

MUNICIPAL FINANCE OVERSIGHT BOARD

Meeting November 9, 2022

(conducted by conference call)

MINUTES

Board Members Present: State Auditor Suzanne Bump, Deborah Wagner (Department of Revenue), Nicola 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), Jeffrey Moyer (Office of the State Auditor), Lauren DeFilippo (Office of the State Auditor), Bill Arrigal (Department of Revenue), Andrew Nelson (Department of Revenue), Bethiny Moseley (Department of Revenue), Kristy Tofuri (Hilltop Securities), Cinder McNerney (Hilltop Securities), Abby Jeffers (Hilltop Securities), Taylor Erickson (Hilltop Securities), Monica Mulcahy (Hilltop Securities), Melissa Toland (Hilltop Securities), David Eisenthal (UniBank), Rick Lafond (Town Administrator, Town of Webster), Timothy Bell (Finance Director/Town Accountant, Town of Webster), Monique Pierangeli (School Business Manager, Town of Webster), Tina Landry (Treasurer-Collector, Town of Webster), Courtney Friedland (Asst. Town Administrator, Town of Webster), Richard Viscay (Director of Finance/Auditor, City of Revere), Cathy Bowden (Treasurer/Collector, City of Revere), Amber Dupell (Accountant, Town of Orange), Amber Robidoux (Asst. Treasurer/HR Benefits Manager, Town of Orange), Gabriele Voelker (Town Administrator, Town of Orange)

The meeting was called to order at 11:00 a.m.

Auditor Bump made introductory remarks and read a statement noting that, in accordance with the July 16, 2022 Massachusetts Law, An Act Relative to Extending Certain State of Emergency Accommodations, and the Massachusetts Attorney General's Office February 18, 2022 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. After reading the statement, Auditor Bump 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, except for Ms. Hurley, who was not present.

Minutes from September 14, 2022

Ms. Wagner made a motion to approve the minutes from the last meeting, which was seconded by Mr. Favorito. On the question of approval of the minutes from the meeting on September 14, 2022, the members voted as follows to approve the draft minutes without any changes:

Auditor Bump: YES

Ms. Wagner: YES

Mr. Favorito: YES

Town of Webster

Mr. Bell introduced himself and the rest of his team before the Board. Auditor Bump asked the group if they could provide an overview of the financial state of the Town. Mr. Bell replied that from FY 2021 onward, the Town of Webster has had good years financially. In FY 2021, the Town saw its fund balance increase over \$4 million, and the fund increased yet again by \$1.5 million in FY 2022. In the last three to four years, the Town transferred approximately \$3 million in free cash to the stabilization fund. In FY 2022, free cash was certified at \$3.6 million.

Mr. Bell continued by stating that the Town has been able to take savings from certain revenue sources or unbudgeted revenue sources to help the free cash situation over the last couple of years. There were some savings from certain expenditures (such as schools and school transportation) due to the COVID-19 pandemic. Additional savings were realized in FY 2021, notably with regard to police department expenditures, as well as in FY 2022, with regard to highway department expenditures. The Town received a \$2.4 million increase in state aid in FY 2023, which officials used to put back positions into the general fund that had been cut (or grant-funded) over the last couple of years.

Auditor Bump then asked Mr. Bell to put the Town's request in of the context of its capital plan. Mr. Bell replied that the largest request relates to the schools. The Bartlett High School renovation (\$57 million) is the largest general fund project in Town. He stated that he anticipates \$2.5 million in funding for capital projects from free cash or debt service within the next five years. He further indicated that the sewer fund has \$7 million of capital requests over the next 5 years. He stated that the Town should be able to absorb these project costs, between a rate study and debt falling off over the next few years.

One area with which the Town is struggling and that the Town needs to examine further is PFAS. The Town is currently looking into a \$37 million PFAS project that will come up probably in 2026. As a result, the Town had a water rate study to smooth water rate increases, as rates are projected to spike in 2025 or 2026. The Town is hoping to get some grant funding to mitigate some of the costs and is looking to obtain low- or no-interest loans from the Massachusetts Clean Water Trust.

Auditor Bump then asked if there are any other elements of the request the Town would like to mention. Mr. Bell replied that the Town had moved up its plan to borrow half of the costs associated with the school project, as it is currently in the process of bidding \$25 million of the request in late November or early December 2022.

