

MINUTES OF THE TOWN COUNCIL
Town Hall Council Chambers
March 12, 2012 -Monday

Present: Arthur Mathews, President
Patrick O'Connor, Vice President
Robert Conlon, Councilor
Kenneth DiFazio, Councilor
Jane Hackett, Councilor
Edmund Harrington, Councilor
Thomas J. Lacey, Councilor
Brian McDonald, Councilor
Michael Molisse, Councilor
Michael Smart, Councilor

Not Present: Victor Pap, III, Councilor

Also Present: William McKinney, Chief Financial Officer
George Lane, Town Solicitor
Richard Swanson, Town Auditor
Kathleen Deree, Town Clerk

Recording Secretary: Mary Barker

Town Council President Mathews called the Town Council Meeting to order at 7:30 PM. Following the Pledge of Allegiance, Town Clerk Kathleen Deree called the roll with one member absent. President Mathews noted he spoke with Councilor Pap who was absent due to a prior work commitment.

ANNOUNCEMENTS

Vice President O'Connor welcomed Steve, Liam and their families from Boy Scout Troop 19, working on Communications and Citizenship badge requirements.

Councilor Harrington announced his participation in "Literacy Week Program", reading to the second graders at the Pingree School. He also reported that the Old South Union Church is holding its spring luncheons on Wednesdays 11AM-1PM on March 28th, April 4th, 11th, 18th. There will be craft tables on the latter three Wednesdays.

MINUTES

Budget/Management Committee Meeting Minutes of February 6, 2012

A MOTION was made by Vice President O'Connor to APPROVE the minutes of the Budget/Management Committee Meeting of February 6, 2012 and was seconded by Councilor Smart. UNANIMOUSLY VOTED, 10/0.

Town Council Meeting Minutes of February 6, 2012

A MOTION was made by Vice President O'Connor to APPROVE the minutes of the Town Council Meeting of February 6, 2012 and was seconded by Councilor Smart. UNANIMOUSLY VOTED, 10/0.

Special Town Council & Budget/Management Committee Meeting Minutes of February 13, 2012

A MOTION was made by Vice President O'Connor to APPROVE the minutes of the Special Town Council and Budget/Management Committee Meeting of February 13, 2012 and was seconded by Councilor Smart. UNANIMOUSLY VOTED, 10/0.

PUBLIC HEARINGS

12 015-Free Cash-OPEB Liability Trust Fund

A MOTION was made by Vice President O'Connor to OPEN the public hearing on item 12 015 and was seconded by Councilor Smart. UNANIMOUSLY VOTED, 10/0.

CFO William McKinney presented stating that this is a large liability; currently the town sets aside for the pension liability but had not started setting aside for retiree health care. This will be the first funding of this OPEB liability.

Councilor DiFazio asked if the trust is irrevocable. Mr. McKinney responded yes; it can only be spent on retiree health care. Councilor DiFazio asked how the administration determined that \$600,000 should be the amount to fund. Mr. McKinney responded that the figure is a starting point for a large liability and based on what was available in free cash. Councilor DiFazio asked why this hasn't been funded since the liability began in 2009. Mr. McKinney responded that this was the first opportunity the town has had to be in a position to make a contribution for funding. Councilor DiFazio noted the Budget/Management Committee has not yet deliberated this matter and invited the councilors to attend when it is.

Councilor Harrington asked if an act of legislation makes funding this unnecessary, and how will it affect the irrevocable trust. Mr. McKinney responded that it will depend on how the legislation acts. Several other towns are in the process of funding or have funded their portions already.

Councilor Lacey asked for an explanation as to how the liability grew to \$236 million over thirty years. He asked if it was a result of moving over to the GIC. Mr. McKinney noted this is year 3 of GIC participation and an agreement with the town's unions determined the split. With GASB, the town is required to report what that liability is and to obtain an actuarial study every 2-3 years. The timing of joining GIC and GASB requirements is coincidental. The issue is that the pension is based on years of service plus salary; health is based only on ten years of service. Joining GIC was beneficial to the town although it increased the liability on the retiree side. He reviewed the rates just voted by the unions. Councilor Lacey noted his shock as to the amount and that the town will never be able to fund it through the operating budget. Mr. McKinney responded that

most towns can't and that's why it isn't mandated. Once the pension liability is fully funded, then payments can be diverted to the health care liability.

Councilor Hackett asked what pool of town employees is eligible for these benefits. Mr. McKinney responded that it is all departments; any employee who is retired with ten years service and hasn't yet become eligible for Medicare. She also asked if funds from water and sewer enterprise retained earnings would be able to fund this. Mr. McKinney responded yes and that the actuarial study provides a breakout.

Vice President O'Connor asked that a copy of the actuarial study determining the liability be provided to the council. Auditor Swanson will provide copies.

President Mathews asked if there were any comments from the public, to which no one replied.

