

Selectmen Present: Karen Quigley, Chairman
Edwin G. Carr
Frederick Koed
Paul Carlson
Leland Jenkins

Others Present: Stephen J. Lombard, Interim Town Manager
Attorney Rick Manley of Edward Angell Palmer & Dodge LLP
Cinda McNerney of First Southwest
John Sullivan of Melanson Heath & Company, PC

Chairman Karen Quigley called the meeting to order at 3:00PM

Interim Town Manager, Steve Lombard stated that he asked to for this meeting to alert the Board and the community of financial findings in the Melanson Heath & Company Audit. Mr. Lombard stated that due to a looming deficit found by John Sullivan of Melanson Heath, Mr. Lombard wanted to alert the Board and community that action will need to be taken.

Mr. John Sullivan then addressed the Board. He explained that there are two issues that need to be addressed. One, back in 2008 and continuing in to 2009 he discovered a series of journal entries that were charged to the water operating account that were charged against the bond. He explained that the charges that were operating in nature can not qualify to be bonded. The other area of concern Mr. Sullivan stated was that in an effort to balance the Water Department Budget, several employees' who worked for American Water compensation had been applied to the bonds as well. Some of these may be legitimate but some may be qualified as operating in nature. Mr. Sullivan stated he has been working with American Water and requesting information to verify the figures. At this time, Mr. Sullivan stated that the deficit could be in the area of one million dollars. Selectman Leland Jenkins asked what the consequences could be with a deficit such as this. Mr. Sullivan stated that he still trying to track down several invoices which is difficult because they are covering a seven year span. Mr. Sullivan stated that he has not been able to reconcile the expenses and operations at this time.

Attorney Rick Manley of Edward Angell Palmer & Dodge LLP, The Town's Bond Counsel, stated to Mr. Sullivan that he thought there was one more component to this issue. He stated that there are actually two bigger issues. He stated that when you authorize money for a reason, it can only be used for that purpose. So the Town has a problem and if it turns out that is not the case as the Town will have to replenish the funds that were used incorrectly. Chairman Quigley asked if because the money was used for the wrong purposes, the Town will have to then find the money. Attorney Manley stated that it would be likely that the Department of Revenue (DOR) will ask the Town to replenish it. Ms. Cinda McNerney of First Southwest added that the DOR can also hold you up on setting a tax rate until the Town resolves the issue. She added that Bond Counsel would have to advise as there are other legal issues that would need to be addressed. Attorney Manley then stated that the other issue is the Federal Tax issue. He added that It may be that funds were misallocated but can be fixed and the issue could go away; there is room for optimism. He said that when the Town borrows money on a tax exempt basis, you can't use it for operating costs. In using tax exempt funds for operating costs, and if the bonds become outstanding the use interest can become taxable. He stated that fundamentally, the scope of the problem needs to be identified and that it may be a mistake of misallocated funds. There was then a lengthy conversation about the options for the Town and if bonds could be paid down with a temporary note. Sinda explained the process to the Board.

Sinda then stated that there is some urgency as there are bonds maturing for sewer and for water department projects in December. Once they know if the money was spent on projects, then they can consider if the bonds can be rolled. She stated she hopes that by December 1st the Town would have a good idea of what the number is. Mr. Lombard stated that they will get that number and that there may be a possibility that the Town will have to send out an estimated third quarter tax bill. They may also have to have a Special Town Meeting to address a deficit after the number is finalized.

There was then a lengthy conversation about bond anticipation notes and the options for the Town. The course of action will need to be decided once the Town knows what the deficit number actually is. Attorney Manley stated that the DOR could be quite helpful with the situation.

After further discussion, Chairman Quigley asked what the worse case scenario would be. Sinda stated that they could get to December 10th and discover that the Town can't roll \$989,000 because they don't have the cash and there is no appropriation allowed for a correction. Attorney Manley stated that he thought it was premature to discuss this possible outcome, and that he feels it will be likely there will be many options. Chairman Quigley asked if rolling the Sewer Bond could be in jeopardy. Ms. McNerney stated that she thinks everything can be done, but that it is a tight time frame. She stated that things will have to be corrected over time, including a possible transfer from the Stabilization fund which would take a Town Meeting vote. If the reserve fund has to be used, then the Town will need to determine how it will restore it so the Town can maintain its Double A bond rating.

Mr. Lombard stated that ultimately they may need a Town Meeting, but everything needs to be played out and they need to get to the deficit number.

After a brief discussion, Selectman Koed moved to adjourn. Selectman Jenkins seconded the motion and the vote was unanimous (5-0). Meeting adjourned at 4:40PM.

Respectfully submitted,
Karen Quigley
Chairman