

The Town of Barnstable

Comprehensive Financial Advisory Committee [CFAC]

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CFAC Report: Operating Budget FY25

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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 Fiscal Year 2025 Operating Budget to the Town Manager and Town Council.

The Town's Open Budget website provides easy access to current financial information about the Town's operations, capital expenditures, and other commitments. More information can be found at:

FY25 Operating Budget Book

https://www.townofbarnstable.us/Departments/Finance/Budget_Information/25Budget/2025-Budget.asp

Open Budget Website

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

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CFAC FY25 Operating Budget Report

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METHODOLOGY

CFAC received the Town's proposed Fiscal Year 2025 [FY25] operating budget for discussion and review. For this report, CFAC met with representatives from the School Department, the Department of Public Works, and the Police Department. Town Finance Director Mark Milne provided CFAC with updates of adjusted revenue projections and the process used to adjust and balance the FY25 budget. As in its past reviews of the Town Operating Budget, CFAC submits this report to provide the Town Council and Town Administration with its own independent assessment and recommendations. CFAC's report was reviewed by the full CFAC membership and approved for transmittal to the Town Manager and Town Council.

OVERVIEW

Quality of Life Strategic Plan

For FY25, the Town Council's longstanding Quality of Life Strategic Plan remains focused on the Town's priorities, including financial integrity and a balanced budget, public health and safety, education, environmental and natural resources, economic development, infrastructure, diversity, equity and inclusion (DEI), and communication.

Fiscally Sound

The Town of Barnstable maintains its long tradition of fiscal accountability and operating within its means. Annual proposed revenue estimates have tended to be conservative to avoid revenue deficits. CFAC commends the Town for its prompt and prudent budgetary response to the economic uncertainties caused by the pandemic. Its careful and conservative budgets provided strong financial stability and maintained continued operations of Town services during those fiscally challenging years.

Challenges presented by the pandemic and its impact on the FY20 and FY21 budgets are good examples of the benefits of the Town's careful, conservative approach to budgeting. Despite the challenges associated with the pandemic, the Town's General Fund reserves (Free Cash) increased by more than \$17 million (MM) in those two fiscal years, a substantial sum that enhanced the Town's financial position. Coming out of the pandemic, the Town's prudent, measured budgeting approach has continued uninterrupted, as reflected in the FY25 Operating Budget.

The Town's budgets and appropriated funds reflect the Town's ability to fund its operations through annual revenue. The total proposed FY25 Operating Budget for the General Fund and the Town's nine Enterprise Funds is \$259,546,108 and the Capital Improvement Projects budget is \$242,154,341. The General Fund Operating Budget is increasing \$15,985,831 or 8.1% over FY24.

The General Fund is projected to generate a \$5.8MM of surplus in FY25. A total of \$6.2MM of surplus will be used to balance the FY25 General Fund Operating Budget. \$2.4MM of the surplus will be used to fund a portion of the School Department budget and \$3.8MM will be used to fund a portion of the Other Requirements (Fixed Costs) budget.

Comprehensive Wastewater Management Plan (CWMP)

The operating budget for managing the implementation of the CWMP, one of the most substantial and impactful programs in the Town's long history, has been incorporated into the appropriation for the Sewer Enterprise Fund in FY25, comments about which are presented later on in this document.

HIGH-LEVEL OPERATING BUDGET SPOTLIGHT

Viewed at a high level, CFAC notes a few issues that substantially impact the FY25 Operating Budget.

- **Largest Cost Centers:** Two of the Town's largest General Fund cost centers – Schools and Employee Benefits – are growing year-over-year expenses at rates (8% and 14.3%, respectively) that exceed the Town's General Fund revenue growth rate of 5.4%. General Fund reserves are being used to fund these higher-than-revenue-growth cost increases, but this is not a realistic long-term solution to cover cost increases of this magnitude relative to the Town's revenue growth rate. In general, larger cost centers (e.g., Schools and Employee Benefits) are increasingly dependent on reserves to balance their budgets. In aggregate, the Town will use about \$7.1MM in reserves in FY25 to balance the General Fund and Enterprise Funds budgets.
- **Enterprise Funds:** Three Enterprise Funds comprise two-thirds of FY25 Enterprise Fund expenditures: Airport (\$12.8MM/26% of total Enterprise Funds expenditures), Sewer (a.k.a. Water Pollution Control) (\$11.6MM/23%) and Water Supply (\$9.3MM/19%). The performance of these three funds relative to expectations will drive overall Enterprise Fund financial results in FY25. Almost 20% of Enterprise Funds revenues now come from other sources as opposed to user fees to cover their costs of operation, as the Town has created multiple stabilization funds that dedicate specific recurring revenue sources to mitigate the impact on user fees.
- **State Aid:** In FY25, State aid will comprise 14% of General Fund revenues. State aid increased substantially in FY24 over FY23, and a comparable increase was anticipated in FY25 over FY24. Unfortunately, State aid in FY25 will increase less than 1% (relative to FY24), which means that this 'revenue gap' must be filled from other sources (in this case, largely from Local Receipts). Future State aid levels will continue to have a significant impact on the Town's Operating Budget.
- **Employee Recruiting/Retention:** Attracting qualified applicants for open positions is an ongoing challenge for many of the Town's departments, most notably the Police and DPW. Town departments face many of the same challenges, including uncompetitive salaries, employee benefits and the cost of housing. In addition, the Police Department is burdened with its classification as a civil service organization, subjecting it to requirements and processes that put it at a competitive recruiting disadvantage relative to other police departments. Furthermore, the Police Department believes negative press covering police departments may also hinder the recruiting process. At present, the Police and DPW organizations are operating well below budgeted employment levels, placing significant burdens on those two critical departments to deliver the scope and quality of services expected by residents. This understaffing results in positive budget variances, but in our view, these are not desirable variances. The Town needs to continue to address both pay level and bureaucratic hiring-and-retention hindrances facing critical Town departments.

REVENUE

Revenue Projection

Revenue projection is an important component of the Town Operating Budget. Developing realistic revenue estimates is critical if proposed budgets are to be balanced for the upcoming year. These estimates allow expenditures to be reasonably managed despite economic and other circumstances 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, revenue projections should be accurate enough to enable the Town Manager and Town Council to have and allocate funds needed for critical services and programs.

The Town has traditionally been conservative in its revenue estimates, resulting in surpluses that can be used to balance the budget. Using this conservative approach, the Town has levied taxes at only 25% of its tax levy ceiling¹ resulting in a substantial amount of override capacity.

Projected Revenue for FY25

The proposed FY25 operating budget of \$259,546,108 includes the General Fund (\$212,981,657) and the nine Enterprise Funds (\$46,564,451). The FY25 General Fund budget is up 8.1% over FY24, and the Enterprise Funds component is up 13% year over year [YoY]. FY25 revenue sources are summarized below:

Revenue Category	General Fund	Enterprise Funds		% of Total	YoY Change	
			Total		\$	%
Property Taxes	\$ 149,017,962		\$ 149,017,962	57.4%	\$ 5.1	3.5%
Charges for Services	\$ 2,586,500	\$ 31,985,520	34,572,020	13.3%	2.7	8.6%
Intergovernmental	\$ 29,775,032	50,000	29,825,032	11.5%	0.2	0.7%
Other Taxes	\$ 10,864,000		10,864,000	4.2%	0.6	5.9%
Special Revenue Funds	\$ 828,150	1,506,549	2,334,699	0.9%	(1.8)	-43.9%
Enterprise Fund Chargebacks	\$ 3,729,155		3,729,155	1.4%	0.4	10.7%
Fees, Licenses, Permits	\$ 3,917,600	2,051,406	5,969,006	2.3%	0.9	17.2%
Interest and Other	\$ 4,215,170	1,915,470	6,130,640	2.4%	3.2	107.5%
Trust Funds	\$ 190,000	6,785,550	6,975,550	2.7%	4.4	165.7%
General Fund Subsidies	\$ -	1,436,994	1,436,994	0.6%	-	0.0%
Fines and Penalties	\$ 1,625,000		1,625,000	0.6%	0.4	32.1%
Reserves	\$ 6,233,088	832,962	7,066,050	2.7%	5.1	264.6%
Total	\$ 212,981,657	\$ 46,564,451	\$ 259,546,108	100.0%	\$ 21.1	8.8%

¹ The levy ceiling caps the levy limit for that fiscal year at 2.5 percent of the current fiscal year's total assessed full and fair cash value for real and personal property.

