

**Pension Study Commission
March 11, 2013
Minutes of the Meeting**

A Study Commission meeting was held in the Room 313 of the State House, 82 Smith Street, Providence, Rhode Island on Monday, March 11, 2013.

Rosemary Booth Gallogly, Director of Revenue and Chairperson of the Pension Study Commission called the meeting to order at 10:11 AM.

Commission members present: Rosemary Booth Gallogly, Jean Bouchard, Paul Doughty, Allan Fung, Dennis Hoyle, Richard Licht, Antonio Pires, Joseph Polisena, Melissa Malone representing Gina Raimondo, John Simmons and Steven St. Pierre.

Members absent: Bruce Keiser, J. Michael Lenihan, and Angel Taveras

Others present: Susanne Greschner, Chief of the Division of Municipal Finance, Daniel Sherman from Sherman Actuarial Services, LLC and members of the public

Agenda Item #1 – Approval of Minutes from February 25, 2013

For the first item on the agenda, Chairperson Booth Gallogly asked if the Commission members had any corrections, adjustments or additions to the draft minutes provided from the Study Commission meeting held on February 25, 2013. There were none. Paul Doughty, President of the Providence Firefighters' Union Local 799, made a motion to accept the minutes as written. The motion was seconded by Mayor Fung, from the City of Cranston. The motion passed all in favor.

Agenda Item #2 – Testimony from municipalities and/or actuaries

Chairperson Booth Gallogly indicated that after reviewing the analysis of the Funding Improvement Plans (FIPs) that had been submitted by the municipalities, with the assistance of Dan Sherman from Sherman Actuarial Services, LLC, the Commission thought it would be helpful for those communities to come before them to describe their FIPs and respond to any questions the Commission had. The Commission's goal is to determine if the plans that the communities had developed are reasonable, as well as understand what further actions need to be taken by that community in order to implement the plans that they submitted. There were five communities that made presentations before the Commission and they are: The City of Warwick, the Towns of Smithfield, Narragansett, Portsmouth and West Warwick. The communities have the option of presenting on their own or with the assistance of their actuary. The Chairperson explained that these plans are very unique in terms of their individual circumstances, and there are different solutions brought forward to the Commission. The Commission is not looking for a "one size fits all" solution, but rather to hear the communities address their pension security issues. The Chairperson welcomed the five (5) communities, and asked each community to begin their testimony with a description of their plan/s.

City of Warwick: Represented by: Mayor Scott Avedisian; Ernest Zmyslinski, Finance Director; Mark Caruolo, Chief of Staff and their Actuary Joseph Newton from Gabriel Roeder Smith and Company (GRS).

Mayor Avedisian provided the Commission with an overview of the City's four individual pension plans: police II, fire II, municipal employees and police/fire I plans. The City's Police/Fire I pension plan is the only one in critical status.

Mayor Avedisian's comments appear below:

"The City of Warwick currently administers four (4) individual pension plans, Police II, Fire II, the Municipal Pension Plan, and the Police/Fire I plan. Three of the four plans have been classified Tier I plans as the top-performing pension plans in the state. The City does have one plan, however, that is classified as a critical status plan because its funding level is below 60%.

The Police II plan is funded at 86.5% and the Fire II plan is funded at 78%. Both of these plans have self correcting mechanisms consisting of variable contribution rates for employees based on plan performance. The City's Municipal Pension Plan is funded at 70.9%; this plan also has a self-correcting mechanism regarding the COLA payments. The Municipal Plan has a COLA bank that provides for COLA payments. When the COLA bank is funded the plan recipients may receive a COLA; however, when the bank is exhausted the recipients do not receive a COLA. The municipal retirees have not received a COLA since 2009 and are not likely to receive a COLA in the near future.

It should be noted that these funding percentages are based on new actuarial assumptions that were adopted by the City of Warwick Pension Board, the Finance Director and City Treasurer in June 2011. The actuarial assumptions are the same assumptions that were also adopted by the State of Rhode Island in 2011.

In order to understand the City's Police/Fire I plan, one must examine the history of the plan. The original police and fire pension plans were established in 1961 by then Mayor Hobbs in agreement with the police and fire unions. During the plans early years funding was not consistent; some years the plans may have been funded but in lean years no funding was provided.

