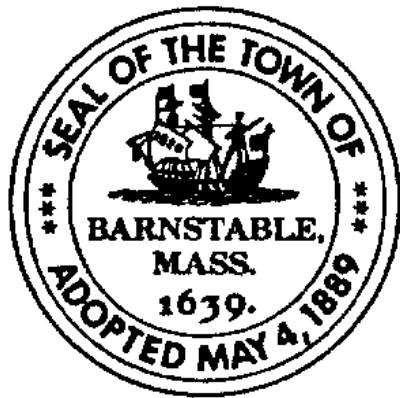


FINAL REPORT

Presented to

The Town of Barnstable

School Department



Prepared by Financial Advisory Associates, Inc.
258 Main Street, Suite A2
Buzzards Bay, MA 02532

August 20, 2003

August 20, 2003

Barnstable School Committee
Barnstable Public Schools
School Administration Building
230 South Street
Hyannis, MA 02601

Dear School Committee Members:

Financial Advisory Associates, Inc. (FAA) is pleased to present our consulting services report to the Town of Barnstable.

Objectives

Our contract required FAA to provide the Town with the following scope of services:

- Provide trend analysis using 3 to 5 year database information
- Review and reference previous policies, audit reports, studies of Barnstable Public Schools.
- Provide a clear profile of past and present fiscal expenditures and projections
- Perform an analysis and make recommendations relating to the Central Office within the evolving Charter District initiative
- Provide a comprehensive written report and public information distribution materials and participate in public informational meetings.

Background

It is important to understand the motivation for a study at this time. It is also important to understand that significant changes have occurred in Barnstable over the last 10 years. Barnstable Public Schools, like many other school districts, are facing financially challenging times. The Town of Barnstable is considering putting an override question on the ballot in November 2003, and the School Department wishes to provide the community with an understanding of its current financial status.

This report has been formatted in this manner to allow each reader an opportunity to quickly find and review the particular issues that are important to him or her. It also allows the reader to move through the report easily while obtaining a level of information that is consistent with the individual's ability to understand the more complex details.

Final Results

This report does not provide a complete set of answers to Barnstable's school system questions.

It has been our pleasure to work for your Board along with your staff of professionals on behalf of the citizens of Barnstable. We also wish to acknowledge the assistance we obtained from the Barnstable Director of Finance and Town staff. Please feel free to contact us with any questions or concerns you may have regarding this report.

Thank you for this opportunity to be of service.

Sincerely,

FINANCIAL ADVISORY ASSOCIATES, INC.

Michael Daley
President

II. Table of Contents

	<u>Page</u>
I. Letter of transmittal	
II. Table of Contents	<i>i</i>
III. Executive Summary	1
IV. Introduction	6
V. Historical School District Trend Analysis	
A. Comparable Communities Analysis	8
B. Comparable School Districts Analysis	27
VI. Current Barnstable School District Trend Analysis	
A. Enrollments	41
B. Expenditures	50
1. Personnel Analysis	58
2. Other Expenses Analysis	74
a. Fixed Costs	
b. Discretionary Costs	
VII. Current Town of Barnstable Revenue Trend Analysis	98
1. Taxation	101
a. Involuntary Taxation	
b. Voluntary Taxation	
2. Non-Taxation	115
a. State Aid	
b. Local Revenue	
c. Other Sources of Funds	
VIII. Annalists' Findings and Conclusions	126
IX. The Role of the Central Office	141
1. Traditional Office	
2. Charter District Office	

III. Executive Summary

Background

Six months ago on February 20, 2003, the President of the Barnstable Town Council received a memorandum from the Town's Comprehensive Financial Advisory Committee (CFAC). The memo was driven by a School Committee request at a meeting held earlier that month. It appears that at the February School Committee meeting the school leaders had asked the CFAC to make recommendations relative to FY 2004 school budget cuts. The strategy behind the effort was the deferral of a ballot question asking the voters for a tax override. The FY 2004 budget was evolving and the two boards were looking to avoid a tax override as a means to fund the FY 2004 budget.

The CFAC memo strongly states that they believe an override will be necessary at some point within the five-year horizon. We understand this to be the period FY 2004 through FY 2008. We were not privy to any of their analysis that led them to this conclusion. However, our analysis leads us to concur with them.

They also indicated that, in their opinion, the exact time within the next five years that the insurgence of new tax revenue into the Town's general fund operations was absolutely necessary is vague. In their opinion they could not pinpoint the precise time to seek the ballot question because they did not know the magnitude of the damages to the Town services contained within the future five under-funded budgets. We also agree with this finding.

In addition, the CFAC fretted the timing of the question based upon a concern that a premature override question would negate the Town's ability to come back and ask for an override again. Finally, the CFAC raised concerns about asking for a tax increase at a time when local voters were economically challenged. As both financial and political consultants we submit that local governance is always about asking voters for permission. When permission is not granted, our experience suggests that it is for good reason. We recommend that leaders use the permission granting process to learn why the permission is being denied. Armed with the learning experience leaders can improve the information required to obtain the permission and come back and ask again. Given the use of compromise, denial in local government is not always permanent.

Having considered the above, the CFAC suggested the Town struggle through FY 2004 with the means available to them and seek an override for use within the FY 2005 budget.

Within the same memo the Town's CFAC recommended some guiding principles to be used for making the difficult FY 2004 school budget decisions. The guiding principles were as follows:

- Protect the children (safety before all else)
- Protect "core" curriculum
- Protect class size
- Everything else is on the table for deliberation – no "sacred cows."

Executive Summary (continued)

The Town's CFAC was uncertain if their guiding principles were in line with the School Committee's. Based upon our experience, we see these as the guiding principles of a survivalist and not an enthusiastic school committee. However, that said, we believe that the elected and appointed leaders throughout the Town and the Barnstable School District are no longer a public group charged with the ability to make discrete budgetary decisions based upon the Town and District's historical mission of improved educational services to the families of Barnstable. We see these current day local officials as the leaders of a survival mission.

We submit that the CFAC's guiding principles perfectly reflect the only logical set of guiding principles remaining for the Town's leaders to embrace.

Findings

Our work for the Barnstable School District (BSD) has included a comprehensive analysis of comparable communities, a comprehensive analysis of comparable school districts, an analysis of the local school system expenditures and a comprehensive analysis of the Town's revenues.

The specific findings and conclusions drawn from our analytical work are presented below. Detailed analytical narratives and supporting data follow within this document. Our report's final section repeats the specific detailed findings we used to reach our various conclusions. Our report is designed to be helpful to every level of reader. One does not need to be a financial or political wizard to understand this summary section of the report. Yet, we hope that even the best and brightest local financial and political experts will learn something new when they scrutinize the multiple charts and graphics contained within the analysis and findings portions of our report.

Our work has clearly indicated to us that the Town of Barnstable is presently between a fiscal rock and a fiscal hard place. During the next several years the Town must generate new general fund revenue or commence a significant reduction of critical public services. Given the structure of government finance in Massachusetts, the critical services reductions must come from within the areas of public works, public safety and public education.

As was the case stated by the CFAC last February, Barnstable's leadership still must clearly define when and where these dramatic reductions of public services will come. It is our belief that the Town's leaders have recognized this significant level of responsibility. We have reviewed the Town's newly written document known as the "Covenant." Based upon this Covenant, the Town's residents can expect the critical information necessary to make an informed decision between additional taxes or reduced services. We submit that the time to ask voters to make this difficult yet important choice is presently at hand.

Executive Summary (continued)

Comparative Communities Analysis Conclusions:

- **The educational activity of the Town of Barnstable appears to be typical when contrasted against other Massachusetts communities with similar socio-economic characteristics.**
- **Funding increases from the state for educational purposes will be atypical to those of the past decade.**
- **Local governments cannot maintain the past trend of significant annual educational spending increases.**

Comparative School Districts Analysis Conclusions:

- **The educational activity of the Barnstable School District appears to be typical when contrasted against other Massachusetts communities with similar socio-economic characteristics.**
- **The District's new hiring trends will remain similar to those we saw from 1997 through 2001. We expect that experienced higher paid teaching professionals will not be common amongst future new hires within the District.**
- **The District will move their pupils to teacher ratio upward towards the ratios we see in the comparable districts.**
- **The District will move their pupils-to-building ratio upward towards the ratios we see in the comparable districts.**

Executive Summary (continued)

Expenditures Analysis Conclusions:

- **The District has experienced a multi-year trend towards increased funding. Presently in FY 2004, the District is budgeted contrary to the former trend. The school district has less funding available for operations in FY 2004 than they used during FY 2003.**
- **The District has experienced a multi-year trend towards increased staffing. We expect a staff reduction from FY 2003 to FY 2004.**
- **The District has experienced a multi-year trend of diminished discretion across their annual operational budget. We find that the primary areas of discretion left for the leadership are the number of facilities the District operates and the staffing levels contained within those facilities. We expect a multi-year trend of increased pupils per facility and increased pupils per teacher.**
- **The District has experienced a new trend towards expanded use of the Department of Education's Horace Mann Charter School Program. We have detected that an acceleration of this trend is emerging within the District. We believe that the lack of a master plan for this process will limit the leadership's ability to adequately develop the District's budgetary strategy for dealing with the difficult years that lie ahead.**

Revenue Analysis Conclusions:

- **The District has experienced a multi-year trend towards increased state funding. At this point in FY 2004, the Town has budgeted contrary to the former trend. The Town expects to receive reduced state aid between FY 2003 and FY 2004. We expect this trend may continue for at least another year or possibly two years. At best the Town can only anticipate level funding from the state into the short-term future.**
- **The Town has experienced a multi-decades trend towards supporting voluntary taxes as allowed under the state's so-called "Proposition 2 1/2" laws. We detected a trend towards voluntary taxation only for spending designated to protect the local environment and spending designated for local education. We expect little change in this trend.**

Executive Summary (continued)

Revenue Analysis Conclusions (continued):

- We detected a trend indicating that Town's largest source of general fund revenue (taxes) is not keeping pace with the Town's largest cost of doing business (education). We expect that trend will continue and the gap between the two will continue to widen during the next several years.
- We detected a trend of reduced local revenues. Over the next several years we see stability but no growth in this area of the Town's revenue budget.
- We detected another trend, which indicates to us that both the Town and the BSD have maximized their uses of other sources of funds during the past couple of years. We see increased uses of other sources of funds both as transfers into the general fund and as off-budget expenditures within the special revenue, trust and enterprise funds. We are aware that the Town is presently considering the advantages of creating one more enterprise fund. However, we believe that the local leaders have maximized fees allowed by law and conditioned by affordability. We expect no increased capacity exists within this area of public finance.
- We have detected a trend of increased use of special revenue funds. This has been driven by increased state and federal grants. We believe that the federal and state governments will sharply amend their recent past trends of generosity in the area of revenue sharing. We anticipate that this past source of relief to the stresses placed upon general fund budget is at best diminished and at worst is gone.
- We have detected a recent trend towards the use of fund balance (free cash) to underwrite Barnstable's general fund operations. This financial tactic is a further indication to us of the Town's lack of future fiscal capacity. We concur that the current practice of using the Town's fund balance (surplus) which is in excess of the required level of reserves to maintain the level of services while mitigating voluntary tax increases is appropriate.
- We suggest that new fund balance trends are coming into play. We believe that the Town's decreased revenue capacity and their reduced operating budgets will both work to vaporize the past trend of reasonable annual year-end surpluses. We believe that the Town will need a voluntary tax increase at some point in the future in order to sustain the current level of governmental services being delivered to the inhabitants of Barnstable today.

IV. Introduction

The Barnstable Public School District is a robust and vibrant learning community. As such, it is an organization facing constant challenges. During the more recent period of the District's life cycle, the fiscal portion of the operation has seen an inordinate amount of significant organizational challenges.

The purpose of this report is to review and synthesize the results of these challenges. The School Committee and its new administration wish to understand more about the District's historical financial activity. They seek this understanding as they make an honest effort to fully inform the community of where the district's financial capacity stands today.

The District has employed three Superintendents since the retirement of a 24-year veteran 10 years ago. The first superintendent served from July 1994 to January 1996. The District incurred deficits of \$1.4 million and \$1.2 million in fiscal years 1995 and 1996 respectively. The District resolved the matter with a new management team and a new computer system.

Once the new management team was formed and the computer system was changed, the District moved forward. The reader may want to peruse "Barnstable Public Schools Review" prepared in May 2000 under Executive Order 393. This Education Management Accountability Board Report provides considerable post-educational reform historical information and comparisons.

During the early part of this decade, the District faced another challenge within its business office. This time the solution was the elimination and replacement of the CFO. The reader may want to review "The Barnstable Public Schools Management Audit" prepared by the Abrahams Group in November of 2001. This audit provides considerable comparative information. This report also provides a comprehensive explanation of the public school finance jargon resulting from the Massachusetts Education Reform Act of 1993.

For the two years (FY 2003 and FY 2004), the District has used a new chart of accounts to collect and report its financial information. The annual school district End-of-Year Report to the DOE also changed for reporting FY 2002 in FY 2003. Additionally the annual School System Summary Report to the DOE has changed three times in the last three years. These complicated accounting changes have made it difficult for the District's elected leadership and staff to review and compare historical financial information. Fiscal year 2003 is still in the process of being closed. However, once closed, the District will have two years of similar financial data to work with. It will take FY 2004 and FY 2005 to be completed before the district has three consecutive years of accounting records in the same format.

Introduction (continued)

The District and town financial professionals continue to face challenges in addition to those presented via the accounting and reporting system changes. The District has expanded its Horace Mann Charter School from a single Grade 5 school to a Grades 5 and 6 format. There is a movement to add two more Horace Mann Charter Schools to the District's mix in FY 2005. As these changes occur, the financial and other end of year accounting records change. These types of changes impact the collection and presentation of historical data. We expect that meaningful comparisons will continue to challenge those trying to make evaluations and draw conclusions from the District's near-term financial data.

V. Historical School District Trend Analysis

A. Comparable Communities

When the Abrahams Group prepared their report in 2001, they used eight communities for the purpose of contrasting Barnstable's educational efforts. Our charge was to perform a similar exercise using newer data.

The Abrahams report included Andover, Arlington, Brookline, Falmouth, Hingham, Peabody, Pittsfield and Plymouth. For our report we established eleven various measures of comparability. We considered populations, foundation enrollments, foundation enrollment as a percentage of total population, DOR community type, labor force, square miles, non-educational state aid, total general fund revenues, educational expenditures, per capita property values and bond ratings.

We began with 26 communities in consideration. We used a 10 percent plus or minus variance from Barnstable for selection purposes. The final six communities we selected had between two and five data sets equal to or within 10 percent of Barnstable's actual data. As a result of our selection criteria we used five of the same communities used in the Abrahams audit. We did not include two of the communities (Brookline and Hingham) that they used. We included one community (Billerica) that they did not select. When available, we used the statewide average within our comparisons also.

Some of our analysis can be utilized to define the relationship from community to community. Other portions of our analysis can be used to define the relationship from district to district.

(See Charts following)

**Barnstable School District
Schedule of Considered Comparative Communities**

Community	2000 Population	FY 2003 Fnd Enrl	Enrlmnt % Popltn	DOR Type
Andover	31,247	5,816	18.61%	Economically Developed Suburb
Arlington	42,389	4,170	9.84%	Economically Developed Suburb
Attleboro	42,068	6,693	15.91%	Urbanized Center
Barnstable	47,821	6,976	14.59%	Growth Community
Billerica	38,981	6,650	17.06%	Economically Developed Suburb
Brookline	57,107	5,919	10.36%	Economically Developed Suburb
Chelmsford	33,858	5,759	17.01%	Economically Developed Suburb
Falmouth	32,660	4,568	13.99%	Growth Community
Fitchburg	39,102	6,549	16.75%	Urbanized Center
Framingham	66,910	8,974	13.41%	Economically Developed Suburb
Franklin	29,560	6,036	20.42%	Economically Developed Suburb
Haverhill	58,969	9,028	15.31%	Urbanized Center
Holyoke	39,838	7,378	18.52%	Urbanized Center
Leominster	41,303	6,283	15.21%	Urbanized Center
Lexington	30,355	5,948	19.59%	Economically Developed Suburb
Malden	56,340	6,520	11.57%	Urbanized Center
Medford	55,765	4,958	8.89%	Urbanized Center
Methuen	43,789	7,430	16.97%	Urbanized Center
Peabody	48,129	6,840	14.21%	Economically Developed Suburb
Pittsfield	45,793	6,677	14.58%	Urbanized Center
Plymouth	51,701	8,991	17.39%	Growth Community
Revere	47,283	5,937	12.56%	Urbanized Center
Salem	40,407	5,234	12.95%	Urbanized Center
Taunton	55,976	8,691	15.53%	Urbanized Center
Westfield	40,072	6,478	16.17%	Urbanized Center
Weymouth	53,988	6,807	12.61%	Economically Developed Suburb

Bolding indicates final comparative communities

**Barnstable School District
Schedule of Final Comparative Communities' Selection Data**

Community	2000 Population	FY 2003 Fnd Enrl	Enrlmnt % Popltn	DOR Type	Labor Force +/- 10%	Sq Miles +/- 10%	02 CS GG Rev +/- 10%	02 GF Revs +/- 10%	02 GF Ed Exp +/- 10%	00 P/Cap EQV +/- 10%	Bond Rate
Barnstable	47,821	6,976	14.59%	Growth Community	24,039	60.05	\$ 2,879,873	\$ 91,354,146	\$ 52,889,421	\$ 127,949	Aa3
Andover	31,247	5,816	18.61%	Economically Developed Suburb	No	No	Yes	No	No	Yes	No
Billerica	38,981	6,650	17.06%	Economically Developed Suburb	Yes	No	No	Yes	No	No	Yes
Falmouth	32,660	4,568	13.99%	Growth Community	No	Yes	No	No	No	No	No
Peabody	48,129	6,840	14.21%	Economically Developed Suburb	No	No	No	Yes	No	No	No
Pittsfield	45,793	6,677	14.58%	Urbanized Center	No	No	No	Yes	No	No	No
Plymouth	51,701	8,991	17.39%	Growth Community	Yes	No	No	No	Yes	No	Yes

Source: Massachusetts Department of Revenue

Bolding indicates community = Barnstable +/- 10%

Historical School District Trend Analysis (continued)

Foundation Budget Analysis:

Each year since the Education Reform Law was passed in 1993, a foundation budget is developed for each community. A community's Foundation Budget is annually calculated by the state based upon local demographical data. The foundation budget establishes a theoretical spending level for each school district. An annual spending requirement is also calculated. This is called Net School Spending.

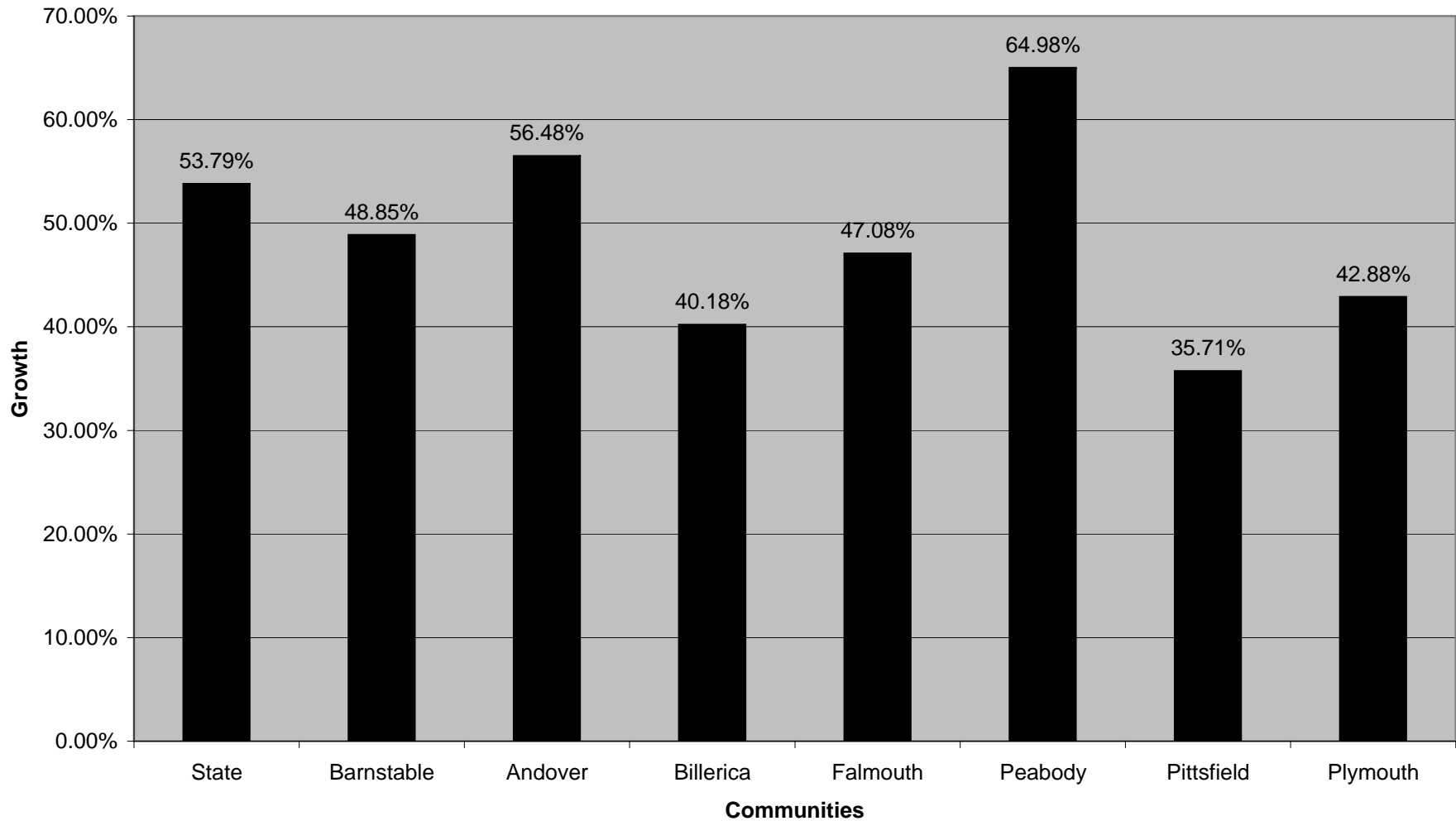
In effect the foundation formula establishes a target spending level for each school district. A community's actual Net School Spending requirement is achieved by computing what the local community should appropriate for educational spending (Local Contribution) and then commits the state to contribute the difference via state aid (Chapter 70 Aid).

On average over the past 10 years, the foundation budgets of the commonwealth's communities have been raised by 53.79 percent. Our analysis indicates that Barnstable has not experienced any adverse impact under the new law. Barnstable's increases are about 10 percent below the state average. The impact to Barnstable is average for the comparable group.

(See Chart on following page)

**10 Year Percentage Growth in Foundation Budget
FY 1993 - FY 2002**

Source: MA Dept of Education



Historical School District Trend Analysis (continued)

Chapter 70 (State Aid) Funding Analysis:

State funding for education in Massachusetts is known as Chapter 70 funding. Prior to the education reform act, this funding was driven by local demographics. The distribution formula changed with education reform. However, the original base of this state aid did not. In 1992 Barnstable had a considerably low base of education aid.

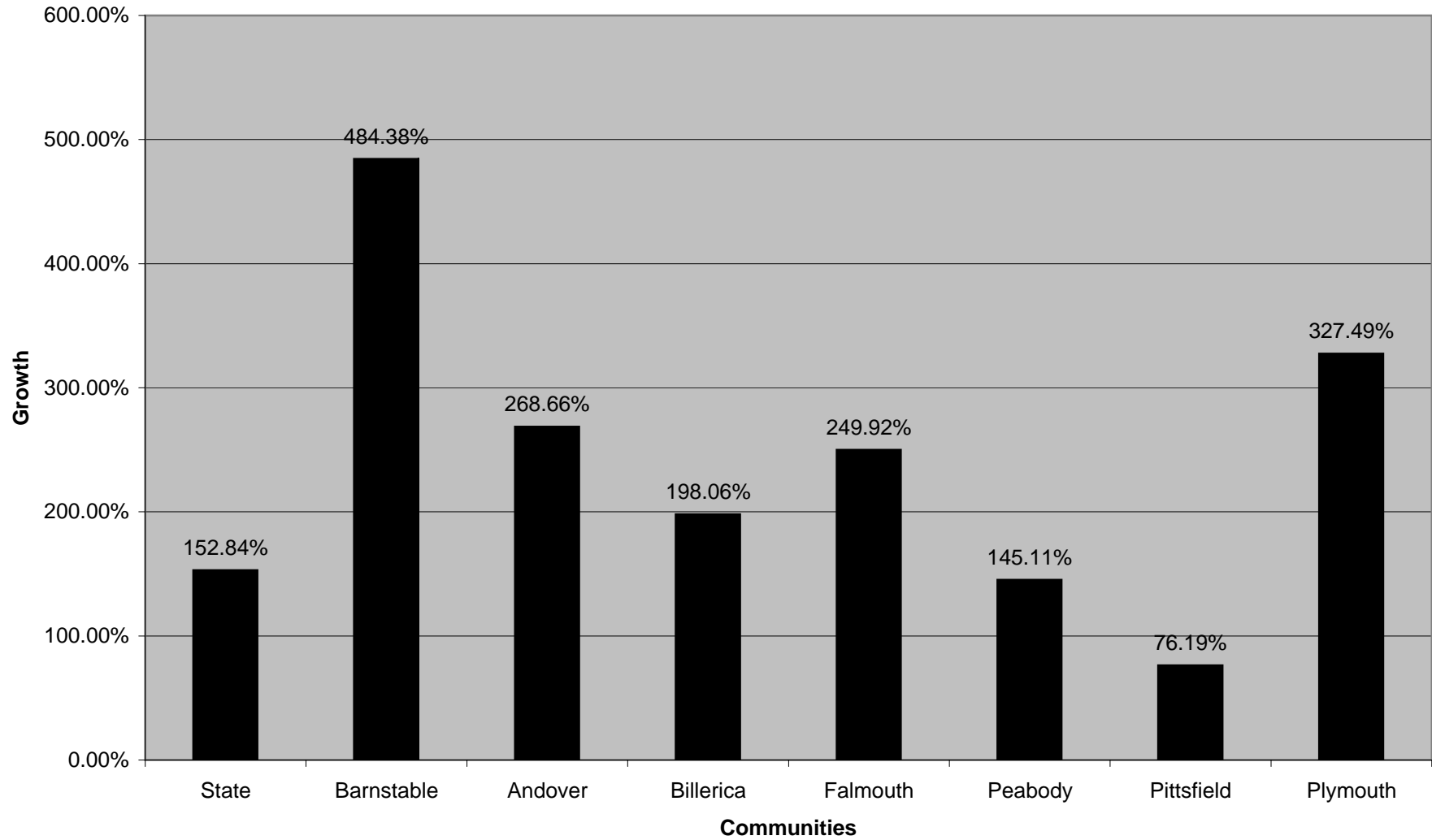
In 1990 state aid supported 6.6% of the general fund spending for education in Barnstable. By 1992 the state supported only 1.2% of Barnstable's General Fund educational spending. Total Chapter 70 aid in 1990 was \$1.534 million. By 1992 total Chapter 70 aid for Barnstable was \$.315 million. Barnstable's \$1.7 million Proposition 2 ½ override vote of 1990 implemented in FY 1991 was ultimately used to supplant the lost state aid as opposed to supplementing the school budget.

Thus, given the low level of state aid for education in 1992, Barnstable leads the comparable group when we look at the growth in this funding source over the past 10 years. Barnstable's growth in state funding is distorted because it appears that they have seen increases in educational funding at a level that is more than three times the state average. This results in Barnstable appearing to have averaged funding increases from the state that are almost double the average increases of the comparable group.

(See Chart on following page)

Growth in Chapter 70 Funding FY 1993 to FY 2003

Source: MA Dept of Education



Historical School District Trend Analysis (continued)

Net School Spending Analysis:

The state sets required minimum spending levels (Net School Spending) for education in every community. Most communities exceed the minimum level. The actual level of net school spending has been reviewed for the last 10 years. In this case, the Plymouth data is skewed because they were a K – 6 system when the new law was passed. Their first year net school spending requirement was for only their lower grades.

When we look at Barnstable's behavior in this area, we see that the town's net school spending requirement has been elevated more aggressively than the statewide average during the last decade. The demand for educational spending placed upon Barnstable by the law has exceeded the state required educational spending average by 17 percent. When Plymouth is removed from the comparative group, Barnstable's required spending exceeds the group average by about 22%.

The state Department of Education (DOE) collects and reports the required spending in two broad categories (instructional and non-instruction). Each local community reports its annual expenditures using multiple categories within each of the two larger groups. Of note is the fact that in FY 2001 Barnstable devoted more of its foundation spending to instructional categories than any of the communities in our comparable group.

Instructional Expenditures include the following categories of spending:

- Supervisory
- Principal's Office
- Principal's Technology
- Teaching
- Professional Development
- Textbooks and Instructional Equipment
- Instructional Technology
- Educational Media
- Guidance
- Psychological Services

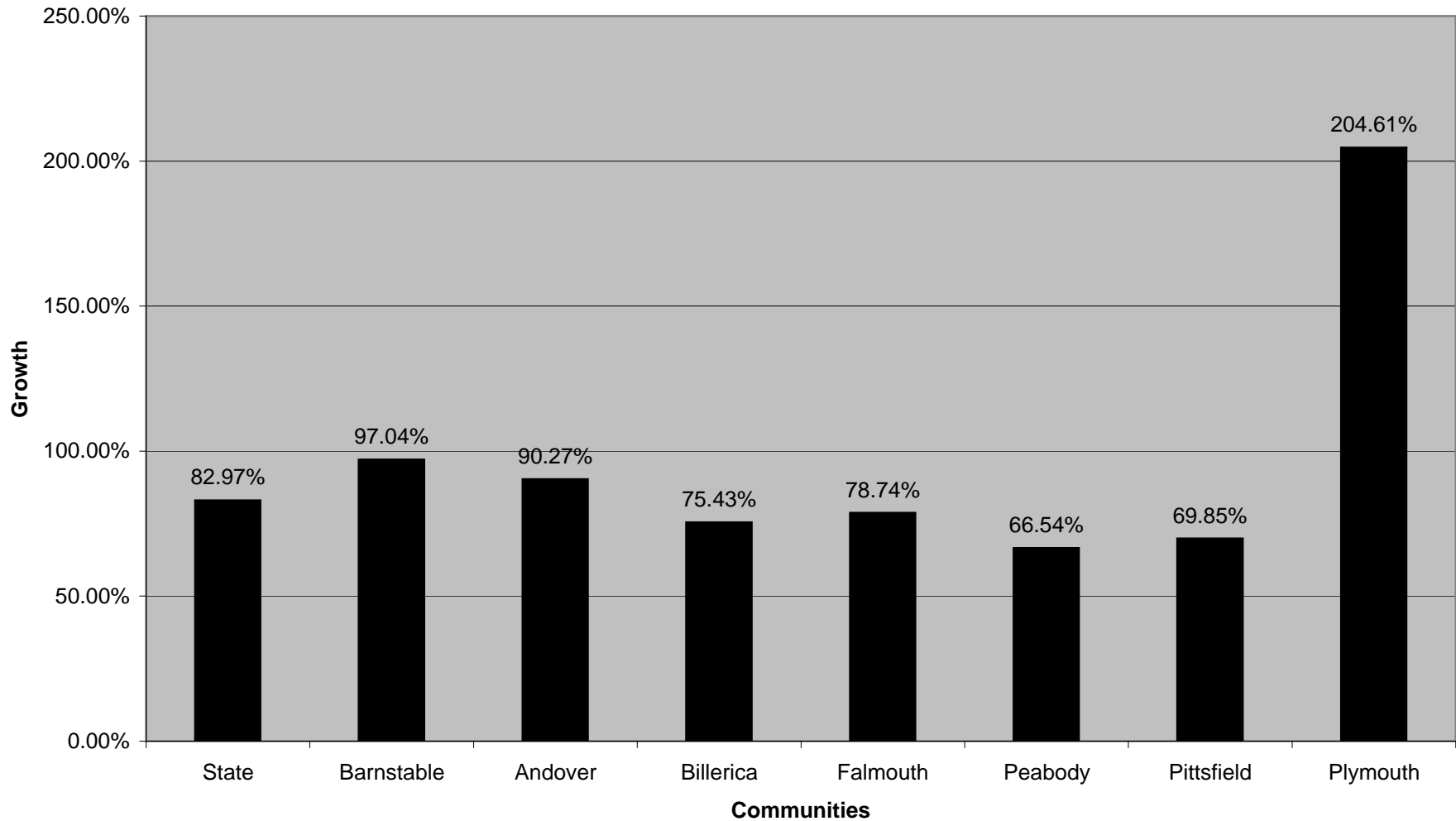
Non-Instructional Expenditures include the following categories of spending:

- Administration
- Health
- Athletics
- Activities
- Maintenance
- Employee Benefits

(See Charts following)

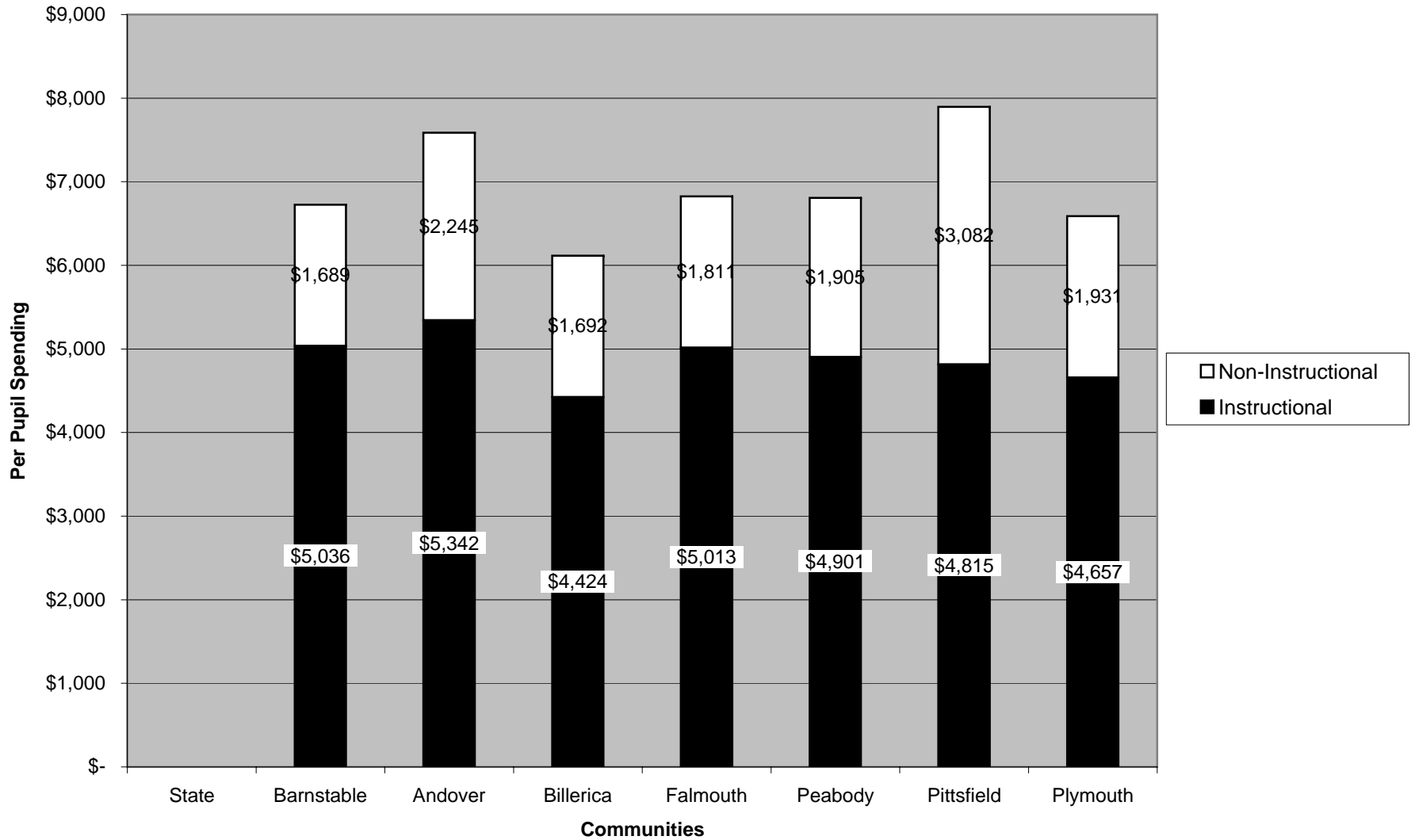
Growth in Actual Net School Spending FY 1993 to FY 2002
(Note: State and Billerica use Budgeted NSS)

