



Town of Wayland Massachusetts

OPEB Advisory Committee

Kent George
David Gutschenritter
Cliff Lewis (Chair)
Maryanne Peabody
Jay Sherry

Minutes of September 23, 2015 OPEB Committee Meeting (As Approved Sept 29)

In attendance were David Gutschenritter (for a portion of the meeting), Cliff Lewis, Maryanne Peabody and Jay Sherry. Absent was Kent George. Town Administrator Nan Balmer also attended a portion of the meeting, as did Cherry Karlson, Chair of the Board of Selectmen, Gordon Cliff, OPEB liaison on the Finance Committee and Mark Lanza, Town Counsel. The meeting was videotaped and is currently available on WayCAM On Demand.

The meeting was called to order at 6:02 PM by Chair Cliff Lewis in the Board of Selectmen meeting room. The following agenda topics were addressed:

1. Public Comments

Gordon Cliff spoke for himself not representing the view of the Fincom. He voiced real concerns about going forward with the warrant article as drafted. He said "The warrant article is important but is not urgent. Other warrant articles are more pressing."

2. Summary of OPEB Board of Trustees meeting of September 16, 2015

Jay summarized the key elements of this meeting of Trustees Nan Balmer and Brian Keveny, also attended by John Senchyshyn, Zoe Pierce, Elizabeth Doucette, Kent George and Jay Sherry.

- A. Request for Proposal on Investment Counsel: Elizabeth Doucette received nine responses to the RFP for investment counsel, of which four were deemed qualified. Nan Balmer appointed John Senchyshyn, Brian Keveny and Zoe Pierce as an evaluation subcommittee to evaluate the four responses and rank order them for Nan Balmer, who will make the final selection.
- B. Jay learned in the Board of Trustees meeting of Mark Lanza's concerns about the OPEB warrant article, and that Lanza's view is that the meeting of the Town Administrator and Finance Director regarding their supervision and management of the OPEB Fund is not subject to the Open Meeting Laws.
- C. Insurance: John Senchyshyn has obtained a quote from MAIA regarding indemnification of Trustees against breaches of fiduciary duty.
- D. OPEB Audit: Melanson Heath provided Brian Keveny with a quote of \$5000 as an additional charge for audit the OPEB Fund's numbers. Currently, the OPEB Fund is not audited by Melanson Heath, and Brian suggested that this would be a good practice to start going forward.

3. Minutes Reviewed

No new minutes were approved at this meeting. Maryanne agreed to publish on the OPEB web page her minutes that had been previously approved.

4. Discussion of OPEB Warrant Article / Special Act / General Act

Cherry Karlson: She spoke for herself, and was not speaking for the BOS. She asked, “Do we have the legal authority to name trustees and execute a Declaration of Trust under the General Act (MGL 32B-20)?”

Mark Lanza: He has not spoken directly to Brian Fox yet but planned to do so. He feels strongly that Wayland has no legal authority under either the current Special Act or the General Act to execute a Declaration of Trust. He recommends that Wayland replace its current Special Act with a replacement Special Act (similar to that of the Town of Holliston) that gives Wayland clear legal authority to execute a Declaration of Trust.

Extended discussion ensued on this point between Mark, Cliff, Jay and Gordon. Gordon feels that the narrative of the warrant article needs to be wholly re-written by Fincom given the news of Mark Lanza’s position.

[Dave Gutschenritter joined the meeting at this point]

Cliff summarized the discussion for Dave and noted that Mark Lanza and Brian Fox will need to talk soon to try to agree on the legal approach going forward, ideally by Thursday September 24. Cliff further summarized that all are in agreement that the current Special Act should be rescinded. The disagreement is whether the General Act is enough, or does the Town need a new Special Act. Mark Lanza said the drafting of an alternative to Chapter 32B section 20 would be rapid.

Gordon Cliff asserted again that this OPEB effort was a relatively low priority to Fincom, being no more important than the #17 priority. Cliff Lewis emphasized that the OPEB Committee is ending its work September 30, and that after that point there will be no person, board or Committee which will push to get the enabling legislation done and the Declaration of Trust executed. Cherry Karlson disagreed, given the OPEB liaison on the BOS and her personal interest as chair of the BOS.

