

**TOWN OF STOCKBRIDGE, MA.
50 MAIN STREET
FINANCE COMMITTEE CTSB REMOTE MEETING MINUTES
THURSDAY APRIL 30, 2020 AT 2 PM**

- 1. CHAIR BIKOFSKY CALLED THE MEETING TO ORDER AND NOTED THAT THE ZOOM MEETING INVITATIONS WERE SENT TO THE FINANCE COMMITTEE MEMBERS, SELECT BOARD AND MARK WEBBER.**
- 2. COMMITTEE ATTENDEES: JAY BIKOFSKY, JIM BALFANZ, NEIL HOLDEN, DIANE REUSS, STEPHEN SHATZ AND WILLIAM VOGT**

TOWN ATTENDEES: MARK WEBBER

OTHER ATTENDEES: STEVE BORNES (CTSB), CLARENCE FANTO (EAGLE), KEITH RAFTERY, ANITA SCHWERNER AND PATRICK WHITE

- 3. INTRODUCTORY MEETING REMARKS:**

THE CHAIRMAN WELCOMED ALL TO THE MEETING AND THANKED THE MEMBERS OF THE COMMITTEE FOR THEIR PARTICIPATION AND EFFORTS ON BEHALF OF THE TOWN. HE ALSO THANKED STEVE BORNES OF CTSB-TV FOR HIS TECHNICAL EXPERTISE IN MAKING THIS MEETING POSSIBLE.

HE REVIEWED THE ROLE AND CHARGE OF THE FINANCE COMMITTEE UNDER ARTICLE IV SECTION 2 OF THE TOWN'S GENERAL BYLAWS.

FURTHER, HE STRESSED THE IMPORTANCE OF EFFECTIVE FINANCIAL MANAGEMENT AS AN ESSENTIAL RESPONSIBILITY OF TOWN GOVERNMENT WHICH MUST BE BASED UPON THE PAST, PRESENT AND FUTURE PROJECTIONS INCLUDING ENVIRONMENTAL CHANGES WITH THE CURRENT ADVENT OF THE CORONAVIRUS PANDEMIC. HE MENTIONED THAT THE FINANCE COMMITTEE STRONGLY BELIEVED THAT TOWN RESIDENTS SHOULD BE INVOLVED AS MUCH AS POSSIBLE IN THE DECISION OF SPENDING PRIORITIES AND, WITH THE PANDEMIC ESCALATION SINCE EARLY MARCH, FEEL IT IS AND SHOULD NOT BE BUSINESS AS USUAL. HE CONCLUDED HIS INTRODUCTORY REMARKS WITH THE STATEMENT THAT THE COMMITTEE HOPES IT IS NOT BEING OVERLY CAUTIOUS IN IT'S APPROACH OF NOT EXPOSING STOCKBRIDGE TO UNNECESSARY AND UNANTICIPATED RISK.

- 4. THE FINANCE COMMITTEE MEETING MINUTES OF APRIL 23, 2020 WERE PRESENTED AND A MOTION MADE BY STEVE SHATZ AND SECONDED BY BILL VOGT. A COMMITTEE VOTE WAS CALLED AND THE MINUTES WERE UNANIMOUSLY APPROVED (6-0).**

5. DRAFT OPERATING BUDGET AS PRESENTED FEBRUARY 26, 2020:

IT WAS MENTIONED THAT THERE HAD BEEN NO REVISED DRAFT OPERATING BUDGET CIRCULATED BY THE SELECT BOARD SINCE THE FEBRUARY 26, 2020 FINANCE COMMITTEE MEETING. SINCE THAT TIME, THE EFFECTS OF THE CORONAVIRUS PANDEMIC HAVE SHARPLY ESCALATED AND THE DRAFT BUDGET PRESENTED THEN DID NOT CONTEMPLATE THAT SITUATION. AFTER CONSIDERABLE DISCUSSION, A MOTION WAS MADE BY BILL VOGT AND SECONDED BY NEIL HOLDEN TO REVOKE THE FINANCE COMMITTEE'S APPROVAL, AT THAT TIME, AND AWAIT RECEIPT OF A REVISED DRAFT. A VOTE WAS CALLED WITH A RESULT OF 6-0 UNANIMOUSLY IN FAVOR.

