



Town of Nantucket
Fiscal Year 2020 Budget Message
As of December 14, 2018
Revised:



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I. Introduction

The Town ended FY 2018 in a strong financial position and preliminary results for FY 2019 are positive overall. We remain confident but cautious going into FY 2020. We are monitoring several economic and financial indicators, some of which are showing continued signs of leveling off. The following demonstrate the Town's strong financial condition:

- The Town's bond rating was upgraded from a Aa1 to Aaa by Moody's Investor Services in October of 2018 (Appendix A) 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 2019 and FY 2020 was certified by the Department of Revenue on October 3, 2018 in the amount of \$9,593,671 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.
- The Stabilization Fund remains strong with a current balance of \$5,059,485 (Appendix D). 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 5.05%. However, when we account for the Certified Free Cash (undesignated reserves) balance of \$9,593,671, the reserve amount exceeds the best management practice guideline (Appendix N).
- The Town maintains a balance of \$1,250,000 in the Capital Projects Reserve Fund. The current balance represents 1.4% 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 for FY 2019, involving a standardized review process that will allow for a consistent approach to prioritizing capital projects in a systematic manner that also allows additional transparency as well accommodates anomalies or unusual circumstances. This upgraded process also includes the development of software for the town to more efficiently review and process capital requests for all stakeholders involved in the capital planning process. The process continues to be refined going into FY 2020 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. The first step in this process is to

begin compiling a comprehensive listing of all town-owned facilities, along with the current maintenance needs, and a maintenance schedule. The FY 2020 Capital Program will seek to continue the focus on infrastructure maintenance. A number of capital projects were approved at the 2018 annual town meeting. Many of these are either on-going or are in the beginning stages of procurement.

- 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 continues to exceed the historical average, although its appreciation has slowed, in FY 2019 we saw a 2.49% increase in new growth (\$41,231 more than the prior year) (Appendix G).
- 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 \$2,390,558 (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, 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 \$1M in FY 2019. This one-time action allowed for increased flexibility in the FY 2019 budget to focus on the items that were recommended.

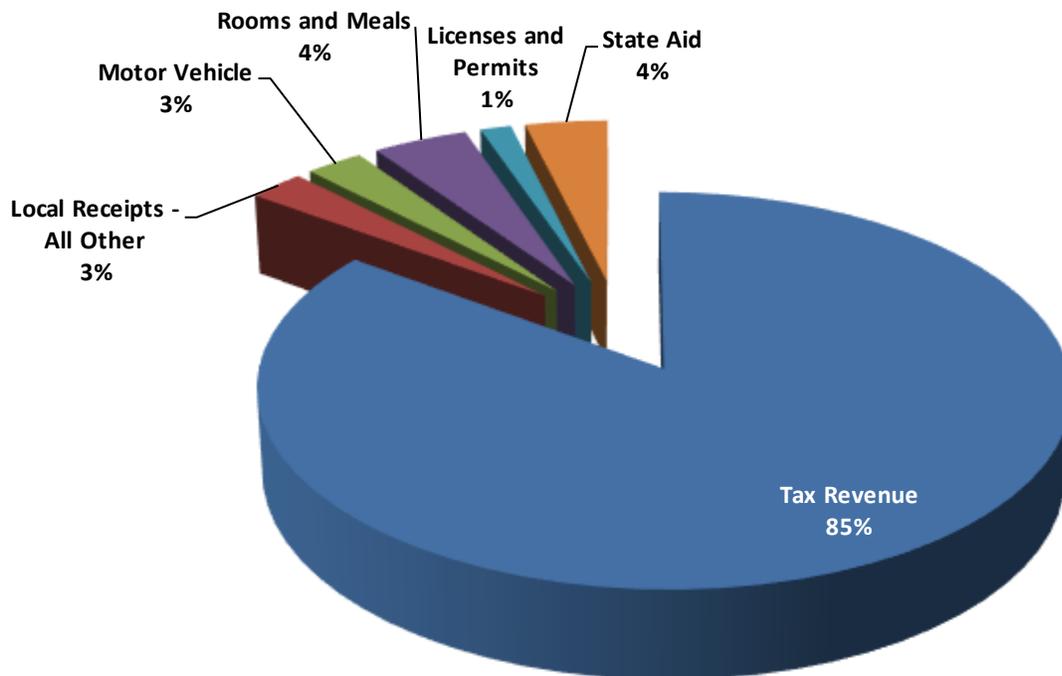
Local economic conditions continue to appear stable and favorable despite a significant surge in activity on the Island in the last few years. At the national level, indicators are still largely positive with employment at stable levels and gross domestic product maintaining the momentum from the past few fiscal years, although growth in future years is predicted to start slowing. 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 (Appendix B). Here on the Island, the Town still 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 remain below the levy limit for FY 2020.