In 1979, Mayor Joseph Walsh, in order to address a fiscal problem in the City of Warwick, introduced a resolution to synchronize the City's fiscal year with the State's fiscal year along with a \$25,000,000 bond referendum to fund the City's transition to the new fiscal year. At that time, it was speculated by Mayor Walsh that once the bonds were paid the revenue used to repay the bonds could be utilized to fund the City's pension systems.

Many years later, in 1996, then - Mayor Chafee realized there was a funding problem with the police and fire pension systems. In order to address this funding problem, Mayor Chafee introduced an ordinance to create a 40-year funding plan that is now referred to as the Police/Fire I plan. This plan was adopted by the

Warwick City Council as a local ordinance in 1996. The plan was forward looking and was created prior to the current GASS standards which currently recommend a 30-year amortization period for public pension plans. It is critical to understand that the City is now into year 17 of the plan with only 23 years remaining and that the City of Warwick has faithfully funded this plan according to actuarial recommendations since its inception. The City has considered re-amortizing the plan for 30 years in compliance with current GASS standards; however, our actuary has informed us that such action would add eight years to the life of the plan, and while potentially reducing the City's current contribution, would result in increased costs over the duration of the plan.

The City's Police II plan (created in 1971) and its Fire II plan (created in 1992) have also been fully funded according to actuarial recommendations since their creation. This is the reason that those plans are funded at 86.5% and 78%, respectively.

During the Chafee Administration and throughout my Administration, the City of Warwick has been working diligently with its actuaries, Gabriel Roeder Smith & Company (GRS), to manage all of its pension plans including the Police/Fire I pension plan. The City has been following the advice of its actuary, Joseph Newton, and has determined that the most prudent course of action is to continue to comply with the City's current Police/Fire I pension ordinance adopted by the Warwick City Council in 1996.

One example of the City's consultation with GRS is the recent three year contracts with the City's Police, Fire and Municipal unions. By working with the unions to agree to three years of no pay increases, the City was able to reduce the unfunded liability of the Police/Fire I plan by \$20 million and reduce the City's overall unfunded liabilities for all plans by \$32 million.

I ask for the Pension Study Commission's endorsement of Warwick's Police/Fire I funding plan. I believe the Commission's endorsement is critical to the City of Warwick in qualifying for additional State aid under Article 11 of Governor Chafee's proposed 2014 Budget. This aid is intended to assist local communities in reducing their unfunded liabilities, and under State's formula, the City of Warwick will qualify for close to \$800,000 in additional aid. I pledge to use this funding as an additional principal payment over and above the City's normal contribution into the Police/Fire I pension plan thereby further helping to reduce the unfunded liabilities of that plan.

I would now like to introduce Mr. Joseph Newton of Gabriel Roeder Smith & Company who will explain in greater detail the City Police/Fire I funding plan."

Mr. Newton indicated that if the city stays on track with its contributions to its one critically underfunded pension plan, a closed plan for police and firefighters I, it will be fully funded in 23 years.

Mr. Newton said that some of the projected spikes in future annual contributions will be negated by gains made in investment and benefit savings. In addition, he said the plan requires that contributions from the City of Warwick must continue to increase 3 ½ - 4 % per year. Richard Licht, Director of

Administration asked what assumptions the plan uses for both rate of return and mortality. Mr. Newton responded that the City's mortality table are synchronized with the State's valuation, which is the most current RP2000 table, adjusted for white collar, which means above normal; therefore he believes the city has a strong assumption with their mortality table. He indicated that the police and fire plans have strong survivor benefits; therefore the beneficiaries drive the cost up. Also, he noted that the city had performed well on investment returns and their rate of return assumption is 7 ½ %. Mr. Newton believes these factors linked with the post retirement benefit enhancement provision give the City some margin. Mr. Licht inquired as to when the last experience study was performed. Mr. Newton replied that the last experience study was performed in 2011.

Chairperson Booth Gallogly asked the city's representatives to explain the dynamics of how the city anticipates on achieving 60% funded in 2032, and shortly thereafter obtaining a 100% funded status. Mr. Newton stated that it is a great observation; however, that is how a level percent of pay amortization works. Most of the time, the amortization policy is a level percentage of pay. With the city's budget growing and inflation over time, he suggested the city put their amortization schedule in place so that the amortization schedule is the same percentage of their budget every year, not the same dollar amounts. He added that initially, until a plan has passed 20 years, interest is barely being paid. Mr. Newton explained that an open pension plan does not have an end, as a closed plan does. This funding plan will reach the point where the pay-go cost and the employer's contribution are about equal in ten (10) years from now, where there will be more flexibility. The funding policy does take a while and then it accelerates at the end. Chairperson Booth Gallogly confirmed that since the pay-go and ARC do not equal until 10 years, the percent of funding will continue to go down since assets are being drawn out of the fund and paying more out than is coming in. She suggested that in order to determine whether the city is following their FIP, the Commission would refer back to the deterministic forecast and that the funding ratio would continue to go down before it picks up gradually to get to 60% funded. Mr. Newton concurred and noted that going forward he anticipates the funded ratio to get worse before it improves, but it is important that the contributions are 3 ½ - 4% yearly.

