



Financing Andover's Major Obligations

Integrated Financing Plan

West Elementary / Shawsheen
Preschool &

Unfunded Pension Liability



Agenda

- Major Funding Obligations
 - West Elementary / Shawsheen Preschool (WESP) Project
 - Pension Obligation
- Funding Challenges
- Understanding the Mechanics of POBs and the “Status Quo”
 - Conceptual Impact of Reform
- Proposed Solutions
 - Pension Obligation Bond
 - Integrated Financing Plan
- Summary & Next Steps



Major Funding Obligations



WESP Building Project

- Replaces two outdated schools and alleviates overcrowding at district elementary schools
- Accepted by Massachusetts School Building Authority (MSBA) in 2017
- Feasibility study & schematic design complete 2019-2020
- MSBA reimbursement grant – approx. 25% (40% of max. \$333 per sq. ft)
- Awaiting town vote

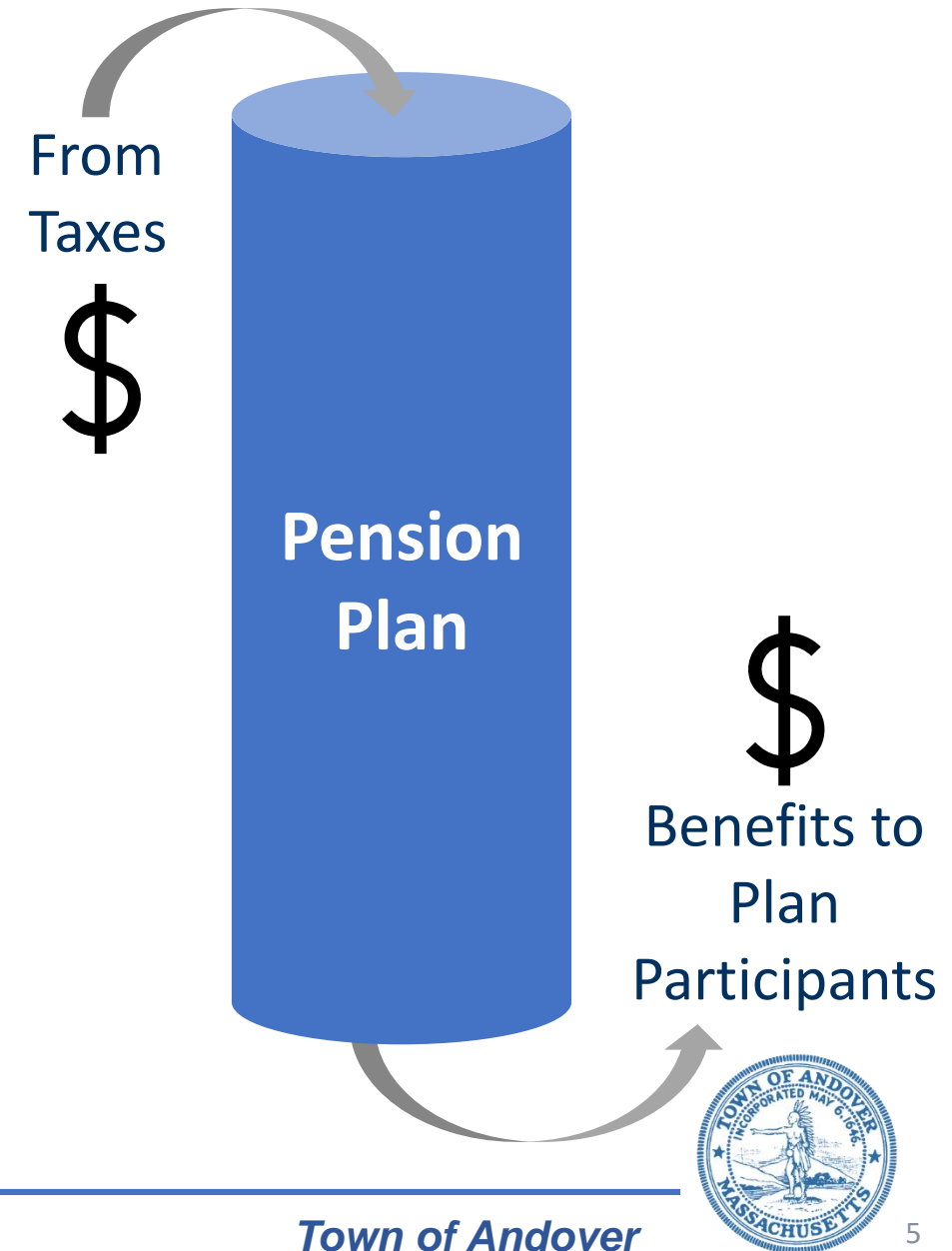
\$114M (Total Cost - \$152M)

