Pension Study Commission
April 1, 2013
Minutes of the Meeting

A Study Commission meeting was held in the Senate Lounge of the State House, 82 Smith Street, Providence, Rhode Island on Monday, April 1, 2013.

Rosemary Booth Gallogly, Director of Revenue and Chairperson of the Pension Study Commission called the meeting to order at 10:05 AM.

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

Members absent: Allan Fung, Bruce Keiser, J. Michael Lenihan, 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 March 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 March 25, 2013. There were none. Mayor Polisena, from the Town of Johnston made a motion to accept the minutes as written. The motion was seconded by Sgt. Steven St. Pierre, from the Town of Bristol. The motion passed all in favor.

Agenda Item #2a – Testimony from the Town of Bristol on its Police Pension Plan

Represented by: Julie Goucher, Treasurer and Steven Lemanski, Consultant Actuary with Milliman from Windsor, Connecticut

Ms. Goucher briefly described the police pension plan which is 46.8% funded, and currently has 4 active members, and 45 pensioners. She indicated that the town council is committed to continuing funding 100% of the annual required contribution (ARC), and anticipates emerging from critical status in 2019.

Mr. Lemanski indicated that the funding improvement plan (FIP) starts with an amortization period of 17 years, and continues on the conservative path that the town is on. The FIP provides continues with that funding policy. Furthermore, assuming that the ARC is funded every year, the funding ratio starts at 46.8% and gradually increases to 60% by July 1, 2019, and continues to increase throughout the projection period.

The Chair referred to the amortization payment, and asked why the town does not get fully funded by the end of the schedule in 2039. Mr. Lemanski explained that the schedule does have a flaw in the amortization period of 10 years as it declines every year for 10 years and then stays at that point forward. He explained that the reason is to add stability to the contribution, and that "it is permitted under the GASB standards." The Chair inquired if it was a rolling amortization in which it would never be paid off, and she indicated that this would not be allowed under the guidelines since the Commission wants these plans to become 100% funded. Ms. Goucher added that it was a matter of smoothing out in the final years of the plan. It was confirmed that after the 17 years (16 years from the 2012 valuation date), the town would still have a $5.8 million unfunded liability.

Mark Dingley, representing Gina Raimondo from the General Treasurer's Office asked about the plan provisions. Ms. Goucher indicated that roughly half of the members receive 3% compounded cost of living adjustments. Bristol's police pension contribution is 13%, and eligibility to retire after 20 years of service. Ms. Goucher said that definition of final compensation is the last two years, plus includes holiday and longevity.

Mayor Polisena asked what the general revenue amount was that was cut in the year 2010. Ms. Goucher responded that she was not sure, but said it was a significant amount. [Ms. Goucher subsequently reported that in FY10, the town of Bristol received $0 for general revenue sharing and $1.3 million in motor vehicle reimbursement from the state, down from $828,000 in general revenue sharing and $1.5 million in motor vehicle reimbursements in FY08.]

Richard Licht, Director of the Department of Administration commended the Town of Bristol for continuing to fund their ARC. Director Licht confirmed that there are 3 out of 44 members that are on disability pensions. He asked if the town has what he calls "The Pawtucket Rule" whereas when a pensioner who is on disability reaches their normal retirement age, the pensioner returns to their normal pension. Ms. Goucher was not sure.

Antonio Pires, Director of Administration for the City of Pawtucket referred to the years prior to 2007 and asked if the ARC was being underfunded, or if there were other factors that lead to the plan being in critical status. Mr. Lemanski was uncertain; however he indicated that approximately two years prior to 2007 the town had not fully funded the ARC.

Sgt. St. Pierre, a member of the commission who is also familiar with the plan as an employee, informed the Commission that post 2007 the town had paid at least 100% of the ARC and for many years had paid in excess of 100%. The Chair added that in 2007-2010 the town paid 117%, 127%, 100%, and 112% of the ARC.

