

**Budget & Finance Committee**  
Thursday, February 13, 2017– 6:00 p.m.  
1<sup>st</sup> Fl. Council Committee Room – City Hall  
**-Minutes-**

**Present: Chair, Councilor Scott Memhard; Councilor Joseph Ciolino; Councilor Joseph Orlando**

**Absent: None.**

**Also Present: Jim Destino; Kenny Costa; John Dunn; Debbie Laurie**

**The meeting convened at 6:00 p.m. Matters were taken out of order.**

**1. Memorandum from City Auditor re: City's FY2015 OPEB Actuarial Valuation Report**

**OPEB** stands for Other Post-Employment Benefits, **Kenny Costa**, City Auditor, advised, which is in essence retiree health insurance. When an employee retires from the city, he or she is entitled to health insurance at that point. The OPEB Actuarial Valuation Report is considered a planning tool, he said and that it is also that is something that goes on the city's financial statement every two years, he noted. The unfunded actuarial accrued liability (UAAL) as of June 30, 2015 was pegged at \$169,269,888 down from \$200,000,000 in FY13; and the next report will be undertaken in two years to assess FY17. He added that it is still a big number and still unfunded. **John Dunn**, CFO, noted there is so far about \$220,000 set aside by the city for OPEB.

NOTE: The Annual Required Contribution (ARC) for FY16 and FY17 is \$11,454,973 and \$11,950,493 respectively. ARC is expected to remain relatively level as percentage of payroll as long as the ARC is fully funded each year. The word "Required" is a naming construct but not a hard fast requirement. If the ARC is not fully funded, it may be expected to increase as a percentage of payroll over time.

The OPEB Actuarial Valuation Report of postemployment welfare benefits as of June 30, 2015 under GASB Statements #43 and #45. The results are in accordance with the Governmental Accounting Standards which prescribe an accrual methodology for accumulating the value of "Other Postemployment Benefits (OPEB) over participants' active working lifetimes. The accounting standard supplements cash accounting, under which the expense for postemployment benefits is equal to benefit and administrative costs paid on behalf of retirees and their dependents (i.e. a pay-as-you-go basis).

**Daniel J. Rhodes**, Vice President and Consulting Actuary with The Segal Consulting Group, reviewed the Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2015 in accordance with GASB Statements No. 43 and Nov. 45 (report on file) with the Committee. He explained that because these are benefits promised to retirees, GASB (Government Accounting Standards Board) came out with accounting standards in order to account for the benefits in the right way -- the government said this is an accrual type of accounting. As someone works for the city, there is a recognized expense for the employee's benefits so that when they retire, in theory the city recognizes an expense for that. GASB is an accounting organization and can't mandate anything, he noted. Currently the Commonwealth doesn't mandate any OPEB funding which is different than pension funding. There are some communities that have started pre-funding for OPEB, investing the set-aside funds and obtaining returns in order to pay the funds out. He noted some cities and towns in Mass. haven't done anything about OPEB funding, some are funding a significant amount of OPEB, and some have some funds set aside, but on the whole, for most cities and towns it is mostly an unfunded benefit. He agreed with Mr. Costa that this is a planning tool for the city. He highlighted the following:

- Sec. 2, Page 9: Summary of Valuation Results-All Departments - The Actuarial Accrued Liability by Participant Category was briefly reviewed as was the methodology for the city's financial projections. Noting that the overall number has gone down, it was mentioned that the GIC (Group Insurance Commission, a state entity through which cities and towns use to offer health insurance programs to their employees) costs are being kept low for city health insurance, as well other changes on mortality rates, and acknowledgement of a coding error that occurred in the FY13 report. The \$169,269,887 is the FY15 number versus \$200,000,000 in FY13. The city's liability is 99% unfunded. It is a 30 year amortization concept, increases over time, as payroll increases the number increases -- \$5.9 million, and \$5.5 million for amortization for the ARC and so the accounting expense for the year is about \$11.4 million. In comparison the \$5.4 million is the pay-as-you-go costs, or premiums that are paid out for retirees -- about twice as much, which is a consistent number. The discount rate per GASB is in line with the investments that is expected to pay for these benefits and was briefly discussed. The benefits of funding are that it changes the discount rate.

