

MUNICIPAL FINANCE OVERSIGHT BOARD

Meeting July 13, 2022

(conducted by conference call)

MINUTES

Board Members Present: Ben Tafoya (Designee for MFOB Chair, State Auditor Suzanne Bump), Deborah Wagner (Department of Revenue), Margaret Hurley (Office of the Attorney General), Nicola Favorito (Office of the State Treasurer)

Non-Board Members Present: 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), Kristie Kargus (Office of the State Auditor), Cinder McNerney (Hilltop Securities), Monica Mulcahy (Hilltop Securities), Peter Frazier (Hilltop Securities), Bill Arrigal (Department of Revenue), Bethiny Moseley (Department of Revenue), Lisa Driscoll (Hilltop Securities), Abby Jeffers (Hilltop Securities), David Eisenthal (UniBank), Jennifer Macksey (Mayor, City of North Adams), Beverly Cooper (Treasurer-Collector, City of North Adams), Sheryl Chaput (Auditor's Office, City of North Adams), David Fierro (Auditor's Office, City of North Adams), Jessica Lincourt (Assessor, City of North Adams), Conor Baldwin (Chief Financial Officer, City of Lowell), Kelly Oakes (City Auditor, City of Lowell), Tom Golden (City Manager, City of Lowell), Ted Panagiotopoulos (Treasurer-Collector, City of Lowell), Patti Kirwin-Keilty (Office of Sen. Edward Kennedy), Fred Aponte (Treasurer, Ayer Shirley Regional School District), William Plunkett (Director of Finance, Ayer Shirley Regional School District), Adam Renda (Superintendent, Ayer Shirley Regional School District)

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

Dr. Tafoya made introductory remarks and 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, Dr. Tafoya 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 May 11, 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 May 11, 2022, the members voted as follows to approve the draft minutes without any changes:

Dr. Tafoya: YES

Ms. Wagner: YES

Mr. Favorito: YES

Ms. Hurley: YES

City of North Adams

Mayor Macksey introduced herself and her team members before the Board. Mayor Macksey indicated that she started her term in January 2022 and added that the city of North Adams is still recovering from COVID but is hitting all budget benchmarks for FY2022. The economy in the city is slowly picking up due to significant developments; the City hopes to have \$800K-\$1M in new growth for FY2023, but there is still plenty of work to do in the City. She has discussed strengths and weaknesses with DOR: specifically, in Mayor Macksey's opinion, the performance of the budget and collection mechanisms are solid. There are some big projects ahead for the City in terms of infrastructure, and the City is strategically spending ARPA money, and they may need to do some borrowing for that. The City is exploring the feasibility of consolidating two schools as well as renovating one school. North Adams is also in need of a new public safety facility. Overall, the City does not have much debt as they have paid off a lot of old projects.

Then, Mayor Macksey elaborated on the City's MFOB request to borrow for fire hydrants. The request is the result of two significant fires in the City, which precipitated the discovery by city officials that a large number of fire hydrants were not working and a majority of the remaining ones were in disrepair. The City opted to borrow to replace the fire hydrants immediately. There are still 4-5 hydrants remaining to be replaced, but the project is near completion.

Ms. Wagner asked what the Mayor meant by ARPA borrowing. Mayor Macksey clarified that she didn't mean "borrowing" per se and added that there are feasibility studies going on for water and sewer work, which may need a supplement to ARPA funding.

Mr. Favorito asked Mayor Macksey if there has been an update to the S&P rating outlook in the materials. The Mayor replied that there was a surveillance call, and they provided the agency with information, including details about the new mayoral administration. She said the City anticipates a rating call in September. Mr. Eisenthal added that a surveillance call was held in June 2022 and the City is awaiting results, as the rating has not yet concluded. Mr. Eisenthal clarified that the City is seeking a rating request for a bond issue and is currently debating whether to add the fire hydrants on the issue, but wants the MFOB authorization in its pocket nonetheless prior to deciding the path for permanent financing.

Mr. Favorito asked if the City had a sense where their bond rating was heading as a result of the call. Mr. Eisenthal replied that FY 2021 was a good year for the City; S&P had given the city a negative outlook in 2020, but he anticipates that the outlook might switch to stable, although he is not sure if that will change.

