

TOWN OF GROTON FINANCE COMMITTEE

*Tuesday, January 3rd, 2017: 7:00 p.m.
2nd Floor Meeting Room, Groton Town Hall
173 Main Street, Groton, MA*

Meeting Held Jointly with Board of Selectmen

Present for Finance Committee: G. Green (Chair), R. Hargraves (Vice Chair), D. Manugian, B. Robertson, L. Leonard, J. Sjoberg, A. Prest

Absent: None

Present for Board of Selectmen: A. Eliot, B. Pease, P. Cunningham, J. Degen, J. Petropoulos (Chair)

Documents available at the meeting: FY18 Proposed Operating and Capital Budgets
Town of Groton Financial Management Policies rev 6/22/15
Town Manager's FY18 Budget Presentation Power Point

Mr. Petropoulos called the meeting of the Board of Selectmen to order at 7:01 p.m.

Mr. Green called the meeting of the Finance Committee to order at 7:02 pm.

Overall Financial Management Policy Update – Mr. Haddad outlined the proposed changes made to this document. The most impactful change being the suggestion to appropriate an additional \$200k from Free Cash for the OPEB Trust (above the \$200k already appropriated yearly) to aid in paying down the unfunded liability. Mr. Degen asked that this proposal be amended to read “up to an additional \$200k”. Mr. Green noted that he would have expected this to be part of a Free Cash section of this policy. Mr. Haddad explained that this section was being drafted as a separate document and will be incorporated once it is completed. Mr. Green said that the Finance Committee will not be able to vote on the changes to the financial policies until they have discussed them at their next meeting.

Public Hearing to Transfer Liquor Licenses – The Board of Selectmen conducted a public hearing at this time (7:10 pm) in order to transfer two (2) liquor licenses from the Town of Groton to the Blackbird Tavern. The transfer of these licenses has been properly advertised and is now in compliance with ABCC rules. The BOS voted unanimously in favor of approving the transfer of the liquor licenses.

Presentation of the FY18 Proposed Operating Budget – (The Town Manager's Power Point presentation is included as an attachment to these minutes). Mr. Haddad explained the FY18 budget process and the guidance received from the BOS and FinCom. The guidance received specifically requested that overall growth be limited to 2.4% (over FY17), and that additional budget scenarios limiting growth to 1.2% and

0% be provided for informational purposes. He was pleased to report that the proposed Municipal budget reflects growth of less than 2.4% while maintaining services. A higher than expected level of new growth for FY17 will allow for \$178,840 of unexpended tax capacity to be included as part of the FY18 anticipated revenues. New growth is not expected to be as robust for FY18, and is being conservatively projected at \$15 million at this time. Otherwise, overall revenue is expected to be healthy for next year.

Excluded debt will decrease slightly in FY18, while benefits are projected to grow by approximately 6.96%. Mr. Haddad explained that due to a special audit request, Segal Consulting will produce a retirement assessment report for the Town of Groton that details the impact of each division of government. This will enable the Town to more accurately allocate these major costs going forward. Mr. Haddad then took a few minutes to briefly explain the FY18 Levy Limit calculation. The Town can expect to raise \$31,304,058 in taxes without exceeding Proposition 2 ½. 80% of this revenue will come from property taxes and only 2.35% is from State Aid. Overall revenue is expected to grow 3.88% for next year.

Mr. Haddad stressed that the proposed FY18 budget includes no new services, but maintains all existing services. He is recommending support of a pilot program put forward by Fire Chief McCurdy to incentivize the call department. This program (to be funded from Free Cash) would pay call officers \$48 to commit to being on call for a particular shift. If the program is successful, Mr. Haddad will include it as a regular line item in the Fire Department budget going forward. He reiterated the importance of strengthening the call department, as the alternative of relying on full-time firefighters is prohibitively expensive. Mr. Sjoberg suggested that defining "success" as applied to this program will make the evaluation process easier. In response to a question from the Board of Selectmen, Chief McCurdy said that while a number of other towns in the region have tried such a plan, they have experienced mixed results.

The group briefly discussed the issue of Groton's unfunded OPEB liability. Mr. Haddad feels it is important to begin the process of increasing payments toward meeting the Annual Required Contribution of approximately \$900,000. Mr. Cunningham asked whether funding levels for OPEB can be dialed back in any given year if it seems prudent to do so. Mr. Haddad confirmed that each year's funding decision can be independent of the previous year. Mr. Degen noted that payments toward the OPEB ARC are not yet mandated, only encouraged to maintain the community's bond rating.

Mr. Haddad was pleased to report that due to planned revenue increases, he expects the Country Club to cover all its own costs for FY18. Mr. Robertson and Mr. Pease felt this plan might be aggressive given the nature of the upcoming capital expenditures. Mr. Robertson would like more detail regarding the notable decreases in expenditures listed for the Club in FY18. Mr. Haddad maintained that both he and the Club's General Manager are committed to working aggressively to eliminate the tax subsidy. If this goal is not achieved in FY18, the reason will be easily vetted, and additional corrective measures will be taken.

