



May 4, 2022

Dear Orono Town Councilors and Community Members,

In accordance with the Town of Orono Charter, it is my pleasure to present you with the Draft FY23 (July 1, 2022 - June 30, 2023) Municipal Budget, FY23 Water Pollution Control Facility Operating Budget, and FY23-FY27 Capital Improvement Plan. Annual budget development is always a challenge as staff attempts to articulate its understanding of Council's desired service level in an environment where wants and needs overreach the Town's finite resources.

Last year the municipal budget increased as the Town Council sought to implement contractually obligated public safety staffing changes as well as to restore staff positions, services, and capital investments that had been curtailed in FY21 due to the global pandemic and economic uncertainty. As requested, staff has approached the FY23 municipal budget process with the goal of maintaining FY22 service levels and implementing the first phase of a plan to address comparatively low employee wages that negatively impact the Town's efforts to recruit and retain highly skilled and professional staff. Skyrocketing inflation, supply chain issues, labor challenges, and approved hikes in utility rates have driven the cost of goods and services up at a staggering rate which has caused the municipal expense budget increases to outpace expected increases in projected non-property tax revenues.

Staff has created extensive and highly detailed budget documents that describe its understanding of Council's service level expectations, methods and resources utilized to meet those goals, line item detail to explain how each departmental budget request was derived, comparative expense and revenue data for 2019-2022, and identification of general areas of concern or discussion that may be of interest to the Council as it works through the budget process. This budget book was provided to Town Councilors earlier this week in hard copy and posted on the Town website at <https://www.orono.org/840/Current-Budget-Process>.

Please note that the provided budget detail does not change as Council and staff work through the budget process; however, as changes in the budget occur, staff will update and reprint the budget summary page as well as relevant expense and revenue summary pages. This means that as the budget process progresses, the detail pages may not reconcile to the summary pages on the material provided. At the end of the process, new detail will be published that reflects the final revisions.

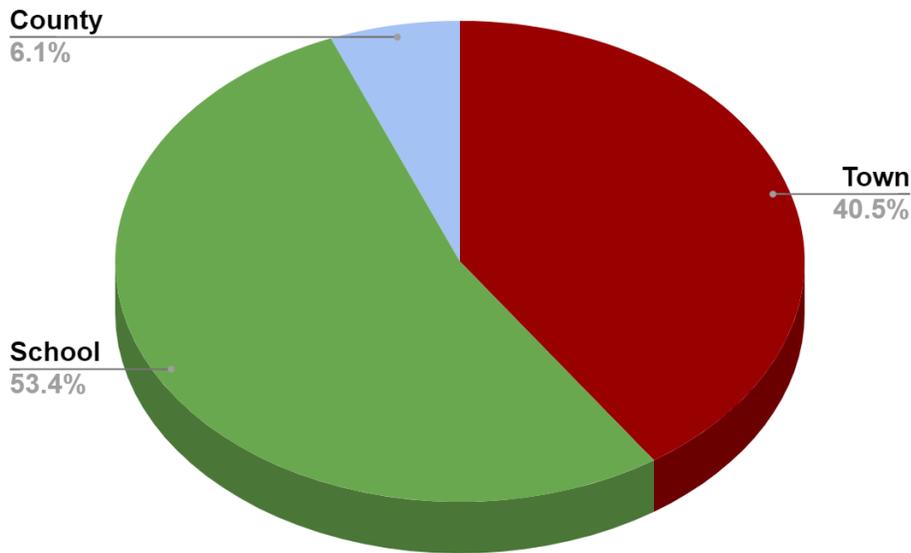
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The Town of Orono is an equal opportunity employer and service provider that celebrates diversity and is committed to creating an inclusive environment for our employees and those we serve.

