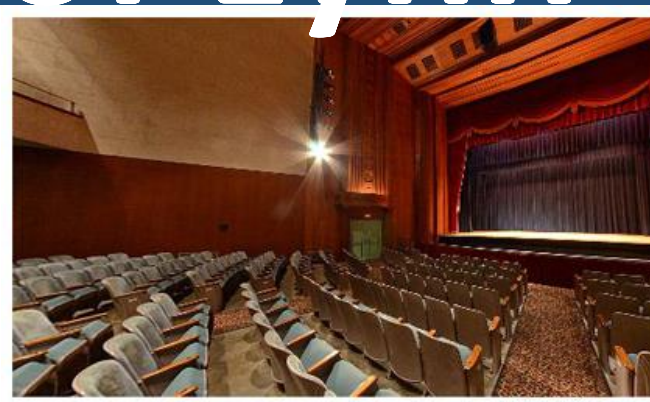
City of Lynn

Proposed FY2020 – FY2024 Capital Improvement Plan

Table of Contents

Front cover photos from left to right:
1) English High School, Lynn, Mass., Postcard from The Tichnor Brothers Collection at the Boston Public Library, Source: https://www.digitalcommonwealth.org/search/commonwealth:g158bj59w
2) View of Lynn City Hall, Source: http://www.lynnma.gov/cityhallinfo.shtml
3) Lynn Memorial Auditorium interior view, Source: http://www.lynnma.gov/about/memorialauditorium.shtml

OVERVIEW

The proposed FY2020 – FY2024 Capital Improvement Plan (CIP) for the City of Lynn invests nearly $231 million into the community, **leveraging $73 million of local taxpayer dollars and the City's human resources to pursue approximately $157.9 million in non-local funds, namely multiple State grant programs**. As a whole, the scale of the CIP reflects the significant needs across City departments, as well as the commitment of the McGee administration to begin to address those needs in a comprehensive and strategic manner.

The five-year CIP prioritizes a variety of goals, including:

- Putting the City on a course toward a stronger financial footing;
- Investing in basic infrastructure needs, such as roads, buildings, and parks/playground;
- Beginning to address the significant space needs at the Lynn Public Schools; and
- Spurring economic development in downtown and at the waterfront through strategic capital projects.

The proposed Capital Investment Strategy recommends a commitment of 2.4% of net operating budget in FY2020, increasing by one-tenth of a percent annually to reach 2.8% in FY2024 and ultimately 3.5% by FY2031. Such a commitment represents an important step in appropriately maintaining the City's capital assets. This investment goal is accomplished by increasing debt service and using existing debt service run-off and capital lease run-off for new capital projects. As recently as FY2017, the City invested 3.1% of its net operating budget into its capital budget. The recommended Capital Investment Strategy not only returns the City to its prior capital investment level but, over the longer term, brings it up to a level more consistent with the best practices of many Massachusetts cities. It should be noted that in Lynn, water and sewer capital projects and operations are funded by a separate governmental entity. Appendix 1 compares the FY2017 debt for all Massachusetts cities.

The comprehensive FY2020 – FY2024 CIP proposed in this report is a roadmap for the future. Equally as important, the background supporting materials that will be provided to City staff will be tools for them to annually extend that roadmap for the next five-year period to ensure that the City continues to meet its obligations and goals.

CAPITAL PLANNING: PURPOSE AND PROCESS

According to the Massachusetts Department of Revenue (DOR), a capital plan is a blueprint for planning a community's capital expenditures and "one of most important responsibilities of local government officials." Indeed, a municipality that fails to continually reinvest in its capital assets or fails to plan strategically for capital needs could likely face expensive, emergency expenditures, failure to meet development goals, and even catastrophic safety and health impacts.

Furthermore, capital planning is one component of financial management that credit rating agencies consider when assessing credit quality. Standard & Poor's recently noted that:

> "Lynn does not currently prepare a capital improvement or long-term financial plan, although we understand these planning documents are under development. Officials have contracted with the Collins Center, at the University of Massachusetts in Boston, to assist in the development of strengthened financial practices, including a long-term financial plan and a five-year capital plan. As the city revises its formal financial planning, we will re-evaluate its policies under our FMA [Financial Management Assessment] methodology."[1]

See Appendix 2 for the complete S&P report.

The Lynn City Charter, Article 5, Sections 5 and 6, describes the legal requirements for the capital improvement program and the manner in which certain bonded projects will be approved. These sections are detailed in Appendix 3. In addition, Chapter 58 of the Acts of 2018, Section 14(c) states, "Not later than 180 days after the effective date of this act, the mayor shall develop and submit to the city council a 5-year capital plan. Upon submission to the city council, the fiscal stability officer shall provide a written review of the proposed capital plan."[2]

The City of Lynn hired the Edward J. Collins, Jr. Center for Public Management at the University of Massachusetts Boston to facilitate preparation of the capital improvement plan. The CIP proposed by the Collins Center has several important characteristics, namely:

- It is a <u>comprehensive</u> plan that includes not only City-funded projects, but projects funded through other means as well (e.g., State or Federal funding).

- It is a <u>multi-year</u> plan, which provides multiple benefits, such as strategic debt management, coordination of projects, and the avoidance of emergency costs.

- It includes a <u>capital investment strategy</u> that extends across the five-year period, allowing for a more accurate projection of future capital costs.

The CIP was developed in three phases: 1) Capital Needs Assessment, 2) Development of the Capital Investment Strategy, and 3) Development of the project plan.

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[1] Richards, Christian and Victor M Medeiros, "Lynn, Massachusetts; General Obligation; Non-School State Programs; Note," S&P Global Ratings, RatingsDirect, 11 February 2019.

[2] Approved on March 27, 2018

Phase 1: Capital Needs Assessment

The Collins Center project team met with leadership of all City departments[3] to explain the process and discuss potential project requests. Departments were provided with the Center's online request form asking them to describe their proposed project(s), justify each project, prioritize projects, and identify the fiscal year(s) in which the project should be completed. In addition, departments were asked to indicate if non-local funds might be available to support the project and to anticipate the impact of the project on the City's operating budget. For example, savings could be realized if the purchase of new equipment could reduce the cost of future repairs. See Appendix 4 for a copy of the online request form. This was a time-intensive process for staff, which required reviewing asset inventories, finding available data on asset condition and performance, and projecting out work for a five-year period.

After working with department heads to obtain as much detail as possible about each project, the project team then scored the projects based on a series of criteria. The criteria included:

- State/Federal mandate or legal obligation or liability
- Threat to health and safety
- Advancement of adopted plans, studies, and goals
- Department priority
- Impact on service to residents/businesses
- Distribution of benefit
- Economic benefits
- Environmental benefits
- Impact on operating budget
- Availability and likelihood of external funding
- Risk and impact of failure
- Impact on internal effectiveness and/or efficiency

Points were awarded by the project team based on the details provided about each project. The scoring methodology relies on complete and accurate data from department heads in order to accurately reflect a project's merits. A project's modest score may be the result of missing or incomplete information about the project and its justification. Such situations underscore the importance of the submission of comprehensive data for each project in order to best reflect the level of importance it deserves. That said, the project scores do not necessarily dictate which projects are or are not included in the final CIP. That decision is based on a number of factors, including the unique values and priorities of the City of Lynn.

Phase 2: Development of the Capital Investment Strategy

The project team worked with the Mayor, Chief Financial Officer, and the City's financial advisor to gather information about the City's existing debt profile, authorized and unissued debt, capital leases, stabilization and special funds, and revenue and expenditure forecasts. After documenting General Fund spending over a multi-year historical period, the team compared capital spending to net budget. Net budget is defined as the total amount raised on the tax rate recapitulation sheet less any excluded debt or capital exclusions, enterprise funds, community preservation funds, and Massachusetts School Building Authority (MSBA) assistance. The

[3] Note: This project did not include the capital needs of the Lynn Water & Sewer Commission.

goal is to measure annual General Fund capital spending as a percent of the General Fund operating budget to ensure that an appropriate share of General Fund revenues is reinvested through the capital plan.

Phase 3: Development of the Project Plan

After setting a target investment level, the project team worked with the Mayor and CFO to generate a list of top-priority projects. For projects to be funded through debt, the project team conservatively projected the debt service. The cost of the projects was compared with the target capital spending until the total cost of the all the projects was relatively balanced with the available funding in each of the five years.

In addition, the project team provided information about a variety of State grant programs and worked with City staff to ensure that the programmed projects took full advantage of those opportunities.

Managing the Plan in the Future

Annually, City staff will reassess the capital needs of all departments, extending the outlook to include the next year (e.g., in FY2020, the City will complete a plan for the years FY2021 – FY2025). This annual process allows for the reassessment of the scope, timing, and cost of projects that are included in the current CIP. In addition, the City may update the assumptions and targets in the Capital Investment Strategy in order to determine the resources available for the plan's time period. These assumptions and targets should reflect other components of the City's financial plan, such as a five-year financial forecast and policies.

Possible Funding Sources

There are a number of ways to finance municipal capital improvement projects. Some of the most common methods are:

Local Resources

- **Municipal Indebtedness**: The most commonly used method of financing large capital projects is general obligation bonds (also known as "GO Bonds"). They are issued for a period of time ranging from 5 to 30 years, during which time principal and interest payments are made. Making payments over time has the advantage of allowing the capital expenditures to be amortized over the life of the project. Funding sources used to pay back the debt can include:

    - **Bonds funded within the tax limits of Proposition 2½**: Debt service for these bonds must be paid within the tax levy limitations of proposition 2½. Funds used for this debt must be carefully planned in order to not impact the annual operating budget.