Mr. Bell then had Ms. Pierangeli present overall school projects within the community. She indicated that the \$101 million renovation project for the high school was approved by the Town Meeting in June 2022, and at least \$51-53 million of that will be reimbursed by the MSBA. Because Webster is a high-needs community, the Town looked at this project through an environmental and fiscally-responsible lens. Instead of demolishing the current building and constructing a new school, the Town decided to take a renovation approach. As a result, there will be some environmental benefit and cost savings (such as eliminating brick waste), and the overall intention is to "reinvent" the high school and add more innovative pathways for students (such as biomedical engineering).

Auditor Bump then solicited questions from the Board. Mr. Favorito asked Ms. Wagner about the Town's debt service ratio and whether she had any concerns. Ms. Wagner replied that the Department of Revenue's standard for ideal debt service ratios is no lower than 2, and the Town is "right there." However, she stated that the Town's finances are very strong and demonstrate fiscal responsibility. The

Town's free cash has increased over the last couple of years, its undesignated fund balance has increased to a strong position, and it has nearly \$5 million in stabilization funds, with \$3 million of the deposits in recent years. The coverage analysis shows that the Town has twice the amount of state aid to cover further payments on the debt that it will be issuing on this approval. Ms. Wagner stated that she feels good about approving the Town's request.

Ms. Wagner asked Mr. Bell about the Town's plans and, if the Town needed to come back to the MFOB for future borrowing, what would be its alternative if the coverage ratio fell beneath DOR's standards. Mr. Bell replied that they wanted to maximize the opportunity they currently have and that he understands they might not have this opportunity again. He mentioned that the Town has a rating call with Standard & Poor's later in the day and anticipates a rating increase. Mr. Bell reiterated that the Town's largest expected capital project in the next five years is for PFAS, stated that he anticipated getting a low or no-interest loan from the Massachusetts Clean Water Trust, and mentioned that a little over \$2 million of the Town's request relates to the design and bidding of the project.

Auditor Bump then asked Mr. Favorito to confirm that the Massachusetts Clean Water Trust is under the Treasurer's purview and explain how the Trust is going to finance all of this borrowing from communities. Mr. Favorito replied that the Trust had received an infusion of federal money and would continue to do its own bonding. He hadn't been made aware that funding availability might be an issue, and he believes that the Trust is adequately funded to help finance projects.

Auditor Bump then asked if there were any remaining questions or comments. Ms. McNerney indicated that she did not have any issues with Webster's request and that she anticipated that the Town would see a bond rating increase from S&P.

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

Auditor Bump: YES

Ms. Wagner: YES

Mr. Favorito: YES

City of Revere

Mr. Viscay introduced himself and Ms. Bowden before the Board and mentioned that Mayor Arrigo sent his best regards, but was unable to attend. The City is requesting approximately \$53 million in state qualified bonds, the largest of which relates to the purchase of the former Wonderland dog track. The City is taking the track via eminent domain to build a new high school, a project that is estimated to cost \$400 million, for which it is doing a feasibility study right now. The City will need to first get access and site control of the land and then will need to test soils and determine where to place the school on the 33 acres of land. Mr. Viscay also stated the request includes bonds for two other school projects that are part of the MSBA's accelerated repair program – a new boiler at Beachmont Elementary School and window and door replacement at Lincoln Elementary School. There are also a couple of sewer projects on the request.

Mr. Viscay provided a summary of the City's finances. The City of Revere is the fastest-growing community in the Commonwealth, with a population now exceeding 65,000. The City has an estimated budget of \$260 million for FY 2023 and is AA rated by Standard and Poor's. The City also had a ratings call scheduled with S&P that afternoon with regard to the City's bond sale for its land acquisition, as well as an appropriation for building a new public works facility (costing \$25 million). The City has over \$15 million between its reserves and stabilization funds and has 63% of its pension obligation funded within an amortization schedule set to expire in 2033. The City faced some rough years due to the COVID-19 pandemic, particularly with its free cash balance: after averaging \$5-\$6 million/year in free cash pre-pandemic, the City's balance dipped into \$1.5 million in FY 2020 and FY 2021. However, looking at FY 2022, the City anticipates having over \$5 million in revenue over the amount anticipated in local receipts and \$2 million in excess revenues for water and sewer services.