- Sec. 2, Page 10: Projections of ARC Projections were touched upon.
- Sec. 2, Page 11: Actuarial Accrued Liability and Annual Required Contribution – Pay-as-you-go (3.5% discount rate) was also briefly reviewed.
- Sec. 3, Page 14, 15 and 16: Supplementary Information was shown on these three pages and briefly touched upon. It was noted that health care costs are being better managed at this time through the GIC. Every year not funding ARC, the net OPEB obligation is growing, it was also noted.
- Sec. 4 reviews actuarial assumption and data on OPEB and was briefly described, and it was noted that active employees subsidize the retirees. There is a small legacy group of teachers that pay a smaller amount than other teachers.

**Mr. Rhodes** said accounting standards are changing which are similar to pension accounting standards -- the full unfunded liability will appear on the city's balance sheet once the new standards are adopted. It doesn't change the nature of the program, but is presented in a different way and makes it clear what is the real future cost of the program, he said. **Mr. Costa** noted OPEB will go to the front of the city's financial statement and be a big number.

**Mr. Dunn** assured that everyone will look the same, and **Jim Destino**, CAO, added his agreement. **Mr. Dunn** said rating agencies are provided with this information and comes as no surprise to anyone -- rating agencies are fully apprised of this information. **Councilor Orlando** noted it won't change the city's rating, as it is the same liability they've always had. **Mr. Costa** said now it will be more public. **Mr. Destino** said this is very concerning to all municipalities.

**Mr. Destino** pointed out that most municipalities have set up trust funds, and asked if there is a trend through collective bargaining to put a. for instance, a \$5 fee on all employees' health insurance to open up a funding source for OPEB. **Mr. Rhodes** said he's not heard of that, indicating that in general a municipality determines a sum of money to put aside into a fund and make plans to do so each year. **Mr. Destino** asked if such an action was legal, and **Mr. Rhodes** suggested that it likely as it isn't much different from retirement systems where employees contribute a percentage through payroll.

**Councilor Orlando** asked how Gloucester compares to other cities and towns based on socio-economic demographics. **Mr. Rhodes** said most cities are in a similar situation either not funding at all or have a modest amount funded. **Mr. Dunn**, **Mr. Destino** and **Mr. Rhodes** assured the Committee that they are looking at very similar numbers and have the same underlying calculations. **Mr. Destino** said Melrose, a city about the same size and population of Gloucester, is in the GIC and would have similar numbers -- it is the same throughout the state. Only a few municipalities are well funded, **Mr. Destino** pointed out. **Mr. Costa** said only Wellesley is well ahead of this and with their pension funded at 102%. **Mr. Destino** said the city's OPEB liability is a real number, but just numbers right now, and they are nowhere near addressing this situation. In 2024 the city will be fully funded in its pension liability, **Mr. Costa** noted, and that then the city can divert funds to OPEB. **Mr. Rhodes** discussed various parameters of employees' retirement benefits briefly with the Committee also.

## **2. Special Budgetary Transfer 2017-SBT-14 & -15 from Police Dept.**

**Mr. Destino** explained that 2017-SBT-14 is presented for \$4,000 because other funds were used in the department's budget for other priorities, the department wasn't able to do as much training as required, and that this transfer will fund on-line training for officers instead of paying overtime to send them off-site for training.

**COMMITTEE RECOMMENDATION: On motion by Councilor Orlando, seconded by Councilor Ciolino, the Budget & Finance Committee voted 3 in favor, 0 opposed to recommend that the City Council approve Special Budgetary Transfer 2017-SBT-14 in the amount of \$4,000 from Account #0121151-513001, Police Uniform, Overtime Training, to Account #0121152-530025, Police Uniform, In-Service Training OM, for the purpose of funding Officer training courses.**

**Mr. Destino** this transfer will fund a second copier from lag funds and from Superior Officers who took compensatory time instead of stipends for certain work. It was confirmed by **Mr. Destino** and **Mr. Costa** that this is a purchase not a lease for the copier for **Councilor Memhard**.

