FINANCE COMMITTEE
34 BROADWAY
ROCKPORT, MA 01966

BULK MAIL
PERMIT # 20

REPORT OF THE FINANCE COMMITTEE

In an effort to better inform you, we decided to mail this report to all voters before the Town Meeting on April 2, 2016. This should give you an opportunity to review the items to be voted before attending the meeting. Once you have read this, you may want to pick up a copy of the Town Meeting Voters Booklet to get more detailed information. These will be available the week before the meeting at Town Hall, the Library and at www.rockportma.gov. They will also be available at Town Meeting. We look forward to seeing you at the meetings beginning at 9 AM at the High School Gymnasium.

Laurene Wessel, Chair
William Wagner, Vice Chair
Ian Crown
Beth Dailey
Wally Hess
Michael Hughes
Roger Levine
June Michaels
Melissa Tingley

REPORT OF THE FINANCE COMMITTEE

March 14, 2016

BUDGET OVERVIEW

The proposed total spending for Town operations (Article 5) is $27,646,996 for FY2017, an increase of 2.4% overFY2016. This figure includes the Town's contribution to the School Department.

The proposed budget for the Water Enterprise Fund is $1,670,326 and for the Sewer Enterprise Fund $1,839,806(Articles 5A and 5B), representing increases of only $4,130(.25%) and $12,548 (.7%) respectively from last year. Theseexpenses are covered entirely by water and sewer user fees and therefore are separate from the main operating budget and do not affect the tax rate.

The proposed Capital Spending Items (Article 6) total $542,460 for the General Fund, $250,600 for the Water and $167,100 for the Sewer Enterprise Fund.

In the discussion below we provide an analysis of all the components of departmental expenses,capital outlay, revenue and financial issues in the proposed budget.

KEY FINANCIAL ISSUES FOR VOTERS

Below are a few key items for voters to understand this year:

