

# **Town of Bourne**

## **Finance Committee Report**

for the

### **Annual Town Meeting**

**June 29, 2020**

at the Bourne High School Jackson Field

7:00 PM

#### **Finance Committee Members**

Mary Jane Mastrangelo, Chair  
Michele W. Ford, Co-Vice Chair  
Renee Gratis, Co-Vice Chair

Amanda Bongiovanni  
Judy Flynn  
Rich Lavoie  
Kathleen Legacy  
George Smith

James Sullivan  
Aaron Tobey  
William Towne  
Robert Wheeler

*Based on Information Available to the Finance Committee as of  
June 2, 2020*

## **Introduction**

It is the Finance Committee's primary responsibility to advise Town Meeting on warrant articles and to give a report stating an opinion of agreement or concern regarding the proposed budgets, which include operating budgets and capital outlay. In addition, the Finance Committee often comments on general issues surrounding the budget, and this year is no exception.

This year the Board of Selectmen and Finance Committee met jointly with department heads to review department budgets beginning in February. After the Governor's Public Health COVID-19 restrictions of public gatherings the meetings were suspended and Town Meeting was delayed. Finance Committee meetings resumed on May 11, 2020 via ZOOM. The Board of Selectmen posted meetings to attend these Finance Committee Meetings and three members of the Board usually participated. The Town Administrator, Finance Director and department heads appeared before the Finance Committee to discuss their budgets. The Finance Committee independently determined its support or opposition to any or all parts of the Selectmen's budget and will communicate the Committee's recommendations to the Town Meeting. The Finance Committee met with groups, individuals, and committees that are either sponsors of articles or whose activities have a financial impact on the Town.

COVID 19 restrictions have resulted in the limitation of articles to be considered at the Annual Town Meeting to articles that are deemed essential to the function of the Town. Uncertainty as to the economic events has limited the Capital Outlay Committee's recommendation on Capital Outlay items. Economic impacts of COVID-19 will be a concern over the next few years.

This report is intended to give voters a summary of the overall financial condition of the Town with comments on what we see as the fiscal issues facing us today as well as in the future. It includes a discussion of following financial data: Sources and Uses, Free Cash Analysis, FY21 Capital Plan, and a Long-Term Financial Plan. This report is based on information available as of May 25, 2020.

## **Overview of FY21 Budget**

In a continued effort to keep the Town on a solid financial footing the Finance Committee has examined the budgeting trends and has compared the increase in revenue to the increase in expenses with the goal of keeping the increases in revenues and expenditures in line, looked at the use of free cash for the budget this year compared to last year, and reviewed whether the proposed budget is within financial policy guidelines.

**Revenues:** FY21 Projected General Fund Revenue is \$76,245,433.

**Expenditures:** The Proposed General Fund Expenditures for the 2020 Annual Town Meeting are \$77,248,138.

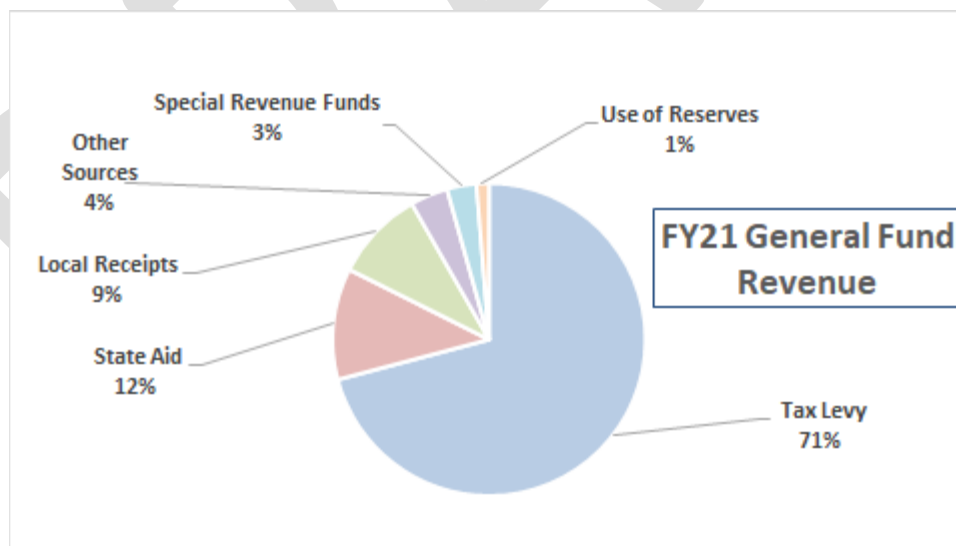
**Free Cash:** The proposed FY21 General Fund Expenditures exceed Revenues by \$1,002,705. The Town will use \$838,464 of Free Cash as a Revenue to balance the budget and \$164,241 for other articles. This is a 34.93% **decrease** in the use of Free Cash for the Operating Budget. This is a positive trend as the use of Free Cash to balance the budget should be avoided.

## FY21 General Fund Revenue

The major categories of Revenue to the Town are the Property Tax Levy, State Aid, Local Receipts (Excise Taxes, Marinas, Licenses and Permits), Other Sources (ISWM and Sewer administrative fees and the ISWM Host Community Fee), and Special Revenue Funds (Ambulance, Waterways Fund, CPA Fund, and PL874). All of these sources of revenue are itemized in Sources & Uses in the Voter Handbook.

For FY21 Total General Fund Revenue increased 2.5% and Use of Reserves for the operating budget decreased. Overall Revenue including the use of Free Cash increased \$1,289,160 or 1.70%.

The Property Tax Levy continues to be the largest source of Revenue followed by State Aid and Local Receipts.