The proposed impact of salary adjustments for FY18 is \$137,093 (consisting of \$88,071 for COLA agreements and \$49,072 for Performance Incentives). Mr. Haddad specifically noted that in FY12, the Town was obligated to pay \$65,000 for automatic step increases. He was pleased to report that, five years later, the Performance Incentive Program is still saving the Town money. The budget as proposed will utilize all of the levy capacity; any surplus remaining after meeting expense obligations was re-directed to the school assessments. The proposal allows for an increase of \$750,000 (or an additional 4.08%) to the

GDRSD operational assessment, and \$41,444 (or an additional 7.27%) to NVTHS to cover the costs of two additional Groton students. Mr. Haddad also proposed spending \$50,000 (from Stabilization or Free Cash) to assist GDRSD in meeting their capital needs specific to technology. He stressed that the proposed budgets for the school districts must be considered as placeholders and therefore subject to change, as their budget processes are subject to later submission dates. He went on to say that since FY14, GDRSD operating expenses assessed to the Town grew 26.7%. Over the same period, municipal expenses grew by 9.9%. He feels the Town should be proud of the commitment it made to compensate for those years where GDRSD was not fully funded. Mr. Petropoulos asked how the \$750,000 increase to GDRSD was calculated. Mr. Haddad replied that the district represents 57% of the Town's operating budget, therefore 57% of new revenues were allocated to that assessment (and rounded up to an even \$750,000). Mr. Robertson made the point that the Town's sustainability model required the district (like the municipality) to restrict growth to 2.4%, which would result in assessment growth of 3.6%. Ms. Gilbert wondered if the total municipal spending calculation since FY14 included appropriations from Free Cash. Mr. Haddad explained that because the school is a regional district and not a department of the town, the issue of what is done with Free Cash is entirely moot. The town's Free Cash represents its own end of year turn-backs, in the same way that the district's E&D represents its own end of year turn-backs. Mr. Degen added that the town uses a significant portion of its Free Cash each year to replenish its cash reserves. He would like to see the district obtain Town Meeting approval to establish a capital stabilization fund, then perhaps ask the member towns to seed that from their Free Cash certifications.

Mr. Haddad briefly described the Proposed Capital Budget for FY18, which includes approximately \$1 million for a ladder truck (General Obligation Bond), \$415,692 from Capital Stabilization, \$60,000 from Free Cash, \$250,000 from the Water Enterprise to fund water infrastructure improvements, and \$41,000 from Ambulance Receipts for the SCBA Compressor. He went on to summarize the Enterprise Fund budgets and said that the Finance Team is confident that those funds will generate sufficient revenue to meet their obligations. Mr. Robertson noted that there is \$27,000 included as a Sewer Expense (being paid by sewer ratepayers) that by previous agreement should be paid by the Town. He hopes to see this corrected in future years. He also observed that Intergovernmental allocations have been restructured for FY18, which also impacts Enterprise ratepayers.

Mr. Haddad summarized the FY18 proposed break down of budget growth as follows:

- Salaries, Wages, and Expenditures: \$155,143 or 1.6% over FY17

- Employee Benefits: \$250,658 or 6.96% over FY17

- Salaries, Wages, Expenditures and Benefits: \$405,142 or 2.67% over FY17

- Debt Service: (\$73,000) or -5.66% below FY17

- Overall Proposed Budget: approximately \$333,000 or 2.29% over FY17

Mr. Pease asked to see Employee Benefits costed out to the appropriate function of government. The Town Accountant will provide this information. Mr. Haddad explained that the tax impact of this budget on a house valued at \$425,000 (Groton average) was \$208 more than FY17 for an average bill of \$7,969.

At this point, Mr. Haddad outlined the two (2) additional scenarios requested by the BOS: limiting growth to 1.2%, and 0% over FY17. He stressed that he was adamantly opposed to adjusting the budget below

the 2.29% presented, as any additional cuts will impact services. Municipal budget growth of 1.2% would require cuts of \$157,981 and would include reducing non-exempt employee hours by 2.5 per week and would impact expenses further in EMS, Library, Town Counsel, Veterans services, GIS, DPW, Telephone Expense, Conservation Commission, and Earth Removal. Reductions to reach 0% growth would require total cuts of \$332,547 and would include all the aforementioned reductions as well as additional cuts to non-exempt employee hours, and a loss of Police and Fire positions.

In presenting the current Five-Year Projections, Mr. Haddad made clear that his habit of conservatively estimating revenue will help to mitigate some of the budget issues year over year. Based on these calculations, he feels that the Town can avoid tax overrides if municipal spending is restricted to an average of 2.8% growth and school district operational spending is restricted to 3.4% growth. Mr. Robertson pointed out that significant challenges lie ahead particularly with regard to wages. Also, FY18 will benefit from decreasing debt service; future budgets will be more of an issue if debt increases. Mr. Petropoulos noted that holding municipal expenses to 1% year over year may not be reasonable. Mr. Haddad agreed saying the main drivers in that category are liability and workers compensation insurance which can be difficult to project. Mr. Green expressed concern about using a model that includes unreasonable increments. Mr. Robertson countered that the model is achieving its purpose in showing the Town how to structure its operations to avoid tax overrides. Mr. Pease asked for a managerial analysis of Transfer Station operations, so as to determine if the Town is recovering its investments in that division.

