Section Nine

APPENDICES

APPENDIX ONE: BUDGET TERMS AND DEFINITIONS

Abatements and Exemptions (previously called Overlay): An amount set by the Assessors to create a fund to cover abatements of (and exemptions from) real and personal tax assessments for the current year, and raised on the tax levy. An abatement is a reduction provided by the Assessors in the assessed tax because of bonafide specific conditions or situations not considered when the tax was levied. An exemption is provided for a variety of purposes, which include, but are not limited to: buildings/property used for religious, government, charity, or pollution control. In addition, exemptions may also be provided to the elderly, handicapped, and veterans under certain conditions.

Abatement Surplus: Accumulation of the surplus amounts of Abatements and Exemptions set aside by the Assessors each year to cover abatements of (and exemptions from) real estate and personal property tax assessments. The accumulated amount for previous years no longer committed for abatements may be used by vote of the Town Meeting.

Accrual Basis for Accounting: A method of accounting that recognizes revenue when earned, rather than when collected, and recognizes expenses when incurred, rather than when paid.

Appropriation: An authorization granted by the Town Meeting to make expenditures and to incur obligations for specific purposes. Appropriations for any expenditure specify dollar amounts, funding sources, and a period of time within which the funds must be spent. Any funds not expended within the specified time (usually one fiscal year) revert to the Unreserved Fund Balance.

Article: An article or item on the Warrant of the Annual Town Meeting. There are seven standard budget related articles that appear in the Warrant every year as follows:

- Operating Budget (for the upcoming fiscal year),
- Budget Adjustment (for adjustments to the current fiscal year's budget that was appropriated at the previous year's Town Meeting)
- Prior Year Unpaid Bills
- Enterprise Fund Budgets (one for each enterprise fund)
- Capital Budget (an omnibus article for capital items funded within the levy)
- Capital Projects (for any capital item funded through a request for an override of Proposition 2 ½ limits. This can be an omnibus article for multiple projects or a separate article for a significant project).
- Stabilization Fund (for adding to the Town's Stabilization Reserve Account)

Assessed Valuation: The valuation of real estate or other property determined by the Town Assessor for tax levying purposes. The Commonwealth certifies the values and methodology in determining those values every three years.

Assets: Property, plant and equipment owned by the Town.

Audit: A comprehensive examination as to the manner in which the government's resources were actually utilized concluding in a written report of its findings. An accounting audit is intended to ascertain whether financial statements fairly present the financial position and results of operations of the Town. The Town is required to conduct an audit annually.

Available Funds (Free Cash): Free cash is the available, undesignated fund balance of the general fund and is generated when actual revenue collections are in excess of estimates, when expenditures are less than appropriated, or both. A free cash balance is certified as of July 1 each year by the Department of Revenue and once certified, any or all of the certified amount may be used to defray Town expenses by a vote of the Town Meeting (see Available Fund).

Budget: A plan of financial operation embodying an estimate of proposed expenditures for a given period with proposed means of financing. Sudbury's budget is a financial plan that is established for a single fiscal year that begins on July 1 and ends on June 30.

Capital Budget: A plan of major, non-recurring expenditures involving land acquisition, construction or major rehabilitation of a facility, or purchase of equipment costing $10,000 or more with a useful life of five years or more.

Capital Improvement Plan: A financial planning and management tool which identifies new public facility and equipment requirements, or improvements; places these requirements in order of priority; and schedules them for funding and implementation.

Cherry Sheet: An annual statement received from the Department of Revenue detailing estimated receipts for the next fiscal year from the various state aid accounts as well as estimated state and county government charges payable to the state. The name "Cherry Sheet" derives from the color of the paper used.

Cost Center: The three major governmental entities funded by the operating budget – the Town of Sudbury Operating Departments, the Sudbury Public Schools, and the Lincoln-Sudbury Regional High School – which together account for over 92% of the annual operating budget.

Debt Exemption: An override to Proposition 2 ½ for the purpose of raising funds for debt service costs.

Debt Service: Payment of interest and principal on an obligation resulting from the issuance of bonds.

Enterprise Fund: A separate fund, set up to provide a specific Town service, whereby all direct and indirect/overhead costs of providing the service are funded in total from user charges. An appropriation for an enterprise fund is funded in total from enterprise fund revenue unless otherwise noted. Enterprise fund revenue used to fund services provided by other Town departments will be shown in the warrant after the appropriation total for the department. An enterprise fund is required to fully disclose all costs and all revenue sources needed to provide a service.

Expenditure: Decrease in net financial resources for the purpose of acquiring or providing goods and services.

Expenses: The cost of delivering or producing goods, rendering services or carrying out other activities that constitute the entity's ongoing major or central operations. Expenses consist of the following objects of expenditure: Utilities, Supplies and Materials, Contractual Services, and Equipment.

Fiscal Year: A 12-month period over which an organization conducts business and budgets its spending. Sudbury's fiscal year runs from July 1 through June 30th. The fiscal year is commonly referred to by the date (year) in which it ends.

Fund Balance: *The specifically identified funds allocated to meet budget requirements/ expenses.*

Funding Source: The excess of assets over liabilities also known as surplus funds. A negative fund balance is a deficit.

Free Cash: Free cash is the available, undesignated fund balance of the general fund and is generated when actual revenue collections are in excess of estimates, when expenditures are less than appropriated, or both. A free cash balance is certified as of July 1 each year by the Department of Revenue and once certified, any or all of the certified amount may be used to defray Town expenses by a vote of the Town Meeting (see Available Fund).

Funding Sources for Expenditures: Authorizations for the Town to expend monies are made in the form of a motion at Town Meeting. The wording of the motions will specify the funding source; that is, the place from where money is going to come or will be raised. When a motion reads, "to appropriate a sum of money" without a source being identified, that amount will be included in the tax calculation, whereby the total of all sums to be appropriated will be reduced by an estimate of local and state revenue. The balance needed will be provided by property taxes. When items in the warrant are offset or raised from available funds, those items will also appear as offsets in the determination of the tax rate.

General Fund: Revenues derived from the tax levy, state aid, local receipts and available funds are considered General Fund revenues. The General Fund is distinguished from Enterprise Funds and Special Revenue Funds.

Levy Limit: The maximum amount a community can levy in any given year.

Local Receipts: This is the third largest source of revenue for the Town after property taxes and Cherry Sheet receipts. While it is comprised of a number of different items, the largest source is the auto excise tax.

Modified Accrual Basis for Accounting: A method of accounting that recognizes revenue when it is actually received and recognizes expenditures when a commitment is made.

New Growth: Proposition 2 ½ allows a community to increase its levy limit annually by an amount based upon the valuation of certain new construction and other growth in the tax base that is not the result of property revaluation. New growth becomes part of the levy limit and thus increases at the rate of 2.5% each year as the levy limit increases.

Operating Budget: The portion of the budget that pertains to daily operations, or providing basic services throughout the fiscal year. The operating budget contains appropriations for such expenditures as personnel, supplies, utilities, materials, travel, and fuel and the proposed means of financing them.

Operating Expenditure: An ongoing or recurring cost of performing a function or providing a service. Operating expenditures include personal services, supplies and materials, utilities, contractual services, minor equipment, and debt service.

Overlay: The amount raised in the tax levy for funding abatements granted by the Board of Assessors due to overvaluation or uncollectible tax bills.

Override: An override is passed by a majority vote at Town Meeting and at the ballot. There are three types of overrides: An Operating Override, which permanently increases the levy limit; a Debt Exclusion, which increases the levy limit only for the life of the debt; and a Capital Project Override, which increases the levy only for the year in which the project is undertaken.

Performance/Workload Indicators: Specific quantitative and qualitative measures of work performed as an objective of the department. Sudbury departments typically use of the following types of indicators: workload measures, efficiency measures and outcome measures.

Proposition 2½: A Massachusetts General Law enacted in 1980 to limit property taxes.

Reserve Fund: An amount appropriated by the Annual Town Meeting for emergency or unforeseen purposes. The Finance Committee, by state law, is the sole custodian of the Reserve Fund and approves transfers from the Fund into the operating budgets throughout the year if: (1) the need for funds is of an emergency and/or unforeseen nature, and (2) if, in the judgment of the Finance Committee, the Town Meeting would approve such an expenditure if such a meeting was held. The Reserve Fund is, therefore, a mechanism for avoiding the necessity of frequent Special Town Meetings.

Retained Earnings: The equity account reflecting the accumulated earnings of the enterprise funds.

Revenue: Budgetary resources. The various revenues the Town receives are listed in the Revenue Summary in the Budget Overview section.

Revolving Fund: Funds that may be used without appropriation and that are established for special uses. Recreation fees, for example, may be paid into a revolving fund. Revolving funds are established by state law or Town bylaw.

