APPROVED
BOARD OF SELECTMEN
DATE: 9-26-16

MINUTES
TOWN OF BELMONT
BOARD OF SELECTMEN
SELECTMEN'S MEETING ROOM
Tuesday, October 27, 2015
8:15 AM

CALL TO ORDER

A regular meeting of the Board was called to order in open session at 8:22 a.m. by Chair Sami Baghdady in the Selectmen's Meeting Room. Selectmen Mark Paolillo and Jim Williams were present. Town Administrator David Kale and Assistant Town Administrator Marshall were also present.

Chair Baghdady noted that the Board will go immediately into Executive Session.

Executive Session

> *The Board moved:* To enter into Executive Session at 8:24 a.m. to consider the purchase, exchange, lease, or value of real property if the Chair declares that an open meeting may have a detrimental effect on the negotiating position of the public body. The Board will return to Open Session.
> A roll call vote was taken: Chair Baghdady said aye, Selectman Paolillo and Williams also said aye and the motion passed unanimously (3-0).

Return to Open Session

The Board returned to open session at 9:00 a.m., and took a brief recess.

ACTION BY APPOINTMENT

Discussion and Vote on Amendments to Land Development Agreement and other Documents related to Cushing Village

Mr. Hall, Town Counsel, appeared before the Board to discuss the Amendments to the Land Development Agreement and other documents related to Cushing Village.

Chair Baghdady summarized the issues discussed in Executive Session, e.g., the revisions to the documents, including the land management, parking management, and parking easement. The Board is ready to approve the documents and accept the revisions. Selectman Paolillo noted that the Board signed the documents two months ago and remains ready to move forward.

> *The Board moved*: To approve the amendments to the three documents as presented by and agreed to by Town Counsel (LDA, parking easement, parking management agreement).
> The motion passed unanimously (3-0).

The Board thanked Mr. Hall.

Application for a One Day Liquor License from Belmont Media Center to serve Wine and Beer at an event on October 29, 2015 at the Beech Street Center, 266 Beech Street

Chair Baghdady stated that the application is routine.

> *The Board moved*: To approve the one-day liquor license request from the Belmont Media Center, details noted above.
> The motion passed unanimously (3-0).

Approval of a Common Victualler License Application from Adonai & Rios, Inc. d/b/a Spoodles Soup Factory for a 13-seat restaurant at 374 Trapelo Road

Mr. Jose Rios, owner, appeared before the Board to request his license. He explained the concept changes, noting that soup, salad, and sandwiches will be served, mostly on a take-out basis. He reviewed the seating, the hours of operation, and noted that there will not be delivery. He said the stools have been removed, but will be replaced, pending approval. There will be no tables.

> *The Board moved*: To approve the common victualler license for Spoodles Soup Factory for a 13-seat restaurant at 374 Trapelo Road, further details noted above.
> The motion passed unanimously (3-0).

Approval of Proclamation for Belmont Media Center's (BMC) 10th Anniversary

Chair Baghdady acknowledged the BMC on its 10th anniversary. Selectman Paolillo read the BMC Proclamation, which will be presented at the anniversary dinner, on Thursday evening (10/29/15) at the Beech Street Center.

> *The Board moved*: To approve the Proclamation.
> The motion passed unanimously (3-0).

Town Administrator's Report

Mr. Kale reported on the following items:

- **Cable Telecommunications Letter** – is ready to be sent out.
- **Woodfall Road** – the sale has been finalized to allow for the building of four residences. Chair Baghdady said that the gross sale price is $1,750, 000.00.

Committee Liaison Reports

Minuteman: Selectman Paolillo provided a brief update, noting that meetings are ongoing concerning the new facility and the member agreement. There will be a meeting tomorrow night that he will attend. He reviewed some of the issues and costs associated with the new facility. The Board will hold a public forum on Tuesday evening, November 10, at the Beech Street Center. Town Meeting members have been invited to attend.

Unfunded Benefits Presentation: Selectman Williams presented an overview of the pension benefits, noting that the town's obligations include the unfunded pension and post retirement health care obligations. He reviewed the fiscal impact of these obligations ($380M over 30 years). He reviewed many concerns surrounding this debt owed by the Town. This debt will need to be reconciled on a balance sheet, in the not too distant future. He summarized possible steps that could be taken to deal with the pension debt obligation. He noted that, under the PBO scenario, there is a potential for significant savings. He explained what makes the potential savings possible.

Mr. Williams then raised the issue of funding this obligation with a proposed debt exclusion. Under the debt exclusion scenario, certain other funding will then go back to the operating budget. He suggested that the issue be explored further via the issuing of an RFP (in November) to select an investment bank to review the situation and make a recommendation.

He then explained that the pension actuarial projections will need to be run, absent the COLA, beginning in 2016. He reviewed some of the numbers, noting that the debt burden will be relieved under this scenario. This issue, he said, is a Board issue and needs to be resolved by the Board.

Chair Baghdady reviewed the presentation and more information on the approach, risk and benefits of POBs is required by the Board of Selectmen.

A discussion between the Board and Selectman Williams regarding an engagement letter with Stifel that was initiated by Selectman Williams without prior approval by the full Board took place. Further discussion on process and communication took place. Chair Baghdady stated that Town Meeting members and recently appointed Committee members have been involved in conversations with Stifle and have spoken in a way to give the impression that they are able to set policy, which he found troubling. This includes solicitations to the Warrant Committee. There is a process and procedure that must followed to set BOS policy. Vice-Chair Paolillo voiced his concern on resident's advocacy for an engagement letter with Stifel without proper and prior consultation with the BOS and Town Committees, such as the Warrant Committee. The BOS should work together on these issues instead of operating independently.

A transcribed excerpt of the discussion is attached as well as the Stifel letter and Power Point Presentation that was provided by Selectman Williams.

Selectman Williams discussed his process on the engagement letter and in his opinion the need for additional help on the Town's pension and OPEB liabilities.

Treasurer Carman spoke before the Board of Selectman to explain the capacity of the Town's Financial Advisor, First Southwest, to perform detailed analysis on POBS. The Treasurer explained the current strategy of funding benefit liability is and the impact of future large capital projects and debt costs. The review of the positive aspects of the Town's finances and direction from a Moody's rating perspective was explained by the Treasurer. The BOS and Treasurer agreed to have a future meeting with First Southwest to discuss these liabilities.

Ralph Jones echoed the Treasurer's belief that POBs are two years away with all the steps required to get final authorization to issue POBs. The latest POBs issued by Brockton contained many restrictions imposed by the Department of Revenue.

Approval of Meeting Minutes

- **June 22, 2015 Regular Meeting**
- **June 22, 2015 Executive Session**
- **August 17, 2015 Regular Meeting**
- **August 17, 2015 Executive Session**
- **August 31, 2015 Regular Meeting**
- **September 18, 2015 Regular Meeting**
- **October 5, 2015 Working Session Meeting**

The Board moved: To approve the meeting minutes, as noted above.
The motion passed unanimously (3-0).

NEXT MEETINGS

Monday, November 2, 2015 at 6:45 p.m. Selectmen's Meeting Room Town Hall
Monday, November 9, 2015 at 5:30 p.m. Selectmen's Meeting Room Town Hall
Tuesday, November 10, 2015 at 7:00 p.m. Beech Street Center
Monday, November 16, 2015 at 7:00 p.m. Beech Street Center

The Board moved to adjourn the meeting at 10:21 a.m.

