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Other Post-Employment Benefits (OPEB): Assessment & Action
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General Background

- OPEB is an acronym for "Other Post-Employment Benefits." In the City's case, OPEB is the health insurance liability for retired employees and future retirees.

- In 2004, the Government Accounting Standards Bureau (GASB) issued guidance to government agencies requiring they begin measuring and reporting the OPEB liability by 2008. Westfield's most recent Actuarial Valuation was completed this winter and based upon a January 1, 2012 date.

- While no mandate relative to funding or adopting an OPEB trust has been made to-date, ratings agencies and others have begun to factor OPEB planning as an important component of their evaluation of a City's bond rating. Our City has received ratings upgrades from both Moody's and Standard & Poors over the past two years, but notations have been made in their evaluations relative to the City's OPEB liability.

- Currently, state law requires the City provide retiring employees with 10 years of creditable service with access to a City-subsidized health insurance plan until death.
    - The current contribution rates are as follows:
        - **Teacher Retirees:** City is responsible for 80% of health-care premium; Retiree is responsible for 20%. Teacher retirees are eligible to participate in the State's Group Insurance Commission offerings.
        - **All other retirees:** City is responsible for 65% of premium; Retiree is responsible for 35%.

- According to a report prepared by the City's OPEB consultant, Stone Consulting, Inc., the City's actuarial OPEB liability is **$275,787,634** and without structural relief from the Legislature, it will continue to grow.

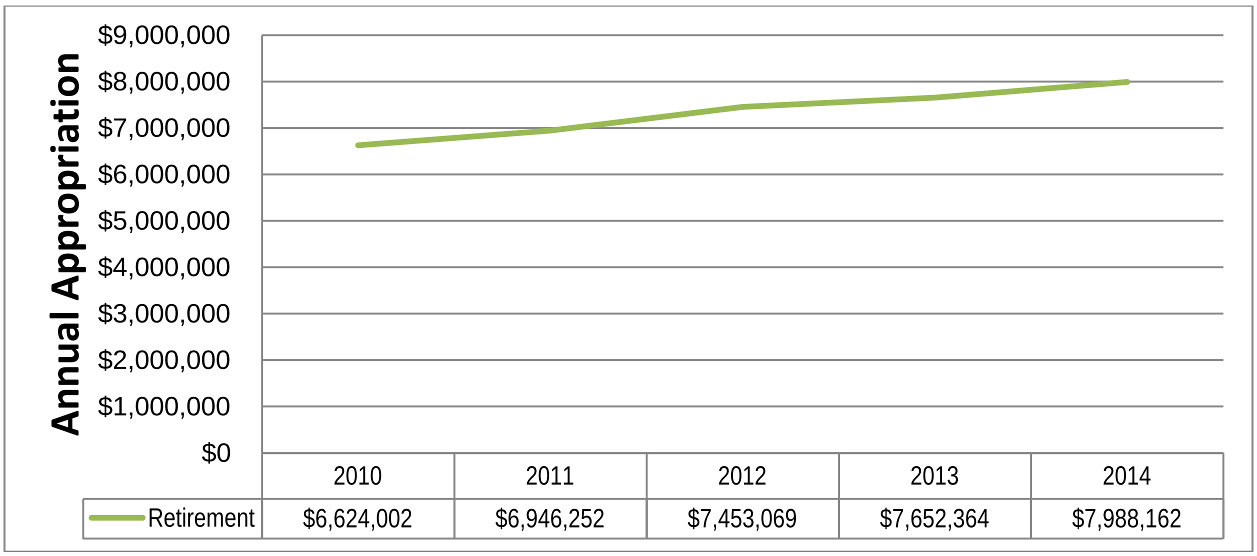
Employee & Retiree Census

Department	# Active Employees	# Retirees	Insurance Cost Active	Insurance Cost Retired
General Government	1,206	292	$8,681,055 (City + Teachers)	$4,505,447 (City) $2,142,241 (Teachers)
Gas & Electric	67	71	$958,658	$432,280
Water	23	15	$239,973	$92,997
Sewer	12	5	$106,445	$27,035
Stormwater	4	0	$43,615	$0

The Pension Parallel

- The most parallel example to the OPEB conundrum is our City's experience with the unfunded pension liability.
- From 1945 until 1984, the City operated the pension system under the "Pay-as-you-go" model. In 1984, the state required the establishment of a pension reserve fund to support the unfunded pension liability.
- After 30 years of mandated savings, the City's pension fund is currently 69% funded. The unfunded liability is $66.7 million. The City is on schedule to fully-fund the pension system by 2032.
- The City's required annual contribution to the fund has increased 17% since 2010.