Mr. Dingley was concerned as to why the plan is so poorly funded since the town has been funding their ARC. Sgt. St. Pierre informed the Commission that the police pension plan had been closed for 13 years, and had moved all new hires into the Municipal Employees Retirement System (MERS). In addition, at that time it had significantly reduced the amount of active members who were contributing into the plan. Furthermore, he believes the 13% employee pension contribution is a fair amount. Sgt. St. Pierre added that coupled with several years of consistent lower than anticipated earnings and a different set of assumptions were all factors in the plan's current funded ratio status.

Chairperson Booth Gallogly inquired if the town would consider running some scenarios that would meet the guidelines. Mr. Lemanski responded that they could, but it would show that the plan would be paid off in the 17 year period, and the contribution being zero thereafter. Sgt. St. Pierre asked if the change in the actuarial method would change the date that the town emerges from critical status or will it remain at 2019. Daniel Sherman, from Sherman Actuarial Services, LLC said that it would still be 2019.

John Simmons, Executive Director for the R.I. Public Expenditure Council, indicated that the Commission has been provided with a FIP from the Town of Bristol who are committed to totally funding the ARC. He said it may not perfectly fit the guidelines, but he would assume that the actuary has certified that the plan is within permissible guidelines. Mr. Simmons expressed that it seems to be a reasonable plan put forward by this community that meets the needs that the Commission has set up, and he questioned why there needs to be additional runs.

Paul Doughty, President of the Providence Firefighters' Union Local 799, applauds the town's effort to fund the ARC 100%; however he disagreed with Mr. Simmons. Mr. Doughty stated that the guidelines were set with the consensus of the Commission members, they were transmitted to all the towns, and these plans are expected to meet those guidelines. Furthermore, while the communities are making meaningful changes in decreasing the unfunded liability, on the flip side, there is not much change in the budget if they did comply with the guidelines. He believes that in an effort to be consistent, all the towns should be treated the same. Mr. Doughty would urge the Town of Bristol to review the guidelines since there are two issues that the town clearly does not meet. He does not believe that exceptions should be made for any community that comes before the Commission. Director Licht agreed.

The Chair asked how the town looks at the affordability of the closed plan in conjunction with the MERS obligation. Ms. Goucher indicated that the town is committed to funding both plans.

Chairperson Booth Gallogly thanked the representatives from the Town of Bristol, and commended them for being very responsive to the Commission's surveys and for doing their experience study on time. However, she said there are guidelines that have to be followed, and the Commission does want to create a pathway that communities follow with these liabilities, especially with the closed plans.

The Chair informed Ms. Goucher that she could work with Mr. Sherman and Susanne Greschner, Chief of the Division of Municipal Finance for reviewing other scenarios.

Agenda Item #2b –Testimony from the Town of Coventry on its Municipal, Police Officers and School Employees (non-teaching personnel) Pension Plans

<u>Represented by</u>: Theodore Przybyla and Steven Lemanski, Consultant Actuary with Milliman from Windsor, Connecticut

<u>Municipal Pension Plan</u>: Mr. Przybyla explained that the municipal pension plan is 25.3% funded and he indicated that option 1 was adopted by the town council. It was confirmed to the Chair that a resolution adopted by the Town Council approving the option would be submitted to the Commission. Mr. Przybyla said that there had been significant provisions for both the municipal and the police pension plans, which are concessions within the negotiations. The town is currently negotiating with AFSCME (American Federation of State, County and Municipal Employees).

Mr. Lemanski said that the FIP that had been submitted does include a phase-in of the ARC. The town is funding 52.3% of the ARC for FY13, which increases 20% per year, and by FY16 the town will be funding 100% of the ARC. As part of the proposed changes which are under negotiation, new hires will be covered by a defined contribution plan and is being funded 100%. Mr. Lemanski said with a 29 year amortization schedule effective with July 1, 2012 valuation, which is used for FY2014, the plan's funded ratio gets up to 60% by the July 1, 2031 valuation (FY2032).