Stabilization Fund: Similar to a "savings account", this account has been used to fund large capital projects such as fire trucks and school roofs. A recent amendment to state law allows the Stabilization Fund to be used for the operating budget, as well as capital purchases; however, the Finance Committee would generally be reluctant to recommend doing so. Placing money into this fund requires a majority vote of Town Meeting while withdrawing from the Stabilization Fund requires a 2/3 vote of Town Meeting.

Tax Levy: The property tax levy is the revenue a community can raise through real and personal property taxes. In Massachusetts, municipal revenues to support local spending for schools, public safety, general government and other public services are raised through the property tax levy, state aid, local receipts and other sources. The property tax levy is the largest source of revenue for most cities and towns.

Tax Levy Limit: The maximum amount that can be raised within Proposition 2 ½.

Tax Rate: The amount of tax levied for each $1,000 of assessed valuation.

Unclassified Operating Expenses: This account in the general government section of the budget is comprised primarily of operating expenses such as postage, telephone and property liability insurance, that support townwide operations and are not assigned to any one department or cost center.

User Fees: Fees paid for direct receipt of a public service by the user or beneficiary of the service.

APPENDIX TWO: HISTORY OF PROPOSITION 2 ½ OVERRIDES

Date of Ballot	Year Funded	SPS	LS	Stabilization	Town	Capital	TOTAL
		HISTORY OF APPROVED OPERATING OVERRIDES FY1991 - FY2006					
May-90	**FY 91**	$250,000	$135,000	$0	$175,000	$0	**$560,000**
		44.64%	24.11%		31.25%		**100.00%**
May-91	**FY 92**	$150,000	$100,000	$0	$65,000	$0	**$315,000**
		47.62%	31.75%		20.63%		**100.00%**
May-98	**FY 99**	$592,250		$0		$0	**$592,250**
		100.00%					**100.00%**
Mar-00	**FY 01**	$1,034,659	$333,139	$200,000	$173,148	$0	**$1,740,946**
		59.43%	19.14%	11.49%	9.95%		**100.00%**
May-01	**FY02**	$337,712	$371,972	$0	$309,136	$0	**$1,018,820**
		33.15%	36.51%		30.34%		**100.00%**
Mar-02	**FY 03**	$1,599,687	$575,100	$0	$757,208	$68,000	**$2,999,995**
		53.32%	19.17%		25.24%	2.27%	**100.00%**
Mar-05	**FY06**	$1,147,940	$1,122,950	$0	$699,800	$79,310	**$3,050,000**
		37.64%	36.82%		22.94%	2.60%	**100.00%**
	Total	**$5,112,248**	**$2,638,161**	**$200,000**	**$2,179,292**	**$147,310**	**$10,277,011**
		49.74%	25.67%	1.95%	21.21%	1.43%	**100.00%**

Yr of Ballot	SPS Debt	LS Debt	Land Acquisition Debt	Town Debt	Capital Exclusions	TOTAL
	HISTORY OF APPROVED DEBT and CAPITAL EXCLUSIONS FY1991 - FY2006					
FY 91		$0	$1,000,000	$0	$0	**$1,000,000**
			100.00%			**100.00%**
FY 92	$0		$1,000,000	$0	$0	**$1,000,000**
			100.00%			**100.00%**
FY 93	$0	$2,134,424	$0	$0	$0	**$2,134,424**
		100.00%				**100.00%**
FY 94	$5,451,000	$0	$0	$399,000	$0	**$5,850,000**
	93.18%			6.82%		**100.00%**
FY 95	$0	$0	$0	$2,900,000	$0	**$2,900,000**
				100.00%		**100.00%**
FY 96	$2,650,000	$0	$0	$0	$0	**$2,650,000**
	100.00%					**100.00%**
FY 97	$43,604,000	$0	$0	$168,500	$0	**$43,772,500**
	99.62%			0.38%		**100.00%**
FY 98	$0	$0	$8,690,000	$0	$0	**$8,690,000**
						0.00%
FY 99	$0	$1,500,000	$315,000	$0	$782,500	**$2,597,500**
						0.00%
FY 00	$0	$0	$2,550,000	$345,000	$0	**$2,895,000**
						0.00%
FY 01	$0	$68,500,000	$0	$5,273,800	$0	**$73,773,800**
		92.85%		7.15%		**100.00%**
FY02	$0	$3,900,000	$0	$0	$0	**$3,900,000**
		100.00%				**100.00%**
FY 05	$0	$0	$0	$650,000	$0	**$650,000**
	0.00%	0.00%		100.00%		**100.00%**
FY 06	$0	$0	$0	$0	$0	**$0**
						0.00%
Total	**$51,705,000**	**$73,900,000**	**$13,555,000**	**$9,736,300**	**$782,500**	**$149,678,800**
	34.54%	49.37%	9.06%	6.50%	0.52%	**100.00%**

APPENDIX THREE: RESIDENTIAL TAX RATE HISTORY

Residential Tax History Fiscal Year 2000 to 2007						
Fiscal Year	Number of Parcels	Average Single Family Value	RES Tax Rate	AVG SFD RES Tax Bill	AVG SFD RES % CHG	AVG SFD RES Dollar CHG
2000	5,141	359,388	$16.66	5,987		
2001	5,192	426,486	$15.56	6,636	10.8%	$649
2002	5,235	432,961	$17.09	7,399	11.5%	$763
2003	5,251	479,865	$16.78	8,052	8.8%	$653
2004	5,292	596,200	$13.46	8,025	-0.3%	($27)
2005	5,307	601,849	$13.46	8,101	0.9%	$76
2006	5,332	661,000	$13.55	8,957	10.6%	$856
2007	5,341	702,800	$13.12	9,221	2.9%	$264

APPENDIX FOUR: POPULATION HISTORY

TOWN OF SUDBURY
POPULATION
1790 TO 2006

YEAR	POP	YEAR	POP
1790	1,290	**1970**	13,350
1800	1,303	**1971**	13,882
1810	1,287	**1972**	14,460
1820	1,417	**1973**	14,872
1830	1,423	**1974**	15,047
1840	1,422	**1975**	15,092
1850	1,578	**1976**	14,923
1855	1,673	**1977**	15,047
1860	1,691	**1978**	14,930
1875	1,177	**1979**	15,023
1880	1,178	**1980**	14,972
1885	1,165	**1981**	14,726
1890	1,197	**1982**	14,599
1895	1,141	**1983**	14,548
1900	1,150	**1984**	14,444
1910	1,120	**1985**	14,242
1915	1,206	**1986**	14,395
1920	1,121	**1987**	14,561
1925	1,394	**1988**	15,390
1930	1,182	**1989**	15,662
1935	1,638	**1990**	15,800
1940	1,754	**1991**	14,891
1945	2,051	**1992**	14,543
1948	2,241	**1993**	15,325
1949	2,431	**1994**	15,713
1950	2,597	**1995**	15,510
1951	2,733	**1996**	16,079
1952	2,898	**1997**	16,542
1953	2,946	**1998**	16,923
1954	3,415	**1999**	16,532
1955	3,646	**2000**	16,929
1956	4,251	**2001**	17,245
1957	5,204	**2002**	17,423
1958	5,793	**2003**	17,678
1959	6,592	**2004**	17,925
1960	7,450	**2005**	18,107
1964	10,492	**2006**	18,207
1965	10,894	**2007**	
1966	11,275	**2008**	
1967	11,869	**2009**	
1968	12,200	**2010**	
1969	12,823	**2011**	

APPENDIX FIVE: TOWN ENERGY MANAGEMENT PROGRAM (draft)

Selectmen's Goal: Examine ways for the Town to be more fuel and energy efficient.

Reasons to be more energy efficient:
1. prevents waste
2. cost of utilities is climbing and consuming more of our limited budgets
3. helps the environment when we use less fossil fuel

Well before Hurricane Katrina hit, or gasoline prices rose this summer, the Board of Selectmen asked the Town Manager and Town department heads to look into what could be done to reduce energy costs, or at least try to minimize how much more of the Town's budget will be spent on energy costs in the future. I have been working with department heads to evaluate what we are already doing, what more can be done, and what areas hold the most promise.

First, in background, we believe the Town of Sudbury spent about $1.2 million on energy related costs in FY05, with the Town offices accounting for about $335,000 of this (approximately 27%), Sudbury Public Schools accounting for the rest. This is down from $351,000 slightly for town buildings in FY04. These are just approximate numbers – we pay many different vendors and had not previously coded these costs to roll up to a total. We will use a new coding system to help us track better for the future.

The first thing I found when looking at this issue is how much Town staff has already done and continues to work on to analyze and reduce energy costs in Town buildings over the past few years. Jim Kelly and Art Richard have systematically looked at all the ways that the Town buildings could be improved for energy use reduction, and put in place those improvements they could do within the limited maintenance budget we allocate for that use.