The FY21 Property Tax Levy will increase \$1,918,281 or 3.63%:

- The Proposition 2 ½ allowance increase is \$1,703,813.
- There is a decrease in New Growth (investments in property that increase the property valuation of the Town) which is estimated at \$450,000.

Sources and Uses shows that the estimated revenue from State Aid has stayed the same as FY20. At this time State Aid is the most uncertain revenue source for FY21. The Mass Taxpayers Foundation has estimated that the state of Massachusetts will lose approximately \$6 billion in tax revenue due to COVID-19. The timeline for the development of the state budget is uncertain and is also dependent on decisions at the Federal level about aid to states. Although preliminary estimates for state aid showed an increase in state aid, the Town is not relying on an increase for the FY21 budget.

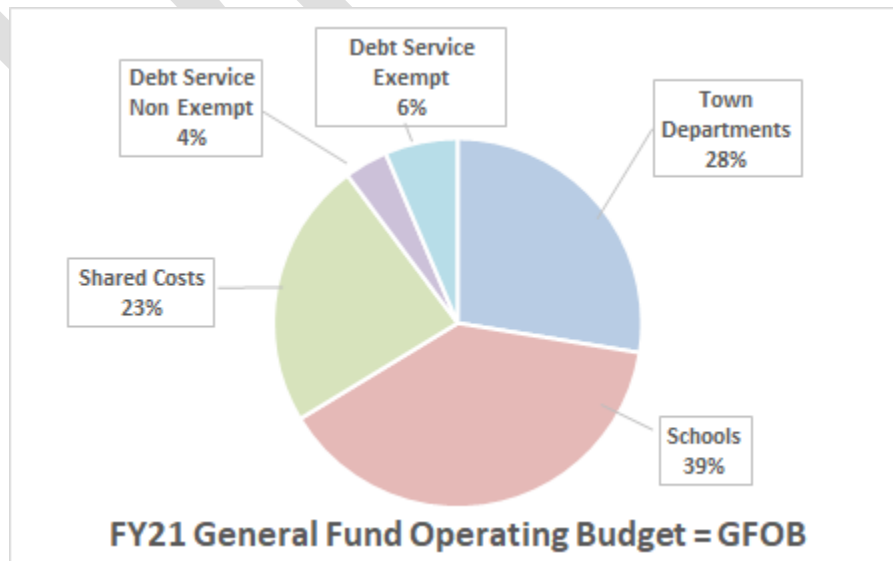
Overall Revenue from Local receipts is expected to decrease \$108,896. Estimated Decreases include: Motor Vehicle Excise decreasing \$15,000, Meals tax decreasing \$50,000, Other department revenue decreasing \$25,000 and Investment income decreasing \$50,000. Estimated increases include Meals Tax increasing \$24,000 and Penalties and interest increasing \$6,104.

Most other Revenue sources are level funded or have small increases.

One Special Revenue that should be noted is Ambulance Fees. The use of Ambulance Fees to support the operating budget is level funded at \$1,325,000. Revenue from Ambulance Fees is expected to increase due to an increase in Ambulance Fees, however, the increased revenue will be targeted to support the purchase of ambulances rather than the support of the operating budget.

More details on General Fund Revenues are shown in Sources and Uses of Funds in the Voter Handbook

## **FY21 General Fund Operating Budget (GFOB) - Annual Town Meeting Article 2**

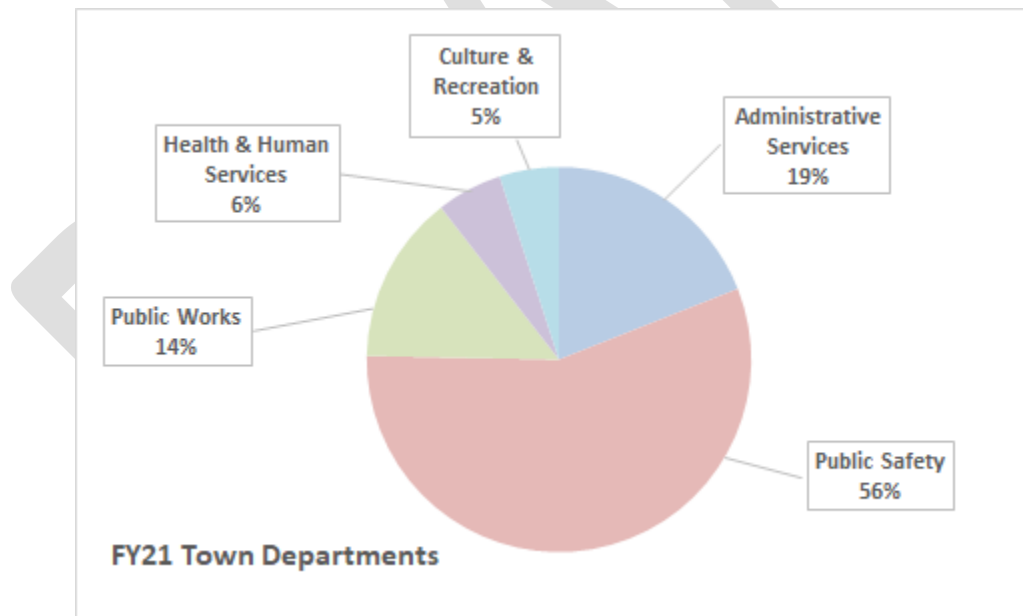


The largest General Fund Operating Expenses of the Town are the Town Departments at 28%, Schools at 39% and Shared Costs for Insurances, Pension and Utilities at 23%. Other General Fund Expenses include Exempt Debt Service at 6% and Non-Exempt Debt Service at 4%.

