

Article D. OPEB Funding

DRAFT Notes – by Dave Watkins

OPEB Article

Current Status as recommended by FinCom

- \$250,000 has been recommended to be cut from the OPEB budget.
- The \$250,000 budget is to be funded from Free Cash.

Guiding Principles to the fullest extent possible

- Maintain Aaa Rating
- Reduce Tax Levy
- Fund OPEB to fullest

Moody’s October 2020 Report

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

1. Lack of improvement in the available fund balance as a percent of revenues
2. Inability to maintain structurally balanced budgets.
3. Sizeable debt issuance that is not excluded from the levy limitations of Proposition 2
4. The town continues to aggressively fund its OPEB liability, and we expect both the debt burden and pension liability to remain manageable.

Decision Matrix

Scenario	1 – OPEB funded with \$250,000 of Free Cash	2 – OPEB Funded with \$250,000 of Cash Capital	3 – OPEB Funded with \$410,000 of Cash Capital
Issue(s)	Moody’s 1, 2 & 4 \$250k in recurring OPEB expense transferred to school for new recurring FTEs without recurring offset in levy. Acceleration of healthcare cost with added FTEs	Increase Tax Levy Moody’s 4	Increase Tax Levy Moody’s 4
Action	None	Fund OPEB with \$250k of Cash Capital	Fund OPEB with \$410k of Cash Capital
Observation	Cost of additional FTEs: <ul style="list-style-type: none"> • 8 x \$15k for Healthcare • Medicare tax is approximately \$4k • Retirement costs for Middlesex • Additional OPEB liability based on probability. • Unemployment • Structural deficiencies re: revolving funds require changes. 	COVID challenge. Structural deficiencies re: revolving funds require changes.	COVID challenge. Structural deficiencies re: revolving funds require changes.

Article D. OPEB Funding

Proposed by: Board of Selectmen

Estimated Cost: \$510,324

To determine whether the Town will vote to:

- a) appropriate an aggregate amount of \$10,324 to be deposited in the Town's Other Post-Employment Benefits Trust Fund which amount shall be provided by transferring the following sums of money from the following enterprise and revolving funds:
- | | |
|--------------------------|-------------|
| 1) Food Service | \$ 0 |
| 2) BASE | \$ 0 |
| 3) Children's Way | \$ 0 |
| 4) Full Day Kindergarten | \$ 0 |
| 5) Water Enterprise | \$ 7,806 |
| 6) Transfer Station | \$ 0 |
| 7) Recreation | \$ 1,679 |
| 8) Wastewater Enterprise | \$ 839; and |
- b) appropriate \$500,000 to be deposited in the Town's Other Post-Employment Benefits Trust Fund; and determine whether such appropriation shall be provided by taxation, by transfer from unappropriated funds, by transfer of funds already appropriated for another purpose or otherwise.

FINANCE COMMITTEE COMMENTS: This article funds an Other Post-Employment Benefit (OPEB) contribution from two sources: a) enterprise and revolving funds and b) taxation.

Like other towns in Massachusetts, Wayland provides health insurance for benefit eligible retirees. The Government Accounting Standards Board (GASB) requires the Town to perform periodic actuarial valuations, based on prescribed accounting standards that measure the obligations accruing under its OPEB plans. While GASB requires that this liability be included on the balance sheet, GASB does not require funding this liability. The funding decision is up to the Town.

The Town pays the cost of current retiree insurance premiums as they are incurred as part of its operating budget. The Town historically contributed an additional amount to the OPEB Fund for future premium payments from available funding sources, including the operating budget and Free Cash. Beginning in FY19, the amount contributed to the OPEB Fund as described in b) above has been appropriated entirely from taxation.

Total OPEB Liability is reported on a fiscal year basis. As of June 30, 2020, the Total OPEB Liability ("TOL"), as determined under GASB, was \$48.9 million. Plan assets were \$19.1 million. The Net OPEB Liability ("NOL"), which equals the TOL less assets, was \$29.8 million. A useful metric for gauging funding progress is the ratio of assets to total liabilities, or the funded ratio, which is 39.01% as of June 30, 2020, as compared to 38.5% as of June 30, 2019. Wayland continues to be a leader among municipalities in addressing this long-term liability, which has been viewed favorably by Moody's in assessing the Town's credit.

The Town requested that our actuary, Odyssey Advisors, update our actuarial liability funding tables as of June 30, 2020 to determine a level funding contribution to achieve full funding in 2040 based on current actuarial assumptions. They determined the level annual funding contribution through 2040 to be \$550,000 if all assumptions are realized. Actual results will vary due to differences between plan experience and assumptions. Key assumptions include, but are not limited to, a 7% discount rate and expected investment return, 5% pre-65 medical cost trend and 4.5% post-65 medical cost trend.

The amount in part b) is recommended at \$500,000 and this same amount is planned as a sustainable annual contribution to fund the OPEB liability as part of the Town's long-term financial planning. The methodology for calculating the amounts in part a) totaling \$10,324 is a per FTE expense at the same rate as in part b) in order to represent the fair share of the total amount to be paid from the enterprise and revolving funds. Due to the effects of COVID-19, various Town and School Revolving Funds were unable to make their respective planned contributions to the OPEB Fund and Indirect payments to the General Fund

The Board of Selectmen [*recommends/does not recommend*] approval. Vote: 0-0-0

ARGUMENTS IN FAVOR: OPEB liabilities are accrued over the service period of the employees earning these benefits because that recognizes the cost as it is earned. While there is no mandate to fund these obligations, proponents may argue it is prudent financial practice to fund towards benefits as they are earned rather than leave the obligation for future generations to pay.

Moody's 2019 Credit Report listed the Town's aggressive funding of OPEB liability as one of the Town's Credit strengths. Within the report it is stated that at the Town's current rate, the liability could be fully funded well ahead of most local governments.

Contributions to the OPEB Trust Fund represent the funding set aside to pay the contractually obligated future OPEB benefits. All contributions to the fund will accumulate at tax free rates and will result in lowering future operating expenses for the payment of OPEB benefits.

ARGUMENTS OPPOSED: Opponents may argue that our annual funding contributions should be larger because OPEB liabilities represent the projected value of benefit commitments made in the past which should have been fully funded as earned. Since they were not fully funded as earned, we should fund a larger amount to close the gap faster.

There is no legal mandate to fund these liabilities, and this generation of taxpayers is being asked to bear a cost for current retirees as well as contribute towards the annual accrual for active employees. Therefore, opponents may argue a lower funding level is justified.

Opponents may argue that not all the revolving funds are contributing their fair share to the cost of benefits that will be provided to their retirees and since it is not permissible to catch-up the missed funding with future revolving fund contributions, the end result will be that taxpayers will end up making up the difference in the future.

RECOMMENDATION: The Finance Committee [*recommends/does not recommend*] approval. Vote: 0-0-0

QUANTUM OF VOTE: Majority – see Massachusetts General Laws, Chapter 40, Section 5 and Chapter 44, Section 33B.

For more information about this article, contact Town Administrator Louise Miller at 508-358-3620 or email lmiller@wayland.ma.us.

**Proposed Community
Center Parcel**

Elissa Avenue

Andrew Avenue

X Golf

