



Committee on Finance and the Northampton City Council

*Councilor David A. Murphy, Chair
Councilor Maureen T. Carney
Councilor Marianne L. LaBarge
Councilor James Nash*

**City Council Chambers, 212 Main Street
Wallace J. Puchalski Municipal Building
Northampton, MA**

Meeting Date: March 16, 2017

Note: The Finance Committee Meeting will take place during the City Council Meeting as announced. The City Council Meeting is scheduled to begin at 7:05 pm.

1. Meeting Called To Order

2. Roll Call

3. Public Hearing Announcement - The City Council Will Consider The Capital Improvement Program FY2018-FY2022

A Public Hearing is hereby advertised and announced in accordance with the Charter of Northampton, Massachusetts, Article 7 Finance and Fiscal Procedures, Section 7 - 5: Capital Improvement Program, (b) Public Hearing.

By Order of the City Council, a Public Hearing will be held on Tuesday, March 28, 2017 @ 5 pm in City Council Chambers, 212 Main Street, Northampton, MA. The City Council will consider the Capital Improvement Program FY18 - FY22 and hear all persons who wish to be heard thereon.

4. Approval Of Minutes From The Previous Meeting

A. Approve Minutes Of February 28, 2017

Documents:

[02-28-2017_committee_on_finance.pdf](#)

B. Approve Minutes Of March 2, 2017

Documents:

[03-02-2017_committee_on_finance_minutes.pdf](#)

5. Financial Orders

A. 17.263 An Order To Authorize Payment Of Two Prior Fiscal Year Bills

Documents:

[17.263_prior_year_bills.pdf](#)

6. Elect A Committee Vice-Chair

7. Committee Study Request - Referred By City Council On 1/19/2017

Documents:

[csr-finance-2017.pdf](#)

8. New Business

-Reserved for topics that the Chair did not reasonably anticipate would be discussed.

9. Adjourn

Prepared by:

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**City Council Chambers, 212 Main Street
Wallace J. Puchalski Municipal Building
Northampton, MA**

Meeting Date: February 28, 2017

Time 5:00 p.m.

MEETING MINUTES

1. Meeting Called to Order:

At 5:00 pm Councilor Murphy called the meeting to order.

- 2. Roll Call:** Present were committee members: Councilors Murphy, LaBarge, Nash and Carney. Also present from the City's financial team was: Finance Director Susan Wright, City Auditor Joyce Karpinski, Tax Collector/Treasurer Kris Bissell, and City Assessor Joan Sarafin. Mayor Narkewicz was also present.

Tom Scanlon, Jr. was also present to present the FY2016 Year – End Audit Report to the City Council Committee on Finance. Also present with Mr. Scanlon was Mr. Jeff Gendron.

- 3. Financial Orders:** None

4. 2016 Year End Audit Review by Scanlon and Associates, LLC

Mr. Scanlon indicated that the sole purpose of an audit is to opine on the City's financial statements. He reports that the accountants gave a clean audit opinion about Northampton which is very good. There were no disagreements with management during the course of the audit. There were no problems and only a couple items were highlighted where it was felt that there were opportunities to strengthen internal controls to improve operating efficiency.

Report on the Examination of the Basic Financial Statements:

The Statement of Net Position reflects the city government in its entirety. The first column, marked Governmental Activities, takes incorporates grants that the City has received, taxes, special revenue funds, special projects, capital assets, etc. The financial statement reflects full accrual financial accounting. Under governmental activity, the unrestricted net position it shows a negative \$67,969,430. Usually negative numbers in net position is not desirable; however, there are key drivers that are part of the reason why. Under non-current liabilities, the Other Post Employment Benefit (OPEB) Obligation Payable and Net Pension Liability are the key factors for the negative number. OPEB, is on a pay-as-you-go system and this is the health insurance promised to employees upon retirement. In 2009 GASB started to require municipalities to account for the promise of paying insurance premiums on the balance sheet. The position of a city can trigger multiple health insurances. The only true way to remove the pay-as-you-go system in order to minimize this expense is for people to die. Mr. Scanlon recognizes that the Northampton has done some things to lower the liability, including establishing an OPEB Trust, evaluating health insurance plans, and restructuring the plans in accordance with the law. Mr. Scanlon notes that the OPEB Trust Fund should grow to an amount whereby it can be drawn upon to fund the City's budget (a \$10,000,000 figure was suggested). Mr. Scanlon notes that this particular line item should be looked at from a long term perspective.