Mayor Fung from the City of Cranston, asked the Chairperson if the Commission members could be provided with the FIPs of those communities representing testimonies. The Chair indicated that the FIPs are on the website, but agreed that it would be easier for the Commission members to be provided with copies. Mayor Fung indicated that the deterministic forecast would be helpful, and the Chair said these would be provided at the next meeting. Mayor Fung asked Mr. Newton what the reason was for his mortality table staying at the white collar statistics. Mr. Newton indicated that white collar is more specific of the Northeast region; it is more conservative and fits better. Dennis Hoyle, State Auditor General asked why the contribution rates spike up in some fiscal years and if there would be a problem for the city to meet the increases. Mr. Newton replied that he could not speak for the city's ability to meet the increases; however, he indicated that there is an amortization policy, which is called laddering, which took a gain or loss of a given year, and set up an individual amortization schedule for that one gain or loss over whatever time period. Then, in the next year, a whole new one is set up. At the end, some fall in various directions, but it can be managed, the positives and negatives can be offset. Mayor Fung inquired if the benefits and cost of living adjustments (COLAs) in the Police/Fire I plan were tied to the union contracts before the active members retired, and if they were strictly tied to what the active members received. Mayor Avedisian replied yes.

Mr. Zmyslinski provided the Commission with a summary of the governance process and indicated that there are four (4) pension plans for the City of Warwick. He indicated that the police and fire

pension plans have a Board of Public Safety that reviews all pensions and disability pensions. In addition, the 1) municipal employees pension plan is governed by a Municipal Retirement Board, 2) firefighters/police I, and 3) police II are under his fiduciary responsibility, and 4) fire II are the under the treasurer's jurisdiction. Furthermore, the Municipal Pension Board and the city, jointly decided on the assumptions. Mr. Zmyslinski indicated that all the funds are in a master trust, although they are segregated for specific purposes. In addition, the city uses the same actuarial firm, investment advisor and they had agreed jointly on all the same assumptions.

Mr. Licht inquired if the disability pension is 2/3 or are there partial rules? Mayor Avedisian confirmed that for police and fire there is no partial disability pension, it is the same as the Municipal Employees Retirement Systems (MERS). The Mayor mentioned that last year the city enacted pension reform starting on July 1, 2012, when new ordinances went into effect governing the pensions from that point forward. Furthermore, from that time, anybody that would have received a disability pension from police and fire at 66 2/3% would be reduced to 50% at the point to which they would have normally retired. Mr. Licht asked what the percentage of disability payments were of police and fire versus normal retiree pensions. Mayor Avedisian did not have the information available, but said he would send the percentage figures to the Commission. [The mayor subsequently sent the data showing: There are 349 retirees in the municipal pension plan, 17 disability pensions, which is 4.8%. There are 395 police and fire I retirees, 132 disability pensions, which is 33.4%. There are 157 police II retirees, 30 disability pensions, which is 19%. There are 6 fire II retirees, 5 disability pensions, which is 83%]. Chairperson Booth Gallogly inquired as to who manages the investment side. Mr. Zmyslinski indicated the Municipal Pension Board, of which he is a member, and the City, which have the same fiduciary investment advisor from Windsor, Connecticut, and State Street Custodian, as their bank. The Chair inquired if the city members had attended fiduciary training, and would they be interested in future trainings. Mr. Zmyslinski responded that he and many others had attended the fiduciary training initiated by the General Treasurer, and that there would be strong representation from the City of Warwick for any future fiduciary trainings.

Chairperson Booth Gallogly asked the Commission if there were any additional questions for the members of the City of Warwick, there were none. Chairperson Booth Gallogly thanked the presenters from the City of Warwick for a very comprehensive presentation.

