

TOWN OF GROTON FINANCE COMMITTEE

Minutes of Joint BOS/FinCom Meeting Held January 5th, 2015

Presentation of FY2016 Proposed Operating/Capital Budget

Selectmen's Meeting Rm & 1st Floor Conference Rm

Groton Town Hall, 173 Main St. Groton, MA, 7:00 p.m.

Present for Finance Committee: R. Hargraves (Vice Chair), G. Green (Chair), B. Robertson, Barry Pease, Art Prest, P. DuFresne (Town Accountant, Recording)

Absent: Mark Bacon, D. Manugian

Also Present: Members of the Board of Selectmen, Members of the Press, Mr. Mark Haddad (Town Manager), Members of the Finance Team, and Members of the Public

Documents available at the meeting: FY16 Town Operating & Capital Budget Proposals
FinCom Liaison Spreadsheet
Town Manager's FY16 Budget Power Point Presentation
Jan 5th Middlesex County Pension Update Memo
FinCom Town Charter Committee Qualification Doc. (draft)
FinCom Draft Meeting Minutes 12/02/2014

Mr. Green called the Finance Committee meeting to order at 7:15 p.m.

FY2016 Budget Presentation

(Please see attached Power Point document for the Town Manager's Budget Presentation). Discussion highlights are as follows:

County Retirement Budget Increase - Mr. Hartnett provided an update on the status of the Middlesex County Pension assessment. The Town of Groton is expected to be assessed \$108,066 for FY16, an increase of 11% over last year. (Please see the accompanying Middlesex County Pension Update memo for a detailed analysis). Mr. Hartnett noted that there are 10 employees who are newly active on MCRS, which is contributing to Groton's liability, however, some of this activity will be transferred off to other retirement units for the next assessment. Segal Actuarial will be conducting a more thorough review to determine whether any additional adjustments should be made to the assessment (any such adjustments would probably be deferred to reduce the 2016 valuation). Mr. Hartnett cautioned that pension calculations are very complicated, and the final pension assessments are not known at this time.

Health Insurance Budget Increase – The FY16 proposed Health Insurance budget is 7% higher than FY15. The premium rates that will be in effect for FY16 are not yet known, however, the Town is expecting an increase between 5% and 7% over last year. This is due to higher than usual claims activity and a general underfunded condition in two of the plans. The Town is conservatively budgeting for a 7% increase at this time, but hopes to be able to lower this budget line in February when the new rates are set.

Local Meals Tax Revenue FY15 – The Board of Selectmen suggested that the Town should send letters to local restaurateurs to remind them of their obligation to collect and remit the new local option meals tax that was accepted by Town Meeting vote in October. Mr. Haddad agreed to send out reminder letters, although he noted that the Commonwealth has already sent letters to business owners who are impacted.

Police Department School Resource Officer – Police Chief Don Palma has recommended that a full-time officer be assigned to address the safety needs of the schools. While the schools do receive regular police department attention, this is currently being done on a part-time basis. Mr. Haddad reminded the group of the importance of meeting public safety goals (as per the MA Tax Force Report on School Safety recommendations). Given the significant number of school facilities in Groton and the ever-growing list of threats in these environments, the Town cannot afford to ignore this need. He added that the local school administrators support this initiative. The financial impact in FY16 would be \$71,000 (salary and benefits). Several members of the Board of Selectmen felt that the schools should share the burden of funding this new position. Mr. Haddad agreed that the Town should certainly have this conversation with the school district, however, he reminded the group that any funding that they grant to the Town for this purpose would likely be passed back to the taxpayers in the form of increased school district assessments. He added that if this cost was partially funded through the assessment, that would ensure (through the regional school district funding formula) that Dunstable shares in the cost. Mr. Hargraves asked whether the SRO would be assigned exclusively to the High School. Mr. Haddad replied that the SRO would not be predominantly assigned to any particular school.

Sargisson Beach – Mr. Haddad explained that while the funding for the beach was cut from the budget for FY15, he would like to see this reinstated for FY16. This is especially true since the Town has pledged a significant amount of money (CPC) to do restorative work at this location.