    - **Bonds funded outside the tax limits of Proposition 2½**: Debt service for these bonds is paid by increasing local property taxes in an amount needed to pay the annual debt service. Known as a Debt Exclusion or Exempt Debt, this type of funding requires approval by a 2/3 vote of the local appropriating authority and approval by a majority of voters participating in a ballot vote. Prior to the vote, the impact on the tax rate must be determined so voters can understand the financial implications.[4]

- **Capital Outlay / Pay as You Go:** Pay as You Go capital projects are funded with current revenues (typically tax levy or free cash) and unexpended balances in previously approved projects. The entire cost is paid off within one year, so no borrowing takes place. Projects funded with current revenues are customarily lower in cost than those funded by general obligation bonds because there are no interest costs. However, funds to be used for this purpose must be carefully planned in order to not impact the annual operating budget. For this reason, Pay as You Go capital projects are typically lower in value than projects funded by borrowing.

- **Capital Outlay / Expenditure Exclusion**: Expenditure Exclusion projects are similar to Pay as You Go, above, except taxes are raised outside the limits of Proposition 2½ and are added to the tax levy only during the year in which the project is being funded. As with a Debt Exclusion, Expenditure Exclusion funding requires approval by a 2/3 vote of the local appropriating authority and approval by a majority of voters participating in a ballot vote. Prior to the vote, the impact on the tax rate must be determined so voters can understand the financial implications. Capital outlay expenditures may be authorized for any municipal purpose for which the municipality would be authorized to borrow money.

- **Capital Stabilization Fund:** Local officials can set aside money in a stabilization fund – outside of the general fund - to pay for all or a portion of future capital projects. According to MGL Chapter 40, Sec. 5B, a 2/3 vote is required by City Council to initially set up the fund. Subsequently, a majority vote of City Council is required to appropriate money into the fund and a 2/3 vote is required to appropriate money out of this fund. In addition, City Council, by a 2/3 vote, may dedicate certain revenue streams to a stabilization fund.

- **Sale of Surplus Real Property**: Pursuant to Massachusetts General Laws, when real estate is sold, the proceeds must first be used to pay any debt incurred in the purchase of the property. If no debt is outstanding, the funds "may be used for any purpose or purposes for which the town, city, or district is authorized to incur debt for a period of five years or more…except that the proceeds of a sale in excess of five hundred dollars of any park land by a town, city, or district shall be used only by said town, city, or district for acquisition of land for park purposes or for capital improvements to park land" (MGL Chapter 44, Sec. 63).

- **Free Cash:** Free Cash represents the remaining, unrestricted funds from operations of the previous fiscal year, including unexpended free cash from the previous year, actual receipts in excess of revenue estimated on the tax recapitulation sheet, and unspent amounts in budget line items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the June 30 balance sheet, which is submitted by the municipality's auditor, accountant, or comptroller. Free cash is not available for appropriation until certified by the Director of Accounts.

- **Special Purpose Funds**: Communities also have established numerous "Special Purpose Accounts" for which the use is restricted to a specific purpose, some of which may be investment in department facilities and equipment. There are numerous state statutes that govern the establishment and use of these

[4] A debt exclusion is different from a property tax override in that a debt exclusion is only in place until the incurred debt has been paid off. An override becomes a permanent part of the levy limit base.

separate accounts. Examples include ambulance funds, recreation funds, the sale of cemetery lots, and off-street parking fees accounts.

Federal, State, and Private Grants and Loans

Other revenue sources may include grants or loans from federal, state, or private sources. For example, federal money is used for bridge and roadway projects listed on the State Transportation Improvement Plan. Private funds are sometimes available from "Friends of…" groups for local libraries or Councils on Aging. However, the State provides the most opportunities for funding through various programs.

Key potential State funding sources for the City of Lynn include:

- **Massachusetts Chapter 90 Roadway Funds**: Each year, the Massachusetts Department of Transportation (MassDOT) allocates funds to cities and towns for roadway construction, maintenance, or improvement. Funds may also be used for other work incidental to roadway work, such as the construction of a garage to house related vehicles, or the purchase of related vehicles, equipment, and tools. Chapter 90 is a 100% reimbursable program. Funding is accomplished through the issuance of transportation bonds and apportioned to municipalities based on three factors: 1) accepted road miles, 2) population, and 3) total employment within the municipal borders. Road miles is the most heavily weighted factor at 58.33%; the others are each weighted at 20.83%.

- **MassWorks Infrastructure Program:** This is a competitive grant program through the Executive Office of Housing and Economic Development that provides capital funds for municipalities and other eligible public entities to complete public infrastructure projects that support and accelerate economic and housing development throughout the Commonwealth and/or address roadway safety concerns.

- **MassDOT Complete Streets:** A Complete Street is one that provides safe and accessible options for all travel modes – walking, biking, transit, and motorized vehicles – for people of all ages and abilities. MassDOT has a program to encourage municipalities to move toward a Complete Streets model. One component of the program is construction funding after the municipality has passed a Complete Streets Policy and developed a Prioritization Plan.

- **PARC grant program:** Through the Executive Office of Energy & Environmental Affairs, PARC grants are available for the purchase, construction, or renovation of parks and outdoor recreation spaces. Any town with a population of 35,000 or more year-round residents or any city regardless of size is eligible to apply as long as they have submitted an up-to-date Open Space and Recreation Plan. This is a reimbursement program with the typical maximum award being $400,000. Reimbursement rates are determined by a community's equalized valuation per capita decile rank; The City of Lynn is likely eligible for the maximum reimbursement rate of 70%.

- **Community Compact IT grant program:** Through the Community Compact Cabinet, this program offers grants of up to $200,000 for "one-time capital needs such as technology infrastructure, upgrades and/or purchases of equipment or software. Incidental or one-time costs related to the capital purchase such as planning, design, installation, implementation and initial training are eligible."[5]

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[5] "Community Compact IT Grant Program," Available: https://www.mass.gov/community-compact-it-grant-program

- **Green Communities Division grants:** The Department of Energy Resources provides grants through its Green Communities Division intended to reduce energy use through clean energy projects, including vehicle/equipment, building, and school facilities projects. For example, projects may include HVAC upgrades, solar, energy audits, idle reduction technology, lighting retrofits, window/door weatherization, hybrid/electric vehicles, and vehicle charging stations, to name a few. It is the project team's understanding that the City of Lynn is currently seeking to become designated as a Green Community.

- **Massachusetts School Building Authority (MSBA):** The MSBA provides funding for school repair and construction via a series of programs. In the School Building Program, projects must be accepted into the process in response to the submission of a Statement of Interest which identifies a facility problem to be solved. Subsequently, the community must appropriate funding for schematic design and later for construction before the MSBA will commit to its share of the project. If accepted, the MSBA determines the amount of reimbursement it will offer based upon community need, with a minimum base rate of 31%. The percent of reimbursement can then be increased based upon three factors: community income factor, community property wealth factor, and community poverty factor. Through the Accelerated Repair Program, the MSBA will fund roof, window, and boiler projects with an expected 18-month completion date. Funding can be provided for multiple projects in a single district in a year. The Major Repairs Program includes roofs, windows, and boilers, but can also include other significant building renovations. Districts are limited to one project per year under the Major Repair Program, but work can be more substantial than under the Accelerated Repair Program.

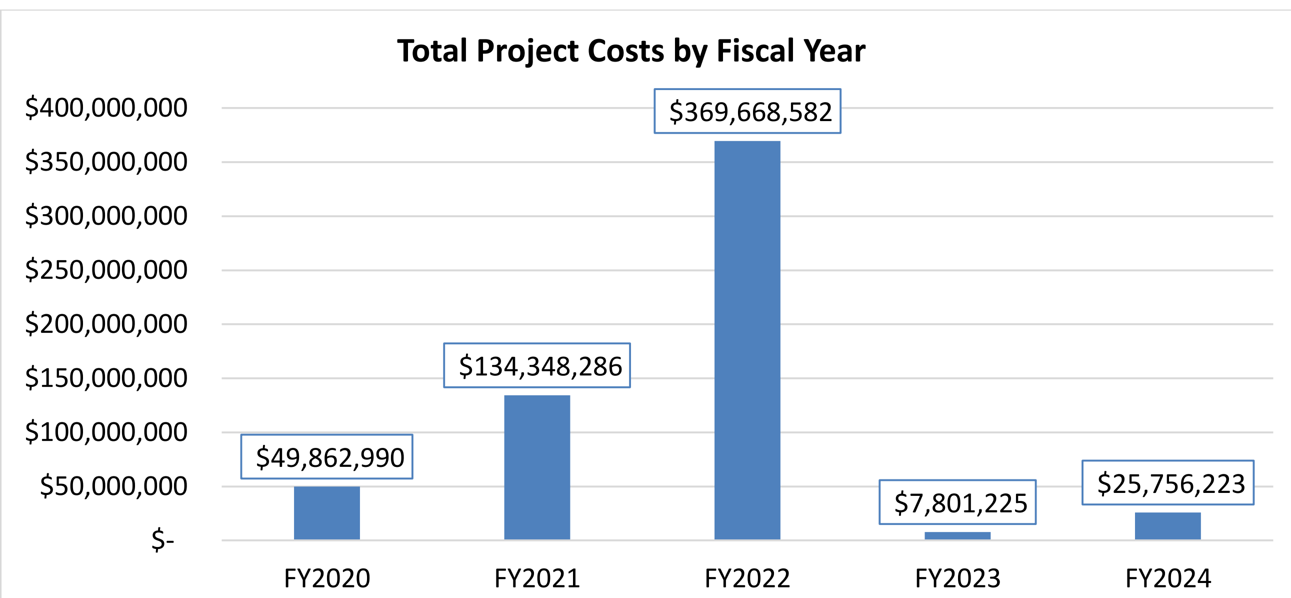
CAPITAL NEEDS ASSESSMENT

The Collins Center project team led City department leaders through a process of gathering capital needs for the five-year period FY2020 through FY2024. This included projects funded from all sources, including grants. Overall, department heads submitted 265 projects with a total projected cost of $587.4 million. School facility improvement and new school construction accounted for more than 90% of all costs. Costs and projects counts by department are detailed in the table below.

