

FY 2025 TAX BILL & BUDGET QUESTIONS

EXECUTIVE SUMMARY

1. For FY 24, Eastham's average single-family tax burden of \$5,677 is \$1,722 (24%) lower than the state average of \$7,399.
2. Despite its increases, Eastham's FY 2025 average single-family tax burden is lower than those of our surrounding communities, and generally on par or better than the remaining Cape Cod communities.
3. Reasons for increases this year include:
 - a. An overall 2.91% increase in our municipal and school operating budgets, increasing the tax rate 22 cents and costing \$164.
 - b. An overall 7.94% increase in our debt service requirements due to nearing completion of the town-wide water project; beginning our wastewater planning efforts; and beginning repayment of substantially all our debt related to the High School project. These factors increased our tax rate by about 61 cents and cost approximately \$447.
 - c. Extraordinary Education costs due to "enrollment shift" and mandated special education costs totaling \$1,020,000 added 20 cents to the tax rate and cost \$148.
 - d. \$300,000 override, resulting in being able to add 4 additional police officers to our staff, adding 6 cents to our tax rate and cost \$44.
 - e. These amounts were reduced using additional non-property tax revenues to support the budget reducing the tax rate by 17 cents and saving \$125.
 - f. Increases in property values had the effect of lowering the tax rate by 23 cents.
4. Community Preservation Act projects do not increase the property tax burden
 - a. The assessment of the CPA 3% surcharge obviously is impactful to the overall tax burden.
 - b. However, once raised, these funds are restricted for specific purposes and the projects themselves do not add any additional burden.
 - c. CPA funds are sometimes eligible to be used for town projects that would otherwise have to be funded by the tax levy.
 - d. Going forward, the town can consider the utilization of the property tax surcharge for the CPA, or re-prioritize the surcharge for wastewater funding
5. Town-owned property
 - a. Impact is negligible to our taxpayers
 - b. Need to maintain a long-term community perspective
 - c. Ultimately, over the long-term, appropriate redevelopment meets the communities needs and desires, while generating additional tax revenue.
6. Looking ahead
 - a. Inflationary factors, staffing, and labor costs will be key drivers of our Operating Budget
 - b. Capital Budget costs continue to rise substantially
 - i. Some of these costs can better be managed by adding to our Operating Budget and increasing internal capacity.
 - c. Other budgetary desires are also becoming increasingly expensive
 - d. Will need to maintain our long-term perspective, prioritize funding and spending based upon ongoing financial planning and projections, and adherence to well thought out financial policies.
 - e. Programs have been developed, and continue to be developed to provide support to residents
 - f. We have a very engaged Finance Committee and Town staff
 - i. We discuss substantive issues on an ongoing basis
 - ii. Budget review and discussion occurs annually – open and available to the public!
 - iii. Budget and financial information is available on the website and discussed leading up to Town Meeting.
 - iv. Town staff is available to meet with residents to explain our budget and financial position.

To: Jacqueline Beebe, Town Manager
Fr: Rich Bienvenue, Asst. Town Manager/Finance Director
Re: Update on FY 2025 Budget and Related Tax Bills
Dt: October 4, 2024

We recently issued the Town's FY 2025 tax bills which are due November 1, 2024. I have heard from various town departments and officials regarding feedback they have received from residents regarding their tax bills. This memo is to address that feedback and to provide context as to the increases in our budget and property tax bills.

As you know, over the last several years, the Town has taken on some high-cost projects, expanded necessary services, managed operating budgets through high inflationary cost pressures, and addressed many capital facility maintenance projects that had long been deferred. We have managed to accomplish all of this while maintaining a relatively low tax burden for our residents.

For the Fiscal Year 2024, Eastham's average single-family tax bill was \$5,677, this is \$1,722 (24%) less than the state average tax bill and far below the average tax bill of the other outer cape towns and neighboring communities. This amount places the town as the 143rd lowest single-family tax burden out of the 351 cities and towns (40th percentile).