### Town Department Services

Town Department Services which are 28% of the total budget include:

- **Public Safety:** Police, Fire, Inspections, Emergency Preparedness and Natural Resources (DNR).
- **Administrative Services:** Selectmen, Town Administrator, Employment Services, Finance (Assessors, Collectors, Accounting, Treasurer), Audit, Legal, Town Clerk, Elections & Registration, Conservation, Planning, Engineering, Economic Development, Postage, Facilities, and miscellaneous committees.
- **Public Works:** DPW, Snow and Ice and Street & Traffic Lights.
- **Health & Human Services:** Board of Health, Council on Aging, Veterans Services, Memorial Community Building, Human Service Organizations.
- **Culture & Recreation:** Library, Recreation, Historical Commission, Archives Committee.



Public Safety is 56% of the Town Departments budget followed by Administrative Services at 19%, Public Works at 15%, Health and Human Services at 6% and Culture and Recreation at 5%.

Salaries in Town Departments decreased \$57,032. This decrease is primarily due to a reduction in the Town Administrator salary line item (two salaries were paid from this

line item in FY20), the elimination of the salary for an Economic Development staff person, and reduction in the salary line for the building inspector.

The need for additional personnel in the areas of Human Resources and Facilities has been discussed for several years. These positions are not included in the budget.

Expenses in Town Departments increased by \$62,721 which is a 1.42% increase. There were increases in some line items and decreases in other line items. Overall, there were no significant changes in expenses. The Snow and Ice budget of \$338,000 is level funded in FY21.

It should be noted that there have been reductions in the Economic Development budget including support of Canal Chamber of Commerce advertising and the Sagamore Visitor Center. There have also been reductions to the Human Service Organizations including VNA (Cape Cod Visiting Nurse Association), Gosnold and the Food Pantry. While these reductions are small in terms of the overall Town Budget, the reductions can have an impact on the services that these organizations can provide. Many towns are increasing their budgets for the Visiting Nurses in anticipation of increased need services if COVID-19 stays active in the coming year.

## **Education**

Education represented the largest budget increase in FY21 at 4.26%. The Upper Cape Tech Assessment to the Town of Bourne increased 18.81% and the Bourne Schools Budget increased 2.51%.

COVID-19 has presented new challenges to education including remote education, how to plan for opening schools, what transportation and sanitation will look like are all under review and subject to requirements that will be instituted by the state and Board of Health. As a result, the school budgets are based on the pre-COVID-19 requirements and adjustments will most likely need to be made as requirements are identified.

## **Bourne School Department**

The Bourne School Department budget request from the Town for FY21 is \$23,944,555 which is a \$587,148 increase or 2.51% over FY20. It should be noted that the actual budget for Bourne Schools is \$3,652,522 higher than the budgeted amount. There are offsets from Federal/State Grants, Revolving Funds (Transportation Fees and Athletic Fees), Military Mitigation, School Choice Incoming Tuitions and Special Education Circuit Breaker that are received by the School Department and reduce the budget paid by the General Fund. The Town also receives Chapter 70 State Aid for Bourne Schools which is estimated to be \$5,215,213 in FY21.

The new Bourne Intermediate School opened at the start of the 2019 – 2020 school year. The schools are grade span schools. Bournedale Elementary houses grades Pre-K – 2,

Bourne Intermediate School houses grades 3 – 5, the Bourne Middle School houses grades 6 – 8 and the Bourne High School houses grades 9 – 12.

### **Off Budget Expenses and Revenues for Bourne Students Education**

Off Budget Expenses occur when students from Bourne choose to attend Charter Schools or use School Choice to go to a school in a different Town. Off Budget Revenues occur when students from another district choose to attend Bourne Schools. There are a number of Bourne students who choose to attend Charter Schools or choose to attend schools in other districts. There are also students from other districts who choose to attend Bourne Schools.

These choices result in Receipts and Assessments for School Choice and Charter Schools that are not in the School Budget but are included in State Aid Revenue and State Aid Assessments on the Cherry Sheet. State aid and assessments have not been finalized and for budgeting are estimated based on the FY20 actual amounts rather than preliminary FY21 Cherry Sheet. These estimates are subject to change and could have an impact on the final budget.

It is important to fund education to be competitive with other public education alternatives available to students including Charter Schools and School Choice. Bourne currently maintains a positive balance on School Choice receiving more students into the district than it sends out. For FY21 budgeting purposes it is estimated that the Bourne Schools will receive \$1,085,903 in School Choice Receiving Tuition and \$883,574 will be paid to Bourne in School Choice Sending Tuition. The net School Choice Tuition is positive and it is important to maintain this positive balance.

There are also a number of Bourne students who choose to attend Charter Schools. For FY21 budgeting purposes Charter School Sending Tuitions for Bourne students attending Charter Schools are estimated at \$2,361,746 and Charter School Tuition State Aid Reimbursement received to help offset the tuitions is estimated at \$201,944. Both have been level funded while the State budget is being determined. As in prior years, the increases in tuitions assessments have been higher than the increases in reimbursements which has a negative impact on the net state aid. At this point the Cherry Sheet has not been finalized and the final impact of Charter Schools on FY21 State aid is yet to be determined.

### **Upper Cape Tech**

The Upper Cape Tech assessment increase is a major impact on the Town's budget.

The Upper Cape Cod Regional Technical School's budget of \$15,566,251 is a 3.98% budget increase. However, the assessment to Bourne is \$3,337,063 which is \$528,343 higher than the FY20 assessment and represents an 18.81% increase over last year. The major factor in the increase is the number Bourne students attending UCT. Of the 742

students attending UCT there are 185 students from Bourne which is an increase of 28 students over last year. The assessment formula includes several factors including the number of Bourne students at Upper Cape Tech, the total number of students in the Town of Bourne, property values, per capita income, and state aid. It should be noted that shifts in student enrollment have a major impact on the assessment to the Town.

