

**TOWN OF HAMILTON
FINANCE & ADVISORY COMMITTEE
MAY 2, 2013**

The Finance & Advisory Committee met at Hamilton Town Hall at 6:04 p.m. on Thursday, May 2, 2013 with Chair John McWane, Charles Chivako and Rick Sprenkle present. Finance Director Deborah Nippes-Mena and Selectman Scott Maddern also present.

Call to order

Chair John McWane called the meeting to order at 6:04 p.m.

FY2012 Audit Exit Conference

Chris Rogers, partner with the accounting firm that conducted the audit, presented summary of results of audit that began in January 2013. The firm has submitted an April 4 report. He noted that the Town Hall staff was responsive to the auditing firm and they did not have any disagreements.

Rogers presented an overview of financial statements and said supplementary information includes historic actuarial valuations and OPEB. Discussion ensued about how the Town should be fully automated using MUNIS and its capabilities but the lean financial staff's time is consumed accomplishing the day-to-day work so this has prevented fully implementing automation.

Finance Director Deborah Nippes-Mena said finishing charted accounts has been the focus. Rogers said the challenge to automate is tied to a resource issue and he suggested use of outsourcing and said cost is based on what municipality is trying to accomplish. Nippes-Mena noted that payroll is currently outsourced which is cheaper and that inherent problems are being addressed with Harpers. She added that there is no IT scripting by MUNIS. Discussion also addressed need for a human resource person for HWRSD and the two towns and that current human resource activity is done on paper or with Excel spreadsheets.

Rogers summarized full accrual financial statements for governmental activities with assets of \$22.4 million, liabilities of \$8.7 million, \$900,000 landfill liability and net assets of \$13.6 million.

Discussion ensued about \$2.2 million in unrestricted assets of cash and receivables or accumulated surplus that includes free cash. Town officials noted that this amount is not available to give back to the taxpayers. Rogers mentioned an increase in net assets of slightly more than 20% primarily related to \$1.7 million decrease in estimated liability for the landfill closure since the Town's approved plan demonstrates that there is not a need to replace the entire cap at the landfill.

He added that bulk of Town's total expenses of \$23.4 million is 68.8% for education. Total revenues for the year were \$25.7 million including program revenues such as charges for services and grants, and general revenues including property and excise taxes.

Also discussed was governmental funds including general fund with a total balance of \$3.6 million with restriction for OPEB of \$49,000 (FinCom questioned why this number wasn't \$50,000 with \$25,000 budgeted each year for the last two years), a committed amount of \$465,000 to fund FY13 budget that is being held in free cash and continued appropriation, \$59,000 encumbrance amount, leaving \$3 million unassigned with \$773,000 of Stabilization Fund.

Discussion ensued about how unassigned amount is up from previous years attributed in part to free cash amount of 5%. Rogers emphasized the importance of having reserves for borrowing and that enterprise funds should be self-supporting.

Also addressed was Town's bond rating relative to reserves and tax rate, and impact of unfunded pension liability regarding ERRS and individual communities, and if there is a plan moving forward to deal with OPEB. Rogers explained that Hamilton owns 2.6% of ERRS' unfunded liability of \$257 million. Also that the Commonwealth is responsible for pension liability from the schools for the teachers and HWRSD administrative staff are members of ERRS so there is pension obligation cost for the Town for these employees.

Discussion addressed if unfunded long term obligations including pension liability had any impact on bond rating. Also addressed were positive items relative to the Town's bond rating include Town manager form of government, reserves have been turned around, trust was voted and money added, BANS rating relative to Hamilton's decision regarding Pirie property without bonding as well as the use of BANS for the landfill and water system structure improvements. Also addressed was how municipalities with better bond ratings

are realizing better value premium and the impact of low interest rates relative to how much taxpayers are obligated to pay. Rogers noted importance of municipality remaining in close contact with financial advisors and bond raters.

Also mentioned was that the Hamilton Development Corporation is up and running, action is underway to close the landfill and investigation is being done relative to revenue sources (i.e., anaerobic digester) and management of development versus residential tax base. Rogers addressed OPEB liability until 2035 and how this can change when a community has money to invest and accumulate assets to offset liability.