For many years and for several reasons, the Towns of Dennis and Yarmouth have enjoyed the lowest single family home tax burden on Cape Cod and historically Eastham has been right behind these communities as the third lowest tax burden. However, as we are now nearing completion of several significant projects and infrastructure Eastham shares that position among a few communities (all of which previously had implemented similar projects and infrastructure), including Harwich, Chatham and Falmouth.

For fiscal year 2025, we confronted several issues that impacted the Town budget and our resident's property tax burden. Some of these impacts are the culmination of decisions/votes made in prior years and some of these impacts are necessary to address circumstances that are largely out of our control, all the while maintaining our core operating services at a high level.

To manage all these challenges, we work very hard to manage what is in our control (operating department budgets) by adopting and following sound financial management policies and practices, routinely performing financial projections, addressing and funding capital needs timely to minimize borrowing and deferred maintenance costs and any number of cost reduction/containment strategies on a year-to-year basis. We have been fortunate to be able to convert to (adopt) a long-term fiscal perspective and approach. While a long-term approach may have short-term impacts, it is certainly starting to pay off for the Eastham community over the long run, saving time, effort, and money.

Attached is a summary showing and explaining several of the key changes in our budget from FY 24 to FY 25. My explanation and background information on those changes is below:

1. Budget Increases (general):

The “Operating Budget” (routinely presented in Article 2 in our Town Meeting Warrant) increased a total of \$5,514,733 (14.26%) in FY 2025. This amount includes all the annual, recurring operating budgets of town departments and regional school assessments, as well as the related fixed employment benefit costs. Debt service requirements (principal and interest payments) on bonds issued for various projects are also included in this budget, although not technically “operating” in nature.

This budget does not include spending on our Capital Budget (typically found as Article 3), or “Other Budget Items” (typically found as Article 4), Although, it is important to note that funding of these items is from non-property tax sources and does not result in an increase in the tax rate or tax burden. Although the use of non-property tax sources represents an opportunity cost that may otherwise could have reduced property taxes.

2. Operating Budgets:

Of the total \$5.5 million increase in the Operating Budget, \$1,123,733 is attributed to our normally recurring town and school departmental operations, representing largely salary increases for staff and increases in departmental expenses due to inflation. This \$1.1 million portion of the overall increase represents a 2.91% increase over the prior year.

Increase in the departmental operating budgets increased the property tax rate by 22.4 cents and increased the tax burden on the median valued home about \$164

3. Debt Service:

Increases in our debt service obligations increased approximately \$3,071,000 over the prior year, representing a 7.94% increase over the prior year's budget.

A. Of this amount, debt service on bonds for the previously authorized water project increased about \$800,000. As work is completed on this \$130 million project, bonds are issued to pay for the work and are repaid through principal and interest payments over 30 years (like a home mortgage). We expect there to be two more bonds issued in connection with this project to complete this project which will result in our water project debt service peaking in fiscal year 2027, and then begin to drop-off in subsequent years (mostly FY 2042 through 2057).

We enjoy a very low interest rate on these bonds (around 2.5%) and have received over \$8.35 million in loan forgiveness (with more to come) to date. This project has been completed on time, and well under budget, allowing us the opportunity to repave Town roads as part of the project which provides substantial future savings to our Town budget.

Increase in the water project debt service added 16 cents to the tax rate and cost the median valued homeowner \$114.

B. New for this year is debt service associated with addressing the communities wastewater planning needs. While expensive, addressing these mandated requirements is imperative so our residents are not required install expensive Innovative Alternative Septic Systems to replace their current Title V septic systems, requiring significant upfront costs as well as ongoing annual operating and maintenance costs. Although impactful to a resident's tax burden, it is far less expensive to approach these requirements through a community approach instead of each individual resident facing these costly upgrades on their own.

By completing this wastewater planning work now, we are hopeful that our long-term wastewater financing plan will benefit from zero interest loans, and a 25% subsidy. In addition, by maintaining a long-term approach, we are also implementing a plan to strategically utilize short-term rental tax receipts to help finance this debt service and reduce the property tax burden, as well as to capture "debt drop-off" to minimize peaks and valleys in our tax rate/burden.

