

# Finance Committee 2012 Report

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Dear Town Voters,

The Finance Committee is pleased to present to the citizens of Orleans the Committee's 2012 Annual Report on the current financial condition of Orleans and the future fiscal outlook for the Town. Under the Orleans Town Charter, the Finance Committee is charged with independently examining and analyzing the financial affairs of the Town and informing Orleans citizens of the Committee's findings and recommendations. This report highlights the findings of the Committee's analysis of proposed budgets, the Capital Improvement Plan, and other proposals having financial implications for the Town, and presents the Committee's recommendations regarding challenges that we believe the Town must be prepared to address to sustain the future financial health of our community.

The members of the Finance Committee take their responsibilities as set out under the Charter very seriously and are committed to making informed judgments concerning the fiscal condition of the Town on behalf of all of our constituents. Accordingly, the Committee this year focused on improving its understanding of municipal finance practices and the roles, responsibilities, and operations of Town Departments and key committees as they impact Town spending. The knowledge gained through this effort has provided the Committee with a fuller appreciation for both the near-term and future fiscal challenges that we face and reinforced the Committee's dedication to pressing for long-term planning to position the Town to effectively meet those challenges.

## **Fiscal Conditions**

The Town of Orleans current fiscal condition is very good. The Town maintains its AA+ bond credit rating -- a rating which puts Orleans in the top 5% of Massachusetts communities. The Town's Fiscal Year 2011 audit concluded that the Town is "financially stable," noting that the Town has consistently budgeted to meet annual operating needs and has achieved or exceeded Bond Rating Agencies' fund reserve metrics that determine a municipality's credit worthiness and attractiveness to investors. In Fiscal Year 2013, the Town will continue and expand initiatives to further improve its fiscal and operational performance, by expanding the formal documentation of financial policies and procedures; initiating the development of a written fraud policy and an internal audit process; and, subject to action by Town voters in May, increasing funding of its General Stabilization Fund, an action which will further increase the Town's investment appeal.

Nevertheless, while we fully expect some continued improvements in the fiscal condition of the Town over the next year, there are some continuing impediments to achieving this objective. On the revenue side, while the rate of reductions in State and Federal aid to the Town has slowed, no significant up-turn in aid is anticipated. However, at the same time, state and county assessments have continued to rise, increasing by \$37,000, or 8%, from Fiscal Year 2011 to Fiscal Year 2012, and by \$11,000, or 2.1%, for Fiscal Year 2013. Moreover, federal and state grant-in-aid programs, which over the years the Town has tapped successfully for additional funding for police, fire, highway, and Open Space programs, among others, have been cut back sharply and, in some cases, terminated.

On the bright side, the meals tax was budgeted to bring in \$230,000 in Fiscal Year 2012, and, through the third quarter of the fiscal year, has produced actual receipts of more than \$238,000. State reimbursements to the Orleans Elementary School and the Town's share of the Nauset Regional School District budget increased significantly during Fiscal Year 2012 and should exceed the budgeted amount by more than \$500,000.

As regards expenditures, Town leadership and staff have served us well in their efforts to control spending through such actions as inter-departmental sharing of staff and the use of contractual employees where such actions could be taken without compromising the quality of services

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delivered; adopting health insurance redesign plans that will achieve a net reduction \$260,000 for the first year and greater savings in the ensuing years; authorizing refinancing of bonds that over the life of the bonds will produce savings of \$600,000 for the Community Preservation Committee's Open Space Program and the Town Water Department.

But, there are other macro and demographic factors that also impact the health of the Town that need to be considered explicitly. While economic data indicates that the country continues to emerge from the fiscal crisis that began in 2008, individuals' perceptions of their own personal financial well-being remains poor. The rate of inflation is 2.87 percent, up by .76 percent from the rate at this time last year. Incomes from wages, pensions, social security, and interest income are frozen in place. Fueled further by escalating worries about the jobs market, housing prices, health care costs, and rising gasoline prices, individuals remain skeptical about their economic future.

