

Town of Bourne

Finance Committee Report

for the

Annual Town Meeting

May 1, 2017

7:00 P.M. at the Bourne High School

Finance Committee Members

Mary Jane Mastrangelo, Chair
Michele W. Ford, Co-Vice Chair
John Redman, Co-Vice Chair

Judy Conron
Renee Gratis
Rich Lavoie
Kathleen Legacy

Brian Lemée
Karen Meehan
George Smith
William Towne

*Based on Information Available to the Finance Committee as of
April 10, 2017*

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 appointed liaisons to meet with department heads and reviewed the budgets independently. 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 at 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.

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, FY18 Capital Plan, and a Long Term Financial Plan. This report is based on information available as of April 10, 2017.

Overview of FY18 Budget

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

On the positive side:

- Last year the Snow and Ice budget was increased from \$92,900 to \$338,000. This increase has helped reduce deficit spending in that line item this year.
- Group health insurance costs are stable with a 3.8% increase in FY18. During FY16 the Board of Selectmen utilized Sections 21 – 23 of Mass General Laws Chapter 32B in order to negotiate a three year plan design change to the group health insurance that will create savings. The Town still self-insures for health insurance, but these changes have kept increases in group insurance lower than the increases faced by many surrounding towns.
- The Upper Cape Tech budget increased 4.17%, but based on the number of students attending the assessment to the Town of Bourne decreased 1.71%.

Of note:

- The SAFER grant that has provided additional Firefighter/Paramedics will terminate this year. The two year grant period ends in August of 2017, but there is an extension available based on remaining grant funds until December, 2017. This year's budget includes funding salaries/wages of approximately \$114,000 for maintaining four of the SAFER Firefighter/Paramedics in the budget after the grant terminates.
- Several positions are proposed to be added on the Administrative side of the budget. More detail will follow later in the report.
- The cost of dispatch by the County Sheriff's department has increased \$63,000 over the FY17 budgeted amount. For many years the Sheriff's department provided dispatch at no cost to the Town of Bourne based on an agreement when the jail was built in town. In recent years the Sheriff's Department has charged the Town of Bourne for this service. The budgeted amount for these fees has increased from \$125,700 in FY17 to \$189,000 in FY18.
- Storm water mitigation is an issue facing the Town. \$50,000 has been added to the DPW Contracted Services budget to pay for the contracted services for the engineering required for this mitigation.

Revenues: FY18 Projected General Fund Revenue is \$66,999,952 which is an increase of \$2,556,776 or 3.97% over FY17.

Expenditures: The Proposed Total General Fund Operating Budget (GFOB) for FY18 is \$62,115,857 which is an increase of \$2,706,724 or 4.56% over the current FY17 budget. The total proposed expenditures shown in Sources and Uses including \$830,000 of transfers to reserves are \$68,823,227.

Free Cash: The proposed FY18 General Fund Expenses exceed Revenues by \$915,300 and the Town will use \$915,300 of Free Cash to for the operating budget. This is a \$42,785 decrease over the Free Cash used for the FY17 budget.

Fiscal 2018 Budget

Sources and Uses of Funds

Included in the Voter Handbook is a report titled Fiscal 2018 Sources and Uses of Funds. This report summarizes the monies that go into and out of our government and is developed by our Finance Director and Town Administrator. More detail regarding the individual departmental budgets can be found in the FY18 Operating Budget in the Voter Handbook.

Revenues

The FY18 Sources and Uses of Funds shows that total general fund revenues are \$66,999,952 which is a 3.97% increase over FY17. Revenue sources include the Tax

Levy, State Aid, Local Receipts, Other Sources (ISWM and Sewer), and Special Revenues (Ambulance Fees, other revenues).

Except for the Property Tax Levy and Debt Exclusion Levy all Revenues in Sources and Uses are estimates. The Town uses conservative estimates for revenue to prevent a situation where actual revenues are less than anticipated and there is not enough money to pay the Town’s obligations.

