

A Five Year Strategic Perspective

Wellfleet Finances – Looking Forward

Prepared by the Wellfleet Finance Committee – April 2018



Background

Prior to Wellfleet's annual town meeting in 2017, the Finance Committee (aka the FinCom) was deeply involved in its annual review of the budgets of town departments and other requests for funding that were likely to be included in the articles within the warrant.

As is usual, there were some areas that exceeded expectations, which is normal on a year-to-year basis as capital costs come due, student populations rise or fall, and contracts expire and require renewal or replacement.

While there have always been discussions at FinCom meetings about large future expenses, there was little attempt to focus on these items because they were still vaguely defined and years away. What struck us last year, however, was that there appeared to be a number of expenses coming in the next 3 - 5 years that are likely to require both borrowing and overrides to the Operating Budget of the town. That means that these future costs that have the potential to disrupt the annual expectation of managing the town's budget within the constraints of Proposition 2 ½.

That statute, which went into effect in 1982, mandates a maximum annual ceiling of 2.5% on total property taxes as well a 2.5% limit on property tax increases. It was led by an anti-tax group named Citizens for Limited Taxation and mirrored movements in other states including California. Even though it is a 36 year-old law, it still governs how towns like Wellfleet *must* approach annual budgeting and it also strongly influences the thinking of citizens regarding allowable increases in town budgets on a year-to-year basis.

Because it is within the scope of the Finance Committee to do so, and because the current committee members take seriously our responsibility to act as financial advisors to the voters of this town, we committed at the 2017 Annual Town Meeting to preparing this report in order to provide a more "strategic" view of coming expenses so that citizens can better anticipate and plan for the decisions they will be asked to make in 2019 and beyond.

These are the areas that we have identified as being the largest challenges to the limited-budget strategy we have all come to expect:

- Water and wastewater management
- Harbor management including periodic dredging
- Labor costs including healthcare, housing and ongoing benefits
- Salaries for Public Safety employees that are substantially below those of nearby towns
- Support for education including capital expenditures and changing demographics
- Economic vitality including affordable housing, job creation and infrastructure

The Budgeting Process

The annual town budgeting process is typically based on expectations of relatively steady (e.g. 2.5%) linear growth. That perspective is reflected in the five-year plan prepared and updated annually by the Town Administrator (TA) that makes it possible to anticipate incremental increases

in categories that already exist; for example, departmental budgets, union contracts, capital equipment, education, infrastructure along with other relatively stable budget items. That is not to say that there aren't periodic upside 'surprises'. For example, in 2017 our educational costs rose in proportion to the number of regular and Special Education students we sent to local schools. These are usually transient events, however, and are expected to revert to a more predictable pattern in the next budget cycle or two.

Since the process is both cyclical and annual, it follows a pattern of:

- Preparation (e.g. by the TA and department heads)
- Review (e.g. by the Selectmen and Finance Committee)
- Presentation (at Town Meeting and community forums)
- Debate and passage (at Town Meeting or in special elections)

In every cycle, the expectations are set in motion by the preparation of budgets and the rest of the process is a reaction to that initiative. Because the entire process is 'governed' by Prop 2 ½ there is rarely any sense that it is permissible to make large scale investments proactively with an eye on the future, particularly because the process does not lend itself to speculating about the connection between future needs (e.g. water management) and the cost of various alternative strategies to meet them.

With the exception of those citizens who serve on the FinCom, Select Board or who as Department Heads, large expenses appearing on the Warrant seem to emerge within that calendar year. That can make it very difficult to weigh the costs, benefits, and longer-term impact of funding change for the dynamic factors shaping Wellfleet's future.

Methodology

One of the challenges in anticipating future expenses or investments is that they are difficult to define precisely because they represent costs and scope that have yet to fully emerge. Additionally, they are often contingent on the resolution of multiple related but independent factors.

The costs included in this report are our best estimates, derived from having spent significant time talking with the town employees, committee members and local resources who are in a position to provide the best perspective.

It is our intention to update this report annually by providing more exact numbers as the factors that influence costs and investments become visible, as well as adding new items as they emerge.

The following sections identify the major future expenses for this year's report. Wherever possible, we've identified specific sources who were instrumental in providing information as well as a sense of our confidence in the accuracy of their sizing and timing.