Property Taxes provide over 57% of all funding for the General Fund budget and a portion of the HYCC Enterprise Fund budget. Charges for Services, including revenues from the Town’s nine Enterprise Fund operations, is the second largest revenue funding category. Intergovernmental is the third largest revenue category, largely representing Chapter 70 aid from the State. The Intergovernmental category now comprises more than 11% of all funding, doubling where it was a few years ago, as Chapter 70 aid has increased from \$13MM in FY22 to almost \$25MM in FY25. Other Taxes – including motor vehicle, boat, and room excise taxes – is the final category that provides over \$10MM in funding annually.

Special Revenue Funds consist of parking receipts, embarkation fees, wetland protection funds, mooring fees, rooms excise tax on short-term rentals and traditional lodging, and community preservation funds. These receipts are reserved for appropriation and are used to offset operating costs within the General Fund and Enterprise Funds.

The nine Enterprise Funds are charged for the services they receive from General Fund operations, including human resources, finance, and information technology services. In addition, they are charged their share of pension costs, property and casualty insurance, and other costs budgeted within the General Fund. These charges (\$3,729,155) are reported as a General Fund revenue source (Chargebacks) in the table above. Other notable funding sources include trust funds (\$7MM), General Fund subsidies for Enterprise Fund operations (\$1.4MM), and more than \$7MM of reserves used to balance the operating budgets.

This last point was made at the outset of this report: use of Reserves to balance the FY25 operating budget jumped by 265% (\$5.1MM) over FY24. This is a significant, likely unsustainable manner in which to balance the operating budget and will have to be addressed by the Town in future budgeting cycles.

Concern

The Barnstable General Fund remains dependent on State Chapter 70 aid. FY25 aid totals \$24.8MM, which is almost twice the amount the Town received just three years ago. State Chapter 70 aid now makes up almost 12% of the General Fund budget. Should State Chapter 70 aid decrease substantially, as it did during the 2008 recession, the General Fund may face a large funding gap. The Town’s substantial General Fund reserve balance can serve as an “insurance policy” should State aid be reduced in the foreseeable future, but longer-term challenges may arise if State aid decreases on a sustained basis.

GENERAL FUND

Introduction

The Town of Barnstable’s General Fund is the source of assets used to pay for general governmental services not required to be accounted for separately. In accordance with Proposition 2½, the Town views the General Fund through a “revenue” lens (e.g., income to the Town to pay expenses).

Revenue

The Town’s General Fund will increase 8.1% in FY25, a bit more than last year’s increase and the largest increase in six years.

Barnstable General Fund		
General Fund	Amount (\$MM)	Growth
FY20 Actual	\$ 169.7	0.6%
FY21 Actual	\$ 173.5	2.3%
FY22 Actual	\$ 178.0	2.6%
FY23 Actual	\$ 184.7	4.7%
FY24 Approved	\$ 197.0	6.4%
FY25 Budget	\$ 213.0	8.1%

Almost every revenue source is expected to generate more income in FY25 than in FY24. Property Taxes are up \$5.1MM, or 3.5% YoY, and the use of Reserves is up \$5.5MM, or 706% YoY, which were commented on above. Intergovernmental revenues (mostly State Chapter 70 aid), which was a significant source of increased year over year revenues in FY24, is up \$212,000 in FY25. The impact of this funding ‘gap’ will be mitigated to some extent by an increase in Local Receipts (for example, motor vehicle excise and investment income revenues). It is worth noting that this increase in Local Receipt revenue is driven **not** by general price increases, but by an increase in activity/volume. Lesser but still significant contributors to the YoY growth in revenues include Fees/Licenses/Permits (\$855,000) and Fines & Penalties (\$395,000).

Three other items worth noting in the FY25 Operating Budget:

- Renewable energy revenues are from solar panels at the airport and Transfer Station facility, which bring in revenue to the Town when the generated energy is sold back to the grid.
- The increase in revenue from Permits reflects the continued strong activity in real estate renovations and new construction. Real estate values on Cape Cod remain strong and resilient to valuation challenges seen in other parts of the country, resulting in a sustained desire to upgrade existing structures and invest in new buildings.
- While inflation often carries challenges to town governments (for example, increase cost of borrowing and increases in labor costs), inflation also has its budgetary upsides: in FY24, interest earnings increased 300% YoY versus FY23, and are expected to remain at comparable levels in

FY25. Safety and liquidity of investments remain the Town's two investing priorities, but even with those conservative underpinnings, the increase in interest rates seen over the past 12-plus months has resulted in a significantly higher level of interest earnings on Town investments.

Finally, while property tax increases are generally limited by the terms of Proposition 2½ (per the earlier tax ceiling comment), property tax on new construction is an additional source of revenue excluded from the Prop 2½ limits. Further, FY25 tax revenues will benefit from new development by Vineyard Wind LLC, which is expected to make a significant contribution via their agreement with the Town that calls for an annual payment of \$1.534MM to the Town in a combination of property taxes and a Host Community Agreement (HCA) payment (the latter represents the annual difference between \$1.534MM and actual property taxes paid). The HCA payments have been dedicated to the management of our public drinking water system, and the Town will receive a payment of \$1,176,934 for FY24, as Vineyard Wind's property tax bill was \$357,066. Vineyard Wind's tax bill is expected to be higher in FY25 as it continues to build out its infrastructure.

Expenditures

The General Fund budget is allocated to Fixed Costs, Municipal Costs, and Education. The budget process begins with the establishment of Fixed Cost levels for a fiscal year, which account for 35% of total General Fund expenditures in FY25. The remaining 65% of the General Fund expenditures are allocated between Municipal Operations (23%) and Local Education (42%) costs.

The \$16MM increase in FY25's General Fund is allocated mostly to the School Department, to municipal operations departments, and to several line-item expenses in Fixed Costs such as pensions, health insurance, debt service, and school assessments. Details describing how this \$16MM will be used in the FY25 budget are presented in each individual department budget review in this report.

Summary

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

It is important to consider that in the face of an economic downturn, State and Federal funding levels are not guaranteed. A recession could have a negative impact on some funding sources of the General Fund. The Town does not forecast economic conditions, but they do actively consider multiple scenarios in the budgeting process. Calendar year 2024 marks the 16th year in a row without a major recession or economic downturn in the United States, a much longer 'gap' than history suggests has occurred on average. The Town will continue to aim to balance the responsible allocation of operating capital with the impact of potential changes to revenue levels on its ability to provide Town services.

The proposed FY25 budget continues to reflect prudent decisions to closely manage hiring and discretionary spending to fund the most essential services and programs and maintain financial stability. CFAC continues to support the use of priority ranking of expenditures by the Town and the engaged, informed, spirited debate of potential projects. CFAC commends the Town for its continued responsible stewardship of taxpayer dollars.