The assessment increase for UCT is much higher than the budget increase for the Bourne Schools, and the number of Bourne students attending UCT is the major factor in the assessment increase.

Upper Cape Tech offers an important educational option for Bourne. It is an excellent school and provides important technical education for students. There are, however, budget impacts based on the number of students attending that can be difficult for the Town to project and to absorb.

### **Overall Education Comment**

We are challenged by our moral responsibility to provide a standard of education that provides our students the opportunity to compete in an ever more complex world market. Overall, our school-age population is declining, while the unfunded state and federal mandates continue. The challenges posed by the demands to provide a high-quality education, meet performance expectations as measured by mandated test scores, keep pace with the changing demographics of our school age population, and do it all cost-effectively, are complex.

### **Shared Costs**

Shared Costs are town-wide expenses that are not the responsibility of any one department. These items include electricity cost and employee benefits such as group insurance, pension and OPEB (other post-employment benefits).

#### ***Public Utilities – Electricity***

The Sources and Uses Public Utilities Shared Costs category is for the solar energy contract that was implemented in FY16. The estimated total cost of electricity has been reduced \$33,140 to \$1,200,000. These costs are offset by \$700,000 Energy Credit Revenue for an estimated net Electricity cost to the Town of about \$500,000. Given the rising cost of electricity this arrangement has been beneficial to the Town.

#### ***Group Insurance***

The FY21 cost of Group Insurance is \$8,644,035 up \$251,768 or 3.00% over FY20. Group Insurance includes health, life and dental insurance. This budget represents about 12.28% of the Town's budget. Both the increase in the budget and the percentage of the total General Fund Operating Budget are consistent with FY20.



Group Health Insurance at \$8,450,000 is the major expense in this category and represents 12% of the Town's budget. The Group Health insurance line item includes the cost of group health insurance for active teachers and town employees as well as retired town employees. As of April 30, 2020, there were approximately 370 active employees and 475 retired employees covered in the Group Health Insurance plans.

The Town self-insures for health insurance and our increases in group health insurance have been lower than the increases faced by many surrounding towns. The Town Administrator and Treasurer monitor the monthly expenditures, trust fund balances, and compare costs of our insurance plan with other available plans. Long term trending projections on Group Health Insurance should be monitored as statewide projections indicate that the cost of Group Health Insurance is expected to increase and become a larger percentage of the budget over time.

In addition to the group insurance budget line item in shared costs, there is an assessment on the Cherry Sheet for the cost of health insurance for retired teachers which is estimated at \$1,017,451 for FY21.

### ***Pension Liabilities***

Most Town employees are covered in the Barnstable County Retirement system. In FY21 the Town will pay \$4,156,230 to the Barnstable County Retirement system. This is an increase of \$359,283 or 9.46% over FY20. The Barnstable Retirement System is funding both accrued liabilities from prior years as well as current pension liabilities. 5% increases are planned by the Retirement Board each year in order to fully fund the accrued Pension Liability by 2036 at which time only the current liabilities should require funding. The resulting increase to Bourne can be higher than 5% based on other factors.

### ***Other Post-Employment Benefits (OPEB)***

Other (than Pension) Post-Employment Benefits (OPEB) is a liability that the Town needs to fund on an annual basis in order to provide for the future health, dental and life insurance benefits for retired employees.

The FY21 Shared Cost budget includes \$163,702 to fund the OPEB liability in accordance with the Financial Policy of funding the prior year OPEB budgeted amount of \$110,199 plus \$53,503 which is 10% of the prior year's amended actual new growth of \$535,032.

### **Debt Service**

The Town has two types of debt Service obligations: Non-excluded Debt and Excluded Debt.

Non-Excluded Debt is the debt service on ongoing Capital Outlay borrowing that is paid within the Proposition 2 ½ limits. The non-excluded debt service of \$2,681,613 is a

decrease of 8.12% over FY20. The Town strives to maintain this at a consistent 3 – 5% of the budget in accordance with Financial Policy. Non excluded debt for FY21 is 3.81% of GFOB and is within policy.

Excluded Debt Service is the debt service that has been excluded from Proposition 2 ½ limits for major projects including: the Bournedale School, the DPW Facility, the replacement of Peebles School with the new Bourne Intermediate School and the new Police Facility. The \$226,828 increase in FY21 Excluded Debt Service expense is a 5.3% increase over last year. It is offset by the increase in revenue from the debt exclusion tax levy. This line item has increased over the last few years for the permanent bonding for the Police and the new Intermediate School, but this year’s increase of 5.2% is much less than the 30.5% increase last year.

<b>Excluded Debt Service FY21</b>		
		<b>Estimated</b>
<b>Permanent Bonding Principal and Interest</b>		<b>Final Payment</b>
Bournedale Elementary School	\$653,634	FY32
Community Building	\$249,930	FY23
Community Building Land	\$18,180	FY21
DPW Public Works Building	\$543,738	FY39
New Peebles Elementary School	\$1,577,281	FY39
New Police Station	\$1,444,953	FY40
<b>Total Permanent Bonding Principal and Interest</b>	<b>\$4,487,716</b>	
<b>Temporary Bonding - Interest Only</b>	\$16,996	
<b>Total Excluded Debt Service FY21</b>	<b>\$4,504,712</b>	
Premiums Allocated	(\$63,780)	
<b>Net Excluded Debt Service FY21</b>	<b>\$4,440,932</b>	

It should be noted that there are overall debt and debt service ratios that are of concern for bond rating agencies and that the Town’s financial policies and future borrowing should be reviewed relative to these ratios.

## **General Articles**

### **Annual Town Meeting – Article 1**

This year Article one is a combination of the housekeeping articles that are voted at Town Meeting each year into one article requiring only one vote instead of seven separate votes.

