

THE MINUTES OF THE WARRANT COMMITTEE MEETING MARCH 17, 2004

Handout(s) given out tonight:

1. *School Department – Net School Spending worksheets*
2. *Pension Obligation Bonds Overview from First Southwest*
3. *Report on Police & Fire Staffing from the PS Subcommittee*
4. *Pension Obligation Bonds & Steps to Issue from Treasurer Freiner*

Members absent: Oates & Kobus

Also present: Town Administrator Mel Kleckner, Assistant Town Administrator Joyce Munro, Town Accountant Barbara Hagg, James Lorenzo (PERAC Actuary), Joseph Miletich (NEPC Partner), Peter Fraser (First Southwest), Marion Cote, Walter Wellman, Thomas Gibson, Roy Sacco, Christine McConicle (newspaper), Ralph Jones and Chief Osterhaus.

Chairman Widmer called the meeting to order at 7:39 p.m.

Acceptance of Minutes

The Committee will review this next week

Pension Obligation Bonds

Treasurer Freiner introduced the town's financial advisor Peter Frazier. He has been working with the Town for the past 17 years in this position. Our retirement system is a defined benefit system with employee retirement allowances based on their salary, length of service, and employee classification. Benefits accrue over life of employee service. Every two years the system is reviewed by an actuary to determine the liability that will have to be paid over time & present values it back to current date at 8.5% to determine liability. Town pays an annual sum to Retirement system based on these studies. When liability exceeds assets, we have an unfunded actuarial liability. In 1988 Mass passed a law to have retirement systems fully funded by the year 2028. Liability is normal cost (current year) and unfunded "catch up" payments. Those makeup payments have imputed interest rate of 8.5%.

Pension Obligation Bonds (POB) are a borrowing by the town of a certain sum that is then turned over to Retirement system to be invested. Borrowing is at present value of all the unfunded pension liabilities & is then an obligation of the town. The Retirement system has no liability for these bonds. The monies from the bonds however do belong to the Retirement system.

Belmont has a strong AAA bond rating. The impact on the rating of borrowing this big a chunk of money, provided it is done responsibly; it will have a neutral or

positive impact on the rating. Some communities have borrowed, reduced current year appropriations and set up pay back schedules for many years down the line. This is a negative. As long as pay back of the debt is done in a manner consistent with current funding, this would be acceptable. Also negative performances of the Retirement system, enhanced benefits (raises) may increase the unfunded pension obligations. Currently we are at a 45-year low on borrowing interest rates. 10-year treasury cost substantially lower than the expected actuarial rate of return. The lower the interest rate we can borrow the money for, the more likely we are to save money. Each time rates dip, more communities participate in the POBs. The borrowing is being invested by the Retirement system when Town borrows. Historic rate of return is approximately 10%. The only Mass municipality that did this was Worcester. They issued at 6.1% in 1999 (good at the time). Portfolio initially increased in value, then they had bad experience because of the Worcester fire, then a precipitous drop in the stock market. Essentially they borrowed but are still running at a negative. In 2003 there was an extraordinary # of systems that issued POBs because of the low interest rate & there are a number of systems in the queue. About 7 towns in Massachusetts have the legislation in place. This requires a special home rule petition, town meeting vote, then to the state legislation. Another six communities are actively seeking this legislation.

A chart was shown for UAAL funding with the existing versus debt service for POB. Normal cost would continue to accrue. Hopefully, eventually with a strong return, the normal cost could also be reduced. Benefit of POB is that the pension is fully funded. We could realize cash savings of \$22M over the next 22 years. This has a present value of \$12.2M. All this depends on the actuarial rate of return being achieved. By investing all at once rather than over time, this increases the risk since we cannot take advantage of market value. If interest rate on bond is higher than rate of return on investment, then we will wish we hadn't done the borrowing. But over the long haul, the historic rate of return should beat our 8.5%. Suggests not building in savings into the budgets over the years.

