

MUNICIPAL FINANCE OVERSIGHT BOARD

Meeting February 9, 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), Bethiny Moseley (Department of Revenue), Monica Mulcahy (Hilltop Securities), Lisa Driscoll (Hilltop Securities), David Eisenthal (UniBank), Gabriele Voelker (Town Administrator/Treasurer, Town of Orange), Gail Weiss (Accountant, Town of Orange), Domenic Sarno (Mayor, City of Springfield), Timothy Plante (Chief Administrative and Financial Officer, City of Springfield), Lindsay Hackett (Deputy Chief Administrative and Financial Officer, City of Springfield), Pat Burns (Comptroller/Auditor, City of Springfield), Chris Caputo (Collector-Treasurer, City of Springfield)

The meeting was called to order at 11:01 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 January 12, 2022

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 January 12, 2022, 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

Town of Orange

Mr. Eisenthal introduced himself, Ms. Voelker, and Ms. Weiss before the Board. Mr. Eisenthal stated that the town is seeking authorization for over \$17 million in bonds under Chapter 44A for a school feasibility study, roadway design, and a school building replacement project (the Fisher Hill Elementary School). The bond sale will take place on Feb 22nd and settle on March 3rd; there are bond anticipation notes (BANs) that will mature on March 4th. There have been multiple discussions with Ms. Wagner and others regarding debt structure. The design portion has a four-year level debt structure. The school debt is amortized over up to 30 years from the initial issue date, and the debt structure involves a ramp-up of principal. The town's bond counsel takes the view that such a structure is compliant with Chapter 44 requirements that principal be retired as least as fast as level debt service, and it is the intent of the town to use this structure. While the town's total debt service will increase during the next five years, Mr. Eisenthal noted that the school project is the only major financing that is debt-excluded; in his view, this temporary inconvenience is more than made up for by the positive interest-rate environment.

Mr. Eisenthal then provided additional context about the Fisher Hill Project: an existing school (Dexter Park) will be closed, and a new school (Fisher Hill) will be constructed in its place, at a cost of about \$57.7 million. The MSBA (Massachusetts School Building Authority) has approved a maximum grant of \$34.6M to finance this project, leaving the town of Orange with their minimum local share to pay of \$23.1M. Mr. Eisenthal stated an additional local share is expected, and the town will be happy to come back to the MFOB to seek approval as needed for additional issuances. Currently, he expects an additional \$4M to be raised in bonds next year, as well as another \$3M in BANs; permanent financing would follow approval of the project by the MSBA. In addition, the Town of Orange has applied for an S&P rating and is expecting a rating in the high A range.

Auditor Bump then asked if Ms. Voelker could give a general overview of town finances, the impact of COVID-19, and the infusion of pandemic relief dollars. Ms. Voelker stated that the town has come a long way over the previous 9 years and now is on a solid financial footing. According to Ms. Voelker, the pandemic had minimal financial impact on the town, as they did not have to spend a lot of money: the town purchased little other than PPE (personal protective equipment) items. Orange received about \$400K in CARES Act funding, but will be returning "a good portion" as unexpended funds.

Ms. Voelker added that the town has been financially conservative, mostly because its finances have "never been stellar." The town has made significant improvements in their stabilization fund (taking it from around \$1,000 nine years ago to \$600,000 today). The town has also established a capital plan to look at their future capital spending, which consists essentially of two major projects: a wastewater treatment plant renovation and the school renovation. While there are other projects on the drawing board for the upcoming decade, there are no voted projects on the horizon.

Ms. Voelker asked if Auditor Bump wanted to know more about these longer-term projects. Auditor Bump asked if the projects were in their capital plan. Ms. Voelker then detailed the town's water and sewer infrastructure projects, including the fixing of water flow to the town's industrial park (because the town needs to increase water flow in order to meet ISO requirements). Most of the funds for this project came from state grants, and the town applied for some ARPA funds. She then spoke about a \$2 million federal Transportation Improvement Program (TIP) project on North Main Street that will be guided by the Franklin Regional Council of Governments and the Massachusetts Department of

Transportation. The town's share of \$750,000 in engineering design fees for this TIP project is part of this borrowing, and \$200,000 in Chapter 90 funds will be put into the project as well.

Ms. Voelker then spoke about the installation of new water and sewer lines underneath North Main St., including the replacement of a failing culvert and the redirecting of a brook that is running under the street. Main St. will be completely rehabilitated, and the town will be using "Complete Streets Funding Program" grants from the Department of Transportation to create ADA-compliant sidewalks. She then described the town's two enterprise funds, used for wastewater and water services, and mentioned that they are looking at a new well.

Auditor Bump thanked Ms. Voelker for her description of future capital projects. She then asked Ms. Weiss if she had anything to add. Ms. Weiss replied that the COVID pandemic did not affect the town financially, as it currently has around \$1.5 million in free cash and increased fund balances and that around \$900,000 came in because of unexpected returns (mostly due to school closures).

Auditor Bump opened the floor to further questions from the Board. She asked Ms. Wagner if there is anything unusual about the way the town is structuring the debt for the school replacement project. Ms. Wagner replied that school projects usually consist of level-funded principal payments, but that municipalities are allowed to have a slightly different structure. She added that she has no concerns about the structure and applauded the Orange financial and management team for making tremendous improvements in their financial situation and implementing a capital plan. Mr. Favorito and Ms. Hurley said they had no questions. Auditor Bump commended the team as well.

Auditor Bump then asked how many students will be housed in the new school building. Ms. Voelker replied that the building will house about 500 elementary school students. They are really only adding 5th and 6th grades to Fisher Hill, but adding a huge wing to Fisher Hill and repairing the remainder. She added that the MSBA will provide an almost 80% match for the project.