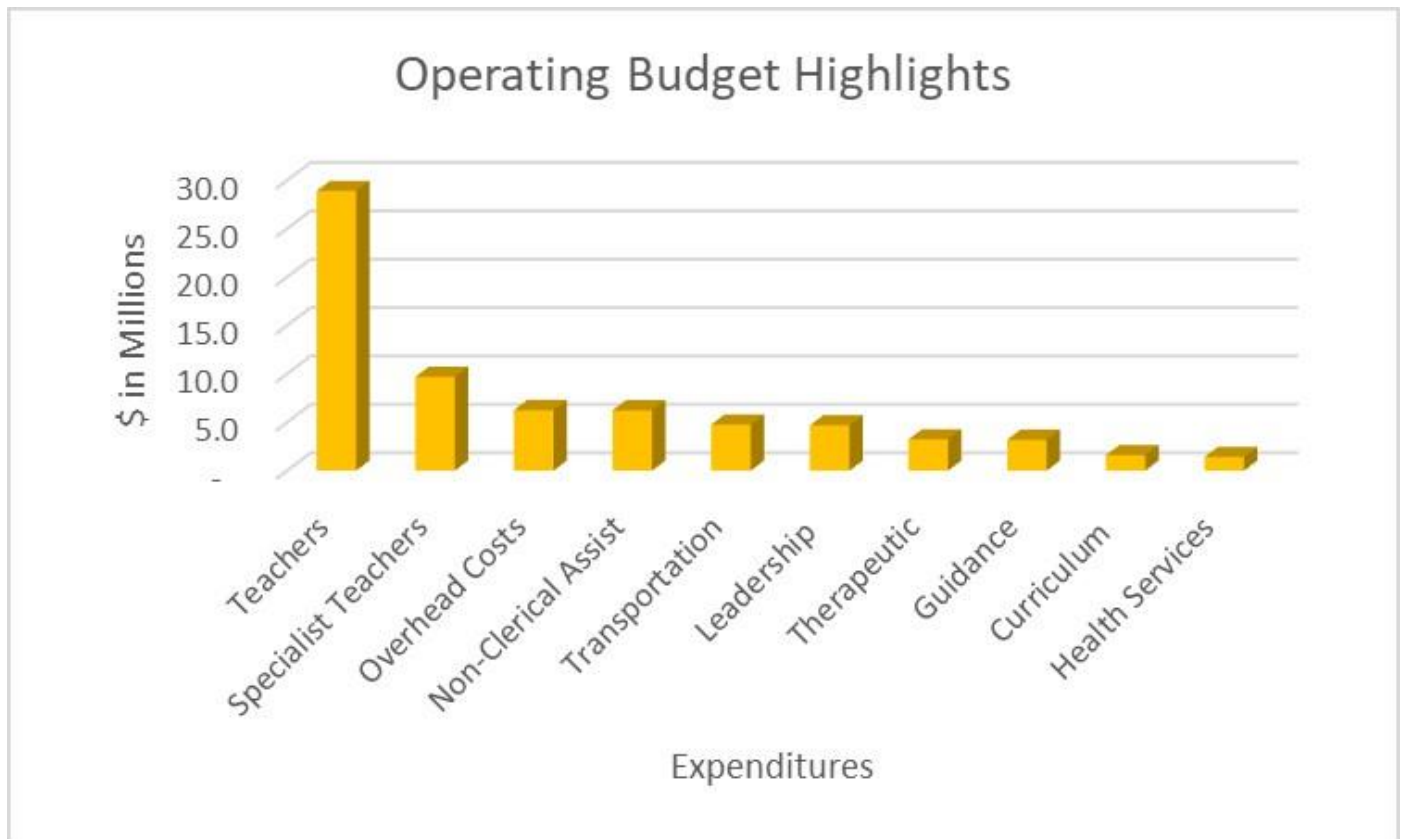
SCHOOL DEPARTMENT

Introduction

Benjamin Franklin once said: “An investment in knowledge always pays the best interest.” There are few negative returns to investing in learning. Intellectual development is a primary contributor to the Town’s character, culture, vibrancy and quality of life.

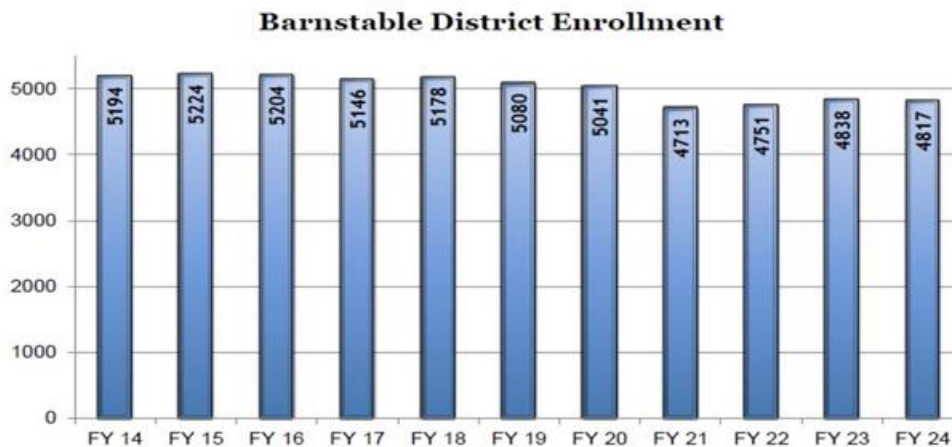
Budget Summary

The \$86.9MM FY25 General Fund School Operating Budget addresses a number of goals: the District Improvement Plan, the needs of the students, equitable allocation of resources, systems, facilities, and planning. Within the General Fund, the school budget is up \$4.1MM from FY24’s budget of \$82.8MM. Although this 5% School budget increase is significant, the budget remains within the revenue sharing agreement between the Town Manager and School Superintendent, in which Schools get 60% of the General Fund revenue growth after Fixed Costs. The overall School Department Operating budget for FY25 is \$89.4MM, 7.99% higher than the FY24 budget; its components are summarized below:



Highlights

- The FY25 School operating budget is \$89.4MM (\$86.9MM from the General Fund and \$2.5MM from savings). 70% of the \$4.1MM YoY increase (\$2.9 MM) is attributable to teachers' salaries. In aggregate, salaries comprise 82% of the School operating budget.
- The Town of Barnstable allocates 60% of its revenues to the seven schools in the district. The district supports a total of 5,306 students in 2,503 classrooms (the number of students actually enrolled for FY24 was 4817, down by 21 students from FY23; FY25 enrollment is expected to remain relatively flat YoY). The top funding sources for the School Department are ESSER Funds, Circuit Breaker funds, Chapter 70 aid and the Town's General Fund. The State's required minimum contribution from the Town for FY25 is \$63.9MM. The following table summarizes actual school enrollment over the past 11 fiscal years. As the table indicates, enrollment has been fairly flat over the past four fiscal years following a meaningful post-pandemic enrollment decline in FY21.