Source: MA Dept of Education

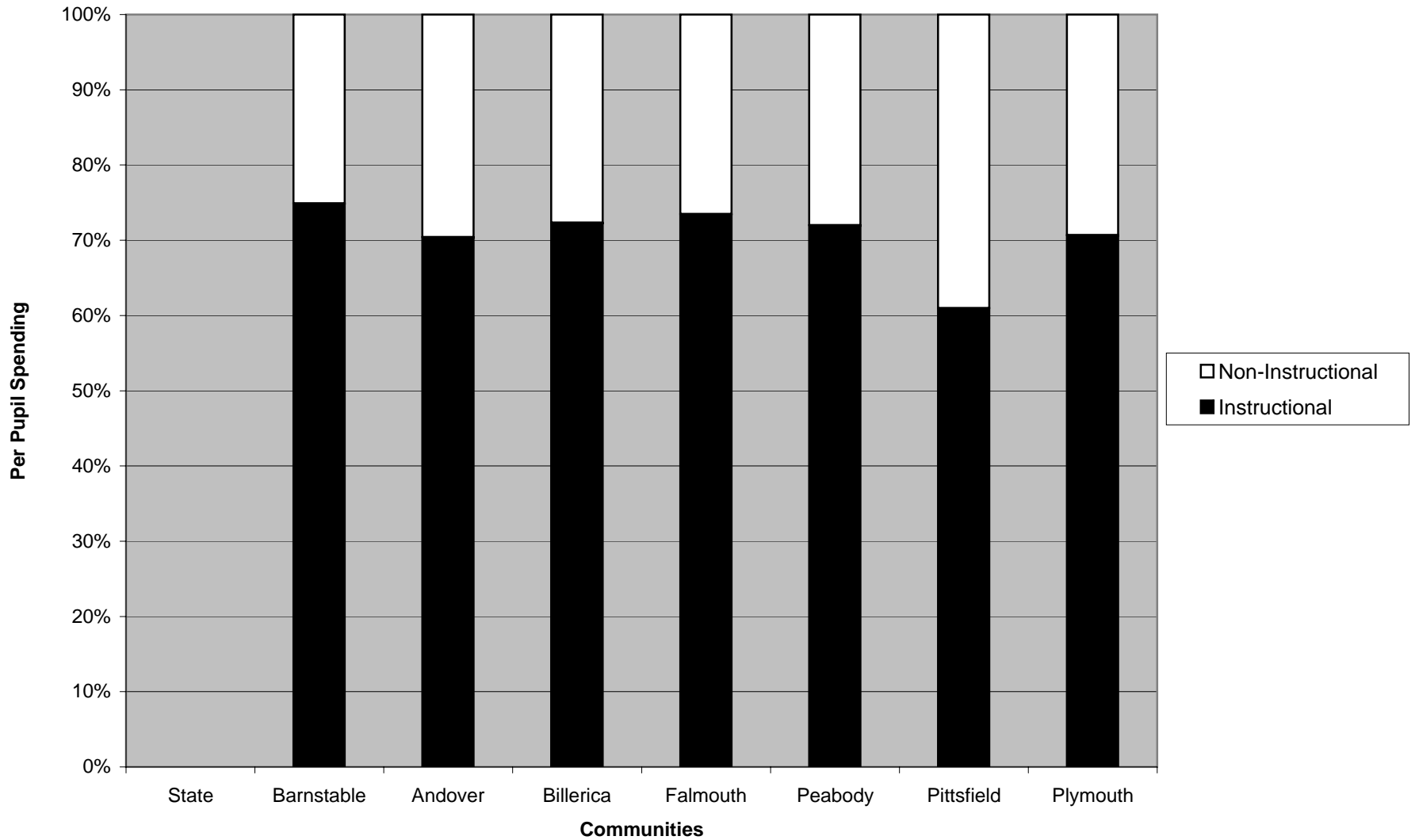


Group Less Plymouth Average: 79.64%
Group Less Plymouth Median: 77.09%
Note: 1993 Plymouth NSS was only K to 6

FY 2001 Net School Spending - Instructional and Non-Instructional
Source: MA Dept of Education



FY 2001 Net School Spending - Instructional and Non-Instructional
Source: MA Dept of Education



Historical School District Trend Analysis (continued)

Foundation Spending Analysis:

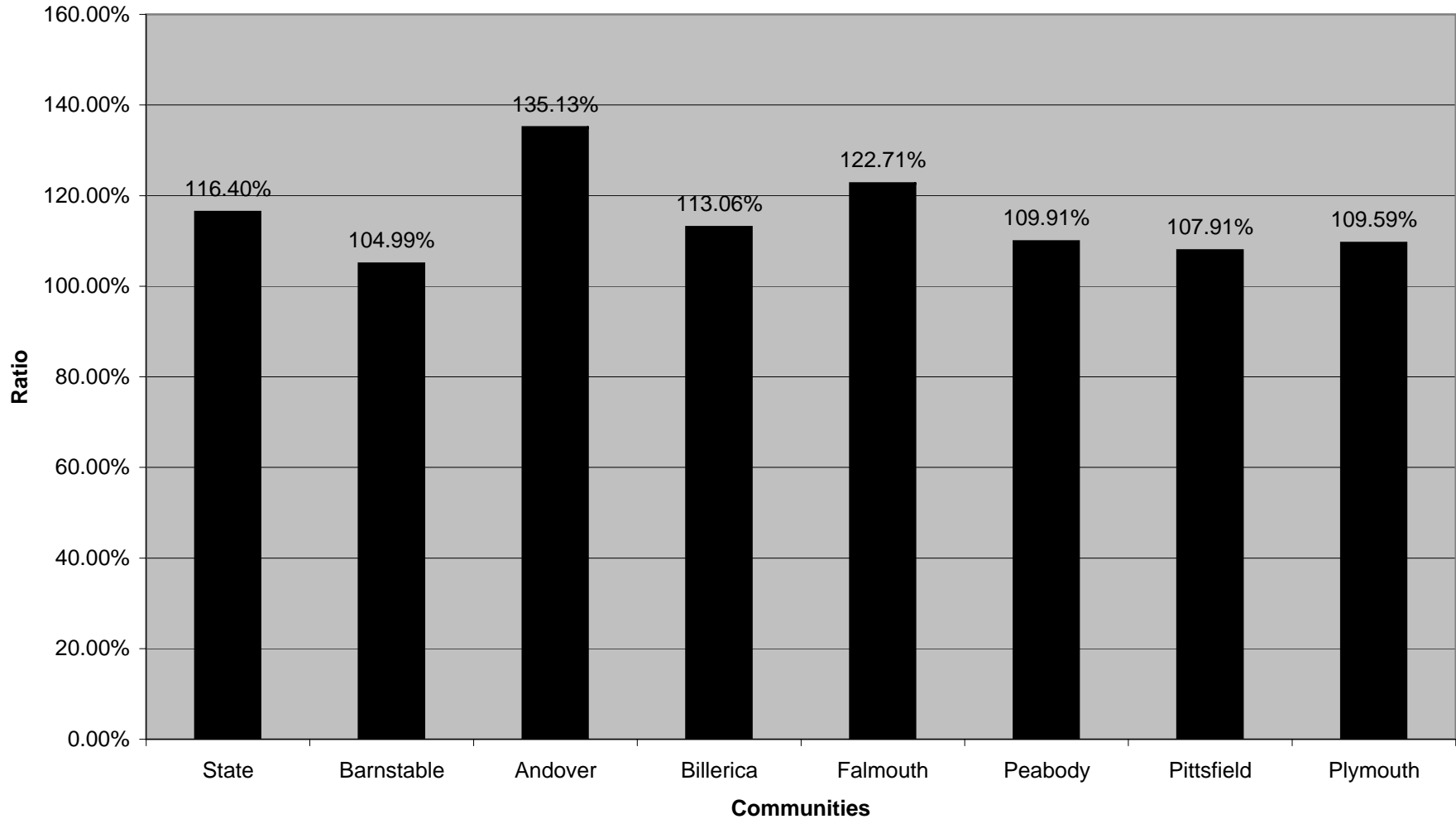
While the previous analysis looks at the long-term trend, we have also looked at the short term. The last fiscal year for which we can get comprehensive statewide data is FY 2001. At this time some of the communities have not completed their state reports for FY 2002.

We see a changed look when we review the local educational funding that is above the state target (Foundation Budget) during FY 2002. Here Barnstable shows a weakness. Statewide spending is more than 16 percent above target spending. In Barnstable actual educational spending is not quite 5 percent above the target spending. The comparable group's average education spending levels were about 15 percent above the foundation spending set by law.

(See Chart on following page)

FY 2002 Actual Net School Spending as a Percentage of Foundation Budget
(Note: State and Billerica use Budgeted NSS)

Source: MA Dept of Education



Historical School District Trend Analysis (continued)

Chapter 70 (State Aid) Relative to Net School Spending Analysis

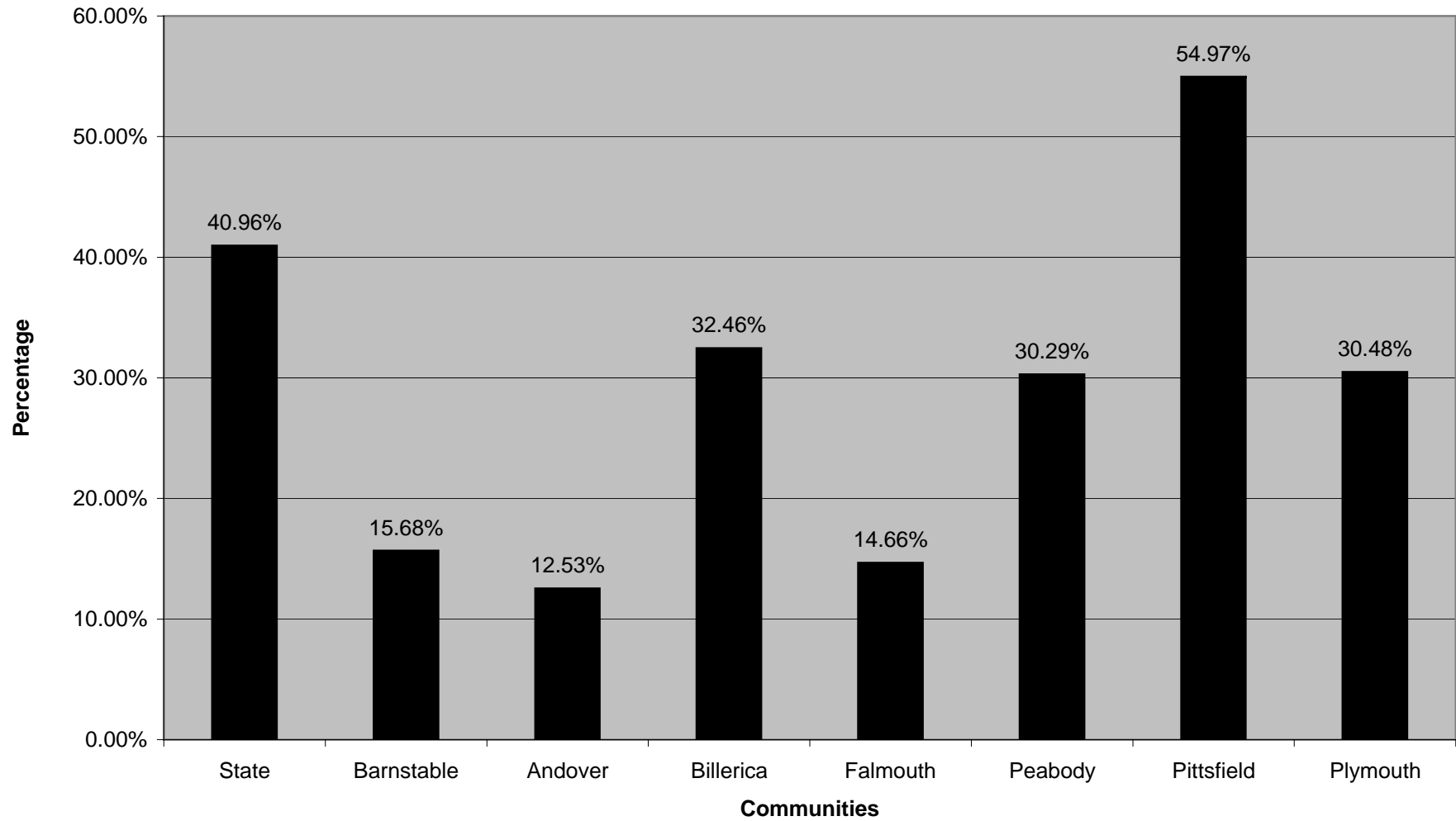
Ever since 1993 the state has been in the business of setting minimum educational spending levels. They have also accelerated their funding participation since the law change. When we look at the amount of state funds flowing to educational spending by Massachusetts' communities, we see a statewide average of 41 percent financed by state revenues.

Our comparable group averages about 27 percent. Within our group the City of Pittsfield gets the highest state support at 55 percent of its educational funding. It is the only member of our comparable group with funding above the state average. Barnstable is in the lower tier of the group with less than 20 percent of its net school spending supported by state funds.

(See Chart on following page)

Chapter 70 Funding as a Percent of Net School Spending - FY 2002
(Note: State and Billerica use Budgeted NSS)

Source: MA Dept of Education



Historical School District Trend Analysis (continued)

State and Local Share of Net School Spending Analysis

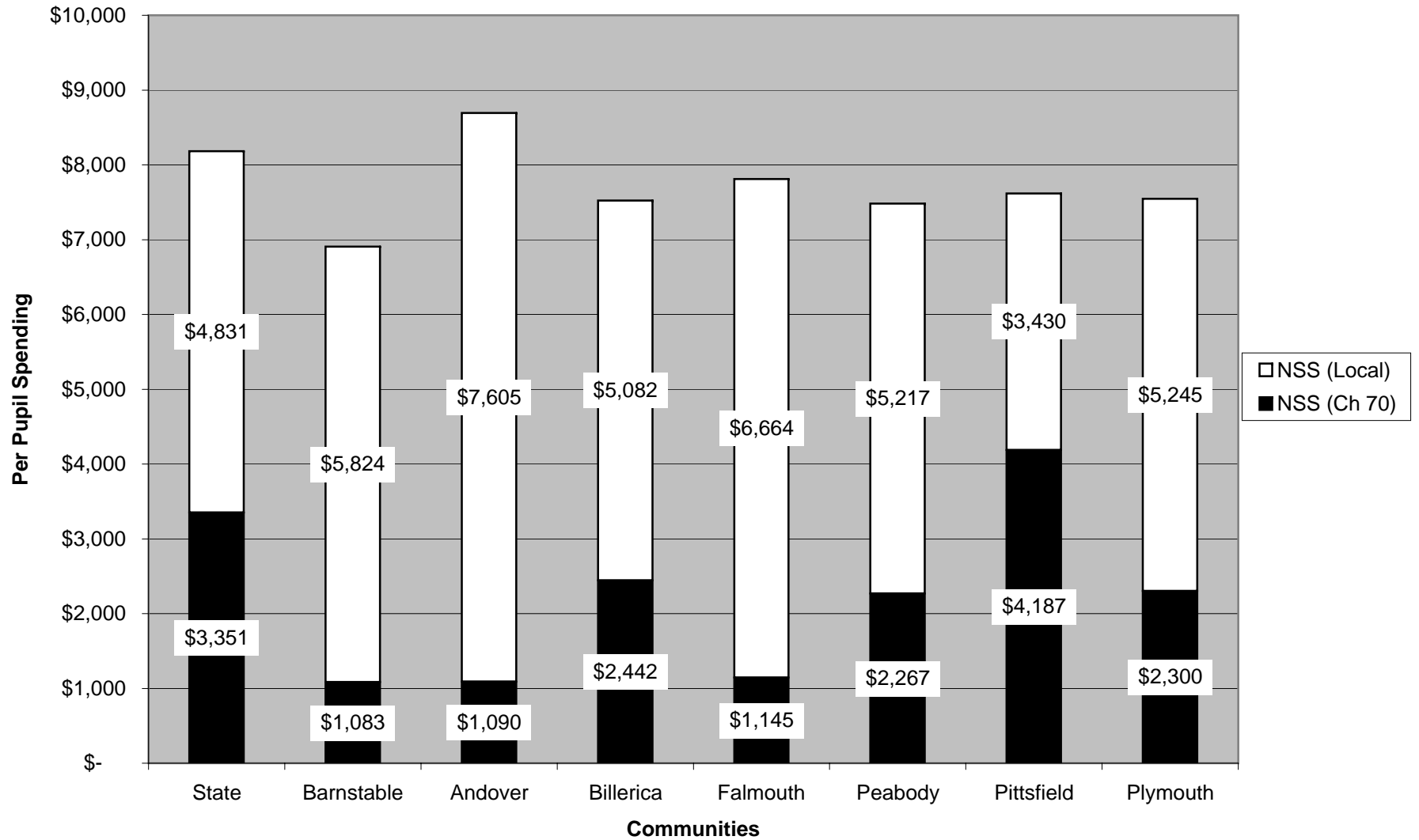
During FY 2002 Barnstable spent less per pupil than the statewide average. The District also spent less per pupil than any of the comparable communities. While Andover and Falmouth experienced similarly low levels of state funding on a per-pupil basis in 2002, they used local dollars to become the highest total spending members of the comparative group.

Barnstable's level of local spending exceeded the state average by more than 20 percent and the comparable group's average by more than 4 percent. The combined spending for Barnstable students ran almost ten percent below the comparable group in 2002 and almost 16 percent below the statewide average.

(See Chart on following page)

FY 2002 Net School Spending - State and Local Share

Source: MA Dept of Education



Group Average: Local = \$5,581 State = \$2,073
 Group Median: Local = \$5,245 State = \$2,267

Historical School District Trend Analysis (continued)

History of Proposition 2 ½ Override Activity Analysis

When we look at the comparable communities, only the two cities of Peabody and Pittsfield have never asked their voters for a Proposition 2 ½ override. Andover has tried and lost twice. Both were for educational purposes. Billerica has tried and lost three times. Once was for schools. Falmouth has tried three times. They lost the one in the middle. The most recent was for schools. Plymouth has tried seven times and won three. The last win was in 1988. It was for schools. The most recent loss was in 1994 and it was for schools. Barnstable has tried two times. Both were for schools. The first one was in 1990. It passed. The second one lost in 1999. Of note is the fact that of our group, only Falmouth has obtained a successful override since the start of the education reform law.

(See Chart on following page)

Massachusetts Department of Revenue
Division of Local Services
Municipal Databank/Local Aid Section

Overrides

DOR Code	Municipality	Description	Date	FY	Yes	No	Win /Loss	Amount
009	Andover	adding funds for andover public schools	May-91	1992	2,826	5,311	LOSS	1,500,000
009	Andover	funding school department budget and related health insurance costs	Jun-02	2003	2,881	4,937	LOSS	1,130,000
020	Barnstable	Fund Sch. Operating Budget	May-90	1991	3,570	3,448	WIN	1,700,000
020	Barnstable	education costs	May-99	2000	3,315	6,055	LOSS	3,800,000
031	Billerica	provide funds for hazardous waste collec.	Mar-91	1992	2,110	5,394	LOSS	18,000
031	Billerica	public works salaries & utilities	Mar-91	1992	815	6,675	LOSS	112,983
031	Billerica	salaries for council on aging	Mar-91	1992	1,400	6,086	LOSS	7,484
031	Billerica	"for school's teachers, music, books"	Oct-91	1992	2,978	4,610	LOSS	866,000
031	Billerica	cross connection salaries & expenses	Oct-91	1992	590	6,811	LOSS	8,550
031	Billerica	fire dept.o.t.to reopen west fire stat.	Oct-91	1992	1,654	5,872	LOSS	300,000
031	Billerica	funding salary of local inspector	Oct-91	1992	790	6,695	LOSS	28,741
031	Billerica	funds to surface & resurface town street	Oct-91	1992	1,637	5,815	LOSS	225,000
031	Billerica	police cruiser & equip. for police dept	Oct-91	1992	1,596	5,836	LOSS	143,000
031	Billerica	police department overtime	Oct-91	1992	980	6,510	LOSS	105,000
031	Billerica	professional and secretarial positions	Oct-91	1992	619	6,863	LOSS	144,500
031	Billerica	replacing dasher boards on skating rink	Oct-91	1992	727	6,765	LOSS	80,000
031	Billerica	restoring street lights	Oct-91	1992	1,166	6,333	LOSS	52,000
031	Billerica	sewer lateral expansion program	Apr-92	1993	1,499	3,819	LOSS	1,300,000
096	Falmouth	general operating budget	May-88	1989	4,077	2,686	WIN	806,250
096	Falmouth	"rep sch,rds,fuel carrier,haz waste coll"	May-90	1991	3,417	4,228	LOSS	1,685,885
096	Falmouth	school positions and expenditures	May-97	1998	4,432	3,171	WIN	980,000
239	Plymouth	general operating expenditures	Jun-83	1984	1,455	1,201	WIN	198,542
239	Plymouth	general operating expenditures	Feb-84	1984	2,803	1,618	LOSS	1,195,542
239	Plymouth	general operating expenditures	Feb-84	1984	2,909	1,482	LOSS	996,222
239	Plymouth	general operating expenditures	Jun-84	1985	3,911	2,138	WIN	543,219
239	Plymouth	general operating expenditures	Apr-87	1988	3,674	4,297	LOSS	6,997,213
239	Plymouth	general operating expenditures	Jun-87	1988	4,649	4,523	LOSS	6,997,213
239	Plymouth	general operating expenditures	Apr-88	1989	5,408	3,752	WIN	3,507,662
239	Plymouth	operating-funding new middle school	Nov-94	1996	4,127	10,959	LOSS	4,000,000

Historical School District Trend Analysis (continued)

B. Comparable School Districts

When we break the comparables down into individual school districts we find all of the communities are K – 12 systems. Falmouth has the least number of elementary schools with five and Plymouth and Barnstable have the most at nine. The number of middle schools varies from one to three. Barnstable and two others use two middle schools. Two have three and two use one middle school. Five communities have a single high school. The other two have three. The smallest number of buildings is in Falmouth. They use seven schools. Plymouth uses the most buildings at 14. Barnstable uses 12 school buildings. There are two districts in our group with ten buildings. One has nine facilities and one uses 13.

Barnstable is one of two districts with vocational education and School Choice. Only the two city districts provide transitional bilingual programs. In addition, Barnstable has the highest level of limited English proficiency in the group. Except for the City of Pittsfield, Barnstable has the highest level of students eligible for free/reduced price lunches.

Of particular note is that in 1995 Barnstable had the highest percentage of children attending the public schools in our comparable group. The ratio was 99.7 percent. The Barnstable district is now in the middle of the group at 88.9 percent. We believe that the opening of the St Francis Xavier Prep School (grades 5 – 8) in Hyannis in 1996, the Lighthouse Charter Middle School (grades 6 – 8) in Orleans in 1994 and the Sturgis Charter High School (grades 9 –12) in Hyannis in 1998 contributed to the recently reduced attendance within the Barnstable School District.

We have reviewed the data maintained within the Massachusetts Department of Public Health. The database contains public/private school data for 1993 through 2000. We have determined that the number of Barnstable children attending private schools in 1993 was reported at 305 or 4.5% of the total student population. In 2000, the reported private school attendees from Barnstable numbered 712 or 8.5% of total students in the Town.

The DOE enrollment statistics for last year have Falmouth as the smallest district at 4,578 pupils and Plymouth as the largest at 8,931 pupils. Barnstable had a DOE total FY 2003 enrollment of 6,229 children.

(See Charts following)

**Barnstable Public Schools
Comparative Review
Overview of School Districts**

	Barnstable	Andover	Billerica	Falmouth	Peabody	Pittsfield	Plymouth
Enrollment							
Grade Span							
Elementary	PK thru Grd 5	PK thru Grd 5	PK thru Grd 5	PK thru Grd 6	PK thru Grd 5	PK thru Grd 5	PK thru Grd 5
Middle/Junior	Grds 6, 7, 8	Grds 6, 7, 8	Grds 6, 7, 8	Grds 7 and 8	Grds 6, 7, 8	Grds 6, 7, 8	Grds 5, 6, 7, 8
Secondary	Grds 9 thru 12	Grds 9 thru 12	Grds 9 thru 12	Grds 9 thru 12	Grds 9 thru 12	Grds 9 thru 12	Grds 9 thru 12
Middle/Secondary						Grds 6 thru 12	
Number of Schools							
Elementary	9	6	6	5	8	8	9
Middle/Junior	2	3	2	1	1	2	2
Secondary	1	1	1	1	1	2	3
Other						1	
Total	12	10	9	7	10	13	14
Programs/Services							
Vocational Education (Ch.74)	Yes	No	No	No	No	Yes	No
Inter-district School Choice	Yes	No	No	No	No	Yes	No
Intra-district School Choice	No	No	No	Yes	No	Yes	No
Metco	No	No	No	No	No	No	No
Vocational Education (non Ch. 74)	No	No	No	No	No	No	No
Transitional Bilingual Education	No	No	No	No	Yes	Yes	No

Source: MA Dept. of Education

**Barnstable Public Schools
Comparative Review
Overview of School Districts**

	Barnstable	State	Andover	Billerica	Falmouth	Peabody	Pittsfield	Plymouth
Enrollment	6,229		5,915	6,363	4,578	6,642	6,718	8,931
% Limited English Proficiency	4.30%	5.30%	0.40%	0.10%	0.90%	2.70%	2.00%	0.20%
% Eligible for free/reduced price lunch	21.50%	26.20%	2.90%	5.80%	13.40%	15.50%	31.00%	14.70%
Children attending public schools:								
1995 % attending public schools	99.70%	89.20%	92.10%	97.40%	96.60%	85.60%	87%	94.90%
2002 % attending public schools	88.90%	89.80%	88.20%	97.60%	94.40%	85.40%	88%	99.30%

Source: MA Dept. of Education

Historical School District Trend Analysis (continued)

Comparative Districts' Current Spending Analysis

Most of the districts increased their non-instructional spending between FY 2000 and FY 2001. Only the City of Peabody and the Town of Plymouth spent less per pupil in FY 2001 than in they did in FY 2000.

All but the Plymouth School District increased their instructional spending between FY 2000 and FY 2001.

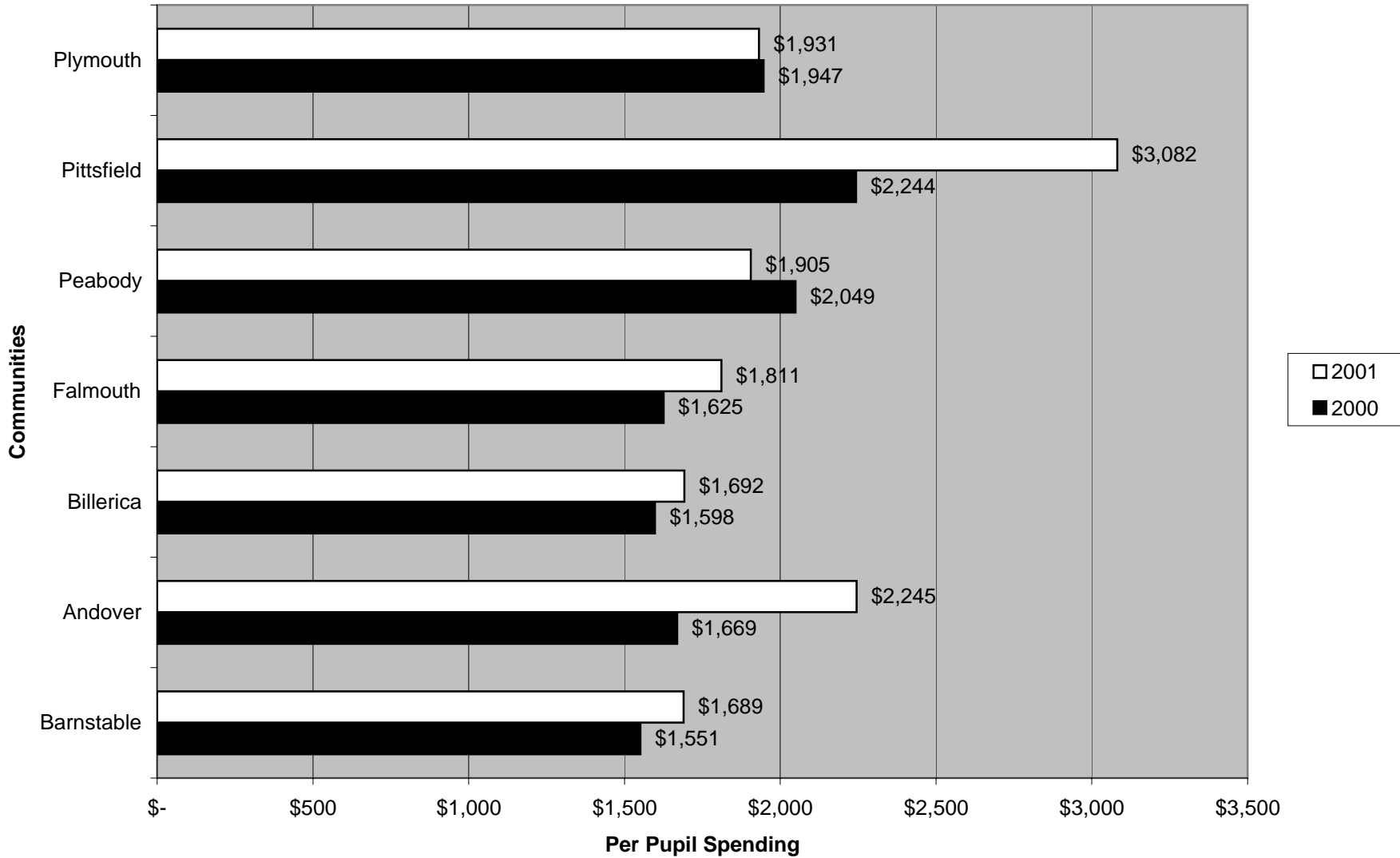
Barnstable was the second highest district in instructional spending behind Andover during fiscal 2001. During the same year Barnstable was the second lowest in non-instructional spending. These two districts spend similarly and both were about 7 percent below the spending level of the district just above them.

Of note is that the Abrahams report also detected Barnstable's low level of spending in non-instructional areas. They warned of School Building Assistance funding problems if the District continued to avoid maintenance spending. We concur and suggest that the administration should pay careful attention to their required spending in this area.

(See Charts following)

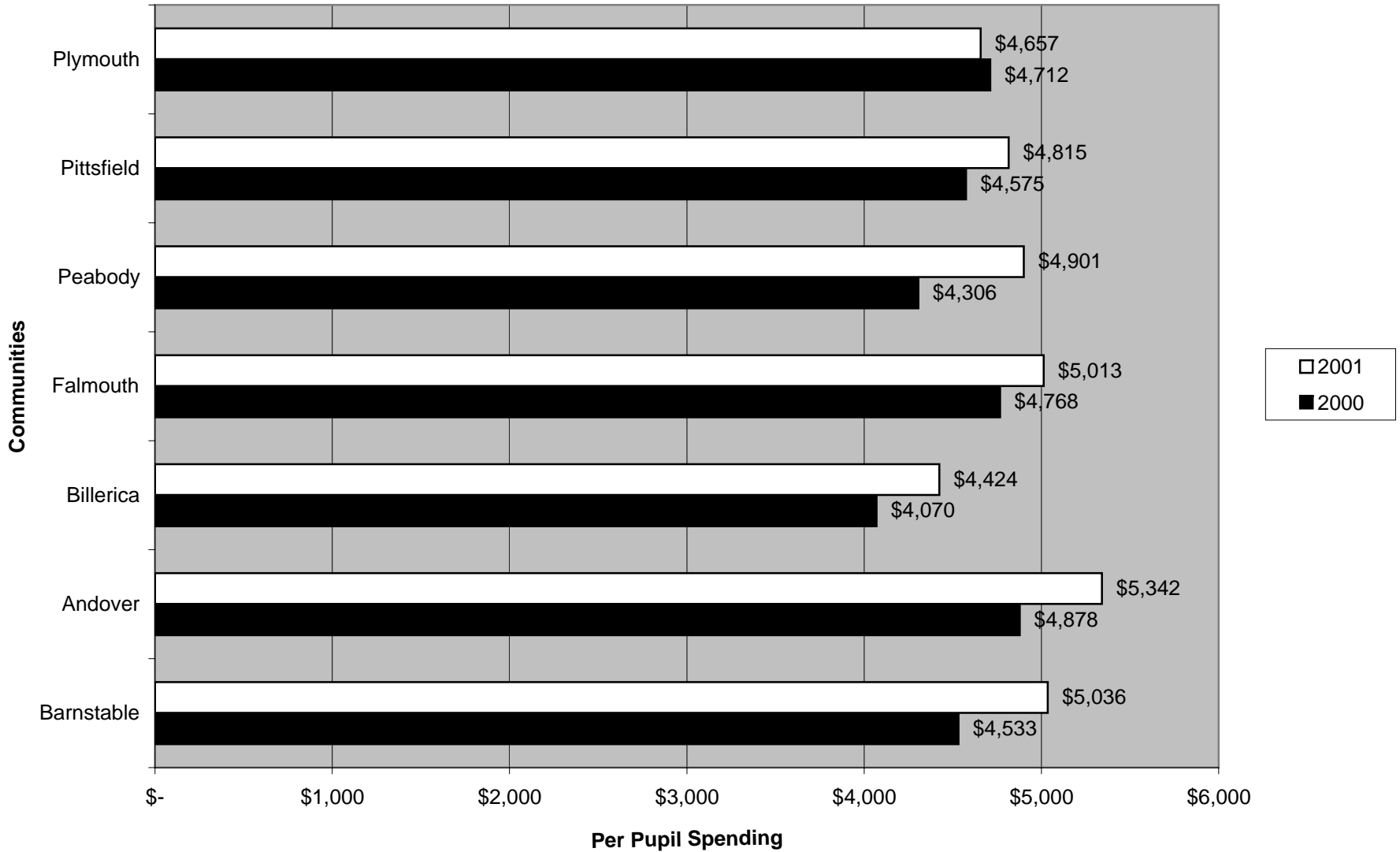
Net School Spending - Non-Instructional FY 2000 and FY2001

Source: MA Dept of Education



Net School Spending - Instructional FY 2000 and FY2001

Source: MA Dept of Education



Historical School District Trend Analysis (continued)

Comparative Districts' Teachers Analysis

Between 1997 and 2001 only Billerica and Peabody decreased their pupils per teacher ratios.

Statewide the ratio changed from 14.43 to 13.65. This change is about 5.4 percent.

