

Town and County of Nantucket  
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Town & County Manager

Fiscal year 2010 is an unprecedented fiscal year in my tenure as Town Manager. The Town of Nantucket is facing fiscal challenges that communities across the commonwealth and country are facing as a result of the national recession, which is the worst in at least a generation. In order to meet these fiscal challenges difficult decisions and choices have been made to balance the fiscal 2010 budget.

At the direction of the Board of Selectmen, the fiscal 2010 budget is balanced within existing projected revenues. An operating override to Proposition 2 ½ is not being requested for the fiscal 2010 budget. The recession has caused local revenue collections to decline by \$1 million in the current 2009 fiscal year, and fiscal 2010 revenue projections reflect this decline. The Governor has announced that local aid will be cut by \$128 million in fiscal 2009, and is proposing an additional \$375 million cut to local aid in fiscal 2010. The result of these revenue declines is that there is not sufficient revenue in fiscal 2010 to provide the level of Town services that are currently being provided.

The recent decline in revenues has compounded the budgetary challenges the Municipal Budget, which is the combined budgets of Nantucket Public Schools and the Town of Nantucket, was already facing in the form of a structural deficit. Ongoing revenues are increasing at a slower rate than the costs of providing Town and School services. Earlier this decade, the Town experienced considerable growth in revenue as a result of new development on the island. In recent years revenue growth has tempered and revenues are no longer growing at a rate that supports the increasing costs of providing the current level of services. Resolving the structural deficit will require additional spending reductions; revenue increases, or a combination of both.

As part of the fiscal 2010 budget plan, I have proposed the creation of a fiscal workgroup consisting of Town and School officials, and citizens to examine options for resolving the Municipal structural deficit. Resolving the structural deficit cannot be done in one year without significantly impacting services or significantly increasing revenues through tax or fee increases. It is my hope that this workgroup will help to develop a multi-year plan to resolve the structural deficit that is socially responsible and fiscally prudent.

The strategy for closing the Town's portion of the fiscal 2010 budget gap of over \$2,188,000 consisted primarily of : (1) one-time spending reductions; (2) a modest increase in ongoing revenues of almost \$150,000 generated by fee increases; (3) an

ongoing spending reductions, including almost \$1.3 million in personnel spending reductions. New revenue and ongoing spending reductions are the first steps in addressing the Municipal Structural Deficit. One-time spending reductions help to provide for a balanced fiscal 2010 budget, which provides the opportunity in fiscal 2010 to continue to examine spending reduction or revenue increase options necessary to resolve the Municipal Structural in a thoughtful and deliberative manner.

In November of 2008, a hiring freeze for all Town Administration departments was implemented to begin to address the Town's fiscal problems. Any position that becomes vacant may not be filled unless an exemption to the hiring freeze is approved by the Town Manager. To be eligible for an exemption to the hiring freeze a position must meet one of four criteria: (1) the position is mandated by federal, state or local law or the position is necessary to meet federal or state reporting requirements; (2) not filling the position will result in higher costs, such as greater expenditures on overtime; (3) public safety or the general welfare of the public will be put at risk if the position is not filled (4) the position fulfills a critical function for a department and there will be a significant, adverse effect on departmental operations if the position is not filled. To meet this criterion, departments will need to demonstrate that the essential job function of the position cannot be assumed by other existing staff in the department.

As of the writing of this writing, five positions have not been filled as a result of the hiring freeze: 2 police officers; 2 Department of Public Work positions; and 1 fire fighter, and the hours for a position at Our Island Home were reduced by 25%. Three exemptions to the hiring freeze have been granted to fill two vacant police officer positions and one vacant fire fighter position. In fiscal 2010, the hiring freeze will save at least \$470,000 in personnel costs. The hiring freeze also provided savings in fiscal 2009 that made it possible to absorb the reduction of state local aid to the Town.

In developing the fiscal 2010 budget, departments were instructed to reduce operating expenses by 10%. A total of \$451,000 was cut from departmental operating budgets before the fiscal 2010 budget gap was calculated. If these reductions had not been made, then the Town's portion of the Municipal budget gap would have been \$451,000 more.

Considerable effort was made in trying to balance the budget with as little impact on service delivery as possible. While these efforts were largely successful services will be affected by spending reductions in fiscal 2010. The Mosquito Control Program will be eliminated. For this program to be truly effective would require additional resources, which the Town currently does not have. Having fewer personnel as a result of the hiring freeze and reductions to seasonal staffing levels may also affect service delivery.

The Solid Waste Enterprise Fund (SWEF) budget that funds the operations of the landfill continues to strain the Municipal general fund budget. Town Meeting has twice approved an operating override to fund the operations of the landfill. In fiscal 2010, these overrides will generate \$2.8 million towards landfill operations. The need for

property taxes to support the operations of the landfill is because the fees generated at the landfill do cover the costs of operating the landfill.

In recent years, a general fund subsidy has been needed to balance the SWEF budget. The general fund subsidy consists of general fund revenues that are in addition to the property tax revenue generated by the overrides dedicated to funding the operations of the landfill. Two factors primarily contribute to the need for a general fund subsidy: (1) changes in state regulations that increased the cost of operating the landfill; and (2) general fund revenues supporting the operations of the landfill are growing at a slower rate than the increases in costs for operating the landfill.

