

**MUNICIPAL FINANCE OVERSIGHT BOARD Meeting
December 13, 2023**

(conducted by conference call)

MINUTES

Board Members Present: Dr. Ben Tafoya (Designee for State Auditor Diana DiZoglio), Deborah Wagner (Department of Revenue), Margaret Hurley (Office of the Attorney General), Minot Powers (Office of the State Treasurer)

Non-Board Members Present: Jana DiNatale (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), Bill Arrigal (Department of Revenue), Lynne Welsh (UniBank), Margaret MacLean (UniBank), Denise Murphy (Treasurer, Bristol-Plymouth RVTSD), Alex Magalhaes (Superintendent-Director, Bristol-Plymouth RVTSD), Nadine Rose (School Business Administrator, Bristol-Plymouth RVTSD), Brian Bentley (Superintendent, Greater Fall River RVTSD), Melissa Petrasso (Accountant, Greater Fall River RVTSD), Paul Kitchen (Director of Finance, Greater Fall River RVTSD)

The meeting was called to order at 10:00 a.m.

Dr. Tafoya made introductory remarks and read a statement noting that, in accordance with July 16, 2022 Massachusetts law, An Act Relative to Extending Certain State of Emergency Accommodations, as extended by Chapter 2 of the Acts of 2023, adopted March 29, 2023, and the Massachusetts Attorney General's Office February 18, 2022 guidance, this meeting of the Municipal Finance Oversight Board was being held via 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 that statement, Dr. Tafoya announced that the meeting was being recorded.

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

Minutes from November 8, 2023

Dr. Tafoya asked for any comments from the Board on the November 8th meeting minutes. There was none. Dr. Tafoya noted that, because he had attended the previous meeting, he would move forward with voting to approve the minutes on behalf of the Auditor. Ms. Wagner then made a motion to approve the minutes from the last meeting, which was seconded by Ms. Hurley. On the question of approval of the minutes from the meeting on November 8, 2023, the members voted as follows to approve the draft minutes without any changes:

Dr. Tafoya: YES

Ms. Wagner: YES

Mr. Powers: YES

Ms. Hurley: YES

Bristol-Plymouth Regional Vocational Technical School District

Dr. Tafoya welcomed Dr. Magalhaes and his team before the Board and asked them to provide an overview of the school district's request and financial status. Ms. Rose stated that the district is looking to get approval for State Qualified Bonds due to the market and interest rates. The district hopes to get approval from the state, as existing interest rates and the district's bond rating do not work in their favor.

Dr. Tafoya asked about the district's financial condition. Ms. Rose replied that the district is in a very healthy state with clean audits, but their bond rating is not high due to a lack of experience with debt. Ms. MacLean indicated that the rating agencies view the district as strong, but had concerns about the size of debt the district plans to take in with the project.

Dr. Tafoya then opened for questions from the Board. Ms. Wagner provided a general statement, indicating that when applicants seek Qualified Bonds, the Board looks at their coverage analysis, as debt payments are taken out of local aid. The Board would like to see applicants have at least twice the amount of local aid as their debt payments. She recognizes that in regional school districts, all member communities are assessed their shares of the debt service payment. Bristol-Plymouth RVTSD's debt service payment is close to \$12 million, and it has \$15.3 million in local aid (a 1.3 coverage ratio), which is much lower than the Board would like to see. Despite these concerns, she sees that the district is in good financial health and has substantial free cash. Ms. Rose indicated that the addition of Freetown as a member community of the district on July 1, 2024 will help increase the district's state aid and that the district anticipates enrolling an additional 100 students when the new facility opens. Ms. Wagner replied that the Student Opportunity Act would increase aid even further to the district. Ms. Wagner did not have concerns about the amount of aid covering the district's debt because of the communities' local assessments, but wanted the Board to be aware of the financial process. She saw the likelihood that the district would fail to pay its debt due to declining aid as nonexistent. As a result, Ms. Wagner recommended that the Board discuss formalizing a policy on coverage ratio requirements. Dr. Tafoya agreed that this would be a significant discussion for the Board to have.

Ms. Hurley said that she had no questions for the applicant, but had questions on the issue raised by Ms. Wagner. Mr. Powers asked about the current capacity of the school facility compared to the planned capacity of the new building. Dr. Magalhaes replied that the building currently houses a little over 1,300 students and anticipates that the new facility will house at least 1,440 students.

Dr. Tafoya asked about the state of the current building. Dr. Magalhaes replied that the current building was built in 1972 and had an original capacity of 800 students. Since then, there have been some renovations and additions to increase classroom and shop sizes but they are pretty maxed out. They have a waiting list of 700 students. The district has continuing student interest; it had recently accepted 350 students out of 700 applications.

Dr. Tafoya asked if the district could comment on the BANs/short-term debt for the early stages of the project. Ms. MacLean replied that the district has \$61 million in outstanding temporary loans that will mature at the end of February. Because the district has no outstanding debt, Ms. MacLean and her team wanted to make sure that the district enter the market with some notes. Dr. Tafoya asked whether Ms. MacLean anticipated that the debt will represent the entire authorization the next time they go to market. Ms. MacLean replied that she did not anticipate that and would only roll the existing note and add to it for another year, at about \$75 million. The project was starting to move along, as the district had received a few construction bids.

