

Budget & Finance Committee
Thursday, May 23, 2013 –**6:00PM**.
1st Fl. Council Committee Rm. – City Hall
-Minutes-

Present: Chair, Councilor McGeary; Vice Chair, Councilor Joseph Ciolino; Councilor Melissa Cox

Absent: None.

Also Present: Kenny Costa; Daniel Rhodes, Segal; Fire Chief Eric Smith; Stacie Couture; Debbie Laurie.

The meeting was called to order at 6:00 PM. Agenda items were taken out of order.

1. Discussion of OPEB Liabilities

Kenny Costa, City Auditor, introduced Daniel Rhodes, Consulting Actuary for The Segal Company to present a report entitled “City of Gloucester Actuarial valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2011 in accordance with GASB Statements No. 43 and No. 45” (on file). **Mr. Costa** stated that this is the second report that Segal has prepared for the City of Gloucester and is as of June 30, 2011. Since the previous report the liability has been decreased by \$16,000,000 the primary reason for this difference is due to the City changing health care providers. An OPEB Trust Fund has been established and approximately \$80,000 was appropriated into this account in Fiscal Year 2013, bringing the total in the account to roughly \$102,000. These funds can only be used for retiree health insurance. OPEB is essentially post-employment benefits, it is not pension. This is not a new concept for the City and is something the City needs to start planning to fund this liability. **Mr. Rhodes** stated that last year’s presentation provided an overview of OPEB and GASB Statements Nos. 43 and 45, but if anyone had questions about specific details would elaborate. He continued by saying that page 2 summarizes the key valuations. In 2011 the liability was \$204,229,000 and was 0.0% funded.

Councilor McGeary asked if the annual required contribution (ARC) is based upon current obligations plus the cost to close the gap to meet the liabilities in the future. **Mr. Rhodes** confirmed that. **Mr. Costa** added that the City is meeting its year to year obligation right now, but should be putting aside money at a higher rate to meet future obligations. **Mr. Rhodes** stated that the ARC is not required in the sense that it is a regulatory requirement. OPEB does not have same requirements as pensions, but that could be coming down the road. **Councilor McGeary** stated that this report identifies a theoretical gap that is dependent on all employees retiring on the same day 30 years from now. **Mr. Rhodes** responded that it is the present value of what will be due in 30 years given probabilities of retirement rate, how long retirees are collecting these benefits, and is based on current employees and retirees. **Councilor McGeary** asked how realistic it is that all of these probabilities are met. **Mr. Rhodes** stated that they will not all be met, but they are reasonable assumptions for the future. There are some variables, such as health care providers, that will change the calculations, but these figures will be revised if any such major changes occur. **Councilor McGeary** used the cost being reduced by \$10,000,000 due to changing health care providers as an example of the major changes Mr. Rhodes mentioned. **Mr. Rhodes** added that these calculations also assume that health costs will inflate.

Councilor McGeary asked if it has been projected how Obamacare will impact health care costs. **Mr. Rhodes** stated that it is a little too soon, but some aspects that are built into health care plans have been accounted for and are included in the projections. **Councilor McGeary** stated that it could have a fairly important impact. **Mr. Rhodes** concurred and added that it is not yet clear in what direction it will affect these projections. **Mr. Costa** stated that if OPEB regulations pass it will have more of an impact on these liabilities. **Mr. Rhodes** stated that every year it is expected the liabilities to go up. If everything from last time had been met and went up, there was an expected increase of \$16,000,000, but there was a decrease primarily due to the change in health care providers. He continued by stating that page 6 provides more specifics and details of the figures. The total accrued liability is approximately \$204,000,000. This is number split up between retirees who are currently collecting benefits and active employees who are still earning benefits. **Councilor McGeary** asked if the figure for current retirees is