Analysis and Comments

- Elementary and Secondary School Emergency Relief [ESSER] funds are grants from the Department of Education to local schools to provide relief from the effects of the pandemic that closed our schools in 2020. They were designated to allow districts and schools to safely reopen and sustain safe operations. Initiated in 2022, ESSER funds will expire in September of 2024. Barnstable received a little over \$6MM in ESSER funds since 2022. A portion of the grants was used to hire 33.2 new teaching positions, many of whom supported English language learners [ELLs] and special education students. Although most of the ESSER funds have been spent, the School Committee approved the retention of 28.5 of those teaching positions. This \$2.4MM cost will be incorporated into the FY25 operating budget. From FY25-FY28, the School Department will use budgetary savings to absorb some of the cost of supporting these positions. The balance of the cost of ESSER-created positions will be included in the Town's Operating Budget.
- Many staff positions support ELLs and economically disadvantaged [ED] students (which the State began terming "Low Income" students in 2022). Pupils in both categories require more resources than a 'base pupil.' Both categories also raise the amount of Chapter 70 aid the Town

receives from the State. State support allows six years for ELL pupils if they have high-quality curriculum and native language support (and may extend beyond six years if necessary). With the highest percentage of ELL in grades PK to 4, ELL staffing likely will be needed in Barnstable schools for many years to come.

- In FY24, 21% of the Barnstable’s students were considered ELLs, 58% were EDs and 82% of the ELL students also qualified as ED students. The School Department expects these percentages will be comparable in FY25. For historical context, in FY17 only 9% of students were ELL and 30% were ED. Both categories have seen steady, substantial growth over the past 9 fiscal years.
- The State recognizes that School Districts face very high costs to educate special needs students, so the number of ELL and ED students has a big impact on the Foundation Budget additional amount per pupil. The State provides “Circuit Breaker” funding to offset these high costs. Last year, Barnstable received \$2MM from the State to partially cover the higher costs associated with special needs students. The amount allocated is based on the number of students in each category and the actual costs to support them. In FY24, Barnstable received \$6,580 for each ED student, \$2,790 for each ELL student, and \$32,035 for each special ed student.
- The administrative leadership of the school has partially offset its YoY budget increase through cost savings in the amount of \$1.9MM (generated via headcount savings from retirements and attrition (\$1.6MM) and a reduction in supply expenses (\$0.3MM)). The district also offsets the cost of educating students through a combination of competitive and entitlement grants. These grants totaled \$5.2MM in FY24 and are anticipated to be the same amount in FY25.

Concerns

- The formula for Chapter 70 aid began in 1993, when landmark legislation addressed the growing concerns of school funding adequacy and equity in Massachusetts. Chapter 70 provides for equitable support in the operation of public elementary and secondary schools and uses Foundation Enrollment as the basis for funding. Foundation Enrollment is the number of pupils for whom a school district is financially responsible on October 1st of a given year and is comprised primarily of local resident students in the regional school district, charter schools, and other settings. The Foundation Budget is a detailed computation of grade level categories that assigns specific costs to different programs. The State requires a minimum local required contribution from the Town; for FY 25, that contribution is \$63.9 MM.

- FY25 Chapter 70 funding did not keep pace with inflation and therefore has forced the Town to depend on the increased use of General Funds to fund the schools in FY25. If the State legislature continues this trend, it will drain the School’s reserve funds and budget cuts will need to be enacted.

FY25 Chapter 70 Aid Calculations				
Requirement	FY24	FY25	Change	Change %
Foundation Enrollment*	5,302	5,306	4	0.1%
Foundation Budget	\$84,542,110	\$88,800,529	\$4,258,419	5.0%
Town Contribution	\$59,790,057	\$63,909,248	\$4,119,191	6.9%
Total Chapter 70 Aid	\$24,752,053	\$24,911,233	\$159,180	0.6%

* “Foundation Enrollment” is the number of students for whom the Town is financially responsible for educating; it is NOT the same as the number of students actually enrolled in Town schools (which is a smaller number).

Conclusion

The School Operating Budget is the largest expenditure of the Town’s General Fund. It is important to note that this budget includes only operational costs; it does not include most employee benefits, health insurance, property and casualty insurance, and retirement costs, which are included in Fixed Costs. The school budget also excludes school assessments and costs for Barnstable students not enrolled in Barnstable public schools (about 420 pupils) who go to Cape Cod Regional Technical High School or Commonwealth Charter Schools, or who select School Choice.

Enrollment forecasts are critical and useful since Barnstable’s Chapter 70 aid is partially driven by ED and ELL populations. Accurate forecasts enable the Town to better anticipate future changes to State aid, enrollment trends, necessary student support resources, and space requirements.

CFAC commends the School Department’s cost-saving measures and success in securing additional revenue through grants. It recommends the continuation of such strategies to ensure sufficient funding for education. CFAC also suggests establishing a reserve fund to buffer the department from economic uncertainty, inflation, and changes in State aid. CFAC emphasizes the importance of maintaining school cost efficiencies, pursuing new funding avenues, and leveraging Chapter 70 aid to alleviate pressure on the Town budget.

DEPARTMENT OF PUBLIC WORKS

As with most municipalities, the primary functions of the Department of Public Works [DPW] are to maintain and improve the Town’s infrastructure and related assets, to provide safe drinking water, and to dispose of solid waste and wastewater in an environmentally sound and economical manner. When all of these responsibilities are met, it enhances the current and future needs of the community as a whole. The DPW is one of the Town’s most visible departments, as it maintains the appearance and functionality of public assets.

The DPW has a proposed FY25 Operating Budget of \$11,384,511. This represents an increase of \$242,455 (2.18%) over FY24. This increase is slightly less, in terms of both absolute dollars and percentage, than the YoY increase seen between FY23 and FY24. As with previous years, the Capital Outlay of the department has remained unchanged at \$650,000 for vehicle and equipment replacement and mechanical and building operation. Personnel and operating expenses continue to rise steadily due primarily to cost of living increases and inflationary impacts. As is the case with the majority of departments, personnel accounts for a majority of DPW’s budget (59% of the FY25 budget).

DPW	Budget FY24	Proposed FY25	Change \$	Change %
Personnel	\$6,636,468	\$6,736,923	\$100,455	1.51%
Operating Expenses	3,855,588	3,997,588	142,000	3.68%
Capital Outlay	650,000	650,000	0	0.00%
Total Appropriation	\$11,142,056	\$11,384,511	\$242,455	2.18%

Following trends seen in many departments for several years, DPW’s primary challenge for FY25 continues to be staffing. Finding qualified individuals to fill highly skilled positions is an extremely competitive process during the current economic climate in both the public and private sectors. Unskilled positions are also difficult to fill as the Department cannot always compete with compensation levels offered by private companies. As of the writing of this report, there were 27 job vacancies on the Town website across the various DPW divisions, ranging from custodians and laborers to arborists, engineers and managers. These vacancies leave the Department understaffed and make it more difficult to keep up with its core mission, putting additional stress on current employees and potentially impacting the progress of needed maintenance and new projects.

The Department’s administrator indicated that existing salary and benefits restrictions are the primary challenges to competing with the private sector when trying to recruit applicants for specific positions. The Department attempts to address this challenge by promoting from within, offering internships and on-the-job training to qualified applicants, as well as minor incentives such as additional paid time off whenever possible. However, it is still a struggle to fill needed positions. CFAC advises the Town to work closely with DPW to develop solutions to persistent personnel shortages. One way to do so would be to implement a salary study, not only of the DPW but across all Town departments, to determine the pay scale each available position requires to be competitive with private sector offers. CFAC strongly encourages conducting a salary study. We will further review and comment on any specific proposals brought forward at the direction of the Town Council or Town Manager.

Other divisions of the DPW, including Solid Waste, Sewer (Water Pollution Control), and the Water Supply Division, continue to see increased costs due to inflationary influences on utilities and waste disposal. The Comprehensive Wastewater Management Plan's [CWMP] increased sewerage capacity will bring with it increased operating, maintenance and sludge disposal costs, adding to the overall budget of the DPW and potentially putting additional strain on understaffed divisions. DPW continues to prudently manage vehicle and equipment updates and is always looking for new, inventive ways to reduce operational costs and lessen the amount of waste that requires disposal. CFAC applauds the Department for seeking cost-saving measures through multiple avenues and encourages this to continue.

