

MUNICIPAL FINANCE OVERSIGHT BOARD

Meeting January 12, 2022

(conducted by conference call)

MINUTES

Board Members Present: State Auditor Suzanne Bump (Chair), Deborah Wagner (Department of Revenue), Margaret Hurley (Office of the Attorney General), Nick Favorito (Office of the State Treasurer)

Non-Board Members Present: Ben Tafoya (Office of the State Auditor), Hilary Hershman (Office of the State Auditor), Carina DeBarcelos (Office of the State Auditor), George Chichirau (Office of the State Auditor), David Todisco (Office of the State Auditor), Bill Arrigal (Department of Revenue), Bethiny Moseley (Department of Revenue), Kristy Tofuri (Hilltop Securities), Monica Mulcahy (Hilltop Securities), Brian De Peña (Mayor, City of Lawrence), Mark Ianello (Chief Administrative and Finance Officer, City of Lawrence), Perla Ortiz (Treasurer & Tax Collector, City of Lawrence), Ramona Ceballos (Comptroller, City of Lawrence), Octavien Spanner (Policy Advisor to the Mayor, City of Lawrence), Andres Castillo (Communications Director, City of Lawrence), Frank Bonet (Chief of Staff, City of Lawrence).

The meeting was called to order at 11:02 a.m.

Auditor Bump made introductory remarks and noted that, in accordance with Chapter 20 of the Acts of 2021, passed June 16, 2021, and the Massachusetts Attorney General's Office June 16, 2021 guidance, this meeting was being held by conference call. The public meeting notice for this meeting provided a public call-in number to facilitate public access during a relaxation of open meeting law requirements. Auditor Bump also announced that the meeting was being recorded and that Hilary Hershman was acting as Executive Assistant.

Board Member roll call: All members indicated orally that they were present.

Minutes from December 8, 2021

Ms. Wagner made a motion to accept the minutes from the last meeting, which was seconded by Ms. Hurley. On the question of approval of the minutes from the meeting on December 8, 2021, the members voted as follows to approve the draft minutes without any changes:

Auditor Bump: YES

Ms. Wagner: YES

Ms. Hurley: YES

Mr. Favorito: YES

City of Lawrence

Ms. Tofuri provided an overview of the City of Lawrence's application and its finances. She mentioned that over \$132 million in bonds were approved by the City for the Oliver Partnership School, and the City is now seeking approval for \$75 million. The City has a local share of project expenses after MSBA reimbursements, and the City is taking advantage of low interest rates before rates rise. In addition, the City is seeking approval for \$9 million for a new police station, for which they have authorized \$58 million of bonds. The \$9 million represents the City's local share of the project. The Commonwealth is helping to finance the project with grants.

Auditor Bump asked about communication difficulties related to the Lawrence team. Shortly after, Mr. Ianello introduced himself and the rest of the team in the Mayor's office, apologizing for having technical difficulties. The other team members included Ms. Ortiz, Ms. Ceballos, Mr. Bonet, Mr. Castillo, Mr. Spanner, and Mayor De Peña. The Mayor thanked Auditor Bump for welcoming the team.

Auditor Bump asked the team to provide additional financial context for the two projects. Mr. Ianello indicated that the Oliver School will be funded by the MSBA at approximately 46% and that the city's local share is approximately 53%. The City is looking to borrow \$71 million to finance the school project. The Oliver School is an elementary school that is over 100 years old and needs to be replaced. When the MSBA initially approved the project, it was approved under a previous cap which resulted in a lower financial share from the authority. He said it still equated to a substantial sum, though. The City is also looking to borrow \$9 million for a new police station. Overall, the police station project will cost \$59 million, but the city received a commitment from the state to pay up to \$49 million in construction costs. In order to get the project running, the city used \$1 million in free cash for upfront costs and is looking to borrow the remaining \$9 million to cover its share. Mr. Ianello added that the project will be a major help, as the current police station was built in the 1950s, has exceeded its useful life, and is faced with overcrowding and operational issues. The police station project is currently underway, and DCAMM will be representing the state during construction.

