CITY COUNCIL STANDING COMMITTEE
Special Budget & Finance Committee
Thursday, March 31, 2011 – 3:00 p.m.
1st Fl. Council Conference Room – City Hall
-- Minutes --

Present: Chair, Councilor Steven Curcuru; Vice Chair, Councilor Paul McGeary; Councilor Jacqueline Hardy Absent: None. Also Present: Jim Duggan; Kenny Costa; Tom Markham; Shawn McGoldrick; Aleesha Nunley

The meeting was called to order at 3:07 p.m.

1. ***Review of Independent Auditor's Report on Basic Financial Statements and Required Supplemental Information Report for Fiscal Year ending June 30, 2010 by Christian Rogers, CPA – Sullivan, Rogers & Company LLC***

Chris Rogers of Sullivan, Rogers & Company LLC made a Power Point presentation of his firm's review re: Independent Auditor's Report on Basic Financial Statements and Required Supplemental Information Report for Fiscal Year ending June 30, 2010. He started with the School Department section of the audit, "Reports on Internal Control over Financial Reporting, Compliance which is required by government auditing standard; does not contain an opinion, but does identify any material weaknesses and the City's internal controls that they have to identify. The second report included is compliance over major Federal Awards Programs. That report includes an opinion on compliance over the Federal programs, identification of material weaknesses and internal controls as it directly relates to the Federal programs. Last year the report on internal control over financial reporting had 15 material weaknesses; this year there are 3; a significant improvement on City's internal controls as it relates to the external financial reporting process. However, grants management city-wide has seen a significant decline (last year were 14 findings related to Federal grants – 5 material non-compliance, 4 non-material non-compliance and 5 material weaknesses on internal control). This year there are 31 findings related to major Federal award programs both on the City and School side; 3 material non-compliance to the program; 13 other instances of non-compliance; and 15 material weaknesses on internal control specifically related to the Federal award programs (grants). These are just the major Federal grants. There were 7 major federal grants this year. They're looking at those that are required. Thirty-one findings are the most their firm has ever written on federal grants, commenting this is something that "is really serious". Their assessment showed there is no risk assessment monitoring policy in place. The indicated that type of program would identify this as a significant risk with more controls needing to be developed and implemented for the City's entire grant administration, no matter the funding amount. They're all subject to the same Federal rules and Direct Federal Funding regulations which he noted were thousands of pages long (OMB Circular A133, A87; a specific contract with the State; or a pass-through grant). He suggested to the Committee that moving forward the City may wish to consider a position of a grant administrator who only facilitates the administration of grants, as do some larger cities. **Councilor Curcuru** asked if these findings on the grants were the same on a lot of the same findings which **Mr. Rogers** stated some are new findings, some are repeats from the prior year. **Councilor McGeary** commented a number of them had to do with capital equipment, not filling out time sheets appropriately which repeated consistently throughout. **Mr. Rogers** acknowledged that to be the case commenting it happens when there are 35 federal grants and 15or so different grant administrators. **Councilor Curcuru** added this was because each department handles their specific grants.
Jeff Towne, CFO offered they get the grants started but doesn't see the documentation on the payroll. He noted Kenny Costa (City Auditor) who came on board last June, and Aleesha Nunley (General Ledger Accountant) are doing some of it, but felt it was almost impossible for the two of them to do this monitoring which was the same for his office; but it is an overwhelming situation. **Councilor McGeary** pointed out they do have Sharon DuBois as a grant administrator (in Community Development). **Jim**

