DRAFT December 11, 2012

Martha's Vineyard Commission

Draft Budget FY2014

Adopted by the Martha's Vineyard Commission on [January 25, 2013]

1. Introduction

Looking Back at FY2012 and FY2013

Given the nation's financial crisis of the past few years, the MVC's budgets were pared to the bone so that there was no increase in assessments for FY2010, FY2011, and FY2012. This left virtually no room for unexpected expenses. The MVC managed to work within those severe budget limits in FY2010 and FY2011. However, fiscal year 2012 buffeted the MVC with large and generally unexpected expenses that resulted in a significant deficit, namely $168,544 out of a total budget of $1,404,590. The deficit was essentially caused by higher legal and pension expenses. Other additional expenses were offset by additional revenues.

The main unanticipated expense was for legal expenses, namely $196,613 instead of the budgeted $60,000, mostly related to defending the MVC from a series of lawsuits seeking to overturn Commission DCPC and DRI decisions supporting town proposals, notably the Commission's designation of Special Ways in Edgartown with implications for all Island towns. In addition, although salary expenses were well under budget, the Commonwealth mandated a $31,851 increase to payments for the Dukes County Contributory Retirement System (DCRS) and there were additional payroll expenses for or Health and Disability Insurance, and for Post-Employment Medical Insurance. We expect to absorb the FY2012 shortfall with a combination of additional revenues in the current fiscal year, by using our Reserve Fund, and by spreading payment of legal expenses over several years.

The FY2013 budget adopted in January 2012 and currently in effect, also had a legal budget of $60,000 and, since the MVC had not been notified of the Pension Plan increase until after the FY2013 budget was adopted, it did not reflect the new amount imposed by the Commonwealth.

Looking Forward to FY 2014

For FY2014, the Commission has budgeted for higher ongoing annual costs in some of these categories, notably legal and pension expenses. The result is an overall budget increase of $122,084 (10.1%) and an increase in town assessments of $104,084 (12.8%).

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, paid an MVC assessment of $20.91 in FY2013, and this will increase by $2.68 to $23.60 in FY2014. The Equalized Valuations were revised last year resulting in some towns' share of total Island assessments changing relative to other towns; as a result the total increase in MVC assessments collected by a given town may be different than the overall average increase.

The following are the main elements of the FY2014 budget.

- The legal budget has been increased to $120,000, in anticipation of the possible continuation of the higher than normal legal expenses and to help recoup the overage from FY2012.
- The pension reflects the higher pension amount of $128,492 as mandated by the Commonwealth.

- The salaries are adjusted based on a formula based on the average of the towns and County increases for the previous fiscal year, namely 2.6% average inflation increase (COLA) and 2.4% average step increase.
- As with FY2013 budget, this budget includes an on-going effort to pre-fund Other Post-Employment Benefits ("OPEB") of $15,500.

Please see the 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 the majority of its Commissioners are elected. Of the seventeen 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 similar to that of the towns.

- In October, Commission staff prepares a preliminary draft budget.
- In November, the preliminary draft budget is reviewed and revised by the Commission's Finance Committee.
- In December, the MVC Finance Committee adopts a Draft Budget and presents it to the Commission for consideration. The preliminary amount of each town's assessment is forwarded to the town's administrator for 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 next year on January 25, 2013), 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 $160,000.00. This fund can also be used to deal with short-term cash flow. The fund balance at fiscal year-end was $148,425.
- 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. For the last four (4) fiscal years this amount has temporarily been reduced to $7,000, and has been further reduced to $2,000 for FY2014. The fund balance at fiscal year-end was $511. Installation and completion of an exterior staircase providing a second means of egress from the second and third floors was completed during FY2012.

Both reserve funds are maintained in separate accounts, the General Reserve Fund is held at the Massachusetts Municipal Depositary Trust, and the Building Reserve Fund is held 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 ("GRF") at the end of each fiscal year. If this balance – less any outstanding accounts payables 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 years balance or subtracting the excess from the subsequent year's budget back to the GRF.

- 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 FY2012 Budget

- **Assessments:** The total of town assessments for FY2014 is $917,350, an increase of $104,084 (12.8%) from the FY 2013 assessed amount of $813,266. The total equalized valuation of all properties in Dukes County was $19,443,669,400 in the current fiscal year. The taxes paid to support the MVC are currently $.04415 per $1,000 in assessment, or about $23.60 for a typical year-round house assessed at $500,000. This is approximately 13% of the maximum assessment authorized in the Martha's Vineyard Commission Act.
- **Salaries:** The Commission has ten staff members (the same number it had a decade ago) namely an Executive Director, an Administrator, an Administrative Assistant, and seven planners, namely the Senior Planner, the Water Resources Planner, the Transportation Planner, the Coastal Planner / DCPC Coordinator, the Economic Development and Affordable Housing Coordinator, the DRI Coordinator, and the GIS Coordinator.

