

FINANCE COMMITTEE

MEETING, April 10, 2019

A scheduled meeting convened at 7:00 p.m. in Room 5.

Members of the Committee in attendance: Mr. Creighton, Mr. Weld, Ms. Harrison, Mr. Pratt, Mr. Oldeman and Ms. Mellish. Mr. Even was not in attendance.

Town Administrator, Mr. Federspiel, Finance Committee Clerk, Ms. Hunter and Town Accountant, Ms. Mainville were also in attendance.

Mr. Creighton called the Finance Committee meeting to order.

Review of Meeting Minutes – Minutes for March 20, 2019

Ms. Harrison moved to approve the minutes of March 20, 2019; Mr. Oldeman seconded the motion. The motion passed unanimously.

Review of Auditors Report – Presented by Ms. Davis and Ms. Gamsby, Powers & Sullivan LLC

- The principle objective of Powers & Sullivan during fiscal 2018 was the expression of their opinion on the Town's basic financial statement (CAFR) and on the Town's compliance with provisions of Uniform Federal Guidance with respect to federal grants.
- Management is responsible for the preparation and fair presentation of the financial statement in accordance with US generally accepted accounting principles.
- Audit Process – Preliminary Audit Work and Year End Audit Work
- Audit Results – No instances of noncompliance or other matters that are required to be reported under Government Audition Standards. The 2017 CAF received the GFOA Certificate of Achievement for Excellence in Financial Reporting -- the 2018 CAFR was submitted to GFOA for consideration.
- **Financial Position Highlights** General Fund Balance as outlined in CAFR page 78-81, the Town had a \$31M final General Fund budget with Revenues exceeding budget by \$1M, Expenditures & encumbrances were under budget by \$1.4M, General Fund Balance is 29.6% of General Fund Expenditures – *Mr. Pratt asked how the general fund balance could be 29.6%, when the Committee understood the balance was 16% -- Ms. Manville indicated the certified free cash does not include funds allocated to ongoing projects and expenditures approved at Annual Town Meeting. Ms. Davis indicated free cash is a different figure. Ms. Davis clarified the difference among Stabilization, Reserves and Fund Balance.*
- Stabilization Fund Balance – Included within General Fund, unassigned \$1.6M an increase of \$68K

- OPEB – GASB 74/75 Prefunded \$252K in FY 2018, Total Trust fund balance \$1.8M
- GASB 74 Reporting for OPEB Trust, Trust fund gross-up for benefit payment \$564K
- Pension – Essex Regional Retirement System – the Towns proportionate share of net pension liability is \$12.7M, a \$595K decrease from the prior year. Proportion of Essex Regional Retirement 3.36% a decrease from 3.44% at 12/31/2016.
- Governmental Debt \$8.8M, General Fund Debt Service less than 4% of budget, Community Preservation Major Fund \$385K in revenue expended \$722K, Sewer and Water Enterprise Funds -- \$1.9M and \$2.8M in cash
- **Management Letter** – No deficiencies in internal control considered to be material weaknesses were identified. Comments consist of areas where internal controls could be strengthened, or efficiencies obtained. Three new comments: approval of change orders, fuel cards and reconciliation of police details to general ledger.

Review of OPEB, Mr. Sherman –

Mr. Sherman’s report presents the Governmental Accounting Standards Statements 74 & 75 based on the findings of an actuarial valuation as of July 1, 2018, of the Town’s OPEB Plan.

The actuarial valuation is based on: Plan Provisions as of July 1, 2018, Employee data provided by the Town, Asset provided by the Town and Actuarial assumptions approved by the Sherman Actuarial Services and the Town. The valuation and forecast do not account for any subsequent changes in the plan.

The Town selected 7.5% as the long-term expectation of investment returns.

Net Position Restricted for OPEB (Assets)

o June 30, 2017 Net Position	\$1,433,398
o Employer Contribution	\$750,741
o Employee Contribution	0
o Other Payments	0
o Benefit Payments	(\$540,984)
o Expenses	0
o Investment Income	<u>\$185,338</u>
o June 30, 2018 Net Position	\$1,828,493

OPEB Liability as of June 30, 2018

○ June 30, 2017 Liability	\$8,305,775
○ Service Cost	\$134,921
○ Interest on Liability and Service Cost	\$613,132
○ Change in Plan Provisions	0
○ Experience (Gain) and Loss	(\$326,145)
○ Change in Assumptions	0
○ Benefit Payments	(\$540,984)
○ Other	0
○ June 30, 2018 Liability	\$8,186,699

OPEB Expense for FYE 2018: This is not a focus due to modifications over a short period of time.

