

Town of Orleans Finance Committee
Fiscal Year 2018 Annual Report and Letter to the Town

Introduction

The Town of Orleans Finance Committee (“the Committee”) is charged by the Town Charter to provide an independent review of issues affecting the financial position of the Town and the taxpayers. This responsibility includes publishing an annual report and letter to the Town and the taxpayers highlighting the work that the Committee has conducted during the current fiscal year. Over the past few years, the emphasis of the Committee’s annual letter has been to identify the financial risks facing the Town of Orleans. This year, the Committee’s letter is focused on the challenges and opportunities related to the Operating Budget, Capital Planning and Investment and Additional Revenue Sources.

Orleans may be considered the quintessential resort Town, boasting lovely beaches and a Cape Cod League baseball team among its many amenities. But the amenities that attract thousands of visitors to our Town during the summer are also the source of the financial dilemma facing the Town: how to provide a high level of Town services to two different populations. Basically, we have a small taxpayer base (approx. 6,000) having to provide and maintain an infrastructure necessary to support the peak demands of a much larger summertime population of approximately 19,000. Police, Fire and Rescue, and Natural Resources must all be sufficiently staffed to provide for the health and safety of all our summertime guests. Roads, water and wastewater systems must be designed to accommodate peak summer demand. Clearly, the financial stress of a seasonal economy has its impact on the Town’s taxpayers.

In the summer, service jobs are plentiful, but it can be difficult finding work in the winter. Full-time residents may have to balance multiple jobs at varying hours in order to provide a sufficient household income. The tourist influx also impacts real estate values. Seasonal properties can garner attractive, in-season rentals and support our

residential and commercial tax base, but they can also raise housing values. Given the seasonality of employment opportunities, year round residents are hard-pressed to find affordable housing. Town employees often reside in neighboring towns, or have left Orleans for better paying jobs elsewhere. While Orleans provides excellent educational and recreational opportunities for young families, housing values can make it tough for families of moderate income to maintain a residence here.

Operating Budget

In the past, it has been the policy of the Board of Selectmen to limit spending growth with a view to maintaining a property tax rate believed to be “affordable” for the average Orleans taxpayer. This has principally been achieved through spending cuts and deferred spending. The proof-point is that Orleans continues to enjoy one of the lowest tax rates per assessed value in the Commonwealth. But such a policy has its shortcomings. This budget policy operates without regard to actual spending needs as determined by department heads and other Town officials.

The current Town budgeting format does not allow for any meaningful analysis of the actual costs of delivering individual services. Nor has there been any meaningful attempt at a zero-based budgeting process. So, on balance, while maintaining a limitation on operating fund expenditures, there is no inherent mechanism to measure the impact of this budget discipline. The Town offers a wide array of services to its taxpayers. Many of these services are of a critical nature for the well-being of its taxpayers; many others are critical for the upkeep of the Town itself. Managing the operating budget specifically oriented to the tax rate ignores the fact that cuts in the operating budget to meet that goal will sooner or later result in the denial of some of these services. And if such painful choices become necessary, there is no method available to differentiate among the various Town services to insure that critical Town services are maintained at an acceptable level.

The ancillary costs of Town government will further limit the flexibility of the operating budget. A variety of state, county, insurance and healthcare assessments increased

from \$5.4mm in FY 2018 to \$5.7mm in FY 2019 (a 7% increase). And the expenses associated with the Town's Other Post-Employment Benefits (OPEB) liability are to be addressed in a Warrant Article, which will authorize a process to fund these anticipated costs over the next 30 years. Clearly, the demands of the operating budget on property tax revenues are many, varied and increasing.

Capital Planning and Investment

In addition to managing the day-to-day delivery of services to the Town residents, the Board of Selectmen and the Town Administration also bear the responsibility for managing the Town's infrastructure and maintaining the Town's capital assets.

In its annual letter to the Town in 2016, the Finance Committee cited the difficult and expensive challenges facing the Town in the near future. The list included the need for a new police station and DPW facility, the need to address the condition of the beaches and the problem of installing a wastewater infrastructure. Since that time, the Town's taxpayers have been responding to these challenges. The police station has been completed and the DPW facility and the downtown sewer system are under construction. So as we look back we can say that much has been done. The financing of the debt required for the police station and DPW facility was established last fall at terms very favorable to the Town and to the taxpayers, but the impact on the tax rate has not yet been felt. Much of the proposed increase in property taxes from FY'18 to FY'19, from a rate of \$6.63 to a rate of \$7.52 per thousand dollars of assessed value (an increase of 13%) is due to a substantial increases in debt service (from \$4.3mm to \$6.9mm - a 59% gain, although Budget guidelines for departmental budgets increases are limited to 2.5%).

Clean waters are an essential element of Orleans' seaside heritage. Financing for the sewer system to restore these waters is another challenge awaiting us. It is anticipated that much of the costs of the comprehensive wastewater project can be financed with a 0% loan from the Commonwealth's State Revolving Fund, providing the taxpayers with a significant interest cost saving and further mitigating the Town's risk of rising interest

rates. Never-the-less, the Comprehensive Water Resource Management Plan (CWRMP) will be a major investment in time and money. After years of delays, the taxpayers are being called on now to move this important project forward. Taxpayers at Town Meeting are being asked to take a major step and approve the funds necessary for the next phase in the CWRMP implementation.