The Town's Energy Management Program reflects what we have been doing and will be continuing to do as what more we believe we can be doing in the Future. This Energy Management Program is draft at this time, but this is the framework we will be working within as we continue on this goal.

Town of Sudbury Energy Management Program

There are three primary components of our Energy Management Program. Each is described below.

I. Consumption Management

a. We will use operations and maintenance best practices
b. We will continue to do bill analysis and look for savings opportunities
c. We will continue to use programmable thermostats and control the settings
d. Where it makes sense for safety and energy management reasons, lights will be put on motion activators and timers
e. We will continue and enhance the training and guidelines given to staff on best uses and choices. For example:
    i. Turning off lights and equipment when not using
    ii. Not pushing up the heat for one person
    iii. Restricting the use of one person heaters
f. We will continue developing ideas for dealing with the buildings we have. Factors that make it very challenging to conserve energy:
    i. Old drafty buildings – not built with conservation in mind
    ii. Old heating systems – Flynn, Police Station, Fairbank

iii. Old windows – Flynn Building, Fairbank
iv. Some buildings are used 24/7, do not have an “unused” time in day
1. Fire, Police
v. Some buildings are used long hours of the day
1. Library, Pool
vi. Some buildings are used by the public for meetings
1. Town Hall, Fairbank Center, Flynn Building, Library

II. Facility Assessment and Improvements

a. Already done:
i. Purchased street lights – estimate savings at least $20K in FY06, could be more
ii. We have retrofitted older buildings with insulation
iii. We have replaced windows in Town Hall and most of Flynn Building, Atkinson Pool
iv. We have done energy audits in some buildings and made recommended improvements (Fire Station)
v. We have put in all new energy efficient light bulbs in the Park and Recreation and Atkinson Pool areas
vi. We have put in LED in our traffic signals which use less energy
vii. We have some new construction – Library and DPW building – which are designed more efficiently

b. Improvements in progress
i. We have asked Keyspan to conduct energy audits on buildings
ii. We have asked for money to replace the boilers in Fairbank building – could recoup our expenses through our savings very quickly on this project
iii. We continue to examine lighting in buildings for savings possibilities

c. Improvements we plan to make
i. Build a new Police Station – construct new with conservation in mind. This is one of the worst buildings for energy loss
ii. Replace the rest of the windows in Flynn Building
iii. Replace windows in Fairbank

III. Procurement of energy supply

a. Electricity
i. We began bidding for electric supply with other towns several years ago – Jan, Jim Kelly and Maureen participate in this, along with SPS Business Manager Mary Will
ii. Currently we are paying 5.55 cents per therm. At the time we locked that rate in three years ago, that was market rate, so no real savings in the first year. But today, for the November – January period, NSTAR is charging customers of our size 9.6 cents. Jan estimates that for this calendar year, we are probably saving $125,000 because we bid and locked in this rate two years ago. Next year we stand to save roughly $225,000 if prices stay high, as our 5.55 cent rate continues through calendar 2006. (Because we bid for SPS too, they get 75% of the savings, but the taxpayers get it all).
iii. We have recently locked in a price that will go into effect at the end of 2006. We went out to bid 5 times over the last 5 months, carefully watched the trends, and finally decided to lock in at a rate that is comparable to October market rate for NSTAR default customers. But our best expectations is that energy costs will continue to climb and two years from now we will be happy that we secured a constant supply at a set rate.

iv. We did adopt the green certificate. Small percent higher to use more environmentally safer energy supply

b. Natural Gas.

v. Now looking at our natural gas contract. Current contract lapses in August of FY06.

APPENDIX SIX: THE C.A.R.E PROGRAM

To: **Board of Selectmen**
Finance Committee

From: **Maureen G. Valente, Town Manager**
Senior Management Team – Police Chief Fadgen, Fire Chief MacLean, DPW Director Place, Planning Director Kablack, Finance Director Petersen, Assistant Town Manager/Personnel Director Walker

Subject: **The C.A.R.E. Program: Cost Avoidance and Revenue Enhancement Efforts by the Town Government**

Attached is a report that the Senior Management Team and I have developed to inform the Board of Selectmen, the Finance Committee, and the community at large about the many steps Town staff have taken to enhance revenues, and to avoid costs that otherwise divert resources away from core services. When you add up these efforts, they result in significant dollar savings. Section One looks at Cost Avoidance and Reduction efforts. Section Two addresses Revenue Enhancement efforts.

The last section of the report contains ideas that have not been studied by staff as yet, but we believe hold promise for becoming part of our C.A.R.E. program. We are including them so that the Board of Selectmen and Finance Committee can begin thinking about them philosophically, before staff puts in time and effort toward exploring these ideas further. We welcome suggestions from Selectmen, Finance Committee members, Town staff and residents of Sudbury community on other ideas for cost avoidance and revenue enhancement you may have that we can add to this list. [4]

Please note that I have not listed the number one way we have worked to reduce costs, and that is by maintaining our AAA credit rating.

Principles of the C.A.R.E. Program

1. There are no “sacred cows”. Town staff will consider all alternatives to current business practices if they seem likely to reduce costs, or enhance revenues, *without* sacrificing any of the values articulated by the Board of Selectmen.
2. Town staff is viewed as key tools needed for the achievement of quality, revenue enhancement and cost containment efforts.
3. Town staff will rely on proven “best practices” for management operations and decisions. We are committed to continuously striving to improve the quality and efficiency of municipal services.
4. A return on investment mentality will be used in our decision making. We will examine both the short and long term costs and implications of implementing any changes.
5. The job of C.A.R.E. is never done. All programs and decisions will be re-visited periodically to look for opportunities.
6. Tools such as benchmarking and performance measurement will be used to assist in assessing effectiveness and efficiency.

[4] Note the items in the C.A.R.E. program relate to efforts that are primarily management in nature, and are NOT items that are more properly within the realm of policy decision-making of the Board of Selectmen.

The Sudbury C.A.R.E. PROGRAM:
Cost Avoidance and Revenue Enhancement

I. Cost Avoidance Efforts

Effort #1: Debt Refinancing

The Town has refinanced outstanding debt twice in the past 24 months to take advantage of lower interest rates. We conducted an advance refunding of $4,350,000 in June 2005 and an advance refunding of $13,400,000 in January 2005 to take advantage of lower interest rates.

a. Estimated savings over the life of these bonds: $787,000

Effort #2: Purchase of Street Lights

The Town purchased street lights from NSTAR and bid out their maintenance. We achieved cost reductions by ending maintenance payments to NSTAR and instead competitively contracting out the maintenance. An additional advantage of this effort is better maintenance and repair of street lights than NSTAR had provided

a. Estimated annual savings: $29,000
b. Estimated savings over five years: $145,000.

Effort # 3: Streamlined Tax Payment Processing

After the Town reduced the staffing in the Tax Collectors' office by ½ positions, we put in place or enhanced our use of technology or other approaches to enable us to continue processing payments without increased delays. We have added an on-line payment option, enhanced the use of a lockbox outsourcing service and we provide automated files to mortgage services so they can post payments to our system. We have also added a tax drop box outside the building and begun a listserve option so that taxpayers can sign up to know when bills are mailed and due. All this makes it possible to provide the same high level of service even with a staff reduction.

a. Estimated annual savings from reducing by ½ position: $14,000
b. Estimated savings over five years: $70,000

Effort # 4: Energy Management Program

Per the direction of the Board of Selectmen, Town staff has spent considerable time investigating and implementing various energy management steps. A description of these efforts is found in Appendix 4 of the FY07 Town of Sudbury Annual Budget and Financing Plan, entitled ***Energy Management Program.***

a. Estimated annual savings from purchasing of energy supplies: $125,000 for calendar 2005, $225,000 for calendar 2006
b. Estimated savings over five years: Uncertain, depends on future energy costs

Effort # 5: Vehicle/Fleet Management Program

The Town has not purchased any new automobiles except for police and fire departments, in several years. Instead, we began a program of retaining and "passing down" detective cars and fire command SUVs to other departments after 4 – 5 years use. Departments which are assigned one of these used vehicles include: Engineering (2 vehicles), Building Inspector (2 vehicles), Assessors Office (1 vehicle), Technology Administrator (1 vehicle), Building Maintenance (2 Vehicles), and Dog Officer (1 vehicle).

a. Annual cost to the Town for one of these vehicles is estimated at $2,080: $500 for insurance + $1080 for gasoline+ 500 for parts/repair.
b. Annual cost for reimbursing employee for using personally owned vehicle could exceed $3,200 per employee (Assume use 240 days/year, 30 miles per day, mileage reimbursement rate of $.445 per mile)
c. Estimated annual savings for retaining and using 9 vehicles rather than reimbursing for personal vehicles: $10,000

d. Estimated savings over five years: $50,000

Effort # 6: Regional Purchasing Programs

The Town has entered into three different regional purchasing efforts in the past two years. Regional approaches to bidding and purchasing has many advantages. It reduces administrative costs because only one bid is developed and overseen. Preparing bid specifications, advertising, answering questions of potential bidders, etc. is very time consuming. The savings quoted below do not include those staff costs which are avoided, only the direct costs, but the time savings are important to consider as well. Also, bidders are often more aggressive in reducing their proposed price in the hopes of landing larger book of business.

a. Ambulance Billing – Fire Chiefs in the area worked together to develop an overall bid for billing for ambulance services. The rate for ambulance billing went from 6.5% to 4%, saving about $7,500 annually, or $37,500 over five years.
b. Office Supplies – The Town Managers in this area group bid office supplies and received a discount over catalog price of 80%.
c. Police vehicles – Police Chiefs in this area worked together to develop overall bids for police vehicles. Average price per vehicle went from $24,000 to $22,478, a savings of $1,588 per vehicle or $7,710 annually. Five year savings estimate: $38,050.