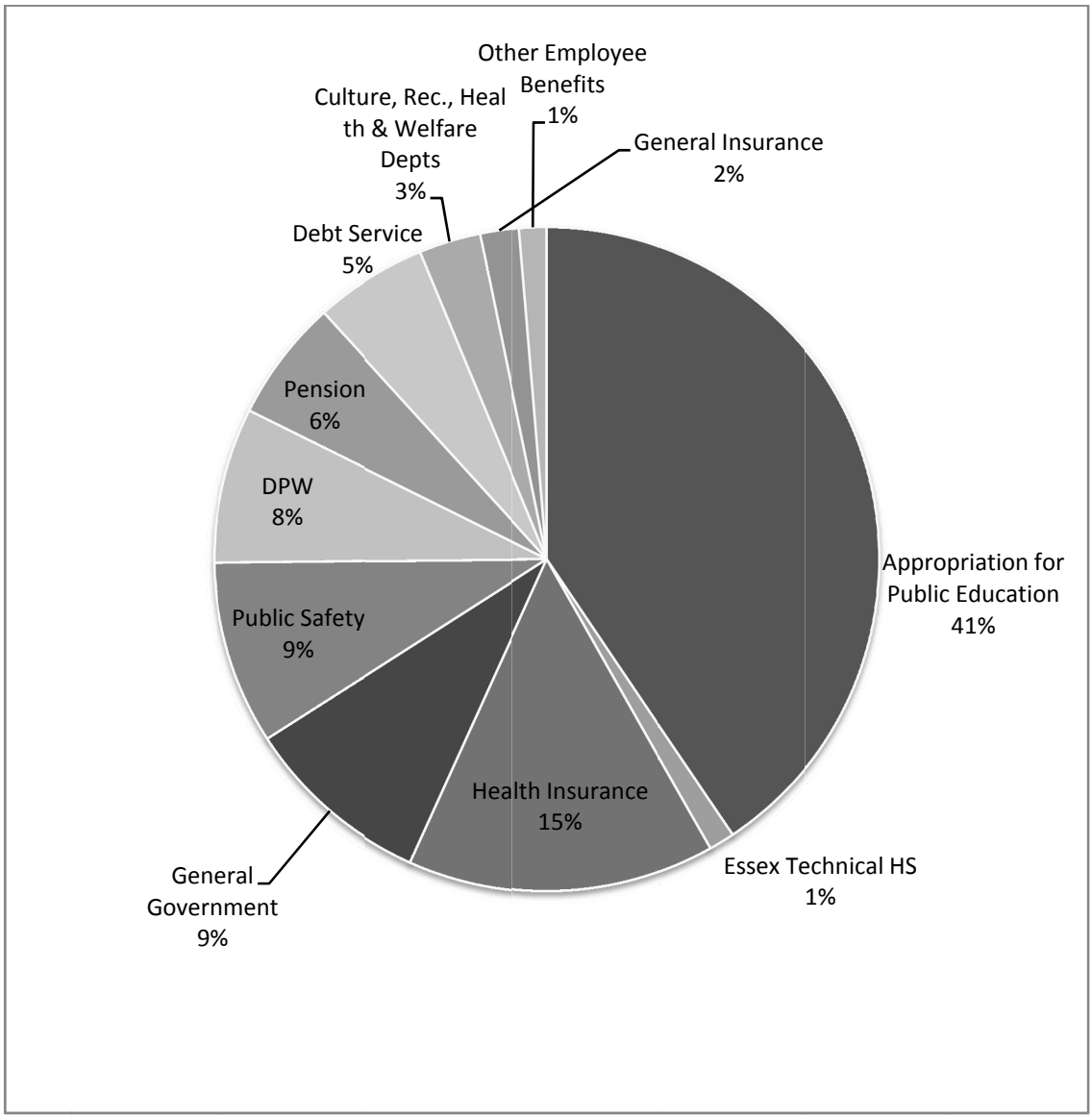
1. The DPW is proposing its main garage facility be replaced at an estimated cost of more than $8 million. If approved by Town Meeting, this proposal will require a Proposition 2 ½ debt exclusionoverride to temporarily increase the tax rate until the associated borrowing is paid off.
2. Payments for Health Insurance and Pensions for our employees will increase by about $312,000 or 5.4%. Our advisors tell us that this percent increase will rise significantly over the next several years, and is likely to become a difficult problem.
3. The proposed budget includes an increased appropriation for the School Department of 2.3%, or about $252,000, in line with the past two years' increases. The School Committee has approved a budget with an increase of 3%. The Finance Committee worked hard to make increases in money available for the schools predictable, and the School Committee has also worked hard to limit increases in spending. The expected result is that the Schools will continue to have the resources to provide an excellent education.
4. To balance the budget, the Finance Committee recommended last year that we use all of the money in the Parking Meter, Ambulance and Waterways Funds to fund the operating budgets for these departments. We are doing the same this year. This means that there is no balance available in these funds for capital outlay in these departments.
5. The operating departments worked very hard to minimize their requests for funding for FY17, and in general they did a good job at it. Despite that, we are recommending about $75,000 less than those requests.

OPERATING BUDGET – EXPENSE COMPONENTS

The chart belowshows total expenses for Schools, DPW, Public Safety, General Government, Culture & Health, and Debt Service. The totals represent the direct spending of the departments before the allocation of employee benefits. In the case of the Schools, the amounts below represent only the Town's contribution. The Schools also receive state and federal grants, School Choice money as well as other monies.

Total Operating Expenses

	FY15 Actual	FY16 Budget	FY17 Budget
Appropriation for Public Education	$ 10,727,560	$ 10,964,411	$ 11,216,592
Essex Technical HS	$ 385,750	$ 315,497	$ 345,000
Health Insurance	$ 3,674,553	$ 3,970,819	$ 4,125,889
General Government	$ 2,269,946	$ 2,388,813	$ 2,531,364
Public Safety	$ 2,358,843	$ 2,508,175	$ 2,467,439
DPW	$ 2,360,556	$ 2,120,292	$ 2,086,553
Pension	$ 1,350,185	$ 1,493,687	$ 1,635,519
Debt Service	$ 1,273,432	$ 1,575,949	$ 1,518,649
Culture, Rec., Health & Welfare Depts	$ 763,993	$ 815,626	$ 828,092
General Insurance	$ 467,495	$ 474,850	$ 523,200
Other Employee Benefits	$ 282,252	$ 373,174	$ 368,700
Total Budget - Article 5	**$ 25,914,565**	**$ 27,001,293**	**$ 27,646,996**

