

Town of Orleans Finance Committee Fiscal Year 2023 Annual Report and Letter to the Town

Ten years ago, the May 2013 Finance Committee Report in the Town Meeting Warrant suggested that 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... 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... Voters expect Town leadership to achieve a reasonable balance between managing debt and spending to meet critical needs to which they have assigned a high priority."

Since then, our Town has made progress moving toward a planning-based decision-making process. We have been moving away from relying on a few to recognize intuitively our "critical needs," a process that often delayed or cancelled projects important to the progress of our town. Instead, our Town's needs assessment has started transitioning to a process that is more transparent and inclusive and prioritizes citizens' needs and wants, based on thoughtful, in-depth study. Importantly, our Town is transitioning to new Administrative Leadership for the first time after 26 years.

The new Town Manager appointment is likely to have been completed by the May 2023 Town Meeting. Our new Town Manager will find several recently completed or well-under way studies spanning Economic Vitalization, the New Fire Station, the Recreation Department Reorganization, a Community Center, the viability of our Elementary School, and a new Library. Importantly, the Orleans Comprehensive Plan revisioning and revision process is under way.

Our Town's renewed emphasis on quality-of-life investment, considered under-valued in the past, supports our efforts towards affordability. There are several affordable and other housing initiatives underway. Some are supported by Town funding (e.g., the Pennrose project at the former Cape Cod 5 Operations Center on West Road and the smaller project at 107 Main Street - site of the former Masonic Lodge). An article in today's Warrant will allow for the conveyance of the Gov. Prence properties to a developer as part of our investment in affordable housing. Other projects are initiated by local developers, e.g., the project at the former Underground Mall and private initiative projects in or near Downtown that convert existing properties to increase density.

Other quality-of-life projects are in the planning stage as well. This year's Warrant includes an article to support a feasibility study for a new Library, a required step in applying for new library state grant funding. Then, the recently completed Community Center Study recommended a "Community Life" approach that integrates management and expansion of the Town's recreational and cultural programs before any final decision on an actual Community Center facility. Another study is underway to see how the athletic fields and other properties along Eldredge Park Way between the Regional Middle School and the Orleans Elementary School might be reconfigured/redesigned to maximize the value of all that space for the schools as well as Orleans residents and visitors. And another school-related study - an "asset and accessibility" study - to determine the useful life of the Orleans Elementary school. This study will allow us to assess the cost effectiveness of continuing to repair an aging building, or to consider other options that also factor in the careful consideration of enrollment trends.

Drawing on recommendations from the recently completed Recreation Department Reorganization Study, the Interim Town Manager has initiated specific action steps that were approved recently by the Select Board. These steps include separating the Recreation Department from the Department of Public Works and putting a plan in place in time for the 2023 summer season until a new full-time Recreation Director is hired. This plan will be implemented with transition support from the Town's Council on Aging Director who oversees recreation programs for seniors.

A final component of quality-of life emphasis concerns the health and safety of our residents and visitors. Funding for the design of a new Fire Station has been postponed until Fall Town Meeting. In the meantime, the Select Board voted to support the Fire Department's application for a FEMA "SAFER" grant which could fund up to 8 additional firefighters/paramedics. This would provide 2 additional resources for each shift - helping to address the challenges of multiple simultaneous calls, e.g., calls for ambulances that often must be met through mutual aid with neighboring towns. Such calls often leave the Orleans Fire Station with no firefighter or EMT coverage. The Finance Committee sent a letter to the Fire Chief in early January, supporting the grant application and the critical goal of increasing firefighter/paramedic staffing.

Strategic Planning

Another of the Finance Committee's top priorities, a focus of our Warrant Letters for the past four years, is Strategic Planning. The Town needs an up-to-date Strategic Plan, a concise document that provides an overall map of Vision, Mission and Strategic Goals and Objectives derived in context of the overall socio-economic profile of the Town and Cape Cod. Our Planning Board, recognizing the Strategic Planning need, has begun a revision of the Town's 2006 Comprehensive Plan (updated in 2019) which will address the Cape Cod Commission's regional planning policy, tailored to the specific needs of the Orleans community over a 20-year horizon. The goal is to have this plan completed by the end of calendar year 2024. This updated long-range plan will include specific Action Plans and specify Measures of Success towards defined Strategic Goals and Objectives.