Important to keep in mind that the debt service comparison is all related to the Town. The ROR from the Retirement system does not figure into town's savings. We are really doing arbitrage. This will not be a tax-free debt, so the bondholders will be paying taxes on the interest. Member White asked how to quantify risk. Joseph Miletich says that it depends on the performance. Shortfalls will become a new stream of liabilities to the Town. Member White asked for a run showing standard deviations to see what kind of liability would be generated by underperformance or over. Jim Lorenzo suggested doing this over a stream of 4-5 years. Three years showing average, best case & worst case. Risks are a short-term risk. Worcester was hurt when they threw in a bunch of cash & the market went down significantly. The actuary would be the one to present these figures. We would need to update our current actuary report to how current liability. Models do exist. Member Hobbs suggesting selling the bonds at deep discount bonds (pay 30% at maturity & no debt in meantime). Frazer stated that A&F would not look favorably upon a deferred liability.

Lorenzo spoke about Worcester. They previously paid \$15M on UAAL and \$8M on normal cost. They now pay \$16M on bonds and \$17M on normal cost. This is a substantial increase. Member Flewelling questioned the impact on the towns rating of such a large bond liability. Frazier explained that this is just replacing one liability with another. Frazier says that for communities with the wherewithal will enjoy an enormous benefit.

Wellesley is over funded, using 7% investment assumption and no longer pay any funds into the retirement system including normal cost. Have to be at 120 -125% funded (Lorenzo) in order to get to this position. Frazier says that we could look at sweetening retirement benefit. Member Brownsberger wanted to know market advantages for Belmont. Frazier answered that Belmont is at AAA and no one can borrow lower except perhaps the federal government. Brownsberger asked what the gap would be. Frazier says there is an incremental gap between AAA and others. Treasurer Freiner says that Belmont will be one of the few communities that is allowed to do this. Freiner will work with the Retirement system actuary.

Member White stated that Subcommittee reports are due. Please submit by e-mail

Public Safety Subcommittee report.

Ralph Jones spoke about the benchmarking on Public Safety and the inherent difficulties. Last year we could not benchmark Police expenditures. Local government in general is not broken down and compared by the state in the same manner as the Education. Eleven communities are used # of officers per population and # of officers per UCR (uniform crime reporting). Fire is more difficult. They report on the NFS for staffing for all fire department across the US. This was a census with 46% response. The communities that responded were not completely analyzed (only 8K of 22K were analyzed). Belmont is right on the cusp of the population center. We have 11 firefighters on staff & available at any time. We fall right between the big cities or small towns. 18 were averages for cities and 8 for towns. We do however have the oldest fire stations.

On the police staffing, there was data gaps/missing. Our # of sworn officers has decreased and we are now right in the middle. Uniform Crime Reporting comparisons figures have gone down. We are right now five out of the eleven communities that were compared. 47 sworn officers were used as a comparison. Summary: we are right in the middle for police and fire department.

So, what is the right figure for budget purposes? Lexington has gone down to 41 sworn officers and closed one of their fire stations and is down to one fire station. Some services can no longer be provided in those towns. There are potential regional options in police & fire. De facto mutual aid system already exists. This can be augmented with official discussion. Consider using a risk manager

framework for both police and fire. This is consistent with performance measures. Is current staffing decreasing risk? Declining workload in fire & decreasing workload in emergency medical services. What is the best way to go to prevention rather than suppression (fire or crime)? Where would marginal increases go? Prevention or Protection? What is the management strategy? All these would be decisions to be looked at by WC & BOS. Chair Widmer thanked Mr. Jones.

Member White passed around police staffing summaries. Seven distinct areas: patrol, traffic, detective, prosecution, administration, etc. Focus on patrol function. Six officers per shift. Four officers are on the road along with a supervisor and one supervisor is in the office. 60% of shifts have six officers. 40% of shifts lack one supervisor (supervisor goes into headquarters). If one sergeant added, FT coverage would be provided for supervision. Problem right now for the night shift: Example 3 people must respond to domestic violence (if only 4 on road, this leaves only 1 for rest of town). Increases risk for personnel. Recommends 37 officers for patrol function. 11 would go to other functions. This would increase staffing by one or we could reduce other functions by one to add to supervision for patrol. Even 48 officers do not allow for substantial staffing of school resources, traffic. Recommend BOS mandate staffing level for patrol.

