

Fiscal Year 19 Town Administrator's Budget Message *by Christopher Clark*

1 INTRODUCTION AND SUMMARY MATERIAL

It is once again my privilege to present a balanced budget for the Town of Harwich. The balancing of the budget always comes as a challenge in an effort to try to meet the needs of the organization/community in terms of local services while also balancing the cost to the community's taxpayers. This budget maintains a level of service consistent with last year for municipal operations with some exceptions. This budget also offers a look at the requests by departments to enhance service delivery to all residents. The total requests outstrip our ability to pay thus they are not called for in this budget; if desired would necessitate a Proposition 2 ½ Override.

Overview

The Town has been engaged in an overhaul of its related infrastructure which has increased fiscal obligations in the last five years and going moving forward (MRSD, Cape Tech, Wastewater, Harbors, and Fire Operations)

The years from FY 2010 to 2014 wages were frozen and in general, wages have not kept pace with similar positions in comparable Towns. The economy is heated up and wages are increasing. Although we have had modest wage increases from FY 15 to FY 19 we may continue to slip behind.

The pressures of reducing school populations and school choice place significant pressure on MRSD and Cape Tech. Despite maintaining staff levels, the costs continue to drive above Proposition 2 ½ levels. Health Insurance increases have a slightly greater impact on education operations. The Town operation has an increase full time employees by almost 10 over the last five years including the FY 19 budget. (Four in Fire, Two in Police, One in Building, One in Harbor, Two in Library, Three in DPW) These positions are needed but the trend of cost of living plus expansion of staff has added fiscal pressure. I would recommend holding at the FY 19 levels for fiscal reasons for a year or two.

I have not been able to fit within the budget some initiatives that different groups may want such as Sunday and Holiday openings for the Community Center and a Finance Committee request to increase the pay of elected officials.

Overall, the FY 19 budget maintains existing levels of services with some exceptions. The budget cycle started with an understanding that this budget would include two new firefighter positions along with one new police officer position. The requests for additional positions were greater than our ability to pay. I have incorporated a new IT position only. A one person IT department leaves the Town very exposed in an era of technological advances. Last year's Town Meeting included the ability to create a Revolving Fund for the Cultural Center. Revolving accounts allow for the hiring of part time employees only, which will be needed as the Cultural Center fills up with Artists. The Board of Selectmen will need to decide to extend the two year concept and head in a direction for longer use. This would allow for hiring part time staff and concepts for building maintenance of a longer time.

Large capital challenges are present as the Town continues to address nitrogen levels which continue to impact the environment and cannot be ignored due to pending federal litigation, so a plan known as the Comprehensive Wastewater Management Plan (CWMP) has been developed to address this challenge. The CWMP Phase 1 is complete and Phase 2 Construction portion is provided for in this plan. The FY 18 Budget included the design and facility component with the design of the system and an Intermunicipal Agreement signed with Chatham provides for the treatment of the wastewater. The \$22 million dollar construction portion will require a Debt Exclusion to fund. Debt exclusions increase taxes only to offset the debt service for a specific need to be addressed and all taxpayers pay the cost of the Debt. The tax goes away at the end of the borrowing. Last year, Town Meeting approved improvements to Saquatucket (SAQ) Harbor landside and the previous year water side that are both currently under construction. Landside redevelopment to be completed mostly by taxpayers with some offsets due to securing a one million dollar grant. The Harbormaster continues to be effective in securing grants. The Golf Operation construction project authorized last year is also underway. The cost will be mostly paid by a new user fee adopted last year. Administration tries to offset these costs through the use of grants where applicable, specific user fees, low interest loans and other concepts that will help mitigate potential costs.

The core fundamentals of my budgeting process have once again been maintained by adhering to principles of Standard & Poor's AAA rated communities' standards. I have decided to include more graphic elements as opposed to solely text. I hope this makes the material more visual. Whereas the budget message contains many of the traditional elements, I have strayed to cover Five Budget Themes for not just this Budget but for those into the future. Potentially, a blueprint to view the future in a more favorable light. The areas discussed will be Maintain and Enhance Level of Service, Education Opportunities, Human Resources (Collective Bargaining and Benefits), Comprehensive Wastewater Management Plan (CWMP) and Financial Management.

The first mission at hand is the discussion of the FY 19 Budget.

2 STANDARD & POOR'S RATING CRITERIA AND CAPE COD TOWN STANDINGS

Fiscal 2018 has been very active on the capital front and many projects are underway. Wastewater, SAQ Harbor, Cape Tech and others. This activity has put us in a place where we needed to update our Standard and Poor's (S&P) Bond rating. Our finance team did a presentation to S&P at the end of the calendar year. I have included our rating information for our short term borrowing in the appendices. The overall result based upon complete financials from FY 16 was that the Town was acknowledged to be making good progress from a financial perspective but has additional work to meet the newly established AAA Bond rating. The rating indicates a very strong economy, strong management in both fiscal and budgetary performance, improved flexibly through greater reserves and very strong debt to ability to pay ratio. S&P expressed concern in regards to our Pension Program which is part of the County's System and are looking for a more rapid meeting of the fully funded pension goal. This is something that would be best done on a regional as opposed to local level. The other area of concern is Other Post-Employment Benefits (OPEB). Many parts of the country solely rely on Social Security and Medicare to meet these costs. Massachusetts prescribes our system which requires a plan to meet our obligations of our share of retirees' health insurance costs. S&P appreciates that we now have a limited funding plan on an annual basis and actively invest our funds, nevertheless it is looking for a greater commitment. Our Administration plan gives us a higher discount rate (5.08%) because we are more active

than most (3.58%) and thus reduces the liability in comparison to others. Administration strategy of progressive annual contributions building (\$100k to \$125K in FY 19) up along with one time contributions when available such as in this plan (\$625K). As of June 30, 2016 we are #8 out of 31 entities for OPEB Trust Fund balance.

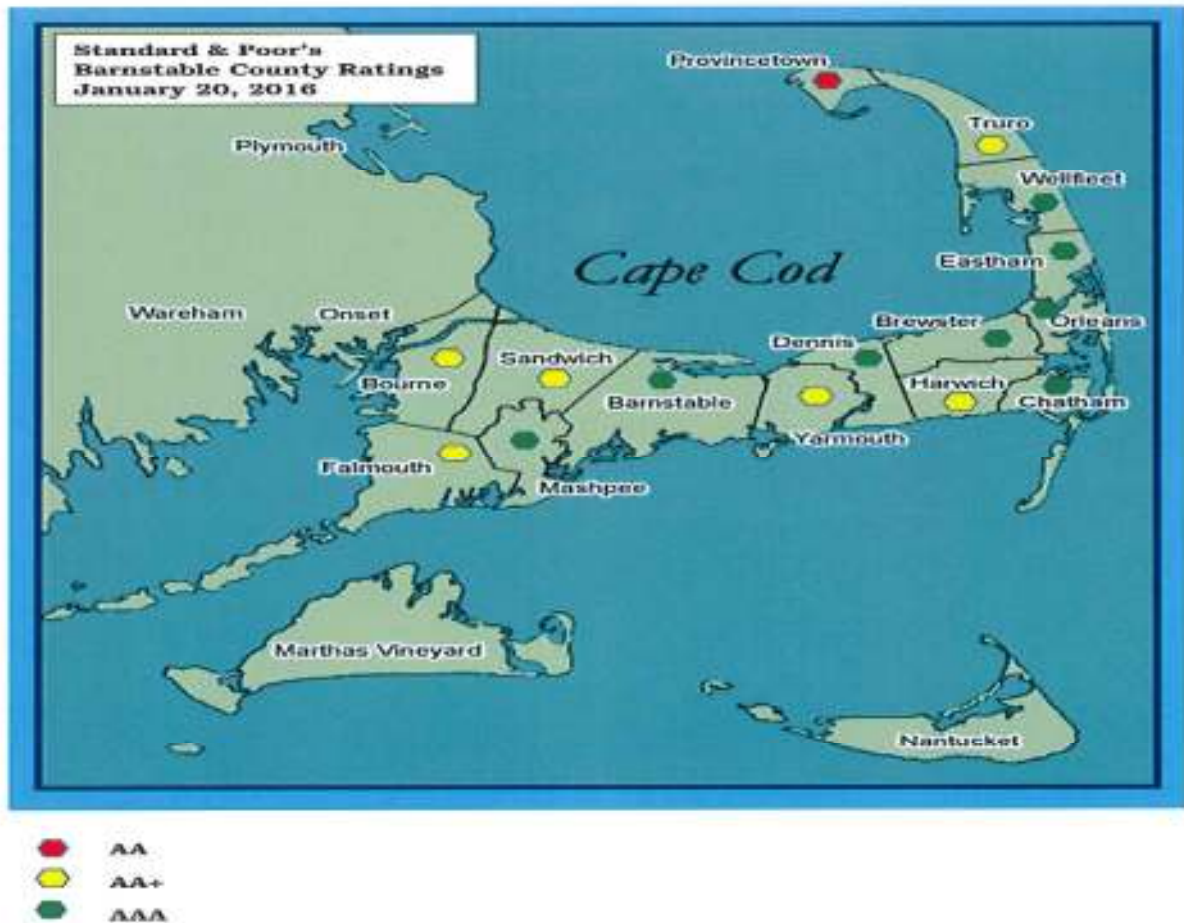
Once again Administration has reviewed the various reports from Standard & Poor's in relation to the town's standing in the ratings world. I believe that the Town should consider seeking an AAA bond rating when we go out for a significant bond amount. This should happen within the next few years as large projects start to come on line. Administration has been adhering to these principles and after three years and onto our fourth budget message has seen very favorable results. We have seen greater consistency in Free Cash, on target or above for four years in a row. Our reserves have been significantly built up. These two items were of particular concern to Standard and Poor's.

I would like to take the opportunity to remind the reader of the top 10 management characteristics of highly rated US public finance issuers with those being:

1. Focus on Structural Balance
2. Strong Liquidity Management
3. Regular Economic and Revenue Updates To Identify Shortfalls Early
4. An Established Rainy Day/Budget Stabilization Reserve
5. Prioritizing Spending Plans and Establish Contingency Plans for Operating Budgets
6. Strong Long-Term and Contingent Liability Management (OPEB)
7. A Multiyear Financial Plan in Place that Considers the Affordability of Actions or Plans Before They Become Part of The Annual Budget
8. A Formal Debt Management Policy in Place to Evaluate Future Debt Profile
9. A Pay-As-You-Go Financing Strategy as Part of the Operating and Capital Budget
10. A Well-Defined and Coordinated Economic Development Strategy

Administration continues to adhere to the principles laid out in this section. We have made considerable progress in improving our fiscal situation in stabilizing a consistent amount of Free Cash, building Stabilization and consistently building the OPEB Trust Fund.

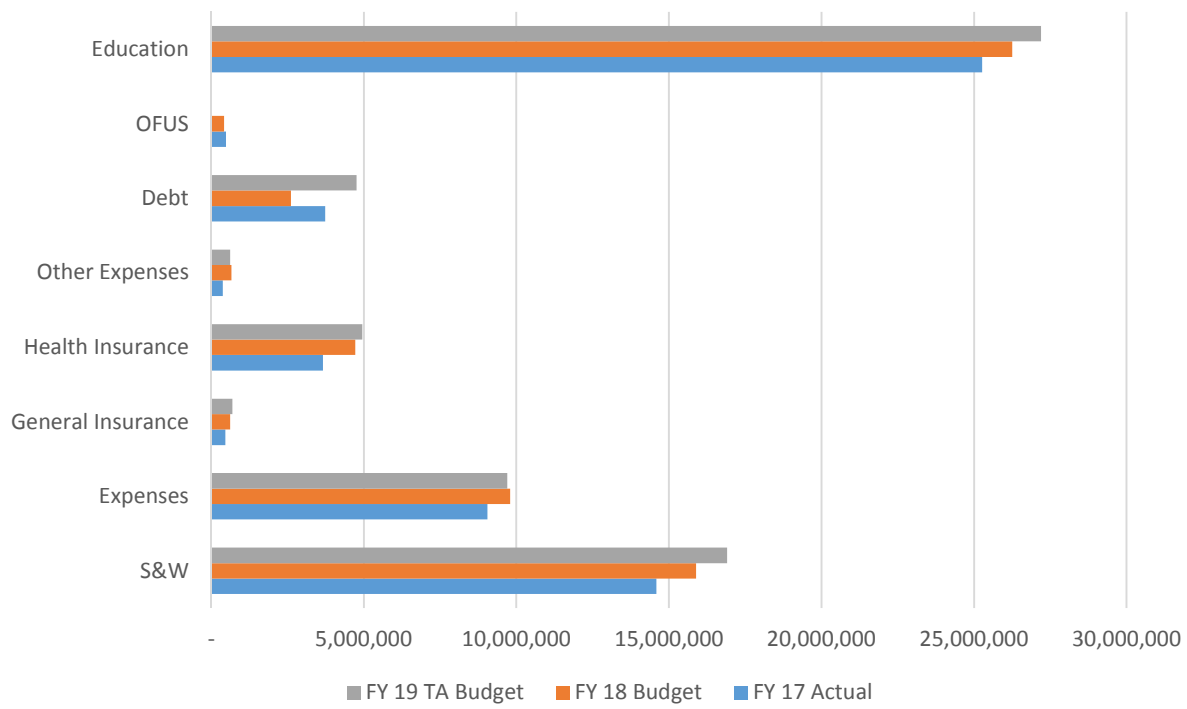
We have also included in this budget message a graphic that shows the various towns on Cape Cod that have increased their bond rating to a AAA. This includes our direct neighbors of the Towns of Dennis, Chatham, Brewster and Orleans. The Town of Harwich has an AA plus bond rating. The town already possesses a strong housing market and low unemployment and is very high in some area property values. It is these items that when matched with more consistent positive Free Cash and an improvement in reserves along with a stable and experienced finance team will help us hopefully achieve an AAA bond rating. This will be of tremendous significance as the town continues its entrance into a new phase of significant capital infrastructure improvements for addressing the wastewater issue.