Duggan, CAO stated her role is specific to CDBG eligible activity only and is paid through HUD. He stated 4-1/2 years ago they tried to hire someone to be a "grant czar", but found the biggest deterrent was a guarantee of money based upon success rate; and they realized the position would have to be subsidized.
Councilor Curcuru inquired on the downside of the findings how it affects the schools and further did he see mismanagement on these grants city-wide.
Mr. Rogers responded the Federal government can come and ask for money back and has seen it happen. This related to total mismanagement of the grants and he confirmed for the Councilor it happens at two levels – the level where there are unallowable costs which becomes a significant problem and are the ones they have to be concerned about; but it is absolute mismanagement on every finding they have. In such situations, it is the departments who receive these grants don't know what the requirements are; they're not paying attention. An asset wasn't tagged, for instance won't trigger a request for the money back; however, if you don't have controls over payroll costs and don't do the documentation habitually, they should get a phone call from the federal agency; and it is agency dependent whether they take any money away. He warned if the situation doesn't get resolved, you're making a bet it won't happen. **Councilor McGeary** stated the City is non-compliant and liable for penalties and sanctions, and any non-compliance leaves the City open to it. **Mr. Towne** stated biggest concern that we're going to do this, and they're not getting it done. If they say they're going to follow the requirements of A133 and A87 and monitor the grants and label the fixed assets; it is part of the requirements and need to do a better job. They can work on risk control, but the department must manage it and know the requirements even if they have to get someone to come in once a year to do training for compliance which is what they probably need. They couldn't survive without these grants, especially on the school side.
Tom Markham, School Department CFO noted they're only talking about three grants.
Mr. Towne expressed it's their (meaning his, Mr. Markham, Mr. Costa and the Administration) responsibility and need to do a better job indicating he, Mr. Costa and Mr. Markham can only do a portion to help with the financial aspects. He believed they need the "czar" position for compliance.
Mr. Markham stated the payroll personnel can't know whether something is being properly spent on a grant. The compliance piece needs to be programmatic. In the three grants they have three different people who do it. They now have a grants manual, but not a compliance policy. He and **Councilor Curcuru** discussed the personnel on the school side involved.
Mr. Rogers stated this is including state grants. He offered there are several ways to establish a system with better teaching and monitoring of compliance because there is a major compliance problem. The City is susceptible to any agency saying money wasn't spent wisely and have it taken it back, and is especially important with the ARRA money. Any type of non-compliance is subject to great scrutiny and warned if there are any misspent dollars, they will come back for it.
Councilor McGeary asked did they conduct a similar audit last year and didn't see this then.
Mr. Rogers reiterated last year there were 14 findings and now there are 31. There were 3 new grants. When they have material weaknesses, say about internal controls regarding payrolls, there is separate comment and separate compliance finding as to the dollars. One is non-compliance and one is a weakness and controls. They tend to go hand in hand. There were 3 or 4 different grants than in the prior year. Last year there were a lot of education grants. With the addition of four more grants it extrapolated out; more grants, more findings; and **Mr. Towne** added the internal controls would be similar.
Mr. Rogers stated this is the reality and assured the Committee they report this frequently. In response to **Mr. Duggan** asking how other cities and towns handle this kind of situation he noted his firm has seen grants administrators hired or superintendents making their department heads be educated before writing grants.
Mr. Duggan asked if they looked at hiring a grants compliance "czar" can they draw away from the administration portions of the grants so each grant would pay towards his or her salary; was that possible and was it something a grant could afford.
Mr. Rogers stated it depends on the grant. If you develop an indirect rate cost city wide, you build in that indirect cost. **Mr. Towne** took the view that he looks at this as an indirect cost to make sure that the