Ms. Wagner made remarks regarding the town's coverage analysis, noting that the Division of Local Services used the highest period of debt service payments in order to make the most conservative analysis. She 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

Ms. Hurley: YES

Mr. Favorito: YES

City of Springfield

Mayor Sarno introduced himself and his team before the Board. He summarized the City's multitude of investments, including the rehabilitation of schools, improving roadways, and making investments in new vehicles. He stated that the City is in a strong financial position and has recently secured the highest bond rating the city has ever received. He also noted that they have a "healthy" stabilization fund.

Ms. Hackett then introduced herself and started a presentation of the projects to be funded through the Qualified Bonds. Using PowerPoint slides, she went through the requested amounts; most of the request consisted of the demolition and replacement of two school buildings (the DeBerry-Homer project). The City is also working on replacing windows and doors for the Springfield High School of Science and Technology.

Mayor Sarno added that the MCDI building was a “monstrosity” and a danger to the neighborhood. He stated that the construction of the DeBerry-Homer School follows work on combining two institutions that the City spearheaded years ago. He also mentioned the Watershops Pond Dam project, which is currently modernizing a dam of great importance – if it were to fail, it would “wipe out the neighborhood.”

Auditor Bump asked the Springfield officials if they could give an overall financial picture of the City, their pandemic response, and any pandemic-related funding they may have secured. Mayor Sarno replied that the City was “very aggressive” in securing funds during the pandemic and that a large amount of funds went to purchase PPE, retrofit all city buildings and schools, and improve HVAC systems. The City never closed and kept essential services going. The City also used millions of dollars to ensure that all students had iPads and/or laptops for virtual learning. Springfield also opened up 18 satellite areas for students that served breakfast, lunch, and dinner daily. He also added that there were a number of investments to protect and preserve the city’s workforce.

Mayor Sarno stated that the City tried to leverage its existing money in order to offset losses and bring in other grants; Springfield achieved a strong financial position and was able to accurately track deficit spending. He added that Springfield fortified and stabilized the local business community when they were unable to open; furthermore, ARPA funds were used to stabilize homeowners by helping them pay mortgages, rents, and utilities.

Mr. Plante added that this was his first time that he had dealt with deficit spending in the City and felt that the City was prepared to track expenses. He stated that the city wanted to maximize FEMA, CARES, state assistance, and ARPA reimbursements. In addition, the City certified over \$27 million in free cash - the healthiest certification they have had in years. The City was also able to avoid paying school bus companies for services not rendered during the pandemic.

Auditor Bump asked when the last time was that Springfield came before the Board. Mr. Plante replied that he believed it must have been a little over two years ago.

Ms. Wagner reiterated that Springfield has made tremendous progress and applauded their financial team. She stated that she had spent a part of her career as a field rep and supervisor in Springfield and knows their history well. She expressed confidence in the strength of their financial position and their financial team.

Mr. Favorito asked how Springfield used their last MFOB bond authorization. Mr. Plante replied that they had built two other co-located elementary schools in the city’s North End and that it was one of the best-received projects in that neighborhood. Ms. Hackett also mentioned there were other MSBA repair projects.

Mr. Plante then noted that the City Council had recently approved a bond authorization of \$8.1M for DPW vehicles and that the City intends to return to the MFOB in March to present this request. Auditor

Bump commented that the MFOB is looking for a longer useful life than what was advertised for these vehicles. She then asked Ms. Wagner if she had any concerns. Ms. Wagner replied that she did not have any.

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

Auditor Bump: YES

Ms. Wagner: YES

Ms. Hurley: YES

Mr. Favorito: YES

Long-Range Municipal Stability

Ms. Wagner stated that the Town of Hardwick seems to be making progress with the USDA, although the negotiations are confidential. Ms. Wagner then added that two accountants recently resigned in municipalities and that the shortage of municipal finance and administrative staff in the Commonwealth is a concern. She reported that she has been working with the Financial Management Resource Bureau to help municipalities secure staff members. She noted that this problem was not limited to Massachusetts, but rather appears to be a nationwide issue. Furthermore, her office is working with community colleges in order to get students interested in municipal finance; she described this as a constant topic of discussion for the Division of Local Services.

Auditor Bump then asked about the ARPA money available for municipal revenue replacement through the federal government: through the Final Rule, will every community receive \$10 million in revenue replacement funds? Ms. Wagner replied in the negative. She provided an example: a municipality that did not access MSBA funds before COVID, but did do so during COVID would not appear to have had any revenue loss. This was unfair, so the Treasury introduced a threshold of \$10 million that could be taken automatically – akin to the “standard deduction” on everyone’s taxes. This revenue loss component may be used for almost any government purpose, but it is not an additional tranche of funds.

Auditor Bump stated that she understood that the different categories of revenue loss were treated separately – not what the town lost in the aggregate, but whether a town lost within specific revenue streams. Ms. Wagner confirmed that revenue loss is being treated as a municipal aggregate loss from all sources.

Ms. Hurley noted that Springfield’s S&P rating report made her realize that municipalities may still be hampered by a negative rating from the start of the pandemic. She then asked if municipal financial outlooks are being downgraded because of outdated ratings, despite an actual better financial situation. Ms. Wagner replied that “there was some talk” about factoring in COVID mitigation factors into a rating, but her impression was that it hasn’t been implemented yet. She added that rating agencies will be looking at that more closely in the future.

Updates and Topics for Next Meeting

Auditor Bump asked if there were other municipalities besides Springfield that will come before the board in March. Ms. Hershman and Ms. Wagner stated they had not heard of others.

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 11:56 a.m.