Ms. Hurley asked about the fire hydrant status and if the City had considered putting in place regular scheduled checks for the hydrants. Mayor Macksey replied that there is currently a quarterly flushing schedule, routine maintenance, as well as training for firefighters off the new hydrants. Currently, if you open a hydrant, you record it and take an inventory of its condition, which is shared between the Fire Dept. and Police Dept. They then work out any mechanical issues. In the past, the hydrants were dormant until a fire occurred, and they were testing the water system at the same hydrants annually. The City adopted a plan after the Mayor came into office that the Water Dept. has to inspect a fire hydrant within 3 days after a fire.

Dr. Tafoya asked about the City's plans for a public safety building and if there is an estimated level of effort or range of cost for the new building. Mayor Macksey replied that the City needs to acquire land,

as the City-owned land isn't large enough. The new facility may cost as much as \$30-40 million and has been a project that has been sought after for years. The Mayor's hope is that fire, police, and EMS can fit within the same building on this land they aim to secure. There was a legislative earmark by Sen. Hinds a few years ago of \$1.2 million, which they are hoping will get released by the current gubernatorial administration. The currently outstanding issues for the City include finding a good location, as well as a fine imposed by the Architectural Access Board for the current building.

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

Dr. Tafoya: YES

Ms. Wagner: YES

Mr. Favorito: YES

Ms. Hurley: YES

Ayer Shirley Regional School District (RSD)

Dr. Renda introduced himself and the rest of the district team to the Board. Mr. Plunkett then proceeded to give a background of the RSD. According to Mr. Plunkett, the FY2023 budget for the district is fully approved, and there is \$31M appropriated in the RSD's general fund budget. The FY2021 financial statements have been audited. The RSD's unassigned or free cash balance is up \$609K from the prior year, now at \$1.3 million, which represents 4% of their general fund expenditures.

Mr. Plunkett added that the towns of Ayer and Shirley have approved the debt exclusion for the borrowing of \$5.2 million to renovate the high school athletic fields, originally built in 1961. State qualified bonds were previously obtained to borrow \$19 million on a 30-year note to renovate the high school. The RSD is just under halfway through the 30-year note. The athletic field project was taken out of the original high school project as a cost-reduction factor. The school district administration has taken steps to get support to approve the borrowing. The RSD has a 1-year short-term BAN in place that matures at the end of July and is seeking to acquire 15-year long-term financing for the project via a state qualified bond. The district started work on the project in April 2022. The district would be eligible for a better rating through using the State Qualified Bond Program, as the district's rating is currently at AA3, while the state qualified bond would come in at AA2; they are also looking for the project to come out of its Chapter 70 allocations.

Ms. Wagner stated that DLS certified \$1,095,801 for the past year in Excess and Deficiency – which is the equivalent of free cash for regional school districts – and she has no concerns.

Mr. Favorito asked if there was any other information regarding the school renovation. Mr. Plunkett replied that the project is going very well. The money is coming out of Chapter 70 aid, but the district still assesses the member towns, and project expenses are "squared up" with Chapter 70 allocations in their books. The renovation was a success; the school building was built in 1961 but is now state-of-the-art for students.

Ms. Wagner then moved to approve the application of the Ayer Shirley Regional School District.
Mr. Favorito seconded the motion. A call of the roll was made as follows:

Dr. Tafoya: YES

Ms. Wagner: YES

Mr. Favorito: YES

Ms. Hurley: YES

City of Lowell

The City is coming before the Board for an extended term for borrowing for a legal judgment, as well as a qualified bond request. City Manager Golden introduced himself and his team before the Board, indicating that he assumed his role in May 2022 and that they put out a balanced budget, utilizing some of the excess levy capacity they had. He said it was a tough vote for the Council; it was the largest increase in some time. In terms of ARPA funds, he said they focus on one-time expenditures and are working on increasing the quality of life in the city because of developments at UMass Lowell. Overall, the goal of his administration is a more sustainable budget and less use of one-time funds.