Effort # 7: Self insuring for unemployment compensation

The Town annually re-evaluates the savings possible from self insuring for unemployment compensation.

a. Current amount Town budgets is $39,000
b. Alternative is to pay annual premium of 1% of annual payroll, which for calendar year 2005, gross payroll total for SPS plus Town was $28,575,304 so 1% is approximately $285,753.
c. Estimated annual savings: $285,753
d. Estimated savings over 5 years: $1.428,000

Effort # 8: Contracting out cleaning services

a. Town has contracted out cleaning services for town buildings
b. Estimated annual savings: $14,000
c. Estimated savings over 5 years: $70,000

Effort # 9: Switching to bi-weekly payroll for all employees

a. State law does not allow any less frequent payment, such as monthly
b. Reduces administrative and banking costs for not running weekly payrolls
c. Estimated annual savings: $15,000
d. Estimated savings over 5 years: $75,000

Effort # 10: Join the MIIA Rewards Program for Worker's Compensation, Property and Liability Insurance

The Town belongs to a collaborative formed by the Massachusetts Municipal Association, known as the Massachusetts Interlocal Insurance Association. We achieve better coverage at a lower price through participation in MIIA, and we receive financial rewards for taking actions that result in lower claims.

a. Estimated annual savings: approximately $8,800 in credits
b. Estimated savings over 5 years: $44,000

Effort # 11: Leasing Town owned office building

The Town owns the Loring Parsonage, which is no longer needed as a Town office building. The Town has leased this building to the Sudbury Foundation on a short term basis, and under the lease the Foundation pays all the utilities. The Selectmen and Town Manager will be working with others to determine the long term uses for the Parsonage, with a goal to have its annual operating costs NOT be carried on the tax levy unless it is being used for a town office building again.

a. Estimated annual savings: $18,162
b. Estimated savings over 5 years: unknown as current lease arrangement is only for two years.

Effort # 12: DPW Reorganization
The Town has reorganized and streamlined DPW operations and personnel, pursuant to the Town Manager Act. This reorganization allows the Town to have two fewer high level supervisory positions, and we have instead added two equipment operators. These positions would have needed to be added to cope with the growing work load. This has also contributed to higher productivity in the face in growing demands for services from residents. Quantifiable savings are as follows:

a. Estimated annual savings of funding two equipment operators out of eliminated supervisory positions: $40,000 (difference between supervisory salary and equipment operator salary)

II. Revenue Enhancement Efforts

Effort # 1: Annually evaluate fees charged by Town of Sudbury
Town staff annually evaluates the amount and nature of the fees that are charged for services that directly benefit individual users rather than the public at large. Where the intent of the fee is to cover 100% of the cost of the service, it is necessary to make periodic adjustments in the amount of the fee as Town costs rise. The Town has increased several fees, including fees in the Town Clerk's office, ambulance transport fees and advance life support reimbursement fees, among others.

For FY06, the Selectmen voted to establish a new burning permit fee. For this new fee alone:

a. Estimated annual revenue generated: $10,000
b. Estimated revenue over 5 year period: $50,000
c. Fee will be set up as revolving fund to cover costs of building an on-line system for obtaining the burning permit, and communicating with permit holders on safe use of the permit (e.g. daily conditions).

Effort # 2: Use Town owned assets to generate income
There are two major efforts here: leases from cell towers and selling of gravel from the Town's gravel pit.

a. Cell tower leases:
    a. Town leases town owned land for cell towers.
    b. Estimated annual revenue generated: $120,000
    c. Estimated revenue over 5 year period: $600,000
b. Gravel sales.
    a. Town works with buyers of gravel (borrow) to supply as needed
    b. Revenue generated to General Fund annually: $100,000
    c. Revenue generated to General Fund over 5 year period: $500,000

Effort # 3: Town is looking to sell non-developable land to interested parties
There are a number of small parcels of land in Town which are too wet or nonconforming to be developed and owners have stopped paying taxes on. The Town can take these parcels for nonpayment of taxes, and then sell them to interested parties. Negotiations are in progress with Federal government, with abutters and any others who might be interested in purchasing these from the Town if we do the work to take title to them. The process is cumbersome, time consuming and expensive to foreclose or do a land of low value taking but if we know of a buyer, it can be worthwhile.

a. Potential revenue: unknown at this point, but could be $50,000 to $100,000 in one time revenue from sales

Effort # 4: Accelerating collection of Tax Title cases

The Tax Collector's office has been giving concentrated efforts into resolving older tax delinquencies by finding missing owners, using a Town bylaw which denies permits to tax scofflaws, putting mortgage companies on notice, and other staff intensive efforts. These are the more "stubborn" cases such as where there are heirs to property to be tracked down, a developer who is not paying on multiple properties, or other circumstances that require extraordinary staff time to resolve. For comparison purposes, in FY04 $120,000 in tax title was collected.

a. Estimated revenue: Collected $395,000 tax title in FY05, and $415,000 thus far in FY06.
b. Estimated revenue over 5 years: unknown at this point once backlog is cleared up
c. NOTE: Extra revenue gets generated in this process because there are penalties and interest charged on the tax title accounts, and these collected dollars become investable balances, leading to increased investment income as well.

Effort # 5: Cash Management and Investment Income

The Treasurer is working on reducing the cost of banking services and enhancing the investment return earned by investing town funds. Actions she has taken thus far:

a. Reduced number of banks the Town is using, by 5.
b. Also significantly reduced number of bank accounts by removing duplicate/inactive accounts.
c. Reduced number of investment firms by 2.
d. Estimated annual increase in revenue due to these efforts is difficult to quantify because market conditions also affect investment earnings. However, investment income in FY05 was up from FY04 by more than $100,000.

Effort # 6: Grants and Gifts.

Town staff develops and submits grant applications to numerous entities for support of Town priorities. Often our efforts are rejected because Sudbury appears to be too wealthy to meet granting agencies criteria. Nevertheless, we continue to put in the staff time to develop those we believe might consider our request. Here is a summary of recent grants awarded to Town Departments.

a. Total Fire Department grants awarded in FY05 and FY06 to date:$86,904
b. Total Police Department grants awarded in FY05 and FY06 to date: $35,296
c. Total Council on Aging grants awarded in FY05 and FY06 to date: $54,191
d. Total to other Town departments in FY05 and FY06 to date: $171,000

C.A.R.E. IDEAS FOR FUTURE CONSIDERATION

Proposed Effort # 1: Examine Payment in Lieu of Taxes to Town.

a. Town currently receives PILOT payments from the Federal government, state government and one non-profit in Sudbury.
b. Staff will work to see if other non-profits in Sudbury could be encouraged to make a public safety PILOT payment to the Town in recognition of the public safety services received but not paid for by the non-profit entity.
c. Estimated revenue possible: unknown at this time

Proposed Effort # 2: Begin an Emergency Response Cost Recovery Program

a. Town public safety departments respond to a number of vehicle accidents annually
b. Staff is examining if any of the costs expended for these efforts can be recovered from the insurance companies of the owner's of the vehicles
c. Selectmen will examine if this is an approach they believe is in the Town's best interest
d. Estimated revenue possible: unknown at this time

Proposed Effort # 3: Examine potential collaboration with Sudbury Public Schools for shared facilities maintenance.

Proposed Effort # 4: Examine potential benefits of building and maintaining a multipurpose municipal wireless broadband network that would provide coverage for the entire community.

Proposed Effort # 5: Examine potential benefits of building and maintaining a Town of Sudbury municipal light plant.

Proposed Effort # 6: Examine possibility for converting more Town services to "e-services", and automating as many routine and repetitive procedures as possible.