3 BUDGET COMPARISONS FISCAL YEARS 2018 AND 2019

This section is designed to provide an overview of the FY 19 budget. The total **revenue** for FY 19 totals **\$65,371,876** and the total anticipated **expenditures** are **\$65,369,628** creating a slight surplus of \$2,248. I have decided to include our **Sources and Uses** graphic because it is a great summary of our fiscal picture as we move from FY 18 Budget into FY 19. My discussion afterward will center on larger items of note. While setting the FY 18 Tax Rate excess levy capacity was created in an amount of about \$50,000. Administration indicated that we would draw this down over a two to three year period. The Excess Levy capacity created in FY 16 has primarily been used in setting the rates in FY 17 and 18 with only an additional small residual available for FY 19.

3 Year Comparison by Major Category



**Town of Harwich
BUDGET 2019**

**Budget
FY 2018**

**Budget
FY 2019**

SOURCES OF FUNDS	FY 2018	FY 2019	%
Tax Levy Limit (R/E & PP)	46,774,148	49,437,132	5.7%
Local Receipts	11,410,769	12,786,945	12.1%
<u>State Aid</u>			
Cherry Sheet	676,729	678,426	0.3%
Overlay Surplus	100,000	100,000	0.0%
<u>Transfers:</u>			
Total Transfers In from Other Sources:	2,084,330	2,369,373	13.7%
TOTAL SOURCES	61,045,975	65,371,876	7.1%
USES OF FUNDS			
<u>Charges:</u>			
State-Cherry Sheet Charges (CCC & BC Tax)	663,358	701,651	5.8%
Overlay (Abatements- Taxes)	460,000	460,000	0.0%
TOTAL CHARGES	1,123,358	1,161,651	3.4%
NET AVAILABLE Sources	59,922,617	64,210,225	7.2%
Town Operating Budget	22,988,237	23,756,439	3.3%
<u>Semi-Fixed Cost</u>			
Barnstable County Retirement	2,681,194	2,763,836	3.1%
Debt Service	2,608,420	4,762,464	82.6%
Health Insurance	4,620,227	4,824,248	4.4%
OPEB	100,000	125,000	25.0%
Property & Liab. Insurance	613,451	691,000	12.6%
Unemployment	20,000	10,000	-50.0%
Total Fixed Cost	10,643,292	13,176,548	23.8%
Cape Cod Tech HS	1,487,362	1,581,237	6.3%
Monomoy Regional School District	24,759,749	25,693,753	3.8%
TOTAL USES	61,001,998	65,369,628	7.2%
NET SOURCES & USES	\$ 43,978	\$ 2,248	

SOURCES & USES

SOURCES:

On the **revenue side**, our primary source of revenue comes from **local property taxes** as governed by Proposition 2 ½. The total amount anticipated for Fiscal Year 2019 is **\$49,437,132** which represents a **5.7%** increase. The primary basis for the increase is from 2.5% of the levy plus \$250,000 anticipated for new growth. The Financing of Debt Exclusions from Wastewater and Harbor Projects are starting to come on line. **Local receipts** will account for \$12,786,945 of the FY 19 budget which is an increase of 12.1%. Administration is intentionally increasing our percentage in this area in an effort to keep Free Cash in the \$1.5 to 2.5 million dollar range as opposed to the \$4, \$1.9 or \$3.5 million dollar range. Generally, the Town continues to benefit from Transfer Station revenues primarily and building related activities (Building, Electrical and Plumbing Permits) Ambulance and Harbor receipts along with almost all other are reasonably flat. Motor Vehicle excise tax is a large amount of this and continues to show only very modest growth. This budget item also includes approximately \$84,363 which is predicated upon the Golf Department securing the landscape agreement with Monomoy Regional School District. This item is directly offset by the additional cost that will be incurred to perform this work. The CVEC electric receipts derived from the solar array on our former landfill have projected to be at a level sufficient to meet our target. Recent news that the rate of reimbursement may drop due to state regulators over the next five years is of modest concern. The **Cherry Sheet** is the name given to aid provided by the Commonwealth of Massachusetts. The estimate includes the Governor's budget 3.5% growth in what used to be called Lottery Revenue and is now referred to as UGGA. Due to other state charges this increase has been absorbed by additional assessments. The funds from the Massachusetts School Business Authority (MSBA) ceased in FY 2017. The new program is structured differently so will not have the same impact. I also plan to use \$100,000 from our overlay surplus to support the budget.

Transfers account for a portion of the budget with some notables including Water Enterprise Indirect costs which offsets General Fund expenditures for Water Employees. The Community Preservation Fund is used to offset Land Bank debt. Cable, Golf, Town Clerk, Harbor and betterment funds are used to offset operational costs (Cable) or support Debt Service (Harbor and Betterments).

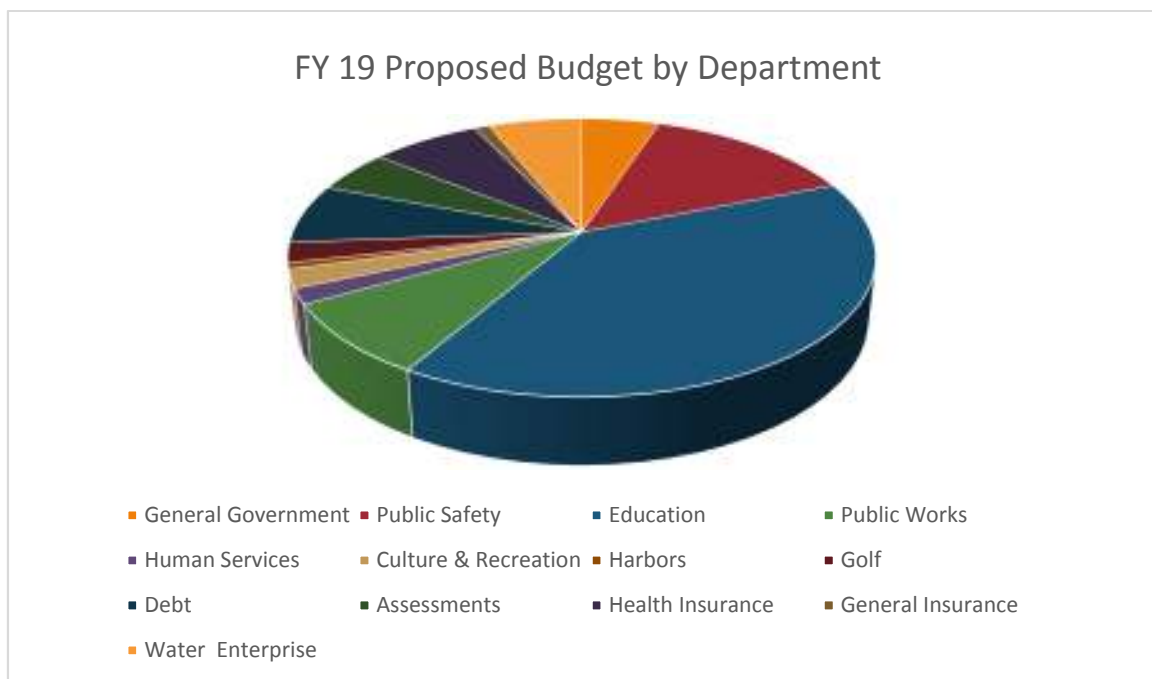
Charges & Allocation are items that we need to budget for and come directly from state law. The Commonwealth charges us operation costs and fees totaling \$701,651 or 5.8%. Proposition 2 ½ requires setting revenue aside to account for tax adjustments that come from requests for abatements. This account is known as the Overlay Reserve which is budgeted for \$460,000.

Available Free Cash	\$3,576,156	Total Revenue increased by 7.1% primarily driven by Proposition 2 ½ allowable increases and Local Receipts as referenced above is higher than in the past to try to stabilize our Free Cash amounts to between \$1.5 to \$2.5 million dollars. Funding our operations includes utilizing undesignated fund balance, better known as "Free Cash," which is certified at \$3,576,156 million. This amount is available to fund capital programs and to build reserves for the FY 19 budget. The breakdown of the Free Cash utilization is shown on the next page. This is the second highest it has been over the last five years and is used to continue to build reserves, fund OPEB obligations, meet
Capital Budget Items	\$1,446,853	
Monomoy Capital Assessment	\$225,000	
Snow and Ice	\$500,000	
OPEB	\$625,000	
Cultural Center Operations Subsidy	\$125,000	
Stabilization	\$500,000	
Chamber of Commerce	\$30,000	
Libraries	\$20,000	
Cultural Council	\$3,000	
Operating Budget Small Capital Items	\$80,000	
Prior Years Unpaid Bills	\$20,000	
Total Allocated	\$3,574,853	

Snow and Ice costs along with the more traditional use for Capital Items. This balance used in previous year has served the Town well.

Small Capital to be funded from Free Cash	
Community Center Computers	\$ 10,000
PD Printers	\$ 6,000
PD Desktop Computers (9)	\$ 11,000
PD Mobile Radar Units	\$ 5,000
FD Image Trend Reporting Software	\$ 7,500
FD Self Contained Breathing Apparatus	\$ 5,000
Harbormaster Office Furniture	\$ 10,000
IT Equipment	\$ 24,000
Total	\$ 78,500

USES:



On the **expense side** of the equation, the designated town operating budget increase is 3.3%. The salary and wage component was facilitated by the negotiation of 2% increases to the various collective-bargaining agreements. Negotiation of moderate increases can create a certain level of stability. It is interesting going through the budget, from a salary perspective, some departments have not only the 2% adjustment but also step increases and longevity play a significant role resulting in expenses over 2%. The wage adjustments for

individual positions (Library Director, Police and Fire Chiefs) and the Managers Union has increased some by larger percentages. This is due to concern over pay scales which were kept flat for several years. Further other comparable Town's pay scales are higher in some cases making this a necessary element of the budget if the Town does not want to create a brain drain situation of employees leaving for other Towns that offer better compensation.

Budget fluctuations in staffing costs range from modest increases in the Police and Fire budgets where staffing is somewhat consistent. Last year Administration inadvertently funded two new firefighters and one new police officer which were incorporated into the budget and not removed as anticipated. This matter allowed for both of these budgets to accommodate the new positions without significant budget impact. The positions are not filled in FY 18 until such time as the annual town meeting in May approves the higher levels for FY 19. The Library budget has a higher than normal percentage increase due primarily to staff with a high percentage who are still in the step system. The normal 2% economic adjustment is a base in which the steps are added on top.

The budget does include some newer costs such as in creation of the new waste water or sewer department in which an allocation of just under \$100,000 has been set aside in the new FY 19 budget. The reason for this is fairly straightforward. Building a sewer system will take some time and the costs for the town's buy in to the Chatham facility will be well beyond the ability of the new users to pay. The town of Chatham continues to have the same dynamic and has on an annual basis appropriated money from the tax levy to offset sewer operations until such time as sufficient number of users are brought into the system. A target amount of \$300,000 is contemplated for FY 22 when it is anticipated the system will come online. This budget plan calls for an additional hundred thousand to be added in FY 20 and 21 to ramp up to meet this target. The wastewater consulting services that have been included in the administration budget will be allocated to this sewer budget.

Administration budget does include funding for Salary adjustments (\$5,000) for Management Employees based upon salary surveys. The Department of Public Works was also increased for additional commitment to Solid Waste. The Solid Waste costs are offset by the increased revenue. FY 19 also has one more day during this fiscal year so the calculation for an annual salary is 52.2 weeks versus the 52.0 weeks in FY 18.

The ***enhancement of services*** is focused on *four positions including the two new firefighters that will enable the department to increase overall shift strength with four being needed to accomplish this and with two hired previously over the last four years. The Police department will increase staff by one on patrol which will allow for the officers that specialize in certain areas to dedicate more time to those areas instead of being assigned to patrol to offset shortages. The last of the four is to increase our information technology department from the one person operation to a two-person.* I believe that this is critical highlighted in a recent departmental review, no other town of our size and complexity has only one person in the technology department. Having only one person leaves the organization at a distinct disadvantage for filling the void in times of absence, succession planning or quite simply having one person that is pulled in too many directions limits that person's ability to meet the needs of the organization.

Revolving account laws only allowed for funding of part-time positions from user fees. The FY 18 budget included the creation of a revolving account for our Cultural Center. The FY 19 budget does contemplate hiring part-time staff at the clerical as well as custodial levels to help continue our utilization of the building. I believe

it is very prudent that prior to hiring personnel, the Board of Selectmen approves a longer-term use of the building in the current one and a half years remaining of this trial period.

The ***Semi-fixed cost*** section of the Sources and Uses identify costs that are prioritized for the budget. *Barnstable County Retirement system* has an increase of 3.1% this is driven by two factors primarily previous retirees and public safety who did or do not fund their full retirement and the requirement to have the retirement plan funded in full by 2040. Generally, all non-public safety employees pay the vast majority of their own retirement costs. *Debt Service* increased significantly 82.6% because of the initial payments of the SAQ Projects, IMA with Chatham, wastewater design and other projects which have required preliminary financing through short-term debt with long-term debt to be issued shortly. *Health Insurance* increase of 4.4% continues a trend of increased costs. The Town is part of a self-funded group called Cape Cod Municipal Health Group (CCMHG). A greater discussion of this issue is included later.

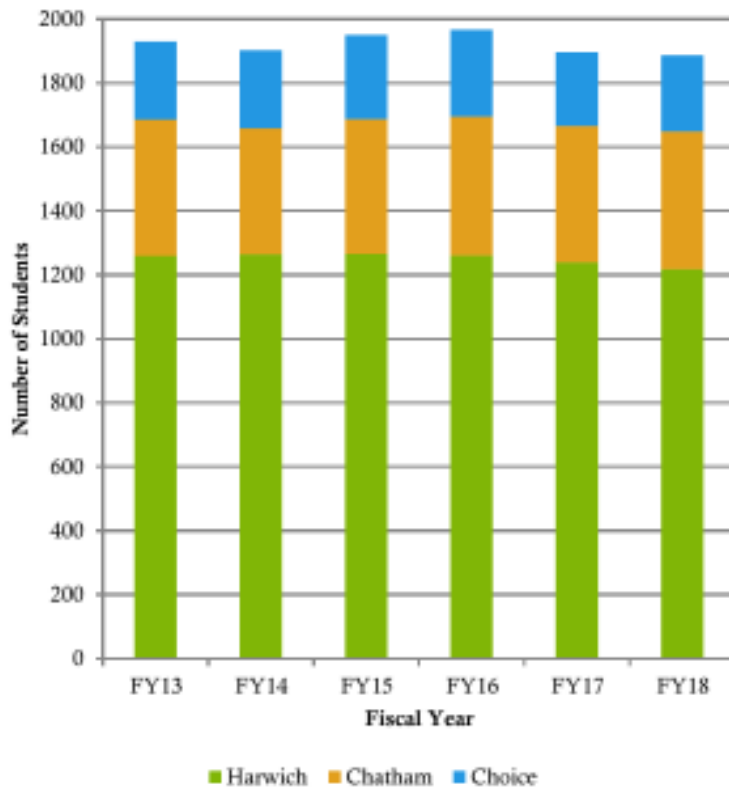
Salary and wages for the FY 19 budget includes the negotiated and anticipated negotiated settlements. The negotiated amounts are in the 2% range with some additional fraction of percent for other benefits. Seven of the eight unions have Collective Bargaining Agreements covering FY 18. Greater discussion is included in the Major Initiatives/Themes section of this Budget Message.

