



Town of Nantucket
Fiscal Year 2021 Budget Message
(July 1, 2020 – June 30, 2021)
December 11, 2019
As of 12/10/19



A buoy is an anchored float that serves as a guide to show hazards or to keep something from sinking

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I. Introduction

Challenges. Continuity. Caution. These three “C’s” are the basis of our budget recommendations for FY 2021. The Town ended FY 2019 in a strong financial position and preliminary results for FY 2020 are positive overall. We remain confident but cautious going into FY 2021. We are monitoring several economic and financial indicators, some of which are showing continued signs of leveling off. The following demonstrate the Town’s challenges and successes in maintaining its strong financial condition:

Challenges.

Our Island Home (OIH). The Town’s municipally-operated nursing home (the only municipal skilled nursing facility in Massachusetts), despite having been made an Enterprise Fund in 2011, is not an operation that generates enough revenue to fully fund its operations. There are a variety of reasons for this including the relatively small number of beds (licensed for 45), collective bargaining restrictions, regulatory requirements, condition – as nursing homes go, it is not a modern facility and as it ages it requires more and more maintenance and repairs. Federal and state reimbursements do not cover the daily cost of care for a resident – which varies, depending on what level of care they are receiving (*see chart below this paragraph*). Currently, in FY 2020, the OIH subsidy from the General Fund is budgeted at \$2,276,181.

Primary Pay Source	Current Census (as of 12/3/2019)	Average Payment Rate Per Resident Per Day	Cost Per Resident Per Day (based on 2018 Cost Report)	Difference in Payment vs. Cost per day	Current loss per day based on Resident census
Medicaid/MassHealth	30	\$225.47	\$661.95	\$(436.48)	\$ (13,094.54)
Medicare A	5	\$521.67	\$661.95	\$ (140.28)	\$ (701.42)
Private	5	\$560.00	\$661.95	\$ (101.95)	\$ (509.75)

The topic of an override for Our Island Home (OIH) has been part of budget presentations and discussions for the last four years. For the last two years, we had the following comments in the Budget Messages:

FY 2019 Budget Message

If we were not realizing savings from health insurance changes ... we would be proposing an operating override [in FY 2019] for Our Island Home ... Since we can fund some of the most important expense increase requests with available funds, we are not recommending that for this year. With no large projected savings – such as from health insurance – in FY 2020; considering funding challenges to meet demands; and other budgetary items on the “radar” for FY 2020, we recommend that a discussion regarding the possibility of an operating override to provide direct funding for Our Island Home take place now in anticipation of the FY 2020 budget.

FY 2020 Budget Message

As we progress through FY 2019, the operations at Our Island Home and also the Solid Waste Enterprise Fund have given Town Administration some cause for concern. During the tax rate setting process for FY 2019, the Department of Revenue asked the town about the amount of

revenue projected for the enterprise funds. Based on the first quarter of FY 2019, it now appears to be possible that we may not meet the revenue targets established during the FY 2019 budget process. If this concern becomes reality, then the town will be required at the 2019 Annual Town Meeting to make transfers from other available funds, including the General Fund, or from certified free cash. Faced with this possible reality, which would not only impact FY 2019, but most certainly impact FY 2020 along with the future impact of year-round NRTA service coming in FY 2021, we are again recommending that we have serious discussions about the targeted override for Our Island Home that has routinely been raised, and quite possibly Solid Waste as well.

The projected gap for FY 2021 between OIH revenues and expenses is approximately \$5,300,000. In prior years this gap has been covered by a general fund subsidy and retained earnings. For FY 2021, closing the gap is projected to require approximately \$3,700,000 from the General Fund and \$1,600,000 from retained earnings*. Retained earnings for OIH are uncertain going forward and facility expenses are increasing as well as regulatory pressures which are likely to require more improvements to the facility than are currently accounted for.

For FY 2021, we are recommending an override to fund the operations of Our Island Home so that:

- the General Fund subsidy may be:
 - reallocated to town and school operations
 - reserved for budgetary flexibility in the event of an economic downturn or one-time community need
- OIH reliance on its use of retained earnings in its operating budget may be reduced or eliminated
- we may ensure that there is an on-going funding source for OIH operations and potential capital needs without compromising town operations.

**Retained earnings is the amount of funds that is annually certified by the state Department of Revenue, following the close of the fiscal year. These funds are a combination of unspent budgeted expenditures and revenue which has been received above budgeted levels. See Appendix A for OIH Retained Earnings and General Fund Subsidy histories.*

NRTA Year-round Shuttle Service. In 2018, the NRTA began year-round shuttle service. NRTA operations are funded through state contributions as well as an assessment to the Town on the state's "Cherry Sheet". The FY 2021 Cherry Sheets are not out yet; however, we have been advised by the NRTA that the increase between FY 2020 and FY 2021 will be \$436,000. See Appendix B for the FY 2020 Cherry Sheet and NRTA FY 2021 letter.

