

MUNICIPAL FINANCE OVERSIGHT BOARD

Meeting May 20, 2020

(conducted by conference call)

MINUTES

Board Members Present: Auditor Suzanne Bump (Office of the State Auditor), Craig Stepno (Office of the State Treasurer), Mary Jane Handy (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), Philip McLaughlin (Office of the State Auditor), Carina DeBarcelos (Office of the State Auditor), Timothy Dooling (Office of the State Auditor), Noah Futterman (Office of the State Auditor), Dan Rivera (Mayor, City of Lawrence), Perla Ortiz (Treasurer, City of Lawrence), Ramona Ceballos (Comptroller, City of Lawrence), Mark Ianello (Chief Administrative and Finance Officer, City of Lawrence), Bill Arrigal (Division of Local Services), Tony Rassias (Department of Revenue), Cinder McNerney (Hilltop Securities), Kristy Tofuri (Hilltop Securities), Raela Trifoni (Hilltop Securities)

The meeting was called to order at 11:03 a.m.

Pursuant to Governor Baker's Executive Order of March 12 concerning the COVID-19 pandemic, this meeting was being held by conference call. The public meeting notice for this meeting included a public call-in number to facilitate public access during a relaxation of open meeting law requirements.

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

Minutes from March 18, 2020

On the question of approval of the minutes from the meeting on March 18, 2020, the members voted as follows to approve the draft minutes without any changes:

Bump: YES

Handy: YES

Stepno: YES

Hurley: YES

City of Lawrence

Mayor Rivera introduced his team from the City of Lawrence and detailed work going on to balance Lawrence's finances. Members of the team then introduced themselves. The Mayor explained that the City is in its 5th year of its capital improvement program. Previous administrations would borrow money and spend it without proper planning. The program is updated every year. The capital improvement program supports basic purchases like firefighter equipment and sidewalks.

Mr. Ianello gave a summary of the proposed bonding and the projects involved. The City has a financial policy requiring a limit on debt service at 7% of net general fund revenues (general fund revenues without chapter 70 aid). The City previously had a state fiscal overseer as required by Chapter 58 of 2010, a requirement that was abolished in October 2019, with a local Chief Administrative and Finance Officer (CAFO) (Mr. Ianello) then appointed to fill this leadership role. There is about \$16M in the deficit loan outstanding. The City is still required to file a pro forma tax recap, and, although the fiscal overseer position has been abolished, there are still fiscal constraints in place.

FY19 ended on a positive note with the largest free cash certification in the City's history (\$15M). There was a major disaster in 2018 with the Columbia Gas explosions, which has required a lot of construction work, which is ongoing and will continue for several years. The City plans to use this construction period for replacing gas lines in coordination with the Water/Sewer capital plan, so as not to dig up the streets repeatedly. The City must send quarterly financial statements to the Department of Revenue's Bureau of Accounts.

The FY21 budget was filed as an annual budget rather than a month to month budget. The City reduced their projections of state funding and school aid, and they aim to maintain the same level of services they have today. The Mayor stated he thinks the Student Opportunity Act will not come to fruition this year, and the additional funds they expected will not come as a result of the ongoing COVID-19 crisis. The crisis has shown gaps in equity for education as students have to learn at home and may not have computers or Internet to support virtual learning. The City hopes there is a sound footing for education as it is a Legislative priority and among the Governor's priorities; they think that the Legislature will likely not reduce the spending when they had been prepared to increase it.

The Auditor asked Board members if there were questions relative to the bond authorization. None were offered. She then stated there is anxiety over revenues in the upcoming fiscal year. The Auditor asked what the City anticipates for the coming fiscal year.

CAFO Ianello stated they budgeted for UGGA aid to decrease from the Governor's proposal by \$1.2M. The Governor proposed \$21M in UGGA aid to Lawrence, and they decreased it to what it was in the prior year as a best guess. They have also reduced their expectations for local receipts, including Motor Vehicle Excise taxes, by \$1.4M to \$13.7M total. The Mayor then added that the City is doing a full 2.5% increase in their tax levy. Their philosophy is that if all pay a little more, then there will be less pain for the City. The City also went through unfilled positions in the budget and cut them and continues to cut administrative overhead. They also plan to get savings from LED streetlights (about \$400k a year) after money is taken out to pay off debt. They look to conservatively budget the receipts and not allocate the full amount so they retain flexibility.

The Auditor then asked about COVID-19 related expenses and if the City is receiving funds from the federal CARES Act. The Mayor said overall the answer is yes, though they haven't determined how to make up for lost revenue. In checking receipts, about 98-99% of receipts for FY20 are coming in as expected. They are communicating to the federal delegation the need for more resources in the current fiscal year. Mr. Ianello stated that the City has spent about \$4.5M to \$5M through a special project account, which keeps track of COVID-19 related expenditures. The same thing was done with the Columbia Gas explosions previously. There are FEMA, CARES Act, and Community Development Funds they expect to see, as well as miscellaneous grants. There is about \$7M from the CARES Act that the City will receive out of the \$2.4B the state is receiving. MEMA hired a company (Guidehouse, a division of

PwC) to assist municipalities like Lawrence with filing claims for money and managing grant funds, and the City attended a conference call with Guidehouse. They aim to seek reimbursement from the proper sources in ways that are most beneficial to the City. The Mayor stated some agencies will reimburse for specific activities, although some reimburse more generally.

Ms. Handy mentioned that schools have their own CARES Act money that will be distributed. CAFO Ianello agreed, then stated that the largest school-related expense so far is \$3 - 3.5M in expenditures for software and hardware so students can be educated at home. Depending on revenues, the City will strategize on how best to allocate funds.