Rogers addressed proprietary funds mentioning \$6.1 million in assets for water and waste enterprises and that they are basically self-supporting with \$124,000 of general fund subsidy. Discussion addressed how the water enterprise is not fully funded by the water rates so there is a need to raise the rates to pay for cost of water treatment plant debt for eight years, new debt for water distribution as well as pension, healthcare and salaries.

The Selectmen vote whether or not to raise the water rates with the advice of the FinCom and any raise in rates voted by Town officials would likely be reflected in the water bills sent to residents in three months. Nippes-Mena said the waste enterprise would not pay for itself until the anaerobic digester is in place relative to a five-year window. Details need to be understood if revenue is greater than waste cost and aspects of moving additional funds to general fund. Rogers mentioned capital lease cost of barrels and bins and that Wenham is paying \$80,000 for the third of the barrels to Hamilton.

Rogers addressed debt service expense compared to total that was 2.9% of \$25 million and is low relative to other communities and is going down (i.e., \$696,000 for the year). He mentioned how full OPEB liability is not on the books and 2012 liability is \$1.2 million on the books of the \$5.6 million liability. Discussion ensued about overlapping debt and how the schools need a trust and agreement from the two supporting towns to fund. Also mentioned was that pension liability has to be fully funded by 2035 and that the state sets the deadline for OPEB funding. FY17 is the expected timing for financial liability.

Discussion addressed interest in potential national shift to Medicare that could reduce or eliminate OPEB. Town employees now pay for Medicare. Hamilton currently has two early retirees on healthcare for life and this adds \$500,000 to

Town's OPEB obligation in actuarial study. Historically, 62% of Hamilton's retirees take healthcare.

Rogers spoke to general fund budget to actual and historical pension and OPEB data covered in required supplementary information. As well as report on internal control where there were no findings of deficiencies or material weakness.

In the management letter he outlined that service organizational controls should be reported by third party service providers to the municipality as part of due diligence, OPEB actuarial valuation should be provided to verify census data accuracy since there were 315 instances where birth and retirement dates differed from personnel records, capital asset inventory should be updated timely, formal financial policies and procedures manual should be created, a risk assessment monitoring formal program should be created (it was acknowledged that this has not been done due to resource issue), pre-numbered registration forms should be used by Recreation Department to reconcile cash receipts (effort is underway to only allow use of checks and credit cards), only supervisory personnel should be authorized to post water billing adjustments and security established, also pension accounting and financial reporting for FY15 should relate to pension benefits.

Discussion ensued about how waste removal enterprise fund would be credited with investment income once it becomes self-supporting. It was noted that the Stabilization Fund accrues interest. Also addressed was how RFP process requirement for auditing contract was exempted under Chapter 30B with Hamilton using the same firm three times in nine years at a \$33,000 annual cost. Resident Bob Gray questioned the use of the same auditing firm and recommended that the service be put out to bid.

Discussion of potential purchase of Pirie property/Town's right of first refusal

Selectman Scott Maddern, member of Pirie property working group, spoke to Town's review of its right of first refusal for the 641 and 643 Bay Road property that has been in Chapter 61A and is under agreement for \$3.9 million. The Town has 120 days to act on its ROFR because the proposed use of the property would change from horse farm to housing development. Also, the Pirie family has an offer for the property, the family would like to keep the property as a horse farm, but the interested buyer plans to develop a subdivision adding three large scale homes with large lots to the existing properties on the site. There are two houses

at the front of the property that were not covered under Chapter 61A so they are being considered for purchase by the existing buyer not the Town.

Maddern said the Town is assessing if it bought the remainder of the property and sold it to a developer it could possibly address the need for lower cost senior and cluster housing in Hamilton as well as increase the property tax revenue, retain some of the open space and add a recreation field at the site.

He explained that the working group had been doing the due diligence and determined that there was no reason for the Town to stop its assessment of the Pirie property. Members of the working group have been consulting Town boards to understand their position on the ROFR and so they can present their positions at a public hearing on May 16 and during warrant hearing for a Special Town Meeting in June. Town Meeting voters will decide by a two-thirds vote whether or not Hamilton should consider acting on its ROFR and purchase the Pirie property.

Maddern explained if the Town takes no action on the Pirie property the expected tax revenue from the proposed subdivision properties would be higher than it is now since the new assessed value is estimated at \$9 million to \$10 million. He then described the need for more senior housing in Town beyond what is available at Lamson Hall. Maddern presented illustrations on developer concept of senior/cluster housing that could be considered by the Town for the Pirie site, and noted that a traffic study was done of Bay Road relative to the property and there is no recommendation for a traffic light but rather suggestion to trim trees to improve sight lines.

