

## **MUNICIPAL FINANCE OVERSIGHT BOARD**

**Meeting November 10, 2021**

**(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)

**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), Noah Futterman (Office of the State Auditor), Bill Arrigal (Department of Revenue), Cinder McNerney (Hilltop Securities), Lisa Driscoll (Hilltop Securities), Monica Mulcahy (Hilltop Securities), Megan Hyland (Hilltop Securities), Michael Gagne (Interim Chief Financial Officer, City of New Bedford), Renee Fernandes (Treasurer-Collector, City of New Bedford), Robert Ekstrom (City Auditor, City of New Bedford), Brennan Morsette (Assistant City Auditor, City of New Bedford), Sharon Thomas (Administrative Assistant to the CFO, City of New Bedford), Eileen Donoghue (City Manager, City of Lowell), Conor Baldwin (Chief Financial Officer, City of Lowell), Steve Moore (Office of the Treasurer).

The meeting was called to order at 11:03 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, with the exception of the designee of the Office of the State Treasurer, who was unavailable for this meeting.

### **Minutes from October 13, 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 October 13, 2021, the members voted as follows to approve the draft minutes without any changes:

Auditor Bump: YES

Ms. Wagner: YES

Ms. Hurley: YES

## **City of Lowell**

Ms. Donoghue introduced herself and Mr. Baldwin before the Board. Mr. Baldwin gave an update on the City's financial status, stating that the City Manager has been able to stabilize finances due to fiscal controls on spending, CARES Act funding, and using ARPA funds for revenue replacement. He stated that FY2021 was a significantly good year for the City, with the stabilization fund at an all-time high (\$12.8 million). The City Manager recently settled all outstanding contracts with collective bargaining units, including teachers unions, and the contracts will run until 2023. Cost of living adjustments (COLAs) for retired employees were funded with a special purpose stabilization fund without causing a negative effect on the City's budget. The City's multi-phase high school capital project is also on time and on budget.

Mr. Baldwin also elaborated on the financial results of FY 2021, mentioning that the City is in the final stages of their FY 2021 audit. The City had \$18.8 million in turn-backs, and actual revenues exceeded the City budget by \$6 million. He estimated that the City's fund balance is around \$18.9 million, a \$12.3 million increase over the last fiscal year. He mentioned that these financial outcomes are not uncommon and are being seen by other communities, but they show that the City's fiscal controls are working.

The \$4.305 million in bonds being refinanced come from an original financing on the City's energy investments circa 2010-2012. These financial investments consisted of qualified bonds, as well as qualified energy conservation bonds, GO bonds, and energy rebates, which were used to finance an energy service company (ESCO) project. The project was to help add lighting controls, solar panels, and HVAC improvements for multiple city buildings. There is an annual verification of energy savings, and to date the City has saved \$12.5 million.

Auditor Bump asked Ms. Donoghue if the City had anything else they would like to mention to the Board. Ms. Donoghue replied that the City is confident that they can continue to be careful and prudent to remain in a strong fiscal position. She states that the City feels this is the right time to pursue refinancing in light of ongoing inflation in order to find some savings with refinancing.

Auditor Bump asked if the City had used any of the excess revenues or turn-backs to fund unfunded pension liabilities. Ms. Donoghue replied that the City instituted a policy two years ago that is helping fund OPEB liabilities. Mr. Baldwin added that the City intends to continue the OPEB liability policy. The policy, introduced by the Lowell City Council, is the appropriation of 5% of free cash annually into the City's OPEB trust fund. Mr. Baldwin stated that there is currently about \$13 million in the OPEB trust fund, which is a small balance compared to their total liability (about \$800-900 million), but mentions that this is not an uncommon trend in other cities. He added that, once the OPEB obligation is fully funded in 2037, the City will direct any surplus funding into the OPEB trust fund.

