

FINANCE COMMITTEE
34 BROADWAY
ROCKPORT, MA 01966



REPORT OF THE FINANCE COMMITTEE

In an effort to better inform all taxpayers, we have decided to mail this report to all households before the Annual Town Meeting on May 15, 2021. This will provide you an opportunity to review the operating and capital budgets to be voted before attending the meeting. Once you have read this, you may wish 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 online at www.rockportma.gov. They will also be available at Town Meeting. We look forward to seeing you Saturday, May 15, 2021 at 9 AM at the High School soccer field.

Town of Rockport Finance Committee

Dwight D. Valentine, Chair; Carl Engel, Vice Chair; Tom Barrett; Paul Desrosiers; June Michaels; Heath Ritchie; Don Southard; Stephen Vitkauskas; Laurene Wessel



REPORT OF THE FINANCE COMMITTEE MAY 15, 2021

INTRODUCTION

The Finance Committee's responsibility is to make recommendations to Town Meeting on all financial matters, including the annual operating budget, capital projects, borrowing, and funding sources. The Committee helps voters understand the issues and the financial implications of the Articles at Town Meeting so that they can make informed decisions.

The Committee continually informs itself regarding the ongoing needs of Town Departments and Committees in order to stay abreast of present and projected future expenditures. Committee members act as liaison with Departments and other Committees by attending meetings and reporting activity and issues to the entire Finance Committee. This enables a continuous flow of information to the Committee.

The Finance Committee currently has nine appointed members.

In recent years, the Town has maintained essential services by taking a conservative approach to the Town budget. Ongoing issues relative to the rising cost of retirement benefits, health insurance and the maintenance of Town infrastructure continue to exert pressure on Town finances. This burden has been compounded by expenses – some of which have been defrayed or reimbursed by state or federal government - incurred in responding to the COVID-19 pandemic emergency. Prudence requires that the Finance Committee continue a disciplined approach to spending for the foreseeable future.

The Finance Committee manages a reserve account for the Town and votes on any requests it receives throughout the year. In FY 2021, the reserve was \$250,000. Departments requesting an allocation from reserves must demonstrate that the need was unforeseen when the budget was approved and that the need is urgent.

Last year, Town Meeting approved a debt exclusion for the Department of Public Works for the design and construction of a new DPW Facility. Following approval, the design phase for the facility was completed on time and bids were requested in December 2020. Unfortunately, all seven bids were higher than the \$12,250,000 appropriated for the project.

The Committee overseeing the project is working with the design team to reduce construction costs without compromising the new building's efficiency. They intend to request new bids on the revised design in July, 2021. There is considerable uncertainty regarding future costs. Disruptions of the supply chain during the COVID-19 pandemic have caused shortages and higher material costs. Also, economic recovery may cause a building boom, which could raise both labor and material costs.

After deferring submission of an override request last year due to challenges imposed upon the Town by the COVID-19 pandemic, this year Rockport Public Schools has made an override request in the amount of \$777,336.

Superintendent Robert Liebow made detailed presentations to the Finance Committee in support of school operations and to illustrate the need for the requested override. Superintendent Liebow stated his view that: 1) without an override, the ability of the Rockport Public Schools to address the multiple needs of the entire school population with care, efficiency and professionalism would be diminished; and, 2) additional funding per the override request would enable Rockport Public Schools to continue operating at a high level and as a unique community asset.

The Finance Committee also heard argument against the override request, which focused in part on the fiscal impact of demographic trends and a decreasing school population, which subjects have also been addressed in the Cape Ann Study for Education (CASE) noted below.

The Finance Committee recommends that the Town of Rockport, with representation drawn from a diverse cross-section of voters, members of Boards and Committees and Department employees, undertake a collaborative and comprehensive planning exercise with respect to long term operating and capital infrastructure needs.

FY22 BUDGET SUMMARY

The Town's projected General Fund revenue is \$33,194,821. The Town's projected spending is \$32,846,111 from the General Fund.

The proposed budget for the Water Enterprise Fund is \$2,026,306 and for the Sewer Enterprise Fund is \$2,141,273 (Articles 5A and 5B). These expenses are covered entirely by water and sewer user fees and are separate from the main operating budget; they do not affect the tax rate.

The recommended School budget, with an override, is \$18,183,005. Note, the Town's direct contribution to the School budget is \$13,306,491, and that with other assessments, plus pension and benefits, and debt service the total amounts to \$18,183,005.

