

Financial Policy Review

CFAC Discussion

Tax Levy

Question - Should the Town proceed with developing FY 2022 budget with the assumption that the base levy will increased by 2.5% plus new growth?

CFAC:

1. Yes, taxpayers appreciate predictability of steady increases rather than spikes.
2. Has the Town ever carried forward the annual increase? If so, what was taxpayer reaction?
3. A consistent, steady flow of tax monies is beneficial to managing a complex municipal budget such as Barnstable's. Given all the priorities faced by the Town and its residents, it is sensible to increase the levy by the permitted 2.5% per year plus new growth.
4. I strongly recommend that the current policy be continued. A deviation will bring forth a quagmire of exhausting explanations. It also will trigger that the new reduced base tax levy become the "new Norm" e.g., going from 2.5% to perhaps 2.0% or less will in the long term put fiscal restraints on the Town's ability to provide services. The T. o B. has very limited additional opportunities for new growth (There are not any more vacant buildable lots) which could offset a reduced tax levy. Leave it as is.
5. I would suggest avoiding tax spikes and keeping things as stable as possible. In the case of the potential one time hold on the 2.5% levy increase, it would provide the Town with solid rationale for holding expenses flat or making reductions, bu the overall disruption of make it up in a spike year is not worth that.

Residential Exemption

Question - Will the Town Council hold with the 20% exemption or does it want to consider changing it?

CFAC:

1. The percentage of the exemption should remain an annual determination by Town Council.
2. Year-round residents who reside in moderately priced homes – i.e., less than \$1.135 million in value – are the lifeblood of Barnstable. Given the pandemic and accompanying economic upheaval, I think the Council should seriously consider raising the 20% exemption, with a view toward shifting more of the tax burden to seasonal homeowners, who are more likely to be able to shoulder it.
3. I encourage the current policy of a 20% exemption to remain. It has been in effect since 2006 (aprox. 15 years) and is expected by the year round residents. The idea is to shift the tax levy between residents and nonresidents. It is an accepted practice. There is the consideration of the split tax levy on the business community. Currently they are being hit the hardest, and every opportunity to provide some relief should be reviewed.

General Fund Resource Allocation – Operations vs Capital Program

Question - Should the amount allocated to the capital program be increased? This would come at the cost to the operating side of the General Fund.

CFAC:

1. Depending on economic recovery, TC should decide minimum of \$1.9 million or more to Capital Trust Fund.
2. For years, CFAC has recommended increasing the Capital Trust Fund and continues to support this position, realizing that annual revenue will be the key determinant to increased contributions to CTF.
3. Notwithstanding the significant capital needs of the Town, the current fund and its funding formula seem about right. Increasing the allocation beyond the 2.5% annual amount does not seem to be called for.
4. The obvious answer is” yes // sure” with all the major capital needs currently facing the Town “go with the flow”. However, the flip side is that operating costs are also increasing. eg insurances, retirement, bonds, labor contracts, increased cost for maintenance due to inflation, and supply and demand for materials and labor. Perhaps some thought to a reallocation of new growth. Currently there are about nine (9) or ten (10) new major development projects under review or already started. Four (4) are business, and the rest are larger residential developments. Instead of all of this new growth being split between the Town and the School, allocate a sizable portion to the Capital Trust Fund. This new growth is short term (here and gone) and the CTF has the most urgent need for these new available revenues as these developments are completed.

Capital Program

Question - Should the Town establish criteria to identify projects that should be funded from a property tax override? Criteria could be based on a dollar threshold for larger projects, a catch-up on deferred maintenance or the construction of a new asset.