Education is a large portion of our overall budget. *Monomoy Regional School District* (MRSD) presented a budget that it considers to be a level of service budget consistent with their needs. This year's budget request along with previous ones have not had a net total increase in staff. The ***Monomoy assessment increase for the Town of Harwich is 3.99% (FY 18 was 4.0%) in total and the assessment for capital of \$260,038 is planned in this budget to be funded mostly by Free Cash (\$225,000)***. Monomoy has been able to build up its excess and deficiency account, they will be able to utilize this for a portion of their capital program. It is nice to see that our assessment this year is in a range of sustainable as identified last year. The range identified last year was assessments that are in the 3 to 4% range which create less pressure on our operating budget. This is significant when one considers that Monomoy is also a member of CCMHG and having cost pressures related to premiums with increases from 5% to 6% range for FY 19. I do believe that the constructive working relationship between myself and Mr. Carpenter helps to create better fiscal understanding and consensus. You can see a detailed assessment breakdown on the following page. MRSD is also proposing creating a stabilization account that hopefully will be utilized to build reserves to offset more significant capital projects in future years.

It would be my strong recommendation to try to reach budget agreement on the assessment as quickly in the process as possible. The education landscape on Cape Cod offers significant opportunities for families to have their children select other public schools or charter schools. These actions can be brought about simply by a crisis in confidence in our system. The financial ramifications can be significant as each student that leaves our system and goes into another public school costs approximately \$5,000; if a student chooses to attend a charter school the cost could be three times that amount. The more stability and confidence that can be utilized in determining the budget, the greater the probability for school-age children in the district to choose Monomoy and not depart.

	Harwich	Chatham	
Operating Budget	\$23,282,215	\$8,368,284	\$31,650,499
Transportation	\$430,896	\$149,905	\$580,801
Capital	<u>\$260,038</u>	<u>\$94,963</u>	<u>\$355,000</u>
	\$23,973,149	\$8,613,151	\$32,586,300
Debt	<u>\$1,636,241</u>	<u>\$597,535</u>	<u>\$2,233,776</u>
TOTAL FY19 Assessment	\$25,609,390	\$9,210,686	\$34,820,076
FY18 Assessment	Harwich	Chatham	
Operating Budget	\$22,460,001	\$8,119,156	\$30,579,157
Transportation	\$367,275	\$124,523	\$491,798
Capital	<u>\$224,114</u>	<u>\$80,886</u>	<u>\$305,000</u>
	\$23,051,390	\$8,324,565	\$31,375,955
Debt	<u>\$1,708,359</u>	<u>\$616,572</u>	<u>\$2,324,931</u>
TOTAL FY18	\$24,759,749	\$8,941,137	\$33,700,886
Δ From FY19 DRAFT to FY18			
Operating Budget	\$822,214	\$249,128	\$1,071,342
Transportation	\$63,621	\$25,382	\$89,003
Capital	<u>\$35,924</u>	<u>\$14,077</u>	<u>\$50,000</u>
	\$921,759	\$288,586	\$1,210,345
Debt	<u>-\$72,118</u>	<u>-\$19,037</u>	<u>-\$91,155</u>
	\$849,641	\$269,549	\$1,119,190
percent increase over FY18	3.43%	3.01%	3.32%

Monomoy District Enrollment Trends



Cape Cod Technical High School overall budget had a very modest increase of 1.44%. The number of students from Harwich has remained constant from FY 18 and FY 19 at 77 students. Last year the net increase of three students (#621) over FY 17 (#618) increased our assessment by more than double. This year despite no increase in students but with an overall decrease of 33. The impact is even more dramatic than last year where the overall budget increase is 1.44% but the Harwich assessment is 6.3% up from the 3.5% from last year. This amount has been provided for in this balanced budget. The Tech budget like the Monomoy budget does not have a net increase in staff.

Cape Cod Technical High School has received a favorable vote on their new facility. The FY 19 budget cost of borrowing will be absorbed by the Tech School budget. The FY 20 assessment will include some of the borrowing costs related to the project and assessed to each town. The town of Harwich in the October 2017 election did include a debt exclusion which also passed by an equivalent margin. This means that as our assessment increases for the debt portion of the project attributable to Harwich then the tax levy will be increased to meet this additional assessment cost for the duration of the borrowing. Our anticipated annual assessment cost for debt would be in the \$600,000 range depending upon the actual percentage when permanently bonded.

FY19 Draft Assessments

Towns	FY18	FY19	% FY19	Total Assessments		Change		Per Student FY17	Per Student FY18
				FY19	FY18	\$	%		
Barnstable	183	179	30.3%	\$ 3,682,234	\$3,535,665	\$ 146,569.00	4.1%	\$ 19,320.57	\$ 20,571.14
Brewster	43	41	6.9%	\$ 845,458	\$831,711	\$ 13,747.00	1.7%	\$ 19,342.12	\$ 20,620.93
Chatham	10	7	1.2%	\$ 144,333	\$194,070	\$ (49,737.00)	-25.6%	\$ 19,407.00	\$ 20,619.00
Dennis	67	61	10.3%	\$ 1,258,354	\$1,303,183	\$ (44,829.00)	-3.4%	\$ 19,450.49	\$ 20,628.75
Eastham	15	22	3.7%	\$ 454,819	\$291,987	\$ 162,832.00	55.8%	\$ 19,465.80	\$ 20,673.59
Harwich	77	77	13.0%	\$ 1,581,237	\$1,487,362	\$ 93,875.00	6.3%	\$ 19,316.39	\$ 20,535.55
Mashpee	57	53	9.0%	\$ 1,088,399	\$1,135,010	\$ (46,611.00)	-4.1%	\$ 19,912.46	\$ 20,535.83
Orleans	15	11	1.9%	\$ 226,114	\$290,179	\$ (64,065.00)	-22.1%	\$ 19,345.27	\$ 20,555.82
Provincetown	5	7	1.2%	\$ 144,381	\$97,409	\$ 46,972.00	48.2%	\$ 19,481.80	\$ 20,625.86
Truro	3	6	1.0%	\$ 124,697	\$57,075	\$ 67,622.00	118.5%	\$ 19,025.00	\$ 20,782.83
Wellfleet	9	13	2.2%	\$ 268,755	\$173,827	\$ 94,928.00	54.6%	\$ 19,314.11	\$ 20,673.46
Yarmouth	137	114	19.3%	\$ 2,341,152	\$2,645,675	\$ (304,523.00)	-11.5%	\$ 19,311.50	\$ 20,536.42
	621	591	100.0%	\$ 12,159,933	\$ 12,043,153	\$ 116,780			
						0.97%			

FY19 Enrollment by Town

Town	FY19	FY18	Change
Barnstable	179	183	-4
Brewster	41	43	-2
Chatham	7	10	-2
Dennis	61	67	-7
Eastham	22	15	7
Harwich	77	77	0
Mashpee	53	57	-7
Orleans	11	15	-4
Provincetown	7	5	2
Truro	6	3	3
Wellfleet	13	9	4
Yarmouth	114	137	-23
Total	591	621	-33



Department Requests Reduced

In total, Administration reduced over \$1,065,000 in requests. These are worthwhile concepts that could provide enhance services. Balancing a budget is always a difficult endeavor. Health Insurance reduction was due to the self-funded rates coming in at 6% instead of the projected 12% due to better loss history and the introduction of High Deductible Plans. I have identified some of the larger items reduced from the original requests. The list below shows some of the EOS Adjustments. Other reductions include only funding OPEB by an additional \$25,000 instead of \$200,000 more than the current budgeted amount of \$100,000.

EOS Department	FY 19 Amount	Purpose
IT	62,266	IT Professional to augment 1 person department
Channel 18	9,906	Part time videographer
Fire	38,310	Pre employment physicals, equipment, uniforms
Police	11,350	Physical/psychological exams, equipment
DPW	69,121	Building maintenance position
Cemetery	8,820	Pet crematory operator
Comm Ctr	25,018	Unstaffed hours/Sunday operation
COA	36,746	Receptionist
Recreation	14,458	Sunday operation
	275,996	
Amt funded	62,266	IT Professional
Budget Reduction	213,730	

The above consists of adjustments made to the departmental budget recommendations that administration needed to adjust or eliminate. This is not a full comprehensive list as other reductions were made during the individual budget sessions with departments. It shows a reflection of the refinements to go into the budget.

If these balanced budget recommendations are not taken, then the town will need to either increase local taxes or reduce operating costs by a like amount in order to bring the budget back into balance.

4 MAJOR INITIATIVES/THEMES FISCAL YEAR 2018 BUDGET

As in last year's budget message, Administration is attempting to highlight various initiatives or themes in each of the budget cycles. I have selected five Budget Initiatives to discuss in this section including: Maintain and Enhancing Levels of Service in the overall Budget, Education Impacts, Human Resource Elements (Collective Bargaining and Benefits), Comprehensive Wastewater Management Plan and Overall Financial Management (Capital, Debt and Reserves).

MAINTAIN AND ENHANCING LEVELS OF SERVICE

Upon my arrival to the organization in December 2013, I encountered a significant demand on the town side to bring levels of service up. This concept emerged from an expectation that the merging of the Chatham and Harwich school systems into Monomoy would realize significant dollar savings and therefore those dollars could be applied to the Harwich town side organization. Chatham did realize savings due more to how school choice is calculated and Harwich had cost avoidance where attempting to build a school on our own as opposed to using MSBA funds; a costly endeavor. Therefore a demand was created where precious dollars were not available. I've attempted in each of the budget messages to try to present modest salary increases, funding to the Proposition 2 ½ limits and not to request overrides, in an effort to modestly meet some of the requests for personnel that come in each of the budget cycles. Fundamentally, I believe that we can add one or two positions per year provided that local receipts continue to grow and costs such as health insurance are modest. In years in which revenues are tepid and health insurance costs border on double digits, necessitate a maintaining of service levels and not an expansion. The FY 19 budget is in this category. I have shown in one of the sections the new positions sought for an enhancing levels of service that were not funded.

A strong economy has created a condition in which now other entities and some Towns are going beyond the 2% norm for wages and have been adjusting people to higher levels. We are in the third year of a Market Analysis of our Management Positions and we are seeing some positions slightly above market (generally due to long tenure), many at market rate (when one calculates in the lucrative Longevity clause) and a fair amount of our management personnel are below the market. This has necessitated adjustments up to market for about one third of the positions. Four years of zero and only modest growth has not made up all the ground. Administration focuses on educating employees of not just the base wage but to highlight the longevity benefit and employer health insurance contribution. I have, in my experience, worked in municipal organizations where we became known as a great training ground for other higher paying Towns. We have lost at least two employees in the last six months to neighboring towns with greater compensation. Human resources and recruitment will be key items for the next few years.

EDUCATION (MONOMOY/CAPE TECH AND SCHOOL CHOICE)

Education on Cape Cod is a zero sum game as overall demographics show a decrease in school-aged population and a very active school choice environment. It is not a surprise in this environment that schools need to maintain viability by updating their academic programs, athletic programs and overall school facilities in which to compete in this highly competitive marketplace that not only pits systems against each other but also having to deal with private sector opportunities. How a school system is viewed is critical.

Monomoy Regional School District is a newer district trying to build a name and reputation for quality with limited class sizes. The construction of the new high school has definitely made people think in the area that Monomoy is a consideration. *Monomoy as a system creates a sense of stability continuing to develop beyond just the new facility into maintaining and enhancing academic programs and athletic offerings.* Harwich is already a home to a charter school and has a charter school in Hyannis that draws much attention. The Nauset school system has a quality reputation and much more established academic and athletic programs. In this competitive environment, currently the town has general fund expenses related to school choice tuitions and charter school tuitions, in fiscal year 13 those tuitions totaled \$1,780,537 with a continuing modest but progressive climb up to \$2,505,210 in fiscal year 18 with an anticipated decrease in fiscal year 17. *One goal that would help to moderate budgets for the Monomoy system would be to continue to market and retain*

Harwich and Chatham kids in the system and decrease the significant outflow of money that comes from school choice that could be redirected into the Monomoy system based upon current school choice regulations.

Monomoy's most recent reports of kids progressing at a faster pace than previously bodes well for continuing the story of a quality first small school environment. The quick evolution of the sports programs and other enrichment activities result in more students retained in the system. This is a short but positive trend.

The **Cape Tech Regional Vocational Technical School** has an existing solid track record for their vocational and academic programs but lacks an updated facility to operate said programs. The Tech School was successful before the voters to win support for the construction of a new school on their existing site. Harwich's portion will be a fraction of the total debt service for the project based upon enrollment numbers which are currently estimated for FY 19 at 13.0% of total enrollment. The more refined estimates anticipate construction cost to be in the \$120 million cost range with Massachusetts School Building Agency (MSBA) contributing a percentage. Detailed numbers will not be available until closer to the time that the bids are due in and the bids themselves will be more determinative of the actual costs. The original school was constructed in the 1970s and this upgrade comes as the building's life approaches the 50 year mark.

FY 19 School enrollments raise concern as the overall decrease in students in FY 18 was 7 and now the number is projected at 33. Harwich enrollment has held steady but our assessment has gone up higher because of the overall decrease. FY 19 is 6.3%. This is an area of concern as the overall budget increases are modest but ours have been much higher due to enrollment shifts.