Our FY 2019 Budget Message contained this comment:

The Board of Selectmen voted on September 13, 2017 to implement year-round NRTA service beginning in FY 2019. The NRTA's estimated cost for year-round service is \$838,000 with an estimated off-set of \$427,000 from fares. The amount of the cost not covered by fares will be covered by a charge to the Town, beginning in FY 2021. This will mean that cost will have to be

covered in the Town's budget, unless an alternative source of funding is available. Town Administration is concerned about the impact of this potential cost to the General Fund budget and recommends that the Board seriously consider an override in FY 2020 to cover this cost.

An override was not put forward, and the FY 2021 budget contains an additional assessment for the year-round service (\$436,000). Since there is no dedicated funding source at this time for the year-round service, there is less room for funding expanded programs, initiatives or new requests.

Strategic Plan Initiatives. The Board's Strategic Plan (Summary found in Appendix C) contains several initiatives that require funding. The challenge is to fund them, while continuing to fund existing operations. One of the Board's initiatives is a paid parking program that would go into effect in FY 2022; however, in order for that to happen, some items need to be budgeted in FY 2021, because they must be in place ahead of time. We anticipate that over time, a paid parking program could potentially pay for itself but there is a need for upfront funding to get it underway. With the additional pressure on the budget from new initiatives, plus the OIH and NRTA subsidies, it is very challenging to put forward a balanced budget that accommodates even existing services.

Continuity and Financial Strengths.

- The Town's bond rating was upgraded from an Aa1 to Aaa by Moody's Investor Services in October of 2018 (Appendix D) with a Stable Outlook. The Town continues to have a rating of Aa+ from S&P Global. The Moody's rating is the highest rating for a municipality and Nantucket is one of 15 (out of 351) cities and towns in Massachusetts to achieve this rating. The benefits of these high ratings include the opportunity to borrow at lower interest rates.
- Free Cash for use in FY 2020 and FY 2021 was certified by the Department of Revenue on October 21, 2019 in the amount of \$10,334,761 for the General Fund. This amount is believed to be the highest amount ever certified for the Town. Pursuant to Town policy and best management practices, Free Cash is only used for non-recurring items. Free Cash is typically used for capital projects or items or other one-time expenses. See Appendix E for a five-year history of certified Free Cash.
- The Stabilization Fund remains strong with a current balance of \$5,411,965 (Appendix F). A best management practice is to have reserves that are 10% of the budget. Using an approximate budget of \$100,000,000, the Stabilization Fund balance is approximately 5.41% of the budget. However, when we account for the Certified Free Cash (undesignated reserves) balance of \$10,334,761, the reserve amount exceeds the best management practice guideline as per the Town of Nantucket Financial Reserves Policy (Appendix G).
- The Town maintains a balance of \$1,250,000 in the Capital Projects Reserve Fund. The current balance represents 1.25% of expenditures while the target is 3%.

- Short-term and long-term capital project planning continues. In the fall of 2017, the Capital Program Committee, working with Town Administration began to develop a more robust review process, involving a standardized ranking system that allows for a consistent approach to prioritizing capital projects in a systematic manner, and provides additional transparency as well accommodates anomalies or unusual circumstances. Software was developed for the town to more efficiently review and process capital requests for all stakeholders involved in the capital planning process. The process was used for FY 2020 projects and continues with FY 2021 capital planning.
- Increased focus on Town infrastructure continues. The FY 2019 General Fund budget allocated additional funds to the DPW budget for a Deputy Director of Public Works, whose primary focus is on town-owned facilities. One of the first tasks for that position is to begin compiling a comprehensive listing of all town-owned facilities, along with condition assessments, current maintenance needs, and a maintenance schedule. The position was filled in the fall of 2018; however, less than 12 months later, the individual left the island for another opportunity and this process has become delayed. We are working toward filling the position again and anticipate getting this back on track during FY 2020. The FY 2021 Capital Project recommendations will continue the focus on infrastructure maintenance and improvement.
- Local receipts including meals excise tax and room occupancy tax revenues remain stable after a strong growth period in the aftermath of the Financial Crisis of 2007-2008. New growth may be showing signs of slowing. In FY 2020 it was certified at \$1,057,634, a \$225,364 decrease from FY 2019 (17.56% reduction). Comparatively, new growth increased 2.49% between FY 2018 to FY 2019 (Appendix H).

In January of 2019, the state enacted new legislation that expanded the hotel/motel room occupancy tax to cover certain short-term rentals. Link: <https://www.nantucket-ma.gov/1327/Short-Term-Rentals>. Collections began in early FY 2020. First quarter FY 2020 reports indicate a significant increase in room occupancy tax receipts. Based on this we will review the potential to increase our projected revenue; however, until we have seen a full year of the expansion being in place it would be unwise to budget more. Additionally, with regard to this new revenue source, the Board has had some discussion as to reserving some amount of it for specific purposes – this could require special legislation. Specific purposes which have been discussed include water quality programs, affordable housing, human services, infrastructure improvements/maintenance. In order to determine what amount to potentially reserve, again, we should have a better picture of how much additional revenue we may be realizing from this expanded tax. Meanwhile, we should be cautious with its use.