Capital Needs by Department

Department	Project Count	Total Project Cost
City Clerk / Elections	1	$ 160,000
Community Development	23	$ 7,326,034
Council on Aging	3	$ 49,950
DPW	18	$ 10,736,495
Fire Department	8	$ 3,462,000
Info Technology	4	$ 180,000
Inspectional Services	8	$ 1,321,157
ISD - Facilities	167	$ 138,690,000
Library	6	$ 1,737,000
Parking Department	9	$ 11,353,000
Police Department	9	$ 2,206,213
School District	9	$ 410,215,457
Grand Total	**265**	**$ 587,437,306**

The chart below shows total project costs by fiscal year. New school construction accounted for $113 million in FY21 and $357 million in FY22. Leaving aside those costs, it is clear that department heads see a significant immediate need for capital investment. Of the remaining projects, approximately 42% of total costs were requested in the first year of the plan.



The City's capital assets can be categorized into major categories. The table below summarizes capital project requests by asset types. It is clear from this table that the City of Lynn faces a significant need for investment in school facilities. However, as with any city of Lynn's size, each asset category requires millions of dollars of investment.

Projects by Asset Type

Asset Type	# of Project	Total Project Cost	% of Total
City Facility	14	$ 6,331,912	1.08%
Information Technology	16	$ 1,694,283	0.29%
Other (Dam)	1	$ 61,000	0.01%
Parking Infrastructure	8	$ 11,315,000	1.93%
Parks, Recreation, & Open Space	22	$ 7,726,034	1.32%
Roads/Pavement	7	$ 8,074,000	1.37%
School Facility	175	$ 545,905,457	92.93%
Vehicles & Equipment	22	$ 6,329,620	1.08%
Grand Total	**265**	**$ 587,437,306**	**100.00%**

Due to the significant number and cost of submitted school facility projects, the table below provides a summary of total project cost by school.

Total Project Cost by School

School Facility	Total Project Cost
Aborn Elementary	$ 67,665,000
Breed Middle	$ 2,240,000
Brickett Elementary	$ 67,965,000
Callahan Elementary	$ 10,650,000
Central Administration Building	$ 450,000
Classical High	$ 4,000,000
Cobbet Elementary	$ 75,000,000
Connery Elementary	$ 1,390,000
Drewicz Elementary	$ 1,150,000
English High	$ 5,050,000
Fallon Elementary	$ 550,000
Fecteau-Leary Junior Senior High	$ 125,000
Fecteau-Leary Junior Senior High / Cobbet Elementary	$ 275,000
Ford Elementary	$ 865,000
Harrington Elementary	$ 1,415,000
Hood Elementary	$ 4,350,000
Ingalls Elementary	$ 4,801,754
Lincoln-Thomson Elementary	$ 860,000
LVTI	$ 3,175,000

School Facility	Total Project Cost
LVTI Annex	$ 4,750,000
Lynn Woods Elementary	$ 825,000
Pickering Middle (new construction)	$ 100,000,000
Pickering Middle / Sisson Elementary	$ 5,575,000
Sewell Anderson Elementary	$ 3,608,218
Shoemaker Elementary	$ 4,695,485
Sisson Elementary	$ 700,000
Tracy Elementary	$ 67,700,000
Washington Elementary	$ 6,075,000
West Lynn (new construction middle school)	$ 100,000,000
Grand Total	**$ 545,905,457**

SUMMARY OF CAPITAL INVESTMENT STRATEGY

The Collins Center project team gathered a variety of financial data about the City of Lynn, including the existing debt profile, existing capital leases, authorized and unissued debt, as well as past operating budgets. Any existing relevant policies or reports were also reviewed. In collaboration with the Mayor, CFO, and the City's financial advisor, the project team developed a proposed Capital Investment Strategy that gradually restores annual capital investment as a percentage of the City's operating budget. As recently as FY2017, the City's annual budget included over $10 million in capital investment, which represented 3.1% of the City's net operating budget. Over the past three years, the City has significantly reduced its capital investment to 2.3% in FY2019.

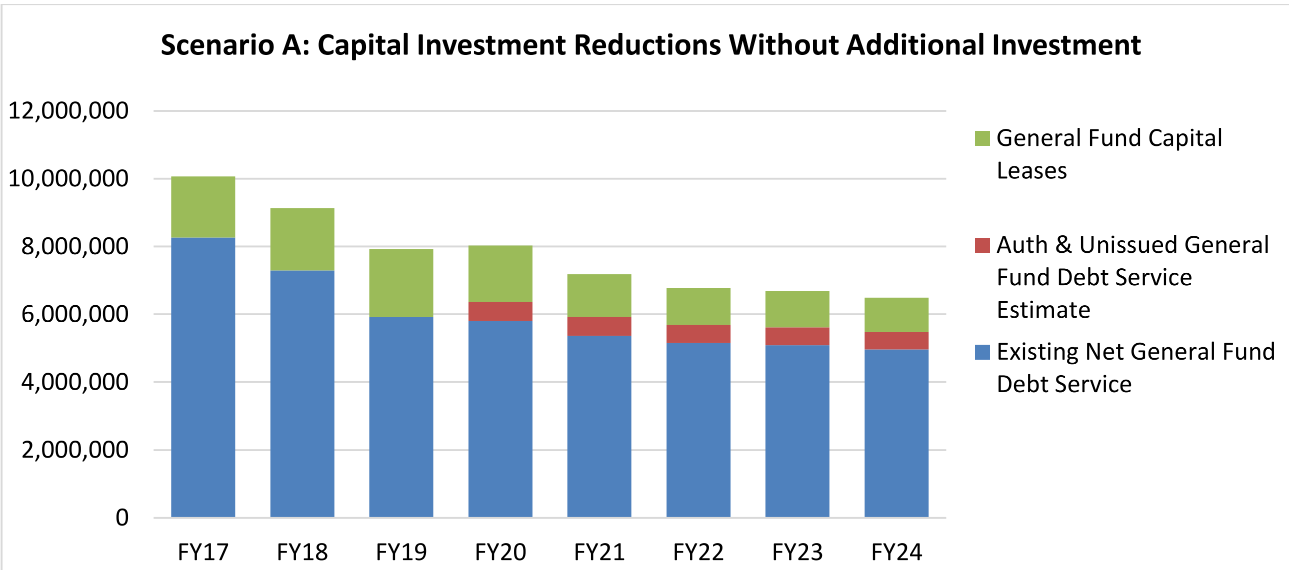
The table below summarizes the investment strategy. The proposed investment is increased to 2.4% in FY2020 and climbs by one-tenth of a percent to 2.8% by FY2024. See Appendix 5 to review a long-term strategy, which calls for the City to reach the ultimate target of 3.5% capital investment by FY2031. As the table below shows, the proposed CIP has surpluses in years one through four, but a deficit in year five. The project team recommends that the City establish a capital stabilization fund and that any annual plan surplus be appropriated to such a fund to cover shortfalls in future years. The total surplus is over $1.93 million compared with a shortfall of approximately $1.24 million in FY24.

