

Longmeadow Audit Committee
Minutes of March 1, 2017 Meeting
Adopted at April 5, 2017 Meeting

Members Present Ernest Welker, Clerk/Sec; Peter Landon; Glenn Rosenberg; Chairman Jeff Klotz arrived at 6:45 p.m. and exited at 6:50 p.m.

Member Absent Kara Stevens, Vice Chair; Dan Healy

Others Present Paul Pasterczyk, Town Finance Director; Christopher Caputo, Assistant Town Accountant

Meeting called to order by Clerk/Secretary Ernest Welker at 6:00 p.m.

Election of Chairman Pro Tempore

Mr. Welker nominated Mr. Landon, Mr. Rosenberg offered a second, Mr. Landon was elected.

Adoption of proposed minutes of March 1, 2017 meeting

Clerk/Secretary Welker distributed revised proposed minutes to all present, pointing out revisions made (at suggestion of the Chairman) to the earlier circulated proposed minutes. The revised proposed minutes were adopted by unanimous voice vote.

Discussion of contract extension for current auditor LMM (Lynch, Malloy, Marini, LLP)

Mr. Landon invited Mr. Pasterczyk to report on the Committee's request that he discuss with LMM proposed fees for audit and CAFR services for FY2018 and for FY2019.

Mr. Pasterczyk made reference to LMM's proposal dated Feb. 17, 2017, sent via email attachment to members upon his receipt of same. He expressed surprise at the amounts of increases (about 35 percent) for audit services for FY18 and FY19 in relation to the FY17 amount. When Mr. Pasterczyk was asked if he knew of any additional audit requirements that might take significant more work, he said he is not aware of anything. For proposed fees for CAFR services, LMM quoted \$3,000 for each year, an increase of \$500 for CAFR services related to those after the completed first CAFR submission which had fee of \$5,000.

Mr. Pasterczyk reported his surprise at LMM's proposed fees to Town Manager Steven Crane and also discussed with Mr. Crane LMM's billing the town an additional \$340 for outside services. Their decision was to not pay that bill "this year."

Mr. Pasterczyk asked Mr. Caputo to distribute copies of the first of Longmeadow's Comprehensive Annual Financial Report, for the Year Ended June 30, 2016 and copies of an early version of the Statistical Section, section 3. Comparisons of pages identified some work done by LMM, largely in form of additional footnotes.

Mr. Pasterczyk also spoke of a telephone conversation he had with Mr. Lynch in which Mr. Lynch said he noticed some misalignment of figures and wanted to know if LMM should fix them or would Town staff do it. Mr. Pasterczyk, thinking the work would be minor, told Mr. Lynch that LMM should do it. In its billing, LMM charged the town \$1,000 more than the quoted \$5,000 for CAFR services -- for additional assigned work. Mr. Pasterczyk and Mr. Crane agreed the additional charge would not be paid.

Mr. Welker asked Mr. Pasterczyk and Mr. Caputo if town staff could prepare future CAFRs without the assistance of an auditor. Both said they thought so. Mr. Pasterczyk also was quite sure that an auditor's input was not necessary to be awarded the GFOA's Certificate of Achievement for Excellence in Financial Reporting (CAFR program). But Mr. Pasterczyk was not clear if the independent auditor's financial statements, with related documents, could be reprinted in a CAFR without permission or extra fee. He said he would look into that.

After Mr. Pasterczyk assured members there was sufficient time to conduct a search for, select, and have a contract in place with an independent auditor for the fiscal years 2018, 2019 and 2020, the AC voted unanimously to authorize Mr. Pasterczyk to take necessary action to begin the search, driven largely by the substantial fee increases proposed by LMM for an extension of the current contract...The AC and Mr. Pasterczyk agreed there was not good reason to recommend termination of the final year of LMM's current contract.

Chairman's Remarks

Upon his arrival at 7:45 p.m., Chairman Klotz took the Chair. He stated that he had arrived for the meeting at the fire station community room shortly before 9:00 a.m. and no other member arrived. He asked when members first learned that the meeting time was 6:00 to 7:00 P.M. No member responded.

Chairman Klotz opined that the assigned task of the Bond Rating Subcommittee was misplaced within the Audit Committee, it being more a finance function than an audit function. He asked how many AC members held degrees in finance. Mr. Landon and Mr. Welker replied they did.

Mr. Klotz received a phone call and rushed out saying he had a situation at home requiring his immediate return.

Mr. Landon resumed duties of the Chair.