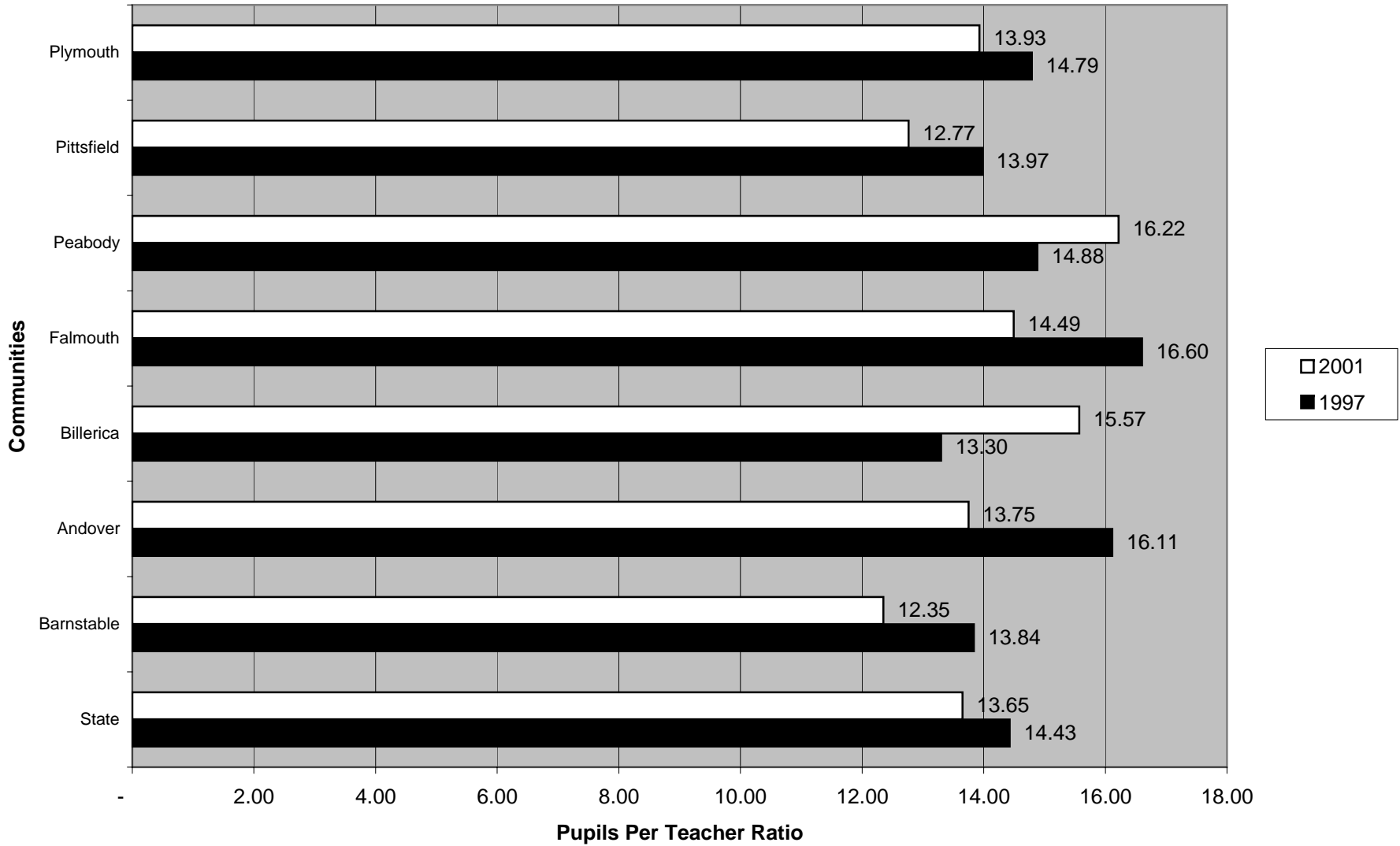
In Barnstable the ratio moved favorably from 13.84 to 12.35 pupils per teacher. This change was almost 11 percent or twice the statewide average. In 2001 Barnstable had the most favorable ratio of the group. The highest ratio was 16.22 pupils per teacher in Peabody.

Between 1997 and 2001, the total number of teachers grew in all of the districts except Billerica. The growth statewide averaged more than 11 percent. The comparative groups' teaching staff grew on average at 9.5 percent during the period. Barnstable increased their teaching staff by over 21 percent during the same time.

(See Chart on following page)

Pupils Per Teacher - FY 1997 and FY2001

Source: MA Dept of Education



Historical School District Trend Analysis (continued)

Comparative Districts' Average Teacher Salaries Analysis

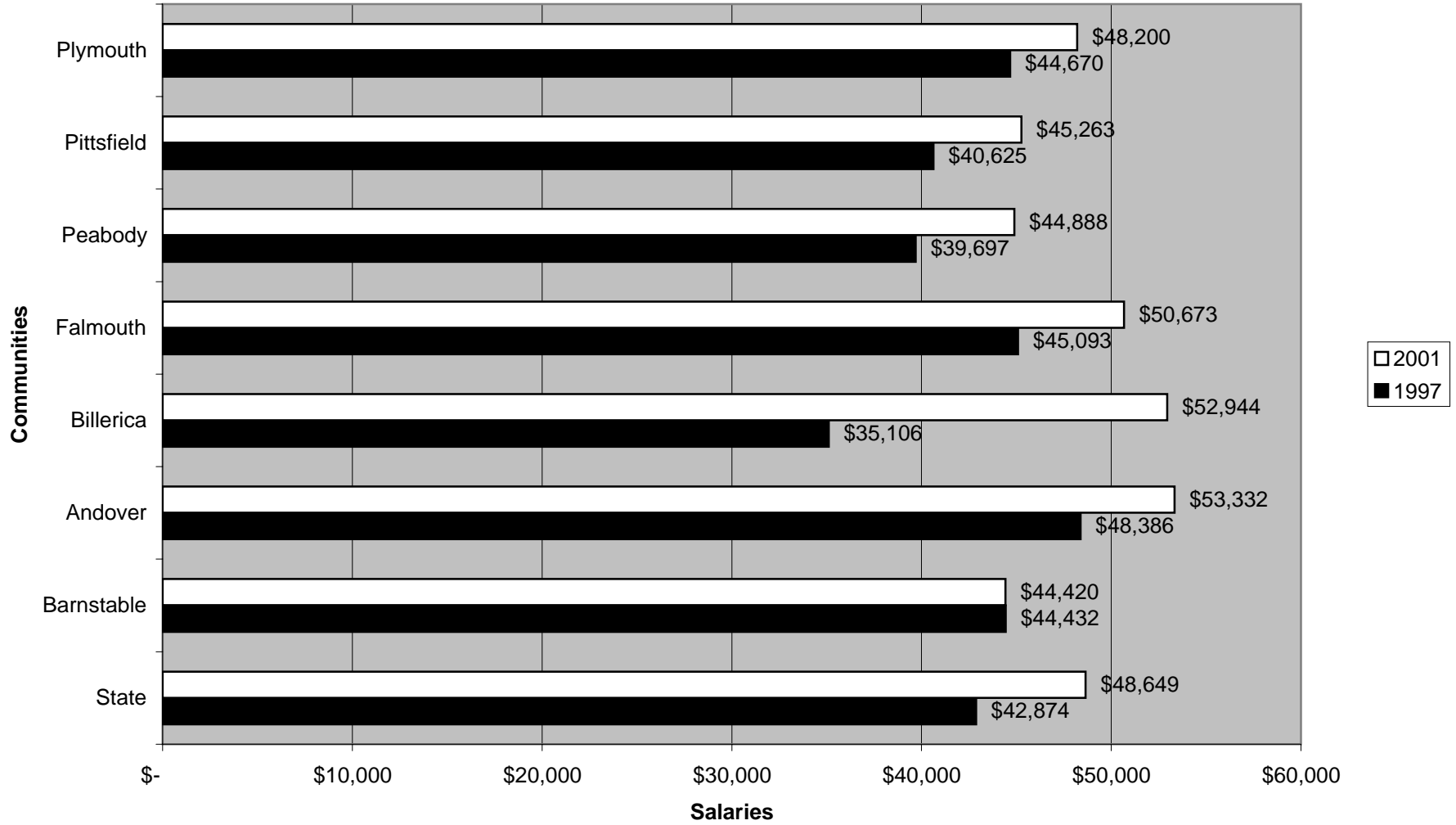
Average teacher salaries were up in all districts but one between 1997 and 2001.

Only Barnstable remained stable. Barnstable's teaching staff was expanding numerically more than any of the other districts in our analysis. Yet the average salary was stable in Barnstable while the other districts saw increased average salaries. This indicates to us that in Barnstable a considerable number of lower paid inexperienced teachers replaced a large number of experienced teachers during the period of 1997 to 2001.

(See Chart on following page)

Average Teachers Salaries - FY 1997 and FY 2001

Source: MA Dept of Education



Historical School District Trend Analysis (continued)

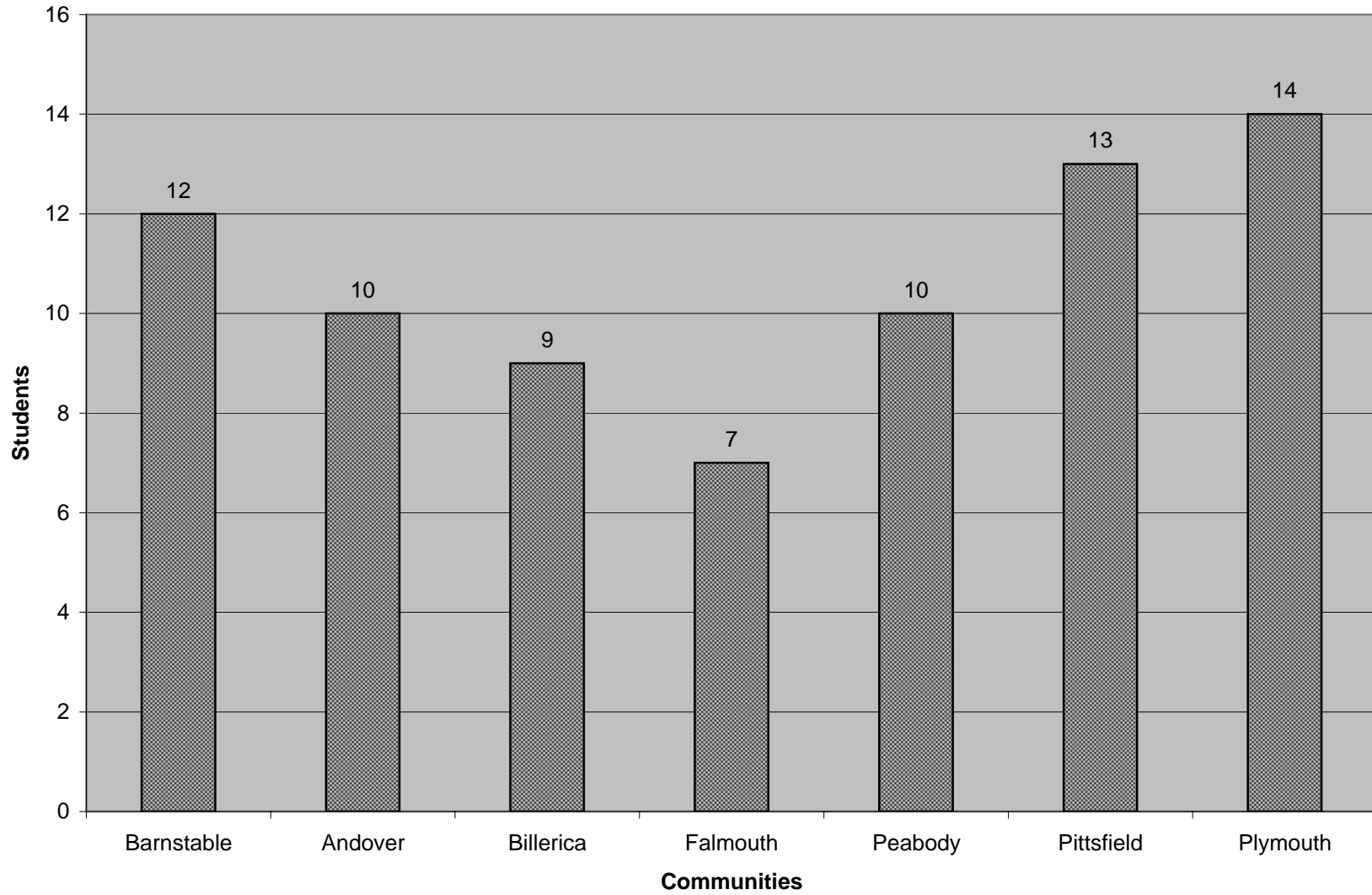
Comparative Districts' Student Housing Analysis

When we contrast enrollments to buildings, we get a pupil per building ratio. Barnstable and Pittsfield maintained the same pupils per building ratio in 2003. Pittsfield was at 517 and Barnstable was at 519. The next lowest ratio was 14 percent higher than Barnstable. The highest ratio was 707 children per building in Billerica. This ratio is more than 36 percent higher than the one in Barnstable.

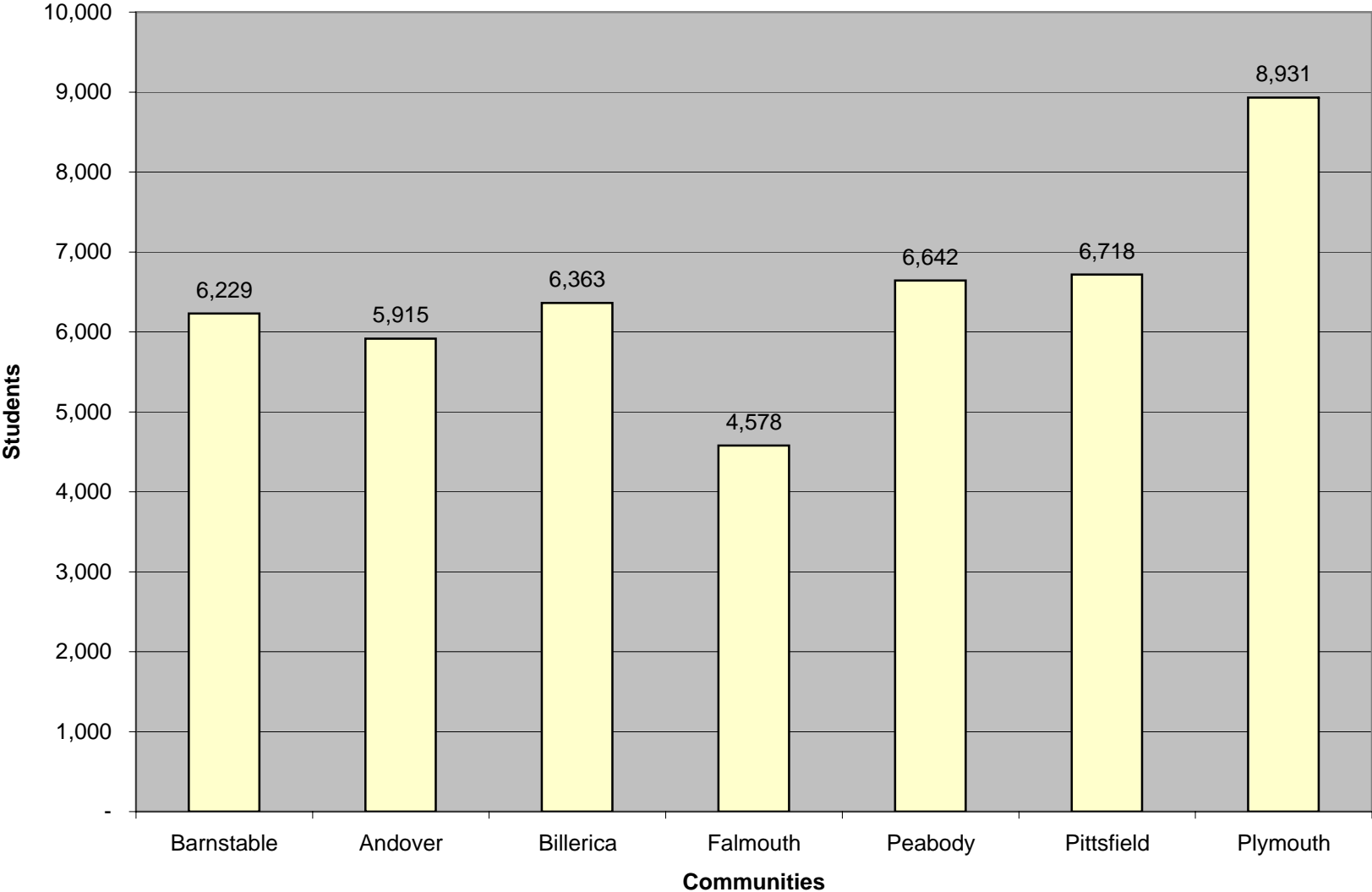
Barnstable has already focused management energy in this general direction. The closing of the Grade 5 building in Hyannis is the first of a number of facility changes under consideration by the town's current educational leadership.

(See Chart on following page)

School Facilities - FY 2003
Source: MA Dept of Education

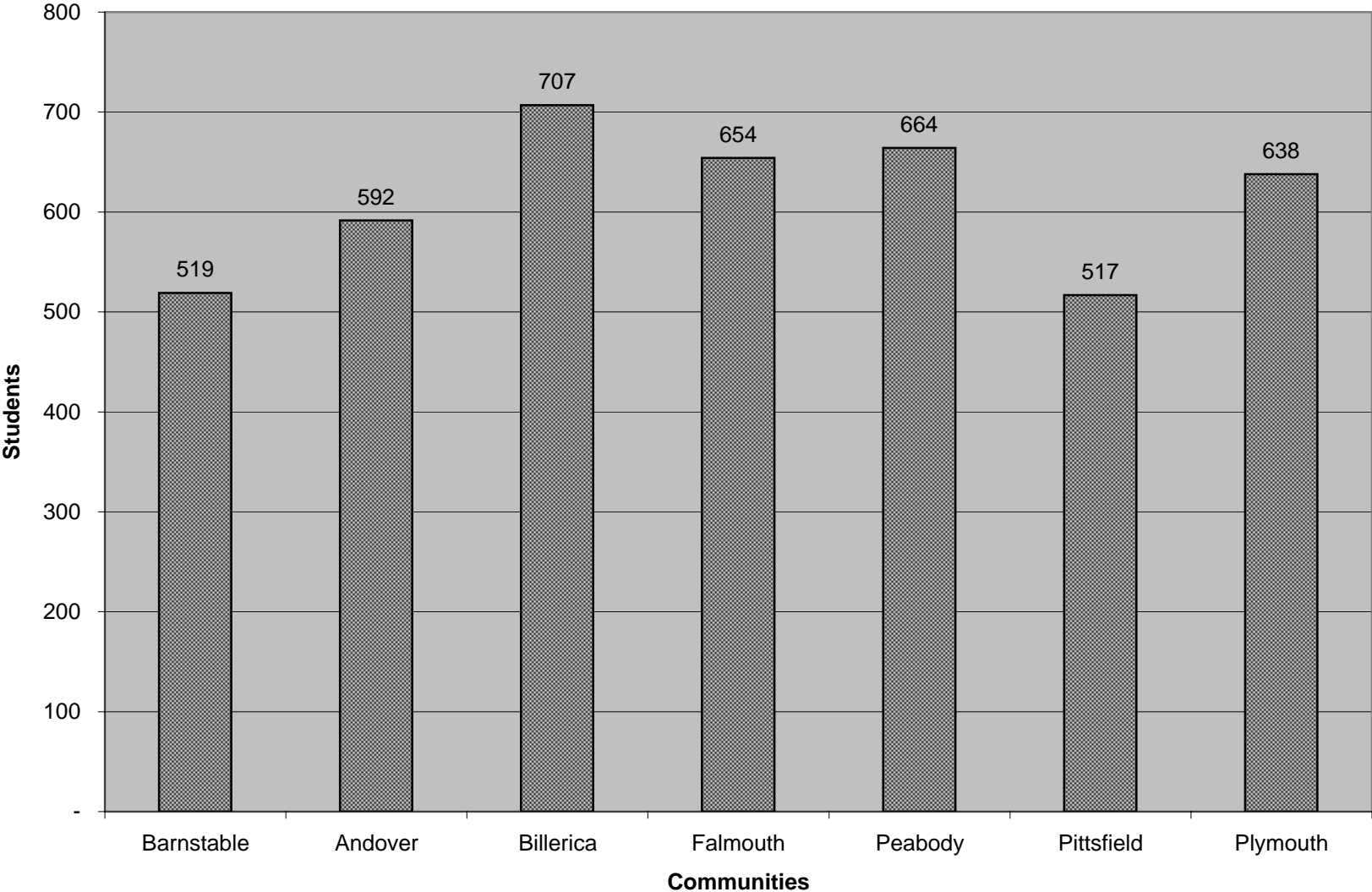


Enrollments - FY 2003
Source: MA Dept of Education



Average Students Per Building - FY 2003

Source: MA Dept of Education



VI. Current Barnstable School District Trend Analysis

A. Enrollments

A Long-Range Enrollment and Facility Space Study was prepared for the Barnstable School District in September 2001. Within that report, enrollments were estimated to decrease over a 10-year period by about 9 percent. This was contrasted to the prior 10-year period wherein the district experienced a 21 percent increase in enrollments.

The estimated period of the prior report has already progressed 20 percent. There are two more years of actual data available since the prior enrollment report was completed. We have new data sets for live births and for actual enrollments. As part of our analysis we have prepared a new enrollment forecast for the period 2003 through 2012.

Our models indicate a continued enrollment decrease can be expected. However, our estimates predict a slower decrease may be at hand. Our study forecasts a diminishment of enrollment during the next ten years of about 7 percent.

While we did perform a cohort survival analysis, we did not perform a complete demographic review. Without a complete review of the newly available census and housing data included, confirmation of our cohort modeling is missing. We also did not include pre-school and special needs students in our models.

We have presented our enrollment analysis exhibits in the order we believe is the most telling. The first document presents the district's cohort survival ratios for the past ten years. These ratios enlighten the reader to the historical behavior pattern of the District's various grade groups.

The various averages provided at the bottom of the chart show the longer and shorter-term behavior within each grade. From this analysis we can determine that the district's half-day Kindergarten program has been less popular with parents during the past six years. As a result, the District has been gaining more first graders than in the past.

Of note is the fact that children leave the system in every grade group from Grade 2 through Grade 7. This trend has been slightly more aggressive in the past three years than in the previous ten. Of note is the more recent trend of students leaving the system between Grade 4 and Grade 5. This most likely is the result of the students' opportunity to transfer from the village elementary schools to either the consolidated Grade 5 facility or a non-district school. We also note that there has also been a recent (2 year) trend towards losing Grade 8 students. Historically there has been in-migration at this level.

We also see a new trend of substantial Grade 9 in-migration. We attribute some of this change to the new high school facility and the return of some students from both the Catholic and Commonwealth Charter middle schools in the area. We see increased out-migration patterns in Grades 10 and 11. The average loss of students in Grade 12 appears fairly constant. We do note a particularly large in-flow of seniors in 1999 has impacted the averages.

Current Barnstable School District Trend Analysis (continued)

The second chart that we have provided presents the historical and projected enrollments in a manner that represents the current student-housing plan. We see a fairly stable group of Grade K- 4 students. The model indicates a group of 2,549 elementary students at the start of the 10-year forecast and a group of 2,505 at the end.

Our models anticipate various levels of decreased enrollments in all of the upper grade groups. The Grades 5 and 6 group is expected to decrease at a rate of about 9 percent during the next ten years. The Grades 7 and 8 student enrollment decrease is the most dramatic and is expected to be over 18 percent. High school enrollments are estimated to diminish by about 10 percent during the next 10 years.

We note that the average births per year have diminished over the past 15 years. The 15-year average is 509 children born. The most recent three-year average is 469 births. This represents an eight percent reduction during the past 15 years.

Our report includes multiple graphics and charts included to provide the reader with both historical and future enrollment information. We believe that the District should continue to monitor births and enrollments on an annual basis. Particular attention should be directed to the short-term cohort survival ratios in order to detect student enrollment trends early.

(See Charts following)

**Town of Barnstable
Public School Students' Cohort Survival Ratios**

Live Birth Data Source: MA Dept of Public Health (2002 Births Town Clerk)

Survival Rates:

Year	Pre-K	K	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Grade 7	Grade 8	Grade 9	Grade 10	Grade 11	Grade 12
1993	0.00	107.8	106.1	101.8	100.5	101.5	99.7	102.8	99.6	101.7	98.0	97.9	94.9	93.1
1994	0.00	104.5	107.1	98.8	101.7	100.7	101.1	100.2	102.1	101.6	97.5	93.2	97.2	87.9
1995	0.00	100.3	111.4	100.8	103.4	98.8	100.0	100.2	100.0	101.5	97.8	91.2	95.9	95.1
1996	0.00	102.1	106.9	96.4	95.3	98.7	93.1	92.7	96.7	99.0	93.8	92.2	99.8	91.5
1997	0.00	90.0	107.9	101.9	99.4	102.2	96.2	101.1	101.9	102.8	97.3	81.3	94.7	90.3
1998	0.00	80.1	111.3	95.4	100.3	98.5	98.8	96.0	97.4	101.1	101.6	86.6	89.4	89.2
1999	0.00	93.2	115.9	100.4	100.0	99.4	95.6	96.4	97.8	103.8	111.5	80.0	93.3	107.2
2000	0.00	100.6	109.6	98.1	101.3	96.6	98.1	97.2	95.1	100.6	105.2	82.2	96.9	98.7
2001	0.00	90.6	112.7	99.6	96.8	97.5	93.4	99.2	106.9	99.1	112.5	88.0	91.0	97.2
2002	0.00	94.4	114.6	97.0	98.3	102.0	96.7	97.4	97.5	97.4	116.6	84.0	78.9	88.4

Survival Rate Averages:

3 Years	95.2	112.3	98.2	98.8	98.7	96.1	98.0	99.8	99.0	111.5	84.7	88.9	94.8
6 Years	91.5	112.0	98.7	99.3	99.4	96.5	97.9	99.4	100.8	107.5	83.7	90.7	95.2
7 Years	93.0	111.3	98.4	98.8	99.3	96.0	97.2	99.1	100.5	105.5	84.9	92.0	94.6
10 Years	96.4	110.3	99.0	99.7	99.6	97.3	98.3	99.5	100.8	103.2	87.7	93.2	93.9

Town of Barnstable
Public School Student Enrollment Report
2003-2012 Projections Based Upon 10-Year Survival Rate Using Weighted Average Comm of MA Birth Data

Year	K	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Grade 7	Grade 8	Grade 9	Grade 10	Grade 11	Grade 12	K - 4	5 - 6	7 - 8	9 - 12	Total
Actual:														Actual Enrollments				
1985	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1986	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1987	503	489	431	385	412	384	386	362	394	399	356	374	397	2,220	770	756	1,526	5,272
1988	509	530	449	458	397	426	414	377	373	401	344	376	376	2,343	840	750	1,497	5,430
1989	483	614	495	467	461	407	433	421	375	394	376	336	339	2,520	840	796	1,445	5,601
1990	513	535	591	498	475	470	426	424	427	380	329	366	306	2,612	896	851	1,381	5,740
1991	512	577	525	587	506	483	474	413	439	433	349	328	339	2,707	957	852	1,449	5,965
1992	560	568	567	535	591	498	494	479	405	432	408	333	310	2,821	992	884	1,483	6,180
1993	567	594	578	570	543	589	512	492	487	397	423	387	310	2,852	1,101	979	1,517	6,449
1994	578	607	587	588	574	549	590	523	500	475	370	411	340	2,934	1,139	1,023	1,596	6,692
1995	577	644	612	607	581	574	550	590	531	489	433	355	391	3,021	1,124	1,121	1,668	6,934
1996	547	617	621	583	599	541	532	532	584	498	451	432	325	2,967	1,073	1,116	1,706	6,862
1997	495	590	629	617	596	576	547	542	547	568	405	427	390	2,927	1,123	1,089	1,790	6,929
1998	415	551	563	631	608	589	553	533	548	556	492	362	381	2,768	1,142	1,081	1,791	6,782
1999	492	481	553	563	627	581	568	541	553	611	445	459	388	2,716	1,149	1,094	1,903	6,862
2000	471	539	472	560	544	615	565	540	544	582	502	431	453	2,586	1,180	1,084	1,968	6,818
2001	452	531	537	457	546	508	610	604	535	612	512	457	419	2,523	1,118	1,139	2,000	6,780
2002	457	518	515	528	466	528	495	595	588	624	514	404	404	2,484	1,023	1,183	1,946	6,636
Estimated:														Estimated Enrollments:				
2003	492	504	513	513	526	453	519	493	600	607	547	479	379	2,549	972	1,093	2,012	6,626
2004	462	543	499	511	511	511	446	517	497	619	532	510	450	2,527	957	1,013	2,110	6,608
2005	464	509	538	498	509	497	503	443	521	513	543	496	478	2,518	1,000	964	2,030	6,512
2006	476	511	504	536	496	495	489	500	447	538	449	506	465	2,524	984	948	1,958	6,414
2007	417	525	507	503	534	482	487	487	505	462	471	419	475	2,486	969	991	1,826	6,273
2008	466	460	520	505	501	520	474	485	491	521	405	439	393	2,453	994	976	1,758	6,180
2009	466	515	456	519	503	487	511	472	489	506	457	377	412	2,459	998	961	1,752	6,170
2010	466	515	510	455	517	489	479	508	476	504	444	425	354	2,462	968	984	1,728	6,142
2011	466	515	510	508	453	502	481	477	513	491	442	414	399	2,452	983	989	1,746	6,171
2012	466	515	510	508	506	440	494	479	481	529	430	412	388	2,505	934	959	1,760	6,159

= Enrollment Estimates based upon FAA's Annual Birth Estimates

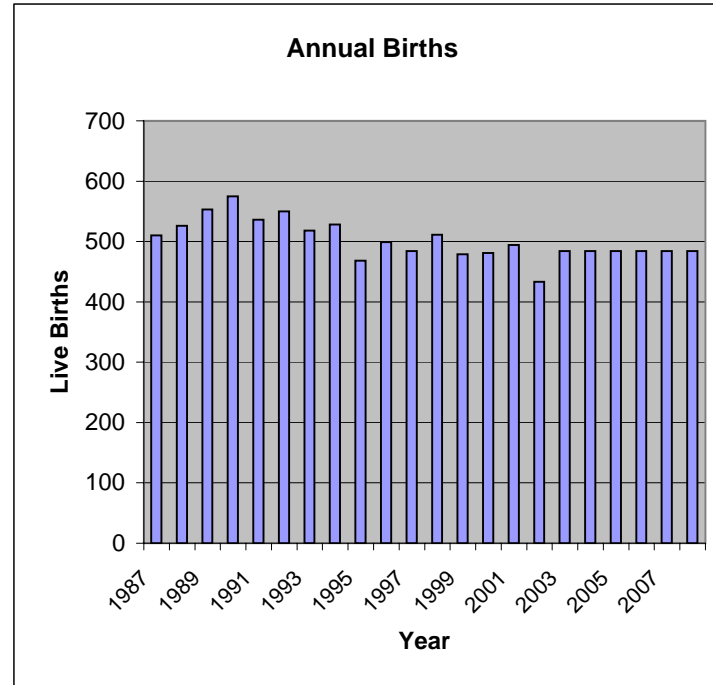
Source: MEC Report/Barnstable School Department

Observations: Peak Enrollment Year = 6,626 during 2003/2004
Peak Elementary Enrollment Year = 2,549 during 2003/2004
Peak HMS Enrollment Year = 1,000 during 2005/2006
Peak MS Enrollment Year = 1,090 during 2003/2004
Peak HS Enrollment Year = 2,110 during 2004/2005
Above estimates do not include Pre-Kindergarten or special needs students

Town Of Barnstable

History of Live Births With Weighted Estimates
Source: MEC Report/Town/State

Year	Births	Comments
1987	510	3 Yr Ave: 469
1988	526	
1989	553	
1990	575	7 Yr Ave: 483
1991	536	
1992	550	
1993	518	10 Yr Ave: 490
1994	528	
1995	468	
1996	499	15 Yr Ave: 509
1997	484	
1998	511	
1999	479	
2000	481	
2001	494	
2002	433	
2003	484	Estimated
2004	484	Estimated
2005	484	Estimated
2006	484	Estimated
2007	484	Estimated
2008	484	Estimated

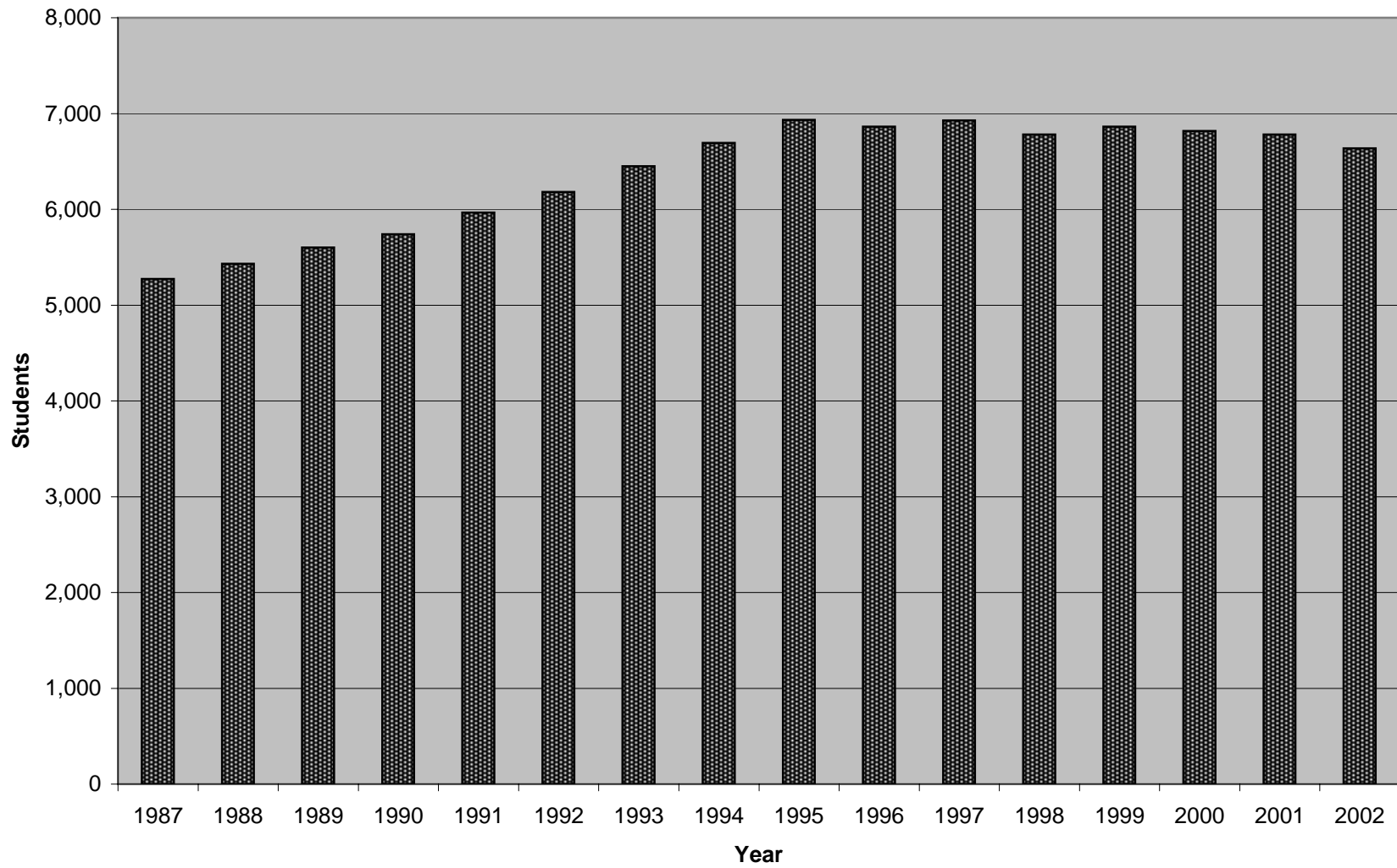


The projected births for 2003 through 2008 are estimated using a weighted average.