A series of storms brought record-setting high tides which severely damaged Nauset Beach late this winter. We all mourn the loss of Liam's Snack Shack as a result of the substantial erosion those storms brought to our shores. But if nothing else, Mother Nature demonstrated the cost of doing nothing. The Town's original plan for Nauset Beach had envisioned a phased, three year program of reinforcing the back of the dunes, relocating the Administration building, and using the Hubler property for additional parking. The destructive winter storms greatly accelerated the need to protect the beach and the Selectmen initiated an emergency program to relocate the gazebo and stabilize the remaining dunes to protect the Administration Building, existing parking lot and the septic system under the parking lot. With time not in our control, it will require a continued commitment of resources to mitigate the impact of increasing high tides on our most prized asset and the foundation of the Town's economic base, just when those resources are already stretched thin. "Time and tide..." as the saying goes; it turns out we have way more tide than we have time.

Additional Revenue Sources

As we prepare to meet these financing challenges, yet another challenge awaits: the need to find additional funding sources to augment Town revenue and reduce the burden on the property tax. Traditionally, the Town has relied on its property tax levy for a substantial portion of its operations. However, the scope of the costs facing the Town provides impetus for the Town to reconsider this strategy, and to identify substantial additional revenue sources net of the cost to implement them, to relieve this property tax burden.

Aside from the property tax, there are other tax regimes that are also available to the Town. However they are by and large not under the control of the Town and have only a limited impact on Town finances:

1. Vehicle Excise Tax - although collected by the Town, the excise tax rate is established by the state. This tax is a function of the valuation of the vehicles registered in Orleans. (\$1,145,000 est. for FY'18)
2. Meals Tax - the Town collects an additional 1% on meals served at local restaurants. (\$340,000 est. for FY'18)
3. Hotel/Motel Tax - the Town currently collects 4%, with the option of increasing this to 6%. (\$234,000 est. for FY'18)
4. Gasoline Tax - is collected by the Commonwealth, and reimbursed to the Town.
5. Sales tax - is collected by the Commonwealth. No direct benefit to the Town.
6. Alcohol/tobacco taxes - collected by the Commonwealth. No direct benefit to the Town.

Other state aid includes distributions for construction, reconstruction or improvements to Town roads and bikeways and distributions from the sale of lottery tickets, which are intended for educational purposes.

Enacting additional taxes is the purview of the Massachusetts legislature. A tax on short-term rentals of private residences has been much discussed and has the potential to raise significant revenue for the Town. The State Legislature is currently considering a number of bills to implement such a tax. It is hoped that such legislation is enacted shortly.

One additional tax that has been enacted and is available to the Town is a tax on retail marijuana sales. Brewster, in a recent special Town meeting, approved the licensing of retail marijuana establishments and can collect up to a 3% impact fee, in addition to a 3% tax on retail sales, all of which will go into their general fund to reduce taxes. While

an emotionally charged issue, this revenue source could be significant and Orleans should consider the financial impact related to permitting such establishments.

User fees are an additional source of Town operating fund revenues. While non-resident parking fees at Nauset and Skaket beaches provide a substantial revenue stream, estimated at slightly more than \$1,250,000 for FY'18, as currently established they do not cover the beach operating costs, leaving a deficit that could run as high as \$300,000 for this fiscal year, a deficit that is subsidized with property tax revenues. The loss of rental payments from Liam's will only increase that deficit. Either by instituting resident parking fees or raising non-resident fees, the beaches should be positioned to operate as a self-sustaining enterprise.

The Transfer Station is a similar enterprise. Although the current policy is to fund 80% of operations from fees, increases in the cost of waste hauling and a decline in recycling revenues have impeded the implementation of this policy. But for FY '19, even if that level of funding is achievable, the operations at the Transfer Station will produce a shortfall of nearly \$140,000, which, again, is subsidized with property tax revenues. Either by increasing fees or switching to a "pay as you throw" system, the Transfer Station should generate revenues to at least cover its direct costs of operation.

The Town also has a whole menu of 368 user fees, under the jurisdiction of 15 different Town boards, agencies and commissions. Fees under the jurisdiction of the Board of Selectmen (86) are limited to an annual 5% cap, unless otherwise approved by Town Meeting. There needs to be a comprehensive policy to assess user fees to insure that they are kept current and consider the cost of the services provided.

As another area of potential opportunity for additional financial support of the Town, the Finance Committee would encourage the Selectmen to work with the Town Administrator to establish an effective grant pursuit protocol to be followed by all Departments as appropriate, including regular reporting on pursuit efforts and results. Last year's Revenue Committee identified millions of dollars of state and federal grant

money received by other Cape Towns over the past few years - grant money that Orleans might have been eligible for but did not pursue.

The point of the Finance Committee's recommendations is to encourage a discussion in the Town of Orleans to address the Town's pressing financial needs. And while the needs may not be measurable yet, they are never-the-less real. And the options are limited. Without some combination of new tax revenues, new grant awards and increased user fees, the Town's property tax rate will continue to be the only vehicle to support these foreseeable cost increases.

Respectfully submitted,
The Orleans Finance Committee

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