Ms. Wagner asked Mr. Baldwin whether the City specifically used the revenue replacement component of their ARPA funds to help balance the FY 2022 budget. Mr. Baldwin replied that the City had just finished a project with the UMass Boston Collins Center analyzing the City's revenue impact from COVID-19. The City was in a good position to make calculations for revenue replacement as a result of that project and went ahead with doing so once they received official US Treasury guidelines. The City plans to do this again in 2022 as well as 2023. Mr. Baldwin also stated that local receipts, such as the meals tax and the hotel and vehicle excise taxes, faced the largest impacts from the pandemic.

Ms. Wagner made a motion to approve the application of the City of Lowell. Ms. Hurley seconded the motion. A call of the roll was made as follows:

Auditor Bump: YES

Ms. Wagner: YES

Ms. Hurley: YES

### **City of New Bedford**

Mr. Gagne introduced himself and his team before the Board and explained the City's application, which covers a variety of areas. He explained that he is the interim CFO after the departure of Ari Sky until a permanent CFO is hired.

Mr. Gagne stated that the Mayor and School Committee are aggressively looking at how school facilities could be improved and where they can consolidate smaller schools. The City has taken a strong approach to build a department that deals with fleets and facilities and is in the process of renovating an old maintenance facility (City Yard Campus) that oversees vehicle operations. He also added that the City has made tremendous strides in reorganizing and updating its 5-year capital plan. One area they are looking to remedy in their application is Sassaquin Pond, which has suffered from development and urban runoff. The City has come up with a good plan to improve the pond's water quality, which will cost \$1.5 million. Roads are also a major need in the City, and city officials are happy with the passage of the recent federal infrastructure bill, which may help ease issues in that area. The effects of the pandemic have affected their ability to fix roads, which is why road improvements are listed in the City's application. The Pulaski School HVAC project is an energy efficiency project that will replace legacy systems in order to create a better environment for students. A renovation to the Hillman Complex is needed as it offers many resources to the City (such as serving as a Council on Aging facility and an EMS facility) but is a 70-year-old building that formerly housed the City's vocational-technical school.

Other components of the application that Mr. Gagne mentioned include the Howland Green Library, which was built in the 1950s and is in need of renovation, as well as remodeling to the Art Museum, which serves as an integral resource and attribute of the City. The application also lists improvement and planning for Monkey Island, which is a recreational pier on East Beach that provides public kayaking and other activities. Mr. Gagne also listed improvements to the City's high school, which is located in a facility built in the 1970s. He also mentioned the City needed to conduct a feasibility study to the DeValles and Campbell elementary schools in order to determine whether the City could conduct improvements to both schools or consolidate them into one school.

Mr. Gagne further elaborated on the City's finances. The City's financial team and previous CFO had a conservative approach to the budget when the pandemic first started, which is an approach that continued into FY 2022. Numerous positions were left vacant to provide financial flexibility in the City, as the effect on local receipts was uncertain at that time. He stated that the City is a tourism-oriented area and that the approach of fiscal conservatism has paid off. The City also received a large allocation of CARES Act funds, which have been fully expended. The City continues to have significant effects from COVID-19. The City recently achieved a 50% vaccination rate and is currently ramping up efforts for vaccinations for

children as well as booster shots. He acknowledges that it has been a significant challenge, but the Mayor and the financial team have done a good job in managing the effects of the pandemic.

Auditor Bump wanted to clarify which schools were having a feasibility study according to the City's application, as only the DeValles elementary school was mentioned by Mr. Gagne. Ms. Mulcahy from Hilltop Securities clarified that there are two feasibility studies in New Bedford's application – one for the DeValles and Congdon elementary schools and one for the Campbell elementary school.

Ms. Hurley asked if a federal or state agency reviewed the City's proposed management plan before the City pursues water quality improvements for Sassaquin Pond. Mr. Gagne replied that he is not sure, but is aware that the state has provided a consultant to work with the City. He assured the Board that the City would conduct a review with the state, if that has not been completed already, before starting any work on the water quality improvement project.