**COMMITTEE RECOMMENDATION: On motion by Councilor Orlando, seconded by Councilor Ciolino, the Budget & Finance Committee voted 3 in favor, 0 opposed to recommend that the City Council approve Special Budgetary Transfer 2017-SBT-15 in the amount of \$3,500 from Account #0121151-519027, Police**

**Uniform, Specialty Position Stipends, to Account #0121152-542005, Police Uniform, Office Equipment Not Capitalized, for the purpose of purchasing second copier for the Police Department.**

**3. Memorandum for two grant applications from Council on Aging Director re: Title IIIB Older American's Grant and the Executive Office of Elder Affairs FY17 Formula Grant**

**Mr. Destino** described two recurring grants as follows: The Title III B Older American's Grant in the amount of \$8,190.30 supplements salary for the COA outreach coordinator. The second the FY17 COA Formula Grant Allocation is also funds personnel expenses. He noted that the funding formula has been raised per senior residing in the city to \$10 by the Mass. Executive Office of Elder Affairs.

**COMMITTEE RECOMMENDATION: On motion by Councilor Orlando, seconded by Councilor Ciolino, the Budget & Finance Committee voted 3 in favor, 0 opposed, to recommend that the City Council accept under M.G.L. c. 44, §53A a federal grant passed through the Mass. Executive Office of Elder Affairs through SeniorCare, Inc., for a Title III-B Older Americans Act Grant for \$8,190.30 for FFY2016. Funds are to be used to supplement the hours and part-time salary for an Outreach Community Education Worker at the Rose Baker Senior Center.**

**COMMITTEE RECOMMENDATION: On a motion by Councilor Orlando, seconded by Councilor Ciolino, the Budget & Finance Committee voted 3 favor, 0 opposed, to recommend that the City Council accept under MGL c. 44, §53A, a Massachusetts State FY2017 Council on Aging Formula Grant Allocation from the Mass. Executive Office of Elder Affairs for a total of \$74,040.**

**4. Memorandum from Economic Development Director re: acceptance of \$20,000 RBDG Grant through the U.S. Department of Agriculture**

**Mr. Destino** advised that the city is in receipt of a \$20,000 Rural Business Cooperative Services (RBCS) grant. This grant is a continuation of the city's marketing program, Gloucester Fresh, and the ultimate goal of opening a seafood kitchen. The city has received not only \$151,000 to promote Gloucester Fresh, \$20,000 from the USDA and technical assistance for "Local Foods & Local Places" but also looking at two other grants from the DMF for \$13,000 and the Saltonstall/Kennedy Grant Program for \$300,000 to open the seafood kitchen. This \$20,000 is the first step to undertake an analysis of underutilized fish species, develop a program and recipes around them with the Gloucester Fishermen's Wives Association and with SnapChef. He commended the Mayor for her outreach as well as Sal DiStefano; the city's Economic Development Director, who wrote these grants to get the program moving forward, adding that it is a good thing for the city. He noted that there is no match for this grant.

**COMMITTEE RECOMMENDATION: On motion by Councilor Orlando, seconded by Councilor Ciolino, the Budget & Finance Committee voted 3 in favor, 0 opposed, to recommend that the City Council accept under MGL c. 44, §53A, a federal grant from the United States Department of Agriculture Rural Business Cooperative Services grant for FY2017 in the amount of \$20,000 for the purpose of supporting the Gloucester Fresh seafood marketing plan and promotion initiative under the Rural Business Development Grant Program.**

**5. Memorandum from City Treasurer re: acceptance of the Municipal Modernization Act**

**John Dunn**, CFO, reported that the Municipal Modernization Act ("the Act") that became effective in early November 2016 (by vote of the City Council) contained some changes to MGL c. 44, §20 dealing with the treatment of BAN and Bond Premium revenue. One of the new permitted uses is to reduce project costs through the application of premium received by the city at issuance of debt related to a capital project. This Act allows the city to take some of that premium and apply it back to the capital project as revenue so that they don't have to issue that debt in the future. This applies to any loan authorization that preceded the November 2016 implementation of the Act, he said. He added that this Act allows the Administration to move the funds as it comes in without having to come back to the Council to move funds into specific accounts.