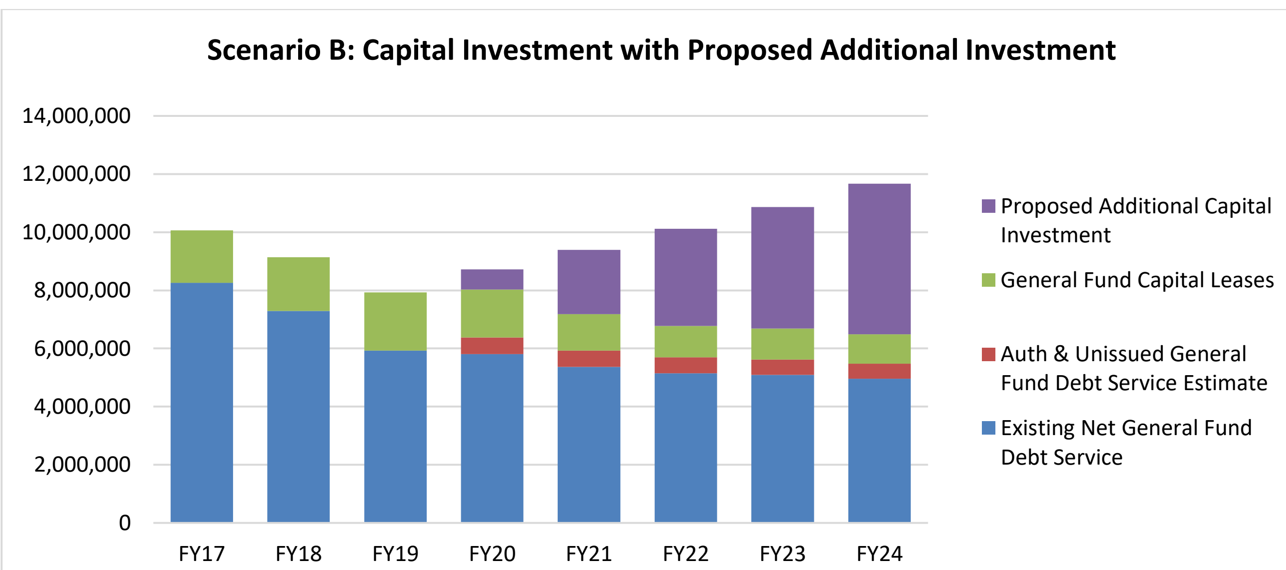
				FY2020-FY2024 Capital Improvement Plan				
	FY17	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**
Existing Net General Fund Debt Service	8,262,207	7,292,608	5,921,658	5,802,539	5,369,248	5,150,948	5,085,521	4,961,879
Auth & Unissued General Fund Debt Service Estimate				572,000	561,000	544,500	533,500	517,000
General Fund Capital Leases	1,805,762	1,841,591	2,006,862	1,658,125	1,256,027	1,078,811	1,066,555	1,014,142
Total Existing Capital Investment	10,067,969	9,134,199	7,928,520	8,032,664	7,186,275	6,774,259	6,685,576	6,493,021
Proposed Additional Capital Investment				683,485	2,210,823	3,340,778	4,186,143	5,175,958
Total Existing & Proposed Capital Investment				**8,716,149**	**9,397,098**	**10,115,037**	**10,871,719**	**11,668,979**
Net Budget (Projected 3.5% Growth)	327,223,951	339,025,774	350,891,676	363,172,885	375,883,936	389,039,873	402,656,269	416,749,238
General Fund Capital Spending as % of Net Budget	3.1%	2.7%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%
Proposed Additional Capital Investment				683,485	2,210,823	3,340,778	4,186,143	5,175,958
FY20-FY24 CIP - GF PayGo and Debt Service Est. Costs[6]				569,066	2,073,313	2,946,773	2,900,073	6,419,689
Surplus / (Deficit)				114,419	137,510	394,005	1,286,070	(1,243,732)

[6] See following section "FY2020 – FY2024 CIP: Project Plan" for detail on specific projects.

Discussion

The proposed Capital Investment Strategy recommends that the City recapture run-offs in existing debt service and capital lease payments for future capital investment, as well as increase spending slightly, to reestablish capital spending at target levels. As the first chart below shows, without additional investment, the spending level on capital needs will decrease substantially by FY2024. By comparison, the Collins Center's proposal, reflected in the second chart below, shows an increase in investment, partially funded through recapture of the run-offs in debt service and capital lease payments.





It should be noted that this analysis does not include the debt associated with the state deficit financing authorization. The authorization, Chapter 58 of the Acts of 2018, An Act Relative to the Financial Condition of the City of Lynn, allowed the City to borrow up to $14 million. The City has currently borrowed $9.5 million and plans to borrow the balance shortly. The Collins Center recognizes that the administration must present balanced budgets and that operating budget priorities will need to be balanced with these capital investment recommendations.

Grants and Non-Local Funding Sources

Given the City's significant capital needs coupled with its fiscal constraints, the FY2020 – FY2024 CIP proposes that the City take an aggressive approach to seeking State grants to accomplish capital projects. Such non-local funds will be a key component of the City's comprehensive capital investment approach. Seeking grants will allow the City to invest in capital needs above and beyond the target investment level identified, meeting important needs identified by the various department heads and redirecting City funds to other key projects for which there are no available grant programs at this time.

In total, the CIP proposes that the City seek $140 million from the Massachusetts School Building Authority and nearly $17.9 million in other non-local resources, including repeated submissions to the State's PARC, Green Communities, Complete Streets, MassWorks, and Community Compact IT grant programs, in addition to other grants. In some cases, the plan includes a placeholder project for a particular grant program, which represents the City's intention to pursue grant opportunities systematically, yet strategically.

Alternative Funding Strategy

Massachusetts General Law Chapter 25A provides an alternative method of contracting for and implementing improvements in facilities that can result in improved energy efficiency. The Collins Center recommends that the City explore the potential benefits of this approach, called energy management services or an energy services contract (ESCO).

Through the capital needs assessment, the City identified more than $11 million dollars in potential energy efficiency projects at City and School facilities. If all eligible projects were completed through MSBA, the City would still be responsible for more than $6.2 million dollars for these projects. This total includes approximately $5.8 million for School facilities and $445,000 for City facilities. See the table below.

Potential Energy Efficiency Capital Projects

Project Location	Project Title	Total Cost
Breed Middle	Replace all lighting to LED at Breed Middle School	$ 100,000
Broadway Fire Station	Broadway Fire Station Boiler	$ 119,912
Classical High	Install DDC controls on all HVAC equipment at Classical High School	$ 400,000
Classical High	Replace aging HVAC equipment to energy efficient equipment at Classical High School	$ 400,000
Connery Elem.	Replace aging windows at Connery School with energy efficient units	$ 250,000
Drewicz Elem.	Install DDC controls on all HVAC equipment at Drewicz Elementary School	$ 125,000
Drewicz Elem.	Replace aging boilers at Drewicz Elementary School	$ 300,000
English High	Install DDC controls on all HVAC equipment at English High School	$ 125,000
English High	Replace aging boilers at English High School	$ 500,000

Project Location	Project Title	Total Cost
English High	Replace aging HVAC equipment to energy efficient equipment at English High School	$ 300,000
Fallon Elem.	Install DDC controls on all HVAC equipment at Fallon Elementary School	$ 125,000
Ford Elem.	Replace aging windows at Ford School with energy efficient units	$ 250,000
Harrington Elem.	Replace aging windows at Harrington School with energy efficient units	$ 250,000
Ingalls Elem.	Ingalls HVAC Upgrades	$ 1,411,754
Ingalls Elem.	Replace aging boilers at Ingalls School	$ 300,000
Ingalls Elem.	Replace aging HVAC equipment to energy efficient equipment at Ingalls School	$ 125,000
Library	Replace/rehabilitate library windows	$ 325,000
Lincoln-Thomson Elem.	Install DDC controls on all HVAC equipment at Lincoln-Thomson School	$ 125,000
Lincoln-Thomson Elem.	Replace aging windows at Lincoln-Thomson School with energy efficient units	$ 200,000
LVTI	Install DDC controls on all HVAC equipment at LVTI	$ 125,000
LVTI	Replace aging boilers at LVTI	$ 500,000
LVTI	Replace aging HVAC equipment to energy efficient equipment at LVTI	$ 500,000
LVTI Annex	Install DDC controls on all HVAC equipment at LVTI Annex	$ 125,000
LVTI Annex	Replace aging boilers at LVTI Annex	$ 500,000
LVTI Annex	Replace aging HVAC equipment to energy efficient equipment at LVTI Annex	$ 500,000
Pickering Middle / Sisson Elem.	Install DDC controls on all HVAC equipment at Pickering/Sisson	$ 125,000
Pickering Middle / Sisson Elem.	Replace aging HVAC equipment to energy efficient equipment at Pickering/Sisson	$ 75,000
Sewell Anderson Elem.	Install DDC controls on all HVAC equipment at Sewell Anderson School	$ 125,000
Sewell Anderson Elem.	Replace aging boilers at Sewell Anderson School	$ 300,000
Sewell Anderson Elem.	Replace aging HVAC equipment to energy efficient equipment at Sewell Anderson School	$ 125,000
Sewell Anderson Elem.	Sewell Anderson HVAC	$ 833,218
Shoemaker Elem.	Install DDC controls on all HVAC equipment at Shoemaker School	$ 125,000
Shoemaker Elem.	Replace aging boilers at Shoemaker School	$ 250,000
Shoemaker Elem.	Replace aging HVAC equipment to energy efficient equipment at Shoemaker School	$ 125,000
Shoemaker Elem.	Shoemaker HVAC	$ 1,070,485
	TOTAL	**$11,135,369**

Given these significant findings, the Collins Center recommends that the City consider an Energy Services Contract (ESCO) procured under the provisions of chapter 25A. An ESCO is essentially a turn-key contract that is exempt from normal public procurement rules and uses, at least in part, energy cost savings to pay for the improvements. Under this program, the contractor must provide a guaranteed amount of energy cost savings which is then applied to the cost of the improvements. Under chapter 25A, “Methods for measurement and verification of energy savings shall conform to the most recent standards established by the Federal Energy Management Program of the United States Department of Energy.” This is commonly done through an investment grade audit of energy savings. If the guaranteed level of savings is not reached, then the contractor must provide reimbursement.