BUDGET SUMMARY

While the Town is required to assess and collect the annual property tax that funds all local services provided to our residents, the Town Council only controls the service level and net costs related to municipal services. Regional School Unit 26 and Penobscot County are separate legal entities with their own public budget processes that result in assessments for which the Town is obligated to raise, collect, and transfer taxes. While the Town and School budget processes are currently underway, the Penobscot County tax that will be paid in FY23 has already been assessed. Based upon the most recently available information from RSU 26 and the presented draft Municipal Budget, the Town would need to commit \$13,493,521 in property taxes for collection to fund local services and assessments in FY23 which represents an overall increase of \$642,836 (or 5.00%) over the FY22 tax commitment:

	FY22	FY23 (Draft)	Increase	% Increase
Town	\$ 5,133,694	\$ 5,463,046	\$ 329,352	6.42%
School	\$ 6,932,408	\$ 7,205,076	\$ 272,668	3.93%
County	\$ 784,583	\$ 825,399	\$ 40,816	5.20%
	\$ 12,850,685	\$ 13,493,521	\$ 642,836	5.00%



Please note that the Water Pollution Control Facility (WPCF) operates as an enterprise fund, supported by non-tax revenues and reported separately. Information about the WPCF proposed budget and user fees will be provided separately.

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REVENUE PROJECTIONS

When thinking about budgets, it is natural for people to want to first think about the expenditures - how money will be spent. However, it is most important to first think about the revenues that will be available to fund the expenditures. The Town of Orono derives approximately 60% of its revenue from annual property taxes with the remainder resulting from six other general revenue streams: intergovernmental transfers (State and federal funds); excise taxes; licenses and permits; charges for service; dedicated or restricted funds; and miscellaneous (unclassified) collections. In total, with the exception of revenues collected from the assessment of property taxes, the Town projected it would receive outside revenue and use existing fund balances (undesignated, assigned, and restricted) totalling \$7,143,740 in FY22. The draft FY23 Municipal Budget includes projected receipt of outside funds and use of existing fund balance totalling \$7,917,700 or an increase of \$773,960 (10.83%).

	FY22	FY23 (Projected)	Increase	% Increase
Taxes (Non-Property Tax)	\$ 837,000	\$ 773,125	\$ (63,875)	-7.63%
Intergovernmental	\$ 3,772,586	\$ 4,604,806	\$ 832,220	22.06%
Licenses & Permits	\$ 101,700	\$ 101,300	\$ (400)	-0.39%
Charges for Service	\$ 567,575	\$ 495,327	\$ (72,248)	-12.73%
Other	\$ 358,499	\$ 373,663	\$ 15,164	4.23%
Use of Fund Balance	\$ 1,226,380	\$ 1,130,979	\$ (95,401)	-7.78%
Capital Revenues	\$ 280,000	\$ 438,500	\$ 158,500	56.61%
	\$ 7,143,740	\$ 7,917,700	\$ 773,960	10.83%

This net increase is based upon projecting significant increases in Municipal Revenue Sharing and Capital Revenues (current non-property tax dollars to support capital investments), tempered by decreases in program related income streams and continued reliance on use of existing funds with no identified method to replenish the fund balance. The Town's larger funding streams are very sensitive to the economic climate and at the mercy of state and federal legislative action. The largest non-property tax revenue sources that the Town relies upon are State Municipal Revenue Sharing (\$3.35M), motor vehicle excise tax (\$726.125), the annual payment it receives from the University of Maine (\$655,431), and ambulance use fees (\$325,000).