Proposed Effort # 7: Develop a list of laws that cost the Town additional funds but offer no value added for our citizens, and ask State legislators to change the laws

Proposed Effort # 8: Examine options for regionalization or collaboration in new areas

Proposed Effort # 9: Examining feasibility of paying Town and School employees a cash incentive NOT to take Town health insurance if they have such insurance available elsewhere

Proposed Effort # 10: Have Town staff open a passport office and take in revenue for processing passports

Proposed Effort # 11: Examine capability for and advantages of running two ambulances instead of one.

C.A.R.E. ESTIMATES SUMMARY

I. Cost Avoidance Estimates			
Debt Refinancing	$	787,000.00	life of bond estimate
Street Light Purchase	$	145,000.00	5 year estimate
Streamlined tax processing	$	70,000.00	5 year estimate
Energy Management	$	350,000.00	FY05 and FY06 estimate
Fleet Management	$	34,380.00	5 year estimate
Regional Purchasing	$	75,550.00	5 year estimate
Self insurance for unemployment	$	1,428,000.00	5 year estimate
Contracting out cleaning services	$	70,000.00	5 year estimate
Bi-weekly payroll	$	75,000.00	5 year estimate
MIIA Rewards program	$	44,000.00	5 year estimate
Leasing town building	$	18,162.00	2006 savings
DPW Reorganization	$	40,000.00	5 year savings
Total	$	3,137,092.00	
II. Revenue Enhancements			
New Burning Fee	$	50,000.00	5 year estimate
Cell tower leases	$	600,000.00	5 year estimate
Gravel sales	$	500,000.00	5 year estimates
Land sales	$	50,000.00	One time revenue
Grants and Gifts	$	347,391.00	FY05 and FY06
Total	$	1,547,391.00	

APPENDIX SEVEN: FY06 Audit, Management's Discussion & Analysis

(Not completed as of December 29, 2006 printing of this document)

APPENDIX EIGHT: MIDDLESEX RETIREMENT SYSTEM

Home

Investing in a new plan

By Franklin B. Tucker
Thursday, December 07, 2006 - Updated: 11:53 AM EST

While the Middlesex Retirement System was created to secure the future of retired Middlesex county municipal workers, most towns viewed the investment fund management firm as a present day liability.

With retirement costs escalating annually by double-digits, the smaller towns in Middlesex County have been saddled for the past 50 years with a fund that continuingly ran well behind the rest of the investment fraternity in the rate of return to the investors.

Finally, last week, after decades of complaints and demands for a change of direction, officials from member municipalities – led by Wilmington's Town Manager Mike Caira – finally forced the MRS to cede most of it's investment plans over to a state-run plan.

Under pressure from state regulators, the MRS voted last week to transfer management of 85 percent of its $700 million portfolio to the Pension Reserve Investment Trust.

"We did what is in the best interest of our members and beneficiaries," said Thomas Gibson, chairman of the Middlesex Retirement System.

Middlesex voted to move management of its assets two days before its regulator, the Public Employee Retirement Administration Commission, was scheduled to meet, possibly to force the transfer.

With a portfolio of $43 billion, PRIT has buying power to reduce costs and negotiate lower fees.

And the need for greater investment returns is needed more than ever as retirement costs match health payments as two of the largest and fastest growing line items in municipal budgets.

In the coming fiscal year beginning July 1, 2007, Wilmington will allocate $3.2 million towards retirement funds, a jump of 10 percent from the $2.9 it spent in 2007 said Ronald Mendes, Wilmington's treasurer and collector.

That is actually lower than the past years that saw an annual increase of 15 percent to 18 percent, he said.

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Cap on raises

One of the reasons Wilmington residents will be doling out a smaller increase than past years is the town's ability to keep wage increases to a minimum – last fiscal year, Wilmington saw base salaries increase by a mere 2.9 percent.

"We've kept it down for a while as local aid decreased," said Mendes

Wilmington has been bound to the Middlesex Retirement System since 1946, when state legislation required all communities in Middlesex County fewer than 12,000 to join.

The biggest problem facing the fund was an ability to miss investment targets on a regular basis. While the standard Dow Jones stock market index was making just over 11 percent a year between 1985 to 2005, MRS trudged in at 9.64 percent.

For example, in 2005, MRS made 7.47 percent on its investment. By comparison, the Public Employee Retirement Administration took in 12.79 percent.

Even more telling was how badly were MRS predictions of growth, claiming to investors they would make 8.62 percent.

For the past six years, "we've been rattling the cases," going so far as town managers from affective towns filed legislation to restructure the system, said Mendes.

It was only when state oversight brought the spotlight on several questionable actions did the MRS board began to raise the question of changing its investment strategy.

In April, PERAC appointed an overseer to Middlesex the day after getting a scathing report from state Inspector General Gregory Sullivan. He accused the retirement board of "a profound breach of public trust and a misuse of beneficiaries' money" over the bidding process for renovations of its new headquarters in Billerica.

The general contractor and building supervisor, John C. MacDonald, resigned as supervisor Nov. 9. The same day, his close friend, Middlesex Retirement Board member Lawrence Driscoll, a retired Tewksbury firefighter, resigned over charges that he faked some $10,000 in business expenses.

Recent problems notwithstanding, Mendes says the MRS has done more good than harm.

"If every town had its own portfolio, it would have its own set of administrative staff and costs," Mendes said.

Commonwealth of Massachusetts
MIDDLESEX RETIREMENT SYSTEM
25 LINNELL CIRCLE
P.O. BOX 160
BILLERICA, MA 01865
800-258-3805 • 978-439-3000 • FAX: 978-439-3050

MEMORANDUM

TO: **The Middlesex Retirement Board Advisory Council**

FROM: **Thomas F. Gibson, Chairman**
Middlesex Retirement Board

Brian P. Curtin, Chairman
Middlesex Retirement Board Advisory Council

DATE: **November 16, 2006**

We are writing to inform you of recent events at the Middlesex Retirement Board, and to seek the Council's input on a critical issue relating to the management of the System's assets.

RESIGNATION OF LAWRENCE P. DRISCOLL

At its meeting of November 9, 2006, the Board accepted the resignation of Lawrence P. Driscoll, the elected fourth member of the Board. Mr. Driscoll's resignation followed the Board's receipt of a report from the Office of the Inspector General which asserted improprieties in expense reimbursement requests submitted to the Board by Mr. Driscoll from 2001 through 2004. Mr. Driscoll has stepped down from the Board in order to address these issues.

The Board's auditors and PERAC's auditors conduct regular audits of travel and expense reimbursements submitted by members of the Middlesex Board and its staff. As you are aware, on September 29, 2004, the Board's own auditors raised questions regarding Mr. Driscoll's travel and expense reimbursements. The Board, in keeping with its fiduciary duties, made full and immediate disclosure to the appropriate agencies, i.e., PERAC and the Attorney General. The Board also took action to investigate the travel and expense reimbursements that the Board's auditors had questioned. Following that investigation, the Board obtained repayment from Mr. Driscoll in the amount of $1,240.54 for travel expenses and $1,119.47 for meal expenses that were improperly reimbursed as lacking appropriate documentation, and an apology from Mr. Driscoll regarding his recordkeeping related to his travel and expense reimbursements. The Attorney General, after its own investigation, informed PERAC in April 2005 that it would not pursue the matter further.

Following the Attorney General's review, PERAC asked the Inspector General in April of 2005 to conduct his own investigation. In the course of his investigation, the Inspector General invoked his statutory powers to obtain documents and information that neither the Board's

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auditors nor PERAC's auditors had the statutory power to obtain. The Board learned the results of that investigation from PERAC after the Inspector General wrote a letter to PERAC on October 23, 2006. In that letter, the Inspector General asserted that he found numerous instances in which Mr. Driscoll had submitted false expenses, and that Mr. Driscoll had submitted the same expenses to his employer. The Inspector General also asserted that the Middlesex Retirement Board had "turned a blind eye" to Mr. Driscoll's questionable expenses. We certainly do not agree with that rhetoric nor, as noted above, is it supported by the record: the Board has consistently taken action to recoup improperly paid expenses when circumstances required, and did so in this instance.

The Board is, of course, seriously concerned about the results of the Inspector General's review of this matter and we have requested that the Inspector General provide access to these documents to the Board and its representatives in order that the Board can properly assess what further action is warranted. The Board is actively pursuing these issues and has voted to terminate all credit accounts for the Middlesex Retirement Board, and to suspend any pending expense reimbursements to Mr. Driscoll until further notice. The Board will be working with PERAC to review all recent expense reimbursements, and to ensure that the Board's reimbursement policy continues to be suitable.

The Board has also taken actions to address the issues raised by the Board's auditors. For instance, at its meeting of February 10, 2005, the Board adopted a new Policy on Payment of Expense Reimbursements, a policy based upon PERAC's Travel/Education Policy. This policy, which was filed with PERAC, provides now for a tri-level review and sign-off of all requests for expense reimbursements.