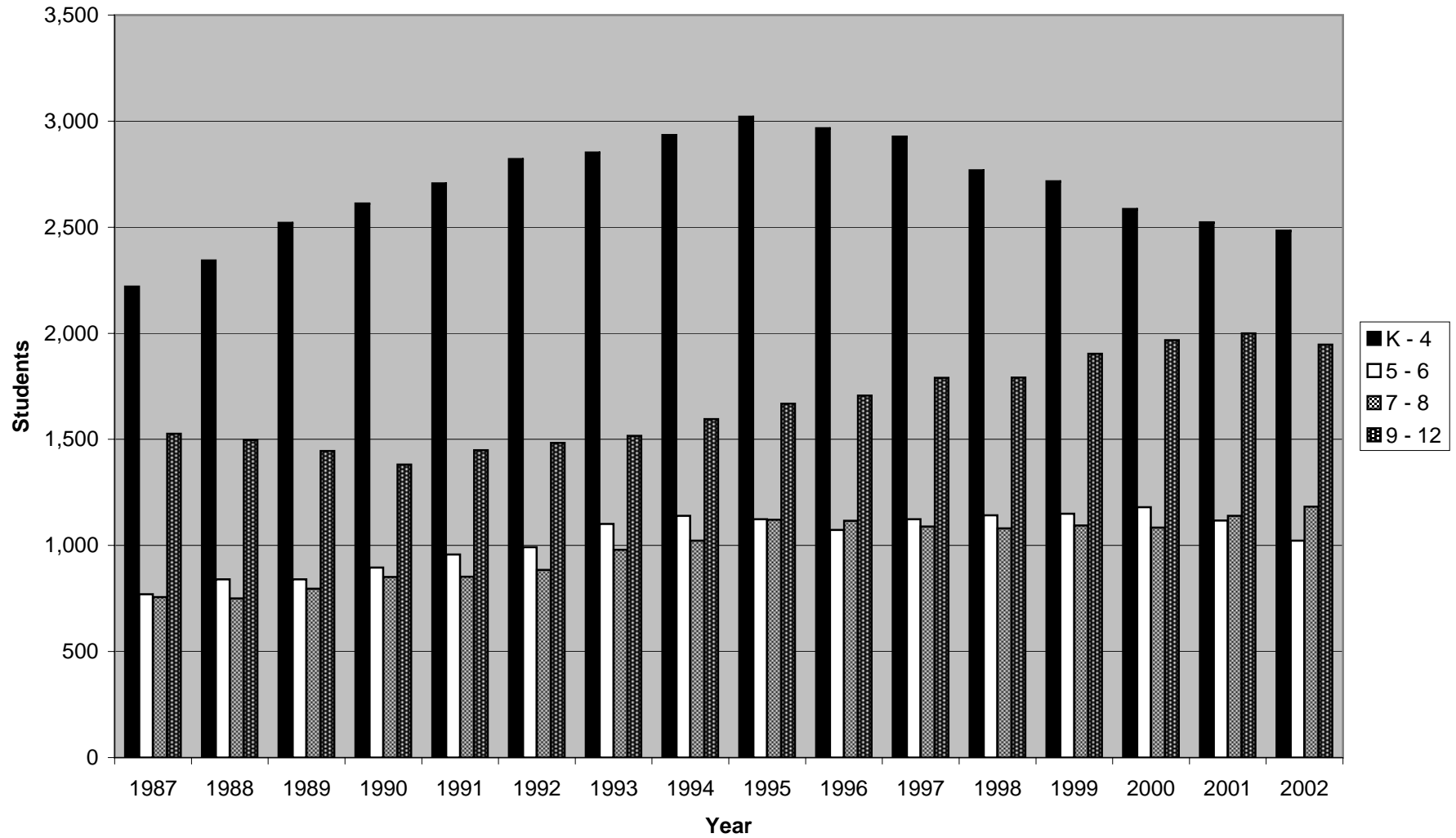
The weighting is as follows:

30% of the 03 year ave =	141
30% of the 07 year ave =	145
30% of the 10 year ave =	147
10% of the 15 year ave =	51
	484 Rounded Number

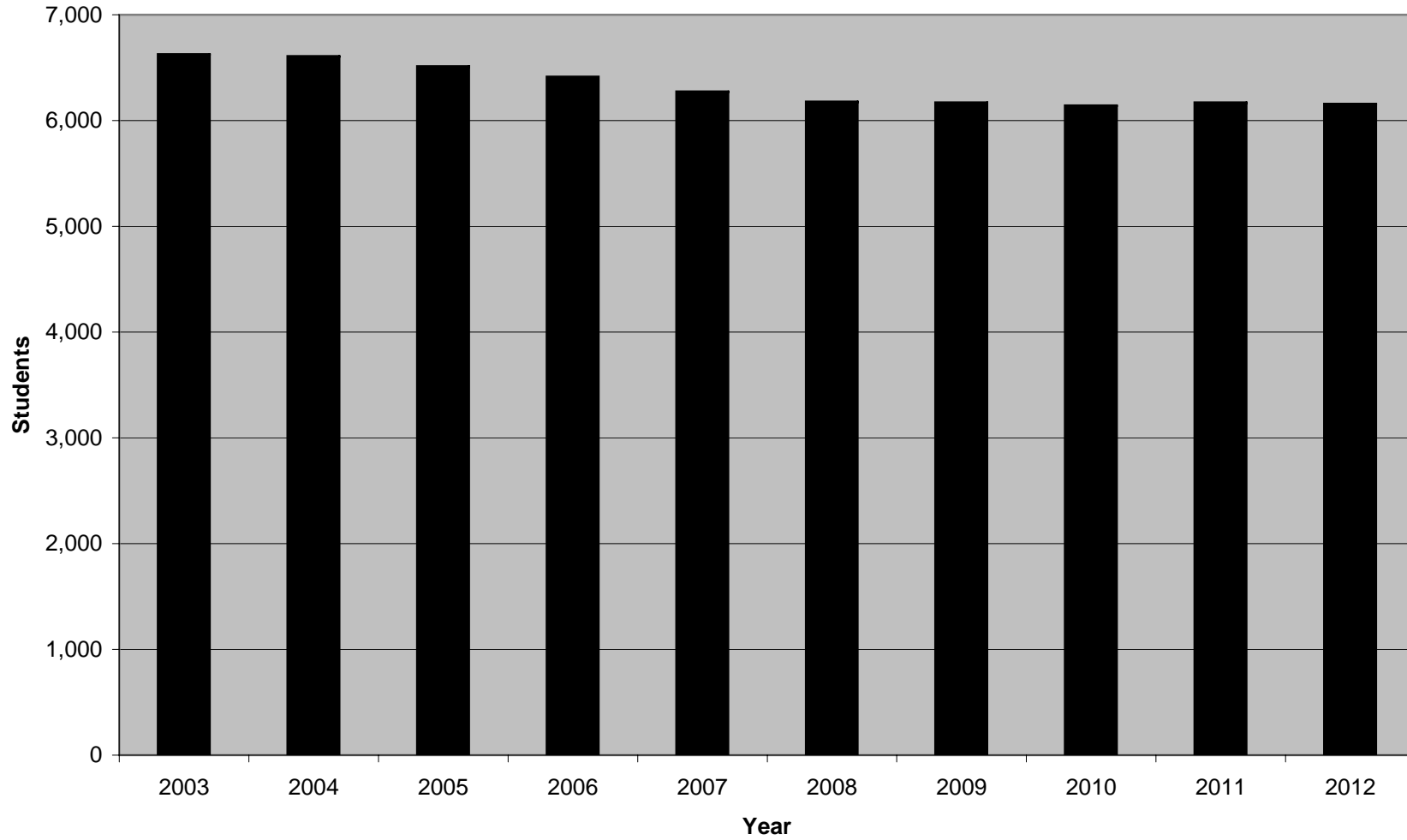
**Town of Barnstable - Historical Enrollments
October 1987 Through October 2002**



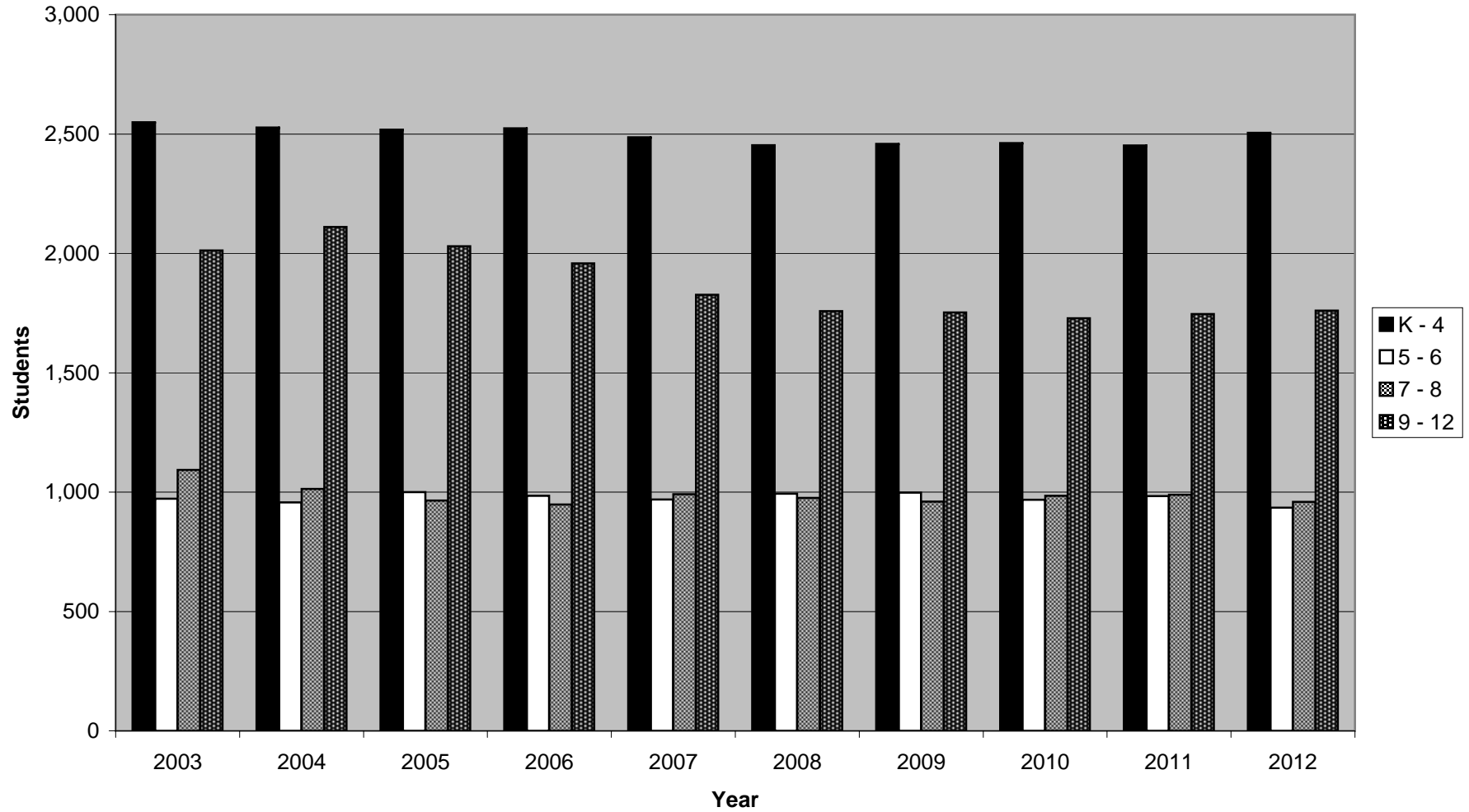
**Town of Barnstable - Historical Enrollments
October 1987 Through October 2002**



**Town of Barnstable - Estimated Enrollments
Based Upon State Birth Data
October 2003 Through October 2012**



**Town of Barnstable - Estimated Enrollments
Based Upon State Birth Data
October 2003 Through October 2012**



Current Barnstable School District Trend Analysis (continued)

B. Expenditures

Under Massachusetts General Law, the Town has a very limited ability to grow general fund revenues. Currently the town is managing the expenditure side of its budget while it experiences reduced revenues on an annual basis. This is typical of most communities in the Commonwealth.

In general there are two types of expenditures. We regard some operational expenses as discretionary and others as non-discretionary. In a time of reduced revenues, an organization must manage with correspondingly reduced expense budgets. When an organization has considerable levels of discretionary expense activity built into their budgets, it can effectively deal with reducing expenditures. Alternatively, when an organization is faced with large portions of their expenditures budget categorized as non-discretionary, they have little ability to maintain their level of service when expense budgets constrict.

As we look at a client for trends, we pay close attention to trending that indicates a diminished level of discretionary management. In an educational setting, the loss of discretionary spending ultimately brings budgetary decisions to choices between facilities and staffing. When a school district gets to that point, the policy makers get to choose between less larger class sizes in fewer buildings or much larger class sizes in more buildings.

Human resources expenditures dominate most governmental organizations' expenditures. This is particularly true within educational organizations. With the cost of personnel comes the current and future cost of benefits.

The number and types of employees utilized within the Barnstable School District has a mix of both required and non-required elements. The laws of the Commonwealth require a Superintendent and a Director of Special Education. These positions are not optional. New certification requirements generally move human resource expenditures from the less discretionary category to the non-discretionary one. Previously negotiated contracts also provide limitations on management's ability to budget with discretion.

FAA has used two annual state reports to develop our analysis of recent years' expenditures. As is the case with the statewide data we reviewed, the local data is subject to reporting category variances and cannot be considered to be as accurate at the micro category levels. We find these reports generally are more accurate at the macro category levels. Thus, when counting Full-Time Equivalent Employees (FTE's) we feel that grand totals are generally more accurate from year to year than the subset totals.

We used the annual End-of-Year Report that is filed by the District with the Department of Education (DOE) each fall. The FY 2003 report is being prepared at the time this report is being delivered. Thus, we have focused some components of our local analysis generally on the FY's 2000 through 2002.

Current Barnstable School District Trend Analysis (continued)

For school district personnel and student enrollment analysis we have an additional annual reporting mechanism. Each district files an annual "School System Summary Report" as of October 1 of the current year. Thus, we have access to some reported FY 2003 local data.

We also have obtained access to the local accounting system data. From this source we can obtain un-audited spending and budget information. We can also extract FY 2004 budget data from this system. Thus, we expanded our analysis into FY 2003 and FY 2004 expenditures to a considerable degree.

As noted earlier, the District has used various personnel to file various reports over the last several years. In recent years the state has changed the format of both reports that we rely upon for our work product. The District has complied with the DOE's directive to expand the local chart of accounts in order to better capture expenditure data. Because of these changes, historical information is not always compatible from year-to-year. Going forward from FY 2003, the Barnstable School District's (BSD) management information systems should begin to provide the BSD much more insight into their expenditure activity.

For other portions of our analysis we have exclusively used the data maintained within the BSD's accounting and budgeting systems. As noted previously this system has reached a new level of capability in the last two years. For example we can now begin to explore costs on a facility basis. The maturation of this data will provide management with a new level of opportunity in both budgeting and historical analysis.

Current Barnstable School District Trend Analysis (continued)

Barnstable School District Budget Trend Analysis

The BSD has experienced annual budget increases ranging from 3.8% to 7.19% during the period 1998 through 2003. The average annual increase was 5.5%.

The two primary components of the budget are personnel services and other expenses. The impact of a funding reduction can be much more significant when one considers how much of the District's spending in each category is non-discretionary.

Of note is the fact that in FY 2004 the BSD is facing the first appropriation reduction in its history. The FY 2003 final budget was just below \$51.9 million. Presently, the district will work with an appropriation of \$50.9 million during FY 2004. The reduction is just under two percent of the FY 2003 budget.

This reduction could signal the beginning of a new budgetary trend for the BSD.

(See Charts following)

**Barnstable School District
Analysis of Annual Budget**

Fiscal 1998 Through FY 2004

Expenditure Category	Actual 1998	Actual 1999	Actual 2000	Actual 2001	Actual 2002	Actual 2003	Original 2004
Personnel	\$ 29,093,021	\$ 30,785,173	\$ 30,559,227	\$ 32,528,830	\$ 33,355,999	\$ 35,253,141	\$ 31,290,958
Benefits	1,996,942	2,036,523	1,887,007	2,150,000	2,404,864	2,955,977	3,450,842
Expenses	8,520,137	8,745,551	9,194,876	8,631,600	10,471,883	10,433,560	9,678,773
Capital	-	-	15,600	-	-	10,000	-
Horace Mann	-	-	2,898,484	2,939,570	3,167,254	3,225,000	6,479,427
Total:	\$ 39,610,100	\$ 41,567,247	\$ 44,555,194	\$ 46,250,000	\$ 49,400,000	\$ 51,877,678	\$ 50,900,000

Annual % Budget Increase/(Decrease) **4.94%** **7.19%** **3.80%** **6.81%** **5.02%** **-1.88%**

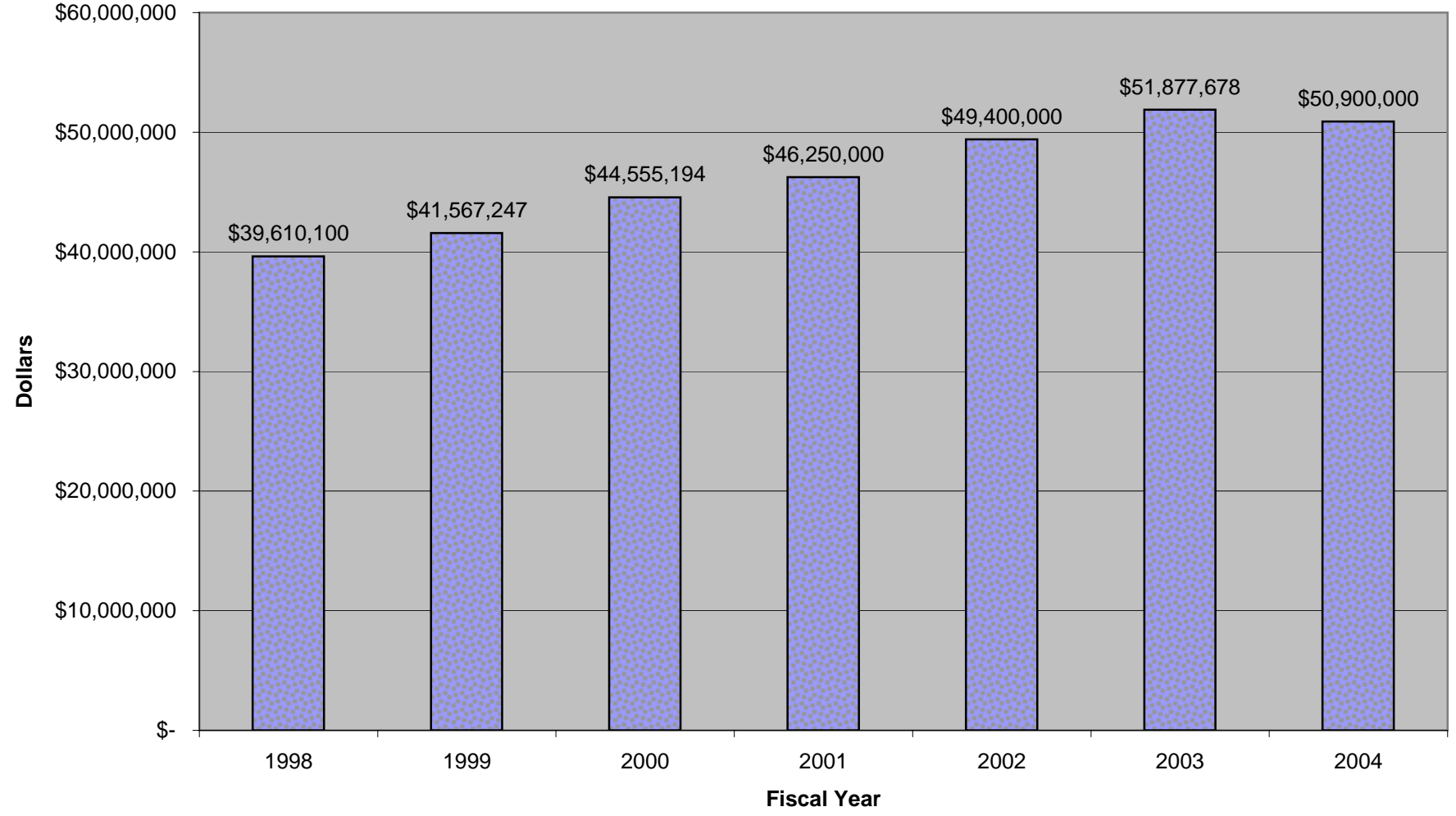
5 Year ('98 - '03) Average Annual Budgetary Change: 5.55%

Source: Town of Barnstable

Note: The Horace Mann Charter School became a tuition relationship in FY 2000 for grade 5. The grade 6 students began a similar tuition relationship in FY 2004. Personnel, benefits and expenses are reduced in the year that those costs are shifted into the Horace Mann expense line. There is continued interest in the further use of these charter schools within the BSD.

**Town of Barnstable School District
7-Year School Budget Analysis**

Source: Town of Barnstable



Current Barnstable School District Trend Analysis (continued)

Barnstable School District Personnel/Other Expenses Budgets Trend Analysis

The largest portion of the District's budget is personnel. In FY 1998 the personnel services portion of the budget was about 73.5 percent while other expenditures made up the remaining 26.5 percent of the budget.

By 2003 the personnel services component of the budget was down to 68 percent and other expenses made up 32 percent of the budget. Some of this is the result of establishing the Horace Mann Charter School. Formerly the costs of Grade 5 were included as personnel and other expenses. Now the entire cost of that school is reported as tuition within the other expense side of the budget.

In FY 2004 the personnel portion of the District's budgeted funds is further reduced as a percentage of the total budget. The transfer of Grade 6 students from the local District's budget to the Horace Mann Charter School's budget causes much of this change.

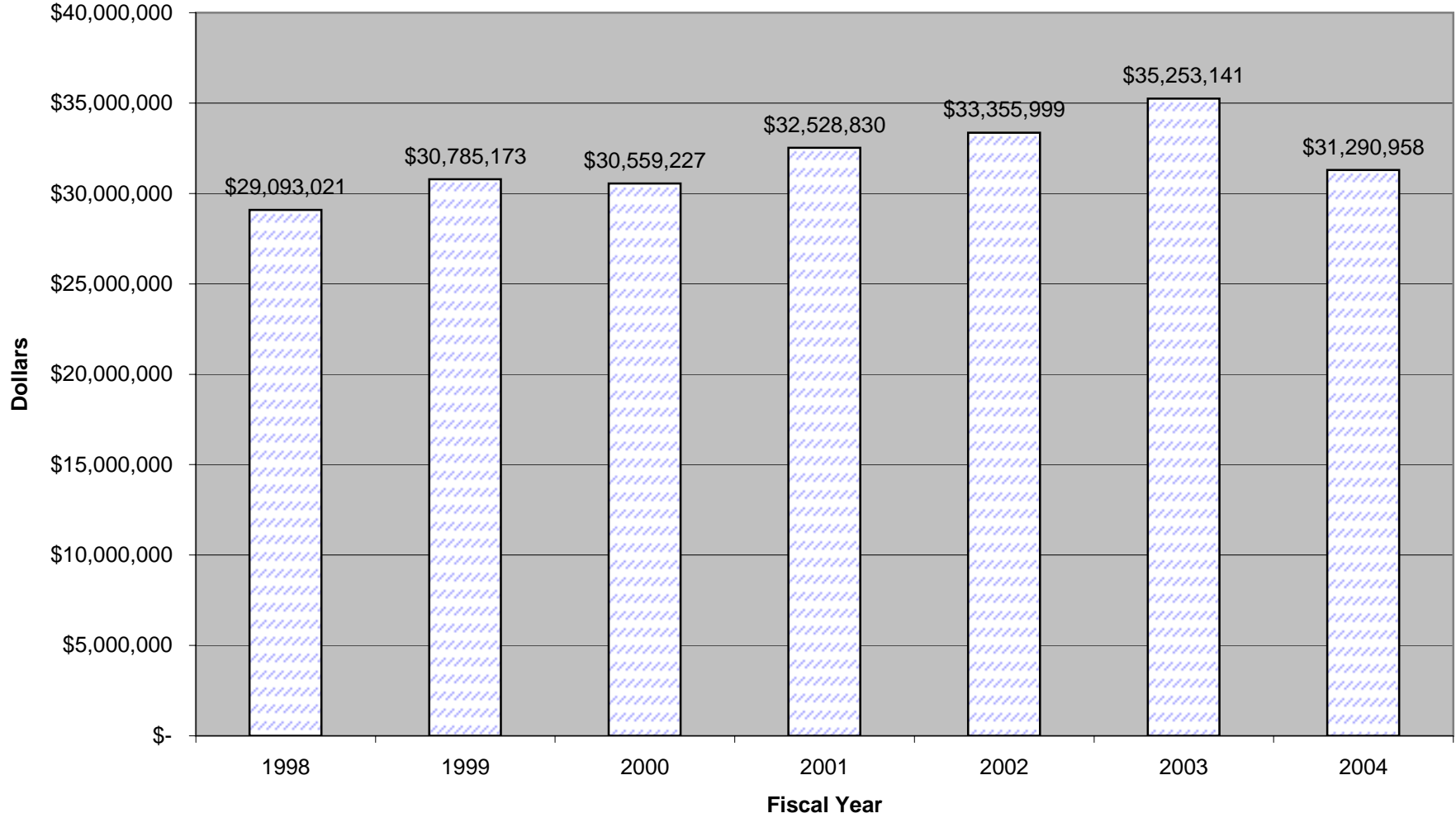
The cosmetics of the FY 2004 as voted to date is 61 percent allocated to personnel services and 39 percent allocated towards other expenses. We believe that a continuation of the movement towards the use of Horace Mann Charter Schools will result in less discretionary control of the entire budget by the BSD's leadership.

Of note is the reduction in the other expense category this year. In 2001 this category was reduced after three years ('98, '99 and '00) of increases. The reduction came in the fiscal year after an educational services override ballot question failed. That reduction was supplemented within the FY 2002 and 2003 budgets. In FY 2003 the funding of this category was at an all-time high of \$10.4 million. We note that this line is funded in FY 2004 at \$9.7 million. This almost 7 percent reduction does contain budget reductions associated with the migration of Grade 6 into the charter school. We see this trend as another component contributing to the BSD's diminished discretionary budget.

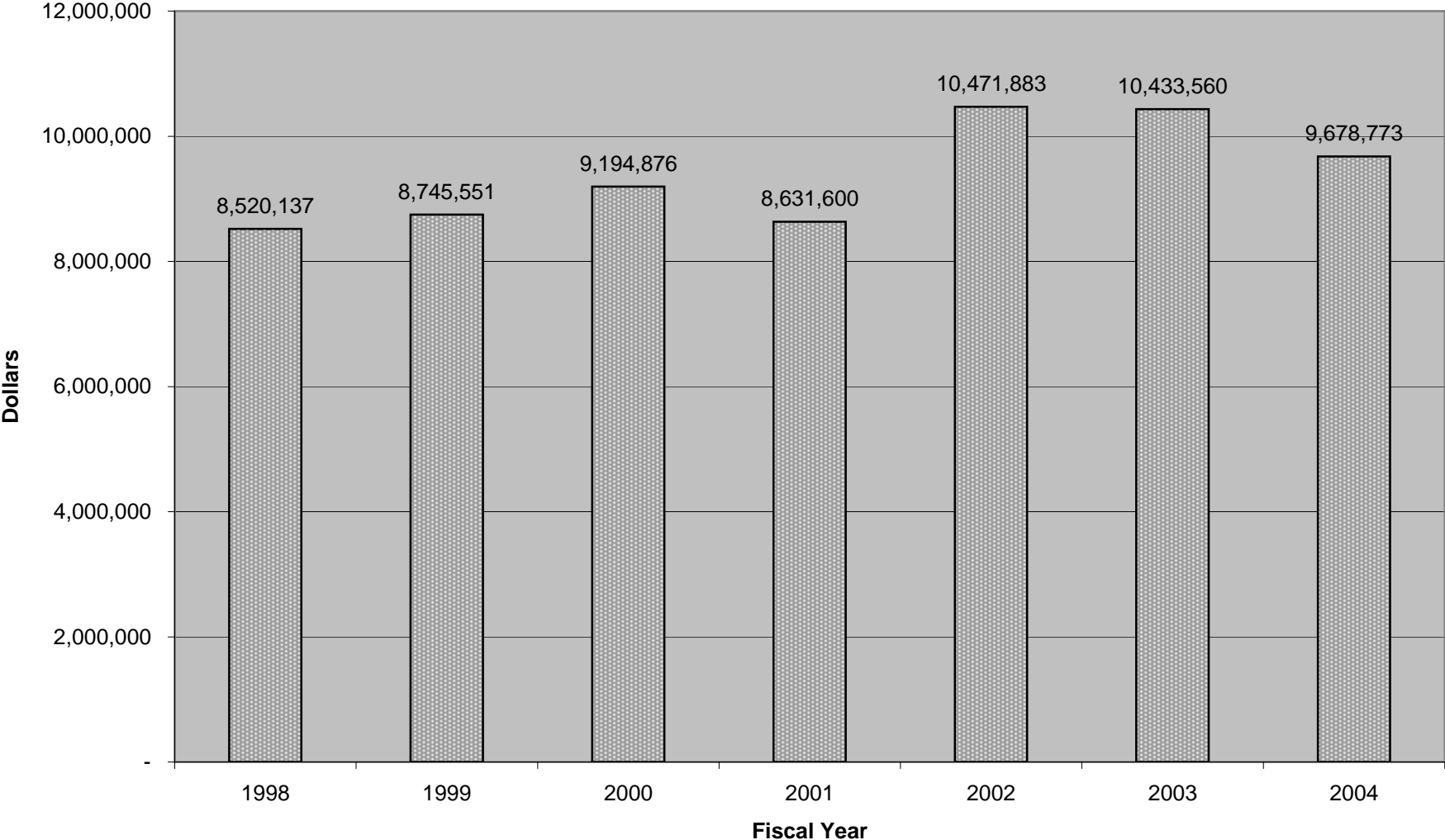
(See Charts following)

**Town of Barnstable School District
7-Year Salaries Expense Analysis**

Source: Town of Barnstable



**Town of Barnstable School District
7-Year Other Expense Analysis**



Current Barnstable School District Trend Analysis (continued)

Barnstable School District Full Time Equivalent Employees (FTE's) Analysis

The best source of employee data is the Annual School System Summary Report. The District has previously had analysis of this data prepared by Consulting Partners, LLC. The reader may wish to review that previous work. The data contained in that work included the FY '00 report filed with the DOE in October 1999.

We have developed a chart with the last three reports filed since the Consulting Partners work was completed. This summary indicates areas where the District has changed its compliment of human resources. We note that we have discussed the reports with the current administration. We suspect and they concur that the reports may have been filed with undetected errors. Given that these reports are the only public source of this information we have no alternative data sources for this portion of our analytical work.

Our analysis revealed an increase of Regular Education Instructional Staff (Teachers). Between FY 2001 and FY 2003 we see a gain of 18.7 full-time equivalent (FTE) teachers or an increase of about 4.6%. Of note are teacher reductions in Arts, Languages, Reading, Business and Technology. We see increased positions in the teaching categories of General, English, Physical Education, Health & Family Services, History/Social Studies, and Mathematics.

The bulk of these changes indicate to us that during the past three years the District has moved towards the delivery of a more traditional and less discretionary program of studies.

We also note a decrease in Special Education Instructional Staff. This change is potentially offset by a considerable increase in School Psychologists. Also of note is the BSD's reported reduction in the area of Instructional Support Staff. We believe much of this is due to the change in the manner clerical staff was reported between FY 2002 and FY 2003.

The administrative group reflects an increase during the same period of 4.0 FTE's in FY 2003. Within this small group the change represents an increase of almost 11%. This FTE growth of 4 is in the reporting category of "Other Supervisors and Directors". This change could actually represent the reclassification of the four teaching FTE's during the reporting period.

The Administrative Support Staff appears to have grown considerably. This is the reporting category data we feel is the most distorted. We recognize that some of this data in recent reports has been miss-categorized while other data sets included here have been duplicative.

The sum total of the reported change in staffing levels during over the past three fiscal years is about 68 FTE's or almost eight percent. The reported growth occurred on an equal basis during FY 2002 and FY 2003. We suspect that at a minimum the FY 2002 and FY 2003 counts may need to be restated via revised reports to the DOE.

(See Charts following)

**Barnstable Public School District
Analysis of Regular Educational Instructional Staff**

Fiscal Year 2001 Through Fiscal Year 2002

Reporting Categories	FY '01 October 2000	FY '02 October 2001	FY '03 October 2002	FY 2001 to FY 2003 Variances	
				FTE's	%
Part A - Regular Education Instructional Staff					
Early Childhood (PK and K)	27.50	23.00	27.00	(0.50)	-1.82%
Self Contained Elementary (1-6)	114.50	114.00	119.00	4.50	3.93%
Middle (5-9)	-	-	3.00	3.00	N/A
French	6.50	6.50	5.41	(1.09)	-16.77%
Spanish	12.00	12.00	10.84	(1.16)	-9.67%
Latin and/or Classical Humanities	1.50	1.50	2.75	1.25	83.33%
ESL	4.00	3.00	5.00	1.00	25.00%
Art/Visual Arts	16.80	14.90	14.50	(2.30)	-13.69%
Music	18.60	12.60	11.20	(7.40)	-39.78%
Reading	9.00	9.00	7.00	(2.00)	-22.22%
Health/Family Services	5.00	7.80	8.90	3.90	78.00%
Physical Ed.	8.00	8.00	10.90	2.90	36.25%
Business	5.00	5.00	4.00	(1.00)	-20.00%
Guidance Counselor	23.00	23.00	23.00	-	0.00%
School Psychologist	1.00	5.00	6.00	5.00	500.00%
Technology Ed (Industrial Arts)	4.80	1.00	2.00	(2.80)	-58.33%
Library Media Specialist	3.00	3.00	3.00	-	0.00%
Tutors	-	-	7.40	7.40	N/A
<u>English/Language Arts</u>	36.50	36.50	38.25	1.75	4.79%
<u>History/Social Studies</u>	33.00	33.50	36.75	3.75	11.36%
<u>Biology</u>	-	-	1.00	1.00	N/A
<u>General Science</u>	38.00	35.50	37.25	(0.75)	-1.97%
<u>Mathematics</u>	35.00	35.00	37.25	2.25	6.43%
Total Part A - Regular Education Instructional Staff:	402.70	389.80	421.40	18.70	4.64%

Source: Annual DOE School System Summary Report

Note: FAA suspects the FY '02 & FY '03 reports were filed by the BSD with undetected reporting errors

**Barnstable Public School District
October 1 System Summary Report**

As Filed With The DOE by The BSD

Reporting Categories	FY '01 October 2000	FY '02 October 2001	FY '03 October 2002	FY 2001 to FY 2003 Variances	
				FTE's	%
Part A - Regular Education Instructional Staff	402.7	389.8	421.4	18.7	4.64%
Part B - Special Education Instructional Staff	81.8	84.8	79.7	(2.1)	-2.57%
Part C - Instructional Staff Support	200.0	164.0	179.8	(20.2)	-10.10%
Part D - Administrative Staff	36.5	40.5	40.5	4.0	10.96%
Part E - Administrative Staff Support	17.0	75.0	72.9	55.9	328.82%
Part F - Service Operation & Maintenance Staff	128.0	151.0	143.6	15.6	12.15%
Part G - Service Operation & Maintenance Staff Support	2.0	1.0	1.0	(1.0)	-50.00%
Part H - Career & Technical Education Staff	8.0	-	5.0	(3.0)	-37.50%
Grand Total FTE's:	876.0	906.1	943.9	67.8	7.75%

Source: Annual District "School System Summary Report" filed with DOE

Note: FAA suspects the FY '02 & FY '03 reports were filed by the BSD with undetected reporting errors

**Barnstable Public School District
October 1 System Summary Report**

As Filed With The DOE by The BSD

Reporting Categories	FY '01 October 2000	FY '02 October 2001	FY '03 October 2002
Part A - Regular Education Instructional Staff			
Early Childhood (PK and K)	27.50	23.00	27.00
Self Contained Elementary (1-6)	114.50	114.00	119.00
Middle (5-9)	-	-	3.00
French	6.50	6.50	5.41
Spanish	12.00	12.00	10.84
Latin and/or Classical Humanities	1.50	1.50	2.75
ESL	4.00	3.00	5.00
Art/Visual Arts	16.80	14.90	14.50
Music	18.60	12.60	11.20
Reading	9.00	9.00	7.00
Health/Family Services	5.00	7.80	8.90
Physical Ed.	8.00	8.00	10.90
Business	5.00	5.00	4.00
Guidance Counselor	23.00	23.00	23.00
School Psychologist	1.00	5.00	6.00
Technology Ed (Industrial Arts)	4.80	1.00	2.00
Library Media Specialist	3.00	3.00	3.00
Tutors	-	-	7.40
<u>English/Language Arts</u>	36.50	36.50	
Middle	-	-	16.00
Secondary	-	-	22.25
<u>History/Social Studies</u>	33.00	33.50	
Middle	-	-	17.50
Secondary	-	-	19.25
<u>Biology</u>			
Secondary	-	-	1.00
<u>General Science</u>	38.00	35.50	
Middle	-	-	17.00
Secondary	-	-	20.25
<u>Mathematics</u>	35.00	35.00	
Middle	-	-	20.00
Secondary	-	-	17.25
Total Part A:	402.70	389.80	421.40

**Barnstable Public School District
October 1 System Summary Report**

As Filed With The DOE by The BSD

Reporting Categories	FY '01 October 2000	FY '02 October 2001	FY '03 October 2002
Part B - Special Education Instructional Staff			
Special Education Administrator	1.00	1.00	1.00
Mild Disabilities	-	-	12.00
Moderate Disabilities	42.60	42.60	21.50
Severe Disabilities	3.00	3.00	11.50
Vision Impairments	-	-	1.50
Young Children with Special Needs	5.00	5.00	-
Speech/Language/Hearing Disorder	12.20	12.20	14.20
Occupational Therapist	-	-	3.00
Severe Behavioral Disorders	5.00	4.00	-
Physician	1.00	1.00	1.00
Nurse	10.00	11.00	10.00
Interpreters	-	-	1.00
Other Contracted	-	-	1.00
School Adjustment Counselor or Social Worker	1.00	1.00	-
School Psychologist	1.00	1.00	1.00
Physical Education	-	1.00	1.00
Vocational Education	-	2.00	-
Total Part B:	81.80	84.80	79.70
Part C - Instructional Support Staff			
Teacher Aides - Bilingual/ESL	5.00	6.00	5.00
Teacher Aides - Career and Technical Education	-	-	6.50
Teachers Aides - Special Education	85.00	88.00	78.50
All Other Instructional Teacher Aides	76.00	16.00	46.80
Clerks and Secretaries (Instructional)	34.00	34.00	-
All Other Instructional Staff	-	20.00	43.00
Total Part C:	200.00	164.00	179.80
Part D - Administrative Staff			
Superintendent of Schools	1.00	1.00	1.00
Asst/Assoc/Vice Superintendents	2.00	2.00	2.00
School Business Administrators	1.00	1.00	1.00
Principal/Assist Principal (other)	5.00	5.00	5.00
Principal/Assist Principal (Elementary)	8.00	7.00	7.00
Principal/Assist Principal (Middle)	4.00	6.00	4.00
Principal/Assist Principal (Secondary)	2.00	2.00	2.00
Supervisor/Director - Guidance	2.00	3.00	3.00
Supervisor/Director - Pupil Personnel	1.00	1.00	1.00
Supervisor/Director - Other	10.50	12.50	14.50
Total Part D:	36.50	40.50	40.50

**Barnstable Public School District
October 1 System Summary Report**

As Filed With The DOE by The BSD

Reporting Categories	FY '01 October 2000	FY '02 October 2001	FY '03 October 2002
Part E - Administrative Support Staff			
Administrative Aides	2.00	2.00	2.00
Administrative Clerks and Secretaries	15.00	15.00	50.40
Guidance Counselor	-	23.00	-
Instructional Technology Specialist	-	7.00	4.50
Library Media Specialist	-	12.00	3.00
Nurse	-	7.00	1.00
School Psychologist	-	5.00	-
School Social Worker/School Adjustment Counselor	-	1.00	2.00
Technical Support	-	3.00	10.00
Total Part E:	17.00	75.00	72.90
Part F - Service Operation & Maintenance Staff			
Social Worker	-	1.00	-
Food Service Staff	30.00	61.00	61.00
Health Staff	14.00	7.00	7.00
Transportation Staff	17.00	20.00	15.75
Operation and Maintenance	67.00	62.00	59.80
Total Part F:	128.00	151.00	143.55
Part G - Service Operation & Maintenance Support Staff			
Clerks and Secretaries (Service Operatioin and Maintenance)	2.00	1.00	1.00
Total Part G:	2.00	1.00	1.00
Part H - Career & Technical Education Staff			
Family and Consumer Home Sciences	8.00	-	4.00
Career and Technical Education Counselors	-	-	1.00
Total Part H:	8.00	-	5.00
Grand Total:	876.00	906.10	943.85

Note: FAA suspects the FY '02 & FY '03 reports were filed by the BSD with undetected reporting errors

Current Barnstable School District Trend Analysis (continued)

Barnstable School District New Hires Analysis

From this analysis we have also determined that the District has moved to a practice of hiring more certified employees with less experience. In FY 2001 only four of 131 new hires were reported as new to the profession. The ratio was about three percent. In FY 2002 the reported new to profession hires were 19 of 128 or almost 15 percent. Last year (FY 2003) the new to profession hires reported were 18 out of 82 or 22 percent.