A MOTION was made by Vice President O'Connor to CLOSE the public hearing on item 12 015 and was seconded by Councilor Smart. UNANIMOUSLY VOTED 10/0.

OLD BUSINESS

12 017-Fiscal Year 2011 Financial Statements and Management Letter- Town Auditor Richard Swanson/ Melanson, Heath and Company-Frank Biron

Auditor Swanson, Frank Biron, and Erica Lussier of Melanson, Heath & Company presented the review of the audit report. Auditor Swanson noted that the report includes the following highlights:

- A. The auditors have issued a clean financial opinion, which is excellent as it means no material discrepancies were found in the books or financial records of the town for fiscal year 2011.
- B. As of June 30, 2011 total assets exceeded liabilities by \$108,004,085 or a 1.6:1 ratio, which is excellent.
- C. Total bonds payable debt at year's end was \$71,906,823; a decrease of \$6,308,000 for FY10; which is excellent as the town is paying off debt. Chairman DiFazio asked where the town stands as to long-term debt over last 5-8 years. Auditor Swanson will review the debt schedule and report back.
- D. Water & Sewer Enterprise Funds- increased retained earnings of \$855,353 due to profits from their operation. These funds are available for appropriation for capital improvement or equipment, strictly within these enterprise funds. This includes income from services provided to Southfield.
- E. Total revenue in FY11 increased by \$7,550,000 over FY10; mainly due to the increase in property tax and charges for resident services (trash collection).
- F. Capital assets total investment was \$183,262,983. The two significant increases over FY10 included Fogg Library and the new water treatment plant at Great Pond.
- G. Total revenue was \$129,570,530; revenues exceeded expenses by \$4,013,351.

- H. The Management letter contains one new recommendation; that the town consider purchasing a new software program for reporting, tracking and depreciation of capital assets in order to comply with GAAP reporting. The administration has indicated they will purchase new or enhanced versions of the existing software. The other items in the management letter were carryovers from the prior audit, and were addressed; if not resolved, a management plan has been set.

Councilor Hackett asked whether Mr. Swanson believes the balances in retained earnings (Enterprise fund) is high. Mr. Swanson responded that the account is making money.

Frank Biron, President of Melanson, Heath and Company, reviewed the financial statements. This is the second year of providing this service. He provided the opinion that the town's finances are in accordance with generally accepted accounting principles and the firm is issuing a clean opinion. This does not include an opinion of the contributory retirement which was audited by another firm, who also issued a clean opinion. After the opinion, the report outlines the management discussion and summary, which is a narrative summary of the operations.

He reviewed the numbers, which were reviewed in the narrative summary. He recapped the entity-wide basis financial statements, which consolidates all accounts in the town into two categories; governmental and business activities. The breakout of water and sewer activity is broken out further into the report. The information is provided in full accrual basis of accounting. It includes fixed assets which depreciate; land and buildings. The town doesn't track these internally in the general ledger system. The non-current liabilities were also reviewed, and include bonds payable, compensated employee absences, landfill liability for post-closure, unamortized bond premium and accrued other post-employment liabilities, by far the largest liability. It's a result of an accounting standard, GASB45 that was applicable the past three years. GASB required the town to have an actuarial valuation to determine future costs for retirees' health insurance benefits. The actuaries were also required to provide a thirty-year funding schedule which indicates how much would have to be set aside each year to fund it. After the thirty years, it would be fully funded. The town is not funding it, and no one is requiring the town to fund it, but the town is required to have the funding schedule. The amounts not funded each year are reported under GASB as a liability- totaling \$31.9 million for the three years it has not been funded. It will continue to grow even if the town does not fund. The total liability is expected to be \$236M. Because it is growing at such an accelerated pace, the unrestricted net assets are in deficit. The health benefit is not being funded. Stone Consulting's report is up to date and Mr. Swanson confirmed this. The current audit does not redo the work, but incorporates their information. The town generously contributes to the health insurance. All retirees are required to participate in Medicare.

Mr Biron then reviewed the balance sheet and in particular the general fund. The numbers have improved over the last few years. The cash balance hasn't changed much. Investments, under new GASB54 standards, are now required to be shown here and include the town's stabilization fund. Property tax receivables are up slightly. He

reviewed a summary by levy year. The management letter again includes a comment that the town should be more aggressive in liening the receivables that were uncollected. When the town doesn't lien it is at risk; if the homeowner in default files bankruptcy, the town stands to lose the receivable altogether. If liened, the town will collect. Excise receivables are comparable to other years. This also includes MSBA school building funds that are paid over a number of years. He then reviewed the liabilities that includes unpaid bills, accrued liabilities (payroll) deferred revenues offsets the receivables. Once these are collected and converted it becomes revenue or free cash.

