AFFIDAVIT OF MARY ELLEN KELLEY, CHIEF FINANCIAL OFFICER

I, Mary Ellen Kelley, on oath depose and say:

1. The facts stated herein are based upon my personal knowledge, except where it is stated that such knowledge is based on information and belief, and such facts are true and accurate to the best of my knowledge.

2. I am the Chief Financial Officer ("CFO") of the Town of Framingham ("Town") and have held the position since October 31, 2005. I have 24 years of experience in government finance, 19 years at the state level and five with Framingham. I have a Bachelor of Science degree from Stonehill College and a Masters in Business Administration from the University of Massachusetts at Boston.

3. My duties as CFO include overall management and administration of the Town's financial operations and services; development of annual operating and capital budgets; coordination of annual financial audits; and oversight of the departments of accounting, assessing, and the treasurer/collector.

4. By Town Meeting vote in 1957, the Town accepted G.L. c. 32B, which authorizes the Town to provide a plan of contributory group life insurance, group accidental death and dismemberment insurance, and group general or blanket hospital, surgical, medical, dental and other health insurance to Town employees.

5. In 1993, the Town accepted G.L. c. 32B, §19, which provides for so-called "coalition bargaining" over health insurance for Town employees. The method of acceptance provided in Section 19 is a vote the Board of Selectmen. The Town adopted Section 19 by favorable vote of two members of the then-three-member Board of Selectmen in 1993. Pursuant to Section 19, the Town may elect to provide health insurance coverage to all subscribers collectively. The subscribers must form a public employee committee composed of one representative of each collective bargaining unit in the Town and one retiree. The committee and the Town must enter into a written agreement before the statute may take effect.

6. Pursuant to Section 19, the Town and the Framingham Public Employee Committee ("PEC") entered into an agreement in 1993 ("PEC Agreement").

7. The most recent version of the PEC Agreement was entered into on October 25, 2005, and was extended by Memorandum of Agreement signed on December 9, 2008, with a new contract period of January 1, 2009 through December 31, 2010. A true and accurate copy of the PEC Agreement is attached hereto as **Exhibit A**. A true and accurate copy of the Memorandum of Agreement is attached hereto as **Exhibit B.**

8. The Town offers three health insurance plan options to its employees hired prior to January 1, 2010. The three types of health insurance include HMO, Blue Cross Blue Shield PPO, and Blue Cross Blue Shield Indemnity. From 1993 to 2008, the Town

contributed 90% of the HMO premium costs for Town employees, 80% of the PPO premium costs, and 75% of the BCBS Indemnity costs. 90% of Town employees elect coverage under the HMO plan.

9. The Town's contribution to employee health insurance premiums is one of the most generous in the Commonwealth of Massachusetts. On information and belief, most Massachusetts municipalities contribute only 50% or a slightly higher percentage of the premium costs of health insurance for their employees. Pursuant to G.L. c. 32B, §7A, municipalities that have accepted the provision of Chapter 32B are not permitted to contribute less than 50% of the premium costs of employee health insurance. Attached hereto as **Exhibit C** is a spreadsheet prepared by the Framingham Human Resources Department showing the percentage contributions of area municipalities to employee health insurance premiums as well as dental insurance premiums.

10. Pursuant to Article II of the Town of Framingham General Bylaws, I prepared a Long Term Financial Forecast ("Forecast") dated December 18, 2007 and an updated Forecast on October 27, 2009. The Forecast estimates revenue amounts for the upcoming five years grouped into major categories: property taxes, local aid, local receipts, indirect payments from Enterprise Funds and free cash. Pursuant to G.L. c. 59, §21C, the tax levy can only increase by 2.5% and is forecast at that maximum. New growth in taxes comes from new property development or redevelopment. There needs to be anywhere from $31,000 to $54,000 in new development to get one dollar of tax. In the current and immediate future economy it is clear from industry reports that major development is not happening and new growth estimates must be curtailed, reducing revenue. Local aid estimates are based on information gleaned from other municipal finance leaders, the state legislature and historic data from the actions taken during previous economic cycles. Local receipts are based on historic collection patterns and any changes in fees. The indirect charge is based on a predetermined model of allocable costs and increases only by the actual increase in those costs. Use of free cash as revenue is governed by policy. Expenditures are estimated by department, taking into account the cost of collective bargaining contracts, contracted increases in energy, materials and services. Estimates are used for those commodities and services not under contract. In every instance global revenue increases at a lower rate than expenditures. The Forecast presents a five-year forecast of general fund revenues and expenditures and is intended to provide residents, taxpayers and Town government officials with a picture of the Town's financial future and recommendations for improvement. The Forecast shows that health insurance funding costs are projected to increase by 8.5% in the next five (5) years, a conservative but realistic figure if the Town manages health benefits aggressively and claims are not inordinately high. Historically, the Town has had to increase health insurance funding by as much as 15.1% per year; if averaged over the last 18 years the increase has been 8.8% per year. The health insurance increases outpace the increase in property tax levy permitted each year pursuant to G.L. c. 59, §21C; the average 8.8% per year increase in health insurance costs is 5.3% higher than the proportionate share of the overall budget that can be accommodated by increased tax revenue. Attached hereto as **Exhibit D** are various charts and spreadsheets I have prepared showing the growth rate of health insurance costs and health insurance costs as a component and percentage of the total

budget. These charts and spreadsheets show, collectively and individually, that this level of growth of health insurance costs is unsustainable and cannot be continued given other budgetary demands.