grants are in compliance. **Councilor McGeary** commented they then would come up with a factor, not actually ascertain indirect costs by grant.
Mr. Rogers commented they can develop an indirect cost rate plan by a 3rd party who takes it to the federal government for approval. Anything to do with HUD is allowed under that type of program. SPED and Title I probably don't utilize it. There are grants to offset costs also yet most communities haven't taken advantage of them. Every year SPED will be audited, CDBG also. He urged them to build it into the budget. **Councilor McGeary** noted the general finding of assessing indirect costs.
Mr. Towne pointed out the current payroll system and some of its inadequacies with regard to monitoring of grants' associated costs; that it is limited as to what can be entered. However, noting the new system in the Police Department he thought they could utilize that but they may have to put money towards those types of systems which is a key piece and would take time to implement. He also added in previous communities he made sure the federal tags were made (federal grants require any equipment purchased out of the funds carry inventory tags) but someone has to focus specifically on those things and not be required to do other functions as staff on both on the City and School sides are stretched thin already.
Mr. Rogers felt it would be wise to either centralize this function or the people who apply for these grants become educated.
Councilor Hardy commented they do want to improve this.
Mr. Duggan also added that some grants can't draw off funds. If one department has no administrative money to help with those departments grants, would the other grants already in place in other departments allow for it?
Mr. Towne thought a percentage would have to come out of the General Fund and **Councilor McGeary** hoped that would be a small portion. Mr. Rogers felt they should call the "Feds" and ask them for their assistance.
Councilor Hardy asked who writes the biggest grants.
Mr. Towne stated that it is the Schools and the Board of Health. **Mr. Duggan** added with the loss of Mr. Vondras, they'll maintain what the grants for the Board of Health they have now, do it correctly and upon the hiring of a new director will look again to reach out for more grant monies.
Mr. Towne and **Mr. Costa** stated they've met with various departments to try to continue to educate the departments as well as working with Mr. Markham and his office to remind them of deficits, etc.
Mr. Duggan asked the biggest issues were at this point.
Mr. Rogers stated payrolls were an issue, but it was grant dependent. Payroll is usually the one they "nail" people on and preparing reports; departments are using their own processes.
Councilor McGeary commented these grants are all people costs with **Mr. Rogers** responding time and effort reports are critical.
Mr. Towne added he didn't see the departments taking this on; they're not payroll experts. The compliance officer makes good sense because of the volume of grants the City has. He also noted betterments are his next big project.
Councilor Curcuru asked is there something they can implement before departments can apply for grants and using the administrative costs and then put something on board.
Mr. Duggan replied with facing FY12 the Administration thought it is "too far fetched right now". They have to develop the policy, put check and balances in place which he acknowledged would be difficult. The City of Lawrence got "nailed" because they didn't comply with HUD regulations with how they spent the money and the government held back $3 million. They could have asked for many years of money and take it out of the general fund to do so. Noting that is an extreme case, he felt they should continue to move forward to get this in place, but it is not in the immediate future.
Councilor McGeary thought it may be reasonable in the FY12 budget to allow for a half year of an administrator to develop procedures hoping by the time the six months are up there are procedures in place and lay off most of that person's salary into the grants structure. **Mr. Duggan** and **Mr. Towne** both commented they have to hire them first and have them develop the process. **Mr. Rogers** stated there are people who are experienced in the process and in the implementation of the policies and procedures.

Commenting on a remark by **Councilor Curcuru** regarding a past grant writer for the Fire Department, **Mr. Duggan** stated it was through the Health Department and was implemented similar to a commission basis for delivery of grants. **Mr. Towne** noted hey were a grant seeker, not a compliance person.
Mr. Markham stated in his last district they had more grants than in Gloucester. He went through a formula and put it into the DOE to have some of the indirect costs for compliance and was turned down because of the issue of supplanting as they were going to put it on an existing person in the system. He offered they have to start as a new initiative. There is a concern with capacity to bring on new personnel to monitor something that they should be doing right in the first place; and noted last year on their side there wasn't a grants manual/policy. He pointed out they did say last year's review they'd see much of the same this year because of the timing. He believed FY11 grants should show improvement in the next audit. He expressed concern of their capacity to drain money off a grant in a day with dwindling grant dollars. They're planning on a loss of a percentage in grant dollars, about 2%. There is an expectation to take $10,000 to $12,000 off the top of a grant for the grant "czar"; but they would do what was needed. The Committee and City staff discussed bringing in a consultant to develop a compliance city-wide procedure and to pay for that short-term project concluding there'd then be a manual and procedures in place. **Mr. Rogers** agreed but wondered who would monitor it.
Councilor Hardy asked if there cities and towns bound by the same restrictions and thought perhaps they could look at a regional solution. The Committee, staff and Mr. Rogers discussed the regional idea regarding a grants administrator position.
Mr. Rogers noted this was the type of conversation he wished to promote. They could go through the points, but the bottom line was how they're going to fix this problem.
Councilor Hardy asked if there was a package available for the grants manual and was told yes by **Mr. Rogers** with Mr. **Markham** commenting they are available on line to all departments
Councilor McGeary asked what can they do and build into the FY12 administration plan.
Mr. Rogers suggested focusing on the largest dollars that "come through the door".
Mr. Towne stated they have to file a corrective action plan and suggested they start with the simple ones, the material weaknesses to stop it right away, especially that which goes across the board, like payroll.
Councilor Hardy asked about tags which **Mr. Towne** stated that it is inventory control. They have to label everything that is paid for by a federal grant.
Councilor McGeary spoke regarding the tracking of people's time and effort and thought the new software system at Police Department software may be of use as it is a permanent record and that perhaps for short money it could be implemented. Mr. Rogers stated time and effort reports can be difficult because that cost is usually substantial, as in SPED and Title I; and time and effort is critical.
Mr. Costa noted the departments didn't know aboutA-87 (regulations on federal grants) and some departments just aren't aware of it with **Mr. Rogers** stating departments are out to get money to supplement department budgets, and assured they sign the grants, get the money but no compliance requirements are considered.
Councilor Hardy offered since that is the constant, the Committee will have to ask if the applying department is capable of handling the compliance aspects of the grant. **Mr. Towne** pointed out it is not the department manager's role but an administrative role. **Mr. Rogers** believed there are a lot of things that could be designed to initiate the education process of the departments to let them know that there are compliance requirements. On inquiry by **Councilor Hardy**, **Mr. Rogers** stated compliance is on some State grants but some are more like contracts.
Councilor Curcuru asked **Mr. Costa** to add more to the Grants paperwork to reflect the compliance aspects.
Mr. Rogers noted that there were three material weaknesses related to financial reporting, down from 15 last year. They just discussed risk assessment and monitoring which is about all their activities. Internal controls exist everywhere. They go through a risk assessment process related to the City's major financial reporting systems (Treasurer, Auditor, and School Department). There are many decentralized activities that collect cash receipts. They look at what are the controls surrounding those activities. They identify all activities; every department needs to identify controls over those activities and suggested a risk