CAFO Ianello stated that the City's personal property valuation has gone up tremendously due to new growth related to construction from the Columbia Gas Explosions. They estimate new growth of \$4.3M for the upcoming fiscal year, of which \$3M is coming from new Columbia Gas infrastructure. Usually new growth is about \$1.5 - \$1.8 M, and having the additional new growth is helpful for the FY21 budget. Last year they did not increase the tax levy up to the limit of 2.5%. The City has about \$6.1M in excess levy capacity which is available as well. Depending on FY21 revenues, the City has the option of seeking an override to use this amount. The City currently is well positioned to avoid layoffs, and CAFO Ianello feels positive on the City's finances even with the ongoing crisis. In addition to \$15M in free cash, the City has \$4M in reserve funds, giving them about \$20M they can draw on for additional resources. The Mayor then stated the City has previously used funds for programming and services rather than using it as reserves and that he does not see a benefit in parking the money in a reserve when it can be used for doing good in the community.

The Mayor mentioned that they have had 3 improvements to their credit ratings. He asked the credit rating agencies how to increase their credit rating more, and the agencies said they could put more money aside and allow more rich people to live in Lawrence.

The Auditor then asked CAFO Ianello about the increased values provided by replacement from the Columbia Gas explosions and asked if these were increased assessments on Columbia Gas assets. CAFO Ianello stated they receive money from the value of the gas pipes through the personal property tax, which includes the value of gas infrastructure. The Mayor then stated that the City received about \$31M in funds to fix roads that were destroyed.

Ms. Hurley then asked about the status of additional claims submitted to Columbia Gas by the City. Mr. Ianello stated the City was reimbursed for all expenses, including police and fire overtime, and settled with Columbia Gas for a lump sum payment for repairs to damage related to the Columbia Gas explosions. These funds will be used over a 4 year construction period, and the City feels comfortable with the amount they received. They feel the City has been made whole.

Ms. Hurley then followed up by asking about the street repair portion of the borrowing application and how it relates to the Columbia Gas explosions. CAFO Ianello stated that they received full reimbursement for costs incurred, as well as a lump sum for costs that they may anticipate. There is about \$3.1M in the Columbia Gas reserve fund that can be used as the City so chooses. The roughly \$40M received for roadwork can be expended to repair roads. The sidewalk work that is part of the bond application is unrelated to the explosion; the work will be in the north side of the City, which was not affected by the gas explosion.

Ms. Handy then asked about collections for the present fiscal year. Ms. Ortiz stated she expects an increase in collections before the end of June. They extended the tax payment deadline to June 1 and provided that there will be no interest or penalties until June 29.

Ms. Handy then moved to approve the application of the City of Lawrence. The motion was seconded by Mr. Stepno, and the Board members voted as follows:

Bump: YES

Handy: YES

Stepno: YES

Hurley: YES

Long-Range Municipal Fiscal Stability

There was general discussion of the ongoing COVID-19 crisis, and the Mayor asked whether the MFOB would consider allowing small businesses being able to borrow using the Commonwealth's credit rating in a manner similar to how municipalities are able to borrow under the Qualified Bond Program.

Ms. Handy stated that the state (through A&F) is getting ready to have the Coronavirus Relief Fund distribute CARES Act funding. Communities apply for funds for FY20 and FY21, and the state reimburses those expenses. The Auditor then asked about the process for distributing allocated CARES Act funds and if there are specific rules for municipalities. Ms. Handy stated that there is a 4 page guidance document that has been issued for municipalities. As for distributing FEMA monies, FEMA usually reimburses 75% of disaster expenditures, and CARES Act funds, instead of local or state funds, can be used now for the remaining 25%. The U.S. Treasury just indicated that this use of CARES Act money will be allowed. DOR plans to issue another guidance bulletin this week. There had been confusion at the federal level on whether CARES Act funds may be used as a supplement to FEMA funds. This confusion, however, did not hold up distribution of funds to municipalities.

About 90 letters have been issued to communities that have requested emergency spending authorizations for FY20. Springfield had the largest request at about \$10M, due to a temporary field hospital. The Auditor then asked about internal controls and oversight for federal funding. Ms. Handy stated the AICPA has asked the federal government for clarification regarding limitations. Ms. Handy stated that DOR's suggestion to communities is to use a separate account for COVID expenditures, which makes it easier to track expenses for reimbursement from FEMA and CARES Act funding. Ms. Hurley then asked if there were any expenses that have been submitted to DOR, but were not approved. Ms. Handy stated that DOR has been mostly approving spending because they are generic requests, but that they have requested municipalities to submit a categorical list for requests over \$500,000.

The Auditor then asked about budget development for the upcoming fiscal year. Ms. Handy stated that legislation has passed for delayed town meetings, and DOR has issued 3 bulletins: on the COVID-19 emergency expenditures, on delayed town meetings, and on allowing free cash to carry over and be used for FY21 until a tax rate is set or FY21 free cash is certified. Municipalities may also do deficit spending by using 1/12th budgets rather than annual budgets; these 1/12th budgets must be approved by DOR.

Topics for Next Meeting

Ms. Hershman stated that Hilltop has communicated that New Bedford, Fitchburg, Holyoke, Lowell, and Methuen would like to come before the Board this summer. She will follow up with Hilltop concerning timing.

Mr. Stepno made a motion to adjourn which was seconded by Ms. Handy. The motion to adjourn was approved by the Board, who voted as follows:

Bump: YES

Handy: YES

Stepno: YES

Hurley: YES

The meeting was adjourned at 12:19 p.m.