

Tri-Board Select Board - Finance Committee - School Committee



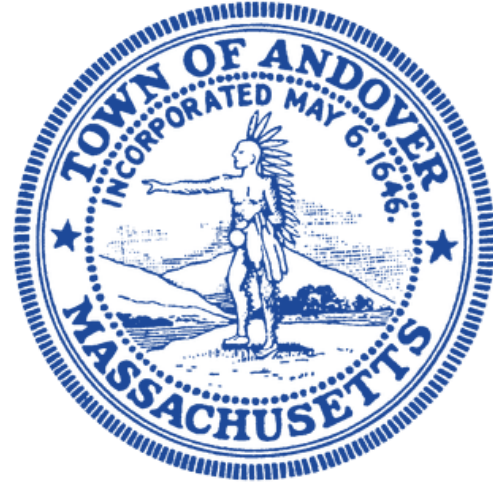
December 9, 2020

Tri-Board Agenda

- FY2022 Revenue & Expenditure Assumptions
- Overview of Recommended Capital Improvement Program
- Integrated Financing Plan



FY2022 Revenue Assumptions

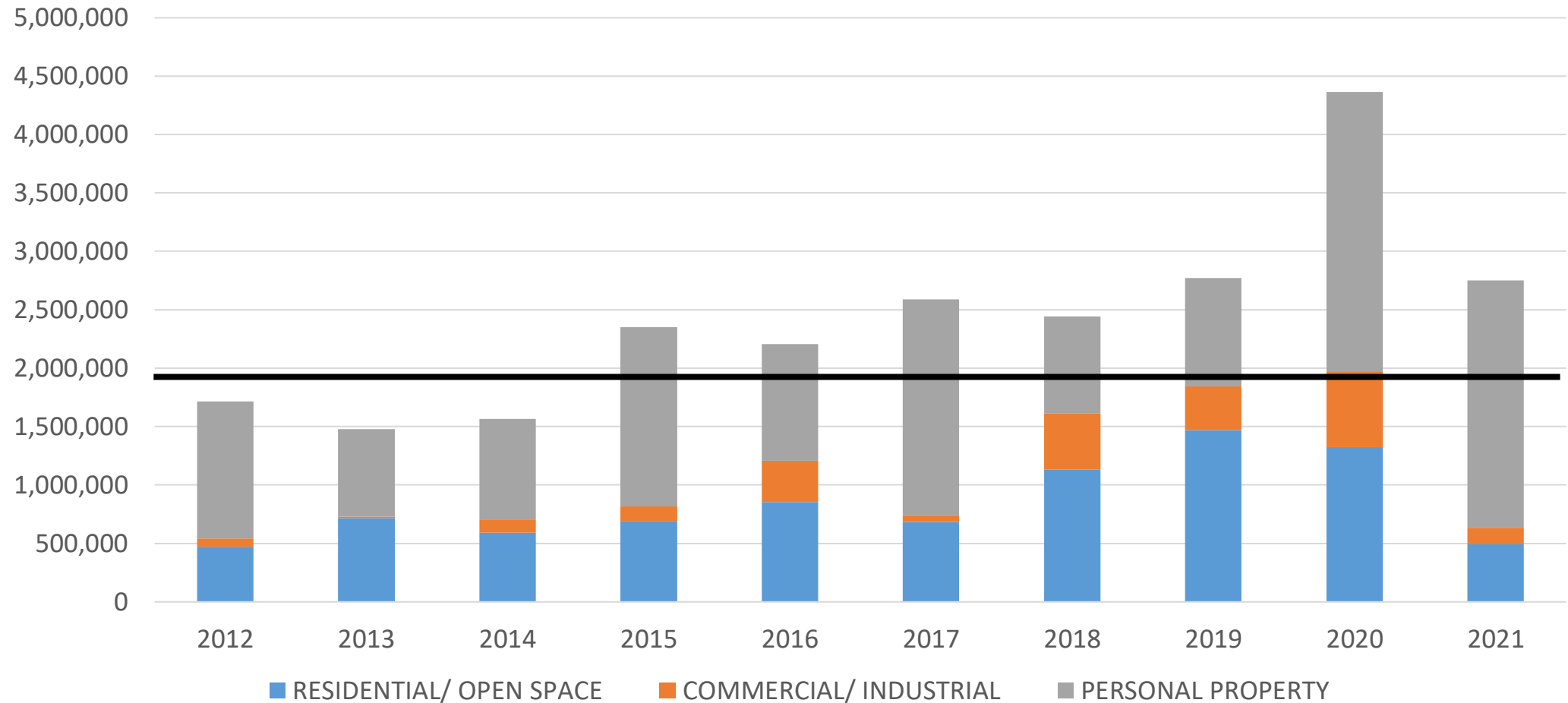


FY2022 Revenue Assumptions

Revenue Source	FY2022 Projection	Difference over FY2021	Assumption
Prior Year Levy Limit	157,043,309	+6,511,689 4.33%	(FY20 Levy Limit + 2.5 + New Growth)
2.5% Increase	3,926,083	+162,792 4.33%	FY21 Levy Limit plus 2.5%
New Growth	1,931,422	(816,976) (29.73%)	Adjusted 10 Year Average
Unused Excess Levy Capacity	(300,000)	816,977 (73.14%)	Select Board Policy to tax \$300,000 under the levy limit
Exempt Debt Service	3,003,961	(526,149) (14.90%)	Exempt Debt Schedule
State Aid	14,010,273	38,632 0.28%	Level funding for Ch. 70 2% increase for UGGA
Local Receipts	11,586,918	504,356 4.55%	Trend analysis on individual accounts



