



# The Town of Barnstable

## Comprehensive Financial Advisory Committee (CFAC)

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### CFAC Committee:

#### Chair:

Lillian Woo

#### Members:

Vice Chair, Ralph Krau  
Clerk, Hector Guenther  
John Schoenherr  
Melanie Powers  
Tracey Brochu  
Wendy Solomon

#### Staff Liaison:

Mark Milne  
Nathan Empey

#### Councilor Liaison:

Paula Schnepf

### MEETING MINUTES

2.08.21

6:00 PM

Zoom Meeting : <https://zoom.us/j/91816509756>

Meeting ID: 918 1650 9756

### Roll Call:

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Lillian W. called the CFAC Zoom meeting to order at 6:00 PM. Lillian W. called the roll call.

- CFAC Members Present: Lillian Woo, John Schoenherr, Tracey Brochu, Wendy Solomon, Hector Guenther, Melanie Powers, and Ralph Krau
- CFAC Members Absent: None
- Councilors Present: Paula Schnepf
- Staff Present: Mark Milne; Finance Director, Nathan Empey; Finance/Budget Analyst
- Other Present: None

### Act on Minutes:

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The following minutes were approved by unanimous vote:

01.25.2021

**Public Comments:**

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None

**Correspondence:**

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None

**Staff Report:**

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None

**Old Business:**

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Lillian W. introduced CFAC's draft review of the CWMP financial plan, which the committee moved to approve the report. Melanie P. noted there is a typo on the third page, and that "is" should be changed to "be" for the Decision Point Title - Will a systems Development Charge is Implemented. Melanie P. also noted that in addition to emphasizing clarity and equity, we also talk about transparency. Melanie P. noted we didn't want the citizen to think there is some sneaky way of adding additional cost, so we should add to one of the statements "implemented with transparency". Melanie P. noted the reason we suggested this was to keep it simple and at a time when people aren't trusting officials.

Committee approved unanimously to add "transparent" to the end of the last sentence within the Decision Point – Sewer Assessment section.

Committee unanimously approved CFAC's CWMP Financial Plan Report that will be distributed to Town Council.

Mark M. summarized the report for Council Schnepf. Mark M. noted CFAC supports the idea for a General Fund contribution through a debt exclusion, a \$17,000 sewer assessment, a 2% interest rate above the borrowing rate, that the town include a connection program as a part of this program, and eliminate the system development charge.

Paula S. wanted to thank the committee for their recommendations. Lillian W. responded we wanted it to be open and transparent as possible. Melanie P. noted we anticipate it to be challenging in terms of communication on getting everyone on board, but we're passionate about clean water. Councilor Paula S. asked Mark if the report can be posted on the new water resources webpage? Mark M. responded this would be a good document to be included on that website.

**New Business:**

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Mark M. summarized his update on the financial condition of the Town that was presented to Town Council at a joint meeting with the school committee on January 21, 2021. Mark M. noted this annual presentation to Town Council is required as per the town charter to review the town's financial condition as we develop the next fiscal year budget. Mark M. noted we begin with a review of the town's financial report card, which a good indication of our bond rating. Mark M. noted every year we have to issue bonds to fund our capital program, which requires a bond rating to be done by one of the rating agencies. Mark M. noted the analytic framework used by the Standard & Poor's rating agency for rating the town by allocating the largest scoring towards the economy at 30%, 20% management, 10% institutional framework, and 30% for financial condition. Mark M. noted this then gets tweaked annually with either positive or negative factors to come up with a final rating. Mark M. noted the town's AAA rating was reaffirmed last week. Mark M. noted the town issued its Comprehensive Annual Financial Report (CAFR) at the end of December, which we ended up with a clean opinion by the auditors. Mark M. noted all the good news from the report is somewhat tempered by large liabilities that are on our statement of net position. Mark M. noted the county pension liability of \$117 million is on a

funding schedule to be fully paid off by the year 2035. Mark M. noted our annual assessment factors in a cost for amortization that unfunded liability. Mark M. noted we are not required to amortize the Other-Post-Employment-Benefits (OPEB) unfunded liability of \$210 million yet. This liability is mostly for health insurance, which we are not required to amortize yet. Mark M. noted at some point we may be required to amortize this liability, but it has not been legislated to date. Mark M. noted we have taken proactive measure to create a trust fund and start putting money aside to accumulate resources to meet that liability down the road. Also, the town's share of the Mass Teachers Retirement System (MTRS) liability of \$147 million is one-hundred percent the responsibility of the Commonwealth of Massachusetts. We do not have to pay into the MTRS, but we are required to disclose this in the footnotes of the CAFR. Mark M. noted overall good financial report both from the bond rating agency and CAFR.

