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**MINUTES
TOWN OF BELMONT
BELMONT MUNICIPAL LIGHT BOARD
SELECTMEN'S MEETING ROOM
TOWN HALL
Tuesday, July 18, 2017
8:15 A.M.**

I. CALL TO ORDER

Chair Williams called a regular meeting of the Municipal Light Board to order at 8:15 A.M.

Present:

MLB – Chair Jim Williams and Member Adam Dash

Belmont Light – General Manager Jim Palmer, Staff Aidan Leary, Maria Makar-Limanov

Town Treasurer Floyd Carman

Light Board Advisory Committee (LBAC) – Member Bob Forrester

Absent:

MLB – Vice Chair Mark Paolillo

II. REVIEW AND VOTE ON BMLD 2016 FINANCIAL STATEMENTS AND RELATED DOCUMENTS

Williams opened the meeting by asking Makar-Limanov to describe the reason for the meeting. Makar-Limanov said that Belmont Light is required to provide an annual Audited Financial Statement (AFS) and report to the Department of Public Utilities (DPU). She asked Belmont Light's auditing firm be present to review these documents for 2016. She confirmed that the year-end for Belmont Light annually is December 31. Makar-Limanov also stated that both documents are available on Belmont Light's website (<http://www.belmontlight.com/about-us/financials-policies-terms.php?id=4>).

Williams then invited Jim Goulet, Managing Partner, and Heather Isaacs, Partner, both of Goulet Salvidio & Associates (GSA) of Worcester, MA, to discuss the financial documents. Williams asked what kind of opinion the auditors gave Belmont Light for 2016. Goulet responded that it was an unqualified opinion, which indicates a clean opinion and no problems. He said that his firm examined Belmont Light's financial statements, performed its auditing procedures, and rendered an opinion that the financial statements fairly present the financial position of the Department. He further stated that the financial statements are primarily the responsibility of Belmont Light management, and that the Board of Selectmen (acting as the Light Board) have the final say, which is why the Board was being asked to sign the DPU Report.

Williams reviewed the Summary of Changes in New Position, which showed that: Operating Revenues in 2016 were \$23.7 million, versus \$25.5 million in 2015; Operating Expenses in 2016 were \$21.5 million, versus \$22.2 million in 2015; Operating Income for 2016 was \$2.2 million, versus \$3.2 million for 2015. The Net Position (assets minus liabilities) for 2016 was \$14 million, while it was \$11 million in 2015. Belmont Light makes an annual \$650,000 payment in lieu of taxes (PILOT payment) to the Town of Belmont. The Ending Net Position for 2016 was \$15.9 million, versus \$14.1 million in 2015.

Williams asked why the revenue dropped. Makar-Limanov said that Belmont Light's purchase power cost decreased significantly from the previous year, meaning that Belmont Light collected less. She discussed the Purchased Power and Transmission Adjustment, an industry-standard tool used to balance the projected collections versus the real amount collected by either charging or crediting customer accounts throughout the year.

On the expenses, Williams pointed out that Belmont Light has a cost of service study and an updated budget to be performed in 2017, it has a payscale study in place, and many other data in place. He said the effect of all of that is that the expenses going forward will remain consistent and predictable.

Williams said the next question is why Belmont Light needs a new position of \$15 million. Goulet responded that most of the net position is in the form of Belmont Light's substations, buildings, poles, etc.

Williams reviewed the Summary of Net Position section. Current Assets rose from \$36 million in 2015 to \$55 million in 2016, while Noncurrent Assets fell from \$45 million in 2015 to \$34 million in 2016, meaning that total Assets rose from \$81 million in 2015 to \$89 million in 2016. Goulet said that the fluctuation between years was due to the sale of the 115 kV transmission line from Belmont Light to Eversource which occurred in 2016. The group discussed the Blair Pond Substation and 115 kV Transmission Line Project, including what the project does for Belmont and the funding structure for the project.