New Growth History

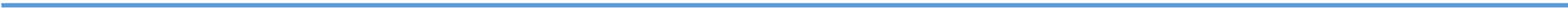


FY22 Expense Summary

Expense	FY2021 Approved	FY2022 Recommended	\$ Change	% Change
School Department	89,168,805	92,512,635	3,343,830	3.75%
Town Departments	43,497,093	44,693,263	1,196,170	2.75%
Health Insurance	22,338,257	23,854,630	1,516,373	6.79%
Debt Service	16,873,972	18,602,364	1,728,392	10.24%
Retirement	13,610,301	13,029,857	(580,444)	(4.26%)
Water and Sewer	8,690,784	8,934,303	243,519	2.80%
Capital Projects Fund	1,911,108	3,010,000	1,098,892	57.50%
Offset Expenditures	2,545,166	2,545,166	-	-



Town Manager's Recommended Capital Improvement Program



Establishing a Target

$$\begin{array}{c} \text{Prior Non-} \\ \text{Exempt Debt} \\ \text{Service} \\ + \\ \text{New Non-} \\ \text{Exempt Debt} \\ \text{Service} \\ + \\ \text{General Fund} \\ \text{Revenue} \\ = \\ \text{Total Non-} \\ \text{Exempt Plan} \end{array}$$

- Non-exempt target has been set at 5.72% of revenue. FY2022 recommended CIP is balanced and supports investments in all functions of Town government



Capital Improvement Program

Funding Source	Total
General Fund Revenue	\$3,010,000
General Fund Borrowing	\$6,595,000
Use of Free Cash	\$1,983,372
General Fund Exempt Borrowing	TBD
Special Dedicated Funds	1,364,279
Water and Sewer Enterprise Funds	9,375,000
Total	22,327,651



Alignment of Goals with the CIP

Goal/Objective	Deliverable	Recommendation in CIP	Source
Long Range Financial Planning	Increase public participation in the budget process	Fund Participatory Budgeting Program	General Fund Revenue
Citizen Response Management	Expand integrated public service model within Town offices	Ongoing improvements to Town Offices	General Fund Revenue
Capital Improvements	Implement Gas Disaster Recovery Plan	Ongoing improvements to roads, sidewalks, parking areas and water infrastructure	General Fund Borrowing. W/S Enterprise Funds
Capital Improvements	Construction of West Elementary School	Seek Borrowing Authorization & Debt Exclusion	Debt Exclusion/Borrowing
Capital Improvements	Implement Sidewalk Program	Continuation of Sidewalk Program	General Fund Borrowing
Downtown Andover & HMD	Prepare for Disposition of 11 Lewis Street	HMD Circulation Improvements	General Fund Borrowing
River & Open Space Access	Enhance recreational opportunities by increasing access to our waterfronts and open space	Shawsheen River Master Plan, Poms Pond Improvements, Lower Shawsheen Track Design	General Fund Revenue
Energy & Sustainability	Begin work on development of a Climate & Sustainability Action Plan	Fund Plan Development	General Fund Revenue



General Fund Revenue Projects

Total
\$3,010,000

Project #	Description	Amount
TM-1	Participatory Capital Budgeting	\$20,000
CDP-1	Master Plan Compilation and Completion	\$30,000
CDP-14	Shawsheen River Master Plan	\$40,000
SUS-1	Climate and Sustainability Action Plan	\$47,000
POL-1	Police Vehicle Replacement	\$205,000
POL-2	Mobile Camera Trailer System	\$50,000
FR-2	Radio Box Repeater System	\$38,000
FR-5	Multiband Portable Radios	\$50,000
DPW-7a	Public Works Vehicles - Small	\$145,000
DPW-28	Spring Grove Cemetery Improvements	\$20,000
FAC-1	Town Projects - Buildings	\$400,000
FAC-2	Town Projects – Mech. & Electrical	\$325,000
FAC-3	Town & School Security Projects	\$125,000
FAC-4	Town Vehicle Replacement	\$70,000
FAC-5	Town Park and Playground Improvements	\$260,000
SCH-1	School Projects – All Schools	\$735,000
SCH-2	School Projects – By Building	\$450,000



Free Cash

Project #	Description	Amount
IT-1	Annual Staff Device Refresh	\$627,744
IT-2	Annual Student Device Refresh	\$418,128
IT-3	IT Platforms and Infrastructure	\$687,500
DPW-2	Minor Sidewalk Repairs	\$250,000

Total
\$1,983,372



General Fund Borrowing

Total
\$6,595,000

Project #	Description	Amount
CDP-4	HMD-Circulation and Street Construction	\$500,000
LIB-1	Renovate Ground Level for Library Makerspace	\$225,000
FR-1	Fire Apparatus Replacements	\$360,000
FR-4	Fire Bi-Directional Amplifier System	\$200,000
DPW-7b	Public Works Vehicles – Large	\$400,000
TM-2	Sidewalk Program	\$950,000
FAC-6	Major Town Projects	\$605,000
FAC-7	Town & School Energy Initiatives	\$530,000
SCH-5	Major School Projects	\$2,825,000