  Salaries are determined according to the Commission's Salary Policy. This includes an inflation component (a COLA adjustment) and a step increase (based 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 FY2014 Budget has a 2.6% COLA and a 2.4% step adjustment.

  During the course of 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 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 and is incorporating a mechanism to ensure that salaries for each position remain at competitive levels in the field by setting maximum salaries for each for each position as recommended by Mr. Morse.

- **Other Post-Employment Benefits ("OPEB"):** Based on new 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 employee'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 share of retirees' health care for the current fiscal year; and (2) the long-term liability to set aside funds to pay post-employment benefits of future retirees.

  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 2013 the MVC will have funded $21,000 of future liability. In FY 2012, in order to reduce expenses in the short and especially the long term, the Commission increased the employee's contribution of employee health benefits from 10% to 25%, and eliminated a more expensive Master Medical health plan.

6. MVC FY2014 PRELIMINARY WORKING BUDGET

	FY 2012 Budget	FY2012 Actual	FY2013 Budget	FY2014 Budget			Notes
INCOME							
Grants/Contracts/Gifts	$ 325,500	$ 384,157	$ 340,000	$ 358,000	$18,000	5.3%	A
Interest/Other Income	$ 48,000	$ 57,764	$ 50,000	$ 50,000	$0	0.0%	
Town Share	$ 794,125	$ 794,125	$ 813,266	$ 917,350	$104,084	12.8%	B, I
TOTAL	**$ 1,167,625**	**$1,236,046**	**$ 1,203,266**	**$ 1,325,350**	**$ 122,084**	10.1%	
EXPENSES							
Payroll							
Salaries	$ 701,764	$ 679,217	$ 702,678	$ 734,456	$ 31,778	4.5%	C
Pension Plan (DCRS)	$ 90,500	$ 121,981	$ 95,028	$ 128,429	$ 33,401	35.1%	D
Health & Disability Insurance	$ 131,600	$ 152,440	$ 132,831	$ 132,064	$ (767)	-0.6%	
Other Post-Employment Benefits (OPEB) - Current	$ 7,500	$ 34,356	$ 38,115	$ 34,776	$ (3,339)	-8.8%	E
Other Post-Employment Benefits (OPEB) - Future	$ 10,500	$ 10,500	$ 10,500	$ 15,500	$ 5,000	47.6%	
Medicare/Social Security, Unemployment & Other Payroll Costs	$ 12,151	$ 11,465	$ 13,516	$ 13,439	$ (77)	-0.6%	
Worker's Comp	$ 3,500	$ 1,243	$ 2,250	$ 1,600	$ (650)	-28.9%	
subtotal	**$957,515**	**$1,011,202**	**$994,918**	**$ 1,060,264**	**$ 65,346**	6.6%	
Administration & Operating							
Advertising/Communcations	$ 2,000	$ 4,176	$ 2,000	$ 2,000	$ -	0.0%	
Audit Fees	$ 8,500	$ 8,800	$ 8,500	$ 8,400	$ (100)	-1.2%	
Capital Improvements	$ 7,000	$ 26,667	$ 7,000	$ 2,000	$ (5,000)	-71.4%	F
Contractual	$ 18,518	$ 23,236	$ 18,000	$ 18,000	$ -	0.0%	
Dues/Subscriptions/Licenses	$ 6,695	$ 9,886	$ 6,700	$ 6,700	$ -	0.0%	
Equipment: Contract	$ 3,500	$ 3,778	$ 3,000	$ 3,000	$ -	0.0%	
Equipment: Purchase	$ 5,000	$ 8,328	$ 5,000	$ 5,000	$ -	0.0%	
Equipment: Repair	$ 2,000	$ 445	$ 2,000	$ 2,000	$ -	0.0%	
Insurance	$ 13,000	$ 6,260	$ 10,504	$ 12,350	$ 1,846	17.6%	G
Legal Fees	$ 60,000	$ 196,613	$ 60,000	$ 120,000	$ 60,000	100.0%	H
Maintenance	$ 6,000	$ 13,759	$ 6,000	$ 6,000	$ -	0.0%	
Mortgage Interest	$ 25,000	$ 26,618	$ 22,717	$ 21,826	$ (891)	-3.9%	
Mortgage Principal	$ 14,600	$ 23,942	$ 20,322	$ 21,805	$ 1,483	7.3%	
Postage	$ 2,500	$ 2,708	$ 2,400	$ 2,400	$ -	0.0%	
Printing	$ 1,000	$ 163	$ 1,000	$ 1,000	$ -	0.0%	
Registry Fees	$ 1,000	$ 525	$ 975	$ 975	$ -	0.0%	
Rent	$ 350	$ 130	$ 350	$ 350	$ -	0.0%	
Supplies	$ 13,133	$ 16,297	$ 12,180	$ 12,180	$ -	0.0%	
Travel/Conference	$ 6,951	$ 10,109	$ 6,500	$ 6,500	$ -	0.0%	
Utilities: Electric	$ 4,853	$ 3,841	$ 4,800	$ 4,500	$ (300)	-6.3%	
Utilities: Telephone	$ 4,920	$ 3,530	$ 4,800	$ 4,500	$ (300)	-6.3%	
Utilities: Oil	$ 3,200	$ 2,116	$ 3,200	$ 3,200	$ -	0.0%	
Utilities: Water	$ 390	$ 400	$ 400	$ 400	$ -	0.0%	
Other Costs		$ 1,061					
subtotal	**$ 210,110**	**$ 393,388**	**$ 208,348**	**$ 265,086**	**$ 56,738**	27.2%	
TOTAL	**$ 1,167,625**	**$ 1,404,590**	**$ 1,203,266**	**$ 1,325,350**	**$ 122,084**	10.1%	
SURPLUS/DEFICIT							
	$ -	**$ (168,544)**	**$ -**	**$ -**	**$ -**		

