South Shore Tri-Town Development Corporation (SSTTDC)

Kevin R. Donovan, Chief Executive Officer

The Board of Directors of the South Shore Tri-Town Development Corporation hereby presents its Fifteenth Annual Report to the Towns of Weymouth, Abington and Rockland for Fiscal Year 2014. Complete copies of the Corporation's Audited Financial Statements will be available at the Town Offices and the Public Library in October 2014.

Before proceeding to the details of Fiscal Year 2014, I would like express our sorrow at the passing of James W. Lavin on February 8, 2014. Mr. Lavin had served as the Abington Representative to the Board of Directors since the Board's inception in September, 1998. Prior to that point, he had served on the NASPC, the committee responsible for drafting a plan to transition the Weymouth Naval Air Station to an entity that would benefit the three Towns adjacent to the Naval Air Station. His dedicated service to the Town of Abington and the Board of Directors was exemplary. His position was filled by Christopher Aiello who was elected to fill the position of Clerk on the Board. Mr. Aiello attended his first meeting on March 10, 2014.

OVERVIEW

As of June 30, 2014, the transfers (and land set aside) of land from the Navy to the SSTTDC had occurred as follows:

a. May 2003: 225 acres set aside for public recreation land under the direction of SSTTDC
b. May 2003: 324 acres for economic development
c. September 2008: 100 acres set aside for recreation land to the Department of the Interior
d. September 2009: 8 acres set aside for recreation land to the Department of the Interior

e. April 2010: 15 acres set aside for recreation land to the Department of the Interior
f. December 2011: 558 acres for economic development
g. Hold back by the Navy: 105 acres for cleanup under the supervision of the Environmental Protection Agency and the MA Department of Environmental Protection; this land will be transferred to the SSTTDC as the property is released by the Regulatory Agencies
h. Hold back by Navy: 32 acres for future set aside for recreation land to the Department of the Interior
i. Hold back by Navy: 18 acres for economic development
j. Conveyance to Rockland: 2 acres to be set aside for recreational use

With the land conveyance in December 2011, the SSTTDC's function as a redevelopment authority has been limited to participation with the environmental regulatory agencies for those parcels of land that were not conveyed but required some type of environmental remediation. With the December 2011 transaction, the SSTTDC assumed the role more typical of a municipality.

In FY2014, SSTTDC was a quasi-municipal entity and as such was required to provide a full range of municipal services including public safety, public roads, sanitation, water, sewer, health and social services, culture, recreation, education, public improvements, planning, zoning and general administrative services.

The following services were commenced during FY2013 as there were residents on the site: public safety, public roads, sanitary storm drain management, water, sewer, health, education and public infrastructure maintenance. As of June 30, 2014, there were approximately 600 residents with 23 school age children. The Board of Directors continued to fund these services during FY2014.

<u>SouthField Development Status as of 6/30/14</u>
Reuse Plan:
2,855 residential units (max)/2,000,000 s/f commercial (max)
Phase 1 Development:
1,000 residential (max) / 300,000 s/f commercial (min)
Permitted through FY14:
629 residential units / 150,200 s/f commercial
Occupancy Certificates:
330 residential units / 0 commercial

<u>Master Developer Acquisition</u>
<u>April, 2013</u> – LNR Corporation shares were sold to Starwood Capital Group; they assumed the position of the Master Developer of the SouthField project.

<u>July</u> – LNR/Starwood met with SSTTDC to review current market conditions; to declare that the project was not viable for private investors because of regulations that ignored market realities; that the Reuse Plan did not make economic sense; and that the project needed a permanent water/wastewater solution.

<u>October</u> – LNR/Starwood presented the changes they proposed on the SouthField development project: to restructure SSTTDC through Legislation, to revoke the existing Reuse Plan and Master Plan, to take over permanent water and wastewater responsibilities and to empower the Host Towns to take local control, receive SouthField taxes, and provide municipal services at no additional charge to the residents. LNR/Starwood stated they would not seek approvals from the Host Towns. SSTTDC sent the

LNR/Starwood changes to the Host Town residents, and 556 responses were received; 36 supported the changes, 14 undecided, 506 citizens opposed the legislative changes.

December - The Board of Directors arranged for a meeting to take place in Rockland with the three Host Towns and LNR/Starwood to discuss the proposed legislative changes and to exchange ideas.

March, 2014 – SSTTDC proposed seven revisions to the existing Enabling Legislation, and sent it to the Host Towns for input with a recommendation that the Towns support the changes to the Reuse Plan.
Comments from several Local Officials were received, some opposed Tri-Town's revisions. As of June 30, 2014 LNR/Starwood lobbying efforts with the Town of Weymouth continued.

Transportation Improvements
The Delahunt Parkway connecting Shea Memorial Drive in Weymouth to Weymouth Street in Rockland opened for public use in August 2013 and Trotter Road connecting Parkview Street in Weymouth to Route 18 in Weymouth opened for public use in December 2013.

Conservation Commission
The SSTTDC Conservation Commission approved MassDOT's Notice of Intent for the widening and reconstruction of a 4.1 mile section of Rte. 18, proposed to start in the spring of 2016 with a 2-year construction schedule.

SSTTDC Conservation Commission held public hearings on work that was previously done to the TACAN Outfall Drainage Ditch Weir due to a blocked weir. Design for a replacement weir was approved. Construction of the replacement weir would begin after all permits were obtained and subject to availability of funds. SSTTDC Conservation Commission approved IBG Cottages LLC Notice of Intent for work proposed within the 50-foot buffer zone to wetlands. The Board of Directors approved an appropriation for this purpose.

Advisory Board

The SSTTDC Advisory Board met in September and June to discuss proposed legislative changes and audit/budget issues. Members include Joseph Shea of Abington, Robert Long & Joseph Gambon of Rockland, Eric Miller and Carol Karlberg of Weymouth, William Koplovsky of Hingham, Martin Pillsbury from Metropolitan Area Planning Council, Bruce Hughes from Old Colony Planning Council, Eugene Blanchard, Steven LeMott and Jeffery Tocchio appointed by the Governor.

GOVERNMENT STRUCTURE UNCERTAIN

As noted above, fiscal year 2014 was noteworthy in that on October 7, 2013, Mr. Robert Glantz, and Mr. Matthew Barry representatives of Starwood Land Ventures, the sole shareholder of LNR South Shore, LLC. (hereinafter "LNR") presented to the Board of Directors at an open meeting their opinion that the SouthField project was not currently a viable project for private investors and listed several problems that had stalled the development including but not limited to regulations that ignored market realities and uncertain financial sources for the creation of water, sewer and other municipal services. It is noted that LNR South Shore, LLC was named the Master Developer for the SSTTDC in 2006.