11. Through the preparation of the Forecast, I became increasingly aware of the extent to which the Town's current provisions for health insurance are causing a severe strain on the Town's finances. Since the acceptance of Section 19 in 1993, the health insurance appropriation in the annual operating budget has increased $24 million or 323%. Just in the last ten years the cost has increased $18.8 million or 150%. Forecast through FY20 it would increase $65.4 million or 885% since acceptance of Section 19 in 1993. As a percent of the total budget, health insurance costs consumed 7.6% in 1993; however in FY10 it consumes 15.1%. By FY20, the health insurance appropriation will consume 24.7% of the budget.

12. The annual budget of the Town contains very few discretionary components. More than 75% of the budget is employee salaries. Pension funding must increase on a state approved funding schedule in order to complete funding the pension liability by 2028. Operating and energy costs have been increasing, with very few options to control them. The Town competitively bids for energy usage charges, however, energy delivery charges are regulated by the market. The cost of roadway supplies, sand and salt for snow removal, landscaping supplies and fertilizers, computer maintenance and special education out of district tuition have skyrocketed. In addition, the most costly component of school non-salary spending, special education, increases not only by tuition rates, but the student population that is covered by a special education plan has grown to 20%. Since there is no flexibility in these major budget components, such components cannot be reduced to accommodate the rapidly growing health insurance costs. There is no room in the overall budget to adjust for the significant increase.

13. The cost of health insurance has already had a negative impact on Town services. Such impact is exacerbated in this time of economic crisis with corresponding reductions in local aid and decreases in the rate of new tax growth.

14. In March of 2009, the Town was forced to eliminate 29.5 full-time equivalent positions through layoffs of existing personnel and not filling vacant positions due to financial constraints, including among other factors the increasing demands placed on the overall budget due to the unchecked rise in health insurance costs. In 2010, the Town was forced to eliminate 50 positions in the School Department and another four in municipal departments.

15. If health insurance costs continue to increase as projected, the Town will be financially unable to continue offering the basic services it currently provides to the public and will have to lay off a substantial additional number of Town employees to fund health insurance premiums.

16. It is projected that more than 315 positions will have to be eliminated if health insurance premiums grow to 20% of the Town's budget for FY18 as projected. Those positions constitute nearly 20% of the Town's work force.

17. In an attempt to address the financial strain associated with the Town's provision of health insurance benefits to its employees, the Town engaged in negotiations with the PEC beginning on September 9, 2008. The PEC agreed to a modest increase in employee contribution to health insurance premiums, reducing the Town's contribution to 89% effective January 1, 2009 and 87% effective January 1, 2010. Such adjustments reduced the Town's health insurance costs by $175,000 in 2009 and an additional $350,000 in 2010.

18. Even with these modest cost-containment measures, the Town's costs to fund health insurance at the generous premium sharing levels described herein continue to grow at a large and unsustainable rate.

19. As a further cost-saving measure, the Town adopted G.L. c. 32B, §18 in 2008, which requires eligible retirees to enroll in Medicare Part B and is expected to reduce the Town's costs associated with retiree health insurance. By moving the outpatient care from the Town plans to Medicare Part B, the Town would save money by offering Medicare supplement plans only. As an incentive to accept Section 18, the Town proposed that it would pay the annual enrollment penalty for all of the transferred retirees, a cost to the Town estimated at more than $700,000 per year. An additional incentive offered was to pay a portion of the Medicare Part B annual premium which would have to be negotiated with the PEC. It was estimated to be an additional cost to the Town of $540,000 per year. Even with these costs the Town expected to save about $900,000 annually. While these efforts on the part of the Town made some progress toward containing health insurance costs, the savings associated with the Town's acceptance of Section 18 constitute a small fraction of the amount needed to allow the Town to sustain the level of services it currently provides and retain the number of employees it currently employs.