Special Dedicated Funds

Project #	Description	Amount
DPW-1	Annual Road Maintenance	\$1,364,276

Total
\$1,364,276



Water and Sewer Enterprise Funds

Total
\$9,375,000

Project #	Description	Amount
DPW-12	Water & Sewer Vehicles	\$125,000
DPW-14	Water Main Replacement Projects	\$6,000,000
DPW-20	WTP Generator	\$2,500,000
DPW-24	Minor Sanitary Sewer Collections System Imp	\$100,000
DPW-29	Fish Brook Intake Replacement	\$500,000
DPW-30	Inflow/Infiltration Removal Program	\$150,000



Financing Andover's Major Obligations



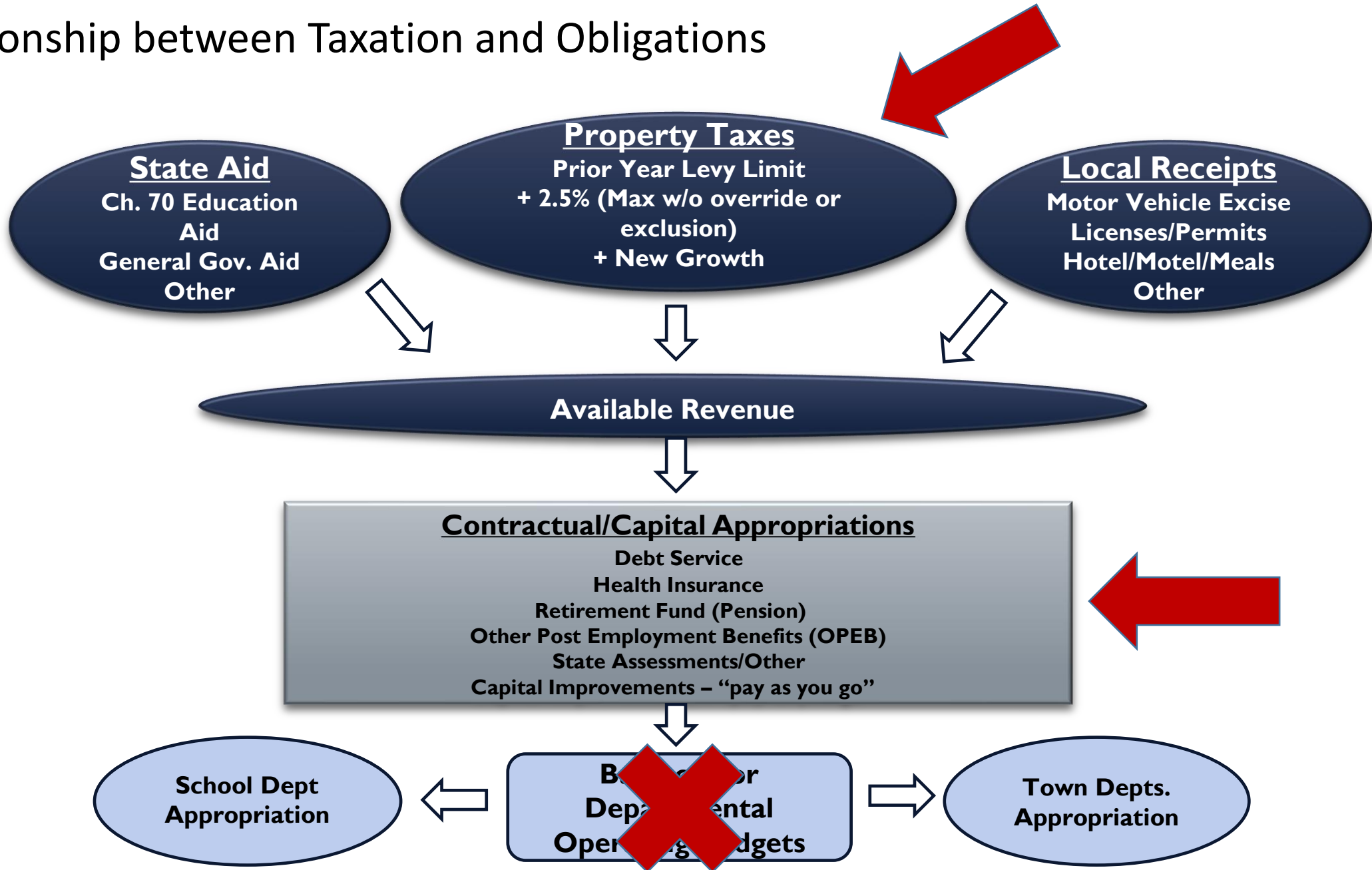
Integrated Financing Plan

West Elementary & Shawsheen Preschool, Pension, OPEB and Andover High School

The Challenges – Major Obligations

- **Pension Liability - \$165-185M**
 - Required by MGL to be funded by 2040, current schedule through **2037**
 - Closed funding schedule
 - Benefit structure defined by MGL
 - Presents greatest threat to service levels and bond rating
- **West Elementary School & Shawsheen Preschool - \$114M (Total Cost - \$148M)**
 - Project accepted by Massachusetts School Building Authority (MSBA)
 - MSBA Reimbursement – Approx. 23% (40% of max. \$333 per sq. ft)
 - Project would replace two existing school buildings and alleviate overcrowding at the other elementary schools
- **OPEB Liability - \$145M**
 - No funding requirement as of 2021
 - Open funding schedule
 - Rating agencies expect funding plan in order to maintain AAA bond rating
- **Andover High School – Cost to be determined based on plan and design**

Relationship between Taxation and Obligations



Why Consider an Integrated Plan?

