



Town of Nantucket Finance Committee

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Committee Members: David Worth(Chair), Stephen Maury(Vice-chair), Clifford Williams, Joseph T. Grause Jr., Peter McEachern, Henry Sanford, Joanna Roche, Christopher Glowacki, Jean Grimmer

MINUTES

Thursday, January 26, 2017

4 Fairgrounds Road, Community Room – 4:00 p.m.

Called to order at 4:00 p.m.

Staff in attendance: Libby Gibson, Town Manager; Brian Turbitt, Director of Finance; Julia Lindner, Financial Analyst; Terry Norton, Town Minutes Taker

Attending Members: Worth, Maury, Williams, Grause, McEachern, Sanford, Roche, Glowacki

Absent Members: Grimmer

Late Arrivals: Sanford, 4:01 p.m.; Roche, 4:04 p.m.

Early Departures: None

Documents used: January 12, 2017 minutes; Wannacomet & Siasconset Enterprise Funds FY2018 Budgets; Airport Enterprise Fund FY2018 Budget; Nantucket County FY2018 Budget; Warrant Articles for 2017 Annual Town Meeting.

I. ANNOUNCEMENTS

II. PUBLIC COMMENT

1. None

III. APPROVAL OF PRIOR MEETING MINUTES

1. January 12, 2017: **Motion to Approve.** (made by: Williams) (seconded by: McEachern) Carried unanimously

IV. REVIEW OF COUNTY FY2018 BUDGET

Sitting Worth, Maury, Williams, Grause, McEachern, Sanford, Roche, Glowacki

Recused None

Discussion **Turbitt** – Presented Nantucket County Budget totaling \$985,000.

Motion **Motion to Approve.** (made by: Williams) (seconded by: McEachern)

Vote Carried unanimously

V. REVIEW OF FY2018 BUDGET, CAPITAL, AND COLLECTIVE BARGAINING AGREEMENTS

1. Siasconset Water Company

Sitting Worth, Maury, Williams, Grause, McEachern, Sanford, Roche, Glowacki

Recused None

Discussion **Robert Gardner**, Water Company Manager – Presented the ‘Sconset Water Company Budget. The budget does not call for rate increases; revenues are expected to be flat; there are two exceptions: a one-time increase of professional services for Zone 2 hydro-geological work and maintenance. ‘Sconset is a Registered Water Supply System; explained a registered system. The other exception is the large capital project, the Baxter Road water main replacement; the pipes are in terrible condition and fire hose water pressure is unacceptable. This will be financed through a GL bond.

Williams – Asked about the status of the merger of Wannacomet and ‘Sconset Water Companies.

Gardner – The merger proposal is in the Legislature right now. He predicts that for FY2019 there will be one budget.

Grause – Asked if there is an increase in the water usage in ‘Sconset during hot summers.

Gardner – That is the case in Wannacomet; it doesn’t seem to vary in ‘Sconset. Any revenue in excess of expenses goes back into retained earnings.

Glowacki – Asked about decreases in other expenses.

Gardner – The Unallocated Expenses are used to balance a budget. Both companies have strings attached to that line item; he needs Water Commission approval to use that money.

Williams – Asked about the meter conversion.

Gardner – ‘Sconset is on-going; Wannacomet is done except for the hospital.

2. Wannacomet Water Company

Sitting Worth, Maury, Williams, Grause, McEachern, Sanford, Roche, Glowacki

Recused None

Discussion **Robert Gardner**, Water Company Manager – Wannacomet is benefiting from the current building boom; it is in a strong fiscal position: Water sales are affected by weather; sales are predicted to increase about 3.35%. There is an increase in fire suppression systems. There is no proposed rate increase. Water repair and maintenance has jumped significantly: there are more breaks in the older parts of the system; they will have to replace a number of valves; they will be replacing water fountains’ and the pump stations need repair. Explained a Permitted System in regards to the professional services one-time expense increase. Explained that the inventory account increase is directly related to the building increase.

Worth – Asked how often inventory turns over.

Gardner – Once a year, currently it is about \$100,000. Asking for funding for a meter technician; we have almost 7,000 “smart” meters that need to be attended to.

McEachern – Noted a discrepancy in the employee chart: one shows 13 positions, another shows 11.