Integrated Financing Plan for Major Obligations



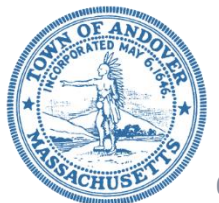
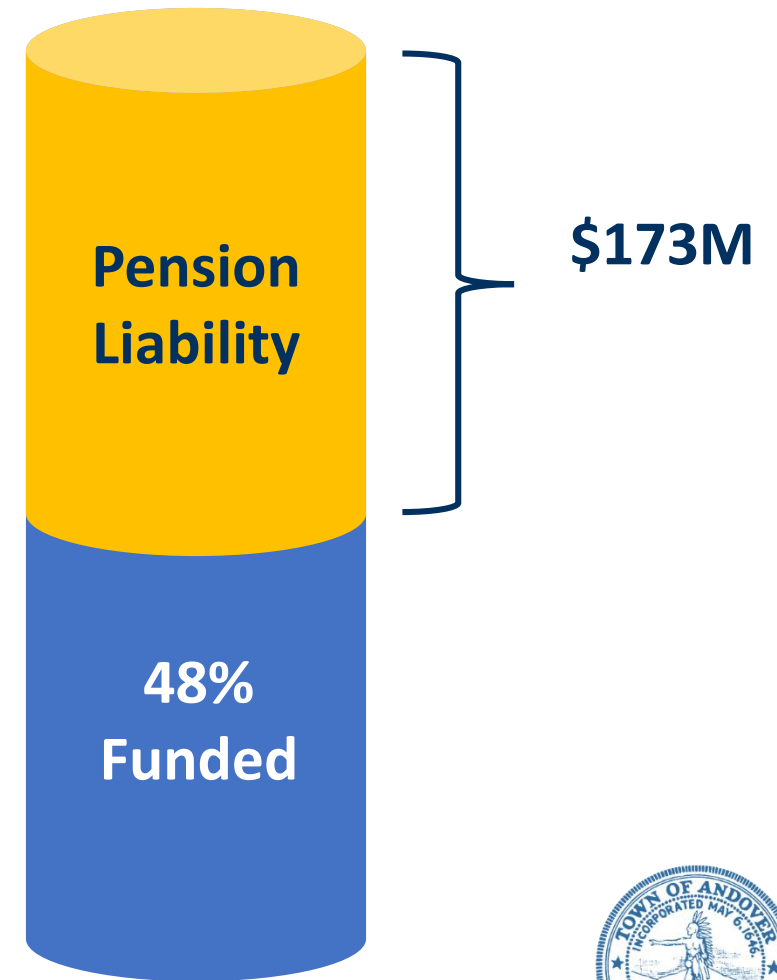
Pension Obligation Overview

- Pension plan serves 755 active town & school employees and 497 beneficiaries
- Town will put \$8.87M towards its obligation in 2022 as prescribed by Massachusetts General Law (MGL)
- Retirement board acts as fiduciary for pension plan
 - Board comprised of elected & appointed members and town accountant
- Investment Advisory Committee will advise Retirement Board and other Town boards on investment decisions and asset allocation for plan



Pension Liability

- Andover's town pension plan is currently underfunded which results in a liability to Andover of \$165-185M
 - Benefit structure defined by Massachusetts General Law (MGL)
 - Required by Massachusetts General Law (MGL) to be fully funded by 2040
 - Presents greatest threat to town services and Andover's bond AAA rating which impacts the town's future ability to borrow money