This skepticism is reflected in Orleans where citizens across the economic spectrum are coping with rising real costs of necessities such as food, heating fuel, and gasoline. Moreover, many of our citizens are caught in the squeeze between rising costs and fixed or reduced income. Interest rates remain at low levels, and negatively impact not only the Town's revenue picture, but the disposable income available to residents who are dependent upon investment income as their primary source of support for their living expenses.

With a steadily declining share of state and federal tax dollars being returned to us, taxes and fees paid by Orleans citizens directly to the Town comprise an increasing percentage of revenues available to support Town government and its operations. In addition, while Orleans' tax rate has been stable for many years, and remains one of the lowest on Cape Cod, increased spending for capital projects that are on the horizon can be expected to begin to drive costs upward. The challenge of Town leadership is to maintain the financial health of the Town while not increasing the real economic stress felt by its citizens.

### The Numbers

#### *The Proposed Fiscal Year 2013 Budget*

The Fiscal Year 2013 budget that will be presented to Orleans voters for their consideration during the May 7, 2012, Town Meeting, reflects a 2.8% increase over the previous fiscal year, rising from \$29,229,000 for Fiscal Year 2012 to \$29,937,000 for Fiscal Year 2013. The Budget for Fiscal Year 2008 was \$26,029,000. Over the previous six years, Orleans' budget has increased by 15.0%. In that same period, property tax revenues have increased by 22 %.

The major sources of Revenue for Fiscal Year 2013 and Fiscal Year 2008 are listed in the table below.

Source of Revenue	Proposed Fiscal Year 2013		Actual Fiscal Year 2008	
	Dollars	% of Revenue	Dollars	% of Revenue
Property Tax	\$22,332,000	75.0%	\$18,358,000	70.5%
Local Receipts	\$ 4,383,000	14.6%	\$ 4,087,000	16.0%
Motor Vehicle Excise	\$ 876,000	2.9%	\$ 1,145,000	4.4%
State Aid	\$ 452,000	1.5 %	\$ 773,000	3.0%
Hotel/Meals Tax	\$ 455,000	1.5%	\$ 193,000	0.7%
Free Cash	\$ 700,000	2.3%	\$ 659,000	2.5%
Other	\$ 925,000	3.0%	\$ 1,014,000	3.9%

Likewise, we made the same comparison in expenses for Fiscal Year 2012 and Fiscal Year 2008.

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Expenses	Proposed Fiscal Year 2013		Actual Fiscal Year 2008	
	Dollars	% of Expense	Dollars	% of Expense
Salaries and Benefits	\$12,138,000	40.5%	\$11,008,000	42.0%
School Expenses	\$ 7,884,000	26.4%	\$ 7,186,000	27.6%
General Expenses	\$ 3,502,000	11.7%	\$ 3,320,000	12.8%
Debt	\$ 2,921,000	9.8%	\$ 2,272,000	8.7%
State and County Assessments	\$ 517,000	1.7%	\$ 466,000	1.8%
Capital Outlay	\$ 880,000	2.9%	\$ 622,000	2.4%
Community Preservation	\$ 637,000	2.1%	\$ 524,000	2.0%
Special Articles	\$ 1,433,000	4.8%	\$ 295,000	1.1%

### *The Capital Improvement Plan*

The Capital Plan for Fiscal Year 2014– 2018 provides the taxpayers with a plan of the estimated cost and timing for Capital Projects that the town is considering. The approval of the plan is not a commitment to spend money as each project must be approved subsequently at Town Meeting in the year it is to be funded.

The Capital Improvement Plan to be presented at this year's Town Meeting totals \$47,750,000. The breakdown of the Capital Improvement Plan is:

Fiscal Year 2014	\$ 1,675,000
Fiscal Year 2015	\$42,550,000
Fiscal Year 2016	\$ 625,000
Fiscal Year 2017	\$ 2,450,000
Fiscal Year 2018	\$ 450,000

### **Meeting Future Challenges**

Orleans is rich in history, charm, and natural resources; it is unique in its composition and character. Our Town has much to offer its residents and visitors. We have access to bay, ocean, and fresh water ponds. We have many conservation areas for walking and enjoying open space. Our parks are plentiful and well maintained. Our Cape Cod Baseball League team draws fans from across the country.

