

MUNICIPAL FINANCE OVERSIGHT BOARD

Meeting April 13, 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)

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), Cole Cagle (Office of the State Auditor), Bill Arrigal (Department of Revenue), Sean Cronin (Department of Revenue), Bethiny Moseley (Department of Revenue), Monica Mulcahy (Hilltop Securities), Abby Jeffers (Hilltop Securities), Cinder McNerney (Hilltop Securities), David Eisenthal (UniBank), Neil Perry (Mayor, City of Methuen), Jennifer Finnigan (Treasurer/Tax Collector, City of Methuen), Maggie Duprey (Chief Administrative and Financial Officer, City of Methuen), Bryan Smith (Town Administrator, Town of Erving), Jennifer Eichorn (Treasurer, Town of Erving), Deborah Mero (Town Accountant, Town of Erving), Troy Clarkson (CFO, City of Brockton), Patrick Hill (DPW Commissioner, City of Brockton), Martin Brophy (Treasurer/Collector, City of Brockton), John O'Donnell (Board of Assessors Chair, City of Brockton)

The meeting was called to order at 11:01 a.m.

Auditor Bump made introductory remarks and directed Ms. Hershman to read a statement noting 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. After the statement was read, 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 Mr. Favorito, who was not in attendance.

Minutes from March 9, 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 March 9, 2022, the members voted as follows to approve the draft minutes without any changes:

Auditor Bump: YES

Ms. Hurley: YES

Ms. Wagner: YES

Town of Erving

Mr. Eisenthal introduced himself and the team before the Board and provided an initial statement on the application. He mentioned that the Town of Erving is seeking authorization for the issuance of \$1,570,000 principal amount of state qualified bonds to finance the replacement of a forced sewer main

in the Erving Center section of the Town. The Town currently has \$1,570,000 in BANs that were issued in June 2021 and are maturing in June 2022.

According to Mr. Eisenthal, the Town is seeking state qualified bond approval because of some uncertainty regarding the credit of the Town. He said that it has been many years since the Town has sought a bond rating, and they are aware of some significant credit strengths that the Town has, for instance its very significant financial reserves and very high tax base per capita. However, over 80% of the tax base comes from the Northfield Mountain Hydro Facility. If the rating agencies believe that such a concentration creates a credit negative, the Town believes that its future underlying rating could fall in the "A" rating category. Mr. Eisenthal then said that, according to their bond counsel, this bond financing is to be taxable. He discussed the Erving Wastewater Treatment Plant, which is operated by a paper manufacturer called Erving Industries under an agreement with the Town. This project is not going to serve Erving Industries specifically; but the particulars of the agreement make the project taxable. The Town plans to issue bonds this June with a rating from S&P Global Ratings and is looking at a 20-year debt service structure. Pricing would be around June 1, and settlement would be around June 15th. Mr. Eisenthal also clarified that the debt service schedules that they had submitted showed a different principal amount, since what they wanted to do was show estimated debt service based on expected coupon rates. However, the Town is requesting approval for the full \$1,570,000, because they don't know for certain what the actual coupon rates will be.

Auditor Bump asked if a Town official could provide an overview of the Town's finances, COVID relief money expenditures, and other information so the Board could see where all these factors fit within capital planning.

Mr. Smith stated that the wastewater main line project pre-dates the COVID pandemic (as it goes back about four years) and is part of the Town's capital strategy. As for Town finances, the Town has strong reserves and \$10M in stabilization funds. The Town does not have an inability to fund the project, but feels strongly that it needs more experience with borrowing. As for COVID funding, all funds have been used for COVID response and other sewer-related expenses. Primarily, Mr. Smith stated that a neighborhood needed sewer restoration work.

Auditor Bump opened the discussion to questions from the Board. She asked Ms. Wagner about the taxable status of the bonds, noting that this was not a matter brought to their attention before. Ms. Wagner replied that her expertise on this subject is limited and referred the question to Mr. Arrigal. Mr. Arrigal replied that he does not see anything concerning aside from slightly higher rates. Auditor Bump asked if there is anything about the process from the Board's point of view that changes as a result of the status of bonds; Mr. Arrigal confirmed that nothing changes.