Ms. Wagner asked how many member communities had authorized debt exclusions for this project. Ms. Rose replied that 3 of the 7 communities (Freetown, Rehoboth, and Bridgewater) had authorized debt exclusion. Ms. Wagner informed the Board that the member communities' debt exclusions represent a dedicated revenue stream to pay the project debt.

Dr. Tafoya asked for a motion on the school district's application. Ms. Wagner then moved to approve the application of the Bristol-Plymouth Regional Vocational Technical School District to issue qualified bonds to cover the new district high school building. Mr. Powers seconded the motion. A call of the roll was made as follows:

Dr. Tafoya: YES

Ms. Wagner: YES

Mr. Powers: YES

Ms. Hurley: YES

Greater Fall River Regional Vocational Technical School District

Dr. Tafoya introduced Mr. Bentley and his team before the Board and ask them to explain their request. Mr. Bentley replied that the district is seeking to build a new high school facility and demolish the existing facility, which was built in 1968. The intent of this project is to increase enrollment while keeping the same number of programs offered under their school model. The district has broken ground on the project.

Dr. Tafoya then asked about the district's finances. Mr. Kitchen explained that the district currently has a budget of almost \$31 million, of which \$22 million comes in the form of Chapter 70 aid. All remaining funds come through the contributions of member communities (Fall River, Somerset, Swansea, and Westport). Fall River pays a majority of the assessments (76.5%). The district will be certifying \$1.5 million in excess and deficiency funds. Mr. Kitchen noted that the district is a little low on net school spending, so officials will incorporate \$1 million into the budget for education expenditures. The district had received a \$2.5 million skills capital grant for equipment, as well as a \$5 million skills capital grant, which covers 3 shops for \$1 million each, and \$2 million will go toward construction of the new building. Mr. Bentley added that the town of Swansea had voted for a debt exclusion, while Somerset and Westport had not.

Dr. Tafoya then opened up for questions from the Board. Ms. Wagner indicated that the district has twice the amount of local aid compared to their debt payment, according to the district's coverage analysis. She recognizes that the district has sufficient resources, including assessments from the member communities, and does not anticipate local aid declining.

Ms. Hurley asked how construction costs have changed in the district and if there had been a real increase or decrease in costs. Mr. Bentley replied that costs have fluctuated and that the district is doing a lot of long-term purchasing. The district did some short-term borrowing in the form of \$750,000 for feasibility. They are halfway through paying that and plan to pay off \$350,000 for the feasibility BAN in June. They previously borrowed \$25 million, and the communities are paying for that. The district anticipates another BAN before another bond borrowing.

Mr. Powers asked what the new capacity will be for the district. Mr. Bentley replied that the district currently has 1,437 students and hopes to increase that number to approximately 1,500 students or a few more.

Dr. Tafoya asked for a motion on Fall River's application. Ms. Wagner then moved to approve the application of the Greater Fall River Regional Vocational Technical School District to issue qualified bonds to cover the building of a new district high school. Mr. Powers seconded the motion. A call of the roll was made as follows:

Dr. Tafoya: YES

Ms. Wagner: YES

Mr. Powers: YES

Ms. Hurley: YES

Discussion of Formalized Coverage Ratio Policy

Dr. Tafoya proposed that the Board continue discussion on formalizing a coverage ratio policy, as brought up by Ms. Wagner. Ms. Wagner stated that, while it is good to have a guideline and force the Board to look closely and see how much debt is deducted from local aid, one of the benefits of the Qualified Bond Program is that it is designed to help a community that might not have a great bond rating. For Bristol-Plymouth, a lack of experience in the market had affected their bond rating. If a municipality, not a regional school district, comes before the Board and states they have a debt exclusion to pay debt for a project in their request, the Board would know that a dedicated revenue source is being used to replace the local aid being withheld. To her, this raises the question of how the Board can balance these factors.

Dr. Tafoya stated that the OSA does a lot of preparation for the Auditor summarizing the applicants' requests, which includes discussion of any financial issues related to the applicant. For this meeting, the office had concerns about the coverage ratios. Dr. Tafoya said he believes it makes sense for the Board to have some guidance. Board members would be concerned if a municipality came before them with a coverage ratio in the range of that of these two districts and did not have a debt exclusion to help pay debt. He added that, should the Board create guidelines, they might want to have districts provide more detail on the plans of member communities to absorb debt. He indicated that these districts usually come before the Board only when they are building new facilities, which is a very substantial investment.

Ms. Wagner stated that, in municipalities, town meeting or council members take a formal vote to authorize debt, meaning a community has decided to take on the debt. Typically, there is a presentation to the town council or during a town meeting, which details the financial impacts of a project. In addition, member communities of a regional school district are required to vote for a project. There are some instances where there are member communities that vote against a project but have to contribute because a majority of the member communities has voted to authorize the debt.

Dr. Tafoya indicated that the Bristol-Plymouth and Greater Fall River RVTSDs both had had some member communities vote against the projects outlined in their requests, but the largest member communities had voted in favor. He recognizes that the communities that did not agree to the project will have to deal with substantial debt payments over a 30-year period.