- 1) **Regular Required Authorizations:** Chapter 91 of the General Laws, Road Contracts, Grant Program Authorization, Contracts in Excess of Three Years, Authorize the Treasurer and Town Collector to enter into agreements with banking institutions, Authorize the Board of Selectmen to allocate funds received from Medicaid.
- 2) **Elected Official Salaries:** \$62,347 to fund elected Officials salaries. The Town Clerk and Moderator salaries are increasing 3%. The Board of Selectmen and Chair of the Board of Selectmen salaries are level funded. Overall, the increase for Elected Officials is 2%.
- 3) **Chapter 90:** to appropriate funds received from Chapter 90 State Aid Highway.
- 4) **Reserve Fund:** \$351,900 to fund the Reserve Fund to meet the Financial Policy at 5% of the GFOB (General Fund Operating Budget). This Reserve Fund is appropriated annually and is used during the fiscal year to fund emergency or unanticipated expenses that are not in the budget. A vote of the Finance Committee is required to expend the funds.
- 5) **Revolving Funds:** annual authorization of Revolving Funds including Recreation Programs Fund, Shellfish Propagation Fund, Transportation Revolving fund (School), Public Library Book Fund, COA Supportive Day/Bridging the Years, Council of Aging Programs, Community Building Rental, Tax Title Collection. These funds are set up to receive program fees and to pay program expenses from the fees collected.
- 6) **ISWM Host Community Fee** – an annual vote to transfer funds received from the ISWM Host Community Fees in excess of \$600,000 to the Capital Stabilization Fund.
- 7) **Accrued Contractual Compensated Absences** - \$150,000 to fund costs related to the payment of contractual obligations for compensated absences when certain employees retire.

### **Annual Town Meeting – Article 10**

An article to transfer \$10,000 from Free Cash to the Stabilization Fund to meet our Financial policy.

### **Off Budget Expenditures**

#### ***Cherry Sheet Assessments and Offsets***

These items consist of the Cherry Sheet Assessments that reduce the amount of State Aid received by the Town and Cherry Sheet Offsets that go directly to Schools or the Library.

Cherry Sheet Assessments include: County Tax, Retired Teacher's Health Insurance, Mosquito Control Projects, Air Pollution Districts, RMV Non-Renewals, MBTA, Regional Transportation, Charter School Tuitions, and School Choice Sending Tuitions.

For budgeting purposes these are based on the FY20 Cherry Sheet and may increase or decrease during the state's budget process.

### ***Overlay Reserve***

Overlay Reserve is a reserve fund to cover tax abatements. It is maintained at the level recommend by the Assessors. Since the Municipal Modernization act this is a pooled fund for all years instead of being separately maintained for each Fiscal Year. The Assessors have recommended a reduction of funding of \$295,340 based on the fund balance.

### **Grand Total Operating Expenditures**

The 1.70% increase in total General Fund Operating Expenditures is equal to the 1.70% increase in total General Fund Revenues including Free Cash.

### **Sewer Department Budget – Annual Town Meeting Article 3**

This Article funds the sewage collection and disposal system servicing Buzzards Bay. The Sewer Enterprise Fund receives user fees from Sewer Users in the system that pay system expenses. The proposed operating budget of \$1,106,411 is a 2% increase over FY20. Salaries and Wages are increasing 5.2% and Expenses are increasing 1.36%. The General Fund Administration Fee of \$140,944 is a 4.63% increase. The Reserve Fund is being increased \$50,000 to \$100,000.

Sewer Enterprise Revenues are estimated at \$1,297,355 which is a 6.42% increase over FY20.

Sewer Retained Earnings at the end of FY19 were certified at \$629,554 and \$50,000 of Retained Earnings will be used to support the budget and reduce sewer user fees.

The Board of Sewer Commissions has contracted for a Sewer Rate study. The Board has received a draft report, but as of this time has taken no action on the sewer rate formula.

### **ISWM Budget – Annual Town Meeting Article 4**

The Integrated Solid Waste Management (ISWM) operation is a regional landfill and transfer center. The ISWM Enterprise Fund charges fees to pay expenses. ISWM benefits the Town by paying for the curbside pickup and disposal of our household trash, curbside recycling collection, the cost of the recycling center at the landfill, and disposal of hazardous materials and waste generated by our DPW. Additionally, ISWM pays the Town a Host Community Fee based on the tonnage flowing through the gate.

With the Covanta contract the ISWM business continues to be stable.

The proposed operating budget of \$8,976,805 is an 8.6% decrease over FY20. Salaries and Wages are increasing 6.2% and Expenses are decreasing 12.81%. The General Fund

Administration Fee of \$2,261,996 is a 3.0% increase. The Reserve Fund is being increased \$50,000 to \$100,000.

The Host Community Fee for 2020 is \$3.75 per ton. The Host Community Fee budgeted revenue to the General Fund remains at \$600,000. Excess Host Community Fees in excess of \$600,000 are deposited into the Capital Stabilization Fund to be used for future capital projects. In order to have sufficient budget to cover excess host community fees, the ISWM budget for Host Community Fees is \$900,000.

ISWM Enterprise Facility Receipt revenue is budgeted at \$11,680,771 which is a 1.69% increase over FY20.

ISWM Retained Earnings at the end of FY19 were certified at \$10,645,752 and \$1,058,030 of the Retained Earnings will be used to support the budget. This is a 48.0% decrease over FY20.

The staff at ISWM and the ISWM Business Model Working group have been working with Mass. DEP and the Cape Cod Commission on site assignments to extend the life of the landfill operation.

