

**Amherst Finance Committee Minutes**

**March 5, 2009 7 P.M.**

**First Floor Meeting Room, Town Hall**

CALL TO ORDER

The meeting was called to order at 7:02 p.m. in the First Floor Meeting Room, Town Hall.

FINANCE COMMITTEE MEMBERS IN ATTENDANCE

Marilyn Blaustein, Kay Moran (vice-chair), Brian Morton (chair), Bob Saul, Douglas Slaughter, Andy Steinberg, Marylou Theilman.

STAFF IN ATTENDANCE:

John Musante, Assistant Town Manager/Finance Director; Sonya Aldrich comptroller; Eunice Torres, Human Rights/Human Resources Director; Kay Zlogar, Health Care Trust Fund Manager.

OTHERS IN ATTENDANCE: Walter Wolnik, Richard Spurgin, Robert Webb of the USI Consulting Group, Pat Brock of the Hampshire County Retirement Board.

**Agenda:**

1. Post-Employment Benefits Actuarial Report Presentation
2. Budget Presentation-
  - a. GENERAL GOVERNMENT #2
    - i. Human Resources / Human Rights
    - ii. Employee Benefits
    - iii. Retirement
3. Legislative Update
4. Member Reports
5. Minutes
6. Next Meeting and Agenda
7. Miscellaneous

Post Employment Benefits:

The meeting began with a report by Bob Webb on the calculation of post retirement benefits. The regional school district and the towns of Amherst and Pelham pooled resources to hire a consultant to calculate this unfunded liability and determine a starting point and base line estimate of the accrued post employment benefit. Bob Webb who wrote the report, and Sonia Aldrich, the Town's comptroller, presented and explained the results.

Governmental Accounting Standards Board (GASB) Statement 45 changes the way municipalities account for post employment benefits other than pensions (OPEB) by requiring that the liability is recognized during the year in which the benefits are earned. This is the annual OPEB cost. This includes all benefits other than pensions for current employees, but most of the expense is for healthcare. Until recently, these benefit expenses were recognized

when they were paid, not accrued. The new rule also requires that municipalities recognize the accrued unfunded actuarial liability for past service costs and creates an expense item that estimates the required contribution to fund, but does not actually require the town to fund the liability. The amount the town actually funds is up to the town but the shortfall between the actual accrued liability and the amount of the liability that the town actually funds, ends up as a residual (unfunded) liability on the town's balance sheet. Page 28 of the handout exhibited the anticipated cash outflows of the post retirement benefits. The payments appear to peak as the bulk of active employees retire, but since the calculation only takes existing employees into account, this "closed system" analysis is somewhat misleading.

Discussion followed. Blaustein asked if attrition rates were included, and Webb indicated that they were, and that these rates were based on actuarial data. Moran asked about the inclusion of employees and spouses in the calculation, and Webb indicated that these were included, again, using "best guess" actuarial data on longevity. The net present value of the stream of cash outflows used a discount rate 4.25% (once, the short term interest rate on the Town's cash accounts) to calculate the present value of the anticipated accrued liabilities. The Town has 30 years to move the unfunded portion of this liability on to its books. \$2.6 million plus \$2.9 million interest equals \$5.7 million as the FY 2010 portion of this liability. GASB requires that you do this actuarial analysis every couple of years. So, in compliance, the new accounting for the retirement benefits is an expense of \$5.7 million not the actual estimated payment of \$1.9 million. Steinberg asked about the inflation assumptions imbedded in the accrued liability estimates and Mr. Webb indicated the inflation rate was 2.5%. For healthcare, the inflation trend rates are 10 or 11% but since it is assumed that these are not sustainable, the tables estimate that the increases come down to 5 or 6% as drug patents come to the end of the term. The OPEB obligation (the net unfunded liability) will continue to grow and bond-rating agencies will look at how you control or prepare for these costs but have not yet indicated what specifically they will be looking at as rating points. Morton asked if this was true of even large cities that were required to implement GASB 45 in the first phase. Webb indicated "yes," even for larger cities, and Musante added that this issue is not new for rating firms and that the new regulation helps to put a spotlight on the issue which will help on the policy side. Most towns are either not in a position to fund or are not allowed to fund this liability. Moran asked if library employees were included and the answer was yes. Wolnik asked about web access to this report, and Musante stated that it was on the website. Rich Spurgin asked about healthcare benefits based on age, where they came from? Webb replied that the premium cost comes as a "cost per person" that does not vary by age, but he acknowledged that this is adjusted using internal tables to better calculate cost allocation for retirees and that rate creep can be a big problem if not accounted for. The consultant has to weight the obligation by age very carefully otherwise you under allocate by using current costs for employees and not higher cost for employees.