Jay voiced his concern about the general inertia, disinterest in getting the investment governance and investment policy issues addressed.

Cherry Karlson responded that there was work in progress. For example, the RFQ for investment counsel has been issued.

Nan Balmer: Responded and summarized her understanding of the Special Act. As supervisor and manager, she said that she and the Finance Director could move the money to PRIT as a means of boosting the equity exposure.

Mark Lanza: He agreed to talk to Brian Fox quickly, and suggested that Fox take the lead on a first draft of a replacement Special Act.

Dave, Jay and Maryanne all voiced support of the idea of a replacement Special Act if the General Act simply won’t work. Gordon Cliff offered to take the lead on drafting a replacement warrant article.

Cherry Karlson: She does not believe all of the drafting and rewriting can be done in time for a BOS vote on Monday September 28. She suggests withdrawing the article for November. She suggests giving the attorneys a “date certain” target of ten days or mid-October to get all the legal work done, both new Special Act language and draft Declaration of Trust language. It should get all queued up for disposition at the April 2016 Town Meeting. She personally committed to getting this done at the April ATM even if the charge of the OPEB Committee expires on September 30.

5. Handoffs to Town Staff of OPEB related tasks after the Committee’s charge expires

Jay shared his draft handoff document with the Committee and Nan Balmer, which is attached as Exhibit 1. Comments from the Committee included:

- A. Cliff commented that Jay should directly work with Brian Keveny directly to handle the task of describing to Melanson Heath the rationale for Wayland’s OPEB funding using premium-based assumptions rather than the GASB 45 assumptions.
- B. Dave suggested that the performance of the actuary be periodically reviewed and the selection of a new actuary should be done only if and as needed.

- C. Maryanne suggested an annual review of controllable vs. uncontrollable healthcare cost drivers that affect OPEB.
- D. Cliff suggested that the handoff document be an Exhibit in the Committee's final report
- E. Nan commented that the draft document seemed quite complete and would be helpful to her staff, but wanted to review the document more thoroughly.

6. Handling of Unforeseen Future Events that have a Negative Impact on OPEB Funding

Cliff initiated a discussion of how the Committee would recommend the Town handle significant events in the future that have a negative impact on the Town's ability to reach its 2038 funding target. What process should be used, and which Town official or Board should make the decision to modify the funding target date or other key actuarial assumptions?

Dave suggested that the Committee recommend that the Town assume some flexibility in reaching its target date, plus or minus five years. Cliff suggested that perhaps this flexibility and power be vested in the OPEB Board of Trustees.

Jay suggested that the Committee could recommend that the OPEB Board of Trustees simply adopt the practices of a municipal pension board of trustees in handling a big market meltdown.

Jay reminded the Committee that if the OPEB Board of Trustees has a legal fiduciary duty to only consider what is good for the beneficiaries, irrespective of Wayland taxpayers, that this power should not be vested solely in the hands of the OPEB Board of Trustees.

The consensus was that there should be a general statement in the OPEB Committee's final report giving the BOS and/or the OPEB Board of Trustees broad discretion to do what is appropriate.

7. Scheduling of a tentative October Meeting

Dave is unable to serve on the Committee after September 30. Nan asked if the charge of the Committee should be extended to October 31. Jay indicated that if there is no November warrant article he would like to resign from the Committee effective September 30. A tentative meeting was scheduled for October 5.

8. Adjourn

The Committee voted 4-0 to adjourn at 8:30 PM.

Respectfully submitted,
Jay Sherry

Exhibit 1: Handoff Recommendation of OPEB Tasks

Warrant Article Preparation Tasks

The warrant article appropriates the annual contribution made to the OPEB investment account and allocates it fairly between general taxpayers and the fee-based program users, depending on the OPEB-eligible headcount.

