

## **Call to Order**

### **Roll Call**

Chair Moffitt called the meeting to order at 6:00p.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, Spiro Christopoulos-Y and Paul Russo-Y. Absent was John Barry. Also present were Andrew Flanagan, Town Manager, Finance Director Donna Walsh and Assistant Town Manager Patrick Lawlor. The meeting was videotaped and live cablecast.

### **Integrated Financing Plan – Town Manager**

The Town Manager gave an updated presentation of the Integrated Financing Plan (see attached PowerPoint presentation).

Mr. Flanagan noted that there are still conceptual elements to the plan that will continued to be firmed up as to its impact on the overall budget.

He noted that the state mandate required that the pension liability of \$165-185M be fully funded by 2040. This liability remains to be the largest threat to service levels and the Town’s AAA bond rating. The West Elementary/Shawsheen preschool proposed cost of \$114M is adjusted from a total cost of \$152M representing a net MSBA reimbursement of 40% of construction costs capped at \$333/sf, but the present construction cost of \$500-600/sf, representing a 23% net reimbursement.

He then reviewed important municipal financing terms, such as Prop 2 ½; debt exclusion, pension obligation bonds (POBs); general fund or exempt capacity and WESP an acronym for West Elementary and Shawsheen School building project (see attached presentation for detailed information.)

He then outlined the reasons to consider an Integrated Financial Plan at this time: a) to leverage the present opportunity created by low interest rates to reduce pension costs by approximately the same amount need to construct two new schools; and b) preserve service levels by alleviating budget pressures created by increasing pension costs. Knowing what the existing funding schedule will be, if we reduce it through pension obligation bonds, the difference between the current schedule and pension obligation bonds is roughly the same amount for the school project. By excluding it or a portion of it from Proposition 2 ½, however, that is what alleviates pressure on operating budget.

The Town Manager then reviewed the four concrete concepts of the plan that overall will have a positive impact to the taxpayer (see attached presentation.) If the Town is not able to fully fund the state-mandated pension obligation by 2020, the state would most likely provide financial oversight to the Town. He then reviewed the financing plan calculation and the amount needed to fund the plan and the impact to the average tax bill. In year one the tax impact is estimated to be \$767 and \$369 in year 18, with an overall average over 18 years of \$541.

The Town Manager then reviewed the impact of the integrated plan on the average tax bill 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 \$208. The following year 2023 the impact would be an estimated \$686 increase to the average tax bill.

**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. He also outlined a risk/reward assessment which included the probability of earning more than the rate at which we borrowed. Projections in the probability testing plan assume 3.5%, 3%, 2.7% and best-case scenario 2.% (see attached chart.) 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 comparable existing schedule to the pension obligation debt schedule breakeven point (year 2028) and the pension obligation bond/WESP breakeven point (year 2032.) Also reviewed was what a pension obligation bond achieves and the existing pension schedule. Also reviewed was the low risk high reward assessment of risk and probability testing conducted by the Town's financial adviser Segal Co.

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, whereby 87% of active employees contribute 1% of their pay. These contributions would total approximately \$5.7M over the life of the pension obligation bond debt schedule to 2040.

**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. Also reviewed was the comparison costs over a 20-year period. Discussion ensued on the metrics used in the comparison of communities.

The Town Manager reviewed what the value of the tax bill is today by service within the tax levy, and conceptually what would happen if reduction in service impacts were needed in order to fund the current schedule within the operating budget. Discussion ensued on the process of determining the which services are reduced or cut.

He then reviewed the impacts of voting "Yes" (total expenditure of \$266.4M) or "No" (total expenditure of \$350-425M) on the pension obligation bond article (see attached chart.) Discussion ensued on the need to stress that the bill has to be paid, and doing nothing is not an option.

**Summarization:**

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 grater 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, we most likely would still be better off with pension obligation bonds than the existing funding schedule.
3. If we borrowed at Tucson's rate (2.95), there is a 95.1% chance that the assets earn more than the rate they were borrowed at according to probability testing, and if so, the plan would have 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. Primary question: is the potential risk offset by the opportunity to generate enough saving from pension obligation bonds to pay the costs of two new schools and provide the best opportunity maintain services?

