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# BOF Minutes 10/17/2017 - Amended

BOARD OF FINANCE MINUTES AMENDED  
REGULAR MEETING  
OCTOBER 17, 2017 at 7:00 P.M.  
FIRST FLOOR CONFERENCE ROOM TOWN HALL

BOF Attendant Members

David LaMay, Chairman  
Tom Stevenson  
Breck Lindley  
Brad Thorpe, V. Chair  
John O'Brien  
Carol Rzasa

Absent Members

Barry O'Neill

In Attendance

Bob Fish, Treasurer  
Lee Ann Palladino, Finance Director  
Ray Allen, Director Parks and Recreation  
Gerri Lewis, Clerk

**Call to order:**

Chairman LaMay called the meeting to order at 7:00 P.M.

**Pledge of Allegiance:**

Chairman LaMay led the pledge.

**Minutes:**

A motion by Mr. Thorpe was made to approve the minutes of 9/19/2017 seconded by Mr. O'Brien. Discussion: Gramatical errors corrected. A motion to approve the minutes with corrections was made by Mr. Thorpe, seconded by Mr. O'Brien was so voted unanimously.

A motion by Ms. Rzasa was made to approve the minutes of 10/3/2017, seconded by Ms. Lindley was so voted unanimously.

**Parks & Recreation Report:**

Mr. Allen handed out information for the Board. A comparison of 2016 to 2017 of income totals were discussed. The total income of all sites combined for the year 2017: \$305,946.50. Mr. Allen noted that they will be wrapping the Pavilion with stone when weather permits. For decking projects they will go out to bid.

The board thanked Mr. Allen.

**Finance Director Report:**

A motion to add OPEB discussion from the Pension and Employee Benefit Board was made by Ms. Rzasa, seconded by Ms. Lindley was so voted unanimously.

Ms. Palladino discussed the memo that follows:

The following is a memo from the Pension and Employee Benefit Board regarding recommendation on "OPEB" (Other Post-Employment Benefits) monies:

**Summary:**

At a Pension and Employee Benefit Board ("PBB") meeting held on September 28, 2017 it was voted to recommend to the Boards of Selectmen and Finance to transfer funds from the OPEB Fund to the Town pension plan. The purpose of this memorandum is to put this recommendation before the Board of Finance ("BOF") for its consideration and action.

**Background**

By way of background, the Town was informed by our auditors that the categorization of the Other Post Employment Benefit ("OPEB") Fund, according to GASB 54 was incorrect. They stated that the funds would either need to be placed in a newly formed trust or moved back to the General Fund. The PBB was therefore tasked with determining the best strategy for these funds. Upon consideration of this issue, a third option arose and that was to place the funds within the Town's pension plan.

At present the Town has just over \$1.2 million in the OPEB account and it is managed by Morgan Stanley. The funds were placed in this account in 2005 as a result of the demutualization of Anthem. Approximately \$600 thousand was received at time. These monies were divided in half with one half going to shore up the fund balance and the other half to seed an OPEB Fund. Since that time, no funds have been taken from the account nor has an annual contribution been made to the OPEB fund. The increase in the balance is due solely to market value changes over the past 12 years. The funds were actively managed, however, without the powers of a trust, there were restrictions on how these funds could be managed, with the most notable a 50% maximum allocation to equities.

The consideration for moving the funds into the pension plan is that it will move the needle in achieving the long term strategy of affordable pension expenses. This move will help propel the Town to a point where it is better positioned to pay the annual Actuarial Determined

Contribution ("ADC"). Since the market fall in 2008, the Town's annual ADC budget has not been at a 100% level. With that said, the Town has made several advances in addressing the long term liability associated with the pension plan, which includes the development of a Defined Contribution ("DC") plan, which reduces active participation in the Defined Benefit ("DB") plan and upping the per employee contribution (a percent of salary) each budget season. The goal is to reach 100% of the funding requirement. By placing the funds into the pension plan, the Town will be closer to, or may achieve, the ability to pay the annual ADC. While the annual contribution is a moving target, all else being equal, placing the funds in the pension plan will reduce the ADC for the Town.

