

## **Call to Order**

### **Roll Call**

Chair Moffitt called the meeting to order at 7:00p.m and initiated roll call. Through video conferencing mode, present were Chairperson Eugenie Moffitt-Y, Andrew Betts-Y, Linn Anderson-Y, Mary Ellen Logee-Y, Paul Monticciolo-Y, Kevin O’Handley-Y, John Barry-Y, Spiro Christopoulos-Y and Paul Russo-Y. Also present were Town Manager, Finance Director Donna Walsh and Assistant Town Manager Patrick Lawlor. The meeting was videotaped and live cablecast.

### **Liaison Updates**

*General Government* - Ms. Anderson reported that the Select Board voted to change the Town Meeting date from May 3 to June 5. The preliminary warrant has been closed with 34 town articles and five private articles, one of which would limit term limits of committees. Cherry sheets have been posted to the dropbox. For convenience as a current liaison to the Permanent Town Building Advisory Committee, she will be the new liaison to the Andover High School Study Committee.

#### *Permanent Town Building Advisory Committee*

AHS - A statement of interest has been filed with MSBA with an expected date of response in the spring. If the project is not approved by MSBA, it will go forward as a town-funded project and dovetail with the Town Manager’s integrated financial plan. There is a warrant article to move remaining funds from the Bancroft school to this project to fund a feasibility study. The Town Manager stated that the committee had met over four years and considered multiple scenarios of renovation/rebuild/new construction.

#### *School Committee*

Mr. Russo stated that he would schedule a meeting for the district quarterly review and advise Mr. Barry for their joint attendance.

#### *IT*

Ms. Logee reported that Mr. Puzzanghera will make his presentation on February 25. A point of discussion will be the warrant article seeking to establish a revolving fund to collect funds from school families for rental of computer equipment.

#### *Police and Fire*

Mr. Monticciolo reported that the Fire Chief will make his presentation to the committee on February 10 and the Police Chief on March 10. Since the overall budget review is scheduled before that date, the necessity for the Police Chief’s presentation to the committee will be assessed following the budget meeting.

### **Integrated Financial Plan and Pension Obligation Bonds – Town Manager**

The Town Manager presented his Integrated Financial Plan to address the unfunded pension liability as well as school projects and OPEB (see attached PowerPoint presentation.)

1. Unfunded Pension Liability. The actual amount fluctuates between \$165-\$185M. The pension liability is required by Massachusetts General Laws (MGL) to be fully funded by 2040. At the present time our funding schedule is set by the Retirement Board and on

schedule for 2037. The actual benefit structure of municipal pensions is identified by MGL, (age, percentage of pay received in retirement) are all set by statute, and only the legislature can make changes. This unfunded liability presents the greatest threat to service levels and bond ratings. He added that the Retirement Board's efforts at pension reform is limited to eligibility only. The town's required contribution this year is \$13M and could increase to \$42M if funded by 2037, or \$50M+ if funded by 2040.

2. West El/Shawsheen Preschool. This project replaces two schools built on one campus with many shared systems. MSBA reimburses the town \$333/sq/ft but present construction costs are higher. With a projected cost of \$148M and Town's share of \$114M a net reimbursement of 23% is expected from MSBA. This project would alleviate overcrowding in other schools.
3. Other Post Employment Benefits (OPEB) in retirement. Unlike the pension obligation liability, there is currently no required funding amount or mandatory funding dates, but rating agencies have made it clear they want to see a plan of how it is going to be fully funded. Andover has aggressively been contributing to this fund, significantly more than other communities' contributions, and is expected to be funded by 2062. The integrated financial plan will provide us an option to accelerate this payment.
4. Andover High School. This is a large project that can take a number of various forms - new high school, renovations, additions, etc. The project has to proceed to full design to get a better idea of cost. MSBA is delayed in responding to a filed statement of interest submitted due to COVID. There is a current warrant article that would reappropriate remaining debt service of Bancroft in order to fund the feasibility study.