- 1) Reduce annual pension costs and associated tax impacts of pension costs, both annually and over time, by approximately 30-40%
- 2) Maintain Service Levels by alleviating budget pressures created by increasing pensions costs
- 3) Free up future “exempt capacity” for other major projects and/or obligations
- 4) Option to fully fund both Pension and OPEB unfunded liabilities
- 5) Fund construction of West Elementary School & Shawsheen Preschool and complete design and roadmap for future AHS Building Project



Tenets of the Integrated Plan – 30 Years

- 1) Propose \$290M Debt Exclusion to fully fund Unfunded Pension Liability and West Elementary and Shawsheen Preschool (WESP) building project
 - a) \$175M to fund Pension Obligation Bond (POB), 17 Year Borrowing Term
 - b) \$115M to fund WESP building project, 30 Year Borrowing Term
- 2) Identify \$10M Annual “**General Fund Mitigating Factor**” to offset tax impacts of debt exclusion. The “**General Fund Mitigating Factor**” shall be the General Fund’s contribution to the Integrated Plan
- 3) Retire Debt Exclusion in Year 18 and repurpose GFMF to fully fund WESP & and increase annual OPEB funding by approx. \$4M
- 4) Reauthorize Bancroft “Exempt Debt” to fund AHS Design

[Integrated Financing Plan for Major Obligations](#)



Funding schedule

(1) Fiscal Year Ended June 30	(2) Employer Normal Cost	(3) Amortization of Remaining Unfunded Liability	(4) Actuarially Determined Contribution (ADC): (2) + (3)	(5) Total UAL	(6) Percent Increase in ADC Over Prior Year
2021	\$3,999,681	\$8,026,029	\$12,025,710	\$177,520,054	--
2022	4,152,288	8,877,569	13,029,857	185,152,836	8.35%
2023	4,310,696	9,807,154	14,117,850	187,340,004	8.35%
2024	4,475,128	10,821,562	15,296,690	188,681,163	8.35%
2025	4,645,610	11,928,154	16,573,964	189,033,767	8.35%
2026	4,822,979	13,134,911	17,957,890	188,238,580	8.35%
2027	5,006,882	14,450,492	19,457,374	186,117,976	8.35%
2028	5,197,774	15,884,290	21,082,064	182,474,074	8.35%
2029	5,395,918	17,446,499	22,842,417	177,086,694	8.35%
2030	5,601,591	19,148,168	24,749,759	169,711,121	8.35%
2031	5,815,077	21,001,286	26,816,363	160,075,662	8.35%
2032	6,036,672	23,018,858	29,055,530	147,878,971	8.35%
2033	6,266,683	25,214,983	31,481,666	132,787,119	8.35%
2034	6,505,429	27,604,957	34,110,386	114,430,402	8.35%
2035	6,753,241	30,205,362	36,958,603	92,399,840	8.35%
2036	7,010,462	33,034,184	40,044,646	66,243,361	8.35%
2037	7,277,448	35,641,231	42,918,679	35,461,624	7.18%
2038	7,554,568	0	7,554,568	0	-82.40%

