

**Pension Study Commission
May 13, 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, May 13, 2013.

Rosemary Booth Gallogly, Director of Revenue and Chairperson of the Pension Study Commission called the meeting to order at 10:22 AM.

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

Members absent: Bruce Keiser, J. Michael Lenihan, Steven St. Pierre, Angel Taveras

Others present: Susanne Greschner, Chief of the Division of Municipal Finance, Daniel Sherman, Pension Study Commission Actuary from Sherman Actuarial Services, LLC & members of the public

Agenda Item #1 – Approval of Minutes from April 22, 2013

Chairperson Booth Gallogly indicated that the approval of the minutes would be deferred to the meeting scheduled on June 10, 2013 since the City of Providence had provided later changes that were not yet incorporated in the draft minutes presented to the Commission members. Antonio Pires, Director of Administration for the City of Pawtucket indicated that Ronald Wunschel's title should be corrected in the minutes to former Finance Director and currently in a consulting capacity.

Agenda Item #2 – Moody's Public Pension Update, Attachment B & C

The Chair referred to the update of Moody's proposed changes and indicated that Moody's has announced its final approach to the way it will analyze and adjust pension liabilities as part of its analysis of State and Local Governments. She briefed the Commission members on the proposed changes which are fully described in the attachments. The Chair said that one the most important factors is that there are no Rhode Island municipalities that are initially impacted by the changes. The proposed changes will be part of Moody's review on a go-forward basis. She pointed out that Moody's had first announced the potential changes in July 2012, and at that time the Pension Study Commission had sent a letter to them expressing their concerns of what they would potentially be doing. Moody's released a US States Rating Methodology and General Obligation Bonds issued by US Local Governments, which are two new briefs and they are available on Moody's website. The Chair explained that the report focuses on the importance of pension obligations and their sustainability. She indicated that the Moody's report and the Securities and Exchange Commission disclosure decision (Harrisburg, PA) had been provided to the municipalities. She indicated that the municipalities should be working with their financial advisors and lawyers regarding the disclosure requirement.

Mayor Fung from the City of Cranston indicated that Moody's did not change their original proposal of the market based discount rate and are still using a long term bond yield that could lead to potential

liabilities being reported as significantly greater. The Mayor said it is a continuing concern for him that had not been addressed and one that could have a negative impact on the pension plans. The Chair mentioned one of the feedback comments that Moody's had received is: *A market discount rate approach is inappropriate. Our approach to the discount rate is viewed by many as inappropriate for governmental accounting. Moody's response is: We view the market approach as more appropriate to provide a balance sheet concept. We recognize that many differences between governments and private corporations and take those into account in our credit analysis. For a credit analysis perspective, however, we believe the measurement of pension liabilities should be consistent across sectors.* The Chair explained that from Moody's point of view, she believes they wanted to use the same rate, which doesn't address the Commission's concerns. Mayor Fung pointed out that Moody's has a more stringent type of proposal as it relates to pensions; however Standard & Poor's and Fitch have different type of standards. Mark Dingley representing Gina Raimondo pointed out that if one looks at the jurisdictions that Moody's has rated, everybody is in Ohio, Michigan, Illinois or New Mexico; therefore he does not know if the Commission can take any comfort in the fact that Rhode Island is not on the list since it just may be who they rated recently. The Chair indicated that it is important to identify what the municipalities are doing in Rhode Island regarding pensions and their management components in dealing with the challenges that are presented to them.

Agenda Item #3 – Funding Improvement Plan Status – Attachment D

For the next item on the agenda, Chairperson Booth Gallogly referred to the funding improvement plans (FIPs) status that is reflected in Attachment D. The Chair indicated that the review with all the communities who had come before the Commission has been completed. Dan Sherman, Pension Study Commission Actuary from Sherman Actuarial Services, LLC and Susanne Greschner, Chief of Municipal Finance's staff have been working on attachment D and have highlighted the status of each plan.