Westfield Retirement Board: Pension Funding (FY 10 – FY 14)



Assumptions & Inputs Change Over Time

Table 1. State Employee and Teacher Pension Contribution Rates

Group	Date Entered System	Contribution Rate
Groups 1, 2, 4	Prior to 1975	5%
	Jan 1, 1975-Dec 31, 1983	7%
	Jan 1, 1984-June 30,1996	8% (+2%)
	After July 1, 1996	9% (+2%)
Group 3*	After July 1, 1996	12% (+2%)
Teachers**	After July 1, 2001	11%

* Contribution rates for Group 3 employees are the same as Groups 1, 2, and 4 until June 30, 1996.

** Contribution rates for Teachers are the same as Groups 1, 2, and 4 prior to July 1, 2001.

What has the City done so far?

- In 1987, the City of Westfield was among the first municipalities in Massachusetts to require its retirees who had reached 65 years of age to enroll in Medicare. By requiring employees to enroll in Medicare as their primary insurance, the City has saved countless millions of dollars over the years. The City cost for a Medicare Part B employee is $250 per month vs. $430 or more per month for a full policy.

- Through collective bargaining, the City has implemented a tiered health insurance benefit. Employees who prefer a more expensive PPO are required to pay 35% of the premium, while those who enroll in HMOs are given the benefit of a 20% premium. Today, there are over 1200 employees enrolled in an HMO, while only 44 are enrolled in a PPO plan. This amounts to a savings to the City of approximately $200 per month per employee.

- The City Council accepted municipal health reform in 2011, which allowed the City to save over $1 million annually. That savings will also reduce our OPEB liability by 6 to 9 percent due to lower premiums and plan design changes.

What are we doing to address OPEB today?

1. The City has completed a full actuarial valuation of the OPEB liability. A consultant has completed a study providing useful details identifying the actual liability of each of the City's revenue-supported departments, in order to assign liability to those accounts.

2. In 2012, the City made its first-ever deposit to an OPEB Trust fund. That $50,000, though small, established an account, which puts us ahead of many communities in Massachusetts.

3. I have met with the Gas & Electric Management and shared with them the results of this report. I have requested payment from the G &E for the health-care costs associated with their retirees.

4. I have informed Departments & Commissions that oversee "enterprise" accounts (Gas & Electric, Water, Sewer, Stormwater) that the OPEB liability must be factored into their rate structures moving forward.

5. An OPEB Task Force has been initiated and we have identified a consultant to guide us in the process of preparing a plan forward for general-fund city departments. I anticipate this process to take 18 -24 months.

What are other communities doing to address OPEB?

According to the Mass Municipal Association, there are seven communities in Massachusetts that have adopted a pre-funding schedule to address their OPEB liability. Those communities are Wellesley, Hingham, Arlington, Dedham, Wakefield, Bedford, and Needham.

Wellesley is funding their OPEB Trust with the proceeds of an $18 million Proposition 2 ½ override. That override allowed them to deposit $3,000,000 into their OPEB Trust in FY 2013. Their OPEB liability is 10% funded today.

Arlington is also pre-funding an OPEB Trust with a balance of $4 million. They make contributions to the fund by depositing Medicare reimbursements.

The communities listed above are all among the highest household income communities in Massachusetts. Just this year, communities more similar to Westfield, including Worcester, have begun to address their OPEB liability through pre-funding or some other mechanism. Our team will continue to investigate methods employed by other communities and adapt them to our own circumstance.

Potential Local Solutions

1. 26-year pre-funding schedule would require an immediate $24.9 million annual investment. Currently, on the pay-as-you-go system, retiree health care costs the City $7.2 million for current retirees.

2. Change the health-care contribution level for retirees to 50% split, the highest allowed currently under state law. Would require a vote of the City Council and union approval.

3. Remove retired teachers from the state's Group Insurance Commission and bring them under the same plan as other city retirees. Requires City Council and union approval.

4. Allocate a set percentage of Free Cash annually to an OPEB Trust Fund.

5. Create a culture of setting aside an appropriate amount of operating cash to the Trust Fund to fully-fund the OPEB liability for new hire employees.