When staffing schools, employees with experience and more professional credentials come at a higher cost. Within the largest cost center, when budgets constrict, management seeks to obtain more for less. Thus we see this developing trend within the BSD of hiring more employees that are new to the profession. This is further evidence of an emerging trend within the BSD towards a less discretionary personnel expenditures behavior.

Current Barnstable School District Trend Analysis (continued)

Barnstable School District Teaching FTE's/Salaries Analysis

From the Annual End-Of-Year (EOY) Report the BSD files with the DOE we can obtain data similar to the data that we previously reviewed in the comparative portion of our report. This EOY report accounts for teacher FTE's also. The DOE also generates its statewide and comparative average teachers' salary analysis from this report.

While the FY 2002 EOY report's analytical data is not available at the DOE website, we were able to update the historical teachers and average salary information for the District using their 2002 EOY report.

We note a reduction in trend change in FY 2002. Both the number of reported teachers and our internally developed Pupils Per Teacher Ratios both began to reverse the continued upward trend we saw from 1997 to 2001.

We did note that the total teachers reported in the 2002 EOY report to the DOE included the Horace Mann Charter School (HMCS) teachers while the teaching salaries reported did not. FAA has presented the information in a schedule that reflects the proper number of teaching FTE's that are associated with the actual teaching salaries reported to the DOE via the EOY report.

The District may wish to seek a proper presentation of the FY 2002 data by the DOE. We believe that without a restatement of the data, the District will appear to have lowered the average teacher salary last year by about 10 percent. We also note that we suspect the same reporting variance may have occurred in the 1999 EOY report to the DOE.

The average teacher's salary data when properly presented illustrates a stable average salary trend for the district during the FY 2001 and FY 2002 periods. This is another trend change from the behavior we saw between 1999 and 2001.

This stable average teacher salary is further indication to us that the District is opting to use more teaching professionals that are new to the profession. This further confirms our theory that the District's financial position is moving them away from exerting any discretion in their hiring practices.

On a final note, we recognize that none of the BSD reports reconcile on an annual basis. The reasons are time and classification. One report is done in October while the second is done as of June. Also, the October report offers more and broader reporting categories than the June report. We believe the District should implement a reconciliation effort as they file both reports. These year-to-year and beginning-to-end reconciliations will help instill a higher level of confidence in the reporting efforts of the District.

(See Charts following)

**Barnstable School District
Teaching Positions**

FY 1997 Through FY 2002

Fiscal Year	Total Salaries	Total FTE Teachers	Average Salary	Pupils Per Teacher
FY 97	19,652,351	442.3	44,432	15.86
FY 98	20,781,388	484.5	42,892	14.65
FY 99	20,339,038	502.0	40,516	14.04
FY 00	22,576,570	525.0	43,003	13.49
FY 01	23,764,955	535.0	44,420	13.18
FY 02	21,450,745	487.0	44,047	14.25

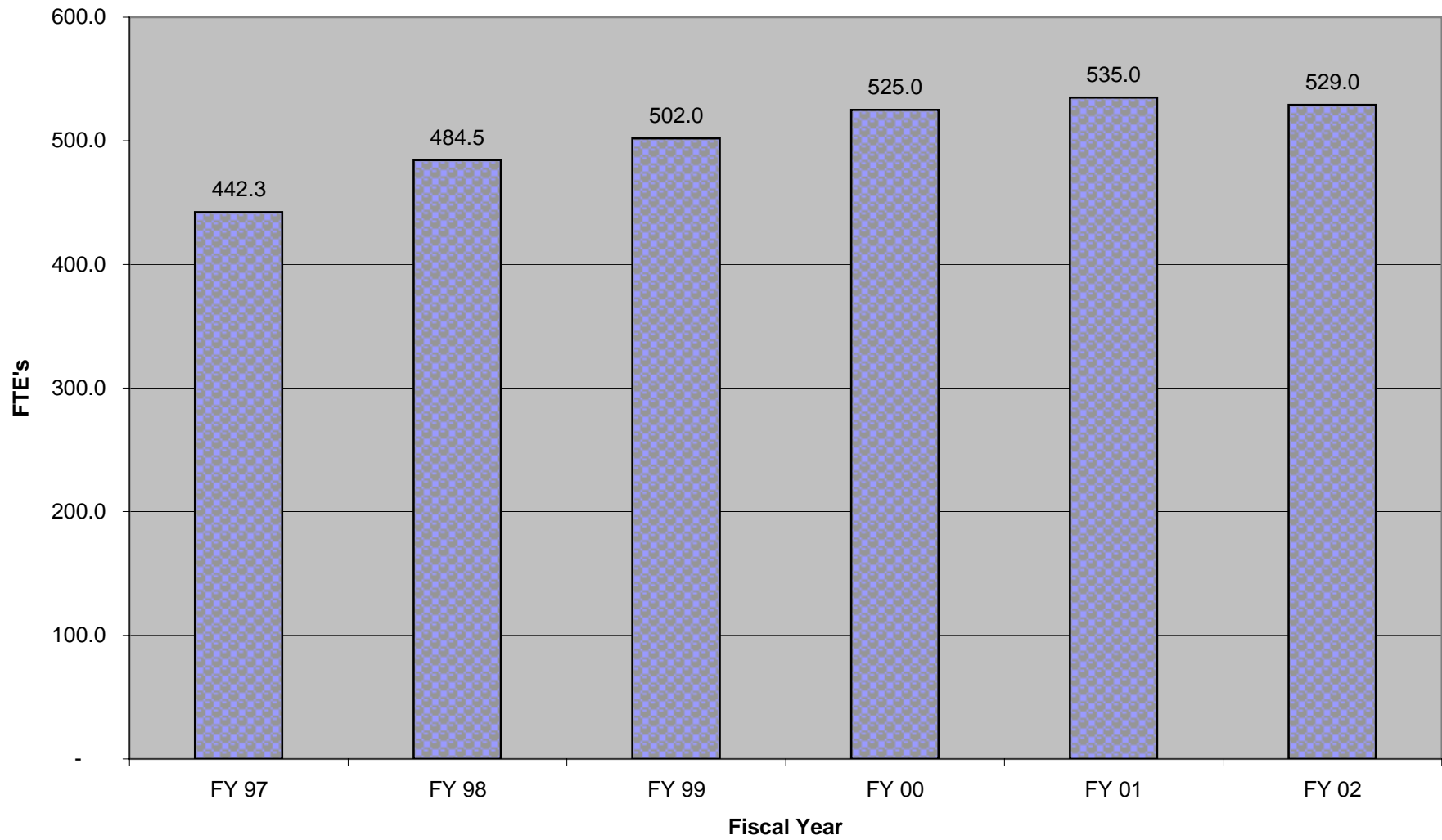
Source: Department of Education End-of-Year Report

Note: FAA Suspects FY 1999 data may reflect all BSD FTE teachers but not the salaries of the HMCS teachers

Reported FY 2002 EOY data was adjusted by FAA to properly reflect HM Charter School as tuition
Total FTE teachers in FY 2002 = 529 W/HMCS FTE's

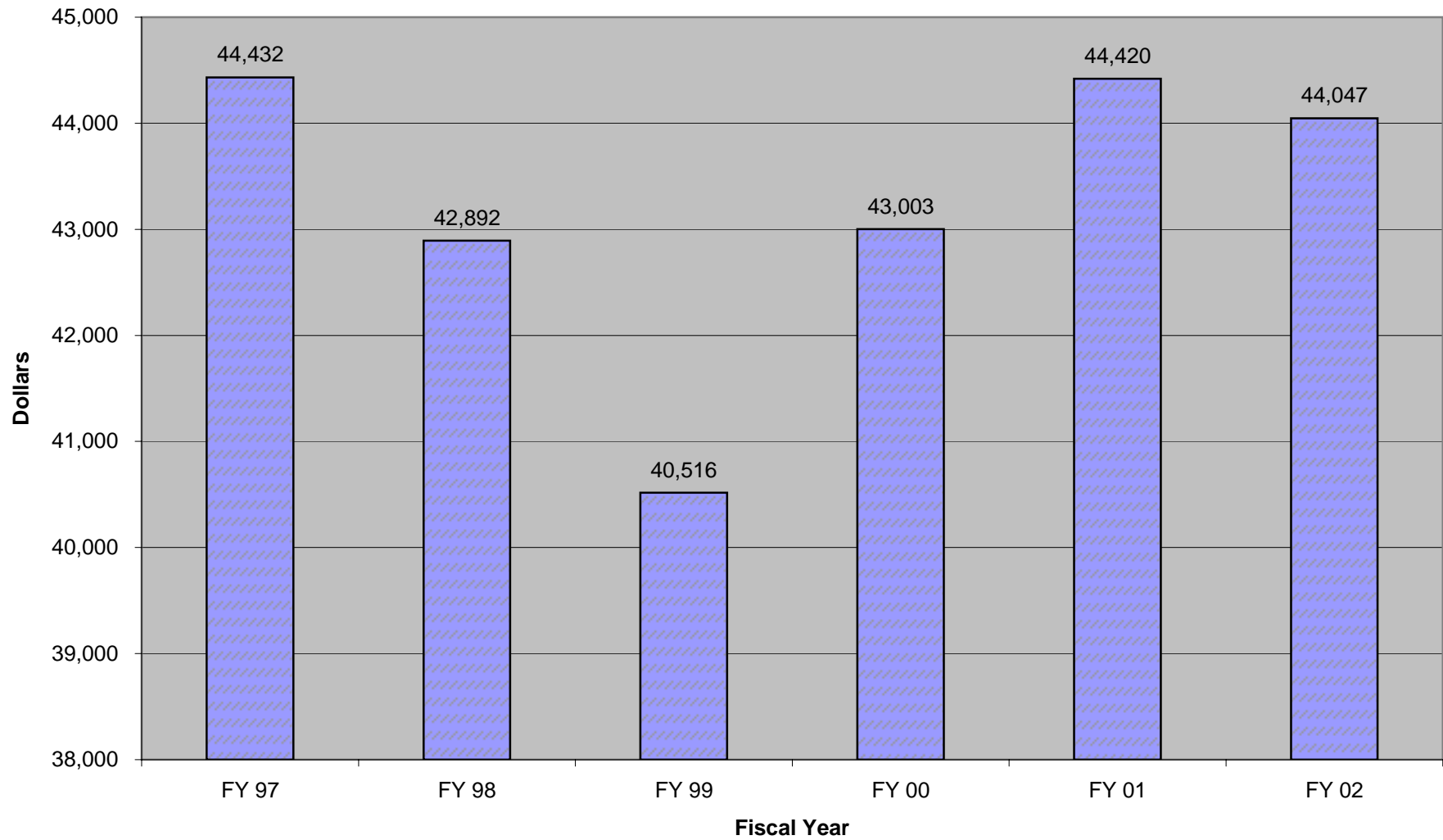
Barnstable School District Total FTE Teachers

Source: Annual DOE End - of - Year Report



Barnstable School District Teachers' Average Salary

Source: DOE End - of - Year Report



Current Barnstable School District Trend Analysis (continued)

Barnstable School District Pupils Per Teaching/Staffing FTE's Ratio Analysis

As noted earlier, the enrollments within the BSD have been diminishing. It appears that the total staffing levels have continued to increase. We believe that this trend appears as a result of faulty data.

We have done a per pupil analysis using both the newer teaching FTE's data from the EOY reports and Total Staff FTE's data from the School System Summary Reports. Our findings are dissimilar.

In the case of total staffing FTE's we see a new trend of increased staff begin in FY 2002. The Pupils Per Staff Ratio also begins to move in an opposite direction in FY 2002. Because we believe the data reported in 2002 and 2003 is overstated, we do not think the trend indicated is accurate.

We do believe that the upward trend of more pupils per teacher that we see in the Pupils Per Teacher Ratio analysis is accurate. This ratio is derived from the annual EOY report filed with the DOE.

We understand that the BSD has recently hired a new Human Resources professional. The BSD's elected and appointed leaders should continue to allocate the resources necessary to make improvements to the internal controls and the management information systems relative to this major portion of the district's expense budget. We anticipate management will rapidly need a much more adequate collection of this data during the upcoming budget seasons.

(See Charts following)

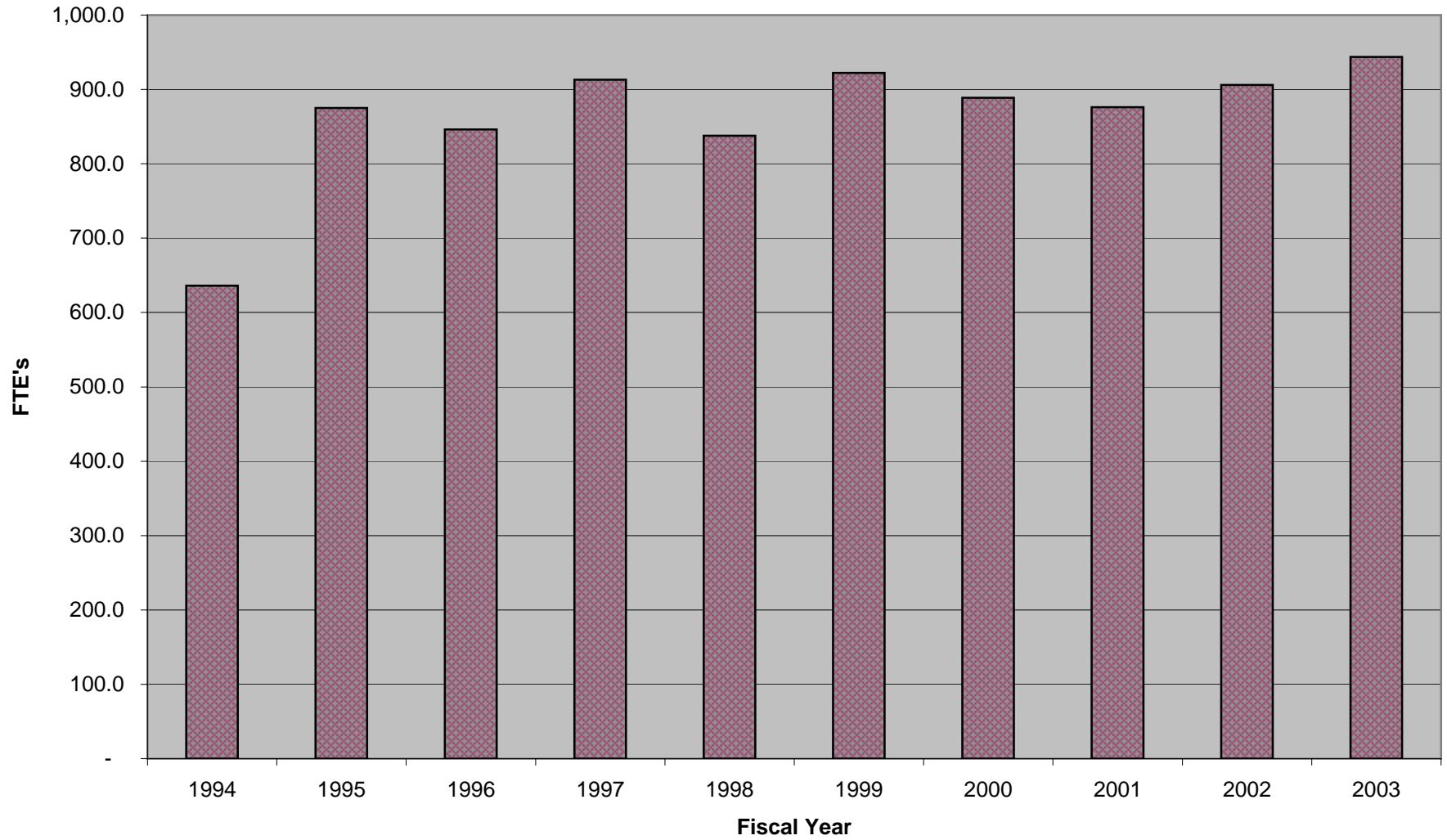
**Barnstable School District
10 - Year Staffing Analysis**

FY 1994 Through FY 2003

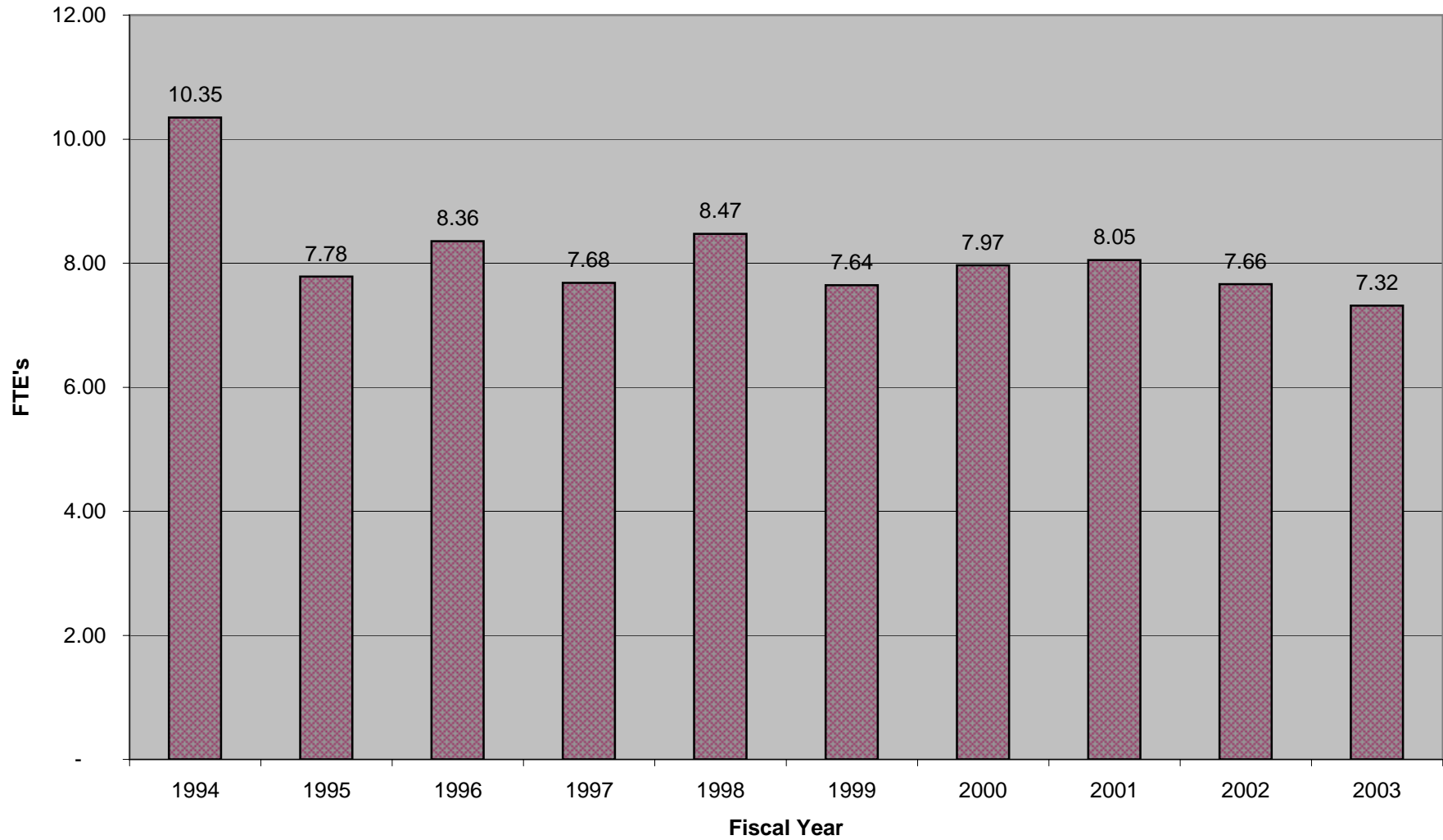
Fiscal Year	Total Staff	+/- Prior Year	Total Pupils	Pupils Per Staff
1994	636.2	N/A	6,585	10.35
1995	875.2	239.0	6,812	7.78
1996	846.3	(28.9)	7,072	8.36
1997	912.9	66.6	7,013	7.68
1998	837.7	(75.3)	7,098	8.47
1999	922.2	84.6	7,050	7.64
2000	888.9	(33.3)	7,083	7.97
2001	876.0	(12.9)	7,053	8.05
2002	906.1	30.1	6,942	7.66
2003	943.9	37.7	6,906	7.32

Source: Consulting Partners LLC Report 1994 - 2000
Annual October DOE System Summary Report 2001 - 2003
Total pupils includes PK and SPED students

**Barnstable School District Total Full-Time Equivalent Staff
FY 1994 to FY 2003**

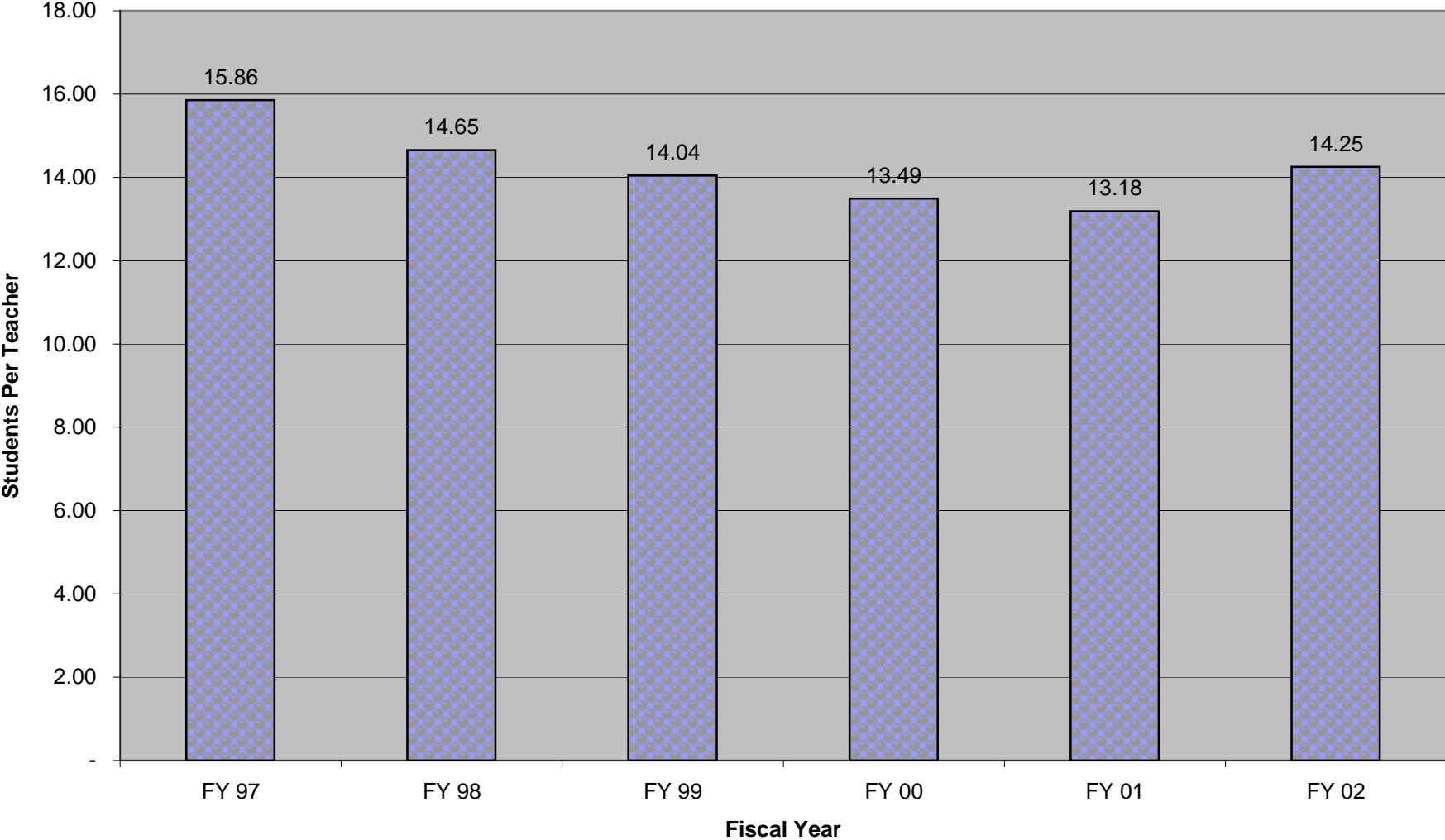


**Barnstable School District Total Pupils Per Full-Time Equivalent Staff
FY 1994 to FY 2003**



Barnstable School District Students to Teachers Ratio

Source: Annual DOE End - of - Year Report



Current Barnstable School District Trend Analysis (continued)

Barnstable School District Other Expenditures

In keeping with our approach towards expenditure review as discretionary and non-discretionary we move to an area we describe as fixed costs. We agree some of the expenditure categories we include as fixed costs can be impacted by management and thus could be considered discretionary. However, we believe that the bulk of these expenditure objects are generally out of the District's control to a large degree.

We see a very limited number of expense categories wherein we believe the BSD currently has any discretionary control. We will review these discretionary areas at the conclusion of this section of our analysis.

Current Barnstable School District Trend Analysis (continued)

Barnstable School District Employee/Retiree Benefits Analysis

We have taken a look at the District's employee and retiree benefits expenses. Presently the Town of Barnstable does not include retired employees' benefits and/or pensions as expenditures included within their Net School Spending calculation. This is due to the reporting that was in place just prior to the enactment of the Education Reform Law. The non-inclusion of these costs in the formula does not remove the cost from the overall ledger of the Town and or the District.

We do note that the Town and the School District do not have a written agreement that defines the types and methods of calculations used to report the annual portion of the "Net School Spending" requirement that is expended within the municipal portion of the Town's budget. During times of limited resources this lack of documentation could result in contentiousness between the two parties. The Town Manager and the Superintendent of Schools should both sign this agreement. Until the document is filed, we expect that this procedural omission will continue to be a finding within the annual audits of the BSD required by the DOE.

The expense associated with benefits is only controlled downward by the elimination of FTE's. We expect that any impact upon this expense via staffing reductions will be quickly consumed by the addition of new retirees and the impact of inflation upon this particular expense area. Recently inflation has been particularly aggressive in the area of health care. As a result, the cost of medical insurance has risen dramatically during the past few years.

This expense item has risen for the retiree group from about \$688,000 in FY 1999 to an estimated \$1.1 million in FY 2004. The increase is more than 62 percent in five years. The annualized trend has increased at a rate of 12.5 percent per year during the period.

The expense for the active employees' group is up from \$2.0 million in FY 1999 to over \$3.45 million in FY 2004. This increase is up closer to 70 percent or about 14 percent each year over the past five years. The total cost estimated for the entire group during FY 2004 is now approaching \$4.6 million. As finances tighten, this major expense item continues to diminish the District's ability to exert any discretion over its annual expense budget.

(See Charts following)

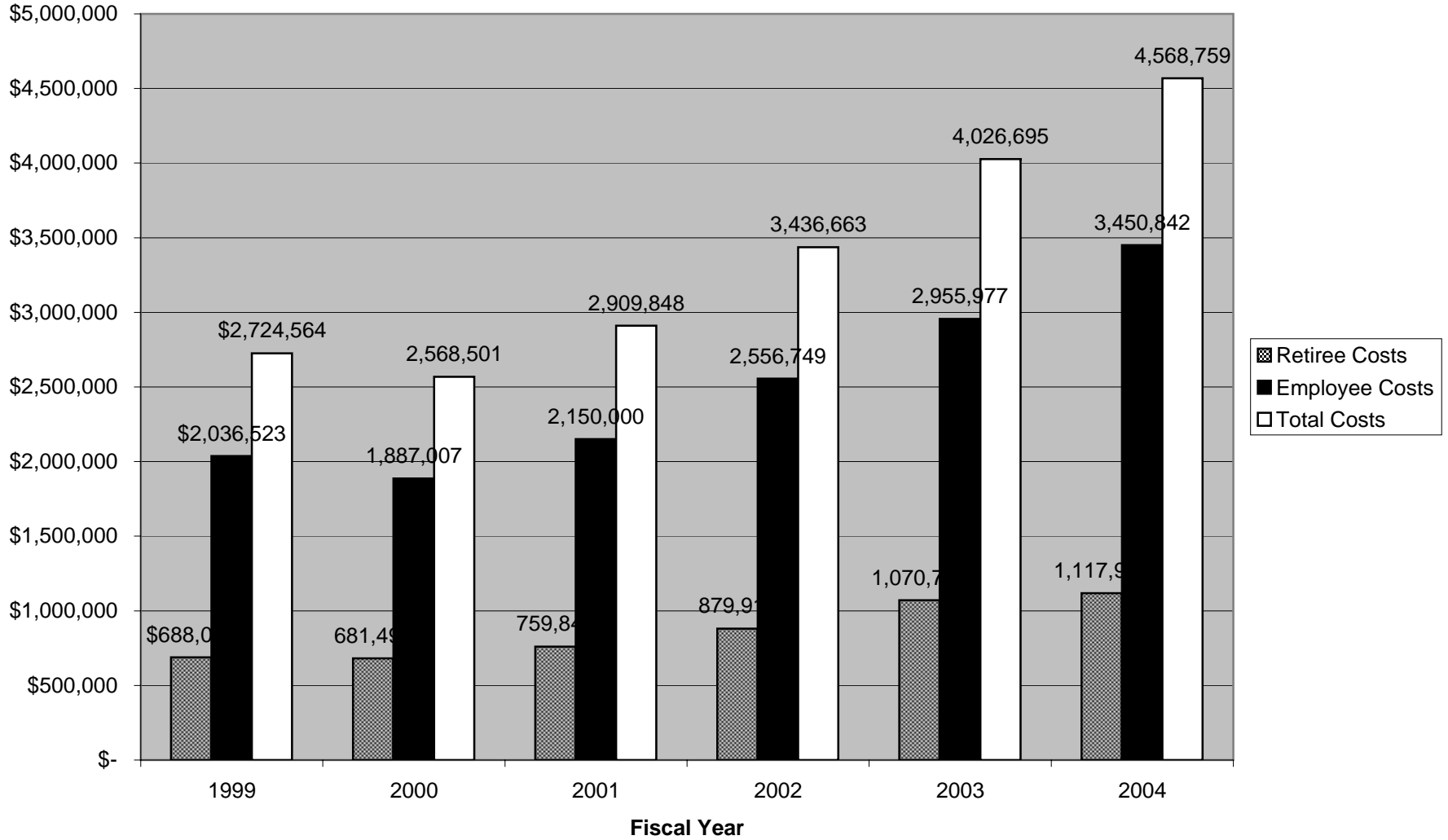
**Barnstable School District
Analysis of Fringe Benefits Expenses**

FY 1999 Through FY 2004

Fiscal Year	Employee Costs	Retiree Costs	Total Costs
1999	\$ 2,036,523	\$ 688,041	\$ 2,724,564
2000	1,887,007	681,494	2,568,501
2001	2,150,000	759,848	2,909,848
2002	2,556,749	879,914	3,436,663
2003	2,955,977	1,070,718	4,026,695
2004	3,450,842	1,117,917	4,568,759

Barnstable School District - Employee Benefits Expenses

Source: Town of Barnstable; Commonwealth of MA



Current Barnstable School District Trend Analysis (continued)

Barnstable School District Non-Local Educational Expenses Analysis

As mentioned earlier, the District has initiated a movement towards expanded use of the DOE's Horace Mann charter schools. The concept brings new budgetary challenges to the District's financial leadership. As the use of charter schools progresses, the District's elected leaders and central office will continue to lose control over the remaining diminished discretionary portion of the District's total budget.