Comparing the Options – Tax Impacts

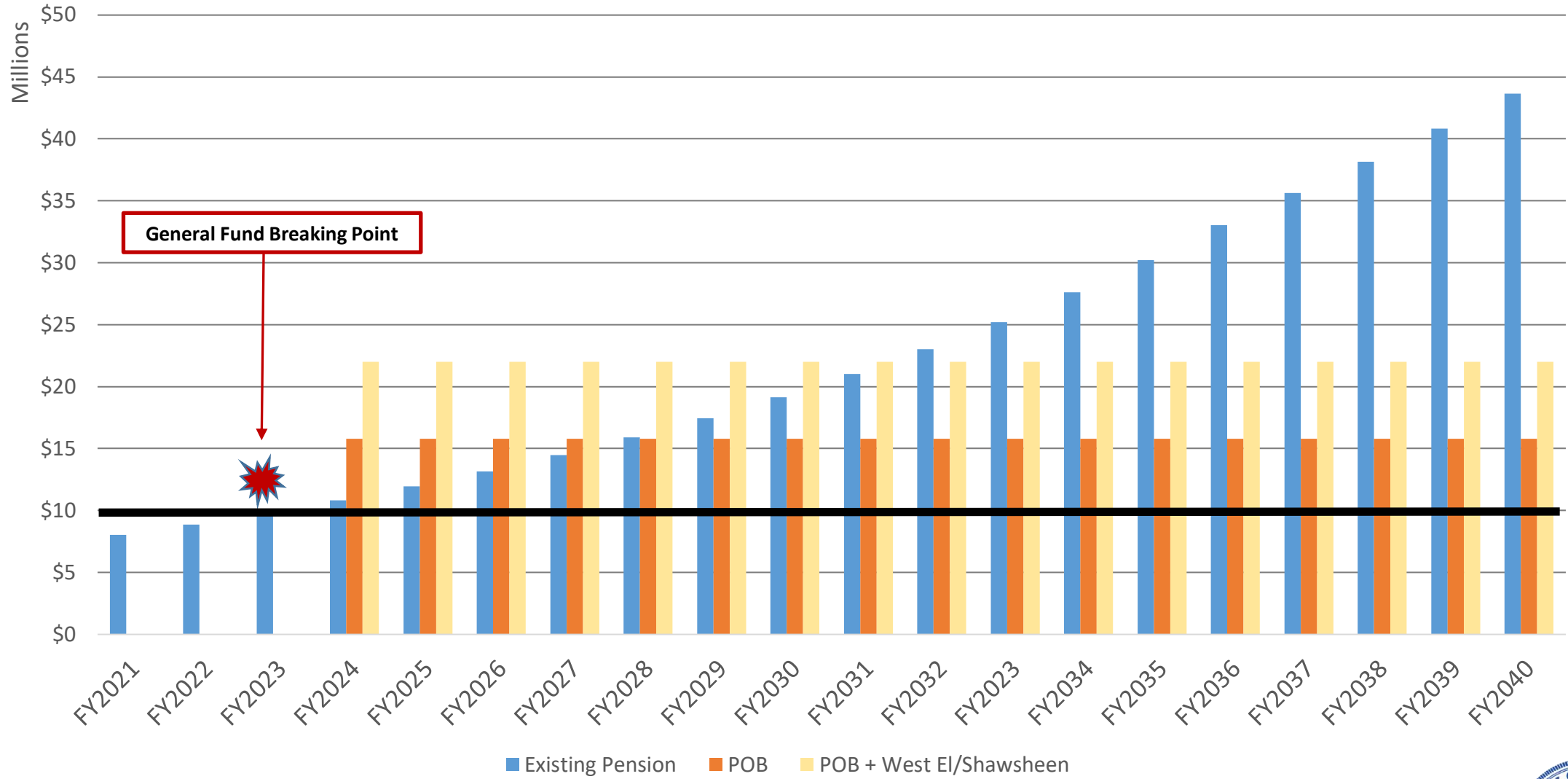
Scenario A - Integrated Financing Plan							
	Pension Obligation Bonds	West El & Shawsheen Debt Service	OPEB Contribution	GFMF	Amount to be Raised Outside the Levy	Annual Tax Impact	30 Year Tax Impact
Years 1 - 17	\$15,802,253	\$6,198,322	\$0	(\$10,000,000)	\$12,000,575	\$810	\$13,770
Years 18-30	\$0	\$6,198,322	\$3,801,678	(\$10,000,000)	\$0	\$0	\$0
						Total Cost	\$13,770
Scenario B - Pension Operating Override & West El & Shawsheen Debt Exclusion							
	Pension Operating Override	West El & Shawsheen Debt Service	OPEB Contribution	GFMF	Amount to be Raised Outside the Levy	Annual Tax Impact	30 Year Tax Impact
Years 1 - 17	\$25,119,230	\$6,198,322	\$0	(\$10,000,000)	\$21,317,552	\$1,450	\$24,650
Years 18-30	\$25,119,230	\$6,198,322		(\$10,000,000)	\$21,317,552	\$1,450	\$18,850
						Total Cost	\$43,500
Scenario C - Pension Operating Override Only							
	Pension Operating Override*	West El & Shawsheen Debt Service	OPEB Contribution	GFMF	Amount to be Raised Outside the Levy	Annual Tax Impact	17 Year Tax Impact
Years 1 - 17	\$25,119,230		\$0	(\$10,000,000)	\$15,119,230	\$1,028	\$17,476
						Total Cost	\$17,476
Scenario D - West El & Shawsheen Only							
	Pension Operating Override*	West El & Shawsheen Debt Service	OPEB Contribution	GFMF	Amount to be Raised Outside the Levy	Annual Tax Impact	30 Year Tax Impact
Years 1 - 30	\$0	\$6,198,322	\$0		\$6,198,322	\$450	\$13,500
						Total Cost	\$13,500

