

MUNICIPAL FINANCE OVERSIGHT BOARD

Meeting December 11, 2018

MINUTES

Board Members Present: State Auditor Suzanne Bump (Chair), Craig Stepno (Office of the State Treasurer), Mary Jane Handy (Department of Revenue), Margaret Hurley (Office of the Attorney General)

Non-Board Members Present: Sophia Apostola (Office of the State Auditor), Michael Ruane (Office of the State Auditor), Michael Leung-Tat (Office of the State Auditor), Mayor James Jajuga (Methuen), William Buckley (Methuen), Sheryl Wright (Methuen), Michele Mastrangelo (Methuen), Jacqueline Cuomo (Methuen), Paul Fahey (Methuen), Sean Cronin (DOR), Melinda Ordway (DOR), Zachary Blake (DOR), Alina Korsak (DOR), Scott McIntire (Melanson Heath), Cinder McNerney (Hilltop Securities), Abby Jeffers (Hilltop Securities)

The meeting was called to order at 11:05 a.m.

Minute from November 14, 2018

On the question of approval of the minutes from the meeting on November 14, 2018: unanimously approved.

City of Methuen

Mayor Jajuga provided a brief overview of the request. Methuen is requesting authorization to issue \$4,000,000 to finance deficits. Mayor Jajuga stated that the deficits stem from special education overruns in the Methuen Public School's budget of approximately \$3,800,000.

Auditor Bump asked for an overview of how the deficit occurred and what actions have been taken to ensure that the school department does not create further deficits.

Mayor Jajuga stated that in FY 2017 the former mayor underfunded the school department and in FY 2018 the former mayor made additional reductions to the school department's budget. When Mayor Jajuga became mayor he was made aware of the school department's deficit due to special education overruns, but the superintendent assured Mayor Jajuga that the circuit breaker funding would close that deficit.

Sheryl Wright, the Interim City Auditor, stated that there was a breakdown in controls between the City and the school department. Ms. Wright stated one of the issues was summer payrolls increasing the budget for the school department. Methuen has taken steps to tighten spending protocols for the school department. The city auditor now has direct access to the school department's financial systems and reviews school finances on a weekly basis. Methuen is currently working with the Department of Revenue (DOR) to develop written financial policies and protocols. Finally, Methuen increased the school department's budget from \$72,000,000 to \$78,000,000.

Paul Fahey, the Mayor's Chief of Staff, stated that the school department is currently reviewing its finances and the school department's business manager will report directly to Methuen's chief financial

officer. Mr. Fahey noted that the deficit spending legislation will also help to create checks within the system to ensure that these issues do not happen again.

Auditor Bump asked whether the increase in the school department's budget impacted the City's overall budget.

Ms. Wright stated that Methuen made some cuts to accommodate the increases in the school budget's appropriation.

Craig Stepno asked whether the former mayor had other resources he used to balance the school department's budget.

Mayor Jajuga stated that the former mayor used stabilization funds to offset the deficits.

Mary Jane Handy asked whether Melanson Heath was concerned about the sustainability of FY 2018 budget based on their review of FY 2017's financial disclosures.

Scott McIntire stated that based on the information available they were not concerned about the FY 2018 budget.

Margaret Hurley asked when the chief financial officer will be in place.

Mr. Fahey stated April 2019 at the earliest. He explained that Methuen hired a consultant to help with the search for chief financial officer candidates. Methuen expects to have the mayor interview 3-5 candidates and make a recommendation to the city council, which must approve the candidate.

Ms. Hurley asked whether Methuen expects to meet the deadlines set out in the deficit financing legislation for the 5 year capital plan and the 4 year revenue forecast.

Mr. Fahey stated that Methuen had already begun its 5 year capital planning process before the deficit concerns and it should be completed on time.

Sean Cronin, Methuen's fiscal overseer, stated that Methuen will not meet the deadline for the 4 year revenue forecast, but DOR is helping Methuen to assess their revenue in order to establish the FY 2020 budget.

Ms. Hurley asked about the status of the police negotiations.

Mr. Fahey stated that the City Council has not approved the negotiated memorandum of understanding (MOU).

Mr. Stepno asked whether Methuen has examined the financials of other city departments.

Ms. Wright said Methuen has reviewed other departments, and other than small holes, there is nothing that would create budgetary deficits.

Board invited Sean Cronin to speak.

Mr. Cronin stated that DOR is spending significant time to help identify Methuen's structural breakdowns and develop solutions. Methuen's most significant structural issue is that the city auditor position is under the control of the legislative branch rather than the executive branch. Mr. Cronin stated that DOR hopes that the city auditor will be placed under the control of the finance department.

Methuen will receive a community compact grant to help the city auditor to review the financials, including salaries. Mr. Cronin also noted that Methuen, like many other municipalities, underfunds its snow and ice budget and covers those deficits with free cash. However, with limited free cash reserves Methuen is exposed to snow and ice deficits.

Mr. Fahey stated that Methuen is in the process of conducting a charter review. Methuen is examining whether to make the auditor an executive branch appointee, rather than an appointee of the city council.

Mr. Stepno asked whether Mayor Jajuga believes \$4,000,000 will be sufficient to stabilize Methuen's finances.

Mayor Jajuga stated that DOR and other parties advised Methuen to seek authorization for borrow up to \$10,000,000 to provide Methuen with a financial cushion. Mayor Jajuga was in agreement with this recommendation, but the City Council did not authorize that amount. The City Council feared that authorizing the borrowing of \$10,000,000 would be too much temptation to overspend.

Ms. Handy asked about Methuen's financial outlook for FY 2020.

Ms. Wright stated that she has been working on the forecast with DOR and the budget is tight, but she will know better when she knows the amount of state aid Methuen will receive.

William Buckley, the Director of Economic Development for Methuen, discussed the economic development in the City. The economic growth in Methuen is robust. There are 800 units of housing in the pipeline, including multifamily housing. Methuen expects to see an increase in residential and commercial values. A large manufacturer is considering investing \$20-30,000,000 in Methuen. Polartech's former manufacturing facilities are now in use. The Loop (flagship commercial center) continues to see growth. Methuen is in discussions with a major hospital to create a satellite facility in Methuen.

Mary Jane Handy made a motion to approve the request from Methuen.

Craig Stepno seconded the motion.

The motion was unanimous approved.

Long-Range Municipal Fiscal Stability

Ms. Handy provided a summary of several communities and districts experiencing financial instability. Ms. Handy provided an update regarding the Pioneer Valley Regional School District's deficit and stated that the FY 2018 deficit was not as significant as DOR originally thought.

Uxbridge's payroll administrator has resigned. Uxbridge has an interim collector/treasurer and an audit firm is acting as the town account. Audit work will be conducted in April 2019.

DOR's Technical Assistant Bureau met with Brewster to conduct a review. Brewster has an interim town administrator. DOR's Technical Assistance Bureau found that the treasurer/collector side is well run, but the town accountant's processes need to be updated.

Dennis and Yarmouth are considering disbanding their regional school district.

Millville did not properly post their reclassification meeting, because of this the town has to December 28, 2018 to set its tax rate and the bills need to be mailed by December 31, 2018.

Topics for Next Meeting

Sophia Apostola stated that several communities are looking to come before the board in the next several months, including Fall River, Pittsfield, Springfield, Revere, New Bedford, and Lowell.

The meeting was adjourned at 12:15 p.m.