CFAC:

1. Yes, should identify projects funded from property tax override, such as CWMP. The long-range project for sewers should be a priority.
2. What about bond issues for some of the larger projects?
3. Has the Town ever used the debt exclusion option to fund capital projects? Under what circumstances would the debt exclusion option be selected in place of the property tax override?
4. Funding projects through a property tax override should not be utilized except in very rare and severe circumstances. The Town should be managed within the confines of the 2.5% annual permitted tax increase.
5. There is only one major project (sewer and simultaneously road rebuilding) which is of concern to the entire Town of Barnstable. Currently the size of the project is \$1.1 billion and “growing”, and there is no assistance from the state or federal government. The T of B. cannot pay for this project with the current source of revenue. The override is the only currently known alternative. The sewerage of the Town must occur, and with it the rebuilding of all of the Town’s road infrastructure.. While there are other major worthwhile projects, they may favor one Village over another eg., Hyannis Water with its major infrastructure costs (old pipe 100 years and older, and major contamination caused by the Barnstable Fire Academy) that require new wells and additional filtration treatment(s) etc.
6. What percentage of the budgeted funding does the CTF represent? Should CTF be increased if it

has a potential impact on operations?

7. Need to establish criteria for projects to be funded through overrides. Criteria would provide taxpayers with information on critical projects. When options are selection that diverge from general practice, we need to have extreme transparency.

Revenue allocation for General Fund Programs

Question - Should the FY 2022 GF operating budget be developed using the same revenue allocation approach or changed?

- The Town could use a similar approach to the capital program in which additional spending requests would be prioritized for funding after fixed costs increases within the OB are provided for.
- The current “fixed costs” category could be allocated to departments first to have a fully allocated budget before new revenue growth is allocated.

CFAC:

1. 60/40 split after new revenue growth covers cost in fixed costs of GF expenditures. In its fiscal policy review, CFAC recommended looking at the possibility of changing the 60/40 split.
2. Looking at different allocation approaches might generate healthy discussion and new ideas.
3. This seems to be sensibly designed and should be continued in developing the FY 2022 General Fund operating budget.
4. The current 60/40 tax split does need some review. There will be years in which the Town will need greater financial assistance and times when the School’s will need help. I would suggest there be more flexibility based on actual need, enrollments, and long term infrastructure planning.
 - As an example, if the split were 50 /50 from the standard revenues and a 60/40 split from new growth up to a given plateau, with the balance going to the CTF. Schools do enjoy substantial money from Chapter 70 funding, which if added to the 50/50. In addition, some of the new growth revenues should be able to cover their operating expenses. This also would cause them to be more frugal in prioritizing their expenditures.

Fund Balance Policy

Question - Should the Town continue using General Fund surplus to balance the operating and capital budgets as long as the amount used does not require the use of the Town Council's reserve?

CFAC:

1. Could this be further explained?
2. Has Town Council ever used this reserve?
3. Does the reserve keep growing, if it is not used?
4. Can this fund be used as a rainy day fund for department operations in the vent of economic slowdowns?
5. The use of General Fund surpluses to balance operating and capital budgets works well and should be continued.
6. I suggest that the Town continue to adhere to the current process. I would like the Town Council “Reserve” to increase by \$1.0 Million (from \$6.0 to \$7.0 million). The unexpected costs related to any of the many needs (natural disasters, unforeseen liabilities, New Public Safety Guidelines, the new Health needs, etc.) We are entering into a new phase in life caused by this pandemic. I also believe that while our bond ratings are excellent, the additional \$1.0 million in Reserves will

provide further enhancement. There are also some very major projects on the horizon in which there may not be immediate adequate funding (cash available) to handle on an ASAP basis.

Enterprise Fund Subsidies

Question - Should Enterprise Funds under DPW continue to be required to cover full costs or should they be treated like other enterprise funds and provided a GF subsidy when determined appropriate?