Tax Levy

The Town has raised the levy limit by 2 ½% as allowed by Massachusetts state law. In addition to property taxes, the tax levy revenue includes new growth, debt exclusions and revenue from the Cape Cod commission tax. The following table provides a history of our tax levy history:

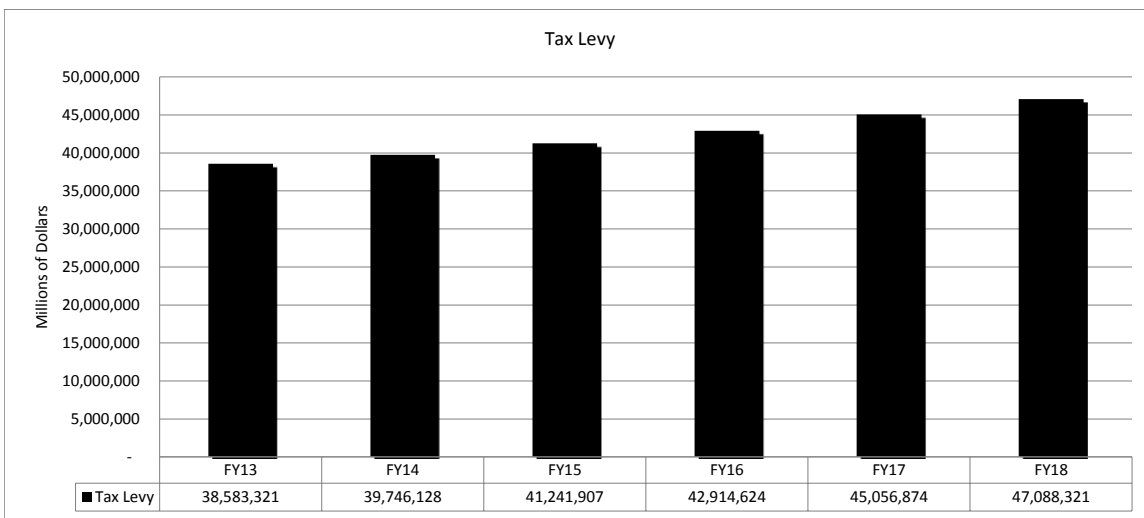


Figure 1 - History of Total Tax Levy in Bourne

Proposition 2 ½ allowance: The allowed Proposition 2 ½% Levy increase will provide \$1,083,917 of additional revenue.

New Growth provides additional ongoing revenue to the Town. This increase does not impact most taxpayers’ individual tax bills. New Growth for FY18 is estimated at \$500,000. Actual New Growth in FY17 was \$650,787 which was \$250,787 higher than the \$400,000 estimated last May.

Debt Exclusion: One impact on the Taxpayer in FY18 is the debt exclusion borrowing which will increase the Tax Levy by \$438,200 in FY18. The FY18 Excluded Debt Service of \$1,961,406 includes:

Excluded Debt Service FY18		Estimated
Permanent Bonding Principal and Interest		Final payment
Bournedale Elementary School	707,792	FY32
Community Building	281,880	FY23
Community Building Land	20,270	FY21
DPW Public Works Bldg	575,283	FY37
New Peebles Elementary School	224,456	FY40
New Police Station	224,506	FY40
	2,034,187	
Temporary Bonding - Interest only	3,863	
Premiums Allocated	(76,644)	
Total Excluded Debt Service FY18	1,961,406	

State Aid

The State Aid Revenue estimate in Sources and Uses is based on the Governor's Proposed FY18 State Budget. State aid has declined steadily since the high point in 2008. Overall State Aid for FY 18 is expected to be \$184,296 less than FY17.

In the last year or two the Baker Administration has worked with the State Legislature to increase state aid to municipalities. However, there are assessments which reduce the amount of state aid that is actually received by the Town which have increased. The state is facing deficits for a number of reasons. One of the reasons is the increase in Mass Health costs which have increased significantly under Obamacare.

Chapter 70 Aid is one piece of the State Aid received for Education. While Chapter 70 aid is budgeted to be level, the Governor's budget shows that other Education aid received by the Town for FY18 will be down \$234,282 and overall the Education related charges for Retired Teachers' Retirement, School Choice and Charter School sending tuitions will be increase \$310,780. These charges reduce the amount of state aid received by the Town.

This is the second year that the Town will be assessed for the MBTA. The total assessment for Transportation Authorities is down \$78 to \$130,058 with \$90,640 going to the Regional Transit Authority (RTA) [up \$2,211] and \$39,418 going to the MBTA [down \$2,289].