HUMAN RESOURCES ELEMENTS (STAFFING LEVELS, COLLECTIVE BARGAINING AND BENEFITS)

Administration has decided to look at staffing levels over time in the organization to assess the history of the levels of effort. We did select the FY 04 budget year because that was a time in which it was a failed override of \$3 million and subsequently a successful override of approximately \$1 million. This sequence of events led to a reduction of \$2 million out of the budget and did have a material effect on staffing levels. We also show what staffing levels have been over the last few years and project into the FY 19 budget. You'll see in many cases that we have not returned to those previous service levels. I can assure you that when I started into this profession in 1990 to now, government type work has become much more complicated as demands of residents in communities' expectations continue to grow. Strictly from a budgeting perspective, our ability to meet these needs is limited. I have attempted to utilize technology where and when available to increase productivity without new staff. We have automated our sticker identification program at our transfer station and recycling center. This automation has made the process more accurate and more streamlined.

Administration does look each year to try to introduce technology where and when available. Reorganizations have also been a focal point as we try to size the organization properly and allow it to be modernized to address the advent of technologies. See staffing chart below:

Town of Harwich Department Staffing													
Department	FY 04 (FT)	FY 04 (PT YR)	FY 14 (PTYR)	FY 15 (FT)	FY 15 (PTYR)	FY 16 (FT)	FY 16 (PTYR)	FY 17 (FT)	FY 17 (PTYR)	FY 18 (FT)	FY 18 (PTYR)	FY 19 (FT)	FY 19 (PTYR)
Accounting	3			3		3		3		3		3	
Administration	5			4		4		4		4		4	
Assessors ¹	5			3		3		3		3		3	
Building	4	2	3	4	2	4	2	4	2	4	2	4	3
Cemetery ⁷	2	3	1		1	1		1		1		1	
Channel 18	1		1	2		2		2		2	1	2	1
COA	2	4	3	4	4	5	3	5	3	5	3	5	3
Communtiy Ctr.	4	4	2	2	2	2	2	2	3	2	3	2	3
Conservation ³		1.5	1.5	1.5		1.5		1.5	1	1	2	2	0
Engineering	2			2		2		2		2		2	
Golf	8	2	2	8	2	7	3	7	3	7	3	9	0
Harbor ⁴	4			3	2	4	1	4	1	4	1	4	1
Health ⁵	4	3	2	3	2	3	2	3	1	3	1	3	1
I.T.	1			1		1		1		1		2	
Library	5	16	21	6	18	6	18	6	22	6	21	6	21
Nat. Resource ⁴				1		1		1		1		1	
Planning ⁶	3			2		2		2		2		2	
Rec/ Youth	5	1	1	3	1	3	1	3	1	3	1	3	1
Town Clerk ²	3			3		3		3		3		3	
Treasurer/ Coll.	4			4		4		4		4		4	
Water	13	3	2	15	2	15	3	15	3	15	3	15	0
Youth	1			1		1		1		1		1	
DPW	29	?	?	35	?	36	?	37	6	37	7	37	7
Fire	35	2	2	34	2	34	2	34	2	34	2	36	2
Police	47	7	7	41	10	41	11	42	8	42	8	43	8
Total Employees	190	48.5	48.5	185.5	48	188.5	48	190.5	56	190	58	197	51

During my time with the town, I have advocated for modest wage adjustments that can be sustained within Proposition 2 ½ without the need for a General Override. This will be my fifth budget message and does not recommend a General Override. The workforce is heavily unionized and requires a more deliberative process of concessions and negotiations to negotiate the changes referenced above as well as negotiating modest wage adjustments. In general, many of the wage adjustments have had a base of 2% over this time with some allocation for modest benefit adjustments such as an incentive payment to not use sick time and modest increases in clothing allowances. The chart below shows the current status on collective-bargaining agreements and I am happy to report we're up to date with all (except one that is very close) and in FY 18 with seven of the eight units already settled. We have four units that have contracts expiring in June 2018. Four out of the eight contracts have already been negotiated and are in place for FY 19.

Collective Bargaining Unit As of January 17, 2018	FY17	FY18	FY19	FY20
Harwich Permanent Fire Fighters Association Local 2124	X	X	(1)	
Harwich Employees Association (HEA)	X	(1)		
Highways & Maintenance Employees Association (HMEA)	•	X	X	X
Harwich Management Employees Association SEIU 888	X	X	(2)	
International Association of Machinists & Aerospace Workers (Water)	X	X		
N.E. Police Benevolent Association (NEPBA) Local 103 Emergency Telecommunication Dispatchers	X	X	X	
Harwich Police Federation (Officers)	X	X	X	
N.E. Police Benevolent Association (NEPBA) Local 69 (Superiors)	X	X	X	
Personnel Bylaw	X	X		

(1) Currently in negotiations

(2) Has requested negotiations

X Existing/Current Contract

• Previous Contract

BENEFITS

Health insurance continues to be a significant issue. The town actively participates in the Cape Cod Municipal Health Group (CCMHG) a regional joint purchase consortium. The Town does realize the value of economies of scale by participation in the CCMHG. One of the significant drivers for health insurance costs on Cape Cod is the regional isolation as well as one primary provider - Cape Cod Hospital. The hospital derives a significant portion of its revenue from the Medicare and Medicaid programs, generally are underfunded, and therefore governmental entities and private sector businesses make up for the shortfall in the costs allocated to us for those services. The CCMHG is a self-funded entity with the necessary applicable stop-loss coverage to try to control costs. Our experience over the last several years in terms of utilization and costs as a group have been high in which for each dollar paid in premium we are close to spending a dollar on costs. The group has had prior year surpluses that have been used to offset or subsidize the rates. Those prior year surpluses have now been reduced down to the level of approximately 10% of premiums and within the approved reserve range of between 8% and 12%.

The first seven months of the FY 18 fiscal year have been historically good for our loss ratio dropping from just under a dollar down to 90 cents on the dollar creating the possibility for a very good year (Seven out of twelve months). This in combination with an audit that showed FY 17 was a little better than expected allows for modest rate increase for FY 19. The rates are increased due to medical and pharmacy trend information that continues to rise. The FY 19 rates have only minimal subsidy included and are closer to true costs levels. The level for active employees is 6% across the product lines.

The group actively utilizes wellness initiatives and in FY 18 year has introduced a new high deductible product that has helped to reduce costs for those who choose to enter the voluntary program. The High Deductible plan (to which I signed up) is a vehicle that requires paying a large deductible first in return for a reduced premium and the opportunity to receive additional tax benefits. The High Deductible account is also a great savings vehicle for it also acts as a medical IRA if you keep a certain balance in the account.

It has been an honor for me to actively participate in the Steering Committee of the CCMHG, to work on this challenging and complicated issue on not only the behalf of the town of Harwich but also for the over 50 governmental entities that utilize this group on Cape Cod and Martha's Vineyard. Obamacare had an influence on the marketplace, with the change of administrations and a commitment to again modify the health insurance marketplace, the impending decisions will have an impact locally.

The Town does continue to actively fund our Other Post-Employment Benefits by funding within the operating budget an amount and to then supplement as funds are available during times of larger than expected undesignated fund balances in revenue and expense turn backs. During FY 18 we funded the standard \$100,000 with an additional \$53,000 from available funds. The FY 19 Budget calls for the start of a ramp up with the \$100,000 moving up to \$125,000. Our one time contribution because of higher free cash is \$625,000.

COMPREHENSIVE WASTEWATER MANAGEMENT PLAN (CWMP) (BUILDING FOR FUTURE)

The Town has completed Phase 1 of the CWMP and this year's budget calls for the first large capital appropriation as the Town commences with constructing sewage sections of the Pleasant Bay Watershed, which encompasses most of the eastern portion of the Town. This area was chosen in part because of the opportunity to utilize the existing treatment facility in Chatham and because it is the primary source of the Town's drinking water. Table 1 below show the various components of the Phase 2 request.

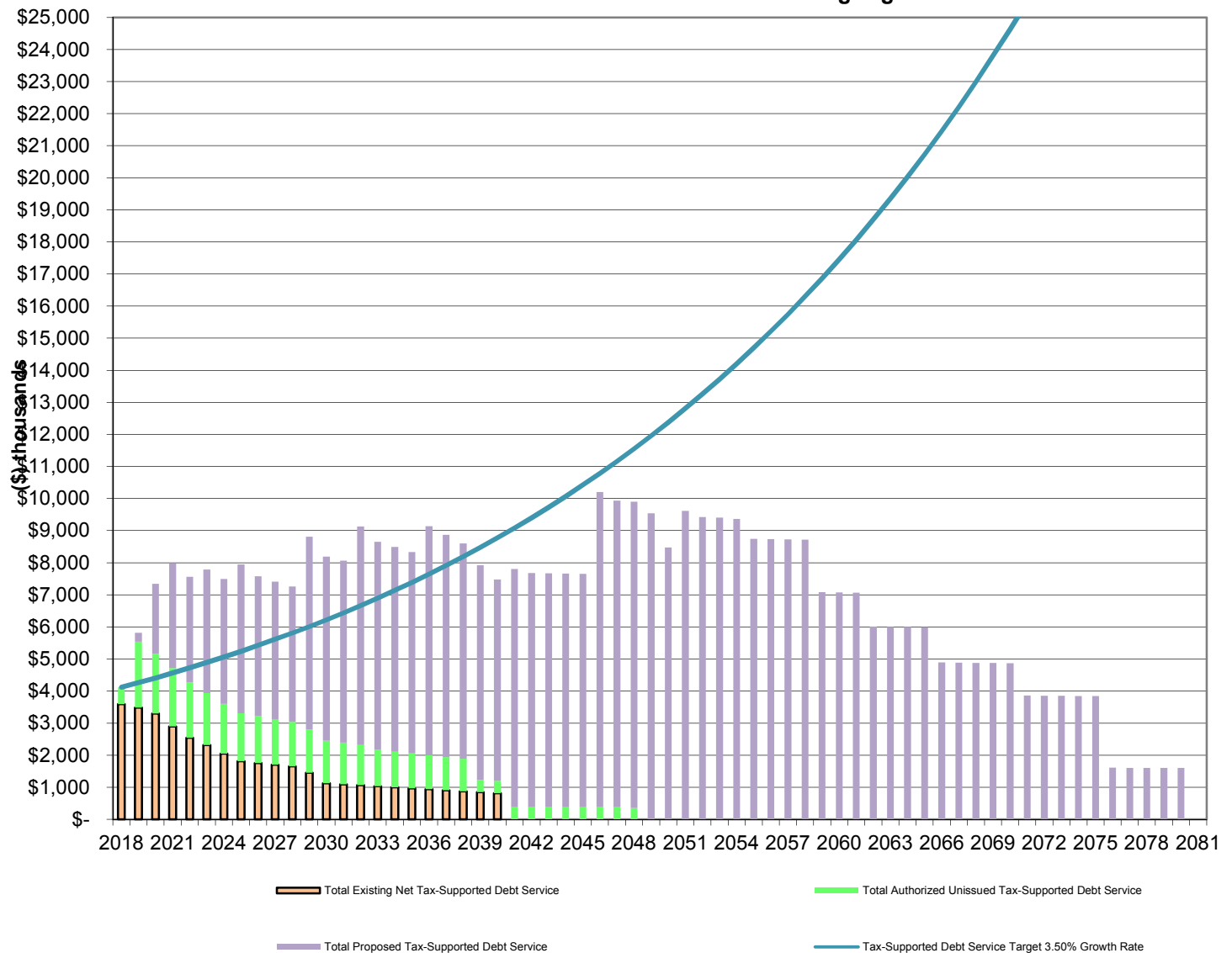
Table 1:

Cost for Installation of Pumps and Pipes for Chatham/Harwich Station	\$ 2,150,000
Construction of Sewers in Southern Pleasant Bay Area Phase 2 of CWMP	\$22,280,000
Hinckley's Pond Allium Treatment and Improved Access (Funded by CPC)	\$ 675,000

The total ***CWMP Phase 2 balance request is for \$22,430,000*** to be funded by a Debt Exclusion with the work to be done over a three to five year period. The Hinckley's Pond Project will be funded from Community Preservation Committee (CPC) funds that are designed to fund environmental and recreational projects. The CPC funds are raised each year as part of your tax bill. The Phase has two components: first, the connecting pipes and pump station to transmit the materials from Harwich to the Chatham facility. Second, the actual construction of approximately eight miles of sewer line and necessary pump stations to collect and transfer the materials into the Chatham system. Third, the Restoration of Hinckley's Pond. Administration and the Board of Selectmen were successful this time in having this funded through the Community Preservation Fund which has been done in other communities. The treatment process mirrors the same process used very well in Long Pond several years ago. The installation of a stairway and a covered area along the bike path that borders Hinckley's Pond will greatly improve its use by all residents and visitors.

Administration has been requested, and after designing out some financing concepts, we have engaged Hilltop Securities, our financial advisors, to put together some funding charts. I have enclosed one below. Separate educational materials are available on the overall plan and the request will be on the Annual Town Meeting Warrant and Election Warrant.

