Warrant Committee FY06 Meeting Minutes
April 11, 2006
7:30 p.m. TOWN HALL, BOS MEETING ROOM

Handout(s) distributed tonight are:
1. *Actuarial study by Ricci Consultants Inc dated 4/4/06 on OPEB – GASB 43/45*
2. *Postretirement Medical Benefits – Strategies for Reducing*
3. *Capital Budget Committee priority listing*
4. *E-mail from Diane Jenkins dated 4/11/06 regarding software*
5. *E-mail from Gerry Missal dated 4/11/06 regarding software*

Member(s) absent: Gibson

Also present: Town Accountant Barbara Hagg, Town Administrator Thomas Younger, Assistant Town Administrator Jeff Conti, BOS Members Brownsberger & Firenze, Town Treasurer Floyd Carman

WC Chair Jones called the meeting to order at 7:30 PM.

Minutes of 3/29/06 & 4/6/06 – Not discussed

Post Employment Health & Life Benefit Actuarial Study

Steve Ricci & Stu Rubenstein were present to discuss the OPEB GASB 43/45 Actuarial study. Mr. Rubenstein stated that the Town provides medical benefits to active and retired employees. Currently the Town recognizes the retired expense on a pay as you go basis. $3.3M will be the cost in FY06 to the Town for 530 retirees and their spouses. GASB believes that pay as you go is wrong and these benefits are a form of deferred compensation that is accrued during active employment. The expense should be recognized when the employee is working. Approximately a year and a half ago GASB mandated accrual accounting for these costs. This attributes the cost of these benefits during the course of employment. No requirement to prefund the benefit is included. Right now we have blended premiums. This means that the rates are the same whether it is an active employee in his/her 40s or whether it is for a retiree in the 60s. The true value is actually double the cost for the older retiree than for the younger employee. Recognition of the cost is not required until FY09 for the Town of Belmont. This would be the figure for the amount that should be set aside to get to the funding cost of $121M. The annual required contributions (not really required) is the annual cost of benefits earned in the current year plus prior service that is not funded (do this over 30 years) for a total $11.2M. Subtract the $3.3M (for current year pay as you go) from the $11.2M you can see that we are approximately $8M short of the “annual required contribution” that is not currently being funded. The blended rates under the current rates rate structure means that the current retirees are not being charged for the true cost of their health insurance.

Exhibit 1 on page 1 shows the actuarial present value of all future benefits including those that will be earned in the future by all active employees. If this amount was put in a pot this would cover current and retired employees.
Exhibit 2 shows the $120M liability that is broken out to $51M for active and $70M is for the 530 retired employees. Life insurance is included but is a very small benefit. There are six subgroups of employees' general, school, public safety, light, sewer and water. $52M of the total is for schools and the next largest group is general. These net of the participant contributions for a net cost of $121M.
Exhibit 3 shows the normal cost which is the cost earned for the current year of service for active employees. Benefits are assumed to be earned on a pro rata basis over on employee's employment until eligible for retirement.
Exhibit 4 is a sensitivity analysis on a cost trend for health insurance. If the $121M is increased or decreased by 1% a year it shows the sensitivity of the normal cost
Exhibit 5 shows this same figure
Exhibit 6 shows the Annual Required Contribution (ARC) made up of normal cost, the liability, the unfunded liability, and a 5% discount rate that is being used. This is a 30 year amortization of $120M at 5%. This is how the $11.3M is made up.
Exhibit 7 shows economic assumptions that go into this valuation, the valuation date of 1/1/06 (calendar), the health care cost trends, 8% the first year, 7% the second year, and 6% the third year. All this is based on the assumption that double digit increases cannot continue. This is a typical set of assumptions for any retiree actuarial study. The rate growing significantly higher than our GDP is not sustainable. If the valuation assumes a 10% increase then it would mean that in 50 years ago our economy would have to be 60% healthcare. All these figures are "best estimates". If the trend rate was 1% higher, the normal cost goes up $1M and the amortization goes up and the ARC would be significantly higher. The trend rates will be adjusted each two years when the actuarial studies are done for GASB 45. Member Allison brought up that these costs assumptions could affect whether we decide to have jobs outsourced. Medicare subsidies for retirees going into the Enhanced Medicare plan has been figured into these projections. The discount rate will change. If we prefund our liabilities we can use the rate of return on our prefunding but if not prefunded, we use the rate of our regular savings. Tables for mortality are the same as that used for our retirement plan. The retirement rates are taken from the retirement plan (the rate of retirement). The premium rates are stated (blended)
Page 9 is where the costs are unblended. This shows the difference in costs between a particular age brackets. This does not look at premiums but at true costs for different age brackets. These are service costs incurred for different groups. For example the 62 year old bracket would be compared to the average age of 47 years. GASB requires age based rates. This is our experience using national adjustment rates.

