



Town of Orleans

Finance Committee

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Memorandum

To: Andrea Shaw Reed, Chair, Orleans Select Board

CC: Members of the Select Board

John Kelly, Town Administrator

Cathy Doane, Town Finance Director

Re: Enterprise Fund Evolution, Policies, Procedures

Date: November 17, 2022

We have just begun the FY24 budget cycle, the third for which Enterprise Funds will have been in place. Over the two years since Cathy Doane first introduced the concept during the summer 2020 Finance Workshops, all of us, including the voters, have developed a better understanding of the true cost of these “Enterprises”: Transfer Station, Beaches, Moorings, and Rock Harbor. The same will happen when the Sewer Enterprise Fund becomes fully operational. We have also learned a lot about how these funds work and we have discussed how to provide even more transparency regarding Enterprise Fund-specific costs to the taxpayers.

With this note, the Finance Committee members outline their current thoughts about next steps that could be taken to achieve improved transparency for each fund’s costs to the taxpayers. During today’s meeting we reviewed this memorandum and voted unanimously to send it to you, the Select Board. We are, of course, open to a dialogue on further improving these observations and suggestions with your input.

As background, we want to convey how we arrived at this point. First, at our June 23, 2022, Fin Comm meeting, we had an excellent discussion with DPW Director Tom Daley and Natural Resources Manager/Harbormaster Nate Sears regarding Enterprise Fund (EF) operations, management, and accounting. Then, we reviewed the EF-related material included in Cathy Doane’s August 31, 2022, presentation to the Select Board on FY22 Financial Results as well as her responses to Fin Comm questions regarding EF accounting as described in her presentation. Further, each month we review the EF Appropriations report and the “Comparison of EF Estimated Receipts” report. We also refer to the FY23 EF budget material and to the EF budget-related Warrant Articles in the May 2022 Warrant and to the Town’s EF Policies for FY22 and FY23. Finally, we referred to EF-related guidelines that are included in MA GL Ch. 44 Section 53F 1/2 and provided by the State’s Division of Local Services and the DLS “Municipal Glossary”.

Another important consideration is that we are now half-way through the first 3 years of these initial EFs, defined and approved by Town Meeting in October 2020, to take effect beginning July 1, 2021. Once established, EFs are meant to “live” at least 3 years before they can be “sunset”. Therefore, this is an opportune time to take a good look at what we’re doing - and make some course corrections if/as appropriate.

Fin Comm's observations and suggestions can be sorted into two broad categories - financial integrity and transparency, and business planning and management. Given the current calendar - with many competing priorities for Select Board and Town Hall time and attention - the best place to start would likely be with financial transparency, accepting full well that a number of the "business" considerations might impact the FY24 EF budget process.

Financial Considerations/Recommendations

- Per the DLS: "Enterprise accounting allows a community to demonstrate to the public the total cost of providing a service by consolidating all of the program's direct and indirect costs, debt service and capital expenditures into a segregated account". The EF budgets, as shown in the Warrant, should include debt service as a line item, rather than isolating this information in the text of each Warrant Article.
- Ideally, departmental transfers and indirect cost allocations would be posted monthly rather than on or about July 1, with these allocations adjusted as appropriate during the year as circumstances change (e.g., with a shift in resources/payroll costs).
- Any changes to EF budgets (whether revenue or expenses) other than intra-budget changes, should be appropriately reviewed and approved. Currently, Town Meeting approves the EF budgets annually. It should be clear who has the authority to revise these budgets mid-year. At this point such authority is not clear.
- The EF Policy should be clearly presented prior to annual EF budget adoption and posted on the Town website. The Policy currently is EF-specific in part regarding user fees and subsidies, debt service and funding of future capital projects, and then more general regarding retained earnings, indirect costs, and CIP-level capital planning.
- The use of EF "budgeted surplus" funds should be clarified. Is this meant to be a mechanism for funding EF Vehicles & Equipment, for example? Or is this a "rainy day" fund to help cover revenue shortfalls?

Business Considerations/Recommendations

- Each of the Town's EFs is essentially a "business". As such, each should have an operational plan which typically goes out 5 years, and for start-up operations such as our EFs, aims to a steady state of profitability (in EFs, break-even or subsidy). As noted above, each of the Town's EFs is half-way through the first 3 years of start-up. We should be assessing each of these EFs and determining whether all or some should continue - and at what cost to the users (fees) or the taxpayers (subsidies). It may be that one or two of these EFs may not continue as currently defined.
- In the June 23, 2022, Fin Comm meeting with Tom Daley and Nate Sears, Fin Comm suggested a broadening and clarification of the "definition" of the "Moorings" EF. As currently defined, "Moorings" is "responsible for the issuance of 1100 permits, maintaining mooring waiting lists and enforcement of mooring regulations." Yet there is a seemingly out-sized allocation of interdepartmental costs and indirect costs as well. A good portion of the Harbormaster cost is allocated to "Moorings" - but waterways safety is not included in the "Moorings" EF definition. This could be addressed as part of the FY24 Budget process. Arguably, a redefined "Moorings" EF could include all the town's direct activities aimed at making our waterways accessible to the town's citizens and visitors.
- In that same meeting, Fin Comm also recommended that each of the EFs develop an "asset management plan" similar to that developed and maintained by the Water Department (that can be thought of as a pseudo-EF) - long-term capital plans, reviewed annually, with a 5-to-15-year horizon. A work session could address a strategy for developing and maintaining these asset management plans, leveraging existing inventories/plans wherever possible.

- Businesses set pricing to affect customer behavior and develop products and services to support customer needs/desires. In these early days of the Town's EFs, the focus is primarily on day-to-day operations and less on (business) strategy. A work session on strategy could help to determine the future for each of the Town's EFs.
- Businesses "seasonalize" their revenues to ensure revenue/expense alignment. The current financial reporting for the EFs does not provide for "seasonal" accounting. Is this something that could be developed from MUNIS?

We would be happy to work with you in addressing any / all these issues leading to a refinement of our EF policies and procedures. Perhaps a course of action could be a "huddle" of one or two Select Board members with two or three Fin Comm members and possibly the Finance Director to help confirm priorities and outline an execution strategy.

Thank you for your consideration.

The Finance Committee,

Nicholas Athanassiou, Chairman
Christopher Kanaga, Vice-Chairman
Elaine Baird, Clerk
Marilyn M. Bruneau, Chairman Emerita
Timothy Counihan

Constance Kremer
Alisa Magnotta
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