Ms. Wagner then pointed out that the Town of Erving has just over \$2M in outstanding long-term debt. The largest portion of it is \$2.016M, upon which the Town is paying around \$276K annually in debt service. This was a debt issue taken out in 2009 through MCWT, which matures in 2029. Ms. Wagner said DOR certified almost \$1 million in free cash for the Town in FY2022, and the Town has about \$10 million in stabilization funds, which she characterized as a very strong financial position. The Town's free cash balances have been rising, stabilization has increased, and the Town's override capacity has also been increasing, as has its undesignated fund balance. She further stated that it's good to see that the other debt will be paid off within the next seven years. She also mentioned that the Town's coverage ratio is only 3.5x net state aid inclusive of this new issue; normally DLS looks for it to be at least 2x net state aid.

Ms. Wagner added that she understood that the Town doesn't have any immediate plans to issue new debt. She asked Mr. Eisenthal whether there are debt plans beyond that time period. Mr. Eisenthal replied that there are no immediate plans, but there may be additional capital projects. The Town has made a practice of borrowing for capital projects from the stabilization fund. In the next few years, there could be some bond-financed capital projects, but not in the immediate future. Ms. Wagner warned that future debt may impact the Town's coverage ratio and what the Board would be comfortable seeing.

Ms. Hurley asked who the bond counsel is for the Town. Eisenthal replied that Locke Lord is the Town's bond counsel. Ms. Hurley then asked if Erving Industries operates and owns the wastewater facility. Mr. Eisenthal said no; there was an agreement between the Town and Erving Industries dating back to 1973 – the Town owns the plant, but Erving Industries operates it for a nominal fee. He stated that the Town's bond counsel went into a detailed review about the temporary financing of the agreement and concluded that the particulars of this agreement rendered this financing taxable.

Auditor Bump asked if the Northfield Energy Center was a hydropower dam. Mr. Eisenthal replied that it is a facility built in the '60s and '70s to complement nearby nuclear power plants. Power from other sources during low periods of electric demand is used to pump water into the reservoir. During peak demand, water is released from the reservoir and falls into containment on the Connecticut River to supplement the power generated by the grid. According to Mr. Eisenthal, that facility is over 80% of the Town's tax base. Auditor Bump asked who owns the center. Mr. Eisenthal replied that it is an entity called First Light Resources. Auditor Bump then asked whether the nuclear facilities nearby were closed. Mr. Eisenthal replied in the affirmative.

Auditor Bump then asked about the wastewater line in the Town and if it would impact the newly-resurfaced Route 2. Mr. Smith replied that Erving lies within the unimproved section of Route 2, and they have already patched the area trenched. They are trying to work with MassDOT to get a permanent improvement to their section of the roadway. Auditor Bump then asked what parts of Route 2 are undergoing improvements. Mr. Smith replied that sections of Route 2 from Orange to Phillipston received improvement.

Ms. Wagner then moved to approve the application of the Town of Erving. 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 Brockton

Mr. Clarkson introduced himself and his team before the Board. Since the City's last appearance before the MFOB, the City has finally introduced its first-ever financial policies, now part of a GFOA-award-winning budget. Auditor Bump congratulated the City on its GFOA award.

Mr. Clarkson then began to provide a brief financial overview. The City received over \$18M in CARES funds and convinced the county to reimburse \$19M; all of that went to educational and public health mitigation of COVID impacts. The City is working hard to spend \$35M in ARPA aid funds. They are trying

to get additional funds, including from the bipartisan infrastructure bill.

Mr. Clarkson stated that \$19M of the request relates to long-awaited water infrastructure investments, since some of the City's water pipes were installed in the 19th century. The City instituted a user fee, whereby revenue would be dedicated to debt service in order to upgrade the water infrastructure. The entirety of that money will be used to upgrade water pipes and associated road work. He added that there is an older issuance of debt from 2015, and the City is using the remainder of that amount for energy efficiency improvements. They intend to use that money to make energy improvements at the baseball stadium; and some CARES and ARPA monies were used for infrastructure improvements. They used the stadium as a vaccination center. Finally, the City council has approved \$3.3M to purchase new fire apparatus. The fire vehicles had been long neglected, and the amount will be used to purchase 3 pieces of apparatus.