Ms. Wagner asked the Board Members to think about how often they see local aid decrease in communities and if that would affect their thought process. Ms. Hurley replied that she is in favor of a formal policy or additional information in the MFOB questionnaire. She then asked Ms. Wagner if she saw any concern about a decrease in aid. Ms. Wagner replied that she had spoken to Jay Sullivan [at DESE] the

previous day and that Chapter 70 aid is a protected class on which the Legislature would have to vote. She stated that the Student Opportunity Act is not yet fully funded, so there is opportunity for aid to continue to increase in the coming years – therefore, she is not concerned. Dr. Tafoya added that vocational districts do not receive full transportation reimbursements, so there is not much to cut there. There could be negative effects if there are cuts to transportation funding for regional school districts.

Ms. Hurley asked Ms. Wagner if DOR had put together the coverage analyses of the applicants, to which Ms. Wagner replied that they had.

Ms. Hurley asked the other Board members if there is other information that applicants should provide if the coverage analysis policy was formalized. Ms. Wagner replied that they would want to know which communities voted on a debt exclusion or if a dedicated revenue stream is available to cover debt payments for a project. Ms. Hurley added it might be good to include a statement in an applicant's coverage analysis that says whether the coverage requirement had been met.

Ms. Wagner asked if the coverage ratio would be the basis for any MFOB vote and if it would be a hard-and-fast requirement. Ms. Hurley replied that she had meant that it could be a factor in the Board's decision. Ms. Hurley then asked if there is a way for the Board to monitor debt service payments or if they can reach out to the applicants to confirm information. Ms. Wagner replied that, once a community or district has issued Qualified Bonds, the debt automatically comes out of their local aid. DLS would have a handle on an applicant's finances, especially regional school districts, which are compelled to send DLS their audit reports and a balance sheet for certifying excess and deficiency annually.

Dr. Tafoya expressed that what the Board might choose to do is to provide guidance that would have a minimum coverage ratio for approval, but could give exceptions to communities or districts that have low coverage ratios but have debt exclusions or a dedicated revenue stream to cover debt. The Board can then use those factors at their discretion in their decision to approve or deny a request. This information could be added to the application, and they can inform applicants with low ratios (such as the applicants from the meeting) in advance.

Ms. Wagner stated that applicants would need enough local aid to withhold debt payments. Ms. Hurley replied that it would be good to look at all communities' coverage analyses and inform them that their coverage ratio is a factor the Board considers when deciding on requests. Ms. Wagner agreed.

Dr. Tafoya asked if the Board would like to review a draft of the policy if it is created before the Board's January or February meeting to consider at that meeting. Ms. Hurley replied it would be helpful. Dr. Tafoya asked who would want to draft a proposal. Ms. Wagner replied she could draft something and see if an attorney from DLS can review it and would try to get it to the Board Members by the end of the week.

If so, Dr. Tafoya asked the Board if they wanted to put a discussion on a formal proposal on the agenda for the January meeting. All other members replied that they would be available for that meeting.

Dr. Tafoya asked Mr. Powers if he had any comments, and he said he liked the idea of having a written policy to review. Dr. Tafoya said that, even if the Board Members received a draft in two weeks, that would give them 10 days to review it.

Long-Range Municipal Fiscal Stability

Ms. Wagner stated that DLS was continuing their tax rate setting process, indicating that the vast majority of rates would be set in December. She noted that there had been no surprises or concerns at that point.

Ms. Hurley talked about tax title foreclosures and municipal accounting for any excess funds in light of the recent US Supreme Court Decision in the *Tyler* case. Her office discovered there is a pending case involving the town of Tyngsborough in the state Land Court. The court is requesting amicus briefs, so her office will submit a brief and is trying to get more clarity on the state's process, as well as any actions municipalities may need to take. Ms. Wagner added that DLS had issued a bulletin with guidance for cities and towns, as the issue has not settled in Massachusetts yet. For the time being, municipalities can set aside tax title foreclosure funds greater than the foreclosure amount until a ruling has been made.

Ms. Wagner stated that the Governor's supplemental budget allows easier accounting solutions regarding opioid revenues, in which these funds can go into a special revenue fund and can be expended by the CFO without additional appropriation. Another provision in the budget involving c. 44, § 53, allows the Director to decide where one-time funds are deposited (e.g., a special revenue fund), should they arrive in a manner similar to the opioid settlement funds. Ms. Wagner added that there are other fixes to municipal finance in the budget, such as allowing municipalities to expend from insurance proceeds less than \$150,000 before receiving them, and, if the proceeds do not materialize, the municipalities would have to raise that amount on the recap. Other provisions allow mitigation funds to be segregated into separate special revenue funds and allow municipalities to amortize deficits related to flood damage over three years.

Updates and Topics for Next Meeting

No one present indicated that they were aware of any applicants planning to come before the Board at its next meeting.

Adjournment

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

Dr. Tafoya: YES

Ms. Wagner: YES

Mr. Powers: YES

Ms. Hurley: YES

The meeting ended at 10:53 a.m.