CITY OF NEW BEDFORD
JONATHAN F. MITCHELL, MAYOR

December 5, 2019

City Council President Linda M. Morad and
Honorable Members of the City Council
133 William Street
New Bedford, MA 02740

Dear Council President Morad and Honorable Members of the City Council:

Attached for the City Council's consideration are several proposed updates to the City's financial policies. These revisions are submitted in response to action by the City Council and feedback from the Government Finance Officers' Association (GFOA). Specifically, the recommended updates are as follows:

1. **Other Post-Employment Benefits (OPEB)** – The OPEB Trust Fund and the Fund Balance Management policies would be revised to augment the City's annual contribution by adding an amount equivalent to 33% of the prior year's marijuana excise tax revenue. This amount would be in addition to the 10% free cash commitment that is already in place, and was discussed at the November 13, 2019, Finance Committee meeting.

2. **Investment of City Funds** – The existing policy would be strengthened to clarify the City's stance in regard to certain types of risk and to provide additional definitions. This change was recommended by GFOA.

3. **Debt Issuance and Management** – The policy would be amended to clarify that the term of long-term debt will not exceed the expected useful life of the asset.

Thank you for your consideration.

Sincerely,

Jon Mitchell
Mayor

lighting the way
new bedford

CITY OF NEW BEDFORD

MASSACHUSETTS

OFFICE OF THE TREASURER

Mark P. Fuller
Assistant Treasurer

Blair S. Bailey
Tax Title Attorney

R. Renee Fernandes
Treasurer – Collector

TO: Honorable Mayor Jon Mitchell

THROUGH: Ari Sky, CFO

FROM: R. Renee Fernandes, Treasurer-Collector

DATE: December 3, 2019

RE: Financial Policy Modifications

I am submitting, for your review, a revised Other Post-Employment Benefits Trust Fund policy and the related changes to the Fund Balance Management policy as it relates to the use of the marijuana excise tax revenue. The policy specifies that an amount equal to 33% of marijuana excise tax revenue for the prior year be deposited into the OPEB Trust Fund on an annual basis in addition to the 10% free cash commitment that is currently in place. The added language is highlighted on the enclosed policies for your review.

The Government Finance Officers Association, upon review of our comprehensive annual financial report for the fiscal year ended 2018, recommended some improvements to strengthen our Investment of City Funds policy, as it relates to the City's approach to various types of risks. The additional language addresses how the City would handle various risk aversions and provide additional definition to the objectives of safety, liquidity and yield. The added language is highlighted on the enclosed policy for your review.

I am also including an augmentation to the debt maturity section of the Debt Issuance and Management policy that addresses the useful life of an asset as it relates to the term of long-term debt. The added language is highlighted on the enclosed policy for your review.

Thank you for your consideration and should you have any questions, please don't hesitate to contact me.

133 WILLIAM ST. NEW BEDFORD, MASSACHUSETTS 02740-6164 (508) 979-1430

CITY OF NEW BEDFORD, MASSACHUSETTS

Policy Title: Other Post-Employment Benefits Trust Fund **Effective Date:**

I. INTRODUCTION

The purpose of this policy is to establish guidelines for the management of the impact of the City's Other Post-Employment Benefits (OPEB) liability on the overall budget and credit rating, within the context of the City's long-term obligations to its retirees. The Other Post-Employment Benefits (OPEB) Liability Trust Fund was initially established in 2015, with the acceptance of Chapter 32B, Section 20, of the Massachusetts General Laws, which requires the segregation of funds to address the City's actuarial liability.

The custodian of the OPEB Trust Fund is the City Treasurer. The City of New Bedford utilizes the State Retiree Benefits Trust Fund to invest funds that are designated for addressing the City's OPEB liability. Transfers into, and withdrawals from, the OPEB Trust Fund require an appropriation by the City Council, upon recommendation by the Mayor.

II. FUNDING SOURCES

The OPEB Trust Fund may be supported by transfers from multiple funding sources, potentially including taxation, enterprise fund revenue and/or Free Cash. At minimum, the City will seek to designate an amount equivalent to at least 10% of certified General Fund Free Cash plus 33% of the marijuana excise tax revenue for the prior year for deposit into the OPEB Trust Fund on an annual basis. In addition, funding will be designated from the individual enterprise funds to offset the funds' overall share of assigned liabilities as determined by the most recent actuarial study. All interest proceeds generated by the accumulated deposits shall accrue to the Trust Fund.