Debt Service – Mr. Haddad would ask the Town to consider undertaking two important public safety projects during FY2016. The first would provide fire protection to the Lost Lake area, and the second involves upgrading the radio communications system for the Fire and Police Departments. Because both of these issues involve a serious public safety component, Mr. Haddad would recommend bond funding, rather than trying to complete the projects in phases (to lower the financial burden in any one year). Mr. Hartnett noted that a 10-year bond authorized in the spring, would include one interest payment (no principal payment) in FY16. Mr. Cunningham agreed that the issue was serious, as there are currently communication “dead zones” in the Town (for instance Shaw’s Supermarket and the High School building). Mr. Petropoulos would like to hear more about the scope of this need from the Fire Chief.

OPEB (GASB 45) Funding Plan - Mr. Haddad informed the group that he would like to see the Town commit to begin funding its OPEB liability. Continuing to ignore this issue could lead to an eventual downgrade of the Town’s bond rating (currently AAA). Mr. Haddad explained that the initial funding plan could be structured in such a way as to have no impact on the operating budget. He recommends that an

unbreakable trust be established as per GASB recommendations, then that appropriation that is currently voted for health insurance and paid out annually for the benefit of our retirees could be carved off and placed on deposit in that Trust. The current premium expenses would then be paid from that Trust annually. Additionally, in FY19, the Town is expecting to see a \$200,000 reduction in pension costs (due to the final elimination of the unfunded ERI liability). This money (which is already part of the Town budget) could simply be redirected to the OPEB trust as additional funding against that liability (currently about \$7.150 million). In this way, the Town can show a good faith effort at beginning its funding of OPEB without impacting the tax rate. Mr. Degen made it known that he will never support the effort to fund OPEB. He sees no need to tie up significant taxpayer dollars on a liability that will never have to be paid out, merely to comply with an "accounting standard." If the Town were ever forced to fund this liability, the BOS should consider changing the 65/35 retiree cost split. He noted that the funding plan described by the Town Manager was not truly budget neutral; while the budget would not be increased using this structure, it could conceivably be decreased if OPEB is not funded. Mr. Robertson suggested using only a part of the \$200,000 pension savings for the OPEB effort. That way, should the annual retiree premium expense ever spike in some future year, the Town would have the ability to draw down that extra deposit and smooth out the expense without impacting the tax rate. He emphasized that the Town still has four years to decide how to use that extra \$200,000. Mr. Haddad cautioned that if OPEB is to be funded at all, it should be done at a reasonable level, otherwise it appears disingenuous. Mr. Green agreed that Standard & Poor's may reduce our bond rating should they decide that we are not seriously committed to this plan. Mr. Pease noted that a decrease in our bond rating could translate to increased debt service costs of between \$75,000 and \$80,000 annually depending on the bond issue. Mr. Degen believes that the bond rating would not necessarily be impacted as long as the Town maintains its already established high standards in overall financial performance. Mr. Stuart noted that years from now, the Town's financial position may be very different from what it is now. As none of us are able to predict the future, an OPEB Trust Fund might be the very thing that saves the day for retirees should the Town ever experience a serious economic downturn. Mr. Robertson said that this is obviously a topic that deserves to be discussed at greater length; he suggested charging a committee or working group with conducting a thorough analysis of this liability.

Country Club Business Plan – Mr. Haddad explained that a consultant was hired (Bill Gustus of Settler's Crossing) to analyze problems with the current operating model for the Country Club, and advise some changes going forward. The Town has received his final report, and is now in a position to be able to act on some of these recommendations. A new marketing plan is being developed targeted to a different demographic, and a search has begun for a Head Golf Professional who can also act as the Club's General Manager. Finally, an RFP is being formulated to lease out the Function Hall which has been identified as a drain on the overall budget. If the Function Hall is successfully leased out, the Town will be able to focus its resources and energy on the Pool/Golf/Camp business segments, with a proposed overall FY16 budget of \$416,000. Of course, if no qualified lessee is found, the budget will have to be re-structured. The proposed due date for this RFP is February 19th. Mr. Petropoulos suggested utilizing companies that are extremely familiar with (and have had past success with) Function Hall Management when considering how best to market this RFP.

