

DRAFT

8-17-2009

REPORT OF

THE AD HOC

FISCAL COMMITTEE

October 15, 2009

Background

On April 15, 2009 the Board of Selectmen approved a plan to form an Ad Hoc Fiscal Committee (AHFC) to review certain aspects of the Town of Nantucket's fiscal situation. The opening two paragraphs of the convening document state the nature of the problem succinctly:

“The Municipal Budget for the Town of Nantucket faces a structural deficit. Revenue projections are insufficient to sustain the current levels of services provided by the Town and Schools on an ongoing basis. The costs of providing services are growing at a higher rate than the revenues necessary to provide services. The Municipal Budget's structural problem has been exacerbated by the national recession. Revenue growth, which was already insufficient to support current services, has slowed further.

To address the immediate budgetary challenges that are a result of the national recession, as well as to address the Municipal Budget's structural deficit will require spending reductions, revenue increases or combination of both. As spending reductions may affect service delivery, and revenue increases may affect residents of the Town, the Board of Selectmen recommends the creation of an Ad Hoc Fiscal Committee.”

The AHFC was asked to review the factors contributing to the deficit and make recommendations in three specific areas:

1. Develop criteria for essential Town services
2. Recommend potential spending reductions and efficiencies
3. Recommend potential revenue increases

These three charges were divided into four elements; criteria for essential services, efficiencies in Town operations, spending reductions, and potential revenue increases. These four elements were used to develop a plan of action for the committee's work.

The Board of Selectmen created a committee designed to represent the broadest possible segments of the Nantucket population and included:

- 4 members of the public: 2 to be named by the Board of Selectmen and 2 to be named by the School Committee.
- 1 member of the Advisory Committee of Non-Voting Taxpayers
- 1 member of the Board of Selectmen
- 1 member of the School Committee
- 1 member of the Finance Committee
- 1 facilitator

In addition to the above, the Town Manager, Finance Director, and School Superintendent or their designees are ex officio non-voting members of the committee.

Over the course of several weeks, the following individuals were appointed by the various designating bodies and constitute the AHFC:

Mr. Joseph Aguiar, member of the public, appointed by School Committee
 Mr. Rick Atherton, Board of Selectmen
 Ms. Jenny Garneau, School Committee
 Mr. Greg Keltz, member of the public, appointed by Board of Selectmen
 Mr. Neil Paterson, member of the public, appointed by the Board of Selectmen
 Dr. Janet Schulte, appointed by the School Committee
 Mr. Justin Strauss, appointed by the Committee of Non-Voting Taxpayers
 Mr. John Tiffany, Finance Committee
 Mr. Dual Macintyre, facilitator

Ms Elizabeth Gibson, Town Manager, ex officio
 Dr. Robert Pellicone, School Superintendent, ex officio
 Ms Connie Voges, Finance Director, ex officio

In addition, the following Town employees provided direct and continuing support for the committee:

Mr. Craig Abernathy
 Ms Irene Larivee
 Ms Erika Mooney
 Mr. Malachy Rice

Plan of Action

In order to help the committee function as smoothly and efficiently as possible, the following plan of action was developed and presented at the first committee meeting:

<u>Day</u>	<u>Date</u>	<u>Focus</u>
Wednesday	May 20	Overview of Municipal Budget
Wednesday	June 3	Criteria for Essential Services
Wednesday	June 17	Criteria for Essential Service
<i>Wednesday</i>	<i>June 24</i>	<i>Draft: Criteria for Essential Services section</i>
Wednesday	July 1	Efficiencies
Wednesday	July 15	Efficiencies
<i>Wednesday</i>	<i>July 22</i>	<i>Draft: Efficiencies section</i>
Wednesday	August 5	Spending Reductions
Wednesday	August 19	Spending Reductions
<i>Wednesday</i>	<i>August 26</i>	<i>Draft: Spending Reductions section</i>
Wednesday	September 2	Revenue Increases
Wednesday	September 16	Revenue Increases
<i>Wednesday</i>	<i>September 23</i>	<i>Draft: Revenue Increases section</i>

<u>Day</u>	<u>Date</u>	<u>Focus</u>
Friday	September 25	Review draft report with union representatives
Thursday	October 1	Public Forum
Wednesday	October 7	Committee review and adoption of final report
Wednesday	October 14	Presentation of report to B.O.S.