Chairperson Booth Gallogly asked the representatives from the Town of Coventry to explain the history of the ARC, and referred to the Auditor General's September 2011 report in which the Town of Coventry was highlighted as a town with having issues with its pension plans. The Chair read an excerpt from the Moody's report which stated that the town has a long history of underfunding the ARC for its town and police pension plans which was compared to deficit financing and has resulted in a very weak pension funded ratio for the two plans. Since 2005, actual ARC funding has ranged from only 14% of what was required to 89%. For FY2011 the town and police ARCs were funded at 62% and 69%, respectively, just enough to cover the pay-go pension cost for each. The Chair asked if the FIP changed the town's perspective in any way in terms of the importance of funding the ARC or having a sustainable ARC. Mr. Przybyla stated that the town council has indicated and that it is their intention to fully fund the ARC by increasing the percent contributed every year. The town council has taken significant steps: 1) a resolution was passed last year whereby any amount in the general fund over 10% would be placed in the subsequent budget and deposited in the pension funds, and 2) the town council has proposed to place an additional $910,000 ($750,000 for police, $160,000 for municipal) in FY2014's budget over and above the FIP's targeted numbers. In addition, the town has explored the conversion of the municipal and police pension plans into MERS.

Mr. Lemanski stated that the numbers in the FIP have been subsequently updated since the July 1, 2012 actuarial valuation has been published and the proposed changes have not yet been adopted; therefore no changes have been reflected in the FIP, but it is a higher number. He indicated that under option 1, the municipal pension plan is a closed plan, since all new hires will be under a defined contribution plan, but at this point in time, it is not a closed plan.

Mr. Pires inquired if there were any other factors besides the ARC that contributed to the town's underfunded plan. Mr. Lemanski indicated that he could not speak for the history of the town; however, not paying the ARC is a significant factor. The town's rate of return is 7%.

Jean Bouchard, Municipal Vice President of AFSCME, Council 94 asked what the employee contribution rate was and if the employees had been contributing to the pension plan. According to Mr. Przybyla, the contributions are put in regularly and the current contribution rate is 7% on the municipal plan. Mr. Przybyla stated that historically the employees had not been paying contributions towards their pensions; they started contributing within the past couple of years. To clarifly, Mr. Lemanski said there were "some employees contributing into the plan, but a lot of them were not, and the change (whereas the employees are all contributing) had been implemented in the last couple of years."

Mr. Dingley referred to the defined contribution plan and indicated that the IRS does not allow government and government employees to have flexible "profit sharing contributions" that it has to be specified what the employee/employer amount is in the document. The Chair added that when she and Mr. Dingley had worked on the RFP for the state's defined contribution provider, they did include it in the RFP that municipalities could piggy-back on this contract engagement under the state's terms since it was a lot of work, and this could save time for the municipalities.

Dennis Hoyle, State Auditor General, inquired if that there was strong support for joining MERS, and if it was part of the negotiations. Also, he asked how the additional contribution in the FY2014 budget looked on a go-forward basis. Mr. Przybyla replied yes, there was support for joining MERS and this is part of the negotiation. He believes that there is a positive potential for the contribution on a go-forward basis.

Mr. Doughty asked who directs and advises the pension assets. Mr. Przybyla indicated that it is Wells Fargo. The pension plan is administered by the town manager, and the town has a pension committee that has an investment review committee that meets on a quarterly basis. The Chair asked who delegates the award of pensions. Mr. Przybyla said it is ultimately the town manager.

<u>Police Pension Plan</u>: Mr. Przybyla indicated that option 1 was adopted for the police pension plan by the town council. Mr. Lemanski said that option 1 is similar to what was described in the municipal plan and that it contemplates a number of changes to the benefit provisions, not only for the active members, but also for existing retirees. The plan does have an automatic COLA feature, which for most of the retired members is a fixed 2.5% compounded per year. Currently, the police are in arbitration, but the significant element of that arbitration is the negotiated concessions that the town has with the police. This schedule takes into consideration if those changes are made, and effective and reflected for the July 1, 2012 valuation which is used for the FY2014 ARC. The plan achieves 60% funded status by the 2032 valuation which is used for FY2034 for the ARC.

