

MUNICIPAL FINANCE OVERSIGHT BOARD

Meeting January 9, 2020

MINUTES

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

Non-Board Members Present: Hilary Hershman (Office of the State Auditor), Ben Tafoya (Office of the State Auditor), Philip McLaughlin (Office of the State Auditor), Carina DeBarcelos (Office of the State Auditor), Jason King (Sen. Ryan Fattman), Noah Futterman (Office of the State Auditor), William Arrigal (Department of Revenue), State Representative Daniel Cahill, Linda Tyer (Mayor, City of Pittsfield), Matthew Kenwood (City of Pittsfield), Allison Crespo (City of Pittsfield), Michael Bertino (CFO, City of Lynn), Stephen Spencer (City of Lynn), Elyse Fannon (City of Lynn), Chris Lisinski (State House News Service), Nick Golden (Rep. Lori Ehrlich), Doug Willardson (Town Administrator, Town of Webster), Tim Bell (Town of Webster), Tina Landry (Town of Webster), Lisa Driscoll (Hilltop Securities), Abby Jeffers (Hilltop Securities), Kristy Tofuri (Hilltop Securities), Mary Carney (Hilltop Securities), Megan Hyland (Hilltop Securities), Melissa Toland (Hilltop Securities), Sean Cronin (Department of Revenue)

The meeting was called to order at 11:00 a.m.

Minute from November 20, 2019

On the question of approval of the minutes from the meeting on November 20, 2019: approved by all board members present without amendment.

City of Pittsfield

Mayor Linda Tyer gave brief description of Pittsfield as a Gateway City in the Berkshires that in the past was dependent on GE as its main employer. There was a period of decline and depopulation accompanying GE's departure in the 1980's and 1990's, followed by the present period of rebounding and rebuilding. Pittsfield is investing in culture and the arts, as well as in redeveloping its downtown area. Mayor Tyer stated her belief the City is in a much stronger position economically than it was 4 years ago. For a long time there were a number of agencies that were attempting to rebuild Pittsfield's economy, and she wanted to break down silos between them to focus on economic development strategies. The City recently established the Economic Development Council ("Red Carpet Team") in response to this concern, collaborating with both state and local officials.

There have been a number of positive developments in recent years. The biggest success was that Wayfair recently opened a sales and service center with 300 new employees. Electro Magnetic Applications is setting up a laboratory to test materials for space exploration as the first tenant at the Berkshire Innovation Center at William Stanley Business Park. The City is also focused on strengthening and stabilizing its neighborhoods and is working with the Attorney General's Office on demolitions of vacant or decrepit properties. Pittsfield is also improving the historical Tyler Street district with commercial and residential redevelopment.

General Dynamics is the one of the largest employers in Pittsfield and cites employment recruitment and housing as challenges. Development of market rate housing is a focus for the City, as well as drawing in

human capital. There are approximately 1,200 job vacancies in the county, but the county is at nearly full employment.

The Auditor questioned what financial benefits to the City there have been from development and questioned the impacts on tax rates and the budget. The Mayor responded that her administration worked with Sean Cronin at DOR to get community development grants and develop a capital plan and taxation models for a meals and hotel tax and marijuana revenues. The largest challenge is the levy ceiling and levy limit under Prop 2½, and Pittsfield has begun debt and budget management measures to meet it. They also have put in place policies regarding stabilization funds and free cash, with free cash being a driver for lower tax rates.

The Mayor stated Pittsfield historically has used free cash to offset the tax rate but gradually has weaned off this use. This year, she proposed using \$750,000 in free cash to offset the tax rate (down from \$2.2M in the past). The City is close to the \$25 per \$1000 single tax rate imposed by statute, although they have a split rate, and the City Council felt that reserves have grown enough that they could use more free cash for tax relief, which she and Mr. Kerwood opposed. The Mayor and Council compromised on the amount of free cash being used for that purpose and an additional \$1M of free cash was allocated for tax relief, for a total of \$1.75M. The Mayor is confident she can work with the Council in the future so the City can continue to meet financial goals and build reserves.

The Auditor then asked the City to describe the request before the board. The Mayor described the \$17M in borrowing they are seeking, which is requested with a focus on rebuilding the City and strengthening current assets such as parks and infrastructure. The City has received about \$18M in grants over the last 4 years that have been used for special projects to complement work in the operating budget. She specifically mentioned the Tyler Street development initiative as a highlighted project, as there are a number of items requested in connection to this. The City has not had an adequate fleet maintenance program for a number of years, and the City wants to replace antiquated vehicles. The City also is focusing on safety in schools, providing police with new equipment, and upgrading significant waste water infrastructure to be in compliance with permits from the EPA.