Mr. David Kale, Town Administrator

TOWN OF BELMONT

EXCERPT OF BOARD OF SELECTMEN'S MEETING

BOARD OF SELECTMEN:

Sami S. Baghdady, Chair

Mark A. Paolillo, Vice Chair

James R. Williams, Selectman

Belmont Town Hall

455 Concord Avenue

Belmont, Massachusetts

Tuesday, October 27, 2015

* * * Electronic Recording Transcription * * *

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P R O C E E D I N G S

[Excerpt of Town of Belmont Selectmen's Meeting of Tuesday, October 27, 2015 as follows:

MR. BAGHDADY: Jim.

MR. WILLIAMS: Yes. Thank you.

Mark --

MR. PAOLILLO: I have it. I have it.

MR. WILLIAMS: I'm going around here because I want to look at you guys.

MR. PAOLILLO: Will he be on camera?

MR. BAGHDADY: Yes.

MR. WILLIAMS: So, Mr. Chairman, and, Mark, thank you for --

MR. BAGHDADY: Let me just begin by saying something.

MR. WILLIAMS: Uh-huh.

MR. BAGHDADY: This was not a separate agenda item, okay, and that being said, I'm fine with your presentation to us in advance of the Warrant Committee forum tomorrow, but I don't think it's proper for us to have a substantive discussion, you know, and -- you know, on the merits of whether to issue pension obligations.

MR. PAOLILLO: We're not even close. Yeah.

MR. WILLIAMS: Yeah.

MR. BAGHDADY: Okay. And it's not an agenda item, okay. So for us to deliberate on it now, I think would not be proper.

MR. PAOLILLO: Well, out of respect for Jim, I'm willing to listen, and this is an ongoing dialogue.

MR. BAGHDADY: Okay. Of course. Okay.

MR. WILLIAMS: Since I'm on the board too, I don't want to deliberate today either.

MR. BAGHDADY: Yeah.

MR. WILLIAMS: But I think the information is absolutely critical in terms of getting started, and I also wanted to say that I consider this to be independent of the report from the Warrant Committee that will be in that public education program tomorrow night, because I believe that we have independent activities that we need to undertake, and I think the report that they produced is a well-reasoned, solid report. Michael and Greg were in contact with me throughout, and so this is independent of their deliberation.

MR. PAOLILLO: Okay. Okay. So I have some hard questions as well on some other matters related to this, Mr. Chairman, if I can ask.

MR. BAGHDADY: Yes.

MR. PAOLILLO: Great.

MR. BAGHDADY: And I have some process questions as well.

MR. PAOLILLO: Yeah. That's exactly my questions, process.

MR. WILLIAMS: Okay. So the first slide is 380 million over 30 years, and it's my understanding, and, David, you can correct me if I'm wrong, that the Board of Selectmen is basically the CEO -- we are the CEOs of the Town, and so when I say that we are responsible for prudent management of the pension fund, what I mean by that is it's on our desk. We have to pay attention to how the pension -- the unfunded pension fund and the unfunded health care fund are being managed.

With regard to that, we've agreed, the Town has agreed to amortization of its unfunded $70 million pension obligation at seven and a half percent interest requiring cash payments totalling 125 million over the next 13 years. These are just facts.

In Fiscal 2016 the amortization payment is around 7 million. It escalates annually at 7 percent to 15 million at 2027, which is the final scheduled payment. Subsequently the strategy is to redirect that $15 million payment to address our unfunded OPEB obligations beginning in 2028 into perpetuity.

So you can imagine the stream of payments totalling 125 million over the next 13 years and then, thereafter, 15 million.

MR. PAOLILLO: I don't think we've formally voted on a strategy, but I think that's been the thinking; right?

MR. WILLIAMS: Well, that's what's in the actuarial report.

MR. PAOLILLO: Okay.

MR. WILLIAMS: So these are -- this is our current strategy, and these commitments together if you just simply add them up, it's a total of $380 million, over the next -- over a 30-year planning period.

So what's the concern? Just as we've estimated and made long-term cash payment commitments to remedy our unfunded obligations, we can also estimate our long-term revenues, our operating expenses, debt capacity, capital needs, and financial condition to estimate a useable outlook over the plan period. And I want to say that I don't think we would be able to do this unless the Financial Task Force had accomplished what it has accomplished because we have three years of history; we have five years of forecast, and then what you can do is a steady state forecast going out. You have to make certain assumptions, but then you can begin to see what can happen to the Town financials based on Financial Task Force work and then a steady state projection.

We also know from an accounting standpoint that the Town will be technically insolvent as of June 30, 2016 when our liabilities exceed our assets, as the pension fund obligations come on the balance sheet.

MR. BAGHDADY: Yeah, on paper.

MR. WILLIAMS: Yeah, well, I mean.

MR. PAOLILLO: Along with other 350 other communities, Jim.

MR. WILLIAMS: It just is. It is.

MR. PAOLILLO: No. No. I think that's the point.

MR. WILLIAMS: And it will only worsen on June 30th of 2018 when the unfunded pension obligations come on balance sheet. Consequently, our debt capac -- I believe and I think others agree that -- although not all others -- that our debt capacity will come into question and our bond rating will be at risk just when we expect to enter a period of capital project expenditures.

How much debt are we talking about? 72 million for unfunded pension obligations and 130 million as of 6/30/2018 for the OPEB. The two amounts represent 80 percent of our 250 million debt capacity.

Any other concerns? Yes, in a word, cash flow. The Financial Task Force projections forecast a cash shortfall of 3.1 million for 2019. As the status quo pension amortization increases, the cash shortfall under a steady state projection model, and I agree I'm the one who's done this model, although we've agreed that the Town Administration Group will provide the new one, widens to 5 million in 2020; 10 million in 2023; and 15 by 2026.

So what can be done? We can choose the status quo which will require the 125.7 million in cash payments. Those are currently scheduled over the next 13 years. And possibly another override as early as 2019 to fund.

We can also extend the status quo amortization which reduces the annual cash outlays but increases the door-to-door costs because when you extend the amortization, you have to pay interest on the extension.

Or another option is to issue a 60 million, 20-year taxable pension obligation bond as a debt exclusion with a 3 percent coupon, which will fix annual cash payments at 4 million per annum --

MR. PAOLILLO: So I know we're not deliberating --

MR. WILLIAMS: -- by 2035.

MR. PAOLILLO: -- but, Jim, that three -- I think that's a debatable point.

MR. WILLIAMS: Oh, no, there's no question.

MR. PAOLILLO: The 3 percent tax coupons.

MR. WILLIAMS: There's no question about it. We have one example that shows a double A town issued a similar structure last year.

MR. PAOLILLO: Which town was that?

MR. WILLIAMS: I don't have it in front of me --

MR. PAOLILLO: Yeah.

MR. WILLIAMS: -- but I've sent it around, and it was -- it came off at three and a half percent. This was last year --

MR. PAOLILLO: Yeah. Okay.

MR. WILLIAMS: -- at a lower rate.

MR. PAOLILLO: I'd like to know that town because based on the Warrant Committee report, there's only been two towns that have issued POBs: Brockton and Worcester.

MR. WILLIAMS: So $45 million savings, and, again, I add that this is one scenario, but I think we have to think about this in terms of scenarios.