Within the fixed cost group we have developed an analysis of spending we describe as Non-Local Educational Spending. This spending includes the local Commonwealth charter high school located in Hyannis, a Commonwealth charter middle school in Orleans, the regional vocational and technical school district serving Barnstable and the net cost of the District's participation within the DOE's so-called "Choice" program.

Since FY 1999 these local educational dollars leaving the control of the District have placed a continued strain upon the Town's ability to fund the local District's operations. In FY 1999 the Town spent \$1.8 million in this category. All but about \$12,500 went to fund Barnstable's students attending the Town's regional vocational and technical school district.

During FY 2004 the Town will spend about \$2.6 million local dollars to fund the education of Barnstable students attending non-town public schools. The Town anticipates that this level of local funds will exceed \$3 million by FY 2007. This non-discretionary spending further diminishes the District's capacity to control local spending for education in the future.

The bright spot in this area is the Choice program. This is one area where the District may be able to pick up some favorable budgetary impact. Given the enrollment estimates showing a diminished student body, the District may be able to attract non-local students to attend schools within the District. This would enable the District to acquire additional state funds in the form of tuition to finance the annual operations. In many cases the addition of children filling empty seats results in virtually no additional financial burden for the local District. The upside to this program comes when a child is added to a classroom for no incremental cost and the district is paid the sending district's annual per pupil cost.

(See Charts following)

**Barnstable School District
Analysis of Non-Local Educational Expenses**

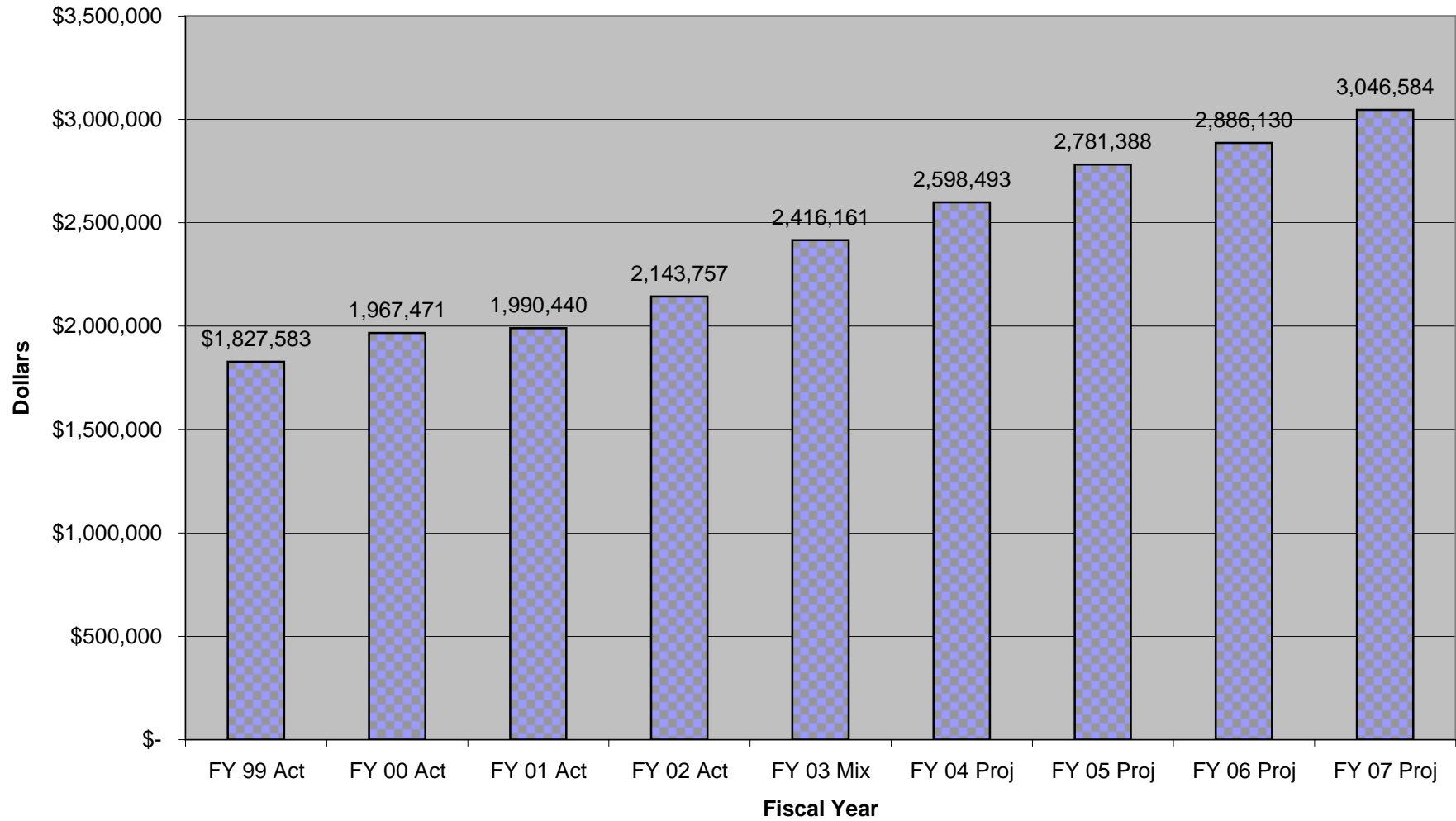
Actual FY 99 To FY 03 With Projectons to FY 07

Fiscal Year	Net CCVTHS Assessment	Net Charter Schools	Net In/Out Choice	Total Spending
FY 99 Act	\$ 1,815,000	\$ 12,583	\$ -	\$ 1,827,583
FY 00 Act	1,783,296	184,175	-	1,967,471
FY 01 Act	1,671,296	319,144	-	1,990,440
FY 02 Act	1,483,833	613,729	46,195	2,143,757
FY 03 Mix	1,523,632	852,529	40,000	2,416,161
FY 04 Proj	1,569,345	989,148	40,000	2,598,493
FY 05 Proj	1,616,425	1,124,963	40,000	2,781,388
FY 06 Proj	1,664,918	1,181,212	40,000	2,886,130
FY 07 Proj	1,766,312	1,240,272	40,000	3,046,584

Source: MA Department of Education
Town of Barnstable

**Barnstable School District
Total Non - Local Educational Spending**

Source: MA DOE; Town of Barnstable



Current Barnstable School District Trend Analysis (continued)

Barnstable School District Special Needs Educational Expenses Analysis

Special Needs education (SPED) is another major portion of the local District's expenses. This area is again highly non-discretionary. Federal and state regulations drive this portion of the District's operation. In recent years this portion of the budget has accelerated. Much of the expense contained within this expense object is tied to the health care industry. As is the case with benefits costs, this area has been ravaged by inflation over the past few years. Thus again we find less and not more local control in this increasingly larger area of local educational spending.

Since FY 2000 the local dollars allocated to special needs expenditures has grown from \$7.3 million to \$9.1 million in FY 2003. The level of increased spending for that period is about 20 percent over the three years or almost seven percent per year. Of note is the FY 2004 budget currently contains \$9.28 million. This virtual level funding between FY 2003 and FY 2004 leads us believe that this portion of the district's FY 2004 budget is at risk.

Of note is the recent trend of federal support for SPED programs. In FY 2000 the District was awarded a federal SPED grant in excess of \$.66 million. By 2003 that award was more than \$1.24 million. The doubling of federal dollars for local use in this area of education during the past three years has helped reduce the demand for local dollars to support this fixed cost. This federal support is expected to stabilize. As it does, the District will need to use more local dollars to fund this inflationary expense area of non-discretionary costs.

In addition to the accelerated federal funding for SPED programs, the recovery of some SPED costs via Medicare reimbursement has also helped the Town's revenue picture. We also note that the federal grant is not the only SPED assistance the District acquires. There are many other smaller assistance programs available and utilized by the District.

(See Charts following)

**Barnstable School District
Analysis of Special Needs Education Expenses**

Actual FY 2000 to 2003 - Budgeted FY 2004

Fiscal Year	General Budget	Federal Grant	Annual Total
2000	\$ 7,314,338	\$ 660,450	\$ 7,974,788
2001	7,904,500	872,481	8,776,981
2002	8,855,806	1,030,265	9,886,071
2003	9,120,663	1,241,106	10,361,769
2004	9,280,311	Pending	9,280,311

Source: Town of Barnstable

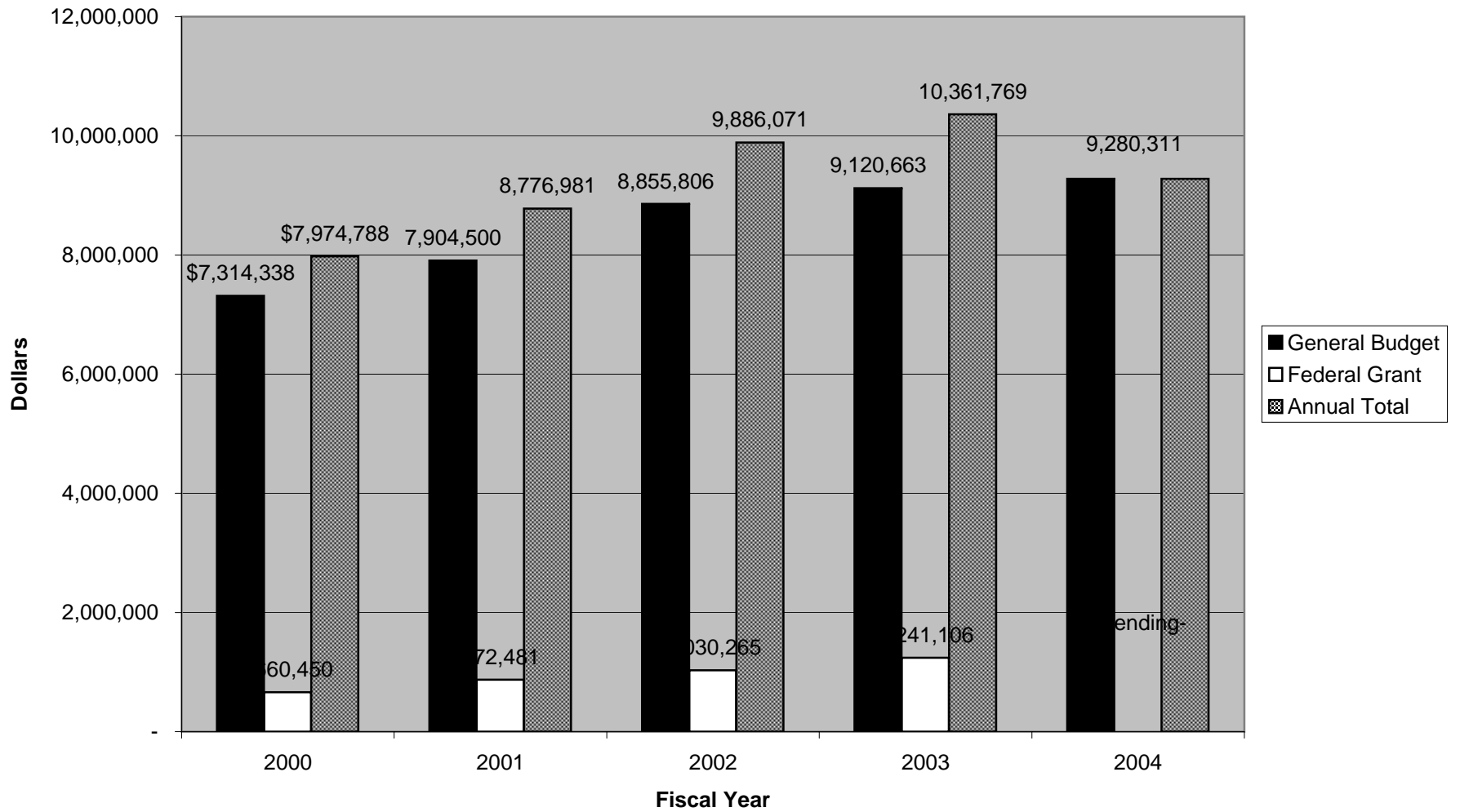
Note: FY 2000 - FY 2003 Does not include Grade 5 HMCS

FY 2004 General Budget Reflects Transfer of Grade 6 to HMCS

Federal Grant Revenue/Spending does not include HMCS Grants

Barnstable School District Analysis of Budgeted Special Needs Education Expenses

Source: Town of Barnstable



Current Barnstable School District Trend Analysis (continued)

Barnstable School District Utilities Expense Analysis

The final area of the budget that we believe offers little discretionary spending is the area of utilities. The District has historically budgeted for 13 buildings. The FY 2004 budget now contains funding for the operation of 12 buildings. Utility costs last year ran from a low at Osterville Bay of \$20,196 to a high at Barnstable High School of \$570,121.

We note that the new budget contains about 3.27 percent less funding for utilities in 2004 than was budgeted in FY 2003. The FY 2003 funding with the charter school figure included was over \$1.7 million. Approximately the same amount is carried within the FY 2004 budget. We have reviewed the budgets by facility and have determined that funding changes by facility range from a 22 percent reduction in the Centerville Elementary School budget to a 65 percent increase in the Osterville Bay budget.

We also note that the District carries a utilities supplemental line item in the budget. We consider this to be further evidence that this is a non-discretionary component of the District's expenditure budget. The uncertainty of rate changes and the tradition of uncertainty in the weather of New England combine to require that the District carry a six-figure reserve in the range of 14 percent of the current utilities budget. We believe future increases in this budget area will continue to erode the District's limited discretionary funds.

(See Charts following)

**Barnstable School District
Analysis of Utility Costs By Facility**

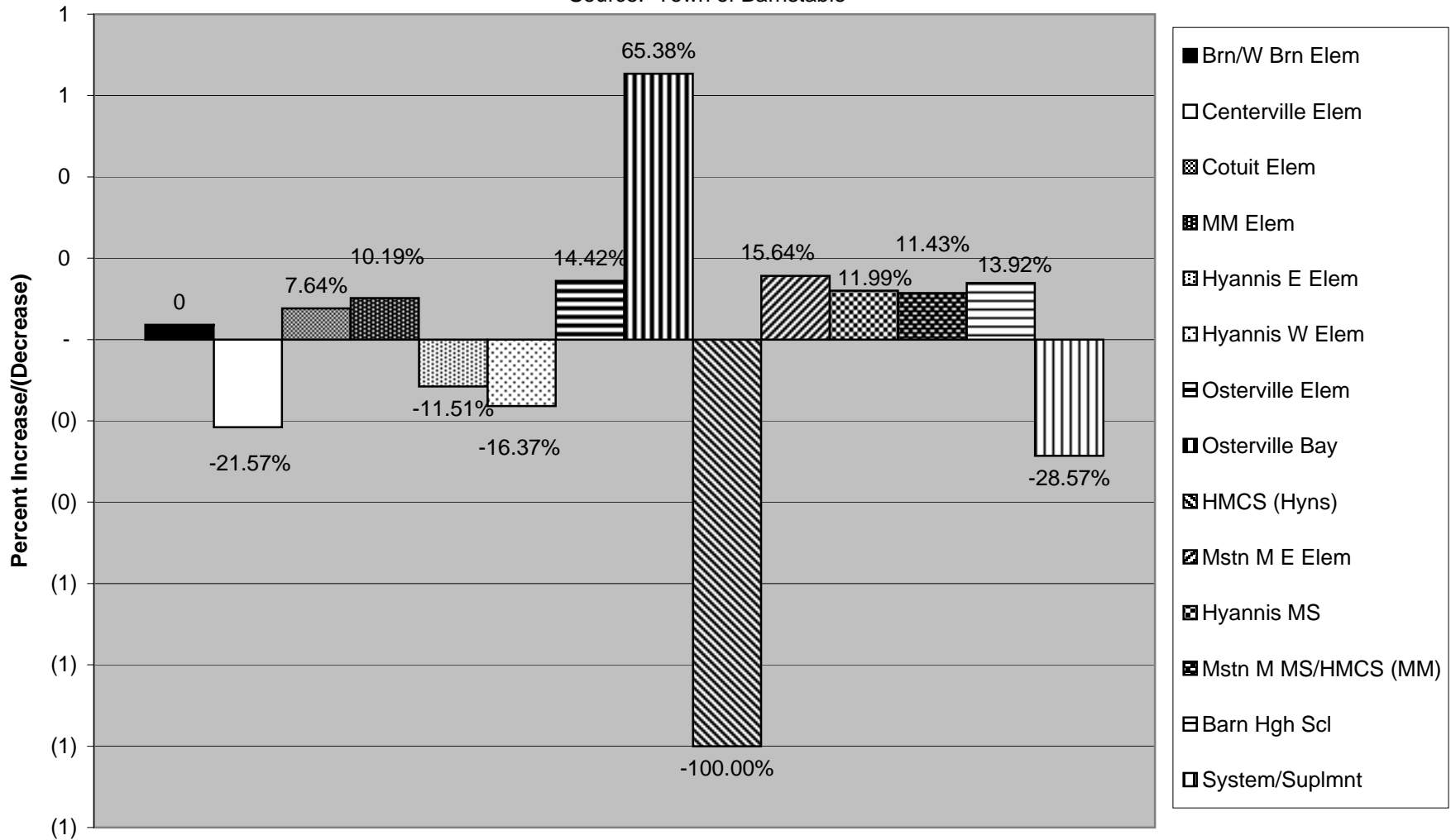
Actual FY 2003 - Budgeted FY 2004

School Facility	Fiscal 2003	Fiscal 2004	Annual Increase
Brn/W Brn Elem	\$ 58,357	\$ 60,475	0
Centerville Elem	65,853	51,650	-21.57%
Cotuit Elem	30,157	32,460	7.64%
MM Elem	31,338	34,530	10.19%
Hyannis E Elem	70,189	62,110	-11.51%
Hyannis W Elem	80,474	67,298	-16.37%
Osterville Elem	36,961	42,290	14.42%
Osterville Bay	20,196	33,400	65.38%
HMCS (Hyns)	96,000	Closed	-100.00%
Mstn M E Elem	77,454	89,565	15.64%
Hyannis MS	202,373	226,635	11.99%
Mstn M MS/HMCS (MM)	139,096	155,000	11.43%
Barn Hgh Scl	570,121	649,500	13.92%
System/Suplmt	295,516	211,074	-28.57%
Total:	\$ 1,774,085	\$ 1,715,987	-3.27%

Source: Town of Barnstable

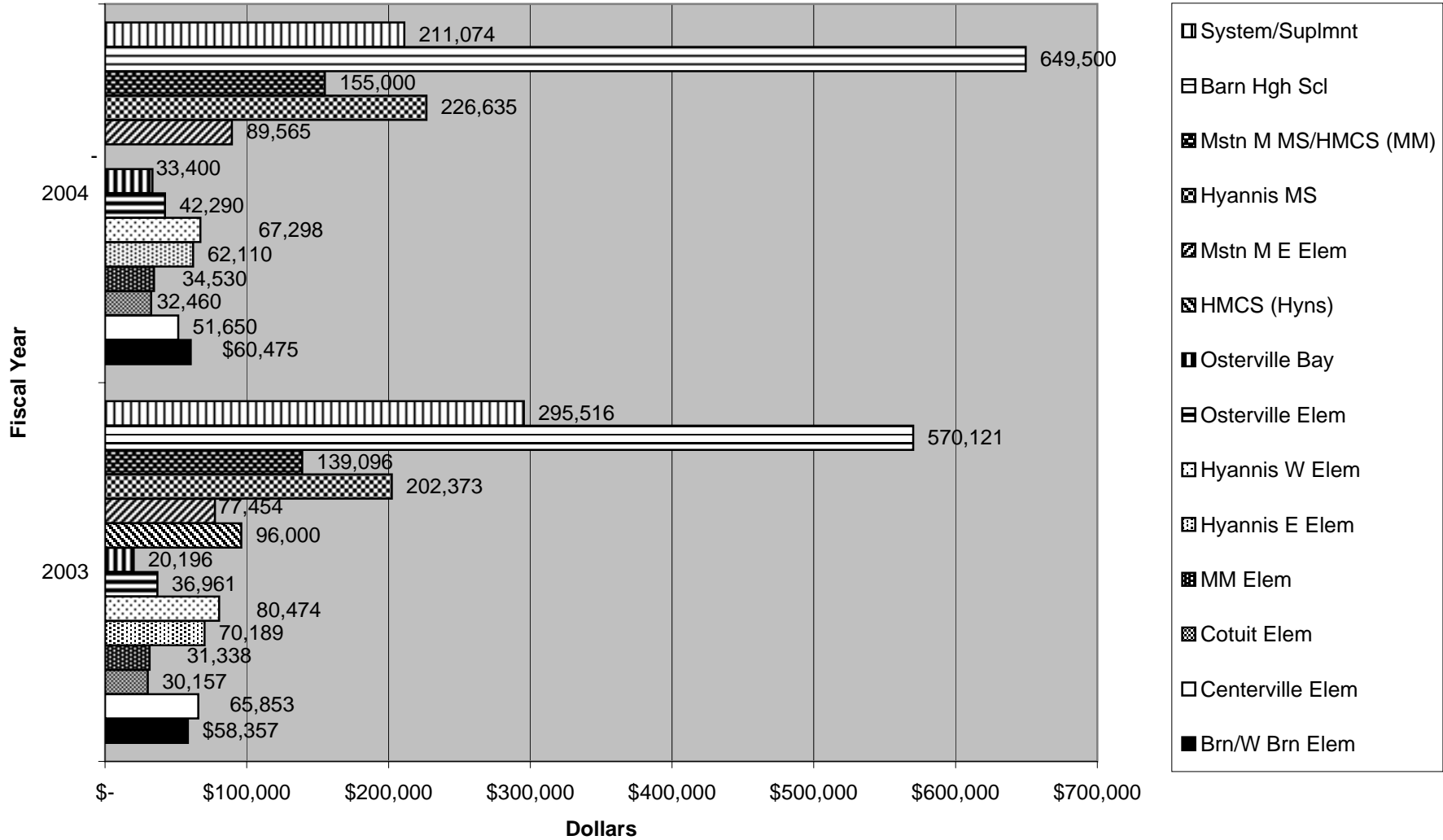
Barnstable Schol District Changes in Utilities Expenditures FY 2003 to FY 2004

Source: Town of Barnstable



Barnstable Schol District Utilities Expenditures FY 2003 and FY 2004

Source: Town of Barnstable



Current Barnstable School District Trend Analysis (continued)

Barnstable School District Per Pupil Expense Analysis

Within our local analytical work we have tried to avoid the use of per pupil expenditures analysis. In addition to the personnel services expenditures, the only true areas of the other expenditures group where spending is somewhat discretionary is in the area of instructional spending and transportation.

Similar to personnel expenditures, FAA considers this portion of the budget as discretionary. Discretionary spending allows the leadership an opportunity to use policy to set spending levels. Thus, this is the only area where we have looked at the expenditures on a per pupil basis. The new chart of accounts used by the District has provided us with a limited ability to look at this spending on a school building and grade group basis. Thus, the most detailed analysis of this area of spending is based only upon FY 2003 and FY 2004 data.

Since FY 1999, the annual enrollments in the District have diminished. At the same time gross spending has increased. Thus the annual spending on a per pupil basis has trended upward. The level of per pupil spending has risen during the past three years by over 20 percent. On an annualized basis the district has increased its gross per pupil expenditures by about seven percent per year during this period. The change from FY 2003 to FY 2004 reflects a per pupil spending reduction of almost two percent. This could become a new trend.

From last fiscal year to this one, the high school budget has seen a reduction on a per pupil basis of a bit more than five percent. The new middle school configuration resulted in a per pupil budget reduction of greater than 22 percent. The elementary schools as a group are budgeted in FY 2004 at about eight percent less than they were last year. The only per pupil spending to increase in the District during FY 2004 is within the Horace Mann Charter School portion of the budget. This year the District has raised its budget allocation for this independent school to a per pupil spending level that is more than nine percent above the level of per pupil funds appropriated for those grades in FY 2003.

(See Charts following)

**Barnstable School District
Measurable Per Pupil Expenditures Analysis**

Actual 2000 to 2002 and Estimated 2003 and 2004

Fiscal Year	Total Budget	High School	Middle School(s)	HM CS	Elementary Schools	Pupil Trans
2000	6,493	3,926	N/A	6,072	N/A	351
2001	6,784	4,357	N/A	5,914	N/A	327
2002	7,286	4,422	N/A	6,235	3,955	330
2003	7,818	5,601	5,131	6,108	5,372	320
2004	7,682	5,318	3,999	6,666	4,947	303

2004 data uses FY 2004 Budget as originally voted.

HMCS Data represents one grade FY 2000 to FY 2003 and 2 Grades in 2004

Middle School data reflects two schools in 2003 and one school in 2004.

FAA used Historical Enrollment Data and Estimated 2004 Enrollment Data.

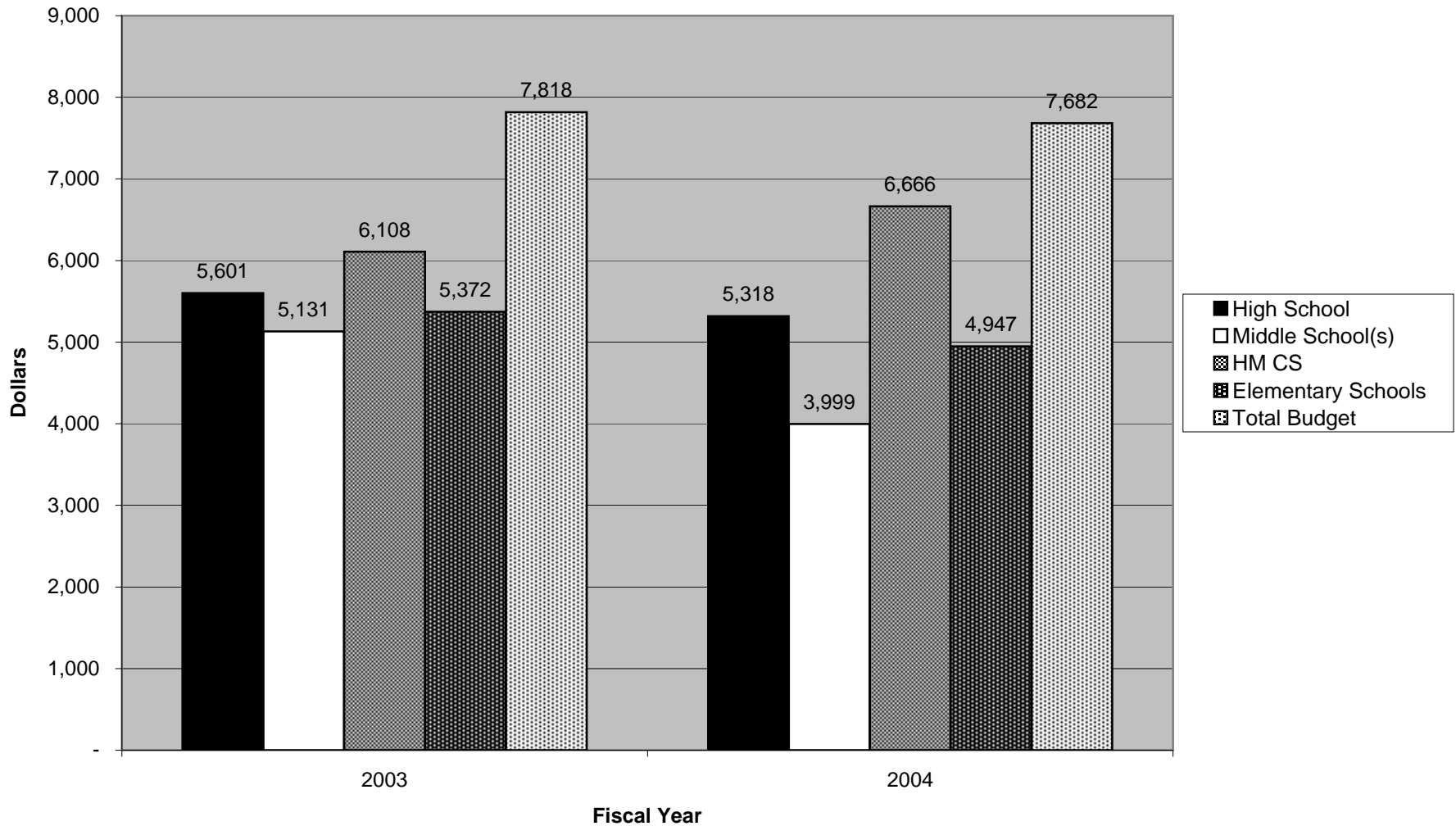
HMCS data does not include all funding and indirect costs imbedded in BSD's budget.

Measurable per pupil spending doesn't include shared costs carried in BSD's budget.

FY 03/04 Transportation PP is GF appropriation only - In FY 03 fees funded \$55 PP.

Barnstable School District Expenditures Measurable Per Pupil Expenditures By Grade Groups

Source: Town of Barnstable



Current Barnstable School District Trend Analysis (continued)

Barnstable School District Instructional Expenses Analysis

Most educational budgets are built by establishing a level of available funding. Generally, the municipal administrative team does this. However the Barnstable Home Rule Charter requires the municipal and school department administrative leaders to work together towards this objective. The charter also involves the School Committee and the Town Council in this revenue estimation and allocation process.

With the total available funding established, the budget is prepared by developing the non-discretionary spending requirements. BSD policy makers can only really impact that portion of the budget by determining the number of buildings to be used, the grade groups contained within each building and the pupil teacher ratios utilized within that building.

Once the fixed and quasi-discretionary costs are established, the variance between the total available funds and the required funding becomes the District's discretionary funding. These funds are then allocated across the District's emerging budget. The job of the policy leaders is to use these discretionary funds in an equitable manner.

We refer to this portion of the budget as instructional spending. In most cases these funds are used for textbooks and educational supplies. It is not uncommon to see these funds rotate from grade groups and/or buildings depending upon strategies developed by the leadership.

In the case of the BSD we have looked at instructional cost budgets over the past three years. We have seen an increased effort of spending in FY 2004 targeted towards the Hyannis and Osterville elementary schools as well as the Horace Mann Charter School and the high school.

Last year it appears that the elementary schools in Barnstable/West Barnstable, Centerville, Cotuit/Marstons Mills, Marstons Mills East, the Horace Mann CS and the two middle schools were the beneficiaries of increased instructional spending.

When we look at average spending during the last two years, we see the Osterville facility at the low end of the elementary level of discretionary spending and the two Hyannis schools at the top. The variance is more than 100% between the extremes of the discretionary per pupil spending in the elementary facilities. The demographics of these villages dictate the needs of the educational needs of the students. We suspect that the spending reflects a policy of spending for needs.

Spending for grade five seems to replicate the level of elementary spending utilized in the Hyannis schools. We also see an 11% variance when we compare discretionary spending in the two middle schools. The Hyannis facility has seen funding at the higher level of the two.

Current Barnstable School District Trend Analysis (continued)

We note that the expenditures for instructional costs have diminished as a percentage of the District's budget during the last two years. In FY 2002 1.46% of total spending was devoted to this category. In FY 2003 the actual spending for instructional costs was 1.37% of total spending in the district. Presently the FY 2004 budget has allocated \$839,850 of \$50,900,000 or 1.65% of total funding for instructional costs.

We believe that this discretionary area of the budget has become woefully under-funded and should not serve as the target for future budget reductions.

Of note is the level of per pupil spending at the high school. On average this facility has been budgeted for discretionary spending at a level below the lower level schools located in Hyannis. We do note that athletic spending is not funded in this portion of the high school budget. In addition, FY 2002 fees financed almost \$106,000 of athletic spending in the BSD.

(See Charts following)

**Barnstable School District
Analysis of Per Pupil Instructional Costs**

Actual FY 2002 and 2003 - Budgeted FY 2004

School Facility	Fiscal 2002	Fiscal 2003	Fiscal 2004	FY 2002 to FY 2003 Average Actual
Brn/W Brn Elem	\$82	\$94	\$81	\$88
Centerville Elem	72	90	91	81
Cotuit/MM Elem	88	108	98	98
Hyannis E Elem	142	134	176	138
Hyannis W Elem	204	182	223	193
Osterville Elem	77	73	96	75
Mstn M E Elem	72	92	86	82
Horace Mann CS	137	144	197	141
Hyannis MS	72	88	86	80
Mstns Mills MS	68	76	N/A	72
Barn Hgh Scl	134	110	126	122

Source: Town of Barnstable

FY 2004 enrollments use FAA estimate for Gr 5-12.

FY 2004 enrollments use 2003 actual for Gr K - 4.