- The Town maintains its commitment to funding the OPEB Trust Fund (Other Post-Employment Benefits) with annual contributions of \$500,000 since 2015 and therefore lower its net liability. The current balance of the OPEB Trust Fund is \$3,130,512 (Appendix I).
- The Town continues to make its annual required funding to the Barnstable County Retirement System. When compared to the rest of the Commonwealth’s municipalities, Nantucket remains in the top half in terms of retirement funding levels.
- In past fiscal years, the Town has realized significant savings in certain rapidly growing fixed costs, primarily in health insurance and the Town’s general insurance coverages. First, in FY 2018 the Town rebid all its insurance policies with the help of industry experts and secured comparable coverage at lower costs to the Town. Secondly, to address ever rising health insurance costs, the Select Board authorized plan design changes which generated a one-time cost reduction of approximately \$1,000,000 in FY 2019. This one-time action allowed for increased flexibility in the FY 2019 budget to focus on the items that were recommended. While that savings was helpful for FY 2019, nation-wide health insurance costs continue to rise, as do other costs and it will be difficult to continue to fund new programs, services and on-going expenses with projected costs outpacing revenue (See Appendix J, *Government Finance Review* article February 2019)
- For the fifth consecutive year, the Town was awarded the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the Town’s Fiscal Year 2018 Comprehensive Annual Finance Report (CAFR), <https://nantucket-ma.gov/ArchiveCenter/ViewFile/Item/400>. Our Fiscal Year 2019 CAFR is in the process of being submitted to GFOA.

Caution.

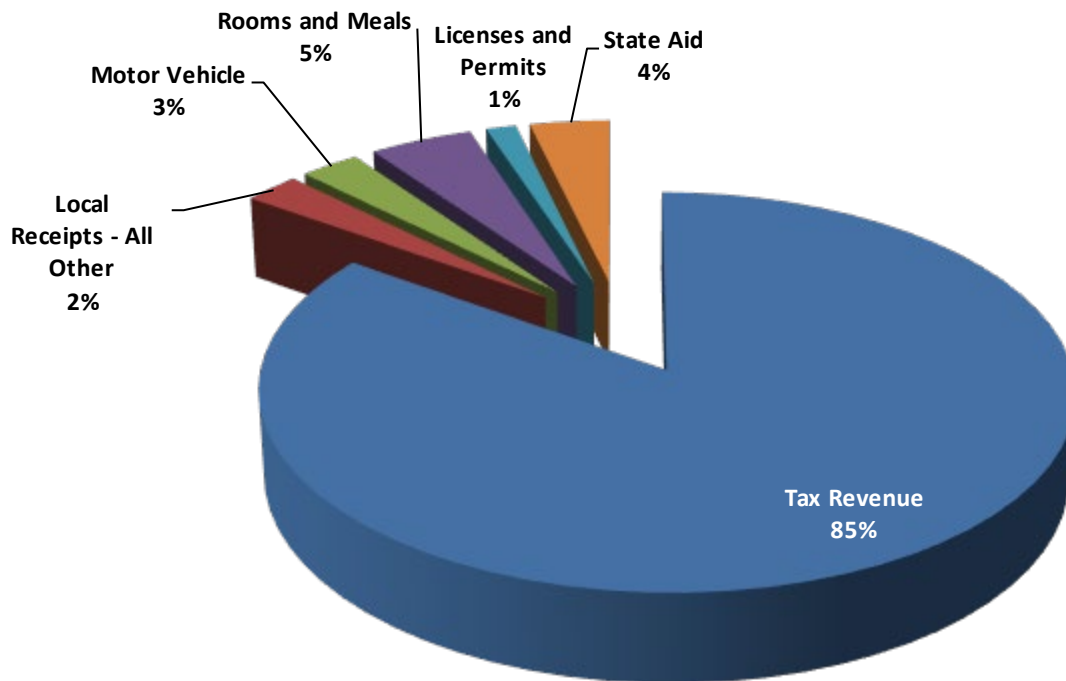
We are closely monitoring local economic trends – we want to be cautious with our revenue projections. Some retail sales reports indicate a downward trend; and, some real estate data is showing properties for sale are on the market longer and selling at less than the listing price. (See Appendix K, a. – “*Nantucket Real Estate Market Insights* by Fisher Real Estate”). Local economic conditions continue to appear stable despite a significant surge in activity on the Island in the last few years. At the national level, indicators are still largely positive with employment at stable levels and gross domestic product maintaining the momentum from the past few fiscal years, although growth in future years is predicted to start slowing. (Appendix K, b. – “*United States Economic Forecast* by Deloitte Insights”). On the other hand, interest rates are expected to continue to rise over the next year, the impacts of recently enacted tax legislation are beginning to wane, and wage growth is still mostly stagnant. Some might argue we are due for a market correction sooner rather than later (See Appendix K, c. – “*Global Economy Will Avoid Recession and See Some Recovery in 2020* by the Conference Board”). Here on the Island, the Town faces a balancing act between the increasing demands of a growing community, rising costs and financial flexibility. Again, this year, the growing needs of the community are putting pressure

on the Town's ability to fund programs, needs and requests and remain below the levy limit for FY 2021.