The door-to-door cash costs of the pension obligation bond option that I just described is 45 million less than the status quo option at 125 million. So, in other words, if you issue -- if you can issue a pension obligation bond, and there are a number of things that we have to do before we can do that, if we choose to do that, the door-to-door cost, meaning it's just like a mortgage, a 20-year mortgage, a fixed annual payment, 4 million times 20 years is $80 million. And that's versus 125.7 that we're currently scheduled to pay over the next 13 years.

And wait. It gets even better. Because if you do this bond, and you're paying 4 million a year for 20 years, four times 13 is 52 million. So over the next 13 years, if you do a bond, as we have assumed here, you'll only be spending 52 million instead of 125.

Do you see that point?

MR. PAOLILLO: I don't follow the numbers, Jim, but that's fine. I'm listening.

MR. WILLIAMS: No.

MR. PAOLILLO: I don't really follow the numbers, but.

MR. WILLIAMS: It's part of --

MR. PAOLILLO: I understand what you're suggesting, but I'm not agreeing that the numbers are correct. I'm just listening to you.

MR. WILLIAMS: Okay. So from this example, if the fixed payment is 4 million a year compared to what we --

MR. PAOLILLO: I understand the point. Thank you.

MR. WILLIAMS: All right. Fine.

What makes this possible? There are two factors. There's a lower interest rate on the unfunded obligation and a seven-year maturity extension. So for that reason, the expenditure during the next 13 years is much lower than what we've currently agreed to.

And won't the voters have to agree to a debt exclusion? And the answer is yes. We would ask them to agree to a debt exclusion. So why would they do that? Under this scenario, they would do that to save the 73 million for the 13-year amortization period that we just talked about. Second, they would do it to permit the return of the scheduled amortization payment totalling 125 million; and, third, to avoid another override.

So this is the key point in restructuring the current pension obligation amortization schedule that we have. If you do it with a pension obligation bond, you replace the current schedule, and the 125 million that we would have spent on the pension amortization goes back to the State or goes back to the operating budget; and by doing it with a debt exclusion, what happens is the 4 million in debt service comes from an agreement by the taxpayers to do the debt exclusion.

So this is still not clear because the taxpayers have just agreed to a four and a half million dollar override and now under this scenario, we'd be asking for another 4 million.

Yes, that's true. That is true. Because the previously scheduled 6.3 million in pension amortization -- we're talking about 2016 -- will return to the operating budget and permit the Town to maintain a cash surplus until at least 20 --

MR. PAOLILLO: Are we certain that -- well, we're not deliberating; right? So I think some of these assumptions, Jim, we need to discuss further. I'm not certain that can be the case, but that's fine. I'll just listen. I'm sorry. We're not deliberating. We do at some point need to deliberate; right?

MR. BAGHDADY: Yes.

MR. PAOLILLO: Okay. Great.

MR. WILLIAMS: The one thing I would say is it's -- it's -- we've committed to spend the 125 million. We're not deliberating, but we've committed to do that. If you restructure that obligation, either by extending it or refinancing it, you can reduce the amount of money that we're using to service that obligation, and if you do it under a pension obligation bond structure and you get that approved as a debt exclusion, you bring new money into the structure. Then you have to decide, okay. What am I going to do with the money that was previously scheduled to make the pension payment? And the answer is it goes back to the operating budget.

MR. PAOLILLO: That's your assumption, but that's fine.

MR. WILLIAMS: It is.

MR. PAOLILLO: Right. Right.

MR. WILLIAMS: So, now, why would the taxpayer want that surplus to be in the operating budget? And the answer is they probably don't. And so under this scenario, we're not currently funding our OPEB obligation, and this is how we got into the pension problem in the first place. So we can remedy the OPEB problem long term by funding two and a half million per year going forward.

So in other words, if you have -- if you're getting six and a half million back from refinancing the pension obligation, you can take two and a half of that six and a half and put it towards OPEB now. And if you do that, it will begin to have a long-term -- it will begin to be a long-term solution for the OPEB problem as well. We still have 4 million left on the money that's coming back to the operating budget and what we can do with that is we can actually do an underride and return that to the taxpayer, and what that would end up in -- this is a scenario now. Don't say no right away. This would reduce the 2015 override to a half a million per annum and maintain an operating surplus until at least 2021.

Now, it sounds too good to be true; so you're going to need more than my word on this, and I believe that we should issue -- that the Board of Selectmen should issue a pension OPEB fund management RFP and select an investment bank to review the situation for us and make a recommendation as to what we should do. I'd like to ask the board to do this in November and ask the investment bank for a 2015 December report. I believe time is of the essence as the savings are too large to ignore any longer.

And then there are other considerations. The status quo option, which is what we have now, Mark, this is what the Warrant Committee refers to as the status quo. That's the 125 million. It's essentially the equivalent of a pension obligation bond with the state instead of a public pension obligation bond because you've agreed to amortize the unfunded pension at seven and a half percent. It's exactly the same thing.

The other thing I think we need to explore is that the pension actuarial projections, and I stand to be corrected on this, but I believe it to be true, includes the COLAs in the projections. So the reason that's a problem is that the Retirement Board can approve a 3 percent COLA for the first 12,000 of a pension payment. The annual pension payment is about $25,000. So that means they have the discretion to approve a 1.5 percent increase in the retirement payments per year, and if you run that over a 30-year projection period, compounding it, it amounts to a 56 percent increase in the obligation; and I would like to see our actuary run the projections without the COLA, so that we can figure out what the unfunded pension amount is without the COLA, and I also would propose that we run the OPEB actuarial projection at a seven and a half percent discount instead of the four and a half that we're using now, and include a two and a half million funding beginning in Fiscal 2016.

And the reason for that is that the reason the pension fund is run at seven and a half percent is that that's the historic rate that you can earn on funds that are in a fund, you know, the assets that are there under management. So that seven and a half percent is a good number. Even though it would be difficult to achieve in today's market, it's still a good number. And by running the OPEB at a four and a half percent discount, what that does is it makes the present value of the obligation higher, and we're also -- we have two funds in the running at two different interest rates. So the seven and a half percent is required by the state. I think we should have our OPEB actuary run a seven and a half percent run and then assume that we're going to put two and a half million against it and see what happens over the 30-year planning period; and I've already done that privately, and I know the answer, but I think you'll be pleasantly surprised.

If we can do these two things, and we need advice, and we need help to do it, what will happen is just as Cushing Square hopefully will close before November 5 -- 19th, if we can do these two things, the pension problem goes away. It doesn't go away completely because we still have to pay for it, but the payments are greatly reduced; and the OPEB problem will go away, if we can do these two things.

So it's my understanding that when I worked on the Financial Task Force, you know, the question was who runs the town? And some people said it's the Town Meeting. Some people say it's the Board of Selectmen. Some think it's the Town Administrator. In the almost more than a year and a half that I've been involved in this, I believe that it's the Board of Selectmen. We are the ones who are responsible for this outcome. And I think that we can, from our good offices, we can ask the actuaries to run the runs that are needed to evaluate different scenarios, and I also think that we can hire an investment bank who is acceptable to all the different parties. I can think of three or four that we already know. We have a financial advisor, Sun Trust. I believe that's the --

MR. KALE: FirstSouthwest.

MR. WILLIAMS: FirstSouthwest. Excuse me. Segal also does the pension actuarial report.

Who does the OPEB actuarial report.

MR. KALE: KMS.

MR. WILLIAMS: KMS. Do they have an underwriting capacity?

MR. KALE: No.