Town of Smithfield: Represented by: Dennis Finlay, Town Manager; and Randy Rossi, Finance Director

Mr. Finlay referred to the police pension plan, which was initiated in 1976, it was disbanded to a closed plan in 2006. Currently there are 44 participants, 33 retirees, 6 beneficiaries and 5 recipients who are disabled. He indicated that for Fiscal Year (FY) 2013, the Town of Smithfield had increased their pension contribution by \$600,000 on this plan, and proposes to increase its contribution for FY 2014 by another approximately \$300,000. The town plans to increase the funding until they reach 100% of the annual required contribution (ARC), and projects that will occur in 2015, and anticipates on emerging from critical status by FY 2026 on this plan. The Chair inquired what the ARC is under the restructured plan. Mr. Rossi indicated that for FY 2012 it was \$1,900,000, and that the town had contributed \$1,048,000, or 55.3% of the ARC, before the town had started to implement the plan. In addition, for the current fiscal year the ARC was just a little over \$2.1 million, and they had added the \$600,000 to the plan for the current year, bringing them to \$1.648 million or 78.3% of the ARC. In 2014, the ARC is set at \$2.154 million, and the town is budgeting in the proposed budget \$1.977 million for a 91.8% contribution of the ARC. In 2015 and going forward, the town anticipates on funding 100% of the ARC.

Mr. Finlay explained that the Town of Smithfield had chosen option 1, which is to reach full funding of the ARC. Mr. Finlay explained that unfortunately, the plan calls for 3% COLAs on a yearly basis. In addition, he indicated that it is a private pension plan, and presently, there is a belief that the town can reach the ARC payment. Furthermore, there is no potential legislation or litigation planned to deal with the issues of the COLA benefits; however Mr. Finlay would fully support it. Mr. Finlay said when the town had a discussion with the PEW Center on the States about legislation being proposed concerning the private pension plans, the town informed them that they would endorse this type of legislation moving forward.

The Chair inquired if the amount consumed from the town's budget to fully fund the ARC had received any resistance, and if the town's plan was a realistic proposal. Mr. Finlay said that the town council is committed to making these payments towards the ARC and that the council had adopted the FIP.

Mr. Licht inquired what the Town of Smithfield would receive under the Governor's proposed incentive legislation, and if the funds would be applied to the ARC. Mr. Rossi said approximately \$200,000, and that it would be applied to the ARC.

Mr. Rossi informed the Commission that the Town of Smithfield's actuary is Buck Consultants. In addition, the town's assumed rate of return is 7.75%, and the last experience study was performed in March 2011, in which those changes were implemented into the town's most recent study. The mortality assumption was the RP2000 combined mortality table projected to 2011 using a scale AA. Mr. Rossi added that based on the assumptions, the town had switched to the RP 2000, combined with the IRS regulations as associated with the static table for both annuities and non-annuities. Active employees and police are in MERS, and fire is now going over to MERS effective July 2012. The Chair confirmed that the 44 members in the pension plan are police, and those entering MERS are from the fire pension plan, which is not in critical status.

Mr. Finlay provided the Commission with a summary, and indicated that there is a Police Pension Committee which is comprised of two (2) police officers, the finance director and the town manager who meet on a quarterly basis, or more if necessary. In addition, on a quarterly basis they review the investment structures, and propose any changes. Any changes that are proposed have to go before the town council to be ratified and approved. The Police Pension Committee can only make recommendations.

The Chair inquired on the process of the award of disabilities or regular pensions. In addition, she inquired, if offered, would the town attend fiduciary training? Mr. Finlay indicated that the award of disabilities or regular pensions goes before the Police Pension Committee, where they review and make their recommendation to the town council for ratification. Mr. Rossi expressed that he and some members had attended the State Treasurer's fiduciary training, and he would be interested in attending another one.

Mr. Licht inquired if an analysis had been done by the town's actuary with the assumed rate of return of 7.5%. Mr. Rossi said it had not been done. However, the PEW had put the 7.5% into their calculations, but it was determined by their last experience study that the town would be able to reach the 7.75%. Mayor Fung inquired as to when the fire pension plan moves into the MERS system, are the members benefits still in the contracts or was the town able to move them out, and set them as part of the statute so it follows consistently with the MERS plan. Mr. Finlay indicated that the members' benefits follow with the MERS plan and the benefits are stated specifically in the contract, effective

July 1, 2011 with the MERS plan. Mr. Licht asked if the contract repeats what is in the statute or does it just refer to the statute? Mr. Finlay said it just refers to the statute. Steven St. Pierre, Sergeant of the Bristol Police Department confirmed that the Town of Smithfield was referring to new fire hires only. Sgt. St. Pierre asked if the town is funding 100% of the fire contribution now. Mr. Rossi replied no. The Chair raised concerns that while the town is making progress towards making 100% of the ARC for the plan in critical status, the town also needs to pay attention to the fire plan which, although it is not in critical status, it will head in that direction if the ARC is not paid. She suggested that the commission take a comprehensive view of ARC funding.