Auditor Bump asked how the City ended FY 2021 and inquired about the status of their stabilization fund. Mr. Ekstrom elaborated that the City is in the middle of their FY 2021 audit and is hopeful that it will be completed before the end of the calendar year. For FY 2021, the City is seeing a surplus of \$563,000. The City's fund balance has been growing and is at an all-time high (\$32.1 million) and represents 8.8% of annual expenditures. The City's stabilization fund is at \$11.9 million – also an all-time high – representing 3.3% of annual expenditures. (The City has a policy where they try to keep stabilization fund balances between 2% and 6% of annual expenditures.)

Mr. Ekstrom further explained the City is awaiting to certify free cash after setting their tax rates, but estimate that free cash should come to between \$2 million and \$3 million. The City has turn-backs of \$6.5 million, and revenues are up by \$4.2 million to \$4.3 million. He added that the City does not spend free cash on any recurring payments, instead opting to use free cash for one-time expenses. The City has a policy where they fund stabilization funds with 25% of certified free cash each year, and they also contribute 10% of their free cash to their OPEB fund. The City's OPEB liability is at about \$600 million and is less than 1% funded. The City also drew out \$2.5 million from their stabilization fund for a recent arbitration settlement, which they plan to replace with the upcoming free cash certification. The City is hopeful they will continue to see their stabilization fund increase.

Mr. Ekstrom added that the City is currently operating on a \$382 million budget, but had uncertainty where certain revenues were headed, due to seasonal changes in hotel and restaurant visits. The City was able to balance their FY 2022 budget without utilizing federal ARPA funds, free cash, or stabilization funds.

Ms. Wagner made a motion to approve the application of the City of New Bedford. Ms. Hurley seconded the motion. A call of the roll was made as follows:

Auditor Bump: YES

Ms. Wagner: YES

Ms. Hurley: YES

### **Long-Range Municipal Fiscal Stability**

Ms. Wagner stated that the DOR has completed 174 free cash certifications to date and is seeing an approximately \$258 million increase from last year. She added that this increase is driven mostly by a lack of spending free cash during the last year, as well as large appropriation turn-backs. DOR is watching with great interest how municipalities are utilizing their ARPA funds, whether it be to cover their budget, replace revenues, or cover pandemic-related costs.

Auditor Bump asked Ms. Wagner about the revenue loss replacement component of ARPA fund spending, and if the revenue replacement applies to losses notwithstanding the municipality's bottom line. Ms. Wagner replied that the US Treasury has a formula by which a municipality looks at various revenue sources and calculates revenue loss using a growth factor. Once the community has determined they have revenue loss, they can use that component of the ARPA funds for almost any general government-related spending purpose attributed to the pandemic, with the exception of certain enterprise funds.

Ms. Wagner added there are plenty of presentations and guidance resources available about utilizing ARPA funds. DLS is planning to hold ARPA webinars with regional planning authorities, and audit firms have held meetings about calculating the revenue loss replacement component. The Massachusetts Government Finance Officers Association (GFOA) also held a presentation on the reporting requirements associated with spending ARPA funds.

Ms. Wagner also talked about tax rate season. So far, 52 tax rates have been submitted, making tax rate setting on track to be on schedule, unlike in 2020, where there were delays due to the pandemic.

Ms. Hurley asked if DOR is submitting recommendations to municipalities on best practices for managing ARPA funds. Ms. Wagner replied that DOR is not doing so, indicating that ARPA fund management is up to the municipality, although DOR has guidance on accounting for ARPA funds.

### **Topics for Next Meeting**

Ms. Hershman stated that there are no requests for upcoming Board action that are known at this time.

Ms. Wagner stated that Hardwick is having their mediation meeting with the USDA today.

Mr. Arrigal anticipates that, with interest rates being low, the Board might see more refunding requests.

Ms. McNerney stated that Holyoke, Fall River and Pittsfield may attend the next MFOB meeting on December 8. Ms. Wagner stated that the new Mayor of Holyoke will have his first MFOB experience.

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

Auditor Bump: YES

Ms. Wagner: YES

Ms. Hurley: YES

The meeting was ended at 11:50 a.m.