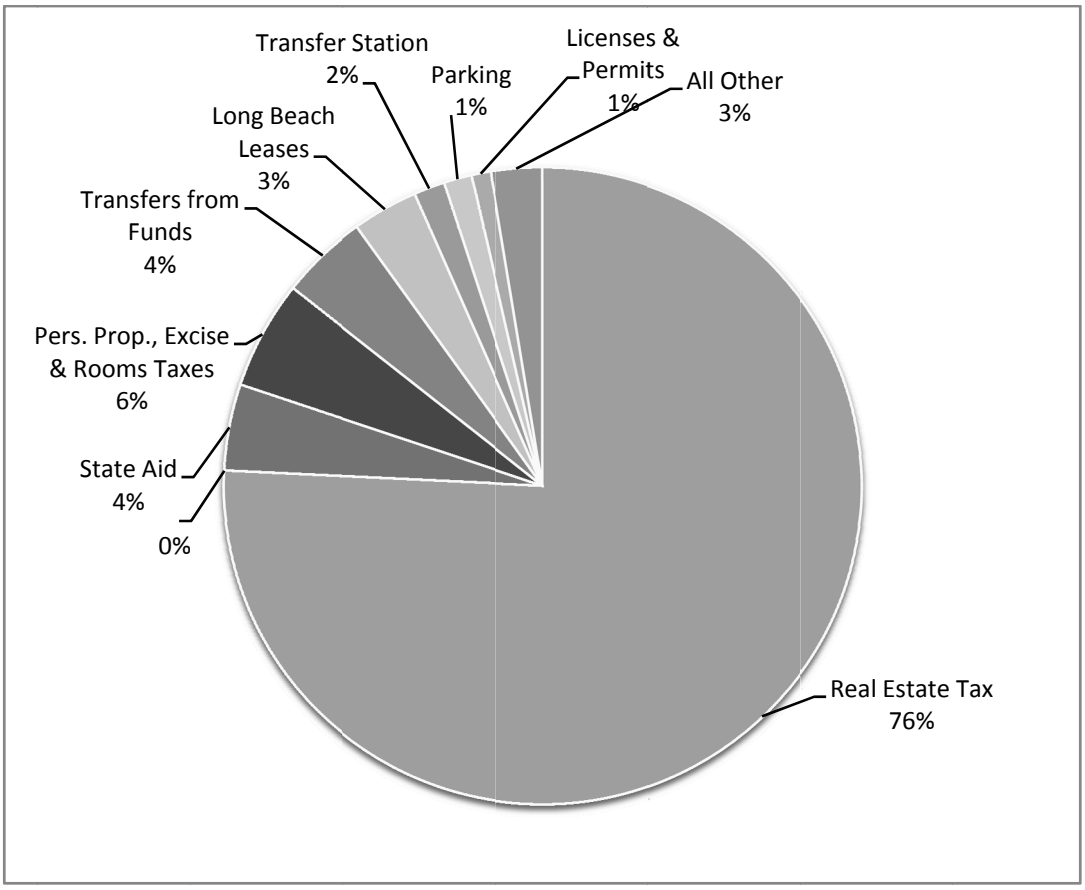


REVENUE COMPONENTS

The chart below shows the revenue from property tax plus the sources of the 24% of revenues that come from state aid or are generated locally by the Town. It also demonstrates how dependent the Town is on property taxes (76%).State Aid has beenbased on the Governor's proposed FY2017 budget, released on January 27th. Statewide, the Governor asks for increases in Chapter 70 aid to public K-12 education of **2.4%** and increases in non-education Local Aid of **3.6%.** Final State budgets are not adopted until after our Annual Town Meeting and adjustments to our budget will be made at the Fall Town Meeting.

Revenues

	FY15	FY16	FY17
Real Estate Tax	$ 19,957,214	$ 20,449,451	$ 20,944,142
State Aid	$ 1,126,144	$ 1,105,969	$ 1,212,948
Pers. Prop., Excise & Rooms Taxes	$ 1,409,170	$ 1,557,500	$ 1,526,500
Transfers from Funds	$ 1,310,429	$ 1,331,548	$ 1,228,221
Long Beach Leases	$ 618,379	$ 765,649	$ 919,649
Transfer Station	$ 448,965	$ 453,610	$ 433,650
Parking	$ 461,468	$ 364,523	$ 391,406
Licenses & Permits	$ 231,860	$ 268,150	$ 268,800
All Other	$ 350,937	$ 704,893	$ 721,680
Total Non-Tax Revenue & State Aid	$ 5,957,351	$ 6,551,842	$ 6,702,854
Total Revenue	**$ 25,914,565**	**$ 27,001,293**	**$ 27,646,996**



There are several items in the revenue figures above that should be noted:

1. There are three components of the increase in Property Tax revenue. One is the increase in taxes on existing housing stock, which is limited to 2.5%. Secondly, the tax levy may be raised by overrides or debt exclusions. Third, there are taxes based on "New Growth" which is the additional assessed value of new or renovated properties.