Mr. Degen thanked the Town Manager and the Finance Team for the work done thus far on the FY18 Budget. Ms. Manugian mentioned that she was glad to see the school district being supported this early in the process. She felt this meeting had been useful for the school committee in understanding the municipal budget assumptions. Mr. Green announced that the FinCom, GDRSD and the Dunstable Advisory Board would be meeting jointly on Monday, 1/9/17 at 7:00 pm in Dunstable to continue the FY18 budget discussions. Also, the FinCom will propose to meet on Saturday, 1/28/17 with the Police Chief, Fire Chief, Library Director, DPW Director, and Country Club General Manager to gather more detailed information as needed on these budgets. Mr. Kubick (School Committee) mentioned that there will be a public hearing on the GDRSD budget on February 10th. The new interim School Superintendent, Bill Ryan, introduced himself briefly and said he is glad to be with the district and has begun participating in meetings with the Finance Staff.

Mr. Green officially adjourned the meeting at 8:30 p.m.

Respectfully submitted,

Patricia Dufresne, Recording Secretary

TOWN OF GROTON OVERALL FINANCIAL MANAGEMENT POLICIES

Introduction

The Board of Selectmen sets forth the following financial principles consistent with its responsibilities in Groton's Home Rule Charter. These principles provide a broad framework for overall fiscal planning and management of the Town of Groton's resources. In addition, these principles address both current activities and long-term planning. The principles are intended to be advisory in nature and serve as a point of reference for all policy-makers, administrators and advisors. It is fully understood that Town Meeting retains the full right to appropriate funds and incur debt at levels it deems appropriate, subject, of course, to statutory limits such as Proposition 2 1/2.

The principles outlined in this policy are designed to ensure the Town's sound financial condition, and seek to be in the best economic interest of the Town now and in the future. Sound Financial Condition may be defined as:

- Cash Solvency - the ability to pay bills in a timely fashion.
- Budgetary Solvency - the ability to balance the budget annually.
- Long-Term Solvency - the ability to pay future costs.
- Service Level Solvency - the ability to provide needed and desired services.
- Public Confidence - the ability to garner public support for decisions that promote financial stability.

It is equally important that the Town maintain flexibility in its finances to ensure that the Town is in a position to react and respond to changes in the economy and new service challenges without measurable financial stress.

General Financial Guidelines

1. Financial discussions shall be open and inclusive. The Town is committed to regular financial forecasting, independent audit, and periodic public review of financial details and ratification of decisions by Town Meeting.
2. The Town will avoid budgetary procedures that balance current expenditures at the expense of meeting future years' expenses, such as postponing expenditures, accruing future years' revenues or rolling over short-term debt, unless the timing of long term debt issuance is such that it warrants extending the short term debt.
3. Ongoing operating costs will be funded by ongoing operating revenue sources. This protects the Town from fluctuating service levels and avoids concern when one-time revenues are reduced or removed.

Increases in ongoing operational revenue beyond the statutory 2-1/2 % shall be used according to the following priorities:

- ~~a.~~ ~~a.~~ Assuring that unassigned fund balance, stabilization funds, and other funding requirements reach their appropriate levels, based on periodic review of capital needs (see #s 4 & 5 below);
- b. ~~c.~~ Increasing service levels or other operational expenses;
- ~~b.c.~~ Leveling, or if possible, decreasing the tax rate, and only after these three priorities are met;
- ~~c.~~ Increasing service levels or other operational expenses

The Town Manager will prepare five-year revenue and expenditure projections to support the annual budget setting process and to ensure the policies presented herein are satisfied. The projection will be presented to both the Board of Selectmen and Finance Committee as part of the Town Manager's Proposed Operating Budget and adopted as part of the Budget Process.

4. The Town will maintain a Stabilization Fund as ~~one of its the second of its~~ two primary financial reserves. It shall be the goal of the Town to achieve and maintain a balance of at least 5% of the current annual budget, exclusive of Enterprises and the Community Preservation Fund.
5. The Town will maintain a Capital Stabilization Fund to defray the cost of new equipment, building maintenance, and capital improvements to town land and buildings to the extent that these costs may be funded by the Fund's balance. (See Debt Management Policies for costs exceeding the Fund's balance, which may be funded by borrowing.) It shall be the goal of the Town to maintain a balance in this fund of at least 1.5% of the Town's current annual budget, exclusive of Enterprises and the Community Preservation Fund.
6. The Town will continue to maintain a Conservation Fund to be used in part for the purchase of land, or conservation restrictions or agricultural preservation restrictions on lands that exhibit high value for protection because they contain important natural resources. The Conservation Commission is responsible for formulating and prioritizing a list of such parcels so that a plan may be established for future purchases. It shall be the goal to maintain a balance in the Conservation Fund of at least 2% of the town's current annual budget, exclusive of Enterprises and the Community Preservation Fund; and to the extent possible, deposits to the Conservation Fund should come from the Community Preservation Surtax.
7. The Town shall maintain a Community Preservation Fund in accordance with the current law. The fund will be managed in a manner that will guarantee payment of current debt service prior to approving new capital costs. Borrowing shall be managed in order to assure that no more than a total 75% of CPA receipts, not including annual contributions to the fund by the Commonwealth, are dedicated to debt service in compliance with Massachusetts Department of Revenue IGR 00-209 and File #2004-464.
- ~~8.~~ The Town shall monitor its Special Revenue Funds (Gifts, Grants, and Trusts) and its Enterprise Funds to assure the solvency of these funds and avoid undue stress on the general fund. To this end, a) Enterprise policies shall require that rates be set to ensure revenues are sufficient to fund all operating costs and debt service and fund retained

