

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 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 February 17, 2016

Upon motion duly made by Mr. Baldwin and seconded by Mr. Morris, it was voted to approve the above minutes. Motion passed 3-0-1 with Mr. Caron abstaining.

Actuarial Report

Mr. Morris asked Mr. Hartwell to report on the conference call he and Ms. Walsh had with actuary Kathy Riley. As part of the Board of Selectmen's goals and objectives for the Committee, an independent assessment of the town's actuary report was to be accomplished. To that end, he compiled a list of questions for the actuary that addressed not only reporting under GASB 43 and 45 today, but also questions regarding GASB75, new accounting rules to be adopted in 2018 or voluntarily in 2017.

The rates and assumptions she is suggesting include a long-term rate of return on trust assets of 6.60%. The pay-as-you-go needs to be provided by the town. Mr. Hartwell suggested the 20-year muni rate as of 6/30/15 of 3.75% as the pay-as-you-go rate. Current mortality tables will be used, reflecting higher longevity and will have a negative impact on OPEB unfunded liability. Although it was agreed that adopting early under GASB75 was not feasible, including that information in a footnote or management discussion and analysis letter in FY16 would be considered. Her report will be completed by March 15th.

Town Manager's Report

Mr. Morris asked the Town Manager to discuss his funding strategy of OPEB defined in his budget released on February 5th. Mr. Flanagan reported his recommendation was a shift in funding strategy over FY16's policy—appropriation of \$1M from the general fund with an annual increase of \$100K in addition to a 25% appropriation from free cash. He explained that appropriations from free cash every year were not predictable or sustainable. A review of free cash since 2003 revealed that not only was free cash the highest it has been in a decade last year, there was great fluctuation in previous years from \$400K to at times nothing. With an eye toward maintaining the town's AAA rating which looked at a consistent sustainable approach with no significant fluctuations year to year, he had decided to discontinue appropriations from free cash and instead appropriate funding from the general fund only, this year at .5%/\$920K.

He also intended to keep at least a \$1M foundation in free cash from year to year, noting the Department of Revenue looked negatively at using all free cash from year to year. Also free cash is typically used for one-time capital expenditures and to offset deficits for the particular year.

When asked if the appropriation from the general fund could be increased (i.e. .5% to 1%,) he said he was open to appropriating a higher percentage if the budget allowed in future years.

Mr. Hartwell noted his opposition to reducing the contribution by over \$1M in that it did not address the current unfunded liability, but would also reduce the town's blended rate when calculating the OPEB unfunded liability. Mr. Hartwell also said this plan sends the wrong message to retirees and employees on the magnitude and urgency of the problem.

Other members expressed their general support of a "sober, clear-eyed" solution to a decades-old problem.

Recommendation #7 – systematically move toward contribution of 50%. Mr. Morris noted the final decision was subject to actuarial data of "all-in savings." Mr. Hartwell reported this information would be available in the March 15th report. Also pending was feedback from HR and the health consultant.

Mr. Morris noted that a municipality in Simsbury, CT had offered a plan whereby active employees would make contributions in order to "soften the blow" of the impact of increase in premium on retirees. He noted average age of active employees in Andover is 49, and retirement is a front and center issue. He noted that he would like to make a recommendation to the Board of Selectmen and Town Manager to have labor counsel investigate the feasibility of this plan through collective bargaining.

Mr. Baldwin supported this action, noting that the impact of this change is shared across the board and does not discriminate against a particular group, and also that research showed that employees invested in their health plans, including wellness programs, had a significant impact on reducing health costs. Mr. Morris added that this is "not a spectator sport" wherein everyone needs to do what they can to bring about successful reform.

He also noted a consortium of towns in Metrowest that joined together cooperatively to reduce costs. The problem was getting towns to agree on design of plans. Also, approximately 100 communities and regional groups (vocational, technical, water and sewer regions) have adopted a voluntary Canadian drug plan realizing substantial savings. He asked that HR investigate this plan. He reiterated that substantial changes and reform need to be made because present course of action is unsustainable. He also noted that eligibility changes that affect prospective employees would need the full participation and cooperation of the Retirement Board and its role and makeup is receiving considerable attention in this effort.

Ms. Walsh noted that 900+ active and inactive employees are covered by health insurance and the impact across the board would be substantial. Mr. Hartwell added that for every 1% reduction in premium, a reduction of 1% in OPEB unfunded liability would be realized.

