

Town of Orleans Finance Committee Fiscal Year 2021 Annual Report and Letter to the Town

Since mid-March of 2020 when the COVID pandemic was officially recognized as a worldwide threat, the Town has responded with a herculean effort to protect the health and safety of the Town's citizens. The response and initiative of all Town Departments in the past year has been extraordinary. The people who keep this Town functioning and functioning remarkably well help to define what makes this Town special. We recognize and thank all Town and school employees who created and implemented new approaches to sustain both current and new services despite the pandemic.

How Did We Do Financially in FY20 and FY21

Despite concerns last spring, the Town finished FY20 last June on budget - in part due to Operating Expense belt-tightening in May and June that netted reductions of over \$1 million. Local Receipts, which include various user fees and local taxes (eg, hotel/motel taxes and meals taxes) also came out ahead. Then, during the summer months of FY21 and into the fall, the Select Board conducted fiscal stability workshops to identify and address the Town's longer term financial challenges. Results of these workshops included the adoption of financial policies to provide further financial stability for the Town - specifically, channeling Free Cash into the Town's General Stabilization Fund. These workshops also resulted in a recommendation to implement an Enterprise Fund structure for several Town Departments. Enterprise Funds are fundamentally accounting changes intended to report Revenues and Expenses associated with a particular set of Town services to provide transparency to the full cost the Town incurs.

At the Special Town Meeting in October, a revised FY21 budget was approved with a budget reduction of \$263,490. The FY21 tax rate was finalized at \$7.84 - up from \$7.56 in FY20.

FY22 and Beyond

In October 2020 the Town Finance Director alerted Town officials that the Town could face a \$773,000 override. Departments were asked to submit budgets that were 2.5% less than the budgets that would normally have been submitted (ie, including union contract-driven salary increases plus any necessary Operating Expense increases). For some Departments, this meant cutting resources or services. This effort was successful; by January 2021 the projected override was no longer needed. Subsequently, the Select Board began to add back some of these earlier cuts and provided for additional resources that hadn't been considered as part of the Budget process. Some good news has come in too - lower-than-anticipated increases or even decreases from the Nauset District, Orleans Elementary School, and Cape Tech - and a lower-than-anticipated increase in county-driven fringe benefits. The final impact of changes to user fees is yet to be determined, pending Town Meeting approval.

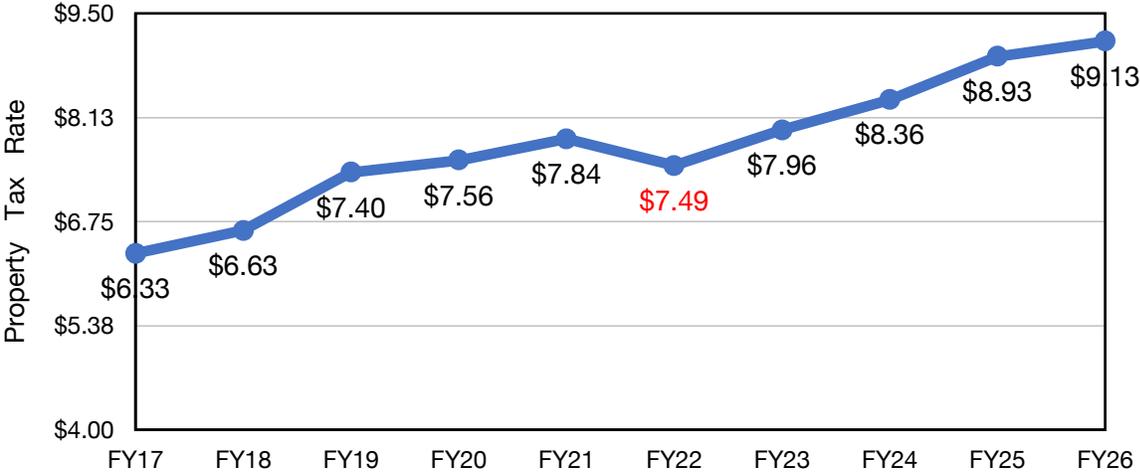
The table below shows the property tax levy and tax rates from FY17 thru FY26 as of April 1, 2021.

Property Tax Levy and Tax Rates FY2017 - FY2026

	Actual					Projected				
	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Property Tax Levy \$ Million	\$24.3	\$26.3	\$30.3	\$32.6	\$34.5	\$33.9	\$36.8	\$39.3	\$42.8	\$44.6
Tax Rate	\$6.33	\$6.63	\$7.40	\$7.56	\$7.84	\$7.49	\$7.96	\$8.36	\$8.93	\$9.13

The graph below shows actual FY17 to FY21 and the projected FY22-FY26 property tax rate trend. The Property Tax Rate is currently forecast to drop from \$7.84 / \$1,000 in FY21 to \$7.49 / \$1,000 in FY22 and resume an upward trend in the subsequent years.