2. With respect to the Long Beach Leases, the Town owns the land under the cottages on Long Beach, which are leased to cottage owners under a 10-year lease. Under the current leases rental revenue will increase about $150,000 per year.

3. Some examples of Fund Transfers & All Other are expense reimbursements from the Enterprise Funds, Ambulance Revenues and Mooring Fees.

PUBLIC EDUCATION

For FY17, the School Committee approved an operating budget of $13,244,298, representing a 3% increase over FY16. The Finance Committee recommends that $11,216,592, an increase of 2.3% over FY16, be authorized in Article 5 for the Town's portion of the School's budget. It should be noted that the Town pays an additional $2.8 million in benefits to School employees, which is not included in the budget below. In addition, costs are partially offset by other sources of revenue, including anticipated grants, School Choice, athletic and transportation fees and the use of the School's reserve accounts. For FY17, it is anticipated that $254,956 will need to be transferred from the School's reserve account to help fund the budget. The School Committee expects the balance in the reserve account will be $825,418 at the end of FY17.

Two years ago members of the Finance Committee and School Committee worked hard to put together a working arrangement that was designed to enable the Schools to assume predictable increases of 2.3% in funding from the Town. This was accompanied by hard work promised by the schools to keep expense growth to 3%. Although no firm commitments were made, this working arrangement is entering its third year, and has provided benefits to both the Schools and the Town. The School Committee has been able to continue to offer excellent offerings to its students, and the Finance Committee has been able to plan Town finances so as to provide these funds.

The population of school-aged children in Rockport has dropped from 1,190 in 2006 to 828 today, while total enrollment in the schools has dropped from 1,042 (953 Rockport) to 958 (721 Rockport). The School Committee has concluded that lower enrollment would result in cuts to the number and diversity of course offerings, and therefore they encourage maintaining the number of School Choice students who attend our schools. The Schools receive an average of $5350 for each of these students.

At present 34% of the School budget is for **Special Education**. The state requires every child to be provided services in compliance with her individual education plan, but the state reimburses the Town for only a fraction of the costs. In 2014, the Town created a $200,000 stabilization fund to absorb some of the impact of sudden increases in SPED costs. That reserve is expected to be drawn down to $81,650 at this year's Special Town Meeting. In addition, the SPED budget will grow nearly 6% in FY17, which made the School Committee's job of limiting total spending growth to 3% that much harder.

It is important to note that if the Town's contribution to public education is limited to a 2.3% annual increase, and the School's total operating budget grows by 3%, there would be an ongoing deficit requiring the sustained use of the Schools'reserves to balance the budget. The reserves, however, are expected to be depleted over the next two or three years. If this continues, sometime in the next two or three years the Schools will need either to request a Proposition 2 ½ override or to reduce spending growth.

The chart below presents the major components of the School's operating budget as compared to FY16.

Rockport Public Education

Department	FY16 Budget	FY17 Budget	Increase (Decrease) Amount	Increase (Decrease) Percent
Administration	$ 726,602	$ 783,785	$ 57,183	7.9%
Elementary	$ 2,529,929	$ 2,637,960	$ 108,031	4.3%
Middle School	$ 1,834,165	$ 1,815,838	$ (18,327)	-1.0%
High School	$ 2,315,985	$ 2,342,157	$ 26,172	1.1%
Special Education	$ 4,230,857	$ 4,468,633	$ 237,776	5.6%
Athletics	$ 218,179	$ 228,309	$ 10,130	4.6%
Operations & Maintenance	$ 518,930	$ 535,773	$ 16,843	3.2%
Fuel & Power	$ 384,313	$ 331,037	$ (53,276)	-13.9%
Transportation	$ 99,645	$ 100,806	$ 1,161	1.2%
Total School Budget	**$ 12,858,605**	**$ 13,244,298**	**$ 385,693**	**3.0%**
Less: Fees, Grants, School Choice and Use of Reserves	$ (1,894,194)	$ (2,027,706)	$ (133,512)	7.0%
Town Contribution to Public Education	**$ 10,964,411**	**$ 11,216,592**	**$ 252,181**	**2.3%**

