

**Study Commission
January 25, 2012
Minutes of the Meeting**

A Study Commission meeting was held in Conference Room A on the second floor of the Department of Administration Building, One Capitol Hill, Providence, Rhode Island on Wednesday, January 25, 2012.

At 2:10 pm, Rosemary Booth Gallogly, Director of Revenue and Chairperson of the Commission called the meeting to order.

Commission members present included Rosemary Booth Gallogly, Jean Bouchard, Paul Doughty, Allan Fung, Dennis Hoyle, Bruce Keiser, J. Michael Lenihan, Richard Licht, Antonio Pires, Joseph Polisen, Gina Raimondo, Steven St. Pierre, John Simmons and Angel Taveras.

Others present included Joseph Newton, the state's actuary from Gabriel Roeder Smith & Company who was invited to give a presentation that day and Susanne Greschner from the Division of Municipal Finance.

Chairperson Rosemary Booth Gallogly introduced herself and welcomed everyone to the meeting. The Commission members also introduced themselves.

Chairperson Booth Gallogly reviewed the Locally-Administered Pension Plans Study Commission PowerPoint, discussed statutory requirements for the Study Commission, briefly discussed the Retirement Security Act of 2011 that was recently enacted and mentioned that there would be a presentation from the state's actuary.

Chairperson Booth Gallogly stated that the Commission members were provided with a packet of overview information regarding local pensions and indicated that the information, as well as the PowerPoint presentations would be available to the public on the Division of Municipal Finance's website at: www.muni-info.state.ri.us/finances/

Chairperson Booth Gallogly thanked the members for their participation, indicated that the pension conversation was complicated and implored the Commission members not to be shy about asking questions. She also indicated that she would like consensus from the Commission on what the priorities should be.

Chairperson Booth Gallogly informed the Commission that in accordance with the Retirement Security Act of 2011 municipalities must submit an Actuarial Experience Study and Actuarial Valuation Study to the Commission by April 1, 2012. The state will reimburse municipalities 50% for the Actuarial Valuation Study only. Municipalities whose pension plans are deemed to be in "critical" status (below 60% funded) must notify the plans' participants & beneficiaries, the General Assembly, the Department of Revenue and the Auditor General within 30 days following that certification. In addition, municipalities with plans in critical status are required, within 180 days of receiving critical status notice, to submit to the Study Commission a reasonable alternative funding improvement plan to emerge from critical status.

The state's actuary, Joseph Newton of Gabriel Roeder Smith & Company made a presentation (available on the Division of Municipal Finance's website) on Actuarial Basics. Mr. Newton indicated that a municipality's objective should be sustainability of pension benefits without over contributing which would leave less money for other public services.

Mr. Newton indicated that the purpose of an Experience Study is to validate assumptions because they are not static and they should occasionally be changed to reflect new information, mortality improvements, changing patterns of retirements, terminations, etc. as well as changing knowledge. Typically, Experience Studies are conducted every 3-5 years and cover 4-10 years of data.

Director Licht inquired if there was a minimum sample size required for an Experience Study assumption. It was suggested that in instances with a small sample size a municipality might look at the MERS plan for assumptions. Chairperson Booth Gallogly cautioned that municipalities should be careful using MERS information as the samples might be completely different statewide as it is in one city or town. Mr. Newton added that the actuary doing the study should know what to do.

Chairperson Booth Gallogly stated that if an actuary makes a recommendation in the Experience Study which a city or town does not implement, the Study Commission needs to know about it. Mr. Newton noted that to address this some states/municipalities put the assumptions in law or ordinance.

Mayor Polisena from the town of Johnston mentioned that his community incurred an \$8.8 million decrease in state aid between 2007 and 2011. In addition, he received a notice from the Department of Environmental Management that his town has \$5 million worth of repairs to dams that need to be made. He stated that if Johnston and other communities had not received cuts in state aid and were not subject to unfunded state mandates perhaps Johnston and some cities and towns would not be in the financial position they are in now.

