APPROVED - January 19, 2017

Martha's Vineyard Commission

Final Budget FY2018

1. Introduction

Looking Back at FY2016 and FY2017

In FY2016, the last year for which we have draft financials. Due to the timing of this overview, the final FY2016 audit report has yet to be issued as of January 19, 2017.

- The MVC showed a significant decrease in revenues for FY2016 of $76,000, caused by a decrease in assessments of $35,000, grant and contract revenue of $23,000 and other income of 18,000.
- Payroll expenses were up about $32,800, consisting of normal salary increases.
- Legal fees were $83,870, well above the budgeted amount of $68,000, and were $43,500 greater in FY16 ($83,870) versus FY2015 ($40,545). Both FY17 and FY16 legal fees budgets were reduced to $68,000.

The Commission showed a deficit of approximately $78,000 in FY 2016.

So far, the FY2017 income and expenses are on track with the budgeted amounts.

Looking Forward to FY2018

For FY2018 the Town Assessments will move slightly higher, approximately 2.2%, from $1,012,940 (FY2017) to $1,035,391 (FY2018).

The MVC's assessments are collected for the Commission by the towns, and are based on the valuation of each property irrespective of which town that property is located in. A typical house assessed at $500,000, will pay $27.31 in FY2018.

Budget Highlights

- The FY2018 budget presented proposes a slight increase of 3.7%, from $1,425,940 to $1,479,079, which will address the recent increases in medical insurance, as well as slight increases to travel/conferences.
- Most of the increase will be paid by grants, and other revenue sources. As a result, the FY2018 Town Assessments will only slightly increase, approximately 2.2% (from $1,012,940 to $1,035,391 or $22,451), as noted above.
- FY2018 revenues are projected to increase by 3.7%. We are hopeful that we can generate revenue from outside sources to produce even more.
- Staff salaries will increase by 3.4%, representing merit increases of 2.4% and the average COLA from all the Towns at one percent (1.00%). An additional amount ($7,500) has been budgeted for our summer interns (DLTA and MassDOT).
- While pension payments are projected to decrease by 10%, the health and disability line is projected to increase by 17%. Post-retirement benefit payments are also projected to increase by $9,000. We now have three (3) retirees and their spouses.
- Operating expenses are projected to decrease by $50,000 from FY 2016 actual spending.
- For FY2018, we have proposed spending which more accurately reflects the costs of travel and office supplies. The administration will also work hard in keeping legal costs as low as possible.
- Finally, we have been aggressive in generating revenue which will show up in the actuals of FY2017. We have received roughly $80,000 in competitive grants so far and have

several lined up to provide an additional 35,000. Much of these funds are passed directly through to the towns for housing, pond cleanup and other projects, some of their funds are designed to off-set our administrative costs (overhead).

- FY2016 actual revenues were $33,000 more than expected but DRI fees were 33% less than projected.
- In FY 2016, expenses exceeded projections by 7% due to several onetime expenses such as website issues, transition costs that exceeded projections, legal fees, and some maintenance repairs. These overruns were paid through DLTA, and cost cuts in FY 2017 accounts. As a small agency, any deviation in spending can present budget challenges. It is important to identify funding resources/spending cuts to address these circumstances.
- We have identified the following:
    - Increase of $30,000 in MassDOT revenue from the new MassDOT contract. The new contract began October 1, 2016.
    - Spending cuts of $35,000 in contractual and controllable spending such as dues, subscriptions, consulting, and other area. Oil prices also remain low.
- FY 2017 revenues are running greater than FY 2016 observed at this point including additional grants and fees collected from DRI's

The Commission's salaries are adjusted using a formula based on the average of the towns and County increases for the previous fiscal year, namely 1.00% average Cost of Living Adjustment ("COLA") and 2.40% average merit increase equivalent to the town's average step increases. The budget includes an on-going effort to pre-fund Other Post-Employment Benefits ("OPEB") of $35,500, based on the Commission's policy of increasing this payment by $5,000 per fiscal year. It also includes a policy to use any annual surplus, after the General Reserve Fund is fully funded, to go to OPEB payments.

Please see Section 5 - General Comments and Section 8 – Specific Comments for further explanation.

