Finance Committee Meeting

Tuesday, October 9 2018

Town Hall: First Floor Meeting Room, 173 Main Street Groton

Present for the Finance Committee: G. Green (Chair), B. Robertson (Vice Chair), A. Prest, S. Whitefield, D. Manugian, L. Leonard, C. Doody

Also Present: P. Dufresne (Town Accountant), A. Manugian (Select Board), M. Hartnett (Town Treasurer), B. Faxon (per diem recording secretary)

Documents available at the meeting: Presentation of GASB 75 Results OPEB FY18 summary

Email Odyssey advisors representative to P. Dufresne re: response to GASB 75 summary of results questions

Other Post-Employment Benefits Liability - Select Board Policy

Select Board Meeting approved minutes 7/30/18 Page 1 of 7 Town Manager's report

Town of Groton Overall Financial Management Policies

Email M. Haddad to Finance Committee members re: Budget guidance FY 2020 meeting

Email C. Perkins to P. Dufresne re: Master Plan implementation committee

Mr. Green called the regular session of the Finance Committee to order at 7:00 p.m.

Approval of Minutes:

A.P. moved to approve the 9/10/18 Draft meeting minutes, D. Manugian seconded. (7-0-0).

A.P moved to approve the 10/1/18 draft meeting minutes. L. L. seconded. (6-0-1. C.D abstained.)

Odyssey Advisors OPEB FY18 Summary:

Present: Parker E. Elmore, Odyssey Advisors

Mr. Parker Elmore presented a summary of the actuarial valuation of the Town of Groton Other Postemployment Benefits Plan to those present. Post employment benefits include medical and life insurance for retired municipal employees. Odyssey Advisors is an actuarial and management consultant company retained by the Town of Groton to provide the OPEB (GASB 74/75) valuation report . Mr. Elmore explained the new accounting standards "GASB 74/75" for pension plans which require increased disclosures, and noted that the discount rate is tied to Groton's investment and funding policies. He noted that overall plan liability increases as the population ages and approaches eligibility to receive retirement benefits. This liability also increases due to interest and service costs. He estimated that approximately $4,166 per employee per year is attributable to current benefits accrued (the service cost). The OPEB liability is one of many of the Towns' liabilities he noted, and the different needs of the community dictate how the town dedicates funding.

The Town of Groton funded the OPEB plan for the first time in Fiscal Year 2018 ($100,000). Mr. Elmore strongly encourages the Town to continue to fund this liability in future years and should consider adopting a financial policy to this effect. Continued funding will:

- Improve the Town's discount rate used in calculating the liability.
- Provide reduced liability and exposure by setting aside the money early in the process.
- A reduced liability results in better bond ratings for the town.

Mr. Elmore noted that Groton is aligned with what neighboring towns are funding as well as the Massachusetts Average (Odyssey Clients only). A. Manugian commented that the school district has its own OPEB liability, however funds are not being appropriated towards these benefit plans. Teachers look similar to town employees in terms of retiree plans and liability. Mr. Elmore said that some towns of similar size to Groton invest a lot of money in funding OPEB so their financial profile is more attractive and their OPEB liability reduced.

B Robertson noted the increase of over $3 million in the new OPEB Liability report. This was described as due to updated assumptions and plan experience being less favorable than expected. Additionally, premiums increased 4% rather than the expected 6% which offset some of the liability. The changes in accounting methodology and the estimate of the funding for retired employee benefits are significant to understanding the overall picture presented in the summary report.

Mr. Elmore pointed out that OPEB is not a mandatory liability that the town must fund (the pension liability is mandatory), but it is considered good financial policy to do so. The State will recognize the funding efforts of small towns without locking towns into a funding program. A. Manugian asked whether the Town's bond rating would drop if the Town increased the contribution to OPEB by only $10,000 per year. Mr. Elmore replied that the current economic status of the Town is such that such a relatively small fluctuation could be absorbed. As stewards of the funds, the finance committee can make small changes when conditions are favorable so as to not have to make significant adjustments in the future. In response to a question from the Town Accountant, the Committee was told that there is no benefit to putting 200,000 into the OPEB trust and immediately spending it on current retiree costs (as is the current practice). The Finance committee reviewed and discussed the Select board policy document <u>Other Post-Employment Benefits Liability</u> and funding strategies for OPEB contribution. Consensus was that the investment policy should be approved prior to discussion of OPEB contribution. Committee members are in favor of the OPEB investment policy which is intended to provide guidelines for the management and investment of all funds deposited into the Town's OPEB Liability Trust.

A motion was made, and seconded to approve the OPEB Investment policy. All in favor. (7-0-0)

With regards to funding, B.R. recommends funding $169,000 to the OPEB liability trust, noting the current excellent bond rating of the Town. G.G. proposed a figure somewhere between $169,000 and $395,000 or, at minimum fund the service cost and any benefit changes. D.M. suggested that the Town should create a sustainable habit of funding OPEB. All concurred to fund at least the service costs less the benefit payments and a board member suggested adding language to consider additional funding above the $169,000 if financially feasible. L.L. is in favor of setting a minimum contribution and allowing for a flexible ceiling. Mr. Haddad will be consulted about creating a line item in the operating budget for OPEB funding. The committee concluded that Mr. Haddad and the finance team can formulate the language and asked B.R. to contact Mr. Haddad to discuss this matter and clarify the Finance Committee's intent.