Town of Harwich, Massachusetts
Existing, Authorized Unissued and Proposed Tax-Supported Debt Service* (i.e. Excludes Self-Supporting Debt) by Category:
Includes MCWT Fees* and Existing High School Debt



*Assumes estimated interest rates and fees;

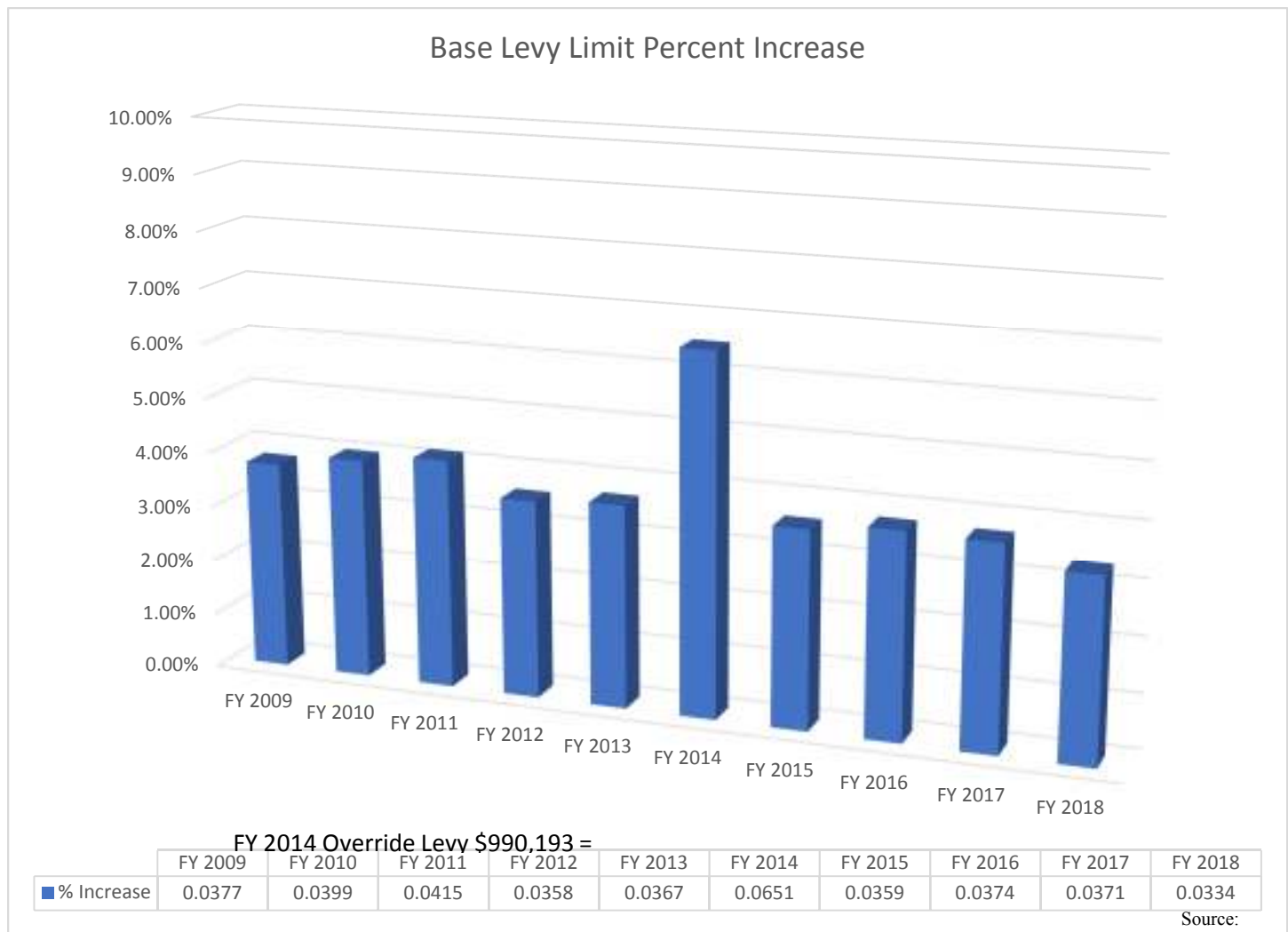
FINANCIAL MANAGEMENT (CAPITAL, DEBT AND RESERVES)

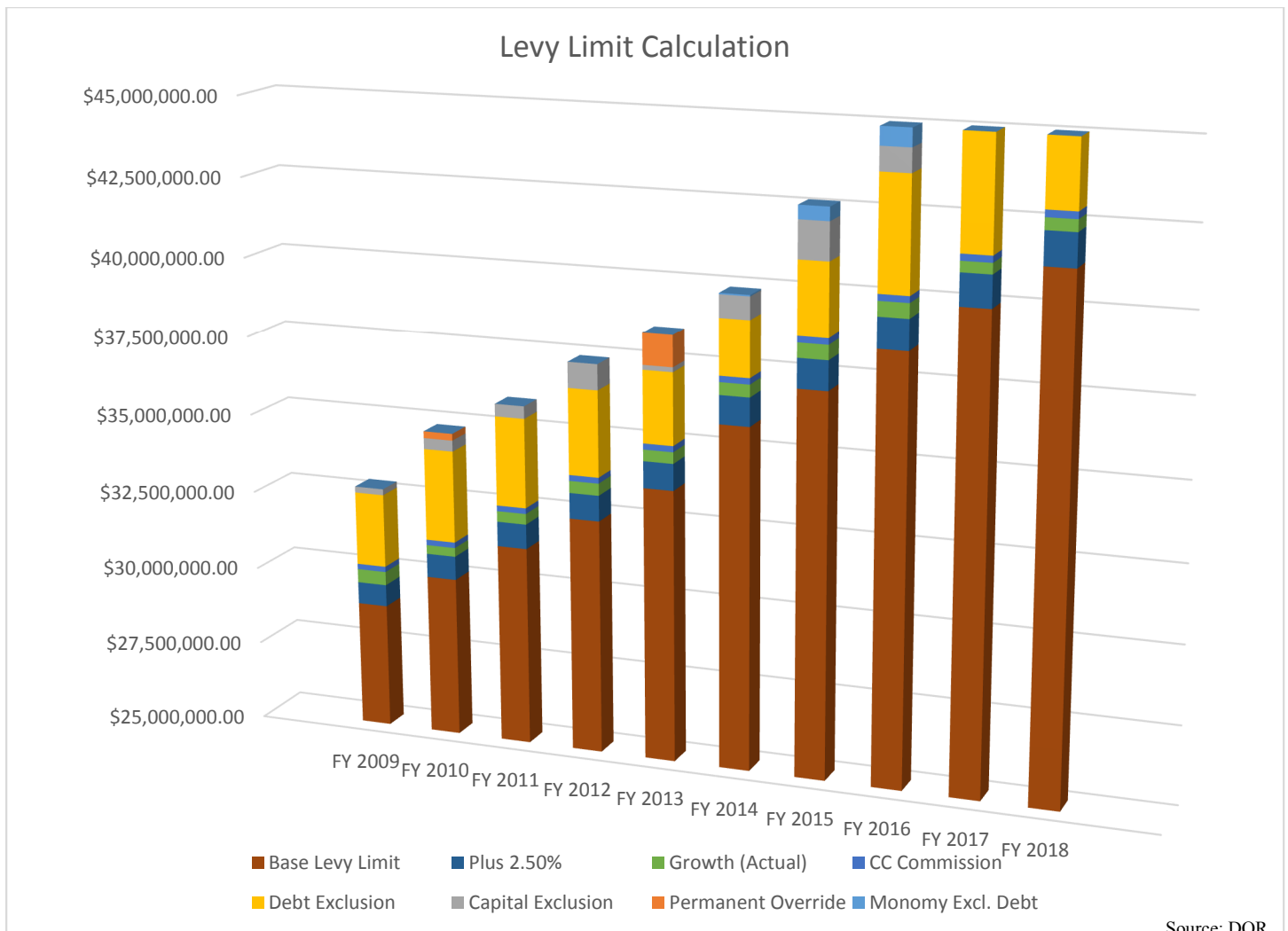
Financial Management discussion will be specifically discussed in the applicable sections of this budget message. Suffice to say here that with a comprehensive capital budgeting program, a debt plan that looks out over 40 years on the CWMP and other debt as well as a significant uptick in reserves, the Town is in an excellent place to consider a Standard & Poor's rating review. Administration has approached S&P for a short term Bond Anticipation Note sale and had a review. The review is included. The review contains completed information from FY 16 and did not give full credit for FY 17 to 18 which have been better years. They were very complimentary of our Financial Administration of the Town but were concerned about our Retirement Funding Plan that we are part of Barnstable County Retirement System. They would also like to see greater progress on funding OPEB liabilities. The FY 19 Budget shows progress on the OPEB funding in a much larger

way. Overall it was a very good review with a strong and stable rating of AA+ outlook. The rating criteria for a AAA has also changed and the targets of 10% reserves have moved up to now in the 20% range. The good news we are on our way but we are not quite to the 20% number. See more information in the Reserve Section. We will be going out in the next year or two as projects finish for the long term borrowing as one or two of the larger projects comes on line. The strategy of doing temporary borrowing to ensure that we only borrow for the long term actually what we need is only one tool to mitigate costs.

5 HISTORICAL TAX LEVY DATA

The Assessing Department has prepared several slides included in the presentation that show a fairly high level of consistency in the base levy limit percent increases from Fiscal Year 2009 through Fiscal Year 18 ranging consistently from 3 ½ to 4% with Fiscal Year 2014 at a higher level due to an override levy. The base limits in dollars also show a steady increase which reflect a strong ability of the town to meet its financial obligations. Finally, the levy limit calculation chart that shows a willingness on the voters part to not only support the Proposition 2 ½ levels but to also approve on a consistent basis both capital and debt exclusions, and on rare occasions, general overrides with the most recent being in Fiscal Year 2014.

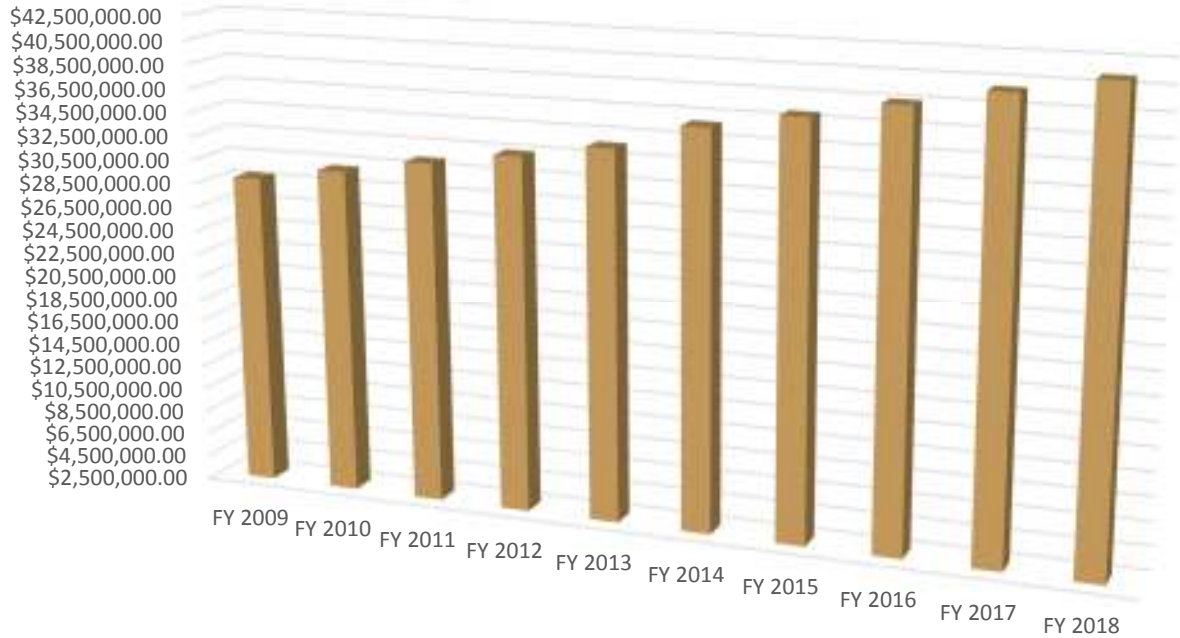




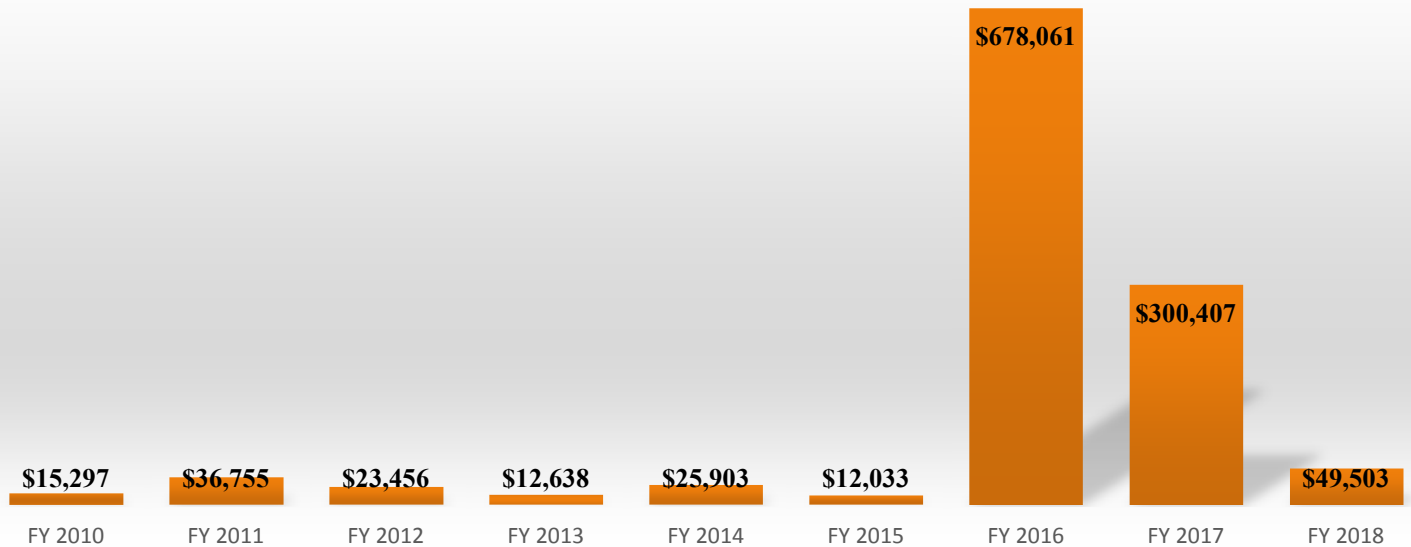
The above slide shows the components of the Levy Limit including the primary driver the Proposition 2 ½ limit per year. The Growth is the component of land that goes from raw to a constructed state or a home that is extensively remodeled is categorized as new Growth. The exclusions are items voted by the community to go above the Proposition 2 ½ amount for specific purposes. The most commonly used is the Debt Exclusion where that amount increases only during the time that debt in is being paid. When finished it then goes away. Administration tries to time debt so as debt falls off as the new debt is brought on line to try to mitigate increases where possible.

The two charts on the next page are first of the total levy raised historically. We did have a circumstance in which we did not raise the levy limit to the full amount and created excess levy of about \$700,000 in FY 16 and Administration working with the Finance Director utilized that capacity over FY 17, FY 18 and have a small capacity to use some toward the FY 19 Budget. This has acted as a small stabilizer to the budgets as this excess capacity was used over time. The chart also shows the long history of funding close to the limit and not having that capacity which is more of the normal situation.