Local Receipts

This year Local receipts are estimated to be up \$692,422 compared to the prior year with estimated increases of: \$453,343 from Motor Vehicle Excise, \$75,000 from Meals tax, \$40,000 from Licenses and Permits, and \$50,000 from Energy Credits.

Estimated revenue from Marinas is \$1,160,000. Marina expenses which are included on the Expenditure side are \$524,041 which provides a net Marina revenue of about \$635,959 which can be used to help fund all departments.

Other Revenue Sources

The budgeted ISWM Host Community Fee is maintained at \$600,000, reflecting an expectation that the business will continue to be profitable. Excess Host Community Fees received over the \$600,000 will be put in the Capital Stabilization Fund. ISWM continues to pay General Fund support to the Town. Administrative Fees in FY18 total \$2,057,217. These fees cover some administrative costs of the town, ISWM benefit costs, and 75% of the salaries and 100% of the expenses associated with curbside trash and recycling.

Special Revenue Sources

PL874 is the impact aid we receive from the Federal government to reimburse us for educating children whose families live on the Massachusetts Military Reservation and do not pay local property taxes. There is no way to accurately project the amount of these funds, as the program is subject to Congressional appropriation. Last year this aid was budgeted at \$150,000 and FY18 is estimated at \$153,000.

Waterways Fund Revenue comes from the Mooring Fees paid to the Town and one half of the Boat Excise taxes paid in Bourne. There was \$434,363.68 in the Waterways Fund at the end of FY16. Waterways Fund Revenue for FY17 is estimated at \$400,000 which will bring the Waterways Fund Balance up to \$636,911 after transfers out for the FY17 Budget. \$131,278 from the Waterways Fund will be used to offset some of expense of running the Department of Natural Resources in FY18. This year \$17,425 from the Waterways fund will be used to fund the DNR portion of a new position that will be shared with the Town Clerk's office. \$205,000 from the Waterways Fund will also be used to pay for FY18 Capital Expenditures related to the Waterways.

Ambulance Fund Revenue comes from Ambulance Fees charged by the Fire Department. In FY16 Ambulance Revenue was \$1,391,132 which was an increase of \$300,000 over the prior year. \$1,070,000 was used for the budget, \$260,000 was used to purchase an ambulance and \$55,954 paid expenses for the billing service. The Ambulance Fund balance at the end of FY16 was \$1,617,263. In FY18 \$1,250,000 from the Ambulance Fund will be used to offset the operating budget. This is a \$25,000 increase in use of the Ambulance Fund for the operating budget over FY17. Future use of the ambulance fund for the budget should to be monitored and adjusted based on actual Ambulance Revenue.

\$679,954 from Community Preservation Act (CPA) Fund will be used to offset CPA Debt service. This year the debt service for CPA long term debt is \$679,954. The principal balance of authorized CPA long term debt after this payment will be \$3,636,111. The debt schedule shows this debt being totally paid in FY31. If CPA is not extended past FY2020 any remaining debt will be continue to be paid through a surcharge on the taxpayer until it is fully paid. A balance of about \$2,391,646 will remain in 2021. The FY21 Debt Service of \$563,159 would cost a taxpayer in a \$400,000 home about \$54 based on the current tax rate. A taxpayer in a \$400,000 home is currently paying about \$120 for the 3% CPA tax surcharge.

Free Cash

Free Cash is not a revenue source. It is the unrestricted funds of the Town that have been used in recent years to balance the budget. For FY17 \$958,085 of Free Cash was used to cover the difference between operating revenues and operating expenses. The proposed FY18 budget uses \$915,300 of Free Cash to balance the operating budget which is a \$42,785 decrease from the amount of Free Cash used for the FY17 operating budget.

Operating Expenses

Overall, the FY18 General Fund Operating Budget (GFOB) totals \$62,115,857 which is a \$2,706,724 increase or 4.56% over FY17. The GFOB does not include General Articles or Off Budget expenditures such as state assessments, offsets, Overlay reserve, deficits, capital expenditures or ISWM and Sewer Enterprise operations.

Town Departments:

The FY18 budget includes additional personnel and some increased expenses.

Without new personnel the Town Department salary increases would be \$326,546 which is an increase of 2.6%.