MR. WILLIAMS: No. So they wouldn't be a good choice, but Segal does. And then this firm, Stifel that I got from -- I had a presentation. Michael Trotsky --

MR. PAOLILLO: I would like to talk about that, Mr. Chairman, but go ahead.

MR. WILLIAMS: Yeah. So I got a presentation from them, and I asked them for an engagement letter to see what it would look like, and I think they should be one of the options, and according to David, they did buy bonds for the high school the last time that was -- we did a bond issue for the high school.

So I think the three of us are responsible for this. And I think we have the authority and the process to begin to address this that no one else really has. I don't think it can come from the Treasurer's office. I don't think it can come from the Warrant Committee, and I don't think it can come from Town Meeting. The initiative and the strategy has to come from the three of us.

MR. BAGHDADY: Okay. If I may?

MR. PAOLILLO: Of course, you're the Chair.

MR. BAGHDADY: Okay. Number one, thank you for your presentation. Okay. We are not going to, you know, deliberate on this today. This is certainly one approach. It has assumptions. I'm not sure I necessarily agree with all the assumptions, and I don't think it properly outlines the risks on the other side of the table either, but that's a discussion for another day.

What I do want to build upon though is your statement of who runs the Town.

MR. WILLIAMS: Okay.

MR. BAGHDADY: And I agree with you. Okay. I think an initiative such as this is a major policy decision for the Town of Belmont, with risks and possible benefits, and I do agree it is a policy discussion that should initiate with the Board of Selectmen, with the Board of Selectmen, the three-member board. Okay.

Jim, there's an appearance that you and some of your supporters are going out and making representations to people and investment bankers and companies without first having the proper process of a discussion among the three-person Board of Selectmen. You know, the Stifel letter, I'm going to read it. You know, I'm going to read certain excerpts: "On behalf of Stifel, Nicolaus & Company, Incorporated, this letter confirms certain preliminary terms of our engagement to serve as lead managing underwriter for the Town of Belmont, concerning a prospective pension bond issuance for the Belmont Contributory Retirement System."

"The Town" -- I am skipping -- "The Town has engaged Stifel, Nicholas & Company, Incorporated to serve as the underwriter and not as financial advisor or municipal advisor in connection with the issuance of the bonds."

Next page. "It is our understanding that you have the authority to bind the Town by contract with us," and then it says "Jim Williams," with a signature line.

It bothers me when one Selectman, without having brought this discussion in advance, goes and represents to an investment banker, okay, and you know, pension OPEB bond, OPEB liability bond underwriter that they have the authority to be negotiating these things with them when the process is nowhere near that stage.

It also bothers me personally when, on your recommendation, okay, we appoint people to nonstatutory committees, like the Economic Development Advisory Committee, and then those people contact investment bankers, represent they're a member of a Town committee and purport to communicate as though they have the authority to speak on behalf of the Town about these major policy decisions that this Board has not even taken a position on.

It's something that's been troubling me for a while, and I think it's very important to air this out publicly and engage in a discussion, because I think it's important to set a protocol for future policy decisions being made on behalf of this Town.

I also don't think it's proper when, again, members who we have appointed to committees start e-mailing members of the Warrant Committee and --

MR. PAOLILLO: Board of Selectmen.

MR. BAGHDADY: -- us to pressure the Town Administrator to sign this document when, again, there is a municipal process and procedure. We are nowhere near being -- binding this town on an investment banker to underwrite OPEB and pension liability bonds.

MR. PAOLILLO: Mr. Chairman, if I may. I completely agree with your comments.

Jim, we want to work with you on this; and when you joined the board, I said to you, Jim, this is an issue you ran on, understand that we may have disagreement of some of your assumptions, but I'm committed to dialoguing on this. I read the Warrant Committee report. I think it was well done.

I think it's a deliberation we have to consider.

Pension obligation bonds is a very risky investment, but we have to be very careful about how we evaluate that and evaluate the amortization schedule; but I have to tell you, Jim, I was shocked that you sent this engagement letter to us perhaps with the right intention, but I think procedurally incorrect. I mean, it's totally inappropriate for you to have gone out, represent the Town to this Chicago organization, and then, frankly, Jim, with all due respect, to share what I believe perhaps to have been a confidential document with your former campaign manager and other supporters, and then they're lobbying us saying what's the delay in signing this letter? I mean, are you kidding me? I mean, it's totally inappropriate, Jim.

Let's work together, not outside. I mean, I don't go off and separately unilaterally meet with vendors to engage the Town. So if we're going to work together on this issue, and we should, then let's work together. And I would appreciate it if we discuss matters first and then present a direction as to what we want to do and perhaps we might say, yeah, Jim, that's a good idea. Why don't you contact some investment bankers. I actually think it's under the purview of the Town Treasurer and not this Board of Selectmen; so we should certainly work with Floyd, but to suggest and to be lobbied by supporters to sign this letter without having deliberated on it, what's the delay is one e-mail that we received, without working with the Warrant Committee, without consulting with our Town Treasurer, without consulting with Town Counsel, I think, is totally inappropriate.

So can we just agree that we will work together and a lesson learned on this matter that you won't do something like this again?

MR. BAGHDADY: Yeah. Let me just add one more thing.

Jim, the reason why this discussion is -- I mean this is something that I think has been festering, but the shock is not -- is beyond Mark and myself. I've heard from numerous members of the Warrant Committee and numerous other community leaders who have said what is going on here? You know, why isn't the Board as a whole deliberating before we go out and get all this pressure to sign a contract with an investment banker, and rightfully so. I mean, do you disagree?

MR. WILLIAMS: Well, I think a couple of things, if I may.

MR. PAOLILLO: Sure.

MR. BAGHDADY: Yeah.

MR. WILLIAMS: First of all --

MR. BAGHDADY: And by the way, you can sit on this side of the table.

MR. WILLIAMS: No, I kind of like this side because I can see you. You know, I hate to --

MR. BAGHDADY: We don't want to send the wrong message.

MR. WILLIAMS: No, I'm not taking it the wrong way, and hopefully the public won't either.

MR. BAGHDADY: Yeah.

MR. WILLIAMS: I think a couple of things: As you know, I worked for the old Swiss Bank Corporation for 10 years, and it's now UBS; and in Switzerland, they have a convention that when you're in a situation such as the one I'm in that you're getting your head washed. That's what it's called.

MR. BAGHDADY: No, it's a process.

MR. WILLIAMS: No, I understand. I

understand. So I'm just saying, you know, it's not -- it can happen, and it's okay with me, and I think you -- I think from where you're sitting it's, you know, the points are well taken; but I do want to say that the process here is one that has taken on a life of its own. It was not my intention to have anyone in, you know, the -- outside of the Board encouraging David Kale to sign this letter, because it demonstrates an ignorance of how the --

MR. BAGHDADY: Excuse me. But it's beyond encouraging.

MR. WILLIAMS: No, I --

MR. BAGHDADY: It's almost demanding.

MR. WILLIAMS: No, I understand. I understand. Well, these are powerful people in their own space, and they're also concerned.

But David will tell you that I invited him to join me on this call with Stifel, and -- or Stifel, I believe it's pronounced, and he was unable to do it; so I invited Erin Lubien to join me, just so that I wouldn't be by myself.

MR. PAOLILLO: But, Jim, really?

MR. WILLIAMS: Okay. I stand corrected.

MR. PAOLILLO: I mean seriously.

MR. WILLIAMS: I can stand corrected.

MR. PAOLILLO: I mean really.

