Triboard Meeting
Select Board/School Committee/Finance Committee
Wednesday, December 9, 2020

I. Call to Order/Roll Call

Chairwoman Annie Gilbert called the Triboard Meeting to order at 7:00 P.M. Members present from the Select Board: Roll call: Laura Gregory-Y, Chris Huntress-Y, Dan Koh-Y, and Alex Vispoli-Y.

Finance Committee Chair Eugenie (Janie) Moffitt called the Finance Committee to order. Members present from the Finance Committee: Roll call: Linn Anderson-Y, Paul Russo-Y, Paul Monticciolo-Y, Spiro Christopulos-Y, John Barry-Y, Andrew Betts-Y, Mary Ellen Logee-Y, Kevin O'Handley-Y.

School Committee Chair Shannon Scully called the School Committee to order. Present from the School Committee: Roll call: Lauren Conoscenti-Y, Susan McCready-Y. Paul Murphy-Y, Tracey Spruce-Y.

Others Present: Town Manager Andrew Flanagan, Deputy Town Manager Michael Lindstrom, Asst. Town Manager Patrick Lawlor. Superintendent Dr. Sheldon Berman, COO Steve Nembirkow, Asst. Superintendent Sandra Trach, Human Resources Director Jessica Porter.

II. Opening Ceremonies/Moment of Silence/Pledge of Allegiance

The meeting began with a Moment of Silence followed by a Salute to the Flag.

III. Revenue Projections, Overview of CIP, Integrated Financial Plan-Major Obligations

The Town Manager explained that the presentation is broken up into three categories; Revenue Projections, Overview of the CIP, and the Integrated Financing Plan-Major Obligations.

FY-22 Revenue and Assumptions

The FY-22 Revenue Assumptions are released each year initially in the CIP Program. There are a number of underlining details relative to Covid and some of the implications on town's financial structure. They began with building the budget starting with the prior year levy limit which includes the prior year of FY20, plus the 2.5% allowed under limitations of Prop 2.5, followed by new growth. New growth is an assumption and won't be certified until next fall of next year. We are using a 10-year adjusted average and made adjustments for anomalies. The average has been skewed by a spike in personal property classifications, and have accounted for that in what we are using to build the budget.

Unused Excess Levy Capacity is the amount in between of what you are allowed to raise by taxation and the amount you actually raise. There is a gap of $300,000 and consistent with the Select Board policy. Next is Exempt Debt Service, an amount to be raised only to pay for debt of projects approved at Town meeting. There is a significant reduction from last year, just under 15%. The only existing exempt debt is associated with Bancroft School.

State Aid: We have level funded State Aid, and Chapter 70 state assistance for school and unrestricted government aid. For the purposes of the initial projections we are assuming a zero percent increase in State Aid, it is too soon to know what direction State Aid is trending this year, and assuming a 2.5% increase in unrestricted government aid.

Local Receipts: There are some major reductions in local receipts so they are using a 4.55% projected increase which is on the adjusted numbers of this year's budget.

The majority of Personal Property growth is attributable to the work of Columbia Gas and the value of the new gas distribution system installed. Three other companies carried the new growth projects this past last year. They projected 1.9% which was exceeded, but if you pull out personal property, residential, commercial and industrial it did not bring us close.

Questions:
Select Board: Alex Vispoli asked how this affects the revenue piece, if you were to account all extra funds due to COVID, how would extra funds affect the budget. The Town Manager said funds have covered expenses but does not cover revenue recovery. The most significant dips were in local receipts, hotel and meals tax. The big key coming from a Federal Stimulus Package is if it will be eligible for revenue recovery. If they do get additional monies, it is hard to say how it will be accounted; the DOR will tell us and that decision will come from the Federal guidelines.

Chris Huntress: The spike in Personal Property over 2020 and 2021, is that still associated with Columbia Gas, and will this spike continue? Andrew said there may be some residual monies coming in, but we have received most of the funds.

Finance Committee: Linn Anderson asked who the other three major contributors to the Personal Property Tax are. Response from Andrew Flanagan: ANAL Green Power, Mass Electric and CGI Technologies.

School Committee: Dr. Berman is concerned about the ten-year projection. The analysis he did was without the Columbia Gas settlement, showed it was evident that we have actually done quite well. Over a 10-year period of time you have to take inflation into consideration. He thinks there is some adjustment to the 10-year analysis that depresses the value of new growth over the following year. You find that if you look at the history, it is pretty significant in terms of the factors if you look at 10 yrs., vs 5 or 7 years.