Each year, we are challenged to not only present a balanced budget but a plan of service for the

community that must acknowledge that all requests and competing needs cannot be met to the degree desired by individual groups and departments. We continue to be challenged by the effects of the current growth period on the island, which are straining Town resources. Fixed costs are always increasing, especially those of employee benefits, service contracts, insurance and (generally) utilities. The Town's levy capacity for FY 2020 will allow for funding of fixed obligations and annual appropriations, as well as a limited number of new expenses that address some goals and priorities of the Select Board and Town Administration.

II. Overview of FY 2020 General Fund Budget Projection

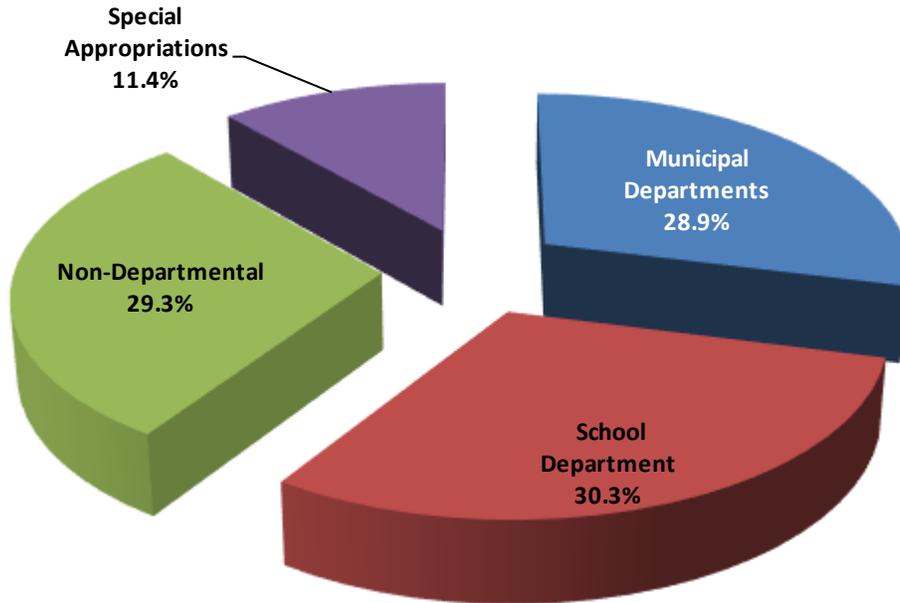
A. Projected FY 2020 General Fund Revenue



As noted earlier, local economic revenue indicators are showing overall continued strength. In FY 2018 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 2019, we are seeing increases in certain revenue categories while others (building permits, for example) are showing signs of stabilizing or even slight decreases year-over-year. Refer to Appendix E

for a detailed breakdown of the FY 2020 proposed General Fund budget revenue as compared to the FY 2019 approved budget.