Base Levy Limit in Dollars



Excess Levy Capacity



6 FINANCIAL FORECASTING

The Charter for the Town of Harwich includes a component in which a five-year financing plan is prepared for the Board of Selectmen's review and for planning purposes. This projection was completed and presented to the Board of Selectmen in the late fall. Projections show the opportunity to balance the budget with the growing challenges in the outer years. The finance team and I will continue to work on making the projections

as accurate of a tool as possible in order to predict what actions will be necessary in moving the community forward in order to stay within the confines of Proposition 2 ½. As always, alternative revenue sources must be explored and cost containment measures taken in order to provide resiliency and improve our ability to balance the budget. As in any revenue and expenditure forecast, the accuracy of the first year is very high, while the accuracy of the out years is lower. No person can truly predict or guarantee future developments with great certainty. The transition in the financial management team will give an opportunity to review current models which I believe to be fundamentally sound and make improvements and refinements where possible. *This projection is the one shown in the fall and not adjusted for current budget.*

FIVE YEAR FINANCIAL PROJECTION

9/20/2017		2019-2023	
		Assumptions Five Year Plan	
SOURCES			
Property Tax			
Property Tax (Base)		<i>Prior year ending Tax Levy Limit</i>	
Statutory Increase 2.5 %		<i>Statutory increase 2.5% per Year.....</i>	
Growth		<i>Growth is estimate at \$200,000 per year.....</i>	
Capital Exclusion		<i>As approved by ATM /STM.....</i>	
Debt		<i>Per Treasurer & Assessor and includes proposed debt</i>	
General Override		<i>NO General Overrides or/ Under ride included in plan.....</i>	
Overlay Surplus		<i>Per Assessor \$ 100,000 per Year 2019 - 2023.....</i>	
Community Preserv. Act		<i>Per Community Preservation Committee Debt Service (Land Bank Only) - Paid in full 2024</i>	
Provision for Abatement/Exempt		<i>Plan at \$ 480,000 for FY 2019 plus \$10,000 each year thru FY 2023.....</i>	
Non-Property Tax			
State Aid Gross		<i>Trend line projection based upon past history;</i>	
MSBA Reimbursement		<i>Ended in 2017</i>	
State Assessments		<i>2.5 % increase.....</i>	
Motor Vehicle Excise		<i>Weighted 3 yr ave, then 90%.....</i>	
Other Local Receipts		<i>Weighted 3 yr ave, then 90%.....</i>	
Other Available Funds		<i>Recap Sch. B-2 {Comcast Septic, Road & Harbors Betterments}.....</i>	
CVEC and Solid Waste		<i>Weighted 3 yr ave.....</i>	
Motel / Hotel Tax		<i>Weighted 3 yr ave, then 90%.....</i>	
Meal Tax		<i>Weighted 3 yr ave, then 90%.....</i>	
Cable		<i>3% of cable only, reduction to reflect actual trend.....</i>	

USES		
EXPENDITURES		
Municipal		
Operating Expenses		
Salaries and Wages	2.25% Annual Salary increases for FY 19 - 23.....	
Medicare	1.45% of total S&W	
General Expenses	Weighted 3 yr average, then increase 3.0% FY 19 and 1.5% thereafter.....	
Solid waste	Tipping fees increased from \$37.50 to \$70.00 effective January, 2015.....	
Unemployment	Plan \$20,000/yr for FY 19-23 (\$40,000 - FY 19-23 for Golf unemployment costs).....	
Legal	Increase \$5K per year	
USES		
EXPENDITURES		
Municipal (continue)		
Group Health Insurance	2019-2023 - 15%	
OPEB	up to \$300K per year	
Pensions- Barnstable County	5.28% increases for FY 2019-2023 according to Barnstable County Administrator, predicated on a 7.625% investment return - fully funded 2036.....	
Property / Liability Ins.	MIIA FY 19 for town only plus 3.0% per year through 2023.....	
Debt	Total Principal and Interest on existing Debt 2019-2023 Note: Authorized and Unissued Debt, as of July 1, 2017 is \$29,246,650	
State/County Assessments	2.5% annual increase on municipal accounts;	
Education		
C.C. Technical High	Per Ed Reform Calculation	Current projections are FY 18 plus 0 new students Budget + 3.25% 2019-2023
C.C. Technical High - Debt Svc		FY 20 interest only, 2021 - 2023 Prin & Interest - New Construction
		Total project cost = \$127,946,027, Harwich Assessment FY 18 12.4%
Monomoy Regional Schools		Pending Information by Region
MRSD-Operating	Per Regional Agreement	Operating Budget increase by 3.25%
MRSD-Capital	Per Regional Agreement	Capital Budget zero same as FY 2015
MRSD-Debt Service- Middle School	Per Regional Agreement	Not Exempt Debt under Tax Levy within Prop. 2.5% FY2019=\$24145.54, FY 2020 \$0. Note this debt payment is net of SBA.
MRSD-Debt Service H.S. BAN	Per Regional Agreement	\$1.5M BAN outstanding - awaiting close out - 2019 Interest Only, 2020 - 2023 Prin &
MRSD-Debt Service H.S.	Per Regional Agreement	Debt Service 9/16/2014 2016-2040.....Interest @ 3.07%...25Year.....
MRSD - Debt Service - Roof		Est 1.9M project anticipated 2022, FY 2023 interest only

7 SPECIFIC BUDGET DATA

Items of significance such as last year's message included an analysis of fringe benefits and other large capital projects such as the SAQ Landside Harbor Project and the Golf Operations Project.

A. Fringe Benefit Analysis

FY17 - Fringe Benefits Analysis - Average Per Full-Time Employee

	Total	Fringe Benefits					Fringe Benefits	
Position	Avg Wages	Health	Retirement	WC	IOD	UnEmp Comp	TOTAL	Percentage
Public Safety	\$ 69,938	\$ 14,220	\$ 9,791	\$ -	\$ 1,425	\$ 210	\$ 25,646	37%
Public Works (37)	\$ 57,690	\$ 14,500	\$ 8,077	\$ 1,869	\$ -	\$ 173	\$ 24,619	43%
Admin/Clerical (56)	\$ 59,418	\$ 13,500	\$ 8,319	\$ 48	\$ -	\$ 178	\$ 22,044	37%
Water ¹ (13)	\$ 61,143	\$ 15,750	\$ 8,560	\$ 2,116	\$ -	\$ 183	\$ 26,609	44%
Harbor/Maint/Parks&Rec/Nurse ¹ (20)	\$ 67,807	\$ 16,880	\$ 9,493	\$ 1,709	\$ -	\$ 203	\$ 28,285	42%

Administration was requested to complete an estimate of fringe benefit costs related to employees. We have attached as part of his presentation in the PowerPoint section a slide that details out some of the costs of those fringe benefits. In order to do a study of this nature, a large number of assumptions need to be made. We did group various positions into employee categories such as public safety which covers Police and Fire Personnel, Public Works including Highway, Transfer Station, Cemetery and Parks personnel. Administrative and clerical cover a wide variety of personnel including most of Town Hall and the Library. Water Department personnel were separated off in part because the information is more readily available due to the Enterprise Operation. Lastly, we had another grouping of people as kind of a catchall such as Harbor, Custodial and Maintenance, Recreation and the Public Nurse.

The caveats include a large majority of employees do take health insurance, but not all. The coverage ranges such as individual plans to family plans, as well as from HMO to PPO so a blended rate was derived in order to use one number. Retirement allocation is significantly skewed as we took the retirement allocation of our current assessment and applied it to the current employee payroll list. Employees who have previously retired at a 5% or 7% contribution rate did not pay the full actuarial cost of the retirement. Current employees, on the other hand, fund their retirement at 8% or 9% with a 2% surcharge on anything over \$30,000, from an actuarial perspective these employees provide for their own retirement without any significant subsidization from the taxpayer. Police and Fire personnel, due to their shorter length of service, only cover a portion of their total retirement from an actuarial standpoint. The workers compensation and Injured on Duty are derived from either the state schedule or past history. Unemployment compensation is strictly allocated based upon a budgeted amount versus payroll.

B. Infrastructure Improvement: Harbor, Golf and Fire Operations (Wastewater discussed in this Section 4)

The town has been faced with significant challenges in the form of improvements to its harbors, including the **Saquatucket Harbor** waterside capital improvement project which was voted by the voters at the May 2017 Town Election. Saquatucket Harbor, which is our last harbor to receive renovations, will be completed in a two phase process. The first process is the waterside work that is currently under construction with an anticipated completion date of the spring of 2018. The second phase presented at the 2017 Annual Town Meeting includes the landside work that will focus on the redevelopment of the purchased Downey property which will include the Harbormaster shop, improvements to the restroom facilities and the possibility for a food service facility along the waterfront. The landside is currently underway, however due to a strong economy the costs

are greater than originally anticipated. The harbormaster has been successful in obtaining a \$1 million Seaport Grant to offset some of this overage. Town meeting will be requested to approve spending additional resources contained within the original appropriation and offset by million dollars to complete the project as envisioned by the site plan presented at the 2017 annual town meeting. A review and appraisal of the old existing Maintenance Building on Bank Street could be sold off with the proceeds to offset the cost of new buildings. Town meeting authorized the sale of this property as well last year.

The **Golf Operation** last year sought and obtained a debt exclusion to complete an update of facilities and parking areas. The \$1.2 million dollar plan calls for the replacement of the antiquated cart barn, reskinning of a maintenance building, reconfiguring some cart paths and the traffic configuration of the traveled lane and the parking areas. The Golf Operation did request, and Town Meeting approved, a new fee to cover the vast majority of costs. The construction work is underway and an additional request to be funded from golf fees for additional parking configuration and landscape design elements is being sought in this town meeting.

The **Fire Department** last year was approved for designing renovations to Station Two located on Route 137. The design work has been completed and initial construction estimate of just over \$6 million has been approved by the Board of Selectmen. The Fire Station Building Committee has recommended and the Board has agreed to build a new facility on the existing location.

C. Review Of Departmental Operations For Self-Sufficiency

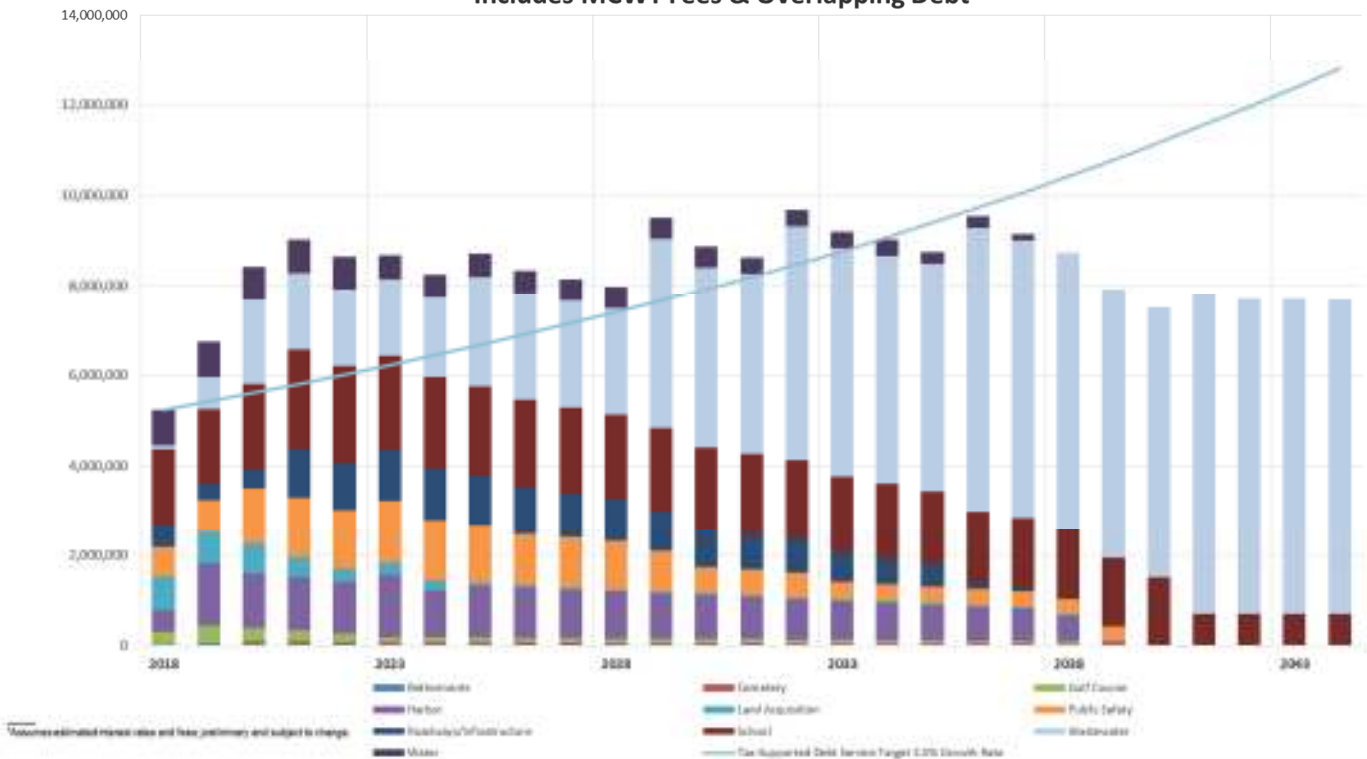
The town has made use of Massachusetts General Laws Chapter 44, Section 53 with all of its subsections to make use of self-supporting or enterprise types of operations. The new Finance Director will be working with Administration to continue the work that has been started on this topic and to raise the awareness of departments that have the ability to become more self-sufficient to do so. Due to the large number of personnel changes, efforts in this area have not been as developed as Administration would like. As the transitioned personnel settles itself out Administration hopes to return to focus in this area. We will be looking at two areas for this upcoming Town Meeting. State Rules have changes regarding Cable Operations and the Middle School Cultural Center Concept can be best assessed if dealt with as a Revolving Account.

8 DEBT STRUCTURE

Any good financial planning document will include how the town structures and funds its debt. Now that some of the initial payments of the Monomoy Regional School District project exclusion payments have been made in FY 16, I believe that we will see some moderation in the rates as that debt service begins to decline as well as other items come to conclusion. The SAQ harbor water side project will add to the debt; however, this should be moderated as a large portion of this should be paid with harbor receipts in lieu of general taxation. The implementation of Phase 2 of the CWMP will add additional costs to the debt service. The overall financing plan of wastewater initially has been included in an earlier section of this message.