Some municipalities couple this approach with funding from the Green Communities Division to cover energy facility improvements that are not fully paid for by savings. In this way, a municipality, with careful planning and coordination, may implement significant energy facilities improvements with no dollar impact on the operating or capital budgets. It should be noted that the FY2020 – FY2024 CIP anticipates an annual $200,000 Green Communities grant for school facility energy efficiency projects for FY2022, FY2023, and FY2024.

Finally, the CIP proposes the City fund a comprehensive School Facilities Assessment and Master Plan in FY2020, which would likely provide valuable information to inform the City’s consideration of an ESCO.

FY2020 - FY2024 CIP: PROJECT PLAN

The City of Lynn's proposed FY2020 - FY2024 capital improvement plan includes 36 projects costing nearly $231 million and funded through a variety of sources, including local tax levy, local indebtedness, and State funds. These capital investments will allow the City to maintain and improve its capital assets, which represent hundreds of millions of dollars of taxpayer investment. Although the project plan only funds 36 of the requested 265 projects, these 36 projects represent slightly more than 39% of the total project costs.

Projects are also spread across different functional units of City government. However, as was expected, the vast majority of the cost (70%) falls under the management of the Lynn Public Schools. This is largely driven by new school construction projects. The table below provides the detail of cost and project count by department.

FY2020 – FY2024 CIP Projects by Department

Department	Project Count	Total Cost
City Clerk	1	$ 160,000
Community Development	7	$ 3,565,000
DPW	10	$ 22,515,304
Fire	2	$ 695,000
Information Technology	2	$ 212,500
ISD	3	$ 936,245
Library	1	$ 275,000
Parking	2	$ 315,000
Parking & ISD	1	$ 38,000
Police	3	$ 1,434,063
Schools	4	$ 200,775,000
Grand Total	**36**	**$ 230,921,112**

Lynn Public Schools face two significant capital-related challenges: school overcrowding and severe deferred maintenance. Total project costs for the Schools are $200,775,000. The proposed CIP includes the building of two new middle schools, one to replace Pickering and a new West Lynn middle school. These projects must go through the MSBA process, and so timing is uncertain. Each construction project is projected to cost $100 million, with an estimated 70% reimbursed by MSBA. Such projects would likely take at least three years. In addition, the CIP prioritizes in its first year the preparation of a comprehensive School Facilities Assessment and Master Plan, which is intended to serve as a roadmap to address the deferred maintenance. This plan, when it is complete, will necessarily impact the City's future capital planning. Finally, the City intends to seek $200,000 annually from the State's Green Communities grant program to complete energy efficiency projects in school buildings in FY22 through FY24.

The Department of Public Works accounts for just over 9% of total project costs, which amounts to $22.5 million. Approximately 60% of this spending will come from the State through Chapter 90 funding, the MassWorks infrastructure grant program, and a few other smaller grant programs. The remaining 40% reflects the City's serious commitment to investing in the roads. The CIP calls for an annual $1 million Chapter 90 match from local funds, which will be dedicated to roadway improvements, as well as over $3.8 million for design work for three major roadway projects that the City will seek to be included in the State's design work for three major roadway projects that the City will seek to be included in the State's Transportation Improvement Plan once design work is complete. This process, although it requires an up-front investment, could yield a significant influx of State and Federal monies for these projects in the future.

The table below shows the total spending by funding source and fiscal year in the proposed FY2020 – FY2024 CIP. The first two rows, General Fund PayGo and Debt, represent the City's committed funds and total just over $73 million. This represents under 2/3 of the total CIP project costs. Thus, the plan leverages City funding on a scale of more than $3 for every $1 spent.

FY2020 – FY2024 CIP Spending by Funding Source and Fiscal Year

Funding Source	FY2020	FY2021	FY2022	FY2023	FY2024	Total
GF PayGo	$ 440,000	$ 379,500	$ 720,225	$ 280,225	$ 280,225	$ 2,100,175
GF Debt		$ 7,862,500	$ 55,492,500	$ 1,862,500	$ 1,362,500	$ 70,933,317
MSBA*	$ 2,100,000	$ 14,000,000	$ 123,900,000			$ 140,000,000
Chapter 90	$ 1,497,075	$ 1,497,075	$ 1,497,075	$ 1,497,075	$ 1,497,075	$ 7,485,375
MassWorks	$ 675,000	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 4,675,000
Complete Streets	$ 344,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 1,944,000
PARC grant	$ 350,000	$ 360,500	$ 175,000	$ 175,000	$ 175,000	$ 1,235,500
Energy & Environmental Affairs (EEA)	$ 1,000,000					$ 1,000,000
Green Communities	$ 38,000	$ 91,000	$ 200,000	$ 200,000	$ 200,000	$ 729,000
Mass Cultural Facilities Fund	$ 400,000					$ 400,000
Community Compact IT	$ 112,500		$ 170,245		$ 75,000	$ 357,745
Dam and Seawall Repair or Removal Program	$ 61,000					$ 61,000
Total	**$ 11,370,892**	**$ 25,590,575**	**$ 183,555,045**	**$ 5,414,800**	**$ 4,989,800**	**$ 230,921,112**

**Note: The timing of the school construction projects is uncertain, due to the need to work through the Massachusetts School Building Authority (MSBA).*

A full project listing for the FY2020 – FY2024 CIP can be found on the following pages.

Complete Project Listing

FY2020 – FY2024 CIP Projects by Department

Department	Project Title	FY2020	FY2021	FY2022	FY2023	FY2024	Total Cost	Funding Source
City Clerk	Replace voting machines	160,000					160,000	Debt
Community Development	Turf & track replacement at Manning Field	150,000					500,000	150,000 PayGO; 350,000 PARC grant
Community Development	Continuation of canopy repairs at Fraser Field		154,500				515,000	154,500 PayGO; 360,500 PARC
Community Development	Field lighting at Fraser Field			75,000			250,000	75,000 PayGO; 175,000 PARC
Community Development	Remove wall at Barry Park				75,000		250,000	75,000 PayGO; 175,000 PARC
Community Development	Repair fountain at Lynn Commons					75,000	250,000	75,000 PayGO; 175,000 PARC
Community Development	Seat replacement and aisle lighting at Lynn Auditorium	400,000					800,000	400,000 Debt; 400,000 Mass Cultural Facilities Fund
Community Development	Community Path	1,000,000					1,000,000	Mass Executive Office of Energy and Environmental Affairs (EEA) funding
DPW	Chapter 90 supplement	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	5,000,000	Debt
DPW	Road resurfacing, concrete and asphalt sidewalks, line striping (Chapter 90)	1,497,075	1,497,075	1,497,075	1,497,075	1,497,075	7,485,375	Chapter 90
DPW	Replace a 6-wheel dump truck	212,429					212,429	Debt
DPW	Western Ave Design (MassDOT project)			362,500	362,500	362,500	1,087,500	Debt
DPW	Essex St Design(MassDOT project)	500,000	500,000	500,000	500,000		2,000,000	Debt
DPW	Broadway Design (MassDOT project)	362,500	362,500				725,000	Debt
DPW	MassWorks Projects TBD (est.)		1,000,000	1,000,000	1,000,000	1,000,000	4,000,000	MassWorks
DPW	Complete Streets Projects TBD (est.)		400,000	400,000	400,000	400,000	1,600,000	Complete Streets
DPW	Central Ave Pedestrian Repairs	344,000					344,000	Complete Streets
DPW	Repairs to Sluice Pond Dam	61,000					61,000	Dam and Seawall Repair or Removal Program (Mass EEA grant)
Fire	Replace Medic 1 ambulance			165,000			165,000	PayGO

Department	Project Title	FY2020	FY2021	FY2022	FY2023	FY2024	Total Cost	Funding Source
Fire	Replace fire engine			530,000			530,000	Debt
IT	Cyclical Replacement of IT hardware citywide		25,000	25,000	25,000	25,000	100,000	PayGO
IT	Modernize server infrastructure; Replace BDC, PDC, DPW, and PD QED records servers	112,500					112,500	Community Compact IT
ISD	Implement Digital Health Department SaS Platform in ISD Health Division			170,245			170,245	Community Compact IT
ISD	Replace inspector vehicles hybrid models		91,000				91,000	Green Communities
ISD	Upgrades to Broad Street corridor traffic signals	675,000					675,000	MassWorks
Library	Interior painting at Library			275,000			275,000	PayGO
Parking	Union St lot improvements	15,000					15,000	PayGO
Parking	Buffom St lot improvements	100,000	200,000				300,000	PayGO
Parking & ISD	Purchase 2 hybrid vehicles: 1 Parking Department vehicle and 1 ACO vehicle	38,000					38,000	Green Communities
Police	Lease 10 Police vehicles			180,225	180,225	180,225	540,675	PayGO
Police	Replace Police portable radios	818,388					818,388	Debt
Police	Communications/Improved Amplifier and Receiver for Police					75,000	75,000	Community Compact IT
Schools	Prepare comprehensive School Facilities Assessment and Master Plan	175,000					175,000	PayGO
Schools	Design and construct new West Lynn Middle School	design	begin	finish			100 M	30M Debt; 70M MSBA
Schools	Design and construct new Pickering Middle School	design	begin	finish			100 M	30M Debt; 70M MSBA
Schools	School Facilities Energy Improvements (est.)			200,000	200,000	200,000	600,000	Green Communities