6. PRESENTATION, DISCUSSION AND APPROVAL OF THE FINANCE COMMITTEE'S REPORT TO THE CITIZENS OF STOCKBRIDGE:

THE CHAIR REMINDED THE COMMITTEE THAT AT THE APRIL 23, 2020 FINANCE COMMITTEE REMOTE MEETING, THE COMMITTEE VOTED UNANIMOUSLY (6-0) TO ESTABLISH AN AD-HOC COMMITTEE UNDER THE ABLE LEADERSHIP OF STEVE SHATZ AND COMPRISED OF JIM BALFANZ AND HIMSELF TO DRAFT A REPORT TO THE CITIZENS OF STOCKBRIDGE THAT WOULD CONSIDER THE IMPLICATIONS OF THE CORONAVIRUS PANDEMIC ON THE TOWN'S CURRENT AND FUTURE FINANCES. THAT REPORT HAS BEEN PREPARED AND CIRCULATED TO THE FINANCE COMMITTEE FOR PRESENTATION, DISCUSSION AND APPROVAL AT THIS APRIL 30TH MEETING.

CHAIR BIKOFSKY THEN CALLED UPON STEVE SHATZ TO REVIEW THE AD-HOC COMMITTEE'S REPORT FOR THE ENTIRE FINANCE COMMITTEE.

- * STEVE SHATZ INTRODUCED THE AD-HOC COMMITTEE'S REPORT AND HIS COMMENTS ARE ATTACHED TO THESE MINUTES.
- * HE THEN HIGHLIGHTED THE REASON FOR THE REPORT, EXPECTED CASH/ INCOME SHORTFALLS, THAT COULD EXPECTED FOR THE REMAINDER OF FY 20 AND SUBSEQUENTLY FY 21.
- * STEVE SHATZ MENTIONED FINANCIAL PRESSURES THAT COULD BE EXPECTED IN FY 21 COMMENCING JULY 1, 2020.
- * HE REVIEWED A NUMBER OF THE TOWN'S LIABILITIES
- * FURTHER, HE PRESENTED BUDGET RECOMMENDATIONS, NOTED IN THE REPORT, DEVELOPED BY THE AD-HOC COMMITTEE.
- * IN ADDITION, STEVE DISCUSSED A NUMBER OF ADDITIONAL RECOMMENDATIONS MADE IN THE REPORT DESIGNED TO PROVIDE TAX RELIEF.
- * ALSO MENTIONED IN DISCUSSION OF THE REPORT WAS THE FACT THAT NO PROPOSED WARRANT ARTICLES WERE SPECIFICALLY CONSIDERED BY THE FINANCE COMMITTEE IN LIGHT OF CORONAVIRUS FINANCIAL IMPLICATIONS AND THE FACT THAT A LISTING HAS YET TO BE APPROVED BY THE SELECT BOARD FOR DISTRIBUTION.

PAGE 3 FINANCE COMMITTEE MEETING MINUTES OF APRIL 30, 2020 CON'T.

NEIL HOLDEN REQUESTED FINANCIAL AND TIME LINE DETAILS ON THE CURTISVILLE BRIDGE RESTORATION.

JIM BALFANZ SUGGESTED THAT SEVERAL PREVIOUSLY DISCUSSED PROPOSED WARRANT ARTICLES MIGHT BE CONSIDERED, NAMELY A COUNCIL ON THE AGING REPLACEMENT VAN AS WELL AS FUNDING FOR CYANO-BACTERIAL REMEDIATION.

DIANE REUSS EMPHASIZED THE NEED TO CONTROL EXPENSES IN THIS MOST UNCERTAIN OF TIMES.