Mr. Clarkson added that they are working on the design and construction of a \$98 million new public safety complex, working closely with Locke Lord and Hilltop Securities to manage the project effectively. The project is within the levy limit so the City did not need to seek a debt exclusion. Mr. Clarkson said that the City is working very hard to keep the City affordable to residents.

Auditor Bump asked if there were any questions from the members of the Board. Ms. Wagner indicated that the City is doing very well, with a strong free cash position and almost \$10M in stabilization funds as well. She stated that the City has a water enterprise fund to help pay for the costs of water infrastructure improvements, as well as "extremely healthy certified retained earnings."

Ms. Hurley asked Mr. Clarkson about the energy conservation bonds – she noted that the application includes an authorization from the City Council from 2015, but there is no updated City Council vote that reflects today's application. Mr. Clarkson replied that this is correct, because this proposed borrowing completes the total authorization under the original vote and the City didn't believe that an additional vote was necessary.

Ms. Hurley then asked if the City came to the Board in 2015 for approval. Mr. Clarkson replied that they had done so, but only for the amount of debt that was being issued at that time, hence their return to get in an approval for the remainder of the debt issue.

Ms. Hurley then said that she double-checked Chapter 44A, Section 2, which requires City Council approval, but does not state that that the approval must take place within a certain amount of years of Board review. She stated, however, that the Board usually sees votes more proximate in time to its investigation. She said she wanted to be sure that the authorization covers that specific amount from the 2015 vote. Ms. Hurley then asked if the work Mr. Clarkson verbally described was being done in accordance with the agreement between the City and Ameresco Inc. Mr. Clarkson confirmed that it was and provided details on the procurement process. Specifically, after 2012, M.G.L. 25A allowed for a new procurement process for energy efficiency with longer contract terms. Ameresco was selected as the energy services provider in 2015, and they still remain the provider for energy improvement services.

Auditor Bump then asked when the City would see upgrades to the D.W. Field Park. Mr. Clarkson replied that his team will be before the City Council next Tuesday night to present their plan to use \$35 million in ARPA funds, a good portion of which will be used for D.W. Field Park improvements and other improvements and upgrades to parks and playgrounds in every ward of the City.

Ms. Wagner then moved to approve the application of the City of Brockton. 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 Methuen

Mayor Perry introduced himself and the City's team before the Board. The Mayor stated that the City has established a track record for fiscal stability and has improved its bond rating. The City has developed a formal capital improvement plan, as well as (for the first time in the City's history) a 5-year financial forecast. Mayor Perry said his team is coming before the Board to help finance some capital improvement projects.

Ms. Duprey then introduced herself as the City's CAFO. She stated that the City has worked diligently over the last 2.5 years to move forward and shift the mentality from "reactive" to "proactive." According to her, the City has created a formal 5-year capital improvement plan (CIP) and a 4-year forecast presented annually and has increased its bond rating from an A rating with a stable outlook to an A+ rating with a positive outlook in 2021. Furthermore, they have greatly increased their free cash; when Ms. Duprey first started, the City was almost negative \$2 million in free cash, whereas their last certification was at just under \$13 million in free cash. In addition, the City has retained earnings that have increased from \$3.8 to \$6.9 million, and their general stabilization fund has increased from \$1.6 million to \$4.4 million over the last two and a half years.

Ms. Duprey also stated that the City is working to implement a new financial management system (MUNIS) and plans to launch it in January 2023. This will consolidate City and school financials into a single system and will include digital HR management as well. Another one of the City's large projects was related to collections on tax titles – over the last 2.5 years they collected \$2.6 million in old tax title balances.

