

Minutes of Longmeadow Audit Committee
Meeting of June 27, 2007
Adopted August 14, 2007

Members present: Peter Landon, Vice Chair, Larry Eagan, Glenn Rosenberg, Ernest Welker. Absent: Paul Adornato

Others present: Finance Director Paul Pasterczyk

Vice Chair Landon called the meeting to order at 7:04 p.m.

Proposed minutes (previously circulated by the Secretary via email) of the May 9, 2007 meeting were approved unanimously.

Pension Issues

The Town Manager's request that the AC make a recommendation regarding the Governor's legislative proposal to force underperforming local pension systems to use the State's pension investment pool (PRIT) was discussed. Key elements of the discussion are reflected in the AC's July 6, 2007 recommendation to the Town Manager, which is appended hereto.

Other discussion: Pete Landon offered the opinion that the HCRRB (Hampden County Regional Retirement Board) should move more or all of the HCRR System's assets to PRIT. Having been asked his opinion on this, Mr. Pasterczyk said he saw no advantages to the System member units from the HCRRB's not using PRIT that would offset the higher returns PRIT has earned, so he would support using PRIT for all the System's assets. Regarding the provisions of the HCRRS plan, he said he would favor changing the retirement-income benefit formula from basing it on the average income from the highest three years of a retiree's earnings to "something longer." Asked if there is anyway Longmeadow could pull out of the HCRRS, Mr. Pasterczyk opined, "probably by petitioning the State legislature."

MUNIS

Reflecting the AC's high concern that MUNIS (a computerized financial reporting system for municipalities) be effectively implemented as soon as practicable, Pete Landon asked Mr. Pasterczyk if he was comfortable with progress. Mr. Pasterczyk said that some hurdles remained: Some components of the system had yet to go through full cycles and problems could be discovered when they do. More training is required, so he will be seeking to encumber some budget specifically for MUNIS training.

Contract for estimating GASB 45 liability

GASB 45 is an accounting requirement that municipalities show a liability in their financial statements for contracted post-retirement benefits other than for pensions (the pension liability already must be shown), health benefits being the major one. For Longmeadow, such liability will first have to be shown in the financial statements for the fiscal year ending June 30, 2009. The AC has been pushing management to retain an actuary and have this estimate done as soon as practicable, as the liability is expected to be large and actions might be taken to possibly reduce it before reporting is required. Mr. Pasterczyk had earlier informed the AC some local communities were looking into joining together in seeking such services for savings that might be possible for purchases by larger groups. He informed the Committee that those efforts did not work out, so he would get a proposal for services done and out by the end of July, which he expected would enable the work to be completed by the end of the year.

Governor's proposal for municipal participation in the state health plan

Mr. Pasterczyk reported that Longmeadow is a member of the Scantic Valley purchasing group, along with nearby towns. He said that group is forming a study committee to analyze the GIC (Group Insurance Commission) plan relative to the plan now in effect. The goal is to act in time for implementing a change by July 1, 2009.

AC members

With the expiration of the terms of two members (Mr. Adornato and Mr. Landon) as of June 30th and with no new applicants for appointment by the Select Board, the AC has two vacancies and just three

members. All three being present, elections for officers were held. For FY2008, the Committee's officers are Ernest Welker, Chair; Glenn Rosenberg, Vice Chair; and Larry Eagan, Secretary. AC members expressed appreciation to Pete Landon for his service to the AC and wished him well.

Next Meeting will be August 14, 2007 at 7:00 p.m., location to be determined by the Chair.

Adjournment 8:45 p.m.

Respectfully submitted
Ernest Welker, Secretary

Audit Committee Recommendation Regarding Gov's Pension Proposal

July 6, 2007

To: Robin Crosbie, Town Manager
Copies: Select Board, Finance Director
From: Audit Committee, Ernest Welker Chairperson
Re: Recommendation on Gov's Pension Proposal

Because of revisions to the definition of "underperforming," the HCRRB (Hampden County Regional Retirement Board) is no longer classified as an underperformer and thus would not be forced to invest its funds in the State pension fund if the Governor's proposal is made law. While this eliminates the need for the Town to take a position on this aspect of the proposed legislation, the AC at its meeting of June 27th again discussed the question of the State's investment performance relative to that of the HCRRB.

