# Revenue and Expenditure Task Force
## Wednesday, September 18, 2019 7:30PM
## Third Floor Select Board Conference Room

**I. Call to Order**

Chair Vaill called the meeting to order at 7:30PM in the Third Floor Select Board Conference Room. Present were Tim Vaill, Tom Hartwell, Paul MacKay, Kevin Connors, Dan Esdale, Melissa Danisch and Joe Guilmartin. Also present were Eugenie Moffitt, Finance Committee, Patrick Lawlor, Management Analyst, and Joel Blumstein, School Committee and Hayley Green, Town Accountant and Assistant Finance Director. Absent were Greg Eliasen and Donna Walsh. The meeting was taped and live cablecast.

**II. Approval of Minutes – September 5, 2019**

Upon motion duly made by Mr. Hartwell and seconded by Mr. Connors, it was unanimously voted to approve above minutes. Motion passed 7-0. Mr. Esdale asked that bullet points of discussions be included in future minutes.

**III. Review of Task Force Work Plan – Mr. Vaill and Mr. Lawlor**

Mr. Vaill notified the committee of Mr. Robb's anticipated continuing absence because of a medical problem and sent his wishes to the committee on behalf of Mr. Robb. Mr. Vaill advised that Mr. MacKay had begun drafting the report. He asked Mr. Lawlor to discuss next steps of the task force work plan.

Mr. Lawlor advised that the committee is in the second phase of topic review and discussion of Retirement. At its next meeting on September 26th, the town will provide an impact statement and analysis on the recommendations provided by the committee, followed by discussion by the committee and consideration of voting its recommendation. The committee will then move onto the next second phase of topic discussion, Revenue. He also said the Town Manager would provide feedback on the 2020-21 budget process.

Discussion ensued including a) request of the Town Manager to review long-range guiding principle framework and goals that will better inform the task force recommendations; b) what are the objectives of the town with regard to retirement and unfunded liability and the retirement board funding schedule; and c) are the assumptions to be fully funded by 2035 appropriate and workable. Mr. Lawlor will provide data and information.

**IV. Overview and Presentation on Retirement – Mr. Hartwell**

Mr. Vaill asked Mr. Hartwell to summarize his previous presentation on retirement as the task force begins its review and discussion. Mr. Hartwell began by saying that although he is a member of the Retirement Board, the opinions expressed below are his as a resident and retired CPA only.

He then reviewed his presentation on pensions (see attached materials.) Mr. Hartwell commented Andover's pension plan hasn't made progress in reducing its unfunded liabilities over the years, despite a robust stock market, and the quote found in the CPA journal does a good job explaining why Andover has one of the worst funded plans in the State. Mr. Hartwell walked the task force through the differences between public pension plans and private pension plans. The biggest reason for the town's unfunded liability is the discount rate used to value pension liabilities. This determines the town's annual pension contributions. Because unrealistic discount rates have been used the past 20 years, the town has underfunded pensions. Mr. Hartwell commented this assumption is the most important assumption the task force should evaluate when it comes to pensions.

Mr. Hartwell pointed out the differences in the valuation of unfunded pension liabilities between the Retirement Board and the town. The Retirement board uses a 7% discount rate whereas the town uses a 6.25% rate. Mr. Hartwell provided the task force a report (see attached) he prepares annually for the town supporting the 6.25% rate. Andover is the only town in the State showing a different (higher) liability than what's reported by its Retirement Board.

Mr. Hartwell highlighted how Andover's pension plan compares to other towns and noted Leominster is now 100% funded. Mr. Hartwell cited 3 primary reasons for Leominster reaching 100% funding - 1) more aggressive funding schedule, 2) eliminating COLAs paid to retirees, and 3) investment performance. Mr. Hartwell noted Andover's Retirement Board expected to earn 8.02% over the last 20 year years on its investments but only earned 4.39%. This is the primary cause for the town's unfunded liability.

Mr. Hartwell explained normal cost is the amount the town is required to pay annually if there was no unfunded liability. At 7%, the normal cost for this year would be $2.7 million or roughly 7% of salaries. Using 6.25%, normal cost increases to $3.9 million, or approx. 10% of salary. If normal cost was calculated using what the plan actually earned (4.39%), the pension cost would be 2 to 3 times what it would be at 7%. Mr. Hartwell stated it was a myth that pension cost for employees is less expensive for the town than if it had to pay social security for its employees. Mr. Hartwell also commented that it is unrealistic to think the town will be fully funded by 2035, the date the town expects to be fully funded. The town would have to contribute towards pensions approx. $318 million (using 7%) or $383 million (using 6.25%) over the next 16 years. The town is currently paying approx. $11 million today. The annual contribution in 2035 would be approx. $31 million.

Mr. Hartwell highlighted the possible reform measures to address the town's pension crisis at the local level. Changing eligibility for new employees in the retirement plan from part-time employees to full-time employees would not reduce the unfunded liability today but would slow down its growth as well as the OPEB unfunded liability growth. This measure would have to be approved by the retirement board. This reform measure should be the reform priority of the town and Retirement Board. Mr. Hartwell did not discuss in detail possible reform measures requiring State approval as they would be more difficult to achieve.

Discussion ensued and included the following points: a) the difference between the retirement board's set of discount rate at 7% and the town's set of discount rate at 6.25%; b) the comparison with other towns' in the state and country discount rates and funding schedules in context; c) the advisability of the town to continue to make additional payments (as it did inFY20) over the amount recommended by the retirement board; d) building consensus on a discount rate between the retirement board and the town for the 1/1/2020 valuation; d) qualifications of members to make recommendations on an "artificial" discount rate and the present situation as a result of relying on "expert" financial advice; e) the alternative funding sources to paying down unfunded liability, i.e. cut in services, hiring freeze, raise in taxes, reducing benefits etc.; f) proposed changes under consideration presently by the retirement board in eligibility and buyback for retirement for new employees and its positive impact on OPEB (see attachments); g) impact on competitive hiring and retention of qualified school employees in the area; h) perspective on continuation of a AAA rated community in light of an unfunded liability; i) the public outreach component of the task force advice; j) consideration of the budget impact of recommendations; k) political ramifications; l) futility of comparing municipality with private sector; and m) the unsustainability of not paying down unfunded liability debt.

Mr. MacKay will continue to draft report and invites members to email him suggestions for inclusion in the report.

**V. <u>Future Meetings</u>**

October 10, October 17, October 29 and November 7

**<u>Adjournment</u>**

Upon motion duly made by Mr. Esdale and seconded by Mr. MacKay, it was unanimously voted to adjourn. Motion passed 7-0. Meeting adjourned at 9:03PM.

Respectfully submitted,

Christine Martin Barraford
Recording Clerk

*Attachments: Mr. Hartwell's Retirement Presentation Materials*