Town of Narragansett: Represented by: Richard Kerbel, Interim Town Manager and Donald Goodrich, Finance Director

Mr. Kerbel stated the police pension plan is for police officers hired prior to 1978 and choose not to take a 1984 option to join the regular town pension plan. Furthermore, there are twelve (12) retirees in this plan, and the town has been funding the police pension plan on a pay-as-you-go basis. In addition, he indicated that last year their total benefits were \$102,000. Also, the town had submitted a FIP that was approved by the town council, which calls for them to make 100% of the ARC, this year and every year going forward. Mr. Kerbel indicated that the town anticipates reaching the 60% funding level approximately in 2032. Furthermore, the ARC is declining every year due to the age of the retirees. The Chair asked for the average age of their retirees? Mr. Goodrich did not have this information available; however he indicated the youngest retiree is sixty and oldest is in her nineties. Mr. Goodrich said the ARC of \$124,954 is in the preliminary budget that the town manager will present to the town council at the end of the month. Furthermore, he does not believe that the five-year forecast of the municipal revenue growth has much applicability to this problem; however he does have another plan in critical status and will be updating it as the town goes through this year's budget season. Mr. Goodrich indicated there is no body to govern any award. He explained that the town determines actuarial assumptions with their actuaries when they do the actuarial plan every year. Mr. Goodrich said that he, with the guidance of the investment firm that the town uses, governs their assets. Furthermore, he does not believe he would consider a transition to MERS since it could be expensive given the fact that the town does not have any assets in this plan. Lastly, he mentioned that the provisions that are in the Governor's budget would be more applicable to the town's other pension plan, which will be coming before the Commission, not too far in the future because the plan (town employees) has now slipped into critical status.

Director Licht asked the town's representatives to explain the municipal pension plan, which had just slipped into critical status, and what percentage of the ARC is being made. Mr. Kerbel stated that the municipal pension plan had slipped into critical status with the most recent actuarial study that was submitted to the state in December 2012, and the town has a time period to develop their FIP. Mr. Goodrich indicated that this plan covers everyone in the town except certified members of the school department (teachers and administrators). He indicated that the budget that he has been putting together for FY 2013-2014 would cover 65.12% of the ARC of the municipal plan that had recently slipped into critical status, \$3.5 million of the ARC requirement of \$5.4 million. Under the Governor's proposed incentive legislation, the town would receive approximately \$153,000, and Mr. Goodrich indicated that this amount has been incorporated into the ARC payment, and indicated that the town has the \$153,000 indicated as a source in the budget.

Mr. Doughty referred to the Town of Narragansett's document presented to the Commission stating that the town anticipates emerging from critical status in 2024, however that during the testimony it was mentioned as 2032, could this be explained. Dan Sherman from Sherman Actuarial Services, LLC

indicated that the document that the Commission had in their packets was what he put together and proposed to the Town of Narragansett as a possible FIP back in January. However, on March 6th the Town submitted a FIP that the Commission may not have had in front of them. Mr. Sherman explained that based on this new FIP, the amortization would be decreasing year to year. Mr. Sherman explained that the town's actuary, Nyhart had taken the unfunded liability and amortized it over the remaining living time of those twelve employees; therefore every single year the ARC goes down. The funding ratio becomes 60% funded in approximately the 2031-2032 timeframe, however it is not 100% funded until beyond 2043 since the amortization period is getting shorter and shorter. Mr. Sherman explained that it is a different amortization schedule. The Chairperson inquired if the funding goes beyond thirty years. Mr. Sherman replied yes, and that could be the issue regarding the Government Accounting Standards Board (GASB).