Town services are of the highest quality, maintained by a cadre of dedicated employees who work hard to provide for the needs of our citizens and visitors. With a median age of 60, services for our senior residents especially are in great demand. The Orleans Council of Aging serves that community well with an extensive and diverse array of programs, including senior day care, care giver support, exercise classes, social gatherings, lunches, and access to assistance for health-related issues; tax preparation; Medicare; and legal issues. At the other end of the age spectrum, our educational offerings are excellent. In 2011, Nauset High School, with 99% percent of its seniors graduating, ranked number 5 among the top 20 high schools in Massachusetts that have the highest graduation rates. To date, 87% of students in the class of 2012 already have met the Competency Determination requirement for graduation. In 2011, the most recent year for which this information is available, more than 90% of Nauset High School graduates went on to pursue some form of higher education. The Orleans Elementary School's outstanding programs are one of this community's most significant assets in drawing young families to our Town.

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But, the challenges facing Orleans are significant as well. Like most of the towns on the Cape, Orleans' population is declining, down by 7.1% from the 2000 to the 2010 Census. Moreover, the average age of that population continues to rise as the Town experiences a decline in the number of young people in Orleans. Orleans does not have a large business base and the lack of well paying jobs to attract a younger population and the relative high cost of housing on the Lower Cape, which younger people cannot afford, threatens to undermine the Town's business community and labor force. The majority of our tax revenues are from residential property. The businesses we do have are under constant pressure to remain financially sound with our declining population. In addition to a declining population, many year-round residents leave Orleans for warmer climates for months at a time. This puts further pressure on our businesses as they try to maintain stable services through extreme swings in demand from a low in the winter months to a high in the summer with seasonal residents in full force. Local realtors report that most individuals currently purchasing homes in Cape towns do not plan to establish permanent residency on the Cape.

### **Critical Issues: Planning for the Long-term**

Economic stressors and constraints create the risk that the annual budget cycle will become focused on a yearly exercise in balancing revenues and expenditure. The need to contain costs when resources are scarce should not outweigh the importance of long-term strategic thinking about spending priorities. The fiscal challenges of the future will be significant. To meet these challenges, the Finance Committee believes that the following must be undertaken as priorities:

- Town leadership must sustain a focus on improving its capacity for managing the debt burden. Debt principal and interest payments remain the Town's fastest growing expense. The debt for Fiscal Year 2012 rose by 30% over Fiscal Year 2011, and the debt burden is 10.5% of the total expense. Debt will decline by 4.8% in Fiscal year 2013 due mainly to strategic refinancing of debt. Looking out 2 years, our debt burden in Fiscal Year 2015 is projected to be 14.0% of our expenses. As noted above, recent refinancing of Water Department and Community Preservation Committee bonds will reduce the Town's debt obligations for those projects by more than \$600,000 over the next 10 years. Last year Town voters approved the creation of stabilization funds to finance the Town's water quality drainage improvements and town pavement management initiatives instead of bonding to pay for these important programs. This year, Town voters will be asked to approve the pre-payment of principal on an additional Open Space bond, which will reduce the number of years to the bond's maturity and the amount of interest paid during that period. The Finance Committee has supported each of these actions and believes that they are tangible evidence of the Town leadership's commitment to reducing the Town's debt burden overall and the amount of that debt that is financed through bonding. However, as we concluded in our Report last year, we foresee a near-term escalation in pressure on the Budget and Capital Plan to accommodate increased spending to support wastewater management plan design; Town facilities repairs and maintenance; vital roadway and other infrastructure improvements; and a stepping up of funding set aside to pay down unfunded Town Post-Employment Plan liabilities. Decisions regarding the financing of major capital expenditures, must be carefully scrutinized for their long-term impact on the ability of the Town to maintain its critical infrastructure and economic health.
- Payments against the Town's unfunded liabilities for employee pensions and other retiree benefits must be accelerated. Currently, the unfunded pension liability is \$16,000,000 and our retirees' other post employment benefits (OPEB) have an accrued liability of \$28,200,889, for a total obligation of \$44,200,889. The pension liability is currently being