Each year, we must present a balanced budget which represents a plan of service for the community. Not all requests and competing needs can be met to the degree desired by individual groups and departments. We continue to be impacted by the effects of the current growth period on the island, which is straining Town resources. Fixed costs are always increasing, especially those of employee benefits, service contracts, supplies, insurance and (generally) utilities. The Town's levy capacity for FY 2021 allows for minimal increases to existing Town and School operations after allocations to Our Island Home and NRTA.

II. Overview of FY 2021 General Fund Budget Projection

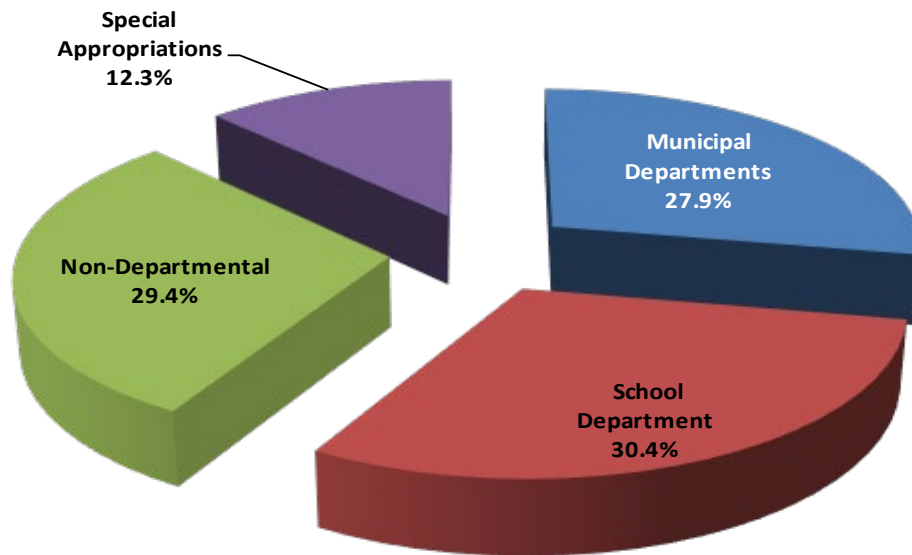
A. Projected FY 2021 General Fund Revenue



As noted earlier, local economic revenue indicators are showing overall continued strength. In FY 2019 there were modest to significant increases in most areas of revenues such as: new growth, building permits, room occupancy taxes, meals taxes, ferry embarkation fees and

motor vehicle excise taxes. As we near the end of the first half of FY 2020, we are seeing increases in certain revenue categories while others (building permits, for example, see Appendix H) are showing signs of stabilizing or even slight decreases year-over-year. Refer to Appendix L for a detailed breakdown of the FY 2021 proposed General Fund budget revenue as compared to the FY 2020 approved budget.

B. Projected FY 2021 General Fund Expenses



The proposed FY 2021 General Fund budget will fund:

- Projected Town and School salaries and fixed/current operational expenses – with limited additional positions and programs.
- Fixed costs allocated between several expense categories including:
 - Health Insurance for active and retired employees, which is projected to rise at a rate of 8% for FY 2021. While the town did realize cost savings because of plan design changes in FY 2019, increased utilization of the plan, and the continued rise of medical rate inflation have had an impact on the FY 2021 health insurance budget.
 - General Insurance is projected to increase 13% from FY 2020 actuals based on current trends. The increase is resulting from the large losses that carriers have faced across the nation due to natural disasters over the past few years.
 - Debt Service is established by the current repayment schedule. Debt service has increased in FY 2021, which is a result of the town issuing debt for the Fire Station, as well as the first debt being issued for the Nantucket Harbor

Shimmo/PLUS Parcels sewer extension. The Town will see in the coming years a slow rise in debt service as new borrowings come on-line for prior approved projects. (Appendix M)

- Retirement assessment, in the Barnstable County Retirement System, is assumed to increase 8.5% in FY 2020.
- General Fund subsidies to the following Enterprise Funds:
 - Our Island Home – Proposed subsidy in the amount of approximately \$3,100,000 which is \$975,000 more than in FY 2020;
 - Solid Waste Enterprise Fund -- \$6,345,275 for landfill operations.
- Capital funds of \$1,033,750 within the budget, allocated equally between the Town and School departments for capital improvements, pursuant to a requirement of the Town Code:

The Town shall spend on capital projects a minimum of 1% of total Town local receipts collected in the prior fiscal year plus 1% of the total real estate and personal property taxes collected in the prior fiscal year. If local receipts fall below the 1% minimum, the Town may forego the funding requirement. Nantucket Town Code Chapter 11, § 11-12.1

- Other Annual Appropriations for the following:
 - \$500,000 to the Other Post-Employment Benefits (OPEB) Trust Fund, in accordance with the Town’s OPEB policy. FY 2021 will be the 7th consecutive year in which a deposit to this Trust Fund is made. The current balance of the fund through the first quarter of FY 2019 is \$3,130,312 (Appendix I);
 - \$500,000 to the Reserve Fund (see Appendix F);
 - State Cherry Sheet charges, the County Assessment and unpaid bills from prior fiscal years;
 - the annual Health and Human Services appropriation is level-funded at \$450,000.

Refer to Appendix N for a detailed breakdown of the FY 2021 proposed General Fund expenses as compared to the FY 2020 approved budget

III. Town Administration Expense Increase Recommendations

Background

Over the past 6-7 years, Nantucket has experienced significant growth and the Town’s scope of responsibility has increased. We have taken on and/or funded initiatives in response to needs, requests and/or mandates yet staffing and service levels have not all kept up with the island’s growth, particularly in areas such as: infrastructure and public building maintenance, project management, code enforcement, parking enforcement, expansion of water quality initiatives, community and town employee housing efforts. In addition, global, national and regional issues of coastal resiliency and solid waste management are becoming more and more critical in terms of climate change, sea level rise and sustainability of natural resources. During FY 2020, the Select Board updated its Strategic Plan, which is intended to help focus Board initiatives and budgetary allocations toward the goals contained within the

Plan. Information as to the specifics of the Strategic Plan may be found on the Town website at <https://nantucket-ma.gov/1530/Strategic-Planning>. The FY 2018 budget contained funding for a Town-wide Staffing Study (excluding the School and all Enterprise Funds with the exception of Sewer) to help us determine if a) staffing levels are sufficient (based on industry standards, as applicable) to provide the level of services and programming necessary to meet the demands of the community; b) recommendations on any staffing needs, process or other improvements that will overall improve town operations and efficiencies. We engaged The Novak Group to conduct the study in June 2018 and the final report was presented to the Board on December 19, 2018, which can be found at <https://nantucket-ma.gov/DocumentCenter/View/23207/Nantucket-Staffing-Study-Report-December-2018>. During 2018, The Novak Group also prepared an Operational and Staffing Review of the Planning & Land Use Services (PLUS) Department, which was completed in February, 2019. That report also contained several recommendations, some of which will need to be funded in order to implement. Between the Staffing Study and the PLUS report, many of the recommendations that require funding will be considered by Town Administration and the Select Board over the next several budget cycles, not all requests and recommendations can be addressed at once. Both Reports can also be found on the Strategic Plan webpage at <https://www.nantucket-ma.gov/1530/Strategic-Planning>.

FY 2021 Expense Increase Requests

Departmental expense increase requests for FY 2021 are shown in Appendix O, separated into categories of:

- Personnel Requests
- Expense Requests – One-time
- Expense Requests – On-going.

Using a point system, with “Legal Mandate” being automatically supported, the requests were individually ranked and prioritized in accordance with the following criteria:

<u>Ranking Criteria</u>	<u>Scale</u>	<u>Description</u>
Legal Mandate	Y/N	Required by State/Fed or Local Bylaw (Y = Automatically Fund; Score of 9.0)
Staffing Study	0-2	Is it within the Staffing Study? If yes, 1 or 2 score would be determined by priority level (2 for higher priority)
Strategic Plan	0-2	Is it within the Strategic Plan? If yes, 1 or 2 score would be determined by priority level (2 for higher priority)
Staffing Study & Strategic Plan	0-1	Is it in <i>both</i> Staffing Study and Strategic Plan then 1 additional point to weight it higher
Department Operations & Efficiency	0-1	Funding necessary to support provide a department with necessary support for existing <i>or</i> new program
Approved New Programming	0-1	Funding necessary to support a new initiative

Necessary for Existing Programming	0-1	Funding necessary to support or expand ongoing initiatives
Continuation of Operations	0-1	Funding necessary to support unexpected increases or items already operationalized (eg. software licenses)

Since it will not be possible to fund most of the requests without either additional revenue or reductions elsewhere, we have:

- focused our recommendations on the Board’s Strategic Plan, the Staffing Study, the PLUS report and critical Town operational issues
- recommended use of funds from other sources (fund the one-time expenses from Free Cash)
- reallocated existing resources, where possible, to accommodate the request
- not recommended funding or a different approach (in other words, no action)
- recommended an operating override to fund the operations of Our Island Home