Mr. Kerbel expressed that the police pension plan is not the problem, but that the real issue is getting the municipal plan adequately funded. Mr. Doughty inquired as to who governs the pension assets of the municipal pension plan. Mr. Kerbel indicated that it is the Pension Advisory Board, which is made up of representatives of the five (5) unions involved and the non-union town employees and two members appointed by the Town Council. The Chairperson asked if there were an option for all employees to enter into MERS that would not leave behind closed plans, and would the community consider this and what are the hurdles? Mr. Kerbel expressed he would need to discuss this situation with his Town Council and Finance Committee; therefore at this time, he could not answer the question. Mr. Licht asked if any of the retirees in the closed plan receives a COLA. Mr. Goodrich indicated that one retiree of the twelve does receive a 3% per year COLA.

Chairperson Booth Gallogly stated that the Town of Narragansett would present again before the Commission once a FIP has been developed for the municipal pension plan, which had just slipped into critical status. Furthermore, the Chair reiterated that the Town of Narragansett is not behind on the municipal pension plan, since the town had just slipped into critical status as of their recent 2012 valuation.

Town of Portsmouth: Represented by Dave Faucher, Finance Director

Mr. Faucher indicated that the Town of Portsmouth's pension plan is for all town employees, except for the school department certified employees. In addition, he said that the town has adopted a FIP, and their investment rate of return of 6.75% which is fairly conservative compared to the state's 7.5%. Furthermore, as a result, the Town of Portsmouth finds themselves facing an approximately \$1.6 million increase in the ARC this year. Mr. Faucher said that one of their unions had agreed to make changes which decreases the benefit multiplier, reduces the COLA to 1.7%, changes the contributions by the employees, and puts new employees into a defined contribution plan; therefore the council has adopted those changes which are spelled out in option 2 of the FIP. In addition, the town is negotiating with other unions, and the school, non-certified union had agreed to these changes that were proposed by the joint pension commission and approved by the council.

The Chair inquired if the Town of Portsmouth had created their own pension commission to look at the town's unfunded liability. Mr. Faucher replied yes, and that the town would reach a 60% funded status in the year 2017. Furthermore, he indicated that the town had been making 100% payment of the ARC consistently. He indicated that this increase is particularly large, in the past it had been \$300,000-\$400,000 increases, but now the town is looking at \$1.6 million to go from \$2.7 to \$4.3 million; therefore that is the challenge facing the town. Mr. Faucher mentioned that under the Governor's

proposed incentive legislation, the town would expect to receive \$164,000 that would help reduce that payment.

Chairperson Booth Gallogly asked if the increase in the ARC was contributable to a change of assumptions or investment returns with smoothing. Mr. Faucher replied that it is primarily investment returns, even though they were smoothed. He mentioned that for the last five and a half years that the town has been with their current investment advisor, they had an investment rate of return of 8.8%, with investments that are very broadly diversified. The Chair asked if the 6.75% rate of return was the assumption in prior valuations. Mr. Faucher replied no, it was 8%; therefore he confirmed that is why the ARC went up. Mr. Doughty inquired about what lead to the assumption reduction from 8% to 6.75% rate of return, knowing that it will significantly increase the ARC. Mr. Faucher indicated that it was a combination of the town's actuary and the joint pension commission's feeling that the town should be conservative, and the council agreed with the conservative approach. Furthermore, he said his actuary actually recommended 6.75% or 7.25%, and the council agreed to go with the more conservative 6.75%. Mr. Doughty inquired if the town recognized that if the average return was 8%, and it was artificially lowered, that it would increase the cost in terms of the ARC. Mr. Faucher said yes, that is correct. Director Licht inquired if an ARC calculation had been made assuming the town can successfully negotiate these changes in option 2. Mr. Faucher said the ARC increase would be \$1.6 million, unless the town can get benefit design changes reductions in that amount. Furthermore, he said if the town can get the design changes from all unions, the ARC increase would be reduced to \$2.7 million, to where it was the year before. Chairperson Booth Gallogly asked if the actuary did a run for what the ARC would be if the town would receive the benefits concessions under option 2. Mr. Faucher said no, the assumption was that the town would fund the \$4.3 million somehow, and that the town was proposing to get benefit reduction changes to reduce that \$4.3 million, but the assumption going in is that the town is liable for actually \$4.381 million.

Additional questions were raised by the Commission, and for the sake of time it was determined that Mr. Faucher would return with the town's actuary at a future meeting.