CFAC will gladly review any new funding mechanisms or budgetary increases proposed by the department administrator, Town Council or Town Manager to ensure that DPW has adequate resources to perform all necessary functions.

POLICE DEPARTMENT

For FY25, the Police Department is proposing a total budget of \$18,709,238, an overall increase of \$1,503,154 or 8.74% over FY24. CFAC notes this is a significantly higher increase than occurred from FY23-FY24. However, increases in the Police Department’s budget are generally viewed as necessary to maintain critical community and public safety services provided by the Department. As with each Town department, the Police Department Operating Budget can be broken down into three distinct categories: personnel, operating expenses, and capital outlay.

Police Department	Budget FY24	Proposed FY25	Change \$	Change %
Personnel	\$15,099,532	\$16,315,044	\$1,215,512	8.05%
Operating Expenses	1,410,194	1,473,747	63,553	4.51%
Capital Outlay	696,448	920,537	224,089	32.18%
Total Appropriation	\$17,206,174	\$18,709,328	\$1,503,154	8.74%

The increase in **Personnel** costs for FY25 is primarily driven by contractual pay increases, new training and overtime costs. These costs are greatly affected by unfunded mandates put in place by the State government for increased training, reporting, and recertification (mandates with which all employees must comply). Personnel makes up the lion’s share – 87% – of the Department’s FY25 operating budget.

Operating Expenses increased significantly after having decreased the previous fiscal year. This increase is driven by IT-related expenses and training. The proposed FY25 budget is on par with FY23 after the intervening fiscal year experienced a decrease of nearly the same amount of this year’s increase.

Capital Outlay for FY25 is up significantly, primarily due to the purchase of eight new vehicles, cameras (both body-worn and fixed), and a new taser lease agreement. These are all necessary expenses to keep the Department up-to-date and prepared to serve the community. CFAC notes that this increase is substantially higher than previous years, but the lack of availability of vehicles for several fiscal years in a row may have contributed to that pattern as the Department had to delay replacing some of its fleet.

The Police Department faces many of the same challenges as other departments regarding staffing, inflation, and a continuously evolving regulatory environment. The Department faces unique challenges related to its mission to provide for the public safety of the Town.

As has been noted in previous reports, staffing continues to be the number one hurdle for the Department to address and is putting a strain on current employees. The staffing level within the Department can be fluid, with frequent changes, but the Police Chief reported 21 vacancies of sworn officers at the time of this report. The reasons for this persistent shortage of staff are many. On the most fundamental level, there is a lack of qualified applicants, and many police departments across the Commonwealth compete with Barnstable for that same limited pool of individuals. Barnstable is also at a competitive disadvantage as it maintains a Civil Service requirement, which most other departments have eliminated. This makes for a longer and more complicated hiring process and has been cited as a major cause for the difficulty in recruiting new officers. Lateral transfers from other departments provide an opportunity for a quicker hiring process, but this is also a limited resource. Difficulty in securing affordable housing has also been cited as a major contributor to disinterest from new recruits; this is a problem across our region which cannot be easily addressed. All of these factors indicate that the staffing shortage experienced by the Department is likely to persist for the foreseeable future.

CFAC strongly recommends that the Town Council and Town Manager examine the Civil Service requirement and take the necessary steps to remove this requirement if it is determined that doing so will ease the Police Department's staffing shortage and not impact the quality of services provided to the Town. From a public safety perspective, it is critical that the Department be as fully staffed as possible.

In our FY24 Operating Budget Report, CFAC highlighted the long and successful history of the Police Department's community policing programs, including the School Resources Officer [SRO] program. The Department also operates a Community Service Officer [CSO] program, as well as a Citizen's Police Academy. These programs help engage the community with our police and establish lasting and positive relationships. CFAC commends the Department for its continued community involvement and outreach.

The SRO program currently consists of two full-time officers at Barnstable High School and one full-time officer at Barnstable Intermediate School, as well as part-time "Adopt-a-School" officers who are present in the Town's other schools as frequently as possible. In last year's report, the Police Chief was hoping for grant funding to expand this program. For FY25, the Department has received a grant which will allow the hiring of another full-time SRO, to be stationed at Barnstable United Elementary School. CFAC supports the expansion of this program for the safety of our children and our community. The SRO program is one of the most critical components of community policing, as it engages children with the police in a non-confrontational and positive environment. Law enforcement is only one aspect of the SRO mandate. These officers also act as counselors, teachers, mentors and coaches. By being present on campus, officers may deescalate and quickly resolve internal conflicts and also act as a deterrent to external threats. CFAC continues to believe this is a judicious use of police funding and encourages the Town Council and Town Manager to be open to any further proposed expansion of this program.

ENTERPRISE FUNDS

The nine Enterprise Funds are intended to be financially self-sufficient. Each Fund generates revenue from fees charged to users and is responsible for its expenses, surplus or deficiencies. With this unique financial autonomy, the revenue and expenditures of each Enterprise Fund are handled separately from other Town activities. The individual accounts allow the Town to monitor income, expenses, and surpluses (or deficiencies) to determine financial stability, growth potential, and occasionally, the need for a subsidy from the General Fund.

Every Enterprise Fund operation is projected to have increased revenues in FY25. The anticipated revenue for the nine Enterprise Funds for FY25 is \$50,047,195, an increase of \$5,467,848 (+12.3%) over FY24.

Fund	Approved FY24	Proposed FY25	Change \$	Change %
Airport	\$ 11,974,435	\$ 12,839,593	\$ 865,158	7.2%
Golf	4,208,092	4,439,459	231,366	5.8%
HYCC	3,993,570	4,306,188	312,618	7.8%
Marina	804,997	879,909	74,912	9.3%
PEG	958,290	994,590	36,300	3.8%
Sandy Neck	1,221,738	1,264,894	43,156	3.5%
Sewer	8,714,703	11,591,615	2,876,912	33.0%
Solid Waste	4,143,822	4,430,351	286,529	6.9%
Water Supply	8,559,700	9,300,596	740,896	8.7%
Total	\$ 44,579,347	\$ 50,047,195	\$ 5,467,848	12.3%

Airport's projected FY25 revenue is \$12,839,593, an increase of \$865,158 from FY24. The four-year (FY2021-2024) CARES Act airport grant of \$17,971,966 has been expended, so there is no intergovernmental aid for FY25, with the exception of annual reimbursement for TSA security. Other anticipated revenue changes include a \$500,000 increase in jet fuel and \$151,00 anticipated increase in revenue from its solar array. The land leases remain strong contributors to revenue.

Most of the Airport's expenses are based on need and normal increases, such as personnel COLA and step increases, electricity, heavy equipment maintenance. The cost for jet fuel will increase from \$5.6MM to \$6.3MM. The Airport will transfer \$262,234 to the General Fund for its operating support.

The Airport's FY25 recommended capital improvement projects total \$4.1MM. They will be funded with reserves and grants.

Golf's proposed FY25 budget is \$4,439,459. This is an increase of \$231,366, or 5.8% over FY24. Golf operations are expected to generate \$3.93MM from its operations, an increase of \$186,400 (or 5%) more than FY24. The golf operation will receive fund transfers of \$219,299 from its fund balance and \$290,160 from the Community Preservation Fund (CPF). The funds from the CPF have been used to pay the debt service for the Hyannis Golf Course acquisition debt, which is included in golf's operating expenses.