earnings, unless there is an explicit policy implemented by the Town to provide General Fund support to the Enterprise. In addition, b) Enterprise policies shall include a goal for the targeted amount of retained earnings. The goal shall include amounts considered appropriate to fund unexpected occurrences and emergencies and expenditures necessary to meet change in law requirements, to fund capital and operating reserves, and to serve as a rate stabilization reserve. The policies shall also include a goal for debt limitations consistent with the Town's general goals. ~~In addition, c) the Town shall not enter into contracts for reimbursable and/or matching grant liabilities whose aggregate total exceeds 1.5% of the Town's current annual budget exclusive of Enterprises and the Community Preservation Fund.~~

8.

9. The Board of Selectmen and the Finance Committee shall review the financial policies annually, seeking input from financial staff and advisors. This review should take place by December 31st of each year.
10. Investment practices will be in accordance with the Town's "Investment Policy".

TOWN OF GROTON DEBT MANAGEMENT POLICY

Introduction

The use of long-term debt is a common and often necessary way for a community to address major infrastructure and equipment needs. It is also a means of spreading the cost of large capital projects over a larger, changing population base. However, when a local government incurs long-term debt, it establishes a fixed obligation for many years. Accumulation of such fixed burdens can become so great that a local government finds it difficult to pay both its operational costs and debt service charges. Great care and planning must therefore be taken when incurring long-term debt to avoid placing a strain on future revenues. The purpose of this policy is to establish guidelines governing the use of long-term debt. Massachusetts General Laws, Chapter 44, Sections 7 & 8 regulate the purposes for which municipalities may incur debt and the maximum maturity for bonds issued for each purpose. Massachusetts General Laws, Chapter 44, Section 10, specifies that the debt limit for towns is 5% of Equalized Valuation.

Capital Funding Guidelines

The Town's long-term debt strategies will be structured to reflect its capital needs and ability to pay. The Capital Stabilization Fund (see "Overall Financial Policies", #5) will be used in conjunction with regular financial forecasting to maintain overall borrowing costs at a reasonable level (see Debt Limitations below). The Town will not, in general, bond projects or aggregate funding of multiple projects/purchases that fall within the funding ability of the Capital Stabilization Fund. Except for emergency needs, the Town will plan its funding for major capital purchases or improvements by utilizing both the timing of debt acquisition and the length of term for debt repayment in a manner which allows the Town to remain within the guidelines for annual debt service (see Debt Limitations below).

Bond Rating

The community's bond rating is important because it determines the rate of interest it pays when selling bonds and notes. Other things being equal, the higher the bond rating, the lower the interest rate. Bond analysts (Moody's, Standard & Poor's, Fitch) typically look at four sets of factors in assigning a credit rating:

- Debt Factors: debt per capita, debt as a percentage of equalized valuation and rate debt amortization.
- Financial Factors: operating surpluses or deficits, free cash as a percent of revenue, state aid reliance, property tax collection rates, and unfunded pension liability.
- Economic Factors: property values, personal income levels, tax base growth, tax and economic base diversity, unemployment rates and population growth.
- Management Factors: governmental structure, the existence of a capital improvement plan, the quality of accounting and financial reporting, etc.

The Town will continually strive to improve its bond rating through sound financial management, improved receivables management, accounting and financial reporting and increased reserves, such as the Stabilization Fund.

Debt Limitations

General Fund Debt Service: A limit on debt service costs as a percent of the Town's total budget is especially important because of Proposition ~~2½~~ 2½ constraints on town's budget. At the same time, the community's regular and well-structured use of long-term debt symbolizes the municipality's commitment to maintaining and improving its infrastructure. The Town of Groton is committed to a debt service budget equal to 5% of the Town's current annual budget, exclusive of Enterprise funded debt, Community Preservation funded debt and debt service excluded from Proposition 2 1/2. The Town will also, by policy, establish a debt service "floor" of 3% of the Town current annual budget, as an expression of support for continued investment in the town's roads, utilities, public facilities and other capital assets. In order to maintain these benchmarks, the Town should schedule future debt service to coincide with maturing debt service. To maintain this floor, if debt service is projected to fall below 3% of the Town current annual budget, that amount below shall be expended on one-time pay-as-you-go capital or shall be appropriated to the Capital Stabilization Fund.