Town of West Warwick: Represented by: Michael Stampfler, Town Manager; Don Gray, Interim Finance Director; William M. Dolan II, Esq. Brown Rudnick LLP; and Tayt Odom, Actuary from Nyhart

The Town Actuary, Mr. Odom from Nyhart indicated that the plan covers all employees (public safety, fire, police and general municipal employees). There are approximately 350 active employees as of July 1, 2012, and approximately 350 inactive members, a large majority made up of retirees. Furthermore, he said one of the biggest issues that the plan has is, by a demographic stand point is, while the number count may be roughly even, about 75% of the liability is due to inactive participants, mainly the retirees. The retiree liability is over a hundred million dollars itself. Chairperson Booth Gallogly asked if that would be considered a normal relationship. Mr. Odom replied "no, he would not consider that normal, it is very highly leveraged to retirees." Furthermore, due to that the plan is in a unique situation in that the town can make several changes to the actives; however, they are still not going to affect the actual contribution of the plan very much. Mr. Odom indicated that for the current year, the ARC is approximately \$9.2 million, of that amount only \$1.2 million is for benefits that are actively being accrued, the other approximately \$8 million is attempting to pay off all of the unfunded liability. Therefore, he said the town could theoretically get rid of the active benefits and still has an \$8 million contribution that would have to be made this year. Director Licht inquired what the town is contributing to the pension plan this year. Mr. Odom said a small amount, the last few years it has been approximately \$1 million, and the plan for the current fiscal year is approximately in the \$4.5

million range; therefore it is a long way from where the actual ARC is. Director Licht indicated that the Town of West Warwick had adopted option 1, and asked what the ARC would be if the town was successful in negotiating all of these changes. Mr. Odom said he is indicating that for the FY 2013-2014, the ARC would be approximately \$4.8 - \$5 million depending on negotiations; cutting the ARC approximately in half. Director Licht asked if negotiations had begun. Mr. Dolan stated yes, and the town had negotiated with the active members of police, fire and municipals. Furthermore, the town had recently made a presentation to the retirees, which there is no organization among them whatsoever, with the exception of a small group of disability pensioners. The ARC for 2014, if no concessions are gained from negotiations is \$10.6 million, and due to the gravity of the problems facing the town, their objective in the negotiations with active members and retirees is to reduce that number. Mr. Dolan indicated that how the concessions break down, among the active population, is approximately \$1.5 million for fire, approximately \$1.1 million for police, and in the \$200,000-\$300,000 range for the municipals employees of their actual amount of responsibility towards that ARC, the balance is the retiree population. Therefore, Mr. Dolan stated, it is a huge problem to try to resolve this without the retirees. Furthermore, the town has had multiple negotiations with their active members, and the most likely groups coming to fruition soon are: police, fire, and then municipal employees, and he believes they have a reasonable prospect of getting to what they believe are the necessary annual savings of \$2.6 million within 1-2 weeks.

Chairperson Booth Gallogly mentioned that the Town of West Warwick is the community where she had spoken last spring, with the Town Council, School Committee and the Pension Board due to the lack of contributions, as well as the very short timeframe that this plan would be in Central Falls' situation where there would be no assets to pay benefits. The Chair indicated that if the Town of West Warwick is only paying \$1 million a year, then they are exhausting their pension plan, and the pay go is approximately \$8 million per year; therefore it does not take long to go through the rest of the assets that are available. The Chair indicated that Mr. Stampfler and his team have been trying to address this issue, and she believes this plan is one of the plans that are in the most urgent status; therefore getting some resolution on this plan is very important.

Mr. Dolan indicated that the Nyhart valuation from September 2012 indicated that if the town continued to fund the plan annually at \$3 million, which is much higher than the town had been paying, the plan would run out of money by 2017. Furthermore, if the town continued to fund at \$6 million annually, then the plan would run out of money in approximately 2022. Therefore there is no choice but to make the ARC to the full amount. Mr. Dolan believes that the plan that was submitted contemplates that and proposes a 60% level funding by 2032.

Director Licht asked if the town was in social security, but no definitive answer was given. Mr. Dolan indicated that what the town is proposing for the retirees is that they take a 20% cut off the top of their pension, and the COLA is eliminated in perpetuity, and they pick up 40% of their health coverage. In addition, many of these retirees live in the Town of West Warwick, and the town is proposing the maximum possible increase in taxes annually; therefore it is a very, very difficult situation.