OPEB Investment/Funding Policy -

The Committee would like to make OPEB funding a line item in the operating budget. The intent will be for the Town to fund OPEB in an amount no less than the service cost less benefits payments, however additional funds, if available,can and should be appropriated. Additionally, it will be assumed that when the unfunded pension liability expires, these funds would then be applied to the OPEB liability instead. M. Hartnett left the meeting at 8:22 pm.

Possible Changes to Town Financial Policy Documents -

- Page 1 paragraph - a change was proposed in the first paragraph to change "Board of Selectmen" to the "Select Board" so as to comply with the newly proposed charter.
- Page 2: A comment was made that the Agricultural committee should have a fund established under the municipal stabilization account.
- The CPC program was discussed; as it is currently managed it does not have an effect on the financial policies of the Town and is not within the purview of the Finance Committee.
- Page 3 - # 9: "select board" change. Suggestion was made that the review should include both the guidance of the finance committee and select board to the town manager. GG prefers leaving the flexibility of the wording "annually" as opposed to a date certain. The Committee agreed the review was to take place prior to October 1st annually.
- Page 4 #5. C. -- Remove "annual" from OPEB funding
- Page 5 Capital Funding guidelines discussion ensued as to one time capital spending projects such as the library roof. GG proposed the idea of a separate section in the budget for funding of capital projects. Also the capital planning policy should be clarified as to the timeline between project proposal and implementation as well as identifying funding in the initial planning stage. The creation and drafting of a capital project policy by the Town manager was recommended.
- Page 7 - must be replaced with the new Town approved OPEB policy
- Page 8 - spelling/grammar error "public" "all"
- Pages 9-15 Post Issuance Compliance Policy G.G. recommended the finance team review this section. L.L. suggested Dept. of Revenue would have boilerplate wording for this section.

Capital Planning Advisory Committee (establishment)

Formulation of a single Capital PLanning advisory committee for all Town building projects will result in leveling the assessment for all buildings.. The document titled "Capital Planning Advisory Committee" (attached) was referenced for the discussion. The Department Head will make requests for building projects. The Capital PLanning advisory committee will then interview project proponents once the projects have been officially requested. The Capital plan budget is currently managed by the Town Manager. More review of the document was recommended including weigh-in from the finance team. Complete town wide buildings management overseen by one capital planning advisory committee would be an inclusive best practice. Discussion progressed to requesting a 10 year report on the capital building assets and projected maintenance and expenses. The Capital planning advisory committee members would be a skills based appointment by the Town Manager and approved by the Select Board.

FY20 Budget Guidance

A joint meeting is scheduled for Monday October 22, 2018 at 8 PM for FinCom and the Select Board to provide FY20 budget guidance to the Town Manager. Points of the Committee's discussion regarding budget guidance:

- A precaution on hiring new employees was suggested in FY20 except for previously approved recommendations from fire and police.
- Noted: a dramatic change from Oct. 1 to Oct. 6; specifically revenues decreased.
- Noted that the Oct 1st budget presented was consistent with the 5 year plan, concern that the amended Oct 6th budget is not as aligned.
- The Oct 6th revision included a reduction in "new growth" by $150,000 and estimated other expected receipts are reduced by $20,000.
- Noted that revenue is down for the beginning of FY19 and enrollment at Nashoba Tech has increased by 5.
- A cap of 2.54% spending was suggested with no override. Decreasing retirement contribution was considered.
- Holding of revenue figures until after the budgeting process was mentioned in an effort to avoid the temptation of increased spending as a result of awareness of this figure.
- The necessity of making alterations to the budget to comply with legal and current policy was noted.
- A. Manugian reiterated she is in favor of codifying the procedures related to free cash, adding that without it, the ability to adjust expenditures upward and revenues downward without such a mechanism results in a large free cash figure at the year end.
- Noted that capital is funded by free cash as a policy and can be manipulated in the current accounting process.
- Noted that the capital plan needs to be updated and revised to strengthen policy with buildings management and new buildings forecasting.

Guidance budget recommendations include: no new hires, work with the revenue number of $1,300,000, maintain an awareness of relationships between the revenue estimates and spending estimates, and create an abbreviated budget process for Fall Town meeting spending. B.R suggested setting a limit of 2.54% growth over the prior year, with the assumption that the budget must be balanced. Meal tax and room tax were briefly mentioned and expectations were that these would be added to the general revenue figures in the budget.

Motion to adjourn at 10:00 p.m., seconded. All in favor. (7-0-0)

Respectfully submitted,

Beth Faxon

Per diem recording secretary

Odyssey
ADVISORS

Town of Groton

PRESENTATION OF GASB 75 RESULTS

OCTOBER 9, 2018

Odyssey ADVISORS

Odyssey Advisors

- Actuaries & Management Consultants – founded in 1998
- Provide actuarial consulting & valuation services to over 300 municipal entities including over 250 in Massachusetts including Marlborough, Hopkinton, Wilmington, & Tyngsborough.
- Offices in Connecticut & Nevada – clients in 37 States & Europe
- Primarily focused on retirement plans
  - Retiree Medical (GASB 45/75 & FASB 106)
  - Defined Benefit Plans (GASB 67/68 & FASB 87/88/132/158)
  - Defined Contribution Plans (401(k), 403(b), 457, ESOP, etc.)

