

Town of Orleans Finance Committee
Fiscal Year 2022 Annual Report and Letter to the Town

In the past 12 months, Mother Nature has reminded us several times of her importance in our lives - blasting through Town with Hurricane Ida in early September and then returning in late October with more Big Wind that knocked out power for much of our Town for several days. Then back with more Big Wind in mid-January as a “teaser” for the Blizzard that followed on January 29. Through all of this, the response and initiative of all Town Departments has been extraordinary. As noted last year, in reflecting on the Town’s response to the COVID pandemic, the people who keep this Town functioning and functioning well, truly define what makes this Town special. Our thanks again to all Town and school employees who help to keep us safe and well, day-by-day, year-by-year.

FY23 and Beyond

Last November, as part of the FY23 Budget process, the Town Administrator asked each of the Department managers to submit a 5-year look-ahead worksheet to identify programs and resources needed to support future growth potential, including the personnel and the operating costs by year and the reasons for the proposed increase (e.g., regulations, increased service demand, increased efficiency, succession planning, etc.). Through that process, a number of immediate needs were identified and justified, including the need for an assistant facilities manager, a second mechanic and an assistant town planner. These three positions, with benefits, could cost \$285k or more. However, none of this funding was included in the draft Budget.

Although the Nauset Regional School District (NRSD) enrollment figures were published in mid-October, the impact of the shift in the school population on the Town Budget was not recognized by Town Hall until late February, after the draft Budget was presented to the Select Board and the Finance Committee. This shift, which changes the allocation of the NRSD budget (increasing the Orleans share from 19.08% to 21.07%), created a \$630k deficit in the Town’s draft Budget - which will likely need to be addressed with a general override, subject to Town approval at the ballot box in May.

Town officials met in early March with the NRSD High School Building Renovation Project team regarding the status of the project and its funding. The bid opening for the project is scheduled for June 1, 2022. The District plans to issue a Bond Anticipation Note (BAN) for \$12M for 3 months to cover the cash flow from June 1, 2022 until September 1, 2022 at an estimated interest rate of 1.75%. The interest due on the BAN in September has already been accounted for in the draft Budget. Once the bid results are known, the NRSD will notify the District towns regarding the Bond amounts to be issued (\$85M-\$100M+) and the terms of the Bond (25 or 30 years). The District towns would then review and vote on the NRSD recommendation. The Town’s 5-year Financial Plan currently includes a “place holder” amount of just over \$1M per year for this debt service, beginning in FY24.

Enterprise Funds

Last year’s Budget included, for the first time, the funding of five new “Enterprise Funds”, allowing the Town to establish a separate accounting and reporting mechanism for a number of municipal services for which fees are charged in exchange for services provided. With this new system, these revenues and expenditures are segregated into separate funds with their own financial statements, rather than being commingled with the revenues and expenses of the Town’s other activities. To support each of these services, the Town may choose to recover the total costs through user fees, through a tax levy subsidy, or through the appropriation of other available funds. This year, as last year, the Enterprise Fund budgets for Beaches and Moorings are

targeted to be self-supporting, with no additional taxpayer subsidy required to “balance the books”. However, both the Rock Harbor Boat Basin and the Transfer Station Enterprise Funds need additional taxpayer subsidies from the Town Budget (the General Fund) to close the gap. The Sewer Operations Enterprise Fund is supported by the Wastewater Stabilization Fund, with no additional subsidy required. However, none of these Enterprise Funds pay their own way with regard to debt service. All of the debt service is still paid through the Town’s General Fund and property taxes.

Debt and Taxes

During the February 17, 2022 Public Hearing on the FY24-FY28 Capital Improvements Plan (CIP) and the FY23 Capital Budget, the Finance Committee asked the Orleans Finance Director about the Town’s Debt limit and how the Orleans debt compares to other towns. The most current data available from the State’s Division of Local Services showed that in FY20, Orleans had a total outstanding debt of \$47.93M with a debt limit of \$225.78M. The “debt limit” is defined by state law as 5% of the “equalized value” of the city or town - which means 5% of the fair cash value of all property in a city or town subject to local taxation (thus not school or town property). In FY20, Orleans ranked 122 in the list of the State’s 351 municipalities in “Debt as a % of Limit”.