Director Licht mentioned that option 1 assumes that retirees give up their COLAs, and asked how the town was dealing with the retirees. Mr. Przybyla stated that the town had convened a meeting with the retirees last Thursday, which was broadcasted on the internet as well as for retirees living out of state. The town proposed the scenario that relinquishes the retirees' rights to the COLA and the town briefed them on the condition of the plan. It is the town's feelings that they would continue those conversations. Mr. Przybyla noted that the town had an extraordinary response by the retirees and that the meeting was very civil with great questions and participation by the retirees.

Mr. Lemanski confirmed to the Commission that, subject to negotiations, the employee contribution level that is proposed for the active members would increase from 9% to 20%. Also, the retirement eligibility would be modified to age 55 with 25 years of service. Mr. Lemanski said that presently the retirement eligibility (hired prior to 1994) is 20 years regardless of age, and (hired after 1994) is 23 years. Mr. Lemanski confirmed that the ARC was the main factor for the plan being in critical status.

Mr. Lemanski said that the schedule does not take in consideration the transition into MERS. The Chair confirmed that the comment of transitioning into MERS was only as a replacement for the plan presented to the Commission. Mr. Przybyla added that the police plan would be a challenge for entering into MERS.

Director Licht asked what the town would receive under Article 11. Mr. Przybyla was not sure. Director Licht asked that the Commission members be provided with a listing of the amounts that the communities would receive under the Governor's proposed Article 11.

<u>Coventry School Employees (Non Teaching) Personnel Plan</u>:

Chairperson Booth Gallogly referred to the package that was provided to the Commission members which contains a description of the Coventry School Employees (Non Teaching) Personnel pension plan, and noted that resolutions were passed by the school committee and the town council both stating that they don't have a responsibility with respect to this plan. She indicated that the plan has some history and complicating factors and that is the reason that a significant amount of details were provided to the Commission members.

Mr. Przybyla apologized, and said that he could not address the school pension plan and he indicated that the Commission has the information that the town council and the town's legal council had provided. He stated that it is the position of the community that the school pension plan is not the responsibility of the Town of Coventry. He believes that the plan is the responsibility of the trustees, who were present at the meeting. Mr. Przybyla indicated that at the advice of the town's legal council, he could not address this plan.

Chairperson Booth Gallogly indicated that the Commission views the Town of Coventry as the responsible party. She has great concern when there is a pension plan that is not being addressed or specifically that town leaders are indicating that it is not their responsibility, especially when there is municipal aid involved.

Mayor Polisena inquired as to how much general revenue sharing was cut from the Town of Coventry. Mr. Przybyla did not have that information available.

Director Licht asked if any payments were going into the school fund. Mr. Przybyla replied yes, and indicated that the town is satisfying the contractual requirements of the labor agreement. He informed the Commission that the town council gets a budget from the school committee, and sends the money over to the school committee.

<u>School Trustees Represented by</u>: Gary Moore, retired school electrician and currently the chairman of the four member trustee board for the school pension plan; William O'Gara, the attorney for the trustees and David Ward, director of actuarial services from Angell Pension Group.

Mr. Moore provided the Commission with a brief history of the Coventry school employees (non teaching) personnel plan, which originated in April 1977 with a mutual agreed upon contract that stated that the Coventry schools would supply their employees with a pension plan at no cost to the employee, and after that point they ratified a pension document. The agreement was not in the contract, it was a separate document that was ratified by the school committee and the union. In 2008, it was changed to a pension trust. It gave the trustees more authority on how much they could manage the plan. The trustees would take care of the investment through an investment counselor. The 2008 document went into effect in the middle of a financial crisis; therefore the trustees now said they needed to do what they could do to make the school pension plan as solvent as possible. The first steps the trustees took were to review the financial status of the plan as far as the investments and decided that they did not like where the investments currently were being held and solicited for a new investment company. Merrill Lynch is their financial advisor and the school pension funds are in Blackrock Group, and they receive quarterly reports and meet quarterly with their investment advisor. The trustees reviewed the pension benefits for less generous options. The trustees decided, with the help of Mr. Ward, on various revisions to the plan that the trustees brought before the membership. The revisions went into effect September 1, 2012. Mr. Moore said the pension reductions changed the retirement age to 65 (prior age 58) and changed the retirement accrual to 2.5% for the first 10 years, and dropped it to 1.25% for every year thereafter [Subsequent to the meeting, Mr. Moore confirmed that it is actually 2% for the first ten years and 1.25% for the additional years] (prior 2% for the first 10 years, and 2.5% for every year thereafter). The maximum accrual was capped at 50%, and the COLA was eliminated for anyone retiring after September 1, 2012. Mr. Moore indicated that based on the cuts, the trustees were able to help manage the school pension's unfunded liability. He indicated that the trustees do not have the right to solicit funds. The trustees did not change the retirees' COLA since they were unsure legally what they could do.