Mr. Glantz presented solutions that included a LNR/Starwood takeover of water and wastewater responsibilities from SSTTDC, shifting the parkway funding obligations to Federal and State governments and empowering the Host Towns to take local control with the authority to amend zoning use within its borders and SouthField property taxes paid directly to each Town. In return, the Towns would provide municipal services at no extra charge to its portion of the SouthField project. Weymouth would continue to educate all SouthField children. Recreation plans would be modified to respond to actual community needs and affordable/workforce housing would be reduced by fifty percent to ten percent of residential units built at SouthField. LNR would continue to maintain the Host Community Agreements and be the Master Developer. LNR proposed that a two tier tax system be imposed (the base tax rate established by the communities plus a SouthField rate for that would be utilized by the SSTTDC for expense solely related to those matters within the jurisdictional boundaries of the SSTTDC).

Mr. Glanz indicated that these solutions required legislative approval of a rewritten Enabling Act and that the Reuse Plan and Master Plan should be revoked with their core elements retained to reflect current thinking and market conditions. They emphasized that there was an immediate need for a water and wastewater solution and that LNR South Shore, LLC would bring the development to a ‘hard stop’ if the Legislation was not enacted. They were true to their word. There have been no development plans submitted by LNR for approval by the Board of Directors. The last such plan submitted was in January, 2013.

For nine months of FY2014, LNR focused its time, attention and energy on gathering support for its notice on changes and, as a result, did not proceed with land development at SouthField. By way of example, on December 20, 2013, placed the SSTTDC that it was considering the sale of two lots of land:

a. LNR proposed the sale of 22 acres of property for approximately $4.6 million that consisted of 108 lots of land.
b. In March, 2014 LNR proposed the sale of land consisting of 14 acres for 200 residential units.

Both proposed sales were stalled as of June 30, 2014.

LNR submitted its changes to the Enabling Act on July 9th, 2014 for consideration during the final weeks of the 2014 Legislative Session.

On August 11, 2014, the MA Legislature passed and enacted an amended Bill that, in summary form, provided for the following major impacts:

a. The entity be renamed to Southfield Redevelopment Authority
b. A nine member Board of Directors that included two current residents from SouthField, a representative from labor and one from the South Shore Chamber of Commerce along with the existing 5 members from the three towns
c. Current board is terminated and can only act on day to day matters until a new Board is named and constituted which can be no later than 60 days after the effective date of the Act. As of this writing, the effective date has not been determined
d. Eliminates the Executive Director and Chief Financial Officer's positions whose tenures ended on 8-1 by action of the Board of Directors but who will remain employed for 30 days to insure that any issues involving the FY2014 are resolved. The CFO hours have been reduced to part time status.
e. Towns begin to collect taxes and provide for typical municipal services as of January 1, 2015

f. The Parkway Clawback remains but the State can agree to defer payments. However, it may do so only after the SSTTDC submits to the Secretary of Administration and Finance a new re-development plan.
g. The Master Plan and Reuse Plan may remain but can be amended without a vote of the legislative bodies of the three towns who initially enacted each of these governing documents
h. Includes the SSTTDC under the GL chapter 30B requirements
i. Re-write a new Tax Plan that accommodates the legislative changes
j. Re-negotiate the Development and Disposition Agreement with LNR
k. LNR becomes responsible to secure water and wastewater facilities for the entire project
l. The 2010A Series Bond remains with the new Authority and not the Towns, however, the Towns will be responsible to invoice and transmit collected funds to the SSTTDC to make timely debt service payments
m. When the new legislation is enacted, the recent vote of the Board of Directors to terminate the Master Developer is void.

FINANCIAL /ACCOUNTING MATTERS

General Matters

Open encumbrances are reported at the end of FY14 as reservations against fund equity. The total general fund encumbrances as of June 30, 2014 were approximately $24,542 that vast majority of which was for payments to contract vendors for services rendered during June, 2014. This is a significant decrease in open encumbrances as of the end of FY2013 where the balance sheet revealed encumbrances of $829,001.27 most of which was reserved for Parkway deficiency payments (see below).

All capital asset expenditures placed in-service or for which the SSTTDC expended funds but were not placed in service during FY13 were added to those shown in the FY14 end of year general financial statements.

Petty Cash is accounted for by use of debit cards for certain individual employees. The debit cards have a limit of $250 and are generally used for vehicle fuel and vehicle repairs.

CASH MANAGEMENT

Quarterly billing of real estate and personal property taxes coupled with monthly water and sewer utility billing have permitted the SSTTDC to operate on its cash flow.

Investment options are governed by MGL and are limited by liquidity needs. Temporary idle cash was invested in money market and savings accounts. These investments yielded an average rate of return of .75%. All institutions with which we do banking have been rated by Veribanc as "green with three stars". These ratings are reviewed by staff on a semi-annually basis. A policy regarding the type of investment and the institutions for those investments was implemented during FY11.

RISK MANAGEMENT AND PRIORITIZATION

Insurances

The SSTTDC purchases general liability coverage through the Travelers and Hanover Insurance Companies. Each insurance company has an A- A.M. Best Rating. Coverage under these policies insures: property, general liability, crime, boiler & machinery, automobile, an umbrella liability and its property for fire, theft and natural disaster and claims for personal injury. A limit of liability has been set at

$10,000,000 per occurrence under the umbrella policy. There is no deductible under the general liability policy. The automobile policy contains a $1000 deductible.

In addition to the foregoing, the SSTTDC has obtained Worker' Compensation coverage with a bodily injury limit of $500,000. The SSTTDC has earned a merit ratio of .95.

Directors and Officers policy is a claims-made policy with $1,000,000 limit of liability.

The SSTTDC provides medical insurance coverage to employees and retirees through Mayflower Municipal Health Group who also insures Plymouth County Retirees. The SSTTDC pays 75% of the health insurance premiums and 50% of dental insurance.

The SSTTDC is insured for unemployment compensation through a Massachusetts state agency and is paid for by monthly assessments. The SSTTDC carries a short term and long term disability policy on all of its employees; these policies replace the need for a sick leave bank.

The SSTTDC is insured for environmental hazards. Schedule of Insured Properties: FOST 1 through 6, former Naval Air Station South Weymouth, South Weymouth, MA, as delineated by 1) deeds, Department of Navy Contract No. N62472-03-RP-0059, between the United States of America, acting through the Secretary of the Navy and South Shore Tri-Town Development Corporation, dated 5/15/03, and 2) Deeds (for FOST 1 and FOST 2, respectively), between the United States of America, acting by and through the National Park Service and South Shore Tri-Town Development Corporation, dated 5/15/03, 2003. Strips of land for construction access road near Blvd. 82, former Naval Air Station, South Weymouth, MA, as identified on Kimberly-

Horn and Associates, Inc. definitive subdivision plan dated July 26, 2007. East/West Parkway as shown on East/West Parkway Site Control - Phase I (Site Plan). The coverage extends to $10 million per occurrence. Defense costs included in the loss and reduce the applicable limits, except for reasonable expenses incurred by Insured at the company's request to assist in the investigation or defense of the claim, including actual loss or earnings up to $500 a day because of time off from work; not exceeding $5,000.

