



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, Denice Kronau, Peter Schaeffer

MINUTES

Tuesday, January 22, 2019

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

Called to order at 4:01 p.m.

Staff in attendance: Brian Turbitt, Director of Finance; Alexandria Penta, Financial Analyst
Attending Members: Worth, Maury, Williams, Roche, Kronau
Absent Members: Grause, McEachern, Sanford, Schaeffer
Late Arrivals: None
Early Departures: None
Documents used: Draft minutes for December 13, 2018 & January 7 & 8, 2019; Nantucket Public Schools (NPS) PowerPoint® Budget presentation; draft ATM 2019 warrant.

I. ANNOUNCEMENTS

1. None

II. PUBLIC COMMENT

1. None

III. ADOPTION OF MINUTES

1. December 13, 2018: **Motion to Approve.** (made by: Roche) (seconded by: Williams) Carried 5-0
2. January 7, 2019: **Motion to Approve as amended.** (made by: Roche) (seconded by: Williams) Carried 5-0
3. January 8, 2019: **Motion to Approve.** (made by: Roche) (seconded by: Williams) Carried 5-0

IV. REVIEW OF FY2020 BUDGETS AND CAPITAL

1. Nantucket Public Schools (NPS)

Sitting Worth, Maury, Williams, Roche, Kronau

Dpt. Reps. Superintendent of Schools Michael Cozort; Finance Manager Martin Anguelov; IT Manager Jen Erichson

Discussion **Cozort** – Reviewed background information: rising enrollment, demographics, sub-groups.

OPERATING BUDGET

Reviewed the projected increases; the comparison of per-pupil expenditures to the State average is reflective of our enrollment and nature as an Island. Chapter 7 historical comparison shows significant increases over the last four years.

Reviewed the Federal Grants: Title 1, IDEA Grant, Title 2, Title 3, and Title 4.

Break-down of budget by school. The largest part of the budget is custodial staff; 83% of the budget is personnel with 13% being for expenses. Explained parameters based on directives provided by the School Committee. Explained why there is an increase in guidance counselors and social workers.

Williams – With the new school, he's surprised not to see a bump in expenses.

Cozort – There was in last year's budget; the overall is consistent because we already had all the students and teachers; the only change was the support staff for the new school.

Reviewed the staff additions to the FY2020 expenditures: four teacher's assistants, pre-school teacher, special-education teacher, math coach, two social workers, two part-time vocational teachers, Assistant Athletic Director, and technology technician.

Reviewed non-staff changes to the budget; explained the decreases to Nantucket Elementary School and Nantucket High School funding for electricity: \$25,000 and \$25,000 respectively. Reviewed items requested but not proposed in this budget.

Williams – Asked what drives the decision for what does and does not go into the budget request.

Cozort – The appropriation as presented by the Town dictates the budget; we have to prioritize to stay within that number.

Pointed out the slide showing Community School Revenue Breakdown from 1998 to 2020. Explained Special Education Residential Tuition; noted that once the budget is set, they might get a child enrolled who need it and they must make up the difference. Some programs make money, and some are losses; cited programs that make money and those that don't.

Reviewed some of the things the budget should help accomplish.

CAPITAL REQUESTS

Cozort – The \$300,000 for building improvements is an annual request. The \$500,000 is for Phase III of the Backus Lane playground/field improvements, which is held up in Land Court. Explained the need to double the size of building for the Central Office addition for \$650,000. Asking for \$200,000 handheld radio replacement. \$250,000 for the NPS campus-wide master plan; this leads to the acquisition of property; the Town needs to think about the next school and if you want to keep it on the campus, we need to look at appropriating contiguous land. \$500,000 is for NPS property acquisition; this is being reviewed by the Town to enable setting this money aside.

Williams – Noted that the property owners had been approached several years ago.

Cozort – Pointed out which properties would be optimum for placement of a new school.

Roche – In terms of the request for additional resources, 30% of the school population is in either special education or English language learner classes. She strongly urges looking at additional staffing to support those two areas.

2. Wannacomet Sconset Water Company Enterprise Funds

Sitting Worth, Maury, Williams, Roche, Kronau

Dpt. Reps. Director Mark Willett; Business Manager Heidi Holdgate

Discussion **Worth** – Thinks it is important for the Commission to understand the longer-term implications of the Water Management Act decisions made by the Water company.

Willett – The Water Withdrawal Permit was supposed to be in place in 2015. In 2016 Massachusetts Department of Environmental Protection (DEP) requested additional information regarding the new State mitigation plan to enhance the capability of seasonal communities to pump more water; we provided that information. They are still review that plan; DEP says they are working on it as fast as possible. We are currently working off the old permit, updated in 2016 for the new well on Polpis Road; we have an email stating that any exceedances will not be fined. We keep them posted of any changes or additions to Town water. There is no moratorium set by DEP against withdrawing water, so unless the water in a well on Russell's Way drops to a specified letter; then we have to limit outdoor water use. The real hold up for the permit is the mitigation piece and how that will be done.