Chairperson Booth Gallogly asked if when the school pension plan was formed in 1977, was it through a collective bargaining agreement (CBA). Mr. Moore responded that the CBA stated that the Coventry School Committee shall provide, at no cost to the employees, a pension plan at a cost of 6% yearly payroll, and then based on that CBA, decided on an actual pension plan. The pension plan document outlined all the conditions of the plan.

Mr. O'Gara informed the Commission that one of the underlying problems with the plan is that apparently the employees of the school department were given credit for prior service before the funds to the plan's establishment, but there was no contribution made to reflect the cost of ultimately providing benefits. The plan from its inception was not built on a firm foundation. Since that time the town had made contributions set forth in the contract, but there is a basic disconnect between the amount of the contributions and the true cost of providing benefits and that is what brought the school pension plan to its current funded ratio.

Chairperson Booth Gallogy asked if the trust document had a section provided in it that refers to an actuary performing an annual calculation to determine what the contribution would be. Mr. Moore indicated that the trustees have been having the annual calculations. Mr. Ward added that for more than 15 years, the Angell Pension Group has been performing actuarial valuations for the plans. He added that the contribution that the Angell Pension Group had recommended was not being followed, rather the contractual contributions were.

Director Licht questioned if what he understood was that rather than the *benefits* being negotiated, the *contribution* is negotiated and the trustees can set the benefits to whatever they choose. Mr. Moore said that there is nothing in the CBA other then to indicate that there is a pension plan, and that a certain amount of dollars will be contributed to it, but does not spell out what the benefits are. Mr. Moore added that the pension changes were adopted by the school department and the union, and the trustees did not just make the changes without their agreement.

Mr. Doughty asked who and how the trustees are designated, particularly by the committee. Mr. O'Gara responded that the school department selects two, and the union selects two.

Mr. Dingley mentioned that he read through the document, and pension benefits are an employee benefit that arises out of the employment relationship. The trustees do not have any employment relationship with the members of this plan; therefore they don't have any contribution obligation to the plan. The employer of the plan, as stated frequently in the document, is the school committee and all of the documents are signed by the school committee and the union. The funding obligation, under the documents would fall to the school committee as the employer, and they have the employment relationship. The ultimate responsibility rests with the employer, whether it is a state or a municipality. And in this case, the employer is repeatedly referred to throughout the document as the school committee. Mr. Dingley indicated that it is clear to him that the ultimate responsibility to provide these benefits rests with the school committee.

Auditor General Hoyle asked if the trustees had done a projection as to when the fund would run out of money and not be able to meet benefits. Mr. Moore responded that yes they had, and if nothing changes, the pension fund would run out of money in approximately 12 years. Mr. Moore added that the employees are still having contributions deducted from their pay by the school department, as the employer.

Mr. Ward added a critical aspect to the final conclusion which was that it would be better for the plan to have a modest accrual with continuing employee contributions than, for example, to have no accrual, and therefore the employees would have no incentive to contribute. Therefore, this was the optimal design going forward for the plan.

Chairperson Booth Gallogly and the Commission reviewed the FIP presented by the trustees. Mr. Ward indicated that the option 2 of the FIP would result in the plan becoming 60% funded or better in the year 2028.