Golf's biggest cost is personnel, both permanent and seasonal. Course and equipment maintenance expenses remain relatively stable. Building maintenance, electricity, and supply costs will increase.

Golf will not need any General Fund transfers to balance its budget.

The FY25 club house restoration capital project will be funded with insurance reimbursements and a bond issue.

HYCC is a popular community center, after school and seasonal athletic venue, summer day camp location, and civic and school group activity site. Its operating budget for FY25 is \$4,306,188, an increase of \$312,618 from FY24. Increased skating, hockey, and gym use have contributed strong financial support for HYCC. In addition, there is a transfer from the General Fund of \$1,406,994 to balance its operating costs.

Most of the operational expenses include personnel, both permanent and seasonal. HYCC has maintenance agreements to service both equipment and facilities. These expenses remain stable. In addition to the General Fund transfer to cover its operating expenses, HYCC will also receive \$1,460,675 from the Capital Trust Fund to pay for its debt service on construction and improvements to its facility. There will be a transfer of \$479,169 from reserves to balance the budget.

FY25 HYCC capital projects include mechanical improvement and security system capital projects will be financed with a bond issue.

It should be noted that HYCC will need a new concrete slab base for its ice rink sometime in the future. The estimated cost is \$2.6MM and will require a Capital Trust Fund bond issue.

Marina. The FY25 budget for the Marina is \$879,909, an increase of \$74,912, or 9.3% from FY24. Docking and slip fees remain strong. There will be a transfer of \$30,000 from the General Fund to cover Bismore Park costs.

The Marina is self-supporting. Its revenues pay for its expenses. Personnel salaries and benefits account for most of Marina expenses. A surplus of \$1.4MM is anticipated.

It should be noted that the construction of a new steel bulkhead is scheduled for FY2026. The present projected cost is approximately \$9MM. Contributions from the General Fund may be used to cover part of the construction costs. The new bulkhead is expected to generate new revenue from the added docks and slips.

PEG. The FY25 budget for the Public, Education, and Government (PEG) access channels is \$994,590, a \$34,300, or 3.8%, increase. Both PEG's revenue and expenses have remained constant and predictable, and FY25 is no exception. Personnel remains the biggest expense increase, but there is very little change to the other expenses.

Sandy Neck. Sandy Neck continues to be a very popular beach and nature destination. Its FY25 budget is \$1,264,894, an increase of \$43,156, or 3.5%, over FY24. In addition to beach sticker revenue, off road vehicles (ORV) and parking were the major sources of funds. Permanent and seasonal personnel make up the biggest expense, accounting for roughly 66% of the total cost of operating expenses. The cost of conservation permits and licenses will be \$10,665, an increase of \$951, or 9.8%. Surplus reserves of \$109,314 will be used to balance its budget.

The future major capital expense for Sandy Neck will be the relocation of its parking lot. The estimated

cost is \$5.6MM. Funding will be provided by Sandy Neck reserves, grants and possible contributions from the General Fund.

DPW assists in the development of the budgets and supervises three Enterprise Funds: **Solid Waste, Water Supply**, and the **Sewer Fund**. In FY24, the operating costs of the CWMP was incorporated into the Water Pollution Control (WPC) budget. WPC is also known as the Sewer Fund to better reflect its responsibilities and scope.

Solid Waste. The FY25 budget for Solid Waste is \$4,430,351, an increase of \$286,529, or 6.9%, over FY24. 75% of its revenue comes from transfer station permits, which is expected to increase by \$136,651, or 4.6%. Recycling revenue has remained stable and charges for the disposal of demolition materials will increase \$200,000 from \$500,000 to \$700,000 as this activity has picked up. The Town's renewable energy (solar panel array) contract remains level funded.

The biggest operating expense cost is personnel. Disposal costs continue to increase. The Town's disposal cost for municipal solid waste (MSW) services will be \$1,114,489 a 3.1% increase from FY24's \$1,081,485. In addition, there are disposal fees for recycling materials and construction materials. Diesel fuel and regular gasoline costs will not change.

Solid Waste is self-sufficient and requires no transfers from the General Fund or use of its reserves. It currently has \$1.7MM in reserves.

FY25 capital projects are equipment replacements. They will be financed from Solid Waste's reserves.

Water Supply. Water Supply provides safe potable water and fire readiness services to residents and businesses in Hyannis, Hyannisport, and West Hyannisport. Its FY25 budget is \$9,300,596, an increase of \$740,896, or 8.66%, over FY24. Rate and usage increases account for over 55% of expected revenue. A transfer of \$1,000,000 is provided from the Water Stabilization Trust Fund which was established to mitigate rate increases. The Trust's revenue is from the Host Community Agreement with Vineyard Wind.

The biggest expense is its operations contract with Veolia Management. This contract increases to \$4,058,127 from \$3,770,695, an increase of \$287,432, or 7.2%. Water Supply is self-sufficient and does not need any Support from the General Fund.

The FY25 recommended Water Supply capital improvement project of the Straightway filtration plant will cost \$35.5MM. It will be funded through a bond issue. Other FY25 capital improvement projects of pipe replacement and filtration plant design total \$4.1MM, bringing the total Solid Waste CIP projects to \$39.6MM will be financed through bond issues. It is anticipated that Water Supply revenue will be able to pay for these long-term debts.

Sewer. The new Sewer Fund combines Water Pollution Control (WPC) and Comprehensive Wastewater Management Plan (CWMP). WPC provides safe water for the Town's residents through the collection of wastewater, treatment, and waste disposal. CWMP is mandated to protect the Town's bodies of water by mitigating nutrient pollution using many remediation methods, primarily sewer construction and expansion. Beginning in FY24, CWMP was incorporated into the budget of WPC to better align the operations and management of wastewater treatment and disposal systems. Starting in FY25 this Enterprise Fund has been renamed the Sewer Fund.

The FY25 budget for the Sewer Fund is \$11,591,615, an increase of \$2,876,912, or 33%, from FY24's \$8,714,703. The increase includes a transfer of \$4,250,000 from the Capital Trust Fund for CWMP expenses and a transfer of \$1,216,389 from the Sewer Construction and Private Way Maintenance Fund. Rate charges to users connected to the public sewer system make up most of the balance of funding for FY25. Expenses include personnel and benefits, utilities, maintenance of equipment, chemicals, sludge disposal.

Recommended FY25 capital projects for WPC are a pump station rehabilitation program and effluent sand bed valve rehabilitation. The cost of the two projects totals \$1.6MM and will be funded through bond issues.

In FY25 the Sewer Fund will issue \$169MM in general obligation bonds to fund nitrogen removal improvements and WPC upgrades, Rt. 28 West sewer expansion, and Long Beach sewer expansion. The Town has available funding sources to pay for FY25 and FY26 Sewer Fund expenses and commitments of authorized issued and authorized unissued debt.

Analysis of Sewer Commitments Going Forward

As Phase 1 of CWMP progresses, costs will increase, and financing of construction projects will require new sources of revenue. While funding sources and excess resources (net surpluses from previous years) can pay for all expenses and debt service for FY25-FY28, the Sewer Fund projects a deficit of \$2.8MM in FY29. In other words, cost commitments will exceed funding resources by FY29. Projections for FY29 also indicate debt service of \$11.8MM, a 76% increase from FY28's debt service of \$6.7MM.