In addition, during FY2013 the SSTTDC undertook an analysis of certain factors that might present an obstacle/risk for the project to complete Phase One and commence Phase Two under the Reuse Plan adopted by the three Towns in 2005. Evaluating the risks relative to the achievement of the SSTTDC's statutory objectives facilitates the allocation of resources as necessary to manage these risks and best achieve the stated objectives. An analysis was requested by the State Auditor's Office during FY2012 and that said analysis be updated when practicable. Some elements of that analysis are included in the following topical discussions. Also included, where appropriate, is a discussion of the proposed new enabling act currently working its way through the legislative process.

ANNUAL OPERATIONS

BUDGETARY CONSIDERATIONS

Required Uses of Revenue

INFRASTRUCTURE LAND ASSESSMENT BOND

South Shore Tri-Town Development Corporation issued the Series 2010A Infrastructure
Development Revenue Bonds in the amount of $12.55 million of a $15 million bond authorization on August 9,

2010 (the "Bonds"). The Bonds are secured by Assessments and Pledged Revenues levied on each Parcel of Assessed Property. The Assessments have been imposed upon the real property within the boundaries of the SSTTDC and are limited to those properties transferred under FOST 1 and 2 (June, 2006 conveyance). The Assessments are equal to the interest and principal on the Bonds and estimated administrative expenses related to the bonds. The Assessment Roll is updated each Tax Year. This is the first such bond authorized in the Commonwealth of MA.

The first payment for which assessments are to be collected under the bond was due on 8-1-12 (FY13) as reserves were held by a third party for the semi-annual debt service for FY11 and for FY12. The SSTTDC has pledged up to 35% of the real property tax revenues generated for those properties located within FOST 1 and 2.

In FY2013, the SSTTDC was required to raise $486,313 for the purpose of paying the dedicated tax revenue for the Infrastructure Bond -- FY13 liability to be paid on July 1, 2013 (FY14). This is in accord with the Municap calculations submitted for approval by the Board on November 9, 2013 and is consistent with the Indenture executed by the Board of Directors in FY2010. It is worthwhile to note that the FY14 calculation is based upon a 25% 'pledge of RE tax revenues'. In FY15 the amount may increase to 35% under the terms of that Indenture.

The FY2014 assessment, in accord with the Bond Agreements, was incurred only on those owners of unimproved land as of January 1, 2013. The Total Special Assessment was $535,000. There was a 100% collection rate during FY2014.

This liability will continue until FY2040. The risk associated with this debt issuance presents two identifiable impacts:

a. Reduces the available tax revenue for future bond issuance and/or operational expenses
b. The required special assessment may elevate real estate taxes to levels greater than those property owners so levied as compared to those taxpayers in surrounding towns who own similar sized parcels of land.

New Legislation and Impact on Land Assessment Bond (2010A)

The new legislation requires the Towns to collect all tax revenues and the special assessment for the funding of this bond. The starting date is unclear. In addition, within 30 days from the close of each quarter the Towns are required to remit the collected funds to the SSTTDC for payment of this bond. The practical effects of this language are yet to be determined but may pose an issue, over time, with respect to the timely payment of said bond.

Parkway Bond

The SSTTDC, utilizing a quasi-grant from the Commonwealth of Massachusetts, began construction on the East West Parkway in 2010. Below is presented a synopsis of the key terms of the Amended and Restated Memorandum of Agreement for the Implementation of Transportation Improvements for the Redevelopment of the South Weymouth Naval Air Station (the "Implementation MOA"), dated March 4, 2010, by and between the Massachusetts Department of Transportation ("MassDOT") and South Shore Tri-Town Development Corporation ("SSTTDC"). In brief, the SSTTDC is required to demonstrate to the Commonwealth that sufficient New State Revenues have been generated on site so as make the Parkway Bond debt service revenue neutral. If a difference exists between the annual debt service payment and the calculation for New State Revenues, the SSTTDC has guaranteed payment of the difference.

Detailed Discussion on the East West Parkway:

The Parkway is a vital component to the entire project. It is not only a source of transportation, but also affects the commercial development of the project. Fortunately, the first phase of the Parkway was complete as of August, 2013. However, financing for the final phase has not been identified. If due to the lack of a funding source and the Parkway incurs setbacks, the ripple effect will undoubtedly be detrimental to the project especially for commercial developers.

Currently, there is approximately $45 million invested in the Parkway with an estimated total cost as high as $90 million. The $90 million can be attributed to improvements planned for the area surrounding the existing MBTA station and moving the Coast Guard Buoy Station to another location. Improvements there range from additional parking to the construction of a flyover bridge. It should also be noted that by moving of the existing buoy station, the cost is dramatically increased.

Aside from construction of the Parkway, improvements to Route 18 and existing Town roads are also a requirement to be completed by the end of Phase One under the current Reuse Plan. Route 18 is already identified as a high traffic road due to its hourglass-like layout, but the construction improvements will intensify this. This is a cause for concern mainly to residents of surrounding towns as their everyday commute to and from work may be in jeopardy. Business owners may also struggle with road improvements as they have the potential to inhibit access to their location. In anticipation of this risk, certain precautions should be taken.

The commercial aspect of the project is influenced by the Parkway mainly for ease of access. Currently, SSTTDC has one road in and out of the development which is a cause for concern for commercial developers. The entire Parkway, when finished, will help attract commercial interest as workers would have easy access to employment and the developer will have easy access to commercial markets.

Currently, as each Phase contains commercial development and failure to have commercial entities on site will stall developmental phases. In addition, the lack of commercial space will negatively impact SSTTDC's tax revenue as commercial tax revenue is anticipated to raise approximately 66% of all tax revenues. As a result, failure to attract commercial developers places the Parkway as having a high impact on the overall success of the project.

The SSTTDC, utilizing a quasi-grant from the Commonwealth of Massachusetts, began construction on the East/ West Parkway. The following is a brief synopsis of the key terms of the Amended and Restated Memorandum of Agreement for the Implementation of Transportation Improvements for the Redevelopment of the South Weymouth Naval Air Station (the "Implementation MOA"), dated as of March 4, 2010, by and between the Massachusetts Department of Transportation ("MassDOT") and SSTTDC.

This summary is not intended to be a complete description of all the terms and conditions of the Implementation MOA, and the terms and conditions of the Implementation MOA shall be controlling in the event of any legal issue arising under the Implementation MOA.

1. The Implementation MOA addresses the procurement, permitting, design, right of way acquisition, construction and operation of the Parkway and the East Side Connectivity Improvements.

2. Once completed, the portion of the Parkway within the Base will be owned and maintained by SSTTDC and the portions of the Parkway outside the Base will be owned and maintained by the respective Towns. The portion of Route 18 to be widened between Route 3 in Weymouth and Route 139 in Abington will continue to be owned and maintained by the Commonwealth.

3. MassDOT will be primarily responsible for the Route 18 Widening Project and will use best efforts so that the Route 18 Widening Project will be completed and open to traffic no later than June 30, 2015.

4. The Parkway Project will be delivered in at least 2 phases. SSTTDC is primarily responsible for Phase 1 and has used its best efforts so that Phase 1 was substantially complete as of December 31, 2013. MassDOT will assist SSTTDC by providing over-the-shoulder design, right of way acquisition and procurement review for Phase 1. SSTTDC will also be primarily responsible for Phase 2 and the East Side Connectivity Improvements. MassDOT will assist SSTTDC by providing over-the-shoulder design review and right of way acquisition for Phase 2 and the East Side Connectivity Improvements.