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GASB 74/75

- What is it?
  - New accounting standards which largely mirror GASB 67 and 68 for pension plans
  - Requires increased disclosures
  - Discount Rate – tied to investment and funding policies
- Effective for your 2018 fiscal year

GASB 74/75

- Dates
  - Valuation Date – Plan liabilities are determined as of the valuation date and rolled forward to the Measurement Date
  - Measurement Date – Assets and Liabilities are stated as of the Measurement Date
  - Reporting Date – Plan or Employer's Fiscal Year End
- Disclosures
  - Deferred Inflows/Outflows
  - Money Weighted Rate of Return
  - Payroll

Why is Your OPEB Liability Growing?

- Every year your OPEB Liability will grow due to interest
- Additionally, employees accrue benefits each year (Service Cost)
  - Your Service Cost averages $4,166 per employee for FY 18
- Your retirees' liabilities are the expected value of their future benefits
  - As you make benefit payments each year, these liabilities decrease
- For most entities, making benefits payments alone is not enough to offset the increase in liability due to interest and service cost

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GASB 75 Results

	6/30/2018		6/30/2017
•TOL	9,926,135	•TOL	6,673,357
•Assets	22	•Assets	10
•NOL	9,926,113	•NOL	6,673,347

- Total OPEB Liability (TOL): The value of the benefits that have been earned by active and retired employees.
- Net OPEB Liability (NOL): The TOL less the assets.

GASB 75 Results

FY 2018		FY 2017	
•Service Cost	395,760	•Service Cost	333,530
•Financial Statement Expense	1,119,777	•Financial Statement Expense	N/A
•Employer Share of Costs	226,325	•Employer Share of Costs	226,325
•Trust Contributions	0	•Trust Contributions	0
•OPEB Expense	893,452	•OPEB Expense	N/A

- Service Cost: The value of benefits that active employees accrue each year.
- Net OPEB Expense: The expense (on an accrual basis) that is recognized annually on the financial statement.
- Employer Share of Costs: The employer's portion of the premiums each year and implicit cost.

GASB 75 Results

- Premiums increased less than expected
  - Decreasing liabilities by $350K
- Discount rate increased
  - Decreasing liabilities by $740K
- Updated actuarial cost method
  - Increasing liabilities by $780K
- Updated mortality table
  - Increasing liabilities by $670K

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Actuarial Assumptions

- Discount Rate – 4.50% (previously 4.00%)
- Termination Rates
  - Probability of leaving employment each year prior to retirement
- Retirement Rates
  - Percentage of retirement eligible active employees who retire each year
- Election Percentage
  - Percentage of those eligible who elect to receive benefits in retirement
- Healthcare Cost Inflation
  - 5.00% per year (this may need to be revisited for your next valuation given recent trends)

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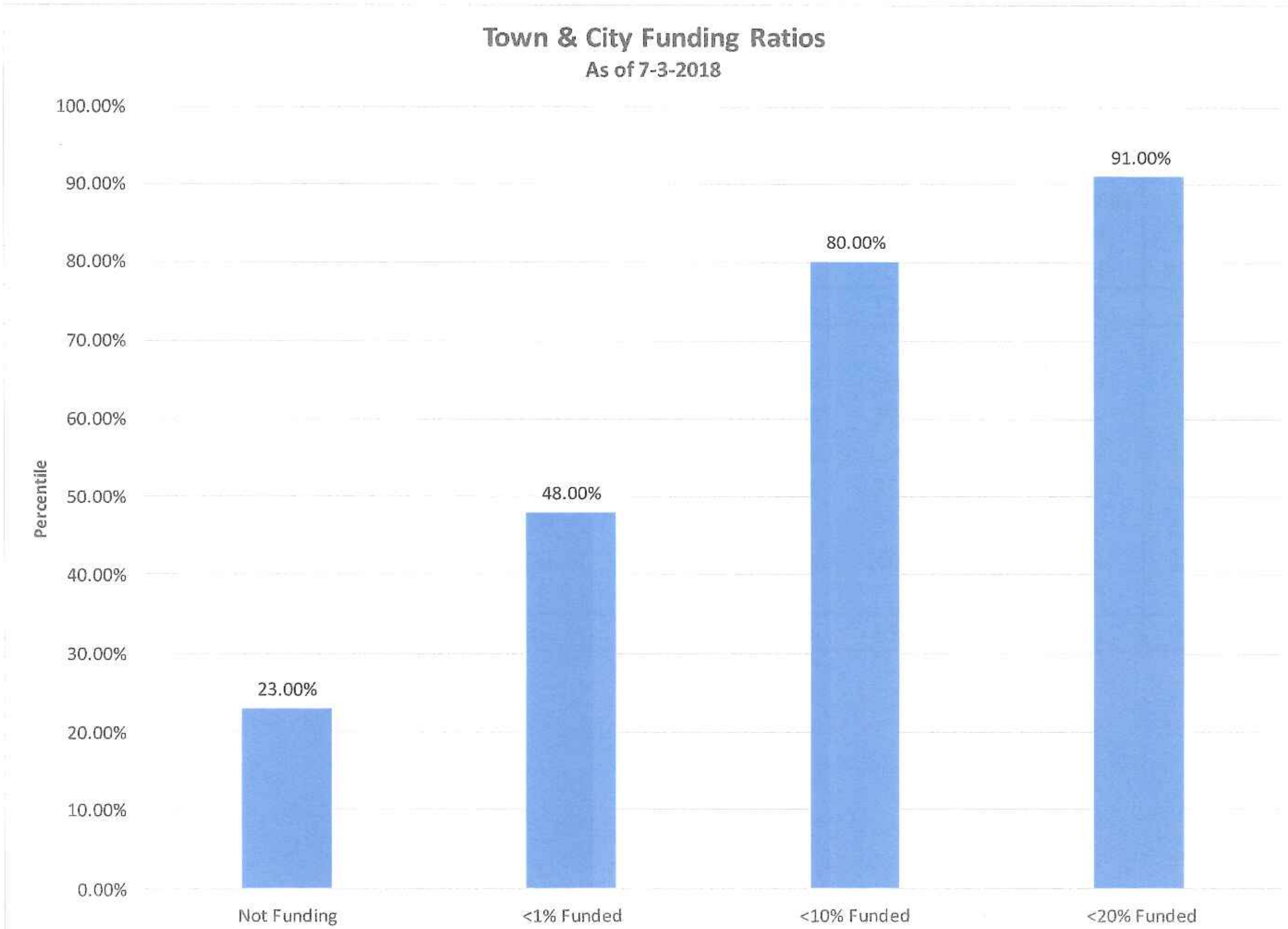
Medical Plan offerings