6. Create a line-item in each departmental budget for annual contribution to the OPEB Trust Fund for each new hire.

Prospects of State Reform

In February, Governor Patrick filed legislation aimed at systematically lowering the state's exposure to the OPEB liability. Governor Patrick proposes a pro-rated system of determining the percentage of the health care benefit earned by retirees. No longer would 10 years of service qualify a retiring employee for the full health insurance benefit. In order to qualify for health insurance, an employee, under this proposal, would need to reach 20 years of service. Further, even at 20 years, that employee would only be eligible for half the coverage he or she would qualify for currently. Only at 30 years of service would the maximum benefit be reachable.

Summary of Retiree Health Care Costs Under Governor's Pension Reform

Employee Years of Service	Current Law	Proposed Law	City Cost Now* (Per Month)	City Cost Proposed (Per Month)
10	65%	0	$434	0
20	65%	50%	$434	$217
23	65%	55%	$434	$367
27	65%	60%	$434	$400
30	65%	65%	$434	$434

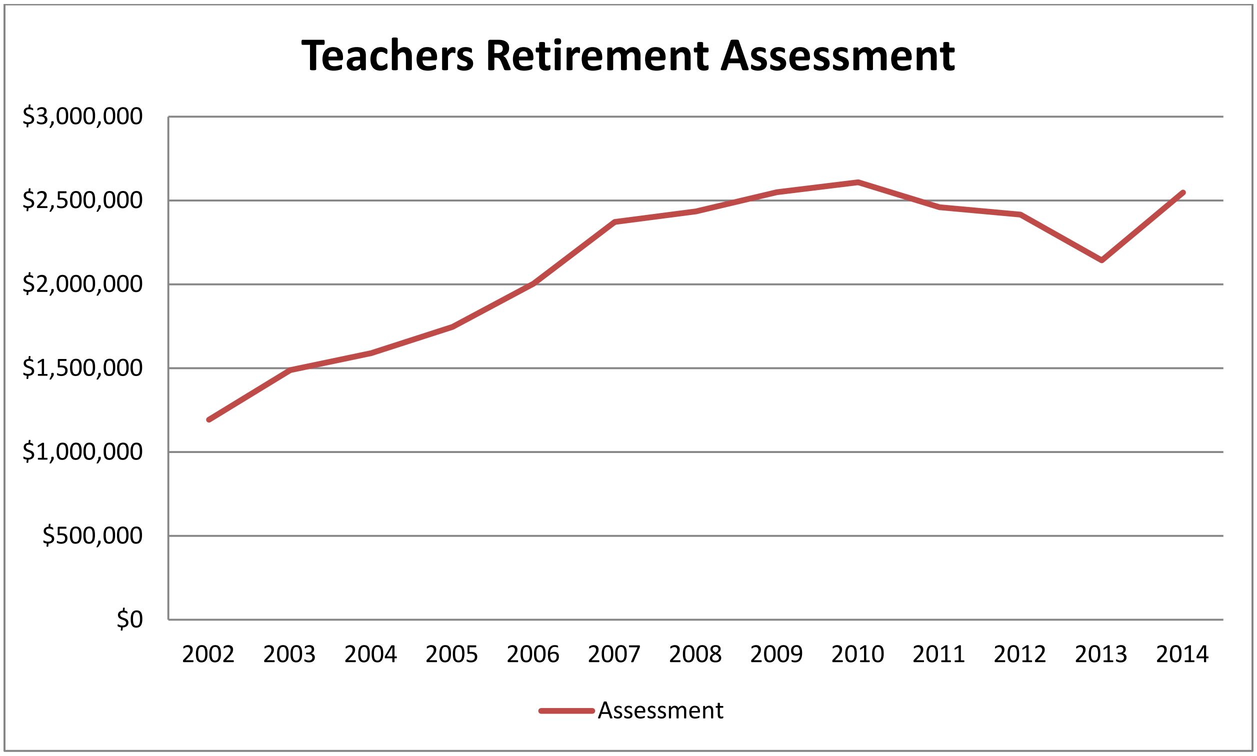
*Based upon current monthly participation in a MEDEX individual HMO plan.

- While the bill promises the City significant structural savings, there are limitations.

- Municipalities would be prohibited from modifying retiree contribution percentages for 3 years following the passage of this bill. Further, upon retirement, retirees percentages would be "locked-in" for life.