Debt Maturity Schedule: As previously stated, Chapter 44 of the General Laws specifies the maximum maturity for bonds issued for various purposes. However, a town may choose to borrow for periods less than the statutory limit. The Town of Groton is committed to establishing an average debt maturity goal of ~~10~~ 10 years. This can be accomplished through more aggressive amortization of new debt service and shortening terms for existing debt when the option to refinance a bond becomes available. (It should be noted that revenue supported debt service for water and sewer projects will not be subject to this objective.)

Debt Strategies

Alternative Financing Strategies: The Town will continually pursue opportunities to acquire capital by means other than conventional borrowing; such as grants and low- or zero-interest loans from state agencies, such as the Mass Water Pollution Abatement trust (MWPAT) or the MWRA.

Debt Issuance: The Town will work closely with the Town's Financial Advisor and Bond Counsel to ensure that all legal requirements are met and that the lowest possible interest rate can be obtained.

Enterprises: Any debt issued for the benefit of the Town's enterprise funds is to be paid from service revenues, unless there is an explicit direction from Town Meeting to contribute General Fund support of the debt service.

Capital Planning: No projects are to be funded by debt authorized by Town Meeting unless those projects have been incorporated in to and vetted by the Town's capital planning process.

Lease-Purchase Financings - any lease purchase agreements, financings, etc., utilized by the Town shall be considered red debt for the purposes of this policy and shall be subject to all the constraints cited herein.

TOWN OF GROTON POLICY FOR THE FUNDING OF OTHER OBLIGATIONS

Introduction

Under Massachusetts General Laws, the Town is currently funding its unfunded pension liability through its participation in the Middlesex County Regional Retirement System.

The Town also has the responsibility to fund its Other Post-Employment Benefits (OPEB) liability.

The Town will utilize the following policy towards that end:

Policy Guidelines

Independent Evaluation of Liability: The Town will have its liability measured by an outside consultant every third year; with interim evaluations done yearly for the purposes of updating the total liability.

Limitation of Retiree Health Care Costs: The Town has adopted the requirements of Section 18 of Chapter 32B, which serves to limit liability for retiree health insurance by utilizing the benefits of Medicare and thereby shifting some of the cost away from local funding.

OPEB Funding Plan: The Town is committed to reducing its Post-Employment Benefits liability as follows:

- The Town ~~will~~has established~~ed~~ an OPEB Trust ~~in fiscal 2016~~.
- The Town enterprises will incorporate into their rate structures the goal of funding their respective Annual Required Contributions (ARC) ~~by fiscal year 2016~~.
- The Town will implement a schedule of funding to reach its ARC by a schedule of increasing annual appropriations. The Town will appropriate at least \$200,000 to the OPEB Trust each Fiscal Year from the Annual Operating Budget appropriation for Health Insurance to cover that year's retiree health insurance obligation. Beginning in Fiscal Year 2018, the Town shall add at least an additional \$200,000 from the Excess and Deficiency Fund each fiscal year in Fiscal 2016 and will increase that appropriation as finances allow until it reaches its ARC.

TOWN OF GROTON POLICY FOR THE REVIEW OF BUDGET PERFORMANCE

Introduction

The Town Charter requires the Town Manager to present a balanced budget to the Board of Selectmen and the Finance Committee six months prior to the beginning of each fiscal year; in effect by January 1st. Prior to the formulation of the Budget, the Board of Selectmen, Finance Committee and Town Manager shall meet prior to October 1st to determine budgetary goals for the ensuing Fiscal Year. The initial budget is developed in conjunction with the Town's Department Managers and reviewed in several public meetings as well as formal public hearings, culminating in ratification by Town Meeting. The Town utilizes specific line items for its budget, each line considered a separate and distinct appropriation. In order to monitor expenditures and assure the integrity of the overall budget, regular review and management direction is required, as outlined in the policy guidelines below.

Policy Guidelines

Line Item Appropriation Review: Each Department Manager or elected/appointed Board/Commission is required to monitor expenditures, and local receipts revenue if applicable, relevant to that governmental area's operation. The Accounting Department will provide budget variance reports at least monthly as a management tool to aid periodic monitoring.

Total Budget Review: The Town Manager will review the monthly variance reports for all departments/cost centers; and the Town Accountant will provide ongoing oversight. There will be periodic presentation of the budget status to the Board of Selectmen and Finance Committee; this presentation to occur at least quarterly.

Reserve Fund: The Town will include a budgetary reserve fund equal to approximately 1% of the total general fund appropriations less the assessments to the district schools which will be under the management of the Finance Committee to account for extraordinary or unforeseen expenses.

Line Item Transfer: The budget will be reviewed twice each year by the Town Manager in conjunction with the Town Accountant and the Finance Committee for opportunities to re-balance the original budget. Such reviews will take place prior to the fall and spring annual town meetings and any transfers will be publically debated and subsequently ratified by Town Meeting.

TOWN OF GROTON POST ISSUANCE COMPLIANCE POLICY

OBJECTIVE OF THE POLICY

The objective of this policy is to ensure compliance with federal tax law and regulations pertaining to the use of tax-exempt governmental purpose bonds and to the use of property, projects and equipment funded with tax-exempt governmental purpose bonds.