*Discussion ensued* with regard to the disposition of the Shawsheen property. The Town Manager stated that a market value appraisal will inform the decision on what to do with the property. Ultimately, since it was originally gifted to the town for school use, a home rule petition would need to be filed with the legislature as to the final disposition.

**Tenets of the Plan:** The Town Manager is proposing a \$290M debt exclusion to fully fund the unfunded pension liability and the school building project: \$175M to fund a pension obligation bond over a 17-year term and \$115M to fund the construction of the two new schools. The plan identifies a \$10M general fund mitigating factor (GFMF) to offset tax impacts as a debt exclusion applied to the total cost of the debt, which directly mitigates the tax impacts of the two large projects and gives the opportunity to retire the debt exclusion in year 18 and repurpose GFMF to offset West El and another obligation such as OPEB. Part of the program would be to reauthorize the Bancroft School debt of \$1.5M to contribute to the AHS project and not create any tax impact for the design.

*Discussion ensued* with regard to the \$10M general fund mitigating factor. The Town Manager stated that amount is amount within the levy limit that we previously would have used to pay the pension liability and contributing to the debt service cost of the two debt exclusions. Also discussed was the date of the last actuarial valuation, the recommendation to do so every year rather than every two years, and the timing of the actuarial valuation of the most recent retirement fund. The

Town Manager stated that an actuarial valuation would be done just prior to implementing the plan.

The next presentation included a chart of the Comparison of Options and Tax Impacts broken out into four scenarios integrating the obligations into one plan. The Town Manager explained how each of these scenarios, the costs, how it plays out for the amount to be raised outside the levy, the annual tax impact, and the 30-year tax impact. The four different scenarios he explained are as follows:

Scenario A: Integrated Financing Plan

Scenario B: Pension Operating Override and West Elem & Shawsheen School Debt Exclusion

Scenario C: Pension Operating Override Only

Scenario D: West Elementary and Shawsheen School Only

*Discussion ensued* including the option of, instead of a full 17-year commitment, that the funding is reviewed annually. The Town Manager stated it would be possible which would require presenting two budgets to the Town Meeting and releasing a budget based on an override passing and one on failing. He has not seen an annual review in other towns, but more on a three-five year schedule.

The Town Manager then compared the existing unfunded pension liability extrapolated out to 2040 to the above scenarios of the integrated plan.

*Discussion ensued* with regard to, from a taxpayer point of view, breaking down the pension liability as an “old” debt from the school project which is a “new” debt.

The Town Manager then reviewed the impact to the average tax bill from the point of view of level principal from 2022 to 2040. The first amount to be borrowed in 2022 would be for the school project with an increase to the average tax bill of \$262. The following year 2023 there would be no increase to the average tax bill. In 2024 there would be an increase of \$259 attributable to the integrated financing plan, and in 2025 an increase of \$360 also attributable to the plan. At the highest point in the tax bill the taxpayer would be paying \$876, which decreases each year to 2040. From 2041 to 2053 the payment would be just for the school project as the pension obligation has been funded. The options for that time period would be to end the school project exemption and assume debt service for another school without impact. From the point of view of level debt the highest year of the tax impact would be \$783.

*Discussion ensued* on the timeframe of when the high school project would come onboard. The Town Manager stated that if the project is approved by MSBA this year, the project would come on board 5-6 years and longer if not approved.

In summary, the portion of the average single family tax bill allocated toward pension in FY2022 is 7.97%, from FY2023-2040 to fully fund the schedule is 17.02% and FY2023-2040 to fund integrated plan of pension obligation bond and school project is 15.06%.

**Comparison of Pension Funding and Override History of other Comparable AAA Rated Communities:** Many of the communities passed overrides on a fairly regular basis to fully fund their pension plan (see attached PowerPoint presentation.) Andover is the only AAA rated community in Massachusetts that is less than 50% funded and the only community which has never had an override to fund the pension. At this point the Town Manager explained how, through the Integrated Financial Plan, Andover would stay “in the middle of the pack” and maintain its competitive place in which to live and be 100% funded in its pension obligation and school debt.