The AC concluded that the State's superior annual rate of investment return of roughly 1.5 percentage points annually over the 10 years ended Dec. 31, 2006 (HCRRB 9.08%, State 10.51%) would, if continued over future years, significantly reduce the Town's annual funding requirements from what they otherwise would be. **The Committee therefore recommends that Longmeadow's Select Board actively explore with Select Board members of other communities that are in the HCRRS, interest in investigating the desirability of recommending to the HCRRB that it elect to use the State pension fund for all the System's investment assets.**

Had the HCRRB return been 1.5 percentage points higher for that 10 year period, we estimate the Systems assets on January 1, 2007 would have totaled \$252.9 million, \$33.3 million more than the reported \$219.7 million. All else unchanged, this would have reduced the unfunded liability (using market value of assets, not actuarial value) of the system as of January 1, 2007 from \$134.3 million to \$101.0 million, and the funded ratio would have been roughly 71% rather than 62%. The future burden of funding such a smaller amount would be much less than what the member units now face. (See Note 1 below for how estimate was calculated.)

Already Longmeadow's annual required payments to fund its portion of the HCRRS have risen dramatically. (See Note 2 below for how FY'09 estimate was calculated.)

FY'09 est.	\$2,357,000
FY'08	2,091,671
FY'07	2,000,969
FY'06	1,714,365
FY'05	1,465,431
FY'04	1,483,116
FY'03	1,505,624
FY'02	1,146,192
FY'01	1,061,720
FY'00	1,075,430
FY'99	1,088,068

While it's too late to reap any past saving, it seems foolish to pass up the opportunity to get substantial savings in the future. If this is true for Longmeadow, it is also true for other HCRRS member communities. A recommendation by Longmeadow alone probably would not have much impact on the HCRRB, which prefers to maintain control of investments. But if a number of other larger member communities joined in such a recommendation, the HCRRB would have to take it seriously.

Of course it is not certain that the State fund's superior performance will continue, but the State's investment fund of nearly \$50 billion can prudently invest in higher risk assets and earn the related higher returns than is true for the comparatively small \$225 million HCRRS has to invest, so there is a fundamental basis for expecting some degree of superior performance. There also should be economies of scale for investment management, investment advisory, and administrative costs with the State fund that would allow more of any higher gross return to get passed through as net return to the HCRRS should it choose to invest with the State fund.

If there is interest by other communities, a special committee could be formed to investigate the situation further and make a recommendation. If there is no interest by other communities, Longmeadow alone could explore options it might have to leave the HCRRS in order to get its share of the investment pool into the State fund.

The AC, now down to 3 voting members and having to deal with a broad range of assigned duties, simply cannot take on tasks requiring considerable additional research and shepherding. Peter Landon, whose tenure as an AC member ended June 30, has expressed a willingness to consider leading a special task force for the purpose of pursuing pension matters.

Note 1 Because gains (or losses) on investment funds do not alone determine a change in assets in any given year (some assets must be used to make payouts to beneficiaries and for other expenses, and active employees and member units make payments into the system), the assets of the HCRRB at the end of the 10 years, did not increase at the compounded annual rate of 9.08 percent reported as the return earned on investment funds. At the beginning of 1997 HCRRS assets totaled \$117.2 million; at the beginning of 2007, the total was \$219.7 million, calculating to a compounded annual rate of increase of 6.5 percent, not 9.08 percent. To estimate the end of period assets had the investment return been 1.5 percentage points higher (roughly the higher rate earned on investments by the State fund), the actual compounded annual rate of increase in System assets of 6.5 percent was increased to 8.0 percent. Beginning with the same \$117.2 million of total assets on January 1, 1997 and increasing that amount by 8.0 percent per year for 10 years, gives an estimated asset total on January 1, 2007 of \$252.9 million.

Note 2 FY'09 Total Required Employer Appropriations of \$17,168,445 (for semi-annual payments, shown in actuary's Analysis of Funding Alternatives presented at HCRRB's meeting of June 27, 2007) is 12.67% more than the FY'08 Total of \$15,233,818. The Town's FY'08 assessment of \$2,091,671 was increased by 12.67% to arrive at the Town's FY'09 estimated assessment of \$2,357,000 rounded.