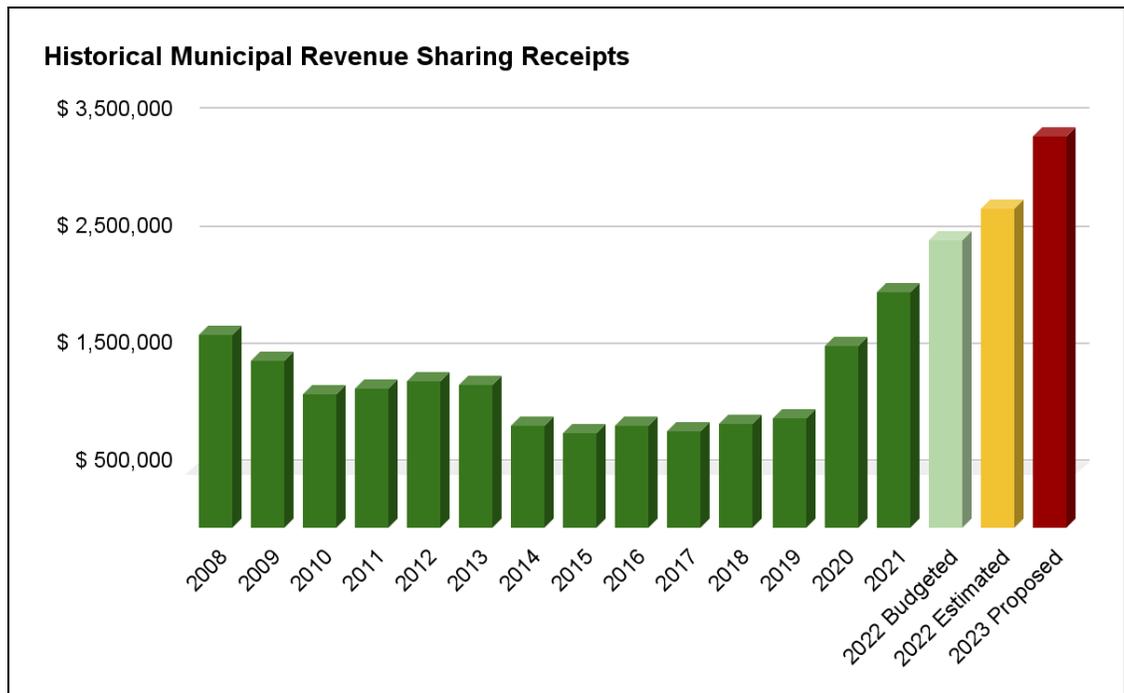
State Municipal Revenue Sharing

Distributions to municipalities under the Municipal Revenue Sharing Program began in 1973 with 4% of individual and corporate income tax, franchise tax on financial institutions, service provider tax, and sales and use taxes. While the program evolved over time, in 2009 it reached its highest distribution when the statute required distributions of 5%. In FY2010, the State Legislature began its annual raids, reallocating these designated funds to balance the

State budget, until sinking to a low of 2% in distributions from FY16 through FY19. For the FY20-21 biennium, the Legislature instituted increases to 3% (FY20) and 3.75% (FY21), with the most recent budget increasing distributions to 4.5% (FY22) and 5.0% (FY23).

The State of Maine Revenue Forecasting Committee (RFC) projects that, at the statutory 5% allocation, the Municipal Revenue Sharing Program will receive \$239,879,655 in FY23. Orono’s estimated funding at this level would be \$3,340,190. It is important to note that municipal officials have been cautioned to be prepared for a potential economic downturn that could negatively impact the amount of revenue captured for distribution through the Municipal Revenue Sharing program. Given the Town’s current level of unassigned fund balance, staff has used the projections provided by the State and will plan to talk with the Town Council about revising its revenue budget if the RFC significantly changes the municipal revenue sharing projections after its August meeting.

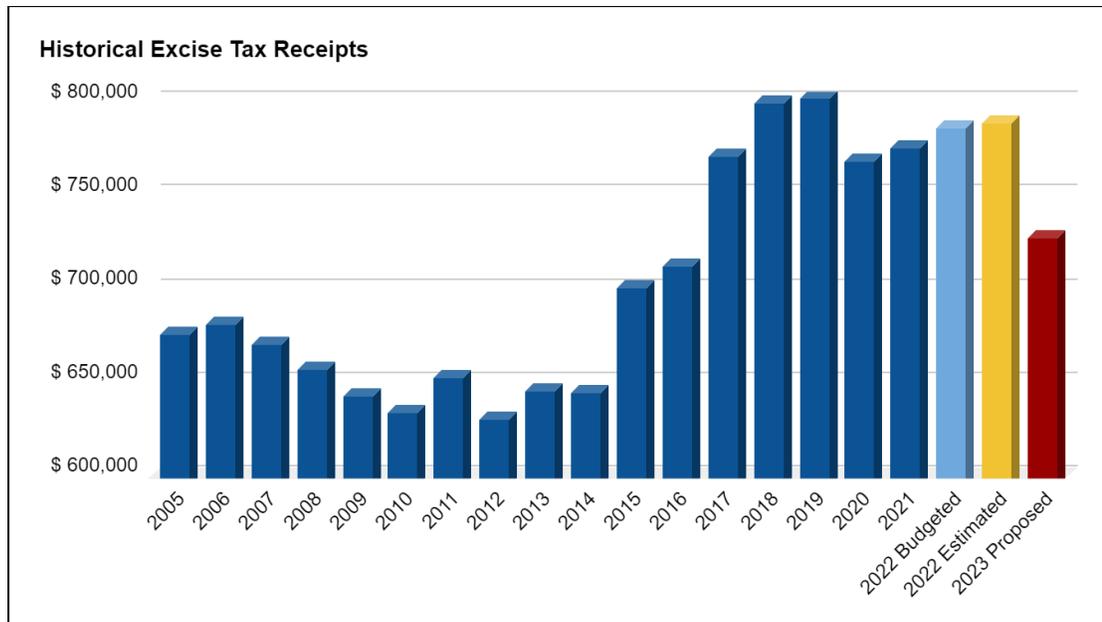
The following provides information about the Town’s revenue sharing receipts:



Excise Tax

When residents annually register their motor vehicles, the Town collects excise tax which is intended to be used to offset the costs associated with maintaining the Town’s transportation infrastructure. Orono’s excise tax collection began increasing from its low in FY12 of \$628,000 and has leveled off in FY18 and FY19 with annual receipts of approximately \$800,000 before dropping in FY20 to \$763,698 and then starting to pick back up in FY21 (\$773,811). For FY22, staff projected continued growth, estimating \$785,000 in excise tax revenue. One will note that, while the Town appears to be on track to meet the FY22 revenue projection, staff is

proposing a significant decrease in revenue projection (decreasing \$58,875 to \$726,125) in this budget line for FY23. Current supply chain and manufacturing issues have resulted in an incredible slow down of motor vehicle purchases and leasing which is predicted to equate to a reduction in excise tax revenue over the next year as residents hold onto cars longer. Registering new and leased vehicles increases the amount of excise tax collected. Please note that this is a 7.5% reduction which is significantly less than other urban municipalities are projecting.



Along with these two major revenue streams, the Town receives three payments in lieu of taxes from non-taxable entities: the University of Maine (\$655,431), The Housing Foundation (\$35,000), and Freeman Forest Foundation (\$17,600) which are long standing payments made to the Town to defray the cost of providing municipal services. Although individually smaller in scale, the Town receives significant revenue through its operations: charges for services (most notably Emergency Medical Services (\$325,000)); licensing and permitting; and administrative overhead from the Water Pollution Control Facility (\$138,000). The revenue projections related to income derived from program activity and charges for services have been based on best estimates in light of the uncertainty of community wants and needs in the post pandemic environment as well as calls for caution related to a potential economic slowdown in the coming months. Changes to the scope or manner in which programs are delivered would also likely impact this revenue stream.

FUND BALANCE

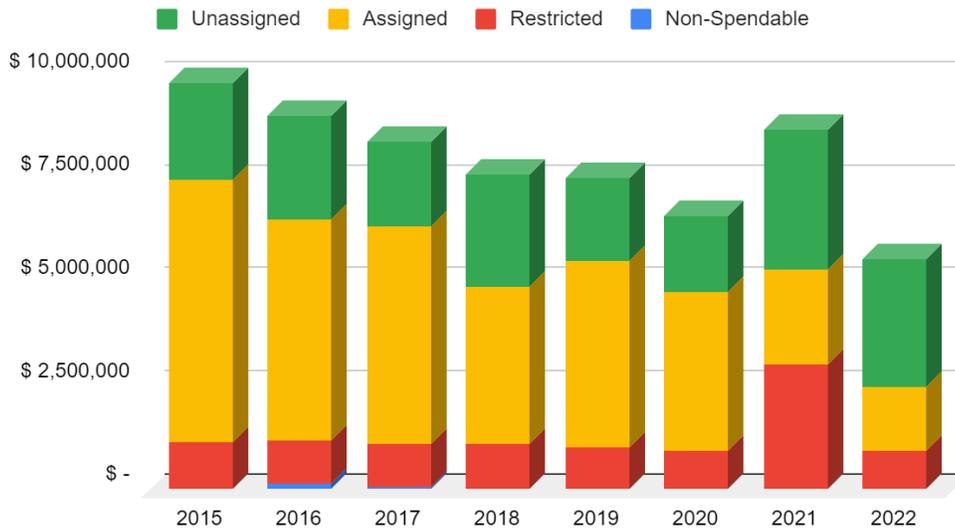
While not technically a revenue, the Town of Orono usually uses a portion of its fund balance - restricted, assigned, and undesignated - to reduce the draw on the general fund property tax:

- **Restricted funds** are those funds that can only be used for purposes approved by an outside entity. In the context of the general fund, restricted funds are usually related to Tax Increment Financing District Development Program Funds which can only be used for those projects and expenditures approved in the respective plans which are all related to economic development. The funds remaining from the 2020 Infrastructure Bond are also classified as restricted funds as they can only be used for approved infrastructure projects.
- **Assigned funds** are those funds for which the Town Council has allocated or set aside for future projects or spending. Often these funds are informally referred to as *reserve funds*. While the Council has the ability to reclassify these funds, the Town's longer term budgeting strategies are often depending upon the use of these *saved* dollars.
- **Undesignated funds** are those funds for which there is no specific assigned use; however a healthy balance of undesignated funds are important to meet obligations associated with certain general obligation bonds, manage cash flow and ensure ability to fund expenditures throughout the year, and respond to emergency or unanticipated expense as property taxes account for approximately 60% of the annual general fund revenue and can only be committed for collections once per year. If the undesignated funds were not available, the annual operating budget would need to carry a great deal more than the \$10,000 (or 0.09% of annual municipal expenditures) allocated for contingency.

The Town's fund balance is also critical in determining, and maintaining, the Town's bond rating which is important because the Town issues its own municipal bonds to fund critical public infrastructure investments. When the Town was rated for a bond issuance in 2020, both rating agencies indicated that the Town should increase, or at a minimum maintain, its fund balance to ensure that it has the resources necessary to fund unanticipated needs and weather uncertain economic conditions. The following chart and graph illustrate the Town's historical and projected fund balance:

Fund Balance	2018	2019	2020	2021	2022 Estimate
Non-Spendable	\$ 12,509	\$ 14,295	\$ 15,568	\$ 17,249	\$ 20,000
Restricted	\$ 1,073,118	\$ 999,171	\$ 911,029	\$ 3,014,307	\$ 900,000
Assigned	\$ 3,835,154	\$ 4,520,229	\$ 3,851,273	\$ 2,297,401	\$ 1,546,492
Unassigned	\$ 2,722,178	\$ 2,028,471	\$ 1,848,282	\$ 3,382,299	\$ 3,132,299
Total	\$ 7,642,959	\$ 7,562,166	\$ 6,626,152	\$ 8,711,256	\$ 5,598,791

Fund Balance



The Town of Orono has a policy of restricting an amount of unassigned fund balance equal to between 11-15% of the last approved Town expense budget. The purpose of this is to ensure that the Town has adequate resources (cash) available to meet expenses throughout the year and to allow for unanticipated shortfalls in revenue collections. For the purpose of this calculation, budgeted Economic Development expenditures paid through Tax Increment Financing Program Development Funds have been removed from the expense budget total; however, since the Town is obligated to pay its tax assessments for other non-municipal services, the school and county tax obligations have been included:

Total Fund Balance (Low - 11%)		Total Fund Balance (High - 15%)	
Description	Amount	Description	Amount
FY21 Audited Fund Balances:		FY20 Audited Fund Balances:	
Non-Spendable - Inventory	\$ 17,249	Non-Spendable - Inventory	\$ 17,249
Restricted	\$ 3,014,307	Restricted	\$ 3,014,307
Assigned	\$ 2,297,401	Assigned	\$ 2,297,401
Unassigned	\$ 3,382,299	Unassigned	\$ 3,382,299
Total Fund Balance	\$ 8,711,256	Total Fund Balance	\$ 8,711,256
Reconciliation of Unassigned Fund Balance		Reconciliation of Unassigned Fund Balance	
Unassigned	\$ 3,382,299	Unassigned	\$ 3,382,299
25% Assigned	\$ 574,350	25% Assigned	\$ 574,350
Less % of FY22 Expense Budget (Less TIF)	\$ (2,106,560)	Less % of FY20 Expense Budget (Less TIF)	\$ (2,872,582)
Usable Portion of Unassigned Fund Balance	\$ 1,850,089	Usable Portion of Unassigned Fund Balance	\$ 1,084,068

EXPENSE PROJECTIONS

As indicated previously, the municipal expense budget includes expenses directly related to the provision of municipal services as well as assessments related to services provided by RSU #26 and Penobscot County. Of note, while not a statutory tax assessment, in accordance with Maine Public Utilities Commission regulations, the Town of Orono is obligated to pay a fire protection fees to the Orono-Veazie Water and Old Town Water Districts associated with the additional system needs to support fire profession that would not be required if the District simply supplied potable water to customers. For FY23, the budget for these fees is \$283,330 which is included in the municipal operating budget and represents an increase of \$36,480 from last year. The assessments for these services are provided to the Town and outside the purview of the Orono Town Council's budgeting process.