**Councilor Ciolino** expressed concern that this was taking away a right of the Council that they had in the past as part of its financial oversight and asked how the Council would know what actions the Administration was taking on such matters. He asked if it was Mr. Dunn's intent to notify the Council of such actions. **Mr. Dunn** said he's

been issuing debt for 23 years of his municipal career and will do the best for the city. He assured that he would notify the Council of such actions. The acceptance of the Modernization Act is something the Council can reverse if they are uncomfortable with a CFO in the future, it was noted. It is premiums that come in and is applied to those particular capital projects and reduce the debt in the future, he reiterated, and applies to loan authorizations already approved. **Councilor Orlando** noted that the Council approves the Loan Authorization regardless and this is just how the CFO handles the financing administratively, which **Mr. Dunn** confirmed. For bigger capital projects the city can reduce the amount of debt they ultimately have to issue, **Mr. Destino** added, a very important financial action.

**Mr. Dunn**, at **Councilor Memhard**'s request, reviewed the process where the market sets the interest rate on the bonds. When the city issues a 20 year bond, they're actually issuing is 20 individual one-year payment coupons and each one has an implicit interest rate that is governed by the market. If something was issued at 1.5%, those in the market know that in order to sell the bond, they have to get 2%, so they will send the city the difference -- if they send that money now the city will send it back later.

**Councilor Ciolino** said the last time the Council did this some funds went to the West Parish Elementary School and some went to the Veterans Center, \$30,000. **Mr. Dunn** agreed and said what they're also able to do under these parameters is fund other capital projects. This is essentially capital money. The premiums that come in are used first used for the cost of bond issuance which is legal. **Councilor Ciolino** continued to express his concern the Administration would distribute funds to whatever the Administration prioritized without the Council's input. **Mr. Destino** clarified that the Councilor was referring to repurposing debt, whereas this is repurposing a return on bond premium. **Mr. Dunn** said the Act allows the Administration to do this for anything that was approved after the Act took effect in Nov. 2016. He advised that because of what the Act says the Administration can do what it wants with those premium dollars, and that this action is saying that the same law would apply to anything approved prior to the Act taking effect in Nov. 2016.

**Councilor Orlando** said this is a small piece of the overall budget for which the Council has a say in, and that administratively this makes sense, allowing for a streamlining of administration of the city's finances. **Mr. Destino** said it is supported by Governor Baker and this is more of a streamlining approach to which **Councilor Orlando** agreed.

**Councilor Ciolino** expressing his continuing concern pointed out that at this time the city has a good Mayor and sound administrative staff, but sometimes it isn't that way and that it is a matter of checks and balances. He said he has complete his faith in Mr. Dunn.

**COMMITTEE RECOMMENDATION: On motion by Councilor Orlando, seconded by Councilor Ciolino, the Budget & Finance Committee voted 3 in favor, 0 opposed, to recommend that the City Council approve a Bond Counsel Order as follows:**

**Ordered: That the City Council votes to supplement each prior order of this City Council that authorizes the borrowing of money to pay costs of capital projects to provide that, in accordance with Chapter 44, §20 of the General Laws, the premium received by the City upon the sale of any bonds or notes thereunder, less any such premium applied to the payment of the costs of issuance of such bonds or notes, may be applied to pay project costs and the amount authorized to be borrowed for each such project shall be reduced by the amount of any such premium so applied.**