The second major line item that is triggering the deficit is the Net Pension Liability. As with OPEB, last year was the first year that this item appeared on the balance sheet. Again, it has always been there, just not appearing on the balance sheet. The city is on a funding schedule to pay every year to the Retirement System; over time this liability will reduce. Mr. Scanlon notes that the standard is now changed; the amount will go from \$46 million to about \$100 million in one year because the full amount of the liability must appear on the balance sheet now. He notes this is a risk that the management team must start dealing with but the requirements are not unique to Northampton. Every municipality will now show a negative net position.

Balance Sheet and Statement of Revenues, Expenditures, & Changes in Fund Balances

These statements are not full accrual and do not contain fixed assets. Bonding companies review these documents because it measures liquidity and reserves. Under Unassigned Fund Balance it shows a positive \$12,884,771. This figure includes stabilization funds, free cash, and an overlay in which the State treats as an allowance account. These components complete the \$12.8 total. The overlay is an average of the past five years and takes into account certain exemptions, including elderly and veteran exemptions and abatements. Generally speaking, there are account receivables; the state allows a municipality to set up an "allowance account" for certain purposes. It is like a reserve account that is maintained so that if refunds are needed due to statutory abatements, or property tax abatements, etc. the funds will be available and taken from this overlay fund. At one time there was an account for every fiscal year; now they are combined.

On the P & L Statement looking at the general fund, the net change from last year shows an increase of \$3.2 million dollars. Bonding companies consider this when they provide a bond rating.

The increase is directly related to the City's commitment to increase reserves, which is the stabilization funds and free cash. The non-major funds are included on page 69-70 of the book; these include revolving funds, grants, and other special revenue.

Budget Vs. Actual (Pg. 22)

Mr. Scanlon notes that this statement reflects the development of free cash. The first column shows what is carried forward from the previous year budget. Under the column marked "Original Budget", this is the summary of the budget that was voted upon at the beginning of the fiscal year while the "Final Budget" reflects all of the transfers that were made throughout the year. The fourth column shows "Actuals"; The second to last column shows the encumbrances—those expenses that were incurred during the year but not paid for yet. When looking at the final variance, Northampton shows a positive variance of almost \$4.3 million. This amount reflects free cash.

Free cash for the previous fiscal year was due to a mix of higher than anticipated revenue and lower than budgeted expenses. Mr. Scanlon notes that the city is conservative when it comes to budgeting market-based revenue, like hotel and meals tax. This is helpful. On the expense side the City is about \$2.2 million less than budgeted. Some reasons include vacancies in the Public Safety that resulted in less payroll expenses. He expressed that on a \$92 million budget it is a good sign to end up with \$2.2 million less in expenses.

Regarding free cash, this is something that should be used only to fund one-time expenses. When you use free cash you want to be sure to backfill the same amount at the end of the year. What would not be advisable would be to use free cash to backfill for operating expenses and then not replenish the money. Overtime this could have a detrimental effect on bond ratings. Finance Director Susan Wright indicates that the stabilization funds are used as a rainy day fund for emergencies. It is the City's policy to add a percentage more to the capital stabilization account. Even though funds are taken out to support the capital plan, the balance continues to grow. Right now that amount maintained is 2.5% of the City's overall budget. Each year that amount increases by 0.1%.

Mr. Scanlon points out that the Finance Team presents its policy to the City Council each year and one of the benefits of the audit is to evaluate that the policies of the city are reflected in the financial statement. He points out that the city's reserves are well managed compared to where they were ten years ago.