B. Projected FY 2020 General Fund Expenses



The proposed FY 2020 General Fund budget will fund:

- Projected Town and School salaries and fixed/current operational expenses
- Fixed costs allocated between several expense categories including:
 - Health Insurance for active and retired employees, which is projected to rise at a rate of 11.0% for FY 2020. 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 2020 health insurance budget.
 - General Insurance, is being projected to increase 10% from FY 2019 actuals based on current trends. The increase is a result of new town buildings (Intermediate School and Fire Station) being added. The increase is also resulting from the large losses that carriers have faced across the nation due to natural disasters over the past few years.
 - Debt Service, which is established by the current repayment schedule. Debt

service has increased in FY 2020, 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 L)

- Retirement assessment, in the Barnstable County Retirement System, which 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 \$2,025,000 which is \$500,000 more than in FY 2019.
- Solid Waste Enterprise Fund -- \$6,189,664 in transfers for operations as well as \$700,000 for the continued mining of the landfill (like the arrangement in recent prior years). As of this presentation, discussions are ongoing as to the continuation of the mining program.

■ Capital funds of \$974,276 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 2020 will be the 6th 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 \$2,390,558 (Appendix H);
- \$500,000 to the Reserve Fund (see Appendix I);
- Funding to Health and Human Services, Cherry Sheet charges, the County Assessment and unpaid bills from prior fiscal years

Refer to Appendix E for a detailed breakdown of the FY 2020 proposed General Fund expenses as compared to the FY 2019 approved budget

III. Town Administration Recommendations

FY 2020 Expense Increases

Over the past 6-7 years, Nantucket has experienced significant growth and the Town's scope of responsibility has increased. We have taken on initiatives in response to needs 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 2018 and 2019, the Select Board undertook the development of a Strategic Plan 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 nantucket-ma.gov/192/Select-Board. 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) 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. The study commenced at the end of FY 2018 and the final report will be presented to the Select Board at the Board's December 19, 2018 meeting. (nantucket-ma.gov/161/Human-Resources)

The Staffing Study contains 19 recommendations for new positions to be considered by Town Administration and the Select Board over the next several budget cycles. While the FY 2020 budget recommendations begin to address items contained within the Strategic Plan and the Staffing Study, not all requests and recommendations can be addressed at this time. Town Administration received the following requests* from Town departments and recommendations from the Staffing Study:

- 18.0 additional FTE's (full-time equivalents) requested from Town departments totaling: \$1,984,672
- 19 additional FTE's recommended by the Staffing Study totaling: \$1,628,392
- 12.5** additional FTE's recommended by Town Administration totaling: \$624,007

Additionally, there are budget requests for \$4,531,390 in increased non-personnel expenses (including \$3,000,000*** for the Affordable Housing Trust voted by the Select Board at its November 28 and December 5, 2018 meetings)

**for the purposes of budgeting the personnel numbers, new positions include the cost of \$30,000 of benefits per FTE*

***of the 12.5 FTEs, 4 are already being addressed in FY 2019 and 8.5 are recommended for FY 2020*

****as of the writing of this Budget Narrative, utilization of the Community Preservation Fund (through borrowing) was being reviewed as the funding source for this \$3,000,000 request*

After removing one-time expenses from the FY 2019 Town budget and providing additional

funding to the School budget, we have approximately \$1,475,000 available for Town use (available levy capacity) for FY 2020. As one can see, there is a significant gap (over \$2,041,062) between the requests received (total of \$3,516,062) and available funds.

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

- Legal Mandate
- Strategic Plan Initiative
- Staffing Study Recommendation
- Department Operations Improvement
- Necessary to Support New Program
- Necessary to Support Existing Program
- Continuity of Operations

The maximum score is 6.0. Requests that qualify as a Legal Mandate automatically score 6.0 and are being recommended for funding. There are three such requests. Each of the other six criteria is weighted equally and can receive up to 1.0 points (or a fraction of a point) for a maximum score of 6.0. Requests receiving a 4.0 or higher are being considered for funding.