Ms. Handy asked about whether collective bargaining agreements have expired, and the Mayor stated that in the last 6 months 7 agreements were settled with 3 year terms. Prior to this, there were often one-year contracts used, but currently they are moving towards longer contracts. There is a new healthcare program in place that controls spending, with significant savings. The Auditor asked about salary changes, and the Mayor responded that contracts were negotiated to have consistency in wages and benefits across contracts, which has been successful.

The Auditor asked about marijuana revenues and plans to use it. The Mayor responded there are two medical/recreational marijuana establishments operating now and one opening soon. About \$448,000 was brought in in the first 2 quarters of the fiscal year, so they anticipate a little under \$1M in revenue. The arrangements are straightforward host agreements with no percentage paid on sales. The third establishment will boost this. 50% of marijuana revenues is dedicated to the stabilization account, with a further 25% of marijuana revenues being dedicated to a new public works stabilization fund that will address maintenance issues. The remaining 25% of revenues will go into the general fund.

Ms. Hurley asked about the marijuana establishments, to which the Mayor replied that they are both medical and recreational. The host agreement for the City allows up to 30 marijuana establishments, although the City does not anticipate that many stores will open.

Ms. Hurley asked for more information about the City's 'red carpet' economic development team. The Mayor replied that the team works with the MA Office of Business Development, MassHIRE, and various local departments to coordinate the economic development strategy.

Ms. Hurley then asked for information on the Capital Theater Marquee request. This former movie theater, a historic building, is associated with the senior center and was redeveloped as part of the downtown redevelopment strategy. The deteriorated marquee was rehabilitated to be in keeping with the improved appearance of the area and was finished about a year ago. Ms. Hurley also asked about the purchase of the former Hess station. The Mayor replied that this is part of the Tyler Street Redevelopment Initiative. MassDevelopment is looking to purchase the property, which it would then give to the City to be used for green space. The site does not require brownfields remediation as it is not a contaminated site.

Ms. Handy made a motion to approve the request from the City of Pittsfield. Ms. Hurley seconded the motion. The motion was unanimously approved by the members present.

City of Lynn

Michael Bertino, the City's CFO for about 16 months, began with a general update of the City's finances, stating that all revenue projections and estimates are on track and the City is taking a conservative approach to budgeting, with a focus on interdepartmental collaboration. The MFOB request is focused on getting the equipment necessary for departments to do their jobs properly. The City was able to balance its budget and put money aside in reserves for this fiscal year. Development in the City will open hundreds of housing units this year, and the Mayor is focused especially on transportation, community, and economic development. The City is at a 91% collection rate, and tax rates are shifting the burden to commercial properties. Lynn is also seeing double-digit increases in property values for the third year in a row.

The City is focused on building reserves and settling collective bargaining agreements. The agreement are being settled at this time. Last year there was a change in health insurance, which saved about \$5M this year without changing providers. Division of payments for health insurance changed to 75% city/25% employees. The savings were used for retroactive pay increases under collective bargaining. This change resulted in the health care trust fund having a \$3 million surplus, the first time in five years a surplus has occurred.

The Auditor asked about the City's school budget and the impacts of the recent education reform legislation. Mr. Bertino stated the new money would help a lot, and the real issue for the City was not having enough capacity for students. The City has had initial meetings regarding building a new school. Schools are about 2/3 of the city's \$266 million budget. Lynn is still appropriating more than required for net school spending. School construction is exempt from the calculation of net school spending, and the City is examining net school spending more closely. In new school construction, the City is focusing on K-8 although they have had huge population growth and have a need for capacity expansion in all grades.

Ms. Handy asked a question about refunding in the application and how much it would save. Mr. Bertino stated it would be about \$600,000.

The Auditor invited Sean Cronin of DLS, Lynn's financial overseer, to speak. He stated that the City's greatest challenges are in capital projects and that there needs to be financial capacity for that. Lynn had to walk away from money offered by the MSBA. He then stated there are a large number of positions that are grant funded which will lose funding soon, putting pressure on the budget. The Collins Center prepared a 5 year capital plan last spring, but the approach adopted by the council was, instead, a 1 year "pay-as-you-go" plan. He also mentioned that the savings for the City in healthcare were cost-shifting to employees, as opposed to moving onto the GIC, which he thinks would be the best option.