Mr. Viscay added that there is plenty of development happening in the City, such as the purchase of Suffolk Downs by a group called HYM. The project will be three times the size of Assembly Row in Somerville. The City estimates gaining \$46 million in new growth over 20 years, which would be helpful for the construction of the new high school. He stated that he wishes to make sure that the City is financially stable enough to pay for the school without a debt exclusion or an override vote. The Auditor asked if Revere would have to work with DOT for roadway accommodations, and Mr. Viscay replied in the affirmative, especially in relation to the location of the building on the site and access to the site. Mr. Viscay concluded that there is development occurring by Revere Beach and significant projects elsewhere and added that the City had \$4 million in new growth in FY 2022 and \$3 million in FY 2023.

Auditor Bump asked Mr. Viscay about the timeframe for the City to acquire Wonderland and begin construction on the high school. Mr. Viscay replied that the City Council recently approved the \$29.5 million bond authorization listed in its request and is currently wrapping up its 20-day referendum period, so the City can then file for site control. In addition, the City received a feasibility study extension from the MSBA, so the study can be finalized and brought to a vote at the school committee, City Council, and school building committee. The approval will lead to a final funding agreement with the MSBA, and Mr. Viscay stated that he is hopeful that the high school will be open for the Class of 2028.

Auditor Bump then solicited questions from the Board. Ms. Wagner concurred with Mr. Viscay about the financial position of the City, stating that the City tended to have higher free cash in the past, has a very strong stabilization fund, and has a very good coverage analysis and bond rating. Mr. Viscay mentioned that there is really high-quality construction going on, including the first beachfront hotel in 50 years. He also stated that one of the reasons they chose the Wonderland site for the high school was that the current high school is in a residential neighborhood where it will be difficult to build.

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

Auditor Bump: YES

Ms. Wagner: YES

Mr. Favorito: YES

Town of Orange

Mr. Eisenthal introduced himself and the Town's municipal officials to the Board (Gabriele Voelker - Town Administrator/Treasurer, Amber Robidoux - Assistant Treasurer and HR Benefits Manager, and Amber Dupell - Town Accountant). Mr. Eisenthal explained that the request is to approve financing of the remaining local share of the Fisher Hill School project. The Board had previously approved approximately \$16.5 million at the February 2022 meeting. He stated that the structure of the initial bond issue, settled in March 2022, was unorthodox, in the sense that it ramped up its impact on the Town's tax rate. The Board at the time recommended the Town come back instead for additional authorization, which the Town is now ready to do. Therefore, the Town plans to issue \$10 million in BANs in December 2022. Originally, the Town had planned to issue bonds in the range of \$5-6 million and then issue BANs for the remaining amount. However, interest rate market conditions made it such that the Town plans to just issue BANs to get cash flow through December 2023.

Mr. Eisenthal added that the approval of state qualified bonds would enhance the marketability of the notes, which is why the Town wants it to be done now for all \$10 million. He stated that S&P gave the Town an A+ underlying rating in February 2022. While the Town has faced some challenges in terms of the economy, as well as its debt issuance plans, it has also seen strong financial performance.

Mr. Eisenthal stated that the authorization of qualified bonds would also enhance any bonds the Town would issue in the next few years: if market conditions are favorable, the Town may issue \$5-6 million in state qualified bonds in about a year, but then would finance the local share when the MSBA approves the financial audit. He stated that he is hopeful the Town won't need all \$10 million, but they are going ahead with this amount in order to be conservative. He ended by saying the Town will only finance what it needs for the local share.

Auditor Bump then asked for an overview of other Town projects and information about its finances.

Ms. Voelker stated that the Town is a small rural residential community and has two major projects underway – a wastewater treatment plant and the school. She stated that the school project is going along very well with no overruns and is ahead of schedule. As far as future projects, the Massachusetts Board of Library Commissioners informed the Town that they had advanced a grant for a library.

However, estimated costs for the library increased from \$8 million to \$15 million, while the Town only received a \$5 million grant from the MBLC. The proposed library was rejected by vote on Election Day.