Budget Summary - Mr. Haddad concluded his presentation by saying that the proposed FY16 Operating Budget (as drafted) uses all available levy capacity and represents an increase of 5.34% over last year. This increase is largely due to the following budget changes:

- *\$27,000 Pepperell SRF Debt to be paid by the Town of Groton instead of the Sewer Enterprise
- *\$38,210 Plan to open Sargisson Beach for the summer of 2015
- *\$71,000 Addition of School Resource Officer for the Police Department
- * \$101,299 Estimated Rate Increase in Employee Health Insurance
- *\$180,066 Estimated Rate Increase in Pension Costs

On a positive note, new growth which was particularly strong for FY15 (due in part to Personal Property revaluations) is predicted be healthy again for FY16 (approximately \$15 million is estimated at this time which will add \$274,000 to the FY16 Levy Limit). Mr. Haddad briefly reviewed the mechanics of the levy limit calculation for the public and explained how new growth and debt exclusions are added to the tax levy. Mr. Degen would like information on the impact on the average residential tax bill of the CPC surtax (3%) for FY16. Ms. Swezey offered to obtain that information. Mr. Haddad discussed the 5-Year Budget Projection document contained in his presentation (please see attached). He is optimistic that the new governor will stand by his promise not to reduce local aid (at least for FY16). The exposure to the Town is approximately \$70,000 should this revenue category be cut. Mr. Haddad commended the GDRSD School Committee, the new Superintendent and the Business Manager for their significantly streamlined process this year. He feels that they have been extremely cooperative and forthright in the numbers they have provided thus far, and this gives the Town a much more confident position with regards to the school district's needs much earlier than would normally be expected.

Mr. Degen expressed concern with the current level of budget growth and the potential for pricing residents out of the community. Mr. Haddad stressed that FY16 is a "needs" budget which maintains current levels of service and provides for improvements in only very targeted areas.

At this point in the meeting (8:35 pm) the Finance Committee re-located to the 1st Floor Conference Room.

Department Head Budget Review – Mr. Green proposed meeting on Saturday, January 24th from 9:00 am until 2:00 pm. This meeting will be an opportunity for the Finance Committee members to pose questions to a selection of Department Heads regarding their budget requests. Following a brief discussion, the group decided to request the attendance of the Fire Chief (to discuss capital budget requests and the Lost Lake Fire Protection project), the Police Chief (to discuss the School Resource Officer request and overtime shift coverage policies), Water & Sewer Enterprise Superintendent (to provide an update on the Lost Lake Fire Protection project, and information regarding the SRF Debt reimbursed to Pepperell), the DPW Director, the Parks Department Chair, the Town Manager (to speak regarding IT issues, retirement and other benefit costs, the Country Club plan, the sewerage of the 4 Corners area, OPEB and general budget growth questions), and the Library Director.

Mr. Pease was very concerned that budget growth allowed to continue at the current level is simply unsustainable over time. He argued that no reputable business spends all of its available resources every year. This approach is fundamentally flawed and will result in discouraging new people from purchasing property in Groton, at the same time that long-time residents are being priced out of the community. He recommended that FinCom take a more conservative approach to Town spending. Mr. Prest agreed saying that the Finance Committee should have a more proactive role in the budgeting process; the Town will encounter difficulty in the near future given the current level of budget growth. Also, businesses

should be encouraged to relocate to Groton, and a policy of supporting economic development should be stressed. A balance must be reached that will allow the Town to shift the tax burden from residential to commercial while still maintaining a small town New England atmosphere. The group briefly discussed the Town's vote to exclude the Fire Station construction debt in April of 2014. Questions arose regarding the limitations on spending the surplus construction budget. Ms. Dufresne explained that since most of these surplus funds were not part of the bond issue but were received in a special settlement with Western Surety Corporation, the Town has more flexibility as regards appropriating those funds for other purposes. Mr. Robertson felt that the Country Club's position with regards to FY16 was uncertain, therefore some provision should be made to reserve funds (perhaps as much as \$100,000) in case that facility does not perform as expected. Mr. Prest noted that the Insurance & Bonding budget was showing an increase for FY16. Ms. Dufresne pointed out that this was largely due to a reclass of expenses between General Government and Citizens Services.