The Chair informed the Commission that there is an additional meeting on Thursday, May 30, 2013 at the Department of Administration building, Conference Room A, 2nd floor with the Town of Coventry which was at the request of the Commission members. She indicated that it is a public meeting with the Town Council and School Committee members to discuss the three plans. The Chair stated that funding improvement plans (FIPs) for the municipal and police pension plans have been submitted; however, it is not clear whether or not a specific option had been adopted by the local governing body. The third funding improvement plan is for the school plan that the school department and town have disclaimed responsibility for.

Chairperson Booth Gallogly indicated that the Commission members need to establish the process for determining the reasonableness of the FIPs and who's role that should be. Furthermore, she noted that on March 11th, 25th, April 1st, 15th, and 22nd, 2013; seventeen municipalities presented their FIPs to the Pension Study Commission and the status update has been done. The Town of Narragansett and City of Woonsocket now have pension plans that have *newly* entered into critical status based on the most recent actuarial valuation performed. These two communities will have to submit their FIPs to the Commission and testify before them at a later date. Ms. Greschner indicated that Woonsocket has to submit their FIP by June 1, 2013 and Narragansett by July 31, 2013. The Chair informed the Commission that Ms. Greschner is working with the two communities to make sure that they are following the same template as the other communities that gave testimonies before them. The Chair explained that going forward, other plans may also fall into critical status based on more recent valuations performed.

The Chair stated that the Commission has to develop a structure that is going to be permanent and she said that the guidelines were intended to help them determine what was reasonable. Furthermore, she explained that the guidelines are not in State Statute, however they have been developed and adopted by the Pension Study Commission. Therefore, the question is whether it should be the Commission's role to determine reasonableness and if not the Commission, then who would determine reasonableness. The Chair believes that the Commission has come a long way to determine where people stood through the FIPs, experience studies and actuarial valuations that were done over the last year and a half to a point where everyone of these communities have submitted something to the Commission. She believes the Commission has made an incredible amount of progress; however they need to sort through on how to determine whether or not what the community has done is good enough, and it is a very difficult decision. The Chair welcomed discussion from the Commission members.

Mayor Polisena from the Town of Johnston referred to what should be considered reasonable, and believes that it should be determined by the Mayors, Town Managers, and Town Administrators and in some instances the Town Council as to what is reasonable for their community. Mayor Polisena indicated that he supports any community who presented a FIP that is going to be followed.

The Chair indicated that the Commission wants to make sure that there is a structure and a process that makes people want to have healthy funds, that is important to the taxpayers and beneficiaries which is the whole purpose of the proposed Article 11.

Richard Licht, Director of the Department of Administration, said there is no question that the funded status of those plans is not the fault of current administrations or municipal workers. Mr. Licht mentioned that Governor Chafee has consistently mentioned the cuts that had occurred to the municipalities, and has put in legislation that tried to give the municipalities the tools that would enable them to deal more effectively with the problems. Mr. Licht applauded Chairperson Booth Gallogly, Ms. Greschner, Mr. Sherman and others. Also, he credited the municipal leaders for their cooperation. Mr. Licht explained that there is always a third party in deciding whether or not something is reasonable or not; therefore he believes there needs to be a third party determination, especially if Article 11 passes. He believes that if the Commission has any further questions, then the community should be given the opportunity to respond accordingly. The Chair informed the Commission that the staff has been following up with the communities regarding various issues, and certainly will continue to do so.

Mr. Dingley commended the cities and towns and said if all the FIPs that were submitted to the Commission were followed for the next twenty years, then all the plans would be in tremendously better shape. He believes that the difficulty is that it is a very subjective determination. Furthermore, one could try to put objective standards on it, but not every plan started in the same place. He believes that when the Commission determines reasonableness that they should look at if the city or town made a good faith effort to improve the retirement security and sustainability of their pension system, and if the Commission believes that they have done that, as a collective group, to him that is probably the best the Commission can do.

Mayor Fung pointed out that for many of the communities that have some type of negotiated resolution that does impair some of the contract rights which could result in court action where the judge is the ultimate arbitrator of reasonableness since he/she will have to conduct a fairness hearing. The Mayor said that in the fairness hearing he/she will have to take into consideration many of the different factors amongst the impact on the taxpayers, retirees, and the active employees.

