



# FINANCE COMMITTEE

## COMMITTEE MEETING

~ MINUTES ~

Tuesday, December 12, 2023

1:00 PM

Sullivan Chamber  
795 Massachusetts Avenue  
Cambridge, MA 02139

The Finance Committee will hold a public hearing on Tuesday, December 12, 2023 from 1:00p.m. – 3:00p.m. to have an update and discussion on Public Investment Planning.

Attendee Name	Present	Absent	Late	Arrived
Dennis J. Carlone	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Patricia Nolan	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Burhan Azeem	<input type="checkbox"/> Remote	<input type="checkbox"/>	<input type="checkbox"/>	
Alanna Mallon	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Marc C. McGovern	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Sumbul Siddiqui	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
E. Denise Simmons	<input type="checkbox"/> Remote	<input type="checkbox"/>	<input type="checkbox"/>	1:30 PM
Quinton Zondervan	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Paul F. Toner	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

A public meeting of the Finance Committee was held on Tuesday, December 12, 2023. The meeting was Called to Order at 1:00 p.m. by Councillor Nolan, Co-Chair. Pursuant to Chapter 2 of the Acts of 2023 adopted by Massachusetts General Court and approved by the Governor, the City is authorized to use remote participation. This public meeting was hybrid, allowing participation in person, in the Sullivan Chamber, 2<sup>nd</sup> Floor, City Hall, 795 Massachusetts Avenue, Cambridge, MA and by remote participation via Zoom.

**At the request of the Chair, Deputy City Clerk Crane called the roll.**

- Councillor Azeem – Present/Remote
- Councillor Carlone - Present/In Sullivan Chamber
- Vice Mayor Mallon – Absent
- Councillor McGovern – Present/In Sullivan Chamber
- Councillor Nolan – Present/In Sullivan Chamber
- Mayor Siddiqui – Present/In Sullivan Chamber
- Councillor Simmons – Absent\*
- Councillor Toner – Absent
- Councillor Zondervan – Present/In Sullivan Chamber

**Present – 6, Absent –3. Quorum established.**

\*Councillor Simmons was marked present and remote at 1:30 p.m.

Also present at the hearing were Yi-An Huang, City Manager, Owen O’Riordan, Assistant City Manager, Rebecca Fuentes, Deputy Chief Operating Officer, B Kimmerman, Chief of Staff to the City Manager, Michele Kincaid, Acting Assistant City Manager for Fiscal Affairs, Iram Farooq, Assistant City Manager for Community Development, Ellen Semonoff, Assistant City Manager for Human Services, Taha Jennings, Budget Director, Angela Pierre, Deputy Budget

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Director, Jackson Price, Principal Budget Analyst, Daniel Liss, Principal Budget Analyst, Elliott Veloso, First Assistant City Solicitor, Matt Nelson, Assistant to the City Manager, Claire Spinner, Chief Financial Officer, Dave Murphy, Chief Operating Officer, Cambridge Public Schools, Naomie Stephen, Executive Assistant to the City Council, and Paula Crane, Deputy City Clerk.

The Chair, Councillor Nolan, noted that the Call of the Meeting was to receive an update and discussion on Public Investment Planning. She read from prepared Opening Remarks (**ATTACHMENT A**).

Councillor Nolan noted that there were no public speakers signed up to speak.

Councillor Carlone highlighted that this is a critical part of the budget, and the more that the City Council knows about it as part of the team that puts the budget forward, the greater the public involvement. He said that much planning went into this area, but it was professionally done in-house and did not directly include the City Council and the public. He noted that Cambridge Public Schools construction history of the last ten years has been the large extent of the bonding, and this is an opportunity to fund other projects that are needed.

She then invited Owen O’Riordan to introduce senior staff from the City and School Department that were in attendance. Mr. O’Riordan gave an overview of a PowerPoint presentation titled “City of Cambridge Public Investments/Capital Spending” (**ATTACHMENT B**). He stated that the City’s capital spending/public investment is a direct reflection of its strategic priorities and community needs. He said that the capital budget differs from the operating budget as it supports multi-year projects and acquisition or improvement of long-term assets. He explained that bond issuances (debt) are a major lever for funding public investments. Mr. O’Riordan explained that bond issuances can lag appropriations by several years, and associated debt service costs affect the City’s operating budget for many years. The City sets its internal debt policies to obtain the best long-term financial advantage to the City and its residents. He stated that the City has increased the amount it has bonded in recent years, primarily for schools and sewers. Looking ahead, there are large public investment priorities competing for consideration in the next five fiscal years and today’s discussion will lay the groundwork for future discussions.