Ms. Duprey then moved to the current request, which relates to financing FY2022 capital improvements. It would allow the City not only to have the ability to get the projects done, but also to increase the City's debt service ratio, which is currently at over 2%, while their goal for that is to be somewhere between 5% and 10%. The City has \$200M in projects on their CIP and is working on a feasible plan. She stated that she has reviewed this matter with Sean Cronin in order to see how they can affordably move that forward. As for CARES and ARPA monies, Ms. Duprey stated that the City received \$4.4M in CARES funds, which were primarily used for continuous mitigation measures for the ongoing pandemic. The City was awarded just over \$4.6M in ARPA funds, and, while not much has been used yet, Ms. Duprey's team has been working with the City Council and Mayor to work on greenlit projects. According to her, the majority of these projects were already present in the CIP and represent water and sewer infrastructure projects, as well as equipment purchases and the purchase of an early education center.

Mayor Perry then added that the City has settled its greatest liability; they had an arbitration with the police superior officers union, and the arbitrators sided with the City, thus improving its financial ratings.

Auditor Bump asked what the current situation was with police union negotiations. Mayor Perry informed her that his team had put a contract before the City Council that avoided the “stacking” language related to patrolmen salaries. The Mayor said he believes the contract may be rejected but, nonetheless, he is hopeful the matter will be resolved in the coming weeks. The Mayor also said he is negotiating with the superior officers and is hopeful that that contract will be settled by the summer. By the end of June, he hopes that all eight CBAs will be negotiated and implemented.

Auditor Bump indicated that she understood that the \$26M is the first installment of the City’s 5-year capital plan, which amounts to an anticipated total of \$200M in projects. She asked if they are hoping there will be some federal or state infrastructure money that will offset that amount, or if the \$200M is anticipated to be the cost to the City. Ms. Duprey answered that the plan is all-inclusive and includes the ARPA funds. She stated that there are also projects that will occur in the coming years beyond the 5-year period. ARPA money is largely going to water and sewer infrastructure and, most likely, a new school building. Mayor Perry added that applications are currently being sent over to congressional officials, including Congresswoman Trahan, Senator Warren, and Senator Markey.

Auditor Bump then asked about overspending in the school budget, which contributed to some fiscal difficulty. She asked if this has been resolved. Mayor Perry replied that one of the benefits of Chapter 278 was the creation of the CAFO position and moving the position to report to the Mayor. The Mayor sits on the school committee and reviews school spending, and the business manager on the school side reports to Ms. Duprey. The CAFO has control of all finances in the City. According to Mayor Perry, over the last 2.5 years, they have “not even come close to overspending in the schools” and are monitoring that very carefully.

Ms. Wagner stated that she is in agreement with Ms. Duprey’s remarks on the City’s financials. Ms. Hurley added she has no questions.

Mr. Cronin stated that the City has done a fantastic job in improving its finances, such as the capital plan. He was also appreciative of “behind-the-scenes” factors, such as internal controls and cash reconciliations. The level of free cash was high; he congratulated the team effort, and he wanted to express his appreciation of the City’s work.

Auditor Bump congratulated the City for getting out of their previous financial situation.

Ms. Wagner then moved to approve the application of the City of Methuen. 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 indicated that DLS is close to certifying free cash for all communities in the Commonwealth. Municipalities are working hard to approve FY2023 budgets, and DLS has been providing assistance.

Updates and Topics for Next Meeting

Ms. Hershman indicated she is not aware of any municipalities coming before the Board for a May meeting.

Ms. Hurley proposed that the Board, at a future meeting, talk about including in its application requirements that the authorization vote from the municipality be within a certain period of time of the application or that it be renewed. She noted, however, that the statute does not require this.

Ms. Wagner noted that, according to Mass. General Law, unless a borrowing authorization is rescinded, it remains in effect. If the entire amount of the authorization is not borrowed, the remaining part of the authorization can be borrowed in the future. She suggested that perhaps there is another way to get their questions answered. Mr. Arrigal then said that, specifically in regard to the Brockton vote, he thought the vote was "extremely well worded," because they made it clear that anything that was being taken out by the service agreement was to be rescinded. However, sometimes there are very old authorizations, sometimes over 10 years. Mr. Arrigal said he has tried to find a solution to the problem, but he has been told that legally, there is nothing that can be done; if it's been authorized by a municipality, and it's still on the books, the vote is still valid.

Auditor Bump then instructed Ms. Hershman to put the item on the agenda for next meeting.

Adjournment

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 12:04 p.m.