Andover School Committee
Workshop
Minutes of Tuesday, December 8, 2020
Virtual Meeting

Participants from the School Committee: Shannon Scully, Susan McCready, Tracey Spruce, Paul Murphy, and Lauren Conoscenti.
Also participating: Superintendent Shelley Berman, Assistant Superintendent Sandra Trach, COO Stephen Nembirkow, Town Manager Andrew Flanagan, Asst. Town Manager Patrick Lawlor.

The Workshop will be broadcast by Andover TV and on Comcast Channel 99, Verizon Channel 43 or streamed: www.andovertv.org. Public Participation: scremote@andoverma.us

I. School Committee Workshop: Open Session/Call to Order/Moment of Silence

Shannon Scully called the Andover School Committee to order at 11:30 A.M. The meeting began with a Moment of Silence.

A. New Business

1. Integrated Financing Plan

Town Manager, Andrew Flanagan provided a comprehensive review of the Integrated Financing Plan (IFP) he will be presenting at the Triboard Meeting on Wednesday, December 9, 2020. This workshop is an opportunity to talk through this plan in a more informal format and in preparation for the Triboard Meeting.

The goal is to provide the Committee members an opportunity to ask questions prior to Triboard Meeting that will have 19 members in attendance on a virtual meeting. The IFP takes a holistic view of our outstanding obligations, building deficits, and OPEB liability. How are these obligations related to one another and is there an opportunity to leverage them? It also provides an opportunity in the future to make progress on the unfunded OPEB liability and Andover High School renovations. This is a 30-year plan that will provide the Town with flexibility in the out years that may not be a priority right now.

Overview:
The Pension Liability is $165-185M and currently on schedule to be fully funded in 2037, based on the funding schedule set by the Retirement Board and compliant with MGL which requires the liability to be fully funded by 2040.. The number may increase due to rate of return. The pension unfunded portion continues to grow and grow and the benefit structure is defined by MGL. This liability presents the greatest threat to service levels and bond ratings. This year, our triple A rating was as high as it can be. Every year S&P suggests we come up with a plan for the liabilities. As the liability grows, it crowds out funds for other projects.

West El & Shaw $114M (Total cost of $148M before MSBA funding)

OPEB Liability: $145M No funding requirement as of 2021 with an Open Funding Schedule, with rating agencies expecting a funding plan in order to maintain the AAA Bond rating.

Andover High School creates the greatest degree of uncertainty right now because there are a lot of options and cost depends on option chosen.

Andrew reported on the relationship between Taxation and Obligations which is what the whole plan is about. If you take the amount we are paying today, exempt the unfunded portion, and freeze the annual bloat that the General Fund has to absorb.

Reasons why consider an Integrated Plan: To reduce annual costs and associated tax impacts of pension costs, both annually and overtime by approximately 30-40% and to maintain level services by alleviating budget pressure created by increasing pension costs, freeing up future exempt capacity for other major projects and/or obligations, providing the option to fully fund both Pension and OPEB unfunded liabilities, fund construction of the West Elementary and Shawsheen School Building Project, and complete the design and roadmap for a future AHS Building project.

An Integrated Financial Plan is a 30-year plan that proposes a $290M Debt Exclusion for West Elementary/ Shawsheen Preschool Building Project ($115M), and to fully fund the unfunded pension liability ($175M) .(

The IFP will identify a $10M Annual General Fund Mitigating Factor to offset impacts of Debt Exclusion. It allows us to retire the Debt Exclusion in Year 18 and re-purpose the GFMF to fully fund the West Elementary/Shawsheen School Building Project and increase annual OPEB Funding by approximately $4M or some other project.

The Integrated Financial Plan does require a vote of approval at Town Meeting. They will be working with Bond Counsel to determine if Town Meeting can approve all three tenets of the Plan, or take each individually.

Andrew explained the worksheet that compares four scenarios of the options and the tax impacts. He talked about the contribution to the OPEB Liability, West Elementary and Shawsheen School Preschool (WESP) building costs. We would continue contributing to the pension obligation so not to fall back into debt.   You have to see how much money you need to pay for pensions over a period of 17 years and then divide by 17 years.   The reason it works, is because if you pay off the annual pension liability, you pay an amount that is far less than paying over 30 years. Now, you just have a fixed payment overtime, a little more in years 1-3, but far less going forward. We would pay West El outside the levy for 18 years, and then bring the Debt Service in with $10M to fund projects within the levy. Paying down debt as part of an IFP reduces debt on an earlier time frame and puts aside funds for future projects.

If we had to fund the entire pension obligation, it will have a real impact on the operating budget. By taking this opportunity now, to integrate a number of different projects together to mitigate the impact, it will have a tax implication as well.

Pension reform will not reduce existing unfunded liability, it will reduce annual growth of the liability, and reform will only be applicable to new hires. What reform should do is decrease the rate of growth of the liability.

Two reforms discussed would be eligibility and buyback. Buyback being the least impactful. Currently, Pension eligibility begins for employees working a minimum of 20 hours per week. With reform, to be eligible for a pension, employee hours would be increased so fewer people would be eligible for a pension.

Understanding the Risks:
Return on assets does not exceed the borrowing rate. The impact of which is creating a 'new' unfunded liability. The mitigation measure would be to create a stabilization fund from earnings and/or utilize GFMF in year 18 to reconcile the unfunded liability.

Legislature extends funding requirement beyond 2040. The impact of which would require payment of an annual debt service based on a 17-year debt schedule and absorb impacts accordingly. Mitigation Measure: 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)
The risks are tied directly to the interest rate. The Current Bond Market Expectation as of November 24, 2020 is 1.93%. The projections in the presentation assume 4.5%. Should Andover choose not to issue POB's and earn less than what we would have borrowed at, the current unfunded liability would increase and the funding schedule would be adjusted accordingly.

Next steps:
Present to Triboard December 9, 2020.
Continue presentations in January 2021, after the Financial Advisors and our Actuary have reviewed the proposal.
Await Legislative Approval.
Request Borrowing Authorization from Town Meeting.
Evaluate Market Conditions and Decide to proceed with Debt Exclusion

The greatest challenge is to put this plan into a format that people at home can understand. Andrew is proposing that after the holidays, we have a 90-day period of meetings. This is less of a sales pitch and more of, these are the bills we have to pay and this is the best opportunity to fund them.

II. Adjournment

At 12:35 P.M. Susan McCready moved to adjourn the School Committee Workshop Session of December 8, 2020. Motion seconded by Paul Murphy.
Roll call: T. Spruce-Y, L. Conoscenti-Y, P. Murphy-Y, S. McCready, S. Scully-Y.
Motion passes: 5-0.

Respectfully submitted,

Dee DeLorenzo
Recording Secretary