#### Human Resources/Human Rights Budget

The budget was presented by Eunice Torres. Most elements of the Human Resources budget are mandatory. Moran asked about labor contract negotiations. Contracts have been negotiated through 2010, and, Musante added, new negotiations will actually occur during 2010. Historically, the Town has negotiated a fixed fee for a labor negotiator. Steinberg asked about the health claims trust fund(HCTF). The consultant has been eliminated from the Human Resources budget and a new position to oversee the HCTF has been created in, and is funded by, the Health Care Trust Fund. A typo was noted. Human Resource FTE's should be 1.5 instead of 2. The total FTE's in the Town Manager budget is correct. Theilman questioned whether the number of human rights complaints were going down, but Ms. Torres indicated that

fewer written complaints resulted from less time available for Human Rights due to staffing. 23 is the actual number of written complaints.

### Employee Benefits Budget

Kay Zlogar presented the budget, and began by noting that the HCTF has accumulated a \$3.7 million fund balance as of the end of February 2009. She noted that the Trust cannot, by law, provide a source of funds for anything other than health claims and cost of administering the program. Zlogar and Musante indicated that the healthcare benefit is a success because it contains good health plans, good utilization, and good management. If claims hold to recent historical levels the fund will end up at \$3.7 million at the end of FY2009. Deficits a few years ago were related to a combination of higher than anticipated claims increases coupled with insufficient premium rate increases. . The Town is scheduled to increase the healthcare premium by 3% in 2010 and 2011 with a premium holiday scheduled for this April 2009. This holiday is possible because of the large fund balance. Moran asked about the number of employees covered by the plan (1000 plus) and noted this was a small group statistically so it is hard to keep losses even and predictable, and although stop loss insurance is a good measure, it gets more expensive every time it is utilized. Steinberg asked if the "stop loss" was triggered by the totality of the claims, and if so, it seems like that would make payouts more predictable since outliers would be covered by the stop loss. "Stop loss" applies to individual large claims, not the total, Musante said. Musante said that looking at the claims and the stop loss threshold amount on a quarterly basis allows the Town to be more aggressive on the stop loss insurance provisions to lower the threshold and the overall risk, and, in turn, keep the fund more stable. Many steps have been taken to keep the health insurance premiums under control; stop loss insurance, higher employee contributions, and elimination of the indemnity plans and the addition of HMO's. Employees are also allowed to buy Canadian drugs. Additionally, there is a reserve of 18% of projected annual claims (equal to approximately \$1.6 million) included in the \$3.7 million fund balance. Musante and Zlogar believe that claim projections are conservative (high) and that even at a relatively low 3% increase, can lower the cost moving forward. A 6% increase in the premium had been projected so the 3% increase acts as a budget cut of sorts, since it lowers the overall personnel expense. Musante reports that the Town's benefits consultant estimates that if they had continued on the old plan, the Town would have spent another \$2 million since 2006. Zlogar's day to day management is the key to continued cost control going forward. Morton asked if data exists to compare domestic vs. Canadian drug purchasing to estimate the cost savings. Zlogar noted that the exchange rate was a big part of the mix and that she is questioning the current cost effectiveness. Data to come. Morton asked about errant billing practices. Not a large factor although occasionally there are issues about elective procedures. Theilman asked if we charge the Regional School District and Pelham for the administration of their healthcare plans. The answer was "yes" and is included in the premiums paid by those entities to the trust fund. Life insurance administration is not charged out. Spurgin asked if the town requires employees to go on to Medicare. The Town has, in the past, strongly encouraged retirees to enroll in Medicare when they become eligible.. For those that did not, the Town in coordination with its health insurance carriers created "carveout" groups so that retirees in the active plans would have Part A claims (hospitalization) coordinated and processed thru Medicare first. These represent the vast majority of the Town's claims exposure. This year at town meeting the Town will offer an article accepting a new MGL Chapter 32B, Section 18A to make it a requirement for new eligible employees and retirees to enroll into Medicare when they turn 65. Most individuals are receptive since plan benefits are generally better with Medicare enrollment. The Town is also pushing to make sure a retiree's spouse is on Medicare.

### Retirement Liability

Pat Brock from the Hampshire County Retirement Board indicated that last year's retirement assessment for the Town of \$3,232,259 will increase by 3.28% to \$3,330,292. This pension liability includes town, elementary school (other than teachers), library and enterprise fund personnel. The liability does not include regional schools. Liabilities are created by an actuarial study methodology used to determine the Town's contribution. The State and County system recently moved to a negative funding schedule to gradually offset unfunded liability. The County Retirement System is roughly halfway through a 40-year schedule to fully fund the liability by the statutorily required date of 2028. The County's \$180 million pension assets have decreased to \$131 million as of February 29, 2009; a roughly 25% loss in value. With the huge decrease in value from the financial crisis, the Hampshire County Retirement Board is counting on an extension of the funding schedule. It will take time to go through this process with the legislature. Amherst's contribution increase for FY 10 is lower than the average system wide because our proportional payroll increase is lower than the average. One part of the employee contribution is funding their "own" retirement and the other is a contribution to the unfunded liability. The Hampshire County Retirement Board is postponing the next actuarial analysis of the estimate for the required contribution by one year until January 1, 2010 because they don't think the estimate will be "favorable" with the current losses in the fund. Three years ago the Board changed their investment consultant. Too much equity allocation at the time, and they followed the State's lead to "go passive," with respect to equity investments by using index funds. The Board has always been concerned about the slow process of moving between asset classes since the process can take six months so opportunities disappear. "Global asset allocation" with active asset managers allows quicker moves between asset classes. The Board is going to stay aggressive in its investment stance with a target return of 8% as they move toward full funding. If they move above 65% of the full funding level they will start to move toward matching liabilities with investments; aka heavier toward bond allocations. New Amherst employees are paying 9% of salary plus an additional 2% over \$30,000 of salary. The Board's plan covers 3,000 active employees with 1,000 retirees.