APPENDICES

Appendix 1: Massachusetts Cities Comparative Debt Analysis, FY2017

Appendix 2: Standard and Poor's RatingsDirect Report (February 11, 2019)

Appendix 3: City Charter, Article 5, Sec 5-5 and 5-6: Capital Outlay Program and Bonded Indebtedness

Appendix 4: Capital Project Request Form

Appendix 5: Lynn Capital Investment Strategy, FY2020 – FY2039

Fiscal Year 2017 Municipal Debt

Massachusetts Department of Revenue
Municipal Databank/Local Aid Section

Municipality	2014 Population	FY	Long Term Retired	Long Term Interest	Short Term Interest	Other Interest	Total Debt Service	Debt Service as % of Budget	Equalized Valuation	Debt as % of EQV	Total Outstanding Debt	Total Budget
Chelsea	38,263	2017	4,893,003	978,055	0	0	5,871,058	3.31	2,791,398,900	0.21	33,540,776	177,581,083
Revere	53,226	2017	4,420,369	2,276,768	405,030	0	7,102,167	3.83	4,907,377,600	0.14	83,085,510	185,633,727
Lynn	92,115	2017	10,140,000	2,643,726	0	0	12,783,726	3.91	6,738,721,300	0.19	72,870,000	327,223,951
Medford	57,295	2017	5,440,548	0	0	1,984,613	7,425,161	4.27	8,962,552,200	0.08	56,926,830	173,937,603
Peabody	52,314	2017	5,992,562	2,219,193	333,500	0	8,545,255	5.00	7,211,777,900	0.12	67,548,524	170,915,448
Quincy	93,500	2017	12,576,761	5,444,097	671,019	0	18,691,877	5.23	12,930,445,600	0.14	169,218,105	357,311,458
Somerville	79,356	2017	10,056,060	3,278,841	613,364	0	13,948,265	5.26	12,444,120,100	0.11	84,581,349	265,101,333
Brockton	94,900	2017	15,343,841	7,540,518	132,000	0	23,016,359	5.50	6,479,586,800	0.36	196,669,539	418,464,793
Haverhill	62,370	2017	8,390,283	2,283,551	356,870	0	11,030,704	5.50	5,812,453,600	0.19	81,704,595	200,489,019
Chicopee	56,545	2017	7,448,446	3,765,689	77,651	0	11,291,786	5.57	3,898,874,600	0.29	139,072,982	202,624,651
Everett	44,741	2017	9,970,777	2,485,096	0	0	12,455,873	5.82	4,584,699,100	0.27	81,392,755	214,165,873
Taunton	56,586	2017	11,989,045	3,653,688	19,050	0	15,661,783	6.76	4,820,997,700	0.32	139,833,406	231,663,941
Attleboro	44,074	2017	8,679,100	1,779,764	43,754	0	10,502,618	7.08	4,266,596,600	0.25	56,682,807	148,381,176
New Bedford	94,954	2017	17,827,687	7,543,148	616,378	0	25,987,213	7.53	5,618,295,200	0.46	207,693,200	345,047,400
Pittsfield	43,655	2017	8,882,154	2,952,084	511,848	0	12,346,086	7.61	3,465,640,800	0.36	78,183,933	162,166,509
Fitchburg	40,499	2017	8,949,498	1,916,635	19,944	0	10,886,077	7.85	2,306,844,100	0.47	77,075,291	138,708,587
Salem	42,774	2017	10,844,805	2,608,980	101,125	0	13,554,910	8.75	4,790,270,400	0.28	68,818,468	154,864,358
Holyoke	40,660	2017	10,623,295	2,913,880	58,824	0	13,595,999	8.84	2,101,821,200	0.65	81,953,033	153,867,366
Lowell	110,235	2017	26,701,850	8,655,237	6,738	0	35,363,825	9.67	7,154,033,100	0.49	245,610,080	365,886,534
Malden	60,928	2017	25,068,627	3,360,764	0	0	28,429,391	14.17	6,275,190,000	0.45	97,544,814	200,585,649
Lawrence	79,535	2017	41,024,246	4,606,649	406,612	0	46,037,507	14.86	3,559,850,600	1.29	110,574,673	309,810,756
Fall River	89,727	2017	51,643,892	6,492,068	195,535	0	58,331,495	19.61	5,421,691,200	1.08	254,927,800	297,517,141

Does not included any SBAB grant assistance
Lynn debt does not include any water and sewer debt (funded by a separate agency)

S&P Global Ratings

RatingsDirect®

Summary:

Lynn, Massachusetts; General Obligation; Non-School State Programs; Note

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Table Of Contents

Summary:

Lynn, Massachusetts; General Obligation; Non-School State Programs; Note

Credit Profile		
US$8.67 mil GO BANs due 09/01/2019		
Short Term Rating	SP-1+	New

Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to Lynn, Mass.' state qualified general obligation (GO) deficit financing bond anticipation notes (BANs). At the same time, S&P Global Ratings affirmed its 'A-' long-term rating on the city's GO debt outstanding and its 'SP-1+' rating on the city's outstanding GO BANs. The outlook, where applicable, is negative.

The short-term rating on the notes reflects our criteria for evaluating and rating BANs. The 'SP-1+' rating on the BANs reflects the 'AA' program-rating on the Massachusetts' qualified bond program. We rate issuances under this program on par with Massachusetts' issuer credit rating (ICR), reflecting the commonwealth's commitment to pay debt service on behalf of eligible participants from legally available funds. Under the Qualified Bond Act (Massachusetts General Law, Chapter 44A), approval by the Municipal Finance Oversight Board, which oversees and monitors the program, is required. Once a participant is approved, the state treasurer pays debt service on the related bond or note issue directly to the paying agent from amounts withheld from the borrower's annual state aid appropriation. If necessary, the state treasurer advances debt service from legally available funds and after payment withholds from the distributable aid or any other amount payable to the municipality or school district for the amount paid. There is no appropriation risk related to the debt service payment. The BANs ($8.67 million) are being issued to refund outstanding deficit financing notes, payable March 1, 2019. We understand that the notes will be renewed periodically over ten years with annual principal payments. Coinciding with this issuance, the city is making the first principal payment of $830,000.

The negative outlook reflects what we believe to be potential long-term credit risks for the city, following several years of deficits leading to reduced budgetary flexibility and liquidity. While Lynn has raised fees to help balance the budget, along with the restoration of retiree health care costs as an allowable expense under the net school spending formula, it is unclear that it has made enough progress in raising revenues or cutting expenditures to achieve revenue and expenditure balance over the longer term. We believe that strong state support in the form of technical assistance and oversight may help the city avoid additional financial stress, but it will be incumbent on management to take the necessary steps to restore and maintain financial balance, and it is to date unclear that it can or will do so.

The city's full-faith-and-credit pledge, subject to the limits of Proposition 2-1/2, secures the GO debt outstanding. The debt is subject to Proposition 2-1/2 and is therefore a limited GO. We rate the limited-tax GO debt based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published

Jan. 22, 2018, on RatingsDirect). Due to the city's flexibility of resources for debt service payments under the Proposition 2-1/2 limits, we have not made a rating distinction between the limited and unlimited nature of the pledges.

The rating also reflects our view of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Weak management, with vulnerable financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Weak budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2018, which closed with an operating deficit in the general fund but break-even operating results at the total governmental fund level;
- Very weak budgetary flexibility, with an available fund balance that we expect will decrease in the near term from its fiscal 2018 level of 4.8% of operating expenditures, as well as limited capacity to reduce expenditures and limited capacity to raise revenues;
- Adequate liquidity, with total government available cash that we expect will decline in the near term relative to its fiscal 2018 levels at 7.1% of total governmental fund expenditures and 3.3x governmental debt service, but access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 2.1% of expenditures and net direct debt that is 22.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value, but a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it; and
- Strong institutional framework score.

Strong economy

We consider Lynn's economy strong. The city, with an estimated population of 93,228, is in Essex County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 86.3% of the national level and per capita market value of $89,228. Overall, market value grew by 10.9% over the past year to $8.3 billion in 2019. The county unemployment rate was 3.8% in 2017.

Residents have access to Boston and the broader MSA through the commuter rail, along with Route 1A, and a subway stop in neighboring Revere. While residential properties account for 89% of total assessed value (AV), the largest taxpayers are a diverse mix of utilities, apartment complexes, and manufacturing. The city is home to an aviation division of General Electric, which in addition to being a top-10 taxpayer, employs approximately 3,100 people.

Management views redevelopment, particularly along the city's coastline and in the downtown core, as key to new economic growth. Officials report more than 1,000 new residential units are in the development stage, with developers contacting the city about additional potential redevelopment sites. In particular, the city is now exploring redevelopment of a current one-story commercial site into multistory mixed use, near downtown. Recent economic development has grown the city's market value per capita, and we have observed an increase in residents' buying power. We recently revised our view of the city's economy to strong from adequate, based on economic growth and residents' access to the Boston MSA. Should economic development continue as management projects, we expect continued growth in the city's total tax base, although variations in income and per capita market value could cause revisions in our view of the city's economy. We expect the city's tax base will continue to expand, given the opportunities along the coast and its proximity to Boston.