Discussion ensued about the Town's consideration of cottage style homes and the requirement for site plan approval by the Planning Board for a special permit, interest in maintaining equestrian trails on the property and including recreation field development by developer taking over the property would be an aspect of RFP process.

Also mentioned by Maddern was how much density is being considered for the site, that intent is for cluster housing to be invisible to abutters, a large area of open space would be retained, possibly an acre of land could be added to the Town cemetery providing for loop roads allowing access to the back of the Pirie property for public safety vehicles.

Maddern noted that the Town is focused on housing, revenue growth, open space and recreation and there is a competing argument from abutters and parties interested in purchasing the property including taking legal action against Hamilton. Town Counsel Donna Brewer is involved in the ROFR process.

Discussion ensued about number of developers who have expressed interested in the property, amount of revenue expected driven by the number of properties built with the existing buyer with a price point for homes of \$800,000 that does not meet housing requirement for \$400,000 or lower price point homes allowing people to move to Town, move to senior housing or downsize to cluster housing.

If the Town does not take any action on the Pirie property the expected annual real estate revenue is estimated at \$165,000 and the cottage style housing development could potentially yield more revenue in addition to meeting unfulfilled housing stock. Also mentioned by Town officials as part of the risk benefit analysis of the Pirie property was that increasing revenue at the site could slightly lower the Town's tax rate.

Discussion also addressed the school costs currently being debated with clustered housing versus fewer higher value homes and the associated number of children to be educated in the public school system.

Maddern explained that the Conservation Commission had not reviewed the ROFR information yet and that there was a meeting with the Board of Health next week to discuss soil testing requirements at the site and whether or not a community septic system could be located under playing field.

Discussion ensued about consideration by Town of senior versus non-age restricted housing, and that working group is trying to develop conservative financial models, and that carrying costs for the Town while the property is being developed would be the loss of the existing annual property tax revenue of \$75,000.

Under consideration for an RFP if the Town decides to move forward with the purchase of the Pirie site is to ask the developer to create playing field, give the Town an acre for cemetery, conserve 35 acres, use cluster density and buy the whole parcel. Risks associated with this proposal include time to purchase and sell the property, and that it could take five years for Hamilton to realize full revenue potential after the property is built out. Town officials are estimating

that there could be as little as one year of tax revenue loss and that free cash could be used to offset lost tax revenue to avoid raising tax rate.

Discussion reiterated property being assessed at \$3.9 million, that back lots on property could be possibly be put back into Chapter 61A, and addressed who would be responsible for maintaining playing field. FinCom members were in agreement that cluster housing had a net benefit for the Town rather than large, three-quarters of a \$1 million homes. The Committee's consensus was that it supported the Town's interest in doing its due diligence related to the ROFR and potential purchase of Pirie property since the Town could likely support it financially and it was in favor of subsidiary benefits towards other goals for Hamilton beyond increased property tax revenue.

Meeting update with Superintendent of Schools and School Committee Chair

McWane updated the Board regarding a meeting he had with Town Manager Michael Lombardo, Superintendent of Schools Mike Harvey, and HW School Committee Chair Roger Kuebel regarding sharing IT resources as a means to save money. Sprenkle volunteered his IT expertise to participate in a working group with Nippes-Mena and other officials to analyze resource sharing and resulting cost benefit.

Reserve Fund Transfers

Rick Sprenkle moved that the Finance and Advisory Committee approve the request to transfer \$10,000 from Water Enterprise Emergency Fund for the repair of the Idlewood Well #2. Charles Chivakos seconded the motion. VOTE: Unanimous.

Discussion ensued about request for transfer of \$4,860 from Park Department permanent wages to seasonal wages in cemetery. Interim DPW Director Dave Hanlon will explain why this transfer is needed at subsequent FinCom meeting.

Sprenkle moved to transfer from FinCom reserve \$3,000 to pay for police details at the special primary election, state election in June and STM in June. Chivakos seconded the motion. VOTE: Unanimous.

Discussion ensued about seasonal help that did painting at the HWRSD in the fall and revenue received from school department but that no money had been