Mr. Biron reviewed the change in the terminology with the new GASB54; names of some fund balances have changed. The three components in the general fund are committed (stabilization balance, reserve for continuing appropriations), assigned fund balance (reserve for encumbrances, insurance encumbrances) and unassigned fund balance (formerly undesignated fund balance). The bond rating agencies pay particular attention to this balance. The undesignated fund balance plus the stabilization fund balance should account for 5-10% of the overall budget. Weymouth is currently at about 3%; not quite where it should be, but better than last year. Unassigned fund balance is up from last year. The DOR free cash calculation begins with the unassigned fund balance and the higher that is, the higher the free cash figure will be. Unassigned fund balance is trending positively.

He then reviewed the statement of revenues. Net income for the year was \$2.5 million. He reviewed where these revenues came from. It was much better than the year before when the revenues closed short. The components include interest/penalties/other taxes, building permits, charges for services (Tri-Town). The appropriation and expenditures were reviewed. The state assessment was higher than was projected. The contingency, reserve fund turned back an unspent balance. The largest variance was health insurance.

Mr. Biron noted the town did well with this budget- better than the year before. He noted that towns build free cash balances by budgeting conservatively on local revenues. Mr. Biron then reviewed the enterprise funds. It is also on a different basis of accounting. The free cash is available for future capital outlays.

Councilor Smart noted Enterprise fund balances have been discussed; whether the balance justifies lowering user rates; however, the money can only be used for employee benefits for water/sewer employees or capital improvements specific to water and sewer. It might be a recommendation to lower rates for residents if that is an option. Councilor Harrington asked if the balances could be applied to paying down the bond on the water treatment plant. CFO McKinney responded yes. Councilor Lacey noted there is plenty of work to be done on water and sewer infrastructure; he would advocate a two-meter system for residents. Councilor Conlon noted the most important issue should be improving the infrastructure.

Mr. Biron then reviewed fiduciary funds- pension, private purpose (scholarship) funds; and the return on investments 14.5% in the pension fund which indicates that the town is doing a good job rebuilding balan

Councilor Smart commended the administration for the aggressive pursuit of unpaid property taxes and aggressively pursuing the \$700,000 that is not collected for 2010. He explained the footnotes to the report.

Overall the general fund balances and enterprise funds did well. The town is not where the bond rating agencies want it to be yet, but is improving. The town did good job pulling information together for the audit. It ran much more efficiently than last year. The town takes it seriously but there is room for improvement, which Erica Lussier will review.

Erica Lussier noted that part of the audit is to look at internal controls, and what recommendations can be made for improvement in operating efficiency which are included in the management letter. No significant deficiencies or material weaknesses were found. The management review comments were provided to the town for response that are included in the document. Many of the items were already addressed in 2012. They include:

1. Document reconciliations-they were not always formally documented. The town accountant has begun quarterly signoffs on the key accounts (cash, receivables, grants, revolving) reconciliations as recommended.
2. Develop a more formal risk assessment process to identify areas where potential fraud or material misstatements could occur, the account areas that are more at risk and what is in place to mitigate this. The town has developed a draft fraud policy to address these issues, and recommends the town formally adopt. The town should be proactive with risk assessment policies and discuss at monthly department head meetings including providing information for reporting department irregularities.
3. Expand on the departmental receipts policies with regard to decentralized departments that receive cash and checks. Policies and procedures would include receipt logs, establishing clear audit trails, reconciliations, documenting oversights in the reconciliation process. It helps employees to know what the administration expects and improves the control over decentralized receipts. The town does have an internal auditor but it does not replace the need to have formal policies in place to strengthen internal controls.
4. More aggressive tax collection policy with the fully implemented GASB54.
5. Upgrade software to track fixed assets to provide detailed reporting. Contact the software company to see if upgrades are available or look to obtain software that can meet these needs.

She also noted the town staff was very cooperative and made the process easier.

Councilor DiFazio asked auditor Swanson if the tracking for receipts within departments has been improved and he referred to the recent reports on the Student Activities Account. He thought there should be strict policies in place for departments handling cash, and it should be standardized throughout the departments. Administration is reviewing the Policies and Procedures Manual, but it has not come before the council for a status update.

Councilor Lacey asked if the audit included the payroll process. Ms. Lussier noted payroll testing was completed in spot testing of about 30 employees.

Council President asked Mr. Swanson if Stone Consulting can come in and review the executive summary of the Actuarial Report for the council.

REPORTS OF COMMITTEES

Rules Committee-Chair Jane Hackett

12 013-Review of Town Council Rules and Regulations for 2012-2014

Councilor Hackett reported that the committee met on February 28, 2012 and voted to forward item 12 013 to the full Town Council with a recommendation for favorable action. On behalf of the Rules Committee, a MOTION was made by Councilor Hackett that the Town Council ADOPT the Town Council Rules for Fiscal Year 2012-2014 and was seconded by Councilor McDonald. VOTED UNANIMOUSLY, 10/0.