JIM BALFANZ REMINDED THE COMMITTEE THAT THE REPORT RECOMMENDED OPEB NOT BE FUNDED FOR FY 21 WITH IT'S CURRENT BALANCE OF \$2.49 MILLION.

A MOTION WAS MADE BY BILL VOGT AND SECONDED BY DIANE REUSS TO APPROVE THIS REPORT OF THE AD-HOC COMMITTEE. THE COMMITTEE THEN VOTED 6-0, UNANIMOUSLY IN FAVOR AND REQUESTED A COMPLETE COPY BE ATTACHED TO THESE MINUTES.

NOTE: THE COMPLETE COPY OF THE REPORT TO THE CITIZENS OF STOCKBRIDGE FROM THE FINANCE COMMITTEE, APRIL 30, 2020 IS ON FILE WITH THESE MINUTES

7. OTHER BUSINESS:

PATRICK WHITE ASKED IF THE FINANCE COMMITTEE WAS ASKED TO VOTE ON PERSONAL PROTECTIVE EQUIPMENT FOR TOWN EMPLOYEES. IN ADDITION, PATRICK ALSO ASKED ABOUT FUNDING MEALS FOR SENIORS. CHAIR BIKOFSKY RESPONDED THAT THE COMMITTEE HAD NOT BEEN ASKED AND THESE ITEMS ARE BEST DIRECTED TO THE TOWN ADMINISTRATOR AND SELECT BOARD.

NEIL HOLDEN ASKED ABOUT THE AVAILABILITY OF THE APRIL INCOME STATEMENT AND WAS ADVISED THAT IT SHOULD BE AVAILABLE BY MAY 8TH.

8. ADJOURNMENT:

THERE BEING NO FURTHER BUSINESS, THE MEETING WAS ADJOURNED AT 3:07 PM.

SAS Remarks at Fincomm Meeting of April 30, 2020

1. Thanks Fincomm members for work on the report
2. Committee has members with financial and managerial experience and those skill sets have never been more in need and have been used in the preparation of this report;
3. Not since WW11 has this country faced an economic challenge which has the potential to alter the way we will live for generations to come. Our state leaders and our neighbors have recognized the threats to our state and local budgets and are beginning the agonizing process of adapting to the challenges. The message from our leaders is that our economies must undergo period stress tests if we are to be able to continue to provide essential services and to maintain an adequate level of reserves. It is not clear how long it will take to restore our economy to a healthy level or if that is even possible. The best case estimate coming from the White House is that the economy will be restored to prior condition by the beginning of the first quarter of 2023. In the meantime we must act.
4. Some would have us believe that Stockbridge is immune to the negative economic forces now at work. The Fincomm rejects this view. We believe that this town is not an island refuge and that we must plan for a decline in the town's fortunes. Governor Baker is predicting a 20% decline in state revenues. The Federal budget is under intense pressure as incomes decline. The town has received more than \$5mil in grants from the state and the federal government over the past few years to pay for restoration of aging infrastructure. Every grant dollar is a tax dollar not raised.

5. This report is an effort to address what we know and to contemplate what we don't and to recommend to our fellow citizens that the budget for FY21 take into account the challenges which the report details. We urge each of you to read it.
6. We hope that our predictions are wrong, and if they are we will be the first to acknowledge that, but if we are right and we have failed to act, then shame on us all.
7. Again, thanks to my colleagues on this Committee and to JAY for his leadership.

REPORT TO THE CITIZENS OF THE TOWN OF STOCKBRIDGE
FROM THE FINANCE COMMITTEE
APRIL 30, 2020

The Finance Committee has met to consider the implications of the coronavirus pandemic on the Town's current and future finances.

This report is issued pursuant to our authority and responsibility under Article IV, Section 2 of the Town By-Law which provided in part as follows: "The committee shall fully inform itself as to the financial condition of the Town, and also prepare a statement of the fixed charges against the town for which taxes must be levied. All town officials are required to furnish the Finance Committee with any facts or figures in their possession that may be requested of them...."