CFAC:

1. Sewer, water, and solid waste enterprise funds. All are critical. Can the Sewer Enterprise Fund be financed by CWMP?
2. Can short-term rental tax be sufficient to support water enterprise fund?
3. What will be the effect of the recently Planning Board approved proposal to recognize short-term rentals as an allowed use of residential dwelling... if it approved by Town Council?
4. Will the other enforceable proposal for required registration with Inspections and life safety standards have any compliance problems?
5. TC should determine the level and frequency of subsidizing specific Enterprise Funds and their indirect costs.
6. DPW enterprise funds. These funds deliver benefits for the entire population of Barnstable. For this reason, they should be provided General Fund subsidies when needed.
7. The major discussion point being made when these enterprise funds were created, was that they would be self-sufficient, "pay for what you need and use," better operational efficiency, being able to adapt more quickly to immediate changes, etc. However, there are and will be some exceptions in which the cost for the required project is greater than the ratepayer can handle. This would be on a one on one request, and the T/C would need to determine the appropriateness of the request..

Comprehensive Water Management Plan

Policy decisions needed include:

- How will the Town differentiate General Benefit Facility costs from specific Benefit Facility costs?
- What assessment method will be used for allocating those costs?
- What limit, if any, will be set on the maximum amount for a sewer assessment? Will it be a dollar cap or a percentage cap?
- What interest rate will be charged on sewer assessments?
- What amortization period will be used for sewer assessments?
- When will a property abutter be required to hook up?
- Will bond amortization be authorized beyond 20 years?
- Will the GF contribute to the program? If so, how much and mechanism will be used?
- Will a Systems Development Charge be included?
- Should the Town pursue special legislation to create a revolving loan program? What would be the amortization period and loan rate?
- Should the Town administer a sewer construction program?

CFAC:

1. To what fund does 2/3 of local room's tax go?
2. This issue is so important, we need to discuss each item in detail
3. How will Town Council determine the best way to finance CWMP?

4. Executing this plan must be considered the top public policy priority for Barnstable in the coming decades. The policies must be designed and implemented to ensure maximum public compliance. Abutters must be required to hook up but should be able to take advantage of the Town's ability to borrow at very low rates. General Fund monies must be made available to support the CWMP.
5. This project will be a "bear" to manage, and the Town must recognize that the sewerage of the Town will take more than 50 years to complete. The numerous questions asked should have its own special 2 or 3 meeting time to discuss it thoroughly in depth. I also believe we do not have enough information to adequately answer all of these questions at this time.
6. We have to whatever is necessary to make reasonable funding available to keep CWMP on track. This means that creative ways of redirecting and/or raising revenue have to be considered.

Community Preservation Fund

Question - Should the Town consider redirecting a portion of the CPF surtax to another priority?

CFAC:

1. What are examples of other priorities and other urgent matters?
2. Is the CPF revenue from property tax surcharge used entirely each year? If not, does it accumulate? Given the CWMP and other more-pressing priorities facing Barnstable, the Town should consider redirecting some CPA surtax revenues to other programs. However, CPA funding for community housing should be maintained at its current levels.
3. To date there has not been any request for funding for any "serious" projects other than those designed by the Act. There is some pressure for more financial assistance from the CPA to aid in Historic Preservation, Community Housing and Open Space than is available. Additional funds which will become available from the Landbank Program Bonds in 2023, will easily be absorbed with latent demand from projects designed by the Act. However, in anticipation that the CPA will be ending with a substantial surplus, an ad hoc Committee should be established to provide guidelines for this "situation" if necessary for the future. Proper Prior Planning Provides Proven Performance.

Municipal Purpose Stabilization Funds

Question - Should the Town consider creating a stabilization fund through additional property taxing authority?

CFAC:

1. What are the pros and cons of establishing a stabilization fund through additional property taxing authority?
2. What is the most feasible option to increase the balance in special purpose stabilization fund?
3. These are solid programs that encourage the Town to plan long-term. They should not, however, be used as a backdoor vehicle to raise additional property tax revenue above that allowed by Prop. 2 ½. Property tax overrides are only to be used in exceptional, extenuating circumstances.
4. This is a unique financial tool readily available to local town government. The examples given are Vineyard Wind and the use of revenue from "Short Term Rentals." Both show the residents of futuristic financial thinking, and trying not to seek revenue from the residents. I do not think there should be consideration at this time to create a unique Proposition 2 ½ override. Once approved the Town Council can continue this tax and change how it is appropriated from year to year.