Schedule of Expenditures of Federal Awards & Independent Auditors' Reports Required Under the Single Audit Act Amendments of 1996

Since the City receives and spends in excess of \$750,000 in federal awards, a compliance audit is required on certain grants up to 50%. Federal Awards include the CDBG grant, Title I, School Lunch, etc. The total amount of federal grant money that the City received in FY2016 is just under \$3.5 million. The grants selected for testing are selected on a "risk" basis. Fifty percent of the

Federal Expenditures need to be tested as part of this audit. The grants that met the criteria are: School Lunch, School SPED grant, Title I Grant and CDBG. These are the four grants that were tested. There were no findings.

Management Letter

The auditing firm plans and performs the audit of the basic financial statements and when they raise a concern the concern is categorized as a “significant deficiency”, a “material weakness” or “other matter”. Northampton does not have any items that fall into either of the first two categories; however, there were “other matters”.

Mr. Scanlon points out that on pages 4 – 5 of the management letter, there are informational items that are provided. He notes that there is a push on at the federal government level to focus on internal control and documenting the internal controls. He suggests that internal controls should be documented to provide reasonable assurance that a federal grant recipient will achieve its objectives through effective and efficient operations; reliable reporting; and compliance with applicable laws and regulation. Mr. Scanlon suggests using frameworks that are generally accepted as a best practice, such as the one issued by the Committee of Sponsoring Organizations (COSO). The City does have controls in place; however, they are not documented.

Councilor LaBarge noticed that one of the “other matters” identified had to do with the accounts receivable subsidiary records for water and sewer not being reconciled to the general ledger. Mr. Scanlon reports that there were commitments that were being posted twice to the general ledger. He feels as though the reconciliation process wasn’t functioning correctly. The problem was not on the customer end (people’s accounts were not affected) but rather on the GL side. The recommended course of action is to train staff to implement monthly reconciliation procedures. Director Wright reports that reconciliations will likely be done quarterly.

Regarding ambulance receivables, another “other matter”, Mr. Scanlon suggested keeping closer ties to the third party billing agency to be sure that bills are sent out on a regular basis. Also, steps should be taken to be sure that monthly ambulance receivable reports are cross checked to the general ledger. Director Wright commented that monthly billing reports are being forwarded directly to the auditor now.

A third “other matter” centered around breaking out revenue sources within the enterprise funds to show investment income versus interest charged on late payments. While investment income is not expected to be huge, Mr. Scanlon suggests providing this additional detail in future fiscal years.

On the Health Insurance Withholding Account, it was noted that the account balance was not being properly reconciled. This could be the result of new staff in the Human Resources department; Scanlon & Associates will be coming in to work with new staff on the proper procedures; moving forward it will be up to the City to be sure this is done in a timely fashion.

Mr. Scanlon reviewed the concerns of previous years: all of the matters identified by the firm during the last audit have been addressed.

Councilor Murphy asked Mr. Scanlon if he would be willing to come to the full City Council meeting to present the audit report. Mr. Scanlon stated that he would be willing to return, however, he may not be able to come to a meeting until after April 15th.

Councilor LaBarge feels that it is important to have Scanlon and Associates come to a City Council meeting. She feels it would be beneficial for new councilors and to continue to provide transparency for the public.

Director Wright reminded the committee that the audit is posted on the City's website.

Councilor LaBarge moved to accept the audit report; Councilor Nash seconded the motion. The motion was approved on a voice vote of 4 Yes, 0 No.

