

TOWN OF GROTON FINANCE COMMITTEE

*Tuesday, November 14th, 2017: 7:00 p.m.
Town Hall, Selectmen's Meeting Room
173 Main St. Groton, MA*

Present for Finance Committee: G. Green (Chair), B. Robertson (Vice Chair), Art Prest, S. Whitefield, L. Leonard, J. Sjoberg

Absent: D. Manugian

Also Present: P. Dufresne (Town Accountant/Recording Secretary)

Documents available at the meeting: Draft Free Cash Policy
Overall Financial Management Policy
Police Dept. Reserve Fund Transfer Request Documentation

Mr. Green called the meeting of the Finance Committee to order at 7:00 pm.

Budget Guidance FY2019 – Mr. Green expressed concern that the budget guidance provided to the Town Manager by the Finance Committee differed from that provided by the Board of Selectmen. The Finance Committee specifically limited FY19 municipal budget growth to 3%. The Board of Selectmen directed the Town Manager to craft a level service and level employee budget ensuring that the School District's needs would be met while not exceeding anticipated revenue growth. Mr. Green said that the Finance Committee direction was calculated to be fair to both entities, but he noted that given the revenue shortage that the District is facing for FY19, it is not unreasonable for them to look to the Town for help. Ms. Dufresne believes that the Town Manager is comfortable crafting a budget within the parameters defined by both boards. She feels the Finance Team will use 3% as the municipal growth limit, while leaving room for unanticipated school needs should they be brought forward. Mr. Robertson reminded the group that the 3% operational growth should be exclusive of the impact of both in-levy and excluded debt. The members decided to leave the FY19 budget guidance as originally voted.

Reserve Fund Transfer Police Expenses – The Finance Committee reviewed the RFT documents provided by the Police Chief. He is proposing to hire a consultant to conduct an assessment center for the purpose of filling a vacant Sergeant's position. Mr. Green noted that this would ensure that the right candidate is identified while maintaining an impartial process. Mr. Robertson argued that this request should be deferred until later in the year, as they currently have a sizable balance in that line item. He does not want that budget to be inflated by the requested \$8,300; it is clearly a one-time need and should not carry forward to future budget cycles. He would prefer not to make continuous small changes to departmental

line items. Ms. Dufresne will keep track of all the RFT requests so that the potential needs are not forgotten as the year progresses.

Financial Policies/Free Cash Policy Review – Ms. Leonard volunteered to collate all the comments and suggestions from the members on both policies and provide a mark-up copy to the Board of Selectmen for their consideration. The members discussed the merits of growing the Capital Stabilization Fund year over year rather than maintaining a balance that is 1.5% of budget. This would provide for additional cash on hand that could help the Town avoid borrowing for certain planned purchases. New language was added that states that while the first objective is to provide for near-term capital needs, the Town should strive to grow the balance to avoid borrowing when possible. After a brief discussion, the members decided not to consider the GDRSD Capital Stabilization Fund as part of the municipal reserves, and therefore no particular target balance should be identified in the policy. The policy will state the Town's objective to *replenish* the Stabilization Fund, *replenish and grow* the Capital Stabilization Fund, and to *fund* the GDRSD Capital Stabilization Fund. Regarding the Free Cash policy, the members also suggested moving Section 4, item c (Offset the Tax Rate) from its current position to the bottom of the list. Additional minor updates were suggested (see "Proposed Changes" attached). Ms. Leonard will have her revision completed and forwarded back to the members by Thursday.

Mr. Green noted that the ATFC Finance Committee Handbook is available online. He encouraged all the committee members to review this document as it is very instructive.

GDRSD Capital Stabilization Funds – The FinCom discussed the decision by the School Committee to establish a Capital Stabilization Fund that is under its own control. Mr. Green explained that Dunstable voted at its Fall Town Meeting to authorize this fund, in the same way that Groton did in 2015. While there is some concern over the way it was established (as Groton's vote was taken two years ago), the School Committee is confident that it is legally appropriate to move ahead with their decision. The BOS has requested a meeting with the FinCom and the School Committee to discuss how management of multiple stabilization accounts will work in practice. Ms. Leonard noted that the District plans to fund their new account with a separate line item in the budget supporting the Town's assessment. Mr. Robertson feels this is a good vehicle for encouraging the School District to begin to fund their own capital needs. He believes that the District will provide the Town with a list of those items being funded from their CapStab account, and will follow through appropriately. Mr. Green said that the Town could further structure its funding of the assessment within the language of the motion made at Town Meeting.