Pension Funding & Override History

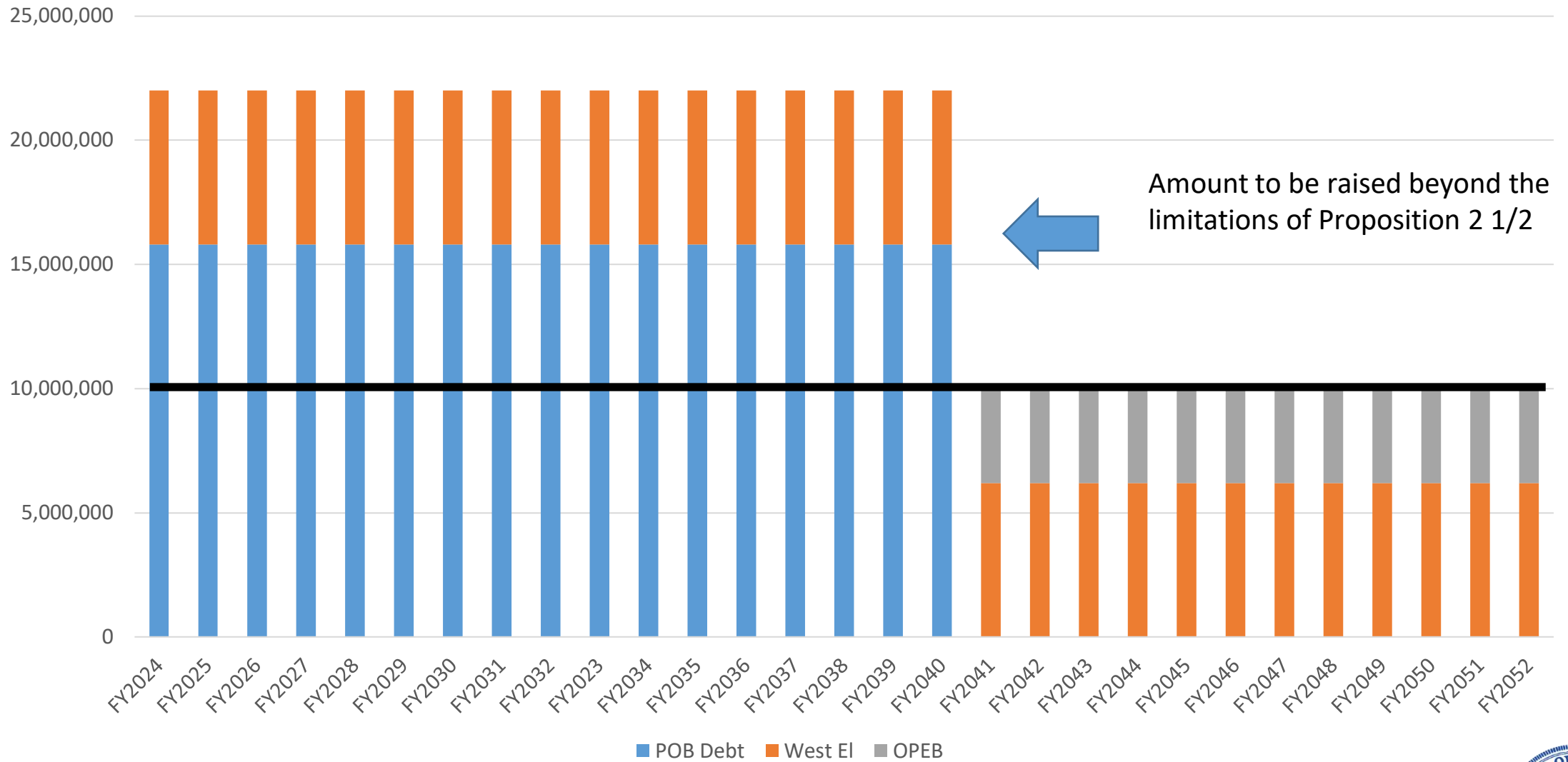
Local Pension Systems				
	Excess Levy Capacity	Pension Fund (% Funded)	# Operating Overrides	Average Tax Bill
Lexington	No	87%	16	\$15,547
Concord	Yes	86%	19	\$17,000
Winchester	No	80%	3	\$14,298
Wellesley	No	78%	11	\$15,760
Hingham	No	70%	4	\$9,988
Needham	No	68%	0	\$12,272
Newburyport	No	65%	0	\$7,929
Marblehead	No	53%	6	\$9,068
Arlington	No	52%	4	\$9,126
	Excess Levy Capacity	Pension Fund (% Funded)	# Operating Overrides	Average Tax Bill
Andover	Yes	48%	0	\$10,223
Regional Pension Systems				
	Excess Levy Capacity	Pension Fund (% Funded)	# Operating Overrides	Average Tax Bill
Acton	No	Regional System	5	\$11,970
Bedford	No	Regional System	0	\$9,769
Natick	No	Regional System	2	\$8,410
North Andover	No	Regional System	5	\$7,608
Norwell	No	Regional System	4	\$10,814
Sudbury	No	Regional System	0	\$13,769