assessment monitoring committee in order to make a determination whether those controls are adequate. If they are, is there a cost benefit to additional controls, for instance. In the end there are decisions to be made whether or not to implement controls. It creates awareness. It is weighing the costs versus the types of controls.
Mr. Towne gave the example of the beach process where money was short. Their internal controls caught it, which he explained. They modify their internal controls regularly and know that it works. They got back every penny they lost. He admitted there are weaknesses, but they picked up a significant internal control structure by reviewing it; and because it was so public it put the responsibility back on their employees. They learned from it. He expressed it does work if you set it up and monitor it.
Mr. Rogers stated that is risk assessment monitoring that is beneficial Fraud happens. The controls could be the best in the world but a decentralized system can have faults. The risk assessment program looks at it all.
Councilor Curcuru expressed he would like to see the City implement it on its own. **Mr. Rogers** could guide and answer questions and give an outline to the approach. He felt the City has come a long way in 1-1/2 years. This program can not be on one or two people – it is on every department. It would be a small group who manages the process but every department has to participate and warned if not, it will not work. On inquiry by **Councilor Curcuru**, **Mr. Duggan** thought there were nine income generating departments.
Mr. Rogers noted in FY10 the City received $7.5 million in grants. There were 7 major grants; Child Nutrition cluster (school lunch), Title I, Special Education, CDBG, Public Health Emergency Preparedness (PHEP) Grant and capitalization grants for clean water State revolving and drinking water State revolving funds. Out of the seven, they qualified their opinion on three of them, Title I, Special Education and PHEP. The reason they qualified their opinion was for material non-compliance related to the programs. The rest is related to internal control issues and non-compliance that is not material. When queried by **Councilor McGeary**, **Mr. Rogers** explained a qualified opinion is that the City didn't comply with the compliance requirements to a material extent, a substantial violation in not conforming to the grant. On Page 21, 10-16 Special Education cluster related to not maintaining the appropriate documentation related to payroll. It was related to four employees who had time and effort reports that they chose through their sample. There was $130,000 where there was not the support behind the charge which became material to the Title I program causing them to qualify their opinion. Page 22 finding 10-20 regarding SPED, was also on salaries and wages and had to question costs of $207,389. Again it was the same inconsistency. This was specific throughout the sampling. **Councilor Curcuru** commented these were some of the same issues they had last year which **Mr. Rogers** and **Mr. Markham** confirmed. The other was a 'period of availability' issue with Special Education and Title I monies spent in August which shouldn't have been until September.
Mr. Markham explained the problem was when school starts before Labor Day; with their first day prior to Sept. 1st they charged them to FY10; but the grant didn't start until Sept. 1st. They won't do that moving forward now that they have the clarification which is a single item that appears a couple of times. On inquiry by **Councilor Curcuru, Mr. Costa** stated the older grant from the prior year they could spend on that, the remainder of 2009. **Mr. Markham** told the grant administrators that they need to plan for and amend FY11 grant to be able to pay for the first couple of days for the next school year if they start on August 27. They're spending FY11 on FY12 school year, but it is compliant. It appears as part of the 17 findings, but it is one thing that shows consistently through. **Mr. Costa** pointed out this is for vendor expenditures also. **Mr. Rogers** stated the DOE would probably sign off on it because it is related to the school year. Moving forward if school starts in the end of August they have to plan for it.
Mr. Rogers noted PHEP issues were not maintaining documentation on salaries (time and effort) as seen on page 28, finding 10-22 which questioned costs of $78,647 which caused them to qualify their opinion. In this instance, the City is the host community for the coalition. It is imperative if they are a leader of a Federal grant, as they are in this case, they have to know the compliance issues; it is part of the responsibility of a coalition leader because in turn as they give out the money to other participating communities, they have to instruct them to comply with the laws and regulations.