	Per Contract Costs (monthly) - FY 2018		
	Single	Two-Person	Family
Fallon Select	586.00		1,565.00
Fallon Direct	545.00		1,458.00
Harvard Pilgrim HMO	797.00		2,095.00
Tufts EPO	776.00		2,108.00
Tufts Medicare Supplement	397.00	794.00	

Funding Comparison to Other Odyssey Clients



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Comparison to Other Odyssey Clients – similar population size

	Number of Eligible Actives	Total Annual Service Cost (annual benefit accrual)	Per Eligible Active Plan Participant	Discount Rate	Net OPEB Liability	Net OPEB Liability as a % of Payroll	Benefit Payments	Per Covered Retiree	Funded Ratio
Town of Groton	95	502,953	5,294	3.25%	12,012,872	180%	226,325	4,042	0.00%
Town of Southwick	76	156,844	2,064	4.25%	5,542,831	141%	177,764	3,065	2.33%
Town of Lakeville	81	167,680	2,070	6.75%	11,913,045	228%	610,904	4,593	3.67%
Town of Dighton	83	208,902	2,517	5.00%	6,280,543	140%	177,877	6,134	9.20%
Town of Whitman	103	249,435	2,422	5.50%	12,211,674	154%	541,909	4,301	1.46%
Town of Sherborn	111	239,889	2,161	6.75%	7,005,729	99%	372,166	4,278	9.94%
Massachusetts Average (Odyssey Clients only)	133	583,034	4,395	4.00%	15,998,414	230%	491,321	5,061	5.65%

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Service Cost per Active Employee

Town of Groton
Service Cost per Capita as of July 1, 2017

		General Government Employees	Police Employees	Fire Employees	Sewer Enterprise Employees	Water Enterprise Employees	Total
I.	Service Cost	$ 233,048	$ 104,376	$ 34,139	$ 5,835	$ 13,681	$ 395,760
II.	Eligible Actives	61	20	7	1	4	95
III.	Service Cost per Eligible Active [I. / II.]	$ 3,820	$ 5,219	$ 4,877	$ 5,835	$ 3,420	$ 4,166

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Projected Cash Flows

Total Medical, Dental & Life Insurance - Funding - 4.50% discount rate							
Measurement Date	I. Total OPEB Liability ("TOL")	II. Fiduciary Net Position	III. Net OPEB Liability ("NOL") [I. - II.]	IV. Funded Ratio [II. / I.]	V. Employer Share of Premiums / Claims	VI. Excess Employer Payments (beyond claims)	VII. Total Employer Contribution [VIII. + IX.]
July 1, 2017	9,926,135	22	9,926,113	0.00%	226,325	0	226,325
July 1, 2018	10,578,358	101,360	10,476,998	0.96%	269,876	99,950	369,826
July 1, 2019	11,243,236	211,057	11,032,179	1.88%	300,225	100,000	400,225
July 1, 2020	11,910,253	327,819	11,582,434	2.75%	328,142	100,000	428,142
July 1, 2021	12,599,012	452,100	12,146,912	3.59%	360,205	100,000	460,205
July 1, 2026	16,396,866	1,204,382	15,192,484	7.35%	521,656	100,000	621,656
July 1, 2031	20,695,616	2,232,173	18,463,443	10.79%	708,713	100,000	808,713
July 1, 2036	25,730,235	3,636,373	22,093,862	14.13%	945,560	100,000	1,045,560
July 1, 2041	31,878,576	5,554,836	26,323,740	17.42%	1,180,379	100,000	1,280,379
July 1, 2046	39,679,798	8,175,901	31,503,897	20.60%	1,437,948	100,000	1,537,948
July 1, 2051	50,087,226	11,756,882	38,330,344	23.47%	1,756,560	100,000	1,856,560
July 1, 2056	63,822,863	16,649,332	47,173,531	26.09%	2,179,404	100,000	2,279,404

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Affordable Care Act and Excise Tax (Cadillac Tax)

- Premiums above $11,850 for Individual plans and $30,950 (these thresholds will increase annually by CPI) will be taxed at 40% starting in 2022 (previously 2018, but amended to 2020 and then 2022)
- An analysis conducted by Towers Watson in September 2014 predicted that 48% of firms surveyed are likely to trigger the tax in 2018 and 82% by 2023 with current plan designs. (The excise tax has since been delayed until 2022)

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Questions?