Williams – Asked if Nantucket has a calculation how much build-out the water capacity can handle before water quality or volume is jeopardized.

Willett – We have a ton of geographical and scientific data that can be used to ascertain that; \$95,000 for professional services is to look at a pump-out analysis to determine how many more connections can be made before we have to another tank or bigger pipe or another well. The majority of our water is pumped from 150 feet which is protected from the upper aquifer, which is unprotected and impacted by surface water and runoff. The State likes us to be under 90 gallons per person; we are in the 80s per person.

FY2020 BUDGET

Willett – There is an overall 4% revenue increase in the budget; this is from water being used. Looking at new service connections, there is a slow down; we are projecting 75 new connections down from 100 for FY2019. The \$160,000 increase to inventory, to come out of retained earnings, is for meter replacement. The \$95,000 for professional services to complete the rate study and upgrade the asset management program. Working the Sewer and Department of Public Works (DPW) to upgrade to a live GIS system; this will enable us to work together better. There was an increase to replace a 2005 Ford Ranger. There is a double increase in safety equipment for employees. Over the last 6-7 months, worked on a policy to put 5% of the budget into a reserve fund for emergencies.

Worth – Asked if the Water Commission will come up with a set of rules on how to use the Commission Reserve Fund.

Willett – They are still working on the set of rules.

Maury – Asked what happens to that money if it isn't used.

Willett – That hasn't been discussed.

Worth – Your revenue exceeds your expenses so your running at a margin of 20% to 25%. That leads us to have a conversation that the rates are too high for a public utility. He is conflicted because if the rates drop, that might encourage water use; but we are a municipal entity.

Willett – We looked into normal policies and guidance from American Water Works; they suggest at least one-year's budget covered in retained earnings, which for us would be \$6M. The Water Commission has set it at \$4M.

Worth – He'd like to see that. It is a legitimate question to ask and the Water Commission should do some homework on that. Asked if they are capping retained earnings at what it is today.

Willett – We talked about that at the last meeting. We're waiting for the rate study to be done to help finalize this.

Williams – The retained earnings to this point have gone toward capital projects. He thinks it would be great to get those metrics, but he doesn't want them to fall short.

Willett – Part of the rate study is looking at similarly sized communities. He was told it would be ready in two to three weeks. Explained what slowed down the study.

Worth – Part of the problem is that 20% isn't going to a new building; we borrowed for that. We build up retained earnings then do debt financing on top of that.

Roche – Last year we asked what number for retained earnings we are comfortable with.

Maury – He doesn't see a need for the reserve fund if the retained earnings are built up to hold one-full year of the company's budget. You're building up retained earnings to \$4M and want a reserve fund of 5% of each year's annual budget with no cap on how much will accrue.

Roche – It doesn't make sense to have both the retained earnings and reserve fund.

Turbitt – One discussion is the Water Commission's appropriate level of retained earnings. The other is the reserve; if that isn't used at the end of the year, it goes into retained earnings. Retained earnings can't be used by a vote of Town Meeting; it can't be used in an emergency. The reserve fund enables them to cover a large-scale emergency immediately. The reserve fund doesn't accrue from year to year; at the end of the year the residual is transferred into retained earnings.

Worth – The issue is still that expenses are lower than revenue and have been year after year. The budget says its balanced, but that is in fact not true. The Water Commission should have a policy based on sound judgement.

Turbitt – If the concern is about the reserve fund and FinCom asks to remove it, we would reduce revenue by that number. The Town can't go to Department of Revenue (DOR) with a unbalanced budget when we go to set the tax rate; if we reduce revenue down, the only other funding source is drawing against retained earnings. There is a deficit of \$200,000 to pay for items being funded out of retained earnings.

Worth – One possibility is to increase the Commission Reserve Fund to 7.5%.

Turbitt – If the reserve is the concern, it can be removed; if there is an emergency, we can cover it and at the next Town meeting transfer money from retained earnings.

Worth – The reserve fund as a line item isn't an issue. The issue is that actuals for FY2018 were \$1.257M; that is a profit. He would like to see an honest accounting to rate payers of what it costs to run the Wannacomet Water Company recognizing it is a municipal service not here to make a 25% profit margin. At the same time, we don't want to jeopardize service delivery. There is a request to increase connections fees. At the last rate change, they went up dramatically and revenue shot up while expenses stayed pretty-much the same.

Roche – By the end of this budget cycle, the water company will have an additional \$1-poin-something million; at some point, reducing rates has to be reconsidered.

Worth – He'd like to schedule an opportunity to hear from the Water Commission.

3. 'Sconset Water Companies Enterprise Funds

Sitting Worth, Maury, Williams, Roche, Kronau

Dpt. Reps. Director Mark Willett; Business Manager Heidi Holdgate

Discussion **Willett** – About 1.5 years ago we noticed a decrease in water use in 'Sconset; this year we're showing an 8% decrease in revenue. Water flow has been slowly decreasing; the rate is higher in 'Sconset. We did not plan for new capital projects. We have a watermain replacement from two years ago for Baxter Road. The last rate change was in 2010; that helped pay for the new water tower. There is potential revenue coming from the Cannonbury subdivision and the cell phone is putting a bid together to put equipment on all the water towers. Working with Nat Grid to find better ways to pump in off-peak hours.