Gardner – There are 11 positions; two of the position in the chart have no money budgeted, they are coming off. Explained the work requirement for the meters: programming and recalibration.

Williams – Asked about testing for leaks.

Gardner – Explained the two types of tests and how frequently testing is done.

Grause – Looking at the financial, asked about the \$788,000 3-year average surplus.

Gardner – Currently their retained earnings are \$2.6M. They have worked hard to create enough revenue to sustain an aggressive capital program to replace the aging system; it was built in 1880. They average over \$1M in capital for replacement. Part of the professional services budget is a rate survey and the structure for rates and how it figures into the long-range capital plan.

McEachern – Account Nr 5244 Building Repair and Maintenance, the line item last year was at \$88,500; to date \$22,000 has been spent. Asked if the difference will be spent. There appears to be a decrease; asked how the \$58,500 would be used..

Gardner – The balance of the \$88,500 is for maintenance of the residence at 42 Polpis Road; reviewed the required work. Next year the \$58,500 in building maintenance is for pumping structures.

McEachern – The increases of four line items represents 10% of the budget increase. He wonders when there is too much retained earnings and suggested a freeze on that with a corresponding reduction in rates.

Gardner – Explained his budgeting philosophy. We do have a substantial amount of retained earnings; but we are budgeted for a rate survey to establish whether or not rates need to change.

Turbitt – A significant portion of Retained Earnings have been generated over the last couple of years due to a significant amount of bond refunding, which the Water Company has been a major beneficiary. Noted the Water Company is down about \$300,000 in debt services for FY2018.

Grause – Asked for an update on the 21-year permit; there was something about volume rates.

Gardner – We have a permitted withdrawal limit of 2.2M gallons a day; due to increased development, we are bumping up against that limit. Part of the permit process involves Department of Environmental Protection and Department of Conservation and Recreation to come up with the population number our water supply can support; we will be discussing the permit for a new limit with the State the week of January 30. The old limit is based upon a 2005 baseline. Explained how Nantucket's is unique and that limiting irrigation to four hours a week on two days would impact the Island's economy.

Roche – Asked if the Water Company benchmarks water usage against the population.

Gardner – Yes; the State can't figure out the seasonality of the population. The State benchmark is 80 gallons per person per day; the target is 69 gallons per person per day; Nantucket is at 110 gallons per person per day.

Worth – Salary shows a \$178,000 increase with \$70,000 for the new position; that leaves the rest with about a 10% increase.

McEachern – The Assistant Manager is also a new position. He's looking at a line item request for 13 people when last year was 11.

Williams – Noted that over the past years positions have been eliminated and we are probably running lean.

Gardner – We've recognized the need for more administrative help; we've reduced the number of utility men. The shift has been to customer service.

Discussion about a discrepancy, 13 on the personnel spreadsheet and 11 on the operations spreadsheet. FinCom recommends the Water Commission eliminate the empty union utility man position.

Gardner – Reviewed the capital projects: a new administration building with restructuring of the ingress and egress to the property.

Discussion about the new administration building: program, construction method, employee security, energy efficiency, customer privacy, and server room.

Maury – Asked if there has been any value engineering to the program.

Gardner – He believes they have worked hard to keep the cost as low as possible. Reviewed how the current proposed building is different from their "dream" building.

Roche – Asked if rehabbing the existing building was looked at.

Gardner – That was the original plan. They were advised that due to the cost of rehabbing, they could do better with a new structure. Rehabbing is not off the table.

McEachern – With Mr. Gardner's pending retirement and the increase in the cost of the new building and the shift from utility to office work, asked if the new building could be put on hold for the new manager and the possibility of moving the office to 2 Fairgrounds Road.

Gardner – When the initial 2 Fairgrounds Road plans were proposed, they were in on the discussion but the plan was only for water administration with operation still at the old site. That would be a very inefficient operating system. Wyers Valley is the center of operations with all the alarms are; he believes it is important to operations that they all be at Wyers Valley.

Maury – When Nantucket Cottage Hospital was looking at Wyers Valley, they offered to build a new water building; asked if that new building would have been at Wyers Valley.

Gardner – In that case, administration would have moved to Polpis Road; all the data services and alarm systems and reporting systems would have been moved to a secure room.

Worth – Asked for an estimate on the cost of the water main projects and the estimated borrowing.