5. MassDOT will spend up to $15 million for the procurement. If the costs for such portion of Phase 1 were to exceed $15 million, *SSTTDC* would be responsible for any excess costs, unless caused solely by acts or omissions of MassDOT or its contractor. Costs to date have not exceeded the $15 million.

6. MassDOT will undertake the abatement, removal and disposal of asbestos-containing materials in Hangar 1 as part of its portion of Phase 1. In other respects, *SSTTDC* indemnifies MassDOT regarding ACM and other hazardous materials and agrees to name MassDOT as an additional insured on environmental insurance policies related to the Parkway Project.

7. The MOA addresses efforts to coordinate work between the portion of Phase 1 to be constructed by SSTTDC and the portion to be constructed by MassDOT.

8. The MOA addresses the use of Federal Funds for portions of the Parkway Project. The Delahunt Earmark will be used for the Route 18 Widening Project and the Kennedy Earmark will be used for the South Weymouth Multimodal Center and, if available, for SSTTDC's Phase 1 Parkway Project. The parties shall enter into a separate agreement regarding the design and reconstruction of the South Weymouth Multimodal Center. Federal funds are being directed and spent by MassDOT and do not flow directly through SSTTDC.

9. The MOA requires that the redevelopment of the NAS will generate annual New State Tax Revenues (by definition calculated as total sales taxes, personal income tax and hotel tax revenues

generated by development at SSTTDC) will be at least 1.5 times greater than the annual Debt Service Costs of the Parkway Bonds.

10. If the cumulative amount of New State Tax Revenues received in any fiscal year is less than the debt service for the Parkway Bond, the SSTTDC is required to make a Deficiency Payment to the Commonwealth of MA in order to reimburse the Commonwealth for the portion of the Debt Service Costs not covered by the New State Tax Revenues. This contingent liability will exist annually for the life of the issued bond.

<u>Parkway Deficiency Payments</u>
Generally, the annual MA General Obligation for the Parkway debt service payment is approximately $1.9 million. This amount forms the baseline in the calculation for new state revenues. The difference between the debt service payment and the annual calculation for new state revenues generates any parkway deficiency. All parkway deficiencies must be certified by the MA DOR.

The FY2011 deficiency payment certified by the MA DOR in accord with the Agreement was $756,978 as was based upon FY2010 construction. The SSTTDC, by agreement with the Secretary of Administration and Finance was required to make the deficiency payment by June 30, 2013.

For Fiscal Year 2012, a deficiency was certified by MA DOR. Based upon FY11 construction values of $59,254,086, new state revenue yielded $1,642,530 with a deficiency of $232,970 to be paid by June 30, 2013.

For Fiscal Year 2013, a deficiency was certified by MA DOR. Based upon FY12 construction values of $59,254,086, new state revenue yielded $1,642,530 with a deficiency of $232,970 to be paid by June 30, 2014.

For Fiscal Year 2014, a deficiency was certified by MA DOR. Based upon FY13 construction values of $9,379,636, new state revenue yielded $497,197 with a deficiency of $1,375,128 to be paid by June 30, 2015.

As there was little construction at Southfield during FY2014, the same trend for seven digit deficiency is anticipated for FY2015 to be paid in FY2016.

However, despite being offered to make payments for each of these deficiencies, the Assistant Secretary of Administration and Finance asked the SSTTDC to 'hold' off sending the checks. As a result, the payments due in FY2013 and FY2014 are being held the SSTTDC.

Notwithstanding the foregoing, the following checks were written to cover all Parkway Deficiency known or discoverable contingences during FY2014:

a. $290,093 in the event the Secretary of Administration and Finance requires payment of additional sums for the reserve
b. $1,375,128 for the assessed FY2013 parkway deficiency
c. $232,970 for the assessed FY2012 parkway deficiency. It should be noted that in the event that this payment is not required by the Secretary of Administration and Finance, the total amount is to be refunded to LNR in accord with a written agreement with the SSTTDC dated April 26, 2013 as ALL of these funds were paid by LNR for the sole purpose of paying their liability under the Parkway Agreement.

In addition, the SSTTDC is required to convey to the Commonwealth the total sum of $500,000 as security for payment. As of the date of this writing, the funds held by the Commonwealth total $290,093. This reserve is being requested to be applied to the FY11 deficiency payment (See Below).

Parkway Reserve

On December 27, 2012, South Shore Tri-Town Development Corporation ("SSTTDC") and LNR South Shore, LLC ("LNR") requested that the Commonwealth consent to the release of the financial security posted by SSTTDC and LNR as a condition of the Commonwealth's issuance of the Parkway Bonds pursuant to the Amended and Restated Memorandum of Agreement on Financing for the South Shore Tri-Town Development Corporation's Parkway dated March 4, 2010, as amended by the First Amendment thereto dated June 15, 2010 (the "First Amendment"). SSTTDC and LNR also requested confirmation that each entity shall have no obligation for any shortfall in annual new state tax revenue required to meet debt service costs for fiscal year 2013 or beyond.

As reasons for this request, the SSTTDC cited section 6(c) of the First Amendment of the MOA that states that SSTTDC will have no obligation to maintain a $500,000 cash reserve (the "Cash Reserve") and LNR will have no obligation to maintain its $1 million letter of credit (the "Letter of Credit") for purposes of the payment of any actual shortfall in annual new state tax revenue required to meet debt service costs for fiscal year 2013, provided the following conditions are met:

1. LNR conveyed land at SouthField to developers obligated to construct no fewer than 100 residential units

having a sales value of not less than $30 million by June 30, 2011; ***or***

2. LNR conveyed land at SouthField to developers obligated to construct no fewer than 200 residential units having a sales value of not less than $60 million by June 30, 2012; ***and***

3. On or before December 31, 2012, the Chief Financial Officer of LNR (or its parent company) delivers to the Commonwealth a certification under penalty of perjury that LNR's parent holding company has a tangible net worth equal to or greater than $200 million dollars, together with certified copies of the most recently issued financial statements for such entity prepared in accordance with GAAP evidencing such minimum net worth.

Condition #1 was met with the April 28, 2011 sale of 6.07 acres of land at SouthField to John M. Corcoran & Co. LLC for the construction of 226 multi-family apartment units. The collective sales value of these units is well in excess of the required $30,000,000 ($132,743.36 per unit). The sales value of these units is [certified construction cost as defined in building permit = $27,389,893 plus the land sale of $6,780,000] $34,169,893. Condition #3 was met with the submittal of a certified accounting of the LNR's financial statements.

As SSTTDC and LNR had met the conditions set forth in Section 6(c) of the First Amendment, they requested the Commonwealth release the Cash Reserve and Letter of Credit and confirm that SSTTDC and LNR shall have no obligation for any shortfall in annual new state tax revenue required to meet debt service costs for fiscal year commencing in FY2013. The SSTTDC amount in controversy is $290,092.50.

