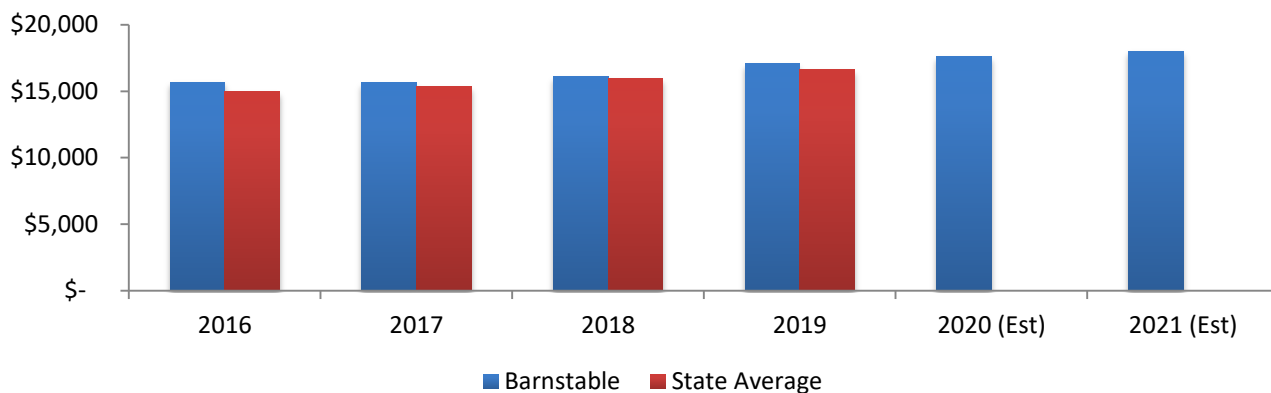
CFAC has been tracking long-term financial impacts of staffing and pupil expenditures for several years. The charts below compare of enrollment and FTE counts and per pupil spending for local schools versus the MA state average. The Town of Barnstable has been projecting an enrollment decline beginning in 2019 and continuing through 2023, when there is expected to be a leveling off to a slightly lower norm.

<b>Fiscal Year</b>	<b>Enrollment</b>	<b>Staffing (FTE)</b>	<b>Total All In Expenditures Per Student</b>	<b>State Average</b>
FY 2016	4,914	834.2	\$ 15,678	\$ 14,970
FY 2017	4,948	840.4	\$ 15,625	\$ 15,349
FY 2018	4,870	841.7	\$ 16,111	\$ 15,952
FY 2019	4,791	848.9	\$ 17,104	\$ 16,618
FY 2020 (Est)	5,041	853.3	\$ 17,616	\$ -
FY 2021 (Est)	4,963	854.9	\$ 18,010	\$ -

Department staff noted that “we are in a period of moderate enrollment decline,” but “Declining enrollment does lead to savings, but the impact is subtle”. The slow and moderate decline does not have a significant impact on the budget. In addition, there is currently \$1.5 million in contractual obligations (negotiated benefits and salaries) that constitute a fixed expense. In FY21 there is a net increase of 1.6 FTE’s for teacher positions, which include new science and special education capacities. New English Language Learner teaching has also been added. During FY20 Barnstable exceeded the state average for English Language Learners (ELL) with this population making up 13% of the students. The MA average is 11%. This student sub-group has increased approximately 3% per year during the last five years.

In FY19 (2018/19) Barnstable per student spending was \$17,104 per student compared with the MA net student spending (NSS) average of \$16,618.

School Department Per Pupil Expenditure



CFAC recognizes the extraordinary budget planning efforts of school personnel in responding to the public health crisis. Having reviewed the pre and post Covid efforts, CFAC’s present analysis focuses on the policy and strategies necessary for continued effective management.

The complexity and consequence of the changes that emerged in March are continually evolving. Schools are challenged to plan and provide services to students, families, and communities while simultaneously meeting food provision and tailored instruction for students with special needs.

The fiscal consequences are equally complex. Because the speed of economic recovery is unpredictable, CFAC recommends the establishment of school administration policies and guidelines for the FY21 budget, set broad parameters for reallocations when needed, create a reserve fund, and closely monitor the budget throughout FY21. In order to function in these circumstances, schools must

be able to respond to changes in costs and conditions. CFAC believes that it will become easier to assess and adjust to changes as school administration gains a better grasp and more experience with changes in the economy.

The financial impact on the school budget could include: what classrooms look like in the fall and future; fewer, shorter, and/or smaller sessions; logistical and transportation implications; wide-spread adoption of distance and remote learning measures and technologies; impacts of all of this on cost, equipment, staffing, equality of education and learning styles, to name a few.

CFAC commends the School's efforts to aggressively seek both alternative funding and to consider remodeling or retooling that might be valuable. It is a good opportunity to gain budget benefits from declining enrollments. It is an opportunity to work with the staff bargaining units, to ensure retraining, and to consider changes in fixed costs.

CFAC is aware that school facilities and equipment require constant maintenance because of their heavy use. CFAC recommends that school maintenance, such as painting, equipment replacement, and other repairs, become part of the operating budget rather than capital improvement. A systematic deferred maintenance plan would prevent major replacements in the long run. The budget has an operations/maintenance reduction of nearly \$115,000 over FY20 expenses. This along with \$95k reduction in "supplies" may be areas to watch.