With new positions the Town department salaries increase is \$826,233 which is an increase of approximately 6.6%. \$499,687 of this increase is the net cost of new personnel. When offsetting revenue from ISWM is applied the net cost of new personnel is \$443,443.75. These increases only reflect salaries. The cost of FICA and benefits is included other line items.

The cost of adding four SAFER Firefighters to the FY18 budget after the grant funds expire on 12/24/17 is \$114,000 for salaries plus an estimated \$51,300 for FICA and Benefits for a total cost of \$165,300. If these Firefighters were terminated at the end of the grant the estimated cost of Unemployment and additional Overtime needed for FY18 would be \$167,168.

Please reference chart that follows for detailed information on Town Department proposed personnel changes.

New Positions	Cost	Explanation
Selectmen/Town Administrator		
Assistant Town Administrator	95,000.00	This is a goal of the Board of Selectmen.
Finance		
IT Network Administrator	44,407.00	This is a critical position and is strongly recommended. The Town cannot function with only one capable person in IT.
Town Clerk		
Part Time Clerk Split with DNR	17,425.00	New State requiriements make this a necessity for the Clerks office
Planning		
Assistant Town Planner	49,910.00	This will replace a shared position with engineering.
	(22,648.00)	Reduction of part time clerk split with Engineering
	(22,648.00)	Reduction of part time clerk split with Planning
Net Cost	4,614.00	The net cost increase is less than 5,000.
Inspections		
Building Inspector	12,849.00	Increase from \$89,924 to \$102,773 (from 35 to 40 hours)
Fire		
Four Firefighters transferred from grant to budget	114,000.00	Jan- June Cost after grant funds expire . If FF are terminated unemployment and OT will increase more.
Department of Natural Resources		
Part Time Clerk Split with Town Clerk	17,425.00	Can be Funded from Waterways Fund
Department of Public Works		
Supervisor 60% DPW shared with Sewer Dept 40%	40,889.00	Position is \$68,148 of which 60% is DPW and 40% is paid by Sewer
Laborer	35,151.00	This position will be primarily used for curbside collection and 75% is paid for by ISWM
Truck Driver	39,840.00	This position will be primarily used for curbside collection and 75% is paid for by ISWM
Total DPW	115,880.00	
Board of Health		
Additional Health Inspector	46,687.00	The case load has grown to the point where this is a necessary addition
Clerk hours reduced to 21 hours	(13,940.00)	
Net Board of Health	32,747.00	
Council on Aging		
Increased Hours for Outreach	8,000.00	To partially offset prior reduction
Library		
Circulation Assistant (37.5 Hrs)	37,340.00	
Recreation		
Recreation Director	6,000.00	Increased hours due to taking over Community Building responsibilities
Total	499,687.00	
Less DPW Positions Paid by ISWM	(56,243.25)	
Net Increase	443,443.75	

According to the Town Charter, adding the Assistant Town Administrator and rearranging department reports requires a Public Hearing. At the time this report was written the Public Hearing had not yet been held.

Town department expenses increased \$252,364 which is an increase of approximately 6.9%. Major contributors to the increased expenses were:

- \$50,000 for contracted services for DPW to address mandated Storm water Mitigation
- \$63,300 increase in County Dispatch expenses for the Fire Department paid to the Sheriff's department
- \$42,590 for Consultants for the Assessors Department for the comprehensive property revaluation required every five years
- \$50,000 for bond preparation expense
- \$40,000 for Software and Software License expenses
- There was a reduction of \$60,000 from the prior year budget for Payroll services for the Finance Department. Outsourced payroll was investigated in FY17 but it has been decided to keep Payroll services in-house.

Debt Service increased \$513,865 or 11.89% over FY17. \$28,609 of the increase is paid for by general fund revenues, \$438,000 of the increase is funded with the debt exclusion tax increase and \$47,056 of the increase is funded with CPA Funds and Title 5 Sewer Loans.

Shared costs are up \$538,380 or 3.72%: Electricity is up \$110,000 which is a 9.65% increase, Group insurance is up \$291,000 which is a 3.8% increase and County Retirement/Pension is up \$146, 424 which is a 4.3% increase, but Unemployment is down \$60,000 which is a 40% reduction.

