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**MINUTES  
TOWN OF BELMONT  
BOARD OF SELECTMEN  
SELECTMEN'S MEETING ROOM  
Monday, November 7, 2016  
8:00 AM**

**APPROVED  
BOARD OF SELECTMEN  
DATE: 1-23-17**

**CALL TO ORDER**

A joint meeting of the Board with the Warrant Committee (WC) and the Retirement Board (RB) was called to order in open session at 8:10 a.m. by Chair Mark Paolillo in the Selectmen's Meeting Room. Selectmen Sami Baghdady and Jim Williams were present. Town Administrator David Kale was present; Assistant Town Administrator Phyllis Marshall was not present.

WC Chair Epstein and RB Chair Gibson also called their respective meetings to order at 8:10 a.m.

Warrant Committee Members Present: Chair Epstein, Dash, Lubien, Schreiber, Gammill, McLaughlin, Fallon, Libenson, Mennis, Crowley, Alcock, Slap, and SC Chair Fiore

Retirement Board Members Present: Chair Gibson, Ross Vona, Jim Sloman, Walter Wellman, Town Accountant Subramanian

Others present at the table: Ms. Kathleen Riley of Segal Consulting

Others in attendance: Town Treasurer Carman and Town Moderator Widmer

Chair Paolillo reviewed the agenda, noting that various funding schedules would be reviewed. He thanked Veterans for their service to the country, as Veteran's Day is this week.

**ACTION BY CONSENT**

**Discussion of Preliminary Results of January 1, 2016 Actuarial Valuation by the Belmont Contributory Retirement Board**

RB Chair Gibson introduced the members of the Retirement Board (RB) as well as the RB staff. He then provided some context for the pension requirement. He explained the statutory provisions and provided an overview of the retirement system in the Commonwealth of Massachusetts. Employee contributions, employer contributions, and return on investments (ROI) make up the pension funding. Pay-as-you-go, he explained, has been the main method of funding the liability. The legislature has put forth funding guidelines. The funding schedule, which assumes many actuarial assumptions, is the payment that a town/city puts aside to offset the pension liability. It assumes a certain ROI as well as certain contributions from employees and employers. The RB, he said, is sensitive to the financial issues of the town and works with the town to determine the annual contribution contained in the biennial valuation. There are

tradeoffs in making the funding schedule more aggressive; there are also tradeoffs to extending the date, he said.

Chair Paolillo said that the town is fully committed to funding its pension obligations, possibly by as early as 2027. The Board, he said, seeks to understand more fully the funding schedules put forth by Segal Consulting.

Ms. Riley, an Actuary with Segal Consulting, began by noting that five schedules were prepared for the RB in September, and then four additional schedules were formulated. She explained the two major assumptions that inform the funding schedule determination: ROI and mortality rates. She touched on the impact of adjusting these assumptions, and then explained the funding schedules that were prepared in September – as well as their ramifications. She noted where “smoothing out” occurred in the schedules. She also reviewed the four additional funding schedules, noting where the dates were pushed out (2027, 2029, 2032, etc.) and the ROI number was adjusted (7.25%, 7.5%, etc.) She explained what assumptions are used in determining the ROI number. She noted the costs associated with the assumptions.

Concerning the schedules requested by the Board, Ms. Riley noted that the Town’s liability was split out from the Enterprise Funds’ (Water and Light) liability. She explained the early retirement incentive (ERI) payments and noted that the unfunded liability was split 90/10. Chair Paolillo explained the impetus of separating out the Enterprise Funds, noting that the funding pressure is then placed on rate-payers – who also happen to be taxpayers. This is a philosophical conversation, he said.

Mr. Sloman stressed the importance of being conservative with retirement funding assumptions. He noted the work of Massachusetts Pension Reserves Investment Management (PRIM) CEO Mike Trotsky, who is also a Belmont resident.

Selectman Williams asked RB Chair Gibson to review the RB’s historical assumptions. RB Chair Gibson reviewed that 22% of the assets were lost in 2008 due to the market crash. He explained how this impacted the funding schedules going forward.

Selectman Williams discussed the projection model, including the risks, the balloon payments, investment income, and the overall payment schedule. He said a predictable number – one that is not too disruptive to the town – would be desirable. The town should not extend beyond 2032, he said. RB Chair Gibson said further extensions are tantamount to “kicking the can down the road”, which puts a burden on future generations.

Selectman Williams raised the topic of having the Enterprise Funds pay their “full costs”. Presently, taxpayers end up subsidizing the ratepayers. This concept was briefly discussed. RB Chair Gibson said that this concept will be considered.