City Manager Yi-An Huang expressed his appreciation for the City team’s work that went into the presentation. He stated that it is important to begin the process to start laying some of the foundations behind where we are today with existing capital commitments and how much space there is in that overall capital plan. There is a real conversation about all of the express priorities of the City Council and how they fit into the amount that the City can bond for. He noted that there will be major upcoming decisions about where the City will put the next 5-10 years of capital. He added that on the School side, we are at the end of the last ten-year plan. He said that the King School, King Open and Tobin School are the major projects that were approved over the last decade. He noted that there will be major decisions to discuss.

The Chair, Councillor Nolan recognized Councillor Azeem who asked what might be the estimated bonding capacity that we are looking at the next term. Mr. O’Riordan responded that the City is concentrating on the FY25 bond sale. Most of that is already spoken for. He said that

the expectation is that the money that will need to be bonded to pay for the projects that are presently underway is between approximately 160-180 million dollars. He noted that that number will be refined in the upcoming weeks. City staff answered additional clarifying questions by Councillor Azeem.

The Chair, Councillor Nolan recognized Councillor McGovern who noted that he did not see Cambridge Health Alliance at Windsor or a Day Center for the Unhoused on the list and stated that he would like to add these projects to the list for discussion. Mr. O’Riordan stated that the challenge is what must be taken off the list to add another project to the list.

Councillor Carlone asked where the percentages come from. Taha Jennings responded that the percentages are based on industry standards and benchmarks, studies that have been done by the rating agencies and comparable cities with AAA bond ratings.

The Chair, Councillor Nolan recognized Councillor Zondervan who asked for clarification on the figures on Slide 6. Mr. Jennings responded to Councillor Zondervan’s questions.

The Chair, Councillor Nolan recognized Mayor Siddiqui who had clarifying questions relative to budget guidelines. City Manager Huang responded by stating that questions can be developed to guide the conversation. Mayor Siddiqui said that the School Committee has developed questions to guide the conversation and suggested that the City Council do the same.

Councillor Nolan stated that as it relates to ratios set by best practice, those best practices mean that if the City changes them and goes above, they will affect the City’s bond rating and therefore affect our capacity. As it relates to schools, she noted the need to get costs under control. She said that every plot of land that is purchased is an opportunity to do more for the city and will increase the need for bonding in order to construct. She asked if this is factored in. In terms of bonding not on the list, Councillor Nolan stated that there was an overarching idea of helping to bond to build more affordable housing. Mr. O’Riordan responded to Councillor Nolan’s questions.

Michele Kincaid explained the AAA Bond rating aspects. City staff responded to additional questions by City Councillors.

Mr. O’Riordan stated that he is grateful for the feedback and recommended that the Finance Committee hold another hearing in January 2024 to establish goals and a framework moving forward.

Councillor Nolan adjourned the hearing at 2:47 p.m.

**Clerk’s Note:** The City of Cambridge/22 City View records every City Council meeting and every City Council Committee meeting. This is a permanent record. The video for this meeting can be viewed at:

[https://cambridgema.granicus.com/player/clip/635?view\\_id=1&redirect=true&h=4c24219657c1df051f884f9c1d910d0c](https://cambridgema.granicus.com/player/clip/635?view_id=1&redirect=true&h=4c24219657c1df051f884f9c1d910d0c)

**A communication was received from Deputy City Manager, Owen O'Riordan, transmitting a presentation relative to Public Investments and Capital Spending.**

## Attachment A – Councillor Nolan Opening Statement

We are here today to begin discussing and in fact, lay the groundwork for what will appear in the FY25 Budget, specifically the Capital Budget. Much of the work that goes into the capital budget is on a much larger timespan than the year-to-year operating budget and we will have an opportunity to discuss ongoing priorities in terms of multi-year spending and public investment today. And as we go through this process we know we will have to grapple with our own fiscal limitations - we have bonding limits and debt limits and so we know that as a council and as a city we will have to have a clear sense of priorities and timelines associated with additional spending, so I am excited to begin discussing those priorities and strategies today and continue into the next year.

So similar to last year's budget cycle, we will begin the new cycle with a broad discussion of capital spending plans and continue in the new term with budget priorities and more specific discussions on the operating budget. The purpose of today's meeting is to get an update from the city on their ongoing work on the capital budget and to give input on prioritization of multi-year spending to the city staff so that the will of the council is reflected in the budget that we are eventually presented with. I hope that the city staff will be able to provide the spending plans within a larger context of city and council priorities so that we can understand the larger scope of city spending. And I hope this meeting will be productive for the council in that they are given time to formally address capital budget priorities with city staff in a public forum and productive for city staff, in gleaning directives from the council.

So, as I've said, today is the first meeting in a series of Finance Committee meetings that will lead up to the FY25 Budget adoption next year. With that, I will hand it over to City Manager Huang, Deputy City Manager O'Riordan, and their team for a presentation.