Charter Review Designees – Mr. Pease distributed a document summarizing his suggestions for how the Finance Committee should proceed with choosing two designees for the Charter Review Committee (please see document attached). He explained that he incorporated some research on other Towns' review procedures, but tried to retain a focus on financial objectives. Mr. Robertson stressed the importance of choosing individuals with proven "best-practices" experience in well-run organizations (either public or private); the best candidate will have a broad background (not just finance-related). Mr. Green suggested that the Finance Committee list its goals with regard to the upcoming Charter Review; it might be worthwhile to recommend a list of changes for the Charter Review Committee to entertain. Mr. Pease felt that the Finance Committee should designate one of its own members as well as one non-member, but stipulate that these individuals be willing to provide regular updates to the Finance Committee as their work progresses. Mr. Hargraves wondered if it would be useful to have this committee appointed by the Town Moderator or even elected rather than be appointed by the Board of Selectmen. Mr. Pease felt that an election may not be the best way to seat skilled members. Mr. Green asked that the members review the document created by Mr. Pease, and send any comments or edits to Ms. Dufresne. She will collect these and forward them on to Mr. Pease who will incorporate relevant changes and present the updates at a subsequent meeting. He cautioned the group against emailing comments or suggestions back and forth to each other as this would violate the Open Meeting Laws.

Finance Committee Policy with Respect to Town Meeting Recommendations - This topic was tabled for a subsequent meeting.

BOS Financial Policy Review – This topic was tabled for a subsequent meeting.

Approval of Meeting Minutes – Mr. Green asked to amend the minutes to alter a statement recorded on page 4 which appears to make him feel more strongly about electing FinCom members than he actually is. The sentence was re-worded to say, "Mr. Green mentioned that there has been some discussion in Town of having FinCom members elected rather than appointed."

On a motion by Mr. Green, seconded by Mr. Prest, the Finance Committee voted unanimously to amend the draft of the meeting minutes of 12/2/ 2014. The Vote: 5-0-0

On a motion by Mr. Pease, seconded by Mr. Prest, the Finance Committee voted unanimously to approve and release the meeting minutes of 12/2/2014 as amended. The Vote: 5-0-0

Mr. Green officially adjourned the meeting at 10:10 p.m.

Respectfully submitted,

Patricia Dufresne, Recording Secretary



TOWN OF GROTON FISCAL YEAR 2016

TOWN MANAGER'S PROPOSED OPERATING BUDGET

PROCESS

- THIS IS THE SEVENTH PROPOSED OPERATING BUDGET I HAVE SUBMITTED AS GROTON'S TOWN MANAGER.
- THE FINANCE TEAM CONTINUES TO PLAY A MAJOR ROLE IN THE DEVELOPMENT OF THE BUDGET. RENA SWEZEY, PATRICIA DUFRESNE, MICHAEL HARTNETT, DAWN DUNBAR AND MELISA DOIG ARE VITAL TO THIS PROCESS.
- DEPARTMENTS CONTINUE TO DO AN OUTSTANDING JOB MAINTAINING SERVICES.

PROCESS

- LIKE THE PREVIOUS THREE YEARS, DEPARTMENTS DIRECTED TO TAKE A HARD LOOK AT THE SERVICES THEY PROVIDE AND WHETHER OR NOT CHANGES IN THE WAY SERVICES ARE DELIVERED NEED TO BE ADJUSTED.
- THE FISCAL YEAR 2016 BUDGET IS CLASSIFIED AS A "NEEDS BUDGET" THAT MAINTAINS THE SAME LEVEL OF SERVICES AND ADDRESSES AREAS THAT WILL IMPROVE THE DELIVERY OF SERVICES.

REVENUE PROJECTIONS**TO CALCULATE THE FY 2016 LEVY LIMIT**

• FY 2015 LEVY LIMIT	\$26,002,556
• ADD 2½ PERCENT	\$ 650,064
• ADD NEW GROWTH	\$ 274,050
• EXPECTED LEVY LIMIT	\$26,926,670

REVENUE PROJECTIONS**FY 2016 TOTAL TAX LEVY CALCULATION**

• FY 2016 LEVY LIMIT	\$	26,926,670
• DEBT EXCLUSION – TOWN	\$	1,172,545
• DEBT EXCLUSION – GDRSD	\$	1,118,387
• SUB-TOTAL – EXCLUSIONS	\$	2,290,932
• TOTAL TAX LEVY	\$	29,217,602

REVENUE PROJECTIONS**OTHER ESTIMATED REVENUES**

• State Aid	\$ 821,981
• Motor Vehicle Excise Taxes	\$1,400,000
• General Revenues	\$1,762,000
• Unexpended Tax Capacity	\$ 464,488
• Other Available Funds	\$ 200,000
• TOTAL	\$4,648,469

