

**TOWN OF HARVARD**  
**Finance Committee**  
**Minutes**

**Meeting Date:** Wednesday, May 2, 2012

**Meeting Place:** Town Hall Meeting Room

**Members Present:** Marie Fagan (chair), Steve Colwell, Heidi Frank, Alan Frazer (assoc.),  
Alice von Loesecke, Rudy Minar, Laura Vilain (assoc.)

**Members Not Present:** George McKenna, Bob Thurston

**Others Present:** Lorraine Leonard - Finance Director

**Meeting Time: 7:00 p.m.      Adjournment Time: 8:10 p.m.**

**Discussion and Actions**

- Marie Fagan opened the meeting at 7:00 p.m.
  
- Minutes for Wednesday, April 4, were reviewed, and approved with changes.  
**A motion was made to accept the Minutes for April 25 and April 28, 2012.**  
**The vote was 5:0 in favor**
  
- No Public commentary
  
- Finance Director's Report  
The Conservation Commission requested a reserve fund transfer (RFT) of \$15,650 to remediate an erosion problem onto conservation land (Tully) from the transfer station on Depot Road with a drainage basin to aid in the protection of an adjacent wetland. The Committee decided more information was needed regarding funding source. Could the conservation fund cover? Questions as to whether all the paving done by DPW has created this runoff problem.

*OPEB: Some History*

Lorraine explained GASB 45 and OPEB - post-employment benefits other than pensions (including healthcare and life insurance). Prior to GASB 45, most of the towns accounted for benefits on a "pay-as-you-go" basis -- meaning the actual cash costs of the benefits were charged each year, without accruing for future costs. Now, all towns must account for the total costs of municipal workers over their working lifetime, rather than after retirement.

*Currently Funded*

Harvard has been funding the OPEB expense as a yearly, "normal" Plan cost (a line in the Town's budget). Also, the Town has funded an account based on the expected pay-as-you-go costs for the Town workers who have currently retired. The unpaid difference is the accrued cost of the currently working Town employees. Meaning, Harvard needs to set-up an OPEB account only for this difference Lorraine estimates that could be between \$500K and \$1M.

To note: the new OPEB account is a non-cash charge, in other words, it is a valuation, and

does not require pre-funding like a pension plan.

### *Timing*

Right now there is no deadline to fund OPEB, and no funding schedule yet set up by the Town. Because of the size of Harvard, the Town is in the second tier to start funding OPEB. First-tier, larger towns have not been required to begun funding OPEB, and when they do, they will have at least a two-year lead time. This means Harvard at the very minimum would be slated to start funding OPEB in 3 to 4 years. When the State government is ready to fully implement OPEB, each town will be given a 30-year funding cycle.

We, the Town of Harvard, already have accrued funds toward OPEB. To note: OPEB is not a charge, it is a valuation which is stated on our balance sheet.

### *How Much to Fund OPEB*

The OPEB formula will include guess-timates about future medical care costs, actuary tables on mortality, and the assumption that all current Town employees will only retire when eligible. Employees also pay some money towards this fund 10% -25% of premiums in retirement depending on the coverage selected and the employee class.

Because of the nature of the OPEB formula, the amount necessary to fund the future OPEB costs bounces around in the near term. Also, to note, the money saved now is in today's dollars -- there is no plan to discount the future money to present-day values. One way to think of OPEB is to understand this fund never needs to be 100% funded because some people leave before their accrued retirement benefits are needed. Thus, the OPEB money get smoothed out for a variety of reasons to a workable number. In essence, complete funding of the estimated cost of OPEB is set up to cover the worst case scenario.

### *Talking about the Numbers*

In the first auditor's report, July 1, 2008 for FY09, page 19, Exhibit C provides a table of Projection of Liabilities & Cash Flows (closed group) (as of July 1, 2008), Total Medical & Life Insurance. The table provides \$3.4M as the annual OPEB cost or annual required contribution (ARC) - as a starting number for the balance sheet. Exhibit A, page 15, explains further that, by deducting annual contributions, the net OPEB obligation goes down to \$2.8M.

It is important to note that this \$2.8M includes both the Town's employees currently working (actives) and the retirees (nonactives (with 20 yrs of service)). For the actives, the Town is already putting away \$2M. So the OPEB liability is closer to \$500,000 to \$1M, according to estimates from Lorraine.

[Another interesting note about the Exhibit C table is that the first column lists the projections of liabilities by Fiscal Year. It might better have listed Year 1 ... Year 30. All towns will start at Year 1. The OPEB costs will be calculated when the State determines what is owed - again 3 to 4 years from now.]

Teachers are included in OPEB. They are funded through a charge on our Cherry Sheet.

*Options for Planning for the OPEB costs*

Lorraine discussed several options put forth by the Department of Revenue (DOR)  
1) Do nothing until DOR advises; 2) Create a trust fund- irrevocable- (however DOR is fighting over this and has no guidelines); 3) Reevaluate the current benefit plan; 4) Wait until possible special legislation is enacted where all the Towns could opt in to do something together (especially with municipal workers work for various towns).

Tim Clark explained that the Town of Wellesley has determined to set up a trust fund. They accrued \$2.5M as an obligation paid over time. This is similar to a line of credit. They had to be careful to partition funds so that the money goes to the intended purpose - OPEB.

*Overall Thoughts*

In terms of Harvard, the auditor suggested setting up a task force. There also would need to be an actuary study for approx. \$6K. Proportional funding may work by averaging out costs. This idea is to have the bill for the prior year by January 15. The suggestion was made not to get ahead of the State in this process, or if we do move ahead of the State, to do so thoughtfully.

Also recommended was to not use early retirement as an incentive on the School Board - the Town will pay increased retirement costs.

FYI, Town medical benefits are covered by Minuteman Nashoba Health Group.

FYI, the Auditor will be visiting BOS in early June.

- No Liaison Reports
- Next meeting – May 16, 2012, Town Hall meeting room

Meeting adjourned at 8:10 p.m.

Respectfully submitted,  
Laura Vilain