Member Curtis asked about the $121M. This figure is not based on the blended rates it is based on the unblended rate. If it was done differently it would not be in compliance with GASB 45.
Page 10 has more assumptions. 98% participation rate was given to the company by the HR. It is assumed that 35% of school retirees will have covered spouse and 45% of other divisions. Surviving spouses can continue in the plan. Life insurance is identified as a cost but it is relatively small.
The remainder of the report shows the number of 620 active employees and 530 retirees and the age brackets. Nearly half (530) have health insurance that has already been earned. The good news is that the $70M for retirees is totally unfunded and we can amortize over 30 years although the life expectancy will be no where near this number of years. We can spread the liability for an 80 year old retiree over 30 years, not the expected life span. Member Paolillo stated that not funding the liability will eventually affect the bond rating.
Member Curtis stated that there is a strong push to change the plan design to increase the co-pays and percentage of co-pays. Could the company come up with a change in the total liability? Yes, they could per Steve Ricci. The assumption would be that this would change everyone equally.
The $3.2M is the normal cost for active employees. Based on demographics this will grow at the approximate discount rate – 6%. This is based on a snapshot, closed group and does not anticipate any change in membership or turnovers. This is necessary every two years and would have to be redone with any major changes to the health plan. This is not fixed in stone but a moving target. Steve Ricci explained that the expected liability and the actual liability difference are amortized as a cost component over the next several years. Plan design changes that reduce the liability would also be amortized and would reduce the annual costs for the next few subsequent years. These differences become cost components in the future.
Member White asked whether the actuaries believe believe there will be a mandate of funding at some time. The answer was that the private sector has not yet been required to fund this and that there would probably a taxpayer revolt if this was mandated. Member Widmer stated that the Commonwealth is just beginning to look at this issue and may be developing standards over the next few years. This is a real obligation and may shift to the following generations. The best route is to reduce our obligation.
Member Curtis asked the appropriate multiplier to use for employees to determine their benefit cost. For example base salary times xx%. This would look at a fully loaded employee for family coverage etc.
A page on strategies was presented. Some would not be local options and would require legislative action. Example of ideas are: spousal carve out if the spouse has access to medical coverage they take their coverage elsewhere, have the retirees paying 50% of their premium rather than the same percentage as active employees, develop premiums that are unblended for retirees based on their true costs, change benefits for new entrants, and cap the current contributions.

The defined benefit plan with cities and towns continue even though the private sector has stopped these benefits. The private sector is also starting to cap the liability for these health benefits for retirees.
Another idea would be a defined contribution for heath insurance so that you would get a set $ amount per year of service towards health insurance when you retire.

Reserve Fund Transfer Request from the Building Department

Motion made to approve by Member Brusch seconded by Member Tillotson. Unanimously approved**.**

Warrant for STM

Article 5 – change to $811K so that the software licenses is included as part of the borrowing package. If this article is not voted, the software licenses would have to be funded elsewhere. Heigham/Tillotson recommend approval. Unanimous
Article 6 – fiber redundancy for $197k would be a borrowing. Member Brusch stated that the CBC feels that this should be come out of the CBC FY07 appropriation and would reduce their $2.1M appropriation.

Capital Budget Committee recommendations

Member Brusch provided a list of projects being recommended, the portion that is being or could be borrowed readily (not necessarily recommended for borrowing), this would allow for additional items funded. There was some discussion about funding the elementary school and middle school phones at the same time. There would not be significant savings from grouping the project but would be a convenience factor.