The Committee has examined the FY2019 Audit Report and spoken with the town's independent auditor. It has also reviewed current year to date income and expense statements and conferred with the town's accountant. The committee has also conferred with officials of other towns and representatives of the Berkshire Hills Regional School District for advice and information regarding portions of this report.

Based on the above, the Committee has the following observations and concerns:

1. There will be cash shortfalls for FY20, and subsequently for FY 21, and possibly beyond. Although it is difficult to predict the precise amounts because of the imprecise timing of payments, it seems certain that hotel and meals tax revenues, which were \$430K in FY19, will fall well below that level.

Investment income on deposits (\$116K in FY2019) will be reduced as a result of the decline in the Federal funds rate and the related reduction in Treasuries and other government obligations.

Trash collection fees which were \$102K in FY19 will be reduced by upwards of \$58K, as a result of the delayed implementation of transfer station fees in FY20.

Payments in lieu of taxes of \$61K from various non-profits may be compromised as a result of closings.

Permit and license fees of \$393K for FY20 have already declined in FY20.

On a positive note, expenses appear to be tracking the FY20 budget for the period ending June 30, 2020.

2. The outlook for FY21, commencing on July 1, 2020, is less certain. The pressure on income as outlined above will continue for some time and, if the summer cultural event schedules are cancelled, as now seems likely, the visitors to the town and the region will decline from prior years with significant decreases in tourism related income.

There are additional concerns for FY21.

Building permit fees and related inspection fees may decline further.

State contributions to highway construction (Chapter 90 funds) may be reduced or possibly not funded from a level of \$191K in FY19.

Vehicle excise taxes may decrease with the significant decline in new vehicle sales.

The Town may experience cash flow declines related to the extended delayed payment of real estate taxes and a loss of income from late payments as the interest rate is reduced from the current 14%.

State grants for infrastructure improvements, which Stockbridge has relied on for bridge reconstruction and sewer and water projects, may be curtailed, leaving the Town in a vulnerable position if major work is required, which must be paid from appropriations or borrowing, or both.

Furthermore, if the State budget is stressed, as predicted by Governor Baker, funding for the State's match for CPA projects may be reduced, or even eliminated temporarily.

Although expenses can be controlled for services provided by the Town, those, such as ambulance service, the expenses of Tri-Town Health Services, Police emergencies, and the regional school district are beyond our immediate control and may be subject to increase as a result of the necessary responses to Covid-19, or may be increased as a result in cuts in state educational reimbursements under the Chapter 70 funding program, and the Chapter 71 transportation grants, - which, together total nearly \$3.8 million, for the School District.

There are unknowns related to possible reductions in the total assessment of property. It is also possible that property values may increase as a result of properties

being purchased by buyers leaving more populated areas for Stockbridge.

Additional unknowns could be reductions in Federal support for state funded programs and grants, as well as direct grants to municipalities such as FEMA grants, which the Town has been awarded for public works projects.

In addition, it is difficult to calculate the impact of increased unemployment on revenues.

3. The committee has reviewed the Town's liabilities under the Berkshire Retirement System pension fund, and for retiree health benefits - sometimes referred as OPEB. Liabilities for both are calculated by actuaries incorporating historic rates of return on invested funds.

The FY19 Audit Report calculates that a 1% decline in investment yields would increase the Town's liability by \$1.5 million in both funds. As noted above, investment returns have declined in the past three months from their high point. It is expected that the market will fluctuate substantially in the immediate future, but projections do not have it regaining what it lost for some time. Although this does not represent an immediate cash flow challenge, it may in the future unless yields increase or contributions to these funds also increase.

Due to the Town's excellent previous funding efforts for our OPEB liability, the Finance Committee recently recommended a decrease in the OPEB contribution from \$350K to \$150K for FY21, in order to accommodate

budget shortfalls. The Finance Committee has further recommendations regarding this matter, outlined below.