This document is to encompass the following:

- The use of bond proceeds (and the term "bond", except as otherwise indicated, includes notes, bonds and tax-exempt lease purchases issued by the Town);
- The use of property, projects, equipment, etc. funded with tax-exempt bond proceeds;
- The timely expenditure of bond proceeds;
- Compliance with arbitrage yield restriction rules and with the calculation and timely payment of arbitrage rebate payments, as required;
- Filing requirements;
- The reserve of funds in anticipation of a rebate payment requirement;
- Collection and retention of necessary documentation; and
- Resolution of problems.

RESPONSIBILITIES OF THE PARTIES INVOLVED

The Town Treasurer shall be responsible for implementing this policy. The Treasurer will be assisted by:

- The Town Accountant, who is responsible for recording expenditures and interest earnings and for reviewing and approving contracts entered into by the Town;
- The Town Manager, or a designated subordinate, who is the Town Chief Procurement Officer and has ultimate responsibility for the implementation of Town capital projects and disposition of Town property; and
- The Chief Procurement Officer, if other than the Town Manager, who has the responsibility for procuring service and management contracts and overseeing the acquisition and disposition of Town property.

It is the Treasurer's responsibility to convey to each party the Treasurer's expectations as to their performance relating to project implementation, project expenditures, documentation, and information required by the Treasurer to remain in compliance with applicable tax law. Since all the responsible parties participate in the issuance of Town bonds, the Treasurer will provide direction to those responsible parties during the process of issuing bonds, at the time of the delivery of bond proceeds, and after the delivery of bond proceeds but prior to the final maturity of the bonds,

SCOPE OF THE POLICY AND PROCEDURES

The following sections outline the scope of the policy and procedures for which the Treasurer is responsible:

Use of bond proceeds and bond funded property -

It is the Treasurer's responsibility to monitor and ensure the proper use of bond proceeds and bond funded property.

The proper use of tax-exempt bond proceeds and the proper use of bond-funded property, projects, equipment, etc., (hereafter "property"), will be confirmed and documented through Bond Counsel's review prior to the issuance of tax-exempt bonds and will be addressed in the legal opinion issued by Bond Counsel and in the Tax Certificate (or Non-Arbitrage Certificate) prepared by Bond Counsel as part of the final bond transcript.

There are further requirements associated with the proper use of bond financed projects and of the use of bond proceeds included in the Massachusetts General Laws and in the regulations imposed by the Department of Revenue regulations. Although these requirements are not part of federal tax law, the requirements do dictate how bond funded property is to be disposed of or how it might be used in a manner other than originally contemplated.

The continued proper use of property funded with tax-exempt bond proceeds will be monitored by the Treasurer through an annual reminder of such to appropriate Town officials and through the review of any Town proposals considering the change in use of the property or Town procurements relating to such property. The procurement of service contracts, management contracts and leases for the limited use of Town property should also be reviewed by the Treasurer. The Treasurer will be responsible for managing any remedial actions, if required,

Timely expenditure of bond proceeds -

The Federal Tax Code sets explicit expectations relating to the expenditure of bond proceeds. There are certain "safe harbors" for small issuers. If expenditure expectations for small issuers are not met, the unexpended bond proceeds must be yield restricted. There are also expenditure thresholds to be satisfied for bonds issued where the Town cannot use the "small issuer" exemption. If these thresholds are not met, the Town may be required to rebate its positive arbitrage earnings to the Federal Treasury.

It is the responsibility of the Treasurer to review the expenditure requirements cited in the Tax Certificate and to monitor the expenditure of bond proceeds until all funds are expended.

Arbitrage yield restriction and rebate -

It is the responsibility of the Treasurer to manage yield restricted investments. It is the responsibility of the Treasurer to determine rebate exposure; to procure arbitrage calculation services; to make rebate payments, as required, to the Federal Treasury; and to prepare 8038-T forms for such purposes. It is also the responsibility of the Treasurer to reserve funds for such rebate payments, as appropriate, and to report the rebate liability to the Town's Independent Financial Auditor.

Filing requirements -

The proper filings of forms 8038-G and 8038-GC are essential with every tax-exempt financing. All 8038-G's and 8038-GC's are to be signed by the Town Treasurer. No other official in the Town is authorized to execute these forms.

It is the responsibility of the Treasurer to ensure rebate payments, if required, are made on a timely basis. Such payments must be made within 60 days of the maturity of a note; within 60 days of the fifth anniversary, and multiples thereof, of the issue of a bond; and within 60 days of the final maturity of a bond. The payment of a rebate is to be accompanied by and documented on the form 8038-T.

Documentation -

It is the responsibility of the Treasurer to ensure all proper documentation is produced and retained as required. Such documentation will include, but not necessarily be limited to, the following:

- Tax Certificates or Non-Arbitrage Certificates.
- Note and Bond transcripts.
- Form 8038-G's and 8038-GC's.
- Projected expenditure cash flows prepared for each financing prior to issue.
- The record of the expenditure of funds.
- The record of the investment earnings on unexpended bond proceeds prior to full expenditure.
- Yield restricted investments, as required.
- Rebate calculations, rebate payments, and Form 8038-T, as required.
- The list of projected tax-exempt financings during each calendar-year.
- Management contracts.