2. Legal and Administrative Context

The Martha's Vineyard Commission is an independent Regional Planning Agency ("RPA") created by the Massachusetts legislature and operating under the Martha's Vineyard Commission Act, namely Chapter 831 of the Acts of 1977, as amended. The Commission has both legislative and quasi-judicial functions.

The Commission is the only RPA in Massachusetts where most its Commissioners are elected. Of the seventeen (17) Commissioners entitled to vote on regulatory matters, nine are elected, one is appointed by the Governor, one is appointed by the County Commission, and one is appointed by each of the six Martha's Vineyard Boards of Selectmen. In addition, the Governor may appoint up to four additional Commissioners who are not entitled to vote on regulatory matters but may vote on other matters such as the budget.

Section 4, Assessments, Accounting of the Martha's Vineyard Commission Act outlines the Commission's funding mechanism and procedure. The formula for apportioning town assessments, set out by the Legislature in the Martha's Vineyard Commission Act, calls for the assessments to be divided based on each town's equalized valuation.

> *The commission shall annually in the month of January estimate the amount of money required to pay its total expenses for the following fiscal year, deduct estimated contributions from sources, and pro rate the net expenses to each town on the basis of its latest equalized valuation for property tax purposes as established pursuant to section nine of chapter fifty-eight of the General Laws. The commission shall certify the amount so determined to the town clerk and assessors of each town within the commission's jurisdiction who shall include the sum in the tax levy of the year.*
>
> *Upon order of the commission, each town treasurer shall, subject to the provisions of sections fifty-two and fifty-six of chapter forty-one of the General Laws, pay to the commission clerk-treasurer the town's share of the commission's net expenses. The amount so determined and levied shall not exceed .036 per cent of the latest equalized valuation for each town. A penalty of eight per cent per annum shall be paid by towns delinquent in paying their assessed appropriations to the commission if not paid within sixty days of the notice of payment due.*

The preparation of the budget is overseen by the Martha's Vineyard Commission Finance Committee. This committee is chaired by the Commission's Clerk-Treasurer and is made up of one member from each town and the County, (including many Commissioners appointed by Boards of Selectmen).

3. The MVC Budgetary Process

The Commission budgetary process is like that of the towns.

- In October, Commission staff prepares a preliminary draft budget.
- In November, Town Finance Committees are invited to attend a special meeting to explain the Preliminary draft budget and invite questions, input, and comments. The preliminary draft budget is reviewed by the Commission's Finance Committee and a Draft Budget is adopted. The draft budget is forwarded to the Commission and the town Finance Committees with the preliminary amount of each town's assessment for their inclusion in that town's budgeting process.
- In December and January, as requested, Commission representatives meet town's finance committees to discuss the budget.
- In January, the MVC Finance Committee may meet again to discuss possible changes to the draft budget.
- At the Regular Meeting of the Commission in January (normally held on the third week of January but scheduled in 2017 on January 19th), the final budget is adopted. The adopted budget is then sent to each town.

4. MVC Reserve Funds

The following is an explanation of two reserve funds maintained by the Commission.

- General Reserve Fund: The Commission maintains this fund to cover urgent, unforeseen expenses during the course of the year. This is similar to the towns' Stabilization Funds and the high school's Excess and Deficiency fund. It is set at approximately the equivalent of two months' operating expenses, namely $184,000. This fund can also be used to deal with short-term cash flow. The fund balance at fiscal yearend 2015 was $25.077, down approximately $94,993 from the previous fiscal year. The balance of the reserve fund as of December 31, 2016, was $160,000.

- Building Reserve Fund (Capital Improvements): This separate fund is for building renovations and improvements. Each year, the budget normally includes $12,000 for building renovations and these funds are accumulated until there is enough to undertake a specific renovation project. The Building Reserve Fund budget amount remained constant for FY2013, FY2014, and FY2015 at $2,000, and fiscal year 2016 the budgeted amount was increased to $15,000. The fund balance at fiscal year-end 2016 was $501, and at December 31, 2016 the balance was $100,503. In December 2016, the MVC obtained a $100,000 loan for capital improvements to its offices. The loan is secured by a second deed of trust on the property. The loan will be repaid over a five-year period beginning August 2017. The FY2017 budget reflects a budgeted amount of $20,000 which will be used to repay the loan over this five-year period. The proceeds of the loan will be used over a five-year period for: (1) the installation of a new HVAC system on the first, second and third floors; (2) the installation of new carpet throughout the building; (3) painting of the first and second floor outdoor decks; (4) internal ceiling repairs on the second and third floors; and (5) plotter and other office equipment.