Capital outlay projects in the General Fund total \$2,559,881, which includes new borrowing in the amount of \$1,200,000 for roadway improvements. Water projects total \$1,456,825, which includes \$1,200,000 new borrowing for water main replacements in conjunction with roadway improvements. Sewer enterprise projects total \$271,309.

Employee Benefits:

Health benefits and pensions together constitute approximately 21.7% of the total Town Budget for FY22. The health benefits portion of our budget is projected to increase by 2.03%, and pension benefits are projected to increase by 7.5%. Our advisors tell us that health insurance expense is projected to grow at a rate of 8% and pension expense will increase at 8% (on average) over the next ten years.

Rockport employees (excluding teachers) are part of the Essex Regional Retirement System (ERRS), which includes 19 towns and several dozen regional schools and

authorities. ERRS is complying with State mandates to fully fund its obligations by 2040, therefore we expect that our payments will be increasing at about an 8% compounded rate over the next twenty years. Pension benefits are important to Rockport's employees because they are not eligible to receive Social Security benefits from their Rockport employment.

In addition to retirement benefits, the Town provides health insurance benefits to retirees, also known as **Other Post-Employment Benefits (OPEB)** and is included in the health insurance expense in the operating budget. Cities and towns are required to perform periodic actuarial estimates of their future OPEB obligations and report this information in their annual financial statements. The Town's most recent actuarial valuation shows an OPEB liability of \$45,006,248 in present value terms as of June 30, 2020. Controlling the growth of health insurance costs is one way to reduce the OPEB liability.

Several years ago, the Town set up a reserve account, the OPEB Trust, to begin funding its liability. We are recommending a deposit of \$225,000 for FY22. 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 each year.

Department of Public Works (Article 5)

The DPW operating budget shows an increase of 7.94%. However, this increase is mostly due to previously negotiated labor contracts. Utility use and most expenses are level funded, except for small increases in Salt purchases and Solid Waste. The DPW does not anticipate raising fees for Solid Waste.

Water Enterprise (Article 5A)

The Water Enterprise budget increase of 9.5% is due to contractual labor agreements and water-related new debt.

Sewer Enterprise (Article 5B)

The Sewer Enterprise budget increase of 7% is due to contractual labor agreements.

Infrastructure:

As described above, the design phase for the proposed new DPW Facility was completed on time and bids were requested in December 2020. Unfortunately, all seven bids were higher than the \$12,250,000 appropriated for the project. Effort continues to modify design and reduce costs without compromising efficiency. Reducing the scope of the project in order to fund the basic construction within the existing appropriation could result in future costs for the expansion of storage area, finishing some rooms and purchases of equipment.

Debt Service:

The Town currently benefits from an excellent credit rating (AA+ from Standard & Poor's) and therefore can incur debt at favorable interest rates. This rating is near the median for Essex County.

Local Revenue:

Projected budget increases for FY22, as shown below, reflect cautious optimism arising from probable revenues due to an anticipated increase in travel and tourism as the effect of the pandemic recedes.

	FY21 Budget	FY22 Budget	% Chg
Hotel/Motel	\$205,000.00	\$325,000.00	58.54%
Meals	\$20,000.00	\$30,000.00	50.00%
Parking	\$150,000.00	\$150,000.00	0.00%

The conversion from flat fee transfer station stickers to all Pay As You Throw (PAYT) continues to be successful both functionally and financially. Trash tonnage is down and recycling is up.

OPERATING BUDGET - REVENUE COMPONENTS (ARTICLE 5, 5A, 5B, AND 5C)

The information below shows the sources of the Town's revenue. The vast majority of revenue comes from Real and Personal Property Taxes, and the rest from State Aid and Local Revenue. State Aid is based on the Governor's proposed FY2022budget.

REVENUES

	FY20 Budget	FY21 Budget	FY22 Budget	% Chg
Real & Personal Property Tax	\$ 22,931,100.00	\$23,706,276.00	\$24,751,744.00	2.55%
Excise, Rooms, Meals Tax	\$ 1,505,500.00	\$1,230,500.00	\$1,326,226.00	11.43%
State Aid	\$ 2,015,889.00	\$2,047,134.00	\$2,048,111.00	1.65%
Special and Enterprise Fund Transfers	\$ 1,502,453.00	\$1,606,427.00	\$1,497,234.00	-6.81%
Leases: Long Beach	\$ 1,375,000.00	\$1,532,461.00	\$1,685,841.00	11.46%
All Other Local Receipts	\$ 1,983,605.00	\$1,854,705.00	\$1,885,665.00	3.92%
Total Revenue:	\$ 31,313,547.00	\$31,977,503.00	33,194,821.00	

Long Beach Leases is rental income from the Town-owned land which is leased to individual cottage owners under a 10-year lease. In the current lease agreements, rental revenues will increase \$173,380 this year, thereby deriving \$1,685,481 for FY22.