<u>FY 22 Expense Summary</u>
Andrew Flanagan said these expenses are reflective of what we know today and what was released in the CIP program. The budget is balanced based on the expense summary presented. The budget assumes a 3.75% increase for the School Dept. Operating Budget and 2.7% increase in the Town Operating Budget and they are projecting a 6.9% increase in health insurance which is less than the 8% we usually carry. There is a sharp increase of 10.24% in debt service, and which is the water and sewer debt that is funded solely by water and sewer rates however, it contributes to the overall debt service

Retirement appropriation reduction of 4.43% is actually an 8.5% increase in our required appropriation is skewed because they put in over $1M in addition to what was required using funds from Columbia Gas Personal Property growth instead of being 8% over last year it was 18%. It is a 50% over what was appropriated but actually a 30% reduction over last year.

The Water & Sewer Enterprise Fund is fully funded by water and sewer rates and we are in Year 2 of a rate plan to increase the rates by 5% for four years followed by 3% for the two years after that.   All of the capital and operations are funding from that.

Capital Projects Fund: Is just over $3M which appears to be a 57% increase, but is actually a 30% reduction from what was released in the CIP last year. We released a CIP with an Article 5 number of $4.3M which got revised down to $1.5M and with some of Article 5 being moved to Free Cash, it is now resuming in its normal capacity within the CIP.

Offside expenditures: Expenditures shown are offset by some kind of dedicated fund.

Town Manager's Recommended CIP
The total CIP Program is 5.27% of budget and made up of existing debt service, projections for new debt service, and Article 5 which is capital funded by cash.

Total CIP $22,327,651
General Fund Revenue Article 5 is just over $3M and includes a number of Town and School Projects with $6.5M for General Fund Borrowing and Certified Free Cash of $9M.

General Fund Debt Borrowing amount (WEST EL and Shawsheen School) is still to be determined. Special Dedicated Funds – Chapter 90 Funding is specific for roads in the amount of $1,364,279. The Water Enterprise Funds are supported by the water rate in the amount of $9,375,000. The CIP is in Alignment of Goals set by the Select Board's Strategic Goals and Objectives.

Review of General Fund Revenue: Article 5 in the amount of $3,010.00.
Approximately 76% of this total is related to facilities cost. School 1 is improvements by function across the District, and School 2 are building specific projects. On the Town side, Facilities 1 is improvements to Town facilities, F2 is mechanical and electrical improvements, F3 is Town and School Security Projects, and F4 is for town vehicles.
Items also included for funding is to move forward with our first Master Plan update since 2012, and funding to complete a Climate and Sustainability Action Plan.

Free Cash Balance: The Town Manager is recommending the amount of $1,983,372 be appropriated for Free Cash, predominately for IT upgrades and acquisitions plus minor sidewalk repairs. They have moved IT over to Free Cash because we no longer have cable funds to use an offset. The total of IT I, 2, and 3 is reflected of the one-time nature related to COVID and how people work and how people learn, it also includes a device refresh for town and school.

Janie Moffitt commented that IT 1,2, and 3, it doesn't look like much different from prior years. Free Cash should be used for one-time expenses. Andrew explained that we would not have bought 800 devices except for the effects of COVID, and with teachers and Town staff working at home it required the increased investment. The one-time use of the funding is appropriate of what we can do with Free Cash which DOR also sees as an appropriate use of Free Cash for this year.

Linn Anderson: If this is a one-time cost that is COVID related, why isn't it reimbursable under the CARES Act? The Town Manager said that one of the conditions of the CARES funding is that all goods had to be received by December 30th which is impossible to receive this number of computers by the end of December. Anything they can shift, they will.

General Fund Borrowing

The total of Major School Projects is $2.8M and includes, replacement of the Sanborn School roof and major elevator improvement at AHS, necessary to keep the elevator operable. Other larger items include: Historic Mill District Street Construction, Replacement of one ambulance, Year-2 of the continuation of the sidewalk program, which is a goal of the Select Board, and continuation of bi-directional amplifier system.

Special Dedicated Funds: Chapter 90

Water & Sewer Enterprise Funds: The Town continues to make major investments in infrastructure, replacing $6M of water main per year over the last five years. We have taken a 30-year schedule and reduced it to 15 years. They are also working on finalizing the number for the replacement of the generator at the Water Treatment Plant.