Weak management

We view the city's management as weak, with vulnerable financial policies and practices under our FMA methodology, indicating the government lacks policies in many of the areas we believe are most critical to supporting credit quality.

In July 2018, we revised our view of management to weak from adequate based on recent financial performance and our belief that the city's revenue and expenditure assumptions may be overly optimistic. We believe the hiring of a new, full-time CFO may help the city in the long term to revise budgetary assumptions and institute improved forecasting, but currently believe the city keeps using optimistic budgetary assumptions. We will continue to revise our assessment as the city works to close its budget gaps.

The annual budget is based on two years of historical information, with local aid assumed at the level contained in the governor's budget proposal. Council receives at least monthly budget-to-actual financial reports. The city has neither a formal reserve nor debt policy. We also understand it does not have an investment policy for its general fund because operating funds are held in bank accounts and cash. Lynn does not currently prepare a capital improvement or long-term financial plan, although we understand these planning documents are under development. Officials have contracted with the Collins Center, at the University of Massachusetts in Boston, to assist in the development of strengthened financial practices, including a long-term financial plan and a five-year capital plan. As the city revises its formal financial planning, we will re-evaluate its policies under our FMA methodology.

Weak budgetary performance

Lynn's budgetary performance is weak, in our opinion. The city had deficit operating results in the general fund of negative 1.8% of expenditures, but a balanced result across all governmental funds of 0.2% in fiscal 2018. Our assessment accounts for the fact that we expect budgetary results could deteriorate from 2018 results in the near term.

We adjusted budgetary performance to account for recurring transfers and the expenditure of bond proceeds. Lynn posted negative general fund operating results in each of the past three years. In April 2018, in expectation of deficit results that the city could not adequately cover with reserves, it sought and obtained state legislative approval to issue deficit financing. In fiscal 2018, the city borrowed $9.5 million, and in fiscal 2019 it borrowed $4.5 million, which is the maximum total amount approved by the state and thereby exhausting the city's deficit borrowing authority.

Management reports that the budgetary imbalance originates from a fiscal 2014 state decision disallowing $7.5 million from Lynn's net school spending calculation related to the inclusion of retiree health insurance, for both fiscal years 2013 and 2014. To address the previous-year, current-year, and future costs, the city shifted general operations resources to the school department. In practice, this resulted primarily in fund balance drawdowns to meet expenditures, while generally maintaining existing city operational expenditures.

Based on the city's revenue profile, with only 37% of general fund revenues coming from property taxes versus 58% from intergovernmental, it remains unclear if Lynn will be able to maintain long-term revenue and expenditure balance. While the city raises its property tax levy to the amount allowable within Proposition 2-1#?#2, state aid growth has lagged, and total revenues are below what the city would be able to generate if property taxes were a higher proportion of revenues. The city has sought to generate additional revenue through raising fees and energy-saving programs; we expect these will help to partially close the revenue-expenditure gap.

In fiscal 2018, the city's general fund expenditures exceeded revenues by approximately $6.5 million, with interfund transfers nearly offsetting. The difference between the deficit financing and the 2018 deficit was added to the city's reserves. Entering fiscal 2019, the city raised several fees and permit charges, which in aggregate management estimates will generate $2.5 million in new revenues. However, it still faces an approximately $4.0 million budgetary shortfall, which it is covering with the second deficit issuance. In addition, the city has appropriated approximately $850,000 from reserves to balance the budget, although management does not anticipate use of these funds. Lynn is meeting its net school spending requirement in fiscal 2019, in part, due to retiree health care being considered an allowable expense, which should help restore balance to the general fund. Management reports that staff agreed to minor changes to health care for fiscal 2019, and that a three-year agreement is being sought for the fiscal 2020 budget. As the city looks to fiscal 2020, it is seeking significant savings on health care, along with other incremental savings, to reduce expenditures. On the revenue side, management is looking at new economic growth, along with increased permit fees, the trash fee, and other nonad valorem tax revenues.

We believe the city's ability to balance revenues and expenditures likely depends on new economic growth, given the revenue profile, or significantly cutting expenditures, which we do not believe the city has the flexibility to undertake. We expect our view of its budgetary performance will remain weak through the two-year outlook period.

Very weak budgetary flexibility

Lynn's budgetary flexibility is very weak, in our view, with an available fund balance that we expect could decrease in the near term from its fiscal 2018 level of 4.8% of operating expenditures, or $17.2 million. Impairing budgetary flexibility, in our view, is the limited capacity to either reduce expenditures or raise revenues.

The city's available fund balance rose to approximately $3.9 million, due to the city's deficit financing. We believe the issuance of deficit notes is artificially inflating Lynn's available fund balance. Due to the city's appropriation of reserves in the fiscal 2019 budget, as well as recent financial results, we believe its available fund balance may decline, particularly beyond 2019, if the city is unable to generate new revenues or cut expenditures. With little indication of meaningful expenditure growth containment in the near term, we believe the city's capacity to adjust expenditures to meet revenues is limited, given its revenue constraints.

Adequate liquidity

In our opinion, Lynn's liquidity is adequate, with total government available cash that we expect will decline in the near term relative to its fiscal 2018 levels at 7.1% of total governmental fund expenditures and 3.3x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

We believe that Lynn maintains strong access to external liquidity, as demonstrated by its regular access to the markets through GO debt issuances. However, the city's cash position has declined over the past three fiscal years.

The city's cash position strengthened slightly in fiscal 2018, due to the deficit financing issuance. As with its available fund balance, we believe the ratios are inflated due to the deficit financing. Given projections for fiscal 2019, we believe the city's cash on hand could decline relative to fiscal 2018. Lynn does not have any exposure to investments or financial instruments that we believe pose a contingent liability risk.

Strong debt and contingent liability profile

In our view, Lynn's debt and contingent liability profile is strong. Total governmental fund debt service is 2.1% of total governmental fund expenditures, and net direct debt is 22.2% of total governmental fund revenue. Overall net debt is low at 1.1% of market value, which is, in our view, a positive credit factor.

We expect that the city will continue to issue a nominal amount of new-money debt over the next several years, at approximately the rate of principal amortization. We do not expect any new-money issuances to have a material effect on the city's debt ratios; consequently, we do not expect to revise our view of the city's debt profile over the next several years. Management recognizes the need for increased investment in city schools due to large enrollment growth. A recent ballot initiative to build new schools with debt financing failed, so officials are working to determine how to address ongoing school capital needs. If the city issues substantial new-money debt outside of the outlook period, we may revise our view of its debt profile.

In our opinion, a credit weakness is Lynn's large pension and OPEB obligation, without a plan in place that we think will sufficiently address it. Lynn's combined required pension and actual OPEB contributions totaled 11.0% of total governmental fund expenditures in 2018. Of that amount, 7.0% represented required contributions to pension obligations, and 3.9% represented OPEB payments. The city made its full annual required pension contribution in 2018. The funded ratio of the largest pension plan is 54.6%.

Lynn is a member of the Lynn Contributory Retirement System a defined-benefit pension fund. The city contributes its actuarially determined contribution each fiscal year. However, the retirement system is only 55% funded, as of the June 30, 2018, audit. The city's proportionate share of the net pension liability is $296.8 million. The system uses a 7.4% discount rate, which was lowered for 2018. We view this discount rate as slightly below average.

Massachusetts requires all pension systems to achieve full funding no later than 2040. The Lynn system has adopted a funding schedule for full funding by 2034. However, the adopted schedule calls for cost increases of 4.0% through 2021, followed by 5.0% through 2034. Coupled with the reduction in the discount rate, the annual cost escalation will likely increasingly pressure Lynn's operating budget.

In addition, Lynn has a sizable OPEB liability. As of June 30, 2018, the OPEB unfunded accrued liability was $539 million. The city funds this liability on a pay-as-you-go basis.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The negative outlook reflects our view that there is at least a one-in-three chance we could lower the long-term rating in the next two years. We believe Lynn is limited in its ability to raise ad valorem taxes and meaningfully cut expenditures. Recent new economic growth may assist management in ensuring that recurring revenues and expenditures are in balance in the next one-to-two years. However, if general fund deficits persist, or if the city seeks authorization for additional deficit financing, we could lower the rating. If Lynn can stabilize its financial position, leading to maintenance of available fund balance and liquidity, we could revise the outlook to stable.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017

Ratings Detail (As Of February 11, 2019)		
Lynn GO		
Long Term Rating	AA/Stable	Affirmed
Underlying Rating for Credit Program	A-/Negative	Affirmed
Lynn GO st qual deficit fin BANs		
Short Term Rating	SP-1+	Affirmed
Lynn GO st qual sch bnds ser 2016 due 09/01/2038		
Long Term Rating	AA/Stable	Affirmed
Underlying Rating for Credit Program	A-/Negative	Affirmed
Lynn GO BANs ser 2018A dtd 12/14/2018 due 12/13/2019		
Short Term Rating	SP-1+	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

CITY OF LYNN

Section 5-5 Capital Outlay Program

(a) Submission to Council--The mayor shall prepare and submit to the city council a five year capital outlay program at least three months prior to the final date for submission of the proposed operating budget.

(b) Contents--The capital outlay program in the form submitted shall include:

(1) A clear general summary of its contents;

(2) A list of all capital expenditures which are proposed to be made during the five fiscal years next ensuing, with appropriate financial and other details concerning each such expenditure;

(3) Cost estimates, proposed methods of financing, and time scheduling for each such expenditure;

(4) The estimated annual cost to operate and maintain any facilities to be acquired or constructed.