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# City of Cambridge Public Investments / Capital Spending

December 12, 2023

City Council Finance Committee Hearing

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# Executive Summary

## What is the capital budget?

- The City of Cambridge's capital spending/public investment is a direct reflection of its strategic priorities and community needs
- The capital budget differs from the operating budget; it supports multi-year projects and acquisition or improvement of long-term assets

## Role of debt in funding the capital budget

- Bond issuances (debt) are a major lever for funding public investments
- Bond issuances can lag appropriations by several years, and associated debt service costs affect the City's operating budget for many years
- The City sets its internal debt policies to obtain the best long-term financial advantage to the City and its residents

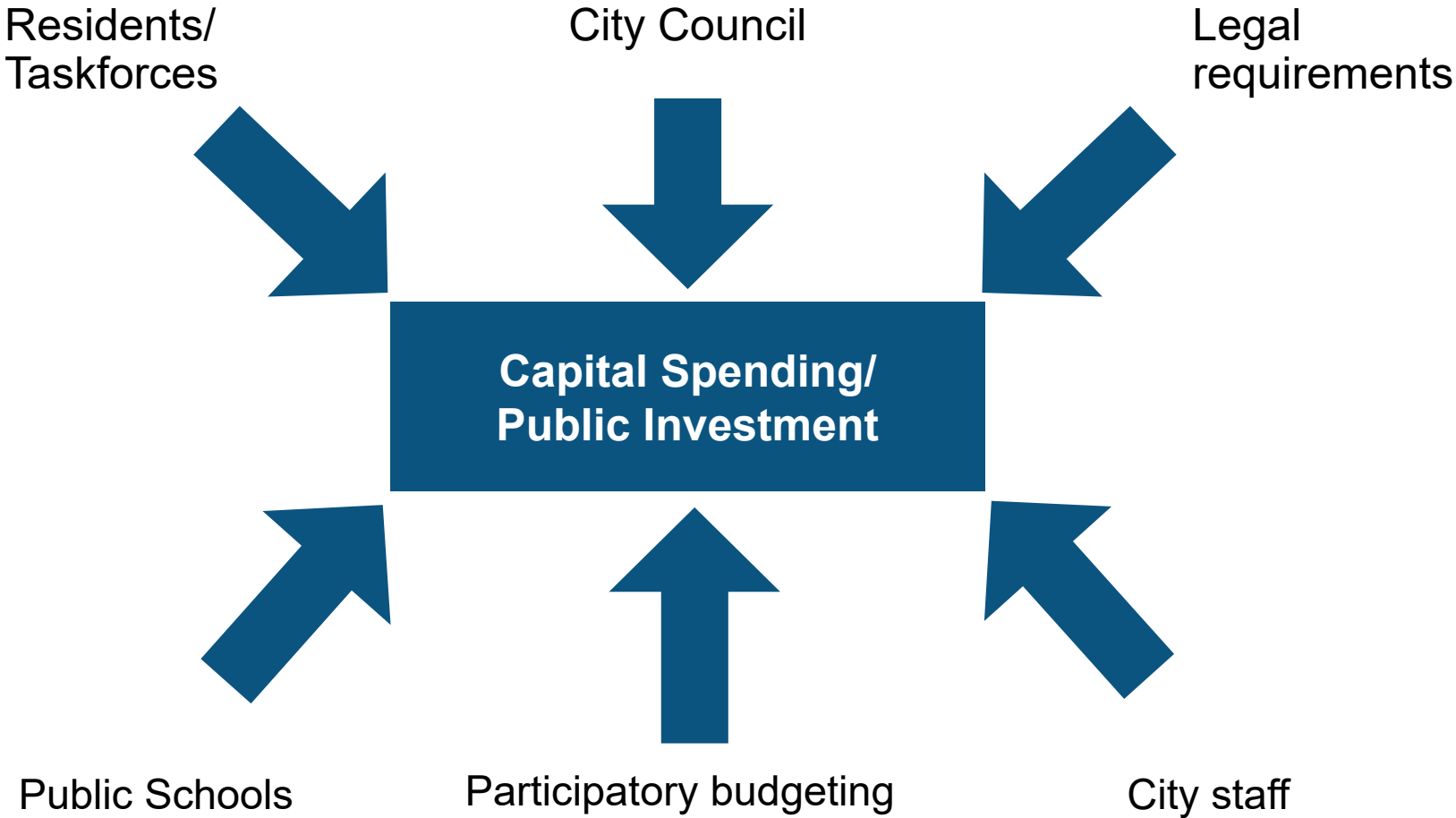
## FY25 capital budget timeline & decisions

- The City has increased the amount it has bonded in recent years, primarily for schools and sewers
- Looking ahead, there are large public investment priorities competing for consideration in the next five fiscal years
- Today we plan to share an overview of the capital spending/public investment and considerations around City debt, to lay the groundwork for future discussions