Dr. Tafoya then asked about the Grand Manor issue. Mr. Baldwin replied that they are asking for an extended term – 20 years – for the Grand Manor judgment, which is a court judgment related to a case that goes back originally to the 1970s. A land parcel in Lowell was transferred from the City to a private development, there were condos built there, and contamination was later uncovered. There was a lawsuit filed against the City, which ultimately ended in a judgment. In 2015 there was an offer of the plaintiffs of around \$6 million. There was an appeal taken, and then a second trial, where the actual jury award was \$1.4 million, and a second appeal, but there was also prejudgment interest, attorneys' fees, and other expert and appellate fees, so the total is around \$3.6 million. The City requests that the MFOB allow the City to amortize that amount over a period of 20 years.

Dr. Tafoya noted that he had concerns with the 20-year term length, as the City would incur additional expenses with a longer term. The last two similar MFOB requests before the Board had terms of 10 years, but, even at that length, there was some skepticism among the Board members. Dr. Tafoya asked the City why they had opted for that term. Mr. Baldwin replied that the length was due to how the City wishes to manage its debt service, but the City is flexible to amend the request to a 10-year term.

Mr. Favorito asked Mr. Baldwin if the amount was resolved, if there are additional costs that may come up, and if there is a documented agreement that confirms the amount. Mr. Baldwin replied that this is the total cost for this matter.

Ms. Wagner agreed with Dr. Tafoya about the term-length and asked Mr. Baldwin if there was a basis for the 20-year term aside from financial ease. Mr. Baldwin replied it was primarily a financial matter – in trying to manage the five-year capital plan, the high school projects, and other City needs, they found the 20-year term to be the most affordable. They would need to make adjustments if the term was shortened.

Ms. Hurley added that she has the same concerns and asked if the City has an analysis of how the bond would work for a 10-year term instead of a 20-year term. Dr. Tafoya asked if Mr. Baldwin or Ms. McNerney could give the Board various estimates. Ms. McNerney replied she could conduct an analysis, but given the magnitude of other things the City is trying to balance, which is not only debt service and tax rate, but also maintaining and growing its reserve position, they encouraged the City to pursue a 20-year term to give themselves more flexibility with other municipal expenses. Ms. McNerney said she could process estimates for 10, 15, and 20-year terms within minutes and requested some time so that Ms. Mulcahy could calculate estimates, using a 4% interest rate.

Dr. Tafoya asked about the balance of the Qualified Bond request. Mr. Baldwin replied that, of the \$33.8 million in requests, the largest part is the 2023 Capital Improvement Loan Order. The City has a dynamic 5-year capital improvement plan, and there are a couple of ongoing projects in the City, not unlike requests the City has made in the past, as they are working on buildings, roads, and bridges. The City is using state and federal sources to their advantage; the projects they work on often have components that would require some state or federal share, such as water and sewer projects. He added that the City maintains an enterprise fund for water and sewer. This is Phase 3 of the capital improvement program in water and sewer.

Mr. Baldwin then said that transmission mains need a lot of work, as Lowell is an old industrial city, with underground utilities in need of replacing or improvement. The City's capital plan lists the specific projects currently in design. In addition, there are two projects that come from the recently adopted Community Preservation Act: the Rollie's Farm land acquisition, as well as a City Hall stained glass window preservation project, both funded by CPA surcharge revenue of 1%. The Community Preservation Committee chose to borrow for these two projects. The farm is one of the few open spaces in the City, and the proposal is to create an urban farm for youth, through an organization called Mill City Grows, which helps children learn about urban agriculture and forestry.

Mr. Baldwin then said that the City had finished its FY 2021 audits, which involved a year unlike any other he had seen since he has been employed by the City, as the City's free cash stood at \$17.7M, the highest in many years, while their undesignated fund balance at the end of 2021 increased by \$15.7 million. The City was also having a good year for FY 2022 for various reasons, such as holding back expenditures during COVID and having other funding sources for some expenditures they were making, and they are looking to maintain and build on that. He then said that sustainability in the budget is most important to the City Manager and his administration and that they are planning to look at less reliance on reserves and one-time sources of revenue.

Dr. Tafoya then asked Ms. Mulcahy if she has an update on the forecasts. She replied that the report was still running.