### **Capital Expenditures – Annual Town Meeting Article 5**

According to our Fiscal Policy, the Town is required to establish and maintain a five-year capital improvements plan and to develop capital financing strategies consistent with our fiscal policies. The Capital Outlay Committee has continued its hard work over the last year, working to deliver on the Capital Plan for the Town. The plan is the basis for the capital recommendations in the FY21 budget is a model for this type of planning in the town, resulting in well-thought out recommendations.

Due to the uncertain economic and budgetary impacts of COVID-19, most of the Capital Outlay Committee's recommended Capital Plan for FY21 has been deferred for consideration in the Fall. After the COVID-19 public health emergency, the Town Administrator reviewed capital requests with department heads and presented a revised recommendation to the Capital Outlay committee in May.

**TOTAL FY21 Capital Requests = \$12, 751,000**

**FY21 Capital Requests recommended for the Annual Town Meeting = \$481,000**

**FY21 Capital Requests deferred to the Fall Special Town Meeting = \$11,453,000**

**FY21 Capital Requests not recommended or indefinitely postponed = \$787,000**

**FY21 Capital Requests Accelerated to an FY20 Reserve Fund transfer= 30,000**

<b>FY21 CAPITAL OUTLAY ITEMS RECOMMENDED FOR 2020 ATM</b>			
<b>DEPARTMENT</b>	<b>PROJECT/DESCRIPTION</b>	<b>AMOUNT</b>	<b>FUNDING SOURCE</b>
<b>Facilities</b>	<b>Fire Station #1 Roof Repair</b>	<b>\$200,000.00</b>	<b>Free Cash</b>
<i>Replace existing roof systems and address leaking roofs and other building envelope intrusion issues at the Buzzards Bay Fire Station. New roofing will improve energy efficiency and reduce the potential for damage and/or health and safety issues. This will replace the entire roof system in one project instead of a multi-year phasing.</i>			
<b>Shore and Harbor</b>	<b>Annual Dredging/Ramp Repair and Improvement</b>	<b>\$200,000.00</b>	<b>Waterways Fund</b>
<i>This is an annual allocation of funds needed to meet the town's dredging needs and to repair and/or maintain the town's public access piers and ramps.</i>			
<b>TOTAL FY21 TOWN AND SCHOOLS for 2020 ATM = \$400,000.00</b>			
<b>SEWER</b>	<b>Pumps and Panels</b>	<b>\$ 56,000.00</b>	<b>Enterprise Fund Retained Earnings</b>
<i>Replace 20 Grinder Pumps and alarm panels that are aging. The aging pumps are not as efficient as new style pumps. These pumps grind waste and then pump the waste into the sewer system and the alarms are audible warnings when the pumps are not working. This is an ongoing replacement for maintenance of the 200 units in the sewer system. Cost is \$2,600 each plus \$200 installation per unit.</i>			
<b>SEWER</b>	<b>Safety Upgrades</b>	<b>\$ 25,000.00</b>	<b>Enterprise Fund Retained Earnings</b>
<i>Upgrade of safety equipment in the aging sewer system for the safety of employees and to meet regulations requirements.</i>			
<b>TOTAL FY21 ENTERPRISE for 2020 ATM = \$81,000.00</b>			
<b>TOTAL CAPITAL OUTLAY FOR 2020 ATM = \$481,000.00</b>			

Total Free Cash utilized is \$200,000  
Total Waterways Fund utilized is \$200,000  
Total Sewer Retained Earnings utilized is \$81,000

The FY21 Capital Outlay Plan and the Five-Year Capital Plan are included in Appendix      in the Voter Handbook.

**Community Preservation Act (CPA)– Annual Town Meeting Articles 7, 8, 9**

The Town adopted the CPA at its April 2005 election, replacing the Open Space Act and allowing the Town to receive matching state funds based on a 3% tax levy surcharge. The provisions of the CPA allow money to be allocated to open space, historic preservation, affordable housing, and recreation. The CPA estimated revenue for FY21 is \$1,817,250.

Under the CPA the Community Preservation Committee has been formed and has made the recommendations found in the articles 7,8 and 9 in the Voter's Handbook.

Article 7 returns funds that were appropriated and not used to the either Historic Preservation Reserves, the Undesignated Fund Balance or Open Space/Recreation Reserves.

Article 8 funds the Community Housing projects for FY21 and transfers unused revenues to reserves.

Article 9 funds the operating expenses of the Community Preservation Committee.

The Finance Committee met with the Community Preservation Committee and reviewed the articles.

## **Reserves and Fiscal Policy**

Our fiscal policy is well documented and has guided the Town for several years. While we have reserves at the Town's policy level, and the numbers seem quite large, it bears reminding that we could spend down all our reserves in 2-3 years' time if we used them to cover the cost of a full complement of services. The Town's reserves help sustain us, as they have in this budget, but use of reserves should be monitored. A trend of increasing use of Free Cash for the budget should be noted as a danger signal of possible future instability. This year the use of Free Cash for the budget has been reduced with the long-term goal of eliminating the use of Free Cash for the budget and using Free Cash only for one-time expenses.

With the uncertainty of the economic impacts of COVID-19 the Town's reserves are very important.

A summary of the Town's reserve accounts and their associated policy guidelines follows:

### **Free Cash Reserves**

Free Cash is the term used for the Certified Unrestricted General Fund Balance of the Town. Free Cash is certified at the beginning of each fiscal year by the Department of Revenue. These funds cannot be spent until certified. Once certified the Cash is "free"

because there are no restrictions on what the funds can be used for and the Town can ask Town Meeting to appropriate Certified Free Cash for any purpose.