The Integrated Financing Plan

The Town Manager walked the Triboard through the Conceptual Plan developed to address the most significant obligations we are facing in the future. Understanding and giving us the tools to effectively communicate the tax plan of the very financial challenges/opportunities of the plan.

1. West El/Shaw
2. Unfunded Pension Liability
3. OPEB & AHS

This is a concept that will go through a number of renditions. This presentation will provide a snapshot and some context on how something like this should work. There are four major obligations of the Plan.

1. Unfunded Pension Liability The actual amount fluctuates between $165-$185M. The pension liability is required by MGL to be fully funded by 2040. Right now, 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, only the legislature can make changes. This presents the greatest threat to service levels and bond ratings.

2. West El/Shawsheen Preschool – It is important to note that this replaces two schools, to be built on one campus with a projected cost of $148M and Town's share of $114M assumes a 23% reimbursement from MSBA.
3. OPEB Retirement – There is no funding requirement as of 2021, unlike pension 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 stands pretty well in this regard and expects to be funded by 2062. This plan will provide us an option to accelerate this payment.
4. AHS 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 Statement of Interests submitted due to COVID.

The Town Manager went through the presentation of the Integrated Financial Plan. They are considering an Integrated Plan to reduce annual pension costs and tax impacts and maintain level services by alleviating budget pressures. It will free-up future exempt capacity (space within the tax bill for other large scale projects or obligations). This plan provides the option to fully fund both OPEB and Pension Unfunded Liabilities. The IFP would fund the construction of West Elementary & Shawsheen Preschool and complete the design and roadmap for a future AHS building projects.

Tenets of the Plan: Proposing a $290M Debt Exclusion to fully fund the unfunded pension liability and the school building project. $175M to fund 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 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 use it for something else. 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.

The Town Manager explained the Funding Schedule Chart shown in his presentation from 2021 through 2038 that included the fiscal year, employee retirement costs, the amount that is appropriated every year to pay off the unfunded liability, and the total annual appropriation.

The next presentation included a chart of the Comparison of Options and Tax Impacts broken out into four scenarios integrating the obligations into one plan. The Town Manager explained how each of these scenarios, the costs, how it plays out for the amount to be raised outside the levy, the annual tax impact, and the 30-year tax impact.

The third presentation included different funding scenarios: explained by the Town Manager.
Scenario A: Integrated Financing Plan
Scenario B: Pension Operating Override and West Elem & Shawsheen School Debt Exclusion
Scenario C: Pension Operating Override Only
Scenario D: West Elementary and Shawsheen School Only

Comparison of Pension Funding and Override History of other communities (all Triple A rated) Many of the communities passed overrides to fully fund their pension plan. Andover is the only Triple A rated community in Massachusetts that is less than 50% funded and the only one who has never had an override to fund the pension. The Town Manager explained how, through the Integrated Financial Plan, they are proposing to temporarily expand the size of the 'pie'.

Andrew also shared a chart on pension reform and talked about the impacts of pension reform that will not reduce the existing unfunded liability, but would reduce annual growth of the liability. There are challenges to actually changing the benefit structure for employees to qualify for pensions. Only the Retirement Board can make changes to eligibility requirements i.e. increasing the 20-hour requirement to full time hours or any number in between. This eligibility would only impact new hires after the date of eligibility changes goes into effect.

Risk factors:
Return on assets does not exceed the borrowing rate. If we don't earn as much a we borrow, the impact would be to create a new unfunded liability which we would have to fund. The mitigation measure would be to create a stabilization fund that captures fluctuations and put them in the stabilization fund to offset the loss. Or, use the $10M at the end of the line having this protection in place. The other risk is to consider and/or utilize GFMF in year 18 to reconcile the unfunded liability. To prevent this, we would create a stabilization fund that captures fluctuations from earnings and put into General Mitigation Fund

If the Legislature extends funding requirements beyond 2040, our hands would be tied. We would be required to pay annual debt service based on 17-year debt schedule and absorb impacts accordingly. The mitigation factor would be to refinance Debt Service and extend the schedule, alleviating impacts by spreading out over additional years.