Funding Challenges



Tax Levy and Debt Exclusion – Building the Budget

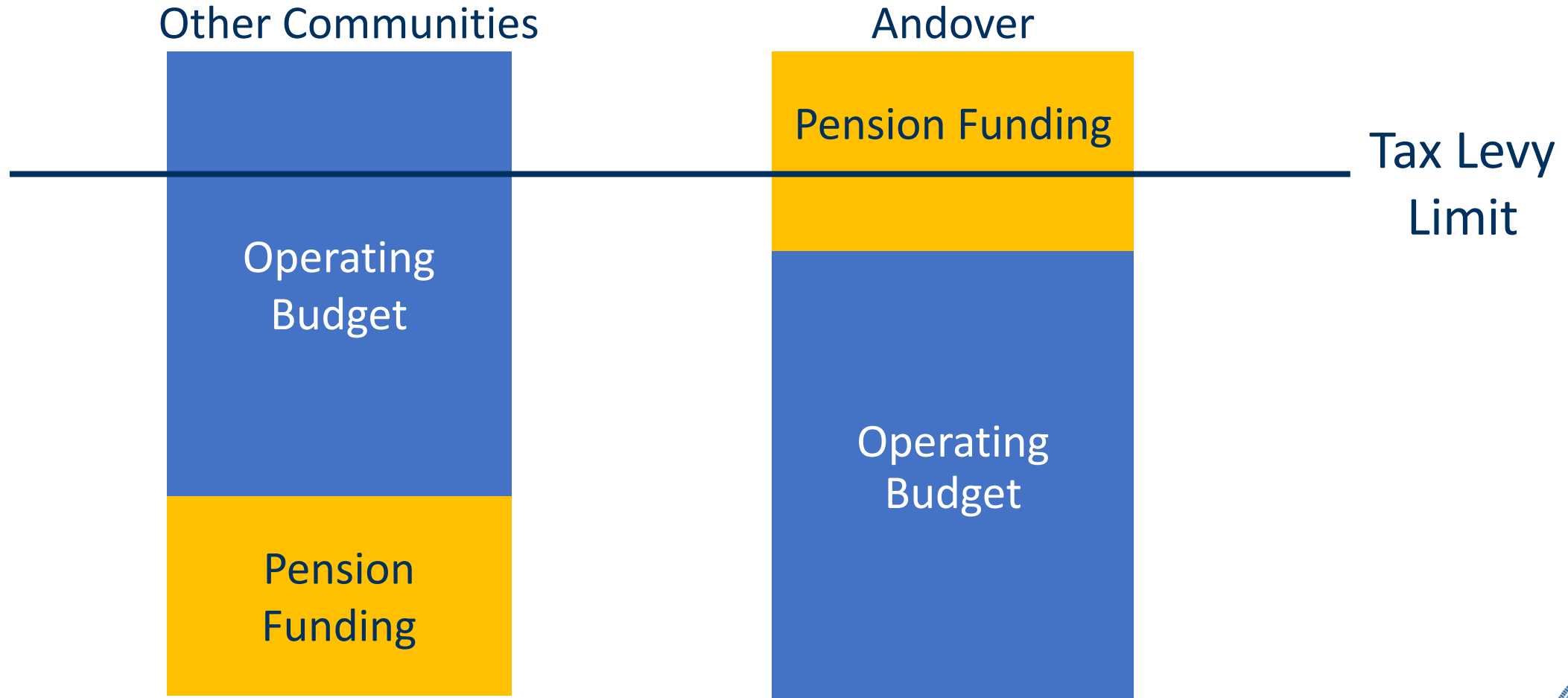


Tax Comparison and Override History

Comparable Communities Average Tax Bill and Override History				
		Pension Fund (% Funded)	# Operating Overrides	Average Tax Bill
1	Concord	86%	19	\$17,003
2	Wellesley	78%	11	\$15,760
3	Lexington	87%	16	\$15,547
4	Winchester	80%	3	\$14,298
5	Sudbury	Regional System	9	\$13,769
6	Needham	68%	18	\$12,272
7	Acton	Regional System	5	\$11,970
8	Norwell	Regional System	4	\$10,814
9	Andover	48%	0	\$10,223
10	Hingham	70%	4	\$9,988
11	Bedford	Regional System	0	\$9,769
12	Arlington	52%	4	\$9,126
13	Marblehead	53%	6	\$9,068
14	Natick	Regional System	2	\$8,410
15	Newburyport	65%	0	\$7,929
16	North Andover	Regional System	5	\$7,608



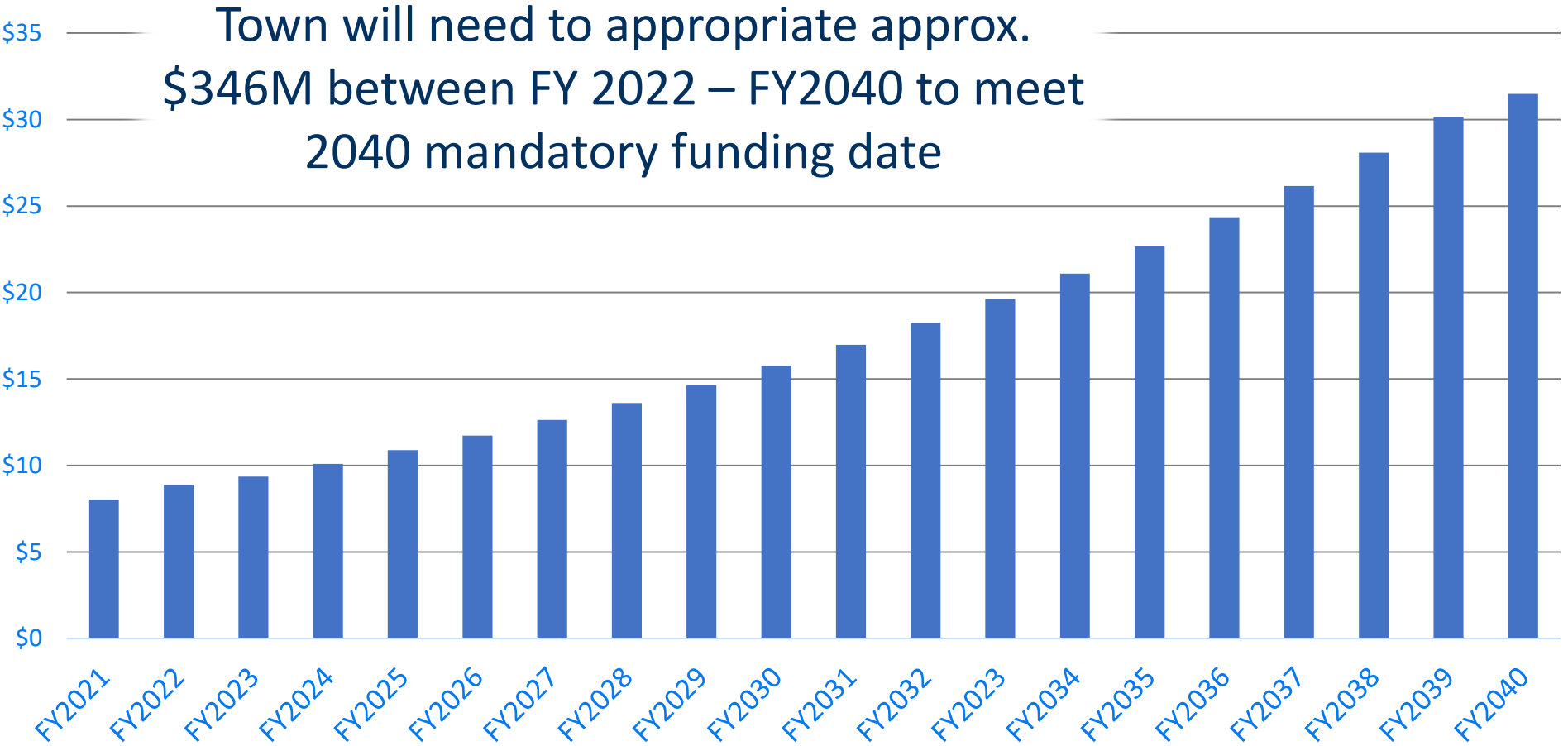
How Andover and Other Communities Prioritize Operating Budget Expenditures