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# The City of Cambridge's capital spending/public investment is a direct reflection of its priorities as a community and shaped by many inputs



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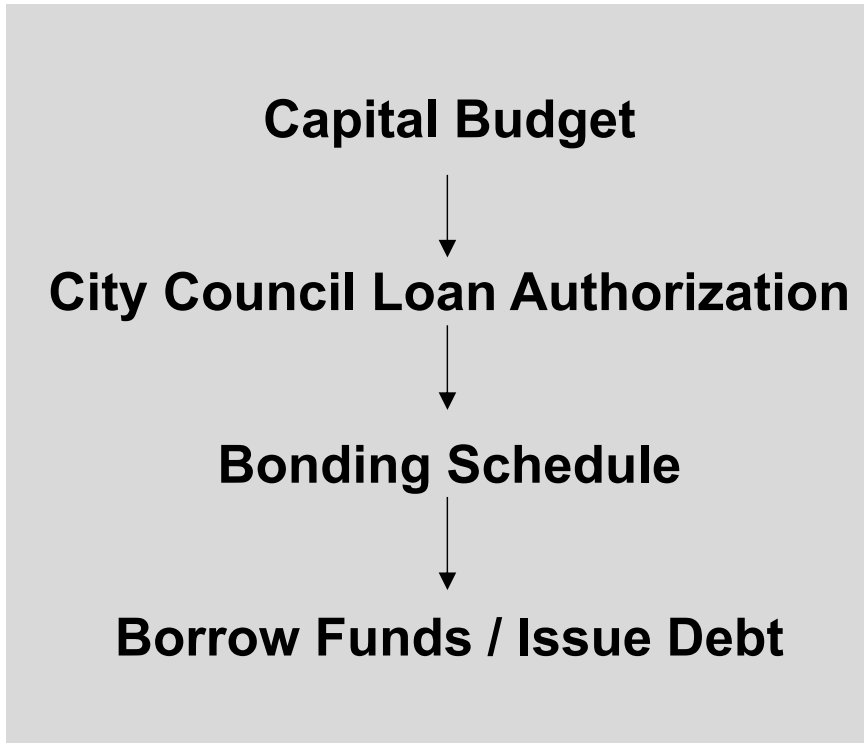
# Capital spending supports acquisition and maintenance of long-term assets

	Operating	Capital
<b>Purpose</b>	<ul style="list-style-type: none"> <li>Support day to day expenses</li> </ul>	<ul style="list-style-type: none"> <li>Support acquisition of, and improvement to, long-term assets (&gt;5 years useful life)</li> </ul>
<b>Timing</b>	<ul style="list-style-type: none"> <li>Funds must be expended within fiscal year</li> </ul>	<ul style="list-style-type: none"> <li>Funds carry over until project is completed</li> </ul>
<b>Examples</b>	<ul style="list-style-type: none"> <li>Salaries and benefits</li> <li>Supplies (e.g., road salt)</li> <li>Training</li> </ul>	<ul style="list-style-type: none"> <li>Land</li> <li>Buildings</li> <li>Equipment</li> </ul>

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# The City finances major capital budget projects primarily through bonds to add budget stability and spread cost out over the life of the project

