

Call to Order

The meeting was called to order by Chairman Morris at 7:30 a.m. in the Third Floor Selectmen's Conference Room A. The meeting was taped but not live cablecast.

In attendance were Chairman Michael Morris, Vice-Chairman Mark Baldwin, Steven Caron (arrived at 7:40 a.m.) and Thomas Hartwell. Also in attendance was Finance Director Donna Walsh. Absent were Selectman Liaison Robert Landry, School Committee Liaison Paula Colby-Clements and Finance Committee Liaison John Barry.

Minutes of January 21, 2016

Upon motion duly made by Mr. Baldwin and seconded by Mr. Hartwell, it was voted to approve the above minutes, as amended to include Mr. Landry's email (see attached.) Motion passed 3-0.

Mr. Hartwell's Feedback on Meeting of Board of Selectmen

Mr. Hartwell reported he had attended the Board of Selectmen meeting on Monday. They discussed the Town Manager's intention to change how OPEB is funded from 25% of free cash to a more consistent methodology of funding, i.e. percentage of general fund revenue. This would amount to a contribution less than what was contributed in FY2016. Ms. Walsh explained that funding this fiscal year was taken a) from taxation - \$500K; b) 25% of free cash - \$1.250M; and c) water and sewer to the ARC - \$40K/250K. FY2017 funding would be a) .5% of general fund revenues - approx. \$600-700K; b) nothing from free cash (a net loss of \$1M+) and c) water/sewer to remain the same. The total contribution in FY2017 would be approximately \$1M.

Mr. Caron arrived at 7:40 a.m.

Mr. Hartwell noted that one of the Committee's recommendations is to maintain contributions at least to the current schedule to address unfunded liability. It was agreed that the Town Manager would be invited to the next meeting to discuss the reasoning behind this decision. Ms. Walsh to arrange.

Mr. Hartwell also noted that OPEB Liaison Robert Landry reported to the Board that its report would be published on March 31st. Discussion ensued the fairness and equity of the report by "putting all levers on the table" and letting the Board make decision.

Mr. Morris reported that he had a conversation with Mr. Kowalski who clarified the need for the Board to understand who has the power and requisite authority to implement reform, i.e. "who can pull what lever to accomplish an objective," be it retirement board, state legislation, the Board of Selectmen, etc.

Format of Report to the Board of Selectmen

Discussion ensued on the following topics of items to be included in the report to the Board of Selectmen:

- a) State majority decision and reasons why;
- b) State minority decision and reasons why;
- c) State options, alternatives and hybrid positions examined and discussed;
- d) State options rejected and reasons why;
- e) State pros, cons and savings of options, for example no change to healthcare contribution; change to healthcare contribution over timed schedule; go directly to 50% contribution;
- f) Strength of recommendations comes from four different backgrounds, four different perspectives and filters well vetted; include every viewpoint;
- g) Every decision has substantial impact on recipients, retirees as well as spouses;
- h) Multimillion problem cannot be solved by one mechanism.

To Mr. Hartwell's comment that no decision had yet been made by the Committee that would impact the unfunded liability line. Mr. Morris noted that the retiree healthcare issue was still on the table and needed further vetting. Ms. Walsh would invite the actuary to the next meeting to discuss the impact of all prospective and retroactive decisions on unfunded liability.

Draft Recommendation #11 – A permanent OPEB Committee shall be established. Members will have investment management, accounting, actuarial and risk management skills. Committee responsibilities will include, but not limited to, developing an investment policy and asset allocation strategy, review and approval of rate/assumptions used in actuarial reports, and continually looking for improvements in the OPEB program.

Notwithstanding the fact that investment of funds is a core municipal function and responsibility of staff, it was agreed that an independent advisory committee comprised of investment professionals acting as an overseer would be valuable to the town in fulfilling its fiduciary responsibilities in crafting an investment strategy and policy.

Following discussion and upon motion duly made by Mr. Caron and seconded by Mr. Hartwell, it was voted to approve Recommendation #11 as amended to include more specific advisory language. Motion passed 4-0.

Draft Recommendation #12 – The town shall establish a funding policy with the intention of fully funding OPEB within 30 years (assuming all other recommendations are implemented.)

Mr. Hartwell advised the Committee that the new rules of GASB would require a plan to fully fund OPEB liability. Considering the town's existing debts of infrastructure, pension and OPEB, a plan to fully fund in thirty years was unrealistic. It was agreed, however, that a funding policy indeed needed to be articulated for a long-term solution. Mr. Morris indicated that the sentiment among town managers was that when pensions were fully funded in 2032, OPEB would be "next." Funding policy has to be part of the program going forward, establishing a schedule of contribution, albeit unrealistic.

It was decided the Committee needed more information before making a decision. Ms. Walsh asked to call contacts at towns and inquire as to their plans to fund OPEB.

Recommendation #12 will be tabled until meeting with actuary next week.

Recommendation #13: The town shall evaluate buying out employees' vested benefits in OPEB. This would require buying out vested employees for the fair actuarial value of their accrued benefits, on a voluntary basis. The town would fund this program by issuing bonds.

Mr. Hartwell cited the Beverly Hills, CA successful buyout option offered to its employees. Discussion followed on the pros and cons of such an option that may be a win-win situation. It was noted that the industry was looking closely at this opportunity for investment. Mr. Morris cautioned on the risky downside of this option. Mr. Caron also cautioned on too aggressive actions as OPEB picture may change dramatically in the future. Mr. Hartwell agreed to do more research before a decision will be made on this Recommendation.

Recommendation #14: The town needs to freeze the town budget for 3 years and tax up to its maximum levy capacity each year. After 3 years, the town would assess if budget increases are prudent.

Following discussion it was agreed that a funding schedule and policy was necessary both for infrastructure, pension and OPEB. These fiscal decisions need to be made by the Town Manager, Finance Committee, Board of Selectmen, etc., and not under the purview of this Committee. A facilities study is now underway to assess infrastructure of town and school buildings. Mr. Morris noted there was redundancy with Recommendation #12 which was already voted on.

Recommendation #15: The town coalesce with other communities and their legislative delegations to raise awareness and "start drafting."

Mr. Morris noted everyone is in agreement, subject to language.

Next Steps: Mr. Morris asked members to suggest other recommendations. Mr. Baldwin agreed to start to draft the report. Recommendation #7, Mr. Baldwin's memorandum and more recommendations from Mr. Caron and Mr. Hartwell would be on next meeting's Agenda. Mr. Morris asked Christine to compile a list of recommendations for which items remain open.

Next Meeting

Ms. Walsh will schedule a meeting with the actuary for either February 8th or 9th depending on her availability. Ms. Walsh was also asked to supply schedule of employees, retirees on medicare and pre-medicare both part-time and full-time; and how many employees between 30 and full-time. Mr. Hartwell reported that 69 new employees were hired and who are now eligible for OPEB.

Audience Feedback

There were several comments from the audience, including prior Town Manager “Buzz” Stapczynski who cautioned that we are in a “crisis” of confidence and the need to believe in “ourselves” in facing the problem of OPEB. He then reflected back on several crises across the years that the Town had successfully addressed. He added that Andover has always been a leader in facing crises, and has always been looked to by other municipalities in handling these crises. “We have the foundation to do that.”

Adjournment

Upon motion duly made by Mr. Hartwell and seconded by Mr. Caron, it was unanimously voted to adjourn. Motion passed 4-0.

Meeting adjourned at 9:08 a.m.

Respectfully submitted,

Christine Martin Barraford
Recording Secretary

*Attachments: Draft #2 Report of Recommendations
Mr. Landry's Email*