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 and critical Town operational issues
- recommended use of funds from other sources
- reallocated existing resources, where possible, to accommodate the request
- not recommended funding or a different approach (in other words, no action)
- put forward for consideration, again, the possibility of seeking voter approval for specific items currently funded in the General Fund to be funded through a targeted override

Based on the foregoing, the following expense increases are recommended for FY 2020:

Personnel-Related Expense Requests

1. Harbormaster

-- *Third Assistant Harbormaster*

The Staffing Study (Recommendation 77) is recommending a total of four Assistant Harbormasters. Currently, there are two. Because of the volume of departmental expense requests and the fact that we cannot fund every recommendation/request within existing revenue, we are supporting part of the request to bring the number of Assistant Harbormasters to three by reclassifying the “Beach Maintainer” position. This can be funded with no increase to the General Fund and will allow for the expanded scope of responsibility that is needed. This position also relates to the Strategic Plan (Environmental Leadership Goal #2) because a third

Assistant Harbormaster will allow for increased patrols of the harbors, including for water quality management purposes.

2. Information Technology

-- *Increase existing part-time position to full-time*

-- *Add one additional full-time position*

The Staffing Study is recommending two additional positions for Munis support (one in IT and one in Finance) (Recommendations 13 and 19). “Munis” is the Town’s financial management software (widely used by towns in Massachusetts and elsewhere). A recurring theme of the Staffing Study is the necessity to devote additional staff focus and dedication to more complete utilization of Munis. This would allow for increased efficiency and accuracy of information across all departments. Currently there is a part-time position in IT that we propose to increase to full-time to take on more “help desk” activities and office administration tasks. It is important to provide the needed resources to Munis, so we are also recommending the additional full-time position in IT, but not in Finance at this time.

3. Fire Department

-- *Add two additional Firefighter/Paramedic positions*

-- *Add one new part-time administrative clerk position*

In addition to more firefighter positions, several positions are recommended in the Staffing Study for the Fire Department. Based on our ranking criteria, we are recommending two new full-time positions and one part-time for FY 2020. Two years ago, the Town began the process of funding the transition from Basic Life Support emergency medical services, to Advanced Life Support. Nantucket is one of the only communities in the state which remains BLS. In the current fiscal year, the Town has started the necessary training program for the initial firefighters who will staff ALS service. In the meantime, emergency medical-related calls have been increasing. To staff closer to a national standard for fire and emergency medical services, in consultation with the Fire Chief we are recommending two additional positions at this time. Additionally, the administrative workload of the department has increased and there is a need for more assistance.

4. Health and Human Services Department

-- *One additional full-time Health Inspector*

This is not only a recommendation in the Staffing Study (Recommendation 101) but it addresses Goal 2 (Water Quality Management Plan) of the Board’s Environmental Leadership Focus Area of the Strategic Plan. Currently, the Public Health Director is spending a significant amount of time conducting inspections, which detracts from getting to policy and other planning activities. Having the resources to handle inspections will free up the Director to focus on higher level functions like these that are currently not being fully addressed.

5. Human Resources

-- *Full-time HR Generalist position*

The Town is the largest employer on the Island with over 1,000 active employees (seasonal, part-time and full-time) and retirees; and, **13** collective bargaining units. It has become more and more apparent in the last several years, that to attract and retain qualified employees, we

need more of a focus on doing just that. Employment-related regulations and reporting requirements have also increased in recent years (for example, health insurance reporting, state requirements for ethics training and testing, the 2018 amended Massachusetts Equal Pay Act, safety and other training requirements). All of these should be monitored and tracked, centrally. The day-to-day human resources administration of an organization as large as the Town necessitates a certain level of staffing – combine that with the uniqueness of recruiting, hiring and retaining qualified employees on an island with significant seasonality and there is a need for increased focus and attention to ensure that we are properly staffed. Additionally, the position can help with employee housing issues (including assistance with lease management, policies, data gathering as to Town employee housing needs), which helps address Housing Goal 2 of the Strategic Plan.