The updated Comprehensive Plan will incorporate the key components of recent studies mentioned above: the Economic Vitalization Plan, the Community Center Study, the Recreation Department Reorganization Study as well as the update of the 2017 Housing Study (getting underway), and Library Feasibility Study. The work of the soon-to-be-formed Long Term Capital Planning Committee would also be recognized in the Plan, matching short- and long-term financial planning to strategic planning.

We agree with this approach. Additionally, we recommend that each study commissioned by the Town, including the Comprehensive Plan where appropriate, should specify accountabilities, timelines, capital costs, and ongoing operating costs: who is responsible for making it happen, who pays for it, when will it get built, when will it come online, and what is the projected cost that may arise from eventual operations.

Financing / Financial Planning / Investment Planning

A key issue is "how do we pay for the recommendations of any study". This leads to another of the Finance Committee's top priorities: Financial Planning. Without the benefit of integrated plans, the growth of the Orleans property tax levy may become problematic longer term. In the worst case this growth may become unsustainable. Management of the levy, consistent with the Town's Strategic/Comprehensive Plan must be a Select Board priority if we are to achieve

affordability. Clearly, along the way, the concept of “affordability” must be defined and agreed upon.

A review of key Town budgets and budget components for the past 10 years is instructive. Clearly, some of the increases in the property tax levy and our tax rate are controllable while some aspects are, perhaps, less so. The information here is taken from past Town Meeting Warrants. Data for alternate years are given as illustrations. The 2024 numbers are from pre-Town Meeting budget drafts and thus are estimates.

The table below summarizes selected key dimensions of the operating budget. Some of the year-to-year “outliers” in the table are shown in **bold** numbers. Of particular interest are increases for a line item where there is a considerable year-to-year increase that continues at the new, higher level, e.g., Total Assessed Value, the related Total Property Tax, Total Revenues, and Debt Service. In the case of Special Articles, the dramatic increase was temporary.

Fiscal Year	2013	2015	2017	2019	2021	2023	2024
Total Assessed Value	3.56B	3.6B	3.8B	4.1B	4.27B	5.8B	5.9B
Total Property Tax	22.3M	23.9M	25M	31M	34.5M	37M	39.8M
Tax Rate \$tax / \$1,000 home value	6.10	6.42	6.33	7.40	7.84%	6.23	6.54
Total Revenues = Total Expenditures	30.3M	32.2M	34.7M	42M	48.2M	52.9M	54.5M
Salaries and Benefits	12.5M	13.7M	14.7M	15.8M	17M	17.9M	18.7M
General Expenses	3.5M	3.6M	3.67M	3.7M	4.1M	4.5M	4.7M
Debt Service	2.9M	2.9M	3.3M	7.1M	7.1M	6.8M	7.2M
Special Articles	1.4M	1.5M	2.2M	2.8M	7.0M	4.7M	3.6M

B = \$ - Billion

M = \$ - Million

A further important observation is understanding the effect of Enterprise Funds on the data shown and on the Operating Budget. Town Meeting voted to adopt Enterprise Funds for Beaches, Mooring Operations, the Rock Harbor Boat Basin, Sewer Operations, and the Transfer Station in FY2021 with their first, separate budgets defined for FY2022. Since then, Operating Expenses related to Enterprise Funds (including Salaries and General Expenses) have been listed separately from the Town’s overall totals noted in the table above. Thus, the numbers shown above through 2021 for those 2 categories are not comparable to those for 2023 and 2024 which do not include Enterprise Fund Salaries and Operating Expenses.

Salaries/Benefits have increased by 49.6% between 2013 and 2024, not including Enterprise Fund Salaries/Benefits since 2023. Most Salaries/Benefits are governed by union contracts and thus are negotiated separately, not as part of the annual budget process. Anyone who pays property taxes is aware that the Total Assessed Value of the Town’s properties has increased considerably if not dramatically. More specifically, between 2013 and 2017 the Total Assessed Value increase was 6.7% while this value grew at 7.9% between 2017 and 2019, and a further 43.9% between 2019 and 2024, for a total increase of 65.7% in Total Assessed Value since 2013. This is another example of an increase that is market driven and therefore not “controllable”.

