Name of Committee: **Town of Brookline Fiscal Advisory Committee**

Meeting Date: March 18th, 2019 Time: 6:00 p.m.

Meeting Location: Town Hall, Room 111

Members Present:

Attendees indicated by x				
David Kirshner, Committee Chair	x		Carol Levin	x
Peter von Bleyleben	x		Paul Saner	x
Cliff Brown	x		Jeff Rudolph	x
Nathan Shpritz	x		Nancy Daly	
Mike Toffel	x		Mini Kolluri	x
Arthur Segel			Ben Franco, Select Board Liaison	x
David Pearlman, School Committee Liaison	x			

Staff Present: Justin Casanova-Davis, Assistant Town Administrator; Melissa Goff, Deputy Town Administrator; Mel Kleckner, Town Administrator; Joshua Weissman LaFrance, BFAC Intern; Jeana Franconi, Finance Director

Other Attendants: Peter Frazier, Managing Director at Hilltop Securities; Craig Peacock, Partner at Powers & Sullivan; Mark Gray, citizen

Documents:

- Available on BFAC webpage: https://www.brooklinema.gov/1516/Brookline-Fiscal-Advisory-Committee
    - Craig Peacock's *Powers & Sullivan*, CPA: "Understanding Municipal Financial Statements," March 18, 2019.
    - Peter Frazier's *Hilltop Securities*: "Forecasting the Financial Future of Brookline" and "Town of Brookline, MA Credit Comparison with Massachusetts Aaa/AAA Rating Communities."
    - *Moody's*: "Credit Opinion: "Update to Credit Analysis Town of Brookline," March, 2019 and "Sector In-Depth" Local Government US Medicans – Property Values Key to Stability but Pension Burdens Remain a Challenge," March 30, 2019.
    - *Standard & Poors*: "Ratings Direct: Brookline, MA; General Obligation," March 5, 2018.

The meeting was brought to order at 6:01pm.

I. Topic: Approval of minutes for January 9 and January 23, 2019 meetings

The full Committee voted to approve unanimously the meeting minutes from January 9 and January 23.

II. Topic: Presentation from Peter Frazier and Craig Peacock: Forecasting the financial future of Brookline

Craig Peacock, CPA is the lead partner from the accounting firm of Sullivan & Powers. He discussed Brookline's recent financial history and gave positive impressions about the Town's financial reporting capabilities and structure. His presentation highlighted the differences between municipal budget accounting and GAAP reporting (generally accepted accounting principles) used to issue audited financial statements for the Town. Financial Statements users included Wall Street analysts, rating agencies, bond buyers, taxpayer groups among others. Mr. Peacock posed the policy question to the Committee for consideration: "What is the plan to replenish the Town's cash reserves?"

Peter Frazier, Managing Director from Hilltop Securities, then noted his close familiarity with Brookline after working with the Town for 33 years. He provided an explanation of municipal bond ratings and criteria, which are used to determine "credit worthiness" in cities and towns. These ratings are important because they signal risk levels to investors. Likewise, a good bond rating enables the city/town to incur lower borrowing costs. Ratings are based on several metrics that form evaluation and offer an objective view of the local government's credit strengths and weakness over a three-year horizon. Each of the metric areas are weighted for formulate the credit rating as follows:

- The state of the economy (local, regional, state, federal) (40%)
- Finances, vis-à-vis reserve amounts and types (30%)
- Management and practices (20%)
- Debt and other long-term obligations (10%)

Mr. Frazier continued to note that reserves are used to measure financial flexibility. Greater reserves enhance the Town's ability to borrow more money at lower interest rates. These factors contribute to Brookline's ability to address pensions aggressively through 2040.

He distributed questions from Moody's credit analyst on the impending new $62M bond sale. The areas covered in the recent Q&A with Moody's focused on:

1) Debt profile: Any updates to funding pension and OPEB liabilities?
2) Economy/Tax Base: When do you expect your school enrollment to level off?
3) Finances: 2020 Budget - changes from 2018; how was budget balanced; use of reserves
4) Management: Labor contracts, cyber risk insurance

Relative to other peer Massachusetts Cities and Towns, both Mssrs. Peacock and Frazier expressed confidence in the Town's current financial position. The growing capital needs driven by upward trending school enrollment and limited operating flexibility under Proposition 2 ½ were sited by the rating agencies as "credit challenges" moving forward.