The group reviewed the Debt Administration section. \$53.7 million was authorized by Town Meeting in April 2011 for the construction of the substation and transmission line. A \$26.1 million long term note was issued in 2014. A \$27.6 million short term note was also issued and was paid down on May 5, 2017. The term on the \$26.1 million bond is twenty years. Because the substation and transmission project came in approximately \$3.4 million under budget, the long term debt for Belmont Light is \$24.6 million.

Palmer discussed Belmont Light's power supply. Belmont Light currently has a five-year, staggered power supply. It purchases approximately 80% of its power supply upfront. Belmont Light is a load-serving entity, meaning it does not generate power, rather it purchases power from Independent System Operator – New England (ISO-NE).

Williams asked what percentage of Belmont Light's power supply is renewable. Palmer stated that it was about 17%. Belmont Light has two contracts with wind energy project in Maine, a contract with a solar energy project in Western Massachusetts, and contracts with hydro power

projects as well. Palmer noted that residential solar power has had an impact and that when the energy storage program comes online and the two systems work together, it will be an ideal setup. He said Belmont Light is developing an integrated resource plan, which will forecast for twenty years, allowing Belmont Light, the Board, the Light Board Advisory Committee, and others to set up targets.

Dash asked about a time range for a plan to meet the Town's Climate Action Policy. Palmer said it could be done by the end of the year, after completion of the integrated resource plan.

Williams stated that the public perceives the rates to be high. He asked Forrester to comment on the last time that rates were set. Forrester said that Belmont currently pays a transmission fee to Eversource of approximately \$1 million. Belmont Light also must cover the debt service on bonds for the substation project. Once electricity for the Town flows through the new substation, Belmont Light will no longer pay the transmission fee.

Williams asked about the Rate Stabilization Fund. Makar-Limanov said that this is a reserve fund in case there are large increases in purchased power costs. Belmont Light is able to tap into the Rate Stabilization Fund in this case instead of increasing rates for customers. Williams replied that this was to prevent rate shock and saves Belmont Light from having to change the rate every few months.

Williams stated that there were approximately 8,500 homes in Belmont and asked how many customers Belmont Light has. Makar-Limanov said there are 11,500 customer accounts because of two-to-three-family houses and businesses.

Williams stated that discounting the substation and transmission project, normal liabilities would be \$30 million. He also stated that the net position is \$15 million. He asked if it was unusual to have a \$15 million net position on a \$45 million balance sheet. Goulet said it was because of the substations, poles, and the transmission system that has been developed over the years, which are all assets and considered in the net position. The unrestricted net position (without the infrastructure) would be in the negative because of the accrued pension liability being added to the net position in 2015. Williams said that with employee benefits, like pension and other postemployment benefits (OPEB), you can either fund them when they are incurred or wait to pay them when they are due. \$6.6 million is Belmont Light's share of the pension liability on the Town's books. The Town has a plan to fully fund its pension liability by the year 2029. Williams said that the \$6.6 million is manageable for that plan. Goulet agreed. The group continued to discuss the mechanisms of the pension liability and OPEB going forward.

Goulet discussed the Depreciation Fund. Belmont Light takes 3% of the total cost of its plant (buildings, etc.) and segregates it from the Enterprise Fund into a special fund used for future additions to the plant. Belmont Light successfully petitioned DPU to be able to take 5% into the Depreciation Fund. Makar-Limanov stated that this was necessary before the construction of the new substation because Belmont Light's assets were fairly low and the total amount of the Depreciation Fund would be only \$600,000.

Discussion continued on the AFS.

Dash praised the process of reviewing the AFS as a good primer for Belmont Light's financials and said that it was done in a manner that made things understandable.