During a July 10, 2014 conference call with MA Administration and Finance Undersecretary, Scott Jordan, the Undersecretary verbally agreed that the reserves should be released and the amount of $290,092.50 should be applied to the FY2011. However, written confirmation of that determination/conversation has not been received by the SSTTDC as of the date of this writing.

<u>Summary of Parkway Deficiency Payments as a Risk to the SSTTDC Operational Budget</u>

The risk for having to annually accommodate deficiency payments is apparent given the fact that the SSTTDC may not have sufficient revenues to make capital contributions to its infrastructure or to fully fund its operating costs including but not limited to payments to the Towns for the provision of municipal services. The clear language of the Agreement states that "the SSTTDC shall annually ensure that it has sufficient revenues to make any such required Deficiency Payments …. (see section 5(c) of the Agreement).

If construction continues to lag behind the projections articulated in the Parkway Bond issuance, then revenues will be diverted to payment of these obligations rather than investing in constructing roads and water and wastewater systems as required under the Reuse Plan (see section IV Infrastructure Improvements). Failure to achieve the goals of infrastructure improvements in Phase 1 will prohibit transition into Phase 2 of the redevelopment as required under the Reuse Plan and thereby delaying the four year time line for Phase 1 established under the Reuse Plan.

New Legislation and Impact on the Parkway Completion
The new legislation clearly states that any additional financing by the Commonwealth for the completion of the parkway or for the so-called east side improvements are subject to the Commonwealth's capital plan and its statutory debt limit. The practical effects of this language are yet to be determined.

New Legislation and Impact on Parkway Deficiency
Included in the new legislation (Senate Bill 2347), there is a provision contained in Section 34 that the Secretary of Administration and Finance in conjunction with the Secretary of Housing and Economic Development **may** negotiate an amendment to the Parkway Agreement whereby deficiencies for the years 2013 through 2018 may be deferred until the beginning of fiscal year 2019. Deficiencies for those years may be extended to additional fiscal years if it is determined that the deferral is fiscally responsible and serves the public interest. However, for each year the Parkway Deficiency must be calculated in accord with the Memorandum of Agreement. The practical effects of this language are yet to be determined.

Overall Issues
It is evident the Parkway Agreement poses substantial risks to the financial stability of the SSTTDC as the SSTTDC must focus on acquiring financing for the Parkway and finish what is essentially ¾ completed. With financing, the Parkway can be completed. The SSTTDC must then insure that off-site road improvement can also be achieved. The completion of the Parkway will be a significant factor in determining the future success of SSTTDC.

Parkway:

- Vital factor in transportation and commercial development

- Currently: $45 million invested; renovations still needed to Route 18, MBTA Station, possibly relocation of Buoy Station, and Parkway road completion Trotter Road.
- Effects: Failure to complete Parkway will likely result in slowed, if any, sale of commercial land
- Lack of commercial enterprises at SouthField will result in large deficiency payments to the Commonwealth that will have a negative effect on the operational budget for the SSTTDC.

Other Sources of Revenue:
SSTTDC needs to be able to generate enough revenue to both remain operational and to finance necessary phasing requirements. As soon as its revenue begins to fall under certain estimates its ability to continue financing essential capital projects will come into question. Since SSTTDC is a unique entity, its revenue stream centers on three main sources of revenue:

a. Taxes,
b. Entitlement fees (to a maximum of $4M that is due to be reached during FY18),
c. Building permits.

Through FY14, building permit fees and real estate taxes comprised the majority of its revenue but this is mainly due to the fact that two large residential projects are in the process of being completed. If construction were to continue to lag behind projections, SSTTDC would be required to rely solely on its tax levy for support of its operations.

SSTTDC's reliance on a few sources of revenue means that each category must remain consistent from year to year. For instance, Entitlement fees and building permits will decrease as construction decreases; decreased construction will result in a lower or no ‘new growth’ tax revenues. Since financing for capital projects plays a large role for infrastructure improvements anything that adversely impacts these sources of revenue is clearly identified as a risk. Fiscal Year 2014 revenues when compared to FY12 and FY13 revenues dramatically demonstrate the need for construction to continue.

The flow of new commercial projects will keep a steady stream of Entitlement Fees building permit fees and tax revenue to finance the infrastructure needs of the SSTTDC. New residents and commercial vendors, yields increased tax revenue that will allow for increased debt service costs within the operating budget of the SSTTDC. Commercial projects will also minimize, if not eliminate, the need budgeting any parkway deficiency as job creation is the strongest component in the calculation for the Parkway Deficiency.

<u>New Legislation and Impact on Entitlement Fees</u>
The proposed new legislation requires the DDA with the Master Developer to be renegotiated. Included as a provision within the DDA, the master developer is required to pay an entitlement fee for each parcel of land sold by LNR up to a total of four million dollars.

Under this contractual agreement with LNR, LNR is required to make certain payments in accord with that agreement and its development schedule. Under the terms of the Agreement, the SSTTDC will receive fewer such annual payments over the life of the agreement. The future of these payments is uncertain given the new legislation.

<u>New Legislation and Impact on Inspectional Fees and Services</u>
The new legislation requires that each of the three towns assume all typical municipal services as of January 1, 2015.

However in another section of the new legislation it states: "each town's inspectional services department will be responsible for issuing and enforcing building permits and certificates of occupancy for construction activities occurring within the respective town's borders". There may be a conflict with respect to these two sections. Regardless, the result will be a smaller revenue budget for the SSTTDC for such services. However, the practical effects of this language are yet to be determined.

New Legislation and Impact on Expenses

The new legislation requires the each of the three towns to assume all typical municipal services as of January 1, 2015. Clearly the result will be a smaller budget for the SSTTDC for such services. However, the practical effects of this language are yet to be determined.

FY2014 BUDGET

Revenues and Expenses

Revenues

It is obvious that the SSTTDC needs to reserve any funds available after ordinary and necessary expenses are paid for given the uncertainties of development and the resulting need to fund any parkway deficiency payment and infra-structure improvements. Excess revenues are available only after SSTTDC has met its own operational expenses.

Revenue and expenses are an obvious risk for any enterprise. It is a heightened risk for SSTTDC because if Entitlement Fees and Building permits are not collected, taxes become the sole source of revenues. Given that revenues are committed to debt service and the Parkway 'clawback', then operational expenses will be adversely impacted.

Collected tax revenues for Governmental Activities for FY14 increased by approximately $523,000 from the FY13 level of $2.3 million. The increase is due to the fact that construction had commenced in prior years and certificates of occupancy had been issued on or before January 1, 2013, therefore these properties had been added to the tax base calculation. The collection rate for all five years (FY09 through FY14) was at or near 100%.

A parkway deficiency assessment was also charged to LNR, the Master Developer, in the amount of $375,686.35 under the terms of the Parkway Agreement (see below) for which LNR was a signatory. Under the terms of the agreement and as a result of a FY13 deficiency in 'new state revenues' calculation, the SSTTDC is able to recover some of that deficiency through the means of an assessment that is based upon the value of commercial property. As LNR was the sole owner of commercial property during FY13, it was the sole owner upon whom an assessment was made during FY14. LNR had failed to make that payment.