Integrated Financing Plan for Major Obligations



Existing Pension Schedule



Conceptual Service Impacts of Redirecting the Budget to Fund Existing Pension Schedule

Area/Program	Portion of Average Tax Bill
Solid Waste and Recycling	\$229
Memorial Hall Library	\$202
Recreation, Youth and Elder Services	\$97
Closing a Fire Station	\$63
Public Health Division	\$35
Forestry/Tree Maintenance	\$14
Sustainability	\$7
Business, Arts, and Cultural Development	\$7
Tree Program	\$4
Public Works Dump Truck	\$2



WESP

- Rising costs to maintain 2 buildings with aging infrastructure and high energy costs
- School construction costs rising at 5-6% every year
- \$152M construction estimate could grow to \$184M+ by 2025
- \$38M grant from MSBA **requires** town vote to approve construction bond at Town Meeting **and** at ballot box.



Understanding the Mechanics of POBs vs. “Status Quo”



Understanding the Mechanics of POBs

For the plan to work as presented, the following two conditions must be met:

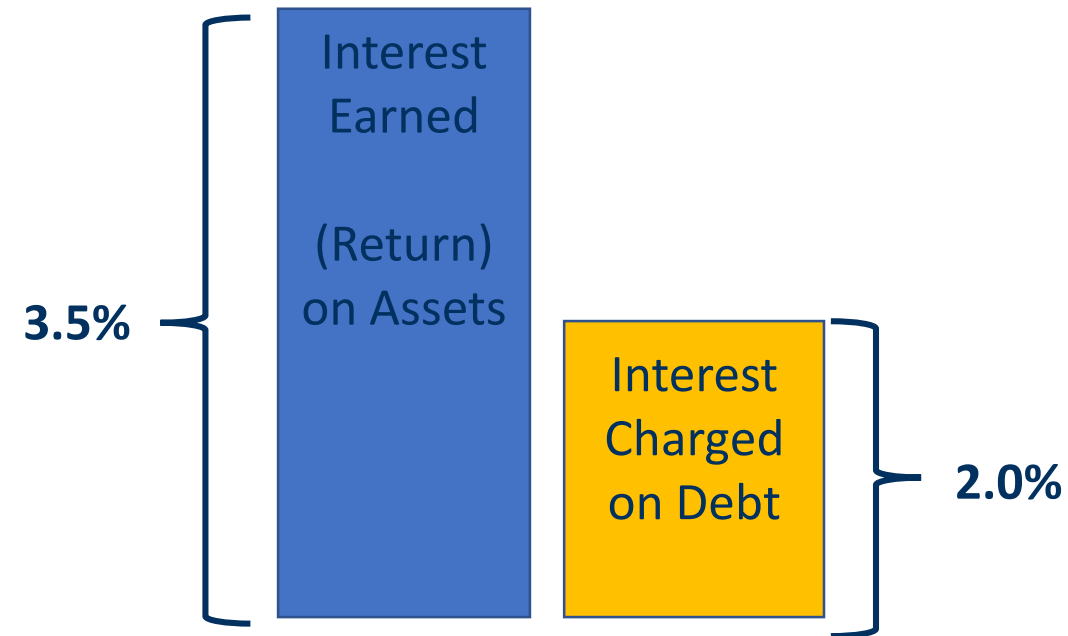
Condition #1: Funds from POBs must earn more than the rate at which they borrowed

Condition #2: Current and accumulating assets must earn an amount equal to the increasing cost of the liability