MR. WILLIAMS: But what I did then is I told them that I could not represent the Town because I understand that, and -- but I asked them how would -- what would be the next step going forward? And what they told me was that they had certain engagement letters, and they would send us one. So I said fine. I sent it to David. Yes? I sent you the -- and I asked David to check with George Hall because they reference certain Mass. General Laws that apply to these matters, and I asked David to check that with George Hall. Yes?

MR. KALE: Uh-huh.

MR. WILLIAMS: And we discussed it again Friday. So this -- you know, the letter is a straw man letter basically is what it is, and it was misinterpreted by two people who have been encouraging the Board to do X, Y, and Z. Neither one of them called me. If they had called me, I would have explained to them --

MR. PAOLILLO: You invited one to a call, Jim.

MR. WILLIAMS: Okay. So I apologize for

that. But it's not as it appears is what I'm trying to explain to you, and I wasn't totally operating in the rogue, because I wanted to find out for the Board, you know, how do you go about engaging this particular firm and encourage us when we had time to talk about it, which you have given me today, to think about. It's time now to engage an investment banking firm to put the pension report together which was finished by the Warrant Committee and the OPEB report which we can run scenarios on. They're going to finish by year end, and then we need to decide what to do, whether we're going to let the status quo continue? Whether we're going to try to extend the pension schedule with PERAC or whether we're going to try to do a pension obligation bond or something different.

Now, these people told me that they -- when they look at the Town of Belmont's situation, they may not recommend a pension obligation bond because it's not always the solution. And at this point, you know, I'm beyond my Excel spreadsheets. I'm beyond what I can do on my own, and I believe that the Town needs expert help in determining what our strategy's going to be going forward; and so that's where I'm at, and that's what I'm proposing.

MR. BAGHDADY: Okay. Can I ask -- you know, we have our Town Treasurer here, and we have a former Selectman here and someone else in the back.

Any comments? Any questions? Any -- from the audience.

Please.

MR. PAOLILLO: Mr. Carman. How are you, sir?

MR. CARMAN: Good morning. How are we doing?

MR. PAOLILLO: Well.

MR. CARMAN: I was watching you guys on cable. That's why I dropped over.

MR. BAGHDADY: Okay. Floyd Carman, our Town Treasurer.

MR. CARMAN: So Floyd Carman, Town Treasurer.

So for starters, this is the first time I saw this, and the second thing is I heard something about Stifel; so would you be so kind to send that to the Town Treasurer. I have not seen any of these documents.

Just to be very clear, you gentlemen can sign whatever you want. I will be the first one that will remind you about the procurement laws, and the competitive bid process, which I am responsible for that.

So but you go ahead and sign whatever you want. We do have a financial advisor FirstSouthwest. We've had them for 20 plus years. They can probably do a lot of what Jim's talked about for nothing, not a dime. Stifel will charge us a fee. There's no ifs, ands, or buts. We go to an investment banker; they're not doing this stuff for nothing. That's going to be a cost.

You know, I quickly looked at this. You know, there's lots of -- you know, there's lots of things that I agree with; there's lots of things I disagree with, but the point I want to make about interest rate assumptions because you mentioned about another town. I think it was a retirement board I heard two or three years ago. This is a pension obligation bond which is taxable. I would say at the very earliest that you'd issue a bond like this would probably be in a couple of years. I put some numbers together for Greg Mennis. I talked with Peter Frazier, and we generally agreed that somewhere between four and a half, 4.75 would be the interest rate. I went back and looked at our Wellington School 25-year obligation. It was 4 percent, nontaxable. So I don't think our four and a half, 4.75 is too far off. 3 percent I think that's -- that's what we'd get for a 5-year deal. Prime example, the last deal we did it was a 5-year deal, the average interest rate was about 3 percent.

Let me be very clear on my position. I support anything that makes common sense. If this is going to save the Town of Belmont a buck, I support that 100 percent.

As I've said this before, I'm not moving. I'm here for the duration, so, you know, it's not like I'm leaving in another year or two. I'm going to be around here. I'll probably be carried out.

(Laughter.)

MR. PAOLILLO: We hope you remain here as well.

MR. CARMAN: I find this a little frustrating because not once, not once have you called me, Jim, on this. I didn't get any of this -- I didn't get any of this information. I wish I had it ahead of time that I could have looked at it.

But putting that aside, I'm the one that set the current strategy. The reason I set the current strategy is we are going to be faced with a $100 million high school. I've said this in front of the Warrant Committee. I've said it at Town Meeting. I've said it over and over again. The most critical thing is to preserve our Triple-A rating. That is so critical.

A statement was made earlier about a debt limit. The debt limit right now deals with our municipal financing, our bonds. So if we go out and add pension obligation bonds, that impacts our debt limit. The strategy with Moody's, because I'm constantly talking with Moody's, is we're going to be funding our -- hopefully, we're going to get our pension funded by 2027, and in 2028, we're going to take those resources and put it into our OPEB obligation. At the same time, we've got a trust; we've got a policy; and we've been funding. We're one of the few communities that does that. That has all three. From a Moody's perspective, they look at all 351 communities, and they say the same thing.

We understand the accounting guidance that's coming down the road, but we're going to be looking at all of these communities before that because not only -- not only are 351 communities going to be bankrupt, the Federal Government's bankrupt. Come on. They're out there printing money. We can't do that.

So from a Moody's perspective, we're in very good shape. Our Triple-A rating was affirmed back in April. They understand our strategy clear. If we decide we want to change strategy, it needs to be a dialogue with Moody's. It needs -- it's critical to be in constant communication because this is what I've said to Moody's for the last 10 years I've been on this job is the same thing over and over again. This is the direction we're going in. Moody's is very happy with that from a rating perspective.

I clearly understand how the numbers roll. I clearly understand the impact on the balance sheet, but as I said earlier, we're all in the same soup, all 351 communities, including the Federal Government.

If we decide to take pension obligation bonds, if that's what the voters decide, that becomes an impact on our debt capacity. There's no ifs --

MR. PAOLILLO: It will.

MR. CARMAN: It will. That will be a small issue. Okay. Right now our debt capacity, you know, plus or minus 260, $270 million. We're looking -- I'm saying a $100 million high school. That's the numbers that we've been dealing with on the Financial Task Force. That hasn't changed. We've got three other big projects we've got to deal with: DPW, Police Station, and --

MR. PAOLILLO: Library.

MR. CARMAN: -- Library. You know, so, you know, that's another 40 or 50 million. So, you know, you add that on. So now you're up to 150 million. We're already carrying 80 million worth of debt; so we're looking at $230 million worth of debt.

Always the one thing I always try to walk in other people's shoes and that is, is there a point in time where the residents are going to say, I've got debt exclusion override fatigue because 80 percent of our revenue comes from 8,275 customers. Those are real estate property taxpayers.

Let me close with this: When I went out and bonded for the Wellington School, I had more individuals say to me, Floyd, you should bond for 15 years. It will be a lot cheaper. You're stretching it out for 25 years. That's going to cost us more in interest, and I said, yes, I agree. It's going to cost us more in interest, but here's how I look at it. When I look at the high school, I'm looking at six groups of taxpayers that are going to use the high school over a four-year period of time: 24 years. Okay? Why jam it all into a 15-year period of time, and you only have four groups of taxpayers using the school, paying for everything. So the strategy has always been to kind of stretch --

MR. PAOLILLO: Oh, that's an interesting point.

MR. CARMAN: -- the payments out --

MR. PAOLILLO: Right.