6. Finance

-- *Capital Asset Manager*

We have long needed a position dedicated to capital project oversight, including point of contact (as needed), coordination with departments, capital planning and budgeting, more comprehensive management of Town's Capital Improvement Plan, outreach, scheduling and asset management. There are too many current and upcoming projects for existing staff with other duties and responsibilities to also properly manage the larger capital projects. The Capital Program Committee recommended a position such as this in its 2018 Annual Report (nantucket-ma.gov/261/Capital-Program-Committee). See also Recommendation 14 of the Staffing Study. This position will also assist to manage the long-term goals and initiatives of the Select Board's on-going Strategic Plan from fiscal year to fiscal year, with particular emphasis on capital management

7. Town Administration

-- *Assistant Town Manager for Special Projects*

During FY 2018, the position of Strategic Projects Manager was established. The incumbent has since left the island but is continuing to work remotely, part-time, and coming to the island when needed. This position is recommended in the Staffing Study and will assist with special projects that do not have a readily identifiable "owner". This is a "conversion" of an existing position that does not actually require an expense increase for FY 2020 (see Recommendation 9 of the Staffing Study). We have long discussed the need for an additional position with executive level responsibility to address the more and more complicated issues and projects facing the Town. This position will remain directly involved in facilitating and implementing current and future projects contained within the Board's Strategic Plan.

8. Police Department

-- *Additional Police Officer*

Several positions are recommended in the Staffing Study for the Police Department. In consultation with the Chief, the most critical for operations is the additional police officer, which is what we are recommending.

9. Other Personnel Recommendations

In various departments (PLUS, DPW, Natural Resources, Harbormaster in particular), we are

recommending increases to the overtime and seasonal staffing budgets due to high levels of activity for which current staffing is insufficient; and, the need for some activities to happen outside of regular work hours.

As noted earlier in this section, there are positions referenced in the Staffing Study to be funded, that already were or are, funded in FY 2019. These include a Senior Planner position in PLUS and a restructure of the Building Commissioner position. The Building Commissioner position will also be designated as Deputy Director for Code Enforcement. Again, funding exists in the current budget for both positions.

Operational Expense-Related Requests

Operational expense increases meeting the prioritization criteria and recommended for funding are as follows:

| Department | Description of Expense Request | One-Time or Ongoing | Approved EIRs |
|---|--|---------------------|---------------------|
| Operating Expense Increase Requests (EIRs) | | | |
| C&T | Installation of 2 outdoor water stations | One-Time | 13,000 |
| C&T | Electric Vehicle | One-Time | 40,000 |
| C&T | Purchase of 10 Bike racks | One-Time | 10,000 |
| Fire | Replacement of Fire Prevention Officer Vehicle | One-Time | 45,000 |
| Fire | Additional Department Vehicle for command staff | One-Time | 49,000 |
| Fire | Purchase Mechanical CPR devices | One-Time | 18,000 |
| Health | Replace one of two inspection vehicles | One-Time | 35,000 |
| HR | MEPA Audit | One-Time | 30,000 |
| HR | OSHA Compliance Plan | One-Time | 50,000 |
| IT | Department Vehicle | One-Time | 20,000 |
| IT | Phase II of EnerGov project for permitting/licensing interface | One-Time | 82,000 |
| IT | Security Assessment (should be performed every 3-5yrs) | One-Time | 50,000 |
| IT | Virtualization maintenance and support | One-Time | 16,000 |
| IT | Team Dynamix Project Portfolio Management Software | One-Time | 15,000 |
| NRD | Harbor Plan Update | One-Time | 100,000 |
| Police/Harbor Master | Shark Warning Signs with Theft Proof Mounts for Beaches | One-Time | 10,000 |
| Town Admin | Strategic Plan Initiatives | One-Time | 100,000 |
| Town Admin | Strategic Plan Facilitation | One-Time | 100,000 |
| Town Admin | Legal Budget Increase | One-Time | 100,000 |
| Town Admin | Affordable Housing Trust | One-Time | 3,000,000 |
| Town Admin | Sustainability Plan | One-Time | 50,000 |
| Town Admin | Staffing Study Implementation | One-Time | 80,000 |
| DPW | Mosquito Control contractual increase | Ongoing | 4,010 |
| DPW | Increase safety uniforms budget | Ongoing | 4,000 |
| DPW | Vehicle maintenance budget increase | Ongoing | 10,000 |
| DPW | Equipment maintenance budget increase | Ongoing | 30,000 |
| DPW | Design/construction support srvc's to implement various DPW projects | Ongoing | 30,000 |
| DPW | Increase protective clothing budget | Ongoing | 5,000 |
| Fire | Increase funding for training | Ongoing | 63,000 |
| IT | Upgrade current comcast modem service to Ethernet Dedicated Internet | Ongoing | 17,016 |
| Total Operating Expense Increase Requests | | | \$ 4,176,026 |