Lastly, under G.L. c. 34B, s. 19(h) the Council will be notified to conduct an election to fill the remainder of the fourth member's term, which expires on December 31, 2008.

RESIGNATION OF JOHN C. MACDONALD

At its meeting of November 9, 2006, the Board accepted the resignation of John C. MacDonald, Building Supervisor. Mr. MacDonald was the general contractor who managed the renovations of the Board's offices at 25 Linnell Circle in Billerica in 2002, and who was subsequently hired as Building Supervisor. The Board's auditors had also raised questions regarding issues related to the renovations, and the Board again made full and immediate disclosure to the appropriate agencies as noted above.

The renovations of the Board's offices also became the subject of a report by the Office of the Inspector General this past April. While the Board has vigorously contested the legal and factual basis for the Inspector General's conclusions in this matter, the Board was nevertheless sufficiently concerned regarding the perceptions created by Mr. MacDonald's role in the renovations, and by his subsequent role in the building operations. The Board is reviewing all existing vendor service contracts and will determine whether to re-bid in these areas, or to outsource the building management in its entirety.

SETTLEMENT WITH GOLDMAN SACHS

By letter of October 11, 2006, the Board reported to PERAC that it had settled a demand made upon J. Aron & Company and their affiliates, including Goldman Sachs & Co., for the amount of One Million ($1,000,000.00) Dollars. The settlement arose from the Board's claim relating to commission payments made to undisclosed third parties which were generated by trades made with Cambridge Financial Management ("CFM.") CFM's losses are the subject of litigation now pending in the matter of *Middlesex Retirement System v. Boston Safe Deposit and Trust Co., et al.*, commonly referred to as the "Mellon litigation."

The Board learned of these commission payments as a result of investigative findings made by the Inspector General and the Board's claim was substantially based upon those findings. Prior to hiring CFM, the Board required CFM to disclose in writing, under the pains and penalties of perjury, whether it had any third party relationships. The principal of CFM swore that it did not. While the Inspector General, again using his statutory powers, was able to uncover these third party payments, the Board knew nothing about them. Moreover, the Board's lack of knowledge is buttressed by the payment of $1,000,000 to the Middlesex Retirement System by Goldman Sachs. It should be clear that this payment would not have been made if there was any credible evidence that the Board was aware of the role of the third parties who profited by CFM's trading.

The Board is also currently seeking to recoup the losses sustained in the CFM account as a result of CFM's fraud, which we have previously reported to you. The Board agrees with PERAC's ultimate determination, expressed in its Interim Report of October, 2005, that, "the fact that [CFM] perpetrated the fraud in account management and in reporting of prices is the real source of the loss that the MRB incurred."

As do all self-investing retirement systems, the Board hires experts, like Mellon, to provide expertise in the investment process. CFM's losses went undetected because one of the Board's experts failed to perform as they had promised. PERAC's Interim Report determined that, "The MRB did not act in an unreasonable manner in relying on the Mellon custodian reports and the Russell Mellon performance reports in assessing whether the account was on a net basis, achieving gains or losses." PERAC's findings, arrived at after a thorough and unbiased review, convincingly dispute Mr. Sullivan's assertion of alleged "breaches" by the Board.

REVIEW OF THE SYSTEM'S INVESTMENT PROGRAM

On February 14, 2006, the Board met with officials of the Pension Reserve Investment Management Board (PRIM), overseers of the $43 billion Pension Reserve Investment Trust Fund (PRIT). The PRIT Fund consists of the retirement assets of the State and State Teachers' Retirement System. Under the law, municipal, county and regional retirement boards can choose to invest all or part of their system's assets through the PRIT Fund. Over the past year, the Board has voted to allocate $10 million to the PRIT Real Estate Fund, $32 million to the PRIT Absolute Return Fund, and most recently, $20 million to the PRIT Emerging Markets Fund.

The Board is mindful of the System's statutory funding requirements, and keenly aware of the financial pressures brought to bear on the member units through substantial increases in retirement assessments, which are necessary to fulfill the retirement promises made to our public employees. The Board has been fully engaged with several entities and member units regarding these critical funding issues.

On November 10, 2006, we met with representatives of PERAC to discuss these and other matters relating to the issues presented above. After careful consideration, the Board now believes that a temporary transfer of the management of substantially all of the System's assets to PRIM may be in the best interests of the Middlesex Retirement System, and would allow us to focus on the important issues before the Board, and would save the System substantial costs associated with further litigation.

We would welcome Council member's input on this issue as early as possible, as a transfer by January 1, 2007 would be optimum for performance reporting and record keeping purposes. Please e-mail, call, or write directly to us with comments regarding the transfer of the management of the System's assets to PRIM.

As always, the Council's support is greatly appreciated, especially during these difficult times.

Thank you.

boston.com THIS STORY HAS BEEN FORMATTED FOR EASY PRINTING

State may remove pension fund board
Members rigged bids, report says

The Boston Globe

By Steve Bailey, Globe Staff | April 28, 2006

BILLERICA -- The state is considering removing the entire board of the Middlesex Retirement System in the wake of an investigation by the state's inspector general that found the board rigged construction bids in favor of a contractor friendly with board members.

Removal of the board, which runs one of Massachusetts' largest pension funds, would be unprecedented.

The inspector general's report, obtained by The Globe, chronicles the use of "fabricated" bids to ensure that the reconstruction of the Middlesex headquarters in Billerica went to a Westford contractor close to two board members. "The board's actions in this matter represent a profound breach of public trust and a misuse of beneficiaries' money," Inspector General Gregory W. Sullivan said in an 11-page letter to the Public Employee Retirement Administration Commission, or PERAC, which oversees the state's 106 public pension systems.

Middlesex chairman Thomas F. Gibson called Sullivan's report "rife with speculation, innuendo and little fact." In a statement, Gibson added: "It is clear that the inspector general has absolutely no evidence that any [Middlesex] board member violated any regulation or falsified any documents."

The inspector general's move follows a string of embarrassing disclosures at the Middlesex system, which has about $660 million in assets and about 14,000 active and retired members in 54 cities and towns. In 2003, for instance, the system lost $37 million, or 7 percent of its value, in the currency markets.

In a closed-door session Wednesday, PERAC voted to install an overseer for the Middlesex system and hold a hearing next month on whether to remove the board. Removal of the board could set the stage for the pension regulator to attempt to force Middlesex to shift its assets into the state's $42 billion pension fund, a move favored by the inspector general.

The inspector general said his staff "uncovered falsified documents apparently created to convey the appearance that a valid competitive selection process had been conducted when, in fact, no competition existed."

In addition, Sullivan charged that the original contractor for the roughly $600,000 job was fired three years ago because of its "lack of accommodation towards certain subcontractors favored" by Middlesex board member Lawrence P. Driscoll, a retired Tewksbury firefighter.

John C. MacDonald, a longtime friend of Driscoll and another board member, John H. Burke Sr., a former Billerica firefighter, was hired for the job instead.

The inspector general said MacDonald acknowledged in an interview that he had been given the bids of the other contractors before he submitted his own, allowing him to come up with the lowest price. "Mr. MacDonald knew the number he had to beat," Sullivan wrote. "Such insider knowledge breaks the cardinal rule of competitive procurement."

Driscoll and Burke declined to comment. MacDonald did not return two calls.

In addition to the headquarters contract, the report also focuses on a property insurance contract that went to a Driscoll in-law. According to the Middlesex retirement board minutes, four insurance firms were solicited for bids, the inspector general's report says. Only the one that employs Driscoll's family member responded, the inspector general said. "The three [other] firms did not respond for a simple reason -- they were never contacted by anyone from the Middlesex Retirement System," Sullivan wrote.

Gibson, in the statement, said Middlesex was exempted by the Legislature from the state's competitive bidding requirements for this project. "The only breach in the public trust that has occurred here is the inspector general's continued attempts to assail the actions of the [Middlesex] board members," Gibson said.

The questions about the headquarters renovations were first raised in an independent audit that PERAC ordered after the huge currency loss three years ago. The agency took that audit to the Massachusetts attorney general's office, which decided not to pursue it, said Joseph E. Connarton, PERAC's executive director. Connarton then turned it over to the inspector general.

The attorney general's office says it passed on the case because pension systems are not subject to the public bidding law -- the same point Middlesex makes. Stephanie Lovell, the first assistant attorney general, said lawyers there found "no evidence of criminal self-dealing." She said, however, the office remains open to the case if new evidence develops.

Regardless, the inspector general in its report said: "No exemption from any law gives license to create false documents designed to give the impression of a competitive process."