If a problem occurs -

It is the responsibility of the Treasurer to address violations associated with any tax-exempt financing when violations are discovered. The violation may be addressed through the Voluntary Compliance Agreement Program (VCAP). Alternatively, remedial action may be required under Section 1.141-12 of the Internal Revenue Service regulations. The Treasurer shall consult with the Town's Bond Counsel and/or Financial Advisor as appropriate.

PROCEDURES TO BE FOLLOWED BY THE TREASURER

The following procedures are to be followed by the Treasurer. Procedures to ensure proper use of tax-exempt funds:

In the process of preparing for a bond or note sale, the Treasurer will be providing information to Bond Counsel pertaining to the proper use of the property being acquired with tax-exempt funds.

Prior to the distribution of the Preliminary Official Statement, the Treasurer shall meet with appropriate Town officials, including at minimum the Town Manager and the Board of Selectmen, to review the information provided to Bond Counsel, to review the intended use of the bond proceeds and the property funded and to determine whether there are any contemplated uses of the property that might be inconsistent with the use of tax-exempt funds. The Treasurer shall document this meeting in a memorandum to file.

Procedures to ensure compliance with the use and expenditure of note and bond proceeds at the time of sale:

At the time of the sale of notes and bonds, it is assumed that the projected use of proceeds and the use of the property being funded are in compliance with the Federal tax code. It is reasonable to rely on the scrutiny of Bond Counsel and the documentation that accompanies each financing, based on the information provided to Bond Counsel.

With the completion of a financing, the Treasurer is to compile and maintain a separate file associated with the financing. This documentation will typically include the following:

- The bids results, the final numbers, and the quantitative rationale for the use of credit enhancement.
- The transcript for the financing, which, at minimum, should include the tax certificate (non-arbitrage certificate). The tax certificate should include a description of use of funds, the identification of the expenditure test to which the bonds are subject, and the arbitrage yield.
- The form 8038-G or 8038-GC.
- The projected expenditure cash flow by purpose, as provided to Bond Counsel prior to the issuance of the bonds. The cash flow is to be for each purpose, projecting the expenditure of funds on at least a semi-annual basis, until all funds are expended. If the bonds are subject to certain expenditure thresholds, the cash flow should present the amount of proceeds that should be expended at each threshold. The cash flow should

be adjusted to reflect an issue amount that might be in excess of the amount originally included in the cash flow (for example, a large original issue premium).

- Any other notes prepared by the Treasurer, as applicable, relating to the monitoring of the expenditure of funds and use of the property.

The Treasurer shall establish one or more bank accounts for the purposes funded to allow for the tracking of the expenditure of fund so it is necessary that the account documentation be able to show every payment made by amount and date and every credit of interest earnings by amount and date. If all the purposes are co-mingled in one account, there should be a separate recording of expenditures and investment earnings by purpose by the Town Accountant.

As required under the Massachusetts General Laws, all interest earnings shall be credited and released to the General Fund when earned.

All such account documentation should be maintained for six years after final maturity of bonds.

Procedures to monitor the rate of expenditure of bonds -

To monitor the expenditure of bond proceeds, the Treasurer shall perform the following review:

- At the end of each fiscal year, and within thirty days of the final maturity of any note or bond, the Treasurer shall review the expenditure account and check for compliance with the required expenditure thresholds.
- The Treasurer shall assess the likelihood of continued compliance with the expenditure thresholds, or if a threshold has not been met, assess the likelihood of positive arbitrage.
- If the Treasurer believes the expenditure thresholds have not been met and/or will not be met, and also expects there will be investment earnings in excess of the arbitrage yield, then the Treasurer is to reserve an amount estimated to represent a future rebate payment or, as applicable, to request an appropriation of Town Meeting for the rebate payment.
- The Treasurer is to continue to monitor expenditures at the end of each fiscal year, or at the maturity of an issue, until all funds are expended.
- If after the maturity of a note or bond, the Treasurer determines that a rebate is likely payable to the Federal Treasury, the Treasurer shall procure the services of a firm to calculate the rebate and thereafter make payment in a timely fashion.

Thus, in addition to the documentation compiled at the closing of the bond, the Treasurer shall add the following additional documentation:

- The record documenting expenditures until the next time a review is performed.
- As applicable, any rebate calculations performed.
- As applicable, any Forms 8038-T prepared.

When all the funds are expended, the Treasurer shall accumulate all appropriate documentation and retain it until six years after the final maturity of the financings that funded the property.

Procedures associated with the investment of bond proceeds -

Unless funds are subject to yield restriction, the Treasurer shall be responsible for the investment of bond proceeds as deemed appropriate. If investment contracts are purchased at the time of the delivery of bond proceeds, such contracts shall be procured under the scrutiny of Bond Counsel.

Procedures associated with procurement of investments associated with a bond issue -

It is the responsibility of the Treasurer to ensure other investments made relating to a bond issue (such as investments purchased to fund an escrow for a current or advance refunding) are procured in accordance with applicable tax regulations.