BUDGET HIGHLIGHTS

- OPEB LIABILITY IS ADDRESSED IN THE PROPOSED OPERATING BUDGET. FISCAL YEAR 2016 BUDGET PROPOSES A DEDICATED REVENUE STREAM TO ADDRESS THIS GROWING OBLIGATION.
- A CONSULTANT WAS HIRED TO REVIEW THE GROTON COUNTRY CLUB OPERATION. SEVERAL RECOMMENDATIONS WERE MADE THAT HAVE BEEN IMPLEMENTED AS PART OF THE PROPOSED OPERATING BUDGET.
- GROTON COUNTRY CLUB OPERATION IS STREAMLINED AND WE BELIEVE THE PROPOSED FY 2016 BUDGET MEETS THE NEEDS OF THE CLUB AND WILL GENERATE THE NECESSARY REVENUES TO COVER OPERATIONAL EXPENSES.

BUDGET HIGHLIGHTS

- ALL UNION CONTRACTS ARE DUE TO EXPIRE AT THE END OF FY 2015. WE REACHED OUT TO ALL UNIONS AND REQUESTED EARLY COLLECTIVE BARGAINING. ALL UNIONS AGREED AND NEW THREE AGREEMENTS WERE REACHED WITH ALL SEVEN UNIONS. THE PROCESS WAS VERY COOPERATIVE AND PROVIDES THE TOWN WITH BUDGET STABILITY OVER THE NEXT THREE YEARS.
- FIVE OF THE CONTRACTS CALL FOR A 2% WAGE ADJUSTMENT AND WE ARE RECOMMENDING THE SAME FOR THE THREE REMAINING BY-LAW EMPLOYEES. THE TWO POLICE UNIONS DID NOT RECEIVE A WAGE ADJUSTMENT BUT THEY WILL BE PAID ON A FORTY HOUR WEEK.
- IMPACT ON THE FY 2016 BUDGET FOR THESE AGREEMENTS, INCLUDING BY-LAW EMPLOYEES IS \$169,927. THE PERFORMANCE INCENTIVE PROGRAM WILL COST \$38,033.

BUDGET HIGHLIGHTS

- WE ARE PROPOSING A BALANCED BUDGET THAT USES ALL AVAILABLE FUNDS UNDER PROPOSITION 2½, INCLUDING ALL UNEXPENDED TAX CAPACITY.
- MUNICIPAL BUDGET INCREASE IS 5.34%. SEVERAL FACTORS LEAD TO THIS INCREASE:

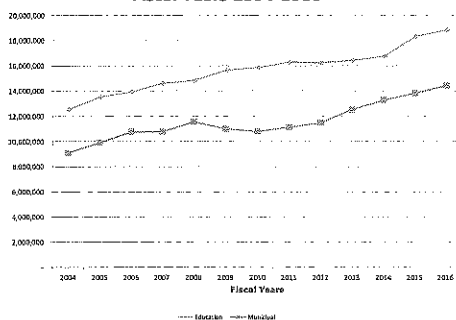
<u>Issue</u>	<u>INCREASE</u>
• Peppereil SRF Debt Service	\$ 27,000
• School Resource Officer	\$ 71,000
• Sargisson Beach	\$ 38,210
• Health Insurance	\$101,299
• County Retirement	\$180,066
• Total	\$417,575 or 3.32% increase

TAX IMPACT

	Actual FY 2015	Proposed FY 2016	Percent Change
Levy Limit	\$25,538,071	\$26,926,670	5.44%
Tax Rate	\$16.68	\$17.42	4.44%
Average Tax Bill	\$6,672	\$6,968	4.44%
Excluded Debt	\$2,433,390	\$2,290,932	-5.86%
Tax Rate	\$1.59	\$1.48	-6.92%
Average Tax Bill	\$636	\$592	-6.92%
Final Levy Limit	\$27,971,461	\$29,217,602	4.46%
Final Tax Rate	\$18.27	\$18.90	3.45%
Average Tax Bill	\$7,308	\$7,560	3.45%