In addition, under the terms of the 2010A Bond issued by the SSTTDC, certain lands in FOST 1 and FOST 2 are assessed to help pay the debt service. The total of the FY2014 assessment to land owners was $535,000 and was 100% collected as reflected in the Special Assessment revenue line item, certain refunds were made for overpayment in FY2013 thereby yielding the sum recorded in this line. This is a declining assessment over time.

Despite the foregoing, Fiscal Year 2014, revenues were sufficient to cover operating expenses.

<u>Future Revenue risks</u>

- Currently: SSTTDC relies on tax revenues, entitlement fees, and building permits as revenue sources. Taxes constitute roughly 2/3 of its revenue.
- Effects: Lack of the construction effort will result in lack of entitlement fee and building permit revenue. Revenues need to be conserved for contractual obligations for infrastructure needs; distributions to towns as stated in Reuse Plan will severely hamper the project.

<u>Expenses</u>
Operating expenses include depreciation, maintenance and repairs to capital assets and operating expenses associated with operations. The FY14 approved budget was set at $6,574,276. Of that amount, $220,264.95 was approved for the FY14 overlay for abatements account required under GL c. 59. In addition to the FY14 approved budget, funds were included as a carryover for FY13 general fund encumbrances most of which was reserved for payments to the Commonwealth as a result of the FY12 Parkway Deficiency approved by the Commissioner of Revenue and assessed on the SSTTDC during FY2013. This DOR assessment was required to be raised and appropriated during FY2014 as a condition precedent to the certification of its FY2014 tax rate (see RECAP submittal).

Snow removal required an additional appropriation of $65,100 due to extreme weather conditions during the winter of 2013-2014.

Personnel costs remained at approximately one quarter of the operating budget despite the addition of staff. More significant however was the increase in the cost of governmental services provided by the SSTTDC. The increase in these expenses was due to the fact that the SSTTDC is now required to pay for typical governmental services to its residents such as: education, police, fire and public works.

Education expenses during FY14 slightly increased over the amount paid in FY2013. This expense includes both tuition and transportation for all school-age children, SPED included. It is directly related to the number of students living on site. Currently, there are approximately 23 school age children attending Weymouth Public Schools. The SSTTDC is obligated under the Enabling Legislation to make payments towards that education. The projections reveal that as residential units are constructed more students will reside within the project. This one expense may dramatically increase and negatively affect the SSTTDC from having available revenues for capital improvements if residential construction out paces commercial development. This is true in any community. However, for the first time, the SSTTDC became eligible to receive Chapter 70 reimbursement that totaled $51,000 during FY2014 that helped to offset the cost of educating children residing in Southfield.

Property Values

Real Estate property values in the SSTTDC are submitted annually by the Board of Assessors (Membership: Dennis Robson of Rockland, Jack Pistorino of Abington and Pamela Pantermoller of Weymouth) to Massachusetts Department of Revenue for certification in accord with MA General Law Chapter 59. Once certified, the Board of Assessors is able to determine the tax rate for the SSTTDC. The chart below reveals that property values increased. This is due to the construction of residential properties within the bounds of the SSTTDC. Presented below is a summary of the approved property values within the SSTTDC jurisdictional limits. The transfer of properties known as FOST 3 through 6 occurred in December 2011 but was first included in the valuation for fiscal year 2013. A substantial increase in residential real estate valuation is seen in the chart below for FY14 as a result of completion of construction for more than 200 residential units. A decrease in commercial property valuation was seen as a result of the reclassification of the “Eventide” over 55 community reducing the Commercial Property classification and increasing the Residential Property classification.

The increase in personal property values is due solely to the fact that for the first time, telecommunications equipment was valued and authorized to be taxed by the MA Department of
Revenue.

The first year for property valuation was during fiscal year 2009, the first year the Massachusetts Department of Revenue approved the SSTTDC valuation methodology.

	FY09	FY10	FY11	FY12	FY13	FY14
VALUATION by property class						
Residential	$ 12,642,800	$ 12,642,800	$ 13,131,835	$ 20,330,300	$ 47,720,900	$ 64,167,400
Open Space	$ 1,809,800	$ 1,809,800	$ 1,809,800	$ 500,800	$ 2,542,500	$ 2,542,500
Commercial	$ 35,106,400	$ 35,106,400	$ 35,938,865	$ 35,467,300	$ 60,268,800	$ 57,923,700
Personal Property	$ 19,000	$ 19,000	$ 19,000	$ 53,000	$ 3,363	$ 1,776,905

New Legislation and Impact on Property Values

Included in the new legislation (Senate Bill 2347), there is a provision contained in one section of the Bill that requires each Town to value the property within the SSTTDC. The practical effects of this language are yet to be determined.

Tax Rate

Tax rates are set for the SSTTDC in a manner consistent with all other cities and towns within the Commonwealth of Massachusetts. Tax rates for the SSTTDC, like all municipalities, are approved by the Massachusetts Department of Revenue based upon all revenues including tax receivables. The Board of Assessors is required to calculate on the Commonwealth's tax recapitulation (RECAP) form all anticipated income and all authorized expenditures for a given year. This calculation yields a tax rate. The tax rates for the SSTTDC are listed below:

	FY09	FY10	FY11	FY12	FY13	FY14
TAX RATES	**As approved by the Massachusetts Department of Revenue**					
Residential	$ 20.06	$ 11.78	$ 11.90	$ 12.89	$ 13.26	$ 13.47
Open Space	$ 20.06	$ 11.78	$ 11.90	$ 12.89	$ 13.26	$ 13.47
Commercial	$ 20.06	$ 17.47	$ 17.70	$ 23.89	$ 26.35	$ 30.73
Personal Property	$ 20.06	$ 17.47	$ 17.70	$ 23.89	$ 26.35	$ 30.73

For fiscal year 2010, the Board of Assessors recommended and the Board of Directors approved a tax shift whereby the commercial taxpayers bear more of property tax burden than does the residential taxpayer. By so doing, the tax rate for the SSTTDC is more in line with that of the Town of Weymouth. It was determined that since the property being sold was located in Weymouth that this approach to the tax shift was reasonable. This practice continues. The SSTTDC did maximize its FY2014 levy limit under Proposition 2 ½.

By way of comparison, the following is a listing of the FY2014 tax rates for the surrounding Towns:

a. Abington: Residential and Commercial rate: $17.19
b. Hingham: Residential and Commercial rate: $12.56
c. Rockland: Residential and Commercial rate: $18.34
d. Quincy: Residential Rate: $14.86
   Commercial Rate: $31.23
e. Weymouth: Residential Rate: $13.30
   Commercial Rate: $21.70

New Legislation and Impact on Tax Rates

Included in the new legislation (Senate Bill 2347), is a provision contained in one section of the Bill that introduces the concept of a "Southfield tax rate" that is added onto the real estate tax rate for the town in which the property lies. In addition, the current tax plan is voided and a new tax plan must be negotiated with the State prior to the setting of an FY2015 real estate tax rate. The practical effects of this language are yet to be determined.