The Town Manger then reviewed the impact of a yes/no vote on the proposed financial plan. A ‘yes’ vote on both projects would have no service impacts, whereas a ‘no’ vote would have major impact on reduction of services. A ‘yes’ vote on building and ‘no’ on pension obligation bonds would also have major impacts on services; whereas a ‘yes’ vote on pension obligation bond and ‘no’ on the school, the service impacts would be unknown. The amount needed to fully fund the pension liability would remain approximately \$427M, which would be \$185M more than the pension obligation option and \$70.5M more than the integrated plan. The total amount of reduction in services would be approximately \$16M, and the Town Manager outlined the potential positions that may need to be reduced.

*Discussion ensued* on a yes vote on funding the entire plan of \$356M. As an incentive to the taxpayer could the anticipated \$16M reduction in services of a no vote to the entire plan be applied to reduce the overall \$356M of the total integrated plan. The Town Manager explained that that option would preserve services as we know them today. A reduction in services not only has a financial only but has an impact on quality of life such as closing fire stations, taking an ambulance out of service, reducing number of police officers, reducing maintenance of public facilities, and reduction in open hours of the library, senior center and youth center.

**Impact of Pension Reform:** The Town Manager also shared a chart on pension reform and talked about the impacts of pension reform that will not reduce the existing unfunded approximate \$185M liability, but would reduce annual 6.7% growth of the liability over time. There are challenges to actually changing the benefit structure for employees to qualify for pensions. Only the Retirement Board can make changes to eligibility requirements i.e. increasing the 20-hour requirement to full time hours or any number in between and changing buyback eligibility. This eligibility would only impact new hires after the date of eligibility changes goes into effect.

*Discussion ensued* on the Retirement Board responsibilities to consider reform and the challenges of COVID since last March on scheduling public forums for retiree input and the need to find alternative ways of virtual communication with its membership to inform its decisions. The Town Manager was confident that such efforts would be successful in upcoming months.

**Understanding the Risks:** The Town Manager reviewed the mitigation measures that would be taken if the return on assets does not exceed the borrowing rate or if the legislature extends funding requirements beyond 2040. Andover’s long term rate of return is approximately 6.25% (discount rate) and the current bond market expectation is 1.43-1.84% as of January 26<sup>th</sup>. However, projections in the proposed plan assume 3.5%, creating a buffer from the expected bond market. He also added that since 1950 the 20-year return on a pension obligation issuance has never been below 5.59%: and since 1900 there have only been four 10-year periods where returns were negative (the great depression and great recession.)

He then reviewed the probability testing on the likelihood that the investment returns through 2040 will exceed the rate shown (see attached PowerPoint presentation.) He also stated that the current active employees, among the first in the Commonwealth, have stepped up and contributed to the unfunded liability through collective bargaining agreements. He reviewed the reserve fund contributions of 1% of their pay from active employees would total \$5.7M over the life of the pension obligation bond debt schedule to 2040.

**Summary:** The Town Manager then summarized his presentation as follows:

1. Waiting a year or more increases the likelihood of higher borrowing costs and reduces the amortization schedule by another year or more which has a greater annual impact on the taxpayer.
2. If the worst case scenario was realized and the assets earned less than the interest rate at which the funds were borrowed, the town most likely would still be better off with pension obligation bonds than with the existing funding schedule.
3. If we borrowed at a rate of 2.95% there is a 95.1% probability chance that the assets earn more than the rate they were borrowed at according to probability testing, and if so the plan would have a favorable outcome.
4. If the town takes no action, taxpayers will be responsible for paying at least \$427M in pension costs between now and 2040.
5. If the potential risk offset by the opportunity a) save approximately \$70M, build two schools and maintain services; or 2) save \$150M+ in pension costs and maintain services.