what the City will pay for current retirees over their expected lifetime. **Mr. Rhodes** confirmed that Councilor McGeary is correct. He stated that the figure for active employees is the present value and is split up between has been accrued already and what will be accrued in the future. The ARC consists of the normal cost, which is the sum of benefits employees will earn over the next year. This figure is based on the expected number of years of service for each employee. The second piece of the ARC is the amortization of unfunded liabilities. There is liability for working employees which needs to be recognized and paid. This works a little differently than the pensions, as there is a set deadline for when those funds need to be realized. Since the City is just starting to fund this liability, it can be amortized every year and is the method that gives the lowest ARC. **Councilor McGeary** stated that this means there is no set end date for funding this liability and every year the City can push the end off for another year to amortize the cost. **Mr. Rhodes** concurred. He added that using this method means the liability will never be fully fund, but since there is a trust and some money has been set aside we can start discussing paying off this liability.

Mr. Rhodes stated that on page 7 the numbers are split up by different departments. **Mr. Costa** added that the next valuation will show the Talbot Rink as its own department. **Mr. Rhodes** stated that page 8 includes projections of the magnitude of these numbers will be for the next 30 years. Although these projections are likely to change, they provide an estimate for what it might look like in 30 years with the current rate of repayment. **Councilor McGeary** stated that the real issue is that this liability becomes an increasing portion of the City budget and even the figure of pay as you go is increasing. **Mr. Rhodes** stated that a June 30, 2013 valuation will be performed. He will be looking at what has been set aside in the trust so far, what current funding is, and the current schedule. When the City starts using the funds from the OPEB trust to pay the benefits, you can look at the return and the full funding number. **Councilor McGeary** even if we are able to put in a modest amount it will have a greater impact over time. **Mr. Rhodes** stated that there may be flexibility in the discount rate as funds are put towards this liability. An increase in the discount rate can have a large impact on the cost of this liability.

Mr. Rhodes stated that Section 3 of this report is the accounting section and contains the numbers which will be shown on the City's financial statements. The OPEB contributions are what the City is currently paying in benefits. **Councilor McGeary** asked that in 2013, to stay on schedule, approximately \$14.8 million should have been spent, but in fact the City has only spent about \$6.5 million. **Mr. Rhodes** stated that that is correct. **Mr. Costa** added that anything that is not covered in any given year compounds. **Mr. Rhodes** stated that page #12 demonstrates the compounded figures. **Councilor McGeary** stated that this means every year that is not paid in full it increases the next year by what was not paid and the anticipated growth factor. **Councilor Cox** asked what percentage of these benefits does the City pay. **Mr. Costa** stated that for teachers it is 90 percent paid by the City, but in the rest of the City it is 75 percent. He added that teachers are not part of the City budget for this benefit. **Councilor Cox** stated that if the OPEB bill passes this portion could be reduced to 50 percent.

Mr. Rhodes stated that Section 4 is the supporting documentation for all the various assumptions used to make these calculations. **Councilor McGeary** asked about the assumptions regarding inflation and discount rates. **Mr. Rhodes** stated that for health care inflation rates started at 9 percent, but went down to 5 percent over time. He added that 9 percent is probably high for the next evaluation and will probably be lowered. **Councilor Cox** stated that if the City adopts the 50/50 ratio of the state, it will lower these costs. **Councilor McGeary** asked if that would only effect the long-term projections. **Mr. Costa** clarified that a change in the City's portion would only apply to new retirees. **Mr. Rhodes** added that the extension of the service requirement to 20 years will have an impact on the OPEB calculations. This will not just apply to new hires, it will also apply to people currently working. This requirement will mean if an employee makes it to 20 years of service there will be a 50/50 ratio, but if they make it to 30 years the ratio will be 75/25.

Councilor Ciolino asked how Gloucester ranks among Segal's other clients in their planning efforts. **Mr. Rhodes** stated that there are a handful of towns that are really making a dent in this, but the bulk of the towns are in Gloucester's phase. They have set up a trust and are starting to make plans for it, but are struggling to make a big effect. **Mr. Costa** asked if there are communities who have not done anything.