The Chair said that the Commission's goal when the process was started was to be sure that the process was very transparent and she believes the approach by the Pension Study Commission has been transparent to the employees, retirees and taxpayers and hopefully this will help if communities end up in a judicial setting.

Mr. Licht agreed; however he also believes if the Commission was to make a determination as to whether a plan is reasonable, when the municipality follows that plan, then he believes that this is strong evidence that independent people have passed on the reasonableness of the plan from a group that is very diverse.

Paul Doughty, President of the Providence Firefighters' Union Local 799, expressed that reasonableness does not mean certainty or a likelihood of success; however it means that the municipalities have taken the difficult options which could be unilateral cuts. Furthermore, the executives from the municipalities have the options to take the hard line and force the stakeholders under the plan into court and he believes that would be reasonableness. Mr. Doughty acknowledges due to the time requirement to negotiate settlements that many of the proposals under the FIP would be premised on negotiations. Mr. Doughty explained that for him, reasonableness comes down to if it is plausible. Furthermore, he said if the Commission looks at all the criteria that the municipalities had submitted to the Commission, except for the Town of Coventry, that in most cases had been found to be reasonable and he believes that is a good measure of what might come as they move forward. Mr. Doughty believes that the Commission is fully capable to determining the reasonableness of the FIPs.

State Auditor General Dennis Hoyle indicated that the Commission, as formed, is great as far as the composition for a Study Commission; however he is not certain that it is the best composition for an oversight body and he believes there is more of a need for some type of a permanent oversight structure. He thought that more plans would migrate into MERS which does not seem to be the case; therefore it is a long term 20-year horizon. State Auditor General Hoyle is convinced that probably a different structure needs to be in place to determine whether a plan is reasonable.

Antonio Pires, Director of Administration for the City of Pawtucket pointed out that the Commission has to have some form of a structure in place from a long term perspective in determining whether communities are complying with the annual required contributions (ARCs) and whether adjustments need to be made going forward. In addition, he thinks that part of the "short term" problem is if Article 11 were to pass, there is money for the communities at risk. Mr. Pires believes that a third party should determine the reasonableness of the FIPs. In addition, he expressed that on a long term basis that there needs to be a regulatory body established.

Jean Bouchard, Municipal Vice President of AFSCME, Council 94, said that the Commission's work has been very important and it brought many issues to light. She indicated that each plan may be somewhat different, and she believes that the reasonableness of the FIPs should be based on each community. In addition, she also believes that the oversight of the pension plans need to continue going forward. Ms. Bouchard indicated that the Commission should determine the reasonableness of the plans, and then going forward the oversight should be done by another body.

The Chair explained that the Commission needs to focus on their given mission and that is to recommend to the General Assembly how they will continue on a go forward basis. Furthermore, she indicated that further discussion amongst the Commission members needs to take place in order to sort through what that structure should be. The Chair expressed that she is pleased with the Commission's

accomplishments; however further work is needed to implement the plans. In addition, the Chair indicated that what is reasonable is going to be uniquely determined by either the courts or of the affordability of the community since they are all in different situations. She noted that the Commission's success factors are the transparency approach and the public process for making sure that the plans are staying on track.

Mayor Polisena expressed reasonable of the FIP is also called affordability. The Mayor believes that the General Assembly has allowed for some flexibility in order for the cities and towns to govern effectively while also giving the Commission some power, but not all of the power.

Mr. Licht referred to Article 11 and said that perhaps the General Assembly could clarify who is to make the determination. However, Mr. Licht indicated that the General Assembly has spoken on this subject, and have said that within 180 days ascending the critical status notice, the municipality shall submit to the Pension Study Commission a reasonable alternative funding improvement plan (FIP) to emerge from critical status. Mr. Licht believes that reasonableness is something that is determined by a third party and that it is the Pension Study Commission members in this case.