Education

The Bourne School Department budget for FY18 is \$21,718,234 which is a \$632,570 increase or 3.0% over FY17. The Bourne School budget meets the minimum requirements for Foundation Budget and Net School Spending set by the State. While the student enrollment in Bourne has declined in recent year the trend is steady and 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. However, there are a number of students choosing to attend Charter or School Choice Schools. In FY18 the Town of Bourne will pay an assessment of \$2,080,107 for Charter School sending tuitions and an additional \$734,351 for School Choice sending tuitions. Reimbursement for Charter School Tuitions is down \$325,949. On a positive note the Bourne School Department will receive \$852,567 in School Choice receiving tuitions for students choosing to attend Bourne Schools.

The Upper Cape Cod Regional Technical School's budget of \$13,986,104 is \$582,811 higher than last year which is a 4.17% budget increase. The assessment to Bourne is \$3,250,118 which is \$56,688 lower than the FY17 assessment and represents a 1.71% decrease over last year. Of the 740 students attending UCT there are 194 students from Bourne which is a decrease of 10 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.

Our educational system is by many standards underfunded. 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

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 increased to \$1,250,000 which is an increase of \$110,000. These costs are offset by \$650,000 Energy Credit Revenue for an estimated net Electricity cost to the Town of about \$600,000.

Group Health Insurance

The cost of Group Health Insurance is up \$291,000 or 3.8% over FY17. The Town Administrator and Treasurer monitor the monthly expenditures, trust fund balances, and compare costs of our insurance plan with other available plans. This budgetary item represents about 13% of the Town's budget. Long term trending projections show that group health insurance will take up an increasing percentage of the budget unless some reforms to the state requirements are made.

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. The cost of health insurance for retired teachers is an assessment on the Cherry Sheet that reduces state aid received by the Town. The cost of insurance for retired teachers is estimated at \$1,085,039 which is a reduction of \$30,416 from FY17.

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 insurance costs for retired employees. The Town has set aside \$790,538 in a Trust Fund for this purpose. Currently the Town funds this liability on a "pay as you go" basis as part of group health insurance. This year a warrant article will be proposed to add \$250,000 to the OPEB Trust Fund. It is especially important for the ISWM OPEB liability to be calculated to

make sure it is fully funded when the landfill closes. This is an area that the Town needs to continue to address in the future.

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. If there is a trend of increasing use of Free Cash for the budget it should be noted as a danger signal of possible future instability.

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

Free Cash Financial Policy: Free Cash is the unrestricted general fund balance of the Town. Free Cash is certified at the beginning of each fiscal year by the Department of Revenue. 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% 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 or Enterprise Funds. The proposed General Fund Operating Budget for FY18 is \$62,115,857. This year, in order to be within financial policy guidelines the Free Cash Balance should be certified at \$3,105,793 as of July 1, 2017. The proposed FY18 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 FY18 budget maintains Free Cash at this policy.

Free Cash Analysis

At the end of the last fiscal year on June 30, 2016 actual revenues for the fiscal year were about \$1,855,000 higher than estimated and actual expenditures for the fiscal year were about \$764,400 lower than estimated resulting in of unspent budgets being turn-backed to Free Cash. These actual revenues and expenditures added \$2,619,400 to Free Cash.

In September the Mass. Dept. of Revenue Certified Free Cash which is the unrestricted cash available to the Town as of July 1st at \$6,714,695. Certified Free Cash was within policy and had an excess over policy of \$3,609,002.

The proposed uses of Free Cash are: \$7,974.99 for Unpaid Bills, \$915,300 for the budget, \$349,836.27 for Capital, \$100,000 to fund a Special Education Reserve fund, and

\$830,000 to be set aside in other designated reserve funds. The Free Cash Balance after these expenditures and transfers is \$4,439,294.84 which is \$1,333,501.99 over policy with \$666,751 available for the budget. This leaves the Town in a good position going into FY 18.