Selectman Baghdady underscored the point that most of this discussion is “advisory” in nature to the RB. He discussed losses to the town, noting that if we extend the pension liability we delay funding the OPEB liability. He said Belmont should not extend beyond 2030 as it could impact Moody’s rating of the town. Maybe, he offered, Belmont should stick with its aggressive

funding schedule. The Board will need to discuss if an upfront cash payment should be made from free cash.

Chair Paolillo agreed that the one-time infusion of cash should be explored. He said he supports an extension to 2030, but perhaps not beyond that date.

RB Chair Gibson raised the issue of cost of living adjustment (COLA) increases for retirees, noting that Town Meeting would need to approve a COLA increase from the \$12,000 base. Mr. Wellman noted that the market is unpredictable. WC Chair Epstein asked for more information on the statutory obligation of the COLA increases for Belmont's retirees. RB Chair Gibson provided more detail on COLA increases, noting that this happens yearly (on a \$12,000 base) irrespective of the Social Security increases. He said that the CPI does not often reflect the true rise in the cost of living. Chair Paolillo noted that the impact of the COLA increases on the unfunded liability needs to be understood more fully. This topic was discussed.

WC Member Mennis summarized some of the WC's Pension Report findings (which was issued last fall). The funding schedule will grow at a faster rate than town revenue growth. The pension spending would be higher than what the town could keep up with, given its rate of revenue growth. In decades past, the town did a poor job in funding this liability. Belmont's contributions are now in the top quarter compared with those across the state. However, there is a \$20M deficit – how will this deficit be dealt with, he asked? Either town services will need to cut, or additional revenue will need to be raised. RB Chair Gibson replied that the \$20M pension deficit needs to be dealt with, by law, but that he has no “magic wand” for dealing with it.

WC Member Mennis encouraged the Board to consider the town's overall principles and goals, while adhering to state law, and being mindful of the rating agency's input. The current funding schedules put forth may be too aggressive given the town's overall fiduciary goals and promises.

Mr. Kale spoke to the notion of a one-time infusion of free cash. He noted that the override funds, which were intended to last until FY 18/ FY19, might be impacted by an allocation from free cash.

WC Member Fallon asked about the rating agency response to using cash reserves in this way. In response, Mr. Carman said that the rating agencies prefer thoughtful, consistent, and steady decisions, and that he had consistently advised Moody's that the town's plan is to fund the pension obligations by 2027 and then step up its contributions to fund OPEB liabilities. WC Member Gammill confirmed that the only fixed decisions that the RB would make this year were the Town's contributions in FY18 and FY19, and that this process would be repeated in two years. WC Member Libenson spoke to the assumptions, noting that they seem appropriate but that they will ultimately add to the overall funding obligation. The one-time cash infusion is not the obvious right answer, nor is going beyond the 2030 threshold. Schedule 1B, he said, keeps Belmont within the 2030 timeframe and is interesting to consider.

Mr. Sloman said that, ultimately, money will need to be infused into the retirement system. Retirees have the law on their side and this obligation is not going away. WC Member Mennis added that he would support a one-time infusion of funds, although it will not make a meaningful

difference to the overall liability. WC Chair Epstein noted that the ROIs seem quite optimistic (i.e., projected high) looking out 10-15 years. ROI optimism will have an impact on the projections. RB Chair Gibson spoke to the projected ROI and stated that the RB will work toward consensus on these issues. WC Member Crowley spoke to the funding schedule options (3%).

Mr. Widmer said this is a balancing act with no good or right answers. There are tradeoffs. This obligation was underfunded for decades and Belmont must make up for the sins of the past. The obligation will be met, he said, it's just a question of how. A small extension (in the funding schedule) might be a reasonable option.

Selectman Williams offered his thoughts on the Enterprise Fund options. He spoke to the demographics of the town and of the straight-line amortization.

Chair Paolillo thanked all involved in their efforts on this topic.

#### **NEXT MEETINGS**

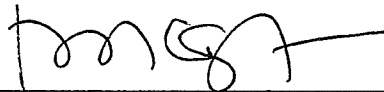
Monday, November 14, 2016 at 7:00 p.m. Selectmen's Meeting Room Town Hall

#### **ADJOURNMENT**

The Board moved to adjourn the meeting at 10:05 a.m.

The WC also adjourned at 10:05 a.m.

The RB took a five-minute recess.



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Mr. David Kale, Town Administrator