What is missing from this discussion is a projection of the cost to fund OPEB for the school district. It is our recommendation that the Town require that the school district provide the Town with information regarding this unquantified liability.

4. Because of the pressures on FY20 and FY21 budgets as noted above, we are recommending the following:
 - A. Use of Free Cash to cover FY20 shortfalls, subject to MASS Dept of Revenue guidance and approval, and in amounts which will not exceed the Town's reserve policy of maintaining free cash and stabilization funds of 10% each respectively. **Note:** Strict adherence to the guidance of the Division of Local Services of the Massachusetts Department of Revenue is essential for use of free cash and other budget changes from past practices.
 - B. Imposing a hiring freeze for all non-essential positions.
 - C. If a budget cannot be agreed upon by June 30, 2020, fund FY21 on a 1/12 budget, using FY20 budget with a discount using the percentage of decline in revenues for FY20 as a guide.
 - D. The following proposed warrant articles for FY21, to be presented at this year's Annual Town Meeting should be removed unless otherwise noted:

- (i) Appropriation of Funds, the use of free cash or debt financing to purchase any property.
- (ii) Appropriation of \$196K to reconstruct Civil War Memorial, unless a qualified structural engineer establishes that the Memorial is in imminent danger of collapse.
- (iii) Appropriation of \$228K for Chime Tower reconstruction, subject to the above consideration regarding the Civil War Memorial
- (iv) Appropriation of \$78K for reconstruction of the cemetery building
- (v) Appropriations for purchase of any capital equipment unless there is a demonstrated need on a case-by-case basis for it

E. The following additional recommendations are designed to provide some measure of tax relief:

- (i) Suspend 3% Tax for Town's CPA contribution, but only to the extent permitted by law.
- (ii) Reduce penalty interest on late payment of all taxes for the next year.
- (iii) Use CPA funds to pay for all projects with a historic designation, such as the restoration of the Curtisville Bridge, and use CPA funds to pay

for all Parks and Recreation expenses provided they are permitted under the CPA.

- (iv) Review all bond indebtedness to determine whether they can be refinanced at lower rates.

F. The approvals which the Finance Committee gave for the Town's operating budget in February of this year were, of course, not based on the economic challenges which the Town now faces, due to the COVID-19 pandemic, as we have outlined above.

Accordingly, we strongly recommend to the Select Board that it revisit each of those budget categories and resubmit them to this Committee for another review.

Therefore, we hereby propose to revoke the Committee's prior approval of the Town's operating budget at our next scheduled Finance Committee meeting.

5. A review should be made of all uninsured investments which are currently in excess of \$6.1 million. We recognize that portions of that amount are held in uninsured State Funds (OPEB), but nonetheless, a risk analysis is needed.
6. The Town's current investment grade rating of AA+ is a reflection of our prior fiscal prudence and our leadership in funding our OPEB liability. Continuing that course is essential to maintaining a bond rating which enables the Town to borrow at very favorable rates of interest

However, given the extraordinary pressure on the income side of our financial statement, the Finance Committee is recommending that no OPEB contribution be made for FY21.

7. The Town is fortunate that expenses have been controlled, long term debt is well within appropriate levels, our borrowing capacity remains high, and the Town has reserves which are substantial, though not limitless.

To ensure that these conditions remain hallmarks of our finances, the Town must exercise prudence, and responsible actions, based on analytic reviews of budgets.

Cash flow models for FY21 and beyond must be developed. Stress tests which assume decreases of income must be provided.

8. Previously, our rating agency, Standard & Poor's commented that the weakness in our financial model was our reliance on residential real estate taxes and one industry – the tourist economy.

Never has this been truer and more problematic.

Respectfully submitted,

Jay Bikofsky, Chairman
Steve Shatz
Jim Balfanz
Neil Holden
Diane Reuss
Bill Vogt