<u>School Committee Represented by</u>: Katie Duncanson, School Committee's Attorney; Dr. Michael Almeida, Superintendent of Schools, Robin Pelletier, Director of Administration and Finance of Coventry Public Schools

Chairperson Booth Gallogly expressed that the Commission needs to understand the school department's perspective on the obligation for the school pension plan. Ms. Duncanson stated that the school committee has fulfilled their obligations under the CBA, which is a contribution of funds towards the pension trust, beyond that it is the school committee's position that there is no further obligation of the school department.

The Chair inquired if new hires would be required to contribute to the pension if they chose not to. Ms. Duncanson said that it was a labor law issue. The Chair expressed that she does not view this as a legal issue, but more of a moral issue that a plan is set up that when new employees enter into it they believe they are going to have a pension with an employer sponsored plan. The Chair believes there needs to be communication from everyone. Mr. Dingley added that the school committee signed the plan documents, and agreed to the provisions of the plan itself. He believes the school committee should do everything to avoid litigation since there is not going to be a positive result for them.

Director Licht asked what the school committee believes are its obligations to its employees. He continued by saying that the school committee knows, or should know, that the plan's funded ratio is totally inadequate to pay the benefits that have been promised. Yet, he noted that what he hears the school representatives saying is that they'll pay their 12.75% per the contract and then, essentially wash their hands of any further obligation. He noted that he didn't hear any attempt by the school committee to talk to the retirees about the problem and possibly renegotiating the benefits. Instead, he said he hears "we're writing a check for 12.75%, see you later." He asked, if that was their position. Ms. Duncanson said that she believes that their position is to contract and negotiate a fixed amount of contribution, and beyond that it is not their legal responsibility. Director Licht expressed that the Commission has had lots of people present before them, and there are lots of problems in every community, but he had not heard any other community wash their hands of their responsibility. However, everyone tries to get around the table and work together to find a solution that is fair to the taxpayers, employees and everybody else. Ms. Bouchard agreed, and echoed that she has never heard of a community acting so irresponsibly to their employees. She said the school committee has signed the documents and the situation needs to be rectified.

Mr. Simmons inquired what new employees are being told when asked about pension benefits. Ms. Pelletier indicated that the new employees receive a plan summary which includes plan design, employee/employer contributions, and a clause that states if the plan is not funded at one point, it will be dissolved. Mr. Simmons asked if the actuarial statements were ever looked at in the past 10 years, and had they thought to dissolve it. Ms. Pelletier said she could not speak for that since she hasn't been with the Coventry school department for that length of time. Mr. Simmons asked if new employees had been told that there may not be a pension. Dr. Almeida replied no.

Mayor Polisena said that he assumed that this would go to court through litigation. Dr. Almeida indicated that they have a school committee that is taking action against the council. Dr. Almeida said that the school committee cannot operate on its own. Furthermore, he said that there needs to be a collective effort, and both governing bodies have taken a position that they are not legally responsible.

Mr. Doughty asked if the school committee had adopted a FIP. Ms. Duncanson said she believes that they adopted that resolution indicating that they did not have the obligation. Mr. Doughty indicated to the Chair that he wanted to take some action since it seems that the school committee or town does not want to comply with the law, even through they are statutorily required to submit a FIP. He said it is not the trustees that are responsible to submit it, although he appreciated that they had at least did something, but the two people that "have municipal responsibilities are failing to address that." The Chair said it was a wise decision to include in the guidelines that the FIP had to be approved by the local governing body.

Mr. Doughty stated that at the next Pension Study Commission meeting on 4/15/13, as an agenda item, he would like to take some affirmative action to send a last chance letter directing the town or whatever entity to comply with the FIP deadline. Chairperson Booth Gallogly indicated that a draft letter would be provided for consideration at the next meeting. Ms. Bouchard supports Mr. Doughty's suggestion, and said that it is necessary. She also noted that the Commission's comments to the Coventry representatives were not personal, and she wanted to make that clear.