Next steps include a) appointing an investment committee; b) public outreach; c) borrowing authorizations for both school project and pension obligation bonds will require Town Meeting approval on June 5<sup>th</sup>; and both the school project and pension bonds will require debt exclusion votes on June 15<sup>th</sup>.

*Discussion ensued* on the role of the Investment Committee consisting of five appointed knowledgeable residents formed to assist the Retirement Board in its fiduciary responsibility to invest retirement funds. While the final responsibility rests with the Board, the mission of the Investment Committee is advisory. The Town Manager pointed out that the Board currently has a consultant in an advisory role and it is expected that the Investment Committee would work in tandem with the consultant in offering its expertise and advice. Taxpayers will have input as all decisions are made in a public forum.

The Town Manager is committed to educating the taxpayers on all aspects of the financial plan, and the Finance Committee agreed that he needs to communicate clearly the concept and value of the plan. He also stated that the Finance Committee before Town Meeting review time, the decision is made before and we go out together. It was agreed that the support of the Finance Committee is critical to educating the taxpayer on all aspects of the plan. The Town Manager stated that it was difficult to get the home rule petition passed in the legislature, and suggestions

for pension reform will be even more difficult in accordance with Mass General Laws, and apply only to new hires and not past employees.

*Discussion ensued* on the largest growing segment of Andover population at 65+, and the impact of that group on “buying: into the integrated plan. The Town Manager is working with the Community Services Division on bringing to awareness information on senior tax exemption programs.

#### Preparing for Town Meeting

The budget will be released on February 5 based on the governor’s budget. Supplemental material will be delayed one month, since information is still fluid. Messrs. Betts and Russo will plan to meet with the Town Manager in upcoming months. The Finance Committee will plan to vote on the integrated plan at its next meeting.

The Town Manager stated that, unlike traditional capital campaigns, where a ‘no’ vote means no monies allocation, in this situation we have a large unfunded liability that will not go away. There is a big cost either way and we need to gear in that direction for the education of the public. Public forums of virtual focus groups and meetings are expected to present challenges in terms of accurately gauging public interest and commitment. A united front of Select Board, Finance Committee and School Committee is needed to accurately reflect the vetting process that the plan has undergone.

#### Approval of Minutes – Triboard - December 8, 2020

Upon motion duly made by Mr. Russo and seconded by Mr. O’Handley, it was unanimously voted to approve the above minutes. Chairperson Eugenie Moffitt-Y, Andrew Betts-Y, Linn Anderson-Y, Mary Ellen Logee-Y, Spiro Christopoulos-Y, Paul Monticciolo-Y, Kevin O’Handley-Y, John Barry-Y and Paul Russo-Y. Motion passed 9-0.

#### Approval of Minutes – January 13, 2021

Upon motion duly made by Ms. Anderson and seconded by Mr. Barry, it was unanimously voted to approve the above minutes as amended. Chairperson Eugenie Moffitt-Y, Andrew Betts-Y, Linn Anderson-Y, Mary Ellen Logee-Y, Spiro Christopoulos-Y, Paul Monticciolo-Y, Kevin O’Handley-Y, John Barry-Y and Paul Russo-Y. Motion passed 9-0.

#### Next Meetings

Discussion ensued with regard to the scheduling of the next meeting. It was decided to change the existing date from Wednesday, February 10 to Tuesday, February 9 in order to accommodate the Town Manager’s participation in that meeting.

**Adjournment**

Upon motion duly made by Mr. Russo and seconded by Mr. Barry, it was unanimously voted to adjourn. Chair Eugenie (Janie) Moffitt-Y, Linn Anderson-Y, Andrew Betts-Y, Mary Ellen Logee-Y, John Barry-Y, Paul Monticciolo-Y, Paul Russo-Y, Kevin O’Handley-Y and Mr. Christopoulos-Y. Motion passed 9-0. The meeting adjourned at 8:50PM.

Respectfully submitted,

Christine Martin Barraford  
Recording Secretary

*Attachments:*

*Integrated Financial Plan – Town Manager*