5. **New Business:** None
6. **Adjourn:** At 5:38 p.m. Councilor LaBarge moved to adjourn the meeting; **Councilor Carney seconded the motion. The motion was approved on a voice vote of 4 Yes, 0 No.**

Prepared by:

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**Committee on Finance
and the Northampton City Council**

*Councilor David A. Murphy, Chair
Councilor Maureen T. Carney
Councilor Marianne L. LaBarge
Councilor James Nash*

**City Council Chambers, 212 Main Street
Wallace J. Puchalski Municipal Building
Northampton, March 2, 2017**

(The Finance Committee meeting took place during the City Council meeting as announced during the City Council meeting which began at 7:05 pm)

MEETING MINUTES

1. **Meeting Called To Order:** At 7:19 p.m. Councilor Murphy called the meeting to order.
2. **Roll Call:** On a roll count the following committee members were present: Councilor Murphy, Councilor LaBarge, Councilor Nash and Councilor Carney. Also present from the City Council were: Councilors Dwight, Sciarra, O'Donnell, Bidwell, and Klein.
3. **Approve Minutes Of February 16, 2017 Meeting:** Councilor Carney moved to approve the minutes; Councilor LaBarge seconded the motion. The motion was approved on a voice vote of 4 Yes, 0 No.
4. **Financial Orders**
 - A. **17.258 To Appropriate \$1,668,582 For Paying Costs Of Roof Replacement At Bridge Street School**

Councilor LaBarge moved to return the order back to the full City Council with a positive recommendation; Councilor Carney seconded the motion. The motion was approved on a voice vote of 4 Yes, 0 No.

Mayor Narkewicz indicated that the language in the order was provided to the City by the Massachusetts School Building Authority (MSBA). The City has been in active collaboration with MSBA throughout the application process in order to get this project through the pipeline. The roof repair project for Bridge Street School is just about \$1.7 million for the full roof replacement. MSBA will be reimbursing the City 54.79% of the cost of the project. A requirement by the State for such grants stipulates that the City must authorize borrowing for the full amount of the project. This order is slightly less than the cost of the project because

money has already been appropriated for the parapet project. The total cost to the City for this project is about \$781,967. The City will not use the full authorization and at some point in the future the Mayor will look to rescind borrowing authorization for the amount not needed.

Councilor LaBarge asked when the last roof replacement project took place; Mayor Narkewicz explained that there has been patch work that has been done; however, the last time a full roof replacement was done was when a full renovation of the school was done. The Mayor reports that since that time there has been some major drainage issues.

Councilor Nash asked whether the feasibility study had been done yet. Mayor Narkewicz reports that the first step in the process was to hire a designer to do feasibility work, which has already been completed.

B. 17.259 A Financial Order To Appropriate \$1,775,294 For Paying Costs Of Roof Replacement At Leeds Elementary School

Councilor LaBarge moved to return the order back to the full City Council with a positive recommendation; Councilor Carney seconded the motion. The motion was approved on a voice vote of 4 Yes, 0 No.

Mayor Narkewicz explained that this is a similar process to what is being done for Bridge Street School roof repair. The Leeds project will be a little over \$1.8 million. 54.79% will be reimbursed by MSBA. The total share that is estimated will be \$830,059. The two projects will come forward in the spring as capital projects.

Councilor Dwight explained that the City is establishing surety with a State agency that is providing the City funding for a necessary capital project. The City must be willing to state that it will cover all costs; once this is complete, the City doesn't actually borrow the full amount of the project. The Mayor further explained that if the State fell through with the grant, the City is not obligated to borrow the full cost of the project. The City will likely reassess the project if the grant is not received.

c. 17.260 An Order Authorizing Joint Operation Of Public Activities Agreement To Implement "Healthy Hampshire Massachusetts In Motion/1422" Grant

Councilor LaBarge moved to return the order back to the full City Council with a positive recommendation; Councilor Carney seconded the motion. The motion was approved on a voice vote of 4 Yes, 0 No.

Mayor Narkewicz explained that this order covers one of a series of intermunicipal agreements that the City Council is required to vote on. This particular agreement was not included in the last batch; however the City Solicitor determined that the vote should probably be taken by the City Council because the work that is being done is a regional collaboration with other cities and towns. Northampton is the lead agency; along with other cities and towns the City is working to promote a number of different things. The Mayor cited the public meetings concerning the bike and pedestrian plan as one example. Healthy Hampshire is the established coalition. The City's Office of Planning & Sustainability (OPS) is the lead City department.