Mr. Rhodes stated that there are some who have not setup a trust yet, but all have done the evaluation. Some Cities just do not have any money for funding it. **Mr. Costa** stated that the next report will be for June 30, 2013. He added that on the next RFP for OPEB liability reports he would like to include two evaluations: 2013 and 2015. This is preferable to issuing the RFP every two years. **Mr. Rhodes** stated that it would mean if there are some major mid-year changes revising the calculations would be much easier. The Committee thanked Mr. Rhodes for his time.

2. Special Budgetary Transfer Request #2013-SBT-36 from Police Department

Stacie Couture, Police Department Financial Coordinator, stated that the Police-Investigation, Career Incentive Pay account line was slightly underfunded and this transfer seeks to cover that deficit.

MOTION: On motion by Councilor Cox, seconded by Councilor Ciolino the Budget & Finance Committee voted 3 in favor, 0 opposed to recommend to the City Council the appropriation 2013-SBT-36 in the amount of \$826.12 (Eight Hundred Twenty-Six Dollars and Twelve Cents) from Police-Uniform, Career Incentive Pay, Account #101000.10.211.51950.0000.00.000.00.051 to Police-Investigation, Career Incentive Pay Account #101000.10.212.51950.0000.00.000.00.051 for the purpose of covering a deficit in the Police Department-Career Incentive account.

3. Memorandum from Police Chief re: increase in parking fees for Cross Walk Parking & Loading Zone Parking

MOTION: On motion by Councilor Cox, seconded by Councilor Ciolino, the Budget & Finance Committee voted 3 in favor, 0 opposed to recommend to the City Council to Amend the Gloucester Code of Ordinances, Chapter 22 "Traffic," Sec. 22-176(a) "Penalties for Parking Violations," by DELETING the fine "\$10.00" for parking in a crosswalk and ADDING a fine of "\$25.00"; and by DELETING the fine "\$5.00" for parking in a service or loading zone and ADDING a fine of "\$25.00;" AND FURTHER TO ADVERTISE FOR PUBLIC HEARING.

4. Supplemental Appropriation 2013-SA-125 from Fire Department

Chief Smith stated that the Replacement of Equipment account was originally designated for various items than are not as significant as the turnout gear. Upon review of the turnout gear there are 41 sets of gear that are nearing their expiration date and need to be replaced. **Councilor McGeary** asked if Chief Smith was referring to complete, head to toe, sets of turnout gear. **Chief Smith** stated that the sets are extremely expensive and over the years the Fire Department has not been able to keep up with its rotation program. Once a set of gear is fitted for someone it cannot be reused for another fire fighter. He added that the amount being transferred will be used to purchase about 12 or 13 full sets. The Fire Department requested in their budget for next fiscal year the funds to replace all of the gear, but did not receive the full amount. **Chief Smith** continued by saying the combination of this transfer and the amount allocated for next fiscal year will get Fire Department within a half dozen sets of staying compliant. **Chief Smith** noted his concern that this if issue is not addressed it can be grieved by the union as a safety grievance. **Councilor Cox** stated the estimated life span of turnout gear is ten years, but some people suggest it be replaced every five years. **Chief Smith** discussed the various ways turnout gear is damaged and how this affects its life span. He also stated that in some instances it is preferable to have two full sets per person.

MOTION: On motion by Councilor Cox, seconded by Councilor Ciolino the Budget & Finance Committee voted 3 in favor, 0 opposed to recommend to the City Council that \$25,000 (Twenty-Five Thousand Dollars) be appropriated (2013-SA-125) from Fire Department, Replacement of Equipment Account #101000.10.220.58700.0000.00.000.00.058 to Fire Department, Work/Safety Clothes, Account #101000.10.220.55810.0000.00.000.00.054 for the purpose of purchasing necessary firefighter turnout gear.