The Commission also discussed their charge. More specifically, Mayor Fung from the City of Cranston wondered what the Commission was going to do with the information that cities and towns present. General Treasurer Raimondo responded that she did not believe the Commission should approve cities and towns' assumptions. Rather, that should be left to the actuaries. However, Director Licht stated that he believes the Commission has an obligation to know if a plan uses an outlying assumption especially if it differs from what the Experience Study indicated.

Dennis Hoyle, Acting Auditor General asked if an Asset Liability Study would also be needed. Chairperson Booth Gallogly noted that an Asset Liability Study would be important for cash flow and to determine investment policies, but indicated that might be a second step. Mayor Fung replied that the legacy cost burden is intertwined and must be looked at together. John Simmons, executive director for the Rhode Island Public Expenditure Council, stated that OPEB liability for cities and towns is greater than pension liability and they should be looked at together.

The timing of the Experience Study and Actuarial Valuation was discussed at length. Mr. Simmons inquired as to which should be completed first – the Experience Study or the Actuarial Valuation. Furthermore, he questioned which year should the Experience Study impact? Mayor Fung suggested that the Experience Study should be applied going forward. Chairperson Booth Gallogly stated that she believes the intent of the Act was for the Actuarial Valuation to be redone based on data from the Experience Study which is why the state offered to pay for half of the valuation. Therefore, the experience study must be done first. However, she believes that if a city or town completes the

valuation which is due April 1st using 6/30/11 payroll information then they could incorporate the Experience Study assumptions in their valuation for 6/30/12. They might be able to simply get a letter from the actuary showing the impact of the new assumptions.

Some mayors expressed concern regarding the timing and use of the Experience Study data in the Actuarial Valuation due to the Commission on April 1. For example, cities and towns are already preparing their budgets for fiscal year 2013 in which they are using their recently completed audited financial statements. In addition, most municipal budgets are adopted by May or June. Therefore, they feel it is not possible to incorporate the results of the Experience Study & Actuarial Valuation due to the Study Commission on April 1, 2012 into their upcoming budgets and suggest that cities and towns be given a year to implement the results of the Experience Study and Valuation into their budgets. However, Mayor Fung mentioned he would feel more comfortable if cities and towns were to receive a letter from the state indicating that municipalities may use their current valuation for purposes of creating their upcoming budget. He underscored his concern when he questioned how the rating agencies would interpret his fiscal 2013 budget. For example, he does not want to appear that he is being deceitful if the new valuation due April 1 were to indicate, based on revised Experience Study assumptions, that the city's unfunded liability was greater than what was in the previous valuation which he used to create his fiscal year 2013 budget.

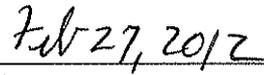
Mr. Simmons inquired about who approves the Experience Study and, as such, should a city or town conduct an Actuarial Valuation based on the Experience Study before the Experience Study has been accepted?

Chairperson Booth Gallogly asked if there was anyone in the audience that wanted to make a comment. Peder Schaefer, Associate Director from the Rhode Island League of Cities and Towns, echoed previous concerns regarding the timing of when the Experience Study is due saying that it would not leave municipalities time to incorporate the results into their FY 2013 budgets. David Faucher, finance director for the town of Portsmouth inquired if cities and towns could apply the Experience Study results to their FY 2014 budget. J. Michael Downey, President of Rhode Island Council 94, AFSCME, AFL-CIO asked if the commission is going to have any legal analysis performed as to what the Commission may advise local cities and towns in order to take away benefits from their retirees. Chairperson Booth Gallogly mentioned that it was a good question that the Commission could discuss at a future meeting.

The Commission discussed holding future meetings in the State House every two weeks starting on Monday, February 13, 2012. The exact location in the State House is to be determined.

The meeting adjourned at 4:02 pm.


Chairperson


Date