Dr. Tafoya then opened the matter to the Board for questions. Ms. Wagner asked about the certification of the \$17,780,512 in free cash, an anomaly for Lowell as a result of the pandemic – how has the City utilized those funds so far? Mr. Baldwin replied that some of the funds were ARPA revenue replacement, so the City used them to sustain some of the enterprise funds. In particular, they made appropriations into the parking, water, and sewer enterprise funds, but also for one-time expenditures such as fire apparatus. Ms. Wagner asked if there was any remaining balance as of this June 30th. Mr. Baldwin replied that there was about \$300-500K left on the table at the end of FY 2022.

Ms. Wagner asked about the Form of Vote. Dr. Tafoya replied that, in his understanding, the City hopes that the Board approves the judgment request so that they could roll it into their remaining request for the Qualified Bond Program. Mr. Baldwin replied that that indeed is the City's intent.

Ms. Hurley noted that the urban agriculture program is a great idea and applauded how well the City is doing financially. She wondered whether the judgment should be treated like a capital project, even though it does nothing besides removing financial strain for the City. Ms. McNerney replied that, although the City seems to be in great standing, getting its credit rating into AA instead of AA- would serve its financial purposes better than anything else, both short- and long-term. The City's reserves are at 7% of fund balance, but would need to achieve 10% in order to get the credit upgrade. Ms. McNerney said it's important that the City's credit rating be strengthened; it's not just the total interest over the life of the bond, it's also the annual cost that is important. Ms. Hurley noted that observation was a good point.

Ms. Mulcahy then replied that she had just sent the requested report by e-mail to Dr. Tafoya and Ms. Hershman. According to the report, interest paid over 10 years would be \$838K, over 15 years would be \$1.2M, and over 20 years would be \$1.7M, if the bonds are run on a level-debt basis at 4%. Ms. McNerney then provided the difference on an annual basis: \$450K per year for 10 years, versus \$325K for 15 years, or perhaps \$250K for 20 years. The City is planning to lock interest rates for what it is requesting from the MFOB before the Federal Reserve meets at the end of July.

Dr. Tafoya asked if the Board would like to put forward a motion on the Grand Manor judgment. Ms. Wagner added that on June 30, 2021, the City had \$13.8M-\$13.9M in regular stabilization funds and \$2M in special-purpose stabilization funds. Dr. Tafoya then expressed some concern over the 20-year proposed duration.

Ms. Wagner moved that the Board change the motion to a 10-year term. Ms. Hurley seconded.

Dr. Tafoya opened discussion on this motion. His own interpretation was that this would change the Form of Vote only to the extent that the term is reduced from 20 years to 10 years.

Ms. Wagner then moved to approve the amended motion on the judgment for 10 years. Ms. Hurley seconded the motion. A call of the roll on the revised motion was made as follows:

Dr. Tafoya: YES

Ms. Wagner: YES

Ms. Hurley: YES

Mr. Favorito: YES

Dr. Tafoya announced the revised motion was passed on a 10-year term schedule, and, therefore, Hilltop would need to send the Board a revised Form of Vote.

Dr. Tafoya then asked for any further comments for the second motion, namely the qualified bond request. There were none.

Ms. Wagner moved to approve the qualified bond application of the City of Lowell. Mr. Favorito seconded the motion. Ms. Hurley asked if this current Form of Vote needed to be revised. Ms. Mulcahy replied yes and that she is revising the forms.

A call of the roll was made as follows:

Dr. Tafoya: YES

Ms. Wagner: YES

Mr. Favorito: YES

Ms. Hurley: YES

Updates and Topics for Next Meeting

Dr. Tafoya asked Ms. Mulcahy and Ms. McNerney if there are upcoming applications for August. Ms. Mulcahy replied that there was discussion of the town of Webster might be authorizing something. She will look into it. Dr. Tafoya noted that there might be a potential Board Member absence at the August meeting.

Long-Range Municipal Fiscal Stability

Ms. Wagner added that the largest issue facing municipalities is the opioid settlement proceeds for communities. The DOR is getting multiple inquiries and is working closely with the Attorney General's office about those procedures. The DOR is also expecting new submissions for free cash. Ms. Wagner said they have new procedures and are moving toward automating some of their forms and will be doing training and webinars.

Ms. Hurley then thanked Ms. Wagner and the team at the DOR for their collaboration on the opioid settlement funds.

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:

Dr. Tafoya: YES

Ms. Wagner: YES

Mr. Favorito: YES

Ms. Hurley: YES

The meeting was ended at 12:05 p.m.