**FREE CASH ANALYSIS FY2018		Free Cash	Free Cash	% of FY18	Excess over 5%	Policy
		Expensed & Proposed 7/1/16 - 6/30/17	Balance	GFOB	of GFOB	Allowance 50% FC over policy for Budget
GFOB = Sources and Uses General Fund Operating Budgets plus Debt Service				\$62,115,857.00		
5% of GFOB				\$3,105,792.85		
CERTIFIED FREE CASH BALANCE 7/1/2016			\$6,714,795.00	10.8%	\$3,609,002.15	\$1,804,501.08
10/17/2016	Unpaid Bills	(\$6,708.90)	\$6,708,086.10	10.8%	\$3,602,293.25	\$1,801,146.63
10/17/2016	Budget Amendment	(\$65,680.00)	\$6,642,406.10	10.7%	\$3,536,613.25	\$1,768,306.63
5/1/2017	Unpaid Bills*	(\$7,974.99)	\$6,634,431.11	10.7%	\$3,528,638.26	\$1,764,319.13
5/1/2017	FY2018 Budget*	(\$915,300.00)	\$5,719,131.11	9.2%	\$2,613,338.26	\$1,306,669.13
5/1/2017	Capital Article*	(\$349,836.27)	\$5,369,294.84	8.6%	\$2,263,501.99	\$1,131,751.00
5/1/2017	OPEB Article*	(\$250,000.00)	\$5,119,294.84	8.2%	\$2,013,501.99	\$1,006,751.00
5/1/2017	Special Education Reserve Fund*	(\$100,000.00)	\$5,019,294.84	8.1%	\$1,913,501.99	\$956,751.00
5/1/2017	Capital Stabilization Fund*	(\$400,000.00)	\$4,619,294.84	7.4%	\$1,513,501.99	\$756,751.00
5/1/2017	Stabilization Fund*	(\$180,000.00)	\$4,439,294.84	7.1%	\$1,333,501.99	\$666,751.00
* Proposed at the 5/1/17 ATM/STM						
** This is a simple calculation of the possible decreases to free cash but does not include any year end adjustments done to certify free cash.						

The good news is that the Town is maintaining a solid financial footing with excess Free Cash and setting aside \$830,000 in designated reserve funds. This is a very different trend than the \$3.4 Million of Free Cash the Town spent out of Free Cash in FY16 which left Free Cash \$1.5 Million below policy after the 2015 Annual Town Meeting.

Based on the proposed expenditures of Free Cash at this Town Meeting the remaining Free Cash balance will be in excess of Policy.

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. This year those revenues and unspent expenditures 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. As of June 30, 2016 the balance in Stabilization was \$3,545,542 which is 5.71% of proposed FY18 GFOB which is \$181,409 below the policy for Stabilization. A transfer of \$180,000 should be made to bring Stabilization to policy. This transfer is proposed in Article 15.

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, 2016 the balance in the Capital Stabilization account was \$329,461. There was \$209,708 of ISWM excess host community fees deposited in this fund at the end of the FY16. It is anticipated that about the same amount will be deposited at the end of FY17.

Warrant Article 16 proposes the transfer \$400,000 received from the sale of the Coady School to this account.

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 \$2,416,996. The average monthly claim charges for the Employer share has been \$590,000 a month so 4 months of average costs would require \$2,360,000. *The Insurance Trust Fund is within policy.*

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 balance in overlay is currently 1,708,512. As a result no funds are being allocated to the Overlay Reserve in FY18 which is a \$542,215 reduction from last year. Funds will need to be set aside in future years.

Reserve Fund – an annual Reserve Fund to be spent under the authority of the Finance Committee for unexpected and unforeseen budget needs. For FY18 this is \$300,000, which increases the Reserve Fund by \$10,000. *This meets the Financial Policy to budget the Reserve Fund at 0.05% of the General Fund Operating Budget.*

Capital Expenditures

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 Municipal Facilities Plan for the Town. The plan is the basis for the capital recommendations in the FY18 budget is a model for this type of planning in the town, resulting in well-thought out recommendations. The current year's plan and the long-term capital plan can be found in the Town Meeting handbook.

Capital Requests this year totaled \$13,021,513. Recommended capital improvements totaled \$8,187,803 of which \$4,117,803 is for the Town and Schools and \$4,070,000 is for ISWM and Sewer. \$1,430,000 will be paid with CPA Funds and \$6,757,803 will be proposed in Article 9.

This year's recommendations for capital spending come after exhaustive study by the Capital Outlay Committee. A full report by the Capital Outlay Committee will be made at Town Meeting. The committee has worked to identify funding sources other than new borrowing in order to make the best use of all available dollars.