EMPLOYEE BENEFITS

The largest component ofemployee benefits is the fast-growing cost of providing **health benefits** to current and retired employees. Health benefits and pensions together consume most of the Town's revenue growth each year. Our advisors tell us that, unless we make large changes, health insurance expense will grow at a rate of 5% to 8% on average over the next ten years. The Town is now taking the first step to change its health insurance plans to a more economical program. A reduction in health insurance would also reduce the Town's future liability for Other Post-Employment Benefits. (See **OPEB** below)

With respect to pensions, we are part of the **Essex Regional Retirement System (ERRS)**which includes 19 towns and several dozen regional schools and authorities. Its auditors have determined that the system is underfunded by over $340 million of which Rockport's share is 5.45% or $18.5 million. We expect that our payments will be increasing at about a 10% compounded rate over the next twenty yearsto fund future payments to retired employees. Pension benefits are important for Rockport's employees because municipal employees are not eligible to be part of the Social Security System, and will receive no payments from it. Rockport does not havecontrol over the funding level or the investment policy of the ERRS.

According to our advisors, the combined increases of health insurance and pensions will result in these benefits rising from 29.5% of tax revenue to between 40% and 47% of tax revenue in ten years. This is clearly not sustainable, so difficult changes to benefits will become necessary very soon.

In addition to retirement benefits, the Town provides **Other Post-Employment Benefits(OPEB)** to its retirees, primarily health insurance. The Town pays for health insurance for retirees on apay-as-you-go basis; the cost is included in health insurance expense in the operating budget. Municipalities are now required to perform periodic actuarial estimates of their OPEB obligations and to report this information in their annual financial statements. The Town's most recent report shows an OPEB liability of $36.5 million. Several years ago the Town set up a reserve account, the OPEB Trust, to begin funding this liability, but to date the balance in the trust is only $232,000. Given the challenges the Town has faced recently to balance the budget, it has been difficult to sustain funding of the OPEB Trust. Although there is no requirement at this time to fund the entire liability, it remains an issue that the Finance Committee will continue to monitor and address over the next year. Controlling the growth of health insurance costs is one way to reduce the OPEB liability.

ENTERPRISE FUND HIGHLIGHTS

The Water & Sewer Enterprise Funds each operate separately from the Town's operating budget. These expenses are covered by water and sewer rates billed to the users, and thus do not affect the tax rate. The increases for FY17 are only 1% which should not impact the rates significantly.

	FY2016	FY2017
Water Enterprise	1,666,195	1,670,327
Sewer Enterprise	1,827,257	1,839,806

CAPITAL OUTLAY EXPENDITURES (ARTICLE 6, 6A AND 6B)

The Capital Improvement Planning Committee (CIPC) receives requests for capital items from the operating departments and the enterprise funds. It meets with each department and then prioritizes the requests before making a recommendation to the Board of Selectmen and the Finance Committee. Once the Finance Committee decides what funds are available, it presents these articles to Town Meeting. This year the CIPC received $3.3 million in requests (not counting Article K) which it reduced to $542,460 in recommended spending from the General Fund. All the requested Water and Sewer projects were able to be funded without raising these utility rates.

Looking ahead, there are a number of large projects that will need to be addressed. These include long-deferred repairs to buildings and heating systems, heavy equipment for the DPW, roadway upgrades and waterfront projects such as dredging and seawall repair.

Debt Service (principal and interest payments on all the bonds issued by the Town for capital projects) will decrease in the FY17 budget by $57,300. However, in FY18 the Town will begin to repay principal for the Pigeon Cove Seawall repairs. At this time we do not have a confirmed figure for the percent of the $3.9 million project which will be reimbursed by FEMA because the work was necessitated by storm damage. This is one of the major uncertainties in budgeting which has caused the CIPC and Finance Committee to recommend approving no new debt this year. Only two projects will be funded by borrowing - $154,000 for a street sanding unit and $68,000 in the Water Enterprise Fund for a shared dump truck shared with the Sewer Enterprise Fund.