Ms. Voelker described this as a mixed bag: although not going ahead with the project may be good for the Town's finances, it is not as good for economic development.

Regardless, the Town has made great strides and is currently improving its infrastructure, notably water and sewer pipes from the 1800s. The Town received grants to improve South Main Street and plans to build a public safety complex in the future, with money set aside for a feasibility study in its most recent budget. They are looking three to five years down the road for this project. The Town also received a Community Development Block Grant for a feasibility study to renovate an old school building and repurpose it. Ms. Voelker then announced that the newly-passed state economic development bill included an earmark of \$3.4 million for remediation of the Mill Street fires, in order to clean up the downtown area and create much-needed parking. She stated that she is hopeful that the area could attract developers for apartments and other mixed-use buildings. The Town is also cleaning up its riverfront and expanding its park system, and it received a grant to create a bike railway system, together with the Town of Athol. The Town is also working to improve its industrial park and building a water tower, for which it received grants.

On the budget side, Ms. Voelker added that the Town's budget has been stable for a second year in a row, and she projects free cash to be between \$500-900K. The Town had \$1 million in free cash for the previous year. Likewise, the Town committed to adding over \$170,000 to stabilization funds, as well as \$25,000 towards opening an OPEB trust fund.

After Ms. Voelker's presentation, Ms. Wagner stated that she concurs with this view of the Town's finances. Ms. Wagner found it notable that the Town has done so much, given that small towns may not have professional economic development staff.

Mr. Favorito asked to clarify if the \$3.4 million in remediation funds came from the new economic development bill or from other legislation. Ms. Voelker replied that the appropriation came from the recently passed bill that the Governor was signing and that it would be administered by the state itself through the DEP.

Ms. Voelker also mentioned that the Town had done its own water testing and was able to confirm that it has no PFAS problems. Auditor Bump then asked if the Town is well-dependent. Ms. Voelker replied that there are Town wells, but that half the Town has their own personal wells.

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

Auditor Bump: YES

Ms. Wagner: YES

Mr. Favorito: YES

Long-Range Municipal Fiscal Stability

Ms. Wagner indicated that the Department of Revenue is getting balance sheets for the certification of free cash, and is noticing that trends of increasing free cash are continuing. She added she wasn't sure if the trend would continue, but is happy to see that the fiscal health of most communities continues to appear strong. Tax rates are also starting to come in, and she is expecting to see a huge influx of tax rates after Thanksgiving. Ms. Wagner added that tax rates are set within a very short time frame.

Ms. Wagner then announced that communities are starting to spend their funds from the opioid settlement and are figuring out how to expend them and that the DOR has been fielding many questions about that matter.

Auditor Bump asked how large the opioid settlement was and if it was similar to the tobacco settlements in its mode of distribution over several years. Ms. Wagner replied that funds from the settlement will indeed be spread over multiple years. She added that the Division of Local Services is working with the Attorney General's office in terms of providing information and guidance to municipalities. DPH is also providing program guidance, and they are discussing accounting issues. Settlements are still being made; pharmacies now are making settlements.

Auditor Bump asked how much Massachusetts received in the settlement. Ms. Wagner replied that she was not sure how much the total was, but she referred to the Attorney General's website, which has

more information about the settlement itself and how funds will be distributed (based on the quantity of opioids were distributed to a community, etc.).

Auditor Bump asked Mr. Favorito about the contributions communities are making to pension liabilities or OPEB trusts, how much of those he is seeing, and if they are substantial. Mr. Favorito replied that communities are benefitting from improved unfunded liabilities due to the gains in 2021 market performance, but official valuations won't be done until January 2023, and he would expect some moderation from market performance in 2022. He stated that communities are making strides to stick to a schedule of payments, which external parties like rating agencies like to see. As for OPEB contributions, he noted that there are communities beginning to make a commitment. The contributions are not as robust as pension contributions, but communities are starting to recognize unseen or unspoken liabilities.

Updates and Topics for Next Meeting

Auditor Bump asked if there are upcoming applications for December. Ms. Hershman and Mr. Arrigal answered they are not aware of any. Auditor Bump added she will keep the Board posted if a meeting will occur in December.

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

Mr. Favorito: YES

The meeting was ended at 11:57 a.m.