



TOWN OF ORLEANS

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SELECT BOARD

TOWN
ADMINISTRATOR

Town of Orleans **Enterprise Fund Policy – FY 2022**

Overview:

In accordance with guidance from the Massachusetts Department of Revenue in compliance with provisions set forth in Massachusetts General Law, Chapter 44, Section 53F1/2, as accepted by the Town of Orleans Special Town Meeting held October 31, 2020, the Town of Orleans Select Board adopts an enterprise fund policy via the below sections to provide explanation of the following: 1) what funds are to be considered as Enterprise Funds, 2) establish a funding methodology (self-sufficient, meaning primarily funded by user fees, or require a general fund subsidy), 3) address retained earnings (desired levels and allowable uses), 4) define indirect costs and allocation methods to reimburse the general fund, and 5) define policy for funding future capital project.

The intent of Town's enterprise funds is to: 1) provide full transparency of these business-type operations; 2) to operate them in an innovative and efficient manner that is consistent with each of their mission/purpose; and 3) to strive to fund the operations primarily through fees paid by the users of the service. Funds raised through user fees are dedicated to the ongoing operations of each enterprise fund.

Policy Sections:

Section 1: Current Enterprise Funds

- a. Beaches Operation
- b. Transfer Station Operation
- c. Moorings Operation
- d. Rock Harbor Boat Basin Operation
- e. Sewer Operation

Section 2: Funding Methodology

A. Beaches Operation:

- a. 100% of direct expenses and indirect expense are to be covered by user fees, with no additional general fund tax levy subsidy.
- b. Annual debt service due on debt borrowed to fund previously approved capital projects originally voted as debt exclusion overrides will continue to be paid by taxation.
- c. Future capital projects to be funded by cash or debt service should be paid for from enterprise fund revenues.

B. Transfer Station Operation:

- a. At least 63% of direct expenses and indirect expense are to be covered by user fees with the remaining, approximately 37%, to be provided from a general fund tax levy subsidy.
 - b. Annual debt service due on debt borrowed to fund previously approved capital projects originally voted as debt exclusion overrides will continue to be paid by taxation.
 - c. Future capital projects to be funded by cash or debt service should be paid for from enterprise fund revenues.
- C. Moorings Operation:
- a. 100% of direct expenses and indirect expense are to be covered by user fees, with no additional general fund tax levy subsidy.
 - b. Future capital projects to be funded by cash or debt service should be paid for from enterprise fund revenues.
- D. Rock Harbor Boat Basin Operation
- a. At least 61% of direct expenses and indirect expense are to be covered by user fees with the remaining, approximately 39% to be provided from a general fund tax levy subsidy.
 - b. Annual debt service due on debt borrowed to fund previously approved capital projects originally voted as debt exclusion overrides will continue to be paid by taxation.
 - c. Future capital projects to be funded by cash or debt service should be paid for from enterprise fund revenues.
- E. Sewer Operation:
- a. 100% of direct expenses and indirect expense are to be covered by a transfer from the Special Purpose Wastewater Stabilization Fund. User fees are not available until the Sewer System is operational.
 - b. Construction costs borrowed through the State Revolving Fund (SRF) Clean Water Program do not have any debt service payments due during this fiscal year. Debt issued to fund pre-construction costs not borrowed through the SRF and originally voted as debt exclusion overrides will continue to be paid by taxation during FY 2022.
 - c. Future capital projects to be funded by cash or debt service should be paid for from enterprise fund revenues (primarily from user fees, grants, subsidies, and betterments).

Section 3: Retained Earnings

Overview: At year-end, the Enterprise Fund's performance is measured in terms of positive (surplus) or negative (deficit) operations. The surplus/deficit closes out to retained earnings, which are retained in the fund. The Massachusetts Division of Local Services (DLS) Director of Accounts certifies enterprise fund retained earnings based on the community's submission of a June balance sheet to DLS. Once certified, retained earnings (if positive) may be appropriated only for expenditures relating to the enterprise fund. If retained earnings are negative, the enterprise fund needs to make provisions to fund the deficit either by raising it through fees in the subsequent year or through a subsidy from the general fund and/or other available funding source.

Policy: The Town will reserve a target minimum balance of retained earnings equal to 10% of the Enterprise Fund Annual Operating Budget for the purpose of providing financial stability and establishing a reserve to offset unforeseen revenue deficits. Amounts exceeding this reserve target will be available to appropriate toward capital or other one-time expenses, or can be used to reduce the user fees, while

the reserve target amount will be left unspent from year to year.

To avoid a retained earnings deficit, the town will use conservative revenue projections and departmental appropriations will be managed to mitigate exposure to revenue deficits.

Section 4: Indirect Costs

Indirect costs include salary and expenses appropriated as part of the General Fund operating budget allocated to the enterprise fund that cannot be directly or exclusively assigned to one service. Indirect costs are allocated based the enterprise fund budget as a percentage of the total Town budgets (General Operating Budget plus all Enterprise fund budgets). For example, if the Beaches operations operating budget is \$1M and the total General Operating Budget PLUS all Enterprise fund operating budgets is \$10M, then the percentage used to allocate costs to the Beaches operations would be 10%.

Indirect costs are broken down into three categories:

- a. *General Fund Allocated Expenses* – support services provided for and paid from the general fund:
 - i. The amount allocated to each enterprise fund for Department of Public Works (DPW) salaries are based on an annual work allocation spreadsheet prepared by the DPW Superintendent.
 - ii. The amount allocated to each enterprise fund for Other Allocated Town Expenses is based on a ratio of each enterprise fund budget to the total general operating budget plus all enterprise fund budgets. This ratio is applied to the total of the following department budgets to calculate the amount to be reimbursed to the general fund for these Other Allocated Town Expenses.
 - a. Town Administrator, Finance, Assessor, Collector/Treasurer, MIS, Town Clerk, and Town Report. The Health Department is also included in costs to be allocated to the Transfer Station.
 - b. Fringe Benefits - based on town-wide fringe benefit rate calculation that is assigned to labor costs to cover such items as health insurance, pensions, unemployment insurance, Medicare, and workers compensation.
 - c. Property/Liability Insurance – insurance paid by general fund, a portion of which covers the enterprise fund activities. The amount assigned to each enterprise fund is provided by our insurance provider(s).

Section 5: Capital Expenditures

A plan for capital expenditures to be incurred each year over a fixed period of several future years setting forth each capital project, the amount to be expended in each year, and the method of financing for those expenditures should be submitted to the Town Administrator annually for inclusion in the Town's overall Capital Improvement Plan. Specific guidance on certain expenditure types are as follows:

1. Building and Facilities Maintenance – expenditures should be included in the annual operating budgets or through special articles placed in the town meeting warrant with funding (either cash or debt service) from enterprise fund revenues.
2. Motor Vehicle & Equipment expenditures – expenditures should be defined and should be included in the annual operating budgets or through special articles placed in the

town meeting warrant with funding (either cash or debt service) from enterprise fund revenues.

3. Capital Projects - expenditures should be submitted through special articles placed in the town meeting warrant with funding (either cash or debt service) from enterprise fund revenues.

DATE PREPARED: April 6, 2021

DATE APPROVED: April 7, 2021