1. Every December 31 prior to the April Town Meeting, the overall OPEB-eligible employee headcount must be tallied by the Town's **Human Resources Director** (currently John Senchyshyn), with the FTE headcount also identified for each fee-based program so that the OPEB contribution can be properly apportioned between the general taxpayer and the users of fee-based programs.
2. Every January/February, the School Committee must approve the parity contributions of \$25,000 each for both Food Services and The Children's Way, for the next eight fiscal years or so until the parity contributions have been completed. The **Wayland Public Schools Business Director** (currently Susan Bottan) should assist with this task.
3. The Committee believes that the Town's **Finance Director** (currently Brian Keveny) is the most appropriate town official to prepare the text of the annual warrant article. Warrant Article 4 in the 2015 warrant can serve as a useful template for warrant articles in future years.

Actuarial Valuation Tasks

The Committee also enumerated some of the tasks associated with the biennial OPEB valuation by the Town's actuarial firm. The next valuation is required as of December 31, 2016.

1. The Committee believes that the Town's **Finance Director** is the most appropriate town official to manage the actuarial valuation, assisted by the Town's **Human Resources Director**.
2. A Request for Quotation (RFQ) should be sent to four or five actuarial firms in the September timeframe. Responding firms should be queried in the RFQ for their likely investment return assumptions and healthcare inflation rate assumptions that would be most appropriate for Wayland's situation. The respondents' quotations should include fees for both the GASB 45 and premium-based valuations.
3. The actuarial firm should be selected in October, based on the proposal response to the RFQ that provides the Town with the most overall value: accuracy in the OPEB forecast at an appropriate fee.
4. A planning meeting with the selected actuarial firm should happen in November, with a focus on validating the modeling assumptions the actuarial firm will use.
5. The Town's OPEB-eligible active employee headcount, retired employee headcount, and qualifying spouse headcount as of December 31 must be provided by the **HR Director** to the actuarial firm, along with data about healthcare insurance costs, employee & retiree selections, and other data that may be required.
6. The actuarial firm's analysis should be complete by mid-February. The OPEB contribution for the subsequent fiscal year will come from the premium-based forecast, and will be used in the text of the warrant article published in March.

OPEB in Wayland's Financial Statements

Finance Director (currently Brian Keveny) needs to provide text to the Town's auditing firm Melanson, Heath that describes the rationale for Wayland's use of premium-based actuarial assumption. This text would be included in the financial statements' Management Discussion & Analysis section, in addition to the supplemental OPEB information currently provided.

Investment Management & Oversight

Performed by **Board of Trustees** (currently Nan Balmer, TA and Brian Keveny Finance Director)

1. Establish investment policy, and review it annually
2. Review performance of investment managers at least quarterly
3. Hire & fire investment managers as necessary
4. Ensure new OPEB contributions appropriated at Town Meeting result in new investments into the OPEB Trust
5. Other duties spelled out by law or the trust agreement

Reporting of Investment Results and Fees

The Committee believes that the **Town Treasurer** (currently Zoe Pierce, and legally the OPEB trust fund custodian) is best suited for these tasks

1. Quarterly reporting of investment returns on the OPEB Trust by the Trust custodian

The Committee believes it is essential for the OPEB Board of Trustees to communicate to the public how the Trust Fund is doing, in both absolute and relative terms. We suggest that Wayland model the OPEB Trust's disclosure of financial data along the lines of the summary financial data that most mutual funds publish each month. At a minimum the Board should provide:

- A. Quarterly reporting of fund balances and investment returns as of the end of each calendar quarter.
- B. Timely reporting within two weeks of the close of each calendar quarter via the Town website.
- C. Reporting of the fund's holdings by major asset classes (large company stocks, small company stocks, domestic vs. international, bonds, cash, etc.)
- D. Reporting of time-weighted investment returns, net of the management fees charged by the investment managers.
- E. Return periods should include the most recent calendar quarter, fiscal year to date, trailing 12 months, and other periods that the trustees feel would be useful to the public.
- F. Comparison of the actual investment returns to the benchmark returns of some suitable investment benchmarks that broadly correspond to the asset allocation choices of the Board for the reporting period.

2. Disclosure of fees paid to the investment managers.

Rounding out the quarterly disclosure package would be the dollar amount and the percentage amount of investment management fees paid or accrued for the disclosure period.

OPEB Cost Reductions and Cost Recovery

[requires development of detailed recommendations]