Each section will include:

- An overview of the budget issue
- An estimate of its magnitude and timing within the next five years
- A brief analysis of our confidence in the figures

Anticipating Future Expenses and Investments

The chart below lists a number of cost areas from which the FinCom expects requests for additional funding within the next five budget cycles (e.g. from 2019-2023). As noted earlier, it is possible that the estimates are low or high and that the timing will be different. These are *ballpark* numbers at this time, but we are reasonably confident that their overall impact is correct. If anything, there is potential for upside ‘surprises’ as new items emerge or current assessments prove too low.

What are the most significant future disruptors to Wellfleet’s town budget?

That we can foresee now?

Budget Year	2019	2020	2021	2022	2023
DEPARTMENTAL Growth		\$100K	\$100K	\$100K	\$100K
OPEB	\$250K	\$250K	\$250K	\$250K	\$250K
HEALTHCARE Growth	\$79K	\$150K	\$165K	\$185K	\$205K
TOWN SERVICES Potential/Added			\$125K	\$125K	\$125K
WATER/WASTEWATER Management	\$150K	\$150K	\$150K	\$150K	\$150K
HARBOR DREDGING and Management	\$5 million Federally Funded	\$6 million Town % TBD*	\$9 million Town % TBD*	\$500K Maintenance	\$500K Maintenance
SCHOOL/EDUCATION Capital/Infrastructure					
Nauset Region High/Middle School	Feasibility Study Completed	Region Vote On Capital Plan	\$65 million est \$90K Wellfleet	\$65 million est \$90K Wellfleet	\$65 million est \$90K Wellfleet
Wellfleet Elementary School	\$175K estimate	\$175K estimate	\$175K estimate	\$175K estimate	\$175K estimate
Cape Cod Technical HS		\$106K	\$106K	\$106K	\$106K
SUB-TOTALS	\$654K	\$6.9M	\$10.2M	\$1.68M	\$1.7M
POTENTIAL DISRUPTORS (Cost To Be Determined)					
WATER/WASTEWATER Capital/Infrastructure		TBD	TBD	TBD	TBD
PARKING Expansion or Addition	TBD	TBD	TBD	TBD	TBD
AFFORDABLE HOUSING Purchase/Build/Upgrade	TBD	TBD	TBD	TBD	TBD

Note: TBD (cost to be determined at a later date)

Note: TBD* (actual dredging cost to Wellfleet will be dependent on the % paid by the State of Massachusetts)

It is important to note that most of these costs will be spread out over time, even though they may appear on the Town Meeting Warrant as large, lump-sum numbers. Additionally, there are mechanisms available to town leadership that can be used to mitigate the direct impact of large scale or one-time expenses (e.g. dredging) so that the entire liability is spread out over time. Debt exclusions, budget overrides (though rare), enterprise funding, and/or finding new sources of revenue (e.g. income from marijuana retail) are tools to smooth out the sticker shock from large scale costs. The point of our presenting this chart, however, is that those techniques don't make the expenses go away – in many cases, they mask their real impact by spreading them out over time.

The items we've identified for this report represent both new and/or *recurrent* items (like OPEB) that will affect the budget and put upward pressure on taxes (and hence prop 2.5 compliance) for years to come.

For example, anticipating the emergence of new costs of roughly \$1 million for 2020 (independent of the cost of dredging) would represent an additional 4.6% on top of Wellfleet's current 2019 budget (i.e \$21,841,216). To balance the budget within current guidelines, that increase would have to be offset in the form of new debt, supplemental sources of revenue or reduced town services.

Line Item Analysis

This section provides a brief description of each of the line items in the previous spreadsheet and provides some sense of the FinCom's confidence in the scope and timing. As noted earlier, we expect many of these items to change as better estimates are developed. Future updates of this report will reflect these changing numbers.