Relations are strained between the Middlesex board and the inspector general's office. In January, the inspector general reported on a secret fee-splitting arrangement that allegedly cost the Middlesex and MBTA pension systems $2.8 million over the three years that the late James T. Kneafsey -- the Wellesley money manager who oversaw the $37 million Middlesex lost -- worked for the fund. Middlesex called those allegations "baseless." The attorney general's office has also declined to pursue that case.

Middlesex's performance has been hurt by the Kneafsey losses. Over the last five years, Middlesex has an annual return of 2.93 percent compared to 4.25 percent for the state pension fund. Middlesex was up 11.02 percent last year; the state fund was up 14.45 percent. Middlesex's longtime chairman, James Fahey Jr., retired in 2004.

PERAC, created in 1996, has historically been a weak regulator. But it is now campaigning in the Legislature for changes that would strengthen its oversight of local pension funds -- changes that have met stiff resistance from the local systems, which are dominated by police and firefighters. The proposed changes range from investment practices to enforcement to conflict of interest.

"The IG findings," said former attorney general Scott Harshbarger, who headed a panel that recommended the reforms, "reflect a fundamental disregard by the board of its fiduciary obligations to the retirees of Middlesex. This is exactly the kind of abuse that underlines the need for the governance reforms we recommended."

Said Thomas Trimarco, the state's secretary of administration and finance, of the Middlesex allegations: "I have a concern that this is the tip of an iceberg. There have been long-standing suspicions of self-dealing there. The facts in this matter are truly outrageous. It is such an arrogant abuse of power, and is such a disdain for fiduciary obligation, that the natural question is what else are they doing over there?"

Steve Bailey can be reached at bailey@globe.com. ■

The Commonwealth of Massachusetts
Office of the Inspector General

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January 6, 2006

Joseph E. Connarton, Executive Director
Public Employee Retirement Administration Commission
5 Middlesex Avenue, 3rd floor
Somerville, MA 02145

Dear Mr. Connarton,

It has come to my attention that the Public Employee Retirement Administration Commission is on the verge of approving its Final Investigative Report on the Middlesex Retirement System and Cambridge Financial Management.

I also understand that the commissioners plan to vote later this month on whether to lift PERAC's temporary order restricting the Middlesex Retirement System's investment activities. PERAC imposed the temporary order in 2003 in response to the $37 million loss Middlesex suffered at the hands of Cambridge Financial Management, one of its financial managers.

I appreciate the assistance and cooperation of PERAC and its entire staff during the Inspector General's investigation of this matter. I am writing this letter to update you on my office's investigation and to urge you to keep the temporary order in place until the Middlesex Retirement System fully answers all questions about Cambridge Financial Management's investment activity and the questionable fee arrangement that siphoned $2.8 million from public employee pension funds for the benefit of two men, Ronald A. Whitham and Thomas F. Kelly, who had little or no role in the company's investments.

As you know, the loss accrued over a three year period, starting in the spring of 2000, and went undetected until Cambridge Financial Management's principal James Kneasfey died suddenly on April 21, 2003. The Middlesex Retirement System, PERAC and Wainwright Investment Counsel were all receiving monthly trading reports that contained numerous clues that Kneafsey entered a trading frenzy as he attempted to recoup his losses. The reports, as your own investigation has found, were doctored to hide the extent of the losses but they clearly showed that Kneafsey's trades violated both his contract with the Middlesex Retirement System and PERAC regulations.

These huge losses, amounting to about 7 percent of the fund's assets, came at a time when Cambridge Financial Management's president was ostensibly providing "currency overlay" – that is, investing in foreign currency futures to protect Middlesex Retirement System's international investments from losing value when the U.S. dollar rose. Instead, within months of being hired by Middlesex Retirement System as an investment manager, Kneafsey began engaging in the highly speculative and risky practice of writing options on foreign currencies.

As your staff has thoroughly documented, Kneafsey's actions were both wildly at odds with a currency overlay program and detectable. Unfortunately for contributors to and beneficiaries of the Middlesex Retirement System, officials of the Middlesex Retirement System, Wainwright Investment Counsel and PERAC failed to detect Kneafsey's errant trading until after his death.

The clearest contemporaneous indication that Kneafsey had strayed dramatically from his contract with Middlesex Retirement System was the steady, pronounced escalation in trading. Kneafsey started running a conventional currency overlay program in September 1999 for the Middlesex Retirement System. Beginning in early 2000, Kneafsey started writing currency options, essentially betting on the future value of foreign currencies. Once Kneafsey began trading with Goldman Sachs in November 2000, the pace of trading escalated significantly. Kneafsey's actions had veered from providing the Middlesex Retirement System with a form of insurance against swings in the value of foreign currencies into investing directly in the high-risk and highly leveraged foreign exchange markets.

Perhaps in excess of two-thirds of the Middlesex Retirement System's $37 million loss is attributable to transaction costs associated with the frenzied trading by Cambridge Financial Management. Kneafsey was originally given $4 million by the Middlesex Retirement System board to set up and run the currency overlay program. The losses and transaction costs exceeded this amount many times over but due to poor oversight, Kneafsey was able to continue the speculative trading in the Middlesex Retirement System's account. Because the Middlesex Retirement System account received a premium each time Kneafsey wrote a futures option, the more trades he initiated, the more premiums came in. These premiums – and the failure to recognize the significance of the reports showing Kneafsey's frenetic trading – helped disguise the mounting losses and provided the cash flow to allow Kneafsey to continue trading.

Kneafsey was also trading for another institutional investor, the Massachusetts Bay Transportation Authority Retirement Fund. When Kneafsey died, MBTA Retirement Fund officials discovered their fund also had lost a large amount of money, more than the Middlesex Retirement System, as a result of Kneafsey's speculation. While many of the causes and people responsible for the losses borne by the Middlesex Retirement System and the MBTA Retirement Fund are identical, the MBTA Retirement Fund is not a governmental entity. As a result, the Inspector General did not review that fund's dealings with Cambridge Financial Management.

The Inspector General's review has focused on two local companies that received what appear to be inordinately large benefits as a result of Kneafsey's improper trading. In fact, each of the companies performed little or no work related to the Middlesex Retirement System account yet they received much more money as a result of the trades than Kneafsey himself did as an investment manager.

More than $1.9 million of Middlesex Retirement System funds went to a one-person firm operated by a South Shore man, Ronald A. Whitham, from his Weymouth home. This man's firm, RAW Inc., received another $935,860 as a result of Kneafsey's trades on behalf of the MBTA Retirement Fund.

The $2.8 million that Goldman Sachs paid RAW Inc. between November 2000 and April 2003 represent commissions on trades made by Kneafsey with Goldman Sachs. Whitham and Goldman Sachs signed a contract in February 2000 under which Whitham's firm, as the so-called "introducing broker," would receive $50 for every $1 million in options traded through Goldman Sachs. This "introducing broker" arrangement is rare, according to contemporaneous internal Goldman Sachs e-mails. The firm agreed to it because all the costs were charged to the Middlesex Retirement System and MBTA Retirement Fund accounts managed by Cambridge Financial Management and therefore did not affect Goldman Sachs's profits. Goldman Sachs built RAW Inc.'s fees into the price of the options rather than itemizing the cost separately. While Goldman Sachs wrote the check to RAW Inc., the entire commission cost was levied against the two pension funds.

In an interview earlier this year with members of the Inspector General's staff, Whitham acknowledged that he set up RAW Inc. in July 1999 to receive commissions on currency futures trades and that Kneafsey was his only customer conducting these trades. More than 95 percent of the deposits into RAW Inc.'s bank account were from Goldman Sachs for commissions on Kneafsey's trades.

During the period he received $2.8 million from Goldman Sachs into his RAW Inc. account, Whitham paid out almost exactly half that amount – $1.4 million – to another local firm, CanAm Consultants Inc. The first $10,000 payment was made shortly before Whitham started collecting fees from Goldman Sachs. The payments stopped when Kneafsey died.

Based in Boston, CanAm Consultants provides so-called "third-party marketing" services for businesses, including investment companies and venture capital firms seeking to raise capital from pension funds. Thomas F. Kelly is the principal officer of CanAm Consultants, founded in 1988.

PERAC regulations require investment managers to disclose any third-party marketing arrangements or commission agreements. Cambridge Financial Management's disclosure form states it did not have any such contracts.

Interviews with and documents from Goldman Sachs underline the highly unusual nature of the arrangements between Cambridge Financial Management and RAW Inc. First, the fees paid to RAW Inc. are uncharacteristically large. An internal email in 2002 from a Goldman Sachs vice-president to the sales representative handling Cambridge Financial Management described the commission rate as "pretty high" for options brokerage. The sales representative responded, "yes, I know it is ridiculous but then again it doesn't effect [sic] us."

In an interview, the sales representative said that during the several years he worked at Goldman Sachs, he knew of only one other account which generated fees for an "introducing broker." Such arrangements are very rare, he said.