Turning back to the Oliver School project, Mr. Ianello stated that the project will cost approximately \$132.3 million, with the city covering approximately \$71 million of the total, which is what they are looking to borrow.

Auditor Bump asked how the two projects fit within the context of the City's long-term capital plans. She was aware that the Oliver School was a modernization project, but asked if the project was also an expansion of the school itself. She also raised additional questions: Is the City anticipating other school construction projects in the next few years? What are the City's enrollment trends? What is the City's free cash balance? What is the City's general financial situation, and what are the City's budgetary revenue trends?

Mr. Ianello indicated that the Oliver School currently houses 500 students, but the MSBA will allow the new facility to accommodate a higher student capacity (1,000 students) because of population increases. Most of the existing school will be demolished, except for the front of the building which has some historical significance and will be maintained. At least 75% of the school will be new construction. The school project was passed by the City Council over a year ago, with the caveat that it will be paid without a debt override. This caveat and the fact that it is in the City's capital plan initially presented a challenge to them.

When the project went before the council for funding and approval of a loan order, state oversight was ending in the City. The “bailout legislation” of 2010 (St. 2010, c. 58) provided for the creation of a chief administrative and finance officer (Mr. Ianello himself) once the state stopped oversight. The provision required Mr. Ianello to provide a certification that the City can afford the project without impacting municipal services. Therefore, he explained in his certification letter to the City Council that the City had a choice among a number of ways to pay for the project. One option was to use their excess tax levy capacity (which currently sits at approximately \$8.3 million) and increase taxes as needed. This option would add an additional \$2 to \$4 million in debt service to their schedule between fiscal years 2023 and 2027. As it stands, the City can pay for the school mostly out of their general operating budget, but will need a financial supplement for those five years (2023 through 2027). Mr. Ianello believes that their debt service will fall back to FY 2022 levels by FY 2028.

Mr. Ianello added that the City’s financials have increased exponentially since 2010. He stated that the City has been conservative with revenue estimates and annual budgets and that the City had a state fiscal overseer between 2010 and 2019, but that in 2019 the fiscal overseer felt that the City was ready to be on its own. From there, the CAFO provision kicked in, and Mr. Ianello assumed many of the duties of the fiscal overseer. They are following good financial policies. Mr. Ianello was pleased to report that the City’s free cash on July 1, 2021 was certified at approximately \$16.4 million – a slight drop from the previous fiscal year (\$18 million) due to the pandemic. Despite this, he stated that all taxpayers paid their bills, and the City did not see a reduction in revenue. Lawrence’s most recent free cash certification is the second highest certification since the early 1980s; since fiscal years 2010 and 2011, the City has slowly built up their certifications from \$4 to \$6 million to its current balance today.

Mr. Ianello followed with what the new mayoral administration is doing. Mayor De Peña is starting to learn about this information in detail, as he started his position only about 2 months ago. The Mayor has been informed that the city is in good hands. Mr. Ianello thanked all the department heads for being responsible with their budgets.

Mr. Ianello continued discussing the Oliver School, indicating that the project is a major commitment for the City. Over a year ago, students had to be moved out of the facility to an unused parochial school building; this occurred well before the school project was authorized. If the City decided to continue using the Oliver School facility, there would be a lot of improvements needed to get the facility back up in shape. Preliminary work on the school started in FY 2021, with light construction expected to begin in FY 2022 with more work continuing through FY 2023. Mr. Ianello believes construction will be mostly completed in FY 2025 and that students will return to the building within a year after that.

Mr. Ianello added that the City had brought another aging school project to the voters – the Lahey School. The City tried to secure a debt override for the project, but it was not approved by the voters. The project is back to the Mayor and the school superintendent, and they are planning to ask the MSBA for extra time for the new administration to decide how to proceed. The MSBA had previously approved the Lahey School project, and the project has a higher cap than the Oliver School project. Currently, the project is estimated to cost \$103 million, of which 65% will be funded by the state, and the remaining 35% funded by the City. Lawrence is looking at financing options, but it is up to the City Council if they would like to move the project forward.