Councilor Dwight asked why this was not covered under the existing intermunicipal agreement for the Board of Health. Mayor Narkewicz explained that OPS is the lead department for this, not BOH.

Councilor O'Donnell asked how it was determined that the grant money was going to be used between all of the communities. Mayor Narkewicz indicates that this grant is a little more loosely defined. Even though the City is the lead agency this is a county-wide initiative. The application asked for proof that this was a regional effort. There is outreach and participation with other communities; however, Northampton Planning & Sustainability is designing the elements of the initiative. The final approval for the grant comes from the Department of Public Health and Center for Disease Control.

Councilor O'Donnell asked about the length of the grant; Mayor Narkewicz indicated that the grant was for three years and that that this was year two.

Councilor LaBarge felt this there was an educational component to the collaborative effort.

Councilor Murphy asked about the dollar amount of the grant; Mayor Narkewicz will check on this before second reading.

5. Summary Of Scanlon Audit

Councilor Murphy reported that on Tuesday, February 28, 2017, the Committee on Finance met with the outside auditor (Scanlon and Associates, LLC) and voted to accept the audit report for FY2016. All of the financial departments were represented at the meeting, including the City Assessor, Treasurer/Collector, Finance Director, and the City Auditor. Mr. Scanlon indicated that if the full City Council wanted to him to report to the entire body, he would be willing to do so.

Councilor O'Donnell asked what the observations were of the Finance Committee on receiving the audit report. This information, he felt could inform the decision about whether the auditors should present to the full City Council.

Mr. Scanlon indicated that Northampton was a very well run city. The management letter did contain some requests to evaluate some systems and processes, and offered recommendations for corrective action. Councilor Murphy observed that it almost seems like the auditor felt obligated to put things in the management letter because things are so well run. Scanlon and Associates has been auditing Northampton for a while and Councilor Murphy indicated that the audit findings are far different than they were ten years ago. Mayor Narkewicz notes that every year there are recommendations from the auditor. He notes that there was not anything in last year's letter that had not been addressed.

Councilor Carney noted that the management letter spelled out a few specific requests. One observation that Councilor Carney recalls is that the City has in place a number of controls but that they are not documented. One of the findings suggested that the City's processes be documented. She heard from the finance team that there was a plan for moving forward with that suggestion.

Councilor Dwight notes that in the past it has been helpful for him to hear directly from the auditor. He would like to invite Scanlon and Associates to make a presentation to the full City Council.

Councilor LaBarge notes that there is a lot of information that was provided by the auditor. She feels that councilors should have the opportunity to go over the information. She also feels that the transparency would be beneficial as well.

Councilor Bidwell notes that the City is heading into a new budget season and any opportunity to show input and scrutiny would be beneficial. To ensure the public that this is a well run city would be beneficial. He noted that Scanlon and Associates has been doing the audit for some time. One school of thought is that it is appropriate to change auditors every so many years to get an additional set of eyes looking at things. Councilor Murphy notes that the Council had this very discussion during the last City Council term. Right now there is a contract in place with Scanlon and Associates for three years and a review of auditors can be considered when the contract is up for renewal.

Councilor Murphy suggested leaving it up to the Council President to decide when Scanlon & Associates should present at a City Council meeting. In the meantime, he suggested that councilors review the materials that have been given.

Councilor Nash expressed that he was impressed at the outcome of the audit report. The fact that there was so little to report is very impressive. He notes that the City now has a AAA rating from the bond companies and he notes that the City is in very good standing. The four different findings discussed by Scanlon and Associates were not major.

Councilor LaBarge states that over the years she has had the opportunity to talk with department heads. No one that she has talked to has had problems with Scanlon and Associates.