While the Orono Town Council ultimately establishes and resources the scope of municipal services the Town provides, there are services that the Town is mandated to provide and also requirements for how elected services are delivered with which the Town is obligated to comply. The draft FY23 Municipal Expense Budget is based upon funding the following priorities:

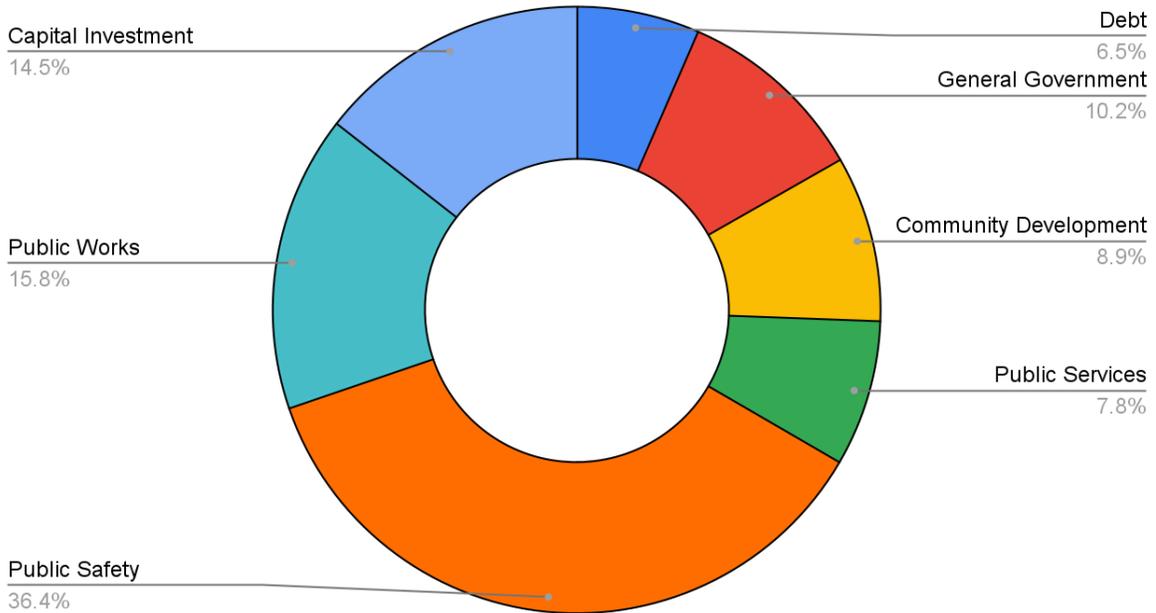
- Maintaining current operational service levels;
- Ensuring safe, professional working conditions and best practices that support effective recruitment and retention of Town employees as identified with the Town Council last year;
- Continuing implementation of the infrastructure plan adopted by the Town Council associated with the 2020 Infrastructure Bond issuance;
- Supporting planned program expansion in the Parks and Recreation Department; and
- Meeting the Town's statutory, regulatory, and contractual obligations.

The following summarizes the total expenses for operating, capital investment, debt repayment, and economic development expenditures associated with governmental activities as initially proposed for FY23:

	<i>FY22 Budgeted</i>	<i>FY 23 Proposed</i>	<i>\$ Difference</i>	<i>% Difference</i>
<i>Municipal Budget Expenses</i>				
Operating Expenses	\$8,640,665	\$9,618,334	\$977,669	11.31%
Debt Service (Principal & Interest)	\$850,170	\$865,547	\$15,377	1.81%
Economic Development Expenses	\$843,880	\$830,979	-\$12,901	-1.53%
Overlay (Estimated)	\$263,239	\$50,000	-\$213,239	-81.01%
<i>Total Operating Expenses</i>	<i>\$10,597,954</i>	<i>\$11,364,860</i>	<i>\$766,907</i>	<i>7.24%</i>
Capital Budget	\$1,679,480	\$2,025,655	\$346,175	20.61%
<i>Total Capital Expenses</i>	<i>\$1,679,480</i>	<i>\$2,025,655</i>	<i>\$346,175</i>	<i>20.61%</i>
<i>Total Municipal Expense</i>	<i>\$12,277,434</i>	<i>\$13,390,515</i>	<i>\$1,113,082</i>	<i>9.07%</i>

