

MUNICIPAL FINANCE OVERSIGHT BOARD

Meeting September 14, 2022

(conducted by conference call)

MINUTES

Board Members Present: 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: 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), Monica Mulcahy (Hilltop Securities), Bill Arrigal (Department of Revenue), Bethiny Moseley (Department of Revenue), Lisa Driscoll (Hilltop Securities), Cinder McNerney (Hilltop Securities), Brenda McDonough (Bond Counsel, Locke Lord LLP), Robert Ekstrom (Financial Consultant and Former City Auditor, City of New Bedford), Shawn Syde (City Engineer, City of New Bedford), Emily Arpke (City Auditor, City of New Bedford), Renee Fernandes (Treasurer-Collector, City of New Bedford), Jamie Ponte (Public Infrastructure Commissioner, City of New Bedford), Audra Riding (Office of Senator Mark Montigny), Al Medeiros (Office of Representative Tony Cabral)

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 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 the statement was read, Dr. Tafoya announced that the meeting was being recorded and that Hilary Hershman was acting as Executive Assistant.

Auditor Bump joined the meeting after the meeting has called to order and directed Ms. Hershman to oversee the roll call of the MFOB board members.

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

Minutes from July 13, 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 July 13, 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

City of New Bedford

Mr. Ekstrom introduced himself and the members of his team before the Board. He thanked the Board for allowing the City's request to be considered because some language related to the loan order was initially removed from their request and would have precluded the City from attending today's meeting. For FY 2022, unaudited financial statements have been compiled and are still subject to audit. The major headline is that the City recently settled collective bargaining agreements with the City's police and firefighters unions, which led to the City absorbing \$6.15 million in additional labor costs (retroactive and current year wages) in the current year. The City's previous budget policy did not provide for increases in wage rates, so their reported increase in revenues for FY 2022 did not account for the bargaining agreement settlements and therefore were not reflected in the City's tax rate. The City accrued \$1.3 million of this amount back in FY 2021, leaving the City to absorb the remaining \$4.85 million in FY 2022. Despite all of this, the City is reporting a small net surplus of \$898,000.

Mr. Ekstrom said that he will give a broader overview of the City's budget situation, before turning to Mr. Syde and Mr. Ponte to discuss the loan order for the wastewater bonds. The borrowing that the City is asking for will be going primarily for this cost, not for general obligations. The City has increased wastewater rates twice to help build up for this request and pay for their debt service. The City first increased rates by 12.5% at the start of FY 2022, which resulted in an increase of \$3.4 million in wastewater user charges and contributed to a \$1.9 million increase in wastewater department net position. The City then increased rates by 9% in the beginning of FY 2023. Mr. Ekstrom explained that Ms. Arpke, the City Auditor, had created a 30-year projection to ensure that there are sufficient revenues to support the wastewater department and cover existing debts without any further rate increases. The projection, which used conservative estimates, indicated that the department will have enough revenue to absorb debt service because of the 9% rate increase and a 2016 policy approved by the City Council to annually index rate increases against the Boston Urban CPI in perpetuity.

New Bedford's general fund has increased slightly from \$32.7 million in FY 2022 to \$33.6 million this fiscal year. That available fund balance includes unassigned and stabilization fund balances (reported on financial statements as "committed fund balance"). The total for these two is \$28.2 million (an increase from \$26.4 million from FY 2022) and represents 7.3% of total annual expenditures and other financing uses. When the audited financial statements are released, they will show a significant increase in the City's unassigned fund balance and a decrease in its committed fund balance. The reason for this is that the City did not build a tax rate to provide funds for the labor settlements, instead taking monies from the stabilization fund. The City has not yet returned this money into stabilization and has left it sitting in the City's unassigned fund. The City had \$7.3 million in certified free cash in FY 2022 and did not appropriate from it. The City will be reviewing its balance sheet with the Department of Revenue in October 2022 and anticipates an increase in its free cash balance. As a result, some free cash will be transferred to its stabilization fund.

At this stage, there are no factors that are adversely affecting the City's FY 2023 budget, but municipal officials established new informal budget policies that went into effect this fiscal year. Going forward, the City will build labor cost increases related to collective bargaining agreements into budgets to avoid this issue occurring in the future. For example, four unions will be up for collective bargaining agreement adjustments this year. In addition, the City has added \$100,000 into its OPEB fund. The only

sources that are used to cover the OPEB liability each year are 10% of free cash and a third of cannabis excise tax revenue.

Auditor Bump thanked Mr. Ekstrom and asked the board members if there were any questions. Ms. Hurley asked if the City has any cannabis host community agreements and whether he was anticipating any changes to those agreements. Mr. Ekstrom replied that the City has an estimated \$100-200k in cannabis excise taxes collected. Ms. Fernandes then added that there is 1 host community agreement -- a grow establishment in the City's industrial park. There is some revenue, and, to date, no money has been applied to the City's OPEB liability. Ms. Wagner commented that the City does not estimate that cannabis tax revenue would impact the tax rate if the establishment were to cease operations.