III. MANAGEMENT OF OPEB LIABILITY TRUST FUND

The City's management team, working with union representatives and health care providers, will continue to make every effort to manage the OPEB liability by identifying revisions to benefit delivery and cost assignment that will reduce out year costs. Management of the Trust Fund is subject to the following parameters:

A. Current retiree health obligations will be funded on a pay-as-you-go basis.
B. Withdrawals under any circumstances will not occur unless the Trust Fund balance is sufficient to maintain at minimum a two year reserve for the City's share of retiree claims costs.
C. The City may only draw upon the Trust Fund to offset the impact of unexpected increases in retiree benefit costs once the reserve benchmark has been attained, and only if such increases will stabilize annual expenditures.
D. The City will evaluate, adopt and implement policies and strategies to limit future OPEB liabilities as legislatively allowed and appropriate.
E. The City may, as available funds provide, opt to set aside more than the amount required to achieve and maintain the benchmark reserve.

CITY OF NEW BEDFORD, MASSACHUSETTS

Policy Title: Fund Balance Management **Effective Date:**

1. Purpose

The City of New Bedford recognizes the significance of maintaining an appropriate level of fund balance as one component of sound financial management and, therefore, establishes this policy for management of the City's fund balances. An adequate fund balance level is an essential element in both short and long-term financial planning and serves to mitigate the impact of future risks, sustain operations during economic downturns, and enhance the City's creditworthiness, credit rating, and flexibility. Through the maintenance of adequate levels of fund balance, the City can help stabilize funding for operations and realize cost savings in issuing debt.

2. Scope

This policy establishes the level of fund balance required for the City's General Fund and the various components of the City's fund balance management program. In addition, the policy sets forth the levels deemed appropriate for City operations and protocols for the use and maintenance of the established levels.

3. Fund Balance Definitions

Fund balance is defined as the difference between assets and liabilities as reported in governmental funds. The Government Accounting Standards Board (GASB) prescribes four categories of fund balance: non-spendable, restricted, committed, assigned and unassigned. This policy focuses on the use of unassigned fund balance, which is defined as the portion of unrestricted fund balance that has not been committed or assigned to other uses and is therefore available to spend in future periods.

4. Unassigned Fund Balance

The City's unassigned fund balance functions as a reserve which ensures the continuity of services. The City of New Bedford is committed to maintaining prudent levels of reserves to mitigate against unforeseen events and diminished revenues during economic downturns. In addition to the unassigned fund balance, the City maintains a Stabilization Fund (within the General Fund, included in the assigned/committed portion) which may be utilized to protect against a reduction of service levels and to manage temporary revenue shortfalls and unanticipated one-time expenditures. The desirable level of funding for the Stabilization Fund is between two (2%) and six (6%) of the General Fund operating budget.

5. Free Cash

Free Cash is defined as the City's remaining unrestricted funds available from operations in previous fiscal years, as certified by the Massachusetts Department of Revenue. In addition to a robust Stabilization Fund, the City endeavors to maintain an ample Free Cash balance to provide sufficient financial flexibility and stability on an ongoing basis. Consequently, the City is committed to utilizing a conservative approach in building its annual budget. The desirable available balance for free cash is no less than one (1%) of the General Fund operating budget in any given year. At minimum, the City will seek to designate amounts equivalent to at least 25% of certified General Fund Free Cash for deposit into the Stabilization Fund and 10% of certified General Fund Free Cash plus 33% of the marijuana excise tax revenue for the prior year into the OPEB Trust Fund on an annual basis.

CITY OF NEW BEDFORD, MASSACHUSETTS

Policy Title: Investment of City Funds **Effective Date:**

1. Introduction

This policy covers investments in the following fund categories: General Funds, Special Revenue Funds, Enterprise Funds, Agency Funds, Capital Project Funds and Trust Funds.

2. Authority

The Treasurer has the authority to invest the City's funds, subject to the statutes of the Commonwealth of Massachusetts, Chapter 44, § 55, 55a and 55b.

The Treasurer has the authority to invest the City's Trust Funds, subject to the statutes of the Commonwealth of Massachusetts, Chapter 44, § 54. All trust funds shall fall under the control of the Treasurer unless otherwise provided or directed by the donor.