The expenses shown in the previous chart (page 8) are gross expenditures (not reduced with related or offsetting non-property tax revenue). The following graph illustrates the general cost centers related to these expenditures:

FY23 Proposed Municipal Expenses



While the budget workbook contains extensive details about the individual requests, the following serves as a summary of the most significant expense increases:

- Personnel Costs (\$456,994)

As discussed with the Town Council last year, the majority of this increase stems from the implementation of a multi-year adjustment to the Town pay scales in an effort to attract and retain skilled, professional, and dedicated staff. These compensation adjustments are intended to keep the Town on par with comparable and competitive entities within the region. Collective bargaining agreements for police and fire response personnel will expire on June 30, 2022 and have not been ratified by the Town Council; however, the FY23 budget does include estimated increases in personnel costs for these units. This general breakdown of this market wage adjustment (\$375,694) for FY23 is: Public Safety (\$230,000), Non-Union Town Employees (\$145,694), and Enterprise Fund Employees (\$20,267). Along with the direct personnel expenses related to these wage adjustments, these increases contribute to the overall increase in workers compensation coverage premiums projected in the FY23 budget (\$32,694).

In addition, the FY23 budget includes the addition of one full-time Environmental Services Coordinator position that was approved by the Town Council and filled last fall. As discussed prior to making this hire, the Town was able to fund this position mid-year as the result of a vacant Public Works Worker II position that could not be filled prior to the

winter plowing season; however, the approvals were provided with the explicit understanding that the vacant position would need to be filled in FY23. The total costs associated with the new Environmental Services Coordinator is \$83,435.

While not a direct to the total personnel expenses, during the course of establishing the FY23 work plan, staff evaluated all positions being funded from the Economic Development Department (which does not impact the tax rate) and determined that the allocation of time from the Town Manager's Office needed to be reduced to reflect more time being spent on non-economic development related tasks/responsibilities. In total, this shifted approximately \$45,000 that had been paid from the Tax Increment Financing Development Program Funds to the Town Manager's budget (which is supported by current general fund taxes).

- Capital Investments (\$346,175)

Gross expenditures related to capital investments for infrastructure (roads, drainage, sidewalks, lighting, etc.), equipment, facilities, and reserves for future projects increased a total of \$346,175 from the FY22 appropriation. At the same time, non-property tax revenue related to these capital projects increased by \$158,500 for this period leaving a net impact to the FY23 tax commitment of \$187,675. The most notable non-grant (partial or fully) funded capital expenditures are associated with addressing the HVAC and safety issues at the Public Safety Building (\$100,000) and replacing the gutter system at the municipal pool (\$80,000). As presented, the capital plan maintains annual investment in the Town's infrastructure at between \$800,000 - \$850,000 (\$835,000) in accordance with the plan discussed with the Town Council during the issuance of the 2020 Infrastructure bond.

- Gas and Diesel (\$60,000)

The Town purchases bulk gas and diesel which provides for some savings compared to the retail prices paid at the pump; however, the cost of these commodities are rapidly increasing and significantly impact the budget assumptions. Based upon providing the same level of service (emergency response and patrol services, general and winter road maintenance, and other staff routine vehicle use) and the assumed per unit cost, overall there is a significant impact to the Town operating budget.

- Fire Protection Fees (\$36,480)

As previously discussed in this document, based upon staff discussion with Orono-Veazie Water District leadership the District is discussing a rate increase that preliminary financial review indicates an increase of 20%. While this is shown in various departmental budgets related to water consumption, the most significant impact to the Town would be seen in the increase to the assessed fire protection fee (\$36,480).