- The Legislature has given no timetable for consideration of this legislation. It is likely the Legislature will take a "phasing" approach to reform, much like they have with pension reform.

Teacher Retirement Assessment



- Since FY 2002, the City's cherry sheet charge-off from the state for retired teachers' participation in the GIC has increased by 113%. That's an annual average of 9.5 percent per year. Similarly, growth in the City's health insurance expenditures is up over 106% for the same time period.

- In 2011, the state increased the retiree contribution from 15% to 20%. Thus, the City's contribution temporarily dipped. In FY 2014, the state anticipates our assessment will increase by nearly 19%.

Conclusions on OPEB

The City of Westfield is acutely aware of the challenges we face relative to our OPEB liability. In order to appropriately address these matters, it is imperative that we study the ramifications of any actions we might take and weigh them relative to their impact on both our short-term and long-term financial and service viability.

Setting aside funding is only a part of the solution. While the Massachusetts Municipal Association is adamantly opposed to mandating any pre-funding requirement, pre-funding in some capacity will be necessary in order to address this problem.

Over the coming months and years, the City will need to continue to work with its collective bargaining units and state government to adjust plan design, eligibility, and contribution rates. While it is important we begin to set money aside to address the problem, it is equally important to make common-sense reforms that would actuarially reduce the liability as well.

While this is certainly a gargantuan task and must remain a high priority as we undertake any capital expenditure, we cannot allow it to paralyze our ability to move forward and provide basic services to the citizens of our community.

General Obligation Debt Management

Looking forward, debt management remains a high priority for this Administration. With 85% of our current general obligation debt set to be retired by 2023, we must continue to address our long-term capital needs. My debt philosophy for government is, again, quite simple. It is vitally important that we continue to make wise investments in our community's roads, buildings, and equipment.

In 2008, our City's annual debt service stood at $7.2 million. In 2014, that payment has fallen to $5.8 million. That range, which represents about 5 percent of the City's budget, is healthy and affordable. To that end, I have charged department heads with the task of identifying their capital needs this spring so that we can continue to keep our debt service within that $5 million to $7 million annual payment range while addressing the City's infrastructure needs.

City Hall Renovation Rationale

This presentation is in context of the proposed $10 million bond authorization that would allow the City to make improvements at several City facilities, including Westfield High School, Westfield Vocational-Technical High School, the Westfield Athenaeum, and City Hall.

While renovation of City Hall might not be the top priority on anyone's "wish-list," it has certainly reached the top-spot on our critical needs list. With the building envelope now secure and the leaks stopped, we turn to the task of utility and indoor improvements to provide, most importantly, for safety, programmatic efficiencies, and to accommodate for consolidation of additional operations in our municipal building.

All told, the complete renovation of City Hall is estimated to cost approximately $262 per square foot. Operating under the premise that the "do-nothing" alternative was no longer acceptable, I firmly believe this investment in the future of our municipal building is sound. Specifically, I asked our leadership team to analyze the cost-benefit between rehabilitating our historic structure against building a replacement for City Hall. Even assuming we were able to find suitable land centrally-located in our City free of charge, the best estimates we have for replacement cost is approximately $325 per square foot.

Just in the past two days, The Republican has run stories detailing two projects undertaken by communities that support this assumption. The Town of Monson is planning to build a 27,500 square foot Town Hall-Police Department Complex for $10.6 million, or $385 per square foot. Additionally, South Hadley opened bids on a proposed 23,000 Public Library this week. Construction is estimated at $7.75 million, for a cost of $337 per square foot. Factoring in soft development costs, that number reaches $439 per square foot.

Senior centers in Holyoke, Agawam, and Chicopee have averaged right in that neighborhood. As importantly, it is difficult to place a price-tag on the value this building provides to our community. As a nationally-registered historic building, I am committed to preserving this structure for generations to come.

The next logical question, which I have been asked hundreds of times, both by employees and by the general public, has been "how can we afford this?" My answer is simple. The better question is, "How can we not afford this?" Ignoring the incalculable benefit of historic preservation, construction replacement would cost $12 million, at minimum. Factoring in demolition and clean-up costs and land procurement and permitting costs for a new site, replacement is even less viable.

It is my opinion that delaying this work any longer would result in unnecessary exposure to future cost escalation, thus further limiting the funds available to address the serious financial challenges ahead of us, including addressing our OPEB liability.