Dash reviewed the "2016 vs. 2015 Expenses" (pg. 5 of AFS) and asked Palmer to discuss the 9% increase in General & Administrative expenses, specifically the hiring of a new Executive Assistant & Communication Coordinator and Outside HR Services. Palmer stated that when the previous Energy Resources Analyst, Lauri Mancinelli, quit in June 2015, the position went unfilled into mid-2016, when Executive Assistant & Communications Coordinator Becca Keane was moved over to fill the role and Leary was hired to fill Keane's position. He continued that Belmont Light hired an HR Consultant because of issues between Belmont Light and the Town's HR Department.

Williams began to review the Internal Control Report (ICR) (see below). Goulet explained that the ICR is a document produced during the course of any audit which evaluates the strengths and weaknesses of the audit process in order to tighten up the process for future years. Three items were raised by Belmont Light and GSA as part of the ICR.

First, Goulet said that Accounts Receivable Collections should be examined for best practices, specifically with regard to protected accounts. He said that this is an industry-wide problem. Dash stated that this is a tough situation because Belmont Light cannot just shut off a customer's electricity because of the law. Second, Goulet said the Customer Liens Receivable process should be tightened up. This process applies to customers who are owners who fail to pay their electricity bill. The lien process is performed through the Town Treasury Department. Goulet said that liens can get lost in the shuffle and that Belmont Light should work with the Treasury to better reconcile those accounts and liens.

Williams said that he would be looking for a proposal as to solutions for the above problems.

Williams asked about the first item. He said it was his understanding that the correct procedures were being followed and that any customer account that is ninety days past due are forwarded to the Treasury. Isaacs said that the first item was specifically related to medically protected accounts, which have no limitation on outstanding balances and according to Isaacs are on the rise across Massachusetts. Isaacs went on to explain that the lien process is being performed as it should be between the Town and Belmont Light but that the reconciliation should happen more often than once per year. Makar-Limanov said that she had already begun discussing this process with Carman.

The final item in the ICR was a series of delays that GSA faced in acquiring requested and information necessary to perform its auditing procedures. Isaacs said that while it was known the prior May that GSA would need OPEB and pension reports from the Town, an RFP for those reports had not been issued yet when GSA went to perform field work on Belmont Light's audit. Williams said that the Board of Selectmen is responsible for that RFP. He said the Board was working with the OPEB Committee to determine results of their study. He continued that the Town's then-current actuary was asked to prepare this report and that the Town has now hired a new firm to advise on this issue. He said former Town Administrator David Kale and Carman moved quickly to present the issue to the Board and it was resolved as quickly as possible.

Isaacs said there was also a delay in the pension study, which caused the pension numbers to be delivered at the last minute. She said Belmont Light was also not notified that the 2015 pension study was revised, which was a \$100,000 change. Williams said this issue was also the responsibility of the Board of Selectmen. He said there was turnover in the Town's Retirement Office and it was discovered that information had fallen behind by six months. He said a team had been assembled to get those records up to date and that he was confident it would not happen again. Goulet said that industry-wide, many of the reports GSA prepared that year had qualified opinions based on pension studies that used an incorrect timeline.

Williams praised Carman as Town Treasurer and Town Accountant Chitra Subramanian for their work in preparation of the Town's financials. Williams asked Carman if the findings of the ICR were an issue for the Town. Carman said that the report is not an issue right now.

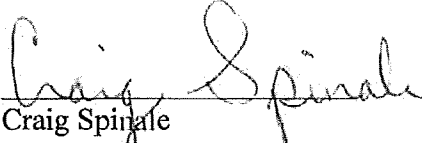
Williams asked Palmer to prepare a memo proposing what can be done to fix the issues in the ICR so that the Board can decide what to do going forward. The memo would be due by August 1, 2017.

Williams stated that Vice Chair Paolillo was not able to make the meeting that day and he asked whether Paolillo's signature was required for the report to DPU. Goulet said that he had not encountered such a situation but that he would research it and report back.

Dash moved to approve the financials from Belmont Light to the Department of Public Utilities of Massachusetts for the year ended December 31, 2016 as presented. Williams seconded and the motion passed with a vote of 2-0.