5. *Special Budgetary Transfer Requests from the Department of Public Works: #2013-SBT-35 (Facilities) from Treasurer's Department; #2013-SBT-37 and #2013-SBT-38*

Councilor McGeary stated that this is a fairly standard end-of-year transfer. Councilor McGeary asked if the surplus funds were due to a vacated position. Mr. Costa stated that there were some retirements in this department.

MOTION: On motion by Councilor Cox, seconded by Councilor Ciolino, the Budget & Finance Committee voted 3 in favor, 0 opposed to recommend to the City Council the appropriation 2013-SBT-35 in the amount of \$30,000.00 (Thirty Thousand Dollars) from DPW Facilities Permanent Positions, Account #101000.10.472.51100.0000.00.000.00.051 to DPW Public Services Overtime, Account #101000.10.470.51300.0000.00.000.00.051 for the purpose of funding overtime needs of the DPW Facilities Department through June 30, 2013.

MOTION: On motion by Councilor Cox, seconded by Councilor Ciolino, the Budget & Finance Committee voted 3 in favor, 0 opposed to recommend to the City Council the appropriation 2013-SBT-37 in the amount of \$1,250 (One Thousand Two Hundred Fifty Dollars) from Engineering Contract Services, Account #101000.10.411.52000.0000.00.000.00.052 to Administration In-State Travel, Account #101000.10.421.57100.0000.00.000.00.057 for the purpose of funding the In-State travel account for the DPW Director's travel within the City through June 30, 2013.

MOTION: On motion by Councilor Cox, seconded by Councilor Ciolino, the Budget & Finance Committee voted 3 in favor, 0 opposed to recommend to the City Council the appropriation 2013-SBT-38 in the amount of \$20,000 (Twenty Thousand Dollars) from DPW Solid Waste Rubbish Contract, Account #101000.10.403.53960.0000.00.000.00.052 to DPW Central Parts & Accessories, Account #101000.10.499.54850.0000.00.000.00.057 for the purpose of additional funds needed for vehicle parts through June 30, 2013.

6. *Supplemental Appropriation #2013-SA-124 from Highway Force Account*

MOTION: On motion by Councilor Cox, seconded by Councilor Ciolino, the Budget & Finance Committee voted 3 in favor, 0 opposed to recommend to the City Council that \$25,000 (Twenty-Five Thousand Dollars) be appropriated (2013-SA-124) from Highway Force Account, Transfer to General Fund, Account #294015.10.991.59600.0000.00.000.00.059 to Public Service Paving, Account #101000.10.470.58415.0000.00.000.00.058 for the purpose of funding for the City of Gloucester spring paving program.

7. *Memorandum, Grant & Checklist from City Auditor re: City Council Acceptance of an Additional Early Retiree Reinsurance Program Grant for \$12,483 from the U.S. Department of Health & Human Services*

Mr. Costa stated that this is the second year funds have been received from this grant. Last year the City received approximately \$81,000. These funds will help reduce insurance costs. **Councilor Cox** asked if these funds will reduce the copays or the percentage paid by employees. **Mr. Costa** stated that he is unsure how it will be distributed, but 75% will be used to reduce the City's costs and 25% will be put towards the employee's costs in some way.

MOTION: On motion by Councilor Cox, seconded by Councilor Ciolino, the Budget & Finance Committee voted 3 in favor, 0 opposed to recommend to the City Council to accept under MGL c. 44, §53A an Additional Early Retiree Reinsurance Program Grant in the amount of \$12,483.00 from the U.S. Department of Health & Human Services for the purpose to make health benefits more affordable for plan participants and sponsors.

8. *Special Budgetary Transfer Requests #2013-SBT-033 and #2013-SBT-034 from the Community Development Department*

MOTION: On motion by Councilor Cox, seconded by Councilor Ciolino, the Budget & Finance Committee voted 3 in favor, 0 opposed to recommend to the City Council the appropriation 2013-SBT-33 in the amount of \$750.00 (Seven Hundred Fifty Dollars) from Community Development Salary/Wage Permanent Positions, Account #101000.10.181.51100.0000.00.000.00.051 to Community Development-Other Charges/Expenses, Account #101000.10.181.57000.0000.00.000.00.057 for the purpose funding communication costs for new Community Development Director.

