

Town of Orleans Finance Committee
Fiscal Year 2020 Annual Report and Letter to the Town

Orleans has made significant investment in its public facilities and services over the last several years -- but these improvements come with a price tag. In the five years to Fiscal Year (FY) 2020, annual property tax collections have increased by \$10.3 million or at an average annual pace of 10%. Looking forward, the annual property levy is projected to increase by \$10.5 million by FY 2025 or at an average pace of 7%. The table below shows property levy and tax rates from FY 2016 to FY 2025.

Property Tax Levy and Tax Rates FY2016 – FY2025

| | Actual | | | | | Projected as of 5-1-2020 | | | | |
|---------------------------------|--------|--------|--------|--------|--------|--------------------------|--------|--------|--------|--------|
| | FY2016 | FY2017 | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 | FY2025 |
| Property Tax Levy (\$MM) | \$22.3 | \$24.3 | \$26.3 | \$30.3 | \$32.6 | \$34.3 | \$38.5 | \$40.3 | \$41.3 | \$44.8 |
| Tax Rate | \$6.46 | \$6.33 | \$6.63 | \$7.40 | \$7.56 | \$7.68 | \$8.41 | \$8.54 | \$8.55 | \$8.97 |

Sources: Town of Orleans Annual Budget FY2021, Tab 2, p. 2.14; Financial Plan FY2021 – 2025, 5/1/20

Property taxes generate approximately 75% of the Town’s funding sources. Fees and other revenues contribute the other 25%. These taxes and fees fund Operating Expenses and, generally, Capital Improvements debt. For each \$1,000,000 of new net Operating Expense and/or debt service, the annual property tax of a residence increases by nearly \$24 per \$100,000 of assessed value. For example, if a home is valued at \$500,000, the property tax goes up by \$120.

Operating Expenses fund the day-to-day functioning of the Town and are those related to its administration and services. They include salaries, fringe benefits and pensions, utilities, maintenance, debt service and schools.

Capital Improvements, with useful lives in excess of one year, pay for projects such as the new Police Station, the Department of Public Works Facility, the new Wastewater System, and the Nauset Beach reconfiguration. Such projects are typically funded with debt, spreading the project’s costs over years. When a capital project is designated in the Warrant as “debt exclusion”, that means it will be funded by debt over the life of the project and, if approved, that will increase the tax rate. In either the June or Fall Town Meetings, we will be voting on several Capital Improvement projects funded with debt, including components of the Town’s Comprehensive Water Resources Management Plan as well as the Fire Station HVAC Improvement project.

However, the COVID-19 virus pandemic could have a significant impact on our tourist-based economy. We have already seen a decline in beach parking revenues, resulting in across-the-board spending reductions among Town agencies and departments this spring. As of this writing, we do not know how long economic activity will be limited. Summer rental activity will certainly be less robust than in past years; short-term rental tax revenues and meals tax revenues will suffer. The beach deficit will surely increase. For businesses that have at best a three or four month window to generate sufficient sales to support them through the lean winter months, this summer will likely determine their chances for survival. All this will increase the pressure on the Town’s budget.

Over the past few months, the Town has responded with a herculean effort to protect the health and safety of the Town's citizens. The response of the Fire and Police Departments, the Department of Health, and the Council on Aging (among others) has been extraordinary. The array of people who keep this Town functioning - and functioning well in all circumstances - including a COVID-19 pandemic - are what make this Town special. We need to ensure that we are providing sufficient compensation and tools to enable these public safety personnel to continue to perform their services at a high level.

In response to the anticipated financial impact of the COVID-19 shutdown, the Town's Finance Director recently submitted a recommendation to the Select Board for necessary next steps to allow the Town to maintain its financial reserves and, thus protect its credit rating. During the summer, following the June Town Meeting, we will be able to see what is happening to our tourist economy. This will give Town management time to make further adjustments to the FY21 Budget to off-set any further emerging shortfalls. Broadly, the goal will be to reduce reliance on free cash and evaluate actual revenue trends against the current Budget's assumptions and projections. This will lead to further recommendations for adjustments to the FY21 budget for residents to vote on in the Special Fall Town Meeting.

Also during the summer months, the Select Board and others will address longer term financial challenges and how these can be financed. Consideration will likely be given to the reduction of services and increases in fee-based revenue. While such short-term actions are essential, we must start the reexamination of our longer-term vision now. Our current Comprehensive Plan has served its purpose. It was issued in 2006 and is overdue for an update. A new 2021 Comprehensive Plan - with a focus on Economic Development - would identify long-term priorities and business development, leading to job opportunities. It would allow taxpayers to make informed decisions on Operating Expense increases and capital expenditures. However, such a Comprehensive Plan has a prescribed process that takes years from Select Board initiation to Town Meeting final approval to beginning of implementation. Make no mistake, the impact of the virus pandemic could have a significant impact that does not allow us to take years to rethink the Town's future. The process should start now with an Economic Development plan that can begin implementation within FY21.

While we feel that it is imperative for the Town to address the anticipated pressure on its finances, we feel that the taxpayers should not have to shoulder this burden alone. This is no time for business as usual. Expenditure reductions, such as the ones that will be examined over the summer, will enable the Town to strengthen its balance sheet to withstand a financial nor'easter of unknown strength or duration. Acting now with immediate adjustments and a new operating plan will allow us to weather the economic fallout of COVID-19 into FY22 and perhaps beyond.

Respectfully submitted,
The Orleans Finance Committee

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