Ms. Handy asked if financial policies have been adopted, specifically reserve policies. Mr. Bertino responded that policies have been submitted to the Council, but not approved yet.

Rep. Cahill then thanked the financial team for their work and expressed his concern for school and housing capacity.

Ms. Handy then made a motion to approve the request from the City of Lynn. Ms. Hurley seconded the motion. The motion was unanimously approved by the members present.

Town of Webster

Doug Willardson, Town Administrator, gave a general financial overview of the Town. The Town moved to a single tax rate from a split rate last year, and they have been able to lower the tax rate each year. The Town is currently undergoing an audit and is looking to close out deficits now. They have been saving money because Ms. Landry got the banks to lower their interest rates, and the Town has been aggressive on foreclosures.

All collective bargaining units are under contract, and the budget process is going smoothly. Health insurance was recently moved into a joint purchase group with Douglas and the Dudley-Charlton RSD, which saved the Town about \$400,000. The Town has examined moving health insurance to the GIC or the Hampshire Council of Governments, but they feel they are currently in a good position. The Town recently opened a \$12m new library, and a group reviewing libraries ranked it as the best in the state. It is very well used. Reserves have been doubled to \$2.3M in the stabilization fund. A portion of OPEB is now being funded out of the operating budget, and health savings will go to the OPEB trust fund as well.

The marijuana host agreement allows a retail facility and a grow facility. The grow facility pays about \$150,000, and a host agreement is in the process of being negotiated for a second facility. The opioid epidemic is a significant issue and is focusing on getting addicted persons social support assistance. The Town also works with the Worcester County Sheriff on opioids.

There is a nuisance property task force and a vacant property task force, which focus on old and blighted buildings. The Town has been tearing down a lot of old buildings and is trying to find developers for new projects. It works with multiple state agencies for its economic development, and its finances are currently stable.

The Town is completing its water filtration plant this month, which is a part of its request. The high school is also being looked at for renovations, and they are moving forward on a feasibility study with the MSBA. An elementary school was recently finished.

Ms. Handy asked if the Town has dedicated the marijuana revenue stream, but Mr. Willardson replied they had not. There is a host agreement and 3% tax on marijuana facilities. They might look to it for stabilization funds in the future.

Ms. Hurley asked about a prominent billboard in Webster, visible from Route 395, and asked if there were marijuana advertisements on it; Mr. Willardson replied that there were not.

The Auditor asked how much revenue the Town hopes to realize from all marijuana facilities. The marijuana firms claimed it will be about \$300,000, although the Town believes it will not be that high – closer to \$150,000. Ms. Handy cautioned against budgeting any money based on expectations about marijuana revenues in the first year before the Town can model it.

The Financial Director then spoke about other financial highlights in the Town, such as decreasing deficits by \$2M, retaining about \$1M in their water fund, and having about \$1.4M in free cash in the general fund. He also anticipates about \$1.8M in free cash from the sewer enterprise fund. The water enterprise fund is anticipated to go from a \$19,000 deficit to a little over \$1M in free cash.

Ms. Handy then made a motion to approve the request from the Town of Webster. Ms. Hurley seconded the motion. The motion was unanimously approved by the members present.

Long-Range Municipal Fiscal Stability

The Auditor asked Ms. Handy if DOR has written guidance on marijuana revenue estimates, because DOR cautions against basing budgets on anticipated marijuana revenue in the first year as there is no historical trend on which to rely. Ms. Handy replied that DOR issued written guidance in March on marijuana revenues stating this advice. Ms. Hurley asked if there was written guidance on adopting a 3% local option marijuana tax, and Ms. Handy stated that DOR had even provided draft language for town meetings. Ms. Handy then provided Worcester as an example of a community that did not meet their projected revenues.

Ms. Handy stated that 6 communities that formerly used Bay State Municipal Accounting have all made arrangements for other accountants. All have set tax rates, although some are struggling with audits. The communities received an extension to complete the audits as a result.

Topics for Next Meeting

Ms. Handy and Mr. Arrigal stated that they did not know of any communities that may want to seek borrowing approval in the near future, other than those tentatively scheduled for the planned meeting on February 5. Mr. Arrigal contacted Cinder McNerney of Hilltop Securities, who indicated that they may bring in New Bedford, Springfield, Revere, and Holyoke to the next meeting.

There was a motion to adjourn, and the meeting was adjourned at 12:34pm.