Mayor Polisena inquired if the Commission could ask the council and school committee to meet with them. The Chair said yes, and that it could be included in the letter. Dr. Almeida said if that is the avenue of approach, possibly having a night meeting to accommodate the members would be preferred.

Auditor General Hoyle said that one of the things that bothered him most is that a secretary possibly working for the town is treated totally different from a secretary working for the schools. He takes great pains in working with Chairperson Booth Gallogly's office in looking at the community as a whole and he believes that one of the things that is problematic is that there would be a standard type of pension obligation for one group of employees and not the other. The Chair agreed.

Agenda Item #2b – Testimony from the Town of Tiverton on its Police Pension Plan

<u>Represented by</u>: James Goncalo, Town Administrator and Pension Administrator; Jeff Brown with Compensation Planning Associates representing the town's consulting actuary McCloud and Nichols

Mr. Goncalo gave a brief history of Tiverton's police pension plan, which in 2007 was 63.4 % funded, and subsequent to that was the investment crisis which decreased the plan down to 38.8%. He indicated that while the town was attempting to revive the plan, they received cuts in aid from the state. Currently, there is approximately $9.8 million of non-general revenue funding, and the Town was cut over $500,000 in revenue sharing and $1.3 million in motor vehicle phase-out tax. He noted it was a substantial impact on the town's revenue and making it very difficult to stay within the cap and fund the police pension plan. Meanwhile, the town has been trying to get back to where they should be, but during that period their ARC was over $1 million and it was unattainable to even consider making the ARC. The town found that part of that problem was that the information that was being forwarded to the actuary was incorrect. Once the town realized that and corrected that information, their ARC went from over $1 million down to $590,000, a substantial decrease which brought them very close to where the town was making the ARC. The town was contributing $500,000, then increased it to $550,000, and this year the town is at $700,000 which exceeds the ARC (the contribution is 118% of the ARC). Mr. Goncalo indicated that the town is forecasting to contribute to its pension approximately $725,000-$800,000 for the next fiscal year. Currently, there are 26 active police officers and 27 retirees, and the plan is 50.6% funded. This past year the town lost $700,000 in their value, and they are looking to do something about that and they are also looking to reduce the cost of operating the plan. The police have been cooperating with the town, and they feel that further accomplishments will be achieved. It is an open plan, and the active members contribute 10%. The police have agreed to 25 year eligibility on their retirement for new hires, instead of the current 20 years. There is a 1% COLA.

Mr. Brown indicated that there have been efforts to improve the funding, and as Mr. Goncalo indicated the town will be budgeting contributions well in excess of the recommended ARC according to the FIP, at least for the first 7 or 8 years, and, ultimately, the ARC will catch up to where the town is budgeting and then the intent of the town is to continue funding at least at the ARC level and with that projection assuming a closed amortization schedule of 25 years, the plan would be fully funded by the year 2038. There is a 20 year amortization experience gain/loss on the investment side, and he believes that part of the challenge in the past was that the investments may have not met the expectations, particularly in 2008. The assumed rate of return is 7.5%

Director Licht asked what the town would receive under the proposed Article 11. Ms. Greschner indicated that it is $149,000. Director Licht asked that assuming the Governor's package passes, would the town consider applying the funds to the pension fund. Mr. Goncalo said yes they certainly would.

Chairperson Booth Gallogly referred to the governance structure and asked who was responsible for the disability determination, regular service pensions and the investment side. Mr. Goncala replied that it is the pension board and there are five members (town administrator, police chief, IBPO union president or his designee, treasurer and a member of the council) and they meet quarterly.

Mr. Dingley asked for a definition of compensation. Mr. Brown indicated that it is a three year average based on compensation that does not include overtime. Mr. Dingley said that page 10 needs to be corrected because it indicates bonus, longevity pay and state education incentive. Mr. Brown indicated that he would review this information.