ISWM

The Integrated Solid Waste Management (ISWM) operation is a regional landfill and transfer center. It benefits the Town by paying for the 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 Host Community Fee remains the same at \$600,000. Excess Host Community Fees are deposited into the Capital Stabilization Fund to be used for future capital projects.

Community Preservation Act

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.

Under the CPA a Community Preservation Committee has been formed and has made the recommendations found in the chart in the Voter's Handbook.

The Finance Committee met with the Community Preservation Committee and reviewed projects for Community Housing, Historic Preservation and Open Space.

Long Term Plans

The Finance Director and Town Administrator have been working with the Finance Committee since FY06 to establish and refine a 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 additional needs in 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 table below demonstrates what will happen to the Town's finances based on this year's budget. It assumes we maintain the same level of revenue increases as we have historically shown, assumes no overrides, and assumes our contracted personnel costs maintain their increases. Continued monitoring of the Long Term Projection and assumptions is an important piece of the Town's financial planning.

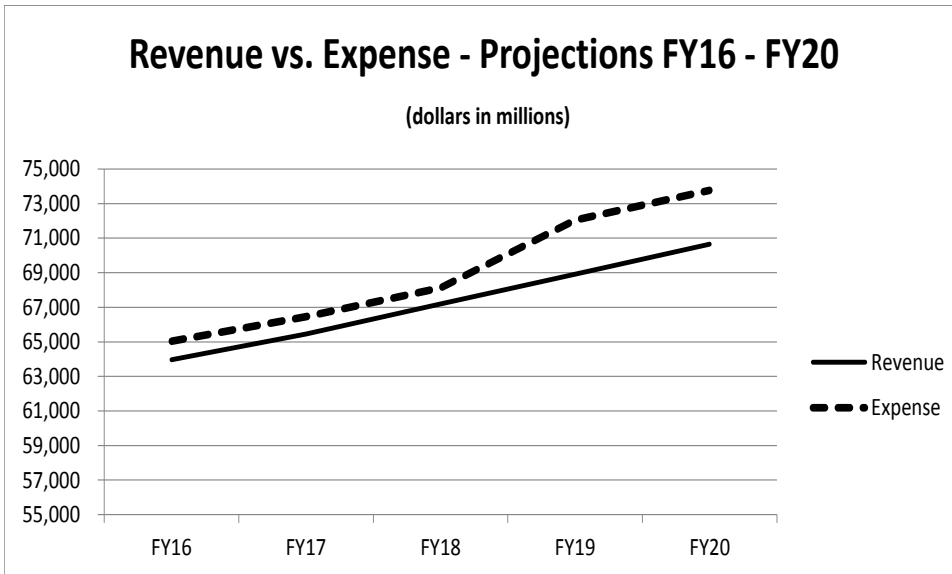


Figure 5 – Budget Projections Based on FY2018 Budget

As can be seen on the chart with the adjustments that have made to the budget the current level of spending (the dotted line) stays close to the current revenue levels (solid line) this year. It will be important in the future to monitor expenditures to avoid the growing gap that is shown especially starting in FY20 and going forward. It is important to note that at the end of fiscal year an average of 4% of the budget is returned to Free Cash in the form of additional revenue and budgetary turn-backs. This enhanced revenue is not included in the projection.

The Town Charter changes that were voted at the annual meeting last May require 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 Charter changes have not yet been approved by the legislature, but this change will be an important one. The Finance Committee looks forward to continuing the work with the Board of Selectmen, the Finance Director and the Town Administrator on the refinement of the long term plan.

Summary

The Town of Bourne has benefited from the prior years of fiscal prudence and financial management. The proposed budget has added personnel that are needed to provide services expected by the citizens, but these increases must be prioritized and justified to make sure the budget increases are sustainable in the long run. In the coming years many long-term personnel will retire and 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 be considered 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. The Town has undertaken Priority Based budgeting and we will see in the next few years the results of this endeavor as we try to manage the Town's Revenue and prioritize the expenditures in order to provide the services the Town needs most.

The Finance Committee recommendation on the final budget will be made at Town Meeting.

Respectfully submitted,
The Finance Committee, Town of Bourne