
Revenue and Expenditure Task Force
Thursday, February 18, 2021 5:30PM
WebEx Virtual Meeting

I. Call to Order

Chair Vaill called the meeting of the Revenue and Expenditure Task Force (RETF) to order at 5:31PM and initiated roll call. Present by video conferencing were Tim Vaill-Y, Joe Guilmartin-Y (arrived late), Melissa Danisch-Y, Tom Hartwell-Y and Kevin Connors-Y. Absent was Joe Guilmartin and Paul MacKay. Also present were Patrick Lawlor, Assistant Town Manager, Finance Director Donna Walsh, Hayley Green, Town Accountant/Assistant Finance Director, Finance Committee Liaisons Eugenie Moffitt and Linn Anderson, as well as School Superintendent Claudia Bach. The meeting was taped and live cablecast.

II. Approval of Minutes – January 28, 2021

Upon motion duly made by Mr. Connors and seconded by Ms. Dansich, it was unanimously voted to approve above minutes. Tim Vaill-Y, Melissa Danisch-Y, Tom Hartwell-Y and Kevin Connors-Y. Motion passed 4-0.

III. Integrated Financing Plan - Subcommittee

Ms. Danisch reported that she, Mr. Vaill and Mr. Guilmartin met with Ms. Gilbert, Chair of the Select Board with an initial perspective of the history and mission of the task force. Ms. Gilbert suggested that the task force meet with the Select Board, Finance Committee and School Committee and share its focus on the long-term view of budgetary issues. Also discussed was a) how to best communicate to the average taxpayer the complex tenets of the plan in a simple and concise way; b) dispel taxpayer misperceptions of the plan; c) communicate unequivocally that the unfunded pension obligation is a structural deficit that must be paid;) d) point out the necessity for pension reform in meeting pension obligations going forward; and e) emphasizing that doing nothing results in significant service cutbacks.

Discussion ensued including the affirmation of clear communication with other board members as well as the taxpayer, and the validation and vetting of the financial plan numbers with the town financial adviser and actuary.

IV. Integrated Financial Plan – West El/Shawsheen Preschool, Pension Obligation Bonds, OPEB and Andover High School – Mr. Lawlor

Mr. Lawlor presented the Town Manager’s Integrated Financial Plan (see PowerPoint presentation attached.)

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 in order to maintain AAA rating. 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 reauthorize remaining debt service of Bancroft in order to fund the feasibility study.

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.

Mr. Lawlor then compared the existing unfunded pension obligation to the integrated financial plan from FY2022 to FY2040, with the general fund breaking point and resultant service cutbacks occurring in FY2023. From 2041 to 2053 the tax 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. Mr. Lawlor added that the tax impact would be over a two-three year period.

Discussion ensued on the exact timeframe for issuance of the bond after town meeting and town election ballot. Ms. Walsh will follow with the financial adviser for this information.

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. Andover has a lower student-teacher ratio and more aggregate roads to maintain than like communities. At this point Mr. Lawlor 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 Manager has formed an investment advisory committee to assist the Retirement Board in the management of funds obtained from the bond issuance.

Next Steps of the Revenue and Expenditure Task Force

Mr. Lawlor outlined the educational plan for community outreach. While virtual meetings present unique challenges, a comprehensive schedule of over 100 meetings is targeted to educate every level of taxpayer from the basic overview to the “nitty-gritty” data. Educational material will also be available on the website and Facebook, i.e. focus groups, videos, FAQ’s etc. He added that the model created successfully for prior public forums will be used and adapted to the evolving demands for information from the public. Assistance will be requested from members of the Task Force as well as Finance Committee to work as a team in these outreach efforts including presentations and other campaign efforts.

Discussion ensued on the best ways to undertake this project. Ms. Danish suggested a narrative be developed to bring to bear the fundamental issue of the long-term impact of the unfunded liability and the legal obligation to fund it by 2037. “Kicking the can down the road” is not an option. The narrative would be geared across the spectrum of taxpayer. Ms. Bach appreciated the savings to the town over a 30-year period. She also commented on the different demographics including young families with children and empty nester senior citizen with the mindset of “paying back” the years of education for their children.

Ms. Moffitt, Chair of the Finance Committee, noted two members on the subcommittee to study the plan with the Town Manager with the responsibility of writing the plan into the Finance Committee report. Collaborating with the task force in sharing information will have a positive effect on conveying an effective message to the taxpayer.

Discussion ensued on a) the demographics of the taxpayer with one-fifth of the population senior citizens; b) sustaining the cost of living in Andover; c) keen interest of regular loyal town meeting attendees as well as interest of the general non-frequent taxpayer; d) develop strategies to reach all segments of the population; and e) the importance of responding to specific concerns about the plan and incorporating into the overall message.

After lengthy discussion, it was the opinion of the task force that a vote to support the concept of the integrated financial plan be deferred until the absent two members were present to vote.

V. Next Meeting

To be determined. Mr. Lawlor will come prepared to explain in more depth the concept of the general fund mitigating factor and how it fits into the overall integrated financial plan.

VI. Adjournment

Upon motion duly made by Mr. Connors and seconded by Ms. Danisch, it was unanimously voted to adjourn. Tim Vaill-Y, Melissa Danisch-Y, Mr. Hartwell-Y and Kevin Connors-Y. Motion passed 4-0. Meeting adjourned at 6:50PM.

Respectfully submitted,

Christine Martin Barraford
Recording Clerk

Attachments:

*Portions of Town Manager's Presentation on
Integrated Financial Plan and Pension Obligation Bonds*