Centerville Enrollment does not include B.E.L.C. Students

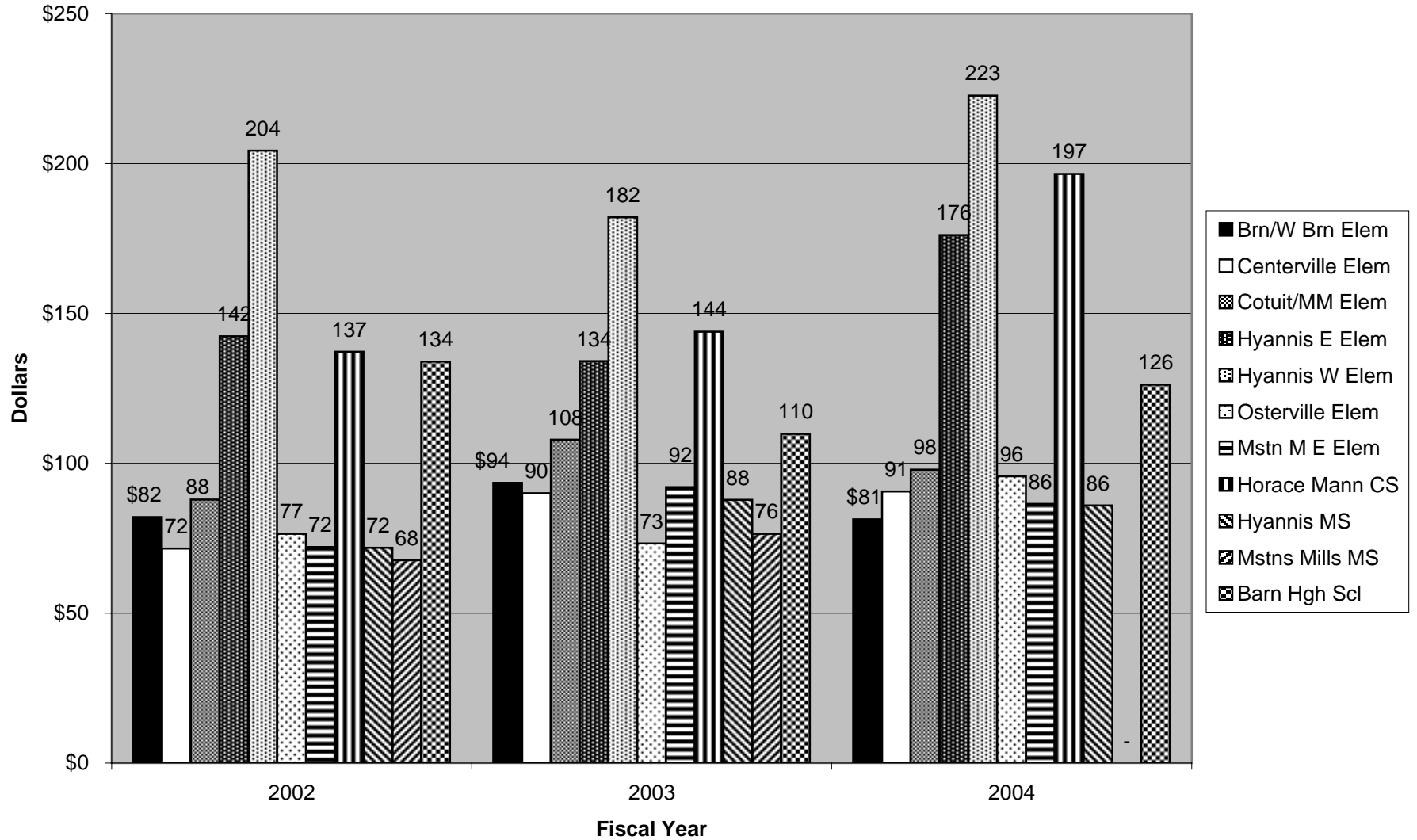
Marstons Mills East Enrollment does not include Pre-Sch students

FY 2002 and FY 2003 uses actual includes encumbrances

FY 2004 uses budget

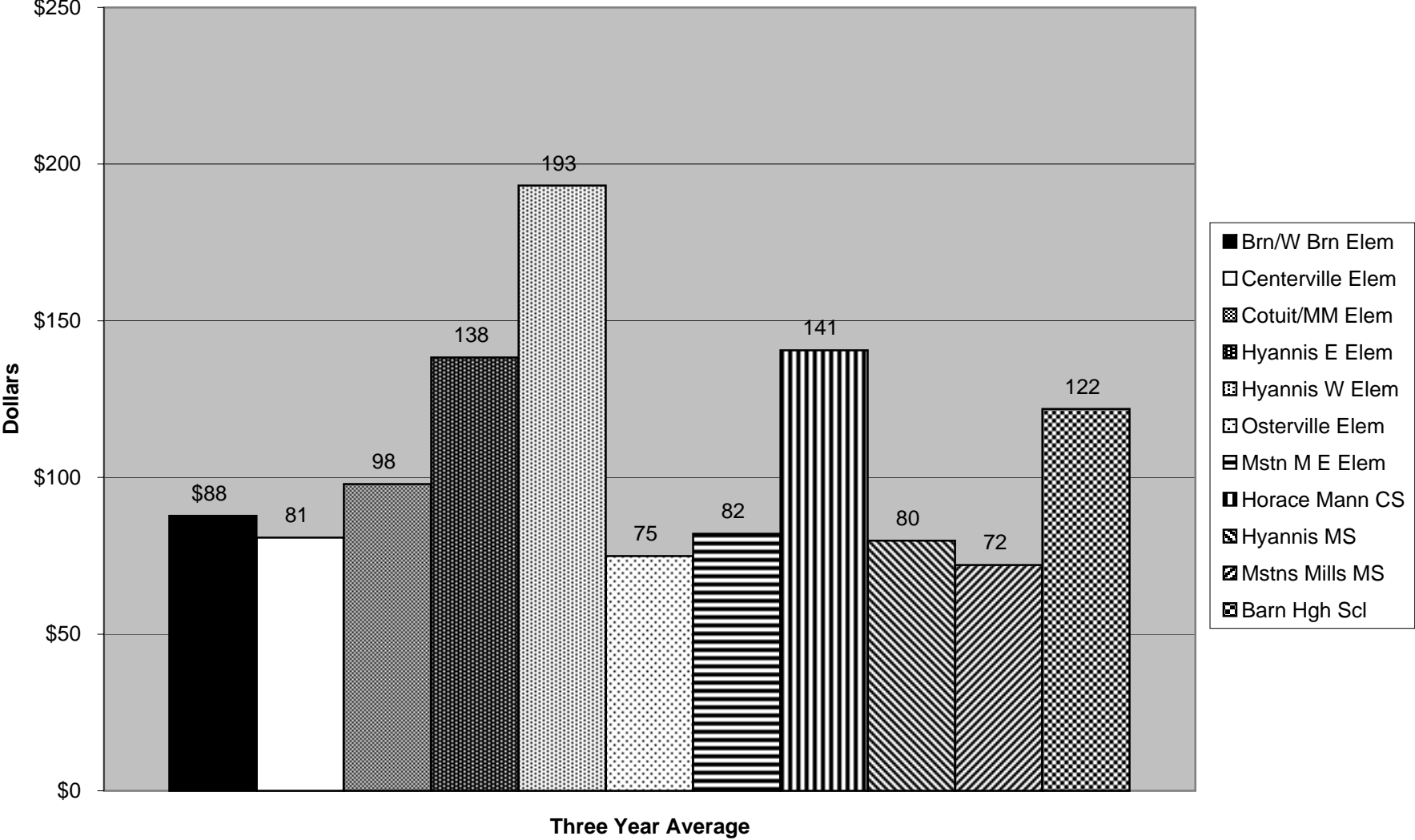
Barnstable School District - Per Pupil Instructional Spending By Facility

Source: Town of Barnstable



Barnstable School District - Actual FY 2002 - FY 2003 Average Per Pupil Instructional Spending By Facility

Source: Town of Barnstable



Current Barnstable School District Trend Analysis (continued)

Barnstable School District Transportation Expenses Analysis

The last area of discretionary spending we reviewed was transportation. This is an area where policy makers have both focused and struggled. Since fiscal year 2000 it appears that the per-pupil spending in this area has been diminished by almost 14 percent or about 3.5 percent per annum.

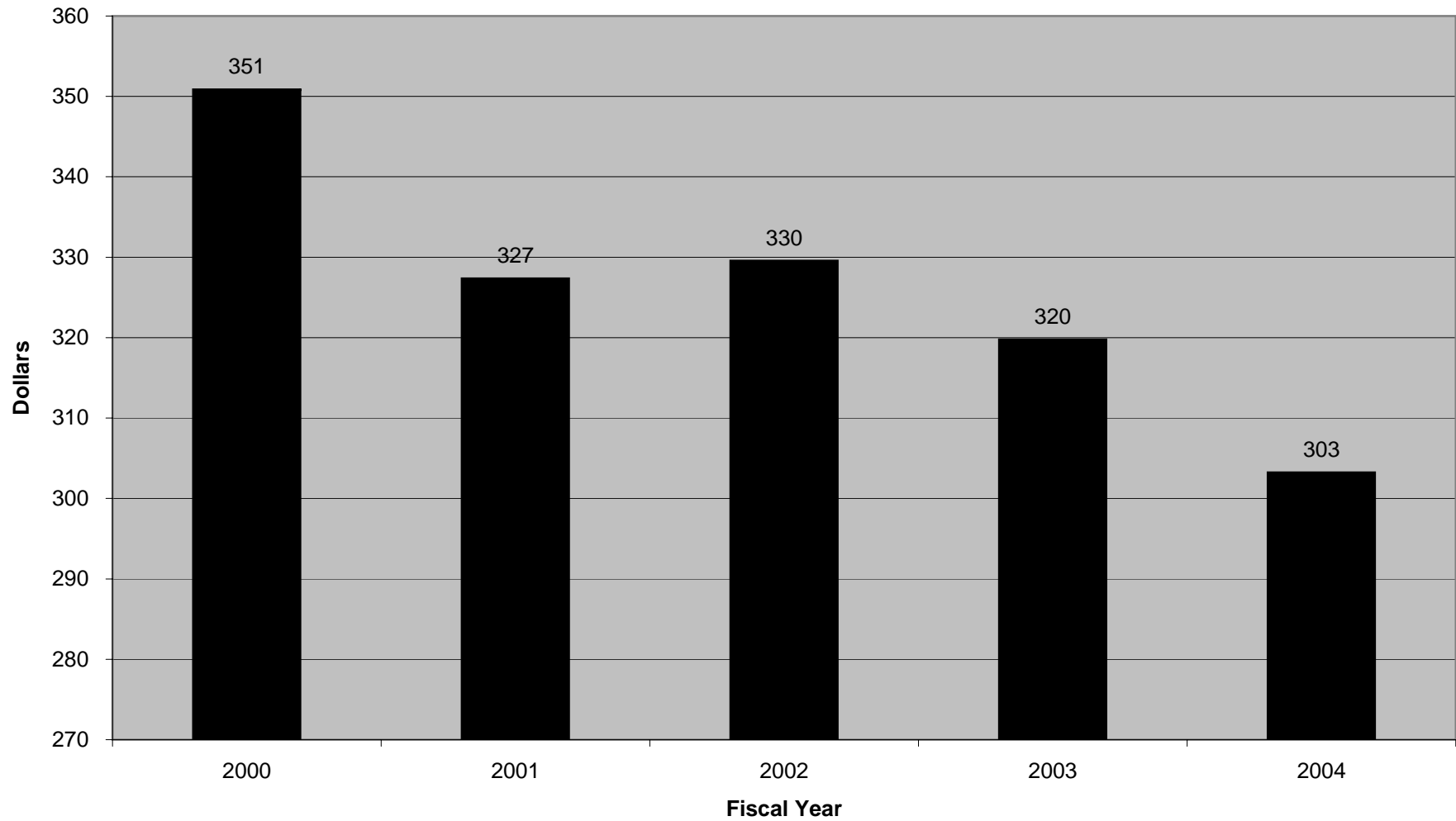
We believe that the true cost of transportation on a per pupil basis in the BSD during FY 2003 was \$358. FY 2003 was the first year the BSD utilized a transportation revolving fund. Fees paid by residents for transportation of students last year generated almost \$365,000 of revenue that was used to minimize the BSD's budgeted transportation costs.

Given the introduction of fees and a recent change in the bus schedule, we suggest that this budget item has now reverted to another of the non-discretionary portions of the District's budget.

(See Chart on following page)

Barnstable School District GF Transportation Expenditures
FY 2004 Does Not Reflect \$55/Pupil Funding From Special Revenue Funds

Source: Town of Barnstable



Source: Town of Barnstable

FY 2000 to FY 2003 Actual
FY 2004 Original Budget

VII. Current Town of Barnstable Revenue Trend Analysis

General Fund Revenue and Other Sources of Funds

The town's general fund is financed via revenues collected annually and also via other sources of funds.

Revenue comes from taxation, state aid and local receipts. Other sources of funds include special revenue funds such as receipts reserved and revolving funds. Enterprise funds such as golf courses and airports also contribute to the annual general fund budget. Trust funds that contribute to the annual budget include the pension fund and the stabilization fund. Finally, the town uses prior years' surplus known as fund balance or Free Cash to finance its annual budget.

In general, revenues are recurring financing sources while other budgeted sources of funds do not always remain available on an annual basis. As a rule, government finance professionals recommend that municipalities only use recurring revenues when budgeting for recurring expenses. They further recommend the use of non-recurring revenues only for non-recurring expenses.

Within our revenue analysis we have seen an increased revenue budget use of non-recurring sources of funds. In FY 2000 and FY 2001 we saw an annual use of free cash in the area of one and one half to two percent of total spending. In FY 2002 and FY 2003 the use of Free Cash was almost doubled and ran in the range of 3.2 to 3.6 percent of the budget. We believe that this trend indicates a reduced fiscal capacity.

(See Charts following)

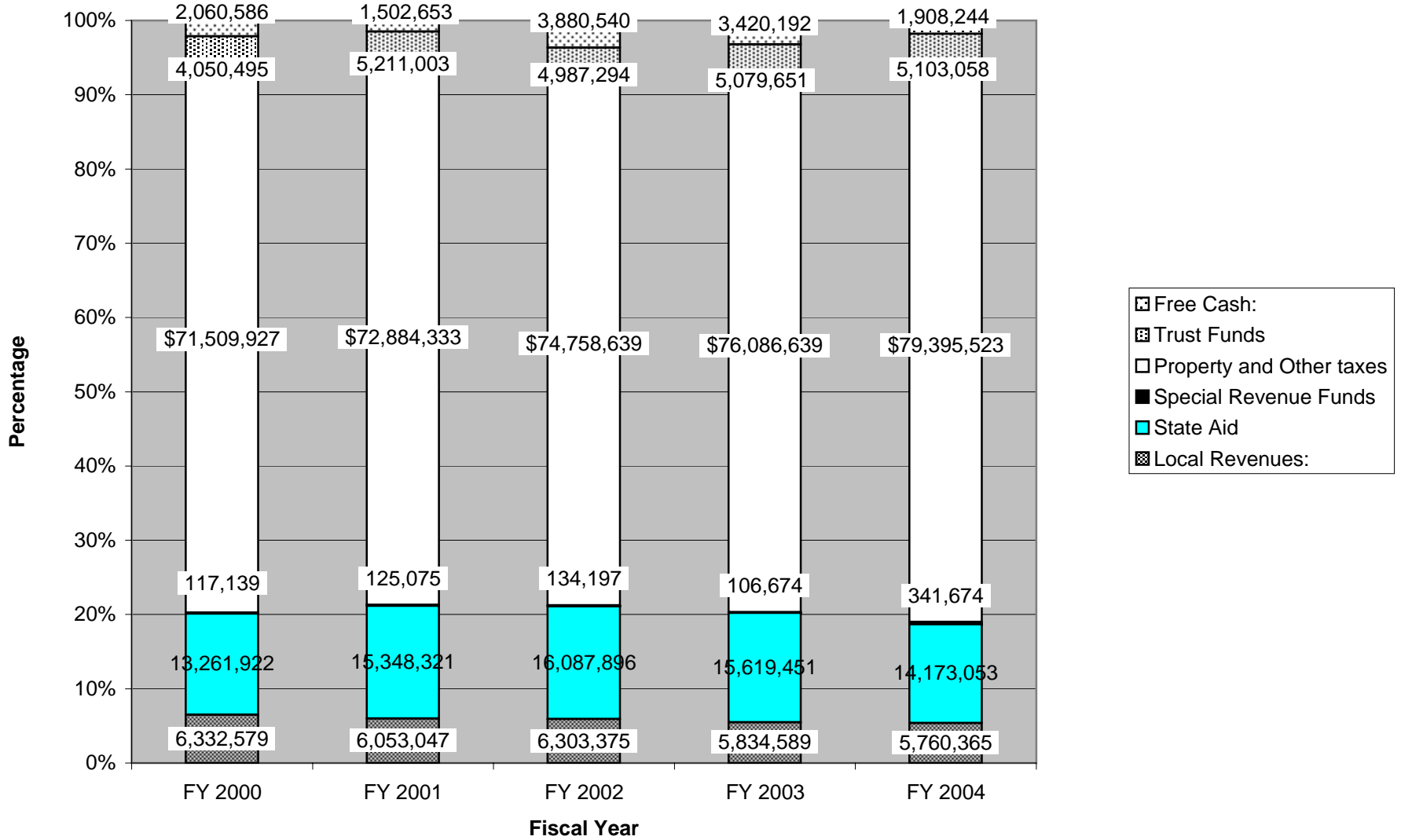
Town of Barnstable
Analysis of Annual Revenues and Other Sources of Funds
Fiscal 2000 - FY 2002 Actual and FY 2003 2004 Budget

Revenues And Other Sources of Funds	FY 2000 Actual		FY 2001 Actual		FY 2002 Actual		FY 2003 Budget		FY 2004 Budget	
	Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%
Property and Other taxes	\$ 71,509,927	73.10%	\$ 72,884,333	71.49%	\$ 74,758,639	69.81%	\$ 76,086,639	70.78%	\$ 79,395,523	73.37%
State Aid	13,261,922	13.56%	15,348,321	15.06%	16,087,896	15.02%	15,619,451	14.53%	14,173,053	13.10%
Local Revenues:										
Fines, Forfeitures, Penalties	1,286,589	1.32%	1,169,542	1.15%	1,168,606	1.09%	1,200,000	1.12%	1,170,400	1.08%
Fees, Licenses, Permits, Inspections	2,273,022	2.32%	2,239,384	2.20%	2,465,756	2.30%	2,454,150	2.28%	2,359,800	2.18%
Charges for Services	1,187,076	1.21%	1,048,394	1.03%	1,283,251	1.20%	1,253,750	1.17%	1,365,165	1.26%
Interest and Other	1,585,892	1.62%	1,595,727	1.57%	1,385,762	1.29%	926,689	0.86%	865,000	0.80%
Subtotal Local Revenues:	6,332,579	6.47%	6,053,047	5.94%	6,303,375	5.89%	5,834,589	5.43%	5,760,365	5.32%
Special Revenue Funds	117,139	0.12%	125,075	0.12%	134,197	0.13%	106,674	0.10%	341,674	0.32%
Enterprise Fund Reimbursements	487,670	0.50%	819,670	0.80%	933,085	0.87%	1,347,745	1.25%	1,537,036	1.42%
Trust Funds	4,050,495	4.14%	5,211,003	5.11%	4,987,294	4.66%	5,079,651	4.73%	5,103,058	4.72%
Total Revenues/Other Sources of Funds:	95,759,732	97.89%	100,441,449	98.53%	103,204,486	96.38%	104,074,749	96.82%	106,310,709	98.24%
Use of Fund Balance (Free Cash):	2,060,586	2.11%	1,502,653	1.47%	3,880,540	3.62%	3,420,192	3.18%	1,908,244	1.76%
Total Funding For General Fund Purposes:	\$ 97,820,318	100.00%	\$ 101,944,102	100.00%	\$ 107,085,026	100.00%	\$ 107,494,941	100.00%	\$ 108,218,953	100.00%

Source: Town of Barnstable

Town Of Barnstable - Revenues and Other Sources of Funds

Source: Town of Barnstable



Current Town of Barnstable Revenue Trend Analysis (continued)

Taxation

From FY 2000 through FY 2002 on average taxation generated about 71.5 percent of the revenue and other sources of funds required to meet Barnstable's annual general fund operations. The bulk of the taxation revenue is property taxes. Taxation of cars, boats and hotel rooms is a small part of the taxation revenue stream.

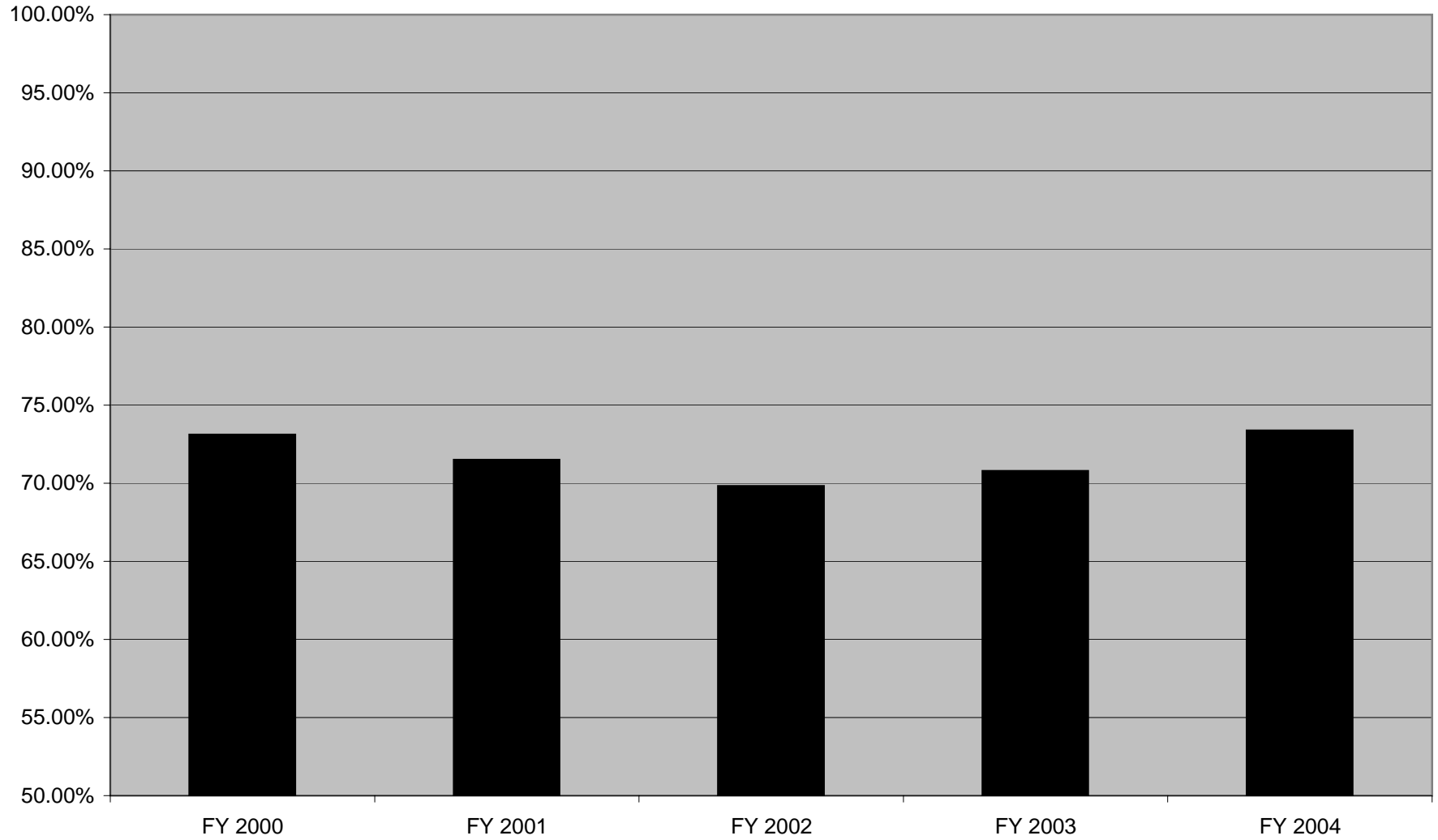
This portion of the funding has been trending downward as a percentage of the total operational funds. In FY 2000 this source of funding provided Barnstable with over 73 percent of its total funding. By FY 2002 this source was below 70 percent of the total.

We see a slight increase in reliance upon taxation in the FY 2003 and FY 2004 budgets. On average, the Town has estimated taxation will exceed 72 percent of total funding used for their operations both last year and this one. This may change once the periods are completed and the final use of fund balance (Free Cash) is determined. As more free cash is used during the on-going year, the taxation portion as a percent of the total funding sources diminishes.

(See Chart on following page)

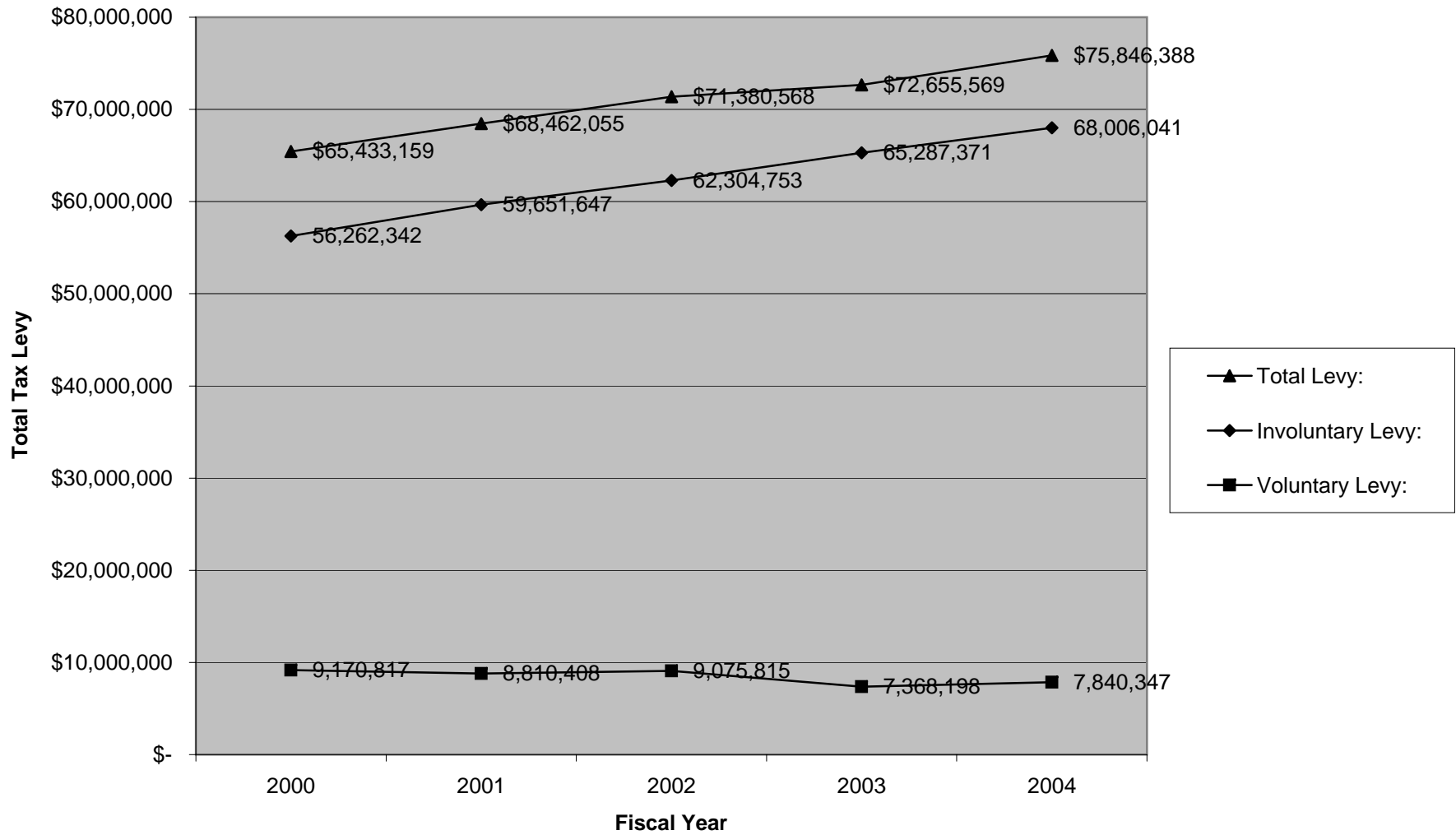
Town of Barnstable - Taxation Portion of Revenue Budget

Source: Town of Barnstable



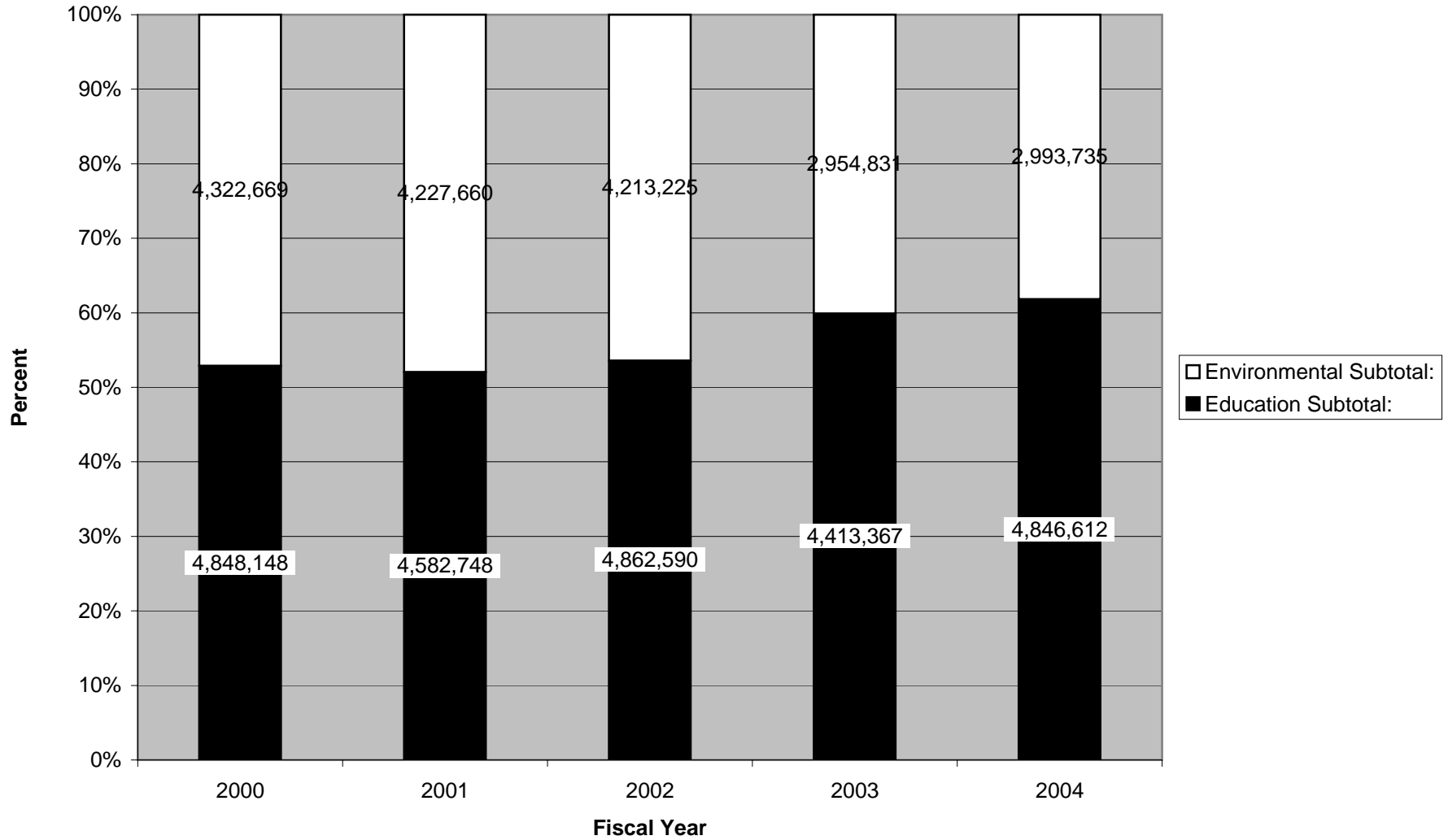
Town of Barnstable Voluntary and Involuntary Property Taxes/Surcharges

Source: Town of Barnstable



Town of Barnstable - Voluntary Tax levy

Source: Town of Barnstable



Current Town of Barnstable Revenue Trend Analysis (continued)

Voluntary and Involuntary Taxation

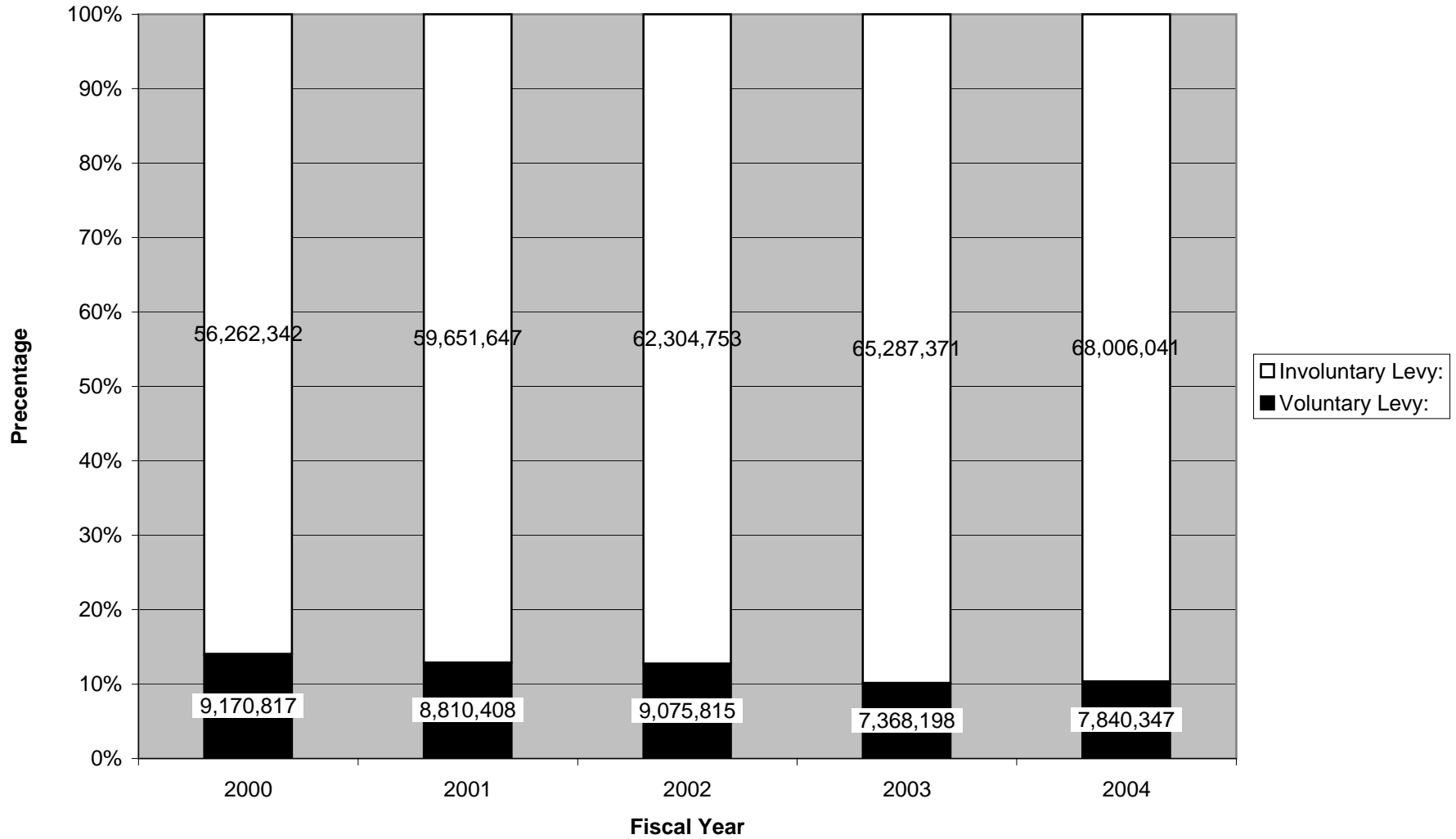
We suggest that within the property tax bill there are two portions. The voluntary tax portion and the involuntary tax portion. Since the commencement of the Massachusetts taxation law we refer to as Prop 2 ½, taxpayers have been allowed to vote to increase taxes above the legal limit set by the law.

In Barnstable we see a trend of two purposes for which local voters have approved increased taxation over the legal limits. One purpose we call environmental. These taxes include the funding for the Cape Cod Commission and the so-called “Land Bank.” FAA also considers the purchases of parcels of land as an environmental purpose tax.

The second purpose for which taxpayers have voted to raise taxes we call educational. In 1990 the voters approved an override for educational purposes. This is the only override ever allowed in the Town of Barnstable. Local voters have also voted to increase taxes in order to fund the renovation and construction of school facilities.

(See Charts following)

Town of Barnstable - Tax/Surcharge Levy
 Source: Town of Barnstable



Current Town of Barnstable Revenue Trend Analysis (continued)

Voluntary Taxation

The total voluntary taxes billed by Barnstable in FY 2000 were \$9.17 million. In FY 2003 they were \$7.37 million. This represents a decrease of almost 20 percent. In FY 2000 the voluntary tax made up over 14 percent of the Town's total billings. The voluntary tax cost to an average single-family homeowner was \$339 that year. By 2003 the voluntary tax was about 10 percent of the total tax bill and it cost the average taxpayer \$277.

The primary reduction came in 2003 when the extra taxation for land purchased in the 1980's left the levy. Between FY2002 and FY 2003 the environmental portion of the voluntary levy dropped from \$4.21 million to \$2.96 million.

The effect of this diminished cost to the taxpayer was a reduced annual increase in their tax bill that year. The tax levy in Barnstable has increased about 4.5 percent per year on average between FY 2000 and FY 2002. The town has estimated an increase of 4.39 percent between FY 2003 and FY 2004. The increase between FY 2002 and FY 2003 was about 40 percent less than the normal change.

We make note of these rare occasional moments of reduced levies on the taxation calendar because they can be forecasted and then used by management as opportunities to ask taxpayers to consider retaining those voluntary taxation levels for some other worthy purpose.

We also note that the two types of voluntary tax votes available have differing impacts on taxes in the future. So-called "override" votes are permanent and the additional tax increases each year. The Cape Cod Commission (CCC) and Land Bank (LB) surcharge are examples of annually increasing taxes. We do note that the land bank portion of the tax bill has a 20-year life.

The second type of voluntary tax is the so-called "debt exclusion" vote. The taxes generally diminish annually and eventually leave the levy. Land and school facilities are examples of these types of voter added taxes.

(See Charts following)

Current Town of Barnstable Revenue Trend Analysis (continued)

Average Tax Bill

The average tax bill of the Town of Barnstable is not easily compared to the tax bills of our comparable communities. Barnstable does not provide fire protection or street lighting via a municipal tax. Residents of Barnstable pay a second property tax for their fire protection and street lighting. These fire district taxes vary for the five districts serving the Town.

We can look at the Town's average single-family homeowners' costs for the local municipal services provided. In FY 2000 the average involuntary portion of the local tax bill was \$2,419. The bills rose 6.28 percent on average and in FY 2001 the cost was \$2,571 for a homeowner. That year the education portion of the voluntary taxes fell 5.47% and the environmental portion fell 2.2 percent. The decrease in the voluntary taxes was \$.36 million that year. The involuntary portion of the levy then rose six percent that year.

Between FY 2001 and FY 2002 the cost of school facility debt rose. This action in conjunction with the annual increases in the 1990 override, the LB surcharge and CCC assessment, increased the voluntary taxes above the prior year level. They remained below the FY 2000 level.