Departmental Growth

It has become increasingly clear that Wellfleet is at a competitive disadvantage relative to neighboring towns in terms of compensation for police, fire and rescue personnel. We expect that there will be requests for additional monies above the current projected 5-year plan to level the playing field and improve our ability to retain key members of our staff. (Confidence 80%; source TA, departmental leaders)

OPEB

OPEB is a multi-million unfunded liability that represents future town commitments to retirement and pension plans for town employees. By state mandate, we were required to add it to the budget a few years ago. The \$250,000 line item does not represent an increase over the current 5-year plan; however, it is a figure that will be on the books for the term of the debt (over 25 years) and may have to be increased as current/future employees add to the town's indebtedness. (Confidence 100%; source TA)

Healthcare Growth

Healthcare is one of the more volatile costs facing the town, and one that is largely out of our control. The \$79,000 sum for 2019 is the current actual assessment by the TA. The following years represent higher cost estimates. (Confidence 60%; source TA)

Town Services (Potential/Added)

There are currently a number of discussions about enhancing, expanding or adding services in conjunction with existing Wellfleet infrastructure. These include the establishment of a Recreation Center (perhaps at the COA), additions to the library (including modernizing the aging technology) and other more speculative projects.

We consider the \$125,000 total starting in 2021 to be a ‘placeholder’ for likely requests that will be firmed-up in the next two years. (Confidence 50%; multiple sources).

Water/Wastewater: Management

Wellfleet is facing a number of challenges in managing clean drinking water, wastewater, harbor health and etc. that will require expert oversight (see the section below on *Water/Wastewater: Capital and Infrastructure*). The \$150,000 figure beginning in 2019 represents a request in the 2018 Warrant creating a position within the town administration for an expert Water Resources Director to oversee (among other things) implementation of a Town Wastewater plan and to develop strategies for the longer-term management of a wider spectrum of water related issues.

It should be noted that although this appears to be a large annual expense, implementation of this position *could* potentially save the town future large expenses such as expanding the water system and/or installing a sewer system by utilizing new and emerging technologies (see *Potential Disruptors* below).

(Confidence 80%; source Water Commissioners & Wastewater Management Committee)

Harbor Dredging and Management

There is general agreement that Wellfleet’s harbor must be dredged – to deepen the channel, remove masses of debris and silt and ‘black mayo’ and improve the health of the aquaculture and fisheries by cleansing the water of nitrogen and other toxic by-products.

Our best sense at this time is that the scope and timing are still in doubt. The passing of the Federal government’s *omnibus* bill potentially cleared the way for the Army Corps of Engineers to schedule the dredging of the outer harbor (at the Federal Government’s cost) – perhaps as early as the Fall of 2018 or early 2019. After that, Wellfleet may or may not get significant state aid to clear the inner harbor. The current estimate for that work is \$15 million. In 2002 (when the harbor was last dredged) the state paid 75% - the expectation this time is 50% at best.

In addition, the timing and cost of incremental future dredging is uncertain, nor is there a consensus on the exact conditions that require it. For now, we have put the costs provided to the town by Bourne Consulting Engineers in as ‘placeholders’.

While we’re confident that the dredging must and will be done – the details are TBD. (confidence 50%; sources TA, Harbormaster)

School/Education: Capital and Infrastructure

Nauset Region: High/Middle School

Like the Technical H.S., the Nauset Region (NRHS) is preparing to apply for Massachusetts State funding for a major capital improvement project for the High School. In 2017, \$1.5 million was approved for a feasibility study to develop the plans and scope. We expect a formal request for the budget in 2019 and it will likely be around \$65 million based on current estimates.

It's important to note that Massachusetts State funding has yet to be requested or authorized. Budgets and allocations will be determined based on state and/or town approvals. Our estimate of Wellfleet's share is speculative, pending the state's approval of the plans, town ratification and the exact amount borrowed. (Confidence 50%; source NRHS Superintendent)

Wellfleet Elementary School

Wellfleet Elementary School (WES) has a 10-year capital plan that includes exterior cladding, roof work, technology, the fire system and a number of other items. Our estimates in this report are based on actual budgets being developed, as well as allocating costs to some projects that will need to be done (e.g. asbestos removal, new roof) vs. the potential failure to pass other less urgent project funding.

We have averaged out the annual project projections and estimated \$175K as a rough average with a 50% confidence in the passage any *specific* project within the next five years. (confidence 75%; source Principal WES)

Cape Cod Technical H.S.

In 2017, the Cape Cod Technical H.S received approval from regional towns to go forward with a capital improvement plan that will entail tearing down the existing school and building a new structure at a cost of over \$127 million. The state will pick up about one-third of that cost, leaving the Technical H.S. to manage \$7 million in BAN interest and a 25-year \$75 million bond (@3.75%). The numbers in the spreadsheet represent Wellfleet's projected share of the debt service (confidence 90%; source Cape Cod Tech H.S.).