Education Committee-Chair Thomas Lacey

- Net School Spending
- Update on Superintendent Search
- 2013 School Budget
- Funding for High School Athletics in the 2013 Budget

Councilor Lacey provided handouts to the council and reported that the Education Committee met on February 28, 2012 and discussed the following with Acting Superintendent Ferron and School Committee members Gail Sheehan and Lisa Belmarsh. The documents include:

1. compliance of NSS- difference in calculations allowed for state recalculations- deficit decreased from \$3.3 to \$1.7 in 2011/snapshot of the spend (benchmark of 5%) discussion regarding School Committee proposals for FY13 budget- continued deficiency in NSS requirements (1.9M) School Committee added to deficit by \$400K carryover to \$2.3M in proposed 2013 budget. It's a sense as to why the increased NSS appears to be going in the wrong direction. The School Committee will revisit. The committee was encouraged by advocacy and support.
2. MA DOE website compliance – from 2007 by neighboring communities; property value, tax rate, per capita income, unemployment rate. Weymouth is the only town that hasn't increased per pupil spending from 2007 to 2011. Weymouth is not investing in education particularly in light of state mandates.
3. List of every community in MA, comparison actual versus NSS for each. Weymouth in the minority- not funding – percent increase investment in the schools. 96% by Weymouth- advocate there is work to do with increasing the investment in education in light of state mandate.
4. Athletic funding- clarity on funding for coaches in Collective Bargaining Agreements. Letter submitted by labor attorney for the town spelling out the legal process- gifts/donations are an acceptable manner to fund. \$100,000 in proposed

- budget/discussion surrounding advocating fully funding by some.
5. Free cash- healthy dialogue regarding School Committee action occurred. Mayor is responsible for a balanced budget. School Committee number needs to support-ask for those dollars that are needed. Question around revenue brought in via a Proposition 2 ½ override consideration. Current balances include Stabilization Fund-\$960K Mitigation Stabilization Fund \$1.3M, Free Cash-\$2.5M (listed reserve and funds) Reserve Fund- \$500,000, CPC reserves - \$328,000, Water Retained Earnings-\$4.4 million (\$1.2 million from LNR mitigation agreement), Sewer Retained Earnings- \$2.9M (just under \$1 million from LNR mitigation agreement). Total funds available for administration is \$12.9 million. these amounts in light of a \$2 million NSS deficit proposed in the FY13 budget are disconcerting. The town should be investing more in education. The school committee is willing to continue this discussion.

Councilor Lacey then reviewed the Superintendent Search; the initial search was a flawed process and the process is now ongoing. He has not received further formal communication but in light of the change in direction that it appears to be taking there is a need for further communication and update.

Councilor DiFazio thanked Councilor Lacey for the clarity provided on these issues. He noted that there are restrictions on some of the funding quoted that is not available for use in reducing the NSS deficit. He also noted that the school committee voted at its last meeting to place an interim superintendent for the last few months of the school year at a cost of \$50,000.

Councilor Lacey responded that he did not see the meeting, but it is obvious the direction has changed, and there needs to be communication. He agrees there are limitations as to how funds quoted can be used, but the deficit in NSS could have been whittled down rather than allowed to continue to grow each year.

Vice President O'Connor notes that strides made to increase athletic funding are needed to strengthen overall education. He also noted that the figures pointed out by Councilor Lacey in his report are very disturbing.

Councilor Molisse thanked Councilor Lacey for a thorough report; as a member of the Education Committee, he has advocated stressing investment in education- the backbone of the town.

President Mathews explained the council's role is as it relates to the discussion. The School Committee requests the amount needed to support the district to the mayor; the mayor presents the overall budget to Town Council to deliberate. The council can approve or vote down the budget. The council can cut the budget but cannot add to it. What the school department does with it once it's voted is at their discretion to manage and expend what is approved.

President Mathews reiterated; the council cannot add to any budget, nor does it

have any line item jurisdiction over spending by the school committee, and includes spending on superintendent funding.

NEW BUSINESS

Capital Improvement Plan for Fiscal Year 2013-Councilor Kenneth DiFazio

Councilor DiFazio reported that he just received from administration the Capital Improvement Plan for FY2013. A MOTION was made by Councilor DiFazio to refer this item to the Budget/Management Committee and was seconded by Vice President O'Connor. UNANIMOUSLY VOTED, 10/0.

ADJOURNMENT

The next meeting of the Town Council will be held on Monday, March 19, 2012. At 9:17PM, there being no further business, a MOTION was made by Vice Chairman O'Connor to ADJOURN the meeting and was seconded by Councilor Smart. UNANIMOUSLY VOTED, 10/0.

Respectfully submitted by Mary Barker as Recording Secretary

Approved by

Council President Mathews