Agenda Item #2c – Testimony from the Town of Portsmouth on its Town Employee Pension Plan

Represented by: John D. Klimm, Town Administrator; David Faucher, Finance Director; and Steven Lemanski, Consultant Actuary with Milliman from Windsor, Connecticut

Mr. Klimm indicated that the Town of Portsmouth has a long history of funding 100% of its ARC. The funding ratio in FY2000 was 80% and has been above 60% until recently. In fact, the funded ratio was 61.5% as of July 1, 2011 when the town was using an 8% investment rate of return. The funding ratio dropped to 51.7% with a 6.75% investment rate of return, which was the decision of their town council. The Town of Portsmouth is committed to funding the ARC at 100% and presently is involved with negotiations with all of their unions. It is the town's belief that they will certainly keep to the commitment of funding 100% of the ARC in the future. The baseline plan presented before the Commission demonstrates that the town will be out of critical status by 2017. At the Commission's request, the town had representatives of their actuary present for this meeting, as well as Dave Faucher, Director of Finance to answer questions.

Chairperson Booth Gallogly noted that the FIP presented is basically to fund the ARC. She indicated that the reason that the Commission was asking for other scenarios, as outlined in the guidelines, because it was not clear what the FIP was compared to the baseline. Mr. Lemanski reviewed the baseline that was presented on Exhibit A with the Commission members. He indicated that option 2 was the plan that was selected.

Director Licht asked what the town was contributing to the pension plan in the current budget. Mr. Faucher indicated that it was $2.7 million last time the town paid the ARC in the FY2012-13 budget, compared to the $4.381 million ARC in FY2013-14. Director Licht asked if the town was successful in negotiating option 2, would it be about the same, and would the benefit changes bring the ARC to approximately what the town had been paying. Mr. Faucher replied yes.

Mr. Lemanski confirmed that the valuation numbers had been run, but the projection run for option 2 was not performed.

Chairperson Booth Gallogly asked if the town had an option 2 run in the format that was prescribed in the guidelines so that the Commission could see the progress towards the funding ratio. Mr. Lemanski indicated no, but even without doing a run he knows that the plan is going to emerge from critical status more quickly than five years, probably more like three years.

Mr. Doughty referred to page 2 of the FIP and inquired why the ARC paid goes from 100% at $2.66 million and then jumps up to $4.3 million. Mr. Sherman indicated that the ARC goes up substantially because the experience study changed the assumptions which resulted in an increased ARC. Mr. Lemanski indicated that the investment return was the critical one. Also, the mortality table was updated. Mr. Faucher said that as of the end of FY2012 the town had managed 8.8% rate of return for a 5 ½ year period, prior to that period the investment returns were not very good. Mr. Lemanski said that the way the unfunded liability is being paid off now under the new approach is level dollar amortization as opposed to a level percent. What that approach does on the payment is that it front loads it relative to the prior approach. Furthermore, a level dollar amortization in the early years will pay down the unfunded liability more quickly than a level percent; therefore it is a more conservative funding approach. Mr. Lemanski confirmed that the valuation numbers had been run, but no projections have been run.

Agenda Item #3 – Public comments

The Chair called for public comment. Jim Cenerini, legislative and Political Action Coordinator R.I. Council 94, AFSME, said that he was at this meeting on behalf of Don Fascio, President of Local 3484, which represents the town employees in the Town of Coventry. He wanted to be clear, that Local 3484 do not represent the school district employees. He said the weak funding nature of the Coventry municipal plan is that the town had a strong aversion of paying their ARC. He believes that the Town of Coventry has the ability to raise taxes, but refuses to. Furthermore, he believes that there should be a private right of action or criminal penalties for cities or towns that fail and violate their fiduciary responsibility.

Chairperson Booth Gallogly thanked all the communities for their participation. She indicated that the next meeting is scheduled for Monday, April 15, 2013 when the Towns of Cumberland and Johnston will be presenting their testimonies.

Agenda Item #4 -- Adjourn

Mr. Doughty made a motion to adjourn which was seconded by Mr. Dingley. The meeting adjourned at 12:40 PM.

Rosemary Booth Gallogly
Chairperson

April 15, 2013
Date

PSC/sm