III. Topic: Q&A about Brookline Financing Plan

The BFAC asked questions of Mssrs. Peacock and Frazier. David Kirshner asked that the key credit rating metrics be unpacked, defined and ultimately forecasted assuming the Town's new debt issues, stressing the importance of the economy as nearly half of the credit rating evaluation and the consequences of an economic downturn in the future? What will Brookline need to do to address its biggest risks, including unfunded liabilities and school enrollment increases, and manage financial stability in the future? Mr. Frazier responded that ratings focus primarily on whether you have fulfilled your financial expectations, i.e., servicing unfunded obligations. Many communities address pensions based on an approved schedule, servicing throughout a predicated timeframe. But if a municipality does not fund, or make an effort to fund, rating agencies will raise issues.

It was pointed out that even in the case of underfunded obligations, despite being a significant governing issue for town management, debt and other long-term obligations represent just 10% of overall bond rating.

Mike Toffel asked whether high expenditures and investment associated with the Schools development projects will damage the Town's bond rating? Mr. Frazier responded that this may happen if the Town does not maintain sufficient reserves levels and a fund balance.

Discussion turned to the rating evaluation criteria. Cliff Brown asked how credit agencies evaluate debt exclusions? Mr. Frazier explained that it is a representation of a willingness to repay the debt, which may change over time due to structural changes or new obligations. Additionally, a failed debt override may prompt lenders and bond buyers to change rates and take a deeper look at the Town's debt obligations.

Nathan Shpritz mentioned inflation and its impact on the balance sheet. Mr. Frazier responded that, when inflation occurs, wealthy communities get wealthier and poor ones become poorer. And while all Massachusetts debt is fixed-rate, in bad times, the low cohort of borrowers are harmed most. So how can municipalities plan for a major change like this? The key in our financial modeling is to determine what we need to know now, in 2019, for those living in, say, 2030.

Paul Saner transitioned to Brookline's positioning given the debt exclusion and school investment projects. Mr. Frazier stressed again that, while the Town cannot predict changes to come, it can plan for the constant of change. To this end, Mini Kolluri pointed out that because the credit rating is a banded range and not just a score, the Town can compensate for weak points by building out its debt obligations.

Jeff Rudolph asked whether there are other municipalities to benchmark for comparable financial policies and practices. Mr. Frazier responded that Brookline is high level for benchmarks, but he will search for valuable metrics that BFAC can analyze. Mr. Peacock also noted that the vast majority of Massachusetts municipalities do not have formalized best practices for fund balance, free cash policies, etc. Brookline is rare to have a formal set of policies and procedures.

The discussion turned to the Brookline schools. Mr. Peacock noted that the schools are audited, first for "federal dollars" and grant compliance, and then for "tax dollars" usage. Both audits use the same warrant process.

The Committee requested the current average weighted average cost of debt for Brookline? What will debt costs be in the future? Mr. Frazier responded that it will be all-in at about 3% with the current debt sale. Difference between a yield and a coupon need to be accounted for. So, some money will have coupon-generated interest but other will have cash to offset cost to Town.

There was further discussion about the debt obligations associated with the schools and the Town's responsibility to schools and teachers to fund retirement obligations. If the Town keeps borrowing money at 3%, can Brookline still fulfill its promise to teachers and schools? Is there adequate discussion of the massive debt obligation being contemplated? Mr. Frazier added the bond costs are fixed but not the long-term value of the pension and OPEB funded assets. If net-negative, you are worse off than you were before. But if Brookline gets in a bind, it can stretch out annual cost and pensions to 2040. The State could even extend to 2050, but may not want to take that risk.

In response to a question about "stress testing" the Town's financial forecast, Mr. Frazier was unsure whether Moody's holds a publicly-available set of "stress tests" that BFAC can apply to its models but will look into it. There is leeway to adjust for long-term debt service without appealing to taxpayers. The Town can be more aggressive in stretching its obligations, but there is a maximum debt servicing, as in the schools (30 years). Historically, Brookline has been AAA-rated by Moody's since around 1990. Mel Kleckner then noted that in the past decade, the Town has made a concerted effort to raise obligations above 10%. Particularly with OPEBs, the Town initially chose not to fund but has more recently chosen to equalize.