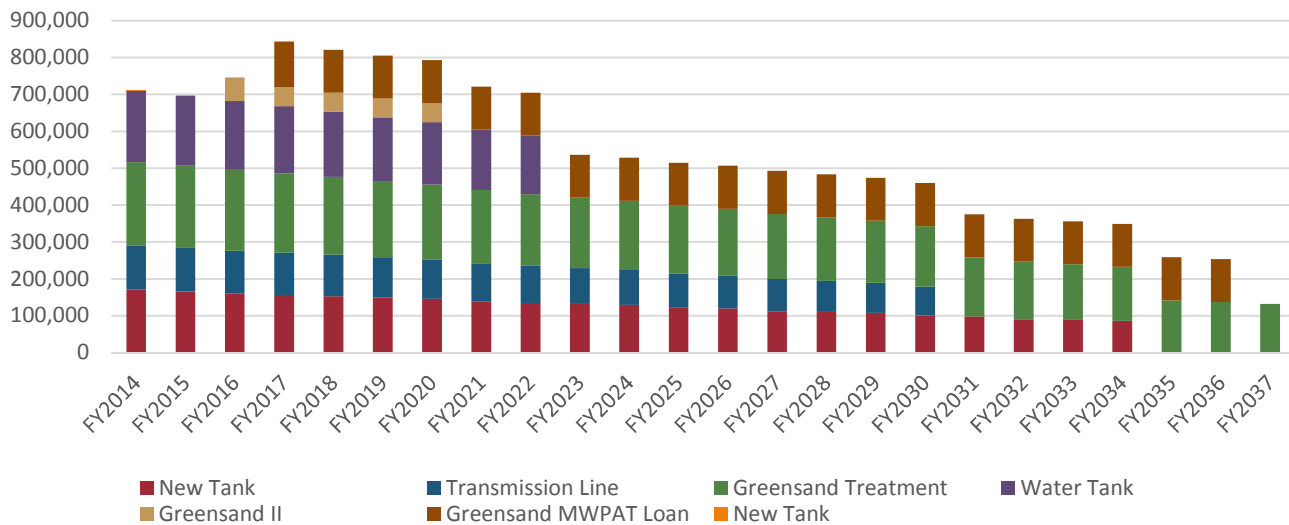
The funding of the Wastewater Implementation Plan will be significant and needs to be funded over a multi-decade period of time. The hope is that a lot of the funding will be able to be accomplished through the state revolving loan program which in general has had a past history of borrowing interest of around 2% or less. This should be advantageous in the development of the wastewater management system. The below chart shows a potential costs with all projects (Only includes Phase 2 of the CWMP)

Town of Harwich, Massachusetts
Annual Debt Obligations by Major Category
Existing, Authorized Unissued and Proposed Debt Service*
Includes MCWT Fees & Overlapping Debt



Water is an Enterprise Operation and shows some of the first significant debt falling off occurring in FY 2023. It is a plan that as debt falls off additional capital projects will be pursued and use the available cash to meet the needs of the capital program of the water system.

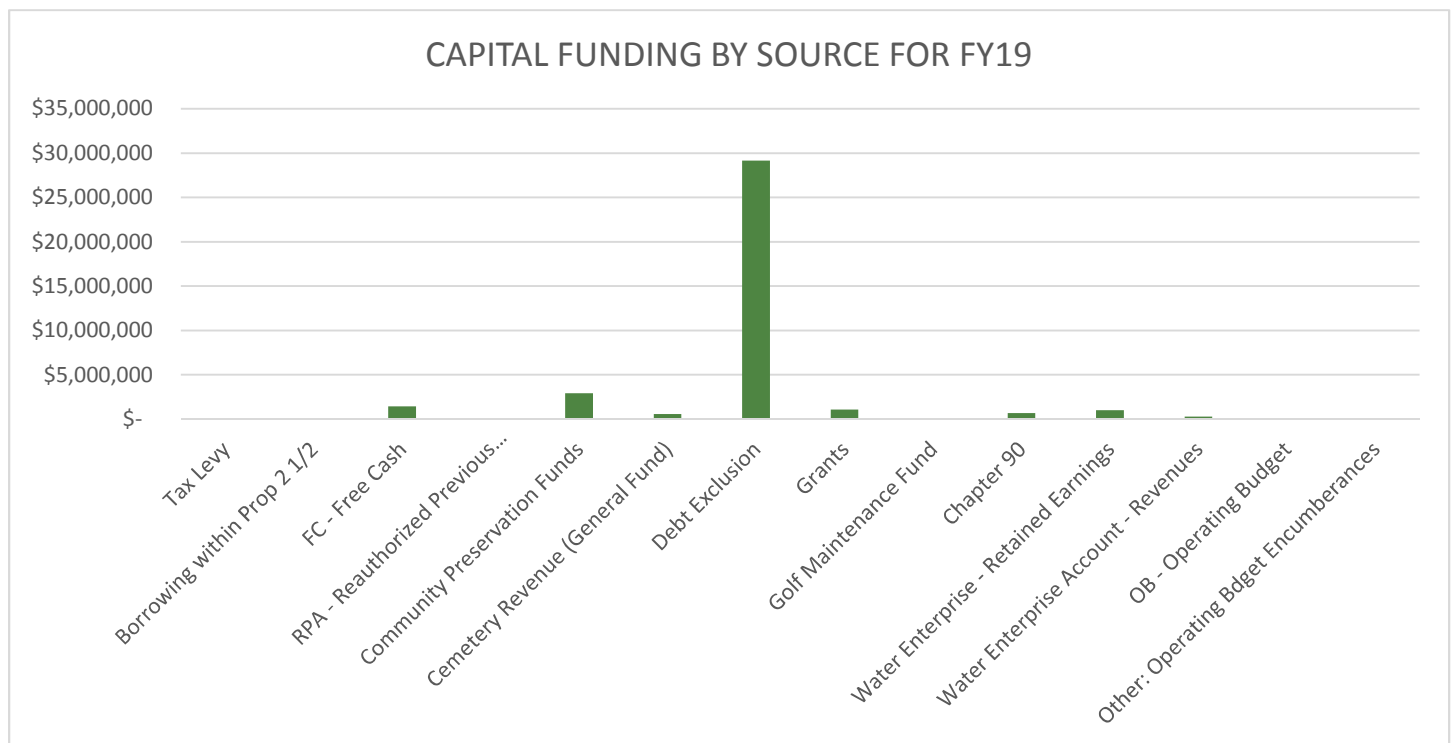
Water Debt Service



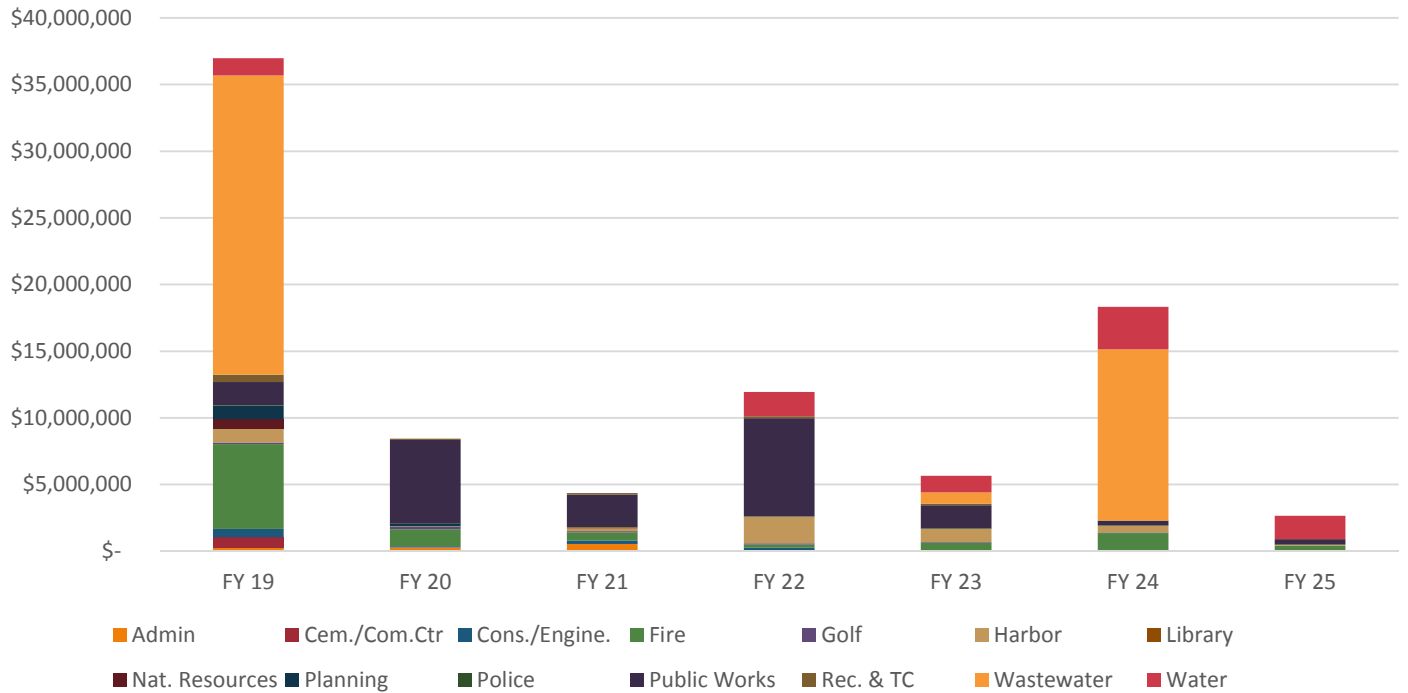
9 CAPITAL BUDGET

The FY 19 Capital Budget process went pretty smoothly as the forms have now become more commonplace and the early information on the amount of Free Cash that is available has allowed for decisions to be made on funding. I do greatly appreciate the efforts of the Capital Outlay Committee on determining prioritization of the requests. I have attached the latest version of the Capital Budget Request Summary that covers from FY 18 to FY 24. I believe the departments did a very good job in providing a seven-year look ahead for the needs of the community.

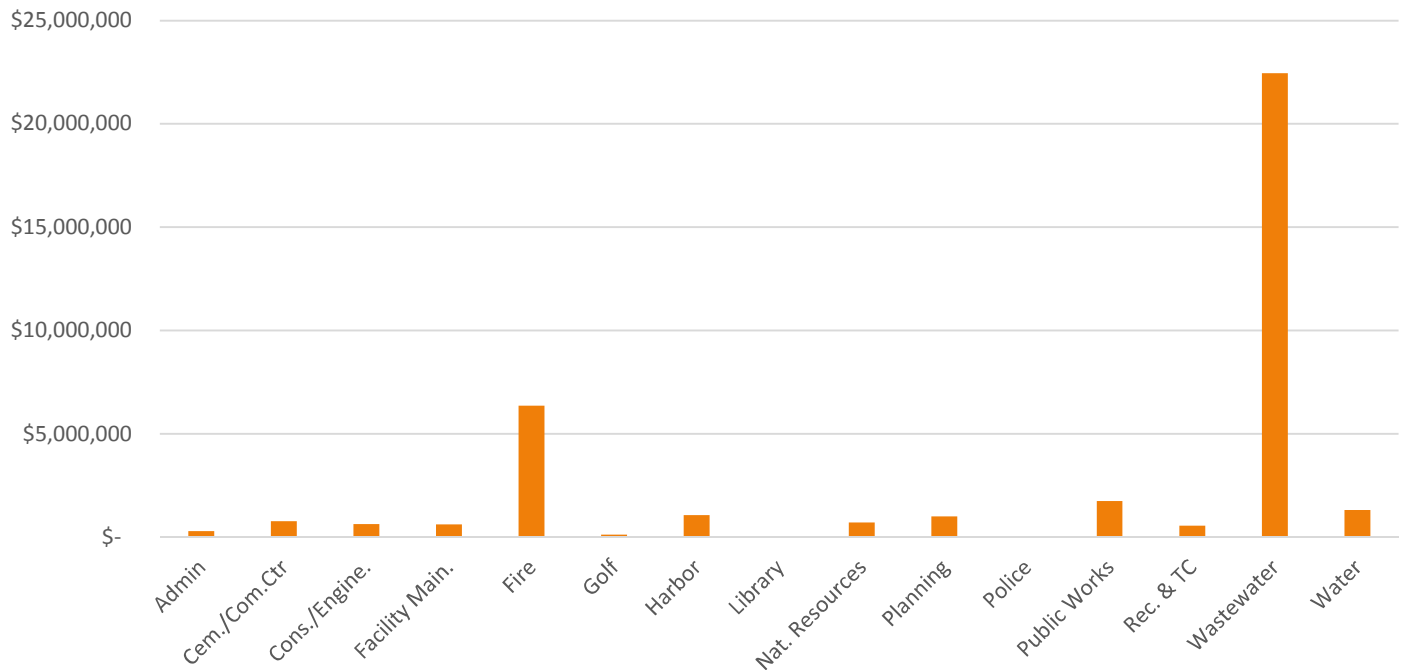
The capital budget component will be broken down based upon funding sections that include utilization of Free Cash, General Fund borrowing capacity, Capital Exclusions, Debt Exclusions, Golf Maintenance Fund, Chapter 90, Water Enterprise and other funding mechanisms. The funding is predicated upon the recommendations of the Town Administrator and do match up with the recommendations of the Capital Outlay Committee.



CAPITAL REQUEST BY DEPARTMENT FY19 TO FY 25



FY 19 CAPITAL BUDGET REQUEST BY DEPARTMENT



Please see below the funding plan included in the Capital Plan for FY 19. Debt Exclusions are borrowing authorizations that may take several years before final borrowing. Please see Detailed Capital Outlay Forms attached.

Debt exclusions

• Public Works	five-year road maintenance program	\$ 700,000
• Wastewater	Phase 2 (Chatham Connection and Construction)	\$ 22,430,000
• Fire	Station 2 Construction	\$ 6,050,000
• Cemetery	Pet Crematory Building	\$ 486,000
• Cemetery	Pet Crematory Equipment	\$ 91,950
Total		\$ 29,757,950

The FY 19 funding plan does also call for funding several operating budget small capital items from free cash totaling **\$78,500**.