In addition to the above plan, the committee agreed to communicate by email and to have a conference call bridge for every meeting so that anyone who could not attend in person could participate by telephone. A draft agenda was circulated before every meeting and then amended and approved as the first order of business at each meeting. Draft minutes were also circulated by email for review and then approved at each of the subsequent meetings. All documents relating to the work of the committee were posted on the Town website <http://www.nantucket-ma.gov/>, and a portion of each meeting was reserved for public comment. At each meeting, committee members were asked to undertake various research tasks, “homework”, and report their findings at the next meeting. A draft report was prepared at the end of each of the four elements of the committee’s charge so that ample time would be available for revisions and preparation of the final report would be expedited.

Criteria for Essential Services

The committee spent most of the first meeting, on May 20, 2009, receiving an overview of the current Municipal Budget, discussing and agreeing on the plan of action and discussing the research needed for this first element of the charge. [Please see Appendix A for the agenda and minutes of each meeting] The second and third meetings, on June 3rd and June 17th, were devoted to discussing the results of research into how other communities defined “essential services” and to developing our own draft criteria.

Once the committee had completed the list of criteria for essential services, we conducted an exercise in which each member applied the criteria to a representative list of Town functions. The exercise had several objectives: to test whether the criteria were “workable” as determined by a reasonable congruence of responses; to highlight any of the selected Town functions that need better definition; and to gain practical experience using the list. The results were tabulated and showed that there was 100% agreement on 14% of the functions tested and 90% agreement on 19% more functions for a combined congruence of 33% on the functions tested, which led to the general conclusion that the criteria were workable. However, the exercise also demonstrated that the ground rules for the application of the criteria need to be defined clearly. In the following paragraphs, we will discuss some of the committee’s observations.

First, the criteria are only one of the tools that should be used in the budgeting process. Other priorities can and should be taken into consideration before a final decision is made to eliminate or reduce a service defined as non-essential by the criteria. The actual cost to perform a function, or be saved by its elimination, should be factored in to any final decision during the budget process. The dynamics of balancing services against funds is constantly changing. When there are insufficient revenues available to meet expenses, some services must be cut or reduced or additional revenue sources must be found. But when ample funds are available,

some services are added that, over time, become accepted and expected and are viewed by many as “essential”. The application of these criteria should help to redefine the boundaries between essential and non-essential.

Second, the time period for the application of the criteria must be specified. If the time period is one year, for example, many services might be classified as non-essential that would be deemed essential if the period is five years. Maintenance of buildings or machinery is a good example. Maintenance could be reduced or eliminated for a short time period – perhaps one year – but the cumulative effect of eliminating that function could, in the long term, be more expensive than the on-going maintenance itself.

Third, the functions to be evaluated must be clearly defined so that all evaluators understand what is described. The functions themselves need to be divided into small groups of discrete and similar activities. For example, “tree maintenance” might be sub-divided into “routine tree trimming and treatment” and “removal of storm debris”. The former might be defined as non-essential, while the latter might be considered essential. Also, those functions that are mandated by federal, state or local laws or are governed by contracts should be so identified.

Fourth, the application of the criteria needs to be monitored to insure that the evaluator is using the criteria as the standard, not his or her own opinions. We recommend having the list of criteria and the list of services being evaluated next to each other during the process. Further, each evaluator should be prepared to describe, in a peer-group discussion, what criteria that person used to place a service in the essential category and why.

The following is the committee’s recommendation for criteria for essential services on Nantucket and should be used with due consideration of the above observations:

An essential service provides a direct, broad-based benefit to the Nantucket community and includes one or more of the following:

- ***Is required by federal, state or local mandates.***
- ***Can only be provided by local government.***
- ***Can most efficiently be provided by local government, recognizing the unique geographic limitations of Nantucket.***
- ***Does not duplicate services provided by other governmental agencies or the private sector.***
- ***Provides a service without which it is impossible to govern.***

Potential Efficiencies in Current Operations

The committee spent the next two sessions, July 1st and July 15th, discussing potential efficiencies in the current Town operations. It should be noted at the outset that it was difficult, on many occasions, to distinguish between an “efficiency” and a “cost reduction” and our discussions frequently moved from one area to the other. Nevertheless, our initial discussions

centered on the loose amalgam of recommendations called “best management practices” and “general efficiencies”. The former includes, for example, establishing management by objectives for each department and right-sizing the organization. Under general efficiencies, we developed a long list of departments or functions that should be examined as candidates for consolidation or outsourcing. In addition, we developed a shorter list of functions that could be candidates for sub-contracting to non-profits or other non-government organizations. As the discussions matured, we added a third general category, “specific efficiencies”, that included such items as; establish a municipal gas station and create minimum and maximum salary and wage scales.