In 2006, the Massachusetts Department of the Environment issued a wood waste ban that prohibited disposing of Commercial and Demolition (C&D) waste in the landfill. As a result of this change in state regulation all C&D waste, that previously had been disposed of in the landfill, had to be shipped off-island. The cost to ship C&D waste off-island increased the cost of handling C&D waste by \$130 to \$150 per ton of waste. At the time the wood waste ban was implemented approximately 10,000 tons of C&D waste was being processed at the landfill. At an average cost of \$140 per ton to ship material off-island this resulted in increasing the cost of operating the landfill by approximately \$1.4 million.

The revenue generated by the operating overrides dedicated for the operations of the landfill are limited to a 2.5% increase per year under Proposition 2 ½. However, contractual costs are increasing at the rate of inflation, which has been higher than 2.5% per year. In fiscal 2009, required inflationary cost increases grew at 6.2%. Over time the difference between revenue growth and the increase in costs result in not enough revenue to cover the costs of operations. In recent years a general fund subsidy has been provided to cover the difference between revenue growth and cost increases.

In fiscal 2010, the size of the general fund subsidy necessary to balance the SWEF budget has increased due to the economic recession and legacy capital costs associated with the state order to clean up the landfill. The volume of certain waste, particularly C&D waste, collected at the landfill began to decline dramatically in the fall of 2008. Building activity on the island has declined significantly during the current recession, which has led to a decline in waste handled at the landfill. This decline in waste collection has led to a decline in fee revenues generated by certain wastes. While some operating costs do decline with decreased activity, there are certain fixed costs that need to be covered. When fee revenues decline as a result of volume declines there is less revenue available to offset fixed costs.

The landfill currently operates under an Administrative Consent Order (ACO). The ACO requires the clean up of the landfill and was issued by the Department of the Environment in the mid-1990s. To fulfill the requirements of the ACO a number of unlined cells have to be capped to ensure water quality. The legacy cost of cleaning up the landfill by capping unlined cells will be substantial. For fiscal 2010, the Town is seeking permission to mine the landfill rather than spending money to cap an unlined

cell. Mining the landfill will cost less than capping an unlined cell, and it provides the added benefit of creating space for future landfill use. The amount of land permitted for landfill operations is limited. Reusing landfill space will be necessary to guarantee space is available at the landfill for decades to come.

In fiscal 2010, property tax revenues from the two operating overrides will generate just under \$2.8 million for the operations of the landfill. An additional general fund subsidy of \$1.9 million is needed, for a total general fund contribution of \$4.7 million. Unless the landfill is able to generate revenue that will cover the actual cost of operations there will continue to be a need for a general fund subsidy. Every dollar of a general fund subsidy used to balance the SWEF budget is a dollar that cannot be used for other Municipal services provided by the Town and the Schools.

As an enterprise fund, the solution to the SWEF budget should be found within the SWEF by raising revenues, reducing costs, or most likely a combination of both. The Town entered into discussions with the landfill operator in the fall of 2008 to try and identify ways to reduce costs. However, the SWEF budget cannot be balanced only through cost reductions. Revenues for this enterprise fund will need to be increased if its budget is to be balanced without a general fund subsidy.

As with most challenges, the fiscal challenge the Town is facing is also an opportunity. Rising to meet this challenge provides the opportunity to improve the Town's budgeting process. The fiscal 2010 budget lays the foundation for transitioning to a program budget. A program budget attempts to directly link funding to services. It does this by measuring service delivery through outputs. An output is a unit of service delivery that can be used to measure the activity of a department. For example, the number of 911 calls responded to by the Police Department is an output. Since Town departments provide a variety of services, several different outputs need to be identified for each department in order to have an overall understanding of departmental activity.

The fiscal 2010 budget was developed differently than prior years. Traditionally, the Town has used a level funded budget to begin developing the budget each year. A level funded budget provides the same level of funding for operating expenses as was provided in the previous year. For example, if \$100,000 was budgeted for Town gasoline in fiscal 2009, then developing the fiscal 2010 budget begins with providing \$100,000 for Town gasoline. A problem with this approach is that relies heavily on budget transfers. A budget transfer takes funding from a line item that was over budgeted and transfers it to a line item that was under budgeted. While all budget transfers have to be approved by Town Meeting, budget transfers occur towards the end of the fiscal year. This approach makes it more difficult for policy makers and the public to have a clear understanding of what it costs for programs and services.

In an effort to improve transparency the fiscal 2010 budget was developed as a maintenance budget. A maintenance budget projects what it will cost to maintain current levels of service in the next fiscal year based upon actual spending. The goal is to provide appropriate funding levels at the beginning of the budgetary process, which

provides a better understanding of what it costs to provide services. In fiscal 2010, line items in the budget were reduced if there was a history of the line item being over budgeted, and line items were increased if a line item has a history of being under budgeted.

Fully implementing a program budget will take several years. Measurable outputs need to be developed for each Town department, and then data collection systems need to be designed to collect and track data that will measure outputs. The Town will also need to modify the computer software it uses for developing the budget. Being able to demonstrate the link between funding and service delivery will ultimately provide for a more transparent budgeting process that will help policy makers and the public better understand of how tax dollars are purchasing services.

The fiscal 2010 budget is balanced; however, the Town's fiscal and budgetary problems are not solved. By most accounts the current recession will be a prolonged recession, and it will most likely affect the Town's fiscal 2011 budget. The combination of ongoing spending reductions, and modest ongoing revenue increases in the fiscal 2010 budget begin to address the Town's structural deficit. The one-time spending reductions help to balance the fiscal 2010 budget, which provides the opportunity for discussion of what services the Town should offer, and how those services should be funded.