

Massachusetts House of Representatives
Bill Summary

Bill #: H.2262

Title: An Act authorizing the town of Southborough to issue pension obligation bonds or notes

Sponsor: Rep. Kate Donaghue

Committee: Municipalities and Regional Government

Hearing Date: 5/13/25

Prior History: H.5056 OTP (2023-2024)

Similar Matters: H.2084 (Hull) reported favorably from committee; Ch. 259 of 2024.

Current Law: MGL Chapter 32, Section 22 concerns methods of financing retirement systems and pensions.

Chapter 40, Section 5B governs the establishment of stabilization funds

Chapter 44, Section 10 limits the total amount of debt that a city or town may incur to no more than 5 percent of their equalized valuation in a given year, and between 5 and 10 percent of the EQV if approved by the Municipal Finance Oversight Board.

Section 54 of said Chapter 44 governs the investment of trust funds, where and how the money may be invested, and limits on the amount of money that may be invested in any one institution.

Chapter 70 governs school funds and state aid for public schools.

Summary: Section 1 of this bill authorizes the town of Southborough to issue bonds or notes to fund the town's share of unfunded pension liability of the Worcester regional retirement system.

Proceeds from the sale of such bonds or notes, other than issuance costs and other related or incidental expenses such as the establishment of reserves, would be paid by the town to the retirement system. The money paid would be used only for reducing the unfunded pension liability that is allocable to the town of Southborough. The Worcester regional retirement system could invest the money in any investments allowed under Chapter 32 of the General Laws.

The terms of the bonds or notes could not exceed 30 years. This section also provides that the amount of such bonds or notes would not be included in the debt limit pursuant to Section 10 of Chapter 44 of the General Laws.

Once the bonds or notes had been authorized by town meeting, the town would submit the vote and a plan for financing and allocating the debt to the Executive Office for Administration and Finance. If the plan is approved by A&F, then the bonds or notes could be issued.

Section 2 limits the total amount of bonds or notes issued to not greater than the amount needed to pay the unfunded pension liability of the Worcester regional retirement system that is attributed to Southborough, as of a particular date, plus the establishment of any reserves, issuance costs and related expenses. The Worcester regional retirement system would determine the amounts using an independent consultant, which could be the actuary already used by the retirement system. The amount would also have to be approved by the public employee retirement administration commission. This report, showing the present value savings to the town that they can reasonably expect to achieve, would provide the town with information about how much money they need to borrow.

Section 3 provides that the maturities for the bonds and notes should be scheduled so that annual principal and interest payments shall be nearly equal as practicable according to the town treasurer, but the town could accelerate the payment schedule to reduce the principal more rapidly, or in some other manner if approved by the Secretary for Administration and Finance. This section also states that the Secretary may require that the town establish a reserve fund, and any such funds shall be considered to be trust funds within the meaning of Section 54 of Chapter 44 and, except as otherwise provided in this act, subject to those provisions.

Section 4 states that if the unfunded pension liability funded by borrowing money relates to employees of a governmental unit other than the town of Southborough, then each such unit must reimburse the town in proportion to their share of the unfunded pension liability. PERAC would increase each governmental unit's annual payment to reflect their share of the debt service on any bonds or notes issued under this act to pay the unfunded liability. The town would also have the same rights as the Worcester retirement board to collect any amounts so assessed to any governmental unit.

Section 5 contains a provision stating that the portion of the annual debt service paid by the town for school department employees who are members of the Worcester regional retirement system shall be included in the computation of net school spending for the purposes of calculating Chapter 70 state aid or any other law.

Section 6 states that the act shall take effect upon its passage.

Notes: This home-rule petition was approved as Article 41 at the March 23, 2024 town meeting. Motion declared passed by moderator.

According to the sponsor, the unfunded pension liability for Southborough is \$29,736,627. There are currently 99 municipal retirees funded by the system. According to the Division of Local Services, as of 2020 the pension system is 46.4 percent funded. The town has a AAA bond rating.