Mark M. noted the next area is how we closed the fiscal year 2020 budget. Mark M. noted our actual revenues exceed budget expectations by \$2.7 million. The motor vehicle excise tax saw the most favorable variance. Mark M noted on the expenditure side we returned over \$4.2 million in appropriation due to measures in place in the last quarter of the fiscal year to freeze hiring for vacant positions and cut all discretionary spending, and we tried to reduce all nondiscretionary spending as much as possible. As for the enterprise funds, eight out of nine enterprise funds had favorable budget variances. Mark M. noted the golf course was hit the hardest by the pandemic, because we had to close the golf course during its busiest time for a number of weeks. Mark M. noted seven of the enterprise funds budgeted reserves to balance their operations budget in the fiscal year, which most of them used less than what was budgeted, resulting in a favorable budget variance. Melanie P. asked why the golf course budgeted a surplus, that is, what was expected to happen there? Mark M. responded that we actually used \$150,000 of their surplus to balance the budget.

Mark M. noted every year we have to send our free cash balances to the Department of Revenue (DOR) to be certified as of June 30th. This is cash in the town treasury that is free and clear of any encumbrances against it. Collectively we had over \$39 million in certified free cash by the department of revenue, most of which is in the General Fund at \$18 million and almost \$10 million in the sewer enterprise fund. Mark M. noted we have a pretty good balance in most of our funds. Mark M. noted over a ten year period we used on average \$2.9 million in surplus to balance our budgets. Mark M. noted we generate almost \$5 million a year collectively, but used less than that a year on average to balance our budgets. Mark M. noted that we have a structurally balanced budget. Even though we're using a portion of this reserve to balance the operating budget, we're generating more than what we're actually using. Mark M. noted we generated a good surplus this year because we froze hiring and tried to cut as much of the discretionary spending as possible. Mark M. noted reserves as a percentage of our operating budget recommended by bond rating agencies ranges from 8% to 16%, but a lot depends on the nature of revenues. Mark M. noted most of our funds meet that criterion with the exception of the water and golf enterprise fund.

Mark M. noted that we're continuing to build up the Other-Post-Employment-Benefits (OPEB) each year to deal with the health insurance unfunded liability. Mark M. noted we have almost \$6 million in that trust fund.

Based on the town's revenue trends, our tax levy has gone from \$97 million to \$132 million, and our override taxing capacity continues to grow. Mark M. noted this is because our town's property values continue to grow. Mark M. noted we're taxing about 33% of the overall taxing capacity.

Of the largest ten taxpayers in town, two new entries were added to the list. Mark M. noted Cape Cod 5 Saving Bank is now included on the list with their new headquarters and GS Barnstable Landowner with the new developments complexes in Independence Park. Mark M. noted the main thing is there is no single tax payer that the town depends on. Hector G. asked what are the three utilities assets comprised of? Mark M. responded an example would be Eversource assets such as poles and wires. Hector G. asked who would value those properties? Mark M. responded the town assessor. Mark M. noted another example will be the Vineyard Wind conduit project with a substation - all of that would be taxable properties. Tracey B. asked what point in time are these properties valued at? Mark M. responded January 1 of every year. Melanie P. asked why is Verizon not on this slide? Mark M. because they are not a part of the

top ten. Hector G. noted the total assessed value, of the top ten taxpayers went up over a \$100 million, or 20% in one year. Mark M. noted of our top ten tax payers, they make up only 3.65% of the total town tax base, so we have a very small percentage and a very diverse tax base because we have so much residential property. Mark M. noted when you have a tax payer that pays a significant portion of your tax levy, if something were to happen to their value, it could have a significant impact because the tax levy gets redistributed to every other tax payer in town.

Mark M. noted he thinks that an increase of \$1 million in new property tax growth every year is going to be a challenge for us. We still don't know the impact of COVID, but we still have large projects in the pipeline for the Cape Plaza and Vineyard Wind.

Mark M. noted the Cape Cod Technical High School project is the only debt exclusion the town currently has, which is based on enrollments from each sending district. The Town's enrollments at the technical high school fell from 194 to 169 in FY 2021. The enrollments in FY 2021 will be used to determine what the town's assessment is in FY 2022.

Mark M. noted that we've had a continuous increase in State Aid, and the change in Chapter 70 formula has resulted in doubling State Aid over the past ten years. There hasn't been much change in unrestricted general aid.

Mark M. noted that the Motor Vehicle Excise Tax has steadily increased since the Great Recession as the economy recovered, which peaked at \$8.2 million. Mark M. noted once the pandemic hit, national automobile sales fell from \$17 million to \$9 million in April 2020, but it has been on a steady increase to pre pandemic levels. Mark M. noted we're not anticipating a decline like the last recession.

Mark M. noted other major local revenue sources have continued to steadily grow over the past ten years, but as a result of the pandemic, it did have an impact in the last quarter of fiscal year 2020.

Mark M. noted that the operating budget allocation between school and municipal has been a consistent split of 37% for municipal operations and 63% for school operations. Mark M. noted salaries make up almost 80% of the entire budget as we are a provider of services. As for fixed costs, we're seen a steady increase in employee benefits, but it has leveled off in the past two fiscal years. Mark M. noted we're anticipating another leveling in costs as a result of health care cost. We're not seeing an increase in health care cost because elective surgeries have been delayed due to the public emergency. Mark M. noted health insurance is the biggest driver in employee benefits and retirement assessments is the second biggest. Lillian W. asked what is included in the school assessments? Mark M. responded Cape Cod Technical High School, Commonwealth Charter Schools, and school choice program.