The above information shall be revised and extended annually.

Section 5-6 Certain Bonded Indebtedness

Whenever the city council shall authorize the incurring of debt in excess of four million dollars by pledging the full faith and credit of the City of Lynn before such bonds shall be issued, the matter shall be referred to the voters for ratifications or rejection.

The city council shall refer such matter to the voters at a regular or special election as it deems desirable. The form of question submitted shall be substantially as follows:

Shall the vote of the city council of (fill in date) wherein it was voted to approve borrowing the sum of (fill in amount) for the purpose of (fill in purpose) be approved?

If a majority of the votes cast on the question is in the affirmative, the vote of the city council shall thereupon become effective and be in full force and effect. If a majority of the votes cast on the question is in the negative the vote of the city council shall thereupon be nullified and no such bonds may be issued.

This section shall not be construed as requiring such a vote when the city treasurer borrows any sum of money in anticipation of taxes or other receipts.

Lynn CIP Capital Project Request Form

Please fill out a new form for each proposed project.

1. Department

2. [DPW Use Only] Division:

- Administration
- Cemetery
- Engineering
- Maintenance
- Streets

3. [ISD Use Only] Division:

- Administration
- Animal Control
- Buildings & Grounds
- Inspections
- Public Health

4. Proposed Project Name

5. Project Location (Street, Building, Floor, etc.)

6. Priority (This is not a ranking of projects. You may have more than one project with the same priority. This is also not an indication of urgency. High priority projects may be scheduled for later years)

1 (highest priority)	2	3	4	5 (lowest priority)

7. Project Description (1-3 sentences): Describe name/make/model of item to be purchased and what, if anything, is being replaced. Describe extent of work to be done on facilities projects. Indicate if project will require consulting or design work.

8. Project Justification: Describe why the project is necessary. Justification may include financial savings, number of people impacted, environmental sustainability, public safety, expanded learning or recreational opportunities, or ADA compliance, to name a few.

9. Should the project be combined or coincide with another project?

○ Yes ○ No

If yes, which project(s)?

10. When was the existing asset manufactured, built, or substantially upgraded?

11. What is the useful life of the new asset?

12. Please indicate the project costs by year.

FY2020	
FY2021	
FY2022	
FY2023	
FY2024	

13. Are there any grants or alternative funding sources available for this project? Please be as specific as possible.

14. Please indicate the project's impact on the operating budget by year. Leave blank if there is no impact. An example would be avoiding repair costs by replacing an old vehicle. Another example is paying a driver for a new transport van. Use a negative number to represent a savings and a positive number to represent an increase in costs.

FY2020

FY2021

FY2022

FY2023

FY2024

15. Please briefly explain impact on operating budget, if applicable.

16. If you have any documentation related to this project, such as price quotes, specs, or photos, please upload. Max 4 uploads.

Choose File No file chosen

17. If you have any documentation related to this project, such as price quotes, specs, or photos, please upload.

Choose File No file chosen

18. If you have any documentation related to this project, such as price quotes, specs, or photos, please upload.

Choose File No file chosen

19. If you have any documentation related to this project, such as price quotes, specs, or photos, please upload.

Choose File No file chosen

Thank you. Please contact Sarah Concannon at sarah.concannon@umb.edu or (978) 328-3372 or Tanya Stepasiuk at tanya.stepasiuk@umb.edu or (617) 797-3053 with questions or concerns.

20. Questions or Comments:

LYNN CAPITAL INVESTMENT STRATEGY, FY2020 - FY2039

(does not include deficit financing debt)

Fiscal Year	Existing Pricipal & Interest	SBA Grant	Est City Share of 1,448,155 Hood School	Est for $4 mil Misc Projects	NET PROJECTED CURRENTLY AUTHORIZED DEBT	EXISTING CAPITAL LEASES	Total Current Capital Investment	Total Tax Recap Budget (inc at 3.5%)	Current INVESTMENT as % of Total Budget	PROJECTED CAPITAL @ target investment	CAPITAL % of Target investment	Available Dollars for CIP based on target investment	PayGo Projects	Level Principal Debt Service	Level Debt (Major Projects) Debt Service [net SBA]	Total Project Costs	Surplus (Deficit)
2017	12,783,723	-4,521,516			8,262,207	1,805,762	10,067,969	327,223,951	**3.1%**								
2018	8,481,376	-1,188,768			7,292,608	1,841,591	9,134,199	339,025,774	**2.7%**								
2019	5,921,658	0			5,921,658	2,006,862	7,928,520	350,891,676	**2.3%**								
2020	5,802,539	0	156,000	416,000	6,374,539	1,658,125	8,032,664	363,172,885	2.2%	8,716,149	**2.4%**	683,485	440,000	69,066	60,000	569,066	114,419
2021	5,369,248	0	153,000	408,000	5,930,248	1,256,027	7,186,275	375,883,936	1.9%	9,397,098	**2.5%**	2,210,823	379,500	1,233,813	460,000	2,073,313	137,510
2022	5,150,948	0	148,500	396,000	5,695,448	1,078,811	6,774,259	389,039,873	1.7%	10,115,037	**2.6%**	3,340,778	720,225	1,766,548	460,000	2,946,773	394,005
2023	5,085,521	0	145,500	388,000	5,619,021	1,066,555	6,685,576	402,656,269	1.7%	10,871,719	**2.7%**	4,186,143	280,225	2,159,848	460,000	2,900,073	1,286,070
2024	4,961,879	0	141,000	376,000	5,478,879	1,014,142	6,493,021	416,749,238	1.6%	11,668,979	**2.8%**	5,175,958	280,225	2,423,973	3,715,491	6,419,689	(1,243,732)
2025	4,374,474	0	138,000	368,000	4,880,474	1,014,141	5,894,615	431,335,462	1.4%	12,508,728	**2.9%**	6,614,113		2,358,373	3,715,491	6,073,864	540,249
2026	4,059,497	0	133,500	356,000	4,548,997	839,150	5,388,147	446,432,203	1.2%	13,392,966	**3.0%**	8,004,819		1,218,435	4,128,323	5,346,758	2,658,061
2027	3,525,850	0	130,500	348,000	4,004,350	664,158	4,668,508	462,057,330	1.0%	14,323,777	**3.1%**	9,655,269		691,875	4,128,323	4,820,198	4,835,071
2028	3,364,819	0	126,000	336,000	3,826,819	664,158	4,490,977	478,229,337	0.9%	15,303,339	**3.2%**	10,812,362		288,850	4,128,323	4,417,173	6,395,188
2029	3,042,763	0	123,000	328,000	3,493,763	664,158	4,157,921	494,967,363	0.8%	16,333,923	**3.3%**	12,176,002		0	4,128,323	4,128,323	8,047,679
2030	2,594,906	0	118,500	316,000	3,029,406	664,158	3,693,564	512,291,221	0.7%	17,417,902	**3.4%**	13,724,337		0	4,128,323	4,128,323	9,596,014
2031	2,601,644	0	115,500	308,000	3,025,144	0	3,025,144	530,221,414	0.6%	18,557,749	**3.5%**	15,532,605		0	4,128,323	4,128,323	11,404,282
2032	2,600,956	0	111,000	296,000	3,007,956	0	3,007,956	548,779,163	0.5%	19,207,271	**3.5%**	16,199,315		0	4,128,323	4,128,323	12,070,991
2033	2,598,656	0	108,000	288,000	2,994,656	0	2,994,656	567,986,434	0.5%	19,879,525	**3.5%**	16,884,869		0	4,128,323	4,128,323	12,756,546
2034	2,599,631	0	103,500	276,000	2,979,131	0	2,979,131	587,865,959	0.5%	20,575,309	**3.5%**	17,596,178		0	4,128,323	4,128,323	13,467,854
2035	2,598,231	0			2,598,231	0	2,598,231	608,441,268	0.4%	21,295,444	**3.5%**	18,697,213		0	4,128,323	4,128,323	14,568,890
2036	2,597,381	0			2,597,381	0	2,597,381	629,736,712	0.4%	22,040,785	**3.5%**	19,443,404		0	4,128,323	4,128,323	15,315,081
2037	2,596,756	0			2,596,756	0	2,596,756	651,777,497	0.4%	22,812,212	**3.5%**	20,215,456		0	4,128,323	4,128,323	16,087,133
2038	2,598,353	0			2,598,353	0	2,598,353	674,589,710	0.4%	23,610,640	**3.5%**	21,012,287		0	4,128,323	4,128,323	16,883,963
2039	2,596,263	0			2,596,263	0	2,596,263	698,200,349	0.4%	24,437,012	**3.5%**	21,840,749		0	4,128,323	4,128,323	17,712,426
TOTAL	**97,907,072**	**-5,710,284**	**1,951,500.00**	**5,204,000**	**99,352,288**	**16,237,798**	**115,590,086**										

ABOUT THE CENTER

The Edward J. Collins, Jr. Center for Public Management in the McCormack Graduate School of Policy and Global Studies at the University of Massachusetts Boston was established in 2008 to improve the efficiency and effectiveness of all levels of government. The Center is funded by the Commonwealth and through fees charged for its services.

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