BFAC members stressed the desire to receive focused quantitative support on financial policies and principles for the Town and Schools. Mr. Peacock noted that there is no one-set-fits-all resource. However, Powers & Sullivan does work with the Department of Revenue and other municipalities to understand their own values and challenges for mitigation. GFOA is also a valuable resource. Mr. Frazier committed to sending a few policies from other highly rated towns for the Committee's reference.

There is a proposal to examine selling unused property to cover debt, as in the case of purchasing Newbury College. However, this is not typically viewed as a long-term solution. The sale of assets ought to be directed at modes of economic development.

The Committee expressed its gratitude to Mssrs. Frazier and Peacock for their presentations and recommendations to BFAC. There were two specific requests made of Mr. Frazier:

- Identify the top key credit metrics from the rating agencies and Hilltop's experience the BFAC should recommend be tracked by the Town in its financial reporting and financial forecasting model.
- Provide a PowerPoint showing the anticipated debt issuances and debt service coming forward over the next 20 years for the Town on top of the existing debt structure.

IV. **<u>Topic</u>: <u>Financial Model Subcommittee Progress Report</u>**

Paul Saner debriefed on the Subcommittee's progress. They have looked at Melissa's current forecasting model and are considering software. They have also looked at the 2014 override to construct analytical capability in the new model. The goal of the new model is to be robust enough to perform scenario analysis and evaluate fiscal policy. The model also needs to produce the credit ratio highlighted earlier in the meeting and several of those are based on GAAP audited financials, which is not easy to forecast currently.

The Subcommittee also stressed the need for a Town staff person to validate the model's compliance with the Open Meeting Law. After the April 8th Subcommittee meeting, the

Subcommittee will present to staff about purchase software opportunities. These metrics will help to bridge current modeling needs, and the bond rating evaluation criteria presented by Peter Frazier should be discussed by the Subcommittee moving forward.

Mini added that the Subcommittee's focus is the forecasting model with scenario building capacity. And while Peter Rowe's and Mary Ellen Dunn's modeling have changed, the Subcommittee is working through the changes. After some discussion, the Committee suggested giving more thought to the Moody's evaluation criteria, prospectively, regarding how the model will respond to future deficits in 2023 or 2024. Several members then note the value in comparing with other municipalities that are experiencing high growth in school systems or capital build-up.

V. <u>Topic:</u> <u>Financial Policy & Principles Subcommittee Progress Report</u>

Carol Levin debriefed the Committee on the Policy Subcommittee's review and narrowing down of a long list of policies and procedures to identify most critical ones. They should answer these questions before continuing to the next phase in development. The goal is to highlight how Brookline can become more efficient through this process and implement value-added propositions. This is important so that the Subcommittee does not find itself six months out and only then determining the best path forward. The Subcommittee has been challenged thus far by disjointed time and scheduling, but understanding the background and how things are done will assist moving forward.

Furthermore, the Subcommittee may also explore the Town's ability to rent out facilities. It is important to discuss revenue enhancement possibilities. Melissa Goff noted that any fee assessed can only cover operating costs as anything beyond that figure would be considered a tax and unallowed. Ben Franco then reiterated the promise of revenue-increasing activities, and that the Town needs to chip away at OPEBs and free up capacity over the next few decades.

David Kirshner suggested the need to consider investment in Town IT resources moving forward and to understand the kind of data it will take to effectively manage Brookline in 10 years. The Town can become technologically smarter in order to avoid the worst of a worst-case scenario. To this end, the Committee discussed the importance of understanding what services will look like beyond 10 years. BFAC must make critical choices and view the full portfolio of opportunities, which is not fully available. David Pearlman noted that the School Committee is aware of the breadth of Town needs beyond the schools. However, the schools are of value beyond as a system of education and as a community center of various uses.

The Committee then agreed that debt servicing ought to go out as far as possible, based on currently positive conditions. This solution ought to be embedded and sustained in the Town's system.

VI. <u>Topic</u>: <u>New Business and Public Comment</u>

The next all-BFAC meeting was set for mid to late April to allow for as full attendance as possible.
With no further business, the meeting was adjourned at 8:29 p.m.

Respectfully submitted,

Joshua Weissman LaFrance
BFAC Intern