The following table summarizes the projected CWMP cash flow for FY25-FY30 (in \$MM):

CWMP	FY25	FY26	FY27	FY28	FY29	FY30
Funding	\$12.4	\$11.4	\$12.4	\$12.6	\$13.2	\$13.7
Expenses	6.2	8.6	9.2	12.4	16.0	16.5
Net	6.2	2.8	3.1	0.252	(2.8)	(2.8)
Debt Service	2.8	2.7	3.8	6.7	11.8	13.5

Source: Town of Barnstable FY25 Capital Budget and FY25-FY29 Capital Improvement Plan, page 28.

To proceed with scheduled construction projects from FY27 going forward, new resources need to be identified and made available. This means that there must be a decision about new financial resources by the fall of 2025 to allow time to issue bonds and to calibrate FY27 budget projections. Options include 1) increase current taxes, 2) create new taxes, 3) hold a Proposition 2 ½ override referendum, and 4) hold a debt exclusion referendum. Because 2025 is fast approaching, CFAC urges Town Council to expeditiously identify, discuss, and decide on the most viable finance option to fund sewer construction.

In 2021 CFAC responded to a request from the Town Manager to assess CWMP's Financial Management Plan. The report includes unanimous Committee support for the debt exclusion override to fund CWMP.

Note: If a debt exclusion override is approved by residents, the new debt service will be paid from Fixed Costs and not the Sewer Fund.

Conclusion

The Town's Enterprise Funds are steady, dependable, and essential. The services provided by each EF are invaluable contributions to the safety and vibrancy of the Town. The airport is the travel hub of Cape Cod. Golf and HYCC provide convenient and inviting recreation venues for both residents and visitors. Sandy Neck and the Marina provide safe and welcoming beach and water access. PEG's presence allows public access to Town meetings, updates, and information. Safe potable water and safe disposal of solid waste are well managed operations and critical functions. Water pollution control and sewer expansion keep our water safe and mitigate nutrient pollution of our bodies of water. Taken together, the Enterprise Funds provide invaluable benefits to the Town and everyone who lives in or visits Barnstable.

While most Enterprise Funds are financially self-sufficient and well positioned to pay for many of their capital improvement expenditures, the Sewer Fund's capital plan is the exception. Its exponentially increased cost of \$384.5MM for FY25-FY28 will require resources that far exceed its projected revenue. As mentioned in the Sewer section of this report, CFAC believes that the need to identify and decide on the best option to finance sewer construction is the most urgent issue facing the Town Council and encourages Town Council to begin its deliberations.

There are additional comments about CWMP in the Looking Ahead section of this report.

FIXED COSTS

Fixed costs are Town expenses that must be paid from General Fund revenue before municipal or school budgets can be allocated. The size and increase of fixed costs determine the net revenue resources available for municipal and school operations. Because Barnstable’s fixed costs are usually known during the budget process, their components have remained consistent and relatively constant at 30% of the General Fund budget. However, in the two most recent years, FY23 and FY24, fixed costs have increased to 36% and 34% respectively of the General Fund budget. The fixed costs for FY25 are projected to be 35% of the General Fund budget.

Funding sources Fixed costs funding sources include taxes, intergovernmental aid, Enterprise Funds, the pension trust, and General Fund reserves. Tax support can include various taxes, such as property, boat, motor vehicle, rooms, and PILOT. No distinction is made of what taxes are allocated to specific operating cost expenses.

Expenses Fixed costs expenses include school assessments, state and county assessments, debt service, employee benefits, transfers to the Capital Trust Fund and Enterprise Fund, and snow and ice removal.

Funding Sources

Source	Approved FY24	Proposed FY25	Change \$	Change %
Taxes	\$ 60,466,357	\$ 63,001,924	\$ 2,554,462	4.23%
Intergovernmental	4,080,875	4,415,856	334,981	8.21%
Enterprise Funds	2,238,683	2,459,769	221,086	9.88%
Trust Funds	200,000	190,000	(10,000)	(5.00)%
Special Revenue Funds	86,700	83,200	(3,500)	(4.04)%
Reserves*	250,000	3,811,568	3,561,568	1424.60%
Total	\$ 67,303,720	\$ 73,962,317	\$ 6,658,597	9.89%

• Reserves: Each department that generates nontax revenue or benefits from it is included in Reserves: \$250,000 Town Council reserve fund; \$225,000, estimated snow and ice deficit; \$3,000,000 health insurance. The health insurance reserve is an estimate of current employees who will join the Town health insurance plan. The Town would like to reduce its dependence on reserves to balance the budget with health insurance reserves, provided that the actual number of employees enrolled in the Town’s health insurance plan are similar to the projected budget.

Every non-tax revenue is assigned to the department that generates it or benefits from it (for example, Chapter 70 aid for education); any remaining balance to cover the operating budget is provided from taxes.

Expenditures

Expense	Approved FY24	Proposed FY25	Change \$	Change %
Employee benefits	\$ 29,787,341	\$ 34,032,891	\$ 4,245,550	14.25%
School assessments	12,674,875	13,398,358	723,483	5.71%
Debt service	7,249,889	7,249,511	(378)	(0.01)%
State & county assessments	2,965,625	3,077,714	112,089	3.78%
Transfer to Capital Trust Fund	7,870,803	8,999,199	1,128,396	14.34%
Transfer to Enterprise Funds	1,436,994	1,436,994	--	0.00%
Town Council Reserve	250,000	250,000	--	0.00%
Library grants	2,106,908	2,228,650	121,742	5.78%
PCL insurance	2,600,000	2,700,000	100,000	3.85%
Misc	361,285	589,000	227,715	63.03%
Total	\$ 67,303,720	\$ 73,962,317	\$ 6,658,597	9.89%

Proposed FY25 fixed cost expenses increase 9.9% over FY24. FY24 fixed cost expenditures (\$67,303,720) increased 6.4% over FY23 (\$63,254,936). This means that the FY25 fixed costs increase of 9.9% is almost 50% higher than FY24 compared to FY23.

Most fixed costs expenses remain fairly constant. However, rate increases for property and casualty liability and current employee health insurance have big impacts on each year's total expenditures. Other factors with trending increases are other postemployment benefits [OPEB] contributions and retiree health and sick benefits.

Percentage of Total Fixed-Costs Expenses (FY25)	
Employee benefits	46%
School assessment	18%
Transfers to CFT and EF	14%

Employee benefits include retirement assessments, retiree health and sick benefits, workers' compensation and unemployment, and Medicare and life insurance, OPEB and health insurance for active employees.

Employee benefits for FY25 are \$34,032,891 compared with FY24's \$29,787,341. They represent the biggest increase, \$4,245,550 (14.25%) of FY25 fixed costs expenses.

Funding of fixed costs depends on General Fund revenue growth. The projected FY25 General Fund revenue is \$212,981,658. This is an increase of 8.11% from FY24. In addition, the General Fund will add \$750,000 of new property tax growth from new development to the Capital Trust Fund for the next three years plus the standard 2.5% increase. The FY25 CTF contribution totals \$8,999,199, an increase of \$1,128,396 (+14.34%) from FY24.

Analysis: Two Major Fixed Cost Expenses That May Increase in the Future

1. **Active employee health insurance.** Because the cost of the Town of Barnstable’s health insurance plan for active employees had been split 50-50 (Town-employees) and did not seem favorable enough to have either more current employees enroll in the plan or job applicants accept positions with Town government, Town Council supported Town Administration’s recommendation to change the contribution share to 70-30 in 2023 (i.e., 70% Town-paid). This new plan, which has an open enrollment period to allow current employees to join the plan, together with an 8% increase in premium rates, accounts for most of the employee benefits increase of \$3,444,394 (42.3%) for FY25. Depending on the number of current employees who ultimately participate in the health insurance plan and the plan selected, the active employee health insurance costs may increase above the projected \$11,590,868 budget.
2. **Debt service.** The debt service for FY25 shows no increase because the expiring debt service is almost equal to the new debt service from a new bond issue. However, future bond issues for capital improvement projects may substantially increase Town debt and debt service.