Mr. Morris asked Mr. Hartwell to contact Mr. Lombardi, the healthcare consultant.

Recommendation #19 - process/control documentation over participation in the pension/OPEB system and data provided to the actuary needs to be developed. Well designed and maintained internal controls will provide reasonable assurance OPEB benefits are provided to only to eligible employees/retirees. Mr. Hartwell noted that even though Andover is not bound by laws of Sarbanes-Oxley Act of 2002, it would be advisable that all town operations have proper documentation to ensure proper controls in place that all information with regard to benefits being dispensed and reported is accurate. He could provide process documentation templates that could be used toward this effort. It was agreed that our Assistant Town Accountant/Town Auditor could accomplish this review.

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

Recommendation #20 - a review of town assets should be performed with the intent of selling assets not critical to town services and proceeds used to fund OPEB. A brief discussion ensued.

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

Recommendation #21 - employees and their labor representatives must be informed of the long-term true cost trajectory of their current benefit plans. Employees need to be educated that the cumulative cost are unsustainable and the consequences (layoffs/reduction of town services) of inaction. Mr. Hartwell pointed out that the numbers reveal that the current financial situation is not sustainable. With an increasing tax base of 2.5% over the next ten years, it will have an impact on services and the layoff of 30% of the workforce. 11% of the budget today is for retirement and OPEB, and without any changes, the budget will increase to 22%. All vested stakeholders, including taxpayers, current employees and retirees need to be informed of the unsustainability of the current path, the need for cooperative reform, and the dire consequences of inaction.

Discussion ensued including Mr. Walsh pointing out that active employees are indeed vested in reducing OPEB liability as demonstrated in the report she is preparing of the last five years of the changes made to plan design of healthcare benefits that have in fact reduced OPEB liability. Mr. Caron noted that “Andover is a going concern” and he is confident that the problems will be addressed and fixed.

Mr. Morris suggested the following change in language of its recommendation: that the town prepare a report using all data resources to accurately depict the consequences of OPEB unfunded liability including any impacts that were made to date.

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

Mr. Caron's Recommendations

Recommendation A – Prior to implementing any material change to the elements of compensation that it provides to its employees and retirees, the Town should first create a Compensation Advisory Committee composed of Andover voters. It would be charged with i) reviewing the Town's overall compensation system and its current application to the various job categories, ii) offering proposed improvements believed to simplify and insure the program is both competitive and supported by taxpayers, and iii) monitoring on a continuing basis appropriate overall compensation ranges for the job categories required by the Town as a service to the Board of Selectmen and the School Committee charged with negotiating with employee unions.

Mr. Caron noted that compensation levels need to be reviewed to determine fair market and competitive rates. In this way, a standard of unified negotiation of salary "package" can be established that will be widely understood and supported by all stakeholders. This would include all of the different levels/categories of hourly and weekly types of employees.

Following a brief discussion and upon motion duly made by Mr. Caron and seconded by Mr. Morris, it was unanimously voted to approve. Motion passed 4-0.

Recommendation B – The Town should acknowledge the positive good of providing access to comparatively inexpensive group health insurance mechanisms to its retirees. As a political subdivision of the Commonwealth of Massachusetts, the Town of Andover is charged with bringing to life the reality of the social compact that is the Massachusetts Constitution whose end is that all shall be governed for the common good.

Protecting the health and welfare of all its citizens -- including its retirees -- is the most fundamental reason for the very existence of the government. Mr. Caron noted that ultimately the fundamental purpose of local government is to ensure health and welfare. Notwithstanding consideration of the cost thereof, it is appropriate that we should promulgate this benefit to our retirees.

Mr. Hartwell felt that this was beyond the mission of this committee and noted that the federal government in fact provided medicare benefits to its retirees. A retiree in attendance noted that this in fact was not the case for town retirees who did not pay into the social security system and therefore were not eligible for medicare and therefore wholly dependent on benefits from the town.

Mr. Morris asked Mr. Caron to adapt the first sentence only not as a recommendation but to use as an acknowledgement in the preface of the final report.

Recommendation C – The Town should implement a simplified employee compensation model that factors in the value of its benefit programs and the non-economic lifestyle features enjoyed by its employees. As a general matter, the total compensation for a set of skills should be offered at a targeted discount (the percentage to be determined) to what the same set of skills command in the private markets.