Massachusetts General Laws, Chapter 44, § 55B and Chapter 740 of the Acts of 1985 requires the Treasurer to invest all public funds not designated for immediate distribution at the highest possible rate of interest reasonably available taking into consideration the objectives of safety, liquidity and yield.

- Safety of principal is the foremost objective of the program. Investments shall be undertaken in a manner that seeks to preserve capital through the mitigation of credit risk and interest rate risk. These risks shall be mitigated by the diversification and prudent selection of investment instruments, and choice of depository.

- Liquidity is the next most important objective. The overall investment portfolio shall remain sufficiently liquid to meet all the operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the treasurer shall attempt to carry out investment activities in a manner that provides for meeting unusual or unexpected cash demands without requiring the liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal in some cases.

- Yield is the last objective. Investments shall be undertaken so as to achieve a fair market average rate of return, taking into account safety and liquidity constraints, as well as, legal requirements.

3. Operational Considerations

The Treasurer shall negotiate for the highest rates possible, consistent with safety principles. Whenever necessary, the Treasurer will seek collateralization for all investments not covered by FDIC and/or DIF.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy to mitigate credit risk includes unlimited investment in United States Treasury and United States Government Agency obligations and the purchase of investment grade securities primarily rated "A" or better.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City will manage interest rate risk by monitoring market conditions and making adjustments to accounts, as conditions dictate.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a municipality will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City will minimize concentration of credit risk by diversifying the investment portfolio to mitigate the impact of potential losses from any one type of security or issuer.

The Treasurer will utilize a bank rating service (Veribanc, etc.) to ensure dollars are invested with banking institutions of the highest quality.

The Treasurer shall only conduct business with investment managers, brokerage houses, brokers and dealers that can demonstrate proven financial strength, capital adequacy of the firm and an overall affirmative reputation in the municipal industry. At a minimum, the following information must be supplied:

a. Audited financial statements;
b. Proof of National Association of Security Dealers certification;
c. A statement of compliance with the City's investment policy;
d. Proof of creditworthiness (minimum of 5 years in operation and capital that exceeds $10 million).

All securities not held directly by the City will be held in the City's name and tax identification number by a third-party custodian approved by the Treasurer.

4. Reporting Requirements

On a regular basis (quarterly, semi-annually, or annually), a report containing the following information will be prepared by the Treasurer and distributed to the Chief Financial Officer:

a. A listing of the individual accounts and individual securities held at the end of the reporting period;
b. A listing of the short-term investment portfolio by security type and maturity to ensure compliance with the diversification and maturity guidelines established within the framework of GASB 45;
c. A summary of the income earned on a monthly and year to date basis;
d. A brief statement of general market and economic conditions and other factors that may affect the City's cash position.

5. Restrictions

MGL Chapter 44, Section 55 sets forth the several restrictions of which the Treasurer must be aware when making investment selections.

a. A Treasurer shall not at any one time have on deposit in a bank or trust company an amount exceeding 60% of the capital and surplus of such bank or trust company, or banking company, unless satisfactory security is given to it by such bank or trust company, or banking company for such excess;
b. The Treasurer shall not make a deposit in any bank, trust company or banking company that he/she is associated as an officer or employee or has been the same for any time during the three years immediately preceding the date of any such deposit;
c. All securities shall have a maturity from date of purchase of one year or less.

Massachusetts General Laws Chapter 44, Section 54 states that money should be deposited into banking institutions and trust companies incorporated under the laws of the Commonwealth, which are members of the Federal Deposit Insurance Corporation.

The Treasurer may invest funds in securities, other than mortgage and collateral loans, which are legal for the investment of funds under the laws of the Commonwealth provided that not more that fifteen percent of any Trust Fund shall be invested in bank stocks and insurance company stock, nor shall more than one and one-half percent of such funds be invested in the stock of any one bank or insurance company.

Common and preferred stock as well as other investment vehicles listed on the Commonwealth of Massachusetts List of Legal Investments, are permissible investment vehicles. The List of Legal Investments is maintained by the Office of the Commissioner of Banks.

6. Standards of Care

The Treasurer must apply the "prudent person" standard in the context of managing the overall portfolio. The Treasurer, acting in accordance with the Investment Policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided the transactions are carried out in accordance with the terms of this policy.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs; not for speculation but for investment considering the probable safety of their capital, as well as the probable income to be derived.