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funded by the Town on a basis determined by the state. At this year's May Town Meeting, voters will be asked to approve the establishment of a stabilization fund for the OPEB so that funds may begin to be set aside as a reserve for payments against the Town's future liability. The Finance Committee fully supports this action and is hopeful that Town voters will concur. The recent actions of Town leaders to shift retirees to Medicare; redesign the Town's Group Health program; and pursue the possible reduction of the Town's contribution to employee health care may result in reductions in the amount of this liability, but, that amount will remain significant, and the Town cannot afford to delay in its efforts to begin to fund the obligation.

- Declining enrollment and increasing expenses are threatening the long-term sustainability of our schools. Over the past 10 years, the under-18 population in Orleans has declined by 25.5%. Our partners in the Nauset Regional School District have not fared any better. Brewster's decline is 24%; Eastham's decline is 35%; and the Wellfleet decline is 24.7%. Orleans has a history of providing generous support for its schools, most recently with the approval of an override for schools in Fiscal Year 2011 and the authorization of funding to support the Nauset Regional High School's Green Repair project later that year. In a Town where the vast majority of its residents no longer have school age children, this fact reflects the great value that the Town places on providing high quality education for its children. But, if school enrollment continues to decline while the schools simultaneously seek greater funding for their operations, that commitment may be tested and Town residents may be forced to make difficult decisions regarding the level of support they are willing to provide for their schools. At the same time, citizens also must be willing to entertain proposals by school officials to achieve reductions in programs without compromising the services provided. A proposal advanced earlier this year by the NRSD superintendent to drop one undersubscribed classroom in the District's program for preschool children with special needs was abandoned when that proposal was challenged by parents and school committee officials in the NRSD. While the concerns of parents certainly must be considered in any plans to significantly alter the services that are being provided for their children, the Finance Committee believes that the superintendent's proposal, which would have produced savings of \$123,650 in funding for salaries, merited greater consideration than it was given. The Nauset Regional School Committee this year established a sustainability committee to begin to explore a broad range of issues with implications for the long-term sustainability of its schools, including improving NRSD schools' communications with Towns' leadership and citizens and increasing transparency in its decision making. The Finance Committee is pleased to be represented on that committee and looks forward to the opportunity to work with school officials on these important issues.
  
- The Finance Committee believes that Town leadership has taken important steps this year that hold the potential for better preparing this Town to shape a long term strategy for meeting two of its most critical infrastructure goals -- the repair and maintenance of town facilities and the implementation of an affordable, effective wastewater management plan.
  - *Town Facilities Repair and Maintenance*. Last fall, the Town leadership contracted for the development of a Town buildings and facilities master plan which was completed in February of this year. The scope of that work was to carry out a review of the conditions of seven Town facilities and develop a 10-year plan and budget for completing repair and maintenance projects identified by consultants for that study. Town leadership also will ask voters this May to approve the creation of a

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stabilization fund for the purposes of financing building and facility maintenance and authorize an initial transfer of \$365,000 into that fund. While the Finance Committee would have liked to have seen the scope of the study encompass all facilities owned by the Town, that work nevertheless has provided the Town with invaluable information for its consideration in moving forward to address the infrastructure improvement issues in the buildings that were examined. But, in the Finance Committee's view, the most important work is yet to be done. The Committee believes that the Board of Selectmen should turn their attention first to prioritizing repairs and maintenance needs identified in the study and targeting the most critical of those needs, in particular, those affecting the health and safety of Town citizens and employees. The Finance Committee believes further that in setting its priorities, the Board should consider the long term outlook for those buildings which were found to be in the worst condition and identified as requiring the most extensive, involved and costly repairs. The Finance Committee believes that no further substantial investments should be made in repairing any building that the Town may abandon in the near term. Finally, the Finance Committee supports the creation of a building and maintenance stabilization fund and is hopeful that that Town voters see fit to approve this proposal in May. At the same time, the Finance Committee would object strongly to the use of any monies deposited in the stabilization fund this year to supplant funds that have been designated for facilities repairs and maintenance in the Fiscal Year 2013 Town budget. Every effort should be made in this critical transition year for this important infrastructure initiative to direct as many dollars to improving the condition of Town facilities as available resources permit.