The calculation of Free Cash incorporates:

- *surplus revenue*: revenue collections in excess of estimated revenues;
- *budget turn backs*: unexpended appropriations;
- *prior year's free cash*: the fund balance from last June 30 that had not been appropriated for the current year's budget or other expenditures; and
- *outstanding property taxes*: taxes collected from prior years or outstanding

A town's free cash, or "budgetary fund balance," is the amount of funds that are unrestricted and available for appropriation. While towns may appropriate free cash to balance the budget for the coming year, an ample free cash balance provides towns with financial flexibility and provides funds for expenditures after the tax rate has been set. Town Meeting may appropriate from free cash during a given fiscal year to meet unexpected expenses or to fund a needed capital project. Depleting free cash, particularly to balance annual budgets, may suggest that a community will face tighter financial times without such funds to supplement annual revenues. This drawdown on reserves might also have a negative impact on the town's credit rating.

### **Free Cash Financial Policy:**

The Town implemented a new Free Cash Policy in 2015. The new policy has two parts:

1. Under the new policy the Town is to maintain a Free Cash Balance at 5% of the General Fund Operating Budget. The General Fund Operating Budget (GFOB) is defined as the operating budgets of the Town, Schools, Shared Costs and Debt Service. It does not include General Articles, Off – Budget Expenditures, Capital Expenditures or Enterprise Funds. The proposed General Fund Operating Budget for FY21 is \$70,373,266. This year, in order to be within financial policy guidelines, the minimum Free Cash Balance that should be certified as of July 1, 2020 is \$3,424,470 . *The proposed FY21 budget maintains Free Cash at this policy.*
2. To appropriate no more than 50% of the Free Cash balance that is in excess of the 5% policy as operating revenue to balance the budget. *The proposed FY21 budget maintains Free Cash at this policy.*

### **Free Cash Analysis**

At the end of the last fiscal year on June 30, 2019 actual revenue for the fiscal year from New Growth, State Aid and Local receipts was \$340,785 higher than budgeted and actual department expenditures for the fiscal year were about \$1,886,223 lower than budgeted resulting in unspent budgets being turn-backed to Free Cash.



In September 2019, the Mass. Dept. of Revenue Certified Free Cash available to the Town as of July 1, 2019 at \$8,250,807. *Certified Free Cash was within policy and had an excess over policy of \$4,732,144.*

Over FY20 -FY21 it is anticipated that \$2,123,454 of the Certified Free Cash will be used to cover expenses. After the proposed Special and Annual Town meeting expenditures from Free Cash it is anticipated that \$6,127,353 would remain in Free Cash. There are anticipated additional revenues and budget turn-backs that should bring Free Cash higher at the time of certification.

The deferral and reduction of Capital Expenditures has greatly reduced the use of Free Cash in FY20 - FY21. This may be temporary if Free Cash is used for deferred Capital Expenditures at a fall Special Town Meeting.

The detail of Free Cash actual and proposed expenditures is shown on the following chart:

FREE CASH ANALYSIS FY2021 Budget		Free Cash	Free Cash	FY21	Excess over 5%	Policy
		Expensed & Proposed FY20-FY21	Balance	GFOB	of GFOB	Allowance FC for Budget
GFOB = Sources and Uses Operating Budgets plus Debt Service				\$70,373,266		
5% of GFOB				\$3,518,663		
<b>CERTIFIED FREE CASH BALANCE 7/1/2019</b>			\$8,250,807	11.7%	\$4,732,144	\$2,366,072
10/28/19	Article 3 - Supplement Budget	(\$188,500)	\$8,062,307	11.5%	\$4,543,644	\$2,271,822
10/28/19	Article 4 - Unpaid Bills	(\$2,568)	\$8,059,739	11.5%	\$4,541,075	\$2,270,538
10/28/19	Article 5 - OPEB	(\$481,681)	\$7,578,058	10.8%	\$4,059,394	\$2,029,697
10/28/19	Article 7 - Electronic Voting	(\$25,000)	\$7,553,058	10.7%	\$4,034,394	\$2,017,197
10/28/19	Article 13 - Capital Outlay	(\$123,000)	\$7,430,058	10.6%	\$3,911,394	\$1,955,697
10/28/19	Article 17 - Purchase County Land	(\$100,000)	\$7,330,058	10.4%	\$3,811,394	\$1,905,697
6/29/20	Proposed Unpaid Bills	(\$4,241)	\$7,325,817	10.4%	\$3,807,153	\$1,903,577
6/29/20	Transfer to Stabilization	(\$10,000)	\$7,315,817	10.4%	\$3,797,153	\$1,898,577
6/29/20	Proposed Accrued compensated Absenses	(\$150,000)	\$7,165,817	10.2%	\$3,647,153	\$1,823,577
6/29/20	Proposed FY21 Capital Outlay	(\$200,000)	\$6,965,817	9.9%	\$3,447,153	\$1,723,577
6/29/20	Proposed FY21 Operating Budget	(\$838,464)	\$6,127,353	8.7%	\$2,608,689	\$1,304,345
Total Used		(\$2,123,454)				
Note:	This is a simple calculation of the possible increases and decreases to free cash but does not include any year end adjustments done to certify free cash.					

At the end of each fiscal year any appropriated funds that have not been spent are turned back to the general fund and certified as free cash and projected revenues are reconciled with actual revenues.

*Based on the proposed expenditures of Free Cash at this Town Meeting the remaining Free Cash balance will be in excess of Policy.* This is important because the Town has used Free Cash to balance the Budget each year. There should be sufficient Excess Free Cash to balance the next Fiscal Year's budget with about the same amount of Free Cash

used this year even if there is no excess revenue or budget turn-backs that would increase Free Cash.

If there are excess revenues or unspent expenditures it will strengthen the Town's financial position rather than just bringing it back up to policy.