We again made several observations about the process and our recommendations as they developed. First we learned that several of the recommendations are in the process of being implemented by Town departments. While this is commendable, constant vigilance is needed to insure that the practices are both understood and followed over a long period of time.

Second, we observed that many suggested efficiencies have costs associated with their implementation which, in difficult budget times, may be hard to come by. For example, one efficiency suggested is to establish a municipal gas station. While a municipal station certainly would allow for more efficient monitoring of fuel use and savings from bulk purchases of fuel, the up-front cost of the operation could be considerable.

Finally, we concluded that we should prioritize our list of suggested efficiencies so that the Town’s limited resources could concentrate on those top recommendations. We divided our priorities into two groups: 5 efficiencies that, if implemented before June 2010, will have the greatest impact on the Town during FY 2011 (July 2010-June 2011); and 3 efficiencies that, in the longer term, will have the greatest impact on the Town's operation over the next 10 years. Here is our recommended list:

1. 5 Efficiencies with Identified Potential Impacts if Implemented for FY 2011

(with relevant comments from committee members)

- **Examine outsourcing Town mowing, trash pick-up, snow-plowing, road maintenance** - *most of the road maintenance is outsourced currently.*
- **Examine the consolidation of Park & Recreation, Community School and Community pool**
- **Examine legal service costs**
- **Examine full-day kindergarten**
- **Examine options for possible restructuring of Visitors Services and the Chamber of Commerce**

2. 3 Efficiencies with the Greatest Long-Term Impact

- **Renegotiate Waste Options contract**
- **Examine privatization of Our Island Home**
- **Establish Management By Objectives for each Town department** - *this is a management issue*

It may be useful in the future to know all the efficiencies considered by the committee as it developed the above list. Therefore, we have included in Appendix B a complete list of all the efficiencies we considered.

APPENDIX B

Other Potential Efficiencies Identified by the Committee

Potential Efficiencies	# Votes	Committee Comments
1. Outsource vehicle maintenance and repair	3	Most of the Town's vehicle repair and maintenance is already outsourced. However, the Town could possibly benefit from having a consolidated contract for vehicle maintenance and repair the Town's sedan and light truck fleet.
2. Examine consolidation of Zoning office and Building department	3	The zoning enforcement office is already part of the Building Department. Subject to the availability of funds, the Town intends to conduct an organizational study of permitting departments to determine if efficiencies can be identified by consolidating permitting functions in one department.
3. Consolidate school and Town finance departments	3	
4. Examine staffing levels of Town and school departments	3	The Town has conducted two organizational studies of 2 Town departments in the last 18 months, the Finance Department and the Department of Public Works. The Town intends to continue to examine the structure, organization, and operations of Town departments to ensure departments are: appropriately staffed; operating efficiently; and are following the appropriate best practices for the department. Properly implementing the recommendations of an organizational study takes time, and in some instances may require additional resources. As recommendations of the organizational studies that have been conducted are close to being fully implemented, Town Administration intends to recommend conducting an organizational study to identify efficiencies for the Town's permitting departments, which includes: the Building Department; Historic District Commission; and Conservation Commission.
5. Add positions to increase analysis and reduce consultants	2	
6. Examine Human Services for overlaps	2	