Increases in debt service due to the new wastewater planning debt service added 31 cents to the tax rate and cost the median valued homeowner \$226. This bond and its debt service mature in 5 years.

C. This year, the Town's portion of the debt service related to the Nauset Regional High School also increased. As this project progresses and additional amounts are borrowed, our debt service requirements increase, which amounted to about \$721,000 more than last year. We expect there to be one additional increase in debt service as the project is completed and final bonds are issued – but expect that increase to be relatively nominal.

It is important to note that our regional school assessments from the Cape Cod Tech and the Nauset Regional School District include the amounts necessary to fund our portion of both new schools (CCT in 2021 and NRHS in 2025). While expensive projects, both of our regional schools now have beautiful, state of the art facilities that will service our community for the next 40-50 years.

Our portion of debt service approximates \$250,000 and \$1.5 million annually for the tech and Nauset, respectively. However, these amounts are subject to change as our proportion of student enrollment at each school also changes, as it did during this fiscal year, resulting in additional costs being apportioned to the Town due to "enrollment shift."

The increase in the High School debt service added 14 cents to the tax rate and cost the median valued homeowner \$105.

4. Extraordinary Increases in School Costs/Assessments

As referenced above, Eastham's participation in both the Cape Cod Tech, and Nauset Regional School Districts increased resulting in "enrollment shift." Our participation increased from 18.745% to 20.323% and from 3.313% to 4.229%, respectively for Nauset and the Tech. While this may seem like a relatively minor shift it is impactful, resulting in an additional \$775,294 of school district budgets being assessed to the Town.

Of the total \$775,294 additional assessment amount, an additional \$474,220 of operating costs and \$132,284 of debt service costs were assessed by the Nauset district to the Town, and an additional \$116,277 of operating costs and \$52,513 of debt service costs were assessed by the Cape Cod Tech to the Town.

In addition, for FY 2025, the Nauset District changed its assessment methodology from the so-called "regional agreement" method to the "Statutory" method, resulting in approximately \$51,000 of a shift in district costs to the Town.

Finally, as part of the FY 2025 budget the Eastham Elementary School experienced an increase in special education costs, necessitating an additional appropriation of \$335,544. The school attempts to provide special education services in-house where it is appropriate, however, some students need exceed our capabilities and require placement to specialized programs or facilities. State law requires that school districts pay 100% of these costs and when these circumstances arise it is impactful to our local school budget. Since we do not always have these costs, we historically have not appropriated funds as part of the annual operating budget for this purpose, resulting in a spike in the EES operating budget when they do occur.

Going forward, if the need for this additional SPED funding decreases in the future, we have already discussed with the Finance Committee the idea of stewarding these funds into a Special Education Stabilization Fund to minimize periodic impacts to future years budgets. Future budgetary circumstances will guide/dictate our ability to do so.

Overall, school extraordinary budget increases for FY 2025 totaled \$1,161,838, of which we absorbed \$141,838 within our existing budget tax levy. The additional \$1,020,000 was funded through an approved Proposition 2 ½ override, which if not passed would of either required us to cut municipal (town department) appropriations by the same amount or apply short-term rental receipts which would severely impact our wastewater funding strategy.

The impact of the \$1,020,000 override for schools was a 20-cent increase in the tax rate and cost the median valued homeowner \$148.

5. Override to increase Police Department Staffing

Presented during our FY 2025 budget process was the need for additional police department staffing (4 new police officers). Our Police Chief presented to both the Finance Committee and Select Board the compelling need for this increase which resulted in placing the funding as an optional, separate article on the Town Meeting Warrant for consideration by our Town Meeting. Lacking the necessary levy capacity to fund this request, the funding was presented to Town Meeting and our electorate as a Proposition 2 1/2 override. Both the warrant article and the ballot question passed overwhelmingly.