Councilor Hardy expressed her concern with the departure of Mr. Vondras, Health Department Director. **Councilor McGeary** thought that in terms setting priorities for the Administration, tracking time and effort is the #1 priority; this is where they're most at risk and should focus their effort.
Mr. Towne stated a time tracking software system (utilized for tracking time and effort) is licensed on a department basis; is expensive and won't be a cheap fix as it is an up front cost and license fee thereafter.
Councilor Curcuru asked for an explanation on the running of the payroll with this software.
Mr. Towne stated it is timelier and breaks things down by function. This is automatic and put it right into Unifund and then payroll has to proof it. They still have to do their due diligence.
Councilor Hardy asked how the Board of Health knows they're making their mistakes and how do they get word out to the other departments.
Mr. Costa met with them and tried to help them but **Mr. Towne** stated no one goes out to them to say these are the requirements you have to do. They are now working in tandem with Mr. Costa. **Mr. Towne** stated they have to go out department by department and they are aware of it and admitted the ball was dropped. While **Mr. Costa** did speak with the departments and advised them he'd answer their questions, **Mr. Towne** stated they don't' even know what to ask. **Councilor Curcuru** stated it will start with the Administration and it will begin at Budget & Finance who will ask the questions and that the Auditor's checklist will get longer. **Mr. Rogers** commented it is education and **Mr. Towne** added it has to do with policies and procedures.
Tom Markham and Aleesha Nunley left the meting at 4:27 p.m.
Mr. Rogers went on to the management letter which identifies all their comments and suggestions which is critical in nature. They don't reach the material weakness level. He went to Page 1, Comments and Recommendations on Sewer Betterment Reserves. He noted when those monies come in; they go into a Sewer Betterment Reserve Fund. Annually estimates are made from the Sewer Betterment Reserve Fund to the General Fund to fund that debt. The problem of using an estimate of the betterment they'll over or under estimating the Sewer Betterment reserves portion of the debt for that year. Using estimates if they're significantly off towards the end of the debt cycle when there's not enough money in the reserve to cover the last couple of years of debt service. It is an inconsistent charge to the tax levy unless you have actual amounts which are what they are recommending. He knew Mr. Towne wanted to do this, but there is a lot of history that needs to be recreated to figure this out.
Mr. Towne stated there are over 20 loan authorizations involved that issued original debt; some of the debt has been called; some debt has 75/25 debt match; some have no match and was done on a formula as to whether the General Fund could support anything else. And then there was a point where it went to 100% betterment debt which he indicated were the "easy ones." There are tax deferrals as well. He went on to go into detail on some of these particular aspects.
Mr. Rogers noted they recommend procedures be implemented to reconcile the annual use of the sewer betterment reserve funds to the applicable sewer betterment debt service schedules and the related percentage of debt applicable to the sewer betterment. Also, these procedures should be implemented into the current budgetary process. Mr. Towne stated until he looks at it in depth from 1997/1998 and traces records of payments as best he can and then figure out the best way to handle it.
Mr. Rogers thought to identify all the debt and the percentages for each. He felt Mr. Towne would never get all the answers. The critical part is what the percentage breakdown is and what is coming in so there isn't a huge blip in the last two years of the debt payments. This will assure funds for those last couple of years and there is time to manage it going forward now.
Mr. Towne explained some of the history surrounding the sewer betterments and all acknowledged it was a complicated issue and process. It is an accounting practice and it can't be farmed out. He assured when the budget finalizes he will return to this issue. They've probably bettered the projects correctly but didn't know if they followed up correctly. It is whether all of them got to the Assessors.
The Committee also discussed with Mr. Towne what happens when someone pays it off and how the billings go out and the difficulties it causes. **Councilor Hardy** noted the hardship on many folks who are in that situation. **Mr. Towne** stated until they get through it and get it right, they'll then have a full picture