Mark M. noted for fiscal year 2021 property tax collections are on target compared to last year as well as our expectations. We're not seeing any significant decline in payments. Mark M. noted we saw significant growth in short-term rental taxes possibly COVID influenced as a lot of bookings were made over the summer because people could work remotely. However, we need more history on this revenue trend. Mark M. noted rooms and meals taxes saw a significant decrease because of the restrictions in place. Mark M. noted permits continue to perform well above expectations. It seems that people are making investments in and improvements to their properties. Mark M. noted we received the Motor Vehicle Excise tax commitment at the end of January, and the amount is similar to what it was the previous year, indicating this revenue source is still strong.

Mark M. noted the General Fund operating budget for all departments are trending right where they should be through the first six months. We have had a number of staff turnovers causing vacancy savings. Enterprise Fund budgets are also trending the same, with no concerns on the expenditure side.

Mark M noted the town has received about \$24 million COVID grant awards to date. Mark M. noted most of it is from the Federal Aviation and Coronavirus Relief Fund. We are using the grant program to purchase personal protection equipment and technology for our workers to work remotely. Mark M. noted we're also using it to digitize and index

over 8 million town documents. They will be accessible using Laserfiche software. Our citizens and workers will be able to access these documents remotely. Mark M. noted the major difference in the aviation grant is that it can be used for anything, but the other grants are all targeted for specific uses. Melanie P. asked why the housing & urban development grant spending to date is so low? Mark M. responded that the initial reward of \$160,000 has been spent, but we recently received a second funding for the program. This second source of funding hasn't been spent yet because we haven't actually received it yet.

Mark M. noted across the Commonwealth of Massachusetts student enrollment has declined as a result of people moving to private and homeschooling. It's not unique to Barnstable. The question will be when this pandemic ends, will we see these students come back into the school system. Mark M. noted statewide, the State has lost over 37,000 students as a result of them transitioning. Mark M. noted Barnstable's enrollment trend is pretty consistent with other Cape Cod schools.

Mark M. noted for the fiscal year 2022 we anticipate roughly \$4.8 million in revenue growth, with most of it coming from property taxes. We plan to increase property taxes in accordance with proposition 2 ½ plus a factor for new growth of about \$750,000. Mark M. noted we are increasing the Motor Vehicle Excise tax and State Aid. Hector G. noted there is a lot of discussion in Biden's stimulus bill, which a significant chunk is being allocated to States. Why do we not include this aid into the revenue projection? Mark M. responded we can't use an estimate based on what we might receive in state aid. We can't use a revenue estimate to balance our operating budget. Mark M. noted we can't put it in our operating budget because it is going to be targeted spending for specific purposes. Since it is going to have strings tied to it, it's not an operating budget revenue. Mark M. noted it will be separate revenue for target spending. In our FY 2022 General Fund fixed cost, the big change is employee benefits for about \$1 million, which is less than previous years as a result of anticipated in slight increase in health insurance and additional retirees, and an increase in the retirement assessments. Mark M. noted that revenue projections and fixed costs leave the town with about \$3.3 million that's available for operations. Mark M. noted this equates to \$1.2 million for municipal and \$2.1 million for school operations. These are the numbers we're working with right now to start preparing our FY 2022 budget.

Melanie P. wanted to say congratulation to Mark M. on really controlling costs during the pandemic and keeping a good bond rating. Mark M. noted we are just cautious because we do not know the full impact yet, and we are still nervous on the revenue side of things. Mark M. noted mortgage payments forbearance programs don't forgive any of the debt; it just puts it off to a later year. Mark M. noted property taxes get escrowed and still get paid to the town even if people are not paying their mortgage payments. Mark M. noted when we are out of the pandemic, we could have one heck of a summer because people want to come here. Lillian W. asked when you are putting together the FY 2022 operating budget, will you be restraining some of the expenditures as you did last year. Mark M. responded we are going to try and prepare a level service budget. Last year we tried a level funded budget. Lillian W. asked, do you feel comfortable to lift the hiring freeze? Mark M. responded yes we did, and we are currently backfilling those vacant positions. Hector G. asked about the bond issue coming up next week. Do you think the interest rates will be comparable to last February? Mark M. responded yes, similar to last year, but we'll be issuing a taxable bond issue because it is funding a private way improvement project. Mark M. noted in March we're going to issue an \$11 million bond issue for our capital program. Mark M. noted the reason we're doing two separate bond issue is because of the taxable bonds need to be separated. Hector G. noted that the interest rates on the taxable bonds will be higher? Mark M. responded yes, they will be higher.

**Matters not reasonably anticipated by the chair:**

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None

**Adjournment:**

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Meeting adjourned at 8:00 p.m.

## **List of documents handed out**

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1. 01.25.21 draft minutes
2. Draft CWMP Financial Plan – CFAC Recommendations
3. FY 2021 Joint Meeting Presentation