The total cost of 4 new police officers, plus their benefit, training, equipment, and capital costs was estimated to be \$650,000, however, due to the amount of overrides under consideration by the community, Town administration recommended funding of \$300,000 which would secure at least two new police officers, with a promise to explore flexibility within our overall operating budget in the upcoming year, without the need for an additional override, to fund the other two positions. However, the ability to implement the additional 2 positions was contingent upon having the continued budgetary flexibility afforded by the proposed overrides.

I am pleased to report that through budgetary discussion with the Police Chief and review of our current budget, we have moved forward with hiring of 4 new officers. Simplistically speaking, the \$300,000 is sufficient to pay the salary costs of the 4 new officers; immediate benefit costs (health insurance) will be absorbed within our existing budgeted amounts; future benefit costs (i.e. pension, etc.) will be built in and absorbed into future budget capacity; training and capital costs will be funded by one-time Free Cash requests and increase in future capital budget requests over time.

The impact of the \$300,000 override which added 4 police officers to our staff resulted in adding 6 cents to our tax rate and cost the median valued homeowner \$44.

6. Factors reducing the property tax rate and burden

The Town's budget is comprised of many variables and factors, and while property taxes are by far our largest revenue source, it is not our only source. We actively work to set appropriate fees for various town services and utilize other funding (i.e. state aid, revolving funds, recurring grants, etc.) to offset our budgetary costs.

For fiscal year 2025, we utilized \$815,000 of short-term rental receipts as part of our wastewater funding plan to offset debt service on our wastewater bond. In addition, allowable increases in our local receipts, a nominal increase in state aid, less increases in non-appropriated state assessments resulted in approximately an additional \$45,000 of net reduction in our reliance on property taxes.

Additionally, increases in property tax values have the effect of reducing the property tax rate – this does not reduce the overall amount of property taxes raised, but does affect the amount paid by individual property owners depending on their specific value.

Overall, for FY 2025, the property tax rate decreased approximately 23 cents due to increases in property values and the use of non-property tax revenues reduced the tax rate 17 cents and saved the median valued homeowner \$126.

7. Other Property Tax Impacts

Community Preservation Act (CPA)

The Town has adopted the CPA which adds an additional 3% property tax surcharge on top of each homeowner's property tax bill. This is a flat charge, independent of the tax rate and these funds are added regardless of any projects that are ultimately recommended for funding by the Community Preservation Committee (CPC), Finance Committee, and Select Board to Town Meeting for approval.

While the 3% surcharge obviously does add to our resident's property tax burden, the approval of individual projects does not increase our tax burden. CPA funds must be used for prescribed projects under state law for specific purposes and are vetted each fall through an application process administered by our CPC.

In relatively recent years, the CPA authorization provisions have sunset, and there has been new legislation that allow the creation of Water/Wastewater Infrastructure Funds (WIF's), which follows a similar surcharge methodology. Having the CPA funding available is certainly an asset to the Town to fund projects of community interest and benefit, but as we move toward implementing wastewater it is an opportunity to consider the Town's funding priorities and potentially reallocate the amount of property tax surcharge between CPA and WIF's accordingly.

Town-owned property

The Town has acquired certain parcels in recent years for the purposes of long-term community development efforts. The acquisition of these parcels does not increase the amount of property taxes we can or cannot raise but does result in the allocation of additional tax to the remaining taxpayers – this impact is nominal.

The total valuation of taxable town property for January 1, 2024, which is the base value used to determine the FY 25 tax rate is \$5,005,509,070 (5 billion), resulting in a tax rate of \$7.710000. If, for example, the T-time property (valued at \$1,260,500) and Town Center Plaza (valued at \$1,317,700) were included in this taxable base, then the tax rate would decrease to 7.706031. Since the Department of Revenue (DOR) only certifies whole penny tax rates, the resulting tax rate with the value of these parcels would still be \$7.71 and there is no impact on our taxpayers.

However, to measure the theoretical impact of including these town owned parcels in the taxable base using a fractional tax rate, the current median homeowner tax burden using the \$7.71 rate is \$5,617.50, if the fractional rate were used the tax burden would be \$5,614.62, a savings of \$2.88.