The school discussion with staff, teachers, and families during COVID-19 produced positive and constructive feedback. CFAC recommends that the school continue this interaction and believes that open discussions will identify the costs and disparate impact across economic, social, racial/ethnic, and academic identifiers and help to budget reallocations, grant applications, use of emergency funds.

Barnstable schools received \$776,984 in Covid-19 Emergency Financial Assistance (the Elementary and Secondary School Emergency Relief Fund). These funds can be used for FY20 or FY21 needs and have broad eligible purpose directives, such as increases in cost of hygiene and sanitation practices to staff development in remote learning strategies to unique traumas associated with the pandemic and its impacts on children to procedures to ensure greater preparedness in future. These funds should be programmed via an active budget management process and continual performance evaluation as mentioned. Since the Town is required to offer to share the funds with local private schools, the \$776,984 could be reduced to approximately \$600,000 if private schools seek a share of these funds. The funds would be apportioned through a formula.

There was a very positive trend in competitive grant funding for FY19 and FY20. We applaud the Superintendent's mandate that alternative funding options be rigorously pursued. Two extremely timely grants will help with both leveraging future funding and responding to the pressures created by the public health crisis. The Mass Ideas Grant in FY19 and FY20 will help to develop innovative ideas for curriculum, students, and teachers. The Mass Skills Grant will permit the practical exploration of the environmental sciences with the construction of a Water Quality Analysis Lab and attendant curriculum in the schools. This could not be more appropriate given the fragile drinking and waste water conditions and the critical programs addressing both in our environmentally sensitive home. These are good examples of the alternative funding opportunities and CFAC encourages the Schools to continue pursuit of such and to use existing awards to leverage other private, government or corporate funding.

## **RECOMMENDATIONS**

- Establish and use an active budgeting and reallocation process while the changes and impacts of a recovering economy remain unpredictable.
- Ensure that the operating budget includes actual costs of maintaining the current level of services, including maintenance of existing assets.
- Continue to aggressively seek and utilize alternative funding options via grants and/or relief funds.
- Continue a high level of stakeholder engagement using a continuous improvement process to allocate resources, as the impacts are better understood.

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## **ENTERPRISE FUNDS**

Barnstable's Enterprise Funds for FY 2021 total \$32.4 million, or 18.4% of the General Fund.

All nine of the Funds will be affected by the pandemic, and those that will most likely be hit the hardest are the Airport, Golf, HYCC, Marina, and Sandy Neck. The budget for all the Funds were modified to take these affects into consideration, however, there remains a great deal of uncertainty as how the next twelve months will evolve. CFAC believes the assumptions and revised projections behind the Enterprise budgets are reasonable and well thought out.

The Airport Enterprise is the most financially stable of the nine funds, thanks in large measure to the \$18 million grant from the CARES Act. This grant will make it possible for the Airport to build up its reserves over the next four years, which means this fund should be stable for years to come.

The Golf and HYCC Enterprises will be the most challenged over the next twelve months due to the loss in revenue from closings, limited gatherings, social distancing, and overall reduction in the use of the facilities. It is projected that in FY21 these two Enterprises will require \$931K in funding from the General Funds support to offset their deficiencies.

## **RECOMMENDATION**

Given the current situation of our world, CFAC hopes that FY20 and FY21 will eventually be nothing more than an anomaly. It is difficult to predict the future, however, so it would be wise to consider alternative plans for the funds. This recommendation would be made even without the pandemic since all nine funds are already under financial stress. Consider the following:

- Solid Waste Enterprise costs are rising, but increasing the cost of stickers, which are currently \$250, may be detrimental if it causes a reduction in users
- Golf Enterprise competes with many other golf courses on the Cape for players. To remain competitive they must continue to be maintained at a high level and hold their fees at market rates.
- Marinas and Sandy Neck Enterprises require maintenance to maintain their safety and attractiveness to the public
- Water Pollution and Water Supply Enterprises are essential to the health and well-being of our community. The Town must continue to maintain and protect its water resources, which will continually put stress on the budget as it attempts to hold rates within reason.
- Airport Enterprise has been facing a decline in its business for several years, and at some point,



- the CARES Act grant will be spent, and its reserves will erode.
- HYCC Enterprise has always required support from the General Fund Reserves, which is reasonable given the community it serves. It will continue to require support from the General Fund.

Taken together, the nine Enterprise Funds expose the Town to a draw on its General Fund support. The Town has been able to manage its way through the financial issues to-date, but it appears as if the financial stress will continue, and quite possibly get worse in the years ahead. Alternative plans should be developed in the near future before any of the stresses reaches the breaking point.

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## **SUMMARY**

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Barnstable Town Administration and Town Council leadership used their professional experience and knowledge to structure a revised FY21 Operating Budget that funds the Town's essential needs and services by deferring discretionary expenses, staff expansion, and most of the capital improvement projects. The proposed FY21 budget is necessarily reduced but does not sacrifice the health, safety, or welfare of Barnstable residents. In addition, the budget can be balanced without incurring any short-term debt. CFAC commends this extraordinary achievement.

CFAC would like to thank Town Finance Director Mark Milne and Finance/Budget Analyst Nathan Empey for their advice and assistance in the Operating Budget process.