Discussion ensued. Slaughter asked about aggressive investment stance; when you are young you take risk because you can afford it (and recover from it), and when you are older, you take less risk looking for more security. Saul asked if the Board had considered a low risk, cash strategy. The issue, according to Pat, is that the current losses take the fund down 25%, therefore, there needs to be a strategy to return to a higher funding percentage. Extending the funding schedule will make the re-funding process palatable, hopefully. Still other shoes to drop, no mark to market on private equity portfolio or counter party risk funds. There are big losses buried in these assets too, and the State (the Board's benchmark) shares these losses. Wolnik had a question concerning the Public Employee Retirement Administration Commission website. Spurgin asked about postponing the evaluation to produce a more realistic funding schedule in light of the recent financial events. Musante answered that if the legislature does not act, then the consultant would inevitably generate a funding expense which would be very high, and may not be ultimately necessary if the legislature changes the funding schedule. The strategy is to try and save the town from breaking the bank with a multi-million dollar increase that would hit personnel. Musante said, timing is critical, and he supports the Retirement Board's decision not to do funding at the trough. If the re-calculation was performed, the Town might have to choose between police and fire and fully funded liabilities, for example. Wolnik asked about the gap between expenses and revenues and the significance for budget growth. Spurgin stated that there is a significant chance we will be in financial distress, regardless. Musante says benefits are the fastest growing component of the personnel budget items. The average increase in payroll, as shown in the annual September 30<sup>th</sup> snapshot given to the Retirement Board, over the last 8 years is 4% while benefit costs have seen double digit increases.

### Legislative Update

Musante reported that there was nothing new to report except that the Special Legislative Committee on Municipal Relief, co-chaired by Sen. Rosenberg, may issue a report on municipal relief as early as next week (week of March 9<sup>th</sup>) to help towns build their budgets. The impact of Federal Stimulus money is still unclear.

Theilman asked about process for regional cooperation among Finance Committees after comments made at the Four Town Meeting on 2/28. Moran indicated that our budget guidelines were passed on to other towns. Morton said our committee had communicated appropriately, and in the same fashion as we always have. Moran said Pelham is aware of what we do. Leveret and Shutesbury are less in touch with our guidelines, and next year we should send those guidelines directly to them for distribution. It was noted that the Amherst FC has no authority over those towns, but that they could be cc'd as a courtesy. Blaustein noted that the other towns have different financial circumstances.

Moran reported on the Library Trustees meeting last Tuesday. No budget decisions have been made and the Director has presented a worst case scenario. Proposals have not been approved or recommended.

Steinberg reported on the school committee meeting last Tuesday. Slaughter and Theilman were also in attendance. The Committee continues to be responsive by making lists of cuts and taking lists to public and modifying the cuts in response to public feedback. School budgets are still works in process.

Steinberg also reported that as the FC member responsible for community services, he was sorry to miss the discussion on the regionalization of veteran services. He noted that it was a very high ratio of salary dollars to veterans benefits dollars. The personnel benefits line in supplemental information actually covers two former Vets agents and the current agent, and being a one-person department, the number stands out. Allocation of benefits needs to be made clear says Steinberg. Morton suggested that maybe we could split out retiree and current employees. Steinberg stated that regionalization of Veterans Services needs to be discussed. He asked for additional veteran caseload data and information about the time it takes to administer vet cases. The State requires that towns over a certain population base have a Veterans Agent, or participate in a regional Veterans District. The Select Board is involved in the regionalization process. Quantification of the benefit of regionalization is still questionable. Does it make sense to have a larger region? Great vets agent.

The town should be hearing any day now if we have been approved for a grant for a feasibility study for a regional emergency dispatch center. Theilman expressed an interest to keep dispatchers in the state. Slaughter reported that JCPC heard building and facility requests from the town and schools. Morton reported that BCG did not meet on the 2<sup>nd</sup> due to the snowstorm but they will meet on the 9th. The Audit Committee did meet and the audit report and discussion focused on the school lunch program and on internal controls that are now important. Musante reported that there were no material weaknesses. There are new accounting standards on internal control procedures and documentation that the accounting staff is working diligently on. The Select Board would like to have the audit committee make a report.

### Minutes.

2/28 minutes approved as amended, 6-0, Saul abstained.

2/26 minutes approved as amended, 6-0, Saul abstained.

2/19 minutes approved as amended, 6-0, Steinberg abstained.

Miscellaneous

Blaustein requested that the meeting scheduled for April 9<sup>th</sup> be rescheduled. The committee agreed to Tuesday, April 7<sup>th</sup>.

Adjourned at 10:40 p.m.

Submitted by

Bob Saul