Even with the above actions, we do not have the funding to accommodate most of the FY 2021 expense increase requests (Appendix O). We have prioritized them using the system noted above, and recommendations follow:

Department	Description of Expense Request	Ongoing	Approved EIRs (1)
Personnel Expense Increase Requests (EIRs)			
DPW	Construction Inspector	Ongoing	107,387
Police	Parking Enforcement Officer	Ongoing	83,000
Police	(3) Addntl CSO's for Expanded Parking Hours	Ongoing	40,000
Total Personnel Expense Increase Requests			\$ 230,387
Operating Expense Increase Requests (EIRs)			
Town Clerk	Elections Expenses- Voting Tabulators	One-Time	10,000
IT	Upgrade the Town Exchange Mail Server to most current version	One-Time	10,000
IT	Phase III Energov	One-Time	80,000
Fire	Equipment and Trailer for Mass Casualty Preparedness	One-Time	15,000
Fire	Active Shooter Hostile Event Response (ASHER) Equipment	One-Time	30,000
HR	Compensation & Classification Study	One-Time	50,000
PLUS	Professional Services Related to Update of 2009 Master Plan	One-Time	100,000
PLUS	Replacement Vehicle for PLUS Fleet	One-Time	27,000
PLUS	Prof. Svcs Related to update of Historic Architectural surveys from HDC	One-Time	100,000
Town Admin	Potential Data Collection Initiative	One-Time	60,000
Town Admin	Sustainability Office	One-Time	100,000
Town Admin	Strategic Plan Initiatives	One-Time	100,000
Town Admin	Rental Regulations Assistance	One-Time	60,000
Town Admin	Governance Workshops	One-Time	100,000
Town Admin	Professional Administrative Support Services	One-Time	100,000
Total Operating Expense Increase Requests			\$ 942,000
Total Town Personnel & Operational Expense Increase Requests			\$ 1,172,387

(1) Includes Health Insurance Benefits

FY 2021 Personnel Expense Increases

1. Department of Public Works

One (1) new position:

Construction Inspector

This position has been discussed for several years. With the increase in development, there is a growing impact to municipal infrastructure, including roadways, sidewalks, and storm water drainage. A recent issue has also been raised about utility petitions and associated roadway

and sidewalk work in connection with them. All of these need to be considered and reviewed in a more coordinated fashion with the appropriate departments (a more robust coordinated review process is a recommendation within the above-referenced PLUS report). There are many examples of costly impacts to town infrastructure caused by development, utility, storm water drainage issues and private activities which could be avoided and/or mitigated with a position focused on compliance with regulatory requirements. The Town of Nantucket does not have a meaningful fee structure in connection with private roadway, sidewalk and storm water drainage work – if we are able to put a structure in place, fees could potentially offset the cost of this position.

2. *Police Department (all related to Board's Strategic Plan)*

Two (2) new year-round positions:

Parking Coordinator (1)

This position will be focused entirely on administering, overseeing, and monitoring the Town's parking enforcement program. It will collect data to help determine how best to implement the Board's Strategic Plan Transportation Goal #1 "Launch a downtown parking management system based on demand management principles that achieves (or is measured by) 85% occupancy of public parking spaces." The position will be hired in FY 2020.

Year-round Parking Enforcement Officer (1)

This position will support year-round, consistent enforcement of parking regulations and will help support the implementation of paid parking in FY 2021.

Three (3) new seasonal positions:

Additional Community Service Officer positions to assist with parking enforcement. It is likely that the hours of parking enforcement will be increased in FY 2021 – it will be necessary to have additional staff on board to handle the expanded time frame.

Ultimately, it is anticipated that the implementation of paid parking, could generate an increase in revenue to offset the cost of these positions.

FY 2021 Operational Expense Increases (One-Time)

The items listed below are considered one-time and as such, may be funded through Free Cash.

1. *Town Clerk*

New voting tabulators - \$10,000

2. *Information Technology*

Upgrade Town's Exchange Mail Server to most current version - \$10,000

Implement Phase III of Energov (e-permitting system) - \$80,000 (Relates to Strategic Plan)

3. *Fire Department*

Trailer with equipment for mass casualty preparedness - \$15,000

Active Shooter Hostile Event Response (ASHER) equipment - \$30,000

4. *Human Resources*

Compensation & Classification Study - \$50,000

5. *Planning & Land Use Services (PLUS)*

Professional Services in connection with update of 2009 Master Plan - \$100,000

Replacement of vehicle - \$27,000

Professional Services in connection with update of historic architectural surveys for HDC - \$100,000

6. *Town Administration*

Commuter shuttle - \$100,000 (expected to start in late FY 2020)

Data analysis initiative - \$60,000

Sustainability Office - \$100,000 (pending the outcome of a plan, funded through a grant from ReMain, which is underway currently)

Strategic Plan initiatives - \$100,000

Governance workshops for Select Board - \$50,000

Professional administrative support services - \$50,000

FY 2021 Operational Expense Increases (On-going)

None of these are funded.