- Community Connector (\$29,242)

The Town participates in the regional public transit system (Community Connector) which is operated by the City of Bangor. In this arrangement, all of the regional partners are assessed

a portion (calculated based upon vehicle revenue hours) of the total cost of operating the service. Escalating operational costs resulted in a significant increase in the Community Connector budget which has been passed through to all of the users of the service. *This budget line is shown in the Town Manager's Office budget.*

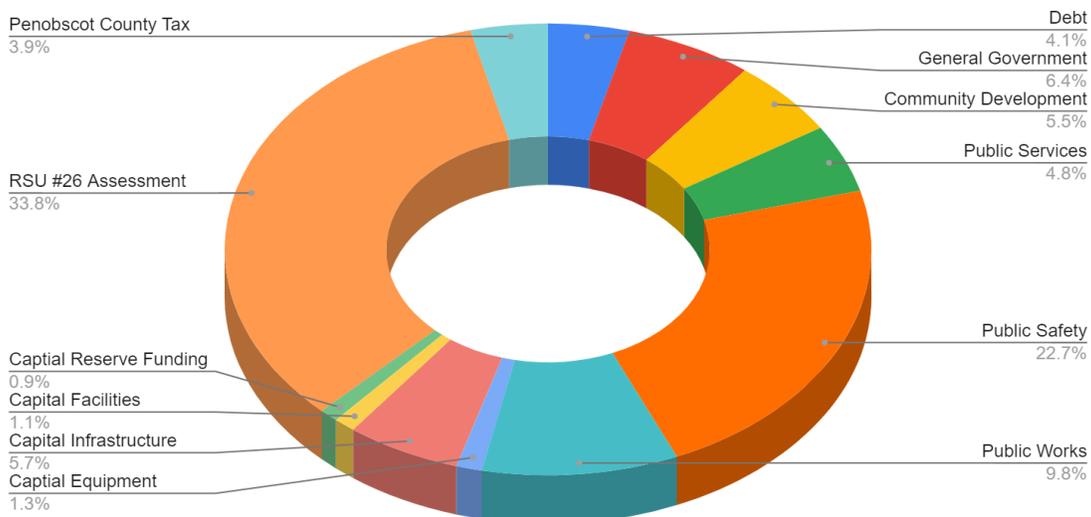
- Recycling Program (\$20,523)

In May 2020, the Coastal Resources of Maine facility in Hampden closed, creating upheaval in the processing of municipal solid waste (MSW) and recycling materials. Since its closure, the Town has worked through the Municipal Review Committee to provide for MSW processing/disposal at the agreed upon rates; however, the Town had a separate agreement with Coastal to process recycling at 50% the MSW tip fee (approximately \$35/ton). Unlike other communities, the Town elected to continue its curbside source separated single stream recycling program for qualifying residential properties. While maintaining the service level to the community, this resulted in a significant increase in processing cost (\$140/ton). Given that the facility is currently in a sale process, staff is anticipating that recycling services will likely not start up in the next year. Based upon this assumption, has budgeted for the higher recycling processing fee for the entirety of FY23.

Along with these specific significant expense increases, it is important to note that inflation, supply chain issues, and private sector labor challenges are rapidly increasing the cost of doing business and creating an environment of uncertainty regarding the actual delivery of goods and services needed to support projects, programs, and services.

The following graph illustrates the total expenditures in the proposed FY23 budget by cost centers:

FY23 Proposed Total Expense Budget By Cost Centers



For more information about expense budget details, please refer to the FY23 Draft Municipal Budget materials posted online or provided to Town Councilors as a workbook. Staff looks forward to working with the Town Council over the next several weeks to better understand its vision for municipal operations for the coming year and develop the final municipal budget. As this process unfolds, staff will continue to update projections as more information is available and requests as Council directs changes; however, these changes will only be updated in published summary sheets - not workbook details. Budget workshop meetings will be held in a hybrid format (with both in-person and remote access). Agendas and Zoom links will be available to the public online at <https://www.orono.org/AgendaCenter> along with detailed budget information, including the workshop schedule, posted at <https://www.orono.org/840/Current-Budget-Process>. The public is welcome to provide feedback to me about the budget anytime by email at swilson@orono.org; however, will have an opportunity to weigh in on the final draft budget at the Annual Budget Public Hearing on Monday, June 13, 2022.

Sincerely,

A handwritten signature in blue ink that reads "Sophia L. Wilson". The signature is written in a cursive, flowing style.

Sophia L. Wilson
Town Manager