Condition #1

Condition #1: Assets generated from the Pension Obligation Bond must earn more than the interest rates on the debt

1. Current bond market interest rate expectation for AAA community ~**2.0%** (as of 4/2/21)
2. Plan models **3.5%** rate in order to be conservative. Specific loan rate can be locked in only after voters approve plan.
3. Since 1950, the 20-year return on a POB issuance has never been below **5.59%**



Condition #2

Condition #2: Current and accumulating assets must earn an amount equal to the increasing cost of the liability

Asset Earnings – 6.25% or Greater

	Existing Assets + Proceeds from POBs	Impact on Unfunded Liability
If the return is greater than 6.25%	Earnings exceeds increasing cost of liability	Reduces Unfunded Liability
If the return is less than 6.25%	Earnings do not keep pace with the increasing cost of the liability	Increases Unfunded Liability

- **5 Year Average Return – 7.86%**
- **10 Year Average Return - 8.52%**
- **20 Year Average Return – Approx. 5.5%**

Understanding the Current Funding Schedule – “Status Quo”

- Town is required to fully fund its **\$173M unfunded** pension liability by 2040
- The Town is required to make annual appropriations to the Retirement Board pursuant to a **funding schedule**
- There is an extraordinary cost of paying the full unfunded liability **over time**
- This represents the cost of the “**Status Quo**”
- **\$346M** will be needed to fully fund the current **\$173M** unfunded liability*

*Assumes funds earn 6.25%

\$346M

Total Cost of Fully Funding the
Pension System
FY 2022 – FY2040

18 Year Additional Tax Impact
Approx. \$6,940

Understanding the Mechanics of POBs

- This option would **75% fund** the unfunded liability in **2021** by issuing bonds (debt)*
- The remaining **25%** would be **funded** through an annual funding schedule through 2040
- Establish a Reserve to mitigate potential losses (\$24M)
- Funds will need to earn 6.25% over time in order to remain fully funded

*Assumes assets continue to earn 6.25%

\$266M

Principal & Interest Costs of Pension Obligation Bonds

18 Year Additional Tax Impact Approx. \$2,113

Liabilities

POB Debt Service
(75%)

Funding Schedule
(25%)

Revenues

General Fund Revenue
(Within Levy – Prop. 2 ½)

Exempt Revenue
(Outside Levy – Exempt
from Prop. 2 ½)

Reserves

Town Employee
Contribution Reserve

General Fund
Contribution Reserve



LIABILITIES		
Funding Schedule	POB Debt Service	Total Liability
\$2,548,989	\$10,039,988	\$12,588,977
\$2,650,948	\$10,039,988	\$12,690,936
\$2,756,985	\$10,039,988	\$12,796,973
\$2,867,265	\$10,039,988	\$12,907,253
\$2,981,955	\$10,039,988	\$13,021,943
\$3,101,234	\$10,039,988	\$13,141,222
\$3,225,283	\$10,039,988	\$13,265,271
\$3,354,294	\$10,039,988	\$13,394,282
\$3,488,465	\$10,039,988	\$13,528,453
\$3,628,005	\$10,039,988	\$13,667,993
\$3,773,124	\$10,039,988	\$13,813,112
\$3,924,049	\$10,039,988	\$13,964,037
\$4,081,011	\$10,039,988	\$14,120,999
\$4,244,252	\$10,039,988	\$14,284,240
\$4,414,022	\$10,039,988	\$14,454,010
\$4,590,583	\$10,039,988	\$14,630,571
\$4,774,206	\$10,039,988	\$14,814,194
\$4,965,176	\$10,039,988	\$15,005,164

REVENUES	
General Fund Revenue	Exempt Revenue
\$11,000,000	\$2,000,000
\$11,220,000	\$2,000,000
\$11,444,400	\$1,960,000
\$11,673,288	\$1,920,800
\$11,906,754	\$1,882,384
\$12,144,889	\$1,844,736
\$12,387,787	\$1,807,842
\$12,635,542	\$1,771,685
\$12,888,253	\$1,736,251
\$13,146,018	\$1,701,526
\$13,408,939	\$1,667,496
\$13,677,117	\$1,634,146
\$13,950,660	\$1,601,463
\$14,229,673	\$1,569,433
\$14,514,266	\$1,538,045
\$14,804,552	\$1,507,284
\$15,100,643	\$1,477,138
\$15,402,656	\$1,447,595

RESERVES
Balance in Reserve
\$411,023
\$1,190,087
\$2,047,514
\$2,984,349
\$4,001,544
\$5,099,947
\$6,280,304
\$7,543,249
\$8,889,300
\$10,318,852
\$11,832,174
\$13,429,400
\$15,110,523
\$16,875,390
\$18,723,691
\$20,654,956
\$22,668,542
\$24,763,630

IMPACT
Annual Tax Impact
\$136
\$136
\$133
\$131
\$128
\$125
\$123
\$120
\$118
\$116
\$113
\$111
\$109
\$107
\$105
\$102
\$100
\$98