7. Examine subsidies to N.R.T.A,	1	The Town does not provide a direct subsidy to the N.R.T.A. However, the Town is assessed by the state for N.R.T.A. This most recent assessment, which is assessed to any Town that is part of a regional transit authority, is \$304,121. The state deducts this assessment from state local aid payments to the Town. The Town does not use locally generated revenues to pay this assessment. Without this assessment, Nantucket would not be able to have a regional transit authority, which means that bus service would no longer be provided.
8. Create minimum and maximum salary and wage scales	1	Contained in contracts now; the Town will conduct a wage study in fiscal 2011.
9. Examine school administration and structure	1	Actively being implemented
10. Examine/reduce number of drive-home vehicles	1	Of the 118 sedans and light trucks, only 12 vehicles are authorized as take-home vehicles. Three departments have authorization for take-home vehicles: Police Department (7); Fire Department (2); and Department of Public Works (3). All personnel authorized to take-home a Town vehicle are on call 24 hours a day, 7 days a week to respond to emergencies. With the exception of the Chief and Deputy Chief for the Police and Fire Departments, Town policy dictates that take-home vehicles may be used only for official Town business. 10 of the 12 vehicles are provided to key personnel to improve response times in case of emergency. The remaining two take-home vehicles are for canine officers, who care for their canines at home, and require specialized vehicles to transport their canines. Eliminating these take home vehicles will effectively eliminate the Police Department's canine program.
11. Examine payments from Enterprise funds	1	The Town has had a collaborative relationship with the Water Company and the Airport. The Water Company administers sewer billing for the Town and maintains fire hydrants at no cost to the Town. The Airport serves as mutually aid for the Town's Fire Department, and has purchased heavy equipment for the Fire Department that can be used to respond to emergencies at the airport and elsewhere. The Airport has also provided

		<p>land to the Park & Recreation Department to use for playing fields.</p> <p>Over the last year the Town has worked with the Water Company and the Airport to develop a mutually agreed upon indirect cost methodology. Under this methodology, which is transaction based, the Water Company and the Airport will provide payment to the Town for administrative support the Town provides to these enterprise funds. The Water Company has accepted this methodology, and the Airport has accepted this methodology in concept. However, approval of the indirect cost methodology is needed from the Federal Aviation Administration.</p>
12. Examine combining Police and Fire dispatchers	1	This effort is underway, and the Town expects to implement centralized dispatching upon completion of the new Public Safety Facility.
13. Consolidate/outsource beach management	1	Cleaning is outsourced now
14. Create an environment of continuous improvement	1	<p>The Board of Selectmen, as part of its Goals & Objectives Process, has adopted the Goal to Improve Administrative Management. This Goal is supported by the Town Manager's 2009-2010 Management Priority to: Continue to identify and implement ongoing efficiencies with municipal organizations and annotate processes, procedures and policies. This Management Priority is similar to a 2008 – 2009 Management Priority to: Continue to analyze and identify ongoing efficiencies with municipal organizations and functions.</p> <p>The Town Manager has established these Management Priorities in an effort to create an environment of continuous improvement. In order for this effort to be successful, it is important for continuous improvement to be emphasized in all facets of Town government.</p>
15. Remove all management personnel from bargaining units	1	
16. Outsource school and Town payroll processing	1	Outsourcing the processing of payroll will still require having a Town employee dedicated to collecting payroll information and providing the information to the vendor to process payroll. The additional cost of paying

		a vendor to process the Town payroll, in conjunction with the fact that staff will still need to collect payroll information, suggests that little if any efficiency will be achieved through outsourcing the Town's payroll.
17. Centralize purchasing of all departments	0	This effort is already underway. Beginning in August of 2009, the Town will phase in centralized purchasing for all Town departments. Centralized purchasing is scheduled to be fully implemented for all Town departments by October of 2009. Centralized purchasing will not include the Airport or the Schools, which could consider participating in the Town's centralized purchasing program in the future.
18. Outsource school maintenance	0	
19. Focus on all Town stakeholders	0	
20. Outsource certain functions to non-profits and others	0	
21. Charge for Medflight support	0	
22. Privatize ambulance service	0	
23. Eliminate/reduce number of Town cell phones	0	Cell phones are a useful tool for departments that frequently conduct business out of the office. Providing centralized management of cell phones, rather than having departments individually manage cell phone usage, could result in an efficiency.
24. Negotiate bi-weekly or monthly pay periods	0	This effort is underway. The Town has negotiated bi-weekly pay with the Police Union, and the Laborer's Union has agreed to switch to a bi-weekly pay period when it is ready to be implemented Town-wide. A bi-weekly pay period will be implemented for contractual employees this fall. The Town needs to reach agreement with the DPW union, SEIU and the Fire Union to fully implement a bi-weekly pay period. The Town will seek to reach agreement with these unions on bi-weekly pay during contract negotiations with these unions. The Town has also implemented direct deposit, which is more efficient than issuing a paycheck.