OPERATING BUDGET – EXPENSE COMPONENTS (ARTICLE 5, 5A, 5B, AND 5C)

The information below shows Town expenses for major groupings of Public Education, Public Safety, DPW, General Government, Employee Benefits and Debt Service contained in Articles 5, 5A, 5B, and 5C. The amounts for the Schools represent only the Town’s contribution. Further spending by the Schools is supported with state and federal grants, School Choice, State special education assistance and other monies.

Appropriation for:	FY20 Budget	FY21 Budget	FY22 Budget	FY21 vs FY22
Public Education	\$ 12,513,800.00	\$12,745,124.00	\$13,748,826.00	7.88%
School Employee Benefits	\$ 3,959,973.00	\$4,050,950.00	\$4,330,135.00	6.89%
Public Safety	\$ 2,947,614.00	\$3,181,784.00	\$3,274,169.00	2.90%
DPW	\$ 2,308,699.00	\$2,297,102.00	\$2,479,508.00	7.94%
Town Government	\$ 4,416,598.00	\$4,268,729.00	\$4,530,303.00	6.13%
Town Employee Benefits	\$ 3,055,002.00	\$3,182,468.00	\$3,336,069.00	4.83%
Debt Service	\$ 1,255,513.00	\$1,232,250.00	\$1,147,101.00	-6.91%
Total	\$ 30,457,199.00	\$30,958,407.00	\$32,846,111.00	

PUBLIC EDUCATION (ARTICLE 5)

The School Committee presents its annual budget in a public hearing each year, typically in November, then later to the Town Selectmen. The Finance Committee is then provided the budget and a review process takes place with the School Superintendent. For the fiscal year 2022, Rockport Schools have proposed an override of \$777,336. If approved, the override would continue to fund the school’s goal of providing an excellent education to students, expanding STEM offerings, increasing electives at the high and middle schools, and providing world language instruction at younger grade levels, along with other improvements. From the table below, the overall budget increase anticipated for fiscal year 2022 will be \$1,281,902, or 7.6% over fiscal year 2021’s budget.

The Rockport Finance Committee, by a vote of 4 to 3 (with two members unable to attend the meeting) voted to support the proposed override request. Both the Board of Selectmen and the School Committee unanimously voted to support the override. In considering the override request, the Finance Committee took into consideration the recent public release of a working draft of the Cape Ann Study for Education (CASE), which draft has not been approved by the Case Steering Committee or the Rockport School Committee, as well as the anticipated \$1.3 million funding for the Rockport Schools under the federal CARES Act, which is to be used exclusively for COVID related expenses such as technology for on-line learning, improved sanitation and ventilation. These funds are intended to supplement the education budget, not to increase or supplant existing expenditures.

The Gloucester and Rockport public school districts jointly funded the CASE study through an engagement with the University of Massachusetts Donahue Institute (UMDI). The study’s purpose was to provide options for long-range planning and included:

- A review of information and data from both school districts to try and determine their current challenges relative to declining enrollments and changes in educational and non-educational programming.

- The development of proposed inter-district strategies that potentially could lead to improving student services and potential cost savings. One area highlighted was the sharing of services focused on special education, an area that represents the largest operating cost (33%) of the Rockport School Budget in the fiscal year 2022.