MR. CARMAN: -- for the current taxpayer, and I always keep that in the back of my mind who's paying the bill.

MR. PAOLILLO: Mr. Chairman --

MR. CARMAN: That's about all I had to say.

MR. PAOLILLO: Floyd, just to ask a question and perhaps not to deliberate further, but, you know, a way forward? You know, just a suggestion for us to think about, Mr. Chairman, as a Board.

So you're saying FirstSouthwest would be willing to do some analysis for us for free; correct?

MR. CARMAN: We could give them a call, kind of lay this out.

MR. PAOLILLO: And so -- thank you, and I appreciate that.

So the Warrant Committee's report was well done, although they didn't recommend any course of action. They just laid out the three options, and I think we all knew the three options to begin with, but the analytical -- you know, the work that they did and the analysis is important and informative, but there's no recommendation; and I think I agree with the point that Jim has made we have to make a decision on this: either status quo, extend the amortization schedule, or consider, you know, the risky sort of pension obligation procedure.

Should we consider no different than the OPEB Committee, perhaps members of that OPEB

Committee, Greg Mennis and our esteemed Town Treasurer forming a study group on this matter because this is a very complicated issue. I mean, if we're going to extend, what does that mean, if that makes sense. If it's not status quo, which we've been sort of -- it seems we're the first in the State on funding by 2027. We're the only community that's sticking to that, according to the Warrant Committee report, and so maybe that strategy that we've discussed years ago doesn't continue to make sense, although we have to statutorily completely fund by 2040 no matter what.

MR. CARMAN: Yes.

MR. PAOLILLO: Should we -- what does it mean to extend the amortization schedule? And then what about, you know, pension obligation bonds? We've only had two communities out of the 351 that's done it. Others have been authorized to do it; they haven't done anything at least based on what the Warrant Committee; so I think we might need some -- a study group to really look at this.

MR. BAGHDADY: Yeah, but that's a Retirement Board decision, isn't it?

MR. PAOLILLO: Yeah, but I mean --

MR. CARMAN: A retirement board decision

for what?

MR. PAOLILLO: To extend.

MR. BAGHDADY: To extend --

MR. CARMAN: It's a retirement board.

MR. PAOLILLO: I agree with you, Mr. Chairman, but for us to really reach an informed decision on this, rather than like Jim running numbers, and then we ask David to run numbers or FirstSouthwest to run numbers, I mean, I think we need to have a more comprehensive review of this issue, because it's a significant policy matter, and it impacts the future of this Town.

MR. WILLIAMS: If I may, Mr. Chairman?

MR. BAGHDADY: Yes.

MR. WILLIAMS: First of all, Floyd Carman will always be my chairman because he was the Chairman of the Revenue Opportunity Committee when I started on the Financial Task Force. I think he's a lion of Belmont. I did not contact Floyd. He's right about that, but I didn't contact you intentionally, because I cannot talk to these two gentlemen except in this forum, and I wanted to talk to them first.

MR. CARMAN: Okay.

MR. WILLIAMS: Okay. And as I said,

you'll always be my Chairman, but, you know, I want to talk to -- we're the Board of Selectmen, and I wanted to, you know. Now, I've asked you a number of times over the past year and a half who runs the Town? And you always tell me it's the Board of Selectmen. Yes?

And when -- and I don't have as much experience as you all do on the Planning Board and the Warrant Committee, et cetera, et cetera, but when I -- you know, I wasn't born yesterday, and I can see how things work. It's clear to me that we have -- we are considered to be the Chief Executive Officers of the Town, and that makes us not only responsible but accountable for what happens here.

MR. PAOLILLO: Agreed.

MR. WILLIAMS: And when I look at this based on my commercial experience, I go OMG. I cannot believe that we've made these commitments. And I cheer what has been done, because Floyd organized the OPEB Fund, for example, which we didn't have before, and he's used that to negotiate with Moody's, which has been very successful, but I think, you know, we've been -- now we're at the river, and we've got to cross the river because low interest rates aren't going to last forever, and I think it's important for the three of us because we're the elected CEOs to decide, you know, what we should do going forward, and we don't have a year to figure this out because interest rates are moving. You know, a situation can move, but we do have the data that we need. We have the OPEB Actuarial Report is a good report. The Pension Fund Actuarial Report is a good report. The Financial Task Force work, that's a good report. So we have everything we need in front of us to say do we want to do it this way or do we want to do it that way? And whatever way we decide, as Mark says, then we'll know what it's going to cost, you know, because the Warrant Committee subcommittee did a good job in telling us what the options are, and we need that answer first before we can address OPEB, and then you put it altogether and you decide okay. Are we going to stay where we are or are we going to do something different --

MR. PAOLILLO: Yep.

MR. WILLIAMS: -- and that's where I'm at too. Now whether we need another citizen committee is another question because I think, you know, we've used the Warrant Committee. We have good people on the OPEB Committee. We just used the good offices of the people who were on the Solar Committee, and I think it's time to have a professional look at this, you know, somebody come in from the outside and say okay, here's your situation. This is what we think you should do. Now, if that's our current financial advisor, that's okay with me. I understand the RFP process, and I, you know, regret that what happened happened, but, you know, these things happen.

So maybe that's the way to do it or maybe the way to do it is for us to decide to put an RFP out and hire somebody to tell us what they think, you know, to give us the different scenarios.

MR. PAOLILLO: I'd like to think about that. Let's think about that.

MR. BAGHDADY: Okay.

MR. PAOLILLO: We can convert to OPEB (indecipherable). Maybe it can help us here. I don't know.

MR. CARMAN: Mr. Chairman, only a suggestion. Let me contact Peter Frazier. We're talking about pension obligation bonds, is that what --

MR. WILLIAMS: No, we're talking about $380 million of payment commitments over the next 30 years.

MR. CARMAN: Jim, I --

MR. BAGHDADY: So pension and OPEB.

MR. CARMAN: Oh, we're talking about both?

MR. BAGHDADY: Yes.

MR. CARMAN: Okay. So let me remind you that right now we have a commitment to pay our pension off at 2027. That's not -- that's not an option. Every year we have a payment. OPEB is still in the option stage; so whatever decisions get made going forward, if we decide we're going into pension obligation bonds, that now becomes a commitment to pay those bonds.

If we decide we're going to -- I'm just throwing this out. If we decide we want to get cutesy and have OPEB obligation bonds, that's another commitment. So that all of those things are some commitments.

My suggestion would be I would deal with pension obligation bonds for starters. Get some information on that. What's the pros and cons of it? The problem is when you start getting into the bigger picture, you're -- it's too much to handle.

MR. WILLIAMS: Well, I hear that, but it's on our desk. We're the ones that have to decide what to do, and the two are related.

MR. CARMAN: Okay. Let me --

MR. WILLIAMS: I don't think you can bond the OPEB obligations because they're too large. So the solution there is to begin to fund them, and the question is how do you begin to fund them?

MR. PAOLILLO: Mr. Chairman, I'm fine with Mr. Carman's suggestion that we gather some additional information, and I'd like to think about whether we take the course of action of going out for a formal RFP to do further analysis or having a study group look at this matter as well, and I'm fine with sort of doing that immediately.

MR. CARMAN: Let me make one other comment, and that is as my compadres in crime, this is a subject we often talk about at the various Treasurer's meetings. None of us have been contacted in the last 10 years I've been on this job from these investment banks, from these financial advisors pushing us in a direction of pension obligation bonds because what they clearly understand is it's a huge risk. We always talk about the upside, but we never talk about the 20'8, 20'9 market correction that whacked the hell out of a lot of these pensions. This is one of the reasons that some of these schedules have been extended.