John Simmons, Executive Director for the R.I. Public Expenditure Council agreed with Mr. Licht. Mr. Simmons explained that the General Assembly passed a piece of legislation with an outcome in mind. He indicated that the process to date has worked in that communities have submitted their FIPs. This is a giant success story for the municipalities and their commitment, and the legislature for their insight and the staff, as well. Mr. Simmons believes that the Commission needs to discuss whether or not the FIP is reasonable. Furthermore, he asked reasonable to whom? To the employee, employer or does it reasonably get to the outcome to which the Commission is seeking. Mr. Simmons said that the Commission can determine to some extent what reasonable is to get to the outcome to what they all want and that is funded plans to protect the employer, taxpayer and employee. Furthermore, he believes that the oversight and funding decisions should be done by some other body. Mr. Simmons commended Chairperson Booth Gallogly and the members of her staff for a fine job. Mr. Simmons concluded by saying that he believes that the Commission needs to continue in determining the reasonableness of the FIPs.

Chairperson Booth Gallogly pointed out that the Commission had discussed the importance of additional criteria. She said that the Commission could recommend to the General Assembly, as one alternative to the criteria as to when pension plans are in critical status for State Fiscal Oversight. Furthermore, the goal of the State Fiscal Oversight is to help a community resolve those issues before they either need a fiscal overseer, budget commission, receiver or chapter 9 bankruptcy. The Chair believes that it is not going to be the Pension Study Commission, but probably the Department of Revenue through its oversight if issues are not resolved. She also believes that the Commission needs further discussion to determine some structure that will work on a go-forward basis so that the Commission can be sure that they monitor the plans as well as new plans that enter into critical status.

Mr. Pires asked Mayor Polisena how he felt about having on a long term stand point something similar to Massachusetts, which is an on-going regulatory process. Mayor Polisena expressed that he thought it was a fantastic idea, however, his concern is that the plan is affordable and reasonable. The Chair indicated that the Commission has been very successful in getting the FIPs submitted, raising the awareness and setting up a process that will continue hopefully with some incentive of funding that will enhance the funding of the plans.

Mr. Sherman explained that none of the plans are perfect as far as the guidelines; however he does not believe that any of the flaws that he has come across are such that the Commission would come in and say that this is not a reasonable plan with a noted exception being the Town of Coventry. Mr. Sherman briefed the Commission on the status of the funding improvement plans, as described in Attachment D. The Chair indicated that Pawtucket's police and fire FIP that had been presented to the Commission, had a further resolution based on a modification made by the council and indicated that Ms. Greschner had sent out a final FIP plan to the Commission members. Mr. Pires explained that all aspects of the plan that had initially been presented were adopted with one exception that the 3-year COLA freeze would not apply to any retiree whose benefits are less than \$30,000. Mr. Dingley inquired if the Commission has a resolution for those plans submitted. The Chair responded that the resolutions, that have been received are provided on the Commission's website, and follow-up has been occurring for those not received. The Chair indicated that the City of Woonsocket's Budget Commission has recommended a change in legislation that would allow them to have a longer amortization period. She indicated that Woonsocket's FIP is based on not only negotiations, but passage of an Act and it has already passed the Senate and she doesn't believe there will be a problem on the House side of the legislature. The Chair and Mayor Polisena thanked Mr. Sherman and commended him for his hard work.

Chairperson Booth Gallogly informed the Commission members that the next meeting is with the Town of Coventry on Thursday, May 30, 2013 in conference room A of the Department of Administration building. She indicated the Commission will proceed in the same manner as last time, unless there is anything specific that needs to be addressed, which should be submitted to Ms. Greschener prior to the meeting. Mayor Fung asked if there was a specific trust document that assigns fiduciary responsibility for Coventry's plan. The Chair indicated that there is a trust document in Coventry's package that was provided to the Commission members, and she asked the Commission members to bring this package with them on the May 30th meeting. The next meeting after May 30th, is June 10th at which time Other Post Employment Benefits (OPEB) information will be discussed. The Chair informed that Commission members that the OPEB survey that had been done last year would need to be updated with any changes from the communities.

Agenda Item #4 – Public comments

There were no public comments

Agenda Item #5 - Adjourn

Mayor Polisena made a motion to adjourn which was seconded by Mr. Licht. The meeting adjourned at 11:50 AM.



Chairperson

6/24/13

Date

PSC/sm