Tax Receivables

Once the Assessors receive approval for real estate values and a tax rate they calculate the tax bills for each taxable parcel. They then commit for collection those receivables. The table below presents the total committed receivables by year and by property class.

It is noted that the SSTTDC was not authorized by the Massachusetts Department of Revenue to collect taxes on the properties until fiscal year 2010. As a result, both the FY2009 and the FY2010 tax receivables were collected in FY2010. The SSTTDC collected 100% of all real and personal property taxes through fiscal year 2014.

The increase in personal property taxes is due solely to the fact that for the first time, telecommunications equipment was valued and authorized to be taxed by the MA Department of Revenue.

	FY09	FY10	FY11	FY12	FY13	FY14
TAXES BILLINGS	**Total amounts committed to the Tax Collector for billing and collections.**					
Residential	$ 253,614	$ 148,932	$ 156,289	$ 262,058	$ 632,779	$ 864,335
Open Space	$ 36,305	$ 21,319	$ 21,537	$ 6,455	$ 33,714	$ 34,247
Commercial	$ 704,234	$ 63,309	$ 636,118	$ 847,314	$ 1,588,083	$ 1,779,995
Personal Property	$ 381	$ 332	$ 336	$ 1,266	$ 89	$ 54,604

New Legislation and Impact on Tax Receivables

Included in the new legislation (Senate Bill 2347), is a provision contained in one section that introduces the concept that the Towns will be responsible for collecting and then transmitting a portion of the collected back to the SSTTDC. In addition, the legislation calls for the SSTTDC to remit to the Towns certain real estate taxes "collected but unexpended". The practical effects of this language are yet to be determined.

Abatements

Every taxpayer has the right to contest the certified values of his/her property. The taxpayer is required to file for abatement no later than January 31st of each year.

During FY2013, abatements were filed with the Board of Assessors by two entities: (1) LNR South Shore, LLC for approximately 70% of all property within the jurisdictional boundaries of the SSTTDC and (2) William B. Rice Eventide Homes, Inc. who owns the land for the planned Life Care facility. As both owners own land with no buildings thereon, it is assumed that the issue will center on land valuation. There is $220,264.18 in the FY2013 Overlay for Abatements.

During FY2014, abatements were filed with the Board of Assessors by two entities: (1) LNR South Shore, LLC for approximately 70% of all property within the jurisdictional boundaries of the SSTTDC and (2) William B. Rice Eventide Homes, Inc. who owns the land for the planned Life Care facility. As both owners own land with no buildings thereon, it is assumed that the issue will center on land valuation. There is $220,264.95 in the FY2014 Overlay for Abatements.

Both years are awaiting trial dates at the Appellate Tax Board.

Outstanding Tax Receivables

There no outstanding receivables for any year in Real Estate and Personal Property at the end of FY14.

General Fund Free Cash and Water/Sewer Retained Earnings

Free Cash is similar to the unassigned fund balance at the end of each fiscal year and represents those funds which were not expended by the SSTTDC. The SSTTDC annually petitions the Massachusetts Department of Revenue to certify that the SSTTDC has achieved a surplus and for permission to expend those funds during the succeeding fiscal year. The chart below indicates those amounts certified for expenditure.

FREE CASH & RETAINED EARNINGS					
	FY09	FY10	FY11	FY12	FY13
General Fund	$ -	$ 380,135	$ 1,010,951	$1,654,836	$ 494,786
Sewer Enterprise Fund	$ -	$ -	$ 178,631	$ 6,422	
Water Enterprise Fund	$ -	$ -	$ 4,649	$ 8,011	
Combined Enterprise Fund					$ 126,843

During FY14, no expenditures from Water and Sewer Retained Earnings were authorized. No expenditures from the General Fund Free Cash were authorized.

FY2013 was the first year the SSTTDC combined the water and sewer enterprise funds. This action was taken as a result of a recommendation from the Director of Accounts at the Massachusetts Department of Revenue. As a result, retained earnings for the combined water and sewer enterprise fund are shown in the table above for the first time in FY2014.

As of the time of this writing, the FY2014 free cash and retained earnings to be expended during FY2015 have not been certified by MA DOR.

STABILIZATION ACCOUNT

A Stabilization Account was created in accord with General Laws chapter 40 section 5B. As of the close of fiscal year 2014 there was a balance of $324,151 in that fund. Accrued interest was added to the fund. The Stabilization Account is held in a separate fund in accord with the statutes. Of the total SOY balance, the Board of Directors reserved $447,118 for FY2014 operational expenses and more specifically to fund the FY2014 payment for the August 1, 2013 2010A bond payment. In addition, an expenditure of $22,500 was made during FY2014 to fund the repair of a weir. Finally, the Board of Directors voted to expend $322,999.46 to meet the operational expenses for the first quarter of 2015.

Stabilization Account	FY2010	FY2011	FY2012	FY2013	FY2014
Balance forward	$ -	$ 77,842	$ 78,206	$ 550,810	$ 790,029
Transfers In	$ 177,842		$ 472,000	$ 486,313	
Transfers Out	$ (100,000)			$ (251,165)	$ (469,618)
Interest Income		$ 364	$ 604	$ 4,072	$ 3,742
EOY Balance	$ 77,842.00	$ 78,206	$ 550,810	$ 790,029	$ 324,154

OTHER POST EMPLOYMENT BENEFITS (OPEB)

GASB Statement 45 requires state and local governments to begin reporting OPEB costs and obligations. This statement requires that the annual cost and liability associated with OPEB be computed and gradually brought onto the governmental entity's books and records. During fiscal year 2014, the SSTTDC undertook a study that complies with this reporting requirement. As the SSTTDC has fewer than 100 participants covered under the plan, it is eligible for the alternative measurement method of reporting.

The report includes the calculation for the Actuarial Accrued Liability (AAL) which is defined as the total projected liability for OPEB covered under the plan. The AAL calculation uses the data on active employees, employees who have left employment but who are eligible for retiree healthcare, current retirees and their beneficiaries and spouses who are eligible for the retiree healthcare benefit provided by SSTTDC.

Utilizing this approved methodology and an independent firm to perform the calculations, it was determined that the liability as of June 30, 2014 was $288,727. The SSTTDC

Board of Directors established a separate stabilization fund (8373) in 2013 for the specific purpose of holding such funds. This fund had a balance of $290,654 as of June 30, 2014. Therefore, the SSTTDC has met its obligations under GASB-45.

ENTERPRISE FUNDS

Enterprise Fund: Water & Sewer

At the outset of this project, SSTTDC recognized that one of its main areas of concern is Water and Sewer infra-structure. Water distribution and sewer collection not only play a large part in the residential aspect of the project, but are also needed to support any commercial development at SSTTDC.

Under both the Reuse Plan and FEIR, certain Water and Sewer requirements must be met before the project may proceed from Phase One to Phase Two of development. Whether it is an off-site or on-site solution, securing permanent sources for these two utilities would alleviate a major hurdle in the project. These permanent sources must be able to support SSTTDC’s an estimated 1.3 million gallons per day of flow. Currently, under a temporary water and sewer Agreement with the Town of Weymouth, SSTTDC has secured sufficient resources for Phase 1.