This is to be joined with Recommendation A.

Recommendation D – The Town should aggressively research, consider, advocate for, implement and integrate defined contribution style plans that provide for health saving vehicles for its employees.

Upon motion duly made by Mr. Baldwin and seconded by Mr. Morris, it was unanimously voted to approve. Motion passed 4-0.

Recommendation E – The Town should redefine the standard to qualify for retirement benefits to a set number of service hours that applies to all employees. The standard shall be the number of hours that a forty-hour per week employee serves over ten years (i.e. assuming two weeks of vacation, 50 Weeks X 40 Hours X 10 Years = 20,000 hours). To be consistent with current practice, Part-Time employees working twenty hours per week or more would also participate in this system. One proviso is that any part-time employee with a minimum of 20 hours/week who retires from the system would qualify with 25 years of service (i.e. applicable to PT school employees who, by the terms of their jobs, only work 182 days per year).

Mr. Caron noted this policy would be easy to understand, with all employees subject to the same bar of eligibility no matter the time it took to reach that number of hours served.

Mr. Morris felt this would be a good third alternative to the recommendation passed on eligibility. The Committee agreed. Mr. Hartwell noted that the recommendation of the former town manager could also be referenced in the rewriting of this alternative.

Recommendation F – The Town should aggressively implement a meaningful Wellness Program that applies to its current employees and retirees, whose implementation promises an authentic reduction in the growth of medical costs that would measurably deliver an attractive return on equity. Covered lives that opt not to comply with the program requirements will choose to forego economic incentives available to those who participate. A brief discussion ensued.

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

Recommendation G – town management should implement the Citizens' Dashboard concept long advocated by the Town's Audit Committee to provide citizens with timely and readily-understandable information on critical measures of the cost and performance of the Town's operations. OPEB data should be incorporated into the Citizens Dashboard, which would allow the voters to better monitor the effectiveness and efficiency with which their tax dollars are being used on their behalf.

Following a brief discussion and upon motion duly made by Mr. Caron and not seconded, motion failed.

Mr. Caron agreed to redraft recommendation to revisit at next meeting.

Open Items

Mr. Morris asked Mr. Hartwell to write a strongly worded recommendation that the OPEB Committee, the Town Manager and the Retirement Board work together to address OPEB issues. Also requested is a recommendation on the impact of the Town Manager's decision of not making a contribution in the same amount as last year.

Mr. Morris asked Mr. Baldwin to continue drafting the report in narrative form. He would like to draft the preface. He asked Mr. Baldwin that the introduction be in the format of a response to the mission of the Committee.

H asked that drafts be emailed to members for review, but not comment, i.e. hold reactions for discussion at meeting, and not a response email for open meeting law compliance.

Next meeting

Friday, March 4th

Other

Mr. Morris stated his committee was performing a "real balancing act" with the town's ability to pay its employees. He then took a moment to express gratitude to the employees of the town who had responded to three recent tragic deaths in the community: police, fire, teachers, public works, teachers, youth services etc. At front and center of the OPEB issue are the dedicated employees, active and retired, who performed their duties at the town's time of need and its families under duress. He reiterated his sensitivity and obligation to active and retired employees.

Audience Feedback

In answer to the question about the committee's original intent to vet the report in a public forum, Mr. Morris answered it would be. The same person asked for an email address to which to send various information of interest that could be shared with the committee, and Mr. Morris asked Ms. Barraford to receive such emails for later distribution to the committee.

The former town manager, Buzz, thanked the Chairman for acknowledging the town's emergency responders. He also cautioned the committee on the viability of healthcare consortiums as well as the legality of Canadian drug plans. He added that Ken Lombardi, health consultant was an excellent resource for vetting this information. He also suggested looking at rates for the past 25/30 years, and not 10/15 year period (a volatile time), and use those in terms of projecting forward.

A retiree pointed out that employees were indeed cooperative in saving health costs, and significant changes had been made in the past to health plans.

Mr. Morris closed the meeting stating that the town leadership was facing and dealing with an enormous problem and the committee was of the same mind "not to let the town down."

Adjournment

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

Meeting adjourned at 9:30 a.m.

Respectfully submitted,

Christine Martin Barraford
Recording Secretary

Attachments: Mr. Caron's Recommendations A-G