**6. *Memo from City Auditor regarding accounts having expenditures which exceed their authorization & Auditor's Report and other related business***

**Mr. Costa** reviewed his report with the Committee (on file) briefly.

**7. *Memorandum from Senior Project Manager re: project description overview and positive recommendation of the Community Preservation Committee for the Legion Building Application of the Historical Commission for an Off-Cycle CPA Funding***

**Holly Clay**, Historical Commission member, noted this grant application for CPA off-cycle funding is to assess the architectural condition of the American Legion building at 8 Washington Street. She advised that the building is in disrepair on the exterior. The assessment will be done by a preservation architect who will assess what the current damage is and how to remediate it, but will also do a contextual analysis to look at historic factors and how a regular maintenance schedule might benefit the building. In addition, the American Legion building is a central

monument in the city -- the city's first town hall and is a prominent place. She noted part of the building will be the home of a satellite tourist bureau seasonally that will mean more of opening the building to community use, and it is hoped more community use will be accomplished with the repair and restoration of the building. **Sandra Key**, Past Commander of the American Legion Post, said this grant will not only assess the building but also create a plan on to how to prevent these issues in the future. The consultant is William Remsen, a highly qualified and world recognized architectural and archeological expert, **Ms. Clay** noted for **Councilor Memhard**. She said he has recently been in the Middle East assessing damage to heritage sites that have been destroyed by terrorists.

**Mr. Destino** said the reason this application comes before the Committee as off cycle is to do the assessment and that in turn will see the grant award utilized to gain more grants to fund aspects of the restoration of the Legion building. He commended the Community Preservation Committee and Deborah Laurie, Senior Project Manager of the Community Development Department for bringing this off cycle funding forward and their dedication. **Ms. Clay** noted the Legion will be writing the grant for some of the work. **Ms. Key** confirmed that the work can't be done at once, but this report is necessary to identify and prioritize the work.

**Councilor Ciolino** asked for more information about the architectural consultant. **Ms. Clay** said Mr. Remsen used to be the Historic Preservation Officer for the city of Newport, RI. **Ms. Laurie** said that his credentials are impeccable. **Mr. Destino** mentioned the importance of the CPC, and that the utilization of CPA Fund helps in finding ways to fund these types of activities off of the city's budget. **Councilor Memhard** offered that the CPA Funding is a treasurer for the community.

**Ms. Laurie** said the American Legion Post applied the previous year but because there was no plan in place the CPC turned down their application. She noted that this is a great example of once having a plan that an applicant will be able to move forward to seek other grants giving strength to those applications and seek bids for restoration work. **Ms. Clay** briefly described some of the historic aspects of the building and what is contained within it.

**Katherine Schlichte**, CPC Co-Chair, said the public access component being increased was very important to the CPC when assessing the application's merits.

**COMMITTEE RECOMMENDATION: On a motion by Councilor Orlando, seconded by Councilor Ciolino, the Budget & Finance Committee voted 3 in favor, 0 opposed, to recommend to the City Council to appropriate up to \$9,500 (Nine Thousand Five Hundred Dollars) from the Community Preservation Act Funds as recommended by the Community Preservation Committee, to the Gloucester Historical Commission, for the purpose of the restoration and preservation of the American Legion Building at 8 Washington Street (also known as Old Town Hall) in order to restore and preserve an historic resource. The appropriation will be allocated to the Historic Preservation category and funded from Unrestricted Reserves in Fund #4500. The project will be tracked in the Community Preservation Fund – Historic Preservation Capital Projects Fund #5806.**

This matter will be advertised for public hearing.