The Town Manager’s recommended FY25 Capital Improvement Plan (CIP) projects a total of \$242 MM.¹ Total FY24 CIP requests were \$67.6MM.² This unprecedented increase in requests will also result in new record setting debt. The size of new debt will depend on the timing and approval of capital projects.

The FY25 - FY29 capital plan estimates reflect the increased costs resulting from inflation and higher interest rates. These costs will ultimately be borne by Fixed Costs debt service.

Here are the estimates for the FY25 - FY29 capital plan compared with the FY24 - FY28 plan:

	FY25 - FY29	FY24 - FY28
General Fund	\$ 263,031,463	\$ 223,530,432
CWMP	\$ 431,879,000	\$ 293,350,000

It should be noted that Fixed Costs debt service does not include all of the Town’s long-term debt. It includes repayment and interest on debts of departmental General Fund capital projects³ and those incurred through debt exclusion approval. It does not include debt service of Enterprise Funds or bond issues paid by the Community Preservation Fund [CPF]. Debt service for Enterprise Funds is repaid through revenues, reserves, and grants to each respective Enterprise Fund. The CPF is a special revenue fund and pays its own debt from surtaxes that are added to the Town’s real estate tax bills.

Depending on future CIP requests and approvals, Town Council decisions about a debt exclusion referendum, and subsequent municipal bond issues, both the cost of debt service and total fixed costs will increase.

¹ Town of Barnstable Fiscal Year 2025 Capital Budget and FY25-2029 Capital Improvement Plan, p.44.

² Town of Barnstable FY24 Capital budget and FY24-2028 Capital Improvement Plan, p 43.

³ Administrative services, police, marine & environmental affairs, community services, public works, and schools

Conclusion

Future increases in employee benefits and debt service will increase the total fixed costs budget and decrease the General Fund budget available for municipal and school operations.

The timing and amount of long-term debt incurred and resulting debt service will depend on critical fiscal policy decisions by the current Town Council. Financial and economic circumstances have changed substantially in the last two years. Important changes have included: the economy in general, inflation, interest rates, and local housing availability and costs. It may be time for the Town Council and Town Administration to revisit their 2022 fiscal policy re-evaluation and make adjustments for the changes that have taken place. CFAC believes that updated fiscal guidelines and policies will provide more accurate parameters to plan for the debts and repayments that lie ahead. CFAC encourages a fiscal policy re-evaluation as soon as is practicable. CFAC is ready and willing to help with the process, as it did two years ago.

Additional comments on debt service are included in the Looking Ahead section of this report.

LOOKING AHEAD

Comprehensive Wastewater Management Plan (CWMP)

For the foreseeable future, the Town's primary financial challenge will be the funding of CWMP. It will be the biggest capital project in the history of the Town of Barnstable and is expected to take 30 years to complete. Forecasting costs over the life of any 30-year project with so many components and variables is impossible. As a result, the Town focuses on projected CWMP budgets over rolling five-year periods. The cost of CWMP over FY25-FY29 is expected to exceed \$430MM. This five-year budget will be updated at least annually as part of the Town's annual budgeting process. CWMP will span many local and national economic cycles, many Town leaders, and generations of property owners. Its impact will be positive, profound, and long-lasting.

CFAC expressed its support for a sewer assessment and a debt exclusion override in its CWMP Financial Management Plan Report (January 25, 2021) submitted to Town Council and the Town Manager. A sewer assessment of \$10,000 was approved by the Town Council in 2021, but a sewer assessment and a debt exclusion override will defray only part of the cost of this project; hence, Town Administration and Town Council face the challenge of establishing the basic financial and public works foundation to ensure its stability and success.

Finance Director Mark Milne created a model of assumptions and funding sources for CWMP to measure the financial impacts of various fiscal policy options. The model has the capability to show the impact on total funding requirements of any funding source or assumption changes. CFAC believes this is an invaluable model in projecting and adapting to the inevitable changes in funding sources and/or assumptions that will arise over the course of this 30-year project.

Current CWMP revenue sources include:

- 33.3% of traditional lodging tax and 100% of local meals tax. If the other 66.7% of the rooms tax were redirected from the General Fund, it would affect the operating budget.
- 100% of short-term rental tax.
- The Cape Cod & Islands Water Protection Fund.
- Low interest loans through the State's Revolving Loan Fund program and Town bonds can be issued at reasonable interest rates, given the Town's AAA rating.
- General Fund.
- Sewer assessments.
- Sewer use charges from new customers connected to the system.

CFAC had previously suggested a Water Infrastructure Investment Fund (WIIF) and local tax on real estate transfers as sources of funding for CWMP. Estimates of potential WIIF revenue would be about \$4MM annually, which realistically would only address a small portion of the total CWMP budget. The

local tax on real estate would require legislative action, a long and time-consuming process. A property tax override, which requires a referendum, is increasingly likely given the magnitude of the project and the impacts of supply and labor inflation on the cost of the project.

That said, prudent and considered management of the Town's budgets and finances has obviated the need for a debt exclusion override to fund the CWMP budget in FY25. However, the issue of an override likely will be "on the radar" beginning in FY26, due to the scope of the CWMP and its associated costs.

Staffing

All departments – not just the DPW and Police – have been challenged by recruitment and hiring of staff, a nationwide problem not unique to the Town of Barnstable or the northeastern United States. The competition with private companies and other public entities for staff has made it more difficult to attract and retain municipal employees. While businesses often pass rising costs along to customers, most governments do not have that option. The cost of housing on Cape Cod also adds to the challenge of hiring entry and junior level staff. The current competitive labor market and sharp increases in wages will likely make it necessary for departments to adjust their salary levels to successfully recruit quality staff. As described above under Fixed Costs, the Town's decision to cover 70% of employee health insurance premium costs should help the Town compete for talent in all departments, but it likely will not be enough on its own.

Inflation and Interest Rates

The impacts of higher interest rates and inflation have a multi-faceted impact on the Town's finances, including an increase in the cost of borrowing and an increase in the level of costs of everything from supplies to external contracts to Town employee salaries. Inflation has defied expectations and remained stubbornly high over the past year, and Town leaders will need to continue to assess the impacts of higher interest rates and inflation levels on the Town's overall budget in their role as stewards of the Town's operations and finances.

Water

Because water is the critical source of Barnstable's existence and vitality, it continues to be a priority in the Town's operations and budgets. In addition to CWMP, the Town expends resources to maintain the quality and supply of our drinking water and mitigate pollution of our estuaries, ponds, lakes, and rivers. Our water and its quality are essential for both the Town and Cape Cod. Consequently, this important issue will require substantial attention by the Town for years to come. CFAC remains ready to help with research, analysis, and recommendations, whenever requested by Town Administration or Town Council.

ACKNOWLEDGEMENTS

CFAC would like to thank Town Finance Director Mark Milne, Deputy Director of Finance for Municipal Operations, Gareth Markwell, and Deputy Director of Finance for School Operations, Chris Dwelley for their advice and invaluable assistance in the creation of this FY25 Operating Budget report. CFAC also would like to acknowledge the time spent with us by leaders of the DPW, Police and School departments; their engagement, candor and transparency greatly assisted CFAC in the preparation of this report and resulted in a higher-quality analysis.