The Homer Building items did not all rise to the level of a capital project. The door to the Town hall was replaced during the construction and there was an attempt to have them work on the handicap controls. The doors do not work when they expand. The CBC unanimously recommends only a fiberglass door so that the entrance is ADA compliant. The Building Department has met with the consultant from the HDC and he has also recommended a fiberglass door. Younger stated that another request would be filed with the HDC. This door must be completed this year to make the building accessible.
The roofs include a Highway and a portion of the Town Hall slates. Several years ago, only the portions that were leaking were addressed. This was bid by the Town Hall Building Complex but it was not addressed because the roof was not leaking.
Ambulance now has over 15K miles a year because hospitals are referring patients to other hospitals. A new ambulance takes nearly a year to be delivered.
The fire vehicle replacement is a safety issue.
Burbank School masonry repairs are critical.

Lighting at the HS is a safety factor but would not have to be redone with the HS is renovated.
School envelope project is the next logical step now that the roofs have been addressed. The town envelops do not have to be addressed at this time.

Snowplows are ongoing.
The roads are $1M, down from the hoped for $3M.
The security system is $107K, (95K for head end housed in Homer Building) and an additional $12K for the town hall. The school is addressing their own security issues and are satisfied with their solutions. A committee appointed by the BOS is looking at the security and hope to have definitive numbers by the May TM. BOS Member Firenze asked this be put under the Homer category. This could be done by the TM and categorized under the bond exclusion.
Snow guards are a safety issue. This year a car was wrecked after the first snow storm this year. No one was hurt. This also could come under the debt exclusion. The CBC feels that if this is not funded in this category is a safety issue and would have to be addressed.

In a separate category are three items that would be funded under a borrowing if such capacity were to become available due to shifting of items to borrowing in the above category: phone system at the Chenery, pumper brush truck for the fire department, and a reconfiguration of the circulation area at the library especially if we do not plan on renovations over the short run at the library. Borrowing under the Minuteman network has expanded enormously over the past few years and there is insufficient space.

Finally there are three items that are worthy of consideration but did not receive majority votes of the CBC: BHS tennis courts, CMS energy management system, and White Field House exterior stairs. Payback for the CMS energy is 60 years and therefore not eligible for an ESCO funding.

Not on the list are the maintenance items that need to be funded: $95K for the building department that they have had for the past five years that is used for minor repairs, another $100K of work needed at the Homer Building, fire exit at the Town Hall, and repairs at the Police station and library. Computers for the library and school are also recommended as going back to the operating budgets. The technology items of $351K are listed but not funded: $111K in software renewal is under the new software and the other goes to operating. Missal had stated that there was nothing in the capital budget that took priority over his operating budget. Younger is looking at putting the maintenance items back into the operating budget. The fire escape and the $95K ongoing maintenance are the two “can’t live without” items.
Regarding lights at the HS Younger stated that he plans to work with the BMLD for some in kind services.

Member Curtis asked whether the fees capture the full cost of manning the ambulance including manpower, ambulance, and expenses. Member White stated that the entire picture should be considered including what level of services the town expects and the time for outside ambulance to response.

Member Brusch stated that this is a final recommendation of the CBC for now pending the decision on the borrowing. The borrowing question would be addressed by the BOS. BOS Chair stated that as of now the BOS has voted only on the borrowing for the software.

Member Hofmann is concerned about the nickel and dime changes on the Town Hall Complex Building Committee. Member Brusch stated that the roof on the Town Hall was never the charge of the Town Hall Complex Building Committee.

Redundant network for $197K will be coming from free cash at STM. This is $178K plus 10% contingency. Member Curtis asked about the repercussions if we should not do this work. With the new fire stations there is no secondary system for emergency communications. If one part of town's computers etc goes down, police and fire can continue to communicate. Heigham/ unanimous.
Cemetery article - $60K increase in cost – Cemetery had additional costs for excavating costs. Proceeds of cemetery lots will cover the cost. Unanimous.

Other

Member Heigham moved adjournment at 9:50 p.m.