III. ADJOURNMENT

The Board moved to adjourn at 9:58 A.M.


Craig Spinale
Acting General Manager,
Belmont Light

Memorandum

To: Municipal Light Board

From: The Office of General Manager

Date: July 31, 2017

Pages: 2

Re: Belmont Light Internal Control Report, years ending December 31, 2016 and 2015: management response and proposal for remedying the control deficiencies

During the 2016 audit, Belmont Light specifically requested that the GSA audit team address a few items in their internal control report and to identify them action items for the Department in 2017.

GSA 2016 Findings:

1. AR Collections – The Department should evaluate the outstanding balance of protected customer accounts on a periodic basis to determine the appropriate action for collections.

BL Status:

- Across New England municipal light departments in general, outstanding balances on protected customer accounts have received more attention over the past few years.
- Belmont Light has 67 protected accounts with a total balance of \$141k as of July 31, 2017 (approx. 7% of the total AR balance). 43% of protected accounts are owners of the property.
- Belmont Light has a regular collections process that includes sending customers delinquent notices, conducting shut-offs, sending overdue accounts to a collections agency (tenant accounts), and sending accounts to the Treasury for liens (owners' accounts).
- Protected accounts cannot be shut-off and can be transferred to the collection agency only after an account is closed.

BL Actions for 2017:

Belmont Light will investigate best practices for and legal aspects of collecting outstanding balances on protected accounts. An internal procedure will be created and implemented.

GSA 2016 Findings:

2. Customer Liens Receivable – The Department should reconcile customer account liens with the Town of Belmont on a periodic basis in order to track customer liens receivable accurately.

BL Status:

Belmont Light implemented a new policy in late 2015 for the accounting of liens passed on to the Town Treasury for collections. This accounting occurs on an annual basis. Total amounts collected by the Town Treasury are reported back to the Department on the regular basis. Line-by-line reconciliation in Light Department books is required for proper accounting.

BL Actions for 2017:

Belmont Light will provide detailed lists of liened accounts to the Town Treasury and return information on cleared accounts on a regular (quarterly or monthly) basis. Belmont Light will develop a procedure for Liens Collection and Reconciliation.

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GSA 2016 Findings:

3. During the audit process GSA experienced significant delays obtaining requested audit documentation. Several communications throughout the audit process provide ample time to process our requests. These communications are designed to allow us to conduct our audit fieldwork and wrap-up procedures efficiently and in order to meet PAC deadlines. Also noted during our audit process, Belmont Light did not have the necessary information from the Town of Belmont to complete several months of monthly accounting procedure. Resulting in the Department being unprepared for scheduled audit fieldwork.

BL Status:

The finding refers to two aspects of information Belmont Light receives from Town Accounting:

- OPEB/Pension reports controlled by Town Accounting;
- Payroll Exports from Munis.

Over the past few years, the Department experienced significant delays in getting information required to finalize Financial Statements related to OPEB and/or Pension. The list of documents to be provided by Town to Department auditors is regularly provided in November of each year.

During 2016, Belmont Light experienced problems in receiving Payroll Exports of department salaries expense distributions. For example, payroll for September-December was received on February 14, 2017 after multiple requests. This led to the delay of audit field work.

2017 Payroll exports were received as follows:

Payroll Period	Date Received by Belmont Light
January 2017	April 4, 2017
February-April 2017	May 11 & 19, 2017
May 2017	July 18, 2017

The untimely submission of payroll exports leads to the delays in Belmont Light's ability to close its books, ultimately resulting in delays in quarterly reporting. Belmont Light's Finance Manager submits quarterly reports to ISO-NE for financial assurance based on the Financial Assurance Policy (FAP) for Market Participants. Due to a lack of information in 2016-2017, most of the reports were provided based on the estimated accruals.

BL Actions for 2017:

Belmont Light would like to work with Town Accounting to create a monthly procedure and schedule for payroll data submission, which would include an escalation process.