Aligns with Strategic Plan

Additional Recommendations

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 and other impact 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 for example). Rather than establish a position for FY 2020, we plan to seek a grant that will help us develop a Sustainability component within Town government, including staffing or other resource recommendations.

The topic of an override for Our Island Home (OIH) has been part of budget presentations and discussions for the last three years. The current “gap” between OIH revenues and expenses is approximately \$4,713,000 – which has been covered by a general fund subsidy and retained earnings in recent years. 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. In the FY 2019 Budget Message, we had the following comment:

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.

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 for Our Island Home and Solid Waste. 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.

IV. Future Year Considerations

Strategic Plan

In the first quarter of FY 2019, the Board completed its first multi-year Strategic Plan which contains several goals and objectives, some of which are recommended for funding in FY 2020 (nantucket-ma.gov/192/Select-Board). The Strategic Plan will be updated on an on-going basis and progress reports will be provided quarterly, beginning later in FY 2019. The

Board is to be commended for its focus on and completion of this Plan. Some of the items contained in the current Strategic Plan will require funding in future years.

Staffing Study

The Staffing Study 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 expected 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. This potential expense will be considered in our budgetary forecasting.

Coastal Resiliency/Infrastructure

Global warming, climate change and sea level rise have been more and more frequently appearing in the news media as growing issues for municipalities. We have nearly completed an update to the Town’s Hazard Mitigation Plan and are in the process of finalizing a Coastal Resiliency Plan (nantucket-ma.gov/1126/Community-Resilience). In the next 2-3 years there will be an update to the Town’s Master Plan (nantucket-ma.gov/309/Publications-Available) and an update to the Town’s Harbors Action Plan (nantucket-ma.gov/130/Natural-Resources) will commence later in FY 2019 or early in FY 2020. These may 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

An attached Appendix shows the list of collective bargaining contracts. <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 will commence in the winter/spring of calendar year 2019/20.

NRTA Year-round Service

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.

We continue to recommend that the cost of NRTA service be put before the voters, if not for FY 2020, it should be evaluated for FY 2021.

Harbor Place

Discussions with the Harbor Place owner's group have continued into FY 2019. 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.

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:

- PILOT possibilities (Payment-in-Lieu-of-Taxes for entities that do not pay property tax – if all of these were taxed in FY 2018, taxes due would have exceeded \$10,000,000);
- parking fees (paid parking for Town parking lots, downtown parking, beach parking);
- taxi transaction fee (requires meters);
- short-term rental tax (State legislation pending) a Town Meeting vote will be necessary to implement this – we are in the process of analyzing what this could mean for the Town
- increase to the ferry embarkation fee (requires substantial political work);
- increase of real estate transfer tax for housing initiatives or another dedicated purpose (requires special legislation which was approved at 2016, 2017 and 2018 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 – projections unknown).
- 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.

V. Conclusion

As recommended, the FY 2020 General Fund budget can be funded within available revenue, with some amount of new initiatives, improved programs and services. Our biggest challenges include adequate staffing and retaining and attracting qualified employees, housing, need for

expanded programming to address public demands, infrastructure maintenance, population growth. Our budget addresses many of these items; however, there are factors that affect our budget that do not necessarily affect the budgets of similar sized towns, including Our Island Home, and Solid Waste expenses. It will take additional resources in the coming year(s) to address these, as we have noted in this Message.

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 Gregg Tivnan, 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