Odyssey ADVISORS

East Coast
11 Hayward Ave, Building 4
Colchester, CT 06415
(860) 537-9080

West Coast
1350 E. Flamingo Road, Suite 254
Las Vegas, NV 89119
(702) 979-2880

September 5, 2018

Personal and Confidential

Ms. Patricia Dufresne
Town Accountant
Town of Groton
173 Main Street
Groton, MA 01450

Re: GASB 75 – Summary of Results

Dear Ms. Dufresne:

The purpose of this letter is to summarize our actuarial valuation of the Town of Groton Other Postemployment Benefits Plan (the "Plan") for the Reporting Date and fiscal year ending June 30, 2018 with a Valuation Date of July 1, 2017 and a Measurement Date of July 1, 2017 in accordance with Statement Nos. 74 and 75 of the Governmental Accounting Standards Board ("GASB 74/75").

What caused plan liabilities to change from FY 17 to FY 18?

Plan experience was less favorable than expected - for the year ending on the Measurement Date of July 1, 2017, the Plan saw an experience loss of $2,270,297 or 31.74% of the beginning Total OPEB Liability ("TOL"). This was mainly due to updated assumptions. This was somewhat offset by premiums increasing by 4% rather than the expected 6% increase. The experience loss on TOL and the experience loss on assets are amortized into the net OPEB expense over time until fully recognized.

Over the one year period, the TOL went from $6,673,357 as of July 1, 2016 to $9,926,135 as of July 1, 2017 for an increase of $3,252,778. The Net OPEB Expense was $893,452 for the year ending on the July 1, 2017 Measurement Date. As this is the first year using GASB 75 methodology, there is no baseline for comparison. For a 30-year projection of future costs and liabilities refer to Exhibit D of our GASB 75 report.

Odyssey ADVISORS

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11 Hayward Ave, Building 4
Colchester, CT 06415
(860) 537-9080

West Coast
1350 E. Flamingo Road, Suite 254
Las Vegas, NV 89119
(702) 979-2880

If you or your auditors have questions on this report, feel free to give us a call.

Sincerely,

Parker E. Elmore, ASA, EA, FCA, MAAA
President, CEO & Actuary

Select Board Policy

Other Post-Employment Benefits Liability

PURPOSE

To provide the basis for a responsible plan for meeting the Town's obligation to provide other post-employment benefits (OPEB) to current and future retirees, this policy provides guidelines designed to ensure OPEB sustainability and achieve generational equity among those called upon to financially support OPEB, thereby avoiding transferring costs into the future.

This policy is adopted in compliance with Governmental Accounting Standards Board (GASB 74/75) and Massachusetts General Law, Chapter 203C, §3 and Massachusetts General Law, Chapter 32B, §20.

APPLICABILITY

This policy encompasses OPEB-related budget decisions, accounting, financial reporting, and investment. It applies to the Select Board, Finance Committee and Town Manager in their budget decision making responsibilities. This Policy also applies to the OPEB related duties of the Finance Team members, including the Town Accountant, Town Treasurer-Tax Collector, Principal Assistant Assessor, Human Resources Director and Executive Assistant to the Town Manager.

BACKGROUND

In addition to salaries, the Town of Groton compensates employees in a variety of other forms. Many earn benefits over their years of service that they will not receive until after retirement. A pension is one such earned benefit. Another is a set of retirement insurance plans for health and life. These are collectively referred to as other post-employment benefits or OPEB.

OPEB represents a significant liability for the Town that must be properly measured, reported, and planned for financially. As part of the long-range plan to fund this obligation, the Town established an OPEB Trust Fund, which allows for long term asset investment at higher rates of return than those realized by general operating funds. This fund is managed by the Town Treasurer.

POLICY

The Town of Groton is committed to funding the long-term cost of the benefits promised its employees. To do so, the Town will accumulate resources for future benefit payments in a disciplined, methodical manner during the active service life of employees. The Town will also periodically assess strategies to mitigate its OPEB liability. This involves evaluating the structure of offered benefits and their cost drivers while at the same time avoiding benefit reductions that would place undue burdens on employees or risk making the Town an uncompetitive employer.

A. Accounting and Reporting

The Town Treasurer, responsible for oversight of the investment portfolio, has designated Morgan Stanley as investment manager of the trust assets. The Treasurer will manage the fund's contributions and disbursements and monitor the account and investment activity reports. On and annual basis, the Finance Team will meet to review the Trust's investment policy to ensure conformance with the State's prudent investor laws, and to review investment strategy, performance and fees.

The Town Accountant will obtain actuarial analyses of the Town's OPEB liability every two years and will annually report the Town's OPEB obligations in financial statements that comply with the current guidelines of the Governmental Accounting Standards Board.

The Town Manager shall ensure that the Town's independent audit firm reviews compliance with the accounting and reporting provisions of this policy as part of its annual audits and will report on these to the Select Board.

B. Mitigation

On an ongoing basis, the Town will assess healthcare cost containment measures and evaluate strategies to mitigate its OPEB liability. The Treasurer shall monitor proposed laws affecting OPEB and Medicare and analyze their impacts. The Treasurer shall also regularly audit the group insurance and retiree rolls and drop any participants found to be ineligible based on work hours, active Medicare status, or other factors.