<u>Project</u>	<u>TA Rec</u>
<u>Funding Summary</u>	
Tax Levy	\$ -
Borrowing within Prop 2 1/2	\$ -
FC - Free Cash	\$ 1,446,853
RPA - Reauthorized Previous Appropriation	\$ -
Community Preservation Funds	\$ 2,912,515
Cemetery Revenue (General Fund)	\$ 577,950
Debt Exclusion	\$ 29,180,000
Grants	\$ 1,071,250
Golf Maintenance Fund	\$ 109,000
Chapter 90	\$ 700,000
Water Enterprise - Retained Earnings	\$ 1,018,700
Water Enterprise Account - Revenues	\$ 285,000
OB - Operating Budget	\$ 60,600
Other: Operating Bdget Encumbrances	\$ 40,000
Confirmation Total	\$ 37,401,868

Small Capital to be funded from Free Cash	
Community Center Computers	\$ 10,000
PD Printers	\$ 6,000
PD Desktop Computers (9)	\$ 11,000
PD Mobile Radar Units	\$ 5,000
FD Image Trend Reporting Software	\$ 7,500
FD Self Contained Breathing Apparatus	\$ 5,000
Harbormaster Office Furniture	\$ 10,000
IT Equipment	\$ 24,000
Total	\$ 78,500

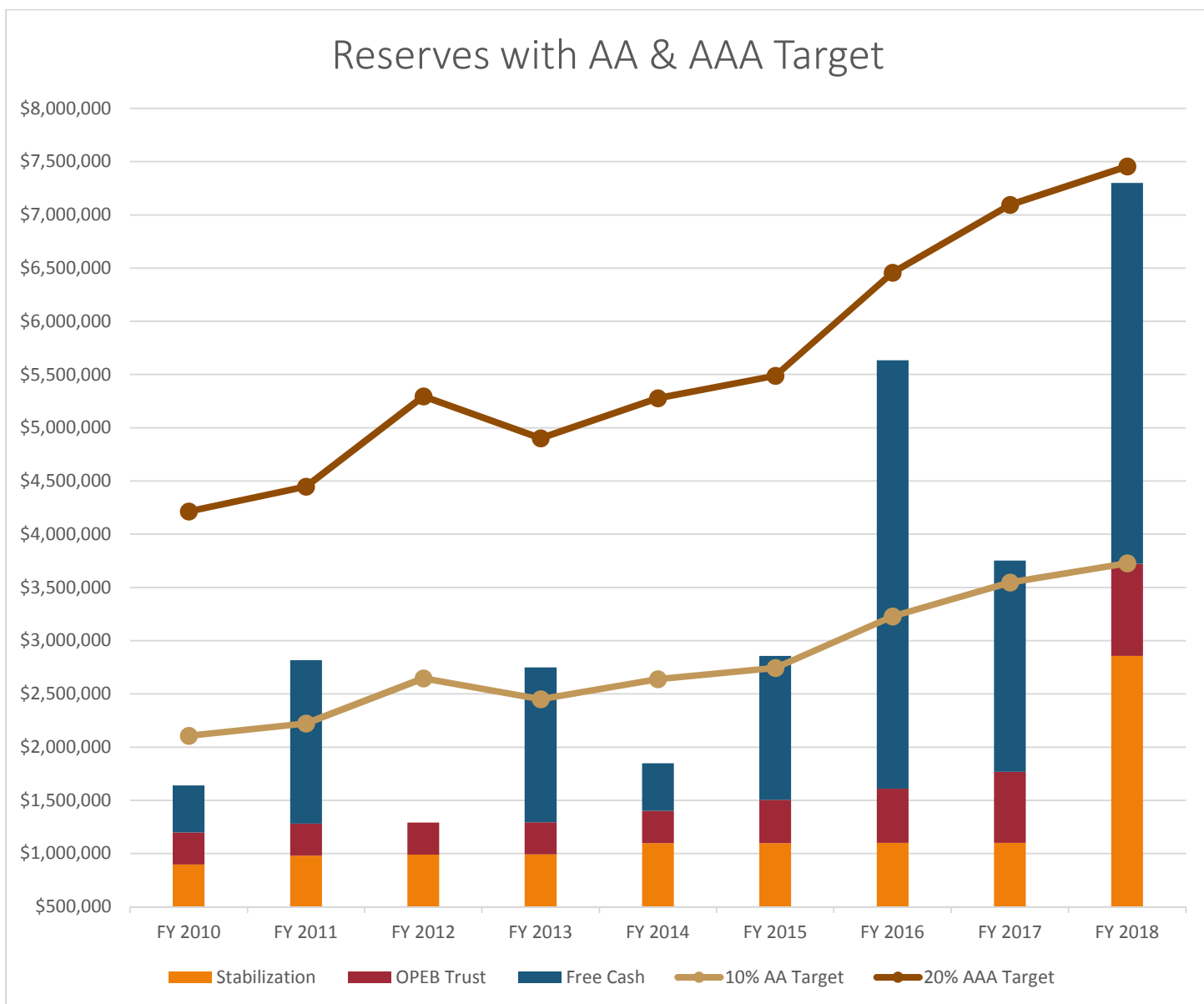
CPC Summary is also listed below of requests and what total of funding. Detail is included on Capital Budget Request Summary.

Community Preservation					
Available	(12/13/17*)	REQUEST	TOTALS	Funding	CPC Voted
UND./Rec.	\$1,399,446	UND./Rec.	\$435,500	UND./Rec.	\$1,230,500
Open Sp.	\$391,472	Open Sp.	\$1,169,000	Open Sp.	\$359,000
Historic	\$606,299	Historic	\$523,015	Historic	\$523,015
Housing	\$786,437	Housing	\$1,210,000	Housing	\$800,000
TOTAL	\$3,183,655	TOTAL	\$3,337,515	TOTAL	\$2,912,515

CPC, BOS and TA Recommendations			
<u>Department</u>	<u>Project</u>	<u>Funding Source</u>	<u>BOS/CPC Approved</u>
ADMINISTRATION			
Admin	Albro House - Status Assessment	CPC - Historic	\$ 2,500
CEMETERY			
Cemetery	Mount Pleasant Cemetery Gravestone Conservation	CPC - Historic	\$ 49,900
COMMUNITY CENTER			
Community Center	Basement Constructions of Public Records Storage	CPC-Historic	\$ 120,275
CONSERVATION			
Conservation	Harwich Artificial Reef (Additional Project)		
Conservation	Preservation of the Judah Eldredge Property	CPC - OS	\$ 209,695
	Preservation of the Judah Eldredge Property	CPC-UN/Rec	\$ 159,305
Conservation/REOS	Eldridge/Cornelius Pond Property - Conservation Restriction over 15 Acres	CPC - OS	\$ 200,000
ENGINEERING			
Engineering	Pleasant Lake Avenue Crossing Lights	CPC-UN/Rec	\$ 27,000
Facility Main.-DPW			
Facility Main.-DPW	Library Preservation (Supplemental Appropriation for Exterior of Building)	CPC - Historic	\$ 300,000
LIBRARY			
Library	Supplemental Library Exterior Preservation(See Facility Maintenance)	CPC - Historic	
Library	Library Preservation and Digitization of Harwich Oracle Newspaper	CPC - Historic	\$ 10,340
NATURAL RESOURCES			
Natural Resources	Hinckley's Pond Restoration and Public Access Area off of Route 124 (Pond)	CPC-UN/Rec	\$ 575,000
	Hinckley's Pond Restoration and Public Access Area off of Route 124 (Rec)	CPC-UN/Rec	\$ 75,000
PLANNING			
Planning	Housing Trust/PT Housing Coordinator (\$300K for Trust & \$40K for PT Co.)	CPC-Housing	\$ 490,000
Planning	Housing Trust/PT Housing Coordinator (\$300K for Trust & \$40K for PT Co.)	CPC-Undes.	\$ 10,000
REC & YOUTH			
Rec & Youth	Brooks Park Phase V - Comprehensive Light Plan	CPC-UN/Rec	\$ 333,500
TOWN CLERK			
Town Clerk	Records Retention - Contracting out Records Review and Reduction (TH)	CPC - Historic	\$ 40,000
Non-Town/Private	CPC Applications		
CDP	Community Development partnership - Cape Housing Institute	CPC - Housing	\$ 10,000
Habitat of Cape Cod	93 & 97 Main Street Route 28 (6 homes subsidy X \$50K each)	CPC - Housing	\$ 300,000

10 RESERVE FUND BALANCES

Administration considers reserves in a general way to include in part available undesignated fund balance otherwise known as "Free Cash", Stabilization Fund, OPEB Trust Fund and any other sources applicably recognized by the various bond rating agencies such as Standard & Poor's. It continues to be the intent of this Administration to move reserves to the range of 8% to 12%. You will see for FY 16 and 17, we have made it up to the target range of over 10%. Prior levels were around 5.4%. The Town continues to improve its fiscal situation to the new bond rating of 20% for reserves. Sustaining these numbers will be key in creating better stability of the Administrative and Finance Team which will also be crucial to the bond rating agencies. This FY 19 budget recommendation adds \$500,000 to our Stabilization Fund, increases our OPEB funding by an additional \$625,000 plus operating budget amount of \$125,000 and provides snow and ice reserve of \$500,000.



11 ECONOMIC DEVELOPMENT STRATEGY

Administration will continue to review current practices and adopt a multifaceted economic development strategy over the next several years. The essential elements of the strategy include:

- Advocate for single tax rate stability, tax policy and water fee policy
- Promote pro-business from the environment businesses seeking to come to town. Research efforts of the Chamber of Commerce, the County and various state agencies to seek out opportunities.
- Continue to support efforts to promote the town in general and enhance tourist efforts.
- Actively market surplus property for sale such as the middle school and promote business development utilizing in part local newspaper stories
- Review and/or expand our pro-business incentives.
- Keep up with infrastructure repairs, promote benefits of town services, including schools.
- Continue to work to develop new business strategies for promoting solar businesses and fiber loops.

Two years ago Administration did look carefully at expanding the Room Residency Tax as a form of creating greater equality between hotels and second homes that are used for rental purposes. Now that the Legislature of the Commonwealth is looking at this and it was included in the Governor's Budget it may be worthwhile to explore this concept again.

12 CONCLUSION AND THANKS

The FY 2019 budget is balanced and I believe the suggestions included in this message will strengthen the town financially, economically and improve our overall operational resiliency.

Lastly I would like to express my sincere appreciation to the financial management team. I would like to thank Carol Coppola for her considerable efforts on the FY 19 Budget development along with Charleen Greenhalgh who participated in budget meetings with departments and assisted in the development of some of the materials requested by the Board. I believe that Amy Duffy Town Treasurer/Collector has been a great addition to the team. I would also like to thank the other team members who have been instrumental in the development of this year's budget, Donna Molino, and Foster Banford for their assistance. Sandy and Ann for their exceptional work in coordination and oversight of the process of developing the 2019 budget. I also appreciate all of the Department Heads in their efforts in submitting thoughtful capital and operating budgets and working with administration to provide a high level of services.

Most important, I wish to thank the Board of Selectmen and the residents of the community for their continuing support that I have been given to this point and I look forward to continuing to work with both in the adoption of the Fiscal Year 2019 Budget and organization to continue to provide a higher level of service to the community at large.

**Town of Harwich
BUDGET 2019**

**Budget
FY 2018**

**Budget
FY 2019**

Line #	SOURCES OF FUNDS	FY 2018	FY 2019	%
1	Tax Levy Limit (R/E & PP)	46,774,148	49,437,132	5.7%
2	Local Receipts	11,410,769	12,786,945	12.1%
3	<u>State Aid</u>			
4	Cherry Sheet	676,729	678,426	0.3%
5	School Building Assistance (Ended in FY 2017)			
6	Overlay Surplus	100,000	100,000	0.0%
7	<u>Transfers:</u>			
8	Free Cash	305,244	303,000	-0.7%
9	Harbor Capital Imp. Fund #1626	110,931	62,808	-76.6%
10	Cable Fund (Comcast) #1614	143,417	150,501	4.7%
11	Septic Loans #1701	17,358	17,358	0.0%
12	Water Enterprise Indirect Cost #1320	650,178	732,843	11.3%
13	FEMA #1199	13,508	13,608	0.7%
14	Alan Harbor Betterments #1740	185,550	182,250	-1.8%
15	Road Betterments #1702+#1703+#1704	49,194	58,277	15.6%
16	SAQ Harbor Waterways		70,125	
17	SAQ Harbor Mooring		103,125	
18	Golf Improvements		75,600	
19	Town Clerk #1295		11,128	
20	CPA Funds (land Bank) #8027	608,950	588,750	-3.4%
21	Sub Total:	2,084,330	2,369,373	13.7%
22	TOTAL SOURCES	61,045,975	65,371,876	7.1%
23				
24	USES OF FUNDS			
25	<u>Charges:</u>			
26	State-Cherry Sheet Charges (ccc & BC Tax)	663,358	701,651	5.8%
27	Overlay (Abatements- Taxes)	460,000	460,000	0.0%
28	<u>TOTAL CHARGES</u>	<u>1,123,358</u>	<u>1,161,651</u>	<u>3.4%</u>
29				
30	<u>NET AVAILABLE Sources</u>	<u>59,922,617</u>	<u>64,210,225</u>	<u>7.2%</u>
31				
32	Town Operating Budget	22,988,237	23,756,439	3.3%
33	<u>Semi-Fixed Cost</u>			
34	Barnstable County Retirement	2,681,194	2,763,836	3.1%
35	Debt Service	2,608,420	4,762,464	82.6%
36	Health Insurance	4,620,227	4,824,248	4.4%
37	OPEB	100,000	125,000	25.0%
38	Property & Liab. Insurance	613,451	691,000	12.6%
40	Unemployment	20,000	10,000	-50.0%
42	Total Fixed Cost	10,643,292	13,176,548	23.8%
43				
44	Cape Cod Tech HS	1,487,362	1,581,237	6.3%
45	Monomoy Regional School District	24,759,749	25,693,753	3.8%
46				
47	TOTAL USES	61,001,998	65,369,628	7.2%
48				
49	NET SOURCES & USES	\$ 43,978	\$ 2,248	