IV. Current and Future Year Considerations

Sustainability

There has been discussion at the Board level as to including a “Sustainability” component to Town government to oversee, initiate and coordinate activities such as examining the environmental, resiliency and other impacts of development projects or proposals, public outreach and education for sustainability-related programs, provide support for the implementation of Strategic Plan goals and other Plans (Harbors Plan, Hazard Mitigation Plan for example), and to seek and manage grants that could support these measures. In FY 2020, through a grant from ReMain, we secured a consultant to make recommendations as to how to structure a sustainability function within the Town’s government. The consultant’s report is pending; it may be that we evaluate the findings and design a course of action for FY 2022. We have programmed \$100,000 into FY 2021 for this initiative.

Strategic Plan

In the first quarter of FY 2020, the Board updated its multi-year Strategic Plan (Appendix C, <https://www.nantucket-ma.gov/1530/Strategic-Planning>) which contains several on-going goals and objectives, some of which are funded in FY 2020, some are funded and will begin in late FY 2020 and carry through into FY 2021 (several of the parking-related initiatives, for

example); and, some are funded to begin in FY 2021. It is expected that as the Strategic Plan continues, some goals will be met, some will need on-going funding, and some will need to be funded in future years in order to be realized. It is intended that the Strategic Plan goals will be kept at the forefront of funding recommendations.

Staffing Study

The Staffing Study, <https://nantucket-ma.gov/DocumentCenter/View/23207/Nantucket-Staffing-Study-Report-December-2018>, will be a valuable tool when considering department personnel and resource requests. We intend to utilize it going forward and update it as needed. There are several items contained in the Study that could improve town operations, programs and services which could potentially be funded in future years. There also may be personnel/staffing issues that arise outside of the staffing study that need to or should be addressed.

Health Insurance

The “Cadillac Tax”, a component of the Affordable Care Act (ACA), is a federally mandated excise tax on high-end plans and is scheduled to be implemented January 1, 2022 (extended from 2020 under Trump Administration). In summary, employers will pay a 40% tax on all costs for health insurance plans in excess of \$27,500 for family and \$10,200 for individual plans with some inflation adjustment in future years. The majority of the Town’s plans are in excess of these thresholds. Because of pending legislation at the federal level which would eliminate the “Cadillac Tax”, this potential (significant) cost is not currently considered in our budgetary forecasting.

Coastal Resiliency/Infrastructure/Planning

Global warming, climate change and sea level rise have been more and more frequently appearing in the news media as growing issues for municipalities. In FY 2019, we completed an update to the Town’s Hazard Mitigation Plan, which can be found here <https://www.nantucket-ma.gov/1373/Hazard-Mitigation-Plan>. The plan contains over 50 projects that are supposed to be implemented over the next five years. The Select Board established a Coastal Resiliency Advisory Committee <https://www.nantucket-ma.gov/1391/Coastal-Resiliency-Advisory-Committee> to make recommendations about a variety of coastal resiliency issues, including a Coastal Resiliency Plan. In the next 2-3 years there will be an update to the Town’s Master Plan (<https://www.nantucket-ma.gov/1530/Strategic-Planning>) and an update to the Town’s Harbors Action Plan (<https://www.nantucket-ma.gov/DocumentCenter/View/29038/Harbor-Plan?bidId=>) will commence in FY 2020. All of these are likely to include recommendations for capital or other expenditures to address ways in which the Town can be responsive to the impacts of environmental change on Town infrastructure. We need to pay attention to this because expenditures and/or impacts are imminent. Other impacts could include the loss of taxable real estate and the Town’s bond rating.

Collective Bargaining

Appendix P shows the list of collective bargaining contracts. The contracts can be found at

<https://nantucket-ma.gov/163/Collective-Bargaining-Agreements>. Contracts were settled with most units in FY 2018 and 2019 for three years. Negotiations for contracts expiring in FY 2019 and 2020 are commencing now. Earlier in 2019, we began working with the Select Board and other voting agencies (Airport Commission, Nantucket Water Commission, School Committee), to develop our approaches to upcoming collective bargaining and to review financial projections, employee benefit costs, and universal union contract language issues.

Harbor Place

Discussions with the Harbor Place owner's group continued into FY 2019; had stalled by the end of the year and we expect discussions to resume this fall/winter. Depending on how the project develops, there may be an impact on Town resources in connection with future infrastructure maintenance and capital costs. It is too preliminary to be more exact at this point, but it should remain in our thinking for future budgets.