The Town Manager outlined next steps: a) appoint an Investment Advisory Committee to collaborate with the Retirement Board in investment of funds; b) conduct weekly virtual public outreach sessions over eight-week period before Town Meeting as well a virtual "office hours"; c) prepare borrowing authorizations for approval at Town Meeting on June 5<sup>th</sup> and subsequent debt exclusion votes on June 15<sup>th</sup>. He asked that at least one representative of the FinCom and Select Board be present at each meeting, and a schedule of dates will be forthcoming. Discussion ensued on the technological logistics and challenges of the proposed format and ways to develop supplemental background recorded materials to enhance virtual presentations. Ms. Moffitt urged FinCom members to forward questions and suggestion to the Town Manager with a copy to her.

#### **Massachusetts School Building Authority (MSBA) Process Presentation – Ms. Walsh**

Ms. Walsh presented an overview of the MSBA process with regard to school projects (see attached PowerPoint presentation). She covered the following highlights contained in the presentation: a) the mission and role of the authority to provide financial assistance to school districts in major building projects; b) clarification of steps and timeline in the building process; c) reimbursement calculation and audit process; and d) closeout of the project.

Discussion ensued on a) the formula for determining the eligibility of construction categories; b) the vote covers the cost of the entire project, but the Town borrows only its share of the project according to estimation of construction schedule; c) the Town submits estimated invoices monthly to MSBA and receives reimbursement; and d) information needed for inclusion in the FinCom report. It was suggested that this presentation be posted on the website.

#### **FinCom Working Group – FinCom Report and West El/Shawsheen School Project**

Mr. Monticciolo reported on the group's recent Zoom meeting including Ms. Logee, Mr. O'Handley, Ms. Walsh and Mr. Lawlor (see attached summary.) Mr. Monticciolo will act as the general editor. Also discussed was the general format, timeline for the printing schedule and coordination of letter and other submissions and votes from other boards and committees. Also discussed was the amount of information to be included on the school project and pension obligation bond issuance. Messrs. Betts and Mr. O'Handley will meet with the Town Manager as key members representing the FinCom on the virtual outreach presentations.

**Liaison Updates***General Government*

Ms. Anderson reported that the Select Board had voted 3-1 to choose a candidate for the seat left vacant by Mr. Koh on the Retirement Board.

Funding sources of reimbursement for COVID related expenses was posted on the MMA website, and Ms. Walsh will take another look at the Town's eligibility for reimbursement on accounts.

*Permanent Town Building Advisory Committee*

Ms. Anderson reported that the remaining budget of the Senior Center is in the dropbox, and that the Friends of Seniors had recently submitted a campaign contribution of \$70K to the project.

*Retirement Board*

Ms. Walsh noted that the board is meeting on April 1 to discuss eligibility reform, and Mr. Hartwell is working on the presentation. An investment advisory committee is being formed to advise on investment decisions.

**Approval of Minutes of February 24, 2021**

Upon motion duly made by Ms. Anderson and seconded by Mr. Betts, it was voted to approve above minutes as amended. Chair Eugenie (Janie) Moffitt-Y, Linn Anderson-Y, Andrew Betts-Y, Mary Ellen Logee-Y, Paul Monticciolo-Y, Paul Russo-Y, Kevin O'Handley-Y and Mr. Christopulos-Y. Motion passed 8-0.

**Next Meeting**

Wednesday, March 24<sup>th</sup> @ 6:00PM (note earlier starting time)

Working groups to continue

April 10 Departmental budgetary review meetings

April 14 and 28 (Triboard)

**Adjournment**

Upon motion duly made by Mr. Christopulos and seconded by Mr. Betts, it was unanimously voted to adjourn. Chair Eugenie (Janie) Moffitt-Y, Linn Anderson-Y, Andrew Betts-Y, Mary Ellen Logee-Y, Paul Monticciolo-Y, Paul Russo-Y, Kevin O'Handley-Y and Mr. Christopulos-Y. Motion passed 8-0. The meeting adjourned at 7:55PM.

Respectfully submitted,

Christine Martin Barraford  
Recording Secretary

*Attachments:*

*Integrated Financing Plan – Town Manager*  
*MSBA Process Presentation – Ms. Walsh*