The Treasurer shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair or appear to impair the ability to make impartial investment decisions. The Treasurer must disclose any material financial interest in financial institutions that do business with the City.

CITY OF NEW BEDFORD, MASSACHUSETTS

Policy Title: Debt Issuance and Management **Effective Date:**

1. Introduction

The purpose of this debt policy is to establish a set of parameters by which debt obligations will be undertaken by the City of New Bedford. This policy reinforces the commitment of the City and its officials to manage the City's financial affairs so as to minimize risks, avoid conflicts of interest and ensure transparency while still meeting the City's capital needs. A debt management policy signals to the public and the rating agencies that the City of New Bedford approaches the financing of capital needs in a deliberate manner and fulfills the requirements of Chapter 44 of the Commonwealth of Massachusetts General Laws regarding the adoption of a debt management policy.

The City shall comply with legal requirements for notice and for public meetings related to debt issuance. All notices shall be posted in the customary and required posting locations including, as required, local newspapers, bulletin boards, and websites. All costs associated with each debt issue as well as, when applicable, a debt service schedule outlining the rate of retirement, shall be clearly presented and disclosed to the citizens, City Council, and other stakeholders in a timely manner.

2. Financing Purposes

The City of New Bedford will consider term financing for the acquisition, replacement, and/or expansion of physical assets, and to refinance existing debt. Short-term issues may be used to finance certain projects and equipment and to support operational borrowing. However, the City will minimize the use of short-term cash flow borrowings by maintaining adequate working capital and effective management of the budgeted expenditures.

While the "pay as you go" means of using current revenues to pay for capital projects is often considered the preferred means of financing because it avoids interest payments, it may not be entirely practical, given the size and timing of projects to meet the City's ongoing needs. However, the inclusion of a robust cash component in capital projects will be pursued whenever possible, provided fund balance and reserve policies are not compromised.

All debt will be issued and managed in accordance with Chapter 44 of the Massachusetts General Laws.

The primary borrowing purposes are summarized below:

a. Long-Term Capital Improvements

The City will prepare a multi-year Capital Improvements Program (CIP) working with individual departments and agencies and prioritize these projects based on a Capital Needs Assessment. The CIP will include projections for the upcoming fiscal years and will be updated at least biennially, or sooner if there are significant changes to the scope and/or cost of projects. Future operations and maintenance costs associated with capital improvement projects will be developed and identified as part of the project submission.

Since the aggregate cost of desired capital projects generally exceeds available funds, the capital planning process prioritizes projects and identifies the funding needs. The City will initially rely on internally-generated funds and/or grants and contributions from other governmental agencies to finance its capital needs. Debt will be issued for a capital project only when it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries and if a secure revenue source is identified to repay the debt. Debt service is limited to that portion of a project that is not reimbursable by state, federal or local grants.

The Financial Team, working with City departments within the context of the CIP and the City's Five-Year Financial Outlook, oversees and coordinates the timing, processing, and marketing of the City's borrowing and capital funding activities. Close coordination of capital planning and debt planning will ensure that the maximum benefit is achieved with the limited capital funds. The debt management process will determine the availability of funds which can be raised through debt based upon the debt capacity/affordability analysis.

The City will endeavor to enter the financial markets no more than twice each year and will analyze market conditions prior to debt issuance to determine the most advantageous terms. Debt financing schedules will be constructed to repay debt within a period not to exceed the expected useful life of the asset and will attempt to repay debt using a level principal repayment structure.

b. Refinancings/Refunding of Existing Debt

The Chief Financial Officer, working with the Financial Team, will periodically evaluate the City's existing debt and execute refinancings when economically beneficial, legally permissible and prudent. A refinancing may include the issuance of bonds to refund existing debt or the issuance of bonds in order to refund other obligations. Net present value savings over the course of the refunding must be at least 3% (of refunded principal) for consideration.

c. Cash Flow Borrowing

It is understood that expenditure cycles do not always follow the revenue cycle and that short-term debt may be necessary to meet cash flow requirements. Anticipation notes may include:

- Tax Anticipation Notes (TANs), used in anticipation of future tax collections.
- Revenue Anticipation Notes (RANs) issued with the anticipation that non-tax revenue will be received.
- Tax and Revenue Anticipation Notes (TRANs), which will be paid with a combination of taxes and revenue.

d. Short-Term Borrowing for Capital Needs

The City may from time to time issue short-term debt that serves as interim financing pending the issuance of long-term debt to finance a completed capital project. This approach is particularly applicable in cases where a project depends upon a combination of reimbursable grant funding Such notes may include:

- Bond Anticipation Notes (BANs), a short term-interest-bearing note issued in advance of a future long-term bond issue.
- Grant Anticipation Notes (GANs), issued for capital projects that are dependent upon reimbursable grant funding from an outside entity, such as the Commonwealth or Federal governments.

e. Capital Leases

The City may enter into a capital lease agreement for the purchase of capital equipment and vehicles so long as the lease period does not exceed 10 years or extend beyond the useful life of the purchase.

f. State Revolving Fund

For projects that are directly related to wastewater and drinking water infrastructure/ construction/improvement or rehabilitation, the City may opt to borrow funding directly from the Massachusetts Water Pollution Abatement Trust revolving fund program.

3. Financing Processes

The City shall employ a financial advisor and bond counsel to review and advise on all matters related to debt authorization and debt issuance. Should a capital project, infrastructure improvement, or capital equipment need require seeking an authorization to borrow funds, the benefitting party must provide comprehensive documentation to the Financial Team outlining the scope of the project, the cost of the project, the cash flow projection to complete the project, and any expected federal, state or local grant awards or other funding sources.

a. All loan authorizations should be authored by bond counsel or, at a minimum, reviewed by bond counsel prior to submission to the City Council for approval.

b. Unless market conditions are extremely unfavorable, the City will endeavor to sell all municipal bond and note issues by competitive bid. The competitive bid process guarantees the City adequate exposure in the market and reasonable expectation that interest terms and rates are competitive.

c. The City seeks to maintain the highest possible credit rating that can be achieved for debt instruments to attract quality investors and reduce interest costs. To enhance creditworthiness, the City is committed to prudent financial management and systematic capital and long-term financial planning.

d. The City will maintain good communications with bond rating agencies about its financial condition. The City will adhere to a policy of full disclosure on every financial report and bond prospectus (official statement).

e. Long-term debt service for enterprise fund (business-related) debt, i.e., Water, Wastewater and Airport operations, shall be included in the respective funds' annual budgets. The city will periodically review and adjust rates for each enterprise to ensure sufficient capacity for annual debt service payments.

f. The City will file application with the Municipal Finance Oversight Board for consideration of acceptance into the State Qualified Bond Act (SQBA) program when appropriate.

g. Debt maturity is dictated by the limits set forth in MGL Chapter 44 as prescribed by Statutory Authority, Purpose and Maximum Term. <u>In any case, the term of long-term debt shall generally not exceed the expected useful life of the asset</u>. The City shall endeavor to retire/refund debt whenever it is financially feasible, legally permissible and advantageous for the City.

h. The City will monitor all municipal borrowings on a regular basis to insure compliance with federal tax reform legislation and arbitrage limitations.

4. Debt Capacity

The decision whether to assume new tax-supported general obligation debt (total general obligation debt less any enterprise-related, revenue supported general obligation debt) shall be based on the direct cost and benefit of the proposed project, the current conditions in the bond market and the City's ability to afford new debt. The City will apply several indicators to determine the appropriateness of assuming tax-supported general obligation debt. These affordability targets shall include:

a. Outstanding debt as a percentage of per capita income;

b. Outstanding debt as a percentage of assessed valuation.

c. Annual debt service as a percentage of the adopted General Fund operating budget.

d. Amortization of 60% to 70% of debt, including the prospective debt issuance, in 10 years.

In addition, enterprise fund indebtedness may not exceed 25% of the total assessed valuation of all real and personal property in the City for any given fiscal year, so long as the enterprise fund can support its debt service.

The City shall not assume more tax-supported general obligation debt than it retires each year without conducting an objective analysis regarding the City's ability to assume and support additional debt service payments.

General obligation, net tax-supported debt may not exceed 10% of the total assessed valuation of all real and personal property in the City for any given fiscal year and the City shall strive to maintain its General Fund backed debt service at no more than 10% of the General Fund's annual operating budget.