Per and Polyfluoroalkyl Substances (PFAS) – <https://www.mass.gov/info-details/per-and-polyfluoroalkyl-substances-pfas>

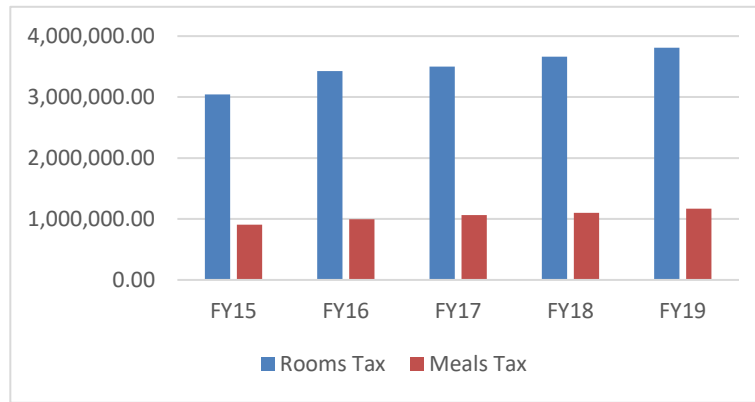
An emerging issue for municipalities across the country is PFAS contamination. As noted in material found on the state website, at all levels, governments are working toward developing ways to “holistically” address PFAS contamination. This issue is currently being discussed among the various Town departments that will be involved in determining the extent of PFAS issues on the island and this is likely to have a budgetary impact in both the General Fund and Enterprise Funds in the near future. It is unclear whether or not outside funding will be available to help offset what could be a substantial financial impact to cities and towns.

New/Expanded Revenue Possibilities

Although in the near future, current revenue sources appear to be stable, other areas to potentially look toward in the future for generating new revenue to cover needs and priorities include (several of these are part of a 2009 Ad Hoc Fiscal Committee Report - <https://www.nantucket-ma.gov/170/Ad-Hoc-Fiscal-Committee>):

- PILOT possibilities (Payment-in-Lieu-of-Taxes for entities that do not pay property tax, such as certain tax-exempt organizations such as hospitals, posts and churches – if all of these were taxed in FY 2020, taxes due would have exceeded \$16,300,000);
- parking fees (increase parking fines; implement paid parking downtown)
- taxi transaction fee (requires meters);
- increase Town permit fees other than those already at statutory maximum allowance (over the road permits, road closing, etc.);
- room occupancy tax – as noted above, this source could be substantial with the expansion of the tax to short-term rentals, and there is discussion as to how best to allocate it and/or put it aside for future needs, as mentioned earlier; we have projected a conservative increase for FY 2021 for General Fund operations; see chart below:

Local Option Rooms and Meals Revenue FY 2015 – FY 2019 Actuals



- increase to the ferry embarkation fee (requires substantial political work and coordination with the other ports);
- increase of real estate transfer tax for housing initiatives or another dedicated purpose (requires special legislation which was approved at 2016, 2017, 2018 and 2019 ATMs, efforts continue to further the legislation);
- tax on medical and recreational marijuana sales (local option tax approved at November 6, 2017 Special Town Meeting; Town Meeting subsequently authorized a special stabilization fund for 50% of these tax proceeds to be set aside for substance abuse programs); currently, we do not have enough information to make an informed projection on this revenue source;
- new local option surcharge on tax bills of up to 3% (similar to how the Community Preservation Act surcharge is applied) called the Municipal Water Infrastructure Investment Fund – we are examining how this could be used for Nantucket.

Some of these have been pursued by the Town, others are being pursued and some have remained stalled or not pursued. In addition to potential ways in which to generate additional revenue, we have begun to consider what measures we might need to put in place in the event of an economic downturn. So far, these would possibly include:

- review all municipal services for reduction or elimination – in other words, an “Austerity Budget”
- reduction-in-force of personnel
- enforce a hiring “freeze” or “chill”
- eliminate unexpended expense increases, including vacant positions
- reduce the NRTA year-round service (would have a delayed impact because of how/when NRTA is funded through the state)
- defer capital projects.

V. Conclusion

As recommended, the FY 2021 General Fund budget can be funded within available revenue, with limited new initiatives, and continuity of current services. Our biggest challenges include funding the growing priorities of the community and increasing demands for services; retaining and attracting qualified employees and housing them and infrastructure maintenance. It will take additional resources in the coming year(s) to address these, as we have noted in this Message and in prior Messages.

Thanks to the Select Board, Town departments, Finance Committee, Capital Program Committee, and especially to the staff who spend many, many hours putting together the information necessary to develop the budget recommendations, especially Assistant Town Manager for Strategic Projects Gregg Tivnan, Assistant Town Manager for Administration Rachel K. Day, Director of Municipal Finance Brian E. Turbitt, and Financial Analyst Alexandria Penta.

Prepared by:

Town Manager, pursuant to Article IV, Section 4.2(d)(3) of the Charter of the Town of Nantucket