Mr. Favorito asked about the City's OPEB funding and pension liabilities. Mr. Ekstrom responded that the OPEB liability is approximately \$600 million and is 0.5% funded with approximately \$3 million, with revenues from cannabis excise tax revenue and a portion of free cash going to fund it. As of its last actuarial study, the City has funded 46.7% of its pension liability. The City has lowered its discount rate from 7.5% to 7%, in line with the state and national averages. The City's current pension funding ratio is 52.2%, with approximately \$700 million in total pension liability and approximately \$450 million in actuarial assets (after asset smoothing).

Auditor Bump thanked Mr. Favorito and Mr. Ekstrom and turned to Mr. Syde to discuss the wastewater plan.

Mr. Syde and Mr. Ponte then started a presentation on wastewater infrastructure. Mr. Syde indicated that the City has a \$119 million appropriation that includes 13 projects which are to address regulatory compliance with state and federal mandates and the City's administrative order and to follow its integrated plan that it submitted to the EPA. The appropriation includes two types of projects under two different types of borrowing. The City will leverage Water Pollution Abatement Trust funding through DEP to help fund some of the construction as well as engineering planning exercises. The City also intends to leverage general obligation debt that will fund non-participating SRF-funded costs such as engineering studies, design, and any construction costs that would not be covered by the DEP.

The types of projects being implemented include repairs to POTW [publicly owned treatment works], collection system, and pumping stations, its 20-year-old treatment plant, and flood control structures, as well as purchases of vehicles and equipment to maintain the collection system and maintain compliance with regulations. The department will also be implementing a Right to Know Law compliance project that will help the City comply with new DEP regulations regarding public notification of combined sewer overflows, especially to EJ [environmental justice] populations.

The Auditor asked Mr. Syde how the Right to Know compliance project constitutes a capital expenditure. Mr. Syde stated that this is an engineering planning evaluation and something Massachusetts DEP would typically fund, but the City decided to directly fund it with general obligation bonds. The project includes modeling, field investigations, engineering analysis and assessment, and report writing -- design elements that are similar to other water planning projects. The Auditor further clarified with Mr. Syde that this funding is a part of the larger project that is being funded with these bond funds, with Mr. Syde adding that it is being implemented as part of their long-term capital improvement plan.

Auditor Bump then asked if any ARPA or federal infrastructure funds would be used to support these projects. Mr. Syde stated that no federal funds would be used. The Auditor then asked if any of the other Board members had questions, but they had none.

Ms. Wagner then moved to approve the application of the City of New Bedford. 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

The Auditor thanked the members of legislative staff who were present for their interest. Mr. Ekstrom thanked the Board for their support.

Long-Range Municipal Fiscal Stability

Ms. Wagner mentioned that the Town of Halifax saw two out of three members of the Select Board and the Town Administrator resign. She indicated that the remaining Select Board member and the town clerk are able to maintain operations, such as payroll and issuing warrants, and will be conducting a special election to replace resigned members. Multiple municipalities have a shortage of local officials, and DOR is keeping a close eye on it. Auditor Bump mentioned that she had not heard this and asked why so many members had resigned; Ms. Wagner indicated that she would prefer to discuss the matter offline. DOR is confident that the town can maintain operations, after discussions with their municipal finance law bureau.

Ms. Wagner discussed the passage of the cannabis reform bill and that DLS is monitoring which communities were impacted by reduced ability to collect impact fees. She will continue to monitor the budgetary impacts in terms of municipalities' excess tax capacity, if their ability to collect fees goes away.

Ms. Wagner also discussed the transportation network company (TNC) rideshare legislation, which has some impacts on local appropriations. Previously, smaller deposits into funds needed local legislative action to be appropriated to be expended, but now amounts under \$25,000 can be spent with CEO approval.

Ms. Wagner discussed an act passed by the legislature relative to school operational efficiency that allows for the establishment of school transportation enterprise funds, a school transportation reimbursement account, and pre-pay for certain items. Since there was not an emergency preamble for this law, it will take effect 90 days from August 26, 2022.

The Auditor thanked Ms. Wagner and noted these items for potential review for DLM's next five year statutory fiscal impact report.

Updates and Topics for Next Meeting

Auditor Bump asked if there are any entities in the pipeline for October's meeting. Ms. Hershman and Ms. McNerney did not know of any for the next scheduled meeting on October 12th and will follow up. Mr. Arrigal stated that he has not heard that UniBank has any clients planning on coming in. Ms. McNerney later noted that Revere may be ready for October.

Adjournment

Ms. Hurley 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 11:43 a.m.