But there are other metrics that might be more relevant to our residents and taxpayers. Using the same data available from the State’s Division of Local Services, you can see that our debt service (the principal and interest that we pay for the funds borrowed by the Town) has tripled in the past few years from \$2.4M in 2016 to \$7.3M in 2020. Of those 351 towns in Massachusetts, Orleans ranked #2 in percentage of annual budget spent on debt (20%) and #1 in debt service per capita (\$1,153/person). In the Town’s recently published “Debt Book”, the average per capita income in Orleans in 2020 was \$45,720 and the median household income was \$73,778 (per Federal Census Bureau data).

Other data in the Town’s “Debt Book” shows that as of June 30, 2021, the “required principal and interest payments on outstanding general obligation bonds” is just over \$50M and that “currently, the Town has approximately \$16.4M in authorized unissued debt” for nearly a dozen municipal projects. The per capita debt as of June 30, 2021 noted in the “Debt Book” is \$6,782. All of these figures are likely to increase, with major capital improvements planned over the next 5 years totaling more than \$100M in the CIP approved at last year’s Town Meeting. However, a number of potential projects are not yet included, such as the new fire station, a community center, a new or expanded library, as well as subsequent phases of wastewater solution strategies. The Finance Committee firmly believes that the Town must develop a reporting system to show the potential increase in annual funding needs to support these known-but-not-yet-counted projects.

Here is how we stacked up against some of our neighbors, using the 2020 data available on the State’s Division of Local Services website (the most recent data available):

2020 Comparative Statistics - Orleans and Neighboring Towns						
	Orleans	Brewster	Chatham	Eastham	Harwich	Wellfleet
2020 Budget - millions	\$36.65	\$39.90	\$40.10	\$29.90	\$73.50	\$21.40
Debt Service - millions	\$7.3	\$2.2	\$6.1	\$4.1	\$10.9	\$1.7
Population	6,307	10,318	6,594	5,752	13,440	3,566
Debt Svc. per capita - \$	\$1,153	\$205	\$919	\$718	\$814	\$480
Rank in State	1	129	3	8	4	26
Debt Svc. as % of Budget	20.0%	5.3%	15.2%	14.0%	14.8%	8.0%
Rank in State	2	148	65	11	7	77

Orleans relies on its revenue stream from taxes, fees and grants to fund Operating Expenses and to service the Debt necessary to meet Capital Improvement needs. As noted above, in 2020 Orleans had the highest debt service per capita in the Commonwealth. Debt service consumed 20% of the Town's Budget, second highest in the Commonwealth. The Town relies on debt to fund needed and wanted capital projects. The resulting debt service is paid from Town Revenues and thus limits the Town's financial resources to fund expanded Town services and reduces financial flexibility to address unexpected needs.

For FY23, Property Taxes are expected to provide about 74% of Town Revenue with the remaining 26% coming primarily from various user fees. This revenue funds Town Operating Expenses, schools and Capital Improvements debt service. Based on the draft FY23 Budget provided in mid-January, the estimated tax rate for FY23 will be \$7.45. Based on draft Budget information, for each \$1M of new net Operating Expenses and Debt Service, the annual property tax of a residence would increase by about \$21 per \$100,000 of assessed value. The resulting property tax increase, on an \$800,000 home (the current median value in Orleans) would be approximately \$168 per year. Note, however, that these estimates are based on the draft Budget and don't include the potential impact of an NRSD-related general override or a myriad of Warrant Articles.

But what most of our taxpayers care about is the tax bill, not the tax rate. They care about the impact on their wallet, on their bank account. Yes, Orleans tends to be consistently at the lower end of state-wide tax rate rankings - but the Town is also at the lower end of household income rankings and at the higher end of assessed value rankings. As noted above, the Town's average per capita income in 2020 was under \$50k. Our demographic includes young families and low- to middle-income households of all age groups. We need to be very careful to ensure that we aren't pricing our next-door neighbors out of Town by continuing to raise taxes to pay for long-delayed and much-needed infrastructure and community-focused projects. We need to find alternative funding sources for projects that are more wants than needs.