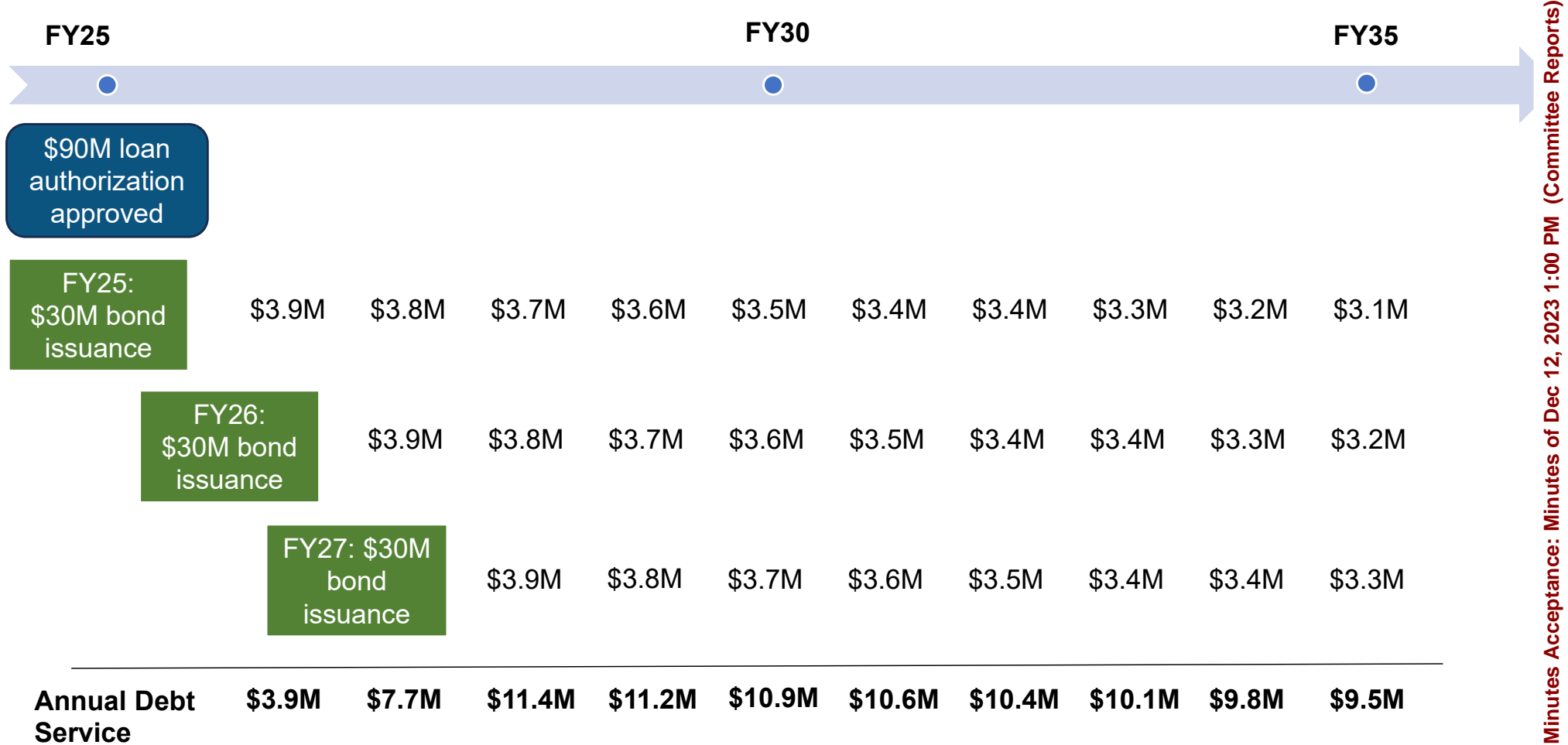


- Requires loan authorizations to issue bonds for specific projects
- Once the City Council authorizes (approves) a loan order for a capital project (typically with adoption of the Capital Budget, but sometimes off-cycle), the City can then borrow funds up to the amount authorized
- The City does not need to borrow all of the authorized funds at one time, which is reason for a multi-year bond schedule
- A bond issuance will incur debt service costs (repayment of principal + interest) for the life of the bond – a term of 5, 10, or 20 years



# A decision to approve a loan will affect bond issuances and associated debt service costs in the operating budget for many years after

## Debt service for illustrative \$90M project



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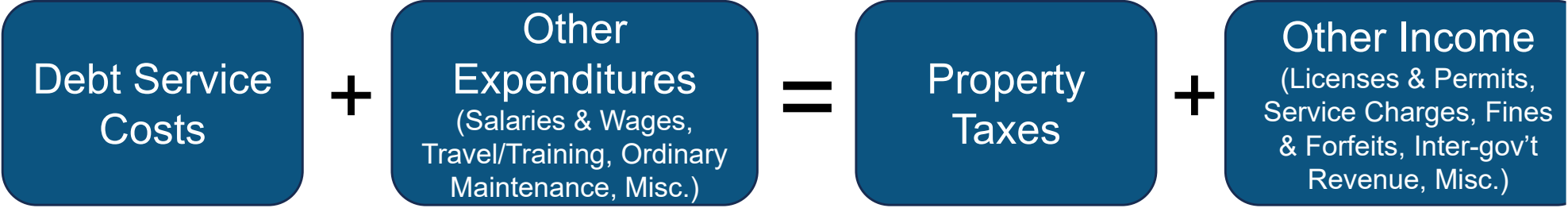
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1. City Council approves a \$90M loan authorization for a construction project for the FY25 capital budget
2. Starting in FY25, 10-year bonds are issued for this project (\$30M / year for 3 years) at a 3% true interest cost (based on construction spending)
3. Each of the 3 bond issuances then incur 10 years of debt service costs (repayment of debt principal + interest), starting the year after the associated bond issuance. Assume that debt principal is repaid evenly across a 10-year period

Note that the illustrative graphic does not include entirety of payments associated with FY26 & FY27 bond issuances.