Chair Widmer asked for exposure. 68 times in last six months police has had to request mutual aid. Is this a problem? Widmer suggests that this is true use of mutual aid. If there were 68 calls, how many were during times without field supervisor. 40% of time without field supervision is bad management per White. With that level of staffing any significant incident causes a problem. Jones explained that young officers take the evening shift and may not be seasoned enough to handle without supervision. Member Curtis asked if six officers are even throughout 24-hour period. There are 11 officers that handle evening and night shifts. Then there is an additional group (14) that handle days. There are 3 people doing day/foot/motorcycle patrol and backup. Focus during day is on Belmont center, Waverley & interaction with citizenry.

Member Hofmann asked about police officers on duty during the day. 26 vehicles for police force appear excessive.

Member Brownsberger asked if people will be pulled out of detective & traffic to meet full needs of patrol. White says if decreased staffing in other divisions then lower level of service for non-patrol services. Member McCormick stated that traffic bureau decreased staffing means that town needs to identify what they want from traffic or dare program. Something has got to give. Brownsberger says that officers on patrol do traffic stops. Member Schaffer says that there is a cost of increasing the one patrol position to sergeant. Jones also says that there could be a lateral transfer from another division instead of a promotion. This will be difficult to implement because of day positions being a preferred job for the senior members of the department. Stratford stated that Jones recommendation of current staffing level versus White recommendation of one more person inconsistent. Minimal

response and adequate supervision are key per White. Hofmann asked how many times were put in to mutual aid. White says there is unrecorded mutual assistance. Backup to traffic stops near town lines are informally done and not always recorded. Member McCormick says that figures are not always comparable.

Fire department staffing recommend accept at 52 fire suppression officers and 4 administrative for a total of 56 officers. This does not meet NFP recommendations. 13 officers assigned per shift but usually only 11 show up (sick, vacation, leave, etc). This affects the OT budget of \$295,000. Because staffing not up to the correct level, overtime must be used. Chief stated that this is hard to determine use. Staff going to fire academy, line of duty injuries, etc cause automatic overtime. Chief feels we will be OK this year. McCormick says that ladder truck with 2 men is insufficiently manned. It takes 3 men to properly man the truck. Level of 56 officers (1 administrative assistant) is comparable to surrounding towns. Fire suppression, fire prevention, medical emergencies, hazardous materials, plans review/permits are all functions of this department. Medical response has become a larger focus of department. Oil burner, fire alarm and other inspections are not up to date. No first responders trained in advanced life support (ALS). Bargaining unit prior practices are also difficult. McCormick asked for fire objectives for ambulance (public vs private). Should we have two ambulances? Consider the impact of changing deployments with shifting personnel between stations. Signoffs for developments should be more business friendly and timely. Consider possibility of retirees with construction backgrounds to assist in plans review as needs. Train officers in ALS.

Capital Endowment Discussion

This discussion will be deferred to next week.

Burbank Oil Spill

\$1.350M to address just oil spill. Subcommittee of Warrant Committee has looked at possible sources of fund: NESWC, Free cash, Health Insurance Trust remainder, capital project leftovers, and possibly the reserve fund at June 30th.

To date clean up costs are \$1.137M. One member of the Committee was concerned that legal recovery may be more difficult depending on source of funds. Borrowing for a non-capital expense would be difficult if not impossible before year-end.

School will contribute \$100K, capital fund non-expended balances about \$75,000.

Subcommittee has come to agreement on \$875K. \$500K is balance that has to come from other sources. NESWC is clearly an available source. Kendall

Insurance is available. When \$ is recovered, group would like to have sources replenished. Additional state aid of \$300K would be “found money” and a good source of taking care of these costs. This deficit must be addressed before year-end.

3/30 will be next meeting of sub committee to discuss options & have the final fuller discussion & get more unanimity.

Other

Member Stratford stated that School Finance Officer Missal has also provided documentation on town school spending. METCO funding has been decreased & there is a rally tomorrow at the state house.

Other

Next week: Capital Endowment, Additional state aid & sentiments of Warrant Committee. Mel has been asked to put together a list of Town possible needs for funds & BOS votes. Bruschi has requested the budget sheet update provided to BOS this past week. This is the one with three scenarios and different allocation models.

Member Flewelling made a motion, and it voted unanimously to adjourn the meeting at 9:41 PM.

Respectfully submitted,

Barbara Hagg
Town Accountant

Recording Clerk