Both reserve funds are maintained in separate accounts at the Edgartown National Bank, where they accrue interest at prevailing interest rates.

The following is the policy for the use of the General Reserve Fund.

- In preparing its annual budget, the MVC calculates the balance of the General Reserve Fund at the end of each fiscal year. If this balance – less any outstanding accounts payable and any amount being used for short-term cash flow at the end of any given fiscal year – is less than or exceeds the $160,000 limit by more than 15% ($136,000 to $184,000), then the budget shall provide for re-establishing the normal amount. This involves either adding the shortfall back to the previous fiscal year balance or subtracting the excess from the subsequent year's budget back to the General Reserve Fund.
- The General Reserve Fund may be used for a short-term (30-90 days) working capital infusion not to exceed $50,000 to bridge receipt of town assessments or grant disbursements. The Administrator and Executive Director must authorize such use, and the funds so used are to be replaced once the assessment or grants are received. Utilization of the General Reserve Funds for extraordinary, non-budgeted purposes must be approved by the Executive Director and majority vote of the Finance Committee.

5. General Notes on the FY2018 Budget

- **Assessments:** For FY2018, the Commission budgeted a normal modest increase in ongoing annual costs, resulting in an annual increase of $22,451 (2.2%) to $1,035,391 from FY2017 town assessments of $1,012,940. The total equalized valuation of all properties per the MA Department of Revenue as of January 1, 2016, used in Dukes County was $20,069,931,200 for the FY2018 assessments. The taxes paid to support the MVC are currently $0.05159 per $1,000 in assessment, which comes out to about $25.79 for a typical year-round house assessed at $500,000. This is only 14.33% of the maximum assessment authorized in the Martha's Vineyard Commission Act.

- **Salaries:** The Commission has ten staff members (the same number it has had for the past three decades) namely an Executive Director, an Administrator/Fiscal Officer, an Administrative Assistant, and seven planners: (1) the Senior Planner, (2) the Coastal Planner/DCPC Coordinator, (3) the DRI Coordinator, (4) the Economic Development and Affordable Housing Coordinator, (5) the GIS Coordinator. (6) the Transportation Planner, and (7) the Water Resources Planner.

  Salaries are determined per the Commission's Salary Policy. This includes an inflation component or commonly known as a Cost of Living Adjustment ("COLA") and a merit increase (based on job performance and experience; equivalent to the purpose and cost of the grade-and-step system generally used by towns on Martha's Vineyard).

  The MVC's overall budget for salary adjustments for the coming fiscal year are equal to the town averages for the previous year for both the inflation and step components. A survey of town inflation (COLA) increases for the previous year is updated on an annual basis, and a survey of step increases is updated every five years, or could be updated sooner if any towns change their step-and-grade tables. The COLA increase is awarded to all employees. The step increase is awarded within a range based on individual performance evaluations so that the total does not exceed the budgeted amount.

  The FY2018 Budget has a 1.00% COLA and a 2.40% merit adjustment.

During FY2011 and FY2012, the Commission engaged Mark Morse of MMA Consulting Group, to review the Commission's compensation current salaries and policies. With respect to the current salaries, Mr. Morse said: "*I have reviewed your current salary ranges and compared the ranges to the comparative salary data that you provided to me. I believe that the ranges are reasonable, based on the data that I reviewed and on my general knowledge of salary trends. The current assignment of positions to salary ranges appears to reflect the responsibilities set forth in the job descriptions.*"

We also asked him to advise us on our use of a compensation plan based on job performance rather than a grade-and-step system for salary increases. His conclusion was: "*The compensation plan that the Commission uses is the type of plan that we would recommend for a professional organization with a small number of staff members. I would recommend that you maintain the salary range plan.*"

The Commission worked with Mr. Morse to update the Salary Policy, setting maximum salaries for each position as recommended by Mr. Morse to ensure that salaries for each position remain at competitive levels. The Commission will update the Salary Policy in the coming year. The purpose will be to evaluate maximum salaries for each position to ensure that salaries remain at competitive levels".