Typically, however, the acquisition of parcels by a community is not purely a property tax cost decision – the decision is usually driven by need (i.e. parcel needed for a fire station, for example), or community desire (i.e. new recreation fields) or in our circumstance avoidance of certain type of development in favor of development of community need or interest. This is not uncommon for communities to want the opportunity to have some measure of control over how the community evolves. Typically, these community development projects also result in opportunities for increased tax base through redevelopment.

An example of such redevelopment is the Village at Nauset Green. This previously vacant, town-owned parcel was utilized to create 65 units of affordable housing through a ground-lease which maintains the Town's rights in the land but redeveloped the parcel to meet the needs of the community. The resulting development is assessed at \$5,160,500, contributes nearly \$40,000 in tax revenue to the Town, saving the remaining median valued homeowner approximately \$7. In addition, the redevelopment contributed to the towns "new growth" incrementally increasing our property tax levy limit – an important factor in being able to balance future budgets. This example is based on "real" dollars, not theoretical amounts based upon fractional tax rates that are not approved by DOR.

8. Looking ahead

The Town faces many challenges in the years ahead that will be impactful to our property owners.

The operating budget is affected by the general inflation of prices. Technology requirements, staffing challenges and the cost of labor will be key drivers in our operating budget in the future, as well as transportation and solid waste disposal costs.

Our capital budget is challenged with significant cost increases experienced in recent years for materials of all types and for our vendors cost of doing business. Mandatory infrastructure projects (i.e. wastewater) and needed facility upgrades will be costly and result in borrowing to finance projects with the resulting debt service increasing our annual operating budget. Some of these increases in capital costs can be addressed more cheaply by adding to our Operating Budget (i.e. facilities).

Other budgetary items desired by the community, such as human service programming, housing opportunities and recreational opportunities are also becoming increasingly expensive.

To address these challenges, we continue to be creative in our approach to funding the Town's needs - we maintain a long-term perspective, perform ongoing financial analysis and financial projections allowing our elected and appointed officials, and our community the opportunity to plan and to prioritize where to expend resources for the best benefit of the community.

Our departments, administrative, and finance staff are committed to (and have had success in) implementing cost reduction and cost containment strategies where the opportunity exists. We explore and pursue grant funding and shared service arrangements where possible and continuously explore ways to improve our efficiency and the high-quality of town services.

In recent years, we have undertaken efforts to provide supports to our residents including a successful pre-school tuition program through the Family Support Package of programs, availability of housing rehab funds through a federal grant program, introduction of expanded senior and veteran exemptions, a senior tax deferral program, and recently the development of the Resident Taxpayer Assistance Fund. We continue to develop mechanisms to assist our residents in need most recently including discussions on our ongoing approach to securing affordable housing for residents.

Finally, I remind our community that we have a very transparent budgetary process and that draft and final versions of our budgets and other financial information are posted on our website.

Our budget process begins each September for the next fiscal year with progress updated periodically to the Finance Committee and Select Board. Preliminary versions of our capital budget are presented in the Fall, a preliminary operating budget is presented each January. During the winter months these budget documents are reviewed and discussed extensively by the Finance Committee. Ultimately, these discussions and recommendations result in a final budget and a presentation at a budget hearing each spring, with discussion at pre-Town meeting, all leading up to budget articles being presented, with explanations in our Town Meeting Warrant for presentation to Town Meeting in May.

The Finance Committee meets monthly and maintains a regular schedule of municipal finance related topics to discuss each month. During January through March, the Finance Committee typically meets weekly to review departmental budgets, meet with Department Heads and discuss budget impacts and approach. These meetings are live, and open to the public. In addition, meetings are recorded and available on our website for the public to view.

To the extent there are extraordinary items in our budget, we typically try to provide some additional outreach on these issues to the public, but regardless, I always remain available to meet individually with members of the public to discuss our budgetary decisions.