of what takes place. His goal is to get it done for the end of this fiscal year when the auditors come back in the fall. He also noted sewer privilege fees as well.
Mr. Rogers added if that a project was to be completed by FY11 audit is done would be extremely helpful. If they could get that squared away, at least they'll know what they're dealing with moving forward and put a plan in place. Responding to a comment by **Councilor McGeary**, **Mr. Towne** stated he has to compare the balances in every fund, especially the not yet due and compare the debt on the books from betterments. If it doesn't jive, the General Fund has to make up the rest. The General Fund takes a hit on short term debt. **Mr. Rogers** thought it should come out of the sewer fund. It is sewer related debt. He was fine to continue to do it the way they are doing it but it didn't paint the real picture as it is sewer related debt and the other 25% belongs to the general fund.
A conversation then ensued discussing the moving this onto the sewer fund which would affect sewer rates and how the City is effectively subsidizing the betterments with the General Fund.
Mr. Towne pointed out that with the paving of St. Anthony's Lane, they got charged for the interest lost for the money being put out up front. They paid out of the General Fund and the City lost the interest. He didn't like funding things up front because the General Fund always loses.
They then discussed charging personnel time to the enterprise funds, touching upon other enterprise funds and their issues.
Mr. Rogers noted on Page 3 the Pension Withholdings. There were several instances whereby certain employees withholding didn't recalculate properly and that the correct amount didn't go in and procedures weren't in place to reconcile those issues. Nothing material was going to affect from compliance point of view but felt it will become an issue.
Mr. Towne added they have to fund so much as to what is unfunded and kick in so much per year. If employees under contribute their share, they'll have to pay out more. Every bit adds up.
Shawn McGoldrick with Sullivan, Rogers & Company LLC stated one was over, one was under. Whatever they deemed pensionable pay they calculated incorrectly and used the wrong dollar amount. The percentage was fine but was taken from the wrong gross amount. He spoke with Cliff Cook in Payroll and noted there is no way their system can give them an estimate.
The Committee and staff agreed that a pensionable wage earnings report should be done annually to make sure of the recalculations. **Mr. McGoldrick** would send the information to Mr. Towne.
Mr. Rogers noted on page 4, Student Activity Funds. MGL c. 66 was adopted in the Acts of 1996. The City is still operating the same way before it was enacted. This is true for student activity funds, such as the Class 2011; the principal has control of the account. In the past those funds were being used at the principal's discretions, referees were being paid out of these funds, for instance. The law was enacted to get control of renegade/slush funds. Nobody was looking at them, and they were not required to be maintained on the General Ledger; essentially off the books being maintained by each school's principal. The law stated the monies had to be turned over to the Treasurer. The School Committee has to vote to authorize the total dollar amount that the principal can maintain in the checking account which is used to maintain all of the activity funds for that particular school (only student activity funds). There are at least 100 activity funds. Mr. Towne would have another 10 bank accounts to reconcile. Only deposits go into the accounts and operate like petty cash. For example if the School Committee authorized $20,000 to be maintained in the checking account, when principal spends down $15,000, he submits receipts, a check is cut back to that account; that account will always reconcile back to what the School Committee authorized. Mr. Towne confirmed he has none of this in his office now.
Councilor Curcuru asked where it should initiate to which **Mr. Rogers** indicated it should come from School Committee but that the City needs to ask them – it's been 15 years.
[The Committee recessed at 4:58 p.m. and reconvened at 5:02 p.m.]
Mr. Rogers gave an overview of the financial statements pointing out that foremost they're off the DOR 'hit list' couching it as a "small miracle" in just two years for which he commended Mr. Towne and Mr. Costa. On pages 2 and 3 it shows an unqualified opinion after many years with a qualified opinion which is the best opinion available. The General Fund last year had an undesignated fund balance in a deficit of about $617,000. The undesignated General Fund balance this year is $3.2 million, a huge turn around.