Worth – The Blue-Cross/Blue-Shield premium and retirement payouts is between \$60,000; asked who that is covering.

Willett – Two retirees.

Worth – Asked if the company still paying into their retirement fund.

Turbitt – Any retiree is eligible for health insurance. We still get an assessment for Barnstable County because we're still funding the un-funded portion of the pension obligation from several years ago; once that is completed, it will go away.

Worth – Insurance premiums went up for buildings. There's a \$40,000 line item that was never there before; asked what it is for. (Can't hear response.) So, it's for the tank.

4. Nantucket Memorial Airport Enterprise Fund

Sitting Worth, Maury, Williams, Roche, Kronau

Dpt. Reps. Manager Tom Rafter

Discussion **Rafter** – Revenue is up by \$800,000 driven by increase land rentals; expenses are down \$58,000. The main expense driver is airfield maintenance and repair; the Taxiway Echo request is for \$19M. The other major capital item is the security project; we're awaiting a decision on receiving a discretionary grant, but that decision is on hold due to the Federal government shutdown. We are going to request modification to language in the fuel revolver fund to allow us to use the money for repairs and maintenance.

Worth – Asked if any capital expenses are not being recommended.

Rafter – They are all being recommended by Capital Program Committee.

Worth – Asked if the increase in seasonal travel is private or commercial.

Rafter – Commercial. We are seeing a slight rise in fuel on the corporate side. Jet Blue will be going up to 10 flights a day this coming summer with peak Saturdays hitting 20 flights. Just recently approved a change in rate and charges to increase the ramp fees. We assigned some costs associated with the expansion of the hold room to the carriers effective February 1.

Kronau – Asked about the impact of increased traffic on the runways and taxiways.

Rafter – The taxiway is 35 years old and is carrying aircraft larger than for which it was designed. Jet Blue is planning to increase the size of the aircraft in 2020. It is critical the work be completed. In Marthas Vineyard, they are redoing their main runway for \$12M. Our taxiway costs more

because its 500 feet longer and we are doing a full reconstruction to include the sub-base and a major section has to be elevated three feet to be level with the runway.

Williams – Asked how the Airport determines the rates and fee changes.

Rafter – We look at cost recover; we're starting to introduce some of the residual based on the number of passengers and weight. Carriers have a right to input into the rate changes and to file a complaint.

Worth – One of the things we talked about in the past was rental revenue, which is up about 40%.

Rafter – That's part of rental diversification.

Worth – Parking lot fees are declining; asked why.

Rafter – Less people are parking and we converted to using a management firm. We are realizing time savings in our staff, which doesn't come to a dollar-to-dollar match.

Worth – Asked if the fuels sales are net of cost sold. Budget in FY2019 is lower than FY2018 and FY2020 is about the same as FY2019.

Can't hear Mr. Turbitt's response.

Rafter – We're going to start another application for Passenger Facility Charge Program. The current application is active for another year or two. With the new Jet Blue flights should realize additional income; we can't include it until we realize it.

Williams – Looking at the capacity of Transportation Security Administration, can they meet the challenge of moving all those people.

Rafter – There will be a second tent holding area for Jet Blue and one for American. We received \$430,000 SMP grant from the State. Looking at a terminal area plan to screen some item.

Worth – Service and maintenance increases over 50%; asked if we are at a point where the maintenance costs of the building start to significantly increase.

Rafter – We aren't on a trajectory; that is driven by the infrastructure and the taxiway. Once the taxiway is fixed, repair will start on the apron. Regarding buildings, we now own 12 hangars that we maintain; but the cost of those is offset by rental. If there is a down-turn, we are setting up a Plan B where we are self-sufficient without fuel sales.

V. REVIEW OF NANTUCKET COUNTY BUDGET

Sitting Worth, Maury, Williams, Roche, Kronau

Discussion **Turbitt** – Presented the County Budget: funding sources, projected revenue \$1.037M, Town funding requirement, projected expenses \$975,211, no employees paid through county, comparison to FY2019.

Worth – Asked if there is a risk in the event of a real estate recession.

Turbitt – There's always a risk; thinks we could manage to close any gap.

VI. NEXT MEETING DATE/ADJOURNMENT

Date: Wednesday, January 23, 2019; 6:00 p.m.; 4 Fairgrounds Road, Community Room. Capital Program Committee Report and Recommendations presentation to the Select Board.
Saturday, January 26, 2019; 8:30 a.m.; 4 Fairgrounds Road, Community Room. Department budgets.

VII. COMMITTEE REPORTS AND OTHER BUSINESS

1. **Worth** – Asked if there are preferred dates to have citizen warrant article sponsors to come back.

Williams – Asked if the Government Study Committee would come in to provide information on their findings.

Worth – He will schedule those.

Motion to Adjourn at 6:03 p.m. accepted by unanimous consent.

Submitted by:

Terry L. Norton