C. Funding

To address the OPEB liability, decision makers shall analyze a variety of funding strategies and subsequently implement them as appropriate with the intention of fully funding the obligation. The Town shall derive funding to invest in the OPEB Trust from taxation, free cash, retained earnings, and any other legal form.

Achieving full funding of the liability requires the Town to commit to funding its annual required contribution (ARC) each year, which is calculated based on actuarial projections. Among strategies to consider for funding the ARC:

- Transfer unexpended funds from Health Insurance Line Item to the OPEB Trust.
- Determine and commit to appropriating an annual portion of Free Cash.
- Determine and appropriate annually, the tax revenue received from the Room Occupancy Tax.
- When a new position is created, determine the OPEB liability for the position and appropriate annually the anticipated OPEB liability of the position, in addition to the annual cost of the position.

ADOPTED: ________________________________

TOWN OF GROTON
OTHER POST EMPLOYMENT BENEFITS
LIABILITY TRUST INVESTMENT POLICY

Purpose
This investment policy is intended to provide guidelines for the management and investment of all funds deposited into the Massachusetts Other Post Employment Benefits Liability Trust ("Trust") under the control of the Town Treasurer as Trustee ("Trustee").

Background
Funds deposited to this Trust are held and invested for the purpose of meeting the obligations of the Grantor municipalities under respective Other Post Employment Benefits ("OPEB") defined benefit programs, currently consisting of post employment benefits such as health and life insurance coverage. Under GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions, the discount rate should be the long term expected yield on the investments set aside in the Trust to be used to pay future benefits as they come due. Given the long term nature of the OPEB defined benefit programs, investments in the Trust will closely approximate pension fund-type investment securities, defined later in this policy.

Objectives
Massachusetts General Laws, Chapter 203C, section 3 describes the circumstances that the Trustee shall consider and the standard to which the Trustee must adhere, when investing funds under the prudent investment rule. The applicable standard is as follows:

(a) The Trustee shall invest and manage Trust assets as a prudent investor would, considering the purposes, terms, and other circumstances of the Trust, including those set forth in subsection (c). In satisfying this standard, the Trustee shall exercise reasonable care, skill, and caution.
(b) The Trustee's investment and management decisions respecting individual assets shall be considered in the context of the Trust portfolio as a part of an overall investment strategy reasonably suited to the trust.
(c) Among circumstances that the Trustee shall consider in investing and managing Trust assets are such of the following as are relevant to the Trust or its beneficiaries:
    (1) general economic conditions;
    (2) the possible effect of inflation or deflation;
    (3) the role that each investment or course of action plays within the overall Trust portfolio;
    (4) the expected total return from income and the appreciation of capital;
    (5) needs for liquidity, regularity of income, and preservation or appreciation of capital.
(d) The Trustee shall make a reasonable effort to verify facts relevant to the investment and management of Trust assets.
(e) The Trustee may invest in any kind of property or type of investment consistent with the standards of Massachusetts General Laws, Chapter 203C, §3Massachusetts and this policy statement.

Strategy
Funds held in the Trust will be invested using the following guidelines in terms of asset allocation. This policy section is subject to review and amendment at any time by the Trustee.

Cash and cash equivalents -Target allocation of 5% (0%-10%). Cash will be maintained to provide periodic cash distributions. Cash will not normally be held as a strategic investment asset, although cash may be allowed to build to the maximum level in times of market uncertainty.

Fixed Income -Target allocation of 30%, range of 25 to 35%. To ensure appropriate diversification and to minimize default risk, the Trust will invest primarily in high-quality taxable bonds, notes, and other credits through mutual funds, exchange-traded funds (ETFs) or individual bonds. Lower-quality bonds may be held through mutual fund or ETF ownership. The overall goal of the fixed-income portion of the portfolio is to provide returns competitive with, and price volatility similar to, the Barclays Aggregate Bond Index. The fixed income allocation exists to provide income and to dampen the volatility from the fund's equity holdings.

Equities -Target allocation of 65%, range of 50% to 80%. The sub-categories and their respective allocation ranges are as follows:

- target range of 0 to 50% in U.S. Large Cap;
- target range of 0 to 30% in International Developed Countries and Emerging Markets;
- target range of 0 to 25% in U.S. Mid Cap;
- target range of 0 to 25% in U.S. Small Cap;
- target range of 0 to 25% in Public Traded Real Estate Market;

Investment Instruments
The Trustee may invest in the following instruments:

- U. S. Treasuries securities that may be sold prior to maturity -unlimited amounts (with no limit to the length of maturity from date of purchase)
- U.S. Agency obligations that maybe sold prior to maturity -unlimited amounts (with no limit to the length of maturity from date of purchase)
- Foreign Sovereign debt
- Investment Grade Corporate debt
- Money market mutual funds.
- Fixed-income mutual funds and ETFs.
- Equity mutual funds and ETFs.
- Alternative investment-oriented mutual funds.

Equities
The equity portion of the Trust portfolio should consist of a diversified mix of investments (individual stocks, mutual funds and ETFs) suitable to achieve the objective of capital appreciation.

Fixed Income
Investments in fixed income securities will be made principally for income and capital preservation and diversification. Selection should be made from liquid, investment grade

corporate debt, and obligations of the United States Government and its agencies. Lower-quality investments may only be held through diversified vehicles, such as mutual funds or ETFs. Securities of a single corporate issuer (excluding the United States Government and its Agencies) will not exceed 5% of the portfolio market value.
Individual corporate debt must be rated BBB or better, as defined by Moody's and/or Standard & Poor's Rating Agency.