- *Wastewater Management Planning.* For Orleans citizens, few issues rank higher on their list of priorities for attention by its Town government than actions aimed at preserving the health of the Town's natural resources. For nearly a decade and a half, Orleans has been engaged in the development of a comprehensive wastewater management plan (CWMP) and follow-up activities to move that plan toward implementation. The release of the draft CWMP in the spring of 2009 initiated community-wide discussions concerning the potential cost of that project and its financial implications for Town homeowners as well as several citizen-initiated reviews of the conditions of Orleans water bodies and alternative strategies for meeting water quality improvement targets. Most recently, the Board of Selectmen contracted this past fall for a technical review and cost analysis of comprehensive wastewater management plan options, which report is scheduled for completion in July of this year. Next fall, the Town is planning to hold a Special Town Meeting specifically to address matters related to wastewater plan implementation.

While some may view activities directed at reassessing the Town's wastewater management strategy, as unnecessary or counterproductive, the Finance Committee believes that collectively these activities have promoted a healthy and productive second look at what will prove to be the largest capital investment the Town will ever make. Time has passed since the CWMP was completed, conditions have changed, and the advent of new technologies has broadened the array of options available for meeting municipal wastewater management goals. Evidence is growing that the targets set for water quality improvement for Town water bodies on which the CWMP was based should be revisited and that there may be more efficient and

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less costly strategies for meeting the Town's wastewater management needs. "Measure twice, cut once," an old adage advises. A cut in error in this context could mean millions expended and the failure to achieve the lasting improvements in the health of our water bodies that we all want. The Finance Committee believes that the technical review and cost analysis study together with a reassessment of water quality improvement targets will produce the information needed to enable the Town to perfect its wastewater management plan and move forward on this important initiative.

- Finally, we believe that the Town leadership must take steps in the near future to begin a dialogue on the implications of demographic changes on the services needs of Orleans citizens as a foundation for evaluating services availability, adequacy, and accessibility for the future. With fewer, but older, full-time residents, a dearth of well paying jobs, and the lack of affordable housing, the Town may be faced with the loss of a viable business community and labor force -- the future workers, trades people, and business owners in Orleans. As a result of the diligent efforts and creative thinking of the Town's Planning Department and its Community Preservation and Affordable Housing Committees, the Town now is in a position to move forward with two projects that will significantly increase the number of affordable housing units that are available to Orleans Citizens. And the Town's Village Center Study proposes a number of improvements that hold the potential for creating jobs and increasing commerce by making that area more attractive to businesses and visitors. But, these actions will only scratch the surface of what may be needed to begin to draw young families to our Town in any significant number. Jobs, child care, schools, transportation, and access to health care services all will be critical considerations for young families in determining whether they can become part of the Orleans community. We must have a thorough understanding of the implications of these demographic changes on our community and begin to plan aggressively to address them.

### **Conclusion**

Orleans is a beautiful Town that takes pride in its natural resources; cares about its citizens, visitors and employees, and is dedicated to preserving and enhancing the quality of life that we all enjoy. But, it is not immune to the economic, environmental, infrastructure, demographic, and regulatory stressors that municipalities across the country are dealing with today. In order to maintain all that is unique and treasured about our Town, we must work intelligently and with foresight over the next few years to find sustainable and affordable ways to meet our needs. We are confident that, through leadership, planning, and careful management of our resources, this can and will be done.

### **Respectfully submitted,**

**Gwen A. Holden Kelly, Chair**

**Dale K. Fuller, Vice Chair**

**William Weil, Secretary**

**Edwin W. Barr**

**Mark E. Carron**

**Laurence K. Hayward**

**John G. Hodgson III**

**Paul Rooker**

**Rick Sigel**