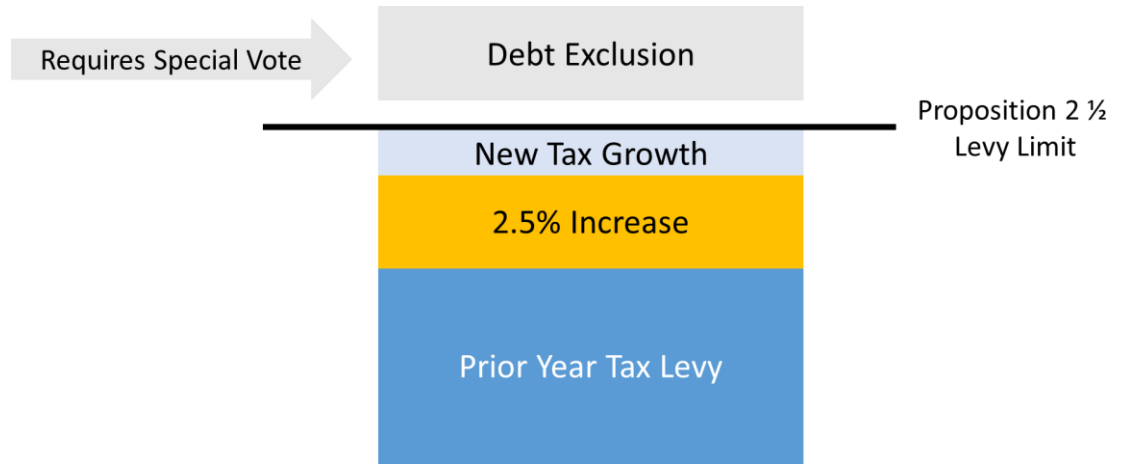
Integrated Financing Plan for Major Obligations



Proposed Solution



Plan Details



- 1) Two separate debt exclusions:
 - a) \$130M for Pension Obligation Bond (POB), 18 year borrowing term
 - b) \$114M for WESP building project, 30 year borrowing term
- 2) Increase annual pension allocation within the operating budget from \$8.87M to \$11M and increase it annually by 2%
- 3) Establish reserve fund from **active** employee contributions and the General Fund to offset losses and/or reconcile new unfunded liability
 - a) Contributions would total approximately \$5.7M over 18 years from employees
 - b) Contributions would total approx. \$18M from the General Fund



Benefits of The Integrated Plan

Pension Obligation Bond

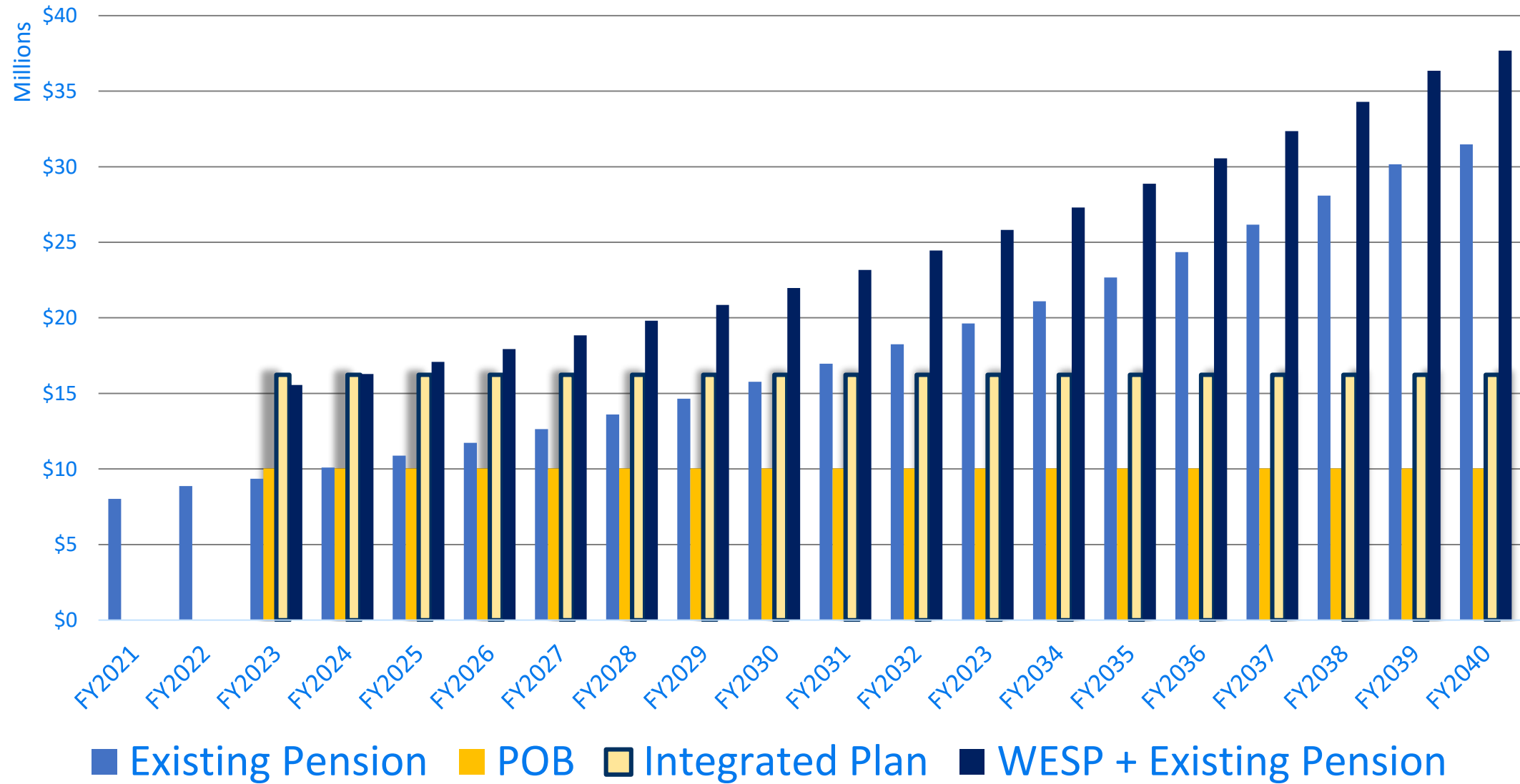
- 1) Pension debt will be paid by 2040 per MGL
- 2) Allows for fixed payments over a defined term (\$10.04M per plan)
- 3) Preserves service levels by alleviating budget pressures created by increasing pension costs
- 4) Prepares town for future opportunities