# Debt service costs that originate from bond issuances directly impact the City's operating budget

## OPERATING BUDGET



Per MA statute, a municipal **operating budget cannot have a negative net income** (in which expenses > income)

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# The City sets its internal debt policies to obtain the best long-term financial advantage to the City and its residents

## Key Debt Policies

- ✓ The City shall adhere to a gross debt management strategy that **limits annual gross debt service expenditures to 12.5% of the total budget.**
- ✓ The City shall adhere to a net debt management strategy that achieves the goal of **limiting annual net (i.e., tax-supported) debt service expenditures to 10.0% of the total budget.**
- ✓ The City’s **overall net debt per capita shall not exceed \$6,000 per capita.**

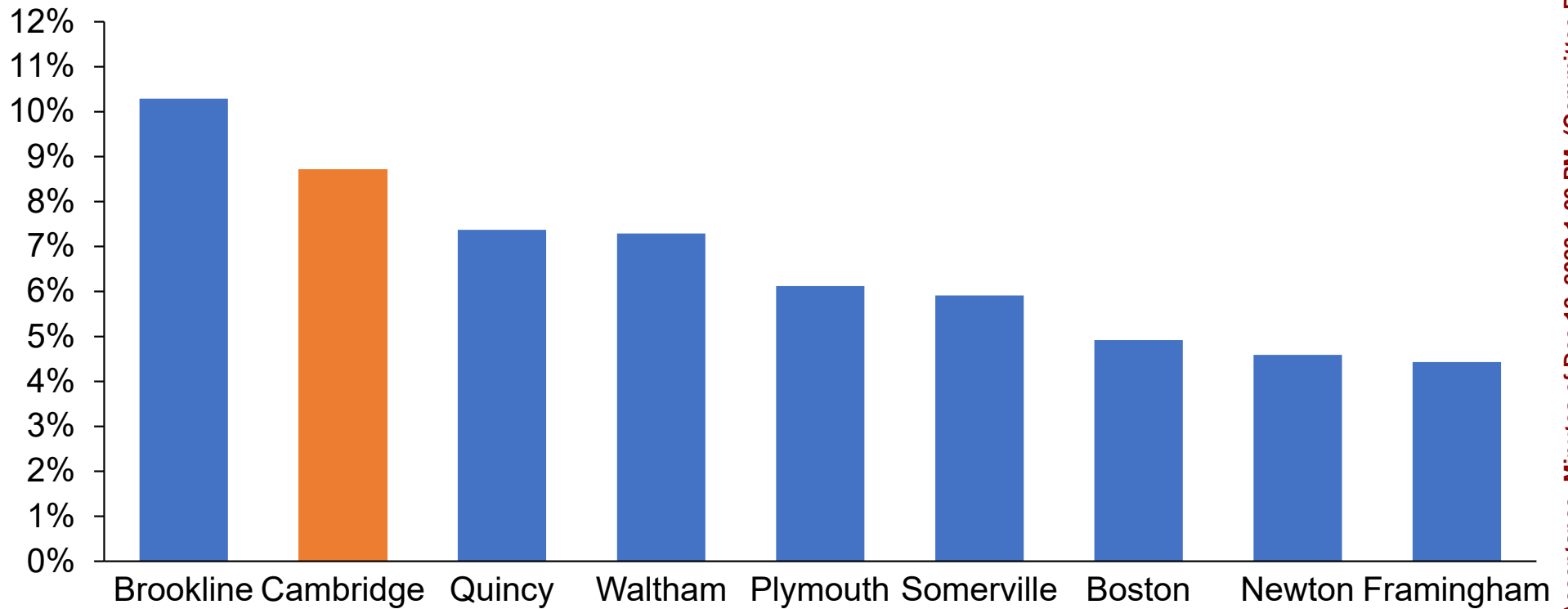
Debt Ratio	City Policy Limit	Current
Gross Debt Service Expense to Total Budget	12.5%	10.1%
Net Debt Service Expense to Total Budget	10.0%	7.1%
Net Debt Per Capita	\$6000	\$3338

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# Cambridge has a higher debt service as a portion of operating expenses than most comparable MA municipalities

### Debt Service as a % of Total Budget (2022)



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Source: MA Division of Local Services – Community Comparison Report data

Note: Comparables were chosen based on population size, budget size, and revenue source: Total Budget figures include Enterprise and CPA funds. What is included within “debt service” may differ by municipality



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# The table below includes past/current projects associated with bonding that have previously been authorized, as well as potential future projects

## Past Years' (Pre-FY2024) Bond Issuances – Projects

- Complete Streets
- Municipal building repairs & upgrades (e.g., fire stations, police stations, City Hall & other buildings)
- Parks and open space projects
- Schools repairs & upgrades
- Sewer & stormwater

***Projected debt service associated with these highlighted projects are depicted on Slide 12***

## Authorized-Unissued Bond Issuances – Projects

- Bike lane pathways
- Complete Streets
- Municipal Facilities Improvement Program (MFIP) projects
- Parks and open space projects
- Sewer & stormwater
- Tobin School construction

## Anticipated Future Bond Authorizations – Projects

- Complete Streets
- Fire stations renovation
- MFIP – additional projects
- Open space / parks maintenance
- Schools repairs & upgrades
- Sewer & stormwater