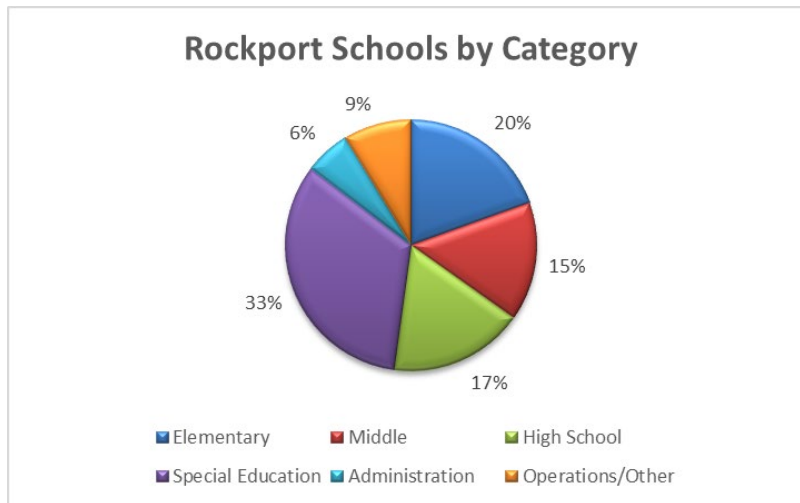
Progress on the CASE study was delayed due to COVID-19; thus, the study is in draft form pending approval by both districts. The Finance Committee recommends that Rockport residents read the report when it is approved and released by the Rockport School Committee in order to understand the potential benefits which may result from the leveraging of resources by both school districts.

Rockport School Budget
Rollforward from FY 2021 to FY 2022

Fiscal Year 2021 Budget	\$	16,901,103.00
Town Funding Model 2.3% increase over 2021 Budget *		281,692.00
Fiscal Year 2022 Budget before override proposal	\$	17,182,795.00
Proposed override request		777,336.00
Pensions/Benefits/Debt Service/Other-increase		222,874.00
Proposed fiscal year 2022 school budget	\$	18,183,005.00
<i>Total proposed school budget increase FY22 vs. FY21 - \$</i>	<i>\$</i>	<i>1,281,902.00</i>
<i>Total proposed school budget increase FY22 vs. FY21 - %</i>		<i>7.6%</i>

** Represents a 2.3% increase over the Direct Town Contribution to Schools FY2021
Number of \$12,247,463.*

As depicted in the pie chart below, the majority of budgeted department spending is for Special Education at 33%, followed by spending for the Elementary, High, and Middle schools. With respect to Special Education, Massachusetts requires eligible children be provided services in compliance with individual education plans, but only reimburses communities for a portion of these costs. The difference in costs is absorbed by the communities.



For presentation purposes, the proposed school override is shown on a separate line. If approved, the funding will be allocated back into various department budgets. Prior to that allocation, the largest growth, year-on-year, is in Administration spending and in the Middle School. Much of the Administration increase is due to prior year budget cuts that have been reinstated in the 2022 budget. The Middle School increase is due primarily to an increase in reading services in the amount of \$95,000.

Rockport Public Education *

Department	FY20 Budget	FY21 Budget	FY22 Budget	FY22 Growth
Elementary	\$ 2,862,220.00	\$ 2,893,063.00	\$ 2,924,612.00	1.1%
Middle	1,982,928.00	2,106,655.00	2,298,546.00	9.1%
High	2,505,109.00	2,580,618.00	2,607,484.00	1.0%
Special Education	4,983,033.00	4,963,485.00	4,985,302.00	0.4%
Administration	850,667.00	772,518.00	884,358.00	14.5%
Operations/Other	1,253,127.00	1,252,673.00	1,305,781.00	4.2%
Total to Operate:	\$ 14,437,084.00	\$ 14,569,013.00	\$ 15,006,083.00	3.0%
Less: Fees, Grants, School Choice and Reserves	(2,599,944.00)	(2,321,550.00)	(2,476,928.00)	
Additional Appropriated Funds Over 2.3%	150,000.00			
School Department Requested Override			777,336.00	
Direct Town Contribution to Schools	\$ 11,987,140.00	\$ 12,247,463.00	\$ 13,306,491.00	8.6%
NS Reg/Essex Tech High School	484,300.00	411,090.00	375,000.00	-8.8%
Pensions & Benefits	3,974,363.00	4,050,950.00	4,330,135.00	6.9%
Debt Service	202,800.00	191,600.00	171,379.00	-10.6%
Total Public Education	\$ 16,648,603.00	\$ 16,901,103.00	\$ 18,183,005.00	7.6%
School Choice Sending Tuition	\$ 246,197.00	\$ 214,524.00	\$ 147,507.00	
School Choice Sending Students	33	30	23	

* As voted and approved through Town Meeting

CAPITAL OUTLAY EXPENDITURES (ARTICLE 6, 6A AND ARTICLE 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.