Planning and Communication

How are we going to pay for all of our anticipated needs? Right now there are a number of "studies" underway in Town - the Economic Development Study, the Community Center Study, the Gov. Prentice Properties "Re-Use" Study, the Fire Station Feasibility Study and the Snow Library Strategy Study. The Warrant also includes an Article requesting funding for a Blue Economy Study. Further, the Affordable Housing Committee is planning to hire a consultant to update their 2017 "Community Housing Plan" and the Planning Department/Planning Board is talking about updating the Town's 2006 Comprehensive Plan. But which, if any, of these studies and updated plans, will include a revenue component - a chapter on funding or fund-raising for any recommended solutions? And how will the results of all of these studies be combined in a thoughtful, affordable Town-wide plan? How will the good ideas and the capital requirements be tied to revenue and funding requirements and thus to an estimate of the Town's future debt? We must coordinate all of these planning and study activities and prioritize recommended actions to meet our longer-term needs and aspirations while we consider their affordability. Adopting an effective framework for channeling the good ideas identified in the Town's numerous studies should be helpful, and identifying funding strategies supported by transparent analytics is critical for our future.

Our Town has a lot of new planning activity underway. We applaud this trend. However, we strongly recommend confirming and clarifying the roles and responsibilities for coordinating and leading the overall planning effort to support unified town-wide planning and manage likely-overlapping or even competing priorities, and maximize the value of the time and energy spent by various consultants, Town employees and countless Committee and Board members. This

could also help to provide more effective communication with Town residents, businesses and visitors to ensure that all voices are heard and that all are aware of outcomes and impacts.

Funding

What about revenue? Who in Town is leading the effort to identify new/additional sources of revenue for the Town - beyond simply increasing taxes? Are we actively pursuing a real estate transfer tax? What is the potential timing of marijuana revenue - FY23 or FY24? And when will who decide how best to use that revenue? In 2019, Town Meeting voted to allocate 100% of the short-term rental tax to the Wastewater Stabilization Fund. After 3 years, this allocation could be reconsidered, perhaps sharing the wealth of this revenue source with other needs in Town. What about looking for opportunities to re-purpose the use of underutilized Town properties - perhaps renting space for off-season boat storage? With deed restrictions on some Town properties, perhaps these could be reconsidered, for the greater good? How do we establish or enrich endowments for some of our cultural/other facilities such as the Library and the Council on Aging? State funding won't be available for a new Library for possibly decades. But if we want it - we're going to have to figure out how to pay for it - whether a new/expanded Library or a Community Center or right-priced housing for our firefighters and police officers who by contract are required to live within a certain distance of their home stations. At the same time, we need to maintain a delicate balance - planning for and funding our future - while still being mindful of the needs of all in our demographic - not just their needs for programs and services, but also their needs for economic stability.

Conclusion

To move forward effectively, we need to establish well-defined responsibilities and accountabilities, with clear objectives and timelines. We need to identify and execute revenue strategies. We need to care for and maintain the Town's assets - not just the infrastructure and buildings and facilities but also our Natural Resources and our Community. We need to set and continue to re-set our priorities - re-setting our sails as the winds shift. And we need to communicate more effectively, more often with all stakeholders - residents, businesses, Town employees and visitors.

Despite our concerns about the lack of a well-defined long-term capital planning process, and our concerns about the likely impact on the tax rate and the Town's debt portfolio, the Finance Committee recommends approval of the FY23 Budget and Capital Budget and the FY24-FY28 Capital Improvements Plan.

Respectfully submitted,
The Orleans Finance Committee

Lynn Bruneau, Chair

Nick Athanassiou, Vice Chair

Tim Counihan, Clerk

Elaine Baird

Christopher Kanaga

Ed Mahoney

Louis Ciavarra

Constance Kremer

Peter O'Meara

April 1, 2022