Article K is for a new DPW garage and maintenance facility at a cost of $8.8 million. The existing facility, which was built in 1958, is inadequate in size, safety features and technical efficiency. This is the most urgent building project before the Town. A project of this size would require borrowing with a debt exclusion to raise revenue above the Proposition 2 ½ limit. If this is approved at Town Meeting, a ballot measure would be placed on the May election for consideration by all voters.

STABILIZATION FUNDS

The town has four funds to help it cope with future uncertain needs. The Finance Committee is recommending putting $100,000 into the OPEB and $100,000 into the Capital Reserve funds.

As of February 1, 2016 the balances are:

1. Stabilization Fund - $1,393,265. Goal 5% of General Fund operating budget or $1,382,345.
2. Capital Reserve Stabilization Fund - $175,424. Goal $500,000
3. OPEB Reserve $232,423. Goal not yet set.
4. SPED Stabilization Fund - $215,344. Goal $750,000.

FREE CASH

Free Cash is the balance left over at year end, from Operating Budget appropriations which were not fully spent, from capital projects which have been closed out, and from revenue collected in excess of the budget. Because this amount varies greatly from year to year, the Finance Committee supports using it for one-time capital expenditures, for one-time emergency payments and for building up our reserves rather than for funding on-going operating expenses. By using Free Cash for capital outlay, the Town is able to limit additional borrowing.

The Town has $861,905 available Free Cash in the General Fund.The Finance Committee recommends using $294,460 to finance Article 6 Capital Outlay items, $60,000 to fund computer equipment under our five-year plan, $100,000 to fund the Capital Outlay Reserve, $100,000 to fund the OPEB Reserve, $54,305 to cover the remaining excess Snow & Ice costs for FY2015 and $45,100 to support Special Articles in the 2016 ATM Warrants. The Special Town Meeting will be asked to put $200,000 aside for unforeseen expenses this year.

The Finance Committee recommends using $182,600 In the Water Enterprise Fund for capital outlay (Article 6A) and $167,100 in the Sewer Enterprise Fund (Article 6B).

YOUR REAL ESTATE TAX BILL

There are several factors that go into the determination of your real estate tax bill:

1. The amount of spending in the operating departments;
2. Plus the retiree pension and health insurance payments;
3. Plus debt service;
4. Less the amount of local revenue (other than real estate tax);
5. Less the amount of state aid.

The result is the amount of the real estate tax levy for the Town. Under Proposition 2½, this levy is limited to:

1. Last year's levy limit plus 2½% growth;
2. Plus additions to the levy known "new growth" which are generated when a house is new or significantly renovated causing an increase in assessed value and, thereby, creating an increase in the tax base;
3. Plus any Proposition 2½% overrides previously approved by the voters.

Once the year's levy is established, the tax rate is determined by dividing the levy by the total assessed value of the Town's taxpayers' real estate. Therefore the change in the tax rate is determined by both the change in the levy and the change in the total assessed valuation. The resulting tax for your property is the product of its assessed value and the tax rate. In any year, the change your property's assessment may differ from that of the average property in town. If so, the percent change in your tax bill willdiffer from that of the average property in town.

For FY16, the total assessed value of Rockport's real estate was $1,829,077,180. To raise the $20,577,000 that was billed this year, the rate of $11.25 per thousand was required. Therefore, a house assessed at $500,000 would pay $5,625.

By state statute and Town By-Law, the Finance Committee works directly for you the voters. We are charged with providing you with the best possible information so that you can make informed decisions. We hope you find it so.The Finance Committee wishes to thank all the Town of Rockport's staff and volunteers for their diligence and patience throughout this year's budget process. Their dedication to the citizens of Rockport in maintaining and improving services is truly appreciated.

We also wish to thank all those who contributed directly to the preparation of this document.

Laurene Wessel, Chairman *William Wagner, Vice Chair* *Ian Crown* *Beth Dailey*
Wally Hess *Michael Hughes* *Roger Levine* *June Michaels*
Melissa Tingley

SPECIAL TOWN MEETING ARTICLES

Articles will be taken in random order as they are drawn by the Town Clerk.

A. Adjustments to balance the budget for the current year.

B. Appropriation to cover unpaid bills from past years, if any.

C. $12,000 to replace harbor pilings, financed by transfer from a completed DPW project.

D. $12,000 to partially fund a greenhouse for the Schools, financed by transfers from completed DPW and Thacher Island projects.