- **Other Post-Employment Benefits ("OPEB"):** Based on requirements of the Governmental Accounting Standards Board ("GASB") Statement 45, all public agencies must show as a liability in their financial statements the amount that would have to be put into trust in order to ensure that funds are available to pay the employer's share of health care and other benefits, other than pension, of retired employees. There is no legal requirement to pre-fund this liability; however, it is desirable to do so.

  The Commission's annual OPEB cost is calculated based on the *annual required contribution ("ARC") of the employer*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years.

  There are two components to OPEB: (1) funding the MVC's share of retirees' healthcare for the current fiscal year; and (2) the long-term liability to set aside funds to pay post-employment benefits of future retirees.

  It would be desirable to increase the OPEB contributions as much as possible in order to limit future liability for the Commission and the towns. Some Vineyard towns are attempting to at least stay current with their contributions, recognizing that there is an historic shortfall that also has to be addressed. In the case of the MVC, the ARC in order to remain current for FY2016 and not fall further behind would have been $97,799. In order to gradually increase the Commission's contributions, the Commission made an OPEB contribution of $25,500 in FY2016, and agreed to increase this contribution by $5,000 per year until it reaches the recommended contribution. To speed up reaching this level, the following protocol will be used for dealing with any future budget surpluses.

1) Any surplus at the end of the year would go first to replenish the General Reserve Fund if it is less than the targeted amount, presently $184,000 (i.e. $160,000 plus 15%).
2) Next, any additional surplus would be used to increase our OPEB contribution up to the amount needed to not fall further behind for that year, i.e. increase the $35,500 contribution up to $97,779.
3) Next, any remaining surplus would be used to reduce the town assessments in the following year.

Medical Insurance: The Commission's healthcare plan is a single-employer defined benefit plan administered by the Commission. The Commission provides medical and dental benefits to current employees, eligible retirees, and their spouses. Chapter 32B of the Massachusetts General Laws ("MGL") assigns the authority to establish and amend benefit provisions. The contribution requirement has been based on a pay-as-you-go financing method. In addition, the Commission may pre-fund an additional amount as determined annually by the Commission and through the end of FY 2017 the MVC will have funded $113,000 of future liability.