There is $1.5 million in the Stabilization Fund. They look at what are the Undesignated and Stabilization Fund balances compared to what the total General Fund expenditures and transfers out which comes to approximately 5.7%. That is the median of most of the communities in the State at this time.
Councilor Curcuru asked about Moody's rating of a negative outlook and if it can be upgraded.
Mr. Rogers noting the last rating as "AA3 negative outlook" to get rating upgrade from a ratings agency like Moody's now is nearly impossible in these economic times. The ratings agencies need to see consistency from the City. There's been a lot of change in two years which shows on the finance side as well. He thought with Moody's the consistency and trends are going to be important moving forward. Building reserves is also important.
Mr. Towne stated they gave Moody's a conservative projection. He hoped to get the negative outlook lifted once Moody's sees the City's new financials to which **Councilor Hardy** expressed her appreciation of Mr. Towne's conservative stance. **Councilor Curcuru** added there were some hits they shouldn't have taken and that it could have been $2 million for free cash.
Mr. Rogers continued there were significant issues with capital project deficits. He reported that deficits excluding financed with long term debt are down to a total of $385,000 (down from $816,158 in FY09) and $210,000 out of that is funded through state and federal grants or long term debt. There is a remaining $170,000 from user fees or available funds for a funding of permanent deficits. Of note was the clean up work by Mr. Towne on the deficits which helped to move this situation forward positively, and make differences to rating agencies. He noted the Waterways Enterprise Fund stood at $535,000 in unrestricted net assets at year end and responding to Councilor Curcuru's question why that number was so high, he stated when you look at enterprise funds and these financial statements compared to internal reports, these are on a full accrual basis of accounting – fully accruing receivables capital assets.
On inquiry by **Councilors Hardy** and **Curcuru** as to what happens if they switch that money from the Enterprise Fund to the General Fund and do away with the Waterways Enterprise Fund, **Mr. Costa** and **Mr. Rogers** responded it would have to be voted over. However, it could not be used as a funding source until the DOR certifies the free cash unless they got an exception from the DOR under current rules. It would drop to the bottom line and would be available for appropriation the following fiscal year. This prompted a discussion as to how to manage the Waterways Enterprise Fund.
Mr. Rogers made note of the Sewer Enterprise Fund had unrestricted net assets of $3.1 million and also $17.3 million set aside for debt service (betterment monies including receivables that had been accrued). Water Enterprise Fund unrestricted net assets were $2.8 million. All of the activity related to the Enterprise Funds was consistent what was going on last year. Internal service fund used to be self-insured; the balance of that fund (about $400,000) was transferred to the General Fund in FY10. Another percentage of debt service to total expenditures and transfers out of General Fund is at 6.7% gross; but with the MSBA payment related to school construction, net debt is 4.8% of total of General Fund expenditures which is lower than last year (which was then about 5.5%).
Mr. Towne and **Mr. Costa** talked about Mr. Towne's budget and debt service and what the average is which **Mr. Rogers** noted commonly is +/-5% to 10% on average.
Mr. Rogers reviewed the net OPEB obligation. This is second year of recording a portion of the liability (now $15 million is recorded). In looking at the full accrual statements, it's placed unrestricted net assets into deficit by about $8 million, which will continue to grow. This is the same as every other community. Of interest, they're actually contributing 40%, with a trust fund established in 2011.
Mr. Towne stated the more people go on it the higher it goes up; it goes from general fund to OPEB.
Councilor Hardy asked about the City meeting its obligations.
Mr. Towne responded they'll never have to pay out OPEB liability. Citing an unlikely scenario of if the City were to close, no one would get paid. There are only so many people to pay out each year. Rather, it is the overall financial condition of your city living within its means. In private industry they've always recorded this.
Mr. Rogers explained there are three different basis's of accounting, much difficult for laymen to understand. There is a lot of information here. None of it will matter in three years with a new standard coming out on the full accrual entire pension liability OPEB liability yearly on the basis of net assets.

The $8 million will go to $147 million for OPEB. Every government is turned upside down and has huge deficits. This isn't news to the rating agencies. They know its there and is how governments were built. People need to see the real, full picture of what the true cost is to run it.

A motion was made, seconded and voted unanimously to adjourn the meeting at 5:27 p.m.

Respectfully submitted,

Dana C. Jorgensson
Clerk of Committees

<u>DOCUMENTS/ITEMS SUBMITTED AT MEETING</u>: None.