TOWN OF ORSON FIVE YEAR BUDGET PROJECTION						
Expenditure	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
General Government	\$ 1,808,191	\$ 1,885,866	\$ 2,004,783	\$ 2,054,913	\$ 2,108,266	\$ 2,168,843
Land Use Department	\$ 482,848	\$ 489,466	\$ 493,026	\$ 496,360	\$ 499,740	\$ 503,161
Protection of Persons and Property	\$ 3,561,883	\$ 3,551,632	\$ 3,342,286	\$ 3,335,809	\$ 3,331,763	\$ 3,327,627
Civilian Services Regional Board	\$ 17,582,203	\$ 17,514,176	\$ 17,512,033	\$ 18,488,823	\$ 18,488,844	\$ 19,232,239
Middle School Board/Day Camps	\$ 52,822	\$ 52,822	\$ 52,822	\$ 52,822	\$ 52,822	\$ 52,822
Planning Regional Board/High School	\$ 887,088	\$ 884,171	\$ 884,171	\$ 884,171	\$ 884,171	\$ 884,171
Department of Public Works	\$ 2,696,467	\$ 2,548,367	\$ 2,320,018	\$ 2,286,917	\$ 2,211,393	\$ 2,169,177
Library and Senior Center	\$ 1,676,289	\$ 1,614,794	\$ 1,651,156	\$ 1,686,822	\$ 1,728,369	\$ 1,772,449
Other Services - Library Facility Only	\$ 216,840	\$ 220,000	\$ 220,000	\$ 220,000	\$ 220,000	\$ 220,000
Employee Benefits	\$ 3,488,889	\$ 3,777,819	\$ 4,117,625	\$ 4,486,427	\$ 4,889,385	\$ 5,332,700
Subtotal Operating Expenses	\$ 30,970,967	\$ 31,899,125	\$ 33,626,542	\$ 34,122,866	\$ 35,289,268	\$ 36,451,096
Additional Appropriations						
Deposit to Subordinate to Interest Fd.	\$ -	\$ 23,165	\$ 52,248	\$ 54,887	\$ 57,234	\$ 59,873
Deposit to Capital to Capital Fd.	\$ -	\$ 210,254	\$ 362,258	\$ 386,329	\$ 386,532	\$ 397,551
Capital Budget Reserve	\$ 454,141	\$ 305,000	\$ 368,000	\$ 380,000	\$ 395,000	\$ 410,000
County Debt from Pay Years	\$ 1,000	\$ 10,000	\$ 18,000	\$ 18,000	\$ 19,000	\$ 19,000
County Debt Capital	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
State and Local Debt	\$ 200,000	\$ 100,000	\$ 102,750	\$ 101,594	\$ 101,624	\$ 101,672
State and County Charges	\$ 186,882	\$ 189,882	\$ 112,480	\$ 112,480	\$ 112,004	\$ 112,002
Allowance for Allowance Exemptions	\$ 228,800	\$ 228,800	\$ 228,800	\$ 228,800	\$ 228,800	\$ 228,800
Subtotal Additional Appropriations	\$ 557,123	\$ 1,209,200	\$ 1,287,765	\$ 1,308,547	\$ 1,313,413	\$ 1,322,215
Grand Total Appropriations	\$ 31,528,090	\$ 33,108,325	\$ 34,914,307	\$ 35,431,413	\$ 36,602,681	\$ 37,773,311
Revenue						
Planned Year Property Tax Levy Unit	\$ 26,002,556	\$ 26,828,979	\$ 27,840,726	\$ 28,885,860	\$ 29,842,444	\$ 30,812,005
Allowed 2% Increase	\$ 488,084	\$ 672,187	\$ 882,018	\$ 721,842	\$ 707,281	\$ 723,380
Appraisal	\$ 274,956	\$ 268,691	\$ 287,024	\$ 281,402	\$ 302,500	\$ 310,843
Disposition 2% Change	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State Aid	\$ 21,981	\$ 761,000	\$ 750,000	\$ 750,000	\$ 765,000	\$ 750,000
Local Property	\$ 3,078,182	\$ 3,867,497	\$ 3,769,288	\$ 3,853,253	\$ 3,889,814	\$ 3,948,386
State Tax	\$ -	\$ 343,223	\$ 416,814	\$ 420,967	\$ 426,700	\$ 427,353
Other Available Funds	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
State Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State Allocation Fund	\$ 454,141	\$ 350,000	\$ 350,000	\$ 350,000	\$ 350,000	\$ 350,000
Grand Total Revenue	\$ 31,518,869	\$ 33,206,806	\$ 34,540,812	\$ 35,428,769	\$ 36,608,420	\$ 37,791,728
Surplus/Deficit	\$ (9)	\$ 72	\$ 18,865	\$ 36,449	\$ 35,742	\$ 16,414