WESP

- 1) Secures \$38M grant from MSBA and protects possibility of future projects with the state
- 2) Replaces two outdated schools with new facility to accommodate enrollment projections
- 3) Allows town to re-purpose Shawsheen Preschool
- 4) Lowers town maintenance costs and energy use from aging infrastructure of two schools



Integrated Plan Over Time

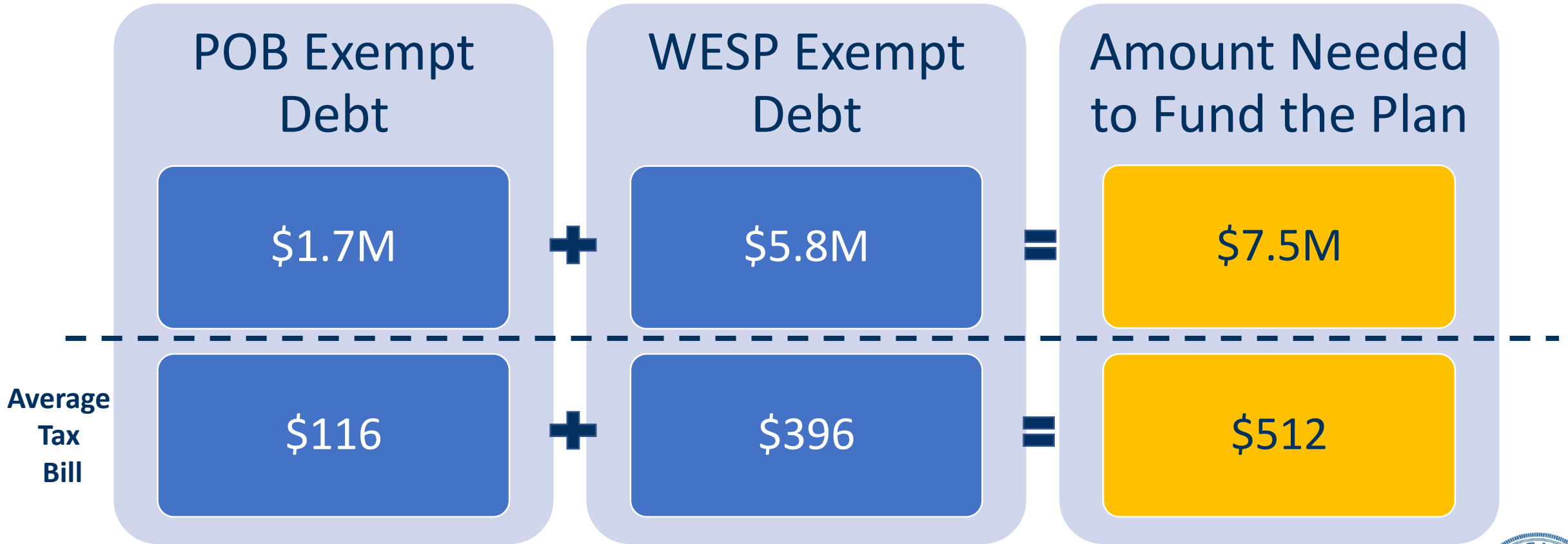


Integrated Financing Plan for Major Obligations



Illustration of Integrated Plan on Average Annual Tax Bill

Proposition 2 ½ Override

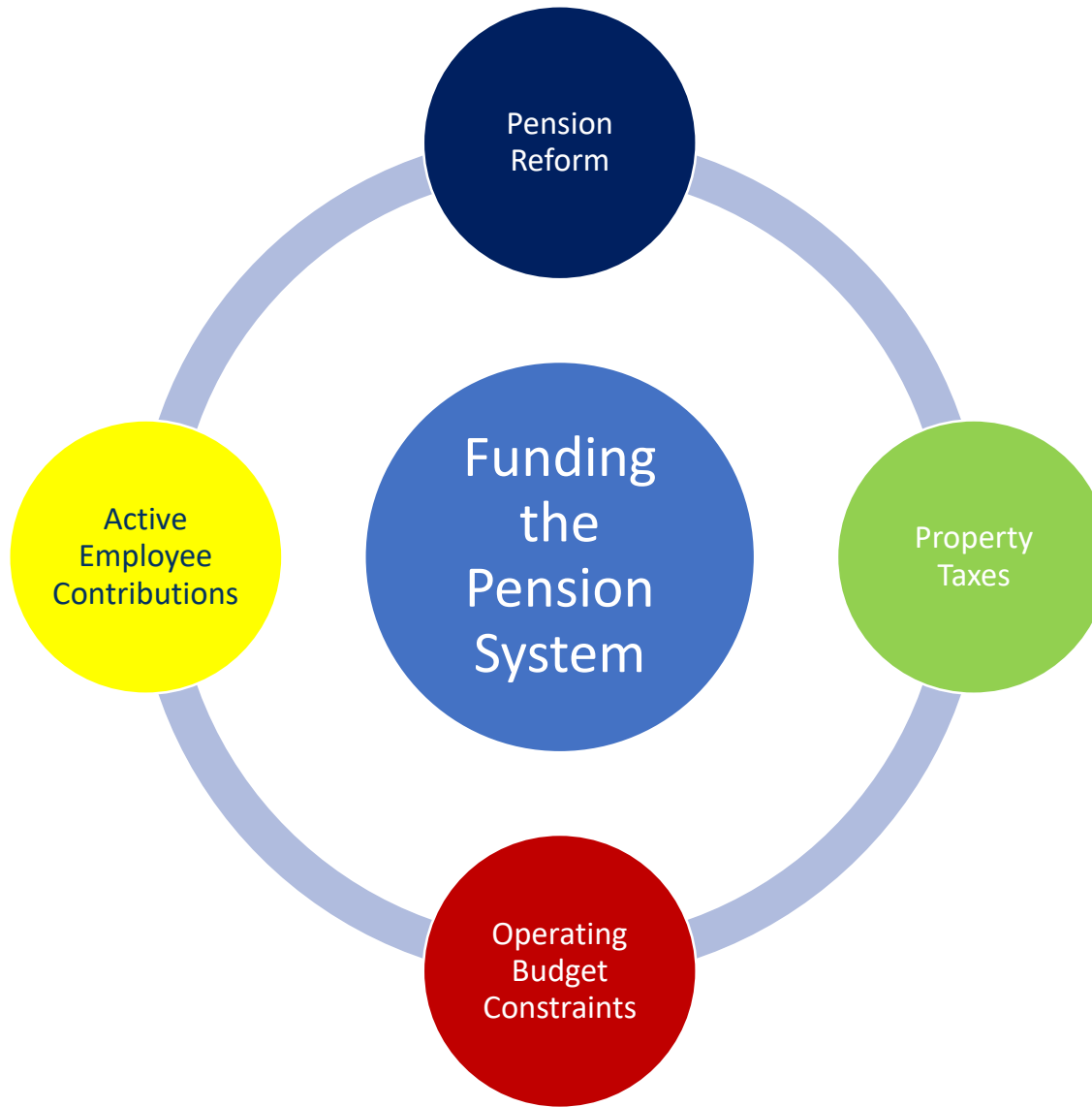


Integrated Financing Plan for Major Obligations



Summary





Integrated Financing Plan for Major Obligations



Comparison of Options

	YES on Both	NO on Both	YES on WESP, NO on POB	NO on WESP, YES on POB
Pension Liability Cost	\$266M	\$346M	\$346M	\$266M
WESP Cost	\$114M	\$0	\$114M	\$0
Total	\$380M	\$346M	\$460M	\$266M
Service Impacts	Minor	Major	Major	Major*

* Additional costs of maintaining WEL & Shawsheen may have impacts on service. Project cost escalation and loss of MSBA reimbursement are also considerations.

Next Steps

- Appoint Investment Advisory Committee (May)
- Public Outreach (April - June)
 - Standing weekly presentations starting April 6th– Tuesdays, 7 p.m.
 - Weekly virtual office hours starting April 8th – Thursdays, 12 p.m.
- Borrowing authorizations for both West Elementary & Shawsheen Preschool Building Project and POB's will require Town Meeting approval (June 5th)
- Both West Elementary & Shawsheen Preschool Building Project and POB's will require debt exclusion votes (June 15th)
- **Investment Committee will conduct sensitivity analysis and make final recommendation on how to proceed with POBs (August 2021). Recommendation will be delivered before funds are borrowed**