We have already mentioned FY 2003's dramatic decline in debt service for the land purchases of the 1980's. The involuntary cost of the average tax bill in Barnstable declined by almost 19% that year. The cost fell from \$341 in FY 2002 to \$277 in FY 2003. Last year's impact is reversed between FY 2003 and FY 2004. Another shift in school construction debt has bumped the involuntary portion of the average tax bill up to an estimated \$294 during FY 2004.

(See Chart on following page)

Current Town of Barnstable Revenue Trend Analysis (continued)

Average Tax Bill Relative to School Budget

The bottom line is that taxation is the lifeline of Barnstable's operations. Between FY 2000 and FY 2004 it is estimated that taxes will have increased by about \$10.4 million or almost 16 percent. The educational portion of the voluntary component has remained flat. The environmental portion of the voluntary portion has diminished by over \$1.3 million or about 31 percent. The voluntary portion of the levy is down over the last four years by 14.5 percent. The reduction totals more than \$1.33 million.

The average homeowners' municipal tax bills have moved up almost 18 percent from \$2,419 in FY 2000 to \$2,733 in FY 2003. This can be contrasted to the Town's per pupil cost change from \$6,493 in FY 2000 to \$7,818 in FY 2003.

Of note is the fact that during FY 2000 it took all of 2.7 Barnstable homeowners' tax bills to finance one Barnstable student's education. In FY 2003 it took all of 2.9 Barnstable homeowners' taxes to pay for one Barnstable student's education. This indicator raises a grave operational concern. We believe that this trend indicates that the Town's largest source of funding is not keeping pace with the Town's largest cost of doing business.

(See Chart on following page)

Current Town of Barnstable Revenue Trend Analysis (continued)

State Aid

The largest source of Barnstable's non-taxation revenue is state aid. This category is second only to local taxation. From FY 2000 to FY 2002 this general fund revenue source grew from 13.6 percent of total funding to 15 percent of total funding. It is currently expected to fund about 13 percent of Barnstable's general fund activity in FY 2004. We believe the actual results for FY 04 will show less than 13 percent.

The state provides funding under various categories. Chapter 70 makes up the bulk of the state's effort towards local education. Lottery aid is the largest source of general government funding.

The reduction of state aid as a percentage of the general fund whole has been considerable during the past two years. The reason is two-fold. The first reason is the fact that this source of funds has diminished about 13 percent in total dollars since FY 2002. The second reason is the Town's increased use of free cash and other sources of funds.

We believe that the level of state aid to Barnstable will not change much up or down over the next few years. Thus, in the future we expect this revenue source to diminish as a percentage of the annual general fund financing mechanisms.

(See Charts following)

Current Town of Barnstable Revenue Trend Analysis (continued)

Local Receipts

Since FY 2000 the local revenues generated annually as the town conducts its business have diminished also. Local revenues peaked in FY 2000 at \$6.33 million. They are currently estimated to provide the FY 2004 general fund with revenues totaling \$5.76 million. The reduction in this funding source during the past five years is 9 percent or about 2.25 percent annually.

We do not expect any changes in the makeup of this revenue source. Nor do we see any accelerated growth within this income class over the next several years.

(See Chart on following page)

Current Town of Barnstable Revenue Trend Analysis (continued)

Other Sources of Funds

Given the decline of state aid and local receipts we have looked at how the Town has managed to fund an increase in general fund spending that went from \$97.8 million in FY 2000 to an estimated \$108.2 million in FY 2004. This almost 11 percent increase has been managed using an ever increasing reliance on non-traditional funding sources.

We have detected a trend in Barnstable towards a greater reliance upon other funds. In FY 2000 special revenue funds provided one tenth of one percent of Barnstable's general fund activity. In FY 2004 the source has tripled to three tenths of one percent.

The BSD has also introduced its own use of Special Revenue Funds. In FY 2003 the town created a transportation revolving fund for use in conjunction with the cost of busing. The BSD expensed almost \$365,000 via this fund last year. In addition some formerly budgeted school spending for athletics and music has been moved to revolving funds. All day kindergarten is also offered off budget to parents via the use of a revolving fund.

Other special revenue funding has become more important within the area of education. We were able to review the Finance Director's state and federal grants and other special revenue funds records for FY 2000 through FY 2002.

Expenditures for education reported within this group of funds have grown from just under \$6.0 million in FY 2000 to just under \$8.1 million in FY 2002. We expect these off budget funds will not continue to provide the same level of educational funding growth into the future. Any loss of school special revenue funding will increase the pressure on the general fund and further impact the BSD's ability to manage general fund expenditures with discretion.

The same is true for enterprise funds. These funding sources have moved from providing one half of one percent of the funding necessary in FY 2000 to now contributing one and one half percent of the FY 2004 funding required within the general fund.

The trust funds have also become a more important source of financing general fund activity. In FY 2000 over \$4 million flowed from the Town's trust funds to finance general fund activity. Five years later in FY 2004 the Town is budgeting over \$5.1 million from this financing source.

We noted an increased use of trust funds by the BSD. We were able to review the Finance Director's trust fund records for FY 2000 through FY 2002. We detected the additional spending of Cobb Trust funds totaling just over \$393,000 during that period.

(See Chart on following page)

Current Town of Barnstable Revenue Trend Analysis (continued)

Use of Fund Balance (Free Cash)

The final revenue trend we have detected in Barnstable's general fund activity is the increasing use of fund balance. In Massachusetts a portion of a community's year-end equity position is certified as an available fund. This source of funds is referred to in the Commonwealth as "free cash." The surplus is generated when revenues collected exceed those estimated and expenditures realized are below those budgeted. In Barnstable's case surplus has been generated annually via both methods.

In FY 2000 the Town used just over \$2 million from free cash for general fund purposes. In FY 2002 the use of this resource was almost doubled. The town voted to use \$3.88 million of surplus. This source of funds went from providing about 2.1 percent of the total funds used in FY 2000 to fueling 3.6 percent of the Town's FY 2002 spending activity.

When the Town set the FY 2003 tax rate in late 2002 the voted use of free cash was already at \$3.4 million. In most years the use of free cash takes place after the tax rate is set. This is because it serves as an almost single source of funding for solving financial problems that surface during the second half of the fiscal year.

When the FY 2004 budget was presented, the Town proposed using \$1.9 million of free cash to balance a budget that was increased by only \$.724 million. The proposed increase in spending between FY 2003 and FY 2004 is about two thirds of one percent. It would appear that at a minimum, the Town's FY 2004 budget would require a 1.1% reduction from the FY 2003 spending level if the use of surplus were not available.

This recent trend of using more non-traditional methods for funding the Town's general fund activity is another that raises a concern. The use of non-recurring revenue sources to finance operations is generally seen as a short-term solution to a short-term or one-time problem. Many of these uses of alternative funds are strategically planned. For instance, the Town has pension reserve funds and capital financing funds in the trust fund group of accounts.

However, we do not believe that this funding trend can continue for an indefinite period of time. The longer an organization continues to grow operational costs into their base budget via the use of non-permanent funding sources, the larger the expense budget cuts required at some time in the future when the non-recurring funding sources are gone.

(See Chart on following page)

VIII. Annalists' Findings and Conclusions

Comparative Communities Analysis:

On average over the past 10 years, the foundation budgets of the commonwealth's communities have been raised by 53.79 percent. Our analysis indicates that Barnstable has not experienced any adverse spending impact under the Education Reform Law. Barnstable's target spending increases are about 10 percent below the state average. The foundation budget impact to Barnstable is average for the comparable group.

In 1990 state aid supported 6.6% of the general fund spending for education in Barnstable. By 1992 the state supported only 1.2% of Barnstable's General Fund educational spending. Total Chapter 70 aid in 1990 was \$1.534 million. By 1992 total Chapter 70 aid for Barnstable was \$.315 million. Barnstable's \$1.7 million Proposition 2 ½ override vote of 1990 implemented in FY 1991 was ultimately used to supplant that year's dramatic lost state aid as opposed to its original intent of supplementing the school budget.

Thus, given such a low level of state aid for education in 1992, Barnstable leads the comparable group when we look at the growth in this funding source over the past 10 years. Barnstable's growth in state funding is distorted because it appears that they have seen increases in educational funding at a level that is more than three times the state average. The low starting base also results in Barnstable appearing to have average funding increases from the state that are almost double the average increases of the comparable group.

We found that the town's net school spending requirement has been elevated more aggressively than the statewide average during the last decade. The demand for educational spending placed upon Barnstable by the law has exceeded the state required educational spending average by 17 percent. When Plymouth is removed from the comparative group, Barnstable's required spending exceeds the group average by about 22%.

The state Department of Education (DOE) collects and reports the required spending in two broad categories (instructional and non-instruction). Each local community reports its annual expenditures using multiple categories within each of the two larger groups. Of note is the fact that in FY 2001 Barnstable devoted more of its foundation spending to instructional categories than any of the communities in our comparable group.

We see a changed look when we review the local educational funding that is above the state target (Foundation Budget) during FY 2002. Here Barnstable shows a weakness. Statewide, local spending is more than 16 percent above target spending. In Barnstable actual educational spending is not quite 5 percent above the target spending. The comparable group's average education spending levels were about 15 percent above the foundation spending set by law.

Annalists' Findings and Conclusions (continued)

Comparative Communities Analysis (continued):

Our comparable group averages about 27 percent of their net school spending being funded by the state. Within our group the City of Pittsfield gets the highest state support at 55 percent of its educational funding. It is the only member of our comparable group with funding above the state average. Barnstable is in the lower tier of the group with less than 20 percent of its net school spending supported by state funds.

During FY 2002 Barnstable spent less per pupil than the statewide average. The District also spent less per pupil than any of the comparable communities. While Andover and Falmouth experienced similarly low levels of state funding on a per-pupil basis in 2002, they used local dollars to become the highest total spending members of the comparative group.

Barnstable's level of local spending exceeded the state average by more than 20 percent and the comparable group's average by more than 4 percent. Yet, the combined spending for Barnstable students ran almost ten percent below the comparable group in 2002 and almost 16 percent below the statewide average.

Comparative Communities Analysis Conclusions:

- **The educational activity of the Town of Barnstable appears to be typical when contrasted against other Massachusetts communities with similar socio-economic characteristics.**
- **Funding increases from the state for educational purposes will be atypical to those of the past decade.**
- **Local governments cannot maintain the past trend of significant annual educational spending increases.**

Annalists' Findings and Conclusions (continued)

Comparative School Districts Analysis:

Barnstable is one of two districts with vocational education and School Choice. Only the two city districts provide transitional bilingual programs. In addition, Barnstable has the highest level of limited English proficiency in the group. Except for the City of Pittsfield, Barnstable has the highest level of students eligible for free/reduced price lunches.

Of particular note is that in 1995 Barnstable had the highest percentage of children attending the public schools in our comparable group. The ratio was 99.7 percent. The Barnstable district is now in the middle of the group at 88.9 percent. We believe that the opening of the St Francis Xavier Prep School (grades 5 – 8) in Hyannis in 1996, the Lighthouse Charter Middle School (grades 6 – 8) in Orleans in 1994 and the Sturgis Charter High School (grades 9 –12) in Hyannis in 1998 contributed to the recently reduced attendance within the Barnstable Public School District.

We have reviewed the data maintained within the Massachusetts Department of Public Health. The database contains public/private school data for 1993 through 2000. We have determined that the number of Barnstable children attending private schools in 1993 was reported at 305 or 4.5% of the total student population. In 2000, the reported private school attendees from Barnstable numbered 712 or 8.5% of total students in the Town.

Barnstable was the second highest district in the instructional spending category behind Andover during fiscal 2001. During the same year Barnstable was the second lowest in non-instructional spending. These two districts spend similarly and both were about 7 percent below the total spending level of the district just above them.

Of note is that the Abrahams report also detected Barnstable's low level of spending in non-instructional areas. They warned of School Building Assistance funding problems if the District continued to avoid maintenance spending. We concur and suggest that the administration should pay careful attention to their required spending in this area.

In Barnstable the pupil to teacher ratio moved favorably from 13.84 to 12.35 pupils per teacher between 1997 and 2001. This change was almost 11 percent higher or twice the statewide average. In 2001 Barnstable had the most favorable ratio of the comparable group. The highest ratio was 16.22 pupils per teacher in Peabody.

Between 1997 and 2001, the total number of teachers grew in all of the districts except Billerica. The growth statewide averaged more than 11 percent. The comparative groups' teaching staff grew on average at 9.5 percent during the period. Barnstable increased their teaching staff by over 21 percent during the same time.

Annalists' Findings and Conclusions (continued)

Comparative School Districts Analysis (continued):

Within the comparable group, only Barnstable's average teachers' salary remained stable between 1997 and 2001. During the same period Barnstable's teaching staff was expanding numerically more than any of the other districts in our analysis. Yet the average salary was stable in Barnstable while the other districts saw increased average salaries. This indicates to us that in Barnstable a considerable number of lower paid inexperienced teachers replaced a large number of experienced teachers during the period of 1997 to 2001.

When we contrast enrollments to buildings, we get a pupil per building ratio. Barnstable and Pittsfield maintained the same pupils per building ratio in 2003. Pittsfield was at 517 and Barnstable was at 519. The next lowest ratio was 14 percent higher than Barnstable. The highest ratio was 707 children per building in Billerica. This ratio is more than 36 percent higher than the one in Barnstable.

Comparative School Districts Analysis Conclusions:

- **The educational activity of the Barnstable School District appears to be typical when contrasted against other Massachusetts communities with similar socio-economic characteristics.**
- **The district's new hiring trends will remain similar to those we saw from 1997 through 2001. We expect that experienced higher paid teaching professionals will not be common amongst future new hires within the district.**
- **The district will move their pupils to teacher ratio upward towards the ratios we see in the comparable districts.**
- **The district will move their pupils to building ratio upward towards the ratios we see in the comparable districts.**

Annalists' Findings and Conclusions (continued)

Enrollment Analysis:

Our models indicate a continued enrollment decrease can be expected. However, our estimates predict a slower decrease than previously anticipated may be at hand. Our study forecasts a diminishment of enrollment during the next ten years of about 7 percent.

Of note is the fact that children leave the public school system in every grade group from Grade 2 through Grade 7. This trend has been slightly more aggressive in the past three years than in the previous ten. Of note is the more recent trend of students leaving the system between Grade 4 and Grade 5. This most likely is the result of the students' opportunity to transfer from the village elementary schools to either the consolidated Grade 5 facility or to a non-district school. We also note that there has also been a recent (2 year) trend towards losing Grade 8 students. Historically there has been in-migration at this level.

We also see a new trend of substantial Grade 9 in-migration. We attribute some of this change to the district's new high school facility and the return of some students from both the Catholic and Commonwealth Charter middle schools located in the area. We see increased out-migration patterns in Grades 10 and 11. The average loss of students in Grade 12 appears fairly constant. We do note a particularly large in-flow of seniors in 1999 has impacted the averages.

We see a fairly stable group of Grade K- 4 students. The model indicates a group of 2,549 elementary students at the start of the 10-year forecast and a group of 2,505 at the end.

Our models anticipate various levels of decreased enrollments in all of the upper grade groups. The Grades 5 and 6 group is expected to decrease at a rate of about 9 percent during the next ten years. The Grades 7 and 8 student enrollment decrease is the most dramatic and is expected to be over 18 percent. High school enrollments are estimated to diminish by about 10 percent during the next 10 years.

We note that the average births per year have diminished over the past 15 years. The 15-year average is 509 children born per year. The most recent three-year average is 469 births. This represents an eight percent reduction in local births during the past 15 years.

Enrollments Analysis Conclusions:

- **The district has experienced a multi-year trend towards increased numbers of local students utilizing private and non-local public schools. A change in these educational patterns will stimulate a reverse trend towards increased enrollments.**
- **The district's last enrollment study conducted two years ago anticipated a nine percent enrolment decrease during the upcoming ten years. We now predict a seven percent reduction during the next ten years. The district should monitor enrollments, survival ratios and birth data annually to properly detect and plan for changing enrollment trends.**

Annalists' Findings and Conclusions (continued)

Current BSD Expenditure Analysis:

The BSD has experienced annual budget increases ranging from 3.8% to 7.19% during the period 1998 through 2003. The average annual increase was 5.5%.

Of note is the fact that in FY 2004 the BSD is facing the first appropriation reduction in its recent history. The FY 2003 final budget was just below \$51.9 million. Presently, the district will work with an appropriation of \$50.9 million during FY 2004. The reduction is just under two percent of the FY 2003 budget. We believe this reduction could signal the beginning of a new budgetary trend for the BSD.

We look for budgetary areas wherein management has discretion. We have noted multiple signs of trends in the district towards diminished expenditure budget discretion. We note that the final two areas of discretion we see available to the district's leadership are staff levels and facilities. We have not looked forward in order to determine when the use of these trends by the leadership will put the district into positions below the levels of similar communities.

Of note is the reduction in the other expense category this year. In FY 2001 this category was reduced after three consecutive years ('98, '99 and '00) of increases. The reduction came in the fiscal year immediately following the year during which an educational services override ballot question failed. That reduction was supplemented within the FY 2002 and 2003 budgets. In FY 2003 the funding of this category was at an all-time high of \$10.4 million. We note that this line is funded now in FY 2004 budget at \$9.7 million. This almost 7 percent reduction does contain budget reductions associated with the migration of Grade 6 into the charter school. We see this trend as another component contributing to the BSD's diminished discretionary budget.

Personnel:

Our analysis revealed an increase of Regular Education Instructional Staff (Teachers). Between FY 2001 and FY 2003 we see a gain of 18.7 full-time equivalent (FTE) teachers or an increase of about 4.6%. Of note are teacher reductions in Arts, Languages, Reading, Business and Technology. We see increased positions in the teaching categories of General, English, Physical Education, Health & Family Services, History/Social Studies, and Mathematics.

The bulk of these changes indicate to us that during the past three years the District has moved towards the delivery of a more traditional and less discretionary program of studies.

The sum total of the reported change in staffing levels during the past three fiscal years is about 68 FTE's or almost eight percent. The reported growth occurred on an equal basis during FY 2002 and FY 2003. We suspect that at a minimum, the FY 2002 and FY 2003 counts may need to be restated via revised reports to the DOE.

Annalists' Findings and Conclusions (continued)

Current BSD Expenditure Analysis (continued):

From our analysis we have also determined that the District has moved to a practice of hiring more certified employees with less experience. In FY 2001 only four of 131 new hires were reported as new to the profession. The ratio was about three percent. In FY 2002 the reported new to profession hires were 19 of 128 or almost 15 percent. Last year (FY 2003) the new to profession hires reported were 18 out of 82 or 22 percent.

When staffing schools, employees with experience and more professional credentials come at a higher cost. Within the largest cost center, when budgets constrict, management seeks to obtain more for less. Thus we see this developing trend within the BSD of hiring more employees that are new to the profession. This is further evidence of an emerging trend within the BSD towards a less discretionary personnel expenditures behavior.

We note a reduction in trend change in FY 2002. Both the number of reported teachers and our internally developed Pupils Per Teacher Ratios both began to reverse the continued upward trend we saw from 1997 to 2001.

The average teacher's salary data when properly presented illustrates a stable average salary trend for the district during the FY 2001 and FY 2002 periods. This is another trend change from the behavior we saw between 1999 and 2001.

This stable average teacher salary is further indication to us that the District is opting to use more teaching professionals that are new to the profession. This further confirms our theory that the District's financial position is moving them away from exerting any discretion in their hiring practices.

As noted earlier, the enrollments within the BSD have been diminishing. It appears that the total staffing levels have continued to increase. We believe that this trend appears as a result of faulty data.

We understand that the BSD has recently hired a new Human Resources professional. The BSD's elected and appointed leaders should continue to allocate the resources necessary to make improvements to the internal controls and the management information systems relative to this major portion of the district's expense budget. We anticipate management will rapidly need a much more adequate collection of this data during the upcoming budget season.

Other Expenses:

In keeping with our approach towards expenditure review as discretionary and non-discretionary we move to an area we describe as fixed costs. We agree some of the expenditure categories we include as fixed costs can be impacted by management and thus could be considered discretionary. However, we believe that the bulk of these expenditure objects are generally out of the District's control to a large degree.

Annalists' Findings and Conclusions (continued)

Current BSD Expenditure Analysis (continued):

We do note that the Town and the School District do not have a written agreement that defines the types and methods of calculations used to report the annual portion of the "Net School Spending" requirement that is expended within the municipal portion of the Town's budget. During times of limited resources this lack of documentation could result in contentiousness between the two parties. The Town Manager and the Superintendent of Schools should both sign this agreement. Until the document is filed, we expect that this procedural omission will continue to be a finding within the annual audits of the BSD required by the DOE.

The benefits expense has risen for the retiree group from about \$688,000 in FY 1999 to an estimated \$1.1 million in FY 2004. The increase is more than 62 percent in five years. The annualized trend has increased at a rate of 12.5 percent per year during the period.

The benefits expense for the active employees' group is up from \$2.0 million in FY 1999 to over \$3.45 million in FY 2004. This increase is up closer to 70 percent or about 14 percent each year over the past five years. The total cost estimated for the entire group during FY 2004 is now approaching \$4.6 million. As finances tighten, this major expense item continues to diminish the District's ability to exert any discretion over its annual expense budget.

As the use of charter schools progresses, the District's elected leaders and central office will continue to lose control over the remaining diminished discretionary portion of the District's total budget.

During FY 2004 the Town will spend about \$2.6 million local dollars to fund the education of Barnstable students attending non-town public schools. The Town anticipates that this level of local funds will exceed \$3 million by FY 2007. This increased non-discretionary spending further diminishes the District's capacity to control future local spending for education.

The bright spot in this area is the Choice program. This is one area where the District may be able to pick up some favorable budgetary impact. Given the enrollment estimates showing a diminished student body, the District may be able to attract non-local students to attend schools within the District. This would enable the District to acquire additional state funds in the form of tuition to finance the annual operations. In many cases the addition of children filling empty seats results in virtually no additional financial burden for the local District. The upside to this program comes when a child is added to a classroom for no incremental cost and the district is paid the sending district's annual per pupil cost.

Special Needs education (SPED) is another major portion of the local District's expenses. This area is again highly non-discretionary. Federal and state regulations drive this portion of the District's operation. In recent years this portion of the budget has accelerated. Much of the expense contained within this expense object is tied to the health care industry. As is the case with cost of benefits, this area has been ravaged by inflation over the past few years. Thus again we find less and not more local control in this increasingly larger area of local educational spending.

Annalists' Findings and Conclusions (continued)

Current BSD Expenditure Analysis (continued):

The final area of the budget that we believe offers management with little discretionary spending is the area of utilities. The District has historically budgeted for 13 buildings. The FY 2004 budget now contains funding for the operation of 12 buildings. We believe future increases in this budget area will continue to erode the District's limited discretionary funds.

Since FY 1999, the annual enrollments in the District have diminished. At the same time gross spending has increased. Thus the annual spending on a per pupil basis has trended upward. The level of per pupil spending has risen during the past three years by over 20 percent. On an annualized basis the district has increased its gross per pupil expenditures by about seven percent per year during this period. The change from FY 2003 to FY 2004 reflects a per pupil spending reduction of almost two percent. This could become a new trend.

From last fiscal year to this one, the high school budget has seen a reduction on a per pupil basis of a bit more than five percent. The new middle school configuration resulted in a per pupil budget reduction of greater than 22 percent. The elementary schools as a group are budgeted in FY 2004 at about eight percent less than they were last year. The only per pupil spending to increase in the District during FY 2004 is within the Horace Mann Charter School portion of the budget. This year the District has raised its budget allocation for this independent school to a per pupil spending level that is more than nine percent above the level of per pupil funds appropriated for those grades in FY 2003.

In the case of the BSD we have looked at instructional cost budgets over the past three years. We have seen an increased effort of spending in FY 2004 targeted towards the Hyannis and Osterville elementary schools as well as the Horace Mann Charter School and the high school.

Last year it appears that the elementary schools in Barnstable/West Barnstable, Centerville, Cotuit/Marstons Mills, Marstons Mills East, the Horace Mann CS and the two middle schools were the beneficiaries of increased instructional spending.

When we look at average spending during the last two years, we see the Osterville facility at the low end of the elementary level of discretionary spending and the two Hyannis schools at the top. The variance is more than 100% between the extremes of the discretionary per pupil spending within the district's elementary facilities. The demographics of these villages dictate the educational needs of the students. We suspect that our spending analysis reflects a leadership policy of elementary spending for needs.

Spending for grade five seems to replicate the level of elementary spending utilized in the Hyannis schools. We also see an 11% variance when we compare discretionary spending in the two middle schools. The Hyannis facility has seen funding at the higher level of the two.

Annalists' Findings and Conclusions (continued)

Current BSD Expenditure Analysis (continued):

Of note is the level of per pupil spending at the high school. On average this facility has been budgeted for discretionary spending at a level below the lower level schools located in Hyannis. We do note that athletic spending is no longer funded in the budget. In FY 2002 fees financed almost \$106,000 of athletic spending in the BSD.

The last area of discretionary spending we reviewed was transportation. This is an area where policy makers have both focused and struggled. Since FY 2000, it appears that the per-pupil spending in this area has been diminished by almost 14 percent or on an annualized average at about 3.5 percent per annum.

We believe that the true cost of transportation on a per pupil basis in the BSD during FY 2003 was \$358. FY 2003 was the first year the BSD utilized a transportation revolving fund. Fees paid by residents for transportation of students last year generated almost \$365,000 of revenue that was used to minimize the BSD's budgeted transportation costs.

Given the introduction of fees and a recent change in the bus schedule, we suggest that this budget item has now reverted to another of the non-discretionary portions of the District's budget.

Expenditures Analysis Conclusions:

- **The district has experienced a multi-year trend towards increased funding. Presently, in FY 2004 the district is budgeted contrary to the former trend. The school district has less funding available for operations in FY 2004 than they used during FY 2003.**
- **The district has experienced a multi-year trend towards increased staffing. We expect a staff reduction from FY 2003 to FY 2004.**
- **The district has experienced a multi-year trend of diminished discretion across their annual operational budget. We find that the primary areas of discretion left for the leadership are the number of facilities the district operates and the staffing levels contained within those facilities. We expect a multi-year trend of increased pupils per facility and increased pupils per teacher.**
- **The district has experienced a new trend towards expanded use of the Department of Education's Horace Mann charter school program. We have detected that an acceleration of this trend is emerging within the district. We believe that the lack of a master plan for this process will limit the leadership's ability to adequately develop the district's budgetary strategy for dealing with the difficult years that lie ahead.**

Annalists' Findings and Conclusions (continued)

Current Town of Barnstable Revenue Analysis:

Revenue/Other Sources of Funds

Within our revenue analysis we have seen an increased general fund budgeted use of non-recurring sources of funds. In FY 2000 and FY 2001 we saw an annual use of free cash in the area of one and one half to two percent of total spending. In FY 2002 and FY 2003 the use of Free Cash was almost doubled and ran in the range of 3.2 to 3.6 percent of the budget. We believe that this trend indicates a reduced fiscal capacity.

Taxation:

From FY 2000 through FY 2002, on average taxation generated about 71.5 percent of the revenue and other sources of funds required to meet Barnstable's annual general fund operations. The bulk of the taxation revenue is property taxes. Taxation of cars, boats and hotel rooms is a small part of the town's taxation revenue stream.

This portion of the funding has been trending downward as a percentage of the total general fund operational sources of funds. In FY 2000 this source of funding provided Barnstable with over 73 percent of its total funding. By FY 2002 this source was below 70 percent of the total.

We see a slight increase in reliance upon taxation in the FY 2003 and FY 2004 budgets. On average, the Town has estimated taxation will exceed 72 percent of total funding used for their operations both last year and this one. This may change once the fiscal periods are completed and the final use of fund balance (Free Cash) is determined. As more free cash is used to finance needs during the on-going year, the taxation portion as a percent of the total funding sources diminishes.

We suggest that within the property tax bill there are two portions. The voluntary tax portion and the involuntary tax portion. Since the commencement of the Massachusetts taxation law we refer to as Prop 2 ½, taxpayers have been allowed to vote to increase taxes above the legal limit set by the law.

In Barnstable we see a trend of two purposes for which local voters have approved increased taxation over the legal limits. One purpose we call environmental. These taxes include the funding for the Cape Cod Commission and the so-called "Land Bank." FAA also considers the purchases of parcels of land as an environmental purpose tax.

The second purpose for which taxpayers have voted to raise taxes we call educational. In 1990 the Barnstable voters approved an override for educational purposes. This is the only override ever allowed in the Town of Barnstable. Local voters have also voted to increase taxes in order to fund the renovation and construction of school facilities.

Annalists' Findings and Conclusions (continued)

Current Town of Barnstable Revenue Analysis (continued):

The total voluntary taxes billed by Barnstable in FY 2000 were \$9.17 million. In FY 2003 they were \$7.37 million. This represents a decrease of almost 20 percent. In FY 2000 the voluntary tax made up over 14 percent of the Town's total billings. The voluntary tax cost to an average single-family homeowner was \$339 that year. By 2003 the voluntary tax was about 10 percent of the total tax bill and it cost the average taxpayer \$277.

The primary reduction came in 2003 when the extra taxation for land purchased in the 1980's left the levy. Between FY2002 and FY 2003 the environmental portion of the voluntary levy dropped from \$4.21 million to \$2.96 million.

The effect of this diminished cost to the taxpayer was a reduced annual increase in their tax bill that year. The tax levy in Barnstable has increased about 4.5 percent per year on average between FY 2000 and FY 2002. The town has estimated an increase of 4.39 percent between FY 2003 and FY 2004. The increase between FY 2002 and FY 2003 was about 40 percent less than the normal change.

We make note of these rare occasional moments of reduced levies on the taxation calendar because they can be forecasted and then used by management as opportunities to ask taxpayers to consider retaining those voluntary taxation levels for some other worthy public purpose.

The bottom line is that taxation is the lifeline of Barnstable's operations. Between FY 2000 and FY 2004 it is estimated that taxes will have increased by about \$10.4 million or almost 16 percent. The educational portion of the voluntary component has remained flat. The environmental portion of the voluntary portion has diminished by over \$1.3 million or about 31 percent. The voluntary portion of the levy is down over the last four years by 14.5 percent. The reduction totals more than \$1.33 million.

The average homeowners' municipal tax bills have moved up almost 18 percent from \$2,419 in FY 2000 to \$2,733 in FY 2003. This can be contrasted to the Town's per pupil cost change from \$6,493 in FY 2000 to \$7,818 in FY 2003.

Of note is the fact that during FY 2000 it took all of 2.7 average Barnstable homeowners' tax bills to finance one Barnstable student's education. In FY 2003 it took all of 2.9 average Barnstable homeowners' taxes to pay for one Barnstable student's education. This indicator raises a grave operational concern. We believe that this trend indicates that the Town's largest source of funding is not keeping pace with the Town's largest cost of doing business.

Annalists' Findings and Conclusions (continued)

Current Town of Barnstable Revenue Analysis (continued):

State Aid

The largest source of Barnstable's non-taxation revenue is state aid. This category is second only to local taxation. From FY 2000 to FY 2002 this general fund revenue source grew from 13.6 percent of total funding to 15 percent of total funding. It is currently expected to fund about 13 percent of Barnstable's general fund activity in FY 2004. We believe the actual results for FY 04 will show less than 13 percent.

The state provides funding under various categories. Chapter 70 makes up the bulk of the state's effort towards local education. Lottery aid is the largest source of general government funding.

The reduction of state aid as a percentage of the general fund whole has been considerable during the past two years. The reason is two-fold. The first reason is the fact that this source of funds has diminished about 13 percent in total dollars since FY 2002. The second reason is the Town's increased use of free cash and other sources of funds.

We believe that the level of state aid to Barnstable will not change much up or down over the next few years. Thus, in the future we expect this revenue source to diminish as a percentage of the annual general fund financing mechanisms.

Local Receipts

Since FY 2000 the local revenues generated annually as the town conducts its business have diminished also. Local revenues peaked in FY 2000 at \$6.33 million. They are currently estimated to provide the FY 2004 general fund with revenues totaling \$5.76 million. The reduction in this funding source during the past five years is 9 percent or about 2.25 percent annually.

We do not expect any changes in the makeup of this revenue source. Nor do we see any accelerated growth within this income class over the next several years.

Other Sources of Funds

We have detected a trend in Barnstable towards greater reliance upon other funds. In FY 2000 special revenue funds fueled one tenth of one percent of Barnstable's general fund activity. In FY 2004 the source has tripled to three tenths of one percent.

Annalists' Findings and Conclusions (continued)

Current Town of Barnstable Revenue Analysis (continued):

The BSD has also introduced its own use of Special Revenue Funds. In FY 2003 the town created a transportation revolving fund for use by the district in conjunction with the cost of busing. The BSD expensed almost \$365,000 off budget via this fund last year. In addition some formerly budgeted school spending for athletics and music has been moved to revolving funds. All day kindergarten is also offered off budget to parents via the use of a revolving fund.

The final revenue trend we have detected in Barnstable's general fund activity is the increasing use of fund balance.

In FY 2002 the use of this resource was almost doubled. The town voted to use \$3.88 million of surplus to operate that year. This source of funds went from providing about 2.1 percent of the total funds used in FY 2000 to fueling 3.6 percent of the Town's FY 2002 spending activity.

This recent trend of using more non-traditional methods for funding the Town's general fund activity is another that raises a concern. The use of non-recurring revenue sources to finance operations is generally seen as a short-term solution to a short-term or one-time problem. We note that in Barnstable many of these uses of alternative funds are strategically planned. For instance, the Town has pension reserve funds and capital financing funds in the trust fund group of accounts.

However, we do not believe that this funding trend can continue for an indefinite period of time. The longer an organization continues to grow operational costs into their base budget via the use of non-permanent funding sources, the larger and more invasive are the expense budget cuts required at some time in the future when the non-recurring funding sources are gone.

Revenue Analysis Conclusions:

- **The district has experienced a multi-year trend towards increased state funding. At this point in FY 2004, the town has budgeted contrary to the former trend. The town expects to receive reduced state aid between FY 2003 and FY 2004. We expect this trend may continue for at least another year or possibly two years. At best the town can only anticipate level funding from the state into the short-term future.**
- **The town has experienced a multi-decades trend towards supporting voluntary taxes as allowed under the state's so-called "Proposition 2 1/2" laws. We detected a trend towards voluntary taxation only for spending designated to protect the local environment and spending designated for local education. We expect little change in this trend.**

Annalists' Findings and Conclusions (continued)

Current Town of Barnstable Revenue Analysis (continued):

- We detected a trend indicating that Town's largest source of general fund revenue (Taxes) is not keeping pace with the Town's largest cost of doing business (Education). We expect that trend will continue and the gap between the two will continue to widen during the next several years.
- We detected a trend of reduced local revenues. Over the next several years we see stability but no growth in this area of the town's revenue budget.
- We detected another trend, which indicates to us that both the Town and the BSD have maximized their uses of other sources of funds during the past couple of years. We see increased uses of other sources of funds both as transfers into the general fund and as off budget expenditures within the special revenue, trust and enterprise funds. We are aware that the Town is presently considering the advantages of creating one more enterprise fund. However, we believe that the local leaders have maximized fees allowed by law and conditioned by affordability. We expect no increased capacity exists within this area of public finance.
- We have detected a trend of increased use of special revenue funds. This has been driven by increased state and federal grants. We believe that the federal and state governments will sharply amend their recent past trends of generosity in the area of revenue sharing. We anticipate that this past source of relief to the stresses placed upon general fund budget is at best diminished and at worst is gone.
- We have detected a recent trend towards the use of fund balance (free cash) to underwrite Barnstable's general fund operations. This financial tactic is a further indication to us of the Town's lack of future fiscal capacity. We concur that the current practice of using the Town's fund balance (surplus) that is in excess of the required level of reserves to maintain the level of services while mitigating voluntary tax increases is appropriate.
- We suggest that new fund balance trends are coming into play. We believe that the town's decreased revenue capacity and their reduced operating budgets will both work to vaporize the past trend of reasonable annual year-end surpluses. We believe that the town will need a voluntary tax increase at some point in the future in order to sustain the current level of governmental services being delivered to the inhabitants of Barnstable today.