

Memorandum: Town of Templeton – financial status as of June 30, 2016

Date: April 13, 2017

From: Tony Roselli, Partner – Roselli, Clark and Associates

To: Sean Cronin, Deputy Commissioner, Department of Revenue, Bureau of Accounts
Mary Jane Handy, Director of Accounts, Department of Revenue, Bureau of Accounts
Deb Wagner, Supervisor, Department of Revenue, Bureau of Accounts
Tony Rassias, Deputy Director, Department of Revenue, Bureau of Accounts
Robert Bliss, Director of Strategic Planning, Department of Revenue, Bureau of Accounts
Carter Terenzini, Interim Town Administrator, Templeton
Kelli Pontbriand, Town Accountant, Templeton
Mary Carney, Director, First Southwest Securities
Paul Gargano, Partner, Roselli, Clark and Associates

The purpose of this discussion is to memorialize the meeting held on April 13, 2017 at the Worcester Bureau of Accounts office regarding the financial condition of the Town of Templeton, Massachusetts. All individuals listed above were in attendance.

We discussed and agreed to the following key points:

1. A deficit that exists with the Elementary School Feasibility study of approximately \$120,000 will be allowed to be borrowed as part of an issuance of BANs anticipated in May, 2017. Since the Town has only borrowed \$550,000 of an authorization amount of \$1,050,000 regarding this project, this is a permissible manner of curing the deficit that exists in this fund. The project has no overruns and the deficit occurred based on the manner in which MSBA funds were applied in the early stages of the project.
2. A deficit of approximately \$600,000 at June 30, 2016 relative to the second phase of the Elementary School project which has grown to \$1,241,265 as of March, 2017 will also be cured as part of the same issuance of BANs discussed in prior discussion item.
3. First Southwest will assist the Town in attempting to secure \$5,000,000 in BANs which includes both of the amounts discussed previously; while this is above the amount needed to cure the total deficits of approximately \$1,362,000, Mary Carney indicated this was a good idea to allow the Town to begin to reestablish its credit worthiness. Carney advised the Town to wait until May 14 to issue these notes as this transaction would be contingent on an article to rescind the Elementary School construction being defeated at the May 13 Annual Town Meeting.
4. If the Article is approved, the Town will only issue sufficient BANs to cover these deficits in addition to other amounts incurred to satisfy any remaining contractual obligations that may exist for work performed; and work on the Elementary School project will officially end.

5. If the Article is defeated, the Bureau of Accounts has advised the Town to refrain from obtaining construction bids or any further spending until a time when the Town can be guaranteed it can borrow its entire share of the project.
6. The Town also has \$748,432 in appropriation deficits that must be raised on the 2018 fiscal year tax recap prior to the tax recap being certified by the Department of Revenue. These deficits are an accumulation of deficits from all 4 years; a complete list is included on page 10 of 31 in the Town's Management Letter.
7. \$449,867 of these deficits relate to debt service associated with the School Feasibility study which is a debt excluded project. These payments were not included as part of any of the budgets in those years and were not included on the tax recap. The Bureau of Accounts has agreed that these deficits may be raised using form DE-1 and thus may be subsidized from taxation on the fiscal 2018 tax recap.
8. \$87,000 of the deficits relates to a debt payment from a "restricted for debt service" account that was not approved by Town Meeting. Deb Wagner offered that this debt was paid from a sale of real property whose initial purchase was subsidized with this debt. Therefore, because the debt is defeased, approval from Town Meeting is not necessary. It was discussed that if the Town wished to include an article at the May 13 Town Meeting authorizing this; even though it may not be necessary, conservatively it would not hurt this transaction.
9. The remaining deficits of \$211,565 should be raised from free cash or if free cash is not available, then from budget cuts. The action to cure these deficits will be proposed through articles at the Special Town Meeting on or about 11/15/17; at which time the Town expects to have free cash, if any, certified by DOR (about 10/15/17) and the Town audit completed (about 9/15/17).

The following is an estimate of what free cash would have been for fiscal year end 2016 had it been certified and notwithstanding the capital project deficits:

Undesignated GAAP basis	\$	1,939,512
GAAP adjustments reversed:		
60 day accrual		(66,913)
Stabilization		(106,173)
DOR free cash hits:		
Overlay		(119,940)
SR deficits		(20,261)
Appropriation deficits		(748,432)
Approximate Free Cash	\$	<u>877,793</u>

The Town anticipates the amounts to be similar if not better for the fiscal year ended June 30, 2017; therefore it appears sufficient free cash will exist to cure these remaining deficits.

10. We discussed the Town's Betterment situation. The Town's sewer debt is subsidized from both annual debt exclusions and from sewer betterments collected from the users of the Town's waste water system. Historically, the Town has used a 75/25 split. An estimated "rough" calculation indicates that if this split were continued to be used through the full maturity of all debt that over \$500,000 would remain in the betterment account. Several options were highlighted and discussed relative to the proper disposition of these excess funds.

It was agreed that under the Municipal Modernization Act, since the Betterments are reserved for debt service that it would make most sense to adjust the allocation so that the Betterment is fully amortized with the maturity of the outstanding debt on an annual basis.

We will assist the Town in developing an amortization schedule to accommodate this that will go into effect during fiscal 2019.

11. Deputy Commissioner, Sean Cronin expressed some concerns over the short-term nature of the Town Administrator's interim term status and follow through of the financial plan as discussed if the seat were vacant during this critical period. In addition there was concern over the recent departure of the Treasurer. In response to this, current Interim Town Administrator Carter Terenzini indicated he would continue to occupy the seat if the Town desired until a suitable replacement was found; and with respect to the Treasurer, the expectation is that the Town will engage a consultant to shepherd the process. Especially as it relates to the Elementary School Project if that is approved.
12. We also discussed how fiscal year 2019 will be a challenge from a budgeting perspective and the Town needs to begin to plan for these challenges such as possible changes to health insurance and design.