#### **8. *Memo from Senior Planner re: City's acceptance into the National Grid Community Initiative***

**Mr. Destino** relayed the following information: The city has been accepted into National Grid's 2017 Community Initiative Program. This Gloucester Energy Challenge is one of the Mayor's Gloucester Green Initiatives aimed at helping the city's residents and businesses save money on their energy costs. This partners the city with National Grid (NG) in an annual grant program to conduct public outreach campaigns to promote MassSave, a program that offers free energy audits as well as rebates and funding incentives aimed to save residents money by making their homes more energy efficient. NG supports the community throughout the year-long initiative, providing marketing materials, database tracking and staffing for community events. Seed money is about \$5,300, and Matt Coogan, Senior Planner is the lead on this grant. Dependent on how many residents sign up for this program, the city can receive up to \$41,000 of funding if all goals are met in the outreach. Just like the Aggregation Program passed by the Council recently, this is worthwhile for the city.

The funds will be held in the Community Development Department under the close watch of the City Auditor, **Mr. Destino** added, responding to an inquiry from **Councilor Memhard**. The bulk of the grant is dependent on how many people sign up for MassSave, he reiterated.

**COMMITTEE RECOMMENDATION: On motion by Councilor Orlando, seconded by Councilor Ciolino, the Budget & Finance Committee voted 3 in favor, 0 opposed, to recommend that the City Council accept**

**under MGL c. 44, §53A, to accept a private grant from the National Grid 2017 Community Initiative Grant for up to \$41,169.03 for the purpose of public outreach and education for the MassSave program.**

**9. CC2017-002 (Orlando) Request third party audit to determine whether the consolidation of the following departments for the City, School, and Police departments would achieve benefits/cost savings to the City: Human Resources, Payroll, and IT**

**Councilor Orlando** explained to the Committee that at some point he would like to have this voted on by the full Council to request a third party audit to determine whether the consolidation of the following departments for the City, School, and Police departments would achieve benefits/cost savings to the City: Human Resources, Payroll, and IT. He said in last year's budget review it was clear that there are two personnel departments, IT departments and Payroll departments between the city and school side. He said he is trying to take the temperature of the Council via a Council vote. This audit would first be done internally and then if necessary he would like to see the Administration utilize a third party auditor if necessary. The idea is to learn why there are multiple departments and if they can be consolidated for a cost savings to the taxpayers. Thanks to Mr. Sicuranza in the Mayor's Office, he said he learned that Salem has one IT department, for instance.

**Councilor Ciolino** said this is a request to the Mayor by the Council if they vote on it as there is no money tied to it; the Council doesn't get involved with the School Committee business. **Councilor Orlando** said that in 2008 the city adopted by vote to give the Administration an option to consolidate departments but the School Committee would have a right to veto such a consolidation via a full majority vote. The Administration is interested to see if the Council would support the idea.

**Mr. Destino** assured the Committee that there would be no savings by the suggested consolidation as the low hanging fruit has already been picked. There are areas where savings can be gained and they are exploring their options but that this isn't one of them, he noted. The Administration will do the analysis, he said.

This matter is closed.

**10. CC2017-003 (Orlando) Request implementation on the city's website of an optional opt-in email registration by households for residents to receive city notifications not required to be mailed**

**Councilor Orlando** said this Order is for an optional email registration by household for city notifications that are not required to be mailed. He said for a certain demographic this is appealing and preferable because it can save postage expenses. He mentioned speaking with the IT Director who indicated there would be a one-time cost of building a webpage mechanism to receive these registrations of email addresses by household. **Mr. Dunn** said it is available when they do switch to MUNIS. It will take a while to set out parameters and programming, he advised, and described briefly a possible mechanism. Citizen self-service is going to come forward, **Mr. Dunn** said, but that it still has some ways to go.

**Councilor Ciolino** expressed concern for moving to all emails as some people change their email address and there has to be a mechanism for notification of such changes.

This matter is closed.

**NOTE:** Both Agenda Items #9 and #10 will be brought forward under the B&F Committee Report through the Chair by Councilor Orlando as proposed actions for the Council to vote.

**A motion was made, seconded and voted unanimously to adjourn the meeting at 7:40 p.m.**

Respectfully submitted,  
*Dana C. Jorgensson*  
Clerk of Committees

**DOCUMENTS/ITEMS SUBMITTED AT MEETING: None.**