## Select Projects Raised for Discussion

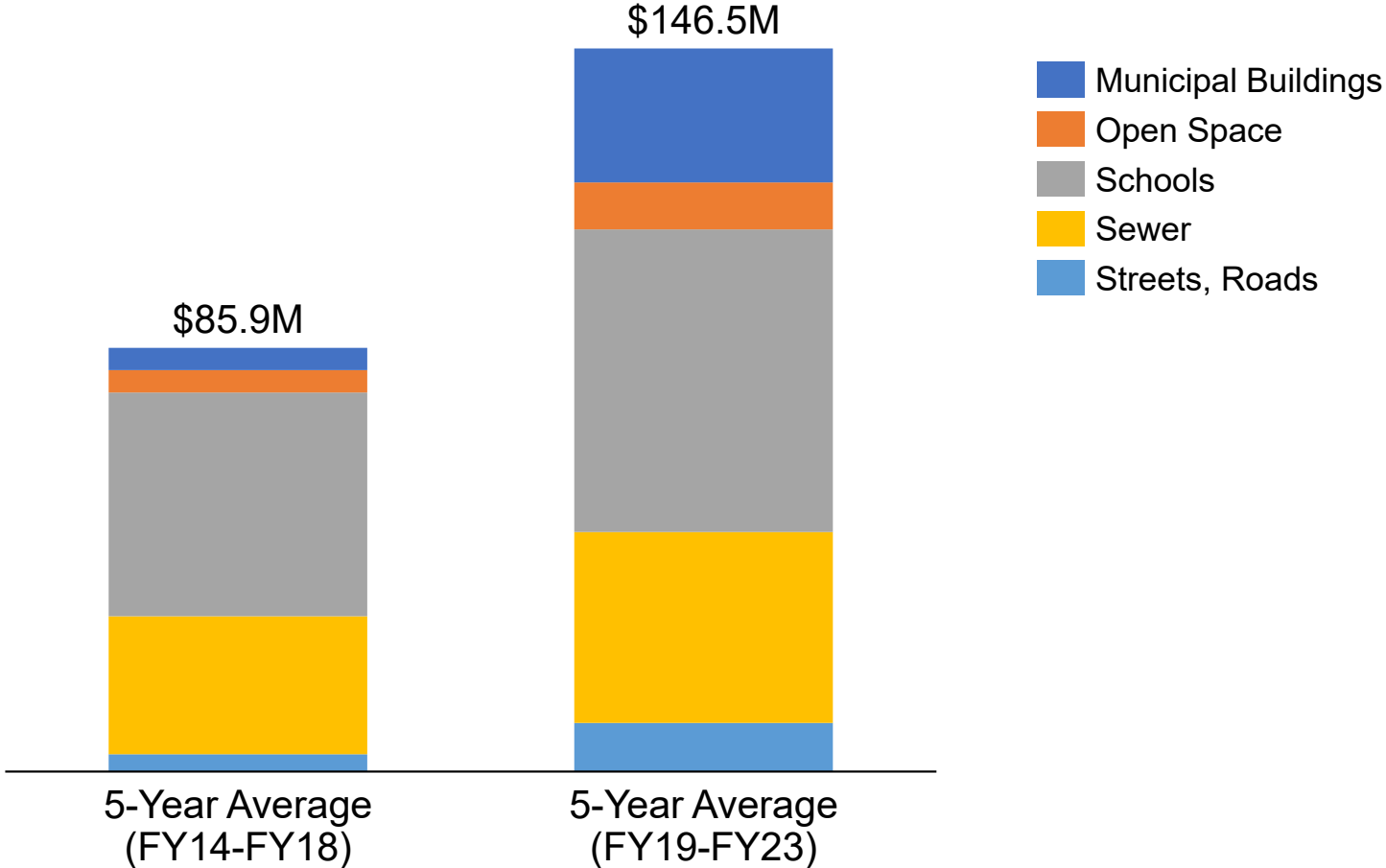
- BEUDO compliance\*
- Cambridge Health Alliance building (119 Windsor Street)
- Central Square Library
- Combined Sewer Overflows\*
- Danehy Park
- First Street Garage
- Fitchburg Rail Crossing
- Green Street Parking Garage
- Lombardi Building
- Municipal Broadband
- Municipal office space restructuring
- Procurement and redevelopment of additional open space / parks
- Schools Renovation Initiative
- Water Infrastructure

*Note: Asterisk (\*) notes projects associated with a binding legal agreement*

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# Annual bond authorizations have increased significantly in recent years