Sustainability Discussion – Mr. Robertson reminded the group that if salaries are held to 2% growth, but benefits grow by 8%, there is still a run rate problem. Mr. Green agreed saying that as much as possible, spending should shift to utilize payment methods that will not lead to growth year over year. The municipal audit confirmed that the size of department budgets is reasonable; it is revenue growth that is lacking. Increasing revenue expectations to meet spending needs is useful, but also enormously risky. Mr. Green asked the Finance Committee members to be cognizant of the fact that many people are still thinking about and discussing the budget and sustainability issues incorrectly. They talk about the Town forcing "cuts" on the School District; in reality sustainability is about reducing growth trends (single year cuts do little to mitigate this). He also warned against fighting battles on "Talk About Groton," open meetings being the better choice for accomplishing committee objectives.

Approval of Meeting Minutes: On a motion by Mr. Robertson, seconded by Ms. Leonard, the Finance Committee voted in the majority to approve the regular meeting minutes of 10/23/17 as drafted. The Vote: 5-0-1 (Mr. Sjoberg abstained)

Mr. Green officially adjourned the meeting of the Finance Committee at 8:40 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 obligations at the expense of meeting future years' needs, such as postponing expenditures or accruing future years' revenues. Long and short term debt will be scheduled with careful attention to the Town's capital needs plan, and managed in such a way as to avoid excessive issuance costs.
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. 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. Increasing service levels or other operational expenses;
- c. Leveling the tax rate.

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 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, unless the Town Manager receives prior approval from the Board of Selectmen and Finance Committee.
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 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 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 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 has established an OPEB Trust.
- The Town enterprises will incorporate into their rate structures the goal of funding their respective Annual Required Contributions (ARC).
- 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, as funding allows, an additional amount of money from the Excess and Deficiency Fund each fiscal year 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 provide 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, 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 9, 2017



Board of Selectmen Policy

POLICY ON THE USE OF THE TOWN'S EXCESS AND DEFICIENCY FUND "FREE CASH" 17-01

I. PURPOSE AND SCOPE

The Town's Excess and Deficiency (E&D) Fund "Free Cash" is the result of the calculation, as of July 1, of Groton's remaining, unrestricted funds from its operations of the previous fiscal year based on the balance sheet as of June 30. It typically includes receipts in excess of revenue estimates and unspent amounts in departmental budget line items for the year just ended, plus unexpended free cash from previous years. Free Cash plays an important role in allowing Groton to sustain a strong credit rating. The purpose of this policy is to provide guidance on the use of Free Cash to fund certain expenditures

II. POLICY

1. As a nonrecurring revenue source, spending from the E&D account is allowed for any lawful municipal purpose, however, it should be restricted to paying one-time expenditures, funding capital projects, or replenishing other reserves.
2. The Town should strive to maintain an E&D account balance in an amount equal to one (1%) percent of its Annual Budget. This amount, in addition to the policy of having the Stabilization Fund equal five (5%) percent of the Operating Budget and the Capital Stabilization Fund at 1.5% of the Operating Budget, will allow the Town to have in its Reserves at least seven (7%) percent of the Annual Operating Budget.
3. The E&D account balance shall be maintained through the use of fiscally responsible revenue projections and departmental spending.
4. Any E&D account balance in excess of one (1%) percent of the Town's Operating Budget can be expended at the discretion of Town Meeting for the following purposes:
 - a. To Replenish the Stabilization Fund, Capital Stabilization Fund and Groton-Dunstable Regional School District's Capital Stabilization Fund to bring them to ~~the required balances.~~

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Free Cash Policy

17-01

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4. Continued:

- b. To pay employee incentives (i.e. health savings accounts, health reimbursement accounts, merit increases) contingent on the availability of a sufficient E&D account balance.
- c. Offset the Tax Rate.
- d. To fund an annual contribution to the Other Post-Employment Benefits (OPEB) liability trust fund.
- e. To fund one time projects proposed by the Board of Selectmen and Finance Committee.

ADOPTED BY THE GROTON BOARD OF SELECTMEN:

REQUEST FOR TRANSFER FROM THE RESERVE FUND

(To be submitted in triplicate)

Date 11-14-17

Advisory Board
Town of Groton

Gentlemen:

Request is hereby made for the following transfer from the Reserve Fund in accordance with Chapter 40, Section 6, of the Massachusetts General Laws:

1. Amount requested: \$ 8,300
2. To be transferred to: POLICE EXPENSES
(give name of appropriation)
3. Present balance in said appropriation: \$ 125,227
4. The amount requested will be used for (give specific purpose):
TO CONDUCT A POLICE SERGEANT ASSESSMENT CENTER
TO CREATE A PROMOTIONAL LIST TO PROMOTE A
PATROLMAN TO SERGEANT - SEE ATTACHED PROPOSAL
5. This expenditure is extraordinary and/or unforeseen for the following reasons:
THE SERGEANT'S VACANCY OCCURRED IN
AUGUST, 2017 AFTER THE FIVE BUDGET
LOTS CREATED.

.....
Officer or Department Head

Action of Advisory Board

Date of Meeting Number Present and Voting

Transfer voted in the sum of \$

Transfer disapproved

.....
Chairman Advisory Board

Request must be made and transfer voted before any expenditure in excess of appropriation is incurred.