MOTION: On motion by Councilor Cox, seconded by Councilor Ciolino, the Budget & Finance Committee voted 3 in favor, 0 opposed to recommend to the City Council the appropriation 2013-SBT-34 in the amount of \$1,768.44 (One Thousand Seven Hundred Sixty-Eight Dollars and Forty-Four Cents) from Community Development Salary/Wage Permanent Positions, Account #101000.10.181.51100.0000.00.000.00.051 to Community Development Office Supplies, Account #101000.10.181.54210.0000.00.000.00.057 for the purpose of purchasing office furniture for the new Community Development Director.

9. *Memorandum from Senior Project manager of Grants Department re: Program Year 2013 CDBG & HOME Grants*

Councilor McGeary stated that the Committee is being asked to consider allowing the Grants Department to accept an anticipated grant for CDBG and the HOME grants. He asked Ms. Laurie to explain why the amounts are anticipated rather than definitive. **Debbie Laurie**, Senior Project Manager, stated that HUD does not yet know the exact amount of funding it will be providing in the upcoming fiscal year. She added that HUD allows the City to distributing funds and request reimbursement starting July 1st. **Councilor McGeary** asked if this is why the Committee is being asked to accept the anticipated grant, so that the City can hand out checks on July 1st. **Ms. Laure** confirmed. She stated that a reduction from last year's figures has already been estimated and if the number is lower than this estimation some projects will just not be funded at the level planned. **Mr. Costa** stated that if the grants are funded significantly lower than anticipated they should come to the B&F again.

MOTION: On motion by Councilor Cox, seconded by Councilor Ciolino, the Budget & Finance Committee voted 3 in favor, 0 opposed to recommend to the City Council under MGL c. 44, §53A to accept anticipated grants in the amount of \$886,926.00 for the Community Development Block Grant Program from the U.S. Department of Housing and

Urban Development for PY2013 and the anticipated HOME grant from the North Shore HOME Consortium in the amount of \$59,559.00.

10. Memo from City Auditor et. al.

Councilor Cox asked for an update on what is going on with the deficit in the Snow and Ice Removal account. **Mr. Costa** stated that Mr. Towne is working to cover this deficit with surpluses in other accounts. **Councilor Cox** asked what is being done with unemployment. **Mr. Costa** stated that the City is self-insured. **Councilor McGeary** asked if the City receives a bill when someone makes an unemployment claim. **Mr. Costa** confirmed that the City receives a straight bill. **Councilor McGeary** asked about the deficit in the DPW Overtime account. **Mr. Costa** stated that it is hoped this account will be covered by the end of the fiscal year, otherwise it will be a free cash hit. **Councilor McGeary** stated that there was an article in the Gloucester Daily Times regarding the amount of free cash funds left unspent. There was discussion regarding the loan for the Fort. It was suggested to keep the loan authorization as long as the project will occur within the next few years and amend it as necessary. **Mr. Costa** stated that he anticipates an additional 25-30 transfer requests to be presented at the upcoming B&F meetings. His primary concerns until year end are the deficits and grant reimbursements. There was discussion regarding grant reimbursements and how they influence free cash. **Mr. Costa** stated that last year there were very minimal problems with grant reimbursements.

A motion was made, seconded and voted unanimously to adjourn the meeting at 7:18 PM.

**Respectfully submitted,
Jaimie Corliss
Principal Clerk**

DOCUMENTS/ITEMS SUBMITTED AT MEETING:

- City of Gloucester Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2011, submitted by Daniel J. Rhodes, Consulting Actuary, The Segal Company
- Actual Amount Overdrawn Report, submitted by Kenny Costa, Auditor