At first glance, the above table shows that Debt Service increased considerably between 2017 and 2019. In November 2017 (FY 2018), the Town issued a large bond for projects totaling \$26.57M, including \$8.4M for Police Station Construction, \$12.5M for DPW Facility Construction,

\$2.1M for the Rock Harbor Bulkhead and \$1.4M for various Water Department and stormwater projects. The first debt service payment was due in FY 2019, totaling \$3M. Then, in 2021, there was what appears to be a surge in spending on Special Articles. The Special Articles category includes any article approved by Town Meeting outside of the operating budget. In 2021, the Special Articles increase reflects the \$4.3M transfer from Free Cash to the Town's General Stabilization Fund to meet the requirements of the new Reserve Policy. This Policy was approved to help ensure that Orleans maintains its AAA credit rating that results in low debt interest rates.

And now we're getting to the heart of the matter. Likely the best way to control the Tax Rate is to control discretionary spending though we must keep in mind that it is not the Tax Rate that matters to most of us as much as our specific tax bill. It's the tax bill that hits our wallets.

One frequent, understandable concern articulated by voters is: how can we afford all the capital projects listed in the CIP and those that are not listed but which are being actively discussed in Town? The Town has recently addressed another long-standing Finance Committee recommendation concerning the need for a capital planning process that reaches beyond the 5-year CIP horizon. The newly authorized Long Term Capital Planning Committee (LTCPC) should address the present gap between the short-term CIP horizon and the longer-term needs and wants of our community. This Long-Term Capital Plan (LTCP) would extend the CIP by 15 years. The intent is for the LTCPC to identify and prioritize the Town's capital requirements such as the new Fire Station, a new Library, possibly a Community Center, maybe a new Elementary School, and possible expansion of space for the services provided by the Council on Aging. The LTCP is intended to be reflected in the Town's Comprehensive Plan to articulate a vision for Orleans over the next 20 years.

The LTCP would provide Town leadership with a road map for our future. The process of developing it will inform citizens of what is "coming down the road." As it is developed and refined, this Long-Term Capital Plan should include each project's capital cost estimate, identify its operating budget impact, show how the capital investment will likely be financed – and at what estimated cost – and help us to schedule capital investments over time to achieve a reasonable and affordable impact on property taxes. This will help us make good decisions for strategic, measured growth of operating expenses and capital investments/debt service to make Orleans affordable for families, retirees, other residents, workers, and businesses, into the future.

If we had such an approach in place today, we would know how to better understand the total capital investment of \$94.5 million shown in FY26, CIPs third year. Moreover, a Long Term Capital Plan that shows total scheduled debt service by year will allow us all to understand that this daunting number is not going to be spent in one "go" in FY26. Certainly, it does not signal what/when is going to happen to our individual property tax bill. In fact, the \$94.5 million has many moving parts that are likely to be spread out further over time. Importantly, the associated financing of the projects in their eventual form will span twenty to thirty years and any related debt and its ensuing service will be incurred, most likely, much after FY26. Moreover, as our Town Treasurer has explained, the repayment of interest and capital on all outstanding projects is "smoothed" from year to year to keep the overall burden on taxes down.

In conclusion:

The Finance Committee believes that we have an opportunity to make significant progress towards using a more systematic, transparent planning process to manage our Town’s Operating Budget and Capital Plan. Efforts should continue towards an ongoing improvement of communications with the Town’s voters, seasonal residents, employees, business owners and workers and other stakeholders. To this end, we recommend encouraging a continuing advisory network for our new Town Manager who will be a pivotal force towards needed, informed and prudent change.

Going forward, the challenge of Town leadership is to maintain the financial health of the Town while engaging the Town’s voters with a transparent process that considers their evolving wants and needs. This transparent process should lead to a realistic Operating Budget and Capital Investment Plan. The justification and support of the annual Operating Budget and annual five-year Capital Investment Plan should be based on an annually revised Long-Term Comprehensive / Strategic Plan and Long-Term Capital Plan. In addition to briefings/consultations with town voters, the planning process should include inputs from the Town’s business community and the seasonal resident population. The Long-Term Capital Plan, with a horizon of twenty years, should be seamless with the five-year Capital Investment Plan that is already part of the annual Town Meeting budget approval process. Voters should be confident that Town leadership aims to achieve a reasonable balance among managing revenue sources, spending on resources and capital, and controlling debt to meet the voters’ prioritized needs and wants while maintaining high quality Town services.

Finance Committee:

Nick Athanassiou
Elaine Baird
Lynn Bruneau

Tim Counihan
Chris Kanaga
Constance Kremer

Alisa Magnotta
Ed Mahoney
Peter O’Meara