**Stabilization Fund** – policy calls for 6% of the General Fund operating budget (GFOB). This is a “rainy-day” fund which requires a vote of 2/3 of Town Meeting to spend money from this fund. The balance in Stabilization Fund should be \$4,222,396 to meet policy. A transfer of \$10,000 should be made to bring Stabilization to policy. This transfer is proposed in Article 10 of the Annual Town Meeting. *When the transfer is made the Stabilization Fund will be within policy*

**Capital Stabilization Fund** – a fund established to reserve cash for future capital expenditures. Its primary funding source has been ISWM Host Community Fees. As of June 30, 2019, the balance in the Capital Stabilization account was \$875,326. At the Fall Special Town Meeting \$800,000 was appropriated from the Capital Stabilization Fund for the purchase of the County Land including 0 County Road and 100 Julius Drive. As of April 30, 2020, the balance in the Capital Stabilization account was \$82,689.

It is anticipated that about \$300,000 will be deposited from ISWM Excess Host Community Fees at the end of FY120.

**Employer Health Insurance Trust Fund** – policy is to have either four (4) months of average costs or no less than \$1.6 million. The current balance in the Employer Health Insurance Trust fund is \$3,800,000. The average monthly claim charges for the Employer share has been \$640,000 a month so 4 months of average costs would require \$2,560,000. *The Insurance Trust Fund is within policy.*

### **OPEB Trust Fund**

At the end of FY19 the Town had set aside \$2,655,531 in a Trust Fund for this purpose. In accordance with Financial Policy, the Town added \$771,681 to the fund at the Special Town Meeting in the fall of 2020. As of April 30, 2020, the Town had set aside \$3,489,602 in the Trust Fund for this purpose.

This fund is separated into contributions for :

- Retired Town and School Employees = \$2,701,705
- ISWM Employees = \$715,074
- Sewer Employees = \$72,823

*The Town has made significant progress with the funding of OPEB and in recent years has continued to follow the Financial Policy for funding the OPEB Liability.*

Based on the actuarial analysis of Segal Consulting, the total 30-year OPEB liability as of June 30, 2019 was \$107,329,302. This liability is sensitive to both future interest rates and future health insurance costs.

It is expected that there will be warrant article proposed at the Fall Special Town meeting for additional funding for the ISWM OPEB liability, the Sewer Enterprise OPEB liability and 10% of Excess Free Cash to fund the Town's OPEB Liability.

Bond rating evaluations have noted the OPEB liability and the plans for addressing this liability are important for improving the bond rating of the Town.

**Overlay Reserve** – a reserve fund for tax abatements and exemptions which is established and controlled by the Assessors. It is based on an analysis of historic data and specific circumstances such as a recent property revaluation and pending refunds/abatements. Under the new municipal modernization act the reserve does not need to be specific to a tax year. The current balance in the Overlay Reserve Fund is \$1,156,114. The recommended funding for FY21 is \$100,000. *The Overlay Reserve Fund is within policy.*

**Reserve Fund** – an annual Reserve Fund to be spent under the authority of the Finance Committee for unexpected and unforeseen budget needs. For FY21 this is \$351,900, which increases the Reserve Fund by \$6,000. *Funding of the Reserve fund under Article 1 will meet the Financial Policy to budget the Reserve Fund at 0.5% of the General Fund Operating Budget.*

## **Long Term Plan**

The Finance Director and Town Administrator have been working with the Finance Committee since FY06 to refine the long-term financial plan. The Long-Term Projection in the Voter's Handbook is one piece of the long-term planning puzzle. The Capital Outlay Committee's work to establish our needs, priorities, and funding sources is another piece of the puzzle. However, financial planning cannot be done in a vacuum and must include the additional needs of the community, including personnel. A comprehensive plan will allow voters to see the effect of our debt service, structural deficits, changes in reserves, adjustments to the tax rate and state aid impacts.

The Town Charter requires that the Long-Term Plan be included with the Town Administrator's budget message. This is an important change as it means that the budget is viewed not only in terms of the current year financial picture, but with a long-term view as well.

The Long-Term Plan with 5 years of history, the current budget, the proposed budget, and 5 years of projections is included in the Voter Handbook. The Long-Term plan is based on estimated revenues and expenditures for this fiscal year and projections of revenues and expenditures for the next five fiscal years. Although the plan shows there is a structural deficit with expenditures exceeding revenues, it also shows that based on projected revenues and expenditures the Town is on solid financial footing. Projected reserves are shown to remain within policy for FY21 – FY24. Based on the proposed budget and current service levels there should not be a need for an override for at least 5 years. These projections could change if economic conditions change, and the continued monitoring of the long-term plan is important.

The Finance Committee recommends a full review of the long-term planning model in an effort to make it a more useful tool in the financial analysis of the impact of the budget and capital needs over the coming years. The Finance Committee looks forward to continuing work on the refinement of the long-term plan with the Board of Selectmen, the Finance Director, and the Town Administrator.

## **Summary**

The Town of Bourne has benefited from the prior years of fiscal prudence and financial management. Based on the current situation with COVID-19, the proposed budget is very conservative. While it provides the services expected by the citizens, it includes the reduction of the Economic Development initiative of FY20, reduces many expense lines and reduces the budget for human service organizations' services to citizens in the Town. There are critical positions that continue to be deferred. Many long-term personnel have retired and in the coming years more will do so. The Town must plan for an orderly transition before they leave, taking their institutional knowledge with them. Mandated government operations and public safety need to continue to be priorities in order to serve the residents of the Town.

This budget is the result of a thoughtful examination of our town's priorities, as evidenced by where we spend our money. It is our town's values translated into dollars and cents. Managing the Town's Revenue and prioritizing the expenditures in order to provide the services the Town needs most is a continuing challenge for us all.

Respectfully submitted,  
The Finance Committee, Town of Bourne