Procedures to ensure compliance with the use of service contracts and management contracts -

The Chief Procurement Officer shall forward all Requests for Proposals for service and/or management contracts for review by the Treasurer. The Treasurer shall provide appropriate direction to the Chief Procurement Officer relating to private activity issues associated with service and management contracts. As required, the Treasurer shall request advice from the Town's Bond Counsel and/or Financial Advisor.

Procedures to ensure compliance with lease purchases -

At the beginning of each fiscal year, the Treasurer shall inform all Town Department Heads and other Town officials that no lease purchase contracts are to be entered into without the approval of the Treasurer. In addition, the Treasurer shall inform them that the forms 8038-G and 8038-GC are only to be signed by the Treasurer.

Procedures to ensure compliance with the change of use of tax-exempt bond funded property -

At the beginning of each fiscal year, the Treasurer shall present a memorandum to the Town Manager, to the Town Accountant, and to Town Department Heads reviewing the expected proper use of bond funded property and requesting any information as to the possible change in use or disposition of property. At any time during the fiscal year, if there is a change in use or disposition of property contemplated, the Town Manager shall inform the Treasurer of the proposal. As needed, the Treasurer shall consult with Bond Counsel and/or the Town's financial advisor relating to such proposal.

In the case where change in use is subject to Town Meeting approval, the Town Manager shall forward all Town Meeting articles relating to the change in use or sale of Town tax-exempt bond funded property for review by the Treasurer. The Treasurer shall provide appropriate direction to the Chief Procurement Officer relating to issues associated with the change in use of tax-exempt bond funded property. As required, the Treasurer shall request advice from the Town's Bond Counsel and/or Financial Advisor.

Procedures to project calendar year schedule of note and bond issues -

At the beginning of each calendar year, the Treasurer shall prepare and/or update a list of all projected tax exempt financings issued and expected to be issued during the then current calendar year. This record shall document representations made by the Town relating to the small issuer safe harbor status and/or the Bank Qualification of tax-exempt issues of the Town. At the beginning of the following fiscal year, the Treasurer shall review the list of financings and shall revise it accordingly.

Documentation attached hereto -

The following documentation is attached to assist in the direction, training, etc., of those parties identified with responsibilities:

- IRS Publication 4078, Tax-exempt Private Activity Bonds
- IRS Publication 4079, Tax-exempt Governmental Bonds

Town of Groton Investment Policy

Introduction

Massachusetts General Laws, Chapter 44, Section 55B requires the municipal treasurer to invest all public funds except those required to be kept uninvested for the purpose of immediate distribution. These guidelines are intended to further the objective of securing the highest return that is consistent with safety of principal while meeting the daily cash requirements for the operation of Town's business, according to the following objectives:

Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit risk and interest rate risk. These risks shall be lessened by diversification and prudent selection of investment of the security issuer or backer. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates.

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

Yield is the third, and last, objective. Investments shall be made so as to achieve the best rate of return, taking into account safety and liquidity constraints, as well as all legal requirements.

Investment Instruments

The Treasurer shall negotiate for the highest rates possible, consistent with safety principles, avoiding uncollateralized investment products. Unsecured bank deposits of any kind will be limited to no more than 1% of an institution's assets and no more than 10% of the Town's cash.

Diversification

Diversification should be interpreted in two ways: In terms of **Maturity**~~maturity~~, as well as instrument type and issuer. The diversification concept should include prohibition against over concentration of maturities, as well as concentration in a specific institution. With the exception of U.S. Treasuries or agencies, no more than 10% of the Town's investments should be invested in a single financial institution, except with the prior approval of the Town Manager and Board of Selectmen.

Authorization

The Treasurer has authority to invest the Town's funds, subject to the statutes of the Commonwealth cited above.

Ethics

The Town Treasurer (and Assistant Treasurer) shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair ability to make impartial investment decisions. Said individuals shall disclose to the Town Manager any material financial interest in financial institutions that do business with the Town. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the Town's investments.

Relationship with Financial Institutions

Financial institutions should be selected first and foremost with regard to safety. The Town should subscribe to and use one or more of the recognized bank rating services, such as Veribanc or Sheshunoff. Brokers should be recognized, reputable dealers.

The Town shall require any brokerage houses and broker/dealers, wishing to do business with the municipality, to supply information and references sufficient to assure entering into a banking relationship.

The Investment of Trust Funds and Bonds Proceeds

Scope

This section of the policy applies only to funds that could be invested long-term (i.e. bond proceeds, trust funds and stabilization funds).

Bond Proceeds

Investment of Bond proceeds is governed by the same restrictions as general funds, with the additional caveat of arbitrage regulations.

Trust Funds

Trust Funds may be co-mingled and invested in any instruments allowed by Legal List issued by the Banking Commissioner. Each trust fund must be accounted for separately.

Stabilization Funds

The Stabilization Fund shall not exceed ten percent of the equalized valuation of the Town, and any interest shall be added to and become a part of the fund.

POLICY ENDORSEMENT:

Chairman, Board of Selectmen

Town Manager

Town Treasurer

Town Accountant

Chairman, Finance Committee

Adopted: April 12, 2004, revised December 2012, revised June 22, 2015, revised January 3, 2017