Water and Sewer solutions are a high risk due to the fact that Water and Sewer affects several areas of the project. First, the fact that SSTTDC is currently operating under a temporary agreement may not provide potential commercial developers with the degree of comfort necessary for such a developer to invest in building at Southfield. The dependency on Weymouth not only fails to provide protection from pricing increases, but also if Weymouth’s withdrawal rate is threatened, the flow to the SSTTDC may suffer in a drought situation. If Weymouth is required to reduce production, then this reduction may hamper the SSTTDC's ability to fulfill its obligations to its users or for development. The resolution is to develop a sole source for each of these utilities. However, the cost for the infrastructure is estimated at nearly $70 million. Most likely, the source of funding such a project would be through the issuance of a bond. The SSTTDC must carefully consider the impact a bond of this size would have on its rate structure. Rates are recognized as being significantly higher than in surrounding Towns, may hinder future development from occurring.

When focusing on Sewer, it is important to note SSTTDC currently makes connection and mitigation payments to Weymouth. If there was a way to develop an on-site sewer system at the same cost, rates may not be impacted to a significant extent. Fortunately, there is an on-site solution in the form of a septic-tank like structure for each 'neighborhood'. It is estimated, SSTTDC would require 8 such pods to support its residential and construction components. With the cost of approximately $2 million per pod this could be an economical solution to the issue. In addition, this solution would be able to be constructed in a short period of time thereby permitting achievement of one of its goals in a timely fashion.

<u>New Legislation and Impact on Water and Sewer</u>

The new legislation requires the DDA with the Master Developer to be renegotiated. Included as a provision within the DDA, LNR is required to assume the obligation for a permanent water and sewer solution. The practical effects of this language are yet to be determined.

<u>Water and Sewer Enterprise Fund Budgetary Overview</u>

The SSTTDC supplies its customers with water and sewer disposal through the Town of Weymouth. In March, 2008, the SSTTDC through its Board of Directors entered in a Temporary Agreement with the Town of Weymouth that secures water and sewer through Phase One of the re-development of the former Naval Air Station as projected under the current Reuse Plan. In accord with that Agreement, the SSTTDC was required to pay certain conservation and mitigation payments to the Town of Weymouth. The Phase 1A payments were paid by LNR in May of 2012 at the time the Corcoran Project was beginning its permitting requirements under the approved Development Plan. This agreement however was only for Phase 1 construction.

The amount of the Phase1A mitigation payments are determined by the actual connections as evidenced by building permits. The first building permit application triggered the requirement that conservation fees be paid. With the granting of each building permit, the SSTTDC is required to make a sewer connection fee. The sewer connection fee is included in the calculation for building permit fee. The connection fees for FY12 and FY13 were paid in FY14 and totaled $394,029.

The SSTTDC had adopted MGL c.44 section 53F ½ for water and sewer activities. Revenues produced by each activity are dedicated solely to offset operating expenditures. Accordingly, any excess balances at year-end must remain within the respective funds.

By the end of FY12, the SSTTDC had authorized the use of a single fund for the water and sewer enterprise systems. The use of a single fund commenced in July, 2012 (FY2013). This change was prompted by the Bureau of Accounts making the suggestion in January, 2012.

The FY14 budget did include allocated costs for salaries and other expenses. Over time, additional allocated costs will be assumed by the Enterprise Fund.

Water and Sewer Rate Structure

During FY14, the Board of Directors affirmed a rate system based upon the rates charged the SSTTDC by the Town of Weymouth. This rate structure passed the costs of water and sewer charges from Weymouth to the rate payer and accommodated a reserve line item and line items for allocated costs. The Board established a FY14 rate structure for the enterprise fund that allows for administrative fees to be included in the charges and passed onto the rate payers.

The SSTTDC is viewed as a single rate payer and, as a result, is charged by the Town of Weymouth the so-called Second step rates (higher user). In addition to the Second Step rates, the SSTTDC pays a premium of five percent. There are quarterly credits applied retrospectively to the Weymouth's bills to reflect those credits provided to condominiums owners in the Town of Weymouth.

Revenue and Expenses

There was a significant increase in residents with the jurisdictional boundaries during FY14, as a result, most of the water and sewer usage was due to the needs of those residents.

The FY2014 budget was $717,289.

The Water and Sewer Enterprise Fund is charged with the responsibility of maintaining and improving the SSTTDC's water distribution and sewer collection system which terminates at the MRWA facilities in Deer Island. The charges levied by the Town of Weymouth for providing water and sewer services during FY14 were $489,959, a 48% increase over the prior year.

By the end of the year, the Enterprise Fund had unexpended balances. From these unexpended balances, there is an obligation to pay the Town of Weymouth for FY14 connection fees of $78,022 in sewer connection fees. The FY2014 connection fee will be paid during FY2015 and has been encumbered. The sewer connection fees are mandated in the March 2008 agreement with the Town of Weymouth.

A transfer out of the Enterprise Fund of $11,528 was authorized for the payment of FY2013 Enterprise Fund unpaid bills.

FY2014 encumbrances into FY2015 were $633 for professional services.

OTHER MATTERS

Retirement Board

The SSTTDC is a member of Plymouth County Retirement Association that is comprised of a five member Board of Directors who manages the pension trust fund. The Association has the fiduciary responsibility for fund assets. Membership in this system is mandatory for all employees whose workweek consists of 20 or more hours for the SSTTDC. The fund is accounted for on a calendar-year basis.

The Retirement Board takes an active role in the management of the vast majority of its funds. As of December 31, 2013, the retirement board issued an annual statement. The plan assets of the retirement board had a market value of $811 million. The Board of Directors estimated that as of January 1, 2013 it had an unfunded actuarial accrued liability of $653 million. As of June 30, 2014, the Plymouth County Retirement Board utilized a 2029 funding schedule.

Claims

As stated above, LNR is required to make certain payments to the SSTTDC for its share of any parkway deficiency. This is a required payment under the Amended and Restated memorandum of Agreement on Financing for the SSTTDC Parkway dated March 2010. LNR failed to make its FY2014 payment (as disclosed above). Based upon this fact, the SSTTDC voted to terminate LNR as the Master Developer. LNR has responded that it did not accept that there were grounds for termination under Development and Disposition Agreement executed by LNR and the SSTTDC. LNR requested that the SSTTDC rescind its termination. No further action has been taken by either party.

LNR has also failed to make certain water and sewer payments for usage. The SSTTDC has informed LNR of its intent to lien all property. The total outstanding liability for these invoices as of June 30, 2014 is $132,956.14 and represents approximately 14% of the Water and Sewer Enterprise Fund budget.

Respectfully Submitted

SSTTDC Board of Directors

Joseph Connolly, Chairman
John Ward, Vice Chairman
Christopher Aiello, Clerk
Jeffrey Wall
Gerard Eramo

Kevin R. Donovan, Chief Executive Officer
James A. Wilson, Chief Financial Officer