Mr. Spanner started to talk about the priorities of the De Peña administration, stating that they will focus on stimulating their economic development activities. Since Mayor De Peña was sworn in, they

have held meetings with the private sector and are planning to pivot the city's focus to workforce housing, home ownership, and new business development, with the intention to increase their tax base. The administration is working with Harvard University to design an incentive package to attract new investors and provide training programs to local businesses in order to take advantage of new market opportunities. They also met with Congresswoman Lori Trahan.

Auditor Bump invited questions and comments from the Board. Ms. Wagner said that she concurred with Mr. Ianello's financial assessment and free cash certification (\$16.5 million this fall). She stated that much of the City's free cash came from appropriation turnbacks and unspent free cash. In her opinion, the Lawrence budget is responsible.

Mr. Favorito then asked Mr. Ianello about the projects that came before the MFOB during 2021. Mr. Ianello stated that all of those projects are ongoing. Since he has been in the City, Lawrence has authorized almost \$100 million worth of water and sewer projects, after many years of system neglect. The City has acted responsibly with regard to their debt service since the 2010 bailout by using a water and sewer enterprise fund. Many of the projects are using SRF funding, which has a 2% interest rate. Up to this point, the projects have been paid for without any rate increases, due to the substantial reserves of the water and sewer department. Nonetheless, the City will have to face an upcoming rate increase in order to avoid negative balances in the water/sewer enterprise fund.

Mr. Ianello also mentioned that this is their 6th year of doing capital projects, and six plans have been approved by the City Council. He estimates that about \$6 to \$10 million of additional debt has been issued each year for capital projects. He gave as examples fixing roofs and boilers that the City had neglected. For example, one of the projects the City is working on is a new roof and elevator for their City Hall. The City also has a full-time capital asset manager, as well as staff members that will help manage the projects.

Ms. Hurley thanked Mr. Ianello for his presentation and said she appreciated the City's financial continuity and the important work of the City's financial team.

Auditor Bump asked about any COVID funding the City might have received and about any notable items for which the funding was used. Mr. Ianello replied that the City was fortunate to receive \$7 million in CARES Act funding from the state. The City incurred approximately \$20 million in expenses since the start of the pandemic, notably by creating testing and vaccination sites. The City has one of the highest incidences of COVID in the state. The City also received \$57 million in ARPA funding in order to help with some of the incurred expenses. They also have several projects awaiting approval from FEMA for reimbursement (particularly for vaccination sites and police and fire overtime). The City had previously received \$2 million from FEMA in order to help shelter individuals for COVID-19 isolation/quarantine. Some federal funding has also been used for remote education, such as for new laptops and computers for students; Mr. Ianello believed this to be the City's largest expense related to the pandemic.

Ms. Wagner then moved to approve the application of the City of Lawrence. Mr. Favorito seconded the motion. A call of the roll was made as follows:

Auditor Bump: YES

Mr. Favorito: YES

Ms. Wagner: YES

Ms. Hurley: YES

Long-Range Municipal Stability

Ms. Wagner stated that the DLS has finished certifying almost all of the tax rates, with only 6 communities left to certify, 5 from Western Massachusetts and one from the island. She added that they have also reviewed free cash submissions for 280 communities and that the fiscal health of the communities is generally good. All of the communities have been conservative in budgeting and spending and have seen an increase in their free cash over the last fiscal year. They are beginning to prepare the paperwork for the next year's submissions and doing training in early spring for next year's submissions.

Updates and Topics for Next Meeting

Ms. Wagner reached out to the Town of Hardwick, which indicated they are still in confidential negotiations with the USDA.

Ms. Hershman indicated that she believes that the Town of Orange is planning to appear in February. The Town was originally planning to appear at today's meeting, but postponed.

Adjournment

Ms. Wagner made a motion to adjourn, which was seconded by Mr. Favorito. A call of the roll was made with the votes as follows:

Auditor Bump: YES

Ms. Wagner: YES

Ms. Hurley: YES

Mr. Favorito: YES

The meeting was ended at 11:47 a.m.