The other point I will make is the current plan we have in place, I think it needs to be looked at. I would agree you need to come up with the options; but let me make it clear, if this was such a swimmingly great idea, they'd be knocking down the doors because these are all capitalists --

MR. PAOLILLO: UBs.

MR. CARMAN: Absolutely.

-- looking to make a buck, and I haven't had one --

MR. PAOLILLO: Interesting.

MR. CARMAN: -- contact me, not one.

MR. WILLIAMS: Okay. Mr. Chairman, we said we weren't going to debate --

MR. BAGHDADY: Yeah.

MR. WILLIAMS: -- but with regard to that, if you have a pension fund that's 100 percent funded and the market goes down 30 percent, you're still 70 percent funded. If you have a pension fund that's 50 percent funded and the market goes down 30 percent, you're only 35 percent funded.

So to me the idea of fully funding the pension fund is not -- is not out of bounds. In fact, I think it's probably a good idea, but I don't -- I'm not necessarily selling pension obligation bonds. What I'm selling is because I'm sitting here and you're sitting here and you're sitting here, we cannot kick this down the road. It has to be -- we have to decide what to do, and it's the three of us that need to decide what to do.

MR. BAGHDADY: No. Agreed.

MR. WILLIAMS: Okay.

MR. BAGHDADY: Agreed.

MR. WILLIAMS: Okay.

MR. PAOLILLO: Where do we do from here, Mr. Chairman?

MR. BAGHDADY: Well, at this point I'm anxious to see what happens at the Warrant Committee forum. You know, hopefully we'll get some additional input tomorrow.

MR. PAOLILLO: Yep. Okay. That makes

sense.

MR. BAGHDADY: And, Floyd, why don't you see if we can take the analysis to the next level using our current advisors.

MR. CARMAN: Let me contact Peter Frazier.

MR. PAOLILLO: He's with FirstSouthwest?

MR. CARMAN: He's with FirstSouthwest.

MR. BAGHDADY: Okay.

MR. PAOLILLO: Ralph had a question.

MR. BAGHDADY: Okay.

MR. CARMAN: And I'll ask him about what he can do from a pension obligation bond perspective, kind of narrow that focus.

MR. PAOLILLO: It might inform us in terms of our course of action.

MR. BAGHDADY: Sure. Sure.

MR. PAOLILLO: I think that makes sense.

MR. JONES: Mr. Chairman.

MR. BAGHDADY: If you could come to a mic.

MR. PAOLILLO: Hi, Ralph. How are you?

MR. JONES: Ralph Jones, Precinct 2, and an old man.

MR. WILLIAMS: I think I'm older than

you are.

MR. JONES: Well --

MR. PAOLILLO: Well, let's not discuss ages.

MR. JONES: My old years have been spent in the Town's governmental process, and I just wanted to echo Floyd's notion that this is probably two years away from any bond issuance, because we've got a lot of steps that have to be taken. First of all, this has to be studied. Then you need to put an article on the Warrant. Then the Town Meeting has to debate it, and the Town Meeting has to authorize the issuance of a bond. Then there may be and probably would be a debt exclusion vote that would have to take place. Then you have to get Special Enabling Legislation from the State because you can't do this without that; and when you start negotiating that Special Enabling Legislation, it's going to take a long time as it usually does.

The last POB issued was in Brockton, and there was a two-page set of conditions that the Executive Office of Finance put on Brockton, just to make sure they wouldn't lose money. For example, they could not take the proceeds of that bond and bring it into their operating budget for a long, long time, many, many years because the Executive Office didn't want this to crash. So they required all of those -- any profits from all of this, any profits from the spread between the two interest rates has to go into a reserve fund; and only when the Executive Office of Financial Affairs says it could come out, it could come out.

So I think we need to think about the whole process, and I'm sure David understands it and George understands, but it's not something you do today --

MR. PAOLILLO: Brockton would have that information.

MR. JONES: -- tomorrow or next year.

MR. PAOLILLO: Thanks, Ralph. You're not that old.

MR. BAGHDADY: Thank you.

Okay. More discussion to come.

MR. PAOLILLO: Yeah.

MR. WILLIAMS: Thank you.

... end of excerpt of October 27, 2015 Board of Selectmen's meeting.)

C E R T I F I C A T E

I, Julie Thomson Riley, Registered Diplomate Reporter and Certified Realtime Reporter, do hereby certify the foregoing to be a true and complete transcript of the requested excerpt of the October 27, 2015 Belmont Board of Selectmen's Meeting, held at the Belmont Town Hall, 455 Concord Avenue, Belmont, Massachusetts.

/s/ Julie Thomson Riley
Julie Thomson Riley
Registered Diplomate Reporter
Certified Realtime Reporter
Massachusetts CSR No. 1444S95

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STIFEL

PUBLIC FINANCE

October 16, 2015

James Williams
Town Administration Office; Town Hall
455 Concord Avenue
2nd Floor
Belmont, MA 02478

Re: Town of Belmont Pension Obligation Bonds (Taxable)

Dear Mr. Williams:

On behalf of Stifel Nicolaus & Company, Incorporated ("Stifel"), this letter confirms certain preliminary terms of our engagement to serve as lead managing underwriter for the Town of Belmont (the "Town) concerning a prospective pension bond issuance for the Belmont Contributory Retirement System.

Lead Manager:	Stifel
Par:	$74,000,000 (preliminary, subject to change)
Description:	Town of Belmont Pension Obligation Bonds (Taxable) (the "Bonds")
Security:	TBD
Date of Appointment:	16 October 2015

The Municipal Securities Rulemaking Board ("MSRB") Rule G-17 provides that, in conduct of its municipal securities activities, each underwriter shall deal fairly with all persons and shall not engage in any deceptive, dishonest or unfair practices. Although the MSRB and G-17 have required the same fundamental duty of fairness to the issuer for some time, MSRB Notice 2012-25 creates for the first time specifically defined disclosure obligations to achieve compliance with Rule G-17.

We are writing to provide you with certain disclosures relating to the issuance of one or more series of bonds for the Town of Belmont's Contributory Retirement System, as required by MSRB Rule G-17 in accordance with MSRB Notice 2012-25, which became effective on August 2, 2012.

The Town has engaged Stifel Nicolaus & Company, Incorporated ("Stifel") to serve as an underwriter and not as a financial advisor or municipal advisor, in connection with the issuance of the Bonds. As part of our services as underwriter, Stifel may provide advice concerning the structure, timing, terms, and other similar matters concerning the issuance of the Bonds.

I. Disclosures Required by Rule G-17 Concerning the Role of the Underwriter

(i) The underwriter shall deal fairly at all times with both municipal issuers and investors.

(ii) The underwriter's primary role is to purchase the Bonds with a view towards distribution in an arm's-length commercial transaction with the Town and the underwriter has financial and other interests that differ from those of the Town.

(iii) Unlike a municipal advisor, the underwriter does not have a fiduciary duty to the Town under the federal securities laws and is, therefore, not required to act in the best interests of the Town without regard to its own financial or other interests.

(iv) The underwriter has a duty to purchase the Bonds from the Town at a fair and reasonable price, but must balance that duty with its duty to sell the securities to investors at prices that are fair and reasonable.