The benefit of turning the OPEB into a trust would be the dedication and sole purpose of using the funds to meet the health and benefit needs of the retirees. There were two considerations for not creating an OPEB trust. They are as follows:

1. Closed group of employees eligible to receive town-paid health care benefits. In 2004/2006, the Town removed the benefit of contributing to the health care cost of its employees after retirement. At present, there are 38 retirees receiving coverage and 24 active Town employees that are eligible to receive coverage should they retire directly from employment from the Town. This is a closed group and no new entrants are allowed. The Town budgets for the full amount of this retirement expense as part of its annual budget process. At present it is about \$290 thousand per year. Health care costs will be exposed to annual increases, however, offsetting this expense is that the population that receives this benefit will continue to decline over time.
2. Expense associated with the creation of Trust. If the OPEB Fund were to be turned into a trust, the Town would incur legal expenses to set up the Trust. Complying with GASB 74, which applies only to OPEB trust, would require annual actuarial expense. The Town's arrangement with our investment advisor is based on a percent of assets fee, so there would be no difference in expense. However, there is additional oversight and accounting work associated with a separate trust.

The final deliberations in making this recommendation surrounded the Town's long term liability. In a nutshell the Town is agnostic to where the liability is generated and is most interested in the overall management of such liabilities. It is important to note that this discussion was also generated due to the pending implementation of the new GASB Statements 74 and 75, which replace GASB 43 and 45 – and address OPEB liabilities. These new GASB statements reflect a fundamental overhaul in the standards for accounting and reporting for OPEB, and will result in the reflection of the OPEB liability in the Town's financial statement come June 30, 2018. Specifically, GASB 74, effective June 30, 2017, requires reporting for OPEB trusts, while GASB 75, effective June 30, 2018, will require a liability, known as the net OPEB liability to be recognized on the Town's balance sheet and the OPEB expense to be recognized in the income statement. A similar accounting and reporting treatment had been previously implemented for the Town's pension plans and the OPEB implementation will follow a similar path. After GASB 75 is implemented, the long term liability for both the pension and OPEB obligations will be similarly calculated and reported within the Town's financial statements. Therefore, the Town is agnostic as to whether the liability is more or less within the pension plan or OPEB as it is the total liability considered by rating agencies and others that review the creditworthiness of the Town.

Further the PBB noted that there are some nuances in the liability for the OPEB vs the Pension. In the latter, the long term liability is based on participants that are enrolled in the plan who will be entitled to a benefit should they meet eligibility requirements – i.e. employees don't have the option to get a pension if they so desire only if they meet eligibility requirements.

The actuarial calculation of the OPEB liability, on the other hand, includes the option for employees to purchase the Town's insurance for themselves and their dependents upon retirement at full cost to the employee. In this instance there would be no out of pocket expense for the Town. However, this esoteric calculation assumes that these employees would take advantage and purchase the health care, thereby increasing the overall cost of insurance to all participants due to an older demographic. This would in fact increase the Town's budget for health care if employees did take advantage of this option. The likelihood that this will occur is close to zero at this point in time. Nonetheless it is included as part of the long term OPEB liability. Therefore, the PBB determined that while both liabilities are based in actuarial assumptions, they did not believe that the OPEB liability carried as high a likelihood of materializing as the pension obligations and felt the funds were better utilized offsetting the pension long term liability.

After a short discussion the following motion was made:

A motion by Ms. Rzasa to place \$1mm into the town pension plan and the remainder of the market value into the post-employment benefit fund seconded by Mr. Thorpe, was so voted unanimously.

Mr. LaMay thanked Ms. Palladino

#### **Selectman Report:**

Selectman Fortuna briefly spoke on OPEB before the discussion above.

Mr. LaMay thanked Selectman Fortuna.

#### **Public comment:**

None

**Comments from the Chair:** Mr. LaMay thanked everyone for coming. He then thanked Brad Thorpe for his time on the Board of Finance. He noted that Brad was a valuable member and wished him well.

#### **Adjournment:**

A motion to adjourn made by Ms. Rzasa at 7:31 p.m. was seconded by Mr. Stevenson and so VOTED unanimously.

**This meeting in its entirety was video taped and can be viewed on Town Website YouTube.**

Submitted,  
Gerri Lewis, Clerk