Bond Rating Subcommittee, BRS (Mr. Landon and Mr. Welker)

Mr. Landon referred to the BRS document "Bond Rating and Property Tax Management in a world of Massachusetts General Law – Proposition 2.5" earlier distributed to the AC. He acknowledged that, as the title reveals, the content goes beyond the AC's specific task of *monitoring* Longmeadow's bond ratings and reporting on such. (Document appended.) Descriptions in Moody's "Rating Methodology" for local government debt indicate that a town's rating is based not only on historical experience/action but also on future expected conditions and actions. Hence, the BRS created this *educational* document with suggested action steps by town management, committees and boards that would affect Longmeadow's bond rating. The BRS asked for the AC's authorization to share this document with the Finance Committee and other committees, for example the Capital Planning Committee.

Mr. Welker asked Mr. Pasterczyk for his opinion on this. He indicated he believed insiders are quite aware of the town's future financial challenges but there seems to be little understanding of such among citizens and voters. He commented that Town Meeting is on May 9 and the AC could ask the moderator for and get time to address voters at Town Meeting and improve their understanding.

By unanimous vote of members present, the AC authorized the BRS to seek a meeting with the Finance Committee to share and discuss the BRS's report.

No reports were presented by the other subcommittees.

Next meeting

April 5, 2017, 9:00 a.m. to 10:00 a.m., at fire station meeting room, subject to change.

Meeting adjourned by unanimous acclimation at 7:22 p.m.

Respectfully Submitted,
Ernest P. Welker
Clerk/Secretary

Appendix

Bond Rating and Property Tax Management in a world of Massachusetts General Law-- Proposition 2.5

Audit Sub-Committee Report and Suggested Action Steps by Town Management and Committees

(In an environment of continuously rising labor and benefits costs, including the catch up of underfunded pensions and OPEB liabilities.)

Goals:

1. Hold Aa2 long term Moody's bond rating, for general obligation debt of which 85 percent of principal is voted exempt from the levy limitations of Proposition 2.5.
2. Maintain or enhance service levels and maintain buildings, grounds, and infrastructure.

Process:

1-Compare Longmeadow numbers to the methodology Moody's uses to evaluate credit quality of US local government General Obligation debt (GO). It is important that we understand the quantitative and qualitative risk factors and how they affect ratings outcomes.

2-Develop pro forma financial statements over 10 year period 2017-2027 both with and without the three capital projects being considered. Utilize broad assumptions.

3- Develop a model of bonding costs over life of project bonds, with a flexibility to change assumptions on bond ratings, interest rates, timing of projects, and costs associated with each project. Adjust the model as the yield curve shifts.

4-Develop real estate value assumptions and calculate levy limits for Longmeadow and compare with operating pro forma.

5- Overlay with total project costs, for DPW, Senior Community Center, Middle School (s).

6- Identify constraints and strategies to deal with these constraints. While singing "Drove the spending to the levy and the levy is dry."

Authors' observations and "Moody's Issuer Comment for Longmeadow, October 2016 Annual Comment"

1. Tax Base - Land built out, with little commercial and industrial property.
2. Declining real estate value's between 2012-2015 heightened concern regarding revenues and spending levels restrictions under limits of Proposition 2.5. 2016 values increased 6%.
3. Available levy room compared to budgeted expenditures bears watching.

4. Moody's Comment "available fund balance much lower than other Moody's-rated cities nationwide." "Credit Trend-Weakened"

5. Moody's Comment "Somewhat inflated debt liability and a moderate pension burden."

6. Moody's Comment "Longmeadow has an elevated debt burden relative to the assigned rating of Aa2". In addition the net direct debt to full value (2.7%) is materially higher than the US median." "Trend Stable". This is before entertaining three new capital projects.

7. Moody's Comment "Adjusted Net Pension Liability to Full Value 3.5%. (US Median 1.7%). "Credit Trend Weakened"

Suggested strategies to manage 2017-2027 (similar to Wellesley's Town Wide Financial Plan (TWFP))

Develop a-TWFP for Longmeadow-Assumptions and Timing Scenarios

Research combining and integrating funding of pension and health care with salary policy when negotiating with unions

Time projects to minimize a drop in reserves and smooth out debt service costs

Integrate services within projects to reduce silo thinking on project planning

Manage bond rating and tax rate. At mid-December 2016, according to data and procedure supplied by bond adviser, an interest cost estimate of a downgrade from Aa2 to Aa3 was 14bp (basis points) and from Aa3 to A was an additional 28 basis points.

Next steps build models as outlined.

Educate other Town committees.