The circumstances that led to Whitham's becoming the introducing broker were even more peculiar. According to Goldman Sachs, Whitham did not do any "introducing" at all. The Goldman Sachs sales representative, Dan Silber, saw Kneafsey's name in a business directory and cold-called him. "I was looking through Nelson's directory of money managers," Silber said in an interview. Silber said, "I called Jim directly."

Once Silber made contact, Kneafsey expressed interest in trading with Goldman Sachs but he imposed one condition: Goldman Sachs must establish an "introducing broker" relationship with Whitham as a pre-condition of doing business. This pre-requisite was referenced in contemporaneous internal emails as well as interviews after Kneafsey's death with Goldman Sachs personnel. In a Sept. 28, 1999 email, the institutional sales representative wrote to a colleague, "a prospect I am entertaining (Cambridge Financial Mgmt.) said it can only deal with us if we 'pay' their introducing broker a fee for every trade we do...the client not only knows about the arrangement (disclosure) but cannot deal with us unless we have this arrangement." (Parentheses in original.) As a result, in February 2000, Goldman Sachs signed a finder's fee agreement with Whitham, adding $50 onto Cambridge Financial Management's costs for every $1 million in options transacted and passing that amount on to Whitham.

Whitham, in an interview, contradicted the Goldman Sachs account of how Kneafsey began doing business with Goldman Sachs. Whitham claimed that he initiated contact with Goldman Sachs and a number of other foreign exchange firms in late 1999 when Kneafsey got interested in trading unlisted options. "I literally knocked on doors in banks across the country," Whitham told the Inspector General. "I interviewed a number of banks."

This claim is unconvincing. Whitham offered no evidence that he had ever contacted any other trading firm on Kneafsey's behalf. He could not name any individual at any firm he spoke to and he had difficulty even coming up with the names of trading firms he claimed to have contacted.

Regarding the size of his fee, Whitham said he had no idea if the $50 per $1 million rate was higher than, lower than, or in line with industry practices. This claim is somewhat plausible given that Whitham had virtually no experience with this type of trading and no other customers. By his own account, Whitham spent most of the 1990s away from the securities business, working as a basketball coach and trying to build up a basketball clinic business. However, Whitham was not completely naïve about these matters. He had previously signed "introducing broker" deals with two other firms – Saul Stone & Co. and Fleet Bank – covering Kneafsey's trades.

The arrangements for the Saul Stone trades mirror those of the Goldman Sachs trades in certain ways. Saul Stone paid the introducing broker fees to a company called Alaric Corporation, a one-person firm Whitham set up in 1996. As he did later with RAW Inc., Whitham wrote checks from Alaric's account to Kelly.

In the interview, Whitham was questioned about his payments to Kelly's firm. Whitham denied that Kelly was being paid as part of an arrangement to share the fees generated by Kneafsey's frenetic trading with Goldman Sachs on the Middlesex Retirement System and MBTA Retirement Fund accounts. Whitham claimed that he paid Kelly to get certain investment firms to steer their stock brokerage trades through another company, Source Capital, where Whitham had his securities license and would receive commissions on the stock trades. Whitham said the payments were outlined in finder's fee agreements between Whitham and Kelly. Each finder's fee agreement called for Whitham to pay Kelly a flat fee of between $50,000 and $150,000, but he often paid Kelly more than the contract required, Whitham said.

"I overpaid him basically in an attempt to entice him to bring me more (business)," Whitham said in his interview. "I was anticipating and hoping that the more money I could get to CanAm, the more he'd be willing to help me."

Whitham estimated he paid Kelly $500,000. (The actual figure is $1.4 million over a period of about 32 months.) He said Kelly generated very little brokerage business for him – far less than he paid Kelly. Nevertheless, he kept paying Kelly steadily and handsomely right through April 2003 and Kneafsey's death.

"I know it looks like I'm paying him for the Cambridge situation (but) I was paying him for what he could do in the future," Whitham told the Inspector General.

Whitham said he is not friends with Kelly. He said they first met when Whitham worked at a tiny Boston brokerage firm called the William G. Manning Co. in the late 1980s and early 1990s. Whitham said they had been out of touch for years until Whitham got back in the business through Kneafsey. Even during the 2000 to 2003 period when he was paying Kelly huge fees purportedly to drum up stock brokerage business, Whitham said he rarely talked to Kelly – once a month at the most. Mobile phone records show that Whitham telephoned Kelly about once a month, including a call to his home the day Kneafsey died.

Whitham's contention that his $1.4 million in payments to Kelly is unrelated to Cambridge Financial Management is implausible. RAW Inc.'s checks to Kelly began just before Kneafsey started trading with Goldman Sachs, they stopped when Whitham's fees from Goldman Sachs stopped, and the amount totalled almost exactly half the fees paid by Goldman Sachs. Whitham acknowledged that the amounts on the checks he wrote to Kelly bore no relation to the volume of brokerage business Kelly generated for him. By contrast, the amounts roughly tracked the Goldman Sachs fees – going up as Whitham's fee income went up.

When the Middlesex Retirement System board voted to hire Cambridge Financial Management in 1998, Richard Zaccaro was a top official at Wainwright Investment Counsel LLC, the investment consultant for the Middlesex Retirement System and the outside entity that was under contract to vet investment managers, ensure compliance with their contracts and guidelines, and monitor investment performance. Middlesex Retirement System meeting minutes show that Zaccaro was personally involved in the process that resulted in the Middlesex Retirement System board hiring Cambridge Financial Management.

In response to questions from the Inspector General, Whitham described his relationship to Zaccaro. He said he first met Zaccaro in the 1980s and 1990s, the period when Whitham was working at the William G. Manning Co. and the same period when he met Kelly. Whitham said he occasionally met Zaccaro at a fundraiser. He said Zaccaro's son also attended one of Whitham's basketball programs, which Whitham was operating in the mid- to late-1990s.

Kelly, Kneafsey, Zaccaro, and William G. Manning, whose company Whitham worked for, all have something in common – past ties to the state treasurer's office during the tenure of Robert Q. Crane. Kelly and Zaccaro were top aides to Treasurer Crane. Treasurer Crane chose Kneafsey to manage some state pension money. At the end of his last term, Treasurer Crane directed state pension investments to several firms represented by Manning, a long-time friend from Brighton, or Manning's son.

Kelly also had a relationship with Kneafsey during the period when Cambridge Financial Management was trading with Goldman Sachs. In a July 18, 2001 letter provided by Wainwright Investment Counsel in response to a subpoena, Kelly wrote, "I am sorry you were unable to join us for the Foreign Currency Overlay Seminar at Jimmy's on June 27th." The seminar featured Kneafsey discussing the benefits of currency overlay and the letter summarizes why pension funds might need this type of investment. The document, which appears to be a form letter, ends by telling the recipient to call Kelly with any questions about Cambridge Financial Management.

Middlesex Retirement System officials were apparently aware that Kelly may have had involvement in the investment that cost the system's beneficiaries $37 million. In a June 18, 2003 facsimile provided in response to a subpoena, a public relations consultant working for the fund sent a copy of a Globe column on the Cambridge Financial Management scandal to Middlesex Retirement System's then-chairman. On the cover page, the public relations consultant wrote, "It is good that there is no mention of Tom Kelly."

To this point, Middlesex Retirement System officials have not been asked formally about their dealings with Kelly, if any. In late 2003, PERAC asked Middlesex Retirement System officials about RAW Inc. and Whitham. Middlesex Retirement System's response was that no one had any contact with or about RAW Inc. Regarding Whitham, the response was, "Not enough information is given with regard to the question above to identify this individual." However, in a chronology Middlesex Retirement System officials prepared for PERAC, they identify Whitham as "a friend of Kneafsey's."

PERAC's draft of the final report makes clear that it is unsatisfied with Whitham's explanation of his arrangement with Cambridge Financial Management. The account he gave the Inspector General about why he paid Kelly $1.4 million strains believability. Middlesex Retirement System officials have not been forthcoming about what they knew about Kelly and Whitham's activities nor have they addressed their own failures to properly oversee Cambridge Financial Management. Middlesex Retirement System officials have excused and overlooked the deficient performance of their investment consultant, Wainwright Investment Counsel. In addition, to date no one has questioned Kelly about why he received so much money from Whitham.

I strongly recommend that PERAC keep the temporary order in place until Middlesex Retirement System officials thoroughly explain Whitham's and Kelly's roles in this scandal. If the Middlesex Retirement System is unable – or unwilling – to explain why these two men made money while the contributors to and beneficiaries of the pension fund lost tens of millions of dollars, PERAC should use all its authority to force the Middlesex Retirement System to move its assets to the Pension Reserves Investment Trust.

Sincerely,

Gregory W. Sullivan

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Inspector General