6. Planning For C.I.P.

Councilor Murphy notes that the Mayor's Office has published the Capital Improvement Program and in years past the public hearing about the C.I.P. has been held by the Committee on Finance. He notes that many of the items are building projects and many revolve around the needs of the school department. The window for doing school related projects is during the summer months when students are not in school. If the C.I.P is included in the standard budgeting process, then the approval timeline goes until June. If the public hearing is held again this year by the Committee on Finance, then the committee could post a joint City Council and committee meeting at the end of March. He notes that once the capital program is approved, the City must go through the bid process and complete all necessary transactions before summer starts. Otherwise certain projects won't be completed before the end of summer.

Mayor Narkewicz recalled that in previous years there were financial orders that were brought forward for Council consideration as early as April or May. Early authorizations allowed for the bonding process to begin and to be completed before construction begins in the summer.

Councilor Murphy suggested that the Committee on Finance hold the public hearing on March 28, 2017.

Councilor O'Donnell wondered if the C.I.P. public hearing could be held at the same time that the water sewer rate public hearing was held. He notes that one of the biggest capital expenses is the water and sewer treatment plant. Councilor O'Donnell feels that these two items could be related. Perhaps a joint

committee hearing could be held. Councilor O'Donnell suggested that this is one way in which citizen participation could increase as it relates to the C.I.P. He wondered if more hearings or less hearings were better.

Councilor Murphy notes that the lion's share of the work regarding water and sewer rates is done by the Committee on Public Works and Utilities. He feels that this committee should do their work. It is likely that the water sewer rates will also go to the Committee on Finance, but that the Committee on Public Works and Utilities should do their work before it goes to Finance. Councilor Murphy is not in favor of combining the public hearings.

Councilor Dwight clarified that the Committee on Public Works and Utilities will not be setting the rates.

Mayor Narkewicz explained that he will be bringing orders forward in April. Depending on how long the review process takes, the Council will be voting on the water/sewer rates at the two meetings in April. There will be actual capital projects on the Council's agenda in April as well.

Councilor Dwight recalls that last year there was a lengthy discussion about water and sewer rates due primarily to the change in the overall formula.

Councilor Bidwell would prefer to keep the meetings separate. Councilor Murphy agrees. Councilor Nash would also like to keep the meeting separate. He feels that the discussion about the rates could be more prolonged and involved than C.I.P.

Mayor Narkewicz noted that he will be introducing an order for water sewer rates at the March 16, 2017 City Council meeting.

Councilor O'Donnell noted that in advance of the C.I.P., and to a lesser extent water and sewer, he wonders if new methods of outreach can be explored.

7. New Business: None

8. Adjourn: At 8:00 pm Councilor LaBarge moved to adjourn the meeting; Councilor Nash seconded the motion. The motion was approved on a voice vote of 4 Yes, 0 No.

Prepared by:

P. Powers, Administrative Assistant to the City Council

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City of Northampton
MASSACHUSETTS

In City Council

March 16, 2017

17.263

An Order

To authorize payment of two prior fiscal year bills

Upon recommendation of the Mayor

BE IT ORDERED

that the Council authorize payment of two prior fiscal year bills:

\$186.88 to Cabot Risk Strategies (July 2015) for employee injury claim

\$235.00 to Your Membership (May 2016) for Water Superintendent Advertisement



**CITY COUNCIL
NORTHAMPTON, MASSACHUSETTS**

January 19, 2017

Dear Chair Murphy and Members of the Committee on Finance,

As you know, the Charter requires the City Council to hold public hearings and to vote on both the city budget and the capital improvement program as part of the annual budget process. Unfortunately, for the last two years, these hearings have garnered little to no attendance by the public.

Because the budget is a document of central importance that the community should consider and understand, the City Council should be active in its outreach to the public as part of its responsibilities in the budget process.

Therefore pursuant Section 2.3.8 of the Council Rules, please consider this request that the Committee on Finance discuss and propose a plan to increase citizen participation and engagement in the City Council's budget hearings for fiscal year 2018, and report back to the full Council.

Sincerely,

William H. Dwight
City Council President

Ryan R. O'Donnell
City Council Vice President