**Trends in Municipal/Education Spending
Fiscal Years 2004-2016**





TOWN OF GROTON

TREASURER'S OFFICE
173 MAIN STREET
GROTON, MASSACHUSETTS 01450

MEMO TO: Board of Selectmen; Finance Committee
CC: Mark Haddad; Finance Team
FROM: Michael Hartnett, Treasurer-Collector
DATE: January 5, 2015
RE: Middlesex County Pension- Update

Dear Members:

I attended the recent December 18th meeting of the Middlesex County Retirement System (MCRS), and can provide the following comments which are relevant to the ongoing issue of the annual pension assessment costs for our active and inactive employees, as well as our retired employees.

This bi-annual meeting is attended by all eligible Treasurers who represent the 71 member's cities, towns, and various districts which comprise the MCRS. The meeting is coordinated by the MCRS Executive Director, Thomas Gibson, and additional attendees included;

James Lorenzo (PERAC..Public Employee Retirement Administration Commission)
Joseph Connarton (PERAC)
Michael Trotsky (PRIM..Pension Reserve Investment Management Board)
Paul Todisco (PRIM)
Kathy Riley (Segal Actuarial Firm)
James Powers (CPA- Powers & Sullivan)

- 2014 System Valuation Report- Kathy Riley, Segal Advisors

Segal is the MCRS actuarial firm, and Kathy Riley is the principal actuary, and the person I have been dealing directly with regarding discussions over Groton's FY 16 assessment.

First of all.....she reported that the non-investment components of the system valuation...are well-managed and under control at MCRS.

Continued- Page 2

Segal Actuarial Firm Update- (Cont.)

She spent quite a bit of time discussing the respective towns, including Groton, who are requiring additional review with respect to certain issues from 1/1/12 to 12/31/13 (the valuation period) which resulted in higher than average FY16 assessment increases;

Three (3) categories of 'show-up' employees, 10 employees in all, are contributing to Groton's FY16 assessment increase...however Groton will receive liability credits back in the future;

1. Active Show-Ups; No Duplicate Records (2 employees);
These vested employees are true show-ups....who transferred from another MA pension system. The total show-up liability for these two employees was about \$490K in liability; MGL 3(8) c payments will be made by the other retirement system...if these employees retire from Groton/MCRS.
2. Active Show-Ups; Active Duplicates (3 employees);
These vested employees were active in two units at 1/1/14...due to timing and prior unit termination error. These transferred in employees liability will be split back between Groton and the prior unit.....on the next 1/1/16 system valuation date. The total show-up liability for these three employees was approx.. \$629K....however at the next 1/1/16 valuation, the liability will be transferred back to the prior units.
3. Active Show-ups; Inactive Duplicates (3 employees);
These vested employees transferred to Groton from another unit...however the liability was allocated in proportion to the employee account balances....for these employees, most of their liability was transferred back to the other unit.

In addition, another example of a liability increase is as follows;

4. One (1) employee left Groton with substantial years of service....but has not enrolled in another town; chosen to retire; or taken their money out of MCRS... this liability is still sitting with Groton.
5. Seven (7) employees opted for retirement from 1/1/12 to 12/31/13; this obviously starts benefits being paid out; but more so in terms of liability, the Town will most likely have replacement employees, who impact both normal cost as well as unfunded liability.

At this point, MCRS has instructed Segal Actuaries to review the higher % increased member units, including Groton. Segal will let MCRS know what their additional review shows, and MCRS will let us know if any adjustment to the FY16 assessment will result. Segal and Tom Gibson did both further comment that they are inclined to allow any adjustments, if there are any, to 'true up' as part of the 1/16/16 system valuation.

As our budget review proceeds into January....I will update all of you with any additional information I receive from MCRS and Segal Actuarial with respect to pension assessment explanations and possible adjustments.

- PRIM Investment Performance Review-

Since 2007, the MCRS asset portfolio has been incorporated into the state-wide PRIT fund, which manages the assets of 53 of the state's 101 pension systems (approximately \$60 billion).