Comparing Existing Unfunded Pension to Integrated Plan



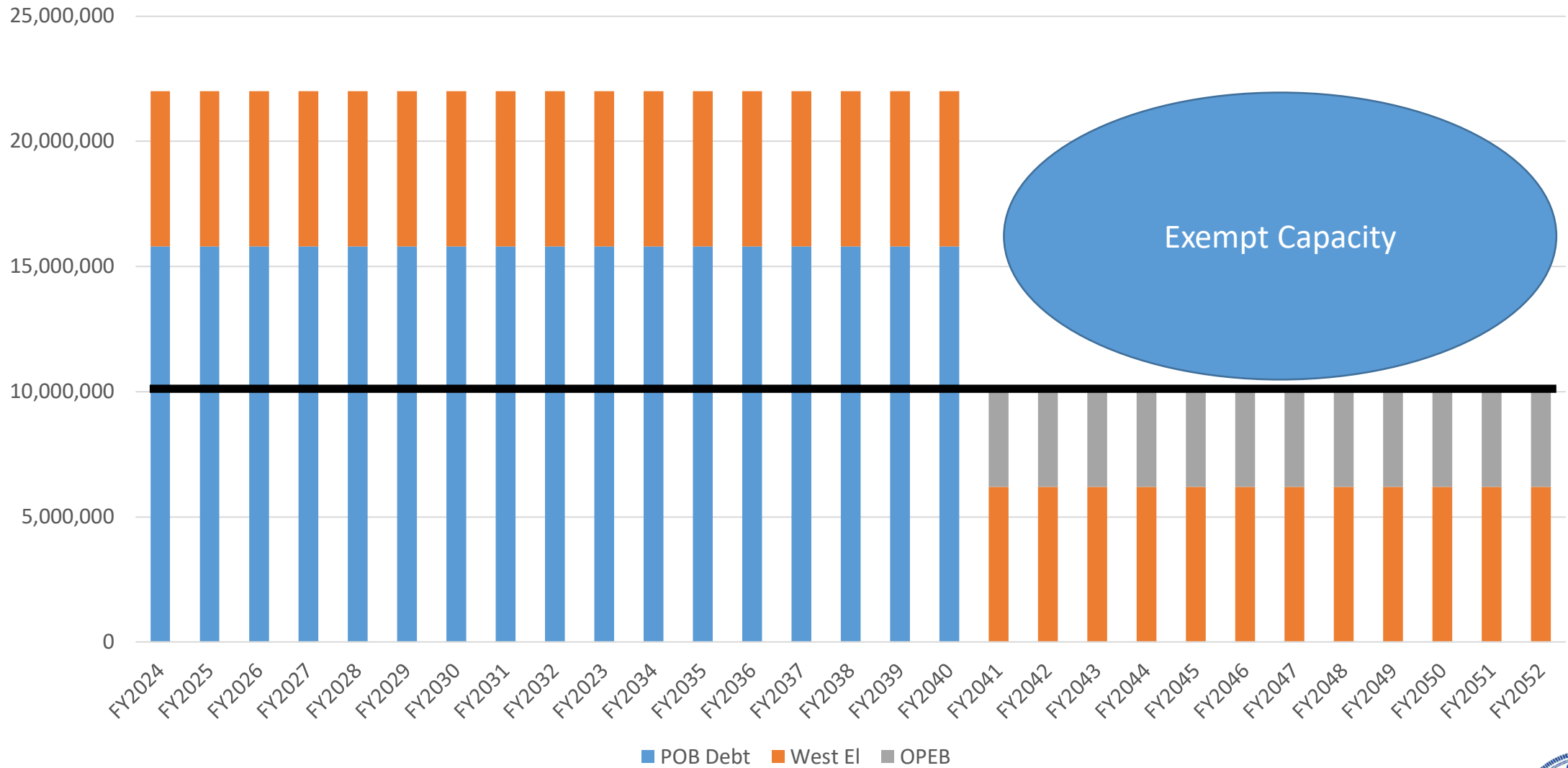
Integrated Plan – Amount to be Raised beyond Proposition 2 1/2



Integrated Financing Plan for Major Obligations



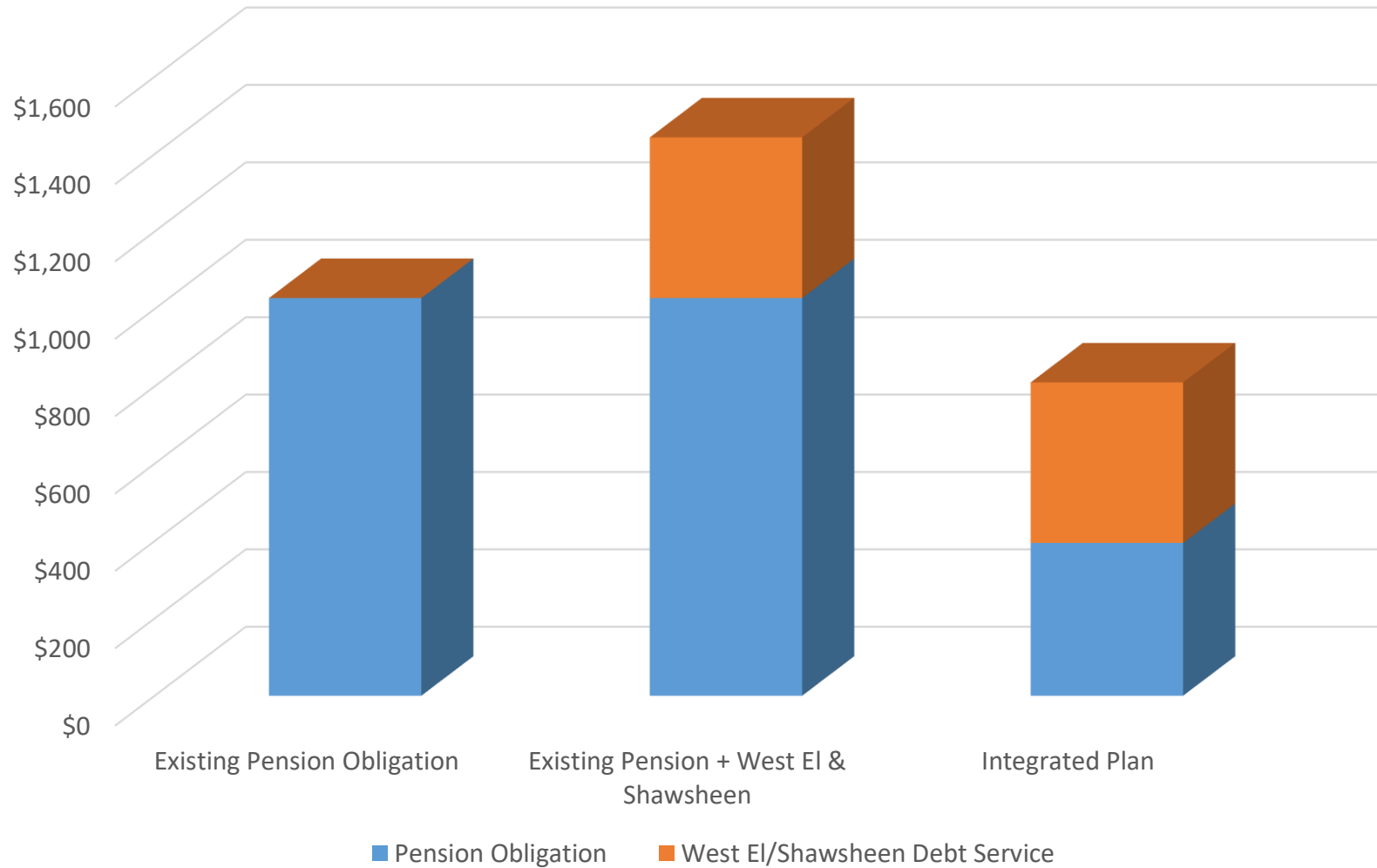
Integrated Plan – Amount to be Raised beyond Proposition 2 1/2