The recommended use of General Fund Free Cash is \$1,304,881, and the Parking Meter Reserve fund will be tapped to purchase a new police cruiser at a cost of \$55,000.

The recommended use of Water Enterprise Free Cash is \$256,825.

The recommended use of Sewer Enterprise Free Cash is \$271,309.

The robust capital plan is due to having more available Free Cash than in most years. During FY2020, due to the pandemic, the Town scaled back some operations, resulting in departmental turn-backs totaling over \$1,700,000 coupled with a few select revenues exceeding projections by over \$300,000. As a result, the Town will be able to purchase a new boat for the Harbormasters and an ambulance without borrowing, and to put \$100,000 into a long-deferred tree removal and replacement program.

The DPW is proposing a major roadwork project to replace water mains and improve and pave the streets affected. This requires borrowing \$1,200,000 for the water mains, to be paid from Water Enterprise fees, and \$1,200,000 for the roadwork, to be paid from the General Fund. State Aid for road repair, called Chapter 90 funding, has not increased for years, while the cost of such work has steadily increased. The Town now has a growing list of roads which are in suboptimum condition. We will also be voting to put \$200,000 in Free Cash into our Master Roadway Improvement reserve, which we need to build up so that we can accomplish future large projects without borrowing.

It should be noted that the \$75,000 for engineering and design work on the Long Beach seawall is the first phase in a FEMA project to repair a significant section of the sea wall for a total estimated cost of about \$2.5 million, of which the Town's share would be 25%.

The DPW is asking for \$75,000 for immediate repairs to the Old Firehouse in Dock Square, to prevent further deterioration of the building. The Building Study Committee and DPW are seeking an architect with experience in renovating historic buildings to proceed with the design work for both the Old Firehouse and the Pigeon Cove Fire Station. Funding for the design has already been appropriated from the Community Preservation Fund, and a grant from the Massachusetts Cultural Council. A future Town Meeting will be presented with proposals to restore each of these buildings.

FREE CASH

Free Cash is principally the balance at year end from Operating Budget appropriations which were not fully spent and from revenues collected in excess of the budget. Because this amount varies greatly from year to year, the Finance Committee supports using it for one-time purposes, such as capital expenditures, emergency payments, and building reserves, rather than for funding ongoing operating expenses. By using Free Cash for capital outlay, the Town is able to limit additional borrowing. For FY22, the Town General Fund has \$2,320,500 available Free Cash. The Finance Committee recommends appropriating this Free Cash as follows:

COVID Expense and Labor	\$	100,000.00
Action, HAWC, Open Door, Senior Care	\$	15,100.00
Assessor's Reval (FY21 is Reval Year)	\$	75,000.00

SPED Stabilization Fund	\$ 200,000.00
General Stabilization Fund	\$ 125,000.00
Conservation Commission Trust Fund	\$ 450.00
Capital Reserve Stabilization Fund	\$ 200,000.00
OPEB	\$ 100,000.00
Master Roadway Improvement	\$ 200,000.00
Article 6 Capital Requests	\$ 1,304,881.00
TOTAL	\$ 2,320,431.00

STABILIZATION FUNDS

The Town has funds to help it cope with future uncertain needs. The balances before and after the recommended appropriations is:

	Goal	FY21 Balance as of 3/31/21	FY22 Balance
General Stabilization Fund	5% of Gen Fund operating	\$1,725,385.66	\$1,850,385.66
Capital Stabilization Fund	\$1,000,000	\$1,146,323.66	\$1,346,323.66
OPEB Reserve Fund	Actuary Schedule	\$1,007,174.88	\$1,232,174.88
SPED Stabilization Fund	N/A	\$264,126.79	\$270,461.79

YOUR REAL ESTATE TAX BILL

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

[operating department expenses + retiree pension and health insurance payments + debt service] minus [local revenue + state aid] = tax levy.

Under Proposition 2 1/2, the tax levy is limited to:

1. Last year's levy limit plus 2 1/2% growth;
2. Plus additions to the levy known as "new growth" which is 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 exempted debt
4. Plus any Proposition 2 1/2 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 in your property's assessment may differ from that of the

average property in Town. If so, the percent change in your tax bill will differ from that of the average property in Town.

The Finance Committee thanks all of 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.

Dwight D. Valentine, Chair, Carl Engel, Vice Chair, Tom Barrett, Paul Desrosiers, June Michaels, Heath Richie, Don Southard, Stephen Vitkauskas, Laurene Wessel