6. MVC FY2018 FINAL BUDGET, APPROVED JANUARY 19, 2017

19-Jan-17

	FY 2016 Budget	FY2017 Budget	FY2018 Budget	Change $	Change %	Notes
INCOME						
Grants/Contracts/Gifts	$ 358,000	$ 363,000	$ 394,000	$ 31,000	*8.5%*	*A*
Interest and Other Income	$ 50,000	$ 50,000	$ 50,000	$ -	*0.0%*	
Town Share	$ 1,012,940	$ 1,012,940	$ 1,035,391	$ 22,451	*2.2%*	*B*
TOTAL INCOME	**$ 1,420,940**	**$ 1,425,940**	**$ 1,479,391**	**$ 53,451**	***3.7%***	
EXPENSES						
Payroll						
Salaries	$ 810,575	$ 806,459	$ 833,879	$ 27,420	*3.4%*	*C*
Salaries-Interns	$ -	$ -	$ 7,500	$ 7,500		
Pension Plan (DCRS)	$ 139,795	$ 139,795	$ 127,500	$ (12,295)	*-8.8%*	*D*
Health, Dental & Disability Insurance	$ 159,740	$ 162,328	$ 191,075	$ 28,747	*17.7%*	*E*
Other Post-Employment Benefits (OPEB) - Current	$ 21,278	$ 28,586	$ 32,376	$ 3,790	*13.3%*	*F*
Other Post-Employment Benefits (OPEB) - Future	$ 25,500	$ 30,500	$ 35,500	$ 5,000	*16.4%*	*G*
Medicare/Social Security, Unemployment & Other Payroll Costs	$ 16,990	$ 17,449	$ 17,530	$ 81	*0.5%*	
Worker's Comp	$ 1,686	$ 1,000	$ 1,684	$ 684	*68.4%*	*H*
Sub-Total Payroll	**$1,175,564**	**$1,186,117**	**$ 1,247,044**	**$ 60,927**	***5.1%***	
Administration & Operating						
Advertising/Communications	$ 2,000	$ 2,000	$ 2,000	$ -	*0.0%*	
Audit Fees	$ 8,500	$ 10,000	$ 10,000	$ -	*0.0%*	
Capital Improvements	$ 10,000	$ 15,000	$ 20,000	$ 5,000	*33.3%*	*I*
Contractual	$ 34,500	$ 18,000	$ 18,000	$ -	*0.0%*	
Dues/Subscriptions/Licenses	$ 6,700	$ 6,700	$ 6,700	$ -	*0.0%*	
Equipment	$ 10,000	$ 10,000	$ 10,000	$ -	*0.0%*	
Insurance	$ 14,540	$ 14,167	$ 13,191	$ (976)	*-6.9%*	
Legal Fees	$ 68,000	$ 68,000	$ 60,000	$ (8,000)	*-11.8%*	
Maintenance	$ 10,000	$ 15,000	$ 10,000	$ (5,000)	*-33.3%*	
Mortgage Interest	$ 19,558	$ 18,262	$ 18,262	$ -	*0.0%*	*J*
Mortgage Principal	$ 24,073	$ 25,369	$ 25,369	$ -	*0.0%*	
Postage	$ 2,250	$ 2,250	$ 2,250	$ -	*0.0%*	
Printing	$ 800	$ 800	$ 800	$ -	*0.0%*	
Registry Fees	$ 975	$ 975	$ 975	$ -	*0.0%*	
Rent	$ -	$ -	$ -	$ -	*0.0%*	
Supplies	$ 12,500	$ 12,500	$ 12,500	$ -	*0.0%*	
Travel/Conference	$ 6,500	$ 6,500	$ 10,000	$ 3,500	*53.8%*	*K*
Utilities: Electric	$ 5,200	$ 5,000	$ 4,500	$ (500)	*-10.0%*	*L*
Utilities: Oil	$ 4,300	$ 4,300	$ 2,000	$ (2,300)	*-53.5%*	*L*
Utilities: Telephone	$ 4,500	$ 4,500	$ 5,300	$ 800	*17.8%*	*L*
Utilities: Water	$ 480	$ 500	$ 500	$ -	*0.0%*	*L*
Sub-Total: A & O	**$ 245,376**	**$ 239,823**	**$ 232,347**	**$ (7,476)**	***-3.1%***	
Sub-Total: Expenses	$ 1,420,940	$ 1,425,940	$ 1,479,391	$ 53,451	*3.7%*	
TOTAL EXPENSES	**$ 1,420,940**	**$ 1,425,940**	**$ 1,479,391**	**$ 53,451**	***3.7%***	
SURPLUS (DEFICIT)	**$ -**	**$ (0)**	**$ -**	$ (0)		

7. MVC FY2018 BUDGET - ASSESSMENTS

Assessments to Towns - July 1, 2017 - June 30, 2018

	Aquinnah	Chilmark	Edgartown	Gosnold	Oak Bluffs	Tisbury	West Tisbury	TOTAL	*Notes*
Equalized Valuation	$ 724,087,400	$ 3,324,185,000	$ 7,747,629,000	$ 232,938,000	$ 2,830,191,100	$ 2,712,566,800	$ 2,498,333,900	**$ 20,069,931,200**	*M*
Share of Planning	3.61%	16.56%	38.60%	1.16%	14.10%	13.52%	12.45%	100.00%	*N*
Share of Regulatory	3.65%	16.76%	39.06%	0.00%	14.27%	13.67%	12.59%	100.00%	
Assessment - Planning	$ 24,281	$ 111,470	$ 259,801	$ 7,811	$ 94,905	$ 90,960	$ 83,777	**$ 673,004**	*O*
Assessment - Regulatory	$ 13,228	$ 60,727	$ 141,536	$ -	$ 51,703	$ 49,554	$ 45,640	**$ 362,387**	*P*
Total Assessment FY2018	**$ 37,509**	**$ 172,197**	**$ 401,336**	**$ 7,811**	**$ 146,607**	**$ 140,514**	**$ 129,417**	**$ 1,035,391**	
Previous Assessment FY2017	*$ 42,207*	*$ 173,808*	*$ 373,250*	*$ 8,053*	*$ 141,868*	*$ 141,039*	*$ 132,716*	*$ 1,012,941*	