Property Tax Rate - Historical and Projected



In FY22, Property Taxes provide 73.5% of Town Revenue; the remaining 26.5% comes primarily from various user fees. These taxes fund Town Operating Expenses, Schools, and Capital Improvements debt service. For each \$1 million of new net Operating Expenses and Debt Service, the annual property tax of a residence increases by nearly \$24 per \$100,000 of assessed value. The resulting property tax increase, for example, on a \$500,000 home would be approximately \$120 per year.

A tax study performed by Town Assessor Brad Hinote and Town Treasurer/Tax Collector Scott Walker last October noted that all other Cape towns have seen 20-40% increases in their average tax bills over the past 5 years as well. The increase in the Orleans property taxes in recent years can be directly attributed to the Town’s decision to invest in infrastructure and wastewater improvement projects in the past several years. His

analysis concluded that with regard to property taxes, Orleans tends to be consistently at the higher end of the assessed value rankings, at the lower end of the tax rate and household income rankings, and at or near the middle of the average tax bill rankings.

It is also important to note that in FY21 Town officials have been successful in securing just over \$1.2 million in grants to offset a portion of current and future expenses. An additional \$93,838 in CARES Act funding has also been received as reimbursement of 75% of the total eligible COVID-related Town expenses from July 1 through December 30, 2020.

This Year's Warrant

This year's Warrant includes an Operating Budget of just under \$37.7 million, plus the budgets for 5 new Enterprise Funds. For this first year of using Enterprise Funds, two of the five – the Beaches and Moorings – are self-sufficient, with estimated revenues covering estimated expenses. For two more – the Rock Harbor Boat Basin and the Transfer Station – estimated revenues cover just over 60% of estimated expenses and thus an appropriation will be needed from the General Fund to cover the remaining 40% of their costs. For the fifth Enterprise Fund – Sewer Operations – the shortfall (with no Year One revenue) will be covered by the Wastewater Stabilization Fund, which in turn is funded by the Town's local option rooms excise tax.

The FY22 Warrant also includes a number of recurring articles such as funding for CPA Program Projects (\$1,455k), the OPEB Trust Fund (\$450k), the Affordable Housing Trust Fund (\$275k), the Town's stabilization funds for Buildings & Facilities (\$350k), Water Quality Drainage Improvements (\$192k), the Town Pavement Management Program (\$384K) and Vehicles & Equipment (\$450k down from \$570k). Additional Capital Projects – other than Water Department projects which are funded by water rates – total over \$4 million and include the purchase of the Governor Prentice Properties (\$2.925 million) and funding for the Mill Pond Landing Restoration (\$350k) and the Meetinghouse Pond Sewer Design (\$658k). However, consideration for several major projects will be deferred to the fall Special Town Meeting. These deferred projects include the Fire Station Renovation/Addition Design (\$750k), the Pleasant Bay Dredging Project (\$750k), and the \$4 million Phase 2 Construction work on the Nauset Beach parking lot and beach access from the Hubler property. None of these additional projects are included in the projected \$7.49 tax rate for FY22.

Each year, the Finance Committee meets with Department Managers to review their budgets and operating plans for the upcoming Fiscal Year. The reports summarizing these meetings can be found on the Finance Committee web page.

Looking Ahead

Last year we emphasized the need for updating the Town's Comprehensive Plan, with an immediate focus on Economic Vitalization which would help to identify long-term priorities and business development and job opportunities. Article 45 provides funding for a

Downtown Economic Study (\$60K). We urge you to support this first step toward revitalizing the Downtown/Village center area.

Additionally, Orleans needs a longer range, more consistent and more inclusive planning process that incorporates all components of the Town's infrastructure. Such a plan would conform with a Town-wide Economic Vitalization Plan. Both might consider the timing, location, and funding for a new or expanded Fire Station or Library, or even a Community Center. Importantly, we need to further our investment in the Council on Aging (COA). The median age for Orleans residents is approximately 62 years. Many of our residents rely on the COA for regular hot meals, transportation to medical appointments, and simple social interaction.

The need for appropriations in this year's Operating Budget extends to additional critical activities. Orleans is defined by its spectacular waters – Nauset, Skaket, Pleasant Bay, freshwater ponds and lakes. A community-wide conversation must provide the foundation for a strategy to protect these precious resources. Short-term and long-term, our waters require continuous attention, financial and otherwise.

Conclusion

The Finance Committee recommends approval of the FY22 Budget and Capital Budget and the FY23-FY27 Capital Improvements Plan. We also urge you to support the Enterprise Fund budgets included in the Warrant.

The Finance Committee recognizes that Orleans needs additional sources of revenue. Supporting Economic Vitality that could generate additional hotel/motel/meals taxes, would help. Other forms of taxes, such as a new real estate transfer tax, deserve serious consideration. Regularly scheduled events such as music, film, and other cultural activities could add new revenue for the Town and the local economy.

Respectfully submitted,
The Orleans Finance Committee

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April 1, 2021