Andover's long-term rate of return is approximately 6.25% which is the discount rate. Current Bond Market expectations as of today is 1.52%. Projections in this presentation assumes a rate of 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:

- Continue modeling with our financial advisor and conduct probability testing with our Actuary.
- Meet with the Administration & Finance Agency in the DOR who will review the plan.
- Await legislature approval before the plan can be brought to Town Meeting for a vote on a bond authorization.
- Appoint an Investment Committee
- Request Borrowing Authorization from Town Meeting (may require a Special Town Meeting).
- Evaluate Market conditions and decide to proceed with debt exclusion.

Janie Moffit: The Retirement Board needs public input to make changes; hopefully, they would meet that reform prior to Town Meeting. The Fin/Com has met with the Retirement Board and will continue to do so.

Dr. Berman: He and the former School Committee Chair went to a meeting of the Retirement Board to point out the significant impact of eligibility on the School Department as they employa number of part-time employees. The impact would mean moving the Instructional Assistants to full-time to maintain their pension eligibility. There may be other reforms that are practical and useful, but there has been no cost analysis of the effects of this on our Food Service personnel and Instructional Assistants. Andrew's plan is a really thoughtful way of having an impact and solving multiple problems at the same time, but he wonders if there are other proposals or alternatives that may enable them to gain impact of reform without compromising the work the school district has done over the years with their employees.

Andrew said the only two levers before the Retirement Board areemployee buyback of time and eligibility. If we are unable to reduce the rate of growth, we will have to create a new unfunded liability.

Paul Russo said we need to put this into context with all of our other pulls towards our budget needs and reform that we seek. He is looking forward to the analysis we will get from the financial advisors and the actuaries and provide a lot more details and numbers to look into.

Andy Betts mentioned that the risk of getting returns lower than the cost of borrowing, there is also a risk that we earn less than the discount rate on the pension obligation and we end up with some residual unfunded liability later on. The Pension Obligation Bond is not a panacea and may not resolve the entire unfunded liability, although it would save the taxpayer a lot of money.

The Town Manager said the mitigation measures will be really important upfront.

Tracey Spruce: While there is a relationship between a potential reform and this integrated plan, they are not hinging on each other. Does this mean we can do both but we don't have to do both at the same time. Andrew said neither is dependent upon the other but the best scenario is that reform allows us to install a safe guard to further mitigate any risk. Janie Moffitt said the Finance Committee feels there needs to be reform in tandem with this plan.

Shannon Scully: Understanding we have a significant obligation even without reform. She is confused about the need to couple them, the need for one to rely on the other is unclear to her. She doesn't want the plan to be held up while we try to push on reforms.

The Town Manager said that once he presents this plan to the Retirement Board, his expectation is that they will be very open when it comes to pension reform measures.

Pension reform is different than OPEB reforms which impact the current retirees, pension reform would only impact new hires.

Many of the attendees are in agreement that we need to do something about our unfunded liabilities and the Town Manager's plan is prudent and thoughtful. There will be many especially, in the school department, who will be confused and not approve at Town Meeting. Everyone agreed that they need to be very thoughtful about how the explain the plan to the public and how we intend to roll out the plan. There will be two debt exclusions on the ballot that require a separate vote; Pension Obligation Reform, and the vote on the School Building Project required by MSBA.

Annie Gilbert thanked Dr. Berman for his service to the Town over the past 5.5 years, and for all of the presentations and contributions he made during his tenure as Superintendent of Schools. We all wish you well in your next steps. Shelley appreciates the relationships he has developed and will miss you all. It has been a pleasure being part of Andover.

IV. Adjournment

Alex Vispoli moved for the Select Board to adjourn the meeting. Motion seconded by Dan Koh Roll call: L. Gregory-Y, D. Koh-Y, C. Huntress-Y, A. Vispoli-Y, A. Gilbert-Y. Motion passes 5-0.

Kevin O'Handley moved for the Finance Committee to adjourn the meeting. Motion seconded by Andy Betts. Roll call: J. Moffitt-Y, L. Anderson-Y, ME. Logee-Y, K. O'Handley-Y, J. Barry-Y, A. Betts-Y, Paul Russo-Y, Paul Monticciolo-Y, Spiro Christopulos-Y. Motion passes 9-0.

Paul Murphy moved for the School Committee to adjourn the meeting. Motion seconded by Lauren Conoscenti. Roll call: T. Spruce-Y, P. Murphy-Y, L. Conoscenti-Y, S. McCready-Y, S. Scully-Y. Motion passes 5-0.

Meeting adjourned at 8:54 PM

Respectfully submitted,
Dee DeLorenzo