Integrated Financing Plan for Major Obligations



Comparing the Options

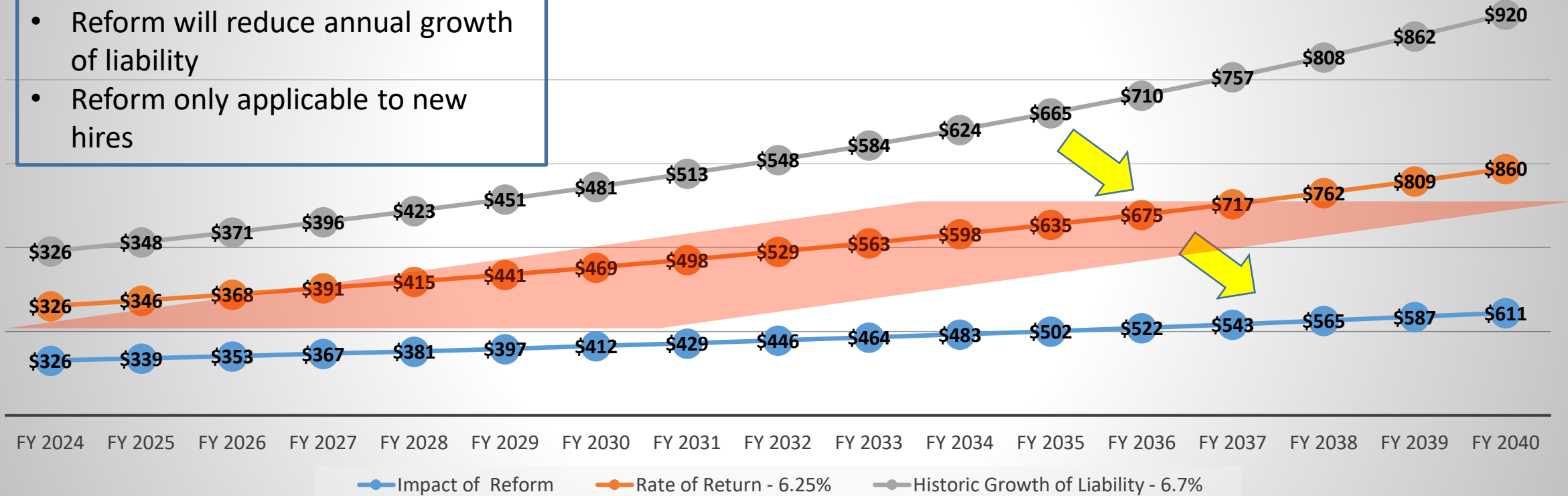


Integrated Financing Plan for Major Obligations



Conceptual Impact of Reform

- Reform will **not** reduce existing unfunded liability
- Reform will reduce annual growth of liability
- Reform only applicable to new hires



Understanding the Risks

Risk	Impact	Mitigation Measure
Return on assets does not exceed borrowing rate	Create a "new" unfunded liability	Create stabilization fund from earnings and/or utilize GFMF in year 18 to reconcile unfunded liability
Legislature extends funding requirement beyond 2040	Required to pay annual debt service based on 17 year debt schedule and absorb impacts accordingly	Refinance debt service and extend schedule, alleviate impacts by spreading out over additional years

Factors

- Andover's long term rate of return is approximately 6.25% (discount rate)
- Current Bond Market Expectation: 1.52% (as of 12/9/20) (Projections in presentation assume 4.5%)

POB History

- Since 1950, the 20 year return on a POB issuance has never been below **5.59%**
- Since 1900, there have only been four 10 year periods where returns were negative (Great Depression & Great Recession)

**National Conference on Public Employee Retirement Systems*



Next Steps

- 1) Continue Modeling with Financial Adviser and Conduct Probability Testing with Actuary
- 2) Meet with Administration & Finance and Department of Revenue
- 3) Await Legislative Approval
- 4) Request Borrowing Authorization from Town Meeting
- 5) Appoint Investment Committee
- 6) Evaluate Market Conditions and Decide to Proceed with Debt Exclusion

SECTION 6. Notwithstanding chapter 32 of the General Laws or any other general or specific law to the contrary, there shall be a five-member advisory board to the retirement board of the town of Andover that shall advise on investment decisions and other related matters. The town manager shall have the sole authority to appoint each member of the advisory board for a term of up to three years at the town manager's discretion.