20. The Town continued to engage in discussions with the PEC in an attempt to reach an agreement that would further alleviate the financial strain caused by the Town's contribution to health insurance premiums. Meetings were held on August 18, 2009, September 15, 2009, and October 20, 2009, during which the Town Manager outlined the continued perilous financial situation faced by the Town due to skyrocketing health insurance costs and requested that the PEC consider supporting further modest premium sharing or other cost containment measures. The Town suggested further premium sharing for HMO plans by an additional 2%, as well as amending the dental insurance plan coverage or increasing co-payments for doctor and emergency room visits as ways to manage the uncontrolled growth of the health insurance budget. The PEC was unwilling to agree to any further compromise other than an extremely modest concession in the dental plan which would have saved the Town approximately $11,000 annually on a budget of $31 million. This $11,000 savings constitutes a little more than three one-hundredths of one percent, approximately 0.035%, of the overall health care budget. The

PEC indicated that it would not recommend any further premium sharing or other cost containment measures to its members.

21. By letter dated November 12, 2009, Town Manager Julian Suso requested that the PEC reconsider its position regarding cost saving measures and notified the PEC that, absent such reconsideration, the Town will close out current health insurance plans to future new employees effective January 1, 2010 and to offer new plans to such future employees. A true and accurate copy of the November 12, 2009 letter is attached hereto as **Exhibit E.** The Town believes it is within its legal rights to designate different health insurance plans for future new employees because 1) potential future employees are not "active employees" within the meaning of Section 19(b); 2) potential future employees are not "subscribers covered under" Section 19(g); 3) the two new plans to be offered to future employees are separate and distinct plans that are "not within the same health coverage plan" of existing plans within the meaning of Section 19(g); and 4) there is historical precedent and past practice documenting that the Town has the right to close existing health insurance plans to new subscribers.

22. The PEC did not reconsider its position. Effective January 1, 2010, new employees hired by the Town must select between two (2) health insurance plans offered by the Town, namely:

    1. Blue Cross Blue Shield HMO Blue Enhanced Value plan; and
    2. Blue Cross Blue Shield Elect Enhanced Value (PPO) plan.

23. Future new employees will be required to pay 25% of the premium costs for these plans. Because the dollar amount of the premium costs for these plans is lower than the premium costs of plans offered to existing employees, the premium costs to be paid by future employees participating in the PPO is less than the costs would be if they were offered the same plan choices as existing employees, despite the increase in the percentage of employee contribution. Since the premium costs of the HMO plan offered by the Town are lower than the costs associated with plans offered by most municipalities, most new employees who transfer to Framingham from other municipalities will pay less than they were paying in their previous positions.

24. Each employee who was a member of the PEC prior to January 1, 2010 will remain in his present health insurance plan at the existing premium sharing level.

25. The November 12, 2009 letter indicates that the Town is willing to enter into negotiations with the PEC to make the new plans available to existing PEC members if the PEC so desires.

26. The total premium cost of the new plans is lower than the premium cost associated with the plans available to existing employees. Both new plans offer top-notch benefits and will provide future new employees and their families with superb health care, at a lower cost to the Town but equal to or in excess of what is provided to the great majority of municipal and private sector employees across the Commonwealth. True and accurate

copies of the plan descriptions for the new plans are attached to the November 12, 2009 letter.

27. The Town's decision to offer new health insurance plans to future new employees was necessary in light of the financial strains the Town is facing as a result of the limited flexibility given to Towns that have accepted the provision of Section 19 and the current economic crisis. Additional strains on the Town's budget currently include reductions in local aid of $3.9 million and the legislature's abandonment of its historical precedent of funding one-half of the costs associated with the Quinn Bill, which has resulted in an additional $440,000 cost to the Town.

28. The PEC objected to the Town's implementation of new plans for new hires and filed for arbitration under section 19. The PEC has the ability to file for arbitration but the Town does not. The PEC and the Town entered arbitration which resulted in a decision to side with the PEC and eliminate the new plans. The Town appealed.

29. The Town and the PEC entered into bargaining for a successor agreement to the one expiring December 31, 2010. As a result of very productive bargaining, the new agreement was signed in April of 2011. This agreement will save approximately $3.5 million annually. It includes a cost shift of 3% from Town contribution to premium to employee contribution of premium; resulting in a premium split of 84% Town and 16% employee. The agreement also includes changes to plan design including new and increased co-pays and deductibles that should save $1.4 million per year. The plan also includes tiered drug co-pays for Medex coverage, a significant change for future funding. I believe this one agreement is the greatest change to health insurance since the Town adopted section 19. However, this agreement is only for one year and future costs of health care coverage do not seem to be slowing its pace. The exhibits take into account this contract change. It reduces the projected annual increase from 8.8% to 8% in FY13 growing up to 8.5% in FY20. Prior to this agreement we projected health insurance to be 24.7% of total budget by FY20; post agreement we project it will grow to 23.4% of total budget. Unless concessions are made every year we are bargaining we will gain no ground.

Signed under the pains and penalties of perjury this 22nd day of June, 2011.

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Mary Ellen Kelley

2010.02.16 Kelley Affidavit (600-198)