### Annual Bond/Loan Authorization



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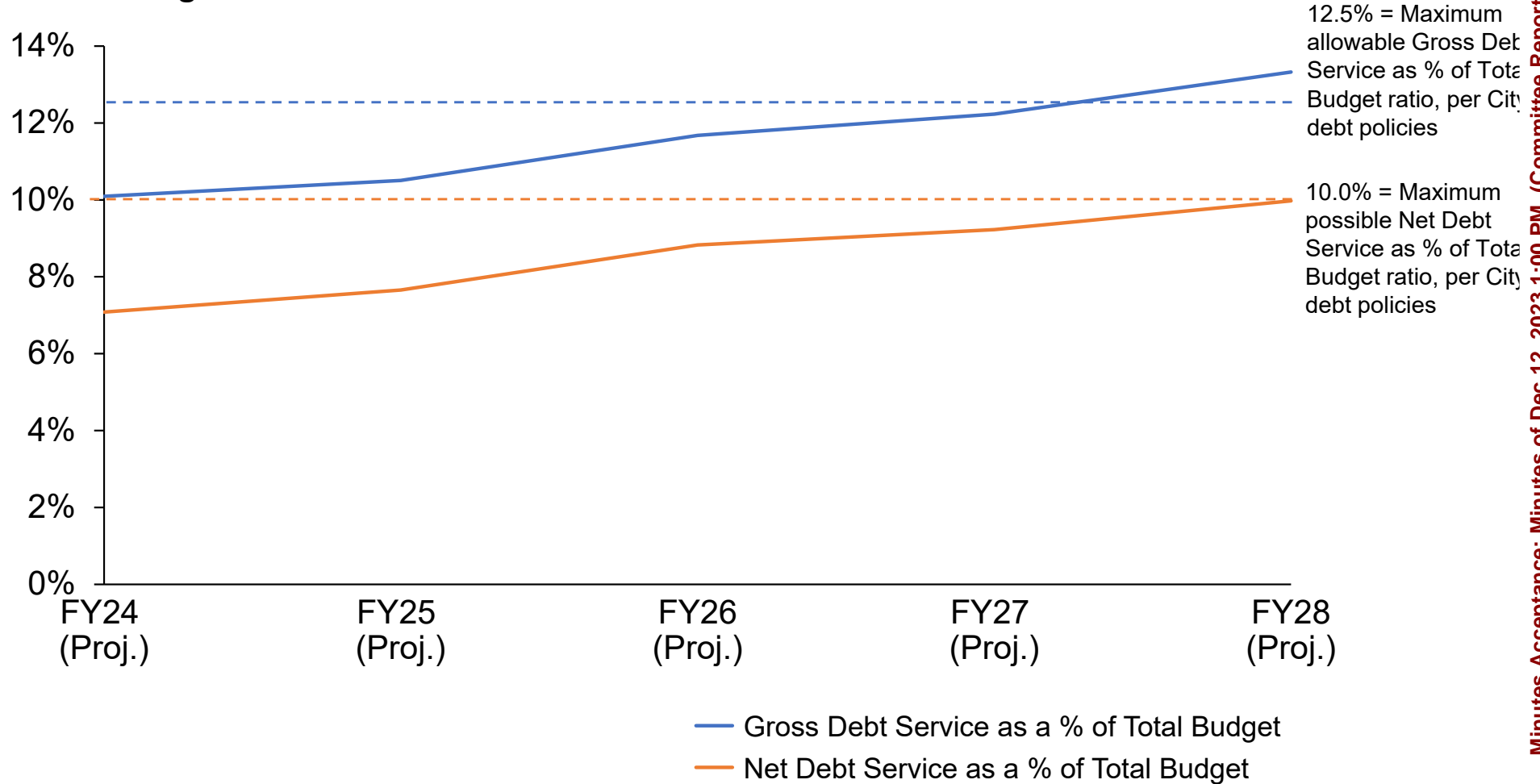


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# Without critical tradeoff decisions, debt ratios could approach or surpass outlined policy limits in upcoming years, risking the City's financial health

## Debt Service as a % Of Total Budget



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Note: Assumes 3% true interest cost rate, no bond premiums, and that principal is repaid evenly across bond term. Does NOT include bond issuances for larger proposed projects. Projections are subject to change.

# Capital requests are first evaluated by the Public Investment Committee, then the City Manager, with ultimate approval sitting with City Council

<b>December 2024</b>	Briefing on FY25 budget guidelines by City Manager
	Capital presentation to City Council Finance Committee
<b>January - March 2024</b>	Formal department presentations of capital requests to the Public Investment Committee
<b>March 2024</b>	Public Investment Committee makes FY25 capital budget recommendations to City Manager
	FY2024 Bond Sale takes place
	Participatory Budget voting results announced
<b>May 2024</b>	Submission of the City Manager’s FY2025 Budget to City Council
	Public hearing on FY25 Capital Budget
<b>June 2024</b>	FY25 Budget projected adoption
<b>July 2024</b>	Begin execution of FY25 allotment plans

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