Schedule of Required Supplementary Information

	2018
○ Total OPEB Liability – Beginning	\$8,305,775
○ Total OPEB Liability – Ending	\$8,186,699
○ Plan Fiduciary Net Position – Beginning	\$1,433,398
○ Plan Fiduciary Net Position – Ending	\$1,828,493
○ Net OPEB Liability – Ending (a) – (b)	\$6,358,206
○ Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	22.3%
○ Covered Employee payroll	\$4,326,400
○ Net Liability as a percentage of Covered employee Payroll	147.0%

The 22.3% funded ratio is excellent for the Town and good for the Town’s credit rating.

Mr. Sherman discussed the 7.5% Manchester Funding Chart and stated the Town could be fully funded in 18 years rather than the anticipated 30 years.

The Committee discussed the Stabilization account and investments for the past year which resulted in a \$30K loss. Mr. Pratt recommends additional investments to the OPEB Trust to benefit from the high rate of return. Mr. Sherman indicated it is possible to make the additional investment and in the event of a difficult fiscal year the Town could decide not to invest in the Trust for that year.

Annual Town Meeting – Review

Mr. Oldeman observed the clickers worked well. Ms. Mellish stated this was the second year in a row no one mentioned the new police cruiser. There was a comment at Town Meeting regarding the additional funding of the Police Department compared to Fire Department. Ms. Mellish stated the resident was implying we were under-funding the Fire Department.

Mr. Creighton stated he is concerned about the rising costs of the District and the Fire Department. Mr. Pratt expressed his concern about the District budget. Stating the Town has less control over the District budget and indicated a need to discuss the increase in enrollment at Essex North Shore Agricultural & Technical School as it relates to the District Budget.

Ms. Mellish thought it was interesting that residents at Town Meeting voted against specific issues but there was no discussion on the issues being voted against. Mr. Weld stated some residents may be opposed to a given issue, but they cannot argue against the process and the Committee process within the Town appears to be working. Mr. Oldeman stated he believed residents who attend Town Meeting have confidence in the process.

Review of Budgeting Receipts/Revenues/Reserves

- Mr. Pratt asked about Health Insurance which was budgeted at \$1.5M and is coming in under by \$150K. He asked if that amount plus the under budgeted receipts would result in an additional \$1M in revenue. Mr. Federspiel indicated the Committee had approved the water pipe expenditure which will utilize those funds plus an additional \$600K from reserves.
- Ms. Mellish requested additional information on carry overs from year to year and the amount of time the carry overs remained on the books. Ms. Mainville indicated she reviewed the carry over funds with Department Heads and will provide the Committee with her report.
- Ms. Mellish cited the Town Hall funding which has been on the books for a few years. Mr. Federspiel stated those funds will go to the new HVAC system to be installed in Town Hall this year.
- Mr. Federspiel stated funded projects are completed within 2 years with some taking a little longer citing the Central Street Culvert as an example.
- Mr. Weld asked for clarification on encumbered funds. Ms. Mainville indicated those were funds currently under agreement or contract.
- Ms. Mainville indicated in the CAFR report on pages 78-79 there was a budget to actual breakdown for all projects.
- Ms. Mellish mentioned the \$42K in the legal budget – which will likely be repurposed.
- Mr. Weld mentioned the \$40K for Sweeney Park Parking Lot, Mr. Federspiel stated the funds had been requested for gravel, however, gravel was not going to solve the

problem of the Sweeney Park parking lot. Ms. Mellish suggested those funds go back to the general fund to be re-appropriated.

- Ms. Mellish stated the library had overspent their budget for books and magazines and office supplies, which she did not understand.
- Mr. Pratt was interested in reviewing Town Debt which is detailed on pages 58-60 in the CAFR report.
- The CAFR report is also on the Town web site.

Reserve Fund Transfers –

Request a reserve fund transfer for the purchase of a third boat. The propose boat is a Coast Guard surplus boat in excellent condition with 2,000 hours on the twin engines. The boat was originally priced at \$150K but the Coast Guard is willing to sell it to the Town for \$40K. The boat will require \$5K in electronics. Harbormaster Pike and Interim Police Chief Fitzgerald have inspected the boat and are satisfied it is in excellent shape.

The capital budget currently has \$25K for a new boat but the funds will not be available until July 1, 2019.

Mr. Weld moved to approve up to \$45,000.00 from the reserve fund to a capital fund for the purchase a boat and electronic equipment, Ms. Harrison seconded the motion. The motion passed unanimously.

Other business that comes before the Finance Committee, discussion only. There was no additional business before the Committee.

Adjourn: *Ms. Mellish moved to adjourn the meeting, Mr. Oldeman seconded the motion. The motion passed unanimously.*

Meetings Scheduled for Finance Committee:

May 8, 2019 – Follow-up meeting to discuss strategies for managing local receipts, reserves, school debt and levy limit.

Meeting Materials:

- Powers & Sullivan Presentation to the Town
- Mr. Sherman's OPEB Actuarial Valuation
- Minutes for March 20, 2019
- Reserve Fund Transfer Reques