NOTE: Wellfleet's share of annual operation costs (dictated by the number of students we send to the school) is separate and part of the TA's annual Operating Budget request.

Potential Disruptors: Costs Yet To Be Determined

Water/Wastewater: Capital and Infrastructure

There may be large expenses incurred in the future (e.g. the installation of a town sewer system) separate from Water/Wastewater Management (above) which could be mandated by Federal or State law depending on how well Wellfleet anticipates and manages the impact of rising ocean/harbor levels, including the incursion of saline into town wells, and the efficient elimination of waste and mitigation of Nitrogen levels in the harbor (as monitored by the EPA).

At this time, it is impossible to foresee the magnitude of the costs associated with avoiding or remediating future problems, but a sewer system alone might represent a commitment of nearly \$60 million.

Thus far, the Town has been trying to mitigate the nitrogen-loading problem with the propagation of oyster reefs in the inner harbor, which has enabled us to successfully satisfy the State mandates to date. The Town will continue to pursue alternative methods to avoid the compliance requirements by installing a far more expensive alternative (e.g. a sewer system). (Confidence 50%; multiple sources including Water Commissioners, Harbormaster, TA and Shellfish Constable).

Parking: Parking and/or Addition

At the time of the writing of this report, a 2018 Article authorizing the construction of several hundred additional parking spaces at White Crest Beach has been withdrawn. However, the storm erosion on ocean-facing bluffs along with the loss of a number of established revenue-producing parking spaces at Cahoon Hollow, Newcomb and Lecount Hollow beaches suggests that Wellfleet will very likely have to revisit the question of how to maintain and optimize the flow of tourists to its beaches as well as replenishing the revenue lost from fewer parking spaces. (Confidence 100%; sources TA, Board of Selectmen).

Affordable Housing: Purchase/Build/Upgrade

The Wellfleet Housing Authority and Wellfleet Housing Partnership has prepared a *Housing Needs Assessment and Action Plan* that makes a comprehensive and persuasive case for the development of an additional 60 affordable units over 10 years, with 75% of those targeted as affordable rentals. At present 1.9% of Wellfleet housing is recognized by the State of Massachusetts as affordable. The state guideline is 10%.

There are a number of good reasons to increase our proportion of affordable units. While there is no concrete projection of the cost to the town at present, the state currently estimates that it costs about \$350,000 to produce one unit. The action plan envisions funding from private developers and other independent sources (e.g. the CPC); however, it is reasonable to assume that there will be requests for some funding from Wellfleet. (Confidence 100%; multiple sources).

Offsetting Costs with New Revenue

It's important to note that town leadership is as focused on finding new sources of revenue to mitigate growing expenses as it is in reducing their impact on future budgets. It is beyond the scope of this report to go into a detailed analysis of which sources might emerge and how significant they might become, but it's worth stating that they could include:

- Taxes from the sale of marijuana and related products
- Taxes from short-term or seasonal rentals
- Revenue from additional parking and/or shuttle services
- State aid for dredging, wastewater management and other municipal projects
- Additional fees from users of town recreational facilities and utilities

Conclusion

Wellfleet is a town that sits on a sandbar, with a tenuous barrier between fresh and salt water and a reliance on its harbor as a center for aquaculture, boating, tourism and commerce. The linkages between water and wastewater management, harbor dredging, shell fishing, and the health of the town are plain and, at the same time, the costs for managing each area are rarely linked to the others.

To be clear, *nearly every major disruptor to our budget is inextricably linked to all the others in some way.*

Because of this, the FinCom encourages town leaders to engage in an annual process of discussion about the future financial impact of major cost initiatives on other areas of town life.

To some degree, the cost of maintaining Wellfleet is a question of which future *investments* will be made in the town (and by the town) as much as it is an annual debate about which budget items deserve passage. The mechanisms to exceed the budget ceiling (including debt and overrides) are means to an end, but the end itself ought to be the result of a vigorous debate within the town about what its citizens want Wellfleet to be in 5, 10, and 20 years as current residents give way to the next generation.

We invite interested citizens to get involved in working with the FinCom and the leaders responsible for town planning to assist in the process of anticipating and clarifying the size, timing and impact of the major disruptors to Wellfleet's future budgets and investment.