E. $10,000 for Highway drainpipes, financed by transfers from completed DPW and Library projects.

F. $48,875.70 for Bio Filter Wood Chip replacement at the Wastewater Treatment Plant, financed by transfer from a completed Sewer project.

G. $200,000 to the Finance Committee Reserve, from Free Cash; this is necessary to provide a cushion for balancing the town's books for the Fiscal 2017 Tax Rate Recapitulation.

H. $350,000 for Millbrook Meadow Pond dredging, from the Community Preservation Fund; this is the first construction phase of the Millbrook Meadow park restoration.

I. $50,000 for Inflow and Infiltration storm water elimination, financed from the Sewer Enterprise reserve for Inflow and Infiltration.

J. Rescinding the authorization to borrow $101,960.23 for Granite Pier Repairs and $48,039.77 for Back Beach Revetment repairs; this borrowing is not needed.

K. To transfer $133,694.77 from the SPED Stabilization Reserve to cover excess costs for out-of-district tuitions. Requires a 2/3 vote.

L. To accept Appendix 115.AA of the Massachusetts Building Code, 780 CMP, the "Stretch Energy Code" regulating design and construction of buildings for energy efficiency; recommended by the Green Community Task Force.

ANNUAL TOWN MEETING ARTICLES

Numbered articles are taken in order. Lettered articles will be taken in random order as they are drawn by the Town Clerk.

1. Routine article to appoint to Town Treasurer as the agent for the Town's various trust funds.

2. Routine article to rescind debt authorizations which are no longer necessary.

3. Routine article to pay unpaid bills from prior years.

4. To revise the Compensation Schedule for non-union salaried employees and elected officials.

5. The Town's FY2017 Operating Budget of the General Fund for $27,646,996.

5A. The Water Enterprise Fund FY2017 Operating Budget for $1,670,326.

5B. The Sewer Enterprise Fund FY2017 Operating Budget for $1,839,806.

5C. The Community Preservation Committee FY2017 administrative Budget for $27,290.

6. The FY 2017 Capital Outlay expenditures for $542,460 from the General Fund.

6A. The FY 2017 Capital Outlay expenditures for $250,600 from the Water Enterprise Fund.

6B. The FY 2017 Capital Outlay expenditures for $167,100 from the Sewer Enterprise Fund.

A. Appropriation of Chapter 90 roadway funds, which are reimbursed later by the state.

B. $4,000 for ACTION, Inc. from Free Cash.

C. $3,000 for HAWC from Free Cash.

D. $3,100 for SeniorCare, Inc. from Free Cash.

E. $5,000 for The Open Door from Free Cash.

F. $30,000 for Real and Personal Property Revaluations (standard article for Board of Assessors) from Free Cash.

G. $100,000 to the Capital Reserve Stabilization Fund, for future capital outlay needs, from Free Cash.

H. $100,000 to the OPEB, Other Post-Employment Benefits, Trust Fund, from Free Cash, to build a reserve for the Town's future benefit liabilities.

I. Reauthorization of the Community House revolving fund, into which receipts for renting the Community House are deposited to cover maintenance costs.

J. $100,000 for Wastewater Treatment Plant master account, from an existing Sewer Enterprise account.

K. $8.8 million for the design and construction of a new DPW Garage Facility, contingent on the Voters' approval of a Proposition 2 ½ debt exclusion; that is, the borrowing for this project would be covered by an increase in property taxes to pay the debt service.

L. Changing the overnight Parking Ban, November 15 to April 1, to be just during snow emergencies.

M. Renew the authorization to sell two parcels of Tax Title Land: 59 High Street (Assessors Map 18, Lot 26) and 8 Marmion Way (Map 26, Lot 109).

N. By-Law change (Chapter 2, Section 2) to move Fall Town Meeting from the second Monday to the second Saturday in September.

O. By-Law change (Chapter 14) regarding Wetlands regulations.

P. By-Law change (Chapter 114E, Section 6) regarding floodlights.

Q. Zoning By-Law change inserting a new Section VI-M covering large-scale ground-mounted solar power installations. *The whole article is available at the Town Clerk's Office and will be printed in the warrant.*

R. To hear and receive the report of the Ad Hoc Committee on Town Water Supply.

S. To accept the reports of all departments and committees in the 2015 Annual Report.