

Minutes for 7/28/15 OPEB TRUST MEETING

Minutes accepted on 1/19/16

4 in favor

The meeting was called to order by Tim Harrison at 3:18 PM. In attendance were James Smith, David Hall, Timothy Harrison, Christopher Woodruff, Susan Rothermich and Lisa Troast.

Tim started the meeting by introducing our newest member, David Hall who replaced Kenneth Stuart and he thanked Ken Stuart for his time on the Board.

The first order of business was to accept the minutes from the 1/20/2015 meeting. Christopher made the motion to accept the minutes, Lisa seconded the motion. The minutes passed 3 in favor; Dave and Sue abstained as they were not present at the prior meeting.

Dory Huard from Bartholomew & Company gave an update on the OPEB funds for fiscal year 2015 through June 30, 2015. Dory noted our June 30 statement balance was \$531,807.28. She reminded us that this statement reflects a portfolio change from Moderate to Moderate Aggressive with a 5% increase in the bond equity. Our overall current yield is 2.65% which is higher than last June which presented a 2.46% yield. Our Performance History for FY15 shows a Portfolio Return of .62 which is currently beating the benchmark return of (-.68). Overall, we experienced a market value gain of \$4,004.14 for the fiscal year ending June 30, 2015.

Chris Woodward asked Dory how much of the global equity benchmark was US equities vs. International equities. Dory requested time to research this answer. She later emailed the OPEB Committee explaining that the benchmark equities were evenly distributed at 50% Domestic and 50% International.

Next on the agenda, Tim summarized the interim Actuarial Valuation as of July 1, 2013. Our health plan design changes had no effect since the Actuary was using last year's data as of July 1, 2014. Tim explained that it was a timing issue. However, he noted that the Actuarial Valuation satisfies our audit obligation. David Hall asked if we had used the same Actuary as last year and Tim explained that due to budget cuts, we chose to go with a new vendor. The Valuation is not as detailed, but serves its purpose and is cost effective.

Jim Smith noted that our ARC went from 1.35 to 1.42 million and OPEB cost went up approximately \$60,000. He stated this was a small increase to our overall liability. Jim posed the question of what annually funding the OPEB in full would do for the Town. Tim explained that we'd only lose a piece of the unfunded liability.

Tim said that brings us to the next agenda item – Discussing long term funding goals. He summarized some examples of what other towns do to fund their OPEB account. South Hampton uses any extra free cash to fund theirs. Some towns use local meals tax. Tim suggested we could use Worcester Regional

Assessment money toward OPEB. For example, our annual assessment dropped roughly \$100,000 this year. That difference could be applied to OPEB each year as currently it is not earmarked for anything specific. This year, it went to fund budget deficits.

Dave made a point that funding OPEB takes away from money needed to budget individual line items. Jim agreed that State budget is not growing and there is limited money available. Jim suggested we brainstorm prior to the next meeting to come up with funding ideas that could work for the Town. Jim noted that if we don't fund OPEB, the liability could grow to \$93 million over the next 30 years. Tim suggested as our debt exclusion goes down, maybe doing an OPEB borrowing called "pension obligation bonds" keeping the tax rate level. Sue stressed that it was very important that the community sees the tax rate staying level. Tim further suggested using the extra meals tax that would be coming in with the new plaza for OPEB. Jim stated it was tough to look at this since our current budget is barely meeting the needs of the Town and School. Jim was in favor of looking at current obligations and using the Worcester Regional Assessment difference to fund OPEB. Tim suggested using any difference (if any) in the annual health rate increase vs. what we budgeted. Sue agreed that we needed multiple funding sources, if possible. Dave and Jim both liked the free cash idea, as well, since it was a big number that would really make a difference. Typically our free cash is around \$150,000 a year.

Tim stated that he and Jim would get together later and go over the free cash policy. Jim said he would get with Lisa to send out a survey through MMA to local towns asking what their budget vs. OPEB liability is and if and how they are funding OPEB. Dave asked how important OPEB funding is to the ratings companies such as Moody's. Lisa noted that she spoke with one of the rating agencies who stated they look for the ratio of town budget vs. liability and if the town has a written funding plan. Jim stated that our liability is only 50% of our budget which is not bad. Dave asked if we could do a projection showing what it would take to keep our liability ratio at 50%. Jim said the budget grows 2 – 3 % annually, but the OPEB liability grows much faster than that. Jim stated that insurance plan design changes help lower our liability, but we are running out of plan design changes and may eventually end up with a deductible plan. Tim agreed to put together a chart showing budget vs. unfunded liability over the last 5 – 6 years.

Tim made a motion to adjourn the meeting at 4:23 PM.

Respectively submitted

Lisa M Troast

Secretary, OPEB Trustees