Source: Massachusetts Department of Revenue Division of Local Services for use in FY2018, published January 23, 2017

8. Specific Notes on Budget

A. Grant revenues vary annually. This budget is based on a renewed four-year contract that the MVC has with MassDOT grant and, a conservative estimate of additional government funding, including a grant from the District Local Technical Assistance ("DLTA") Fund allocation. The MVC seeks additional grant funding on an ongoing basis. Additional grant revenue is generally accompanied by additional costs in terms of hiring consultants, interns, and increased expenses.

B. Town Share assessments to the towns have increased to $1,035,391 from $1,012,940 ($22,451/2.2%).

C. Salaries will increase in FY2018 from $806,459 to $833,879 or $27,420 (3.4%). The increase reflects a COLA increase of 1.00% for each employee, and a step increase averaging approximately 2.40%, to the ten full-time MVC employees.

D. The Pension Plan has decreased $12,295 (8.8%) to $127,500 from a FY2017 budgeted amount of $139,795. The cause for the decrease is the most recent actuarial report received from the Dukes County Retirement System.

E. The costs to medical and dental coverage continues to grow. The MVC, like all island Towns and the County are part of the Cape Cod Medical Health Group. For FY2018 the MVC estimated a 7% increase to its medical coverage as well as a cost increase incurred in the FY2017 that was not budgeted. The difference between actual and budget for FY2017 occurred because the MVC received notice of a rate increase after our budget had been approved. The budget for FY2018 increases to $191,075 from 162,328, and increase of $28,747 or 17.7%

F. Other Post-Employment Benefits ("OPEB")-Current, is the cost to the Commission for payment of a portion of retirees' medical and dental insurance coverage. The retirement of our former Executive Director in FY2016 raised the retiree count from two to three, with two of the retirees younger than the age of 65 causing our post-retirement medical insurance costs to increase to $32,376 in FY2018 from $28,856 in FY2017, an increase of $3,790 or 13.3%.

G. As in Fiscal Years 2012 to 2017, the MVC will continue to pre-fund payments for future retirees and will be deposited in the Dukes County Pooled OPEB Trust Fund. The Commission is increasing the annual contribution by $5,000 per fiscal year, and the FY2018 budget includes a $35,500 contribution to the OPEB Trust Fund.

H. Worker's Compensation ("W/C") insurance premiums continue to show an increased over the past fiscal year based on our W/C audits and experience factor.

I. For FY2017 the budgeted amount for Capital Improvements will be increased to $15,000 from $10,000. This increase and the amount currently in the Building Reserve account ($500) will be used to (1) repair the MVC's 3rd floor walls, (2) provide funds to install a HVAC system on the 3rd floor, and (3) allow for new carpet to be installed where needed.

J. The Maintenance budget has been increased to $20,000 from $15,000 to reflect the Commission's costs more accurately to maintain the building, computers, and other equipment.

K. Travel/Conference budget line item has been increased to accurately reflect the average of costs over the prior five years, increase $3,500 (53.8%) to $10,000 for FY2018 as compared to the FY2017 budget amount of $6,500.

L. The MVC continues to see a downward trend in its costs for electric and heat from prior fiscal years. This is due to the MVC's maintenance plan of replacing the boiler in FY2014 and the installation of a new HVAC system on the first floor, specifically the MVC meeting room. The MVC anticipates a small uptick in telephone with the installation of new phone system in December 2016.

M. This apportionment of assessments is based on the equalized valuations report dated January 1, 2014 from the Massachusetts Department of Revenue. The Equalized Valuations Report will be updated on Monday, January 23, 2017.

N. Planning accounts for 65% of the Commission's budget. Regulatory accounts for 35%. This allocation is based on a past analysis of the proportion of staff hours and other expenses related to the two parts of the Commission's mandate.

O. All seven towns in Dukes County share the cost of Planning per their relative equalized valuation.

P. The six towns on the Island of Martha's Vineyard share the cost of the Regulatory and Planning expenses.