Gardner – The Prospect Street water main project will start February 6. They asked for an allocation of \$1.5M and the bid came in a little over \$1M. Noted that pipe repair bids are coming in lower than expected while building costs are coming in significantly higher.

Turbitt – The debt service policy requires between 50% and 65% of all debt amortizing within 10 years. It will require review and restructuring moving forward; looking at a 30-year maximum.

Worth – With the anticipated borrowing for the water main programs, you are suggesting an additional principal of 100 plus.

Turbitt – About 80 taking it out all 30 years. Given the uncertainty of rates, it might go higher.

Worth – Asked about the level of debt the Water Company is currently carrying.

Turbitt – There isn't a lot of options when making large repairs other than financing it through debt to get it done in a timely manner. They have proven they can generate the revenue to cover the debt.

Worth – Asked if the Water Company has a 10-year capital plan and if the Capital Program Committee saw that plan.

Gardner – The Capital Program Committee reviewed the 10-year capital plan. The original appropriation for the building was \$3.5M which has been borrowed and is being used for design services. The Capital Program Committee has not had a opportunity to review the most recent plan and corresponding funding change. The contractor has agreed to hold his price for acceptance of the bid at Town Meeting.

Maury – Suggested having the Capital Committee meet to review the building request and report back by the end of February.

Noreen Slavitz, Nantucket Water Commission – The price “takes your breath away” but the bid will be the same in three months; but we have healthy retained earnings and we have the contract in place.

Maury – We don't know the construction costs will not increase and he hasn't heard a good argument that the new building is necessary.

Gardner – If Capital Program Committee is to meet, he would like it to take place at the Wannacomet Water building.

Worth – He thinks they should reconsider renovating the existing building; it isn't falling down.

Grause – Our option is to endorse the \$1 or recommend go back to Capital Program Committee.

Motion **Motion to Request Capital Program Commission review the \$1M increase in the new building capital project and report back to FinCom.** (made by: Williams) (seconded by: McEachern)

Vote Carried unanimously

3. Airport Enterprise Fund

Sitting Worth, Maury, Williams, Grause, McEachern, Sanford, Roche, Glowacki

Recused None

Discussion **Tom Rafter**, Airport Manager – Noted they don't have a solid financial history. They are reducing their dependency on retained earnings to balance their budget. Passenger Facility Charge is at about \$1.1M and is approved by the Federal Aviation Administration (FAA) for use for capital projects and reducing their debt service. Reviewed the expense exceptions: Safety System Manager, equipment and fuel truck rental, tri-annual drill, miscellaneous purchases, fire-fighter suits, runway painting, building repair and maintenance, airfield repair and maintenance, fuel storage facility inspection and maintenance, repair and maintenance for seasonal employee housing, travel and transportation, and auto liability insurance premium.

McEachern – Asked why there isn't an unallocated expense line.

Rafter – There is a warrant article for 2017 Annual Town Meeting that establishes a stabilization fund; this will be funded out of the fuel revolver.

Grause – Asked about business trends; the airport operates anticipating losing about \$1M a year.

Rafter – Fuel is another line of business for the airport. Corporate General Aviation brings in \$60,000 plus revenue. Commercial operation is starting to turn back up since the loss of Island Air; reviewed status of Island Shuttle's permit process. Seasonal airlines are bulking up service for July and August while keeping strong on the shoulder seasons.

Williams – The General Fund notes \$4.6M subsidy; asked the current total.

Rafter – Around \$4M; we need FAA approval to pay that back.

Worth – Asked if the Airport Commission has entered into a discussion about selling the airport. He has been thinking about the Town getting out of the business of running an airport and feel there should be a discussion about that.

Rafter – The Airport Commission has been looking at the feasibility of doing that.

Maury – Asked what the Town might do to get carriers to extend their service.

Rafter – Explained the alternatives he has been exploring to encourage extended services.

VI. WARRANT ARTICLES FOR 2017 ANNUAL TOWN MEETING (ATM)

No discussion of the warrant at this time.

VII. NEXT MEETING DATE/ADJOURNMENT

Date: Saturday, January 28, 2017; 8:30 a.m.; 4 Fairgrounds Road Community Room

Adjourned 6:10 p.m.

Submitted by:

Terry L. Norton