(v) The underwriter will review the official statements for the Bonds in accordance with, and as part of, its responsibilities to investors under federal securities laws, as applied to the facts and circumstances of each transaction.[1]

II. Disclosures Relating to the Underwriter's Compensation

The underwriter will be compensated by a fee and/or an underwriting discount that will be set forth in the bond purchase agreements to be negotiated and entered into in connection with the issuance of the Bonds. Payment or receipt of the underwriting fees or discounts will be contingent on the closing of the transactions and the amount of compensation may be based, in whole or in part, on a percentage of the principal amount of the Bonds. While this form of compensation is the customary and standard manner to compensate underwriters in the municipal securities market, according to the MSRB interpretative notice, it presents a conflict of interest since the underwriter may have an incentive to recommend to the Town a transaction that is unnecessary or an incentive to recommend that the size of the transaction be larger than is necessary.

III. Additional Conflicts Disclosures

Stifel has not identified any additional potential or actual material conflicts that require disclosure.

IV. Disclosures Relating to Complex Municipal Securities Financing

Since Stifel has not recommended a "complex municipal securities financing" to the Town, additional disclosures regarding the financing structures for the Bonds are not required under MSRB Rule G-17.

However, if Stifel recommends, or if the Bonds are ultimately structured in a manner considered to be "complex municipal securities financing" to the Town, this letter will be supplemented to provide disclosure of the material financial characteristics of such financing structure as well as the material financial risks of the financing that are known to us and are reasonably foreseeable at that time.

It is our understanding that you have the authority to bind the Town by contract with us, and that you are not a party to any conflict of interest relating to the subject transaction. If our understanding is incorrect, please notify the undersigned immediately.

We are required to seek your acknowledgement of receipt of this letter. Accordingly, please send me an email to that effect or sign and return the enclosed copy of this letter to me at the address set forth below.

If you or any other Town officials have any questions or concerns about these disclosures, please make those questions or concerns known immediately to the undersigned. In addition, you should consult with the Town's own financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent you deem appropriate.

We look forward to working with you on these proposed financings.

Sincerely,

Omar Daghestani

Omar Daghestani
Managing Director
(312) 454-3845
daghestanio@stifel.com

Acknowledgement:

____
Mr. James Williams
Town of Belmont, MA

____
Date

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1 Under federal securities law, an issuer of securities has the primary responsibility for disclosure to investors. The review of the official statement by the underwriter is solely for purposes of satisfying the underwriter's obligations under the federal securities laws and such review should not be construed by an issuer as a guarantee of the accuracy or completeness of the information in the official statement.

Town of Belmont
Unfunded Benefits Strategy
Fiscal 2016

BOS Working Session
October 26th, 2015

Presented by Jim Williams,
Selectman
Town of Belmont

$380 Million over 30 years???

- The BOS is accountable for the prudent management of the Belmont Pension Fund which is currently ~ 50% unfunded and the OPEB Fund which is currently 98% unfunded.

- The Town has agreed to amortization of its unfunded ~$70 million pension obligation @ a 7.5% interest rate which requires cash payments totaling ~ $125.0 million over the next 13 years.

- In fiscal 2016, the amortization payment is ~$7 million. It escalates @7% annually to ~$15 million at 2027 which is the final scheduled payment.

- Subsequently, the strategy is to redirect that scheduled ~$15 million payment to address our OPEB obligations beginning in 2028 into perpetuity. So, the Town has agreed to a fixed annual cash payment against its OPEB liabilities which total ~ $255 million over a 30 year planning period.

- These commitments together total $380 million in cash payments over a 30 year planning period.

What's the Concern?

- Just as we have estimated and made long term cash payment commitments to remedy our unfunded benefits obligations, we can also estimate our long term revenues, operating expenses, debt capacity, capital needs, and financial condition to estimate a usable outlook over the plan period.

- When we do that using current data, we can see that the Town will be insolvent as of 6/30/2016 when the unfunded pension obligations come on balance sheet .

- Further our financial condition will only worsen as of 6/30/2018 when the unfunded pension obligations come on balance sheet .

- Consequently, our debt capacity will come into question and our bond rating will be at risk just when we expect to enter a period of capital project expansion.

How Much Debt?

- Some $72 million for unfunded pension obligations as of 6/30/2015

- Some $130 million as of 6/30/2018

- These two amounts represent 80% of our current $250 million debt capacity

Any Other Concerns?

- In a word, cashflow.

- The FTF projections forecast a cash shortfall of $3.1 million by 2019.

- As the status quo pension amortization increases, the cash shortfall under a Steady State projection model, widens to $5 million in 2020; $10 million in 2023; and $15 million by 2026

So, What Can Be Done?

- Choose status quo which will require $125.7 million in cash payments over the next 13 years and another override as early as 2019 to fund.

- Extend the status quo amortization which reduces the annual cash outlays, but increases the door to door cash cost due to additional interest expense on the obligation.

- Issue a $60 million 20 year taxable pension obligation bond ("PBO") as a debt exclusion with a 3% coupon which will fix annual cash payments at $4 million per annum thru 2035 for a total cost of $80 million.

$45 Million Savings???

- That’s right!!! The door to door cash cost of the PBO option is $45 million less than the status quo option at $125.7 million and even wider if the status quo is extended.

- Wait!!!

- It gets even BETTER because the cash cost during the next 13 years for the PBO is only $52 million which is $73 million less than required under the status quo option at $125+ million.

What Makes This Possible?

- Two factors: lower interest rate on the unfunded obligation and a 7 year maturity extension.
- Wait! Don't the voters have to agree to a debt exclusion? Why would they do that?
- Simple: First, to save the $73 million for the 13 year amortization period under the status quo. Second, to permit the "return" of the scheduled status quo amortization payments totaling $125 million to the operating budget. Third, to avoid another override as early as 2019.

Still Not Clear

- The taxpayer just agreed to a $4.5 million override and now you want another $4.0 million?

- Yes, because the previously scheduled $6.3 million in pension amortization will return to the operating budget and will permit the Town to maintain a cash surplus until at least 2025.

- Wait a minute! We know the Dragon will eat any surpluses. Why should we do this??

You Shouldn't, But…!!!

- Indeed, the Dragon will most certainly eat any surplus.

- However, we are not currently funding our OPEB (read Healthcare Obligations) which is how we got into the pension problem in the first place and we can REMEDY the OPEB problem long term by funding $2.5 million per year going forward.

- Ok, but we still have ~$4.0 million left. What do we do with this surplus going forward thru 2024?

Return to Sender

- What we should do with the remaining surplus is to issue an underride icw the POB for the remaining amount.

- This will reduce the 2015 override to $0.5 million per annum going forward and maintain an operating surplus until at least 2021.

Sounds Too Good to be True!

- You're going to need more than my word on it.
- So we should issue a Pension/OPEB Fund Management RFP and select an investment bank to review the situation for us and make a recommendation as to what we should do.
- We should do this in November and ask for a December 2015 report.
- Time is of the essence and the savings are too large to ignore any longer.

Other Considerations

- The status quo option is essentially a POB arraigned with the State.

- We need to run the pension actuarial projections without the COLA beginning in 2016. The Retirement Board approves a discretionary ~1.5% COLA annually which is included in the unfunded pension obligation estimate.

- We need to run the OPEB obligations at a 7.5% discount rate with a $2.5 million funding beginning in fiscal 2016. We also need to eliminate any discretionary COLAs if included in the run as above.