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 (1) over concentration of maturities, (2) over concentration in a specific institution, with the exception of U.S. Treasury obligations and its Agencies.

Risk
The Trustee will adhere to the following risk guidelines for all investments of funds:

Custodial Credit Risk -The custodial credit risk for deposits is the risk that, in the event of a failure of a depository institution, the Trust would not be able to recover deposits or the securities used to collateralize the deposits from the institution or a third party. For investments, the risk occurs if the Trust is unable to recover the value of an investment or collateral in possession of a third party.

Interest Rate Risk -Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Trust investments are long-term investments. Given a stated discount rate target, this long-term approach enables the Trustee to purchase long-term assets which tend to have high returns over many years but whose price volatility precludes their use by those with shorter time horizons. This price volatility and resulting market value fluctuations are of secondary importance unless individual assets have permanently impaired values and must be liquidated to preserve remaining value. Varying the duration of investments within the portfolio will help manage the effects of interest rate risk, however, the Trustee understands the longer-term nature of these funds and will design a portfolio consistent with the long term health of the Trust.

Credit Risk-Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Trustee will minimize credit risk by diversifying the investment portfolio so that the impact of potential losses from anyone issuer will be minimized.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the Trust's investment in a single issuer.

The Trustee will minimize any concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from anyone type of security or issuer will be minimized.

Foreign Currency Risk - Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment or deposit.

The Trust will not directly invest in any instrument exposed to foreign currency risk. This risk, however, may be inherent in some securities contained within the portfolio such as international mutual funds or ETFs.

Standards of Care

The standard of prudence to be used by the Trustee shall be the "Prudent Person" standard and shall be applied in the context of managing an overall portfolio. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs; not for speculation but for investment considering the probable safety of their capital as well as the probable income to be derived, all consistent with M.G.L. c.203C, §3.

Performance Measurement and Evaluation

- The performance of the mutual funds in which the Trustee invests will be measured by comparison with their stated objectives in comparison to their respective benchmarks.
- To monitor the intermediate term performance of such Funds, the Trustee will compare the investment results to a blended benchmark.
- Rebalancing of the portfolios should happen at least annually or more frequently if appropriate.
- The Trustee will have a performance review with the investment broker at least once per year.

Policy Review

This policy will be reviewed annually by the Trustee to ensure that it remains appropriate and complete.

Approved by the Select Board on _______________.

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.

The Town Manager and the Department of Finance shall collaborate with the Finance Committee to prepare, maintain and present to the Board of Selectmen and Town Meeting a five-year financial plan for the Town.

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 Town's current line item budget.

5. The Town will maintain a Municipal 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 a minimum of 1.5% of the Town's current line item budget, with the objective to grow the fund to support near term and cover longer term needs.

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 line item 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 line item budget, 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
FREE CASH POLICY

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 current Town's current line item budget. This amount is in addition to the policy of having the Stabilization Fund equal five (5%) percent of the Town's current line item budget.

3. The Town should strive to maintain a Municipal Capital Stabilization Fund (excluding the Town created GDRSD Capital Stabilization Fund) balance at 1.5% of the Town's current line item budget with the goal to grow the fund to support near term and cover longer term needs.

4. The E&D account balance shall be maintained through the use of fiscally responsible revenue projections and departmental spending.

5. The E&D account balance can be expended at the discretion of Town Meeting for the following purposes:

   a. To Replenish the Stabilization Fund, replenish and grow the Capital Stabilization Fund and fund the Town created Groton-Dunstable Regional School District's Capital Stabilization Fund.

   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. To fund an annual contribution to the Other Post-Employment Benefits (OPEB) liability trust fund.

   d. To fund one-time projects proposed by the Board of Selectmen and Finance Committee.

   e. ~~Offset the Tax Rate.~~

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 I 0, 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 line item 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's current line item 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's current line item 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:

<u>Policy Guidelines</u>

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

<u>Limitation of Retiree Health Care Costs:</u> The Town has adopted the requirements of Section 20 ~~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.

<u>OPEB Funding Plan:</u> 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 Town's current line item 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 l% 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, who is the Chief Procurement Officer, or a designated subordinate 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 3, 2017, revised March 26, 2018

Patricia DuFresne

From:	Mark Haddad
Sent:	Sunday, October 7, 2018 1:46 PM
Cc:	Patricia DuFresne; Dawn Dunbar; Melisa Doig; Jonathan Greeno; Michael Hartnett; Michael Bouchard
Subject:	Preliminary FY 2020 Budget and Revenue Projections

Good afternoon Members of the Select Board and Finance Committee:

As you are aware, the Select Board and Finance Committee are scheduled to meet with the Town Manager and Finance Team on October 22nd to provide Budget Guidance for Fiscal Year 2020. The Select Board had requested enough time prior to this meeting to review the data to make an informed decision. To that end, I have met with the Finance Team to develop some preliminary figures. The purpose of this email is to provide you with our preliminary estimates far in advance of October 22nd.