As you'll recall, this decision was made because MCRS wasn't doing a very good job managing its assets (approx. \$1.1 billion as of 11/30/14)...which included a well-publicized lawsuit against Mellon/BNY over \$40 million in portfolio fees overcharges. In any event, MCRS money is now pooled at PRIT and, except for the market collapse in 2008, has done very well....earning a 10.1% 5-year return. To put this in perspective with respect to the investment results components, the 1/14/14 rate of return component has been benchmarked at 7.75%....the rationale being that we're budgeting a little low...which does impact assessments, which are then offset by subsequent investment gains.

Therefore, Michael Trostsky (Exec. Director) and Paul Todisco (Sr. Investment Manager)...both reported that the pension funds are in very good shape...and well diversified and also down-side risk protected.

- PERAC Update-

The Public Employee Retirement Administration Commission (PERAC) oversees all Massachusetts public pension systems. Joseph Connarton (Exec. Director) attended the meeting and reported that;

- The 2035 schedule for the Unfunded Liability will remain intact. State pension reform legislation does allow for the schedule to go out as far as 2040...however that flexibility would only be invoked if we (MCRS) suffered another market collapse similar or worse than what occurred in 2008.

- Connarton said he is not expecting any further pension reform legislation at this time....however there is a new Governor taking office in January.

- MCRS Audit Report from Powers & Sullivan-

James Powers, CPA, from Powers & Sullivan reviewed the highlights of the 6/30/14 annual audit for MCRS. He reported an unqualified 'clean opinion' and a Management Letter containing no material findings.

Powers spent a few minutes discussing the newest Government Accounting Standard Board (GASB) release (GASB 67), which will impact Groton beginning in Fiscal 2016....with respect to financial statement presentation. This new GASB release was subsequently discussed with the Town's auditing firm (Giusti & Hingston) and will result in a change in the placement of the Actuarial Unfunded Liability in the financials. All municipalities will be required to comply.

Mr. Powers provided all members with an AICPA 'Whitepaper' on the issue (copy attached here), and which has already been discussed with our auditors.

In addition, Powers reported that beginning in March 2015, the firm will randomly select 5 MCRS member units for a full census audit annually. Each selected member unit will be audited for MCRS payroll information as well as other personnel and vital statistics. An additional layer of audit oversight with respect to the data being transmitted from the member unit to MCRS. The cost for this additional auditing service will be paid by MCRS.

Respectfully,
Michael Hartnett, Treasurer

Enclosure- Excerpt from System Valuation

OBJECTIVE

Member of Groton's Town Charter Review Committee, selected by Finance Committee

MISSION STATEMENT

To clarify the roles and responsibilities of elected officials and appointed officials and the separation of powers under the Town Manager form of governance; to identify modifications that would improve the functionality of the Town Manager form of governance; and to identify legislative tightening that would be required for effective continuation of the Town Manager form of governance.

REQUESTED QUALIFICATIONS

- ***Fiscal Understanding***

- The ability to review Groton's Charter through a lens which focuses on *checks and balances*, and a proven understanding of what fiscal obligations reside with which entities, and assist in redefining roles if required.

- ***Civic Awareness***

- A fundamental belief that an effective Charter must benefit all residents within the Town of Groton, and that the Governance of Groton as established by the Charter must uphold this as a paramount part of its mission.

- ***Vision:***

- An ability to look backward (what was) and understand Groton's history.
- An ability to look at the current landscape (what is) and understand how the Charter has served or underserved.
- An ability to look ahead (what will be) and validate key provision of the Charter against the reasonableness of progress.

- ***Fact driven approach:***

- An individual who seeks out knowledge from reliable, 3rd party sources to help validate existing Charter protocols, define better methodologies, and redefine roles and responsibilities.
- The ability to *present* the facts for effective consumption by fellow committee members and the public.

- ***Open-minded:***

- Willing and able to put every existing sentence of the Town Charter up for validation, especially sacred cows.
- Actively seeking comments and discussion from any and all sources.
- Awareness of any personal bias, and an active pursuit of engaging those with opposing viewpoints.

- ***Collaborative:***

- Proven ability to work effectively with team members and assist in creating a culture of calm and efficient collaboration.
- Ability to detect, defuse and redirect the divisive nature of individuals, if any.