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7. MVC FY2014 BUDGET - ASSESSMENTS

Assessments to Towns - July 1, 2013 - June 30, 2014

	Aquinnah	Chilmark	Edgartown	Gosnold	Oak Bluffs	Tisbury	West Tisbury	TOTAL	Notes
Equalized Valuation	$ 754,311,600	$ 3,261,762,600	$ 7,093,184,700	$ 274,585,700	$ 2,761,706,200	$ 2,744,673,000	$ 2,553,445,600	**$ 19,443,669,400**	*G*
Share of Planning	3.88%	16.78%	36.48%	1.41%	14.20%	14.12%	13.13%	100.00%	*H*
Share of Regulatory	3.94%	17.02%	37.00%	0.00%	14.41%	14.32%	13.32%	100.00%	
Assessment - Planning	$ 23,132	$ 100,028	$ 217,526	$ 8,421	$ 84,693	$ 84,171	$ 78,306	**$ 596,278**	*I*
Assessment - Regulatory	$ 12,634	$ 54,633	$ 118,807	$ -	$ 46,257	$ 45,972	$ 42,769	**$ 321,073**	*J*
Total Assessment FY2014	**$ 35,767**	**$ 154,661**	**$ 336,333**	**$ 8,421**	**$ 130,950**	**$ 130,143**	**$ 121,075**	**$ 917,350**	*Preliminary*
Previous Assessment FY2013	*$ 30,980*	*$ 129,376*	*$ 298,512*	*$ 7,252*	*$ 121,286*	*$ 118,487*	*$ 107,373*	*$ 813,266*	

Source: Massachusetts Department of Revenue Division of Local Services for use in FY2014

8. Specific Notes on Budget

A. Grant revenue varies every year. This budget is based on the continuation of a four-year contract that the MVC has with MassDOT grant and, a conservative estimate of additional government funding anticipated on an ongoing basis. 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 $917,350 from $813,266 ($104,084/12.8%). As discussed above, this increase in assessments reflects the MVC's increased expense for the MVC's continuing legal fees and its increased contribution to the Dukes County Retirement System (noted in items H and D). Note that the percentage increases in town share for the past four years were 0%, 0%, 0%, and 2.4%, respectively.

C. Salaries will increase in FY2014 from $702,678 to $734,456 or $31,778 (4.5%). The increase reflects a COLA increase of 2.4% for each employee, and a step increase averaging approximately 2.6%, to the ten full-time MVC employees.

D. The budget for FY2014 shows an increase to pension costs payable into the Dukes County Retirement System, increasing $33,401 (35.1%) from $95,028 to $128,429. The dramatic increase is the result of a newly released actuarial report increasing the MVC's contribution to the DCRS. The Commission was notified of this increase in June 2012. The mandatory contributions of plan members and the County are governed by Chapter 32 of the MGL.

E. Other Post-Employment Benefits ("OPEB") is the cost to the Commission for payment of a portion of retirees' medical and dental insurance coverage. A modest decrease in the MVC share to fund the current portion of OPEB costs is reflected in the FY2014 budget, decreasing from $38,115 to $34,776, a reduction of $3,339 (8.8%). FY2014 budget includes an amount of $15,500 to pre-fund payments for future retirees and will be deposited in the Dukes County OPEB Trust for FY2014. OPEB contributions for FY2012 and FY2013 were each $10,500.

F. Each year, the budget normally includes $12,000 to fund the Building Reserve Fund. For the last four fiscal years this amount was temporarily reduced to $7,000, and has been further reduced to $2,000 for FY2014.

G. Insurance has increased slightly from $10,504 to 12,350 ($1,846 or 17.6%) to reflect the higher premium associated with the MVC's professional liability coverage.

H. Legal fees will increase to $120,000 from the fiscal year 2013 amount of $60,000. This increase will more accurately reflect the average legal fees to the MVC over the past three fiscal years.

I. This apportionment of assessments is based on the equalized valuations report dated July 20, 2012 from the Department of Revenue.

J. 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.

K. All seven towns in Dukes County share the cost of Planning according to their relative equalized valuation.

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