The following is what we expect in new revenues for FY 2020 at this time (please note we are making these estimates more than 20 months in advance):

		Increase Anticipated
Anticipated 2½% Increase	$	765,425
New Growth - Calculated at $20 million in Value	$	381,000
Unexpended Tax Capacity	$	81,803
State Aid	$	-
Estimated Receipts	$	80,261
Total Anticipated New Revenues	**$**	**1,308,489**

As you can see, we are currently anticipating $1.3 million in new revenues for FY 2020. The following is what we are anticipating in expenses based on the best information available today:

Preliminary FY 2020 Expenditure Estimates

Nashoba Tech - Five New Students	$	100,000
GDRSD - 5.33 Percent Increase	$	1,077,482
Health Insurance - 10 percent Increase	$	171,630
County Retirement	$	(108,646)
Salary - Based on Current Agreements	$	190,449
Expenses - One Percent Increase	$	28,240
Debt Service - In Levy	$	10,000
Medicare	$	8,000
Two New Firefighters - Full Year Increase	$	80,000
Total Anticipated New Expenses	**$**	**1,557,155**

Based on this, we are anticipating a deficit of $248,666. I would like to call to your attention to a couple of important facts:

1. A 5.33 percent increase in the GDRSD budget would take up 82.3% of our anticipated new revenues, while they are 58% of our Budget. When you add in Nashoba Tech, School Spending would take up 90% of our anticipated new revenues. This is not sustainable.
2. The current municipal budget is $15,804,656. The proposed anticipated increase in the budget (taking into consideration the savings in County Retirement) is $379,673 or 2.4%. If you don't give the municipal budget credit for the savings in County Retirement, the increase is $488,319, or an increase of 3.1%.

I look forward to discussing this in more detail with the Select Board and Finance Committee on October 22nd. I am planning on adding this to the Select Board Agenda for October 16th to give them the opportunity to discuss this as a Board prior to meeting in joint session with the Finance Committee.

Please feel free to contact me with any additional questions or concerns with regard to this matter.

Mark

Mark W. Haddad
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CAPITAL PLANNING ADVISORY COMMITTEE

Number of Members	Method of Selection	Length of Term	Remuneration
5	Appointed	3 Year(s)	None

A. Purpose

There shall be a committee to study the requirements and needs for capital expenditures for all buildings, playing fields and courts, recreation structures, large equipment, vehicles, and municipal buildings in the Town of Groton. The committee shall be known as the "Capital Planning Advisory Committee." and shall advise the Town Manager, Select Board and Finance Committee on the results of its work. Said committee shall also assist the Town Manager in planning for the management of building projects as charged by the Town pursuant to votes of Town Meeting, this bylaw, and the Massachusetts General Laws.

B. Appointment

The Town Manager, with the approval of the Select Board, shall appoint a Capital Planning Advisory Committee consisting of five (5) regular voting members, all serving without compensation. The Town Manager shall endeavor to appoint individuals who, by reason of their current or prior background have skills in the areas of capital planning, finance, construction, or other relevant experience. All members shall be residents of the Town of Groton and appointed for three-year terms, provided, however, that of the members originally appointed, one shall serve for a term of one year, two for a term of two years and two for a term of three years as designated by the Town Manager.

C. Committee Charge

The Capital Planning Advisory Committee shall have continuing responsibility in assisting the Town Manager in developing the Annual Five (5) Year Capital Plan, including the capital equipment replacement plan, developing a long-range building plan and other maintenance projects for the Town. In addition, they shall assist in the development and annual updating of a long-range building maintenance capital spending plan for all municipal buildings. Working with the Town Manager, Select Board, Finance Committee and other Town committees and boards which propose building and renovation projects, the Capital Planning Advisory Committee shall establish general criteria for significant Capital expenditures, including equipment and buildings, and develop guidelines for communication regarding these projects between and among interested committees and the public. The Capital Planning Advisory Committee shall assist the Town Manager in overseeing the planning and design for construction, reconstruction, major alteration, renovation, enlargement, major maintenance, demolition, and removal of all Town buildings and recreation structures and playing fields and courts, including any significant installation, renovation or upgrade of service equipment and major systems.

More specifically the Committee shall:

A. In consultation with the Town Manager and Department Heads, assess ongoing space needs, and conduct periodic review and audit of the physical condition of all municipal buildings, service equipment, recreational structures, fields, and courts, and major technology and communication systems.

B. Assist in the development of the Annual Five (5) Year Capital Budget, including the sequencing of equipment replacement, building construction projects, and/or maintenance project(s) to be undertaken by the Town in the ensuing five (5) fiscal years.

C. After reviewing the rolling 5-year Capital Management Plan, and prior to November 15 of each calendar year, prepare and present to the Town Manager, Select Board and Finance Committee, a recommendation of major construction and/or maintenance project(s) to be undertaken by the Town in the ensuing fiscal year.

D. Seek comments from and coordinate activities with appropriate Town officials, including but not limited to the Town Manager, Director of Public Works, Police Chief, Fire Chief, Building Commissioner and other Town boards and committees, including but not limited to the Planning Board, Zoning Board of Appeals, Conservation Commission, Historical Commission, Board of Health, Finance Committee, Council on Aging and Community Preservation Committee.

E. Review and report the financial requirements of all projects within its jurisdiction, or for which it may become responsible

F Create and publish a report/memo at the closed out of each capital project/expenditure summarizing the process and any deviations from the plan. A comparison of projected to actual spending must be part of this report.

D. Conduct

All meetings are to be held in a public location, properly posted and open to the public in accordance with the Massachusetts Open Meeting Law. Minutes of each meeting shall be prepared and approved by the Committee within thirty (30) days of any meeting and distributed to the Town Clerk

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Appointing Authority

Town Manager

Legal Authority

Local: Appointed under authority of Section 4-2 of the Town of Groton Charter.