Mr. Stampfler added that the plan that the town is proposing has fifty action steps to get them to a critical time for their town, which is May 23rd, which is an all day financial town referendum. Furthermore, it is an opportunity by charter for the public to decide whether they will vote to levy the tax increase that is needed under the plan. In addition, all of the negotiations at this point, on that timeline, the Town is trying to get the information from negotiations completed so that the public understands what precisely is the problem by the time they arrive at the day of voting, which is May 23rd. Mr. Stampfler expressed that the complicating factor is that the town has not been able to move

along on that timeframe, and they are quite behind. Furthermore, there is some hope that the town would be able to finish a part of the plan negotiations within the next two months, but it still is a real challenge to aim for this May 23rd date.

Mayor Fung asked what the Town of West Warwick could envision helping them. Mr. Dolan indicated that a simple solution would be to have the unions negotiate on the retiree's behalf, but as a matter of law they cannot. Mr. Dolan said he did not believe there was a legislative solution to their problem. Jean Bouchard, Municipal Vice President of AFSCME, Council inquired what the employees of the Town of West Warwick pay in pension contributions. Mr. Dolan replied that they vary by union contract, police and fire pay approximately 9%, and there have been discussion of increasing them. Ms. Bouchard asked if the town had paid their ARC in the past and what was their pattern. Mr. Dolan could not say whether the town had been meeting the ARC in any of the year, but in the years that he had reviewed, they were not maintaining the ARC contribution. In addition, Mr. Dolan said that in the past that the council has considered and introduced legislation, affectively doing what the City of Providence has done relatively to the retirees, and relative to the COLA, the legislation has never been passed. To the extent that the Town of West Warwick is unsuccessful in negotiating with retirees, then that would be a natural next step to propose legislation similar to the City of Providence that would suspend the COLA for some period of time until the fund plan reached an actuarially sound level, whether it is 60 or 70%. Mr. Dolan believes that in the West Warwick situation, it is not a manner of suspension; it is a manner of termination that is how bad it is. Therefore the legislation would be doing that, and it would necessarily result in either a negotiation or a lawsuit, or both on the grounds that their (the retirees) rights were impaired in violation of the constitution.

Mr. Stampfler indicated that in terms of legislation that could be considered, there is in his opinion, a huge issue with the funding of schools and the obligations of municipalities and it blends into the issue of who negotiates for whom, and then who pays the bill. He believes that as long as these types of issues remain that this is a very difficult issue to deal with. Mayor Fung believes that it is beyond the Commission's charge.

Mr. Doughty asked what the vote was on the approval of the FIP from the town council. Mr. Stampfler believes it was 4 to 1. Mr. Doughty inquired if there had there been any discussion for support of the settlement, including the tax increase at the financial town meeting? Mr. Stampfler said the Town Council indicated general support of the plan as it was submitted with a caveat that "plans are plans" and that it could change, but the town is waiting for phase I of the negotiations which is with the active members, and phase II with the inactive members, and then the town council would support whatever level of tax increase they agree to support. Mr. Stampfler indicated that the Town of West Warwick's operating deficit for this year is approximately 1.5 million, and Mr. Doughty asked what the Town of West Warwick's projection for 2014 is, in terms of structural deficit. Mr. Dolan said by the fifth year it will be \$70 million, which is \$20 million north of the annual tax levy.

In reference to Ms. Bouchard's question regarding the ARC payments for the Town of West Warwick, Mr. Sherman indicated that from 2000 to 2010 the town's contribution averaged from 35-40% of its ARC payments. Mr. Doughty asked Mr. Sherman what the dollar amount is. Mr. Sherman replied \$12 million.

Chairperson Booth Gallogly asked who governs the awards of disability and service pensions, and the governance on the investment side. Mr. Stampfler indicated by the Pension Board appointed by the

Council meets monthly and supervises the investment firm. Mr. Stampfler was not aware if anyone in town attended fiduciary training.

Agenda Item #3 – Public comments

Public comments were made by:

Rodney Durand, Citizen from the City of Warwick

Jim Cenerini, Legislative and Political Action Coordinator for R.I. Council 94, AFSME

Kevin O'Connell, Chairman of West Warwick Police and Fire Disability Association

Agenda Item #4 – Adjourn

Chairperson Booth Gallogly thanked everyone and indicated that there will be more testimonies from the other communities at the next meeting, and copies of their funding improvement plans will be distributed to the Commission members on the day of the meeting.

Mr. Doughty made a motion to adjourn which was seconded by Mayor Fung. The meeting adjourned at 12:12 PM.

Rosemary Booth Gallogly

Chairperson

3/25/13

Date

PSC/sm